# Management report 2012 of UNIPETROL, a.s.

# 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.

**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 incluencing 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.

## 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.

### 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.

### 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.

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 Budějovce 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.

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.

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.

## 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.

**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 CO2 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

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | **CZK thousand** | **CZK thousand** | **CZK thousand** | **CZK thousand** | **CZK thousand** |
| **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.

### Structure of revenues by business segments

| Business segment | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | **Revenues in %** | **Revenues in %** | **Revenues in %** | **Revenues in %** | **Revenues in %** |
| 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

| Area | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| | **Revenues in %** | **Revenues in %** | **Revenues in %** | **Revenues in %** | **Revenues in %** |
| 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.

## 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 CO2 allowances in order to strengthen its natural hedge and liquidity position. The transaction was settled by the end of 2012.