

OIL&GAS DAILY REPORT

Monday, January 21st 2013

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Natural Gas Industry

MAE: Romania, steadfast and active supporter of Nabucco project

The Foreign Affairs Ministry (MAE) saluted on Friday, in a press release, the announcement that the Nabucco Gas Pipeline International Company and the Shah Deniz Consortium made about the signing of the agreement on developing the next stage of the Nabucco natural gas pipeline project. The agreement, signed on Friday in Vienna, represents “a particularly important

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evolution in developing the project, by deepening the cooperation between the two consortiums and by establishing the parameters of the collaboration for the following period,” MAE points out. “As a partner state within the Nabucco project, Romania was and continues to be a steadfast and active supporter of its implementation, constantly getting involved in overtures means to ensure the proper progress of the preparatory stages,” MAE informs. The Nabucco project is part of the southern natural gas corridor, a European initiative that seeks to diversify the European market’s routes and sources of natural gas. In the first stage the project entails bringing natural gas from Azerbaijan’s Shah Deniz II field managed by the Shah Deniz Consortium, from Turkey’s western border to Bulgaria, Romania, Hungary and Austria. Romania’s Transgaz, member of the Nabucco Gas Pipeline International Company, is participating in the project. Nabucco’s shareholders signed on Friday in Vienna agreements on close cooperation meant to align construction programs and to develop the Nabucco West and Shah Deniz II projects. (Agerpres January 18th, Cronica Romana, Ziare.com January 19th)

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Natural gas consumption totaled 124.8mln MWh in the first 11 months of 2012

Romania’s natural gas consumption totaled 124.875mln MWh in the first 11 months of 2012, down 6.35% against the similar period of the previous year, when it amounted to 133.335mln MWh, according to data centralized by the National Energy Regulatory Authority (ANRE). Domestic natural gas production entering consumption accounted in November for 80.59% of total sources, the top two producers, Romgaz and Petrom, covering 98.09% of this source. Import entering consumption represented the difference, respectively 19.41%. The top three importers – domestic suppliers – achieved together 40.47%. (Capital, January 20th)

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Which companies will be put up for sale this year by the state on the stock exchange

Romanian authorities have committed to the IMF to sell stakes in the main energy and transmission companies, the most valuable among them being Romgaz and Hidroelectrica, each estimated at EUR 2,000-3,000mln, according to ZF estimates. The Government has committed to start by late 2012 six IPOs and SPOs through the stock exchange, i.e. Transelectrica, Transgaz, Romgaz, Hidroelectrica, Nuclearelectrica and Tarom, but so far only the Transelectrica IPO took place, being successfully completed in March 2012. Following the operation the state collected EUR 38mln from investors. Romgaz posted in 2011 a turnover of almost EUR 1bn and net profits of EUR 243.4mln and Hidroelectrica had a turnover of over EUR 700mln and a profit of EUR 1.5mln in the same year. The estimated value of the public offering for Romgaz is EUR 300-450mln and for Hidroelectrica – EUR 200-300mln, representing 15% of the share package, respectively 10%. In terms of value, the following companies to be put up for sale on BSE by the

Romanian state are Nuclearelectrica, Transgaz and Tarom. The stakes will be 10% of Nuclearelectrica (EUR 120-170mln), 15% in Transgaz (EUR 60-80mln) and 20% in Tarom (EUR 20-55mln). The Executive postponed in December for the end of 2013 the deadline for selling minority stakes in the state-owned companies, including Romgaz, Nuclearelectrica, CFR Marfa, Transgaz and Tarom. Recently, PM Ponta stated that the floatation of minority stakes in Transgaz and Nuclearelectrica would be made by late March. (Ziarul Financiar, January 19th)

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Vosganian about shale gas: Until technologies don't evolve, we cannot risk it

A decision on shale gas exploitation through hydraulic fracturing will not be possible before the technology evolves and is assessed at the EU level, Economy Minister Varujan Vosganian stated on Saturday evening at Antena3. "In my opinion, until we don't have a convincing international signal, i.e. until technologies are not assessed at EU level and a signal is given and until technologies don't evolve we cannot take the risk", the Economy Minister explained. Moreover, even under the circumstances of a safe technology, Varujan Vosganian believes that shale gas extraction in the Black Sea blocks shouldn't happen, because of potential effects on biodiversity. "About Costinesti I have reservations that it would be good to combine dolphins in the Black Sea with shale gas. Our coast is already in a great suffering as a public perception compared with Bulgaria, compared with the Dalmatian Coast or compared with Greece", the minister added. In terms of the contract with Chevron – the company that won in 2010 the right for oil exploration in Vama Veche and Adamclisi blocks, Vosganian stated that this contract was suspended at the company's initiative. "The contract with Chevron is suspended first by Chevron, which has decided to postpone – not the extraction, because the extraction is an option for a delayed term, but prospecting. We don't even know if we have shale gas there. This contract was first for prospecting. But the campaign was heavy about the potential consequences if shale gas was found, so Chevron has decided to postpone it", Economy Minister also explained. Ponta II Government announced, with the publication of the government program, that he gave green light to shale gas exploitation, statements for supporting this option being made by both the Foreign Minister, Titus Corlatean, and PM Victor Ponta. (Energy Online, January 20th)

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With the November invoice unpaid, Energoterm seeks to renegotiate the contract with Romgaz in Medias

Incomes of the local heat supplier in Tulcea, Energoterm, have dropped and it's unlikely to collect some billions by late this month, when it must pay for gas consumed in November. Therefore, the company management, through its managing director and economic director, are today in Medias to renegotiate the contract with Romgaz, which expires in March this year or

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sooner. Sooner could happen even the next month, if the invoice of almost RON 1.4mln, representing gas consumption for the last month of autumn is not paid within the deadline agreed, i.e. January 31st 2013. “We are trying to renegotiate the contract with Romgaz to extend the agreement, which ends in March this year and see if we can obtain a postponement for the November invoice. Regardless of our meeting in Medias, next week we will start to put pressure on debtors by cutting heat supply for a few days”, Nicusor Bisca, Energoterm manager, stated. (Obiectiv de Tulcea, January 18th)

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Ioan Rusu, Transgaz: Around Europe there are enough sources to cover the increase in gas demand

SNTGN Transgaz SA Medias is the technical operator of the National Natural Gas Transmission System in Romania, with main objective to fulfill the national strategy for natural gas transmission, international transit, dispatch and research – design in the natural gas transmission area. In the 12 years of existence as an independent national company, Transgaz SA Medias had as primary objectives the assurance and maintenance of the operation of the NTS in conditions of safety, economic efficiency, quality and at the level of performance and environmental standards and developing and modernizing the NTS infrastructure, which currently includes over 13,200km of gas pipes and connections. In an interview granted for Bursa newspaper, Transgaz Managing Director Ioan Rusu pointed out: “Around Europe there are enough sources to meet the expected increase in the natural gas demand on our continent for the following decades, but currently there are not enough possibilities to transport these gas volumes to the European gas markets. Also, because for certain regions in the central part of West Europe and the Balkans the distance from the Caspian Sea is shorter than other sources (mainly Russia), it is believed that Nabucco is a competitive project in this regard. The market analysis has proven these assumptions. About the stage of the project, we communicate that recently the Hungarian section of Nabucco pipeline, which crosses 384km on Hungary’s territory, has obtained the last Environmental Permit necessary. Hungary is the first state where Nabucco has successfully concluded the process of obtaining the environmental permit. Nabucco West is the new way of carrying natural gas from Asia to Europe and the main component of the Southern Corridor. It will be a pipeline that will connect the world’s gas-richest regions – the Caspian Sea region, Middle East – with the European consumer markets. The pipeline will make the connection between the Turkish – Bulgarian border and Baumgarten, Austria – one of the most important gas hubs in Central Europe – via Bulgaria, Romania and Hungary. When the project is completed, the annual capacity of the pipeline, with a length of 1,300km, will be scalable between 10 and 23bcm. The pipeline construction is supported under the Intergovernmental Agreement signed in Ankara in 2009, which harmonizes the legislative framework and provides stable and equal transport conditions for all the partners and clients. It’s recognized that Central

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and West Europe will face in the following two decades a considerable decline in energy supply and gas prices that will dramatically increase with the production decline. Under these circumstances, it's crucial to create a new infrastructure that meets the future demand and ensures both the security of supply and the diversification of supply sources", Ioan Rusu stated. The company's future projects are mainly related to the NTS interconnection with the neighboring countries. One of these projects is the interconnection of the NTS with the similar system in Bulgaria on Giurgiu – Ruse route. The project's main purpose is to increase the natural gas supply safety of Romania and Bulgaria. (Energy News, January 18th)

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Romania and the Republic of Moldova have decided to coordinate efforts to materialize Iasi – Ungheni gas pipeline

Bucharest and Chisinau have decided to coordinate efforts to materialize the strategic energy interconnection projects, the priority being Iasi – Ungheni gas pipeline, which would become operational by late this year. Minister Titus Corlatean had on Friday talks in this regard with the head of diplomacy in Chisinau, Iurie Leanca. Iasi – Ungheni gas pipeline will ensure the interconnection of Moldova's gas transmission system with Romania's system and the EU. The project is estimated at EUR 20mln, of which EUR 12mln is Romania's contribution. The pipeline's transmission capacity will be 1.5bcm of gas per year and the length will be of 43.2km, of which 32.8km on Romania's territory. In July last year PM Victor Ponta and the head of Government in Chisinau agreed to commission Iasi – Ungheni gas pipeline by late 2013 and signed in this regard a Joint Statement to carry out the project. Moreover, the Romanian Foreign Minister and the head of diplomacy in Chisinau examined, during discussions held on Friday, in Bucharest, the concrete ongoing bilateral projects, with focus on energy cooperation and technical and financial assistance granted by Romania to the Republic of Moldova. (...) (The Epoch Times, January 18th)

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Transgaz SPO, ready by late April

The sale on BSE of a 15% stake in the national gas transmission operator, Transgaz SA Medias, will take place by late April, according to estimates made by the managing director of the Office for State Ownership and Privatization in Industry (OPSPI), Gabriel Dumitrascu. He stated that by the end of February the prospectus will include the audited financial results achieved by the company in 2012. The OPSPI head added that, in the next period, the intermediary of the secondary public offering and the discount would be determined. The Government and the Presidency decided late last year to postpone the SPO at Transgaz. Sources in the capital market claim that the reason for postponing it was the sale price proposed by the intermediary,

considered too low. The offering is intermediated by the consortium consisting of brokerage companies Raiffeisen Capital&Investment, Wood&Company Financial Services and BT Securities. The state has committed to the IMF to sell on BSE stakes in certain companies, including a 15% stake in Transgaz. The operation was initially scheduled for late June, but it was postponed due to technical reasons. Transgaz Medias is controlled by the state, through the Ministry of Economy. The company is listed on the Bucharest Stock Exchange since 2008, following an IPO carried out in late 2007. The state owns 73.51% in the company. The Property Fund owns 14.98% of Transgaz's titles. (Bursa, January 21st)

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Nabucco shareholders signed two agreements with Shah Deniz

Nabucco Gas Pipeline International GmbH announced that Nabucco shareholders (OMV, BOTAS, BEH, Transgaz, RWE, FGSZ, hereinafter referred to as "Nabucco shareholders") had signed in Vienna, Austria, agreements on:

- the close cooperation to align the execution programs and the development of Nabucco West and Shah Deniz II projects;
- joint funding of Nabucco development costs until the selection of the route for the European gas supply route from Shah Deniz; and
- granting options to SOCAR, BP, Statoil and Total to take over a stake of 50% in the project, in the new shareholding structure of NIC, following the positive decision to select Nabucco West by Shah Deniz consortium.

Nabucco shareholders welcome this important stage in the development of Nabucco West and anticipate a successful cooperation in terms of achieving the pipeline project. The key responsible persons of NIC have shown their support for both the funding and for the potential new shareholders: Hans-Peter Floren, Chairman of Nabucco Steering Committee, stated: "The shareholders welcome this agreement and entirely support cooperation with Shah Deniz II. Nabucco is a project with multiple supply sources and a variable capacity which contributes to the diversification of supply and transmission systems by integrating the Southern Corridor into the European gas transmission network. Both the extraction projects and the transmission projects are integral parts of the value chain of natural gas in Azerbaijan and we are convinced that Nabucco is a mutually beneficial solution for all the parties involved." Reinhard Mitschek, CEO of Nabucco Gas Pipeline International GmbH, stated: "We welcome the conclusion of these agreements. Nabucco carried out negotiations with Shah Deniz partners since the appointment in June 2012 of Nabucco West as Central-European transmission route. Today's important event is a clear indicator of the success potential of this project, as well as of commercial and competitive advantages of Nabucco West in terms of providing convincing business opportunities on the promising Central and South-East European market." Frank

Siebert, CFO of Nabucco Gas Pipeline International GmbH, stated: “These agreements are an essential progress. The signing of the agreement on the equity participation and funding is a proof of producers’ trust in Nabucco West. It significantly contributes to mitigate risks for our investors and makes possible the development within a solid and stable financial framework. We are eager to start cooperation with Shah Deniz partners and we continue to be convinced that Nabucco West can represent the best option for all the parties involved”. Nabucco West pipeline will carry Caspian gas from the Turkish-Bulgarian border via Bulgaria, Romania and Hungary to the Central-European Gas Hub in Baumgarten, Vienna. As a central component of the Southern Gas Corridor, Nabucco West is in the ideal position to diversify gas supply sources for over 500mln potential clients in the countries with growing economies in South-East Europe and for West Europe. (Energy Center, January 20th)

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Oil Industry

Buy Prospectiuni SA Bucharest (BSE: PRSN), the analysts say. The title targets the peaks of the 2011 summer

The target price that PRSN titles could reach has been lifted to RON 0.23/unit, according to a report by SSIF Broker Cluj Napoca, submitted to Economica.net. The company has obtained new orders from Petro. It’s the third price target update in the past four months for Prospectiuni SA Bucharest titles, the market share always closing to the analysts’ estimates. In early September the target price was RON 0.204/share. In the market, the PRSN price is currently RON 0.1851/unit, by over 10% higher than in September, after, on December 27th, it was learned that the company obtained a contract from Petrom. According to the contract, worth EUR 80mln, the company of businessman Ovidiu Tender will make 2D and 3D onshore prospecting. “The company continues to be undervalued according to the fundamental analysis indicators (of the financial performance and not only – Ed.). Growth potential is supported by the ambitious investment policy and the leading market position in the area in which it activates”, Andrei Radulescu writes in his report. The “buy” recommendation, valid from September, has been maintained. The new target price leaves room to a growth potential of over 24%. The company is leader of the geological prospecting market and its main clients are OMV Petrom and Romgaz. Prospectiuni SA Bucharest has triggered an “aggressive internationalization policy” and seems to have found a solution to its reliance on its large clients, by expanding the operations abroad. PRSN shareholders approved in October an investment loan of EUR 6.6mln to establish a subsidiary in Mauritius Islands. The company’s net profit dropped 31.3%, to RON 21.1mln, in the first 9 months last year, after in the first six months the company had posted losses. The

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profit in Q3 2012 was higher 8-fold compared with that a year before. (Economica.net, January 18th)

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The Azerbaijani company SOCAR is consolidating its presence on the Romanian fuel market

The state-owned Azerbaijani company, SOCAR, will open next week a new fuel station, in Targu-Neamt, the second SOCAR filling station in Neamt County. By opening the new fuel station, the Azerbaijani company will reach a number of 14 stations, all with focus in Moldavia region. SOCAR made its entrance on the Romanian market in the autumn of 2011, the first filling station being opened in Botosani. The company's original plans were to open the 15 filling stations in only three months, previously acquired from a businessman from Botosani. Currently, the SOCAR stations are located in the counties of Suceava (6), Botosani (5) and one in of the cities Iasi and Neamt, according to data available on the company's website. The latest station inaugurated by SOCAR was in Draguseni, in July 2012, SOCAR Romania CEO Hamza Karimo stating at that time that "the national development plan would include in a first phase important cities in Romania. Of course, the Romanian Capital is included in the investment plan estimated for this year (2012- Ed.)". Unfortunately, the plans haven't been met, the company having no fuel station opened in Bucharest at this time. In the autumn of 2011, the company officials announced an ambitious plan in terms of their presence on the local market, which would have meant a real competition for the other oil companies in our country: OMV Petrom, Rompetrol, Lukoil, Mol and Eni. The initial plans were aiming at opening 300 fuel stations. According to statements at that time, the company was to invest EUR 18mln in only 2-3 months and in 2012 other EUR 10mln, according to the statements of the company's President, Rovnag Abdullayev. In turn, Hamza Karimov stated, at the inauguration event of the first station, that "in Romania there are already large players in this market and, as anywhere else, the entry of a new player will definitely increase competition and decrease the prices. Finally, this will have favorable consequences for consumers". (Capital, January 20th)

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Vosganian: The large oil companies might pay a solidarity tax

The large oil companies could pay a solidarity tax as of next year. And the money from this tax could return to those affected by the fuel price hike. The statement was made by Economy Minister Varujan Vosganian, exclusively for Antena 3. "2014 is the deadline to negotiate royalties, but many others can be negotiated until then. We can calculate the amounts that Petrom will take over from the increase in fuel prices and from maintaining royalties and a solidarity fund can be created that Petrom would pay to the budget to help the people

disadvantaged by these developments”, Varujan Vosganian stated at Antena 3. “I think that, if such a discussion is triggered with Petrom management, it will accept it”, Vosganian also said. The Economy Minister also spoke of the Government’s intention to use the soil resources more efficiently. (Cotidianul, January 20th)

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How much did Romania’s oil reserves drop since 1990 to date

According to a BP study, Romania’s proven oil reserves amounted in late 2011 at 600mln barrels, i.e. down 60% compared with those posted in late 1990, of 1.5bn barrels, Agerpres reported. At the same time, crude oil imports are declining, same as the domestic oil production. According to INS data, Romania imported in the first 11 months last year an amount of crude oil of over 4.522mln toe, by 511,500tow (10.2%) less than in the similar period of 2011. Oil production amounted, in January – November 2012, to 3.554mln toe, by 1.8% (66,000toe) lower than in the first 11 months of 2011. (Capital, January 20th)

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