

Oil Outlook

By Imen-Nidhal Boudinar

Pressure on fundamentals kept oil prices up to the level of \$ 65 bbl in April in spite of the easing of the Iran-UK diplomatic crisis. Firmness in oil prices is due to the following factors:

- Gasoline inventories in the USA declining for eleven consecutive weeks, down by 15% from early February.
- Fears over the Iranian nuclear program after Iran announced launching industrial scale production of enriched uranium.
- IEA forecasting additional trimming of world oil inventories following the net downward trend in the first quarter, the highest decline over the decade.
- Multiple incidents in several US refineries entailing a reduction by nearly 735 000 b/d of the processing capacity amplifying fears over future fuel supplies.
- Persisting cold Weather in the USA with an additional demand of 70 000 b/d for heating fuel in April.
- Leakage on the oil pipeline (Enbridge- 490 000 b/d) linking Canada to the USA minimising the impact of Nigeria restoring Forcados production in June.
- Nigeria presidential elections accentuating risks over supply disruption from the eighth world oil exporter.
- Planned attacks on oil and military installations thwarted by Saudi Arabia

Highlights

Mergers in the energy sector reached nearly \$ 291 billion in 2006

According to a study by Price WaterhouseCoopers, consulting agreements on merger-acquisitions in oil and gas businesses reached \$ 291 billion in 2006, namely a 16% progress compared to 2005. The global market of merger-acquisition has been dominated by gas with a share of 59% out of 9 billion boe of the reserves acquired in 2006, against only 25% in 2003. *(Continued page 2)*

15th World LNG Congress (LNG 15)

Prospects for LNG industry development at the core of the debate

The World LNG Congress held its 15th edition on 24 - 27 April in Barcelona

Organised jointly by the IUGI (International Union of Gas Industry), the GTI, the Institut International du Froid (IIF) and the Spanish Gas Association (Sedigas), the 15th World LNG Congress " LNG15" has attracted leading representatives from the world LNG industry, from the producer to end-user and transport.

The fifth edition focused on several topical issues such as short term, mid-term and long term gas prices, global supply, new markets, and technological breakthroughs in liquefaction and security in shipping. The main conclusions drawn at the end of discussions can be summarized as follows:

- LNG is undeniably a major driver of world gas expansion. According to the experts, LNG demand should attain an annual growth rate of 8 % through 2015.
- Growth of gas demand boosts LNG projects worldwide. However, if regasification capacities outstripped demand, liquefaction capacities could be insufficient. Global LNG market should remain tight through 2012 due to possible delayed construction of export terminals, keeping the market in the present structure as "seller market".



Many speakers have stressed the negative impact of increasing construction costs (EPC) of new gas infrastructures on LNG offer capacity.

- Growth prospects of gas demand in the US market are strong. Call on LNG imports would be necessary to meet gas needs. According the IEA, LNG imports could increase from 16.8 bcm in 2005 to 126 bcm in 2030. However, due to construction delays in several liquefaction projects and rapid growth of global LNG demand, the US LNG market should remain tight through 2012.
- The Pacific Basin/Atlantic Basin bipolar pattern of gas market should continue for several years. According to speakers, LNG market should strain to reach oil market liquidity.

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Sonatrach takes part in LNG 15 work sessions

A delegation headed by the Minister of Energy and Mines, Mr. Chakib Khelil, attended the 15th LNG World Congress. At Sonatrach's stand, panels exhibiting the outstanding development prospects of the Algerian gas industry have received a high attendance of the professionals of the sector. This has also favoured high level exchanges and contacts. The organisation of the next edition of the 16th LNG World Congress in Algeria has also been promoted during the event. Algeria will host the congress in 2010. During the closing ceremony of the work sessions, Algeria has taken over from Spain in order to organise the next Congress. Sonatrach Downstream Activity, Mr. Feghouli – President of the LNG 16 ad hoc Committee – presented a paper on this occasion recalling that Algeria has been a pioneer in LNG industry since the sixties and has highly contributed to the development of the industry. He also underlined that Algeria is highly honoured to host LNG 16 and will spare no efforts to make the event a real success on the example of LNG 4, which Algeria hosted in 1974. After the presentation, a promotional film on Algeria outstanding industrial and tourist sites has been broadcast.

Oil outlook

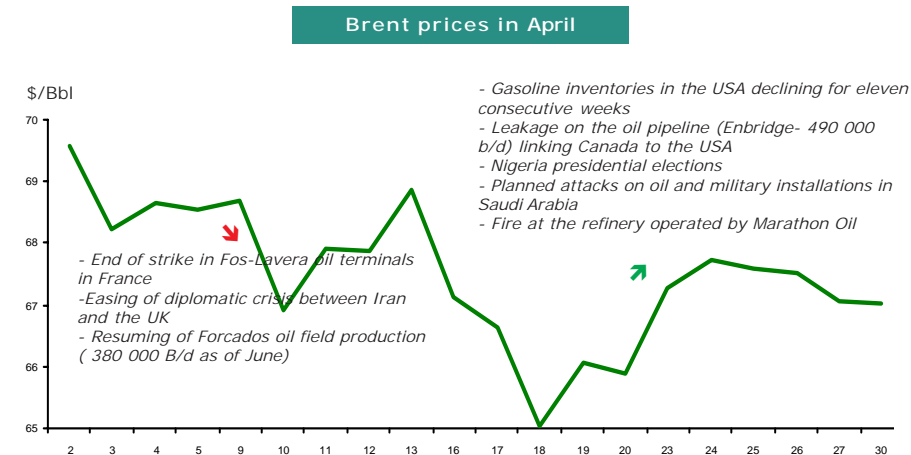
Highlights

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This increase is due to unprecedented companies' cash flows and to oil prices. The average size of F&A agreements has increased in comparison to 2006. According to the consulting firm, presently, the strong energy market should withstand the merger-acquisitions move in 2007. Pressure on reserve replacement and the structural logics of consolidation are set to continue spurring mergers which will be dominated by national companies and investment funds.

New crude contract on ICE

A new crude oil contract, Middle East Sour Crude, or Middle East heavy crude, will be traded on the London Intercontinental Exchange (ICE) as of May 21. Adding a new crude contract to the already existing ones (North Sea Brent in London and light sweet crude in New York) is a world premiere. It meets consumers' needs who call for a better risk management on the global crude market. Middle East Sour Crude contracts could be exchanged for an initial period of three months. Each contract will be in \$ and relates to 1 000 barrels. In addition to that, Platt's is to add Ekofisk crude to oil Brent Benchmark for the price fixing as of 8 June in order to maintain reliability of Brent price assessment. Henceforth, with Ekofisk crude, price fixing will be



based on the supplies of nearly 45 million barrels/month.

Brent is used for spot and long term contracts in order to assess up to 60% of the 85 million barrels of the global production every day.

Oman

Official opening of the second refinery in the sultanate of Oman

The Sultanate of Oman announced the official opening of a second oil refinery in the country (116 000 b/day) and a polypropylene production installation for a global cost of \$ 1.61 billion. Sohar Refinery Company will export 80 % of the refinery's output; the remainder will supply the local market. The polypropylene unit which cost \$ 312 million has been operating since 2006 with a production capacity of 340 000 MT/

year. Oman had only one refinery in Mascate, on stream since 1982 with a production of 85 000 b/day.

NICARAGUA

Construction of refinery with Venezuela planned

Venezuela will launch the works for the construction of a refinery in Nicaragua for a global cost of \$ 2.5 billion. The projected refinery capacity will reach 150 000 b/day over the next three of four years. Venezuela and Nicaragua have initially concluded an agreement for the supply of oil at a price lower than the world market price and also with easy terms. An oil pipeline will open up a route for refined products towards the Pacific Ocean. The refinery should be up to meet domestic oil demand and supply other Central American countries.

Gas outlook

By Othmane Irain

North Europe :

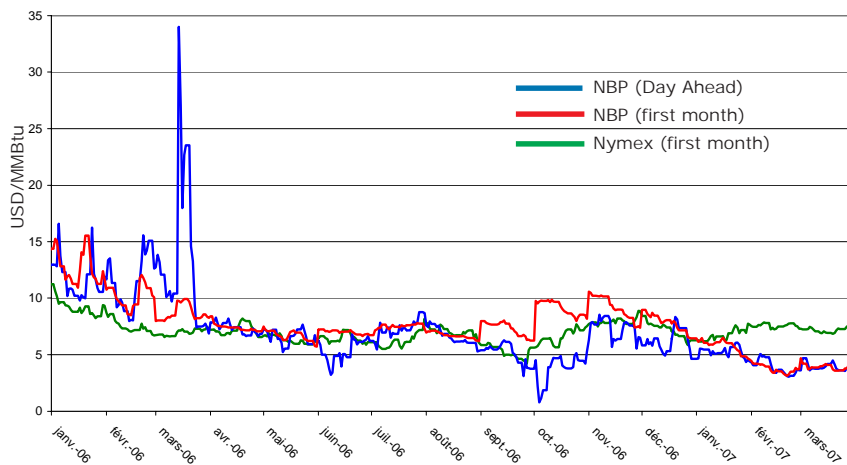
In April 2007, natural gas Spot prices in the UK continued their downturn trend compared to the previous month then stood at 17 pence/th. Thus, starting the month around 22 pence/th, NBP Day Ahead prices have continued declining throughout the month closing at nearly 14 pence/th. This downward movement is due to abundant offer and a falling demand compared to the previous month in spite of a slight drop of temperatures compared to the seasonal average (- 15%). In average, daily demand declined by nearly 45 Mm3 in April and finished at 289 Mm3/day against 335 Mm3/day a month earlier. However, supplies have registered very high levels in spite of a slight decline of imports from Norway

following technical problems on the Troll field and increasing exports towards the Continent (Zeebrugge). In addition, the average demand level in April 2007 compared to the

demand level registered in the same period in 2006 showed an increase of nearly 13 Mm3/day. Nevertheless, Day Ahead prices dropped by nearly 25 pence/th.

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UK and US price evolution



EVENTS

Italian gas market**Meeting with Italian gas companies**

Further to the meeting held in Rome on 26 March 2007 with natural gas and power companies operating in Italy, Sonatrach has launched in May a series of discussions with all the operators who have expressed their interest in cooperation in the Italian market.

For this purpose, a series of bilateral meetings have been organized with companies early May to study the partnership opportunities within the frame of the development of Sonatrach Gas Italia activities.

As a reminder, a delegation lead by HE, Mr Chakib Khelil, Minister of Energy and Mines was in Italy on 26 and 27 March for a work visit.

During the meeting with several companies operating in the market, Sonatrach indicated that the setting up of an affiliate in Italy aimed at making Algerian gas accessible to small and medium sized distributors.

Since 1983 and the coming on stream of the GEM gas pipeline (Enrico Mattei gas line), Algerian gas exports to Italy have been expanded and reached 26 billion cm in 2006, ranking Sonatrach as the first gas supplier to Italy.

This major role should be expanded with the expected extension of the GEM capacity (+ 6.5 Gm3/year) in 2008 and the realisation of the Galsi project (+ 8 Gm3/year) to be commissioned in 2010.

Marketing Activity Senior staff conference**«Towards more convergence of the relationship between Marketing Activity and Trading and shipping affiliates»**

The senior staff of the Marketing Activity will convene their fifth Meeting on 26 May 2007 at the Hotel Aurassi.

The choice of the theme is in line with the one selected this year for the Annual conference (Hassi Messaoud) - June 2007) and relates to "Improving Sonatrach capacities in projects

The particularity of the fifth edition,

is that the work sessions of the conference will be followed by a brainstorming (27-28 May) regrouping the affiliates executives, directors of operational structures and also foreign partners and clients.

Eight presentations and a Round table to be chaired by the Marketing Activity Vice President are in the agenda.

Presentations

- Achieving Marketing Activity strategic objectives: The Contribution of Trading affiliates
- Convergence and synergies in trading Activities: LPG case
- "Global trader program"
- Sonatrach's development in international gas downstream: Marketing Affiliates mission
- Sonatrading underpinning Sonatrach's development in European gas downstream
- Synergies between Sonatrach/Marketing Activity and the Group Affiliates in the Bitumen activities
- Experience of the Shipping working group - Development of hydrocarbon shipping
- Deployment on LPG global market: Affiliates mission and contribution
- Round table chaired by the Marketing Activity Vice President
- Report of General Recorder on Conference proceedings

* A special issue 5th senior staff conference will be published soon

15th World LNG Congress**Prospects for LNG industry development at the core of the debate**

(Continued from page 1)

▪ LNG prices are regionalized and Atlantic Basin prices are more responsive to market forces whereas Pacific Basin prices are highly linked to those of oil. According to certain analysts, long term contracts will still dominate LNG world trade exchanges, however, LNG global market should evolve towards a more flexible pattern where LNG destinations will be more and more defined according to seasonal demands and price arbitrations.

▪ Short term market has expanded throughout the last two years and is likely to continue growing in order to face fluctuating demand. The unused capacities throughout the different links of the LNG value chain especially marked in regasification and shipping, will underpin this growth.

▪ The additional penetration of natural gas on the emerging markets in China and India should be slow because of major hurdles such as: low gas prices, coal dominant position and insufficient gas infrastructures.

▪ Shipping is set to play a more and more increasing role in the forthcoming years considering the growing demand for LNG tankers. 25 % of the natural gas consumed today is transported by sea. 26 LNG tankers were constructed last year, 34 are to be constructed in 2007 and in 2008 there should be 57 more.

Over the last years, the sector has shown much security and technological breakthroughs. However, on the long term, it should be faced with the lack of specialized manpower, as a result of the rapid and sustained growth in the sector.



Official Logo GNL 16 - Algiers 2010

Gas outlook

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On Zeebrugge market, Day Ahead prices registered the same trend as NBP market prices with a positive differential similar to last month level, namely, 0.5 pence/th.

This trend between both markets (NBP and Zeebrugge) has impacted the flows registered on the Interconnector which operated only on forward direction throughout the month with a high level of exports. The net average flow in April was 379 GWh/day against 138 GWh/day a month earlier, namely an increase of 175 %.

This situation is due to some European operators resorting to pipeline gas to rebuild stocks for next winter.

NBP First Month prices (May 2007 contract) lost nearly 5 pence/th since the beginning of the month then settled around 15 pence/th at the closing. In comparison to the previous month, First Month prices declined in average by nearly 3.5 pence/th. Similarly, First Month prices on Zeebrugge market registered in average a level of 16 pence/th against nearly 20 pence/th in the previous month, i.e a drop of nearly 4 pence/th. Forward prices showed a downward trend and finished at 37.69 pence/th for Q4 -2007 ICE contract and 48.68 pence/th for Q1- 2008 ICE contract. Spot price decline has clearly impacted forward prices.

USA :

In April 2007, natural gas prices in the USA restarted their upward trend mainly driven by the increasing

demand spurred by a significant drop of temperatures compared to the seasonal average. Forecasts of a highly Hurricane season are also behind sustained prices. Opening the month at nearly \$ 7.70 /MMBtu, First Month prices (May 2007 contract) reached \$ 7.92 /MMBtu then dropped to finish at \$ 7.51 /MMBtu by the end of the month. On spot markets, gas prices remained at high levels especially in the North East region where the average stood at \$ 8.57/ MMBtu on New York Hub against \$ 7.60/MMBtu on the Henry Hub.

Stock market:

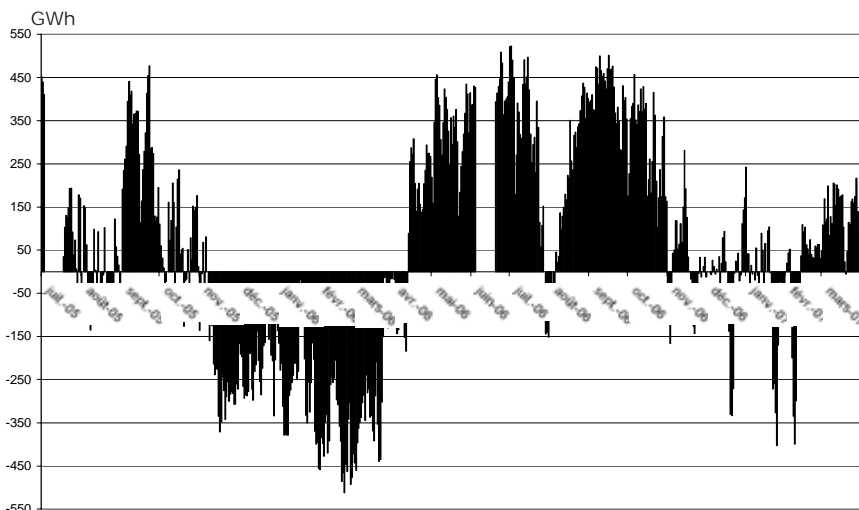
£/ \$ parity has somehow increased in comparison to the beginning of the month to settle at 1.9997 at the closure against 1.9777 at the opening. The highlight in April concerns the GBP overstepping the symbolic limit of 2.00 against the dollar.

CO2 market:

CO2 quota prices for the first phase (2007 contract) have again been traded below 1 euro/EUA and finished at 0.53 euros/EUA. This decline is due to the preliminary results published by the European Commission who confirm that CO2 emissions in the first phase would be lower than the allowances.

Paradoxically, quota prices for the second phase (2008 and 2009 contracts) registered a noticeable increase and closed at 19.01 and 19.54 euros/EUA, respectively. This increase is resulting from fears over strong hot weather pushing power generators to sell electricity and purchase fuels and CO2 allowances.

Evolution of natural gas flow on the Interconnector



In brief

Saudi Arabia

First oil for Manifa oil field expected in 2011

Saudi Aramco is developing the Manifa offshore oil field in order to produce 900 000 b/d of Arabian Heavy crude by the second semester of 2011. The oilfield should also produce 65 000 b/d of condensate and 2.5 Mm3/d of gas. With an investment of \$ 10 billion, Manifa is the largest offshore project ever undertaken by Saudi Aramco.

Canada

Statoil acquires Canada North American Oil Sands for 2 bln US \$

The Norwegian group Statoil has announced acquiring Canada North American Oil Sands Corporation (NAOSC), a strategic operation that will enable Statoil to capture a share in the sand oils in Western Canada. Today, NAOSC which was set up in 2001, commands non conventional recoverable oil reserves of some 2.2 Gbls. The first stage of the commercial project is planned for 2011 and the group projects a production of 100 000 b/day during the next decade and 200 000 b/day by the end of the decade. The deal should be finalized before the second half in 2007.

Union of Arab Emirates

Upper Zarkum field output of 425 000 b/d as of 2010

According to MIDDLE EAST ECONOMIC DIGEST (MEED), the UAE plan to raise by a further 100 000 bbl/d lower Zakum current capacity by 2010.

This expansion plan is part of UAE willingness to boost its crude and condensate production to nearly 4 Mb/d against some 3 Mb/d in 2006. Currently, the field output rhythm amounts to 280 000 b/d and should be lifted to 325 000 b/d next year. The oilfield is operated by Abu Dhabi Marine Operating Company (ADMAOPCO), affiliate of the state-owned company ADNOC with a stake participation of more than 60 % with BP (14.2 %), Total (13.1 %) and Japan Oil Development (12%).