KPMG

# UNIPETROL, a.s.

# CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

## 31 DECEMBER 2010

*Translated from the Czech original*

Unipetrol
ORLEN GROUP

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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 consolidated financial statements of UNIPETROL, a.s. and its subsidiaries ("the Group") which comprise the statement of financial position as of 31 December 2010, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these consolidated financial statements.

*Statutory Body's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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

KPMG

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities of the Group as of 31 December 2010, and of its expenses, revenues and net result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Prague
14 March 2011

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

Otakar Hora
Partner
Licence number 1197

# UNIPETROL, a.s.

**Consolidated statement of financial position**
**prepared in accordance with International Financial Reporting Standards**
**As at 31 December 2010**
**(in thousands of Czech crowns)**

| | Note | 31 December 2010 | 31 December 2009 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 33,909,010 | 35,811,639 |
| Intangible assets | 11 | 1,908,948 | 1,668,184 |
| Investment property | 12 | 162,190 | 162,627 |
| Other investments | 13 | 192,425 | 198,343 |
| Non-current receivables | 14 | 130,224 | 121,179 |
| Deferred tax asset | 15 | 48,280 | 99,409 |
| **Total non-current assets** | | **36,351,077** | **38,061,381** |
| **Current assets** | | | |
| Inventories | 16 | 10,193,515 | 8,598,273 |
| Trade and other receivables | 17 | 9,487,630 | 9,310,024 |
| Short-term financial assets | 18 | 540,342 | 747,042 |
| Prepayments and other current assets | | 141,780 | 230,626 |
| Cash and cash equivalents | 19 | 4,741,831 | 1,185,721 |
| Current tax assets | | 14,623 | 37,730 |
| Assets classified as held for sale | 20 | -- | 78,333 |
| **Total current assets** | | **25,119,721** | **20,187,749** |
| **Total assets** | | **61,470,798** | **58,249,130** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 21 | 18,133,476 | 18,133,476 |
| Statutory reserves | 22 | 2,452,698 | 2,425,274 |
| Other reserves | | 25,971 | 33,615 |
| Retained earnings | 23 | 18,187,563 | 17,278,971 |
| **Total equity attributable to equity holders of the Company** | | **38,799,708** | **37,871,336** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 24 | 2,013,357 | 2,031,363 |
| Deferred tax liability | 15 | 1,758,773 | 1,714,928 |
| Provisions | 25 | 392,789 | 355,891 |
| Other non-current liabilities | 26 | 146,823 | 165,033 |
| **Total non-current liabilities** | | **4,311,742** | **4,267,215** |
| **Current liabilities** | | | |
| Trade and other payables and accruals | 27 | 16,741,801 | 14,595,230 |
| Loans and borrowings | 24 | 212,454 | 366,254 |
| Provisions | 25 | 1,301,691 | 1,106,768 |
| Short-term financial liabilities | 28 | 80,276 | 307 |
| Current tax liabilities | | 23,126 | 42,020 |
| **Total current liabilities** | | **18,359,348** | **16,110,579** |
| **Total liabilities** | | **22,671,090** | **20,377,794** |
| **Total equity and liabilities** | | **61,470,798** | **58,249,130** |

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 5 to 59.

Unipetrol
ORLEN GROUP

## UNIPETROL, a.s.

**Consolidated statement of comprehensive income**
**prepared in accordance with International Financial Reporting Standards**
**For the year ended 31 December 2010**
**(in thousands of Czech crowns)**

| | Note | 2010 | 2009 |
|---|---|---|---|
| Revenue | 3 | 85,966,537 | 67,386,500 |
| Cost of sales | | (81,632,954) | (65,229,622) |
| **Gross profit** | | **4,333,583** | **2,156,878** |
| Other income | | 891,615 | 1,777,088 |
| Distribution expenses | | (1,963,665) | (2,025,040) |
| Administrative expenses | | (1,176,590) | (1,342,875) |
| Other expenses | | (406,887) | (1,219,776) |
| **Result from operating activities** | 5 | **1,678,056** | **(653,725)** |
| Finance income | | 96,137 | 97,918 |
| Finance costs | | (588,500) | (661,925) |
| **Net finance costs** | 6 | **(492,363)** | **(564,007)** |
| **Profit (loss) before income tax** | | **1,185,693** | **(1,217,732)** |
| Income tax (expense) credit | 8 | (248,960) | 372,458 |
| **Profit (loss) for the year** | | **936,733** | **(845,274)** |
| **Other comprehensive income:** | | | |
| Foreign currency translation differences - foreign operations | | (7,644) | (5,778) |
| Investment property revaluation | | -- | 3,529 |
| Other transactions | | (717) | 11,311 |
| **Other comprehensive income for the year, net of tax** | | **(8,361)** | **9,062** |
| **Total comprehensive income for the year** | | **928,372** | **(836,212)** |
| **Profit (loss) attributable to:** | | | |
| Owners of the Company | | 936,733 | (840,295) |
| Non-controlling interests | | -- | (4,979) |
| **Profit (loss) for the year** | | **936,733** | **(845,274)** |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | 928,372 | (831,233) |
| Non-controlling interests | | -- | (4,979) |
| **Total comprehensive income for the year** | | **928,372** | **(836,212)** |
| **Basic and diluted earnings per share (in CZK)** | 9 | **5.17** | **(4.63)** |

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 5 to 59.

## UNIPETROL, a.s.

**Consolidated statement of changes in equity**
**prepared in accordance with International Financial Reporting Standards**
**For the year ended 31 December 2010**
**(in thousands of Czech crowns)**

| | Share capital | Statutory reserves | Translation reserve | Fair value reserve | Retained earnings | Equity attributable to equity holders of the Company | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2009** | **18,133,476** | **2,173,616** | **18,645** | **17,219** | **18,359,613** | **38,702,569** | **210,271** | **38,912,840** |
| **Total comprehensive income for the year** | | | | | | | | |
| **Profit or loss** | -- | 251,658 | -- | -- | (1,091,953) | (840,295) | (4,979) | (845,274) |
| **Other comprehensive income** | | | | | | | | |
| Foreign currency translation differences | -- | -- | (5,778) | -- | -- | (5,778) | -- | (5,778) |
| Adjustment to Investment property | -- | -- | -- | 3,529 | -- | 3,529 | -- | 3,529 |
| Other items | -- | -- | -- | -- | 11,311 | 11,311 | -- | 11,311 |
| Total other comprehensive income | -- | -- | (5,778) | 3,529 | 11,311 | 9,062 | -- | 9,062 |
| **Total comprehensive income for the year** | **--** | **251,658** | **(5,778)** | **3,529** | **(1,080,642)** | **(831,233)** | **(4,979)** | **(836,212)** |
| **Transactions with owners, recorded directly in equity:** | | | | | | | | |
| **Changes in ownership interests in subsidiaries that do not result in a loss of control** | | | | | | | | |
| Acquisition of 8.24 % shares of PARAMO,a.s. | -- | -- | -- | -- | -- | -- | (205,292) | (205,292) |
| Total changes in ownership interests in subsidiaries | -- | -- | -- | -- | -- | -- | (205,292) | (205,292) |
| Total transactions with owners | -- | -- | -- | -- | -- | -- | (205,292) | (205,292) |
| **Balance as at 31 December 2009** | **18,133,476** | **2,425,274** | **12,867** | **20,748** | **17,278,971** | **37,871,336** | **--** | **37,871,336** |
| **Balance as at 1 January 2010** | **18,133,476** | **2,425,274** | **12,867** | **20,748** | **17,278,971** | **37,871,336** | **--** | **37,871,336** |
| **Total comprehensive income for the year** | | | | | | | | |
| **Profit or loss** | -- | 27,424 | -- | -- | 909,309 | 936,733 | -- | 936,733 |
| **Other comprehensive income** | | | | | | | | |
| Foreign currency translation differences | -- | -- | (7,644) | -- | -- | (7,644) | -- | (7,644) |
| Other items | -- | -- | -- | -- | (717) | (717) | -- | (717) |
| Total other comprehensive income | -- | -- | (7,644) | -- | (717) | (8,361) | -- | (8,361) |
| **Total comprehensive income for the year** | **--** | **27,424** | **(7,644)** | **--** | **908,592** | **928,372** | **--** | **928,372** |
| **Balance as at 31 December 2010** | **18,133,476** | **2,452,698** | **5,223** | **20,748** | **18,187,563** | **38,799,708** | **--** | **38,799,708** |

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 5 to 59.

## UNIPETROL, a.s.

**Consolidated statements of cash flows**
**prepared in accordance with International Financial Reporting Standards**
**For the year ended 31 December 2010**
**(in thousands of Czech crowns)**

| | 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit for the year | **936,733** | **(845,274)** |
| Adjustments for: | | |
| Depreciation of the property, plant and equipment and amortisation of intangible assets | 3,495,539 | 3,432,193 |
| Gain on disposals of property, plant and equipment and intangible assets | (70,274) | (1,330,121) |
| Negative goodwill derecognition | -- | (86,640) |
| Dividends income | (7,759) | (10,183) |
| Other finance income and costs - net | 242,364 | 127,856 |
| Impairment losses on financial investments, property, inventory, receivables | (123,323) | (68,512) |
| Other non cash transaction | 178,376 | 47,116 |
| Income tax expense (credit) | 248,960 | (372,458) |
| Changes in: | | |
| - in trade receivables and other current assets | (202,254) | 51,478 |
| - in inventories | (1,597,349) | (1,389,437) |
| - in trade and other payables and accruals | 1,987,085 | 3,365,889 |
| - in provisions | (16,169) | 899,173 |
| Interest paid | (285,298) | (341,416) |
| Income tax (paid) returned | (150,192) | 401,568 |
| ***Net cash from operating activities*** | **4,636,439** | **3,881,232** |
| **Cash flows from investing activities:** | | |
| Proceed from disposals of property, plant and equipment and intangible assets | 1,945,748 | 1,769,208 |
| Proceed from disposals of short-term financial assets | 359,405 | -- |
| Proceed from disposals of CELIO, a.s. | 78,323 | -- |
| Interest received | 13,387 | 9,027 |
| Dividends received | 7,759 | 10,183 |
| Acquisition of property, plant and equipment and intangible assets | (3,089,309) | (3,187,494) |
| Change in loans granted | (251,963) | 53,430 |
| Acquisition of additional shareholding in subsidiary | -- | (107,070) |
| Acquisition of short-term financial assets | -- | (359 405) |
| ***Net cash used in investing activities*** | **(936,650)** | **(1,812,121)** |
| **Cash flows from financing activities:** | | |
| Change in loans and borrowings | (124,295) | (1,672,045) |
| Payment of finance lease libilities | (18,016) | (146,769) |
| Dividends paid | (1,368) | (16,783) |
| ***Net cash used in financing activities*** | **(143,679)** | **(1,835,597)** |
| **Net change in cash and cash equivalents** | **3,556,110** | **233,514** |
| **Cash and cash equivalents at the beginning of the year** | **1,185,721** | **952,207** |
| **Cash and cash equivalents at the end of the year** | **4,741,831** | **1,185,721** |

The consolidated financial statements are to be read in conjunction with the notes forming part of the consolidated financial statements set out on pages 5 to 59.

Unipetrol ORLEN GROUP

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Year ended 31 December 2010 (in thousands of CZK)

## 1. DESCRIPTION OF THE PARENT COMPANY AND STRUCTURE OF THE CONSOLIDATED GROUP

*Establishment of the parent company*

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

*Registered office of the Company*

UNIPETROL, a.s.
Na Pankraci 127
140 00 Praha 4
Czech Republic

*Principal activities*

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

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

*Ownership structure*

The shareholders as at 31 December 2010 are as follows:

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

***Changes in structure of the Group***

On 1 June 2010 CHEMAPOL (SCHWEIZ) AG and on 1 January 2011 UNIPETROL TRADE a.s. were put under liquidation due to restructuring process of UNIPETROL TRADE Group. It is expected that liquidation will finish in 2011.

Year ended 31 December 2010 (in thousands of CZK)

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

*Statutory and supervisory bodies*

Members of the statutory and supervisory bodies of UNIPETROL, a.s. as at 31 December 2010 were as follows:

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

Changes in the board of directors during 2010 were as follows:

| Position | Name | Change | Date of change |
|---|---|---|---|
| Vice-Chairman | Wojciech Ostrowski | Elected for a new Term of office | 18 June 2010 |
| Vice-Chairman | Wojciech Ostrowski | Resigned as member and Vice-Chairman | 30 September 2010 |
| Member | Mariusz Kędra | Elected as a member | 1 October 2010 |

Changes in the supervisory board during 2010 were as follow:

| Position | Name | Change | Date of change |
|---|---|---|---|
| Member | Krystian Pater | Elected for new Term of office as a member | 29 June 2010 |
| Member | Zdeněk Černý | Elected for new Term of office as a member | 29 June 2010 |

Year ended 31 December 2010 (in thousands of CZK)

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

The following table shows subsidiaries and joint-ventures forming the consolidated group of UNIPETROL, a.s., and the Group's interest in the capital of subsidiaries and joint-ventures held either directly by the parent company or indirectly by the consolidated subsidiaries and allocation of subsidiaries into the Operating segments (information as of 31 December 2010).

| Name and registered office | Ownership interest of the parent company in share capital | Ownership interest in share capital through subsidiaries | Operating segment |
|---|---|---|---|
| **Parent company** | | | |
| UNIPETROL, a.s.<br>Na Pankráci 127, 140 00 Praha 4, Czech Republic | | | Other |
| **Subsidiaries consolidated by full method** | | | |
| BENZINA, s.r.o.<br>Na Pankráci 127, 140 00 Praha 4, Czech Republic | 100.00 % | -- | Retail |
| PARAMO, a.s.<br>Přerovská 560, 530 06 Pardubice, Czech Republic | 100.00 % | -- | Refinery |
| UNIPETROL TRADE a.s. v likvidaci<br>Na Pankráci 127, 140 00 Praha 4, Czech Republic | 100.00 % | -- | Petrochemical |
| UNIPETROL RPA, s.r.o.<br>Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic | 100.00 % | -- | Refinery, Petrochemical, Other |
| UNIPETROL SERVICES, s.r.o.<br>Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic | 100.00 % | -- | Other |
| UNIPETROL DOPRAVA s.r.o.<br>Litvínov – Růžodol č.p. 4, 436 70 Litvínov, Czech Republic | 0.12 % | 99.88 % | Refinery |
| Chemapol (Schweiz) AG in liquidation<br>Leimenstrasse 21, 4003 Basel, Switzerland | -- | 100.00 % | Petrochemical |
| UNIPETROL Deutschland GmbH<br>Paul Ehrlich Str. 1/B , 63225 Langen/Hessen, Germany | 0.10 % | 99.90 % | Petrochemical |
| PETROTRANS, s.r.o.<br>Střelničná 2221, 182 00 Praha 8, Czech Republic | 0.63% | 99.37 % | Retail |
| UNIPETROL SLOVENSKO s.r.o.<br>(previously UNIRAF Slovensko s.r.o)<br>Panónská cesta 7, 850 00 Bratislava, Slovak republic | 13.04% | 86.96 % | Refinery |
| **Joint-ventures consolidated by proportional method** | | | |
| ČESKÁ RAFINÉRSKÁ, a.s.<br>Záluží 2, 436 70 Litvínov, Czech Republic | 51.22 % | -- | Refinery |
| Butadien Kralupy a.s.<br>O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech Republic | 51.00 % | -- | Petrochemical |

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

The ownership interests and allocation of subsidiaries into the operating segments as at 31 December 2009 were the same as it is presented in the table above.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### A Statement of compliance and accounting policies

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods but which the Group has not early adopted. Relevant items are as follows:

- Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011)
- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010)
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010)

According to preliminary assessment these Standards and Interpretations are not relevant to the Group's financial statements.

### B Basis of preparation

The consolidated financial statements of the Company for the period ended 31 December 2010 comprise the Company and its subsidiaries (together referred as the "Group") and the Group's interest in jointly controlled entities.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale, financial instruments at fair value through profit or loss and investment property.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Judgements made by management in the application of 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 note 10 – Property, plant and equipment and 11 - Intangibles assets in relation to impairment.
The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### C Functional and presentation currency

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

### D Group accounting principles and policies

(1) Foreign currency

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

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

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

*(ii) Financial statements of foreign operations*
The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Czech Crowns, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.
Financial statements of foreign entities, for consolidation purposes, are translated into CZK using the following methods:

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

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

All resulting exchange differences are recognized in equity, as foreign exchange differences on revaluation of subsidiaries. These differences are recognised in profit or loss in the period in which the foreign operation is disposed of.
Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the balance sheet date.

(2) Principles of consolidation

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

*(i) Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.
The non-controlling interest is presented in equity separately from equity attributable to equity holders of the parent. Net profit attributable to non-controlling interest is presented in the statement of comprehensive income.

*(ii) Equity accounted investees*

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

*(iii) Joint ventures*

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

*(iv) Transactions eliminated on consolidation*

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

(3) Revenue recognition

*(i)Revenue from sales*

Revenues from sales are recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Group and can be measured reliably.

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

Revenue from services rendered is recognised in the statement of comprehensive income in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due or associated costs.
When the Group acts as an agent for its customers and buys and sells goods for a fixed margin without controlling purchase and selling prices, it does not report the revenue and cost from the sale of goods on a gross basis. It reports a net margin in the statement of comprehensive income.

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

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

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

(4) Costs recognition

The Group recognizes costs in accordance with accrual basis and prudence.

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

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

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

(5) Operating segments

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(6) Other operating income and expenses

Other operating income in particular include income from liquidation and sale of non-financial non-current assets, surplus of assets, return of court fees, penalties earned, grants other than those for construction in progress, acquisition of fixed assets and the execution of development work, property assets received free of charge, reversal of receivable impairment allowances and provisions, compensations earned and revaluation gains.

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 property assets granted free of charge, impairment allowances (except those that are recognized as financial expenses), compensations paid, write-off of construction in progress which have not produced the desired economic effect, research costs, cost of recovery of receivables and liabilities and revaluation losses.

(7) Financial income and finance expenses

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(8) Taxation

Income tax comprises current tax and deferred tax.
Current tax is determined in accordance with the relevant tax law based on the taxable profit for a given period.
Current tax liabilities represent the amounts payable at the reporting date. If the amount of the current income tax paid exceeds the amount due the excess is recognized as a receivable.
Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for deductible temporary differences, unrealized tax losses and unrealized tax relieves to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.
Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.
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 temporary differences may also arise in connection with items not recognized in the accounting records as assets or liabilities. Tax base is determined in relation to expected recovery of assets or settlement of liabilities.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.
Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to be realized.
Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the statement of comprehensive income.
The deferred tax assets and liabilities are measured at the end of each reporting period using enacted tax rates binding for the year in which the tax obligation arises, based on tax rates published in tax law.
Deferred tax assets and liabilities are not discounted.
Deferred tax assets and liabilities are accounted for as non-current assets or long-term liabilities in the statement of financial position.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends and is able to settle its current tax assets and liabilities on a net basis.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(9) Earnings per share

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

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

(10) Property, plant and equipment

*(i) Owned assets*

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

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

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

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

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

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

| | |
|---|---|
| Buildings and constructions | 10-70 years |
| Machinery and equipment | 3-25 years |
| Vehicles and other | 4-17 years |

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

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

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(ii) Leased assets*

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the statement of 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 comprehensive income on a straight-line basis over the period of the lease.

*(iii) Subsequent expenditure*

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

(11) Investment property

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

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

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

(12) Intangible assets

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

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

Intangible assets are measured at acquisition or construction 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.

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 |

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*(i) Research and development*
Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of comprehensive income as an expense as incurred.
Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development.

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

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

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

(13) Government grants

Government grants are recognised in the statement of financial position *initially* as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attached to it.
If the grant relates to a given income, it is recognized as income over the period necessary to match it with the related costs which the grant is intended to compensate.
If the grant concerns particular asset, its fair value is recognized as deferred income and on a systematic basis over the estimated useful life of the underlying asset in the Statement of comprehensive income.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Carbon dioxide emission allowances

Emissions allowances received by the Group are recognised as intangible assets at the fair value of CO2 emission allowances at the date of their receipt. Purchased emission allowances are recognised at the acquisition price.
CO2 emission allowances granted free of charge and appropriate deferred income are recognized at the fair value of CO2 emission allowances at the date of their receipt in the consolidated statement of financial position.
The Group recognizes provision for estimated CO2 emissions in the reporting period. In the consolidated statement of comprehensive income the cost of recognized provision is compensated with settlement of deferred income on granted CO2 emission rights.
Starting from 1 January 2010 the Group used the above described policy. The change in presentation had no material impact on consolidated statement of comprehensive income for the period ended 31 December 2009, nor on the consolidated statement of financial position as at 31 December 2009 due to the sale of CO2 emissions allowances in 2009.

(15) Borrowing costs

Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.
The Group capitalises 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 comprehensive income in the period in which they are incurred.
The commencement date for capitalization of the borrowing costs is the date when all of the following conditions are met: expenditures for the asset are incurred, borrowing costs are incurred and activities necessary to prepare the asset for its intended use or sale are undertaken.

(16) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.
For intangible assets that are not yet available for use and intangible assets with indefinite useful lives, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

*(i) Calculation of recoverable amount*
Financial instruments, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial instruments are impaired where there is an objective evidence that, as a result of one or more events that occurred after the initial recognition the estimated future cash flows of the instrument have been impacted.
For equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial instruments the objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- evidence that the borrower will enter bankruptcy or financial re-organisation.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For certain categories of financial instruments, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default on receivables.
For financial instruments measured at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

*(ii) Reversals of impairment*
An impairment loss in respect of a held-to-maturity security or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.
In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.
An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. A reversal of an impairment loss is recognised as income. An impairment loss recognised in respect of goodwill is not reversed in subsequent periods.

(17) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.
Cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding external financing costs.
Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value.
Expenses and revenues connected with inventories write-offs or establishment and release of allowances are included in cost of sales.
The Group uses commodity derivative contracts to hedge crude oil purchases. Gains or losses on commodity derivative contracts are included in cost of sales.

(18) Trade and other receivables

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(19) Cash and cash equivalents

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

(20) Financial instruments

*(i) Non-derivative financial instruments*

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

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

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

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

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Held-to-maturity

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

Available-for-sale financial instruments

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

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

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

Other financial instruments

Other financial instruments include instruments that have fixed or determinable payments that are not quoted in an active market. Other financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Interest income is recognised by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

Derecognition of financial instruments

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

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

*(ii) Derivative financial instruments*

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.
A derivative instrument is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

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

Hedge accounting
The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.
At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged items.

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedge risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of comprehensive income relating to the hedged item.
Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are reported in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.
Amounts previously recognised in equity are transferred to profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in equity are transferred from equity and included in the initial measurement of the asset or liability.
Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss recognised in equity remains in equity until the forecast transaction is recorded in profit or loss. When a forecast transaction is no longer expected to occur; the cumulative gain or loss that was recognised in equity is transferred immediately to profit or loss.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Hedges of net investments in foreign operations

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

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

*(iii) Fair value of financial instruments*

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

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

(21) Provisions

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

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(22) Social security and pension schemes

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

(23) Long-term service benefits

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

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

(24) Non-current assets held for sale

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(25) Discontinued operations

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

(26) Share capital

Ordinary shares are classified as share capital.

(27) Contingent liabilities and receivables

Contingent liabilities are defined as obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events. Contingent liabilities are not recognized in the balance sheet however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote.

Contingent liabilities acquired as the result of a business combination are recognized as provisions in the balance sheet.

Contingent receivables are not recognized in the balance sheet; however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable.

Year ended 31 December 2010 (in thousands of CZK)

## 3. REVENUE

An analysis of the Group's revenue is as follows:

| | 2010 | 2009 |
|---|---|---|
| Gross sales of finished goods | 97,941,881 | 75,896,888 |
| Less: Excise tax | (24,212,030) | (22,867,231) |
| Gross sales of merchandise and materials | 6,950,395 | 10,827,670 |
| Less: Excise tax | (212,446) | (1,549,563) |
| **Net revenue from sales of own products, merchandise and materials** | **80,467,800** | **62,307,764** |
| **Revenue from services** | **5,498,737** | **5,078,736** |
| **Total revenue** | **85,966,537** | **67,386,500** |

## 4. OPERATING SEGMENTS

### Revenues and operating result

| Year ended 31/12/2010 | Refinery | Retail | Petrochemical | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Total external revenues | 46,389,674 | 8,498,507 | 30,978,308 | 100,048 | -- | 85,966,537 |
| Inter segment revenues | 18,311,815 | 296,895 | 1,289,311 | 528,405 | (20,426,426) | -- |
| Total segment revenue | 64,701,489 | 8,795,402 | 32,267,619 | 628,453 | (20,426,426) | 85,966,537 |
| **Result from operating activities** | **465,565** | **547,396** | **714,772** | **(49,677)** | **--** | **1,678,056** |
| Net finance costs | | | | | | (492,363) |
| **Profit before income tax** | | | | | | **1,185,693** |
| Income tax expense | | | | | | (248,960) |
| **Profit for the year** | | | | | | **936,733** |
| **Depreciation and amortisation** | **(1,119,435)** | **(374,552)** | **(1,916,230)** | **(85,322)** | | **(3,495,539)** |

| Year ended 31/12/2009 | Refinery | Retail | Petrochemical | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Total external revenues | 36,672,796 | 7,261,229 | 23,376,058 | 76,417 | -- | 67,386,500 |
| Inter segment revenues | 13,139,561 | 343,585 | 1,967,168 | 559,986 | (16,010,300) | -- |
| Total segment revenue | 49,812,357 | 7,604,814 | 25,343,226 | 636,403 | (16,010,300) | 67,386,500 |
| **Result from operating activities** | **(1,176,794)** | **692,636** | **(94,923)** | **(74,644)** | **--** | **(653,725)** |
| Net finance costs | | | | | | (564 007) |
| **Loss before income tax** | | | | | | **(1,217,732)** |
| Income tax credit | | | | | | 372,458 |
| **Loss for the year** | | | | | | **(845,274)** |
| **Depreciation and amortisation** | **(1,110,486)** | **(372,490)** | **(1,867,277)** | **(81,940)** | | **(3,432,193)** |

### Asset s and liabilities

| 31/12/2010 | Refinery | Retail | Petrochemical | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Segment assets | 26,156,910 | 6,676,068 | 24,132,333 | 4,857,607 | (1,337,018) | 60,485,900 |
| Unallocated corporate assets | | | | | | 984,898 |
| **Total assets** | | | | | | **61,470,798** |
| **Additions to non-current assets** | 310,214 | 265,254 | 1,008,944 | 72,611 | -- | **1,657,023** |
| Segment liabilities | 14,398,414 | 1,460,277 | 3,736,472 | 319,310 | (1,337,018) | 18,577,455 |
| Unallocated corporate liabilities | | | | | | 4,093,635 |
| **Total liabilities** | | | | | | **22,671,090** |

Year ended 31 December 2010 (in thousands of CZK)

## 4. OPERATING SEGMENTS (CONTINUED)

| 31/12/2009 | Refinery | Retail | Petrochemical | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Segment assets | 24,130,332 | 6,827,730 | 26,188,173 | 2,622,148 | (2,840,455) | 56,927,928 |
| Assets classified as held for sale | -- | -- | 77,240 | 1,093 | -- | 78,333 |
| Unallocated corporate assets | -- | -- | -- | -- | -- | 1,242,869 |
| **Total assets** | | | | | | **58,249,130** |
| **Additions to non-current assets** | 902,400 | 212,711 | 1,858,192 | 89,188 | **--** | **3,062,491** |
| Segment liabilities | 9,840,213 | 1,647,732 | 7,150,263 | 430,568 | (2,840,455) | 16,228,321 |
| Unallocated corporate liabilities | -- | -- | -- | -- | -- | 4,149,473 |
| **Total liabilities** | | | | | | **20,377,794** |

Additions to non-current assets comprise additions to property, plant and equipment (Note 10) and intangible assets (Note 11).

### Recognition and reversal of impairment allowances

| 2010 | Refinery | Retail | Petrochemical | Other | Consolidated |
|---|---|---|---|---|---|
| Recognition of impairment allowances | (188,619) | (22,199) | (85,850) | (358) | **(297,026)** |
| Reversal of impairment allowances | 81,863 | 87,630 | 126,626 | 412 | **296,531** |

| 2009 | Refinery | Retail | Petrochemical | Other | Consolidated |
|---|---|---|---|---|---|
| Recognition of impairment allowances | (136,190) | (100,434) | (103,450) | -- | **(340,074)** |
| Reversal of impairment allowances | 241,463 | 93,201 | 76,361 | 29,564 | **440,589** |

### Geographical information

| | Revenues | | Total assets | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Czech Republic | 59,683,619 | 50,544,074 | 60,146,183 | 57,138,036 |
| Germany | 7,850,820 | 4,676,627 | 167,406 | 175,162 |
| Poland | 2,678,541 | 1,419,266 | -- | -- |
| Slovakia | 6,166,200 | 4,002,213 | 1,134,220 | 860,084 |
| Other countries | 9,587,357 | 6,744,320 | 22,989 | 75,848 |
| **Total** | **85,966,537** | **67,386,500** | **61,470,798** | **58,249,130** |

With the exception of the Czech Republic no other individual country accounted for more than 10% of consolidated revenues or assets. Revenues are based on the country in which the customer is located. Total assets are based on location of the assets.

### Major customer

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

Year ended 31 December 2010 (in thousands of CZK)

## 4. OPERATING SEGMENTS (CONTINUED)

### Revenues from major products and services

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

| External revenues from major products and services | 2010 | 2009 |
|---|---|---|
| **Refinery** | **46,389,674** | **36,672,796** |
| Diesel | 23,022,205 | 17,147,240 |
| Gasoline | 9,659,408 | 7,797,728 |
| Bitumen | 2,336,904 | 1,966,770 |
| Lubricants | 771,597 | 706,937 |
| Other refinery products | 6,832,365 | 5,447,810 |
| Services | 3,767,195 | 3,606,311 |
| **Retail** | **8,498,507** | **7,261,229** |
| Refinery products | 8,185,920 | 6,928,759 |
| Services | 312,587 | 332,470 |
| **Petrochemical** | **30,978,308** | **23,376,058** |
| Ethylene | 3,677,893 | 2,576,475 |
| Benzene | 3,738,697 | 2,162,073 |
| Urea | 976,596 | 868,296 |
| Ammonia | 904,098 | 1,332,043 |
| C4 fraction | 1,581,889 | 1,336,845 |
| Polyethylene (HDPE) | 7,108,208 | 5,946,023 |
| Polypropylene | 6,697,248 | 4,112,521 |
| Other petrochemical products | 4,919,496 | 3,952,291 |
| Services | 1,374,183 | 1,089,491 |
| **Other** | **100,048** | **76,417** |
| **Total** | **85,966,537** | **67,386,500** |

## 5. OPERATING EXPENSES AND INCOMES

The following table shows the most significant types of operating expenses analysed by nature and operating incomes categories.

| 2010 | Cost of sales | Distribution costs | Administrative expenses | Other operating income / (expenses) | Total |
|---|---|---|---|---|---|
| Materials consumed | (63,314,873) | (200,507) | (22,353) | -- | **(63,537,733)** |
| Cost of merchandise and materials sold | (4,991,388) | -- | -- | -- | **(4,991,388)** |
| Energy | (2,070,341) | (1,231) | (5,776) | -- | **(2,077,348)** |
| Repairs and maintenance | (1,174,012) | (24,832) | (15,926) | -- | **(1,214,770)** |
| Other services | (5,019,494) | (1,006,291) | (251,393) | -- | **(6,277,178)** |
| Personnel expenses | (1,731,424) | (231,547) | (614,286) | -- | **(2,577,257)** |
| Depreciation | | | | | |
| - owned assets | (2,734,218) | (402,277) | (27,272) | -- | **(3,163,767)** |
| - leased assets | (91,832) | (20,626) | (571) | -- | **(113,029)** |
| Amortization | (136,889) | (33,319) | (48,535) | -- | **(218,743)** |
| Impairment losses on intangible assets and PPE recognised / (released) | -- | -- | -- | 67,686 | **67,686** |
| Inventory write-down released / (recognized) | (43,009) | -- | -- | -- | **(43,009)** |
| Impairment to receivables released / (recognized) | -- | -- | -- | (25,171) | **(25,171)** |
| Research expenditures | (17,958) | (9,253) | -- | -- | **(27,211)** |
| Investment property expense | -- | -- | -- | (1,314) | **(1,314)** |
| Non-cancellable operating lease rentals | (31,109) | -- | (13,532) | -- | **(44,641)** |
| Profit / (loss) on disposal of PPE and intangible assets | -- | -- | -- | 159,305 | **159,305** |
| Release / (Addition) to provisions | -- | -- | -- | (61,883) | **(61,883)** |
| Insurance | (145,748) | (6,410) | (109,802) | -- | **(261,960)** |
| Addition to provisions for CO2 consumption | (1,082,904) | -- | -- | -- | **(1,082,904)** |
| CO2 rights grant recognition | 1,066,971 | -- | -- | 254,135 | **1,321,106** |
| Taxes and charges | (26,644) | (2,162) | (25,604) | -- | **(54,410)** |
| Other expenses | (88,082) | (25,210) | (41,540) | (55,986) | **(210,818)** |
| Other income | -- | -- | -- | 147,956 | **147,956** |
| **Operating expenses** | **(81,632,954)** | **(1,963,665)** | **(1,176,590)** | **484,728** | **(84,288,481)** |
| **Revenue** | | | | | **85,966,537** |
| **Results from operating activities** | | | | | **1,678,056** |

Year ended 31 December 2010 (in thousands of CZK)

## 5. OPERATING EXPENSES AND INCOMES (CONTINUED)

| 2009 | Cost of sales | Distribution costs | Administrative expenses | Other operating income / (expenses) | Total |
|---|---|---|---|---|---|
| Materials consumed | (46,184,882) | (300,505) | (62,102) | -- | **(46,547,489)** |
| Cost of merchandise and materials sold | (6,692,368) | -- | -- | -- | **(6,692,368)** |
| Energy | (1,690,428) | (1,108) | (6,903) | -- | **(1,698,439)** |
| Repairs and maintenance | (1,097,408) | (23,103) | (12,798) | -- | **(1,133,309)** |
| Other services | (4,709,038) | (991,551) | (327,503) | -- | **(6,028,092)** |
| Personnel expenses | (1,746,731) | (229,572) | (605,300) | 268 | **(2,581,335)** |
| Depreciation | | | | | |
| - owned assets | (2,652,079) | (398,153) | (39,186) | -- | **(3,089,418)** |
| - leased assets | (103,486) | (28,694) | (534) | -- | **(132,714)** |
| Amortization | (149,612) | (13,072) | (47,377) | -- | **(210,061)** |
| Impairment losses on intangible assets and PPE recognised / (released) | -- | -- | -- | 19,406 | **19,406** |
| Inventory write-down released / (recognized) | 132,505 | -- | -- | -- | **132,505** |
| Impairment to receivables released / (recognized) | -- | -- | -- | (51,396) | **(51,396)** |
| Research expenditures | (14,545) | (9,729) | -- | -- | **(24,274)** |
| Investment property expense | -- | -- | -- | (1,301) | **(1,301)** |
| Non-cancellable operating lease rentals | (32,384) | -- | (16,570) | -- | **(48,954)** |
| Profit / (loss) on disposal of PPE and intangible assets | -- | -- | -- | 1,356,895 | **1,356,895** |
| Release / (Addition) to provisions | -- | -- | -- | (948,701) | **(948,701)** |
| Insurance | (181,957) | (3,753) | (90,753) | -- | **(276,463)** |
| Derecognition of negative goodwill | -- | -- | -- | 86,640 | **86,640** |
| Taxes and charges | (24,693) | (1,609) | (23,543) | -- | **(49,845)** |
| Other expenses | (82,516) | (24,191) | (110,306) | (51,152) | **(268,165)** |
| Other income | -- | -- | -- | 146,653 | **146,653** |
| **Operating expenses** | **(65,229,622)** | **(2,025,040)** | **(1,342,875)** | **557,312** | **(68,040,225)** |
| **Revenue** | | | | | **67,386,500** |
| **Results from operating activities** | | | | | **(653,725)** |

## 6. FINANCE INCOME AND FINANCE COSTS

| | 2010 | 2009 |
|---|---|---|
| **Finance income** | | |
| Interest income: | | |
| - bank deposits | 17,262 | 28,583 |
| - loans and receivables | 63,928 | 44,237 |
| **Total Interest income** | **81,190** | **72,820** |
| Dividend income | 7,759 | 10,183 |
| Revaluation of investments | -- | 2,200 |
| Other finance income | 7,188 | 12,715 |
| **Total finance income** | **96,137** | **97,918** |
| **Finance costs** | | |
| Interest expense: | | |
| - bank overdrafts, loans and borrowings | (265,862) | (310,344) |
| - finance leases | (287) | (2,359) |
| - other | (2,808) | (784) |
| Total Interest expense | (268,957) | (313,487) |
| Less amounts included in qualifying assets | 2,780 | 3,084 |
| **Borrowing costs recognized in the statement of comprehensive income** | **(266,177)** | **(310,403)** |
| Net foreign exchange losses | (117,773) | (120,891) |
| Revaluation of investments | (5,916) | (3,000) |
| Net loss arising on derivatives | (99,660) | (150,826) |
| Other finance expenses | (98,974) | (76,805) |
| **Total finance costs** | **(588,500)** | **(661,925)** |
| **Net finance costs** | **(492,363)** | **(564,007)** |

Year ended 31 December 2010 (in thousands of CZK)

## 7. PERSONNEL EXPENSES

The number of employees and managers and their remuneration for 2010 and 2009 are as follows:

| 2010 | Employees | Key Management | Total |
|---|---|---|---|
| Number of employees average per year FTE* | 3,905 | 71 | **3,976** |
| Number of employees as at balance sheet day** | 3,788 | 69 | **3,857** |
| Wages and salaries | 1,629,039 | 234,636 | **1,863,675** |
| Social and health insurance | 590,860 | 42,443 | **633,303** |
| Social expense | 39,279 | 1,331 | **40,610** |
| Part of expenses related to benefit plans | 27,359 | 224 | **27,583** |

| 2009 | Employees | Key Management | Total |
|---|---|---|---|
| Number of employees average per year FTE* | 4,092 | 99 | **4,191** |
| Number of employees as at balance sheet day** | 3,925 | 99 | **4,024** |
| Wages and salaries | 1,646,202 | 204,749 | **1,850,951** |
| Social and health insurance | 608,242 | 43,821 | **652,063** |
| Social expense | 33,588 | 1,339 | **34,927** |
| Part of expenses related to benefit plans | 31,688 | 458 | **32,146** |

* FTE – full time equivalent

** In case of companies consolidated under proportionate method relevant percentage is used; number of employees comprises only active employees

In 2010 the remuneration of members of the Board of directors was CZK 4,711 thousand (CZK 4,714 thousand in 2009). The remuneration of members of the Supervisory board was CZK 6,507 thousand in 2010 (CZK 6,802 thousand in 2009). Cost of social and health insurance connected with members of Board of directors and Supervisory board remuneration amounted to CZK 868 thousand in 2010 (CZK 847 thousand in 2009).

## 8. INCOME TAX

| | 2010 | 2009 |
|---|---|---|
| Current tax – Czech Republic | (122,413) | (97,651) |
| Current tax – other countries | (31,544) | (25,082) |
| Deferred tax | (95,003) | 495,191 |
| **Income tax (expense) credit** | **(248,960)** | **372,458** |

Domestic income tax is calculated in accordance with Czech tax regulations at the rate of 19 % in 2010 (2009: 20 %) of the estimated taxable income for the year. The deferred tax has been calculated using tax rate approved for years 2010 and forward i.e. 19 %. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Year ended 31 December 2010 (in thousands of CZK)

## 8. INCOME TAX (CONTINUED)

### Reconciliation of effective tax rate

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Profit / (loss) for the year | | 936,733 | | (845,274) |
| Total income tax expense / (credit) | | 248,960 | | (372,458) |
| Profit / (loss) excluding income tax | | 1,185,693 | | (1,217,732) |
| | | | | |
| Income tax using domestic income tax rate | 19 % | 225,282 | 20 % | (243,546) |
| Effect of tax rates in foreign jurisdictions | 0 % | 3,929 | 0 % | 2,558 |
| Non-deductible expenses | 1 % | 15,498 | (3 %) | 39,859 |
| Tax exempt income | 0 % | (1,474) | 1 % | (11,392) |
| Recognition of previously unrecognised tax losses | 0 % | -- | 11 % | (136,734) |
| Change in unrecognised temporary differences | 0 % | (2,133) | 3 % | (28,052) |
| Tax penalties | 0 % | -- | 0 % | (344) |
| Under (over) provided in prior periods | 0 % | -- | (2 %) | 21,814 |
| Other differences | 1 % | 7,858 | 1 % | (16,621) |
| **Total income tax (expense) credit** | **21 %** | **248,960** | **31 %** | **(372,458)** |

## 9. EARNINGS PER SHARE

*Basic earnings per share*

| | 2010 | 2009 |
|---|---|---|
| Profit / (loss) for the period attributable to equity holders (in CZK '000) | 936,733 | (840,295) |
| Weighted average number of shares | 181,334,764 | 181,334,764 |
| **Earnings per share (in CZK)** | **5.17** | **(4.63)** |

*Diluted earnings per share*

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

Year ended 31 December 2010 (in thousands of CZK)

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings and constructions | Machinery and equipment | Vehicles and other | Construction in progress | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 01/01/2009** | **1,239,845** | **22,515,951** | **35,430,441** | **2,945,703** | **4,177,310** | **66,309,250** |
| Additions | 5,089 | 86,037 | 399,734 | 155,203 | 1,877,244 | 2,523,307 |
| Disposals | (18,171) | (36,649) | (480,264) | (179,303) | -- | (714,387) |
| Reclassifications | 17,692 | 820,610 | 1,674,587 | 209,130 | (2,733,208) | (11,189) |
| Other | (6,460) | (98,981) | (244,618) | (1,788) | (113,927) | (465,774) |
| FX differences | -- | (356) | (13) | (200) | -- | (569) |
| **Balance at 31/12/2009** | **1,237,995** | **23,286,612** | **36,779,867** | **3,128,745** | **3,207,419** | **67,640,638** |
| Additions | -- | 19,378 | 64,385 | 28,405 | 1,375,014 | 1,487,182 |
| Disposals | (5,312) | (93,976) | (379,318) | (213,863) | (5,668) | (698,137) |
| Reclassifications | 32,634 | 839,291 | 2,201,258 | 119,688 | (3,276,477) | (83,606) |
| Other | -- | (181) | (24,062) | 956 | (17) | (23,304) |
| FX differences | -- | 2,184 | (46) | (392) | -- | 1,746 |
| **Balance at 31/12/2010** | **1,265,317** | **24,053,308** | **38,642,084** | **3,063,539** | **1,300,271** | **68,324,519** |
| **Depreciation** | | | | | | |
| **Balance at 01/01/2009** | **--** | **7,767,862** | **19,870,796** | **1,659,274** | **--** | **29,297,932** |
| Charge for the period | -- | 622,602 | 2,298,872 | 300,657 | -- | 3,222,131 |
| Disposals | -- | (123,548) | (994,705) | (163,144) | -- | (1,281,397) |
| Other | -- | 9,209 | 253,174 | 3,088 | -- | 265,471 |
| FX differences | -- | -- | (12) | (150) | -- | (162) |
| **Balance at 31/12/2009** | **--** | **8,276,125** | **21,428,125** | **1,799,725** | **--** | **31,503,975** |
| Charge for the period | -- | 594,226 | 2,375,966 | 306,604 | -- | 3,276,796 |
| Disposals | -- | (66,508) | (372,649) | (183,841) | -- | (622,998) |
| Other | -- | 65 | (99) | 820 | -- | 786 |
| FX differences | -- | -- | (45) | (343) | -- | (388) |
| **Balance at 31/12/2010** | **--** | **8,803,908** | **23,431,298** | **1,922,965** | **--** | **34,158,171** |
| **Impairment** | | | | | | |
| **Balance at 01/01/2009** | **50,724** | **188,319** | **97,745** | **5,175** | **1,861** | **343,824** |
| Impairment losses | 3,000 | 60,923 | 21,068 | 3,551 | -- | 88,542 |
| Reversal of impairment losses | (13,000) | (62,953) | (28,709) | (1,853) | (827) | (107,342) |
| **Balance at 31/12/2009** | **40,724** | **186,289** | **90,104** | **6,873** | **1,034** | **325,024** |
| Impairment losses | -- | 22,637 | 42,634 | 116 | 20,552 | 85,939 |
| Reversal of impairment losses | (2,100) | (61,150) | (84,022) | (6,353) | -- | (153,625) |
| **Balance at 31/12/2010** | **38,624** | **147,776** | **48,716** | **636** | **21,586** | **257,338** |
| **Carrying amount at 01/01/2009** | **1,189,121** | **14,559,770** | **15,461,900** | **1,281,254** | **4,175,449** | **36,667,494** |
| **Carrying amount at 31/12/2009** | **1,197,271** | **14,824,198** | **15,261,638** | **1,322,147** | **3,206,385** | **35,811,639** |
| **Carrying amount at 31/12/2010** | **1,226,693** | **15,101,624** | **15,162,070** | **1,139,938** | **1,278,685** | **33,909,010** |

According to IAS 23 the Group capitalizes those borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, as part of the cost of that asset. Borrowing costs capitalized in the year ended 31 December 2010 amounted to CZK 2,780 thousand (31 December 2009 CZK 3,084 thousand).

Year ended 31 December 2010 (in thousands of CZK)

## 10. PROPERTY PLANT AND EQUIPMENT (CONTINUED)

Impairment allowances disclosed in the property, plant and equipment movement table are equal to the amount by which the carrying amount of assets exceeds their recoverable amount. Recognition and reversal of impairment allowances for property, plant and equipment are recognized in other operating activities. In 2010 the major part of impairment was created by the Group in connection with shutdown of heating plant T200 (CZK 28,400 thousand) and in connections with suspension of investment projects (CZK 20,552 thousand).

As at 31 December 2010 the Group reviewed economic useful lives of property, plant and equipment applied before according to its accounting policy. Should the rates from the previous year be applied, deprecation expense for 2010 would be lower by CZK 3,585 thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2010 amounted to CZK 12,088,991 thousand and as at 31 December 2009 amounted to CZK 9,685,402 thousand.

The carrying amount of idle property, plant and equipment amounted to CZK 80,458 thousand as at 31 December 2010 (CZK 104,240 thousand as at 31 December 2009).

*Pledged assets*

The Group's gas stations, buildings, machinery and land are pledged to secure the Groups' liabilities.

| Bank – lender | Asset pledged | Acquisition cost of pledged assets | Outstanding amount of loan secured |
|---|---|---|---|
| ČSOB | Buildings | 1,709,900 | 12,017 |
| **Total at 31/12/2010** | | **1,709,900** | **12,017** |

| Bank – lender | Asset pledged | Acquisition cost of pledged assets | Outstanding amount of loan secured |
|---|---|---|---|
| ČSOB | Buildings | 1,690,562 | 84,155 |
| **Total at 31/12/2009** | | **1,690,562** | **84,155** |

Year ended 31 December 2010 (in thousands of CZK)

## 11. INTANGIBLE ASSETS

| | Software | Licences, patents and trade | Goodwill | Assets under development | CO2 emission allowances | Other intangible assets | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| **Balance at 01/01/2009** | **797,080** | **1,948,651** | **51,595** | **35,861** | **--** | **399,857** | **3,233,044** |
| Additions | 31,024 | 466 | -- | 499,556 | -- | 3,281 | **534,327** |
| Disposals | (428) | -- | -- | (5,712) | -- | (362,875) | **(369,015)** |
| Reclassifications | 18,592 | 10,344 | -- | (424,781) | -- | 407,034 | **11,189** |
| Other | (18,803) | -- | -- | 103,067 | -- | (3,044) | **81,220** |
| FX differences | (19) | -- | -- | -- | -- | -- | **(19)** |
| **Balance at 31/12/2009** | **827,446** | **1,959,461** | **51,595** | **207,991** | **--** | **444,253** | **3,490,746** |
| Additions | 10,046 | 289 | -- | 157,714 | 1,521,675 | 1,793 | **1,691,517** |
| Disposals | (96,642) | (17,472) | -- | -- | (1,711,559) | (620) | **(1,826,293)** |
| Reclassifications | 158,347 | 108,012 | -- | (265,247) | -- | 82,382 | **83,494** |
| Other | 32,247 | (16) | -- | (3,180) | 403,723 | (27,445) | **405,329** |
| FX differences | (40) | -- | -- | -- | -- | -- | **(40)** |
| **Balance at 31/12/2010** | **931,404** | **2,050,274** | **51,595** | **97,278** | **213,839** | **500,363** | **3,844,753** |
| **Amortization** | | | | | | | |
| **Balance at 01/01/2009** | **717,295** | **670,934** | **--** | **--** | **--** | **224,923** | **1,613,152** |
| Charge for the year | 42,056 | 100,771 | -- | -- | -- | 67,234 | **210,061** |
| Disposals | (813) | -- | -- | -- | -- | (12,179) | **(12,992)** |
| Other | -- | -- | -- | -- | -- | 12,351 | **12,351** |
| FX differences | (10) | -- | -- | -- | -- | -- | **(10)** |
| **Balance at 31/12/2009** | **758,528** | **771,705** | **--** | **--** | **--** | **292,329** | **1,822,562** |
| Charge for the year | 50,582 | 105,156 | -- | -- | -- | 63,005 | **218,743** |
| Disposals | (96,642) | (13,918) | -- | -- | -- | (365) | **(110,925)** |
| Other | 26,963 | (12) | -- | -- | -- | (21,500) | **5,451** |
| FX differences | (26) | -- | -- | -- | -- | -- | **(26)** |
| **Balance at 31/12/2010** | **739,405** | **862,931** | **--** | **--** | **--** | **333,469** | **1,935,805** |
| **Impairment** | | | | | | | |
| **Balance at 01/01/2009** | **--** | **--** | **--** | **--** | **--** | **606** | **606** |
| Reversal of impairment losses | -- | -- | -- | -- | -- | (606) | **(606)** |
| **Balance at 31/12/2009** | **--** | **--** | **--** | **--** | **--** | **--** | **--** |
| Reversal of impairment losses | -- | -- | -- | -- | -- | -- | **--** |
| **Balance at 31/12/2010** | **--** | **--** | **--** | **--** | **--** | **--** | **--** |
| **Carrying amount at 01/01/2009** | **79,785** | **1,277,717** | **51,595** | **35,861** | **--** | **174,328** | **1,619,286** |
| **Carrying amount at 31/12/2009** | **68,918** | **1,187,756** | **51,595** | **207,991** | **--** | **151,924** | **1,668,184** |
| **Carrying amount at 31/12/2010** | **191,999** | **1,187,343** | **51,595** | **97,278** | **213,839** | **166,894** | **1,908,948** |

Recognition and reversal of impairment allowances for intangible assets are recognized in other operating activities.
Software increased due to RIS system purchase in acquisition price of CZK 136,040 thousand. Licences, patents and trade marks include licenses related to production of plastics (high-density polyethylene- HDPE and polypropylene), which account for CZK 1,076,871 thousand of carrying amount as of 31 December 2010 (CZK 1,134,739 thousand as of 31 December 2009) and the unicracking process licence in carrying amount of CZK 5,778 thousand as of 31 December 2010 (CZK 7,705 thousand as of 31 December 2009). Other intangible assets include development costs in carrying amount of CZK 145,105 thousand as of 31 December 2010.

There were no changes in economic useful lives of intangible assets applied according to Group's accounting policy in 2010 and 2009.

The gross book value of all fully amortized intangible assets still in use as at 31 December 2010 amounted to CZK 1,503,173 thousand and as at 31 December 2009 amounted to CZK 1,522,138 thousand.

Year ended 31 December 2010 (in thousands of CZK)

## 11. INTANGIBLE ASSETS (CONTINUED)

### *CO2 emission rights*

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

Information about emission allowances in the reporting period:

| | value | In tons |
|---|---|---|
| **Emission allowances at 31 December 2009** | 184,668 | 609,321 |
| Emission allowances granted in 2010 | 1,242,692 | 3,775,436 |
| Settled emission allowances for 2009 | (1,023,637) | (3,144,669) |
| Emission allowances acquired in 2010 | 1,521,675 | 4,275,302 |
| Sales of emissions allowances in 2010 | (1,711,559) | (4,859,319) |
| **Estimated emission allowances at 31 December 2010** | **213,839** | **656,071** |
| Estimated utilization of allowances in 2010 | (1,082,904) | (3,090,467) |
| Planned way to cover the deficit, including: | 869,065 | 2,434,396 |
| The use of following tranche | 144,064 | 416,597 |
| Purchase transactions concluded on 31 December 2010 | 725,001 | 2,017,799 |

On 18 February 2010 the Group received CO2 allowances in amount of 3,775,436 tons. On that day the market value of one CO2 allowance was EUR 12.80.

The emission allowances acquired and sold by the Group during the year 2010 are included in the statement of consolidated cash flows respectively under investing activities in Acquisition of property, plant and equipment and intangible assets and Proceeds from disposals of property, plant and equipment and intangible assets respectively.

### *Goodwill*

The goodwill amounted to CZK 51,595 thousand as at 31 December 2010 (31 December 2009 CZK 51,595 thousand). It results from the acquisition of 0.221 % share in the registered capital of ČESKÁ RAFINÉRSKÁ, a.s. during the year ended 31 December 2007.

As at 31 December 2010, the Group reviewed the economic value of goodwill in accordance with the requirements of IAS 36 and concluded that there is no impairment.

### *Purchase of shares of PARAMO, a.s.*

On 4 March 2009 the purchase of 8.24 % share of PARAMO a.s. was completed. The negative goodwill amounting to CZK 86,640 thousand was recognised in other operating income.

The share of 8.24 % in the fair value of the identifiable assets and liabilities of PARAMO a.s. as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

| | Carrying value | Fair value recognized on acquisition |
|---|---|---|
| Non-current assets | 163,188 | 163,188 |
| Current assets | 173,927 | 173,927 |
| **Total assets** | **337,115** | **337,115** |
| Non-current liabilities | 8,233 | 8,233 |
| Current liabilities | 135,172 | 135,172 |
| **Total liabilities** | **143,405** | **143,405** |
| **Net assets** | **193,710** | **193,710** |
| Consideration, covered by cash | | 107,070 |
| **Negative goodwill on acquisition** | | **86,640** |

| **Cash outflow on acquisition:** | |
|---|---|
| Net cash acquired | 871 |
| Cash paid | 107,070 |
| **Net cash outflow** | **106,199** |

Year ended 31 December 2010 (in thousands of CZK)

## 12. INVESTMENT PROPERTY

Investment property at 31 December 2010 comprised the land owned by the Group and leased to third parties. The changes recorded during the year ended 31 December 2010 are presented in the following table:

| | 2010 | 2009 |
|---|---|---|
| **Investment property at 1 January** | **162,627** | **160,057** |
| Purchase | 112 | 4,214 |
| Disposals | (549) | (1,441) |
| Transfer to Property, plant and equipment | -- | (846) |
| Transfer from Property, plant and equipment | -- | 643 |
| **Total balance at 31 December** | **162,190** | **162,627** |

Rental income amounted to CZK 20,698 thousand in 2010 (2009: CZK 20,494 thousand). Operating costs that in reporting period generated rental income from Investment property amounted 1,314 CZK thousand in 2010 (2009: CZK 1,301 thousand).

Future rental income is as follows:

| | Less than one year | Between one and five years |
|---|---|---|
| Total future rental income | 21,008 | 90,527 |

Depending on the characteristics of the investment property, its fair value was assessed by an independent surveyor based on comparison approach. Comparison approach was applied assuming that the value of assessed property was equal to the market price of a similar property.

## 13. OTHER INVESTMENTS

The Group has equity investments amounting to CZK 192,425 thousand as at 31 December 2010 (CZK 198,343 thousand as at 31 December 2009), which represent ownership interests in companies that do not have quoted market price and whose fair value cannot be reliably measured and therefore are carried at acquisition cost, less any impairment losses.

## 14. NON-CURRENT RECEIVABLES

The Group has provided a loan to ČESKÁ RAFINÉRSKÁ, a.s. in the amount of CZK 174,952 thousand (31 December 2009: CZK 206,287 thousand) for reconstruction of production unit. Part of this receivable in amount of CZK 89,619 thousand was eliminated as an intergroup transaction. The loan is due in 2016 and bears interest of 1M PRIBOR increased by mark up. Short term part of the loan in amount of CZK 15,284 thousand is presented in other receivables. The Group also presents non-current receivables from cash deposits to operators of fuel stations in amount of CZK 21,356 thousand and prepayments for investments in amount of CZK 37,110 thousand.

| Due date | Due within 1-3 year | Due 3-5 years | Due within more than 5 years | Total |
|---|---|---|---|---|
| 31/12/2010 | 70,585 | 48,982 | 10,657 | **130,224** |
| 31/12/2009 | 49,890 | 32,600 | 38,689 | **121,179** |

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

Year ended 31 December 2010 (in thousands of CZK)

## 15. 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 2011 and onward).

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

| | 2010 | 2009 |
|---|---|---|
| **At 1 January** | **(1,615,519)** | **(2,113,931)** |
| Deferred tax recognised in the Statements of comprehensive income | (95,003) | 495,191 |
| FX difference | 29 | 2,712 |
| Tax charged to other comprehensive income | -- | 509 |
| **At 31 December** | **(1,710,493)** | **(1,615,519)** |

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

| Deferred tax assets | 01/01/2010 | Recognised in profit or loss | FX differences | 31/12/2010 |
|---|---|---|---|---|
| Property, plant and equipment | 82,146 | (50,444) | -- | 31,702 |
| Provisions | 301,272 | (6,039) | (537) | 294,696 |
| Unused tax losses carried forward | 516,889 | 19,325 | -- | 536,214 |
| 10% investment relief | 1,582 | (1,582) | -- | -- |
| Other | 129,939 | 50,799 | 522 | 181,260 |
| **Total deferred tax assets** | **1,031,828** | **12,059** | **(15)** | **1,043,872** |

| Deferred tax liabilities | 01/01/2010 | Recognised in profit or loss | FX differences | 31/12/2010 |
|---|---|---|---|---|
| Property, plant and equipment | 2,420,737 | 97,477 | (39) | 2,518,175 |
| Inventory | 76,193 | 23,176 | -- | 99,369 |
| Provisions | 38,087 | (155) | -- | 37,932 |
| Finance lease | 110,113 | (17,930) | -- | 92,183 |
| Other | 2,217 | 4,494 | (5) | 6,706 |
| **Total deferred tax liabilities** | **2,647,347** | **107,062** | **(44)** | **2,754,365** |

Deferred income tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Deferred tax asset | 48,280 | 99,409 |
| Deferred tax liability | (1,758,773) | (1,714,928) |
| **Net** | **(1,710,493)** | **(1,615,519)** |

Deferred income tax assets are recognised for tax loss and deductible temporary differences carried forward to the extent that realisation of the related tax benefit through the future taxable profit is probable.

In the calculation of Deferred tax assets in 2010 The Group has recognized all tax deductible temporary differences. In previous period the temporary differences in the amount of CZK 73,975 thousand had not been recognised due to unpredictability of future taxable income.

Year ended 31 December 2010 (in thousands of CZK)

## 16. INVENTORIES

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Raw materials | 3,422,109 | 2,564,312 |
| Net realisable value allowance for raw materials | (57,957) | (176,683) |
| Work in progress | 1,444,554 | 1,361,751 |
| Net realisable value allowance for work in progress | (2,570) | (4) |
| Finished goods | 3,571,204 | 3,087,124 |
| Net realisable value allowance for finished goods | (16,815) | (20,095) |
| Goods for sale | 464,998 | 435,327 |
| Net realisable value allowance for goods for sale | (4,347) | (8,521) |
| Spare parts | 1,638,240 | 1,615,302 |
| Net realisable value allowance for spare parts | (265,901) | (260,240) |
| **Total inventory** | **10,193,515** | **8,598,273** |

Changes in the net realisable value allowances for inventories amount to CZK 43,009 thousand and are included in cost of sales (CZK 132,505 thousand in 2009) see Note 5.

## 17. TRADE AND OTHER RECEIVABLES

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Trade receivable | 9,945,746 | 9,900,832 |
| Excise tax receivable | 347,537 | 149,587 |
| Taxation, duty, and social security receivable | 17,603 | 29,967 |
| Other receivables | 101,839 | 146,610 |
| **Gross trade and other receivables** | **10,412,725** | **10,226,996** |
| Impairment losses | (925,095) | (916,972) |
| **Net trade and other receivables** | **9,487,630** | **9,310,024** |

Trade receivables result primarily from sales of finished goods and sales of merchandise. The management considers that the carrying amount of trade receivables approximates their fair value. The average credit period on sales of goods is 35 days. No interest is charged on the trade receivables for the first 3 days after the due date. Thereafter, interest is charged using 2W REPO actual rate or 6M EURIBOR actual rate.

The Group exposure to credit and currency risk related to trade and other receivables is disclosed in note 29 and detailed information about receivables from related parties is presented in note 32.

### Movement in the impairment loss allowance

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| **Balance at beginning of the year** | **916,972** | **923,926** |
| Increases | 124,970 | 106,029 |
| Utilization | (7,987) | (56,947) |
| Release | (99,799) | (54,633) |
| F/X differences | (9,061) | (1,403) |
| **Balance at end of the year** | **925,095** | **916,972** |

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

Year ended 31 December 2010 (in thousands of CZK)

## 18. SHORT-TERM FINANCIAL ASSETS

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Loans | 533,435 | 250,214 |
| Derivative financial instruments | 6,907 | 137,423 |
| Financial assets held to maturity | -- | 359,405 |
| **Total** | **540,342** | **747,042** |

**Loans and receivables**
The Group provided short-term loans to related entities. The carrying amount of the loan amounted CZK 533,435 thousand as at 31 December 2010 (31 December 2009 CZK 250,214 thousand). The interest rates were based on appropriate inter-bank rates and the fair value of the loan approximated its carrying amount as at 31 December 2010. The loan in amount of CZK 500,035 thousand provided to related entity belonging to PKN ORLEN Group is fully guaranteed.

**Financial instruments at fair value through profit and loss**
Transactions with derivative financial instruments are subject to risk management procedures. The Group is exposed to foreign currency risk resulting mainly from purchase of crude oil in USD and selling of products in EUR. It is the Group policy to mitigate this risk by entering into the various hedging arrangements.
The Group analyses the risk arising from discrepancies in the pricing formulas in purchases of crude oil and sales of products and reduces it by entering into commodity swaps.

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

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

The following table shows the contract principal amounts, fair values of derivative financial instruments analysed by type of contracts. The contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The markets and standard pricing models of financial instruments determine the fair values.

| | Contract principal amount | | Fair value of derivatives | |
|---|---|---|---|---|
| | 31/12/2010 | 31/12/2009 | 31/12/2010 | 31/12/2009 |
| Non-delivery Forwards / sale of EUR | 36,640 T USD | | 3,441 | |
| Non-delivery Forwards / sale of USD | 17,760 T USD | | 3,260 | |
| Forwards USD/EUR | 17,000 T USD | 5,000 T USD | 206 | 16 |
| Emission Allowances Swap EUA/CER | -- | 4,732 T EUR | -- | 95,527 |
| Forwards USD/CZK | -- | 33,000 T USD | -- | 41,472 |
| SWAP EUR/CZK | -- | 10,100 T EUR | -- | 408 |
| **Total financial derivative – assets** | | | **6,907** | **137,423** |

The settlement date of above presented financial instruments is no later than 15 December 2011, all related balances are presented as current assets.

The Group has derivative financial instruments, which serve as a hedging instrument pursuant to the Group's risk management strategy. Changes in the fair value of derivatives that do not meet the hedge accounting criteria are included in derivatives held for trading and their fair value changes are reported in the statement of comprehensive income.

Year ended 31 December 2010 (in thousands of CZK)

## 18. SHORT-TERM FINANCIAL ASSETS (CONTINUED)

### Derivative financial instruments- finance result

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Financial income | Financial cost | Net gain / (loss) | Financial income | Financial cost | Net gain / (loss) |
| Emission Allowances Swaps EUA/CER | -- | 95,527 | (95,527) | -- | 59,867 | (59,867) |
| Currency Swaps | 3,624 | -- | 3,624 | -- | 726 | (726) |
| Commodity Swap | -- | 15,487 | (15,487) | -- | -- | -- |
| Forwards | 7,730 | -- | 7,730 | -- | 90,233 | (90,233) |
| **Total** | **11,354** | **111,014** | **(99,660)** | **--** | **150,826** | **(150,826)** |

### Financial assets held to maturity

Following table presents detailed information regarding promissory notes bought in 2009:

| Counterparty | Currency | Maturity date | 31/12/2010 | 31/12/2009 |
|---|---|---|---|---|
| ČEZ, a.s. | CZK | 03/03/2010 | -- | 101,004 |
| ČEZ, a.s. | CZK | 22/04/2010 | -- | 76,008 |
| ČEZ, a.s. | CZK | 24/05/2010 | -- | 50,703 |
| ČEZ, a.s. | CZK | 03/02/2010 | -- | 75,937 |
| ČEZ, a.s. | CZK | 22/03/2010 | -- | 55,753 |
| **Total** | | | **--** | **359,405** |

## 19. CASH AND CASH EQUIVALENTS

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Cash in hand and at bank | 4,598,611 | 1,085,223 |
| Short-term bank deposits | 143,220 | 100,498 |
| **Total cash and cash equivalents** | **4,741,831** | **1,185,721** |

Short-term bank deposits comprise deposits with maturity of three months or less and obligatory deposits relating to the bank loans. The carrying amount of these assets approximates their fair value. Withdrawals from the Group's bank account with Komerční banka, a.s. must be approved by the Environmental Department of the District Authority in Ústí nad Labem. The account had balance of CZK 51,743 thousand (31 December 2009 CZK 51,343 thousand).

## 20. ASSETS HELD FOR SALE

As at 31 December 2009 Group held 97 shares in CELIO a.s. in nominal value of 1,000 thousand CZK. The Group's share in CELIO a.s. was classified as a current asset held for sale since its carrying amount was to be recovered principally through a sale transaction rather than through continuing use. The management approved a plan to sell its investment in CELIO a.s. The carrying amount of the investment was CZK 78,333 thousand as at 31 December 2009.

On 24 March 2010 UNIPETROL, a.s. and UNIPETROL RPA, s.r.o. as the sellers entered into an agreement for the sale and purchase of 50 % of shares in CELIO a.s. with TICATANOR s.r.o., a special purpose vehicle established by two top managers of CELIO a.s., as the buyer.

Under the agreement 10.53 % of the shares owned by UNIPETROL, a.s. and 39.47 % owned by UNIPETROL RPA, s.r.o. were sold on 14 April 2010. On the same date the remaining 1.06 % of the shares in CELIO a.s. owned by UNIPETROL RPA, s.r.o. was sold to B.E. Fin S.A. As a consequence of transactions, CELIO has currently two shareholders B.E. Fin S.A and TICATANOR s.r.o. each of them holding a 50% stake.

The closing of both transactions resulted in exit of UNIPETROL, a.s. and UNIPETROL RPA, s.r.o. from CELIO a.s. as of 14 April 2010. The Group under above mentioned transactions sold in total a shareholding of 51.06% in CELIO for the aggregate selling price of CZK 78,333 thousand.

Year ended 31 December 2010 (in thousands of CZK)

## 21. SHARE CAPITAL

The issued capital of the parent company as at 31 December 2010 was CZK 18,133,476 thousand (2009 - CZK 18,133,476 thousand). This represents 181,334,764 (2009 - 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.

## 22. 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 Statutory reserve fund amounted as at 31 December 2010 to CZK 2,452,698 thousand (31 December 2009 – CZK 2,425,274 thousand).

## 23. RETAINED EARNINGS AND DIVIDENDS

**Dividends**

In accordance with appropriate Czech law, dividends can be paid from unconsolidated profit of the parent company.

The Ordinary General Meeting of UNIPETROL, a.s. held on 28 June 2010 decided on appropriation of the unconsolidated profit for 2009 amounting to CZK 261,864 thousand. In accordance with Article 26 (1) of the Company's Articles of Association CZK 13,093 thousand was allocated to the reserve fund and CZK 248,771 thousand to retained earnings. The decision regarding allocation of 2010 profit will be made on the annual general meeting of shareholders, which will be held in May / June 2011.

## 24. LOANS AND BORROWINGS

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

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| **Non – current loans and borrowings** | | |
| Unsecured bonds issued | 2,000,000 | 2,000,000 |
| Finance lease liability | 13,357 | 19,363 |
| Secured bank loans | -- | 12,000 |
| **Total non – current loans and borrowings** | **2,013,357** | **2,031,363** |
| **Current loans and borrowings** | | |
| Current portion of unsecured bonds issued | 102,634 | 136,614 |
| Unsecured bank loans | 86,748 | 140,069 |
| Current portion of secured bank loans | 12,017 | 72,154 |
| Current portion of financial leasing | 11,055 | 17,417 |
| **Total current loans and borrowings** | **212,454** | **366,254** |

Year ended 31 December 2010 (in thousands of CZK)

## 24. LOANS AND BORROWINGS (CONTINUED)

### Unsecured bonds issued

In 1998 the Company issued 2,000 bonds at a total nominal value of CZK 2,000,000 thousand. The nominal value of bonds matures in 15 years from the issue date at their nominal value of CZK 2,000,000 thousand. The interest rate is 0 % p.a. for the first two years and 12.53 % p.a. in subsequent years. The effective interest rate is 9.82 %. Interest is payable on an annual basis. Interest expense is accrued using the effective interest rate method. The aggregate carrying amount of bonds issued is CZK 2,102,634 thousand (CZK 2,136,614 thousand at 31 December 2009). Part of the liability due within 12 months is presented in current liabilities. Using the actual market interest rate, based on the analysis of the current market conditions, the fair value of the aggregate liability arising from the bonds is currently estimated at CZK 2,518,730 thousand (CZK 2,634,838 thousand at 31 December 2009). Accrued interest, which will be repaid before 31 December 2011, is presented within current loans and borrowings amounts to CZK 102,634 thousand (CZK 136,614 thousand at 31 December 2009). The remaining current portion of bank loans is CZK 12,017 thousand (CZK 72,155 thousand as at 31 December 2009).

### Secured bank loans

The bank loan is secured over property plant and equipment with carrying amount of CZK 1,709,900 thousand (2009: CZK 1,690,562 thousand). The loan is due in 2011 and the interest rate is based on PRIBOR inter-bank rate.

### Analyses of bank loans

| | USD | EUR | CZK | Total |
|---|---|---|---|---|
| **Balance as at 1 January 2010** | **11,737** | **113,021** | **87,466** | **212,224** |
| Loans taken | 36,327 | 673,455 | 3,669,047 | **4,378,829** |
| Accrued interest as balance sheet date | -- | 67 | 24 | **91** |
| Conversion from/to short term – long term | -- | -- | 12,000 | **12,000** |
| Repayment | (11,736) | (755,126) | (3,736,263) | **(4,503,125)** |
| Repayment of accrued interest | (1) | (4) | (1,202) | **(1,207)** |
| FX differences | -- | (47) | -- | **(47)** |
| **Balance as at 31 December 2010** | **36,327** | **31,366** | **31,072** | **98,765** |

Short-term bank loans are subject to normal credit terms and their carrying amounts approximate fair values. Average effective interest rate as at 31 December 2010 was 1.79 % (31 December 2009: 2.23 %).

### Financial leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 31/12/2010 | 31/12/2009 | 31/12/2010 | 31/12/2009 |
| Amounts payable under finance leases: | | | | |
| Not later than one year | 12,093 | 18,152 | 11,055 | 17,417 |
| Later than one year and not later than five years | 14,191 | 20,221 | 13,357 | 19,363 |
| Less: future finance charges | (1,872) | (1,593) | -- | -- |
| **Present value of lease obligation** | **24,412** | **36,780** | **24,412** | **36,780** |
| Less: Amount due for settlement within 12 months | | | (11,055 ) | (17,417) |
| **Amount due for settlement after 12 months** | | | **13,357** | **19,363** |

It is the Group's policy to lease certain fixtures and equipment under finance leases. The average lease term is 3-4 years. For the year ended 31 December 2010, the average effective borrowing rate was 2.85%. Interest rates are fixed at the inception of the lease. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the Group's lease obligations approximates their carrying amount. All lease obligations are denominated in Czech crowns.

Year ended 31 December 2010 (in thousands of CZK)

## 25. PROVISIONS

| Long – term provision | 31/12/2009 | Reclassification btw. accounts | Additional provision | Utilization of provision | Release of provision | F/X differences | 31/12/2010 |
|---|---|---|---|---|---|---|---|
| Provisions for environmental damages and land restoration | 301,246 | -- | 17,184 | (1,620) | (815) | -- | 315,995 |
| Provisions for legal disputes | 22,499 | -- | 2,270 | -- | -- | -- | 24,769 |
| Employee benefits provision | 32,146 | -- | 2,572 | -- | (4,669) | -- | 30,049 |
| Other provisions | -- | -- | 39,292 | -- | (17,316) | -- | 21,976 |
| **Total** | **355,891** | **--** | **61,318** | **(1,620)** | **(22,800)** | **--** | **392,789** |

| Short – term provision | 31/12/2009 | Reclassification btw. accounts | Additional provision | Utilization of provision | Release of provision | F/X differences | 31/12/2010 |
|---|---|---|---|---|---|---|---|
| Provisions for environmental damages and land restoration | 5,000 | -- | -- | (1,750) | (3,250) | -- | -- |
| Provisions for legal disputes | 123,511 | -- | 11,911 | -- | (386) | -- | 135,036 |
| Provision on CO2 allowances | -- | 917,860 | 1,082,904 | (845,263) | (72,597) | -- | 1,082,904 |
| Other provisions | 978,257 | (917,860) | 59,648 | (2,470) | (33,786) | (38) | 83,751 |
| **Total** | **1,106,768** | **--** | **1,154,463** | **(849,483)** | **(110,019)** | **(38)** | **1,301,691** |

The provision for land restoration is created as a result of the legal obligation to restore the fly-ash dump after it is discontinued. This is expected to be after 2043. The provision amounted to CZK 305,684 thousand as of 31 December 2010 (CZK 293,746 thousand as of 31 December 2009).
The provision for Bílina´s river pollution (leakage of pyrolytic gas) was fully utilized during 2010 (provision amounted to CZK 5,000 thousand as at 31 December 2009).
Provision for compensation of damage to Lesy Česká republika amounted to CZK 8,500 thousand as at 31 December 2010 (CZK 5,000 thousand as at 31 December 2009).

The provision for legal disputes is created for expected future outflows arising from legal disputes with third parties where the Group is the defendant. The Group has a provision for a penalty imposed by the Antimonopoly Office for a breach of the Economic Competition Protection Act in the amount of CZK 98,000 thousand. The provision as at 31 December 2010 included the nominal amount of penalty increased by CZK 33,021 thousand interest (CZK 25,511 thousand as at 31 December 2009). As at 31 December 2010 the Group had provisions for potential legal disputes with Air Products in amount of CZK 9,871 thousand (CZK 9,871 thousand as at 31 December 2009) and Aversen Enterprises Limited in amount CZK 6,000 thousand as at 31 December 2010 (CZK 6,000 thousand as at 31 December 2009)

Provisions for other future liabilities of the Group amounted to CZK 105,727 thousand as at 31 December 2010, out of which CZK 56,504 thousand was a provision for dismantling costs connected with liquidation of unused assets. The provision in connection with shutdown of Oxoalcohols plant was fully utilized. In 2010 the Group created provisions in connection with planned shutdown of heating plant T200 in amount of CZK 37,110 thousand as at 31 December 2010.

Provision on CO2 allowances is created for estimated CO2 emissions in the reporting period.

**Provision for jubilee bonuses, retirement and pension benefits**
The companies of the Group realize the program of paying out retirement benefits and jubilee bonuses in line with remuneration systems in force. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid as one-time payments at retirement. The amount of retirement benefits as well as jubilee bonuses depends on the number of years of service and an employee's average remuneration. The base for the calculation of provision for an employee is expected benefit which the Group is obliged to pay in accordance with internal regulation. The present value of these obligations is estimated at the end of each reporting year and adjusted if there are any material indications impacting the value of the obligations. The accrued liabilities equal discounted future payments, considering employee rotation and relate to the period ended at the last day of the reporting year.

Year ended 31 December 2010 (in thousands of CZK)

## 25. PROVISIONS (CONTINUED)

### Employee benefits

| | Provisions on retirements |
|---|---|
| **Current value of liabilities as at 01/01/2010** | (32,146) |
| Actuarial profit and losses | 2,467 |
| Other | (370) |
| **Current value of liabilities as at 31/12/2010** | **(30,049)** |

| | Provisions on retirements |
|---|---|
| **Current value of liabilities as at 01/01/2009** | (32,414) |
| The costs of current employment | (2,021) |
| Actuarial profit and losses | 2,289 |
| **Current value of liabilities as at 31/12/2009** | **(32,146)** |

### Total expense recognized in the Statement of comprehensive income

| | 2010 | 2009 |
|---|---|---|
| The costs of current employment | -- | (2,021) |
| Actuarial profit and losses | **2,467** | 2,289 |
| Other | **(370)** | -- |
| **Total** | **2,097** | **268** |

Employment benefits provisions are created for retirement benefits and jubilee bonuses received by employees, discount rate used is 3.75 % p.a., used assumptions are based on Collective agreement.

Costs of benefits are presented in the following lines of the Statement of Comprehensive Income:

| | 2010 | 2009 |
|---|---|---|
| General and administrative expenses | **16** | -- |
| Cost of sales | **2,081** | -- |
| Other operating expenses | **--** | (3,749) |
| Other operating revenues | **--** | 4,017 |
| **Total** | **2,097** | **268** |

## 26. OTHER NON-CURRENT LIABILITIES

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Deferred income from government grants | 41,237 | 55,016 |
| Amounts payable to business partners | 91,191 | 92,388 |
| Other liabilities | 14,395 | 17,629 |
| **Total** | **146,823** | **165,033** |

The Group booked deferred income from government grants, which has been obtained from the German Ministry for Environmental Protection and Safety of Reactors in order to execute a pilot environmental project targeted at limiting cross-border pollution, in connection with the reconstruction of the T 700 power station and its desulphurization. The amount of the grant is amortized over the useful economic life of the respective assets financed by the grant.
All other non-current liabilities are denominated in Czech crowns.

Year ended 31 December 2010 (in thousands of CZK)

## 27. TRADE AND OTHER PAYBLES AND ACCRUALS

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Trade payables | 10,544,655 | 8,597,884 |
| Excise tax liabilities | 4,152,280 | 3,965,240 |
| Value added tax liability | 892,918 | 887,134 |
| Other taxation, duty and social security liabilities | 115,458 | 102,154 |
| Liabilities due to acquisition of property, plant and equipment | 428,476 | 397,287 |
| Wages and salaries liabilities | 346,540 | 353,911 |
| Accrued expenses | 105,105 | 76,099 |
| Prepayments | 79,340 | 145,091 |
| Dividends liabilities | 30,012 | 31,380 |
| Other payables | 47,017 | 39,050 |
| **Total** | **16,741,801** | **14,595,230** |

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

## 28. SHORT TERM FINANCIAL LIABILITIES

**Derivative financial instruments – liabilities**

The following table presents the contract principal amounts, fair values of derivative financial instruments analysed by type of contracts. The contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The markets and standard pricing models of financial instruments determine the fair values.

| | Contract principal amount | | Fair value of derivatives | |
|---|---|---|---|---|
| | 31/12/2010 | 31/12/2009 | 31/12/2010 | 31/12/2009 |
| Forwards USD/EUR | 104,000 T USD | 18,000 T USD | 16,031 | 193 |
| Forwards USD/CZK | 116,900 T USD | 12,000 T USD | 29,092 | 114 |
| Non-delivery Forwards / sale of EUR | 72,800 T USD | -- | 23,828 | -- |
| Non-delivery Forwards / purchase of USD | 49,490 T USD | -- | 11,325 | -- |
| **Total financial derivatives – liabilities** | | | **80,276** | **307** |

The settlement date of above presented financial instruments is no later than 15 December 2011. All transactions are presented as current liabilities.

The detailed information including the impact of Derivative financial instruments on the statement of comprehensive income of the Group is disclosed in Note 18.

Year ended 31 December 2010 (in thousands of CZK)

## 29. FINANCIAL INSTRUMENTS

### Accounting classification and fair values

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

| 31/12/2010 | Note | Designated at fair value | Held to maturity | Loans and receivables | Other financial liabilities | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Other investments | 13 | -- | -- | 192,425 | -- | 192,425 | 192,425 |
| Non-current receivables | 14 | -- | -- | 130,224 | -- | 130,224 | 130,224 |
| Trade and other receivables | 17 | -- | -- | 9,487,630 | -- | 9,487,630 | 9,487,630 |
| Loans granted | 18 | -- | -- | 533,435 | -- | 533,435 | 533,435 |
| Currency forwards | 18 | 6,907 | -- | -- | -- | 6,907 | 6,907 |
| Cash and cash equivalents | 19 | -- | -- | 4,741,831 | -- | 4,741,831 | 4,741,831 |
| **Total of financial assets** | | **6,907** | **--** | **15,085,545** | **--** | **15,092,452** | **15,092,452** |
| Loans and borrowings | 24 | -- | -- | | 2,225,811 | 2,225,811 | 2,641,907 |
| Other non-current liabilities | 26 | -- | -- | -- | 146,823 | 146,823 | 146,823 |
| Trade and other payables and accruals | 27 | -- | -- | -- | 16,741,801 | 16,741,801 | 16,741,801 |
| Currency forwards | 28 | 80,276 | -- | -- | -- | 80,276 | 80,276 |
| **Total of financial liabilities** | | **80,276** | **--** | **--** | **19,114,435** | **19,194,711** | **19,610,807** |

| 31/12/2009 | Note | Designated at fair value | Held to maturity | Loans and receivables | Other financial liabilities | Total carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Other investments | 13 | -- | -- | 198,343 | -- | 198,343 | 198,343 |
| Non-current receivables | 14 | -- | -- | 121,179 | -- | 121,179 | 121,179 |
| Trade and other receivables | 17 | -- | -- | 9,310,024 | -- | 9,310,024 | 9,310,024 |
| Financial assets held to maturity | 18 | -- | 359,405 | -- | -- | 359,405 | 359,405 |
| Loans granted | 18 | -- | -- | 250,214 | -- | 250,214 | 250,214 |
| Emission Allowances Swaps EUA/CER | 18 | 95,527 | -- | -- | -- | 95,527 | 95,527 |
| Currency forwards and swaps | 18 | 41,896 | -- | -- | -- | 41,896 | 41,896 |
| Cash and cash equvalents | 19 | -- | -- | 1,185,721 | -- | 1,185,721 | 1,185,721 |
| **Total of financial assets** | | **137,423** | **359,405** | **11,065,481** | **--** | **11,562,309** | **11,562,309** |
| Loans and borrowings | 24 | -- | -- | -- | 2,397,617 | 2,397,617 | 2,895,841 |
| Other non-current liabilities | 26 | -- | -- | -- | 165,033 | 165,033 | 165,033 |
| Trade and other paybles and accruals | 27 | -- | -- | -- | 14,595,230 | 14,595,230 | 14,595,230 |
| Currency forwards | 28 | 307 | -- | -- | -- | 307 | 307 |
| **Total of financial liabilities** | | **307** | **--** | **--** | **17,157,880** | **17,158,187** | **17,656,411** |

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

### Capital structure management

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

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 24, cash and cash equivalents and equity attributable to equity holders of the parent, comprising shared capital and retained earnings as disclosed in notes 21 and 23 respectively.

Year ended 31 December 2010 (in thousands of CZK)

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

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

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| Debt (i) | (2,225,811) | (2,397,617) |
| Cash and cash equivalents | 4,741,831 | 1,185,721 |
| Net debt | **2,516,020** | **(1,211,896)** |
| Equity (ii) | 38,799,708 | 37,871,336 |
| **Net debt to equity ratio** | **(6.48)** | **3.20** |

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

**Risk management objectives**

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

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

**Credit risk management**

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

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of dealing only with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers.

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management. Before accepting any new customer, the Group uses own or an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. As at 31 December 2010 none of the customers represented more than 5 % of the total balance of consolidated trade receivables.

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

Year ended 31 December 2010 (in thousands of CZK)

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

| | 31/12/2010 | | 31/12/2009 | |
|---|---|---|---|---|
| | **Secured** | **Unsecured** | **Secured** | **Unsecured** |
| Czech Republic | 2,673,311 | 9,814,486 | 2,586,498 | 7,367,888 |
| European Union | 1,256,541 | 1,239,571 | 657,266 | 377,980 |
| Other | 56,641 | 44,995 | 28,309 | 47,540 |
| **Total** | **3,986,493** | **11,099,052** | **3,272,073** | **7,793,408** |

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

Aging of loans and receivables at the reporting date was:

| | 31/12/2010 | | 31/12/2009 | |
|---|---|---|---|---|
| | **Gross** | **Impairment** | **Gross** | **Impairment** |
| Not past due | 14,733,811 | -- | 10,357,009 | -- |
| Past due 0-30 days | 250,469 | -- | 400,794 | -- |
| Past due 30-180 days | 37,519 | -- | 121,958 | -- |
| More than 180 days | 977,357 | (913,611) | 1,102,692 | (916,972) |
| **Total** | **15,999,156** | **(913,611)** | **11,982,453** | **(916,972)** |

**Liquidity risk management**

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

Liquidity risk tables

The following table details the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

Year ended 31 December 2010 (in thousands of CZK)

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

### Expected maturity of non-derivative financial assets

| | Carrying amount | Contractual cash flows | Less then 6 months | 6 months - 1 year | 1-5 years | More then 5 years |
|---|---|---|---|---|---|---|
| **31/12/2010** | | | | | | |
| Other investments | 192,425 | 192,425 | -- | -- | -- | 192,425 |
| Non-current receivables | 130,224 | 130,224 | -- | -- | 130,224 | -- |
| Trade and other receivables | 9,487,630 | 9,487,630 | 9,438,859 | 48,771 | -- | -- |
| Loans granted | 533,435 | 533,435 | -- | 533,435 | -- | -- |
| Cash and cash equivalents | 4,741,831 | 4,741,831 | 4,741,831 | -- | -- | -- |
| **Total** | **15,085,545** | **15,085,545** | **14,180,690** | **582,206** | **130,224** | **192 ,425** |
| **31/12/2009** | | | | | | |
| Other investments | 198,343 | 198,343 | -- | -- | -- | 198,343 |
| Non-current receivables | 121,179 | 121,179 | -- | -- | 121,179 | -- |
| Trade and other receivables | 9,310,024 | 9,310,024 | 9,261,084 | 48,940 | -- | -- |
| Short-term financial assets held to maturity | 359,405 | 359,405 | 232,694 | 126,711 | -- | -- |
| Loans to other entities | 250,214 | 250,214 | 250,214 | -- | -- | -- |
| Cash and cash equivalents | 1,185,721 | 1,185,721 | 1,185,721 | -- | -- | -- |
| **Total** | **11,424,886** | **11,424,886** | **10,929,713** | **175,651** | **121,179** | **198,343** |

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

### Contractual maturity of non-derivative financial liabilities

| | Carrying amount | Contractual cash flows | Less then 6 months | 6 months - 1 year | 1-5 years |
|---|---|---|---|---|---|
| **31/12/2010** | | | | | |
| Unsecured bond issues | 2,102,634 | 2,102,634 | -- | 102,634 | 2,000,000 |
| Secured bank loans | 12,017 | 12,017 | -- | 12,017 | -- |
| Trade and other payables | 16,888,624 | 16,888,624 | 16,741,801 | -- | 146,823 |
| Unsecured bank loans | 86,748 | 86,748 | 86,748 | -- | -- |
| Finance lease liabilities | 24,412 | 24,412 | -- | 11,055 | 13,357 |
| **Total** | **19,114,435** | **19,114,435** | **16,828,549** | **125,706** | **2,160,180** |
| **31/12/2009** | | | | | |
| Unsecured bond issues | 2,136,615 | 2,136,615 | -- | 136,615 | 2,000,000 |
| Secured bank loans | 84,155 | 84,155 | 24,000 | 48,155 | 12,000 |
| Trade and other payables | 14,760,262 | 14,760,262 | 14,595,229 | -- | 165,033 |
| Unsecured bank loans | 140,068 | 140,068 | -- | 140,068 | -- |
| Finance lease liabilities | 36,780 | 36,780 | -- | 17,417 | 19,363 |
| **Total** | **17,157,880** | **17,157,880** | **14,619,229** | **342,255** | **2,196,396** |

Year ended 31 December 2010 (in thousands of CZK)

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

### Liquidity analysis of derivative financial instruments

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

| | Carrying amount | Expected cash flows | Less then 6 months | 6 months - 1 year |
|---|---|---|---|---|
| **31/12/2010** | | | | |
| Non-delivery Forwards / sale of EUR | 3,441 | 3,441 | 2,145 | 1,296 |
| Non-delivery Forwards / sale of USD | 3,260 | 3,260 | 3,260 | -- |
| Forwards USD/EUR | 206 | 206 | 206 | -- |
| **Assets** | **6,907** | **6,907** | **5,611** | **1,296** |
| Forwards USD/CZK | (29,092) | (29,092) | (29,092) | -- |
| Non-delivery Forwards / sale of EUR | (23,828) | (23,828) | (13,212) | (10,616) |
| Forwards USD/EUR | (16,031) | (16,031) | (16,031) | -- |
| Non-delivery Forwards / purchase of USD | (11,325) | (11,325) | (7,130) | (4,195) |
| **Liabilities** | **(80,276)** | **(80,276)** | **(65,465)** | **(14,811)** |
| **Net** | **(73,369)** | **(73,369)** | **(59,854)** | **(13,515)** |
| | | | | |
| **31/12/2009** | | | | |
| Emission Allowances Swaps EUA/CER | 95,527 | 95,527 | -- | 95,527 |
| Forwards USD/CZK | 41,472 | 41,472 | 41,472 | -- |
| SWAP EUR/CZK | 408 | 408 | 408 | -- |
| Forwards USD/EUR | 16 | 16 | 16 | -- |
| **Assets** | **137,423** | **137,423** | **41,896** | **95,527** |
| Forwards USD/CZK | (193) | (193) | (193) | -- |
| Forwards USD/EUR | (114) | (114) | (114) | -- |
| **Liabilities** | **(307)** | **(307)** | **(307)** | **--** |
| **Net** | **137,116** | **137,116** | **41,589** | **95,527** |

### Market risk

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

### Currency risk management

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

Year ended 31 December 2010 (in thousands of CZK)

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

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

| 31/12/2010 | CZK | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| Non-current receivables | 130,224 | -- | -- | -- | 130,224 |
| Trade and other receivables | 6,025,402 | 3,132,769 | 328,800 | 659 | 9,487,630 |
| Loans granted | 540,342 | -- | -- | -- | 540,342 |
| Cash and cash equivalents | 4,330,428 | 384,948 | 18,424 | 8,030 | 4,741,831 |
| Non-current loans and borrowings | (2,000,000) | -- | -- | -- | (2,000,000) |
| Trade and other payables and accruals | (9,692,515) | (1,173,411) | (5,870,397) | (5,478 | (16,741,801) |
| Other non-current liabilities | (146,823) | -- | -- | -- | (146,823) |
| Current portion of non-current loans and borrowings | (102,634) | -- | -- | -- | (102,634) |
| Current loans and borrowings | (31,072) | (31,366) | (36,327) | -- | (98,765) |
| Financial lease liability | (24,412) | -- | -- | -- | (24,412) |
| **Gross exposure** | | **2,312,940** | **(5,559,500)** | **3,211** | **(3,243,349)** |
| Derivatives | | (2,268,871) | 4,460,863 | -- | 2,191,992 |
| **Net exposure** | | **44,069** | **(1,098,637)** | **3,211** | **(1,051,357)** |

| 31/12/2009 | CZK | EUR | USD | Other currencies | Total |
|---|---|---|---|---|---|
| Non-current receivables | 121,179 | -- | -- | -- | 121,179 |
| Trade and other receivables | 6,338,899 | 2,778,656 | 168,085 | 24,384 | 9,310,024 |
| Prepayments and other current assets | 230,626 | -- | -- | -- | 230,626 |
| Financial assets held to maturity | 359,405 | -- | -- | -- | 359,405 |
| Loans granted | 250,214 | -- | -- | -- | 250,214 |
| Cash and cash equivalents | 726,853 | 419,137 | 10,063 | 29,667 | 1,185,721 |
| Non-current loans and borrowings | (2,012,000) | -- | -- | -- | (2,012,000) |
| Trade and other payables and accruals | (9,061,357) | (1,083,545) | (4,367,648) | (82,680) | (14,595,230) |
| Current portion of non-current loans and borrowings | (208,769) | -- | -- | -- | (208,769) |
| Current loans and borrowings | (15,309) | (113,022) | (11,737) | -- | (140,068) |
| Finance lease liability | (36,780) | -- | -- | -- | (36,780) |
| **Gross exposure** | | **2,001,226** | **(4,201,237)** | **(28,629)** | **(2,228,640)** |
| Derivatives | | (270,216) | 1,424,396 | -- | 1,154,180 |
| **Net exposure** | | **1,731,010** | **(2,776,841)** | **(28,629)** | **(1,074,460)** |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| CZK/EUR | 25.290 | 26.445 | 25.060 | 26.465 |
| CZK/USD | 19.111 | 19.057 | 18.751 | 18.368 |

Foreign currency sensitivity analysis

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

| for year 2010 | for year 2009 |
|---|---|
| USD +/- 11.20 % | USD +/- 4.20 % |
| EUR +/- 3.60 % | EUR +/- 3.60 % |

Year ended 31 December 2010 (in thousands of CZK)

**29. FINANCIAL INSTRUMENTS (CONTINUED)**

The rates present the highest / lowest differences between average and actual FX rate during appropriate year. The sensitivity analysis was performed on net exposure of financial assets and liabilities. A positive number below indicates an increase in profit and equity where the CZK appreciates by 11.20 % and 3.60 % against the relevant currency. For a depreciation of the CZK against the relevant currency by the same parameters, there would be an equal and opposite impact on the profit and equity.

| | CZK/USD Impact | | CZK/EUR Impact | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Profit or loss / equity** | (123,047) | 176,452 | 1,586 | 72,044 |

**Interest rate risk management**

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

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2010 would decrease/increase by CZK 2,051 thousand (2009: decrease/increase by CZK 54 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the current period mainly due to repayments of loans. For further information see Note 24.

Year ended 31 December 2010 (in thousands of CZK)

## 29. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk profile

The interest rate profile of the Group's interest bearing financial instrument at the reporting date was as follows:

| | 31/12/2010 | 31/12/2009 |
|---|---|---|
| **Variable rate instruments** | | |
| Financial assets | 533,435 | 250,214 |
| Financial liabilities | (123,177) | (261,004) |

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

**Emission allowances risk**
The Group monitors the emission allowances granted to the Group under National Allocation Plan and $CO_2$ emissions planned. The Group enters into transactions on emission allowances market in order to cover for shortages or utilize the excess of obtained emission allowances over the required amount.
The Group had Emission Allowances Swap EUA/CER with settlement in December 2010. This derivative was held and reported as derivatives for trading.

## 30. OPERATING LEASES

***The Group as lessee***

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

**Non-cancellable operating lease commitments**

| | Minimum lease payments | |
|---|---|---|
| | 2010 | 2009 |
| Not later than one year | 42,070 | 53,063 |
| Later than one year and not later than five years inclusive | 83,405 | 115,519 |
| Later than five years | 188,332 | 199,987 |
| **Total** | **313,807** | **368,569** |

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

| | 2010 | 2009 |
|---|---|---|
| Non-cancellable operating lease | 44,641 | 48,954 |
| Cancellable operating lease | 143,542 | 145,646 |
| **Total** | **188,183** | **194,600** |

## 31. COMMITMENTS AND CONTINGENCIES

***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 in the amount of CZK 977 per one share of PARAMO, a.s. On 4 February 2009 the registration of the above resolution of the Extraordinary General Meeting was published in the Czech Commercial Register. Pursuant to the Czech Commercial Code, the ownership title to shares of the other shareholders passed to the Company on 4 March 2009 upon expiration of one month from the above publication 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 review of adequacy of compensation within the meaning of the Czech Commercial Code. The case has been consolidated and removed to Municipal Court of Prague. The claimants have appealed the procedural decision and filed a constitutional complaint with the Constitutional Court of the Czech Republic in this respect, asserting violation of their right to judge. The Czech Constitutional Court returned the matter to the High Court in Prague for a new decision on the removal of the case.
Furthermore some of 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. In case of invalidity of the General Meeting resolution, the Regional Court of Hradec Králové (Pardubice branch) on 2 March 2010 decided in favor of PARAMO, a.s. and dismissed the Action of minority shareholders. The minority shareholders filed an appeal against the Decision of the Regional Court in Hradec Králové of 2 March 2010 and the appellate proceedings are pending before the High Court in Prague. In case of the proceedings concerning the previous approval of the Czech National Bank, the action was dismissed by the District Court for Prague 4 in favor of the Czech National Bank and UNIPETROL, a.s. The claimants filed an appeal and the proceedings are pending before the Municipal Court in Prague.

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

**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.

## 31. COMMITMENTS AND CONTINGENCIES (CONTINUED)

*Determination of Liability for the Impacts of Operation of SYNTHOS Kralupy a.s. on 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 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 for the shares (and by 5 years).

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

*Execution of 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 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 the available information and current knowledge of the situation, does not expect any additional expense / payment related to 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:

(i) 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.

(ii) Other potential obstacles in 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 the available information and current knowledge of the situation, does not expect any additional expense / payment related to described issue.

## 31. COMMITMENTS AND CONTINGENCIES (CONTINUED)

**Claims related to fines imposed by the European Commission**

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

First hearing regarding the appeal of UNIPETROL, a.s. against the European Commission decision was held on 20 October 2009 at the Court of First Instance of the European Union. The Judgement has not been delivered yet.

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

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

**Claims regarding reward for employees' invention**

In the year 2001 the court case commenced on reward for the employees' intellectual work between UNIPETROL RPA, s.r.o. and its two employees. Employees demanded the reward in the amount of approx. CZK 1.8 million. UNIPETROL RPA, s.r.o. as a defendant did not agree and offered the reward amounting to approx. CZK 1.4 million, based on the experts' valuations. In 2005 Employees plaintiffs filed next petition to the court to extend the action to the amount of approx. CZK 82 million. The first instance hearing has not been settled by the court yet.

**Guarantees**

The Group issued the guaranty on behalf of HC Litvínov in favour of Association of ice hockey clubs in amount of CZK 7,000 thousand. Based on the Group's request, Commerzbank AG, Komerční banka, a.s. and HSBC, a.s. issued bank guarantees relating to the security of customs debt and excise tax at customs offices in Most and Domažlice. Total balance of guarantees related to excise tax is CZK 955 million as at 31 December 2010 (31 December 2009 CZK 1,205 million).

Year ended 31 December 2010 (in thousands of CZK)

## 32. RELATED PARTIES

***Parent and ultimate controlling party***
During 2010 and 2009 a majority (62.99%) of the Company's shares were in possession of PKN Orlen.

***Transaction with non-consolidated subsidiaries, associates and other related parties:***

| 2010 | PKN Orlen | Parties under significant influence of the Group | Entities under control or significant influence of PKN Orlen | Other related parties |
|---|---|---|---|---|
| Current receivables | 24,725 | 38,183 | 185,200 | -- |
| Current payables including loans | 5,680,150 | 13,356 | 162,806 | -- |
| Non-current payables including loans | -- | 4 | -- | -- |
| Expenses | 45,952,434 | 103,608 | 1,411,211 | 3,385 |
| Revenues | 1,190,751 | 186,900 | 1,699,031 | 340 |
| Purchases of property, plant and | -- | -- | -- | -- |
| Interests income and expense | (1,533) | -- | 19,527 | -- |
| Dividends received | -- | -- | -- | -- |

| 2009 | PKN Orlen | Parties under significant influence of the Group | Entities under control or significant influence of PKN Orlen | Other related parties |
|---|---|---|---|---|
| Current receivables | 26 | 46,940 | 741,299 | 104 |
| Current payables including loans | 4,321,146 | 8,570 | 34,469 | 1,846 |
| Non-current payables including loans | -- | 4 | -- | -- |
| Expenses | 32,894,819 | 86,342 | 900,960 | 13,412 |
| Revenues | 699,541 | 149,794 | 1,741,767 | 868 |
| Purchases of property, plant and equipment | 1,535 | 918 | -- | 176 |
| Interests income and expense | -- | -- | 7,703 | -- |
| Dividends received | -- | 5,287 | -- | 3,851 |

***Material transactions concluded by the Group Companies with related parties***
In 2010 there were no transactions concluded by the Group with related parties on other than market terms.

***Transactions with key management personnel***
In 2010 the Group companies did not grant to key management personnel and their relatives any advances, loans, guarantees and commitments, or other agreements obliging, to render services to the Company and related parties. In 2010 there were no significant transactions concluded with members of the Board of Directors, Supervisory Board, their spouses, siblings, descendants, ascendants or their other relatives.

***Transaction with related parties concluded thought the key management personnel of the Capital Group companies.***
In 2010 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.

Year ended 31 December 2010 (in thousands of CZK)

## 33. PAST ENVIRONMENTAL LIABILITIES

The Group is the recipient of funds provided by the National Property Fund of the Czech Republic for settling environmental liabilities relating to the historic environmental damage.

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

| In CZK million | Total amount of funds to be provided | Used funds as at 31/12/2010 | Unused funds as at 31/12/2010 |
|---|---|---|---|
| UNIPETROL, a.s./ premises of UNIPETROL RPA, s.r.o. | 6,012 | 2,572 | 3, 440 |
| UNIPETROL, a.s./ premises of SYNTHOS Kralupy, a.s. | 4,244 | 18 | 4,226 |
| BENZINA s.r.o. | 1,349 | 374* | 975 |
| PARAMO, a.s./ premises in Pardubice | 1,241 | 334 | 907 |
| PARAMO, a.s./ premises in Kolín | 1,907 | 1,511 | 396 |
| **Total** | **14,753** | **4,809** | **9,944** |

**Without the costs of the already completed rehabilitation of the petrol stations network of the former KPetrol 1995-1999 of CZK 40 mil.*

| In CZK million | Total amount of funds to be provided | Used funds as at 31/12/2009 | Unused funds as at 31/12/2009 |
|---|---|---|---|
| UNIPETROL, a.s./ premises of UNIPETROL RPA, s.r.o. | 6,012 | 2,161 | 3,851 |
| UNIPETROL, a.s./ premises of SYNTHOS Kralupy, a.s. | 4,244 | 12 | 4,232 |
| BENZINA s.r.o. | 1,349 | 350* | 999 |
| PARAMO, a.s./ premises in Pardubice | 1,241 | 159 | 1,082 |
| PARAMO, a.s./ premises in Kolín | 1,907 | 1,160 | 747 |
| **Total** | **14,753** | **3,842** | **10,911** |

**Without the costs of the already completed rehabilitation of the petrol stations network of the former K-Petrol 1995-1999 of CZK 40 mil.*

## 34. INTEREST IN A JOINT VENTURES

The Group has a 51.221 % interest in a joint venture ČESKÁ RAFINÉRSKÁ, a.s. which is involved in the refining of crude oil and the production and distribution of petroleum based products. The following amounts represent the Group's 51.221 % share of the assets and liabilities and sales and results of the joint venture and are included in the consolidated statement of financial position and statement of comprehensive income:

| | 2010 | 2009 |
|---|---|---|
| Non-current assets | 8,404,701 | 8,984,092 |
| Current assets | 4,497,649 | 4,176,992 |
| Non-current liabilities | (548,354) | (508,892) |
| Current liabilities | (3,023,575) | (3,135,665) |
| **Net assets** | **9,330,421** | **9,516,527** |
| | | |
| **Revenues** | **4,984,809** | **4,648,648** |
| Profit before tax | 282,304 | 140,213 |
| Income taxes | 58,646 | 34,082 |
| **Profit for the period** | **223,658** | **106,131** |

Year ended 31 December 2010 (in thousands of CZK)

## 34. INTEREST IN JOINT VENTURES (CONTINUED)

The Group has a 51 % interest in a joint venture Butadien Kralupy a.s. The company, which is a producer of butadiene, commenced operations in 2010.

The following amounts represent the Group's 51 % share of the assets and liabilities and sales and results of the joint venture and are included in the consolidated statement of financial position and statement of comprehensive income:

| | 2010 | 2009 |
|---|---|---|
| Non-current assets | 638,251 | 518,198 |
| Current assets | 257,657 | 16,110 |
| Non-current liabilities | (495,549) | (453,706) |
| Current liabilities | (214,679) | (11,157) |
| **Net assets** | **185,680** | **69,445** |
| **Revenues** | **1,019,803** | -- |
| Profit before tax | 59,356 | (4,641) |
| Income taxes | (19,141) | 882 |
| **Profit for the period** | **40,215** | **(3,759)** |

## 35. SIGNIFICANT POST BALANCE SHEET EVENTS

The Group's management is not aware of any events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2010.

| Signature of statutory representatives | 14 March 2011 |
|---|---|
| Piotr Chelminski | Mariusz Kedra |
| Chairman of the Board of Directors | Member of the Board of Directors |



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