Annual Report

2012

Unipetrol
ORLEN GROUP

Content

Mission, vision and objectives of the Unipetrol Group

Unipetrol is the leading refining and petrochemical group in the Czech Republic and one of the major players in Central and Eastern Europe. It has been a part of Central Europe's largest refining and petrochemical group, PKN Orlen from Poland, since 2005.

Unipetrol's mission

We strive to provide long-term and permanent growth of value for our shareholders. We want to achieve this by focusing on the following strategic segments:

- crude oil refining and wholesale,
- petrochemical production,
- retail distribution of motor fuels,
- energy self-sufficiency.

Company's main goals in 2013

- increase of retail market share,
- continuation of refinery assets restructuring,
- increase of operating efficiency of refining and petrochemical assets,
- continuation of internal processes improvement,
- continuation of the long-term trend in staffing optimalization and reduction,
- continuation of fixed cost reduction,
- continuation of variable cost reduction,
- concentration on selective high return investment projects,
- positive operating profit (EBIT),
- positive free cash flow.

Code of Ethics

The members of the Unipetrol Group are aware of their responsibility to all their stakeholders – their employees, customers, shareholders, business and social partners, and the society. By means of this Code of Ethics we undertake to comply with clear principles forming a basic framework for the business and social conduct, and for the creation of the corporate culture in the companies of the Unipetrol Group.

In all spheres of activity the Unipetrol Group abides by the applicable law, legal decrees, internal regulations and ethical values. We respect international, national and local regulations which are directly binding as well as those to which we commit voluntarily, such as the principles of corporate governance. These are primarily provisions that set out safety and environmental standards for facilities and their operation, describe the requirements for the quality of products and services, define conduct in markets, and regulate conduct and practices. The Unipetrol Group regards respecting these standards and operating exclusively within their limits as its priority.

Unipetrol employees' conduct is always, and under all circumstances, legal, ethical, transparent, and compliant with the laws and Unipetrol's corporate values. All procedures and activities are based on the best practices of corporate governance and operational excellence with emphasis on safety and environmental protection. All customers (external and internal) of the Unipetrol Group have the right to receive the best quality products and services respecting ethical principles. The Code of Ethics is linked to the applicable laws of the Czech Republic and the company's internal policies, and defines the basic rules of conduct for employees of the Unipetrol Group.

Application of corporate governance rules

The Unipetrol Group continuously strives to maintain long-term and transparent relationships with its shareholders and investors as part of its strategic objectives. Unipetrol Group management follows the Corporate Governance Code.

The Corporate Governance Code is based on the OECD Principles, the provisions of which the Company satisfies in all material respects

http://www.oecd.org/daf/corporateaffairs/corporategovernanceprinciples/31557724.pdf

An extraordinary general meeting of 10 December 2009 approved the modifications to the Articles of Association, which arose from the new Act on Auditors. The Articles were amended by the addition of a new mandatory body within the company – the Audit Committee, with provisions on its remit, number of members, Audit Committee members' term of office, and the Audit Committee's decision-making. The establishment of the Audit Committee entailed an extension of the competences of the company's general meeting.

Profile

The refining and petrochemical group Unipetrol is an important part of the Czech industry. It is the largest crude oil processor, one of the most important plastic producers, and the owner of the largest fuel filling station network in the Czech Republic. In the field of refining and petrochemical production, the company is also a major player in the Central and Eastern Europe. The company has been part of PKN Orlen from Poland, Central Europe's largest refining and petrochemical group, since 2005.

Unipetrol Group operates

- 2 refineries with an annual conversion capacity of 4.5 million tonnes of crude oil,
- 3 polyolefin units with an annual capacity of 595,000 tonnes,
- a steam cracker with an annual capacity of 544,000 tonnes,
- 338 fuel filling stations,
- a broad range of transport services.

Companies within the Group primarily produce and market refining products, chemical and petrochemical products, polymers, fertilisers, and specialty chemicals. Important activities also include the financing of in-house research and development. The Group employs ca 3,700 people of various professions.

The Group's major companies in 2012 were the following subsidiaries

As of 31 December 2012:
UNIPETROL RPA, s.r.o. – manufacturer of refinery, petrochemical and agrochemical products
BENZINA, s.r.o. – operator of the largest network of filling stations in the Czech Republic
PARAMO, a.s. – manufacturer of bitumen, lubricants, and other refinery products

ČESKÁ RAFINÉRSKÁ, a.s. – a joint venture of UNIPETROL, a.s. (51.22%), Eni International B.V., Amsterdam, Netherlands (32.445%) and Shell Overseas Investments B.V., Haag, Netherlands (16.335%), a processing refinery with a wide range of products and a total annual conversion capacity of 8.8 million tones; the company operates two refineries in the Czech Republic, in Litvínov and Kralupy nad Vltavou

Historical milestones

1994

The formation of UNIPETROL, a.s. fulfilled one of the conceptual objectives of the privatisation of the Czech petrochemical industry. Unipetrol was intended to combine selected Czech petrochemical firms in a group capable of competing with strong international groups. With 63% of the shares, the Czech State was the company's majority shareholder, represented by the National Property Fund. Investment funds and minority shareholders owned the rest of the shares. Under the original concept, the State's interest in the company was to be privatised.

Unipetrol gradually integrated Kaučuk, Chemopetrol, Benzina, Paramo, Koramo, Česká rafinérská, Unipetrol Trade, Spolana and Unipetrol Rafinérie public companies.

1996

The refineries of Chemopetrol in Litvínov and of Kaučuk in Kralupy were demerged and included in Česká rafinérská.

2003
Koramo and Paramo merged, with Paramo becoming the successor company. From that year on, Česká Rafinérská has operated as a processing refinery, or cost centre of its processors.

2004
Agreement on the sale of 63% of Unipetrol shares was executed between PKN Orlen and the National Property Fund.

2005
In 2005 the privatisation process of Unipetrol was completed and consequently the company became a crucial part of one of the largest refinery and petrochemical groups in Central Europe, PKN Orlen.

2006
Majority interest in the Spolana subsidiary was sold to Zaklady Azotowe ANWIL of Poland.

2007
The Kaučuk subsidiary was sold to Firma Chemiczna Dwory of Poland.

A new subsidiary, Unipetrol Services, started its operations. Unipetrol Doprava, Benzina and Petrotrans changed their legal form from public limited companies to limited liability companies.

Butadien Kralupy was founded, its shareholders as follows Unipetrol (51%) and Kaučuk (49%).

The Chemopetrol and Unipetrol Rafinérie subsidiaries were combined with Unipetrol RPA.

Unipetrol purchased shares representing a 0.225% interest in the share capital of Česká rafinérská from ConocoPhillips.

Unipetrol acquired 14.51% of Paramo shares from MEI Group companies.

The largest maintenance shutdown in the company's history took place.

2008
Settlement of the sale of Agrobohemie and Synthesia shares based on share purchase agreements between Unipetrol and Deza. Unipetrol owned 50% of Agrobohemie shares and 38.79% of Synthesia shares. The purchase price for 47,000 Agrobohemie shares totalled CZK 503 million. The purchase price for 27,977,162 shares of Synthesia totalled CZK 680 million.

Unipetrol's ordinary general meeting has decided to pay dividends from retained earnings of previous years.

Unipetrol Group continued with a multi-year restructuring of Unipetrol Trade. In 2008, Unipetrol France merged into Unipetrol Trade.

2009
The Group paid compensation to minority shareholders, and acquired a 100% interest in Paramo.

Profile

2010

UNIPETROL, a.s. and UNIPETROL RPA, s.r.o. transferred their stakes in CELIO a.s. to TICATANOR s.r.o. and to B.E.Fin S.A. The transfer was finished on 14 April 2010.

Unipetrol Group continued with the multi-year restructuring of Unipetrol Trade. In June 2010, Chemapol (Schweiz) AG entered into liquidation and, in December, it was transferred together with Unipetrol Deutschland GmbH from Unipetrol Trade to Unipetrol RPA. Unipetrol Trade entered into liquidation on 1 January 2011.

Unipetrol Group's 2010 financial results improved substantially in comparison to 2009.

The Group posted EBIT of CZK 1.7bn, net profit of CZK 937m with revenues of CZK 86bn (+28% y/y) in 2010, which means that the profitability improved by approximately CZK 2bn in 2010.

2011

As a part of the restructuring of the refinery segment, in early 2011 two new subsidiaries of PARAMO, a.s. were established: Paramo Oil s.r.o. and Paramo Asfalt s.r.o.

In the process of the restructuring of the Unipetrol Trade Group, the liquidation of UNIPETROL TRADE a.s. was completed on 27 September 2011.

At the end of the third and the beginning of the fourth quarter the planned shutdown of the refinery and petrochemical operations in Litvínov took place; these shutdowns are planned at four-year intervals.

2012

In January Paramo Asfalt s.r.o. signed two 5-year supplier contracts for bitumen deliveries, one with PARAMO, a.s. and one with UNIPETROL RPA, s.r.o. The transfer of the bitumen commercial activities within Unipetrol Group was a part of the strategy for the refinery assets restructuring.

In June executives of UNIPETROL RPA, s.r.o. resolved to approve a permanent shutdown of the urea production unit at Chempark Záluží in Litvínov as of 1 January 2013. The urea production unit was a part of the agro division of UNIPETROL RPA, s.r.o. and its impact on the profitability of the whole Unipetrol Group was negative over the last couple of years while no reversion of this trend was expected.

In July Unipetrol Group announced permanent discontinuation of crude oil processing in Pardubice refinery Paramo. The decision was reached based on a comprehensive analysis of macroeconomic situation, including low refining margins compared with the period before the outbreak of financial and economic crisis in 2008, weak demand for diesel and refining overcapacity in Europe. Another key factor was very low conversion capacity below 1 million tonnes of crude oil and low complexity of Paramo refinery which had impacted the profitability of this Group's asset negatively with no significant improvement expected in the various medium term scenarios analyzed.

In October PARAMO, a.s. and ORLEN Asfalt Sp. z o. o. from the mother group PKN Orlen executed an agreement, pursuant to which ORLEN Asfalt, as a purchaser, acquired from PARAMO, as a seller, 100% ownership interest in Paramo Asfalt s.r.o. The purchase price for 100% ownership interest amounted to CZK 116.1 million. The sale of Paramo Asfalt to ORLEN Asfalt was the next step in the Paramo company restructuring and refinery assets optimization, part of which was the transfer of Paramo's commercial activities with bitumen products to Paramo Asfalt in January 2012.

Key financial data of the Unipetrol Group

Indicator	2012	2011	2010	2009	2008 restated	2007
Structure of assets and liabilities (in CZK million)						
Total assets	50,632	57,176	61,471	58,249	57,742	66,071
Non-current assets (Long-term assets)	26,051	31,918	36,351	38,061	38,890	38,052
Current assets	24,581	25,258	25,120	20,188	18,852	28,019
Shareholders' equity	29,528	32,854	38,800	37,871	38,913	42,112
Liabilities	21,104	24,322	22,671	20,378	18,829	23,958
Structure of profit/loss (in CZK million)						
Revenues	107,281	97,428	85,967	67,387	98,144	88,462
EBITDA (EBIT + depreciation)	-1,207	-2,263	5,174	2,778	4,481	8,298
Operating profit (EBIT)	-4,014	-5,370	1,678	-654	1,003	4,812
Income tax	1,274	30	-249	372	45	-650
Profit of shareholders of the parent company	-3,414	-5,914	937	-840	65	1,210
Financial indicators						
ROACE	-11.2%	-13.1%	3.8%	-1.3%	1.9%	8.4%
Earnings per share	-18.83	-32.61	5.17	-4.63	0.36	6.67
Financial gearing (Net debt / equity)	-0.7%	1.6%	-6.5%	3.2%	8.4%	3.7%
CZK / USD – end of period [1)]	19.06	19.94	18.75	18.37	19.35	18.08
CZK / EUR – end of period [1)]	25.14	25.80	25.06	26.47	26.93	26.62

1) Exchange rate valid as of 31.12., source: www.cnb.cz

Highlights of 2012

January

1 January 2012
The Research Institute of Inorganic Chemistry, Inc. (Výzkumný ústav anorganické chemie, a.s. – VÚAnCh), central research institution of the UNIPETROL group, celebrated its 60th anniversary.

27 January 2012
Paramo Asfalt s.r.o. signed two 5-year supplier contracts for bitumen deliveries, one with PARAMO, a.s. and one with UNIPETROL RPA, s.r.o. The transfer of the bitumen business within Unipetrol Group was a part of the strategy for the restructuring of Group's refinery assets, which reflects the current conditions in the market.

March

28 March 2012
Mr. Piotr Wielowieyski has been elected as the Vice-Chairman of the Board of Directors and Director responsible for strategy and M&A at UNIPETROL, a.s.

April

10 April 2012
UNIPETROL RPA, s.r.o. togther in cooperation with the Ecology Center in Most created a new interactive, eductional program 'A journey through the Mystery of Crude Oil', which shows what is happening in the chemical manufacturing processes at Chempark Záluží.

20 April 2012
UNIPETROL RPA, s.r.o. celebrated Earth Day by releasing 25,000 fish into Bílina River. The event was part of three-year cooperation between UNIPETROL RPA, s.r.o. and the Czech Fishing Union from Ústí nad Labem.

May

10 May 2012
The Research institute for an-organic chemistry (Výzkumný ústav anorganické chemie, a.s. – VÚAnCh), which is part of the Unipetrol Group, has begun the construction of the new UniCRE research and education center. The center will focus on research, development, innovation and education in the area of refinery and petrochemical technology, and additionally on environmental technology and processes for efficient utilization and renewable energy sources. The project was financially supported by the European Regional Development Found and by the Czech National budget. The center is planned to be open in 2014.

June

7 June 2012
UNIPETROL RPA, s.r.o. and ČESKÁ RAFINÉRSKÁ, a.s. hold an Open Day in Chempark Záluží. The goal of the event was to present both companies to the public as interesting employers and to present Litvínov-Záluží site as a modern industrial complex. Furthermore to show the younger generation that chemistry can be fun and interesting subject.

8 June 2012
Executives of UNIPETROL RPA, s.r.o. resolved to approve a permanent shutdown of the urea production unit at Chempark Záluží in Litvínov as of 1 January 2013. The urea production unit was a part of the agro division of UNIPETROL RPA, s.r.o. and its impact on the profitability of the whole Unipetrol Group was negative over the last couple of years while no reversion of this trend was expected.

25 June 2012

Mr. Marek Świtajewski has been elected as the new member of the Board of Directors at UNIPETROL, a.s., responsible for the refinery segment at Unipetrol.

July

2 July 2012

Unipetrol Group announced permanent discontinuation of crude oil processing in Pardubice refinery Paramo. The decision was reached based on a comprehensive analysis of macroeconomic situation, including low refining margins compared with the period before the outbreak of financial and economic crisis in 2008, weak demand for diesel and refining overcapacity in Europe.

10 July 2012

POLYMER INSTITUTE BRNO, spol. s r.o. put a new granulation line into operation for the production of a wide spectrum of concentrates. Annual production is expected to increase to 1,000 tons.

13 July 2012

Representatives of the Unipetrol Group and the Institute of Chemical Technology in Prague signed a cooperation contract for 2012. The main long-term objective is to promote chemistry among young people and secure a flow of new talents to this area.

September

20 September 2012

UNIPETROL RPA, s.r.o. has signed two years contract with Globus, becoming the exclusive supplier of fuel for the Globus gas station chain, 16 in total.

October

15 October 2012

UNIPETROL RPA, s.r.o. and UNIPETROL DEUTSCHLAND GmbH presented their range of products at the Fakuma International plastics processing trade fair.

23 October 2012

PARAMO, a.s. and ORLEN Asfalt Sp. z o. o. from the mother group PKN Orlen executed an agreement, pursuant to which ORLEN Asfalt, as a purchaser, acquired from PARAMO, as a seller, 100% ownership interest in Paramo Asfalt s.r.o. The purchase price for 100% ownership interest amounted to CZK 116.1 million. The sale of Paramo Asfalt to ORLEN Asfalt was the next step in the Paramo company restructuring and refinery assets optimization, part of which was the transfer of Paramo's commercial activities with bitumen products to Paramo Asfalt in January 2012.

November

6 November 2012

For a second time, A day of Volunteers was organized by Unipetrol, project aimed at helping non-profit organizations by employees in Usti region.

Letter of the Chairman of the Supervisory Board

Letter of the Chairman of the Supervisory Board

Dear Shareholders,

The year 2012 was again a quite challenging period for Unipetrol. Recession of the Czech economy that began in the middle of 2011 continued with full power also in 2012. Consumption of Czech households witnessed a record decline as higher inflation and worsening situation on the job market were reflected in weaker effective demand. Corporate investments were scaled down due to uncertain macroeconomic outlook. Moreover, if we add to these factors fiscal austerity measures of the Czech government, which manifested themselves in muted investment activity of public sector and reduced expenditures in social area, overall picture of the Czech economy in 2012 cannot be regarded as favourable. External economic environment did not help the Czech economy either. Also, key export markets of Western Europe did not show positive dynamics, because eurozone economy entered recession in 2012 again.

Brent crude oil price achieved the average level of 112 USD per barrel in 2012. This implies an increase of only 1 USD vis-à-vis 2011 which could indicate price stability of the key feedstock for refining sector. The opposite is nevertheless true. Short-term volatility of crude oil price was again very high, predominantly during the first half of the year. This caused a significant volatility and difficult predictability of final prices of our products and corresponding very volatile operating profit margins. Within petrochemical segment there were also evident cycles of rapid restocking and on the other hand cycles where customers' demand was very weak due to general expectation of price decline. Crude oil price began to stabilize from August which was a very positive factor, particularly for the petrochemical segment profitability. The general economic trends from 2012 continued into the beginning of 2013.

The Supervisory Board maintained a very intense collaboration with the company's Board of Directors throughout the ongoing crisis period of the last year. Constant pursuit of shareholder value creation in the environment of very unfavourable external conditions was one of the main goals for the Board of Directors in 2012. This effort was manifested in the continuing asset base restructuring of the Group. In the agrochemicals division, urea production unit permanent shutdown as of 1 January 2013 was announced in June. This decision was based on the fact that the impact of this facility on the profitability of the whole Unipetrol Group had been negative in the last couple of years while no reversion of this trend had been expected. The end of the crude oil processing, in the smallest refinery Paramo, in Pardubice was announced in July. The company at the same time proceeded with the key development projects last year. Implementation of gastronomy concept Stop Cafe in Benzina filling stations network was of the highest importance.

The Board of Directors also continued the program of operational excellence targeting strict cost control and optimalization. Thanks to this endeavor, fixed costs were further reduced by more than CZK 400m across the Group compared with 2011 base. This fact contributed to positive operating cash flow at the level of CZK 1,953m and positive free cash flow at the level of CZK 1,038m. Financial position of the Group was stable as the Group recorded net cash position, or negative net debt respectively, in the amount of CZK -220m at the end of 2012. This corresponds to negative financial gearing ratio of -0.7%.

Letter of the Chairman of the Supervisory Board

I would like to express my thanks to the Board of Directors for tremendous effort in the everyday pursuit of internal processes efficiency increase, with the aim to mitigate negative effects of difficult external conditions; continuation of long-term company development; and maintaining integrity among all stakeholders – shareholders, management, employees, customers, suppliers, civic associations and inhabitants of the regions where the company has its operations. Thanks to this effort, the company will come out from the current challenging economic period strengthened and will be, at the same time, in the optimal shape to generate value for its shareholders through sound return on invested capital.

Sincerely,

Dariusz Jacek Krawiec
Chairman, Supervisory Board
UNIPETROL, a.s.

Letter to Shareholders

Dear Shareholders,

Continuation of unstable external macro environment, as well as, Czech and eurozone economy recession entailed significant challenges to financial performance of the Unipetrol Group in 2012. On the one hand, meager macroeconomic dynamics represented the major factor that negatively influenced market demand for volumes while, on the other hand, very volatile crude oil prices, predominantly during the first half of the year, were negatively impacting unit margins within all three main business segments – refining, petrochemical and fuel retailing. These developments manifested themselves in very volatile quarterly financial results.

Refining segment continued to be negatively affected by the long-term deterioration of overall refining industry conditions – ongoing trend of model refining margins weakening, Brent-Ural differential narrowing, and decline in market demand for refining products, driven not only by weak economic growth, but also by increase of the motor fuels volumes within grey economy zone in the Czech Republic. That is why we were, in accordance with the International financial reporting standards (IFRS), forced to book non-cash impairment charge to our key refining asset, Česká rafinérská, in the amount of CZK 4,075m in the fourth quarter.

This impairment charge was the key driver for operating profit (EBIT) loss in the amount of CZK -4,014m for the whole year 2012. Operating profit adjusted for this negative item and impairment of refining assets held for sale was slightly in the black in the amount of CZK 377m. Regarding segment profitability, refining segment generated EBIT loss, stemming from the impairment charges, in the amount of CZK -4,513m. Petrochemical segment generated positive operating result in the amount of CZK 412m, predominantly thanks to crude oil price stabilization in the second half of the year and strict cost control. Retail segment also delivered positive EBIT, though significantly lower compared to 2011, in the amount of CZK 207m. Performance of retail segment was negatively influenced by fierce price competition on the Czech market and increase of fuel imports within grey economy zone, connected to VAT frauds.

Overall, motor fuels market in the Czech Republic, both wholesale and retail, has been profoundly impaired by the grey economy zone and tax frauds during 2012. Several new corrective legislation measures have been already approved by the Czech parliament at the beginning of 2013 and some measures are pending the approval. Thanks to this new legislation, prepared in cooperation with ČAPPO (Czech Association of Petroleum Industry and Trade), illegal practices and tax frauds in fuels business should be gradually and significantly limited from the second half of 2013.

To restore the Group profitability, appropriate return on invested capital and shareholder value creation in the following years we continued with Group assets restructuring process. We decided to permanently stop crude oil processing in the smallest refinery Paramo in Pardubice. This underperforming unit was recording significant losses in the last couple of years, while substantial reversal of this trend has not been expected based on various possible future scenarios analyzed. Permanent shutdown will thus be a positive factor for Group financial performance in the coming years. Similar reasons have been behind the decision to permanently shut down urea production unit in the Litvínov plant. These were the key essential steps within the Group asset base restructuring in 2012.

Letter to Shareholders

To boost shareholder value creation potential in the future, we do not only focus on restructuring measures, which are mainly targeting mitigation of financial losses. The other side of the coin is the strong and permanent focus on long-term development projects with high expected returns on invested capital, exceeding cost of capital. Benzina network of filling stations, leader on the Czech market, was the key targeted area in 2012. We successfully launched the second self-service filling station Express 24 in Hradec Králové, built two new premium filling stations Benzina Plus on D3 highway, and completed the project of gastro concept Stop Cafe with 88 installations in operation at the end of the year.

Taking into account the general economic and industry trends at the beginning of 2013, which in general indicate continuation of rather challenging business environment from 2012, we will keep on careful market monitoring searching for new potential development areas within our core segments. At the same time, operational excellence and continuation of efficiency improvements will remain our major strategic target in 2013, building strong Group fundaments for further dynamic growth in the future, once the general macro environment improves.

I would like to thank our shareholders for their trust in Unipetrol in another challenging year, our employees for their maximum effort, our business partners for reliable mutual cooperation, and our partners and other stakeholders in the regions for their comprehension and support.

Sincerely,

Piotr Chełmiński
Chairman and CEO
UNIPETROL, a.s.

Expected development and strategy for 2013

Unipetrol is carefully monitoring market trends from global and local perspective, as well as, our peers' steps and development programs. We expect the market and business environment continue to be challenging for downstream players. Thus Unipetrol's main strategic target in 2013 will be, as in previous years, operational excellence, continuation of efficiency improvements across our value chain and cost optimization. We will be focused on optimal utilization of production assets and selected investments in the areas with the highest potential return ratio.

Petrochemical segment is regarded as a core business of great importance for Unipetrol, and as such to be developed towards further value creation. This should be accomplished via optimization of polyolefin sales, increase in the utilization rate of petrochemical units, and continuous optimization and integration of olefin production with the refining segment. Development of new capacities in polyolefins is part of the mid-term strategy; it is currently being considered and oriented towards maximising the value of Unipetrol's petrochemical business.

At the same time, urea installation, operating obsolete technology, has been permanently shut-down in January 2013 in order to allow for efficiency enhancement. Assets optimization or closure of underperforming units will continue in 2013, subject to careful examination and analyses.

In refining, we will continue the process of efficiency improvement geared towards strictly cost control and margin improvement. The plan is to improve Unipetrol's position in diesel production and sales, possibly benefiting from the recovered market potential upon elimination of the grey zone fuel market. Further integration of refining production with a petrochemical segment is expected.

Due to challenging market conditions across the European refining sector caused by shrinking margins, overcapacity and unfavorable macro conditions, Unipetrol Group continued optimization of production processes resulting in the decision to stop crude oil processing in the underperforming Pardubice refinery in May 2012. The production in Litvínov and Kralupy sites of Česká rafinérská, in which Unipetrol currently holds a 51.22% stake, continues.

Unipetrol is approaching a final stage of Paramo restructuring and optimization process. Following commercial integration of bitumen wholesale business within Orlen Asfalt, via disposal of 100% shareholding in Paramo Asfalt, lubricant and oil business shall undergo final stage of consolidation. Further Paramo's consolidation within PKN Orlen should help derive additional economic benefits and secure long-term prospects for Paramo's optimized business model.

In fuel retailing, Unipetrol's efforts remain focused on the retaining the strongest position on domestic market in coming years, continuously building the fundamentals for further growth aimed at expanding our market share to 20% and participation on potential market consolidation.

Continuity is to be maintained in the activities related to the realization of scale synergies with PKN Orlen in selected non-fuel sales, the development of the CODO, DOFO concepts and innovative unmanned sites concept focused on stimulation of fuel margins. In 2012, Benzina successfully opened a second self-service filling station on the Czech market (Express 24) as well as two new premium filling stations on D3 highway. In the next years the development of unmanned Express 24 filling stations will continue. Moreover, Benzina is implementing a small gastronomy concept under Stop Cafe brand. By the end of 2012, 88 locations were put into operation.

Management of Unipetrol considers the areas of logistics and energy to be of key interest from the point of view of value creation in the coming years. Unipetrol is carefully monitoring logistics assets in the region with the aim to respond to the changing and developing environment. The energy segment is perceived by Unipetrol's management as important pillar for development and growth. Activities in this area will be focused on security of fuel supply for the power plants and efficiency in operation within the Group, responding to future energy market environment conditions.

Unipetrol wants to maintain research and development activities, which support its refining and petrochemical production, in its portfolio. UniCRE connects research capacities with top educational activity and industrial application, focusing on research, development, innovation and education in the area of refining and petrochemical technologies, environmental technology and processes for efficient use of renewable sources.

Unipetrol's governing bodies and management

Board of Directors

The Board of Directors is the company's governing body, managing its activity and acting on its behalf. Pursuant to the Articles of Association as in force as of 1 January 2013, the Board of Directors has seven members and the members are elected for a three-year term of office. The Board of Directors elects from its ranks Chairman and two Vice-Chairmen, who each represent the Chairman severally and fully in the execution of his competences.

The company's Board of Directors as of 27 March 2013

PIOTR CHEŁMIŃSKI
Born on 17 October 1964

Member of the Board of Directors since 30 October 2009 (reelected to office on 5 December 2012, current term of office will expire on 5 December 2015), Chairman of the Board of Directors since 10 December 2009 (reelected to office on 5 December 2012)

University education, 22 years of experience

Currently the Company's CEO as well.

Currently, outside the Unipetrol Group, the Member of the Board of Directors of PKN ORLEN S.A.

Career overview:
Over the five preceding years, he has worked as a member of the Board of Directors of Gamet Holdings S.A. Luxembourg (2007–10/2009), as Vice-Chairman for Sales and Marketing at Gamet, S.A. Torun, Poland (2006–10/2009) and as a member of the Board of Directors and Supervisory Board with direct operating supervision over marketing and sales at Kamis-Przyprawy S.A. (2001–2006). He does not hold any of these positions any longer.

Education:
University of Management and Marketing in Warsaw (a partner of Denver University, US), a graduate management program Warsaw Agricultural University, Master's Degree

MAREK ŚWITAJEWSKI
Born on 16 November 1969

Member of the Board of Directors since 25 June 2012 (current term of office will expire on 25 June 2015), Vice-Chairman of the Board of Directors since 12 September 2012

University education, 19 years of experience
Currently also the Chief Refining Officer.

Career overview:
Over the five preceding years, he has worked as a technical director of TP Emitel (12/2006 – 10/2010), CEO of Global Contact & Institute of Training and Market Researches (3/2006–10/2007) and Nortel Networks (12/2004–2/2006). He does not hold any of these positions any longer.

Education:
Merchant Marine Academy in Gdynia, Master's Degree in Radio Telecommunication and Electronic

PIOTR WIELOWIEYSKI
Born on 17 October 1954

Member of the Board of Directors since 28 March 2012 (current term of office will expire on 28 March 2015), Vice-Chairman of the Board of Directors since 28 March 2012

University education, 34 years of experience

Career overview:
Over the five preceding years, he has worked as a member of the Board of Directors of Libella Sp. Z o.o. (2008–2012), CFO and a member of Investment Committee of Profound Ventures Spółka z o.o. (2011), and a member of the Board of Directors of Foksal NFI SA (2004–2007). He does not hold any of these positions any longer.

Education:
University of Warsaw, Master's Degree in Economics

MARTIN DURČÁK
Born on 25 November 1966

Member of the Board of Directors since 6 October 2006 (reelected to office on 5 December 2012; current term of office will expire on 5 December 2015)

University education, 21 years of experience

Currently also the Chief Retail Officer and member of the Board of Directors of HC VERVA Litvínov, a.s.

Career overview:
Over the five preceding years, he has held the position of member of the Board of Directors and CEO at ARAL ČR a.s. (2004–2006). He held the position of the executive of BENZINA, s.r.o. until 31 August 2011. He does not hold this position any longer.

Before, he worked as Project Manager at ARAL ČR and as Controlling Director at ARAL ČR and Aral Poland.

Education:
Technical University in Ostrava

Unipetrol's governing bodies and management

MIROSŁAW KASTELIK
Born on 23 February 1968

Member of the Board of Directors since 6 February 2013 (current term of office will expire on 6 February 2016)

University education, 20 years of experience

Currently the Company's CFO as well.

Career overview:
Over the five preceding years, he has worked the Chief Financial Officer and Chief Accountant at Isuzu Motors Polska Sp. z o.o. (1998–2009), as the Chief Financial Officer and Vice-President at Tele-Fonika Kable Sp. z o.o. (2009–2010) and as the Chief Financial Officer at Boryszew S.A., Maflow Branch (2011–2013). He does not hold any of these positions any longer.

Education
University of Illinois at Urbana-Champaign – Warsaw University, Executive MBA

Katowice University of Economics, Post-Graduate Studies in Accounting

Cracow University of Economics, Master Degree in Economics of Real Estate and Investments

ARTUR PAŹDZIOR
Born on 6 October 1970

Member of the Board of Directors since 30 October 2009 (reelected to office on 5 December 2012; current term of office will expire on 5 December 2015)

University education, 21 years of experience

Currently also the Chief Petrochemical Officer

Career overview:
Over the five preceding years, he has held the position of CEO and the Chairman of the Board of Directors at MK sp. z o.o. (2008–10/2009), Sales and Marketing Director and a member of the Board of Directors at Wavin Metalplast – Buk sp. z o.o. (2003–2008). He does not hold any of these positions any longer.

Education:
Master of Business Administration, Nottingham Trent University / The Wielkopolska Business School

Master of Engineering, Poznan University of Technology, Faculty of Mechanical Engineering

Board of Directors – Changes in 2012, and in 2013 up to the closing date of the Annual Report on 27 March 2013

As of 1 January 2012, members of the Board of Directors were Messrs Piotr Chełmiński – Chairman, Martin Durčák, Mariusz Kędra, Ivan Ottis, Artur Paździor – members.

The Supervisory Board at its meeting on 28 March 2012 elected Mr. Piotr Wielowieyski to office of member of the Board of Directors who was on the same day elected by the Board of Directors to office of Vice-Chairman of the Board of Directors. The Supervisory Board at its meeting on 5 June 2012 elected Mr. Marek Świtajewski to office of member of the Board of Directors with effect as of 25 June 2012. Mr. Marek Świtajewski was elected by the Board of Directors to office of Vice-Chairman of the Board of Directors on 12 September 2012. Mr. Ivan Ottis's office of member of the Board of Directors expired on 24 June 2012 as the term expired to this day.

The Supervisory Board at its meeting on 5 December 2012 elected to office of members of the Board of Directors for another term Mr. Piotr Chełmiński, Mr. Martin Durčák and Mr. Artura Paździor.

The Board of Directors at its meeting on 5 December 2012 elected to office of Chairman of the Board of Directors Mr. Piotr Chełmiński.

Thus, as of 31 December 2012, the Board of Directors included Messrs Piotr Chełmiński as the Chairman, Marek Świtajewski as the Vice-Chairman, Piotr Wielowieyski as the Vice-Chairman, Martin Durčák, Mariusz Kędra and Artur Paździor as members.

The Supervisory Board at its meeting on 6 February 2013 resolved to recall Mr. Mariusz Kędra from his office of a member of the Board of Directors with effect as of 6 February 2013. The Supervisory Board at its meeting on 6 February 2013 elected Mr. Mirosław Kastelik to office of member of the Board of Directors with effect as of 6 February.

Thus, as of the closing date of the Annual Report, 27 March 2013, the Board of Directors included Messrs Piotr Chełmiński as the Chairman, Marek Świtajewski as the Vice-Chairman, Piotr Wielowieyski as the Vice-Chairman, Martin Durčák, Mirosław Kastelik and Artur Paździor as members.

Supervisory Board

The Supervisory Board is the company's supervisory body. It supervises the performance of the Board of Directors' competences and the running of the company's business. In accordance with the Articles of Association as in force as of 1 January 2012, the Supervisory Board had 9 members elected for a three-year term of office. The Supervisory Board elects from its ranks its Chairman and two Vice-Chairmen, each representing the Chairman of the Supervisory Board severally and fully in the execution of his competences.

Supervisory Board as of 27 March 2013

DARIUSZ JACEK KRAWIEC

Born on 23 September 1967

Member of the Supervisory Board (since 26 June 2008, term of office will expire on 30 June 2014)
Chairman of the Supervisory Board (since 11 December 2008, reelected to office of Chairman of the Supervisory Board on 12 October 2011)

University education, 21 years of professional experience

Outside the Unipetrol Group he is currently a Member and the Chairman of the Board of Directors of PKN ORLEN S.A.

From 2006 to 2008, he served as President of the Management Board of Action SA. From 2003 to 2004, he was managing director for Sindicatum Ltd London. In 2002, he became President of the Management Board of Elektrim SA. He served previously as President of the Management Board and CEO of IPEXmetal SA. In 1998, he was with the UK branch of Japanese investment bank Nomura plc headquartered in London, where he was responsible for the Polish market. In the years 1992–1997, he worked for Bank PEKAO S.A., Ernst & Young SA and PriceWaterhouse Sp. z o.o. He does not hold any of these positions any longer.

He has chaired the supervisory boards of Huta Aluminium Konin SA, Metalexfrance SA of Paris, Sal SA of Lausanne, ce-market.com SA. He has been member of the supervisory boards of IMPEXmetal SA, Elektrim SA, PTC Sp. z o.o., Elektrim Telekomunikacja Sp. z o.o., Elektrim Magadex SA, Elektrim Volt SA and PTE AIG and Polkomtel SA.

Graduated from the Poznan University of Economics, specialization in Economics and Organisation of the Foreign Trade.

Unipetrol's governing bodies and management

SŁAWOMIR ROBERT JĘDRZEJCZYK

Born on 5 May 1969

Member of the Supervisory Board (since 26 June 2008, term of office will expire on 30 June 2014)
Vice-Chairman of the Supervisory Board (since 11 December 2008 till 30 June 2011, reelected to office on 12 October 2011)

University education, 19 years of professional experience

Outside the Unipetrol Group he is currently a Member and Vice-Chairman of the Board of Directors at PKN Orlen S.A. and a Member of the Board of Directors at AB Orlen Lietuva.

Since 7 June 2008, he has been a Member of the Board of Directors of PKN ORLEN, and in August 2008 he became Vice-President the Board of Directors of PKN ORLEN and Chief Financial Officer. From 2005 to June 2008, he served as President of the Management Board and CEO of TPEmiTel Sp. z o.o. (member company of the Telekomunikacja Polska Group). In the following years (2003–2005), he headed the Controlling Division at the Telekomunikacja Polska Group. In 2002–2003, he held the position of CFO at ORFE SA and Member of the Management Board of CEFARM Śląski SA. From 1997 to 2002, he served as Member of the Management Board and CFO of IMPEXmetal SA. In the years 1992–1997, he worked for Telebud, ASEA Brown Boveri and PriceWaterhouse Sp. z o.o.

Graduated from the Łódź University of Technology (1992). In 1997, he completed The Association of Chartered Certified Accountants in London, from which he obtained the title of British Certified Auditor.

IVAN KOČÁRNÍK

Born on 29 November 1944

Member and Vice-Chairman of the Supervisory Board (since 22 June 2006, reelected to office on 25 June 2012, current term of office will expire on 25 June 2015)

University education, 44 years of professional experience

Over the five preceding years, he has been the Chairman of the Supervisory Board at Impronta, a.s. (until 13 June 2003), Chairman of the Supervisory Board at Česká pojišťovna Slovensko, a.s. (until April 2008), Chairman of the Board of Trustees of Nadace VŠE, Chairman of the Supervisory Board of Česká pojišťovna a.s. (until January 2007), and Chairman of the Supervisory Board of ČESKÉ AEROLINIE, a.s. (until September 2009). He does not hold any of these positions any longer.

He held the office of the Deputy Prime Minister and the Minister of Finance (1992–1997), Deputy Minister of Finance (1990–1992). Before, he worked as Director of the research department of Ministry of Finance (1985–1990), at the University of Economics, Prague (1975–1985) and in the Research institute of financial and loan system (1966–1974).

Graduated from the University of Economics, Prague

ZDENĚK ČERNÝ

Born on 20 October 1953

Member of the Supervisory Board (since 29 January 1999, current term of office will expire on 29 June 2013)

University education, 38 years of professional experience

Outside the Unipetrol Group, he has been the Chairman of the Supervisory Board of Vykáň a.s. (until 30 June 2006) and a member of the Supervisory Board of Severomoravská energetika a.s., Ostrava (until 28 February 2007) over the five preceding years.

Currently he holds the office of Chairman of the Trade Unions Association ECHO (Energy and Chemical industries). Before, he held the post of Chairman of the Czech Trade Unions in Chemical Industry (1997–2004), where he also worked in various other positions since 1990 (the head of the Chairman's Office, executive secretary, head of legislative department). Between years 1975 and 1989 he worked in the railway transportation industry in various positions and departments.

Graduated from the Charles University in Prague, Faculty of Law. MBA studies finished in June 2011.

BOGDAN DZUDZEWICZ

Born on 9 February 1966

Substitute Member of the Supervisory Board (from 11 December 2008 till 23 June 2009)
Member of the Supervisory Board (since 24 June 2009, reelected to office on 25 June 2012, current term of office will expire on 25 June 2015)

University education, 22 years of professional experience

Currently PKN ORLEN's general counsel (since September 2008) and Chairman of Supervisory Board of Inowrocławskie Kopalnie Soli "Solino" S. A.

He previously worked as a senior lawyer at Linklaters (2003–2004) as well as running a private practice (2004–2008). Before, he worked as a commercial lawyer in Elektrim S.A. (2002), a senior lawyer in Weil, Gotshal & Manges (1998–2002) and a lawyer in Sołtysiński Kawecki & Szlęzak (1995–1998).

Faculty of Law of the Adam Mickiewicz University in Poznań and the Law Faculty, Central European University in Budapest. Member of Regional chamber of commercial lawyers in Warsaw.

PIOTR KEARNEY

Born on 4 October 1969

Member of the Supervisory Board (since 8 June 2005, current term of office will expire on 30 June 2014)

University education, 18 years of professional experience

Currently works as Director of Mergers and Acquisitions Department in PKN ORLEN.

He has been working at PKN ORLEN since 2000, he began at the post of Deputy Director for Capital Investments and later became Strategy and Development Executive Director. Before joining PKN ORLEN he worked for Nafta Polska S.A., first as an Adviser in the Financial Policy Department, subsequently at the post of Deputy Director for Restructuring and Privatisation Department. He started his career in Rafineria Gdanska S.A. as Development Finance Manager (1995–1996).

Over the five preceding years, he has been a Member of the Supervisory Board of ORLEN Deutschland AG (2003–2004), Rafineria Trzebinia S.A. (2003–2004), Inowrocławskie Kopalnie Soli Solino S.A. (2003–2004), ORLEN Upstream Sp. z o.o. (2006–2010), AB ORLEN Lietuva (2006–2010), Polkomtel S.A. (2008).

Graduated from the University of Gdansk, Faculty of Economics.

Unipetrol's governing bodies and management

ANDRZEJ JERZY KOZŁOWSKI
Born on 13 January 1975

Member of the Supervisory Board (since 24 June 2009, reelected to office on 25 June 2012, current term of office will expire on 25 June 2015)

University education, 15 years of professional experience

Since February 2009, Mr Kozlowski has served as Executive Director for Strategy and Project Portfolio at PKN ORLEN. He is also a Chairman of the Supervisory Board of ORLEN Upstream Sp. z o.o. (since February 2010).

Prior to his current role, he worked as Director for Strategy, Project Management and Regulatory Relations at TP Emitel, Director at Prokom S.A., Manager in charge of strategic projects for the Board of Directors at Telekomunikacja Polska S.A., and consultant and project manager for Avantis Consulting Group and American Management Systems.

Between 2009 and 2010, he was a Member of the Supervisory Board of AB ORLEN Lietuva.

Graduated from the WSB National-Louis University (BA program) and from the Maastricht School of Management (MBA program).

KRYSTIAN PATER
Born on 16 December 1964

Member of the Supervisory Board (since 28 June 2007, current term of office will expire on 29 June 2013)

University education, 24 years of professional experience

Outside the Unipetrol Group, he is a Member of the Board of Directors responsible for refinery segment of PKN ORLEN S.A. (2007–present), a Member of the Board of Directors and CEO of AB ORLEN Lietuva (2006–present). Additionally, he is a Member of the Board of Directors of CONCAWE and Chairman of the Association of Oil Industry Workers.

He is a Member of the Supervisory Board of ORLEN Mechanika Sp. z o.o., a Member of the Supervisory Board of Rafineria Trzebinia, S.A., a Member of the Supervisory Board of ORLEN Asfalt Sp. z o.o. and a Member of the Supervisory Board of ORLEN Eko Sp. z o.o.

Prior to his current role he worked in PKN ORLEN SA as executive director for refinery production (2006–2007), chief engineer for technology (2003–2005) and supervisor of the production manager's office (1998–2002). Between years 1993 and 1998 he held the post of technologist in Petrochemia Płock SA. Additionallly he has been a Chairman of the Supervisory Board of ORLEN Asfalt Sp. z o.o. (2005–2007), ORLEN Eko Sp. z o.o. (2005–2007) and a Member of the Supervisory Board of Polyolefins Sp. z o.o. (2007–2008).

Graduated from the University in Torun, Faculty of Chemistry, in 1987. He passed a postgraduate chemical engineering course in the Warsaw University of Technology, Faculty of Chemical and Process Engineering in 1989.

RAFAŁ SEKUŁA
Born on 27 September 1972

Substitute Member of the Supervisory Board (from 30 October 2009 to 9 December 2009)

Member of the Supervisory Board (since 10 December 2009, term of office expired on 10 December 2012, office has not yet ceased to exist)

University education, 16 years of professional experience

He is currently the Executive Director of PKN Orlen's HR Department, a Member of the Supervisory Board of ORLEN Oil Sp. z o.o. (since 25 May 2011) and a Member of the Supervisory Board of ORLEN Księgowość Sp. z o.o. (since 1 October 2011)

Prior to his current role he worked as the HR Director (from 2006), the head of the Employee Care Department (from 2002) and as a specialist in the Employee Care Department (from 2000) at TP EmiTel sp. z o.o. Between years 1997 and 2000 he worked for Telekomunikacja Polska in Organisation and Management Department.

Graduated from the Jagiellonian University in Cracow, the Faculty of Law (1997), and from the Polish Open University/The Oxford Brookes University in Warsaw, MBA program (2006).

Supervisory Board – Changes in 2012, and in 2013 up to the closing date of the Annual Report on 27 March 2013
As of 1 January 2012, the members of the Supervisory Board were Messrs Jacek Krawiec as the Chairman, Sławomir Jędrzejczyk as a Vice-Chairman, Ivan Kočárník as a Vice-Chairman, and Piotr Kearney, Krystian Pater, Zdeněk Černý, Bogdan Dzudzewicz, Andrzej Kozłowski and Rafał Sekuła as members.

The General Meeting of UNIPETROL, a.s. on 25 June 2012 elected to office of Members of the Supervisory Board for another term Messrs Bogdan Dzudzewicz, Ivan Kočárník and Andrzej Kozłowski.

At its meeting on 25 June 2012, the Supervisory Board elected Ivan Kočárník as a Vice-Chairman of the Supervisory Board with effect as of 25 June 2012.

As of 31 December 2012, the members of the Supervisory Board were Messrs Jacek Krawiec as the Chairman, Sławomir Jędrzejczyk as a Vice-Chairman, Ivan Kočárník as a Vice-Chairman, and Piotr Kearney, Krystian Pater, Zdeněk Černý, Bogdan Dzudzewicz, Andrzej Kozłowski and Rafał Sekuła as members.

There were no changes in the composition of the Supervisory Board in 2013 up to the closing date of the Annual Report on 27 March 2013.

Unipetrol's governing bodies and management

Managers (persons with management powers)

"Managers" mean persons in executive management positions who substantially influence the company's actions. As far as UNIPETROL, a.s. is concerned, managers are the persons in the positions of Chief Executive Officer, Chief Financial Officer, Chief Strategy and M&A Officer, Chief Administrative Officer, Chief Refining Officer, Chief Petrochemical Officer, and Chief Retail Officer.

Managers as of 27 March 2013

Chief Executive Officer
Piotr Chełmiński since 10 December 2009

Chief Financial Officer
Mirosław Kastelik since 6 February 2013

Chief Strategy and M&A Officer
Piotr Wielowieyski since 28 March 2012

Chief Administrative Officer
position vacant since 10 December 2009

Chief Refining Officer
Marek Świtajewski since 25 June 2012

Chief Petrochemical Officer
Artur Paździor since 30 October 2009

Chief Retail Officer
Martin Durčák since 1 September 2008

Audit Committee

Based on the new Act No. 93/2009 on Auditors (the "the Act on Auditors") the extraordinary general meeting of UNIPETROL, a.s. held on 10 December 2009 decided to amend the company's Articles of Association to establish the Audit Committee and describe its remit, composition, and procedural rules.

The Audit Committee is the company's body that performs, in particular but without limitation, the activities listed below without prejudice to the responsibility of the members of the company's Board of Directors or Supervisory Board:

a) Monitor the procedure of the preparation of financial statements and consolidated financial statements;
b) Evaluate the efficiency of the company's internal controls, internal audit and, if applicable, risk management systems;
c) Monitor the process of the mandatory audit of financial statements and consolidated financial statements;
d) Assess the statutory auditor's and audit company's independence and especially the provision of complementary services to the company;
e) Recommend that the auditor audit the company's financial statements and consolidated financial statements.

The company's auditor shall inform the Audit Committee on an ongoing basis, about significant circumstances arising from the mandatory audit, including, but not limited to, any fundamental shortcomings in internal controls in relation to the procedure of the preparation of financial statements or consolidated financial statements. The Audit Committee members participate in the company's general meetings and are obligated to inform the general meeting about the results of their work.

The Audit Committee has four members, appointed and dismissed by the general meeting from the ranks of the Supervisory Board members or third parties. Audit Committee members may not hold the positions of Members of the Board of Directors or Prokurists of the company. At least one member of the Audit Committee must be independent of the company and possess at least three years practical experience in accounting or mandatory auditing. The term of office of each individual member of the Audit Committee is three years. Re-election of members of the Audit Committee is allowed.

Audit Committee members shall refrain from voting on any issues that threaten or involve a conflict of interests on their part and shall notify the other members of the Audit Committee of such conflicts of interest without any undue delay. This does not prejudice the right of the Audit Committee member on whose part a conflict of interests threatens or exists to participate in the deliberations on the issue as per the preceding sentence. The Audit Committee shall make decisions at its meetings. The Audit Committee shall meet once every two months as a rule.

The Audit Committee members are:

IAAN HAGGIS
Born on 9 December 1961

Independent Member of the Audit Committee (since 10 December 2009)

University education, 23 years of experience

Outside the Unipetrol Group, he is currently the CFO in charge of financial statements and annual audit at Innova Capital (since 2007). He worked as the corporate finance director at TP Group (2005–2007), and before, as the COO and Executive Director at Radio Plus S.A. (2002–2005).

Between years 1999 and 2002 he held the post of the Finance Director at De Lage Landen Leasing Polska (the leasing and vendor finance subsidiary of Rabobank), Finance and Administration Director responsible for the audit process of the National Investment Fund at PTP Kleinwort Benson (1994–1999), Financial Director at GVG GmbH, Germany (1991–1994), Regional Financial Controller at Halifax Property Services, UK (1989–1991), Management Accountant and Assistant Financial Manager at Reuters Ltd (1984–1989).

I. Haggis graduated from the Plymouth Polytechnics (BA in business and finance) in Great Britain.

SŁAWOMIR ROBERT JĘDRZEJCZYK
Member of the Audit Committee (since 10 December 2009)

See the Supervisory Board

IVAN KOČÁRNÍK
Member of the Audit Committee (since 10 December 2009)

See the Supervisory Board

PIOTR KEARNEY
Member of the Audit Committee (since 10 December 2009)

See the Supervisory Board

Unipetrol's governing bodies and management

Statement of Compliance

The members of the Board of Directors, Supervisory Board, and management (the "persons") listed below:

Piotr Chełmiński, Marek Świtajewski, Piotr Wielowieyski, Martin Durčák, Mirosław Kastelik, Artur Paździor, Dariusz Jacek Krawiec, Sławomir Jędrzejczyk, Ivan Kočárník, Bogdan Dzudzewicz, Piotr Kearney, Krystian Pater, Zdeněk Černý, Andrej Jerzy Kozłowski and Rafał Sekuła,

Have each submitted an individual "Statement of Compliance" to UNIPETROL, a.s., wherein they have stated that they:

"(a) Have not been a member of any administrative, governing, or supervisory body or a member or partner of any other company or general or limited partnership other than UNIPETROL, a.s. or a related party thereof over the five preceding years;
(b) Are not a member of any administrative, governing, or supervisory body or a member or partner of any other company or general or limited partnership other than UNIPETROL, a.s. or a related party thereof;
(c) Have not been convicted of offences involving fraud over the five preceding years;
(d) Have not been associated with any bankruptcy/receivership proceedings, administration or liquidation over the five preceding years;
(e) Have not been disciplined in any manner whatsoever by any governing bodies or regulatory authorities (including designated professional bodies);
(f) Have not been deprived of the capacity to hold the office of a member of any administrative, governing or supervisory body of any issuer, or a position in the management of, or execution of the activities, of any issuer by any court over the five preceding years;
(g) Do not have any potential conflict of interest between their obligations related to their offices, their private interests, and/or other obligations, and UNIPETROL, a.s.; and
(h) Have not entered into any agreement on the holding of an office/position with UNIPETROL, a.s. or a related party thereof, granting them any benefit in connection with the end of their office/position."

They also noted, if applicable, exceptions from the items of the above Statement in cases where any of the above circumstances exist in respect of their own person. The exceptions from items (a) and (b) submitted by the Persons are specified in sub-chapters "Board of Directors", "Supervisory Board", and "Management"; in this chapter, these are specified separately for each Person in the wording submitted in that Person's Statement. No exceptions were noted in respect of items (c) to (h). The Persons holding the offices of a CEO, CFO, Chief Strategy and M&A Officer, Chief Administrative Officer, Chief Refining Officer, Chief Petrochemical Officer and Chief Retail Officer, at UNIPETROL, a.s. and the Persons holding the office of a Director in subsidiaries have employment contracts in place with the respective companies, wherein benefits related to the end of their office are accorded to them in accordance with the rules of remuneration specified in sub-chapter "Emoluments".

Election rules

The Board of Directors has seven members. Under the company's Articles of Association, Members of the Board of Directors are elected and dismissed by the company's Supervisory Board. If a Member of the Board of Directors dies, resigns, is dismissed or his term of office ends otherwise, the Supervisory Board shall elect a new member of the Board of Directors within three months of the day when such a circumstance occurred. Any Member of the Supervisory Board is entitled to propose the election or dismissal of Members of the Board of Directors. The election/dismissal of Members of the Board of Directors shall take place by means of a secret ballot during a Supervisory Board meeting. Re-election of Members of the Board of Directors is allowed.

The Supervisory Board has nine members, of which according to the wording of the Articles of Association the general meeting shall elect/dismiss six Members of the Supervisory Board, while the company's employees shall elect three Members of the Supervisory Board provided that the company has more than fifty employees under employment contracts with working hours exceeding one half of the weekly working hours laid down in a separate legal regulation as of the first day of the accounting period in which a general meeting electing the Members of the Supervisory Board is held. Since this requirement was not met as of 1 January 2012, all Members of the Supervisory Board have been elected by the general meeting. If the number of the Members of the Supervisory Board elected by the general meeting does not decrease below one half, the Supervisory Board may appoint substitute members until the next general meeting; otherwise, the new Members of the Supervisory Board shall be elected within three months of the day when the term of office of the current Members of the Supervisory Board ended. Re-election of Members of the Supervisory Board is allowed.

The company's Board of Directors appoints and dismisses managers of the company in accordance with the Labor Code.

Emoluments

Principles of remuneration of managers and members of the Board of Directors and Supervisory Board

The setting of the emoluments for the Board of Directors and Supervisory Board members falls within the competencies of the general meeting. The general meeting decided on a fixed amount of emoluments for an indefinite period of time, differentiated for the Chairman, Vice-Chairman, and Members of both the Board of Directors and the Supervisory Board, in 2001. The general meeting also decided on the amount for D&O liability insurance for the Board of Directors and Supervisory Board members.

The Staff and Corporate Governance Committee

The agenda of the Staff and Corporate Governance Committee includes support for the implementation of the company's strategic goals via the Committee's opinions and recommendations furnished to the Supervisory Board on matters concerning the structure of management, including organisational arrangements, the remuneration system, and the selection of suitable persons capable of assisting the company to achieve success. The remit of the Committee includes, without limitation:

a) Submission of recommendations concerning the appointment and dismissal of Board of Directors members to the Supervisory Board;
b) Regular assessment of, and submission of recommendations concerning, the principles and system of remuneration for the Board of Directors members and the Chief Executive Officer, including management contracts and a system of incentives, and submission of proposals concerning the creation of such systems with regard to the implementation of the company's strategic goals;
c) Submission of opinions to the Supervisory Board on the justification of the part of remuneration which depends on the results achieved, in connection with the evaluation of the degree to which the company's tasks and objectives have been carried out;
d) Assessment of HR management system in the company;
e) Recommendation of candidates for the office of the company's Chief Executive Officer;
f) Informing the Supervisory Board about all circumstances pertaining to the Committee's activities.
g) Evaluation of implementation of the corporate governance principles,
h) Submission of recommendations to the Supervisory Board concerning implementation of the corporate governance principles,
i) Opinions concerning normative documents concerning corporate governance,
j) If required, evaluation of reports concerning the compliance of the corporate governance rules with the corporate governance rules established by the Prague Stock Exchange or the Czech National Bank, if such rules exist,
k) Presentation of opinions concerning the proposed changes of the company's corporate documents and preparation of proposals of amendments in case of the Supervisory Board documents,
l) Monitoring of the corporate governance from the point of view of its compliance with legal requirements, including the valid corporate governance rules,
m) Informing the Supervisory Board about any facts related to the activities of the Corporate Governance Committee.

Committee Members

Chairman	Krystian Pater	Member since 24 September 2010
		Chairman since 2 December 2010
Vice-Chairman	Bogdan Dzudzewicz	Member since 24 September 2010
		Vice-Chairman since 2 December 2010
Member	Zdeněk Černý	Member since 24 September 2010
Member	Rafał Sekuła	Member since 24 September 2010

The managers' remuneration consists of a fixed and a variable component related to each particular position and the management level. Remuneration is paid in the form of wages for work performed under management contracts. The level of wages is based on qualified benchmarking studies on managers' remuneration in the Czech Republic, and reflects managerial and professional expertise. The variable component amounts to ca 60% of the base monthly wages and is paid in accordance with the MBO objectives.

This management by objective and remuneration system was implemented all the way to level N-2 in 2012, involving more than 150 employees.

For the employees and managers evaluated under the MBO, the variable component of wages is set based on the tier of their position in the company. The variable component depends on the meeting of qualitative and quantitative targets and the achievement of the Group's planned financial results.

Unipetrol's governing bodies and management

The quantitative targets include mainly operating profit (EBIT), free cash-flow, fixed costs, the restructuring of employment and safety parameters.

Qalitative targets mainly relate to the managerial efficiency.

An MBO Committee was appointed for addressing specific cases or employees' complaints related to the MBO system; its members are the company's managers.

The specific qualitative and quantitative targets for the employees are set by their direct superiors. Direct superiors also evaluate the meeting of the targets for the relevant period. For employees who are members of the Board of Directors, targets are set and evaluations made by the Supervisory Board.

The entitlements arising from contracts with managers upon the termination of employment contained both a competition and a stabilisation clause as of 31 December 2012. The competition and stabilization clause ranges between three and six times average monthly earnings, monthly base salary respectively.

In addition to financial income, managers are entitled to income in kind, which includes:

- Right to use the business car for private purposes;
- Meal vouchers;
- Accommodation costs, eventually costs associated with rellocation;
- Air tickets expenditures;
- Fuel consumption for private purposes;
- Health care;
- Cafeteria system – contributions to personal pension schemes, life assurance policies, or Flexi Passes.

Amount of payments provided by the issuer in the last accounting period, from 1 January 2012 to 31 December 2012

	Income in money	Income in kind	TOTAL
Board of Directors – income tied to membership in the company's statutory body	CZK 2,949 ths	CZK 0 ths	CZK 2,949 ths
Board of Directors – income tied to management contract	CZK 26,933 ths	CZK 1,187 ths	CZK 28,120 ths
Supervisory Board – income tied to membership in the company's statutory body	CZK 5,640 ths	CZK 0 ths	CZK 5,640 ths
Supervisory Board – income tied to management contract	CZK 0 ths	CZK 0 ths	CZK 0 ths
Audit Committee – income tied to membership in the company's statutory body	CZK 960 ths	CZK 0 ths	CZK 960 ths
Audit Committee – income tied to management contract	CZK 0 ths	CZK 0 ths	CZK 0 ths

Amounts paid by persons controlled by the issuer for the last accounting period

	Income in money	Income in kind	TOTAL
Board of Directors – income tied to membership in the company's statutory body	CZK 614 ths	CZK 0 ths	CZK 614 ths
Supervisory Board – income tied to membership in the company's statutory body	CZK 439 ths	CZK 0 ths	CZK 439 ths

Members of the Board of Directors and Supervisory Board and Managers (persons with management powers) do not hold the issuer's participation securities or options under Section 118 of Capital Market Business Act No. 256/2004 and Article 10 of Commission Regulation (EC) No 809/2004.

The issuer has provided no credit, loans, or guarantees to governing bodies or members thereof, members of supervisory bodies, or managers (persons with management powers).

The members of the issuer's governing and supervisory bodies and managers (persons with management powers) were not involved in transactions outside of the issuer's scope of business or in other transactions unusual for the issuer in terms of their form, nature, terms and conditions, or subject matter during the current and latest completed accounting periods or in the previous accounting periods.

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Management report

Introduction

Unipetrol Group generated revenues of CZK 107,281m in 2012 which represents a 10% increase compared to 2011 level. Revenue growth was driven by significant USD appreciation vis-à-vis CZK, by 11% from 17.7 to 19.6 CZK/USD.

Refining margins improved in the first half of 2012 compared to the end of 2011 and achieved very solid levels during the second half of the year. That is why Unipetrol model refining margin improved significantly in 2012 by 281% y/y from 0.9 to 3.6 USD/bbl. Refining margin however normalized during last four months of 2012, recorded a steep decline, and achieved the level of 0.8 USD/bbl in January 2013. Brent-Ural differential continued its long-term narrowing trend with 24% decline y/y from 1.7 to 1.3 USD/bbl in 2012. FX development was positive as we witnessed a strong USD appreciation vis-à-vis CZK. Sales volumes of refining products, including fuel retailing, decreased by 5% y/y to 3,283kt predominantly due to Czech economy recession and increase of fuel imports within grey economy zone, connected to tax frauds.

Long-term deterioration of overall refining market conditions thus in general continued during the course of 2012. That is why we were, in accordance with international accounting standards, forced to book non-cash impairment charge to our key refining asset – Česká rafinérská – in the amount of CZK 4,075m in the fourth quarter. Refining segment recorded negative EBIT in the amount of CZK -4,513m predominantly due to this negative item and impairment of refining assets held for sale in the amount of CZK 316m.

Petrochemical segment generated positive EBIT in the amount of CZK 412m, mainly thanks to crude oil price stabilization in the second half of the year, production without significant outages and strict cost control. Unipetrol combined petrochemical margin achieved 573 EUR/t in 2012, the same level like in 2011. Sales volumes of petrochemical products achieved 1,771kt. This represents a 6% increase y/y, as there was a scheduled 4-year periodical turnaround of the Litvínov plant at the turn of third and fourth quarter 2011 which lowered petrochemical sales volumes in 2011.

Retail segment also recorded a positive operating result, although EBIT at the level of CZK 207m represents a decline by 43% y/y. Retail segment profitability was negatively impacted by the ongoing Czech economy recession and saving behavior of customers resulting from weak situation on the job market, weak real wages dynamics and austerity fiscal measures of the Czech government. Among the key negative factors were also the fierce price competition on the Czech retail market and the above mentioned fuel imports within grey economy connected to tax frauds. It is worth mentioning a one-off positive EBIT impact in the amount of CZK 131m booked in the third quarter stemming from the release of provision created in connection to the fine imposed by the Antimonopoly Office (Úřad pro ochranu hospodářské soutěže – ÚOHS) for Benzina.

Benzina network of filling stations, the part of retail segment and leader on the Czech market, successfully launched the second self-service filling station Express 24 in Hradec Králové in September, constructed two new premium filling stations Benzina Plus on D3 highway between Prague and České Budějovice in Mezno and Mitrovice locations, and completed the project of gastro concept Stop Cafe with 88 installations in operation at the end of the year.

Taking all three business segments together, Unipetrol Group recorded operating (EBIT) loss in the amount of CZK -4,014m in 2012, compared to the operating loss of CZK -5,370m in 2011. EBIT adjusted for the negative non-cash impairment charges of refining assets was positive in the amount of CZK 377m. Loss on the net income level in the amount of CZK -3,414m was lower than EBIT loss, due to significant income tax credit booked.

Unipetrol Group generated positive operating cash flow in the amount of CZK 1,953m in 2012, a significant improvement compared to 2011 level of CZK 413m, stemming from but not limited to further reduction of fixed costs by more than CZK 400m across the Group compared to 2011 level, and strict working capital management in the environment of higher CZK crude oil prices y/y.

Capital expenditures (CAPEX) achieved the level of CZK 1,346m in 2012. The biggest part, in the amount of CZK 699m, was attributable to the petrochemical segment. Refining segment CAPEX achieved CZK 353m and retail segment CZK 238m. From the investment category point of view, maintenance CAPEX amounted to ca 860m and development CAPEX to ca CZK 300m.

Free cash flow amounted to the positive level of CZK 1,038m, substantial improvement compared to negative free cash flow in 2011 at CZK -2,456m. Positive free cash flow was the key factor that helped to maintain stable financial position as the Group achieved net cash position, or negative net debt respectively, in the amount of CZK -220m at the end of 2012. This corresponds to negative financial gearing ration of -0.7%.

External environment in 2012

	1Q 2012	2Q 2012	3Q 2012	4Q 2012	Average 2012	Average 2011
Model refining margin (USD/bbl)[1]	2.2	2.6	5.3	4.4	3.6	0.9
Brent crude price (USD/bbl)[2]	119	108	110	110	112	111
Brent-Ural differential (USD/bbl)[3]	1.3	2.1	0.7	1.1	1.3	1.7
Model petrochemical olefin margin (EUR/t)[4]	274	400	303	365	335	313
Model petrochemical polyolefin margin (EUR/t)[5]	240	217	251	244	238	259

1) Unipetrol model refining margin = revenues from products sold (97% Products = Gasoline 17%, Petchem feedstock 20%, JET 2%, Diesel 40%, Sulphur Fuel Oils 9%, LPG 3%, Sulphur 1%, Other feedstock 5%) minus costs (100% input = Brent Dated); products prices according to quotations. Unipetrol model refining margin was updated in 2009 and historical figures were recalculated accordingly.
2) fwd Brent Dated
3) Spread fwd Brent Dtd v Ural Rdam = Med Strip – Ural Rdam (Ural CIF Rotterdam)
4) Unipetrol model petrochemical olefin margin = revenues from products sold (100% Products = 40% Ethylene + 20% Propylene + 20% Benzene + 20% Naphtha) minus costs (100% Naphtha); products prices according to quotations.
5) Unipetrol model petrochemical polyolefin margin = revenues from products sold (100% Products = 60% HDPE + 40% Polypropylene) minus costs (100% input = 60% Ethylene + 40% Propylene); products prices according to quotations.

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Key operating data 2012 (kt)

	1Q 2012	2Q 2012	3Q 2012	4Q 2012	2012	2011
Crude oil throughput[1)]	906	1,013	1,043	965	3,927	3,942
Utilisation ratio (%)[1) 2)]	71	79	93	86	82	77
External sales of motor fuels and other refinery products [3)]	751	866	892	775	3,283	3,438
External sales of petrochemical products	440	411	466	453	1,771	1,668

1) The data refer to Unipetrol's refineries, i.e. to 51.22% of Česká rafinérská, 100% of Paramo
2) From 3Q2012 conversion capacity is 4.5 mt/y, i.e. only Česká rafinérská refineries conversion capacity, adjusted for 51.22% shareholding of Unipetrol, after discontinuation of crude oil processing in Paramo refinery (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y); conversion capacity was 5.1 mt/y previously (Česká rafinérská – Kralupy 1.6 mt/y, Česká rafinérská – Litvínov 2.8 mt/y, Paramo 0.7 mt/y)
3) Includes retail distribution – Benzina

Key financial data in 2012 (CZK million)

	2012	2011	2012/2011
Revenues	107,281	97,428	+10%
EBITDA (Earnings before interests, taxes, depreciation and amortization)	-1,207	-2,263	n/a
Operating loss (EBIT)	-4,014	-5,370	n/a
Operating loss (EBIT) – Refining segment	-4,513	-2,923	n/a
Operating profit/loss (EBIT) – Petrochemical segment	412	-3,050	n/a
Operating profit (EBIT) – Retail segment	207	365	-43%
Net loss attributable to shareholders of the parent company	-3,414	-5,914	n/a
Earnings per share (CZK)	-18.83	-32.61	n/a
Operating cash flow	1,953	413	+373%
Net working capital	4,767	4,571	+4%
Capital expenditures (CAPEX)	1,346	3,592	-63%
Free cash flow (FCF)	1,038	-2,456	n/a
Net debt	-220	526	n/a
Financial gearing (Net debt / equity)	-0.7%	1.6%	-2,3pp

Refining segment I. (Unipetrol RPA – Business Unit Refinery, ČESKÁ RAFINÉRSKÁ)

Important events in 2012

- On 21 January 2012, the long-term test-run of fluid catalytic cracking unit (FCC) operation without vacuum distillation, which treated FCC feedstock, had started. The test had been successful and the FCC unit operated without vacuum distillation for the rest of the year. Vacuum distillation unit shutdown brought savings of operating costs, especially regarding energy and maintenance costs. The other result has been production of a new grade of low sulphur fuel oil.
- In the first half of the year the reconstruction of rail tank cars filling stations dedicated to liquid products was executed successively in Kralupy site. The reconstruction resulted in a higher capacity of the system and adapting the possibility of individual products filling to the current needs. Moreover ecological problems of original system were resolved, in particular in the field of groundwater protection and reduction of air pollution.
- In the second half of March the planned shutdown of hydroskimming part of refinery in Kralupy was carried out. The catalyst on the gasoil hydrotreater unit was replaced, reformer catalyst was regenerated and heat transfer system of crude oil atmospheric distillation unit was cleaned, during the process of the shutdown.
- From 15 April till 21 May replacement of underground cooling water systems were executed at the Litvinov atmospheric and vacuum distillation unit (AVD). This investment increased the equipment reliability.
- In April production of new grade of automotive gasoline (PUNL 95 E 10) has started. Product was marketed primarily on the German market in 2012.
- In April and August investments were carried out at the sulphur recovery units. The results were not only better safety and reliability of the units but in particular higher efficiency and operation of the units in compliance with the valid legislation.

- Over the year a new catalyst for the FCC unit was selected and replaced in Kralupy. Optimisation of unit yields according to needs of the processors was the main aim of this replacement.
- In Kralupy blending of FCC heavy gasoline into the diesel pool was successfully tested. The aim of the test was to increse the flexibility of automotive gasolines/diesel production.
- At the turn of August and September Zakinskaya crude was tested within the long-term strategy of feedstocks sources diversification. Operational test results showed a smooth processing of this crude oil in the units of Česká rafinérská.

External environment

2012 was a much better year for the refining industry than 2011 despite ongoing problems of the global economy. The average yearly Brent crude oil price was very close to the value of 2011. It gained only 0.4% and stayed slightly below 112 USD/bbl.

The key bullish factors on the crude oil market included geopolitical tensions (e.g. the dispute between the West and Iran about Iranian nuclear programme, turmoils in the Middle East) and support to local economies provided by central banks of eurozone, USA and China. The main bearish factors were the strong world crude oil production and ongoing global economic crisis mirrored in the lower demand. Influence of many factors (supplies, seasonality, weather and some others) was both positive and negative.

The US dollar remained a major factor as it strengthened both to the euro and the Czech crown in 2012.

The prices of refining products were higher by 0.5 to 5.6% than in the previous year (compared on the basis of FOB Rotterdam high) and their increase thus exceeded crude oil´s one. The result of this price trend was a positive effect on refining margins in comparison with 2011.

European prices of refining products got a boost from a large number of refinery shutdowns in Europe, closure of some refining capacities (Petroplus refineries), exports (naphtha, automotive gasoline, fuel oils), poor and/or problematic quality of imports (jet, diesel fuel) and weather impact on US production (hurricane Isaac, tropical superstorm Sandy).

The principal factors acting against price hikes included the relatively weak or fluctuating rate of growth in demand in 2012 due to global economic problems (all products), shutdowns in downstream processes (virgin naphtha), imports (virgin naphtha, fuel oils), and competition from alternative products (virgin naphtha, fuel oils). Seasonal influences, weather, supplies development and the dollar rate were inciuencing refining product prices in both directions.

The average annual profitability as measured by the Unipetrol model refining margin indicator amounted to 3.6 USD/bbl, up by 300% compared with 2011. At the same time, this fully corresponds with the stronger International Model Refining Margin in y/y comparison, which indicates that European refining business conditions were better in 2012 compared with 2011.

Market position

The exceptionally fierce competition on the market of refining products again continued in 2012 and moreover the market was heavily influenced by illegal imports of motor fuels.

In line with Unipetrol´s ownership rights and its needs, the Refining Business Unit (BU) planned and managed crude oil processing at Česká rafinérská, ensured the principal synergies arising objectively from the connection of refining and petrochemical production within the Group, and was the most important player on the Czech market in crude oil procurement and in refining products wholesale.

In terms of sourcing, the important crude oil markets for the Refining BU include Russia, Azerbaijan, Kazakhstan, and the countries of the Mediterranean. This situation is due largely to the existence of the Druzhba and TAL-IKL (Trieste-Ingolstadt-Kralupy-Litvínov) oil pipelines.

About 75% of the Refining BU´s revenues from its own products were generated in the Czech Republic in 2012. This structure was based on supplies to other Unipetrol Group companies and on supplies to entities existing on the Czech market outside of the Group.

The most important export areas for the Refining BU were Slovakia, Germany and Austria.

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Business policy

Crude oil purchases

For Unipetrol RPA, 2012 was marked by continued strategic co-operation with Unipetrol´s majority owner, PKN ORLEN S.A., as part of which crude oil has been supplied through the Druzhba and TAL-IKL oil pipelines under long-term contracts since 2006.

The year 2012 was characterized by diversification of REB crude supplies via Druzhba and IKL pipelines to Litvínov refinery. Unipetrol RPA thus benefited from actual market advangages based on different pipeline and sea prices of REB crude oil. Under a long-term contract, Unipetrol RPA continued providing 100% of the supplies of this type of crude to its sister refining company, PARAMO, a.s., Pardubice, during first half of the year, where the crude oil processing was terminated in May 2012.

Regarding the supplies of low-sulphur crude oil via TAL-IKL pipeline, Unipetrol RPA remained the majority importer of Azeri Light crude from Azerbaijan, which is the key feedstock for processing in Kralupy nad Vltavou refinery. The Azeri Light crude was supplemented with CPC Blend crude from Kazakhstan at optimum ratio. In appropriate market situations CPC Blend crude was also supplied to Litvínov refinery to achieve a better yield. Alternative Zarzaitine crude (shipping country Algeria) was successfuly tested in Kralupy refinery. The test result was higher refining margin compared with the standard crude oils structure.

Pipeline and rail supplies from various Moravian deposits to Kralupy refinery continued in 2012 on the basis of long-term business relationships. These amounted to ca 3.6% of the total crude processing for Unipetrol RPA.

Crude purchases in 2012 (total for Unipetrol Group):

REB-Druzhba + REB-IKL (incl. Paramo)	2,418 kt	63.5%
Seaborne low-sulphur crude supplies for Kralupy refinery	1,253 kt	32.9%
Moravian crude	136 kt	3.9%
TOTAL	**3,807 kt**	**100.0%**

Sales of motor fuels

Market

According to available statistical data the consumption of automotive gasoline continued the relatively strong decline in 2012. While supplies declined by 4% in 2011, decline for the first 10 months of 2012 was already 7%. Consumption, which had been 2 million tons in 2009, is currently about 1.7 million tons. The main reason is the so-called dieselisation of cars as diesel is on a large scale used not only in traditional areas such as agriculture, industry and mass transport, but also by the still increasing numbers of personal car drivers. This is the main reason for higher diesel consumption by 1% y/y in 2012.

According to motor fuels origin local producers increased their supplies on the domestic market in y/y comparison at the expense of imports from Slovakia and Austria. On the other hand imports from Germany strongly increased, particularly after the Ingolstadt refinery had been back into operation and fuels origin in the grey zone of the market changed.

Illegal untaxed imports of motor fuels increased again in 2012 to the alarming level of ca 20–25% of the whole domestic Czech market (tax evasion amounts to ca CZK 8–10 bn per year), coming predominantly from Germany and Slovenia. Declining consumption and sales of illegaly untaxed motor fuels caused a major decline of both wholesale prices and retail margins.

At the end of the year, in addition to the grey market economy, a price war on the retail market had a negative impact leading to significant losses in the sector and volumes decline, and correspondingly also to the lower demand from the private sector and retailers (hypermarkets).

Domestic sales on the Czech market

In 2012 Benzina, Čepro, LukOil, OMV, České dráhy (Czech railways) and retail chains (Ahold, Makro, Tesco, Globus) were the most important customers of Unipetrol RPA in motor fuels sales. New exclusive contracts were executed with Tesco and Globus and thanks to them Unipetrol became the only supplier of hypermarkets segment. The other important group of partners was formed by owners of private filling stations who participated in Refining BU´s successfully developing Partner Unipetrol program.

Demand for diesel without bio-components content grew in 2012 in comparison with previous years and its share of total diesel sales was significantly higher. Thanks to two new distribution points (Hořovice and Pardubice) sales of mixed diesel SMN 30 were increased.

Export

Refining BU exported roughly 700kt of motor fuels of which one half was directed to Slovakia. Slovak market has been a preferred destination with additional growth potential. In 2012 the targeted market share in Slovakia was maintained even in unfavourable conditions of consumption decline. Other exports were directed predominantly to Germany and Austria, where supplies by road tankers to end users grew by 70% y/y.

On the contrary wholesale of big motor fuels batches into distribution depots were minimized. Both in Germany and in Austria partnerships with new clients have been established. It was possible thank to the quality harmonization of motor fuels sold in several countries and the ability of Refining BU's people to meet all customers´ wishes or comply with legislation requirements of the export markets (mainly regarding the bio-fuels sustainability criterion).

In Česká rafinérská, Refining BU achieved the production of automotive gasoline E 10 which is an essential product when complying with German legislation, although the product has not been fully accepted by local market and was not introduced into other neighbouring markets.

Distribution

In 2012 Refining BU continued to fulfill the aim of providing its clients with regional motor fuel supplies as wide as possible. Apart from distribution from refineries and ČEPRO terminals customers were supplied from three external depots: Paramo Pardubice, Agropodnik Domažlice and Terminal Oil Hořovice. Terminals were supplied by motor fuels from Kralupy and Litvínov refineries with direct quality and distribution control and by supplementary goods which do not have a coverage of the whole Czech market, e.g. automotive gasoline 98 RON, mixed diesel SMN 30 and extra light fuel oil.

Transport of motor fuels was realized in cooperation with partner company Petrotrans in road transport and with sister company Unipetrol Doprava in rail tansport. Both companies are among the leaders in their business areas. Their logistical services were thus provided in a very short time frame and of a superior quality.

From the distribution point of view a large-scale project of rail tank cars filling stations reconstruction, which was realized in Kralupy refinery at the end of first half of 2012, is worth mentioning. A full flexibility in expedition of large motor fuel volumes and large volumes of other refining products has been was achieved thanks to this new infrastucture.

Sales of other refinery products

The Refining BU supplied feedstocks for the petrochemical and agrochemical business units in-line with the business plan in 2012. Downstream feedstocks (oil hydrogenace supplies to Paramo, sulphur to Spolana, etc.) were also supplied according to the needs of the Group. Sales of bitumen and heavy residuals used for bitumen production were higher than in previous years and were exclusively realized via companies Paramo Aspfhalt, and Orlen Asfalt respectively.

Most of LPG sales in 2012 were channeled abroad for the first time, particularly to Germany and the Southern European market. Market share was maintained in the Czech Republic mainly thanks to the sales of propane – butane mix despite the strong competition and aggressive price policy within oil gases exports from Eastern Europe.

Sales of low sulphur fuel oils were directed to the Czech market, abroad and to the energy complex of Kralupy site. Seasonal surpluses of high sulphur fuel oil produced in Litvínov refinery, emerged especially at the beginning of the year, were exported as the maritime bunkers fuel due to the strong and continuously more rigorous environmental restrictions on the inland European market, and rapidly falling consumption.

Production

Only motor fuels of the quality compliant with Czech and European standards were supplied to the market in 2012 and the production was also strictly adhering to the valid biofuels legislation.

Česká rafinérská processed 2.59 million tonnes of crude in the Kralupy refinery and 4.57 million tonnes of crude in the Litvínov refinery in 2012, i.e. a total of 7.16 million tonnes of crude oil, with more than 3.8 million tonnes attributable to Unipetrol, which holds a 51.22% stake in Česká rafinérská.

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Expected developments in 2013

The fragile state of global economy and the still not fully resolved debt crisis in the eurozone will be among the key macroeconomic factors affecting the refining industry in 2013. Demand for fuels in the Czech Republic will continue to be negatively affected by high excise taxes and overall weak dynamics of the Czech economy and local demand.

Persisting compulsory bio-component content in motor fuels and obligation for bio-fuel producers and suppliers to supply bio-fuels with a sustainability criterion of at least 35% to the transport market (the bio-fuel sustainability criterion means greenhouse gas savings expressed in% compared with an equivalent fossil fuel used in transport) will be another important factors whose levels will stay the same as in 2012. New legislation against motor fuels tax frauds is expected in 2013.

Refining segment II. (PARAMO)

Important events in 2012

- In January Paramo Asfalt s.r.o., subsidiary of PARAMO, a.s., signed two 5-year supplier contracts for bitumen deliveries, one with PARAMO, a.s. and one with UNIPETROL RPA, s.r.o. This transfer of the bitumen commercial activities within Unipetrol Group was a part of the strategy for the refinery assets restructuring.
- In July Unipetrol Group announced a permanent discontinuation of crude oil processing in Pardubice refinery Paramo. The decision was reached based on a comprehensive analysis of macroeconomic situation, including low refining margins compared with the period before the outbreak of financial and economic crisis in 2008, weak demand for diesel and refining overcapacity in Europe. Another key factor was very low conversion capacity, below 1 million tonnes of crude oil per year, and low complexity of Paramo refinery which had impacted the profitability of this Group’s asset negatively in recent years with no significant improvement expected in the various medium term scenarios analyzed.
- Paramo focuses on oils business, production of special bitumens and bitumen products after shutdown of the refinery part of the company. Providing services in the area of fuels storage and distribution for sister company Unipetrol RPA is a new element as there has been a transition from the trading agreement with Unipetrol RPA to the storage agreement with regular income for Paramo from the leased filling station and tanks.
- In October PARAMO, a.s. and ORLEN Asfalt Sp. z o. o. from the mother group PKN Orlen executed an agreement, pursuant to which ORLEN Asfalt, as a purchaser, acquired from PARAMO, as a seller, 100% ownership interest in Paramo Asfalt s.r.o. The purchase price for 100% ownership interest amounted to CZK 116.1 million. The sale of Paramo Asfalt to ORLEN Asfalt was the next step in the Paramo company restructuring and refinery assets optimization, part of which had been the transfer of Paramo’s commercial activities with bitumen products to Paramo Asfalt in January 2012.
- Paramo executed significant savings in 2012 compared to 2011 level. Heat consumption was decreased by 25%, electricity consumption by 36% and water consumption by 32%.

External environment

Key factors of external environment affecting Paramo were similar to those mentioned in the previous section, in particular namely weak macroeconomic dynamics weakening market demand for refining products, with a negative impact on the utilization ratio of production capacities, respectively unit variable costs.

Market position

Paramo is a producer of bitumen products, lubricating and process oils, including related and supplementary products. Oil hydrogenation and hydrocrack products from Unipetrol RPA are used for the production of base oils with a very high viscosity index and a very low sulphur content.

Mogul Slovakia remains the wholly owned subsidiary, whose core business is lubricant sales, and also the wholly owned subsidiary Paramo Oil.

Providing services in the area of fuels storage and distribution for sister company Unipetrol RPA is a new business element after discontinuation of crude oil processing in the middle of 2012 due to the fact that there has been a transition from the trading agreement with Unipetrol RPA to the storage agreement with regular income for Paramo from the leased filling station and tanks.

Production

Paramo preserved the related production using imported feedstock even after permanent discontinuation of crude oil processing in the middle of 2012. The company still ran the technology for the production of oils in its Kolín economic center, in Pardubice economic center then for the production of process oils and several types of bitumens from imported feedstock. Production facilities were available without limitations. The company worked extensively also on projects that should make the oils segment more attractive and move it forward.

Paramo moved forward in response to the restructuring plan with a streamlining of the whole oils production in particular. Kolín economic center continued with with intensification of production activities regarding base oils and finished lubricants. Concentration of motor, gear and hydraulic oils in Kolín was the next advancement. Production in Pardubice economic center focuses only on industrial specialties. High volume production is fully focused on process oils.

Production of the process oil MES and production of bright stock from propane raffinate is the key for the oils production prosperity in Pardubice. During 2012 Paramo managed to increase MES yields by several percentages at the expense of cheaper extract thanks to technology adjustment. Introduction of the practice of mixing fuel oils from extracts contributed to the higher value created from the whole process. The next step to a more efficient use of extracts is mixing with nonsulphur wax. This mixture is then processed in the FCC unit in Kralupy refinery.

Although the base oils production in Kolín economic center did not achieve the record level of 2011 in 2012, it was highly above the average for the last twelve years. A successfuly mastered certification of the mixing plant by a Japanese oils company was an important fact for the production of final oils in Kolín economic center, which was followed by a successful verification production of shock absorber oil based on NIPPON recipe.

Production of road bitumen switched to using feedstock from Česká rafinérská via Unipetrol RPA after discontinuation of crude oil processing. Relevant processes for production of other bitumens and bitumen products feedstock have been developed or adjusted in connection to this fact.

Business policy

Paramo continued supplies of process oils to Continental Group, continued cooperation with manufacturers of additives, and regarding base oils the company managed to acquire new prestigious customers, such as FUCHS, UNIL OPAL or De Oliebron.

Company exported final oils and greases to more than 20 countries and it managed to increase export volumes of synthetic and polysynthetic oils. Paramo dispatched abroad among others new types of automotive and industrial oils, and also oils for motorcycles. In addition to the key markets in Slovakia, Hungary amd Germany, company began to operate more actively in the states of the former Yugoslavia. It started cooperation with several new customers in the Balkans. Paramo increased sales volumes of final lubricants on this territory by 9% y/y. Oils supplies to Latvia, Austria, Russia and Ukraine also brought a positive margin to the company.

Company managed to maintain its presence in all major retail chains on the domestic Czech market, be in the Mountfield service network, supply greases to Czech railways and hydraulic oils to the Army of the Czech Republic. Paramo's lubricants were purchased by mills, foundries, road haulages, transport companies, etc. Sales revenues were negatively affected by the refinery shutdown or disloyalty of some business partners. Paramo's market share in the Czech Republic has been steady above 20% for several years though.

Paramo technical service department in 2012 succeeded in launching a project with a focus on sales of special industrial oils targeting an increase of sales of products with a high margin and technological uniqueness, securing a certain degree of imunity from the competition. Company only managed to maintain sales levels of cutting and preservative oils, oils for metal heat treatment, separation agents, special hydraulic oils and greases in 2012. This fact cannot be ragarded as a failure however taking into account the state of European industrial production.

Responsibility for all commercial activities in the area of bitumen products wholesale were taken over from Paramo by its subsidiary Paramo Asfalt at the beginning of 2012. This subsidiary was subsequently sold to the Polish company Orlen Asfalt from the mother group PKN Orlen in October.

Paramo recorded only a minimal number of complaints in recent years considering the produced volumes and a broad portfolio of about 500 products. Below 0.01% in 2012 showing to the market the high and stable quality level of its products. The system of intensive input, process and output control was introduced in 2008 in the company. Close coperation among company's departments, i.e. quality control, product development and business-technical service have been contributing to consistently low financial losses from complaints.

Management report

Expected developments in 2013

The final phase of Paramo restructuring process should be implemented during the course of 2013. Management of the mother company UNIPETROL, a.s. intends to sell 100% stake in PARAMO, a.s. and 100% ownership interest in PARAMO's subsidiaries – Mogul Slovakia s.r.o and Paramo Oil s.r.o. Preparation of the sale of this group of assets is already in progress and its execution is expected during 2013.

Petrochemical segment I. (Unipetrol RPA – Business Unit Monomers and Chemicals)

Important events in 2012

- Decision to shut down the urea production in Litvínov as of 1 January 2013
- Approval of a project for intensification of packaging line at Chezacarb plant
- Expansion of customer portfolio connected with new markets entering enabled to increase further Carbon Black Chezacarb sales

External environment

The year 2012 was again characterised by high prices of crude oil and its derivatives in global market, which heavily affected not only the level of petrochemical product prices but especially the overall efficiency which these products are manufactured with. They also indirectly influenced the operating rate and structure of feedstock at steam crackers across Europe. The average prices of Brent crude oil and naphtha remained at the same level as in 2011, but the petrochemical margins decreased. Compared with 2011, the contract and spot margins related to naphtha declined on average by 5% and 33%, respectively, and contract margins related to LPG decreased by 17% on average (source: ICIS).

The most favourable conditions for operators of European crackers were seen during May and June, when the contract margins reached the highest level since the end of 2008. However, this was also a period of very weak level of demand, which forced cracker operators to limit their production and did not allow to take maximal advantage of a high petrochemical margins. Several producers even reported the production at the technological minimum at that time. Average operating rates of European crackers was also not high for the rest of 2012 and fluctuated mainly around 80%, exceptionally at 90%. The price level stabilized and the level of margins and cracker operating rates were adequate in the fourth quarter.

The growth of demand level, strengthening feedstock prices and continuing low operating rate of European crackers stopped in early 2012 the permanent price drop of ethylene and propylene visible in the second half of 2011. The same factors were behind the rise in prices in the following months and allowed contract prices to set new historically highest levels. In April, ethylene contract climbed up to its new maximum of 1345 EUR/t, propylene one reached again its level from May 2011, 1245 EUR/t. After a long period, the spot prices got closer to the values of the current contract during the first quarter. In the rest of the year, their value diverged from the contract levels significantly again, the difference between spot and contract prices for propylene considerably exceeded the 200 EUR/t and for ethylene up to 300 EUR/t in some periods.

High European prices decreased competitiveness of derivatives. Europe became an attractive destination for ethylene and its derivatives, especially from Asia. Cracker operators responded to the weaker level of demand with limiting their production, even that however failed to prevent a significant decline in contracted prices in the following months. Besides a permanent decline in crude oil and naphtha prices, market was also influenced by behavior of consumers who bought the product only for direct consumption and refused to build up the stock. July ethylene and propylene contracts were at the lowest level from the end of 2010. Consequent growth in contracts was essential to improve the crackers production economics because increase of feedstock prices significantly reduced level of petrochemical margins. Preservation of market stability was characteristic for the rest of the year, the result was only a slight decrease in contracts during the fourth quarter.

Increasing feedstock prices, reduced availability of pyrolysis gasoline and strengthening markets in the US and Asia led to significant increase in European spot and subsequently also contract prices of benzene at the beginning of 2012. The contract price strengthened by more than 320 EUR/t during the first two months. Afterwards the market started to weaken. Due to the rising price of propane the flexible crackers began tu return to cracking naphtha, moreover a number of planned shutdowns in downstream sectors limited the level of demand. Return of derivative units back into operation led to market strengthening.

Cracker operators switch to lighter feedstock, the use of pyrolysis gasoline for automotive gasoline blending and strengthening markets in the U.S. and Asia stood behind the spot prices increase, which resulted in the historically highest benzene contract price in the European market in June. Even the fall in crude oil and naphtha prices visible throughout the second quarter did not take significant effect on the benzene prices. The market remained tight until the end of the year. Spot prices did not drop below 1200 USD/t, CIF ARA from mid-July, contract price exceeded its record value from June four times in the second half of the year. High feedstock prices and further strengthening of the US market, which increased the demand for export product to this territory, supported primarily benzene prices in this period.

The decrease in ammonia prices, visible on the market since October 2011, continued also in the first two months of 2012. Both the prices in Yuzhny and Europe lost 300 USD/t during this period. Producers in Russia and Ukraine tried to compensate for a weak level of demand by production limiting, however, this was not sufficient for price recovery. Ammonia from Yuzhny had to start facing the competitive product from the Middle East. The prices began to rise from March until the beginning of November, with the exception of the period in which prices were flat (up to eleven weeks in a row).

Improving demand from the US and the continuing limited production in Russia and Ukraine initially brought support to the prices. Later on the strong demand began to be related to the global market. Limited supplies of natural gas reduced production in Trinidad, some units in Russia and Ukraine were shut down again during August-October period. Asia became the key player in the global market in the last quarter. Plant shutdowns in the Middle East and North Africa increased Asian buyers interest in ammonia from Europe, especially from Yuzhny. Improving availability and the traditional seasonal slowdown in demand stood behind the subsequent prices weakening in November and December.

Beginning of 2012 also brought the end of the period of significant weakening of urea prices, in which prices lost almost 180 USD/t over the last two months of 2011. Subsequently the prices strengthened until early May. Improving market conditions in the US and Latin America together with purchase tenders announcement in Pakistan and India supported the prices at that time. The end of season in Europe and the US then started the price weakening which stopped only at the end of June. Activity was low, buyers stood outside the market and waited for the Indian tender announcement, which was expected to determine a next price direction. Nearly 5 million tonnes, which were offered for this tender to India in mid-July, eventually settled the prices to the level of 350-400 USD/t, which lasted with minor fluctuations until the end of the year.

The trends in the Czech currency exchange rates, primarily its euro and US dollar rates, impacted also the BU unit´s financial results. Most feedstock is procured in US dollars, while the sales of the BU´s principal products are tied to euro. Whereas the difference between the Czech crown´s highest and lowest daily euro rates exceeded CZK 1.50 in 2012, the difference with respect to the USD reached almost CZK 2.70. The EUR/USD exchange rate (dollars per one euro) fluctuated between 1.21 and 1.35 EUR/USD.

Market position and business policy

The Monomers and Chemicals BU´s core business is the sale of steam cracker products and agrochemicals. The most important products include ethylene, propylene, benzene, ammonia and urea. These products generated almost 80% of the BU´s revenues in 2012.

Neither the structure of the customer portfolio nor the size of the market shares in the Czech Republic changed substantially. The Czech Republic continued to be the principal market for the steam cracker products, with monomers and benzene processed captively either in Unipetrol RPA plants or carried to strategic customers (Spolana and Synthos) through the existing pipelines. Compared with previous years, the unit ceased to be active in the spot benzene export market, all manufactured product headed to the domestic market under the contract agreement in 2012. The steam cracker´s by-products were supplied primarily to the Czech and Western European markets.

The sales of the Carbon Black Chezacarb, used primarily for modifying electric conductivity of plastics and for producing thermoplastic mixtures and concentrates, geotextiles, and geomembranes, remained high. The sales volume of Chezacarb approached 2,800 tonnes. As in previous years, the domestic market was the destination of most of the ammonia produced by Unipetrol RPA. The main reason was a long-term ammonia supply contract with the largest fertilizer producer in the country. The structure of urea sales changed again. The amount directed to the domestic market increased further compared to previous years and accounted for almost 65% of the total urea sales. On the other hand, the international customer portfolio remained largely unchanged, since urea went almost exclusively to customers in Central Europe, as in the previous years. Urea production in Litvínov was terminated at the beginning of 2013 due to technical obsolescence and low economic efficiency.

Expected developments in 2013

As well as in 2012, it is expected that the European chemical industry will remain under pressure also in 2013. The ongoing eurozone debt crisis, the weak level of demand, high feedstock cost, declining competitiveness in the global market and the legislation of the European Union impacting restrictively the European chemical industry will lead to a decline in petrochemical margins and will increase pressure on European cracker operators. Access to cheap feedstock is shifting production of olefins and their derivatives especially to the Middle East and thanks to the development of unconventional sources of natural gas, especially gas from shale rocks, also to the US.

Besides the construction of many new large-capacity units, intensification of existing ones is also planned. Startup of new units and the switch of many existing crackers from naphtha to ethane will lead to lower production of co-products – propylene, butadiene and aromatics. The changes in Europe will be slower, virgin naphtha will remain the main feedstock on this continent in the medium term.

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The European monomers market will be affected by a significant number of planned shutdowns which are planned for the second quarter and as a result should reduce ethylene production by up to 600,000 tonnes. In particular, imports of ethylene from the Middle East and later from the US will keep the European crackers operating rates at a low level, and will help to keep the co-product markets relatively balanced.

The European benzene market should remain tight for at least the first half of 2013. Level of demand will remain high in the US and in Asia, where the startup of new derivative capacities will increase benzene consumption and will reduce the possibility of its exports to the US from this territory. Lower availability of benzene will remain visible in Europe and the US due to cracking of lighter feedstock.

The ammonia market should remain relatively tight. Apart from good demand from the agricultural sector, given the high commodity prices, a good level of demand from its industrial processors is also expected. This should reduce the availability of spot product and keep the ammonia prices high, especially if the production problems in Trinidad and the Middle East would not be resolved.

Petrochemical segment II. (Unipetrol RPA – Business Unit Polyolefins)

Important events in 2012

- Continued activities aimed at improving the achieved prices and discounts based on the benchmark price quotations
- Optimisation of the product portfolio and geographical and customer structure and organisational changes in sales and customer services aimed at increasing the activity of sales personnel for active marketing to end processors
- Increased polyolefin sales in the D-A-CH region, mainly thanks to the subsidiary Unipetrol Deutschland; increase realised by this subsidiary is ca 10 kt out of 15 kt total in DACH.
- Participation in the FAKUMA 2012 plastics trade fair and gaining new potential for the further expansion of sales especially in this region

External environment

The year 2012 was in terms of demand and sales results highly volatile. In the first half there were extreme month-on-month increases and then similar dramatic polyolefins price declines, caused by changes in pricing of raw materials and monomers. Demand was changing accordingly, i.e. the higher was an expectation of price increases, the higher was demand, and vice versa, when there was a first signal of price decline, the demand for polyolefins slowed down significantly or time to time totally stopped.

A similar fluctuations in demand occurred in the second half of the year. Quite high demand was recorded during summer holidays and in the last two months of 2012, what is not usual. A decline in demand was seen late September and during October on the contrary. These changes in trends in the second half of the year were not caused by fluctuations in the prices of raw materials or monomers, but rather by excitability of the market, by simple speculations regarding the development of prices and also by lack of some material on the market due to problems of some competitors (several shutdowns of production facilities).

During the period of price extremes the same phenomena as in 2011 was unfortunately seen – many, especially smaller processors, have not been able to pass through further cost increases in their products and getting into existential problems.

Compared with 2011 the imports of low-cost goods from the Middle East and also other non-European regions did not play a significant role. Due to price fluctuations and long lead times it was difficult for them to settle and then to agree with clients appropriate pricing for large volumes realization.

Market position and business policy

Unipetrol RPA is the exclusive producer of polyolefins in the Czech Republic and a major player in Central Europe.

Its production capacity for high-density polyethylene (HDPE) and polypropylene (PP) accounts for more than 5% of Europe's HDPE capacity and almost 3% of Europe's PP production capacity. Unipetrol RPA's HDPE capacity greatly exceeds the domestic market's consumption, and approximately three quarters of the HDPE produced are therefore exported from the Czech Republic.

Conversely, PP consumption on the domestic market exceeds the overall PP production capacity, which is why the share for export is well below one half of the polypropylene produced. In addition, for certain applications, in particular in the automotive industry, carmakers themselves require certain specific materials or use compounds made abroad, and so our company cannot increase its share on the Czech market arbitrarily.

From the territorial point of view there was a considerable activities increase on the Ukrainian market mainly thanks to long-term shutdown of a local producer. Likewise, the high level of interest in Unipetrol RPA polyolefins was observed in the countries of the former Yugoslavia, also because of competitor's production outage.

The activities in logistically distant countries such as Italy and Spain continued to be curtailed. Czech Republic and Germany are the key markets for polyolefin sales. For Germany and the entire D-A-CH region, the company heavily relies on the services of its subsidiary Unipetrol Deutschland.

Business Unit continued in activities leading to customer portfolio optimization with the clear aim of margin potential improvement also during in 2012.

The aforementioned price trends were virtually identical for both types of polyolefins in throughout the year.

Starting from between about 1,200 and 1,280 EUR/t for PE and 1,235 and 1,275 EUR/t for PP, quoted at the beginning of the year, the price climbed by approximately 300 EUR/t to as high as between 1,500 and 1,570 EUR/t for PE and 1,515 and 1,565 EUR/t for PP by April. Despite this enormous increase, unfortunately due to the high production costs at the same time, the margins of polymers were in some cases under breakeven point. This fact led to certain temporary limitation of PE production in the period March-April 2012.

After this maximum in April the quoted prices were dropping down till July, when their values reached minimum of 2012, in PE 50 EUR below and in PP at same level as in January. After mentioned drop price levels yet fluctuated slightly by the end of the year stabilizing in December at levels 1,400–1,450 EUR/t for PE and 1,380-1,420 EUR/t for PP.

Despite the above mentioned fluctuations in demand and some limitations in production the final sales figures for 2012 were pretty good: PE 99% of the business plan volumes and PP 96% of the business plan volumes. In total BU Polyolefins succeeded to place on the market 526 kt of polyolefins. Achieved sales volumes thus exceeded volumes in 2011. Moreover were sales volumes in 2012 higher than total production in 2012, which positively influenced the inventory levels of polyolefins at the end of the year.

Expected developments in 2013

No significant improvement is expected during 2013 compared with 2012. Market is again predicting volatile price trends and corresponding volatile demand for polyolefins. The ongoing debt crisis unfortunately contributes to market improvement neither.

To resist these trends Business Unit Polyolefins worked out a strategy which will lead to the stabilization of sales and, by continued redirection of sales volumes from less profitable products, countries, application segments, and customers to more profitable ones, to the improvement of the margin potential. Key part of the strategy is to increase the share of more stable long-term contracts with price formulas, as well as acquisitions of new processors, higher production and sales of the more sophisticated products in which the competition from low-cost producers is not so significant and higher prices are therefore achievable.

Retail segment

Important events in 2012

- Launch of the second self-service filling station Expres 24 in September in Hradec Králové
- Construction of two new premium filling stations Benzina Plus on D3 highway between Prague and České Budějovice in Mezno and Mitrovice locations, operations started in December
- Successful completion of gastronomy concept Stop Cafe implementation, 88 installations in operation at the end of the year

External environment

According to the published statistical data so far, prepared by the Ministry of Industry and Trade, the total number of all filling stations in the Czech Republic as of 31 December 2012 was 6,790. In comparison with 2011, this retail, distribution and fuel dispensation sector recorded growth in the number of filling stations by 1.5% with 100 new filling stations. The register recorded 76 new duly registered public as well as non-public stations. Another significant growth was recorded in the category of stations with a dedicated access and sale.

Apart from the strongest presence in the market of public filling stations, categories of filling stations, with a dedicated access, non-public fuel dispensation stations and filling stations located mostly on the premises of companies providing technical services, and agricultural, transportation or construction companies, are registered as well. The total number of filling stations includes also 921 public filling stations that offer only diesel fuel, including significantly expanded offer of diesel with a higher content of bio-component (B 30 and B 100) at single-product stations during 2012.

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Among single-product stations, diesel stations with a total of 510 stations and LPG stations with a total of 438 stations are dominant. Public CNG filling stations are also being newly established. At the end of the year, there were 28 of these stations registered. The category of public filling stations that offer an assortment of car fuels with a high content of bioalcohol marked as E 85 is also on the rise. There are a total of 118 stations registered in this category.

There are a total of 3,728 registered public filling stations. Out of this number, there are 2,745 stations with an extended assortment of fuels and services in the Czech Republic. This group of multi-product public stations extends its offer by new formulas of additive fuels and especially by other car fuels with a higher content of the bio-component, which are subject to a tax incentive, such as E 85 (gasoline with 85% of bioethanol), B 30 (mixed diesel with 30% of the bio-component) or B 100 (pure FAME-esters of fatty acids).

The number of multi-product public stations increased only by 1.2% y/y. The increase stems from stricter registration policy, additionally registered stations or reclassification to the category of public stations. There were a total of 49 new public stations put into operation. Public filling stations constitute the major part of 55% out of the total number of all registered stations.

In the sector of public stations, there is a specific group of stations with a dedicated access. This group includes 472 stations. Apart from dispensing fuel for their own consumption, the stations are also involved in the sale of mostly diesel fuel for other entities based on specific contractual terms. The number of filling stations in this category significantly increased by 19% y/y. These stations represent 6.9% of the total registered stations. The increase is related to the stricter legislation regarding registration of distributors and to a change of the status from non-public to dedicated access stations. It is likely a consequence of inspections executed by financial and trade license offices. The largest number of these stations, with a share of 87%, sells diesel and biodiesel.

The number of non-public stations is 2,590 representing 38.1% of the total number of all registered stations. In 2012, 27 new non-public stations were registered. They are mostly single-product stations offering diesel and stations offering high-volume biofuels B 30 and B 100, in sum 2,519 stations.

During the whole year 2012, the fuel consumption was negatively influenced by economic factors of not only macroeconomic character, such as weak dynamics of Czech GDP and increasing unemployment rate, including saving behavior of household manifesting itself in lower gasoline demand, but also of technical character, such as car fleet renewal from gasoline cars to diesel engines with a lower consumption, including the fact that new gasoline cars are exhibiting lower fuel consumption too.

A specific situation in 2012 on the Czech market was caused by a different, i.e. higher excise tax in comparison with some neighboring countries and transfer of purchases, of diesel fuel in particular, among international transit transportation companies from the Czech Republic to other surrounding countries.

A special category on its own is the category of tax evasions and their impact within the entire portfolio of negative influences on the state budget revenues, company economics and competitive environment. That is why during the second half of 2012 additional measures were gradually introduced within the frame of ČAPPO with the objective to improve this situation. Moreover, new legislation was formulated in the area of tax laws, laws on fuels and trade, making the rules for conducting business with fuels stricter. Several other control mechanisms were formulated as well. Parliament approval process throughout the spectrum of legislation relating to this business is currently underway.

A new area of consumers' interest is the increased demand for alternative liquid fuels with a high content of bio-component (E 85, B 100), offered with a significant tax incentive, which motivates consumers to purchase them or create their own cheaper mixtures using biofuels. The expansion of high-volume biofuels fictionally assist in fulfilling the bio-obligation and allows for a greater utilization of fuels without bio-components.

The above stated factors were the key drivers of negative fuels demand dynamics on the domestic Czech market in 2012.

Market position

The retail company of the Unipetrol Group, BENZINA, s.r.o., is the operator of the largest network of filling stations in the Czech Republic. As of 31 December 2012 it operated 338 filling stations with an extensive offer of fuels with additives. A selected segment of filling stations offers a collection of the premium VERVA fuels and a wide assortment of other goods, refreshments and services.

This network has been, particularly between the years 2006 and 2010, gradually renovated and modernized. It is currently divided into three segments – the premium segment, represented by 117 Benzina Plus filling stations, the standard Benzina portfolio segment, and the segment of self-service filling stations under the Expres 24 brand which currently consists of two filling stations in Vysoké Mýto and Hradec Králové. A total of 320 filling stations within the both main segments have been modernized as of the end of 2012.

The share of Benzina filling stations on the network of multiple-product public stations, as the key competitive segment, amounts to 12.3%.

Based on the available preliminary statistical data, fuel supplies on the domestic market declined by 2.5% y/y in 2012. According to the currently published data from the Czech Statistical Office, subject to further refinement of observed values regarding supply volumes in the previous period of 2012, diesel consumption slightly increased by 0.1% in 2012 y/y, while gasoline consumption decreased by 8%.

Development of the fuels market in the Czech Republic in 2012 was thus characterized by the ongoing long-term decline of gasoline demand, diesel demand stagnation, and also by several cases involving untaxed fuels. Benzina followed the very challenging state of the Czech retail market in 2012. Benzina's market share in 2012, subject to the state of current statistical data for 2011 and 2012, was 13.7%.

Business policy

With regard to the parameters of the premium diesel fuel, Benzina continued the expansion of the number of filling stations that sell this fuel. Towards the end of 2012, Benzina had 214 of such stations. During extremely low temperatures, sales of the Arctic diesel and the parameters of the premium diesel had a very good reception among the professional public. While there was an overall drop in the consumption of fuels on the domestic market, the above mentioned products attracted great interest – the sales of Arctic diesel grew by 11% y/y while the sales of the premium diesel decreased just slightly. The whole subportfolio of these products, i.e. the Artic diesel and premium diesel, recorded a sales decline by 2% y/y. Sales of gasoline at our filling stations followed the situation on the market. A better demand was recorded in the case of premium gasoline. Premium gasoline Verva 95 even recorded an increase by 3.2% y/y.

In 2012, Benzina continued to proceed in accordance with its long-term strategy, formulated in 2006. Its main goal, taking into account the negative factors influencing the market, is to at least stabilize Benzina's market share through efficient resources utilisation while securing financial stability at the same time. Among the key elements of this strategy which have been already fulfilled are in particular:

- expansion of the Benzina Plus brand to the filling stations with a complete assortment of fuels, including the Verva premium products, alternative fuels and high-quality goods in the shop, a wide range of gastronomic services and other auxiliary services; 95% of the network has been reconstructed or modernized,
- improved perception of the BENZINA brand as the standard for filling stations that offer quality fuels, wide range of goods in the shop, subject to local conditions also the possibility of fast-food, and other auxiliary services,
- consistent focus on customers' needs,
- expanding and improving services in all segments,
- effective and targeted marketing activities,
- utilization of free space on the market in the area of unmanned filling stations Expres 24.

In 2012, the program of filling stations rebuilding and modernization continued, taking into account the corresponding macroeconomic factors, reduced demand for fuels and the related reduction of expenses within the key items of the annual budget. Between 2006 and 2012, we managed to fulfill our long-term strategic intention to rebuild 95% of our filling stations network to the level of high standard.

In 2012, the number of Benzina Plus premium filling stations increased further by two new filling stations on D3 highway between Prague and České Budějovice in Mezno and Mitrovice locations. As a part of our innovation activities, a new self-service filling station, under the brand Expres 24, was launched in Hradec Králové in September, offering fuels with additives and the option to pay either by payment card or cash.

As a part of the expansion of alternative fuels, three of our filling stations widened its offer by CNG. Within the frame of research and marketing consequences of the public filling stations brand unification in the Orlen Group, a segment of seven selected Benzina stations began the test of re-branding towards the brands of Orlen and Star in April 2011. The testing of individual brands, including other new business programs, continued throughout 2012. Another project of gastro programs was also initiated in 2012. A new fast-food project Stop Cafe was implemented at 88 stations.

It is encouraging that the implemented business and marketing changes have been very positively perceived by our customers and, next to the long-term growth of our market share – from 9.9% in 2005 to 13.7% in 2012 – they confirmed that the Benzina filling stations are very popular among a wide spectrum of customers. Fast-food services and the coffee we offer satisfy the high standards of motorists who use our services.

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The period between the years 2006 and 2012 represents a very successful and at the same time challenging era of Benzina's development and business activities. Particularly during the last period of 2011–2012, this business has been negatively impacted by the economic decline and lower fuels demand, while competitive environment has been seriously impaired by tax frauds. The chosen and implemented retail strategy, as well as everyday business policy, executed promo events supporting sales volumes and interesting ad campaigns maintained the high customers' interest in BENZINA brand and supported motorists' interest in quality fuels with additives and premium fuels, and interest in new refreshment services within executed gastronomic projects and other services as well.

Since September 2012, the Litvínov ice hockey club, under the name of VERVA, continues to play the highest ice-hockey league in the Czech Republic and thus contributes to the marketing strengthening and perception among the wide public about our premium fuels under the trading name of VERVA. During the 2012/2013 hockey season, VERVA Litvínov has successfully completed the regular season, the club placed fourth, and will participate in the play-offs. From a wider marketing perspective, all implemented projects have strengthened the trust of our customers and the position of Benzina as the leading and respected company on the filling stations market in the Czech Republic.

Fuel sales

The key activity of Benzina consists of fuel sales, sales of other goods and services at its filling stations. The sales structure confirmed the long-term trend of higher demand for diesel at the expense of automotive gasoline.

Structure of fuels sold at filling stations in 2012 (%)

Automotive gasoline	Diesel
36.4	63.6

In 2012, the trend of the growing share of diesel in fuel sales continued. The share of diesel fuels sold increased by 1.1% y/y. Total diesel sales in our network declined by 2% in 2012 y/y. Among the key contributing factors behind this decline were the diversion of international road transport refueling outside the Czech rerritory, diesel sales on the domestic market at the price level significantly influenced by tax frauds, and also new cars with lower consumption including alternative fuels.

Natural 95 remains the main gasoline sold among all gasoline fuels. Its position within the given octane structure of sold gasoline fuels was dominant and its sales reached a share of 96.3%. Since its introduction in 2006, the sales of the high-octane VERVA 100 gasoline has been gradually increasing and, during the last two years, its share stabilized at 3% out of the total sales of gasoline fuels.

As a part of the nationwide monitoring of the quality of sold fuels in the public networks of filling stations conducted by the Czech Trade Inspection, which is publishing these results, Benzina has been making its results public for the last two years on its website. During the whole year 2012, all major types of fuels as well as premium fuels inspected in our network complied with the valid technical quality standards. There were only two cases where our diesel samples recorded small discrepancies regarding the sulphur content indicator. As a part of the "Quality Seal" program (Pečeť kvality), 1,887 samples have been inspected and 99.5% of them were without any defects.

Expected developments in 2013

Czech retail market will be influenced by several problematic factors and uncertainties also during 2013. Czech economy recession will be negatively influencing fuels demand on the domestic market, mainly through the lower output of industries with intensive diesel consumption, lower investments, lower households consumption expenditures, higher unemployment and the launch of alternative fuels on the Czech market.

Cheaper and tax-favored biofuels still represent some risk. This is due to the fact that the behavior of many consumers with lower purchasing power focuses on cheaper types of biofuels, mixtures or grades irrespective of the state of the car fleet or pruducer's recommendation, always to the detriment of traditionally taxed fuels. In the strong competitive environment of filling stations, there will be a high pressure on the gross profit unit margin also during 2013.

Thanks to the approval of new stricter legislation in the area of fuels distribution and sales in 2013, illegal practices and tax frauds in fuels trade should be significantly limited from the second half of the year. Traders operating outside the law and their illegal business activities should be gradually pushed out of the market as a result of the implementation of new legislation measures.

We should expect further expansion of the range of alternatives such as CNG and charging stations at public stations. High-volume biofules will have their position on the market as well. Free space on the market will be definitely utilized in the category of self-service low-cost filling stations. Biofuels legislation will become stricter, in terms of sustainability and emissions criteria.

Benzina keeps its priorities such as maintaining the market share, high customer confidence, maintaining the high fuels quality and services standard, and preservation of financial stability. In the area of investments and marketing, the company will continue monitoring results of new brands Star and Orlen on a small sample of stations, the company will continue the finalization of the network reconstruction and modernisation of car washes according to the plan.

In cooperation with strong business groups, we will continue supporting, via interesting marketing events, sales of our fuels, services, including the continuous enhancement of trust and reputation of BENZINA brand. Based on the market development and state of the car fleet, we will continue to expand the offer by some perspective types of alternative fuels and construction of another self-service filling station.

Investments

Unipetrol RPA's main investment activities in 2012 focused primarily on maintaining operating reliability, safety and on meeting the requirements of the environmental legislation. The major investment projects focused on reliability including regular refurbishments of the steam cracker pyrolysis furnaces and overhauls of the process equipment. The major investment in the environmental area was segregation of the sewage water, completion of the project for replacement of trietanolamine pumping sets, second stage of reconstruction of distribution room R200, and first phase of electrical resistance heating reconstruction in the steamcracker.

Česká rafinérská's 2012 capital expenditure programme was geared towards investments in maintenance, environmental protection, reliability and availability of the installations.

The Litvínov refinery completed a project for the modification of the NRL flare system and the second phase of reconstruction of the underground cooling water pipelines. The Kralupy refinery completed the hydrogeologic protection system project. The most important investments include the upgrade of rail tanks loading station. Of the newly commenced projects, the preparatory phase of the scheduled shutdown of the Kralupy refinery and projects which can be fully or partially implemented during the shutdown, like improvement of second phase of energy efficiency should be mentioned.

Paramo, within refurbishment projects, completed environmental investment projects reconstruction of the R622 storage tank in Pardubice site and installation of collection pit for oil blending tanks in Kolín economic center.

Benzina expanded its fuel filling station network by erection of two new Benzina Plus fuel filling stations on the highway D3 near Mezno and Mitrovice and one self-service Express 24 fuel filling station was erected in Hradec Králové. In order to improve customer service Benzina installed 88 fast-food establishments Stop Cafe in existing filling stations network. As has become a tradition, the company focused on upgrades of the existing Benzina Standard fuel filling stations, replacement of security surveillance cameras, replacement of car washes, and refurbishment of wastewater treatment plants.

Polymer Institute Brno installed a new extruder to increase production of special additives for plastics.

Unipetrol Group CAPEX overview according to investment category and business segment in 2012 and expectations for 2013 (CZK million)

Investment category/Business segment		Refining	Petrochemicals	Retail	Other	Total
2012	Development	21	77	177	25	300
	Maintenance/refurbishment	225	536	50	31	842
	Environment	91	47	4	0	142
	Safety	16	39	7	0	62
	Total	**353**	**699**	**238**	**56**	**1,346**
2013E	Development	118	212	49	60	439
	Maintenance/refurbishment	652	1,111	102	70	1,935
	Environment	94	76	0	0	170
	Safety	99	80	0	0	179
	Total	**963**	**1,479**	**151**	**130**	**2,723**

Note: Location – local; Financing method – own resources.

Management report

Research and development

Unipetrol RPA's R&D is focused on three key areas – plastics, petrochemicals, and refining. Polymer Institute Brno, spol. s r.o. provides research in the field of plastics for Unipetrol RPA, and the Research Institute of Inorganic Chemistry (Výzkumný ústav anorganické chemie, a.s. – VÚAnCH) in Ústí nad Labem provides petrochemical and refining research. In addition to these institutions, Unipetrol cooperates very closely with universities, most notably the Institute of Chemical Technology in Prague. Research and development achievements are applied within the technical support of production, development of strategies, and also directly when introducing new products into the production portfolio.

Unipetrol is currently building a new advanced research and education center Unipetrol Centre for Research and Education – UniCRE for industrial chemistry in Chempark Záluží in Litvínov. The centre will focus on research, development, innovation and education in the field of refining and petrochemical technologies, environmental technologies and processes for efficient use of renewable resources and energy. Transformation of VÚAnCH, a.s. to UniCRE will be carried out within the project realization. Total costs of the project, which was supported by a grant from the EU in amount of CZK 600m, are estimated to be approximately CZK 800m. The center is planned to be finished at the end of 2014.

Business Unit Refinery, Česká rafinérská and Paramo

The works on the development of the refining segment in connection with the petrochemical production continued in 2012. The research into the alternative fuels of the future, the optimisation of catalytic processes and upgrades of motor oils and steam cracker feedstocks in cooperation with the Research Institute of Inorganic Chemistry continued.

In cooperation with the Research Institute of Inorganic Chemistry, Unipetrol RPA carried out a number of research projects in 2012, focusing on possible usage of by-products as an additional FCC (fluid catalytic cracker) feedstock and on determining the effect of the ZSM 5 additive on the gaseous products yield from the FCC process. Another project focused on the use of rapeseed oil as a bio-component in the production of middle distillates, both through the simultaneous hydrocracking of middle distillates and the bio-component, and subsequently also through the research of possibilities of separate bio-component hydrocracking.

Possibilities of ETBE production from C4 fraction with a low content of isobutylene were evaluated. Possibilities TAME production, or TAEE production respectively, from pyrolysis and refining C5 fraction were evaluated too. Attention was paid to the simplification of the method for determining the quality of feedstock for the production of lubricants that would lead to the easier production process management.

Another project was dedicated to the evaluation of the current analytical methods of heavy crude oil fractions including recommendations for new necessary equipments. FCC propylene purification conditions were examinated targeting an increase of its market and technological value. Within the evaluation of the current technical state of the refining facilities, an appraisal study of modern refining processes has been carried out. It shall support the decision-making regarding further development of the refining segment.

Yield vectors of LPG with variable content of olefinic and isoparaffinic components were verified within one of other projects as well. The yield, balance and economic evaluation of gaseous steam cracker feedstock was carried out based on simulative calculations.

Paramo developers devoted their time to 30 assignments in total during 2012. Solving each of them brought a profit to the company. Solving the quality of base and process oils produced from imported vacuum distillates from the Plock refinery was existentially important for the company.

In the field of industrial oils developers completed tests of transformer oils produced from base oils raffinated with raffinate clays SEPIGEL. New formulations of HM46 and HM32 were developed for the Army of the Czech Republic complying with the most strict quality requirements according to military standards. Researchers prepared hydraulic oil MOGUL HYDRO 10W and oil MOGUL TRAKTOL UTTO 10W-30 for heavy machinery.

Interest of the development department staff was focused also on the field of motor oils. They introduced new oils MOGUL RACING X 5W-40 and MOGUL RACING 5W-40 X PD targeting export markets. They also expanded the oils range for motorcycles MOGUL MOTO. In relation to the strict requirements of the sales department, the staff of the development department introduced a new motor oil MOGUL DIESEL L-SAPS 10W40 M complying with MAN 3477 standards.

Paramo has been involved in a wider research project of deadling with technologies for handling radioactive waste that has been financed by the Czech state and ČEZ company. The result of activities of the department of fuels and bitumen development within the first phase of the project is a more stable Paramex 80 bitumen matrix, which allows to partially suppress binder aging in critical conditions of bitumination line in domestic nuclear power plants, increase efficiency of the process and ultimately reduce the volume of liquidated waste intended for storage.

Business Unit Monomers and Chemicals

Research and development for the BU Monomers and Chemicals was provided by the Research Institute of Inorganic Chemistry. The objective of research and development in petrochemicals is to improve the product portfolio and increase efficiency of production in the long run. The main R&D topics in 2012 were a research focused on the impact of the pyrolysis feedstock quality on the yields of the steam cracker´s most valuable products including study of suitable feedstock modification, possibilities of pentane fraction production from pygas, the utilisation of the alternative sources of feedstock for the steam cracker, and the use of new feedstock for the POX process utilising the pilot unit.

Business Unit Polyolefins

In the field of polyolefins, the company started to optimize its product portfolio. Optimization was done by cancellation of non-perspective products and by modifying the existing products.

In cooperation with one of our key clients polypropylene Mosten GB 504 was modified in order to achieve the properties needed for transportation systems such as returnable shipping boxes or folding large containers. An integral part of the optimization of the product portfolio was also the development of new grades. After development and testing period the new grade Mosten FT 005 was introduced into the PP product portfolio. It's polypropylene for thermoforming of food packaging with enhanced properties, particularly optical ones. Furthermore, according to the market requirements for extrusion grades, the production of block copolymer for extrusion, Mosten EB 501, was reinstated.

When it comes to HDPE Liten product portfolio, two new grades for blow moulding application (homopolymer and copolymer) with better processing properties, better stiffness and better ESCR were developed at the laboratory level. Production trials and commercialization of these grades is planned during the first half of 2013.

All research and development activities are realized in close cooperation with Unipetrol RPA daughter company, Polymer Institute Brno, s.r.o., which also provides specialized technical service to BU Polyolefins through customer support.

Employees

Unipetrol Group

As in previous years, human resources management was entrusted to Unipetrol Group's service organisation.

The primary tasks included the rationalisation of HR processes and the continuation of restructuring of the organisational structure. Cost cutting was achieved, besides other things, also through reduction in the number of employees.

The issue was addressed with utmost sensitivity and with regard to maintaining the operability of all organisational units. The company paid attention to maintaining the employees' competence and development.

In connection with the reduction of the staffing levels the outplacement services were provided to dismissed employees.

The training of Unipetrol Group employees in 2012 was focused primarily on maintaining the qualification of the production personnel and further professional development of specialists.

The HR specialists also paid attention to procuring training programmes organised as part of projects paid for with the help of EU funds. The years 2010–2013 are the period of their implementation.

UNIPETROL RPA, s.r.o., UNIPETROL DOPRAVA, s.r.o., UNIPETROL, a.s., UNIPETROL SERVICES, s.r.o. and PARAMO, a.s. are involved in the projects as subsidy beneficiaries or partners.

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Annual full-time equivalent number of employees at Unipetrol Group as of 31 December 2012

Company	2012
BENZINA, s.r.o.	83
Butadien Kralupy a.s. (51%) [1)]	11
ČESKÁ RAFINÉRSKÁ, a.s. (51,22%) [1)]	327
PARAMO, a.s.	558
PETROTRANS, s.r.o.	156
POLYMER INSTITUTE BRNO, spol. s r.o.	88
UNIPETROL, a.s.	35
UNIPETROL DEUTSCHLAND GmbH	13
UNIPETROL DOPRAVA, s.r.o.	417
UNIPETROL RPA, s.r.o.	1,584
UNIPETROL SERVICES, s.r.o.	244
UNIPETROL SLOVENSKO, s.r.o.	8
Others	181
TOTAL	**3,705**

1) Number of employees in ČESKÁ RAFINÉRSKÁ, a.s. (100%) was 638 and in Butadien Kralupy, a.s. (100%) was 21.

Financial standing

STATEMENT OF FINANCIAL POSITION

Changes in non-current assets

As of 31 December 2012, non-current assets of the Unipetrol Group amounted to CZK 26,051 million. In 2012 the Group acquired tangible assets worth CZK 1,269 million and intangible assets worth CZK 76 million.

Based on the requirements of International financial reporting standards (IFRS), the Unipetrol Group recorded impairment of fixed assets in the refining segment in the amount of CZK 4,075 million. From that amount CZK 3,976 million were charged to property, plant and equipment, CZK 48 million to intangible assets and CZK 52 million to goodwill.

Most investments went into the petrochemical segment (CZK 699 million), followed by investments in the refining segment (CZK 353 million) and the retail segment (CZK 238 million).

Changes in current assets

Total current assets amounted to CZK 24,581 million as of 31 December 2012 and were lower by approximately CZK 677 million compared with the previous year, especially due to the lower inventories and other short-term financial assets.

The lower quantity of crude oil and other inventories were the main cause of the decrease in invetories compared with 2011 (inventories decreased by CZK 1,716 million).

Changes in equity

Total equity decreased from CZK 32,854 million in 2011 to CZK 29,528 million in 2012 as a result of the loss generated in 2012.

Changes in liabilities

Borrowings

Loans and borrowings decreased by CZK 158 million compared with 2011, as positive free cash flow caused the decrease in Group's external financing requirements.

Trade liabilities

The main reason for the decrease of CZK 808 million in trade liabilities compared with the previous year was lower crude oil liabilities at the end of 2012.

Provisions

Compared with 2011, provisions decreased by CZK 656 million, which was mainly caused by lower provision recognised for estimated CO_2 emissions.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The Group's revenues for 2012 amounted to CZK 107,281 million and were 10% higher than in 2011, due to the higher quotations of refining and petrochemical products as well as increased sales volumes of petrochemical products.

The Group's operating loss of CZK -4,014 million for 2012 resulted mainly from one-off impairments of fixed assets in the amount of CZK 4,075 million in relation to non-current assets of ČESKÁ RAFINÉRSKÁ, a.s. included in the refining segment.

Refining segment was positively influenced by higher refining margins, lower sweet crude premium (Azeri Light – Brent) and negatively by lower Brent-Ural differential. Petrochemical margins were roughly flat in comparison to the previous year.

Recognition of previously unrecognized deferred tax assets from tax losses carried forward and of deffered tax to impairment booked in 2012 resulted in income tax credit in amount of CZK 1,274 million.

The above reasons together with higher finance costs generated the Group's net loss of CZK -3,414 million.

STATEMENT OF CASH FLOWS

Net cash provided by the Group's operating activities amounted to CZK 1,953 million in 2012.

At the same time, investing and financing activities resulted in cash outflow in the amount of CZK -915 million and CZK -447 million, respectively.

The increase in cash compared with the 2011 level resulted primarily from higher cash flow from operating activities as well as from lower capital expenditures in 2012 compared with 2011, when the cyclical turnaround was carried out.

Positive free cash flow decreased the need for loans and borrowings over the course of 2012.

The Group's cash and debt position was still good and on safe levels at the end of the year as the net debt amounted to CZK -220 million and financial gearing, defined as the ratio of net debt and equity, amounted to -0.7%.

Sales revenues

Trends in revenues for own products and services (CZK thousand)

	2012	2011	2010	2009	2008
Revenues	107,280,986	97,427,586	85,966,537	67,386,500	98,143,951

In 2012 the Unipetrol Group generated total revenues of CZK 107,281 million, which is by 10% more than in 2011.

Management report

Structure of revenues by business segments (Revenues in%)

Business segment	2012	2011	2010	2009	2008
Refining	55	57	54	54	55
Petrochemical	35	33	36	34	34
Retail	10	10	9	11	10
Other	0	0	1	1	1

External revenues in the refining segment went up by CZK 4,147 million in 2012 compared with the previous year and amounted to CZK 59,524 million. The increase is mainly attributable to higher product prices.

In the petrochemical segment, external revenues amounted to CZK 37,413 million, which is CZK 5,385 million more than in 2011, mainly due to higher sales volumes as well as more profitable sold products mix.

External revenues in the retail segment, amounting to CZK 10,270 million in 2012, were CZK 425 million higher than in the previous year as a result of the increase in fuel prices

The share of segments' revenues in the Unipetrol Group's overall structure of revenues changed sligthly in comparison with the previous year. The share of the refining segment decreased from 57% to 55%, meanwhile, the share of the petrochemical segment increased from 33% to 35%. The share of retail segment was flat.

Structure of sales revenues by area (Revenues in%)

Area	2012	2011	2010	2009	2008
Czech Republic	71	71	69	75	71
Other European countries	27	27	28	22	27
Other countries	2	2	3	3	2

Compared with 2011, the territorial structure of the Group's revenues remained stable when the majority was directed toward EU countries.

Non-consolidated profit/loss and dividends of UNIPETROL, a.s.

	2012	2011	2010	2009	2008
Profit for distribution	403,972	-229,925	512,121	261,864	4,428,147
Allocation to the social fund	–[1)]	0	0	0	0
Allocation to the reserve fund	–[1)]	0	25,606	13,093	221,407
Number of profit-bearing shares	181,334,764	181,334,764	181,334,764	181,334,764	181,334,764
Profit / loss per share	2.23	-1.27	2.82	1.44	24.42
Dividend per share (CZK) paid from retained profit of previous years	–[1)]	0	0	0	17.65
Total for distribution	403,972	-229,925	486,515	248,771	4,206,740
Profit brought forward as of 31. December	5,124,936	4,716,455	4,971,986	4,472,958	4,432,501

1) Dividend policy is not formally established. The decision on the distribution of the profit 2012 will be taken at the Annual General Meeting.

Property, plant and equipment

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

The total area of land owned by UNIPETROL, a.s. within the cadasters of Kralupy nad Vltavou is ca 2.4595 million sq m and of Litvínov ca 8.866 million sq m.

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

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

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

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

Capital resources

No new mid- or long-term credit transactions were made on the parent company UNIPETROL, a.s. level.

As of 31 December 2012, Unipetrol had CZK 2 billion in issued bonds, which will fall due on 28 December 2013.

The company does not have any long-term loans.

Operating financing is mainly provided on the level of the parent company UNIPETROL, a.s. using available resources and if necessary using operating loans provided by reputable banks.

Unipetrol's credit lines increased from the initial CZK 9,235 million to CZK 10,935 million in 2012.

Thanks to a centralised operating financing model, both financial and non-financial terms on which the Group companies receive operating finances were improved substantially. The efficiency of operating financing has improved significantly thanks to the introduction of a real cash pooling system.

Unipetrol uses a real cash pooling system involving four reputable banks.

As of 31 December 2012, the balance of guarantees of the Unipetrol Group amounted to CZK 1,845 million, of which CZK 779 million belonged to Unipetrol RPA, CZK 603 million to Unipetrol Slovensko, and CZK 412 million to Paramo.

Management report

Risk management

Risk management in the Group is provided by the documents "Financial Risk Management Policy" and „Market risk management policy". These documents define the rules and recommendations governing Financial Management activities in the Unipetrol Group companies.

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

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

In accordance with the mentioned policies, 63 commodity swaps, in the amount of 13,603,725 barrels, were executed in 2012 in order to hedge crude oil price due to timining difference between purchase price and price at the time of processing. The applicable financial risk management policy is based on the principle that the Group companies act as conservative entities which in no event use their funds or positions for speculative purposes.

During 2012 one of the Group companies executed a major cost-effective financial transaction (sell / buy back) with CO_2 allowances in order to strengthen its natural hedge and liquidity position. The transaction was settled by the end of 2012.

The company and the environment

The company and the environment

Unipetrol Group's key environmental activities

Unipetrol Group's activities in the area of environmental protection in 2012 were mainly focused on the launch of the third trading period of the EU ETS system and on monitoring, evaluation and preparation of measures related to new or revised legislation on the level of the Czech Republic and the European Union.

In accordance with the rules laid down by Directive 2009/29/EC of the European Parliament and of the Council on the greenhouse gas emission allowance trading scheme of the Community and the relevant guidelines, the Group's companies applied, through the Ministry of the Environment, for the allocation of allowances for operated installations for the period from 2013 to 2020. Most of the installations operated by Unipetrol RPA, Česká rafinérská and Paramo fall within the category of industries exposed to a risk of carbon leakage. Allocation of emission allowances should be in line with so-called benchmarks and should remain in place throughout the third trading period. By the end of 2012, the final allocation volume has not been announced by the European Commission yet.

As part of the legislative process, the Unipetrol Group companies were involved either directly or through industry networks and NGOs in the preparation of, and comments on, the new legal regulations in the Czech Republic and EU. The biggest impact on the Group companies' business is expected from the climate and energy package and the new industrial pollution directive.

In 2012, pursuant to Act No. 167/2008 Coll., Unipetrol Group companies had to conduct the so-called basic risk assessment of environmental harm for all risk activities.

Development of the Unipetrol Group's selected environmental performance indicators

Carbon dioxide emissions under the EU's scheme for trading in carbon dioxide emission allowances (EU ETS)

The start of the second trading period on 1 January 2008 was associated with tightening of the conditions for monitoring and reporting greenhouse gas emissions after the expiry of certain exceptions applicable to the first period. The new allocation plan issued in the form of Government Order No. 80/2008 for the trading period of 2008 to 2012 also allocated allowances to Unipetrol Group companies.

Allocation of allowances to Unipetrol Group companies in the National Allocation Plan for the 2005–2007 and 2008–2012 periods and the actual CO_2 emissions between 2005 and 2012

Allocation of allowances (units/year) Actual emissions (kt/year)	Unipetrol RPA	Česká rafinérská [1]	Paramo	Unipetrol Group
NAP allocations 2005–2007	**3,495**	**1,100**	**270**	**4,865**
2005: actual CO_2 emissions	3,071	803	194	4,068
2006: actual CO_2 emissions	3,092	910	196	4,198
2007: actual CO_2 emissions	2,889	904	191	3,984
NAP allocations 2008–2012	**3,121**	**867**	**199**	**4,187**
2008: actual CO_2 emissions	2,762	910	176	3,848
2009: actual CO_2 emissions	2,558	806	172	3,536
2010: actual CO_2 emissions	2,468	883	170	3,521
2011: actual CO_2 emissions	2,136	835	148	3,119
2012: actual CO_2 emissions	1,944	856	95	2,895

1) Allocations and actual emissions are not recalculated to Unipetrol's 51.22% share in Česká rafinérská.

Based on the audit of the annual reports for 2012 it can be said that the allocated quantity of allowances covers the needs of the Group companies. Any surplus allowances for 2012 have been traded or will be traded in the future, or they may be used to cover any allowance deficit in the period from 2013 to 2020.

Trends in the emissions of selected pollutants

The emissions of pollutants into the environment have been stabilised over the last four years, at a level achieved thanks to massive environmental investments conducted in the previous decade.

Sulphur dioxide emissions in Group companies (tonnes/year)

Year	2006	2007	2008	2009	2010	2011	2012
Unipetrol Group	13,220	16,909	12,030	14,260	11,070	14,648	13,760

COD pollutant emissions in Group companies (tonnes/year)

Year	2006	2007	2008	2009	2010	2011	2012
Unipetrol Group	1,424	1,498	1,166	983	729	519	459

BSK5 pollutant emissions in Group companies (tonnes/year)

Year	2006	2007	2008	2009	2010	2011	2012
Unipetrol Group	480	511	311	220	175	112	107

The main reason behind decrease of pollutants in the waste waters was diversion of the waste waters from the Litvínov agglomeration to the new city water treatment plant in 2010. It has been also impacted by improvement in the effectiveness of waste water treatment in the company's own industrial water treatment plant in Chempark Záluží.

Prevention of serious accidents under Act No. 59/2006

In 2012 Unipetrol Group companies experienced no accidents classified as serious accidents under Act No. 59/2006. Other operating accidents encountered during the year were managed in-house or using in-house (company's) fire departments andhandeled adequately in order to rectify the situation and prevent re-occurrence. The impact of small operating accidents did not extend beyond the Group premises.

Mitigation of old environmental hazards

Based on a decision of the Government of the Czech Republic associated with their privatisation, Unipetrol Group companies entered into the following agreements with the Ministry of Finance of the Czech Republic on the tackling of environmental obligations originating before privatisation (called the Ecological Contracts):

UNIPETROL, a.s. (legal successor of CHEMOPETROL Group, a.s.): Contract No. 14/94 as amended in Amendment 3 of 25 January 2005; UNIPETROL, a.s. (legal successor of KAUČUK GROUP, a.s.): Contract No. 32/94 as amended in Amendment 1 of 4 July 2001; PARAMO, a.s.: Contract No. 39/94 as amended in Amendment 2 of 4 July 2001, and Contract No. 58/94 as amended by Amendment 3 of 26 September 2008; and BENZINA, s.r.o.: Contract No. 184/97 as amended in Amendment 7 of 18 January 2007.

In 2012, proactive remediation works took place in the Litvínov production area by clean up of groundwater and pumping underground drains. Construction of remediation drain began at the location of the former Růžodol lagoons. Remediation of the land left after the former phenol production continued. Preparatory works took place at the other sites in the Litvínov plant. Activities were initiated to compile an updated risk analysis of the area and its surroundings.

Protective remediation pumping of the contamination cloud E was taking place in the Kralupy nad Vltavou plant. The Czech Environmental Inspection was asked to issue a decision regarding the execution of the protective remediation pumping of the contamination cloud E. Pre-remediation monitoring of the impact of the dump on the underground and surface water continued at the location of the Nelahozeves dump site.

Reconstruction of the HOPV system at Paramo was completed and the construction of remediation drains began at the site of U Trojice. The remediation intervention project on Pardubice premises was updated and negotiations with the Ministry of Finance and the Ministry of the Environment about the commencement of the given remediation intervention took place. Underground water remediation process on the Kolín premises of Paramo is underway.

Maintenance remediation works took place in the network of the Benzina filling stations (protective remediation pumping) at the following stations: Přelouč, Vysoké Mýto, Pardubice – Chrudimská and the distribution storage facilities in Liberec, Jičín, Nový Bohumín, Šumperk, Žamberk and Točník.

The company and the environment

Overview of financial guarantees from the Ministry of Finance of the Czech Republic (MF) and draw down of funds at Unipetrol Group (CZK million)

	Unipetrol Litvínov	Unipetrol Kralupy	Paramo Kolín	Paramo Pardubice	Benzina	Group total
Funds guaranteed by MF	6,012	4,244	1,907	1,242	1,349	14,754
Costs covered by MF in 2012	341	1	31	31	28	432
Costs covered by MF since the start of the work	3,395	48	1,651	387	430 [1]	5,911
Expected costs of future work	3,339	1,407	333	2,882	915	8,876
Total (estimated) remediation costs	**6,734**	**1,455**	**1,984**	**3,269**	**1,345**	**14,787**
Balance of MF's financial guarantee	-722	2,789	-77 [2]	-2,027 [2]	4	-33

1) Benzina – excluding costs of BENZINA, s.r.o. spent on remediation works until 1997 in the amount of ca CZK 500m.
2) Paramo – applications for increasing the guarantees for Pardubice and Kolín plants were submitted to the Ministry of Finance of the Czech Republic.

Cost of environmental protection

Environmental investments

Environmental investments are defined as capital investment projects undertaken directly in order to meet legal requirements for environmental protection and closely linked to the practical implementation of integrated prevention pollution. In 2012 Unipetrol Group implemented the following major environmental investments:

Česká rafinérská

The company implemented environmental investment projects at total of CZK 127 million. These include primarily:

- Reconstruction of the wastewater treatment plant in Kralupy – in 2012, works on the reconstruction of the wastewater treatment plant in Kralupy, which is required in the valid IPPC, continued. The project is in its project documentation preparation stage and is managed with the objective to secure compliance of the treatment plant with the requirements for the best available technologies (BAT). The project is expected to be completed by the end of 2015.
- Reconstruction of the sewerage in Kralupy – two projects for the reconstruction of the existing sewerage have been prepared. Parts of the sewerage with possible occurrence of MTBE were selected as preferential and they were being addressed first. This project was already implemented and completed. The second project addressing the reconstruction of the remaining part of the sewerage is currently in its project documentation preparation stage. Its completion is planned for 2015.
- HOPV expansion – the project addresses the expansion of the hydraulic protection of underground water in the Kralupy refinery at its northeastern part, making sure that it will be able to secure protection against seepage of harmful substances dissolved in water. As a part of the first stage of the project, a system consisting of a catchment drain, sub-horizontal boreholes and seepage structures in the so-called green belt and on the edge of the town of Veltrusy was installed. Implementation of the second stage of the project, related to the measures at block 37, will be implemented in 2013.
- Preparation of the project for cleaning a part of the pumped underground water at the Kralupy refinery continued. The project is related to the expansion of the hydraulic barrier.
- Project for improving reliability of the hydraulic barrier devices was implemented.
- At the Litvínov refinery, the flair system was adjusted with the objective to eliminate potential security risks.
- Preparation of the project for installation of continuous emission analyzers at the sulphur production facility in Kralupy continued. Its implementation is planned for the turnaround period in 2013.
- Project of modernization of the railway filling ramp in Kralupy was implemented.
- Project of modification of the furnace burners of atmospheric distillation at the Kralupy refinery commenced.

Unipetrol RPA

The company implemented environmental investment projects at total of CZK 61.9 million. These include primarily:

- Completion of the following construction projects: SO 04 – Gravitation gutter for final cleaning, SO 05 – Reconstruction of mechanical pre-cleaning, SO 01 – sewer system connections for separating sewage water – connection to block 28. These construction projects were implemented as a part of the “Segregation of sewage water” project.
- Impermeability of the hazardous industrial sewer systems, handling areas and reservoirs, where hazardous or extremely hazardous substances pursuant to the Water Act are caught or stored, was secured. This applies to the T200 production areas, heavy fuel gassing facility and the water management unit – waste water section.
- Proceedings on assessing the impact on the environment (EIA) related to the intended construction of a new Polyethylene 3 production facility commenced.
- Reconstruction of the sewerage, including shafts at the area of the Ethylene unit.
- Installation of a camera system for a unified sewerage and reverse flow for a faster detection of emergency leaks of harmful substances.
- Construction of a stable emergency profile on the Bílina river for making the process of catching leaked harmful substances to the Bílina river more efficient.
- General study of a unified sewerage for the Záluží Chempark facilities with the objective to identify the sources of ballast water and pollution sediments in the unified sewer system.
- As a part of emissions monitoring, a new measuring system was installed at the ethylene unit for detection of the heating gas volume in four CO_2 emission sources. The emission gassing production plant was equipped with 3 new measuring devices for detection of CO_2 volume, one device for releasing CO_2 into the air and two devices for CO_2 deliveries to the consumers on the Chempark Záluží premises.

Several other measures with a positive impact on the environment have been implemented and paid for as a part of operational expenses related to the device maintenance. These measures include in particular repairs of sewerages, handling areas and reservoirs.

Paramo

The company implemented environmental investment projects at total of CZK 6.9 million. These include primarily:

- Commencement of the reconstruction of the R 622 storage tank, in which material for Selective raffination is stored.
- Completion of the “Renovation of storage tanks in the mixing plant” project, co-financed from the Operational Environmental Program at the Kolín economic center.

Benzina

The company implemented environmental investment projects at total of CZK 6.0 million. These include primarily:

- Replacement of the outdated wastewater treatment plants of the car-washes at filling stations in Valašské Klobouky, Žďár nad Sázavou, Krnov, Litvínov-Záluží, Brno-Hněvkovského and H.Počernice –Boleslavská, and the sewage water treatment plant at the filling station in Drslavice + installation of a new wastewater treatment plant at the new filling station in Mitrovice.
- Connection of wastewater to public sewerage at the Sedlčany, Přelouč and Jičín – Robousy filling stations + preparation of PD for two additional filling stations.
- Construction of a new source of drinking water at the Olomouc – Žerůvky filling station + connection for the filling station in Frymburk.
- Installation of plastic inserts to fuel tanks at the Lovosice and Suchdol nad Lužnicí filling stations.
- Replacement of insufficient absorption inlets by a new ORL at the Blovice filling station + handling area.
- Replacement of the liquidation process of waste water by an absorption process at the Nymburk filling station.

Capital expenditure on environmental protection in the Group (CZK million)

Year	2006	2007	2008	2009	2010	2011	2012
Unipetrol Group	898	828	282	200	153	281	213

Environmental operating costs

We define “environmental operating costs” as costs associated with the operation of installations for air quality control, wastewater treatment, waste disposal, environmental management systems, environmental emissions monitoring, environmental impact assessment (EIA) process, integrated pollution prevention, and other related environmental activities.

The trend of environmental operating costs between 2006 and 2012 is shown in the following table.

The company and the environment

Operating costs on environmental protection in the Group (CZK million)

Year	2006	2007	2008	2009	2010	2011	2012
Unipetrol Group	748	862	869	808	902	841	734

Total environmental costs
The overall environmental costs in the Unipetrol Group include environmental investments, operating costs on environmental protection, costs of eliminating old environmental hazards, and charges for air pollution, wastewater release, waste deposit in landfills, provisioning for landfill reclamation, and compensation for forests damanges due to air pollution.

The trend of total environmental protection costs between 2006 and 2012 is shown in the following table.

Total costs on environmental protection in the Group (CZK million)

Year	2006	2007	2008	2009	2010	2011	2012
Unipetrol Group	1,969	1,971	1,488	1,538	1,820	1,576	1,434

The „Responsible Undertaking in the Field of Chemistry – Responsible Care“ Programme

Responsible Care Programme ("R.C.") is a voluntary worldwide initiative in the chemical industry aimed at promoting its sustainable development through proactive improvement of the safety of facility operations, product transport, and protection of human health and the environment. The programme represents a long-term strategy coordinated by the International Council of Chemical Associations (ICCA) and the European Chemical Industry Council (CEFIC) in Europe. The contribution of R.C. Program to sustainable development was acknowledged by an award from the UN Environmental Programme at the world summit in Johannesburg.

The national version of R.C., a programme entitled Odpovědné podnikání v chemii (Responsible Business in Chemistry), was officially launched in October 1994 by the Minister of Industry and Trade and the President of the Association of Chemical Industry of the Czech Republic (SCHP ČR). The programme has complied with the Responsible Care Global Charter since 2008.

The right to use the Responsible Care programme logo was assigned to PARAMO, a.s. again on the basis of their successful public defence in 2012. Other companies of the Unipetrol Group defended its right in 2011. Due to the fact that Česká rafinérská, a.s. is not a member of the Association of Chemical Industry of the Czech Republic any more, it does not use the right although it continues to fulfill the principles.

More information on achievements in environmental protection are published in a separate "Joint Report on Occupational Health, Safety and Environmental Protection of the Unipetrol Group" and available at www.unipetrol.cz.

Sponsorship and Corporate Social Responsibility

In respect of its sponsorship activities, the Unipetrol Group carried these out through its two main brands – Unipetrol (in B2B communication) and Benzina (in B2C communication).

Unipetrol continued to focus on science and education through its strategic partnership with the Institute of Chemical Technology in Prague. 2012 marked eleven years of successful mutual co-operation. This strategic partnership enables close ties between research and education primarily in the area of petrochemistry. The activities covered by the agreement in place focused, more heavily than previously, on both current and future students, which in fact also reflects the targeted focus of the co-operation. Students also obtain information on this segment of the chemical industry and on the strategic partner itself during such activities, which gives them a better idea of the opportunities for their future employment should they choose to work in this field.

Regional sponsorship is another part of the Group's strategy. It mainly consists of financial support for municipalities in the Ústí Region provided by UNIPETROL RPA, s.r.o. The funds are then used for environmental, educational and health purposes.

Unipetrol Group is also developing its Corporate Social Responsibility (CSR) program. In volunteer work there were 51 employees involved who helped local Most charity, civil association Arkádie and the endowment fund Obnova Krušnohoří.

Employees have also helped a good cause through participation in Christmas charity „Fulfilled wishes" with the total donation of 62,000 CZK. Collected funds were given to local non profit organizations: in Most it was the „Services center for disabled", in Pardubice the day care center „Sunflower" and in Prague the funds went to the Dog guide Center for visually impaired.

Specializing in retail and relying on its tradition of 50 years, Benzina is associated mainly with sport. In 2007, it connected its name with HC Litvínov (now HC VERVA Litvínov), an ice-hockey club that was established back in 1945. In chosen petrol stations two donation projects took place as well – in cooperation with NROS foundation there was the project „Help children with VERVA" and with the Foundation of Charta 77 there was the project „Konto bariéry". These two actions generated all together more than 750,000 CZK.

In the Pardubice Region, Paramo preferred co-operation with institutions teaching chemistry at all levels of education, i.e., primary schools, chemistry high schools and the Fakulta chemicko-technologická Univerzity Pardubice [University of Pardubice Faculty of Chemical Technology]. The company chiefly supported this discipline by providing students with opportunities for practical experience and supporting knowledge contests. It lent a helping hand again to Středisko rané péče [Early Care Centre], which is a highly sought-after institution and the only provider of early care services for families with children whose development is at risk and families with very young children suffering from an intellectual, physical or combined disabilities in the Pardubice Region. As in previous years, the company joined a fund-raising scheme for a 'social automobile' and helped to organize small sports projects for children and young people.

Structure of the Group

UNIPETROL, a.s. is the mother company of Unipetrol Group. It is a company with a majority owner and as such it is a controlled entity. The major shareholder, or the majority owner respectively, is Polski Koncern Naftowy Orlen Spółka Akcyjna ("PKN ORLEN S.A.").

Controlling person	Interest with voting rights as of 31 December 2012	Controlling agreement
PKN ORLEN S.A., ul. Chemików 7, 09-411 Płock Republic of Poland	62.99% [1]	none

1) Unless stated below that the ownership interest is different from the proportion of voting rights, it can be assumed that both proportions are identical.

The remaining shares of the company (37.01%) are held by minority shareholders, both legal entities and natural persons.

PKN ORLEN S.A. is the parent company of Orlen Group and UNIPETROL, a.s. together with the companies controlled by it ("Unipetrol Group") is among the key members of Orlen Group.

UNIPETROL, a.s. is independent of all other entities in Orlen Group. There are no known arrangements that could result in a change in control over the company.

In accordance with Section 18.3 of Attachment I of the Commission regulation no. 809/2004, related to the directive of the European Parliament and Council 2003/71/ES UNIPETROL, a.s., states that the scope of activities, rights and obligations of the shareholders, including the control limits, results from the Articles of Association of UNIPETROL, a.s. The Supervisory Board, a controlling body of UNIPETROL, a.s., includes the representatives of minority shareholders. In its internal regulations UNIPETROL, a.s., in order to prevent abuse of controlling possibilities, regulates methods and possibilities of information providing, where the rule of equal treatment of all the shareholders applies.

Orlen Group

The Orlen Group companies operate in the area of crude oil processing and the production of a broad range of refinery, petrochemical and chemical products, and also in the transport, wholesaling, and retailing of these products. The Orlen Group also includes companies operating in some other related areas. The key companies of the Orlen Group operate in Poland, the Czech Republic, Lithuania, and Germany. The Group has 7 refineries: 3 in Poland (Płock, Trzebinia, and Jedlicze), 3 in the Czech Republic (Litvínov, Kralupy, and Pardubice) and one in Lithuania (Mazeikiu). The integrated refinery and petrochemical complex in Płock is among the most advanced European operations of this type. Crude oil processing in Pardubice refinery Paramo was discontinued in the middle of 2012. Retail network of Orlen Group comprises approximately 2,700 outlets offering services in Poland, Germany, the Czech Republic, and Lithuania. In Poland, fuel filling stations operate under two brands: ORLEN (the premium brand) and BLISKA (the economy brand). Clients in Germany are served at stations branded STAR, and in the Czech Republic at outlets bearing the standard Benzina and the premium Benzina Plus logos. Fuel filling stations in Lithuania operate under the Orlen Lietuva and Ventus brands. The Group recently expanded its operation within energy segment, planning to make significant investments within next few years by boosting its power generation assets. Additionally upstream projects connected with oil and gas exploration and production have started play important role in Group's strategy, the number of conventional and unconventional licenses grows rapidly. To conduct planned investments a 100% subsidiary ORLEN Upstream has been brought into operation. Orlen Group thus became one of the largest petroleum corporations in Central and Eastern Europe and the largest in Poland.

PKN ORLEN S.A.

PKN ORLEN S.A. is the mother company of Orlen Group and operates as a public company whose shares are quoted and traded on the Warsaw Stock Exchange.

PKN ORLEN S.A. shareholders structure as of 31 December 2012

Shareholder	Number of shares	Number of votes	Share capital in%	Number of votes in%
Polish State Treasury	117,710,196	117,710,196	27.52%	27.52%
Aviva OFE (fund) [1]	21,744,036	21,744,036	5.08%	5.08%
ING OFE (fund) [2]	21,464,398	21,464,398	5.02%	5.02%
Othes	266,790,431	266,790,431	62.38%	62.38%
Total	**427,709,061**	**427,709,061**	**100.00%**	**100.00%**

2) According to information received by PKN ORLEN S.A. from the pension fund on 9 February 2010.
3) According to information received by PKN ORLEN S.A. from the pension fund on 30 March 2012.

According to Polish capital market regulations PKN ORLEN receives information only about shareholders holding at least 5% of the total number of votes at the general meeting. According to Article 69 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and on Public Companies, dated 29 July 2005 (Journal of Laws 2009 No. 185, item 1439 with subsequent changes) entity or person which achieved or exceeded 5% of the total number of votes at the general meeting in a public company is obliged to immediately inform this company and the Polish Financial Authority about this change.

Main companies of Orlen Group

Company	Based at	Country	PKN Orlen S.A.'s percentage of capital	Area of business
AB ORLEN Lietuva	Juodeikiai	Lithuania	100.00	refineries
ANWIL S.A.	Włocławek	Poland	100.00	chemicals
Basell Orlen Polyolefins Sp. z o.o.	Płock	Poland	50.00	petrochemicals
IKS "SOLINO" S.A.[4]	Inowrocław	Poland	100.00	logistics
ORLEN Asfalt Sp. z o.o.	Płock	Poland	82.50	bitumen
ORLEN Deutschland GmbH	Elmshorn	Germany	100.00	retail
ORLEN GAZ Sp. Z o.o.	Płock	Poland	100.00	LPG
ORLEN Oil Sp. z o.o.	Kraków	Poland	51.69	lubricants
ORLEN Upstream Sp. z o.o.	Warszawa	Poland	100.00	upstream
Rafineria Nafty Jedlicze S.A.	Jedlicze	Poland	100.00	refineries
Rafineria Trzebinia S.A.	Trzebinia	Poland	86.34	refineries
UNIPETROL, a.s.	Prague	Czech Rep.	62.99	refineries, petrochemicals, retail

4) Inowroclawskie Kopalnie Soli "SOLINO" S.A.

AB ORLEN Lietuva

ORLEN Lietuva is a refining company operating the only petroleum refinery in the Baltic region, a network of product pipelines and a seacoast terminal. The company operates a network of fuel filling stations under the ORLEN and VENTUS trademarks through its subsidiary, AB VENTUS – Nafta. Production and sale of petroleum products are the company's core businesses. Its oil refinery processes approximately 10 million tonnes of crude oil a year. The company is the most important petrol and diesel fuel supplier in Lithuania, Latvia and Estonia. Its products are also exported to Western Europe, the US, Ukraine and other countries. At the end of 2012, the company had 7 subsidiaries.

ANWIL S.A.

ANWIL Group is one of the largest producers of plastics, nitrogenous fertilizers and other chemicals.

A substantial part of sales profits of the ANWIL Group stems from polyvinyl chloride (PVC) sales. Units forming Capital Group ANWIL, i.e. ANWIL S.A. and SPOLANA, a.s., are the only producers of PVC on the Czech and Polish markets. ANWIL Group also specializes in the production of PVC granules, PVC sheets and dry mixtures based on PVC. ANWILL Group is currently the only producer of PVC sheets on the Polish and Czech markets.

ANWIL Group also produces nitrogenous fertilizers, such as ammonium nitrate and ammonium nitrate-calcium (CANWIL) with magnesium, sulphur CANWIL-S and ammonium sulphate. All nitrogenous fertilizers offered by ANWIL S.A. hold a certificate of quality Q issued by the Polish test and certification center.

Sales of ammonia and sulfuric acid represent the largest share of the profit in the field of chemicals. ANWIL S.A. is one of the few companies in Central Europe producing chlorine and sodium hydroxide via the so-called membrane method. A product of much higher quality that pollutes the environment much less is achieved thanks to this method.

Structure of the Group

Basell Orlen Polyolefins Sp. z o.o.
Basell ORLEN Polyolefins Sprzedaż Sp. z o.o. (BOP) is a Polish joint venture specializing in the production and sale of polyolefins. BOP was established in March 2003 by Basell Europe Holdings B.V. and PKN ORLEN S.A. Each company owns a 50% stake in BOP. BOP is the only Polish producer of polyolefins. In October 2005, BOP launched in Płock two new production units for the production of polypropylene (PP) Spheripol and high-density polyethylene (HDPE) Hostalen with production capacity of 400 thousand tons, and 320 thousand tons respectively. Modern logistics base secures distribution of polyolefins to customers in Poland and to distribution points of LyondellBasell's network in Europe.

IKS "Solino" S.A.
IKS "Solino" S.A. (Inowrocławskie Kopalnie Soli "SOLINO" S.A.) is a logistics operator in the area of underground storage of crude oil and fuels, salt production and salt products processing.

ORLEN Asfalt Sp. z o.o.
ORLEN Asfalt Sp. z o.o. is a member of ORLEN Capital Group and one of the largest producers and distributors of bitumen in Europe. The company currently offers a wide range of bitumens: road asfalt, modified ORBITON polymer, BITREX multi-type, industrial bitumen.

Orlen Asfalt is responsible and oversees the distribution from 5 locations in 3 countries: Płock and Trzebinia in Poland, Litvínov and Pardubice in the Czech Republic, and Mazeikiu in Lithuania. The company offers its customers products and services of the highest quality.

ORLEN Deutschland GmbH
ORLEN Deutschland GmbH is an owner of fuel filling stations network in Germany. Based in Elmshorn near Hamburg, the company has been active on the German market since 2003. It operates over 560 fuel filling stations in Germany under the brand STAR.

ORLEN GAZ Sp. z o.o.
ORLEN GAZ Sp. z o.o. is the largest Polish company operating on the liquid petroleum gas (LPG) market in Poland since 1995 and a major supplier for the filling plants network of PKN ORLEN. The company specializes in sale and distribution of propane, butane and propane-butane mixtures. ORLEN GAZ is a member of Polish Liquid Gas Organization and Word LPG Association.

ORLEN Oil Sp. z o.o.
The company produces and distributes the highest-class oils and lubricants for industry and engines. Responding to the dynamic changes in the lubricants market, Orlen Oil actively cooperates with the leading international and Polish research centres on the development of new, high quality products.

ORLEN Upstream Sp. z o.o.
The company is a 100% subsidiary of PKN ORLEN S.A. and its basic statutory activities include: exploration and prospecting of hydrocarbon deposits, exploration of crude oil and natural gas, as well as providing services related to exploration and production of crude oil and natural gas. ORLEN Upstream has been established to implement Orlen Group strategy regarding exploration and production of hydrocarbons.

Rafineria Nafty Jedlicze S.A.
With its tradition of more than a hundred years, the refinery is active in the regenerating of used oils into base oils, and produces and markets low-sulphur fuel oils and organic solvents compliant with the world's highest quality standards. The company is a majority shareholder in 5 undertakings, one of which was in liquidation at the end of 2011.

Rafineria Trzebinia S.A.
Rafineria Trzebinia S.A. is one of the key companies in ORLEN Group. For over 100 years it has been developing and investing in modern technologies, strengthening its position as the largest and most modern company in the region of Lesser Poland. Rafineria Trzebinia S.A. is an internally integrated production and service centre. It runs the production and sales of liquid fuels and bio-fuels in the form of bio-diesel, crude oil processing, and paraffin production, and also distributes the fuels produced by PKN ORLEN in Lesser Poland and Silesia. The service activities focuse on rail transport, energy production, trade, and specialist environmental services. The company is a majority shareholder in 5 undertakings.

Unipetrol Group

The Unipetrol Group consists of companies operating in the refinery processing of crude oil, in the petrochemical industry, and in fuels distribution.
In 2012 the key companies of the Group included the following subsidiaries:

- UNIPETROL RPA, s.r.o.
- BENZINA, s.r.o.
- ČESKÁ RAFINÉRSKÁ, a.s.
- PARAMO, a.s.

In addition to the above key companies, the Group also includes a number of smaller companies focusing on distribution, services, and research.

For more details on the key companies of the Group, see the chapter Ownership interests.

As of 31 December 2012, UNIPETROL, a.s. was the sole member or shareholder of UNIPETROL RPA, s.r.o., BENZINA, s.r.o., UNIPETROL SERVICES, s.r.o., PARAMO, a.s., Výzkumný ústav anorganické chemie, a.s. [Research Institute of Inorganic Chemistry], UNIPETROL RAFINERIE, s.r.o.[1] and UNIPETROL AUSTRIA HmbH, v likvidaci. It was also the majority shareholder of ČESKÁ RAFINÉRSKÁ, a.s. (51.22%).

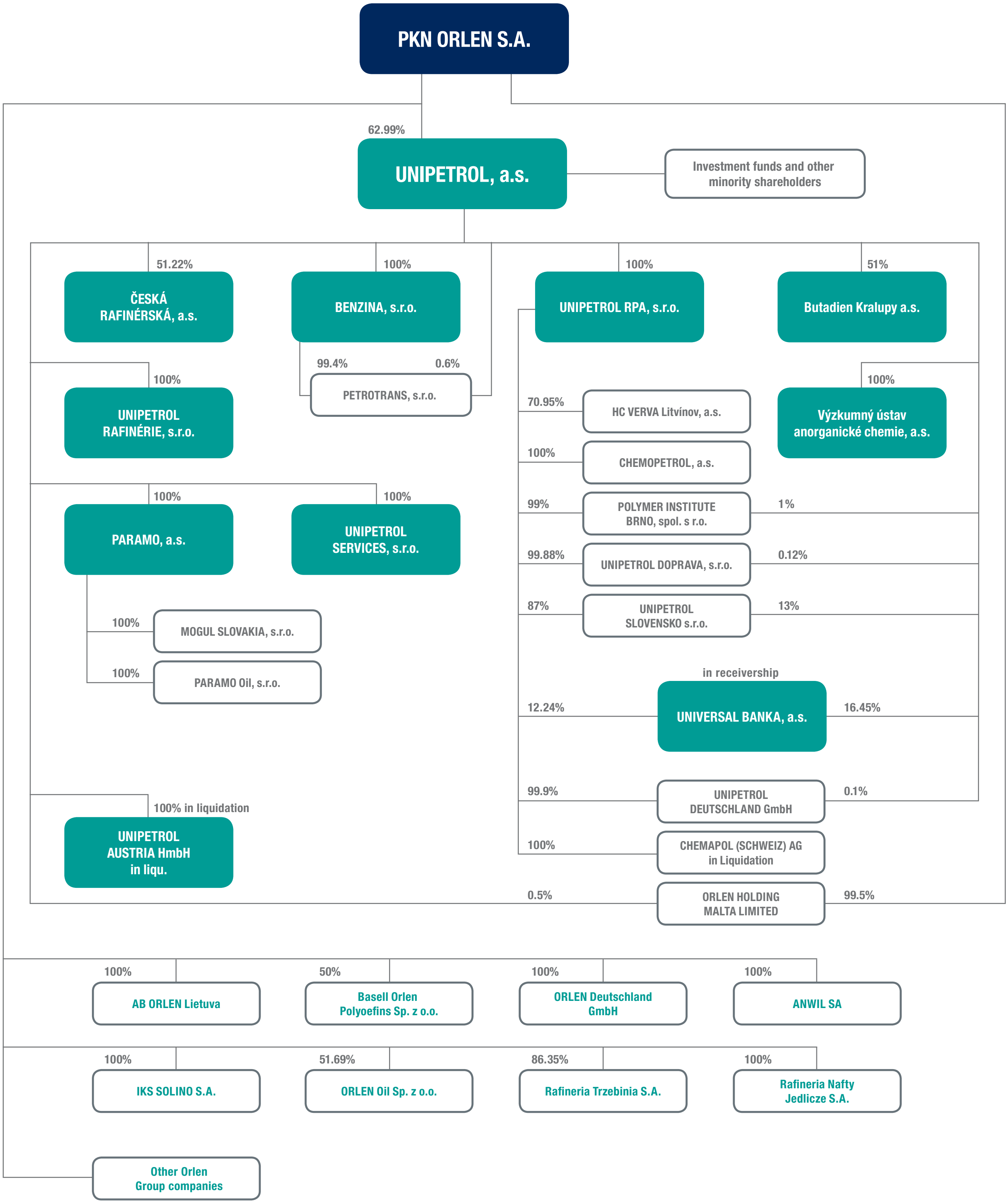
The Group also included companies in which its subsidiaries were the sole or majority owners. As of 31 December 2012, these were UNIPETROL DOPRAVA, s.r.o., UNIPETROL SLOVENSKO s.r.o., POLYMER INSTITUTE BRNO, spol. s r.o., HC VERVA Litvínov, a.s., CHEMOPETROL, a.s.[2], PETROTRANS, s.r.o., MOGUL SLOVAKIA, s.r.o., UNIPETROL DEUTSCHLAND GmbH, CHEMAPOL (SCHWEIZ) AG v likvidaci, and PARAMO Oil, s.r.o.

UNIPETROL, a.s. has no organisational units in the Czech Republic or abroad.

1 The company does not conduct any business.
2 The company does not conduct any business.

Structure of the Group

Structure of the Group as of 31 December 2012



Ownership interests

Changes in the structure of ownership interests held by the Unipetrol Group companies in 2012

Equity interests of UNIPETROL, a.s.

There were no changes in equity interests of UNIPETROL, a.s. during 2012.

Equity interests of subsidiaries

UNIPETROL RPA, s.r.o.

UNIPETROL RPA, s.r.o. holds equity interests in UNIPETROL DOPRAVA, s.r.o. (99.9%), POLYMER INSTITUTE Brno, spol. s r.o. (99%), UNIPETROL SLOVENSKO s.r.o. (87%), UNIPETROL DEUTSCHLAND GmbH (99,9%), CHEMAPOL (SCHWEIZ) AG v likvidaci (100%), CHEMOPETROL, a.s. (100%) and HC Verva Litvínov, a.s. (70,95%), which did not change during 2012.

PARAMO, a.s.

On 22 October 2012, PARAMO, a.s. transferred a 100% ownership interest in PARAMO Asfalt, s.r.o. (now ORLEN Asfalt Česká republika s.r.o.) to ORLEN Asfalt Sp. z o.o., resulting in ORLEN Asfalt Sp. z o.o. became the sole owner of PARAMO Asfalt, s.r.o. (now ORLEN Asfalt Česká republika s.r.o.).

The company continues to be the sole owner of MOGUL SLOVAKIA, s.r.o. and PARAMO Oil, s.r.o.

Ownership interests held by UNIPETROL, a.s. as of 31 December 2012

Company	Based at	Company No.	Registered capital	Ownership interest in% of registered capital
UNIPETROL RPA, s.r.o.	Litvínov, Záluží 1	27597075	CZK 11,147,964,000	100.00
BENZINA, s.r.o.	Prague, Na Pankráci 127	60193328	CZK 1,860,779,000	100.00
UNIPETROL SERVICES, s.r.o.	Litvínov, Záluží 1	27608051	CZK 100,200,000	100.00
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem, Revoluční 84	62243136	CZK 60,000,000	100.00
UNIPETROL RAFINÉRIE, s.r.o.	Litvínov, Záluží 1	27885429	CZK 200,000	100.00
PARAMO, a.s.	Pardubice, Přerovská 560	48173355	CZK 1,330,078,000	100.00
ČESKÁ RAFINÉRSKÁ, a.s.	Litvínov, Záluží 2	62741772	CZK 9,348,240,000	51.22
Butadien Kralupy a.s.	Kralupy nad Vlt.O. Wichterleho 810	27893995	CZK 300,000,000	51.00
UNIPETROL SLOVENSKO s.r.o.	Bratislava, Panónská cesta 7	35777087	EUR 7,635	13.04
UNIVERSAL BANKA, a.s. v konkursu	Prague, Senovážné náměstí 1588/4	482 64 865	CZK 1,520,000,000	16.45
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen, Paul-Ehrlich-Str. 1B, Německo	TAX 04424705213	EUR 1,048,000	0.10
UNIPETROL AUSTRIA HmbH, v likvidaci	Vídeň, Apfelg. 2, Rakousko	(ID) 1549510	EUR 145,345.67	100.00
UNIPETROL DOPRAVA, s.r.o.	Litvínov, Růžodol 4	64049701	CZK 806,000,000	0.12
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno, Tkalcovská 36/2	60711990	CZK 97,000,000	1.00
PETROTRANS, s.r.o.	Prague 8, Střelničná 2221	25123041	CZK 16,000,000	0.63
ORLEN HOLDING MALTA	Malta, Level 1, 36, Strand Towers, The Strand, Sliema SLM 1022	C 39945	USD 5,050,000	0.50

Ownership interests

The key subsidiaries[3]

UNIPETROL RPA, s.r.o.

Registered office: Litvínov, Záluží 1, 436 70
Company No.: 27597075

The company is successor in title to the dissolved companies CHEMOPETROL, a.s. and UNIPETROL RAFINÉRIE a.s., which ceased to exist on 1 August 2008 upon merger with UNIPETROL RPA, s.r.o.

Ownership structure as of 31 December 2012: UNIPETROL, a.s. holds 100% of the registered capital

Basic characteristics of the company

The company has one production and three business units ("BU") based on product types.

The production unit consists of the Chemical Production section, the Energy section, and the Services section.

The Chemical Production section operates manufacturing units according to the plans and requirements of business units. It comprises an ethylene plant, a polypropylene and polyethylene plant, production of hydrogen, production of ammonia and urea, the Chezacarb plant for the production of carbon black, and production and supply of industrial gases for the entire premises. The Energy section supplies the entire premises with energies and water and is responsible for wastewater treatment. The Services section is responsible for the management of the facilities within the premises and for the logistics of plastics, urea, and Chezacarb.

BU REFINERY plans and controls crude oil processing at Česká rafinérská in accordance with ownership rights of UNIPETROL, a.s., with a specific focus on the requirements of the downstream production processes in the Unipetrol Group. It is responsible for the purchase of crude oil for the Group's refineries and also for the wholesaling of motor fuels and other refinery products.

BU MONOMERS AND CHEMICALS plans and controls the production downstream from crude oil processing. It provides feedstock for the production of polyolefins and sells petrochemical products, ammonia, and urea.

BU POLYOLEFINS operates in the area of plastics – polyolefins. It plans production in the plants that produce polypropylene (PP) and high density polyethylene (HDPE) and is responsible for the sale of finished products.

Key products and services

Motor fuels, fuel oils, bitumen, liquefied petroleum products, oil hydrogenates, other refinery products, olefins and aromatics, agrochemicals, alcohols, carbon black and sorbents, polyolefins (high density polyethylene, polypropylene).

Major ownership interests

Company	Based at	Company No.	Registered capital	Ownership interest% of registered capital
UNIPETROL DOPRAVA, s.r.o.	Litvínov	64049701	CZK 806,000,000	99.88
UNIPETROL SLOVENSKO s.r.o.	Bratislava	35777087	EUR 7,635	86.96
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	60711990	CZK 97,000,000	99.00
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen	04424705213	EUR 1,048,000	99.90
HC VERVA Litvínov, a.s.	Litvínov	64048098	CZK 21,000,000	70.95

3 Key financial and operating ratio of the companies presented in the following tables were used in the consolidated financial statements of UNIPETROL, a.s. In case of ČESKÁ RAFINÉRSKÁ, a.s. the object of the consolidation was the proportional part of the below mentioned values corresponding to the share of UNIPETROL, a.s. in the registered capital of this company.

Key financial and operating indicators of UNIPETROL RPA, s.r.o. (under IFRS) [1)]

(in CZK thousand)	2012	2011	2010	2009	2008
Total assets	34,594,261	36,233,751	35,666,150	35,593,373	34,691,648
Equity	8,066,485	7,713,879	12,564,248	12,321,130	14,001,640
Registered capital	11,147,964	11,147,964	11,147,964	11,147,964	11,147,964
Liabilities	26,527,776	28,519,871	23,101,901	23,272,243	20,690,008
Total revenues	99,327,100	91,768,413	78,640,994	55,614,494	82,446,314
Operating profit	-240,196	-4,734,976	563,583	-1,780,582	-139,018
Profit before tax	-423,156	-4,991,055	290,075	-2,118,420	-937,749
Profit for the accounting period	280,318	-4,788,086	242,716	-1,667,185	-731,314

1) Unconsolidated under IFRS
Source: Transformed financial statements under IFRS.

BENZINA, s.r.o.

Registered office: Prague 4, Na Pankráci 127, 140 00
Company No.: 60193328

Core business

Operation of fuel filling stations in the Czech Republic.

Ownership structure as of 31 December 2012: UNIPETROL, a.s. holds 100% of the registered capital

Basic characteristics of the company

The company operates the largest nationwide network of fuel filling stations in the Czech Republic, where it sells fuels and other goods and services to the general public.

Ownership interest

Company	Based at	Company No.	Registered capital CZK	Ownership interest % of registered capital
PETROTRANS, s.r.o.	Prague	25123041	16,000,000	99.37

Key financial and operating indicators of BENZINA, s.r.o. (under IFRS) [1)]

(in CZK thousand)	2012	2011	2010	2009	2008
Total assets	6,573,406	6,836,877	6,694,078	6,791,580	6,712,980
Equity	3,168,229	3,226,785	3,113,757	2,850,256	2,325,579
Registered capital	1,860,779	1,860,779	1,860,779	1,860,779	1,860,779
Liabilities	3,405,177	3,610,092	3,580,321	3,941,324	4,387,401
Total revenues	10,445,125	9,892,207	8,624,493	7,439,310	9,970,807
Operating profit	130,013	292,960	483,265	618,006	454,939
Profit before tax	-36,256	127,976	312,188	444,742	240,157
Profit for the accounting period	1,278	113,028	263,501	524,677	240,157

1) Unconsolidated under IFRS
Source: Transformed financial statements under IFRS

Ownership interests

ČESKÁ RAFINÉRSKÁ, a.s.

Registered office: Litvínov, Záluží 2, 436 70
Company No.: 62741772

Core business

Refinery processing of crude oil (a processing [cost centre] refinery).

Ownership structure as of 31 December 2012:

UNIPETROL, a.s.	**51.22%**
ENI International B.V.	32.445%
Shell Overseas Investments B.V.	16.335%

Basic characteristics of the company

The company operates the two largest refineries in the Czech Republic, located in Litvínov and in Kralupy nad Vltavou, with a combined capacity of 8.7 million tonnes of feedstock annually. It is the largest processor of crude oil and producer of petroleum products in the Czech Republic. Based on a processing agreement entered into by the company and the shareholders' subsidiaries in January 2003, it started operating in the processing mode on 1 August 2003, under which the said companies (referred to as the processors) purchase crude oil and other feedstock for processing in the refineries and then take and trade in the processing products.

Key products and services

Automotive gasoline, jet kerosene, diesel oil, LPG, fuel oils, propylene (for chemical syntheses), bitumen, sulphur, oil hydrogenates (feedstock for the production of lubricating oils) and feedstock for the ethylene unit and for partial oxidation in Unipetrol RPA's production unit.

Key financial and operating indicators of ČESKÁ RAFINÉRSKÁ, a.s. (under IFRS)

(in CZK thousand)	2012	2011	2010	2009	2008
Total assets	23,926,645	24,146,521	25,189,572	25,694,705	25,727,184
Equity	17,112,003	17,054,888	18,216,007	18,579,348	18,665,157
Registered capital	9,348,240	9,348,240	9,348,240	9,348,240	9,348,240
Liabilities	6,814,642	7,091,632	6,973,564	7,115,357	7,062,027
Total revenues	9,711,405	9,051,131	9,731,963	9,075,668	10,417,440
Operating profit	384,848	273,994	528,331	237,700	469,620
Profit before tax	406,037	293,324	551,150	273,741	504,060
Profit for the accounting period	332,000	238,892	436,654	207,202	388,454

Source: Transformed financial statements under IFRS

PARAMO, a.s.

Registered office: Pardubice, Přerovská 560, 530 06
Company No.: 48173355

Core business

Production of bitumen products, lubricating and process oils, including related and ancillary products, using imported feedstock. Providing services in the area of fuels storage and distribution.

Ownership structure as of 31 December 2012: UNIPETROL, a.s. holds 100% of the registered capital

Basic characteristics of the company

The company has a tradition of more than a hundred years in crude oil processing and in the production of fuels, lubricants, and bitumen. In July 2012 Unipetrol Group announced permanent discontinuation of crude oil processing in Pardubice refinery. Paramo focuses on oils business, production of special bitumens and bitumen products after shutdown of the refinery part of the company.

The company places its products primarily on the domestic market.

Providing services in the area of fuels storage and distribution for sister company Unipetrol RPA is a new business element after shutdown of the refinery part of the company.

Key products and services

The company is a well-known producer of automotive and industrial oils, metalworking fluids, preservatives, bitumen, special bitumen products, fats, greases, and waxes. The company began providing services in the area of fuels storage and distribution for sister company Unipetrol RPA during 2012.

Ownership interest

Company	Based at	Company No.	Registered capital	Ownership interest % of registered capital
MOGUL SLOVAKIA, s.r.o.	Hradište pod Vrátnom	36222992	EUR 380,933	100.00
PARAMO Oil, s.r.o.	Pardubice	24687341	CZK 200,000	100.00

Key financial and operating indicators of PARAMO, a.s. (under IFRS) [1)]

(in CZK thousand)	2012	2011	2010	2009	2008
Total assets	1,264,618	2,430,892	4,730,104	4,237,427	4,258,395
Equity [2)]	-139,906	445,497	2,116,805	2,278,792	2,411,276
Registered capital	1,330,078	1,330,078	1,330,078	1,330,078	1,330,078
Liabilities	1,404,524	1,985,395	2,613,300	1,958,635	1,847,119
Total revenues	5,494,934	11,816,243	11,417,414	8,958,061	12,386,449
Operating profit	-384,239	-1,962,263	-174,471	-86,382	93,213
Profit before tax	-287,462	-1,978,497	-198,978	-119,865	49,810
Profit for the accounting period	-585,404	-1,671,307	-161,987	-132,485	35,736

1) Unconsolidated under IFRS
Source: Transformed financial statements under IFRS
2) 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.

Complementary information as required by the Act on business activities on the capital market

Complementary information as required by the Act on business activities on the capital market

Legal regulations governing the issuer's business

The basic legal regulations that UNIPETROL, a.s. observed in conducting its business in 2012 include, without limitation, the following laws, and the company's Articles of Association as amended:

- Act No. 513/1991, the Commercial Code
- Act No. 455/1991, the Trades Act
- Act No. 563/1991 on Accounting
- Act No. 591/1992 on Securities
- Act No. 256/2004 on Business on the Capital Market
- Act No. 40/1964, the Civil Code
- Act No. 262/2006, the Labour Code
- Act No. 627/2004 on the European Company
- Act No. 104/2008 on Takeover Bids
- Act No. 125/2008 on Transformation of Companies and Cooperatives
- Act No. 300/2008 on Electronic Transactions and Authorized Conversion of Documents
- Articles of Association of UNIPETROL, a.s.

Major agreements

Companies of the Unipetrol Group ("the Group") carry on business mainly in the refinery and petrochemical industries and in related business lines, taking advantage of the synergic effects of operating within the Group.

For this purpose the Group companies enter into agreements, in particular, for the sale of base feedstock and basic products and motor fuel supplies.

The base feedstock and basic products include, for example, C4 fraction, virgin naphtha, C5 fraction, raffinate 1, and heavy fuel oils.

Motor fuel supplies include, for example: 95 Natural gasoline, Verva 100 and Verva 95 premium high-octane gasoline, Diesel Top Q diesel fuel and Verva Diesel with cetane number 60.

Arrangements for production are based on standard commercial agreements, for example, agreements on the purchase and sale of energy resources, in particular coal, electricity, steam etc.

Complementary information as required by the Act on business activities on the capital market

Brief description of major agreements executed in 2012 is shown in the following tables:

BENZINA, s.r.o.

Company	Sale/purchase/other	Subject matter
Marius Pedersen a.s. and other companies MPG Bidvest Czech Republic s.r.o. and related companies (former NOWACO CR s.r.o.)	Sale	Sale of fuels via payment cards

PARAMO, a.s.

Company	Sale/purchase/other	Subject matter
Auto Kelly, a.s.	Sale	Oil supplies
Coal Services, a.s.	Sale	Oil supplies
JX Nippon Oil & Energy Europe Limited.	Sale	Base oil and special product supplies
Continental AG	Sale	Base oil and special product supplies
UNIPETROL RPA s.r.o.	Services	Storage of diesel and gasoline BA 95
České dráhy, a.s.	Sale	Oil supplies
OKD, a.s.	Sale	Oil supplies

UNIPETROL DOPRAVA, s.r.o.

Company	Sale/purchase/other	Subject matter
ČESKÁ RAFINÉRSKÁ, a.s.	Addendums 25 and 26 to an agreement on the shipping of goods	The addendums provide for the delivery charge, transport charge, transfer charge, the price list of transport charges and a change in the structure of the vehicle fleet for 2012
QBE Insurance (Europe) Limited	Insurance policy	The contract for liability insurance for damage caused by activities of the company as the carrier pursuant to Act. No. 266/1994 Coll. for the period from 1 May 2012 till 30 April 2013
Základní organizace dceřiných společností CHEMOPETROL	Collective agreement	Collective agreement for the period from 1 June 2012 till 31 December 2013
RAEDER&FALGE, s.r.o.	Contract for work	Ensuring the maintenance and repair of railway sidings for the years 2012–2014
Česká pojišťovna, a.s.	Addendum 1 to an insurance policy	Liability insurance for damage caused by the operation of railway transport – insurance of transported goods for the period from 1 July 2012 till 30 June 2013
UNIPETROL SERVICES, s.r.o.	Addendum 10 to a service contract (SLA)	The addendum provides for the definition of the annual budgetary charge for SLA services for 2012
SPOLANA, a.s.	Addendum 31 to an agreement on the shipping of goods	The addendum provides for a change in the structure of the vehicle fleet for 2012

UNIPETROL RPA, s.r.o. (Business Unit Refinery)

Company	Sale/purchase/other	Subject matter
TESCO STORES ČR, a.s.	Sale agreement	Sale of motor fuels
ČEPRO, a.s.	Sale agreement	Sale of motor fuels
LUKOIL Czech Republic s.r.o.	Sale agreement	Sale of motor fuels
OMV ČESKÁ REPUBLIKA, s.r.o.	Sale agreement	Sale of motor fuels
UNIPETROL SLOVENSKO s. r. o.	Sale agreement	Sale of motor fuels
AVIA Mineralolhandelsges.m.b.H	Sale agreement	Sale of motor fuels
Sigmund Hoffmann GmbH & Co. KG	Sale agreement	Sale of motor fuels
W.A.G. minerální paliva, a.s.	Sale agreement	Sale of motor fuels

UNIPETROL RPA, s.r.o. (Business Unit Monomers and Chemicals)

Company	Sale/purchase/other	Subject matter
Spolana	Sale agreement	Sale of ammonia
Synthos	Sale agreement	Sale and supplies of benzen
Synthos	Sale agreement	Sale and supplies of ethylene
LOVOCHEMIE, a.s.	Sale agreement	Sale of ammonia and urea
Dynea Austria GmbH	Sale agreement	Sale of urea
Butadien Kralupy a.s.	Sale agreement	Sale of C4 fraction

UNIPETROL RPA, s.r.o. (Business Unit Polyolefins)

Company	Sale/purchase/other	Subject matter
Silon	Sale agreement	Sale and supplies of PP and PE
Alfa Plastik	Sale agreement	Sale and supplies of PP and PE
Schoeller Arca Systems Services B.V	Sale agreement	Sale and supplies of PP and HDPE
Rundpack AG	Sale agreement	Sale and supplies of PP and PE
Wavin Staf. B.V	Sale agreement	Sale and supplies of PP and PE
PACCOR International GmbH	Sale agreement	Sale and supplies of PP and HDPE

UNIPETROL Slovensko, s.r.o.

Company	Sale/purchase/other	Subject matter
TESCO STORES SR, a.s.	Sale agreement	Sale of motor fuels
SHELL Slovakia s.r.o.	Sale agreement	Sale of motor fuels
METRO Cash & Carry Slovakia, s.r.o.	Sale agreement	Sale of motor fuels
Eni Slovensko spol. s r.o.	Sale agreement	Sale of motor fuels
LUKOIL Slovakia s.r.o.	Sale agreement	Sale of motor fuels
AHOLD Retail Slovakia, k.s.	Sale agreement	Sale of motor fuels
W.A.G. payment solutions SK, s.r.o.	Sale agreement	Sale of motor fuels
REAL – H.M. s.r.o.	Sale agreement	Sale of motor fuels
Tam trans s.r.o.	Sale agreement	Sale of motor fuels
Tanker s.r.o.	Sale agreement	Sale of motor fuels
OKTAN, a.s.	Sale agreement	Sale of motor fuels

Complementary information as required by the Act on business activities on the capital market

Information about the persons responsible for the Annual Report

Piotr Chełmiński, Chief Executive Officer and Chairman of the Board of Directors of Unipetrol, and Mirosław Kastelik, Chief Financial Officer and Member the Board of Directors of Unipetrol, hereby claim to their best knowledge, that the Annual Report and the Consolidated Annual Report present, in all aspects, a true and fair image of the financial standing, business, and results of the issuer and its consolidated group for the previous accounting period, as well as of the future outlook for the financial standing, business, and results.

Piotr Chełmiński
Chief Executive Officer and
Chairman of the Board of Directors

Chief Financial Officer and Member of the Board
of Directors

Audit

(in CZK thousand)	2012 Consolidated	2012 Non-consolidated
Audit fees [1]	7,398	463
Fees for consulting services and translation [1]	1,805	949

1) without VAT

Auditor for 2012

Name:	KPMG Česká republika Audit, s.r.o.
Partner:	Karel Růžička
Licence No.:	1895
Address:	Pobřežní 648/1a, 186 00 Prague 8
ID No.:	49619187

Securities

Shares

Name	UNIPETROL, a.s.
Class	ordinary share
ISIN	CZ0009091500
BIC	BAAUNIPE
Type	bearer share
Form	dematerialised security
Currency	CZK
Nominal value	CZK 100
Number of shares	181,334,764
Total issue	CZK 18,133,476,400

Tradability listed security (Burza cenných papírů Praha, a.s. [Prague Stock Exchange], the Prime Market)

Under an agreement, ADMINISTER spol. s r.o., Husova 109, 284 01 Kutná Hora, Company No. 47551054 was authorised to pay out dividends for 1997.

Under an agreement, Komerční banka, a.s., registered office at Praha 1, Na Příkopě 33, čp. 969, 11407, Company No. 45317054, was authorised to pay out dividends for 2007.

UNIPETROL, a.s. shares are traded on the Prime Market of Burza cenných papírů Praha, a.s. [Prague Stock Exchange] and in RM-SYSTÉM, a.s.

The extent of the voting rights of each shareholder is defined by the number of shares held, one share with a nominal value of CZK 100 being equal to one vote. All shares of the issuer therefore carry the same voting rights.

A shareholder is entitled to a share of the company's profit (dividend) that the General Meeting has approved for distribution depending on the company's result. The dividend is defined as the ratio of the nominal value of the shares held by a shareholder and the total nominal value of the shares held by all shareholders as of the Record Date.

If the company is liquidated, each shareholder is entitled to a share of the proceeds from liquidation. The amount of the proceeds from liquidation shall be calculated in the same manner as the amount of the shareholder's dividend.

Shares carry rights to take part in the management of the company. Shareholders may only exercise this right at the General Meetings, provided that they observe the rules governing the organisation of General Meetings. Shareholders are entitled to take part in General Meetings, vote at General Meetings, request and receive explanation of any matters concerning the company where explanation is necessary for assessing a point on the agenda of the General Meeting, and raise proposals and counter-proposals.

The dividend due date is two months after the date of the General Meeting at which the decision to pay out dividends was passed, and its numerical designation shall correspond to the date of the General Meeting.

The right to receive dividends is separately transferable starting from the date on which the General Meeting decided on the payment of dividends.

Bonds

Name	UNIPETROL VAR/13
ISIN	CZ0003501041
BIC	BDAUNIPE
Type	bearer bond
Form	dematerialised security
Currency	CZK
Nominal value	CZK 1,000,000
Number of bonds	2,000
Total issue	CZK 2,000,000,000
Interest rate	the yield is 0% for the first and second year; for the third and each subsequent year the yield is 12.53%
Date of issue	28 December 1998
Maturity	28 December 2013
First interest payment	28 December 2001
Tradability	listed security (Burza cenných papírů Praha, a.s. [Prague Stock Exchange], the Corporate sector market)
Issue manager	The Royal Bank of Scotland N.V., foreign bank branch, P.O. Box 773, Jungmanova 745/24, Praha 1, 111 21

The bonds are traded on the Corporate sector market of Burza cenných papírů Praha, a.s. [the Prague Stock Exchange] and on the market of RM-SYSTÉM, a.s.

Acquisition of own shares and share warrants

As of 31 December 2012, the Group held no own shares or share warrants.

Complementary information as required by the Act on business activities on the capital market

Final information

Litigation

The overview below shows certain legal disputes in which UNIPETROL, a.s. (the Company) was or is involved in the current accounting period and in the preceding two accounting periods.

As of the annual report date, UNIPETROL, a.s. is not involved in any litigation that has or could have a significant adverse impact on its business or its financial position.

Petty cases, property restitution disputes, land ownership declaration disputes, and cases where the claimant or defendant was changed from UNIPETROL, a.s. to CHEMOPETROL, a.s. or KAUČUK, a.s. as a result of singular succession after the merger of CHEMOPETROL GROUP, a.s. and KAUČUK GROUP, a.s. in 1997, are not included.

A) Passive disputes – UNIPETROL, a.s. is the defendant

Decision of the European Commission of 2006 on the fine imposed on UNIPETROL, a.s. and KAUČUK, a.s. (currently SYNTHOS Kralupy a.s.)
In 2006, the European Commission imposed fines, among others, upon Shell, Dow, Eni, UNIPETROL, a.s. and SYNTHOS Kralupy a.s. for an alleged cartel in the area of Emulsion Syrene Butadiene Rubber („ESBR"). UNIPETROL, a.s. and SYNTHOS Kralupy a.s., its subsidiary at that time, were jointly imposed a fine of EUR 17.5 million, which they reimbursed to the European Commission. At the same time, both companies appealed to the Court of First Instance in Luxemburg.

Following the above decision of the European Commission, UNIPETROL, a.s. has been served with a claim for damages, which tire producers brought against the members of the ESBR cartel. The claim for damages was filed with the High Court of Justice, Queen's Bench Division, Commercial Court. The claimants ask for damages, together with interest, to compensate for their loss suffered as a result of an alleged cartel.

Furthermore, the Italian group Eni, one of the entities fined by the European Commission, initiated proceedings before a court in Milan in which it seeks a judgment that the ESBR cartel did not exist and no damage occurred as a result thereof. Eni's action has also been served upon UNIPETROL, a.s., which decided to take part in the proceeding. The claims were dismissed by the Court.

In 2011 the European Court cancelled the 2006 decision of the European Commission, stating that the Commission mistakenly included UNIPETROL, a.s. and SYNTHOS Kralupy a.s. in the cartel. The Tribunal decided that the Commission did not prove that the two companies were guilty of cartel dealing.

The Court decided that both companies have the right to have their share of the fine amounting to EUR 17.5 million reimbursed. Both companies also have the right to return of part of the costs of legal representation and the interest on the fine. All granted claims have been already paid to UNIPETROL, a.s.

AVERSEN ENTERPRISES LIMITED v. UNIPETROL, a.s. (for CZK 3,953,682 and incidentals following the adjustment of the prayer in the action by ca CZK 5,900,000)
This is an action based on a guarantee granted by the CHEMOPETROL state enterprise for a third party. UNIPETROL, a.s. is now the defendant on the grounds of being the successor in title.

UNIPETROL, a.s. claims, among other things, that the claim has not passed to UNIPETROL, a.s. because when it merged with CHEMOPETROL GROUP, UNIPETROL, a.s. did not take over any assets to which the obligation could have related. As far as the claim raised is concerned, UNIPETROL, a.s. is not a successor in title to CHEMOPETROL, s.p. nor Chemopetrol Group. It has also been pleaded that the guarantee document was signed by a person who clearly was not authorised to do so, which may have been known to the loan provider, Agrobanka, a.s. The court of first instance granted the action in part in its judgment of 17 December 2009. Unipetrol lodged an appeal against the judgment.

The appeal was granted and the action against Unipetrol was dismissed.

The claimant has used an extraordinary remedy and lodged on 31 May 2011 appeal on points of law.

Request for a review of the adequacy of payment in connection with the buyout of Paramo shares
On 1 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. The Company provided to the other shareholders of PARAMO, a.s. the monetary consideration in the amount of CZK 977 per one 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.

In connection with the squeeze-out, certain minority shareholders of PARAMO, a.s. filed a petition with the District Court in Hradec Králové for review of adequacy of compensation within the meaning of the Czech Commercial Code. The case has been consolidated and removed to Municipal Court of Prague. The claimants have appealed the procedural decision and filed a constitutional complaint with the Constitutional Court of the Czech Republic in this respect, asserting violation of their right to judge. The Czech Constitutional Court returned the matter to the High Court in Prague for a new decision on the removal of the case. The court case concerning the petition of minority shareholders for review of adequacy of compensation is currently being discussed by the Regional Court in Hradec Králové.

Furthermore some of former minority shareholders of PARAMO, a.s. filed withs the District Court in Hradec Králové a petition 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. In case of invalidity of the General Meeting resolution, the Regional Court in Hradec Králové (Pardubice branch) on 2 March 2010 decided in favor of PARAMO, a.s. and dismissed the Action of minority shareholders. The minority shareholders filed an appeal against the Decision of the Regional Court in Hradec Králové of 2 March 2010. The High Court in Prague by its decision of 26 January 2012 confirmend the decision of the Regional Court in Hradec Králové, thus dismissing the petition of minority shareholders to declare the invalidity of PARAMO, a.s. General Meeting resolution. Some miority shareholders filed an appeal to the Supreme Court of the Czech Republic against the decision of the Regional Court in Hradec Králové.

In 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 claimants filed an appeal before the Municipal Court in Prague and the proceedings are still pending.

With respect to the above described amount of consideration, Czech National Bank decision and the resolution of the Extraordinary General Meeting of PARAMO, a.s., UNIPETROL, a.s. considers the petition for review of reasonableness of consideration unfounded.

B) Active disputes – UNIPETROL, a.s. is the claimant

UNIPETROL, a.s. v. Telefónica O2 Czech Republic, a.s. (formerly ČESKÝ TELECOM, a.s.) for CZK 765,927 and CZK 1,625,691 with incidentals, under Ref. No. 12 C 191/2004-39
An action seeking to overturn the decision of the Czech Telecommunications Office on the payment of the above amounts to Telefónica O2 Czech Republic, a.s. on the grounds of the due difference between the contract-based call rates and the price of the calls made. The court of first instance rejected Unipetrol's action, noting that although the telephone operator had obviously abused its dominant position on the market for telecommunications services, the right to a refund of the difference between the prices of the calls could not be awarded. Unipetrol has already paid both amounts as per the final judgment of an appellate court. Unipetrol lodged an appeal on a point of law against the appellate court's judgment on 22 July 2008. In May 2010, the Supreme Court dismissed the appeal on a point of law.

Information on the interruption of business
The issuer did not interrupt its business in 2012.

Information on the Company's liabilities and how they are secured
The information on the total amount of outstanding loans or borrowings, structured into secured and unsecured, and on the security provided by the issuer as well as on other conditional liabilities, is specified in the Notes to the Consolidated Financial Statements (see primarily Chapter 10, Chapter 24, Chapter 28, and Chapter 32).

Complementary information as required by the Act on business activities on the capital market

Information about the issuer's registered capital

The Company's registered capital is CZK 18,133,476,400 and has been fully paid up.

Information about the securities into which the registered capital is divided:

Name UNIPETROL, a.s.

Class	ordinary share
ISIN	CZ0009091500
BIC	BAAUNIPE
Type	bearer share
Form	dematerialised security
Currency	CZK
Nominal value	CZK 100
Number of shares	181,334,764
Total issue	CZK 18,133,476,400
Tradability	listed security (Burza cenných papírů Praha, a.s. [Prague Stock Exchange], the Prime Market)

67,110,726 shares (ISIN CZ0009091500), representing CZK 6,711,072,600 (37.01% of the Company's share capital), are held by the general public.

PKN ORLEN S.A. with ownership interest 62.99% (114,224,038 shares) and J&T Banka with less than 10% are the only shareholders whose share of share capital, and thereby of voting rights, exceeds 3%.

The company was informed that as of 23 June 2011 (decisive day for the ordinary general meeting in 2011) the company J&T Banka owned 8.35% share of share capital, and thereby of voting rights. Until the end of 2011 and during 2012 the company Unipetrol was not informed about the change beyond 5 to 10% range.

The company Unipetrol was informed on 4 June 2012 that on 26 April 2012 the company Česká spořitelna, a.s. increased its share of share capital, and thereby of voting rights, at 3.01%. Subsequently, on 20 August 2012, the company Unipetrol was informed that the company Česká spořitelna, a.s. reduced its share of share capital at 2.95%. Until the end of 2012 the company Unipetrol was not informed about a change above 3% treshold.

There is no employee benefit programme involving employee shareholding.

No changes have been made to the share capital of UNIPETROL, a.s. over the last three years.

Memorandum and Articles

The current wording of the UNIPETROL, a.s. Articles of Association is available at www.unipetrol.cz.

There were no changes made to the Articles of Association of UNIPETROL, a.s. in 2012.

Objects of business

The Company's mission is as follows the Company's currently applicable Articles of Association:

- strategic management of the development of the Group of directly or indirectly controlled companies,
- coordination and facilitation of matters of common interest of the Group of directly or indirectly controlled companies,
- arrangements for the financing of, and development of financing systems, in the companies that are part of the holding,
- development of human resources and a system of human resource management in the companies that are part of the holding,
- management, acquisition and disposal of equity interests and other assets of the Company, including, but not limited to:
- establishment of companies and participation in the establishment of companies, and other types of acquisition of equity interests in the business of third-party juristic persons,
- exercise of shareholder's rights and rights similar to shareholder's rights in directly or indirectly controlled companies,
- lease of real properties and provision of the basic services required for the proper operation of the properties.

The subject of business of the company is as follow the Company's currently applicable Articles of Association:

- functioning as entrepreneurial, financial, organisational and economic advisers,
- functioning as technical advisers in the following areas:
  - research and development,
  - chemical industry,
  - environmental protection,
  - logistics,
- research and development in the field of natural and technological sciences,
- services in the field of administration and services of a business organisational nature for physical and corporate entities,
- service provision in the field of security and protection of health at work,
- provision of software and consulting in the fields of hardware and software,
- data processing, databank services and network administrativ,
- arrangement of trade,
- arrangement of services,
- organisation of specialist courses, training and other educational events including lecturing.

Object of business as per the current Certificate of Incorporation:

- production, trading, and services not specified in Appendices 1 to 3 of the Trade Licensing Act,
- service provision in the field of security and protection of health at work.

Explanatory report

Explanatory Report, prepared in accordance with the provisions of Section 118(4) letters (b),(c),(e) and (j) and (5) letters (a) through (k) of Act No. 256/2004 Coll., Act on Conducting Business on Capital Market, as amended.

Content of report

Information on the breakdown of the equity of UNIPETROL, a.s.

The breakdown of the Company's equity as of 31 December 2012 (in thousands of CZK) is as follows:

Share capital	18,133,476
Statutory reserves	1,651,472
Other reserves	510,080
Retained earnings	5,124,936
Total equity	25,419,964

The Company's share capital amounts to CZK 18,133,476,400 and is distributed among 181,334,764 ordinary bearer shares with the nominal value of CZK 100. The shares are issued in book-entry form and are listed.

Information on restrictions on transferability of securities

The transferability of the Company's securities is not restricted.

Information on significant direct and indirect shareholdings in company

Significant direct or indirect shareholdings in the Company are as follows:

- PKN ORLEN S.A. – direct shareholding in the amount of 62.99%
- J&T Banka, a.s. – direct shareholding in the amount of 8.35%

Complementary information as required by the Act on business activities on the capital market

The company Unipetrol was informed that as of 23 June 2011 (decisive day for the ordinary general meeting in 2011) the company J&T Banka, a.s. owned a 8.35% stake in the share capital of the Company, and thereby of voting rights. Until the end of 2011 and during 2012 the company Unipetrol was not informed about the change beyond 5 to 10% range.

The company Unipetrol was informed on 4 June 2012 that on 26 April 2012 the company Česká spořitelna, a.s. increased its stake in the share capital, and thereby of voting rights, at 3.01%. Subsequently, on 20 August 2012, the company Unipetrol was informed that the company Česká spořitelna, a.s. reduced its stake in the share capital at 2.95%. Until the end of 2012 the company Unipetrol was not informed about a change above 3% treshold.

The Company has no other shareholder whose stake in the share capital of the Company, and thereby of voting rights, exceeds 3%.

Information on owners of securities with special rights
None of the Company's securities have any special rights attached to them.

Information on restriction on voting rights
The voting rights attached to Company's individual shares and/or to a certain amount of the Company's shares are not restricted in any manner.

Information on agreements between shareholders which may result in restrictions on transferability of shares and/or voting rights
The Company is not aware of the existence of any agreements between the Company's shareholders which may result in restrictions on the transferability of the Company's shares and/or voting rights attached to the shares.

Information on special rules on election and recall of members of board of directors and amendment of articles of association
Members of the Board of Directors are elected and recalled by the Supervisory Board. A decision on amendment to the Company's articles of association requires the consent of a special majority consisting of two thirds of the votes of the shareholders present at the General Meeting. No special rules governing the election and recall of the members of the Board of Directors and/or amendment to the articles of association apply.

Information on special powers of Board of Directors
Members of the Board of Directors do not have any special powers; in particular, they have been not granted by the General Meeting authority to adopt a decision on an increase of the Company's share capital, on acquisition by the Company of its own shares or another decision of such type.

Information on significant agreements connected with change of control over company as result of takeover bid
The Company is not a party to any significant agreement which will enter into effect, change and/or cease to exist in the event of change of control over the Company as result of a takeover bid.

Information on agreements binding company in connection with takeover bid
No agreements have been concluded between the Company and the members of its Board of Directors which would bind the Company to render performance in the event that the position of a member of the Company's Board of Directors is terminated in connection with a takeover bid.

No agreements have been concluded between the Company and its employees that would bind the Company to render performance in the event that the employment of a employee is terminated in connection with a takeover bid.

Information on option schemes for shares
The Company does not have implemented any schemes on the basis of which the Company's employees or members of its Board of Directors would be entitled to acquire shares or other participation securities in the Company, or options on such securities or other rights thereto, under advantageous terms.

Information about payments for mineral extraction rights to the state
The issuer does not carry on business in the mining industry. The issuer makes no payments to the State for mining rights.

Information about decision-making procedures and the composition of the company's governing body and supervisory body
The Board of Directors is the issuer's governing body. Its position, remit, composition, decision-making and other basic rights and obligations, and also procedural rules, are contained in art. 16–19 of the company's Articles of Association and in the Board of Director's rules of procedure.

The company's Articles of Association in the current version are available on the company's website at www.unipetrol.cz.

The Supervisory Board is the issuer's supervisory body. Its position, remit, composition, decision-making and other basic rights and obligations, and also procedural rules, are contained in art. 20–22 of the company's Articles of Association and in the Supervisory Board's rules of procedure.

The Supervisory Board shall set up the following committees:

a) The Staff and Corporate Governance Committee
b) The Strategy and Finance Committee

(hereinafter referred to collectively as "Supervisory Board Committees").

The composition of the Supervisory Board Committees was following (as of 31 December 2012):

ad a) Krystian Pater (chairman), Bogdan Dzudzewicz, Zdeněk Černý, Rafał Sekuła
ad b) Sławomir Robert Jędrzejczyk (chairman), Ivan Kočárník, Piotr Kearney, Andrzej Jerzy Kozłowski

The position, remit, composition, decision-making and also the procedural rules of the Supervisory Board's Committees are contained in art. 23–24 of the company's Articles of Association and in the Committees' rules of procedure.

In 2009, the company set up an Audit Committee. The position, remit, composition and decision-making are described in chapter Audit Committee.

Information about the General Meeting's decision-making and basic remit
The General Meeting's position and remit and also the procedural issues concerning the General Meeting are provided for in art. 12–15 of the company's Articles of Association.

Information about corporate governance codes
The governance and management of the Unipetrol Group follows the recommendations of the Corporate Governance Code, which is based on OECD Principles, the provisions of which the company satisfies in all material respects.

The Code is available, for example, on the Czech National Bank website.

Information about the principles and procedures of internal controls and about the rules related to the financial reporting process
The basic accounting policies set out in the International Financial Reporting Standards and in the Group's internal standards are described in the Notes to the Consolidated and Non-consolidated Financial Statements. The Company established its internal regulations in accordance with the Act on Accounting and set up the organizational norms in such a way as to maximize control and limit the possibility of mistakes. In the area of reporting the company implemented the automated system for data transfer from the accounting software to the reporting applications. The reporting applications (SW HYPERION) contain a control system ensuring the correctness of the data sent whether for creation of the internal monthly management reports or creation of quarterly consolidated and non-consolidated financial statements. Accounting policies and principles are subject to both internal and external audit. In 2009 the company set up an Audit Committee.

The Company has an Internal Audit Department which provides independent assurance audit services to the Unipetrol Group.

In 2012 the Internal Audit Department performed audits in the following areas in accordance with the plan approved by the Supervisory Board of UNIPETROL, a.s.:

- Inventory management
- Investments
- Maintenance
- Sales (refinery, petrochemicals, retail)
- Work safety

Additional audits were performed upon request of the Board of Directors of UNIPETROL, a.s.

Auditor’s report

Auditor's report

KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Praha 8
Česká republika

Telephone +420 222 123 111
Fax +420 222 123 100
Internet www.kpmg.cz

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.

Consolidated Financial Statements

On the basis of our audit, on 4 March 2013 we issued an auditor's report on the Company's consolidated financial statements, which are included in this annual report, and our report was as follows:

"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.

Auditor’s report

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.”

Non-consolidated Financial Statements

On the basis of our audit, on 4 March 2013 we issued an auditor’s report on the Company’s non-consolidated financial statements, which are included in this annual report, and our report was as follows:

“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.”

Report on relations between related parties

We have reviewed the factual accuracy of the information disclosed in the report on relations between related parties of UNIPETROL, a.s. for the year ended 31 December 2012. The responsibility for the preparation and factual accuracy of this report rests with the Company's statutory body. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with Auditing Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the report on relations is free of material misstatement. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the report on relations and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations between related parties of UNIPETROL, a.s. for the year ended 31 December 2012 contains material factual misstatements.

Consolidated Annual report

We have audited the consistency of the consolidated annual report with the audited consolidated financial statements. This consolidated annual report is the responsibility of the Company's statutory body. Our responsibility is to express our opinion on the consistency of the consolidated annual report with the audited 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 plan and perform the audit to obtain reasonable assurance that the information disclosed in the consolidated annual report describing matters that are also presented in the consolidated financial statements is, in all material respects, consistent with the audited consolidated financial statements. We believe that the audit we have conducted provides a reasonable basis for our audit opinion.

In our opinion, the information disclosed in the consolidated annual report is, in all material respects, consistent with the audited consolidated financial statements.

Prague
27 March 2013

KPMG Česká republika Audit

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

Ing. Karel Růžička
Partner
Licence number 1895

Non-consolidated financial statements

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

Non-consolidated statement of financial position

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 90 to 129.

Non-consolidated statement of profit or loss and other comprehensive income

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 90 to 129.

Non-consolidated financial statements

Non-consolidated statement of changes in equity

UNIPETROL, a.s.

Non-consolidated statement of changes in ekvity 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 90 to 129.

Non-consolidated statement of cash flows

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
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 90 to 129.

Notes to the non-consolidated financial statements

UNIPETROL, a.s.

prepared in accordance with International Financial Reporting Standards as adopted by the European Union

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 Prague 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

Notes to the non-consolidated financial statements

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

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 Prague 4, Czech Republic		
Subsidiaries		
BENZINA, s.r.o. Na Pankráci 127, 140 00 Prague 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 Prague 8, Czech Republic	0.63%	99.37%
UNIPETROL SLOVENSKO s.r.o. Panónská cesta 7, 850 00 Bratislava, Slovak Republic	13.04%	86.96%

Name and registered office	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries
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”.

Notes to the non-consolidated financial statements

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.

- **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.

- **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;

Notes to the non-consolidated financial statements

– 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.

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.

Notes to the non-consolidated financial statements

(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.

(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.

Notes to the non-consolidated financial statements

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.

(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.

(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.

Notes to the non-consolidated financial statements

(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.

(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.

Notes to the non-consolidated financial statements

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 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.

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.

Notes to the non-consolidated financial statements

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.

(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.

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)**

Notes to the non-consolidated financial statements

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.

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	Board of directors	Supervisory board	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	Board of directors	Supervisory board	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

Notes to the non-consolidated financial statements

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.

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.

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**

Notes to the non-consolidated financial statements

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).

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.	Prague 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.	Prague	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.	Prague 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.	Prague	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.

Notes to the non-consolidated financial statements

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.	Prague	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.	Prague	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.

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**

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.

Notes to the non-consolidated financial statements

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.

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.

Notes to the non-consolidated financial statements

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.

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**	

Notes to the non-consolidated financial statements

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**	

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.

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**

	Receivables		Loans	
Past due, non impaired	**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**	**–**	**–**

Notes to the non-consolidated financial statements

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**

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%

Notes to the non-consolidated financial statements

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**

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.

Notes to the non-consolidated financial statements

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.

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**

Notes to the non-consolidated financial statements

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
Chairman of the Board of Directors

Miroslaw Kastelik
Member of the Board of Directors

Consolidated financial statements

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

Consolidated statement of financial position

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 134 to 190.

Consolidated statement of profit or loss and other comprehensive income

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 134 to 190.

Consolidated financial statements

Consolidated statement of changes in equity

UNIPETROL, a.s.

Consolidated statement of changes in ekvity 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 134 to 190.

Consolidated statement of cash flows

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
CO_2 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 CO_2 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 134 to 190.

Notes to the consolidated financial statements

UNIPETROL, a.s.

prepared in accordance with International Financial Reporting Standards as adopted by the European Union
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 Prague 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

Notes to the consolidated financial statements

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

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 Prague 4, Czech Republic			Other
Subsidiaries consolidated by full method			
BENZINA, s.r.o. Na Pankráci 127, 140 00 Prague 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 Prague 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

Name and registered office	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries	Operating segment
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 Republic	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.

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.

Notes to the consolidated financial statements

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.

- **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.

Notes to the consolidated financial statements

- **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 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.

Notes to the consolidated financial statements

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.

(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.

(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.

Notes to the consolidated financial statements

(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.

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.

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.

Notes to the consolidated financial statements

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.

(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 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.

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.

(13) Government grants
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.

(14) Carbon dioxide emission allowances
Emissions allowances received by the Group are recognized as intangible assets at the fair value of CO_2 emission allowances at the date of their receipt. Purchased emission allowances are recognized at the acquisition price. CO_2 emission rights are not amortized but tested for impairment.

CO_2 emission allowances granted free of charge and appropriate deferred income are recognized at the fair value of CO_2 emission allowances at the date of their receipt in the consolidated statement of financial position. The Group recognizes provision for estimated CO_2 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 CO_2 emission rights. The surplus of grant over the estimated emission in the reporting period is recognized as other operating income.

Granted/purchased CO_2 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).

Notes to the consolidated financial statements

(15) Borrowing costs

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.

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.

(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.

Notes to the consolidated financial statements

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.

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.

Notes to the consolidated financial statements

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.

(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.

Notes to the consolidated financial statements

(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.

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 CO_2 emission allowance (note 11) and investment property (note 12).

Notes to the consolidated financial statements

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 CO_2 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**

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)**

Notes to the consolidated financial statements

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
CO_2 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 CO_2 allowances	–	(14,757)
Donations	(8,608)	(6,791)
Other	(48,148)	(43,002)
Total	**(4,848,598)**	**(5,085,168)**

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

Notes to the consolidated financial statements

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)**

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)**

Notes to the consolidated financial statements

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.

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)

Notes to the consolidated financial statements

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
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).

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.

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
CO_2 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.

Notes to the consolidated financial statements

11. Intangible assets

	Software	Licenses, patents and trade marks	Goodwill	Assets under development	CO_2 emission allowances	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 CO_2 allowances as at 31 December 2012 and as at 31 December 2011 amounted to CZK 11,835 thousand and CZK 14,030 thousand, respectively.

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).

CO_2 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 CO_2 allowances of 3,775,436 tons relating to emissions in 2012. On that day the market value of one CO_2 allowance was EUR 8.98.

On 28 February 2011 the Group received CO_2 allowances of 3,775,436 tons relating to emissions in 2011. On that day the market value of one CO_2 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 CO_2 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.

Notes to the consolidated financial statements

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.

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**

Notes to the consolidated financial statements

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.

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.

Notes to the consolidated financial statements

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).

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.

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.

Notes to the consolidated financial statements

24. Provisions

Long – term provision	Provisions for environmental damages and land restoration	Provisions for legal disputes	Employee benefits provision	Provision on CO_2 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 CO_2 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).

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 CO_2 emissions is created for estimated CO_2 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**

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**

Notes to the consolidated financial statements

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**

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.

Notes to the consolidated financial statements

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

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.

Notes to the consolidated financial statements

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.

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**

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.

Notes to the consolidated financial statements

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%

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.

Notes to the consolidated financial statements

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.

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.

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.

Notes to the consolidated financial statements

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 Králové.

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.

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**

Notes to the consolidated financial statements

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.

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.

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.

Notes to the consolidated financial statements

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
Chairman of the Board of Directors

Miroslaw Kastelik
Member of the Board of Directors

Signifiant post financial statements events

Change in the 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 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 (CFO) of UNIPETROL, a.s.

As of 6 February 2013, the members of the Board of Directors of UNIPETROL, a.s. were:

- Mr. Piotr Chełmiński, Chairman
- Mr. Piotr Wielowieyski, Vice-Chairman
- Mr. Marek Świtajewski, Vice-Chairman
- Mr. Mirosław Kastelik,
- Mr. Artur Paździor,
- Mr. Martin Durčák.

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.

Report on relations

Report on relations between the controlling and the controlled person, and on relations between the controlled person and other persons controlled by the same controlling person („Related Persons“)

Controlled Person
UNIPETROL, a.s., registered office at Na Pankraci 127, 140 00 Prague 4, ICO 61672190 (Hereinafter „Company“)

UNIPETROL, a.s. is the controlling person of the UNIPETROL business group whose organisational chart is shown in Appendix 1.

Controlling Person
POLSKI KONCERN NAFTOWY Orlen S.A., registered office at ul. Chemików 7, 09 – 411 Płock

Other Related Persons
Companies controlled by the Controlling Person, POLSKI KONCERN NAFTOWY Orlen S.A. are the other related persons.

Detailed overview of the other related persons is shown in Appendix 2 – POLSKI KONCERN NAFTOWY Orlen S.A. Business Group Organizational Chart.

In 2012, the following relations were established between the Company, Controlling Person and Other Related Persons.

Part I.

Agreements concluded between the Company, Controlling Person and Other Related Persons in 2012 and performances (counter-performances) provided (received) in 2012 in virtue of agreements concluded in previous periods

Note:
a) Categorisation of agreements follows the accounting methodology;
b) Conversion from foreign currencies follows the current Czech National Bank exchange rate as of the respective performance (counter-performance) day.

Report on relations between the controlling and the controlled person, and on relations between the controlled person and other persons controlled by the same controlling person („Related Persons“)

CONTROLLING PERSON

POLSKI KONCERN NAFTOWY Orlen S.A.
Relation to the Company: Controling Person

Relations in 2012 were based on the standard terms and conditions of business relations. The Company suffered no loss as a result of concluded contracts.

The following relations were established in 2012:

Based on the agreements concluded in the previous periods, the Company received services for which it provided payments amounting to CZK 1,580 thousand. The price for the services was contractually agreed at arm's length basis.

The Company further provided services for which it received the payment in amount of CZK 37 thousand.

In previous periods, the Company concluded an agreement on confidentiality. No performance has been provided and received in virtue of this agreement.

OTHER RELATED PERSONS

SPOLANA a.s.
Relation to the Company: The person directly controlled by Anwil S.A.

Relations in 2012 were based on the standard terms and conditions of business relations. The Company suffered no loss as a result of concluded contracts

The following relations were established in 2012:

Based on the „Agreement on insurance premiums payment“ for liability insurance of the Board Members and the Supervisory Board Members, and the liability insurance for damage caused by a product in the given period, the Company covered for SPOLANA, a.s. the corresponding portion of premiums in accordance with respective insurance agreements concluded with third persons. SPOLANA, a.s. has consequently paid this amount (CZK 494 thousand) to the Company.

Anwil S.A.
Relation to the Company: The Company directly controlled by POLSKI KONCERN NAFTOWY Orlen S.A.

Relations in 2012 were based on the standard terms and conditions of business relations. The Company suffered no loss as a result of concluded contracts.

The following relations were established in 2012:

The Company concluded an agreement based on which reinvoiced services for which recieved contribution in amount of CZK 8 thousand.

ORLEN Finance AB
Relation to the Company: The Company directly controlled by POLSKI KONCERN NAFTOWY Orlen S.A.

Relations in 2012 were based on the standard terms and conditions of business relations. The Company suffered no loss as a result of concluded contracts.

The following relations were established in 2012:

The Company concluded in given period loan agreement, based on which the Company opened bank accounts in Nordea Bank Finland Plc, Niederlassung Deutschland. The Company has not utilized a loan in that period

Part II.

Other legal actions made in favour of Other Related Persons
There were no other legal actions made in favour of Other Related Persons in 2012.

Part III.

Other measures taken or realised in favour of or initiated by Other Related Persons
In 2012 there were no other measures taken or realized by the Company in favour of or initiated by Other Related Persons.

In Prague

On behalf of the Company

Piotr Chełmiński
Chairman of the Board of Directors

Mirosław Kastelik
Member of the Board of Directors

Report on relations between the controlling and the controlled person, and on relations between the controlled person and other persons controlled by the same controlling person („Related Persons“)

Annex no. 1

Capital group of UNIPETROL, a.s. – Controlled companies

1 January 2012–31 December 2012

Companies controlled by UNIPETROL, a.s.	Residence	Shares in directly and undirectly controlled companies Share in% of the capital		Note
Companies with direct share of UNIPETROL, a.s.				
Companies with indirect share of UNIPETROL, a.s.		1.1.	31.12.	
1. UNIPETROL RPA, s.r.o., ID No. 275 97 075	**Litvínov, Záluží 1**	**100.00**	**100.00**	
1.1 HC VERVA Litvínov, a.s., ID No. 640 48 098	Litvínov, S.K. Neumanna 1598	70.95	70.95	Other shareholders – Litvínov city owns 22.14% and HC Litvínov, o.s. owns 6.91%
1.2 CHEMOPETROL, a.s., ID No. 254 92 110	Litvínov, Záluží 1	100.00	100.00	
1.3 POLYMER INSTITUTE BRNO, s.r.o., ID No. 607 11 990	Brno, Tkalcovská 36/2	99.00	99.00	1% owned by UNIPETROL, a..s
1.4 UNIPETROL DOPRAVA, s.r.o., ID No. 640 49 701	Litvínov, Růžodol 4	99.88	99.88	0.12% owned by UNIPETROL, a.s.
1.5 UNIPETROL DEUTSCHLAND GmbH, ID No. č. HRB 34346	Langen, Německo, Paul-Ehrlich-Strasse 1B	99.90	99.90	0.1% owned by UNIPETROL, a.s.
1.6 CHEMAPOL (SCHWEIZ), v likvidaci, ID No. CH-270.3.000.762-9	Leimenstrasse 21, 4003 Basel, Švýcarsko	100.00	100.00	
1.7 UNIPETROL SLOVENSKO, s.r.o., ID No. 357 77 087	Panónská cesta 7, Bratislava, Slovensko	86.96	86.96	13.04% owned by UNIPETROL, a.s.
2. UNIPETROL SERVICES, s.r.o., ID No. 276 08 051	**Litvínov, Záluží 1**	**100.00**	**100.00**	
3. Výzkumný ústav anorganické chemie, a.s., ID No. 622 43 136	**Ústí nad Labem, Revoluční 84/č.p. 1521**	**100.00**	**100.00**	
4. UNIPETROL TRADE, a.s., v likvidaci, ID No. 250 56 433	**Prague 4, Na Pankráci 127**	**00.00**	**00.00**	**The company was deleted for Commercial register on 27 Septemebr 2011 after finishing of liquidation.**
5. BENZINA,s.r.o., ID No. 601 93 328	**Prague 4, Na Pankráci 127**	**100.00**	**100.00**	
5.1 PETROTRANS, s.r.o., ID No. 251 23 041	Prague 8, Střelničná 2221	99.37	99.37	0.63% owned by UNIPETROL, a.s.
6. UNIPETROL RAFINÉRIE, a.s. ID No. 278 85 429	**Litvínov, Záluží 1**	**100.00**	**100.00**	
7. ČESKÁ RAFINERSKÁ, a.s., ID No. 627 41 772	**Litvínov, Záluží 2**	**51.22**	**51.22**	**Other shareholders – Shell Overseas Investments B.V. owns 16.335% a Eni International B.V. owns 32.445%**
8. UNIPETROL AUSTRIA, HmbH, v likvidaci, ID No. 43 551	**Vídeň, Apfelgasse 2, Rakousko**	**100.00**	**100.00**	
9. PARAMO, a.s., ID No. 481 73 355	**Pardubice, Přerovská čp. 560**	**100.00**	**100.00**	
9.1 MOGUL SLOVAKIA,s.r.o., ID No. 36 222 992	Hradiště pod Vrátnou, U ihriska 300, Slovensko	100.00	100.00	
9.2 Paramo Asfalt s.r.o., ID No. 248 03 791	Pardubice, Přerovská čp. 560	100.00	0	On 22 October 2012 PARAMO, a.s. transferred 100% share in the company to ORLEN Asfalt Sp. z o.o.
9.3 PARAMO Oil, s.r.o., ID No. 246 87 341	Pardubice, Přerovská čp. 560	100.00	100.00	
10. Butadien Kralupy a.s., ID No. 278 93 995	**Kralupy nad Vltavou, O Wichterleho 810**	**51.00**	**51.00**	**49% shares owned by SYNTHOS Kralupy, a.s.**
Other companies with share of UNIPETROL, a.s.				
1. UNIVERSAL BANKA, a.s, v konkursu, ID No. 482 64 865	**Prague 1, Senovážné náměstí 1588/1**	**16.45**	**16.45**	**12.24% shares owned by UNIPETROL RPA, s.r.o.**
2. ORLEN HOLDING MALTA LIMITED, ID No. C 39945	**Malta, Level 1, 36, Strand Towers, The Strand, Sliema SLM 1022**	**0.5**	**0.5**	**99.5% shares owned by PKN ORLEN S.A.**

Annex no. 2

Capital group of PKN ORLEN S.A. – Controlled companies

1 January 2012–31 December 2012

Companies controlled by PKN ORLEN S.A.	Residence	Shares in directly and undirectly controlled companies Share in% of the capital		Note
Companies with direct share of PKN ORLEN S.A.				
Companies with undirect share of PKN ORLEN S.A.		1.1.	31.12.	
1. UNIPETROL, a.s.	**Prague**	**62.99**	**62.99**	**see separate list of the Capital Group of UNIPETROL**
2. ORLEN Deutschland AG	**Elmshorn**	**100.00**	**100.00**	
3. ORLEN Budonaft Sp. z o.o.	**Kraków**	**100.00**	**100.00**	
4. ORLEN Automatyka Sp. z o.o.	**Płock**	**100.00**	**100.00**	
5. ORLEN Asfalt Sp. z o.o.	**Płock**	**82.46**	**82.46**	**17.54% Rafineria Trzebinia S.A.**
5.1. ORLEN Asfalt Ceska Republika s.r.o. (d. Paramo Asfalt)	Pardubice	0	100.00	On October 22, 2012, PARAMO, a.s. (“PARAMO”) and ORLEN Asfalt Sp. z o. o. (“ORLEN Asfalt”) executed a quota purchase agreement, pursuant to which ORLEN Asfalt, as purchaser, shall acquire from PARAMO, as seller, 100% quotaholding in Paramo Asfalt s.r.o. (“Paramo Asfalt”).
6. Inowrocławskie Kopalnie Soli „SOLINO“ S.A.	**Inowrocław**	**98.17**	**100.00**	**On 31.1.2012 share purchase transactions with minority shareholders within voluntary buy-out process were registered. PKN ORLEN share in the registered capital increased to 99.02%. As a result of mandatory squeeze-out process, on 4.9.2012 PKN purchased and registered remaining shares of IKS SOLINO and became the sole shareholder.**
7. ORLEN Gaz Sp. z o.o.	**Płock**	**100.00**	**100.00**	
8. ORLEN KolTrans Sp. z o.o.	**Płock**	**99.85**	**99.85**	
9. Orlen Laboratorium Sp. z o.o.	**Płock**	**94.94**	**94.94**	
10. ORLEN Medica Sp. z o.o.	**Płock**	**100.00**	**100.00**	
10.1 Sanatorium Uzdrowiskowe „Krystynka“ Sp. z o.o.	Ciechocinek	98.58	98.58	
11. ORLEN Ochrona Sp. z o.o.	**Płock**	**100.00**	**100.00**	
11.1 ORLEN Ochrona Sp. z o. o., organizační složka v České republice	Litvínov	100.00	100.00	Branch office registered on 27.6.2011 in CR
11.2 ORLEN Apsauga UAB		0	100.00	On 16.4.2012 newly-registered Company in Lithuania
12. ORLEN OIL Sp. z o.o.	**Kraków**	**51.69**	**51.69**	**43.84% Rafineria Trzebinia S.A. a 4.47% Rafineria Nafty Jedlicze**
12.1. Platinum Oil Sp. z o.o.	Lublin	100.00	100.00	On 1.3.2012 Company merged with Platinum Oil Małopolskie Centrum Dystrybucji Sp. z o.o.
12.2. Platinum Oil Małopolskie Centrum Dystrybucji Sp. z o.o.	Szczucin	100.00	0	On 1.3.2012 Platinum Oil Małopolskie Centrum Dystrybucji Sp. z o.o. was merged by absorption with Platinum Oil Sp. z o.o.
12.2. ORLEN OIL ČESKO, s. r. o.	Brno	100.00	100.00	
13. ORLEN Paliwa Sp. z o.o.	**Plock**	**100.00**	**100.00**	**On 27.11.2012 Company changed its commercial name from ORLEN PetroCentrum Sp. z o.o.**
14. ORLEN PetroTank Sp. z o.o.	**Widełka**	**100.00**	**100.00**	
14.1. Petro-Mawi Sp. z o.o. w likwidacji	Sosnowiec	60.00	60.00	
15. ORLEN Projekt S.A.	**Płock**	**51.00**	**99.63**	**On 20.11.2012 PKN purchased 43 shares of ORLEN Projekt and increased its stake to 99.63%**
16. ORLEN Transport Kraków Sp. z o.o. w upadlosci	**Kraków**	**98.41**	**98.41**	
17. ORLEN Transport Sp. z o.o.	**Plock**	**100.00**	**100.00**	
18. ORLEN Wir Sp. z o.o.	**Płock**	**76.59**	**76.59**	

Report on relations between the controlling and the controlled person, and on relations between the controlled person and other persons controlled by the same controlling person („Related Persons“)

Companies controlled by PKN ORLEN S.A.	Residence	Shares in directly and undirectly controlled companies Share in%	of the capital	Note
19. Petrolot Sp. z o.o.	**Warszawa**	**51.00**	**100.00**	**On 21.12.2012 share purchase agreement was signed with PLL LOT for the remaining stake in the company's registered capital and PKN became a sole shareholder of Petrolot**
20. Rafineria Nafty Jedlicze S.A.	**Jedlicze**	**89.95**	**100.00**	**On 9.3.2012 share purchase transactions with the minority shareholders were settled and PKN increased its stake to 98.62%. Subsequently, PKN launched squeeze-out procedure and on 23.8.2012, on 17.9.2012 and on 4.10.2012 further transactions with minority shareholders were registered, resulting in increase of PKN ORLEN stake in RNJ registered capital to 100%.**
20.1. „RAF-BIT” Sp. z o.o.	Jedlicze	100.00	100.00	
20.2. „RAF-KOLTRANS” Sp. z o.o.	Jedlicze	100.00	100.00	
20.3. „RAF-Służba Ratownicza” Sp. z o.o.	Jedlicze	100.00	100.00	
20.4. Konsorcjum Olejów Przepracowanych „ORGANIZACJA ODZYSKU“ S.A.	Jedlicze	81.00	81.00	8% Rafineria Trzebinia S.A.
20.5. „RAN-WATT“ Sp. z o.o. w likwidacji	Toruń	51.00	51.00	
21. Rafineria Trzebinia S.A.	**Trzebinia**	**86.35**	**86.35**	
21.1. Fabryka Parafin NaftoWax sp. z o.o. – Trzebinia	Trzebinia	100.00	100.00	
21.2. Energomedia Sp. z o.o.	Trzebinia	100.00	100.00	
21.3. Euronaft Trzebinia Sp. z o.o.	Trzebinia	100.00	100.00	
21.4. EkoNaft Sp. zo.o.	Trzebinia	100.00	100.00	
21.5.Zakładowa Straż Pożarna Sp. z o.o.	Trzebinia	100.00	100.00	
22. Ship – Service S.A.	**Warszawa**	**60.86**	**60.86**	
23. ORLEN Centrum Serwisowe Sp. z o.o.	**Opole**	**99.01**	**99.01**	
24. Anwil S.A.	**Włocławek**	**95.14**	**100.00**	**On 9.3.2012, 6.6.2012, 14.9.2012, 17.10.2012 and on 31.10.2012, within minority shareholders squeeze-out process, further purchases of shares were registered. Since 31.10.2012 PKN became sole shareholder of Anwil**
24.1. Przedsiębiorstwo Inwestycyjno – Remontowe REMWIL Sp. z o.o.	Włocławek	99.98	99.98	
24.2. Przedsiębiorstwo Produkcyjno-Handlowo-Usługowe PRO-LAB Sp. z o.o.	Włocławek	99.32	99.32	
24.3. SPOLANA a.s.	Neratovice	100.00	100.00	
24.4. Przedsiębiorstwo Usług Specjalistycznych i Projektowych CHEMEKO Sp. z o.o.	Włocławek	55.93	55.93	
24.5. Zakład Usługowo-Produkcyjny EKO-Dróg Sp. z o.o.	Włocławek	48.78	48.78	
24.6. Przedsiębiorstwo Usług Technicznych Wircom Sp. z o.o.	Włocławek	49.02	49.02	
24.7. Specjalistyczna Przechodnia Przemysłowa Prof-Med Sp. z o.o.	Włocławek	45.86	45.86	
25. ORLEN EKO Sp. z o.o.	**Plock**	**100.00**	**100.00**	
26. ORLEN Administracja Sp. z o.o.	**Plock**	**100.00**	**100.00**	
27. ORLEN Upstream Sp. z o.o.	**Warszawa**	**100.00**	**100.00**	
28. ORLEN Księgowość Sp. z o.o.	**Plock**	**100.00**	**100.00**	
29. ORLEN HOLDING MALTA Limited	**Sliema, Malta**	**99.50**	**99.50**	

Companies controlled by PKN ORLEN S.A.	Residence	Shares in directly and undirectly controlled companies Share in% of the capital		Note
29.1. ORLEN Insurance Ltd	Sliema, Malta	99.99	99.99	In 2012 registerd capital was increased. As a result of shares acquisition executed only by ORLEN HOLDING MALTA PKN stake in Company's registered capital decreased to 0.00000661%,
30. AB ORLEN Lietuva	**Juodeikiai**	**100.00**	**100.00**	
30.1. AB Ventus Nafta	Vilnius	100.00	100.00	
30.2. UAB Mazeikiu Nafta Trading House (Litwa)	Vilnius, Lithuania	100.00	100.00	
30.2.1. SIA ORLEN Latvija	Riga, Latvia	100.00	100.00	In 2012 Company changed its commercial name from UAB Mazeikiu Nafta Trading House Latvia
30.2.2. ORLEN Eesti OU	Tallin,Estonia	100.00	100.00	In 2012 Company changed its commercial name from UAB Mazeikiu Nafta Trading House Estonia
30.3. UAB Medikvita	Juodeikiai	100.00	100.00	In 2012 Company changed its commercial name from UAB Mazeikiu Nafta Health Care
30.4. UAB Mazeikiu Nafta Paslaugos Tau	Juodeikiai	100.00	100.00	
30.5. UAB EMAS	Juodeikiai	100.00	100.00	
31. ORLEN Finance AB	**Sztokholm**	**100.00**	**100.00**	
32. ORLEN Capital AB	**Sztokholm**	**100.00**	**0**	**On 11.4.2012 Company was sold to S-bolag Börsen AB**
33. Basell Orlen Polyolefins Sp. z o.o.	**Plock**	**50.00**	**50.00**	**50% owned by Basell Europe Holding B. V.**
33.1. Basell Orlen Polyolefins Sp. z o.o. Sprzedaž Sp. z o.o.	Plock	100.00	100.00	
34. Plocki Park Przemyslowo-Technologiczny S.A.	**Plock**	**50.00**	**50.00**	**50% owned by Plock**
34.1.Centrum Edukacji Sp. z o. o.	Plock	69.43	69.43	
35. ORLEN International Exploration – Production Company BV	**Amsterdam**	**100.00**	**100.00**	
35.1. SIA Balin Energy Grupa OIE-PC BV	Lithuania	50.00	50.00	
36. Baltic Power Sp. z o.o.	**Warszawa**	**100.00**	**100.00**	
37. Baltic Spark Sp. z o.o.	**Warszawa**	**100.00**	**100.00**	

Glossary terms and abbreviations

a.s.	Public limited company (Czech Republic)
AG	Public limited company (Germany)
AVD	Atmospheric and Vacuum Distillation
B.V.	Limited liability company (Netherlands)
BA	Automotive gasoline
BCPP	Praque Stock Exchange
BU	Business unit
B2B	Business-to-Business
B2C	Business-to-Consumer
CAPEX	Capital expenditures
CNG	Compressed Natural Gas
CODO	Filling stations operating model – filling stations are owned by the company BENZINA and are operated by dealers under a contract with BENZINA (Company Owned – Dealer Operated)
CPC Blend	Light crude oil from Western Kazakhstan
CSR	Corporate Social Responsibility
ČAPPO	Czech Association of Petroleum Industry and Trade (Česká asociace petrolejářského průmyslu a obchodu)
ČNB	Czech National Bank
ČOI	Czech trade inspection (Česká obchodní inspekce)
D-A-CH	German speaking countries (Deutschland-Austria-Schweiz)
DOFO	Filling stations operating model based on franchise – filling stations are not owned by the company BENZINA (Dealer Owned – Franchise operated)
EBIT	Operating profit = Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EIA	Environmental Impact Assessment
EMS	Environmental Management System
ERP	Enterprise Resource Planning System
ESRA	European Synthetic Rubber Association
EU	European Union
EU ET	EU emissions trading scheme (regulating trading with carbon dioxide emission allowances)
FAME	Fatty Acid Methyl Esters
FCC	Fluid Catalytic Cracker
FCF	Free Cash Flow
FTE	Full time equivalent number of employees
GmbH	Limited liability company (Germany)
HDPE	High-density polyethylene
HR	Human Resources
IČ	Identification number
IFRS	International Financial Reporting Standards
IKL	Ingolstadt-Kralupy-Litvínov pipeline
IPPC	Integrated Pollution Prevention and Control
IR	Investor Relations
IRZ	Integrated Pollution Registry
IT	Information Technology
LPG	Liquefied Petroleum Gas
Ltd.	Limited liability company (Great Britain)
MBO	Management by Objectives
MEŘO	Coleseed oil methyl ester
N.V.	Public limited liability corporation (Netherlands)

OECD	Organisation for Economic Co-operation and Development
OHSAS	Occupational Health and Safety System
OPEC	Organization of the Petroleum Exporting Countries
PE	Polyethylene
PIB	POLYMER INSTITUTE BRNO, spol. s r.o.
POX	Partial Oxidation Unit
PP	Polypropylene
PR	Public Relations
QMS	Quality Management Systems
REACH	Registration, evaluation, authorisation and restriction of chemicals
REB	Russian Export Blend Crude Oil
REBCO	Russian Export Blend Crude Oil
ROACE	Return on Average Capital Employed
S.A.	Public liability company (Poland)
s.r.o.	Limited liability company (Czech Republic)
SCM	Supply Chain Management
SLA	Service level agreement (service contract for externally provided – outsourced services)
Sp. z o.o.	Limited liability company (Poland)
SSC	Shared Services Centre
TAL	Transalpine Pipeline
UNEP	United Nations Enviroment Programme
UniCRE	Unipetrol Centre for Research and Education in Chempark Záluží in Litvínov
ÚOHS	Antimonopoly Office in the Czech Republic (Úřad pro ochranu hospodářské soutěže)
VÚANCH	Výzkumný ústav anorganické chemie, a.s. in Ústí nad Labem

Identification and contact information

Name:	UNIPETROL, a.s.
Registered office:	Na Pankráci 127, 140 00 Prague 4
Company number:	61672190
Tax ID:	CZ61672190
Bank:	The Royal Bank of Scotland N.V., foreign bank branch, P.O. Box 773, Jungmanova 745/24, Prague 1, 111 21, Acount No. 29129/5400
Date of establishment:	27 December 1994 – established for an indeterminate period of time
Datum of incorporation:	Incorporated on 17 February 1995
Incorporation registration:	Municipal Court in Prague, Section B, File 3020
Legal form:	Public limited company, organised under Czech law
Tel.:	+420 225 001 417 (Investor Relations) +420 225 001 407 (Press Department)
Fax:	+420 225 001 471
Website:	www.unipetrol.cz
E-mail:	ir@unipetrol.cz
Auditor:	KPMG Česká republika Audit, s.r.o.

Law and legal regulation under which the issuer was established

Law:	Law of the Czech Republic
Legal regulation:	Act No. 104/1990 on Public Limited Companies

The company is a member of the Unipetrol Consolidation Group.

The names of Unipetrol Group companies (UNIPETROL, a.s., BENZINA s.r.o., ČESKÁ RAFINÉRSKÁ, a.s., PARAMO, a.s., UNIPETROL RPA, s.r.o. and others) appear in this report also in their simplified form (Unipetrol, Benzina, Česká rafinérská, Paramo, Unipetrol RPA atd.).

The English language version of Unipetrol's Annual Report 2012 is a convenience translation. The version in the Czech language is the definitive version.

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