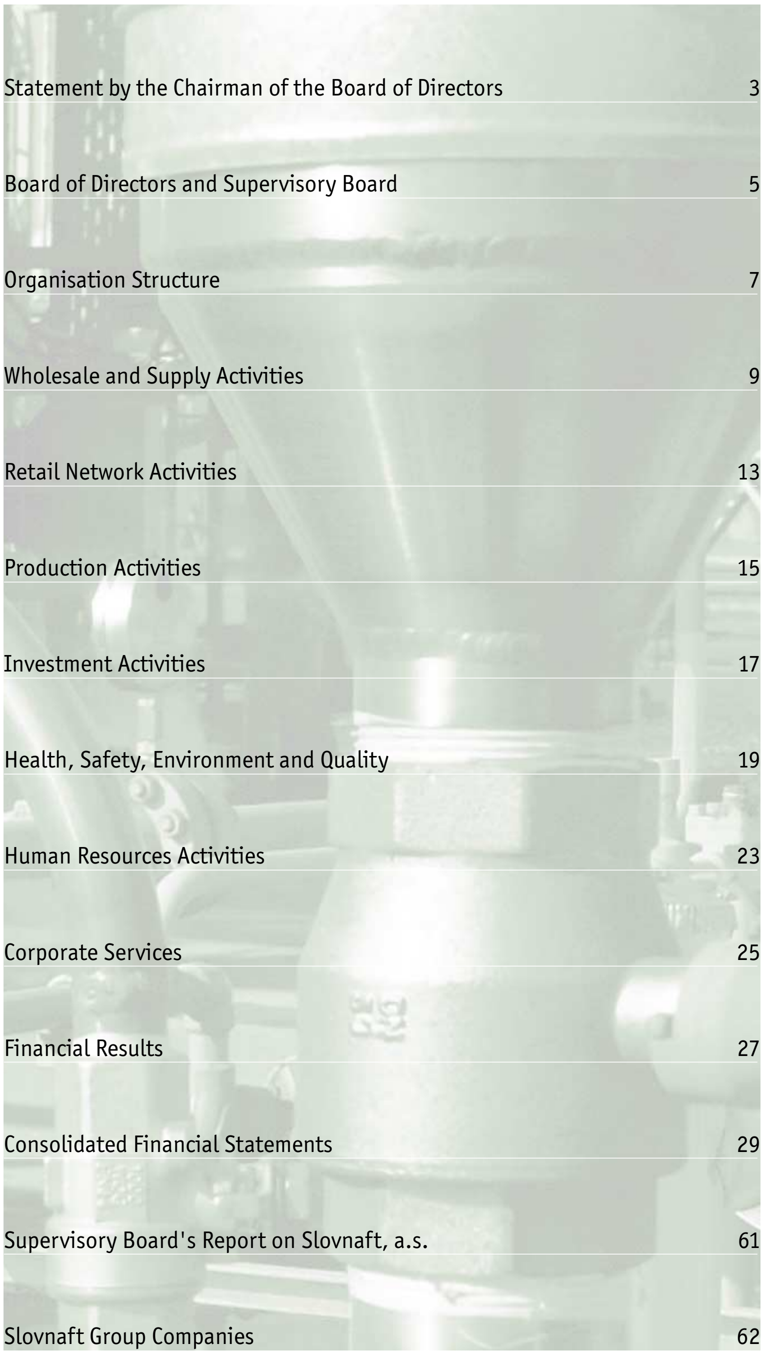
Slovnaft

ANNUAL REPORT 2002

Content



STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Statement by the Chairman of the Board of Directors

The Slovnaft Group has achieved very good results in 2002, has strengthened its position and continues to be the leading company in crude oil processing and petrochemicals in the Slovak Republic. With a strong sales focus on foreign markets, it ranks among the leading Slovak exporters.

In 2002 the Slovnaft Group achieved a net profit amounting to SKK 3.05 bn, slightly lower compared to the record level a year ago. Nevertheless, management and employees of the Group showed their flexibility and ability to respond to unfavourable external and domestic environments, in large part eliminating their negative effects. We have strengthened our strategic partnership with MOL across all areas of Group activities; benefits resulting from synergy and efficiency improvements amounted to over USD 35 mln, thus exceeding expectations by almost USD 8 mln.

Above all, we improved our financial performance; efficiency enhancement measures were implemented in the production process, a single-sales-channel management for motor fuels was introduced in collaboration with MOL, and further progress was recorded in the procurement process and in the optimisation of retail activities. Implementation of a programme carried out by the management aiming at reduction of controllable costs led to savings almost SKK 640 mln. In line with our strategy, we have started implementing a transformation process which entails ongoing implementation of a new maintenance strategy, supply chain management, restructuring of the Company towards a value oriented organization, and preparation of a refinery profit improvement programme.

As in previous years, external factors such as the development of crude oil prices, crack spreads of motor fuels and exchange rates have had a considerable impact on Slovnaft Group's financial results. The average price of reference Brent crude oil was 2.1 % higher than in 2001. It increased gradually from the 12-month low of 19 USD / bbl in January to its highest level of over 28.5 USD / bbl in December. Moderate decreases in monthly averages were recorded in June, September, and October. Crude oil prices reacted to developments in the political situation in the Middle East and Venezuela. Gasoline crack spreads recorded an increase from a very low level at the beginning of the year during the summer season only to fall back to a level of around 50 USD / t during the last three months. For motor diesel a higher increase occurred only in September with a further increase towards the year end to the level of 38 to 43 USD / t. The movements of the Euro against the US Dollar played an important role in foreign exchange rate trends in 2002. At the beginning of the year the Euro strengthened against the US $, at 0.86, and reached parity at the end of June. This trend continued to the year end. The Slovak currency gradually became stronger against the US $ during the year, except for July, and strengthened against the Euro mainly during the last four months, reflecting the results of the September parliamentary elections, the invitation to join NATO and the Slovak Republic's expected accession to the European Union.

Operating profit of the Slovnaft Group amounted to 53 % of the previous year's level, affected mainly by the negative external factors already mentioned and unplanned shutdowns of machinery and equipment. These effects were partially compensated for by the implementation of cost cutting measures and benefits stemming from synergies and efficiency improvements in all areas of the Group's activities. A very low gearing and development of FX rates substantially contributed to the improvement of business results from financial transactions by SKK 2,145 mln. Net profit reached 96.7 % of the year 2001 level.

In the operating area we achieved the highest production of motor gasoline and motor diesel in Company history. Compared to 2001 production of motor gasoline increased by 9.7 % and motor diesel by 3.6 % due to better utilization of cracking units and optimisation of the operations of Bratislava refinery and MOL's Százhalombatta refinery. We increased production of polyethylene, polypropylene, lubricants, bitumen and oxidation mixture, aromatics and petrochemical products, driven by market demand. We recorded a very good results in total crude oil conversion, energy consumption and reduction of production losses. On the other hand we were unable to avoid several unplanned shutdowns of important technical equipment due to various malfunctions that negatively impacted our motor fuels production results.

As usual, we delivered a complete range of refinery products, petrochemical products and plastics to domestic and foreign markets. During shutdowns we satisfied the demand for motor fuels in the Slovak Republic with imports from MOL. Sales of motor gasoline in the Slovak Republic were lower than last year due to a tougher competitive environment, but sales of motor diesel increased. Although we recorded some decrease in market share in both products we remain the biggest sales and distribution company in domestic market. We were successful in increasing motor fuels sales abroad, mainly in the Czech Republic and Poland. Despite increased sales in volume terms compared to 2001, sales revenues were lower by 10% mainly due to price trends. Reduction in revenues was recorded not only in motor fuels but also in plastics, petrochemical products and lubricants.

In retail sales the best results were achieved in the service stations network in the Slovak Republic. We increased the sales of motor gasoline year-on-year by 6.5 % and motor diesel by 15.4 %. We strengthened our leading position in the market in terms of the number of service stations and in terms of sales of motor fuels in volume terms. We paid considerable attention to the enhancement of services and increasing the options for cashless payments.

The Slovnaft Group always pays significant attention to the protection of the environment. In 2002 we reduced the overall amount of emissions to the atmosphere. Reductions in emissions of sulphur dioxide and particulates generated the most significant contributions. We have broadly complied with the standards for air quality and the level of pollutants released. Production of waste decreased and the amount of reprocessed waste increased by almost 50%. We carried out a complex audit of liabilities in the area of health, safety and environment protection resulting from past, current, and planned operations. We achieved one of the best results ever in the area of safety at work and also a very good quality of products.

Investment expenditures reached SKK 3.389 bn, which is 2.5 times more than a year ago. Investments were made in refinery development, the retail network and upgrades of existing technologies. Specifically, investments were made in the preparations for the projects Polypropylene 3 and Hydrotreating Unit 7, the continued reconstruction of storage tanks and service stations and IT and computer facilities development.

Major Company targets for 2003 are improvements in profitability and organizational efficiency through the implementation of the BRAVO Project – Business Restructuring and Value Oriented Organization, as well as further improvements to processes, and further synergy effects resulting from close collaboration with MOL. In addition a new maintenance strategy will continue to be implemented, including the restructuring of the subsidiary Slovnaft Montáže a opravy, supply chain management, and the start of a refinery profit improvement programme. In marketing activities we aim for enhanced coordination with MOL and TVK.

In retailing, our objectives are further reconstruction and modernization of the service station network in the Slovak Republic and a more intensive development of networks in the Czech Republic and Poland as well as the provision of premium services and products to customers.

In 2003 construction of a new Polypropylene 3 production unit will commence, leading to a significant increase in production levels and a broadened range of polypropylene production in 2005 when the plant is expected to begin operation. The construction of a new hydrotreating unit 7 for deep desulphurisation of motor diesel will commence and this refining product, very important in terms of volume, will be in compliance with European legislative and quality requirements.

On behalf of the Board of Directors, I would like to express my appreciation to all the employees for the effort invested and for the very good results achieved in the business year 2002.

I would like to thank to our shareholders, business partners and supporters for their support and trust.

Slavomír Hatina
Chairman of the Board of Directors

Board of Directors and Supervisory Board

Board of Directors

Slavomír Hatina
Chairman of the Board of Directors

Zoltán Áldott
Vice Chairman of the Board of Directors

Jolana Petrášová
Member of the Board of Directors

Vratko Kaššovic
Member of the Board of Directors,
Chief Executive Officer

Ján Kavec
Member of the Board of Directors,
Deputy General Manager for Human Resources

Ferenc Dénes
Member of the Board of Directors

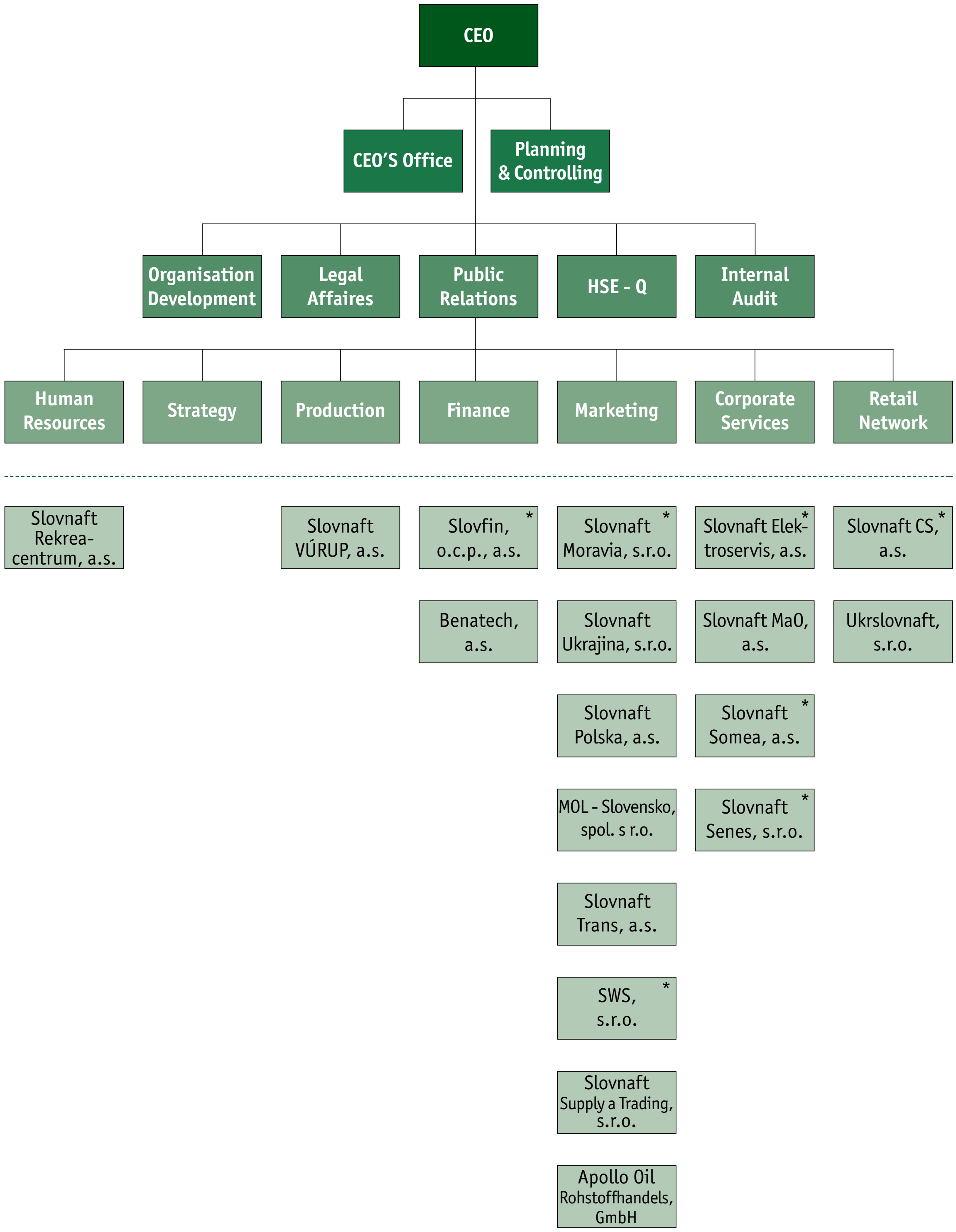
Zalán Bács
Member of the Board of Directors

László Geszti
Member of the Board of Directors

Supervisory Board

Ilona Bánhegyi	Chairman of the Supervisory Board Chief Legal Counsel, MOL, Rt.
Pavol Parák	Vice Chairman of the Supervisory Board Deputy General Manager for Strategy, Slovnaft, a.s.
Dušan Durmis	Member of the Supervisory Board Director of the Internal Audit Department, Slovnaft, a.s.
Béla Váradi	Member of the Supervisory Board Human Resources Director, MOL, Rt.
Pavol Buday	Member of the Supervisory Board Chairman of the Trade Union Chémia SR in Slovnaft, a.s.
Miloš Nešpor	Member of the Supervisory Board Secretary of the Trade Union Chémia SR in Slovnaft, a.s.

Organisation Structure



* Detail information to the Slovnaft Group Companies can be found on the page 62.

WHOLESALE AND SUPPLY ACTIVITIES

Wholesale and Supply Activities

The main business activity of Slovnaft Group is the processing of crude oil and the distribution and sale of products derived from crude oil processing.

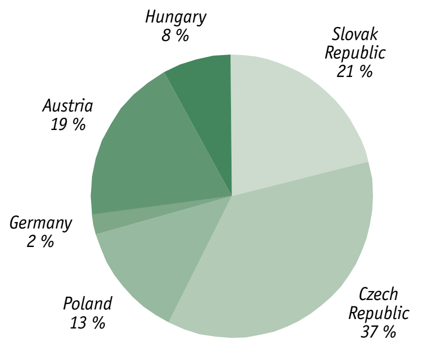
In 2002 the revenues from the sale of own products, purchased goods and services decreased by 13.8% against 2001, mainly due to unfavourable price trends, changes in the market and unplanned shutdowns of some production units.

REBCO – Russian Export Blend Crude Oil was purchased from the Russian Federation and delivered through the Družba pipeline. The pipeline operator in the territory of the Slovak Republic is Transpetrol, a.s. Crude oil was supplied reliably in line with the supply chain management program.

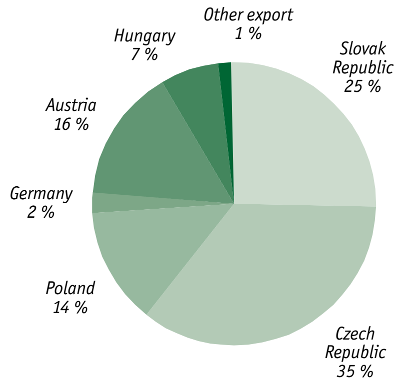
Total revenues from wholesale of motor fuels decreased by 10.0 % against 2001, attributable mainly to a decrease in crack spreads and quoted prices at the beginning of 2002. As a result of aggressive marketing by multinational companies, wholesale revenues in the domestic market decreased by 24.5% against 2001. To combat this, Slovnaft adopted appropriate measures in the second half of 2002 and thereby successfully prevented further decreases. In the Czech market, revenues decreased by 6.8 %, and in other export markets Slovnaft recorded a decrease of 3.5%.

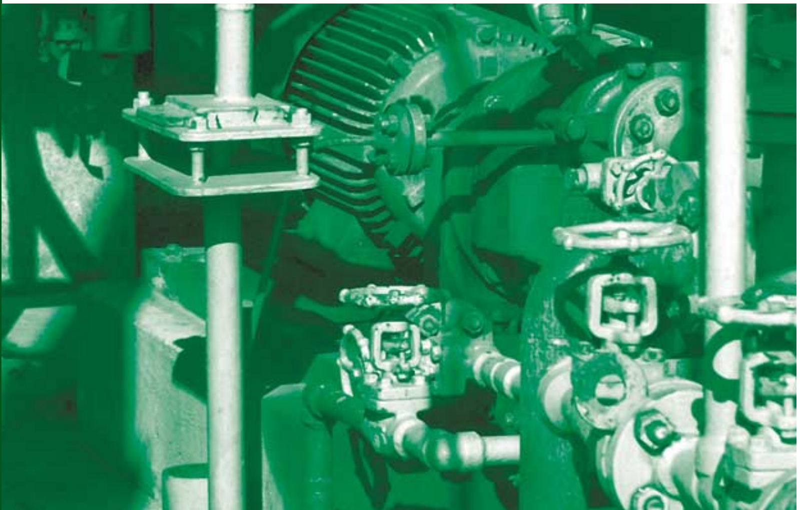
In spite of the decrease in revenues, Slovnaft Group maintained a strong market position mainly in the Slovak and Czech markets. The quality of motor fuels sold in 2002 fulfilled the requirements of the relevant European standards, EN 590 and EN 228. Slovnaft Group purchased for resale almost 150 kt of motor fuels from its strategic partner MOL, in the framework of a jointly optimized operation, in order to satisfy market demand for fuels during maintenance or unplanned shutdowns, and used logistical swaps to provide a more effective supply system.

Fuel sales by teritories in year 2002



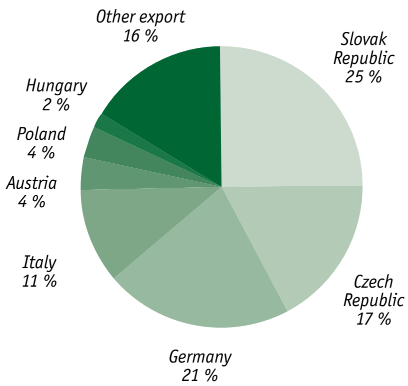
Fuel sales by teritories in year 2001



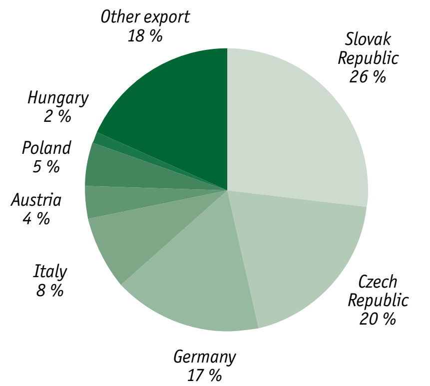


The sales of plastics were influenced by an unplanned shutdown of the steam cracker at the beginning of 2002. Plastic sales revenues were 5.1 % lower than in 2001. The most important export markets were Germany, the Czech Republic, Italy, Poland, Austria and Hungary. Compared to 2001, export sales were lower, except in Germany where sales increased in 2002. Within the marketing strategy adopted by the MOL Group, which also owns TVK, Slovnaft began in 2002 the realization of a single sales channel management into selected countries, such as Germany, Italy and Poland.

Plastics sales by teritories in year 2002



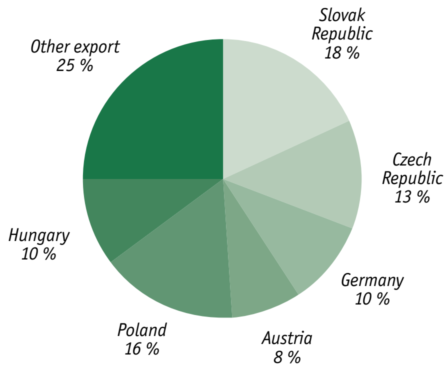
Plastics sales by teritories in year 2001



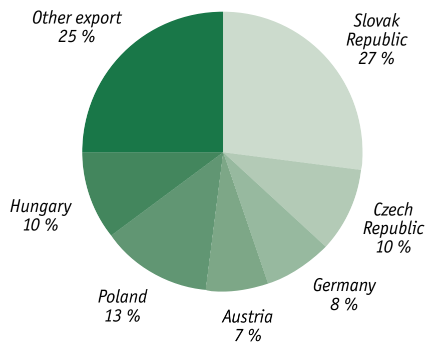
Slovnaft's customers were offered a complex range of petrochemical products. Petrochemical products sales revenues were 7.8 % lower against 2001.

The export of petrochemical products slightly increased against 2001, but domestic market sales were significantly lower than in 2001.

2002 Petrochemicals sales by geographic market



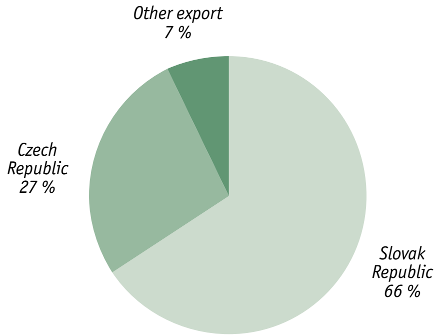
2001 Petrochemicals sales by geographic market



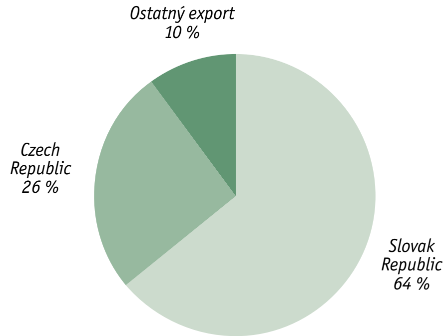
Sales of lubricants did not change significantly compared to year 2001. The wholesale of lubricants marked a revenue decrease of 4.2 %.

The proportion of exports into the Czech Republic as part of total revenues remained the same as in 2001.

2002 Lubricant sales by geographic market



2001 Lubricant sales by geographic market



Innovations in 2002 were concentrated on introducing new products, which enlarged the product range, and on technologically refined products – lubricating oils, greases and plastics. The most important product development in 2002 was a new motor fuel sold in our service station network under a new brand name – Tempo Plus. Overall, the Company enlarged the product range by 5 new products and 17 technologically upgraded refined products.

Further structural rationalization occurred in the Czech Republic where Slovnaft CS and Slovnaft Moravia were merged into Slovnaft Ceska where further synergies were realized through increased efficiency of logistics operations.

Sales data do not contain transportation charges.

RETAIL NETWORK ACTIVITIES

Retail Network Activities

Slovnaft sells its products, fuels and lubricants, through its own service station network in the Slovak Republic, the Czech Republic and Poland. At the end of 2002, the Company operated 362 service stations.

Slovnaft in the domestic market

As in previous years, the Company maintained the leading position in the Slovak market in 2002. The Company operated 318 service stations, 42.8 % of the market. This amount includes also MOL Slovensko stations, which have been rebranded to a yellow-black design. Beside the rebranding, a large scale reconstruction and restructuring of the network has been undertaken in line with the strategy. 12 service stations have been closed and 25 reconstructed. 20 service stations have been equipped with the first and second stage of the gasoline vapour recovery system in accordance with the high standard of environment protection requirements.

Seen from a customer's point of view, the year 2002 can be characterised as the year of changes. Slovnaft has taken steps to enhance the Slovnaft brand. To improve customer service, the Company organised a Mystery Shopping research. All service stations have been evaluated by this method. Service station evaluation was conducted from a customer's perspective. Results of the research have been used to improve the quality of service. In June, the Company launched Tempo Plus – branded fuel products sold only in its own service stations.

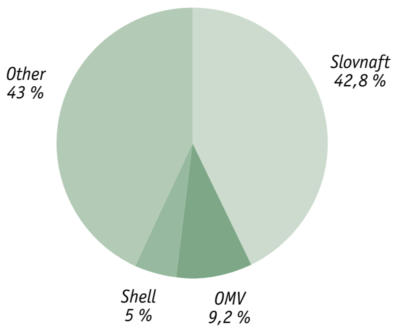
A press conference was organised at the Bratislava service station on Viedenská cesta, which was rebranded for this occasion to the yellow-black design. The high quality of the new fuels has been awarded a prize by the international exhibition Incheba. Tempo Plus 95 has received a Golden Incheba award. The fuels have also been awarded the national prize SLOVAK GOLD for 2002. This prize is awarded to products of extraordinary quality. A certificate has also been issued for gasoline and diesel fuel. During the period October to November, a competition „I fill up Tempo Plus“ was under way in the media Tempo Plus products became very popular during this campaign, in which the first prize was a fuel card with the headline „Drive five years free of charge“. During the half year period the Tempo Plus brand became very popular with customers. This fact was documented by market research performed at the end of 2002, when brand awareness reached 86 %. Another advantage was also a synergy effect achieved through the use of the Bonus System which was successful with customers. The result was an increase in sales. A marketing advantage was also the mutual acceptance of Slovnaft and MOL fuel cards, leading to an extended offer for customers. A new service has been provided to customers, a the fuel card that can be ordered directly at service stations. A New slogan for the cards has been introduced: „The Feeling of Freedom on the Road“.

Slovnaft was successful in its efforts to improve the corporate image of the Slovnaft brand. This is also supported by the fact that the Slovnaft Trade Mark has come first in the readers survey in Reader Digest as the best service station. This competition is frequently organised in various European countries.

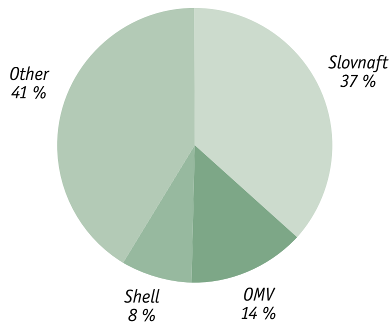
Slovnaft abroad

The Company operated 4 service stations in Poland and established the base for a franchise system development. Service stations in Poland are located in the region Katowice/Krakow. Slovnaft operates 40 service stations in the Czech Republic. Majority of these are located in the Moravia and Silesia region. Quality of the fuels supplied by the Group and customer loyalty achieved by long term marketing are the guarantee for further network development.

Service Station Market Share in Slovakia in 2002



Share of Retail Network Sales in Slovakia – year 2002



source: SAPPO

PRODUCTION ACTIVITIES

Production Activities

In terms of production, 2002 can be described as one of the best years in Slovnaft's history. Record results were achieved in the production of gasoline and motor diesel. In 2002 the whole production was supplied to a network of distributors, meeting the EN 229/99 European gasoline quality standard and the EN 590/99 European diesel quality standard.

At present the new Tempo Plus 95 unleaded gasoline fully meets EU requirements, which will be effective from 2005. The Group is well prepared to respond to demands and compete successfully with other refineries.

Feedstock Processing (thousands of tons)

	2002	2001	2000
Supplied raw material – total	5,887	5,790	5,682
From that – crude oil	5,502	5,395	5,320
Toll processing	0	1	31

Crude oil processing was kept at the optimal level of 5 – 6 million tons, reaching 5.502 million tons, 107.000 tons more than in 2001. Processed crude oil quality was in line with the contractually agreed specifications, with nearly the same content of light fractions as in 2001.

Production of gasoline in 2002 was 138 thousand tons higher than in 2001, and motor diesel by 80 thousand tons. Better results in the production of motor fuels were achieved mainly by better utilisation of cracking capacities, higher crude oil processing, lower losses and optimal use of semi-finished products.

The production of polyethylene and polypropylene was 4.0% and 9.0% higher respectively than in 2001.

In 2002, distillation and cracking capacities were 2.6 % and 5.6 % better utilized than in 2001, in spite of short term shutdown of Residue Hydrocracker (RHC) and FCC during the year. Fewer unplanned shutdowns and very good results reached in slops management resulted in significantly lower losses. Specific losses reached levels less than 10 kg/t of processed feedstock for the first time and total losses decreased by 27.1 % compared to 2001.

Structure of production (thousand tons)

	2002	2001	2000
Gasoline	1,555.7	1,417.6	1,372.9
Diesel	2,268.9	2,189.2	2,023.9
Kerosene	41.1	49.9	46.8
Heavy fuel oil	273.9	349.9	414.7
Lubricants	42.5	40.0	36.2
Asphalts and oxidation mixture	95.3	74.1	78.9
Sulphur	60.7	57.2	51.4
Other refining products	181.9	187.5	216.6
Refining products total	*4,520.0*	*4,365.4*	*4,241.4*
Petrochemical products	*180.0*	*167.7*	*171.7*
Plastics	*249.4*	*236.0*	*234.0*
Total production output	**4,949.4**	**4,769.1**	**4,647.1**

INVESTMENT ACTIVITIES

Investment Activities

In 2002, SKK 3.389 bn was spent on investment activities (CAPEX) in the Slovnaft Group.

The CAPEX plan focused on the following projects:

- Serving growth objectives, expansion to new markets and introduction of new products
- Maintaining market positions
- Meeting legal and HSEQ obligations
- Internal efficiency improvements.

As part of the petrochemical development program, a lump-sum turn-key contract has been signed for a new 255 kt/year capacity Polypropylene Plant. The scheduled start of the production is the beginning of 2005.

The Retail network development program has continued in 2002. Two new and 25 fully reconstructed service stations have been completed. A further 80 stations have been re-branded or modernized to comply with the new Slovnaft design and environmental standards. Acquisition of MOL Slovensko, s.r.o was completed. Over SKK 2.2 bn was invested in the domestic retail business. The execution of the regional retail expansion strategy has started in Poland and the Czech Republic.

Contractor selection has been finalized for the supply of the new Gas Oil Deep Hydrodesulphurization Plant (to meet EU Auto Oil II motor fuel quality specifications). The commissioning of the plant is scheduled for the end of 2004. Over SKK 140 mln has been spent in 2002 on the License and Basic Engineering as well as on the Gas Oil Blending, a facility connected to the desulphurization plant.

Nearly SKK 390 mln has been invested in environmental protection projects to meet state authority requirements. The most substantial amount has been spent on the long-term storage tank reconstruction program (SKK 171 mln).

Investments in Information technology (IT) developments amounted to SKK 101 mln, focusing on the upgrade and consolidation of the existing IT infrastructure.

In refining, petrochemical and logistics facilities, SKK 270 mln was invested in existing technology and machinery with the objective of further improving internal efficiency.

Subsidiaries invested over SKK 110 mln, with the major contribution from Retail foreign subsidiaries and Slovnaft Trans.

HEALTH, SAFETY, ENVIRONMENT AND QUALITY

Health, Safety, Environment and Quality

HSE & Quality Policies

HSE and Quality activities in Slovnaft were governed by the HSE Commitment and Policy as well as the Quality Policy which have come into force in 2001. The work on Security policy has commenced in 2002 within the STEP project, whose aim is to identify and evaluate threats to Slovnaft, its vulnerabilities and to protect productivity.

HSEQ Management

Our commitment to integrate HSE objectives and functions into our management systems at all levels is realised through the matrix organisation management structure with the support of HSEQ subcommittees.

In line with the management's commitment to improve business efficiency and focus on the core business, Slovnaft has established a partnership with Group 4 Falck for fire and emergency response operations. This is a part of a transformation where the contract for supply of services will ensure response improvement, best practice implementation, investment commitment by G4F and third party revenue. In addition, an integration of preventive activities into the Production Unit's HSE operations will improve our organisational competence. This is a successful pilot model of an in-house fire brigade outsourcing in Slovakia.

With the same goal in mind we reorganised the Occupational Health Laboratory to provide more effective occupational health technical measuring and service to Slovnaft by a qualified contractor which is our subsidiary VÚRUP.

The surveillance audit of the quality management system and the environmental management system according to the standards ISO 9001:1994 and ISO 14001 respectively, was performed in June 2002 in Slovnaft by verification company SKQS. The auditors declared that the quality management system and the environmental management system were operational and were properly utilised for the scope of activities provided by the company.

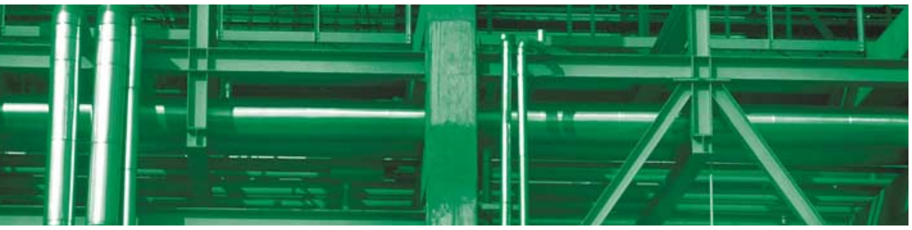
Furthermore the preparation of the ISO Certification project has started at the end of 2002. The goal of this project is to redesign an integrated management system for quality, environment and safety according to process oriented ISO 9001:2000, ISO 14001 and OHSAS 18001 standards respectively. The certification will cover the core processes of manufacturing units in Vlčie hrdlo during the first stage.

The strategic plan of Quality Policy Implementation was approved by the Board of Directors in 2002. The goal of this plan is to become a finalist in the European Quality Award Competition in 2005. As a part of this effort, the EFQM Self-Assessment refreshment training started in 2002.

To achieve 100% legal compliance we continued the HSE liabilities assessment, which takes into account new legislation which transposes the European legal acts. The complexity of the HSE issue is emphasized by the fact that 67 HSE related legal regulations have been passed in 2002.

As part of our commitment to share information and openly communicate about our HSEQ management framework and the impact of our activities, products and services we started to publish the annual HSE Report and we organised the HSE and Quality Open Day with our stakeholders.

One of the examples of our effort to harmonise the HSE management with MOL, to share the knowledge and learning points and utilise the synergy effects was the HSE Risk Assessment workshop with the participation of experts from MOL and TVK.



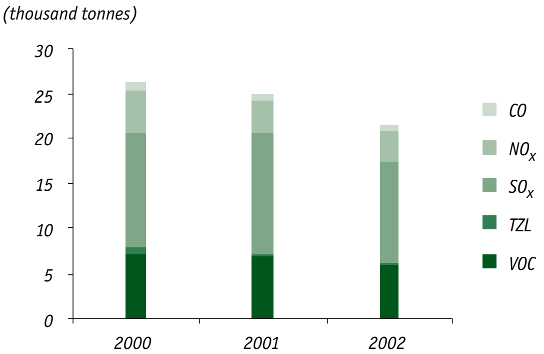
Environment

In the field of environmental protection, we continued our progress toward minimizing waste and emission discharges. We managed to decrease the amount of air pollutants, water consumption and waste generation. (The downward trends can be seen in the graphs here). CO_2 emissions have slightly risen. Air quality limits and limits for pollutants in discharged water were not exceeded. Together with MOL, we are monitoring the development of the European greenhouse gas trading scheme. The amount of recycled/reused waste has increased almost by 50%.

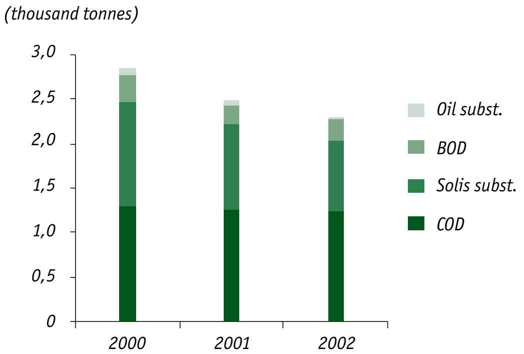
In accordance with our HSE Commitment and Policy we started a project called SAGAL 2002 (Soil and Groundwater Assessment of Logistics) to evaluate the investigation, remediation and monitoring works and to specify current and potential environmental and health risks resulting from the environmental burden caused by long-time operation at the Logistics sites and to set the remediation limits and options. The results will serve as a cost effective solution for a following remediation and monitoring at the sites.

We continued the Tank reconstruction program in the Refinery and Filling station reconstruction program in Slovakia. The implementation of these programs will insure compliance with relevant legislation.

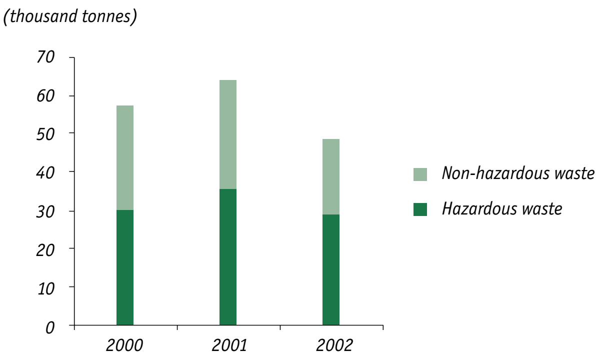
Air emissions



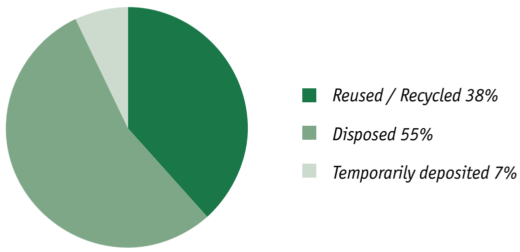
Water discharges



Waste generation



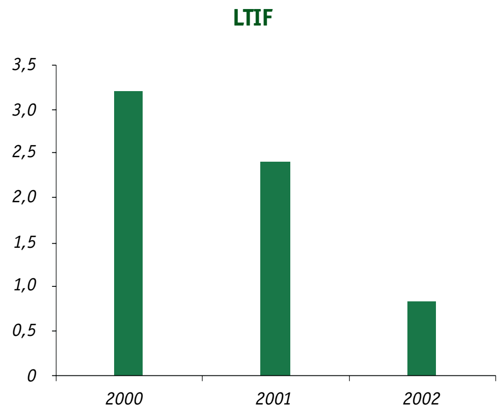
Waste management in 2002



Safety

We have achieved one of the best safety performances in Slovnaft's history. LTIF in Slovnaft, a.s., was at 0.9, compared to 2.4 in 2001. There were 19 work injuries registered in Slovnaft Group in 2002.
Compared to the same period of the previous year, there has been a decrease of 18 work injuries.

The most frequent cause of accidents were shortcomings of personal abilities to carry out an activity and the most frequent causes of falls at work were work/transportation areas.
No occupational diseases were reported in 2002.



There were 8 work-related injuries at a Slovnaft Group contractor in 2002. Unfortunately one fatality occurred from an unsafe act.

In 2002 12 fire accidents occurred in Slovnaft Group, which means an increase of 7 compared to the previous year. Costs of damage caused by fire reached approx. SKK 2 mln and was 8 times higher than in 2001. There was no additional indirect damage. According to the state fire investigation system, the majority of fire accidents happened as a result of technical problems.

We will continue our practice of issuing a detailed HSE Report on an annual basis. The annual HSE Report 2002, which will be published in the first half of 2003, will provide further details about our HSE performance and will be available for download on the Slovnaft website, *www.slovnaft.sk*, with a hard copy available from the Corporate HSE and Quality department.

HUMAN RESOURCES ACTIVITIES

Human Resources Activities

Number of employees in Slovnaft, a.s. and in Slovnaft Group

Year	Slovnaft, a.s.	Slovnaft Group
2000	3,972	7,020
2001	4,221	6,550
2002	3,772	5,573

The numbers of employees was affected by the integration of Slovnaft Trade, a.s., with Slovnaft , a.s., the rationalization of activities and the outsourcing of services and staff to external companies. Services outsourced included accounting, payroll accounting and fire services.

The company management adopted the principles of ethical staff dismissal and training of managers in this area was carried out. The Employer provides outplacement services, re-training courses and legal, psychological and personal counselling as standard for dismissed staff.

A Social Programme for the period 2003 – 2005 has been completed, new social services for staff have been introduced and the provision of social aid for housing took place was extended. As part of the Programme, the Employer has begun providing accident and life insurance, and has positively responded to the changing pension insurance system. The optional social benefit markedly increased, in the scope of which employees may pay expenses of various social activities and needs. Further details are provided in the Collective Agreement. Contributions by the Employer to the supplementary pension insurance scheme also increased up to the amount of tax allowances guaranteed by the law. The Health Council has prepared the Slovnaft Group Health Programme for the period of 2003 - 2005, the aim of which is to outline the objectives and priorities of Slovnaft Group with respect to promotion, protection and improvement of staff health condition.

Measures for Slovnaft and MOL employees compensation harmonization have been implemented in 2002 for the first time. As part of harmonization the basic salary grew by 15.9% on average, and with the addition of some allowances, particularly for work in continuous mode, reached SKK 3,600 a month. At the same time there were changes in the structure of compensation items, harmonisation of terms and conditions of management incentives.

At the end of 2002 the Collective Agreement for the period of 2003 – 2005 was finalised. It contains obligations with respect to compensation and social policies in the coming years and at the same time creates the basis for social agreement with employee representatives.

In the interest of care for young talent an extensive development programme has been introduced, as part of the career development system.

The implementation of the Code of Ethics programme and application of ethical principles in the company as a whole were carried out in line with the objectives in the area of corporate culture development.

In 2002 the Institute for Education carried out educational activities for managers at all management levels, experts and other employees. The training of the professionals and other employees was carried out in compliance with their current and prospective professional activity in line with the strategic vision. The Chemical Vocational School (CHVS) provides training for young capable employees of all companies in the Slovnaft Group. In the school year 2001/2002, 89 students passed the leaving examination (GCE) in the fields of study for a marketing clerk, chemical operator, machinery and equipment mechanist, and mechanist electrician. 14 students completed a three-year study. 64 students were admitted to study full-time and 66 students to the extended, – „evening study“.

CORPORATE SERVICES

Corporate Services

The preparation of two significant strategic projects - HRP 7 Project and PP3 Project - started in year 2002 in cooperation with the Strategy Division and partially also with MOL.

Corporate Services participated significantly in the establishment of the new maintenance strategy and system for Slovnaft. This process included the establishment of the Integrated Maintenance Company merging three maintenance subsidiaries – Slovnaft Somea, Slovnaft MaO and Slovnaft Elektroservis.

In the area of information technologies, the main focus was on the Oracle GEMMS Upgrade Project, the objective of which is to upgrade GEMMS to OPM to enable easier building of interfaces between OPM and other systems, and for the foundations of e-business opportunities.

Based on the pilot i-procurement project, foundations were prepared for starting the use of eCatalogue in the whole of Slovnaft.

In 2002 Slovnaft continued with the sale of its many properties, e.g. the administrative building on Dr. Clementis str., Mlynské Nivy and Chémia building, garages, lands under garages and company flats. In addition, the new Lease Policy was introduced in February 2002.

A Program for the reconstruction, rebranding, modernization and construction of new service stations was carried out at more than 120 service stations in 2002, at the same time as the introduction of a new brand of motor fuel. Three year framework contracts for retail equipment have been signed with selected suppliers following a joint Slovnaft-MOL Central Eastern European retail equipment tender.

Major outsourcing projects were implemented in year 2002, such as the outsourcing of internal bus transportation and building maintenance.

Corporate Services continued with the divestment of subsidiaries selling Slovnaft's business share in Slovnaft Reprografia, Slovnaft Senes and Slovnaftprojekt. Service contracts have been signed with the new companies after the sale.

During the whole year large-value tenders were conducted for the security service, copy machines, dormitory administration, dormitory renting, etc., with the ultimate goal of centralizing all purchasing under the Procurement Section. 10% of Procurement controlled volume – more than Sk 1 bn – was negotiated electronically.

New activities in procurement included the gradual introduction of the Invoice Matching Project and implementing a new procurement measurement system and reports.

The first stage of the warehouses rationalization and optimization program was completed in 2002.

FINANCIAL RESULTS

Financial Results

Profit and loss

Operating profit of Slovnaft Group in 2002 reached SKK 3.23 bn, which was below the historical 2001 value, but was still a good result. Unplanned maintenance during the first quarter and unfavourable market conditions compared to the previous year (significantly lower gasoline and diesel crack spreads, narrower spread between Brent and Ural crude oil, increased prices for electricity and natural gas, SKK/USD exchange rate development) during the first half of the year caused the relatively poor performance. However, better market conditions in the second half of the year and continuing focus on efficiency improvements in all areas of the Slovnaft Group, strict cost control together with synergies realised with MOL helped significantly to improve profitability.

Financial results compared to 2001 improved significantly (by SKK 2,145 mln) driven by the positive development of the USD/SKK exchange rate and reduced interest costs, due to extremely low loan level and effective cash flow management and revaluation of option premium to FV element of ML III loan.

Due to the above mentioned facts, the net profit for Slovnaft Group was SKK 3.05 bn, 96.7 % of the 2001 value.

Balance sheet

Fixed assets decreased compared to the previous year by SKK 681 mln due to low CAPEX and divestment of non-core assets. The high level of short-term payables resulted from rescheduled payment for crude oil and a change in excise tax payment rules. Reserves increased by SKK 767 mln driven by redundancy provisions for the period 2003 – 2005 of SKK 492 mln and environmental reserves amounting to SKK 275 mln.

Bank loans decreased substantially (SKK 5.70 bn) as a result of repayment of most of the long-term loans. This resulted in a substantial decrease in capital employed (by SKK 5.11 bn) compared to 2001.

Slovnaft, a.s., in capital markets

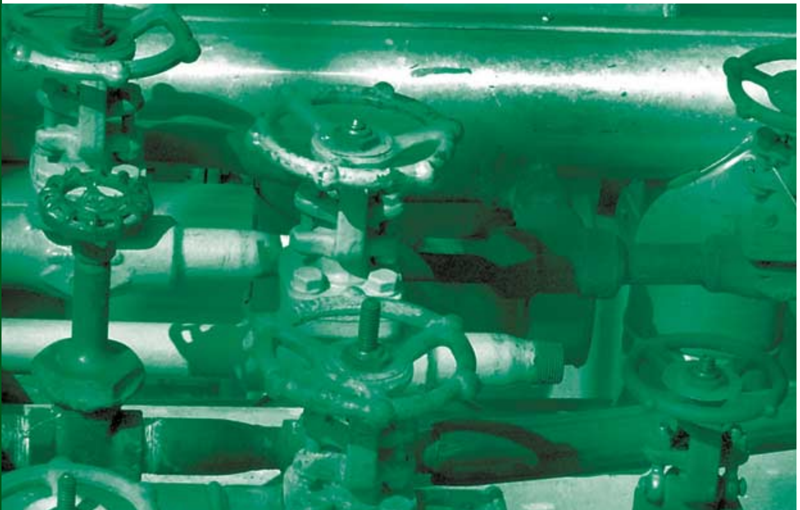
Shares of Slovnaft, a.s., are quoted on the securities markets of the Bratislava Stock Exchange (BCPB) and on the Luxembourg Stock Exchange.

The total volume of trade on BCPB in 2002 was SKK 643,228 mln during the 243 trading days. The traded volume of Slovnaft, a.s., shares amounted to SKK 9,588.9 mln (1.49 % of the total trading volume on BCPB). The volume of direct trades with shares of both issues totalled SKK 9,544 mln, while the volume of electronic order book trades represented SKK 44.9 mln.

Slovnaft shares were traded over a total of 190 business days. The minimum price of the 1st issue shares in electronic order book trades was SKK 620 per share on July 9, 2002, while the maximum price of SKK 1,165 per share was reached on November 28, 2002. The 2002 the closing price was SKK 985 per share in December 20, 2002.

The volume of direct trades in 1st issue shares was SKK 7,732 mln (average price of SKK 821.97), while the volume of electronic order book trades totalled SKK 44.9 mln (average price of SKK 788.80).

The volume of direct trades with 2nd issue shares was SKK 1,811 ml (average price of SKK 668.08 per share), while the volume of electronic order book trades with shares of the same issue was SKK 0.06 mln (average price of SKK 974.19).



Shareholder structure as of December 31, 2002

	Number of Shares	%
MOL Hungarian Oil and Gas Public Limited Company Company	7,469,518	36.2
Slovintegra, a.s.	5,913,660	28.7
Európska banka pre obnovu a rozvoj	1,725,750	8.4
Slovbena, a.s.	607,031	2.9
Slovnaft CV III	450,000	2.2
Miguelka Investments Limited	424,364	2.1
Poštová banka, a.s.	374,197	1.8
Capitalue S.A.	331,471	1.6
Reštitučný investičný fond, a.s.	306,000	1.5
Arthur, Bradley & Smith Limited	283,359	1.4
Istrokapitál, a.s.	270,176	1.3
OOST - Europa Participaties B.V.	262,500	1.3
Total	**18,418,026**	**89.4**
Other legal entities	1,799,234	8.7
including: foreign legal entities	1,026,559	5.0
Slovak legal entities	772,675	3.7
Individual shareholders	407,969	1.9
Total	**20,625,229**	**100.0**

Consolidated financial statements for the year ended 31 December 2002

Prepared in accordance with International Financial Reporting Standards, including International Accounting Standards March 2002

Introduction
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards („IFRS“), including International Accounting Standards („IAS“) and its interpretations issued by the IASB for the year ended 31 December 2002 for Slovnaft, , a.s., („the Company“) and its subsidiary undertakings (together „the Group“).

The comparative consolidated balance sheet at 31 December 2001 and related consolidated statements of income, changes in equity and cash flows for the year then ended were audited by the Company's auditors. Their report dated 18 March 2002 expressed an unqualified opinion on the consolidated financial statements from which these comparatives were derived.

Slovnaft, a.s., was incorporated in Slovakia as a joint stock company on 1 May 1992. Prior to that date it was a state owned enterprise. The Company is limited by shares and was set up in accordance with Slovak regulations. The company has its primary listing on the Bratislava stock exchange, with further listings in Luxembourg.

Principal activity
The Group's principal activity is the processing of crude oil and distribution and sale of refined products.

Employees
The average number of employees of fully consolidated companies including Slovnaft, a.s., during the year ended 31 December 2002 was 5,112 (31 December 2001: 6,550).

Reporting currency
These consolidated financial statements have been presented in millions of Slovak Crowns („Sk million“).

Registered address
Vlčie hrdlo
824 12 Bratislava
Slovak Republic

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Report of the independent auditors to the shareholders of Slovnaft, a.s.

We have audited the accompanying consolidated balance sheet of Slovnaft, a.s. (the Company) and its subsidiaries (the Group) as of 31 December 2002, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects the financial position of the Group as of 31 December, 2002, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Bratislava, Slovak Republic

21 March 2003

VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ) 35739347/600
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava 1, pod vložkou č. 16611/B.
The company is registered in the Commercial Register of Bratislava 1 District Court, ref. No. 16611/B.

Consolidated balance sheet

(in millions of Slovak crowns)	Notes	31 December 2002	31 December 2001
ASSETS			
Non-current assets			
Equity investments	1, 2	**929**	1,260
Deferred income tax assets	11	**267**	262
Accounts receivable		**62**	75
Property, plant and equipment	3	**36,139**	36,820
Goodwill and negative goodwill	4	**322**	(89)
Total non-current assets		**37,719**	38,328
Current assets			
Inventories	5	**4,709**	4,648
Receivables and prepayments	6	**7,680**	7,892
Available for sale financial assets	7	**49**	49
Cash and cash equivalents		**3,002**	1,639
Total current assets		**15,440**	14,228
Total assets		**53,159**	52,556
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shares	13	**20,625**	20,625
Share premium		**3,649**	3,649
Retained earnings and translation reserve		**13,351**	11,490
Total capital and reserves		**37,625**	35,764
Minority interest	15	**1**	23
Non-current liabilities			
Borrowings	8	**2,260**	6,888
Provisions	9	**671**	269
Deferred income	10	**747**	733
Accounts payable		**14**	20
Total non-current liabilities		**3,692**	7,910
Current liabilities			
Trade and other payables	12	**10,803**	7,099
Borrowings	8	**684**	1,760
Provisions	9	**354**	-
Total current liabilities		**11,841**	8,859
Total liabilities		**15,533**	16,769
Total equity and liabilities		**53,159**	52,556

The consolidated financial statements on pages 29 to 59 were approved by the Board of Directors on 21 March 2003 and were signed on its behalf by:

Slavomír Hatina
Chairman of the Board
of Directors

Vratko Kaššovic
Member of the Board of Directors
Managing Director

Heimo Tomann
Chief Financial
Officer

Consolidated income statement

(in millions of Slovak crowns)	Notes	31 December 2002	31 December 2001
Sales	16	**65,317**	72,476
Cost of sales	17	**(50,403)**	(55,183)
Gross profit		**14,914**	17,293
Distribution costs	17	**(1,034)**	(1,142)
Other expenses	17	**(10,653)**	(10,094)
Operating profit	25	**3,227**	6,057
Income from investments	19	**101**	103
Finance revenues / (costs) and net foreign exchange differences	20,21	**864**	(1,283)
Profit before taxation	22	**4,192**	4,877
Taxation	22	**(1,160)**	(1,714)
Profit after taxation		**3,032**	3,163
Minority interest	15	**22**	(5)
Net profit	23	**3,054**	3,158
Earnings per share (Sk per share)	23	**148.0**	153.1

Consolidated statement of changes in equity

(in millions of Slovak crowns)	Share capital	Share premium	Translation reserve	Retained earnings	Total
Balance at 1 January 2001 as restated due to IAS 39 adoption	20,625	3,649	(12)	8,946	33,208
Net profit for the year	-	-	-	3,158	3,158
Transaction under common control	-	-	-	(18)	(18)
Translation differences	-	-	(31)	-	(31)
Dividends payable	-	-	-	(553)	(553)
At 31 December 2001	**20,625**	**3,649**	**(43)**	**11,533**	**35,764**
Net profit for the year	-	-	-	3,054	3,054
Translation differences	-	-	3	-	3
Dividends payable	-	-	-	(1,196)	(1,196)
At 31 December 2002	**20,625**	**3,649**	**(40)**	**13,391**	**37,625**

Consolidated cashflow statement

(in millions of Slovak crowns)	Notes	31 December 2002	31 December 2001
Operating activities			
Cash generated from operations	25	**10,431**	8,128
Interest paid		**(305)**	(1,092)
Interest received		**117**	225
Income tax (paid)		**(692)**	(1,966)
Net cash from operating activities		**9,551**	5,295
Investing activities			
Acquisition of subsidiaries, net of cash acquired		**(458)**	(806)
Purchase of investments in equity accounted subsidiaries and associates		**-**	(10)
Dividends received from equity accounted subsidiaries and associates	2	**129**	70
Proceeds from the sale of investments		**121**	40
Purchase of property, plant and equipment	16	**(2,429)**	(1,275)
Proceeds from disposals of available for sale financial assets		**-**	30
Proceeds from the sale of property, plant and equipment		**188**	169
Other income from investments		**108**	1
Government grants received	10	**68**	69
Net cash used in investing activities		**(2,273)**	(1,712)
Financing activities			
Proceeds from long-term borrowings		**269**	3,715
Repayments of long-term borrowings		**(3,384)**	(13,097)
Proceeds from short-term borrowings		**18 761**	14,774
Repayments of short-term borrowings		**(19,794)**	(15,990)
Dividends paid to minority interest		**-**	(1)
Dividends paid to ordinary shareholders		**(1,191)**	(548)
Net cash flow from foreign exchange losses		**(576)**	(32)
Net cash used in financing activities		**(5,915)**	(11,179)
Net increase / (decrease) in cash and cash equivalents		**1,363**	(7,596)
Cash and cash equivalents at the beginning of the year		**1,639**	9,235
Cash and cash equivalents at the end of the year		**3,002**	1,639

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements, which have been applied consistently, are as follows:

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with and comply with International Financial Reporting Standards including International Accounting Standards („IAS") issued by the International Accounting Standards Committee. The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

The Group adopted IAS 39 Financial Instruments: Recognition and Measurement in 2001. The financial effects of adopting these standards were reported in the previous year's consolidated financial statements.

(b) Group accounting

1) Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions and balances are eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Subsidiaries are accounted for under the equity method only when their impact in aggregate is not significant. Such subsidiaries if fully consolidated would not change consolidated total assets by more than 4%. (Notes 1 and 2). The Group's investment in equity method consolidated undertakings does not include goodwill as these were founded by the Company.

2) Associated undertakings and joint ventures

Associated entities in which the Company has a significant but not a controlling influence are accounted for using the equity method (Note 2). Significant influence is usually evidenced by the Company owning directly or indirectly between 20% and 50% of the voting share capital.

Joint ventures in which the Company has a joint controlling influence are accounted for using the equity method due to their minor impact on the consolidated financial statements (Note 2).

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of that undertaking.

3) Foreign currency translations

Income statements of foreign entities are translated into the Group's reporting currency at the weighted average exchange rates for the period and balance sheets are translated at the exchange rates ruling on the balance sheet date. Exchange differences arising from the retranslation of the net investment in foreign subsidiary and associated undertakings are taken to shareholders' equity. On disposal of a foreign entity, accumulated exchange differences are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

A listing of the Group's subsidiaries, associates and joint ventures is set out in Note 1. The financial effect of acquisition of subsidiaries and associates is shown in Note 2.

(c) Property, plant and equipment

Property, plant and equipment other than land are carried at cost less accumulated depreciation and any impairment losses. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use, and borrowing costs directly attributable to the construction of that asset, to the extent that they accrue in respect of the period of construction.

Land owned at the date of incorporation has been stated at the values attributed to it in the legislation which transferred ownership to the Group. These values are treated as cost. Other land is carried at cost less any impairment losses. Land is not depreciated.

Depreciation is recorded by a charge to income computed on a straight line basis so as to reduce the cost of the assets to their estimated residual values over their remaining useful economic lives. The useful economic lives used are as follows:

	Years
Buildings	30 – 40
Plant and machinery	8 – 15
Other fixed assets	4 – 8

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

(d) Goodwill and negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition.

Goodwill is amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies. Goodwill is amortised over a maximum period of 15 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately. If an undertaking is subsequently divested, the appropriate negative goodwill is accounted for through the income statement in the period of disposal, as part of the calculation of gain or loss on divestment.

(e) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(f) Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets; during the period the Group did not hold any investments in this category. During the period the Group did not hold any trading investments.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the income statement in the period in which they arise.

(g) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using first in, first out method. Cost of work in progress and finished goods inventories includes materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(i) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments.

(k) Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds. Dividends on ordinary shares are recognised in equity in the period in which they are declared.

(l) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

(m) Deferred income tax

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

The principal temporary differences arise from different tax and carrying values of property, plant and equipment, and unrealised foreign exchange differences which are not tax deductible under the Slovak legislation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(n) Employee benefits

Contributions are made to the Government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. The cost of social security payments is charged to income in the same period as the related salary cost. The Group has no obligation to contribute to these schemes beyond the statutory rates in force.

The Group operates an unfunded defined long-term benefit program comprising lump-sum post-employment, long-term loyalty and jubilee benefits defined in the Collective Agreement. The benefit liability is presented in provisons.

(o) Government grants relating to purchase of property, plant and equipment

Government grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Environmental liabilities are recognised in respect of obligating events, i.e. settlement of the obligation can be enforced by law; or the event creates valid expectations in other parties that the enterprise will discharge the obligation and the outcome can reasonably be estimated.

Termination benefits provision comprises employee termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Costs related to the ongoing activities of the Group are not provided in advance. Termination payments falling due more than 12 months after balance sheet date are discounted to present value.

(q) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, if any, or on the performance of services. Sales are shown net of value added taxes and discounts, and after eliminating sales within the Group.

Other revenues earned by the Group are recognised on the following bases:

Interest income – on an effective yield basis.
Dividend income – when the Group's right to receive payment is established.

(r) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Financial risk management

(1) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of: changes in commodity prices, foreign currency exchange rates and loan interest rates. Risk management is centralised and carried out by the Treasury department of Slovnaft, a.s.

- *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising mainly from purchase of crude oil and sale of oil and petrochemical products. Since the crude oil and the refinery products are priced in USD and petrochemical products are priced in EUR, the net currency exposure is in USD.

In order to ensure the currency match of the real cash-flow, the Group has short-term FX swaps.

As of 31 December 2002, the fair value of Group's open position for cash flow hedging is Sk 200 mil. The Group has no open position in respect of commodity contracts.

In case of expected exposure on different currencies the Group uses short-term forward contracts.

- *Interest rate risk*

The Group's operating income and operating cash flows are substantially independent of changes in market interest rates. As of 31 December 2002, the Group has Sk 2,944 mil borrowings majority of which have floating interest rates. As Group has no significant interest-bearing assets, therefore the Group has no interest rate hedging instruments in place at 31 December 2002.

- *Credit risk*

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and credit risk does not exceed the acceptable level. Derivative counterparties and cash transactions are limited to high credit quality financial institutions.

- *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit lines in order to serve the dynamic nature of the underlying business. Group Treasury has available, committed credit lines of Sk 9,806.3 mil.

(2) Accounting for derivative financial instruments

Derivative financial instruments, mainly short term foreign exchange contracts, are initially recognised in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives are included in income.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in income statement.

(3) Fair value estimation

The fair value of publicly traded derivatives and trading and available-for-sale securities is based where possible on quoted market prices at the balance sheet date. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. Where quoted market prices are not available the fair value is determined using appropriate valuation models. The fair value of embedded derivatives is determined using appropriate valuation models.

Available-for-sale investments represent shares in other undertakings. All investments are expected to be realised within twelve months of the balance sheet date. They are valued at cost as they do not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are unworkable.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

1 Group structure

Principal subsidiaries, joint ventures and associates at 31 December 2002 were as follows:

Name	Country of incorporation	Effective ownership %	Method of consolidation	Principal activity
Subsidiaries consolidated by full method				
Slovnaft Česká republika, s.r.o. .(1)	Czech Republic	100.0	Full	Wholesale and retail
Slovnaft Montáže a opravy, a.s. .(2)	Slovakia	100.0	Full	Repairs & maintenance
Apollo Oil Rohstoffhandels GmbH	Austria	67.0	Full	Crude oil trading
Slovnaft Polska SA	Poland	100.0	Full	Wholesale and retail
MOL Slovensko, s.r.o.	Slovakia	100.0	Full	Wholesale and retail
Subsidiaries consolidated using equity method				
Benatech, a.s.	Slovakia	100.0	Equity	Non-core assets rental and disposal
Slovfin o.c.p., a.s. (in liquidation)	Slovakia	100.0	Equity	-
SWS s.r.o.	Slovakia	51.2	Equity	Transport support services
Slovnaft Trans, a.s.	Slovakia	100.0	Equity	Transport
Slovnaft Ukrajina	Ukraine	89.0	Equity	Wholesale
UkrSlovnaft s.r.o.	Ukraine	84.6	Equity	Retail
Slovnaft VURUP, a.s.	Slovakia	100.0	Equity	Research & development
Slovnaft Rekreacentrum, a.s.	Slovakia	100.0	Equity	Operation of recreation facilities
Slovnaft Supply & Trading s.r.o. (in liquidation)	Slovakia	100.0	Equity	-
CHZP Apollo	Slovakia	51.0	Not consolid.	Health insurance
Associates				
Messer Slovnaft s.r.o.	Slovakia	49.0	Equity	Production of technical gases
Chemia, a.s.	Slovakia	49.0	Equity	Services
Petrimex, a.s. (in liquidation)	Slovakia	33.2	Not consolid.	-

(1) Slovnaft Česká republika, s.r.o. is a legal successor of merged Slovnaft Moravia, s.r.o. and Slovnaft CS, a.s., effective from 1 January 2002

(2) Slovnaft Somea and Slovnaft Elektroservis (equity consolidated subsidiaries) were merged into Slovnaft Montráže a Opravy, a.s., effective from 1 October 2002

The activities of the undertakings shown above are for the most part connected with the principal activity of the Group.

All of Slovnaft's subsidiary and associate undertakings are unlisted. All holdings are in the ordinary share capital of the undertaking concerned.

CHZP Apollo – Health Insurance Company is not included by full consolidation but is presented within Other Investments at nil value, because it is a non-profit making organisation from which no return is expected and to which there are no ongoing obligations.

During the year Slovnaft, a.s., acquired 100 % shareholding in MOL Slovensko, s.r.o. for a cash consideration of Sk 1,145 millions from MOL Rt, a shareholder of Slovnaft, a.s.

As a consequence of the above acquisitions goodwill arose:

(in millions of Slovak crowns)	Note	31 December 2002
Cash consideration for MOL Slovensko, s.r.o.		**1, 145**
Less net assets acquired		**(810)**
Goodwill	4	**(335)**

2 Equity investments and joint ventures

(in millions of Slovak crowns)	Subsidiary Undertakings	Joint venture Undertakings	Associated Undertakings	Total 31 December 2002	Total 31 December 2001
1 January 2002	798	102	360	**1,260**	1,353
Disposals	(37)	(68)	-	**(105)**	-
Dividends paid	(47)	(58)	(24)	**(129)**	(70)
Group share of profit (Note 19)	59	24	4	**87**	83
Changes in scope of consolidation	(24)	-	-	**(24)**	-
Share capital decrease	(2)	-	(141)	**(143)**	-
Other movements	(20)	-	34	**14**	45
Transfer from PP&E (Note 3)	-	-	-	**-**	291
Impairment loss (Note 17)	-	-	-	**-**	(400)
Group share of income tax (Note 22)	(19)	-	(12)	**(31)**	(42)
31 December 2002	**708**	**-**	**221**	**929**	1,260

The Group's principal subsidiary, joint venture and associate undertakings are set out in Note 1.

During the year the Group disposed its interest in Slovnaft Reprografia, s.r.o., Slovnaft SENES, s.r.o., Priemyselné zdravotnícke centrum Slovnaft, a.s.

During the year the Group disposed of its 50% interest in joint venture, Slovpack, s.r.o. which provides products and services in the packing industry.

3 Property, plant and equipment

(in millions of Slovak crowns)	Land	Buildings	Plant and machinery	Other fixed assets	Capital work in progress	Total
Year ended 31 December 2002						
Net book value 1 January 2002	4,573	14,460	16,142	540	1,105	36,820
Acquisition of subsidiaries	211	486	139	1	27	864
Acquisitions as a result of merger of equity consolidated entities	-	3	9	-	7	19
Additions	-	-	-	-	2,244	2,244
State grants for the year (Note 10)	-	-	-	-	68	68
Taken into use	20	233	653	138	(1,044)	-
Transfer from inventories	-	188	-	-	-	188
Disposals	(86)	(65)	(57)	(39)	(77)	(324)
Depreciation charge (Note 17, 25)	-	(566)	(2,685)	(234)	-	(3,485)
Impairment loss (Note 25)	-	(134)	(88)	-	21	(201)
Foreign exchange effects	(13)	(24)	(14)	(1)	(2)	(54)
Closing net book value at 31 December 2002	**4,705**	**14,581**	**14,099**	**405**	**2,349**	**36,139**
At 31 December 2002						
Costs	**4,713**	**20,931**	**35,108**	**1,896**	**2,317**	**64,965**
Accumulated depreciation and impairment loss	**(8)**	**(6,350)**	**(21,009)**	**(1,491)**	**32**	**(28,826)**
Net book value at 31 December 2002	**4,705**	**14,581**	**14,099**	**405**	**2,349**	**36,139**
Year ended 31 December 2001						
Net book value 1 January 2001	4,694	14,881	18,427	756	766	39,524
Additions	-	-	-	-	1,379	1,379
State grants for the year (Note 10)	-	-	-	-	69	69
Taken into use	10	196	680	192	(1,078)	-
Transfers	-	20	18	(38)	-	-
Disposals	(20)	(38)	(62)	(63)	(51)	(234)
Depreciation charge (Note 17,25)		(544)	(2,783)	(315)	-	(3,642)
Impairment loss (Note 25)	(1)	(17)	(94)	-	15	(97)
Foreign exchange effect	12	61	26	8	5	112
Transfer to equity consol. Subsidiaries (Note 2)	(122)	(99)	(70)	-	-	(291)
Closing net book value at 31 December 2001	**4,573**	**14,460**	**16,142**	**540**	**1,105**	**36,820**
At 31 December 2001						
Costs	**4,581**	**20,178**	**34,539**	**1,835**	**1,093**	**62,226**
Accumulated depreciation and impairment loss	**(8)**	**(5,718)**	**(18,397)**	**(1,295)**	**12**	**(25,406)**
Net book value at 31 December 2001	**4,573**	**14,460**	**16,142**	**540**	**1,105**	**36,820**

Leased assets

Property, plant and equipment includes machinery acquired under finance leases:

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Cost	**58**	58
Accumulated depreciation	**(30)**	(12)
Net book value	**28**	46

Transfer of assets from equity consolidated subsidiaries and associates

Property, plant and equipment increased by Sk 19 million due to merger of Slovnaft Somea and Slovnaft Elektroservis, equity consolidated companies, with Slovnaft Montáže a Opravy, fully consolidated subsidiary.

Impairment losses

Certain storage facilities (terminals) owned by Benatech and Slovnaft were fully impaired during previous periods. Future sale and resulting recoverable amount of these assets is uncertain. Due to this reason impairment loss recognised previously remained unchanged.

Following the decision of the Board of Directors from June 2002 to terminate the production of base oils used for the production of lubricants the Group recognised an impairment loss of Sk 248 million related to the property, plant and equipment used in the production of these base oils.

State grants

Property, plant and equipment includes assets with carrying value of Sk 747 million financed from state grants (Note 10). Part of these assets with carrying value of Sk 309 million are in the course of construction and the rest are currently used for commercial purposes. All of these assets are currently owned by the Company and were designed and constructed to serve State Authorities, including military forces, in state emergencies. In such situations title to these assets may be restricted.

4 Goodwill and negative goodwill

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Opening net book value	**(89)**	(126)
Additions (Note 1)	**335**	(528)
Amortisation for the period (Notes 17 and 25)	**76**	565
Closing net book value	**322**	(89)

(in millions of Slovak crowns)	31 December 2002	31 December 2001
At cost	**335**	(811)
Accumulated amortisation	**(13)**	722
Net book value	**322**	(89)

The negative goodwill arose primarily on the acquisition of shares in Slovnaft Benzinol, a.s., in April 1995, November 1997, April 2001 and on capital transactions in November 1998.

Sk 89 million of the negative goodwill, related to the environmental provisions recognised during the year (Note 9) attributable to the Slovnaft Benzinol, a.s., minority share acquisition plan, was charged to income.

5 Inventories

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Raw materials	**1,555**	1,571
Work in progress and semi-finished products	**1,623**	1,491
Finished goods	**1,531**	1,586
	4,709	4,648

Raw materials inventories are shown after provisions for obsolete and slow-moving items of Sk 135 million (31 December 2001: Sk 132 million).

6 Receivables and prepayments

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Trade receivables	**5,481**	4,491
Amounts due from group undertakings accounted for on an equity basis	**30**	54
Income tax prepayment	**14**	233
Other tax receivables	**1,028**	1,105
Other receivables	**697**	1,405
Prepaid dividends to minority shareholders	**-**	1
Prepayments	**430**	603
	7,680	7,892

Trade receivables are shown after provisions for impairment of Sk 1,953 million (31 December 2001: Sk 2,023 million).

Prepayments include prepaid expenses for catalyst consumables used in the production process within one year, of Sk 345 million (31 December 2001: Sk 594 million). All amounts are receivable within one year.

7 Available for sale financial assets

(in millions of Slovak crowns)	31 December 2002	31 December 2001
At 1 January 2002	**49**	30
Reclassifications	**-**	70
Disposals	**-**	(51)
At 31 December 2002	**49**	49

These financial assets are carried at fair value.

8 Borrowings

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Borrowings include		
Bank overdrafts	**66**	678
Bank loans	**2,601**	7,171
Finance lease liability	**28**	46
Fair value of crude oil put options embedded in loan agreements	**249**	753
	2,944	8,648
Repayments fall due as follows		
Within 1 year	**684**	1,760
Between 1 and 2 years	**2011**	-
Between 2 and 5 years	**249**	6,888
After more than 5 years	**-**	-
	2,944	8,648
Finance leases liabilities - minimum lease payments		
Not later than 1year	**9**	21
Later than 1 year and not later than 5 years	**19**	30
Later than 5 years	**-**	-
	28	51
The present value of financial lease liabilities is as follows		
Not later than 1year	**9**	17
Later than 1 year and not later than 5 years	**19**	29
Later than 5 years	**-**	-
	28	46

At 31 December 2002 there is no portion of long-term borrowings repayable within one year (31 December 2001: Sk 65 million).

During the year the Group made payments of Sk 3,635 million to prepay loans, which were included in non-current borrowings at 31 December 2001.

The exposure of the borrowings of the Group to foreign currency exchange rate change is as follows:

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Slovak crown borrowings	-	-
US dollars	**2,373**	7,492
Euro	**69**	344
Czech crowns	**502**	354
Polish Zloty	-	458
Total borrowings	**2,944**	8,648

The exposure of the borrowings of the Group to interest rate changes and the periods in which the borrowings reprice are as follows:

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Within 6 months	**2,695**	7,878
Between 6 months and 1 year	-	17
Between 1 and 5 years	**249**	753
Total borrowings	**2,944**	8,648

At 31 December 2002 the Group has complied with the financial covenants required by the outstanding loans.

The carrying amounts and fair values of non-current borrowings are as follows:

	31 December 2002		31 December 2001	
(in millions of Slovak crowns)	Carrying amounts	Fair values	Carrying amounts	Fair values
Long term loans	**2,260**	**2,212**	6,888	6,752

The fair values are based on discounted cash flows using a discount rate based upon the borrowing rate, which the Directors expect would be available to the Group at the balance sheet date. The carrying amounts of short-term borrowings approximate their fair value.

On loans totalling Sk 2,010 million, the Group's interest rate is linked to the market price of crude oil if the market price falls below a certain level.

In accordance with IAS 39, Financial instruments: Recognition and Measurement, adopted by the Group at 1 January 2001 this derivative element embedded in the loan has been separated out of the host contract and is included at fair value of Sk 249 million under borrowings with changes in fair value being included in earnings for the year.

9 Provisions for liabilities and charges

(in millions of Slovak crowns)	Termination and retirement benefits	Environ-mental	Other	Total
At 1 January 2002	74	184	11	269
Charged to income statement (Note 17 and 25)	492	275	(11)	756
At 31 December 2002	**566**	**459**	**-**	**1,025**
Analysis of provisions				
Non current	312	359	-	671
Current	254	100	-	354
Total	**566**	**459**	**-**	**1,025**

Termination and retirement benefits

The Group is committed to a restructuring plan approved by the Board of Directors during 2002. Restructuring process will result in termination of employment before the normal retirement date of up to 1000 employees within the next 3 years. The Group has a detailed formal plan for the termination and material changes to the plan are not likely.

Under a defined benefit program, the employees are entitled to a lump-sum payment upon old age or disability retirement dependant upon the Company's average salary and, subject to vesting conditions. No actuarial valuation was made in 2002.

Provisions of Sk 566 million were recognised in respect of termination and retirement benefits in these financial statements.

Environmental provisions

The legal environmental standards and environmental policy of the Group related to service stations and storage facilities in the Slovak Republic include containment of evaporative losses on filling of the station tanks, treatment of effluent, and protection of soil and groundwater. The soil and groundwater protection measures should include double walled underground tanks, high level alarms on tanks and impermeable surfaces in loading areas.

If a station undergoes reconstruction or closure soil remediation is required if contamination exceeds national guidelines. The deadlines to meet these environmental requirements are:

- 30 June 2004 for impermeable surfaces in loading areas (Decree of the Interior Ministry No 86/99 Coll.)
- 31 December 2009 for emissions to air (Government decree No. 92/96 Coll.)

The Group operates 318 service stations in the Slovak Republic of which approximately 146 are not fully compliant with the above future environmental requirements. After recent acquisition by a strategic partner the Group completed a review of its strategy in respect of service stations. This review considered the timing requirements indicated above and management is confident that if it is not possible to ensure full compliance in line with these requirements that appropriate agreements will be made with the authorities and that no financial penalties will be incurred. Modernisation of a service station costs on average Sk 36 million and these costs are capitalised. Some smaller stations will be closed for commercial reasons and removal and clean up would cost approximately Sk 3.85 million per station.

10 Deferred income

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Opening net book value	**733**	750
Government grants received (Note 3)	**68**	69
Amortisation for the period (Notes 17 and 25)	**(54)**	(86)
Closing net book value	**747**	733

11 Deferred income tax

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Deferred tax assets	**527**	500
Deferred tax liability	**(260)**	(238)
Total	**267**	262

Deferred income tax is calculated on temporary differences under the liability method using the currently enacted tax rates.

Deferred tax assets and liabilities and the deferred tax charge in the income statement (Note 22) are attributable to the following items:

(in millions of Slovak crowns)	31 December 2001	Credited/ (charged) to income	31 December 2002
Deferred income tax assets			
Unrealised foreign exchange losses	105	(38)	**67**
Impairment loss and provisions recognition	82	270	**352**
Share capital increase transaction costs	20	(7)	**13**
Fair value of embedded derivatives	188	(126)	**62**
Effect of merger with Slovnaft Benzinol, a.s.	82	(82)	**-**
Tax losses c/f	21	(10)	**11**
Other	2	19	**21**
Deferred income tax liabilities			
Difference between tax and carrying values of property, plant and equipment	(238)	(21)	**(259)**
Net deferred income tax assets	262	5	**267**

Deferred income tax assets and liabilities are offset when the income taxes relate to the same fiscal authority.

Tax losses of certain subsidiaries to be carried forward of Sk 380 million (31 December 2001: Sk 303 million) did not qualify for deferred tax asset recognition because significant uncertainties exist in respect of availability of future taxable profits in those subsidiaries against which these losses could be utilised.

12 Trade and other payables

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Trade payables	**7,460**	4,812
Amounts due to group undertakings accounted for on the equity basis	**82**	170
Income tax payable	**229**	5
Social security and other taxes	**1,605**	589
Accrued expenses and other liabilities	**1,427**	1,523
	10,803	7,099

13 Ordinary shares

The Company's authorised share capital is 20,625,229 ordinary shares (31 December 2001: 20,625,229) with a par value of Sk 1,000 each. All of these shares are issued and fully paid.

14 Retained earnings and translation reserve

In accordance with Slovak legislation the Company distributes profit into various funds.

The Legal Reserve Fund is set up in accordance with Slovak law and is not distributable. It is created from retained earnings to cover possible future losses.

Other Funds are funded from retained profits. Funding and distribution of Other Funds must be ratified at the Annual General Meeting.

The translation reserve arises from the translation of net investments in foreign subsidiary and associated undertakings at closing rates, together with differences between income statements translated at average and closing rates.

15 Minority interest

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Opening net book value	**23**	792
Acquisition of minority interest in Benzinol, a.s. and Slovnaft Trade, a.s.	**-**	(629)
Minority share of net profit of subsidiaries	**(22)**	5
Dividends declared	**-**	(145)
Closing net book value	**1**	23

16 Segment reporting

Primary reporting segment: business segment

The Group is organised as one business segment – the processing and distribution of products derived from crude oil – and operates in three main product groups: refined products, petrochemicals and plastics. All the Group's products are produced during an integrated production process through intermediate steps from the principal raw material, crude oil. The specific products of each group are as follows:

(a) The refined products group includes diesel fuel and gasoline, and a variety of transportation, industrial and household heating oils such as diesel oils, aviation fuel, heavy oils and liquified petroleum gases. The crude oil distillation facilities also produce vacuum and atmospheric gas oils used in the Group's other processing facilities.

(b) The petrochemicals group comprises primarily ethylene and propylene.

(c) The plastics group comprises primarily polyethylene and polypropylene for use in the construction, chemicals and printing industries.

An analysis of sales by product group is provided below:

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Refined products	**53,778**	58,742
Petrochemicals	**3,600**	5,234
Plastics	**7,079**	7,483
Other	**860**	1,017
	65,317	72,476

Secondary reporting segments: geographical segments

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Slovak Republic	**21,067**	25,349
Czech Republic	**17,776**	19,480
Austria	**9,031**	8,728
Hungary	**4,578**	4,139
Germany	**3,437**	3,470
Poland	**6,517**	8,025
Other	**2,911**	3,285
	65,317	72,476

Assets

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Slovak Republic	**46,547**	46,045
Czech Republic	**3,452**	3,691
Poland	**1,411**	1,581
Austria	**61**	256
Other	**1,688**	983
	53,159	52,556

Capital expenditure

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Slovak Republic	**2,307**	1,253
Czech Republic	**80**	18
Poland	**42**	4
	2,429	1,275

Slovak Republic is the home country of the parent company Slovnaft, a.s., which is also the main operating company. Most of the Group assets are located in the Slovak Republic.

17 Operating expenses

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Change in inventories of finished goods and work in progress	**(77)**	98
Raw materials and consumables used	**48 822**	53,741
Staff costs (Note 18)	**2 438**	2,164
Depreciation of property, plant and equipment (Note 3)	**3,485**	3,642
Impairment loss on property, plant and equipment (Note 3, 25)	**201**	97
Amortisation of deferred income (Note 10)	**(54)**	(86)
Amortisation of negative goodwill (Note 4)	**(76)**	(565)
Impairment loss on investments (Note 2, 25)	**-**	400
Repair and maintenance costs	**1,188**	1,377
Costs capitalized to PP&E	**-**	(4)
Distribution costs	**1,034**	1,142
Movement in provisions for bad debts and obsolete stock	**(81)**	(42)
Movement in provisions for bad debts in Slovnaft Moravia, s.r.o.	**-**	(794)
Movement in environmental and redundancy provisions (Note 9)	**756**	165
Other operating costs	**4,858**	5,539
Other operating income	**(404)**	(455)
Total operating expenses	**62, 090**	66,419
Included in cost of sales:		
Change in inventories of finished goods and working progress	**(77)**	98
Raw materials used	**48 822**	53,741
Other operating costs	**1,658**	1,344
	50 403	55,183

Crude oil supplies

Slovnaft, a.s., purchases crude oil under supply agreements with its subsidiary Apollo Oil Rohstoffhandels GmbH („Apollo Oil"). Apollo Oil sources 100% of its supply of crude oil under a supply agreement with Apollo Interoil. Apollo Interoil is wholly owned by J & S Services and Investment Ltd, which holds the remaining 33% stake in Apollo Oil. Transactions between Slovnaft, a.s., and Apollo Oil, and between Apollo Oil and Apollo Interoil, are conducted on normal commercial terms.

18 Staff costs

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Wages, salaries and bonuses	**1,700**	1,505
Social security costs	**738**	659
Total staff costs (Note 17)	**2,438**	2,164

19 Income from investments

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Dividends received	**1**	1
Profit on disposal of investments	**13**	19
Share of profit of equity accounted subsidiaries and associates (Note 2)	**87**	83
	101	103

20 Net foreign exchange differences

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Net foreign exchange gains/(losses) related to loans	**1,181**	(305)
Net foreign exchange (losses) / gains from trading operations	**(642)**	140
Net foreign exchange gains / (losses)	**539**	(165)

21 Finance revenues / (costs)

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Interest costs	**(211)**	(893)
Other finance costs / (revenues)	**(85)**	10
Changes in fair value of crude oil put options embedded in loan agreements	**504**	(440)
Interest income	**117**	225
Net finance revenues / (costs)	**325**	(1,118)

22 Taxation

The income tax charge comprises the following:

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Current tax charge	**1,134**	932
Deferred tax (income) / charge (Note 11)	**(5)**	740
Share of tax of subsidiaries and associates (Note 2)	**31**	42
	1,160	1,714

The reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard tax rates is as follows:

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Profit before taxation	**4,192**	4,877
Income tax at 25% (31 December 2001: 29%)	**1,048**	1,414
Effect of different tax rates in other countries	**3**	2
Effect of temporary differences not recognised in the balance sheet	**87**	(293)
Effect of tax loss not assessable for tax relief	**15**	56
Effect of utilisation of prior year tax losses carried forward	**(15)**	(26)
Effect of other differences:		
- income not assessable to tax	**(260)**	(193)
- expenses not deductible for tax purposes	**247**	706
- other differences	**4**	5
- share of taxes of associated companies	**31**	42
Underprovisions in respect of prior years	**-**	1
Income tax charge for the year	**1,160**	1,714

The financial years 2002 and 2001 are open to inspection by the Tax Authorities.

23 Earnings per share

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Net profit attributable to ordinary shareholders (Sk millions)	**3,054**	3,158
Weighted average number of ordinary shares	**20,625,229**	20,625,229
Earnings per share (Sk per share)	**148.0**	153.1

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

There are no potential ordinary shares and therefore the diluted earnings per share is the same as the basic earnings per share.

24 Dividends

Dividends payable are not recorded until they have been ratified at the Annual General Meeting. The Annual General Meeting held on 29 May 2002 approved dividends of Sk 1,196 million in respect of the financial year 2001.

25 Cash generated from operations

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Operating profit	**3,227**	6,057
Adjustments for:		
Depreciation of property, plant and equipment (Note 3 and 17)	**3,485**	3,642
Impairment loss on property, plant and equipment (Note 3 and 17)	**201**	97
Impairment loss on Equity investments (Note 2 and 20)	**-**	400
Other non-cash movements in PP&E	**(136)**	-
Amortisation of deferred income (Note 10)	**(54)**	(86)
Amortisation of goodwill and negative goodwill (Note 4)	**(76)**	(565)
Loss on disposal of property, plant and equipment	**34**	65
Increase in provisions for liabilities and charges (Note 9)	**756**	176
(Increase)/ decrease in receivables and prepayments	**(664)**	884
(Increase)/ decrease in inventories	**(28)**	792
Increase/(decrease) in trade and other payables	**3,686**	(3,334)
Cash generated from operations	**10,431**	8,128

Non-cash transactions

The principal non-cash transactions are:
- Depreciation and impairment loss of property, plant and equipment;
- Amortisation of negative goodwill; and
- Changes in provisions for liabilities and charges.

26 Government social security and pension schemes

The Group is required to make contributions amounting to 35% and 3% of monthly gross salaries, up to a maximum salary ceiling of Sk 32,000 and Sk 24,000 respectively per employee to obligatory Government health, retirement benefit and unemployment schemes together with contributions by employees of a further 11.8% and 1.0% up to a salary ceiling of Sk 32,000 and Sk 24,000, respectively. The Group has no obligation to contribute to these schemes beyond the statutory rates in force.

27 Commitments and contingencies

Operating leases

The Group has concluded operating lease agreement in 2001 and in 2002. The future aggregated minimum lease payments of operating leases are as follows:

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Operating leases liabilities - minimum lease payments		
Not later than 1year	**100**	58
Later than 1 year and not later than 5 years	**99**	111
Later than 5 years	**-**	-
	199	169
Minimum lease payments recognised in income statement for the period:	**104**	4

Contingent liabilities

Guarantees have been provided as follows:

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Guarantees provided to third parties	27	36

Litigations

Mende-Rossi

Slovnaft, a.s., is the respondent to a decision made in the International Commercial Arbitration Tribunal at the Chamber of Commerce and Industry of the Russian Federation. Mende-Rossi, a Soviet-Czechoslovak company, made a claim for payment of crude oil that was allegedly supplied by them to Slovnaft, a.s. The tribunal originally found in favour of Mende-Rossi and the amount of the award was approximately USD 25 million.

The Supreme Court of the Slovak Republic has decided that the Decision of the Court of Arbitration in Moscow is ineffective in the territory of the Slovak Republic. However, the plaintiff filed an extraordinary remedy against the decision. The Supreme Court of the Slovak Republic has now accepted that they do not have the authority to cancel the Decision of the Court of Arbitration in Moscow.

As a result, Slovnaft filed a suit with the District Court Bratislava II. The suit asked the District Court to order that the ruling by the International Court of Arbitration be unenforceable. The District Court combined Mende-Rosi's suit requesting enforcement with Slovnaft's into one case. On 19 November 2002, the District Court Bratislava II issued a ruling rejecting Mende-Rosi's suit requesting enforcement of the Arbitration Court's ruling.

The Ruling of the District Court Bratislava II is not yet final, because Mende-Rosi appealed it. The Regional Court in Bratislava, which will decide the dispute, has not yet ordered a hearing.

Mende-Rossi has also applied to the court in Austria to freeze an amount that OMV, A.G. owes Slovnaft. OMV has stated (in its third party declaration to the court) that at 14 June 1999 (the date of the order) it owes Slovnaft USD 418 thousand, but that at the same date Slovnaft owes them DEM 622 thousand. Currently it is not possible to predict the decision of the Austrian Courts.

Based on legal opinion the directors are confident that no losses will be incurred in respect of this litigation, there will be no material legal costs and thus no provision should be recognised.

Lawsuit against the Tax Office Bratislava II

On 16 June 2002, Slovnaft filed a suit with the Supreme Court of Slovak Republic against the Tax Office Bratislava II. Slovnaft's suit requests a review of decisions the Tax Office made on the basis of a repeated tax control in Slovnaft, a.s., a legal successor of Slovnaft Trade, a.s., Slovnaft Trade, a.s., merged with Slovnaft, a.s., on 31 December 2001. The suit requests that the court suspend enforcement of the Tax Office's decisions while the suit is pending.

After the tax control, the Tax Office in April 2002 imposed the following because of „falsified exports“ undertaken by several customers of Slovnaft Trade in 1998.:

- additional excise tax of Sk 145 million for 1998;
- a penalty of Sk 145 million

- additional V.A.T. of Sk 55 million; and
- an increase of V.A.T. of Sk 28 million.

Slovnaft appealed this decision on the basis that an inappropriate entity had requested the repeated control and the findings were insufficiently supported. Since Slovnaft was not in breach of any of its obligations, it argued that it should not be sanctioned. The appeal was rejected and the Tax Directorate confirmed the Tax Office's decision.

Because of the suit, the Supreme Court decided on 18 September 2002 to suspend enforcement of the disputed decisions until it ruled on the suit.

According to the legal opinion dated October 2002, it was expected that the contested decision would be nullified and the court would order the Tax Office to reconsider the control findings.

On 27 February 2003, the Supreme Court held a hearing regarding the suit. The court rejected Slovnaft's suit against the Tax Office. The court will send Slovnaft a written conclusion of the ruling, which will explain the court's decision.

However, Slovnaft has the right to appeal the Supreme Court's ruling and will do so.

Therefore, the legal status of this matter remains unchanged: the decision to suspend enforcement of the Tax Directorate's decision is still valid, because the Supreme Court's ruling is not yet final.

Based on legal opinion the directors are confident that no losses will be incurred in respect of this litigation, there will be no material legal costs and thus no provision should be recognised.

Capital commitments
At 31 December 2002 capital expenditure of Sk 1,253 million (31 December 2001: Sk 108 million); had been committed under contractual arrangements.

28 Shareholders structure

Major shareholders of Slovnaft, a.s., are:

(percentage shareholding)	31 December 2002	31 December 2001
MOL Hungarian Oil and Gas Plc.	**36.2**	36.2
Slovintegra, a.s.	**28.7**	28.7
EBRD	**8.4**	-
Bank of New York	**-**	8.4
Všeobecná úverová banka, a.s.	**-**	4.3
Slovbena, a.s.	**2.9**	2.9
Istrobanka, a.s.	**-**	2.5
Other	**21.8**	17
Other individuals	**2.0**	-
	100	100.0

During year 2002 the European Bank for Reconstruction and Development (EBRD) acquired directly ownership of 8.4 % of Slovnaft shares previously owned indirectly through Depository Receipts held by the Bank of New York.

On 23 November, 2002, MOL signed a definitive agreement to gain control of Slovnaft. MOL and Slovak companies Slovbena and Slovintegra („SISB“) have signed a definitive agreement for the purchase of a 31.6% stake of Slovnaft. Through this acquisition, MOL increases its interest in the Slovnaft, a.s., to 67.8%.

Under the terms of the agreement, MOL will acquire 6.5 million Slovnaft shares in exchange for USD 85mm cash payment and 984,000 MOL Class A shares (1% of existing share capital) and 9,817,578 newly issued MOL Class C shares. The Class C shares will be issued at closing of the transaction in the framework of a private placement, at an issue price of HUF 6,000 per share. These shares will have a nominal value of HUF 1,000 per share and identical rights with Class A shares.

The closing of the transaction is subject to approval of the Slovak Anti-Monopoly Office and the Hungarian Competition Office together with fulfilment of other customary conditions precedent. At the date of the approval of these financial statements a formal, valid decision of the Slovak Anti-Monopoly Office was not issued. The Hungarian Competition Office has already issued consent to the transaction.

29 Related party transactions

Transactions during the period and balances outstanding at the end of the year with related parties comprise:

(in millions of Slovak crowns)	31 December 2002	31 December 2001
Sales		
Proxar Slovakia Internationale Spedition, a.s.	**333**	1,436
Slovbena, a.s.	**-**	33
MOL Hungarian Oil and Gas Plc.	**1,649**	1,174
MOL Austria Handels GmbH	**8,062**	-
MOL Chem Ltd	**331**	-
Real - H.M., s.r.o.	**620**	-
MOL Hungarian Oil and Gas Plc. via Proxar Slovakia Internationale Spedition, a.s.	**-**	134
Coinco, a.s.	**35**	244
	11,030	3,021
Purchases		
Proxar Slovakia Internationale Spedition, a.s.	**19**	488
MOL Hungarian Oil and Gas Plc.	**1,845**	1,679
Coinco, a.s.	**4**	44
	1,868	2,211
Directors and key management		
Remuneration for services as directors and key management	**36**	34
Receivables		
Coinco, a.s.	**-**	15
Proxar Slovakia Internationale Spedition, a.s.	**-**	1
MOL Hungarian Oil and Gas Plc.	**255**	736
MOL Austria Handels GmbH	**731**	-
MOL Chem Ltd	**9**	-
Real - H.M., s.r.o.	**30**	-
HTH Benelux BV	**-**	92
Amounts due from Group undertakings accounted for on an equity basis	**30**	54
	1,055	898
Payables		
Coinco, a.s	**-**	1
MOL Hungarian Oil and Gas	**82**	54
Proxar Slovakia Internationale Spedition, a.s.	**-**	24
Amounts due to Group undertakings accounted for on an equity basis	**82**	170
	164	249

Slovnaft, a.s., management believes that the trading terms with these companies are/were not substantially different from normal commercial terms provided by/to other companies.

No loans have been provided to the Directors.

30 Post balance sheet events

The Company was informed by the responsible Regional Court in Bratislava that on 14 March, 2003 the minority shareholder Securities (Slovakia) Bratislava has filed a request to declare invalid the Extraordinary General Meeting of Slovnaft, a.s., conducted at 17 December, 2002.

No other events have occurred after 31 December 2002 that would require adjustment to, or disclosure in the financial statements.

REPORT ON THE SLOVNAFT, A.S.

Report on the Slovnaft, a.s., Supervisory Board activity for the period since the ordinary General Meeting of May 29th 2002

The submitted report of the Supervisory Board on the past business year 2002 has been prepared based on the Board of Directors report, report of the auditor as to the ordinary and consolidated financial statements and regular assessment of the company activities.

The Supervisory Board state that in spite of the unfavorable international market trends the Company has achieved very good results due to the continuation of rationalization and efficiency improvement measures adopted during the previous year.

Strategic partnership with MOL has been intensified; synergy effects exceeded planned values in almost all business segments.

Financial position of the company has been significantly consolidated and application of adequate credit policy enabled the company to gain higher degree of its financial flexibility. Value of the company has been increased. Net income has amounted to SKK 2.54 bn.

A significant progress, transparency and reliability have been accomplished in integration of the internal management and information system. The Board of Directors was reporting on the events and business results to the Supervisory Board regularly on quarter base. The Board of Directors also submitted to the Supervisory Board draft amendment to the Articles of Association with request to review it. The Supervisory Board accepted the draft positively.

During the year the Supervisory Board dealt with quality policy, insurance policy and paid an increased attention to the internal audit activities, as well as to the measures suggested by the body with purpose to eliminate risks revealed in business processes.

In opinion of the Supervisory Board operations and remedies adopted by the Board of Directors in 2002 supported fulfillment of the objectives focused on maximization of the shareholder value.

The employee representatives of the Supervisory Board participated actively at all meetings and paid a special attention to the issues affecting the status of the employees of Slovnaft, a.s.

The Supervisory Board reviewed and discussed audit of the both ordinary and consolidated financial statements for the year 2002 conducted by Pricewaterhouse Coopers Slovensko, s. r. o. company in accordance with Slovak auditing standards.

In opinion of the auditor the ordinary and consolidated financial statements present fairly, in all material respects, the financial position of Slovnaft, a.s. company at December 31, 2002 and the results of its operations, changes in equity and its cash flow for the year ended.

Having verified and discussed the Board of Directors report about the Companyīs operation in 2002 the Supervisory Board recommended that the General Meeting approve the ordinary and consolidated financial statements for the year 2002 and the proposal of the Board of directors for profit distribution.

Ilona Bánhegyi
Supervisory Board Chairwoman
Bratislava May, 17, 2003

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Slovnaft Senes, spol. s r. o.
Business share of Slovnaft, a.s., sold on November 22, 2002.

Slovnaft Supply a Trading, spol. s r. o.
Since January 1, 2002 the company is in liquidation.

Slovfin o. c. p., a.s.
Since October 1, 2002 the company is in liquidation.

Slovnaft

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