sonatrach

Market News

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Marketing Activity Newsletter

Oil Outlook

By Imen-Nidhal Boudinar

Crude prices have reached new records, hitting historic peaks in July, spurred by a vigorous oil demand and geopolitical unrest fuelled by the Iranian and North Korean nuclear case and the Middle East crisis. Several factors have stimulated the upsurge of oil prices, namely:

- The accidental production cuts in several refineries in the USA and Venezuela in a context of high gasoline consumption.
- Iran's determination to pursue its nuclear energy program and threat of ignoring the non proliferation treaty (TNP) further to the submission of the case before the UNO Security Council.
- North Korea launch-trial of 7 missiles aggravating geopolitical tensions.
- The Middle East crisis bogged down by the Israeli military offensive against Lebanon.
- Persisting unrest in Nigeria with new sabotage actions against oil pipelines in the Niger Delta inducing a global production loss of 675 000 B/D. Thus, the Royal-Dutch group has declared force majeure on cargoes of its Nigerian Bonny in July and August.
- The outset of the hurricane season in the USA which could register up to ten hurricanes through November and endanger the US oil installations which were severely affected by hurricanes last summer.
- The announced decrease by nearly 190 000 B/D of BFO daily production in August to 741 000 B/D on account of maintenance operations on North Sea oilrigs.
- IEA forecasts of a sustained increase of demand (1.6 MBD) in 2007 based on the recovery of growth in the USA and in the South East of Asian.
- The prospect of nearly 11.2 % increase of the Chinese economy during the second half whilst analysts projected a 10.5 % progress.

Exports

A turnover of 27 $ billion for the first half of 2006

Exports sales for the first half of 2006 reached record levels of US $ 27.05 BN namely, a 29 % increase compared to the first semester of 2005.

In terms of volumes, exports settled down to a level of 70 million TOE during the first half of 2006, a 3 % drop compared to the first half of 2005 and a 50% achievement of the budget.

The associates' share was US $ 2.9 billion, a 51% increase year over year.

The semester closed with a medium price for Sahara Blend at 65.64 $/ bbl.

Concerning the domestic market, the turnover registered 57.9 billion DA for the first half of 2006 corresponding to an overall volume of 17.5 million TOE (including all products).

This is nearly 6 % higher than 2005 first semester.

Crude oil supplies to the domestic market reached 38.1 billion DA for a volume of 4.4 million TOE, namely an increase of 11 % compared to the first semester of 2005.

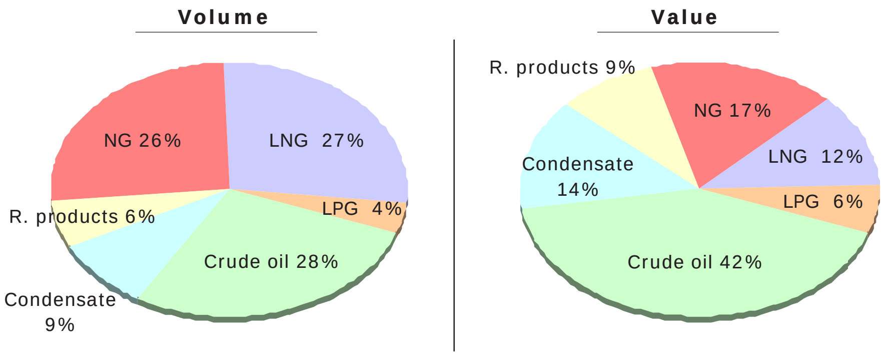
LPG sales reached 740 million TOE, namely, 43 % of the budget.

Natural gas volume supplied to the domestic market, reached 14.3 billion DA, namely 12.7 billion cm (of which 8.7 billion cm supplied to Sonelgaz) against 12.3 billion cm for the first half in 2005.

Marketing balance sheet

	1st sem. 2005	1st sem. 2006	Change (%) 2006/2005
Volumes (TOE 10^6)	89.02	87.53	-2%
- Exports	72.50	70.06	-3%
- Domestic market	16.53	17.47	+6%
Exports turnover (10^9 $US)	21.03	**27.05**	**+29%**
Overall turnover (10^9 DA)	1 588.29	2044.75	+29%
- Exports	1 539.55	1 986.78	+29%
- Domestic market	48.74	57.96	+19%

Exports structure



Oil market during first semester 2006 - Read analysis on page 3

Oil Outlook

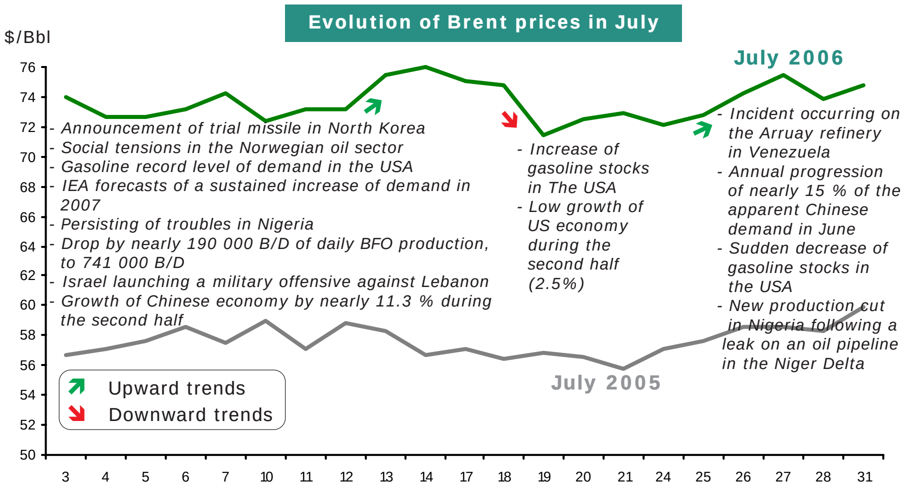
Kuwait: investment of nearly $ G 65.7 by 2020.

The Kuwaiti state-owned company KPC projects a $ G 65.7 capex by 2020 to attain its target of production and take advantage of the sustained growth of world oil demand. Most of the investments will be allocated to the domestic upstream ($G 27) and to the downstream industries ($G 17), the remaining investment will be dedicated to international upstream, international downstream and transport. The company intends to lift its oil production capacity to 3 MBD in 2010, 3.5 MBD by 2015 and 4 MBD by 2020. Achieving these objectives will depend on the joint development of North oil fields with international oil companies. KPC plans also to increase the average local refinery rhythm from a current 940 000 B/D to 1.5 MB/D by 2020.

Venezuela: PDVSA refinery capacity reaching 5.1 MBD in 2012.

The Venezuelan state-owned company PDVSA projects to double synthetic crude production from 637 000 B/D in 2006 to 1.2 MBD in 2012. The company projects also the construction of three new refineries: a unit with a capacity of 400 000 B/D for the process of extra heavy crude and two refineries with a unit capacity of 50 000 B/D to supply oil products to the domestic market. PDVSA refinery capacity will shift from a current 3.3MBD (of which 1.3 MB/D in Venezuela and 2 MB/D abroad) to 5.1 MB/D in 2012.

HIGHLIGHTS



USA: Canada main oil supplier of US market before the Gulf.

Canada has outstripped imports from the whole Gulf (15.7 %) and supplied 17.1 % of US oil imports over the period January-April 2006, in response to the US government willingness to reduce its oil reliance on risk countries such as the Gulf countries or Venezuela. Whereas crude oil imports from Saudi Arabia and Venezuela declined respectively by 8.9 % and 6.2 % over the period January-April 2006, Mexican and Nigerian crude oil exports have progressed by 13.4 % and 8.7 %, respectively over the same period.

India: Vadinar refinery on stream in September.

With the commissioning of the new Vadinar refinery on the West Indian coast, the Indian refiner Essar Oil should receive its first crude oil delivery in August. With a total investment of $ G 2.2 and an initial capacity of 7MT/year, the refinery is expected to operate at full capacity as of March 2007, namely, 10.5 MT/year or 210 000 B/D. Concurrently, during the first stage, the refinery will be mainly supplied with non-sulphur oil and on completion of the installations, it will be fed with a 30 % sulphur crude mixes.

Gas Outlook

By Othmane Irain

North Europe:

In July 2006, gas prices in UK have registered a significant increase mainly driven by a decrease of supplies resulting from the scheduled maintenance on different production sites and natural gas receiving terminals.

Hence, spot «Day Ahead» prices opened at nearly 30 pence/th in July then have registered since the 3rd of July a significant rebound of about 10 pence/th and finished at 40 pence/th for the rest of the month in spite of a weak demand compared to the season average. However, the shutdown of Teeside terminal from 3 to 17 July has considerably reduced supplies inducing price resurgence.
The Market has also been marked by a supply imbalance between North and South UK due to the works carried out by National Grid, the network operator, on certain compressors, a situation which implies the implementation of some provisions of the network code (Terminal Flow Advice).

Weak supplies and the steady price rise have compelled the shippers of the Interconnector to reverse the gas destination flow as of 29 July (import from Zeebrugge to Bacton).

« Day Ahead » spot prices on Zeebrugge market have registered a more moderate increase compared to NBP in so far as the June month average stood at 37 pence/th.

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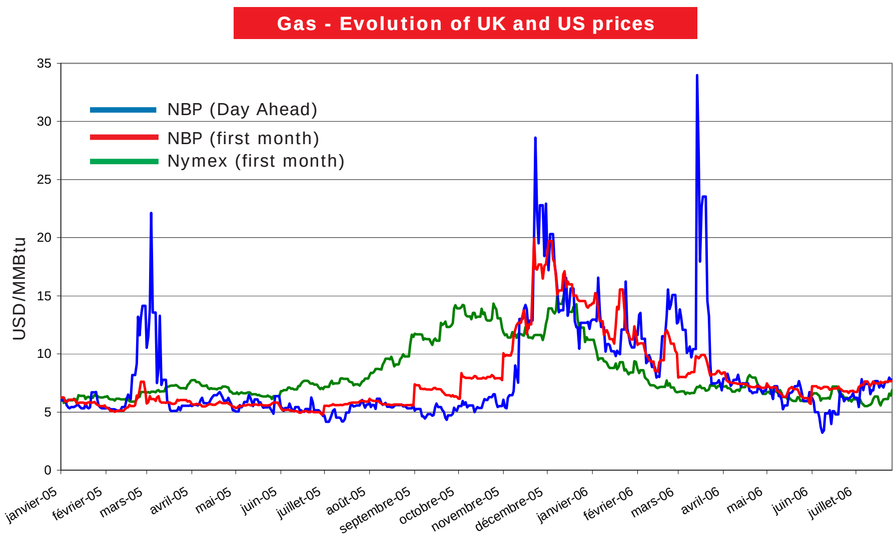


Events

Algeria-Russia cooperation

Sonatrach and the Russian Groups Gazprom and Lukoil sign two Memoranda of understanding

Within the framework of Mr Chakib Khelil's visit to Russia, Sonatrach and the two Russian companies, Gazprom and Lukoil, signed on 4 August two memoranda of understanding.
The signing of the documents took place in Moscow, following discussions between Sonatrach and representatives from both companies.
During his visit, Mr Chakib Khelil, Minister of Energy and Mines has discussed with his Russian counterpart about the present state of bilateral and multilateral cooperation in the field of energy, within the framework of the implementation of the Strategic Partnership Declaration signed between the two Heads of state in April 2001, and the agreements concluded further to President Putin's visit to Algeria on 10 March 2006.
The Memorandum of Understanding signed between Sonatrach and the oil group Lukoil provides for cooperation in the field of oil & gas exploration and development.
It should be noted that the Russian Group Lukoil considers opening a representation in Algeria, which it considers as a *«priority country»* for its development launched through *« a dynamic worldwide expansion»*.

Asian Market

Sonatrach expands its crude oil storage capacity in South Korea

Sonatrach crude oil storage capacity in Keoje, South Korea, has shifted from 2.3 million barrels (since November 2005) to 4 million barrels (since last July).
As a reminder, Sonatrach and the South Korean state-owned company KNOC (Korea National Oil Corporation) signed on 3rd May 2005 a Memorandum of Understanding (MOU) and a Head of Agreement (HoA). Pursuant to the HoA, Sonatrach commits to lease from Knoc a storage capacity for crude oil in South Korea *(Market News- n° 14- May 2005).*
This new storage capacity of 4 million barrels remains effective through a six-month period and could be extended to nearly 5 millions barrels.

Analysis

Oil market during the first half 2006

The first half 2006 has been marked by a highly volatile trend for crude oil, reaching historic levels.

The key factors behind this trend are mainly due to the persisting Iranian nuclear crisis, political unrest in Nigeria and speculations over insufficient gasoline offer on the market at the outset of the Driving season.
The semester average for Brent Dated has reached US $ 67.66, namely, a US $ 18 increase compared to the same period in 2005. As for Sahara Blend, the semester average reached US$ 69.15 against US$ 49.56 registered during the first half 2005, namely, an increase of US $19.56.

The global environment of oil market for the first half 2006 has been marked by:

▪ The upward forecasts of world oil demand for 2006. Indeed, OPEC and IEA have projected an increase of 1.9 % and 2.2 % compared to the previous year. The projections have been reviewed downward in March, by 110 000 b/d and 300 000 B/D respectively.

▪ The revival of violence in Iraq inducing a sustained production level at 2 MBD.

▪ The cold weather wave affecting North of Europe and particularly Russia, has urged the Russian energy sector to reduce gas and oil supplies towards Europe. The increase of regional consumption in Russia has induced a 20 % cut of the supplies towards Hungary and Bosnia, and 25 % for Italy and Austria.

▪ Suspension of Shell's oil exports from Forcados terminal in Nigeria (340 000 B/D) since 19 February and also, the shutdown of EA offshore oil deposit (in the Delta of Niger) producing a volume of 115.000 Bbl/D and 75.000 B/D respectively. On the whole, there is a shortfall of about 620 000 B/D on the oil market.

▪ Venezuela threat to stop its oil imports towards the USA, which amount to 15 % of the USA imports.

▪ Disruption of production in several deposits in Australia following cyclones resulting in a loss of more than 3.5 MB on the market.

▪ Persisting fears over Iranian exports with the unanimous adoption (30/03) of the UN Security Council report urging Iran to stop its uranium enrichment activities.

▪ The significant number of scheduled maintenance operations on refineries in consumption centres. The overall refinery capacity reduction reached nearly 7MB/D during the first quarter 2006.

▪ Deteriorated political and economic relations between the USA and some Latin American countries in particular with the nationalisation of the hydrocarbon sector in Bolivia and Venezuela.

▪ The fears over a shortage of gasoline at the outset of the Driving Season have been aggravated by the shutdown of several refineries due to technical problems, especially, the gasoline production Unit of the largest US refinery (ExxonMobil, Bayton) with a capacity of 563.000 b/d.

▪ The backward trend of stocks in the USA: in its report, the American Department of Energy (DOE) underlined a decrease of 3.4 million barrels of crude stocks through the week to 26 June 2006, whilst analysts projected a cut of only 1.4 million. And also, the sudden reduction of gasoline stocks by one million barrels.

▪ The outset of tropical storms and cyclones in the USA: whereas oil production in the Gulf of Mexico remains lower by 15 % from its level reached before Katrina, the USA have entered tropical storms and cyclones season, the US National hurricane Center has even forecast the possible arrival of tropical storm on US coasts.

Nevertheless, prices have reacted adversely, but did not go below 56 $/bbl, due to:

- Rise of freight rates which reduced arbitrage

- Increase of US crude oil inventories

- Geopolitical tensions in Iran might ease over the time.

IEA

New publication of Medium Term Oil Market Report

Based on the continued current trends, the Report is rather optimistic. Indeed, oil growth demand will be lower than offer until 2010.

Therefore, the production excess capacity of crude oil, which is presently insufficient, should increase during the forthcoming years to reach 4 to 6 MB/D in 2011.

The Report main conclusions can be summarized as follows:

- The organisation production capacity of crude should rise by 3.3 MBD within five years to reach 36.3 MBD in 2011.
- Oil products offer should also increase thanks to the expansion of refinery capacity and bio fuel production. Globally, refinery capacity should progress by 11.7 MBD between 2006 and 2011.
- These developments (increase of production capacity of crude oil and oil products) should contribute to securing oil market stability.
- Non OPEC countries, including bio fuels, should supply 56.7 MBD in 2011, against 51.3 MBD projected for 2006, namely, an average yearly increase of 1.1MBD.

Moreover, IEA stresses the necessity for governments to pursue their efforts to improve energy efficiency in order to curb world oil demand growth.

- If current trends persist, demand would probably rise by 2% / year (namely 1.8 MBD) reaching 93.7 MBD by 2011, whereas it has progressed by only 1.8 % / year over the last ten years.

Gas Outlook

(continued from page2)

Month average for " Day Ahead " prices has been estimated at 40 pence/th, namely, the same as NBP level.
Concerning "first Month" prices (August contract), the latter have registered a slight increase in July, both on NBP and Zeebrugge. The "first Month" price average on both markets was 40 pence/th.
Similarly to the previous month, this is due to uncertainties over supplies in August and the several scheduled maintenance operations.
«Forward» prices (winter 2006/07) have continued to decline then stood by the end of the month at 84 pence/th for IPE January 2007 contract.

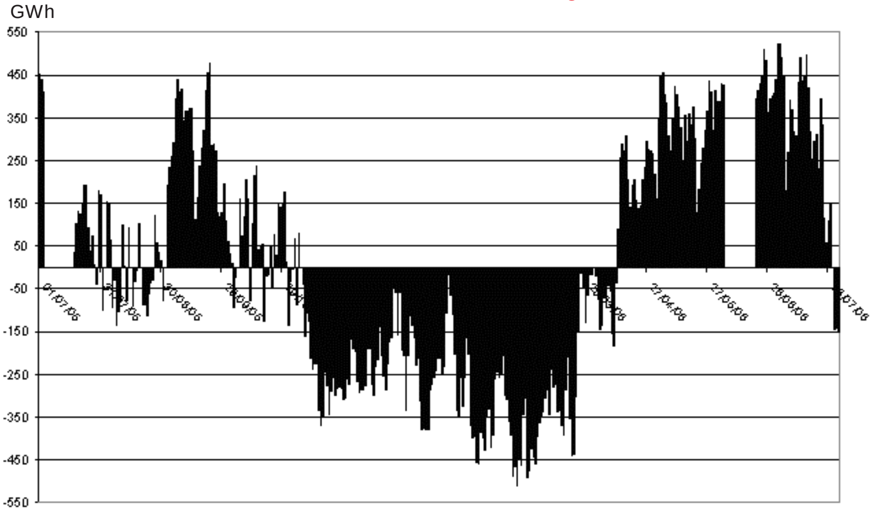
USA

In July 2006, US natural gas prices have registered a steady rise mainly driven by the forecasts of Hurricanes in the Gulf of Mexico.
Thus, " first month " prices (August 2006 contract) shifted from 6.14 $ MMBtu early month to 7.04 $ MMBtu at the closing with a drop to nearly 5.56 $ MMBtu on 18 July.

Stock market

The exchange rate £/$ has registered in July 2006 a rebound and closed at 1.8671 on 31st July 2006 against 1.8442 early month.

Evolution of Interconnector gas flow



In Brief

Mexico : Cantarell field decline

The Mexican oilfield Cantarell, second biggest oilfield in the world behind Ghawar oilfield in Saudi Arabia, is rapidly declining, with possible impacts on the long term, both for the state company Pemex and the USA . Mexico is the second major supplier of crude oil to the USA after Canada. The field's current flow is 7¨ % lower than early year level and 15 % than 2004 level which reached over 2.1 MB/D.

Petroplus : to acquire Ingolstadt refinery from ExxonMobil

The Dutch refiner Petroplus, has announced it intends to takeover from ExxonMobil the Ingolstadt refinery (and the related activities) located South of Germany. Thus, Petroplus refinery capacity should be boosted by nearly 30 %. A recent similar deal in Germany dates back to end February, when ConocoPhillips finalised the takeover of the Wilhelmshaven refinery (275 000 B/D) in North Germany, from Louis Dreyfus Energy Holding for an amount of $ G1.4. The Ingolstadt refinery with a processing capacity of nearly 110 000 B/D is located in a prosperous region of Germany and benefits from a market with a sustained high demand.

Union of Arab Emirates : construction project of a 500 000 B/D refinery

The US group, ConocoPhillips, in association with Abu Dhabi IPIC (International Petroleum Investment Company) have announced the signing of a Memorandum of Agreement related to a feasibility study for the construction of an international dimension scope refinery in the UAE. This unit, which would have a projected capacity of 500 000 B/D to supply the global markets. It will be located in the Foujairah emirate. If the parties decide to proceed with the project, the future unit would be operated within the frame of a joint venture and would be 51 % owned by IPIC and 49 % by ConocoPhillips.

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