

1 Management report

1.1 Introduction

The Unipetrol Group's result for 2009 was considerably affected by the global economic recession. Although gradual economic recovery could be felt in the Czech Republic from the second quarter of 2009, the country's GDP dropped by more than 4% in 2009.

In 2009, the refining segment experienced a very unfavourable development: margins dropped by some 60%, and also the Brent-Ural differential developed negatively as it dropped by approximately 70% on average in comparison with 2008. Model petrochemical margins on olefins were approximately one third lower than in 2008. Polyolefins did better, with their margins growing by about one quarter on average year-on-year.

The economic slowdown was felt the most in the refining segment, where the volume of sold products dropped 12% year-on-year. The petrochemical and retail segments registered stable sales volumes in 2009 in comparison with 2008. The Group's full-year EBIT sank to CZK – 654 million. The refining segment was hit the heaviest (CZK –1,177 million), with the petrochemical segment doing somewhat better (CZK –95 million) and retail faring the best (CZK 693 million) (for more details please see the following chapters on each of the segments).

Despite the unfavourable macroeconomic conditions, the Group succeeded in implementing a number of projects. Of the development projects running in 2009, the new Butadiene plant in Kralupy (see *Investments*) was the most important in terms of expenditure. The Group also acquired a 100% interest in the Paramo subsidiary, and the restructuring of Unipetrol TRADE continued (see *Asset optimisation portfolio*). The Group's research activities, which are mainly carried out by its subsidiaries Výzkumný ústav anorganické chemie and Polymer Institute Brno, were fruitful in 2009. An example is the launch of a new product, called non-hydrogenated C10 fraction (see *Research and development*). The Group also continues a number of information technology projects with a view to improving its current information systems in terms of reducing their cost intensity and increasing their utility value for their internal or external users (see *Information technology*). Major personnel management projects include, for example, the outplacement project and the implementation of the Group's uniform wage policy (see *Employees*). The other chapters offer an analysis of the company's financial standing (see *Financial standing*), an overview of major assets owned by the Group companies (see *Property, plant and equipment*), and information about capital sources for the company (see *Capital sources*) and the financial risk management policy (see *Risk management system*).

External environment in 2009

	1Q 2009	2Q 2009	3Q 2009	4Q 2009	Average 2008	Average 2009
Model refining margin (USD/bbl) 1)	4.23	1.28	1.31	1.38	5.69	2.05
Brent crude price (USD/bbl) 2)	44.8	59.4	68.2	74.9	97.6	61.8
Brent-Ural differential (USD/bbl)	1.19	0.92	0.45	0.68	2.95	0.81
Model petrochemical olefin	146	183	269	240	353	210

margin (EUR/t) 3)						
Model petrochemical						
polyolefin margin (EUR/t) 4)	276	242	256	251	207	256

Note.:

1) Unipetrol model refining margin = revenues from products sold (97% Products = Gasolines 17%, Petchem feedstock 20%, JET 2%, Diesel 40%, Sulphur Fuel Oils 9%, LPG 3%, Sulphur 1%, Other feedstock 5%) minus costs (100% input = Brent Dated); products prices according to quotations. Unipetrol model refining margin was updated in 2009 and historical figures were recalculated accordingly.

2) fwd Brent Dated

3) 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.

4) 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.

Key operating data 2009 (kt)

	1Q 2009	2Q 2009	3Q 2009	4Q 2009	2008	2009
Crude oil throughput*	1,018	848	1,156	1,087	4,533	4,110
Utilisation ratio (%)*	74	62	84	79	82	75
External wholesales of motor fuel and other refinery products	729	615	824	746	3,324	2,915
External sales of petrochemical products	463	454	464	444	1,830	1,825
Retail sales	109	128	134	122	501	494

*Note: the data refer to Unipetrol's refineries, i.e. to 51.22% of Česká rafinérská, 100% of Paramo

Key financial data in 2009 (CZK million)

	2008	2009	2009/2008
Revenues	98,144	67,387	-31%
EBITDA (Earnings before interests, taxes, depreciation and amortization)	4,481	2,778	-38%
Operating profit	1,003	-654	n/a
Net profit attributable to shareholders of the parent company	65	-840	n/a
Earnings per share (CZK)	0.36	-4,63	n/a
Operating cash flow	4,213	3,734	-11%

Note: Earnings per share = net profit attributable to shareholders of the parent company / number of issued shares

1.2 Refining segment I. (Unipetrol RPA – Business Unit Refinery, Česká rafinérská)

Important events in 2009

- Higher mandatory content of bio-components in fuels
- Planned shutdown of Kralupy refinery from April to June

1.2.1 External environment

The year 2009 was marked by the global economic crisis, which had a severe impact on the crude oil and refinery product markets. Despite a number of pro-growth factors, which included geopolitical tensions, OPEC's influence on the market, the traditional seasonal effects (the main driving season, the hurricane season in the US), strong demand in China, state aid to the national economies in many countries, the market was weak as global demand remained low and the stocks of crude oil – although traditionally quite volatile – and of refining products were high. The important factor was the development of the USD exchange rate, which strengthened by 11.9% vis-à-vis the Czech crown. Brent crude (fwd Brent Dated) was down 37% compared with 2008, amounting to an average of USD 61,8/bbl.

The prices of refinery products were 25 to 44% weaker than in the previous year (compared on the basis of FOB Rotterdam high), with the greatest decline occurring in distillates that weakened in absolute terms as well as relative to crude oil. The principal factors acting against price growth included weak demand, due to the economic crisis, and high stocks of both crude oil and refinery products in the US and Europe. In addition, there was competition from alternative products (naphtha), strong competition in export markets (automotive gasolines), high imports (high-sulphur fuel oil), and negative seasonal factors (such as stock optimisation at the end of the year). The decline in prices was partly reduced by a high rate of refinery shutdowns and their low utilisation ratios, state aid to a number of national economies, which softened the impacts of the crisis on demand, high exports of naphtha, automotive gasolines and high-sulphur fuel oil, low or volatile naphtha and distillates imports, and seasonal effects, which provided their customary boost to motor fuels and fuel oils during certain periods of the year.

The average annual model refining margin in 2009 amounted to USD 2.05/bbl, dropping by USD 3.64/bbl, or 64%, as compared with 2008.

The chief risk factors:

Risk factors influencing the refining segment include primarily the high volatility of crude oil and refinery product prices due to both market and non-market factors (ranging from geopolitical tensions to weather), escalating competition on the motor fuels market, fluctuating demand for refinery products closely correlated with the global economic situation, and a broad range of other factors, the most important ones of which being, e.g., the unpredictable variations in crude oil supply and changes in foreign currency exchange rates. The risks in 2010 also include a threat that the global economy will recover only slowly. One risk that is specific for the Czech market is the increase in excise duty on motor fuels from 1 January 2010, which, coupled with the expected increase in the minimum bio-component content, to be introduced during the year, will result in a shift of some demand for motor fuels from the Czech Republic to the neighbouring countries.

1.2.2 Market position

The exceptionally fierce competition in the field of refinery products continued in 2009. OMV, Slovnaft (MOL), Shell, and Eni remained the most serious competitors on the Czech market.

Pursuant to Unipetrol's ownership rights and its needs, the Business Unit Refinery (BU Refinery) plans and manages crude oil processing at Česká rafinářská, ensures the principal

synergies arising objectively from the connection of refining and petrochemical production within the group, and is the most important player on the Czech market in crude oil procurement and in refinery products wholesaling.

In terms of sourcing, the crude oil markets important for the BU Refinery include Russia, certain other republics of the former Soviet Union, and the countries of the Mediterranean. This situation of choice is due largely to the existence of the Družba and TAL/IKL (Trieste-Ingolstadt-Kralupy-Litvínov) oil pipelines.

More than 82% of the BU Refinery's revenues were generated in the Czech Republic in 2009. This structure is based on supplies to other Unipetrol Group companies and on supplies to entities existing on the Czech market outside of the Group. The BU Refinery also supplies motor fuels directly to filling stations and for public road transport, the energy sector, agriculture, the construction industry, the military, and the police.

The most important export areas for the BU Refinery are Slovakia, Austria, Germany, and Poland.

1.2.3 Business policy

Crude oil sourcing

For the BU Refinery, the year 2009 was marked by continued strategic co-operation with Unipetrol's foreign majority owner, PKN Orlen S.A., as part of which crude oil has been supplied through the Družba and TAL-IKL pipelines under long-term contracts since 2006.

Compared with the previous year, 2009 saw relative stability of supplies through the Družba pipeline from the Russian Federation. With its 57% share, the BU Refinery remained the most important entity importing REB crude from this direction into the Czech Republic for processing in the Litvínov refinery. Under a long-term contract, the BU Refinery continued providing 100% of the supplies of this type of crude to its sister refinery, PARAMO, a.s., Pardubice. The Litvínov Refinery carried out a test run using an alternative-quality crude oil (Iran Light), the potential substitute for the REB-Družba quality, in August 2009.

For the supplies of low-sulphur crude via TAL-IKL, the BU Refinery continued to be the majority importer of Azeri Light crude from Azerbaijan, which is the key feedstock for processing at the Kralupy nad Vltavou refinery. The Azeri Light crude was supplemented with CPC Blend crude from Kazakhstan at an optimum ratio.

Pipeline and rail supplies from various Moravian deposits to the Kralupy refinery continued in 2009.

Crude purchases in 2009 (total for Unipetrol Group)

REB (incl. Paramo)	2,932 kt	70.7%
Iran Light	15 kt	0.4%
Sweet crude supplied by sea	999 kt	24.1%
Moravian crude	200 kt	4.8%

Product sales and supplies within Unipetrol RPA

Motor fuel sales on the domestic market were very close to the 2008 figures, which can be considered to be a success given one long-term production shutdown. The available information indicates that the BU Refinery increased its market share in automotive gasolines to 35% and retained its diesel market share of 29%, despite the fact that the fuel market in the Czech Republic was affected by tax frauds (VAT and excise tax) in 2009.

The beginning of the year was marked by the direct impacts of the global economic crisis. The predictions of consumption in the Czech Republic considered scenarios of a year-on-year decrease ranging between 5% and 20%, which, happily, did not eventuate. According to the available statistics, the market in 2009 was stagnant, with consumption around 98% to 101%. The sales of high-octane BA 98 gasoline and the UltraDiesel and Ultra 95 fuels with special additives increased in 2009; conversely, a marked drop in demand was registered in low-octane gasolines BA 91 Normal and Special.

The year 2009 was plagued by shutdowns: The planned shutdown of the Kralupy refinery in the second quarter, and the unplanned shutdown of the steam cracker, atmospheric and vacuum distillation, and hydrocrack in Litvínov at the turn of the third and fourth quarters. For the duration of the shutdowns, goods were provided from in-house and purchased stock, thanks to which supply to customers was maintained.

The worsened financial situation of many companies in the Czech Republic, compared with recent years, did not result in any deterioration of the BU Refinery's bad debt, primarily thanks to good credit risk management, insurance and securing of receivables.

The BU Refinery's key partners in fuel retailing were BENZINA, Čepro, OMV, large retail chains (Makro, Tesco, Ahold, and Globus), private filling station operators, and transport companies. BU Refinery maintained the sales volume under the Unipetrol Partner Filling Station programme, which involves more than 100 filling stations, in 2009.

Slovakia remained a priority export market and the BU Refinery supplied it from both Czech and Polish refineries. Exports to Poland decreased while exports to other markets remained similar to the previous year. The reasons for the general decrease in exports were lower fuel production, weak refining margins that are very sensitive to export prices, and differing requirements for bio-components.

The mandatory blend of bio-components in motor fuels was increased in 2009, which had a negative impact on refineries in the following respects:

1. The bio-component is more expensive than fossil fuel components and is ousting an increasing amount of classic fuels from Central European markets, which are already marked by surpluses;
2. The increased bio-component content in automotive gasolines is challenging in terms of the preparation of the "intermediate" product for the further redistribution at terminals, which themselves add the bio-component (Čepro and other large storage providers);
3. Unlike the neighbouring countries, the Czech Republic does not support the adding of bio-fuels, and the producers have to bear the costs.

The BU Refinery's supplies of petrochemical feedstock satisfied the needs of downstream production in the group as well as outside it. On the whole, the consumption of petrochemical feedstock in 2009 was affected by the economic crisis, which substantially reduced global demand.

LPG sales in the Czech Republic increased quite significantly, while the longstanding co-operation deepened with Orlen Gaz on the Polish market, which has traditionally been very important for BU Refinery in terms of exports.

Low-sulphur fuel oils were sold primarily to the energy system of the Kralupy nad Vltavou plant and to the sister company Paramo. The seasonal surpluses of high-sulphur fuel oil from the Litvínov refinery were exported.

Česká rafinérská

Motor fuels produced in 2009 were compliant with the strict requirements for motor fuel quality. The market was supplied with products of adequate quality in accordance with Czech/European standards (an agreement with Čepro on the quality of motor fuels transported via pipeline was reached). Throughout the year, fatty acid methyl ester (FAME) was added to diesel, and bio-ethanol to automotive gasolines, at both refineries based on the processors' specifications. Diesel fuel with an average bio-component content (primarily FAME) of 4.55% vol. and automotive gasoline with a bio-ethanol content of 3.52% vol. were produced in 2009. However, meeting the statutory obligation was ultimately negative for the processors because of the overall economic impact caused by the higher prices of the bio-components, the need for additional capital construction, and the logistics and capacity constraints when segregating various grades of motor fuels.

In 2009, Česká rafinérská in the Kralupy refinery and the Litvínov refinery processed 2.269 and 4.561 million tonnes of crude oil, respectively, i.e. a total of 6.83 million tonnes of crude, which represents

approximately 3.5 million tonnes for Unipetrol given its 51.22% share in Česká rafinérská. Key maintenance activities and projects in 2009 included the planned temporary shutdown of the Kralupy refinery. A number of capital investment projects and process changes leading to improvements in safety and environmental protection and increased reliability and capacity of units were implemented during the shutdown, to ensure the reliable operation of the refinery for the next four- to five-year production cycle.

Success rate of the commercial policy (summary)

The year 2009 once again confirmed the BU Refinery's stable position on the Czech as well as selected export markets. Thanks to a targeted business policy, based on mutually beneficial long-term relationships with trading partners and fully utilising synergies within the PKN Orlen Group, the BU Refinery retained its previously achieved market positions.

Expected developments in 2010

- A certain recovery of the market brought about by the ending economic and financial crisis
- No major planned shutdowns
- Higher mandatory blend of bio-components in motor fuels
- Discontinuation of the automotive gasolines, BA 91 Normal and Special
- Shift of some demand for motor fuels from the Czech Republic to neighbouring countries due to a higher excise duty in the Czech Republic

1.3 Refining segment II. (Paramo)

1.3.1 External environment

Paramo has logged a year of many challenges. Responding to economic recession, the refinery put in place an optimization plan, expanded its co-operation with ORLEN Oil, prepared an offer of products compliant with the new legislation, and stabilised the operation of the basic unit for bitumen production. In January 2009, Unipetrol with its 91.77% of the refinery's share capital, decided to buy out all the remaining Paramo shares and became the sole shareholder of this company.

The obligatory share of the bio-component in diesel increased from the original 2% to 4.5% at the beginning of 2009. Paramo made use of the legal opportunity to apply a tax relief on the sale of mixed diesel containing 31% of FAME, which made it possible for the company to decrease this share in normal diesel and achieve excellent quality parameters at relatively low costs. The cost of FAME exceeds the production costs of mineral diesel. Therefore, any

dosage of the bio-component erodes the refinery's result. Further, failure to keep the obligatory 4.5% blend is severely penalised by the government. Paramo therefore focused on exceeding the obligatory percentage by as little as possible. Thanks to a team that it set up for this purpose, the refinery in the end achieved an excellent 4.503%.

The chief risk factors in the company's financial management:

- Trends in the international refining margin as the determinant for the company's operating result;
- Trends in crude oil prices, whose level determines the capital required and greatly influences the economics of bitumen and oil production (their prices are indirectly linked to the price of crude oil or its derivatives);
- Trends in the USD/CZK exchange rate (the refining margin is set by the market in USD and covers, among other things, fixed costs and energy costs paid in CZK);
- Trends in the bitumen market in the region, which principally determines the utilisation of the refining capacity and greatly influences Paramo's own refining margin.

1.3.2 Market position

Paramo processes crude oil (545,462 tonnes in 2009) into refinery and bitumen products and also lubricating and process oils, including related and ancillary products. The company also purchases and processes oil hydrogenation and hydrocrack products from Unipetrol RPA. The intermediate products that it obtains are used for the production of base and lubricant oils with very low sulphur content. In the period under review, the company priced its mass market products using price formulas based on the European quoted prices.

The drop in the company's result in comparison with the plan and also the preceding year was mainly caused by the negative development of refining margins in the latter half of the year. This ratio had an adverse effect on the refining industry worldwide. In this period of expected negative results the company focused, from the financial point of view, on maintaining its very good liquidity ratios, keeping a positive EBITDA and minimising fixed costs. Because of the rising crude oil prices and the ongoing economic crisis, throughout 2009 the company centred on minimising its working capital needs to keep its net debt at the excellent values of the previous years. The company was successful in this thanks to consistently monitoring trade receivables (overall, and also overdue), optimising the level of inventories (feedstock, semi-products and final products) and negotiating longer due dates in its purchase contracts. The company's pre-tax result according to IFRS amounted to CZK -120 million. The pre-tax result in 2008 according to IFRS was CZK 50 million.

1.3.3 Business policy

Trading in 2009 was not easy; the reason was lower production in many sectors of the economy. Refinery products (i.e., diesel, naphtha, light and heavy fuel oil and LPG) find their customers primarily on the domestic market. In the period under review, a sister company, Unipetrol RPA to which Paramo delivered naphtha and vacuum distillates, remained the key trading partner in respect of refinery products.

In the area of lubricants, Paramo had to cope not only with competitive pressures but also with its customers' lower consumption of lubricants owing to the global recession. The company partly offset this business loss by finding new customers. The refinery overhauled its distribution of products and services in 2009. In June, it replaced its own distribution with outsourced haulage. In view of the considerably higher costs incurred in a complete

outsourcing of distribution, the refinery has retained warehousing facilities for non-production distribution in its own hands.

In the years to come, base oils will become one of Paramo's most important products. The trading team was therefore reinforced in the latter half of 2009. It now offers base oils featuring superior quality parameters throughout the whole of Europe. Group II base oils will soon be added to the range of Paramo's products on offer.

In 2009, the company took advantage of the completed project of investment in an increase in the capacity of modified road bitumen production and storage in its marketing of bitumen, thereby strengthening its position on the bitumen market. Paramo will continue in this trend in the years to come.

Sales of special bitumen products were limited by economic recession and also the political situation on the domestic market.

Organisations in charge of road management and maintenance are Paramo's major customers for bitumen. In 2009 the company entered into multi-year contracts with several of these organisations. Major construction companies that build and repair roads are also important customers for Paramo.

In 2009, Paramo sought closer ties between its own business policy and that of ORLEN Oil in the area of oils, and of ORLEN Asphalt in the area of bitumen.

The market's needs, as well as legislative requirements, resulted in additions of new products to the company's range. The development of these new products took into account the refinery's possibilities; in accordance with the approved plan it included innovation, technical services, sales support and implementation of legal and technical legislative measures. In the case of chemicals, preparations for the implementation of the new EU regulations, REACH and GHS, continued.

Expected development, plans and objectives

Paramo's objectives for 2010 are based on the development plan, which takes into account the macroeconomic outlooks prepared by PKN Orlen/Unipetrol strategy experts.

In refining processes, intensifying the co-operation within the PKN Orlen/Unipetrol Group, preserving crude oil processing, maintaining the share of lube oils and bitumen on the Czech market, and specialising in the production of lube oils continue to be topical issues. Plans also focus on the production and sales of high-quality products reflecting the global development trends and the building of a mature working team with support for enhancing business excellence. The development plan also includes reliable production facilities that are neutral to the environment.

The company will take further steps to carry out its programmes geared towards improved production efficiency. As a priority, the company regards reduction in the consumption of externally procured energies.

As part of its development plans, Paramo will continue to gradually expand its modified bitumen production.

1.4 Petrochemical segment I. (Unipetrol RPA - Business Unit Monomers and Chemicals)

1.4.1 External environment

The markets for the Business Unit (BU) Monomers and Chemicals' main products continued to be affected by the ongoing global economic and financial crisis in 2009. Aside from the persistent weak demand, some of our companies also faced more stringent borrowing terms. The changes of the conditions on the markets for the main products and their derivatives were also directly reflected in the utilisation ratio of European crackers. The ratio remained below the normal level for most of the year, only consistently reaching 90% in the third and at the beginning of the fourth quarter. At that time, the demand coming from the ethylene and propylene derivatives sector saw major growth, and the ethylene unit operators' margins reached the maximum annual levels. The tension on the market further increased due to several unplanned shutdowns. The limiting factors for production in the first half of the year also included the relatively negative situation on the markets for the main steam cracker products in addition to the low petrochemical margins, which dropped to negative values in the case of spot prices. The reason is that the demand from the downstream sectors was generally weak and, in many cases, further constrained by a number of planned and unplanned shutdowns. Several Western European steam crackers were even shut down mid-year for economic reasons. The weak demand from downstream sectors was also the reason for a lower steam cracker utilisation ratio at the year's end. On the other hand, the changing feedstock structure directly influenced the market situation as the markedly lower propane and butane prices allowed flexible steam crackers to crack lighter feedstock during the second and third quarters. This reduced the availability of benzene and propylene in this period, exacerbating the tension caused by several unplanned shutdowns even further.

The uncertainty around future demand and the ongoing global economic crisis changed the method of setting contractual prices of monomers. The transition from quarterly to monthly quotations caused a drop in the January contractual price of ethylene by EUR 600/t and propylene by EUR 523/t. The initial expectations of returning to quarterly prices once the market conditions stabilised did not eventuate and the monthly price setting, initially regarded an emergency solution only, persisted throughout the year. Conversely, spot prices escaped a steep fall, having already weakened considerably in the fourth quarter of the previous year. Contract prices for ethylene and propylene grew for almost the entire year and only dropped in the last quarter. Prices were boosted primarily thanks to the continuously strengthening naphtha market and, in the latter half of the year, improved demand and several unplanned shutdowns. The traditional seasonal drop, typical of the summer period, was not apparent either. The usual year-end stock reduction did not reach the scope of the previous years, as most players already had kept their stocks low in the preceding months. The price drop in the last quarter was, then, primarily due to the lower demand coming from the derivatives sector.

The situation on the European benzene market was rather more susceptible to the prices of feedstock and developments in other areas than the domestic supply and demand. The ongoing economic and financial crisis led to the conclusion of January contract for benzene at the lowest-ever price, EUR 180/t, FOB NWE. Prices have only hit comparable levels twice in the last twenty years, in 1995 and 1999. However, Brent crude was well below the level of USD 20/bbl in both cases. Benzene prices rallied from the beginning of the year to the end of July, with the only exception in the latter half of February. The limited possibilities for exports in this period led to a surplus of the product on the European market and, in turn, a price drop. Conversely, the positive development of prices was driven by exports to Asia and

the US, lower output of European steam crackers, the cracking of lighter feedstock, re-starts of units in downstream sectors, improving demand for polystyrene and, not least, the ongoing growth of crude oil and naphtha prices. European demand actually remained weak, mainly from styrene producers. However, price recovery in the initial months did not keep pace with the rate of growth in feedstock prices and a negative spread between benzene and naphtha persisted throughout the first quarter. Prices started weakening again in August. Exports to the US decreased and downstream demand remained weak as well. The utilisation ratio of certain styrene units was as low as 50%. The market struggled with a surplus of benzene as the steam cracker unit operators' return to naphtha cracking and the shutdowns of units in downstream sectors appreciably increased its availability. The market strengthened again due to production and logistic problems early in the fourth quarter, and then stabilised. Firm prices stayed in place until the end of the year thanks to exports to the US and Asia.

Oxo-alcohols production was discontinued at Unipetrol RPA as of 31 May 2009. The situation on the European oxo-alcohols market prior to that date was one of the chief factors leading to this decision. Prices responded to the EUR 523/t drop in the contract price of propylene early in the year, weakening greatly. The pressure on prices was also heavier due to the presence of materials imported from Russia and Asia.

The situation on the agrochemicals market changed several times during the year. This resulted in price fluctuation, which, however, was not as strong as in the preceding year. Ammonia prices dropped to pre-2008 levels, and urea prices even dropped below the levels at which the product was sold prior to 2007. This was because both the fertilizer market's and industry's demand were weak. Both ammonia and urea markets also felt the limited availability of the product from Ukraine. The rising natural gas prices and the relatively low ammonia and urea prices often made production during the year unprofitable and forced Ukrainian producers to reduce their production or even shut it down completely in many cases. Russia faced a lower utilisation of ammonia units for the same reasons. Throughout the first quarter, ammonia prices strengthened thanks to relatively strong demand. The activity slackened afterwards, and prices began to weaken. The drop in the natural gas prices in this period led to the re-start of a number of European units, and ammonia availability also improved in other territories. The situation did not change until a number of unplanned shutdowns in north-western Europe in July triggered a growth of demand from this area. Prices started rising, and continued increasing slightly until the end of October. The market weakened again at the end of the year. The European ammonia prices were also influenced by the situation on the market in the US, the world's biggest ammonia importer, throughout the year. The increase of the urea prices early in the year was attributable primarily to several calls for tenders for urea sourcing in Asia. This led to a major increase in demand, which, however, could not be satisfied because of the limited availability of the product, mainly from Ukraine. The tension grew further following the Chinese government's decision to increase export duty rates to 110%. The situation changed again in early March as the production in Ukraine returned to its normal level and demand started to decline. This led to the weakening of prices, which were not sufficient to cover producers' costs and ramped up the pressure for unit shutdowns. Prices stabilised early in the second quarter and fluctuated within the range of several US dollars save for a major drop in the summer and growth at the end of the year. The price hikes at the end of the year were driven by traders' major purchases and shutdowns of several production units. During the year, the product also went from Europe to Latin America and Africa.

Risk factors

The markets for the main products remained weak throughout 2009 in the face of the global economic and financial crisis. Although the situation gradually improved, neither the demand nor the utilisation ratio has recovered to their pre-crisis levels.

The European market should also feel the full impact of the inflow of olefins and especially polyethylene imported from the Middle East and Asia soon. Many new large-capacity units, with access to cheap feedstock, are currently under construction in those areas, most of them with an export focus. The significant growth of new capacities in China will reduce the country's need for imports, and the available product from the Middle East and Asia will start to flow to the European markets.

Another key factor with a direct impact on the BU Monomers and Chemicals' results is the price of crude oil and oil derivatives on the global markets. Estimating the future development of crude oil and oil derivatives prices is very difficult. This is confirmed by the considerable fluctuations of the prices in recent years and also the very different estimates of renowned companies, which differ by as much as tens of USD/bbl. This is because there remains significant uncertainty surrounding the rate of the recovery of the markets hit by the global economic and financial crisis.

The BU Monomers and Chemicals' performance is principally susceptible to the trends in the Czech crown's foreign exchange rates, primarily its euro and US dollar rates. A large majority of feedstocks are quoted in US dollars, whereas the BU's primary products are sold mainly in euros. The USD/EUR exchange rate fluctuated between 0.63 and 0.78 over the past three years.

The availability of production facilities and continuous supplies of sufficient quantities of the main feedstocks are equally important.

The increasing sales of agrochemicals to industrial sector helps to reduce the seasonal variations in demand, but this factor needs to be taken into consideration for the future as well.

1.4.2 Market position and business policy

The BU Monomers and Chemicals' core business is the sale of steam cracker products and agrochemicals. The most important products include ethylene, propylene, benzene, ammonia, and urea. These products generated more than 75% of all of the BU's revenue in 2009. Oxo-alcohols production was discontinued in May due to the process being outdated and too demanding in terms of feedstock and energy. The global economic crisis, which changed the market conditions considerably, also contributed to the closedown of the plant. The shutdown of the unit subsequently enabled more efficient utilisation of the primary feedstock (propylene and hydrogen) for other production processes at Unipetrol RPA.

In terms of production capacities, the BU Monomers and Chemicals is a small player, except for the monomer facilities that can be regarded as medium-sized on the European market. April saw the start of the operation of a new benzene extraction unit, which has increased the benzene production capacity at Unipetrol RPA.

Neither the structure of the customer portfolio nor the size of market shares in the Czech Republic changed substantially in 2009. The markets for petrochemical and agrochemical

products remained weak in the face of the global economic and financial crisis. Nevertheless, demand grew gradually, and the prices of the main feedstock and products increased accordingly.

The Czech Republic continued to be the principal market for the steam cracker products, with monomers and benzene processed either in Unipetrol RPA plants or carried to strategic customers (Spolana and Synthos) through the existing pipelines. The steam cracker's by-products were supplied primarily to the Czech and Western European markets.

As in the previous years, the domestic market was the destination of a large majority of the ammonia produced at Unipetrol RPA. The main reason was a long-term ammonia supply contract with the largest fertilizer producer in the country. Urea sales did not change considerably compared with the previous years. Approximately one half of the urea produced was sent to domestic customers and the other half found its clients in Central Europe. The markets in Austria, Germany and Poland accounted for more than 95% percent of the exported urea.

Expected developments in 2010

The results for 2010 are based on the assumption of economic recovery, which is expected to result in a gradual stabilisation of the markets for petrochemicals and agrochemicals and in rising prices of the key products and, in turn, growing margins. Demand is expected to grow in the sector of ethylene, propylene and benzene derivatives, and also in the sector of industrial fertilisers. This is expected to lead to a higher utilisation of production units. However, excessive optimism is not yet appropriate: economic growth will be rather slow and the size of demand or the utilisation of production units will certainly not be able to recover to the pre-crisis levels. For the European market, the main risk will continue to be imports of polyolefins from new, predominantly export-oriented units in the Middle East and Asia. Their presence on the European market will be a limiting factor for the production of ethylene units, while profitability will be partly compensated for by higher propylene, butadiene and benzene prices.

1.5 Petrochemical segment II. (Unipetrol RPA – Business Unit Polyolefins)

1.5.1 External environment

The keys to successful trading relate to the development of demand, which, although already growing in 2009, has still not reached the pre-crisis levels.

The other major factor is the increasing feedstock costs, which could not be fully passed through to the prices of products due to limited demand, which caused the margins to develop unfavourably. Despite expectations, the impact of the new installed capacities completed in the Middle East, which capitalise on low petrochemical feedstock costs, have not yet been felt. Conversely, there were situations when the pricing level in Asia was higher than the polyolefin price level in Europe during the year. In that period the company used its export opportunities to increase utilisation, reduce fixed unit costs, and release working capital through inventory stock optimisation.

1.5.2 Market position and business policy

Unipetrol RPA's high density polyethylene (HDPE) and polypropylene (PP) production facilities in Záluží u Litvínova make it the only polyolefin producer in the Czech Republic and a major player in Central Europe. The installed capacity accounts for more than 5% of European HDPE and almost 3% of polypropylene capacity. The HDPE capacity greatly exceeds the domestic market's consumption, and almost three quarters of the HDPE produced are exported under the LITEN trademark. Polypropylene consumption in the Czech Republic is comparable with the company's capacity, and therefore less than one half of the polypropylene produced is exported to European markets. Trading in 2009 took place in 37 markets. The primary export markets have traditionally been the Germany, Slovakia, Austria, and Ukraine.

The year 2009 opened with the lowest-ever polyolefin prices, around EUR 700/t, although the price then grew for a full three quarters. At the end of the third quarter, the price level was at around 1,000 to 1,100 EUR/t. Prices started to fluctuate in the fourth quarter. Limited demand, especially in Western Europe, kept the margins low. The highly competitive European environment keeps polymer prices at low levels, and the lower capacity utilisation ratios produce a further negative impact on the margins achieved by the producers. Thanks to its business and product philosophy, the company succeeded in maintaining a utilisation ratio for polymers comparable to the previous year.

Most European polyolefin producers expected the impact of the newly built units in the Middle East, which will most likely want to place their goods on the European market as well, to be felt as early as in 2009. This factor was not felt as strongly thanks to delays in construction, problems with unit start-ups, and postponement of certain projects. As a result, a greater impact is only expected in 2010, especially in the latter half of the year. The company pursues its philosophy of focusing on products with a higher added value and products devised for specific customers to reduce the future impact of plastics imported from units newly built in regions with low production costs.

Expected development, plans and objectives

The company's competitive position, sustainable for the long term, is based on the principle of constant improvement – analysing situations, proposing measures, implementing them, and evaluating the achievements. The reflection of innovations in production processes made it possible to continue reducing energy and material intensity. A majority of newly launched products yielded above-average margins. Emphasis is placed on information support for maintaining competitiveness in the long run. Aside from the effort to introduce new products and cut costs, the company's objectives include increasing the utilisation rate of the installed capacities. The year 2009 saw the successful completion of a capital investment project that will help increase the volume of production and sales of polypropylene, effectively boosting the position on the target European markets.

1.6 Retail segment

1.6.1 External environment and market position

The statistics of the Ministry of Industry and Trade show that there were 6,499 filling stations on record in the Czech Republic as at 31 December 2009, including small retailers and non-public dispensers and filling stations situated mainly on the premises of agricultural, transport and construction companies. The total figure also includes 989 public filling stations

specialised in a single product - predominantly diesel (566 stations), LPG (411 stations), and recently also CNG refuelling stations. There were a total of 3,615 public filling stations on record in the Czech Republic, with 2,612 of them offering a broader range of fuels and services, at the end of 2009. BENZINA's share in the network is 12.9%. The number of public filling stations on the Czech market grew by 1% year-on-year.

Unipetrol's retail company, BENZINA, operates the largest filling station network in the Czech Republic. As at 31 December 2009, it operated 337 filling stations with a broad range of fuels with additives. A selected segment of BENZINA filling stations offers the VERVA range of premium fuels and a broad range of other goods, refreshments, and services. The network was gradually refurbished and upgraded between 2006 and 2009, and is currently being profiled into two segments on the Czech market, the premium segment, represented by 107 BENZINA plus filling stations, and the standard BENZINA portfolio. By the end of 2009, a total of 289 stations across both segments had been upgraded.

The market position of the company's filling stations in terms of motor fuel sales in 2009 can be rated positively. Throughout the year, consumption was influenced by economic factors that affected demand for motor fuels. The available statistics show that motor fuel supplies to the domestic market grew only 1% year-on-year. The growth of supplies was strongly influenced by increasing imports, primarily of diesel, and it is currently the subject of an extensive international inquiry in terms of fuel classification and volumes and may be subject to changes from the viewpoint of the evaluation of market development in 2008 and 2009, and as a result the supplies may actually be found to have decreased in the end. According to the current CSO data, while diesel supplies to the market increased by 1.5%, the year-on-year diesel sales in the company's network grew by 1.7%. The company's market share, taking into consideration the figures for 2009 and 2008, approached 14%. Compared with the all-time low (9.9%) that BENZINA hit in 2005, the average of the last three years (13%), and the condition and development of the Czech economy's macroeconomic indicators, the market share's development is positive. The total number of filling stations on the market has been growing slowly but steadily (by 1% year-on-year) and the number and market share of hypermarket filling stations has been growing as well.

1.6.2 Business policy

BENZINA has also greatly expanded its premium motor fuel offer. Branded "Verva 100", the high-octane gasoline with an above-standard additive blend is offered at 100 BENZINA plus filling stations, while the premium diesel with additives was reformulated and a new high-quality formula with cetane number 60 launched in September 2009. Verva diesel is on offer at 129 stations. Verva 95 has been newly included in the range offered at a small number of stations for the time being, to augment the premium fuel collection. Premium fuels are rated very highly by experts and enjoy a growing demand compared with the previous period.

In 2009 BENZINA also pursued its long-term strategy, formulated in 2006; the key goal of BENZINA's long-term strategy is to increase its market share while using funds efficiently and securing its financial stability. The key elements of the strategy include primarily:

- Launch and expansion of the BENZINA plus brand to include filling stations carrying a full range of fuels, including the Verva premium products, and offering a broad range of high-quality goods in shops, a broad range of catering services, and a range of other additional services;

The strategy envisages:

- The refurbishment and upgrade of approximately one-third of the network to the BENZINA plus standard;
- Improved perception of the BENZINA brand as a filling station standard offering quality motor fuels, a broad range of goods in the shop, quick-service refreshments depending on the local conditions, and other additional services;
- Consistent focus on customers' needs;
- Expanding and improving the services provided in all segments; and
- Efficient and targeted marketing activities.

The year 2009 saw a continuation of the filling station refurbishment and upgrade programme in line with the annual plan, and the long-term strategic goal of upgrading 86% of the network to high standards by the end of 2009 was achieved. Sixty-nine stations operate quick-service catering facilities. It is encouraging that customers accept the changes in sales and marketing very positively. The long-lasting market share growth (from 9.9% in 2005 to almost 14% in 2009), the ongoing growth of diesel fuels (by 1.7%), and the year-on-year increase in revenues (by 3% in shops and by more than one-quarter in catering) confirm that the company's filling stations are popular with a broad range of customers.

The sale of motor fuels and other goods and services at filling stations is BENZINA's core business. The sales structure has confirmed the long-term trend of increasing demand for diesel at the expense of gasolines.

Structure of motor fuel products sold at filling stations in 2009 (%)

Automotive gasolines	Diesel
43.1	56.9

The growth trend on diesel's share in the sales of motor fuels continued also in 2009, gaining 2.2% year-on-year. The total sales of diesel in our network went up by 1.7% in 2009 in comparison with 2008. The increased demand for the VERVA Diesel premium fuel for passenger cars was a major contribution. The company expanded its offer of fuels to include a mixed diesel containing 30% FAME in a selected segment of 26 filling stations in 2009.

The Natural 95 remained the mainstay grade in the sales of automotive gasolines, and its share in the octane mix of the automotive gasolines sold in 2009 was 93.2%, up by 1.1% over 2008. The demand for this major fuel type has been stagnant for a long time in relation to the development and structure of the passenger car fleet. In year-on-year terms, the main growth was in sales of high-octane gasoline, its share reaching 2.5%. The demand for this product has steadily grown since its launch in 2006. Demand for the 91 octane gasoline has been decreasing for a long time.

In accordance with the laws in force, the sale of motor fuels with an increased blend of low-volume bio-components - 4.5% in diesel and 3.5% in automotive gasolines - started in the filling station network in January 2009. The results of the Czech Trade Inspection Authority's nationwide monitoring of the quality of the fuels sold in public networks showed that all mainstay types of motor fuels as well as premium ones tested in our network complied with the applicable technical quality standards.

The unit margin on the sales of motor fuels, which was slightly higher than in 2008, the increase in diesel sales, in particular higher sales of premium motor fuels with a higher added

value, and also cost savings were the key factors that greatly contributed to the retail segment's very successful performance.

The years 2006 to 2009 were a very successful period for Benzina. The chosen retail strategy, implemented gradually, as well as the day-to-day business policy, successful promotions to boost sales, and attractive advertising campaigns have increased the customers' interest in the BENZINA brand and boosted the demand for the Verva Diesel premium motor fuel. In a broader marketing context, they have led to improved customers confidence and a renewal of Benzina's position as a leading and respected company in the filling station market of the Czech Republic.

Expected developments in 2010

The outlook for 2010 is burdened by considerable uncertainty. The retail market for fuels will remain affected by a number of negative factors in 2010. Demand will continue to be adversely influenced by the economic downturn in 2009, while the impact of the heavier tax burden in comparison with other countries and the rising rate of unemployment will be felt. Maintaining market share and economic stability will continue to be the priorities for the retail segment. In respect of investments, expanding premium fuels and completing the new cash register system at fuel filling stations will remain the priorities. As regards the range and quality of the fuels on the market, supplies of the unpromising Speciál 91 to the market will be terminated in the second half of 2010. Benzina also envisages strong marketing support for fuel sales at fuel filling stations. The onset of other, alternative fuels can also be expected depending on the development of demand.

1.7 Corporate Governance model

Corporate Governance Model applied in the Unipetrol Group is based on the principles of:

- Separated responsibilities for production and sales;
- Centralised Shared Service Center and Supply Chain Management;
- Simplified legal structure.

This helps to improve administration process, coordination, accelerate the decision-making processes, and enhance competitiveness.

Segment management and owner's supervision

The activities of the Unipetrol Group can be divided in principle into the following segments:

- Petrochemical
- Refining
- Retail

This allocation of responsibility for segment management between the Board of Directors and technical managers is implemented in the Organisational Rules.

1.8 Investments

In 2009, Unipetrol RPA implemented projects to increase the capacity of the steam cracker to the planned 544 kt of ethylene per year and physically completed the project for increasing polypropylene production to the final 275 kt/year. Aside from that, the principal investment

activities focused on maintaining operating reliability and safety and on compliance with the requirements of environmental legislation.

Česká rafinérská's 2009 capital expenditure programme was geared towards investment in maintenance, environmental protection, reliability and availability of the installations, and also increasing output and capacities.

A project for increasing the capacity of the unloading equipment at the intake of feedstock for petrochemical production was completed in the Litvínov refinery. A project for removing electrical equipment from the corrosive environment of the Claus units was completed as well.

The upgrade of the liquefied gas splitting section at the fluid catalytic crack unit was completed in the Kralupy refinery. A project for increasing energy efficiency was completed on the same unit. Among the capital investment projects commenced, the filtering of slurry oil, which will have a great influence on the refinery's operating economics, should be mentioned.

As part of the intensification of middle distillate desulphurisation, Paramo completed the intensification project by installing a new hydrogen compressor. As regards environmental protection, the retrofit of the VR28 storage tank was commenced.

Benzina, by franchising, expanded its network by four filling stations. It also focused on the refurbishment of existing Benzina Standard filling stations, replacement of car wash units, and retrofits of wastewater treatment plants. The replacement of the cash register system continued successfully.

Butadien Kralupy continued the construction of a new butadiene production unit with a capacity of 120 kt/y. The project is slated for completion and commissioning in the first half of 2010.

Unipetrol DOPRAVA refurbished the railway siding in the area of the Kralupy facility, a class 121 electric locomotive and 37 ZAES tank cars.

Overview of the main capital investment projects completed and started in 2009

UNIPETROL RPA, s.r.o.

Name of investment	Purchasing price	CZK million		Rate of completion (%)	Location	Financing method
		Invested in 2008 and earlier	Invested in 2009			
Increase of polypropylene production to 275 kt/y	900	756	129	100	local	Own resources
Increasing the capacity of the steam cracker	577	472	22	100	local	Own resources
Biofuel preparation and burning - stage	407	394	13	100	local	Own resources

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Refurbishment of the 235 cooling tower (T 200)	135	90	45	100	local	Own resources
Revamp of the BA-102 pyrolysis furnace	127	35	92	100	local	Own resources
Refurbishment of the BA-103 pyrolysis furnace	77	0	77	100	local	Own resources
Refurbishment of the BA-101 pyrolysis furnace	48	0	48	100	local	Own resources
Replacement of the TG11 generator	60	21	32	75	local	Own resources
Replacement of the TEA wash solution pumping set	96	28	29	55	local	Own resources
Refurbishment of the R200 - replacement of the T102 and T101 transformers	70	0	39	55	local	Own resources
Refurbishment of the BA-104 pyrolysis furnace	100	0	29	29	local	Own resources
Refurbishment of the BA-107 pyrolysis furnace	77	0	19	25	local	Own resources

ČESKÁ RAFINÉRSKÁ, a.s.

Name of investment	Purchasing price	CZK million		Rate of completion (%)	Location	Financing method
		Invested in 2008 and earlier	Invested in 2009			
Steam cracker feedstock unloading	146	107	30	100	local	Own resources
Removal of electrical equipment from FAR 7	131	63	57	100	local	Own resources
Recycle compressor 2512 - reliability improvement	97	34	63	100	local	Own resources
Increasing energy efficiency – phase 1	93	51	37	100	local	Own resources
Modernisation of	456	112	237	99	local	Own

FCC's LPG section – phase 1						resources
Tank farm Kralupy upgrade	141	86	25	94	local	Own resources
Slurry oil filtration	138	4	57	37	local	Own resources

PARAMO, a.s.

Name of investment	Purchasing price	CZK million		Rate of completion (%)	Location	Financing method
		Invested in 2008 and earlier	Invested in 2009			
Intensification of HOSD-PS41 - phase 1 (hydrogen compressor)	50	21	23	100	local	Own resources
Upgrade of reactor 36R-321's control system	6	0	6	100	local	Own resources
Upgrade of the process oil production unit (semi-pilot operation)	6	0	6	100	local	Own resources
Expansion of modified bitumen production - phase 2	5	0	5	100	local	Own resources
Refurbishment of the VR28 storage tank	25	0	11	45	local	Own resources

BENZINA, s.r.o.

Name of investment	Purchasing price	CZK million		Rate of completion (%)	Location	Financing method
		Invested in 2008 and earlier	Invested in 2009			
Redesign and upgrade of the BENZINA filling stations	57	0	57	100	local	Own resources
Cash register/card system replacement	169	35	87	78	local	Own resources

Butadien Kralupy a.s.

Name of	Purchasing	CZK million		Rate of	Location	Financing
		Invested	Invested			

investment	price	in 2008 and earlier	in 2009	completion (%)		method
New Butadiene 120 kt	1 231	534	508	99	local	Own resources

UNIPETROL DOPRAVA s.r.o.

Name of investment	Purchasing price	CZK million		Rate of completion (%)	Location	Financing method
		Invested in 2008 and earlier	Invested in 2009			
Retrofit of the ZAES tank cars	72	0	72	100	local	Own resources
Retrofit of an electric locomotive (class 121)	15	0	15	100	local	Own resources
Retrofit of the rail car scale on track 106 in Kralupy	3	0	3	100	local	Own resources

1.8.1 Principal projects for 2010

- Refineries: Upgrade of the tank site, slurry oil filtration, retrofit of the slop system, and upgrade of the rail tank filling station in the Kralupy refinery. In the Litvínov refinery, these will primarily include the retrofit of the electrical equipment required by legislative amendments. In the Pardubice refinery, the renovation and upgrade of the electricity distribution control room, as well as the retrofit of storage tanks, will continue. The upgrade of the process oil production unit will be one of the largest projects currently in preparation.
- Petrochemicals: Investments focus mainly on ensuring the reliable operation of the production units. The primary projects include retrofits of the pyrolysis furnaces and the energy grid. In terms of development, the completion and commissioning of the new butadiene unit in Kralupy continues to be the largest project. As far as the observance of environmental legislation is concerned, the largest projects are the refurbishment of sewage water separation and projects for groundwater protection against pollution.
- Retail: Continued refurbishment and extension of the filling station network and completion of the replacement of the cash register card system.

MAIN PROJECTS FOR 2010 (Capital expenditure in CZK million)

Name of investment	Company	Total purchasing price	Location	Financing method
Slurry oil filtration	ČESKÁ RAFINÉR SKÁ	71*	local	own resources
Kralupy tank farm modernisation	ČESKÁ RAFINÉR SKÁ	72*	local	own resources
Retrofit of N11, N12, and VR28 storage tanks	PARAMO	35	local	own

Renovation and upgrade of the power distribution control room (35 kV / 5k V)	PARAMO	11.5	local	resources own
Revamp of BA-104, BA-105, BA-107 and BA-110 pyrolysis furnaces	UNIPETR OL RPA	289.3	local	resources own
Retrofit of the R200 distribution room – replacement of the T102 and T101 transformers	UNIPETR OL RPA	70.2	local	resources own
Upgrade of the TDC 3000 control system to T700 – replacement of operating stations	UNIPETR OL RPA	26.5	local	resources own
New Butadiene 120 kt	Butadien Kralupy	627.8*	local	resources own
Replacement of the cash register / card system	BENZINA	169.4	local	resources own
Construction of a new filling station at Chotěbuz	BENZINA	48.4	local	resources own
Refurbishment of a Benzina Standard filling station	BENZINA	50.5	local	resources own

*Capital expenditures correspond to the Unipetrol's share in Česká Rafinerská (51.22%) and in Butadien Kralupy (51%)

1.9 Asset portfolio optimisation

In 2009, the optimisation of Unipetrol's asset portfolio continued with regard to its long-term strategy, which rests on three pillars: crude oil processing, petrochemical production and fuel retailing.

Unipetrol was successful in further strengthening its position in the core segments by the following acquisitions, divestments and restructuring processes.

Squeeze-out of minority shareholders from PARAMO, a.s.

Following the acquisition of 14.51% of Paramo shares from Middle European Investment at the end of 2007 and 3.73% of Paramo shares from PKN Orlen, in January 2009 the process of the squeeze-out of the remaining minority shareholders, holding 8.23% of the shares, was approved by the general meeting of Paramo. The consideration proposed by Unipetrol was CZK 977 per share, totalling CZK 107 million for the minority stake. The squeeze-out process was conducted with the prior approval of the Czech National Bank (CNB) as the authority regulating squeeze-outs and similar procedures, and was completed on 4 March 2009 when the title to all of the remaining Paramo shares was transferred to Unipetrol, which then became the 100% owner of Paramo.

Acquiring full ownership of Paramo makes it possible for Unipetrol to further optimise and align Paramo with the refining segment within the PKN Orlen/Unipetrol Group. The positive effects of the commercial coordination between Paramo and Unipetrol RPA already were accounted for in 2009. Additional synergies can still be expected from the alignment of Paramo with Česká rafinérská, a.s., in which Unipetrol currently holds a 51.22% stake and is prepared to increase its stake if one of the two remaining shareholders decides to exit the company, subject to economically justifiable terms. The optimisation of the refining assets within the entire Group, and their further commercial alignment, will be fundamental for future growth and development in respect of value creation for our shareholders, and is also expected to facilitate the capture of synergies.

Restructuring of UNIPETROL TRADE, a.s.

Historically, Unipetrol TRADE was a trading company selling refinery and petrochemical products on selected foreign markets, represented by 13 companies and 2 offices abroad. Together with the centralisation of trading activities under Unipetrol RPA, launched in 2007, an impact on the various subsidiaries of Unipetrol TRADE was produced, and they also became redundant. Focused on improving the pricing policy and increasing efficiency, also in the area of administrative expenses, the restructuring of the Group's business model resulted in a closure, merger or disposal of a majority of Unipetrol TRADE companies in recent years.

As a result of several restructuring processes, in 2009 Unipetrol TRADE held shares in two subsidiaries, UNIPETROL Deutschland GmbH and Chemapol (Schweiz) AG, and also had a trade representation office in Hungary.

The merger of three German subsidiaries of Unipetrol TRADE resulted in the establishment of UNIPETROL Deutschland GmbH at the end of 2008. In 2009, the next step of the restructuring within the company took place, resulting in Unipetrol TRADE obtaining 100% ownership of the shares, which was necessary for the transfer of UNIPETROL Deutschland GmbH to Unipetrol RPA planned for late 2010.

In relation to Chemapol (Schweiz) AG, various restructuring paths were exploited in 2009, and the decision was taken to liquidate the company upon disposal of its valuable assets.

In 2009, the Hungarian office also ceased to exist.

Once the restructuring processes for the two remaining affiliates of Unipetrol TRADE are completed, Unipetrol's corporate structure will be streamlined following the elimination of Unipetrol TRADE from the Group. The final steps in this direction are expected to be feasible in 2010/2011.

Closure of the oxo-alcohol plant of UNIPETROL RPA, s.r.o.

In June 2009, the oxo-alcohol plant in Litvínov, owned by Unipetrol RPA, was closed down. The move was taken as it was believed to constitute the most effective solution because of the low scale, obsolescence and poor technical condition of the facility.

A supplementary increase of the share capital of Butadien Kralupy, a.s.

Following the sale of KAUCŮK, a.s. (currently Synthos Kralupy, a.s.) in 2007 by Unipetrol to Firma Chemiczna Dwory S.A. (currently Synthos S.A.), a joint venture, Butadien Kralupy, was created with Unipetrol holding a stake of 51% and co-owned by Synthos Kralupy, to operate the butadiene unit and secure off-takes of C4 volumes from Unipetrol RPA and sales of Raffinate 1 to Unipetrol RPA. The butadiene unit is expected to start operation in the first half of 2010. In March 2010, the shareholders therefore decided on a supplementary share capital increase of CZK 150 million in proportion to their respective stakes in the company, in order to provide the funds for the financing of the completion of the construction of the butadiene unit as agreed in the 2007 Joint Venture Agreement between Unipetrol and Firma Chemiczna Dwory. Unipetrol will provide for 51% of the capital increase, i.e., CZK 76.5 million.

Monitoring of retail expansion opportunities

Expansion of Benzina's retail network has always been among Unipetrol's key objectives. In 2009, Unipetrol analysed various investment opportunities in this area, and it continues to monitor the development of the retail market in order to be in a position to take advantage of any opportunities that may appear.

Restructuring of other areas outside the strategic pillars

In recent years, Unipetrol also focused on logistics and energy, where optimisation processes were launched with a view to developing a strategy for long-term organic growth.

In 2009, optimisation related to its logistics asset, Unipetrol DOPRAVA, which provides rail transport services to Unipetrol Group companies, and PETROTRANS, the supplier of road haulage services, within the Unipetrol Group continued.

The completion of Unipetrol DOPRAVA restructuring to maintain efficiency and competitiveness for growth, and the continued enhancement of business excellence in PETROTRANS have been defined as the prerequisites for any further considerations in the context of the logistics strategy for the entire Group. These targets are expected to be achieved by late 2010. The future of the two above-mentioned entities will be considered with regard to the PKN Orlen/Unipetrol Group's objectives, especially the expected expansion of Benzina' network of filling stations.

In the energy area, certain considerations were made in 2009, and are to continue in the first half of 2010, in respect of energy self-sufficiency as a necessary precondition for the flexible development of the core business in the future. The optimisation of energy demand and supply within the Group and security of fuel supplies for its power plants in operation have been evaluated as the principal and minimum requirements to be met by the energy strategy, which is currently being updated. Unipetrol's development towards the achievement of these goals hand in hand with a strategic partner could be one of the possible outcomes of this energy strategy.

1.10 Major research and development achievements

Business Unit Refinery, Česká rafinérská and Paramo

Work on developing and upgrading the refining segment in relation to petrochemical production continued in 2009. In co-operation with the Research Institute of Inorganic Chemistry, Unipetrol RPA continued its research activities focused on alternative fuels of the future and on optimising catalytic processes. The development of a low-cost hydrocracking catalyst was completed successfully.

Two independent development studies on the future of refinery operations have been in progress since 2008. In co-operation with a research centre of the Research Institute of Inorganic Chemistry, Unipetrol RPA launched a number of research activities focused on the optimisation and development of alternative options for the operation of the steam cracker. Research also focused on alternative fuels of the future and the optimisation of catalytic processes in both the Litvínov and Kralupy refineries.

A government-sponsored research project for environmentally friendly softening agents entered into its final stage in 2009. As in previous years, the project was carried out with the participation of Paramo, which spent much effort on research into the production technology. In response to tyre manufacturers' great demand for TDAE modified extracts, Paramo devotes maximum attention to the development of these softening agents too. Starting in 2010, materials containing PAH may not be used in the tyres of vehicles intended for road transport. Furthermore, Paramo innovated with and broadened its range of lubricants and bitumen products.

As regards road bitumen, Paramo leveraged the results of its previous research and development work. The subsequent presentation of these results helped to markedly increase the sales of MOFALT modified bitumen. The refinery also received valuable knowledge for the further management of the quality of bitumen products intended for road building and maintenance from an organisation conducting inter-laboratory intercomparison tests.

Business Unit Monomers and Chemicals

Unipetrol RPA's R&D is concentrated in three key areas – plastics, petrochemicals, and refining. Polymer Institute Brno provides research in plastics for Unipetrol RPA. The Research Institute of Inorganic Chemistry in Ústí nad Labem has been providing, after incorporating of analytical chemistry section, for almost all of the company's petrochemical and refining research. In addition to these institutions, Unipetrol cooperates very closely with universities, most notably the Institute of Chemical Technology in Prague. Research and development results are applied as part of technical support in production, development of strategies, and also directly when introducing new products into the production portfolio.

The objective of research and development in petrochemicals was to improve the product portfolio. Examples of the practical application of R&D results include the launch of a new product, the non-hydrogenated C10 fraction, and the preparation of a capital investment project aimed at adding more types of monomers to the petrochemical product portfolio. Specifically, these are technical dicyclopentadiene and the non-hydrogenated C9 fraction of aromatic hydrocarbons.

All of the products find a broad range of uses, primarily as monomers in many applications, most notably hydrocarbon resins, which rank among the most important chemical products used for the production of paper, rubber, dyes, adhesives, printing inks, floorings, textiles, toner cartridges, electronics, tyres, concrete, and many other products.

The work on a feasibility study for the further debottlenecking of the steam cracker, which would support an increase in the capacity of the downstream processes – mainly polyolefins and other polymers – was completed.

Business Unit Polyolefins

In the field of polymers, the company focuses on innovating its product portfolio in accordance with trends and customers' and end users' requirements. A few new grades were developed aiming at either new applications or enhancing the parameters of existing ones.

In the field of polypropylene, for instance the MOSTEN EH 801 copolymer was launched in 2009. The product is now undergoing a phase of thorough and long-term testing, expected to take about a year, after which - if successful - it will be certified for use in pressure pipe applications.

In the field of polyethylene, the new grades launched in 2009 include LITEN VB 85, mainly intended for construction applications and featuring rigidity and increased environmental stress cracking resistance. The grade must meet stringent criteria for construction products in the EU.

Polymer Institute Brno, a subsidiary, is the main partner for portfolio development and innovations of the processes used by the company. Aside from material innovations, the know-how obtained is also implemented in production processes to reduce energy and improve yields.

1.11 Information technologies

The activities geared towards achieving a greater degree of consolidation of shared services continued in 2009, including an analysis of allocation keys for cost re-billing and compiling the Service Catalogue.

The migration of SAP systems from leased equipment to in-house hardware was completed. This resulted in a reduction in IT operating costs and achieving a greater independence of the provider of professional services at the data centre. In respect of SAP, two projects started in 2009 and their completion is planned for 2010: Building a data warehouse (BW) to consolidate financial and controlling data, and upgrading SAP from release 4.51 to release 6.

BENZINA prepared a major change in retail in 2009 - the RIS project, which will bring a new generation of hardware and software to rejuvenate the systems. The development of the relevant applications was completed, the replacement of the hardware at the filling stations is in progress, and the entire system will go live towards the end of the first half of 2010. This should result in a more comfortable client interface, broader range of services in relation to customer cards and the loyalty scheme, and, naturally, more economical operation of the entire system.

A new IT organisation structure was agreed and has been almost completely implemented, building on the logical connection between companies within Unipetrol Group, the sharing of certain services, and providing for synergies between companies.

1.12 Employees

A number of optimisation processes carried on from the previous periods.

The outplacement project was started in relation to the ongoing headcount reductions. The project includes support for released employees in the form of advice and assistance in looking for employment through an HR agency for five months following cessation of employment.

Unipetrol Group's unified payroll policy was implemented in 2009 and the HAY project, which consisted in the preparation of a new job position catalogue and its application in the Group's companies, was completed. The project included a revision of the qualification requirements for job positions, and the related revision of job descriptions is now in progress.

Another project was the reimplementation of SAP HR. The project included the preparation of technical support for the administration of the employee evaluation and MBO processes by managers. The project included the implementation of a management information portal. Project activities were completed in 2009.

Attention was paid to employees' development in 2009. The year saw a great degree of support for employees' education, specifically safety at work and communication. In this respect, several of Unipetrol Group's companies received a subsidy for employee education from the EU in 2009. Cooperation with secondary and tertiary education institutions continued as well.

Co-operation with trade unions is an important part of the personnel management policy. Collective bargaining was completed and collective agreements have been signed at Unipetrol RPA, execution on 19 January 2010; Benzina, on 28 January 2010; Unipetrol DOPRAVA, on 29 January 2010; and Paramo, on 11 March 2010. Unipetrol SERVICES completed the negotiations in February 2010 and the agreement was executed with effect from 1 March 2010. Česká rafinářská completed the collective bargaining on 1 March 2010 and the agreement was executed on 3 March 2010.

Average annual full-time equivalent number of employees at Unipetrol Group

Company	2006	2007	2008	2009
BENZINA, s.r.o.	119	101	100	93
CHEMOPETROL, a.s.	2,383	0	0	0
PARAMO, a.s.	844	799	771	717
UNIPETROL DOPRAVA, s.r.o.	513	491	488	459
UNIPETROL, a.s.	57	65	32	25
UNIPETROL TRADE a.s.	38	32	28	19
UNIPETROL RAFINÉRIE, a.s.	56	0	0	0
UNIPETROL RPA, s.r.o.	0	2,210	2,161	2,058
UNIPETROL SERVICES, s.r.o.	0	199	261	248
PETROTRANS, s.r.o.	193	219	230	224
UNIPETROL SLOVENSKO, s.r.o.	7	8	6	6
ČESKÁ RAFINÉRSKÁ, a.s. (51.22%)	352	352	347	340
KAUČUK, a.s.	929	480	0	0
Butadien Kralupy a.s. 51 %	0	0	0	2
TOTAL	5,491	4,956	4,424	4,191

Number of employees at the end of the accounting period

Company	31/12/2009
BENZINA, s.r.o.	96
PARAMO, a.s.	697
UNIPETROL DOPRAVA, s.r.o.	428
UNIPETROL, a.s.	25
UNIPETROL TRADE a.s.	19
UNIPETROL RPA, s.r.o.	1,955
UNIPETROL SERVICES, s.r.o.	238
PETROTRANS, s.r.o.	224
UNIPETROL SLOVENSKO, s.r.o.	6
ČESKÁ RAFINÉRSKÁ, a.s. (51.22%)	333
Butadien Kralupy a.s. 51 %	3
TOTAL	4,024

1.13 Financial standing

STATEMENT OF FINANCIAL POSITION

Changes in non-current assets

As at 31 December 2009, non-current assets of the Unipetrol Group amounted to CZK 38,061 million. In 2009 the Group acquired tangible assets worth CZK 2,523 million and intangible assets worth CZK 534 million.

Most investments went into the petrochemical segment (CZK 1,858 million), followed by investments in the refining segment (CZK 902 million) and the retail segment (CZK 213 million).

Changes in current assets

Total current assets amounted to CZK 20,188 million as at 31 December 2009 and were higher by approximately CZK 1,336 million compared with the previous year.

The higher prices of crude oil and final products were the main cause of the increase in inventories compared with 2008 (inventories increased by CZK 1,387 million).

Changes in equity

Total equity decreased from CZK 38,913 million in 2008 to CZK 37,871 million in 2009. The reason is the loss generated in 2009.

Changes in liabilities

Borrowings

Short-term bank loans and the current portion of non-current loans and borrowings decreased by CZK 1,644 million compared with 2008.

As a result of positive free cash flow and the continuing cash-pooling project, the Group was able to minimise its external financing requirements.

Trade liabilities

The main reason for an increase of CZK 2,935 million in trade liabilities compared with the previous year was the higher crude oil price.

Provisions

Compared with 2008, provisions increased by CZK 899 million, which was mainly caused by provisioning following the disposal of CO₂ allowances.

STATEMENT OF COMPREHENSIVE INCOME

The Group's revenues for 2009 amounted to CZK 67,387 million and were 31% lower than in 2008, mainly due to the lower quotations of refining and petrochemical products and a decrease in the quantities sold, mainly of refinery products.

The Group's operating loss of CZK 654 million for 2009 resulted from unfavourable macroeconomic conditions, mainly in the refinery segment, which was influenced by very low refinery margins and a narrow Brent-Ural differential. Petrochemical margins lower than in the previous year produced an additional negative impact on the results for 2009.

The above resulted in the Group's net loss of CZK 845 million, as compared with its profit of CZK 66 million achieved in 2008.

CASH FLOW

Net cash provided by the Group's operating activities in 2009 was lower by approximately CZK 479 million in comparison with 2008. At the same time, net cash used in investing and financing activities was lower by CZK 1,336 million and CZK 1,509, respectively, than in the previous year.

The increase in cash compared with the 2008 level resulted primarily from lower acquisition of tangible and intangible assets and higher proceeds from their disposals. Positive free cash flow was used for repaying loans and borrowings during 2009.

The Group's cash and debt position was very good and did not experience any major changes in 2009.

SALES REVENUES

Trends in sales revenues for own products and services

	2009 CZK thousand	2008 CZK thousand	2007 CZK thousand
Sales revenues	67,386,500	98,143,951	88,462,174

In 2009 the Unipetrol Group generated total revenues of CZK 67,387 million. Compared with 2008, the refinery segment achieved revenues lower by CZK 24,202 million, petrochemical revenues decreased by CZK 12,500 million, and retail revenues by CZK 2,501 million.

The results in 2009 were unfavourably influenced by lower refinery margins, crude oil prices below the 2008 level (approximately 35% lower) and the extremely low Brent-Ural differential (USD 0.81/bbl in 2009 v. USD 2.95/bbl in 2008). An additional negative effect resulted from weaker demand followed by lower sales volumes of refinery products.

Structure of sales revenues for own products and services sold, by line of business

Line of business	2009 Sales revenues in %	2008 Sales revenues in %	2007 Sales revenues in %
Refining	54%	55%	48%
Retail	11%	10%	10%
Petrochemical	34%	34%	41%
Other	1%	1%	1%

Revenues in the refinery segment went down by CZK 24,202 million in 2009 compared with the previous year and amounted to CZK 49,812 million. The drop is mainly attributable to lower product prices and lower volumes sold.

In the petrochemical segment, revenues amounted to CZK 25,343 million, which is CZK 12,500 million less than in 2008, mainly due to lower petrochemical prices.

Revenues in the retail segment, amounting to CZK 7,605 million in 2009, were CZK 2,501 million lower than in the previous year as a result of the decrease in fuel prices.

The share of segments' revenues in the Unipetrol Group's overall structure of revenues was stable compared with the previous year.

Structure of sales revenues by area

Area	2009 Sales revenues in %	2008 Sales revenues in %	2007 Sales revenues in %
Czech Republic	75	71	65
Other European countries	22	27	33
Other countries	3	2	2

Compared with 2009 and 2008, the Group achieved higher revenues from sales in the Czech Republic. Revenues generated in the other European Union countries were lower than in 2008 and 2007. The increase in domestic sales resulted from better margins earned on the Czech market.

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

	2009	2008	2007	2006
Profit for distribution	261,864	4,428,147	(9,121)	2,432,188
Allocation to the social fund	--*	0	0	0
Allocation to the reserve fund	--*	221,407	0	121,609
Number of yield-bearing shares	181,334,764	181,334,764	181,334,764	181,334,764
Profit / loss per share	1.44	24.42	(0.05)	13.41
Dividend per share (CZK) paid from retained profit of previous years	--*	17.65	0.00	0.00
Total for distribution	261,864	4,206,740	(9,121)	2,310,579
Profit brought forward as of 31. December	4,472,958	4,432,501	3,208,145	3,338,875

*The decision on the distribution of the profit 2009 will be taken at the Annual General Meeting.

1.14 Property, plant and equipment

UNIPETROL, a.s.

UNIPETROL, a.s. (Unipetrol), as a non-production company, owns most of the land within the production plants situated in the cadastral areas of Kralupy nad Vltavou and Litvínov. A major part of the land is situated underneath its subsidiaries' production facilities. Unipetrol also owns several plots of land outside of such production plants, part of which its subsidiaries use for their business as e.g. deposits, roads, pipeline sites etc.

The total area of land owned by Unipetrol within the cadastral area of **Kralupy nad Vltavou is approximately 2.443 million sq m** and in the cadastral area of **Litvínov approximately 8.382 million sq m**.

Unipetrol does not own any buildings or equipment on its land, nor has it any oil fields or natural gas production sources of its own. The properties, plant and equipment on Unipetrol's land are owned and operated predominantly by its subsidiaries. To a lesser extent, other entities not belonging to Unipetrol Group are the owners or tenants of such properties, plant or equipment where the subsidiaries have no use for such assets. Synthos Kralupy (previously Kaučuk), which is a former subsidiary of Unipetrol Group, is a major owner of buildings and equipment on the premises of the chemical production plants in Kralupy nad Vltavou .

An agreement benefiting Synthos Kralupy on the pre-emptive rights to specific land used for its activities was executed on the basis of the agreement on the sale of KAUCUK to the new owner, FIRMA CHEMICZNA DWORY S.A., Republic of Poland. The pre-emptive rights are registered in the real property register.

Tangible assets are described in detail in the Notes to the Consolidated Financial Statements. The land owned by Unipetrol 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, and the companies operating on the Kralupy premises (in particular Synthos Kralupy, Česká rafinérská and Unipetrol DOPRAVA) and on the Litvínov premises (in particular Unipetrol RPA and Česká rafinérská). The easements are provided for a consideration. For 2009, revenues from easement agreements amounted to CZK 102,962,000 (see chapter 4 – Notes to Unconsolidated Financial Statements).

Unipetrol RPA, Česká rafinérská and Unipetrol DOPRAVA use Unipetrol's land under easement agreements and at the same time own some plots of land situated outside the industrial area. The easements that may encumber such land do not constitute major items. In fact, buildings and machinery are the assets with more significance for these companies. Nor are easements, if any, encumbering the land owned by Benzina and Paramo significant from the point of view of the consolidation package.

The most important items in the property, plant and equipment category based on book value at the major subsidiaries as at 31 December 2009:

UNIPETROL RPA, s.r.o.

Land

The land described below includes land on which control and operating equipment for long-distance pipelines is located, and land encumbered by easement – pipeline protection zone easements. Other cases include land earmarked for future use, which is still to be determined.

Name / description of equipment / property	Net book value (thousands CZK)	Area (thousands m²)	Cadastre
Plot no. 1651/6	70	0.81	Komořany u Mostu
Plot no. 1170/1	40	13.38	Třebošice
Plot no. 245/2	48	15.82	Horní Jiřetín
Plot no. 266/16	44	0.34	Volevčice
Plot 279	20	0.99	Bylany u Mostu

Buildings

Full use for the long term, modernisation not planned for the medium term

Name / description of equipment / property	Net book value (thousands CZK)	Use	Total useful life, or need for upgrade	Remaining life
Silo building, structure 7814	90,205	Large-capacity storage for petrochemical production - plastics	60 years	57 years
Pelletisation building	84,894	Production equipment located there - granulation lines and cooling and process water treatment equipment	60 years	53 years
Water treatment building	117,369		25 years	15 years
Office building, 2859	66,150	Office building with support facilities	33 years	23 years

"Cechovní budova" building, petrochemicals	59,977	Office building with support facilities	50 years	21 years
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Plant and equipment

Full use for the long term, modernisation not planned for the medium term

Name / description of equipment / property	Net book value (thousands CZK)	Total useful life, or need for upgrade	Remaining life
Pyrolysis furnace - set of movables	835,029	14 years	9 years
Schell compressor - set of movables	273,932	10 years	4 years
DEETANIZER, DEPROPANIZER - set of movables	264,096	14 years	7 years
Vessels - polymeration	253,732	20 years	14 years
C-301 reactor gas compressor	105,884	14 years	9 years

ČESKÁ RAFINÉRSKÁ, a.s.

Plant and equipment

Name / description of equipment / property	Net book value (thousands CZK)	Area (thousands m ²)	Cadastré	Use
Catalytic crack	1,366,232	40	Kralupy refinery	production
Splitting unit	794,716	40	Litvínov refinery	production
Visbreaker	821,663	10	Litvínov refinery	production
Reforming CCR	275,513	10	Litvínov refinery	production
Vacuum distillation unit	259,846	10	Litvínov refinery	production

PARAMO, a.s.

Land

Name / description of equipment / property	Net book value (thousands CZK)	Area (thousands m ²)	Cadastré	Use
Handling area no. 1172/1-	24,000	33.50	SVITKOV	production
ADR, no. 823/1 – 19,775 m2 Svítkov	17,464	20.00	SVITKOV	production
Fire protection, Operation 03, no. 801 – 1,9276 m2	16,863	19.27	SVITKOV	production
Main storage facility, no. 826 – 18,494 m2 S	16,360	18.49	SVITKOV	production
Tanks, no. 828 – 17,631 m2 Svítkov	15,499	17.63	SVITKOV	production

Buildings

Name / description of equipment / property	Net book value (thousands CZK)	Total useful life, or need for upgrade	Remaining useful life	Use
Blending plant building	60,421	30 years	19 years	production
Office building – the new main building	32,097	77 years	63 years	offices
Multi-use building (cafeteria)	26,384	50 years	37 years	offices, dressing rooms
Operating building, SO-60	15,802	30 years	17 years	production
Production hall of metal sheet	13,332	50 years	11 years	production

Machines and equipment

Name / description of equipment / property	Net book value (thousands CZK)	Useful life, or need for upgrade	Remaining useful life	Use
Bitumen oxidation: control system switchboard	41,823	10 years	6 years	production
Reactor with a stirrer, 36RA-301 – OA	37,451	15 years	13 years	production
Hydrogen compressor, 41K-01C	24,195	10 years	10 years	production
Tank VR 21	21,976	17 years	9 years	production
Piping tie-in of vacuum distillation machinery	19,285	20 years	9 years	production

BENZINA, s.r.o.

Property, plant and equipment

Name/description of equipment, property	Book value (thousands CZK)	Purpose
Kladruby filling station	106,844	Trade and services facility
Holešovice, Argentinská 2 filling station	60,351	Trade and services facility
Nepomuk filling station	62,824	Trade and services facility
Plzeň Šlovice filling station, left side	57,175	Trade and services facility
Plzeň Šlovice filling station, right side	53,979	Trade and services facility

1.15 Capital resources

No new mid- or long-term credit transactions were made on the parent company level.

As of 31 December 2009, Unipetrol had CZK 2 billion in issued bonds, which will fall due on 28 December 2013, and Paramo had a CZK 12 million long-term loan, which will fall due on 30 March 2011.

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

Unipetrol's credit lines increased from the initial CZK 7,000,000,000 to CZK 8,485,000,000 in 2009. In addition, as of 31 December 2009, Unipetrol RPA had a separate open credit line of CZK 300,000,000.

Thanks to a centralised operating financing model, both financial and non-financial terms on which the Group companies receive operating finances were improved substantially. The efficiency of operating financing has improved significantly after the introduction of a real cash pooling system, resulting in major financial savings.

Unipetrol uses a real cash pooling system involving four reputable banks.

As part of operating financing of the parent company, Unipetrol, as of 3 July 2008 the bank guarantee for all of Unipetrol RPA's liabilities was increased to CZK 1,000,000,000 and as of 27 January 2009 the bank guarantee for all of BENZINA's liabilities was increased to CZK 5,150,000. Total balance of guarantees is CZK 1 265 milion as at 31 December 2009.

1.16 Risk management

Risk management in the Group is provided for by the document "Financial Risk Management Policy". This document defines the rules and recommendations governing Financial Management activities in the Unipetrol Group companies.

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

The document defines the activities, which each of the Treasury departments and, as the case may be, the authorised financial management department of Unipetrol SERVICES, s.r.o., is authorised 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.

In accordance with the financial risk management policy, no major hedging transactions took place in 2009. The applicable financial risk management policy is based on the principle that the Group companies act as conservative entities which in no event use their funds or positions for speculative purposes.

During 2009 one of the Group's companies made several major cost effective financial transactions (sell / buy back) with emission allowances (EUA and CER) to increase its natural hedge position and strengthen its liquidity position. All these transactions are accounted for as financial derivatives for trading. All derivatives are periodically revaluated at the fair value. All sell / buy back transactions will be finally settled by the end of 2010.