

# 2003 Annual Report



**ROMPETROL**  
energy for life

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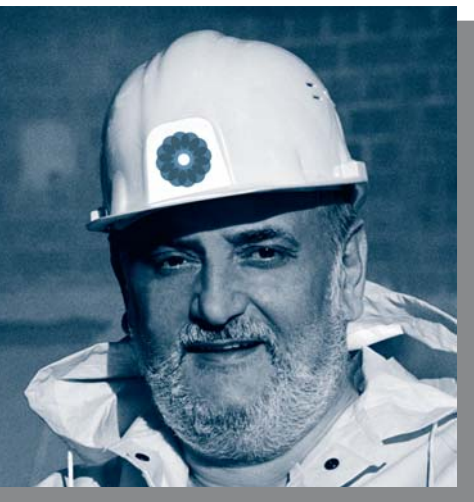
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# The Rompetrol Group



## Letter from the CEO

Dear Shareholders and Partners,

2003 has been one of the most exciting years in the history of the Rompetrol Group. I believe that it is, therefore, even more propitious that we have been able to issue our first consolidated corporate Annual Report now, looking back on 2003.

Three words can describe the past year: transparency, flexibility and quality. In 2003, the efforts of our 6000 staff were rewarded by the community, our partners and the public at large. In brief, we have in one year managed to reach most all our business objectives; we have been celebrated for our transparency, we have launched the country's first ever full euro standard range of products, we have strengthened our ties with respected investors and we have received quality certifications that verify our compliance with international standards.

In 2003, Rompetrol's business development also established a more prominent visual identity. We have launched our new corporate image, the Rompetrol flower and a new corporate slogan, "Energy for Life".

These visible steps forward are due to our understanding of the economic environment and to our allegiance to making "the leap" from a constrained mentality to that of open-market principles. Understanding the new economic context and its evolution in the 21<sup>st</sup> Century have taught us that the meaning of labor has changed and that the information revolution has created new criteria to evaluate businesses' operational and financial results. Traditionally, a company's worth was measured in tangible assets (land, raw materials and capital). Working with the New Management Model in the new economy we have learned that a company's worth is its ability to acquire, generate, distribute and apply **knowledge**.

Knowledge is the essential instrument required for flexibility, which is paramount in any business looking to develop. Flexible economies flourish, while inflexible ones stagnate. The same goes for companies, and we have a commitment to make ours as flexible as possible to meet our business objectives over time.

2003 was the third year since our take-over of the Petromidia refinery. A changing environment in the trade of crude and the emergence of new technologies have created the conditions for us to adapt this facility in order to make it profitable. Today, the refinery has moved away from sweet crudes to 100% sour crude processing, while achieving production of 100% euro standard products. In distribution, Rompetrol's regional push started with the establishment of Moldovan and Bulgarian subsidiaries, which are fully operational and have been successful in building market shares.

We aim to make our refining, retailing and wholesale activities part of a large conglomerate that is self-sufficient and productive. Our retail and wholesale business was, last year, at the forefront of a movement to raise fuel quality standards and fight back the gray and black fuel markets. Our depot network increased to 7 fully functional locations, which assisted us in cutting costs linked to transportation while expediting supply to our own and our clients' sites.

It is our belief that Rompetrol's business strategy and business code have moved business in Romania in the right direction. We have persuaded partners and institutions alike that flexibility, transparency and quality are key to a successful business. Results did not fail to show in our relations with our traditional and new partners. In the fourth quarter of 2003, the Rompetrol Group and the Government of Romania came to a mutually satisfactory solution concerning the historic debt of the Petromidia refinery.

As always, we will continue to set standards of corporate governance and communication. 2003 was no different as our Navodari facility, Rompetrol Rafinare, was twice awarded honorary prizes from Romanian and international bodies. The "Most Transparent Issuer" award and "Refinery of the Year in Central and South Eastern Europe" are two prized moments in Rompetrol's 2003 annual performance.

We look back with pride on 2003, as it has been a year, which, by all calculations, was successful for Rompetrol. We aim and pledge to make 2004 better.



Dinu Patriciu, Chairman & CEO





## Letter from the Deputy CEO

Dear Stakeholders,

The Rompetrol Group strives to become, through organic growth and sensible low-cost acquisitions that integrate with our existing operations, the leading low-cost provider of petroleum products in the Balkans. 2003 saw significant progress in our achieving these goals.

### Operations

In the Upstream segment, we divested our stake held since 2001 in Ecuador's Block 11 and abandoned our interest in Kazakhstan's Baiganinsk field while at the same time acquiring exploration rights in two promising Romanian blocks. This is part of Upstream's strategy to focus "closer to home".

In the Midstream sector, 2003 showed the effects of three years of intensive efforts by our management and workers to turn around the Petromidia refinery which we privatized in 2001. Capacity utilization grew to 3.3 million tons/year (from below 1 million in 2000, prior to our acquisition). More significantly for the income statement, the investments of US\$122 million we made since privatization produced the extraordinary result that we now process 100% sour Urals/REBCO crudes imported from Russia via tankers on the Black Sea but produce 100% EU-quality products. We thus benefited from cheaper prices on crude stocks (the Brent-Urals discount fluctuated between US\$1.50-3/barrel), higher yields, better selling prices, and less expenses for additives like MTBE.

Our petrochemicals business continued to grow, increasing polypropylene production and sales (mostly exports) along with trading of imported products locally under our own brand.

In the Downstream sector, our number of retail stations in Romania grew to 200 at year end, including 60 company-owned stations and 140 dealer-owned franchise stations. We completed our 2002 project to develop 7 depots from which we can supply the whole country efficiently. Finally, we established majority-owned joint ventures in neighboring Bulgaria and Republic of Moldova for wholesale distribution, which have already taken significant market shares.

In our Services businesses (drilling, well services, logistics, engineering and maintenance, and environmental remediation), our volumes grew while in most cases we also increased the business done with third party (i.e., non-Group) clients.

### **Finance**

The balance sheet benefited from an accord reached with the Romanian Ministry of Finance in December 2003 to reschedule approximately Euro 571 million of historic tax liabilities (including interest and penalties thereon) into 7 year convertible bonds. The accounting treatment required by International Accounting Standards (IAS) 32 and 39 resulted in significant changes to key financial ratios including debt-equity, quick and current ratios, providing the Group with the "headroom" required to continue to access the debt capital from lenders – and possibly the capital markets – to make needed and beneficial investments. More information is included in the notes to the abbreviated financial statements of this Annual Report.

We are pleased that our existing banking relationships with our long time bankers were either extended or expanded, and that we were able to develop new relationships with principally international banks on favorable terms.

### **Subsequent Events**

Subsequent to the Group balance sheet date of 31 December 2003, several significant events occurred that bear mentioning:

- ▶ On the positive front, our Romanian subsidiary company Rompetrol Rafinare SA began trading on April 7, 2004 on the Bucharest Stock Exchange (symbol: RRC). The exchange broke records that day for volumes of trading, and the share price closed at a significantly higher level than expected, demonstrating the greater number of buyers than sellers for this security. Our goal is to continue to increase the liquidity, free float, price and market capitalization of this stock, in line with its very positive absolute and comparable fundamentals.
- ▶ On the negative front, we were surprised to receive a press release on March 24, 2004 from the National Anticorruption Prosecutor's office that it will open an investigation into the circumstances surrounding our acquisition in 2001 and subsequent management of the Petromidia refinery. However, as of the date of this writing, we have yet to be officially contacted by that office.



We will cooperate with any investigation that is officially launched, of course, but expect the result to be no different than the 21 other Garda Financiara verification procedures this company was subjected to in the past three years. In fact we believe this announcement was politically motivated due to other developments pending in our industry, and believe its results will not have a material effect on our operations, finances or management.

### **The Future**

We continue to benefit from the strong support of our 25.1% shareholder OMV Aktiengesellschaft of Austria (the largest oil company in CEE region). As Romania has joined NATO in 2004 officially and still expects to join the EU in 2007, our industry is undergoing the turmoil produced by change, including the expected privatization this year of the Romanian national oil company Petrom. **However, we believe we have built the type of company whose transparency and dynamism will benefit from changes in the market brought on by EU membership, including privatization and market (i.e., price) liberalization.**

As management, we will continue to devote our time and attention to making the Group efficient and transparent for the benefit of all stakeholders, while maintaining the dynamic, entrepreneurial company that has produced whatever success we can claim to date.

With regards and thanks,

A handwritten signature in dark blue ink, appearing to read 'P. Stephenson', with several long, sweeping horizontal strokes extending to the right.

Philip Stephenson, Deputy CEO

# 2004

## Key Strategic Objectives

### In Exploration and Production

- ▶ Start exploration in the two Romanian concessions at Zegujani and Satu Mare

### In Refining

- ▶ Increase capacity utilization from 3.3 mta to 4.0 mta
- ▶ Decrease average cash conversion cost per ton from US\$22 to US\$18

### In Marketing

- ▶ Expand domestic distribution from 90,000 tons/month to 120,000 tons/month
- ▶ Expand direct regional sales (Turkey, Bulgaria, Serbia, Moldova) to 120,000 tons/month

### In Petrochemicals

- ▶ Build market share in polyolefins from 25% to 40%
- ▶ Increase storage capacity at facility by 50%, from 10,000 tons to 15,000 tons

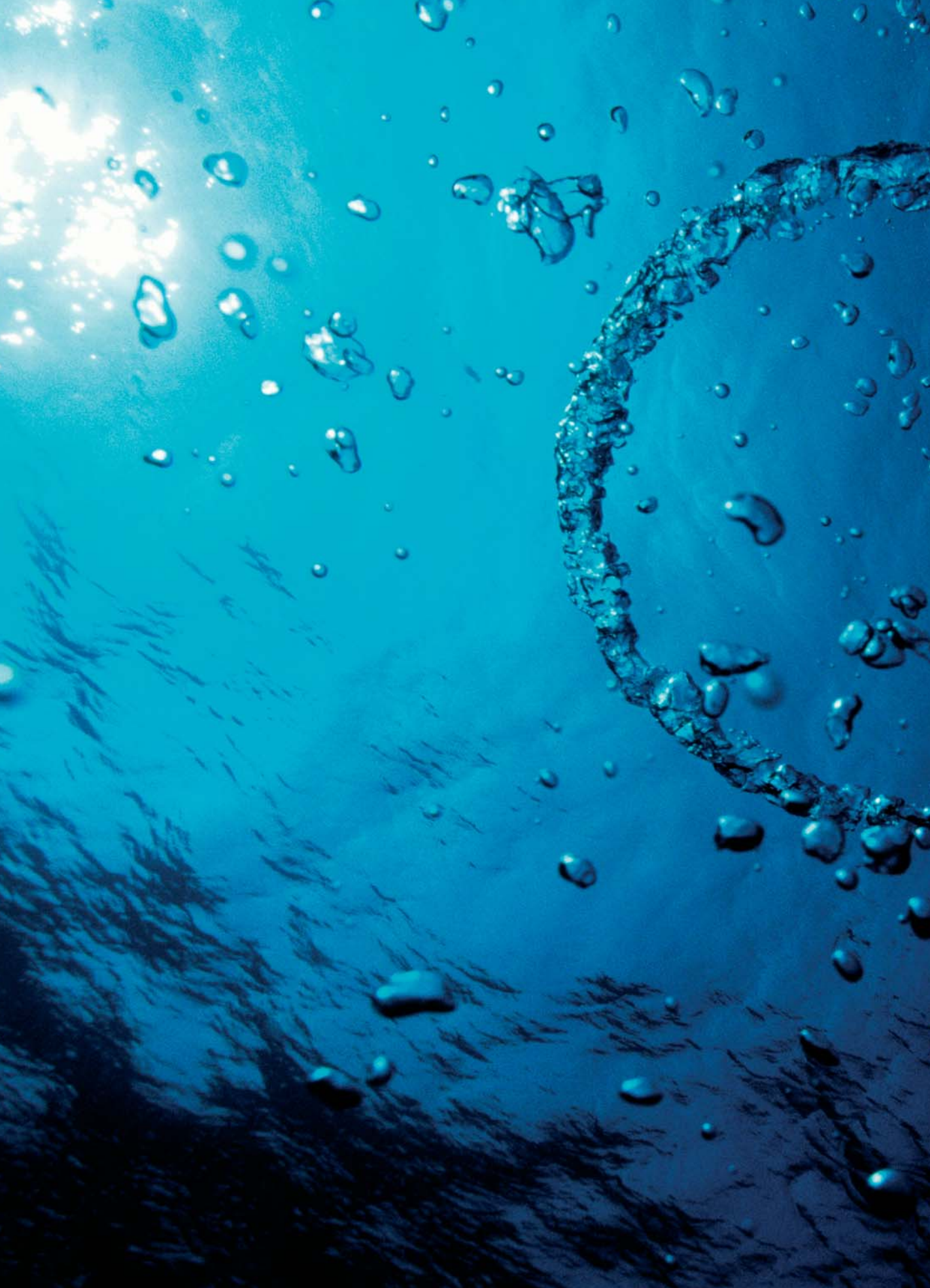
### Services

- ▶ Expand Upstream services contracts in Caspian and Middle East
- ▶ Increase business with third party customers in Romania for logistics, EPC-maintenance and ecological services

### Overall Corporate

- ▶ Maintain transparency and increase access to international capital markets for debt and equity
- ▶ Contribute approx. US\$400 million to the State budget through tax payments
- ▶ Improve brand equity
- ▶ Increase shareholder value and liquidity in our listed companies

# Rompetrol The New Brand



# Romp petrol - The New Brand

In 2003, Rompetrol's marketing and development strategy shifted towards a more retail client-oriented attitude. With a growing national retail distribution network, we decided to shed the industrial look previously promoted and adopt a friendlier image. Therefore, our communication team has implemented a new logo design for all Rompetrol companies and our retail sites to suggest this new, stronger push for environment and client friendly fuels and services. The Rompetrol flower, symbol of freshness and youth, today better symbolizes our mission and vision, while the new color scheme (red, yellow, orange and dark blue) and the new slogan "**Energy for Life**" suggest Rompetrol's key brand values: **modernity, creativity, dynamism and experience.**

Our new corporate slogan is "Energy for Life", a statement which links our staff, business and corporate vision together. Movement is the essence of modern life. Whether you drive your car to work, fly to Amsterdam or New York, or simply light a bonfire with your lighter, you set in motion a source of energy. This energy powers your car's engine, ignites the lighter or gets the plane off the ground. And this same source of energy gets refined into by-products that pave our highways or get molded into toys for our children.

Romp petrol works to capture this source of energy and put it to work. For your cars, in the engines of the planes you fly, for the toys your children play with and on the roads across countries. Because this is the Energy for Life.



# Mission

The Rompetrol Group derives its strength from its allegiance to quality and modernity, having effectively united the vision of young, forward-looking managers with the expertise of our experienced staff to promote sustainable goals. Today, we strive to become the country's principal petroleum company and a strong competitor regionally while putting our best knowledge and assets into further development of our business.



# Brand Values

Today, Rompetrol is Romania's best-established oil company, a trustworthy worldwide partner and a corporate citizen. We have succeeded in building an effective and dynamic structure in a market which has only recently opened to globalizing influences, and which still suffers from an inherited technological lag.

Our success is based on four ingredients: We put to work 30 years of **knowledge**. We operate, and expect our partners to operate, on strict **ethical** guidelines. We choose, retain, and work with the best **people**. We provide **quality service**. We sell **quality** products. And we promote **quality** standards.

Our strength lies first and foremost in the people we are or work with. So if Rompetrol is

**Dynamic**  
**Modern**  
**Creative**  
**Experienced**

it's because our people are so.



**Dynamic**



**Function:** adjective

**Etymology:** French *dynamique*, from Greek *dynamikos* (powerful), from *dynamis* (power), from *dynasthai* (to be able)

**Date:** 1827

: marked by usually continuous and productive activity or change

**syn. :** energetic, vibrant, and vigorous

Rompétrol has been, in turn, Romania's fastest growing company, its most successful privatization story and the country's largest private industrial unit. This swift metamorphosis is due to a vibrant work environment, flexibility of decision-making and, not least, the reliability of its acquired expertise.

**Modern**



**Function:** adjective

**Etymology:** Late Latin modernus, from Latin modo (just now), from modus (measure)

**Date:** 1585

: of, relating to, or characteristic of the present or the immediate past : CONTEMPORARY

: involving recent techniques, methods, or ideas

: up-to-date

: of, relating to, or having the characteristics of the present or most recent period of development

**syn.:** prevailing

We are new, recent, and modern. Rompetrol is a company constantly evolving but always looking steadfastly into the future.

Our new logo is a symbol of fresh, new life, and our pledge is for the years to come.

Our new slogan "Energy for Life" reflects this forward looking approach.

Technologically, we have chosen only the most recent and advanced tools of our trade.





**Creative**

At Rompetrol we have injected creativity into the life's blood of an industrial sector that has too often suffered from a lack of dynamism. Operating in an emerging market we have gone beyond the limits of local knowledge and have created our own brand of management. Today, we are a Romanian company with western corporate governance guidelines. For Rompetrol, this mix works, because we have refrained from sheer imitation and, instead, designed a system we believe draws on the best values of West and East for maximum operational benefit.

**Function:** adjective

**Date:** 1678

: marked by the ability or power to create : given to creating

: having the quality of something created rather than imitated : IMAGINATIVE

: managed so as to break conventional limits

**syn.:** resourceful, ingenious, innovative



**Experienced**



**Function:** adjective

**Date:** 1576

**:** made skillful or wise through experience :  
PRACTICED

**syn.:** qualified, knowledgeable

Rompetro has been in the oil industry for three decades. Our teams have worked in various, taxing locations across the globe, where flexibility, more than anything, is the crucial ingredient to success. To this day, all of our “expats” have comprehensively contributed to the process of skill acquisition by new staff.

# Activities

# Upstream

## 2003 Key Achievements

- ▶ Rompetrol won two exploration blocks in the fourth bidding round organized by the National Agency for Mineral Resources.
- ▶ Rompetrol re-opened its office in Baghdad, thus renewing its presence on the ground dating back 1974.
- ▶ Rompetrol Drilling has worked over 49 wells and 4 deep wells in NC 84 - Libba Field.
- ▶ In 2003, after almost two years of market assessment, Rompetrol Well Services derived from Azerbaijan about 10% of its total revenues.

Rompetrol Upstream coordinates the well services, drilling and the exploration and production (E&P) of oil and gas in Romania and internationally. Activities are sought or being carried out in the onshore Black and Caspian Sea, Middle East, and North Africa areas. Our strategy is to obtain growth and deliver significant earnings in all Upstream business segments, by allocating investment to services, exploration and production projects in the focus areas.

## The Exploration and Production

division is a relatively new member of the Rompetrol Group NV. However, its functional equivalent has been part of Rompetrol's activities since the early 1970s when it operated as the international arm of the Romanian oil and gas industry. The discovery, in the 1980s, of giant oilfields in Libya's Murzuk Basin was only one of several previous achievements of Rompetrol's exploration and production team.



In 2003, exploration and production activities were carried out in Ecuador, Kazakhstan and Romania. Various opportunities were investigated in a number of Caspian Sea former USSR republics, and in the North Africa countries. At present, our interest is focused on activities and business opportunities in Romania, Kazakhstan, Azerbaijan and Iraq.

## Romania

In Romania, the company was awarded two exploration blocks in the fourth bidding round organized by the National Agency for Mineral Resources. The Zegujani block (Getic Basin, SW Romania), and the Satu Mare block (Pannonian Basin, NW Romania) have revealed an estimated size of future discoveries, in a number of leads delineated, of between 10 to 50 MMboe. Negotiation and contract signing shall be completed in 2004.



Romp petrol has been awarded the Matita mining concession, located in the folded Carpathian Foredeep in 2000. Following thorough technical and economical evaluation, the Matita concession has been relinquished at the end of 2003. Rompetrol has the right to develop 5 marginal oil, condensate and gas fields. Production is estimated to resume mid 2004.

## Ecuador

In Ecuador, Rompetrol had full controlling interest in the Oriente Basin Block 11 through the purchase of Lumbaqui Oil Ltd, the operator of the EPSA in 2001. Block 11 Ecuador has since been sold to CNPC Amazonas, effective October 2003.



# Kazakhstan

In Kazakhstan Rompetrol had a 20% interest in the Baiganinsk block, located on the southeastern border of the Pre-Caspian Basin (Central West Kazakhstan). The other participants are operator Repsol-YPF, Enterprise (now Shell) and Petrobras. After drilling two dry holes, at the end of 2003, partners filled a relinquishment notification to state agencies. A number of Rompetrol Upstream teams have evaluated several medium and small size undeveloped oilfields in Western Kazakhstan.



In May 2003, Rompetrol re-opened its office in Baghdad, thus renewing its presence on the ground dating back 1974. Rompetrol Upstream, using data gathered during past years, evaluated potential business, and was actively liaising with authorities and expressed its interest for exploration, field developing and production opportunities.

# Drilling & Well Services

## Drilling and Workover

Rompetrol's drilling & workover division is one of the oldest and most experienced in the Rompetrol Group, having been a constant and productive member of the company since its establishment in 1974. It is a certified member of the International Association of Drilling Contractors (IADC) and of its Romanian counterpart, RADC.

The division carries out surveys and well-designs, wildcat drilling and production, well-completion and testing, and is also a turn-key contractor for projects requiring:

- ▶ Casing programs;
- ▶ Casing and cementing programs and cement slurry analyses;
- ▶ Well cementing and stimulation of producing formations through Rompetrol Well Services;
- ▶ Treatment and conditioning of drilling fluids;
- ▶ Workover;
- ▶ Well blowout control, including firefighting;
- ▶ Refurbishing and maintenance of drilling, workover rigs and related tools and equipment



### Selected list of Clients:

Sonatrach

General Petroleum Co, Egypt

South Oil Co, Iraq

North Oil Co, Iraq

Jordan Natural Resources Authority

Public Petroleum Corporation of Greece

Geopetsa

Datalog

Veba Oil Operations

Repsol Oil Operations

Lasmo Grand Maghreb Ltd

Rompetrol Drilling & Workover also delivers drilling operations design, and geo-technical studies for the physical and mechanical characteristics of formations to be drilled. Using state-of-the-art equipment and the most modern technologies, our teams have customized computer programs for optimization of drilling operations.

The division operates using F – 200, Kremko K 100 and Kremco K 160, Cooper and Wilson rigs, as well as FA 25 water well drilling rigs. All of these have been contracted for one or two years now, and are to be found on site in either Libya or Ecuador working for Repsol Oil Operations, Veba Oil Operations or Petroproduccion.

With most of its equipment under contract for a number of years, Rompetrol Drilling & Workover has been focusing on delivering best service for current operations, while analyzing new business opportunities in less traditional markets. It is a zero-accident operating unit of the Rompetrol Group in 2003.

In 2003, its teams worked in Libya's – NC 115 & N 186, as well as in area NC 174 Elephant Field, where 49 wells were worked over and 4 deep wells in NC 84 - Libba Field. Additional projects included workover services provided for Petroproduccion in Ecuador.

Rompetrol Drilling & Workover aims to pursue its excellent relations with traditional clients but also to capitalize on new opportunities arising from political changes in the Gulf region, with a focus on reinitiating supply of traditional drilling and workover services in the area.

## Rompetrol Well Services

### Petros

Rompetrol Well Services ("RWS")– Petros has been performing services on oil and gas fields in Romania and abroad since 1951. Petros, the former state-owned Romanian Oilfield Services Company was 100% privatized in February 2000, and integrated in the vertical structure of the Rompetrol Group. The company was renamed Rompetrol Well Services (RWS) in September 2001, but it preserves the trademark "Petros" for all services.

Since its take over by Rompetrol, RWS has undergone an extensive and in-depth process of restructuring, which resulted in an organizational and operational set-up similar to international service companies. Services include cementing, sand control, stimulation, testing, slickline and casing running.





## RWS Range of Services:

**Sand Control** is mainly done by gravel packs in more than 100 oil, gas, gas storage and water wells per annum. RWS also supplies, runs and sets the downhole equipment for those jobs.

**Stimulation** services range from nitrogen treatments over acidizing to hydraulic proppant fracs.

**Drill Stem Tests** with own equipment are carried out for every major customer in the area.

**Slickline Services, Casing and Liner Running** of all sizes as well as other special services are delivered to the majority of all operators and drilling companies in Romania.

The **job design** for above services is done in-house, in close cooperation with the client. All necessary equipment, tools and chemicals are provided by RWS.

**Rental Tools** - i.e. Power Tongs, Fishing Tools and Elevators, are also available from RWS.

All ongoing operations are being constantly supervised through company headquarters in Ploiesti, Romania. RWS provides the technical support in its area of expertise for the 10 locations at home and in Kazakhstan and Azerbaijan.

2003 was marked by an enlarged activity in the Caspian Sea area and by grounding for potential new business in the Middle East, while the domestic activity was on a severe declining curve. Further steps on the implementation of quality system and of HSE requirements were also completed.

Technical upgrade was also among the major objectives for 2003, and US\$ 1.4 million was invested in high performance equipment and compliance with EU standards.

RWS operational highlights of 2003 include:

#### Romania

RWS worked with all major companies operating in Romanian oil and gas fields, such as PETROM, ROMGAZ, WINTERSHALL AG, AMROMCO, providing its whole range of services.

#### Azerbaijan

The RWS Base in Baku, Azerbaijan provided cementing and pumping services for Gobustan Operating Co., Salyan Oil and Great Wall Drilling Co., all major J-Vs with the local national on-shore oil company, Socar. In 2003, after almost two years of market assessment, RWS achieved in Azerbaijan about 10% of its total revenues.

#### Kazakhstan

2003 represented the first year of activity for RWS Kazakhstan Branch; cementing and other pumping jobs were performed in Zaisan and Aktobe area. The first Operational Base, located in Aktobe area, was completed and RWS got all licenses and approvals required by local authorities.

Investment plans for 2003 include US\$ 1.7 million for equipment performance upgrade and improvement of service quality.

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Gross Revenues	15,690	14,130	11
Gross margin	3,170	3,687	-14
EBITDA	2,328	2,402	-3
Capital expenditure	1,554	1,886	18

## 2004 Key Objectives

- ▶ Additional investment for the enlargement of the range of services, equipment upgrade and the purchase of new rigs in order to improve drilling and workover services provided to clients
- ▶ The renewal of staff by retaining the most qualified personnel, and further training and certification by internationally recognized certification institutions
- ▶ Maintain RWS share on the domestic market and concentrate efforts to further push for new business in the Caspian Sea Region and Gulf Area, with a medium-term target of having 40% of its revenues coming from foreign sources.

# Refining & Marketing

## Rompetrol Rafinare Petromidia

### 2003 Key Achievements

Rompetrol's two refining facilities, Rompetrol Rafinare (located in Navodari – Constanta) and Vega (located in Ploiesti Prahova), account for 32% of Romania's refining capacity. With 4.8 million tons nameplate and 3.3 to-date utilized capacity, Rompetrol Rafinare is the country's principal processing facility, while Vega (nameplate 500,000 tons/year) is a small but flexible unit focusing recently on alternative feedstock and production of heating fuels, solvents and bitumen.

► Rompetrol Rafinare received Germanischer Lloyd Certification of its environmental and quality management systems according to DIN EN ISO 9001/2000 and DIN EN ISO 14001/1996 requirements

► The Romanian Vehicle Registry (RAR) awarded Rompetrol Rafinare certification for its euro range of fuels (which is also awaiting OSIM – Romanian Trademarks Office - certification)

► The company processed 128% more crude than in 2001

► Installation of the in-line blending system for gasolines, using FMC technology from the USA

Rompetrol's 2001 acquisition, Rompetrol Rafinare - Petromidia, is Romania's largest and most complex refinery. It is strategically located on the Black Sea coast and has a nameplate capacity of 4.8 million tons.

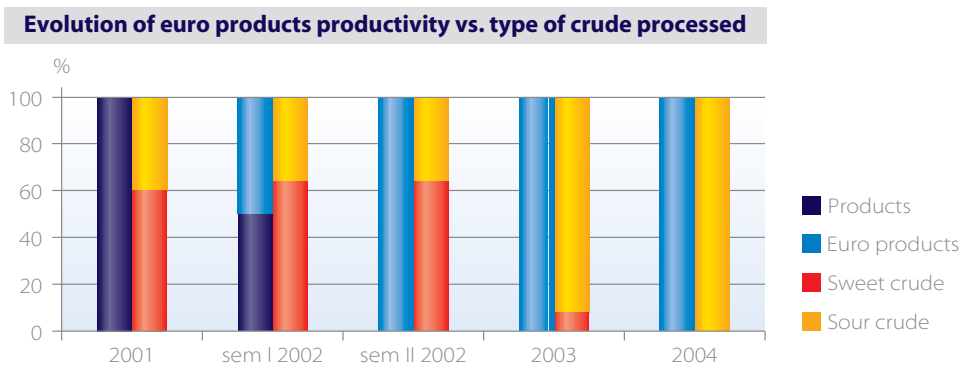


The refinery platform is 480 hectares in size, and houses over 20 different companies working mainly in civil and industrial construction. Oil is supplied from neighboring Constanta Port – Romania's largest port – from an Oil Terminal pipeline, via a 40 kilometers tract to refinery premises. Rompetrol's own Midia Port can supply the refinery with crude from ships of up to 24,000 tdw (in Berths 1-4).

Romp petrol Rafinare also owns a railway yard with 40 loading and unloading posts, (used depending on crude supply flow). Naphtha gasoline is unloaded via 20 additional posts.

In 2003, Rompetrol Rafinare processed 3.3 million metric tons of crude, 128% more than 2001, and estimates that in 2004 the increase will reach 181%.

Romp petrol Rafinare works to produce only euro standard products, as its environment programs are extremely strict. All products are compliant to European regulations concerning no-lead policies, reduction of vapor pressure, of aromatics in the case of gasolines, and of polyaromatics in the case of diesel fuels, as well as reduction of benzene and olefins percentages, and decrease of sulfur content. Investment in the refinery has made it possible to process 100% sour crude and to obtain 100% euro standard products.



At the moment of takeover, the refinery was in a quasi-collapsed state, in terms of finance and production. The use of obsolete technologies was only piling up debts and could not generate the kind of output performance required for bringing the refinery back on track. The Rompetrol Group initiated and pursues investment programs worth US\$ 133 million since takeover in 2001 to date, and an estimated US\$ 70 million have been budgeted and expect to be poured into refinery assets until end 2004.



All investments made have as final objective the reduction of production costs and achieving ever-higher quality standards for all refinery products. Alongside those already mentioned, major investments include:

► The implementation of the second reactor of the HDV installation **raised the de-sulfuring** degree from 86-88% to 89-92% in the case of vacuum distillate, and from 90-92% to 99.9% in the case of diesel, as well as increased HDV installation daily processing capacity from 2,800 tons per day (one reactor) to 3,800 tons per day (two reactors)

► The addition OLEFINS ULTRA additives to the catalyst has lead to a **rise of propylene efficiency** from 6 to 7.5 % , while the same figure went up in the case of iso-butane-butene from 7.8 to 9 %.

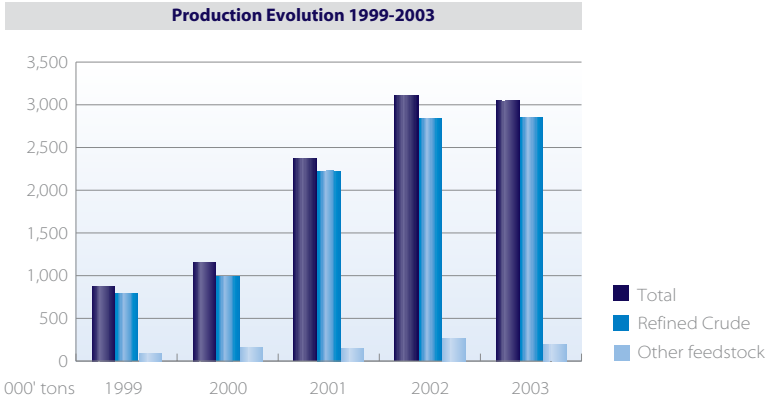
► Implementation, in order to use crude resources and operate the refinery under optimum conditions, of the following:

1. Process Industry Modeling System (PIMS) Software Application, for the optimization of production programs.
2. Aspen ORION Software Application - used to draft production programs via simulation of known activities (acceptance of raw materials, tank transfers, flow properties, efficiency of installations – PIMS ORION integration, product mixtures, deliveries of end products).

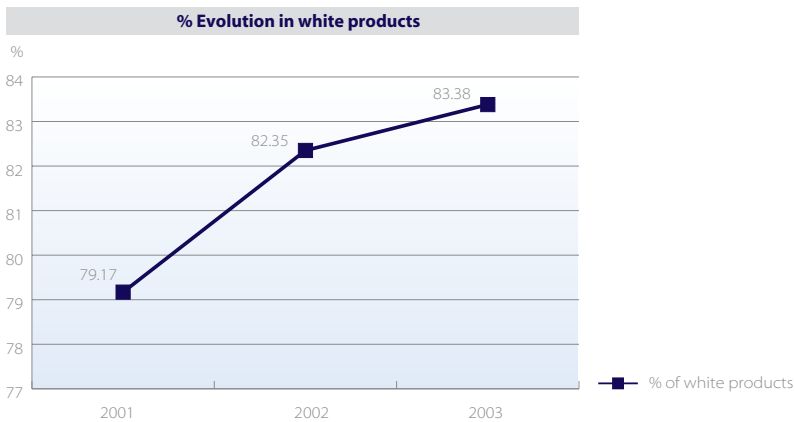
The final goal of all the investments made in Rompetrol Rafinare by the Rompetrol Group was to reach maximum refinery processing capacity and to produce fuels complying with EU standards, while employing cheaper, sour crude. Achieved rehabilitation and modernization processes cleared the way to production cost cutting and a continuous rise in quality. Furthermore, certain ancillary assets of the refinery could be restarted, such as the petrochemicals plant. Moreover, new vigor was injected into service providers, such as Oil Terminal, Conpet, Petrotrans, CET Midia and CFR.

All conducted modernization and rehabilitation processes had visible impacts on production operations:

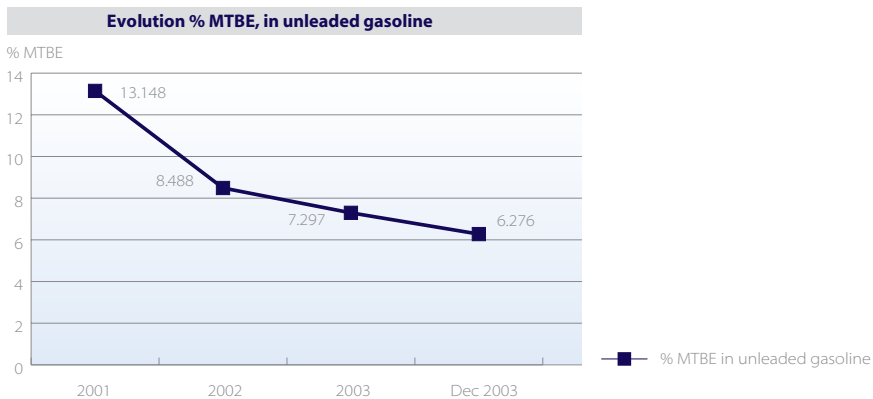
- Rise of processed amount of crude from 787,000 tons in 1999 to 2,850,000 tons in 2003



- Increase of white-products efficiency, from 79.17% in 2001 to 83.38% in 2003



- MTBE content in gasoline mixtures decreased from 13.1% in 2001 to 6.27% in December 2003





The refinery also prides itself on being the only refinery in Romania with a coherent Employee Care Program. Some of the benefits enjoyed by refinery staff include free transportation to and from work, discounts on holiday tickets and life and health insurance, as well as professional, on site, medical care, through our partnership with distinguished providers of medical services. Our staff are also challenged to participate in the refinery's extensive, free training programs, which include IT and job-related trainings, done on site, in the refinery's own, state-of-the-art training centers, as well as participation in seminars, workshops and exchanges organized by specialized companies.

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Gross Revenues	1,138,366	917,899	24
Gross margin	35,591	(42,390)	N/A
EBITDA	16,091	(63,260)	N/A
Capital expenditure	21,539	16,028	34

**Gross revenues** increased by 24% especially as a result of higher selling prices of oil products on both domestic and international markets. Another important reason for this evolution is the fact that since June 2003 the Group produces only euro 3 compliant fuels as a result of the last 2 years investments.

**Gross margin** was approximately US\$ 36 million compared with US\$ 42 million negative gross margin in 2002. The positive evolution recorded mainly due to increase of refining margins for oil products on domestic market and also due to further reduction of operating expenses.

**EBITDA** was approximately US\$ 16 million in 2003 compared with US\$ 63 million negative EBITDA in 2002. Together with the considerations presented above as reasons for positive evolution of gross margin, the decrease of sales, general and administrative expenses in 2003 compared with 2002 has lead to the rise of EBITDA. Additionally in 2003 Rompetrol Rafinare processed only Ural Crude obtaining significant reduction in supply prices compared to 2002/2001 when it processed also significant quantities of high quality/low sulfur type of crude.

**Capital expenditures** recorded an increase of 34% in 2003 compared with 2002, reflecting the investments done by Rompetrol Rafinare in order to enhance quality of products and to reduce operating costs.

In October 2003, the Romanian Government issued an Emergency Ordinance No. 118, that provided the framework and parameters for issuance of a convertible loan note (Bond) against the **historic state budget liabilities** comprising a principal amount and late payment penalties totalling euro 571 Million as of September 30, 2003. The instrument is convertible into equity at due date at issuer's choice, has 7 years maturity, interest rate is EURIBOR at 12 months plus 1.5% p.a. payable annually in arrears and is unsecured.

## 2004 Key Objectives

- ▶ Design and begin construction of a buoy type marine terminal to expedite delivery of crude oil
- ▶ Further automation of the refinery using DCS (Digital Control System)
- ▶ Upgrade refinery storage tanks
- ▶ Maximize MTBE flow

# Vega

## 2003 Key Achievements

- ▶ The refinery has increased per ton productivity from US\$ 212/ton in 2002 to US\$ 304/ton in 2003
- ▶ Conversion costs have been reduced to US\$ 19/ton (from US\$ 24 in 2001)
- ▶ Vega has received the Quality Management Certification according to ISO 9001/2000 and Environmental Management Certification according to ISO 14001/1996.



Taken over in 1999, one of the Group's first acquisitions, Vega is an atypical refinery as it has steadily moved from processing crude and producing fuels, as most refineries, to alternative feedstock.

Low nameplate capacity and supply difficulties caused by the all too unsecure relationship to SNP Petrom have caused Vega to shift to refining raw material supplied by Rompetrol Rafinare, Arpechim Pitesti and Steaua Romana Campina. The refinery processes this into extraction gasolines, bitumen, solvents and heating

oils, being the producer of Calor brand heating oils, the first ever euro-standard heating oil available on the Romanian market (today, Rompetrol Rafinare also produces part of the volume of Calor available from Rompetrol)

In 2003, Vega processed 158.9 thousand tons of feedstock of which only 1/5<sup>th</sup> was crude. Although this quantity is lower than in 2002, the refinery's gross revenues have increased by relation to processing volume. Per-ton productivity increased to US\$ 304 and the entity registered US\$ 1.1 mil profit (while in 2002, the refinery had finished the year in the red, with US\$ 11 mil loss). The increase in financials is also due to a stricter quality control of all products, as processing technologies were perfected and several installations (rectification, n-Hexane) were upgraded. We have also attempted to supervise raw material quality more closely as well as to enlarge product range. In 2003, 10 new products were added to the

## Calor

Calor is Rompetrol's brand heating oil for heating installations. It is the first such product available in Romania, where heating installations are generally improperly run on low quality diesel. Calor is an environmentally friendly, high performance fuel for heating units, whose price-quality ratio makes it the wise choice for central heating.

refinery's list. Over 3 million dollars was invested in 2003 to upgrade installations and acquire new technologies, as well as to increase work safety and overall environmental compliance.

In 2004, Vega aims to become Romania's prime producer for solvents for the paint industry, and has put effort and investment into streamlining all installations related to solvent refining.

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Gross Revenues	69,675	90,364	-23
Gross margin	10,204	2,490	310
EBITDA	1,807	(2,426)	N/A
Capital expenditure	3,194	2,933	9

**Gross revenues** decreased by 23% in 2003 compared with 2002, especially as a result of lower quantities of raw materials processed during the year.

While the gross revenues recorded a decrease, **gross margin** increased with 310% especially as a result of improved sales of the production, reduction of processing costs, increase of product quality due to investments and to an enlargement of product range.

The increase of gross margin has led to a positive evolution of **EBITDA**, but in a lower trend due to the negative impact of the increase of sales, general and administrative expenses. During 2003 Vega managed to obtain approximately US\$ 2 million EBITDA compared with approximately US\$ 2.5 million negative EBITDA in 2002.

**The capital expenditure** increase of approximately 9% is due mainly to upgrades to several installations and the acquisition of new technologies, aimed to enhance product quality and work safety.

## 2004 Key Objectives

- ▶ Start the solvent dearomatization unit and attain nameplate standards and safety requirements
- ▶ Begin output of ecological solvents and capture a significant share of the domestic market
- ▶ Begin production of additivized road bitumen and increase domestic market share
- ▶ Further develop production of Calor brand heating oils
- ▶ Continue with the environmental cleaning program

# Petrochemicals

## 2003 Achievements

- ▶ Polypropylene output increased to 63,065 metric tons (MT) in 2003, 11% over 2002
- ▶ Rompetrol Petrochemicals showed approximately US\$ 62 million turnover, in 2003
- ▶ 2003 EBITDA was US\$ 2,114,067
- ▶ Export increased by 56 %



Established in December 2002, following the separation of polymers production from the main refining activities at Rompetrol Rafinare, the Petrochemical Unit was designed and built in the mid 1980s. It is the newest Romanian petrochemical complex, designed using both Romanian and foreign technology (UOP, Mitsui, Snamprogetti, Heat Research Corporation, Pullman Kellogg, etc).

The company is currently organized in three areas: polypropylene (PP) production, auxiliary production and trading. The most important part of the company, the Polypropylene plant, has a nameplate capacity of 60,000 tons/year, which was increased in the past years, the target for the end of 2004 being 80,000 tons.

Petrochemicals dominates domestic supply of polypropylene, owning 70% of the total market. Until now, its direct competitor, Lukoil Petrotel held a very small capacity of polypropylene which was closed last year. Research performed by Nexant/Chem Systems has taken into account the small size of the Romanian polypropylene market, and deemed it highly improbable that any other company would decide to open another capacity in the short to medium term.



#### Rompetro Petrochemicals' range of products includes:

- ▶ own produced Polypropylene (such as common grades of polypropylene for injection & blow moulding, films, monofilaments, fibers and tape grades);
- ▶ merchandise purchased from third parties and sold under the Rompetro Petrochemicals brand (such as special grades of polypropylene, HDPE, LDPE, PET, PVC).
- ▶ other products, for Rompetro Rafinare (propane and steam), and for own internal needs (purified propylene, steam and brine).

Products both own produced or purchased from third parties and sold under the Rompetro Petrochemicals brand, are offered to the domestic and to the regional markets (Black Sea, Mediterranean Sea, Central & Eastern Europe). Rompetro Petrochemicals directs on the Turkish market the majority of its exports, and, beginning with 2003, Rompetro Petrochemicals extended its sales to markets including Italy, Slovenia, Serbia, Republic of Moldova.

Starting mid 2003, Rompetro Petrochemicals also decided to begin a sustainable trading activity to strengthen its standing on the Romanian market. Its intention was to cover the range of petrochemical products not currently produced by Rompetro Petrochemicals, but in high demand on the Romanian market. PP special grades and compounds, HDPE, LDPE, PET were imported from third parties and sold under the Rompetro Petrochemicals brand in order to balance the turnover and gain additional domestic market share. This "new ventures" trading activity achieved 29% of total sales between June and December 2003 (by contrast to the 1% registered in June).

Sales structure (quantitative):

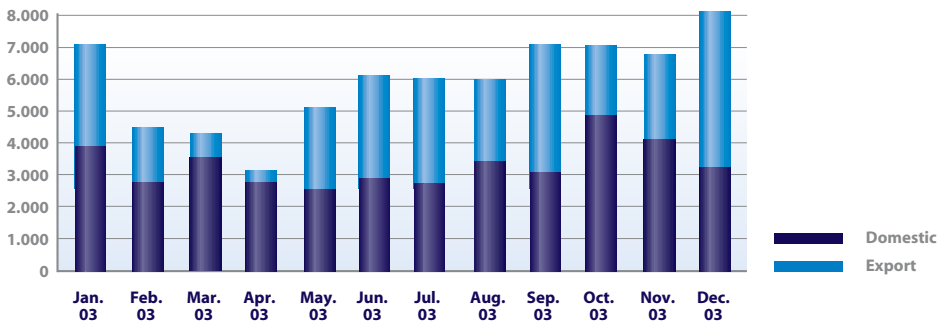
► by destination:

- ▷ domestic – 39,626 MT
- ▷ export – 32,053 MT

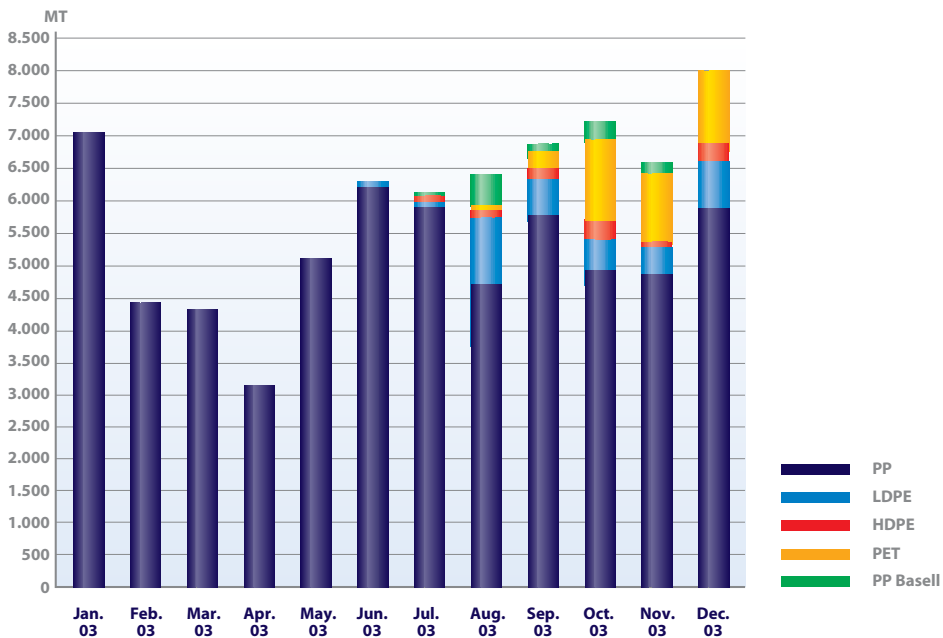
► own products/new ventures:

- ▷ 62,462 MT – PP from own production
- ▷ 9,217 MT – trading

**Sales 2003 / destination**



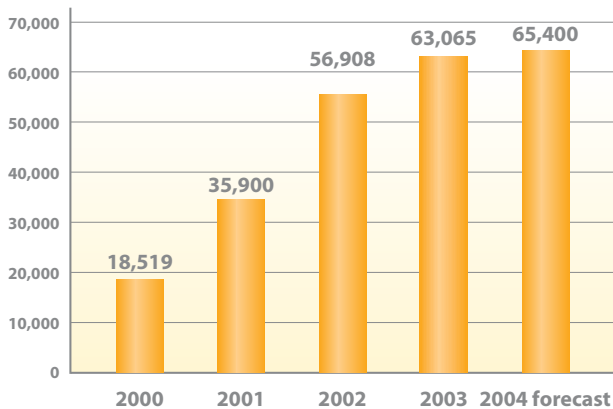
**Monthly sales per sort**





Romp petrol Petrochemicals also worked to enhance its competitive position using the opportunities afforded by the World Wide Web. In a push for e-business, Rompetrol Petrochemicals began sale of petrochemical products via the Internet in 2003.

**Output at Polypropylene Plant**



## Investments

During 2003, the total sum budgeted for investments was US\$ 2.1 million. As part of the investment program, the Polypropylene plant static, dynamic, electrical, and instrumentation equipments were revamped, the Brine Unit equipment and the C5 Isomerization Unit upgraded and the HDPE-PP plants warehouses refurbished.

Romp petrol Petrochemicals' strategy relies on producing and delivering high value-added products (different grades of polypropylene) on a market which, according to the specialists, is going to reach a peak, in terms of prices, during 2004 – 2006. The company will also pursue its trading, under the Rompetrol Petrochemicals brand, of other polymers (HDPE, LDPE, PET, PVC), and polypropylene compounds purchased from third parties.

Total investments budgeted for 2004 amount US\$ 10 million. The investments are targeted to the increase of the Polypropylene plant nameplate capacity and its modernization by introducing a DCS system; the recovery of steam obtained in the turbines; the propylene purifying installation modernization; and the development of the Midia Port facilities. Forecasts show that for 2004 Rompetrol Petrochemicals will reach a turnover of approx. US\$ 113 million (representing an increase of 50% relative to 2003).

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003
Gross revenues	61,940
Gross margin	4,060
EBITDA	2,478
Capital expenditure	2,114

The majority of **revenues** were obtained in 2003 from production and sales of petrochemical products (polypropylene, special grades of polypropylene, HDPE, LDPE, PET, PVC). Starting June 2003, the company developed a sustainable trading activity, which allowed an important growth of turnover in the second half of the year. Petrochemicals' turnover increased by 116% in the last three months of the year compared to the first three months. Out of total quantity sold during the year (own products and trading activity), approximately 45% was exported.

Petrochemicals managed to increase **EBITDA** from month to month, reaching a cumulated EBITDA of approximately US\$ 2.5 million at year-end.

**Capital expenditure** recorded in 2003 reflects the upgrading and modernization of different production equipments and of Petrochemicals' laboratory.

## 2004 Key Objectives

- ▶ Become an important player in the Central & Eastern European petrochemical market
- ▶ Gain independence in raw materials supplying and products exports
- ▶ Conquer an important share of the domestic market for the traded products (HDPE, LDPE, PET, and polypropylene compounds)
- ▶ Continue the restructuring of the business processes
- ▶ Design a new information system architecture

# Retail & Wholesale

## Retail

### 2003 Key Achievements

- ▶ 22 new stations were built and the average daily sales almost doubled, as result of network expansion, contract sales and of marketing programs
- ▶ Launched first full euro-standard range of products
- ▶ Rebranded all major locations

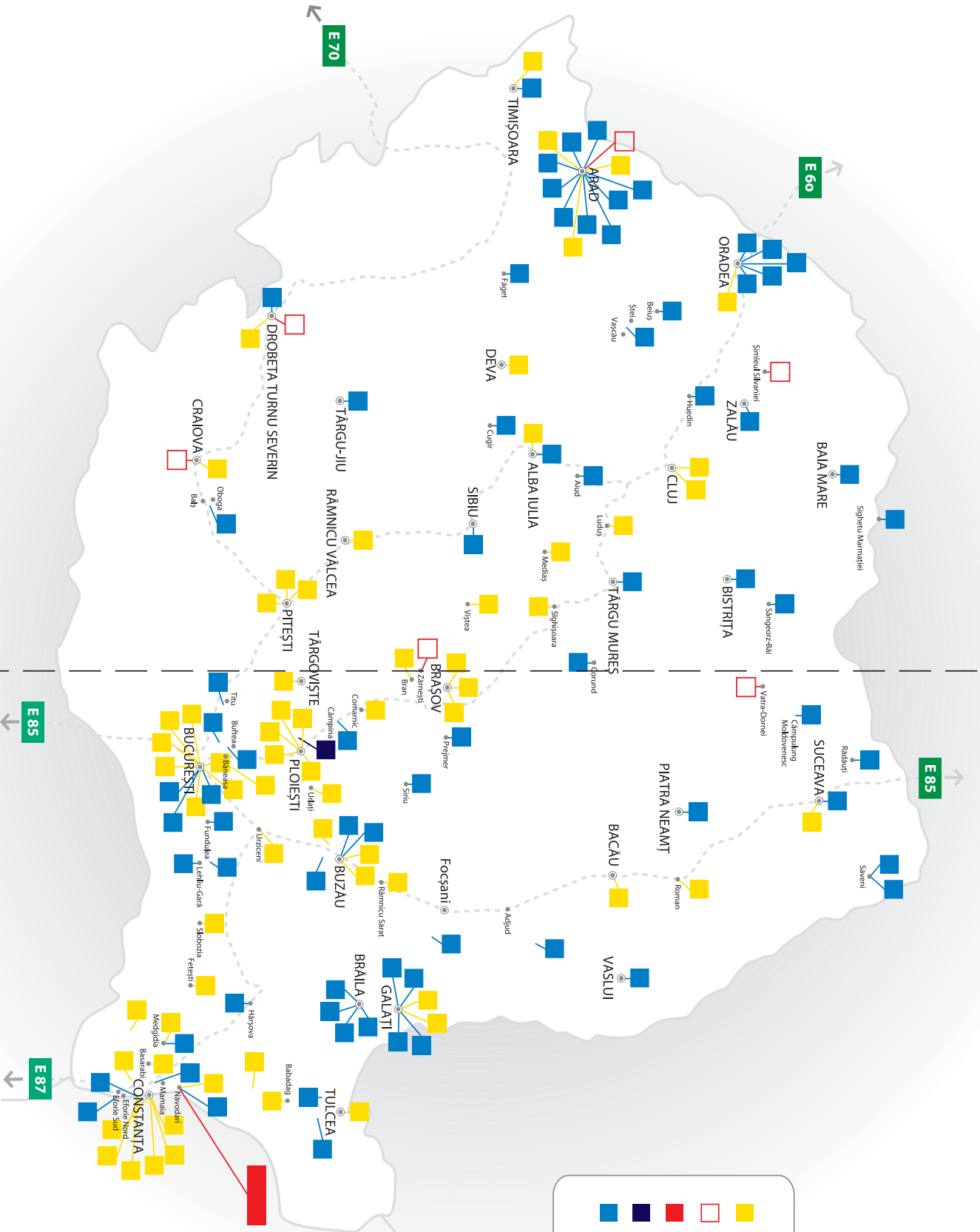


Rompetrol's retail concept satisfies market demand for well-positioned, professional, clean, modern and attractive branded petrol stations with car wash facilities (incorporating oil change/service where appropriate), efficient products and services within the shop and forecourt facilities. The concept also leverages off the already achieved high regard by consumers for the quality and availability of Rompetrol branded products in the market place.

The products and services are actively sold and merchandised by the Rompetrol Downstream via a network of 60 existing stations, company owned and operated and another 140 allied filling stations. Rompetrol also performs wholesale operations for its clients through 7 of the Group depots, located in Navodari, Arad, Simleul Silvaniei, Vatra Dornei, Mogosoaia (Bucharest area), Zarnesti (Brasov area) and Turnu Severin. We sell high quality products supplied by one of our Group refineries, Rompetrol Rafinare, with a recognised brand on the local market.

Our strategic goal is to become a leading retailer in Romania, through the development of a nationwide network, for the purpose of providing quality products and services for our customers, wherever they require fuel. Consistent with this goal, in 2003 we were able to complete a program by which 22 stations were built. Currently, more than additional 50 sites for construction were identified and secured and relevant planning permissions obtained as well as forecourt layout & shop design standards were agreed.

Rompetrol's 2003 marketing campaign contributed to the strengthening of the Rompetrol brand image and to an increase in Group brand awareness. In line with the increased brand awareness, average daily sales almost doubled, as result of network expansion, contract sales and of the marketing efforts.



Black Sea

	Owned stations
	Depo
	Petromidia Refinery
	Vega Refinery
	Friendly stations

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# Map of Rompetrol Gas Stations

Quick expansion and strategic objectives resulted in higher requirements in terms of managing the information necessary for running our business. This is why the company has implemented programs to roll out comprehensive software applications and the related infrastructure in the operational and financial areas, which will be fully implemented during 2004.

## Marketing strategy

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The company's marketing strategy is focused on the rapid expansion of the network and an increase in sales volumes on shop and fuel. The new corporate identity will also be instrumental in increasing company appeal and Rompetrol works to ensure that employees' contributions to high quality service adds to overall brand awareness.

We also estimate fuel sales volume increases due to:

- ▶ The efforts of a dedicated sales force, targeting fleet customers;
- ▶ Increased service quality and pro-active customer service.

Our strategy is based on the constant growth of the automotive fuel market evident in the past 10 years and a concentration of the market supply towards large branded retailers.

The network development program, together with the marketing and sales efforts is expected to result in higher retail sales, which for 2004 are estimated at approximately 190 thousand tons. Shop sales will increase in line with fuel sales to approximately US\$ 17 million.

## Products

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Via its country wide network, Rompetrol offers a full range of automotive fuels as well as fuels for domestic use, including:

- ▶ **Premium E Plus ecological fuel** type with lead simulator (MMT)
- ▶ **Euro Standard Unleaded, Euro Plus Unleaded, Euro Super 98 Unleaded gasoline** - ecological fuel type, eliminates lead noxes;
- ▶ **Euro 3 and Euro 4 Diesel** (Contains a very low percentage of sulphur – maximum 50 ppm);
- ▶ **LPG** for automotive and domestic use;

All Rompetrol fuels are additivated, allowing efficient consumption and engine protection.

In addition to fuels, all stations operate convenience stores and, where possible, other service facilities (e.g. car wash). We work continuously towards increasing the share of non-fuel sales of the network, in order to capitalise on the changes in consumption habits of our customers.



## Fill&Go

Romp petrol's most recent service brand, is the first fully automated service system designed for the management of vehicle fleets. Fill & Go is the most advanced fleet management system on the market, available only in Rompetrol's network. The rollout of the system is expected to generate a significant increase in sales to corporate customers.

## Fuel & Shop sales

Fuel and shop sales in retail increased sharply throughout 2003, as result of network expansion and higher sales per station.

	2003	2002
Fuel sales (to)	80,460	45,338
Fuel sales (US\$ million)	57.9	28.04
Shop sales (US\$ million)	5.0	2.3

## Axial

Romp petrol, via its New Product Unit, is actively involved in developing and marketing its own range of shop products including a lubricant range and other car care products. In 2003 Rompetrol completed the brand strategy and production of its first lubricant, Axial, which was released on the market early 2004.

The Axial range is Rompetrol's first brand lubricant range, designed to meet the demands of high end users. Axial is a top tier lubricant presented in color-coded, 1 and 4 liter recipients for easy recognition. The three assortments, diesel formula, gasoline formula and semi synthetic formula, have been developed for engines working in changing conditions. All variants include high or low viscosity options, function of the type of environment the customer estimates his car's engine will operate in.

## Brand awareness by employees' contributions to high quality service

As our company operations cover a broad range of services and products, and involves personnel at all levels, training represents our preferred method for personal growth and wellness.

In order to improve service quality, in 2003, most relevant training programs have targeted the employees in the gas stations network and those who interface with our customers. These programs mainly include

- ▶ Training program for attendants in the gas station (“Be My Guest”), focused on Customers Service methods, dealing with difficult clients, shop activities etc.;
- ▶ Training program for station managers, focused on customers service, sales and merchandising tools and techniques, improving coaching skills.

Also, an important direction of the training program is related to new technologies and is focused on “on the job” training for the employees who are likely to use new technologies. Our training activity is an ongoing process, targeted at improving the quality of service and the overall quality of our work.

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Revenues	238,427	154,153	55
Gross margin	15,403	9,375	64
EBITDA	3,505	3,383	4
Capital expenditure	24,274	16,112	51

Main causes for the positive evolution of **revenues** recorded in 2003 are network expansion (by 22 new stations), higher sales per station, increase of sales prices and product quality

**Gross margin** growth was higher than the growth of revenues, due to an increase of retail margins for oil products on the domestic market.

The increase of **EBITDA** was 4%, due to the impact of sales, general and administrative expenses, which doubled (appr.) in 2003, as a result of new stations roll-out.

**Capital expenditure** growth of approximately 51% is a consequence of investments made to build 22 new stations in 2003.

## 2004 Key Objectives

- ▶ Rapid expansion of the network in locations with high throughput potential
- ▶ Market share increase, by increasing sales volumes on shop and fuel sales
- ▶ Client focus to understand customers’ demands with a tailored customer service strategy
- ▶ Brand awareness and brand image increase by employees’ contributions to high quality service

## Wholesale

### 2003 Key Achievements

- ▶ A new storage depot was built in Mogosoaia
- ▶ All storage facilities were upgraded and expanded

## Romoil

Rompetrol's wholesale activities are supervised and managed by Rompetrol Group member company, Romoil. This Brasov based entity, operational since 1998, was taken over by the Group in February 2002. Following close cooperation between Group and Romoil specialists at the end of 2003 the company was managing 6 fully functional depots and was ready to start operation of a 7<sup>th</sup> one located in Craiova.

Thus, Rompetrol has set the basis of a national wholesale network, as its depots are strategically located in key cities of the country. This will be instrumental in expediting delivery to all company retail locations and those of its partners.

All depots are supplied with top of the line products from the Group's own refinery in Constanta, Rompetrol Rafinare. Because the network is an integrated one – refinery, depots, retail stations – and the Rompetrol Group is developing its own transportation facilities, the quality price ratio is unbeatable.

## Depots

### ▶ Zarnesti

Located 30 km from Brasov, the depot has been designed to provide optimum supply, using road transportation, to locations across central Romania. The depot has an overall capacity of 11,600 cubic meters (CM).

### ▶ Simleul Silvaniei

Located 28 km outside Zalau, Salaj County, the depot is within efficient distance of Cluj, Oradea and Satu Mare, three of Romania's major cities. It has a maximum storage capacity of 7,400 CM.

### ▶ Mogosoaia

Located on the beltway of Bucharest, between Otopeni and Mogosoaia, depot premises cover some 25,891 sqm. The depot is designed as a park with six storage tanks of 2,000 CM and six storage tanks with an individual capacity of 700. Total capacity is 16,200 CM.

### ▶ Vatra Dornei

Located in Argestru, reachable by DN 17 Suceava – Bistrita, the depot has a total storage capacity of 2,720 CM.

► **Arad**

Located on the premises of an industrial platform, in the town of Vladimirescu, Eastern Romania, the depot has a total storage capacity of 6,180 CM.

► Rompetrol's **Craiova** depot will be finalized Q1 2004 (with a total storage capacity of 12,150 CM) and will, together with the company's 7<sup>th</sup> depot, located within the premises of Rompetrol Rafinare, complete the Group's national wholesale network.

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Revenues	210,563	131,011	61
Gross margin	9,832	6,259	57
EBITDA	2,697	684	294
Capital expenditure	17,552	2,252	679

Revenues increase of approximately 61% was the result of higher quantities and higher selling prices of oil products sold during the year and also as a result of mandate and handling contracts concluded in June 2003 with Rompetrol Rafinare and respectively in October 2003 with Shell. Starting with September 2003, Rom Oil S.A. operated through a new depot, build in Mogosoia, which increased the annual quantitative sales by 13% in 2003.

Gross margin positive evolution was the result of higher quantities and higher prices of oil products sold, compared with 2002.

EBITDA was of approximately US\$ 3 million compared with approximately US\$ 1 million in 2002, which means an increase of 294%. The main cause for this positive evolution was the enhancement of sales revenues with 61% while selling, general and administrative expenses followed up a smaller growth path during the year compared with sales growing path.

Capital expenditure growth of 679% in 2003 is explained by the construction of two depots (Mogosoia operational since September 2003 and Craiova, budgeted to be operational from April-May 2004) and the modernization of Vatra Dornei depot acquired in November 2003 by Rom Oil. Capital expenditures were mainly financed through long-term facilities granted by Group banks.

## 2004 Key Objectives

- Complete investments started in 2003 including works at Craiova and Vatra Dornei depots, upgrades and required endowments at Simleul Silvaniei, Zarnesti and Arad depots and implementation of a distribution management system within the Mogosoia depot
- Achieve 115% increase in turnover compared to 2003 by aggressive investment and marketing programs, territorial expansion and increased market share and client base
- Maximize net profit by reducing sales, administrative and general expenses

## Regional branches

The Rompetrol Group's medium term strategy includes a firm regional component as we believe that we have attained a moment in our development where we are ready to go beyond the boundaries of Romania. As such, the Group has already made forays into the markets of neighboring countries including the Republic of Moldova and Bulgaria. Also included in our regional agenda are countries ripe for direct Romanian investment such as Serbia, Macedonia and Turkey.

Rompetrol's two branch companies in Bulgaria and the Republic of Moldova have contributed to both company turnover and reputation.

## Rompetrol Moldova

Rompetrol Moldova is a 90% owned subsidiary of the Rompetrol Group and our means of supplying neighboring Republic of Moldova with our complete fuel range, via a network of exclusive distributors and soon our own gas stations. Rompetrol Moldova sells all Rompetrol fuels and benefits from the added advantage of a professional approach to business making. Its marketed strengths lie in the reliable program of supply and the certified quality of fuels provided (which come from Rompetrol Group's Romanian refinery, Rompetrol Rafinare). Rompetrol Moldova may also benefit from the currently low rate of taxation for oil products as well as from the stable forex rates. Existing threats include the low price of end products on the Moldovan market (by contrast to the EU or even Romania), a significantly larger black market of oil products fuelled by disloyal competition from former USSR producers and state bureaucracy that does little to contain this phenomenon.

However, Rompetrol Moldova currently owns 16% of the gasoline and diesel market and 11 % of the LPG market and plans to invest in building 5 state-of-the art Rompetrol standard gas stations.

## 2004 Key Objectives

- ▶ Create Rompetrol distribution network across the Republic of Moldova
- ▶ Develop petrochemicals market share
- ▶ Increase Rompetrol brand awareness

## Rompetrol Bulgaria

Established in December 2002, Rompetrol's Bulgarian branch office is mainly involved in the wholesale trade of Rompetrol's oil products. The company covers 80% of the oil products market in the Ruse area and some 12 % of the overall Bulgarian market. Sales have increased progressively since company set-up due to the availability of supply and delivery ensured by the company's own warehouse and oil terminal.

Rompetrol's Bulgarian branch currently employs 25 staff with extensive experience in the oil field and counts among its strengths the high quality of delivered products and a flexible relation with all clients. Rompetrol Bulgaria plans to increase storage capacity and hopes to capitalize on the lack of high quality products on the Bulgarian market.

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003
Revenues	41,430
Gross margin	1,330
EBITDA	783
Capital expenditure	946

The **revenues** were obtained mainly from oil products trading, with an increase in the last month of the year of approximately 270% compared with the first 3 months (computation based on average exchange rate between BGN and US\$ for the period considered).

**Capital expenditure** represents the amount invested by Rompetrol Bulgaria for construction of a new depot.



# Services

## Rompetrol Logistics

### 2003 Key Achievements

- ▶ Some 240 ships delivering or loading crude and refined oil products were operated by Rompetrol Logistics specialists in 2003, with a local record of more than 0.5 million tons of crude, and more than 450,000 tons of oil products being unloaded and loaded by Logistics teams at Midia port.
- ▶ More than 1,400,000 gas cylinders were sold or recharged in 2003

Rompetrol Logistics, a Rompetrol member since 2001, is headquartered in Bucharest and operates via four branch offices in key locations across Southern and Southeastern Romania. Rompetrol Logistics is primarily a railway and road carrier, with expert knowledge of shipping & handling matters involving the oil and oil products. The company equally provides repairs and maintenance for most any vehicles and oilfield equipment, and has extensive involvement in gas retail trade.

Rompetrol Logistics is the primary operator of Rompetrol's own port to the Black Sea, the Midia Port, located in the proximity of our largest refinery, Petromidia.

In 2003, Logistics chose to focus on its railway business, having as main objective to become Romania's leading private railway operator. This entailed not only certification by various bodies of the Romanian Railway Authority, but also developing its assets base and staff professional skills. Rompetrol Logistics actively utilized its entire 400-tank car and 15-locomotive fleet to transport fuel oil, gasoline and liquefied petroleum gas.

The company's specialized automotive fleet also played a major part in its carrier services, delivering an estimated 60,000 tons of oil products to various locations across the country.

Rompetrol's own Midia Port was busy in 2003, with some 240 ships delivering or loading crude and refined oil products. Trade of gas cylinders, conducted and supervised by Logistics, via the LPG filling station, was especially productive in 2003, with more than 1,400,000 cylinders sold or recharged, which is an especially positive figure in light of aggressive expansion of national gas pipeline networks.

2003 revenues have increased and all other positive evolutions are consistent with the 2003

development of the company. In 2004, Rompetrol Logistics expects to invest in the vicinity of US\$ 1.9 million to further expand its rail fleet and improve railway carrier services. The company has also estimated that the gas cylinder market in Romania, and especially demand for LPG as fuel for cars and propane for industrial consumption, will increase and some US\$ 0.3 million has been set aside for investment in new equipment for gas filling stations, gas cylinders and tanks. Rompetrol Logistics will also pursue its other regular businesses, including maneuvering Rompetrol's two refinery yards, and provision of maintenance and repairs for heavy freight and low freight vehicles.

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Revenues	18,582	14,225	31
Gross margin	2,314	1,890	22
EBITDA	1,823	1,404	30
Capital expenditure	4,707	580	712

**Revenues** growth was of approximately 31% as a result of higher quantities operated by railway. One of the causes is the enlargement of depots operated by the companies within the group, which led to higher operations for Rompetrol Logistics. Also, at the end of 2003, Rompetrol Logistics became the operator for Rompetrol Downstream. During 2003, Rompetrol Logistics managed to gain an important share of the LPG market.

**Gross margin** increased by 22%, due to the fact that, with the increase of volumes, the company's capacity was exceeded and therefore, additional railway fleet was rented from third parties, in order to satisfy demand.

The **EBITDA** increase of 30% exceeded the increase of gross margin due to the depreciation expense included in the cost of sales (representing a growth of approximately 60% compared with 2002), as a consequence of acquisitions made during the year.

**Capital expenditure** incurred in 2003 reflects the acquisition and putting in function of LPG filling station and acquisition of new tank trucks and cisterns, which allowed Logistics to enhance its operating capacity.

## 2004 Key Objectives

- ▶ Acquisition of new tank trucks and cisterns and new equipment required for improved operation of Midia Port facilities
- ▶ Investment in new equipment for gas filling stations, gas cylinders and tanks
- ▶ Expand rail fleet of both locomotives and wagons

# Rominserv

## Engineering, Procurement Construction & Maintenance

### 2003 Key Achievements

- ▶ Installed a gasoline in-line blending system in cooperation with FMC Technologies Inc. – the supplier – at the Petromidia refinery
- ▶ General revamps of Vega refinery DV Installation & Hexane Plant
- ▶ Received Germanischer Lloyd GmbH (GLC) certification of its Quality Management System.

Incorporated in December 2001, Rominserv has pooled all EPCM activities of the Rompetrol Group companies and business units. The company soon commenced its activity as an independent contractor and Romania's first integrator of industrial services, maintenance, project management and technical upgrade. Rominserv is currently Rompetrol's general contractor, and parts of its business are still conducted within Group companies.

In 2003, projects worth US\$ 8.08 million were completed within Rompetrol Rafinare (Rompetrol's Navodari refining facility), as well as in neighboring Midia Port.

The In-Line Blending system installed in cooperation with FMC Technologies Inc. – the supplier – at Rompetrol Rafinare was a result of Rompetrol's decision to convert its current manual batch blending operations to an automated in-line system, capable of producing tailored gasoline products, which would more efficiently utilize blending components, not only to reduce give-away, improve quality, but also to reduce storage tank requirements and achieve cost-savings. For this specific project the investment made by the Rompetrol Group reached US\$ 6.6 million, while the designed capacity of the In-Line Blending system is around 1,000 cubic meters of gasoline per hour.

Rominserv teams successfully completed projects worth approximately US\$ 1.65 million in Rompetrol's Ploiesti refinery, Vega, as well as procurement and installation works for various other production units.

Rominserv has been audited by Germanischer Lloyd Certification GmbH (GLC) and received in January of 2004 the certification of its Quality Management System.

According to the evidence provided to the auditor, GLC was able to confirm that Rominserv fulfills the requirements of DIN EN ISO 9001:2000 and maintains a Quality Management System for all three of its major fields of expertise, industrial maintenance, turn-key projects in the industrial field and trade of industrial equipment.

In cooperation with Rompetrol Group specialists, Rominserv has set up ROMINSERVICES THERM CO. Mangalia, a company licensed to produce and distribute thermal power. The potential works & services portfolio at Rominserv is appr. US\$ 600,000 (modernization & rehabilitation of thermal power generating units, installation of measurement and I & C equipment) for Q3 2003 and 2004.

To enhance its equipment vending abilities, Rominserv set up an independent warehouse for industrial equipment, spare parts and construction materials. The new facility is approximately 3,000 square ms in size and has access ways and loading/unloading facilities for trucks. This warehouse will supply all Rominserv clients in that area with spare parts, materials and industrial equipment.

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Revenues	33,135	14,706	125
Gross Margin	3,461	3,125	11
EBITDA	1,731	1,018	70
Capital expenditure	357	376	-5

The 125% increase in **revenues** is the result of several projects completed for Rompetrol Rafinare (out of which the most important was the implementation of in-line blending system) and Ploiesti refinery Vega.

**Gross margin** maintained during year 2003 at 10% out of total revenues, as the cost of sales increased in the same way as the revenues did. The smaller increase of gross margin compared with the increase of revenues must be correlated with the decrease of selling, general and administrative expenses.

The increase of **EBITDA** must be correlated with the decrease of selling, general and administrative expenses in 2003 compared with 2002 and with the increase of cost of sales.

## 2004 Key Objectives

- ▶ Further development of its non-Rompetrol-related share of business, with an estimated 20% of its operations performed for outside clients in 2004
- ▶ Actively seeking new business partners

# Palplast

## Pipes & Fittings

### 2003 Key Achievements

- ▶ Acquired extrusion line for pipes with diameters up to 400mm
- ▶ Acquired extrusion line for pipes with a diameter from 20 to 50mm
- ▶ Completed fittings workshop with machines and tools

Equipped with state-of-the-art manufacturing equipment and with one of the best testing laboratories in Romania, Palplast offers a complete range of polyethylene pipes and fittings for the following applications: water distribution networks, gas networks, crude oil networks, irrigation systems and other applications.

**Quality** is the core objective of Palplast. The company is ISO9001 certified by Lloyd's Register Quality Assurance Limited and has elaborated a "Quality Manual" which guides the entire manufacturing process from managerial responsibilities to internal quality audits, training and service.

Palplast's outstanding quality achievements are recognized by national and international standards. In addition, all products have been tested and certified with Romanian technical and sanitary authorities including testing for Rapid Crack Propagation and Slow Crack Growth of the PE pipes, certification performed by Gastec of Netherlands. Palplast's Test Laboratory is the first Romanian ISCIR Certified Laboratory (ISCIR - State Inspectorate for Pressured Vessels and Lifting Machinery) for testing plastic materials. In 2003 the company has received trademark certification of several industrial models including:

- ▶ Polyethylene Irrigation Systems and components
- ▶ Jointing systems with transition and adaptors
- ▶ Inspection chambers for water networks
- ▶ HDPE systems for drinking water extraction tubing - components

In 2003, the company managed to reposition its core activities from a pure-play manufacturer of polyethylene pipes towards a turn-key solution provider as its staff specialized in design, manufacturing and implementation of complex piping systems including sprinkler and drip irrigation systems. Further engineering plans target innovative solutions for water reservoirs made of PE sheets. As the Romanian market becomes more sophisticated, the core competence built around engineering solutions in PE materials is likely to become the main source for growth.

Some of the punctual investment the company intends to perform in order to increase productivity and quality aim to:

- ▶ Complete Production Hall (504sqm) for metal welding workshop, metal and HDPE construction, painting workshop, metal workshop and offices spaces.
- ▶ Install lifting installations for external warehouse
- ▶ Build silos for raw material with alimentation systems
- ▶ Complete investments started in 2003

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Revenues	4,465	3,790	18
Gross margin	988	846	17
EBITDA	779	722	8
Capital expenditure	212	101	110

**Revenues** increase of approximately 18% is explained by a higher demand of domestic market and by the gain of additional market share of Republic of Moldova (main clients being Rompetrol Moldova and Moldagrocim IM SRL).

The **gross margin** increase is consistent with the 2003 positive evolution of revenues.

One of the causes of a smaller **EBITDA** increase of 8% compared with the increase of revenues is higher marketing expense incurred in 2003 as the result of a sharply campaign for gaining new clients and additional market share.

The 110% of **capital expenditure** derived from the acquisition of two new production lines, one for pipes with diameters up to 400 mm and the other one for pipes with diameters from 20 to 50 mm.

## 2004 Key Objectives

- ▶ Develop irrigation systems (new products for irrigation systems rehabilitation, local distribution of irrigation system)
- ▶ Increase cooperation with other Group Companies (Rominserv, Rompetrol Petrochemicals)
- ▶ Expand distribution network (new local warehouses in Romania and the Republic of Moldova)



The business environment for ecological services has been exacting in 2003. As Rompetrol Group's youngest company, Ecomaster has had to manage several important restrictions, the most important being the lack of funds required to finance investment as a prerequisite to growth.

## Ecomaster



The company corporate and business goals have remained the same, and 2003 was a year in which significant steps were taken in the direction of achievement of these goals. Ecomaster aims to become the most important provider of ecological services for the Romanian industry, as well as to offer adequate support to Rompetrol Group companies to:

- ▶ remove historical pollution;
- ▶ spin-off non-core activities related to environment protection;
- ▶ improve corporate awareness of environmental issues.

The highest goal is, however, to increase total sales percentage derived from outside the Group itself. Company 2003 track record has helped things move forward in that direction.

In 2003 .... ... Ecomaster continued the complex set-up of the sludge processing plant. A new stage of the process, sludge fluidization, was defined and implemented, and, by year end, the whole plant was running, with added investment of about US\$ 1 million.

.... Ecomaster started a new business line: waster water treatment plant management. The company concluded a complex contract to modernize the plant with Swedish PURAC, a U.K. Anglian Waters subsidiary. Within 15 months, a comprehensive over haul of the plant, with a capex of US\$ 5 million will be performed, with a two-fold purpose, to bring the treated water in line with new environmental regulations, and to keep operating expenditure levels at predictable caps.

... new customers have been signed-up for the solid waste treatment section.

... a good level of profitability has been obtained for the combined operations.

Currently two basic problems remain within Ecomaster, namely high dependence on the Group and insufficient level of total sales. In order to meet these challenges our medium to long-term strategy looks to:

- ▶ identify environment-related activities within the Group and prepare for operation;
- ▶ actively seek outside customers;
- ▶ upgrade installations to get opex reductions;
- ▶ add new services to the current offer to prepare for possible phase-out of existing ones.

## Key Financial Data

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Revenues	3,216	1,999	61
Gross margin	674	934	-28
EBITDA	584	500	17
Capital expenditure	31	727	-96

The 61% increase of **revenues** was mainly the result of the implementation of new business line for Rompetrol Rafinare "waster water treatment plant management".

**Gross margin** recorded a decrease of approximately 28% especially due to expenses incurred during the set-up period of the sludge processing plant implemented at Ploiesti refinery, Vega.

The positive trend of **EBITDA** must be correlated with the decrease incurred in selling, general and administrative expenses.

During 2003, Ecomaster did not acquired new technologies or equipment, and therefore, the decrease of **capital expenditure** (as the equipment necessary for company's activity were acquired in 2002).

# **The New Management Model**

# The New Management Model

**“The Rompetrol Group’s most challenging project was to bridge the gap between mentalities.”**

**Dinu Patriciu**

**Chairman & CEO**



The Rompetrol Group was, upon takeover, a mixture of past and present and it was obvious to all that the company would only work if the gap between the old and the new could be somehow bridged. The solution was the New Management Model implemented at Group level and consisting of a revolutionary approach to management (for the Romanian market). Production wise, Rompetrol was the proprietor of some of the country’s most recent and technologically advanced units. However, communist rule and anachronistic views of running a business had burdened the otherwise productive units with issues such as overstaffing, a bias against technological advancement (especially in the field of Information Technology), financial disorganization and a disregard towards any innovation in point of management strategies and instruments.

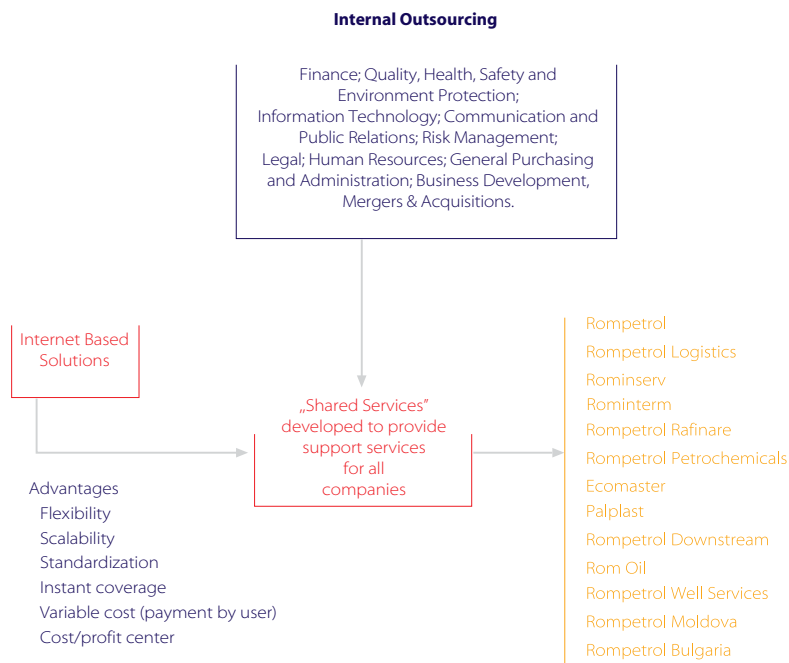
**The New Management Model** relies on three strategic lines of action:

- ▶ replacing the old personnel departments with modern, pro-active “shared services” one
- ▶ establishing strict rules of business conduct and corporate governance
- ▶ conducting a business according to the most recent findings in the field of employment strategies and ethics

# Shared Services

The Shared Services system is a centralized model of management, which has been developed to optimize operational effectiveness. All support services (see table) are delivered to all Group companies. This enables the Rompetrol Group to have a lower cost structure than in a classic management model.

In the Shared Services model, the focus lies on the rapid, high quality provision of services to Group companies (a client-servicing pattern) made possible due to an integrated IT infrastructure and targeted service units (financial, legal, PR etc) covering cross functional activities.



The Group HR function operates with an "internal outsourcing" philosophy designed to replace the old, anachronistic personnel departments. The new approach ensures not only day-to-day handling of staff issues (payroll, formalities and documentation) but includes an extended management and visionary component reflected in programs of HR planning and organizational behaviors, training, personal development, as well as integrated IT services and financial management.

# CSR

## Corporate Social Responsibility

### Local care

As a corporation, we understand that we have an obligation towards our staff, our shareholders and our business partners. They are the building blocks of business performance and their input is invaluable for Rompetrol.

As a corporate citizen, we are committed to developing responsible relations with state authorities in the countries where we operate, and to working together with, and for, the communities and individuals affected by our businesses.

Our corporate citizenship involvement is thoroughly analyzed, professionally pursued, and always socially influential.

The social programs supported by Rompetrol and the Group's active involvement in the local community are specifically targeted at locations in dire need of assistance. For instance, Navodari, where our Rompetrol Rafinare facility is located, is a single-industry town with special needs, as most of its inhabitants have become jobless from the restructuring of neighboring industries. Special attention was granted to specific needs: training and retraining project support such as "Launchpad" – an assistance program for the jobless, counseling, assistance, recruitment, redeployment and employment services for the unemployed in Navodari, identifying the need for jobs in Constanta county, employment of 160 unemployed etc. Rompetrol's specialists also provide services and support for the local community, including financing and implementing a computer based system, which enables online collection of local taxes and duties in Navodari Town Hall.

Rompetrol Rafinare supplies diesel oil for the farming works in the county, being one of the main suppliers. Significant quantities of fuel are delivered to schools, kindergartens, town halls and hospitals in the area.

## Health and social assistance

Romp petrol Rafinare partners with the Holt Organization caring for HIV-positive children in Dobrogea.

## Education and Training

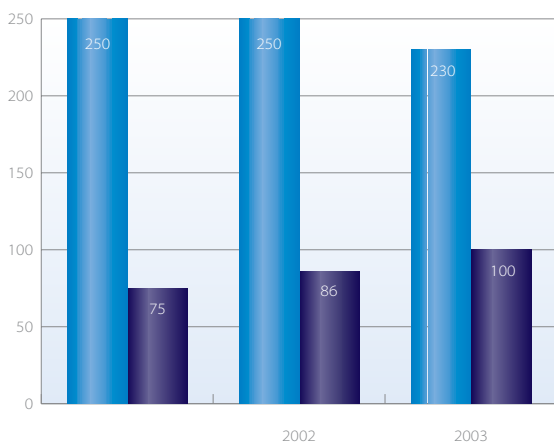
Annually, a number of approx. 250 university graduates (mainly from the technical faculties) perform their practical summer courses on the Rompetrol Rafinare platform. Students attending come mainly from the Ovidius University in Constanta, the Polytechnic University in Bucharest, the Polytechnic University in Iasi and the "Spiru Haret" University in Constanta. Some of the trainees stay on with Rompetrol as full time employees.

2003's Impact Project in collaboration with the "Voluntari pentru idei si proiecte (VIP)" (Volunteers for Ideas and Projects), a students' organization, resulted in 25 students/graduates interning with Rompetrol and performing case studies in management fields such as human resources, public relations, business development, financial and IT.

The „Young Petrochemists” program - financed by PHARE - led to the training of 75 graduates and young unemployed persons, with a view to employment within Rompetrol Petrochemicals. The project was aimed both at the actual training related to the technical part, but also at developing teamwork within Rompetrol's Petrochemical Unit and the interns.

■ Practice  
■ Projects

**No. of young graduates involved by Rompetrol Rafinare in summer practice and projects**



Romp petrol, by means of the Local Development Agency Navodari (ADLN), also provides support services for the set up of small to medium sized enterprises. Rompetrol and ADLN experts worked together to provide consultancy in developing the entrepreneurial skills of the unemployed. Participants in this program are individually assisted to draw up a business plan, start the activity and access sources of financing.



## The arts

The Romanian theatre and arts community is a long-standing and prized partner of the Rompetrol Group. We have assisted its most significant organization, UNITER, in some of its projects and are always present at the UNITER Gala to offer our regard to the professionals in the field of theatrical direction, staging, criticism and performance.

## Aiming high

The Rompetrol Group has been a close friend of daring Romanians looking to become the best in their field. In 2003, two of Rompetrol's most significant projects included the continued support of Ms. Uca Marinescu, Romania's premier female explorer and the first to undertake successful solitary expeditions to the North and South Pole, and a partnership with ARCA, the Aeronautics and Cosmonautics Romanian Association, the first Romanians to attempt launching a rocket into space. ARCA is a non-governmental organization that promotes aerospace projects as well as other space-related activities and Rompetrol was proud to sponsor its team in representing Romania in the most ambitious world competition addressed to the private sector in astronautics: the X Prize competition.

# Corporate Governance

The Rompetrol Group abides by strict rules of corporate governance. Although Romania has as yet to adopt a Code of Corporate Governance, our performance in this field precedes state regulatory measures. The company relies on a checks and balances structure involving the Board of Directors, the Strategic Council and the Internal Controller's Office.

The Strategic Council (made up of senior managers of business units and departments) is instrumental in formulating recommendations to the Board of Directors, where these are discussed against operational objectives and integrated in the general operational plans of the company. The Board of Directors also directly supervises the Internal Controller's Office, which functions within the company's financial department and provides the statutory supervision of financial issues.

# Employment Ethics

The increase in the total number of employees was a main challenge to which the Rompetrol Group successfully answered. In only 5 years, Rompetrol's personnel increased 37 times (from 164 in 1999, to 6,077 in 2004).

- ▶ Company success is closely linked to HR policies and procedures matching the company's objectives and strategic plans.
- ▶ Company culture, values and managerial behaviour have a major influence on achieving excellence.
- ▶ Continuous effort to involve all employees in working together with a sense of common purpose.

## Recruitment

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### Performance and equal opportunities

The increase in number of employees has led to the development of several recruitment and selection methods whose purpose is both to carry out a common activity in all Group companies, and to build a database, using one of the latest recruitment and management methods, a web-based tool.

Rompetrol's recruitment policy aims to identify the best candidate for every job, by promoting internal selection, by process transparency & accuracy, and by granting equal chances to all candidates.

Rompetrol opposes discrimination on any grounds and at all levels of employment.

## Code of practice

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Rompetrol's Code of Practice ensures equal chances to all employees. Every Rompetrol employee is responsible for his/her actions inside the company, and every employee is expected to have a loyal and preemptive conduct outside Group premises so that Group interests are preserved.

Rompetrol's employees have as many rights as they do responsibilities. They work in an environment promoting productivity and performance, where all conditions are provided so that they can perform to the best of their abilities.

## Employees' training and development

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Staff access to quality training, ensuring performance within the held position and in a continuously changing environment, is a permanent concern. Coherent programs in this respect ensure that employees may best develop and apply their knowledge and capacities, value their own potential and ensure a high rate of return on investment for the company.

Between 2000-2003, in full process of reorganizing and restructuring the Group, training was focused on the new employees' induction, IT training and specialized training (including certifications and authorizations). In addition to these programs, in 2003, specific activity improvement courses were added within the Group's companies: English Language, Project Management, Description Capacities, Retail Sales and Customer Service, Special Well Operations and Negotiation Skills etc.

## Rewards and advantages

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Rompétrol has become an employer of choice locally. Every employee is remunerated for the efforts made in order to achieve the Group's strategic objectives. Salaries are negotiated upon employment, and regularly revised depending on performance. Basic packages include a performance bonus option.

## Social partnership

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The employees of the Group's companies are free to associate and form unions. This has resulted in a stable social environment.

# **Quality, Health, Safety & Environment**





# Quality, Health, Safety & Environment

## Management

The year 2003 was a significant milestone in the life of the Rompetrol Group, as the operations of the Group of companies have undergone significant reforms. During this transformation, QHSE (quality, health, safety and environment) management systems were redesigned to better reflect the new direction of the Group of companies.

The fundamental principles for health, safety and the environment are laid down in the company's policy statement for QHSE management. We have integrated HSE and quality management both in terms of operation and organization.

Our Group of companies is able to give quick response to emerging challenges after performing the full-scale revision of its operation processes and ensuring that the business efforts are backed-up by a strategy to ensure sustainable development. In 2003 we re-defined our policies related to quality, health safety and environmental protection, and developed a new operational model in order to successfully implement this new strategy.

The QHSE Department reports directly to the top management and is responsible for professional control, management and co-ordination of this function. Our QHSE management systems ensure that customer focus, environmental protection, occupational health and safety issues are all properly taken into consideration. In terms of management accountability, QHSE belongs to the executive management level. QHSE employs specialized QHSE managers and all other staff required by law, such as waste inspectors, safety experts, risk assessment and emergency breakdown staff.

All the work locations implement integrated management systems that are certified against international standards such as ISO 9001:2000 - for all subsidiaries and work locations - and ISO 14001:1996 for the two refineries of the group and the petrochemical plant. Related to the specification guide OHSAS 18001:1999, the certification is in process for all work locations. The key element of the successful implementation of this program is the effective cooperation between our various organization and units of the group. In addition to these major initiatives, we started to enforce the need for public demonstration of QHSE elements.

An effective evaluation of the performance of our QHSE program can be carried out with the help of our key performance indicator (kpi) system. In 2003 we gradually expanded this evaluation system across the entire Rompetrol Group as well as our key contractual partners. One of our objectives for 2004 is to generate reporting of relevant kpi, for all entities of the Group, enabling aggregate reporting.

We can demonstrate the substantial improvement in our QHSE performance with the use of some statistics. In the last four years no fatal accidents occurred at work in Rompetrol entities. In 2003, the number of accidents fell by to just 1 case, which represent a very good result referring to the EU standards. In respect to safety and security technologies, the number of fire incidents fell by 85% and there were no total fire damages.

In 2003 Rompetrol continued to implement the QHSE projects, part of the large-scale quality, health & safety and environmental protection program. From the quality point of view, our refineries are in process of reducing the production of heavy fuels with high sulfur content and increasing to 100% the production of EU compliant, cleaner and more valuable white products

These results are due mainly to the very sound prevention culture of our personnel and we clearly defined the need to supplement this excellent feature with improvements in the design and ergonomics of our processes.

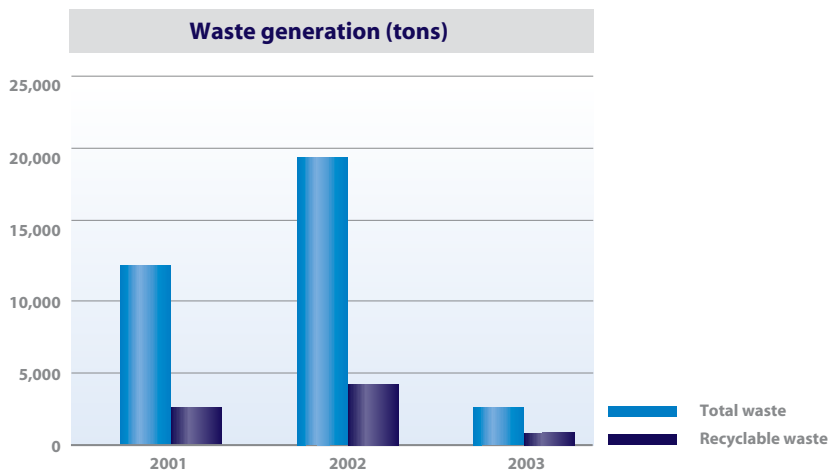
In the last three years Rompetrol spent the equivalent of US\$ 25.64 million on the remediation of environmental liabilities of its refineries, such as the modernization of wastewater treatment, gas desulfurization, elimination of acid tars, the decontamination of soil and groundwater.



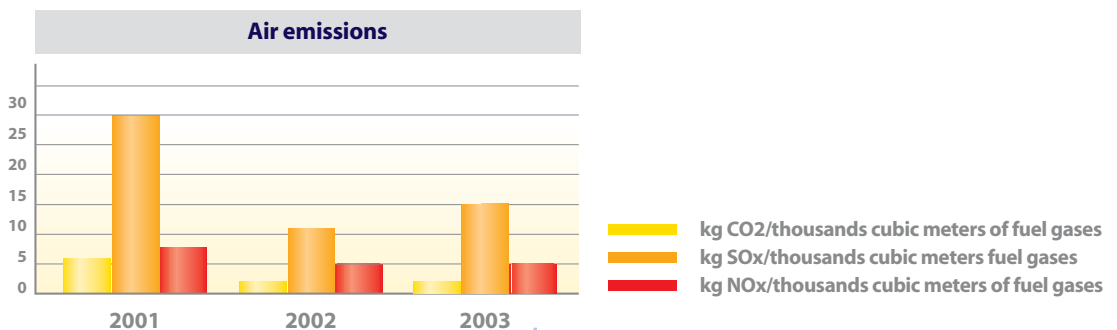
## Quality, Health, Safety and Environment

► In 2002, Rompetrol launched six unleaded fuels (Premium E (E +), Euro Standard, Euro Plus, Euro Super 98 – gasolines and Euro, Super Euro - diesel fuels) and adjusted its processes so as to produce 100% and higher quantities of EU compliant diesel fuel and gasoline at 2005 EU compliance levels for sulfur content) in conjunction with a rapid increase of the number of retail stations.

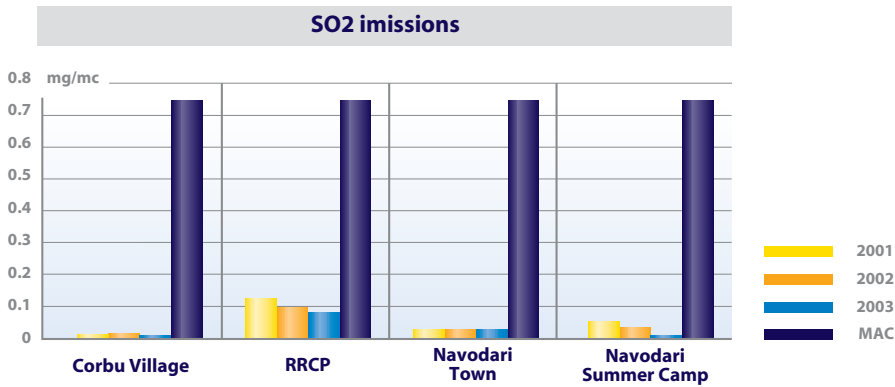
► The companies in our Group established targets for safeguarding resources by improving energy efficiency, by increase of recycling, by minimizing emissions, and by reducing waste and improving waste disposal capabilities.



► Already since 2001 ROMPETROL has drastically reduced the emission levels of the most important pollutants (SO<sub>2</sub>, CO<sub>2</sub>, and volatile organic compounds (VOC) (several tanks were refit with double roof). It should be emphasized that CO<sub>2</sub> is the main greenhouse gas resulted from our operations.



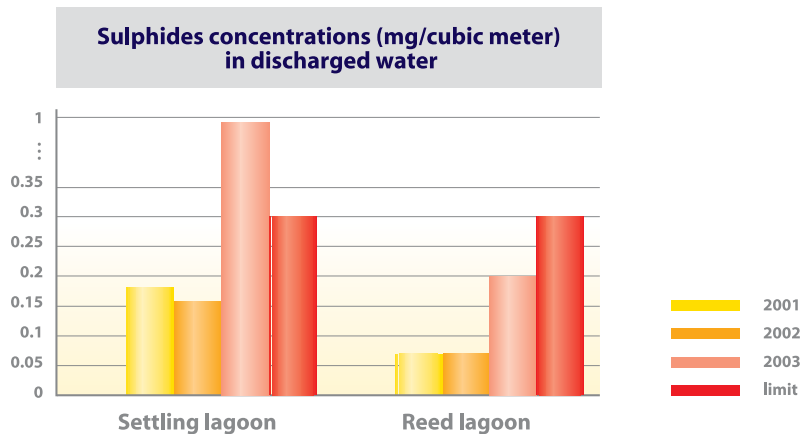
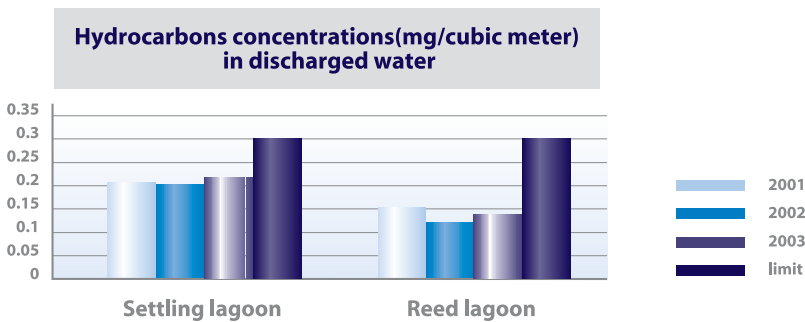


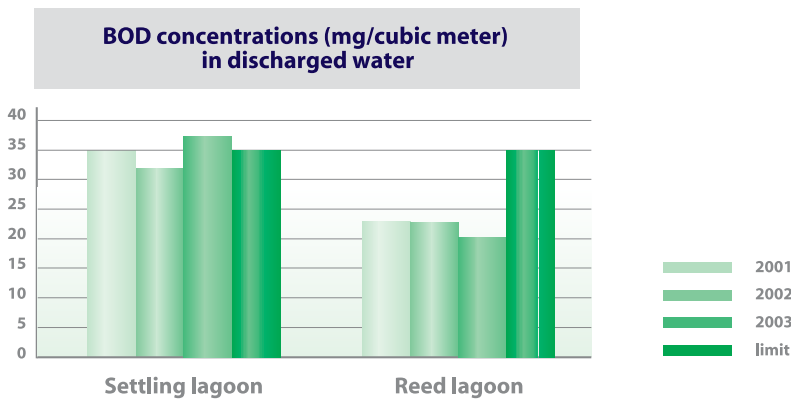


In absolute value, the concentrations of SO<sub>2</sub> are much below MAC (maximum acceptable concentration - MAC)

► Compared to 2002, due to several investments in wastewater treatment in conjunction with improvements in production processes, Rompetrol improved the quality of wastewater treatment as follows:

► Reduction of hydrocarbons content with 20.77%, reduction of sulphides content with 1.43% and with 8.53% in terms of biochemical oxygen demand (BOD).





► It is a common practice for our companies to develop the technological units, the subsequent processes and products on the basis of the latest safety engineering practices, ecological criteria and technologies, in order to improve the business process and not only to follow the “stay-in-business” approach

► the expenditures for environmental protection amounted to approx. US\$ 9.14 million in 2002, which is US\$ 0.14 million more than in 2002. The major investments were in measures to reduce the sulfur content of the oil products and the elimination of historical pollution at both refineries.

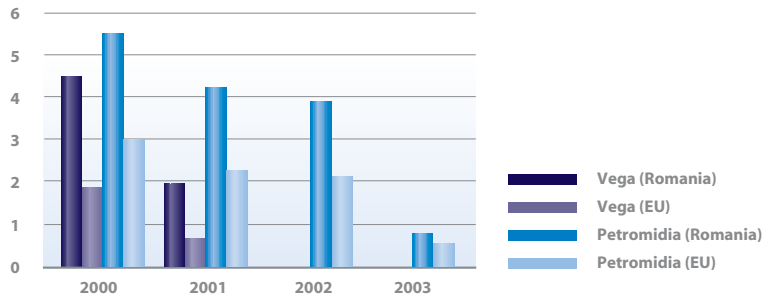
► At the same time, with the aim to ensure more than compliance, and meet stricter requirements, the newly formed company of Rompetrol Ecomaster, provided state-of-the-art ecological clean-up and recycling services not only to the companies of the group, but also for other Romanian operators.

► Safety is an essential element of the management principles of Rompetrol. At the same time, health and safety of the workforce and safe plant operation is an important corporate objective. We started to implement a company-wide project related to the “implementation of a near-miss culture” in order to ensure that all work processes are safe – for us, our neighbors, our contractors/subcontractors and our customers

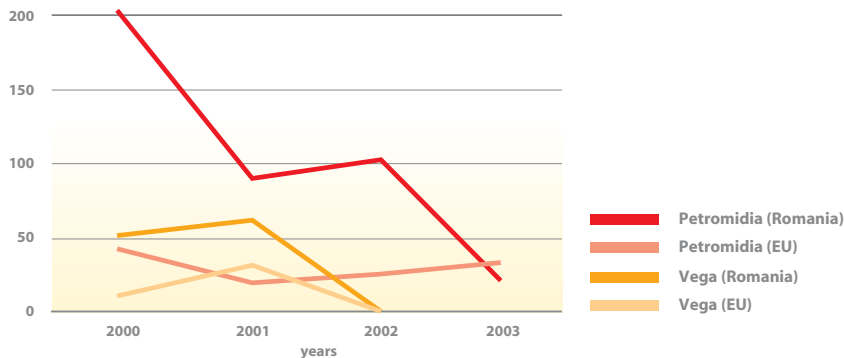
he very sound culture of safety will be gradually renewed, so as to include also improvement elements for the ergonomics of the processes and limit itself to the investigation of accidents/incidents, or clarification of responsibility for safety roles.

For refining, in case of Vega Refinery the incident frequency, measured yearly by the number of injuries and illnesses per million work hours, remained at 0, like in in 2002. In case of Petromidia Refinery the same ratio fell from 2.15 in 2002 to 0.379 in 2003. However, the severity ration increased slightly in accordance to the EU method.

**Injury and illness ratio (Romanian - number of accidents with absence from work >/ 1 day x1000/average no. of employees and EU reporting systems - number of accidents with absence from work >/ 1 day in 1 million working hours)**



**Severity ratio (number of lost days x 1000/ average no. of employees and EU - lost days) / no. of cases with lost days)**



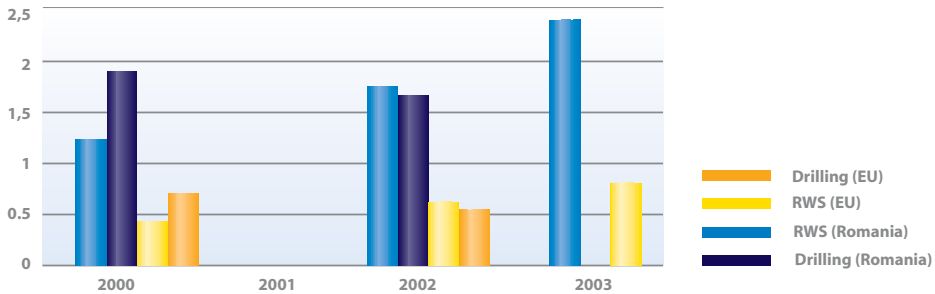
In case of the Upstream Operations the situation could be summarized as follows:

- ▶ the incident frequency for Drilling & Workover, fell from 0.57 in 2002, to 0 in 2003 (also year 2001 was on of the zero-incidents) year.

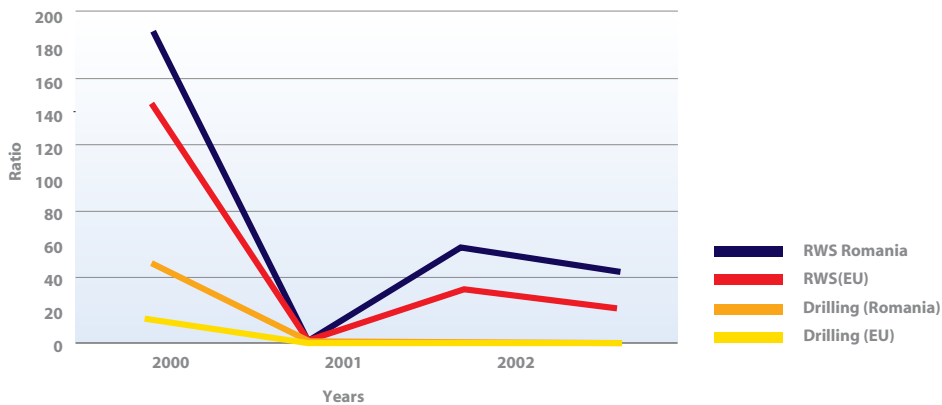
In case of Well Services the same ratio increased from 0.6 in 2002 to 0.8 in 2003 (again, year 2001 was free of incidents).

- ▶ the severity ratio for Drilling & Workover, fell from 2 in 2002, to 0 in 2003 and from 39 in 2002 to 24 in 2003 in case of Well Services (for both services, year 2001 was free of incidents).

**Injury and illness ratio (number of accidents with absence from work > / 1 day x 1,000/average no. of employees and EU reporting system - number of accidents with absence from work > / day in 1 million working hours)**



**Severity ratios (Romanian - number of lost days day x 1,000/average no. of employees and EU - lost days) / no. of cases with lost days**



- ▶ overall, the correlation of the two indexes illustrates an expansion of the operations, in the context of cost reduction (including personnel reduction) and improvement of effectiveness (the severity was significantly reduced). Taking into account also the slight increase in severity (in the case of Petromidia, according to the EU method), starting 2004, Rompetrol will keep a separate record of incidents related to its subcontractors, although this is not legally binding.
- ▶ Together with the authorities and NGOs, Rompetrol participates also in projects related to climate protection issues and will implement the subsequent action plans at all facilities.
- ▶ Related to the issues of safety, health and the environment, QHSE co-operates directly with the Department of Corporate Communication and Public Affairs, while organizing open information campaigns both at company level and with the interested parties (i.e., our suppliers, partners, contractors/ subcontractors, customers and the general public).
- ▶ Rompetrol ensures for its employees one of the best industrial medicine and preventive health system in Romania. This service was subcontracted to very reputable companies that co-operate continually with the QHSE and HR Departments at all work locations of Rompetrol. The number of annual medical consultations was approximately 7,000, including preventive investigations.

At the same time, in order to continually improve our QHSE performance we expect our suppliers to fully comply with all relevant laws and regulations, as well as internal Rompetrol standards. When qualifying contractors for work in hazardous conditions, QHSE criteria have an important priority in the evaluation process.

Our regional expansion will enforce the impact of our operations also in areas beyond the borders of Romania. Corporate regulations will be applied in international operations also if the regulatory environment in effect in the given country happens to be less rigorous. For instance, the retail stations operating in neighboring countries are equipped with vapor recovery and water recycling systems, as good examples of applying state-of-the-art technologies.

We believe that the considerable 2003 successes in the QHSE area substantiate our decision to increase our efforts in 2004. We intend to get the confirmation of our stakeholders in respect to the successful implementation of the key targets identified in the corporate Group policy.

# **Abbreviated Financial Statements**

# Auditors' report

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We have audited the abbreviated financial statements of The Rompetrol Group N.V., Rotterdam for the year 2003. These abbreviated financial statements have been derived from the financial statements of The Rompetrol Group N.V. for the year 2003. In our auditors' report dated March 26, 2004 we expressed an unqualified opinion on these financial statements. These abbreviated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these abbreviated financial statements.

In our opinion, these abbreviated financial statements are consistent, in all material respects, with the financial statements from which they have been derived.

For an understanding of the company's financial position and results and for an adequate understanding of the scope of our audit, the abbreviated financial statements should be read in conjunction with the financial statements from which the abbreviated financial statements have been derived and our unqualified auditors' report thereon issued on March 26, 2004.

Amsterdam, April 9

*Deloitte Accountants*

# Management Analysis of Group Financial Results

## 2003

### Group Financial Highlights

(all figures in Thousands US\$ unless otherwise stated)

	2003	2002	%
Gross Revenues	1,278,996	1,051,902	22
Gross margin	72,595	6,239	1064
EBITDA	27,705	(44,438)	N/A
Capital expenditure	87,688	53,124	65
Current assets	330,502	375,936	-12
Current liabilities (excluding credit facilities)	212,913	739,885	-71
Fixed Assets	522,709	427,550	22

Consolidated **gross revenues** increased by **22%** primarily as a result of higher prices of oil products both on domestic and international market, development of wholesale and retail network in Romania and Bulgaria and development of petrochemicals trading division. Another important reason for this evolution is the fact that since June 2003 the Group produces only euro 3 compliant fuels as a result of the last 2 years of investments. Appreciation of ROL against US\$ was another cause for this evolution.

Consolidated **EBITDA** was approximately US\$ 28 million compared with US\$ 44 million negative EBITDA in 2002. Main causes for this positive evolution are: increase of refining and retail margins for oil products on domestic market and further reduction of operating expenses. Additionally in 2003 the Group Navodari refinery, Rompetrol Rafinare processed only Ural Crude obtaining significant reduction in supply price compared with 2002/2001 when it processed also significant quantities of high quality/low sulphur type of crude.

**Fixed assets** balance increased about 22%. The 2003 **capital expenditure** done during the year may be summarized as follows, acquisition of new technologies and equipments (as automated in-line blending system, implementation of the second reactor of the HDV installation and implementation of several software applications in order to use crude resources and operate the refinery under optimum conditions, for Rompetrol Rafinare), construction of two new depots (Mogosoia and Craiova owned by Romoil) and modernization of other depots, construction of new 22 stations by Rompetrol Downstream. Additionally, the devaluation of US\$ against ROL at the end of 2003 had a positive influence.

**Current assets** recorded a positive evolution as the result of the Group's policy implemented in order to assure a better collection of receivables.

**Trade and other payables** have decreased by 71% as a result of converting the historical liabilities to the Government into convertible bonds. Additionally the Group paid approximately US\$ 372 million in taxes to the Romanian state keeping all the state liabilities at the end of 2003 as current.



In October 2003, the Romanian Government issued Emergency Ordinance No. 118, that provided the framework and parameters for issuance of a convertible loan note (Bond) against the **historic state budget liabilities** comprising of principle amount and late payment penalties totalling Euro 571 million (US\$ 719 million) as of September 30, 2003.

The instrument is convertible into equity at due date at issuer's choice, has 7 years maturity, interest rate is EURIBOR at 12 months plus 1.5% p.a. payable annually in arrears and is unsecured.

Based on bonds characteristics and according to the International Standards of Accounting ("IAS") the accounting treatment of this instrument is detailed below:

	<b>Million US\$</b>
<b>Nominal value of Convertible Bond Issues</b>	<b>719</b>
Less:	
Equity component	176
Fair value of extinguishment of debt (recognised as exceptional item in the income statement)	415
<b>Liability component at the date of issue</b>	<b>128</b>
Interest accrued on the liability component	3
<b>Total</b>	<b>131</b>
Classified as:	
Current portion	16
Long-term portion	115

# The Rompetrol Group N.V.

## Consolidated financial statements for the years ended December 31, 2003 and 2002 prepared in accordance with International Financial Reporting Standards

### The Rompetrol Group N.V.

#### Consolidated Balance Sheets for the years ended December 31, 2003 and 2002 (all amounts in US dollars)

	December 31, 2003	December 31, 2002 (restated)
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	7,601,766	18,829,611
Property, plant and equipment	522,708,612	427,549,879
Negative goodwill	(137,891,670)	(153,854,426)
Long-term investments	9,512,536	6,120,889
<b>Total non current assets</b>	<b>401,931,244</b>	<b>298,645,953</b>
<b>Current assets</b>		
Inventories	146,893,982	110,784,268
Receivables and prepayments	154,063,962	221,731,815
Cash and cash equivalents	29,543,878	43,419,666
<b>Total current assets</b>	<b>330,501,822</b>	<b>375,935,749</b>
<b>TOTAL ASSETS</b>	<b>732,433,066</b>	<b>674,581,702</b>

December 31, 2003

December 31, 2002  
(restated)**SHAREHOLDERS' EQUITY AND LIABILITIES****Shareholders' equity**

Share capital	93,026	93,026
Share premium	2,631,512	2,631,512
Revaluation reserve	20,625,249	17,566,448
Other reserves	146,823,448	-
Retained earnings	(194,406,870)	17,353,723
Current year result	200,253,555	(211,760,593)
<b>Total shareholders' equity</b>	<b>176,019,920</b>	<b>(174,115,884)</b>

**Minority interest****88,475,288****12,162,771****Non-current liabilities**

Convertible bond - long-term portion	114,975,364	-
Long-term debt	17,618,154	21,988,508
Net obligations under finance lease	2,485,733	811,136
Deferred tax liabilities	3,448,995	90,001
Other non-current liabilities	4,411,760	2,529,256
<b>Total non-current liabilities</b>	<b>142,940,006</b>	<b>25,418,901</b>

**Current liabilities**

Trade and other payables	212,912,607	739,885,228
Net obligations under finance lease	1,527,779	625,791
Short-term debt	93,980,077	70,604,895
Convertible bond - current portion	16,577,389	-
<b>Total current liabilities</b>	<b>324,997,852</b>	<b>811,115,914</b>

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY****732,433,066****674,581,702**

## The Rompetrol Group N.V.

### Consolidated Statements of Income for the years ended December 31, 2003 and 2002 (all amounts in US dollars)

	2003	2002 (restated)
Revenues	934,043,820	789,217,167
Cost of sales	(861,448,915)	(782,977,865)
<b>Gross margin</b>	<b>72,594,905</b>	<b>6,239,302</b>
Selling, general and administrative expenses	(91,859,323)	(95,569,356)
Other income / (loss)	(33,963,180)	(35,868,575)
<b>Operating margin</b>	<b>(53,227,598)</b>	<b>(125,198,629)</b>
Financial items, net	(163,837,679)	(194,163,353)
Exceptional item	415,525,081	-
Gain on net monetary position	55,552,348	57,048,285
<b>Profit / (loss) before income tax</b>	<b>254,012,152</b>	<b>(262,313,697)</b>
Income tax	(5,277,625)	(6,263,463)
<b>Profit / (loss) after tax</b>	<b>248,734,527</b>	<b>(268,577,160)</b>
Minority interest	(48,480,972)	56,816,567
<b>Net profit / (loss) for the year</b>	<b>200,253,555</b>	<b>(211,760,593)</b>

## The Rompetrol Group N.V.

### Consolidated Statements of Cash Flows for the years ended December 31, 2003 and 2002 (all amounts in US dollars)

	2003	2002 (restated)
<b>Profit / (loss) before income tax</b>	<b>254,012,152</b>	<b>(262,313,697)</b>
Adjustments for:		
Financial income from treatment of hybrid instrument	(415,525,081)	-
Unrealised foreign exchange loss on hybrid instrument	51,300,100	-
Late payment interest	90,913,514	153,041,612
Depreciation and amortisation	47,141,973	44,907,801
Negative goodwill amortisation	(15,962,756)	(17,487,573)
Provisions	26,138,912	54,265,910
Loss on intangible and fixed assets disposals	16,225,747	1,572,051
<b>Operating profit before working capital changes</b>	<b>54,244,561</b>	<b>(26,013,896)</b>
Net working capital changes in:		
Receivables and prepayments	108,217,703	48,133,243
Inventories	(17,134,421)	(23,358,461)
Trade and other payables	(92,690,776)	138,082,411
<b>Change in working capital</b>	<b>(1,607,494)</b>	<b>162,857,193</b>
<b>Income tax paid</b>	<b>(1,219,545)</b>	<b>(3,173,692)</b>
<b>Net cash provided by operating activities</b>	<b>51,417,522</b>	<b>133,669,605</b>

	<b>2003</b>	<b>2002</b> (restated)
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(79,738,761)	(41,261,923)
Purchases of intangibles assets	(1,996,086)	(3,675,905)
Purchases of investments	(5,953,482)	(4,769,528)
Acquisition of subsidiaries net of cash acquired	-	(3,417,077)
<b>Net cash used in investing activities</b>	<b>(87,688,329)</b>	<b>(53,124,433)</b>
<b>Cash flows from financing activities</b>		
Dividends paid	-	(400,000)
Increase in obligations under finance lease	2,326,377	802,711
Increase / (decrease) in borrowings	13,241,025	(24,459,176)
<b>Net cash from financing activities</b>	<b>15,567,402</b>	<b>(24,056,465)</b>
Translation differences	6,827,617	(46,374,816)
<b>Net increase in cash and cash equivalents</b>	<b>(13,875,788)</b>	<b>10,113,891</b>
Cash and cash equivalents at beginning of the period	43,419,666	33,305,775
<b>Cash and cash equivalents at the end of the period</b>	<b>29,543,878</b>	<b>43,419,666</b>