sonatrach

Market News

July 2006 - N° 28

Marketing Activity Newsletter

Oil outlook

by Imen-Nidhal Boudinar

In a context of multiple persisting geopolitical tensions, the market evolving by highly tight flows has emphasised the fluctuating trends of crude Brent in June with a marked upward trend due to:

▪ The shutdown of several refineries in the Gulf of Mexico due to minor damages resulting from bad weather conditions reviving fears over gasoline supplies at the outset of the driving season.

▪ Concerns about the increase of interest rates by the American Federal Reserve in order to curb inflation, therefore, slowing down economic growth in the region, which shows flagging trends.

▪ Upsurge of violence in Iraq inducing a level production at 2 MBD.

▪ The upward trend review of growth forecast of oil demand in 2006 by IEA in spite of the impact of high-level prices on consumption in some regions.

▪ Forecasts of intensified hurricanes in the Atlantic Basin whilst production in the Gulf of Mexico is striving to recover its last year rhythm (a production loss of 180 000 B/D at the end of June).

The hurricane Alberto has eased up avoiding damages to the oil installations in the Gulf of Mexico.

▪ Decline of oil stocks in the USA at the end of the month in spite of the resumption of refining activities in the region.

▪ Closing of a channel in Louisiana cutting down the production of four refineries located in the region (Citgo: 425 000 B/D, ConocoPhillips: 250 000 B/D, Calcasieu refinery 85 000 B/D and Pelican 15 000 B/D) with the 4th July National Day marking a peak for gasoline season demand in the States.

▪ Upward trend review of US economy growth rate at 5.6 % against a previous 5.3%.

▪ Iran determination to pursue its nuclear activities prior to any discussion with the UN Security Council Members.

(continued on page 2)

Sonatrach Executives Annual Conference

Human Resources development at the core of the discussions

The sixth edition of Sonatrach Executives Annual Conference took place on June 14 and 15 in Hassi R'Mel and was centred around the theme: "Human Resources Development: a federative, consistent and pragmatic approach".

In his opening speech, Sonatrach CEO underlined that the meeting has been focused on " expanding exchanges and debates around the central issue of Human Resources".

The debates reflect the Management willingness to " *associate the whole Sonatrach Group staff employees in order to work out the conditions and steps to implement the Human Resources Policies*".

The Chief Executive has reminded that the Group has reached a new development stage with strategic and organisational adaptations in order to meet the requirements of the new market and regulation environment.

The Conference is part of the operational actions centred on Sonatrach New Human Resources Policy, following the signing of the Directive last March 25.

The conference has also given the opportunity to take stock of the situation and evaluate the realisations undertaken so far at the light of the planned objectives.

After a retrospective presentation of the main projects and realisations related to Sonatrach human resources development, The CEO and Mrs. Belkahla Human Resources Executive Director DCG, addressed some of the participants concerns, around the following themes:

- The means to be implemented for an efficient assessment of performance.

- Converging Sonatrach organisation with its global strategy.

- The new remuneration system and developing skilled staff loyalty.

- Capitalising Know-how maintaining Sonatrach development.

The conference has been mainly devoted to workshop sessions, 9 groups have worked on a central theme: " Human Resources Development". The Centre de Perfectionnement de l'Entreprise (CPE) has been entrusted with the workshop organisation and called on a consultant specialising in new methods of Brainstorming.

The groups have been distributed for the results to be wholly processed taking account of all the views at all levels of the company's hierarchy. The workshops have been articulated around a common issue: " *Appraise anything that could slow down or prevent Human Resources development and expansion*".

(continued on page 3)

Appointment

M. Mohamed Meziane, Sonatrach CEO, proceeded on Saturday 17 June 2006 to the installation of Mr Rahal Chawki Mohamed as Vice President to the Marketing Activity in replacement of Mr Ali Hached.

Mr Rahal has assumed jointly the duty of Responsible of SPC BVI and Sonatrach International Holding (SIHC).

Oil outlook

HIGHLIGHTS

(continued from page 1)

Enerdata: Publishes statistics for 2005.

The main message issued by the latest Enerdata publications concerns the confirmed leap of the world energy consumption in spite of high crude oil prices. Indeed, world energy consumption registered a growth of 2.5 % in 2005 (against 3.4 % in 2004), whereas Brent prices have gone up by more than 16 $ Bbl.

- Increase of Chinese market needs: the firm world consumption is due to Asia weight (35% out of the total) and mainly by China (15%), a sustained level progressing by 1 point/year.
- The upsurge of coal: with a market share increase of 0.7, coal penetration in the world energy balance sheet is boosted with 25.4 %, Whereas oil has lost 0.4%, accelerating its relative slowdown and natural gas is unchanged at 21 %. In 2005, coal has covered 53% of the world energy consumption growth (of which 70% in China and 10 % in India).
- Asia is the driver of gas demand growth: outside North America, gas demand has progressed worldwide particularly in Asia.
- Increase of electricity demand driven by China: in 2005, the increase of electricity demand was dominated by China (37%) and by Asia (52%).
- Prospects by 2020: by 2020, prospects show that China and India would represent one third of world energy consumption, and Asia as a whole, would represent one half. America would account for a fifth of world energy growth.

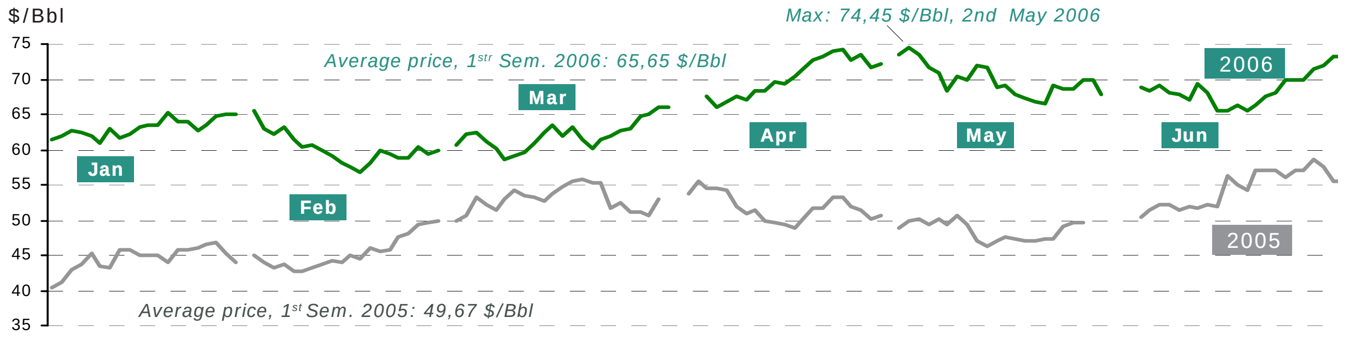
United States: Anadarko becomes the first US independent in the upstream.
The US Anadarko has announced the takeover on Kerr-McGee and Western Gas Resources, for a global amount of 23.3 G$. With this acquisition, the US group becomes the first independent American company in exploration / production with a total turnover of 17 G$.
With Kerr-McGee, Anadarko reinforces its output in the Gulf of Mexico. It also acquires assets in onshore production in the USA and China, and new exploration zones, namely in Alaska, in the Brazilian offshore and off Australia, West Africa and Trinidad & Tobago.
Western Gas Resources provides mainly gas production areas in the American Rockies and also exploration assets in Canada.

World fleet: a development five times faster than before oil prices increase.
Faced with the accelerating world crude oil demand, which started in 2003 and 2004, ship owners and shipyards have increased fivefold the rhythm of new oil tankers building compared to 1990-2002.

On the whole, oil shipping capacity has increased by 51.4 Mtpl in three years (17.1 Mtpl/y) against 39.3 M tpl (+ 3.3 Mtpl/year) during the past twelve years. The current orders provide for the construction of 643 oil tankers (2858 operating tankers of more than 25 000 tpl in 2006 a capacity of 318Mtp) representing a new capacity of 72.2 M tpl, of which 35 % for oil products shippers.

Iran: construction of a new refinery with a capacity of 120.000 b/d by 2009.
Iran projects the construction of a refinery with a capacity of 120.000 b/d by 2009 in order to re-process low grade sulphur crude from its Soroush and Nowruz fields. This will be the first wholly private refinery. The works will be launched in less than six months and will last two years.
Iran had to stock part of its low grade crude because of a lack of potential clients. Iran plans to double its refinery capacity by 2011 in order to meet fuel domestic needs and reduce gasoline imports.

Brent, 1st semester 2006



Gas Outlook

By Othmane Irain

North Europe :

Gas prices in the UK have registered in June 2006 a significant decrease mainly driven by a weak demand in the residential/ tertiary sector and the scheduled shutdown of the Rough storage site.
Stopping exports towards the European Continent (Zeebrugge) has accentuated the drop of prices on NBP. Spot "Day Ahead" prices opened around 30 p/th in June, then registered during the shutdown of the gas interconnector - from 5 to 19 June 2006) relatively low levels standing below 20 pence/th.
The lowest level, 17.5 pence/th was recorded on June 7. Rough storage site, brought into service on 15 June, has supported the prices, which were back over 20 pence/th. However, Rough storage re-opening has not brought about the projected effects on prices due to a technical problem occurring on one of the two compressors, resulting in a reduction by 50 % of the total injection capacity.

Rise in prices occurred only after resumption of gas exports towards Zeebrugge where the levels of spot "Day Ahead" prices were back over 30 pence/th (and even 37 pence/th on 19 June).

"Day Ahead" spot prices on Zeebrugge market have registered a slight increase compared to last month because of a high demand of gas injection on the storage sites in Europe.
The monthly average of "Day Ahead" spot prices has been estimated at nearly 37 pence/th against 36 pence/th a month earlier.
"First Month" prices (July) have remained stable at a relatively high level compared to the previous years.

This is due to uncertainties over the supplies during the next two months because of many scheduled maintenances on offshore sites. " First Month" price in June has been estimated at nearly 37.88 pence/th against 35.77 pence /th a month earlier.

(continued page4)

Events

Human Resources Development at the core of the discussions

(continued from page 1)

Several innovations have been introduced to the traditional Brainstorming method so far implemented in the previous conferences.
Works have started with an individual "negative Brainstorming" which consists as a general rule, in appraising, according to each Group member's view, any hurdles or impediment.
Then, the hurdles and impediments are grouped and classified according to family groups (cartography) in order to sort out, after a priority vote, three items which will be the themes the sub-groups of the workshop members will work on.

The finalised action plans could be illustrated by cartoons that will trace back the shaping out of the proposed actions and the changes compared to the past situation.

The priority action plans set forth by the nine groups have essentially been articulated around the organisation adaptation to the objectives and strategy of the company, incentive systems (remuneration, environment, social structure.....) professionalisation of the Human Resources activity, internal communication, training and capitalising know-how, careers.
After presenting the action plan, Mrs. Belkahla has intervened to stress the necessity of improving communication about the projects undertaken and achieved in the matter of implementing Human resources policy.
Mrs Belkahla has also committed to consider all the proposals submitted during the conference and translate them into concrete actions to improve Sonatrach efficiency and image.
A meeting will convene beginning of July, in order to analyse the preliminary results of the task carried out.

Sonatrach CEO chaired the end of The 6th Sonatrach Executives conference and renewed that human resources development is the matter of all, and the rich debates and the ideas expressed during the conference are the best proof of that. This encourages the management to commit to put in concrete form ongoing projects and also undertaking new ones.

If Sonatrach has succeeded in coupling the important means allocated to its development with the optimisation of its expertise, there still remain huge efforts to be made in the matter of capitalising know-how and managerial communication.
Finally, this conference has offered a real forum for exchange of experience and sharing of ideas, widening the perspectives within the framework of a strengthened corporate culture.

Shipping fleet

Sonatrach Petroleum Corporation BVI and Kawasaki Shipbuilding Corp. sign tanker contract.

Sonatrach Petroleum Corporation BVI (SPC) and Kawasaki Shipbuilding Corporation (KSC), signed on 13th June a partnership agreement for the setting of a joint venture denominated New Ocean Shipping Venture Ltd.
The 50-50 venture called NOVL, has been set up by the Sonatrach Group and the Japanese company Kawasaki.
The new joint venture NOVSL, has ordered from a Chinese shipyard, Nacks Shipyard, a VLCC vessel for the transport of crude oil. With a total cost of 120 million US $, the project financing of the deal will be as follows:
- 80% by loan (from banks)
- the remaining 20% will be covered by both partners (SPC and KSC)

The delivery of the crude tanker, with a capacity of 315.000 cm, is expected end 2007. It should be reminded that this is the first type of vessel ordered by SPC whose fleet consists essentially of 6 vessels for LPG transport of which five have been constructed by KSC.

Association of African Petroleum Producing Countries (APPA)

A seminar on petroleum expertise in Algiers.

Organised by APPA jointly with the ministry of Energy and Mines, a seminar on oil expertise in the member countries of the association of African petroleum producing countries, took place on June 26 and 27 in Algiers.

The opening ceremony of the seminar has been chaired by the Minister of Energy and Mines, Mr Chakib Khelil , who underlined that Algeria has placed the issue of human resources reinforcement (skills development) at the heart of its development strategy , and thus has enabled to improve competition in the hydrocarbons sector thanks to a highly skilled and competitive staff. He also stressed that Algeria trained and has been training African staffs from the hydrocarbons sector.

Taking the floor after him, The APPA Executive Secretary, Mr Dave A. Lafiaji , has reminded that between 1988 and 2000, four seminars have been organised: in Nigeria (1988, 1995), in Ivory Coast (1991), and Gabon (2000). Therefore, the issue of human resources development is one of the most debated topics within APPA. The meeting has enabled the representatives from Ministries and Agencies in charge of hydrocarbons in the member countries of the Association, the oil experts and the managers of oil and para-oil companies operating in these countries to debate on themes relating to oil expertise as a helping " decision-making factor and driver of value added" and the stage of oil expertise projects in these countries.

In general, the African Oil companies are characterised by a lack of a human resources policy, a legal framework and training institutions according to Bede Nwete, International Petroleum Consultant. He has affirmed that in Africa, only Sonatrach is able to expand its services worldwide, whereas the other African companies have only developed local services. According to national participants, Algeria is ready to share with its African partners its experience gained over a 40-year activity. IAP,(Algerian Institute of Petroleum) as an example, provides operational training of international level in the Upstream, Downstream activities, hydrocarbon transport and oil and gas economy. Thus, IAP injects 2 million dinars per year for operation costs and 1.5 billion dinars for the training of experts in the hydrocarbons sector. Within 40 years, the institute has trained 500 foreigners of which 75% are originating from Africa.

All the participants have called for expanding cooperation, common exploitation and sharing training resources and development of synergies in the field of training and promoting expertise within APPA.

According to some experts, acquiring petroleum expertise requires allotting funds to scientific research and setting up a petroleum African University .

International Union of Gas Industries (IUGI)

The 23rd World Gas Congress Conference took place in Amsterdam.

During the 23rd World Gas Congress, several roundtables have been organised on various themes such as: giant gas fields or regulation of the gas industry. Mr Ali Hached chaired on 8th June 2006 the roundtable on LNG entitled "LNG: Hot and Cool".

Many communications have been presented and debated during the Roundtable and rounded off by the following conclusions:

1- Presently, namely until mid 2007, LNG international trade is expected to be dominated by a flow shifting from East (Asia, Midle East and Africa) to West (Europe, USA), according to Mrs A. Quinn, Vice President of BP Group. The market will be dominated by long-term contracts, but, on the margin, there should be more flexibility for the contracts.

2- For the next 3 or 4 years- according to Maeda T Executive Vice President, Tokyo Gas- the regional pattern of LNG market will be maintained with 4 markets: a US market characterised by a fast growth and very high volatility, a European market growth below the producers expectations, a stable East Asian market and a new Asian market, reliant on the progress of the regasifaction terminal projects (China, India).

Concerning offer, the downward trend of liquefaction costs could be reversed. Indeed, as Mr Dauger- Chief Operating Officer - Gaz De France- put it- LNG technology is a mature technology, therefore, we should expect limits to the scale effects which have been known for the last 20 years and to a decrease of the liquefaction unit costs.

M. Houston-Executive President & Managing Director,BG North America - has gone even further assuming that : " when everyone was thinking that liquefaction unit costs were under control, a Cost Blow Out is possible".

3- Beyond 4 - 5 years, the question to be asked relates to the adequation between the regasifaction capacity and the liquefaction capacity available worldwide.

The projected delays in the construction of liquefaction terminals in Asia (India and China) could initially result in LNG surplus in the Asian / Pacific Basin (A. Hached), then, in a surplus of LNG offer. This simply means shifting from " a seller market" to " a buyer market"

M. Shaerer, President & CEO, Hess LNG, on his part, supports the opposite assumption: a surplus capacity of regasifaction in the Atlantic market is possible and could accentuate the current situation which is propitious to LNG producers

4- On the long term, naturally, remains the question whether gas market will become global and reach the liquidity level of oil market. For Maeda T, this perspective is still far ahead and the bi-polar pattern Pacific Basin/ Atlantic Basin should persist for many years to come.

Gas Outlook

(continued from page2)

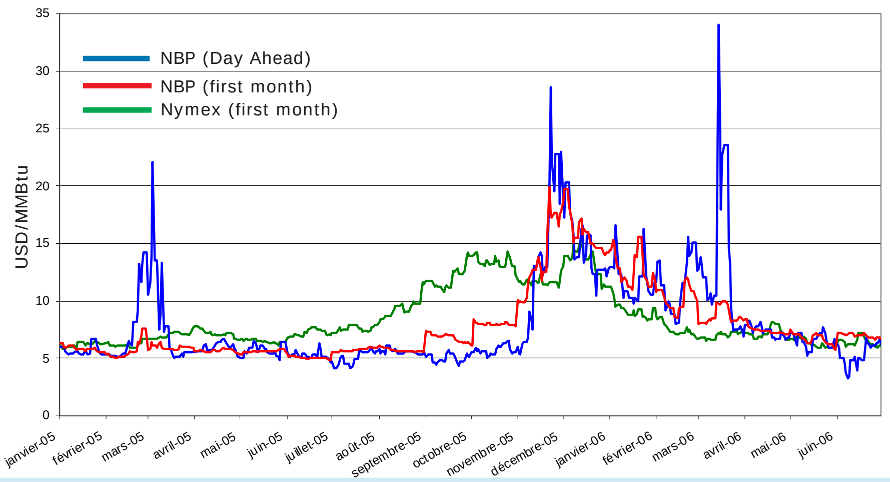
First month prices in Zeebrugge market have registered a slight decline compared to last month. The monthly average reached 38,72 pence/th against 39,04 in the previous month.
Forward prices (winter 2006/2007) have fallen back then stood at 88 pence/th by the end of June (closing prices) for the IPE contract of January 2007.

USA: The US natural gas prices have registered in June 2006 a drop compared to early month prices because of a slowdown of demand and the continued increase of stock levels.

Thus, "first month" prices (Nymex July 2006 contract) shifted from 6.12 \$/MMBtu at the beginning of the month to 5.89 \$ / MMBtu at the closure reaching on 15 and 16 June, record levels of 7.20 \$/MMBtu due to the forecast concerning the arrival of a hurricane in the Gulf of Mexico.

Stock exchange: the exchange rate \$/£ has registered in June 2006 a drop and finished at 1.8494 on 30 June 2006 against 1.8681 early June.

Gas - Evolution of UK and US prices



In Brief

Russia : Sinopec penetrates the Russian upstream through the acquisition of Udmurtneft from TNK-BP.
The Russian Group TNK-BP has announced the transfer of the Udmurtneft oil fields to the Chinese company Sinopec. It is the first significant stake participation of a Chinese company in the Russian oil sector.
Udmurtneft present annual production reaches 115 000 B/D, namely, 8% of TNK-BP production.

Petroplus takeover on EPH.
The European Commission clears acquisition of European Petroleum Holdings (EPH) by Petroplus. EPH owns Amsterdam refinery with a capacity of 115 000 B/D. This merger will lift the total refinery capacity to 355 000 B/D, making Petroplus one of the biggest independent refiner in Europe.

Mexico, Columbia and ten American Sates launch a 360 000 B/D refinery project.
Mexico and Columbia have confirmed the construction of a refinery in Central America in order to reduce oil costs in the region. The refinery to be constructed by 2011, will have a capacity of 360 000 B/D and will be supplied up to 70 % by Mexican heavy crude. This project is part of a Central American energy integration program approved in 2005.

Market News is a monthly Publication of Sonatrach , Marketing Activity
Djenane El Malik - Hydra - Alger -
Contact: Cellule Communication - email : cid.com@sonatrach.dz - Fax : 021 54 86 04 - tel: 021 54 70 00 - 54 80 11 - 54 90 22