



**Česká
rafinérská**

Výroční zpráva

Annual Report

2011

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ANNUAL REPORT ČESKÁ RAFINÉRSKÁ, a.s. 2011

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**REPORT OF BOARD OF DIRECTORS
ON BUSINESS ACTIVITY OF COMPANY
AND STATUS OF ITS ASSETS**

IN YEAR OF 2011

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in Year of 2011

1. INTRODUCTION

In the refinery business the year of 2011 was characterized by high crude oil prices, very low refinery margin, further progress of alternative fuels, and strengthened mandatory requests. Consumption of motor fuels has stagnated generally. For commodity products, there was an excess of supply over demand. The consolidation of the refineries has further continued.

The year of 2011 in ČESKÁ RAFINÉRSKÁ, a.s. (hereinafter also the “**Company**“ or “**CRC**“) can be considered as a period of significant organizational changes, increasing flexibility to shareholders requests, breaking communication silos, and setting of new challenges and responsibilities. Attention has been paid to preparation and execution of the Litvínov refinery Turn Around (“**T/A**“), to further reduction of fixed costs, minimization of variable costs, optimization of investment program, to safe operations, availability / reliability of equipment, and full availability of required refinery products.

The most important achievements were as follows:

- Excellent results in behavioral health and safety area resulting into all-time low TRIR (*Total Recordable Injury Rate*) (0.9).
- Processing alternative crude in Litvínov (Iranian Light, CPC, Tengiz).
- Execution of Litvínov T/A with no LTI (*Lost Time Injuries*) and MTC (*Medical Treatment Cases*).
- Full recovery of NHC unit capacity and conversion performance as a result of T/A. NHC represents the central facility to upgrade hydrocarbons in the Company.
- Fulfillment of the requirements of the Czech national legislation regarding blending of bio-components into Mogas and Diesel. Annual bio-components mandatory quota has been fulfilled within tolerance limits agreed with PPC (*Production Planning Committee*).
- The Company reorganization resulting to 629 employees by the end of 2011.
- Continuing focus on savings of all costs' items resulting into fulfillment of Shareholders' targets (fixed cash costs CZK -59 million below established target).
- Definition of Projects aiming at further reducing energy costs through energy efficiency initiatives, some of which have been implemented and others planned for implementation.
- Margin improvement initiatives aiming at continuous improvement in the yields of the more value added products.
- Dividends paid in value of CZK 1 400 million.

There are a few subjects, which will need further discussion and improvement. These are as follows:

- Nine fires and two API incidents.
- Lower utilization of production assets in comparison to the approved 2010 Business Plan (“BP”) (crude 747 kt below plan of 7 502 kt). This has negatively influenced the Company’s performance, profitability, and position in benchmarking studies.
- Integrity issues on NHC unit in Litvínov, first of all in pre T/A period.
- Issues recorded on key units after T/A start-up of Litvínov refinery resulting into increased duration of T/A, however, with no negative impact on products’ lifting.
- Excess flaring of LPG, hydrogen, and H₂S related to reliability of relevant specific assets.
- Management of spare parts.
- High risk within the Company’s process safety.
- Adherence to the Company’s Articles of Association and internal regulations.

The following events have to be highlighted for individual months of the year of 2011:

- Verification audit for establishing the level of CO₂ emissions released from Company’s facilities (February).
- Holding of Substitute and Annual General Meetings (“GM”) of Shareholders one after another at which replacement of part of members of the Board of Directors (“BoD”) and replenishment of the Supervisory Board members took place (April).
- Full restoration of the Kralupy refinery operation after planned unit S/D (April).
- Lloyd’s Register supervisory audit conducted in the Company (June).
- Signature of collective agreement for 2011 (June).
- Election of BoD members (nominated by Eni International B.V.) at Extraordinary GM (August).
- Preparation and realization T/A 2011 in Litvinov (completed in October).
- Launching of the Company’s new organizational structure (October).
- Restoration of NHC unit name plate capacity, *i.e.*, 160 t/h with conversion rate 71% after T/A works (November).
- Completion of HSE Processor’s Audit (December).
- Elaboration of 2012 Business Plan & 2012-2016 Strategic Plan (December).
- Achievement of the milestone of 2.9 million hours without a lost workday (December).

2. FULFILLMENT OF KEY EFFICIENCY INDICATORS

Sixteen binding targets were reported during the year of 2011. Seven targets have been fulfilled.

The Company targets fulfillment could be characterized as follows:

- Excellent result as concerns “**Total Recordable Injury Rate**” of 0.9 has been achieved, also in comparison to the past, based on systematic attention of CRC’s management to the health and safety problematic. As to 31 December 2011, the Company has achieved 2.9 million hours without lost work day case incident.
- “**Fixed Cash Costs**” - Final result has been even better than the stretched target of shareholders by CZK 59 million, due to high focus of the Company’s management on all cost items saving. This represents very positive message for shareholders.

- Despite of ambitious scope and timing, “**Litvínov T/A Cost**” has not been overrun, moreover CZK 8 million has been saved. However, due to certain start-up issues on NHC, CCR and Claus IV units planned time period has been exceeded about 15 days and huge negative impact on hydrocarbon margin was experienced (about CZK 300 million)
- Total “**Shutdowns Cost, inclusive Litvínov T/A**” have been exceeded about CZK 14 million due to certain integrity issues of central CRC's units.
- “**Investment Expenditures**” has been optimized in line with cost saving program – savings of CZK 154 million.
- Indicators of “**Availability**” of key facilities were better than requested, except for the “**NHC Availability**” and “**FCC Technical Availability**”.
- Assumed challenging level of the “**Energy Intensity Index**” has been unfortunately exceeded about 4.8 %, this number is caused to much extent by low utilization.
- In line with shareholders’ target, “**Number of Employees**” has been further reduced, even below set target of 632, to 629 employees. This result is tightly related to the implemented organizational changes.
- Already high “**Spare Parts Inventory**” has been increased again in relation to planning, securing, and realization of T/A in Litvínov. The Company is aware of these negative results and will put more efforts to improve.
- No “**Accepted Complaints about Product Quality**” have been reported within the year 2011, which represents very positive achievement.

For quantitative results please see the next exhibit:

Exhibit No. 1: CRC’s 2011 KPIs

No.	Target	Shareholders' Requested Value	Achieved
1	Total Recordable Injury Rate	1.8	0.9
2	Fixed Cash Costs (CZK million)	1 657	1 598
3	Turnaround Litvinov (CZK million)	562	554
4	Turnaround Litvinov (Days)	38	53
5	Shutdowns incl. T/A Litvínov (CZK million)	630	644
6	Investment Expenditures (CZK million)	688	534
7.1	NHC Availability (%)	99	91.82
7.2	NHC Technical Availability (%)	90.7	98.08
7.3	NHC CPL (%)	1.10	12.22
8.1	FCC Availability (%)	98.5	99.77
8.2	FCC Technical Availability (%)	100	97.12
8.3	FCC CPL (%)	0.60%	1.29%
9	Energy Intensity Index (EII)	90.0	94.8
10	Number of Employees	632	629
11	Spare Part Inventory (CZK million)	1 155	1 320
12	Accepted Complaints about Product Quality	3	0

As per the exhibit below, according to Solomon 2010 Study presented in October 2011, the Company has kept its position only in Solomon KPI Maintenance Index. Position of the other Solomon KPIs was one quartile lower than the planned value with the Operational Availability Index having dropped from 2Q in previous Solomon study to 4Q. The shareholders’ targets have been thus fulfilled only partially.

Exhibit No. 2: Solomon Targets

Indexes	Shareholders targets	Total study 111 refineries
Non-Energy OPEX	1Q	2Q
Maintenance Index	2Q	2Q
Energy Intensity Index	2Q	3Q
OPEX	2Q	3Q
Operational Availability	-	4Q

3. HEALTH PROTECTION, SAFETY, ASSETS PROTECTION AND ENVIRONMENTAL PROTECTION

HIGHLIGHTS OF YEAR 2011

The highlights of the year of 2011 are as follows:

- Training „HSSE Qualification 2011“ performed
- 2 million hours worked by CRC and contractors' staff without lost workday case incident achieved (10 September 2011)

Exhibit No. 3: Development of Injury Cases in 2004 - 2011 Period

Year / Accidents	2004	2005	2006	2007	2008	2009	2010	2011
	CRC/ contractor	CRC/ contractor	CRC/ contractor	CRC/ contractor	CRC/ contractor	CRC/ contractor	CRC/ contractor	CRC/ contractor
TRIR	1.8	2.2	2.8	3	2.7	2.1	3.0	0.9
Number of Injury – Total	12	9	11	16	7	7	10	12
Lost Time Injuries (LTI)	3/0	2/0	0/2	2/3	1/2	3/0	1/2	0
Medical Treatment Cases (MTC)	1/0	2/0	3/0	2/0	1/1	1/0	1/1	1/1
First Aid Cases (FAC)	3/5	5/0	6/0	6/3	1/1	1/2	5/0	3/7

Comments:

13.03.2011 – Kralupy – First Aid Case Injury / CRC – operator when closing armature on tank sprained thumb on his right hand (EE No. 80003254)

18.03.2011 – Litvínov – First Aid Case Injury / CRC – after opening tank lid on rail 70 it flipped over and dropped on the instep of operator left foot (EE No. 80003260)

19.05.2011 - Litvínov – Medical Treatment Case Injury / CRC – operator burned by a hot condensate on left lower limb (EE No. 80003311)

21.06.2011 – Litvínov – Medical Treatment Case Injury / Contractor's injury – indisposition of contractor, when working with breathing equipment (EE No. 80003327)

27.06.2011 – Kralupy – First Aid Case Injury / CRC – finger injury, a driver of the contractor's company car closed operator's finger to the car door (EE No. 80003333)

11.07.2011 – Litvínov – First Aid Case Injury / Contractor's injury – in relation to visbreaker residue leak from the pipeline (cca 160 °C) a contractor was stained (blisters on left hand wrist) (EE No. 80003343)

04.09.2011 – Litvínov – First Aid Case Injury / Contractor's injury – slipping on stair, falling down, bruising forearm of left hand (EE No. 80003369)

11.09.2011 – Litvínov – First Aid Case Injury / Contractor's injury – stumbling when walking from canteen, ankle injury (EE No. 80003372)

13.09.2011 – Litvínov – First Aid Case Injury / Contractor's injury – contractor was hit into head by a steel bolt with crashing through the protection helmet (EE No. 80003374)

21.09.2011 – Litvínov – 2 First Aid Case Injuries / 2 Contractor's injuries – short-term ignition of collected flammable vapours and gases within the area of excavation (NRL); slight burn of hair on heads of two employees. (Litvínov) (EE No. 80003380)

21.10.2011 – Litvínov – First Aid Case Injury / Contractor's injury - during electric facility manipulation in Litvínov (NRL), impact of strong light/flash on eyes, no impact of energy or fire on body, contractor back to work after visiting of doctor (EE No. 80003402)

Exhibit No. 4: Number of Extraordinary Events of Type of Fire, Leak, Injury or Car Accident in 2004 – 2011 Period

Extraordinary events/year	2004	2005	2006	2007	2008	2009	2010	2011
Fire	5	3	3	3	4	3	6	9
Leaks above 200 l with Environmental Impact	4	2	5	1	4	5	3	3
Leaks above 25 l with Environmental Impact	-	-	-	-	6	5	3	4
Car Accidents	12	13	12	7	5	7	8	10

Comments "Fire":

07.05.2011 – ignition of escaped hydrocarbons from leaking flange at VBU (Litvínov) – (EE No. 80003302) – damage 30 675,- CZK

18.05.2011 – leak and fire detected at combustion furnace on Claus 4 (Litvínov) – (EE No. 80003310) – damage 6 710 000,- CZK

24.05.2011 – ignition of cleaning liquid (gasoline) on furnace of distillation unit, during work executed by contractor (Kralupy) – (EE No. 80003315) – damage 274 820,- CZK

16.08.2011 – small fire of hydrogen gas from the line of ventilation of seal area at CCR (Litvínov) – (EE No. 80003362) – damage 3 460,- CZK

21.09.2011 – short-term ignition of collected flammable vapours and gases within the area of excavation (NRL); slight burn of hair on heads of two employees (Litvínov) – (EE No. 80003380) – not quantified

06.10.2011 – fire of leaking hydrogen from leaking pipe flange of furnace 1320 B01 (NHC) (Litvínov) – (EE No. 80003387) – damage 3 100 000,- CZK

06.10.2011 – ignition of hydrocarbons under insulation 3412 - C distillation fire (Bat. Limit) (Litvínov) – (EE No. 80003389) – not quantified

08.10.2011 – ignition of insulation cotton wool absorbed by product under metal insulation on column 3420-C05 (AVD) (Litvínov) – (EE No. 80003392) – not quantified

23.11.2011 – 4320 Sulfree – there was a fire under insulation 4320 KL01 (Litvínov) – (EE No. 80003418) – damage 117 944,- CZK

Exhibit No. 5: Number of Environmental Complaints in 2005-2011 Period

Year	Kralupy	Litvínov
2005	16	0
2006	6	0
2007	6	0
2008	9	1
2009	3	0
2010	1	0
2011	0	0

PROCESS SAFETY

Exhibit No. 6: Process Safety – Lagging indicator in 2011

2011	Kralupy	Litvínov
API PSE Tier I	2	0

Comments:

- 12.02.2011 - unplanned / uncontrolled spill of LPG from flange of the rail car (in fact connected to the process for the purpose of LPG transfer) results in the outdoor release of LPG greater than the threshold quantities (500 kg in any one hour period); the total amount of leakage was greater than 5 tons.
- 8.06.2011 – crude oil leakage due to the failure of automatic draining equipment (outdoor release, more than 500 kg in one period)

More information on health and safety, asset protection, environment impact in the two regions concerned, and on further developments in the HSSEQ area can be found in the Health and Safety, Asset Protection, Environmental Impact and Quality Report for 2011.

4. PRODUCTION AND MAINTENANCE ACTIVITIES

In the year of 2011, the crude processing fell with 8.4% compared to 2010 to the level of 6,755 kt. Though this decrease in capacity utilization has a marked effect on efficiency and unit specific indicators, yet the performance of both refineries can be summarized as follows.

KRALUPY REFINERY

Kralupy refinery had a pretty strong year. The refinery completed the second year in a four-year operating cycle after the major T/A in 2009:

- Technical Availability of the refinery was **97%**.
- Controllable Production Losses (sum of shut-down and slow-down losses) was **2.1%**.
- CPL for the FCC complex was even **0.8%** which is world-class performance according to Solomon.

Whilst achieving these production results at the same time the maintenance costs were well controlled. Actual spending in 2011 was about **CZK 52 million** below 2011 BP.

Also, Product Quality Give Away (QGA) continued the improvement trend: lower QGA compared to 2010 and lower compared to 2009.

The low capacity utilization of 74.8% makes the overall competitiveness looking less attractive due to high(er) specific unit costs.

During 2011 the investment project for FCC Slurry Oil Filtration (SOF) was commissioned and started. Quite a few teething problems had to be solved and fundamental modifications

were made to the mode of SOF operation. Extended trial runs for prolonged bypassing of Vacuum Distillation were undertaken and are now under further execution.

A pit-stop shut down took place in March/April which included an extensive replacement of flue gas ducting, refinery operation resumed to normal thereafter.

LITVÍNŮV RAFINERY

Litvinov refinery, compared to Kralupy, had a more cumbersome year in 2011. It was the fourth and last year in the four-year operating cycle. Of course the main thrust and attention was devoted to the September T/A for inspection and clean-out. Reliability performance was as follows:

- Technical Availability of the refinery was 95.8%
- Controllable Production Losses (CPL) (sum of shut-down and slow-down losses) was 6.1%
- Capacity utilization was 66.7%

The high CPL figures were mainly caused by a number of unfavorable incidents, imposing restrictions on processing capabilities such as:

- NHC furnace B01 tube burst and consequently narrowed valid operating window
- Claus 4 fire/damage to the combustion chamber
- Unplanned catalyst exchange on GO-HDS unit 2304
- Unplanned extension of start-up phase after the T/A

The encouraging news is that CPL after the T/A decreased to 4.7% and 0.2% for November and December, respectively.

The Litvinov T/A, though overall not meeting the entire set of objectives, signifies an important step in T/A work process improvement for CRC:

- HSE objectives were accomplished: **TRIR was 0** and 2 FAC were recorded.
- Total costs remained within approved Budget (**CZK 554 million** versus CZK 562 million)
- Duration of 27 engineering days was accomplished however start-up duration of 38 days was exceeded, mainly caused by problems in NHC unit (flange fire) and CCR Plat former unit (cooling water investment project)

Jointly with shareholder T/A experts the close-out report will capture Lessons Learned for next incremental improvement.

In addition to the technical achievements above, the organization of the Technical Division changed substantially in the second half of 2011. Following the organizational change of 2009 with transition of Technology department to PDD, in 2011 also the **New Investment Department** and the Department for **Scheduling & Hydrocarbon Accounting** were transferred to other Divisions. A second wave of further organizational adjustments within the newly established Production, Engineering and Maintenance Division was initiated in the fourth quarter in concert with other CRC's Divisions.

5. TECHNOLOGY

Technology ensured support for operation on day to day basis. Weekly meetings with Asset Teams were organized to set up pace with the development. Technology cooperated on preparation of Litvínov T/A, managed definition of the scope and challenging the activities as well as management of catalyst replacements and activations. Activities during shutdown were shared with respective teams nominated for individual areas. Technology mediated actions ordered from NHC unit licensor and other external bodies for technical help.

Technology prepared numerous investment projects for cost saving, energy efficiency and integrity improvement. Process engineers cooperated on investment phases for projects execution and construction.

Specifically in Kralupy, the main activities were concentrated around KBC proposed measures for energy efficiency improvement, addressed into the BDEP stage, FCC catalyst replacement, and a partial reduction of rare earth metals in the FCC unit catalyst composition. Preparation for the VDU shutdown was carried out during the year to enable implementation of the margin improvement project with a significant effect (150 million CZK/year).

In Litvínov, the KBC proposed energy efficiency measures feasibility study was before completion at the end of the year, as well as the amine system review study, aiming at fulfillment of the combustion directive. Original searching for several integrity issues was consequently followed by Team 4, focused on ensuring sustainable operation of the NHC unit at full throughput and maximal conversion.

6. PLANNING, RESEARCH AND DEVELOPMENT AND LOGISTICS

In 2011, crude oil prices varied within 94-127 USD/bbl price range. Prices of major refinery products (*i.e.*, gasoline and diesel) would practically emulate the trend of crude price development. Additionally, the fulfillment of the bio-legislative obligation was – for the Company and the processors thereof – negative with respect to the overall economic impact triggered by higher prices of bio-components, the necessity of having the formulation recipes adjusted, logistic and capacity limitations faced whilst segregating different qualities of motor fuels.

In view of the “processing mode” of the refinery, these facts have had merely a secondary impact upon the Company, with the execution of production being coordinated with the processors through monthly so-called operative plans.

Crude oil processing plan was fulfilled comparing to Monthly Operating Plans: -1% and comparing to original 2011 BP: -10%.

Crude oil transportation for the company, respectively for the processors, was executed through MERO ČR, a.s., TRANSPETROL, a.s. and TAL GmbH companies. In 2011, the supply was stable; the relations with MERO ČR, a.s. and TRANSPETROL, a.s. would square well.

In 2011, the alternative crude oils were transported via TAL/IKL line for processing in the Litvínov refinery in the amount of 325 thousand tons, such as Iranian Light, CPC and Tengiz.

Use of relevant shipping routes in 2011 was as follows:

Railway	33 %
Road terminals	41 %
Pipeline	36 %

Exhibit No. 7: Product Logistics in Years 2004 – 2011

KPI	2005	2006	2007	2008	2009	2010	2011
Pipeline Transfer Fulfillment (%)	93.7	100.6	99.5	100.1	100.7	100,7	100.6 Pipeline transfer: Plan 1,480 ths tons Reality 1,489 ths tons

Loading and transportation requirements of processors were fulfilled.

The transport of semi products and of diesel between the refineries, executed via the ČEPRO, a.s. pipeline, saw a year-to-year return on previous years level from 171 kt in 2010 to 173 kt in 2011.

The Company is not operating own research facilities, but is cooperating with number of research institutions (mainly VŠCHT Prague, VUANCH Ústí nad Labem, Technical University Liberec), KBC, UOP, etc. The main focus of Research and Development is oriented on:

- catalysts testing,
- raw materials, final product testing and quality management,
- bitumen manufacturing,
- new technologies development,
- energy efficiency improvement.

7. CAPITAL INVESTMENT

The original financial plan of investments in the amount of CZK 876.7 million as approved in April 2011 was slightly modified in July amounting to CZK 880.2 million of which CZK 688 million related to projects already approved for execution and the rest of CZK 192.2 million related to projects being in an early development stage which execution was conditioned by further justification. The actually invested amount in 2011 equals CZK 534.5 million (including of CZK 16.8 million of CRC internal accounting transactions).

The projects considered for further justification have not been started at all either due to the shareholders' disapproval with submitted scope or some projects development have been postponed and they have not been submitted to shareholders for their approval.

From those projects which have been approved for execution the main focus was given to projects related to Litvínov T/A activities where 22 investment activities were executed within T/A scope without any injuries.

The execution of projects which have not been related to Litvínov T/A was affected by the fact that the 2011 BP was approved in April instead of in December of previous year which led to postponed starts of some of planned projects influencing in this way their original execution time schedules. It may be stated that assumed to be completed in 2011 had been 60 projects (either in EPC phase, or in the phase of BDEP elaboration phase). Fully completed and handed over to operations were 30 projects having been in EPC stage. 4 other projects have been completed partially and they will be fully completed in the following year 2012. Other 12 projects having been in EPC phase will be completed in following years. In BDEP phase, 9 projects were completed in full extent (with BDEP drawn up and handed over), the completion of BDEP for 2 projects have been postponed to 2012 year and BDEP execution for 3 projects have not started in 2011 year because the projects have not been approved for the execution.

General impact comparing to 2011 BP could be described as follows (expressed in percentage of original investment plan of CZK 880.2 million):

Original 2011 BP vs. Actual	in %
Real Capital Expenditures	60.7
Cost Savings	13.0 (saving in the meaning of not used financial funds which have not been transferred to be expanded in the following years)
Deferred Implementation	4.5
Not Approved by Shareholders	6.4
Not Submitted by Company	15.4

Exhibit No. 8: Key Projects Completed in 2011

Number	Name of project	Type of project	Date of takeover
LR-08032	New hydrocracker - Post Implementation Review Modifications	General Improvement	30.11.2011
KE-10029	The sewer system in blocks 041,26,17,- protection against the leak of MTBE to the underground water	MANDATORY	31.8.2011
KS-10035	FGS - Extension of automatic fire detectors around pumps 2410-P1/1,2	MANDATORY	11.5.2011
LS-09045	Safety operation increase of extraction section 2302 C03	MANDATORY	3.10.2011
LS-11009	Downfall protection of cistern - Litvinov loading track Nr. 120	MANDATORY	2.8.2011
LR-08035	Workstation replacement in NCB – 1st phase	MINOR	7.4.2011
LR-10015	Replacing chimney linings Claus units st. 4321 Litvinov	MINOR	19.12.2011
LR-10018	New heat exchangers for lean MEA 5510 W13/1-3	MINOR	2.6.2011
LR-10052	Improvement of SRU operating reliability	MINOR	2.10.2011

Total investment costs of CZK 534,5 million may roughly be allocated into the following categories of projects:

Exhibit No. 9: Projects' Categories Completed in 2011

energy	4%
environmental	13%
legislation	5%
other	9%
quality	7%
reliability	45%
safety	17%

Exhibit No. 10: Investment Expenditure in 2011 Broken Down As Per Investment Plan and Locality (in CZK)

Type of investment expenditure	Litvínov	Kralupy	Both localities	Total
Major	125 272 735	79 297 875	0	204 570 610
General investment	25 023 170	29 482 167	79 830 361	134 335 698
Mandatory investment	23 324 689	30 575 554	27 517 706	81 417 948
Minor project	76 443 509	5 770 513	31 542 057	113 756 079
Processors project	113 811	0	312 905	426 716
Total	250 177 914	145 126 109	139 203 029	534 507 051

8. FINANCIAL SITUATION

In 2011, the Company posted a profit before taxation equaling to CZK 356 million (i.e. CZK 289 million after taxation), at a turnover of CZK 9.044 billion.

Total assets of the Company fell - contrary to the previous period - by CZK 1,338 million, down to CZK 22,165 million.

The net book value of the fixed assets fell by CZK 485 million, down to CZK 13,907 million; fixed assets additions (w/o emission allowances) equaled CZK 565 million, and the total cost of fixed tangible and intangible assets reached the amount at CZK 27,823 million.

The value of the current assets decreased by CZK 849 million down to CZK 7,748 million, mainly due to a decrease in the value of the short term financial assets by CZK 1,000 million that was partially offset by an increase of receivables from Processors associated mainly with the Excise Tax in the amount of CZK 159 million. Inventory decreased by CZK 7 million. Other assets decreased by CZK 4 million.

The decrease in the shareholders equity of CZK 1,111 million (i.e. from CZK 16,475 million down to CZK 15,364 million) is in line with the Company's net profit for the current period equaling CZK 289 million, offset by dividend payment from the profit of year 2010 and retained earnings in the amount of CZK 1,400 million.

An overview of core financial indicators – as compared with the previous six-year period – is shown in the Exhibit below.

Exhibit No. 11: Turnover, Net Profit and Capital Investments - 2005 to 2011 (in CZK million)

	2005	2006	2007	2008	2009	2010	2011
Turnover	9,293	9,256	9,353	10,409	9,068	9,729	9,044
Profit after tax	257	268	387	308	263	333	289
Fixed operating costs	1,761	1,706	2,271	1,717	1,962	1,624	2,242
Capital expenditures *	484	1,435	1,669	1,093	849	293	518

* Cash investment expenditures incurred during respective years. In addition to data on capital expenditures presented in the above table, Exhibit No. 11 reflects also impact of those accounting transactions, that affected value of the Company's fixed assets in 2011 but had no impact on the cash flow in the same year (reclassifications made between operating and capital expenditure categories, failed investments etc.).

The Company does not own and operate any affiliate (nor in the Czech Republic neither abroad).

9. INTERNAL AUDIT AND RISK ASSESSMENT

The highlights of the year of 2011 are as follows:

- The processors HSE audit took place on 19 to 23 September 2011 and 5 to 9 December 2011.
- The external audit "Accredited Inspection Body" (based on ČSN EN ISO/IEC 17020) took place.
- The external audit "Accredited Laboratory" (based on ČSN EN ISO/IEC 17025) took place.
- Annual JET A1 inspection took place on 15 March 2011.
- The external audit (based on ISO 9001, 14001 and OHSAS 18001) was executed by company LRQA.

Internal audit and risk assessment constitute important activities of the Company. A close link was maintained with staff, the Company management, the Internal Audit Committee, the Board of Directors, the Supervisory Board, Processors and Shareholders.

Shareholders Financial Committee continued in its activity in the year of 2011. The members of this body are representatives of all CRC shareholders.

Since 2008, internal audits have been performed under the leadership and by the Business Assurance section in cooperation with trained internal auditors from other sections.

The Company's internal audits plan covers auditing of any and all primary and support processes, setting annual priorities based on regular reviews of risk assessment.

Internal audits are focused on reviewing activities in terms of whether or not those are performed in compliance with set rules, towards reviewing the fulfillment of remedial measures imposed by previous audits, reviewing risk registers of respective sections including reviews of efficiency of set checks, and reviews of efficiency of corrective measures adopted in the past.

Exhibit No. 12: Internal Audits Performed in 2011

Date	Audited process
April	Audit of process „Technology”
June	Audit of process “Feedstock supplies coordination”
November	Audit of process „Activity of inspection authority - type B”
November	Audit of process „Accredited laboratory”
November	Extraordinary Audit “Adherence to Directive 611 Procurement”
December	Audit of process „Production preparation and scheduling”

Apart from internal and external audits planned for 2011 two **extraordinary audits** were performed; it was conducted upon the request of the Company management and of the Internal Audit Committee.

Within management of contractors, based on the plan, there were also executed **audits of contractors** aimed at the area of environmental protection, quality and safety control, at the protection of health at work, and at pre-qualification audits.

10. HUMAN RESOURCES AND EDUCATION

Throughout 2011, the situation in the area of workforce was consolidated, with fluctuation standing long-term at a very low level. The priorities are to keep qualified and stable staff. As a part of personnel strategy and shareholder requirements (multiplied by the necessity to adopt anti-crisis measures), optimization of the number and composition of workforce continued.

The currently applied system of linking staff remuneration with efficiency evaluation remained in place without any significant changes. Non-monetary benefits intended for the staff are provided as a part of scheme of optional benefits. The system is updated on a regular basis. The said system of non-cash benefits contributes to staff stabilization, that being reflected in a permanently low personnel turnover rate. Above-standard periodical medical checks help keep the sickness rate at the very low level of 1.0%. Education in 2011 proceeded according to reviewed education plans applying restrictive cost reduction measures.

Voluntary work of CRC employees as well as other charity oriented initiatives had its firm place within Company life in 2011. The "Voluntary Day" under name "Help to Nature" took place in Veltrusy and Krušné hory (Ore Mountains) with higher number of participants than the year before. Also other form of charity projects organized by CRC during 2011 showed remarkable response by CRC employees.

11. COMMUNICATION, EXTERNAL RELATIONS AND CORPORATE SOCIAL RESPONSIBILITY

Principles of an open communication policy were carried out by the Company during the year of 2011 being focused on external stakeholders, public, including media, and local authorities. During the year of 2011, the Company issued 15 press releases on several activities and events. The external relations developed the system of transparent relations with both the surrounding communities and the public. The amendments to long-term contracts were concluded on cooperation in 2011 with Most, Litvínov, Meziboří, Kralupy nad Vltavou, Veltrusy and Chvatěruby municipalities; these have taken into account the current needs of towns and municipalities, of schools, cultural and sports organizations, including a variety of non – profit organizations and societies.

The external communication dealt with timely information on preparation and execution of the T/A of the Litvinov refinery in September-October 2011. Special attention was given to municipalities of Most and Litvinov in this respect.

Communication to the Company employees has been carried out through printed media (Echo and Impuls), electronic channel as e-mails and intranet as well as by arranging several face to face meeting where CEO and other BoD members also participated. Various kind of communication to the employees was linked to the collective bargaining.

Corporate Social Responsibility of the Company covered the financial donations for needed, support by handing over the various items, *i.e.*, used computer sets to schools and non-profit organizations, voluntary work and charity projects with participation of the Company employees. The company continued to cooperate with Ecology Center Most and Ecology Center Kralupy nad Vltavou where the on-line information on environment in both industrial region are given and several education activities on environment are carried out.

More information on communication, on relations with neighbors in the two regions, and on social responsibility is available in the 2011 CRC Sustainability Report.

In 2011, the Company was a member of Czech Association of Petroleum Industry and Trade (ČAPPO), Association of Chemical Industry of the Czech Republic (SCHP), Economic and Social Board of the Most Region, Euroregion Krušnohoří/Erzgebirge and of some other professional associations.

12. CHANGES IN COMPOSITION OF SHAREHOLDERS AND IN COMPANY'S BODIES

COMPANY'S SHAREHOLDERS

There occurred no changes in composition of shareholders of the Company in the year of 2011.

BOARD OF DIRECTORS OF COMPANY

Changes in Composition of Board of Directors

Pursuant to Articles of Association of the Company, the Board of Directors is composed of seven (7) members.

As of 1 January 2011, the Board of Directors was composed of the following seven (7) members:

- Ivan Souček
- Salvatore Recupero
- Giorgio Cervi
- Arnoldus Johannes van der Post
- Miroslav Kornalík
- Jacek Smyczyński
- Roman Novotný

There occurred the following changes in composition of the Board of Directors of the Company in the year of 2011:

TERMINATIO OF MEMBERSHIP	NEW MEMBER
Salvatore Recupero (17 January 2011)	Salvatore Recupero (26 January 2011)
Jacek Smyczyński (25 January 2011)	Jacek Smyczyński (26 January 2011)
Jacek Smyczyński (22 March 2011)	Jacek Smyczyński (24 March 2011)
Salvatore Recupero (22 March 2011)	Salvatore Recupero (24 March 2011)
Jacek Smyczyński (27 April 2011)	Jacek Smyczyński (27 April 2011)
Salvatore Recupero (27 April 2011)	Roberto Zonfrilli (23 August 2011)
Miroslav Kornalík (27 April 2011)	Lukasz Piotrowski (27 April 2011)
Ivan Souček (27 April 2011)	Marek Świtajewski (27 April 2011)
Roman Novotný (27 April 2011)	Miika Daniel Eerola (27 April 2011)
Giorgio Cervi (27 May 2011)	Giorgio Cervi (23 August 2011)

The membership of Mr. Salvatore Recupero in the Board of Directors terminated on 17 January 2011 due to elapse of his term of office.

The membership of Mr. Jacek Smyczyński in the Board of Directors terminated on 25 January 2011 due to holding of the Substitute General Meeting of the Company.

On 26 January 2011, the Board of Directors appointed, pursuant to Section 194 (2) of Commercial Code and Article 19 (4) of Articles of Association of the Company, Mr. Salvatore Recupero and Mr. Jacek Smyczyński into the position of member of the Board of Directors for the period until holding of the next General Meeting of the Company.

The membership of Mr. Jacek Smyczyński and Mr. Salvatore Recupero terminated on 22 March 2011 due to holding of the Substitute General Meeting of the Company. On 24 March 2011, the Board of Directors appointed, pursuant to Section 194 (2) of Commercial Code and Article 19 (4) of Articles of Association of the Company, both gentlemen into the position of member of the Board of Directors for the period until holding of the next General Meeting of the Company.

The membership of Mr. Jacek Smyczyński and Mr. Salvatore Recupero terminated on 27 April 2011 due to holding of the Substitute General Meeting of the Company.

The Substitute General Meeting of the Company, held on 27 April 2011, recalled Mr. Ivan Souček, Mr. Miroslav Kornalík and Mr. Roman Novotný from their position of member of the Board of Directors and approved as a moment of their termination of the performance of position of member of the Board of Directors the end of the Annual General Meeting of the Company of 27 April 2011. At the same time, the Substitute General Meeting of the Company of 27 April 2011 elected Mr. Marek Świtajewski, Mr. Lukasz Piotrowski, Mr. Miika Daniel Eerola and Mr. Jacek Smyczyński into the position of member of the Board of Directors provided that they were elected with effect from the moment of termination of the Annual General Meeting of the Company held on 27 April 2011.

The membership of Mr. Giorgio Cervi in the Board of Directors terminated on 27 May 2011 due to elapse of his term of office.

The Extraordinary General Meeting of the Company, held on 23 April 2011, elected with effect from the day of such General Meeting Mr. Roberto Zonfrilli and Mr. Giorgio Cervi into the position of member of the Board of Directors.

As of 31 December 2011, the Board of Directors was composed of the following seven (7) members:

- Marek Świtajewski
- Roberto Zonfrilli
- Giorgio Cervi
- Arnoldus Johannes van der Post
- Miika Daniel Eerola
- Lukasz Piotrowski
- Jacek Smyczyński

Chairman of Board of Directors

In the period from 1 January 2011 to 27 April 2011 (until the end of the Annual General Meeting of the Company held on this day), the position of the Chairman of the Board of Directors was held by Mr. Ivan Souček.

On 28 April 2011, the Board of Directors of the Company elected Mr. Marek Świtajewski into the position of the Chairman of the Board of Directors. He commenced to perform this position on this day and he performed this position for the rest of the year of 2011.

Vice-Chairman of Board of Directors

In the period from 1 January 2011 until 17 January 2011, the position of the Vice-Chairman of the Board of Directors was performed by Mr. Salvatore Recupero. In the period from 18 January 2011 until 30 January 2011, the position of the Vice-Chairman of the Board of Directors was vacant.

On 31 January 2011, Mr. Salvatore Recupero was elected into the position of the Vice-Chairman of the Board of Directors. His performance of position of the Vice-Chairman of the Board of Directors terminated on 22 March 2011.

On 7 April 2011, with effect from 8 April 2011, Mr. Salvatore Recupero was again elected into the position of the Vice-Chairman of the Board of Directors. His performance of position of the Vice-Chairman of the Board of Directors terminated on 27 April 2011.

From 28 April 2011 until the end of the year of 2011, the position of the Vice-Chairman of the Board of Directors remained vacant.

SUPERVISORY BOARD OF COMPANY

Changes in Composition of Supervisory Board

Pursuant to the Articles of Association of the Company, the Supervisory Board is composed of nine (9) members.

As of 1 January 2011, the Supervisory Board of the Company was composed of the following seven (7) members:

- Martin Jaroš
- Mairuzio Mazzei
- Ingrid Levá
- Krzysztof Loziński
- Jan Klimeš
- František Filípek
- Ilona Pokorná

As of 1 January 2011 there were two (2) vacant positions in the Supervisory Board.

There occurred the following changes in the composition of the Supervisory Board in the year of 2011:

TERMINATION OF MEMBERSHIP	NEW MEMBER
Krzysztof Loziński (25 March 2011)	Krzysztof Oscilowicz (27 April 2011)
Ingrid Levá (27 April 2011)	Ingrid Levá (27 April 2011)
Jan Klimeš (27 June 2011)	Jan Klimeš (27 June 2011)
František Filípek (27 June 2011)	Miroslav Havel (27 June 2011)
Ilona Pokorná (27 June 2011)	Ilona Pokorná (27 June 2011)
	Zdeněk Černý (27 April 2011)
	Piotr D. Siemion (27 April 2011)

In his letter of 16 February 2011, Mr. Krzysztof Loziński announced his resignation from a position of member of the Supervisory Board of the Company. His resignation was discussed and acknowledged by the Supervisory Board on 25 March 2011. His performance of position of member of the Supervisory Board terminated on the same date.

The Substitute General Meeting of 27 April 2011 elected into the position of member of Supervisory Board Ms. Ingrid Levá, Mr. Zdeněk Černý, Mr. Piotr D. Siemion and Mr. Krzysztof Oscilowicz.

On 27 June 2011, the employees of the Company elected Mr. Jan Klimeš, Mr. Miroslav Havel and Ms. Ilona Pokorná into the position of member of Supervisory Board. The

membership in the Supervisory Board of Mr. František Filípek terminated on the same day because of such election.

As of 31 December 2011, the Supervisory Board of the Company was composed of the following nine (9) members:

- Zdeněk Černý
- Martin Jaroš
- Maurizio Mazzei
- Ingrid Levá
- Piotr D. Siemion
- Krzysztof Oscilowicz
- Jan Klimeš
- Miroslav Havel
- Ilona Pokorná

Chairman of Supervisory Board

The position of the Chairman of the Supervisory Board was vacant in the period from 1 January 2011 until 20 September 2011.

The Supervisory board elected Mr. Zdeněk Černý into the position of the Chairman of the Supervisory Board on 21 September 2011. He performed this position for the rest of the year of 2011.

Vice-Chairman of Supervisory

During the whole year of 2011, the position of the Vice-Chairman of the Supervisory Board was performed by Mr. Martin Jaroš.

13. COMPANY FUTURE PERFORMANCE OVERVIEW

The Company keeps in continuing to run in the mode of a processing refinery in 2012, fulfilling the requirements of its shareholders and processors.

Due to continuous very unfavorable market environment and macro conditions the Company will focus on its profitability via introduction and tracking its EBITDA and EBIT. This will allow to measure true company performance rather than artificial profit generated in a cost plus mode.

Key challenges to further company operations are associated with striving to ensure operational excellence. This to be achieved via significant improvements in units' reliability and availability, energy effectiveness, initiatives aimed at improving hydrocarbon margin and thorough fixed cost management.

2012 is also a year when all works for 2013 Kralupy T/A have to be kicked off, *i.e.*, premises agreed, T/A manager assigned, team composed and scope of work, schedule and budget defined.

Any and all Company activities have to be performed in a safety and friendly way with no negative impact to environment. The Company will continue its safety program ensuring zero tolerance to behavioral and process safety, fulfilling safety culture projects and remedial actions coming out of the HSSE processors audits from 2011.

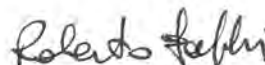
The Company will pursue open and transparent communication with all its stakeholders, *i.e.*, employees, trade unions, shareholders, processors, neighbors, the public and state administration authorities, and consistently builds its reputation of a trustworthy and reliable partner.

Litvínov, 16 March 2012

Board of Directors of ČESKÁ RAFINÉRSKÁ, a.s.



Marek Šwitajewski
Chairman of the Board of Directors
of ČESKÁ RAFINÉRSKÁ, a.s.



Roberto Zonfrilli
Member of the Board of Directors
of ČESKÁ RAFINÉRSKÁ, a.s.

**STANOVISKO DOZORČÍ RADY
O PŘEZKOUMÁNÍ ŘÁDNÉ ÚČETNÍ
ZÁVĚRKY SPOLEČNOSTI
K 31. PROSINCI 2011**

Dozorčí rada společnosti ČESKÁ RAFINÉRSKÁ, a.s. (dále jen „Společnost“) tímto předkládá řádné valné hromadě Společnosti toto Stanovisko dozorčí rady o přezkoumání řádné účetní závěrky Společnosti k 31. prosinci 2011.

Dozorčí rada Společnosti v souladu s ustanovením § 198 obchodního zákoníku přezkoumala Řádnou účetní závěrku Společnosti k 31. prosinci 2011 (dále jen „Účetní závěrka 2011“).

Podle svých nejlepších znalostí a s přihlédnutím ke zprávě nezávislého auditora, společnosti KPMG Česká republika Audit, s.r.o., týkající se Účetní závěrky 2011 ze dne 2. března 2012 dozorčí rada Společnosti konstatuje, že Účetní závěrka 2011 ve všech podstatných ohledech zobrazuje stav majetku, závazky, úroveň vlastního kapitálu, finanční situaci a stav hospodaření Společnosti k 31. prosinci 2011

Podle svých nejlepších znalostí dozorčí rada Společnosti dále konstatuje, že z Účetní závěrky 2011 a z ostatních dokumentů, které byly dozorčí radě Společnosti předloženy k projednání v průběhu roku 2011, nezjistila nedostatky nebo nesprávnosti, které by naznačovaly, že účetnictví Společnosti nebylo řádně vedeno v souladu se skutečností a platnými právními předpisy, zejména pak zákonem č. 563/1991 Sb., o účetnictví, v platném znění.

Dozorčí rada Společnosti tímto dává valné hromadě Společnosti své doporučující

**STANDPOINT OF SUPERVISORY BOARD
ON REVIEW OF ORDINARY FINANCIAL
STATEMENTS OF COMPANY
AS OF 31 DECEMBER 2011**

The Supervisory Board of ČESKÁ RAFINÉRSKÁ, a.s. (the “Company”) hereby provides the Ordinary General Meeting of the Company with this Statement of Supervisory Board on Review of Ordinary Financial Statements of Company as of 31 December 2011.

The Supervisory Board of the Company reviewed, pursuant to Section 198 of Commercial Code, the Ordinary Financial Statements of Company as of 31 December 2011 (the “2011 Financial Statements”).

According to its best knowledge and while taking into account the report of the independent auditor, KPMG Česká republika Audit, s.r.o., regarding the 2011 Financial Statements dated 2 March 2012, the Supervisory Board of the Company hereby declares that the 2011 Financial Statements does, in all material respects, reflect the status of assets, liabilities, level of equity, financial situation and economic status of the Company as of 31 December 2011.

According to its best knowledge, the Supervisory Board of the Company hereby further declares that it did not detect in the 2011 Financial Statements and the documents submitted to the Supervisory Board in the course of the year of 2011 any discrepancies or deficiencies which would indicate that the accounting of the Company was not conducted in accordance with the reality and applicable laws, in particular Act No. 563/1991 Coll., on accounting, as amended.

The Supervisory Board of the Company hereby recommends to the General Meeting of the

stanovisko ke schválení Účetní závěrky 2011.

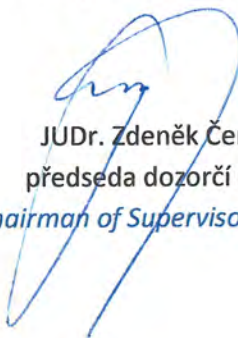
Company to approve the 2011 Financial Statements.

Kralupy nad Vltavou, 22. března 2012

Kralupy nad Vltavou, 22 March 2012

Dozorčí rada společnosti ČESKÁ RAFINÉRSKÁ, a.s.

Supervisory Board of ČESKÁ RAFINÉRSKÁ



JUDr. Zdeněk Černý
předseda dozorčí rady
Chairman of Supervisory Board

**STANOVISKO DOZORČÍ RADY
K NÁVRHU PŘEDSTAVENSTVA NA ROZDĚLENÍ
ZISKU**

Dozorčí rada společnosti ČESKÁ RAFINÉRSKÁ, a.s. (dále jen „Společnost“) tímto předkládá řádné valné hromadě Společnosti toto Stanovisko dozorčí rady k návrhu představenstva na rozdělení zisku.

Dozorčí rada Společnosti přezkoumala návrh představenstva Společnosti na rozdělení zisku vykázaného v řádné účetní závěrce společnosti k 31. prosinci 2011. Text tohoto návrhu tvoří přílohu tohoto stanoviska.

Dozorčí rada Společnosti konstatuje, že navrhovaný způsob rozdělení zisku je v souladu s právními předpisy a stanovami Společnosti.

Dozorčí rada tímto dává valné hromadě Společnosti své doporučující stanovisko ke schválení návrhu představenstva na rozdělení zisku.

Kralupy nad Vltavou, 22. března 2012

Dozorčí rada společnosti ČESKÁ RAFINÉRSKÁ, a.s.

**STANDPOINT OF SUPERVISORY BOARD
TO PROPOSAL OF BOARD OF DIRECTORS FOR
DISTRIBUTION OF PROFIT**

The Supervisory Board of ČESKÁ RAFINÉRSKÁ, a.s. (the “Company”) hereby provides to the Ordinary General Meeting of the Company with this Statement of Supervisory Board to Proposal of Board of Directors for Distribution of Profit.


The Supervisory Board of the Company reviewed the proposal of the Board of Directors for distribution of profit reported in the ordinary financial statements of the Company as of 31 December 2011. The wording of such proposal forms Annex hereof.

The Supervisory Board hereby declares that the proposed form of the profit distribution is in compliance with applicable laws and Company’s Articles of Association.

The Supervisory Board of the Company hereby recommends to the General Meeting of the Company to approve the proposal of the Board of Directors for distribution of profit.

Kralupy nad Vltavou, 22 March 2012

Supervisory Board of ČESKÁ RAFINÉRSKÁ



JUDr. Zdeněk Černý
předseda dozorčí rady
Chairman of Supervisory Board

Příloha / Enclosure

**STANOVISKO DOZORČÍ RADY
KE ZPRÁVĚ O VZTAZÍCH MEZI PROPOJENÝMI
OSOBAMI ZA ROK 2011**

Dozorčí rada společnosti ČESKÁ RAFINÉRSKÁ, a.s. (dále jen „Společnost“) tímto předkládá řádné valné hromadě Společnosti toto Stanovisko dozorčí rady ke zprávě o vztazích mezi ovládající a ovládanou osobou a mezi ovládanou osobou a osobou a ostatními osobami ovládanými stejnou ovládající osobou za rok 2011 (dále jen „Zpráva“).

Dozorčí rada Společnosti přezkoumala Zprávu za rok 2011 a konstatuje, že tato zpráva je v souladu s požadavky na ní kladenými obchodním zákoníkem.

Kralupy nad Vltavou, 22. března 2012

Dozorčí rada společnosti ČESKÁ RAFINÉRSKÁ, a.s.

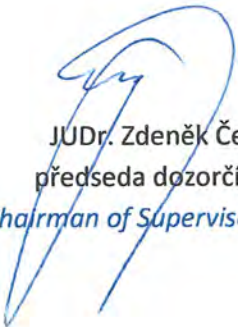
**STANDPOINT OF SUPERVISORY BOARD
TO REPORT ON RELATIONS BETWEEN LINKED
PERSONS FOR YEAR OF 2011**

The Supervisory Board of ČESKÁ RAFINÉRSKÁ, a.s. (the “Company”) hereby provides the Ordinary General Meeting of the Company with this Statement of Supervisory Board to Report on relations between Controlling and Controlled Entities and between Controlled Entity and Other Entities Controlled by Same Controlling Entity for the year of 2011 (the “Report”).

The Supervisory Board of the Company reviewed the Report for the year of 2011 and states that this report is prepared in accordance with requirements set forth in the Commercial Code.

Kralupy nad Vltavou, 22 March 2012

Supervisory Board of ČESKÁ RAFINÉRSKÁ



JUDr. Zdeněk Černý
předseda dozorčí rady
Chairman of Supervisory Board



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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of ČESKÁ RAFINÉRSKÁ, a.s.

Financial statements

On the basis of our audit, on 2 March 2012 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of ČESKÁ RAFINÉRSKÁ, a.s., which comprise the balance sheet as of 31 December 2011, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these financial statements.

Statutory Body's Responsibility for the Financial Statements

The statutory body of ČESKÁ RAFINÉRSKÁ, a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting legislation and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the assets and liabilities of ČESKÁ RAFINÉRSKÁ, a.s. as of 31 December 2011, and of its expenses, revenues and net result and its cash flows for the year then ended in accordance with Czech accounting legislation.”

Report on relations between related parties

We have reviewed the factual accuracy of the information disclosed in the report on relations between related parties of ČESKÁ RAFINÉRSKÁ, a.s. for the year ended 31 December 2011. The responsibility for the preparation and factual accuracy of this report rests with the Company’s statutory body. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with Auditing Standard No. 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the report on relations is free of material misstatement. A review is limited primarily to inquiries of the Company’s personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the report on relations and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that would lead us to believe that the report on relations between related parties of ČESKÁ RAFINÉRSKÁ, a.s. for the year ended 31 December 2011 contains material factual misstatements.

Annual report

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of the Company’s statutory body. Our responsibility is to express our opinion on the consistency of the annual report with the audited financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that the audit we have conducted provides a reasonable basis for our audit opinion.

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited financial statements.

Prague
30 March 2012


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


Otokar Hora
Partner
Licence number 1197



ČESKÁ RAFINÉRSKÁ, a.s.

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

31 DECEMBER 2011

Translation note

The financial statements have been prepared in Czech language and in English language. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.



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Independent Auditor's Report to the Shareholders of ČESKÁ RAFINÉRSKÁ, a.s.

We have audited the accompanying financial statements of ČESKÁ RAFINÉRSKÁ, a.s., which comprise the balance sheet as of 31 December 2011, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these financial statements.

Statutory Body's Responsibility for the Financial Statements

The statutory body of ČESKÁ RAFINÉRSKÁ, a.s. is responsible for the preparation of financial statements that give a true and fair view in accordance with Czech accounting legislation and for such internal controls as the statutory body determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.


We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements give a true and fair view of the assets and liabilities of ČESKÁ RAFINÉRSKÁ, a.s. as of 31 December 2011, and of its expenses, revenues and net result and its cash flows for the year then ended in accordance with Czech accounting legislation.

Prague
2 March 2012


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


Otakar Hora
Partner
Licence number 1197

Company name: ČESKÁ RAFINÉRSKÁ, a.s.
 Identification number: 62741772
 Legal form: Joint-stock company
 Primary business: Refining of crude oil
 Balance sheet date: 31 December 2011
 Date of preparation of the financial statements: 2 March 2012

BALANCE SHEET
 (in CZK thousands)

		Current year			Prior year
		Gross	Provisions	Net	Net
TOTAL ASSETS		37 242 316	(15 077 478)	22 164 838	23 502 738
B.	FIXED ASSETS	28 476 709	(14 569 419)	13 907 290	14 392 207
B. I.	Intangible fixed assets	1 370 530	(1 205 738)	164 792	170 563
B. I. 1	Research and development	81 669	(75 118)	6 551	7 433
2	Software	844 777	(775 283)	69 494	72 828
3	Royalties	415 379	(355 337)	60 042	81 686
4	Other intangible fixed assets	169	-	169	2 725
5	Intangible fixed assets in the course of construction	28 536	-	28 536	5 891
B. II.	Tangible fixed assets	26 452 089	(13 363 681)	13 088 408	13 567 554
1	Constructions	6 099 309	(1 365 684)	4 733 625	4 778 465
2	Equipment	18 398 613	(10 595 569)	7 803 044	8 392 962
3	Other tangible fixed assets	168 805	(89 368)	79 437	85 023
4	Tangible fixed assets in the course of construction	516 050	(43 748)	472 302	285 604
5	Advances paid for tangible fixed assets	-	-	-	25 500
6	Adjustment to acquired fixed assets	1 269 312	(1 269 312)	-	-
B. III.	Long-term investments	654 090	-	654 090	654 090
1	Other financial investments	654 090	-	654 090	654 090
C.	CURRENT ASSETS	8 256 373	(508 059)	7 748 314	8 596 830
C. I.	Inventories	1 644 224	(460 542)	1 183 682	1 191 118
C. I. 1	Raw materials	1 365 813	(460 537)	905 276	961 892
2	Finished goods	277 951	(5)	277 946	229 226
3	Goods for resale	460	-	460	-
C. II.	Short-term receivables	4 881 414	(47 517)	4 833 897	4 675 170
C. II. 1	Trade receivables	376 683	(47 517)	329 166	338 532
2	Taxes and state subsidies receivable	96 799	-	96 799	42 123
3	Short-term advances paid	888	-	888	11 116
4	Other receivables	4 407 044	-	4 407 044	4 283 399
C. III.	Financial assets	1 730 735	-	1 730 735	2 730 542
C. III. 1	Cash in hand	1 232	-	1 232	1 358
2	Cash at bank	1 729 503	-	1 729 503	2 729 184
D.	ACCRUALS AND DEFERRALS	509 234	-	509 234	513 701
D. I.	Accruals and deferrals	509 234	-	509 234	513 701
D. I. 1	Prepaid expenses	350 240	-	350 240	265 318
2	Accrued revenue	158 994	-	158 994	248 383

		Current year	Prior year
TOTAL LIABILITIES AND EQUITY		22,164,838	23,502,738
A.	EQUITY	15,363,867	16,474,523
A. I.	Share capital	9,348,240	9,348,240
A. I. 1	Share capital	9,348,240	9,348,240
A. II.	Reserve fund and other reserves	554,265	537,604
A. II. 1	Statutory reserve fund	554,265	537,604
A. III.	Retained earnings	5,172,007	6,255,467
III. 1	Retained profits	5,172,007	6,255,467
A. IV.	Profit for the current period	289,355	333,212
B.	LIABILITIES	6,800,971	7,028,215
B. I.	Provisions	315,831	715,725
I. 1	Tax-deductible provisions	-	191,984
2	Other provisions	315,831	523,741
B. II.	Long-term liabilities	690,885	662,069
II. 1	Other liabilities	134,202	171,654
2	Deferred tax liability	556,683	490,415
B. III.	Short-term liabilities	5,794,255	5,650,421
B. III. 1	Trade payables	927,653	734,456
2	Liabilities to employees	22,623	25,022
3	Liabilities for social security and health insurance	13,428	13,328
4	Taxes and state subsidies payable	4,408,918	4,729,798
5	Short-term advances received	282,404	455
6	Anticipated liabilities	101,630	109,828
7	Other payables	37,599	37,534

IDENTIFIKACE AUDITORA
KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a, 186 00 Praha 8
IČ: 49619187, auditorské oprávnění č. 71

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011
(in thousands CZK)

		Current year	Prior year
I.	Sales of goods	99 129	132 075
A.	Cost of goods sold	87 923	116 825
+	Gross profit	11 206	15 250
II.	Sales of production	8 944 492	9 597 123
II. 1	Sales of own products and services	8 944 492	9 597 123
B.	Cost of sales	7 329 612	6 886 065
B. 1	Raw materials and consumables	3 309 256	3 100 744
B. 2	Services	4 020 356	3 785 321
+	Added value	1 626 086	2 726 308
C.	Staff costs	564 466	549 114
C. 1	Wages and salaries	402 190	394 966
C. 2	Emoluments of board members	9 444	3 934
C. 3	Social security and health insurance costs	133 858	130 230
C. 4	Other social costs	18 974	19 984
D.	Taxes and charges	6 821	4 632
E.	Depreciation of long-term assets	1 052 338	1 222 936
III.	Sale of long-term assets and raw materials	69 665	37 295
III. 1	Sale of long-term assets	57 013	31 839
III. 2	Sale of raw materials	12 652	5 456
F.	Net book value of long-term assets and raw materials sold	58 533	67 498
F. 1	Net book value of long-term assets sold	58 515	27 149
F. 2	Net book value of raw materials sold	18	40 349
G.	(Decrease)/increase in operating provisions	(367 427)	462 562
IV.	Other operating income	336 392	289 409
H.	Other operating charges	379 916	364 684
*	Operating result	337 496	381 586
VIII.	Income from short-term investments	2 300	12 762
X.	Interest income	19 723	17 932
N.	Interest expense	3 364	4 275
XI.	Other financial income	27 247	41 772
O.	Other financial expense	27 779	46 183
*	Financial result	18 127	22 008
Q.	Tax on profit on ordinary activities	66 268	70 382
Q. 1	- paid	-	-
Q. 2	- deferred	66 268	70 382
**	Profit on ordinary activities after taxation	289 355	333 212
***	Net profit for the financial period	289 355	333 212
	Profit before taxation	355 623	403 594

Company name: ČESKÁ RAFINÉRSKÁ, a.s.

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(in thousands CZK)

	Share capital	Statutory reserve fund	Retained earnings	Profit for the current period	Total
At 1 January 2010	9 348 240	524 463	6 805 772	262 830	16 941 305
Distribution of profit	-	13 141	249 689	(262 830)	-
Dividend approved	-	-	(799 994)		(799 994)
Net profit for 2010	-	-		333 212	333 212
At 31 December 2010	9 348 240	537 604	6 255 467	333 212	16 474 523
Distribution of profit	-	16 661	316 551	(333 212)	-
Dividend approved	-	-	(1 400 011)	-	(1 400 011)
Net profit for 2011	-	-	-	289 355	289 355
At 31 December 2011	9 348 240	554 265	5 172 007	289 355	15 363 867

CASH FLOW STATEMENT
FOR YEAR ENDED 31 DECEMBER 2011
(in thousands CZK)

		Current year	Prior year
Cash flows from operating activities			
Profit from ordinary activities before tax		355 623	403 594
A. 1.	Adjustments for non-cash movements	642 893	1 670 922
A. 1. 1.	Depreciation and amortization of fixed assets and valuation adjustment	1 052 338	1 307 557
A. 1. 2.	Change in allowances	32 467	85 261
A. 1. 3.	Change in provisions	(399 894)	292 680
A. 1. 4.	Profit from disposals of fixed assets	1 502	(4 690)
A. 1. 5.	Net interest income	(16 359)	(13 657)
A. 1. 6.	Other non-cash movements	(27 161)	3 771
A *	Net cash flow from operating activities before tax, changes in working capital and paid interests	998 516	2 074 516
A. 2.	Working capital changes	(123 181)	262 336
A. 2. 1.	Decrease/(increase) in inventories	(22 371)	(14 851)
A. 2. 2.	Decrease/(increase) in receivables	(28 086)	157 893
A. 2. 3.	Decrease in other receivables and prepayments	(163 626)	381 087
A. 2. 4.	(Decrease)/increase in payables	140 265	64 720
A. 2. 5.	Increase/(decrease) in other payables, bank loans and accruals	(49 363)	(573 873)
A. 2. 6.	Increase in short-term financial assets other than cash and cash equivalents	-	247 360
A **	Net cash flow from operating activities before tax and paid interests	875 335	2 336 852
A. 1.	Interest received	19 723	17 932
A. 2.	Interest paid	(3 364)	(4 275)
A ***	Net cash flow from operating activities	891 694	2 350 509
Cash flows from investing activities			
B. 1.	Acquisition of fixed assets	(517 749)	(292 739)
B. 2.	Proceeds from sale of fixed assets	26 259	7 707
B ***	Net cash flow from investing activities	-491 490	-285 032
Cash flows from financing activities			
C. 1.	Dividends paid	(1 400 011)	(799 994)
C ***	Net cash flow from financing activities	(1 400 011)	(799 994)
F.	Net increase in cash and cash equivalents	(999 807)	1 265 483
P.	Cash and cash equivalents at the beginning of the year	2 730 542	1 465 059
R.	Cash and cash equivalents at the end of the year	1 730 735	2 730 542

ČESKÁ RAFINÉRSKÁ, a.s.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

1. GENERAL INFORMATION

ČESKÁ RAFINÉRSKÁ, a.s. (the "Company") is a joint-stock company that was incorporated on 28 April 1995 and has its registered office in Litvínov, Záluží 2, Czech Republic. The identification number of the Company is 62741772. The Company's main business activity comprises the refining of crude oil into finished products and petrochemical feedstock.

The shareholders of the Company as at 31 December 2011 and 2010 were as follows:

UNIPETROL, a.s.	51.220%
Eni International B.V.	32.445%
Shell Overseas Investments B.V.	16.335%

The Company is a part of the consolidated group of Unipetrol. Since 31 May 2005, Unipetrol has been a part of the consolidated PKN Orlen group.

Since 1 September 2007, the Company has been a part of the consolidated Eni group.

Decision-making processes within the Company are further specified in the Articles of Association.

Based on the Processing Agreement concluded between the Company and the subsidiaries of its shareholders (the "Processors") on 23 January 2003, the Company started operating as a processing refinery from 1 August 2003. Most of the current commercial activities of the Company are carried out with the Processors, who became the Company's main customers. As of 31 December 2011 and 2010, the Processors were UNIPETROL RPA, s.r.o., Eni Česká republika, s.r.o. and Shell Czech Republic a.s.

1. GENERAL INFORMATION (continued)

The members of the statutory and supervisory bodies as at 31 December 2011 were as follows:

Board of Directors		Member since
Chairman	Marek Świtajewski	27 April 2011
Vice chairman	Temporarily vacant (until 27 April 2011 Salvatore Recupero)	
Member	Lukasz Piotrowski	27 April 2011
Member	Miika Daniel Eerola	27 April 2011
Member	Giorgio Cervi	27 February 2008
Member	Arnoldus Johannes van der Post	16 September 2009
Member	Jacek Smyczyński	26 May 2007
Member	Roberto Zonfrilli	23 August 2011

Effective from 28 April 2011, Mr. Marek Świtajewski was appointed a chairman of the Board of Directors and replaced Mr. Ivan Souček in the post. This change was recorded in the Commercial Register on 30 June 2011. Effective from 27 April 2011, Mr. Lukasz Piotrowski was appointed a member of the Board of Directors and replaced Mr. Miroslav Kornalík in the post. This change was recorded in the Commercial Register on 30 June 2011. Effective from 27 April 2011, Mr. Miika Daniel Eerola was appointed a member of the Board of Directors and replaced Mr. Roman Novotný in the post. This change was recorded in the Commercial Register on 12 September 2011. Effective from 23 August, Mr. Roberto Zonfrilli was appointed a member of the Board of Directors and replaced Mr. Salvatore Recupero in the post but till the date of the financial statements he was not appointed a vice chairman of the Board of Directors. The change was recorded in the Commercial Register on 2 January 2012.

1. GENERAL INFORMATION (continued)

Supervisory Board		Member since
Chairman	Zdeněk Černý	27 April 2011
Vice chairman	Martin Jaroš	14 December 2006
Member	Krzysztof Oscilowicz (until 25 March 2011)	
	Krzysztof Loziński)	27 April 2011
Member	Ing. Ingrid Levá	27 February 2008
Member	Maurizio Mazzei	1 May 2009
Member	Jan Klimeš	29 April 2002
Member	Bc. Ilona Pokorná	29 April 2002
Member	Miroslav Havel (until 27 June 2011)	
	František Filípek)	27 June 2011
Member	Piotr Siemion (until 16 September 2010)	
	Karel Surma)	27 April 2011

Effective from 27 April 2011, Mr. Zdeněk Černý was appointed a member of the Supervisory Board. The change was recorded in the Commercial Register on 12 September 2011. Effective from 21 September 2011, Mr. Zdeněk Černý was appointed chairman of the Supervisory Board. This change was not yet recorded in the Commercial Register by the date of approval of the Financial statements by Board of Directors. Effective from 27 April 2011, Mr. Krzysztof Oscilowicz was appointed a member of the Supervisory Board, replacing Mr. Krzysztof Loziński. The change was recorded in the Commercial Register on 22 June 2011. Effective from 27 June 2011, Mr. Miroslav Havel was appointed a member of the Supervisory Board, replacing Mr. František Filípek. The change was recorded in the Commercial Register on 22 August 2011. Effective from 27 April 2011, Mr. Piotr Siemion was appointed a member of the Supervisory Board, replacing Mr. Karel Surma. The change was recorded in the Commercial Register on 22 June 2011.

The Company operates the two largest oil refineries in the Czech Republic, located in Litvínov and in Kralupy nad Vltavou. The Litvínov refinery has the capacity to process 5 million tonnes of crude oil per year; the Kralupy refinery has the capacity to process 3 million tonnes of crude oil per year.

The Company is divided into seven divisions: Finance Division, Operational Planning, Scheduling, Allocation and Logistic Division, Technology and Investment Division, Production and Maintenance Division, HSEQ Division, General Affairs Division and Division of CEO.

2. BASIS OF THE PREPARATION OF THE FINANCIAL STATEMENTS

The Financial statements have been prepared in accordance with the Generally Accepted Accounting Principles in the Czech Republic.

The financial statements have been prepared under the historical cost convention.

Comparable data for the year 2010 were taken from previous audited financial statements.

3. ACCOUNTING POLICIES

The valuation principles applied by the Company for preparation of the financial statements for the years 2011 and 2010 are as follows:

a) Intangible fixed assets

Intangible fixed assets are recorded at cost, which includes costs incurred in bringing the assets to their present location and condition. All research costs are expensed. Development costs are capitalised as intangible assets and recorded at the lower of costs or the value of future economic benefits if the value of future economic benefits can be reasonably estimated. All other development costs are expensed as incurred.

Intangible fixed assets with unit costs exceeding CZK 60 thousand and with a useful life of over 1 year are amortised applying the straight-line basis over their estimated useful life. The useful lives of assets were determined as follows:

	Years
Research and development	2 – 6
Software	2 – 5
Royalties	3 – 10

Intangible fixed assets costing up to CZK 60 thousand are expensed upon acquisition.

A provision for impairment is established whenever the carrying value of an asset is greater than its estimated recoverable amount.

Emission rights are presented by the Company under Other intangible fixed assets.

3. ACCOUNTING POLICIES (continued)

a) Intangible fixed assets (continued)

Emission rights allocated by the National Allocation Plan free of charge to the Company are recorded as Other intangible fixed assets and the related liability is recorded under Taxes and state subsidies payable upon their being credited to the Register of emission rights in the Czech Republic. Emission rights allocated are recorded at replacement cost. Emission rights purchased are recorded at cost, which includes costs incurred in bringing the assets to their present location and condition.

The emission rights liability is released into Other operating income based on matching with relevant expenses.

Consumption of emission rights is measured monthly on the basis of estimate of actual CO₂ emissions in the period and is recognised under Other operating expenses.

The first-in-first-out method is applied for the disposals of emission rights.

b) Tangible fixed assets

Tangible fixed assets costing more than CZK 40 thousand are recorded at acquisition cost, which includes freight, customs duties and other related costs. Interest costs incurred in connection with construction of tangible fixed assets are not capitalised. The costs of property enhancements are capitalised. Repairs and maintenance expenditures are expensed as incurred. Tangible fixed assets costing less than CZK 40 thousand are expensed when purchased.

A provision for impairment is established whenever the carrying value of an asset is greater than its estimated recoverable amount.

The Company creates a reserve for major repairs of tangible fixed assets, which the Company's management expects to incur in future accounting periods (Note 13). The value of the reserve is based on the total estimated costs of major repairs of tangible fixed assets.

3. ACCOUNTING POLICIES (continued)

b) Tangible fixed assets (continued)

A valuation adjustment to acquired property was recognised in 1995 as the difference between the value of property in accordance with valuation carried out for the purposes of contributing those assets to the Company and the net book value of the property as recorded in the accounting records of the contributing entities (Note 5).

Depreciation

Tangible fixed assets are depreciated applying the straight-line basis over their estimated useful lives which are as follows:

	Years
Buildings and constructions	50
Plant, machinery and equipment	4 - 25
Motor vehicles	6 - 11
Furniture and fittings	4 - 8
Other tangible fixed assets	4 - 30
Adjustment to acquired fixed assets	15

The depreciation rates applied by the Company are adjusted on ongoing basis to match the expected useful lives of fixed assets.

In 2006, the Company completed modernisation of a production unit in cost of CZK 374,518 thousand, which is operated solely on behalf of two Processors: UNIPETROL RPA, s.r.o. and Eni Česká republika, s.r.o. Operation of this asset is governed by the special agreement concluded for the period of 10 years. The useful life of this asset was estimated for 10 years.

c) Long-term investments

Long-term investments consist of held-to-maturity long-term loans.

3. ACCOUNTING POLICIES (continued)

d) Inventories

Inventories are stated at the lower of cost or net realisable amount. Cost includes appropriate overheads incurred to bring inventory to its present state and location (mainly transport, customs duty, commissions etc.). The weighted average cost method is applied for all disposals.

The value of spare parts is adjusted by a provision based on their expected utilisation and the estimate of the remaining useful life of the related assets. A provision for spare parts is created on the basis of a detailed analysis of the expected utilisation at year-end and the remaining useful life.

e) Receivables

Receivables are stated at their nominal value. The valuation of doubtful receivables is adjusted through a provision for the doubtful amount to their net realisable value.

A provision for doubtful receivables is created on the basis of a detailed analysis of the collectibility of doubtful receivables at year-end.

f) Short-term financial assets

Short-term financial assets consist of cash equivalents, cash in hand and in the bank, and held-to-maturity debt securities falling due within one year.

g) Share capital

The Share capital of the Company is recorded at the amount recorded in the Commercial Register maintained by the Regional Court.

In accordance with the Commercial Code and the Articles of Association, the Company must create a statutory reserve fund from profit. In the first year in which a profit is generated, a joint-stock company is obliged to allocate 20% of profit after tax (however, not more than 10% of share capital) to the statutory reserve fund. In subsequent years, the Company allocates 5% of the profit after tax, until the value of the reserve fund from profit reaches 20% of the share capital. This fund can only be used to offset losses.

3. ACCOUNTING POLICIES (continued)

h) Liabilities

Long-term liabilities and current liabilities and loans are recorded at their nominal values. Any portion of a long-term loan due within one year of the balance sheet date is recorded as a short-term loan.

i) Financial leases

The Company accounts for leased assets by expensing the lease payments and capitalising the residual value of those assets at the time of the contract expiration and exercising of the purchase option. Lease payments paid in advance are recorded as prepaid expenses and amortised over the lease term.

Amounts payable in future periods but not yet due are disclosed in the notes but not recognised in the balance sheet.

j) Provisions

Provisions are recognised when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The Company recognises tax deductible provisions relating to future repairs of property, plant and equipment.

k) Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the Czech National Bank rate of exchange ruling on the date of the transaction.

All monetary assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rate published by the Czech National Bank.

All foreign exchange gains and losses are recognised in the profit and loss account.

l) Revenues and expenses recognition

Revenues and expenses are recognised on an accrual basis.

A processing fee is charged to individual Processors based on the Processing Agreement.

3. ACCOUNTING POLICIES (continued)

l) Revenues and expenses recognition (continued)

Sales are recognised when goods are shipped and title passes to the customer or upon the performance of services. Sales are shown net of discounts and Value Added Tax.

m) Extraordinary items and changes in accounting policies

Extraordinary gains and losses represent one-off effects of events outside the scope of the Company's activities and the effects of changes in accounting policies.

n) Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax assets are recognised if it is probable that sufficient future taxable profit will be available against which the assets can be utilised.

o) Related parties

The Company's related parties are regarded as the following:

- shareholders, of which the Company is a subsidiary or an associate, directly or indirectly, and subsidiaries and associates of these shareholders; and/or
- members of the Company's or parent company's statutory and supervisory bodies and management and parties close to such members, including entities in which they have a controlling or significant influence.

Material transactions and outstanding balances with related parties are disclosed in Note 21.

p) Employment benefits

The Company recognises an estimated payable relating to rewards and bonuses of employees. The Company takes into account an expected average ratio of payments for social and health insurance and payroll expenses when creating the estimated payable.

In 2011, the Company provided a contribution to the Employee Pension Scheme according to Act no. 42/1994 and its amendment, Act no. 170/1999 Coll. Regular contributions are made to the state budget to fund the national pension plan.

3. ACCOUNTING POLICIES (continued)

q) Cash flow statement

The Company has prepared a cash flow statement following the indirect method. Cash equivalents represent short-term liquid investments, which are readily convertible for a known amount of cash.

r) Subsequent events

The effects of events that occurred between the balance sheet date and the date of preparation of the financial statements are recognised in the financial statements if these events provide further evidence of conditions that existed at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, and such events are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed but not recognised in the financial statements.

4. INTANGIBLE FIXED ASSETS

Cost

(CZK'000)	1 January 2011	Additions	Disposals	Transfers	31 December 2011
Research and development	77,313	3,719	-	637	81,669
Software	823,459	19,053	(221)	2,486	844,777
Royalties	406,239	9,140	-	-	415,379
Other intangible fixed assets	2,725	356,152	(358,708)	-	169
Intangible assets in the course of construction	5,891	24,395	-	(1,750)	28,536
Total	1,315,627	412,459	(358,929)	1,373	1,370,530

Accumulated amortisation and provisions

(CZK'000)	1 January 2011	Amortisation charge	Disposals	Change in provisions	31 December 2011
Research and development	(69,880)	(5,238)	-	-	(75,118)
Software	(750,631)	(24,873)	221	-	(775,283)
Royalties	(324,553)	(30,784)	-	-	(335,337)
Other intangible fixed assets	-	-	-	-	-
Total	(1,145,064)	(60,895)	221	-	(1,205,738)
Net book value	170,563				164,792

4. INTANGIBLE FIXED ASSETS (continued)

Cost

(CZK'000)	1 January 2010	Additions	Disposals	Transfers	31 December 2010
Research and development	73,490	3,500	-	323	77,313
Software	793,157	19,044	(10,145)	21,403	823,459
Royalties	405,634	565	-	40	406,239
Other intangible fixed assets	950	313,970	(312,195)	-	2,725
Intangible assets in the course of construction	1,780	4,171	-	(60)	5,891
Total	1,275,011	341,250	(322,340)	21,706	1,315,627

Accumulated amortisation and provisions

(CZK'000)	1 January 2010	Amortisation charge	Disposals	Change in provisions	31 December 2010
Research and development	(66,570)	(3,310)	-	-	(69,880)
Software	(721,606)	(39,170)	10,145	-	(750,631)
Royalties	(293,659)	(30,894)	-	-	(324,553)
Other intangible fixed assets	-	-	-	-	-
Total	(1,081,835)	(73,374)	10,145	-	(1,145,064)
Net book value	193,176				170,563

Research and development costs represent external studies, which are amortised over their estimated useful lives. Management also expects these projects to be technically viable and commercially profitable.

Royalties represent mainly licences acquired for technological processes and knowhow utilized by the Company.

Other intangible assets represent greenhouse emissions allowances.

4. INTANGIBLE FIXED ASSETS (continued)

As at 31 December 2009, the Company had 3,309 of CER units left.

In 2010, under the Government Decree of 25 February 2008 about the National Allocation Plan and the Ministry of the Environment decision from 2009, the Company was assigned 889,592 allowances for the year 2010. In that year, 15,034 assigned allowances were sold. The total estimated greenhouse emissions in 2010 were 882,800 tonnes. The deficit of 8,242 allowances was covered partly by the balance of allowances from 2009 and partly by a gain from swap of the assigned EUA (European Union Allowance) units for CER (Certified Emission Reduction) units.

As at 31 December 2010, the Company had 8,364 of EUA units left.

In 2011, the Company was assigned 889,592 allowances for trading period 2011 based on the above mentioned deeds. In 2011, 84,673 assigned allowances were sold. The total estimated greenhouse emissions in 2011 were 835,213 tonnes. The deficit of 30,294 allowances was covered partly by the balance of allowances from 2010 and partly by a gain from swap of the assigned EUA units for CER units.

As at 31 December 2011, the Company had 941 of EUA units left.

5. TANGIBLE FIXED ASSETS

Cost

(CZK'000)	1 January 2011	Additions	Disposals	Transfers	31 December 2011
Constructions	5,999,187	37,938	(955)	63,139	6,009,309
Machinery and equipment	18,203,299	153,897	(54,866)	96,283	18,398,613
Artworks and collections	1,241	-	-	-	1,241
Other tangibles fixed assets	167,564	-	-	-	167,564
Tangible assets in the course of construction	325,730	316,615	-	(126,295)	516,050
Advances paid for tangible fixed assets	25,500	9,000	-	(34,500)	-
Adjustment to acquired fixed assets	1,269,312	-	-	-	1,269,312
Total	25,991,833	517,450	(55,821)	(1,373)	26,452,089

Accumulated depreciation and provisions

(CZK'000)	1 January 2011	Depreciation charge	Disposals	Change in provisions	31 December 2011
Constructions	(1,220,722)	(145,396)	434	-	(1,365,684)
Machinery and equipment	(9,810,337)	(840,461)	54,267	962	(10,595,569)
Other tangibles fixed assets	(83,782)	(5,585)	-	-	(89,368)
Tangible assets in the course of construction	(40,126)	-	-	(3,622)	(43,748)
Adjustment to acquired fixed assets	(1,269,312)	-	-	-	(1,269,312)
Total	(12,424,279)	(991,443)	54,701	(2,660)	(13,363,681)
Net book value	13,567,554				13,088,408

5. TANGIBLE FIXED ASSETS (continued)

Cost

(CZK'000)	1 January 2010	Additions	Disposals	Transfers	31 December 2010
Constructions	5,867,498	37,623	(3,260)	97,326	5,999,187
Machinery and equipment	18,239,293	77,943	(256,156)	142,219	18,203,299
Artworks and collections	1,241	-	-	-	1,241
Other tangibles fixed assets	167,565	-	(1)	-	167,564
Tangible assets in the course of construction	450,704	136,277	-	(261,251)	325,730
Advances paid for tangible fixed assets	-	25,500	-	-	25,500
Adjustment to acquired fixed assets	1,269,312	-	-	-	1,269,312
Total	25,995,613	277,343	(259,417)	(21,706)	25,991,833

Accumulated depreciation and provisions

(CZK'000)	1 January 2010	Depreciation charge	Disposals	Change in provisions	31 December 2010
Constructions	(1,068,624)	(147,886)	1,698	(5,910)	(1,220,722)
Machinery and equipment	(9,047,076)	(996,091)	255,376	(22,546)	(9,810,337)
Other tangibles fixed assets	(78,197)	(5,585)	-	-	(83,782)
Tangible assets in the course of construction	(5,588)	-	-	(34,538)	(40,126)
Adjustment to acquired fixed assets	(1,184,691)	(84,621)	-	-	(1,269,312)
Total	(11,384,176)	(1,234,183)	257,074	(62,994)	(12,424,279)
Net book value	14,611,437				13,567,554

5. TANGIBLE FIXED ASSETS (continued)

The valuation adjustment of CZK 1,269,312 thousand to acquired property was recognised in 1995 as the difference between the value of property in accordance with the valuation done for the purposes of contributing those assets to the Company and the net book value of the property as recorded in the accounting records of the contributing entities (Note 3b). The amount is depreciated on a straight-line basis over 15 years.

In 2005, a lease agreement for the isomerisation unit expired. The agreement including amendments was concluded in 1994 – 1998. The total lease amount was CZK 585,703 thousand and was fully repaid in 2001. The unit was according to the Czech Accounting Standards capitalised at its acquisition cost of CZK 8 thousand. The estimated useful economic life of the unit is 30 years from conclusion of the agreement.

6. LONG-TERM INVESTMENTS

Summary of long-term investments:

(CZK'000)	As at			As at
	31 December 2010	Additions	Revaluation	31 December 2011
Other long-term financial assets	654,090	-	-	654,090

Other long-term financial assets represent a commodity loan of 110 thousand tonnes of crude oil to the Processors. The commodity loan was provided for the entire period during which the Company operates in the processing refinery mode in accordance with the processing agreement signed between the Company and the Processors on 31 July 2003. This loan represents the filling of the IKL pipeline (Ingolstadt – Kralupy nad Vltavou – Litvínov). The loan bears an interest rate of 2.818% p.a. and will be settled in 2023. The loan was valued using market prices of crude oil as at 1 August 2003.

7. INVENTORIES

(CZK'000)	31 December 2011	31 December 2010
Raw material	1,365,813	1,392,474
Finished goods	277,951	229,379
Goods for resale	460	-
Total inventories	1,644,224	1,621,853
Provision	(460,542)	(430,735)
Net book value	1,183,682	1,191,118

Raw material represents mainly spare parts as at 31 December 2011 amounting to CZK 1,319,270 thousand (31 December 2010: CZK 1,354,980 thousand).

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

8. RECEIVABLES

(CZK'000)	31 December 2011	31 December 2010
Short-term trade receivables	376,683	386,049
- receivables overdue more than 360 days	47,517	47,517
Taxes receivable	96,799	42,123
Advances paid	888	11,116
Other receivables	4,407,044	4,283,399
Total receivables	4,881,414	4,722,687
Provision for doubtful receivables	(47,517)	(47,517)
Net receivables	4,833,897	4,675,170

A 100% provision was created to all overdue receivables as at 31 December 2011 and 2010. All such receivables were more than 360 days overdue.

Other receivables include mainly a receivable from the Processors due to excise tax.

The Company has receivables from related parties (Note 21).

9. PROVISIONS

Provisions reflect a temporary diminution in the value of assets (Notes 4, 5, 7 and 8).

Changes in the provision accounts were as follows (CZK'000):

Provisions	Inventories	Receivables - tax allowed	Receivables - other	Tangible and intangible fixed assets	Total
Balance at 1 January 2010	402,425	26,437	27,123	28,809	484,794
Charge for the year	37,985	-	-	68,582	106,567
Written off during the year	(9,675)	(5,409)	(634)	(5,588)	(21,306)
Balance at 31 December 2010	430,735	21,028	26,489	91,803	570,055
Charge for the year	43,716	-	-	3,622	47,338
Written off during the year	(13,909)	-	-	(962)	(14,871)
Balance at 31 December 2011	460,542	21,028	26,489	94,463	602,522

9. PROVISIONS (continued)

The Company creates a provision for refinery products stock which represent the minimum technology fill of product tanks necessary for their operation. This minimum technology fill is sold when the product tanks undergo regular maintenance and cleaning. When the work is completed, the products composing the minimum technology fill are purchased back by the Company. The provision is calculated as the difference between the estimated net realizable value of the products composing the minimum technology fill and their carrying value as of the balance sheet date. The market prices for crude oil and petroleum products were close to their carrying value in 2011 and 2010. Therefore the movements in the amount of the provision were not significant (2010: decrease by CZK 4,366 thousand, 2011: decrease by CZK 148 thousand)

The Company creates a provision to those spare parts, whose useful economic lives are expected to correspond with the useful lives of the respective equipment. The creation was CZK 19,534 thousand in 2011 (2010: CZK 33,417 thousand).

In addition the provision for spare parts whose carrying amount exceeds their estimated recoverable value was increased by CZK 23,429 thousand in 2011. Furthermore, this provision for spare parts was decreased by CZK 13,009 thousand in 2011 due to liquidation of those spare parts (2010: CZK 741 thousand).

The tax-allowed provisions are created in compliance with the Czech Act on Reserves.

10. FINANCIAL ASSETS

The Company has overdraft facilities available on its bank accounts. Such overdrafts are classified as short-term bank loans in the accompanying balance sheet (Note 15).

11. OTHER ASSETS

Prepaid expenses include mainly remaining value of catalysts in use based on their technological parameters and number of hours they have been used in operation. Prepaid expenses are expensed in the income statement in the period when the relevant service is provided or material used.

Accrued revenues as at 31 December 2011 included the amount of CZK 100,466 thousand, representing estimated true-up of final Processing Fee settlement. (31 December 2010: CZK 183,763 thousand).

12. EQUITY

Share capital of the Company comprises 934,824 registered shares fully subscribed and paid for, with a nominal value of CZK 10 thousand.

The shareholder structure is described in Note 1.

The net profit for 2009, totalling CZK 262,830 thousand, was approved and allocated by the General Meeting of Shareholders, held on 27 April 2010.

The net profit for 2010, totalling CZK 333,212 thousand, was approved and allocated by the General Meeting of Shareholders, held on 27 April 2011.

13. RESERVES

The movements in the reserve accounts were as follows (CZK'000):

Reserves	Tax allowed	Other
Balance as at 1 January 2010	196,651	226,394
Additions in the year	-	315,791
Use / release in the year	(4,667)	(18,444)
Balance as at 31 December 2010	191,984	523,741
Additions in the year	-	123,633
Use / release in the year	(191,984)	(331,543)
Balance as at 31 December 2011	-	315,831

The tax allowed reserve for the purpose of repairs of tangible fixed assets was created in 2007 and 2008.

Other reserves in both 2011 and 2010 represented mainly reserves for the purpose of repairs of tangible fixed assets created beyond the scope of the Act on Reserves.

14. LIABILITIES

As at 31 December 2011, the Company recognised a long-term liability of CZK 134,202 thousand (31 December 2010: CZK 171,654 thousand). This liability represents a loan received from a related party. Payables to related parties are shown in Note 21.

As at 31 December 2011 and 2010, the Company had no overdue short-term liabilities.

Trade payables and other liabilities with the exception of excise tax payable to financial authorities were not secured by any of the Company's assets. The excise tax payables are secured by bank guarantees with a value of CZK 100,000 thousand.

15. BANK LOANS AND OTHER BORROWINGS

At 31 December 2011 and 2010, the Company did not have any bank loan.

The interest expense relating to bank loans and short-term overdrafts for 2011 was CZK 36 thousand (2010: CZK 36 thousand).

Interest expense for the year 2011 of CZK 3,328 thousand relates to a long-term liability (Note 21).

16. TAXATION

The calculation of 2011 and 2010 income tax is as follows (CZK'000):

	2011	2010
Profit before tax	355,623	403,594
Non-taxable income*	(355,271)	(25,871)
Non-tax deductible expenses**	180,926	464,096
Difference between accounting and tax depreciation	(181,278)	(841,819)
Tax base	-	-
Income tax rate	19 %	19 %
Current tax due	-	-

*) The amount in 2011 includes inventories provisions released of CZK 13,909 thousand (Note 9) and usage of reserves created beyond the terms of the Act on Reserves of CZK 331,543 thousand (Note 13).

***) The amount includes an increase in reserves beyond the scope of the Act on Reserves of CZK 123,633 thousand in 2011 and CZK 315,791 in 2010 (Note 13), an increase in provisions for inventories of CZK 43,716 thousand in 2011 and CZK 37,985 thousand in 2010 (Note 9) and depreciation of the adjustment to acquired property of CZK 84,621 thousand in 2010 (Note 5).

16. TAXATION (continued)

The calculation of the 2011 income tax is based on the preliminary income tax calculation.

The Company has calculated deferred tax as follows (CZK'000):

			2011		2010	
Temporary difference	Base	Tax rate	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between accounting and tax net book value of fixed assets	3,834,570	19%	-	(728,568)	-	(695,566)
Other differences:						
Provision to inventories	460,542	19%	87,503	-	81,840	-
Provision to receivables	26,489	19%	5,033	-	5,033	-
Provision to tangible fixed assets	94,463	19%	17,948	-	17,443	-
Social and health expenses payable in the following year	7,333	19%	1,393	-	1,325	-
Reserves	315,831	19%	60,008	-	99,510	-
Total			171,885	(728,568)	205,151	(695,566)
Net				(556,683)		(490,415)

17. FINANCE LEASES

As of 31 December 2011 and 2010, the Company had no outstanding lease contracts.

18. COMMITMENTS AND CONTINGENCIES

The Company is under an indefinite-term transport contract with MERO ČR a.s., effective since 1 January 1996, which stipulates minimum annual throughputs of crude oil through the IKL, TAL and Družba pipelines. In 2011 and 2010 the required minimum was not fulfilled in TAL pipeline. Resulting financial commitment was accounted into relevant year. The contract was terminated in December 2009 with a notice period ending on 31 December 2012.

As at 31 December 2011 and 2010, the Company had not issued any guarantees.

The Company is engaged in legal proceedings regarding an administrative fine of CZK 6 million, for which a provision was established in 2006. The fine was settled in February 2012. If the Company loses the litigation, it may face statutory late charges with respect to the fine, up to the amount of the original fine. However, the Company's management does not expect to lose this legal dispute.

The management of the Company is not aware of any other significant unrecorded contingent liabilities as at 31 December 2011.

19. REVENUE ANALYSIS

Revenue from operating activities has been generated as follows (CZK'000):

	2011	2010
	Domestic	Domestic
Sale of services	8,944,492	9,597,123
Sale of goods	99,129	132,075
Total revenues	9,043,621	9,729,198

Due to the switch to the processing mode on 1 August 2003, the Company conducts most of its business only with the Processors.

20. EMPLOYEE ANALYSIS

The analysis of payroll expenses (CZK'000):

	2011		2010	
	Employees total	Of which management	Employees total	Of which management
Average number of staff	638	16	647	19
Wages/salaries	402,190	47,969	394,966	49,753
Social insurance	133,858	11,119	130,230	13,012
Social expenses	18,974	358	19,984	528
Total personnel expenses	555,022	59,446	545,180	63,293

Company cars are made available for use by board members and other management. In 2011, the members and former members of the statutory and supervisory boards received bonuses and other remuneration totalling CZK 9,444 thousand (2010: CZK 3,934 thousand).

21. RELATED PARTY TRANSACTIONS

No loans, guarantees, advances or other benefits were granted to members of statutory bodies in 2011 and 2010, and they do not hold any shares of the Company.

Related party receivables and payables as at 31 December 2011 and 2010 include also estimated receivables and payables.

Related party receivables (CZK'000):

Related party	31 December 2011	31 December 2010
UNIPETROL, a.s.	25	87
Eni Česká republika, s.r.o.	1,451,752	1,881,792
UNIPETROL DOPRAVA, s.r.o.	54	54
Shell Czech Republic a.s.	629,995	516,286
Výzkumný ústav anorganické chemie, a.s.	110	108
PARAMO, a.s.	-	16
UNIPETROL SERVICES, s.r.o.	4	12
UNIPETROL RPA, s.r.o.	2,522,930	2,466,308
Total	4,604,870	4,864,663

21. RELATED PARTY TRANSACTIONS (continued)

Related party payables (CZK'000):

Related party	31 December 2011	31 December 2010
UNIPETROL DOPRAVA, s.r.o.	139,229	140,122
UNIPETROL SERVICES, s.r.o.	40	40
Eni Česká republika, s.r.o.	6,157	2,045
Shell Czech Republic a.s.	2,575	6,136
UNIPETROL, a.s.	26,663	26,390
SPOLANA a.s.	-	540
HC VERVA Litvínov, a.s.	23	-
Výzkumný ústav anorganické chemie, a.s.	246	11
PARAMO, a.s.	158	143
UNIPETROL RPA, s.r.o.	156,954	105,446
PKN ORLEN S.A.	-	829
Total	332,045	281,702

Loans provided to related parties (CZK'000):

On 31 July 2003, the Company provided a long-term commodity loan of CZK 654,090 thousand to Processors (Note 6).

Loans received from related parties (CZK'000):

Related party	31 December 2011	31 December 2010
Long-term part		
UNIPETROL RPA, s.r.o.	112,282	143,617
Eni Česká republika, s.r.o.	21,920	28,037
Short-term part		
UNIPETROL RPA, s.r.o.	31,335	31,335
Eni Česká republika, s.r.o.*	6,117	6,117

The long-term loan from UNIPETROL RPA, s.r.o. and Eni Česká republika, s.r.o. represents a loan for the modernisation of production unit with cost of CZK 374,518 thousand (Note 3b) and for the first catalyst fill of this equipment of CZK 29,850 thousand.

The loan repayments started after the equipment was put in use. The principal repayments are offset against the processing fee payable arising to the Processors as a result of the depreciation charge on the related equipment and the catalyst consumption. The loan bears an interest rate floating on the basis of 1 M PRIBOR + margin 0.75 % p.a. The interest payable is settled in cash.

21. RELATED PARTY TRANSACTIONS (continued)

Income and expenses resulting from transactions between related parties executed in 2011 amounted to (CZK'000):

Related party	Income / Sales	Expenses / Purchases
Eni Česká republika, s.r.o.	2,727,053	43,463
Výzkumný ústav anorganické chemie, a.s.	375	5,429
HC VERVA Litvínov, a.s.	-	23
UNIPETROL RPA, s.r.o.	4,911,199	1,182,472
PARAMO, a.s.	-	1,595
Shell Czech Republic a.s.	1,362,146	21,549
PETROTRANS, s.r.o.	-	8
SPOLANA a.s.	-	1,343
UNIPETROL, a.s.	719	22,390
UNIPETROL DOPRAVA, s.r.o.	205	799,594
UNIPETROL SERVICES, s.r.o.	40	133
PKN ORLEN S.A.	-	-
Total	9,001,737	2,077,999

The Company's sales of products and services to related parties in 2010 amounted to CZK 9,711,831 thousand.

In 2010 purchases of goods and services from related parties amounted to CZK 1,982,716 thousand.

Transactions were concluded on an arm's-length basis. Trade receivables and payables from these transactions arose under the same terms and conditions as with third parties.

As at 31 December 2011, based on Processing Agreement, the Company held 115 thousand tonnes of crude oil, 118 thousand tonnes of semi-finished goods and 160 thousand tonnes of finished refinery goods in custody for the Processors.

22. RESEARCH AND DEVELOPMENT COSTS

Research and development activities are not carried out by the Company on its own, but all results of such activities are acquired from external sources (Note 4).

23. EXTRAORDINARY INCOME AND EXPENSES

In 2011 and 2010, the Company did not incur any extraordinary expenses or revenues.

24. FEES PAID AND PAYABLE TO THE AUDIT COMPANY

The total fees paid for services performed by the audit company PricewaterhouseCoopers Audit, s.r.o. in part of 2010 and the audit company KPMG Česká republika Audit, s.r.o. in the rest of 2010 and in 2011 can be analysed as follows (CZK'000):

	<u>2011</u>	<u>2010</u>
Statutory audit of financial statements	596	1,078
Other assurance services	<u>894</u>	<u>2,103</u>
Total fees	1,490	3,181

25. CASH FLOW STATEMENT

Cash and cash equivalents disclosed in the cash flow statement can be analysed as follows (CZK'000):

	<u>31 December 2011</u>	<u>31 December 2010</u>
Cash on hand and in transit	1,232	1,358
Cash in bank	<u>1,729,503</u>	<u>2,729,184</u>
Cash and cash equivalents as presented in the cash flow statement	1,730,735	2,730,542
Total financial assets as presented in the balance sheet	<u>1,730,735</u>	<u>2,730,542</u>

Other non-cash movements represent mainly swap of the assigned EUA units for CER units (Note 3).

ČESKÁ RAFINÉRSKÁ, a.s.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

26. SUBSEQUENT EVENTS

No events have occurred subsequent to year-end that would have a significant impact on the financial statements as at 31 December 2011.

Statutory approvals

These financial statements have been approved for submission to the General Meeting of shareholders by the Company's Board of Directors.

Prepared on:	Signature of Company's statutory body	Signature of Company's statutory body	Person responsible for accounting (name, signature)
2 March 2012	 Marek Švitajewski Chairman of the Board of Directors	 Roberto Zonfrilli Member of the Board of Directors	 Mojmír Zenáhlík Controller

ČESKÁ RAFINÉRSKÁ, a.s.
with its registered seat in Litvínov, Záluží 2, Post Code 436 70
Identification No. 62741772
incorporated in the Commercial Register of the Regional Court in Ústí nad Labem,
Section B, Insert No. 696

**REPORT ON THE RELATIONS
BETWEEN THE CONTROLLING AND CONTROLLED ENTITIES AND ON
THE RELATIONS BETWEEN THE CONTROLLED ENTITY AND OTHER
ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY
FOR THE YEAR ENDED 31 DECEMBER 2011
("THE REPORT")**

ČESKÁ RAFINÉRSKÁ, a.s., company with its registered seat in Litvínov, Záluží 2, Post Code 436 70, Identification No. 62741772 ("the Company") is part of a business consortium with UNIPETROL, a.s. acting as the controlling person, seated at Na Pankráci 127, 140 00 Praha 4, Identification No. 61672190. Since 31 May 2005, UNIPETROL, a.s. is part of a business consortium with Polski Koncern Naftowy ORLEN S.A., acting as the ultimate controlling entity, seated at ul. Chemików 7, 09-411 Plock, Poland. Patterns of the business consortiums are set out in Attachments hereto.

During accounting period 2011, the following relationships between the Company and its related parties took place:

Part I

Contracts concluded between the Company and its related parties in 2011 and fulfillments (considerations) rendered (received) by the Company in 2011 under these contracts

Notes:

- a) Contracts referred to in the Report are categorized as purchases, sales and others;
- b) Transactions denominated in foreign currency are translated to CZK using the CNB rate of exchange on the date of the transaction;
- c) Within the said period, relationships proceeded based on terms and conditions common in trading business, prices were contractually agreed as usual market prices. From the contracts entered into, the Company suffered no (pecuniary) loss whatsoever.

1. THE CONTROLLING PARTY

UNIPETROL, a.s.

Relationship towards the Company: Direct controlling entity.

Purchases:

Under a contract entered into in the current period, the Company purchased - as a service – the insurance for members of the Company Board of Directors and Supervisory Board. For the said service, the Company provided a consideration in the amount of CZK 164 thousand and a consideration for arrangement in the amount of CZK 12 thousand.

Further, under a contract entered into in the current period, the Company purchased IT services and consultancy services (as per the Provider's scope of business), for which it provided a consideration of CZK 221 thousand.

Sales:

In 2011, the Company entered into contracts based on which it received a consideration of CZK 719 thousand. These contracts related to recharge of expenses incurred on review and audit of financial results of the Company reported in the format as specified by the controlling party and on the preparation of the financial statements.

Other contractual relationships:

Under the contracts on creation of easement to use the land by the Company, a consideration of CZK 22,169 thousand was provided by the Company.

2. OTHER RELATED PARTIES CONTROLLED BY UNIPETROL, a.s.

UNIPETROL RPA, s.r.o.

Relationship towards the Company: Entity directly controlled by UNIPETROL, a.s.

Purchases:***Utilities:***

Under the contracts concluded in the previous and current period, the Company purchased utilities for which it provided a consideration of CZK 816,232 thousand. These transactions include the purchase and distribution of electricity and steam, purchase of clear and pure water, and condensate. Prices were based on preliminary price calculations.

Material and products:

During the current period, the Company entered into contracts for the purchase of soiled oils. The provided consideration was CZK 9,109 thousand.

Further, within the previous period, the Company had entered into contracts for the purchase of nitrogen, carbon dioxide, pressured air, propylene, ethanol, soda and ammonia water. The total provided consideration was CZK 44,228 thousand. Prices were contracted on the usual market level taking into consideration both their historical values and other relevant information.

In connection with the Processing Agreement concluded between the Company and Processors, the Company purchased products and feedstock for which consideration was made in the amount of CZK 72,392 thousand. The prices are based on formulas using international price quotations of crude oil and oil products.

Services:

Consideration paid for services rendered based on contracts concluded in the previous period were:

Services purchased	Consideration (in CZK thousand)
Roads and assets administration	7,315
Use of pipe bridges	8,937
Nitrogen compression	37,559
Waste water treatment	148,547
Use of Fire-Fighters Emergency Team	23,504
Communication	4,724
Guard	3,033
Other Services ¹	4,010
Total	237,629

Other contractual relationships:

In the previous period, the Company entered into a Long-term Credit Agreement, whose purpose was the financing of the project: "Revitalization of Chamber 11 and D distiller, UNITS 3611, 3411". In 2011, based on this contract, the Company paid loan interest in the amount of CZK 2,784 thousand.

In the current period, the Company rendered consideration of CZK 96 thousand, the interest corresponding to 2010 price settlement.

The Company accounted for estimated payable in the amount of CZK 2 thousand, reflecting the interest corresponding to 2011 price settlement.

Sales:

Utilities:

Under contract entered into in the previous period, the Company sold circulating condensate and returned heat, for which it received consideration in the amount of CZK 80,686 thousand. The price was derived from agreed-on price calculations.

¹ such as IT, monitoring and services of laboratory and transportation costs

Products and feedstock:

On the basis of Processing Agreement, the Company sold products and feedstock, for which it received consideration in the amount of CZK 53,654 thousand. Prices were derived from agreed-on price calculations.

Services:

Under contracts entered into in the previous period, the Company rendered services for which it obtained consideration in the amount of CZK 4,776,398 thousand. Prices were derived from agreed-on price calculations. Involved were services as listed below:

Services provided	Considerations (in thousand CZK)
Processing fee	3,243,262
Processing fee – Chamber 11	31,165
Other handling/processing services	1,492,141
First filling of IKL pipeline loan interest	9,442
Other – rental and laboratory analyses	388
Total	4,776,398

The Company obtained consideration in the amount of CZK 31 thousand. Involved were interests corresponding to 2010 price settlement.

The Company accounted for estimated receivable in the amount of CZK 430 reflecting the interests corresponding to 2011 price settlement.

UNIPETROL DOPRAVA, s.r.o.

Relationship towards the Company: Entity directly controlled by UNIPETROL RPA, s.r.o.

Purchases:

Under contract on goods transportation, which was entered into in the previous period, the Company provided consideration of CZK 799,594 thousand.

Sales:

Based on a contract for passing on heat supplies and re-invoicing of payments made for the heat supplies and a contract for rental of nonresidential premises, the Company received consideration in the amount of CZK 205 thousand.

HC VERVA Litvínov, a.s.

Relationship towards the Company: Entity directly controlled by UNIPETROL RPA, s.r.o.

Purchases:

Under the contract concluded within the current period, the Company provided a consideration in the amount of CZK 23 thousand. Advertisement costs were involved.

PARAMO, a.s.

Relationship towards the Company: Entity directly controlled by UNIPETROL, a.s.

Purchases:

Under contract entered into in the said period, the Company purchased oil and lubricants for which consideration was made equaling CZK 1,595 thousand.

Other contractual relationships:

Within the current period, the Company concluded a new trilateral agreement on the transportation of crude oil via Družba and Adria pipelines. The third party, and provider of the service, is TRANSPETROL, a.s., Bratislava, Slovak Republic.

Based on this contract, there was no fulfillment/consideration between the Company and PARAMO, a.s.

UNIPETROL SERVICES, s.r.o.

Relationship towards the Company: Entity directly controlled by UNIPETROL, a.s.

Purchases:

Under the contract concluded within the current period, the Company purchased IT services "WAN", for which the Company provided consideration in the amount of CZK 133 thousand.

Sales:

Under the contract concluded within the current period, the Company rendered a passenger transport consideration in the amount of CZK 40 thousands.

Výzkumný ústav anorganické chemie, a.s.

Relationship towards the Company: Entity directly controlled by UNIPETROL, a.s.

Purchases:

Under contract entered into in the previous period, the Company purchased chemical analysis and expert opinion services for the amount of CZK 5,429 thousand.

Sales:

As payment for Services rendered in the form of laboratory analyses and laboratory equipment rental, the Company received - over the said period – a consideration equaling CZK 375 thousand.

PETROTRANS, s.r.o.

Relationship towards the Company: Entity directly controlled by BENZINA, s.r.o.

Purchases:

Based on the concluded contract, the Company purchased cistern transport service for which a consideration in amount of CZK 8 thousand was provided.

3. COMPANY DIRECTLY CONTROLLING UNIPETROL, a.s. AND RELATED PARTIES TO THIS COMPANY
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POLSKI KONCERN NAFTOWY ORLEN S.A.

Relationship towards the Company: Direct controlling entity

Within the said period, the Company neither provided, nor obtained, any fulfillment or consideration whatsoever.

SPOLANA a.s.

Relationship towards the Company: Entity directly controlled by ANWIL S.A. (PKN ORLEN S.A. consolidation group member).

Purchases:

Within the said period, the Company entered into a contract for purchase of sodium lye. Based on this contract, consideration was made in the amount of CZK 1,343 thousand.


Part II

Other measures adopted or implemented for the benefit of, or at instigation of, related parties

Within the current period, no measures whatsoever were adopted nor implemented for the benefit of, or at instigation of, related parties.

Litvínov on 9 March 2012

in the name and on behalf of
the Board of Directors of ČESKÁ RAFINÉRSKÁ, a.s.



Marek Švitajewski
Chairman of the Board of Directors



Roberto Zonfilli
Member of the Board of Directors

UNIPETROL BUSINESS CONSORTIUM - CONTROLLED COMPANIES in 2011

1. 1. - 31. 12. 2011

Companies controlled directly and indirectly by UNIPETROL, a.s.	Seat of company	Ident. No.	The controlling party	Capital interest corporate stock		Changes throughout 2011
				1.1.2011	31.12.2011	
BENZINA, s.r.o.	Praha	60193328	UNIPETROL, a.s.	100.00	100.00	
ČESKÁ RAFINÉRSKÁ, a.s.	Litvínov	62741772	UNIPETROL, a.s.	51.22	51.22	
PARAMO, a.s.	Pardubice	48173355	UNIPETROL, a.s.	100.00	100.00	
UNIPETROL RPA, s.r.o.	Litvínov	27597075	UNIPETROL, a.s.	100.00	100.00	
UNIPETROL SERVICES, s.r.o.	Litvínov	27608051	UNIPETROL, a.s.	100.00	100.00	
Butadien Kralupy a.s.	Kralupy nad Vltavou	27893995	UNIPETROL, a.s.	51.00	51.00	
Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem	62243136	UNIPETROL, a.s.	100.00	100.00	
UNIPETROL TRADE a.s. v likvidaci	Praha	25056433	UNIPETROL, a.s.	100.00	0.00	The company was liquidated and erased from the Commercial Register on 27 September 2011.
UNIPETROL RAFINÉRIE, s.r.o.	Litvínov	27885429	UNIPETROL, a.s.	100.00	100.00	
PETROTRANS, s.r.o.	Praha	25123041	BENZINA, s.r.o. UNIPETROL, a.s.	99.37 0.63	99.37 0.63	
MOGUL SLOVAKIA, s.r.o.	Hradište pod Vrátnom, Slovakia	36222992	PARAMO, a.s.	100.00	100.00	
Paramo Asfalt s.r.o.	Pardubice	24803791	PARAMO, a.s.	0.00	100.00	
Paramo Oil s.r.o.	Pardubice	24687341	PARAMO, a.s.	0.00	100.00	
HC VERVA Litvínov, a.s.	Litvínov	64048098	UNIPETROL RPA, s.r.o.	70.95	70.95	
CHEMOPETROL, a.s.	Litvínov	25492110	UNIPETROL RPA, s.r.o.	100.00	100.00	
POLYMER INSTITUTE BRNO, spol. s r.o.	Brno	60711990	UNIPETROL RPA, s.r.o. UNIPETROL, a.s.	99.00 1.00	99.00 1.00	
UNIPETROL DOPRAVA, s.r.o.	Litvínov	64049701	UNIPETROL RPA, s.r.o. UNIPETROL, a.s.	99.88 0.12	99.88 0.12	
UNIPETROL SLOVENSKO s.r.o.	Bratislava	35777087	UNIPETROL RPA, s.r.o. UNIPETROL, a.s.	86.96 13.04	86.96 13.04	
UNIPETROL DEUTSCHLAND GmbH	Langen/Hessen, Germany		UNIPETROL RPA, s.r.o. UNIPETROL, a.s.	99.90 0.10	99.90 0.10	
CHEMAPOL (SCHWEIZ) AG v likvidaci	Basel, Switzerland		UNIPETROL RPA, s.r.o.	100.00	100.00	In liquidation since 1 June 2010
UNIPETROL AUSTRIA GmbH in Liqu.	Wien, Austria		UNIPETROL, a.s.	100.00	100.00	In liquidation since 4 March 2008
UNIVERSAL BANKA, a.s. v konkurzu	Praha	48264865	UNIPETROL RPA, s.r.o. UNIPETROL, a.s.	12.24 16.45	12.24 16.45	was bankrupt since 12 February 1999
ORLEN HOLDING MALTA LIMITED	Sliema, Malta		UNIPETROL, a.s.	0.50	0.50	PKN ORLEN S.A. owns 99.50 % shares

CAPITAL GROUP PKN ORLEN S.A. - CONTROLLED COMPANIES IN 2011

1. 1. 2011 - 31. 12. 2011

Companies directly and indirectly controlled by PKN ORLEN	Registered seat	Share of PKN ORLEN		Comments
		directly /indirectly controlled		
		% of registered capital		
		1.1.2011	31.12.2011	
Directly controlled company (daughter company of PKN ORLEN S.A.)				
Indirectly controlled company (grand - daughter company)				
UNIPETROL, a.s.	Praha	62.99	62.99	See a separate list of UNIPETROL GROUP
ORLEN Deutschland GmbH	Elmshorn	100.00	100.00	
ORLEN Budonafit Sp. z o.o.	Kraków	100.00	100.00	
ORLEN Automatyka Sp. z o.o.	Płock	52.42	100.00	
ORLEN Asfalt Sp. z o.o.	Płock	82.46	82.46	17.54 % owns Rafineria Trzebinia S.A.
Inowrocławskie Kopalnie Soli "SOLINO" S.A.	Inowrocław	70.54	98.17	
ORLEN Gaz Sp. z o.o.	Płock	100.00	100.00	
ORLEN KolTrans Sp. z o.o.	Płock	99.85	99.85	
Orlen Laboratorium Sp. z o.o.	Płock	94.94	94.94	
ORLEN Medica Sp. z o.o.	Płock	100.00	100.00	
Sanatorium Uzdrawiskowe "Krystynka" Sp. z o.o.	Ciechocinek	98.54	98.54	
ORLEN Ochrona Sp. z o.o.	Płock	100.00	100.00	
ORLEN OIL Sp. z o.o.	Kraków	51.69	51.69	43.84 % owns Rafineria Trzebinia S.A. and 4.47% Rafineria Nafty Jedlicze S.A.
Platinum Oil Sp. z o.o.	Lublin	100.00	100.00	
Platinum Oil Małopolskie Centrum Dystrybucji Sp. z o.o.	Szczucin	24.00	100.00	
ORLEN OIL ČESKO, s.r.o.	Brno	100.00	100.00	
ORLEN PetroCentrum Sp. z o.o.	Płock	100.00	100.00	
ORLEN PetroTank Sp. z o.o.	Widelka	100.00	100.00	
Petro-Mawi Sp. z o.o. w likwidacji	Sosnowiec	60.00	60.00	
ORLEN Projekt S.A.	Płock	51.00	51.00	
ORLEN Transport Kraków Sp. z o.o. w upadłości	Kraków	98.41	98.41	
ORLEN Transport Sp. z o.o.	Płock	66.78	100.00	
ORLEN Wir Sp. z o.o.	Płock	51.00	76.59	
Petrolot Sp. z o.o.	Warszawa	51.00	51.00	
RAFINERIA NAFTY JEDLICZE S.A.	Jedlicze	75.00	89.95	
„RAF-BIT” Sp. z o.o.	Jedlicze	100.00	100.00	
„RAF-KOLTRANS” Sp. z o.o.	Jedlicze	100.00	100.00	
„RAF-Służba Ratownicza” Sp. z o.o.	Jedlicze	100.00	100.00	
Konsorcjum Olejów Przepracowanych "ORGANIZACJA ODZYSKU" S.A.	Jedlicze	81.00	81.00	8.00 % owns Rafineria Trzebinia S.A.
"RAN-WATT" Sp. z o.o. w likwidacji	Toruń	51.00	51.00	
RAFINERIA TRZEBINIA S.A.	Trzebinia	86.34	86.34	
Fabryka Parafin NaftoWax sp. z o.o.	Trzebinia	100.00	100.00	
Energomedia sp. z o.o.	Trzebinia	100.00	100.00	
Euronafit Trzebinia sp. z o.o.	Trzebinia	99.99	100.00	
Zakładowa Straż Pożarna Sp. z o.o.	Trzebinia	99.98	100.00	
EkoNaft Sp. z o.o.	Trzebinia	99.00	100.00	
Ship - Service S.A.	Warszawa	60.86	60.86	
ORLEN Centrum Serwisowe Sp. z o.o.	Opole	99.01	99.01	
ANWIL S.A.	Włocławek	90.35	95.14	
Przedsiębiorstwo Inwestycyjno - Remontowe REMWIL Sp. z o.o.	Włocławek	99.98	99.98	
Przedsiębiorstwo Produkcyjno-Handlowo-Uslugowe PRO-LAB Sp. z o.o.	Włocławek	99.32	99.32	
SPOLANA a.s.	Neratovice	100.00	100.00	
Przedsiębiorstwo Usług Specjalistycznych i Projektowych CHEMEKO Sp. z o.o.	Włocławek	55.93	55.93	
Zakład Usługowo-Produkcyjny EKO-Dróg Sp. z o.o.	Włocławek	48.78	48.78	
Przedsiębiorstwo Usług Technicznych Wircom Sp. z o.o.	Włocławek	49.02	49.02	
Specjalistyczna Przechodnia Przemysłowa Prof-Med Sp. z o.o.	Włocławek	45.86	45.86	
ORLEN EKO Sp. z o.o.	Płock	100.00	100.00	31 May 2011 - merger with ORLEN Prewencja Sp. Z o.o., ORLEN EKO is the successor company
ORLEN Administracja Sp. z o.o.	Płock	100.00	100.00	
ORLEN Upstream Sp. z o.o.	Warszawa	100.00	100.00	
ORLEN Prewencja Sp. z o.o.	Płock	100.00	0.00	31 May 2011 - merger with ORLEN EKO Sp. z o.o., which is the successor company
ORLEN Księgowość Sp. z o.o.	Płock	100.00	100.00	
ORLEN HOLDING MALTA Limited	Sliema, Malta	99.50	99.50	
ORLEN Insurance Ltd	Sliema, Malta	99.99	99.99	PKN ORLEN S.A. owns 1 share
AB ORLEN Lietuva	Juodeikiai	100.00	100.00	
UAB Uotas w likwidacji	Mazeikiai, Lithuania	100.00	0.00	liquidation completed in January 2011
AB Ventus Nafta	Vilnius, Lithuania	100.00	100.00	
UAB Mazeikiu Nafta Trading House (Litwa)	Vilnius, Lithuania	100.00	100.00	
UAB Mazeikiu Nafta Trading House Latvia	Riga, Latvia	100.00	100.00	
UAB Mazeikiu Nafta Trading House Estonia	Tallin, Estonia	100.00	100.00	
UAB Mazeikiu Nafta Health Care Center	Juodeikiai, Lithuania	100.00	100.00	
UAB Mazeikiu Nafta Paslaugos Tau	Juodeikiai, Lithuania	100.00	100.00	
UAB EMAS	Juodeikiai, Lithuania	100.00	100.00	
ORLEN Finance AB	Stocskholm, Sweden	100.00	100.00	
ORLEN Capital AB	Stocskholm, Sweden	0.00	100.00	Registered on October 27, 2010
Basell Orlen Polyolefins Sp. z o.o.	Płock	50.00	50.00	50.00 % owns Basell Europe Holding B.V.
Basell Orlen Polyolefins Sp. z o.o. Sprzedaż Sp. z o.o.	Płock	100.00	100.00	
Płocki Park Przemysłowo-Technologiczny S.A.	Płock	50.00	50.00	50.00 % owns municipal town Płock
Centrum Edukacji Sp. z o.o.	Płock	69.43	69.43	
ORLEN International Exploration & Production Company BV	Amsterdam	100.00	100.00	
SIA Balin Energy Grupa OIE&PC BV	Łotwa	50.00	50.00	
Baltic Power Sp. z o.o.	Warsawa	0.00	100.00	established on 3 November 2011
Baltic Spark Sp. z o.o.	Warsawa	0.00	100.00	established on 25 November 2011



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