UNIPETROL, a.s.

NON-CONSOLIDATED FINANCIAL STATEMENTS

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

FOR THE YEAR 2013

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

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

We have audited the accompanying non-consolidated financial statements of UNIPETROL, a.s., which comprise the non-consolidated statement of financial position as of 31 December 2013, and the non-consolidated statement of profit or loss and other comprehensive income, the non-consolidated statement of changes in equity and the non-consolidated statement of cash flows for the year then ended, and the notes to these non-consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these non-consolidated financial statements.

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

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the non-consolidated financial statements give a true and fair view of the non-consolidated financial position of UNIPETROL, a.s. as of 31 December 2013, and of its non-consolidated financial performance and its non-consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Prague
12 March 2014

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

Karel Růžička
Partner
Licence number 1895

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

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

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

Non-consolidated statement of financial position

	Note	31/12/2013	31/12/2012 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	7	10 315	12 822
Investment property	8	1 156 442	1 149 081
Intangible assets	9	400	456
Shares in related parties	10	13 990 981	13 990 981
Other non-current assets	11	1 519 519	334 837
		16 677 657	**15 488 177**
Current assets			
Trade and other receivables	12	150 892	191 695
Other financial assets	13	12 689 305	11 973 200
Current tax receivables		24 423	17 524
Cash and cash equivalents	14	157 802	1 294 067
		13 022 422	**13 476 486**
Total assets		**29 700 079**	**28 964 663**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	15.1	18 133 476	18 133 476
Statutory reserves	15.2	1 671 671	1 651 472
Revaluation reserve	15.3	502 626	502 626
Retained earnings	15.4	6 049 882	5 132 389
Total equity		**26 357 655**	**25 419 963**
LIABILITIES			
Non-current liabilities			
Loans, borrowings and debt securities	16	2 000 000	-
Provisions		-	400
Deferred tax liabilities	23	112 039	113 326
		2 112 039	**113 726**
Current liabilities			
Trade and other liabilities	17	136 862	163 073
Loans, borrowings and debt securities	16	268 048	2 052 020
Other financial liabilities	18	825 475	1 215 881
		1 230 385	**3 430 974**
Total liabilities		**3 342 424**	**3 544 700**
Total equity and liabilities		**29 700 079**	**28 964 663**

The non-consolidated financial statements are to be read in conjunction with the notes forming part of the non-consolidated financial statements set out on pages 8-52.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

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

	Note	2013	2012
Statement of profit or loss			
Revenues	19	141 010	147 815
Cost of sales	20.1	(84 842)	(67 710)
Gross profit on sales		**56 168**	**80 105**
Administrative expenses		(204 030)	(174 890)
Other operating income	21.1	3 258	18 787
Other operating expenses	21.2	(1 766)	(3 011)
Loss from operations		**(146 370)**	**(79 009)**
Finance income	22.1	1 319 776	772 578
Finance costs	22.2	(233 427)	(257 695)
Net finance income		**1 086 349**	**514 883**
Profit before tax		**939 979**	**435 874**
Tax expense	23	(2 287)	(31 902)
Net profit		**937 692**	**403 972**
Other comprehensive income			
items which will be reclassified into profit or loss under certain conditions		**-**	**(86)**
Foreign exchange differences on subsidiaries		*-*	*(86)*
		-	**(86)**
Total net comprehensive income		**937 692**	**403 886**
Net profit/(loss) and diluted net profit/(loss) per share (in CZK per share)	15.6	5,17	2,23

The non-consolidated financial statements are to be read in conjunction with the notes forming part of the non- consolidated financial statements set out on pages 8-52.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

Non-consolidated statement of cash flows

	2013	2012 (restated)
Cash flows - operating activities		
Net profit	**937 692**	**403 972**
Adjustments for:		
Depreciation and amortisation	2 291	2 497
Foreign exchange (gain)/loss	(6 746)	2 975
Interest and dividends, net	(1 072 607)	(354 956)
(Profit)/Loss on investing activities	(17 227)	(162 058)
Change in provisions	(400)	-
Tax expense	2 287	31 902
Income tax (paid)	(10 474)	(28 148)
Change in working capital	14 968	(6 757)
receivables	40 989	(29 853)
liabilities	(26 021)	23 096
Net cash used in operating activities	**(150 216)**	**(110 573)**
Cash flows - investing activities		
Acquisition of property, plant and equipment and intangible assets	(7 397)	(6 418)
Disposal of property, plant and equipment and intangible assets	1 581	223
Dividends received	967 909	195 554
Proceeds/(Outflows) from loans granted	(194 636)	(1 538 007)
Proceeds/(Outflows) from cash pool granted	(1 734 004)	1 143 024
Interest received	379 298	366 621
Net cash provided by/(used in) investing activities	**(587 249)**	**160 997**
Cash flows - financing activities		
Proceeds from loans and borrowings	2 266 098	679 713
Repayments of loans and borrowings	(17 385)	(663 977)
Repayment of bonds granted	(2 000 000)	-
Interest paid	(259 484)	(377 150)
Dividends paid to non-controlling shareholders	(235)	(570)
Proceeds/(Outflows) from cash pool received	(390 407)	249 950
Other	(4 133)	-
Net cash used in financing activities	**(405 546)**	**(112 034)**
Net increase/(decrease) in cash and cash equivalents	**(1 143 011)**	**(61 610)**
Effect of exchange rate changes	6 746	(2 975)
Cash and cash equivalents, beginning of the period	1 294 067	1 358 652
Cash and cash equivalents, end of the period	**157 802**	**1 294 067**

The non-consolidated financial statements are to be read in conjunction with the notes forming part of the non-consolidated financial statements set out on pages 8-52.

(in thousands of CZK)

Non-consolidated statement of changes in equity

	Equity attributable to equity owners				Total equity
	Share capital	Statutory reserves	Revaluation reserve	Retained earnings	
1 January 2013	18 133 476	1 651 472	502 626	5 132 389	25 419 963
Net profit	-	-	-	937 692	937 692
Total net comprehensive income	**-**	**-**	**-**	**937 692**	**937 692**
Allocation of profit to reserves	-	20 199	-	(20 199)	-
31 December 2013	**18 133 476**	**1 671 671**	**502 626**	**6 049 882**	**26 357 655**
1 January 2012	18 133 476	1 651 472	502 712	4 728 417	25 016 077
Net profit	-	-	-	403 972	403 972
Items of other comprehensive income	-	-	(86)	-	(86)
Total net comprehensive income	**-**	**-**	**(86)**	**403 972**	**403 886**
31 December 2012	**18 133 476**	**1 651 472**	**502 626**	**5 132 389**	**25 419 963**

The consolidated financial statements are to be read in conjunction with the notes forming part of the non-consolidated financial statements set out on pages 8-52.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

ACCOUNTING PRINCIPLES AND OTHER EXPLANATORY NOTES

1. DESCRIPTION OF THE COMPANY

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

Identification number of the Company
616 72 190

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

Principal activities
The Company operates as a holding company covering and administering a group of companies (hereinafter the "Group"). The principal businesses of the Group include oil and petroleum products processing, production of commodity chemicals, polymer materials, mineral lubricants, plastic lubricants, paraffins, road and insulation bitumen, special refinery and petrochemical products. Furthermore, the Group is engaged in the distribution of fuels and operation of gas stations.

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

Ownership structure
The shareholders as at 31 December 2013 are as follows:

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

Statutory and supervisory bodies
Members of the statutory and supervisory bodies of UNIPETROL, a.s. as at 31 December 2013 were as follows:

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

Changes in the board of directors till 31 December 2013 were as follows:

Position	Name	Change	Date of change
Member	Mariusz Kędra	Recalled from the office	6 February 2013
Member	Mirosław Kastelik	Elected into the office	6 February 2013
Chairman	Piotr Chełmiński	Recalled from the office	8 April 2013
Chairman	Marek Świtajewski	Elected into the office	8 April 2013
Member	Andrzej Kozłowski	Elected into the office	9 April 2013

Changes in the supervisory board during the year 2013 were as follows:

Position	Name	Change	Date of change
Member	Rafał Sekuła	Co-opted as a substitute member	6 February 2013
Member	Andrzej Kozłowski	Recalled from the office	8 April 2013
Member	Rafał Sekuła	Elected into the office	24 June 2013
Member	Piotr Chełminski	Elected into the office	24 June 2013
Member	Zdeněk Černý	Elected into the office	30 June 2013
Member	Krystian Pater	Elected into the office	30 June 2013

2. STATEMENTS OF THE MANAGEMENT BOARD

The Management Board of UNIPETROL, a.s. hereby declares that to the best of their knowledge the foregoing non-consolidated financial statements and comparative data were prepared in compliance with the accounting principles applicable to the Company in force (disclosed in note 3) and that they reflect true and fair view on financial position and financial result , including basic risks and exposures.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Principles of presentation

The non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations approved by the International Accounting Standards Board (IASB) which were adopted by the European Union (EU) and were in force as at 31 December 2013.

The non-consolidated financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Company's financial position as at 31 December 2013, results of its operations and cash flows for the year ended 31 December 2013.

These non-consolidated financial statements have been prepared on a going concern basis. As at the date of approval of the statements there is no indication that the Company will not be able to continue as a going concern in the foreseeable future.
The financial statements, except for statement of cash flows, are prepared on the accrual basis of accounting.

3.2 Impact of IFRS amendments and interpretations on non-consolidated financial statements of the Company

3.2.1 Binding amendments and interpretations to IFRSs

The following new standards, amendments and interpretations to existing standards came in force from 1 January 2013 until the date of publication of these non-consolidated financial statements:

- Amendments to *IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (early adopted by the Company in 2012),
- Amendments to *IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*,
- Amendments to *IFRS 1 First-time Adoption of International Financial Reporting Standards Government Loans*
- Amendments to *IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities,*
- *IFRS 13 Fair Value Measurement*,
- Amendments to *IAS 12 Income taxes- Deferred tax: Recovery of Underlying Assets*,
- Amendments to *IAS 19 Employee Benefits*,
- Interpretation *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine*,
- *Improvements to International Financial Reporting Standards 2009-2011*.

The aforementioned standards, amendments and interpretations to IFRSs had no significant impact on the foregoing non-consolidated financial statements. Application of *IFRS 13 Fair Value Measurement* increased scope of disclosures in the notes to the non-consolidated financial statements.

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

Early adoption of new standards

As at 31 December 2013 the Company had early adopted amendments to *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* before the effective date in relation to ceasing to meet the criteria of presentation as assets held for sale. Detailed information regarding this issue is included in Note 6.

Adoption according to the effective date

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company but which the Company has not early adopted. The Company intends to adopt new standards and amendments to IFRSs that are published but not effective as at 31 December 2013, in accordance with their effective dates. In 2013, the Company did not take the decision for early adoption on a voluntarily basis of amendments and interpretations to the standards, except for adoption of amendments to amendments to *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.* Those new standards which may be relevant to the Company are set out below.

- *IFRS 10 Consolidated Financial Statements* (effective for annual periods beginning on or after 1January 2014)
  IFRS 10 replaces IAS 27 Consolidated and separate financial statements, in scope of consolidation and SIC 12 interpretation Special Purpose Entities.
  IFRS 10 provides a new single model to be applied in the control analysis for all investees, including those that currently are Special Purpose Entities in the scope of SIC-12.
  Under the new single control model, an investor controls an investee when: it is exposed or has rights to variable returns from its involvements with the investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns.

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

- *IFRS 11 Joint Arrangements* (effective for annual periods beginning on or after 1 January 2014)

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

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

- *IFRS 12 Disclosures of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014)
  IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

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

3.2.2. IFRSs, amendments and interpretations to IFRSs endorsed by European Union, not yet effective (continued)

- *Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)* (effective for annual periods beginning on or after 1 January 2014)
  The amendments:
  - define the date of initial application of IFRS 10 as the beginning of the annual period in which the standard is applied for the first time (1 January 2013 unless early adopted). At this date, an entity tests whether there is a change in the consolidation conclusion for its investees;
  - limit the restatement of comparatives to the period immediately preceding the date of initial application; this applies to the full suite of standards. Entities that provide comparatives for more than one period have the option of leaving additional comparative periods unchanged;
  - requires disclosure of the impact of the change in accounting policy only for the period immediately preceding the date of initial application (i.e. disclosure of impact on the current period is not required);
  - will remove the requirement to present comparative information disclosures related to unconsolidated structured entities for any periods before the first annual period for which IFRS 12 is applied.

  The Company expects that amendments to standards will not have an impact on items presented in future non-consolidated financial statements.
- *Amendments do IFRS 10, IFRS 12 and IAS 27: Investment Entities* (effective for annual periods beginning on or after 1 January 2014)
  The Amendments provide an exception to the consolidation requirements in IFRS 10 and require qualifying investment entities to measure their investments in controlled entities, associates and joint ventures at fair value through profit or loss, rather than consolidating them.
  The consolidation exemption is mandatory (i.e. not optional), with the only exception being that subsidiaries that are considered as an extension of the investment entity's investing activities, must still be consolidated.
  An entity qualifies as an investment entity if it meets all of the essential elements of the definition of an investment entity, i.e. it obtains funds from investors to provide those investors with investment management services, it commits to its investors that its business purpose is to invest for returns solely from appreciation and/or dividend income and measures and evaluates the performance of substantially all of its investments on a fair value basis. The amendments also set out disclosure requirements for investment entities.
  The Company expects that amendments to standards will not have an impact on future non-consolidated financial statements as they are not applicable to the Company.
- *Amendments to IAS 27 Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2014)
  IAS 27 (2011) was modified in relation to issuance of IFRS 10 Consolidated Financial Statement and carries forward the existing accounting and disclosure requirements for separate financial statements. For that reason requirements of IAS 28 (2008) and IAS 31 relating to separate financial statements will be incorporated to IAS 27. The above amendment will have no impact on the financial statements, since it does not results in a change in the Company's accounting policy.
- *Amendments to IAS 28 – Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2014)
  Adopted amendment:
  - applies in case when portion of an investment in an associate or a joint venture was classified as held for sale (under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations). For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture
  - in relation to changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

  The Company expects that the above amendment when initially applied will have no material impact on the future non-consolidated financial statements, as the Company holds no investments in associates or joint ventures that are classified as held for sale.
- *Amendments to IAS 32 – Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014)
  The Amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify and define precisely the offsetting criteria. The entity has a legally enforceable right to offset if that right is not contingent on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.
  The Company expects that the above amendment when initially applied will have no material impact on the future non-consolidated financial statements.

3.2.2. IFRSs, amendments and interpretations to IFRSs endorsed by European Union, not yet effective (continued)

- *Amendments to IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets* (effective for annual periods beginning on or after 1 January 2014)
  The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognized or reversed during the period.
  The Amendments also require the following additional disclosures when an impairment for individual assets (including goodwill) or cash-generated units has been recognized or reversed in the period and recoverable amount is based on fair value less costs to sell:
  - the level within which the fair value measurement of the asset or cash-generating unit is categorized under IFRS 13 Fair value hierarchy;
  - for fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation techniques used and any changes in that valuation technique together with the reason for making them;
  - for fair value measurements categorized within Level 2 and Level 3, each key assumption (i.e. assumption to which recoverable amount is most sensitive) used in determining fair value less costs to sell. If fair value less costs to sell is measured using a present value technique, discount rate(s) used both in current and previous measurement should be disclosed.

  The Company expects that the above amendment when initially applied will have no material impact on future non-consolidated financial statements, since it does not result in a change in the Company's accounting policy.

- *Amendments to IAS 39 Financial Instruments: Recognition and Measurement: Novation of Derivatives and Continuation of Hedge Accounting* (effective for annual periods beginning on or after 1 January 2014)
  The Amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty, when the following criteria are met:
  - the novation is made as a consequence of laws or regulations
  - a clearing counterparty becomes a new counterparty to each of the original counterparties of the derivative instrument
  - changes to the terms of the derivative are limited to those necessary to replace the counterparty.

  The Company expects that the above amendment when initially applied will have no material impact on future non-consolidated financial statements, since the Company does not apply novation of derivatives.

3.2.3. Standards and interpretations adopted by International Accounting Standards Board (IASB), waiting for approval of EU

Those new standards which may be relevant to the Company are set out below.

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

3.2.3. Standards and interpretations adopted by International Accounting Standards Board (IASB), waiting for approval of EU (continued)

- *Amendments to IFRS 9 Financial Instruments* and *IFRS 7 Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2015)
  These Amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments (2009) and IFRS 9 Financial Instruments (2010).
  The amended IFRS 7 requires to disclose more details about the effect of the initial application of IFRS 9 when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9. If an entity adopts IFRS 9 on or after 1 January 2013, then it will no longer be required to restate comparative information for periods prior to the date of initial application. If an entity would adopt IFRS 9 in 2012, then it had a choice either to restate comparative information or to provide the enhanced disclosures as required by the amended IFRS 7. If an entity early adopted IFRS 9 prior to 2012, then neither restatement of comparative information nor provision of the enhanced disclosures under the amended IFRS 7 was required.
  The Company does not expect the amendment to have an impact on future non-consolidated financial statements. Based on initial application of IFRS 9 assets will be assigned to changed financial instruments categories.
- *IFRIC Interpretation 21 Levies* (effective for annual periods beginning on or after 1 January 2014)
  The Interpretation provides guidance as to the identification of the obligating event giving rise to a liability to pay a levy imposed by government and to the timing of recognizing such liability. In accordance with the Interpretation, the obligating event is the activity that triggers the payment of that levy, as identified in the relevant legislation and as a consequence, the liability for paying the levy is recognized when this event occurs. The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognized when that minimum activity threshold is reached. The Interpretation sets out that an entity cannot have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period.
  The Company does not expect the amendment to have an impact on future non-consolidated financial statements, since it does not result in a change in the Company's accounting policy regarding levies.
- *Amendments to IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after 1 January 2014)
  The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
  The Company does not expect the amendment to have an impact on future non-consolidated financial statements, since the Company does not have such employee contributions.
- *Improvements to IFRS (2010-2012)* (effective for annual periods beginning on or after 1 July 2014)
  The Improvements contain 8 amendments to 7 standards, with consequential amendments to other standards and interpretations. The main changes were to:
  - clarify the definition of 'vesting conditions' in Appendix A of *IFRS 2 Share-based Payment* by separately defining a 'performance condition' and a 'service condition'
  - clarify certain aspects of accounting for contingent consideration in a business combination
  - amend paragraph 22 of *IFRS 8* to require entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. This is to supplement the current disclosure requirements in paragraph 22(a) of IFRS 8.
  - amend paragraph 28(c) of *IFRS 8 Operating Segments* to clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker. This proposed amendment is consistent with the requirements in paragraphs 23 and 28(d) in IFRS 8.
  - clarify the IASB's rationale for removing paragraph B5.4.12 of *IFRS 9 Financial Instruments* and paragraph AG79 of *IAS 39 Financial Instruments: Recognition and Measurement* as consequential amendments from *IFRS 13 Fair Value Measurement*.
  - clarify the requirements for the revaluation method in *IAS 16 Property, Plant and Equipment* and *IAS 38 Intangible Assets* to address concerns about the calculation of the accumulated depreciation or amortization at the date of the revaluation.
  - make an entity providing management services to the reporting entity a related party of the reporting entity.

  The Company does not expect the improvements to have material impact on future non-consolidated financial statements of the Company.

3.2.3. Standards and interpretations adopted by International Accounting Standards Board (IASB), waiting for approval of EU (continued)

- *Improvements to IFRS (2011-2013)* (effective for annual periods beginning on or after 1 July 2014)
  The Improvements contain 4 amendments to standards, with consequential amendments to other standards and interpretations. The main changes were to:
  - clarify the meaning of 'each IFRS effective at the end of an entity's first IFRS reporting period' as used in paragraph 7 of *IFRS 1 First-time Adoption of IFRSs*.
  - clarify that the scope exemption in paragraph 2(a) of *IFRS 3 Business Combinations* excludes the formation of all types of joint arrangements as defined in *IFRS 11 Joint Arrangements* from the scope of IFRS 3; and applies only to the financial statements of the joint venture or the joint operation itself.
  - clarify that the portfolio exception included in paragraph 48 of IFRS 13 applies to all contracts within the scope of *IAS 39 Financial Instruments*: *Recognition and Measurement* or *IFRS 9 Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in *IAS 32 Financial Instruments: Presentation*,
  - clarify that judgment is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 and that this judgment is based on the guidance in IFRS 3.

  The Company does not expect the improvements to have material impact on future non-consolidated financial statements of the Company.

3.3 Functional and presentation currency

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

3.4 Accounting policies applied by the Company

3.4.1 Foreign currency

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

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

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

3.4.2 Change in accounting policies, estimates and prior period errors

An entity shall change an accounting policy only if the change:

- is required by an IFRS or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the financial position, financial performance or cash flows.

In case of change in accounting policy it is assumed that the new policy had always been applied. The amount of the resulting adjustment is made to the equity. For comparability, the entity shall adjust the financial statements (comparative information) for the earliest prior period presented as if the new accounting policy had always been applied, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change.

Items of financial statements based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. The effects of changes in estimates are accounted prospectively in the statement of profit or loss and other comprehensive income.

The correction of a material prior period error is made to the equity. When preparing the financial statements it is assumed that the errors were corrected in the period when they occurred by restating the comparative amounts for the prior period presented; or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

3.4.3 Property, plant and equipment

Property, plant and equipment are assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period (one year or the operating cycle, if longer than one year).

(i) Owned assets

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

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

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

Depreciation of an item of property, plant and equipment begins when it is available for use that is from the month it is in the location and condition necessary for it to be capable of operating in the manner intended by the management, over the period reflecting their estimated economic useful life, considering the residual value. Components of property, plant and equipment which are material for the whole item are depreciated separately in accordance with their economic useful life. Depreciation is charged so as to write off the cost or valuation of assets to their residual values, other than land, over their estimated useful lives, using the straight-line method.

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

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

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

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

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

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

Property, plant and equipment are tested for impairment, when there are indicators or events that may imply that the carrying amount of those assets may not be recoverable.

(ii) Leased assets

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

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

(iii) Subsequent expenditure

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

3.4.4 Investment property

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure for example includes professional fees for legal services, property transfer taxes and other transaction costs. For internally constructed investment property the cost is set at the date of construction completion when the asset is brought into use, in accordance with rules set for property, plant and equipment.

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. After initial recognition investment properties are stated at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the statement of profit or loss and other comprehensive income in the period which they arise. The Company determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

If the Company determines that the fair value of an investment property is not reliably determinable on a continuing basis, the Company shall measure that investment property at cost in accordance with rules set for property, plant and equipment.

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

3.4.5 Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance. An asset is identifiable if it is either separable, i.e. is capable of being separated or divided from the Company and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, or arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the Company.

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

An intangible asset arising from development (or from development phase of an internal project) shall be recognised if, and only if, the Company can demonstrate all of the following: the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to compete the intangible asset and use or sell it, its ability to use or sell the intangible asset, how the intangible asset will generate probable future economic benefits, among other things, the Company can demonstrate the existence of a market for the output of the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset, the availability of adequate technical, financial and other resources to complete the development and to use of sell the intangible asset, its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

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

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

(i) Research and development

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

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

3.4.5. Intangible assets (continued)

(ii) Computer software

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

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

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

3.4.5.1 Goodwill

Goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, (or groups of cash-generating units), that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

The acquirer shall recognise goodwill as of the acquisition date measured as: the excess of a) over b) where: the value of a) corresponds to the aggregate of:

- the consideration transferred, which generally requires acquisition-date fair value,
- the amount of any non-controlling interest in the acquire, and
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

the value of b) corresponds to the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount in point (b) exceeds the aggregate of the amounts specified in point (a). If that excess remains, after reassessment of correct identification of all acquired assets and liabilities, the acquirer shall recognise the resulting gain in profit or loss on the acquisition date as other operating profit for the period.

The acquirer shall measure goodwill in the amount recognised at the acquisition date less any accumulated impairment allowances.

A cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired. The annual impairment test may be performed at any time during an annual period, provided the test is performed at the same time every year.

A cash-generating unit to which no goodwill has been allocated shall be tested for impairment only when there are indicators that the cash-generating unit might be impaired.

An impairment loss recognised for goodwill shall not be reversed in a subsequent period.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its consolidated financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

3.4.5.2 Carbon dioxide emission allowances

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.e. carbon dioxide (CO_2).
In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in emissions trading system. All mentioned entities are allowed to emit CO_2 in specified amount and are obliged to amortise those rights in the amount of the emissions of the given year.
CO_2 emission rights are initially recognised as intangible assets, which are not amortised (assuming the high residual value), but tested for impairment.
Granted emission allowances are presented as separate items as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances are presented as intangible assets at purchase price.
If the allowances in a given year were not registered on the account under the date resulting from regulations, they are presented as receivable at the reporting date in correspondence with deferred income (as separate items) in the fair value of allowances due at the reporting date. The receivable is settled at the moment of allowances registration in the subsequent period by the disclosure of intangible assets at fair value (allowances granted). Deferred income is also be revaluated.
For the estimated CO_2 emission during the reporting period, a provision is created in operating activity costs (taxes and charges).

Grants are recognised on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate. Consequently, the cost of recognition of the provision in the separate statement of profit or loss and other comprehensive income is compensated by a decrease of deferred income (grants) with taking into consideration the proportion of the estimated quantity of emission (accumulated) to the quantity of estimated annual emission.
Granted/purchased CO_2 emission allowances are amortised against the book value of provision, at its settlement. Outgoing of allowances is recognised using FIFO method (First In, First Out) within the individual types of rights (EUA - European Union Allowances, ERU – Emission Reductions Units, CER – Certified Emission Reduction).

3.4.6 Borrowing costs

Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.
The Company capitalizes borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, until the time when the assets are substantially ready for their intended use or sale. Qualifying assets are the assets that necessarily take a substantial period of time to get ready for their intended use or sale.
Borrowing costs which are not connected with qualifying assets are recognized in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

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

After putting an asset into use, the capitalized borrowing costs are depreciated/amortized over the period reflecting economic useful life of the asset as part of the cost of the asset.

3.4.7 Impairment

The carrying amounts of the Company's assets, other than inventories, investment property and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any external or internal indication exists, the asset's recoverable amount is estimated.
For intangible assets that are not yet available for use and intangible assets with indefinite useful lives and for goodwill the recoverable amount is estimated at each balance sheet date.
The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use.
Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.
Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs to sell.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss and other comprehensive income.
Assets that do not generate the independent cash flows are grouped on the lowest level on which cash flows, independent from cash flows from other assets, are generated (cash generating units).

3.4.7. Impairment (continued)

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

The impairment loss shall be allocated to the carrying amount of the assets of the unit in the following order:
- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit; and
- then, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

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

3.4.8 Inventories

Inventories are assets held for sale in the ordinary course of business, or in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

The production costs do not include costs incurred as a consequence of low production or production losses, or general and administrative expenses that are not directly attributable to bringing the inventories to the condition and location at the moment of measurement, or storage costs of finished goods, semi-finished products and work in progress, unless these costs are necessary in the production process, or distribution expenses.

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

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

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

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

3.4.9 Trade and other receivables

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

3.4.10 Cash and cash equivalents

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

3.4.11 Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale.
Non-current assets are classified as held for sale when the following criteria are met:
- A decision on initiation of the sale was adopted by the Company's management;
- The assets are available for an immediate sale in their present condition;
- An active program to locate a buyer has been initiated;
- The sale transaction is highly probable and can be completed within 12 months following the sale decision;
- The selling price is reasonable in relation to its current fair value;
- It is unlikely that significant changes to the sales plan of these assets will be introduced.

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

3.4.12 Equity

Equity is recorded in accounting books by type, in accordance with legal regulations and the Company's articles of association. Equity comprises:

3.4.12.1 Share capital

The share capital is paid by shareholders and is stated at nominal value in accordance with the Company's articles of association and the entry in the Commercial Register.

3.4.12.2 Statutory reserves

In accordance with the Czech Commercial Code, joint stock companies are required to establish a reserve fund for possible future losses and other events and cannot be distributed to shareholders. Contributions must be a minimum of 20% of the profit for the period in the first year in which profits are generated and 5% of profit each year thereafter until the fund reaches at least 20% of the issued capital.

3.4.12.3 Hedging reserve

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

3.4.12.4 Revaluation surplus

Revaluation surplus comprises revaluation of items, which, according to the Company's regulations, relates to the revaluation surplus, including particularly:
- change of the fair value of the available-for-sale financial assets,
- differences between the net book value and the fair value of the investment property at the date of reclassification from the property occupied by the Company to the investment property.

3.4.12.5 Retained earnings

Retained earnings include:
- the undistributed result for prior periods,
- the current period profit/loss,
- the effects (profit/loss) of prior period errors,
- changes in accounting principles,
- other reserve capital as additional payments to equity.

3.4.13 Liabilities

Liabilities, including trade liabilities, are initially stated at fair value increased by transaction cost and subsequently amortized cost using the effective interest method.

3.4.13.1 Accruals

Accruals are liabilities due for goods or services received/provided, but not paid or formally agreed with the seller, together with amounts due to employees. Accruals relate among others to: uninvoiced services, untaken holidays, investment liabilities.
Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much lower than it is for provisions.

3.4.13.2 Social security and pension schemes

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

3.4.14 Provisions

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

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

When the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. If the discounting method is applied, the increase of provisions with time is recognised as financial expenses.

The Company establishes provisions for environmental damages, legal disputes, penalties, estimated expenditures related to the fulfillment of obligations as a result of warranty claims, CO2 emissions allowances and jubilee bonuses and post-employment benefits. No provisions are established in respect of environmental damages which occurred prior to establishment of the Company as the Czech government contractually committed to reimburse the Company for clean-up costs. Provisions are not recognised for the future operating losses.

3.4.14.1 Shield programs

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

3.4.14.2 Environmental provision

In accordance with the Company's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognized when the land is contaminated. A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

3.4.14.3 CO_2 emissions costs

The Company creates provision for the estimated CO_2 emission during the reporting period in operating activity costs (taxes and charges).

3.4.14.4 Jubilee bonuses and post employment benefits

Retirement benefits and jubilee bonuses

Under the Company's remuneration plans, its employees are entitled to jubilee bonuses and retirement benefits. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid once at retirement. The amount of retirement benefits and jubilee bonuses depends on the number of years of service and an employee's average remuneration. The Company creates a provision for future retirement benefits and jubilee bonuses in order to allocate costs to relevant periods. The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as post-employment defined benefit plans.

The present value of those liabilities is estimated at the end of each reporting period and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering employee rotation. Demographic data and information on employee rotation are based on historical records. Actuarial gains and losses from:

- post employment benefits are recognized in the other comprehensive income,
- other employment benefits, including jubilee bonuses, are recognized in profit and loss.

3.4.15 Government grants

Government grants are transfers of resources to the Company by government, government agencies and similar bodies whether local, national or international in return for past or future compliance with certain conditions relating to the activities of the entity.

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

Grants related to costs are presented as compensation to the given cost at the period they are incurred. The surplus of the received grant over the value of the given cost is presented as other operating income.

If the government grants related to assets, it is presented net with the related asset and is recognized in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges, the treatment regarding Carbon dioxide emission allowances granted is described in Note 3.4.5.2.

3.4.16 Revenues

Revenues from sales are recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Company and can be measured reliably and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.4.16.1 Revenue from sale of finished goods, merchandise, and raw materials

Revenues from sale of finished goods, merchandise, and raw materials are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenues are measured at fair value of the consideration received or receivable decreased by the amount of any discounts, value added tax (VAT), excise tax and fuel charges.

Revenues and expenses relating to services for which the start and end dates fall within different reporting periods are recognized based on the percentage of completion method, if the outcome of a transaction can be measured reliably, i.e. when total contract revenue can be measured reliably, it is probable that the economic benefits associated with the contract will flow to the Company and the stage of completion can be measured reliably. If those conditions are not met, revenues are recognized up to the cost incurred, but not greater than the cost which are expected to be recovered by the Company.

When the Company acts as an agent for its customers and buys and sells goods for a fixed margin without controlling purchase and selling prices, it does not report the revenue and cost from the sale of goods on a gross basis. It reports a net margin in the statement of profit or loss and other comprehensive income.

Revenues are measured at fair value of the received or due payments. Revenues realized on settlement of financial instruments hedging cash flows adjust revenues from sale of inventories and services.

3.4.16.2 Revenue from licenses, royalties and trade marks

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

3.4.16.3 Franchise revenues

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

3.4.16.4 Rental income

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

3.4.17 Costs

The Company recognizes costs in accordance with accrual basis and prudence principle.

3.4.17.1 Costs of sales

Cost of sale comprises costs of finished goods sold and costs of services sold, including services of support functions and cost of merchandise and raw materials sold.

3.4.17.2 Distribution expenses

Distribution expenses include selling brokerage expenses, trading expenses, advertising and promotion expenses as well as distribution expenses.

3.4.17.3 Administrative expenses

Administrative expenses include expenses relating to management and administration of the Company as *a* whole.

3.4.18 Other operating income and expenses

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

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

3.4.19 Finance income and finance costs

Finance income includes, in particular, income from the sale of shares and other securities, dividends received, interest earned on cash in bank accounts, term deposits and loans granted, increase in the value of financial assets and net foreign exchange gains.
Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

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

3.4.20 Income tax expenses

Income tax comprises current tax and deferred tax.
Current tax is determined in accordance with the relevant tax law based on the taxable profit for a given period. Current tax liabilities represent the amounts payable at the reporting date. If the amount of the current income tax paid exceeds the amount due the excess is recognized as a receivable.
Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rate valid as at the first date of the reporting period.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method.
Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences, tax losses and tax relieves to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
Taxable temporary differences are temporary differences that will result in increasing taxable amounts of future periods when the value of the asset or liability at the end of the reporting period is recovered or settled.
Taxable temporary differences arise when the carrying amount of an asset at the end of reporting period is higher than its tax base or when the carrying amount of a liability is lower than its tax base.
Deductible temporary differences are temporary differences that will result in reducing taxable amounts of future periods when the carrying amount of the asset or liability is recovered or settled. Deductible temporary differences arise when the carrying amount of an asset is lower than its tax base or when the carrying amount of a liability is higher than its tax base.
Deductible and taxable temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to be realized.
Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income.

3.4.20 Income tax expenses (continued)

The deferred tax assets and liabilities are measured at the end of each reporting period using enacted tax rates binding for the year in which the tax obligation arises, based on tax rates published in tax law.
Deferred tax assets and liabilities are not discounted.
Deferred tax assets and liabilities relating to transactions settled directly in equity are recognised in other comprehensive income. Deferred tax assets and liabilities are accounted for as non-current assets or long-term liabilities in the statement of financial position.
Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends and is able to settle its current tax assets and liabilities on a net basis.

3.4.21 Statement of cash flows

The statement of cash flows is prepared using indirect method.

Cash and cash equivalents presented in the statement of cash flows include cash and cash equivalents less bank overdrafts, if they form an integral part of the Company's cash management.

The Company discloses components of cash and cash equivalents and reconciliation between amounts disclosed in the statement of cash flows and respective lines of statement of financial position.

Non-cash transactions are excluded from statement of cash flows.

Dividends received are presented in cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.
Interest received from finance leases, loans granted, short-term securities and cash pooling system are presented in cash flows from investing activities. Other interests received are presented in cash flows from operating activities.

Interest paid and provisions on bank loans and borrowings received, cash pool facility, debt securities issued and finance leases are presented in cash flows from financing activities. Other interests paid are presented in cash flows from operating activities.

Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short are reported on a net basis in the statement of cash flows.

Cash received or paid due to term agreements i.e. futures, forward, options, swap is presented in cash flows from investing activities, unless the agreements are held by the Company for trading or cash received or paid is presented in financing activities.

If the contract is accounted as hedge of a given position, cash flows from such contract are classified in the same way as the cash flows resulting from the position hedged.

3.4.22 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.4.22.1 Recognition and derecognition in the statement of financial position

The Company recognises a financial asset or a financial liability in its statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

A regular way purchase or sale of financial assets is recognised by the Company as at trade date.

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

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

3.4.22.2 Measurement of financial assets and liabilities

When a financial asset or liability is recognised initially, the Company measures it at its fair value plus, in the case of a financial asset or a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs comprise particularly fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges and transfer of taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

For the purpose of measuring a financial asset at the end of the reporting period or any other date after initial recognition, the Company classifies financial assets into the following four categories:
- financial assets at fair value through profit or loss,
- held-to-maturity investments,
- loans and receivables,
- available-for-sale financial assets.

Regardless of characteristics and purpose of a purchase transaction, the Company classifies initially selected financial assets as financial assets at fair value through profit or loss, when doing so results in more relevant information.

A financial asset at fair value through profit or loss is a financial asset that has been designated by the Company upon initial recognition as at fair value through profit or loss or classified as held for trading if it is:
- acquired principally for the purpose of selling or repurchasing in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making, or
- a derivative (except for a derivative that is an effective hedging instrument).

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Available-for-sale financial assets are those non-derivative financial assets that are designated by the Company as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

3.4.22.3 Fair value measurement of financial assets

The Company measures financial assets at fair value through profit or loss, including derivative financial assets and available-for-sale financial assets at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal.
Fair value of financial assets is determined in the following way:
- for instruments quoted on an active market based on current quotations available as at the end of the reporting period,
- for debt instruments unquoted on an active market based on discounted cash flows analysis,
- for forward and swap transactions based on discounted cash flows analysis.

If the fair value of investments in equity instruments (shares) that do not have a quoted market price on an active market is not reliably measurable, the Company measures them at cost, that is the acquisition price less any accumulated impairment losses.

Financial assets designated as hedging items are measured in accordance with the principles of hedge accounting.

A gain or loss on a financial asset classified as at fair value through profit or loss are recognised through profit or loss.

A gain or loss on an available-for-sale financial asset is recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses that are recognised in profit or loss.

In case of debt financial instruments interest calculated using the effective interest method are recognised in profit or loss.

3.4.22.4 Amortized cost measurement of financial assets

The Company measures loans and other receivables, including trade receivables, as well as held-to-maturity investments at amortized cost using the effective interest method. Effective interest is the rate which precisely discounts estimated future cash flows or payments made in expected periods until financial instrument expiration, and in grounded situations in shorter period, up to net book value of asset or financial liability.

3.4.22.5 Fair value measurement of financial liabilities

As at the end of the reporting period or other dates after the initial recognition the Company measures financial liabilities at fair value through profit or loss (including particularly derivatives which are not designated as hedging instruments). Regardless of characteristics and purpose of a purchase transaction, the Company classifies initially selected financial liabilities as financial liabilities at fair value through profit or loss, when doing so results in more relevant information. The fair value of a financial liability is the current price of instruments quoted on an active market.

If there is no active market for a financial instrument, the fair value of the financial liabilities is established by using the following techniques:

- using recent arm's length market transactions between knowledgeable, willing parties,
- reference to the current fair value of another instrument that is substantially the same, or
- discounted cash flow analysis.

3.4.22.6 Amortized cost measurement of financial liabilities

The Company measures other financial liabilities at amortized cost using the effective interest rate method.

Financial guarantee contracts, that are contracts that require the Company (issuer) to make specified payments to reimburse the holder for the loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument, not classified as financial liabilities at fair value through profit or loss are measured at the higher of:

- the amount determined in accordance with principles relating to valuation of provisions, or
- the amount initially recognised less, when appropriate, cumulative amortization.

3.4.22.7 Transfers

The Company:

- shall not reclassify a financial instrument, including derivative, into or out of fair value through profit or loss category while it is held or issued, if at initial recognition it has been designated by the Company as measured at fair value through profit and loss, and
- may, if a financial asset is no longer held for the purpose of selling or repurchasing it in the near term (notwithstanding that the financial asset may have been acquired or incurred principally for the purpose of selling or repurchasing it in the near term), reclassify that financial asset out of the fair value through profit or loss category in limited circumstances. In case of loans and receivables (if at initial recognition financial assets were not classified as held for trading) a financial asset can be reclassified out of fair value through profit or loss category, if an entity has intention and possibility to hold a financial asset in a foreseeable future or to maturity.

3.4.22.8 Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective indicator that a financial asset or group of financial assets is impaired.

If there is an objective indicator that an impairment loss on loans and other receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. effective interest rate determined at initial recognition).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss as revenue.

If there is an objective indicator that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

If there is an objective indicator that an impairment loss has been incurred on an available-for-sale financial asset, the cumulative loss that had been recognised in statement of comprehensive income is removed from equity and recognised in profit or loss.

Impairment losses for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

3.4.22.9 Hedge accounting

Derivatives designated as hedging instruments whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a hedged item are accounted for in accordance with fair value or cash flow hedge accounting, if all of the following conditions are met:

- at the inception of the hedge there is formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge,
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship,
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss,
- the effectiveness of the hedge can be reliably measured,
- the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The Company does not apply hedge accounting in case when embedded derivative instrument is separated from the host contract.

The Company assesses effectiveness at the inception of the hedge and later, at minimum, at each reporting date. The Company assesses hedge as effective, for external reporting purposes only if the actual results of the hedge are within a range of 80% - 125%. The Company uses statistical methods, in particular regression analysis, to assess effectiveness of the hedge. The Company uses simplified analytical methods, when a hedged item and a hedging instrument are of the same nature i.e. maturity dates, amounts, changes affecting fair value risk or cash flow changes.

Fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. A firm commitment is a binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.

If a fair value hedge is used, it is accounted for as follows:

- the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss, and
- the gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised in profit or loss (this applies also if the hedged item is an available-for-sale financial asset, whose changes in value are recognised in other comprehensive income).

The Company discontinues fair value hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the Company's documented hedging strategy),
- the hedge no longer meets the criteria for hedge accounting, or
- the Company revokes the designation.

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.
If a cash flow hedge is used, it is accounted for as follows:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income, and
- the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified to profit or loss in the same period or periods during which the asset acquired or liability assumed affect profit or loss. However, if the Company expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it reclassifies to profit or loss the amount that is not expected to be recovered.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Company removes the associated gains and losses that were recognised in the other comprehensive income and includes them in the initial cost or other carrying amount of the asset or liability.

3.4.22.9 Hedge accounting (continued)

The Company discontinues cash flow hedge accounting if:

- the hedging instrument expires, is sold, terminated or exercised - in this case, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain separately recognised in equity until the forecast transaction occurs,
- the hedge no longer meets the criteria for hedge accounting - in this case, the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain separately recognised in equity until the forecast transaction occurs,
- the forecast transaction is no longer expected to occur, in which case any related cumulative gain or loss on the hedging instrument recognised in other comprehensive income are recognised in profit or loss,
- the designation is revoked – in this case the cumulative gain or loss on the hedging instrument recognised in other comprehensive income remain separately recognised in other comprehensive income until the forecast transaction occurs or is no longer expected to occur

Net investment in a foreign operation is the amount of the reporting entity's interest in the net assets of that operation.

Hedges of a net investment in a foreign operation, including hedge of monetary item that is accounted for as a part of the net investment, shall be accounted for similarly to cash flow hedges:

- the portion of the gain or loss on the hedging instrument that is determined to be effective hedge shall be recognised in other comprehensive income, and
- the ineffective portion shall be recognised in profit or loss.

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment on a disposal of the foreign operations.

A hedge of a foreign currency risk of a firm commitment may be accounted for as a fair value hedge or cash flow hedge.

3.4.23 Contingent assets and liabilities

Contingent liabilities are defined as possible obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events not wholly within the control of the Company or present obligations that arise from past events but is not recognised because it is not probable that an outflow of resource embodying economic benefits will be required to settle the obligations or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the statement of financial position however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote. Contingent liabilities acquired as the result of a business combination are recognized as provisions in the statement of financial position.
Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.
Contingent assets are not recognized in the statement of financial position as it may lead to recognition of the income, which will never be gain; however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

3.4.24 Subsequent events after the reporting date

Subsequent events after the reporting date are those events, favourable and unfavourable that occur between end of the reporting period and date of when the financial statements are authorized for issue. Two types of subsequent events can be identified:

- those, that provide evidence of conditions that existed as the end of the reporting period (events after the reporting period requiring adjustments in the foregoing financial statements) and
- those that are indicative of conditions that arose after the reporting period (events after the reporting period not requiring adjustments in the foregoing financial statements).

4. APPLICATION OF PROFESSIONAL JUDGEMENTS AND ASSUMPTIONS

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In the matters of considerable weight, the Company's management bases its estimates on opinions of independent experts.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 23 Tax expense,7 Property, plant and equipment and 9 Intangibles assets in relation to impairment.

The accounting policies descibed above have been applied consistently to all periods presented in these financial statements.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

5. THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

The following table shows subsidiaries and jointly controlled entities forming the consolidated Group of UNIPETROL, a.s., and the parent company's interest in the capital of subsidiaries and jointly controlled entities held either directly by the parent company or indirectly by the consolidated subsidiaries and allocation of subsidiaries into the Operating segments (information as of 31 December 2013).

Name and registered office	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries	Operating segment	Website
Parent company				
UNIPETROL, a.s. Na Pankráci 127, 140 00 Praha 4, Czech Republic			Corporate function	www.unipetrol.cz
Subsidiaries				
BENZINA, s.r.o. Na Pankráci 127, 140 00 Praha 4, Czech Republic	100.00%	--	Retail	www.benzinaplus.cz
PARAMO, a.s. Přerovská 560, 530 06 Pardubice, Czech Republic	100.00%	--	Refinery	www.paramo.cz
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Refinery Petrochemical Corporate function	www.unipetrolrpa.cz
UNIPETROL SERVICES, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Corporate function	www.unipetrolservices.cz
UNIPETROL DOPRAVA, s.r.o. Litvínov - Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12%	99.88%	Refinery	www.unipetroldoprava.cz
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B , 63225 Langen/Hessen, Germany	0.10 %	99.90%	Petrochemical	www.unipetrol.de
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63%	99.37%	Retail	www.petrotrans.cz
UNIPETROL SLOVENSKO s.r.o. Panónská cesta 7, 850 00 Bratislava, Slovak Republic	13.04%	86.96%	Refinery	www.unipetrol.sk
POLYMER INSTITUTE BRNO, spol. s r.o. Tkalcovská 36/2, 656 49 Brno, Czech republic	1.00%	99.00%	Petrochemical	www.polymer.cz
Paramo Oil s.r.o. (dormant entity) Přerovská 560, 530 06 Pardubice, Czech Republic	--	100.00%	Refinery	
Výzkumný ústav anorganické chemie, a.s. Revoluční 84/č.p. 1521, Ústí nad Labem, Czech Republic	100.00%	--	Petrochemical	www.vuanch.cz
UNIPETROL RAFINÉRIE, s.r.o. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00%	--	Refinery	
HC VERVA Litvínov, a.s. Litvínov , S.K. Neumanna 1598, Czech Republic	--	70.95%	Corporate function	www.hokej-litvinov.cz
CHEMOPETROL, a.s. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	--	100.00%	Petrochemical	
MOGUL SLOVAKIA s.r.o. Hradiště pod Vrátnom, U ihriska 300, Slovak Republic	--	100.00%	Refinery	www.mogul.sk
UNIPETROL AUSTRIA HmbH in Liquidation Vídeň, Apfelgasse 2, Austria	100.00%	--	Petrochemical	
Jointly controlled entities				
ČESKÁ RAFINÉRSKÁ, a.s. Záluží 2, 436 01 Litvínov, Czech Republic	51.22%	--	Refinery	www.ceskarafinerska.cz
Butadien Kralupy a.s. O. Wichterleho 810, 278 01 Kralupy nad Vltavou,	51.00%	--	Petrochemical	

The ownership interests and allocation of subsidiaries into the operating segments as at 31 December 2012 were the same as it is presented in the table above except for the change described below.

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

Changes in structure of the Group

Liquidation of UNIPETROL TRADE Group

CHEMAPOL (SCHWEIZ) AG was put under liquidation on 1 June 2010 due to the restructuring process of UNIPETROL TRADE Group. The liquidation of CHEMAPOL (SCHWEIZ) AG was completed on 12 June 2013. The liquidation process of UNIPETROL AUSTRIA HmbH is ongoing.

Acquisition of 16.335% stake in ČESKÁ RAFINÉRSKÁ, a.s. from Shell Overseas Investments B.V. ("Shell")

On 31 January 2014 UNIPETROL, a.s. acquired from Shell 152,701 shares of ČESKÁ RAFINÉRSKÁ, a.s. amounting to 16.335% of the Česká rafinérská's share capital. As a result of the transaction Unipetrol's stake on the Česká rafinérská's share capital has increased from 51.22% to 67.555%. Details of the transactions are described in Note 31 Significant Post Balance Sheet Events.

6. CHANGES IN DISCLOSURE OF COMPARATIVE PERIOD

The Company has changed disclosure in respect of selected data in comparative period in Non-consolidated statement of financial position and Non-consolidated statement of cash flows to ensure consistent approach with data presentation in 2013. The changes were incorporated in presentation of certain positions in financial statements to provide users of financial statements with better information concerning operations of the Company.
The changes incorporated in the Non-consolidated statement of financial position of the Company were connected with presentation of assets held for sale in the Non-consolidated statement of financial position as at 31 December 2012.
As at 31 December 2012 following the intention of UNIPETROL, a.s.'s management to sell 100% shares in PARAMO, a.s. the Company presented financial investment in this subsidiary as asset held for sale. In 2013 financial statements, following the Company´s management decision to change the status of the assets to no longer held for sale, the Company ceased to present financial investment in PARAMO, a.s in amount of CZK 178 000 thousand as asset held for sale and restated the comparative Statement of financial position in accordance with requirements of IFRS 5 *Non- current assets held for sale and discontinued operations*.
The Statement of financial position as at 31 December 2012 was presented in a way as investment in Paramo has never been classified as asset held for sale and shares in Paramo were disclosed under Shares in related parties in restated Statement of financial position. As the classification as assets held for sale was done as at 31 December 2012 there was no need to restate earlier periods.
Impact of the change in *presentation of assets held for sale is* disclosed under *point 1* on following page.

The Company has changed disclosure in respect of selected data in comparative period of Non-consolidated statement of statement of financial position and Non-consolidated statement of cash flows to ensure consistent approach with data presentation in 2013, based on changes in detail of presentation adopted since 1 January 2013. Particular items from the Non-consolidated statements of financial position and Non-consolidated statement of cash flows were presented either in bigger detail or were grouped into condensed categories. Impact of the *changes in detail of presentation of assets / liabilities* under *point 2 is* disclosed in the tables on following pages. The Management believes that current detail of disclosures provides readers of financial statements with better presentation.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

6. CHANGES IN DISCLOSURE OF COMPARATIVE PERIOD (CONTINUED)

The changes in Non-consolidated statement of financial position as at 31 December 2012 are presented in following table:

	Previously stated	presentation of assets held for sale (1)	changes in detail of presentation of assets / liabilities (2)	Restated
ASSETS				
Non-current assets				
Property, plant and equipment	12 822			12 822
Investment property	1 149 081			1 149 081
Intangible assets	456			456
Shares in related parties	13 812 981	178 000		13 990 981
Loans granted	334 651		(334 651)	-
Other non-current assets	186		334 651	334 837
	15 310 177	**178 000**	**-**	**15 488 177**
Current assets				
Trade and other receivables	191 695			191 695
Other financial assets	11 973 200			11 973 200
Current tax receivables	17 524			17 524
Cash and cash equivalents	1 294 067			1 294 067
Assets classified as held for sale	178 000	(178 000)		-
	13 654 486	**(178 000)**	**-**	**13 476 486**
Total assets	**28 964 663**	**-**	**-**	**28 964 663**
EQUITY AND LIABILITIES				
EQUITY				
Share capital	18 133 476			18 133 476
Statutory reserves	1 651 472			1 651 472
Other reserves	510 080		(510 080)	-
Revaluation reserve	-		502 626	502 626
Retained earnings	5 124 936		7 454	5 132 390
Total equity	**25 419 964**	**-**	**-**	**25 419 964**
LIABILITIES				
Non-current liabilities				
Provisions	400			400
Deferred tax liabilities	113 326			113 326
	113 726	**-**	**-**	**113 726**
Current liabilities				
Trade and other liabilities	163 073			163 073
Loans, borrowings and debt securities	3 267 900		(1 215 880)	2 052 020
Other financial liabilities	-		1 215 880	1 215 880
	3 430 973	**-**	**-**	**3 430 973**
Total liabilities	**3 544 699**	**-**	**-**	**3 544 699**
Total equity and liabilities	**28 964 663**	**-**	**-**	**28 964 663**

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

6. CHANGES IN DISCLOSURE OF COMPARATIVE PERIOD (CONTINUED)

The changes in non-consolidated statement of cash flows for year ended 31 December 2012 are presented in the following table:

	Previously stated	changes in detail of presentation of assets / liabilities (2)	Restated
Cash flows - operating activities			
Net profit	**403 972**		**403 972**
Adjustments for:			
Depreciation and amortisation	2 497		2 497
Foreign exchange (gain)/loss	2 975		2 975
Interest and dividends, net	(354 956)		(354 956)
(Profit)/Loss on investing activities	(178)	(161 880)	(162 058)
Tax expense	31 902		31 902
Income tax (paid)	(28 148)		(28 148)
Impairment losses (gains) on financial investments, loans and receivables	(161 880)	161 880	-
Change in working capital	(6 757)	-	(6 757)
receivables	(29 853)		(29 853)
liabilities	23 096		23 096
Net cash used in operating activities	**(110 573)**	**-**	**(110 573)**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets	(6 418)		(6 418)
Disposal of property, plant and equipment and intangible assets	223		223
Dividends received	195 554		195 554
Proceeds/(Outflows) from loans granted	(394 983)	(1 143 024)	(1 538 007)
Proceeds/(Outflows) from cash pool granted	-	1 143 024	1 143 024
Interest received	366 621		366 621
Net cash provided by investing activities	**160 997**	**-**	**160 997**
Cash flows - financing activities			
Proceeds from loans and borrowings	-	679 713	679 713
Repayments of loans and borrowings	-	(663 977)	(663 977)
Interest paid	(377 150)		(377 150)
Dividends paid to non-controlling shareholders	(570)		(570)
Change in loans and borrowings	265 686	(265 686)	-
Proceeds/(Outflows) from cash pool received	-	249 950	249 950
Net cash used in financing activities	**(112 034)**	**-**	**(112 034)**
Net increase/(decrease) in cash and cash equivalents	**(61 610)**	**-**	**(61 610)**
Effect of exchange rate changes	(2 975)		(2 975)
Cash and cash equivalents, beginning of the period	1 358 652		1 358 652
Cash and cash equivalents, end of the period	**1 294 067**	**-**	**1 294 067**

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

EXPLANATORY NOTES TO THE NON-CONSOLIDATED FINANCIAL STATEMENTS

7. PROPERTY, PLANT AND EQUIPMENT

	31/12/2013	31/12/2012
Land	8 741	8 741
Machinery and equipment	163	296
Vehicles and other	1 411	3 785
	10 315	**12 822**

Changes in Property, plant and equipment:

	Land	Machinery and equipment	Vehicles and other	Total
Gross book value				
1 January 2013	8 741	3 292	15 412	27 445
Reclassifications	-	-	83	83
Sale	-	-	(5 985)	(5 985)
31 December 2013	**8 741**	**3 292**	**9 511**	**21 543**
Accumulated depreciation, impairment allowances				
1 January 2013	-	2 995	11 628	14 623
Depreciation	-	133	2 102	2 235
Sale	-	-	(5 630)	(5 630)
31 December 2013	**-**	**3 128**	**8 100**	**11 228**
Gross book value				
1 January 2012	10 546	3 292	15 038	28 876
Investment expenditures	5	-	1 108	1 113
Reclassifications	(1 810)	-	-	(1 810)
Sale	-	-	(734)	(734)
31 December 2012	**8 741**	**3 292**	**15 412**	**27 445**
Accumulated depreciation, impairment allowances				
1 January 2012	-	2 858	10 024	12 882
Depreciation	-	137	2 294	2 431
Sale	-	-	(690)	(690)
31 December 2012		**2 995**	**11 628**	**14 623**
Net book value				
1 January 2013	8 741	296	3 785	12 822
31 December 2013	8 741	163	1 411	10 315
1 January 2012	10 546	433	5 015	15 994
31 December 2012	8 741	296	3 785	12 822

8. INVESTMENT PROPERTY

Investment property at 31 December 2013 comprised the lands owned by the Company and leased to subsidiaries of the Company and third parties. The changes recorded during the year 2013 are presented in the following table:

	2013	2012
At beginning of the period	1 149 081	1 141 966
Reclassification from property, plant, equipment	-	1 810
Purchase	7 361	5 305
	1 156 442	**1 149 081**

Rental income amounted to CZK 112 719 thousand in 2013 (2012: CZK 108 710 thousand). Operating costs related to the investment property in reporting period amounted to CZK 14 025 thousand in 2013 (2012: CZK 7 532 thousand).
Information concerning valuation of investment property is included in note 3.4.4 and 25.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

9. INTANGIBLE ASSETS

	31/12/2013	31/12/2012
Software	75	130
Assets under development	325	325
	400	**455**

Changes in Intangible assets:

	Software	Assets under development	Other intangible assets	Total
Gross book value				
1 January 2013	19 570	325	8 673	28 567
31 December 2013	**19 570**	**325**	**8 673**	**28 567**
Accumulated amortisation, impairment allowances				
1 January 2013	19 439	-	8 673	28 112
Amortization	56	-	-	56
31 December 2013	**19 495**	**-**	**8 673**	**28 168**
Gross book value				
1 January 2012	19 570	325	8 673	28 567
31 December 2012	**19 570**	**325**	**8 673**	**28 567**
Accumulated amortisation, impairment allowances				
1 January 2012	19 373	-	8 673	28 046
Amortization	66	-	-	66
31 December 2012	**19 439**	**-**	**8 673**	**28 112**
Net book value				
1 January 2013	130	325	-	456
31 December 2013	75	325	-	400
1 January 2012	196	325	-	522
31 December 2012	130	325	-	456

The Company as at 31 December 2013 and 31 December 2012 did not possess internally generated intangible assets.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

10. SHARES IN RELATED PARTIES

Shares in related parties as at 31 December 2013 were as follows:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the year
Subsidiaries						
UNIPETROL RPA, s.r.o.	Litvínov	7 360 335	100,00	-	7 360 335	-
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	59 172	100,00	7 860	51 312	-
BENZINA, s.r.o.	Praha 4	4 181 070	100,00	1 922 070	2 259 000	-
PARAMO, a.s.	Pardubice	1 251 389	100.00	1 073 389	178 000	-
UNIPETROL SERVICES, s.r.o.	Litvínov	100 280	100,00	-	100 280	45 119
UNIPETROL RAFINÉRIE, s.r.o.	Praha	408	100,00	-	408	-
UNIPETROL AUSTRIA H.m.b.H.	Vídeň	2 901	100,00	-	2 901	-
Jointly controlled entities						
ČESKÁ RAFINÉRSKÁ, a.s. *)	Litvínov	3 872 299	51,22	-	3 872 299	921 972
Butadien Kralupy a. s.	Kralupy	162 194	51,00	-	162 194	-
Other investments						
ORLEN MALTA HOLDING	La Valeta	522	-	-	522	-
Spolek pro chemickou a hutní výrobu, akciová společnost	Ústí nad Labem	0.2	-	-	0.2	-
UNIPETROL DOPRAVA s.r.o.	Litvínov	1 799	0,12	-	1 799	292
UNIPETROL SLOVENSKO s.r.o.	Bratislava	95	13,04	-	95	-
PETROTRANS, s.r.o.	Praha	781	0,63	-	781	332
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	954	1,00	-	954	142
UNIPETROL Deutschland GmbH	Langen/Hessen	101	0,10	-	101	52
Total		**16 994 300**	**-**	**3 003 319**	**13 990 981**	**967 909**

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

Shares in related parties as at 31 December 2012 were as follows:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the year
Subsidiaries						
UNIPETROL RPA, s.r.o.	Litvínov	7 360 335	100,00	-	7 360 335	-
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	59 172	100,00	7 860	51 312	-
BENZINA, s.r.o.	Praha 4	4 181 070	100,00	1 922 070	2 259 000	-
PARAMO, a.s.	Pardubice	545 389	100.00	367 389	178 000	-
UNIPETROL SERVICES, s.r.o.	Litvínov	100 280	100,00	-	100 280	33 670
UNIPETROL RAFINÉRIE, s.r.o.	Praha	408	100,00	-	408	-
UNIPETROL AUSTRIA H.m.b.H.	Vídeň	2 901	100,00	-	2 901	-
Jointly controlled entities						
ČESKÁ RAFINÉRSKÁ, a.s. *)	Litvínov	3 872 299	51,22	-	3 872 299	140 798
Butadien Kralupy a. s.	Kralupy	162 194	51,00	-	162 194	-
Other investments						
ORLEN MALTA HOLDING	La Valeta	522	-	-	522	-
Spolek pro chemickou a hutní výrobu, akciová společnost	Ústí nad Labem	0.2	-	-	0.2	-
UNIPETROL DOPRAVA s.r.o.	Litvínov	1 799	0,12	-	1 799	216
UNIPETROL SLOVENSKO s.r.o.	Bratislava	95	13,04	-	95	20 278
PETROTRANS, s.r.o.	Praha	781	0,63	-	781	362
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	954	1,00	-	954	177
UNIPETROL Deutschland GmbH	Langen/Hessen	101	0,10	-	101	53
Total		**16 288 300**	**-**	**2 297 319**	**13 990 981**	**195 554**

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

The Company had equity investments of CZK 13 990 981 thousand as at 31 December 2013 and 31 December 2012 which represent ownership interests in companies that do not have a quoted market price and whose fair value cannot be reliably measured and therefore are carried at acquisition cost less any impairment losses.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

10. SHARES IN RELATED PARTIES (CONTINUED)

In February 2013 the Company increased the share capital in its subsidiary PARAMO, a.s. by converting loans granted to the entity in amount of CZK 706 000 thousand. The value of CZK 706 000 thousand represented the gross book value of the loan fully impaired in previous years due to uncertainty of PARAMO, a.s. ability to repay these loans. The impairment charge in amount of CZK 706 000 thousand was reclassified to the Shares in related parties.

11. OTHER NON-CURRENT ASSETS

	31/12/2013	31/12/2012
Loans granted	1 519 519	334 651
Financial assets	**1 519 519**	**334 651**
Prepayments	-	186
Non-financial assets	**-**	**186**
	1 519 519	**334 837**

	2013	2012
At the beginning of the period	334 837	2 382 459
Loans granted	1 400 000	-
Reclassification to current from non-current loans to subsidiaries	(215 318)	(2 047 622)
	1 519 519	**334 837**

Loans granted to subsidiaries

During year 2013 the Company provided a non-current loan to BENZINA s.r.o. in amount of CZK 1 400 000 thousand. The loan will be repaid within 3 years and interest rate is based on 6M PRIBOR. The fair value of loan approximates its carrying amount.

As at 31 December 2013 the Company had non-current loan in amount of CZK 119 519 thousand (31 December 2012: CZK 334 651 thousand) granted to its jointly controlled entity Butadien Kralupy a.s. The loan is repayable by regular fixed instalments over next 4 years and interest rates are based on 6M PRIBOR. The fair value of loan approximates its carrying amount.

12. TRADE AND OTHER RECEIVABLES

	31/12/2013	31/12/2012
Trade receivables	144 908	183 398
Other	2 837	231
Financial assets	**147 745**	**183 629**
Other taxation, duty, social security receivables	-	4 410
Prepayments and deffered costs	3 147	3 656
Non-financial assets	**3 147**	**8 066**
Receivables, net	**150 892**	**191 695**
Receivables impairment allowance	120 763	120 730
Receivables, gross	**271 655**	**312 425**

Trade receivables result primarily from sales of services. The management considers that the carrying amount of trade receivables approximates their fair value.

The Company exposure to credit and currency risk related to trade and other receivables is disclosed in note 24 and detailed information about receivables from related parties is presented in note 29.

Movement in the impairment loss allowance

	31/12/2013	31/12/2012
At the beginning of the period	120 730	131 405
Recognition	321	-
Reversal	(60)	(10 675)
Usage	(228)	-
	120 763	**120 730**

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

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

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

13. OTHER FINANCIAL ASSETS

	31/12/2013	31/12/2012
Loans granted	10 051 766	10 906 409
Cash pool	2 637 539	1 066 791
	12 689 305	**11 973 200**
Impairment allowance	-	(722 019)
Gross book value	**12 689 305**	**12 695 219**

Loans and cash pool granted

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

The interest rates were based on appropriate inter-bank rates and fair value of loans approximates their carrying amount except for the loan provided to BENZINA, s.r.o. in 1998. This loan carries interest of 9.97% p.a. As at 31 December 2012 the carrying amount of the loan provided to BENZINA, s.r.o. was CZK 2 035 451 thousand and fair value as at 31 December 2012 amounted to CZK 2 208 530 thousand. This loan was repaid during year 2013.

The current loans provided to subsidiaries are not collateralised. The current loans to subsidiaries as at 31 December 2012 included the portion of non-current loans due within one year in amount of CZK 2 083 259 thousand.

The analysis of current loans by currency of denomination is presented in the Note 24.

14. CASH AND CASH EQUIVALENTS

	31/12/2013	31/12/2012
Cash on hand and in bank	157 802	1 294 067
	157 802	**1 294 067**

The carrying amount of these assets approximates their fair value.

15. SHAREHOLDERS' EQUITY

15.1 Share capital

The issued capital of the Company as at 31 December 2013 amounted to CZK 18 133 476 thousand (2012: CZK 18 133 476 thousand). This represents 181 334 764 (2012: 181 334 764) bearer ordinary shares, each with a nominal value of CZK 100. All issued shares have been fully paid and bear equal voting rights. The Company's shares are listed on the Prague stock exchange.

15.2 Statutory reserves

In accordance with the Czech Commercial Code, joint stock companies are required to establish a reserve fund for possible future losses and other events. Contributions must be a minimum of 20% of the profit for the period in the first year in which profits are generated and 5% of profit each year thereafter until the fund reaches at least 20% of the issued capital. The balance of the Statutory reserve fund as at 31 December 2013 amounted to CZK1 671 671 thousand (31 December 2012: CZK 1 651 472 thousand).

15.3 Revaluation reserve

Revaluation reserve comprises the difference between the net book value and fair value of the property as at the date of reclassification of the property occupied by the Company and recognised as an investment property.

15.4 Retained earnings and dividends

Dividends

In accordance with appropriate Czech law, dividends can be paid from unconsolidated profit of the parent company. The Annual General Meeting of UNIPETROL, a.s. held on 24 June 2013 decided, pursuant to Article 12 (2) (v) of the Articles of Association of UNIPETROL, a.s., on distribution of the Company's profit generated on non-consolidated basis in 2012 in amount of CZK 403 972 thousand. Based on the decision the amount of CZK 20 199 thousand was allocated to the Company's Reserve Fund and CZK 383 774 thousand was transferred to retained earnings. The decision regarding appropriation of 2013 profit will be made on the annual meeting of shareholders, which will be held in May / June 2014.

15.5 Capital management policy

Capital management is performed on the Group level in order to protect the Group's ability to continue its operations as a going concern while maximizing returns for shareholders.

The Company monitors equity debt ratio (net financial leverage). As at 31 December 2013 and 31 December 2012 Company´s financial leverage amounted to 11.14% and 7.76%, respectively;

Net financial leverage = net debt / equity x 100
Net debt = Non-current loans and borrowings + current loans and borrowings + cash pool liabilities - cash and cash equivalents

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

15.6 Earnings per share

Basic earnings per share

	2013	2012
Profit / (loss) for the period attributable to equity holders (in CZK '000)	937 692	403 972
Weighted average number of shares	181 334 764	181 334 764
Earnings per share (in CZK)	**5,17**	**2,23**

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

16. LOANS, BORROWINGS AND DEBT SECURITIES

	Long-term		Short-term		Total	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Bank loans	-	-	268 048	17 438	268 048	17 438
Borrowings	2 000 000	-	-	-	2 000 000	-
Debt securities	-	-	-	2 034 582	-	2 034 582
	-	**268 048**	**2 052 020**	**2 831 531**	**2 506 631**	**2 831 531**

Bank loans and cash pool agreements
During the year 2013 the Company had cash pool and loan agreements with the following banks, subsidiaries and related companies: Banks: CITIBANK a.s., ING Bank N.V., organizační složka, Česká spořitelna, a.s., and Nordea Bank Finland Plc.
Subsidiaries and related companies: UNIPETROL RPA, s.r.o., BENZINA, s.r.o., PARAMO, a.s., UNIPETROL DOPRAVA, s.r.o., POLYMER INSTITUTE BRNO, spol s r.o., PETROTRANS, s.r.o., UNIPETROL SERVICES, s.r.o., UNIPETROL SLOVENSKO, s.r.o., Butadien Kralupy a.s., MOGUL SLOVAKIA, s.r.o. a ORLEN FINANCE AB.
Cash held at bank accounts of above mentioned banks is drawn by the Company and above mentioned subsidiaries. The contracts enable to access bank loans from CZK 850 000 thousand to CZK 2 700 000 thousand from each bank. Interest income/expense are calculated from the drawn amount and consequently divided among the parties involved.

Loan granted by PKN Orlen S.A.
On 12 December 2013 the Company signed a mid-term loan agreement with its majority shareholder PKN ORLEN S.A. Based on the Agreement, Unipetrol will receive a mid-term loan in the amount of CZK 4 000 000 thousand. The purpose of the loan is the diversification of Unipetrol's funding sources and extension of their maturity.
The loan has been divided into two tranches of CZK 2 billion each. First tranche was received 17 December 2013 and second tranche in January 2014.
The loan has a 3-year maturity, i.e. each tranche 36 months from its reception. Interests will be paid semi-annually and will be based on 6 months PRIBOR plus fixed margin. Pricing is in line with currently prevailing market conditions for 3-year loans provided in CZK.

Unsecured bonds issued
In 1998 the Company issued 2,000 bonds at a total nominal value of CZK 2 000 000 thousand. The bonds matured in 2013 at their nominal value of CZK 2 000 000 thousand. The interest rate was 0% p.a. for the first two years and 12.53% p.a. in subsequent years. The effective interest rate was 9.82%. Interest was payable on an annual basis. Interest expense was accrued using the effective interest rate method. The bonds were repaid in December 2013.

Analyses of bank loans
- by currency (translated into CZK)

	31/12/2013	31/12/2012
CZK	206 319	46
EUR	42 576	16 922
USD	19 153	470
	268 048	**17 438**

- by interest rate

	31/12/2013	31/12/2012
PRIBOR	206 319	46
EURIBOR	42 576	16 922
LIBOR	19 153	470
	268 048	**17 438**

Short-term bank loans are subject to variable interests and their carrying amounts approximate fair values. Average effective interest rate as at 31 December 2013 was 0.73% (31 December 2012: 1.17%).
Disclosures resulting from IFRS 7 relating to loans and borrowings are included in note 24 and are presented jointly with other financial instruments.

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

17. TRADE AND OTHER LIABILITIES

	31/12/2013	31/12/2012
Trade liabilities	28 791	81 161
Investment liabilities	46	-
Dividends	34 905	35 140
Other	15 619	10 811
Financial liabilities	**79 361**	**127 112**
Prepayments for deliveries	-	80
Payroll liabilities	10 446	5 100
Value added tax	6 920	-
Other taxation, duties, social security and other benefits	5 346	2 103
Accruals	34 789	28 677
holiday pay accrual	1 297	2 514
wages accrual	33 492	26 163
Non-financial liabilities	**57 502**	**35 960**
	136 863	**163 072**

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

18. OTHER FINANCIAL LIABILITIES

The Company presents Cash pool liabilities to subsidiaries and related entities in amount of CZK 825 475 thousand as at 31 December 2013 (CZK 1 215 881 thousand as at 31 December 2012). The description of cash pool agreements is presented in note 16.

19. REVENUES

	2013	2012
Fees for use of lands	112 719	108 710
Revenues from services	28 291	39 105
	141 010	**147 815**

20. OPERATING EXPENSES

20.1 Cost of sales

	2013	2012
Cost of services sold	(84 842)	(67 710)
	(84 842)	**(67 710)**

20.2 Cost by nature

	2013	2012
Materials and energy	(2 476)	(2 444)
External services	(109 880)	(96 847)
Employee benefits	(162 861)	(122 485)
Depreciation and amortisation	(2 291)	(2 497)
Taxes and charges	(10 311)	(10 515)
Repairs and maintenance	(796)	(1 429)
Insurance	(1 200)	(654)
Other	(823)	(8 740)
Operating expenses	**(290 638)**	**(245 611)**
Administrative expenses	204 030	174 890
Other operating expenses	1 766	3 011
Cost of sales	**(84 842)**	**(67 710)**

20.3 Employee benefits

	2013	2012
Payroll expenses	(114 566)	(85 992)
Social security expenses	(26 497)	(19 371)
Other employee benefits expenses	(21 798)	(17 122)
	(162 861)	**(122 485)**

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20.3.1 Employee benefits - additional information

2013	Employees	Key Management	Audit Committee	Board of Directors	Supervisory Board	Total
Payroll expenses	(63 168)	(41 007)	(747)	(3 078)	(6 566)	(114 566)
Social security expenses	(16 547)	(7 300)	(155)	(489)	(2 006)	(26 497)
Other employee benefits expenses	(12 294)	(9 504)	-	-	-	(21 798)
	(92 009)	**(57 811)**	**(902)**	**(3 567)**	**(8 572)**	**(162 861)**
Number of employees average per year						41.42
Number of employees as at balance sheet day						47

2012	Employees	Key Management	Audit committee	Board of directors	Supervisory board	Total
Payroll expenses	(39 448)	(36 995)	(960)	(2 949)	(5 640)	(85 992)
Social security expenses	(10 478)	(6 261)	(326)	(388)	(1 918)	(19 371)
Other employee benefits expenses	(10 308)	(6 814)	-	-	-	(17 122)
	(60 234)	**(50 070)**	**(1 286)**	**(3 337)**	**(7 558)**	**(122 485)**
Number of employees average per year						37.80
Number of employees as at balance sheet day						41

21. OTHER OPERATING INCOME AND EXPENSES

21.1 Other operating income

	2013	2012
Profit on sale of non-current non-financial asets	1 227	178
Reversal of provisions	325	-
Reversal of receivables impairment allowances	60	10 675
Penalties and compensations earned	161	3 191
Other	1 485	4 743
	3 258	**18 787**

21.2 Other operating expenses

	2013	2012
Recognition of receivables impairment allowances	(321)	-
Donations	(1 382)	(223)
Write off receivable	-	(2 732)
Other	(63)	(56)
	(1 766)	**(3 011)**

22. FINANCE INCOME AND FINANCE COSTS

22.1 Finance income

	2013	2012
Interest	331 473	408 350
Dividends	967 909	195 554
Reversal of impairment to financial assets	16 019	161 880
Other	4 375	6 794
	1 319 776	**772 578**

22.2 Finance costs

	2013	2012
Interest	(226 800)	(246 156)
Foreign exchange (loss) / surplus	(1 655)	(690)
Other	(4 972)	(10 849)
	(233 427)	**(257 695)**

23. TAX EXPENSE

	2013	2012
Tax expense recognized in the statement of profit or loss		
Current income tax	(3 575)	(28 480)
Deferred income tax	1 288	(3 422)
	(2 287)	**(31 902)**

Domestic income tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2013 (2012: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using tax rate approved for years 2013 and forward i.e. 19%.

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23.1 The differences between income tax expense recognized in profit or loss and the amount calculated based on profit before tax

Reconciliation of effective tax rate

	2013	2012
Profit for the year	937 692	403 972
Total income tax expense	(2 287)	(31 902)
Profit excluding income tax	939 979	435 874
Income tax using domestic income tax rate	(178 596)	(82 816)
Effect of tax rates in foreign jurisdictions	-	(128)
Non-deductible expenses	(9 511)	(5 852)
Tax exempt income	183 903	67 925
Under (over) provided in prior periods	183	(5 435)
Other differencies	1 734	(5 596)
Total income tax expense	**(2 287)**	**(31 902)**
Effective tax rate	**(0.24%)**	**(7.30%)**

23.2 Deferred tax assets and liabilities

Deferred income taxes result from future tax benefits and costs related to the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The deferred income taxes have been calculated using the tax rate expected to apply to periods when the respective asset is realized or liability is settled (i.e. 19% in 2013 and onward).

	31/12/2012	Deferred tax recognized in statement of profit or loss	31/12/2013
Deferred tax assets			
Employee benefit costs	5 525	1 149	6 674
	5 525	1 149	6 674
Deferred tax liabilities			
Property, plant and equipment	(265)	139	(126)
Investment property	(118 586)	-	(118 586)
	(118 851)	139	(118 712)
	(113 326)	**1 288**	**(112 038)**

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24. FINANCIAL INSTRUMENTS

24.1 Financial instruments by category and class

Financial assets
as at 31 December 2013

		Financial instruments by category		
Financial instruments by class	Note	Loans and receivables	Financial assets available for sale	Total
Unquoted shares	*10*	-	13 990 981	13 990 981
Trade receivables	*12*	144 908	-	144 908
Loans granted	*11,13*	14 208 824	-	14 208 824
Cash and cash equivalents	*14*	157 802	-	157 802
Other		2 837	-	2 837
		14 514 371	**13 990 981**	**28 505 352**

as at 31 December 2012

		Financial instruments by category		
Financial instruments by class	Note	Loans and receivables	Financial assets available for sale	Total
Unquoted shares	*10*	-	13 990 981	13 990 981
Trade receivables	*12*	183 398	-	183 398
Loans granted	*11,13*	12 307 852	-	12 307 852
Cash and cash equivalents	*14*	1 294 067	-	1 294 067
Other		231	-	231
		13 785 548	**13 990 981**	**27 776 529**

Financial liabilities
as at 31 December 2013

		Financial instruments by category	
Financial instruments by class	Note	Valued at amortized cost	Total
Non-current loans and borrowings	*16*	2 000 000	2 000 000
Current loans and borrowings	*16*	268 048	268 048
Trade and other payables and accruals	*17*	79 361	79 361
Other financial liabilities	*18*	825 475	825 475
		3 172 884	**3 172 884**

as at 31 December 2012

		Financial instruments by category	
Financial instruments by class	Note	Valued at amortized cost	Total
Current loans and borrowings	*16*	2 052 020	2 052 020
Trade and other payables and accruals	*17*	127 112	127 112
Other financial liabilities	*18*	1 215 880	1 215 880
		3 395 012	**3 395 012**

24.2 Income and costs, gain and loss in the statement of profit or loss and other comprehensive income

For the year ended as at 31 December 2013

	Financial instruments by category			
	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	Total
Interest income	331 473	-	-	331 473
Interest cots	-	-	(226 800)	(226 800)
Foreign exchange gain/(loss)	3 493	-	(5 148)	(1 655)
Recognition/reversal of receivables impairment allowances recognized in:				
other operating income/(expenses)	(261)	-	-	(261)
Valuation of financial assets availbale for sale	-	16 019	-	16 019
Other	2	-	(4 972)	(4 970)
	334 707	**16 019**	**(236 921)**	**113 805**

For the year ended as at 31 December 2012

	Financial instruments by category			
	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	Total
Interest income	408 350	-	-	408 350
Interest cots		-	(246 156)	(246 156)
Foreign exchange gain/(loss)	(4 890)	-	4 200	(690)
Recognition/reversal of receivables impairment allowances recognized in:				
other operating income/(expenses)	10 675	-	-	10 675
Other	6 794	-	(10 849)	(4 055)
	420 929	**-**	**(252 805)**	**168 124**

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24.3 Financial risk management

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

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

24.4 Credit risk

The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Loans granted (notes 11 and 13) and receivables (note 12) principally consist of amounts due from subsidiaries and jointly controlled entities. The Company does not require collateral in respect of these financial assets. The Company's management monitors the most significant debtors and assesses their creditworthiness. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Statement of financial position.

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

Non-past due loans and receivables	31/12/2013	31/12/2012
Group I	14 514 371	13 785 548
Group II	-	-
Total non-past due loans and trade receivables	**14 514 371**	**13 785 548**

The carrying amount of financial assets represents the maximum credit exposure.
The Company does not have any past due, not impaired financial assets.
The maximum credit risk in respect of each class of financial assets is equal to the book value.

24.5 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate liquid funds, borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.
As at 31 December 2013 and 31 December 2012 the maximum available credit facilities relating to bank loans amounted to CZK 10 750 000 thousand and CZK 10 785 000 thousand respectively, of which as at 31 December 2013 and 31 December 2012 CZK 10 481 952 thousand and CZK 8 732 980 thousand respectively remained unused.

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

Contractual maturity of non-derivative financial liabilities

		31/12/2013			
	Note	up to 1 year	from 1 to 3 years	Total	Carrying amount
Loans - undiscounted value	*16*	1 136 936	2 086 827	3 223 763	3 093 523
Trade liabilities	*17*	79 361	-	79 361	79 361
		1 216 297	**2 086 827**	**3 303 124**	**3 172 884**

		31/12/2012			
	Note	up to 1 year	from 1 to 3 years	Total	Carrying amount
Loans - undiscounted value	*16*	3 267 901	-	3 267 901	3 267 901
Trade liabilities	*17*	127 112	-	127 112	127 112
		3 395 013	**-**	**3 395 013**	**3 395 013**

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24.6 Market risk

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

24.6.1 Currency risk

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

Currency structure of financial instruments as at 31 December 2013

	CZK	EUR	USD	Other currencies after translation to CZK	Total after translation to CZK
Financial assets					
Unquoted shares	13 987 979	3 002	-	-	13 990 981
Trade receivables	142 402	34	2 472	-	144 908
Loans granted	14 103 215	85 721	19 888	-	14 208 824
Cash and cash equivalents	24 338	4 118	129 346	-	157 802
Other	2 837	-	-	-	2 837
	28 260 771	**92 875**	**151 706**	**-**	**28 505 352**
Financial liabilities					
Loans	2 857 853	86 726	148 944	-	3 093 523
Trade liabilities	70 924	7 888	199	350	79 361
	2 928 777	**94 614**	**149 143**	**350**	**3 172 884**

Currency structure of financial instruments as at 31 December 2012

	CZK	EUR	USD	Other currencies after translation to CZK	Total after translation to CZK
Financial assets					
Unquoted shares	13 987 979	3 002	-	-	13 990 981
Trade receivables	181 308	85	2 006	-	183 399
Loans granted	12 279 893	27 263	696	-	12 307 852
Cash and cash equivalents	1 214 419	69 131	10 516	-	1 294 067
Other	231	-	-	-	231
	27 663 830	**99 481**	**13 218**	**-**	**27 776 530**
Financial liabilities					
Loans	3 170 673	86 272	10 956	-	3 267 901
Trade liabilities	126 306	319	191	296	127 112
	3 296 979	**86 591**	**11 147**	**296**	**3 395 013**

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuation of exchange rates of CZK/USD and CZK/EUR.
The following table details the Company's sensitivity to percentage increase and decrease in the CZK against the relevant foreign currencies.

Sensitivity analysis for currency risk as at 31 December 2013

	Influence on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/CZK	15%	(261)	15%	261
USD/CZK	15%	384	15%	(384)
		124		**(124)**

Sensitivity analysis for currency risk as at 31 December 2012

	Influence on profit before tax			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/CZK	15%	1 933	15%	(1 933)
USD/CZK	15%	311	15%	(311)
		2 244		**(2 244)**

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24.6.2 Interest rate risk

The Company is exposed to the risk of volatility of cash flows arising from interest rate loans and cash pool arrangements granted and taken.

Interest rate structure of financial instruments:

	PRIBOR		EURIBOR		LIBOR		Caryìng amount	
	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012	31/12/2013	31/12/2012
Financial assets								
Loans granted	14 103 215	12 279 893	85 721	27 263	19 888	696	14 208 824	12 307 852
Financial liabilities								
Loans	2 857 853	3 170 673	86 726	86 272	148 944	86 272	3 093 523	3 267 901

Interest rate sensitivity analysis

The influence of financial instruments on profit before tax and hedging reserve due to changes in significant interest rates:

Interest rate	Assumed variation (in basis points)		Influence on profit before tax		Total	
	31/12/2013	31/12/2012	2013	2012	2013	2012
Financial assets						
EURIBOR	50	50	429	136	429	136
LIBOR	50	50	99	3	99	3
PRIBOR	50	50	70 516	61 399	70 516	61 399
			71 044	**61 539**	**71 044**	**61 539**
Financial liabilities						
EURIBOR	50	50	434	431	434	431
LIBOR	50	50	745	55	745	55
PRIBOR	50	50	14 289	15 853	14 289	15 853
			15 468	**16 340**	**15 468**	**16 340**

The above interest rates variations were calculated based on observations of interest rates fluctuations in the current and prior year as well as on the basis of available forecasts.

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2013 and 31 December 2012. The influence of interest rates changes was presented on annual basis.

25. FAIR VALUE DETERMINATION

25.1 Financial instrument for which fair value cannot be measured reliably

As at 31 December 2013 and 31 December 2012 the Company held unquoted shares in entities amounting to CZK 13 990 981 thousand, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities and no comparable transactions in the same type of instruments. Above mentioned shares were recognized as financial assets available for sale and measured at acquisition cost less impairment allowances. As at 31 December 2013 there are no binding decisions relating to the means and dates of disposal of those assets.

25.2 Methods applied in determining fair values of financial instruments (fair value hierarchy)

Fair value of shares quoted on active markets is determined based on market quotations (so called Level 1). In other cases, fair value is determined based on other input data, apart from market quotations, which are directly or indirectly possible to observe (so called Level 2) and data to valuation, which aren't based on observable market data (Level 3).

Financial assets and liabilities carried at fair value by the Company belong to Level 2 as defined by IFRS.

In the year ended 31 December 2013 and the comparative period in the Company were no transfers between Levels 1, 2 and 3.

Investment property

The Company applied the revenue approach to investment property with carrying amount of CZK 1 156 442 thousand as at 31 December 2013 (31 December 2012: CZK 1 149 081 thousand). In the revenue approach the calculation was based on the discounted cash flow method. The discount rate used reflects the relation, as expected by the buyer, between yearly revenue from an investment property and expenditures required to purchase investment property. Forecasts of discounted cash flows relating to the property consider arrangements included in all rent agreements as well as external data, e.g. current market rent charges for similar property, in the same location, technical conditions, standard and designed for similar purposes. The investment property valued under revenue approach is classified to the Level 3 defined by IFRS 7.

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25.2 Methods applied in determining fair values of financial instruments (fair value hierarchy) (continued)

The movements in the assets classified to the Level 3 fair values were as follows:

	31/12/2013	31/12/2012
Beginning of the period	1 149 081	1 143 777
Transfer from Property plant and equipment	7 361	5 305
	1 156 442	**1 149 081**

Sensitivity analysis of changes in fair value of investment property classified under Level 3 fair value

Analysis of the influence of potential changes in the fair value of investment property on profit before tax in relation to a hypothetical change in discount rate:

	Level 3			
	Increase	Total influence	Decrease	Total influence
Change in discount rate	+1pp	(88 774)	-1pp	88 774

26. LEASES

26.1 The Company as lessee

Operating lease

At the balance sheet date the Company possessed non-cancellable operating lease arrangements as a lessee.

Future minimum lease payments under non–cancellable operating lease agreements were as follows:

	31/12/2013	31/12/2012
No later than one year	6 119	6 207
Later than one year and not later than five years inclusive	26 515	24 827
Later than five years	-	5 172
	32 634	**36 206**

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

Payments recognized as an expense were as follows:

	2013	2012
Non-cancellable operating lease	5 014	6 207
Cancellable operating lease	6 316	5 763
	11 330	**11 970**

Finance lease

At the balance sheet date, the Company did not possess any finance lease arrangements as a lessee.

26.2 The Company as lessor

As at 31 December 2013 and as at 31 December 2012 the Company did not possess any finance or operating lease agreements as a lessor.

27. CONTINGENT LIABILITIES

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

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

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

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

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

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

27. CONTINGENT LIABILITIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

Purchase of shares of PARAMO, a.s.

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

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

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

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

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

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

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27. CONTINGENT LIABILITIES (CONTINUED)

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

The cassation appeal of certain minority shareholders concerning the invalidity of the General Meeting resolution was dismissed by the Supreme Court though the resolution dated 19 December 2013. The Supreme Court´s resolution is final and unappealable.

Support letter issued in favour of PARAMO, a.s.

The Company has confirmed in a letter of support its commitment to provide loan financing to its subsidiary PARAMO, a.s. for at least 12 months from the date of PARAMO, a.s. 2013 financial statements.

Guarantees issued

As part of the operational financing of UNIPETROL, a.s. , the bank guarantees in amount of CZK 589 million were provided for the companies: Unipetrol RPA, s.r.o. (in amount of CZK 541 million), UNIPETROL SERVICES, s.r.o. (in amount of 7 million CZK), BENZINA, s.r.o. (in amount of CZK 29 million) and PARAMO, a.s. (in amount of CZK 12 million).

Furthermore UNIPETROL, a.s. issued a guarantee for the company UNIPETROL RPA, s.r.o. in favor of ČEPRO, a.s to ensure the excise tax in the amount of CZK 150 million.

28. PAST ENVIROMENTAL LIABILITIES

The Company is the recipient of funds provided by the National Property Fund of the Czech Republic for settling environmental liabilities relating to historic environmental damage.
An overview of funds provided by the National Property Fund (currently administered by the Ministry of Finance) for the environmental contracts is provided below:

In CZK million	Total amount of funds to be provided	Used funds as at 31/12/2013	Unused funds as at 31/12/2013
UNIPETROL, a.s./ premises of UNIPETROL RPA, s.r.o.	6 012	3 688	2 324
UNIPETROL, a.s./ premises of SYNTHOS Kralupy a.s.	4 244	49	4 195
	10 256	**3 737**	**6 519**

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

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

29. RELATED PARTIES

29.1 Material transactions concluded by the Company with related parties

In year ended 31 December 2013 and in 2012 there were no transactions concluded by the Company with related parties on other than market terms.

29.2 Transactions with key management personnel

In year ended 31 December 2013 and in 2012 the Company did not grant to key management personnel and their relatives any advances, loans, guarantees and commitments or other agreements obliging them to render services to Company and related parties. In year ended 31 December 2013 and in 2012 there were no significant transactions concluded with members of the Board of Directors, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

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

In year ended 31 December 2013 and in 2012 members of the key management personnel of the Parent Company and the Group companies submitted statements that they have not concluded any transaction with related parties.

29.4 Transactions and balances of settlements of the Company with related parties

Parent and ultimate controlling party

During 2013 and 2012 a majority (62.99%) of the Company's shares were in possession of POLSKI KONCERN NAFTOWY ORLEN S.A.

2013	PKN Orlen	Parties under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN
Sales	388	118 272	8
Purchases	2 035	38 188	11
Finance income, including	-	1 303 539	-
dividends	-	967 909	-
Finance costs	1 850	72	9

31/12/2013	PKN Orlen	Parties under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN
Long term receivables and loans granted	-	1 519 519	-
Short term financial assets	-	12 689 294	11
Trade and other receivables	372	103 144	1
Trade and other liabilities, loans	2 002 109	830 140	3

2012	PKN Orlen	Parties under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN
Sales	37	126 450	14
Purchases	1 580	46 171	-
Finance income, including	-	601 081	-
dividends	-	195 554	-
Finance costs	-	165 019	-

31/12/2012	PKN Orlen	Parties under control or significant influence of UNIPETROL, a.s.	Entities under control or significant influence of PKN
Long term receivables and loans granted	-	334 838	-
Short term financial assets	-	12 151 198	2
Trade and other receivables	-	95 022	-
Trade and other liabilities, loans	286	1 229 648	-

NON-CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2013 (in thousands of CZK)

30. REMUNERATION PAID AND DUE OR POTENTIALLY DUE TO MANAGEMENT BOARD, SUPERVISORY BOARD AND OTHER MEMBERS OF KEY EXECUTIVE PERSONNEL IN ACCORDANCE WITH IAS 24

The Management Board's, the Supervisory Board's and other key executive personnel's remuneration includes short term employee benefits and termination benefits paid, due and potentially due during the period.

Key management personnel compensation

	2013		2012	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration of current year	69 155	1 697	61 707	544
Paid for previous year	14 224	-	12 217	-
Potentially due to be paid in the following year	13 946	-	14 125	-

Further detailed information regarding remuneration of key management personnel is included in note 20.3.

30.1 Bonus system for key executive personnel of the Company

In 2013 the key executive personnel was participating in the annual MBO bonus system (management by objectives). The regulations applicable to Management Board, directors directly reporting to Management Boards of entities and other key positions have certain common features. The persons subject to the above mentioned systems are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the Supervisory Board for the Management Board Members and by the Management Board members for the key executive personnel. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the Company. The goals so-said are qualitative or quantitative (measurable) and are accounted for following the end of the year for which they were set, on the rules adopted in the applicable Bonus System Regulations. Regulation gives the possibility to promote employees, who significantly contribute to results generated by the Company.

30.2 The entitlements upon the termination of employment

The entitlements arising from contracts with key management personnel upon the termination of employment contained both a competition and a stabilization clause. The competition and stabilization clause ranges between three and six average monthly earnings or monthly base salary respectively.

31. SIGNIFICANT POST BALANCE SHEET EVENTS

Acquisition of 16.335% stake in ČESKÁ RAFINÉRSKÁ, a.s. from Shell

On 31 January 2014 UNIPETROL, a.s. ("Unipetrol") completed the transaction of acquisition of 152 701 shares of ČESKÁ RAFINÉRSKÁ, a.s. ("Česká rafinérská") amounting to 16.335% of the Česká rafinérská's share capital from Shell Overseas Investments B.V. ("Shell") following the conclusion of share purchase agreement on 7 November 2013. The acquisition price for the shares in amount of USD 27.2 million was settled by cash. The transaction was an opportunistic acquisition fully in line with Unipetrol Group Strategy 2013-2017 announced in June 2013 and supporting its execution thanks to: increasing security of petrochemical feedstock supplies, faster implementation of Operational Excellence initiatives and strengthening long-term presence on the Czech market.

Based on the completion of the transaction Unipetrol's stake on the Česká rafinérská's share capital has increased from 51.22% to 67.555%.

Unipetrol based on regulations included in IFRSs will continue to account for its investment in Ceska rafinerska as jointly controlled entity due to existence of collective control of all shareholders. Contractual arrangements between shareholders require unanimous consent of all shareholders in case of certain decision of significant importance for relevant activities of the entity.

The Company's management is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2013.

32. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorized for issue by the Board of directors meeting of the Company held on 12 March 2014.

Signature of statutory representatives	12 March 2014
Marek Świtajewski	Mirosław Kastelik
Chairman of the Board of Directors	Member of the Board of Directors