

Oil Outlook

By Imen-Nidhal Boudinar

In May, in spite of the Saudi initiative to boost oil supplies on the market, the bullish spiral of prices continued its trend in June spurred by escalating geopolitical tensions in the Middle East and a declining output in Nigeria. Indeed, Brent prices hit the record high of \$ 140 per barrel amid intensifying bullish trend due to:

-The recent attacks against the Bonga field deep waters installations operated by Shell, and the pipeline operated by Chevron inducing an additional cut by nearly 340 000 b/d. Nigeria effective production capacity has dropped to less than 1.5 MBD, namely, the lowest level since June 1989.

-The escalating tensions over Iran nuclear program with the spectrum of new sanctions against the country and Israel threats to attack Iran's nuclear installations.

-Jumping oil imports in May (+ 25 % on last year) illustrating the dynamic oil demand in China.

-Investors resorting to the commodities market following the downturn of stock markets amid inflationary prospects and a weak dollar.

In this context, the measures taken by the US Congress to better regulate stock markets could not curb the bullish trend in oil prices.

HIGHLIGHTS

Worldwide

Medium Term Oil Market Report new edition

According to the latest statistics published in the IEA Medium Term Oil Market Report, world oil supply will increase by a further 2.1 MBD on world demand forward to 2013. Thus, global demand for oil products should increase by 1.6% per year between 2008 and 2013, shifting from 86.9 to 94.1 MBD. The increase will be mainly in non-OECD economies whereas consumption in the OECD economies will decline over the same period. The projections are based on actual dollar terms price (2008 basis) of \$ 110/Bbl.

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Shipping

Sonatrach acquires 2nd MedMax type tanker, the «Cheikh Bouamama», on 8 June 2008.

Sonatrach has taken delivery of a new four-tank LNG tanker, with a capacity of 75 000 m³. Named «Cheikh Bouamama», it is a MedMax type (Mediterranean Maximum Size) tanker built by Japan shipyards *Universal Shipbuilding Corporation*.

The LNG tanker is the sister ship of the tanker Cheikh El-Mokrani, delivered on 6 June 2007 by the same shipyard and built under a joint venture MEDITERRANEAN LNG TRANSPORT CORPORATION (MLTC), set up in 2004, between Sonatrach (25 %) and its affiliate HYPROC Shipping Corporation (25 %) and two Japanese partners ITOCHU CORPORATION (25 %) and MITSUI OSK LINES (25 %).

The Cheikh Bouamama is a joint acquisition of Skikda LNG Transport Corporation, a joint venture created between the four partners mentioned earlier.

Cheikh Bouamama is mainly dedicated to LNG transport towards the Mediterranean markets. It will further expand Sonatrach transport capacity and also increase LNG Ex-Ship sales on these markets.



Sonatrach will operate the tanker for 20 years under a charter party with the SLTC joint venture.

In the early decade, this partnership has already been implemented through partnership with Bergesen (Norway) and Itochu /MOL (Japan) for the building of two large capacity LNG tankers: the Berge Arzew (138 000 m³) and Lalla Fatma N'Soumer (145 000 m³) delivered on 29th July 2004 and 29 October 2004, respectively.



THE 19th WORLD PETROLEUM CONGRESS

The global oil industry leaders convened in Madrid from 29th June to 3rd July around the theme: «A World in Transition: «Delivering Energy for Sustainable Growth»

Algeria was present at the event with an important delegation led by HE Dr. Chakib Khelil, Minister of Energy and Mines.

Topical issues, such as securing world supplies, balance between supply/demand, evaluation of inventories, and the role of the refining sector in price volatility have been addressed.

Technical sessions, plenary sessions

and Ministerial sessions have been organised during the Congress.

During a plenary session entitled: «*Deliverability Challenges: Security of supply and demand perspectives*», HE Mr Chakib Khelil, Minister of Energy and Mines, stressed the major contribution of the OPEC member countries especially in resources availability (reserves and supplies).

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HIGHLIGHTS

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IEA projects an annual increase of 1.5 to 2.5 MBD for offer through 2010, then a slowdown of 1 MBD during the next three years.

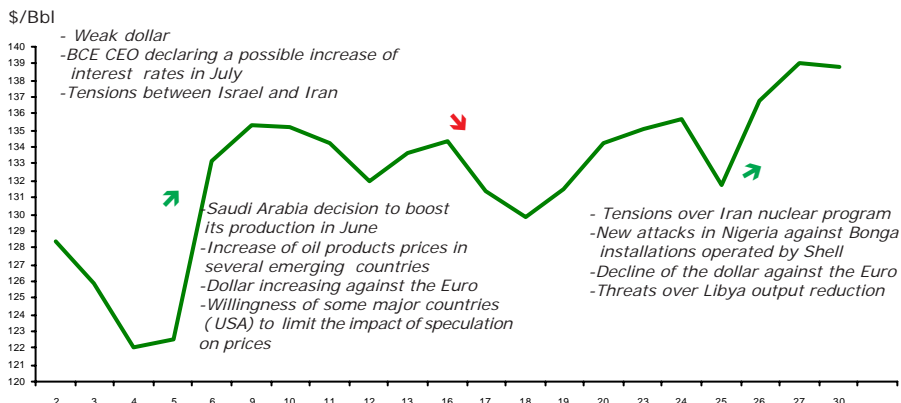
Global capacity should reach 94.5 MBD in 2010 against 90.4 MBD in 2008 and 96.2 MBD in 2013. Non-OPEC production should stand at 51.1 MBD in 2013 against 49.9 MBD in 2008 whereas OPEC output should increase by 2.5 MBD to reach 37.9 MBD. OPEC excess capacity should shift from 2.5 MBD in 2008 to over 4 MBD in 2009 and 2010, but at less than 5 % on world demand.

IEA reviewed downward its last year forecasts for non-OPEC (down by 1.4 MBD) and OPEC supplies (down by 1.3 MBD) due to stalled projects following rising costs.

Refining strongly expanded in the Middle East and North Africa

The fast development of world needs and the increase of oil prices have spurred the refining and petrochemical projects in the Middle East and North Africa. After a long stagnation, refining capacity in the Arab countries has increased by 2.5 % between 2006 and 2007, reaching 7.4 MBD. For the whole countries in the Middle East and North Africa, the investments required for the refining projects, including the refining/petrochemical integrated complexes, are estimated by Arab Petroleum Investments Corporation (Apicorp) at \$ 117 billion during the period 2008-2012. If all the planned projects were achieved, the region refining capacity would increase by 6.1 MBD at 15 MBD by 2015.

Brent prices - April 2008



These projects are the outcome of the willingness to take advantage of the premium on the exports of finished products complying with the most stringent environment regulations, and also the necessity to meet the domestic requirements explosion. The production of middle distillates will be in excess and will boost exports which should shift from 760 000 MBD in 2007 to more than 2 MBD by 2012. As a whole, the major part of the refining projects underway in the world with a total of 238 projects listed in March 2008, of which 74 new refineries and 164 of expansion and/or upgrading projects for the existing units are primarily in the Arab countries, Iran, China and India.

RUSSIA

Tax relief to boost oil output

The Douma (Russia Parliament lower chamber) has definitively approved the reduction as from 1st January 2009, taxes imposed on oil companies in order to boost hydrocarbon production.

The minimum tax free will shift from 9 to \$ 15/Bbl. This reduction is part of a wide set of measures aiming to support crude oil production. The enforcement of all these measures will represent a tax relief of 130 billion roubles (3.5 billion Euros) for oil companies.

Iraq

E&P round in 2009 will boost production by 60 % in 2011-2013

Iraq has announced launching first post war round in March-April 2008/2009. Service contracts will be proposed to 41 pre-selected companies (35 IOC and 6 NOC) for six oil fields and two gas deposits. Through these agreements, Iraq expects an increase by 1.5 MBD of oil production, shifting from a current 2.5 MBD to 4 MBD, and 8 billion m3 per year for gas (780 Mcf/d). With a call for tender deadline in March-April 2009 and awarding of contract in June, the new output is expected by mid or end 2010 with visible impacts only between 2011 and 2013.

Gas Outlook

By Kamel Tichouchai

In June 2008, Natural gas spot prices in the UK increased significantly reaching in average 62 pence/th (\$ 12.2/MMBtu) against 58.2 pence/th (\$ 11.4/MMBtu in the previous month.

Opening the month at nearly 57 pence/th (\$11.3/MMBtu), prices climbed progressively and peaked at 67.5 pence/th on 19 June 2008. Henceforth, prices fluctuated significantly in the 59-66 pence/th limit then closed at 64 pence/th (\$ 12.8/MMBtu) on 30th June 2008.

NBP Day Ahead prices were in average three times higher (40.4 pence/th H» \$ 7.9/MMBtu) over prices registered same time last year (June 2007).

In June 2008, First Month Forward prices at the NBP (July 2008 contract)

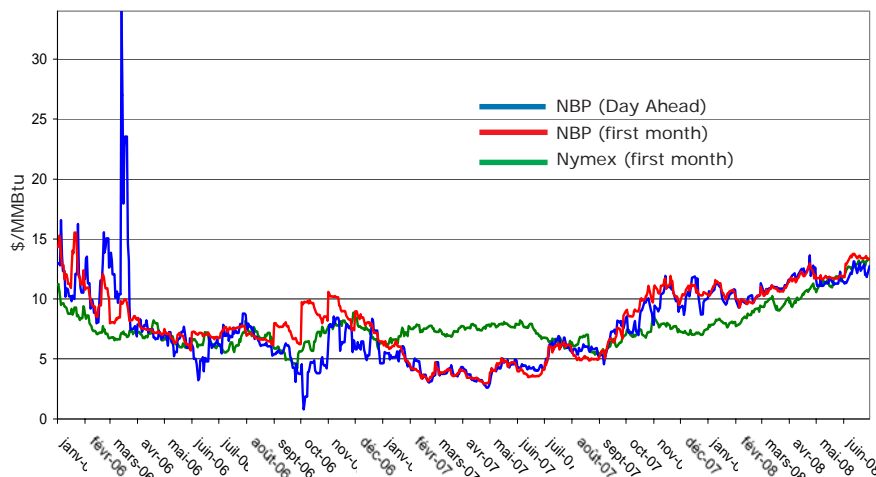
oscillated in a relatively wide range (60-70.7 pence/th)) and closed at 67 pence/th (\$ 13.3 /MMBtu).

NBP Forward prices registered a bullish trend for Q3-2008 and Q4-2008

contracts closing in June at 71.5 pence/th (\$ 14.3 /MMBtu) and 97.5 pence/ th (\$ 19.4/MMBtu), respectively, against 66.8 pence/th (\$ 13.2/MMBtu) and 85.8 pence/th (\$ 17/MMBtu) in the previous month.

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UK and US price evolution



EVENTS

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THE 19th WORLD PETROLEUM CONGRESS

He declared that presently, the organisation affords up to 40 % of world oil production and could contribute to 52 % in 2010.

He recalled the investment and capacity expansion plans aiming to ensure regular and secure supplies to the world economy, and increase crude capacity of production projected for 2012.

He underlined that the major challenge is to properly evaluate the investments required for oil capacity expansion.

The OPEC President has also mentioned the main factors behind the increase in oil prices, namely, the dollar depreciation, the geopolitical tensions and the lack of energy efficiency.

Outlining the investments allocated to the energy sector in Algeria, the Minister of Energy and Mines has enhanced the contribution of Algeria to the OPEC efforts to meet the World increasing energy needs.

During the plenary session entitled *"Natural Gas an Emerging Global Commodity"*, Sonatrach CEO has insisted on the importance of natural gas as energy source. Thus, he recalled that Europe energy strategy is based on a large part of fossil fuels with a large share of natural gas.

Mr Meziane exposed Sonatrach gas exports strategy and reiterated Sonatrach objective to maintain its market shares.

Finally, during a Round Table centred on the theme:

"Securing European Gas Supply", the Vice President - Marketing Activity made a presentation on Sonatrach contribution in securing supply to Europe and outlined the developments of LNG market.



Affiliate

SVH Holding acquires new organ to control, regulate and implement Sonatrach group QHSE policy

The appointment ceremony of the Technical Advisory and Coordination Committee of the Managers in charge of the QSHE function, due to take place on 9 June 2008 in the presence of Mr Chawki Mohamed Rahal-Marketing Activity Vice President, and the President of SVH Holding, has been postponed to a further date due to unexpected circumstances.

The Technical Advisory and Coordination Committee of QSHE Managers is mandated to set up a centre to consider and develop a strategy aiming at implementing actions and investments pertaining to the risks and hazards prevention, health protection, security at work for workers and environment protection required for the exploitation of core businesses of each of SVH Holding affiliates.

It is mainly mandated to:

- Work out the Sonatrach Group QHSE policy
- Ensure the technical and

regulatory compliance with all the requirements of the QHSE enacted by the public authorities

- Ensure improvements of the security conditions of each affiliate assets
- Work out recommendations for the organization of prevention and awareness campaigns on risks and hazards relating to the different segments of activities.

- Cover communication and information campaigns to promote QHSE culture and education in line with the Sonatrach Group charter

- Ensure the updating of exploitation and production processes according to the new technical and regulatory provisions following the enactment of new laws and regulations.

- Work out reportings on any incident or accident that could occur in SVH Holding exploitation perimeter.

- Recommend elaboration of risks and hazards mapping and catalogues specific to core businesses for each SVH Holding

affiliates.

- Promote in case of emergency and exception situations, mutual assistance through HSE means, both human and material.

- Promote QHSE contribution to the improvement of value added to SVH Holding affiliates.

As a reminder, the Technical Advisory and Coordination Committee is chaired by the SVH Holding President and comprises:

- SVH Holding Chief Executive
- HSSE Assistant Coordinator of Marketing Activity Vice President
- SVH Holding Administration, Finance and Legal Director
- SVH Holding Exploitation Director
- QHSE, NAFTAL Central Director
- QHSE, HYPROC.S.C Director
- /HSE, COGIZ. / Development Director
- NEAL Administration and Legal Director
- QHSE, AEC Officer

Gas Outlook

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The increase in NBP Spot and Forward prices has been mainly driven by crude oil record highs and natural gas supplies problems in the UK due to maintenance operations and shutdown of some production fields and gas pipelines in the North Sea.

On Zeebrugge, Day Ahead prices closed the month at 64.8 pence/th (\$ 12.9/MMBtu), namely up by 6 pence/th on last month value.

On Zeebrugge, First Month prices registered in average 68.5 pence/th (\$ 13.5 /MMBtu) against nearly 60.5 pence/th (\$ 12/MMBtu) a month ago.

Natural gas average consumption in the UK dipped by 21 Mm³/ day on the previous month and reached in average, 222 Mm³/day, which is clearly lower than seasonal average, estimated at 260 Mm³/day for the season.

In June 2008, the Interconnector operated exclusively in Forward flow (UK to the Continent). The average gas flow via the Interconnector increased significantly, shifting from 15.75 Mm³/ day in the previous month to 18.2 Mm³/ day.

USA:

In June 2008, first month prices (July 2008 contract) increased by nearly \$ 1.3/MMBtu then stood at \$ 12.6/MMBtu against \$ 11.3/MMBtu

in the previous month. Thus, opening at nearly \$ 11.5/MMBtu, first month prices climbed steadily and reached \$ 13.1/MMBtu at the closing of July 2008 contract.

Prices on spot markets and stock markets registered the same trend with average levels of \$ 13.7/MMBtu for Transco New York Hub (North East) and \$ 12.5/MMBtu for Henry Hub (Gulf of Mexico), namely an increase of \$ 1.7/MMBtu and \$ 1.2/MMBtu, respectively.

The increase in spot and futures prices has been mainly driven by the increase in crude oil prices and gas demand in the sector of air conditioning.

Stock market:

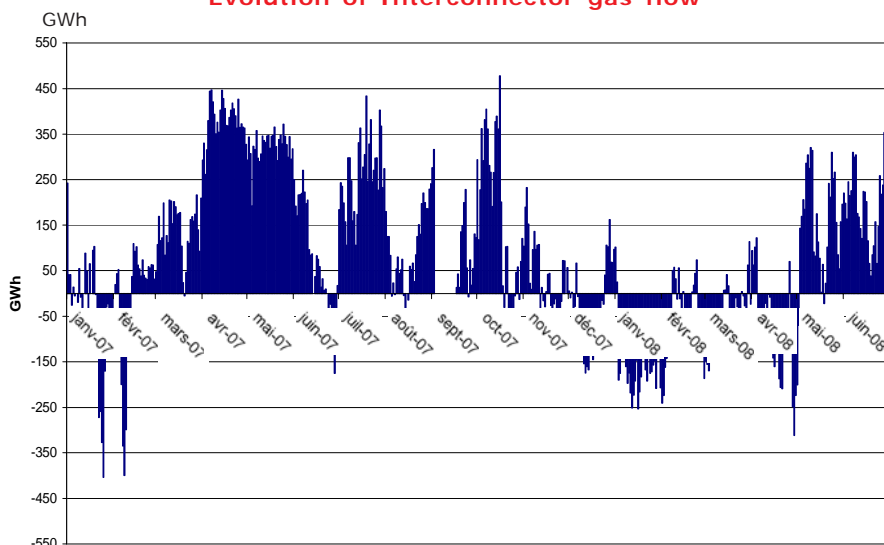
In June 2008, the £/\$ parity reached nearly the limit of 2 dollars for each pound sterling at the end of the month, closing at 1.993 \$/£ against 1.982 \$/£ in last May.

Co₂ market:

Co₂ quota prices for December 2008 contract have been increasing for several months. Contract price shifted from 26.3 Euros/ton on 1st June to 28.8 Euros/ton on 30 June.

Co₂ quota prices for the next two years (December 2009 and 2010) registered the same trend as December 2008. In June, both contracts closed at 29.8 Euros per ton and 30.8 Euros/ton, respectively, against 26.7 Euros/ton and 27.3/ton a month earlier.

Evolution of Interconnector gas flow



In brief

Saudi Arabia

First oil for Khursaniyah

According to the Senior Vice President of Saudi Aramco, Saudi Arabia is to put into production the Khursaniyah field in August, after a delay in the launching of a gas separation unit. A further 500 000 B/D are expected for the market. With the increase of Nuayyim and Shaybah production, Saudi Arabia will add a cumulative flow of 350 000 B/D by the end of the year.

Brazil

Petrobras to build a new unit of gasoline production

Petrobras will build a new unit of gasoline production for its refinery in the Grande Norte state, North East of Brazil and projected production in 2010. A «premium» refinery of 300 000 B/D will also be built in Ceara state, with first phase coming on stream in 2014.

Iran

Iran to absorb its floating stocks

NIOC Senior Executives (National Iranian Oil Company), have announced that Iran exports of crude oil should increase temporarily by 300 000 B/D and reach 2.5 MBD (for a global production of 4 MBD). This increase considered as a relief in a tight market, has become effective as from June. The oil stocks stored on board of 17 VLCC tankers will be absorbed by mid August.

Libya

Petro-Canada to redevelop several deposits

Petro-Canada group has announced signing six exploration-production sharing agreements with the Libyan national company NOC. The contracts are the outcome of the Heads of agreement concluded in December 2007, between the NOC and the Canadian company for the joint investment of up to \$ 7 billion.

The 30 year agreements will contribute to the redevelopment of existing producing fields and also the implementation of an exploration program operated by Petro-Canada. According to Petro-Canada the prospective resources reach 2 billion barrels of crude oil within the framework of the redevelopment program. Over the next seven years, the program is expected to double current production levels to 200 000 B/D.

The Canadian company has operated in Libya for more than 40 years, with shares of 49 % in joint ventures with NOC, including Harouge Oil Operations and Veba Oil Operations. Petro-Canada has also a stake participation in the Ras Lanuf export terminal and several pipelines.