

THE CZECH ASSOCIATION OF PETROLEUM INDUSTRY AND TRADE

ANNUAL REPORT

2007

PRAGUE

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Dear Friends,

In the year 2007, the Association commemorated fifteen years of its activities. In the year 1992, the Preamble of the Memorandum of Foundation defined the intention of the Czech Association of Petroleum Industry and Trade (ČAPPO) that was based on joint interest of the member companies to promote faster development of Czech petroleum industry and its quick adjustment to the conditions of doing business in the environment of democratic states with highly developed industry. The objective of our work was, remains and will always remain advocating of righteous interests of ČAPPO members, creating of a positive image among the public, state bodies and legislature of the individual aspects of doing business in the petroleum sector and unbiased understanding of our objectives. This is supported by the economic and ethical policies of our members focused on the observance of the laws and standards as well as care for customer service on top level. In late 1992, seventeen firms joined to push through this policy: AGIP Československo, ARAL ČSFR, AVIA EIGL ČSFR, BP Oil Československo, Benzina, Chemapol, Chemopetrol, DU PONT CONOCO, ESSO Czechoslovakia, Kaučuk, Koramo, Mobil Oil ČSFR, ÖMV ČSFR, Paramo, Shell Czechoslovakia, TOTAL Československo, and Tamoil ČSFR / Tempo spol. s r.o.

On this occasion, it is necessary to note the first Chairman of the Council of the Association, Mr. Václav Junek, the first Secretary General, Mr. Jaroslav Suda, and the first Council consisting of the statutory representatives of the following companies: Chemapol, Shell Czechoslovakia, Benzina, Kaučuk, Chemopetrol, ARAL ČSFR and DU PONT – CONOCO – CS spol. s r.o., that instituted a firm order in the ČAPPO activities.

By the establishment of ČAPPO, the Czech Republic started to establish itself very rapidly also in this auxiliary and lobby field in the area of the European refinery industry.

Our joint success and cause of pride remains that the Association has acted, in the course of these fifteen years, as a FAIR AND PROFESSIONAL PRESTIGIOUS ORGANIZATION.

In 2007, the Czech Association of Petroleum Industry and Trade (ČAPPO) activities focused, as its priority, on addressing technical and legislative issues connected with the blending of biofuels with automotive fuels, namely of rape seed oil methyl ester with diesel fuel from September 1, 2007, and the preparation for blending bioethanol with petrol from the year 2008, and further on the problems of co-ordination of the production and distribution of sulphur-free automotive fuels.

In relation to the use of biofuels, the Council and the Working Group for biofuels organized a number of meetings with the representatives of the governmental bodies, legislature

and specialists community. The Association repeatedly presented its position concerning the use of biofuels in transport at a number of professional events and in the media where it highlighted not only the shortcomings in the legislation but also the breaches of fair free market conditions and problems connected with the use of first generation biofuels.

In the course of the whole year 2007, the member firms, who are distributors of petroleum and petroleum products, achieved very good results concerning the quality of automotive fuels sold at service stations: the rate of defects made only 1.3% from collected samples. In the course of the year, the share of the domestic producers and dealers on the automotive fuels market remained high and even strengthened in consequence of the activities of petroleum processing firms of ČESKÁ RAFINÉRSKÁ, a.s. (a joint-stock company).

Technical issues connected with the range of automotive fuels and alternative automotive fuels and the development of their quality parameters, waste oils collecting and management and the tax policy related to the mineral oils as well as amendments of technical standards and legislation were addressed on the level of the Council, Working Groups, and Secretariat. In this area, ČAPPO co-operated closely with the bodies of state administration, legislature, and foreign associations, with the association of petrochemical industry EUROPIA, with the domestic organizations and institutions, as well as universities. The representatives of the Association, together with the experts from the state administration, attended the meetings of professional working groups of the European Union and the European Standards Commission focused on selected technical problems of the petroleum industry and on technical standards.

Once again ČAPPO contributed significantly to the legislative process, in particular to the preparation and approval processes of the amendments of the Excise Tax Act, the regulations connected with the implementation of the use of biofuels, Automotive fuels Act, the amendment of the Act on Chemical Substances and Chemical Preparations, and a number of other regulations.

The Association has contributed to the preparation of new Czech technical standards in the areas of petroleum, bitumen, analytical procedures and facilities for oil substances handling.

The Association participated also in the implementation of some of the programmes of the EU. In particular, it was engaged in the addressing of problems connected with the programmes Alternative Fuels, Clean Air for Europe and Smart Energy for Europe.

In the course of the year 2007, there was an increase in exchange of information and co-operation between ČAPPO and state authorities, the legislature and the specialist public. Interest from the expert public and business entities in the opinions and products of ČAPPO has also grown considerably. At the same time, the educational activities of the Association,

in particular in the area of the media, on Internet and of own publication activities of the members, also increased.

The Association encouraged the administration and especially the inspection bodies to require much more strictly the performance of legal standards and regulations from all competitors on the market. We are of the opinion that it is impossible in a civilised society to tolerate a situation when regulations are just empty words, and certain companies do not respect them, either knowingly or unknowingly, exploiting this to give themselves a competitive edge. We are prepared to approach the inspection bodies with this matter regularly and energetically in the future.

In the year 2007 ČAPPO member companies contributed to the strengthening of business stability on the market of fuels and lubricants, in particular by their active influence resulting in sound and ethical economic competition and provision of services at a standard, advanced European level.

Legislation issues and application of business conditions in European Union countries will remain our priorities also in the year 2008. In particular, this will relate to the use of biofuels in transportation, and selected EU projects focused on petroleum industry, environment and alternative automotive fuels.

In the year 2007, the position of the Association further improved in relation to the state administration, the legislature, the professional community, and the media. In the majority of cases, the Association succeeded when it advocated equitable requirements and suggestions from the member companies from which a part affected positively economic results of the member companies. The activities of the Association contributed to the cultivation of the business environment and maintenance of standard conditions of doing business in the industrially developed countries. All of the branded companies associated in the Czech Association of Petroleum Industry and Trade contributed to this.

*Ing. Ivan Ottis
Council Chairman
of Czech Association of Petroleum
Industry and Trade*

April 2008

CHARACTERISTIC OF DEVELOPMENT IN THE PETROLEUM INDUSTRY ABROAD AND IN THE CZECH REPUBLIC

Petroleum Industry in the World

World oil demand in 2007 is estimated at 85.8 mb/d, an increase of 1.2% compared to 2006. OECD demand totalled 49.2 mb/d, while non-OECD 36.6 mb/d. OECD Europe demand decreased from 16.4 to 16.1 mb/d. In both Americas growth of 0.5 mb/d was driven by transportation fuels, while in the Pacific (plus 0.4 mb/d) by fuel oil for electricity production in Japan. In the U.S. gasoline consumption rose by 0.5% only, while diesel by 5.2%, the reason of which is a change of statistical methods. More striking are Chinese figures – gasoline plus 8.4%, jet fuel/kerosene plus 39.1% and gasoil plus 6.1%.

World oil production totalled 85.54 mb/d of which 35.88 mb/d were produced by OPEC countries (including Angola and Ecuador), 19.83 mb/d by OECD countries, by non-OPEC non-OECD 28.46 mb/d. The share of biofuels reached 0.65 mb/d. The biggest supplier of oil was Russia with 10.07 mb/d followed by Saudi Arabia (8.47 mb/d) and the U.S. (7.46 mb/d).

Statistical reporting suggests that Russian crude oil supplies to OECD Europe via Druzhba pipeline were diminished. This decline was not linked to insufficient demand on the part of the refineries, but suppliers seemed to try to obtain better terms by using alternative routes as Druzhba transit fees increase. Also new Russian refining capacities now in construction will become a competition for exports.

In January crude oil supplies by Druzhba pipeline to the Czech Republic, Germany, Hungary, Poland and Slovakia were suspended due to dispute between Russia and Belorussia over duties and fees. Pumping was resumed within 4 days.

In May, Transneftj, the Russian Druzhba operator, informed about future intentions to open other alternative routes for transportation of Urals to Europe and to other destinations with a possibility to put limits on Druzhba pipeline maintenance and subsequent operations.

The U.K. decision to introduce sulphur limits 10 ppm in diesel from December 2007, ie. 13 month ahead of the EC Directive target, put limits on Russian gasoil imports with typical 0.2% sulphur deliveries to Europe.

The influence of the state over natural resources strengthened in Venezuela, Iraq and Norway.

In December, 146th extraordinary meeting of OPEC decided to leave production of oil unchanged and allocated to new members Angola and Ecuador production of quotas of 1.9 mb/d and 0.52 mb/d respectively.

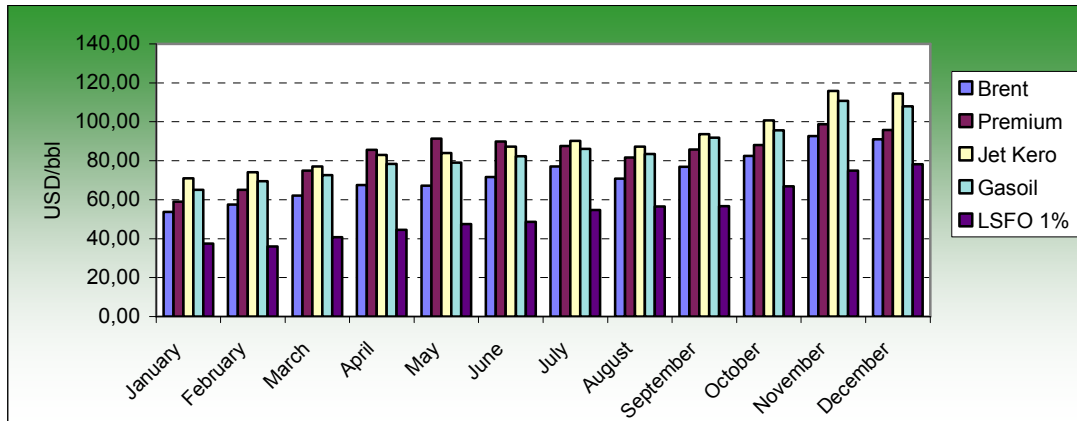
Mexican pipelines sabotage hardly touched Mexican exports, but there are concerns that they could be added to similar events in Iraq and Nigeria.

OECD commercial stocks were still in June of 54 days demand forward coverage, then falling gradually down below 5-years average to 51 days in November. Also in November, in EU-15 plus Norway total oil stocks reversed their downward trend. In the U.S. the drop was driven by crude oil stocks; Japanese stocks reached their lowest level in 20 years as more petroleum products were needed for electricity production.

The lowest average monthly crude oil Brent price in 2007 was in January (USD 53.68/bbl). Prices were gradually climbing the whole year round with a seasonal downturn in August and surpassing USD 90.00/bbl in November and December. The average for the whole year was USD 72.52/bbl. End September, closure of oil installation in the Gulf of Mexico because of tropical storms supported prices to rise up to USD 80.00. Crude oil futures tested USD 100.00/bbl in late November, but went down on news of a possibility of higher supplies to the market. Rising prices reflected that supplies did not meet demand and were supported by sound economic growth and geopolitical tensions.

Falling dollar rate of exchange shielded consumers from rising prices; but in France fishermen, taxi drivers and transporters required government subsidies. Weakness in European demand was caused mainly by heating oil, notably in Germany (-31%) and Switzerland (-26.6%). Products market was driven by high crude oil prices.

Graph No. 1: Crude Oil Brent FOB Sullom Voe and Petroleum Products Prices FOB R'dam Barges 2007



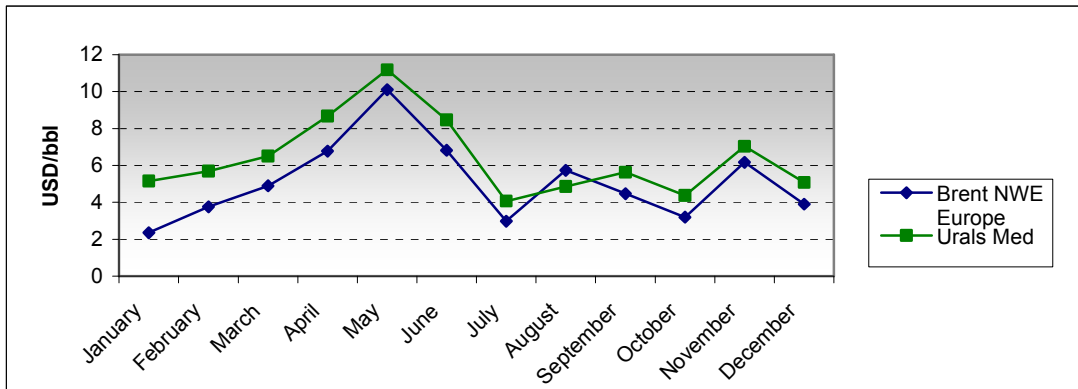
Source: IEA

High oil prices assisted the alternative fuel industry to become commercially feasible. The rise in power generation fuel costs also helped renewable energy such as wind and solar to be more used. However increasing biofuels production has caused food prices to soar and led to massive deforestation worldwide. The use of biofuels is accompanied by many question marks and voices of experts calling for review and revision of the EU targets and policy in this respect.

The U.S. House of Representatives passed a new energy bill which requires new greener standards – improvement of car efficiency by 40% by 2020. The bill would have to be approved by the Senate. However, several states supported by the environmental groups decided to introduce new environmental standards for light trucks and large pickup trucks. The U.S. gasoline demand is not much responsive to rising prices as retail prices are two thirds lower than prices in advanced European economies and the life style and a lack of public transport systems does not allow for a quick change. Transportation fuels expenses form about 4% of an income of a household, which is still below 4.5% in 1981.

Until May refining margins were climbing to almost USD 12.00 for cracking for Urals Med and Brent Med slightly below, then falling dramatically to around USD 3.00; later they recovered to USD 6 – 7.00 only. Hydroskimming was mostly negative as in 2006 and last months of 2005.

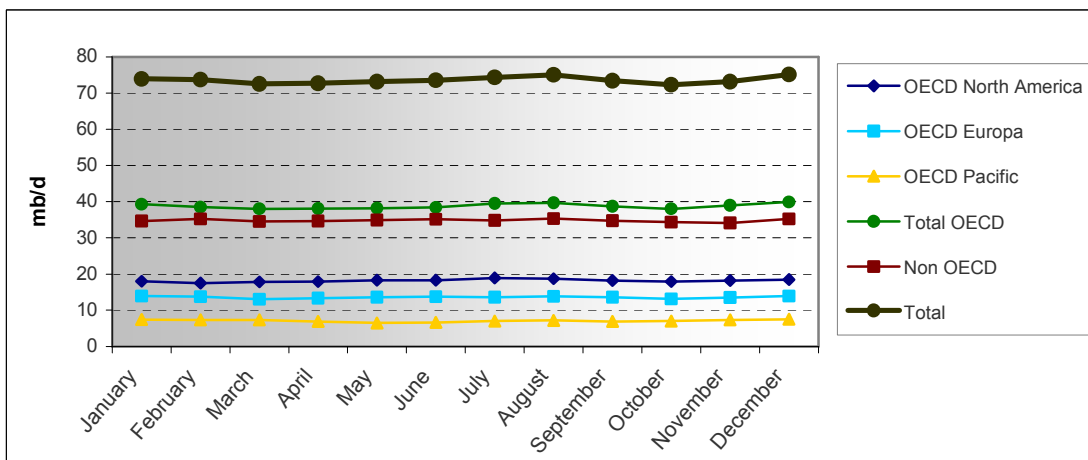
Graph No. 2: Refining Margins Cracking 2007



Source: MEA

World refinery processing was at its lowest in October (72.3 mb/d) due to planned September and October maintenance outages also connected with preparations for specification changes as from 1.1.2009. There were several unplanned shutdowns in the U.S. and in European refineries because of fire (the U.K. refinery in Croyton) and technical problems.

Graph No. 3: Crude Oil Processing 2007



Source: IEA

OECD refineries continue to reduce fuel oil yields, investments in upgrading capacity are increasing. European refiners reduced fuel oil yields to below 13.7% of production as new hydrocracking capacity in Finland and France were put into operation. Also Pacific fuel oil yields are expected to decline.

The increase for 2008 in crude oil demand is projected to rise at 2.3%. However, figures estimated for the U.S., Middle East and China are with a big question mark and may be revised. Non-OPEC supply is expected to increase by 1.1 mb to 50.6 mb/d. Higher production in Russian, Azerbaijan and the U.S. should offset expected losses in the U.K., Norway and Mexico.

European refineries will struggle with diesel demand growth despite of heavy investments in upgrading. European gasoline and fuel oil exports will be on the rise as further dieselization and fuel oil substitution by natural gas continues.

World economic growth is predicted to increase by 4.7%, which is lower than in 2007 (+5.3%). While total OECD, USA, Japan and Euro-zone shall grow by about 2%, China growth is projected at 9.9% and India 8.0%. The forecasters are afraid that the eventual recession in the U.S. due to subprime mortgage crises may spread to other regions of the world; some experts, however, believe that the U.S. economy may recover in the 2nd half of 2008.

Note:

mb/d - million barrels per day

Urals - Russian Export Blend Crude Oil

Petroleum Industry in the Czech Republic

The situation in the Czech petroleum industry and trade developed effectively and without significant swings under given conditions on the world oil and oil products market. However, there was a short break of delivery of oil through Družba pipeline early in the year and there was a failure at Litvínov refinery caused by a failure of the crude oil gasification unit in the third and fourth quarters that affected the deliveries of diesel fuel to the market. In consequence of this, the volume of processed crude oil decreased and imports of diesel fuel increased. Nevertheless, the deliveries to the market were not interrupted.

Throughout the whole year of 2007 oil imports to the CR were effected according to the needs of the refineries as well as sales opportunities for oil products. Total oil imports to the CR in 2007 reached 7,186.3 thousand tons, which is by 7.5% less than in 2006. Pipeline Družba delivered 64.6% of oil from the total imports to the CR, while the remaining quantity came to the CR through MERO-IKL pipeline.

Oil processing in the refineries of the joint-stock companies ČESKÁ RAFINÉRSKÁ, a.s., and PARAMO, a.s., for the year 2007 totalled 7,395 thousand tons, which is by 6% lower than in the year 2006. Total volume of processed petroleum also includes 227.7 thousand tons of local petroleum, i.e. approximately 3.1% from total volume.

Expressed in the units of mass, in 2007 the petroleum products imports amounted to 3,242 thousand tons, which is a 11% increase against the year 2006.

The mass imports of fuels, i.e. petrol and diesel, represented 66.2% of all refinery products imports, and it increased year-to-year by the total of 14.6%: diesel fuel imports grew by 18.3% and petrol imports by 7.1%. The cause of higher imports in comparison with the preceding year was unexpected extension of the lay off at the Litvínov refinery.

In 2007, refineries products exports indicated in the units of mass reached 1,108 thousand tons and were lower by 9.8% as compared with 2006. Exports of automotive fuels in the units of mass represented approximately 42.5% of all refinery products export.

The results of domestic producers document a strengthening of position on the local market and a presence on the international oil products market.

Total deliveries of selected petroleum products onto the market in the CR in 2007 are shown in Table 1. Data show stock movement.

Table 1

Product	Thousand tons	Index 2007/2006
Unleaded petrol ¹	2092	104.0
of which: Unleaded petrol Special	43	59.7
Jet fuel	368	108.6
Diesel fuel ¹	4021	104.2
Heating and other gas oils	84	71.1
Heating oils up to 1% sulphur m/m	274	91.6
Heating oils with more than 1% sulphur m/m	100	113.6
Total LPG	213	88.4
Lubricating oils and other oils in total	168	116.8
Bitumen and bitumen products	547	89.4
Bio-components for transport ²	34	161.9

¹ incl. bio-components

² bio-ethanol, rape seed oil methyl esters

The octane structure of the range of petrol sold in the year 2007 is shown in Table 2.

Table 2

Product	Share (%)
Petrol with octane number 91 (NORMAL and SPECIAL)	5.7
from which SPECIAL	2.1
Petrol with octane number 95 (SUPER)	92.9
Petrol with octane number 98 (SUPER PLUS)	1.4

The share of selected domestic petroleum products in total gross deliveries for the Czech market is given in Table 3.

Table 3

Product	Share (%)
Unleaded petrol ³	67.1
Unleaded petrol Special	86.7
Jet fuel	33.7
Diesel fuel ³	61.9
Heating oils in total	56.9
Total LPG	54.9
Lubricating oils in total	40.0
Bitumen and bitumen products	53.7

³ incl. bio-components

In 2007, the ČAPPO member companies' share of the whole fuels and lubricants market was 89.2%.

The share of deliveries of fuels from the domestic refineries onto the Czech market grew again. The processors of ČESKÁ RAFINÉRSKÁ a.s. play the decisive role in it (Agip Česká republika, s.r.o., Shell Czech Republic a.s., and UNIPETROL RPA, s.r.o.) as well as favourite conditions of the growth potential of the domestic market, in particular in relation to the diesel fuel commodity.

Based on the result of the check of service stations registration carried out by the Ministry of Industry and Trade in compliance with the Automotive fuels Act, the total of 6,360 service stations and outlets (delivery points) were registered at December 31, 2007 on the territory of the Czech Republic, including 3,610 public and the remaining number of non-public facilities. From the public facilities 2,553 are classical, i.e. they sell two or more types of automotive fuels, 656 stations sell only diesel fuel and 342 stations only liquefied petroleum gas (LPG) and the remaining number are service stations that do not comply with the effective standards. The share of ČAPPO member companies in the total number of classical public service stations achieved 48.5%.

In the course of the whole year, the Czech Trade Inspection performed general checks of the quality of automotive fuels sold at public service stations in compliance with the Decree of the Ministry of Industry and Trade No. 229/2004 Coll. The results of the checks are shown in Table 4 (as drawn from the files of the Czech Trade Inspection).

Table 4

Product	Total of samples collected	Number of samples that did not comply with CSN standards	%	Number of samples collected from service stations of CAPPO member firms that did not comply with CSN standards (%) ⁴
Petrol	1018	34	3.3	1.2
Diesel fuel	1244	67	5.4	1.5
Diesel blend	17	8	47.1	0.0
LPG	204	4	1.9	0.0
Total	2483	113	4.6	1.3

⁴ from all samples collected at service stations of member companies

Thanks to the application of their own quality checks system, consistent care for quality and use value of automotive fuels, certification of manufacturers, distributors and carriers as well as to the implementation of the company culture and ethics, ČAPPO member companies achieve very good results in the area of quality of sold automotive fuels. Only 1.3% from the collected samples did not meet the requirements, while the same indicator achieved 6.5% in the rest of the market.

The following major changes were recorded in the area of petroleum industry and trade in the Czech Republic in the year 2007:

- In both refineries of the company ČESKÁ RAFINÉRSKÁ, a.s., in the refinery of the company PARAMO, a.s., as well as in the distribution company ČEPRO, a.s., blending of rape seed oil methyl ester (FAME) with diesel fuel was launched in compliance with CSN EN 590. There were no problems recorded by the companies or by the market.
- The company ConocoPhillips Czech Republic s.r.o. sold its service stations network to the company LUKOIL Czech Republic s.r.o. and its shares in ČESKÁ RAFINÉRSKÁ a.s. to the company Eni.
- 34 thousand tons of bio-components were blended with automotive fuels.
- The distribution of sulphur-free automotive fuels continued.
- The company Agip Česká republika, s.r.o., took over the service stations network of the company ESSO spol. s r.o.
- The construction of new public service stations and non-public service stations and outlets continued and extended.
- The important brand distributor companies developed at their service stations the sale of automotive fuels with improved usable qualities.
- The integration of the service stations market continued also in the segment of non-branded firms.
- The tests of the blending of bio-ethanol with petrol continued.

Data concerning oil deliveries and processing, refinery products and service stations market, and the quality of sold automotive fuels at the service stations have been taken from the statistical compilations of the Czech Statistical Office, the Ministry of Industry and Trade, the Czech Trade Inspection, and of the Czech Association of Petroleum Industry and Trade at 31 March, 2008. The abovementioned data in Table 1 were processed by the methodology of the Czech Statistical Office, data in other tables by our own methodology.

ACTIVITIES OF THE CZECH ASSOCIATION OF PETROLEUM INDUSTRY AND TRADE

The General Meetings

The Council convoked the Annual General Meeting on April 26, 2007, and the regular General Meeting on November 29, 2007.

At the Annual General Meeting, the member firms approved the activities and economic results of the Association in the year 2006 and the Annual Report for the year 2006. In the course of the General Meeting, ČAPPO Council presented the position of the Association concerning the use of biofuels in transport in the CR. This part of the Annual Meeting was attended, among other persons, by the representatives of Ministries of Industry and Trade, Environment, Agriculture and Finance, of the Association of Chemical Industry of the CR and of the Car Importers Union. The representative of the Ministry of Industry and Trade informed the General Meeting about the activities of the Interdepartmental Group for Biofuels.

At the regular General Meeting, ČAPPO member firms approved the "Report about the Activities of the Association in the Period after the General Meeting in April 2007", "Programme of ČAPPO Activities for the Year 2008" and the "Check of Observance of the Budget at September 30, 2007", as well as the budget and membership fees for the year 2008. The General Meeting also approved the submission of application of ČAPPO to become collective member of the Association of Chemical Industry of the Czech Republic (SCHP CR). After the conclusion of the General Meeting, the Association organised a cocktail party to commemorate the 15th anniversary of ČAPPO's establishment.

The Council

In the year 2007 the Council held 7 regular meetings and one extraordinary meeting. It discussed the ordinary ČAPPO agenda. It regularly discussed the activities of ČAPPO Working Groups and the Secretariat of the Association, cooperation with governmental bodies and institutions – in particular with the Ministry of Industry and Trade, the Ministry of Finance, the Ministry of Environment, the Ministry of Agriculture and related professional unions and associations, in particular the Association of Chemical Industry of the CR and the automobile professional associations. The Council regularly debated legislative issues concerning the petroleum industry and trade, paying particular attention to Acts on consumption taxes for mineral oils and environmental standards. Further, the Council discussed in detail the issues connected with the regulations and standards concerning the use of biofuels in transportation. It has succeeded in pushing through the wording that is acceptable in its main characteristics to the member firms. With the Working Group Biopaliva (Biofuels), it also started intensive monitoring and technical support to the application of biofuels within the member companies. The Working Group for Biofuels participated, together with the company ČESKÁ RAFINÉRSKÁ, a.s., and the Institute of Chemical Technology Prague, in the solution of the technical issues of stability of blends of petrol with ethanol and of blended diesel fuel.

At its extraordinary meeting, the Council debated the position of the Association concerning the use of biofuels in transport. It stated the priority of second generation biofuels.

The Council debated in detail the issue of the transposition of two EU directives, namely Directive 2003/17/EC and Directive 2003/30/EC in Czech legislation, and their implementation in practice. In this connection, it organized, together with the Working Group for biofuels and Working Group for petroleum industry development, an open meeting concerning the use of biofuels in transport and the members of the Council and working groups as well as the Secretary General attended two industry seminars and two conferences focused on this theme.

The Council again appealed to the Ministry of Environment, the Ministry of Industry and Trade, and the appropriate governmental bodies to facilitate a quick resolution to the

problem of service stations (in particular mobile and home service stations) that do not comply with law regulations and Czech technical standards. In this connection, it was possible to suggest a fair solution for all competitors – service stations operators – and, at the same time, to develop a standard based on the Czech technical Standard that significantly reduces the risks of service stations operation. Further, the Council initiated suggestions for the amendment of *Waste Management Implementation Programmes* concerning waste oil in the CR to provide for the assessment of actual collection of waste oils according to the theoretical rate of return of lubricating oils and according to the method of use and the explanation of the issues related to the material reprocessing of waste oils to heating oils. Further, the ad hoc Working Group *waste oils* suggested the amendment of the Act on Wastes in the part connected with waste oil management and the amendment of the implementation regulation and contributed to the development of a system for taxation of waste oil processing that did not comply with the principles of environment-friendly management.

The Council did not handle any problem of violation of ethical relationships among the member companies.

The Working Groups

In the year 2007 the permanent Working Groups had 13 regular meetings. They organized two workshops under the presence of the representatives of the member firms and guests from the state administration as well as from industry organizations and universities.

The agenda of the Working Groups included a whole range of issues from the preparation and realisation of industry and presentation events, the development of the range and quality of automotive fuels in the years 2007 to 2008, the transformation of EU countries' legislation into Czech law in the area of indirect taxes on mineral oils, the application of the Rules of Ethics, the regular assessment of the situation of fuels and lubricants deliveries to the domestic market and of the situation on the service stations market, to the results of checks of automotive fuels quality at service stations performed generally by the Czech Trade Inspection. The Working Group for international relationships and strategic technical issues discussed the position concerning the programme *Clean Air for Europe (CAFE)* and the opinion concerning the new legislation for the area of the chemical industry (*REACH*). The appropriate Working Groups discussed in detail technical and organizational arrangements for the industry seminar *Contemporary Fuels and Lubricants for Motor Vehicles* within the framework of the international fair AUTOSALON BRNO 2007. Further, ČAPPO Working Groups obtained information about the new EU legislation for chemical industry (*REACH*), on the Public Budget Stabilization Act with the focus on natural gas, electricity and solid fuels taxation, and about current legislation connected with the use of biofuels in transport.

ČAPPO Working Group for petroleum industry and trade safety performed a safety walk at a service station of Shell Czech Republic, a.s. Further, it organized an outside meeting at the terminal of the company ČEPRO, a.s., at Loukov. Safety walks proved useful in particular due to the exchange of information concerning the safe operation of service stations and facilities for petroleum products storage. With a half-year frequency, the Group continued the monitoring of emergency situations within the framework of the member companies. The results are used for exchange of experience and for prevention. The group focused its activities on the issues connected with criminal activities at service stations and in the course of automotive fuels transportation. It occupied itself with the problems of joint operation of the facilities for filling liquid fuels and natural gas. Further, it contributed methodologically to the preparation of a unified system of sealing of the truck tanks used for automotive fuels distribution at the terminals of ČAPPO member companies. It also started the preparation of a methodological instruction for safe performance of hazardous activities at service stations by third parties.

ČAPPO Working Group for biofuels met at two meetings and debated the regulations that transpose the Directive 2003/30/EC into Czech law. Further, it discussed the technical problems of production, transport, storage and use of biofuels and their blends. At its

meeting in autumn, it debated initial experience from blending rape seed oil methyl esters with diesel fuel. Representatives of the state administration (of the Ministries of Agriculture, Industry and Trade, Environment, Finance and Transport), universities and industry institutions, took part in the activities of the Group. The Working Group prepared its positions concerning selected materials discussed within the framework of activities of the Interdepartmental Group for Biofuels and of the biofuels control and quality sectional working group. This group has been used as co-ordination point of the state administration for the issue of application of biofuels in the CR and its activity has been organized by the Ministry of Industry and Trade.

The Working Group for legislation started complete review and amendment of ČAPPO Statutes, Rules of Ethics and other internal documents of the Association.

In the course of the year ad hoc Working Groups were also convened to deal with various technical, economic and legislation issues. The Working Groups dealt with a whole range of professional issues. In particular, they discussed the problems related to the amendments of codes and names of the fuels and lubricants in the Customs Tariffs, the new system of fuels and lubricants imports and exports registration after the date of EU accession (INTRASTAT), amendment of commodity nomenclature TARIC, the co-ordination of technical processes for the filling of fuels to the tanks at service stations, petrol-ethanol blends stability, amendment of the programme for the conversion based on physical characteristics of fossil fuels, biofuels and their blends depending on temperature (with the exception of fermented ethanol, in particular of denaturated fermented ethanol) and the preparation of industry events in the year 2007. The Secretariat and the appropriate ad hoc Working Group suggested amendment of Czech technical standard *Premises For Petroleum Substances Storage And Distribution*. Further, ČAPPO ad hoc Working Groups debated the filling of AdBlue liquid, storage and transport of biofuels and their blends with fossil fuels, guarantee period for the use of blend fuels and a number of other issues. Ad hoc Working Groups met at 14 meetings. Late in the year, co-operation coordinated by an ad hoc Working Group with the Transport Research Centre, v.v.i., Brno, was launched. The co-operation focuses on the life cycle of automotive fuels and biofuels.

The Auditor

The General Meeting selected HZ Praha, spol. s r. o. (a limited liability company) for the auditor of the Association in the period 2007–2008. The auditor performs an audit once a year. The result for the year 2007 is annexed.

The Secretariat

The Secretariat properly dealt with daily clerical work and organised all the Association's events. It enhanced data and information base on petroleum industry and trade, which is used by the member companies, governmental bodies and the specialist public. The Secretariat supplied information and data to the member companies, state bodies, institutions and specialists' community and students. The computer system of the Association was updated and its web site was completed. The Secretariat participated in many negotiations with governmental bodies and other institutions and was active in the specialised Working Groups of the Ministry of Industry and Trade, the Ministry of Finance, the Ministry of Environment, the Ministry of Agriculture, the Ministry of Transport, the Administration of State Material Reserves, General Customs Directorate, and the Czech Statistical Office.

The Secretary General is Chairman of the Committee for Products Certification of the Institute of Fuels and Lubricants and member of Working Group of the Ministry of Industry and Trade of the CR for the amendment of the Automotive fuels Act and member of the Board of Waste Management of the CR representing the petroleum industry. In addition, he attended the meetings of the voluntary Fair Business Association organized by the Czech Confederation of Commerce and Tourism and the Exhibition Committee of the company Veletrhy Brno, a.s., for the AUTOSALON and AUTOTEC Fairs. The Secretary General is

also member of the Technical Standards Commission *Petroleum and Petroleum Products* of NESO Committee.

Membership

At January 1, 2007, the Association had 16 members. At December 31, 2007, the membership reduced to 15 due to the acquisition of the company ESSO by the company Agip Česká republika, a.s. The company ConocoPhillips Czech Republic, s.r.o., was substituted by its legal successor, the company LUKOIL Czech Republic, s.r.o.

The MAZIVA (Lubricants) Section consists of the existing member firms active in lubricants production, imports and sale, and of the companies BAUFELD - ekologické služby, s. r. o., and NOCC, a.s. At December 31, 2007, the MAZIVA Section had 13 members.

The directories, including contact addresses, are annexed.

Programme of ČAPPO Activities

At the regular General Meeting on November 23, 2006, the member companies approved the "Programme of ČAPPO Activities for the year 2007". It mainly focused on handling specific technical, economic and legislation issues common to the member companies; on the promotion of ČAPPO prestige with state bodies, institutions and the specialist public; on active participation in resolving any issues connected with the Czech Republic's membership in the EU; and on cooperation with the International Energy Agency (IEA) and the European Standards Commission. Part of the programme also concerned strengthening co-operation with governmental bodies and institutions, the Parliamentary House of Deputies and non-governmental bodies and institutions as well as development of ČAPPO's international contacts. Assurance of the technical service for the production and distribution of low-sulphur and sulphur-free fuels in compliance with Directive 2003/17/EC, use of biofuels in transport in compliance with Directive 2003/30/EC, waste oil management in the practice, improvement of the legislation initiatives of the Association, presentation of ČAPPO's position concerning the use of biofuels in transport, as well as participation in the accompanying programme of AUTOSALON BRNO 2007 Fair were among ČAPPO's priorities. A whole range of meetings was held in connection with these issues, and the priorities were defined in detail within the activities of ČAPPO Council, Working Groups, and Secretariat.

Priorities of the programme have been met as follows:

- Automotive fuels quality is monitored according to the Decree of the Ministry of Industry and Trade No. 229/2004. Again, the results of the member firms for the year 2007 are very good; the frequency of defects is 1.3% of all collected samples. Thus, the result is several-fold better than the results of the rest of the market.
- Programme for the production and distribution of sulphur-free fuels was discussed by ČAPPO Working Groups and it has been arranged. From January 1, 2005 petrol and diesel fuel are marketed containing at most 50 mg/kg of sulphur, and, from January 1, 2006, in the selected localities containing at most 10 mg/kg of sulphur.
- Application of Directive 2003/30/EC on the use of biofuels in transport. Concentrated activities of the Working Group Biopaliva (Biofuels) that proposed a number of legislative amendments and addressed the technical problems of production, transport and warehousing of fuels containing bio-components continued. The Working Group and the Secretariat prepared the presentations *Position of Petroleum Industry Concerning the Use of Biofuels in Transport; Experience with the Use of Biofuels;* and *Biofuels Legislation in the CR and in the Neighbouring Countries* and performed them at two seminars and at two international conferences.
- At September 1, 2007, blending of RME with diesel fuel was launched at the refineries of ČESKÁ RAFINÉRSKÁ, a.s., selected distribution terminals of the distribution company ČEPRO, a.s., and the refinery of the company PARAMO, a.s.

The operation continues and no problems were reported. The facility for blending bioethanol with petrol have been prepared and tested.

- To enhance its activities in the area of legislation, ČAPPO was included in the interdepartmental counselling procedures of the Ministries of Industry and Trade, of Finance, Agriculture and of Environment. The Working Group for legislation deepened co-operation at counselling of legislative regulations, started complete review and amendment of ČAPPO Statutes, Rules of Ethics and rules of procedure in the case of breaches of these and other internal documents of ČAPPO. Further, the Association co-operates closely with the Czech Confederation of Commerce and Tourism and with the Association of Chemical Industry of the CR. The Association ensures its own annotation of the legislative provisions and standards of the CR and the EU, The Working Group for legislation prepared new internal rules for ČAPPO's legal activities. In the year 2007, the Working Groups and Secretariat submitted their comments to 22 legislative regulations and 25 technical standards.
- Debate concerning practical experience from the area of waste oil handling. The Association Contributed to the preparation of the *Implementation Programme of Waste Management* for waste oil management.
- Adjustment to the conditions of doing business in the EU – the Working Group “Gestoři EU” (EU Controllers) organized presentations related to the new legislation for chemical industry REACH for the Working Groups and started co-operation concerning selected EU programmes with the experts from the state administration and with the association of European petroleum firms - EUROPIA.
- The Association intensified its educational activities. It organized three industry seminars and contributed to additional four conferences and seminars, two of them international.
- The Association co-operated intensively with the bodies of the state administration, in particular with the Ministries of Industry and Trade, Finance, Environment, Transport, with the Administration of State Material Reserves, the General Customs Directorate, the Czech Trade Inspection, Czech Standards Institute, Czech Metrology Institute, and the Czech Statistical Office.

PRINCIPAL ISSUES DEBATED IN 2007

The Council, Working Groups and Secretariat handled a wide range of specialised issues:

Provision of information

In the course of the whole year, the Secretariat prepared its own quarterly information format on “Gross Deliveries of Main Petroleum Products to the Market in the CR” and “Lubricants Deliveries to the Market in the CR”. The source of data for the report are historical aggregated data about domestic deliveries obtained from the Czech Statistical Office, the aggregated information about imports and exports from the Ministry of Industry and Trade, and the aggregated data about the change in the stock level in warehouses of the state and business entities from the Czech Statistical Office.

In 2007 ČAPPO received and distributed with a monthly frequency among the member companies the statistical report *Oil and Oil Products* prepared by the Czech Statistical Office according to the methodology of the International Energy Agency (IEA).

In 2007 the Association continued its participation in the activities of the Working Groups of the Czech Statistical Office and the Ministry of Industry and Trade that deal with the statistical reports in the area of oil and oil products according to EU and IEA requirements, and the introduction of new customs codes for certain biofuels.

Biannually since 1997, the Ministry of Industry and Trade has prepared – with technical support from ČAPPO – information entitled *Oil and Oil Products* (RAFIS), concerning the petroleum industry and trade. The information includes data from related

areas (petrochemistry), new developments in legislation, etc. In co-operation with the Ministry, the Secretariat makes RAFIS available to the member companies. In addition, the Secretariat acquires and distributes to the members and the Working Groups various technical and legislative information as published by CONCAWE, EUROPIA, and EU working commissions. It works in the same way also with information obtained from the domestic sources.

Legislation and Czech Technical Standards

The Association, through its Council, Working Groups and Secretariat, prepared and drafted several legislation initiatives and counselled the bills and Decrees submitted by governmental bodies, of which the most important are as follows:

- Regulations and Czech Technical Standards related to the use of biofuels in transport in compliance with the Directive 2003/30/EC, in particular in relation to the Air Protection Act, Excise Tax Act, Ethanol Fuel Act and implementation regulations concerning Decrees on ethanol management;
- Act No. 261/2007 Coll. on Public Budget Stabilization in the part concerning taxes for natural gas, electricity and solid fuels;
- Draft amendment of the Waters Act;
- Draft Automotive fuels Act and implementation rules;
- Amendment of the technical standard for petroleum substances storage and handling;
- Amendment of Czech technical standards for fossil fuels, bio-components and their blends.

In addition, ČAPPO through its Secretariat and Working Groups, contributed to the debates concerning the amendment of the Accounting Act, amendment of the Act on Wastes, implementation rules related to this Act, draft state budget for the year 2008, and other regulations. The members of expert Working Groups amended technical and methodological explanations to the Act on Chemical Substances and Chemical Preparations, and the Secretariat distributed the explanation to the member companies. The Secretariat regularly elaborates a quarterly survey on newly adopted Czech legislation, which relates to the activities in the petroleum industry and trade. Similarly, it elaborates semi-annual summaries of the regulations (Decisions, Regulations, and Directives) of the EU. The summaries are distributed among the member companies and members of the Working Group for legislation and of other Working Groups of the Association.

Legislation activities ranked with the most important activities of the Association in the year 2007.

ČAPPO Working Group for safety in the petroleum industry and trade prepared a recommendation rule for unified approach to the truck tanks sealing at the terminals of the companies. The procedure was introduced at the terminals and operates as a measure eliminating criminal activities in the course of automotive fuels transport.

Using outsourcing, the Association prepared the annotation of Czech technical standards from the area of oil and oil products, and bitumen.

Outsourcing was also used to prepare amended programme for conversion of density and other characteristics of refinery products and bio-components depending on temperature.

State Authorities

Through its Council, Secretariat, and Working Groups, the Association extended its professional contacts with the Ministry of Industry and Trade (division of gas industry and liquid fuels and department of power industry statistics). In particular, fuel quality monitoring in compliance with EU Directive No. 2003/17/EC and the implementation of Directive No. 2003/30/EC, the development of an alternative fuel range after the year 2007, the

improvement of quality of statistical surveys, adjustment to the conditions of doing business in the EU, and the substitution of oil fuels by their alternatives by the year 2020, as well as the programme for further use of biofuels in transport were discussed. The Secretariat regularly attended meetings of the working groups and commissions of experts of the Ministry related to the area of fuels, and information surveys concerning the deliveries of fuels.

With the Ministry of Finance, the Association and its Working Group for finances and taxes mainly co-operated in addressing current technical issues of the Excise Tax Act in practice. Further, it contributed to the preparation of further measures to limit tax evasions using the substitution of petroleum and petrochemical products. ČAPPO Working Groups and Secretariat provided the General Customs Directorate (GŘC) with technical advice. The cooperation complied with the *Memorandum on Co-operation* with the General Customs Directorate. At the meetings held in the course of the year, problems of recording receipts and deliveries of biofuels and the methodology for the records of their use in automotive fuels were debated.

The Association co-operated with the Ministry of Environment regarding harmful substance and greenhouse gases emissions into the air and dealing with wastes and packages, and the amendments of related binding regulations. Some of the member companies and the Secretariat participate in the activities of the Working Group for the implementation of the conditions of Act No. 76/2002 Coll. on Integrated Protection and Pollution Reduction and on Integrated Pollution Registry and Amendment of Some Acts in the Area of Oil and Natural Gas Processing, attend regular seminars. Members of the MAZIVA (Lubricants) Section and the Secretariat attended the meetings of the working group focused on the use of the *Implementation Programme for Wastes Management in the area of waste oils* and the draft amendment of the part of the Act on Wastes related to waste oil and the implementation regulation to this Act.

With the Ministry of Agriculture, ČAPPO co-operated in the area of the use of bio-ethanol and rape seed oil methyl ester (RME) as fuel components in compliance with Directive 2003/30/EC. Representatives of some member companies as well as the Secretariat participated in the activities of the sectional working groups of Interdepartmental Group for biofuels. The Association actively engaged in the preparation of the legislative regulations for the use of biofuels in transport.

The Chairman of the Council works in the *BESIP Foundation* of the Ministry of Transport.

The Association regularly exchanged information with the Administration of State Strategic Reserves on activities of the International Energy Agency and EU expert commissions and committees. The Association regularly provided the Administration with statistical data and received in return basic information concerning the situation in the area of world and European oil and oil products markets, and information from the Energy Sector of the European Commission. In 2007, the representatives of the Administration regularly attended the meetings of ČAPPO Working Groups. The Secretariat and the representatives of some member companies are members of the National Emergency Sharing Organisation (NESO).

The Czech Statistical Office obtained from ČAPPO basic methodological explanations to statistical data on oil and oil products. At the same time the Association participated in the amendment of the yearly report *Oil and Oil Products* in compliance with IEA methodology, conversion codes for automotive fuels, and classification of biofuels in the TARIC system. The Association discussed with the Czech Statistical Office the new format for reporting imports and exports of mineral oils within EU countries.

In cooperation with the related member companies, the Association contributed to the preparation of the amendment of Czech technical standard *Premises for Petroleum Products Storage and Handling*. The Secretariat, as well as the representatives of some of the member companies, took part in the meetings of technical standard commission named *Oil and Oil Products*.

Further, the Association co-operated with the Czech Trade Inspection on methodology of checks of quality parameters of automotive fuels, and accepted summary outcomes on the quality of automotive fuels sold at service stations.

With the Czech Metrology Institute, the Association co-operated on elaboration of a methodological instruction concerning the performance of metrological activities at service stations from the point of view of safety.

Committees of the Czech Parliament's Chamber of Deputies

The Association provided the Economic and Budget Committee of the Parliament's Chamber of Deputies with basic data and information from the petroleum industry and trade and, on demand, with consultation. It used its contacts with the Deputies of the Parliament of the CR to push through some of the amendments of the Excise Tax Act, and use of biofuels in transportation.

Media and Presentations

The Council and the Secretariat presented ČAPPO activities in several specialist articles and information in specialist motoring and petroleum industry magazines (PRO-ENERGY, Petrolmagazin, Dopravní noviny), daily newspapers Hospodářské noviny (HN), Lidové noviny, Právo and Mladá fronta Dnes, and business magazines Ekonom and EURO. The Chairman and first Vice-Chairman of the Council gave significant interviews to the daily Hospodářské noviny about the use of first generation biofuels in transport. Secretariat and experts from the Working Groups prepared several articles on new fuels and biofuels. The Secretariat prepared a series of articles for magazines, bulletins and the media of the member companies. These were mainly information on ČAPPO activities and information related to the fifteenth anniversary of ČAPPO's establishment. Members of the Working Groups and the Secretariat prepared six articles for professionals to be published by PETROLmagazín.

The representatives of some member companies repeatedly explained the problems with the use of biofuels in transport on ČT1, ČT24, TV Nova and TV Prima stations.

The Chairman of the Council, some of the members of the Council, members of ČAPPO Working Group biopaliva (biofuels) and the Secretary General presented ČAPPO's position concerning the use of alternative fuels in transport at the industry conference *Transport and Technologies for Sustainable Development* within the framework of the accompanying programme of the AUTOSALON BRNO 2007 Fair, at the seminar *Biofuels in Practice* within the exhibition ECOCITY in Prague, at the international seminar Biofuels in Transport organized by the Research Institute for Oil and Oil Hydrocarbons, a.s., Bratislava (ČAPPO contributed also to the organization of the seminar) and at the seminar EUROENERGY related to Biofuels.

The Secretariat, with the support of external professionals, regularly updated the Association's web pages.

ČAPPO MAIN EVENTS

AUTOSALON BRNO 2007

Within the framework of the international fair AUTOSALON BRNO 2007, ČAPPO participated in the organization of the international conference *Transport and Technologies for Sustainable Development*.

Press Conference

ČAPPO Secretary General took part in the opening Press Conference of international exhibition AUTOSALON BRNO 2007.

The Secretary General and the representatives of the member companies BENZINA, ČEPRO and ČESKÁ RAFINÉRSKÁ attended the Press Conference organized by the Ministry of Industry and Trade in connection with the launch of blending diesel fuel with a bio-component.

Industry Workshops

The Council of the Association organised industry workshops concentrated on:

- Explanation of a part of the Public Budget Stabilization Act (taxation of the natural gas, electricity and solid fuels),
- Explanation of current legislation related to the use of biofuels in transportation,
- Explanation of the new legislation for the chemical industry (REACH) within the framework of the Working Groups for petroleum industry and trade safety and for the development of petroleum industry, and the MAZIVA (Lubricants) Section.

All of the events were assessed as very successful and attended by many professionals.

Other Events

Representatives of the member companies and the Secretariat took part in industry events organised by the Government, legislature, scientific and educational institutions and business entities. Among other, these were the following conferences, seminars and workshops:

- Seminar on new legislation for the chemical industry (REACH), organised by the Ministry of Industry and Trade and the Association of Chemical Industry of the Czech Republic,
- Seminar concerning the exchange of information about the experience with the implementation of Act No. 76/2002 Coll. on Integrated Prevention and Reduction of Pollution and on Integrated Pollution Registry organised by the Ministry of Industry and Trade and by TECHEM, s. r. o.,
- Information campaign concerning Safe Energy for Europe Programme,
- APROCHEM 2007 industry conference.

ČAPPO INTERNATIONAL CONTACTS

In 2007, the Association continued specialist co-operation with the organisations CONCAWE and EUROPIA regarding petroleum industry and environmental protection. Working Groups, member companies, ČAPPO external collaborators, and other professional organisations and state bodies use the materials.

The Secretary General discussed the possibility of extending co-operation with the Slovak Association of Petroleum Industry and Trade in the areas of legislation, statistics, coordinating important events and implementation of EU regulations in national laws. Regular exchange of information concerning the use of biofuels in transportation continues.

The Secretariat continued working contacts with the division for energy statistics of the International Energy Agency in Paris.

Members of ČAPPO Working Group for international issues and strategic technical issues regularly attended, according to the programme content, the meetings organised by the EUROPIA Association. Foreign associations provided ČAPPO with important information concerning service stations market, standards related to natural gas for drive and the use of biofuels in transportation and their economic support.

On request, the Secretariat provided information and consultations to domestic and foreign scholars with the member companies, to foreign associations and other persons from among international expert public, in particular students of the Universities with specialisations in the technical fields and economics.

ČAPPO DOMESTIC CONTACTS

The Association of Chemical Industry of the CR, the Association of Service Stations of Automotive fuels of the CR, the Union of Car Importers, the Association of Automotive Industry, the Association of Importers and Producers of Automotive Parts and Service Equipment, the Czech Association LPG, the Bio-Diesel Producers Association, the Czech Confederation of Commerce and Tourism, the Czech Gas Industry Union

The Association maintains regular contacts with the above mentioned related professional unions and associations based on exchange of information, statistical data, and mutual attendance at specialised events. Co-operation with the Czech Confederation of Commerce and Tourism continued according to the *Memorandum on Co-operation*. In 2007, ČAPPO continued in particular its co-operation in the area of counselling legislative regulations with the Czech Confederation of Commerce and Tourism and the Association of Chemical Industry of the CR. It developed its co-operation with the Association of Service Stations of Automotive fuels of the CR, in particular in the area of legislation. The Automotive Industry Association provided ČAPPO with the materials concerning motor vehicles market in Europe. With the Union of Car Importers, ČAPPO discussed the issue of using AdBlue liquid in the vehicles that meet the emission limits according to EURO IV and V Directives, use of biofuels in transportation and started joint preparation of a methodological instruction concerning the claims related to automotive fuels quality. With the Association of Bio-diesel Producers, the Association discussed quality parameters for rape seed oil methyl esters for drive. A representative of the Car Importers Union took part in the meetings of the Working Groups related to the use of biofuels in transport and filling of AdBlue liquid. The Association of Importers and Producers of Automotive Parts and Service Technology provided ČAPPO with its information about lubricants, use of biofuels in transport and REACH.

The Department of Petroleum Technology and Petrochemistry of the Institute of Chemical Technology Prague

The Association co-operated with experts from the Institute on harmonising Czech regulations with the ISO standards on petroleum industry nomenclature, improvement of quality parameters of fuels and lubricants, and handling operation problems. The staff of the Institute participated in ČAPPO's professional events. In particular, they presented their important study of petrol-ethanol blends. Members of ČAPPO Working Groups for the development of petroleum industry and for international relationships and strategic technical issues gave lectures for the students of the fifth grade related to the quality of refinery products, projects of petrochemical production facilities, and co-ordination of refinery and petrochemical productions.

TÜV UVNV s.r.o. (the Institute for Motor Vehicles Research)

ČAPPO co-operated with the Institute on fuel range perspective after the year 2007 in compliance with the Directives 2003/17/EC and 2003/30/EC and on the definition of quality characteristics of fuels and lubricants for future constructions engines. The representatives of the Institute participated in ČAPPO's professional events.

The Institute for Fuels and Lubricants, a.s.

The Association co-operates with the Institute on material issues concerning quality parameters checks of automotive fuels at service stations. ČAPPO has its representative in the *Committee for Certification of Fuels and Lubricants*. The employees of the Institute attended the events organized by ČAPPO and held a presentation focused on analyses of quality of automotive fuels in the CR and annotations of standards from the field of quality characteristics of petroleum industry products and testing and certification of fuels and lubricants. In particular, co-operation related to the use of biofuels in transport and the introduction of own systems of checks of the "Seal of Quality" type were important.

Other Contacts

The Association co-operates, through its Working Groups and the Secretariat, with specialists from the division of technical research and development at ŠKODA AUTO, a.s., Mladá Boleslav, the Research Institute for Agricultural Machinery, Prague, the Central Customs Laboratories of the General Customs Directorate and relevant customs administration offices. The range of issues discussed included technical, legislation, and economic area. Members of the Working Group for the development of petroleum industry, in co-operation with the company ChemPlant, s.r.o., prepared and published the Programme for conversion of densities and other parameters of fossil fuels and bio-components depending on temperature.

Data and Information Base

In co-operation with ČAPPO member companies, in 2007 the Secretariat enhanced its data and information base. The documents are available to the member companies, governmental bodies and the specialist public. In 2007, the Association enhanced its web site that is regularly updated using outsourced experts. ČAPPO web pages also include the lectures from the industry seminars held within the fairs AUTOTEC and AUTOSALON Brno, information concerning the deliveries of fuels to the market, professional articles and information from the members of ČAPPO Working Groups. In 2007, a text concerning biofuels and their use in practice was added.

In 2007, the Association started, together with the company ČESKÁ RAFINÉRSKÁ, a.s., the development of internet site focused on petroleum and petroleum industry (www.petroleum.cz). ČAPPO prepares answers to questions.

MAIN ACTIVITIES OF THE ASSOCIATION IN THE YEAR 2008

The Association considers the following activities its priorities:

- Implementation of selected EU projects in the Czech petroleum industry with the focus on alternative automotive fuels and sulphur-free fuels,
- Enhancement of co-operation with working groups of the European Parliament and Council, industry association EUROPIA, permanent mission of the CR in the EU, Europarliamentarians, and experts from the state administration concerning selected projects,
- Co-operation with the state administration bodies and legislature concerning legislative rules in the area of petroleum industry, tax policy and environment

- Use of second generation biofuels in transport in compliance with the rules, regulations and standards of the EU,
- Appeal to the governmental administration to take measures to provide for better enforceability of the effective laws and regulations, in particular on the service stations market,
- Appeal to the governmental administration and legislature to amend the legislation in compliance with EU regulations and time-tested standards with the aim of creating equal conditions on the market,
- Advocacy of equitable claims of the member firms in the area of doing business and of legislation,
- Co-operation with the Association of Chemical Industry of the Czech Republic within collective membership of ČAPPO,
- Permanent presentation of the Association as an interest association whose members do ethical and fair business in the spirit of regulations and standards, and act as an expert guarantor in the petroleum industry sector.

On behalf of the ČAPPO Council
Ing. Ivan Ottis

Prague, April 2008

AUDITOR'S STATEMENT FOR THE MEMBERS OF THE CZECH ASSOCIATION OF PETROLEUM INDUSTRY AND TRADE

We have annexed financial statement of the Czech Association of Petroleum Industry and Trade with the seat at Prague 10, U trati 1226/42, company ID: 48137570, i.e. balance sheet at December 31, 2007, profit and loss statement for the period from January 1, 2007 to December 31, 2007, and the annex to the financial statement, including the description of the main accounting methods used for the preparation of these documents. The data about the Czech Association of Petroleum Industry and Trade are stated in the Annex to this financial statement.

Responsibility of the statutory body of the accounting unit for the financial statement

The statutory body of the Czech Association of Petroleum Industry and Trade is responsible for the preparation and true representation of the financial statement in compliance with Czech accounting regulations. This responsibility also includes the suggestion, implementation and execution of internal checks of the preparation and true representation of the financial statement so that it does not contain significant shortcomings caused by frauds or errors, select and apply the appropriate accounting methods and perform accounting estimations adequate to the situation.

Responsibility of the auditor

Our task is to issue, based on audit, our statement concerning the financial statement. The audit was executed in compliance with the Act on Auditors and the International Auditors' Standards as well as the related application provisions of the Chamber of Auditors of the Czech Republic. According to these standards, we are obliged to observe the ethical standards and to plan and execute the audit so that the auditor gains reasonable security that the financial statement does not include significant shortcomings.

The audit includes selective checks of completeness and conclusiveness of the amounts and information in the financial statement. The selection of the procedures of the auditors depends on the judgement of the auditor and also includes the assessment of the risks that the financial statement contains significant shortcomings caused by fraud or error. In the assessment of these risks, the auditor takes into account internal controls that are important for the preparation and true representation of the financial statement. The aim of the assessment of the internal controls is to propose appropriate auditor's procedures, not to express our opinion concerning the effectiveness of internal controls. The audit also includes the assessment of the appropriateness of used accounting methods, adequacy of accounting estimations supplied by the management, as well as the assessment of the general presentation of the financial statement.

We are persuaded that the audit provides adequate and reasonable basis for the issue of our opinion related to the financial statement of the Association.

Audit opinion

In our opinion, the financial statement gives a true and fair picture of assets, liabilities and financial situation of the Czech Association of Petroleum Industry and Trade at December 31, 2007 and of the costs, revenues and economic result of the year 2007 in compliance with Czech accounting regulations.

The planned deficit of the budget of the Association for the year 2007 amounting to CZK - 420,000 was reduced to CZK -19,414.86 with a saving of drawing down the planned expenses.

Ing. Hana Filipcová – Auditor
No. of certificate on
entry in the list of auditors
KAČR 0649

HZ Praha, spol. s r.o.
a member of Pannel Kerr Forster INTERNATIONAL
Kodaňská 1441/46
100 10 Praha 10
No. of certificate on entry in
the list of auditing companies 31

Prague, February 22, 2008

APPENDICES:

The Council of the Czech Association of Petroleum Industry and Trade at December 31, 2007.

Directory of ČAPPO Member Companies at December 31, 2007.

ČAPPO Working Groups, the MAZIVA (Lubricants) Section and the Secretariat at December 31, 2007

COUNCIL OF THE CZECH ASSOCIATION OF PETROLEUM INDUSTRY AND TRADE

Chairman:

Ing. Ivan Ottis

General Director
PARAMO, a.s.
Přerovská 560
530 06 Pardubice

phone: 466 810 339
fax: 466 335 019

Vice-Chairmen:

Ing. Pavel Šenych

General Manager
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fax: 244 025 898

Ing. Martin Durčák

General Director
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Members:

Dr. Massimo Bechi

General Manager
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180 00 Praha 8

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fax: 224 495 226

Ing. Pavel Švarc, CSc.

General Director
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fax: 221 968 300

Ing. Ivan Souček

General Director
ČESKÁ RAFINÉRSKÁ, a.s.
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436 70 Litvínov – Záluží 2

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fax: 476 165 086

Ing. Stanislav Bruna

Director of Business Unit BU I - Refinery
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Záluží 1
436 70 Litvínov

phone: 476 161 111
fax: 476 709 553

DIRECTORY OF ČAPPO MEMBER COMPANIES

(as per 31. 12. 2006)

Company	Address	Phone	Fax
1. AGIP ČESKÁ REPUBLIKA, s.r.o.	Sokolovská 394/17 180 00 Praha 8	224 495 111 224 495 210	224 495 226
2. BENZINA, s.r.o.	Dělnická 12 170 04 Praha 7	284 012 350 284 012 111	220 874 056
3. ČEPRO, a.s.	Dělnická 213/12 170 04 Praha 7	221 968 111	221 968 300
4. ČESKÁ RAFINÉRSKÁ, a.s.	a)DS 264 436 70 Litvínov - Záluží 2 b)Wichterleho 809 278 52 Kralupy n. Vlt.	476 165 782 315 718 521	476 165 086 315 718 645
5. LUKOIL CZECH REPUBLIC s.r.o.	Pekařská 14/628 155 00 Praha 5 - Jinonice	257 414 444 257 414 445	257 414 953
6. MERO ČR, a. s.	Veltruská 748 278 01 Kralupy n. Vlt.	315 701 111	315 720 111
7. MORAVSKÉ NAFTOVÉ DOLY, a.s.	seat: Úprkova 6 695 30 Hodonín sales division: Vinohradská 230 100 00 Praha 10	225 010 550 225 010 551	225 010 555
8. OMV ČESKÁ REPUBLIKA, s.r.o.	Budějovická 3 140 21 Praha 4	261 392 120	261 212 107
9. PARAMO, a.s.	Přerovská 560 530 06 Pardubice	466 810 339	466 335 019
10. POPILKA, spol. s r.o.	Bratřínov 51 252 05 Praha - západ	257 771 160 257 771 170 603 221 350	257 771 150
11. SHELL CZECH REPUBLIC a.s.	Antala Staška 2027/79 140 00 Praha 4	244 025 900	244 025 898
12. SLOVNAFT ČESKÁ REPUBLIKA, spol. s r.o.	Olbrachtova 9 140 21 Praha 4	241 080 811	241 080 877
13. TESCO STORES ČR a.s.	Veselská 663 199 06 Praha 9	284 059 520	284 059 524
14. TOTAL ČESKÁ REPUBLIKA, s.r.o.	Kolbenova 5a/882 186 21 Praha 8	224 890 511-13	224 890 560
15. UNIPETROL RPA, s.r.o.	Záluží 1 436 70 Litvínov	476 163 178	476 164 716

ČAPPO WORKING GROUPS

	Address	Phone	Fax
No. 1 for Development of Petroleum Industry Head: Ing. Václav Loula	BENZINA, s.r.o. Dělnická 12 170 04 Praha 7	284 012 555	284 012 204
No. 2 for Legislation Head: JUDr. Martin Vlášek	Shell Czech Republic a.s. Antala Staška 2027/79 140 00 Praha 4	244 025 878	244 025 896
No. 3 for Finance and Taxes Head: Stanislava Mladějovská	Shell Czech Republic a.s. Antala Staška 2027/79 140 00 Praha 4	244 025 840	244 025 898
No. 4 for Ethical Rules Head: Ing. Miloš Podrazil	ČAPPO U trati 1226/42 100 00 Praha 10	274 817 509	274 815 709
No. 5 for International Relations and Strategic Technical Issues Head: Ing. Milan Vitvar	ČESKÁ RAFINÉRSKÁ, a.s. DS 264 436 70 Litvínov - Záluží 2	476 164 477	476 164 858
No. 6 for Safety of Petroleum Industry and Trade Head: Ing. Zdeněk Stejskal	ČEPRO, a.s. středisko 06 – Cerekvice 507 77 Cerekvice	493 655 226	493 655 161
No. 7 for Biofuels Head: Ing. Ivan Ottis	PARAMO, a.s. Přerovská 560 530 06 Pardubice	466 810 339	466 335 019
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