UNIPETROL, a.s.

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS OF 31 DECEMBER 2011

Translated from the Czech original

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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 2011, 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.

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 2011, 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
26 March 2012

KPMG Česká republika Audit

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

Otakar Hora
Partner
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UNIPETROL, a.s.

Consolidated statement of financial position
prepared in accordance with International Financial Reporting Standards
As at 31 December 2011
(in thousands of Czech crowns)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	10	28,893,098	33,909,010
Intangible assets	11	2,508,468	1,908,948
Investment property	12	395,891	162,190
Other investments	13	522	192,425
Other non-current assets	14	80,165	130,224
Deferred tax asset		39,685	48,280
Total non-current assets		**31,917,829**	**36,351,077**
Current assets			
Inventories	15	11,609,463	10,193,515
Trade and other receivables	16	10,628,175	9,487,630
Other short-term financial assets	17	388,525	540,342
Prepayments and other current assets		125,059	141,780
Cash and cash equivalents	18	2,470,555	4,741,831
Current tax assets		36,208	14,623
Total current assets		**25,257,985**	**25,119,721**
Total assets		**57,175,814**	**61,470,798**
EQUITY AND LIABILITIES			
Equity			
Share capital	19	18,133,476	18,133,476
Statutory reserves	20	2,554,809	2,452,698
Other reserves	21	(46,392)	25,971
Retained earnings	22	12,219,048	18,187,563
Total equity attributable to equity holders of the Company		**32,860,941**	**38,799,708**
Non-controlling interests		(6,823)	--
Total equity		**32,854,118**	**38,799,708**
Non-current liabilities			
Loans and borrowings	23	2,005,374	2,013,357
Deferred tax liability	8	1,575,527	1,758,773
Provisions	24	363,391	392,789
Other non-current liabilities	25	102,773	146,823
Total non-current liabilities		**4,047,065**	**4,311,742**
Current liabilities			
Trade and other payables and accruals	26	17,791,695	16,741,752
Loans and borrowings	23	902,905	212,454
Provisions	24	1,173,292	1,301,691
Other short-term financial liabilities	27	388,472	80,325
Current tax liabilities		18,267	23,126
Total current liabilities		**20,274,631**	**18,359,348**
Total liabilities		**24,321,696**	**22,671,090**
Total equity and liabilities		**57,175,814**	**61,470,798**

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 53.

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 2011
(in thousands of Czech crowns)

	Note	2011	2010
Revenue	3	97,427,586	85,966,537
Cost of sales		(95,551,467)	(81,632,954)
Gross profit		**1,876,119**	**4,333,583**
Other income		1,059,517	891,615
Distribution expenses		(1,998,516)	(1,963,665)
Administrative expenses		(1,221,652)	(1,176,590)
Other expenses		(5,085,168)	(406,887)
Result from operating activities	5	**(5,369,700)**	**1,678,056**
Finance income		128,746	96,137
Finance costs		(703,056)	(588,500)
Net finance costs	7	**(574,310)**	**(492,363)**
Profit (loss) before income tax		**(5,944,010)**	**1,185,693**
Income tax credit (expense)	8	29,804	(248,960)
Profit (loss) for the year		**(5,914,206)**	**936,733**
Other comprehensive income:			
Foreign currency translation differences - foreign operations		(10,103)	(7,644)
Effective portion of changes in fair value of cash flow hedges		(115,697)	--
Change in fair value of Investment property and other income		86,635	(717)
Tax on other comprehensive income	8	14,604	--
Other comprehensive income for the year, net of tax		**(24,561)**	**(8,361)**
Total comprehensive income for the year		**(5,938,767)**	**928,372**
Profit (loss) attributable to:			
Owners of the Company		(5,914,206)	936,733
Non-controlling interests		--	--
Profit (loss) for the year		**(5,914,206)**	**936,733**
Total comprehensive income attributable to:			
Owners of the Company		**(5,938,767)**	**928,372**
Non-controlling interests		(6,823)	--
Total comprehensive income for the year		**(5,945,590)**	**928,372**
Basic and diluted earnings per share (in CZK)	9	**(32.61)**	**5.17**

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 53.

Unipetrol ORLEN GROUP

UNIPETROL, a.s.

Consolidated statement of changes in equity
prepared in accordance with International Financial Reporting Standards
For the year ended 31 December 2011
(in thousands of Czech crowns)

	Share capital	Statutory reserves	Translation reserve	Fair value reserve	Hedging reserve	Retained earnings	Equity attributable to equity holders of the Company	Non-controlling interests	Total equity
Balance as at 1 January 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 (loss)	--	27,424	--	--	--	909,309	936,733	--	936,733
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**
Balance as at 1 January 2011	**18,133,476**	**2,452,698**	**5,223**	**20,748**	--	**18,187,563**	**38,799,708**	--	**38,799,708**
Total comprehensive income for the year									
Profit (loss)	--	92,430	--	--	--	(6,006,636)	(5,914,206)	--	(5,914,206)
Other comprehensive income	--	9,681	(10,103)	31,455	(93,715)	38,121	(24,561)	(6 823)	(31,384)
Total comprehensive income for the year		**102,111**	**(10,103)**	**31,455**	**(93,715)**	**(5,968,515)**	**(5,938,767)**	**(6,823)**	**(5,945,590)**
Balance as at 31 December 2011	**18,133,476**	**2,554,809**	**(4,880)**	**52,203**	**(93,715)**	**12,219,048**	**32,860,941**	**(6,823)**	**32,854,118**

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 53.

UNIPETROL, a.s.

Consolidated statements of cash flows
prepared in accordance with International Financial Reporting Standards
For the year ended 31 December 2011
(in thousands of Czech crowns)

	2011	2010
Cash flows from operating activities:		
Profit (loss) for the year	**(5,914,206)**	**936,733**
Adjustments for:		
Depreciation of the property, plant and equipment and amortisation of intangible assets	3,107,046	3,495,539
Gain on disposals of property, plant and equipment and intangible assets	14,029	(159,305)
Net foreign exchange losses	330,023	117,773
Interest and dividend, net	192,433	177,193
Net loss (gain) from derivatives	(244,557)	99,660
Impairment losses on financial investments, property, plant and equipment and intangible assets	4,758,807	(72,477)
Income tax expense (credit)	(29,804)	248,960
Changes in:		
- in trade receivables and other current assets	(652,408)	(202,254)
- in inventories	(1,375,034)	(1,597,349)
- in trade and other payables and accruals	(485,239)	2,062,931
- in provisions	866,826	(16,169)
Interest paid	(298,949)	(285,298)
Income tax paid	(154,424)	(150,192)
Net cash from operating activities	**114,542**	**4,655,745**
Cash flows from investing activities:		
Proceed from disposals of property, plant and equipment and intangible assets	222,304	1,945,748
Proceed from disposals of short-term financial assets	280,537	359,405
Proceed from disposals of CELIO, a.s.	--	78,323
Interest received	34,454	13,387
Dividends received	--	7,759
Change in loans granted	505,633	(251,963)
Acquisition of property, plant and equipment and intangible assets	(3,591,821)	(3,089,309)
Acquisition of short-term financial assets	(280,537)	--
Settlement of financial derivatives	(194,005)	--
Acquisition of additional shareholding in subsidiary	(460)	--
Net cash used in investing activities	**(3,023,895)**	**(936,650)**
Cash flows from financing activities:		
Change in loans and borrowings	638,784	(124,295)
Payment of finance lease liabilities	(11,211)	(18,016)
Dividends paid	(2,025)	(1,368)
Net cash from (used in) financing activities	**625,548**	**(143,679)**
Net change in cash and cash equivalents	**(2,283,805)**	**3,575,417**
Cash and cash equivalents at the beginning of the year	**4,741,831**	**1,185,721**
Effects of exchange rates changes on the balance of cash held in foreign currencies	**12,529**	**(19,306)**
Cash and cash equivalents at the end of the year	**2,470,555**	**4,741,831**

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 53.

Index

1. Description of the parent company and structure of the consolidated group 6
2. Significant accounting policies 8
3. Revenue 25
4. Operating segments 25
5. Operating expenses and incomes 27
6. Personnel expenses 28
7. Finance income and finance costs 28
8. Income tax 29
9. Earnings per share 30
10. Property, plant and equipment 31
11. Intangible assets 33
12. Investment property 34
13. Other investments 35
14. Other non-current assets 35
15. Inventories 35
16. Trade and other receivables 36
17. Other short-term financial assets 36
18. Cash and cash equivalents 37
19. Share capital 37
20. Statutory reserves 37
21. Other reserves 37
22. Retained earnings and dividends 37
23. Loans and borrowings 38
24. Provisions 39
25. Other non-current liabilities 40
26. Trade and other paybles and accruals 40
27. Other short term financial liabilities 41
28. Financial instruments 41
29. Operating leases 48
30. Commitments and contingencies 48
31. Related parties 51
32. Past environmental liabilities 52
33. Interest in a joint ventures 52
34. Significant post balance sheet events 53

Year ended 31 December 2011 (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 2011 are as follows:

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

Statutory and supervisory bodies
Members of the statutory and supervisory bodies of UNIPETROL, a.s. as at 31 December 2011 were as follows:

Members of the statutory and supervisory boards as at 31 December 2011 were as follows:

	Position	Name
Board of directors	Chairman	Piotr Chelminski
	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 2011 were as follows:

Position	Name	Change	Date of change
Vice-Chairman	Marek Serafin	Recalled by the Supervisory Board of UNIPETROL,a.s. from the Board of Directors	13 December 2011

Changes in the supervisory board during 2011 were as follows:

Position	Name	Change	Date of change
Member	Dariusz Jacek Krawiec	Elected for new Term of office as a member	30 June 2011
Chairman	Dariusz Jacek Krawiec	Elected as Chairman by the Supervisory Board	12 October 2011
Member	Slawomir Robert Jedrzejczyk	Elected for new Term of office as a member	30 June 2011
Vice-Chairman	Slawomir Robert Jedrzejczyk	Elected as Vice-Chairman by the Supervisory Board	12 October 2011
Member	Piotr Robert Kearney	Elected for new Term of office as a member	30 June 2011

Year ended 31 December 2011 (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 2011).

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

According to the articles of association of ČESKÁ RAFINÉRSKÁ, a.s. adoption of decisions on all important matters requires 67.5 % or greater majority of all votes.
The ownership interests and allocation of subsidiaries into the operating segments as at 31 December 2010 were the same as it is presented in the table above.

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

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 the restructuring process of UNIPETROL TRADE Group. The liquidation of UNIPETROL TRADE a.s. finished as at 27 September 2011. It is expected that liquidation of CHEMAPOL (SCHWEIZ) AG will be completed in 2012.

On 17 February 2011 PARAMO a.s. bought 2 legal entities: Paramo Oil s.r.o. and Paramo Asfalt s.r.o. which were included in the consolidation group of UNIPETROL and allocated to Refinery segment. As at 31 December 2011 the entities were not conducting any operational activity.

Based on the UNIPETROL, a.s. Management decision entities: POLYMER INSTITUTE BRNO, s.r.o., Výzkumný ústav anorganické chemie, a.s., HC VERVA Litvínov, a.s., MOGUL SLOVAKIA s.r.o., UNIPETROL RAFINÉRIE, s.r.o., CHEMOPETROL, a.s., UNIPETROL AUSTRIA HmbH in Liqu., were included into the consolidation group. The 2010 figures presented in the consolidated financial statements were not restated due to insignificance of the impact.

2. SIGNIFICANT ACCOUNTING POLICIES

A Statement of compliance and accounting policies

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

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group but which the Group has not early adopted. The Group intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2011, in accordance with their effective dates. In 2011, the Group did not take the decision for early adoption on a voluntarily basis of amendments and interpretations to the standards.

IFRSs, amendments and interpretations to IFRSs endorsed by European Union

- Amendments to *IFRS 7 Financial Instruments: Disclosure - Transfers of Financial Assets* - endorsed 22 November 2011 (effective for annual periods beginning on or after 1 July 2011). The Amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

  The Group does not expect the amendment to have impact on the financial statements, because of the nature of the Group's operations and the types of financial assets that it holds, however when initially applied it could impact the amount of disclosures.

IFRSs, amendments and interpretations waiting for approval of European Union

- Amendments to *IFRS 1- Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters* (effective for annual periods beginning on or after 1 July 2011)
  The Amendments add an exemption to IFRS 1 that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation. This exemption allows an entity to measure assets and liabilities held before the functional currency normalization date at fair value and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

  The Group expects that when initially applied, the amendment will have no impact on the financial statements.
- Amendments to *IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 July 2013)
  The Amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or are subject to master netting arrangements or similar agreements.

  The Group does not expect the Amendments when initially applied to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendments to *IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014)
  The Amendments do not introduce new rules for offsetting financial assets and liabilities but rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

  The Group does not expect the Amendments when initially applied to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

- *IFRS 9 Financial Instruments* (effective for annual periods beginning on or after 1 January 2015)
  The new Standard replaces the guidance in *IAS 39, Financial Instruments: Recognition and Measurement*, regarding classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value. The 2010 additions to IFRS 9 replace the guidance in *IAS 39 Financial Instruments: Recognition and Measurement*, related to classification and measurement of financial liabilities and derecognition of financial assets and financial liabilities. The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognition of financial assets and financial liabilities.
  The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity. Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.
  Additionally amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments (2009) and IFRS 9 (2010). The amended IFRS 7 requires disclosing of more details about the effect of the initial application of IFRS 9 when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9.

  The Group does not expect the standard when initially applied to have an impact on valuation of items presented in the consolidated financial statements of the Group. In accordance with the standard requirements classification of financial assets into respective categories will change.

- *IFRS 10 Consolidated Financial Statements* (effective for annual periods beginning on or after 1January 2013)
  IFRS 10 provides a new single model to be applied in the control analysis for all investees, including those that currently are Special Purpose Entities in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when: it is exposed or has rights to variable returns from its involvements with the investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. The new standard also includes the disclosure requirements and the requirements relating to preparation of the consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

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

- *IFRS 11 Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013)
  IFRS 11, Joint Arrangements, supersedes and replaces I*AS 31, Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed in IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:
  - A *joint operation* is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
  - A *joint venture* is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 11 effectively carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations (line by line accounting of underlying assets and liabilities), and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must always use the equity method.

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

- *IFRS 12 Disclosures of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013)
  IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

  The Group expects that the new standard when initially applied will have an impact on the amount of disclosures in the financial statements.

- *IFRS 13 Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013)
  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement´s users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

  The Group expects that the new standard when initially applied will have a significant impact on the disclosures in the notes to the financial statements in respect of the fair value and the determination of the fair value of certain financial and non-financial items. However, the Group is currently not able to estimate the impact the standard will have on the financial statements on the date of initial application.

- *IAS 28 Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2013)
  The limited amendments made to IAS 28 were as follows:
  \- *Associates and joint ventures held for sale. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
  \- *Changes in interests held in associates and joint ventures*. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

  The Group does not expect the amendments to the standard when initially applied to have an impact on the consolidated financial statements.

- *IAS 12 Deferred tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2012)
  The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Amendment to Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012)
  The amendments require that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of other comprehensive income before related tax effects will also have to allocate the aggregated tax amount between these sections.

  The Group does not expect the amendment when initially applied to have significant impact on the consolidated financial statements.
- *Amendments to IAS 19 Employee Benefits* (effective for annual periods beginning on or after 1 January 2013)
  Actuarial gains and losses will be recognized immediately in other comprehensive income. This change will remove the corridor method and hence is expected to have a significant effect on entities that currently apply this method to recognize actuarial gains and losses. Additionally it will eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19.

  The Group is currently not able to estimate the impact the standard will have on the financial statements on the date of initial application.
- *IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013)
  The Interpretation addresses the recognition of production stripping costs as an assets, initial measurement of the stripping activity asset and subsequent measurement of the stripping activity asset. Surface mining companies will capitalize production stripping costs that benefit future periods, if certain criteria are met. Capitalization, and the deprecation period, will depend on the identified component of the ore body to which stripping activity relates.

  The IFRIC is not relevant to the Group's financial statements, since the Group is not conducting production in surface mines.

B Basis of preparation

The consolidated financial statements of the Company for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred as the "Group") and the Group's interest in jointly controlled entities.
These consolidated financial statements have been prepared on a going concern basis. As at the date of approval of the statements there is no indication that the Group will not be able to continue as a going concern in the foreseeable future.
The financial statements, except for statement of cash flows, are prepared on the accrual basis of accounting.
The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale, financial instruments at fair value through profit or loss and investment property.
Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.
The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.
In the matters of considerable weight, the Company's management bases its estimates on opinions of independent experts.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in 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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C Functional and presentation currency

These consolidated financial statements are presented in Czech crowns (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 the previous financial statements are recognized as financial income or expense in the period in which they arise in the net amount, except for monetary items hedging currency risk, that are accounted for in accordance with cash flows hedge accounting.

(ii) Financial statements of foreign operations
The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Czech crowns, which is the functional currency of the Company and the presentation currency for the consolidated financial statements.
Financial statements of foreign entities, for consolidation purposes, are translated into CZK using the following methods:
- assets and liabilities of each presented statement of financial position are translated at the closing rate published by the Czech National bank ("CNB") at the end of the reporting period;
- respective items of statement of comprehensive income and statement of cash flows are translated at average exchange rates published by the CNB.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Principles of consolidation

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

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

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

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

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

(3) Revenue recognition

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

<u>(4) Costs recognition</u>

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

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

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

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

<u>(5) Operating segments</u>

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(6) Other operating income and expenses

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

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

(7) Financial income and finance expenses

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

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

(8) Taxation

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(9) Earnings per share

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

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

(10) Property, plant and equipment

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

Appropriateness of the applied depreciation rates is verified periodically (once a year), and respective adjustments are made to the subsequent periods of depreciation. Components of property, plant and equipment which are material for the whole item are depreciated separately in accordance with their economic useful life.

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

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

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

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

Major spare parts and stand-by equipment are capitalized as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing agreement can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment. In both cases spare parts are depreciated over the shorter of the useful life of the spare part and the remaining life of the related item of property, plant and equipment
The gain or loss arising on the disposal or retirement of an asset is determined as the difference between sales proceeds and the carrying amount of the asset and is recognized in income.
The residual value, estimated useful life and depreciation methods are reassessed annually.

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 capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. In calculating the present value of the minimum lease payments the discount factor is the interest rate implicit in the lease. The property, plant and equipment acquired under finance leases are depreciated over the shorter of lease term or useful life of the asset.
Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of 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. Their value is decreased by the eventual impairment allowances. Additionally, the useful life of an intangible asset that is not being amortized shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, e.g. interest, commissions, are part of the initial cost.
The following standard economic useful lives are used for intangible assets:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Computer software

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

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

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

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

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

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

If the government grants related to assets, it is presented net with the related asset and is recognized in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges, the treatment regarding Carbon dioxide emission allowances granted is described in Note 3.14.

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

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

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

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

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

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

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 external or internal indication exists, the asset's recoverable amount is estimated.
For intangible assets that are not yet available for use and intangible assets with indefinite useful lives the recoverable amount is estimated at each balance sheet date.

The recoverable amount of other assets is the greater of their net selling price and value in use.
Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.
In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.
Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

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

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

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

(17) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.
Cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. For finished goods, costs comprise of related fixed and variable indirect costs for ordinary production levels, excluding external financing costs.
As at the end of the reporting period merchandise and raw materials are measured at the lower of cost and net realizable value, considering any allowances. Write-down to net realizable value concerns raw materials and merchandise that are damaged or obsolete.
Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when a decline in the price of materials indicates that the cost of the finished products exceeds net realisable value, the materials are written down to net realisable value.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses and revenues connected with inventories write-offs or establishment and release of allowances are included in cost of sales.
The Group uses commodity derivative contracts to hedge crude oil purchases. Gains or losses on commodity derivative contracts are included in cost of sales.

(18) Trade and other receivables

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

(19) Cash and cash equivalents

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

(20) Financial instruments

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Loans and receivables

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

Derecognition of financial instruments

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

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

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

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

(ii) Derivative financial instruments

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

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

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

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

Embedded derivatives

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

Hedge accounting

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

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

Fair value hedges

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

(iii) Fair value of financial instruments

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

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

(21) Provisions

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

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

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

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

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

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

(22) Accruals

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(23) Trade and other liabilities

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

(24) Social security and pension schemes

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

(25) Long-term service benefits

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

(26) Non-current assets held for sale

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(27) Discontinued operations

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

(28) Share capital

Ordinary shares are classified as share capital.

(29) Hedging reserve

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

(30) Contingent liabilities and receivables

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

Year ended 31 December 2011 (in thousands of CZK)

3. REVENUE

	2011	2010
Gross sales of finished goods	107,183,775	97,941,881
Less: Excise tax	(24,415,258)	(24,212,030)
Sales of services	5,250,929	5,498,737
Net revenues from sales of finished goods and services	**88,019,446**	**79,228,588**
Gross sales of merchandise	9,904,047	6,271,645
Less: Excise tax	(1,293,329)	(212,446)
Sales of materials	797,422	678,750
Net revenues from sales merchandise and materials	**9,408,140**	**6,737,949**
Total revenues	**97,427,586**	**85,966,537**

4. OPERATING SEGMENTS

Revenues and operating result

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

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 amortization	**(1,119,435)**	**(374,552)**	**(1,916,230)**	**(85,322)**		**(3,495,539)**

Assets and liabilities

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

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**

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

Year ended 31 December 2011 (in thousands of CZK)

4. OPERATING SEGMENTS (CONTINUED)

Recognition and reversal of impairment allowances

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

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**

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

In refinery segment impairment charge in amount of CZK 1,714,535 thousand and in petrochemical segment impairment charge in amount of CZK 2,932,819 thousand was recorded by the Group to non-current assets of its subsidiary PARAMO, a.s. and UNIPETROL RPA, s.r.o. as at 31 December 2011. Additionally in refinery and petrochemical segments impairment charges to CO2 allowances were recorded as at 31 December 2011 in amounts CZK 14,751 thousand and CZK 159,114 thousand respectively.

The rest of impairment charge related to to inventory, overdue receivables, uncollectible receivables or receivables in court.

Geographical information

	Revenues		Non-current assets	
	2011	2010	2011	2010
Czech Republic	69,089,924	59,683,619	31,777,107	35,961,169
Germany	9,154,662	7,850,820	1,591	1,602
Poland	1,944,097	2,678,541	--	--
Slovakia	7,569,598	6,166,200	849	460
Other countries	9,669,305	9,587,357	17,910	16,917
Total	**97,427,586**	**85,966,537**	**31,797,457**	**35,980,148**

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

Major customer

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

Revenues from major products and services

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

External revenues from major products and services	2011	2010
Refinery	**55,377,071**	**46,389,674**
Diesel	28,532,092	23,022,205
Gasoline	12,147,742	9,659,408
JET	1,442,972	1,217,978
LPG	1,930,179	1,776,504
Fuel Oils	1,805,252	1,811,578
Bitumen	2,607,417	2,336,904
Lubricants	1,280,012	1,117,419
Other refinery products	2,060,000	1,680,483
Services	3,571,405	3,767,195
Retail	**9,845,311**	**8,498,507**
Refinery products	9,527,591	8,185,920
Services	317,720	312,587
Petrochemical	**32,027,656**	**30,978,308**
Ethylene	3,872,717	3,677,893
Benzene	3,917,946	3,738,697
Propylene	1,107,270	1,202,400
Urea	1,229,399	976,596
Ammonia	998,304	926,487
C4 fraction	1,132,485	1,581,889
Butadiene	1,151,620	493,439
Polyethylene (HDPE)	7,457,057	7,108,208
Polypropylene	6,402,631	6,697,248
Other petrochemical products	3,570,037	3,201,268
Services	1,188,190	1,374,183
Other	**177,548**	**100,048**
Total	**97,427,586**	**85,966,537**

Year ended 31 December 2011 (in thousands of CZK)

5. OPERATING EXPENSES AND INCOMES

Cost of sales

	2011	2010
Cost of finished goods and services sold	(87,613,495)	(76,645,741)
Cost of merchandise and raw materials sold	(7,937,972)	(4,987,213)
Cost of sales - total	**(95,551,467)**	**(81,632,954)**

Cost by nature

	2011	2010
Materials and energy	(77,930,990)	(66,267,245)
Cost of merchandise and raw materials sold	(7,937,972)	(4,987,213)
External services	(6,243,064)	(6,277,179)
Depreciation and amortization	(3,107,046)	(3,495,539)
Personal expenses	(2,629,829)	(2,577,257)
Repairs and maintenance	(1,099,079)	(1,214,770)
Insurance	(209,163)	(261,960)
Taxes and charges	(58,949)	(54,410)
Non-cancellable operating leasing	(61,659)	(44,641)
Research expenditures	(11,042)	(27,211)
Impairment of long term assets and receivables	(4,885,949)	(210,909)
Other	(370,210)	(366,745)
Change in inventories	687,016	604,457
Cost of products and services for own use	1,133	526
Total expenses	**103,856,803**	**85,180,096**
Operating expenses		
Distribution expenses	1,998,516	1,963,665
Administrative expenses	1,221,652	1,176,590
Other operating expenses	5,085,168	406,887
Cost of sales	**(95,551,467)**	**(81,632,954)**

Other operating income

	2011	2010
Gain on sale of non-current non-financial assets	15,124	180,545
Reversal of provisions	111,595	55,553
Reversal of receivables impairment allowances	39,998	99,799
Reversal of impairment allowances of property, plant and equipment and intangible assets	91,187	153,625
Penalties and compensations earned	253,943	81,213
Release of provision for consumption of CO2 rights	68,108	--
CO2 allowances grant derecognition	388,063	254,135
Other	91,499	66,745
Total	**1,059,517**	**891,615**

Other operating expenses

	2011	2010
Loss on sale of non-current non-financial assets	(29,152)	(21,240)
Recognition of provisions	(83,678)	(117,436)
Recognition of receivables impairment allowances	(27,758)	(124,970)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(4,858,191)	(85,939)
Addition to provisions for consumption of CO2 allowances	(14,757)	--
Donations	(6,791)	(14,145)
Other	(64,841)	(43,157)
Total	**(5,085,168)**	**(406,887)**

Year ended 31 December 2011 (in thousands of CZK)

6. PERSONNEL EXPENSES

2011	Employees	Key Management	Total
Personnel expenses			
Wages and salaries	1,697,470	200,065	1,897,535
Social and health insurance	572,634	41,813	614,447
Social expense	96,307	11,446	107,753
Change of employee benefits provision	(1,617)	--	(1,617)
Total	**2,364,794**	**253,324**	**2,618,118**
Number of employees average per year, FTE*	3,833	66	**3,899**
Number of employees as at balance sheet day**	3,831	76	**3,907**

* FTE – full time equivalent; in 2011 number was increased by 245 persons due to change in Group structure.
** In case of companies consolidated under proportionate method relevant percentage is used; number of employees comprises only active employees; in 2011 number was increased by 248 persons due to change in Group structure.

2010	Employees	Key Management	Total
Personnel expenses			
Wages and salaries	1,658,495	234,860	**1,893,355**
Social and health insurance	590,860	42,443	**633,303**
Social expense	39,279	1,331	**40,610**
Change of employee benefits provision	(2,097)	--	**(2,097)**
Total	**2,286,537**	**278,634**	**2,565,171**
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**

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

In 2011 the remuneration of members of the Board of directors was CZK 4,448 thousand (CZK 4,711 thousand in 2010). The remuneration of members of the Supervisory board was CZK 6,375 thousand in 2011 (CZK 6,507 thousand in 2010). Cost of social and health insurance connected with members of Board of directors and Supervisory board remuneration amounted to CZK 888 thousand in 2011 (CZK 868 thousand in 2010).

7. FINANCE INCOME AND FINANCE COSTS

	2011	2010
Presented in Profit or loss		
Finance income		
Interest income from held to maturity investments	17,044	17,262
Interest income from loans and receivables	56,593	63,928
Dividend income	--	7,759
Net gain arising on derivatives designated at fair value through Profit or loss	54,062	--
Other finance income	1,047	7,188
Total finance income	**128,746**	**96,137**
Finance costs		
Interest expense on financial liabilities measured at amortized costs	(266,694)	(268,957)
Less: amounts capitalised on qualifying assets	624	2,780
Net foreign exchange losses	(330,023)	(117,773)
Net loss arising on derivatives designated at fair value through Profit or loss	--	(99,660)
Other finance expenses	(106,963)	(104,890)
Total finance costs	**(703,056)**	**(588,500)**
Net finance costs recognized in Profit or loss	**(574,310)**	**(492,363)**
Presented in Other comprehensive income		
Effective portion of charges in fair value of cash flow hedges	(115,697)	--
Net finance cost presented in Other comprehensive income	**(690,007)**	**(492,363)**

Year ended 31 December 2011 (in thousands of CZK)

8. INCOME TAX

	2011	2010
Current tax	(131,843)	(153,957)
Deferred tax	161,647	(95,003)
Income tax recognized in Profit and loss - total	**29,804**	**(248,960)**
Tax recognized in Other comprehensive income - total	14,604	--
Income tax - total	**44,408**	**(248,960)**

Tax recognized directly in Other comprehensive income

	2011	2010
Tax on effective portion of changes in fair value of cash flow hedges	21,982	--
Tax on net change in fair value of investment property	(7,378)	--
Tax recognized in Other comprehensive income	**14,604**	**--**

Domestic income tax is calculated in accordance with Czech tax regulations at the rate of 19% in 2011 (2010: 19%) of the estimated taxable income for the year. The deferred tax has been calculated using tax rate approved for years 2011 and forward i.e. 19%. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of effective tax rate

		2011		2010
Profit / (loss) for the year		(5,914,206)		936,733
Total income tax credit (expense)		29,804		(248,960)
Profit / (loss) excluding income tax		(5,944,010)		1,185,693
Income tax using domestic income tax rate	19.0 %	1,129,362	19.0%	(225,282)
Effect of tax rates in foreign jurisdictions	(0.1 %)	(1,784)	0.3 %	(3,929)
Non-deductible expenses	(0.9 %)	(49,300)	1.3 %	(15,498)
Tax exempt income	0.8 %	45,280	(0.1 %)	1,474
Tax relief	0.1 %	3,223	--	--
Recognition of previously unrecognized tax losses	0.2 %	12,984	--	--
Not recognized deferred tax assets	(18.8%)	(1,113,450)	(0.2 %)	2,133
Under (over) provided in prior periods	0.1 %	1,985	--	--
Other differences	0.1 %	1,504	0.7 %	(7,858)
Total income tax credit (expense)	**0.5 %**	**29,804**	**21 %**	**(248,960)**

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 2010 and onward).

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

	2011	2010
Balance as at 1 January	**(1,710,493)**	**(1,615,519)**
Deferred tax recognized in the Statements of comprehensive income	161,647	(95,003)
Change in Group structure	(1,605)	--
Tax charged to Other comprehensive income	14,604	--
FX difference	5	29
Balance as at 31 December	**(1,535,842)**	**(1,710,493)**

Year ended 31 December 2011 (in thousands of CZK)

8. INCOME TAX (CONTINUED)

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

Deferred tax assets and liabilities	01/01/2011	Recognized in Profit or loss	Recognized in Other comprehensive income	Change of the Group	FX differences	31/12/2011
Deferred tax assets						
Property, plant and equipment	31,702	(31,219)	--	--	--	483
Provisions	294,696	(152,459)	--	--	--	142,237
Unused tax losses carried forward	536,214	(191 961)	--	--	--	344,253
10% investment relief	--	19,104	--	--	--	19,104
Financial instruments valuation	--	--	21,982	--	--	21,982
Other	181,260	55,542	--	--	--	236,802
Total deferred tax assets	1,043,872	(300,993)	21,982	--	--	764,861
Deferred tax liabilities						
Property, plant and equipment	(2,518,175)	626,059	(7,378)	(1,605)	4	(1,901,095)
Inventory	(99,369)	(179,805)	--	--	--	(279,174)
Provisions	(37,932)	700	--	--	--	(37,232)
Finance lease	(92,183)	12,167	--	--	--	(80,016)
Other	(6,706)	3,520	--	--	--	(3,186)
Total deferred tax liabilities	**(2,754,365)**	**462,640**	**(7,378)**	**(1,605)**	**4**	**(2,300,703)**
Net deferred tax liabilities	**(1,710,493)**	**161,647**	**14,604**	**(1,605)**	**4**	**(1,535,842)**

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

Deferred income tax assets are recognized for tax loss and deductible temporary differences carried forward to the extent that realization of the related tax benefit through the future taxable profit is probable. In the calculation of deferred tax assets as at 31 December 2011 the Group has not recognized deferred tax assets in amount of CZK 1,113,450 thousand due to unpredictability of future taxable income (CZK 2,133 thousand in 2010).

9. EARNINGS PER SHARE

Basic earnings per share

	2011	2010
Profit / (loss) for the period attributable to equity holders (in CZK '000)	(5,914,206)	936,733
Weighted average number of shares	181,334,764	181,334,764
Earnings per share (in CZK)	**(32.61)**	**5.17**

Diluted earnings per share

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

Year ended 31 December 2011 (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 01/01/2010	**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**
Additions	--	19,432	389,978	125,708	2,060,268	2,595,386
Disposals	(6,184)	(16,540)	(973,898)	(335,140)	(107)	(1,331,869)
Reclassifications	(111,777)	81,622	1,600,946	170,489	(2,116,458)	(375,178)
Change in Group structure	11,829	48,605	189,471	7,116	--	257,021
Other	--	(29)	(46,238)	--	(1,533)	(47,800)
FX differences	--	227	10	286	--	523
Balance at 31/12/2011	**1,159,185**	**24,186,625**	**39,802,353**	**3,031,998**	**1,242,441**	**69,422,602**
Depreciation						
Balance at 01/01/2010	**--**	**8,276,125**	**21,428,125**	**1,799,725**	**--**	**31,503,975**
Charge for the year	--	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**
Charge for the year	--	605,799	2,026,762	267,438	-	2,899,999
Disposals	--	(2,595)	(961,239)	(319,439)	--	(1,283,273)
Reclassifications	--	(138,739)	--	--	--	(138,739)
Change in Group structure	--	32,898	165,816	4,902	--	203,616
Other	--	1,320	5,309	--	--	6,629
FX differences	--	--	10	204	--	214
Balance at 31/12/2011	**--**	**9,302,591**	**24,667,956**	**1,876,070**	**--**	**35,846,617**
Impairment						
Balance at 01/01/2010	**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**
Impairment losses	346,693	1,845,218	2,030,861	69,474	176,107	4,468,353
Reversal of impairment losses	(35,224)	(51,085)	(4,614)	(264)	--	(91,187)
Balance at 31/12/2011	**350,093**	**1,941,909**	**2,074,963**	**69,846**	**197,693**	**4,634,504**
Grants						
Balance at 31/12/2010	--	**--**	**--**	**--**	**--**	**--**
Increases		28,550	26,466	--	--	55,016
Decreases/ Settlement	--	(1,650)	(4,983)	--	--	(6,633)
Balance at 31/12/2011	**--**	**26,900**	**21,483**	**--**	**--**	**48,383**
Carrying amount at 01/01/2010	**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**
Carrying amount at 31/12/2011	**809,092**	**12,915,225**	**13,037,951**	**1,086,082**	**1,044,748**	**28,893,098**

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 2011 amounted to CZK 624 thousand (31 December 2010: CZK 2,780 thousand).

Impairment allowances disclosed in the property, plant and equipment movement table are equal to the amount by which the carrying amount of assets exceeded their recoverable amount. Recognition and reversal of impairment allowances for property, plant and equipment are recognized in other operating activities. In 2011 the major part of impairment recognized by the Group referred to property, plant and equipment of PARAMO, a.s. (CZK 1,702,876 thousand) and UNIPETROL RPA s.r.o. (CZK 2,728,505 thousand). In 2010 the major part of impairment was created for shutdown of heating plant T200 (CZK 28,400 thousand) and in connections with termination of investment projects (CZK 20,552 thousand).

Year ended 31 December 2011 (in thousands of CZK)

10. PROPERTY PLANT AND EQUIPMENT (CONTINUED)

The Group reviews economic useful lives of property, plant and equipment applied and introduces adjustment to depreciation charge prospectively according to its accounting policy. Should the rates from the previous year be applied, depreciation expense for 2011 would be higher by CZK 148,299 thousand.

The gross book value of all fully depreciated property, plant and equipment still in use as at 31 December 2011 amounted to CZK 12,002,387 thousand (31 December 2010: CZK 12,088,991 thousand).

The carrying amount of idle property, plant and equipment amounted to CZK 42,882 thousand as at 31 December 2011 (CZK 80,458 thousand as at 31 December 2010).

As at 31 December 2011 and 31 December 2010 the carrying amount of assets acquired under finance lease amounted to CZK 380,727 thousand and CZK 517,358 thousand, respectively. Detailed division of non-current assets by class is disclosed in table below.

	Net carrying amount of leased assets	
	31/12/2011	**31/12/2010**
Property, plant and equipment	**380,727**	**517,358**
vehicles	128,765	155,845
machinery and equipment	251,962	361,513

The Group has government grants obtained from the German Ministry for Environmental Protection and Safety of Reactors in amount of CZK 48,383 thousand as at 31 December 2011 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.

Impairment of non-current assets

As at 31 December 2011 in accordance with International Accounting Standard 36 "Impairment of assets" and accounting policies described in note 2.16 impairment, tests were carried out for particular Cash Generating Units (CGUs) for which impairment indicators were identified.

In the Unipetrol group CGUs were identified on the level of segments or individual entities. The analysis was performed based on financial projections for the years 2013-2016 included in the non-approved Midterm Plan for the years 2012-2016, non-approved budget for 2012 and appropriate adjustments mainly relating to capital expenditures and efficiency measures planned in the years 2012-2016. The period of analysis was established on the basis of planned useful life of assets for the particular CGU. The anticipated fixed annual growth rate of cash flows after 2016 was assumed on the level of the long term inflation rate for Czech Republic at 2.28%. For determining the estimate of value in use as at 31 December 2011, forecasted cash flows were discounted using the discount rate after taxation at the level of 9.88% reflecting the risk levels estimated for the Group's assets.

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

In UNIPETROL group indications triggering the impairment testing were of both an internal and external character. Operating profits of entities for the year 2011 have shown a significant decline as compared with the budget . On the basis of IAS 36 this constituted an indication of the impairment of group assets stemming from internal sources of information as evidence was available from internal reporting indicating that the economic performance of an asset was worse than expected [IAS 36.12g]. The adverse economic situation on the refinery market causing periodic ceasing of production and worsening refinery and petrochemical margins constituted additional indicators.

Existence of an impairment indication necessitated the performing of an impairment analysis on UNIPETROL, group assets' as at 31 December 2011.

Based on the results of analysis performed, impairments were recognised in relation to non-current assets of the entity PARAMO, a.s. and the petrochemical segment within UNIPETROL RPA s.r.o. for CZK 1,714,535 thousand and CZK 2,932,819 thousand, respectively.

The estimated useful life in relation to PARAMO, a.s. CGU was assumed to be 25 years and in relation to petrochemical segment in UNIPETROL RPA to be 20 years.

The impairment charges in amount of CZK 4,431,381 thousand were recorded to plant, property and equipment, and CZK 215,973 thousand to intangible assets and were recorded in other operating costs.

Year ended 31 December 2011 (in thousands of CZK)

11. INTANGIBLE ASSETS

	Software	Licenses, patents and trade marks	Goodwill	Assets under development	CO2 emission allowance	Other intangible assets	Total
Cost							
Balance at 01/01/2010	**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**
Additions	296	--	--	82,971	948,423	-	1,031,690
Disposals	(492)	--	--	--	(174,069)	(537)	(175,098)
Reclassifications	32,161	27,569	--	(82,668)	--	23,834	896
Change in Group structure	7,409	--	--	--	--	--	7,409
Other	--	--	--	(87)	336,475	--	336,388
FX differences	31	--	--	2	--	--	33
Balance at 31/12/2011	**970,809**	**2,077,843**	**51,595**	**97,496**	**1,324,668**	**523,660**	**5,046,071**
Amortization							
Balance at 01/01/2010	**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
Charge for the year	49,955	91,138	--	--	--	65,954	207,047
Disposals	(492)	--	--	--	--	(537)	(1,029)
Change in Group structure	5,923	--	--	--	--	--	5,923
FX differences	19	--	--	--	--	--	19
Balance at 31/12/2011	**794,810**	**954,069**	**--**	**--**	**--**	**398,886**	**2,147,765**
Impairment							
Balance at 31/12/2010	**--**	**--**	**--**	**--**	**--**	**--**	**--**
Impairment losses	2,646	187,461	--	10,271	173,865	15,595	389,838
Balance at 31/12/2011	**2,646**	**187,461**	**--**	**10,271**	**173,865**	**15,595**	**389,838**
Carrying amount at 01/01/2010	**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**
Carrying amount at 31/12/2011	**173,353**	**936,313**	**51,595**	**87,225**	**1,150,803**	**109,179**	**2,508,468**

Year ended 31 December 2011 (in thousands of CZK)

11. INTANGIBLE ASSETS (CONTINUED)

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

In 2011 the major part of impairment recognized by the Group referred to intangible assets of PARAMO, a.s. (CZK 11,659 thousand) and UNIPETROL RPA s.r.o. (CZK 204,314 thousand).
Licences, patents and trade marks include licenses related to production of plastics (high-density polyethylene -HDPE and polypropylene), which account for CZK 825,397 thousand of carrying amount as of 31 December 2011 (31 December 2010: CZK 1,076,871 thousand). Other intangible assets include development costs in carrying amount of CZK 99,749 thousand as of 31 December 2011 (31 December 2010: CZK 145,105 thousand).

The Group reviews economic useful lives of property, plant and equipment applied and introduces adjustment to amortization charge prospectively according to its accounting policy. Should the rates from the previous year be applied, amortization expense for 2011 would be higher by CZK 1,535 thousand.

The gross book value of all fully amortized intangible assets still in use as at 31 December 2011 amounted to CZK 1,563,887 thousand and as at 31 December 2010 amounted to CZK 1,503,173 thousand.

The Group didn't have intangible assets with indefinite useful life as at 31 December 2011 and 31 December 2010.

Goodwill
The goodwill amounted to CZK 51,595 thousand as at 31 December 2011 (31 December 2010: 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 2011, the Group reviewed the economic value of goodwill in accordance with the requirements of IAS 36 and concluded that there is no impairment.

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.

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

	value	In tons
Emission allowances at 31 December 2010	213,839	656,071
Emission allowances granted in 2011	1,366,108	3,775,436
Settled emission allowances for previous periods	(1,029,633)	(3,091,097)
Emission allowances acquired in 2011	948,423	2,820,593
Sales of emissions allowances in 2011	(174,069)	(481,112)
Impairment to CO2 allowances	(173,865)	--
Estimated emission allowances at 31 December 2011	**1,150,803**	**3,679,891**
Estimated consumption in 2011	977,965	2,709,500

As at 31 December 2011 the market value of one EUA allowance (European Union Emission Allowance) allocated to installations according to National Allocation Program (NAP) amounted to EUR 6.90.

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

12. INVESTMENT PROPERTY

Investment property at 31 December 2011 comprised the land and buildings owned by the Group and leased to third parties. The changes recorded during the year 2011 are presented in the following table:

	2011	2010
Investment property at 1 January	**162,190**	**162,627**
Reclassification from property, plant, equipment	235,543	--
Changes in fair value	(1,842)	--
Purchase	--	112
Disposals	--	(549)
Total balance at 31 December	**395,891**	**162,190**

Rental income amounted to CZK 50,764 thousand in 2011 (2010: CZK 20,698 thousand). Operating costs that in reporting period generated rental income from Investment property amounted 10,360 CZK thousand in 2011 (2010: CZK 1,314 thousand).

Year ended 31 December 2011 (in thousands of CZK)

12. INVESTMENT PROPERTY (CONTINUED)

Future rental income is as follows:

	Less than one year	Between one and five years
Total future rental income	39,683	183,903

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

13. OTHER INVESTMENTS

The Group had equity investments in amount of CZK 522 thousand as at 31 December 2011 (31 December 2010: CZK 192,425 thousand) 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. The change in amount of other investments was caused by inclusion of equity investments in which the Group has over 50% shareholding into the consolidation group.

14. OTHER NON-CURRENT ASSETS

	31/12/2011	31/12/2010
Financial assets		
Long term loan to ČESKÁ RAFINÉRSKÁ, a.s.	54,763	70,048
Cash deposits to operators of fuel stations	17,577	23,066
Non-financial assets		
Prepayments	7,825	37,110
Total other non-current assets	**80,165**	**130,224**

The Group has provided a loan to ČESKÁ RAFINÉRSKÁ, a.s. for reconstruction of production unit. Part of this loan 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 15,285 thousand is presented under current receivables. The Group also presents non-current receivables from cash deposits to operators of fuel stations in amount of CZK 17,577 thousand (31 December 2010: CZK 21,356 thousand) and prepayments for investments in amount of CZK 7,818 thousand (31 December 2010: CZK 37,110 thousand). The management considers that carrying amount of receivables approximates their fair value.

15. INVENTORIES

	31/12/2011	31/12/2010
Raw materials	4,076,913	3,364,152
Work in progress	1,642,812	1,441,984
Finished goods	4,065,846	3,554,389
Goods for sale	442,970	460,651
Spare parts	1,380,922	1,372,339
Net inventories	**11,609,463**	**10,193,515**
Net realizable value allowance	573,680	347,590
Gross inventories	**12,183,143**	**10,541,105**

Movement in the net realizable value allowance

	31/12/2011	31/12/2010
Balance at beginning of the year	**347,590**	**465,543**
Increases	366,702	86,116
Utilization	(32,150)	(160,953)
Release	(111,870)	(43,107)
Change in Group structure	3,408	--
F/X differences	--	(9)
Balance at end of the year	**573,680**	**347,590**

Changes in the net realizable value allowances for inventories amount to CZK 254,832 thousand and are included in cost of sales (CZK 43,009 thousand in 2010) presented in note 5.

Year ended 31 December 2011 (in thousands of CZK)

16. TRADE AND OTHER RECEIVABLES

	31/12/2011	31/12/2010
Financial assets		
Trade receivable	10,040,987	9,020,652
Resulting from sale of non-financial fixed assets	1	9,720
Other	349,968	90,364
Total financial assets	**10,390,956**	**9,120,736**
Non-financial assets		
Excise tax receivable	211,852	347,537
Taxation, duty, and social security receivable	25,367	17,603
Prepayments	--	1,754
Total non-financial assets	**237,219**	**366,894**
Net trade and other receivables	**10,628,175**	**9,487,630**
Impairment losses	860,787	925,095
Gross trade and other receivables	**11,488,962**	**10,412,725**

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 36 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 28 and detailed information about receivables from related parties is presented in note 31.

Movement in the impairment loss allowance

	31/12/2011	31/12/2010
Balance at beginning of the year	**925,095**	**916,972**
Increases	27,758	124,970
Utilization	(99,898)	(7,987)
Release	(39,998)	(99,799)
Change in Group structure	48,915	--
F/X differences	(1,085)	(9,061)
Balance at end of the year	**860,787**	**925,095**

The Group sets impairment charges based on analysis of customers' creditworthiness and ageing of receivables. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management considers that there is no further credit risk allowance required in excess of the allowance for impairment charges.
Increases and reversals of impairment allowances in respect of principal amount of trade and other receivables are included in other operating expense or income and in respect of interest for delayed payments in financial expnese or income.

17. OTHER SHORT-TERM FINANCIAL ASSETS

	31/12/2011	31/12/2010
Loans granted	33,289	533,435
Derivatives not designed as hedge accounting		
commodity swaps	57,906	--
currency swaps	19,929	--
currency forwards	156,403	6,907
Cash flow hedge instruments		
currency forwards	120,998	--
Total	**388,525**	**540,342**

Loans

The Group provided short-term loans to related entities and to operators of fuel stations. The carrying amount of the loans amounted CZK 33,289 thousand as at 31 December 2011 (31 December 2010: CZK 533,435 thousand). The interest rates were based on appropriate inter-bank rates and the fair value of the loans approximated its carrying amount as at 31 December 2011. The loan in nominal amount of CZK 500,000 thousand provided in previous year to related entity from PKN ORLEN Group was fully repaid.

Information regarding cash flow hedge instruments and derivatives not designed as hedge accounting is presented in note 28.

Year ended 31 December 2011 (in thousands of CZK)

18. CASH AND CASH EQUIVALENTS

	31/12/2011	31/12/2010
Cash in hand and at bank	1,994,087	4,598,611
Short-term bank deposits	476,468	143,220
Total cash and cash equivalents	**2,470,555**	**4,741,831**

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 50,458 thousand as at 31 December 2011 (31 December 2010: CZK 51,743 thousand).

19. SHARE CAPITAL

The issued capital of the parent company as at 31 December 2011 amounted to CZK 18,133,476 thousand (2010: CZK 18,133,476 thousand). This represents 181,334,764 (2010: 181,334,764) bearer ordinary shares, each with a nominal value of CZK 100. All issued shares have been fully paid and bear equal voting rights. The Company's shares are listed on the Prague stock exchange.

20. STATUTORY RESERVES

In accordance with the Czech Commercial Code, joint stock companies are required to establish a reserve fund for possible future losses and other events. Contributions must be a minimum of 20% of the profit for the period in the first year in which profits are generated and 5% of profit each year thereafter until the fund reaches at least 20% of the issued capital. The balance of Statutory reserve fund as at 31 December 2011 amounted to CZK 2,554,809 thousand (31 December 2010: CZK 2,452,698 thousand).

21. OTHER RESERVES

Hedging reserve

The amount of the hedging reserve CZK (93,715) thousand as at 31 December 2011 resulted from valuation of derivatives meeting the requirements of cash flows hedge accounting (31 December 2010: CZK 0 thousand).

Fair value reserve

The fair value reserve relates to difference between the fair value and the acquisition cost of assets available for sale, netted by deferred tax, if their price is determined on the regulated active market or if their fair value may be reliably estimated by alternative methods. The balance of this reserve as at 31 December 2011 amounted to CZK 52,203 thousand (31 December 2010: CZK 20,748 thousand).

Translation reserve

The translation reserve is adjusted by foreign exchange differences resulting from translation of the financial statements of foreign entities belonging to the Group from foreign currencies into functional and presentation currency of the Group. The balance of this reserve as at 31 December 2011 amounted to CZK (4,880) thousand (31 December 2010: CZK 5,223 thousand).

22. 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 30 June 2011 decided on appropriation of the profit for 2010 amounting to CZK 512,121 thousand. In accordance with Article 26 (1) of the Company's Articles of Association CZK 25,606 thousand was allocated to the reserve fund and CZK 486,515 thousand to retained earnings. The decision regarding settlement of 2011 loss will be made on the annual general meeting of shareholders, which will be held in May / June 2012.

Year ended 31 December 2011 (in thousands of CZK)

23. LOANS AND BORROWINGS

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

	31/12/2011	31/12/2010
Non-current loans and borrowings		
Unsecured bonds issued	2,000,000	2,000,000
Finance lease liability	5,374	13,357
Total non-current loans and borrowings	**2,005,374**	**2,013,357**
Current loans and borrowings		
Current portion of unsecured bonds issued	68,655	102,634
Unsecured bank loans	825,455	86,748
Current portion of secured bank loans	--	12,017
Current portion of finance lease	8,795	11,055
Total current loans and borrowings	**902,905**	**212,454**

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 2,068,655 thousand (31 December 2010: CZK 2,102,634 thousand). Using the actual market interest rate, based on the analysis of the current market conditions, the fair value of the aggregate liability arising from the bonds is estimated at CZK 2,358,684 thousand as at 31 December 2011 (31 December 2010: CZK 2,518,730 thousand). Accrued interest, which will be repaid within 12 months from 31 December 2011, is presented within current loans and borrowings amounts to CZK 68,655 thousand (CZK 102,634 thousand at 31 December 2010).

Secured bank loans

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

Analyses of bank loans

	USD	EUR	CZK	Total
Balance as at 1 January 2011	**36,327**	**31,366**	**31,072**	**98,765**
Loans taken	1,647	250,535	6,644,423	**6,896,605**
Repayment	(36,327)	(281,176)	(5,852,855)	**(6,170,358)**
Interests	8	63	1,029	**1,100**
FX differences	--	(657)	--	**(657)**
Balance as at 31 December 2011	**1,655**	**131**	**823,669**	**825,455**

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 2011 was 1.35% (31 December 2010: 1.53%).

Finance lease liabilities

	Future minimum lease payments		Present value of minimum lease payments	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Less than one year	9,419	12,093	8,795	11,055
Between one and five years	5,825	14,191	5,374	13,357

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

The average lease term is 3-4 years. In 2011 the average effective borrowing rate was 2.80%. 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. The net carrying amount of leased assets as at 31 December 2011 and 31 December 2010 is disclosed in note 10.

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

Year ended 31 December 2011 (in thousands of CZK)

24. PROVISIONS

Long – term provision	31/12/2010	Change in Group structure	Additional provision	Utilization of provision	Release of provision	F/X differences	31/12/2011
Provisions for environmental damages and land restoration	315,995	--	15,889	(10,878)	(1,956)	--	319,050
Provisions for legal disputes	24,769	--	--	--	(15,886)	--	8,883
Employee benefits provision	30,049	--	3,072	--	(4,689)	--	28,432
Other provisions	21,976	--	--	--	(14,950)	--	7,026
Total	**392,789**	**--**	**18,961**	**(10,878)**	**(37,481)**	**--**	**363,391**

Short – term provision	31/12/2010	Change in Group structure	Additional provision	Utilization of provision	Release of provision	F/X differences	31/12/2011
Provisions for legal disputes	135,036	--	2,236	--	(1,099)	--	136,173
Provision on CO2 allowances	1,082,904	--	992,805	(1,029,633)	(68,111)	--	977,965
Other provisions	83,751	5,000	77,942	(29,843)	(77,704)	8	59,154
Total	**1,301,691**	**5,000**	**1,072,983**	**(1,059,476)**	**(146,914)**	**8**	**1,173,292**

The provision for land restoration is created as a result of the legal obligation to restore the fly-ash dump after it is discontinued, which is expected to happen after 2043. The provision amounted to CZK 310,071 thousand as at 31 December 2011 (CZK 305,684 thousand as at 31 December 2010). Under provisions for environmental damages provision for compensation of damage to Lesy Česká republika in amount CZK 7,455 thousand was included as at 31 December 2011 (CZK 8,500 thousand as at 31 December 2010).
The provision for legal disputes is created for expected future outflows arising from legal disputes with third parties where the Group is the defendant. As at 31 December 2011 under provisions for legal disputes the Group had provision for a penalty imposed by the Antimonopoly Office for a breach of the Economic Competition Protection Act in the amount of CZK 131,021 thousand, out of which CZK 98,000 thousand was the nominal amount and CZK 33,021 thousand accrued interests. There were no changes in the amount of provision during 2011. Additionally the Group presents the provision related to dispute with Aversen Enterprises Limited in amount of 6,000 CZK as at 31 December 2011 (CZK 6,000 thousand as at 31 December 2010). In 2011 the provision for dispute with Air Products in amount of CZK 9,871 thousand was released.

Provisions for other future liabilities of the Group amounted to CZK 66,180 thousand as at 31 December 2011, out of which CZK 12,916 thousand related to provision for dismantling costs connected with liquidation of unused assets (as at 31 December 2010: CZK 56,504 thousand) and CZK 18,000 thousand related to provision reacted in connection with shutdown of heating plant T200 amounted (31 December 2010 CZK: 37,110 thousand). In 2011 the Group created provision for severance payments in amount of CZK 22,977 thousand.

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

Provision for jubilee bonuses and retirement benefits
The companies of the Group realize the program of paying out retirement benefits and jubilee bonuses in line with remuneration policies in force. The jubilee bonuses are paid to employees after elapse of a defined number of years in service. The retirement benefits are paid as one-time payments at retirement. The amount of retirement benefits as well as jubilee bonuses depends on the number of years of service 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.

Employment benefit provisions for retirement and anniversary benefits received by employees were created using discount rate 3.67% p.a. in 2011 (2010: 3.75%), assumptions used were based on Collective agreement.

Year ended 31 December 2011 (in thousands of CZK)

24. PROVISION (CONTINUED)

Employee benefit obligations

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

	Jubilee payments provision	Retirement provision
Balance as at 1 January 2010	**2,415**	**29,731**
The costs of current employment	--	--
Actuarial gains	(189)	(2,278)
Other	--	370
Balance as at 31 December 2010	**2,226**	**27,823**

Change in employee benefits obligation recognized in the Statement of comprehensive income

	2011	2010
The costs of current employment	(893)	--
Actuarial gains	2,510	2,467
Other	--	(370)
Total	**1,617**	**2,097**
Cost of sales	1,210	2,081
Distribution expenses	117	--
Administrative expenses	290	16
Total	**1,617**	**2,097**

25. OTHER NON-CURRENT LIABILITIES

	31/12/2011	31/12/2010
Financial liabilities		
Liabilities from purchase of assets	1,548	--
Other liabilities	11,270	14,395
Total financial liabilities	**12,818**	**14,395**
Non-financial liabilities		
Deferred income from government grants	--	41,237
Amounts payable to business partners	89,955	91,191
Total non-financial liabilities	**89,955**	**132,428**
Total	**102,773**	**146,823**

The Group obtained government grants 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 grants were disclosed as non-current and current liabilities in 2010. In 2011 the presentation of grants was changed, detailed information is included in note 10.

26. TRADE AND OTHER PAYBLES AND ACCRUALS

	31/12/2011	31/12/2010
Financial liabilities		
Trade payables	11,801,008	10,544,655
Dividends liabilities	27,897	30,012
Liabilities due to acquisition of property, plant and equipment	429,631	428,476
Wages and salaries liabilities	377,750	346,540
Accrued expenses	49,783	105,105
Other payables	198,842	47,017
Total financial liabilities	**12,884,911**	**11,501,805**
Non-financial liabilities		
Excise tax liabilities	3,778,984	4,152,231
Value added tax liability	788,962	892,918
Other taxation, duty and social security liabilities	97,052	115,458
Prepayments	241,786	79,340
Total non-financial liabilities	**4,906,784**	**5,239,947**
Total	**17,791,695**	**16,741,752**

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

Year ended 31 December 2011 (in thousands of CZK)

27. OTHER SHORT TERM FINANCIAL LIABILITIES

	31/12/2011	31/12/2010
Liabilities from cash pool	88,599	49
Cash flow hedge instruments		
currency forwards	236,693	--
Derivatives not designed for hedge accounting		
currency forwards	63,180	80,276
Total	**388,472**	**80,325**

28. FINANCIAL INSTRUMENTS

Accounting classification and fair values

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

31/12/2011	Note	Designated at fair value	Loans and receivables	Available for sale	Hedging financial instruments	Total carrying amount	Fair value
Other investments	13	--	--	522	--	522	n/a
Other non-current assets	14	--	72,340	--	--	72,340	72,340
Trade and other receivables	16	--	10,390,956	--	--	10,390,956	10,390,956
Loans granted	17	--	33,289	--	--	33,289	33,289
Derivatives not designed as hedge accounting	17	234,238	--	--	--	234,238	234,238
Cash flow hedge instruments	17	--	--	--	120,998	120,998	120,998
Cash and cash equivalents	18	--	2,470,555	--	--	2,470,555	2,470,555
Total financial assets		**234,238**	**12,967,140**	**522**	**120,998**	**13,322,898**	

31/12/2011	Note	Designated at fair value	Valued at amortized cost	Hedging financial instruments	Total carrying amount	Fair value
Loans and borrowings	23	--	2,908,279	--	2,908,279	3,198,308
Other non-current liabilities	25	--	12,818	--	12,818	12,818
Trade and other payables and accruals	26	--	12,884,911	--	12,884,911	12,884,911
Derivatives not designed as hedge accounting	27	63,180	--	--	63,180	63,180
Cash flow hedge instruments	27	--	--	236,693	236,693	236,693
Liabilities from cash pool	27	--	88,599	--	88,599	88,599
Total financial liabilities		**63,180**	**15,894,607**	**236,693**	**16,194,480**	

31/12/2010	Note	Designated at fair value	Loans and receivables	Available for sale	Total carrying amount	Fair value
Other investments	13	--	--	192,425	192,425	n/a
Other non-current assets	14	--	93,114	--	93,114	93,114
Trade and other receivables	16	--	9,120,736	--	9,120,736	9,120,736
Loans granted	17	--	533,435	--	533,435	533,435
Derivatives not designed as hedge accounting	17	6,907	--	--	6,907	6,907
Cash and cash equivalents	18	--	4,741,831	--	4,741,831	4,741,831
Total financial assets		**6,907**	**14,489,116**	**192,425**	**14,688,448**	

31/12/2010	Note	Designated at fair value	Valued at amortized cost	Total carrying amount	Fair value
Loans and borrowings	23	--	2,225,811	2,225,811	2,641,907
Other non-current liabilities	25	--	14,395	14,395	14,395
Trade and other payables and accruals	26	--	11,501,805	11,501,805	11,501,805
Derivatives not designed as hedge accounting	27	80,276	--	80,276	80,276
Liabilities from cash pool	27	--	49	49	49
Total financial liabilities		**80,276**	**13,742,060**	**13,822,336**	

Year ended 31 December 2011 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments for which fair value cannot be measured reliably

As at 31 December 2011 and 31 December 2010 the Group held unquoted shares in entities amounting to CZK 522 thousand and CZK 192,425 thousand respectively, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities and no comparable transactions in the same type of instruments. Above mentioned shares were recognized as financial assets available for sale and measured at acquisition cost less impairment allowances. As at 31 December 2011 there are no binding decisions relating to ways and dates of disposure of those assets.

Fair value hierarchy

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

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

Gains/(Losses) due to financial instruments recognized in financial revenues and expenses by category

	2011 Net gain / (loss)	2010 Net gain / (loss)
Financial assets and liabilities at fair value	54,061	(99,660)
Financial assets held to maturity	17,044	17,262
Loans and receivables	(243,635)	49,626
Financial assets available for sale	(4,964)	1,843
Financial liabilities measured at amortized cost	(278,822)	(352,352)
Hedging financial instruments	(115,697)	--
Total	**(572,013)**	**(383,281)**

Loans and receivables

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

Financial liabilities valued at amortized cost

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

Financial assets designated at fair value

Transactions with derivative financial instruments are subject to risk management procedures. It is the Group policy to mitigate this risk by entering into 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 might enter into transactions on emission allowances market in order to cover shortages or utilize the excess of obtained emission allowances over the required amount.

Year ended 31 December 2011 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments used for hedging

The Group hedges its cash flows from operating revenues due to sale of petrochemical and refinery products as well as operating expenses due to purchases of crude oil against changes in exchange rates (EUR/CZK for sale and USD/CZK for purchases and sale). Foreign exchange forwards are used as hedging instruments.

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

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

Planned realization date of hedged cash flows	31/12/2011	31/12/2010
Currency operating exposure		
2012	120,998	--
Total	**120,998**	**--**

In 2011 as a result of settlement of hedge instruments the amount of CZK 94,630 thousand was recognized as foreign exchange losses.

Capital structure management

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

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

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

	31/12/2011	31/12/2010
Debt (i)	2,908,279	2,225,811
Cash and cash equivalents	(2,470,555)	(4,741,831)
Net debt	437,724	**(2,516,020)**
Equity (ii)	32,854,118	38,799,708
Net debt to equity ratio	**1.33**	**(6.48)**

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

Risk management objectives

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

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

Credit risk management

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

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

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

Year ended 31 December 2011 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

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 2011 none of the customers represented more than 5 % of the total balance of consolidated trade receivables.

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

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

Based on the analysis of receivables the customers were divided into two groups:

- I group – customers with good or very good history of cooperation in the current year,
- II group – other customers

Non-past due loans and receivables	31/12/2011	31/12/2010
Group I	12,275,667	14,124,063
Group II	8,920	13,318
Total non-past due trade receivables	**12,284,587**	**14,137,381**

Past due, non impaired	Receivables		Loans	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Up to 1 month	629,978	250,469	--	--
1-3 months	14,324	36,152	--	--
3-6 months	6,386	1,367	--	--
6-12 months	11,435	4,075	--	--
Above 12 months	20,430	59,672	--	--
Past due, non impaired loans and receivables	**682,553**	**351,735**	**--**	**--**

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 at the reporting date by geographic region was as follows:

	31/12/2011		31/12/2010	
	Secured	Unsecured	Secured	Unsecured
Czech Republic	3,538,172	6,439,422	2,673,311	9,218,056
European Union	1,490,946	1,379,203	1,256,541	1,239,571
Other	51,149	68,248	56,641	44,995
Total	**5,080,267**	**7,886,873**	**3,986,493**	**10,502,622**

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 31 December 2011:

	31/12/2011		31/12/2010	
	Gross	Impairment	Gross	Impairment
Non past due	12,284,587	--	14,124,063	--
Past due 0-30 days	629,978	--	250,469	--
Past due 30-180 days	20,710	--	37,519	--
More than 180 days	892,652	(860,787)	1,002,159	(925,095)
Total	**13,827,927**	**(860,787)**	**15,414,210**	**(925,095)**

Liquidity risk management

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

As at 31 December 2011 and 31 December 2010 the maximum possible indebtedness due to bank loans amounted to CZK 9,235,000 thousand and CZK 8,940,128 thousand respectively, of which as at 31 December 2011 and 31 December 2010 CZK 8,409,545 thousand and CZK 8,841,363 thousand respectively remained unused.

Year ended 31 December 2011 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

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.

Expected maturity of non-derivative financial assets

	Contractual cash flows	Less then 6 months	6 months - 1 year	1-5 years	More then 5 years	Carrying amount
31/12/2011						
Other investments	522	--	--	--	522	522
Other non-current assets	72,340	--	--	72,340	--	72,340
Trade and other receivables	10,390,956	10,390,956	--	--	--	10,390,956
Loans granted	33,289	33,289	--	--	--	33,289
Cash and cash equivalents	2,470,555	2,470,555	--	--	--	2,470,555
Total	**12,967,662**	**12,894,800**	**--**	**72,340**	**522**	**12,967,662**
31/12/2010						
Other investments	192,425	--	--	--	192,425	192,425
Other non-current assets	93,114	--	--	93,114	--	93,114
Trade and other receivables	9,120,736	9,071,965	48,771	--	--	9,120,736
Loans granted	533,435	--	533,435	--	--	533,435
Cash and cash equivalents	4,741,831	4,741,831	--	--	--	4,741,831
Total	**14,681,541**	**13,813,796**	**582,206**	**93,114**	**192,425**	**14,681,541**

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

Contractual maturity of non-derivative financial liabilities

	Carrying amount	Less then 6 months	6 months - 1 year	1-5 years	Contractual cash flows
31/12/2011					
Loans and borrowings	2,908,279	834,250	68,655	2,005,374	2,908,279
Other non-current liabilities	12,818	--	--	12,817	12,818
Trade and other payables and accruals	12,884,911	12,884,911	--	--	12,884,911
Liabilities from cash pool	88,599	88,599	--	--	88,599
Total	**15,894,607**	**13,807,760**	**68,655**	**2,018,191**	**15,894,607**
31/12/2010					
Loans and borrowings	2,225,811	109,820	102,634	2,013,357	2,225,811
Other non-current liabilities	14,395	--	--	14,396	14,395
Trade and other payables and accruals	11,501,805	11,501,805	--	--	11,501,805
Liabilities from cash pool	49	49	--	--	49
Total	**13,742,060**	**11,611,674**	**102,634**	**2,027,753**	**13,742,060**

Liquidity analysis of derivative financial instruments

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

31/12/2011	Carrying amount	Expected cash flows	Less then 6 months	6 months - 1 year
Cash flow hedge instruments - currency forwards	120,998	120,998	101,071	19,927
Currency forwards	156,403	156,403	156,403	--
Currency swaps	19,929	19,929	19,929	--
Commodity swaps	57,906	57,906	57,906	--
Assets	**355,236**	**355,236**	**335,309**	**19,927**
Cash flow hedge instruments - currency forwards	(236,693)	(236,693)	(181,667)	(55,026)
Commodity swaps	(52,375)	(52,375)	(52,375)	--
Currency forwards	(10,805)	(10,805)	(10,805)	--
Liabilities	(299,873)	(299,873)	(244,847)	(55,025)
Net	**55,363**	**55,363**	**90,462**	**(35,098)**

Year ended 31 December 2011 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

31/12/2010	Carrying amount	Expected cash flows	Less then 6 months	6 months – 1 year
Non-delivery currency forwards	6,701	6,701	5,405	1,296
Currency forwards	206	206	206	--
Assets	**6,907**	**6,907**	**5,611**	**1,296**
Non-delivery currency forwards	(35,153)	(35,153)	(13,925)	(14,811)
Currency forwards	(45,123)	(45,123)	(45,123)	--
Liabilities	**(80,276)**	**(80,276)**	**(65,465)**	**(14,811)**
Net	**(73,369)**	**(73,369)**	**(59,854)**	**(13,515)**

Market risk

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

Currency risk management

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

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

31/12/2011	CZK	EUR	USD	Other currencies	Total
Other non-current assets	72,340	--	--	--	72,340
Trade and other receivables	6,549,962	3,664,880	175,201	913	10,390,956
Loans granted	33,289	--	--	--	33,289
Cash and cash equivalents	2,232,361	213,349	16,443	8,402	2,470,555
Non-current loans and borrowings	(2,000,000)	--	--	--	(2,000,000)
Trade and other payables and accruals	(4,004,193)	(1,287,883)	(7,587,612)	(5,223)	(12,884,911)
Other non-current liabilities	(12,818)	--	--	--	(12,818)
Current portion of non-current loans and borrowings	(68,655)	--	--	--	(68,655)
Current loans and borrowings	(823,669)	(131)	(1,655)	--	(825,455)
Financial lease liability	(14,169)	--	--	--	(14,169)
Gross exposure	1,964,448	2,590,215	(7,397,623)	4,092	(2,838,868)
Derivatives		(7,066,468)	5,800,745		
Net exposure		**(4,476,253)**	**(1,596,878)**		

31/12/2010	CZK	EUR	USD	Other currencies	Total
Other non-current assets	93,114	--	--	--	93,114
Trade and other receivables	5,658,508	3,132,769	328,800	659	9,120,736
Loans granted	533,435	--	--	--	533,435
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	(4,452,517)	(1,173,411)	(5,870,397)	(5,478)	(11,501,805)
Other non-current liabilities	(14,395)	--	--	--	(14,395)
Current portion of non-current loans and borrowings	(114,651)	--	--	--	(114,651)
Current loans and borrowings	(86,748)	--	--	--	(86,748)
Financial lease liability	(24,412)	--	--	--	(24,412)
Gross exposure	3,922,809	2,344,306	(5,523,172)	3,211	747,154
Derivatives		(270,216)	1,424,396		
Net exposure		**2,074,090**	**(4,098,776)**		

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
CZK/EUR	24.586	25.290	25.800	25.060
CZK/USD	17.688	19.111	19.940	18.751

Year ended 31 December 2011 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

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 2011	for year 2010
USD +/- 12.93 %	USD +/- 11.20 %
EUR +/- 5.53 %	EUR +/- 3.60 %

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 12.93% and 5.53% against the relevant currency. For depreciation of the CZK against the relevant currency by the same parameters, there would be an equal and opposite impact on the profit and equity.

	CZK/USD Impact		CZK/EUR Impact	
	2011	2010	2011	2010
Profit or loss / equity	5,551	123,047	47,974	1,586
Other comprehensive income	15,394	--	12,979	--

Interest rate risk management

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

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

Interest rate risk profile

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

	31/12/2011	31/12/2010
Variable rate instruments		
Financial assets	33,289	533,435
Financial liabilities	(839,624)	(123,177)

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would decrease/increase by CZK 4,032 thousand (2010: decrease/increase by CZK 2,051 thousand). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

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

Market price risks

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

Sensitivity analysis for risk of changes in crude oil prices

The influence of financial derivatives valuation due to changes in crude oil prices as at 31 December 2011:
- if price was higher/lower by 5 USD/BBL – net financial cost for the year 2011 would decrease/increase by CZK 175,971 thousand.

Year ended 31 December 2011 (in thousands of CZK)

28. FINANCIAL INSTRUMENTS (CONTINUED)

The variations of oil prices described above were calculated based on historical volatility of crude oil prices for 2011 and available analysts' forecasts. The sensitivity analysis was performed on the basis of instruments held as at 31 December 2011. The influence of crude oil prices variations on fair value was examined at constant level of currency rates. The carrying amount of hedging instruments for crude oil deliveries as at 31 December 2011 amounted to CZK 57,906 thousand. As at 31 December 2010 the Group did not have financial instruments hedging the risk of changes in commodity prices.

Emission allowances risk

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

29. OPERATING LEASES

The Group as lessee

Leasing arrangements

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

Non-cancellable operating lease commitments

	Minimum lease payments	
	31/122011	**31/12/2010**
Not later than one year	26,919	42,070
Later than one year and not later than five years inclusive	98,143	83,405
Later than five years	205,384	188,332
Total	**330,446**	**313,807**

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

Payments recognized as an expense were as follows:

	2011	**2010**
Non-cancellable operating lease	61,659	44,641
Cancellable operating lease	110,668	143,542
Total	**172,327**	**188,183**

30. 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.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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.

30. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

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 Styrene 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.
Following the above decision of the European Commission, UNIPETROL, a.s. has been served with a claim for damages, which tire producers brought against the members of the ESBR cartel. The claim for damages was filed with the High Court of Justice, Queen's Bench Division, Commercial Court. The claimants ask for damages, together with interest, to compensate for their loss suffered as a result of an alleged cartel.
Furthermore, the Italian group Eni, one of the entities fined by the European Commission, initiated proceedings before a court in Milan in which it seeks a judgment that the ESBR cartel did not exist and no damage occurred as a result thereof. Eni's action has also been served upon UNIPETROL, a.s., which decided to take part in the proceeding. The claims were dismissed by the Court.

As notified on 13 July 2011 General Court of the European Union cancelled a decision of the European Commission of November 2006 which found UNIPETROL, a.s. and its former subsidiary SYNTHOS Kralupy a.s. liable for participation in a cartel. The Court concluded that the Commission had failed to prove cartel conduct on the part of UNIPETROL a.s. and SYNTHOS Kralupy a.s.. Both companies thus became entitled to reimbursement for a previously jointly paid EUR 17.5 million fine. UNIPETROL a.s. has received EUR 9.8 million, which corresponds to the penalty paid and part of the accrued interest.

Claims regarding reward for employees' intelectual work
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 was held on 18 October 2011. The proceedings are still pending.

Guarantees
Based on the Group's request the bank guarantees relating to the security of customs debt and excise tax at customs offices were issued. Total balance of guarantees related to excise tax is CZK 1,414 million as at 31 December 2011 (31 December 2010 CZK 955 million).

Capital Commitments
As at 31 December 2011 the Group had capital commitments for the acquisition of property, plant and equipment in the amount of CZK 228,435 thousand (as at 31 December 2010: CZK 334,243 thousand).

Year ended 31 December 2011 (in thousands of CZK)

31. RELATED PARTIES

Parent and ultimate controlling party

During 2011 and 2010 a majority (62.99%) of the Company's shares were in possession of POLSKI KONCERN NAFTOWY ORLEN S.A.

Transactions with related parties:

31/12/2011	PKN Orlen	Parties under control or significant influence of the Group*	Entities under control or significant influence of PKN Orlen	Other related parties
Current receivables	315	--	133,848	--
Current payables including loans	7,411,054	--	158,740	--
Non-current payables including loans	--	--	--	--
Expenses	54,878,810	--	1,889,797	--
Revenues	156,248	--	1,872,233	--
Interests income and expense	(3,940)	--	11,564	--

** Non-consolidated entities included into consolidation group in 2011*

31/12/2010	PKN Orlen	Parties under control or 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
Interests income and expense	(1,533)	--	19,527	--

** Non-consolidated entities included into consolidation group in 2011*

Material transactions concluded by the Group Companies with related parties

In year ended 31 December 2011 and in 2010 there were no transactions concluded by the Group with related parties on other than market terms.

Transactions with key management personnel

In year ended 31 December 2011 and 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 year ended 31 December 2011 and 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 by key management personnel of the Capital Group companies

In year ended 31 December 2011 and 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.

Information regarding remuneration of key management personnel is included in note 6.

Year ended 31 December 2011 (in thousands of CZK)

32. 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 31/12/2011	Unused funds as at 31/12/2011
UNIPETROL, a.s./ premises of UNIPETROL RPA, s.r.o.	6,012	3,053	2,959
UNIPETROL, a.s./ premises of SYNTHOS Kralupy, a.s.	4,244	47	4,197
BENZINA s.r.o.	1,349	401*	948
PARAMO, a.s./ premises in Pardubice	1,241	357	884
PARAMO, a.s./ premises in Kolín	1,907	1,620	287
Total	**14,753**	**5,478**	**9,275**

**Without the costs of the already completed rehabilitation of the petrol stations network of the former KPetrol 1995-1999 of CZK 40 million and clean-up costs spent before 1997 in amount of approximately of CZK 500 million.*

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 K-Petrol 1995-1999 of CZK 40 million and clean-up costs spent before 1997 in amount of approximately of CZK 500 million.*

33. INTEREST IN A JOINT VENTURES

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

	2011	2010
Non-current assets	8,371,960	8,404,701
Current assets	3,996,130	4,497,649
Non-current liabilities	(557,051)	(548,354)
Current liabilities	(3,075,353)	(3,023,575)
Net assets	**8,735,686**	**9,330,421**
Revenues	**4,636,080**	**4,984,809**
Profit before tax	150,243	282,304
Income tax	(27,880)	(58,646)
Profit for the year	122,363	223,659

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:

	2011	2010
Non-current assets	611,953	638,251
Current assets	452,273	257,657
Non-current liabilities	(382,459)	(495,549)
Current liabilities	(365,414)	(214,679)
Net assets	**316,353**	**185,680**
Revenues	**2,494,185**	**1,015,324**
Profit before tax	105,413	59,095
Income tax	25,260	(19,057)
Profit for the year	130,673	40,039

34. 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 2011.

Signature of statutory representatives	26 March 2012
Piotr Chelmiński	Mariusz Kędra
Chairman of the Board of Directors	Member of the Board of Directors

UNIPETROL, a.s.

NON-CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS OF 31 DECEMBER 2011

Translated from the Czech original

KPMG Česká republika Audit, s.r.o.
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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 financial statements of UNIPETROL, a.s., which comprise the statement of financial position as of 31 December 2011, 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 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 financial statements.

Statutory Body's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements give a true and fair view of the assets and liabilities of UNIPETROL, a.s. as of 31 December 2011, 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
26 March 2012

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

Otakar Hora
Partner
Licence number 1197

UNIPETROL, a.s.

Non-consolidated statement of finacial position
prepared in accordance with International Financial Reporting Standards
As at 31 December 2011
(in thousands of Czech crowns)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	10	15,994	397,215
Intangible assets	11	522	1,187
Investment property	12	1,141,966	162,190
Investments in subsidiaries and joint ventures	13	13,808,812	14,354,116
Other investments	14	4,254	4,251
Loans to subsidiaries	15	2,382,459	2,662,294
Receivables from subsidiaries	16	102	168
Deffered tax asset	9	--	421
Total non-current assets		**17,354,109**	**17,581,842**
Current assets			
Trade and other receivables	17	153,684	175,655
Loans to subsidiaries	15	9,507,592	6,514,103
Loans to related companies		--	500,035
Prepaid expenses		8,241	9,251
Current tax assets		17,857	--
Cash and cash equivalents	19	1,358,652	2,863,092
Total current assets		**11,046,026**	**10,062,136**
Total assets		**28,400,135**	**27,643,978**
EQUITY AND LIABILITIES			
Equity			
Share capital	20	18,133,476	18,133,476
Reserves	21	2,166,147	1,654,065
Retained earnings	22	4,716,455	4,971,986
Total equity		**25,016,078**	**24,759,527**
Non-current liabilities			
Loans and borrowings	23	2,000,000	2,000,000
Provisions		400	400
Deffered tax liability	9	109,904	--
Total non-current liabilities		**2,110,304**	**2,000,400**
Current liabilities			
Trade and other payables and accruals	24	112,649	107,175
Loans and borrowings	23	1,133,208	734,890
Dividends payable		27,896	30,012
Current tax liabilities		--	11,974
Total current liabilities		**1,273,753**	**884,051**
Total liabilities		**3,384,057**	**2,884,451**
Total equity and liabilities		**28,400,135**	**27,643,978**

The non-consolidated financial statements are to be read in conjunction with the notes forming part of the non-consolidated financial statements set out on pages 5 to 39.

UNIPETROL, a.s.

Non-consolidated statement of comprehensive income
prepared in accordance with International Financial Reporting Standards
For the year ended 31 December 2011
(in thousands of Czech crowns)

	Note	2011	2010
Revenue	4	140,030	164,330
Cost of sales		(69,874)	(71,227)
Gross profit		**70,156**	**93,103**
Other income		241,762	3,462
Administrative expenses		(168,037)	(179,277)
Other expenses		(149)	(48,827)
Results from operating activities	6	**143,732**	**(131,539)**
Finance income		1,165,560	958,192
Finance costs		(1,515,253)	(270,340)
Net finance income (cost)	8	**(349,693)**	**687,852**
Profit (loss) before income tax		**(205,961)**	**556,313**
Income tax expense	9	(23,964)	(44,192)
Profit (loss) for the year		**(229,925)**	**512,121**
Other comprehensive income:			
Gains on investment property revaluation		600,477	--
Revaluation of financial investments		89	--
Tax on other comprehensive income	9	(114,090)	--
Other comprehensive income for the year, net of tax		**486,476**	**--**
Total comprehensive income for the year		**256,551**	**512,121**
Basic and diluted earnings per share (in CZK)		**(1.27)**	**2.82**

The non-consolidated financial statements are to be read in conjunction with the notes forming part of the non-consolidated financial statements set out on pages 5 to 39.

UNIPETROL, a.s.

Non-consolidated statement of changes in equity
prepared in accordance with International Financial Reporting Standards
For the year ended 31 December 2011
(in thousands of Czech crowns)

	Share capital	Statutory reserves	Fair value changes relating to investment property	Other reserves	Retained earnings	Total equity
Balance as at 1 January 2010	**18,133,476**	**1,612,772**	**20,748**	**7,455**	**4,472,958**	**24,247,409**
Profit for the year	--	--	--	--	512,121	512,121
Total comprehensive income for the year	**--**	**--**	**--**	**--**	**512,121**	**512,121**
Allocation of profit to reserves	--	13,093	--	--	(13,093)	--
Other movements	--	--	--	(3)	--	(3)
Balance as at 31 December 2010	**18,133,476**	**1,625,865**	**20,748**	**7,452**	**4,971,986**	**24,759,527**
Balance as at 1 January 2011	**18,133,476**	**1,625,865**	**20,748**	**7,452**	**4,971,986**	**24,759,527**
Loss for the year	--	--	--	--	(229,925)	(229,925)
Other comprehensive income	--	--	486,387	89	--	486,476
Total comprehensive income for the year	**--**	**--**	**486,387**	**89**	**(229,925)**	**256,551**
Allocation of profit to reserves	--	25,606	--	--	(25,606)	--
Balance as at 31 December 2011	**18,133,476**	**1,651,471**	**507,135**	**7,541**	**4,716,455**	**25,016,078**

The non-consolidated financial statements are to be read in conjunction with the notes forming part of the non-consolidated financial statements set out on pages 5 to 39.

UNIPETROL, a.s.

Non-consolidated statement of cash flows
prepared in accordance with International Financial Reporting Standards
For the year ended 31 December 2011
(in thousands of Czech crowns)

	2011	2010
Cash flows from operating activities:		
Profit (Loss) for the year	**(229,925)**	**512,121**
Adjustments for:		
Depreciation of property, plant and equipment and amortisation of intangible assets	3,166	4,697
Gain on disposals of property, plant and equipment	(1,068)	(1,731)
Gain on disposals of intangible assets	--	(36)
Profit on disposals of financial investments	--	(15,054)
Interest and dividends, net	(903,302)	(581,081)
Impairment losses (reversal) on financial investments, property, plan and equipment, inventory and receivables	1,248,244	(55)
Foreign exchange (gain) loss	(2,522)	1,646
Income tax expense	23,964	44,192
Changes in:		
- trade and other receivables and other current assets	8,702	170,750
- in trade and other payables and accruals	(34,693)	(121,300)
- in provisions	--	400
Interest paid	(290,284)	(297,087)
Net cash used in operating activities	**(177,718)**	**(282,538)**
Cash flows from investing activities:		
Dividends received	725,543	410,336
Interest received	472,037	466,908
Proceed from sale of property, plant and equipment and intangible assets	1,068	10,064
Proceed from sale of financial investments	--	16,147
Acquisition of property, plant and equipment and intangible assets	(579)	(33,689)
Acquisition of investment property	--	(112)
Acquisition of financial investments	--	(79,502)
Change in loans to subsidiaries	(3,457,075)	2,033,022
Change in loans to related companies	500,035	(249,821)
Net cash from (used in) investing activities	**(1,758,971)**	**2,573,353**
Cash flows from financing activities:		
Change in loans and borrowings	431,846	321,261
Dividends paid	(2,116)	(1,368)
Net cash from financing activities	**429,730**	**319,893**
Net change in cash and cash equivalents	**(1,506,959)**	**2,610,708**
Cash and cash equivalents at begining of the year	**2,863,092**	**253,876**
Effects of exchange rates changes on the balance of cash held in foreign currencies	2,519	(1,492)
Cash and cash equivalents at the end of the year	**1,358,652**	**2,863,092**

The non-consolidated financial statements are to be read in conjunction with the notes forming part of the non-consolidated financial statements set out on pages 5 to 39.

Index

1. Description of the company ... 6
2. Significant investments in subsidiaries and jointly controlled entities ... 7
3. Significant accounting policies ... 8
4. Revenue ... 21
5. Business segments ... 21
6. Operating expenses and incomes ... 21
7. Personnel expenses ... 22
8. Finance income and finance costs ... 22
9. Income tax ... 23
10. Property, plant and equipment ... 24
11. Intangible assets ... 24
12. Investment property ... 25
13. Investments in subsidiaries and joint – ventures ... 25
14. Other investments ... 26
15. Loans to subsidiaries ... 27
16. Non-current receivables from subsidiaries ... 27
17. Trade and other receivables ... 28
18. Current loans to related companies ... 28
19. Cash and cash equivalents ... 28
20. Share capital ... 28
21. Reserves ... 28
22. Retained earnings and dividends ... 29
23. Loans and borrowings ... 29
24. Trade and other payables and accruals ... 30
25. Financial instruments ... 30
26. Operating leases ... 35
27. Commitments and contingencies ... 35
28. Related parties ... 38
29. Past environmental liabilities ... 38
30. Significant post balance sheet events ... 39

Year ended 31 December 2011 (in thousands of CZK)

1. DESCRIPTION OF THE COMPANY

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

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

Principal activities

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

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

Ownership structure
The shareholders as at 31 December 2011 are as follows:

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

Members of the statutory and supervisory boards as at 31 December 2011 were as follows:

	Position	Name
Board of directors	Chairman	Piotr Chelminski
	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 2011 were as follows:

Position	Name	Change	Date of change
Vice-Chairman	Marek Serafin	Recalled by the Supervisory Board of UNIPETROL,a.s. from the Board of Directors	13 December 2011

Changes in the supervisory board during 2011 were as follows:

Position	Name	Change	Date of change
Member	Dariusz Jacek Krawiec	Elected for new Term of office as a member	30 June 2011
Chairman	Dariusz Jacek Krawiec	Elected as Chairman by the Supervisory Board	12 October 2011
Member	Slawomir Robert Jedrzejczyk	Elected for new Term of office as a member	30 June 2011
Vice-Chairman	Slawomir Robert Jedrzejczyk	Elected as Vice-Chairman by the Supervisory Board	12 October 2011
Member	Piotr Robert Kearney	Elected for new Term of office as a member	30 June 2011

Year ended 31 December 2011 (in thousands of CZK)

2. SIGNIFICANT INVESTMENTS IN SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

The following table shows subsidiaryes and joint-ventures forming the consolidated group of UNIPETROL, a.s., and the Company's interest in the capital of subsidiaries and joint-ventures held either directly or indirectly by the consolidated subsidiaries (information as of 31 December 2011).

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

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

2. SIGNIFICANT INVESMNETS IN SUBSIDIARIES AND JOINTLY CONTROLLED (CONTINUED)

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. The liquidation of UNIPETROL TRADE a.s. finished as at 27 September 2011. It is expected that liquidation of CHEMAPOL (SCHWEIZ) AG will be completed in 2012.

On 17 February 2011 PARAMO a.s. bought 2 dormant legal entities: Paramo Oil s.r.o. and Paramo Asfalt s.r.o. which were included in the consolidation group of UNIPETROL and allocated to Refinery segment. As at 31 December 2011 the entities were not conducting any operational activity.

3. SIGNIFICANT ACCOUNTING POLICIES

A Statement of compliance and accounting policies

The non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations approved 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 Company but which the Company has not early adopted. The Company intends to adopt amendments to IFRSs that are published but not effective as at 31 December 2011, in accordance with their effective dates.
In 2011, the Company did not take decision for early adoption on voluntarily basis of amendments and interpretations to standards.

IFRSs, amendments and interpretations to IFRSs endorsed by European Union

- Amendments to *IFRS 7 Financial Instruments: Disclosure - Transfers of Financial Assets* - endorsed 22 November 2011 (effective for annual periods beginning on or after 1 July 2011). The Amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets. The Amendments define "continuing involvement" for the purposes of applying the disclosure requirements.

  The Company does not expect the amendment to have impact on the financial statements, because of the nature of the Company's operations and the types of financial assets that it holds, however when initially applied it could impact the amount of disclosures.

IFRSs, amendments and interpretations waiting for approval of European Union

- Amendments to *IFRS 1- Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters* (effective for annual periods beginning on or after 1 July 2011)
  The Amendments add an exemption to IFRS 1 that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation. This exemption allows an entity to measure assets and liabilities held before the functional currency normalization date at fair value and use that fair value as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position.

  The Company expects that when initially applied, the amendment will have no impact on financial statements.
- Amendments to *IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 July 2013)
  The Amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or are subject to master netting arrangements or similar agreements.

  The Company does not expect the Amendments when initially applied to have any impact on financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
- Amendments to *IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014)
  The Amendments do not introduce new rules for offsetting financial assets and liabilities but rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Company does not expect the Amendments when initially applied to have any impact on financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *IFRS 9 Financial Instruments* (effective for annual periods beginning on or after 1January 2015)

  The new Standard replaces the guidance in *IAS 39, Financial Instruments: Recognition and Measurement*, regarding classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. Financial assets will be classified into one of two categories on initial recognition: financial assets measured at amortized cost; or financial assets measured at fair value.

  The 2010 additions to IFRS 9 replace the guidance in IAS 39 Financial Instruments: Recognition and Measurement, related to classification and measurement of financial liabilities and the derecognizing of financial assets and financial liabilities. The Standard retains almost all of the existing requirements from IAS 39 on the classification and measurement of financial liabilities and for derecognizing of financial assets and financial liabilities.

  The Standard requires that the amount of change in fair value attributable to changes in the credit risk of a financial liability designated at initial recognition as fair value through profit or loss, be presented in other comprehensive income (OCI), with only the remaining amount of the total gain or loss included in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts presented in OCI are not subsequently reclassified to profit or loss but may be transferred within equity.

  Derivative financial liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are required to be measured at fair value under IFRS 9.

  Additionally amendments change the disclosure and restatement requirements relating to the initial application of IFRS 9 Financial Instruments (2009) and IFRS 9 (2010). The amended IFRS 7 requires disclosing of more details about the effect of the initial application of IFRS 9 when an entity does not restate comparative information in accordance with the amended requirements of IFRS 9.

  The Company does not expect the standard when initially applied to have an impact on valuation of items presented in consolidated financial statements of the Company. In accordance with the standard requirements classification of financial assets into respective categories will change.

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

  IFRS 10 provides a new single model to be applied in the control analysis for all investees, including those that currently are Special Purpose Entities in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that are different from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when: it is exposed or has rights to variable returns from its involvements with the investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. The new standard also includes the disclosure requirements and the requirements relating to preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008).

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

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

  IFRS 11, Joint Arrangements, supersedes and replaces I*AS 31, Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed in IFRS 10. Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

  - A *joint operation* is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.

  - A *joint venture* is one whereby the jointly controlling parties, known as joint ventures, have rights to the net assets of the arrangement.

  IFRS 11 effectively carves out, from IAS 31 jointly controlled entities, those cases in which although there is a separate vehicle, that separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations (line by line accounting of underlying assets and liabilities), and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must always use the equity method.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *IFRS 12 Disclosures of Interests in Other Entities* (effective for annual periods beginning on or after 1January 2013)
  IFRS 12 requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

  The Company expects that the new standard when initially applied will have an impact on the amount of disclosures in the financial statements.
- *IFRS 13 Fair Value Measurement* (effective for annual periods beginning on or after 1January 2013)
  IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

  The Company expects that the new standard when initially applied will have a significant impact on the disclosures in the notes to the financial statements in respect of the fair value and the determination of the fair value of certain financial and non-financial items. However, the Company is currently not able to estimate the impact the standard will have on the financial statements on the date of initial application.
- *IAS 27 Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013)
  New IAS 27 will only carry forward the existing accounting and disclosure requirements for separate financial statements with some minor clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The Standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements, which have been carried over into IFRS 10 Consolidated Financial Statements.

  The Company does not expect the new standard when initially applied to have an impact on the financial statements, since it does not results in a change in the Company's accounting policy.
- *IAS 28 Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1January 2013)
  The limited amendments made to IAS 28 were as follows:
  - Associates and joint ventures held for sale. *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.
  - Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

  The Company does not expect the amendments to the standard when initially applied to have an impact on non-consolidated financial statements.
- *IAS 12 Deferred tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1January 2012)
  The 2010 amendment introduces an exception to the current measurement principles based on the manner of recovery in paragraph 52 of IAS 12 for investment property measured using the fair value model in accordance with IAS 40 by introducing a rebuttable presumption that in these for the assets the manner of recovery will be entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the rebuttable presumption can be rebutted.

  The Company does not expect the amendment when initially applied to have significant impact on non-consolidated financial statements.
- *Amendment to Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1July 2012)
  The amendments require that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

or loss. Consequently an entity that presents items of other comprehensive income before related tax effects will also have to allocate the aggregated tax amount between these sections.

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

- *Amendments to IAS 19 Employee Benefits* (effective for annual periods beginning on or after 1January 2013)
  Actuarial gains and losses will be recognized immediately in other comprehensive income. This change will remove the corridor method and hence is expected to have a significant effect on entities that currently apply this method to recognize actuarial gains and losses; and will eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19.
  The Company is currently not able to estimate the impact the standard will have on the financial statements on the date of initial application.
- *IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1January 2013)
  The Interpretation addresses the recognition of production stripping costs as an assets, initial measurement of the stripping activity asset and subsequent measurement of the stripping activity asset. Surface mining companies will capitalize production stripping costs that benefit future periods, if certain criteria are met. Capitalization, and the deprecation period, will depend on the identified component of the ore body to which stripping activity relates.

  The IFRIC is not relevant to the Company's financial statements, since the Company is not conducting production in surface mines.

B Basis of preparation

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

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

C Functional and presentation currency

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

D Significant accounting policies

<u>(1) Investments in subsidiaries, jointly controlled entities and associates</u>
Investments in subsidiaries, jointly controlled entities and associates are carried in the balance sheet at cost less any impairment of the value of individual investments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(2) Loans provided to subsidiaries and associates

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

(3) Foreign currency

Transactions in foreign currency

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

At the end of the reporting period:

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

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

(4) Revenue recognition

(i)Revenue from sales

Revenues from sales are recognized when it is probable that the economic benefits associated with the sale transaction will flow to the Company and can be measured reliably. Revenues from sale are recognized when the significant risks and rewards of ownership have been transferred to the buyer and amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at fair value of the consideration received or receivable decreased by the amount of any discounts, value added tax (VAT), excise tax and fuel charges.

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

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

(ii) Revenue from licences, royalties and trade mark

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

(iii) Rental income

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

(5) Costs recognition

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

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

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

(6) Other operating income and expenses

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(7) Financial income and finance expenses

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

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

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

(8) Taxation

Income tax comprises current tax and deferred tax.

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

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(9) Earnings per share

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

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

(10) Property, plant and equipment

(i) Owned assets

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

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

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

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

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

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

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

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

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

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

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

(ii) Leased assets

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. In calculating the present value of the minimum lease payments the discount factor is the interest rate implicit in the lease. The property, plant and equipment acquired under finance leases are depreciated over the shorter of lease term or useful life of the asset. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(iii) Subsequent expenditure

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(11) Investment property

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

Gains and losses resulting from changes in fair value of investment property are presented in the statement of 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. Their value is decreased by the eventual impairment allowances. Additionally, the useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

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

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

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

(i) Research and development

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

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

(ii) Computer software

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

(iii) Other intangible assets

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

(iv) Subsequent expenditure

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

(13) Government grants

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(14) Borrowing costs

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

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

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

(15) Impairment

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

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

(i) Calculation of recoverable amount

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

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

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

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

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

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

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

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

(ii) Reversals of impairment

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

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

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

(16) Trade and other receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(17) Cash and cash equivalents

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

(18) Financial instruments

(i) Non-derivative financial instruments

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

Effective interest method

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

Financial assets at fair value through profit or loss

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

A financial instrument is classified as held for trading if:

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

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

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

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

Held-to-maturity

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

Available-for-sale financial instruments

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

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

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

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial instruments

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

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

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

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

(ii) Derivative financial instruments

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

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

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

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

Embedded derivatives

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

Hedge accounting

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(19) Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured reliably. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.
The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation the provision is reversed. The provision is used only for expenditures for which the provision was originally recognised.
The Company establishes provisions for environmental damage, legal disputes, penalties and estimated expenditures related to the fulfilment of obligations as a result of warranty claims. No provisions are established in respect of environmental damages which occurred prior to establishment of the Company as the Czech government contractually committed to reimburse the Company for clean-up costs.
A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.
In accordance with the Company's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated.
A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

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

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

3. 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 Company has no pension or post-retirement commitments.

(23) Long-term service benefits

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

Retirement benefits and jubilee bonuses

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

(24) Non-current assets held for sale

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

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

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

(25) Share capital

Ordinary shares are classified as share capital.

(26) Contingent liabilities and receivables

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

Year ended 31 December 2011 (in thousands of CZK)

4. REVENUE

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

	2011	2010
Fees for use of land	106,835	105,221
Revenue from services	33,195	59,109
Total revenue	**140,030**	**164,330**

5. BUSINESS SEGMENTS

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

6. OPERATING EXPENSES AND INCOMES

Cost of sales

	2011	2010
Cost of services sold	(69,874)	(71,227)
Total	**(69,874)**	**(71,227)**

Cost by nature

	2011	2010
Materials and energy	(2,727)	(2,423)
External services	(126,993)	(124,311)
Personnel costs	(102,478)	(112,618)
Depreciation and amortisation	(3,166)	(4,697)
Taxes and charges	(2,205)	(2,431)
Other	(491)	(52,851)
Operating expenses	**(238,060)**	**(299,331)**
Administrative expenses	168,037	179,277
Other operating expenses	149	48,827
Cost of sales	**(69,874)**	**(71,227)**

Other operating income

	2011	2010
Gain on sale of non-current non-financial assets	1,068	1,767
Insurance income	707	721
Reversal of receivables impairment allowances	3,044	55
Penalties returned	236,726	--
Other	217	919
Total	**241,762**	**3,462**

Other operating expenses

	2011	2010
Donations	(78)	--
Recognition of receivable impairment allowance	--	(48,232)
Other	(71)	(595)
Total	**(149)**	**(48,827)**

In 2011 the Company received a returned penalty from European Commission as a result of decision of the Court of first instance in Luxembourg relating to unsupported allegation for cartel actions. For further information see Note 27.

Year ended 31 December 2011 (in thousands of CZK)

7. PERSONNEL EXPENSES

The number of employees and managers and their remuneration for 2011 and 2010 are as follows:

2011	Employees	Key Management	Total
Personnel expenses			
Wages and salaries	39,433	24,876	**64,309**
Social and health insurance	11,958	2,727	**14,685**
Social expense	9,454	3,615	**13,069**
Total	**60,845**	**31,218**	**92,063**
Number of employees average per year FTE*	21	5	**26**
Number of employees as at balance sheet day**	29	5	**34**

2010	Employees	Key Management	Total
Personnel expenses			
Wages and salaries	51,518	28,025	**79,543**
Social and health insurance	11,725	3,764	**15,489**
Social expense	1,563	396	**1,959**
Part of expenses related to benefit plans	391	60	**451**
Total	**65,197**	**32,245**	**97,442**
Number of employees average per year FTE*	20	5	**25**
Number of employees as at balance sheet day**	21	5	**26**

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

In 2011 the remuneration of members of the Board of directors was CZK 3,035 thousand (CZK 3,105 thousand in 2010). The remuneration of members of the Supervisory board was CZK 5,640 thousand (CZK 5,640 thousand in 2010). Cost of social and health insurance connected with members of Board of directors and Supervisory board remuneration amounted to CZK 694 thousand in 2011 (CZK 644 thousand in 2010).

In 2011 the remuneration of members of the audit committee was CZK 960 thousand (CZK 960 thousand in 2010). Cost of social and health insurance connected with members of the audit committee remuneration amounted to CZK 86 thousand in 2011 (CZK 86 thousand in 2010).

The non-cash benefits in amount of CZK 9,426 thousand as at 31 December 2011 (CZK 4,741 thousand as at 31 December 2010) resulting from employment contracts were included in wages and salaries.

8. FINANCE INCOME AND FINANCE COSTS

	2011	2010
Presented in profit or loss		
Finance income		
Interest income from held to maturity investments	4,747	7,121
Interest income from loans and receivables	429,768	425,568
Dividend income*	725,543	410,336
Profit from sale of investments in subsidiaries	--	15,054
Income from receivable to UNIPETROL TRADE a.s.	--	93,730
Net foreign exchange gain	379	--
Other finance income	5,123	6,383
Total finance income	**1,165,560**	**958,192**
Finance costs		
Impairment to shares in PARAMO a.s.	(545,389)	--
Impairment to loans granted to PARAMO a.s.	(705,899)	--
Interest expense on financial liabilities measured at amortized costs	(256,756)	(261,944)
Net foreign exchange losses	--	(386)
Other finance expenses	(7,209)	(8,010)
Total finance costs	**(1,515,253)**	**(270,340)**
Net finance income (costs) recognized in profit or loss	**(349,693)**	**687,852**
Presented in other comprehensive income	**89**	**--**

* The information about dividends received is included in Notes 13 and 14.

Year ended 31 December 2011 (in thousands of CZK)

9. INCOME TAX

	2011	2010
Current tax	(27,729)	(48,123)
Deferred tax	3,765	3,931
Income tax recognised in profit and loss	**(23,964)**	**(44,192)**
Tax recognised in other comprehensive income	(114,090)	--
Income tax - total	**(138,054)**	**(44,192)**

Domestic income tax is calculated in accordance with Czech tax regulations at the rate of 19 % in 2011 (2010: 19 %) of the estimated taxable income for the year. The deferred tax has been calculated using tax rate approved for years 2011 and forward i.e. 19 %.

Reconciliation of effective tax rate

		2011		2010
Profit (loss) for the year		(229,925)		512,121
Total income tax expense		(23,964)		(44,192)
Profit (loss) excluding income tax		(205,961)		556,313
Income tax using domestic income tax rate	(19.0) %	39,133	(19.0) %	(105,699)
Effect of tax rates in foreign jurisdictions	(0.0) %	(58)	--	--
Non-deductible expenses	121.5 %	(250,299)	(1,6) %)	(8,943)
Tax exempt income	(88.4) %	182,036	14.6 %	81,032
Change in unrecognised temporary differences	(2.5) %	5,224	(1.8) %	(10,240)
Under (over) provided in prior periods	--	--	(0.0 %)	(342)
Total income tax expense	**11.6 %**	**(23,964)**	**(7.9) %**	**(44,192)**

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 Company's net deferred tax position was follows:

	2011	2010
Balance at beginning of the year	**421**	**(3,510)**
Deferred tax recognised in the Statements of comprehensive income	3,765	3,931
Deferred tax charged to Other comprehensive income	(114,090)	--
Balance at end of the year	**(109,904)**	**421**

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

Deferred tax assets	01/01/2011	Recognised in Profit or loss	Recognised in Other comprehensive income	31/12/2011
Personal expenses	5,219	(768)	--	4,451
Total deferred tax assets	5,219	(768)	--	4,451
Property, plant and equipment	(289)	24	--	(265)
Investment property revaluation	(4,509)	4,509	(114,090)	(114,090)
Total deferred tax liabilities	**(4,798)**	**4,533**	**--**	**(114,355)**
Net deferred tax liabilities	**421**	**3,765**	**(114,090)**	**(109,904)**

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

Year ended 31 December 2011 (in thousands of CZK)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Machinery and equipment	Vehicles and other	Construction in progress	Total
Cost					
Balance as at 01/01/2010	**365,098**	**3,291**	**21,359**	**1,124**	**390,872**
Additions	28,595	--	5,063	--	33,658
Disposals	(3,848)	--	(8,916)	--	(12,764)
Reclassifications	--	--	830	(1,124)	(294)
Balance as at 31/12/2010	**389,845**	**3,291**	**18,336**	**--**	**411,472**
Additions	--	--	579	--	579
Reclassification	(379,299)	--	--	--	(379,299)
Disposals	--	--	(3,876)	--	(3,876)
Balance as at 31/12/2011	**10,546**	**3,291**	**15,039**	**--**	**28,876**
Depreciation					
Balance as at 01/01/2010	**--**	**2,379**	**16,942**	**--**	**19,321**
Charge for the year	--	335	3,170	--	3,505
Disposals	--	--	(8,569)	--	(8,569)
Balance as at 31/12/2010	**--**	**2,714**	**11,543**	**--**	**14,257**
Charge for the year	--	144	2,357	--	2,501
Disposals	--	--	(3,876)	--	(3,876)
Balance as at 31/12/2011	**--**	**2,858**	**10,024**	**--**	**12,882**
Carrying amount as at 01/01/2010	**365,098**	**912**	**4,417**	**1,124**	**371,551**
Carrying amount as at 31/12/2010	**389,845**	**577**	**6,793**	**--**	**397,215**
Carrying amount as at 31/12/2011	**10,546**	**433**	**5,015**	**--**	**15,994**

As income from land is generated primarily from fees for lease of land, it was reclassified to Investment property.

11. INTANGIBLE ASSETS

	Software	Licences, patents and trade marks	Assets under development	Other intangible assets	Total
Cost					
Balance as at 01/01/2010	**13,610**	**4,308**	**--**	**8,882**	**26,800**
Additions	--	--	31	--	31
Disposals	--	(4,308)	--	--	(4,308)
Reclassifications	210	--	294	(210)	294
Other	5,750	--	--	1	5,751
Balance as at 31/12/2010	**19,570**	**--**	**325**	**8,673**	**28,568**
Balance as at 31/12/2011	**19,570**	**--**	**325**	**8,673**	**28,568**
Amortization					
Balance as at 01/01/2010	**12,248**	**323**	**--**	**8,622**	**21,193**
Charge for the year	624	431	--	137	1,192
Disposals	--	(754)	--	--	(754)
Reclassifications	181	--	--	(181)	--
Other	5,750	--	--	--	5,750
Balance as at 31/12/2010	**18,803**	**--**	**--**	**8,578**	**27,381**
Charge for the year	571	--	--	94	665
Balance as at 31/12/2011	**19,374**	**--**	**--**	**8,672**	**28,046**
Carrying amount as at 01/01/2010	**1,362**	**3,985**	**--**	**260**	**5,607**
Carrying amount as at 31/12/2010	**767**	**--**	**325**	**95**	**1,187**
Carrying amount as at 31/12/2011	**196**	**--**	**325**	**1**	**522**

Year ended 31 December 2011 (in thousands of CZK)

12. INVESTMENT PROPERTY

Investment property as at 31 December 2011 comprised the land owned by the Company and leased to subsidiaries of the Company and third parties. The changes recorded during the year ended 31 December 2011 are presented in the following table:

	2011	2010
Investment property at 1 January	**162,190**	**162,627**
Reclassification from property plant and equipment	379,299	--
Revaluation of Investment property reclassified from property plant and equipment	600,477	--
Purchase	--	112
Disposals	--	(549)
Total balance at 31 December	**1,141,966**	**162,190**

Rental income amounted to CZK 106,835 thousand in 2011 (2010: CZK 20,698 thousand). Operating costs relating to Investment property amounted 3,435 CZK thousand in 2011 (2010: CZK 1,314 thousand).

Future rental income is as follows:

	Less than one year	Between one and five years
Total future rental income	108,413	467,168

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

13. INVESTMENTS IN SUBSIDIARIES AND JOINT – VENTURES

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

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the year
Subsidiaries						
UNIPETROL RPA, s.r.o.	Litvínov	7,360,335	100.00	--	7,360,335	--
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	59,172	100.00	7,860	51,312	--
BENZINA s. r.o.	Praha 4	4,181,070	100.00	1,922,070	2,259,000	--
UNIPETROL SERVICES, s.r.o.	Litvínov	100,280	100.00	--	100,280	--
UNIPETROL RAFINÉRIE, s.r.o.	Praha	408	100.00	--	408	--
PARAMO, a.s.	Pardubice	545,389	100.00	545,389	--	--
UNIPETROL AUSTRIA H.m.b.H.	Vídeň	2,984	100.00	--	2,984	--
Joint - ventures						
ČESKÁ RAFINÉRSKÁ, a.s. *)	Litvínov	3,872,299	51.22	--	3,872,299	717,093
Butadien Kralupy, a. s.	Kralupy	162,194	51.00	--	162,194	--
Total		**16,284,131**	**--**	**2,475,319**	**13,808,812**	**717,093**

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

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

Year ended 31 December 2011 (in thousands of CZK)

13. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Investments in subsidiaries and joint – ventures as at 31 December 2010 were as follows:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the period
Subsidiaries						
UNIPETROL RPA, s.r.o.	Litvínov	7,360,335	100.00	--	7,360,335	--
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	59,172	100.00	7,860	51,312	--
UNIPETROL TRADE a.s.	Praha 4	350,000	100.00	350,000	--	--
BENZINA s. r.o.	Praha 4	4,181,070	100.00	1,922,070	2,259,000	--
UNIPETROL SERVICES, s.r.o.	Litvínov	100,280	100.00	--	100,280	--
UNIPETROL RAFINÉRIE, s.r.o.	Praha	408	100.00	--	408	--
PARAMO, a.s.	Pardubice	545,389	100.00	--	545,389	--
UNIPETROL AUSTRIA H.m.b.H.	Vídeň	2,899	100.00	--	2,899	--
Joint - ventures						
ČESKÁ RAFINÉRSKÁ, a.s. *)	Litvínov	3,872,299	51.22	--	3,872,299	409,761
Butadien Kralupy, a. s.	Kralupy	162,194	51.00	--	162,194	--
Total		**16,634,046**	**--**	**2,279,930**	**14,354,116**	**409,761**

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

14. OTHER INVESTMENTS

Other investments as at 31 December 2011 were as follows:

Company	Registered office	Cost of investment	Ownership percentage	Carrying amount	Dividend income for the period
ORLEN MALTA HOLDING	La Valetta	522	--	522	--
Spolek pro chemickou a hutní výrobu, akciová společnost	Ústí nad Labem	0.2	--	0.2	--
UNIPETROL DOPRAVA s.r.o.	Litvínov	1,799	0.12	1,799	196
UNIPETROL SLOVENSKO s.r.o.	Bratislava	95	13.04	95	7,792
PETROTRANS, s.r.o.	Praha	781	0.63	781	297
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	954	1.00	954	133
UNIPETROL Deutschland GmbH	Langen/Hessen	103	0.10	103	32
Total		**4,254**		**4,254**	**8,450**

Other investments as at 31 December 2010 were as follows:

Company	Registered office	Cost of investment	Ownership percentage	Carrying amount	Dividend income for the period
ORLEN MALTA HOLDING	La Valetta	522	--	522	--
Spolek pro chemickou a hutní výrobu, akciová společnost	Ústí nad Labem	0.2	--	0.2	--
UNIPETROL DOPRAVA s.r.o.	Litvínov	1,799	0.12	1,799	150
UNIPETROL SLOVENSKO s.r.o.	Bratislava	95	13.04	95	--
PETROTRANS, s.r.o.	Praha	780.8	0.63	781	359
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	954	1.00	954	66
UNIPETROL Deutschland GmbH	Langen/Hessen	100	0.10	100	--
Total		**4,251**		**4,251**	**575**

Year ended 31 December 2011 (in thousands of CZK)

15. LOANS TO SUBSIDIARIES

	31/12/2011	31/12/2010
Non – current loans		
Non-current loans	2,382,459	2,662,294
Total non – current loans	**2,382,459**	**2,662,294**
Current loans		
Cash pooling	2,211,070	1,577,295
Impairment to cash pool	(55,819)	--
Operating loans	8,002,421	4,936,808
Impairment to operating loans	(650,080)	--
Total current loans	**9,507,592**	**6,514,103**

Non-current loans to subsidiaries
The Company provided to its subsidiaries BENZINA, s.r.o. and BUTADIEN KRALUPY a.s. non-current loans amounting to CZK 2,382,459 thousand as at 31 December 2011. These loans are repayable by regular fixed instalments over next 6 years. The interest rates were based on 6M PRIBOR and fair value of loans approximates their carrying amount except for the loan provided to BENZINA s.r.o. in 1998. This loan bears effective interest rate 9.97% p.a.
A carrying amount of the loan provided to BENZINA s.r.o. was CZK 2,070,104 thousand (2,104,661 thousand as at 31 December 2010) and fair value amounted to CZK 2,354,457 thousand as at 31 December 2011 (2,518,037 thousand as at 31 December 2010). Part of the loan due within twelve months is presented in current assets.

Movement table of operating loans to subsidiaries:

	Non-current loans		Current loans	
	2011	2010	2011	2010
Balance at beginning of the year	**2,662,294**	**2,963,304**	**4,936,808**	**6,878,136**
Loans granted	--	77,361	10,964,506	6,828,279
Repayments	--	(51,000)	(8,178,728)	(9,096,978)
Reclassification to current from non-current loans to subsidiaries	(279,835)	(327,371)	279,835	327,371
Gross balance at end of the year	**2,382,459**	**2,662,294**	**8,002,421**	**4,936,808**
Impairment charge	--	--	(650,080)	--
Balance at end of the year	**2,382,459**	**2,662,294**	**7,352,341**	**4,936,808**

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

The Company provided loans to PARAMO, a.s. (cash pooling and operating loans) in amount of CZK 848,722 thousand as at 31 December 2011. Due to significant decrease of PARAMO's equity, in 2011 and uncertainty about PARAMO's ability to repay these loans in full amount, the management decided to recognise impairment charges in amount of CZK 650,080 thousand in relation to operating loan and in amount of CZK 55,819 thousand in relation to the cash pooling loan.

The interest rates were based on appropriate inter-bank rates and fair value of loans approximates their carrying amount except for the loan provided to BENZINA s.r.o. in 1998. The current loans provided to subsidiaries are not collateralised. The current loans to subsidiaries as at 31 December 2011 include the portion of non-current loans due within one year amounted to CZK 351,501 thousand (31 December 2010: CZK 435,215 thousand).
The analysis of current loans by currency of denomination is presented in the Note 25.

16. NON-CURRENT RECEIVABLES FROM SUBSIDIARIES

Non-current receivables from subsidiaries represent advance payments in the amount of CZK 102 thousand (31 December 2010: CZK 168 thousand).

Year ended 31 December 2011 (in thousands of CZK)

17. TRADE AND OTHER RECEIVABLES

	31/12/2011	31/12/2010
Trade receivable	151,054	144,776
Other receivables	2,630	30,879
Net trade and other receivables	**153,684**	**175,655**
Impairment losses	131,405	179,750
Gross trade and other receivables	**285,089**	**355,405**

The management considers that the carrying amount of trade and other receivables approximates their fair value.
All above stated receivables are financial assets.

The Company exposure to credit and currency risk related to trade and other receivables is disclosed in note 25 and detailed information about receivables from related parties is presented in note 28 – Related parties.

Movement in the impairment loss

	2011	2010
Balance at beginning of the year	**179,750**	**131,520**
Increases	--	48,285
Release	(3,044)	(55)
Utilisation	(45,301)	--
Balance at end of the year	**131,405**	**179,750**

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

18. CURRENT LOANS TO RELATED COMPANIES

In 2011 the short-term loan to related entity SPOLANA a.s. was repaid. The carrying amount of the loan was CZK 500,035 thousand as at 31 December 2010. The interest rates were based on appropriate inter-bank rates and the fair value of the loan approximated carrying amount at 31 December 2010. Zakłady Azotowe ANWIL Spółka Akcyjna provided full guarantee for the loan obligation of SPOLANA a.s.

19. CASH AND CASH EQUIVALENTS

	31/12/2011	31/12/2010
Cash in hand	52	63
Cash at bank	1,358,600	2,863,029
Total	**1,358,652**	**2,863,092**

The carrying amount of these assets approximates their fair value.
The analysis of cash and cash equivalents by currency of denomination is presented in note 25.

20. SHARE CAPITAL

The issued capital of the Company as at 31 December 2011 was CZK 18,133,476 thousand (2010: CZK 18,133,476 thousand). This represents 181,334,764 (2010: 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.

21. 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 2011 to CZK 1,651,471 thousand (31 December 2010: CZK 1,625,865 thousand. Fair value reserve related to investment property amounted to CZK 507,135 thousand (31 December 2010: CZK 20,748 thousand) and other reserves amounted to CZK 7,541 thousand as at 31 December 2011 (31 December 2010: CZK 7,452 thousand).

Year ended 31 December 2011 (in thousands of CZK)

22. RETAINED EARNINGS AND DIVIDENDS

The Ordinary General Meeting of UNIPETROL, a.s. held on 30 June 2011 decided on appropriation of the profit for 2010 amounting to CZK 512,121 thousand. In accordance with Article 26 (1) of the Company's Articles of Association CZK 25,606 thousand was allocated to the reserve fund and CZK 486,515 thousand to retained earnings.
The decision regarding settlement of 2011 loss will be made on the annual general meeting of shareholders, which will be held in May / June 2012.

23. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's interest bearing loans and borrowings, which are measured at amortised cost.
Information about the Company's exposure to interest rate, foreign currency a liquidity risk is included in the Note 25.

	31/12/2011	31/12/2010
Non – current loans and borrowings		
Unsecured bonds issued	2,000,000	2,000,000
Total non – current loans and borrowings	**2,000,000**	**2,000,000**
Current loans and borrowings		
Current portion of unsecured bonds issued	68,655	102,634
Unsecured bank loans	1,953	15,967
Unsecured loans from subsidiaries	1,062,600	616,289
Total current loans and borrowings	**1,133,208**	**734,890**

Movements of bank loans

	2011	2010
Balance at beginning of the year	**15,967**	**18,141**
Loans taken	6,862,412	4,316,267
Repayments	(6,876,426)	(4,318,441)
Balance at end of the year	**1,953**	**15,967**

Unsecured bonds issued

In 1998 the Company issued 2,000 bonds at a total nominal value of CZK 2,000,000 thousand. The bonds mature in 15 years from the issue date at their nominal value of CZK 2,000,000 thousand. The interest rate is 0 % p.a. for the first two years and 12.53 % p.a. in subsequent years. The effective interest rate is 9.82 %. Interest is payable on an annual basis. Interest expense is accrued using the effective interest rate method. The aggregate carrying amount of the bonds is CZK 2,068,655 thousand (31 December 2010: CZK 2,102,634 thousand). 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 estimated at CZK 2,358,684 thousand as at 31 December 2011 (31 December 2010: CZK 2,518,730 thousand). Accrued interest, which will be repaid within 12 month from 31 December 2011, is presented under current loans and borrowings in amount of CZK 68,655 thousand (31 December 2010: CZK 102,634 thousand).

Unsecured bank loans

As at 31 December 2011 the Company had bank loans amounting to CZK 1,953 thousand. The interest rates were based on appropriate inter-bank rates and fair value of loans approximates their carrying amount. The analyses of bank loans (in CZK thousands) as at 31 December 2011:

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

Loans from subsidiaries

The current loans from subsidiaries are connected with a cash-pool structure. During the year 2011 the Company had cash-pooling agreements with following banks and subsidiaries:
Banks: CITIBANK a.s., ING Bank N.V., organizační složka and Česká spořitelna, a.s., Credit Agricole, S.A., RBS, N.V.
Subsidiaries: UNIPETROL RPA, s.r.o., BENZINA s.r.o., PARAMO, a.s., UNIPETROL DOPRAVA, s.r.o., POLYMER INSTITUTE BRNO, s.r.o., PETROTRANS, s.r.o., UNIPETROL SERVICES, s.r.o., UNIPETROL SLOVENSKO, s.r.o., BUTADIEN KRALUPY a.s. and MOGUL SLOVAKIA, s.r.o..
Cash on bank accounts with the above mentioned banks is pooled among the Company and subsidiaries listed above. The agreements enable the Company and the subsidiaries to take bank overdrafts at the total amount within the range from CZK 500,000 thousand to CZK 1,200,000 thousand at each bank. Interest income / expense is calculated from pooled balances and subsequently divided between the participants. The liabilities from cash-pooling bank loans amounted CZK 1,953 thousand and cash-pooling liabilities to subsidiaries in amount of CZK 1,062,600 thousand as at 31 December 2011 (as at 31 December 2010 CZK 10,695 thousand and CZK 616,289 thousand).

Year ended 31 December 2011 (in thousands of CZK)

24. TRADE AND OTHER PAYABLES AND ACCRUALS

	31/12/2011	31/12/2010
Financial liabilities		
Trade payables	57,842	45,119
Value added tax liability	7,427	6,999
Other taxation, duty and social security liabilities	1,667	2,208
Wages and salaries liabilities	24,627	31,454
Accrued expenses	2,168	2,089
Liabilities connected with acquisition of financial investment	10,994	11,491
Other payables	7,924	7,814
Total	**112,649**	**107,175**

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

25. 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:

31/12/2011	Note	Loans and receivables	Available for sale	Total carrying amount	Fair value
Investments in subsidiaries and joint ventures, other investments	13,14	--	13,808,812	13,808,812	n/a
Trade and other receivables	17	153,684	--	153,684	153,684
Loans to subsidiaries and related companies	15	11,890,051	--	11,890,051	11,890,051
Receivables from subsidiaries	16	102	--	102	102
Cash and cash equivalents	19	1,358,652	--	1,358,652	1,358,652
Total financial assets		**13,402,489**	**13,808,812**	**27,211,301**	

31/12/2011	Note	Valued at amortized cost	Total carrying amount	Fair value
Unsecured bonds issued	23	2,068,655	2,068,655	2,358,684
Unsecured bank loans	23	1,953	1,953	1,953
Unsecured loans from subsidiaries	23	1,062,600	1,062,600	1,062,600
Trade and other payables and accruals	24	112,649	112,649	112,649
Dividends payable		27,896	27,896	27,896
Total financial liabilities		**3,273,753**	**3,273,753**	

31/12/2010	Note	Loans and receivables	Available for sale	Total carrying amount	Fair value
Investments in subsidiaries and joint ventures, other investments	13,14	--	14,354,116	14,354,116	n/a
Trade and other receivables	17	175,655	--	175,655	175,655
Loans to subsidiaries and related companies	15	9,676,432	--	9,676,432	10,089,808
Receivables from subsidiaries	16	168	--	168	168
Cash and cash equivalents	19	2,863,092	--	2,863,092	2,863,092
Total financial assets		**12,715,347**	**14,354,116**	**27,069,463**	

Year ended 31 December 2011 (in thousands of CZK)

25. FINANCIAL INSTRUMENTS (CONTINUED)

31/12/2010	Note	Valued at amortized cost	Total carrying amount	Fair value
Unsecured bonds issued	23	2,102,634	2,102,634	2,518,730
Unsecured bank loans	23	15,967	15,967	15,967
Unsecured loans from subsidiaries	23	616,289	616,289	616,289
Trade and other payables and accruals	24	107,174	107,174	107,174
Dividends payable		30,012	30,012	30,012
Total financial liabilities		**2,872,076**	**2,872,076**	

Financial instruments for which fair value cannot be measured reliably
As at 31 December 2011 and 31 December 2010 the Company held unquoted shares in entities amounting to CZK 13,808,812 thousand and CZK 14,354,116 thousand respectively, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these shares and no comparable transactions in the same type of instruments. Above mentioned shares were recognized as financial assets available
for sale and measured at acquisition cost less impairment allowances. As at 31 December 2011 there are no binding decisions relating to ways and dates of disposal of those assets.

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

Gains/(Losses) due to financial instruments recognized in financial revenues and expenses by category

	2011			2010		
	Financial income	Financial cost	Net gain / (loss)	Financial income	Financial cost	Net gain / (loss)
Loans and receivables	434,515	(705,899)	(271,384)	432,689	--	432,689
Financial assets available for sale	725,543	(545,389)	180,154	425,390	--	425,390
Financial liabilities measured at amortized cost	--	(256,756)	(256,756)	--	(261,944)	(261,944)
Income from receivable to UNIPETROL TRADE a.s.	--	--	--	93,730	--	--
Total	**1,160,058**	**(1,508,044)**	**(347,986)**	**951,809**	**(261,944)**	**689,865**

Capital structure management
The Company manages its capital to ensure liquidity while maximizing the return to stakeholders through the optimization of the debt and equity balance.
The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in notes 20, 21 and 22 respectively.

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

	31/12/2011	31/12/2010
Debt (i)	3,133,208	2,734,890
Cash and cash equivalents	(1,358,652)	(2,863,092)
Net debt	**1,774,556**	**(128,202)**
Equity (ii)	25,016,078	24,759,527
Net debt to equity ratio (in %)	**7.09**	**(0.52)**

(i) Debt is defined as long-term and short-term borrowings, as detailed in note 23
(ii) Equity includes all capital and reserves of the Company

Year ended 31 December 2011 (in thousands of CZK)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk management

The Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Loans to subsidiaries (notes 15 and 18) and receivables (notes 16 and 17) principally consist of amounts due from subsidiaries and join ventures. The Company does not require collateral in respect of these financial assets. At the balance sheet date there was a significant concentrations of credit risk that is shown in notes 15 and 18. The Company's management monitors the most significant debtors and assesses their creditworthiness. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Past due, non impaired loans and receivables	Receivables		Loans	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
Up to 1 month	2	108	--	--
Above 12 months	1,004	--	--	--
Past due, non impaired loans and receivables	**1,006**	**108**	**--**	**--**

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

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

	31/12/2011		31/12/2010	
	Secured	Unsecured	Secured	Unsecured
Czech Republic	--	12,016,247	500,035	9,324,755
European Union	--	27,590	--	27,465
Total	**--**	**12,043,837**	**500,035**	**9,352,220**

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 31 December 2011 was:

	31/12/2011		31/12/2010	
	Gross	Impairment	Gross	Impairment
Not past due	12,748,730	705,899	9,900,432	48,285
Past due 0-30 days	--	--	108	--
Past due 30-180 days	2	--	--	--
More than 180 days	132,409	131,405	131,465	131,465
Total	**12,881,141**	**837,304**	**10,032,005**	**179,750**

Liquidity risk management

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

Year ended 31 December 2011 (in thousands of CZK)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk tables

The following table details the Company'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 Company anticipates that the cash flow will occur in a different period.

Expected maturity of non-derivative financial assets

31/12/2011	Less then 3 months	3-12 months	More then 1 year	Total
Non-current assets				
Loans to subsidiaries	--	--	2,382,459	2,382,459
Receivables from subsidiaries	--	--	102	102
Current assets				
Trade and other receivables	153,684	--	--	153,684
Loans to subsidiaries	9,273,797	233,795	--	9,507,592
Cash and cash equivalents	1,358,652	--	--	1,358,652
Total	**10,786,133**	**233 ,795**	**2,382,561**	**13,402,489**

31/12/2010	Less then 3 months	3-12 months	More then 1 year	Total
Non-current assets				
Loans to subsidiaries	--	--	2,662,294	2,662,294
Receivables from subsidiaries	--	--	168	168
Current assets				
Trade and other receivables	127,349	48,306	--	175,655
Loans to subsidiaries	6,198,219	315,884	--	6,514,103
Loans to related companies	500,035	--	--	500,035
Cash and cash equivalents	2,863,092	--	--	2,863,092
Total	**9,688,695**	**364,190**	**2,662,462**	**12,715,347**

Contractual maturity of non-derivative financial liabilities

31/12/2011	Less then 3 months	3-12 months	More then 1 year	Total
Non-current liabilities				
Loans and borrowings	--	--	2,000,000	2,000,000
Current liabilities				
Trade and other payables and accruals	112,649	--	--	112,649
Dividends payable	27,896			27,896
Loans and borrowings	1,064,553	68,655	--	1,133,208
Total	**1,205,098**	**68,655**	**2,000,000**	**3,273,753**

31/12/2010	Less then 3 months	3-12 months	More then 1 year	Total
Non-current liabilities				
Loans and borrowings	--	--	2,000,000	2,000,000
Current liabilities				
Trade and other payables and accruals	107,174	--	--	107,174
Dividends payable	30,012	--	--	30,012
Loans and borrowings	632,256	102,634	--	734,890
Total	**769,442**	**102,634**	**2,000,000**	**2,872,076**

Year ended 31 December 2011 (in thousands of CZK)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Currency risk management

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

31/12/2011	CZK	EUR	USD	Other currencies	Total
Non-current receivables	102	--	--	--	102
Loans to subsidiaries	11,861,584	26,561	1,906	--	11,890,051
Trade and other receivables	153,328	84	--	272	153,684
Prepaid expenses	2,684	578	--	4,979	8,241
Cash and cash equivalents	1,249,991	98,253	10,408	--	1,358,652
Non-current loans and borrowings	(2,000,000)	--	--	--	(2,000,000)
Trade and other payables and accruals	(110,420)	(869)	(199)	(1,161)	(112,649)
Loans and borrowings	(999,564)	(121,737)	(11,907)	--	(1,133,208)
Dividends payable	(27,896)	--	--	--	(27,896)
Net exposure	**10,129,809**	**2,870**	**208**	**4,090**	**10,136,977**

31/12/2010	CZK	EUR	USD	Other currencies	Total
Non-current receivables	168	--	--	--	168
Loans to subsidiaries and related companies	9,649,362	27,070	--	--	9,676,432
Trade and other receivables	174,380	1,167	--	108	175,655
Prepaid expenses	2,624	694	150	5,783	9,251
Cash and cash equivalents	2,792,503	57,770	12,819	--	2,863,092
Non-current loans and borrowings	(2,000,000)	--	--	--	(2,000,000)
Trade and other payables and accruals	(97,239)	(8,394)	(350)	(1,191)	(107,174)
Loans and borrowings	(641,272)	(81,625)	(11,993)	--	(734,890)
Dividends payable	(30,012)	--	--	--	(30,012)
Net exposure	**9,850,514**	**(3,318)**	**626**	**4,700**	**9,852,522**

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2011	**2010**	**2011**	**2010**
CZK/EUR	24.591	25.290	25.800	25.060
CZK/USD	17.695	19.111	19.940	18.751

<u>Foreign currency sensitivity analysis</u>

The following table details the Company's sensitivity to a 10% increase and decrease in the CZK against the relevant foreign currencies. 10% is the sensitivity rate 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.

The sensitivity analysis includes external loans as well as loans to foreign operations where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where the CZK strengthens 10% against the relevant currency. For a 10% weakening of the CZK against the relevant currency, there would be an equal and opposite impact on the profit.

	CZK/USD Impact		CZK/EUR Impact	
	2011	**2010**	**2011**	**2010**
Profit or loss / equity	20	63	79	332

Interest rate risk management

The Company has adopted a Debt Policy, which covers transferring of external financial sources to subsidiaries. These external financial sources are transferred with similar conditions and interest rates including a mark up (see notes 16, 19, and 23) applicable to financing received. There are no loans and borrowings used for Company's own purposes.

Year ended 31 December 2011 (in thousands of CZK)

25. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate 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 Company's profit for the year ended 31 December 2011 would decrease/increase by CZK 52,626 thousand (2010: decrease/increase by CZK 34,831 thousand). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

The Company's sensitivity to interest rates has decreased during the year 2011 mainly due to repayments of loans. For further information see Note 23.

Interest rate risk profile

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

	31/12/2011	31/12/2010
Fixed rate instruments		
Financial assets	2,223,890	2,280,484
Financial liabilities	2,209,200	2,251,795
Variable rate instruments		
Financial assets	9,819,947	7,571,771
Financial liabilities	1,064,553	632,256

26. OPERATING LEASES

The Company as a lessee

Operating lease arrangements

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

Non-cancellable operating lease commitments

	Minimum lease payments	
	31/12/2011	31/12/2010
Not later than one year	8,019	4,888
Later than one year and not later than five years inclusive	32,076	19,555
Later than five years	16,038	14,667
Total	**56,133**	**39,110**

Payments recognised as an expense were as follows:

	2011	2010
Non-cancellable operating lease	7,029	4,800
Cancellable operating lease	917	728
Total	**7,946**	**5,528**

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

27. COMMITMENTS AND CONTINGENCIES

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

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

27. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Determination of Liability for Impacts of Operation of SYNTHOS Kralupy a.s. on Environment
The environmental audit of plots of land owned by the Company 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. 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 the Company 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 the Company and SYNTHOS Kralupy a.s. executed the agreement pursuant to which UNIPETROL, a.s. undertook to create in favor of SYNTHOS Kralupy a.s. the pre-emptive right and other rights to certain plots of land owned by the Company 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 the Company 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 the Company and Zakłady Azotowe ANWIL Spółka Akcyjna, may be subject to price adjustments which would result mainly on the occurrence of any of the following events:

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

- Other potential obstacles in future operation of SPOLANA a.s.
  In this case, the Company 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.

27. 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 Styrene 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.

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.

As notified on 13 July 2011 General Court of the European Union cancelled a decision of the European Commission of November 2006 which found UNIPETROL, a.s. and its former subsidiary SYNTHOS Kralupy a.s. liable for participation in a cartel. The Court concluded that the Commission had failed to prove cartel conduct on the part of UNIPETROL, a.s. and SYNTHOS Kralupy a.s.. Both companies thus became entitled to reimbursement for a previously jointly paid EUR 17.5 million fine. UNIPETROL, a.s. has received EUR 9.8 million, which corresponds to the penalty paid and part of the accrued interest.

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 favour 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 favour 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.

Guarantees
Total balance of guarantees related to excise tax provided by the Company for UNIPETROL SLOVENSKO s.r.o. was CZK 103,200 thousand as at 31 December 2011 (31 December 2010: CZK 100,240 thousand).

Year ended 31 December 2011 (in thousands of CZK)

28. RELATED PARTIES

Ultimate controlling party
During 2011 and 2010 a majority of the Company's shares were in possession of POLSKI KONCERN NAFTOWY ORLEN S.A. (62.99%).

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

31/12/2010	PKN Orlen	Parties under control or significant influence of the Company	Entities under control or significant influence of PKN Orlen
Current receivables	108	6,539,449	500,178
Current payables including loans	1,812	627,776	--
Non-current receivables	--	2,710,053	--
Expenses	11,005	58,049	126
Revenues	119	141,496	100
Purchases of fixed assets	--	204	--
Sales of property, plant and equipment	--	3,590	--
Dividends income	--	410,336	--
Financial income and expense	--	412,237	11,067

29. PAST ENVIRONMENTAL LIABILITIES

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

An overview of funds provided for the environmental contracts:

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

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
Total	**10,256**	**2,590**	**7,666**

30. SIGNIFICANT POST BALANCE SHEET EVENTS

The Company'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 2011.

Signature of statutory representatives	26 March 2012
Piotr Chelminski	Mariusz Kedra
Chairman of the Board of Directors	Member of the Board of Directors