



Management report 2015 of UNIPETROL, a.s.

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Introduction

Unipetrol Group achieved revenues of CZK 109 bn in 2015, which is lower by 12% compared with 2014, stemming from the significantly lower crude oil price and, partially, due to lower production and sales volumes of petrochemical products as a consequence of the accident and following shutdown of the steam cracker unit since 13 August 2015. The downstream macro environment was exceptionally favorable in 2015. Both refining and petrochemical margins reached very high levels driven by a drop in crude oil prices. Brent crude oil reached the average price of 53 USD/bbl in 2015, which is by 47% lower compared with 2014. The average Unipetrol's model refining margin significantly increased to 5.2 USD/bbl in 2015 from 1.4 USD/bbl in 2014. The model combined petrochemical margins reached record high levels, with an average of 816 EUR/t. The Brent-Ural differential, at an average level of 1.8 USD/bbl, was also slightly higher in comparison with 2014.

The operating profit increased to CZK 10.9 bn in 2015 from CZK 2.9 bn in 2014 based on EBITDA LIFO. This profound improvement was driven by positive GDP dynamics in the Czech economy as well as in the Eurozone, by very strong both refining and petrochemical margins supported by a drop in crude oil prices, by an increase of refining products sales volumes as well as by internal improvements within the Operational Excellence Initiatives of CZK 1.7 bn.

From the production point of view, there was one event which considerably influenced utilization of production units. On 13 August, an explosion and consequent fire at the steam cracker unit at the Chempark Záluží plant in Litvínov led to the steam cracker unit shutdown for the rest of the year. The operation of Litvínov refinery as a main provider of feedstock for the steam cracker unit was limited. Polymer units (polyethylene and polypropylene) were put back into operation at limited extent thanks to external deliveries of ethylene and, partially, of propylene. As a result of the accident the refining utilization ratio dropped to the level of 84%.

Looking at each segment, the downstream segment significantly improved its results with EBITDA LIFO at the level of CZK 10.2 bn. This great result was achieved mainly thanks to much better macro conditions stemming from the GDP growth and a drop in crude oil prices, and much higher sales of refining products driven by operating of a 100% stake in Česká rafinářská from 1 May 2015.

The retail segment recorded a very good result as well and overall it achieved operating profit of CZK 0.8 bn based on EBITDA LIFO. The result was mainly driven by better fuel margins, higher fuel sales volumes and non-fuel sales thanks to GDP growth and marketing activities of Benzina.

The net profit reached CZK 7.0 bn in 2015 which is a profound improvement compared to the year 2014 with a net loss of almost CZK 0.6 bn. The operating cash flow increased significantly to the level of CZK 14.9 bn and the free cash flow reached the level of CZK 8.6 bn. Total CAPEX achieved the level of CZK 3.3 bn, out of which the amount of CZK 3.0 bn was allocated to the downstream segment, CZK 0.2 bn to the retail segment, and the remaining CZK 0.1 bn was dedicated to corporate functions. At the same time Unipetrol Group kept its financial gearing ratio on the negative level of (-) 16.7%, corresponding to the net cash position at the level of CZK 5.9 bn at the end of 2015.

Unipetrol Group continued to fulfil its Strategy announced in June 2013, which defined the key development directions for the years up to 2017. In the year 2015, the company successfully completed the acquisition of the remaining 32.445% stake in Česká rafinářská from Eni which made Unipetrol the sole shareholder with a 100% stake. The acquisition, fully in line with the Strategy, brought the company higher refining capacity, which enabled to process more crude oil, and thus to increase security of feedstock for petrochemical business and refining products for both the wholesale and retail sales activities.

In September, the company signed an EPC contract with Technip Italy for the construction of a new polyethylene unit (PE3) at the Litvínov plant. The PE3 unit will be among the most advanced units of this type in Europe. Total capital expenditures for the whole PE3 unit will be approximately CZK 8.5 billion, i.e. it is the biggest investment in the history of the Czech petrochemical industry.

Among other achievements in 2015, the contract with Transpetrol for crude oil transportation through Slovak branch of the Družba Pipeline was prolonged till 2020, preserving the same transportation conditions. A new contract with Čepro for product pipeline logistics services was signed. A new contract with MERO adjusts the conditions for the storage and transportation of crude oil via the IKL and Družba pipelines since the beginning of 2016. At the very beginning of the year 2016, a conclusion of an agreement with OMV on the acquisition of 68 filling stations from OMV's filling station network was announced. The transaction will further strengthen the Benzina brand position on the Czech retail market.

During the year 2015, Unipetrol Group launched a strategic project aiming at optimization of the capital group structure through the merger of Benzina and Polymer Institute Brno with Unipetrol RPA. The goal of the whole project, which will continue also in 2016, is to simplify the organizational and administrative structure of Unipetrol Group which should result in savings and further improvement in business operational excellence.

Key financial and non-financial data

Key financial data

in CZK million	2014 reclassified	2015
Revenues	123,938	108,907
Gross profit	5,735	12,763
EBITDA LIFO	2,851	10,879
EBITDA	1,022	10,643
EBIT LIFO	580	8,952
EBIT	-1,248	8,716
Downstream segment		
EBITDA LIFO	2,171	10,166
EBITDA	402	9,930
EBIT LIFO	307	8,598
EBIT	-1,461	8,362
Retail segment		
EBITDA LIFO	705	829
EBITDA	645	829
EBIT LIFO	382	501
EBIT	322	501
Corporate functions		
EBITDA	-25	-116
EBIT	-109	-147
Net finance costs	-114	-47
Profit/loss before tax	-1,362	8,669
Tax expense/credit	806	-1,633
Net profit/loss	-556	7,036
Earnings per share (CZK)	-3.07	38.80
Operating cash flow	737	14,931
Free cash flow	-1,181	8,591
CAPEX	2,007	3,344
Net working capital	9,244	5,941
Net debt / net cash	2,701	-5,857
Net debt / (equity – hedging reserve)	9.7%	-16.7%
Net debt / EBITDA	0.6	-0.5

- EBITDA LIFO – Earnings before depreciation and amortization, financial result and taxes; LIFO method used for inventories valuation (Last-In-First-Out)
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- EBIT – Earnings before financial result and taxes
- Free cash flow – Sum of operating and investing cash flow
- Net working capital – Sum of inventories and trade and other receivables, less trade and other liabilities
- Net debt includes cash pool liabilities

- Net debt / EBITDA – EBITDA in 2014 of CZK 4,557 m - adjusted for gain on acquisition of CZK 1,186 m and for impairment of the refining assets of CZK 4,721 m, EBITDA in 2015 of CZK 10,967 m adjusted for gain on acquisition of CZK 429 m, impairment of steam cracker assets of CZK 597 m and other costs related to steam cracker accident of CZK 156 m.

External environment

	2014	2015
Brent crude price, USD/bbl	99	53
Brent-Ural differential, USD/bbl	1.7	1.8
Unipetrol model refining margin, USD/bbl ¹⁾	1.4	5.2
Unipetrol model petrochemical olefin margin, EUR/t ²⁾	388	351
Unipetrol model petrochemical polyolefin margin, EUR/t ³⁾	275	464
Unipetrol model combined petrochemical margin, EUR/t ⁴⁾	662	816

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

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

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

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

Key operating data (in thousand tons)

	2014	2015
Crude oil throughput	5,130	6,495
Refining utilization ratio ¹⁾	89%	84%
Refining segment sales volumes, including retail segment (Benzina network)	4,268	5,800
Petrochemical segment sales volumes	1,773	1,445

¹⁾ Conversion capacity of Unipetrol's refineries = Conversion capacity till 2Q2012 was 5.1 mt/y (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y, Paramo 0.675 mt/y). From 3Q2012 till 4Q2013 conversion capacity was 4.5 mt/y, i.e. only Česká rafinérská refineries conversion capacity, adjusted for 51.22% shareholding of Unipetrol, after discontinuation of crude oil processing in Paramo refinery (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y). From 1Q2014 till 1Q2015 conversion capacity was 5.9 mt/y after completion of acquisition of Shell's 16.335% stake in Česká rafinérská, corresponding to Unipetrol's total stake of 67.555% (Česká rafinérská – Kralupy 2.166 mt/y, Česká rafinérská – Litvínov 3.710 mt/y). In 2Q15 conversion capacity increased to 7.8 mt/y driven by operation of Eni's 32.445% stake in Česká rafinérská from May. From 3Q15 conversion capacity is 100% of Česká rafinérská, i.e. 8.7 mt/y (Česká rafinérská – Kralupy 3.206 mt/y, Česká rafinérská – Litvínov 5.492 mt/y).

Downstream segment

Financial result of the downstream segment

in CZK million	2014	2015
EBITDA LIFO	2,171	10,166
EBITDA	402	9,930
EBIT LIFO	307	8,598
EBIT	-1,461	8,362

Key highlights of 2015

- The acquisition of 32.445% shareholding in Česká rafinérská from Eni International B.V. was completed in April. Unipetrol thus became the sole shareholder.
- Unipetrol RPA signed a new contract with Čepro for providing product pipeline logistics services. Contract was signed for indefinite period with a 12-month notice period.
- Česká rafinérská and Transpetrol signed an annex to the agreement on crude oil transportation via Družba pipeline. Both partners agreed on current conditions of crude oil transportation till the year 2020.
- Unipetrol RPA established a new subsidiary company in Hungary.
- University Centre UCT Prague – Unipetrol in Chempark Záluží started its activities.
- An explosion and a consequent fire of the steam cracker unit in Chemapark Záluží significantly affected the production and sales volumes of the segment.
- Record high sales volumes of high-density polyethylene (HDPE) of 189 kt and polypropylene (PP) of 169 kt in the first seven months achieved in all core markets the rest of the year was affected by the steam cracker accident.
- Unipetrol RPA and Technip Italy signed a contract on construction of the new polyethylene unit in Chempark Záluží.
- Paramo subsidiary's Mogul brand was awarded the "Brand of the Year" title by the Czech Superbrands organization.

External environment

Refining business

External environment of the refining business

	2014	2015
Brent crude price, USD/bbl	99	53
Brent-Ural differential, USD/bbl	1.7	1.8
Unipetrol model refining margin, USD/bbl ¹⁾	1.4	5.2

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

Crude oil, gasoline and diesel prices

The Brent crude oil price was very volatile in 2015 and was moving within the range from 36 USD per barrel to 67 USD per barrel with the average price level of 53 USD per barrel. From the end of February till the end of the year, the

automotive gasoline prices remained at relatively high levels compared with the crude oil price. The annual average of gasoline crack spread, i.e. the price quotation difference between gasoline and Brent crude oil, was at the level of 173 USD per ton. The diesel prices at world markets were at significantly lower levels compared to gasoline prices, the annual average level of diesel crack spread to Brent was 103 USD per ton. The development and the level of gasoline crack spread resulted from the market situation in the US, supply-demand relation and timing of planned shutdowns of refineries. The relatively low level of diesel crack spread was due to the worldwide sufficient production capacities, the ongoing modernization program of Russian refineries producing diesel in the EURO 5 quality, moderate increase in export capacities on the Arabian Peninsula and mild beginning of winter at the end of the year 2015.

Refining margins

The refining margins were at good levels in 2015. The utilization rate of the European refineries over 85% represents significant increase compared to 78% reached in 2014. The European refineries were benefiting from increase in gasoline consumption in the USA. Even though the year 2015 was very good year for refining industry, the structural problems of European refining sector still persist.

Unipetrol's model refining margin reached the average level of 5.2 USD per barrel in 2015, which represents an increase by 3.8 USD from the level of 1.4 USD per barrel in 2014. The average price differential between Brent and Russian crude REBCO, the Brent-Ural differential, was equal to 1.8 USD per barrel.

Petrochemical business

External environment of the petrochemical business

	2014	2015
Unipetrol model petrochemical olefin margin, EUR/t ¹⁾	388	351
Unipetrol model petrochemical polyolefin margin, EUR/t ²⁾	275	464
Unipetrol model combined petrochemical margin, EUR/t ³⁾	662	816

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

As in the previous year, the key factors in European petrochemical market were low prices of crude oil and virgin naphtha. The average price level of Brent crude oil in 2015 was only slightly above 50 USD per barrel, and the prices of virgin naphtha were slightly above 460 USD per ton. In December the average price of virgin naphtha was the lowest since January 2009 and the average price of crude oil was the lowest since June 2004. The low prices of crude oil were caused by a global oversupply, the extremely high grow of stock, noticeable especially in the USA, and OPEC's continuing extensive production (especially Saudi Arabia and Iraq). This situation enabled the operators of steam cracker units to produce with record high margins, because the decrease in the prices of monomers did not fully reflect the drop in the prices of feedstock. In August the petrochemical margins were at the highest level since the end of 2008 and in a yearly comparison the margins were the highest ever. An important factor for European producers of derivatives was also the significant strengthening of the dollar against the euro, which limited import to Europe and also promoted export.

The prices of monomers followed the trend of the second half of 2014 a continued to decrease. In the first two months there was a decrease of another 200 EUR per ton. Apart from the falling prices of feedstock, a significant oversupply was also distinctive at the beginning of the year. The subsequent grow in demand from the producers of polymers and a few planned and unplanned shutdowns resulted in an increase in prices which stopped at the end of the first half of the year. Limited import from the USA and low levels of stock across the whole chain which needed to be restocked had also a positive effect. The increases in prices of both monomers in this period reached together 300 EUR per ton. The rise of spot prices was even more significant because the prices were higher than the value of the valid contract during the whole second quarter. In respect of ethylene, it was up to by 20%. For the rest of the year the prices decreased. Apart from the constantly falling prices of feedstock, the situation on the market was also influenced by the renewed operation of the long-term shutdown units in Moerdijk in the Netherlands and in Lavera in France. The situation was opposite to the situation in the first half of the year, because a more significant decrease was noticeable in the spot prices. This meant that discounting returned to black numbers. In respect to propylene, the discounting exceeded 40%, which reflected the different situation on the propylene and ethylene markets. In December, this situation resulted in the greatest spread

ever between both monomers in the amount of 258 EUR per ton. The situation on the ethylene market was relatively good and the drop in prices was caused mainly by the falling prices of crude oil and virgin naphtha, whereas the propylene market was significantly oversupplied which resulted in production being restricted in some European steam cracker units. The reason was a low demand from the related sectors which was caused by the highest prices of propylene in Europe (in comparison with the rest of the world). These prices lowered significantly the competitiveness of European producers of non-polymer derivatives on export markets. The only exception was the demand from polypropylene producers which remained very good during the whole period.

As it was in the past years, the European benzene market was characterized by high prices volatility, the difference between the highest and lowest contract price was at the level of 299 EUR per ton, and the difference between the spot prices was at the level of 350 USD per ton. The high prices volatility is proven by the fact that in the course of the year, two instances of a month-to-month decrease in contract prices by 200 EUR per ton or more and also two instances of increase in contract prices by 130 EUR per ton or more. The first decrease occurred at the very beginning of the year because of low prices of crude oil and virgin naphtha, a low demand from related sectors and a relatively good availability of benzene on the market. A significant change happened at the beginning of the second quarter. At the beginning the market was stable but the market moved to a position with a noticeable demand overhang due to a few planned and unplanned shutdowns, limited availability of pyrolysis gasoline for extraction, and benzene export from Europe to the USA. This caused a considerable increase in the contract price, which rose by nearly 280 EUR per ton in two months. Because of unplanned shutdowns of styrene units and an overall lower demand from the related sectors, the availability of benzene on the market improved and the market started to weaken again. This resulted in a decrease in the September contract price by 260 EUR per ton. The spot prices were in September also at their lowest level in six years. The low prices in Europe subsequently opened an arbitrage to the USA which helped to lower the benzene oversupply on the market. This together with a better demand from related sectors, especially from styrene producers, resulted in a slight increase in prices. The lower availability of pyrolysis gasoline was also a factor. Once again, the operators of flexible steam crackers preferred cracking of lighter feedstock which generated high margins. These margins were much higher than margins from cracking of virgin naphtha during the whole year, on average by nearly 100 EUR per ton of produced ethylene.

The continuing low demand from agricultural and industrial sectors and better availability of ammonia in Yuzhny and the Baltics caused a decrease in ammonia prices at the beginning of the year. The prices dropped by 50 USD per ton and reached the level of around 450 USD per ton, CFR NWE. The prices remained at a similar level until the end of September, with smaller exceptions. There was no significant response to the spring application season in the USA, to the consequent restocking in the same sphere, to planned and unplanned shutdowns in Russia and Ukraine, to the limited supply of natural gas in Trinidad, to a lower demand from North Africa or to a lower price level of natural gas approved for Ukrainian producers. A significant change in the price level occurred in the last quarter during which the prices dropped by nearly 120 USD per ton. The main reasons were a significant oversupply in the global market and a seasonal decrease in demand.

Unipetrol's model olefin margin reached 351 EUR per ton in 2015, which represents a 9% decrease compared with 2014, when the margin reached 388 EUR per ton.

Polyolefins

The beginning of the year was relatively stable, the prices of polyolefins followed the trend from the second half of 2014 and continued to drop. The processors, expecting a further decrease in prices, bought products only for immediate consumption and operated with only a minimal level of stock. The low prices were not attractive enough for import to Europe, and the products from the Middle East and North America were exported to territories with higher prices. The demand in Europe was low, and the producers tried to improve the situation with export. The strengthening dollar against the euro also helped the exporters.

A market turn co-occurred with a drop in crude oil prices. The buyers of polyolefins started returning to the market in effort to refill their restock, a tension started to occur on the market and rose quite quickly. The demand for high-density polyethylene (HDPE) and polypropylene (PP) was very strong. Many production units whose utilization was below the optimal level experienced problems which in some cases resulted in unplanned shutdowns of the units. In 2015 in Western Europe, a total of 11 force majeure were declared in PP units and 8 force majeure in HDPE units. From the total of 19, 14 occurred in the first half of the year. This resulted in a steady increase in prices of polyolefins which stopped in summer at the highest level ever. The contract prices of HDPE rose until the end of July by more than 570 EUR per ton, and the spot prices rose even by more than 580 EUR per ton. The spot prices of some HDPE applications were higher than the value of the valid contract from February until May. A similar situation occurred on the polypropylene market as well. Between January and June, the increase in contract prices of PP exceeded 470 EUR per ton, and the increase in spot prices nearly reached 450 EUR per ton.

Apart from the contract prices of polyolefins, the margins and size of the spread between polyolefins and monomers were also at the highest level ever. In August the margins generated by the production of polyolefins exceeded 1,330 EUR per ton in PE and 900 EUR per ton in PP (according to ICIS). The size of the spread between both groups of products exceeded significantly 500 EUR per ton. In such a situation, some producers of polyolefins tried to re-negotiate the valid contracts based on the formulated prices fixed to monomers. Even though the demand remained strong for the rest of the year, the tension started to gradually decrease and prices to drop. This was caused by renewed operation of

shutdown units and imports which were brought by very high prices in the European market. The demand was also at a lower level in comparison with the third quarter. At the end of the year the prices once again rose.

Unipetrol's model polyolefin margin reached 464 EUR per ton in 2015, which represents a 69% increase compared with 2014, when the model margin reached 275 EUR/t. Unipetrol's model combined petrochemical margin (olefins plus polyolefins) reached a very high level of 816 EUR/t in 2014, which represents 23% increase compared with 2014, when the model combined margin reached 662 EUR/t.

Crude oil purchases

For Unipetrol, the year 2015 was characterized by ongoing strategic co-operation with Unipetrol's majority shareholder, PKN Orlen, within which crude oil has been supplied through Druzhba and TAL-IKL pipelines under long-term supply agreement since 2006.

In the course of 2015, supplies of Russian Export Blend Crude Oil (REBCO) via Druzhba pipeline under the 3-year supply agreement between PKN Orlen and Rosneft were stable without supply outages. On top of Druzhba supplies, seaborne REBCO spot cargoes was delivered to Trieste for further transportation via the TAL and IKL pipelines.

Concerning supplies of low-sulphur crude oils via TAL and IKL pipelines, Azeri Light from Azerbaijan remained to be a mainstream grade and the key feedstock for processing in Kralupy refinery. Azeri Light Crude Oil was blended with CPC Blend Crude Oil from Kazakhstan at an optimum ratio. On occasions, CPC Blend was also supplied to Litvínov refinery for blending with REBCO in order to achieve more attractive yield of lighter products and refining margin improvement.

Domestic pipeline and railway supplies from various Moravian crude oil deposits to Kralupy refinery continued during 2015 on the basis of long-term supply agreements. The share of domestic supplies reached approx. 1.8% of the total crude purchased by Unipetrol during 2015.

Crude oil purchases in 2015 (in thousand tons)

REBCO-Druzhba & REBCO-IKL	3,670	54.8%
Seaborne low-sulphur crude supplies for the Kralupy and Litvínov refineries	2,909	43.4%
Moravian crude oil	120	1.8%
Total	6,699	100.0%

Production

Crude oil throughput and refining utilization ratio

	2014	2015
Crude oil throughput (in thousand tons)	5,130	6,495
Refining utilization ratio ¹⁾	89%	84%

¹⁾ Conversion capacity of Unipetrol's refineries = Conversion capacity till 2Q2012 was 5.1 mt/y (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y, Paramo 0.675 mt/y). From 3Q2012 till 4Q2013 conversion capacity was 4.5 mt/y, i.e. only Česká rafinérská refineries conversion capacity, adjusted for 51.22% shareholding of Unipetrol, after discontinuation of crude oil processing in Paramo refinery (Česká rafinérská – Kralupy 1.642 mt/y, Česká rafinérská – Litvínov 2.813 mt/y). From 1Q2014 till 1Q2015 conversion capacity was 5.9 mt/y after completion of acquisition of Shell's 16.335% stake in Česká rafinérská, corresponding to Unipetrol's total stake of 67.555% (Česká rafinérská – Kralupy 2.166 mt/y, Česká rafinérská – Litvínov 3.710 mt/y). In 2Q15 conversion capacity increased to 7.8 mt/y driven by operation of Eni's 32.445% stake in Česká rafinérská from May. From 3Q15 conversion capacity is 100% of Česká rafinérská, i.e. 8.7 mt/y (Česká rafinérská – Kralupy 3.206 mt/y, Česká rafinérská – Litvínov 5.492 mt/y).

In 2015, nearly 6.5 million tons of crude oil were processed in the production units of Česká rafinérská for Unipetrol, which is a 27% increase compared to 2014. High utilization of refinery units until July was mainly driven by Unipetrol's increased stake in Česká rafinérská, and by the successful acquisition of full stake in Česká rafinérská from May 2015, by good sales volumes of motor fuels and by a higher demand for petrochemical products which required the necessity to secure a sufficient volume of feedstock for petrochemical production from the products of refinery production.

An accident in the steam cracker unit had a significant effect on the operation of the refineries. Despite the absence of supplies for petrochemical business, which is a significant outlet for a part of the refinery production, the Litvínov refinery was successfully kept in operation. The unrealized production was partially compensated by maximized processing in the Kralupy refinery in the second half of 2015.

The key units had good reliability. At the end of March 2015, a short planned turnaround was realized in the Kralupy refinery in order to regenerate the catalytic converter in the catalytic reforming unit (CCR) and to replace the catalytic converter in the gas oil hydrogenation unit. In October/November 2015, planned turnarounds were carried out in Litvínov in the visbreaker unit because of regular cleaning, in Chamber 5/6 and Chamber 12 in order to exchange the catalytic converters, and in the atmospheric and vacuum oil distillation units.

In 2015 several optimization projects took place. One of them, Advanced Process Control, in the hydrocrack unit in Litvínov helped significantly with the operation of the unit in terms of both the yield structure and the stability of operation. After the full acquisition of Česká rafinářská, the great use of the synergies between the petrochemical and refinery businesses continued.

Paramo subsidiary in 2015 further developed production of lubricant oils and bitumen. Production of base oils and lubricant oils is based at the plant in Kolin. Production of lubricants is based on hydrogenates from Unipetrol RPA that are further processed and blended to the final production of the motor oils of all performance categories, gear oils, hydraulic and other industrial oils. Production of process oils for the rubber industry and production of special industry oils and liquids was concentrated at Pardubice plant.

Paramo 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 construction purposes and special hard road bitumen products. Paramo was also providing storage and dispatch services for diesel and gasoline, for Unipetrol RPA and Administration of State Material Reserves – Czech Republic (ASMR).

Market position and sales

Refining business

Market development

Based on the latest available data, there was slight increase in gasoline consumption by 1% and a 5% increase in diesel consumption on the Czech market compared to the year 2014. The increased demand for fuels was mainly driven by economic growth in the Czech Republic and also by continuing fall of crude oil prices during the year 2015, which was subsequently reflected in the fuels prices.

Market position

The most important event of the year 2015 was the completion of the acquisition of Eni's stake in Česká rafinářská from 1 May 2015, which led to an increase of the refining capacity from 67.555% to 100%. Therefore, the company had to make great efforts to ensure the sale of the additional volumes.

Even without the corresponding contractual options the company was able to sell additional volumes on the domestic market and abroad. Sales volumes of refining products increased by 36% compared to the year 2014. Unfortunately, just 3.5 months after taking over the additional refining capacity the company had to face a shutdown of the steam cracker unit and the associated restrictions on crude oil processing. Many new business activities were restricted and the company had to focus all their efforts to cope with the unexpected situation. With the help of all business partners - suppliers and customers – the company maintained its refinery in limited operation mode without major problems.

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

thousand tons	2014	2015
Total refining sales volumes, including retail segment	4,268	5,800
Diesel, including retail segment	2,293	3,093
Gasoline, including retail segment	1,052	1,483
JET	144	179
LPG	112	195
Fuel oils	152	200
Naphtha	9	92
Bitumen	308	354
Lubricants	36	35

Rest of refining products	161	169
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Domestic motor fuels sales

Until the steam cracker unit shutdown and the associated restrictions on crude oil processing in the Litvínov refinery company managed within the set strategy to expand its customer portfolio with the aim to reduce activities of its key competitors. Unfortunately due to the limited availability of diesel in the second half of the year 2015, the company was not able to continue in the set strategy. On the other side the company concluded several new contracts with key white pumpers. After takeover of additional stake in Česká rafinérská, the company also focused on increasing of the transparency of the pricing policy.

Export motor fuels sales

At the beginning of the year 2015, the company managed to sign several new contracts, as it was already counting with the takeover of Eni's stake in Česká rafinérská. This approach enabled the company smooth transition to the increased refining capacity since May 2015. On the other hand, the company was negatively influenced by the petrochemical production shutdown which limited also fuels sales. Thanks to the appropriate combination of long-term contracts and spot sales, the company managed to overcome all problems that occurred during the year.

The company strengthened its cooperation with Orlen Group and in cooperation with partner companies in Slovakia, Poland and Germany it successfully continued to sell its products. Unipetrol Slovakia continued in selling activities in Slovakia and Hungary using supplies from the Czech and Polish refineries and terminals. On the German market, the company benefited from the partnership with Orlen Deutschland and compared with the year 2014 it further increased deliveries from Kralupy and Litvínov refineries. Unipetrol Deutschland stabilized its position on the wholesale market and continuously responded to the constantly changing market environment. The deliveries to Austria were carried out in accordance with production potential of the company.

Other refining product sales

The company continued to optimize the internal consumption of LPG within the petrochemical segment and its external sales due to the increased consumption of LPG in the steam cracker unit after the LPG railway unloading intensification. On the other hand, the takeover of additional stake in Česká rafinérská in the year 2015 brought increase in LPG production, moreover supported by the higher availability of LPG during the summertime. The steam cracker unit accident forced the company to sell all the LPG from both the Kralupy and Litvínov refinery on the market. It was managed thanks to good cooperation of the production, sale and logistic department.

The company used various sales channels for heavy fuel oil (HFO 1%) from the Kralupy refinery and it smoothly adapted to the higher production from the mid-year 2015. Compared with the years 2013 and 2014, the market offered many more opportunities, especially in the Balkan countries but also in the industrial or bunker sector in Germany. Seasonal production of heavy fuel oil (HFO 3%) in the Litvínov refinery continued without problems. New measures adopted in the heavy fuel oil production increasing its reliability and quality helped to sell the product as planned.

Paramo subsidiary market position and sales

Paramo is the market leader in oils and bitumen sales in the Czech Republic with market share exceeding 35 %. More than 60% of Paramo's production is exported, mainly base and process oils.

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

Paramo maintained deliveries of the process oils to the Continental Group which extended cooperation for the year 2016 and with other rubber industry companies. The cooperation continued with additives producers and also new foreign customers for sale of wide range of the base oils group I, II and III.

Finished oils and greases were exported into 26 countries. The main export market is Slovakia where Paramo was represented by its subsidiary Mogul Slovakia. Paramo developed a strong position in Hungary and states of the former Yugoslavia. Paramo managed also to develop and increase sales to the Eastern European markets.

Petrochemical business

As a result of the accident and the subsequent shutdown of the steam cracker unit from the mid-August 2016, the production and sales of petrochemical products significantly dropped. The production of polymers – polyethylene and polypropylene – was restarted at limited extent thanks to external supplies of ethylene and partially propylene. Total sales volumes of petrochemical products reached the level of 1,445 kt which is by 18% lower compared to the year 2014.

Sales volumes of petrochemical products

Thousand tons	2014	2015
Total petrochemical sales volumes	1,773	1,445
Ethylene	163	107
Benzene	228	145
Propylene	44	36
Ammonia	214	230
C4 fraction	86	51
Butadiene	64	49
Polyethylene	322	255
Polypropylene	270	227
Rest of petrochemical products	382	345

Olefins and chemicals

The sale of steam cracker products and ammonia is the core business of Business Unit Monomers and Chemicals. The most important steam cracker products include ethylene, propylene, C4 fraction and benzene. The explosion and subsequent fire in the production facility in Litvínov in August had a significant effect on the sales. This caused the shutdown of the steam cracker unit and related production of polyolefins. Basically, this meant a complete interruption of all sales of steam cracker unit products in the last four months of 2015. However, until then the sales volumes and the structure of portfolio of clients were similar to the situation in the previous years.

The Czech Republic continued to be the key market for the steam cracker products. Monomers, C4 fraction and benzene were either processed captively at the Unipetrol RPA's plants or carried to the strategic customers through the existing product pipelines.

By-products of steam cracker were supplied primarily to the Czech, Central European and Western European markets. The steam cracker unit is expected to start partially operating at the beginning of the second half of 2016. The outage of production resulted in a smaller market share in the Czech Republic, but the changes were not significant. Most major consumers were not able to replace the missing product with import because of logistic limitations and so they had to lower their production. Most of the imported monomers was used in the polyolefin production in Unipetrol RPA.

The ammonia production was not influenced by the explosion in August and its sales were even slightly higher than sales in the previous year. Because of a long-term contract with the biggest producer of fertilizers in the Czech Republic, the territorial division of sales did not change. As in previous years, the domestic market was the destination for most of the ammonia produced by Unipetrol RPA.

In the forefront of interest were also the sales of the carbon black Chezacarb AC, used primarily for modifying electromagnetic characteristics, electric and thermal conductivity of plastics, coating materials and rubber, for pigmentation of paints and colouring of plastics and rubber. It can be also used as sorbents in the environmental sphere. Compared to the past year, the sales volumes of carbon black increased and nearly reached the amount of 2,000 tons because of an increased demand, especially from Asia.

Polyolefins

Unipetrol RPA 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.

The company's high-density polyethylene (HDPE) capacity greatly exceeded the domestic market's consumption, and approximately two thirds of the HDPE produced were therefore exported from the Czech Republic. Conversely, the PP

consumption on the domestic market exceeds the overall PP production capacity, which is why the share for export was well below one half of the polypropylene produced. In addition, for certain applications, in particular in the automotive industry, carmakers themselves require certain specific materials or use compounds made abroad, and so the company cannot increase its share on the Czech market arbitrarily.

The Czech Republic and Germany were the key markets for polyolefin sales. Market share of polyolefins was influenced by steam cracker unit accident in mid-August. The accident significantly influenced the HDPE and PP capacity as well as product portfolio. Limited availability of ethylene and propylene caused the shutdown the one of the polyethylene unit (PE2) and therefore there was a lack of polyethylene injection moulding grades and reduced output and product portfolio of polypropylene. Due to this limitation the company significantly lost its market share on the Czech market while on German market and other European markets the loss was not so high. Some shutdowns announced during the first half of the year across Western Europe helped Unipetrol to decrease market share losses on those markets. For Germany and the entire D-A-CH region, the company relied heavily on the services of its subsidiary Unipetrol Deutschland.

The general situation on European market was very favourable for European producers mainly because of supply interruptions (a lot of unplanned production stoppages and force majeure incidents across Europe) and export supporting EUR/USD exchange rate development. Also relatively healthy economic situation in Europe created robust situation on demand side.

However, from mid-August due to the steam cracker unit accident, the company could not utilize in full the favourable macro environment because of the limited production capacity. Total sales volumes of polyolefins were on the level of 255 kt of high-density polyethylene (HDPE) and 227 kt of polypropylene (PP). Compared to 2014 the company sold approximately 67 kt less in case HDPE and 43 kt less in case of PP.

Expected development in 2016

Refining business

As expected, the excess of supply over demand of 700 thousand barrels per day will keep the crude oil prices at low levels in 2016. Balancing of supply and demand is expected at the turn of the years 2016 and 2017 which should support a moderate recovery of crude oil prices in 2017. For the year 2016 the crude oil price is expected to move within the range 25 – 59 USD per barrel, with an average level around 40 USD per barrel. The average level of crude oil price in the year 2017 is expected around 50 USD per barrel.

Under the current economic conditions of the Eurozone and economic changes implemented by the Czech government, the growth of the Czech GDP is expected in 2016 which will positively affect domestic demand for motor fuels.

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

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

- lubricant oils production and sales supported by marketing activities,
- bitumen and bitumen products production and sales,
- continuous energy efficiency and production performance enhancement, and
- further products development.

Petrochemical business

Olefins and chemicals

A key factor in 2016 will be the price level of crude oil and virgin naphtha. The prices of crude oil and virgin naphtha are generally expected to remain low. The market is still oversupplied, and moreover the OPEC meeting at the end of 2015 showed the organization continues to refuse to limit the production of crude oil. The oil market will have to face two fundamental changes which will come against a rise in prices. The first one is the lift of economic sanctions against Iran on the part of the USA, the EU and the UN, which occurred in January 2016 and which will result in more millions barrels of crude oil on the market. The second one is the lift of the ban on the export of crude oil from the USA, which could consequently help to American companies exploiting crude oil from shale deposits. The expected low prices of feedstock could improve the competitiveness of some European derivatives on the export markets. The cracking of lighter feedstock will reduce the availability of propylene, butadiene and aromatics in 2016. In respect of the low prices of feedstock, the petrochemical margins should continue to remain relatively high, however, they should not be as high as they were in summer 2015.

The ethylene market should become balanced, the noticeable drop in prices in the second half of 2016 should continue in the first quarter. The prices should then start rising. The difference between the contract prices of ethylene and propylene should remain high, but the relatively balanced ethylene market will face the oversupplied global propylene market. Especially non-polymer derivatives of propylene should face the pressure of competition from Asia and the USA. The attempt to use the potential of low feedstock prices and good conditions on the ethylene market will make producers adjust the operation of ethylene units in favour of ethylene so as to maximize their profit from the high level of petrochemical margins. Simultaneously, the structure of propylene sales should adapt accordingly. The increase in the spot sales of propylene at the expense of contracts should guarantee greater flexibility in sales to the producers.

As it was in the past years, the benzene market should remain volatile in 2016, however, the fluctuation range should not be as significant as in the previous period. This is because a relatively stable prices of crude oil and virgin naphtha. The benzene prices should remain low in the first quarter as well, and the import from the Middle East and India should keep the European market oversupplied. The subsequent decrease in availability of feedstock necessary for benzene production caused by shutdowns of steam cracker units should result in a certain tension in the market and a rise in prices. Shutdowns of units in related sectors will be less significant in comparison in terms of capacity volumes. The higher prices will attract import and will probably result in a slight drop in prices. Apart from the low prices of feedstock, the mutual interconnection between markets in Europe, the USA and Asia will also be vital for the development in 2016.

The ammonia prices should continue to decrease in the first two month of 2016. The agricultural and industrial sector demand should remain weak, and the oversupply should be evident. This situation should be improved by the rise in demand from the USA at the end of the first quarter, and the market should be also stimulated by a decrease in production in some units in Russia and Ukraine. Since the end of the first quarter, the prices should rise and reach the level where they were for the most part of the previous year. Low prices of feedstock will hinder any significant rise in prices.

Polyolefins

The situation on the European polyolefin market may differ in 2016 from the situation in the previous twelve months. With a respect to polyolefins, 2015 was a record year. Not only polyolefin prices and margins were at the highest level ever, but also the spreads between polyolefins and monomers.

In 2016 the prices should return to standard levels. The contract prices of high-density polyethylene (HDPE) should return to the level of about 1,450 EUR per ton, polypropylene (PP) should gradually sell for prices higher than 1,200 EUR per ton.

In regard to the low prices of feedstock, the petrochemical margins should remain at a high level. The tension on the market which was visible throughout the whole previous year should start to ease. This will not be caused by a lower demand, which should remain at a very good level at least in the first half of the year, but by better availability of the products. The production of polyolefins in Europe should increase, and there should not be the same situation as in 2015 when there were nearly twenty production units in Western Europe shutdown because of force majeure.

A higher number of imports into the European market are expected as well. A significant increase should be visible in respect of polypropylene, which will be imported to Europe from the Middle East, Russia, Africa and Asia. The import of polypropylene should increase by one third in comparison with 2015. It remains uncertain what effect the new large capacity polyethylene units put into production in the Middle East and North America will have. In the second half of the year, especially in the fourth quarter, a drop in prices may be expected.

Retail segment

Financial result of the retail segment

CZK million	2014	2015
EBITDA LIFO	705	829
EBITDA	645	829
EBIT LIFO	383	501
EBIT	322	501

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 2015

- An image campaign "Live life to the fullest" was implemented to strengthen the brand name and to improve the younger generation customer perception and their loyalty to Benzina filling stations.
- Opening of another BENZINA self-service filling station Expres 24 in Kopřivnice.
- BENZINA continued expanding its fuels range by adding gaseous alternative CNG and premium fuels as well as implementing the Stop Cafe project at a number of sites.
- In order to optimize the structure of Unipetrol Group, BENZINA, s.r.o., merged with UNIPETROL RPA, s.r.o., as of 1 January 2016. The brand name BENZINA will be retained for the filling stations in the Czech Republic
- In January 2016, the acquisition of 68 OMV filling stations was announced. The filling stations will be operated under the BENZINA brand name. The completion of the transaction is expected during the next two years.

External environment

The fuel consumption in the Czech Republic in the entire year 2015 was influenced by macroeconomic and technical factors. Among the macroeconomic factors were the growth of GDP, lower unemployment rate, and in this context the increased performance of many sectors with intensive use of diesel, and the willingness of households to spend more manifested itself in a higher demand for gasoline. The technical factors include car fleet conversion from gasoline to diesel engines with lower fuel consumption and also the fact that the new cars have lower gasoline consumption.

Higher performance of international road transport in 2015 helped to transfer diesel purchases of international transit haulers back to the Czech Republic.

The increased demand for fuel was influenced by the falling prices of crude oil throughout 2015, consequently influencing the prices of fuels at filling stations. Another positive factor causing the growing demand for fuels was a very mild winter, which did not inhibit individual car travelling during the standard winter months.

Tax evasions and related negative impacts on the state budget, corporate economics and the competitive environment were dealt with by adopting a series of appropriate measures leading to improved conditions on the Czech market. The measures were enforced through new legislation and operated effectively throughout 2015. Thus the positive legislative changes and other control systems significantly improved the competitive environment of the fuel sales business.

Another area of consumer interest in 2015 was the increased demand for alternative liquid fuels with a high content of the bio-component (E85, B30, B100) which are offered with a significant tax advantage in the end-user price, motivating consumers to purchase or create their own various less expensive fuel blends with the use of biofuels. Expanding the high-volume biofuels was also used for fictitious fulfilment of the bio obligations and allowed greater use of the bio-component free fuels. Increasing the excise tax on the high-concentrated biofuels with effect from January 2016 through adopted amendment of the Act removes these inequalities. Probably, this measure will cause a significant reduction in demand for biofuels.

Dramatic growth was recorded also in gaseous alternative CNG along with increased number of CNG driven cars and the growing number of filling stations offering CNG. This type of alternative is also a subject to tax concessions.

The factors listed above were crucial for the development of demand for fuels on the domestic market in 2015, which when compared to 2014 is characterized by 1% increase in gasoline consumption and by 5% increase in diesel consumption. So far higher increases in consumption of fossil fuels determine all other alternatives that are subject to tax concessions.

According to updated report of the MIT of the Czech Republic on filling stations registration in the retail segment on the Czech Republic market there is a total of 3,844 public filling stations as at 31 December 2015, showing growth of 1.3% year-on-year. The semi-public sector of filling stations with restricted access also rose to 637 stations, i.e. a year-on-year increase of 3.7%.

Market position and sales

Market position

The retail company of Unipetrol Group, BENZINA, s.r.o., operated the largest network of filling stations in the Czech Republic in 2015. As at 31 December 2015, the network comprised of 339 filling stations with a wide range of fuels with additives; the selected segment of filling stations offers a range of VERVA premium fuels and a wide collection of other goods, refreshments and services. The network was gradually renovated and upgraded between the years 2006 and 2010 and is currently profiled into three segments: premium, represented on the domestic market by BENZINA Plus filling stations, the standard brand portfolio of BENZINA filling stations and the self-service filling station segment under the brand name Expres 24. The fourth Expres 24 filling station was opened at the end of 2015 in Kopřivnice. Overall, 95% of the whole BENZINA network was modernized.

Compared to 2014 Benzina market share in 2015 increased from 15% to 16%.

Fuel sales

Benzina's core business is the sale of fuels and other goods and services at filling stations. Sales structure confirmed the long-term trend of a higher proportion of diesel fuel, which continued in 2015.

Structure of fuel sales at filling stations (%)

	2014	2015
Gasoline	36.4	35.5
Diesel	63.6	64.5

Compared with 2014 sales of diesel in the Benzina network recorded a growth of 10% in 2015. The range of diesel fuels contributing to the growth included both, the standard TOP Q diesel (+5.5%) as well as the premium VERVA diesel (+30%).

Compared with 2014 the total sales of the range of gasoline fuels recorded a growth of 5.9% in 2015. The main contributor remained Natural 95, which accounted for 94% of total composition of gasoline sold and showed a year-on-year increase of 4%. The sales of the high-octane VERVA 100 gasoline increased in year-on-year by 53%. Since its introduction in 2006 its share of gasoline sold grew and in 2015 achieved 6% of the total gasoline sales.

As part of nationwide monitoring of the quality of fuel sold at public filling stations carried out by the Czech Trade Inspection Authority and publication of the results by the CTIA there was only one slight discrepancy in case of diesel out of the whole Benzina network of filling stations. All other controlled premium fuels were found to be compliant. Within the internal program "Seal of Quality" an independent accredited laboratory checked 1,875 samples from the Benzina network and 99.7% were free of defects.

The higher sales of fuel at filling stations in 2015, including the increased share of the premium fuels with higher added value combined with the decrease in the prices of all types of fuels sold, business strategy, marketing support and operating cost savings have all contributed to very good financial results of the retail segment. Positive impact on the results was also supported by the improved competitiveness of the market environment and favourable macroeconomic factors positively influencing the demand for both gasoline and diesel. The highly competitive environment in the retail market was in 2015 again attributable to a large number of filling stations in the Czech Republic.

Non-fuel sales

Total revenues from sales within the non-fuel segment increased notably by 9.6% in 2015 compared to 2014 results. Higher dynamics was recorded within the sub-segment of gastronomy, of which revenue grew by 14.5%. This positive development was mainly due to the introduction of the Stop Cafe fast food concept, where customers can enjoy quality coffee, tea and hot dogs.

Expected development in 2016

In the current economic conditions of the Eurozone and economic reforms in the Czech Republic, in particular the adoption of measures promoting growth by the Czech government, the modest growth of the Czech economy can be expected with a positive impact on growth in demand for fuels on the domestic market, mainly through increased performance of sectors with intensive diesel consumption. The tax-advantageous CNG will further strengthen its stable position on the market. The new tax legislation applicable to highly concentrated biofuels will significantly reduce the demand for it, which will now shift to the standard fossil fuels. In the strongly competitive market environment of the filling stations the pressure exerted on fuel profit margins will also persist this year.

Expected is an approval of the new stricter legislation by an amendment to the Act on Fuels and Filling Stations, for fair and controlled business in the area of filling stations and fuel sales, including the harmonization of European legislation in the infrastructure of alternative fuels, which will bring in future years greater restrictions of unfair practices in the sector. Categories of filling stations which do not meet legislative requirements should be gradually squeezed out of the market in favour of serious market players. The gasoline and diesel assortment available in 2017 will depend on the conditions defined by the environmental legislation determining the level of binding obligations for reducing CO₂ emissions of fossil fuels in terms of the bio-component content with lower emission footprint in years 2017-2020. In addition, it can be expected further expansion of the range of fossil fuels with additives, alternatives such as CNG or fast charging points at filling stations for charging electric cars. The remaining market space will be filled by low-cost, self-serviced filling stations.

Benzina's priorities within the framework of the adopted Strategy 2013-2017 remain and will continue in increasing the market share in fuel sales, an increase in average throughput per filling station as well as an increase in sales of the non-fuel segment, including the extension and integration of refreshment offerings. Benzina will also seek to further strengthen customer confidence. The capital investments will continue according to plan, which include the construction of new sites, incorporation of 68 OMV filling stations into Benzina network and standards, completing the network upgrading and modernization of the car wash units. After evaluating the commercial potential of other sites for the self-service filling stations Expres 24 the expansion of this concept will continue, especially in suitable locations. The company is also preparing a sequel of exciting marketing promotions to encourage sales of fuels, including goods and services of a non-fuel nature and, last but not least, to strengthen the positive perception of the Benzina brand name.

Part of the promotion offer will include a modern collection of new card products for a wide range of customers.

According to market development, the state of fleet modernization and new technologies of fuel combustion in cars the expansion at Benzina filling stations will continue to meet the new challenges and to improve the supply of fuel assortment of premium fuels, CNG and environment-friendly operating fluid Ad Blue.

Investments

Investments in the downstream segment in 2015 were influenced by the extraordinary event that happened in August 2015 on steam cracker unit. Unipetrol also signed major contracts related to new polyethylene unit and major works started in fourth quarter of the year 2015. Due to the extraordinary event, Unipetrol RPA and Česká rafinářská were able to start preparation works related to turnaround 2016 already in 2015.

Other investments were mainly focused on maintaining operating reliability, safety, on meeting the requirements of the environmental legislation, and increasing effectiveness of operations, especially energy efficiency. Other major investment projects focused on the revamp of the power plant T700, environmental protection, namely reconstruction of oil drainage system and waste water treatment in Kralupy. In the year 2015, project on debottlenecking of polypropylene unit started and international ethylene pipeline reconstruction successfully finished.

The retail segment focused mainly on modernization and reconstruction of existing Benzina filling stations, replacement of security surveillance cameras, modernization of car washes, and refurbishment of wastewater treatment plants. During the year 2015, Benzina also invested into extension of Stop Café concept and Expres 24 fuel stations.

The corporate functions segment investments comprised mainly investment for VÚAnCh and IT related projects. Major investment of VÚAnCh subsidiary was focused on building UniCRE (Unipetrol Centre of Research and Education). The basic goal is to intensify and improve effectivity of research and development in area of industrial chemistry and environmental technologies. Implementation of advance process control system related to POX unit has started in the year 2015.

Unipetrol Group CAPEX overview according to investment category and business part for the year 2015 and plan for the year 2016 (CZK million)

Investment category/ Business part		Downstream	Retail	Corporate functions	Total
2015	Development	770	161	114	1,045
	Maintenance/refurbishment	1,908	57	19	1,984
	Environment	287	1	0	288
	Safety	24	3	0	27
	Total	2,989	222	133	3,344
2016	Development	4,543	124	8	4,675
	Maintenance/refurbishment	7,337	98	35	7,470
	Environment	77	3	0	80
	Safety	54	5	0	59
	Total	12,011	230	43	12,284

Research and development

Research and development of Unipetrol is focused on three principal areas – plastic materials, petrochemicals and refining. Research in the area of plastic materials in 2015 was secured by Polymer Institute Brno, spol. s r.o. (PIB), while the petrochemical and refinery research was conducted by the Výzkumný ústav anorganické chemie, a.s. in Ústí nad Labem (VÚAnCh). Apart from the above stated institutions, in 2015, Unipetrol also very closely cooperated with universities and specifically with the University of Chemistry and Technology in Prague (UCT). Research and development results are applied within the frame of the production technical support, creation of individual strategies and/or direct introduction of new products into the production portfolio.

In 2015, VÚAnCh, a subsidiary of UNIPETROL, a.s., successfully completed the UniCRE project (reg. no. CZ.1.05/2.1.00/03.0071). This project was financed by European Union funds (particularly by the European Fund for Regional Development) and from the national budget of the Czech Republic. During the last year of the project, it was also managed to complete the reconstruction of the experimental base and to put it into operation. Moreover, the UniCRE project received the AFI Award for an important achievement in the investment area for 2014, awarded by Czech Invest and the Association for Foreign Investment (AFI).

VÚAnCh managed to acquire a project within the frame of the National Sustainability Program and a project in the area of research infrastructures CATPRO. A part of the research infrastructure was included in the Road Map of the Czech Republic of large infrastructures for research, experimental development and innovations for 2016 – 2022.

In cooperation with UCT, a unique project related to the establishment of a University Center on the premises of the Chempark in Litvínov Záluží was successfully implemented. Its objective is to raise and educate the UCT students.

Refining business

Some of the main research activities focused on the processes related to the production of motor fuels and processing residual fractions. The objective was to suitably amend the traditional focus on technical support and scientific and research activities.

The following were the main research topics last year:

Processing crude oil residues with an emphasis on the latest trends in the area of the production of asphalt bonding agents with the objective to reduce processing temperatures and thus also emissions. The main objective was the research in the area of the current asphalt technologies for building roads, focusing on recycling as much of a material from road reconstruction as possible.

The ever more challenging requirements for the quality of motor fuels, arising from legislative requirements as well as the demands of motor manufacturers who require fuels of a better quality for their motors, the use of additives for motor fuels has become very important and forms a necessary part of their production. In compliance with the recommendations of individual manufacturers, additives are usually added to fuels in small amounts and their content has to be optimized. In 2015, a wide spectrum of additives for diesel fuels, which are used in the refinery area, was reexamined.

In relation to the obligation to reduce emissions of greenhouses gases by 6% by 2020, work on the issue of the use of various FAME types (fatty acid methyl esters) was performed, respectively FAME of various origins. The experimental part focused on comparing a winter class motor diesel with two different kinds of bio-components, rapeseed oil methyl ester and methyl ester of used kitchen oils.

Petrochemical business

Olefins and chemicals

Research and development in the area of olefins and chemicals is secured by the Research Institute of Inorganic Chemistry in Ústí nad Labem (VÚAnCh). The objective of the long-term plans in the petrochemical area is to improve the quality of the product portfolio and to increase production efficiency.

In 2015, the possibilities to utilize hydrocarbons incurred as a result of pyrolysis and their use for the production of blowing agents were also explored.

Furthermore, the possibilities to produce pure aromatic hydrocarbons (naphthalene) were also explored.

Individual research projects also focused on theoretical problems of pyrolysis and on determining other possible utilization of auxiliary product, on utilizing raw materials from renewable resources in petrochemical industry and on seeking opportunities for making the management process more efficient and improving the economy of petrochemical production by utilizing modern, instrumental and analytic methods.

Projects implemented within the frame of institutional financing of VÚAnCh focused on the issue of selective dehydrogenation of butane and butene to 1,3-butadiene and on the issue of utilizing liquid products arising from the pyrolysis of waste tires. Their results provide bases for new research projects.

It was also continued in the implementation of development projects that focus on economic and environmental utilization of used catalysts. A significant volume of work was devoted to the area of energy savings.

In the area of the development of the existing products, work on a project that aims to improve usable characteristics of sorption materials based on Chezacarb were performed. New possibilities to use carbon black from the POX production facility as filling for special tires were explored.

Polyolefins

Unipetrol has been developing its production processes and products in the area of polyolefins. In 2015, the research activities conducted by Polymer Institute Brno, spol. s r.o. (PIB) focused on introducing new catalytic systems.

PIB polyethylene (PE) production development activities focused on improving the usable characteristics of produced Liten, improving processing behavior of customer matrices and seeking production cost savings. To achieve the mentioned objectives, the PIB development activities focused on extending the use of the internal catalytic system under operational conditions and on searching for other, potentially suitable commercial catalysts. Their subsequent application can result in an improvement of the produced matrices and of the PE production economy.

The research in the area of polypropylene (PP) production in 2015 mainly focused on studying phthalate-free catalysts and catalysts that comply with the REACH directive. Based on the research outputs of Polymer Institute Brno, spol. s r.o., a new catalytic system for the production of block copolymers, which complies with the REACH directive, has been successfully introduced at the polypropylene production facility. New possibilities for preparing polypropylene (PP) copolymers with better usable characteristics and for innovating the existing polymer types were explored with the objective to reduce operation expenses.

Research activities also focused on the area of additive formulas for polymer products and research in the area of additives/stabilization of the produced polymer material.

As a part of individual research projects, the issue of polypropylene (PP) and polyethylene (PE) production was also addressed. Production support projects were implemented. In these projects, Polymer Institute Brno, together with Unipetrol RPA, worked on improving the production process and on eliminating critical technological points.

Yet another joint project implemented last year addressed the possibilities of the use of Chezacarb as a filling matter for polymer materials produced at Unipetrol RPA.

Apart from research activities, Polymer Institute Brno also provides specialized technical service to Unipetrol by the means of customer support.

During 2016, in the area of plastic materials, research activities focused on the development of new types of copolymer catalytic systems will continue. The development of innovated polymer types will also continue.

Chezacarb

Last year, activities in this area included technical assistance with the application of electrically conductive Chezacarb soot in plastic materials, and exploring the existing and new possibilities of the use of Chezacarb in polyolefin materials produced by Unipetrol RPA and in engineered plastic materials.

Employees

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

Unipetrol Group was among the biggest companies in the region with its 3,820 employees in 2015.

As in previous years, human resources management was entrusted to Unipetrol Group's service organization, UNIPETROL SERVICES, s.r.o. subsidiary.

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

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

Total number of employees of Unipetrol Group (persons) as of 31 December 2015

Company	2015
BENZINA, s.r.o.	83
Butadien Kralupy a.s. (51%) ¹⁾	10
ČESKÁ RAFINÉRSKÁ, a.s.	604
PARAMO, a.s.	440
PETROTRANS, s.r.o.	146
POLYMER INSTITUTE BRNO, spol. s r.o.	96
UNIPETROL, a.s.	47
UNIPETROL DEUTSCHLAND GmbH	17
UNIPETROL DOPRAVA, s.r.o.	409
UNIPETROL RPA, s.r.o.	1,522
UNIPETROL SERVICES, s.r.o.	286
UNIPETROL SLOVENSKO s.r.o.	10
Výzkumný ústav anorganické chemie, a.s.	125
MOGUL SLOVAKIA, s.r.o.	14
HC VERVA Litvínov, a.s.	11
TOTAL	3,820

¹⁾ Number of employees in Butadien Kralupy, a.s. (100%) was 20.5.

Education of employees

Education of Unipetrol Group's employees in 2015 was primarily focused on maintaining the level of qualification of employees in production and additional qualified development of company's specialists. In January 2015, new Training Center was established in Unipetrol RPA, s.r.o. where two new training programs were opened. Program "Operator in training" helps to prepare new employees for their future position and program "Graduate", to which college graduates from chemistry areas are mainly accepted.

Corporate trainings this year attended 9,732 persons. Employees received mandatory trainings (7,493 persons), professional or vocational seminars (1,931 persons), and foreign language courses (308 persons).

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

Workforce structure

Workforce structure in 2015 corresponds to character of the whole Group. The most frequent level of education is of secondary level, which is usually common in the production company. Higher education is quite frequent as well. It is

mostly favoured within the managerial and leadership positions. As one of the biggest employers, Unipetrol Group offers attractive work conditions which instigate loyalty among employees.

Employment structure of Unipetrol Group as of 31 December 2015

Employment structure by education	
Primary	4%
Vocational	29%
Secondary	46%
Higher	21%
Employment structure by gender	
Men	74%
Women	26%
Employment structure by length of employment	
<5	26%
(5-10>	14%
(10-20>	22%
(20-30>	23%
>30	15%
Employment structure by age	
<31	9%
(31-40>	19%
(40-50>	36%
(50-60>	29%
>60	7%

HR policy

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

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

Strategic directions in HR policy

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

- Responsibility
- Progress
- People
- Energy
- Dependability

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

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

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

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

Financial standing

Consolidated statement of financial position

Changes in non-current assets

As at 31 December 2015, non-current assets of Unipetrol Group amounted to CZK 22,575 million. In 2015, the Group acquired tangible assets worth CZK 3,197 million and intangible assets worth CZK 142 million.

The impairment charges recognized in refinery CGU related to non-current assets of the following entities: ČESKÁ RAFINÉRSKÁ, a.s., PARAMO, a.s. in amounts: CZK 102 million; and CZK 23 million respectively.

As a consequence of the steam cracker unit accident which took place at the Chempark Záluží in Litvínov on 13 August 2015, the Group recognized an estimated impairment charge in the amount of CZK 597 million in relation to damaged assets. Impairment charges of CZK 508 million were allocated to machinery and equipment, and CZK 89 million to buildings and constructions and these were recorded in other operating costs. The amount of the impairment charge can be changed until the completion of technical works on the site.

Looking at investments, most of them went into the downstream segment (CZK 2,989 million) followed by investments in the retail segment (CZK 222 million).

Changes in current assets

Total current assets amounted to CZK 31,924 million as at 31 December 2015 and were higher by approximately CZK 5,580 million compared to the previous year, especially due increase in cash and cash equivalents.

Comparing to the year 2014, inventories increased by CZK 70 million.

Changes in equity

Total equity increased from CZK 28,462 million in the year 2014 to CZK 35,509 million in the year 2015 due to increase in net profit for the year 2015 in the amount of CZK 7,036 million.

Changes in liabilities

Trade liabilities

The main reason for the increase of CZK 2,125 million in trade liabilities compared to the previous year was mainly increase in investment liabilities.

Borrowings

Current Loans and borrowings decreased by CZK 350 million compared to 2014. During the year 2015, the Group repaid the mid-term loan from its majority shareholder PKN ORLEN S.A. in the amount of CZK 4 billion.

Provisions

Compared to 2014, provisions increased by CZK 331 million, which was mainly caused by higher provision recognized for of remediation of historical ecological contamination and higher provision for estimated CO₂ emissions.

Consolidated statement of profit or loss and other comprehensive income

The Group's revenues for the year 2015 amounted to CZK 108,907 million and were 12% lower than in the year 2014, due to low crude oil price and lower utilization of production capacity resulting from the steam cracker accident.

The Group's profit from operations of CZK 8,716 million on EBIT level for 2015 was influenced by very favorable macro environment and high refining and petrochemical margins. The Group's operating loss of CZK 1,248 million on EBIT level for 2014 resulted mainly from challenging macro environment, especially in refining sector.

In the year 2015, the Czech economy kept GDP growth above 4% according to last available statistical data. Strong refining and petrochemical margins for the whole year 2015 and favorable macro environment contributed to generation of the Group net profit at the level of CZK 7,036 million.

Consolidated statement of cash flows

Net cash provided by the Group's operating activities amounted to CZK 14,931 million in 2015.

At the same time, investing activities resulted in cash outflow in the amount of CZK 6,340 million and financing activities resulted in cash outflows in the amount of CZK 4,385 million.

The increase in cash compared to the 2014 level resulted from significantly higher cash flow from operating activities in the year 2015.

The Group's financial position was still very strong at the end of the year 2015 as the net cash amounted to CZK 5,857 million and financial gearing, defined as the ratio of net debt and equity, amounted to (-) 16.7%.

Revenues

Trends in revenues for own products and services

	2015	2014	2013	2012	2011
	CZK million				
Revenues	108,907	123,938	99,415	107,160	97,428

In the year 2015 Unipetrol Group generated total revenues of CZK 108,907 million that is 12% lower than in the year 2014, due to low crude oil price.

Structure of revenues by business segments

Business segment	2015	2014	2013	2012	2011
	Revenues in %				
Downstream	91	91	89	91	90
Retail	9	9	11	9	10

External revenues in the downstream segment declined by CZK 13,342 million in the year 2015 compared to the previous year and amounted to CZK 99,314 million. The decrease is mainly attributable to lower crude oil price, decline in sales volumes of petrochemical products, and lower utilization of production capacities resulting from the steam cracker accident.

External revenues in the retail segment, amounting to CZK 9,491 million in the year 2015, were by CZK 1,699 million lower than in the previous year, due to lower gasoline and diesel prices a resulting from lower crude oil price compared to the year 2014.

The share of segments' revenues in Unipetrol Group's overall structure of revenues remained the same as in the previous year.

Structure of sales revenues by area

Area	2015	2014	2013	2012	2011
	Revenues in %				
Czech Republic	64	67	69	71	71
Other European countries	35	31	29	27	27
Other countries	2	2	2	2	2

Compared to the year 2014, the territorial structure of the Group's revenues remained stable when the majority was directed toward the EU countries.

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

(CZK million)	2015	2014	2013	2012	2011
Profit for distribution	2,143	328	938	404	-230
Allocation to the reserve fund	--	--	47	20	--
Number of profit-bearing shares	181,334,764	181,334,764	181,334,764	181,334,764	181,334,764
Profit/loss per share	11.82	1.81	5.17	2.23	-1.27
Dividend per share (CZK/share) paid from retained profit of previous years	-- ¹⁾	--	--	--	--
Total for distribution	2,143	328	891	384	-230
Profit brought forward as of 31 December	10,193	6,331	6,050	5,132	4,716

¹⁾ Dividend policy is not formally established. The decision on the distribution of the profit 2015 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 and underneath of the production facilities of SYNTHOS Kralupy, a.s. UNIPETROL, a.s., also owns several plots of land outside of these production facilities, a part of which is used by its subsidiaries and SYNTHOS Kralupy, a.s., 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.

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, an agreement benefiting SYNTHOS Kralupy, a.s., on the pre-emptive rights to specific in Chemical Production Complex Kralupy land used for its activities was executed. 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

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

In 2015 a mid-term loan was repaid between PKN ORLEN S.A. and UNIPETROL, a.s., in the amount of CZK 4 billion. Unipetrol's open credit lines from banks were also lowered to a total amount of CZK 9,650 million (including a separate open credit line for Unipetrol RPA in the amount of CZK 150 million).

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

Within the scope of operating financing of the parent company UNIPETROL, a.s., the bank guarantees in the total amount of CZK 1,351 million were provided for Unipetrol RPA's liabilities (CZK 1,095 million), Unipetrol Services (CZK 7 million), Benzina's liabilities (CZK 29 million), and Paramo's liabilities (CZK 220 million).

Other bank guarantees were provided for Unipetrol Slovensko (CZK 542 million), Česká rafinérská (CZK 120 million), Unipetrol Deutschland (CZK 432 million) and Unipetrol RPA (CZK 7 million).

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

Risk management

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

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

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

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