

# Romanian Oil & Gas Sector Overview\*

by Raiffeisen Capital & Investment

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## Romanian oil sector • Romanian natural gas sector Sectors' key players

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### Romanian oil sector

The foundation of the Romanian oil industry dates back from 1857, when the first well was drilled in Ploiești. Since then, some 720 mn tons of crude oil have been produced, making Romania an important oil producer in the region over the last 140 years. Romania ranks 4th in Europe in terms of oil reserves, after Norway, Great Britain and Denmark. With oil reserves estimated at around 1bn boe (barrel oil equivalent) at the end of 2005, Romania accounted for 5% of the total European oil reserves. Currently, the annual volume of oil production stands at 6 mn tons.

### Overview of restructuring process

Starting early 1990s, the state-owned oil monopoly went through a dramatic restructuring process, as a result of which the 100% state-owned autonomous regie Petrom RA was created. In the following years, several auxiliary activities were spun-off, namely the drilling (1992) and construction (1994) activities. To assure the development of the industry according to the Government of Romania (GOR) strategy for the oil sector, SNP<sup>1</sup> Petrom was created in November 1997 through the merger of 45 previously independent companies in upstream and downstream oil business. Since some of the companies were publicly traded before the merger, Petrom shares automatically had a 6.8% free float after the merger. The newly created Petrom was the sole Romanian vertically integrated company in the sector and covered the following activities:

- exploration and production;
- refining and petrochemicals;
- pipeline operation and railway transportation of oil products;
- road transportation of oil products;
- oil products distribution.

The privatization of SNP Petrom was decided in December 1998, but failed to be completed within initially established timeframes. Although Petrom's privatization was delayed several times, in July 2004 the government signed the privatization contract with Austria's OMV, which acquired a 51% stake for a total of EUR 1.5 bn. After privatization, the company name has been changed to Petrom SA.

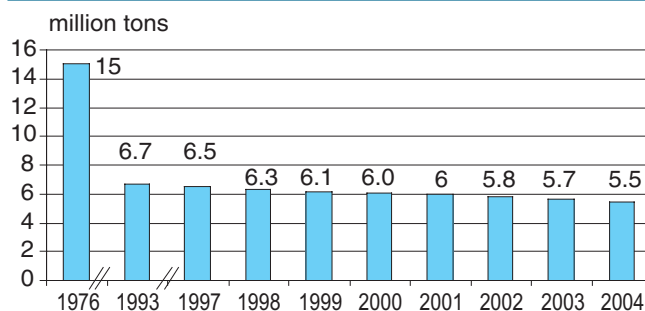
### Exploration and production

Since 1992, several foreign companies undertook exploration works in Romania, by investing over USD 210 mn. The newly discovered reserves, did not justify the large investments made in this sector. Petrom continues to be practically the sole company producing crude oil in Romania. In 2004, the company produced 5.46 mn tons of crude, representing 100% of the domestically produced crude and over 45% of the total crude processed by the Romanian refineries. It is expected that imports of crude will increase their share in total crude processed as the domestic resources gradually deplete, reaching 57% by 2005 and 60% by 2010. According to the GOR's strategy for 2002-2010, which provides for the main strategic objectives, the domestic crude production will stay flat, reaching 5.57 mn tons by 2010, the lion's share of this volume coming from Petrom.

*\* Note: For the purpose of this report, we have used the following sources of information: Government of Romania Strategy for oil and gas sector; Statistics yearbook of the National Institute of Statistics, [www.insse.ro](http://www.insse.ro); Publications of ANRGN, the regulatory authority for the natural gas sector, [www.anrgn.ro](http://www.anrgn.ro); Publication of the Romanian Energy Policy Association, [www.aper.ro](http://www.aper.ro); Energy Sector Study, Roland Berger, April 2004; BP 2004 Statistical Review of World Energy, [www.bp.com](http://www.bp.com); Petrom S.A. annual reports and public information; Rompetrol Group annual reports and company presentations.*

<sup>1</sup> SNP stands for Societatea Națională a Petrolului (The National Oil Company).

## Crude oil produced in Romania



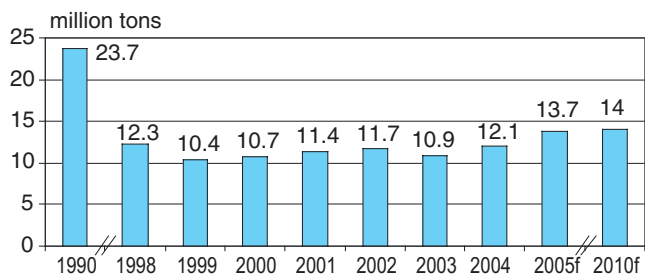
Source: INSSE, RCI Research

## Refining

As a result of Petrom's privatization, the refining sector was fully transferred into private hands. The refining sector consists of ten refineries, which can be grouped into two categories: five large refineries with nominal capacity of over 3.5 mn tons per year and five small refineries that specialize in low volume products. In 2004, the ten refineries processed some 12.1 mn tons of crude, representing cca. 60% of the total operational capacity of 20.3 mn tons. This fact indicates that refineries with low capacity utilization will have to downsize in order to optimize their production process.

The output of refined products recorded a decreasing trend until 1999 due to contracting market demand caused by the economic recession. The output picked up again in 2000. According to the GOR's strategy, the volume of refined products output is estimated to reach 13.7 mn tones by 2005.

## Crude oil processed by Romanian refineries



Source: INSSE, GOR oil sector strategy, RCI analysis and estimates

## Storage and transportation

The oil storage and transportation sector is mainly represented by two companies, Oil Terminal and Conpet,

both having the Ministry of Economy and Commerce (MEC) as main shareholder with a 70% participation. Taking into consideration their strategic importance for the Romanian economy, the companies operate their assets based on a 30-year concession agreement signed with the National Authority for Mineral Resources (ANRM), by which they commit among others, to undertake investments aiming at rehabilitating and modernizing their facilities. Under the concession agreement, Conpet has to grant third party access to the transportation system, in line with the EU legislation.

Oil Terminal carries out storage and dispatch operations for internationally traded crude oil, petroleum and petrochemical products. Its current storage capacity for crude and oil products reaches 1.7 mn m<sup>3</sup>. The operational capacity for crude oil and petroleum products handling is 24 mn tons and 10 mn tons per year respectively.

Conpet is the pipeline carrier, ensuring the transportation operations for crude oil and petroleum products both from the domestic (i.e. wells) and import sources, as well as from refineries to final users. The operational capacity of the crude oil pipeline network reaches 14 mn tons per year, some 50% of the designed capacity.

Railway transportation services of oil products are provided by Petrotrans and 12 private carriers. Petrotrans was owned by Petrom until 2002, when it was spun-off. Following the take over of its pipeline business by Conpet, the company was delisted and is currently 100% owned by the state, which considers privatizing it.

## Marketing and distribution

The economic downturn recorded between 1990 and 2000 led to a sharp decrease in consumption of both petroleum and petrochemical products. Thus, the level of crude oil processed in 2000 represented about a third of the 1989 volumes. The current level of crude processed in Romania largely covers the domestic consumption of gasoline, diesel oil and liquid petrol gas (LPG).

Fuels and lubricants account for about 90% of the total refined products output, the balance being inputs for the petrochemical sector. According to GOR's strategy, it is estimated that the refined products output will reach some 13.5 mn tons by 2005, of which 12 mn tons fuels and lubricants.

The distribution and marketing of refined products is fully liberalized and open to competition, which increased significantly since 1994. However, before the privatization of Petrom, the Government, through its representatives in Petrom's Board, has capped fuel product prices in order to keep inflation under control.

## Romanian refining sector

Company	Refinery	Operational capacity		Crude processed, 2004		Capacity utilization	Nelson index
		'000 tons	% of total	'000 tons	% of total		
PETROM	Petrobraz	4,500	22%	3,420	28%	76%	11.7
	Arpechim	3,500	17%	2,975	25%	85%	9.4
LUKOIL	Petrotel	2,500	12%	423	3%	17%	10.73
ROMPETROL	Petromidia	4,800	24%	3,302	27%	69%	9.69
	Vega	450	2%	302	2%	67%	1.9
RAFO	Rafo	2,500	12%	1,225	10%	49%	9.54
	Dărmănești	600	3%	-	-	-	5.49
INTERAGRO	Astra	700	3%	133	1%	19%	4.52
PETROLSUB	Petrolsub	400	2%	152	1%	38%	2.5
OMNIMPEX GROUP	Steaua Română	360	2%	202	2%	56%	3.52
TOTAL		20,310		12,133			

Source: RCI analysis

Gasoline distribution is performed through a two-tier system: regional storage facilities for wholesale and retail service stations. The major refineries (i.e. Petrom, Lukoil, Rompetrol and Rafo) own regional storage facilities that ensure the supply of their own and third parties' gas stations. The storage facilities are supplied by pipelines or railway. There are around 180 storages across the country, of which 145 belong to Petrom.

The retail market is represented by some 2,588 service stations (as of mid-2005). With more than 600 gas stations, Petrom is the retail market leader with an estimated market share of 45% for gasoline and 36% for diesel oil (in terms of sales). Lukoil is the second largest player on the retail market. Other key players are MOL, which completed the acquisition of Shell's gas stations network in 2004, followed by Rompetrol and OMV. Although unbranded private gas stations account for 57% of the total number of gas stations, they account for less than 25% of total fuel sales in the distribution sector.

Breakdown of fuel retail market by no. of outlets, mid-2005		
	no of outlets	% of total
SNP	617	24%
Lukoil	179	7%
MOL	142	5%
Rompetrol	106	4%
OMV	61	2%
Agip	19	1%
Independent	1,480	57%
<b>TOTAL</b>	<b>2,604</b>	<b>100%</b>

Source: RCI analysis

Following a decline between 1990 and 2000, the consumption of petroleum products rebounded in 2001. The consumption was mainly driven up by the transportation sector, and, to a minor degree, by agriculture and industry.

Consumption of petroleum products, '000 tons					
	1999	2000	2001	2002	2003
Gasoline	2,038	2,071	2,356	2,246	2,209
Diesel oil	2,342	2,187	2,415	2,471	2,654
LPG	269	267	311	291	322
Fuel oil	3,101	2,467	3,750	3,072	2,392

Source: National Institute of Statistics

Gasoline is mainly used for transportation purposes, which account for about 93% of total gasoline consumption. The balance is used by machine building and construction sectors.

The stagnation of gasoline consumption in the transportation sector between 1998-2003 is the result of the mutually offsetting evolution of the two main factors driving the gasoline consumption, namely (i) the motorization ratio that increased by 22% in 2003 as compared to 1998, and (ii) the

average distance driven that has decreased by 8.5% during the same period. The gasoline consumption is expected to grow by an annual average of 3.3% by 2010, driven by the following factors:

- growth of the motorization ratio from 153 vehicles per 1000 people in 2003 to 200 in 2010;
- increase in the average distance driven by 15% over the same period.

The diesel oil consumption has grown after 2000 and is expected to reach approx. 3.4 mn tons by 2010.

Transportation accounts for 80% of the total diesel oil consumption and has been the main consumption growth driver over 2000-2003. Taking into consideration that the large refining facilities are able to produce Euro compliant diesel, the GOR's strategy foresees diesel oil to be supplied only from domestic sources.

The final price for gasoline and diesel oil consists of a series of components:

- ex-works refinery price – it includes crude oil price, oil storage tariff, oil transportation tariff and refinery operational cost plus profit margin;
- excise applied to fuels – it is higher for gasoline and for high polluting products;
- special fund for petroleum products tax – it was created with the aim of covering the loss registered by the former state-owned Compania Română de Petrol from crude oil imports;
- value added tax.

Currently, taxes represent over 70% of the final prices of fuels sold in Romania. This taxation level is similar to EU countries, but is lower in the absolute terms. Thus, the final price is still lower than the EU average and is expected to reach EUR 1/liter.

## Romanian natural gas sector

### Overview of restructuring process

Romania has the largest natural gas market in Central Europe, the total consumption reaching 18.3 bcm (billion cubic meters) in 2004. Starting in early 1990s, the sector went through a gradual restructuring process. Thus, in 2000 the vertically integrated Romgaz Natural Gas National Company was reorganized into five 100% state owned companies based on their specific business. One year later, two of the five companies (i.e. Expogaz and Depogaz) merged into Romgaz SA, which undertook exploration, production and underground storage activities. The merger was in line with the GOR's strategy of creating an entity able to financially sustain the enlargement of the underground storage capacities in order to secure the country's gas supply. Two other companies, Distrigaz Sud București and Distrigaz Nord Târgu-Mureș undertook the gas supply and distribution activities in the southern and northern part of the county respectively. The fifth company, Transgaz, undertook the gas transmission activity.

Forecast of petroleum products production and consumption, '000 tons								
	2005		2006		2007		2010	
	Production	Consumption	Production	Consumption	Production	Consumption	Production	Consumption
Gasoline	3,993	2,384	3,893	2,468	3,826	2,568	4,144	2,781
Diesel oil	3,893	2,821	3,941	2,920	3,989	3,022	4,194	3,355
LPG	335	370	334	378	337	386	351	410
Fuel oil	1,402	2,190	1,329	2,110	1,287	2,075	1,160	1,933

Source: GOR's strategy for oil sector

To comply with the EU targets for setting-up a competitive, secure and environmentally sustainable natural gas market, the market liberalization process started in August 2001 with an initial degree of market opening of 10%. The market was further opened in 2002 to 25% with the aim of gradually reaching total market opening by January 2007 for industrial customers and by July 2007 for household customers. In addition, the liberalization process implied setting-up a new market framework, which includes a system operator, as well as a regulatory authority. Transgaz was nominated the system operator and is responsible for monitoring the supply/demand balance, forecasting demand and developing a competitive natural gas market. The regulatory authority was established in 2000 under the name of ANRGN and is responsible for dealing with such issues as licensing, regulating of prices and tariffs, approving sector related construction, as well as market supervision.

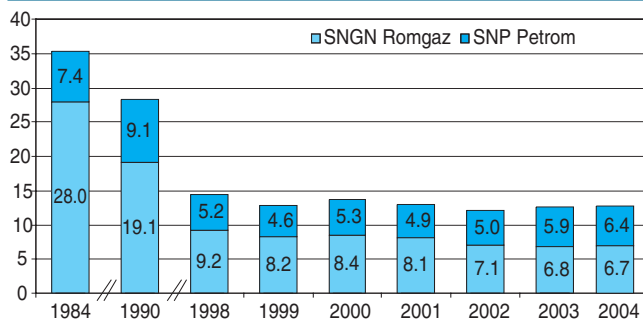
Following the gas sector restructuring, the government expressed its intention to start the privatization of the sector by putting the two distribution companies up for sale as part of the PSAL II program. Although initially planned for end 2003, the privatization contracts were signed in October 2004. Distrigaz Nord was acquired by Germany's E.ON Ruhrgas in a EUR 304 mn deal and France's Gaz de France took over Distrigaz Sud for EUR 311 mn. According to privatization contracts, both investors initially acquired a stake of 30% that was further raised to 51% through capital increases.

As for Transgaz, the company is considered of strategic importance and will not be privatized in the foreseeable future. However, according to the Government's "Program for a Strong Capital Market", some 10% of Transgaz shares will be floated on the Bucharest Stock Exchange by the end of 2006.

### Exploration and production

During the last fifteen years, the natural gas sector was marked by limited discoveries of new major natural gas fields, which resulted in stalling of production levels.

Evolution of natural gas output, bcm



Source: ANRGN

The Romanian natural gas industry has developed an extensive infrastructure. Romgaz is the largest natural gas producer, operating an exploration, production and storage infrastructure consisting of 3,800 wells, 3,500 km of collecting pipelines and 17 compressor stations with a total installed power of 163,000 HP. There are six underground storage facilities with a total capacity of 2.45 bcm per cycle. In 2004 Romgaz produced 6.65 bcm of natural gas. According to the GOR's strategy, Romgaz will decrease its annual output to 3.2 bcm by 2010.

Petrom is the second largest natural gas producer, operating 1,495 gas-producing wells and 227 compression stations. Its output consists mainly of well gas that is co-produced with crude oil. In 2003, Petrom accounted for 49% of the total

domestic output of natural gas. Apart from Romgaz and Petrom, there are several foreign companies that are currently undertaking exploration works. The investments made by foreign companies in exploration works in Romania over the last 10 years are estimated at USD 125 mn. So far, Wintershall is the only company to have discovered new natural gas reserves.

### Underground storage

Following the steep decline in domestic gas production, the development of underground storage facilities became a major priority after 1990s. The current storage facilities owned by Romgaz allow for the storage of 2.45 bcm. There are two more underground storage facilities (i.e. Depo Mureş and Amgaz) operated by joint-ventures (JVs) set-up by Romgaz and private companies. According to GOR's strategy, the underground storage capacities will be gradually increased to 5 bcm by 2010. The investments required for increasing the underground storage capacities between 2006-2010 are estimated at USD 517 mn.

Evolution of natural gas underground storage capacities, bcm

	2003	2004	2005	2006	2007	2010
Romgaz	2.53	2.45	2.55	2.75	3.00	3.50
Depo Mureş	0.20	0.25	0.30	0.30	0.30	0.30
Amgaz	-	-	0.10	0.15	0.20	0.20
Wintershall	-	-	0.40	0.80	1.00	1.00
<b>TOTAL</b>	<b>2.73</b>	<b>2.70</b>	<b>3.35</b>	<b>4.00</b>	<b>4.50</b>	<b>5.00</b>

Source: GOR's strategy for the natural gas sector

### Transmission

Transgaz is the 100% state-owned company that operates the national gas transmission system. Due to the growing importance of transmission and international transit activities, Transgaz enjoys a monopolistic position in Romania and will not be privatized in the medium to long term. The company owns a transmission network consisting of approximately 11,900 km of major transportation pipelines and 758 pressure regulating/measurement stations. The pipeline system has a transit capacity of 40 bcm per year. Transgaz also operates two international transit pipelines with a total capacity of 28 bcm per year. According to the GOR's strategy for rehabilitating the transmission network, Transgaz shall undertake an investment plan of USD 477 mn.

### Distribution

The natural gas distribution is carried out by 19 companies, including Distrigaz Sud, Distrigaz Nord and Petrom. Most of distribution infrastructure is operated by formerly state-owned distributors (i.e. Distrigaz Sud and Distrigaz Nord) and consists of over 20,000 km of pipelines. The other gas distributors can be classified into two categories, namely (i) ventures set-up by pipeline construction companies, and (ii) companies set up by one of the state distributors and local authorities.

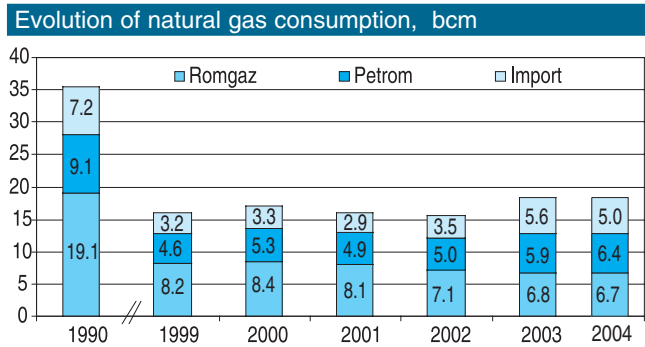
According to the GOR's strategy, some 46% of the entire pipeline network will be modernized, which implies replacement of existing steel pipes with polyethylene ones that ensure longer lifetime. The investment in the rehabilitation and expansion of gas distribution networks over 2006-2010 was estimated at USD 1.26 bn.

### Natural gas market

Romania was one of the first countries to use natural gas for both residential and industrial purposes. The market penetration reached highest levels in the early 1980's due to

a government policy driven to achieve self-sustainability. One of the consequences of this policy was a sharp increase of domestic production leading to an accelerated depletion of the domestic natural gas reserves.

Over the 1990-2002 period, the imports of natural gas stood between 20-25% of the total consumption. Starting with 2003, following the increase in gas consumption and gradual depletion of domestic resources, the share of imports went up and is set to continuously increase, reaching 60-65% of total consumption by 2010.



Source: ANRGN

Currently, there are two trading companies in charge of Romania's natural gas imports, namely WIEE and Wirom Gas.

Both companies are controlled by German Wintershall, a JV between BASF and Gazprom. Gazexport, the export arm of Russia's Gazprom, expressed its interest in setting up a direct importer of natural gas jointly with Romgaz, the issue being still under negotiations. Russia will be Romania's main gas supplier in the medium to long run. Yet, as of 2005 alternative sources will be considered, the main ones being (i) Western Europe following the construction of the Arad-Szeged interconnection pipeline, and (ii) Caspian Sea basin through the foreseen Nabucco project.

Natural gas consumption in Romania has seen a sharp decline since 1990 following the downturn in industrial activity as well as in energy demand. The reverse trend started in 2001. The total number of clients went up by 54% over 2000-2004, standing at 2.1 mn at the end of 2004, of which 2% are hooked to private distributors' networks. Currently, there are some 1,657 localities connected to the distribution system. The two distribution companies, Distrigaz Sud and Distrigaz Nord, supply gas to 92% of the connected communities. There are also 18 licensed distributors established through participation of private companies.

The breakdown of natural gas consumption by destinations reveals that industrial sectors account for over 60% of total consumption, being followed by energy production sector and households.

The consumption of households, estimated at approx. 1.9 mn, increased over the last years mainly due to (i) the expansion of the distribution networks, which started to encompass rural areas, and (ii) the rise in sales of household appliances (i.e. cooking machines and combination boilers).

We expect that in the medium term the following factors will have a positive impact on the natural gas consumption:

- energy production will increase over the next period in line with the industrial upturn, thus primary energy resources demand will also increase. Moreover, according to the GOR's Energy Roadmap, the output of the power plants based on natural gas will increase in the medium term as gas turbines with combined cycles are seen as more reliable, efficient and less harmful to the environment;

- industrial customers will also give a boost to natural gas consumption following the economy's upturn. Industrial customers will also seek to diversify their energy sources in an effort to bring down costs and gas-based combined heat and power plants could be a solution in some of the cases;
- household consumption is also to increase in the medium term especially due to the natural gas distribution networks' expansion leading to a larger customer base. The government strategy foresees supplying natural gas to around 1500 new communities until 2010.

ANRGN, the regulatory authority, is responsible for setting natural gas prices for captive consumers and tariffs for the regulated downstream activities (underground storage, transmission and distribution). Since 2000 natural gas prices and tariffs have experienced significant adjustments.

Thus, between September 2000 and August 2001, the final price for natural gas was differentiated amid residential and industrial consumers. During this one-year period, residential consumers paid between USD 45-62 for 1000 m<sup>3</sup>, while industrial consumers paid between USD 62-80. The price differentiation was based on the supply source: while residential consumers were serviced only with lower priced domestically produced natural gas, industrial consumers were supplied with a mix of domestic and imported natural gas.

In August 2001 natural gas final prices were unified for all captive customer categories irrespective of the supply source. The only differentiation was made based on the connection type (either via the National Transmission System "NTS" or through distribution systems). Between August 2001 and March 2003, the final price remained largely unchanged and the only differentiation was based on the connection type, consumers serviced via the NTS paying lower prices.

In September 2003, natural gas final prices were once again differentiated between residential and industrial customers. Between March-December 2003, there have been four consecutive price adjustments leading to a 40% average price increase. The biggest hike of 46% was registered for the natural gas final price paid by residential consumers.

The average weighted purchase price is calculated based on a mix between domestically produced and imported natural gas according to annual supplied volumes. According to a MEC decision, the maximum sales price limit for natural gas obtained from new or rehabilitated domestic fields was set at 80% of the import price.

## Sectors' key players

### *Petrom*

Petrom, the largest oil company in Romania, employing about 50,000 people, is an integrated oil concern with consolidated sales of EUR 2.7 bn in 2004. Following the closing of the privatization process in 2004, the Austrian OMV became Petrom's main shareholder with a 51% stake. The MEC is still holding 40.74% of the shares. The company has a 6.2% free float, owned by domestic and foreign investors. In June 2005, MEC has green lighted the sale of 8% in Petrom to the Association of Employees, as it was stipulated in the privatization contract. The employees' association is entitled to purchase the 8% stake at the same price per share as the one paid by OMV.

**Petrom: Summary operating data**

	2003	2004	9M05
Crude produced, mn tons	5.6	5.46	3.97
Crude processed, mn tons	6.61	6.42	4.9
Natural gas produced, bcm	6.13	6.44	4.63
Gas stations (domestic&international), units	757	687	672

Source: Company data, RCI research

At mid-January 2006, Petrom's market capitalization stood at EUR 8.87 bn, representing over 50% of the Bucharest Stock Exchange's (BSE) market capitalization.

Currently, Petrom is undertaking exploration activities on 300 commercial fields in Romania, including 106 oil fields, 147 oil and free gas fields and 2 reservoirs of carbon dioxide. In 2004, the company produced 5.46 mn tons of crude and 6.44 bcm of natural gas (49% of total domestic production). The company is also involved in international exploration and production activities in Kazakhstan, India, Tanzania, Iran and Kuwait. Petrom owns two of the most important Romanian refineries (Petrobrazi Ploiești and Arpechim Pitești) with a cumulative operating capacity of 8 mn tons per year (39% of Romanian refining capacity). In 2004 Petrom processed 6.4 mn tons of crude, 5% more than in 2003. Petrobrazi and Arpechim refineries have high complexity Nelson indexes comparable with Western European refineries. Petrobrazi is an integrated refining and petrochemical complex. The petrochemicals output includes mainly aromatic-based products, with feedstock consisting of propylene, n-butane and benzene.

Petrom produces two types of gas: methane gas (22% of total) extracted from gas fields and associated gas (78%) extracted from oil fields. While the methane gas production levels are experiencing natural downturn due to continuous depletion of currently exploited gas fields, the associated gas output has been increasing through the last couple of years due to the current stage of the oil and gas reserves exploration cycle.

Petrom confirmed a natural gas proved reserve of approx. 3.5 bcm in 2003, after a USD 10 mn investment in exploration in the EOCEN off-shore gas field. In 2004, the company increased its gas output to 6.4 bcm, up from 5.9 bcm produced in 2003. In the medium term the annual output is expected to remain at current levels, allowing Petrom to supply approx. 30% of domestic gas consumption.

Petrom is selling natural gas to both distributors and direct consumers, which in 2004 together accounted for about 80% of total output. The balance was supplied to Petrom's refineries. Petrom is the most important player on the fuels retail market. The company markets fuel to both wholesalers and final clients. With a national distribution network of 597 gas stations as of October 2005, Petrom controls a significant share of the retail market. In 2004, the company had a 45% market share in the gasoline segment and 36% in the diesel oil segment. Following the company privatization by OMV, we expect Petrom's market share on gasoline and diesel oil segments to increase in 2005. In 1998, the company extended its distribution network abroad. Currently, Petrom operates 70 gas stations in the Republic of Moldova and 5 stations in Hungary. By the end of 2005, Petrom is planning to open some 18 gas stations in Serbia & Montenegro.

According to Petrom's development strategy, over 2006-2010 the company plans to invest some EUR 3 bn, split between E&P and Refining. By 2010, the company intends to achieve a reserves' replacement ratio of 70% and a daily production level of 210 ts boe. In 2006, the company targets a total net turnover of EUR 3.05 bn and a net profit of EUR 550 mn. The 2006 EBITDA and EBIT are budgeted at EUR 850 mn and

EUR 626 mn, respectively. Total company capex in 2006 is budgeted at EUR 650 mn.

**Petrom: Summary financials (IAS), EUR mn**

Key financials	2003	2004	9M05
Revenues	2,031	2,144	2,173
Operating Profits	25.5	(143)	623
Net profits	(7.9)	(240)	547
Total assets	3,932	3,951	4,987
Total equity	2,712	2,368	3,032

Source: Company data

**Rompetro**

Rompetro is the second largest domestic player in the oil industry. Initially founded in 1974 as the international arm of the Romanian oil and gas sector, it was privatized in 1993 through a Management and Employee Buy Out. In 1999, the Rompetrol Group NV (TRG), which was registered in the Netherlands, acquired Vega Ploiești refinery. In 2000, TRG took over Petros, a leading Romanian oil field operator, renamed to Rompetrol Well Services. Later on, in 2001, Rompetrol acquired Petromidia, the refinery with the largest operating capacity in Romania. In 2002, the Austrian OMV bought a 25.1% stake in TRG for USD 50 mn, but following Petrom's privatization, OMV sold out its stake back to TRG.

The Romanian operations of TRG include oil and gas exploration and production, crude oil refining, petrochemicals production, oil products transportation, distribution and sale as well as providing oilfield equipment and services.

Rompetro Rafinare, the largest TRG company, contributing with 80-85% of the consolidated turnover, owns Petromidia and Vega refineries. Petromidia can process a wide variety of crude oils, with different sulfur content. Petromidia is an important source of gasoline, LPG, and diesel supply, producing also Jet A-1 fuel and having plans to become the prime supplier of jet fuel for aviation companies operating in Romania and the Republic of Moldova. The quantity of crude processed increased steadily from 2.2 mn tons in 2001 to 3.4 mn tons in 2005. Over 2001-2005, TRG invested USD 230 mn in upgrading and modernizing the plant. At the end of 2005, the refinery's workforce stood at 1,100 employees, which is planned to be downsized to 900 by the end of 2006. Currently, about 45% of motor fuels produced is exported.

Vega refinery is Romania's sole producer of a wide range of special boiling point spirits, solvents for olefins polymerization, bitumen, heating oils and catalysts for petroleum processing. Vega is able to supply Petromidia with different types of feedstock such as naphtha and fuel oil for further processing into premium gasoline, diesel and coke. Currently Vega is focused on specialty products such as solvents, kerosene, pharmaceutical salves and exhaust catalysts for cars. Rompetrol owns a network of 115 gas stations. In November 2004, Rompetrol Rafinare shareholders decided to buy 100% of the Rompetrol Downstream's shares through a USD 112.6 mn deal. In 2005, Rompetrol had an estimated domestic market share (retail only) of 15%.

In December 2005, TRG, the majority owner of the Rompetrol Rafinare, has fully acquired 100% stake in France-based Dyneff, the largest independent petroleum products distributor in France with a 3.5% market share. Dyneff operates depot storages of a total capacity of 446.5 ts cubic meters and a network of 226 filling stations.

Rompetro Rafinare is listed on the BSE. Its market capitalization at mid-January 2006 stood at EUR 668 mn.

Rompetrol Rafinare: Summary financials (IAS), EUR mn			
Petromidia key financials	2003	2004	9M05
Revenues	821.5	1045.3	1,039.8
Net profits	287.9	11.8	84.6
Total assets	921.3	1175.7	1,135.4
Total equity	548.9	685.6	641.8

Source: Company data

### Lukoil

The Russian company Lukoil is one of Petrom's main competitors on the refining market. In 1998, the company acquired a 51% stake in Petrotel refinery for USD 51 mn.

The refinery was closed down in 2001 and since middle of 2002 has undergone an in-depth modernization program. The refinery restarted operating at the end of October 2004. As a result of the investment program, Petrotel's technical capacity was adjusted to 2.5 mn tons per year, the refinery being able to produce EURO 3, 4 and 5 fuels. Lukoil's target is to refine 2.4 mn tons per year, of which 2 mn are to be sold on the domestic market and the balance to be exported to Hungary and the Republic of Moldova. The refinery will use crude extracted by Lukoil in Russia. The modernized refinery will operate with a workforce of 1,200 compared to 2,650 before the initiation of the investment program.

In 1999, Lukoil entered the retail market. Currently, the company markets fuels to both wholesalers and final clients.

The wholesale is carried on through a network of 12 storage facilities. Lukoil has aggressively developed its downstream business, becoming the second largest fuels retailer in Romania. By mid-2005, Lukoil was operating a network of 179 gas stations.

### Romgaz

Romgaz is the traditional and still the largest gas producer, in spite of the continuous drop in output levels. In its current state, the company was set-up in 2001, following a tortuous restructuring process. In accordance with the Government's "Program for a Strong Capital Market", Romgaz, together with other six state-owned companies, will be listed on the Bucharest Stock Exchange by the end of 2006. In November 2005, a consortium formed by CSFB, Linklaters and RAEF (Romanian-American Enterprise Fund) was selected to advise the State on the privatization of Romgaz.

Romgaz is involved in three significant partnerships in the production sector, all of them concluded with foreign companies. These partnerships aim at rehabilitating and further developing marginal gas fields that have become expensive for Romgaz to operate.

The first project that has already started to pay off is the JV set-up with the US oil and gas company Amromco. The JV is based on a farm-out agreement targeting rehabilitation and enhancement of production in eleven gas fields located in the southern regions Oltenia and Muntenia. Amromco has become co-titleholder in the eleven concession agreements and shares incremental production with Romgaz on an equal basis. The US company plans to invest around EUR 30 mn in the enhancement operations. Amromco has started producing incremental natural gas quantities in seven out of the eleven gas perimeters in June 2003. It has produced 0.12 bcm throughout 2003 thus becoming the first private natural gas producer in Romania. In 2004 Amromco will produce an estimated 0.25 bcm from these eleven natural gas perimeters. Amromco is also negotiating concession agreements with Romanian authorities for additional enhancement fields that were offered in a bidding round in 2003. Amromco will have 100% working interest in these concession agreements.

The second partnership was concluded with Wintershall following their joint discovery of a 2 bcm gas reserve in the Southern Transylvanian block. The annual output from these fields was set at around 0.12 bcm, as no further enhancements are foreseen. Wintershall has also plans to develop exploration and production operations in other natural gas perimeters located in the Eastern part of the country.

The third partnership was concluded with Schlumberger to enhance a series of currently exploited gas fields, which have experienced decreasing outputs. Schlumberger provides the necessary production equipment on its own risk and will recuperate the investment from the expected incremental revenues. Romgaz and Schlumberger agreed upon a ten-year contract under which Schlumberger shall invest USD 30 mn.

But Schlumberger is not a titleholder for the concession agreements on any of the gas fields to be rehabilitated, thus not having any rights over the gas reserves. In 2004, Schlumberger will start rehabilitation works in the Laslău Mare gas perimeter located in Mureș county.

Romgaz has invested over USD 250 mn over 2000-2003 and plans to spend USD 600 mn between 2004-2007, most of the investment going to production and storage activities.

Romgaz: Summary operating data				
	2001	2002	2003	2004
Production, bcm	8.1	7.1	6.8	6.65
Storage capacity, bcm	n.a.	n.a.	2.35	2.45
Employees	5,301	5,248	5,200	5,482

Source: Company data

As of 2002, the distribution companies accounted for the largest part of sales (67%), followed by eligible consumers (17%) and Termoelectrica and Transgaz (11%), which buy natural gas for technological consumption.

In 2004, the company produced 6.65 bcm of natural gas. In terms of volume, Romgaz had a 51% share of the total domestic output and 36% share of total domestic consumption. Looking ahead, according to the Government's strategy for the sector, Romgaz' output will decline to 3.2 bcm by 2010 and 2 bcm by 2025.

Romgaz is the largest gas storage operator with approx. 2.45 bcm of storage capacities. Its storages are mainly located within depleted gas reservoirs. According to the government's strategy, Romgaz plans to gradually enlarge its storage capacities to 3.5 bcm by 2010.

Romgaz: Summary financials (RAS), EUR mn				
	2002	2003	2004	2005b
Revenues	286	316	444	650
Operating Profit	42	n.a.	104	n.a.
Net Income	35	75	65	100
Capex	48	80	n.a.	245

Source: Company data, RCI research

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