UNIPETROL RPA, s.r.o.

SEPARATE FINANCIAL STATEMENTS

translated from the Czech original

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

FOR THE YEAR 2014

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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 Member of UNIPETROL RPA, s.r.o.

We have audited the accompanying separate financial statements of UNIPETROL RPA, s.r.o., which comprise the separate statement of financial position as of 31 December 2014, and the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and the notes to these separate financial statements including a summary of significant accounting policies and other explanatory notes. Information about UNIPETROL RPA, s.r.o. is set out in Note 1 to these separate financial statements.

Statutory Body's Responsibility for the Separate Financial Statements

The statutory body of UNIPETROL RPA, s.r.o. is responsible for the preparation of separate 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 separate 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 separate 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 separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate 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 separate 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 separate 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 separate financial statements give a true and fair view of the financial position of UNIPETROL RPA, s.r.o. as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Prague
27 February 2015

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

Karel Růžička
Partner
Registration number 1895

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Year ended 31 December 2014 (in thousands of CZK)

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTE	2014	2013
Statement of profit or loss			
Revenues	6	115 784 644	91 177 542
Cost of sales	7	(111 342 024)	(90 487 414)
Gross profit on sales		**4 442 620**	**690 128**
Distribution expenses	7.2	(2 332 352)	(1 993 114)
Administrative expenses	7.2	(305 002)	(302 510)
Other operating income	8.1	242 444	77 048
Other operating expenses	8.2	(124 082)	(160 913)
Profit/(loss) from operations		**1 923 628**	**(1 689 361)**
Finance income	9.1	1 572 569	1 431 572
Finance costs	9.2	(1 684 519)	(1 410 143)
Net finance income/(costs)		**(111 950)**	**21 429**
Profit/(loss) before tax		**1 811 678**	**(1 667 932)**
Tax expense	10	36 255	129 480
Net profit/(loss)		**1 847 933**	**(1 538 452)**
Other comprehensive income			
Items which will not be reclassified into profit or loss		**(5 434)**	**(1 458)**
Actuarial gains and losses		*(6 709)*	*(1 800)*
Deferred tax		*1 275*	*342*
Items which will be reclassified into profit or loss under certain conditions		**728 057**	**(173 781)**
Hedging instruments		*898 835*	*(214 544)*
Deferred tax		*(170 778)*	*40 763*
		722 623	**(175 239)**
Total net comprehensive income		**2 570 556**	**(1 713 691)**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8 to 57.

(in thousands of CZK)

STATEMENT OF FINANCIAL POSITION

	NOTE	31/12/2014	31/12/2013
ASSETS			
Non-current assets			
Property, plant and equipment	11	12 509 149	12 931 305
Investment property	12	99 032	87 016
Intangible assets	13	1 455 767	1 503 598
Shares in related parties	14	1 178 023	978 023
Deferred tax assets	10.2	-	13 670
Other non-current assets	15	18 488	49 748
		15 260 459	**15 563 360**
Current assets			
Inventories	16	8 535 640	8 943 582
Trade and other receivables	17	10 932 139	10 467 336
Other financial assets	18	2 034 532	41 319
Current tax receivables		11 725	11 724
Cash and cash equivalents	19	65 244	84 394
		21 579 280	**19 548 355**
Total assets		**36 839 739**	**35 111 715**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	20.1	11 147 964	11 147 964
Statutory reserves	20.2	565 646	565 646
Hedging reserve	20.3	537 767	(190 290)
Retained earnings	20.4	(3 328 026)	(5 170 525)
Total equity		**8 923 351**	**6 352 795**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	21	734 885	963 088
Provisions	22	430 179	413 869
Deferred tax liabilities	10.2	119 578	-
Other non-current liabilities	23	17 933	17 678
		1 302 575	**1 394 635**
Current liabilities			
Trade and other liabilities	24	11 385 297	14 505 675
Loans and borrowings	21	12 000 674	10 058 519
Provisions	22	602 353	461 561
Other financial liabilities	25	2 625 489	2 338 530
		26 613 813	**27 364 285**
Total liabilities		**27 916 388**	**28 758 920**
Total equity and liabilities		**36 839 739**	**35 111 715**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8 to 57.

(in thousands of CZK)

STATEMENT OF CHANGES IN EQUITY

	Share capital	Statutory reserves	Hedging reserve	Retained earnings	Total equity
1 January 2014	11 147 964	565 646	(190 290)	(5 170 525)	6 352 795
Net profit/(loss)	-	-	-	1 847 933	1 847 933
Items of other comprehensive income	-	-	728 057	(5 434)	722 623
Total net comprehensive income	-	-	**728 057**	**1 842 499**	**2 570 556**
31 December 2014	**11 147 964**	**565 646**	**537 767**	**(3 328 026)**	**8 923 351**
1 January 2013	11 147 964	551 630	(16 509)	(3 616 599)	8 066 486
Net profit/(loss)	-	-	-	(1 538 452)	(1 538 452)
Items of other comprehensive income	-	-	(173 781)	(1 458)	(175 239)
Total net comprehensive income	-	-	**(173 781)**	**(1 539 910)**	**(1 713 691)**
Allocation of profit to the reserves	-	14 016	-	**(14 016)**	-
31 December 2013	**11 147 964**	**565 646**	**(190 290)**	**(5 170 525)**	**6 352 795**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8 to 57.

(in thousands of CZK)

STATEMENT OF CASH FLOWS

	NOTE	2014	2013
Cash flows - operating activities			
Net profit/(loss)		**1 847 933**	**(1 538 452)**
Adjustments for:			
Depreciation and amortisation	*11,13*	1 535 889	1 564 521
Foreign exchange (gain)/loss		23 836	(6 866)
Interest and dividends, net		(150 262)	(239 761)
(Profit)/Loss on investing activities		(596 523)	(87 775)
Change in provisions		631 910	651 388
Tax expense	*10*	(36 255)	(129 480)
Other adjustments (other financial instruments, movements in deffered income)		(1 497 502)	(124 775)
Change in working capital		(3 075 619)	(1 162 785)
inventories		407 942	(446 395)
receivables		(617 266)	(705 619)
liabilities		(2 866 295)	(10 771)
Net cash provided used in operating activities		**(1 316 593)**	**(1 073 985)**
Cash flows - investing activities			
Acquisition of property, plant and equipment and intangible assets		(1 354 528)	(893 792)
Disposal of property, plant and equipment and intangible assets		333	5 983
Acquisition of investments		(200 000)	-
Settlement of financial derivatives		532 730	7 601
Dividends received		304 723	362 804
Proceeds/(Outflows) from cash pool granted		(298 636)	-
Other		(1)	43 839
Net cash provided used in investing activities		**(1 015 379)**	**(473 565)**
Cash flows - financing activities			
Proceeds from loans and borrowings		6 226 776	1 055 785
Repayments of loans and borrowings		(3 975 865)	(595 883)
Interest paid		(157 102)	(121 312)
Change in cash pool liabilities		224 117	1 132 943
Other		(5 322)	(3 619)
Net cash provided by financing activities		**2 312 604**	**1 467 914**
Net decrease in cash and cash equivalents		**(19 368)**	**(79 636)**
Effect of exchange rate changes		218	6 868
Cash and cash equivalents, beginning of the year		84 394	157 162
Cash and cash equivalents, end of the year	**19**	**65 244**	**84 394**

The separate financial statements are to be read in conjunction with the notes forming part of the financial statements set out on pages 8 to 57.

Year ended 31 December 2014 (in thousands of CZK)

ACCOUNTING PRINCIPLES AND OTHER EXPLANATORY NOTES

1. DESCRIPTION OF THE COMPANY

Establishment of the company

UNIPETROL RPA, s.r.o. (the "Company") is a Czech limited liability company that was incorporated on 21 September 2006.

Identification number

275 97 075

Registered office of the company

UNIPETROL RPA, s.r.o.

Záluží 1

436 70 Litvínov

Czech Republic

The Company's share capital amounts to CZK 11 147 964 thousand.

UNIPETROL RPA, s.r.o. has merged with CHEMOPETROL, a.s., with its registered office at Litvinov, Litvinov-Zaluzi 1, Most, Identification No.: 25003887, and UNIPETROL RAFINERIE a.s., with its registered office at Litvinov, Litvinov-Zaluzi 1, Identification No: 25025139, where UNIPETROL RPA, s.r.o. is the legal successor. On 1 January 2007, due to the merger, the assets and liabilities, including rights and commitments from labour-law relations, of CHEMOPETROL, a.s. and UNIPETROL RAFINERIE a.s. were transferred to UNIPETROL RPA, s.r.o.

Registered on: 1 August 2007.

Principal activities

The main scope of business activities pursued by the Company is the sale of product from crude oil, which is processed by CESKA RAFINERSKA, a.s. to oil products for a processing fee, as well as the production, processing and sale of chemicals, the production and final processing of plastics, and the production, processing, distribution and sale of energy, particularly heat, electricity and gas.

Ownership structure

The sole shareholder of the Company is UNIPETROL, a.s., with its registered office at Praha 4, Na Pankráci 127.

Statutory representatives of the Company

Statutory representatives of the Company as at 31 December 2014 were as follows:

Position	Name
Executive	Mirosław Kastelik
Executive	Martin Durčák
Executive	Dariusz Rejowski (Recalled from the office as of 31 December 2014)
Executive	Łukasz Piotrowski
Executive	Piotr Wielowieyski

Each statutory representative acts independently on behalf of the Company.

Changes in statutory representatives in 2014 were as follows

Position	Name	Change	Date of change
Executive	Artur Paździor	Recalled from the office	30 April 2014
Executive	Dariusz Ciesielski	Recalled from the office	30 September 2014
Executive	Dariusz Rejowski	Elected into the office	1 February 2014
Executive	Łukasz Piotrowski	Elected into the office	11 June 2014
Executive	Piotr Wielowieyski	Elected into the office	30 September 2014

Group identification and consolidation

The Company is part of the consolidation group of UNIPETROL, a.s. ("the Group"). Pursuant to section 62(2) of Decree No. 500/2002 Coll., the financial statements of the Company and of all entities consolidated by the Company have been included in the consolidated financial statements of UNIPETROL, a.s. with its registered office at Prague 4, Na Pankráci 127, 140 00, ID No. 616 72 190. The consolidated financial statements of UNIPETROL, a.s. prepared in accordance with International Financial Reporting Standards as adopted by the European Union are be published pursuant to section 62(3c) of Decree No. 500/2002 Coll. and section 21a of Act No. 563/1991 Coll., on Accounting.

2. STATEMENT OF STATUTORY REPRESENTATIVES

The statutory representatives of UNIPETROL RPA, s.r.o. hereby declare that to the best of their knowledge the foregoing financial statements and comparative data were prepared in compliance with the accounting principles applicable to the Company in force (disclosed in note 3) and that they reflect true and fair view on financial position and financial result of the Company, including basic risks and exposures.

3. ACCOUNTING PRINCIPLES

3.1 Principles of preparation of financial statements

The separate financial statements (hereinafter also "non-consolidated") have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations approved by the International Accounting Standards Board (IASB) which were adopted by the European Union (EU) and were in force as at 31 December 2014. Financial statements have been prepared based on historical cost, except for: derivatives, financial instruments at fair value through profit and loss, financial assets available for sale, and investment properties stated at fair value.

The non-consolidated financial statements are compliant with all requirements of IFRSs adopted by the EU and present a true and fair view of the Company's financial position as at 31 December 2014, results of its operations and cash flows for the year ended 31 December 2014.

These non-consolidated financial statements have been prepared on a going concern basis. As at the date of approval of the statements there is no indication that the Company will not be able to continue as a going concern in the foreseeable future.

The financial statements, except for statement of cash flows, are prepared on the accrual basis of accounting.

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

3.2.1 Binding amendments and interpretations to IFRSs

The amendments to standards and IFRS interpretations, in force from 1 January 2014 until the date of publication of these separate financial statements had no impact on the foregoing separate financial statements.

3.2.2. IFRSs and their interpretations, announced and adopted by the European Union, not yet effective

The Company intends to adopt new standards and amendments to the standards and interpretations to IFRSs listed below that are published by the International Accounting Standards Board, but not effective as at the date of publication of these financial statements, in accordance with their effective date.

- IFRIC Interpretation 21 - Levies (effective for annual periods beginning on or after 17 June 2014)
  It is expected that the interpretation, when initially applied, will have no material impact on the separate financial statements of the Company, since it does not result in a change in the Company's accounting policy regarding levies.
- Amendments to IAS 19 - Employee Benefits entitled Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015)
  It is expected that the amendment, when initially applied, will have no material impact on the separate financial statements of the Company, since the Company does not have such employee contributions.
- Annual Improvements to IFRSs 2010-2012 cycle (effective for annual periods beginning on or after 1 February 2015)
- Annual Improvements to IFRSs 2011-2013 cycle (effective for annual periods beginning on or after 1 January 2015)

  It is expected that the aforementioned improvements to standards, when initially applied, will have no material impact on the separate financial statements of the Company.

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

- New standard IFRS 9 - Financial Instruments
- New standard IFRS 14 - Regulatory Deferral Accounts
- New standard IFRS 15 - Revenue from Contracts with Customers
- Amendments to IFRS 11 - Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 - Property, Plant and Equipment and IAS 41 - Agriculture: Agriculture: Bearer Plants
- Amendments to IAS 27 - Separate Financial Statements: Equity Method in Separate Financial Statements
- Amendments to IFRS 10 - Consolidated Financial Statements and IAS 28 - Investments in Associates: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to IFRSs 2012-2014 cycle
- Amendments to IFRS 10 - Consolidated Financial Statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 28 - Investments in Associates and Joint Ventures: Investment Entities: Applying the Consolidation Exception
- Amendments to IAS 1 - Presentation of Financial Statements: Disclosure initiative

It is expected that the aforementioned standards, amendments and interpretation to standards, when initially applied, will have no material impact on the separate financial statements of the Company.

Based on the new standard IFRS 9, classification of financial assets into respective categories will change. In addition, the impact of the initial application of the new standard IFRS 15 will depend on the specific facts and circumstances of the contracts with customers to which the Company will be a party.

3.3 Functional and presentation currency

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

3.4 Accounting policies applied by the Company

3.4.1. Change in accounting policies, estimates and prior period errors

An entity shall change an accounting policy only if the change:
- is required by an IFRS or
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the financial position, financial performance or cash flows.

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

Items of financial statements based on an estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

The correction of a material prior period error is made to the equity. When preparing the financial statements it is assumed that the errors were corrected in the period when they occurred.

3.4.2. Foreign currency

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

At the end of the reporting period:

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

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

3.4.3. Revenues

Revenues from sales (from operating activity) comprise revenues that relate to core activity, i.e. activity for which the Company was founded, revenues are recurring and are not of incidental character.

3.4.3.1 Revenue from sales of finished goods, merchandise, materials and services

Revenues from sale of finished goods, merchandise, materials and services are recognised when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the sale transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues from sale of finished goods, merchandise, raw materials and services are recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods and the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. 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 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.

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

3.4.3.2 Revenue from licenses, royalties and trade marks

Revenues from licences, royalties and trade mark arise from the use of entity's assets by other business entities.

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

3.4.3.3 Franchise revenues

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

3.4.3.4 Rental income

Rental income from investment property is recognized in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

3.4.4. Costs

Costs (relating to operating activity) comprise costs that relate to core activity, i.e. activity for which the Company was founded, costs are recurring and are not of incidental character. Particularly costs that are connected to purchase of raw materials, their processing and distribution, that are fully under Company's control.

3.4.4.1 Cost of sales

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

3.4.4.2 Distribution expenses

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

3.4.4.3 Administrative expenses

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

3.4.5. 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 some provisions, compensations earned and revaluation gains, gain on sale of investment property.

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

3.4.6. Finance income and finance costs

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

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

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

3.4.7. Income tax expenses

Income tax comprises current tax and deferred tax.

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

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

Taxable profit differs from net profit as reported in the statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rate valid as at the first date of the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for deductible temporary differences, tax losses and tax relieves carried forward 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 carrying amount of the asset or liability is recovered or settled.

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

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

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

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

Deferred tax assets and liabilities are recognized regardless of when the timing difference is likely to be realized.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the statement of profit or loss and other comprehensive income.

The deferred tax assets and liabilities are measured at the end of each reporting period using enacted tax rates binding for the year in which the tax obligation arises, based on tax rates published in tax law.

Deferred tax assets and liabilities are not discounted.

Deferred tax assets and liabilities relating to transactions settled directly in equity are recognised in equity. Deferred tax assets and liabilities are accounted for as non-current assets or non-current liabilities.

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

3.4.8. Property, plant and equipment

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

Property, plant and equipment include both fixed assets (assets that are in the condition necessary for them to be capable of operating in the manner intended by management) as well as construction in progress (assets that are in the course of construction or development necessary for them to be capable of operating in the manner intended by management).

Property, plant and equipment are initially stated at cost, including grants related to assets. The cost of an item of property, plant and equipment comprises its purchase price, including any costs directly attributable to bringing the asset into 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.

Property, plant and equipment are stated in the statement of financial position prepared at the end of the reporting period at the carrying amount, including grants related to assets. The carrying amount is the amount at which an asset is initially recognised (cost) after deducting any accumulated depreciation and accumulated impairment losses.

Depreciation of an item of property, plant and equipment begins when it is available for use that is from the month when 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 useful life, considering the residual value.

Components of property, plant and equipment which are material for the whole item are depreciated separately in accordance with their useful life.

The following standard 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 residual value, estimated useful life and depreciation methods are reassessed annually, the adjustments to depreciation expenses are accounted for in next period (prospectively).

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

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

3.4.9. Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both.

Investment property shall be recognized as an asset when, and only when:

- it is probable that the future economic benefits that are associated with the investment property will flow to the Company, and
- the cost of the investment property can be measured reliably.

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

After initial recognition investment property shall be measured at fair value. Gains and losses resulting from changes in fair value of investment property are presented in the statement of profit or loss and other comprehensive income in the period which they arise. The Company determines fair value without any deduction for transaction costs it may incur on sale or other disposal.

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

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

3.4.10. Intangible assets

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

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

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

If the definition criteria of an intangible asset are not met, the cost incurred to acquire or self develop an asset are recognised in profit or loss when incurred. If an asset was acquired in a business combination it is part of a goodwill as at acquisition date.

An intangible asset shall be measured initially at cost, including grants related to assets. An intangible asset that is acquired in a business combination, is recognised initially at fair value.

After initial recognition, an intangible asset shall be presented in the financial statements in its net carrying amount, including grants related to assets.

Intangible assets are measured at acquisition or at construction cost less amortization and impairment allowances. Intangible assets with a finite useful life are amortized when it is available for use that is when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management over their estimated useful life. The depreciable amount of an asset with a finite useful life is determined after deducting its residual value. Excluding particular cases, the residual value of an intangible asset with a finite useful life shall be assumed to be zero.

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 useful lives are used for intangible assets:

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

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.

3.4.10.1 Goodwill

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

The acquirer shall recognise goodwill as of the acquisition date measured as the **excess** of a) over b) where:

the value of a) corresponds to the aggregate of:

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

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

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

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

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

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

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

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

3.4.10.2 Carbon dioxide emission allowances

By the virtue of The Kyoto Protocol, the countries, which decided to ratify the Protocol, obliged themselves to reduce emissions of greenhouse gases, i.e. carbon dioxide (CO_2).

In the European Union countries, the plants and companies, which reach productivity exceeding 20 MW and some other industrial plants were obliged to participate in emissions trading system. All mentioned entities are allowed to emit CO_2 in specified amount and are obliged to amortise those rights in the amount of the emissions of the given year.

CO_2 emission rights are initially recognised as intangible assets, which are not amortised (assuming the high residual value), but tested for impairment.

Granted emission allowances should be presented as separate items as intangible assets in correspondence with deferred income at fair value as at the date of registration (grant in scope of IAS 20). Purchased allowances should be presented as intangible assets at purchase price.

If the allowances in a given year were not registered on the account under the date resulting from regulations, they should be presented as receivable at the reporting date in correspondence with deferred income (as separate items) in the fair value of allowances due at the reporting date. The receivable is settled at the moment of allowances registration in the subsequent period by the disclosure of intangible assets at fair value (allowances granted). Deferred income should also be revaluated.

For the estimated CO_2 emission during the reporting period, a provision should be created in operating activity costs (taxes and charges).

Grants should be recognised on a systematic basis to ensure proportionality with the related costs which the grants are intended to compensate. Consequently, the cost of recognition of the provision in the separate statement of profit or loss and other comprehensive income is compensated by a decrease of deferred income (grants) with taking into consideration the proportion of the estimated quantity of emission (accumulated) to the quantity of estimated annual emission.

Granted/purchased CO_2 emission allowances are amortised against the book value of provision, at its settlement. Outgoing of allowances is recognised using FIFO method (First In, First Out) within the individual types of rights (EUA - European Union Allowances, ERU – Emission Reductions Units, CER – Certified Emission Reduction).

3.4.11. Borrowing costs

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

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

Borrowing costs which are not connected with qualifying assets are recognized in the statement of profit or loss and other comprehensive income in the period in which they are incurred.

Borrowing costs are capitalized based on net investment expenditures which means assets in the process of construction not funded through the use of investment commitments, but using other sources of external financing. Borrowing costs may include:

- interest expense calculated using the effective interest method as described in IAS 39 Financial Instruments: Recognition and Measurement,
- finance charges in respect of finance leases recognised in accordance with IAS 17 Lease, and
- exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Upper limit of the borrowing cost eligible for capitalization is the value of borrowing cost actually born by the entity

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.

Capitalising of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Necessity to perform additional administrative or decoration works or some adaptation requested by the buyer or user are not the basis for the capitalization.

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

3.4.12. Impairment of assets

At the end of each reporting period the Company assess whether there is any indication that an asset or cash generating unit (CGU) may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset (CGU).

The recoverable amount of other assets is the higher of the fair value less costs to sell and value in use.

Fair value less costs to sell is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, less costs to sell.

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.

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 allocated:

- 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.

If there are external or internal indicators that the carrying amount of an asset as at the end of the reporting period may not be recoverable, the impairment tests are carried out. The tests are carried out also annually for intangible assets with the indefinite useful life and for goodwill.

When carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the carrying amount is decreased to the recoverable amount by an adequate impairment allowance charged against cost in profit or loss. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

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.

A reversal of an impairment loss for an asset other than goodwill shall be recognised immediately in profit or loss, unless the asset is carried at revalued amount in accordance with another standard.

3.4.13. Inventories

Inventories are assets held for sale in the ordinary course of business, or in the process of production for such sale, or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories comprise products, semi-finished products and work in progress, merchandise and materials.

Finished goods, semi-finished products and work in progress are measured initially at production cost. Production costs include costs of materials and costs of conversion for the production period. Costs of production include also a systematic allocation of fixed and variable production overheads estimated for normal production level.

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

Finished goods, semi-finished products and work in progress shall be measured at the end of the reporting period at the lower of cost and net realisable value, after deducting any impairment losses.

Outgoings of finished goods, semi-finished products and work in progress is determined based on the weighted average cost formula, the cost of each item is determined from the weighted average of the cost of similar items produced during the reporting period.

Merchandise and materials are measured initially at acquisition cost.

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. Outgoings of merchandise and raw materials is determined based on the weighted average acquisition cost or production cost formula. Impairment tests for specific items of inventories are carried out on a current basis during an annual reporting period. Write-down to net realizable value concerns raw materials and merchandise that are damaged or obsolete.

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

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

3.4.14. Trade and other receivables

Trade and other receivables are recognized initially at the fair value increased by transaction costs and subsequently at amortized cost using the effective interest method less impairment allowances.

3.4.15. Cash and cash equivalents

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

3.4.16. Non-current assets held for sale and discontinued operation

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 simultaneously met:

- the sales were declared by the appropriate level of 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 settled within 12 months following the sale decision;
- the selling price is reasonable in relation to its current fair value;
- it is unlikely that significant changes to the sales plan of these assets will be introduced.

The classification of asset into this category is made in the reporting period when the classification criteria are met. If the criteria for classification of a non-current asset as held for sale are met after the reporting period, an entity shall not classify a non-current asset as held for sale in those financial statements when issued.

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 (excluding financial assets) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property, which continue to be measured in accordance with the Company's accounting policies. While a non-current asset is classified as held for sale it shall not be depreciated (or amortised). A gain is recognised for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been previously recognised.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or
- is a subsidiary acquired exclusively with a view to resale.

The Company shall re-present the disclosures presented with refer to discontinued operation for prior periods presented in the non-consolidated financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

If the Company ceases to classify a discontinued operation, the results of operations previously presented in discontinued operations shall be reclassified and included in the results from continuing operations for all periods presented. The amounts for prior periods shall be described as having been re-presented.

3.4.17. Equity

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

3.4.17.1 Share capital

The share capital is paid by shareholders and is stated at nominal value in accordance with the company's articles of association and the entry in the Commercial Register. Declared but not paid share capital is presented as outstanding share capital contributions. The Company's own shares and outstanding shares capital contributions decrease the equity.

3.4.17.2 Statutory reserves

The Company established a reserve fund for possible future losses.

3.4.17.3 Hedging reserve

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

3.4.17.4 Revaluation reserve

Revaluation surplus comprises revaluation of items, which, according to the Company's regulations, relates to the revaluation surplus, including particularly:

- change of the fair value of the available-for-sale financial assets;
- differences between the net book value and the fair value of the investment property at the date of reclassification from the property occupied by the Company to the investment property.

3.4.17.5 Retained earnings

Retained earnings include:

- the amounts arising from profit distribution/loss cover,
- the undistributed result for prior periods,
- the current period profit/loss,
- the effects (profit/loss) of prior period errors,
- changes in accounting principles,
- other reserve capital as additional payments to equity,
- the actuarial gains and losses from retirement benefits.

Non repayable additional payments to equity with non-confirmed repayment date are presented in equity of receiving entity with a corresponding entry as investment in shares of entity making the additional payments.

Repayable additional payments to equity are presented in entity receiving payment as current or non-current liabilities based on the repayment date. Repayable additional payments to equity are presented as current or non-current receivables in entity transferring payment based on the repayment date i.e. up to 12 months as current and above 12 months as non-current, initially recognized at fair value.

3.4.18. Liabilities

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

3.4.19. Accruals

Accruals are liabilities due for goods or services received/provided, but not paid, invoiced or formally agreed with the seller, together with amounts due to employees.

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

3.4.20. Provisions

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

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

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

The Company establishes provisions for environmental damages, legal disputes, penalties, estimated expenditures related to the fulfilment of obligations as a result of warranty claims, CO_2 emission allowances and jubilee bonuses and retirement benefits. No provisions are established in respect of environmental damages which occurred prior to establishment of the Company as the Czech government contractually committed to reimburse the Company for clean-up costs. Provisions are not recognised for the future operating losses.

3.4.20.1 Shield programs

Shield programs provision (restructuring provision) is created when the Company started to implement the restructuring plan or announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the restructuring will be carried out. A restructuring provision shall include only the direct expenditures arising from the restructuring, i.e. connected with the termination of employment (paid leave payments and compensations), termination of lease contracts, dismantling of assets.

3.4.20.2 Environmental provision

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 Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

3.4.20.3 CO_2 emissions costs

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

3.4.20.4 Jubilee bonuses and post employment benefits

Retirement benefits and jubilee bonuses

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

The jubilee bonuses are other long-term employee benefits, whereas retirement and pension benefits are classified as retirement defined benefit plans.

The provision for jubilee bonuses, retirement and pension benefits is created in order to allocate costs to relevant periods.

The present value of those liabilities is estimated at the end of each reporting period by an independent actuary and adjusted if there are any material indications impacting the value of the liabilities. The accumulated liabilities equal discounted future payments, considering the demographic and financial assumption including employee rotation, planned increase of remuneration and relate to the period ended at the last day of the reporting year. Actuarial gains and losses from:

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

3.4.20.5 Business risk

Business risk provision is created after consideration of all available information, including opinions of independent experts. If on the basis of such information it is more likely than not that a present obligation exists at the end of the reporting period, the Company recognises a provision (if the recognition criteria are met).

If it is more likely that no present obligation exists at the end of the reporting period, the Company discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

3.4.21. Government grants

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

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

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

If the government grants relates to assets, it is presented net with the related asset and is recognized in profit or loss on a systematic basis over the useful life of the asset through the decreased depreciation charges, the treatment regarding Carbon dioxide emission allowances granted is described in note 3.4.11.2

3.4.22. Non-consolidated statement of cash flows

The non-consolidated statement of cash flows is prepared using indirect method.

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

Dividends received are presented in cash flows from investing activities.

Dividends paid are presented in cash flows from financing activities.

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

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

3.4.23. Financial Instruments

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

3.4.23.1 Recognition and derecognition in the non-consolidated statement of financial position

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

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

The Company derecognises a financial asset from the statement of financial position when and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- it transfers the financial asset to another party.

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

- is discharged, or
- is cancelled, or
- expired.

3.4.23.2 Measurement of financial assets and liabilities

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

For the purpose of measuring a financial asset at the end of the reporting period or any other date after initial recognition, the Company classifies financial assets into the following four categories:

- financial assets at fair value through profit or loss,
- held-to-maturity investments,
- loans and receivables,
- available-for-sale financial assets.

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

A financial asset at fair value through profit or loss is a financial asset that has been designated by the Company upon initial recognition as at fair value through profit or loss or classified as held for trading if it is:

- acquired principally for the purpose of selling or repurchasing in the near term, or
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit making, or
- a derivative (except for a derivative that is an effective hedging instrument).

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

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

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

3.4.23.3 Measurement of financial assets at fair value

The Company measures financial assets at fair value through profit or loss, including derivative financial assets and available-for-sale financial assets at their fair value, without any deduction for transaction costs that may be incurred on sale or other disposal.

Fair value of financial assets is determined in compliance with fair value measurement principle.

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

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

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

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

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

3.4.23.4 Measurement of financial assets at amortized cost

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

3.4.23.5 Measurement of financial liabilities at fair value

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

3.4.23.6 Measurement of financial liabilities at amortized cost

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

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

3.4.23.7 Transfers

The Company:

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

3.4.23.8 Impairment of financial assets

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

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

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

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

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

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

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

3.4.23.9 Embedded derivatives

A derivative is a financial instrument or with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract,
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and
- it is settled at a future date.

If the Company is a party of a hybrid (combined) instrument that includes embedded derivative, an embedded derivative shall be separated from the host contract and accounted for as a separate derivative in line with requirements for investments measured at fair values through profit or loss if, and only if the instrument meets all following requirements:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined (hybrid) instrument is not measured at fair value with changes in fair value recognised in the statement of profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

The Company assesses the need to separate an embedded derivative from the host contract and to present it as a derivative, when it becomes a party of a hybrid instrument for the first time. Reassessment is made only in case, when subsequent changes are introduced to the hybrid contract that substantially modify cash flows required by the contract.

3.4.23.10 Hedge accounting

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

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

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

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

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

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

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

The Company discontinues fair value hedge accounting if:

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

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could impact profit or loss. A forecast transaction is an uncommitted but anticipated future transaction.

If a cash flow hedge is used, it is accounted for as follows:

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

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

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

If a hedge of a forecast transaction results in recognition of revenues from sales of finished goods, merchandise, materials and services the Company removes the associated gains and losses that were recognised in the other comprehensive income and adjusts these revenues.

The Company discontinues cash flow hedge accounting if:

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

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

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

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

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

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

3.4.24. Fair value measurement

At initial recognition, the transaction price of the acquired asset or liability incurred in exchange transaction for that asset or liability is the price paid to acquire the asset or received for the liability (an entry price).The fair value of asset or liability is the price that would be received to sell an asset or paid to transfer the liability (exit price).

If the Company measures an asset or liability initially received to sell on at fair value and transaction price differs from fair value, the difference is recognized in profit or loss, unless the IFRS specifies otherwise.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs either:

- on the principal market for the asset or liability or
- in the absence of the principal market, in the most advantageous market for the asset or liability.

In the absence of any directly observable input, i.e. the quoted prices (unadjusted) in active markets for identical assets or liabilities to which the Company can access at the measurement date, the fair value is determined on the basis of the adjusted directly observable inputs.

The adjusted input include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in market that are not active;
- input data other than quoted prices that are observable for the given asset or liability;

- market-corroborated inputs.

In the case, when the observable (directly or indirectly) inputs are not available, fair value is measured on the basis unobservable inputs of the developed by the Company using appropriate valuation techniques.

A fair value measurement of non-financial asset takes into account market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value of liability reflects the effect of non-performance risk. Non-performance risk includes, but may not be limited to, the entity's own credit risk. When measuring fair value of the liability, the entity should take into account effect of its own credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will not be fulfilled.

The Company maximises the use of relevant observable inputs and minimize the use of unobservable inputs to meet the objective of fair value measurement into account, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants as at the measurement date under current market conditions.

Assets and liabilities that are measured at fair value in the statement of financial position or are not measured at fair value, but information about them is disclosed, the Company classifies according to a hierarchy of fair value at the three levels of inputs, depending on the assessment of their availability:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities, that the entity can access as at the measurement date;
- level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either indirectly or directly;
- level 3 inputs are unobservable inputs for the asset or liability.

In the cases, when inputs used to measure the fair value of the asset or liability might be categorized within different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of fair value hierarchy as its data input from the lowest level inputs that is significant to the entire measurement.

3.4.25. Lease

A lease is an agreement whereby a lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Leases of property, plant and equipment where the Company has substantially transferred all the risks and rewards of ownership are classified as finance leases.

Transfer of risks and rewards within the finance lease agreements includes i.e. the following situations:

- the lease transfers ownership of the asset at or by the end of the lease term,
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the useful life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

If the Company uses an asset based on the finance lease, the asset is recognised as an item of property, plant and equipment or an intangible asset. The leased asset is measured at the lower of its fair value or the present value of the minimum lease payments that is the present (discounted) value of payments over the lease term that the lessee is or can be required to make.

The present value of the minimum lease payments is recognised in the statement of financial position as financial liability with the division into short and long-term part. The minimum lease payments are discounted and apportioned between finance charge and the reduction of the outstanding liability using interest rate implicit in the lease, that is the discount rate that, at the inception of the lease, causes the aggregate present value of the minimum lease payments, the unguaranteed residual value to be equal to the sum of the fair value of the leased asset and the initial direct costs if this is impossible to determine, the lessee's incremental borrowing rate, that is the rate, the lessee would have to pay on the similar lease agreement or – if that is not determinable, the rate that, at the inception of the lease, the lessee would incur to borrow over a similar term, with a similar security, the funds necessary to purchase the leased asset for the similar period of time and with similar guarantees.

Depreciation methods for assets leased under the finance lease as well as methods of determining impairment losses in respect of assets leased under the finance lease are consistent with policies applied for the Company's owned assets. If there is a reasonable uncertainty that the lessee will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of: the lease term or useful life.

If the Company conveyed to another entity the right to use an asset under the finance lease, the present value of the minimum lease payments and unguaranteed residual value is recognised in the statement of financial position as receivables with the division into short and long-term part. The minimum lease payments and unguaranteed residual value are discounted using interest rate implicit in the lease.

Assets used under the operating lease, that is under the agreement that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee, are recognised as assets of the lessor.

Lease payments from the operating lease are recognised by lessor as revenues from sales of products, while by lessee as costs in profit or loss.

3.4.26. Contingent assets and liabilities

Contingent liabilities are defined as possible obligations that arise from past events and which are dependent on occurrence or non-occurrence of some uncertain future events not wholly within the control of the Company or present obligations that arise from past events but is not recognised because it is not probable that an outflow of resource embodying economic benefits will be required to settle the obligations or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the statement of financial position however the information on contingent liabilities is disclosed unless the probability of outflow of resources relating to economic benefits is remote. Contingent liabilities acquired as the result of a business combination are recognized as provisions in the statement of financial position.

Contingent assets are possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Contingent assets are not recognized in the statement of financial position as it may lead to recognition of the income, which will never be gained; however the respective information on the contingent receivable is disclosed if the inflow of assets relating to economic benefits is probable the Company discloses respective information on the contingent asset in the additional information to financial statements and if practicable, estimates the influence on financial results, as according to accounting principles for valuation of provisions.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset.

3.4.27. Subsequent events after the reporting date

Subsequent events after the reporting date are those events, favourable and unfavourable that occur between end of the reporting period and date of when the financial statements are authorized for issue.

Two types of subsequent events can be identified:

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

4. APPLICATION OF PROFFESIONAL JUDGMENT AND ASSUMPTIONS

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

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

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

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in notes: 10 Income tax, 11 Property, plant and equipment and 13 Intangible assets in relation to impairment.

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

(in thousands of CZK)

5. THE GROUP STRUCTURE

The Company is part of the consolidation group UNIPETROL, a.s. The following table shows subsidiaries and joint-ventures forming the consolidated group of UNIPETROL, a.s., and the parent company's interest in the capital of subsidiaries and joint-ventures held either directly by the parent company or indirectly by the consolidated subsidiaries (as of 31 December 2014).

Name and place of business	Ownership interest of the parent company in share capital	Ownership interest in share capital through subsidiaries	Operating segment	Website
Parent company				
UNIPETROL, a.s Na Pankráci 127, 140 00 Praha 4, Czech Republic			Corporate functions	www.unipetrol.cz
Subsidiaries consolidated in full method				
BENZINA, s.r.o Na Pankráci 127, 140 00 Praha 4, Czech Republic	100.00 %	–	Retail	www.benzinaplus.cz
PARAMO, a.s. Přerovská 560, 530 06 Pardubice, Czech Republic	100.00 %	–	Downstream	www.paramo.cz
UNIPETROL RPA, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00 %	–	Downstream Corporate functions	www.unipetrolrpa.cz
UNIPETROL SERVICES, s.r.o. Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00 %	–	Corporate functions	www.unipetrolservices.cz
UNIPETROL DOPRAVA, s.r.o. Litvínov - Růžodol č.p. 4, 436 70 Litvínov, Czech Republic	0.12 %	99.88 %	Downstream	www.unipetroldoprava.cz
UNIPETROL Deutschland GmbH Paul Ehrlich Str. 1/B , 63225 Langen/Hessen, Germany	0.10 %	99.90 %	Downstream	www.unipetrol.de
PETROTRANS, s.r.o. Střelničná 2221, 182 00 Praha 8, Czech Republic	0.63 %	99.37 %	Retail	www.petrotrans.cz
UNIPETROL SLOVENSKO s.r.o. Panónská cesta 7, 850 00 Bratislava, Slovak Republic	13.04 %	86.96 %	Downstream	www.unipetrol.sk
POLYMER INSTITUTE BRNO, spol. s r.o. Tkalcovská 36/2, 656 49 Brno, Czech Republic	1.00 %	99.00 %	Downstream	www.polymer.cz
Paramo Oil s.r.o. (dormant entity) Přerovská 560, 530 06 Pardubice, Czech Republic	–	100.00 %	Downstream	
Výzkumný ústav anorganické chemie, a.s. Revoluční 84/1521, Ústí nad Labem, Czech Republic	100.0 0%	–	Downstream	www.vuanch.cz
UNIPETROL RAFINÉRIE, s.r.o. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	100.00 %	–	Downstream	
HC VERVA Litvínov, a.s. Litvínov, S.K. Neumanna 1598, Czech Republic	–	70.95 %	Corporate functions	www.hokej-litvinov.cz
CHEMOPETROL, a.s. (dormant entity) Litvínov - Záluží 1, 436 70 Litvínov, Czech Republic	–	100.00 %	Downstream	
MOGUL SLOVAKIA s.r.o. Hradiště pod Vrátnom, U ihriska 300, Slovak Republic	–	100.00 %	Downstream	www.mogul.sk
UNIPETROL AUSTRIA HmbH in Liquidation Vienna, Apfelgasse 2, Austria	100.00 %	–	Downstream	
Joint operations				
ČESKÁ RAFINÉRSKÁ, a.s Záluží 2, 436 01 Litvínov, Czech Republic	67.55 %	–	Downstream	www.ceskarafinerska.cz
Butadien Kralupy a.s. O. Wichterleho 810, 278 01 Kralupy nad Vltavou, Czech Republic	51.00 %	–	Downstream	

(in thousands of CZK)

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS

6. REVENUES

	2014	2013
Sales of finished goods	109 061 204	83 254 424
Sales of services	2 609 319	2 377 905
Revenues from sales of finished goods and services, net	**111 670 523**	**85 632 329**
Sales of merchandise	3 343 494	4 803 086
Sales of raw materials	770 627	742 127
Revenues from sales of merchandise and raw materials,net	**4 114 121**	**5 545 213**
	115 784 644	**91 177 542**

6.1 Geographical information

	2014	2013
Czech Republic	79 161 057	64 542 619
Germany	11 993 443	8 715 842
Poland	2 341 046	1 421 419
Slovakia	12 609 298	9 138 192
Other countries	9 679 800	7 359 470
	115 784 644	**91 177 542**

Revenues from the Czech Republic, Slovakia and Germany represented 10% or more of the Company's total revenues.

6.2 Major customers

The Company generated revenues from sales of products and goods from segment downstream to 1 recepient outside of the Group in the amount of CZK 12 321 980 thousand that individually exceeded 10% of total revenues.

6.3 Revenues from major products and services

	2014	2013
Downstream	**115 782 783**	**91 175 738**
Diesel	42 995 108	32 932 374
Gasoline	20 388 663	15 674 445
JET	2 808 111	1 353 137
LPG	1 788 000	1 419 481
Fuel OILS	1 520 335	1 302 450
Bitumen	3 021 225	2 154 869
Lubricants	385 962	365 137
Other refinery products	1 521 548	1 346 877
Ethylene	4 727 441	4 144 887
Benzene	5 968 514	4 664 033
Propylene	1 303 872	851 768
Urea	-	34 082
Ammonia	2 044 360	1 862 456
C4 fraction	3 154 044	2 702 938
Polyethylene (HDPE)	10 275 557	8 602 815
Polypropylene	9 127 733	7 088 453
Other petrochemical products	1 114 263	1 172 931
Others	1 030 455	1 126 428
Services	2 607 592	2 376 177
Corporate Functions	**1 861**	**1 804**
	115 784 644	**91 177 542**

Year ended 31 December 2014 (in thousands of CZK)

7. OPERATING EXPENSES

7.1 Cost of sales

	2014	2013
Cost of finished goods and services sold	(107 156 026)	(85 000 175)
Cost of merchandise and raw materials sold	(4 185 998)	(5 487 239)
	(111 342 024)	**(90 487 414)**

7.2 Cost by nature

	2014	2013
Materials and energy	(98 152 896)	(78 180 083)
Cost of merchandise and raw materials sold	(4 185 998)	(5 487 239)
External services	(7 740 840)	(6 620 134)
Employee benefits	(979 754)	(995 881)
Depreciation and amortisation	(1 535 889)	(1 564 521)
Taxes and charges	(377 706)	(298 680)
Other	(303 373)	(321 210)
	(113 276 456)	**(93 467 748)**
Change in inventories	(827 004)	523 797
Operating expenses	**(114 103 460)**	**(92 943 951)**
Distribution expenses	2 332 352	1 993 114
Administrative expenses	305 002	302 510
Other operating expenses	124 082	160 913
Cost of sales	**(111 342 024)**	**(90 487 414)**

7.3 Employee benefits

	2014	2013
Payroll expenses	(704 416)	(708 469)
Future benefits expenses	(2 494)	(16 181)
Social security expenses	(231 809)	(232 616)
Other employee benefits expenses	(41 035)	(38 615)
	(979 754)	**(995 881)**

Future benefits expenses include change in provisions for jubilee bonuses and retirement benefits.

7.4 Number of employees, managers and their remuneration

2014	Employees	Key Management	Executives	Total
Wages and salaries	(673 039)	(26 550)	(4 827)	(704 416)
Social and health insurance	(224 618)	(6 070)	(1 121)	(231 809)
Social expense	(38 140)	(2 315)	(580)	(41 035)
Change of employee benefits provision	(2 494)	-	-	(2 494)
	(938 291)	**(34 935)**	**(6 528)**	**(979 754)**
Number of employees average per year	1 522,43	9,08		1 531,51
Number of employees as at balance sheet day	1 515	9		1 524

2013	Employees	Key Management	Executives	Total
Wages and salaries	(682 585)	(25 283)	(601)	(708 469)
Social and health insurance	(226 313)	(6 109)	(194)	(232 616)
Social expense	(36 933)	(1 682)	-	(38 615)
Change of employee benefits provision	(16 181)	-	-	(16 181)
	(962 012)	**(33 074)**	**(795)**	**(995 881)**
Number of employees average per year	1 550,41	9,59		1 560,00
Number of employees as at balance sheet day	1 548	8		1 556

Year ended 31 December 2014 (in thousands of CZK)

8. OTHER OPERATING INCOME AND EXPENSES

8.1 Other operating income

	2014	2013
Profit on sale of non-current non-financial asets	-	4 736
Reversal of provisions	-	13 147
Reversal of receivables impairment allowances	787	565
Reversal of impairment allowances of property, plant and equipment and intangible assets	460	-
Penalties and compensations earned	90 915	26 873
Other	150 282	31 727
	242 444	**77 048**

In 2014 in the line "Other" the CO_2 provision update in amount of CZK 32 378 thousand and revaluation of Investment property in amount of CZK 17 036 thousand is included (2013: CZK 0 thousand and CZK 12 524 thousand).

8.2 Other operating expenses

	2014	2013
Loss on sale of non-current non-financial assets	(4 876)	(17 944)
Recognition of provisions	(3 500)	(35 199)
Recognition of receivables impairment allowances	(20 308)	(7 255)
Recognition of impairment allowances of property, plant and equipment and intangible assets	(31 182)	(82 783)
Donations	(1 373)	(1 908)
Other	(62 843)	(15 824)
	(124 082)	**(160 913)**

In the line "Other" in 2014 and 2013 there is revaluation of Investment property in amount of CZK 2 764 thousand and CZK 12 438 thousand respectively.

9. FINANCE INCOME AND COSTS

9.1 Finance income

	2014	2013
Interest	44 478	34 311
Dividends received	305 414	362 804
Settlement and valuation of financial instruments	1 222 631	1 032 588
Other	46	1 869
	1 572 569	**1 431 572**

9.2 Finance costs

	2014	2013
Interest	(157 051)	(122 414)
Valuation of financial assets available for sale	-	(5 477)
Foreign exchange loss net	(843 159)	(280 761)
Settlement and valuation of financial instruments	(653 144)	(973 514)
Other	(31 165)	(27 977)
	(1 684 519)	**(1 410 143)**

10. INCOME TAX

	2014	2013
Income tax expense in the statement of profit or loss		
Deferred income tax	36 255	129 480
	36 255	**129 480**
Income tax expense in other comprehensive income		
Tax on effective portion of changes in fair value of cash flow hedges	(170 778)	40 763
Actuarial gains and losses	1 275	342
	(169 503)	**41 105**
	(133 248)	**170 585**

Domestic income tax is calculated in accordance with Czech tax regulations at the rate of 19 % in 2014 (2013: 19 %) of the estimated taxable income for the year. The deferred tax has been calculated using tax rate approved for the year 2015 and forward i.e. 19 %.

Unipetrol

(in thousands of CZK)

10.1 Reconciliation of effective tax rate

	2014	2013
Profit / (loss) for the year	1 847 933	(1 538 453)
Total income tax credit	36 255	129 480
Profit / (loss) excluding income tax	1 811 678	(1 667 933)
Income tax using domestic income tax rate	(344 219)	316 907
Non-deductible expenses	(99 923)	(23 765)
Tax exempt income	115 654	68 933
Recognition of previously unrecognized deferred tax related to tax losses	363 860	-
Change in not recognized deferred tax assets	-	(230 289)
Other differences	889	(2 306)
Total income tax credit	**36 255**	**129 480**
Effective tax rate	**2,00%**	**7,76%**

10.2 Deferred tax assets and liabilities

Deferred income tax 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 2015 and onward).

The movements in deferred tax assets and liabilities were as follows:

	31/12/2013	Deferred tax recognized in statement of Profit or loss	Deferred tax recognized in Other comprehensive income	Transfer	31/12/2014
Deferred tax assets					
Inventory	-	138 802	-	-	138 802
Provisions	149 462	(8 942)	1 275	-	141 795
Unused tax losses carried forward	753 173	(131 121)	-	-	622 052
Financial instruments valuation	44 635	-	(170 778)	126 143	-
Other	125 577	(88 460)	-	-	37 117
	1 072 847	**(89 721)**	**(169 503)**	**126 143**	**939 766**
Deferred tax liabilities					
Property, plant and equipment	(834 085)	(99 116)	-	-	(933 201)
Inventory	(176 961)	176 961	-	-	-
linance lease	(48 131)	48 131	-	-	-
Financial instruments valuation	-	-	-	(126 143)	(126 143)
	(1 059 177)	**125 976**	**-**	**(126 143)**	**(1 059 344)**
	13 670	**36 255**	**(169 503)**	**-**	**(119 578)**

Deferred 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 taxes relate to the same tax authority.

Deferred income tax assets are recognized for tax loss and deductible temporary differences carried forward to the extent that realization of the related tax benefit through the future taxable profit is probable based on financial projections for years 2015 - 2018.

In the calculation of deferred tax assets as at 31 December 2014 the Company has recognized all tax losses, in calculation of deferred tax assets as at 31 December 2013 the unused tax losses in amount of CZK 1 635 853 thousand were not recognized due to the unpredictability of future taxable income. These tax losses will expire before end of 2018.

11. PROPERTY, PLANT AND EQUIPMENT

	31/12/2014	31/12/2013
Land	547	547
Buildings and constructions	4 729 194	4 863 126
Machinery and equipment	6 859 864	7 234 576
Vehicles and other	219 271	245 860
Construction in progress	700 273	587 196
	12 509 149	**12 931 305**

(in thousands of CZK)

11.1 Changes in property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
Gross book value						
1 January 2014	663	12 022 992	24 427 908	938 879	639 519	38 029 961
Investment expenditures	-	-	-	-	1 036 718	1 036 718
Other increases	-	-	578	-	-	578
Reclassifications	-	120 608	760 498	45 666	(923 641)	3 131
Sale	-	(2 090)	-	(1 069)	-	(3 159)
Liquidation	-	-	(206 248)	(24 680)	-	(230 928)
31 December 2014	**663**	**12 141 510**	**24 982 736**	**958 796**	**752 596**	**38 836 301**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2014	116	7 133 384	17 171 952	693 019	52 323	25 050 794
Depreciation	-	251 206	1 123 310	68 844	-	1 443 360
Other increases	-	-	578	-	-	578
Impairment allowances	-	883	2 613	(612)	-	2 884
Sale	-	(684)	-	(1 068)	-	(1 752)
Liquidation	-	-	(205 116)	(20 658)	-	(225 774)
Government grants - settlement	-	1 244	3 835	-	-	5 079
31 December 2014	**116**	**7 386 033**	**18 097 172**	**739 525**	**52 323**	**26 275 169**
Gross book value						
1 January 2013	663	11 967 660	23 293 962	964 800	556 011	36 783 096
Investment expenditures	-	-	-	-	1 078 589	1 078 589
Other increases	-	-	-	28	-	28
Reclassifications	-	56 093	1 211 137	33 369	(995 081)	305 518
Sale	-	-	(664)	(23 738)	-	(24 402)
Liquidation	-	(761)	(76 453)	(35 050)	-	(112 264)
Other decreases	-	-	(74)	(530)	-	(604)
31 December 2013	**663**	**12 022 992**	**24 427 908**	**938 879**	**639 519**	**38 029 961**
Accumulated depreciation, impairment allowances and settled government grants						
1 January 2013	116	6 884 615	16 024 500	653 641	50 782	23 613 654
Depreciation	-	249 413	1 143 199	78 627	-	1 471 239
Other increases	-	-	-	28	-	28
Impairment allowances	-	14 142	67 476	(505)	1 541	82 654
Reclassifications	-	(15 617)	-	-	-	(15 617)
Sale	-	-	-	(22 917)	-	(22 917)
Liquidation	-	(410)	(66 546)	(15 326)	-	(82 282)
Other decreases	-	-	(75)	(529)	-	(605)
Government grants - settlement	-	1 241	3 398	-	-	4 639
31 December 2013	**116**	**7 133 384**	**17 171 952**	**693 019**	**52 323**	**25 050 794**
Government grants						
1 January 2014	-	26 482	21 380	-	-	47 862
31 December 2014	-	26 283	25 700	-	-	51 983
1 January 2013	-	25 872	17 079	-	-	42 951
31 December 2013	-	26 482	21 380	-	-	47 862
Net book value						
1 January 2014	547	4 863 126	7 234 576	245 860	587 196	12 931 305
31 December 2014	547	4 729 194	6 859 864	219 271	700 273	12 509 149
1 January 2013	547	5 057 173	7 252 383	311 159	505 229	13 126 491
31 December 2013	547	4 863 126	7 234 576	245 860	587 196	12 931 305

According to IAS 23 the Company capitalized those borrowing costs that are directly atributable 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 2014 amounted to CZK 4 982 thousand (31 December 2013: CZK 2 157 thousand).

Material additions

The major additions to non-current assets were the renovation of furnance BA-103 of CZK 59 498 thousand, LPG bottling on campus 234b of CZK 55 567 thousand, segregation of sevaget of CZK 51 405 thousand, renovation of pyrolytic furnance Ba-101 of CZK 30 665 thousand, renovation of substation R200 of CZK 29 139 thousand and construction of new unit PE 3 of CZK 26 551 thousand. The highest decrease of asset is liquidation of Katalco catalyst in carrying amount of CZK 3 253 thousand.

Year ended 31 December 2014 (in thousands of CZK)

In 1994 the Company obtained a grant of CZK 260 030 thousand from the German Ministry for Enviromental 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 T700 power station and its desulphurization. The carrying amount as at 31 December 2014 was CZK 34 669 thousand (31 December 2013: CZK 38 564 thousand).

11.2 Changes in property, plant and equipment impairment

	Land	Buildings and constructions	Machinery and equipment	Vehicles and other	Construction in progress	Total
1 January 2014	116	1 219 991	1 490 798	60 426	52 323	2 823 654
Recognition	-	883	3 810	1	-	4 694
Reversal	-	-	(460)	-	-	(460)
Other increases/(decreases)	-	-	(737)	(613)	-	(1 350)
	116	**1 220 874**	**1 493 411**	**59 814**	**52 323**	**2 826 538**
increase/(decrease) net	-	883	2 613	(612)	-	2 884
1 January 2013	116	1 205 849	1 423 322	60 931	50 782	2 741 000
Recognition	-	12 794	68 144	1 845	-	82 783
Reclassifications	-	1 348	1 152	22	1 541	4 063
Other increases/(decreases)	-	-	(1 820)	(2 372)	-	(4 192)
	116	**1 219 991**	**1 490 798**	**60 426**	**52 323**	**2 823 654**
increase/(decrease) net	-	14 142	67 476	(505)	1 541	82 654

Recognition and release of impairment to property, plant and equipment is presented in other operating expenses and income.

11.3 Impairment to non-current assets

As at 30 June 2014 due to existence of indicators triggering impairment testing both of an internal and external character (deterioration of external refinery environment, performance of refinery activities below forecasted level in the first half of 2014, surplus of refinery production capacities and increased supply of products, updated macroeconomic assumptions for Cash Generating Units (CGUs)) tests were carried out for all identified CGUs based on updated financial projections for the years 2014-2017.

Based on performed analysis impairment allowance of CZK 26 708 thousand was recognized as at 30 June 2014 in relation to non-current assets of refining CGU. Impairment charges of CZK 220 thousand were allocated to plant, property and equipment, and CZK 26 488 thousand to intangible assets and these were recorded in other operating costs.

During development of assumptions to impairment tests the possibility of estimation of the fair value and value in use of individual assets was considered. Lack of number of market transactions for similar assets to those held by the Company which would allow to reliably estimate their fair value makes this method of valuation not possible to implement. As a result, it was concluded that the best estimate of the actual values of individual assets of the Company will be its value in use.

The CGUs are established at the level of operating activities. The recoverable amounts of CGUs were estimated based on their value in use. The analyses were performed based on available projections for the years 2014-2017 adjusted to exclude the impact of capital expenditures enhancing the assets' performance.

The anticipated fixed annual growth rate of cash flows after 2017 year period is assumed at the level of the long term inflation rate for Czech Republic.

For determining the value in use as at given balance sheet date forecasted cash flows are discounted using the discount rates after taxation reflecting the risk levels specific for particular activities to which the CGU belongs.

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

The discount rate is calculated as the weighted average cost of capital. The sources of macroeconomic indicators necessary to determine the discount rate were the publications of prof. Aswath Damodoran (source: http://pages.stern.nyu.edu) of officially listed government bonds and agencies rating available at 30 June 2014 and 31 December 2014.

As at 31 December 2014 in accordance with International Accounting Standard 36 "Impairment of assets" the Company has not identified any new impairment indicators.

As at 31 December 2013 based on the result of the analysis, no impairment allowance was recognized in 2013 in relation to non-current assets.

Year ended 31 December 2014 (in thousands of CZK)

The structure of the discount rates applied in the testing for impairment of assets of individual CGUs as at 30 June 2014

	Refining CGU	Petrochemical CGU
Cost of equity	10,72%	9,10%
Cost of debt after tax	3,19%	3,19%
Capital structure	86,39%	86,69%
Nominal discount rate	**7,99%**	**8,23%**
Long term inflation rate	1,96%	1,96%

Cost of equity is determined by the profitability of the government bonds that are considered to be risk-free, with the level of market and operating segment risk premium (beta). Cost of debt includes the average level of credit margins and expected market value of money for Czech Republic. The period of analysis was established on the basis of remaining useful life of the essential assets for the particular CGU.

Periods of analysis adopted for the analysis of the individual CGUs as at 30 June 2014

	2014
Refining CGU	25
Petrochemical CGU	16

Sensitivity analysis of the value in use as at 30 June 2014

The crucial elements influencing the value in use of assets within individual units responsible for generating cash flows are: operating profit plus depreciation and amortization (known as EBITDA) and the discount rate.

The effects of impairment sensitivity in relation to changes in these factors are presented below.

	in CZK million	EBITDA		
	change	-5%	0%	5%
DISCOUNT RATE	-0,5 p.p.	increase of impairment 772	decrease of impairment 891	decrease of impairment 2 125
	-0,0 p.p.	increase of impairment 1 449	-	decrease of impairment 1 499
	+0,5 p.p.	increase of impairment 2 089	increase of impairment 715	decrease of impairment 787

Decrease in forecasted EBITDA and increase in discount rate would result in impairment allowance in the petrochemical CGU.

Year ended 31 December 2014 (in thousands of CZK)

11.4 Other information

	2014	2013
The gross book value of all fully depreciated property, plant and equipment still in use	5 160 793	5 289 511
The net book value of temporarily idle property, plant and equipment	14 025	14 002
The net book value of leased non-current assets	200 754	225 386

The Company reviews economic useful lives of property, plant and equipment and introduces adjustments to depreciation charge prospectively according to its accounting policy. Should the depreciation policy from the previous year be applied, the depreciation expense for 2014 would be higher by CZK 71 008 thousand.

12. INVESTMENT PROPERTY

Investment property at 31 December 2014 comprised the land and buildings owned by the Company and leased to third parties. The changes recorded during the year 2014 are presented in the following table:

	2014	2013
At the beginning of the year	87 016	79 482
Purchase	-	9 987
Fair value measurement	14 272	85
increase	14 272	85
Reclassification	(2 256)	(2 538)
	99 032	**87 016**

Rental income amounted to CZK 16 470 thousand in 2014 (2013: CZK 17 181 thousand). Operating costs related to the investment property amounted to CZK 2 251 thousand in 2014 (2013: CZK 4 294 thousand).

Fair value of investment property was estimated based on income approach. In the income approach calculation is based on the discounted cash flow method, due to the variability of income in the foreseeable future. The analysis used forecasts for the period of 10 years. The discount rate reflects the relationship between expectations of the buyer, the annual income from an investment property and expenditures required to purchase investments property. Estimates of discounted cash flows associated with the valuation of objects také into account the conditions included in all rental agreements as well as external data (such as current market rents for similar properties) in the same location, specifications, standard and designed for similar purposes.

13. INTANGIBLE ASSETS

	31/12/2014	31/12/2013
Software	19 062	13 943
Licences, patents and trade marks	648 174	710 450
Assets under development	355 853	330 040
CO_2 emission allowance	337 958	333 762
Other intangible assets	94 720	115 403
	1 455 767	**1 503 598**

Year ended 31 December 2014 (in thousands of CZK)

13.1 Changes in intangible assets

	Software	Licences, patents and trade marks	Assets under development	CO_2 emission allowance	Other intangible assets	Total
Gross book value						
1 January 2014	257 301	1 779 301	330 040	461 953	1 190 849	4 019 444
Investment expenditures	-	-	67 865	984	-	68 849
Other increases	-	-	-	484 730	-	484 730
Reclassifications	11 992	-	(42 052)	-	29 185	(875)
Liquidation	(5 678)	(439)	-	-	(23 240)	(29 357)
Other decreases	-	-	-	(609 709)	-	(609 709)
31 December 2014	**263 615**	**1 778 862**	**355 853**	**337 958**	**1 196 794**	**3 933 082**
Accumulated amortisation, impairment allowances						
1 January 2014	243 358	1 068 851	-	128 191	1 075 446	2 515 846
Amortization	2 960	62 277	-	-	27 292	92 529
Impairment allowances	3 913	-	-	(128 191)	22 572	(101 706)
Liquidation	(5 678)	(440)	-	-	(23 236)	(29 354)
31 December 2014	**244 553**	**1 130 688**	-	-	**1 102 074**	**2 477 315**
Gross book value						
1 January 2013	254 980	1 779 301	70 602	1 014 948	1 165 047	4 284 878
Investment expenditures	-	-	303 470	-	-	303 470
Reclassifications	2 525	-	(43 156)	-	40 582	(49)
Liquidation	(204)	-	-	-	(14 780)	(14 984)
Other decreases	-	-	(876)	(552 995)	-	(553 871)
31 December 2013	**257 301**	**1 779 301**	**330 040**	**461 953**	**1 190 849**	**4 019 444**
Accumulated amortisation, impairment allowances						
1 January 2013	240 336	1 006 492	5 390	293 297	1 061 200	2 606 715
Amortization	2 619	62 359	-	-	28 304	93 282
Impairment allowances	607	-	(5 390)	(165 106)	720	(169 169)
Liquidation	(204)	-	-	-	(14 778)	(14 982)
31 December 2013	**243 358**	**1 068 851**	-	**128 191**	**1 075 446**	**2 515 846**
Net book value						
1 January 2014	13 943	710 450	330 040	333 762	115 403	1 503 598
31 December 2014	19 062	648 174	355 853	337 958	94 720	1 455 767
1 January 2013	14 644	772 809	65 212	721 651	103 847	1 678 163
31 December 2013	13 943	710 450	330 040	333 762	115 403	1 503 598

Material additions

The most important additions to intangible assets were new PE3 – licence - project of CZK 31 203 thousand, development costs of BUI of CZK 6 886 thousand, studies for the development and new types of PP (CZK 6 780 thousand) and HDPE (CZK 6 000 thousand).

13.2 Impairment to intangible assets

	Software	Licences, patents and trade marks	Assets under development	CO_2 emission allowance	Other intangible assets	Total
1 January 2014	3 839	177 274	-	128 191	20 130	329 434
Recognition	3 913	-	-	-	22 575	26 488
Usage	-	-	-	(128 191)	-	(128 191)
Other increases/(decreases)	-	-	-	-	(3)	(3)
	7 752	177 274	-	-	42 702	227 728
increase/(decrease) net	3 913	-	-	(128 191)	22 572	(101 706)
1 January 2013	3 232	177 274	5 390	293 297	19 410	498 603
Usage	-	-	-	(165 106)	-	(165 106)
Reclassifications	607	-	(5 390)	-	720	(4 063)
	3 839	177 274	-	128 191	20 130	329 434
increase/(decrease) net	607	-	(5 390)	(165 106)	720	(169 169)

Recognition and release of impairment to intangible assets is presented in other operating expenses and income.

Year ended 31 December 2014 (in thousands of CZK)

13.3 Other information

	2014	2013
The gross book value of all fully depreciated intangible assets still in use	1 204 656	1 226 973
The net book value of intangible assets with indefinite useful life	9 562	9 562

The Company reviews economic useful lives of intangible assets and introduces adjustments to amortization charge prospectively according to its accounting policy. Should the depreciaiton policy from the previous year be applied, the depreciation expense for 2014 would be higher by CZK 10 804 thousand.

13.4 CO_2 emission allowances

Based on Czech National Allocation Scheme for the years 2013-2020 the Company was to obtain CO_2 allowances free of charge. In 2014 the Company obtained allowances for carbon dioxide emissions for the year 2013 in amount of 1 384 121 tons which is in line with previous estimates based on which the receivable was recorded and for the year 2014 in amount of 1 349 031 tons.

	2014		2013	
	Value	Quantity (in tonnes)	Value	Quantity (in tonnes)
Emission allowance at 1 January	333 762	2 064 716	721 651	4 008 255
Emission allowances granted for the year	484 730	2 733 152	-	-
Settled emission allowances for previous periods	(609 709)	(3 062 158)	(552 995)	(1 943 539)
Utilization (recognition) of impairment to CO_2 allowances	128 191	-	165 106	-
Emission allowances purchase	984	156 043	-	-
Emission allowances at 31 December	**337 958**	**1 891 753**	**333 762**	**2 064 716**
Estimated annual consumption	590 242	3 148 595	451 786	2 961 792
Estimated grant of CO_2 for 2014	-	-	183 724	1 384 121

As at 31 December 2014 the market value of one EUA allowance (European Union Emission Allowance) amounted to EUR 7,24 (as at 31 December 2013: 4,84 EUR).

14. SHARES IN RELATED PARTIES

	31/12/2014	31/12/2013
Unquoted shares	1 178 023	978 023
	1 178 023	**978 023**

Shares in related parties as at 31 December 2014:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the year
Subsidiaries						
UNIPETROL DOPRAVA, s.r.o.	Litvínov	959 532	99,80	-	959 532	166 205
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	104 695	99,00	-	104 695	25 740
CHEMOPETROL, a.s.	Litvínov	2 000	100,00	108	1 892	-
HC VERVA Litvínov, a.s.	Litvínov	27 293	70,95	17 955	9 338	-
UNIPETROL SLOVENSKO s.r.o.	Bratislava	2 980	86,96	-	2 980	64 076
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen	99 586	99,90	-	99 586	49 393
Total		**1 196 086**		**18 063**	**1 178 023**	**305 414**

Shares in related parties as at 31 December 2013:

Name of the entity	Registered office	Cost of investment	Ownership percentage	Impairment	Carrying amount	Dividend income for the year
Subsidiaries						
UNIPETROL DOPRAVA, s.r.o.	Litvínov	759 532	99,80	-	759 532	276 481
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	104 695	99,00	-	104 695	16 582
CHEMOPETROL, a.s.	Litvínov	2 000	100,00	108	1 892	-
HC VERVA Litvínov, a.s.	Litvínov	27 293	70,95	17 955	9 338	-
UNIPETROL SLOVENSKO s.r.o.	Bratislava	2 980	86,96	-	2 980	-
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen	99 586	99,90	-	99 586	69 741
Total		**996 086**		**18 063**	**978 023**	**362 804**

Year ended 31 December 2014 (in thousands of CZK)

15. OTHER NON-CURRENT ASSETS

	31/12/2014	31/12/2013
Other long term receivables	18 476	49 736
Financial assets	**18 476**	**49 736**
Prepayments	12	12
Non-financial assets	**12**	**12**
	18 488	**49 748**

Other non-current assets includes long term loan to ČESKÁ RAFINÉRSKÁ, a.s. related to financing of Komora 11 construction according the "Launch of chamber K11 and D distillation, Construction 3611". The interest rate is 1M PRIBOR + agreed mark up. The final maturity date is June 2016. The long-term portion of the loan is presented under other non-current financial assets. The short-term portion of the loan amounts to CZK 31 335 thousand (2013: CZK 31 335 thousand) and is presented under Trade and other receivables, as described in note 17.

16. INVENTORIES

	31/12/2014	31/12/2013
Raw materials	3 930 915	3 586 296
Work in progress	857 169	1 342 208
Finished goods	2 935 910	3 238 664
Merchandise	152 803	87 862
Spare parts	658 843	688 552
Inventories, net	**8 535 640**	**8 943 582**
Impairment allowances of inventories to net realisable value	730 536	189 191
Inventories, gross	**9 266 176**	**9 132 773**

Change of inventory allowance

	2014	2013
At the beginning of the period	189 191	247 665
Recognition	788 593	349 985
Usage	(33 920)	(149 640)
Reversal	(213 328)	(258 819)
	730 536	**189 191**

Changes in the net realizable value allowances for inventories (excluding utilization movement) amounted to CZK 575 265 thousand (2013: CZK 91 166 thousand) and are included in cost of sales presented in note 7.

17. TRADE AND OTHER RECEIVABLES

	31/12/2014	31/12/2013
Trade receivables	10 624 206	9 932 415
Short-term part of loan	31 335	31 335
Receivables CO_2 rights	-	183 724
Other	2 606	3 905
Financial assets	**10 658 147**	**10 151 379**
Excise tax and fuel charge receivables	204 609	203 574
Prepayments and deffered costs	69 383	112 383
Non-financial assets	**273 992**	**315 957**
Receivables, net	**10 932 139**	**10 467 336**
Receivables impairment allowance	108 921	102 288
Receivables, gross	**11 041 060**	**10 569 624**

The Company changed presentation of excise tax receivable in 2014. In relation to this, the receivables from excise tax in amount of CZK 203 379 thousand was transferred between categories of receivables presented in the table above for year 2013. Tables presented in note 26 were changed accordingly.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 30 days. No interest is charged on the trade receivables for the first 4 days after the due date. Thereafter, interest is based on terms agreed in the selling contract.

The Company exposure to credit and currency risk related to trade and other receivables is disclosed in note 26 and detailed information about receivables from related parties is presented in note 30.

Year ended 31 December 2014 (in thousands of CZK)

Movement in the impairment loss allowance

	2014	2013
At the beginning of the year	102 288	99 588
Recognition	20 308	7 255
Reversal	(787)	(565)
Usage	(24 732)	(6 083)
Foreign exchange differences	11 844	2 093
	108 921	**102 288**

The Company sets impairment allowances based on analysis of customers' creditworthiness and ageing of receivables. In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the debtor from the date credit was initially granted up to the reporting date. 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 the principal amount of trade and other receivables are included in other operating expense or income, and default interest is included in financial expense or income.

18. OTHER FINANCIAL ASSETS

	31/12/2014	31/12/2013
Cash flow hedge instruments		
foreign currency forwards	15 398	10 892
commodity swaps	872 058	-
Derivatives not designated as hedge accounting		
foreign currency forwards	23 214	36
commodity swaps	164 898	18 383
Cash pool	311 347	12 008
Receivables from settled financial derivatives	647 617	-
	2 034 532	**41 319**

The Company is part of the Group's cash pool system, closing balances are shown in the table.

The Company provides related parties within the Group with short-term cash pool loans which are paid back by the first working day after the end of the reporting period. As at 31 December 2014 these loans amounted to CZK 293 157 thousand (31 December 2013: CZK 9 834 thousand). The interest rates were based on appropriate inter-bank rates and the fair value of loans approximates their carrying amount.

Monetary analysis of short-term borrowings by currency is presented in note 21. Loans are unsecured and have a maturity on request, at least one month.
Information regarding cash flow hedge instruments and derivatives not designed as hedge accounting is presented in note 26.

19. CASH AND CASH EQUIVALENTS

	31/12/2014	31/12/2013
Cash on hand and in bank	65 244	84 394
	65 244	**84 394**

20. EQUITY

20.1 Share capital

The registered capital of the Company as at 31 December 2014 amounted to CZK 11 147 964 thousand (31 December 2013: CZK 11 147 964 thousand).

20.2 Statutory reserves

Reserve fund

The Company established a reserve fund for possible future losses.

The balance of reserve fund as at 31 December 2014 amounted to CZK 565 646 thousand (as at 31 December 2013: CZK 565 646 thousand).

(in thousands of CZK)

20.3 Hedging reserve

The amount of the hedging reserve CZK 537 767 thousand as at 31 December 2014 relates to the fair value of derivatives meeting the requirements of hedge accounting (31 December 2013: CZK ((190 290) thousand) and the related deferred tax.

20.4 Retained earnings

On 12 March 2014 UNIPETROL, a.s. as the sole member decided on settlement of loss for 2013. The entire loss of CZK 1 538 452 thousand was transferred to the accumulated loss from previous years.

20.5 Capital structure management

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

The Company monitors equity debt ratio (net financial leverage). As at 31 December 2014 and 31 December 2013 the Company´s financial leverage amounted to 167 % and 204 %, respectively.

Net financial leverage = net debt / equity x 100.

Net debt = non-current loans and borrowings + current loans and borrowings + cash pool liabilities - cash and cash equivalents.

21. LOANS AND BORROWINGS

This note provides information about the contractual terms, relating to loans and borrowings, which are measured at amortized cost.

	Long-term		Short-term		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Bank loans	-	-	-	55 785	-	55 785
Česká rafinérská, a.s. - initial oil filling	734 885	963 088	-	-	734 885	963 088
Borrowings	-	-	12 000 674	10 002 734	12 000 674	10 002 734
	734 885	**963 088**	**12 000 674**	**10 058 519**	**12 735 559**	**11 021 607**

ČESKÁ RAFINÉRSKÁ, a.s – the initial oil filling

The interest-free liability to CESKA RAFINERSKA, a.s. is registered under long-term loans. The liability relates to the initial filling of oil placed in MERO IKL pipeline, which was transferred to UNIPETROL RPA, s.r.o. (as the successor of UNIPETROL RAFINERIE a.s.) on 1 August 2003 in connection with the start of the processing refinery project. The liability to CESKA RAFINERSKA, a.s. will be settled by returning the oil after the termination of the project. Following the acquisition of 16,335 % shares of CESKA RAFINERSKA, a.s. by UNIPETROL Group in January 2014, the Company took over the processing rights and the liability relates to the initial filling in IKL pipeline from Shell Czech Republic a.s. As a result of this transaction, the liability from IKL initial filling increased by CZK 306 697 thousand.

The fair value of the liability from IKL initial filling amounted to CZK 734 885 thousand as at 31 December 2014 and to CZK 963 088 thousand as at 31 December 2013.

Financing provided by the parent company UNIPETROL, a.s.

Based on a loan agreement with the parent company UNIPETROL, a.s., the Company may utilise short-term unsecured loans in the form of overdrafts (cash pool) or borrowings.

In the case of cash pool presented under note 25 Other financial liabilities, interest is paid on the first working day after the close of the reporting period. Its total amount, including accrued interest, was CZK 2 246 921 thousand as at 31 December 2014 (as at 31 December 2013: CZK 2 022 264 thousand).

In the case of borrowings, interest is paid together with principal at the end of the interest period specified by an interest schedule. The total amount, including accrued interest, was CZK 12 000 674 thousand as at 31 December 2014 (as at 31 December 2013: CZK 10 002 734 thousand).

The interest rates are defined based on corresponding inter-bank markets, and their fair value approximates their carrying amount.

Short-term bank loans

As at 31 December 2014 the Company did not use any short-term bank loan (2013: CZK 55 785 thousand).

Year ended 31 December 2014 (in thousands of CZK)

21.1 Bank loan analysis

- by currency (translated into CZK)

	31/12/2014	31/12/2013
CZK	-	55 785
	-	**55 785**

- by interest rate

	31/12/2014	31/12/2013
PRIBOR	-	55 785
	-	**55 785**

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 2013 was 0,915%.

21.2 Borrowing analysis

- by currency (translated into CZK)

	31/12/2014	31/12/2013
CZK	12 000 674	10 002 734
	12 000 674	**10 002 734**

- by interest rate

	31/12/2014	31/12/2013
PRIBOR	12 000 674	10 002 734
	12 000 674	**10 002 734**

Disclosures resulting from IFRS 7 relating to loans and borrowings are included in note 26 and are presented jointly with other financial instruments.

22. PROVISIONS

	Long-term		Short-term		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Environmental provision	349 784	339 854	-	-	349 784	339 854
Jubilee bonuses and retirement benefits provision	44 466	38 086	2 348	-	46 814	38 086
Provisions for legal disputes	7 129	7 129	-	-	7 129	7 129
Shield programs provision	-	-	-	-	-	-
Provision for CO_2 emission	-	-	590 242	451 786	590 242	451 786
Other provision	28 800	28 800	9 763	9 775	38 563	38 575
	430 179	**413 869**	**602 353**	**461 561**	**1 032 532**	**875 430**

Changes in provisions

	Environmental provision	Jubilee bonuses and retirement benefits provision	Provisions for legal disputes	Shield programs provision	Provision for CO_2 emission	Other provision	Total
1 January 2014	339 854	38 086	7 129	-	451 786	38 575	875 430
Recognition	3 500	9 202	-	-	640 059	-	652 761
Discounting	7 213	-	-	-	-	-	7 213
Utilization of provision	(783)	(474)	-	-	(469 225)	(12)	(470 494)
Release of provision	-	-	-	-	(32 378)	-	(32 378)
	349 784	**46 814**	**7 129**	**-**	**590 242**	**38 563**	**1 032 532**

	Environmental provision	Jubilee bonuses and retirement benefits provision	Provisions for legal disputes	Shield programs provision	Provision for CO_2 emission	Other provision	Total
1 January 2013	332 968	20 105	7 727	3 431	386 609	24 396	775 236
Recognition	3 500	19 682	2 899	-	453 066	28 800	507 947
Discounting	7 636	-	-	-	-	-	7 636
Utilization of provision	(824)	-	(802)	(3 431)	(387 889)	(7 595)	(400 541)
Release of provision	(3 426)	(1 701)	(2 695)	-	-	(7 026)	(14 848)
	339 854	**38 086**	**7 129**	**-**	**451 786**	**38 575**	**875 430**

Year ended 31 December 2014 (in thousands of CZK)

22.1 Environmental provision

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 334 763 thousand as at 31 December 2014 (31 December 2013: CZK 327 854 thousand). Under a clause on environmental damages, a provision for the compensation of damage to Lesy České republiky (Forests of the Czech Republic), totalling CZK 15 021 thousand, was included in the environmental provision as at 31 December 2014 (31 December 2013: CZK 12 000 thousand).

22.2 Provisions for jubilee bonuses and retirement benefits

The Company realizes the program of paying out retirement benefits in line with remuneration policies in force. The retirement benefits are paid as one-time payments at retirement. The amount of retirement benefits 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 Company 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 received by employees were created using discount rate 0,62% p.a. in 2014 (2013: 2,30%), assumptions used were based on Collective agreement.

22.2.1 Change in employee benefits obligations

	Retirement benefits	Total
1 January 2014	38 086	38 086
Current service cost	1 605	1 605
Interest expense	889	889
Actuarial gains and losses net	6 709	6 709
demographic assumptions	*(365)*	*(365)*
financial assumptions	*8 214*	*8 214*
other issues	*(1 140)*	*(1 140)*
Payments under program	(475)	(475)
	46 814	**46 814**

	Retirement benefits	Total
1 January 2013	20 105	20 105
Current service cost	1 698	1 698
Interest expense	771	771
Actuarial gains and losses net	1 800	1 800
financial assumptions	*1 800*	*1 800*
Past employment costs	13 712	13 712
	38 086	**38 086**

22.2.2 Geographical division of employee benefits obligations by employees

	Active employees		Pensioners		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Czech Republic	46 814	38 086	-	-	46 814	38 086
					46 814	**38 086**

22.2.3 Geographical division of employee benefits obligations by type of provision

	Provision for jubilee bonuses		Retirement benefits		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Czech Republic	-	-	46 814	38 086	46 814	38 086
					46 814	**38 086**

(in thousands of CZK)

22.2.4 Analysis of sensitivity to changes in actuarial assumptions

Actuarial assumptions	Assumed variations as at 31/12/2014	Czech Republic Influence on retirement benefits 2014
Demographic assumptions (+)	0,5 pp	(2 701)
staff turnover rates, disability and early retirement	*0,5 pp*	*(2 701)*
Financial assumptions (+)	0,5 pp	(2 716)
discount rate	*0,5 pp*	*(2 716)*
		(5 417)
Demographic assumptions (-)	-0,5 pp	2 944
staff turnover rates, disability and early retirement	*-0,5 pp*	*2 944*
Financial assumptions (-)	-0,5 pp	2 986
discount rate	*-0,5 pp*	*2 986*
		5 930

Actuarial assumptions	Assumed variations as at 31/12/2013	Czech Republic Influence on retirement benefits 2013
Demographic assumptions (+)	0,5 pp	(2 080)
staff turnover rates, disability and early retirement	*0,5 pp*	*(2 080)*
Financial assumptions (+)	0,5 pp	(2 075)
discount rate	*0,5 pp*	*(2 075)*
		(4 155)
Demographic assumptions (-)	-0,5 pp	2 256
staff turnover rates, disability and early retirement	*-0,5 pp*	*2 256*
Financial assumptions (-)	-0,5 pp	2 272
discount rate	*-0,5 pp*	*2 272*
		4 528

22.2.5 Ageing analysis of employee benefits obligations

	Retirement benefits		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Less than one year	2 348	1 805	2 348	1 805
Between one and three years	5 695	4 708	5 695	4 708
Between three and five years	4 466	4 439	4 466	4 439
Later than five years	34 305	27 134	34 305	27 134
			46 814	**38 086**
Weighted average duration of liability (years)	13,5	14,2	13,5	14,2

22.2.6 Aging of employee benefits payments analysis

	Retirement benefits		Total	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Less than one year	2 365	1 815	2 365	1 815
Between one and three years	6 369	5 544	6 369	5 544
Between three and five years	5 731	6 193	5 731	6 193
Later than five years	121 044	122 650	121 044	122 650
	135 509	**136 202**	**135 509**	**136 202**

(in thousands of CZK)

22.2.7 Changes in employee benefits obligations recognised in profit or loss and other comprehensive income

	2014	2013
In profit and loss		
Current service cost	(1 605)	(1 698)
Interest expense	(889)	(771)
Past employment costs	-	(13 712)
	(2 494)	**(16 181)**
In components of other comprehensive income		
Gains and losses arising from changes	(6 709)	(1 800)
demographic assumptions	*365*	-
financial assumptions	*(8 214)*	*(1 800)*
other issues	*1 140*	-
	(6 709)	**(1 800)**
	(9 203)	**(17 982)**

Provisions for employee benefits recognized in profit or loss were accounted as follows:

	2014	2013
Cost of sales	(2 921)	(15 778)
Distribution expenses	187	(335)
Administrative expenses	240	(68)
	(2 494)	**(16 181)**

On the basis of existing legislation, the Company is obliged to pay contributions to the national pension insurance. These expenses are recognized as social security and healthcare insurance costs. The Company has no other obligations in this respect. Additional information about the retirement benefits is in note 3.4.21.4 and 31.

22.3 Provisions for legal disputes

The provision for legal disputes is created for expected future outflows arising from legal disputes with third parties where the Company is the defendant. The provision amounted to CZK 7 129 thousand as at 31 December 2014 (31 December 2013: CZK 7 129 thousand).

22.4 Provision on CO_2 allowances

A provision for CO_2 allowances is created for estimated CO_2 emissions in the reporting period.

22.5 Other provisions

Provisions for the Company's other potential future liabilities totalled CZK 38 563 thousand as at 31 December 2014 (31 December 2013: CZK 38 575 thousand). A significant portion of the provisions relates to the shutdown of certain production units – as at 31 December 2014 this included a provision of CZK 4 271 thousand for the liquidation of a urea production unit (31 December 2013: CZK 4 283 thousand); as at 31 December 2014 this included a provision of CZK 28 800 thousand related to the shutdown of the T200 heating plant (31 December 2013: CZK 28 800 thousand).

23. OTHER NON-CURRENT LIABILITIES

	31/12/2014	31/12/2013
Investment liabilities	832	1 097
Financial liabilities	**832**	**1 097**
Guarantee payment received	17 101	16 581
Non-financial liabilities	**17 101**	**16 581**
	17 933	**17 678**

Year ended 31 December 2014 (in thousands of CZK)

24. TRADE AND OTHER LIABILITIES

	31/12/2014	31/12/2013
Trade liabilities	6 707 837	9 921 415
Investment liabilities	423 511	677 073
Other	2 616 246	2 205 942
Financial liabilities	**9 747 594**	**12 804 430**
Prepayments for deliveries	13 832	13 528
Payroll liabilities	132 670	135 460
Excise tax and fuel charge	908 521	1 156 143
Value added tax	505 692	323 802
Other taxation, duties, social security and other benefits	49 810	40 972
Accruals	27 178	31 340
holiday pay accrual	6 695	8 111
wages accrual	20 483	23 229
Non-financial liabilities	**1 637 703**	**1 701 245**
	11 385 297	**14 505 675**

The management considers that the carrying amount of trade and other liabilities approximates their fair value.

25. OTHER FINANCIAL LIABILITIES

	31/12/2014	31/12/2013
Cash flow hedge instruments		
foreign currency forwards	54 510	245 817
commodity swaps	169 036	-
Derivatives not designated as hedge accounting		
foreign currency forwards	-	3 704
commodity swaps	155 022	66 745
Cash pool	2 246 921	2 022 264
	2 625 489	**2 338 530**

The Company can draw short-term cash pooling loans within the Group, which are paid by the first working day after the end of the reporting period. The interest rates were based on appropriate inter-bank rates and the fair value of loans approximates their carrying amount.

26. FINANCIAL INSTRUMENTS

26.1 Financial instruments by category and class

Financial assets

		Financial instruments by category			
Financial instruments by class 2014	Note	Financial assets at fair value through profit or loss	Loans and receivables	Hedging financial instruments	Total
Trade receivables	17	-	10 658 147	-	10 658 147
Cash pool	18	-	311 347	-	311 347
Financial derivatives and hedging instruments	18	188 112	-	887 456	1 075 568
Receivables from settled financial derivatives	18	647 617	-	-	647 617
Cash and cash equivalents	19	-	65 244	-	65 244
Other financial assets	15	-	18 476	-	18 476
		835 729	**11 053 214**	**887 456**	**12 776 399**

		Financial instruments by category			
Financial instruments by class 2013	Note	Financial assets at fair value through profit or loss	Loans and receivables	Hedging financial instruments	Total
Trade receivables	17	-	10 151 379	-	10 151 379
Cash pool	18	-	12 008	-	12 008
Financial derivatives and hedging instruments	18	18 419	-	10 892	29 311
Cash and cash equivalents	19	-	84 394	-	84 394
Other financial assets	15	-	49 736	-	49 736
		18 419	**10 297 517**	**10 892**	**10 326 828**

(in thousands of CZK)

Financial liabilities

Financial instruments by class 2014	Note	Financial instruments by category: Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Liabilities excluded from the scope of IAS 39	Total
Non-current borrowings	21	-	734 885	-	734 885
Other non-current liabilities	23	-	832	-	832
Current borrowings	21	-	12 000 674	-	12 000 674
Trade and other liabilities and accruals	24	-	9 747 594	-	9 747 594
Cash pool	25	-	2 246 921	-	2 246 921
Other financial liabilities	25	155 022	-	223 546	378 568
		155 022	**24 730 906**	**223 546**	**25 109 474**

Financial instruments by class 2013	Note	Financial instruments by category: Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Liabilities excluded from the scope of IAS 39	Total
Non-current borrowings	21	-	963 088	-	963 088
Other non-current liabilities	23	-	1 097	-	1 097
Current borrowings	21	-	10 002 734	-	10 002 734
Current loans	21	-	55 785	-	55 785
Trade and other liabilities and accruals	24	-	12 804 430	-	12 804 430
Cash pool	25	-	2 022 264	-	2 022 264
Other financial liabilities	25	70 449	-	245 817	316 266
		70 449	**25 849 398**	**245 817**	**26 165 664**

26.2 Revenues/(costs), gains/(losses) related to financial instruments in statement of profit or loss and other comprehensive income

2014	Note	Financial instruments by category: Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial liabilities measured at amortised cost	Total
Interest income	9.1	-	44 478	-	44 478
Interest costs	9.2	-	-	(157 051)	(157 051)
Foreign exchange gain/(loss)	9.2	-	179 076	(1 022 235)	(843 159)
Recognition/reversal of receivables impairment allowances recognized in:					
other operating income/(expenses)	8	-	(19 521)	-	(19 521)
Settlement and valuation of financial instruments	9	569 487	-	-	569 487
Other	9	-	46	(23 952)	(23 906)
		569 487	**204 079**	**(1 203 238)**	**(429 672)**
other, exluded from the scope of IFRS 7					
Provisions discounting	9				(7 213)
					(7 213)

Year ended 31 December 2014 (in thousands of CZK)

		Financial instruments by category				
2013	Note	Financial assets and liabilities at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities measured at amortised cost	Total
Interest income	9.1	-	34 311	-	-	34 311
Interest costs	9.2	-	-	-	(122 414)	(122 414)
Foreign exchange gain/(loss)	9.2	-	158 320	-	(439 081)	(280 761)
Recognition/reversal of receivables impairment allowances recognized in:						
other operating income/(expenses)	8	-	(6 690)	-	-	(6 690)
Settlement and valuation of financial instruments	9	59 074	-	-	-	59 074
Valuation of financial assets available for sale	9.2	-	-	(5 477)	-	(5 477)
Other	9	-	1 869	-	(20 341)	(18 472)
		59 074	**187 810**	**(5 477)**	**(581 836)**	**(340 429)**
other, exluded from the scope of IFRS 7						
Provisions discounting	9					(7 636)
						(7 636)

26.3 Hedge accounting

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

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

	31/12/2014	31/12/2013
Planned realization date of hedged cash flow		
Currency operating exposure	-	-
2014	-	(234 925)
2015	663 910	-
	663 910	**(234 925)**

26.4 Risk management objectives

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

The Company seeks to minimize the effects of these risks by using natural hedging. The Company uses derivative financial instruments to hedge these risk exposures. The potential use of financial derivatives is governed by the UNIPETROL group's policies, 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 UNIPETROL group's internal auditors on regular basis. The Company does not enter into or trade financial instruments, including derivative financial intruments, for speculative purposes.

(in thousands of CZK)

26.5 Credit risk management

The Company'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 Company's management based on prior experience and their assessment of the credit status of its customers.

The Company 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 Company. The Company 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 Company uses other publicly available financial information and its own trading records to rate its major customers.

The Company'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 Company uses own or external credit scoring system to assess the potencial customer's credit quality and defines credit limits by customer.

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. Where appropriate, credit quarantee insurance cover is purchased or sufficient collateral on debtor's assets obtained.

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

Based on the analysis receivables, the counterparties were divided into following groups:

- Group I – counterparty with good or very good history of cooperation in the current year,
- Group II – other counterparties.

	Note	31/12/2014	31/12/2013
Group I		10 398 593	9 896 366
	17	**10 398 593**	**9 896 366**

The ageing analysis of past due receivables

	Note	31/12/2014	31/12/2013
Up to 1 month		261 731	275 162
From 1 to 3 months		5 839	9 454
From 3 to 6 months		5 587	2 587
From 6 to 12 months		1 082	2 178
Above 1 year		3 791	15 368
	17	**278 030**	**304 749**

The maximum exposure to credit risk for financial assets at the reporting date was as follows:

	Note	31/12/2014	31/12/2013
Financial assets			
Trade receivables	17	10 658 147	10 151 379
Cash pool	18	311 347	12 008
Financial derivatives and hedging instruments	18	1 075 568	29 311
Receivables from settled financial derivatives	18	647 618	-
Cash and cash equivalents	19	65 244	84 394
Other financial assets	15	18 476	49 736
		12 776 400	**10 326 828**

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 in note 26.10 Fair value determination.

(in thousands of CZK)

26.6 Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Company's statutory representatives, who have 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, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at 31 December 2014 and 31 December 2013 the maximum available credit facilities relating to bank loans amounted to CZK 150 000 thousand and CZK 150 000 thousand respectively, of which as at 31 December 2014 and 31 December 2013 CZK 150 000 thousand and CZK 87 212 thousand respectively remained unused.

Liquidity risk tables

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

Contractual maturity of financial liabilities

		31/12/2014					
	Note	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Above 5 years	Total	Carrying amount
Borrowings - undiscounted value	21	12 000 674	-	-	734 885	12 735 559	12 735 559
Cash pool - undiscounted value	25	2 246 921	-	-	-	2 246 921	2 246 921
Trade liabilities	24	9 324 083	-	-	-	9 324 083	9 324 083
Investment liabilities	23,24	423 511	555	277	-	424 343	424 343
Financial derivatives and hedging instruments	25	378 568	-	-	-	378 568	378 568
		24 373 757	555	277	734 885	25 109 474	25 109 474

		31/12/2013					
	Note	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Above 5 years	Total	Carrying amount
Loans - undiscounted value	21	55 785	-	-	-	55 785	55 784
Borrowings - undiscounted value	21	10 002 734	-	963 088	-	10 965 822	10 965 822
Cash pool - undiscounted value	25	2 022 264	-	-	-	2 022 264	2 022 264
Trade liabilities	24	12 127 357	-	-	-	12 127 357	12 127 357
Investment liabilities	23,24	677 073	1 097	-	-	678 170	678 170
Financial derivatives and hedging instruments	25	316 266	-	-	-	316 266	316 266
		25 201 479	1 097	963 088	-	26 165 664	26 165 664

26.7 Market risk

The Company 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 Company analyses the exposure and enters into derivative commodity instruments to minimize the risk associated with the purchase of crude oil.

26.7.1 Market price risk management

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

(in thousands of CZK)

26.7.2 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) also could be used, to cover significant foreign exchange risk exposure of trade payables and receivables not covered by natural hedging.

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

Financial instruments by class as at 31 December 2014	EUR	USD	Total after translation to CZK
Financial assets			
Trade receivables	133 275	22 043	4 198 371
Cash pool	5 978	104	168 122
Financial derivatives and hedging instruments	-	7 222	164 898
Cash and cash equivalents	3	5	183
	139 256	**29 374**	**4 531 574**
Financial liabilities			
Cash pool	65	11 248	258 634
Trade and other liabilities and accruals	49 447	112 290	3 934 966
Financial derivatives and hedging instruments	-	6 789	155 022
	49 512	**130 327**	**4 348 622**

Financial instruments by class as at 31 December 2013	EUR	USD	Total after translation to CZK
Financial assets			
Trade receivables	126 999	23 424	3 948 941
Cash pool	126	430	12 008
Financial derivatives and hedging instruments	-	924	18 383
Cash and cash equivalents	679	5	18 714
	127 804	**24 783**	**3 998 046**
Financial liabilities			
Borrowings	240	50	7 577
Cash pool	3 125	1 097	107 544
Trade and other liabilities and accruals	46 423	272 420	6 692 678
Financial derivatives and hedging instruments	-	3 355	66 745
	49 788	**276 922**	**6 874 544**

<u>Foreign currency sensitivity analysis</u>

The influence of potential changes in carrying amounts of financial instruments as at 31 December 2014 and 2013 arising from hypothetical changes in exchange rates of relevant currencies in relation to functional currency on profit before tax and hedging reserve:

	Influence on profit before tax			
2014	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/CZK	15%	373 221	15%	(373 221)
USD/CZK	15%	(345 779)	15%	345 779
		27 442		**(27 442)**

	Influence on profit before tax			
2013	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/CZK	15%	320 938	15%	(320 938)
USD/CZK	15%	(752 413)	15%	752 413
		(431 475)		**431 475**

	Influence on hedging reserve			
2014	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/CZK	15%	(927 174)	15%	927 174
USD/CZK	15%	44 189	15%	(44 189)
		(882 985)		**882 985**

(in thousands of CZK)

2013	Influence on hedging reserve			
	Increase of exchange rate	Total influence	Decrease of exchange rate	Total influence
EUR/CZK	15%	(718 246)	15%	718 246
USD/CZK	15%	74 014	15%	(74 014)
		(644 232)		**644 232**

Variations of currency rates described above were calculated based on historical volatility of particular currency rates and analysts' forecasts.

Sensitivity of financial instruments for currency risk was calculated as a difference between the initial carrying amount of financial instruments (excluding derivative instruments) and their potential carrying amount calculated using assumed increases/(decreases) in currency rates. In case of derivative instruments, the influence of currency rate variations on fair value was examined at constant level of interest rates. The fair value of foreign currency forward contracts is determined based on discounted future cash flows of the transactions, calculated based on the difference between the forward rate and the transaction price.

26.7.3 Interest rate risk management

Change in discount rate	PRIBOR		EURIBOR		LIBOR		Carrying amount	
	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013	31/12/2014	31/12/2013
Financial assets								
Cash pool	143 225	-	165 746	3 461	2 376	8 547	311 347	12 008
	143 225	**-**	**165 746**	**3 461**	**2 376**	**8 547**	**311 347**	**12 008**
Financial liabilities								
Loans	-	55 785	-	-	-	-	-	55 785
Borrowings	12 735 559	10 958 245	-	6 582	-	995	12 735 559	10 965 822
Cash pool	1 988 287	1 914 720	1 791	85 712	256 843	21 832	2 246 921	2 022 264
	14 723 846	**12 928 750**	**1 791**	**92 294**	**256 843**	**22 827**	**14 982 480**	**13 043 871**

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

Interest rate	Assumed variation		Influence on profit before tax		Total	
	31/12/2014	31/12/2013	2014	2013	2014	2013
EURIBOR	+0,5 pp	+0,5 pp	820	(444)	820	(444)
LIBOR	+0,5 pp	+0,5 pp	(1 272)	(71)	(1 272)	(71)
PRIBOR	+0,5 pp	+0,5 pp	(72 903)	(64 644)	(72 903)	(64 644)
			(73 355)	**(65 159)**	**(73 355)**	**(65 159)**

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

The sensitivity analysis was performed on the basis of instruments held as at 31 December 2014 and 31 December 2013. The influence of interest rates changes was presented on annual basis.

26.8 The risk of commodity prices and oil products

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 into derivative commodity instruments to minimize the risk associated with the purchase of crude oil.

Sensitivity analysis of changes in crude oil, diesel oil, gasoline, bitumen and heating oil prices
Analysis of the influence of potential changes in the book values of financial instruments on profit before tax and hedging reserve in relation to a hypothetical change in prices of crude oil:

2014	Influence on financial result			
	Increase of prices	Total influence	Decrease of prices	Total influence
Crude oil USD/BBL	5 USD/BBL	(217 822)	5 USD/BBL	217 822

2013	Influence on financial result			
	Increase of prices	Total influence	Decrease of prices	Total influence
Crude oil USD/BBL	5 USD/BBL	(252 128)	5 USD/BBL	252 128

Year ended 31 December 2014 (in thousands of CZK)

26.9 Emission allowances risk

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

26.10 Fair value determination

Financial intruments for which fair value cannot be measured reliably

As at 31 December 2014 and 31 December 2013 the Company held unquoted shares in entities amounting to CZK 1 178 023 thousand and CZK 978 023 thousand, for which fair value cannot be reliably measured, due to the fact that there are no active markets for these entities and no comparable transactions in the same type of instruments. Above mentioned shares were recognized as financial assets available for sale and measured at acquisition cost less impairment allowances. As at 31 December 2014 there are no binding decisions relating to the means and dates of disposal of those assets.

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

Fair value of shares quoted on active markets is determined based on market quotations (so called Level 1). In other cases, fair value is determined based on other input data, apart from market quotations, which are directly or indirectly possible to observe (so called Level 2) and data to valuation, which aren't based on observable market data (Level 3).
Financial assets and liabilities carried at fair value by the Company belong to Level 2 as defined by IFRS. In the year ended 31 December 2014 and the comparative period there were no transfers between Levels 1, 2 and 3 in the Company.

Investment property
The Company applied the revenue approach to investment property with carrying amount of CZK 99 032 thousand as at 31 December 2014 (31 December 2013: CZK 87 016 thousand). In the revenue approach the calculation was based on the discounted cash flow method. The discount rate used reflects the relation, as expected by the buyer, between yearly revenue from an investment property and expenditures required to purchase investment property. Forecasts of discounted cash flows relating to the property consider arrangements included in all rent agreements as well as external data, e.g. current market rent charges for similar property, in the same location, technical conditions, standard and designed for similar purposes. The investment property valued under revenue approach is classified to the Level 3 defined by IFRS 7.

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

	2014	2013
At the beginning of the year	87 016	79 482
Transfer from Property plant and equipment	-	9 987
Transfer to Property plant and equipment	(2 256)	(2 538)
Fair value measurement in profit or loss for the year	14 272	85
	99 032	**87 016**

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

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

	Level 3			
Change in discount rate	+1 pp	(2 944)	-1 pp	2 944
		(2 944)		**2 944**

Loans and receivables

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

Finacial liabilities valued at amortized cost

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

(in thousands of CZK)

27. LEASING

27.1 The Company as a lessee

Operating lease

Operating lease arrangements

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

	31/12/2014	31/12/2013
Less than one year	1 998	1 729
Between one and five years	5 791	7 705
	7 789	**9 434**

The Company leases vehicles and land under operating leases. Lease payments are adjusted annualy to reflect market conditions. None of the leases includes contingent rentals.

Payments recognized as an expense were as follows:

	2014	2013
Non-cancellable operating lease	1 092	1 670
Cancellable operating lease	87 027	80 620
	88 119	**82 290**

Financial lease

Net carrying amount of leased assets:

	31/12/2014	31/12/2013
Machinery and equipment	200 754	225 386
	200 754	**225 386**

27.2 The Company as a lessor

As at 31 December 2014 and as at 31 December 2013 the Company did not possess any finance or operating lease agreements as a lessor.

28. COURT PROCEEDINGS AND CLAIMS

Claims regarding reward for employees' intellectual work

In the year 2001 the court case commenced regarding the reward for the employees' intellectual work between UNIPETROL RPA, s.r.o. and its two employees. Employees demanded reward of approx. CZK 1.8 million. UNIPETROL RPA, s.r.o. as defendant did not agree and offered the reward amounting to approx. CZK 1.4 million, based on experts' valuations. In 2005 Employees plaintiffs filed the next petition to the court to extend the action to an amount of approx. CZK 82 million. The first instance hearing was held on 18 October 2011. An experts´ valuation ordered by the court confirmed the amount of the reward payable to the employees in the amount of CZK 1.6 million. One of the employees accepted payment of his share in the reward confirmed by the expert in the expert valuation ordered by the court.

During the twelve month period ended 31 December 2014 there were no material changes in relation to the issue.

Claims on compensation of damages filed by I.P. – 95, s.r.o. against UNIPETROL RPA, s.r.o.

On 23 May 2012 UNIPETROL RPA, s.r.o., having its registered office at Záluží 1, 436 70, Litvínov, Business ID no.: 27597075,, the subsidiary of UNIPETROL, a.s., received a petition from the District Court Ostrava, file no. 30 C 66/2010.

Claimant – I.P. - 95, s.r.o., having its registered office at Těšínská 202/225, 716 00 Ostrava-Radvanice, Business ID no.: 64085694 is claiming compensation of damages totalling CZK 1 789 million. I.P. – 95, s.r.o. claims that it incurred damages as a result of an unjustified insolvency filing against I.P. – 95, s.r.o. made by UNIPETROL RPA, s.r.o. on 24 November 2009. I.P. – 95, s.r.o. assigned part of the receivable in question of CZK 1 742 million, to NESTARMO TRADING LIMITED, having its registered office at Diagorou 4, Fermia Building, 6th floor, office no. 601, 1097 Nicosia, Cyprus, Company ID no.: HE 246733; following the assignment, I.P. – 95, s.r.o. filed a motion regarding NESTARMO TRADING LIMITED joining the proceedings as a claimant. UNIPETROL RPA, s.r.o. is one of eight respondents against whom the petition was filed.

In a relating court proceedings, the Upper Court in Olomouc ruled that receivable of UNIPETROL RPA, s.r.o., which was claimed by UNIPETROL RPA, s.r.o. in the bankruptcy against I.P. – 95, s.r.o., was rightfull, justified and existing at the time of making the insolvency filing. On basis of applicable jurisprudence – claiming of justified receivable within a bankruptcy proceedings can not cause any damage to the debtor. Hence we expect that the damages compensation claim against UNIPETROL RPA, s.r.o. will be rejected by the relevant court.

On the basis of provisions of the Czech Insolvency Act, the proceedings has been suspended due to I.P.-95 s.r.o. becoming insolvent and the insolvency trustee failing to give consent for the proceedings to continue. I.P. – 95 s.r.o. gave consent with the proceedings to continue and therefore, as per the most recent decision of the court, the proceedings will continue with I.P. – 95 s.r.o. in its position as petitioner. The court has also submitted the case to the Czech Supreme Court to decide on local jurisdiction matters; Czech Supreme Court remanded the case District Court in Ostrava.

UNIPETROL RPA, s.r.o. does not recognize the alleged claim and considers the claim as unjustified and unfounded. UNIPETROL RPA, s.r.o. is taking all legal actions to defend itself against this claim.

Claims for compensation of damages filed by SDP Logistics sklady a.s against UNIPETROL RPA, s.r.o.

On 9 July 2012 UNIPETROL RPA, s.r.o. received a petition filed by SDP Logistics sklady a.s. for compensation of damages.

UNIPETROL RPA, s.r.o. concluded on 21 March 2010 with SDP Logistics sklady a.s. ("SDP") a contract relating to storage ("Contract") for a definite period of time - until 31 July 2011. SDP claims that UNIPETROL RPA, s.r.o. failed to remove all stored products before the contract termination date.

SDP claims CZK 25 million as a contractual penalty payable to SDP as a result of not making the storage space available for a new client. SDP additionally claims CZK 120 million as loss of profit caused by not being able to provide the contracted storage capacity to a new SDP client after 1 August 2011. Furthermore SDP has blocked the goods of UNIPETROL RPA, s.r.o. (stored in the warehouse) until the said damages are covered by UNIPETROL RPA, s.r.o.

UNIPETROL RPA, s.r.o. does not recognize the alleged claim and considers the claim as unjustified and unfounded.

On 18 December 2014 UNIPETROL RPA, s.r.o. signed a settlement agreement with SDP Logistics sklady, a.s. under which, among others:

SDP released all the blocked (arrested) goods to UNIPETROL RPA.

UNIPETROL RPA has withdrawn the petition in full.

Tax proceeding - UNIPETROL RPA s.r.o., acting as a legal successor of CHEMOPETROL a.s., is a party in a tax proceeding related to validity of investment tax relief for 2005. UNIPETROL RPA s.r.o. claims the return of income tax paid in 2006 for the fiscal year 2005 by CHEMOPETROL a.s. The claim concerns unused investment relief attributable to CHEMOPETROL a.s. The total value of claim amounts to approximately CZK 325,000 thousand.

a) UNIPETROL RPA, s.r.o. complaint for unlawful intervention

At its hearing on 16 October 2013 the Regional Court in Usti nad Labem decided to dismiss the UNIPETROL RPA, s.r.o. complaint for unlawful intervention during the first instance tax proceedings carried out by the Tax Authority in Litvinov in 2010. The court decided that the appellate tax proceedings carried out by the Tax Directorate in Usti nad Labem in 2010 was an unlawful intervention with UNIPETROL RPA, s.r.o. rights. UNIPETROL RPA, s.r.o. filed a cassation appeal against the part of the judgment of the court regarding dismissal of the complaint with respect to the first instance tax proceedings to the Czech High Court.

On 21 January 2014 the Czech High Administration Court resolved to (i) decline the decision of Regional Court in Usti nad Labem stating that the appellate tax proceedings carried out by the Tax Directorate in Usti nad Labem in 2010 was an unlawful intervention with UNIPETROL RPA, s.r.o. rights and returned this part of the case to the Regional Court in Prague for further hearing and decision; and (ii) dismissed the cassation appeal filed by UNIPETROL RPA, s.r.o.

The Czech Supreme Administrative Court's issued a decision dated 19 March 2014 on the cassation appeals filed by the parties within the proceedings regarding declining of the tax authority decisions. The Czech Supreme Administrative Court annulled the Regional Court's decision on annulment of the tax authorities' decisions and dismissed the cassation appeal filed by UNIPETROL RPA, s.r.o. The matter was returned to the Regional Court in Usti nad Labem.

UNIPETROL RPA, s.r.o. filed a petition with the Czech Constitutional Court claiming that by the decisions of the Czech Supreme Administrative Court its right for a fair trial was breached. Following filing of the petition with the Czech Constitutional Court, the Regional Court in Usti nad Labem suspended the proceedings regarding UNIPETROL RPA, s.r.o. complaint for dismissal of the tax authority decisions.

On 16 October 2014 the Czech Constitutional Court decided to reject the UNIPETROL RPA, s.r.o. 's constitutional complaint dated 7 April 2014.

Unipetrol

On 8 December 2014 the Regional Court in Usti nad Labem, based on the legal opinion presented by the Czech Supreme Administrative Court in their decision of 19 March 2014, dismissed UNIPETROL RPA, s.r.o complaint for unlawful intervention filed against the tax authorities.

b) UNIPETROL RPA, s.r.o. complaint for dismissal of the tax authority decisions
At its hearing on 11 December 2013 the Regional Court in Usti nad Labem decided to decline both (i) the decision of the Tax Authority in Litvinov issued in 2010 on the tax corporate income obligation of UNIPETROL RPA, s.r.o. of approximately CZK 325mil, and (ii) the decision of the Tax Directorate in Usti nad Labem (in its position as appellate tax authority) on the UNIPETROL RPA, s.r.o. appeal against the tax decision under point (i). The court ruled both decisions of tax authorities to be unlawful. The court returned the case to the tax authority for further procedure.
UNIPETROL RPA, s.r.o. filed a cassation appeal against the decision of the Regional Court in Usti nad Labem and requested the court to decline both tax decision due to these being null and therefore non existing. In situation where the court declares the decision null and non-existing, this would enhance UNIPETROL RPA, s.r.o. position towards the tax authorities.
The Czech Supreme Administrative Court´s issued a decision dated 19 March 2014 on the cassation appeals filed by the parties within the proceedings regarding declining of the tax authority decisions. The Czech Supreme Administrative Court annulled the Regional Court´s decision on annulment of the tax authorities' decisions and dismissed the cassation appeal filed by UNIPETROL RPA, s.r.o. The matter was returned to the Regional Court in Usti nad Labem.
The Regional Court in Usti nad Labem on a hearing hold on 25 February 2015 Court decided to dismiss the UNIPETROL RPA, s.r.o. complaint for abrogation of the tax authority decisions, UNIPETROL RPA, s.r.o. is now waiting to receive the Regional Court´s judgment in writing. UNIPETROL RPA, s.r.o. will consider filing a cassation appeal against the judgment of the Regional Court.

Transportation contracts
The transportation of crude oil supplies through pipelines for UNIPETROL RPA, s.r.o. is provided by MERO ČR, a.s. and TRANSPETROL, a.s. via ČESKÁ RAFINÉRSKÁ, a.s. As at 31 December 2014, ČESKÁ RAFINÉRSKÁ, a.s. held a contract for transportation with TRANSPETROL, a.s., covering years 2014, 2015 and 2016. Due to complicated and lengthy negotiations, there is no framework transportation contract in place with MERO ČR, a.s. Transportation of crude oil is provided by MERO ČR, a.s. on a regular basis with no disruptions; transportation is based on conditions and transportation tariff of the previous contract.
The Group management does not expect any impact on the business activities caused by non-existence of long-term contract with MERO ČR, a.s. The effect on financial statements is currently not measurable.

29. GUARANTEES AND SECURITIES

29.1 Future commitments resulting from signed investment contracts

The total value of investment expenditure with borrowing costs amounted to CZK 1 118 855 thousand to 31 December 2014 and CZK 1 382 144 thousand to 31 December 2013, including environmental expenditures of CZK 63 946 thousand and CZK 26 036 thousand.
Future investment liabilities value from contracts signed to 31 December 2014 and 31 December 2013 amounted to CZK 273 435 thousand and CZK 665 197 thousand.

29.2 Bank guarantees

The Company guarantees the obligations of HC Verva Litvínov, a.s. to the Association of Professional Ice Hockey Clubs CZK 7,000 thousand as at 31 December 2014 (31 December 2013: CZK 7 000 thousand).

30. RELATED PARTIES

30.1 Material transactions concluded by the Company with related parties

In 2014 and 2013 there were no transactions concluded by the Company with related parties on other than market terms.

30.2 Transactions with key management personnel

In 2014 and 2013 the Company did not grant to key management personnel and their relatives any advances, loans, guarantees and commitments or other agreements obliging them to render services to the Company and related parties. In 2014 and 2013, there were no significant transactions concluded with members of statutory bodies or with their family members or other related parties.

30.3 Transactions with related parties concluded by key management personnel of the Company

In 2014 and 2013 the members of the key executive personnel, based on the submitted statements, did not conclude any transactions with their related parties.

Year ended 31 December 2014 (in thousands of CZK)

30.4 Transactions and balances of the Company with related parties

Ultimate controlling party

The ultimate controlling party is Polski Koncern Naftowy ORLEN S.A., which held 62,99 % of shares in the parent company UNIPETROL, a.s. in 2014 and 2013.

2014	UNIPETROL, a.s.	Parties under control or significant influence of UNIPETROL, a.s.	Parties under control or significant influence of the Company	PKN Orlen	Entities under control or significant influence of PKN Orlen
Sales	4 241	15 517 232	12 815 422	1 157 875	7 085 174
Purchases	93 228	9 023 392	321 592	76 917 472	1 237 897
Finance income, including	11	518	305 460	-	1
dividends	-	-	305 414	-	-
Finance costs	150 013	107	-	762	28 550

31/12/2014	UNIPETROL, a.s.	Parties under control or significant influence of UNIPETROL, a.s.	Parties under control or significant influence of the Company	PKN Orlen	Entities under control or significant influence of PKN Orlen
Long term receivables	-	18 278	-	-	-
Short term financial assets	293 157	-	-	-	18 190
Trade and other receivables	1 513	1 329 195	833 485	111 370	503 920
Trade and other liabilities, including borrowings	14 311 428	3 699 401	152 135	2 239 062	165 792

2013	UNIPETROL, a.s.	Parties under control or significant influence of UNIPETROL, a.s.	Parties under control or significant influence of the Company	PKN Orlen	Entities under control or significant influence of PKN Orlen
Sales	7 440	14 514 732	8 995 735	467 017	4 554 710
Purchases	87 554	7 023 064	290 279	56 771 039	1 608 539
Finance income, including	-	1 170	362 898	-	-
dividends	-	-	362 804	-	-
Finance costs	110 348	(9)	-	839	21 050

31/12/2013	UNIPETROL, a.s.	Parties under control or significant influence of UNIPETROL, a.s.	Parties under control or significant influence of the Company	PKN Orlen	Entities under control or significant influence of PKN Orlen
Long term receivables	-	49 613	-	-	-
Short term financial assets	9 834	-	-	-	2 174
Trade and other receivables	1 068	1 481 216	758 394	23 649	550 190
Trade and other liabilities, including borrowings	12 084 485	2 988 362	43 733	4 871 844	339 508

31. REMUNERATION OF THE KEY EXECUTIVE PERSONNEL AND STATUTORY REPRESENTATIVES

The remuneration of the key executive personnel and statutory representatives includes short-term employee benefits, retirement benefits, other long-term employee benefits and termination benefits paid, due and potentially due during the period.

	2014		2013	
	Short-term benefits	Termination benefits	Short-term benefits	Termination benefits
Remuneration of current year	38 772	2 692	31 918	1 951
Paid for previous year	10 925	-	14 881	-
Potentially due to be paid in the following year	8 923	-	9 029	-

Detailed information about benefits of the key personnel and statutory representatives are presented in note 7.4.

31.1 Principles of Incentives for the key executive personnel

In 2014 the key executive personnel was participating in the annual MBO bonus system (management by objectives). The regulations applicable to statutory representatives, directors directly reporting to statutory representatives and other key positions have certain common features. The persons subject to the above mentioned system are remunerated for the accomplishment of specific goals set at the beginning of the bonus period, by the statutory representatives for the key executive personnel. The bonus systems are structured in such way, so as to promote the cooperation between individual employees in view to achieve the best possible results for the Company. The goals so-said are qualitative or quantitative (measurable) and are evaluated following the end of the year for which they were set, based on the rules adopted in the applicable Bonus System Regulations. Regulation gives the possibility to promote employees, who significantly contribute to results generated by the Company.

32. SPIN OFF PROJECT

On 11 November the Executives of the Company approved the launch of the spin off project in UNIPETROL DOPRAVA, s.r.o. and subsequent merger the spin off assets with UNIPETROL RPA, a.s.

The approval and completion of the spin-off/ merger project is expected in the first half of 2015.

33. SIGNIFICANT POST BALANCE SHEET EVENTS

Mr.Dariusz Rejowski was recalled from the office of the Executive in charge of Operational Affairs on 31 December 2014.

The Company's management is not aware of any other events after the end of the period that would have any material impact on the financial statements as at 31 December 2014.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The separate financial statements were authorized for issue by the Company's statutory representatives on 27 February 2015.

Signature of statutory representative

Mirosław Kastelik

Statutory Representative