

Oil Outlook

By Imen-Nidhal Boudinar

After hitting new record highs of \$ 100/bbl in futures markets, crude oil prices registered a sharp decline in January as a result of falling stock markets and fears over a slackening US economy. Indeed, the bearish tendency in crude oil prices is mainly due to:

- US Government report anticipating a 5 % rise of unemployment rate in December, namely the highest level over 2 years.
- The reopening of Mexico oil export terminal after closing for several days due to bad weather conditions.
- Increase by nearly 0.5 MBD of OPEC production in December.
- Anticipated negative increase of US economy resulting from the real estate credit crisis.

In addition, crude prices hit again the \$ 90/bbl limit by the end of January due to the impact of:

- Announced reflation of US economy reaching \$ 150 billion through tax rebates for households and incentives to enterprise investments.
- American Federal Reserve decision to reduce by 1.25 points to 3 % its intervention rate on 22 and 30 January 2008.
- Upsurge of violence in Nigeria
- Decline of US distillate stocks during the third week in January
- Decline of Iraqi output due to persisting insecurity and obsolescent infrastructures

LPG

Signing of first LPG bulk supply contract with STIR

Sonatrach signed an agreement to supply LPG to the Tunisian Company of Industry and Refining (STIR) on 29 January 2008 in Tunis. The one year agreement relates to a volume of 150 000 MT and will supply Tunisian ports (La Goulette and Gabes) as from February 2008.

As a reminder, in 2002, Sonatrach and its affiliate Naftal concluded with STIR and its distribution affiliate SNDP a supply contract to transport by road 18 000 MT/year of conditioned butane.

Sonatrach-StatoilHydro cooperation

Long-term partnership agreement on US Cove Point regasification terminal

Sonatrach and Statoil concluded on 1st March 2008 at the General Directorate headquarters the signing of two cooperation agreements.



Under the first agreement, Sonatrach will receive access to 2 bln cubic metres per year of regasification capacity at the Cove Point terminal for 15 years from beginning of 2009.

The second agreement, is an Ex ship sale/purchase contract for a volume of 1 bln cubic metres of LNG per year from 2009 to 2014. The sale deal is an extension of a Heads of agreement signed between the two sides in 2003, for partnership on the Cove Point LNG regasification terminal.

The agreement has been signed by Dr Chawki Rahal, Sonatrach Marketing Activity Vice President, and Mr Kare Rosandhaug, StatoilHydro CEO for Algeria in the

presence of Mr Meziane Mohamed, Sonatrach CEO and HE Mr Per Kristian Pedersen, Norwegian Ambassador to Algeria.

The Cove Point LNG regasification terminal where StatoilHydro will increase its capacity by 8 bln cubic metres per year as from 2009, is located in the US North East coast near a high natural gas consuming region which benefits from premium compared to the other US markets.

Apart from expanding the commercial relationship between Sonatrach and StatoilHydro, the agreements will enable the two companies to reinforce their already existing partnership in the Algerian and international upstream.

Statements

M. Mohamed Meziane, Sonatrach CEO :

«The two contracts will give a new dimension to the fruitful and diversified partnership we have achieved over a very short time for the benefit of both companies».

Dr Chawki Mohamed Rahal, Sonatrach Marketing Activity Vice President :

«This agreement allows Sonatrach to reinforce and consolidate its position in the gas market of the Atlantic Basin following the acquisition of capacity at Isle of Grain in the UK and to capture arbitrage opportunities with other markets. It is also a major step forward in Sonatrach internationalisation strategy, in gaining access to the world's largest gas market in a way similar to what has already been achieved in the UK, Spain and Italy».

M. Rune Bjørnson, Executive Vice-President Natural Gas - StatoilHydro :

«The agreement is an important step in securing LNG supplies for the Cove Point expansion project and asserts StatoilHydro position in the USA. Its is also a broadening of the commercial relationship between Sonatrach and StatoilHydro and strengthens StatoilHydro's role in the international LNG market supplementing equity supply from Snøhvit».

HIGHLIGHTS

Worldwide

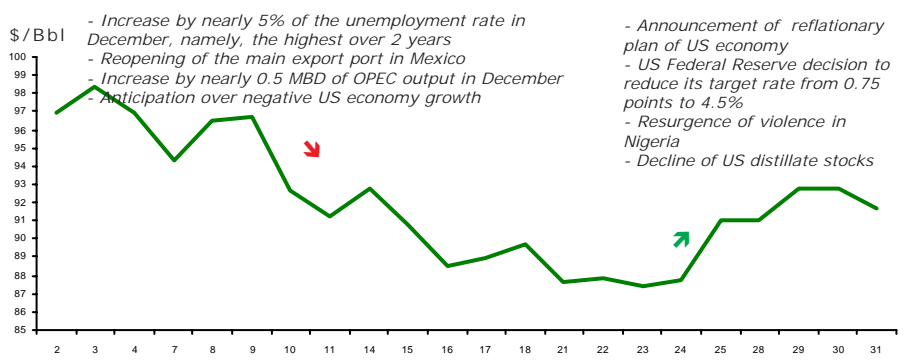
Weak probability over an excess of refining capacity in the mid-term.

According to a recent survey published by Moody's, entitled: «the building boom increases risks for refiners», the significant number of projects announced in world's refining will probably not lead to an excess capacity but margins will risk collapsing. Thus, the average margin for refiners could decrease to \$ 3/b against levels of nearly \$ 9/b over the last four years.

With the expansion projects of the existing installations and the construction of new refineries, world's crude distillates capacity should progress by 16.6 MB per day by the end of next decade.

Indeed, the anticipated addition of global projects implies an increase of 22.8 MB/day of refining capacity but Moody's survey has considered only the scheme plans with fixed period terms. Several cancellations or postponements to undetermined dates have been made on grounds of increasing costs and fears over decreasing margins. Thus, over the last five years, the costs for engineering, equipment and construction have increased by 50 % to 100 %. The more and more stringent environment constraints have spurred the increase in prices and hampered the launching of the projects. For all these reasons, there is little opportunity for world's excess refining capacity unless growth of global demand strongly slows down.

Brent prices - January 2008



Contrarily, the risk over excess investments in refining in the Middle East and Asia is real, as these projects are export- oriented and will be more subject to a decrease of margins than refineries in consuming countries.

Mergers - Acquisitions: The Oil & gas sector, leader in 2007

According to «Oil & Gas Deals» annual survey by Pricewaterhousecoopers (PwC), the total value of merger-acquisition operations in the oil-gas sector has progressed by 0.4 % in 2007 on 2006, to \$ 292.1 billion. According to the Consulting Bureau the credit market crisis has not significantly slowed down the activity over the last half in 2007. Structurally, in 2007, the merger-acquisition activity has continued to attract more NOCs than majors. Oil sector deals have continued to increase spurred by tensions in the drilling market and consolidation among service companies.

The downstream sector has experienced the same trend. The aggregate value of deals in both sectors has more than doubled, with the downstream sector shifting from \$ 25.4 billion in 2006 to \$ 61.7 billion in 2007, the oil sector shifted from \$ 25.4 billion to \$ 67.3 billion. Today, the two sectors represent 23% of the merger-acquisition value in the oil/gas sector against 9 % in 2006.

**Indonesia-Libya
Libya signs oil supply agreement with Indonesia**

Libya has concluded an energy deal to supply Indonesia with crude oil for the next 20 years. Under the terms of the agreement, Libya has committed to supply Indonesia with an initial volume of 50 000 b/d then, 200 000 b/d as from 2013. Today, Libya which is ranked second African producer with 1.7 MBD, and reserves estimated at 42 billion barrels, aims to double its output to 3 Mb/d in 2010.

Gas outlook

By Kamel Tichouchai

North Europe

Natural gas spot prices in the UK increased in January 2008 with an average high of 53.4 pence/th (10.5/MMbtu).

Opening the month at 50.5 pence/th (\$ 10.04/MMbtu), NBP Day Ahead prices successively increased and reached 58 pence/th (\$11.4/MMbtu) on 11 January 2008. Henceforth, prices significantly declined reaching 49 pence/th (\$ 9.5/MMbtu) on 24 January. Prices firmed up at the end of the month and closed at 54 pence/th (\$10.7/MMbtu).

The increase in prices is mainly due to falling temperatures early January resulting in a strong increase of gas demand in the UK. The tension on prices has been spurred by a significant decline of natural gas stocks and important transactions operation of NBP contracts by non commercial actors.

According to National Grid, operator of UK gas transport system, daily

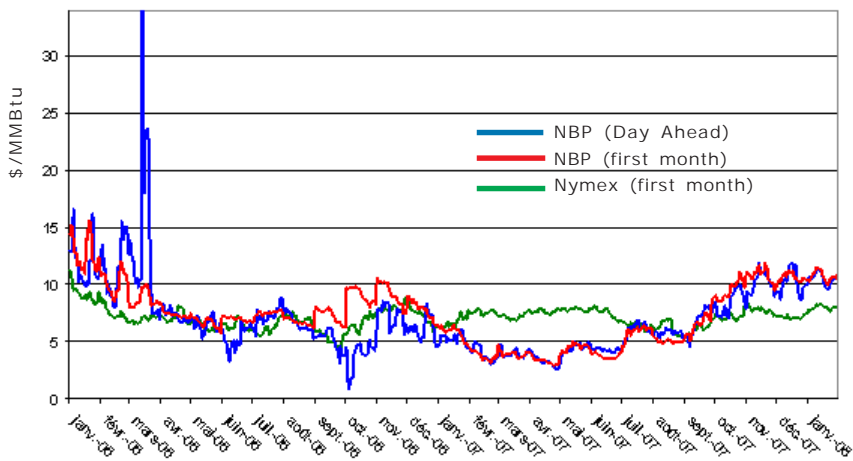
demand has increased by 7.5 Mm3 in January then stood at nearly 354 Mm3/d against 347 Mm3/d in the previous month.

In January 2008, gas demand was up by nearly 19 Mm3 over 2007 demand

registered for the same period. Levels of Day Ahead prices were in average higher by more than 26.7 pence/th (nearly \$ 5.3/MMbtu) compared to those registered last year during the same period (January 2007)

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Gas - Evolution of UK and US prices



EVENTS

African Energy Commission (AFREC) officially launched

«AFREC, an appropriate framework for promoting energy integration and continental cooperation», M. Chakib Khelil, has declared.

Hosted by Algeria with the support of The African Union, the Conference of the Energy Ministers of AU member Countries convened under the theme: "Official launching of the African Commission of AFREC", on 15, 16 and 17 February 2008 at Hotel Aurassi, Algiers.

The conference was attended by nearly 250 participants, including thirty African Energy Ministers and representatives from national and international energy organizations (OPEC, IEA, OPAEP, APPA...), financial institutions (World Bank, African Bank of Development...) and European Union.

Experts from Member Countries met on 15 and 16 February in view of the AU Energy ministers Conference which marks the official launching of the African Energy Commission (AFREC), based in Algiers.

The agenda of the work sessions dealt essentially with a review of the AFREC action plan, budget and financing sources and also the report of the interim executive director and the main documents of the commission.

In addition, energy projects aiming

to promote energy integration of the continent were also in the agenda of the meeting, including development of refinery projects in Africa, gas transport network and power generation such as the Trans Saharan gas pipeline (TSGP) linking Nigeria to Europe via Algeria, the gas line connecting the western African countries and also the Inga Basin power generation project (Congo).

The experts have worked out a report on these projects to be submitted to the African Energy Ministers meeting.

On 17 February 2008, around thirty African Energy Ministers took part in the conference to launch AFREC. The convention for the creation of the commission has been ratified by 23 countries of the African Union.

AFREC financing consists of a budget of \$ 1.1 million for 2008



including \$ 700 000 allocated to AU and the remaining \$ 400 000 are provided by the financial contributions of the AU state members signatories of the convention.

In his opening address, the Energy Minister, Dr. Chakib Khelil stated that *« on the international scale the energy issue is a stake of global geo strategic dimension and Africa with its resource potential and the prospects of its long term needs, is specifically concerned ».*

Energy security and gas market globalization

Mr Mohamed Meziane stresses convergence of interests between producing and consuming countries

The CEO, Mr. Mohamed Meziane took part in the 27th Edition of the CERA Annual Conference, "CERAWEEK 2008", held from 11 to 15 February 2008 in Houston, USA.

The meeting placed under the theme of energy security, *« Quest for energy : Strategies for a new energy Future »* has brought together prominent energy leaders, CEO of major national and international oil and gas companies, representatives from international organizations and regulation bodies, and also economists, financials and other actors of the scientific community.

In his presentation entitled *« The Globalization of the Gas Market : A Single Market or Many? »*, Sonatrach Chairman & CEO stressed the tight link between producing and consuming countries which implies a convergence of interests between the different parties. Considering the importance of the investments realized and required for the development of the LNG chain, financing will be the instrument of arbitrage between the different markets.

Emerging as an energy source of choice, natural gas market dynamics will continue to change because of the increasing use of gas for power generation, the declining domestic production in consuming countries, markets deregulation, environment concerns and reinforced interconnections between LNG markets.



The producer-buyer balance is based on the concept of risk sharing. The producer assumes the increase of the volumes produced and the buyer assumes price risk. Mr Meziane has also underlined the role of technology which made LNG availability possible at competitive prices and opened up outlet opportunities. According to Mr Meziane, the volumes of LNG exchanged will more than double by 2015.

The fast growth of global gas consumption should lead to a global market. However, globalisation faces uncertainties risks and challenges.

Natural gas demand growth is driven by a rapid economic development. In general, the energy industry is faced with a lack of skilled and experimented manpower to support oil and gas projects in particular.

Mr Meziane has recalled that the highly capitalistic nature of LNG industry and the willingness of hedging urged operators towards restructuring and vertical integration, from upstream to downstream or downstream to upstream.

Today, restructuring plans imply a greater coordination and cooperation between the different actors of this industry.

The CEO ran over the Sonatrach Group expertise in diversifying and integrating the international gas downstream through partnership. He quoted as examples the reinforcement of Sonatrach presence through its natural gas marketing affiliates in Spain and Italy, following the successful project of Isle of Grain, UK.

Sonatrach's penetration into the US market is also an attainable goal with the signing of two letters of intent relating to the leasing of regasification capacity on terminal projects in the USA.

Mr Meziane rounded off his speech stressing the importance of cooperation and partnership in marketing to achieve profits through the natural gas chain value.

Gas outlook

(Continued from page 2)

Zeebrugge and NBP Day Ahead prices registered the same trend. Thus, opening the month at nearly 51.7 pence/th, Zeebrugge Day Ahead prices closed at nearly 53.7 pence/th with a negative differential of price average compared to NBP estimated at more than 0.33 pence/th.

In January 2008, The Interconnector operated exclusively in reverse flow direction as from 3rd January 2008 (with a negative differential of Zeebrugge Spot prices compared to NBP, estimated at nearly 0.33 pence/th). The Interconnector has registered only one change of direction over the month (beginning of the month). The average gas flow via the Interconnector was 160 GWh/d against 81 GWh/d in the previous month, namely, nearly a 100 % increase.

NBP First Month forward prices (February 2008 contract) slightly increased compared to the previous month and reached nearly 54.5 pence/th (\$10.7/MMBtu). Opening the month at around 52.3 pence/th, first month prices gained nearly 7 pence and reached 59 pence/th (\$ 11.6/MMBtu) by the middle of the month, then dropped significantly and closed at 52 pence/th on 31st January 2008.

NBP and Zeebrugge First Month prices registered the same trend with a level of 54.4 pence/th (\$10.7/MMBtu) against nearly 52.7 pence/th (\$10.6/MMBtu) a month earlier, namely nearly increasing by 1.7 pence/th (\$0.1/MMBtu).

Forward prices registered a bullish trend for Q2-2008 and Q3-2008 closing at 47.7 pence/th (\$ 9.5/MMBtu) and 46.9 pence/th (\$9.3/MMBtu) against 46.7 pence/th and 45.7 pence/th in the previous month, respectively.

United States

In January 2008, first month prices (February contract) registered an average increase of nearly \$ 0.80/MMBtu compared to the previous month then stood in average at \$ 7.93/MMBtu against 7.17/MMBtu. Thus, after opening the month around \$ 7.39/MMBtu, first month prices climbed and reached \$ 8.35/MMBtu by mid month then decreased and closed at \$ 7.996/MMBtu. The rebound in prices is mainly driven by decreasing temperatures especially in the North East. Concerning spot markets, prices followed the same trend as stock markets with average levels of \$ 12.39/MMBtu for the Transco

Z6 Hub (North East) and \$ 7.93/MMBtu for the Henry Hub (Gulf of Mexico). The highest level was registered on 3rd January when prices on New York reached nearly \$ 36/MMBtu following a demand peak spurred by a strong decline of temperatures.

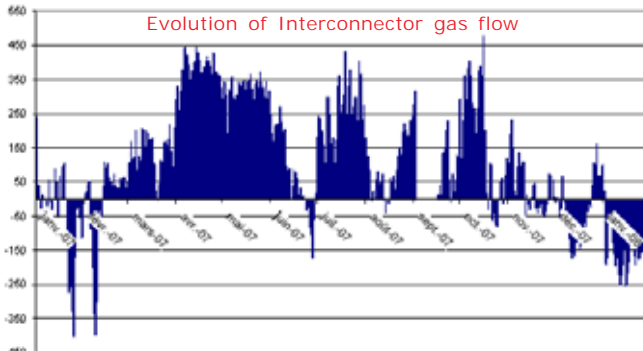
Stock markets

In January the £/\$ parity moved below the 2.00 dollar limit against each sterling pound. Thus, opening the month at 1.986 \$/£, the Sterling pound successively dropped in the first twenty days and reached 1.943 \$/£, then rebounded by the end of the month and closed at 1.987 \$/£ on 31st January 2008.

Co₂ market

Co₂ quota prices for December 2008 contract opened at 22.92 euros per ton then reached a maximum level over the month at 23.70 euros per ton on 8 January 2008. Henceforth, quotation dampened progressively and stood below 20 euros per ton at the end of the month.

Co₂ quota prices for 2009 and 2010 contracts registered the same trend as December 2008 with an average of premiums (compared to 2008 contract) of 0.5 euro/ton and 1.1 euro/ton, respectively. Both contracts (December 2009 and December 2010) closed at 19.57 euros/ton and 20.10 euros/ton on 31st January 2008.



Sonatrach-StatoilHydro partnership

(Continued from page1)

StatoilHydro was created on 1st October 2007 further to the merger of the Group Statoil with the hydrocarbon activities of the Norwegian Norsk Hydro. Its is 62.5% state-owned.

In terms of turnover and share capital market value, StatoilHydro is the most important Scandinavian firm.

- The Norwegian group has been present in Algeria since 2004 and is developing in partnership with Sonatrach the In Salah and In Amenas gas fields and also the Hassi Mouina block.

- In 2007, Sonatrach and StatoilHydro won in partnership, two exploration contracts in the Egyptian offshore.

- StatoilHydro has a 10% stake in the Algerian Institute of Petroleum issued capital (IAP spa). Currently, the Institute is running StatoilHydro, "Safe Behaviour Program", and implementing training and workshop program for the employees on security matters of the workers and installations.

- StatoilHydro is part of the multinational «OSPREC» (Oil Spill Response Company), set up on the initiative of the Algerian Government to fight hydrocarbon marine pollution on the South coast of the Mediterranean and West coast of Africa.

**A premiere in Algeria
Storage in under slopes
LPG-tanks**

Naftal has recently inaugurated in Chlef, a new service station - named « El Bassatine » - comprising under slopes LPG/tanks, a premiere in Algeria. With the new technique, complying with the regulation in force, NAFTAL will « halve security distances ». The new technique is set «to promote development of LPG/fuel installations in urban and semi-urban stations».

General layout

