



Management report 2014 of UNIPETROL, a.s.

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Introduction

Unipetrol Group achieved revenues of CZK 124.2 bn in 2014, a 25% increase compared with 2013, stemming from higher sales volumes of both refining and petrochemical products as well as from quite good margins in both refining and petrochemical businesses. Brent crude oil reached the average price level in 2014 of 99 USD/bbl with a steep decrease mainly in the fourth quarter 2014 which means a 9% decline compared with 109 USD/bbl in 2013.

The operating profit increased to CZK 3,102 m in 2014 from CZK 1,589 m in 2013 according to the EBITDA LIFO indicator and if not taken into account the one-off effect of gain on acquisition of CZK 1,186 m booked in the first quarter and impairment of refining assets of CZK 4,721 m booked in the second quarter 2014, the operating profit increased to CZK 6,637 m. This profound improvement of the operating profit was driven by positive GDP dynamics in the Czech economy as well as in the Eurozone, an increase in both refining and petrochemical margins and a sales volumes increase in both segments. Unipetrol model refining margin slightly increased to 1.4 USD/bbl from 1.0 USD/bbl in 2013. Brent-Ural differential, at an average level of 1.7 USD/bbl, was also higher in comparison with 2013. Additionally, the fuels grey zone in the Czech Republic connected to tax frauds decreased thanks to legislative measures valid since October 2013.

From the production point of view, the company had a quite good year evidenced by refining utilization ratio at the level of 89% and steam cracker utilization ratio at the level of 90%. On the contrary, company faced a negative effect of two unplanned shutdowns which affected sales volumes. In May the steam cracker in Litvínov had to be shut down due to unexpected technical difficulties and in September the operations of the FCC unit at the Kralupy refinery had to be stopped due to unexpected leakage on the FCC unit equipment.

Looking at each segment, there was a significant improvement of results of the downstream segment (combining refining and petrochemicals) with EBITDA LIFO at the level of CZK 2 422 m. This improvement was mainly driven by better refining margins in the second half of the year, higher Brent-Ural differential and higher petrochemical margins, both olefin and polyolefin and also internal efficiency improvements. From the sales efficiency point of view, the Group managed to increase sales volumes of both petrochemical and refining products. This was mainly driven by the operation of higher refining capacity in Česká rafinérská.

The retail segment recorded a significant improvement with a very good result in the fourth quarter 2014 and overall it achieved operating profit of CZK 705 m EBITDA LIFO. This result was mainly driven by better fuel margins, higher fuel sales volumes and non-fuel sales thanks to GDP growth and marketing activities of Benzina as well as legislative changes mitigating the grey zone on the fuels market.

The net loss reached CZK 556 m in 2014, a better result compared to the loss of CZK 1,396 m in 2013, however if not taken into the account one-off gain on acquisition of CZK 1,186 m booked in the first quarter in relation to the completion of acquisition of additional stake in Česká rafinérská and impairment of refining assets of CZK 4,721 m booked in the second quarter, the company recorded full year net profit of CZK 2,979 m which was an improvement by almost CZK 4.4 bn, overall corresponding to the operating performance improvement last year.

The operating cash flow reached CZK 737 m and the free cash flow reached a negative level of CZK 1,181 m, representing an improvement vis-à-vis 2013 due to the better operating performance. Total CAPEX achieved the level of CZK 2,007 m, with downstream segment CAPEX of 1,773 m (refining business CAPEX of CZK 480 m and petrochemical business CAPEX of CZK 1,293 m) and retail segment CAPEX of CZK 187 m, and the remaining part dedicated to corporate functions CAPEX of CZK 47 m. At the same time Unipetrol Group maintained its financial gearing ratio on the solid level of 9.7%, corresponding to net debt at the level of CZK 2,701 m CZK at the end of 2014.

Unipetrol Group continued to fulfil the Strategy 2013-2017 announced in June 2013, which defined the key development directions for the next couple of years. The most important event which affected the company's business the most was the successful completion of acquisition of additional 16.335% stake in Česká rafinérská from Shell at the end of January followed by two other contracts with Shell. The first one was for the purchase of Shell's hydrocarbon inventories and the second one was a product supply agreement for supplying fuels to Shell Czech Republic. The acquisition, fully in line with the Strategy, brought the company higher refining capacity, which enabled to process more crude oil and thus increased security of feedstock for petrochemical business as well as it increased sales volumes of refining products.

Additionally Unipetrol also accepted bona fide offer from Eni to acquire the remaining stake in Česká rafinérská at the beginning of July and after the completion of this transaction it will become the sole shareholder. This consolidation of shares in Česká rafinérská will allow the company to perform the full optimization of usage of the production assets of the Group and to deliver cost optimized products as well as to optimize energy consumption and fixed costs in the company.

The very challenging environment of the European refining industry pertained in the first half of the year and Unipetrol was forced to face very tough competition from other regions. That is why many Operational Excellence initiatives were executed within Unipetrol Group and many of them are still ongoing. Within the downstream segment, the refinery

business focused mainly on wholesale optimization, production costs savings and feedstock purchases optimizations. In the petrochemical business the optimization focused on energy efficiency projects or polypropylene distribution, logistics and sale. Looking at the retail segment, the main effort was directed to marketing and promotions to fight the tough competition on the Czech retail market, to gain new customers and also to increase non-fuel sales through the Stop Cafe Bistro concept. Last but not least, Paramo subsidiary executed several initiatives to increase energy efficiency of its production plants and marketing activities to fight the competition on the market. Thanks to these initiatives the overall improvement was over CZK 1 billion compared to 2013.

Apart from fulfilling the Strategy and Operational Excellence initiatives, among the main achievements in 2014 were the amendment to the contract with Transpetrol for crude oil transportation through Slovak branch of the Druzba Pipeline for the period 2015-2016 signed in June which strengthened the long-term cooperation and at the same time it maintained the transportation conditions of year 2014 and last but not least, Unipetrol significantly strengthened its strategic cooperation with the University of Chemistry and Technology in Prague (Vysoká škola chemicko-technologická – VŠCHT), which was confirmed by signing of an agreement in November and resulted in Educational and Learning Centre VŠCHT – Unipetrol in Litvínov which represents a unique connection of the industrial sector and educational sector at the college level.

Key financial and non-financial data

Key financial data

in CZK million	2013	2014
Revenues	99,415	124,229
Gross profit	2,303	5,986
EBITDA LIFO	1,589	3,102
EBITDA	1,521	1,273
EBIT LIFO	-826	831
EBIT	-893	-997
Downstream segment		
EBITDA LIFO	1,143	2,422
EBITDA	1,070	653
EBIT LIFO	-862	558
EBIT	-934	-1,210
<i>of which Refining</i>		
EBITDA LIFO	-1,143	-2,980
EBITDA	-1,270	-4,086
EBIT LIFO	-1,614	-3,335
EBIT	-1,741	-4,440
<i>of which Petrochemicals</i>		
EBITDA LIFO	2,285	5,402
EBITDA	2,340	4,739
EBIT LIFO	752	3,893
EBIT	807	3,230
Retail segment		
EBITDA LIFO	509	705
EBITDA	514	645
EBIT LIFO	180	382
EBIT	185	322

Corporate functions		
EBITDA	-62	-25
EBIT	-144	-109
Net finance costs	-450	-365
Loss before tax	-1,343	-1,362
Tax expense	-53	806
Net loss	-1,396	-556
Earnings per share (CZK)	-7.70	-3.07
Operating cash flow	300	737
Free cash flow	-1,388	-1,181
CAPEX	2,404	2,007
Net working capital	5,785	9,244
Net debt	1,423	2,701
Net debt / (equity – hedging reserve)	5.0%	9.7%
Net debt / EBITDA	0.9	0.6

- EBITDA LIFO – Earnings before depreciation and amortization, financial result and taxes; LIFO method used for inventories valuation (Last-In-First-Out)
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- EBIT – Earnings before financial result and taxes
- Free cash flow – Sum of operating and investing cash flow
- Net working capital – Sum of inventories and trade and other receivables, less trade and other liabilities
- Net debt includes cash pool liabilities
- Net debt / EBITDA – EBITDA in 2014, adjusted for gain on acquisition of CZK 1,186 m and for impairment of the refining assets of CZK 4,721 m at CZK 4,808 m

External environment

	2013	2014
Brent crude price, USD/bbl	109	99
Brent-Ural differential, USD/bbl	1.0	1.7
Unipetrol model refining margin, USD/bbl ¹⁾	1.0	1.4
Unipetrol model petrochemical olefin margin, EUR/t ²⁾	369	388
Unipetrol model petrochemical polyolefin margin, EUR/t ³⁾	252	275
Unipetrol model combined petrochemical margin, EUR/t ⁴⁾	621	662

¹⁾ Unipetrol model refining margin = revenues from products sold (96% Products = Gasoline 17%, Naphtha 20%, JET 2%, Diesel 40%, Sulfur Fuel Oils 9%, LPG 3%, Other feedstock 5%) minus costs (100% input = Brent Dated); products prices according to quotations.

²⁾ Unipetrol model petrochemical olefin margin = revenues from products sold (100% Products = 40% Ethylene + 20% Propylene + 20% Benzene + 20% Naphtha) minus costs (100% Naphtha); products prices according to quotations.

³⁾ Unipetrol model petrochemical polyolefin margin = revenues from products sold (100% Products = 60% HDPE + 40% Polypropylene) minus costs (100% input = 60% Ethylene + 40% Propylene); products prices according to quotations.

⁴⁾ Unipetrol model combined petrochemical margin = Unipetrol model petrochemical olefin margin + Unipetrol model petrochemical polyolefin margin

Key operating data (in thousand tons)

	2013	2014
Crude oil throughput	3,607	5,130
Refining utilization ratio ¹⁾	80%	89%
Refining segment sales volumes, including retail segment (Benzina network)	3,151	4,268
Petrochemical segment sales volumes	1,578	1,773

¹⁾ Conversion capacity till 2Q2012 was 5.1 mt/y (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y, Paramo 0.675 mt/y). From 3Q2012 till 4Q2013 conversion capacity was 4.5 mt/y, i.e. only Česká rafinérská refineries conversion capacity, adjusted for 51.22% shareholding of Unipetrol, after discontinuation of crude oil processing in Paramo refinery (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y). From 1Q2014 conversion capacity is 5.9 mt/y after completion of acquisition of Shell's 16.335% stake in Česká rafinérská, corresponding to Unipetrol's total stake of 67.555% (Česká rafinérská – Kralupy 2.166 mt/y, Česká rafinérská – Litvínov 3.710 mt/y).

Downstream segment

Financial result of the downstream segment

in CZK million	2013	2014
EBITDA LIFO	1,142	2,422
EBITDA	1,070	653
EBIT LIFO	-862	558
EBIT	-934	-1,210

Key highlights of 2014

- The acquisition of 16.335% shareholding in Česká rafinérská from Shell Overseas Investments B.V. was completed in January. Based on the successful completion of the transaction Unipetrol's stake on the Česká rafinérská share capital increased from 51.22% to 67.555%.
- Unipetrol based on its pre-emptive right accepted the bona fide offer from Eni International B.V. based on which will acquire 32.445% of Eni's shares in Česká rafinérská with the acquisition price for the shares in the amount of EUR 30 million.
- Česká rafinérská and Transpetrol signed a contract which represents an amendment to the contract for crude oil transportation through Slovak branch of the Druzba Pipeline for the period 2015-2016 and which strengthens the long-term cooperation and at the same time it maintains transportation conditions of year 2014.
- A long-term agreement on ammonia supplies with a fertilizer producer was signed for the period 2015-2017.
- Record high sales of high-density polyethylene (HDPE) at the level of 322 kt and polypropylene (PP) at the level of 270 kt thanks to higher sales of HDPE and PP in all key territories (the Czech Republic, the D-A-CH region, Slovakia), but as well in other, more distanced regions such as Spain and Italy.
- Introduction of a new catalytic system for polyethylene copolymers production which fully complies with the new REACH regulation valid from February 2015.
- Participation at the Fakuma Fair in Friedrichshafen in Germany - international trade fair for plastics processing focused mainly on the D-A-CH region, not only though (45,689 expert visitors from 117 countries and 1,772 exhibitors from 36 nations).
- Strategic cooperation with the University of Chemistry and Technology in Prague (Vysoká škola chemicko-technologická – VŠCHT) was signed which significantly strengthened the cooperation through the new Educational and Learning Centre VŠCHT – Unipetrol.
- Paramo subsidiary's Mogul brand was awarded the "Brand of the Year" title by the Czech Superbrands organization.

External environment

Refining business

External environment of the refining business

	2013	2014
Brent crude price, USD/bbl	109	99
Brent-Ural differential, USD/bbl	1.0	1.7
Unipetrol model refining margin, USD/bbl ¹⁾	1.0	1.4

¹⁾ Unipetrol model refining margin = revenues from products sold (96% Products = Gasoline 17%, Naphtha 20%, JET 2%, Diesel 40%, Sulfur Fuel Oils 9%, LPG 3%, Other feedstock 5%) minus costs (100% input = Brent Dated); products prices according to quotations.

Crude oil, gasoline and diesel prices

The Brent oil price recorded a significant decrease in 2014. Till the end of July the Brent oil was moving within the range from 104 USD per barrel to 110 USD per barrel with the highest level of 115 USD per barrel in June. The price stability of crude oil during the first half of the year was due to lower market sensitivity to actual or potential impending oil supply disruptions.

Closing of investors' long positions, steep growth of shale oil production in the US, an increase in crude oil reserves in the US, geopolitical factors (such as improvement in the US-Iranian relations, averting a military strike in Syria), a decrease in crude oil consumption in the US, and also higher level of crude oil production in the United Arab Emirates were the main reasons for a steep decline of the crude oil price to the level of 55 USD per barrel at end of 2014. Crude oil prices were also negatively affected by slower growth of the global economy at the level of 2.7% compared to growth of 3.3% expected at the beginning of the year.

The European quotations of automotive gasoline maintained from the end of March till the end of November at relatively high level compared with the crude oil price. The annual average of gasoline crack spread, i.e. the price quotation difference between gasoline and Brent crude oil, was at the level of 171 USD per ton. The diesel prices at world markets were at a significantly lower level compared to gasoline prices, with diesel crack spread to Brent at the level 107 USD per ton. The development and the level of gasoline crack spread were driven by the market situation in the US, supply-demand relation and timing of planned shutdowns of refineries. The relatively low level of diesel crack spread was due to the worldwide sufficient production capacities, the ongoing modernization program of Russian refineries producing diesel in the EURO 5 quality and an increase in export capacities on the Arabian Peninsula.

Refining margins

The performance of the European refining sector was slightly better compared to 2013. In the environment of zero economic growth and structural problems of several national economies, the refining sector was again in 2014 dealing with overcapacity of production capacities but it reached a slightly better utilization rate than the 78% reached in 2013.

Unipetrol's model refining margin reached the average level of 1.4 USD per barrel in 2014, which represents an increase by 0.4 USD from the level of 1.0 USD per barrel in 2013. The average price differential between Russian crude REBCO and Brent, the Brent-Ural differential, was equal to 1.7 USD per barrel.

Petrochemical business

External environment of the petrochemical business

	2013	2014
Unipetrol model petrochemical olefin margin, EUR/t ¹⁾	369	388
Unipetrol model petrochemical polyolefin margin, EUR/t ²⁾	252	275
Unipetrol model combined petrochemical margin, EUR/t ³⁾	621	662

¹⁾ Unipetrol model petrochemical olefin margin = revenues from products sold (100% Products = 40% Ethylene + 20% Propylene + 20% Benzene + 20% Naphtha) minus costs (100% Naphtha); products prices according to quotations.

²⁾ Unipetrol model petrochemical polyolefin margin = revenues from products sold (100% Products = 60% HDPE + 40% Polypropylene) minus costs (100% input = 60% Ethylene + 40% Propylene); products prices according to quotations.

³⁾ Unipetrol model combined petrochemical margin = Unipetrol model petrochemical olefin margin + Unipetrol model petrochemical polyolefin margin.

Olefins and chemicals

Among the events with a direct influence on the European petrochemical market, there was one which protruded over the others. It was the steep decline of the crude oil and virgin naphtha prices in the 4Q2014. At the end of 2014 Brent oil was sold for less than 55 USD/bbl, and the prices of virgin naphtha were close to 400 USD/t. The last time the prices were at a lower level was in 2Q2009. This situation allowed the steam crackers operators to produce with high margins since the monomers prices decline did not fully follow the feedstock prices decline. Petrochemical margins were at the lowest level since the 2Q2012.

From the perspective of ethylene and propylene market situation, the year 2014 can be divided in two periods. The first five months when both monomers markets were developing differently and the rest of the year when the development of both markets was similar. The first period was characterized by an oversupply on the ethylene market on the one hand and by the tight propylene market on the other hand. The ethylene oversupply was reduced by exports to Asia, which also helped to maintain steam crackers utilization at a higher level. This was desirable because of the limited availability of propylene on the market which was due to a strong demand from the polypropylene producers, production issues, cracking of lighter feedstock and also because of high prices of propylene in the US which helped to improve the competitiveness of European derivatives of propylene on the global market.

The spot prices of propylene during this period in many cases exceeded the values of the valid contract. An average difference between the contract price and the spot price was higher than 260 USD/t (22%) during the first five months of 2014. For many players this was a sign of a badly functioning market. The different situation on both markets led to the fact that both monomers contract prices were moving in different directions, for the first time since August 2011. While the propylene contract from April strengthened by 10 EUR/t, the ethylene contract lost 15 EUR/t. The same situation was spotted again in May. From June both monomers markets were behaving in the same way, and after two months of growth the contract prices began to decline and by the end of the year they lost more than 400 EUR/t. The December ethylene contract price was the lowest since the end of 2010, and the propylene contract price has been at a lower level for the last time in July 2012. The continuous decline of crude oil and virgin naphtha prices was the main reason for the weakening of prices in the second half of the year. The drop in prices continued during the autumn season when planned shutdowns of production units took place, and even the strengthening of the US dollar, which increased competitiveness of European products in the export markets and limited imports options into Europe, did not provide much support. Even the unplanned shutdown of the second biggest steam cracker in Europe in Moerdijk in the Netherlands did not bring any difference.

As it was in the past years, the European benzene market was characterized by high prices volatility, the difference between the highest and lowest contract price was at the level of 313 EUR/t, and the difference between the spot prices was at the level of 895 USD/t. This difference was between the historically highest European spot price at which benzene was sold in January (1,560 USD/t, CIF ARA) and the price at which the benzene was sold before the end of the year (665 USD/t, CIF ARA). The European market was relatively balanced during the whole year, mainly due to the exchange of benzene and pyrolysis gasoline between the Europe and US and Asian markets. The mutual interconnection of these markets again influenced the pricing in these territories. A key factor for the development of the European market was the drop of the crude oil and virgin naphtha prices in the second half of the year, which consequently led to the lowest benzene contract price since December 2011. The lower availability of pyrolysis gasoline was one of the other reasons. The operators of flexible steam crackers preferred cracking of lighter feedstock and therefore limited its production. This move, however, had a logical explanation – margins coming from cracking lighter feedstock were higher than margins coming from cracking virgin naphtha during the whole year, on average by more than 110 EUR per ton of ethylene produced.

The sufficient supply of ammonia and a weak demand from the USA were behind the relatively stable market at the beginning of the year and led to a slight decrease in prices. The beginning of the spring application season in the USA together with the lower production of ammonia in the North Africa because of the limited natural gas supplies and civil unrest led to the price growth. The growth continued and it was supported by the fights in the Crimea which led to an increase in the price of natural gas supplied from Russia to Ukraine by 80%, which led to a significant cost increase for Ukrainian producers. The positive effect was also due to an increase in demand from Europe and the USA. The decision of some producers to prioritize the sale of ammonia instead of its further processing to urea, the sale of which was at the time less profitable, increased the availability of ammonia on the market and led to the following price decrease. The sanctions imposed by the EU and the USA on Russia, planned and unplanned shutdowns of units, limited production in Trinidad further increased ammonia prices between August and October by more than 160 USD/t and shifted the level of the European prices to 660 USD/t, CFR NWE. During the last two month of 2014 because of a decrease in demand and better supply of ammonia in Yuzhny and the Baltics the price began to weaken and returned to the level of 500 USD/t, CFR NWE, which is the level where they were at the end of July.

Unipetrol's model olefin margin reached 388 EUR/t in 2014, which represents a 5% increase compared with 2013, when the margin reached 368 EUR/t.

Polyolefins

After previous not very successful years, the year 2014 was a really good one for polyolefins with respect to demand. The macro development was not as volatile as, for example, 2012, but for sure the development of crude oil prices in the second half of the year influenced the polymers market as well as other sectors of business. Overall, despite of the falling crude the demand for polymers remained good till November and just in December a downward tendency was registered.

The overall demand and material balance in Europe was also positively influenced by limited imports to old continent as the result of the introduction of higher import duties on products imported by the GCC countries (Gulf Cooperation Council) in January 2014 (Middle Eastern suppliers saw their margins erode and found better netbacks elsewhere). On the other hand the exports out of Europe strengthen significantly within 2014 thanks to the strong dollar.

Unipetrol's model polyolefin margin reached 275 EUR/t in 2014, which represents a 9% increase compared with 2013, when the margin reached 252 EUR/t. Unipetrol's model combined petrochemical margin (olefins plus polyolefins) reached a high level of 662 EUR/t in 2014, which represents ca. an 7% increase compared with 2013, when the combined margin reached 621 EUR/t.

Crude oil purchases

For Unipetrol, the year 2014 was characterized by continued strategic co-operation with Unipetrol's majority shareholder, PKN Orlen, as part of which crude oil has been supplied through the Druzba and TAL-IKL oil pipelines under long-term contracts since 2006.

In the course of 2014, supplies of Russian Export Blend Crude Oil (REBCO) via the Druzba pipeline under the 3-year contract signed between PKN Orlen and Rosneft in 2013 were stable without supply outages. On top of Druzba supplies, 310 kt of seaborne REBCO were delivered via the TAL and IKL pipelines.

In regard to the supplies of low-sulphur crude oil grades via TAL and IKL pipelines, Unipetrol remained the majority importer of Azeri Light crude from Azerbaijan, which is the key feedstock for processing in the Kralupy refinery. Azeri Light crude was blended with CPC Blend crude from Kazakhstan at an optimum ratio. On some occasions, CPC Blend crude was also supplied to the Litvínov refinery to achieve a better yield of lighter products. Alternatively, Zarzaitine and Zueitina (both of Libyan) were delivered for processing in the Kralupy and Litvínov refineries and provided for an opportunistic improvement of refining margin compared to standard crude oil slate.

Pipeline and rail supplies from various Moravian crude oil deposits to the Kralupy refinery continued in 2014 on the basis of long-term business relationships. These amounted to approx. 2.5% of the total crude processed by Unipetrol.

Crude oil purchases in 2014 (in thousand tons)

REBCO-Druzba & REBCO-IKL	2,908	56.0%
Seaborne low-sulphur crude supplies for the Kralupy and Litvínov refineries	2,159	41.5%
Moravian crude oil	129	2.5%
Total	5,196	100.0%

Production

Crude oil throughput and refining utilization ratio

	2013	2014
Crude oil throughput (in thousand tons)	3,607	5,130
Refining utilization ratio ¹⁾	80%	89%

¹⁾ Conversion capacity till 2Q2012 was 5.1 mt/y (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y, Paramo 0.675 mt/y). From 3Q2012 till 4Q2013 conversion capacity was 4.5 mt/y, i.e. only Česká rafinérská refineries conversion capacity, adjusted for 51.22% shareholding of Unipetrol, after discontinuation of crude oil processing in the Paramo refinery (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y). From 1Q2014 conversion capacity is 5.9 mt/y after completion of acquisition of Shell's 16.335% stake in Česká rafinérská, corresponding to Unipetrol's total stake of 67.555% (Česká rafinérská – Kralupy 2.166 mt/y, Česká rafinérská – Litvínov 3.710 mt/y).

In 2014 5,130 thousand tons of crude oil were processed for Unipetrol in the production facilities of Česká rafinérská, which is significantly higher by 42% compared with 2013. Refining utilization ratio reached the level of 89%. The main reasons for the greater processed volume were an operation of higher refining capacities in Česká rafinérská due to the acquisition of the additional stake, a high demand for petrochemical products which resulted in the necessity to secure a sufficient volume of feedstock for the petrochemical business within the refinery production, and also good sales volumes of motor fuels especially during the second half of the year.

High utilization of crude oil processing was also driven by a good reliability of the conversion units. There was no major planned turnaround such as the one of the Kralupy refinery in 2013. Nevertheless there was an unplanned shutdown in September of the FCC unit (Fluid Catalytic Cracking) at the Kralupy refinery which had to be stopped due to leakage on the FCC unit equipment which affected the sales volumes.

In 2014 several optimization projects of refining production units took place to maximize the yield of valuable products and to utilize the existing units more economically. One of the investment projects modification of a propylene column which was implemented already in 2013 – allowed to use additives in the catalytic converter to obtain higher yields of propylene, thus a higher upgrade of refined raw materials. Due to this project the volume of propylene production increased in 2014 compared with the situation when no additives were used. Also the use of the synergy between the petrochemical business and refinery business continued by the means of using of aromatic fractions from the refinery for benzene production or processing petrochemical fractions for the production of motor fuels at the refinery, for example.

Paramo subsidiary developed production of lubricant oils, and bitumen both on the Czech and European markets. The production of base oils and lubricant oils was based at the plant in Kolín. The production of oils is based on hydrogenates processing, blending and finalization of motor oils of all performance categories, gear, hydraulic and other industrial oils. Oil hydrogenates from Unipetrol RPA are the feedstock. The production of process oils for the rubber industry and production of special industry oils and liquids was concentrated at the Pardubice plant. Vacuum distillates from the PKN Orlen refinery in Płock are the feedstock material.

Paramo subsidiary's production of bitumen and bitumen products was located at the plant in Pardubice. Paramo produces a wide range of industrial bitumen products intended predominantly for building purposes and special hard bitumen products. The distributor of these is ORLEN Asfalt Česká republika. The feedstock is provided by Unipetrol RPA. Paramo was also providing storage and dispatch services for diesel and gasoline, for Unipetrol RPA and the Administration of State Material Reserves – Czech Republic (ASMR).

Market position and sales

Refining business

Market development

Based on the latest figures presented by the Czech Statistical Office, the Czech market showed a yearly consumption increase in gasoline of 0.4% and in diesel of 5%. The diesel market continued to grow representing already 75% on the overall motor fuels consumption and squeezing gasoline share down to 25%.

A set of new legislative measures adopted in October 2013 lead to elimination of massive tax frauds in 2014. The grey zone influenced significantly the Czech motor fuels market in previous years. The size of the grey zone is now estimated to be below 5% of the total market. This significant improvement of the market environment helped to increase sales volumes on the domestic market and to achieve fair sales margins.

Market position

The most important events in the year 2014 were connected to acquisition of higher share in Česká rafinérská:

- completion of an acquisition of Shell's stake on 31 January 2014 which increased the refining capacity from 51.222% to 67.555%,
- activities leading to takeover of the remaining Eni stake of 32.445% with expected completion in 2015.

Sales volumes of refining products, including retail segment (Benzina network of filling stations)

thousand tons	2013	2014
Total refining sales volumes, including retail segment	3,151	4,268
Diesel, including retail segment	1,701	2,293
Gasoline, including retail segment	782	1,052

JET	69	144
LPG	88	112
Fuel oils	124	152
Naphtha	5	9
Bitumen	222	308
Lubricants	33	36
Rest of refining products	128	161

Domestic motor fuels sales

In 2014 Unipetrol sold 2,230 kt of motor fuels (gasoline and diesel) on the domestic market, which means a 29% increase compared to 2013. Together with the acquisition of the Shell's stake in Česká rafinérská, Unipetrol signed a five-year contract for supplies of motor fuels to the Shell's Czech retail network. During 2014 the company also enlarged its customer portfolio and closed contracts with a number of new customers in order to fully utilize its increased refining capacity. At the same time the company managed to win tenders and thus renew contracts with the Czech Railways, Tesco Stores and other key customers. Besides that the company continued in optimization projects mainly in the areas of bio-components and logistics.

Export motor fuels sales

The company continued to develop export activities in the neighboring markets, giving the highest priority to the intragroup cooperation. Unipetrol Slovakia continued its successful operation covering both Slovakian and Hungarian markets. In Germany, the company maximized deliveries for Orlen Deutschland reaching out a major supply of its Saxony petrol stations. The company also extended cooperation with Unipetrol Deutschland focusing on small/mid-sized partners located near its terminals. Seasonal trends or production difficulties with both a negative and a positive effect were promptly tackled with import, resp. export, of motor fuels from, resp. to PKN Orlen. The company was also able to further increase sales to Austria using the southern ČEPRO terminals for direct fuel supply.

Other refining product sales

In LPG sales the company significantly increased supplies for the domestic market by 43% compared to 2013, which was due to several factors: planned/unplanned shutdowns of production units taking place in 2013 which meant lower year production, acquisition of Shell's stake in Česká rafinérská at the beginning of 2014, and LPG wholesale market situation in Europe. The European LPG recorded historical moments. The situation in Ukraine caused worse availability of a typical lower-value product coming from Russia, which led to the higher prices of this source. This enabled the company to place more products on the Czech market and to reach better prices at the same time.

Heavy fuel oil sales lowered because of a decrease in the industry usage due to environmental as well as economic reasons. Placing the product for bunkering business in northern markets remained the majority outlet for the heavy fuels, nevertheless using extensive market research the company managed to place the product also in various industry areas, heading directly towards primary consumption.

Paramo subsidiary market position and sales

Paramo's market share in the Czech Republic exceeded 35% in oils sales to some retail chains and bitumen products sales. More than 60% of Paramo's production was exported, mainly base and process oils.

Marketing support was focused predominantly on finished oils. The MOGUL EXTREME motor oils are the flagship of the company. They meet the highest demands on performance of the most modern engines. Oils from the series MOGUL PROFESSIONAL are designed for car service stations. For two-stroke and four-stroke engines of modern motorcycles, the special product series MOGUL MOTO were developed. Motor oils for trucks are represented by the oil series MOGUL DIESEL which meets the strict emission limits EURO 4 and 5. They guarantee very long service intervals. Paramo offers also the comprehensive oils series MOGUL ALFA for garden equipment.

Paramo supplemented its product portfolio by new generation industrial gear oils for the most demanding industrial applications. New series of the synthetic industrial gear oils MOGUL INTRANS SYNT is based on polyalphaolefins (PAO). This new series meets the requirements of the international specification DIN 51 517 part 3 class CLP.

Produced bitumen (road, building-insulating) was delivered to the market through ORLEN Asphalt Česká republika which is the exclusive distributor of these products.

Paramo maintained deliveries of the processed oils to the Continental Group with which the company also extended cooperation through 2014. The cooperation continued with additives producers and also new foreign customers for sale of base oils were gained.

Finished oils and greases were exported into 25 countries. The main export market was Slovakia where Paramo was represented by its subsidiary Mogul Slovakia. Hungary and states of the former Yugoslavia were other important territories. Paramo also managed to develop and increase sales on Eastern European markets.

The company managed to keep its presence in retail chains and industry companies such as OKD, ArcelorMittal Ostrava and Třinecké železářny. The company was present in the Mountfield service network, also supplied oils and greases to the Czech Railways and hydraulic oils for the Army of Czech Republic. Paramo also supplied the AutoKelly network by the Starline brand and produced oils for the Czech company Zetor.

Petrochemical business

From the internal operations perspective, the company had to face a negative impact of an unplanned shutdown of the steam cracker in the Litvínov plant in May 2014 which occurred due to unexpected technical difficulties.

Both polyolefins productions (polypropylene and polyethylene) were running without significant problems, which confirmed the production figures which are at the highest level for the whole history of Unipetrol RPA. The total volume produced was 596 kt (14% above the volume produced in 2013).

Sales volumes of petrochemical products

Thousand tons	2013	2014
Total petrochemical sales volumes	1,578	1,773
Ethylene	140	163
Benzene	189	228
Propylene	31	44
Urea	5	0
Ammonia	186	214
C4 fraction	79	86
Butadiene	58	64
Polyethylene	280	322
Polypropylene	231	270
Rest of petrochemical products	380	382

Olefins and chemicals

In the area of olefins and chemicals, the sale of steam cracker products and ammonia is the core business of Unipetrol. The most important steam cracker products include ethylene, propylene, C4 fraction and benzene. There were no major changes in the structure of portfolio of clients, and the domestic share of sales remained similar as in the past years.

The Czech Republic continued to be the key market for the steam cracker products. Monomers, C4 fraction and benzene were either processed captively at the Unipetrol RPA's plants or carried to the strategic customers (Spolana, Butadien Kralupy and Synthos) through the existing product pipelines. By-products of steam cracker were supplied primarily to the Czech, Central European and Western European markets. As in previous years, the domestic market was the destination for most of the ammonia produced by Unipetrol RPA. The main reason for this was a long-term ammonia supply contract with the largest fertilizer producer in the country.

The sales of the carbon black Chezcarb, used primarily for modifying electric conductivity of plastics and for producing thermoplastic mixtures and concentrates, geotextiles, and geomembranes, was in the forefront of interest in the past year. Compared to the past years, the sales of carbon black were significantly lower due to the decline in demand.

Polyolefins

Unipetrol RPA, which belongs to Unipetrol Group, is the exclusive producer of polyolefins in the Czech Republic and a major player in Central Europe. Its production capacity for high-density polyethylene (HDPE) and polypropylene (PP) accounts for more than 5% of Europe's HDPE capacity and almost 3% of Europe's PP production capacity.

Unipetrol RPA's high-density polyethylene (HDPE) capacity greatly exceeded the domestic market's consumption, and therefore approximately two thirds of the HDPE produced were exported from the Czech Republic. Conversely, the polypropylene consumption on the domestic market exceeds the overall polypropylene production capacity, which is why the share for export was well below one half of the polypropylene produced. In addition, for certain applications, in particular in the automotive industry, carmakers themselves require certain specific materials or use compounds made abroad, and so the company cannot increase its share on the Czech market arbitrarily.

The activities in logistically distant countries such as Italy and Spain slightly increased in 2014 thanks to higher availability of polymers compared to the plan due to higher production. The Czech Republic and Germany are the key markets for polyolefin sales. For Germany and the entire D-A-CH region, the company heavily relied on the services of its subsidiary Unipetrol Deutschland.

The company continued in activities leading to customer portfolio optimization with the clear aim of margin potential improvement during 2014. And as it was already mentioned, the year 2014 was excellent for the polyolefins business from both sales volumes, which were record high, and margins.

This result was combination of good demand for polyolefins in Europe, as described in the paragraphs above, and of course there were almost no troubles on the production side. Just one difficulty occurred in autumn 2014 when there was 1-hexene comonomer unavailability due to force majeure on the supplier's side. This meant that the company had limited volumes available for sale of certain hexane based polyethylene copolymers in the period from September till middle of November 2014.

Final sales volumes of polyolefins were on level of 322 kt of high-density polyethylene (HDPE) and 270 kt of polypropylene (PP). Compared to 2013 the company sold approximately 81 kt more (polyethylene +42.5 kt and polypropylene +38.5 kt).

Expected development in 2015

Refining business

As expected, the excess of supply over demand will keep the crude oil prices at low levels in 2015 – 2016. For 2015, the crude oil price is expected to move within the range of 50 – 60 USD per barrel. Due to the lower crude prices there will be less pressure on the European refining sector, however it will remain challenging due to an imbalance between the supply and demand of motor fuels (gasoline and diesel) on the market, a lower but remaining competitive advantage of the North American refineries, completion of export refineries in the Middle East and Far East and ongoing modernization program of the Russian refineries producing diesel in the EURO 5 quality.

Under the current economic conditions of the Eurozone and economic changes implemented by the Czech government, the growth of the Czech GDP is expected in 2015 which will positively affect domestic demand for motor fuels. The company also expects an ongoing positive effect of the mitigated grey zone thanks to legislative measures valid since October 2013.

Unipetrol will focus further on the speed-up of Operational Excellence initiatives execution in Česká rafinérská as well as in the whole Group and will be further investing in synergies between refining and petrochemical businesses which will continue to be the key competitive advantage of Unipetrol Group.

Strategy of the future development of Paramo subsidiary will be still based on the three pillars:

- lubricant oils and greases,
- bitumen and bitumen products,
- continuous energy efficiency and production performance enhancement.

Petrochemical business

Olefins and chemicals

A key factor of the year 2015 will be the crude oil and virgin naphtha prices. According to most predictions, a quick return of the crude oil price to the level of 100 USD/bbl cannot be expected. There is still a sufficiency of oil on the market and OPEC refuses to reduce its crude oil production for now. By this OPEC seeks to limit new investments into the oil

industry with the aim to keep its share on the global crude oil market. Lower feedstock prices could improve the competitiveness of some European derivatives. Although important investments into the shale gas production and into the related chemical industry will continue to expand the ethylene production and its derivatives in the US, the lower price level and high transportation costs will lower the export. While the average difference between the European and the US contract prices of ethylene was above the level of 400 EUR/t (without the transportation costs the difference was above the level of 230 EUR/t), in 2015, according to the CMAI company prediction, the difference should not even cover the transportation costs. The cracking of lighter feedstock will reduce the availability of propylene, butadiene and aromatics in 2015. Consumers on the European market will continue to purchase the products for direct consumption and low level of stock will further decrease their flexibility to react to unplanned shutdowns of production plants. Petrochemical margins should not reach the level which they reached in the 4Q2014.

The ethylene and propylene market should remain balanced with a tendency for a demand surplus in the first half of 2015. Many planned shutdowns of production plants and the restart of derivative production plants in Moerdijk in the Netherlands will help to keep the market balanced.

As it was in the past years, the benzene market should remain volatile in 2015. Due to significantly lower prices of crude oil and virgin naphtha, the price range fluctuation should not be as extensive as it was in the past period. The mutual interdependence of price fluctuations on the European, US and Asian markets will remain essential, especially after a significant increase in availability of benzene in Asia due to the beginning of operation of new production capacities in the second half of 2014.

The trend observed in the last two months of 2014 should continue as well at the beginning of 2015, and the ammonia prices should continue to decrease. The agricultural and industrial sector demand should remain weak, and the oversupply should outlast. The resumption of gas supplies from Russia to Ukraine which occurred before the end of 2014 is also the cause of higher availability of ammonia. The subsequent demand recovery should stabilize the price level.

Polyolefins

No significant changes in 2015 compared to 2014 are expected. The market/demand will be still highly influenced by feedstock development, but limited imports to Europe are still predicted, so the demand for European producers should remain good. This is also confirmed by the demand collected from clients in 4Q2014 which was for both products (polyethylene and polypropylene) higher than company's capacities in 2015.

The polyolefins business unit still continues in optimization activities like redirection of sales volumes from less profitable products, countries, application segments and customers to the more profitable ones with the aim to improve the margin potential. A key part of the strategy is certain balance between spot and long-term business with price formulas which is needed for stability of production, as well as acquisitions of new processors, higher production and sales of the more sophisticated products, close cooperation with clients leading to better understanding of their needs when it comes to products and services.

The polyolefins business unit started already to support the sales of the products of Unipetrol RPA's subsidiary company – Polymer Institute Brno – the aim of the support is to combine the sales of polymers with masterbatches.

Retail segment

Financial result of the retail segment

CZK million	2013	2014
EBITDA LIFO	509	705
EBITDA	514	645
EBIT LIFO	180	382
EBIT	185	322

Note: Financial results of the retail segment include BENZINA, s.r.o. (filling stations network) and PETROTRANS, s.r.o. (road transporter of fuels).

Key highlights of 2014

- Implementation of the “Customer View” program to improve younger generation customers’ perception and their loyalty to the Benzina filling stations network represented by the “Live Life to the Fullest” campaign and presentation in social media
- Benzina has extended its offer to include the gas alternative CNG at 10 filling stations already
- New contractual relations with filling station partners

External environment

Factors both of macroeconomic and technical nature affected fuel consumption in the Czech Republic over the whole of 2014. The macroeconomic factors included GDP growth and a lower level of unemployment, and also in this context, increased performance in sectors which have high diesel consumption demands, and also a greater willingness on the part of households to spend, exhibiting itself in higher demand for gasoline. Factors of the technical nature included replacement of the vehicle fleet with gasoline engines by those with diesel engines with lower consumption and also the fact that new cars which are launched onto the market with gasoline engines are displaying lower consumption levels.

Higher performance in the case of international road transportation in 2014 also had a positive impact with international transit carriers returning to the territory of the Czech Republic to purchase fuel.

The drop in the crude oil price in the second half of 2014 and subsequently also a decrease in fuel prices at filling stations had an impact on increased demand for fuels as did the mild winter which meant that individual car use among individuals was not limited.

An absolutely distinct category is that of tax evasion and the effects of its negative impact on income for the state budget, the economic management of companies and the competitive environment throughout the whole portfolio. This is why a series of measures were adopted to improve this situation on the market in the Czech Republic. These measures were approved in the new legislation and had an effective impact throughout the whole of 2014. The new legislation and other control systems thus contributed significantly towards improvement of the competitive environment in business with motor fuels.

Another field of interest on the part of consumers is increased demand for alternative liquid fuels with a high level of added bio-components (E85, B30, B100) which are offered at a final price with significant tax relief which thus motivates consumers to buy or create their own cheaper mixtures using bio-fuels. The spread of high-volume bio-fuels also serves fictitiously to meet the bio-content obligation and allows greater use of fuels without bio-components.

A significant increase was also registered in the use of the gas alternative CNG. Apart from an increased number of cars, the number of filling stations offering CNG also increased. This type of alternative also enjoys tax relief.

The summary of factors provided above was decisive for the development of demand for fuel on the domestic market in 2014, which in comparison with 2013 was characterized by growth in the consumption of gasoline by 0.4% and consumption of diesel by 5%.

Market position and sales

Market position

The retail company from Unipetrol Group, BENZINA, s.r.o., is the operator of the largest network of filling stations in the Czech Republic. As at 31 December 2014, it operated 339 filling stations offering a wide range of fuels with additives. The selected filling station segment offers a collection of premium VERVA fuels and also a wide range of other goods, refreshments and services. This network was gradually renovated, in particular in the period 2006 – 2010, and is currently profiled in three segments, the premium segment represented on the domestic market by 117 BENZINA Plus filling stations, the standard portfolio of BENZINA filling stations and the self-service filling station segment under the Expres 24 brand. As at the end of 2014, BENZINA operated 3 Expres 24 self-service filling stations. Overall, the total of 95% of the network of filling stations was modernized in all segments.

The market share of Benzina in 2014 as compared to 2013 grew from 14.5% to 15%.

Fuel sales

Benzina’s key activity is the sale of fuel and other goods and services at filling stations. The structure of sales confirmed the long-term trend towards a higher share of diesel and also a slight year on year growth in the share of gasoline sold.

Structure of fuel sales at filling stations (%)

	2013	2014
Gasoline	35.9	36.4
Diesel	64.1	63.6

Overall sales of diesel in the Benzina network registered growth of 6.7% for 2014 in comparison with 2013. Both the standard TOP Q diesel with additives (+6.3%) and also the premium VERVA diesel (+11.7%) contributed towards this growth in the range of types of diesel sold.

Overall sales of gasoline registered the growth of 8.8% compared to 2013. The main type continued to be Natural 95 gasoline which made up 95.4% of the overall composition of gasoline sold and registered year-on-year growth of 8%. Sales of the high-octane VERVA 100 gasoline increased year on year by 30%. Its share has grown since its introduction in 2006 and in 2014 the premium gasoline achieved a share of 4% in overall gasoline sales.

In terms of nationwide monitoring of the quality of fuel sold in public filling station networks performed by the Czech Trade Inspection Authority and publication of these results on the website of the CTIA, the Benzina network of filling stations had only two minor discrepancies in a case of diesel. All premium fuels checked were alright. In terms of the internal "Seal of Quality" program ("Pečet' kvality"), an independent accredited laboratory checked 1,868 samples in the network and 99.8% were free from defects.

A combination of increases in fuel sales at filling stations in 2014, including an increase in the share of premium fuels with higher added value, in relation to a drop in the pricing level of all types of fuel sold, marketing support and savings on operational costs constitutes the main list of factors which contributed significantly to the very good financial result in the retail segment. Improvement of the competitive environment on the market also had a positive impact on the results achieved, as did the favorable effects of macroeconomic factors on demand for both gasoline and diesel.

Non-fuel sales

Overall revenues from sales within the non-fuel segment of goods in 2014 increased by 5.4% in comparison with 2013. Positive dynamics were in particular registered within the sub-segment gastronomy, revenue in which grew by 15.9% year on year. It was in particular development of the fast food concept in Stop Cafe outlets where customers can enjoy high quality coffee, tea and hot dogs which contributed towards this positive development.

Expected development in 2015

In the current economic conditions of the Eurozone and economic reforms in the Czech Republic, in particular adoption of measures to promote growth on the part of the Czech government, a growth in the Czech economy can again be expected with a quantification of +2% GDP and with a positive impact on growth in demand for fuel on the domestic market, this in particular being via increased performance in sectors which have high diesel consumption demands. Bio-fuel and CNG which enjoy tax relief will continue to reinforce their permanent place on the market. This in particular holds true in the case of consumers with a lower purchasing power and carriers which will be focusing on precisely these cheaper bio-fuels, mixtures or types regardless of the condition of their vehicle fleet or recommendations of the manufacturer, this always being to the detriment of conventional taxed fuels. This development will be influenced by the further development of crude oil prices and listed prices of bio-components and other conclusions of the notification process in support of bio-fuels and legislation in the field of the environment and meeting of CO₂ emissions. Great pressure will be exerted on the profit margin from fuels in the fierce competitive environment of filling stations this year too, in particular in the struggle to maintain or increase of throughputs and sensitive perception of prices.

New legislation for doing business in the field of distribution and sale of fuels will in 2015 continue to have an effect on more marked curtailment of unfair practices and tax fraud. The grey zone should gradually be pushed further out of the market in favor of reputable competitors. Further expansion of the offer of alternatives such as CNG or fast charging stations for electric vehicles can be expected. Alternative large-volume bio-fuels will continue to find a place on the filling station market and the remaining free space on the market will be utilized by filling stations in the self-service and low-cost category.

Company priorities in terms of the Strategy for 2013-2017 which has been adopted remain growth in the market share in fuel sales, increase in the average throughput per filling stations and also increase in sales in the non-fuel segment including extension and consolidation of the gastro offer. Benzina will also strive to ensure further strengthening of customer confidence in the company with a focus on the younger generation. In the field of capital investment, completion of remodeling of the network and modernization of car washes will continue according to plan. Evaluation of the pilot project for Expres 24 self-service filling stations will be performed. This concept can only be expanded in suitable locations. The "Live Life to the Fullest" campaign will also be the key feature of marketing in 2015 and social networks will be used for communication of the brand, product offer of fuels, goods and services to potential customers.

The company is also preparing continuation of attractive marketing promo events with the aim of supporting sales of fuels, including goods and services of a non-fuel nature, and last but not least also positive perception of the Benzina brand on the market across the whole customer spectrum.

The company is also preparing a modern collection of its own new card products offering greater convenience to a wider range of customers and allowing to increase and stabilize the share of card customers.

According to development of the market, the state of modernization of the vehicle fleet and new technologies for fuel combustion in cars, the filling stations will continue to extend the offer of fuels in range to include premium types of fuels and CNG as well as extension of high-volume bio-fuels for certain customers and extension of the offer to include the environment-friendly Ad Blue operating fluid using dispensing technology.

Investments

Investments in the petrochemical business in 2014 were mainly focused on maintaining operating reliability, safety and on meeting the requirements of the environmental legislation and increasing effectiveness of operations, especially energy efficiency. The major investment projects focused on the revamp of the power plant T700, reliability including regular refurbishments of the steam cracker pyrolysis furnaces, fulfilment of integrated permits mainly sewage water segregation 3rd and 4th stage and overhauls of the process equipment including second stage of reconstruction of distribution room R200. From the modernization projects LPG unloading on rail 234b has been finalized.

Unipetrol RPA started tender for the new polyethylene unit (PE3). Project preparation and analysis related to the operation of the new unit are still ongoing.

Major investment of VÚAnCh subsidiary was focused on building UniCRE (Unipetrol Centre of Research and Education). The basic goal is to intensify and improve effectivity of research and development in area of industrial chemistry and environmental technologies. Project completion is expected in 2015.

The refinery business invested mainly in maintenance, environmental protection, reliability and availability of the installations. Major investments in 2014 were related to environmental protection, namely reconstruction of oil drainage system in Kralupy and waste water treatment in Kralupy.

The Unipetrol Doprava main project, which started in 2013, was safeguarding appliance in Kralupy which is outdated and technical conditions would not allow to operate it. The project was successfully completed at the end of 2014.

Continuation of the project for solvent exchange was the main investment project at Paramo. Cooperation with ČEPRO related to connection of Paramo fuel terminal to ČEPRO distribution pipeline net started in 2014.

The retail segment focused mainly on modernization and reconstruction of the existing Benzina fuel stations, replacement of security surveillance cameras, and replacement of car washes and refurbishment of wastewater treatment plants. Benzina also acquired a new fuel station in Staré Město and started activities to build one new station in Opava.

Other segment investments comprised mainly IT related projects. The main IT projects in 2014 were focused mainly on hardware replacement and license purchase. Except for IT projects also the purchase and installation of new bagging line for the PP unit was finalized.

Unipetrol Group CAPEX overview according to investment category and business part in 2014 and plan for 2015 (CZK million)

Investment category/ Business part		Refining	Petrochemicals	Retail	Other	Total
2014	Development	38	566	123	25	752
	Maintenance/refurbishment	264	641	53	21	979
	Environment	116	59	2	0	177
	Safety	62	27	9	1	99
	Total	480	1,293	187	47	2,007
2015	Development	146	1,973	148	40	2,307
	Maintenance/refurbishment	507	1,249	56	35	1,847
	Environment	269	21	2	1	293
	Safety	46	47	6	0	99
	Total	968	3,290	212	76	4,546

Note: Location – local; Financing method – own resources.

Research and development

Research and development of Unipetrol is focused on three principal fields - plastics, petrochemicals and refining. Research in the field of plastic materials is conducted by Polymer Institute Brno, spol. s r.o. (PIB), petrochemical and refinery research is carried out by Research Institute of Inorganic Chemistry (Výzkumný ústav anorganické chemie, a.s - VÚAnCh) in Ústí nad Labem. Besides the above mentioned institutions Unipetrol very closely cooperates with universities, especially the University of Chemistry and Technology in Prague (Vysoká škola chemicko-technologická - VŠCHT). The results of research and development are applied within the technical support of production, creation of individual strategies, or they are directly reflected in the introduction of new products in the product range.

Since 2010, VÚAnCh, a subsidiary company of UNIPETROL, a.s., has been building the new modern Unipetrol Centre for Research and Education – UniCRE for the field of industrial chemistry in the Chempark Záluží in Litvínov. The centre will focus on the research, development, innovations and education in the area of refinery and petrochemical technologies, environmental technologies and processes for efficient use of renewable resources and energy. During 2014, after installation of the office and laboratory equipment, the main, laboratory building of UniCRE started to be used. In the middle of the year, refurbishment of the experimental base was started, which should be completed by May 2015. In 2014, a great part of the device equipment was also purchased.

The total costs of the project, which was supported by the European Union by the amount of nearly CZK 600 million, are estimated to amount to approx. CZK 800 million. The project implementation period will last until 31 December 2015.

Refining business

Research work in the refinery business focused on maximization of conversion of crude oil to motor fuel and high-quality feedstock for the petrochemical business without negative influences on the quality of dark product production.

In 2014, Unipetrol cooperated with the Research Institute of Inorganic Chemistry in three basic areas:

In the area of light fractions petroleum process streams with a higher content of aromatics were mapped with the aim to assess their potential for petrochemical use.

In the area of middle distillates solutions for reinforcement of production and quality of diesel fuel by the use of hydrogenation capacities of middle distillates and by optimization of operation of conversion units were continued. The research in this area also comprised mapping of processing possibilities of external raw materials - possibility to process products of pyrolysis of waste plastic, tyres etc.

In the area of dark products the research was focused on processing of thermal cracking residues with enhanced conversion. Similarly, the quality of bitumen production was monitored and tests of additives for its improvement were

conducted. For quality improvement of heating oil production monitoring of all potential components (incl. petrochemical) for mixing was conducted and their influences on the quality of final heating oils were assessed.

In the year ahead, development work on utilization of heavy crude oil residues, use of heavy petrochemical fractions in heating oils, enhancement of production and quality of diesel fuel constituents and petrochemical use of petrol fractions with a higher content of aromatics will continue. Research work will be extended to treatment and improvement of the quality of refinery fractions that serve as the feedstock for the steam cracker. Another area where research activities will expand is the area of biofuel production and use.

Petrochemical business

Olefins and chemicals

The research and development in the area of olefins and chemicals is carried out by Research Institute of Inorganic Chemistry in Ústí nad Labem (VÚAnCh). The long-term goals in the area of petrochemistry are quality improvements of the product range and increasing the production efficiency.

The main topics in 2014 were valuation of the secondary products of ethylene pyrolysis – preparation of a study for the production of blowing agents from the pyrolysis C5 fraction and research of possible use of pyrolysis heating oil for the production of demanded petrochemical products. Further, the possibilities of influencing the yield of the desired products of ethylene pyrolysis by a suitable composition of the processed raw material were examined. Within the complex of the refinery and petrochemical plant research work was done with the aim to optimize the production of aromatic hydrocarbons with regard to maximum efficiency and the lowest possible price of the products. In the area of aromatic hydrocarbons work was also started aimed at implementation of production of pure naphthalene instead of the naphthalene concentrate.

Also, ways of using new raw materials for the POX process were investigated. A considerable amount of work was spent on the research of possibilities of increasing the added value of the Chezacarb product. New progressive methods were investigated in the field of material analysis with the aim to monitor and control the production of technical carbon black in such a way to be able to permanently produce a product with optimum conductivity. The possibilities of production of demetallized Chezacarb were also investigated in detail.

In 2014, development projects were also implemented which focused on economical and environment-friendly reuse of used catalysts and a great deal of work was done in the field of energy savings.

Polyolefins

In the area of polyolefins, Unipetrol is developing its production processes and products. In 2014, the research work carried out by Polymer Institute Brno, spol. s r.o. (PIB) was concentrated on the research of new catalytic systems, mainly phthalateless catalysts and catalysts complying with the REACH requirements. Possibilities of using catalyst mixtures positively influencing the characteristics of new polymers were also investigated. Research work also focused on the area of additive recipes for polymeric products.

In 2014, new possibilities of preparation of polypropylene copolymers (PP) with enhanced utility characteristics and innovation of existing polymer types were investigated with the aim to reduce production costs. On the basis of the results of the research of Polymer Institute Brno spol. s r.o. a catalytic system complying with the REACH requirements from February 2015 on in the area concerning limitations of using some types of phthalates was successfully tested and introduced for the production of block copolymers in the polypropylene production plant.

The research projects also comprised the issues of polypropylene (PP) and polyethylene (PE) production. Projects related to production support were implemented where Polymer Institute Brno cooperated with Unipetrol RPA on production process improvement.

A common project that was conducted last year dealt with the possibilities of using Chezacarb as a filler of polymeric materials produced by Unipetrol RPA.

Besides research work, Polymer Institute Brno also provides Unipetrol with specialized technical services through the customer support.

In 2015, in the area of plastic research work focusing on the development of new types of catalytic systems, copolymers will continue. The development of innovated types of polymers will also go on.

Employees

Unipetrol Group belongs to companies, which consider Human Resources as one of the key driving forces of every company. The company strives to create a pleasant working environment for its employees, so that they could deliver the best results and therefore support a positive development of the whole Group.

Unipetrol Group was among the biggest companies in the region with its 3 670 employees in 2014.

As in previous years, Human Resources management was entrusted to Unipetrol Group's service organization, Unipetrol Services, s.r.o. subsidiary.

The primary tasks included the rationalization of HR processes and the continuation of restructuring of the organizational structure. Cost cutting was achieved, besides other things, also through reduction in the number of employees.

The issue was addressed with utmost sensitivity and with regard to maintaining the operability of all organizational units. The company paid attention to maintaining the employees' competence and development.

Total number of employees of Unipetrol Group (persons) as of 31 December 2014

Company	2014
BENZINA, s.r.o.	86
Butadien Kralupy a.s. (51%) ¹⁾	10
ČESKÁ RAFINÉRSKÁ, a.s. (67,555%) ¹⁾	412
PARAMO, a.s.	459
PETROTRANS, s.r.o.	144
POLYMER INSTITUTE BRNO, spol. s r.o.	91
UNIPETROL, a.s.	52
UNIPETROL DEUTSCHLAND GmbH	16
UNIPETROL DOPRAVA, s.r.o.	415
UNIPETROL RPA, s.r.o.	1,524
UNIPETROL SERVICES, s.r.o.	296
UNIPETROL SLOVENSKO, s.r.o.	10
Výzkumný ústav anorganické chemie, a.s.	131
MOGUL SLOVAKIA, s.r.o.	14
HC VERVA Litvínov, a.s.	11
CELKEM	3,671

¹⁾ Number of employees in Butadien Kralupy, a.s. (100%) was 18.5 and in ČESKÁ RAFINÉRSKÁ, a.s. (100%) was 610.

Education of employees

Education of Unipetrol Group's employees in 2014 was primarily focused on maintaining the level of qualification of employees in production and additional qualified development of company's specialists.

In the area of company's education, 7,197 persons received mandatory training, 1,552 persons attended professional or vocational seminars and 332 persons attended foreign language courses as at December 2014.

The employees of financial departments attended the International financial reporting standards (IFRS) training.

Trainings on specialized topics in the area of project management were organized for selected employees of Unipetrol Group.

Workforce structure

Workforce structure in 2014 corresponds to character of the whole Group. The most frequent level of education is of secondary level, which is usually common in the production company. Higher education is quite frequent as well. It is mostly favoured within the managerial and leadership positions.

As one of the biggest employers, Unipetrol Group offers attractive work conditions which instigate loyalty among employees. This is according to the employment structure by the worked years – the largest group within this category is the “10–20 years” followed by “20–30 years” group.

Employment structure of Unipetrol Group as of 31 December 2014

Employment structure by education	
Primary	5%
Vocational	29%
Secondary	45%
Higher	21%
Employment structure by gender	
Men	73%
Women	27%
Employment structure by length of employment	
<5	23%
(5-10>	16%
(10-20>	24%
(20-30>	23%
>30	14%
Employment structure by age	
<31	9%
(31-40>	21%
(40-50>	35%
(50-60>	29%
>60	6%

HR policy

Unipetrol Group adopted a new HR policy in 2013 which determines the development in the area of HR for years 2013–2017.

The Group Strategy focuses on developing an integrated company which produces and sells fuels and energy with a diversified assets structure. Realization of these ambitious objectives requires strong management and highly qualified employees who will be able to fulfil the strategic objectives and ensure effective management of incoming changes.

Strategic directions in HR policy

The corporate culture of Unipetrol is based on values listed below, adopted and applied in Unipetrol as well as in companies of the capital Group of PKN ORLEN:

- Responsibility
- Progress
- People
- Energy
- Dependability

Based on this new corporate culture HR supports managers in dealing with matters pertaining to personnel operations. In the area of segment management the HR department takes action towards the highest possible synergies.

The HR department introduces processes and means which suit to needs of business, which support realization of the Strategy (especially in the new areas such as upstream and energy) and which also take into consideration social conditions. The HR department's activities focus on:

- an efficient recruitment and adaptation process which allows to choose employees with desirable competencies,
- targeted professional development of employees, which supports strengthening of competencies desired within the Group companies,
- systematic approach to accumulation and exchange of knowledge within the Group,
- promotion of mobility, exchange of experience on intercultural level,
- remuneration policy which allows recruitment of new employees and their motivation and commitment.

The HR department is responsible for a steady increase of HR processes efficiency within the Group and an introduction of advanced and innovative solutions, while taking into an account the optimization of the costs.

Financial standing

Consolidated statement of financial position

Changes in non-current assets

As of 31 December 2014, non-current assets of Unipetrol Group amounted to CZK 22,173 million. In 2014, the Group acquired tangible assets worth CZK 1,866 million and intangible assets worth CZK 126 million.

Based on performed analysis, the impairment allowance of CZK 4,989 million was recognized during the year 2014 in relation to non-current assets of refining CGU (cash generating unit). Impairment charges of CZK 4,882 million were allocated to plant, property and equipment, and CZK 107 million to intangible assets and these were recorded in other operating costs.

The impairment charges recognized in refinery CGU related to non-current assets of the following entities: ČESKÁ RAFINERSKÁ, a.s., PARAMO, a.s., UNIPETROL RPA, s.r.o. in amounts: CZK 4,911 million; CZK 51 million; CZK 27 million respectively.

Looking at investments, most of them went into the downstream segment, namely to the petrochemical business (CZK 1,293 million) and the refining business (CZK 480 million), followed by investments in the retail segment (CZK 187 million).

Changes in current assets

Total current assets amounted to CZK 26,344 million as of 31 December 2014 and were higher by approximately CZK 2,010 million compared to the previous year, especially due to hedging operations.

The profound decline of crude oil prices was the main cause of the decrease in inventories compared to 2013 (inventories decreased by CZK 385 million).

Changes in equity

Total equity increased from CZK 28,300 million in 2013 to CZK 28,462 million in 2014 due to the Hedging reserve increase which resulted from the revaluation of financial derivatives.

Changes in liabilities

Borrowings

Current Loans and borrowings decreased by CZK 157 million compared to 2013. The company also received the second tranche of the mid-term loan from its majority shareholder PKN ORLEN S.A. in the amount of CZK 2 billion in January 2014.

Trade liabilities

The main reason for the decrease of CZK 3,731 million in trade liabilities compared to the previous year was decrease of crude oil price in the 4Q2014.

Provisions

Compared to 2013, provisions increased by CZK 265 million, which was mainly caused by higher provision recognized for estimated CO₂ emissions.

Consolidated statement of profit or loss and other comprehensive income

The Group's revenues for 2014 amounted to CZK 124,229 million and were 25% higher than in 2013, stemming from higher sales volumes in both downstream and retail segment as well as from better margins in both refining and petrochemical business.

The Group's loss from operations of CZK 997 million on EBIT level for 2014 was negatively influenced by challenging macro environment during the first half of 2014 which resulted in recognition of impairment allowance in refining business. The Group's operating loss of CZK 893 million on EBIT level for 2013 resulted mainly from challenging macro environment, especially in refining sector. The operating result of the Group in 2014, excluding two one-off items recognized during the year, i. e. gain on bargain purchase in amount of CZK 1,186 m and impairment in total amount of CZK 4,989 m, amounted to CZK 2,806 m.

In 2014 the Czech economy recovered from recession with annual GDP growth at 2.4% according to last available OECD statistical data, refining margins recovered in the second half of the year compared with 2013, petrochemical margins remained strong and the grey zone on the fuels market was significantly reduced due to legislative changes valid since October 2013. On the contrary, difficult macro conditions in refining sector especially during the first half of 2014, continuing surplus of refining production capacities and oversupply of refining products on the European market were the major indicators for recognizing an impairment allowance of CZK 4,989 million during the whole year 2014. The above reasons caused the Group's net loss of CZK 556 million. The net result excluding one-off items amounted to positive level of CZK 3,247 m.

Consolidated statement of cash flows

Net cash provided by the Group's operating activities amounted to CZK 737 million in 2014.

At the same time, investing activities resulted in cash outflow in the amount of CZK 1,918 million and financing activities resulted in cash inflows in the amount of CZK 1,728 million.

The increase in cash compared to the 2013 level resulted primarily from higher cash flow from operating activities, as well as from higher cash flows from financing activities in 2014 compared to 2013.

The Group's financial position was still strong and on good levels at the end of the year as the net debt amounted to CZK 2,701 million and financial gearing, defined as the ratio of net debt and equity, amounted to 9.7%.

Revenues

Trends in revenues for own products and services

	2014	2013	2012	2011	2010
	CZK million				
Revenues	124,229	99,415	107,160	97,428	85,967

In 2014 Unipetrol Group generated total revenues of CZK 124,229 million, which is 25% more than in 2013.

Structure of revenues by business segments

Business segment	2014	2013	2012	2011	2010
	Revenues in %				
Downstream	91	89	91	90	90
Retail	9	11	9	10	9
Other	0	0	0	0	1

External revenues in the downstream segment went up by CZK 24,066 million in 2014 compared to the previous year and amounted to CZK 112,947 million. The increase is mainly attributable to higher sales volumes in downstream segment as well as due to better margins in both refining and petrochemical business.

External revenues in the retail segment, amounting to CZK 11,190 million in 2014, were by CZK 737 million higher than in the previous year as a result of the new legislative valid since October 2013 mitigating the fuels grey zone, which caused the positive impact on fuel margins and fuel sales.

The share of segments' revenues in Unipetrol Group's overall structure of revenues changed slightly in comparison with the previous year. The share of the downstream segment increased from 89% to 91%, meanwhile the share of the retail segment decreased from 11% to 9%. The change was due acquisition of Shell's stake in Česká rafinářská which resulted in increase in share of wholesale.

Structure of sales revenues by area

Area	2014	2013	2012	2011	2010
	Revenues in %				
Czech Republic	67	69	71	71	69
Other European countries	31	29	27	27	28
Other countries	2	2	2	2	3

Compared to 2013, the territorial structure of the Group's revenues remained stable when the majority was directed toward the EU countries.

Non-consolidated profit / loss and dividends of UNIPETROL, a.s.

(CZK million)	2014	2013	2012	2011	2010
Profit for distribution	328	938	404	-230	512
Allocation to the social fund	-- ¹⁾	--	--	--	--
Allocation to the reserve fund	-- ¹⁾	47	20	--	26
Number of profit-bearing shares	181,334,764	181,334,764	181,334,764	181,334,764	181,334,764
Profit/loss per share	1.81	5.17	2.23	-1.27	2.82
Dividend per share (CZK/share) paid from retained profit of previous years	-- ¹⁾	--	--	--	--
Total for distribution	328	891	384	-230	487
Profit brought forward as of 31 December	6,331	6,050	5,132	4,716	4,972

¹⁾ Dividend policy is not formally established. The decision on the distribution of the profit 2014 will be taken at the Annual General Meeting.

Property, plant and equipment

UNIPETROL, a.s. owns most of the land within the production facilities situated in the cadasters of Kralupy nad Vltavou and Litvínov towns. A major part of this land is situated underneath its subsidiaries' production facilities. Unipetrol, a.s. also owns several plots of land outside of these production facilities, a part of which is used by its subsidiaries for their activities, e.g. landfills, roads, location of product pipelines etc.

The total area of land owned by UNIPETROL, a.s. within the cadasters of Kralupy nad Vltavou is ca 2.496 million sq m and of Litvínov ca 8.866 million sq m.

UNIPETROL, a.s. as a non-production company does not own any buildings or equipment on this land, nor has it any oil fields or natural gas production sources of its own. The property, plant and equipment on UNIPETROL, a.s.'s land are owned and operated predominantly by its subsidiaries that have their operations in the industrial facilities. To a lesser extent, other entities not belonging to Unipetrol Group are the owners or tenants of this property, plant or equipment where the subsidiaries have no use for such assets. SYNTHOS Kralupy, a.s. (previously KAUČUK, a.s.), which is not a part of Unipetrol Group any more, is a major owner of buildings and equipment on the premises of the chemical production facilities in Kralupy nad Vltavou.

An agreement benefiting SYNTHOS Kralupy, a.s. on the pre-emptive rights to specific land used for its activities was executed on the basis of the agreement on the sale of KAUČUK, a.s. to the new owner, Firma Chemiczna Dwory S.A., Republic of Poland. The pre-emptive rights are registered in the land register.

Tangible assets are described in detail in the Notes to the Consolidated Financial Statements. The land owned by UNIPETROL, a.s. is not encumbered by any liens.

The land is zoned for industrial activities and its use is governed by easement agreements executed between the owner of the land, UNIPETROL, a.s., and the companies operating on both cadastral areas. The easements are provided for a consideration.

Capital resources

The main topic of the 2014 year was the receiving of the second tranche (in amount of CZK 2 billion) of an intercompany mid-term loan agreement between PKN ORLEN and UNIPETROL, a.s. of CZK 4 billion. The purpose of the loan was the diversification of Unipetrol's funding sources and extension of maturity.

Operating financing is mainly provided on the level of the parent company UNIPETROL, a.s. using available resources and, if necessary using operating loans provided by reputable banks.

The level of short-term bank loans available to Unipetrol increased to amount CZK 15,219 million in 2014 (including separate open credit line for Unipetrol RPA in amount of CZK 150 million).

Thanks to the implementation of new cash pooling structure, which means that Unipetrol Group chose two main reputable banks for cash management, the efficiency of operating financing has improved significantly.

Within the scope of operating financing of the parent company UNIPETROL, a.s. the bank guarantees in the total amount of CZK 821 million were provided for Unipetrol RPA's liabilities (CZK 761 million), Unipetrol Services (CZK 7 million), Benzina's liabilities (CZK 29 million), and Paramo's liabilities (CZK 24 million).

Other bank guarantees were provided for Unipetrol Slovensko (CZK 541 million), Česká rafinérská (CZK 81 million), Unipetrol Deutschland (CZK 93 million) and Unipetrol RPA (CZK 7 million).

Additionally, UNIPETROL, a.s. issued a guarantee for UNIPETROL RPA, s.r.o. in favour of ČEPRO, a.s. to secure an excise tax of CZK 150 million.

Risk management

Risk management in the Group is provided by the documents "Financial Risk Management Policy" and "Market risk management policy". These documents define the rules and recommendations governing Financial Management activities in Unipetrol Group companies.

The documents create a module of rules and recommendations for risk management and their purpose is to provide a formal framework for treasury operations. Appendices to these documents set out the credit limits for counterparties, dealers' authority, permitted transactions and the tools for which a special permission is required.

The documents define the activities which each of the Treasury departments and, as the case may be, the authorized financial management department of subsidiary Unipetrol Services are authorized to carry out as activities relating to associated (underlying) risks and reducing financial and commodity risks for the Group companies while meeting the conditions for the definition of hedging operations from the IFRS perspective.

The applicable financial risk management policy is based on the principle that the Group companies act as conservative entities which on no account use their funds or positions for speculative purposes.