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Market News

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Marketing Activity Newsletter

Oil Outlook

By Amira Remadna

In spite of an increase of 3 $ per barrel during the month, crude oil prices in December registered a downward trend spurred by the combined effect of an abundant supply on the global market and a fall of seasonal demand for crude oil and heating products. Therefore, the prevailing factors influencing the oil outlook in December could be summarized as follows:

- Projections of economic growth and evolution of fundamentals for 2007: Indeed, the economic growth, according to different sources should be less important compared to last year (2006). In addition, in 2007, a significant number of new oil fields should come on stream spurring non OPEC offer to more than 1.7 million barrels/day, whereas, oil world demand should experience a less significant growth, namely, 1.3 million barrels per day.
- Decline of seasonal demand for heating products compared to the expected level. Indeed, across the large oil- consuming countries, demand is declining by 20% mainly due to a warm winter.
- Progressive decline of oil activity by Christmastime and the New Year celebration days.
- Strengthening of the US dollar against the other foreign currencies, particularly the euro.
- Crude oil and distillates stock levels continuing to progress significantly during this period.

However, the price increase registered in comparison to November, mainly results from the projected cut in Brent loading from the North Sea in January. In addition, ENI declaring force majeure on its export field Okono and the disruptions of loading at the Brass River in Nigeria. These factors have also exerted a further pressure on crude prices during this period. It is worth noting, that the adoption by the UN Security Council of a resolution relating for the implementation of sanctions against Iran, has not produced a significant impact on the prices. For the first half of January, no major change has been reported on the market parameters while prices went below $ 51/ barrel, the highest peak ever reached since June 2005. Long market positions inducing concerns of OPEC countries who agreed to convene an emergency meeting prior to their ordinary meeting to be held on 15 March.

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Interview

The Vice President of Marketing Activity gives an interview to Italian economy newspaper «Il Sole-24 ORE»

"IL Sole- 24 Ore", the major Italian economy newspaper published last December 18, an interview by Mr Chawki Mohamed Rahal, Vice President Sonatrach- Marketing Activity ; excerpts.

"ALGERIA, STRATEGIC FOR EUROPE"

By Paolo Migliavacca, Algiers

Chawki Mohamed Rahal, appointed in June 2006 as Vice President to Sonatrach, the Algerian Energy giant, is optimistic about the future of the relations between Algeria and the North Mediterranean region in the sector of energy.

He declared: « we export nearly 24 bcm/year of gas to Italy via the Transmed. In 2008, this capacity will be lifted to 30-30.5 bcm. In addition, since 2001, Algeria has been involved in the promotion of the Galsi project (Gas Algeria, Sardegna, Italia) a pipeline with a capacity of 8 to 10 bcm per year, which will link Algeria to Italy via Sardinia. Projecting the construction of such a gas pipeline, means that we have enough gas, otherwise, we would have neither assumed the development of the project , nor invested so much money.

The new, is that Sonatrach will have an availability of 2 bcm for direct supply to the Italian market through the company Sonatrach Gas Italia , controlled by Sonatrach. The reason to that is simple: we want to be present on your market as we did in Spain and in the UK.

But you will supply more also more gas to Spain with the Medgaz pipeline and also more and more LNG…

Today, we are capable of extracting some more or less than 150 bcm of which 60 bcm are exported.

The surplus of gas is either traded on the domestic market or reinjected in the fields. We have a remarkable production capacity and thanks to our reserves, we are up to cover additional demand.

Over the last few months, Europe has feared the setting up of gas cartel between Sonatrach and Gazprom. How could you reassure the Western countries, and particularly Italy?

I would like to remind that Algeria has been supplying gas to Europe for a very long time. The first gas pipeline linking Algeria to Italy has been operating since 1983, and there has been no problems of supply ever since. What I mean, is that we have not built a 25 year long common history, to finally come to a gas cartel. We have concluded an agreement with Gazprom similar to the ones signed with Statoil, Shell and British Gas. Does signing an agreement with Statoil, a major gas producer and supplier to Europe mean we have created a cartel with Statoil? And also, what would the objective of this gas cartel be: consent on prices? Not at all.

So, you mean that this agreement is for production and not for sales?

The agreement has nothing to do with sales: Gazprom and Sonatrach are major competitors on the European market. Are we are going to supply 2 or 3 bcm of gas to Italy, Of course. ENI has committed for an agreement with Gazprom in order to sell on its own on this market. Then our 2 or 3 bcm will be in competition with Gazprom volumes. Do you think you are still faced with a cartel?

Proven reserves have decreased and their intensive exploitation means they will be depleted in less than 20 years. Why do you want to increase production to 2-billion barrels/ day? Where would you find the necessary crude oil?

Over the last years, production has been increased by 0.8 million added to the current volume of 1.4 million barrels /day.

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Oil Outlook

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HIGHLIGHTS

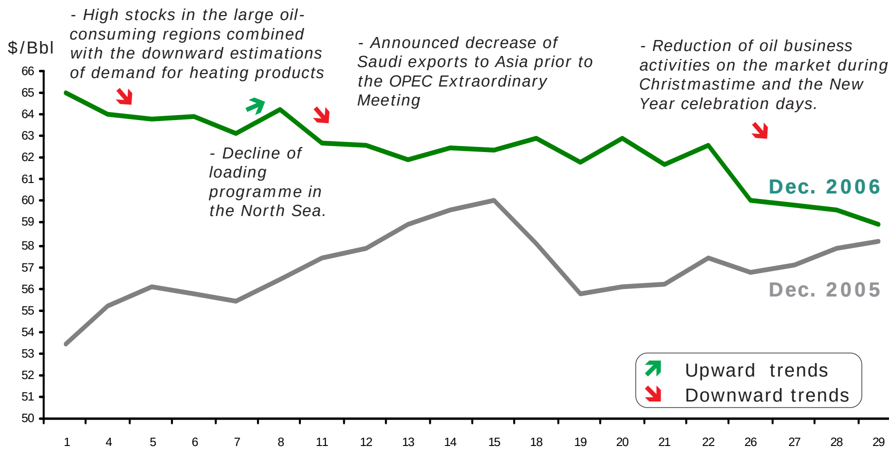
1. ANGOLA BECOMES AN OPEC MEMBER

On 1st January 2007, Angola has officially been admitted as an OPEC member country. With this accession, the Organisation output should be raised to 34 million barrels/day. Angola, second largest African producer after Nigeria, intends to raise its production level to 600 000 barrels/day by the end 2007.
Crude oil proven reserves are estimated at more than 8 billion barrels and oil production reached 1.4 million barrels /day in 2006. Angola crude oil qualities are similar to those produced in Nigeria with a sulphur content varying between 0.4% and 0.12 % in weight and between 28 and 39, API °.

2. CHINA REDUCES REFINED PRODUCTS PRICES

Due to a context marked by a drop of nearly 15 % of crude oil prices, China has recently announced a reduction of refinery ex-works prices for its oil products. From 14 January 2007, gasoline prices will be reduced by $ 28 per ton and jet fuel by $ 11.5 per ton. It is worth recalling that oil products in China are regulated and this reduction is the second over the last five years.

Brent prices in December



3. RUSSIAN EXPORTS TOWARDS CENTRAL EUROPE SUSPENDED

Early 2007, has been marked by the Russian -Belarus conflict further to Belarus decision to impose a 45 $ tax per ton for crude oil flowing through the region. For this purpose, Belarus has started pumping part of the volumes derived from Russia via the Druzhba oil pipeline.
In the meantime, Russia has decided to suspend exports towards the Eastern part of Central Europe.
The oil pipeline with a capacity of 1.8 million barrels/day, ensures the transmission of crude oil to the Baltic Sea, the Black Sea and to the refineries in Germany, Poland, Czech Republic, Slovakia and Hungary.

Gas Market Outlook

By Othmane Irain

North Europe

After a rebound in the previous month, natural gas spot prices in the UK registered a significant downturn in December 2006 mainly due to a weak demand.
Indeed, over the first half in December, Day Ahead prices have shown a downward trend shifting from 32 pence/th at the beginning of the month to nearly 25 pence/th on 13th December, as a result of a weak demand of the residential/tertiary sector, which is below the seasonal demand, in addition to a sustained offer, in particular, through the Langeled and BBL gas pipelines operating at contractual regime.
Price level has shown some signs of improvement as of 20 December further to a significant cold weather. Thus, Day Ahead prices have recovered their normal level going over 40 pence/th. However, after this temporary upturn, prices fell to 24 pence/th at the closing, due to a falling demand, in particular during Christmastime and the New Year.
Furthermore, December has been marked by a significant number of changes of gas flow directions through the Interconnector. Starting the month in reverse flow, and after 9 changes of flow direction, by the end of the month, the Interconnector finished in forward mode.
Thus, the net average daily volume reached nearly, minus 14 GWh against 21 GWh in November and 296 in October (just prior to the starting up of the Langeled and BBL gas pipelines). It is worth noting, that imports from Zeebrugge have considerably declined with the arrival of gas from Norway and the Netherlands.
On Zeebrugge market, Day Ahead prices registered the same trend as those registered on NBP, but with a slight differential of 0.5 pence/th in spite of a net volume transmitted trough the Interconnector, which imports are oriented towards the UK.

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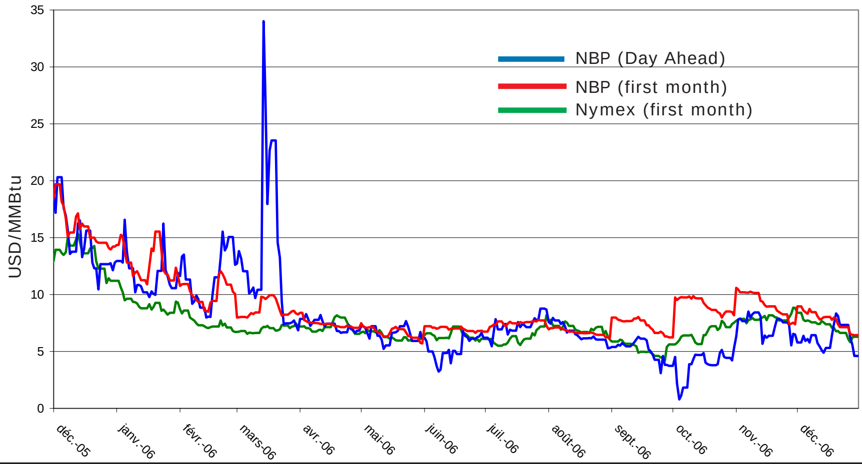
Gas - Evolution of UK and US prices



Events

Interview

The Vice President of Marketing Activity gives an interview to Italian economy newspaper «Il Sole-24 ORE» (Continued from page 1)

This output has been made possible thanks to the discovery of fields made in the past. Today, our reserves are similar to the reserves we had in 1971.
This means that efforts made in research and exploration have been substantial and efficient. The export target is related to research. For instance, in 2006, we have discovered 17 deposits, which is the highest number ever recorded in a year and over Algeria's history. Sonatrach discovered 9, on its own, 8 in association with companies in the upstream sector. The fields will come on stream in the next few years. From the geological point of view, Algeria is under explored and owns a huge potential.

How much do you invest in research ?

Within the next five years, Sonatrach will invest 34 to 35 billion $ US, namely, 7 billion per year in research, of which two-thirds for the upstream activity.

Then, the expectations of discovering more and more gas and oil are great…

Undoubtedly: if we take into account the number of present fields on an average of 10 000 KM square worldwide, the number is 50. In the USA, the number equals 100, in Algeria it represents 8. So, it means we still have enough scope for research.

Your proven gas reserves are much more important, and if the present extraction rhythm is maintained, they could last for a further half a century. Who are the most interesting clients ?

As regards gas exports, the objective is to reach 85 bcm by 2010 compared to the current 60 bn cm. How could we achieve this goal? Of course, through gas pipelines and LNG. Pipelines do not offer flexibility: if we realize a gas pipeline with Italy, it will be devoted to sales on the Italian market. This will be best supply system to Europe.

How about LNG ?

We have been involved in the sector for more than 40 years, and we are ranked among the world's top energy leaders. We intend to increase LNG production: for this, projects are underway of realization in order to increase by 11 bcm equivalent to the volume of 25 billion we exported in 2005. We consider LNG as a means to transport gas in countries inaccessible by gas pipelines, for instance, France, Belgium, Greece, Turkey, Great Britain and the USA. We are discussing with several partners opportunities to increase exports towards the USA and Europe.

China has been the latest entrant on your energy market. What are China interests in Algeria ?

Chinese companies have been very offensive in the upstream bids for tenders, and also, for some projects such as the Adrar upstream-downstream integrated project. There is a mutual interest between our countries: In Algeria, China can purchase energy, and we can find in China an excellent outlet market. We are developing joint companies in order to enable the development of our products in a much-coveted market.

Sonatrach priority goal is to become one of the major world hydrocarbon companies. How will you reach this objective?

Sonatrach wishes to pursue the research and development of new deposits in Algeria. It has adopted a strategy for expanding its activities internationally. The objective is to produce 120 000 barrels/day outside Algeria by 2010-2015. For this purpose, Sonatrach will become a real multinational. It is already present in Peru, where it holds an interest stake in a field gas. It also won a contract in Libya and where it is exploring a perimeter. It is also present in exploration in Niger and Mali. In addition, we have concluded operation agreements with Statoil, Shell, British Gas and Gazprom.

Do you intend to list Sonatrach on Western stocks Exchanges?

I don't think so, but the owner can answer the question: the unique shareholder of Sonatrach is the State.

HSE

An information & study meeting on ISPS Code

The Marketing Activity, in association with the Holding- SVH-HYPROC.S.C- organised on 23rd December 2006, at Arzew, an information & study meeting on ISPS Code (International code for the safety of ships and port facilities).

The General Director of the Merchant Navy-Ministry of Transport, attended the meeting, together with nearly thirty Sonatrach executives and experts from the different structures of the Group, who are directly or indirectly involved in the issue of "maritime safety" of Algeria three petroleum & gas ports and mostly hydrocarbon maritime terminals.
Several themes have been addressed, such as, the introduction to the ISPS Code, system of maritime surveillance of security and safety and also a detailed description of the requirements included in the ISP code.

In his opening speech, delivered by his Assistant/coordinator, The Marketing Activity Vice President/CEO of SVH Holding stressed the impact of security challenges on Sonatrach's ambitious development plan of the hydrocarbon maritime transport.

He insisted on the situations that have emerged with the economic changes and mutations influencing global economy and having negative and harmful effects on the most sensitive and strategic part of the operation sector of the Marketing Activity and SVH holding, through the prejudicial incursion of illegal emigrants in the security areas of our hydrocarbon maritime terminals and on board of our oil & gas tankers.

He insisted on the threats brought about by this plague, not only on the economic and commercial profitability but also on maritime safety and security. He added that among other hazards to be taken into account there is mainly the risk of seeing our vessel refused access to North European and US oil & gas maritime terminals.

He rounded off his speech, calling on the experts present at the meeting, to summon up all their strength to look into the key issue in order to improve our maritime safety and security plan of action against incursion by illegal emigrants.

Gas Market Outlook (continued from page 2)

Opening the month at 45 pence/th, NBP First Month prices (January contract) lost nearly 12 pence/th and finished around 33 pence/th by the end of the month. Compared to the previous month, First Month prices have lost in average 8 pence/th, namely, 40 pence/th against 48 pence/th.

Similarly, First Month prices on Zeebrugge registered an average level of 40 pence/th against 47 pence/th a month earlier, i.e, a drop of 7 pence/th.

Forward prices maintained their downturn trend and finished at 28.31 pence/th at the November closing for the ICE contract - Q2-2007 and 27.97 pence/th for ICE contract of Q3-2007. ICE contract price for Q1--2008 closed at 48.70 pence/th.

USA

In December 2006, natural gas prices in the USA, registered a significant decline compared to the previous month due to a warm weather and as a result, a weak demand.

First Month prices (January 2007 contract) shifted from $ 8.871/MMBtu at the beginning of the month to $ 5.838 /MMBtu at the closure, namely, a decrease of nearly $3/MMBtu. Closing prices have been significantly impacted at the eve of Christmastime.

Stock market

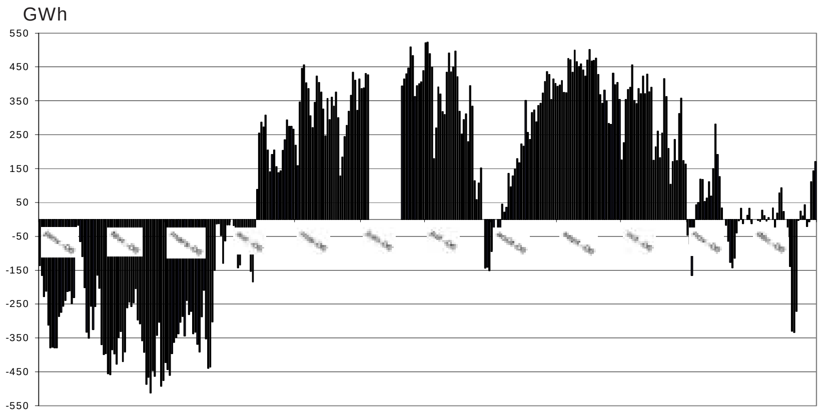
The £/$ parity has shown a bearish trend, finishing at 1.957 on 29 December 2006 against 1.9807 at the beginning of the month.

CO2 market

CO2 allowance prices for the first phase continued their downward trend and finished at 6.54 Euro/EUA for 2007 contract against 8.18 Euro/EUA in the previous month.

The CO2 allowance market for the second phase (2008 contract) stagnated around 18 Euros/EUA and finished at 18.23 Euros/EUA against 18.17 Euros/EUA in the previous month.

Evolution of Interconnector gas flow



In brief

1. BULGARIA AND ROMANIA ACCESSION TO THE EUROPEAN UNION.

On the basis of the recommendations of the European Commission and the assent of the Ministers of Foreign affairs of the EU-25 , Bulgaria and Romania officially became members of the European Union on 1st January 2007.

As both countries are net oil exporter, the European union should lift its oil production by some 120 000 barrels/day. The proven oil reserves are estimated to 956 million barrels and 15 million barrels/d for Romania and Bulgaria, respectively.

2. ROSNEFT INTENDS TO INCREASE CRUDE OIL OUTPUT BY 9% IN 2007.

Rosneft crude oil output is expected to increase this year by nearly 145 000 barrels/ day to reach 1.8 million barrels/day. This increase should be mainly driven by Yuganskneftengaz, Severnaya, Purneftengaz and Sakhalin 1oil fields.

Rosneft has set the objective to produce 2.6 million barrels/day by 2010.

Natural gas production should be raised by 11 % compared to last year and should reach a volume of 14 billion cm /year. Tarasovskoye gas field, located in Western Siberia, should provide the bulk output. Refining capacity is expected to be lifted by a further 12 % compared to the previous year.

Appointments

New Heads of Departments newly appointed to the Marketing Activity

Mr C.M. Rahal, Marketing Activity Vice President -proceeded on 7 January 2007, to the installation of new Heads of Departments within the Marketing Activity structures.
The new Heads of Departments are :

- Miss REMADNA Amira, Head of Department-Project Development

- Mrs BOUDINAR Imane Nidhal, Head of Department-study Evaluation and Completed Affairs

- Mrs HALEM Nabila, Head of Department Quality

- Mr TAIB Smail, Head of Department Project Development.

- Mr OUDJIDA Sofiane, Head of Department - Evaluation study and Completed affairs.

- Mr IGHEZOU Omar, Head of Department LPG sales and operations

- Mr CHERIET Mahmoud, Head of Department Industrial gas sales and operations.

- Mr KRACHE Abdelkhalak, Head of Department fuel Exports.

- Mr REGUIGUI Bennacer, Head of Department Condensate exports.

- Mr IRAIN Othmane, Head of Department Americas LNG Exports.

- Mr AYATI Jughurta, Head of Department Med/Asia LPG exports.

- Mr GOUDJIL Larbi, Head of Department LPG operations.

In his short address, Mr Rahal extended his congratulations to the newly appointed executives and whished them every success in their new duties.

Mr Rahal has indicated on this occasion that the appointments take place as a new plan of actions for Human Resources, and its new system of remuneration, is to be implemented. This new system is based on the model of "roles and contribution", and will enable the retribution of competence and performance of every worker of the company and will undoubtedly, give the opportunity to the emergence of Sonatrach know-how and perenity

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