Romanian Oil Company
PETROM S.A.
2002 Annual Report

1 SNP PETROM– Past and Present

1857 – Petrom was officially registred as the first crude oil producer worldwide with an amount of 257 tonnes (mentioned in ''The Science of Petroleum)

1895 – The Mining Low was promulgated to regulate also the crude oil & gas production.

1907 – The first well drilled in Moreni by Rotary -system.
The 3 -th World Petroleum Congress was organized in Bucharest.

1911 – Valves were used for the first tune nationwide to start wells in airlifting system.

1923 – High pressure compression and absorption process was applied industrially to produce gas in Moreni and Campina.

1936 –The first gas injection process was applied industrially on Boldesti Meotian field at 1800 m medium depth.

1942 – Petroleum Law was ratified.

1951 –Well stimulation operations were applied extensively for crude oil production (hydraulic fracturing, physical and chemical treatements).

1960-1964 – The establishment of Brazi Chemicals Plant (Petrobrazi).

1965-1969 – The establishment of Pitesti Petrochemical Plant.

1987 – The first crude oil production from Lebada East field on Black Sea Shelf was registered. Water flooding process was applied for the first tune offshore.

1991 – The establishment of Autonomous Oil Regie "PETROM RA" .

1995 – The National Agency for Mineral Resources is set up.
The new Petroleum Law is promulgated.

1997 – The establishment of National Oil Company 'PETROM" SA.

1999 –The acquisition of Doljchim Craiova Chemical Complex.

2001 – The spinning– off of Petrotrans Transportation Branch.

2 Events 2002

January – The spinning-off of non-core activies of Petromar Constanta Branch.

March – The spinning-off of Petroserv Branch, and the establishment of SC Petrom Service SA.

April – Starting of the privatization process by publishing the consultant selection announcement in the international and Romanian press. 12 investment banks were interest, out of which seven were selected.

August – Signing of the USD 150 MM agreement with EBRD for pre-privatization syndicated loan.

Octomber – Fitch Rating upgrades the senior unsecured debt of Petrom and that of its Euro 125 MM euro - bond issue from B+ to BB-.

November – The Board of Directors approves the acquisition of 19 lands in Yugoslavia for building of distribution facilities.

December – The appointment of Credit Suisse First Boston and ING Barings Limited consortium as the privatization consultant.

2 Overwiev

SNP Petrom...

- one of the Central and Eastern Europe's most important crude oil and natural gas producers;
- Romania's integrated national oil and gas company, 93% owned by the state;
- the only producer of crude oil in Romania and the second largest of natural gas;
- processes 55% of the crude processed in Romania and has the highest utilization rate of the refineries;
- leader of petroleum products market with a market share of 45%, holding a large distribution network which represents 30% of the total number of filling stations;
- one of the most traded companies listed on Bucharest Stock Exchange;
- rated [B2] and [BB-] by Moody's and Fitch Ratings respectively.

Operational results	**2000**	**2001**	**2002**
Crude oil reserves additions, MMn tons	1.06	1.35	1.10
Natural gas reserves additions, B cm	1.81	2.59	2.06
Crude oil production, MM tons	6.03	6.00	5.81
Natural gas production, B cm	6.17	6.07	6.06
Throughput, MM tons	5.97	6.74	7.12
Processed crude oil, MM tons	5.71	6.39	6.53
Capacity utilisation, %			
Petrobrazi	66.20	78.00	76.06
Arpechim	77.80	82.20	88.67
Total production of petroleum products, petrochemicals and fertilisers, MM tons	6.84	7.21	7.63
Petroleum products sales, MM tons	4.49	5.22	5.90
Gasoline	1.29	1.45	1.88
Diesel	1.75	1.96	2.23
Heavy fuel oil	0.75	1.03	1.01
Others	0.71	0.78	0,78
Number of filling stations*	640	673	725
No. of employees	78,012	77,362	60,459

Financial results	**2000**	**2001**	**2002**
Turnover, B, ROL	70,994	72,275	77,664
EBITDA, B, ROL	16,545	14,807	11,943
EBIT, B, ROL	3,120	4,822	2,857
Profit before income tax, B, ROL	2,718	4,642	2,318
Operating Cash flow, B, ROL	19,002	12,929	16,169
Capex**, B, ROL	10,394	10,037	10,035
ROCE***	16.0%	13.8%	11.3%

* includes both domestic and international filling stations

** additions in tangibles, according to Cash flow Statement

*** EBITDA / Capital employed

3 Corporate Governance

3.1 Petrom’s Shares

Petrom share capital as of 31 December 2002 was of ROL37,734,522,958 thousands, with a nominal value of ROL 1,000. Currently, the Romanian state holds approximately 93% of Petrom's share capital, the rest of 7% being held by 684,847 Romanian legal entities and private persons.

An important moment in the company’s life was September 3 th , 2001, when it began the trading of Petrom’s shares on the Romanian Stock Exchange. The volume of the transactions and their value increased significantly due to the large number of investors eager to own Petrom shares.

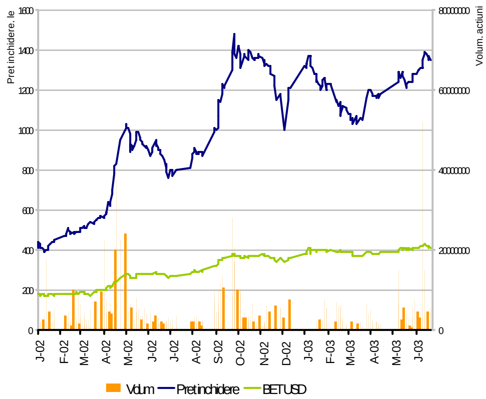
The beginning of 2002 was relatively modest, the shares being traded at low prices of 400-500 ROL/share.

In March, with the reference date approaching, the investors’ interest increased. This situation was due as well to the initiation of the privatization process, a high number of portfolio investors buying Petrom shares.

After a slight decrease during summer, the Petrom’s shares resumed their increasing trend, reaching on October 2 th , 2002 an historic maximum of 1,480 ROL/share. In 2002, 123,868 transactions were performed, by which 1,059,824,764 shares changed their owner. The total value of transactions was of ROL972.46 B which lead to a medium price of 917.56 ROL/share.

A series of special transactions with high volumes of shares were performed on the DEAL market, at prices different from the ones on the REGULAR market, generally lower than the reference price of the respective day.

ROL	2002
Market capitalization, B ROL	45,659
Minimum price (16-17 Jan 2002) per share	394
Maximum price (2 Oct 2002) per share	1,480
Price per share as of 18 Dec 2002	1,210
Total assets per share	4,047
Cash flow per share	428
Price per Cash flow	2.8x



3.2 Domestic and Foreign Participations

3.2.1 Domestic Participations

	Company	Core business	Percentage owned at 31.12.2002
1	ACETILENA BRAZI SRL Brazi	Manufacturing of base chemical products	49.00%
2	BRAZI OIL & ANGELESCU PROD COM SRL Brazi	Distributor of petroleum products	38.00%
3	FONTEGAS-PECO SA Mehedinti	Distributor of petroleum products	37.40%
4	FRANCIZA PITESTI	Financial intermediation	40.00%
5	GRIVCORELF SA	Distribution of petroleum for aviation in Romania	30.00%
6	HYDROGAS PETROM	Production and distribution of carbon dioxide	100.00%
7	LINDE GAZ BRAZI SRL Brazi	Production, bottling and distribution of natural gas	49.00%
8	MBH CARPATINA SA Radauti	Production and distribution of mineral water	75.02%
9	M-I PETROGAS SERVICES ROMANIA SRL Bucuresti	Drilling rig service	40.00%
10	PETROM AVIATION Otopeni-llfov	Intermediary retail with miscellaneous products	50.36%
11	PETROM GAS SRL Bucuresti	Fuel, mineral and chemical industrial products trading	50.99%
12	PETROM NADLAC SRL Nadlac	Distributor of petroleum products	85.00%
13	POLIFLEX ROMANIA SRL Brazi	Foam polyethylene producer	96.84%
14	ROBIPLAST CO SRL Bucuresti	Producer of waterproofed membranes	45.00%
15	ROMCATTEL GAZ SRL Cluj	Production and distribution of natural gas	40.00%
16	SECON GAZ SA Rosiorii de Vede	Natural gas transporter	100.00%
17	SHELL GAS ROMANIA	Production and distribution of LPG	44.47%

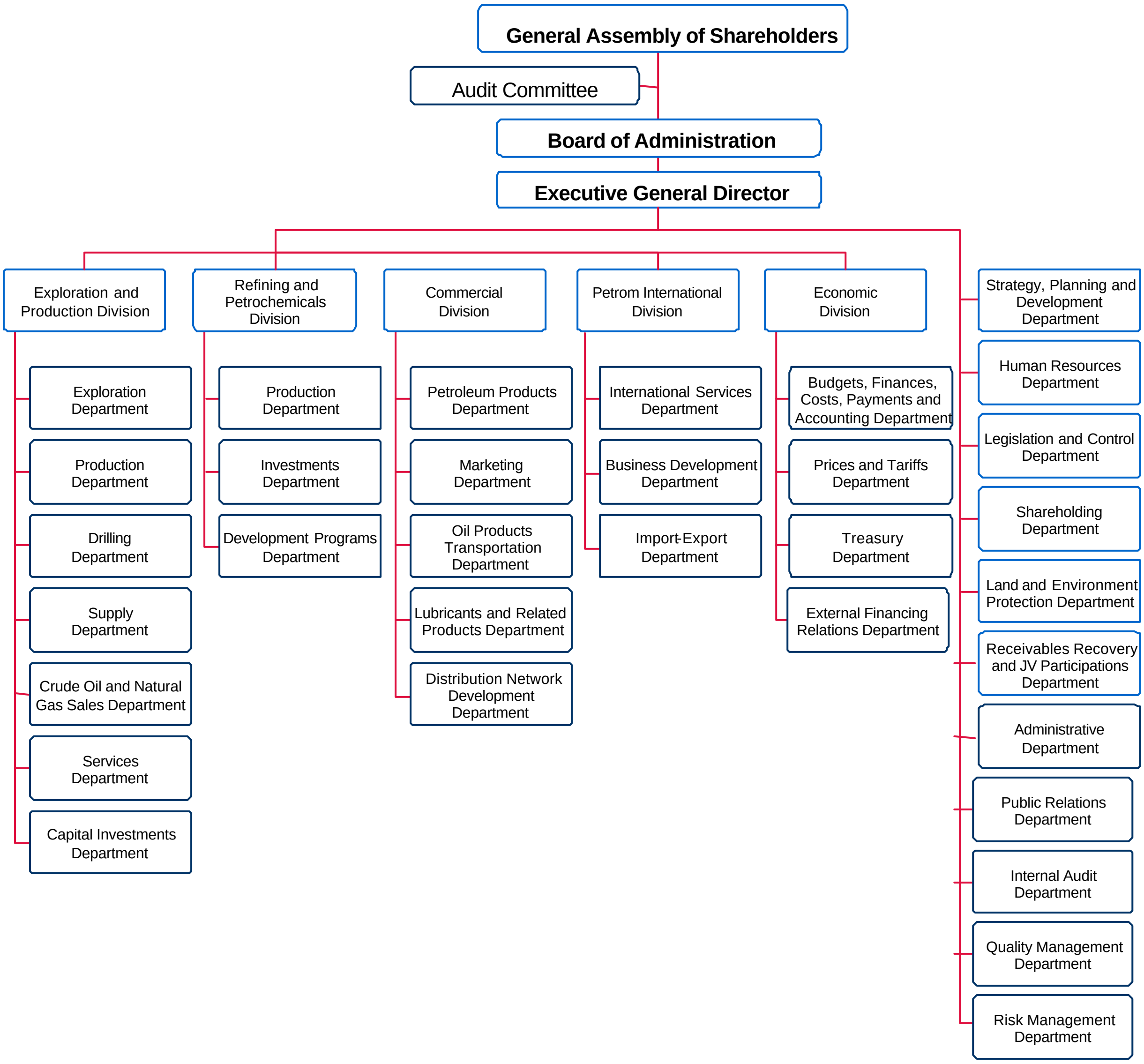
3.2.2 Foreign participations as of 31.12.2002

	Company	Headquarters	Core activity	Percentage owned at 31.12.2002
1	M.D. Petrom Oil & Gas Private Limited	India	Crude oil & gas exploration and production (onshore and offshore)	40.00%
2	OZTIURK-MUNAI	Kazakhstan	Crude oil & natural gas exploration and production onshore; Geological and geophysical studies	95.00%
3	I.C.S. PETR0M MOLDOVA S.A.	Republic of Moldova	Petroleum products distribution	100.00%
4	Ascom-Petrom Limited	Gibraltar	Financing and carrying out exploration works in Libya	100.00%
5	TASBULAT OIL CORPORATION L.L.P	Kazakhstan	Petroleum operations related to hydrocarbon exploration and production of Tasbulat, Turkmenoy & Aktas fields (100% owned by Tasbulat Oil Corporation B.V.I.)	100.00%
6	Petrom Hungaria K.F.T	Hungary	Petroleum products distribution	100.00%
7	PETROM YU D.O.O	Yugoslavia	Petroleum products distribution	100.00%

3.3 Organizational Structure

Petrom is organized into five divisions:

- Exploration and Production
- Refining and Petrochemicals
- Commercial
- Petrom International
- Economic



3.3.1 Exploration and Production Division

The Exploration and Production Division controls all of Petrom's upstream activities, including exploration and production and upstream service branches. The division is responsible for the exploration, development and production of fields under concession; exploration and production related investments; the supply of materials necessary for exploration and production operations; the sale of crude oil, gas, condensate and ethane; and drilling, workovers, maintenance and repair of machinery and equipment.

3.3.2 Refining and Petrochemicals Division

The Refining and Petrochemicals Division is responsible for Petrom's refining and petrochemical activities. The division comprises three sub-divisions: Production, Investments and Development Programmes.

3.3.3 Commercial Division

The Commercial Division co-ordinates the transportation, storage and distribution of petroleum products, including the development of Petrom's retail network. Petrom's retail distribution is organised on a regional basis. There is one branch (PECO) for each of the 40 counties in Romania, plus Competrol, which operates the retail network in Bucharest.

3.3.4 Petrom International Division

Petrom International is the division responsible for all of Petrom's international activities including international co-operation agreements, joint ventures, the negotiation of sale and purchase agreements, with foreign partners, foreign investments (Kazakhstan, Hungary, Yugoslavia, Republic of Moldova and India), the import of crude oil, supplies and materials and the export of petroleum products.

3.3.5 Economic Division

The Economic Division deals with financial matters including, among other things, budgeting, accounting, preparation of financial statements, settlements and foreign exchange operations, cash management, payroll, pricing and tariffs and international financing.

3.4 Business Activities and Operating Structure

Petrom's business activities are organised into three sectors:

- Exploration and Production ("E&P")
- Refining and Petrochemicals
- Distribution and Marketing

These sectors are further broken down into branches. Under the Company Law, these branches are considered to be separate parts of a company, but not separate legal entities. Based on the Company's latest organisational structure, Petrom is organised into 64 operational branches, out of which 63 located in Romania and one branch located in Kazakhstan

3.5 General Assembly of Shareholders

The General Assembly of Shareholders is the supreme governing body of the Company. It meets either in an Ordinary General Meeting of Shareholders (“OGM”) or in an Extraordinary General Meeting of Shareholders (“EGM”). The key powers of the OGM include:

- approval of global strategy, organisational structure and regulations, annual budget and activity program, balance sheet, profit and loss account, reorganisation, dividends, monthly remuneration and loan agreements;
- review of the Board of Administration reports;
- election of the Audit Committee members.

The EGM's powers include:

- decisions on change of share capital, share value, mergers, spin-offs, dissolution or liquidation, international investments and borrowing policy;
- amendments to Petrom's statutes;
- decisions on any other matters relating to Petrom's operations.

3.6 Board of Administration

Between shareholders' meetings, the general governance of Petrom is currently exercised by the Board of Administration. The Board comprises seven members with voting rights, nominated by the MIR (The Ministry of Industry and Resources), in its capacity as the majority shareholder, and appointed by the General Assembly of Shareholders. Each has 4-year mandates.

The Board structure is as follows:

- representatives of the MIR (one of whom is currently the President of the Board);
- 1 representative of the National Agency for Mineral Resources;
- 2 representatives of the Oil and Gas Institute;
- The Company’s General Director.

Decisions can be made, provided at least half of the members with voting rights are present (i.e. four); the Board’s decisions are taken only with total majority of votes. The Labour Union (FSLI) has the right to delegate a representative in the Board of Administration meetings, but only as an observer, with no right to vote. At times, other members of Petrom’s management team might also attend the meetings of the Board, if required. As of December 31, 2002 the Board of Administration had the following members:

Name	Position
Mr. Popa Ion	Chairman, Executive General Director of Petrom
Mr. Mihai Pascu Coloja	Member, Dean – Petroleum University
Mr. Adrian Radu	Member, Deputy General Secretary – MIR
Mr. Marian Aretu	Member, General Director – MIR
Mr. Mihai Albulescu	Member, Professor – Petroleum University
Mrs. Maria Iuliana Stratulat	Member, President – NAMR
Mr. Nicolae Radu Chiurtu	Member, Deputy Director – MIR

The duties of the Board of Administration include:

- submitting various reports and recommendations to the OGM;

- decisions on accounting policy;
- reviewing and approving loan and lease agreements;
- approving joint ventures subject to OGM or EGM confirmation;
- appointing the Managing Committee;
- negotiating the collective labour contract with the employees representatives;
- validating the ROFs for branches and other local units;
- validating the budget, the investment programme and the activity programme for the next fiscal year and submitting them for the approval of the OGM;
- analysing and presenting to the OGM the Annual Report, and the Balance Sheet, and making suggestions regarding profit distribution;
- approving the documentation for the acquisition, sale or exchange of certain fixed assets amounting to less than 20% of the total value of fixed assets;
- analysing and approving bank loan contracts, and delegating to the Board of Administration the approval of loans up to 10% of the total value of bank loans.

3.7 Executive General Director and Managing Committee

The executive management of Petrom is performed by the Executive General Director ("EGD"). The EGD is the legal representative of the Company in front of public authorities in relation with third parties. He/She is vested by the Board of Administration with the authority to make decisions regarding the organisation and management of the Company. The EGD is appointed by an order issued by the MIR. On February 5th 2003, following Mr Ion Popa resignation, the Ministry appointed Mr Gheorghe Constantinescu as Executive General Director of Petrom.

The Executive General Director, all the directors of the divisions, the deputy general director of E&P division, the directors of Human Resources and Strategy, Planning, Development Departments form Petrom's Managing Committee.

Under Petrom's constitutive documents, the authority of the EGD includes:

- to participate at legal deeds on behalf of the company, within the limits of the mandate given to him;
- to approve the organizational structure and the standard working procedures for branches;
- to implement the development strategies;
- to negotiate the collective/individual labour contract;
- to prepare and present the financial statements to the Censors Committee and to the Board of Administration;
- to apply the strategy and the policies regarding the development of the Company, as established by the Board of Administration;
- to select, hire, promote and dismiss employees;
- to negotiate the collective labour bargaining agreement, within the limits of the mandate granted to him by the Board of Administration, taking into consideration the approved income and expenditure budget;
- to negotiate, in accordance with relevant legislation, the individual labour agreements;
- to conclude legal deeds in the name and on behalf of the Company, within the limits of the mandate given to him by the Board of Directors;
- to establish the duties and responsibilities of the Company's personnel in each department;
- to approve the payment and receipt operations, within the limits of his legal powers;

- to approve the operations regarding sale and purchase of goods, within the limits of his legal powers.

The role of the Managing Committee includes:

- supporting the EGD in implementing policies;
- making recommendations and providing information to the EGD on various matters;
- negotiating labour contracts;
- analysing the EGD's reports on the status and evolution of the Company's – market position (internal and external), technical level, quality, labour, environmental protection, etc. and submit the reports for the analysis and approval of the Board of Administration;
- analysing and validating the ROF and submitting it for validation to the Board of Administration;
- approving work instructions and methodologies within the Company;
- analysing and validating the budget and submit it to the Board of Administration;
- approving the acquisition, sale or exchange of certain fixed assets;
- approving investment projects;
- approving research programs;
- analysing the proposals for modification and/or additions to the Company's Statute and submit them to the Board of Administration;
- analysing the proposals for mergers and acquisitions, dissolution and liquidation of the Company, its branches and other territorial units.

The Managing Committee is meeting once a month, usually on the first Monday of the month. As of December 31, 2002 the had the following members:

Name	Position
Mr. Popa Ion	President of Managing Committee, Executive General Director of Petrom
Mr. Florin Ciocanelea	Director, Petrom International Division
Mr. Marius Velescu	Director, Exploration and Production Division
Mr. Dumitru Ferecus	Director, Refining and Petrochimical Division
Mrs. Florica Nedelcu	Director, Commercial (Distribution and Marketing)
Mr. Viorel Tirziu	Director, Economic Division
Mr. Gheorghe Supeala	Director, Strategy, Planning, Development Department
Mr. Cristian Ursoiu	Director, Human Resources Department

4 Exploration and Production

	2000	2001	2002
Crude production, MM tons	6,03	6,00	5,81
Natural gas, B cm	6,17	6,07	6,06
Revenues, B [1,2] ROL	N/A	24,359	22,846
EBIT,B[3] ROL	8,492	11,846	9,889
EBITDA, B[3] ROL	16,505	18,777	16,566
Additions of tangible assets, B[2] ROL	4,997	5,664	6,210
No. of employees	49,384	49,611	34,013

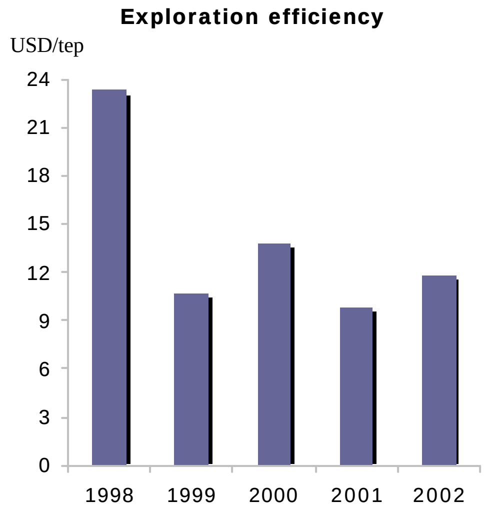
[1] Net of inter-sector revenues
[2] Audited figures, according to IFRS Audit
[3] Figures from Audit - draft

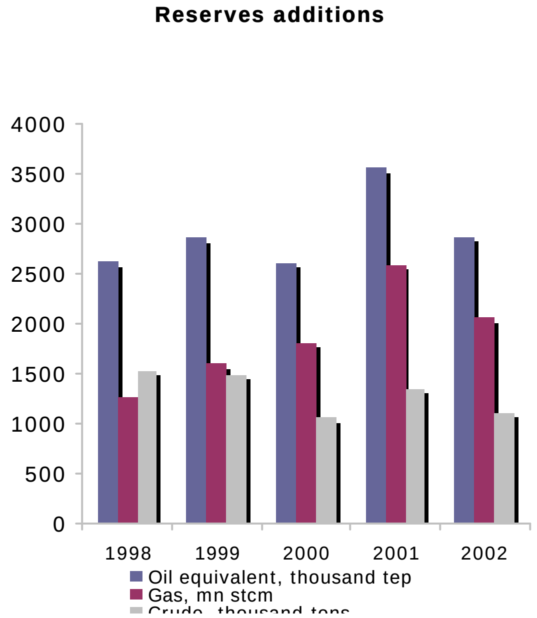
4.1 Exploration

The main exploration objective was the increase of the degree of knowledge in terms of the petroleum potential of the sedimentation basins of the concessioned blocks, through combining all information obtained from geological, geochemical and geophysical research, drilling works and production tests with the purpose of revealing new petroleum reserves both in unexplored areas and on previously produced ones.
Petrom developes its activity in compliance with the Concession Agreement signed with NAMR, as follows:

- 18 petroleum exploration, development and production blocks;
- 225 petroleum development-production and production blocks;
- PII - 3 Moravita development-production block;
- Neptun XIX petroleum exploration, development and production block concessioned in common with TotalFinaElf and Conoco;
- Moinesti VI petroleum exploration, development and production block concessioned in common with Ramco-UK.

In 2002 the initial exploration period (5 years) was completed for the 18 oil exploration, development and production blocks, carrying out the obligations stipulated in the minimum exploration program. On the basis of the results obtained (12 oil fields, 7 gas





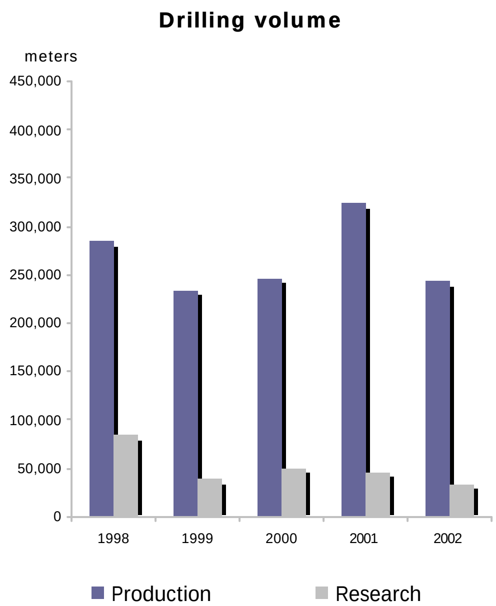
fields and 2 gas and condensate fields), Petrom obtained the agreement for extending the initial exploration period by 2 years.

In the case of XIX Neptun block the exploration phase I was completed through processing and interpreting the 2D seismic acquisition by TotalFinaElf and Conoco which retreated from the concession agreement afterwards, while Petrom requested to further pursue the petroleum operations as the only beneficiary, on the basis of negotiating a new work program.
In the case of VI Moinesti block, subsequent to drilling 1 Poduri well (with unprofitable petroleum results in Oligocene) and to completing the minimal exploration program, the obtained results did not support the pursuit of the exploration Phase III, the concession agreement being terminated.
The geological research comprised analyses and evaluations of the internal and external (India and Kazahstan) exploration blocks, and those that could be of interest for the company for concession, production association (Tunisia, India, Sudan, Qatar, Egypt, Gabon, Libya, Italy, Russian Federation).
In terms of research, over 95 structural areas located in the concessioned blocks have been analyzed resulting on data on the basis of which new seismic works (101 2D seismic profiles of 1,290 km and 180 sqkm of 3D) and exploration operations have been executed: 12 wells (22,075m) 1,452 2D seismic profiles (14,968 km) and 25 sqkm of 3D seismic profiles.
The volume of seismic acquisitions consisted in 93 2D seismic profiles of 1,144.5 km and 3D seismic profiles of 222.4 sqkm, distributed as follows:

- The Gettic Depression - 15 2D seismic profiles of 184.5 km and 222.42 sqkm of 3D;
- Moesian Shelf - 44 2D profiles of 662.34 km;
- Pannonian Depression - 23 2D profiles of 189.183 km;
- North Dobrodja Promontory – 11 2D profiles of 108.475 km.

In 2002, 55 on-shore profiles of 693 km and 104 off-shore profiles of 622 km were processed and 9 VSP operations were performed.

The activity of geophysical interpretation and processing as well as reservoir simulation permitted the interpretation and reinterpretation of 83 complex geophysical investigations obtained from wells located in both internal and external blocks (India, Kazakhstan, Turkey, Qatar) and a complex interpretation of the Bustuchin area in terms of petrophysical, geological and 3D seismic data.



The geological research at wells comprised drilling works for 22 wells amounting to 33,338 m in total drilled length, out of which 24,306 m for oil and 9,032 m for gas and also 126 production tests for 31 wells.

In 2002, 31 wells have been completed, out of which 23 have started production (17 for oil and 6 for gas) leading to discovering new reserves and to extending previously discovered fields - proven reserves of 1,104 toe and proven reserves of 2,060 mil Stcm.

Offshore outlining works have been continued for the Pescarus field - an exploration well 3,362 m deep (experimental production) was completed and drilling has started for another well with intended depth of 3,780 m.

In the concessioned blocks the exploration activity targeted the evaluation of the oil potential of the new production areas and the re-evaluation of the old ones through the extension of modern exploration technologies - 2D and 3D seismic acquisition and performance processing, integrated interpretation of all data obtained by means of specialized programmes.

The products development program was continued with the purpose of creating a geological data base and its integration in the informational activity of the company and also monitoring programmes for the geological resources and oil reserves have been elaborated.

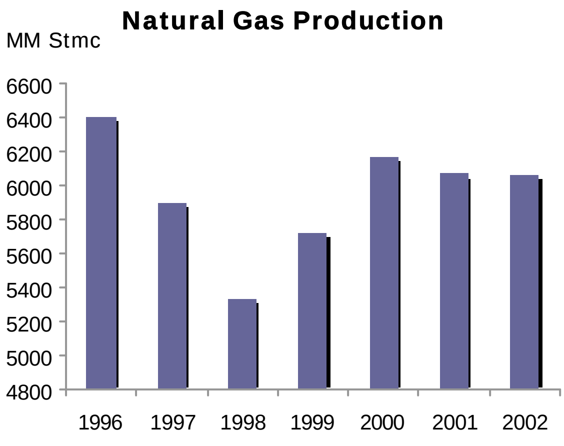
4.2 Crude Oil, Natural Gas, Condensate and Ethane Production

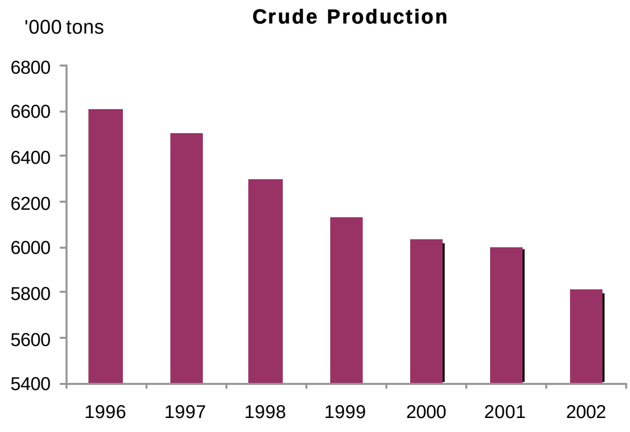
Petrom is currently the only crude producer in the country, although it is not the sole exploration operator in Romania.

Petrom develops petroleum operations in 225 production - development and production blocks in compliance with the global concession agreement signed with the National Agency for Mineral Resources and approved by Emergency Ordinance in March 1999, which will cease to be valid once the individual concession agreements will be in force at the end of 2003.

The 2002 production amounted to 5,810 thousands tons of crude and condensate, 6,062MM Stcm of natural gas, 179 thousands tons of natural gasoline, and 76 thousands tons of ethane, and has mainly resulted from old, mature reservoirs as new technologies have been applied intensively with the purpose of improving the state of wells and reservoirs.

The concepts of *Reservoir Management* and *Field Rehabilitation* are widely applied so that the production activity develops by ensuring an optimum balance of Reserve - Production - Cost.





2002 crude production decreased by 190.8 thousands tons in comparison with the previous year - 3% decrease - while the gas production was reduced by 7.6 MM Stcm - 1% decrease.
The preponderance of the offshore fields in the total crude and gas production (7 and 10% respectively) should be noted and expected to increase in 2003 by initiating the production of a new crude oil field and of the main gas and condensate field, Eocene Lebada East.

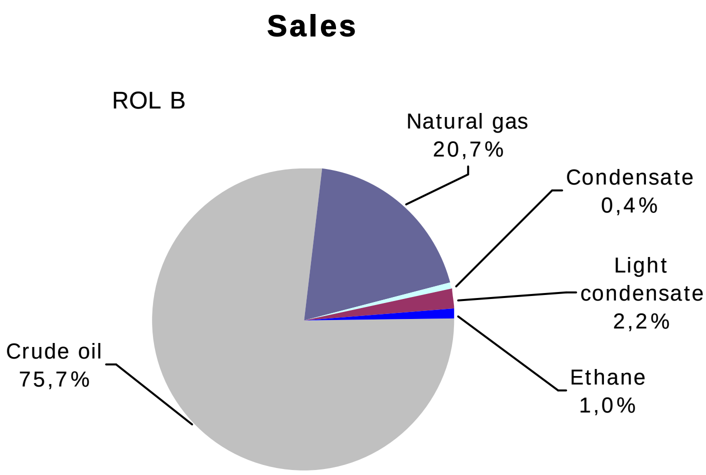
In parallel with the works for the existing wells, significant consumers of technological and financial effort for extending the life duration, productivity and efficiency of drilling

new wells was continued, including horizontal ones and mainly additional production wells, all aiming towards additional reserves: by-passed crude, inaccessible to the existing wells.
226 production wells with a production of 149 thousands tons of crude and 79 MM Stcm of gas, were drilled and are estimated to produce approx. 1,850 thousand tons of crude and approx. 1,800 MM Stcm of gas in the following 30 years. The satisfactory efficiency of the new wells demonstrated by the daily medium flow rate which exceeds twice the flow rate of old wells, was achieved due to a continuous improvement of the field production strategies which were adjusted for the characteristics of each field.

In 2002, progresses in applying sand control, acid treatment and formation selective fracturing, water source blocking etc. were recorded, operations which were executed with own equipment (BOSS Campina) and domestic technologies or assimilated by technological transfer. Such operations, meant to improve the state of the wells and the production system, especially progressive cavity pumps, allowed the improvement of the production decline and the decrease of the operating costs.

In terms of achievements, the pursuit of the revamping programme for the gathering system is significant - 18 gathering units in closed system in addition to the previous 33 ones, and the centre for modernization of work- over units – 25 new units able to execute high complexity workovers.

All the above allow the production of the estimated crude oil reserves in the current economic context, up to a quantity of 128 thousand tons - out of which more than half are due to the enhancement of recovery rate methods and the production of the estimated natural gas reserves up to approx. 101 B Stcm.



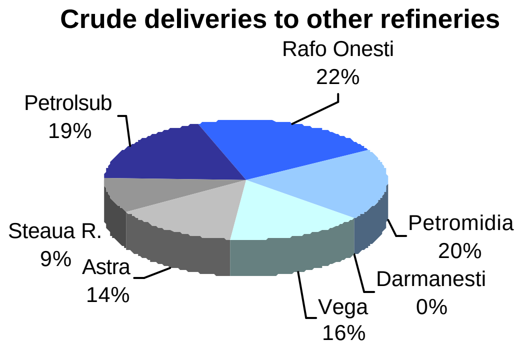
4.3 Sales

Approximately 75% of the E&P revenues are obtained from crude sales, revenues from gas sales representing approx. 20%.

4.3.1 Crude Oil

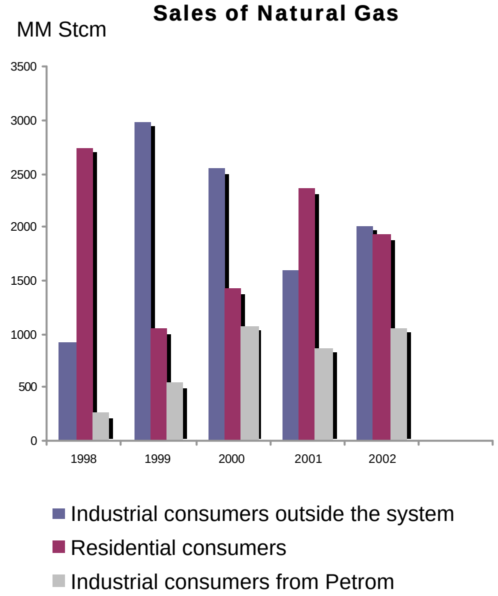
Most of the crude oil volume is transferred to own refineries, Arpechim and Petrobrazi, the rest being sold to other refineries in the country.

In 2002, Petrom sold 1,776 thousands tons of crude to refineries outside Petrom structures, 31.5% of the total crude delivered respectively, with 225 thousands tons more than in 2001.



4.3.2 Natural Gas

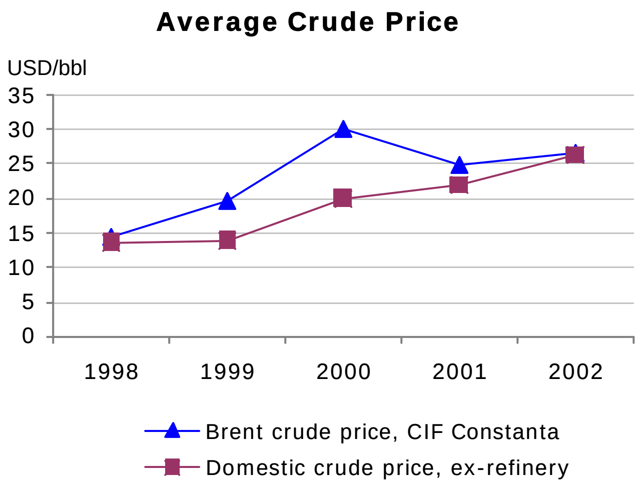
Out of the total natural gas sales of 5,072 MM Stcm, Petrom sold 40% to industrial consumers outside the system (mainly Termoelectrica) and 39% to residential consumers (Distrigaz North and South, Congaz). The rest of 21% was directed to internal industrial consumers (refineries, Doljchim, branches, schelas). The volume of natural gas delivered directly to household consumers was approx. 5,400 thousand Stcm, or 0.1% of the total sold gas volume.



4.4 Crude Oil and Natural Gas prices

4.4.1 Crude Oil

Domestic crude price is correlated with the Brent international prices through a mechanism established by the Board of Administration. This mechanism correlates the price of the crude sold at the refinery gate with the Brent international price which is afterwards adjusted in order to obtain the reference price.



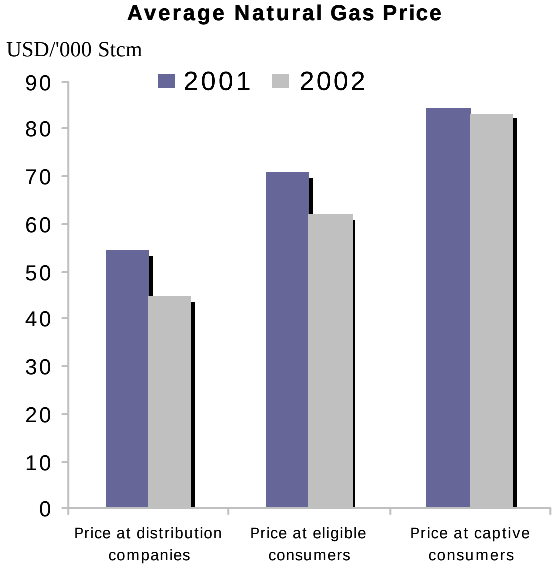
The coefficient used to adjust Brent price is based on the difference between this type of crude and the one produced by Petrom.

In 2002 the Brent crude price maintained a much higher level than the average for the last 10 years, even though it did not register an extraordinary evolution. In 2002 the average price increased with 7% up to 26.46 USD/bbl in comparison with 24.7 USD/bbl in 2001.

Petrom produces 14 types of crude which are differentiated by gravity and sulphur content. During the period April 2001 – December 2002, the coefficient has varied between 0.939 and 0.969.

4.4.2 Natural Gas

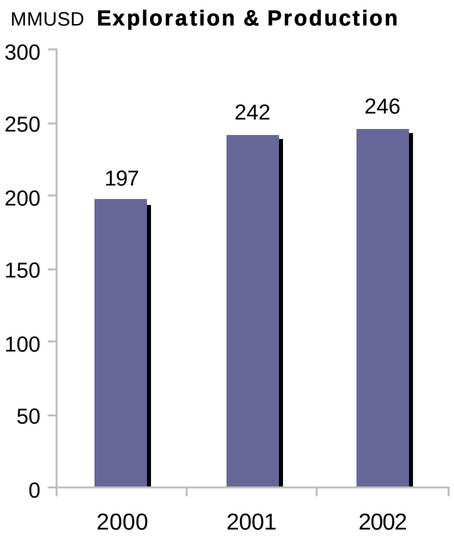
The price of natural gas is regulated in Romania by the National Agency for Natural Gas Regulation. According to NANGR Order no 865/2001 and NAMR Order no 195/2001, natural gas price for captive consumers was established and maintained in 2002 at a level of 2,751,375 ROL/thousand Stcm.
Separate price have been settled for household consumers and industrial costumers connected through Transgaz (the national transporter of natural gas) and Distrigaz North and South respectively (national distributors of natural gas). Prices for eligible customers are negotiable between them and Petrom.



4.5 Capital Expenditures*

In 2002, the E&P investments amounted to USD246 MM, out of which 40 % were directed towards drilling operations, 22.7 % were invested in surface works, 2.1% for social and administrative works, 19.7% for equipment without assemblage, 15% for revamping works and 0.5% for other activities.
The main objectives in 2002 were:

- 3D seismic acquisition works in the Gettic Depression for 200 sqkm, revamping and automatization works for 40 separation units.
- initiating production for the offshore EOCENE field;
- preparations for initiating the production in the offshore Pescarus field;
- adapting and developing installations at the Media Terminal with the purpose of achieving economic efficiency;
- 60 work-over-units, 15 cementing and fracturing units, 15 containers.

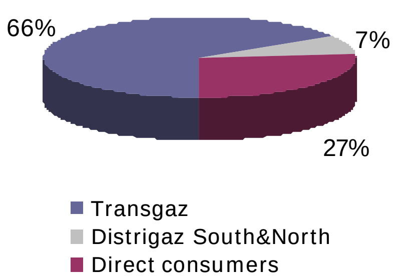


* For capital expenditures in Rol current prices was used the average forex, as follows: 21,693 ROL/USD, 29,061 ROL/USD and 33,055 ROL/USD

4.6 Transportation

Petrom uses the pipeline network administrated by Conpet for crude transportation to its own refineries.
The transportation of natural gas produced by Petrom is performed by Transgaz SA, while Distrigaz North and South supplies gas at a regional level by means of its own pipeline network.

Natural gas transportation



In 2002, the percentage of the natural gas transported by Transgaz decreased from 68% to 66% in comparison with 2001, while the percentage owned by Distrigaz was reduced from 8% to 7%. The percentage of the quantities delivered to direct consumers increased from 24% in 2001 to 27% in 2002

5 Refining

	2000	2001	2002
Throughput, MM tons	5.97	6.74	7.12
Total production, MM tons	6.84	7.21	7.63
-petroleum products	5.49	6.23	6.56
-petrochemicals	0.37	0.38	0.36
-fertilizers	0.99	0.61	0.70
Petroleum product sales, mil tons	5.22	5.58	5.86
From the refinery gate	1.79	1.48	1.59
Exports	0.39	0.82	2.09
Domestic deliveries	3.04	3.28	2.18
Revenues, ROL B[1,2]	N/A	22,261	32,685
EBIT, ROL B[3]	(2,781)	(6,422)	(6,171)
EBITDA, ROL B[3]	409	(5,668)	(5,621)
Additions of tangible assets, ROL B[2]	1,209	1,660	1,131
No. of employees	13,544	13,161	11,797

[1] Net of inter-sector revenues
[2] Audited figures, according to IFRS Audit
[3] Figures from Audit - draft

5.1 Petroleum Products

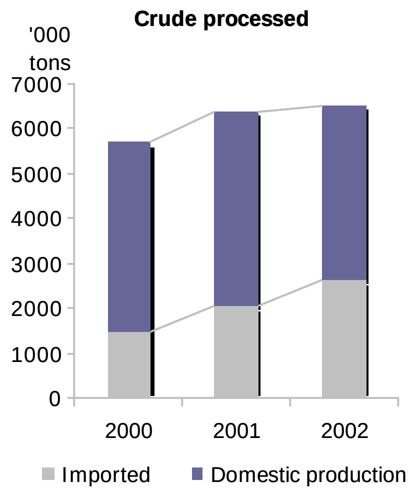
In 2002, Petrom, as owner of the two refineries Arpechim and Petrobrazi, held 34.03% of the operational capacity and 54.9% of the total volume of processed oil in the country.
Arpechim and Petrobrazi are located in a strategic industrial area in the Centre/South-West of Romania, Pitesti and Ploiesti respectively.
Arpechim has a refining capacity of 3.5 thousands tons/year and it processes both domestic and imported crude. Approximately 73% of the processed crude is imported. Arpechim has a Nelson index of 8.0.

The refinery is connected to a complex pipeline system which grants access to imported crude and the possibility to export petroleum products. Therefore Arpechim is connected to Transgaz pipeline for natural gas supplies, to Constanta pipeline for crude imports, as well as to the oil fields in Oltenia.
Arpechim is the sole ethylene supplier to the Oltchim plant, being connected to it by two pipelines for petroleum products transportation.
In addition to the processing units, Arpechim owns the largest Petrom petrochemical plant.
Petrobrazi refinery has an operational capacity of 4.5 m tons/year, processing both domestic and imported crude. 10% of the total processed crude is currently imported, but this percentage is expected to rise to 21%. The refinery has a Nelson index of 11.7.
Petrobrazi is connected through an extended pipeline network to all significant oil fields in the country and to Constanta Oil Terminal for crude import as well as gasoline and diesel exports.
Unlike Arpechim, the petrochemical activity of Petrobrazi is developed through a restricted number of units which produce specialized products.

Processed Crude Volume, 2000-2002

MM tons	**2000**	**2001**	**2002**
Arpechim			
Throughput	2.86	3.05	3.34
Processed crude	2.73	2.88	3.10
Petrobrazi			
Throughput	3.11	3.69	3.78
Processed crude	2.98	3.51	3.42

The crude quantities processed by the two refineries for 2000-2002 decreased by 10% for domestic crude and increased by 28% for imported crude.



5.2 Processed Crude

The main petroleum products produced are gasoline, diesel, heavy fuel oil, light fuel oil and LPG.

Production, 2000-2002

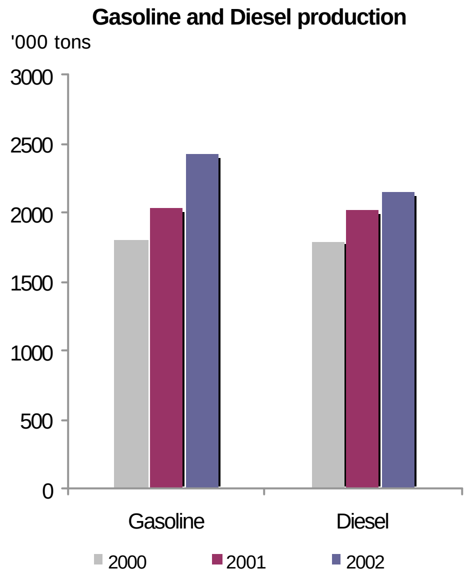
Petroleum products, '000 tons	**2000**	**2001**	**2002**
Gasoline, out of which	1,800	2,032	2,424
naphtha	460	468	610
Diesel	1,792	2,015	2,150
Heavy fuel oil	873	1,120	1,122
Light fuel oil	242	171	125
LPG	1,236	155	150
Others	642	735	591
Total	**5,485**	**6,228**	**6,562**

The production of the main petroleum products has registered an increase during the analyzed period, whereas the light fuel oil and LPG production has decreased. In 2002, the total production increased by 5% compared to 2001 and by 20% compared to 2000.

One of the strategic objectives of Petrom is achieving compliance with Romanian legislation as per GD No. 732/2001 and GD No. 1336/2000 issued in accordance with the EU Directives No. 98/70/EEC (for diesel and gasoline quality standards) and No. 93/12/EEC (for sulphur concentration in diesel).

In 2002, approx. 52% (in comparison with 25% in 2001) of the total gasoline and diesel quantity produced at Arpechim was in compliance with the EU standards. Similarly in 2002, 37.3% (in comparison with 12.2% in 2001) of the gasoline and diesel produced at Petrobrazi were in compliance with EU standards.

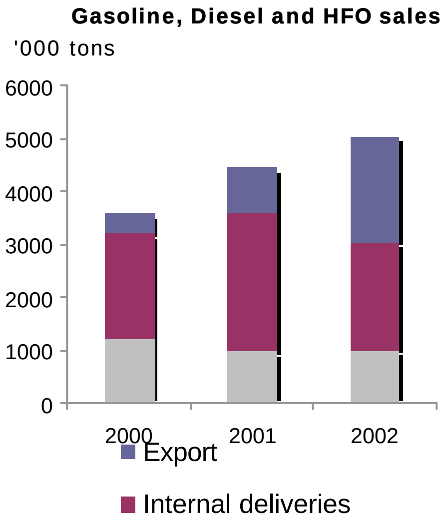
The delivery of the main petroleum products - 81.14% of the total deliveries - was performed by Petrotrans and by the Peco branches. The rest of the products (bituminous, coke, sulphur and various gases) were delivered at the refinery gate.



5.3 Petroleum Products Sales

In 2002, the sales of petroleum products increased by 13% compared to 2001 from 4,455.7 thousand tons to 5,047.4 thousand tons, mainly due to the increase of exports from 19% in 2001 to 40% in 2002.

The percentage of sales performed through the company's own distribution system decreased by 19%, and the sales at the refinery gate were reduced with just 2% in comparison with 2001.



5.4 Petroleum Products Prices

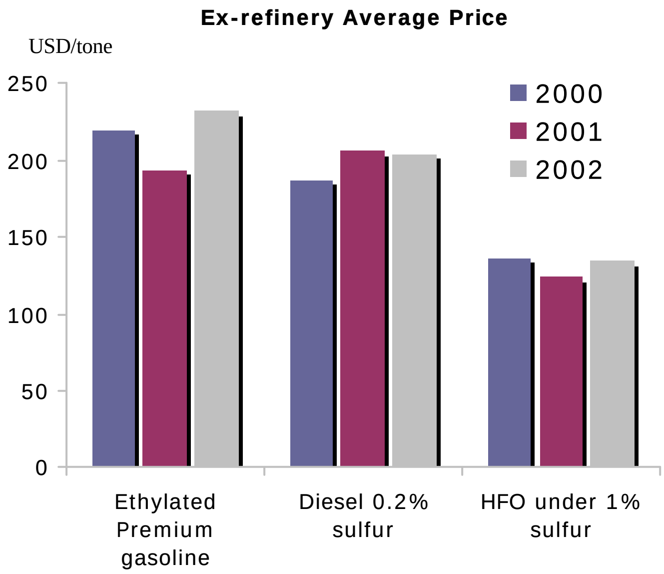
The prices of the petroleum products are completely liberalized in Romania, every distributor having the possibility of settling its own price.

The distribution branches of Petrom are presented with a reference price established at Petrom headquarters, but they have the possibility of adjusting the price by +/-5% for individual Peco stations depending on the local competition.

Pump Reference Price of Petrom as of 31 December 2002

Pump Reference Price	Price, ROL/litre	Price, USD/litre	Taxes, %
Super Plus Cor 98 gasoline	23,150	0.691	65.41
Euro-premium EN 228 gasoline	24,900	0.743	56.24
Premium gasoline	22,750	0.679	66.28
Premium unleaded gasoline	21,850	0.652	61.85
Auto Diesel, 0.2%S	16,450	0.491	56.29
Euro Diesel, EN 590	19,350	0.578	49.48

The exchange rate as of December 31, 2002 was of 33,500 ROL/USD



5.5 Petrochemicals

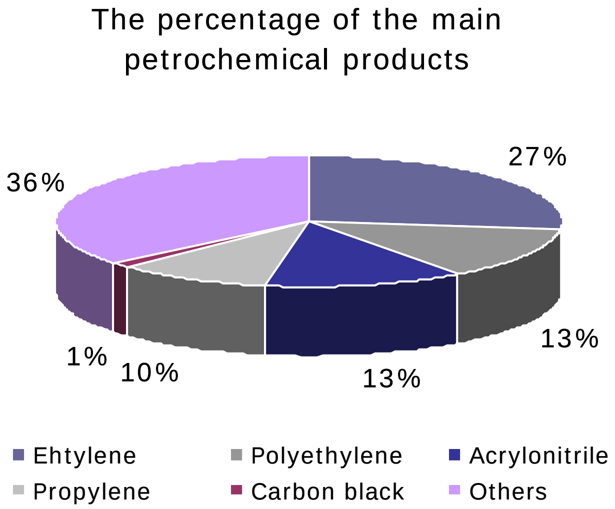
The two petrochemical plants at Arpechim and Petrobrazi produce a wide range of products by employing products obtained in refineries, thus resulting in high integration ratios.

The petrochemical production is larger at Arpechim than at Petrobrazi. In 2002, Arpechim produced 356.6 thousands tons of petrochemicals, representing 97% of the total petrochemical sales. The main petrochemical products are ethylene, propylene and polyethylene. Petrobrazi has produced 6.1 thousands tons of petrochemical products, achieving 3% of total sales. The main product is maleic anhydride.

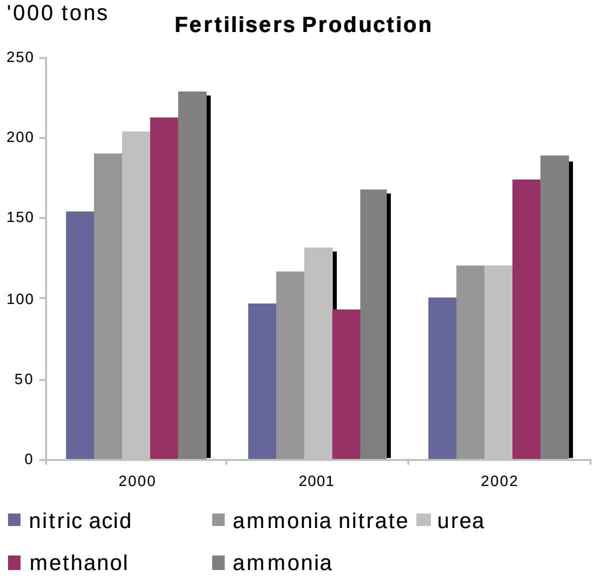
Petrochemical Production, 2000-2002

Product,'000 tons	**2000**	**2001**	**2002**
Arpechim	**360.0**	**364.0**	**356.6**
Polyethylene	90.0	80.0	88.3
Ethylene	69.0	71.0	75.1
Acrylonitrile	83.0	81.0	85.6
Propylene	9.0	9.0	9.0
Carbon Black	15.0	15.0	8.1
Others	94.0	108.0	90.5
Petrobrazi	**8.3**	**7.4**	**6.1**
Phenol	0.0	2.6	0.0
Acetone	0.0	1.5	0.0
Maleic anhydride	2.4	2.3	0.9
Maleic anhydride	5.9	5.1	5.2

In 2002, the petrochemical production at Arpechim registered a decrease of 2% compared to 2001, whereas the petrochemical production of Petrobrazi decreased by 17.6%.

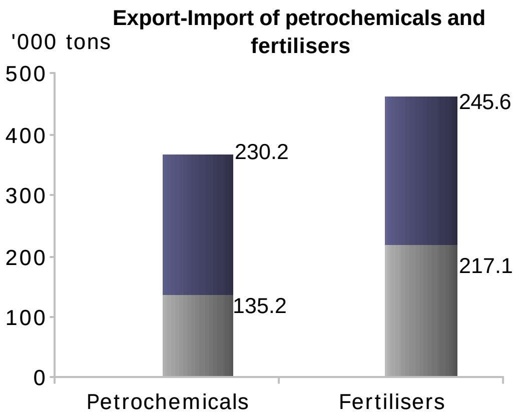


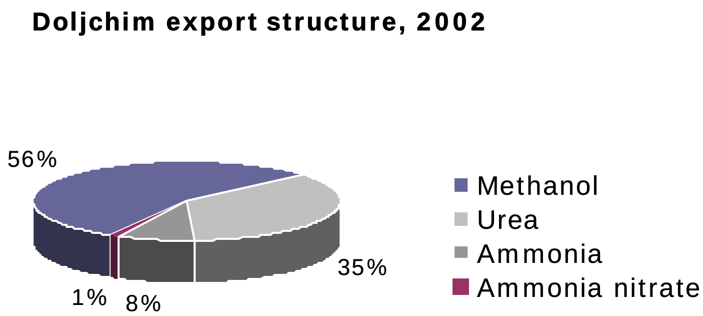
In 2002, the revenues obtained from petrochemical sales represented approx. 18% of the total revenues obtained from refined product sales.
In 2002, Arpechim and Petrobrazi exported 230 thousands tons of petrochemicals, representing 63% of the total petrochemical production and amounting to USD118 MM.
The products with the highest export percentage were acrylonitrile (38%) and ethylene (32%).
The petrochemical sales are performed at the refinery gate. The sales at the refinery gate are mainly directed towards large international corporations from Turkey, Greece, Italy, France, Belgium, Spain, Japan, Poland, Bulgaria and Hungary.



5.6 Fertilisers

Doljchim Craiova is one of Romania’s main fertiliser and organic product producers. Its main throughput source is Petrom's natural gas production. In 2002, Petrom delivered to Doljchim approx 392.4 MM of natural gas, representing 7.7% from the total gas sales of Petrom.
The main products produced by Doljchim include ammonia, nitric acid, ammonia nitrate, urea and methanol.
On the basis of the plant production capacity and of its competitors, Petrom estimates that Doljchim holds a fertiliser market share of 20%.
In 2002, the quantity of exported fertilisers was 245.6 thousands tons, a 16% increase in comparison with the previous year, representing 53% of the total production. The value of the total exported production amounted to USD28.7 M.





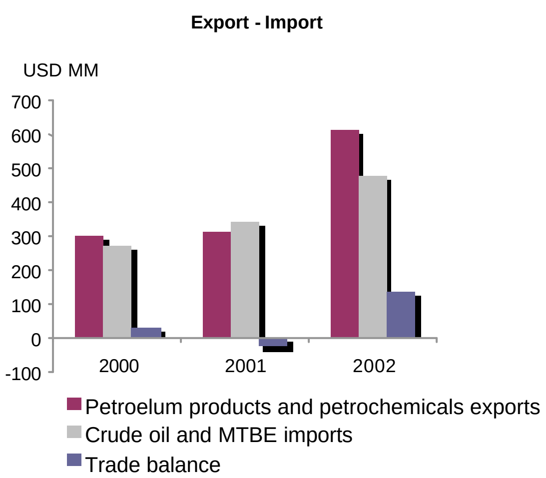
5.7 Exports

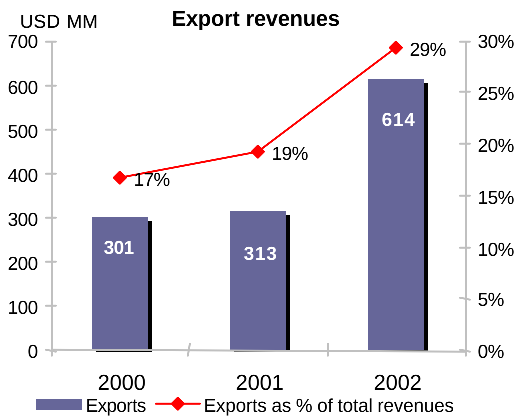
Petrom is currently one of the few companies of the South-Eastern Europe which is able to offer Euro3 products on regional markets. In 2002, the EN 228 gasoline export represented 66.3% of the total exported gasoline and the exported EN 590 diesel represented 95% of the diesel exports.

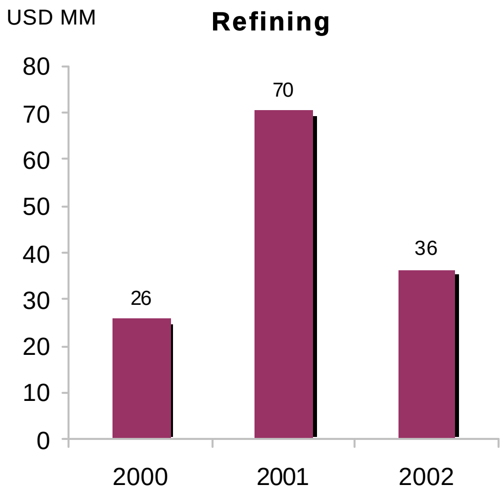
'000 tons	2001	2002	02/01
Gasoline	234	925	395%
Diesel	617	1,085	176%

In 2002, the gasoline exports were almost four times higher than the ones of the previous year, whereas the exported diesel volumes doubled. The export sales were directed towards EU countries like Italy, Greece, Belgium, France, Spain, as well as CEE and Mediterranean countries - Turkey, Poland, Hungary, Yugoslavia and Bulgaria.

In 2002, Petrom's trade balance had a favourable trend since the petroleum and petrochemical product exports determined an excess of USD136 MM above the crude oil and MTBE imports.







5.8 Capital Expenditures*

In 2002, the main refining investments were as follows:

- FCC unit revamping at Petrobrazi;
- catalytic reforming unit revamping;
- FCC heavy gasoline desulphurization unit revamping at Arpechim;
- new hydrogen unit at Arpechim and rehabilitation of the existing hydrogen plant
- FCC unit revamping at Arpechim.

* For capital expenditures in ROL current prices was used the average forex, as follows: 21,693 ROL/USD, 29,061 ROL/USD and 33,055 ROL/USD

6 Commercial

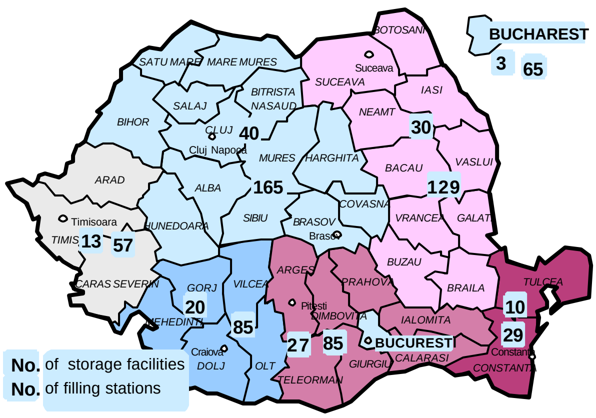
D=Sales through own distribution system	2000		2001		2002	
T=Total domestic sales	T	D	T	D	T	D
Sales, mn tons	4.10	2.32	4.41	2.92	3.82	2.22
Gasoline	1.14	0.91	1.23	1.21	0.95	0.89
Diesel	1.50	1.02	1.36	1.34	1.14	1.04
Heavy Fuel Oil	0.75	0.08	1.04	0.10	0.95	0.10
Other Products	0.71	0.31	0.78	0.27	0.78	0.19
Number of the distribution stations	636		669		690	
Market share %						
Gasoline	53	43	56	55	45	42
Diesel	66	45	60	59	45	42
LPG	49	32	48	23	53	25
Distribution revenues, B [1], ROL	21,865		26,108		23,137	
Transportation revenues, B[1], ROL	1,598		482		361	
EBIT – distribution, B[2], ROL	(1,806)		(2,683)		(1,065)	
EBIT – transportation, B[2], ROL	(831)		(117)		(147)	
EBITDA – distribution, B[2], ROL	251		(546)		688	
EBITDA – transportation, B[2], ROL	(657)		44		(37)	
Additions of tangible assets-distribution, B[1], ROL	3,517		2,417		2,670	
Additions of tangible assets- transportation, B[1]	304		213		383	
No of employees – distribution[1]	13,464		14,055		14,070	
No. of employees - transportation[1]	1,612		535		579	

[1] - Audited figures, according to IFRS Audit
2 - Figures from Audit-draft

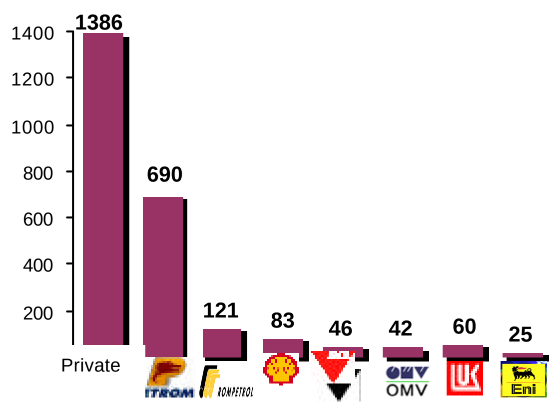
6.1 Distribution

The petroleum product distribution sector consists of the following: 145 operational storage facilities, with a storage capacity of 873,954 cum, 690 distribution facilities (605 filling stations and 85 household usage stations), 23 LPG skids. The operational distribution facilities and storage facilities in 2002 are presented in the following map:

No. of filling stations	2000	2001	2002
Romania	636	669	690
▪ modernized	91	143	191
▪ new	20	29	37
International	4	4	35



Number of filling stations in Romania



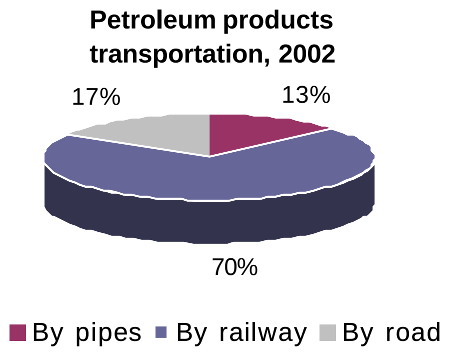
6.2 Transportation

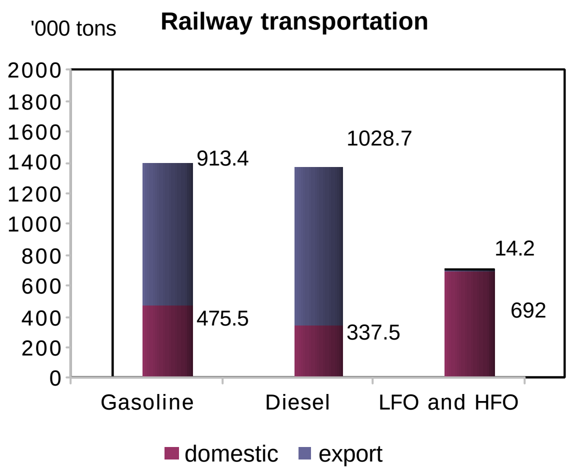
The transportation of petroleum products from the refinery to the final consumers is performed through the pipelines operated by Petrotrans, by road (Petrom's specialized vehicles) and by railway (rail tankers).

Petrom owns 1,540 road vehicles for petroleum product transportation, out of which 642 belong to Transpeco (total capacity of approx. 6,000 cum) and 898 road vehicles belonging to the distribution branches (total capacity of 6,600 cum).

Domestic transportation for exported products was primarily done by rail tankers.

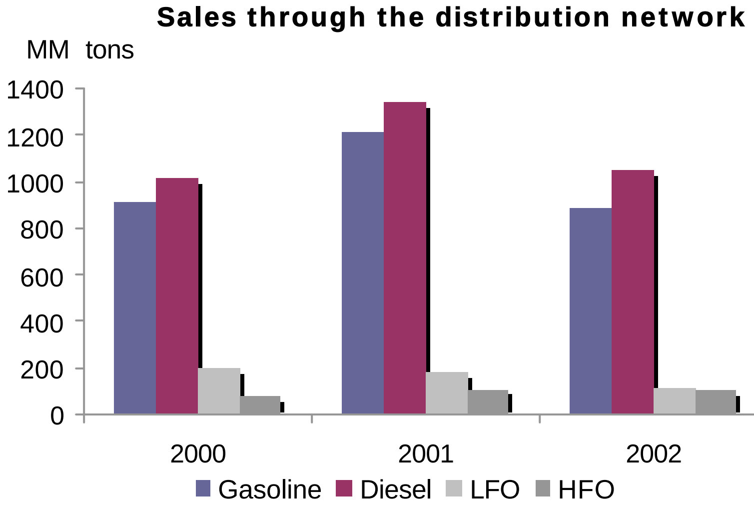
In the last period of the year, Ploiesti-Constanta diesel pipeline was employed for supplying Euro diesel to Oil Terminal Constanta.
In 2002, 663 thousands tons of petroleum products were transported by pipeline, out of which 69 thousands tons were intended for export. The Petrotrans pipelines transported 392 thousands tons, and 271 thousands tons were distributed through own pipelines.

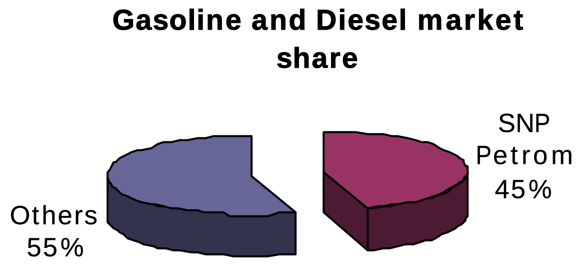




6.3 Sales Through the Distribution System

Out of the total petroleum product sales from the gate of the refinery gate, heavy fuel oil sales had a preponderance of 92%. Sales to Termoelectrica, the National Agency of State Reserves and CFR Marfa generated 57% of the revenues obtained by refineries on the domestic market.
93% gasoline domestic sales and 91% diesel domestic sales on the market were performed through Petrom's distribution network; the remaining sales were carried out at the refinery gate.



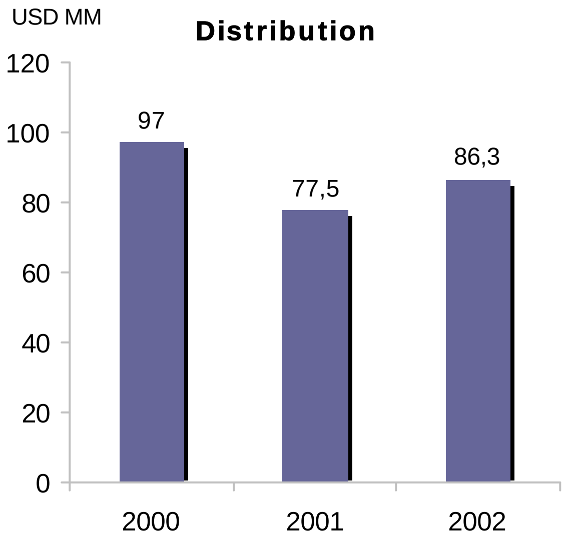


Note: Market share for Petrom's domestic sales

6.4 Capital Expenditures*

In 2002 the investments of the distribution sector were directed as follows:

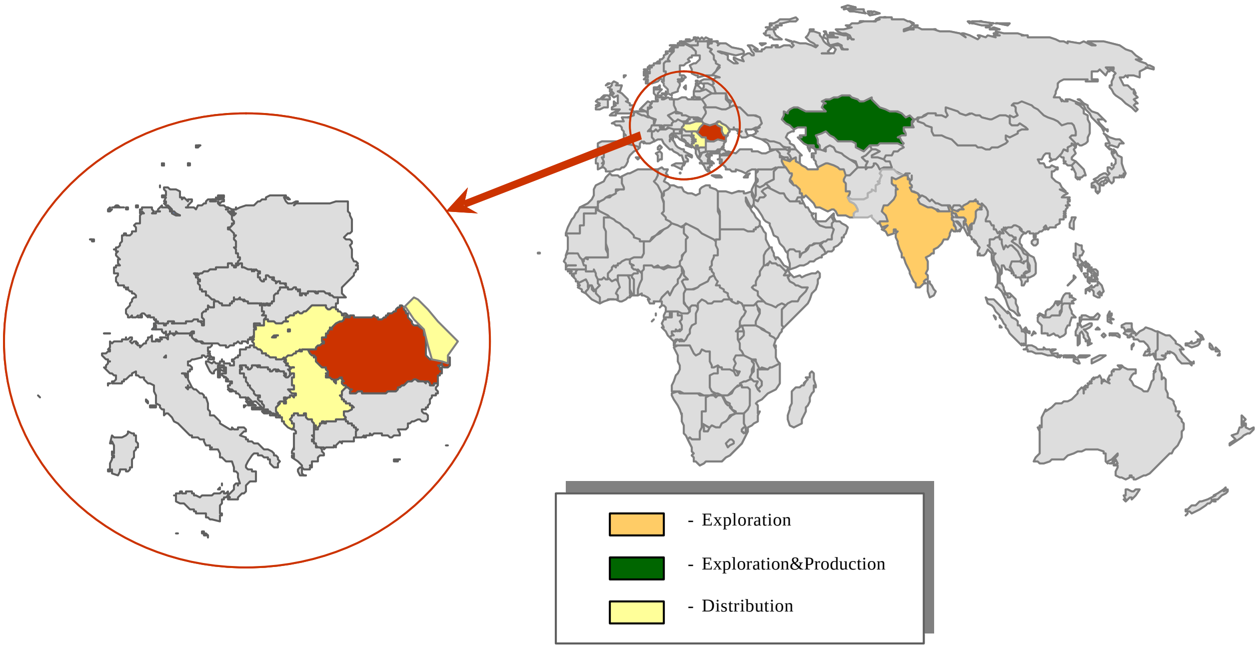
- revamping works for 48 stations and the construction of 8 new ones;
- 38 stations, out of which 8 new ones are in various execution stages;
- ecologic works for 7 storage facilities and revamping works for another 7 storage facilities;
- the acquisition of 7 distribution facilities from the private sector;
- The acquisition of 13 fields located in intense traffic areas for extending already existing stations and the construction of new ones.



* For capital expenditures in ROL current prices was used the average forex, as follows: 21,693 ROL/USD, 29,061 ROL/USD and 33,055 ROL/USD

7 International Activity

An important part of Petrom's strategy is extending its activity on the international market in terms of both E&P and distribution. Therefore, in 2002, Petrom has developed E&P operations in Kazakhstan, India and Iran, and distribution activities in the Republic of Moldova, Hungary, Serbia and Montenegro.



7.1 Exploration and Production

Kazakhstan

Petrom is present in Kazakhstan through its branch Petrom Kazakhstan, which develops E&P activities in Jusali Block, through the subsidiary Tasbulat Oil Corporation which is involved in Tasbulat, Aktas, and Turkmenoy Blocks, through Oztiurk Munai Subsidiary in Sinelnikovsoke Block and through KOM MUNAI Subsidiary in Komsomolskoe field.

7.1.1 Petrom Kazakhstan Branch

Petrom Kazakhstan Branch develops both E&P operations on the Jusali Block and service activities, being authorized by Petrom SA to implement the service contracts signed with Tasbulat Oil Company and Oztiurk Munai.

A. Exploration and Production

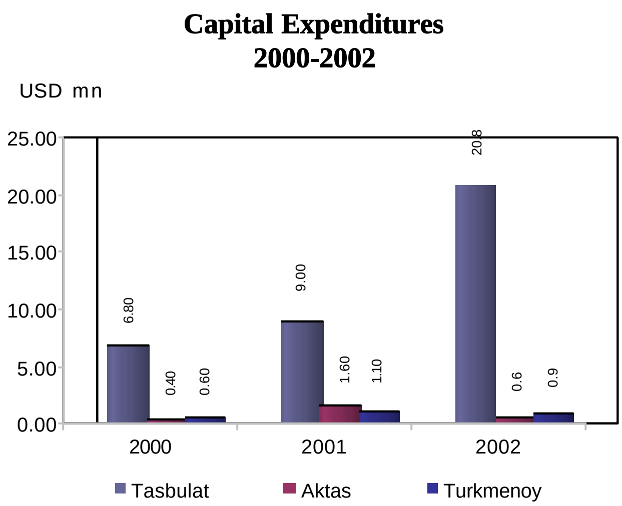
Jusali Block

In 1998 Petrom Kazakhstan Branch obtained the hydrocarbon exploration and production licence for Jusali Block and in 1999 the exploration and production agreement was signed between SNP Petrom SA and the Investment State Agency from the Republic of Kazakhstan. The contractual area is 28,640 km^2 and the validity term of the licence

extends over 25 years, out of which 5 plus 1 optional for exploration and 20 for production.
In 2002 the investment on Jusali Block doubled comparing to those of 2001.
In 2002 the works for 1 Rovnaia well were completed, achieving a final depth of 2,350 m, 450 km of seismic profile were acquired and the second exploration well, 10 Jiniskekum, was drilled with a depth of 1,800 m.
The minimum programme for 2003 requires investment in the amount of USD15.5 MM in order to finance seismic processing and interpretation, drilling of development 5 exploration wells, infrastructure and production testing.

7.1.2 Tasbulat Oil Corporation

In 1999 the sale and purchase contract was signed between Petrom SA as buyer, Lisburne Hodings LTD, as seller and Kazakhstan Mineral Corporation, for the entire stock of Tasbulat Oil Corporation LLC – BVI – UK, which owns in its turn the entire stock of TOC Kazakhstan. Petrom has thereby become owner of the licences for Tasbulat, Aktas and Turkmenoy fields, with development and production rights for Tasbulat field for a period of 25 years and with exploration, development and production rights in Aktas and Turkmenoy fields for a period of 20 years.



The minimum 5 year programme amounts to USD53 MM, out of which: Tasbulat – USD39.1 MM, Aktas – USD6.8 MM and Turkmenoy – USD7.2 mn.
In 2002, a number of objectives from the minimum programme were achieved: workovers, recommissioning, geophysical research and investigations for 16 wells, completion drilling for the 318 well, building and commissioning the oil gathering, separation, treatment and transportation unit, as well as a pipeline for oil pumping into the national network.
In 2003, investments in the amount of USD23.1 MM are planned, as crude production level of 160 thousands tons is expected to be reached and to generate revenues of USD17.8 MM.

7.1.3 Oztiurk Munai

In 2000, Petrom has initiated negotiations for the acquisition of 95% of the Oztiurk Munai Ltd stock, and in 2002 the company was registered in Kazakhstan with Petrom as main shareholder. At the end of 2000 Oztiurk Munai signed with the Investment Agency of the Republic of Kazakhstan a hydrocarbon exploration and production contract for Sinelnikovskoe Block.
Oztiurk Munai is under the obligation of completing the minimum exploration and infrastructure development programme for the Sinelnikovskoe Block as per the exploration and production agreement in the amount of USD17.5 MM during 5 years (2001-2005).
At present 1 exploration well were drilled on Sinelnikovskoe Block and two more are programmed in 2003.
In 2002 investigations were performed in the amount of USD4.6 MM, almost three times than that of 2001 when USD1.8 MM were spent. These amounts were directed towards the evaluation of some wells, for technical and economic studies, for designing and implementing of installations, for designing a separation, treatment and storage unit, for

acquiring an accomodation facility for personnel, as well as for leasing a drilling rig F 320-EC .
Also in 2002 drilling and workover licences were obtained for some wells.
In 2003, investments are planned in the amount of USD12.7 MM, 2.5 larger than those of the previous year, for various works necessary to optimize the activity.

7.1.4 TOO KOM – MUNAI

In December 2002, Petrom and TOO KOM – MUNAI signed an agreement in reference to purchasing 95% of the company's stock, and in March 2003 the sale and purchase contract was signed. The amount spent was of USD10 mn, and Petrom has thereby obtained the development and production rights for the Komsomolskoe Block. The minimum work programme for the Komsomolskoe Block requires USD 50.3MM and extends during 2003 - 2005. This acquisition was made subsequent to studying its opportunity and to a feasibility study with favourable results.
The development of the block implies drilling 27 new wells and reactivating another 8.
In 2003 total investments amount to USD21.5 MM, out of which USD12.5 MM are directed to the actual development of Komsomolskoe Block.

7.1.5 India

In 2001 Petrom opened a project office in Mumbai, India, with the purpose of representing the company on the Indian petroleum market for identifying new exploration and development projects.
In 2000, the company signed an agreement with Essar Oil Limited for collaborating at the exploration of the BB-OS/5 Block. Petrom currently owns a share of 51% as operator and with the obligation of covering the expenses II of exploration phase II in the amount of USD11 MM. On the basis of 2D seismic acquisition applied on 1,800 km and of drilling an exploration well, Petrom decided to retreat from the phase III of exploration and to close its office in Mumbai.

7.1.6 Iran

In 2001, Petrom Iran was opened in Teheran with the purpose of identifying the opportunities of cooperation with the Iranian companies or foreign companies operating on the local market and of promoting Petrom's interests in this country.
Prior to opening this office, Petrom had closed a drilling agreement with KCA Drilling Limited, as contractor alongside of CDIS. The agreement stipulated drilling and work over for the Fortuna and Orizont platforms performed by the contractor for the operator (Petroiran Development Company) in the Persian Golf. The duration of the contract is three years, with the possibility to extend the activity period with 80 days.
In 2002 the revenues reached USD30 MM, and the profit amounted to approx. USD2 MM.

7.2 Distribution

7.2.1 Republic of Moldova

ICS Petrom Moldova SA, whose sole shareholder is Petrom, was founded in 2000 and its activity registered a continuous increase in the three years that it has been operational.
ICS Petrom Moldova SA develops in the Republic of Moldova petroleum products distribution activities, by means of its own 3 distribution stations and of the 30 rented ones.

Petroleum products deliveries increased by 2.7 times compared to 2001, while sales increased by 3.4 times.

The market share of this subsidiary increased from 24% in 2001 to 28% in 2002, occupying the second place on the petroleum products market of the Republic of Moldova. This situation is due to the increase in the sales volume as a result of extending the distribution network in the Republic of Moldova.

As of the 1st of August 2002, the share capital of the subsidiary was increased by USD2 MM, reaching USD2.3 MM. This increase was the result of a direct investment.

The volume of Petrom Moldova investments for 2002 amounted to approx. USD7 MM.

In 2003, investments in the amount of USD15.9 MM are estimated for the acquisition of a new office building, for the construction and acquisition of distribution facilities, for the construction of one petroleum products storage facility and for the acquisition of 2 road tankers for petroleum products transportation.

7.2.2 Hungary

In July 1998, Petrom Hungaria Kft Subsidiary was founded, having as scope of work the distribution of petroleum products. In 2001, the share capital was increased by USD500,000, reaching the total amount of USD8,325,176.

The subsidiary currently owns two retail stations at Bekescsaba and Nagylak, and a petroleum products storage facility at Telekgerendas.

Revenues increased from USD1.7 MM in 2000, when only the Bekescsaba complex was operational, at approx. USD7 MM in 2002, while the gasoline and diesel sales exceeded 10 thousands tons.

In 2003, investments in the construction of retail stations were programmed in the amount of USD6.6 MM.

Petrom targets a share market of 3% in the following 5 years, by extending its distribution network in the rest of Hungarian territory and in Budapest.

7.2.3 Serbia and Montenegro

In 1999, DOO Petrom Yu Subsidiary, completely owned by Petrom, was founded with the purpose of developing petroleum products distribution activities.

The investment programme for 2003-2004 estimates the allocation of USD40 MM for developing a network of 20 distribution stations.

Petrom aims to achieve a market share of 5-10% in the following 5 years.

8 Human Resources

Petrom grants a great importance to its employees by means of its Human Resources Department. In 2002, this department continued the implementation of the human resources policy, which targets the improvement of communication with the employees and their higher motivation.

Personnel breakdown by field of activity, 1997-2002

Activity	1997	1998	1999	2000	2001	2002
E&P	62,329	61,492	49,132	49,384	49,611	34,013
Refining	13,460	12,645	13,936	13,544	13,161	11,797
Distribution	12,501	12,469	12,802	13,464	14,055	14,070
Transportation	1,766	1,736	1,676	1,612	535	579
TOTAL	90,056	88,342	77,546	78,012	77,362	60,459

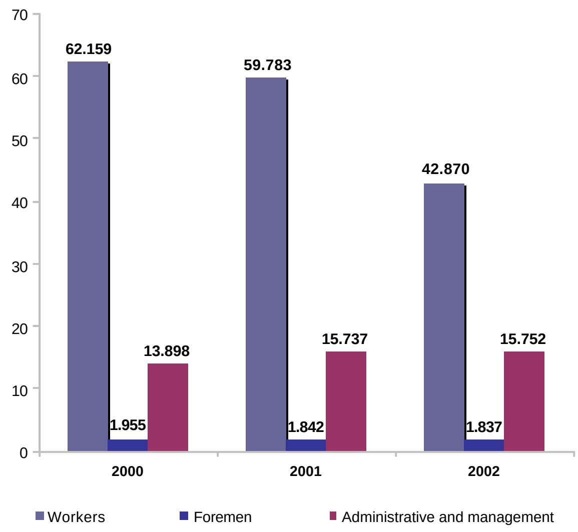
The evolution of personnel number by field of activity reflects an important decrease of the E&P personnel, which reached in 2002 almost half of the number in 1997, as a result of the collective lay-offs during 1998-1999, as well as of the restructuring of the mechanic and energy activities.

In refining, while in the period of 1997-2001 the number of employees varied around 13,000, in 2002 it registered the same reduction tendency determined by lay-offs in June and July in the sectors of crude and gas refining and petroleum products marketing.

In distribution, personnel number increased, reaching 14,070 persons in 2002, the highest ever registered in the sector, in the context of extending the distribution network.

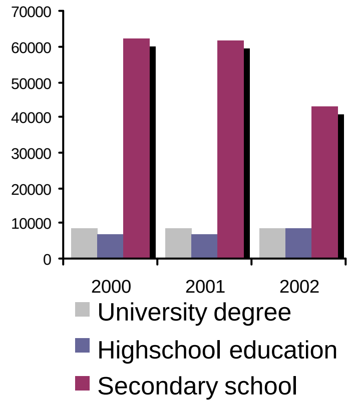
As for transportation activities, while the number of personnel has remained relatively constant in the first years, by the end of 2001 it dropped by 1,077 as the result of the Petrotrans branch spin-off into an independent company.

Petrom's employees, 2000-2002



In 2002 the various categories of employees have evolved differently. The number of workers was significantly reduced (28%) due to spin-offs, the numbers of foremen dropped little (0.3%), while the administrative and management personnel registered a very small increase (0.1%).

Petrom's employees educational level, 2000-2002



In terms of educational level, the secondary school personnel registered an important drop (30%) triggered by the above-mentioned spin-offs and lay-offs. The high-school education personnel increased by 1,843 persons, whereas the university degree personnel maintained relatively constant levels.

Personnel structure breakdown byemployment period groups, 2000-2002

Age groups, %	**2000**	**2001**	**2002**
under 30	20.7	20.8	22.3
between 30-40	34.5	34.5	39.5
between 40-50	32.1	32.4	29.8
between 50-60	12.5	12.1	8.25
over 60	0.2	0.2	0.05
Total personnel	100.0	100.0	100.0

The percentage of the personnel with ages under 40 years increased, whereas the age groups over 40 years are decreasing. This represents a positive aspect, since the personnel of the company is mainly young, dynamic and capable of rapidly adapting to changes in the external and internal environment of the company

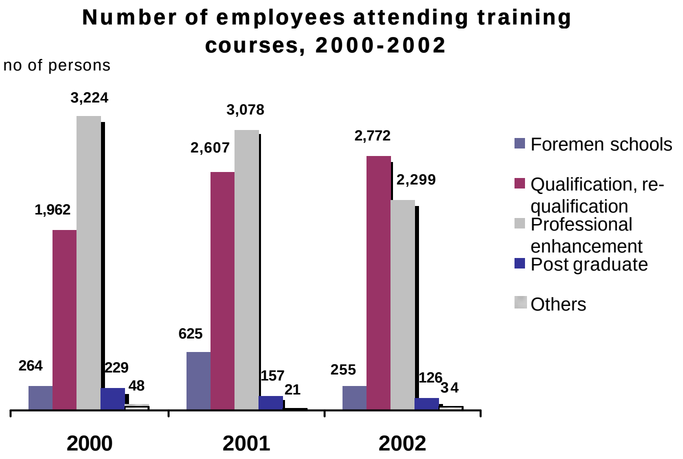
Personnel structure break down by employment period, 2000-2002

Length of service, %	**2000**	**2001**	**2002**
under 5	11.7	11.5	10.3
between 5-10	12.0	12.1	15.2
between 10-15	23.1	23.1	26.2
between 15-20	19.5	19.6	20.0
over 20	33.7	33.7	28.3
Total personnel	100.0	100.0	100.0

In 2002, the percentage of personnel with employment period under 5 years, as well as that over 20 was reduced.

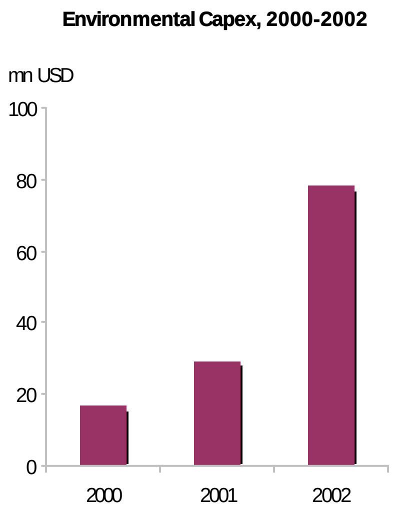
In Petrom, the professional training of the personnel is continuous and represents one of the major concerns of the Human Resources Department.

In 2000-2001 the training courses were prevaling, whereas in 2002 the qualification, re-qualification, authorization, crew chief courses recorded the highest number. These courses registered an ascending dynamics during the studied period - 41% more attendance in 2002 than in 2000. The number of attendants to the foremen courses kept constant except for 2001, when their number was 2.5 higher. Graduate programmes and others had different evolutions in the studied period, the numbers of attendants being smaller than those of the other categories.



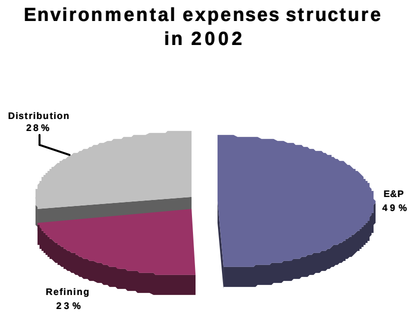
9 Environment, Health, Safety

9.1 Environmental Protection



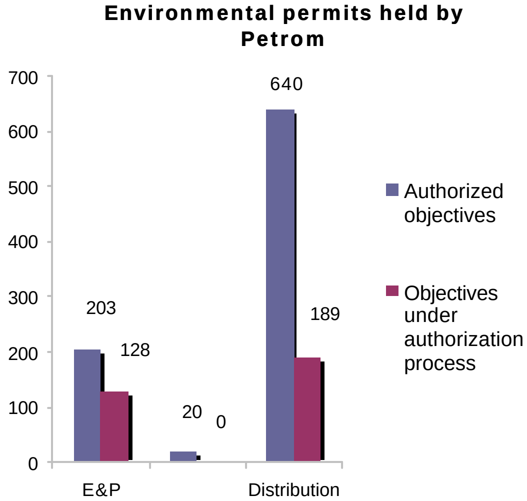
Environmental protection is a highly significant matter for Petrom's activity. In the context of the activity specificity, the risk of pollution runs high, and the company has the obligation of financing a series of investments to minimize the potential dangers.

The investments for 2002 in the amount of USD78 MM targeted all sectors of activity, starting with exploration and production and ending with distribution.



These investments (49%) were predominantly directed towards exploration and production sector since in 2002 a series of investments were made in terms of air and land pollution prevention, of balancing corrosion phenomena and of other auxiliary activities which targeted the improvement of the quality of life and natural environment. Investments in refining and distribution are approximately equal as size, but very different in terms of destination. Therefore, in the refining sector investments concentrated on residual water treatment systems and gas emission reduction. The investments made at Arpechim Pitesti amounted to USD11.3 MM and those at Petrobrazi Ploiesti to USD5.9 MM, while at Doljchim Craiova USD0.6 MM were invested. In distribution sector, station revamping was focused on receiving USD21.9 MM, in order to achieve compliance with the current international standards.

As per the current environmental legislation, Petrom must obtain environmental permits for all its objectives.



In 2002, a few environmental incidents have occurred: accidental pipeline breaches, condensate substances and product thefts, blow-outs, pipeline cracking or tankers tipping over. The negative effects of these accidents were apparent mainly on the land and water, their remedy implying a financial effort of Petrom.

In order to reduce the occurrence and impact of these incidents, investments of considerable size were allotted in this field. The 2003 environmental investments amount to USD 99M*.

The increasing volume of these investments stands proof for the continuous preoccupation of the company for ensuring a high level quality of

* The exchange rate used was of ROL 33,500 according to the Revenues and Expenses Budget for 2003

the life of its employees, of the community and surrounding environment.

9.2 Health

The employees and clients health and the public health in general, represent constant preoccupations of the company.
In order to protect the health of its employees, the company founded a series of medical units in the entire country with the purpose of ensuring the medical assistance to its personnel. These medical units monitor the health of the employees, who must submit themselves to periodical medical check-ups and annual blood tests. The personnel which works in rather polluted environments, refineries especially, is undergoing a larger number of annual medical check-ups, with the purpose of preventing advance degrees of illness which would permanently affect the health of the employees.
Petrom S.A. has a hospital in Videle, 36 medical units, a medical-sanitary office, specialized medical units with 616 medical staff. The equipment is highly efficient, the medical staff is highly trained and experienced, and assists the personnel from a certain area where the company develops exploration, production and distribution activities. The two refineries and the chemical fertiliser plant Doljchim Craiova have separate medical units.
Based on the outstanding medical personnel, a ratio that reflects the number of medical staff per 1,000 employees can be calculated. The proportion is of 10 to 1,000 persons, thusly highlighting the preoccupation of the company for the health of its employees.
Public safety is also a priority of the company, and therefore Petrom always develops feasibility studies on the matter of the impact of objective developments on the exposed community.
Petrom acts in compliance with the standards imposed by the public health legislation.

9.3 Safety

Another important aspect for Petrom policy is ensuring the safety of its employees. Thus a series of annual research inquiries are developed with the purpose of reducing the operational risks upon the employees involved in the production process. This research targets measures to prevent labour accidents, as well as containing their effects, if that is the case.

In 2002, the company has registered 102 labour accidents, in comparison to those 109 of 2001, and their investigation was conducted in compliance with Law No. 90/1996 - republished - and the Appendix to this law, "Methodological Standards in reference to notifying, investigating, reporting and monitoring labour accidents".

The main causes of these accidents are poorly conducting labour operations, failure to comply with safety measures, errors in planning operations, objects that fall accidentally, etc. In 2002, the frequency rate (number of accidents per 1 million hours of work) was 0.84, compared to 0.71 in 2001. The increase of this ratio was mainly determined by significantly reducing personnel number, which did not have the same magnitude as the number of accidents.

In terms of the safety permits in compliance with the current safety legislation, permits have been obtained for Petrom's headquarters, for secondary units and for branches (90 units). The exception is constituted by Petrom Suplac, Petrobrazi and CCPEG for which the authorization documentation has been submitted by Petrom Craiova – Doljchim plant, which was authorized in 1984 (the documentation for renewal of the authorization is being drafted), and by Transpeco branch which is partially authorized. Also, 17 distribution facilities owned by the Peco branches were revamped and, since the initial conditions and configurations were modified, the necessary documentation for authorization was submitted.
In future, Petrom aims a closer monitorization of dangerous equipment and an intensification of safety courses attended by a larger number of employees.

9.4 Environment, Health and Safety Training Programmes

In 2002, Petrom developed a series of training programmes organized by the National Institute for Safety Research & Development (INCDPM), as well as by the Training Centre of ICPT Campina, one of Petrom's branches. Thus, 21 persons have attended the INCDPM courses, and 22 employees those held at ICPT, all being responsible with environmental protection, safety and health issues.

These training programmes were developed in compliance with Law No. 90/1996, and comprised the following topics:

- Specific health and safety regulations;
- Identification and prevention of risk factors;
- Risk evaluation;
- Work safety;
- Work safety and health management.

Courses in reference to emergency intervention in the case of environmental accidents, a few simulations of possible oil spilling accidents being organized and their damage upon the environment being assessed (air and water pollution, etc.). These exercises targeted pollution prevention, control and diminution as well as the necessary measures.

Also in 2002, the people responsible with environmental issues from Petrom branches attended training courses organized by the Work inspection/Work Territorial Inspectorate Bucharest, National Institute for Safety Research - Development Bucharest (INCDPM)/ The University of Petrosani and the Fire Prevention Stations.

9.5 Social Responsibility

One of the most important strategic issues of the company is the social responsibility. The company consequently organises charities and sponsorships, participates in environmental projects and grants support to cultural and sport events.

Petrom was actively involved in charities for disadvantaged children and not only. Therefore, the company initiated in 2001 a programm named "Child Heart", supported by the Ministry of Industry and Resources, the Ministry of Public Information, through which disadvantaged children receive financial aid or otherwise for the organization of different touristic trips in Romania. Another large project has been currently initiated with the participation of the company and aims at raising public awareness on the issue of handicapped or orphan children, of humanitarianism and on ensuring a permanent educational programme for these children.

In 2002, on Easter and Christmas, Petrom SA granted support to the underprivileged by offering traditional gifts to institutionalized children and to senior citizens in asylums.
The 1st of June - Child's Day - brought another opportunity for the company to get involved in humanitarian actions. The Public Relation Division organized such an event at the Globus Circus, offering gifts of sweets, clothing and toys to children with special needs. Petrom has sponsored the circus show presented on that day.

On the matter of the sport activities, Petrom has been continuously involved in sponsoring various sports disciplines from volleyball to tennis. Petrom SA supports the following teams: "Petrolul Ploiesti" football team and another 23 teams from B and C leagues, the masculine volleyball team of "Petrom Ploiesti", champion of Romania, and the feminine volleyball team of "RATB Petrom Bucuresti", the masculine basketball team "BC West Petrom Arad", champion of Romania, "Petrom Elba Timisoara", and the feminine basketball team "LIVAS Petrom Targoviste".

In 2002, the collaboration with the sport events organizers was continued: "The great Confrontation Doroftei-Balbi", "Judo World Masters", the participation of the kayak team to the University Championship of Italy, support of the Romanian Rugby Federation which facilitated the promotion of the Romanian team for the World Championship, Romanian Rally, 36th Edition, The International Tennis Championship - OPEN Tennis, and Challenger Brasov.

In addition to sport events, Petrom takes part in a series of cultural events like sponsoring conferences on different topics, concerts, etc.

In 2002, Petrom joined the sponsors of four major cultural events: Toamna Simfonic – Tudor Gheorghe, Medieval Festival of Sighisoara, Johann Strauss International Festival and "Child Heart" Humanitarian Concert–Second Edition.

At the beginning of September - Petroleum Day - Petrom was the initiator of a series of concerts, organized by the Public Relations Division as „PETROM Anniversary Tour”, in two major cities which are also centres of petroleum activities. The shows attracted a large number of people, especially the youngsters.

10 Research and Development

Research and development activities aim at introducing the latest innovations in terms of production technologies, of modernizing existing technologies, products and services, determining an increase in efficiency.

Exploration and Production

These activities develop at the Research and Design Centre for Geological Explorations (CCPEG) and at the Institute for Research and Technological Design (ICPT), and target the discovery of crude reserves and resources, and the increase of crude fields by applying IOR and EOR techniques.

CCPEG Bucharest develops research subordinated to the following:

- studying the characteristics of the sedimentary basins;
- elaborating new investigation, interpretation and exploration methodologies;
- evaluating the hydrocarbon potential of various exploration blocks;
- fundamenting and designing exploration works in blocks, etc.

The research integrates biostratigraphical, sedimentological, geochemical data, resulting in integrated studies targeting the reconstruction of the evolution of some major geological units and the areas with high potential for containing gases located in the country and abroad.

In addition to high skills, the researchers have advanced softs and simulators, techniques of team work etc., which allows approaching high complexity studies.

ICPT Campina develops research subordinated to the following:

- studying the characteristics of the sedimentary basins;
- elaborating an optimal production strategy for maximizing the reserves, as well as the petroleum production and a strategy for minimizing the production and the development costs;
- extending the use of water injection and of EOR techniques, especially in situ combustion and steam injection;
- improving sand control techniques, stimulation of the formation flow, the blockage of water sources etc, techniques for well improvement and well life extension;
- synthesizing and producing chemical agents used in the treatment of fluids, stimulating productive formations and sand control, corrosion protection and polluted soil treatment, etc.
- formulating technologies, equipment and products for crude and gas treatment and processing and for preparing the injected fluids, etc.

Production feasibility studies are performed in an integrated system by complex teams and highly skilled researchers equipped with advanced softs and simulators. The focus is set on improving reservoirs studies, on modelling the state of saturation, on identifying

and modelling the active displacement mechanisms, on maximizing the flooding efficiency, on identifying additional reserves by means of new wells, and/or on improving the production strategy.
The institute has high-tech laboratories for drill core analyses, for PVT analyses, for fluid analyses etc., as well as for environmental protection which can involve high complexity studies.
The institute incorporates a training centre which insures the periodical technical training of the operating personnel. The courses are framed by rigorously fundamented programmes and are conducted by highly trained lecturers.

Refining

The research conducted at INCERP Ploiesti in 2002 consisted in studies elaborated in compliance with the Agreement signed with Petrom and self-funded studies for beneficiaries outside Petrom and studies stipulated in the contract signed with the National Agency for Science, Technology and Innovation.
In addition to research, the company also developed a micro production on the basis of own technologies: industrial waxes with various uses, dye diluents, molecular sieves, vacuum oils, antifreeze liquid, etc. Also various petroleum product testing services have been provided for Petrom or for third parties.

11 IT Activity

11.1 Organization

IT and Communication activities are developed in Petrom through:

- Petrosoft Branch in Bucharest which is specialized in IT and Communications, with the following activities:
  - designing, developing, integrating, personalizing and implementing information products,
  - technical maintenance and assistance for own or other products;
  - operating the independent telecommunications network (WAN) and managing Petrom computer network, supplying specific services (e-mail, ftp, web) for headquarters and branches;
  - installing, repairing and executing of up-grades for own and Petrom’s equipment;
  - Elaborating studies and projects for technological design, for satisfactorily equipping the branches, training the specialized personnel and the users;
- The IT department at Arpechim Pitesti and the specialized division at Petrobrazi, with responsibilities only for that unit.
- Own informational services for all branches, responsible for managing the local networks and providing technical assistance to final users.

11.2 Resources

The resources of the IT&C activity consist in personnel and technical equipment. In terms of personnel, 325 university graduates are involved in maintaining equipment as well as Petrom's entire intranet network operational.
The IT technical equipment of the company comprises the following equipment:

- 175 servers (Bull Express 5800; IBM – AS400; SUN; COMPAQ etc);
- 2,450 PCs (working stations);
- 1,270 printers, scanners, digitizers, other peripherals;
- 125 routers, 200 modems, bridges, hubs and other equipment necessary connecting the computers to the rest of the network.

Since the total personnel number as of December 31, 2002 was 60,459, one could conclude that each 25 persons have access to one computer. The number of persons per computer is rather large; however 70% of total personnel are workers.

11.3 IT Applications

Petrom makes use of a series of IT programmes which ensure the development of daily activities. These informational applications target the following fields:

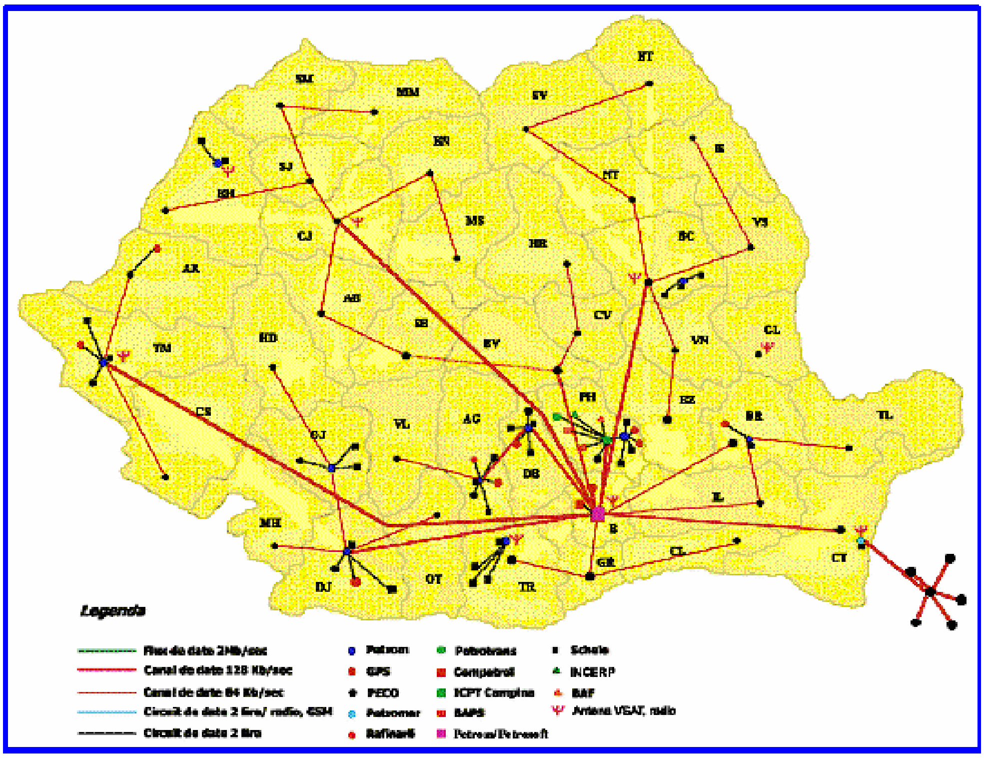
- Crude and gas production;
- Crude refining;
- Petroleum products transportation and distribution;
- Well drilling;
- Geology;
- Mecano-energetics – transports;
- Finance-accounting-costs;
- Human resources and pay roll;
- Forecast, planning, specific indicators tracking;
- Supplies, distribution, storage.

A project which targets easier information proliferation and centralization necessary in elaborating accurate analyses of the company's business is currently underway. All these analyses represent starting points for a more efficient decision process of the top management and not only.
The project considers the implementation of a Management Informational System with OLAP technology using ORACLE and Oracle Express instruments for data development and storage. This application is conceived from the scorecard principle and allows monitoring and analyzing indicators which describe the following activities:

- exploration and production;
- distribution;
- transportation;
- refining;
- petrochemicals.

Also, the application is conceived for allowing the analysis of ratios from other areas (headquarters and external) and for integrating the revenues and expenses figures at corporate level.
This project targets the improvement of the intranet network by ensuring a permanent connection with all Petrom units in the country.

Petrom’s intranet network



The new system integrates all necessary instruments for planning and controlling financial and accounting operations, human resources management, transportation and informational activities. The system includes equipment and services necessary to back up the infrastructure.

The objectives of this project consider the optimization of communication within the company structure, a better administration of data and activity control, planning improvement, cost reduction and ensuring the future development of the company.

The implementation of this Integrated Informational System generates competitive advantages for management. The following are among the immediate advantages: a better understanding of the objectives, an efficient identification of the priorities, a superior comparison perspective and a better structure of the information related to the decision and analysis process. Furthermore, a series of technical and economic benefits can be obtained: access to high quality information from all sectors of activity, superior operational efficiency, lower costs and a higher profitability.

The value of the contract is USD40,842,480 plus VAT, with a 57 months validity.

Another outstanding project is EMSYS, an integrated information system for the E&P activity. This system covers large area of activities, such as: financial accounting, analytical accounting, management accounting, clients-suppliers management, personnel-payroll, intangibles and economic and financial analysis.

In 2002, Petrosoft developed a series of applications, as follows:

- GEOLOG –information system for monitoring the geological activity from wells;
- Sinfor 2000 – information system for Petrom and branches drilling activity management;
- Crude oil production data base– data monitoring;
- Natural gas production data base;
- Geographical information system for production activity monitoring – technological capacities and monitoring;
- The analysis of technological processes from production activity for SCADA system development and implementation;
- Data base for Petrom’s research activity;

- The usage of bar code readers in products, materials and spare parts delivery management;
- Data base for oil, condensate, light condensate, liquid ethane delivery and billing;
- The development of the application which monitors the achievement of investment objectives;
- Information system for monitoring production indicators and economic and financial analysis from refining and petrochemical activity;
- WEB application for the maintenance of the information regarding Petrom's distribution facilities and petroleum products prices;
- Smart cards usage in petroleum product delivery management;
- Information system for the monitoring of E&P specific indicators;
- Information system for external agreements management;
- Transmission and management system from Tasbulat field to Kazakshtan branch.

12 Financial Review

12.1 IFRS Financial Statements[*]

12.1.1Financial highlights

- Petrom's financial statements at 31 December, 2002 showed an operating profit of ROL3,077 B, an income before tax of ROL2,318 B while the net profit from continuing operations amounted to ROL77 B.

- The deterioration of the operating profit, EBIT and EBITDA margins is attributed mainly to the substantial price increase of crude oil and products purchased which increased costs by around 4 percentage points, as a percentage of sales.

Profit statistics, ROL B	**Year ended 31 December**		
	2002	**2001**	**2000**
Net profit before financial loss and loss on net monetary position	3,077	4,342	682
Profit before income tax	2,318	4,642	2,718
Net (loss)/profit	-141	624	10,324
Net profit from continuing operations	77	2,153	10,324

- Net cash provided by operating activities was ROL16,169 B, representing an increase of 25% in 2002, used for financing the capital expenditure and loan repayment. Changes in working capital contributed ROL1,856 B to the increase in operating cash flow.

[*] * - The figures for 2000 and 2001 are restated in terms of measuring unit current at December 31, 2002.

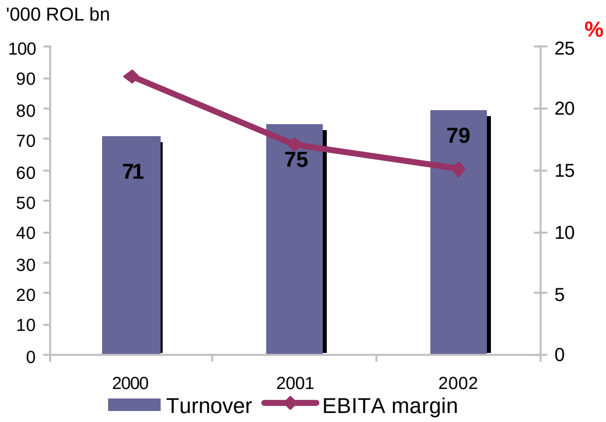
Key operating statistics	Year ended 31 December		
	2002	2001	2000
Revenues growth %	7.5	1.8	
Operating profit margin %	4.0	6.0	1.0
EBIT margin %	3.7	6.7	4.4
EBITDA margin %	15.4	20.5	23.3
Net profit/(loss) margin %	-0.2	0.9	14.5
Net profit/(loss) from continuing operations margin %	0.1	3.0	11.4

12.1.2 Revenues

- Sales and other operating revenues for the year ended 31 December 2002 increased by around 7.5% compared to 2001, due to an increase in the revenues of the Refining and Petrochemicals sector.

- Revenues of the Hydrocarbon Exploration and Production sector decreased by 11% which is in line with the decrease in quantities of crude oil sold in 2002 compared to 2001

- Revenues of the Wholesale and Retail Distribution sector decreased by around 8.9% during the same period. The decrease in revenues from the sale of refined petroleum products via the Retail and Wholesale Distribution sector is attributed to the increase in exports, which created temporary shortages in the Company's distribution branches, thereby inhibiting domestic sales of refined petroleum products. Another reason was the increase in Petrom's pump prices during 2002 which further deterred domestic sales of refined petroleum products. The decrease in sales of the Wholesale and Retail Distribution Sector is reflected by the fall of the Company's market share of gasoline and diesel sales.



- Revenues from the transportation activities of the Company decreased by around 25% due to the spin-off of Petrotrans at the beginning of 2002.

- Revenues of the Refining and Petrochemicals sector increased by 4.7% as a result of a significant increase in exports of refined petroleum products and petrochemicals. Exports of refined petroleum products have increased significantly in 2001 and 2002. In 2001 exports increased by around 247% compared to 2000 and in 2002 by 232% compared to the prior year. Customers as Glencore, Kronos and Vitol accounted for 98% of the total exports of refined petroleum products in 2002.

12.1.3 Expenses

- Crude oil and products purchased in 2002 increased by approximately 25.6% (by around 4 percentage points, as a percentage of sales). This increase is mainly attributed to the combined effect of an increase of quantities of crude oil imported and an increase of the international prices for crude oil during 2002.

Expenses as % of sales	**Year ended 31 December**		
	2002	**2001**	**2000**
Crude oil and products purchased	28.3	24.2	20.5
Operating expenses	36.3	36.6	35.1
SG&A	9.1	11.6	8.3
Exploration expenses	1.8	3.7	2.3
Provisions, net	0.9	1.1	0.7
Taxes and duties	6.7	9.3	9.5
Other expenses	2.0	1.6	11.3

- Operating expenses in 2002 increased by around 6.5% but remained unchanged as a percentage of sales, at about 36%. An analysis of the operating expenses by elements (utilities, salaries, materials, transportation, maintenance) cannot be performed as the method of allocation of this cost elements to operating xpenses and SG&A in the last two years. Even though, the net effect is to show operating expenses net of capitalised costs, this presentation further limits a meaningful fluctuation analysis of the various expense categories comprising operating expenses. As a general comment, all categories decreased both in real terms and as a percentage of sales with the exception of utilities cost, maintenance cost and transportation cost. The increase of utilities cost was determined by the increase in utility tariffs, incurred mostly in Refining and Petrochemicals sector. Repair and maintenance cost growth was related mainly to the spin-off of Petroserv branch, as many of the costs relating to Petroserv which were previously included in the various operating expense categories (like materials, spare parts, salary costs) appeared in 2002 as "services rendered to third parties" under maintenance costs (included in operating expenses and SG&A). Transportation costs went up due to an increase of crude oil imports and petroleum product exports, as well as of the transportation tariffs. The spin-off of Petroserv and Petrotrans branches determined a reduction of operating staff costs by 20%. Again, the spin-off of Petroserv had a significant impact on the cost with materials (the operating portion) bringing them down by 45%.

- Selling, general and administration expenses ("SG&A") in 2002 decreased by around 16% (two percentage points, as a percentage of sales) compared to 2001. The same comment as is the case of the operating expenses, regarding the changes in the method used for the allocation of various costs from operating expenses to SG&A during 2001 and 2002 applies also here.

- Depreciation and amortisation expense decreased by approximately 9%, with Distribution sector accounting for almost half of the change.

- Provisions in 2002 decreased by 11.5% compared to 2001 (by 0.2%, as a percentage of sales) as a result of the variance of the provisions for litigation and of addition of reserves for other receivables.

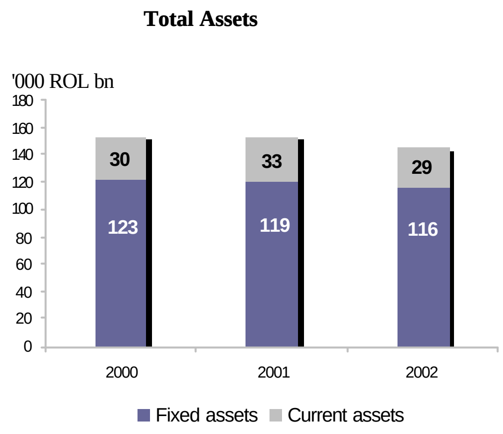
- Taxes and duties in 2002 decreased by approximately 22% compared to 2001 mainly due to a decrease of the royalty taxes (related to the slight decrease of the crude production) and the exploitation taxes (eliminated beginning November 2002).

- Interest expense and similar expenses increased substantially mainly due to the accrual of interest and foreign exchange losses related to the EUR 125 million Eurobonds issue in October 2001 and the new loans obtained from EBRD (USD28 million drawn as of 31 December 2002) and from the Black Sea Trade and Development Bank (USD2 MM drawn as of 31 December 2002), to a lesser degree. The coupon for the Eurobonds is 11.6% (effective interest rate 12.1%).

- Income tax expense decreased from ROL4,018 B in 2001 to ROL2,459 B in 2002. For 2002 the current income tax was ROL1,091 B, reducing from ROL2,023 B in 2001. The applicable tax rate was of 25% for years onwards 2000. Income tax for export operations increased from 5% in 2000 and 2001 to 6% in 2002.

12.1.4 Assets

The total assets increased by ROL274 B, to ROL152,702 bn as a result of a 4% increase in tangible assets and an upswing in long term receivables partly offset by a reduction by 26% of the intangible assets and by 10% of the current assets (mainly inventories and accounts receivable). The increase in long term receivables from ROL970 B in 2001 to ROL3,124B in 2002 is related to the loans granted by Petrom to its subsidiaries in Moldova and Kazakhstan as well as to the rescheduling of receivables from RAFO Onesti. The increase in tangible assets from ROL106,226 B in 2001 to ROL110,079 bn in 2002 is the result of the increase by 5% in property, plant and equipment from ROL90,352 B to ROL94,462 B and the increase in land by 6% from ROL2,780 B to ROL2,959 B. The reduction of intangible assets is due to the decrease in intangible drilling costs by 31% from ROL9.482 B in 2001 to ROL7.016 B in 2002 as a result of the transfers to tangible assets in the amount of ROL4,972 B. This item represents mainly transfers of intangible drilling costs to oil and gas producing properties upon commencement of production.



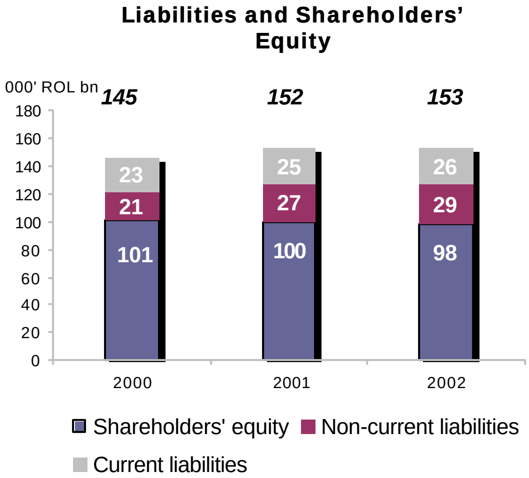
Total assets by segment, ROL bn	Year ended 31 December		
	2002	2001	2000
Production	151,516	143,339	127,748
Refining	19,894	19,148	7,072
Transport	365	(401)	1,388
Distribution	9,373	9,603	13,102
Inter-sector elimination	(28,446)	(21,180)	(4,095)
Discontinued operations	-	1,919	-

The assets increased in all the sectors, except for the distribution sector which recorded a 2% decrease in 2002 compared to 2001.

12.1.5Liabilities and Shareholders' Equity

In 2002 compared to 2001, the total liabilities increased by 5.3% from ROL51,976 B to ROL54,743 B, due to an increase of 7.3% in non-current liabilities and an increase of 3.1% in current liabilities.

In 2002, non-current liabilities amounted to ROL29,158 B, both deferred tax liabilities and non-current portion of long-term liabilities recording increases of 6.8% and 8.9% respectively. The increase in deferred taxes was mainly due to the adjustments for non-current assets and of the reversal of geological data, while the non-current portion of long-term liabilities increased as a result of the new loans from EBRD and Black Sea Trade Bank.



The current liabilities increased from ROL24,806 B in 2002 to ROL25,585 B in 2001, mainly due to higher levels of short-term debt and accounts payable. Short–term debt increased by 15.5% from ROL3,281 B to ROL3,790 B as a result of new short-term loans, the most important of them being the USD25 MM credit facility, concluded with Raiffeisen. In 2002 compared to 2001, the accounts payable recorded an increase of 13.4% from ROL9,011 B to ROL10,221 B, due to the increase of suppliers by 14.6%.

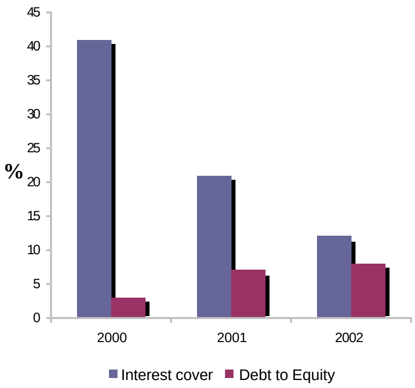
Total shareholders' equity decreased by 2.5% from ROL100,452 B in 2001 to ROL97,959 B in 2002 as a result of a reduction in share capital by ROL2,379 B mainly due to the spinning-off of Petrotrans branch.

12.1.6 Key Balance Sheet Ratios

	2002	2001	2000
Return on investment ratios			
ROCE (with EBIT)	2.7%	4.5%	3.0%
ROCE (with EBITDA)	11.3%	13.8%	16.0%
ROE	-0.1%	0.6%	10.2%
ROA	-0.1%	0.4%	7.1%
Financing Ratios			
Debt to EBIT	2.7	1.5	0.9
Debt to EBITDA	0.7	0.5	0.2
Debt to Equity	8%	7%	3%
Interest cover	11.8	20.8	40.9
Liquidity Ratios			
Current Ratio	1.2	1.4	1.2
Quick ratio	0.6	0.8	0.7
Stock days (crude oil and other oil products)	158	206	214
Trade Debtors' days	46	58	61
Adjusted Trade Debtors' days	61	73	82
Trade Creditors' days	85	92	98
Cash conversion cycle (days)	119	171	177

- All return on investment ratios declined slightly as a result of the reduction in the profitability of the Company in year 2001 and the sliding into a loss position for the year 2002.

Financing ratios

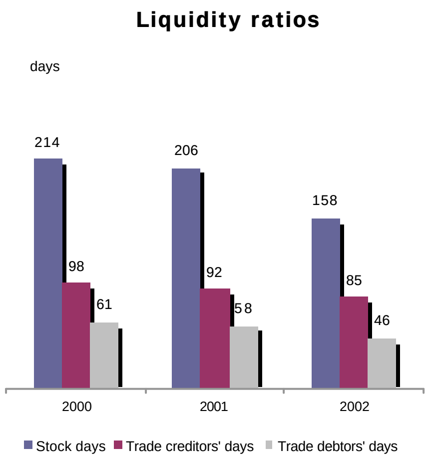


- Both ROCE ratios, calculated as EBITDA and EBIT to capital employed declined by 2.5% and 1.8%, respectively during the year 2002 as compared to year 2001.

- As a result of the EUR 125 million Eurobonds issue late in year 2001 and the new loans obtained from EBRD (USD28 MM drawn as of 31 December 2002) and from the Black Sea Trade and Development Bank (USD2 MM drawn as of 31 December 2002) all financing ratios show an increase during the year 2002.

- The interest cover ratio almost halved during the year 2001, a trend which also continued during the year 2002.

- Petrom has faced high interest rates, as the credit rating was assessed based on Romanian sovereign debt. Since October 2002, Petrom's rating is no longer capped by the one for the sovereign.

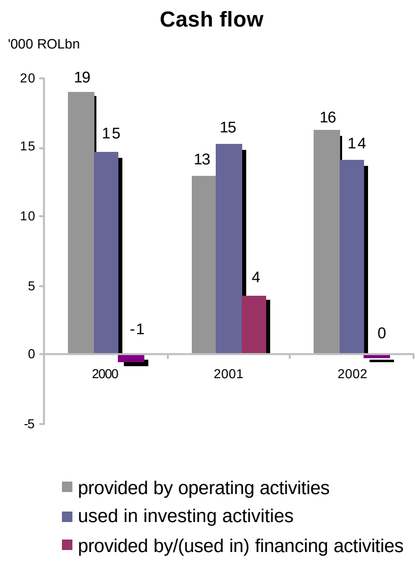


- Liquidity and working capital ratios were not significantly different in 2002 compared to 2001.

- During the year 2002 the current and quick ratios showed deterioration as compared to the prior two years by approx. 13% and 16%, respectively.

- As a result of the significant increase of the cost of crude oil and other petroleum products consumed during the year 2002 and the small decrease (by 4%) in the value of crude oil inventory as of 31 December 2002, as compared to 31 December 2001, stock days show a large decrease, i.e. 48 days, in 2002.

- Trade creditors' days decreased during the year 2002 by approx. 7% as compared to the year 2001), mainly as a result of the increase by 25% of the cost of materials (including crude oil and petroleum products) and despite the small increase (by 15%) in suppliers as of 31 December 2002, as compared to 31 December 2001.



- Trade debtors' days show a decrease during the year 2002 as a result of the combined effect of a decrease in the level of current accounts receivable and the increased provision for bad and doubtful debtors.

- The adjusted trade debtors' days, calculated by excluding the provision for doubtful debtors, the effects of discounting per IAS 39 application and including the long term trade receivables, were significantly higher than the non adjusted ratios in all three years under review.

- In 2002, new cash from operating activities covered the net cash from investment activities, which represents an improvement of company's situation compared to 2001.

12.1.7Balance Sheet Statement

ROLol B	Year ended 31 December		
	2002	**2001**	**2000**
Assets			
Intangible assets	7,016	9,482	9,379
Tangible assets	110,079	106,226	104,394
Long-term investm ents	2,420	2,301	2,085
Long-term receivables	3,124	970	416
Total non-current assets	**122,639**	**118,979**	**116,274**
Inventories	13,129	14,333	11,054
Accounts receivable	9,849	11,884	11,901
Other receivables	1,738	1,399	2,238
Short-term investments	87	68	32
Cash	5,260	5,765	3,822
Total current assets	**30,063**	**33,449**	**29,047**
Total assets	**152,702**	**152,428**	**145,321**
Shareholders' equity and liabilities			
Share capital	150,483	152,862	152,861
Accumulated deficit	-52,524	-52,410	-51,456
Total shareholders' equity	**97,959**	**100,452**	**101,405**
Deferred tax liabilities	21,605	20,237	18,242
Non-current portion of long-term liabilities	7,553	6,933	2,291
Total non-current liabilities	**29,158**	**27,170**	**20,533**
Short-term debt	3,790	3,281	2,449
Accounts payable	10,221	9,011	8,250
Amounts due to the Government	6,193	7,327	7,947
Accruals and provisions	2,712	3,400	3,840
Other liabilities	2,669	1,787	897
Total current liabilities	**25,585**	**24,806**	**23,383**
Total shareholders' equity and liabilities	**152,702**	**152,428**	**145,321**

12.1.8 Profit and Loss Statement

ROL B	Year ended 31 December		
	2002	**2001**	**2000**
Revenues			
Sales and other operating revenues	77,664	72,275	70,994
Other revenues	1,267	2,754	312
Total revenues	**78,931**	**75,029**	**71,306**
Expenses			
Crude oil and products consumed	-21,965	-17,487	-14,548
Operating expenses	-28,199	-26,471	-24,913
Adjustment to production costs	-672	3,082	5,057
Selling, general and administrative	-7,033	-8,391	-5,898
Depletion, depreciation and amortization	-9,086	-9,985	-13,435
Exploration expenses, including dry holes	-1,414	-2,642	-1,615
Provisions, net	-723	-817	-504
Taxes and duties	-5,225	-6,709	-6,736
Other expenses	-1,537	-1,267	-8,032
Total expenses	**-75,854**	**-70,687**	**-70,624**
Net profit before financial loss and loss on net monetary position	**3,077**	**4,342**	**682**
Net financial loss	-1,956	-237	596
Share of profits and losses of subsidiaries and associates	-222	-71	-
Net (loss)/profit before gain on net monetary position and income tax	**899**	**4,034**	**1,278**
Gain on net monetary position	1,419	608	1,440
Profit before income tax	**2,318**	**4,642**	**2,718**
Income tax expense	-2,459	-4,018	-2,047
Extraordinary item, net of tax	-	-	9,653
Net (loss)/profit	**-141**	**624**	**10,324**
Net loss from discontinued operations	-218	-1,529	0
Net profit from continuing operations	**77**	**2,153**	**10,324**
Basic (Loss)/Earnings per share	**-3.73**	**16.13**	**262.52**

12.1.9Cash Flow Statement

ROL B	Year ended 31 December		
	2002	**2001**	**2000**
Net cash provided by operating activities, continuing operations	**16,169**	**12,929**	**19,002**
Net cash provided by operating activities, discontinued operations	**1**	**-**	**-**
Cash flow from operating activities			
Net (loss)/profit before profit tax	2,318	4,642	1,277
Less net loss before profit tax, discontinued operations	218	-	-
Net Loss before profit tax, continuing operations	2,536	4,642	1,277
Adjustments for non-cash items:			
Depletion, depreciation and amortisation	9,046	9,985	13,435
Loss on disposals of tangible assets	767	397	7,129
Equity method / write-off of investments	404	80	519
Effect of application of IAS 39	93	551	-
Reserves/credits for assets and liabilities, net	592	-1,014	517
Write-off of intangible drilling costs	1,347	2,162	1,134
Interest income	-470	-531	-485
Interest expense and unwinding of discount	1,175	882	573
Operating result before working capital changes	**15,490**	**17,154**	**24,099**
Net working capital changes in:			
Inventories	-216	-3,666	-1,730
Accounts receivable	-717	-2,978	-4,615
Other receivables and prepayments	-547	165	-1,444
Accounts payable	3,503	3,056	2,981
Accruals, provisions and other liabilities	213	-134	622
Taxes and duties payable	-380	173	1,335
Change in working capital	**1,856**	**-3,384**	**-2,852**
Interest received	470	531	485
Interest paid	-1,007	-569	-424
Profit tax paid	-640	-803	-2,307
Net cash from operating activities, continuing operations	**16,169**	**12,929**	**19,002**
Cash flows from investing activities			
Additions of tangibles	-10,394	-10,037	-10,035
Additions of intangibles	-3,910	-4,821	-3,375
Acquisitions of equity investments	-269	-375	-582
Net cash used in investing activities, continuing operations	**-14,573**	**-15,233**	**-13,992**
Net cash used in investing activities, discontinued operations	**-9**	**-**	**-**
Cash flows from financing activities			
Proceeds from loans	7,470	10,210	2,067
Loan repayments	-5,443	-5,509	-2,318
(Decrease)/increase in other long-term liabilities	-119	348	92
Proceeds from disposals of investments	-	-	87
Increase in long-term receivable	-2,154	-553	-261
Dividends paid	-290	-200	-
Net cash provided by/(used) in financing activities, continuing operations	**-536**	**4,296**	**-332**
Loss from cash transactions	-1,384	-636	-4,183
Net increase in cash and cash equivalents	**-332**	**1,356**	**496**
Cash and cash equivalents at the beginning of the period	4,390	3,034	2,539
Effect of Petrotrans spin off	-19	-	-
Cash and cash equivalents at the end of the period	**4,039**	**4,390**	**3,034**

12.2 RAS Financial Statements

12.2.1 Profit and Loss Statement, RoI bn

			Year ended 31 December		
			2002	**2001**	**2000**
1		**Turnover, net**	**72,721**	**55,905**	**52,402**
		Sales of products	49,104	32,797	28,339
		Sales of merchandises	23,617	23,108	24,062
		Subsidies for operating activities	-	-	1
2		Stocks variation	-		
		Credit Balance	1,382	2,650	2,562
		Debit Balance	-	-	-
3		Own work capitalised	568	636	548
4		Other operating revenues	2,203	1,566	429
		Total Operating revenues	**76,875**	**60,757**	**55,941**
5		Expenses with raw materials and consumables	48,550	40,986	25,161
	a	Other expenses with materials	321	314	229
	b	Other expenses with third party (water and energy)	5,802	3,942	2,682
		Cost of merchandises sold	19,874	20,567	11,326
6		Personnel expenses	10,884	10,032	7,355
	a	Salaries	7,875	7,243	5,000
	b	Social security	3,008	2,789	2,355
7	**a**	Depreciation and impairment allowance	5,323	5,417	2,571
	1	Depreciation and impairment - Expense	5,323	5,417	2,571
	2	Depreciation and impairment- Revenues	-	-	-
	b	Allowance for current assets	370	1,275	242
	1	Allowance for current assets - Expense	408	1,279	254
	2	Allowance for current assets - Revenue	38	4	12
8		Other operating expense	(18,816)	(26,005)	3,355
	1	Expenses with third party services	10,766	5,617	4,198
	2	Other taxes, duties and similar expenses	5,104	5,432	16,983
	3	Compensations, donation and disposed assets	(34,686)	(37,054)	(17,826)
		Allowance for risk and expenses	(228)	47	50
		Allowance for risk and expenses - Expense	127	211	61
		Allowance for risk and expenses - Revenues	355	164	11
		Total Operating expenses	**72,080**	**56,575**	**52,971**
		Total Operating result	**4,795**	**4,182**	**2,970**
9		Revenues from interests in associates	1	1	-
10		Revenues from other financial investments	9	18	12
11		Interest income	421	390	259
		Other financial revenues	1,204	1,229	564
		Total Financial revenues	**1,636**	**1,638**	**835**
12		Allowance for short term investments	(0)	-	(510)
		Allowance short term investments - Expense	-	-	547
		Allowance short term investments - Revenue	0	-	1,057

		Year ended 31 December		
		2002	2001	2000
13	Interest expenses	972	500	202
	Other financial expenses	2,113	1,002	1,061
	Total Financial expense	**3,084**	**1,502**	**753**
	Financial result	**(1,449)**	**136**	**82**
14	**Current result**	**3,347**	**4,318**	**3,052**
	Total revenues	**78,511**	**62,395**	**56,776**
	Total expenses	**75,164**	**58,077**	**53,724**
	Total Gross result	**3,347**	**4,318**	**3,052**
15	Income tax	**1,065**	**1,601**	**821**
16	**Net Income**	**2,282**	**2,717**	**2,231**
17	**Basic Earnings per share**	61	69	57

12.2.2Balance Sheet, RoI bn

			Year ended 31 December		
			2002	**2001**	**2000**
A.		**Non-current assets**			
I.		**Intangible assets**			
	1	Set-up costs	-	-	-
	2	Development cost	0	1	42
	3	Concessions, patents, licences, trademarks	163	98	52
	4	Goodwill	4	6	14
	5	Advances and intangible assets in progress	4,264	5,163	128
		Total Intangible assets	**4,431**	**5,268**	**236**
II.		**Tangible assets**			
	1	Lands and buildings	33,810	27,932	23,988
	2	Plant and machinery	11,725	9,219	7,666
	3	Other devices, equipment and fixtures	551	470	1,736
	4	Advances and tangible assets in progress	8,239	7,553	6,340
		Total Tangible assets	**54,325**	**45,174**	**39,730**
III.		**Financial assets**			
	1	Investments in related parties	953	580	564
	2	Receivables related to investments related parties			
	3	Investments in associates	4	9	-
	4	Receivables from investments in associates	2	14	12
	5	Long term investments	228	239	17
	6	Other long term receivables	1,045	392	487
	7	Own shares - long term	-	-	-
		Total Financial assets	**2,233**	**1,234**	**1,080**
		Total Non current assets	**60,990**	**51,676**	**41,046**
B.		**Current assets**			
I.		**Inventories**			
	1	Raw materials and consumables	3,458	3,065	1,005
	2	Work in progress	2,274	2,309	1,540
	3	Finished products and merchandises	8,718	8,435	4,620
	4	Advances for inventories	246	130	417
		Total Inventories	**14,697**	**13,939**	**7,582**
II.		**Receivables**			
	1	Trade receivables	13,574	11,776	10,745
	2	Receivables from related parties	534	170	1,865
	3	Other receivables	1,644	1,203	1,291
		Total Receivables	**15,753**	**13,149**	**13,901**
III.		**Short term financial investments**			
		Other short term financial investments	577	199	241
		Total Short term financial investments	**577**	**199**	**241**
IV.		**Cash on hand and cash at bank**	**5,281**	**4,889**	**2,137**
		Total Current assets	**36,307**	**32,176**	**23,861**
C.		**Prepayments**	**686**	**385**	**320**
D.		**Current liabilities**			
		:Debenture loans - current portion	127	101	-

		Year ended 31 December		
		2002	2001	2000
	Loans - current portion	3,496	2,650	1,290
	Advances from clients - current portion	219	194	239
	Trade payables - current	9,666	7,097	3,781
	Bills of exchange payable to suppliers - current	25	-	-
	Other liabilities, including tax - current portion	10,688	8,308	9,898
	Total Current liabilities	**24,221**	**18,350**	**15,208**
E.	**Current assets/current liabilities net**	**12,230**	**13,779**	**8,480**
F.	**Current assets less current liabilities**	**73,206**	**65,455**	**49,526**
G.	**Non current liabilities**			
	Debenture loans - non current portion	4,278	3,397	-
	Loans - non current portion	2,755	1,853	1,992
	Other liabilities, including tax - non current portion	230	-	-
	Total Non current liabilities	**7,263**	**5,250**	**1,992**
H.	**Provisions**			
	Other provisions	3,571	371	33
	Total Provisions	**3,571**	**371**	**33**
I.	**Deferred income**	**542**	**420**	**493**
J.	**Capital and reserves**			
I.	**Capital account**	**37,735**	**39,220**	**39,296**
	Out of which:			
	Subscribed and not paid in share capital		-	-
	Subscribed and paid in share capital	37,735	39,220	39,296
II.	**Premium related to capital account**	**-**	**2**	**2**
III.	**Statutory revaluation reserve**			
	Credit Balance	**2,859**	**2,759**	**-**
	Debit Balance	**-**	**-**	**6,586**
IV.	**Statutory reserves**	**26,168**	**21,875**	**16,732**
	Legal reserves	706	544	327
	Other reserves	25,462	21,331	16,405
V.	**Retained earnings**			
	Credit Balance			
	Debit Balance	**4,389**	**4,022**	**1,943**
VI.	**Profit (loss) for the period**			
	Credit Balance	2,282	2,717	2,229
	Debit Balance			
	Profit appropriation	2,282	2,717	2,229
	Total Capital and reserves	**62,373**	**59,833**	**47,501**
	Total Capital	**62,373**	**59,833**	**47,501**

12.2.3 Cash Flow Statement, RoI bn

	Year ended 31 December		
	2002	**2001**	**2000**
Cash flow from operating activities			
Net profit/(loss) before profit tax	3,347	4,319	2,229
Adjustments for non-cash items:	10,256	11,655	-
Depreciation and amortization	-	-	2,571
Other elements included in the financial activity	-	-	-
Interest income	(421)	(390)	-
Interest expense	972	500	-
Operating result before working capital changes	**14,153**	**16,083**	**4,799**
Changes in working capital for the period	340	(5,693)	-
(Increase) / decrease in inventories	-	-	(2,784)
(Increase) / decrease in receivables	-	-	(3,045)
Increase / (decrease) in short-term payables	-	-	997
Interest received	420	390	-
Interest paid	(972)	(402)	-
Income tax paid	(562)	(694)	-
Net cash provided by operating activities	**13,378**	**9,684**	**(33)**
Cash flows from investing activities			
Additions of assets	(14,453)	(11,543)	-
Sale of assets	221	35	-
Investments in related parties	(999)	(82)	-
Net additions to non current assets	-	-	(13,883)
Net cash used in investing activities	**(15,231)**	**(11,590)**	**(13,883)**
Cash flows from financing activities			
Proceeds from loans	99,301	-	-
Loans repayments	(96,678)	-	-
Variation of loans	-	-	894
Variation of other liabilities	-	-	(1,606)
Variation of share capital	-	-	32,800
Net proceeds from loans	-	4,616	-
Net cash provided by financing activities	**2,622**	**4,616**	**32,088**
Cash Flow from other activities			
Variation of other assets	-	-	(170)
Variation of capitals and other liabilities	-	-	(16,540)
Net cash from other activities	**-**	**-**	**(16,710)**
Total Cash Flows	**770**	**2,710**	**1,462**
Cash and cash equivalents, net, at the beginning of period	**5,088**	**2,378**	**916**
Cash and cash equivalents, net, at the end of the period	**5,857**	**5,088**	**2,378**

Glossary

EBRD	European Bank for Reconstruction and Development
mn	Million
bn	Billion
toe	Tons of oil equivalent
Stcm	Standard Cubic meters
ROL	Romanian leu
MTBE	Methyl Tertiary-Butyl Ether
LPG	Liquefied Petroleum Gas
LFO	Light Fuel Oil
HFO	Heavy Fuel Oil
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
ROCE	EBIT / Capital employed
ROCE	EBITDA / Capital employed
ROE	Net Profit before exceptional items/ Equity
ROA	(Net Profit before exceptional items + Interest Expense) / Total Assets
Debt to EBIT	Debt / EBIT
Debt to EBITDA	Debt / EBITDA
Debt to equity	Debt / Shareholders' Equity
Interest cover	EBITDA / Interest expense
Current Ratio	Current Assets / Current liabilities
Quick ratio	(Current Assets – Stock - Prepaids) / Current liabilities
Stock days (crude oil and other oil products)	Stock of crude oil and other oil products / Cost of crude oil and other products consumed
Trade Debtors' days	Trade debtors / (Sales of crude oil and products + Other operating revenues)
Adjusted Trade Debtors' days	Trade debtors before the provision for doubtful debtors and including long term trade debtors / (Sales of crude oil and other products + Other operating revenues)
Trade Creditors' days	Trade creditors' balances / COGS
COGS	Crude oil and products consumed + materials+transport+utilities+maintenance
Cash conversion cycle	Stock days + Trade Debtors' days + Trade Creditors' days
Capital employed	Equity + non-current portion of LT debt
Forex ROL/USD	33,500 as of 31 December 2002 33,055 the average for 2002

Contact

Calea Victoriei 109, sector 1, Bucharest, Romania
Phone: 40 21 315 6202; 40 21 212 5001
Fax: 40 21 315 5166; 40 21 212 5091
Telex: 11720
Web: www.petrom.ro