



OIL & GAS DAILY REPORT

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In the news – ROMANIA – Natural Gas Sector

City Hall Is Considering a Possible Public-Private Partnership to Bring Gas in Burdujeni-Sat

The residents of Burdujeni-Sat neighborhood will be surveyed in the following time, in regard to a project to supply gas. The announcement was made yesterday in a press conference, by Mayor Ion Lungu who said that the residents Burdujeni-Sat will receive written forms to express their opinion about the supply of the neighborhood with gas. Basically, Suceava City Hall wants to bring gas to Burdujeni Sat through a public private partnership with an operator other than E-On. Ion Lungu said that it was important to know the number of those who wish to benefit from this service because the efficiency of the investment to the private operator depends on this. Ion Lungu wanted to clarify that it has sent a request to E. ON to invest in expanding the natural gas networks in Burdujeni-Sat, but he didn't believe that the answer would be positive. According to the Mayor, the law stipulates that investments related to the natural gas supply require offering for free the land in the patrimony of the operator. "I asked for a clarification to E. On, to send us a clear answer, if they are willing to bring gas to Burdujeni Sat", Ion Lungu said. He said that a public - private partnership can be seen as an alternative, with another operator other than E. ON. According to Ion Lungu, about 3,000 persons live in Burdujeni Sat, which means about 600 homes, 15 trade agents and several institutions such as the School and the Church. Mayor Ion Lungu called on the citizens in this district to work with City Hall representatives to have a foundation for bringing gas to Burdujeni Sat. "One problem which we haven't solved, although I've promised, is the one referring to the extension of gas networks in Burdujeni Sat. Although I struggled hardly, I've pulled a lot of strings, but Law 351/2004 hasn't been amended. It's the law that provides that an investment in natural gas automatically passes to the ownership of the operator. As such, we have had talks at the Ministry of Economy and we are trying to find another alternative. Firstly, we are waiting for an answer we've asked E. On for clarification, if they are willing to bring gas in Burdujeni Sat. As a backup plan, we are trying to make a public-private partnership with a private operator other than E. ON to bring gas to Burdujeni Sat. As this is a partnership with a private operator, the first thing that pumps up, is the efficiency for that operator, because there's isn't a company willing to do charity at City Hall. However, this efficiency lies in the number of subscribers for natural gas", Ion Lungu said. (Obiectiv de Suceava February 23rd, Monitorul de Suceava February 24th)

<http://www.obiectivdesuceava.ro/v2/local/primaria-are-in-vedere-un-posibil-parteneriat-public-privat-pentru-a-duce-gazul-in-burdujeni-sat/>

<http://www.monitorulsv.ro/Local/2011-02-24/Gazul-metan-ar-putea-fi-adus-in-Burdujeni-Sat-de-un-operator-privat>

Gas Network in Corabia

The residents of Corabia will have gas by next winter. The Mayor of the city reported that the project to bring the pipeline that will bring gas to Corabia is in advanced stage. He estimated that, most likely, gas will be brought into the city by fall. "We are in a fairly advanced stage in bringing natural gas through the pipeline. The network will connect Turnu Magurele to Corabia. We are in the engineering design phase. Last week we have finished with the permits from the owners. In November, we have begun to gather permits. If one of them didn't sign then the investment couldn't have been done. Now, we must take the permits from Electrica, Romtelecom, Hidroelectrica, Apele Romane and Drumuri Nationale. In April-May the auction will take place, and we hope that by fall gas will be brought in Corabia", Barbu Teodor said, the Mayor of Corabia. The route of the gas pipeline is Turnu Magurele – Islaz – Giuvarasti – Corabia, and the cost of the investment amounts to EUR 7mln and Transgaz will provide the finance. (Eveniment de Olt)

<http://www.evenimentdeolt.ro/eveniment/administratie/retea-de-gaze-la-corabia.htm>

The cheap gas share for each family and CETs

The spokesman of the Conservative Party (PC) Brasov, Simona Tabacaru, said yesterday that PC has launched the Energy Pact, which is hoped to be signed by all political formations. The Pact was launched after the Conservatives found that "the prolonged economic recession in Romania above the normal limits has a major negative impact on the sector of heat for the population", According to the Pact, Romania's population would be declared a captive consumer, strategic and vulnerable in the heat supply sector. Thus, for ensuring the necessary heat to the population, only natural gas from Romania's domestic production would be used. "The natural gas produced in the Romanian gas fields, managed by Romgaz, as it is at a production level of over 6 billion cubic meters annually, can ensure the households consumption alone. We are talking about consumption limited to 4.5 billion cubic meters annually, in which case this program has the necessary material base", it is shown in the Pact proposed by the Conservative Party. Also, each family will be assigned a fixed gas quota depending on the number of members. "The amounts will be dimensioned so as to ensure, by national quotas, the necessary level for heating and cooking food at a decent level", reads the document. Also, the Pact provides that ANRE will regulate the production, transportation and distribution tariffs for the gas produced in Romania and meant for the population based on the costs surveyed by the production, transportation and distribution operators, and the technically and analytically justified costs, plus a margin representing less than 5% of the profit, will be approved. "ANRE will approve for the classical fuel consuming Central Heating Plants (CETs) the gas amounts needed to produce the heat necessary for the heating of the cities, regardless of the consumer of thermal energy for heating. For the electricity produced in cogeneration with the structure of direct component of the heat produced, ANRE will approve a gas amount strictly consumed by the qualified configuration and strictly related to the combined production determined by an individual expertise of each aggregate of production in cogeneration. The productions of cogeneration for own consumption are also

included. For the electricity produced in condensation or for CET system services, they will purchase fuel from the open market”, it is said in the document proposed by the Conservatives. Also, the gas market will be liberalized gradually by "making a transparent exchange structure, which can be viewed by all those interested, by free internet access, and password protected for the market operators", while the "free gas market will go through a transition phase by using "gas baskets" for a period which will be determined by Government decision, and at the end of the transition the market will become free on levels and classes of supply". (Buna Ziua Brasov)

http://www.bzb.ro/index.php?page_name=stire_detalii&id_stire=61688

Romgaz: The Publication by the Court of Auditors of Certain Aspects That Haven't Been Clarified Isn't a Professional, Ethical and Moral Solution

Romgaz representatives reject the results of the inspections carried out by the Court of Auditors according to which a number of irregularities were found at the gas producing company. "SNGN Romgaz SA filed objections and, later, legally challenged, the findings of the Court of Auditors, regarding the allegedly illegal payments", Romgaz says. The Court of Auditors says that the illegal payments made by Romgaz in 2009 have caused damage of about RON 92.6mln. The money was spent on design works that weren't contracted, the procurement of goods that were not delivered or on acquisitions of overpriced goods, according to the report of the Court of Auditors on 2009. "All contracts, about which the Court of Auditors says in the report that SNGN Romgaz SA made illegal payments, have been completed in compliance with the legislation applicable to public procurement, by the procedure of public auction (as confirmed by the Romanian Authority for Regulating and Monitoring Public Procurements) ", Romgaz replied. According to the company, all payments made by SNGN Romgaz SA, regarding the products, services and works purchased were made on the basis of public procurement contracts completed in compliance with the legal provisions applicable to public procurement. Company officials say that any purchases of products, services or works haven't been made without signing a contract for public procurement, in compliance with applicable public procurement law. "Although the Court of Auditors hasn't found, in particular, any illegal act, at the level of SNGN Romgaz SA, it accuses SNGN Romgaz SA, inexplicably, of making illegal payments", Romgaz says.

How Does Romgaz Explain the Erroneous Calculations of the Royalty?

The Court of Auditors checked the way the oil royalties for 2003-2009 was established, registered and paid. The Court of Auditors found that for this period, Romgaz established, registered and paid properly the total amount of RON 1,185,091,925. For gas extracted from commercial deposits and stored in underground deposits in 2007-2008, due to a misinterpretation of Article 50 of the Law on Oil 238/2004, the price used for determining the value of the royalty for the gas extracted from the deposits has been misapplied and a difference of RON 3,501,417 was calculated (0.3% of the total value of the paid royalty) and adding a penalty of RON 2,652,431. We mention that all inspections made by ANRM (Romanian Authority for Mineral Resources) for this period (2003-2004) it has been proved

that ROMGAZ established, calculated, registered and paid correctly the value of oil royalties. The Court of Auditors considers that a review cannot be exhaustive. Romgaz has complied with the decision of the Court of Auditors and it has paid the amounts that resulted. "In our opinion, the responsibility and publishing by the Court of Auditors, in the activity reports of some issues that have not been clarified, having opposability value isn't a professional, ethical and moral solution, (in this context arises the question of what procedure the activity reports will take on that show information about the acts or deeds allegedly illegal, which will, then, be retained, by the Court as being absent or, where appropriate, legal)", Romgaz said.

The Main Irregularities Found at Romgaz

- Making additional payments of RON 3,212 thousand representing design works, execution and assembling compressors, that weren't contracted.
- Making additional payments of RON 29,038 thousand representing goods (electricity sources and skids cooler) that were not received or delivered.
- The acquisition of property (compressors, compressor parts, pipes and fluids) at overvalued prices by violating the rules to estimate the value of the contracts and of the selection procedures for awarding them, which resulted in additional payments of RON 60,366 thousand. Besides these irregularities others were found as well. For example, investments have been made without having permits issued by the Romanian Energy Regulatory Authority (ANRE). During the audit, Romgaz has paid the amount of RON 897,000 according to the legal destinations. It was also found that the royalty owed to the state budget was diminished with RON 3.5mln, to which an overdue debt of RON 2.6mln is added. The royalty has been diminished as a result of incorrect application of the reference price established by ANRE to calculate the amount of the production of natural gas from domestic production, at the time of the extraction and not at the time of removal from storage deposits. The amount owed, of RON 6.1mln, was recovered during the audit. (Hotnews, February 25th)
<http://economie.hotnews.ro/stiri-companii-8337801-romgaz-publicarea-catre-curtea-conturi-unor-aspecte-care-nu-fost-clarificate-nu-este-solutie-profesionala-etica-morala.htm>

A New Respite for RAM Buzau

The heat distribution company RAM in Buzau has received respite from the gas provider GDF Suez to pay outstanding bills worth RON 3.5mln. The Heads of the utility assures clients that they would receive gas at the rate of damage until March 4th, although so far there is only a verbal agreement between the supplier and the debtors. The volume of gas delivered has been reduced to half since last week and for this reason the heat is distributed according to a schedule. (Adevarul, February 25th)

http://www.adevarul.ro/locale/buzau/buzau-ram-caldura-calorifere-agent-termic-gdf_suez-facturi_0_433757030.html#commentsPage-1

In the news – INTERNATIONAL – Natural Gas Sector

The Dispute between Barroso and Putin on Energy Issues

The EU legislative package will come into force next month, and which provides the separation of production operations from distribution operations, on the gas and electricity markets, has provoked a public dispute between the President of the European Commission, Jose Manuel Barroso, and the Russian Prime Minister, Vladimir Putin, who is visiting Brussels. "We are talking about the seizure of the Russian property here", Putin said today in a press conference after meeting with the EU official. The legislative package requires energy companies that own pipelines to sell or manage them completely separately, through an independent operator, which has the obligation to allow access to infrastructure to other operators on the market. The Russian giant Gazprom, which supplies Europe with a quarter of the gas consumed and is in charge of the gas extraction and transport, opposes this package, saying that it would deprive the gas transport system of investments, Agerpres notes. Gazprom holds stakes in several companies that operate gas pipelines, including in Poland and in Lithuania. Jose Manuel Barroso said, in turn, that Russia wants to remain "the most important partner" of the EU in the energy field and that the Russian gas ensures the development of the industry and the heat in the homes of Europeans, but Europeans pay well for the gas purchased. "It's in the interest of both parties – Russia's and the European Union – to have a predictable approach. I hope a good cooperation, so we can resolve all disagreements. We sincerely believe that the third energy package meets the requirements of the World Trade Organization", Barroso said. The legislative package, which will come into force on March 3rd in the European Union; aims at encouraging competition on the energy market.

North Stream Problem

The Russian Prime Minister has also expressed hope that Germany would soon allow pumping of Russian gas through the North Stream pipeline, scheduled to transport gas to Europe under the Baltic Sea. "I do not think we have Germany's permission to pump fuel via North Stream because of the third energy package. I hope that at least this technical problem to be solved in the near future", Putin said. The first 27.5bn cu m of gas – the first stage of North Stream – will be launched in September 2011, and for the second stage – in September 2012 – the capacity will grow to 55bn cu m. North Stream, the project carried out by Gazprom and designed to bypass Poland and the Baltic states, is expected to link Vyborg, Russia to Greifswald, Germany, over a distance of 1220 km, passing under the Baltic Sea through Russian, Finnish, Swedish, Danish and German maritime territories.

Russia Is Willing to Increase the Gas Supplies to the EU

In the context of Putin's visit, the Russian officials have assured today that Russia would significantly increase the gas deliveries to Europe, if demand increases amidst the situations in North Africa. "If there is demand, we are ready to increase the gas exports to Europe, the

Russian Minister of Energy, Sergei Smatko, said, and quoted by RIA Novosti. He stressed, however, that despite the difficult situation on the global energy market, he didn't see any risk of shortage of energy resources in Europe. According to him, OPEC countries have sufficient capacity to cover the potential deficit. The Russian Minister of Energy said that he did not expect a substantial reduction or the interruption of the oil supply in the context of the events in Libya. Smatko's optimism was not shared by Putin, who rushed to scare Europeans with a possible increase of the price of a barrel of oil. The increase of the oil prices, caused by riots in the Middle East and North Africa constitutes a serious threat to global economic growth, the Russian Prime Minister said. "The negative consequences are already felt – the oil price reached USD 118 per barrel – and some analysts say it will reach USD 220. For us, this will be a very tough test. The economy will begin to shrink", Putin predicted, who ensured that Russia wasn't interested in a "limitless growth" of the oil prices, since that would affect the Russian economy. (Evenimentul Zilei, Adevarul, Romania Libera February 24th)
<http://www.evz.ro/detalii/stiri/disputa-pe-teme-energetice-intre-barroso-si-putin-922349.html>
http://www.adevarul.ro/adevarul_europa/Putin-Rusia-UE-Barroso-pact-acord-energie-conducte-gaz_natural-sursa_0_433157240.html
<http://www.romanialibera.ro/actualitate/mapamond/putin-regulile-ue-privind-infrastructura-energetica-pot-duce-la-cresterea-pretului-gazelor-217806.html>

What Does Gazprom Gain from the Tensions in North Africa?

The tensions in northern Africa will probably lead to the increase of the demand in Europe for Gazprom's reserves, via the South Stream, the Group's Chairman, Alexei Miller, estimated on Thursday, quoted by AP. The South Stream pipeline, a competitor of the European project Nabucco, will carry Russian gas to Europe via the Black Sea, bypassing Ukraine. The pipeline will be commissioned in 2015 and it will transport 63bn cu m of Russian gas annually to countries in Western Europe. Analysts have criticized the project, believing that it would not be feasible, and they have asked Gazprom to abandon it in favor of higher deliveries to Ukraine. The riots in Tunisia, Egypt and Libya have led to the increase of the oil and gas prices, which puts Russia and the large oil and gas exporters in a vantage point. (Money)

http://www.money.ro/ce-castiga-gazprom-de-pe-urma-tensiunilor-din-nordul-africii_870661.html

MoldovaGaz lost the trial with ANRE on the increase of energy tariffs

The Romanian Energy Regulatory Agency says it has won at the Court of Appeal the trial with Moldova Gaz, which demanded a higher tariff increase than that operated by ANRE last month. "Stirea Zilei" portal quoted ANRE spokesman with the announcement; the court rejected the litigation of Moldova Gaz on the new calculation method, which does not include in the tariff all the losses in the distribution network. The gas supplier may appeal the decision at a superior court, the Supreme Court. ANRE increased from February 1st the

domestic tariffs by an average of 12.2 percent compared to 18 percent, as MoldovaGaz demanded after the increase of the Russian gas prices. ((Radio Europa Libera, February 24th) <http://www.europalibera.org/archive/news/20110224/445/445.html?id=2319422>

Gazprom sells to Moldova gas at a price 34% higher than for the British

The Russian concern Gazprom sold in 2010, to the UK gas consumers, gas at a price of \$ 191 per thousand cubic meters, with about \$ 65 cheaper than to our country. According to Interfax agency, the highest gas prices were paid last year by Greece, respectively 357 dollars per one thousand cubic meters, Hungary, 348 dollars, and Poland 336 dollars. A slightly lower price was paid by the consumers in Bulgaria, 306 dollars per one thousand cubic meters, those in Ukraine 264 dollars, while those from the Republic of Moldova paid about 255 dollars. Belarus has paid the least, about 180 dollars per one thousand cubic meters. (Adevarul, February 24th)

http://www.adevarul.ro/moldova/economie/Gazprom_vinde_Republicii_Moldova-gaze_la_un_pret_cu_34-mai_scump_decat_britanicilor_0_433157100.html#commentsPage-1

Putin hopes that Germany will soon allow Russia to transport gas via Nord Stream

The Russian Prime Minister expressed his hope, Thursday, in Brussels, that Germany would soon allow the pumping of Russian gas through the Nord Stream pipeline, scheduled to transport gas to Europe under the Baltic Sea, the news station Vesti reported. 'I do not think we have Germany's permission to pump fuel through Nord Stream due to the third energy package. I hope that at least this technical problem will be solved in the near future', Putin said in a joint press conference with the European Commission President, Jose Manuel Barroso. Vladimir Putin confirmed that the EU executive has acknowledged Russia's complaint and that the two parties will cooperate to solve the problem. Moreover, the third energy package represented the Gordian knot in the talks between Vladimir Putin and Jose Manuel Barroso. The third energy package provides the separation of the gas sale to the gas transportation. Jose Manuel Barroso said in turn that Russia wants to remain 'the most important partner' of the European Union in the energy field and that the Russian gas ensures the industry's development and heat in the homes of Europeans. "It is in the interest of both parties - Russia and the European Union – to have a predictable approach. I hope in a good cooperation, so we can solve all disagreements. We honestly believe that the third energy package meets the requirements of the World Trade Organization", Barroso explained. The Russian giant Gazprom, which supplies Europe a quarter of the gas consumed and handles the gas extraction and transportation, opposes this package, saying it would deprive the gas transportation system of investments. The third energy package will come into force in the European Union on March 3rd. The first 27.5 billion cubic meters of gas - the first stage of the Nord Stream project - will be launched in September 2011, and then, in a second stage - in September 2012 – the capacity will increase to 55 billion cubic meters. Nord Stream, a project run by Gazprom and designed to bypass Poland and the Baltic states, would connect

Viborg, Russia, to Greifswald, Germany, on a distance of 1,220 km, passing under the Baltic Sea, through Russian, Finnish, Swedish, Danish and German maritime territories. (Agerpres, February 25th)

Interfax: the Poles and the Bulgarians are paying more than the British for Russian gas

The Russian gas monopoly Gazprom has supplied gas to the UK in 2010 at a price of 191 dollars per one thousand cubic meters, while in Bulgaria, which is much closer to Russia, it has supplied gas at 310 dollars per one thousand cubic meters, and in Poland - even at a rate of 336 dollars per one thousand cubic meters, Interfax news agency reported Thursday, citing anonymous sources. Greece has paid the most expensive Russian gas last year, respectively 357 dollars per one thousand cubic meters, and Hungary 348 dollars per one thousand cubic meters. The average price of Russian gas to Western Europe in 2010 stood at \$ 306 per one thousand cubic meters, with six dollars and a half more than in 2009. In this context, Interfax noted that Great Britain has its own gas production and also a terminal for the liquefied natural gas storage. Meanwhile, in Central and Eastern Europe, such terminals do not exist and the countries in this region are highly dependent on the fuel that comes from Russia through pipelines. Gazprom basically has no competitors in these markets, the Russian news agency pointed out. Interfax did not provide any data on the price of the gas delivered by Russia to CIS members (Commonwealth of Independent States, all former Soviet republics, except the three Baltic states plus Georgia). However, it is known, for example, that in the first quarter of 2011, Ukraine imported Russian gas at a price of 264 dollars per one thousand cubic meters, the portal Lenta.ru specified. According to Gazprom's recent estimates, the average price of the gas delivered from Russia to Europe will increase to 352 dollars per one thousand cubic meters in 2011. At this tariff, the Russian gas giant plans to export 151.3 billion cubic meters of gas, hoping to gain revenues of 53.3 billion dollars. For comparison, the gas sales to CIS countries and Baltic states will only bring Gazprom 18.25 billion dollars, the portal mentioned above wrote. (Agerpres, February 25th)

In the news – ROMANIA – Oil Sector

Lukoil seeks oil in the Romanian Black Sea

Lukoil and the U.S. company Vanco International have concluded, in partnership, two agreements with the National Agency for Mineral Resources (NAMR) to explore and develop two oil blocks in the Black Sea. Lukoil will control 80% of the projects, 20% being Vanco's share, according to a communiqué of the Russian company. The auction took place last summer. Est Rapsodia and Trident blocks are located at depths of 90-1,000 meters, 60-100km off the coast. The nearest city is Sulina. The total surface of the two blocks is about 2,000sqm. Lukoil Overseas division of the Russian group will open an office in Romania to operate the project. Lukoil owns in Romania the refinery Petrotel Ploiesti and a network of

over 300 filling stations. (Money, Mediafax, Romania Libera, Bloombiz, Agerpres February 24th)

http://www.money.ro/lukoil-cauta-petrol-in-zona-romaneasca-a-marii-negre_869971.html

<http://www.mediafax.ro/economic/lukoil-si-vanco-au-semnat-doua-acorduri-cu-anrm-pentru-exploatari-in-marea-neagra-8008308/>

<http://www.romanialibera.ro/bani-afaceri/companii/lukoil-va-cauta-petrol-in-sectorul-romanesc-al-marii-negre-217749.html>

http://www.bloombiz.ro/business/lukoil-si-vanco-vor-face-explorarii-in-marea-neagra_1487783

<http://www.agerpres.ro/media/index.php/economic/item/53066-Lukoil-a-semnat-cu-ANRM-acordul-pentru-a-dezvolta-doua-perimetre-din-Marea-Neagra.html>

Petrom, the "master" of the crisis: How did the Austrians achieved a profit of billions from Romania's resources

Petrom managed to achieve in 2010 the best financial result in the company's post-privatization history. While the economy has felt the recession intensely, the Austrians from OMV, the company's owners obtained a profit 2.6 times higher than in 2009. How did they manage to do that? They extracted cheap Romanian oil and then sold it at Western prices. Petrom is undoubtedly one of the winners of the crisis. The largest Romanian company has managed, in a year of crisis, to make more money by mainly taking advantage of the external conjecture. Given that the oil price rose and the US dollar has appreciated against the RON, the Austrians drew the line at the end of the year and they obtained a net profit of RON 2.19 billion at Petrom (EUR 520.2 million), the highest profit since the company's takeover in 2004. The only year when the company recorded a net profit of over RON 2 billion, respectively RON 2.06 billion, was 2006. Comparatively, in 2008, OMV Petrom had a net profit of RON 895.5 million, and in 2007 of RON 1.54 billion. According to the analysts, beyond the value of the earnings, what is important is how Petrom achieved this profit. And hence the question marks occur.

How to make profit during crisis

It produced cheaply and sold expensively. In essence, this is Petrom's policy. Mariana Gheorghe, the company's general manager, said Wednesday in a press conference that the financial result occurred in the context of higher crude oil prices and an increased efficiency of the refining and marketing operations. In other words, they produced less (total refinery deliveries fell by 24% compared to the year 2009) and sold at higher prices. Last year, Petrom's diesel price increased with 24%, from RON 3.78 per liter in January 2010 to RON 4.7 per liter in December 2010. The gasoline price also rose by 20%, from RON 4.02 / liter to RON 4.82 per liter. If in terms of refining it is the Austrians' problem how they manage their activity, there are many question marks with regard to selling prices. The National Agency for Fiscal Administration (ANAF) recently said that the price increases were unjustified, as they were not determined by the evolution of the oil exchange market quotations, exchange rates and fees charged by the state. In response, Mariana Gheorghe said Wednesday that fuel prices are mainly determined by two things - international quotations and fiscal policy. As

last year the oil price increased at world level, Petrom increased the tariffs, and another increase was owned to the VAT, the general manager declared. Beyond controversy, the fact is that the price increase has had the most important contribution to the record profit in 2010.

The royalty, the advantage of OMV

Petrom wouldn't have reached the same result in 2010 if it wouldn't have received substantial support, which paradoxically came from the Romanian state. According to the privatization agreement signed in 2004, the authorities have offered the Austrians from OMV the right to exploit Romania's oil and gas resources until 2014 for a fixed fee, equivalent to about 6% the production extracted. Constantin Tampiza, Lukoil representative in Romania, recently said that, for comparison, if OMV pays a royalty of EUR 30 for one ton of oil extracted in Romania, in Russia the state collects a fee of \$ 347 per ton. Given that the oil prices rose from \$ 30 per barrel in 2004 to \$ 107 per barrel today, the Austrians found themselves in the beneficial position of extracting cheap oil, which they subsequently sell with high prices. How much did Petrom pay for the production in 2010? According to the financial report, the net cost was of \$ 16.05 / boe (barrels of oil equivalent), 10% more than in 2009. Meanwhile, internationally, the average cost of Brent oil was \$ 79.5 per barrel, up by 29% compared to the year 2009, and the Ural oil was quoted at \$ 78.3 per barrel in 2010, 28% higher than in 2009.

Elijah Serbanescu: The state has its hands tied. The Austrians do what they want

According to economic analysts, the Austrians from OMV are to be praised. They saw the business potential in Romania even since 2004, they negotiated in their favor and now it's normally to benefit of a successful business, even during crisis. There is, however, a problem with the Romanian state. "The state has its hands tied when it comes to OMV Petrom. It can't do anything", the analyst Ilie Serbanescu said. "The Austrians are taking advantage of the monopoly they have on the resources in order to make profit. Why would that be illegal?", he wondered. In turn, the economic analyst Cristian Paun, executive director of the Romanian Society of Economics, believes that it's not the Austrians fault that they produce cheap and sell at high prices. "Those who have negotiated the privatization contract which provides a fixed royalty for 10 years are to be blamed", Paun, a professor at the Academy of Economic Studies, said. "Petrom complies with the requirements of the agreement, it produces cheap and sells at the market price. This is not condemnable", he said. According to the analyst, the state could intervene in Petrom's case only with regard to royalties. "I have been saying for years that they need to be renegotiated. For years, we have demanded the publication of the entire privatization contract, to see the terms, how it can be denounced", Paun declared. "Otherwise, by 2014, we will witness a demonstration on how to make profit in a no man's land. A country without authority, with politicians corrupted down to the bones", the economist said. According to the analysts, although the final consumer loses from the higher prices of fuels, given that the state earns from the taxes paid, we will not see any concrete measure anytime soon. "60-70% of the fuel price is represented by excise duties. The state would have no interest to risk the relationship with Petrom, in fact with all oilmen, what would be the purpose of that? So we could pay less at the pump. It is not the case", Ilie Serbanescu declared. The analyst does not believe in any variant of an over-taxation of the

companies' profits. "Look at the Labour Code. It is made according to the requirements of the International Monetary Fund and the major investors in Romania. Do you think that the Prime Minister Emil Boc could do anything about Petrom? I doubt it", Serbanescu concluded.

Petrom announced further price increases

Austria's OMV is very content. The earnings in Romania represent 78% of the advance of the parent group's profit. In other words, the business goes smoothly. 2011 looks promising. If the economy will get out of recession, it will mean an increase of the consumption, of sales. And given that the price of an oil barrel is constantly rising, the earnings are expected to be excellent. The heads of the company are already preparing further increases, justified by the advance of the oil price above the \$ 100 a barrel threshold, as a result of the riots in the Middle East and North Africa. "We are making adjustments based on these elements, in a moderate manner. We capture the trend, not the highs. Some adjustments will be made starting in the next few days, but it is not a peak", Gheorghe stated. In other words, Petrom tells us very clearly – if there will be other dictators to be removed, we will feel it in your very own pockets when we will go to the gas station. (Daily Business, February 24th)

<http://www.dailybusiness.ro/stiri-companii/petrom-stapanul-crizei-cum-au-reusit-austriecii-sa-scoata-profit-de-miliarde-din-resursele-romaniei-57390>

ANRM Has Signed So Far Petroleum Agreements for 8 Out of the 20 Perimeters Awarded in 2010

The Romanian Authority for Mineral Resources (ANRM) has signed so far petroleum agreements for 8 out of the 20 perimeters awarded last year, according to a press release of the institution. Thus, the agreement with Lukoil Overseas-Vanco International consortium was signed, for two perimeters on the continental shelf. Lukoil will control 80% of the projects, 20% will be controlled Vanco, the company in Russia previously announced. Est Rapsodia and Trident blocks are located at depths of 90-1,000 meters, at 60-100 km off the coast. The nearest town is Sulina. The total area of the two blocks is about 2,000 square kilometers. Lukoil Overseas Division within the Russian group will open an office in Romania to operate the project. The other winner of other two perimeters in the Black Sea is Melrose Resources - Petromar Resources consortium, which hasn't signed yet the oil agreement. Lukoil-Vanco and Melrose-Petromar have each won two of the five sea perimeters won by Romania in the trial with Ukraine in The Hague. Another oil maritime perimeter, but not won in The Hague, was signed with Petro Ventures Europe. Other oil companies that have signed agreements with ANRM, this time for land perimeters, are Clara Petroleum, Universal Premium, Audax Resources and, Moesia Oil and Gas. (Adevarul February 24th, Bursa February 25th)

http://www.adevarul.ro/financiar/ANRM_a_semnat_pana_acum_opt_acorduri_petroliere_din_cele_20_de_perimetre_adjudecate_in_2010_0_433157103.html

<http://www.bursa.ro/companii-afaceri/anrm-a-incheiat-contracte-de-explorare-pentru-opt-perimetre-petroliere-113223&articol=113223.html>

Lukoil Has Signed the Agreements for the Perimeters in the Black Sea

Lukoil has signed with the Romanian Authority for Mineral Resources (ANRM) yesterday two agreements for the perimeters in the Black Sea that the company has won last year after an auction during which 20 exploration, development and oil exploitation perimeters were awarded. ANRM representatives explain that this step does not mean, however, that the company can get to work, because it still needs to receive several permits. "The companies can not start working now because they have to get the notices from the Ministries of Economy, Environment, Justice and Finance. After obtaining these permits, Government Decisions will be issued. Only then, can they begin working", Alexandru Patruti the President of ANRM, said. Apart from Lukoil, other five oil companies have signed agreements for six other perimeters. For the 12 remaining perimeters, negotiations will continue. "Until today (yesterday - editor's note) negotiations were completed for 8 perimeters of the 20 awarded in the auction last year. For the rest of the perimeters negotiations will continue, but talks are already in an advanced stage", Patruti said. According to him, a deadline was not set for completing negotiations with the other investors. "For these 8 perimeters investment budgets and work programs were approved. In the first phase, during the first three years of work, investments of USD 500mln are expected for all 20 perimeters, and in later phases, which have variable lengths, the amount is estimated at USD 500mln", Patruti explained. Lukoil has been present in Romania only on the refining and fuel distribution segments, owning an oil processing plant in Ploiesti and a 300 filling stations network. The head of the Russian group Lukoil announced during a recent meeting with President Traian Basescu that the group would orient towards the exploration and production segment in Romania. Russia will carry out work with the U.S. Company Vanco International. Lukoil will control 80% of the projects and 20% by Vanco. The total area of the two blocks where work will take place is of about 2,000 square kilometers. Apart from Lukoil, Petrom, the largest local company, is also interested in the hydrocarbons in the Black Sea; the company works with the U.S. oil giant ExxonMobil. Besides the consortium that Lukoil is part of, ANRM has signed contracts with Clara Petroleum (UK), Premium Universal SA (Romania), Audax Resources (Australia) and Moesia Oil and Gas (Ireland), Petro Ventures Europe (Australia). ANRM held auctions last year for the concession of 30 perimeters located in western Romania, Dobrogea and on the Black Sea continental shelf. The 30 perimeters comprised an area of 30,000 square kilometers. After the auction, licenses for the exploration and the exploitation of 20 perimeters have been granted. (Ziarul Financiar)

<http://www.zf.ro/companii/rusii-de-la-lukoil-au-semnat-acordurile-pentru-perimetrele-din-marea-neagra-8010146>

Petrom in OMV: 19% of the turnover, 40% of the profit

OMV Petrom (SNP), the largest domestic company, reported last year a historical a profit of over EUR 520 million, 2.6 times higher than in 2009, in the second consecutive year of crisis. OMV, Petrom's owner, which it bought from the Romanian state for EUR 670 million in 2004, characterized 2010 as a year of "outstanding operational performance", after it achieved

a net profit of EUR 1.21 billion. These results and statements came in the context in which the "outstanding performance" in the Romanian market was caused primarily by one thing: the increase of the prices at the pump. According to ZF calculations based on the reference prices announced by Petrom, the average increase for gasoline and diesel in 2010 compared to 2009 was of about 28%. Petrom said however that last year the price of gasoline rose by 20%, and the price of diesel by 24%. "We consider 2010 as a year with an outstanding operational performance with acquisitions made in accordance with our integrated growth strategy. I am convinced that OMV will find itself in a very good position when I will hand over the leadership to my colleague Gerhard Roiss, my successor as CEO, at the end of March", Wolfgang Ruttenstorfer, the man who brought Petrom in the arms of OMV and who is approaching the end of a period of almost ten years as the head of the Austrian group, said. The takeover of Petrom was the main acquisition performed by OMV in early 2000 and it represented a basis for the extension of the Austrian group in this part of Europe. Moreover, beyond the takeover of Petrom, OMV's attempts to buy other companies as in the case of the Hungarian group MOL or Verbund energy group have failed. The comparative financial data between the operations of Petrom and OMV shows that in 2010 nearly half of the net profit recorded by the Austrian group was made in Romania. Thus, if OMV group reported EUR 1.2 billion, Petrom has recorded, according to the international accounting standards, EUR 521.4 million, thus marking a historical record. In terms of the share of Petrom's sales of the total sales reported by OMV, it stood at approximately 20%. But the greatest contribution brought by Petrom to OMV operations is represented by the exploration and production activities. Thus, more than half of the Austrians' hydrocarbons base is located in Romania, and the heads of OMV specified more than once that the main interest they have in our country is represented by the exploration and production activities. Moreover, this can also be seen in Petrom's strategy. Thus, most of the funds invested go into the exploration and production area. (Ziarul Financiar)

<http://www.zf.ro/companii/petrom-in-omv-19-din-afaceri-40-din-profit-8010128>

Petrom has announced the price for the share repurchase

Petrom has announced a gross redemption price of RON 0.352 per share for the shareholders who requested to withdraw from the company's shareholding, after they opposed the separation of the marketing activity. According to a communiqué submitted to the Stock Exchange, the gross price for Petrom's shares was established by the independent expert, respectively the audit company PricewaterhouseCoopers Management Consultants. The shareholders who disagree with the price offered by the company have the option that, within 10 days from the publication of the report, to cancel the request for withdrawal by filing a declaration. (Bursa, February 24th)

<http://www.bursa.ro/piata-de-capital/petrom-a-anuntat-pretul-pentru-rascumpararea-actiunilor-113173&articol=113173.html>

In the news – INTERNATIONAL – Oil Sector

Oil May Generate a New World Crisis

Oil quotations have reached yesterday the staggering level of USD 119.8 per barrel, gaining USD 9 in just a few hours after Libya's oil exports fell with 25%. Analysts fear that, if oil prices continue to appreciate, this will lead to a new global recession or worse, stagflation. Yesterday will remain memorable for the volatility of the oil price. After trading began at about USD 110, Brent quotation on the London Stock Exchange rose by USD 7 in just 90 minutes and another USD 2 in the next hour, so, at noon, it reached USD 119.8 per barrel, the highest level since August 2008. Also, on the New York market the price of oil has exceeded all estimates, increasing by USD 5.31 to USD 103.41 per barrel. This was caused by fears that the social tensions in Libya could expand to other oil producing states in the Middle East and in North Africa. The madness has appeased a bit in the afternoon, after Saudi Arabia said that OPEC will supplement the Lebanese oil, once the companies will ask for.

The Saudis Have Cheapened Crude Oil with USD 5 per barrel

"There is no reason for oil prices to rise, because Saudi Arabia and OPEC will not allow shortages on the market", a Saudi official said, on condition of anonymity. After these statements, the Brent quotation fell to USD 114. These oscillations, in just a few hours, have led analysts to do all sorts of estimates on the evolution of the barrel. Some of them appreciate that the price of Brent crude oil could rise to USD 158 per barrel this year and the quotation in New York could rise to USD 159 per barrel. Libya's oil production, averaging 1.6 million barrels per day, fell by 400,000 barrels per day because of the riots, according to calculations made by Reuters. Libya is the twelfth largest exporter of oil worldwide and it is the North African state with the largest proven oil reserves. Goldman Sachs believes that oil markets are influenced by the fear that social tensions will expand to other oil producing states, and other interruptions of the production could lead to a shortage of oil, which will lead to rationing the supplies. Moreover, a Japanese bank, Nomura Holdings, has posited that oil prices could reach USD 220, if Libya and Algeria stop the deliveries.

How Does Oil Change the World Order?

Under these conditions, the level the oil reached can ream the economy back into recession, it can even generate a new crisis, or worse, stagflation, a Reuters analysis entitled "Oil Prices May Change the Rules of the Global Economy", mentioned. Stagflation describes the situation where inflation reaches extremely high levels without an economic growth on the background, a situation that mirrors extremely well what is now happening with oil prices. I mean these quotations are not driven by a sustainable consumption, but by fears and speculation on the evolution of the turbulences in Libya and in other countries in the region. For comparison, in the summer of 2008, when the barrel reached the historical record of USD 147, consumption was at high levels. This level of the barrel will add extra pressure on central banks, which are already concerned about food prices. "USD 120 per barrel is the level at which oil has a 5.5% share in the global GDP, that is, according to previous

happenings, a situation when the global growth is under pressure", experts at Deutsche Bank say. Reuters analysts note that, theoretically, an increase of USD 10 of the oil price decreases the global GDP with 0.5%. According to this standard, a new oil-induced recession seems far away, and the Brent quotation should reach USD 190 to determine a decline in the economy. They warn, however, that this theory is questionable, and the key to the whole situation is, in fact, the sustainability of the high price per barrel. (Adevarul, February 24th)

http://www.adevarul.ro/financiar/Petrolul_poate_genera_o_noua_criza_mondiala_0_433157281.html#commentsPage-1

Oil Prices Fell to USD 114, After Saudi Arabia Said that It Can Sustain Deliveries

Oil prices fell with USD 5, from USD 119.8 reached during this morning, after Saudi Arabia said that OPEC may compensate for the lack of Lebanese oil Bloomberg reports. Saudi Arabia and other countries within OPEC, including African ones, will and can replace any reduction in oil deliveries from Libya, once companies required this, an official from Saudi Arabia said, on condition of anonymity. There is no reason for oil prices to rise, because Saudi Arabia and OPEC will not allow deficits to be on the market, he said. After the publication of this statement, the Brent oil price fell to USD 114. Brent oil price, the reference for the London Stock Exchange, reached the highest level this afternoon since August 2008, namely USD 119.8 per barrel, because of fears that the social tensions in Libya could expand to other oil producing states from the Middle East and North Africa, Reuters reports. Brent oil quotation increased by USD 6 to USD 117.25 per barrel, until 9:02 GMT, after it reached USD 119.79 per barrel for a short period, the maximum level recorded after August 2008, according to Reuters. In 90 minutes, until 8:00 GMT, the price has gone up by nearly USD 7. The oil quotation for the U.S. market rose with USD 4.31 to USD 102.41 per barrel, until 9:03 GMT; after it reached the highest level of USD 103.41 per barrel recorded after September 2009 during the trading session. Some analysts estimate that the price of Brent crude oil could rise to USD 158 per barrel this year, well above the maximum of USD 147.5 per barrel reached in 2008 and the quotation for oil for the U.S. market could rise to USD 159 per barrel. Libya's oil production is normally of 1.6mln barrels per day, but it fell by 400,000 barrels per day because of the riots, according to calculations made by Reuters. Libya is the twelfth largest exporter of oil worldwide. Goldman Sachs believes that oil markets are influenced by the fear that social tensions will expand to other oil producing states, and other interruptions of production could lead to a shortage of oil, which will lead to rationing the supplies. In Libya, the regime of Muammar al Gaddafi has lost control over oil-rich regions in the East, but he remains determined to crush the revolt that has already led to the deaths of hundreds since February 15th. (Adevarul, February 24th)

http://www.adevarul.ro/financiar/Pretul_petrolului_a_scazut_la_114_dolari-dupa_ce_Arabia_Saudita_a_spus_ca_poate_sustine_livrarile_0_433157078.html

A price of a Brent oil barrel reached the \$ 120 threshold on Thursday

The price of a barrel of Brent oil from the North Sea with delivery in April has almost reached the \$ 120 threshold on Thursday, at 7.55 GMT, as it was quoted at \$ 119.79, before returning to a downward trend, on the background of the turmoil in the Arab world and especially those in Libya, one of the leading oil producers in the world, AFP informs. The price of a Brent barrel reached the highest level in the last 30 months. From the beginning of the year, the price of the Brent barrel has increased by over 23%. Shortly before 9.00 GMT, the price of a barrel of this type of oil, a reference in Europe, fell to \$ 117.01. Also, the price of a "light sweet crude" barrel of oil, with delivery in April, rose by over \$ 4 in a few minutes. to \$ 102.05. 'The concern comes from across Libya, which is a relatively modest producer, and it is given by the leading producers, which could be affected by the risk of riots expansion', Victor Shum, an analyst at Purvin and Gertz in Singapore, estimated. Wednesday, oil prices rose sharply, as the barrel reached the level of \$ 100 in New York and exceeded the threshold of \$ 110 in London, thresholds of over ten years, due to major riots in Libya. (Agerpres, February 24th)

OMV: About 20% of the crude oil processed by the group comes from Libya; the lower levels of deliveries can be compensated

OMV refineries in Romania, Austria and Germany receive from Libya about 20% of the crude oil for processing, but the reduction of the deliveries from this state but can be easily compensated with oil from other countries and regions, Bloomberg transmitted. "Libya ensures 20% of Austria's supply, a similar percentage at group level", Jaap Huijskes, head of OMV's exploration and production division, said. The reduced supply can easily be covered with oil from Kazakhstan, Nigeria and the Black Sea, he added. OMV is, along with Eni and Total, among the companies that reduced their production in Libya, in the context of the violent protests in this state. (Ziarul Financiar, February 24th)

<http://www.zf.ro/business-international/omv-circa-20-din-titeiul-prelucrat-de-grup-vine-din-libia-scaderea-livrarilor-poate-fi-compensata-8008870>

OPEC countries move the oil refining in Europe

OPEC countries could pump more oil to European refineries, in the context of the Middle East crisis, after the rebels took control of some oil fields in Libya. Saudi-Arabia has initiated emergency discussions with the refineries in Europe, promising on behalf of the other OPEC partners to compensate any losses created as a result of the conflicts in Libya. The crisis began after the price of a barrel reached \$ 120 a barrel, the highest since August 2008, due to the lower oil production in Libya. The estimates show a reduction between 25% and 75% of this country's oil export capacity. All oil fields in the southern part of the country were taken Tuesday by the rebels. A Shiite engineer working in such a refinery said that the move was only "a message sent to Gaddafi ... We took the decision to refuse the right to export oil and gas to Europe". They have been prevented to reach Europe only by blocking a refinery of

about 80,000 barrels. The reduction of Libya's oil exports have affected Europe the most and this is the first sign of an acute oil crisis, which prefigures on the background of the conflicts in the Arab countries. To ease the spirits, an OPEC official said: "There is no reason for prices to rise more than that. Some OPEC countries have begun to find ways to divert the crude oil production to Europe". Meanwhile, economic analysts talk about the severe impact that the rationing of oil would have on the global economy. Representatives of the Japanese bank Nomura have warned that the prices could increase to \$ 220 per barrel if the tense situation in the Middle East continues. They compared the current crisis to the situation during the Gulf War, stressing that, if Libya and Algeria will entirely close their valves, the oil price could increase even further. The International Energy Agency warned that the fluctuating price of oil will affect the recovery of the global economy. Economists believe that an increase of only \$ 10 a barrel will reduce the global GDP by half percent. (Capital, February 25th)

<http://www.capitalul.ro/macro-economie/tarile-opec-muta-rafinarea-petrolului-in-europa.html>

Saudi Arabia Has Increased the Oil Production by 8%

Saudi Arabia has increased the oil production by 8%, namely 700,000 barrels per day, at over 9mln barrels per day to compensate for problems occurred in the deliveries of Libya, a source close to the situation said on Friday, quoted by Reuters, according to Mediafax. "We have started to produce more than 9mln barrels per day. We have sufficient production capacities", the source said. This comes after the authorities in Riyadh have assured earlier this week that they were prepared to act to prevent a shortage of supply on the market. The revolt in Libya against the leader Muammar Gaddafi has led to the drastic decrease of oil exports, of 1.3mln barrels per day. The Organization of Petroleum Exporting Countries (OPEC) hasn't yielded to requests to officially increase the production and it has announced that it had no plans to reunite until June. The oil prices reached USD 119.79 per barrel on Thursday, the highest level recorded in over two and a half years. At 12:35 GMT, the Brent oil prices, the reference for the London Stock Exchange, was quoted up with 75 cents at USD 112.11 per barrel, after a trading peak of USD 113.91 per barrel. The oil for the U.S. market was quoted up with 9 cents at USD 97.37 per barrel after it reached USD 99.20 per barrel during trading. On Thursday, the U.S. oil climbed to USD 103.41 per barrel, the highest level recorded after September 2008. (Bloombiz, February 25th)

<http://www.bloombiz.ro/international/arabia-saudita-a-majorat-productia-de-petrol-cu-8-1487862>

Russia Withdraws from the Burgas-Alexandroupolis Project

Russia is prepared to withdraw from the Burgas-Alexandroupolis oil pipeline project, a joint project with Bulgaria and Greece, and it will probably demand compensation from the partners, the Minister of Energy Sergei Shmatko, said, NewsIn reports. "The current status of the project is that we have suspended nearly all activities and we expect a final official

decision from Bulgaria. We reply on the fact that there are intergovernmental and business agreements. We will act according to them, including in regard to the withdrawal from the project", he said, RIA Novosti reports. "Obviously, if it is officially announced that the project won't be developed, the mechanisms stipulated in the project and the intergovernmental agreements will take effect", he added. The Russian company Transneft said that it cut costs to a minimum the costs for the 300 km pipeline project – which would connect Burgas, from the Black Sea, to Alexandroupolis, from the Aegean Sea. The pipeline would have to carry 35mln tons of oil per year, with the possibility of increasing supplies. But Bulgaria has threatened that it would quit the project, due to environmental reasons. Nearly half of the pipeline would pass through Bulgaria. Sofia had no financial contributions to the project, while Greece has stopped the payments. Bulgaria needs to pay back EUR 7.3mln, the debt at March 20th. Shmatko said that the project was profitable, adding that Russia could use alternative routes. (Bloombiz, February 25th)

<http://www.bloombiz.ro/finante/rusia-se-retrage-din-proiectul-burgas-alexandroupolis-1487838>