Management report 2013 of UNIPETROL, a.s.

Management report

Introduction

Unipetrol Group achieved revenues of CZK 99.4 bn in 2013, a 7% decline compared with 2012, stemming from lower crude oil price and lower sales volumes of refining and petrochemical products. Brent crude oil reached the average price level in 2013 of 109 USD/bbl, a 3% decline compared with 112 USD/bbl in 2012.

Operating profit decreased to CZK 1,589 m in 2013 from CZK 3,476 m in 2012 according to EBITDA LIFO indicator, adjusting 2012 result for impairments within the refining segment. Apart from continuation of the negative Czech GDP dynamics, the profound decline of refining margins was the key driver behind the financial performance deterioration. Unipetrol model refining margin indeed slumped to only 1.0 USD/bbl from 3.5 USD/bbl in 2012, as both gasoline and diesel crack spreads fell. Brent-Ural differential, at average level of 1.0 USD/bbl, was also lower in comparison with 2012. Additionally, the fuels grey zone in the Czech Republic connected to tax frauds maintained its very negative influence in the fuels market during most of the year. Refining segment operating loss, CZK (-) 1,142 m EBITDA LIFO, was therefore the main negative factor behind the weaker total Group profitability.

From the production point of view, there was the scheduled complete turnaround of Kralupy refinery in September and October within 4-year maintenance cycle. Project execution, which is generally always very demanding for Česká rafinérská, went successfully according to plan

Petrochemical segment maintained its position of the key profit maker of the Group achieving operating profit of CZK 2,285 m based on EBITDA LIFO indicator. This result represents an improvement of CZK 461 m compared with 2012, stemming from higher petrochemical margins, with Unipetrol combined petrochemical margin of 621 EUR per ton in 2013 versus 573 EUR per ton in 2012, and internal efficiency improvements resulting from Operational Excellence Initiatives.

Retail segment recorded operating profit of CZK 509 m based on EBITDA LIFO indicator in 2013, a significant improvement against 2012 results adjusted for one positive one-off item in 2012 (release of provision created in connection to the fine imposed by Antimonopoly Office – CZK 131 m). Benzina filling stations network benefited, firstly, from the new Motor Fuels Act in the Czech Republic, which has been valid since October 2013. The new legislation has already helped partially reduce the fuels grey zone, positively influencing Benzina's fuel margins and sales volumes at the end of the year. Secondly, Benzina sales volumes benefited from successful cross promotions with Tesco.

Net loss reached CZK 1,396 m in 2013, a better result compared with the loss of CZK 3,098 m in 2012, nevertheless worse result after adjusting 2012 loss for the impairments within the refining segment, overall corresponding to operating performance deterioration last year.

Operating cash flow reached CZK 300 m and free cash flow a negative level of CZK 1,388 m, representing a deterioration vis-à-vis 2012 due to worse operating performance. Total CAPEX achieved the level of CZK 2,404 m, with refining segment CAPEX of CZK 690 m, petrochemical segment CAPEX of CZK 1,485 m, retail segment CAPEX of CZK 157 m, and the remaining part dedicated to corporate functions CAPEX of CZK 72 m. At the same time Unipetrol Group maintained its financial gearing ratio on the solid level of 4.9%, corresponding to net debt at the level of CZK 1,390 m CZK at the end of 2013.

As regards the expected developments in the coming years, Unipetrol Group announced its Strategy 2013-2017 on 11 June, which was a major milestone within the Group development of the several past years. This crucial document determined the overall strategic directions of further business development till 2017. Refining segment will maximize utilization of its current production assets, improve operational efficiency targeting the lowest possible costs per crude oil barrel processed, and will serve as a stable provider of feedstock for the petrochemical segment and a stable motor fuels supplier for the retail segment. Petrochemical segment is regarded as the key profit maker of the Group in the coming years, and therefore, majority of planned capital expenditures will be directed to this segment till 2017. Retail segment is regarded as the second profit maker of the Group during years 2013-2017 with the key targets till 2017 to increase retail market share to at least 20% and to significantly increase throughput per station and non-fuel sales. Overall, Unipetrol Group will strive for Operational Excellence across all business segments, and at the same time for securing sound financial profile.

Apart from the Strategy 2013-2017, the acquisition of 16.335% stake in Česká rafinérská from Shell Overseas Investments B.V., signed on 7 November 2013 and successfully completed on 31 January 2014, was the most important event for Unipetrol last year. Unipetrol's stake in Česká rafinérská has increased from 51.22% to 67.555% and Unipetrol has therefore secured the Qualified Majority (QM) of votes with the 67.5% threshold. This transaction has been an opportunistic acquisition fully in line with Unipetrol Strategy 2013-2017 and supports its implementation through increased security of petrochemical feedstock supplies, faster implementation of Operational Excellence Initiatives and strengthening long-term presence on the Czech market.

Last but not least, the agreement of crucial importance for Unipetrol was the 3-year contract for Russian crude oil (REBCO) deliveries with Rosneft, the first long-term contract, which was signed on behalf of Unipetrol by its majority shareholder PKN ORLEN in June 2013. The agreement is valid from 1 July 2013 to 30 June 2016.

Key financial and non-financial data

Key financial data

CZK million	**2013**	**2012 (restated)**
Revenues	99,415	107,160
Gross profit	2,303	3,116
EBITDA LIFO	1,589	-599
EBITDA	1,522	-1,012
EBIT LIFO	-827	-3,406
EBIT	-893	-3,819
Refining segment		
EBITDA LIFO	-1,142	-2,937
EBITDA	-1,270	-3,324
EBIT LIFO	-1,614	-3,811
EBIT	-1,741	-4,197
Petrochemical segment		
EBITDA LIFO	2,285	1,824
EBITDA	2,340	1,802
EBIT LIFO	752	312
EBIT	807	291
Retail segment		
EBITDA LIFO	509	547
EBITDA	515	542
EBIT LIFO	180	212
EBIT	185	207
Corporate functions		
EBITDA	-63	-32
EBIT	-145	-119
Net finance costs	-450	-553
Loss before tax	-1,344	-4,372
Tax expense	-53	1,274
Net loss	-1,396	-3,098
Earnings per share (CZK)	-7.70	-17.08
Operating cash flow	300	1,975
Free cash flow	-1,388	1,054

CAPEX	2,404	1,345
Net working capital	5,786	5,178
Net debt	1,390	-243
Net debt / (equity – hedging reserve)	4.9%	-0.8%
Net debt / EBITDA	0.9	-0.1

- EBITDA LIFO – Earnings before depreciation and amortization, financial result and taxes; LIFO method used for inventories valuation (Last-In-First-Out)
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- EBIT LIFO – Earnings before financial result and taxes; LIFO method used for inventories valuation (Last-In-First-Out)
- EBIT – Earnings before financial result and taxes
- Free cash flow – Sum of operating and investing cash flow
- Net working capital – Sum of inventories and trade and other receivables, less trade and other liabilities
- Net debt / EBITDA – EBITDA in 2012, adjusted for impairment in the refining segment of CZK 4,075 m, at CZK 3,063m.

External environment

	2013	2012
Brent crude price, USD/bbl	109	112
Brent-Ural differential, USD/bbl	1.0	1.3
Unipetrol model refining margin, USD/bbl [1)]	1.0	3.5
Unipetrol model petrochemical olefin margin, EUR/t [2)]	369	335
Unipetrol model petrochemical polyolefin margin, EUR/t [3)]	252	238
Unipetrol model combined petrochemical margin, EUR/t [4)]	621	573

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

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

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

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

Key operating data (thousand tons)

	2013	2012
Crude oil throughput	3,607	3,927
Refining utilization ratio [1)]	80%	82%
Refining segment sales volumes, including retail segment (Benzina network)	3,151	3,283
Petrochemical segment sales volumes	1,578	1,771

[1)] From the third quarter 2012, the conversion capacity is 4.5 mt/y, i.e. only Česká rafinérská refineries conversion capacity, adjusted for 51.22% shareholding of Unipetrol, after discontinuation of crude oil processing in Paramo refinery (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y); conversion capacity was 5.1 mt/y previously (Česká rafinérská – Kralupy 1.6 mt/y, Česká rafinérská – Litvínov 2.8 mt/y, Paramo 0.7 mt/y).

Refining segment

Financial result of the refining segment

CZK million	2013	2012 (restated)
EBITDA LIFO	-1,142	-2,937
EBITDA	-1,270	-3,324
EBIT LIFO	-1,614	-3,811
EBIT	-1,741	-4,197

Key highlights of 2013

- Česká rafinérská signed two contracts with the Slovak national pipeline operator Transpetrol which determine new tariffs for Russian Export Blend Crude Oil (REBCO) transportation to the Czech Republic through the Slovak branch of the Druzhba Pipeline for 2013 and 2014. Both contracts bring direct savings to Unipetrol.
- 3-year contract for Russian Export Blend Crude Oil (REBCO) deliveries with Rosneft, the first long-term contract, signed on Unipetrol's behalf by its majority shareholder PKN Orlen in June. The agreement is valid from 1 July 2013 to 30 June 2016.
- Scheduled complete turnaround of Kralupy refinery in September and October within 4-year maintenance cycle. Project execution, which is generally always very demanding for Česká rafinérská, went successfully according to plan.
- Acquisition of 16.335% stake in Česká rafinérská from Shell Overseas Investments B.V. signed on 7 November 2013 and successfully completed on 31 January 2014. Unipetrol's stake in Česká rafinérská has increased from 51.22% to 67.555% and Unipetrol has therefore secured the Qualified Majority (QM) of votes with the 67.5% threshold.
- At the beginning of June, Paramo subsidiary started a new campaign for Mogul motor oils with the a new slogan „Mogul. Dobře hustý". (Mogul. Well dense).

External environment

External environment of the refining segment

	2013	2012
Brent crude price, USD/bbl	109	112
Brent-Ural differential, USD/bbl	1.0	1.3
Unipetrol model refining margin, USD/bbl [1)]	1.0	3.5

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

Crude oil, gasoline and diesel prices

Brent oil price was moving within the range from 97 USD per barrel to 119 USD per barrel with the average level of 109 USD per barrel. The development of crude oil price was very dynamic in 2013 and was conditional by number of factors, e.g. geopolitics, development of the world economy or current situation on both demand and supply side. Firstly, the Iranian crisis led to the steep increase of Brent oil prices up to 119 USD per barrel, and then the industrial production in the US and China recorded worse results for the first quarter compared with expectations which caused a steep decline of crude oil prices under 100 USD per barrel in April.

Increase of crude oil demand followed by significant unexpected production outages in Libya, Nigeria and Iraq resulted in the gradual increase of Brent crude oil price during the period from the second half of April till 21 August to the level of 111 USD per barrel. Subsequent jump to the level of 115 to 117 USD per barrel where the price persisted till 20 September was a result of the use of chemical weapons in Syria and the threat of possible US army response to this incident. Short-term but significant decrease of Brent oil price during the first week in November to the level of 103 USD per barrel was a response to improving relations between Iran and the US, and to the expectation of high crude oil reserves in the US. From the second half of November till the end of the year the Brent oil price was traded in the range from 108 USD per barrel to 113 USD per barrel.

European quotations of automotive gasoline relatively to crude oil price maintained moderately high levels from the beginning of the year till the end of August, as gasoline crack spread, i.e. the price quotation difference between gasoline and Brent crude oil, averaged 188 USD per ton. This was the basis for quite solid refining margins during the first two thirds of the year. High level of gasoline crack spreads stemmed from the interplay of high demand and scheduled regular spring maintenance shutdowns of refineries, and also annual high summer demand from the US. The Iranian crisis might have also contributed to the high level of gasoline crack spreads in February. The last quarter of the year was however in the stark contrast to the period of the first eight months, as gasoline crack spread fell to 100 USD per ton repeatedly with the average level of 116 USD per ton.

The diesel price relatively to the Brent crude oil price was, compared to gasoline, quite stable during the year. Average level of diesel crack spread to Brent was 117 USD per ton with the monthly lowest average of 108 USD per ton and the monthly highest average of 131 USD per ton. Quite weak and stable level of diesel crack spread was due to worldwide sufficient production capacities, and it was also a result of the ongoing modernization program of refineries and construction of new coastal terminals in Russia increasing the production of diesel in the Euro 5 quality, and increase of export capacities on the Arabian Peninsula.

Refining margins

Performance of the European refining sector was overall weak during 2013. In the environment of zero economic growth and structural problems of several national economies, the refining sector was again dealing with overcapacity of production capacities and reached the utilization rate of 78%.

Unipetrol model refining margin reached the averaged level of 1.0 USD per barrel in 2013, which represents a drop by 2.5 USD from the level of 3.5 USD per barrel in 2012. The average price differential between Russian crude REBCO and Brent, the Brent-Ural differential, was equal to 1.0 USD per barrel, and the average premium of light sweet crude oil Azeri Light to Brent was equal to 3.2 USD per barrel.

Crude oil purchases

For Unipetrol, 2013 was characterized by continued strategic cooperation with Unipetrol´s majority shareholder, PKN Orlen, as part of which crude oil has been supplied through the Druzhba and TAL-IKL oil pipelines under long-term contracts since 2006.

In the course of 2013, supplies of Russian Export Blend Crude Oil (REBCO) via Druzhba pipeline for Unipetrol were stable with no supply outages. On 21 June 2013 PKN Orlen signed an agreement with Rosneft for REBCO deliveries via Druzhba pipeline, in the quantity of maximum 8.28 million tons to Unipetrol. The agreement is valid from 1 July 2013 to 30 June 2016. The contracted volumes can cover from 60% to 100% of Unipetrol's total demand for REBCO crude depending on the economics of the contracted deliveries relative to the conditions prevailing on the crude oil market at a given time.

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

Pipeline and rail supplies from various Moravian crude oil deposits to Kralupy refinery continued in 2013 on the basis of long-term business relationships. These amounted to approx. 3.3% of the total crude processed by Unipetrol.

Crude oil purchases in 2013 (thousand tons)

REBCO-Druzhba & REBCO-IKL	2,302	63.5%

Seaborne low-sulphur crude supplies for Kralupy refinery	1,194	33.0%
Moravian crude	127	3.5%
Total	**3,623**	**100.0%**

Production

Crude oil throughput and refining utilization ratio

	2013	**2012**
Crude oil throughput (thousand tons)	3,607	3,927
Refining utilization ratio [1)]	80%	82%

[1)] From the third quarter 2012, the conversion capacity is 4.5 mt/y, i.e. only Česká rafinérská refineries conversion capacity, adjusted for 51.22% shareholding of Unipetrol, after discontinuation of crude oil processing in Paramo refinery (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y); conversion capacity was 5.1 mt/y previously (Česká rafinérská – Kralupy 1.6 mt/y, Česká rafinérská – Litvínov 2.8 mt/y, Paramo 0.7 mt/y).

3,607 thousand tons of crude oil in total were processed for Unipetrol in the production facilities of Česká rafinérská during 2013, which is by 8% lower compared with 2012. Refining utilization ration reached 80%. Refining production was negatively affected by floods in large part of the Czech Republic's territory, which occurred in early June. The floods caused major disruptions in transportation, affecting transportation of finished products and raw materials, particularly imported bio-components for motor fuels. Floods also affected domestic producers of biofuels, who were forced to temporarily stop their production.

The year 2013 was characterized by periodic maintenance turnaround of Kralupy refinery, which is conducted once every four years. In addition to routine maintenance and cleaning, several important investment projects were implemented during the downtime. Worth mentioning is the replacement of cyclones of the regenerator unit at FCC. Another investment project was the modification of the propylene column which allows for the use of a catalyst for the higher yields of propylene, thus a higher upgrade of refined raw materials. Measures for energy efficiency improvement were also implemented during the shutdown. These will reduce the energy intensity of production, energy costs, and reduce greenhouse gas emissions.

From the internal operations point of view we had to face a negative impact of lost sales volumes due to unplanned Kralupy refinery shutdown at the turn of May and June which was a result of operational difficulties with the FCC unit (Fluid Catalytic Cracking). The unplanned shutdown resulted from a lack of storage capacity for the FCC unit feedstock. The excess feedstock for the FCC unit was a consequence of difficulties with the FCC unit operations occurring since middle of May.

Paramo subsidiary, after permanent discontinuation of crude oil processing in the middle of 2012, preserved production of lubricant oils and bitumen using imported feedstock. Production of base oils and lubricant oils was based at the plant in Kolín. This production is focused on blending and finalization of motor oils of all performance categories, gear, hydraulic and other industrial oils. Oil hydrogenates from Unipetrol RPA are the feedstock. Production of process oils for the rubber industry and production of special industry oils and liquids was concentrated at the Pardubice plant. VGO distillate from the PKN Orlen refinery in Plock is the feedstock material.

Paramo subsidiary's production of bitumen and bitumen products is located at the plant in Pardubice. Paramo produces a wide range of industrial bitumen products intended predominantly for building purposes and special hard bitumen products intended for applications in road construction and for highly loaded bitumen surfaces. Distributor is ORLEN Asfalt Česká republika. Feedstock is provided by Unipetrol RPA. Paramo has been also providing storage and dispatch services for diesel and gasoline, for Unipetrol RPA and the Administration of State Material Reserves – Czech Republic (ASMR).

Market position and sales

Market development

Based on the statistical data from March 2014, the Czech market showed a significant gasoline decline of 6.3 % from January till November 2013 y/y and a slight increase of diesel of 0.8%. Such development is similar to the developments in neighboring markets of Germany, Austria and Slovakia.

Czech market, as the most open one in Central Europe, remained heavily occupied by importing competition by all means of transport including road, rail and pipe supply. Grey zone imports, benefiting from VAT frauds, accelerated during the first half of the year. Implementation of the new legislation against these tax frauds resulted in limiting the imports, unfortunately catching mainly direct road supply, while leaving terminals accessible by railway in continuing activity.

Market position

Unipetrol was struggling for the domestic refining product market throughout the year, facing mainly:

- illegal import competition in the area of VAT and bio-components fulfillment: frauds achievable in these operations create fully uncompetitive environment, where no market contest is possible,
- substantial gasoline consumption decline,
- big pressure from other Česká rafinérská's processors and neighboring refineries.

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

thousand tons	2013	2012
Total refining sales volumes, including retail segment	**3,151**	**3,282**
Diesel, including retail segment	1,701	1,749
Gasoline, including retail segment	782	810
JET	69	93
LPG	88	124
Fuel oils	124	100
Naphtha	5	6
Bitumen	222	226
Lubricants	33	31
Rest of refining products	128	143

Domestic motor fuels sales

The company managed to conclude new contracts and maintained its leading position with key domestic market players. During refineries shut-downs, a regular supply to clients have been secured regular supply to our clients, keeping inventory and supply management undisturbed. Many achievements were accomplished in the area of bio-components, mainly increased sales of high-concentrated bio-fuels, starting-up of own bio-components supply to the external terminals or improved conditions in bio-blending in the Čepro system. New sales representatives were employed to deepen the regional coverage and cater all customers.

Export Motor Fuels Sales

Slovak market was also in 2013 the key export territory, where Unipetrol has increased its market share despite consumption drop. The company has been also focusing on Hungarian market and established several supply options with key market players. Both markets are serviced by the subsidiary Unipetrol Slovakia. During 2013, the supply of Orlen Deutschland was started in the neighboring Saxony region of Germany, all service stations STAR accessible from the company's refineries are currently selling fuels produced by Unipetrol refineries. The company strengthened its cooperation with many clients in Germany and Austria, switching most of the sales into direct truck supply from various road terminals. In Germany, a new supply channel via Unipetrol Deutschland, with full custom and bio clearance for the relevant customer segment was opened.

Other refining product sales

Refining segment has been supplying feedstock for the petrochemical segment and feedstock for Paramo subsidiary. Sulfur was delivered mainly to Spolana, except the summer flood months.

Sales of road bitumen and heavy residues used for bitumen production were much higher than during previous years and were exclusively taken off by Orlen Asphalt and Paramo.

Most of LPG sales in 2013 were mainly directed abroad, especially to Germany and the Southern and South-Eastern European markets. Market share slightly decreased in the Czech Republic (especially the sales of Propane - Butane mix) due to very strong competition and aggressive price policy in refining gases imports from the Eastern Europe.

Sales of low sulfur heating mils materialized in the Czech market, partly abroad and to the energy complex of Kralupy site. Seasonal surpluses of high sulfur heating oil produced in the Litvínov refinery, emerged especially at the start of the year, were exported as the maritime bunker fuels, because of strong and more rigorous environmental restrictions on the inland European market (same as a part of low sulfur heating oils).

Paramo subsidiary market position and sales

Paramo's market share exceeds 23% and within some segments, e.g. oils sales to some retail chains and bitumen products sales, it exceeds 50% market share. More than 60% of Paramo's production is exported, mainly base and process oils.

Marketing support is focused predominantly on finished oils. MOGUL EXTREME motor oils are the flagship of the company. They meet the highest demands on performance of all-year operation. Oils from the series MOGUL PROFESSIONAL are designed for car service stations. For two-stroke and four-stroke engines of modern motorcycles, the special product series MOGUL MOTO has been developed. Paramo was awarded prestigious PETROL Awards in section „Product" for this motor oil series. Motor oils for trucks are represented by oil series MOGUL DIESEL which meets strict emission limits EURO IV and V. They guarantee very long service intervals. Paramo offers also comprehensive oils series MOGUL ALFA for garden equipment.

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

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

Paramo maintained deliveries of the processed oils to the Continental Group with which the company also extended cooperation at the end of 2013. The cooperation continued with additives producers and also new foreign customers for sale of base oils were gained.

Finished oils and greases were exported into 25 countries. Paramo managed to start sales also in Belarus, Finland and Turkmenistan. The main export territory was Slovakia where Paramo is represented by its subsidiary Mogul Slovakia. Germany, Hungary and states of the former Yugoslavia were other important territories.

The company managed to keep its presence in all major retail chains and companies such as OKD, ArcelorMittal Ostrava and Třinecké železárny. The company is present in the Mountfield service network, and also supplies greases to the Czech Railways and hydraulic oils for the Army of Czech Republic.

Expected development in 2014

International energy forecasts for 2014 are still expecting growing demand for crude oil and fuels, driven by GDP growth in populous Asian countries, and certain tension between resources and demand. Concurrently, the higher costs of crude oil production, in the areas with more demanding conditions for exploration and production, can be expected, as well as tighter environmental requirements during production or transportation. Higher levels of crude oil and fuel prices are expected due to these factors.

During 2014, European refining sector will continue to face competitive pressure from refining industries in the North America, Middle and Far East, and Russia, in the environment of stagnant or falling European demand. The company expects that the domestic Czech market will continue to be influenced by new legislation from the end of 2013, which tries to mitigate the grey zone and tax evasions within motor fuels trading.

Unipetrol will be focused on the speed-up of Operational Excellence Initiatives execution in Česká Rafinérská after the acquisition of Shell's 16.335% stake was successfully completed on 31 January 2014. Sales volumes should be enhanced by further fuels grey zone limitation in the Czech Republic. Unipetrol will be also investing in synergies between refining and petrochemical segments, and will be at the same time involved in regulatory affairs management in the Czech Republic in the area of further fuels grey zone limitation and biofuel burdens.

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

- Lubricant oils and greases,
- Bitumen and bitumen products,
- Services – warehousing and expeditions of oils,
- Continuous restructuring – cost optimization and performance enhancement.

Petrochemical segment

Financial result of the petrochemical segment

CZK million	**2013**	**2012 (restated)**
EBITDA LIFO	2,285	1,824
EBITDA	2,340	1,802
EBIT LIFO	752	312
EBIT	807	291

Key highlights of 2013

- Permanent shut-down of the urea production unit in Litvínov according to plan at the beginning of the year.
- Realization of the project for intensification of the packaging line at the Chezacarb plant.
- Higher sales of high-density polyethylene (HDPE) and polypropylene (PP) in the D-A-CH region (Germany, Austria and Switzerland), mainly thanks to the subsidiary Unipetrol Deutschland.
- Participation in the K-Show in Düsseldorf – the most important international plastics trade fair – gaining new potential clients for the further expansion of sales (sales increase of polypropylene and polyethylene in the coming years).
- Signing of the license agreement with INEOS in October, based on which Unipetrol acquired the right to use a production process and technology for the new polyethylene unit (PE3). Purchase of the license is the first achieved milestone and represents the official start of the project's execution. The construction of a new polyethylene unit is a key investment project within the Strategy 2013-2017.

External environment

External environment of the petrochemical segment

	2013	**2012**
Unipetrol model petrochemical olefin margin, EUR/t [1)]	369	335
Unipetrol model petrochemical polyolefin margin, EUR/t [2)]	252	238

Unipetrol model combined petrochemical margin, EUR/t [3)]	621	573

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

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

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

Olefins and chemicals

The effort to keep stability of the European ethylene market visible in the last quarter of 2012 carried on also to 2013. This was not the only parallel with the previous year. The same was also the relatively weak competitiveness of European ethylene derivatives on the global market, caused by high European ethylene prices. The average spread between European and U.S. contract prices for 2013 exceeded 450 EUR/t. Derivatives producers in the U.S. managed to benefit from this cost advantage and began to displace European products not only from export markets but subsequently also from the European one. Derivatives producers from Asia were also in better position. This influenced level of European demand for ethylene, which was described as weak for most of the year. Besides derivatives, ethylene itself also headed to Europe. It was not only due to the high European prices but also because of huge number of planned steam cracker shutdowns. An important factor was again the consumers' behavior purchasing product primarily for direct consumption and refusing inventory building during the whole year.

Unplanned shutdowns, cracking of lighter feedstock and regular restocking at the beginning of the year helped to keep European propylene market in certain tightness during the first quarter. Decrease of spread between European and U.S. propylene prices helped to improve position of European derivatives producers in the global market, products from Asia remained competitive. Higher level of demand in this period was connected mainly with preparation for approaching spring shutdown period, structural demand remained weak. Its improvement began only in the second half of the year. Low inventory level in the whole propylene chain reduced seasonal effect on the level of demand in the summer. The second round of planned cracker shutdown brought also some support. The market balanced, the prices stayed relatively high till the end of the year.

High volatility of prices was a significant feature of European benzene market in 2013. Interdependence of price fluctuations on the markets in Europe, the U.S. and Asia was the key factor for development on the European market. The increasing proportion of lighter feedstock cracking at European crackers and development in crude oil and naphtha markets played also the crucial role. The year 2013 began with settling of the historically highest benzene contract price on the European market at the level of 1,153 EUR/t. None of following contract prices came closer to this level during the rest of the year. Level of demand from downstream sectors was weak for most of the year. There were several reasons behind this development. Besides huge number of planned styrene and phenol plants shutdowns, there was also a visible impact of continuing bad economic situation in the construction and automotive industries.

Weakening of European ammonia prices, visible in the last two months of 2012, continued consecutively also in 2013. The prices in Yuzhny as well as in Europe lost more than 200 USD/t from beginning of the year till the middle of December. However, price decline was not fully continual. Besides the second half of December, there was also a short period during August and September when prices were increasing. Shutdown of Ukrainian plants due to market reasons and limited production of ammonia in Trinidad and North Africa because of limited natural gas availability stood first of all behind this growth. Level of demand from agricultural and industrial sectors was weak almost during the whole year, the weaker urea and phosphates prices hindered demand for ammonia in the second half of the year first of all.

Unipetrol model olefin margin reached 369 EUR/t in 2013, which represents a 10% increase compared with 2012, when the margin reached 335 EUR/t.

Polyolefins

The year 2013 was in terms of demand and sales results not the best one, despite the fact that the macro development was, compared with 2012, not so volatile. Political and economic situation worldwide was influencing the demand, i.e. the higher was an expectation of price increases, the higher was demand, and vice versa, when there was a first signal of price decline, the demand for polyolefins slowed down significantly or time to time totally stopped.

Fluctuations in demand occurred several times during the year. Quite good demand was recorded during summer, but unfortunately the possibilities in sales were influenced by one external factor – floods in June – and then by two unexpected shutdowns of steam cracker, which had a significant impact on polyethylene and polypropylene production and on the availability of all grades. A decline in demand was reported then in September and during October on the contrary, due to the prices downward trend.

Unipetrol model polyolefin margin reached 252 EUR/t in 2013, which represents a 6% increase compared with 2012, when the margin reached 238 EUR/t. Unipetrol model combined petrochemical margin reached a very solid level of 621 EUR/t in 2013, which represents an 8% increase compared with 2012, when the combined margin reached 573 EUR/t.

Market position and sales

From the internal operations point of view we had to face a negative impact of lost sales volumes due to two unplanned shutdowns of the steam-cracker in Litvínov. The first shutdown occurred in July and was driven by technical difficulties with a steam pipe, which showed crack and associated steam leakage. Pipe repair could not be carried out during operation. The second shutdown occurred in September due to additional unexpected technical difficulties.

Sales volumes of petrochemical products

Thousand tons	2013	2012
Total petrochemical sales volumes	**1,578**	**1,771**
Ethylene	140	156
Benzene	189	205
Propylene	31	41
Urea	5	175
Ammonia	186	141
C4 fraction	79	77
Butadien	58	67
Polyethylene	280	289
Polypropylene	231	237
Rest of petrochemical products	380	383

Olefins and chemicals

In the area of olefins and chemicals, sale of steam cracker products and ammonia is the core business of Unipetrol. The most important steam cracker products include ethylene, propylene, C4 fraction and benzene. Sales of the Carbon Black Chezacarb, used primarily for modifying electric conductivity of plastics and for producing thermoplastic mixtures and concentrates, geotextiles, and geomembranes, have been in the forefront in the recent years. Neither the structure of the customer portfolio nor the size of the market shares in the Czech Republic changed substantially.

The Czech Republic continued to be the principal market for the steam cracker products, with olefins, C4 fraction and benzene processed either at the Unipetrol’s plants or carried to the strategic customers (Spolana, Butadiene Kralupy and Synthos) through the existing product pipelines. Steam cracker’s by-products were supplied primarily to the Czech and Central and Western European markets. As in previous years, the domestic market was the destination for most of the ammonia. The main reason was a long-term ammonia supply contract with the largest fertilizer producer in the country. Production of urea was terminated at the beginning of 2013 due to technical obsolescence and low economic efficiency.

Polyolefins

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

Unipetrol's HDPE production capacity significantly exceeds consumption on the domestic market, and therefore approximately two thirds of the HDPE produced are exported from the Czech Republic. Conversely, PP consumption on the domestic market exceeds the overall PP production capacity, which is why the share of export is well below one half of the polypropylene produced (39% of produced volume in 2013). In addition, for certain applications, in particular in the automotive industry, carmakers themselves require certain specific materials or use compounds made abroad, and so our company cannot increase its share on the Czech market arbitrarily.

Sales activities in logistically distant countries such as Italy and Spain continued to be curtailed. Czech Republic and Germany are the key markets for polyolefin sales. For Germany and the entire D-A-CH region (Germany, Austria and Switzerland), Unipetrol relies a lot on the services of its subsidiary Unipetrol Deutschland. Company also continued in activities leading to customer portfolio optimization with the clear aim of margin potential improvement during the year.

Final sales of polyolefins were on level of 280 thousand tons of HDPE and 231 thousand tons of PP.

Expected development in 2014

Olefins and chemicals

Key customers plan quite high utilization of the main units and Unipetrol petrochemicals production does not plan any major shut down in 2014, available capacities thus correspond to actual market needs. Main factor influencing demand will be therefore general macro and market development. Speed of shale gas feed implementation in the US will probably have some impact on naphtha pricing policy, utilization and efficiency of crackers in Europe. European consumers will continue to purchase product predominantly for direct consumption, and accordingly, low level of inventories will significantly lower their flexibility to react to unplanned plant shutdowns.

As in 2013, the benzene market should stay volatile also in 2014. Interdependence of price fluctuations in Europe, the U.S. and Asia should also persist. Western Europe and the US will remain the most important importers. Availability of benzene in these territories will further limit cracking of lighter feedstock. Some improvement from the agricultural as well as industrial sectors is expected on the ammonia market. Availability of ammonia from Ukraine and North Africa should be key factor for European market.

Polyolefins

Market is again predicting volatile price trends and corresponding to volatile demand for polyolefins during 2014. Still quite fragile economic recovery unfortunately does not help market conditions to improve.

To resist these trends, Unipetrol worked out a strategy which will lead to the stabilization of sales. Activities relating to the redirection of sales volumes from less profitable products, countries, application segments and customers to the more profitable ones with the aim to improve the margin potential, will continue, Key part of the strategy is to further increase the share of more stable long-term contracts with price formulas, as well as acquisition of new processors, higher production and sales of the more sophisticated products in which the competition from low-cost producers is not so big and higher prices are therefore achievable.

The sales team should in the future also support other product sales of the subsidiary Polymer Institute Brno. The company will try to offer its customers in a package with HDPE and PP also concentrates and composite materials produced in PIB.

Retail segment

Financial result of the retail segment

CZK million	**2013**	**2012 (restated)**
EBITDA LIFO	509	547
EBITDA	515	542
EBIT LIFO	180	212
EBIT	185	207

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

Key highlights of 2013

- Implementation of the Customer View program to improve customers perception and loyalty with the Benzina filling stations network
- Completion of the construction of the third unmanned filling station Expres 24 in Ostrava in December

External environment

For the whole year 2013 there were both macroeconomic and technical factors influencing motor fuels consumption in the Czech Republic. Among the macroeconomic factors were GDP and unemployment dynamics, and also related saving households behavior manifesting itself in lower demand for automotive gasoline. Among the technical factors were the renewal of car fleet from cars with gasoline engine to cars with diesel engine with lower consumption and also the fact that new cars with gasoline engine show lower fuels consumption.

There was a higher excise tax rate on diesel in the Czech Republic compared to some neighboring countries which influenced the shift of diesel purchases of international transit transportation companies from the Czech Republic to the other surrounding countries.

A special category on its own is represented by tax evasions and their impact within the entire portfolio of negative influences on the state budget revenues, companies operation and competitive environment. Therefore during the first half of 2013 there were several measures introduced to improve this situation. These measures were approved in new legislation, mainly in the Fuels Act and the Trade Act. Stricter rules for trading with fuels and several other control mechanisms came into force in October, respectively in November 2013.

A new area of consumers interest is the increased demand for alternative liquid fuels with a high content of bio-component (E 85, B 100) offered with a significant tax incentive which motivates consumers to purchase them or create their own cheaper mixtures using biofuels. The expansion of high-volume biofuels fictionally assists also in fulfilling the bio-obligations and allows for a greater utilization of fuels without bio-component.

The above stated factors were the key drivers for the development of motor fuels demand on the domestic Czech market in 2013, which can be characterized, in comparison with 2012, by a decrease of gasoline consumption by 7% and stagnation of diesel consumption.

Market position and sales

Market position

The retail company of the Unipetrol Group, BENZINA, s.r.o., is the operator of the largest network of filling stations in the Czech Republic. As of 31 December 2013 it operated 338 filling stations with a wide range of fuels with additives. A selected segment of filling stations offers a collection of the premium VERVA fuels and a wide assortment of the other goods, refreshments and services. This network has been, particularly between years 2006 and 2010, gradually renovated and modernized. It is currently divided into three segments – the premium segment represented by 116 BENZINA Plus filling stations, the standard portfolio segment of BENZINA filling stations, and the segment of self-service filling stations under the Expres 24 brand. By the end of 2013 the third unmanned filling station Expres 24 was finished in Ostrava. A total of 95% of the filling stations in all segments has been modernized.

Benzina's market share in 2013 increased compared with 2012 from 13.7% to 14.5%.

Fuel sales

The key activity of Benzina consists of fuel sales, sales of other goods and services at its filling stations. The sales structure confirmed the long-term trend of higher demand for diesel at the expense of automotive gasoline.

Structure of fuel sales at filling stations (%)

	2013	2012
Gasoline	35.9	36.4
Diesel	64.1	63.6

In 2013, the trend of growing share of diesel sales continued. The share of diesel sales increased by 5.2% in 2013 compared with 2012. Among the types of diesel sold, the increase was driven by standard diesel TOP Q with additives (+5.7%) and also by premium diesel VERVA (+5.3%) and arctic diesel (+11%).

Gasoline sales increased by 3.2% compared with 2012. Natural 95 remains the dominant gasoline sold with a share of 96% out of total gasoline sales and it showed increase of 2.9% y/y. Sales of high-octane gasoline VERVA 100 increased by 11.6% y/y. Since its introduction in 2006, the sales of high-octane gasoline VERVA 100 has been gradually increasing and reached a share of 3.5% out of the total gasoline sales in 2013.

As a part of the nationwide monitoring of the quality of fuels sold in the public networks of filling stations conducted by the Czech Trade Inspection, which publishes these results, Benzina had all examined fuels without any defects. As part of the "Quality Seal" internal program (Pečeť kvality), 1,869 samples were examined by an independent accredited laboratory and 99.9% of them were without any defects.

Combination of achieved fuel sales in 2013, including the share of premium fuels, in relation to the total market decline of demand for automotive gasoline, stagnation of demand for diesel and distortion of competitive environment by noticeably low prices associated with tax evasions, and operating cost savings significantly contributed to the good financial results of the retail segment.

Non-fuel sales

Total revenues from the non-fuel sales very slightly declined by 0.3% in 2013 compared with 2012. Positive dynamics was nevertheless recorded within the gastronomy sub-segment with a revenues increase by 12% y/y. Implementation of the fast-food concept of Stop Cafe bistro contributed in particular to this positive development. Customers can enjoy a good cup of coffee, tea and hot dogs in Stop Cafe bistros.

Expected developments in 2014

In the current economic conditions in Eurozone and taking into account economic reforms in the Czech Republic, especially the adoption of growth oriented measures by the Czech government, a small GDP growth can be expected with a positive impact on increase of fuels demand on the domestic market, which should be especially driven by a higher output of sectors with a high diesel consumption. Tax advantaged bio-fuels and CNG will keep strengthening is market position. This is valid particularly regarding customers with a lower purchasing power, who will move towards cheaper bio-fuels, mixtures or kinds regardless of the state of the car fleet or manufacturer's recommendations, always to the detriment of classic taxed fuels. Due to the highly competitive environment of filling stations, there will be again a high pressure on fuel margins during 2014.

Approval of new stricter legislation for doing business in the area of fuel distribution and sales will continue to mitigate unfair practices and tax frauds. Traders connected to the grey zone should be gradually displaced from the market in favor of fair market players. Continuous expansion of the alternatives offer, such as CNG or quick-charging stations for cars with electric engines, can be expected. Alternative high-volume bio-fuels will also have a certain market position. The remaining free space on the market will be gained by the category of low-cost self-service filling stations.

Priorities of the company within the adopted Strategy 2013-2017 remain a market share increase of fuel sales, an increase of the average fuels throughput on filling stations, and also sales increase within the non-fuels segment. Benzina will also strive for additional increase of customers trust. As regards capital investments, finalization of the network reconstruction will continue, as well as car washes modernization. Upon the evaluation of the pilot project of self-service filling stations Expres 24, this concept will be extended in suitable locations. We are also preparing continuation of interesting marketing promo events in cooperation with strong business groups with the aim to support fuel sales, including goods and services of the non-fuel character, and last but not least to support perception of Benzina brand. Based on the market development, status of car fleet modernization and new technologies of fuel combustion in cars, expansion will continue, as regards the offer of the fuels assortment in terms of CNG, premium fuels, a new type of operating fluid Ad Blue or other alternatives.

Investments

Investments in petrochemical segment in 2013 were mainly focused on maintaining operating reliability, safety and on meeting the requirements of the environmental legislation and increasing effectiveness of our operation, especially energy efficiency. The major investment projects focused on reliability including regular refurbishments of the steam cracker pyrolysis furnaces and overhauls of the process equipment including second stage of reconstruction of distribution room R200 and electrical resistance heating reconstruction in the steam cracker. From the modernization projects LPG unloading on rail 234b has been started.

Unipetrol RPA signed a license agreement with INEOS, based on which it acquired the right to use a production process and technology for the new polyethylene unit (PE3). Purchase of the license is the first achieved milestone and represents the official start of the project's execution.

New Chezacarb bagging line will enable to increase sales of this product by improving logistic capacity.

Major investment in our subsidiary VÚANCH was focused on building UniCRE (Unipetrol Centre of Research and Education). The basic goal is to intensify and improve effectivity of research and development in area of industrial chemistry and environmental technologies. Project should be completed in 2014.

Refinery segment invested mainly in maintenance, environmental protection, reliability and availability of the installations. In 2013 regular shutdown of Kralupy refinery, which represented the major investment, was successfully realized. Other important investments in 2013 were energy efficiency phase 2 in Kralupy refinery (reduction of energy consumption at Kralupy refinery), waste water treatment in Kralupy.

Unipetrol Doprava main project, started in 2013, was safeguarding appliance in Kralupy which is outdated and technical conditions would not allow to operate it.

Tank VR52 refurbishment was the main investment activity at Paramo. In order to increase effectiveness of Paramo operation project for solvent exchange has been commenced in 2013.

Our retail segment focused mainly on modernization and reconstruction of the existing Benzina fuel stations, replacement of security surveillance cameras, and replacement of car washes and refurbishment of wastewater treatment plants. Benzina also started to build one new E24 station in Ostrava.

Other segment comprises mainly IT related projects. The main IT project in 2013 was Data Center consolidation.

Unipetrol Group CAPEX overview according to investment category and business segment in 2013 and plan for 2014 (CZK million)

Investment category/ Business segment		Refining	Petrochemicals	Retail	Other	Total
2013	Development	86	505	96	37	724
	Maintenance/refurbishment	508	906	49	35	1,498
	Environment	69	26	3	0	98
	Safety	27	48	9	0	84
	Total	**690**	**1,485**	**157**	**72**	**2,404**
2014	Development	42	318	182	17	559
	Maintenance/refurbishment	299	720	54	29	1,102
	Environment	52	73	3	0	128
	Safety	34	17	8	6	65
	Total	**427**	**1,128**	**247**	**52**	**1,854**

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

Research and development

Unipetrol RPA's R&D is focused on three basic key areas – plastics, petrochemicals, and refining. Polymer Institute Brno, spol. s r.o. provides research in the field of plastics, and the Research Institute of Inorganic Chemistry (Výzkumný ústav anorganické chemie, a.s. – VÚAnCh) in Ústí nad Labem provides petrochemical and refining research. In addition to these institutions, Unipetrol cooperates very closely with universities, most notably the Institute of Chemical Technology in Prague (VŠCHT). Research and development achievements are applied within the technical support of production, development of strategies, and also directly when introducing new products into the production portfolio.

Since 2010 VÚAnCh, a.s., the subsidiary of UNIPETROL, a.s., is building a new advanced research and education center Unipetrol Centre for Research and Education – UniCRE for industrial chemistry in Chempark Záluží in Litvínov. The center will focus on research, development, innovation and education in the field of refining and petrochemical technologies, environmental technologies and processes for efficient use of renewable resources and energy. Till the end of 2013 the reconstruction of main laboratory building was finished and the total investment for this project was CZK 232 m. Total costs of the project, which was supported by a grant from the EU in amount of CZK 600 m, are estimated to be approximately CZK 800 m. The center is planned to be finished at the first half of 2015.

Refining segment

Research work in the last year continued on the development of refining segment relative to the petrochemical production. In cooperation with the Research Institute of inorganic Chemistry continued development of hydrocracking processes aimed at increasing yield of middle fractions, better evaluation of heavy oil residues and optimization of steam cracker feedstock.

Unipetrol in cooperation with research Institute of Inorganic Chemistry solved in the year 2013 a number of research projects focused on the processing of residue from visbreaking process in the bitumen production, on improving the quality of heavy fuel oil from refinery and petrochemical productions.

The next project was focused on development of hydrocracking process of vacuum distillate with the objective of extending the operating cycle of the catalyst, increasing the yield of middle distillates and the possibility of using an alternative catalyst.

In 2014, development works will continue on the evaluation of heavy fractions from crude oil, use of petrochemical heavy fractions for fuel oils and to ensure higher production and quality of diesel components. Another research plan will be focused on treatment and improving the quality of refining fractions designated as the feedstock for Steam Cracker.

Paramo subsidiary managed to innovate already established products which respect development and efficiency trends especially in the area of industrial oils. A novelty is a series of high performance multifunction cutting oils PARAMO UNICUT, which company offers as an only one producer in the Czech Republic.

Petrochemical segment

Olefins and Chemicals

Research and development in the area of olefins and chemicals is provided by the Research Institute of Inorganic Chemistry in Ústí nad Labem and Polymer Institute Brno. Long-term targets in petrochemicals aim to improve the product portfolio and to increase efficiency of production. The main topics in 2013 were a research focused on the utilization of alternative sources of feedstock for steam cracker, research of butadiene production possibilities and research of new feedstock for the POX process. Possibilities of Carbon Black Chezacarb properties improvement were also examined within the research of feedstock for POX. Application properties of the conductive carbon black in plastics were further examined in Polymer Institute Brno.

The other major project stemming from in-house research and development is the production process for technical dicyclopentadiene (DCPD). This project is a part of the new presented Development Strategy of Unipetrol for 2013-2017. The product finds use primarily as a monomer for the production of hydrocarbon resins.

Polyolefins

In the field of polyolefins, Unipetrol continuously optimizes its product portfolio. Optimization is done by cancellation of non-perspective products and by modifying the existing products or developing new ones.

Main activities in the area of high-density polyethylene (HDPE) production were directed to the upgrading the properties of polymeric materials and the development of innovative two catalyst systems for special types of HDPE. Part of research work was focused on the development of new mode for stabilizing of polymers, namely HDPE. The aim of this development was to optimize the properties of selected types of HDPE and simplify the procedure for stabilizing polymers.

As regards activities within polypropylene (PP) production, these were focused in two key areas – development of new types of polymers with enhanced properties and innovation of existing types in order to reduce operating costs. There was completed the development of new type polypropylene – a copolymer with improved creep resistance, which is applicable for production special structural panels. The part of activities was focused on the replacement of phthalates based stabilizers for other environmentally appropriate types.

All research and development activities are realized in close cooperation with the subsidiary Polymer Institute Brno, s.r.o., which also provides specialized technical service to Unipetrol through customer support.

In 2014, research works in the plastics area will continue with a focus on development of new types and innovation of existing types in the production of HDPE and PP.

Employees

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

Unipetrol Group was among the biggest companies in the region with its 3,647 employees in 2013.

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

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

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

In connection with the reduction of the staffing levels, the outplacement services were provided to dismissed employees.

Total number of employees of Unipetrol Group (persons) as of 31 December 2013

Company	2013
BENZINA, s.r.o.	85
Butadien Kralupy a.s. (51%) [1)]	10
ČESKÁ RAFINÉRSKÁ, a.s. (51,221%) [1)]	325
PARAMO, a.s.	483
PETROTRANS, s.r.o.	155
POLYMER INSTITUTE BRNO, spol. s r.o.	91
UNIPETROL, a.s.	47
UNIPETROL DEUTSCHLAND GmbH	17
UNIPETROL DOPRAVA, s.r.o.	418
UNIPETROL RPA, s.r.o.	1,556
UNIPETROL SERVICES, s.r.o.	278
UNIPETROL SLOVENSKO, s.r.o.	10
Výzkumný ústav anorganické chemie, a.s.	145
MOGUL SLOVAKIA, s.r.o.	15
HC VERVA Litvínov, a.s.	12
Total	**3,647**

[1)] Number of employees in ČESKÁ RAFINÉRSKÁ, a.s. (100%) was 635 and in Butadien Kralupy, a.s. (100%) was 20.

Education of employees

Education of the Unipetrol Group's employees in 2013 was primarily focused on maintaining the level of qualification of employees in production and additional qualified development company's specialists.

The HR personnel focused on ensuring educational programs, which were organized within the programs financed from EU's funds and which took place during years 2010 – 2013.

As recipients of the subsidies or partners, the following companies are involved in the projects - UNIPETROL RPA, s.r.o., UNIPETROL DOPRAVA, s.r.o., UNIPETROL, a.s., UNIPETROL SERVICES, s.r.o. a PARAMO, a.s.

In the area of employees' education, the project "Education for Competitiveness of the Chemical Industry in Czech Republic" financed from EU's subsidies ended in December 2013. Unipetrol cooperated within this project with the Association of Chemical Industry of the Czech Republic. Within the project 363 persons were trained during 2011 – 2013.

In the area of company's education, 6,864 persons received mandatory training, 847 persons attended professional or vocational seminars and 296 persons attended foreign language courses as at December 2013.

A new application called "Evaluation of educational events" was made available to employees in 2013 to asses evaluate the effectiveness of language courses.

Workforce structure

Workforce structure in 2013 corresponds to character of the whole Group. The most frequent level of education is of secondary level, which is usually common in the production company. Higher education is quite frequent as well. It is mostly favored within the managerial and leadership positions.

As one of the biggest employers, Unipetrol offers attractive work conditions which instigate loyalty among employees. This is according to the employment structure by the worked years – the largest group within this category is the “11-20 years” followed by “21-30 years” group.

Employment structure of the Unipetrol Group as of 31 December 2013

Employment structure by education	
Primary	5%
Vocational	31%
Secondary	**44%**
Higher	20%
Employment structure by gender	
Men	**73%**
Women	27%
Employment structure by length of employment	
<5	21%
(5-10>	18%
(11-20>	**26%**
(21-30>	21%
>30	14%
Employment structure by age	
<31	8%
(31-40>	22%
(41-50>	**35%**
(51-60>	29%
>60	6%

HR policy

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

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

Strategic directions in HR policy

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

- Responsibility

- Progress
- People
- Energy
- Dependability

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

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

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

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

Financial standing

Consolidated statement of financial position

Changes in non-current assets

As of 31 December 2013, non-current assets of the Unipetrol Group amounted to CZK 25,664 million. In 2013, the Group acquired tangible assets worth CZK 2,056 million and intangible assets worth CZK 324 million.

Most investments went into the petrochemical segment (CZK 1,485 million), followed by investments in the refining segment (CZK 690 million) and the retail segment (CZK 157 million).

Changes in current assets

Total current assets amounted to CZK 24,334 million as of 31 December 2013 and were lower by approximately CZK 443 million compared to the previous year, especially due to the lower Cash and cash equivalents.

The higher quantity of crude oil and other inventories were the main cause of the increase in inventories compared to 2012 (inventories increased by CZK 136 million).

Changes in equity

Total equity decreased from CZK 29,844 million in 2012 to CZK 28,299 million in 2013 as a result of the loss generated in 2013.

Changes in liabilities

Borrowings

Total Loans, borrowings and debt securities decreased by CZK 325 million compared to 2012. During the year 2013 bonds in the amount of 2 billion had been paid up. At the same time, the company received the first tranche of the mid-term loan from its majority shareholder PKN ORLEN S.A. in the amount of CZK 2 billion. The second tranche in the same amount of CZK 2 billion was received in January 2014.

Trade liabilities

The main reason for the increase of CZK 855 million in trade liabilities compared to the previous year was increase in crude oil liabilities at the end of 2013.

Provisions

Compared to 2012, provisions increased by CZK 76 million, which was mainly caused by higher provision recognized for estimated CO_2 emissions.

Consolidated statement of profit or loss and other comprehensive income

The Group's revenues for 2013 amounted to CZK 99,415 million and were 7% lower than in 2012, mainly due to lower crude oil price, significantly lower refining margins, lower sales volumes in refining segment stemming from scheduled complete turnaround of Kralupy refinery in September and October within 4-year cycle, as well as lower sales volumes in the petrochemical segment.

The Group's operating loss of CZK 893 million on EBIT level for 2013 was negatively influenced by more challenging macro environment during 2013 compared to 2012, especially in refining segment. The Group's operating loss of CZK 3,819 million on EBIT level for 2012 resulted mainly from one-off impairments of fixed assets in the amount of CZK 4,075 million in relation to non-current assets of ČESKÁ RAFINÉRSKÁ, a.s. included in the refining segment.

Czech economy continued to be in the recession, refining margins dramatically decreased compared to 2012 while petrochemical margins maintained solid levels. The fuels grey zone maintained its negative influence on the refining and retail segments during most of the year. Czech National Bank currency interventions at the beginning of November 2013 significantly weakened CZK vis-a-vis both EUR and USD by ca 6% which caused a positive impact on Czech exports, in the short-term rather negative for Czech households purchasing power.

The above reasons caused the Group's net loss of CZK 1,396 million, the refining segment being the key driver.

Consolidated statement of cash flows

Net cash provided by the Group's operating activities amounted to CZK 300 million in 2013.

At the same time, investing and financing activities resulted in cash outflow in the amount of CZK 1,688 million and CZK 584 million, respectively.

The decrease in cash compared to the 2012 level resulted primarily from lower cash flow from operating activities, as well as from higher capital expenditures in 2013 compared to 2012.

The Group's financial position was still good and on solid levels at the end of the year as the net debt amounted to CZK 1,390 million and financial gearing, defined as the ratio of net debt and equity, amounted to 4,9%.

Revenues

Trends in revenues for own products and services

	2013	2012	2011	2010	2009
	CZK thousand	CZK thousand	CZK thousand	CZK thousand	CZK thousand
Revenues	99,414,790	107,159,785	97,427,586	85,966,537	67,386,500

In 2013 the Unipetrol Group generated total revenues of CZK 99,415 million, which is 7% less than in 2012.

Structure of revenues by business segments

Business segment	2013	2012	2011	2010	2009
	Revenues in %	Revenues in %	Revenues in %	Revenues in %	Revenues in %
Refining	53	56	57	54	54
Petrochemical	36	35	33	36	34
Retail	11	9	10	9	11
Other	0	0	0	1	1

External revenues in the refining segment went down by CZK 6,676 million in 2013 compared to the previous year and amounted to CZK 52,848 million. The decrease is mainly attributable to lower crude oil price, significantly lower refining margins, and lower sales volumes in the refining segment stemming from scheduled complete turnaround of Kralupy refinery in September and October.

In the petrochemical segment, external revenues amounted to CZK 36,033 million, which is CZK 1,259 million less than in 2012, mainly due to lower sales volumes.

External revenues in the retail segment, amounting to CZK 10,453 million in 2013, were CZK 183 million higher than in the previous year as a result of the New Motor Fuels Act to mitigate fuels grey zone which caused the positive impact on fuel margins and fuel sales.

The share of segments' revenues in the Unipetrol Group's overall structure of revenues changed slightly in comparison with the previous year. The share of the refining segment decreased from 56% to 53%, meanwhile, the share of the petrochemical segment increased from 35% to 36% and the share of the retail segment increased from 9 % to 11%.

Structure of sales revenues by area

Area	2013	2012	2011	2010	2009
	Revenues in %	Revenues in %	Revenues in %	Revenues in %	Revenues in %
Czech Republic	69	71	71	69	75
Other European countries	29	27	27	28	22
Other countries	2	2	2	3	3

Compared to 2012, the territorial structure of the Group's revenues remained stable when the majority was directed toward EU countries.

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

	2013	2012	2011	2010	2009
Profit for distribution	937,692	403,972	-229,925	512,121	261,864
Allocation to the social fund	--[1)]	--	--	--	--
Allocation to the reserve fund	--[1)]	20,199	--	25,606	13,093
Number of profit-bearing shares	181,334,764	181,334,764	181,334,764	181,334,764	181,334,764
Profit / loss per share	5.17	2.23	-1.27	2.82	1.44
Dividend per share (CZK) paid from retained profit of previous years	--[1)]	--	--	--	--
Total for distribution	937,692	383,773	-229,925	486,515	248,771
Profit brought forward as of 31. December	6,049,883	5,132,389	4,716,455	4,971,986	4,472,958

[1)] Dividend policy is not formally established. The decision on the distribution of the profit 2013 will be taken at the Annual General Meeting.

Property, plant and equipment

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

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

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

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

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

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

Capital resources

The main topic of the 2013 year was repayment of bonds issued by UNIPETROL, in amount CZK 2 billion, which was repaid including interests as of 28 December 2013.

In relation to above mentioned repayments of the bonds, the new intercompany mid-term loan agreement was signed between PKN ORLEN and UNIPETROL, a.s. Based on the Agreement, Unipetrol received a mid-term loan in the amount of CZK 4 billion. The purpose of the loan is the diversification of Unipetrol's funding sources and extension of maturity.

The loan is divided into two tranches of CZK 2 billion each. First tranche was received on 17 December 2013 and second tranche was received on 24 January 2014.

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.

The level of short-term loan provided by the banks to UNIPETROL was not changed and it is still in amount CZK 10,900 million in 2013 (including separate open credit line for Unipetrol RPA in amount CZK 150 million).

Thanks to a centralized 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 thanks to the introduction of a real cash pooling system.

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

Within the scope of operating financing of the parent company UNIPETROL, a.s. the bank guarantees in the total amount of CZK 589 million were provided for all of Unipetrol RPA's liabilities (in the total amount of CZK 541 million), Unipetrol Services (in total amount CZK 7 million), Benzina's liabilities (in total amount CZK 29 million), and Paramo's liabilities (in the total amount of CZK 12 million). Additionally, UNIPETROL, a.s. issued a guarantee for UNIPETROL RPA, s.r.o. in favor of ČEPRO, a.s. to secure an excise tax of CZK 150 million.

Risk management

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

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

The documents define the activities, which each of the Treasury departments and, as the case may be, the authorized financial management department of subsidiary Unipetrol Services, is authorized to carry out 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 mentioned policies, 154 commodity swaps, in the amount of 9,883,500 barrels, were executed in 2013 in order to hedge crude oil price due to timing difference between purchase price and price at the time of processing. 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.