Market News

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Marketing Activity Newsletter

Oil Outlook

By Imen-Nidhal Boudinar

After a marked downturn in oil prices early May due to the unexpected rebound of US refinery production, oil market was back on the uptrend because of the following factors:

- Escalating attacks against oil installation in the Niger Delta cutting by nearly 800 000 b/d (namely 36% of the global output) the Nigerian production.
- US weather forecasts of intensifying hurricane activity in the Gulf of Mexico.
- Weak progress of US gasoline inventories which remain well below last year levels and the last five years average.
- The Iranian Atomic Agency announcing the construction of its first atomic plant showing Iran determination to pursue its nuclear program in spite of the Security Council requirements increasing further possible sanctions against the country.
- A growing world demand spurred by Asia.
- US gasoline prices hitting new historic highs due low stock levels and frequent incidents causing interruptions

Highlights

Venezuela

Venezuela takes over control of Orinoco extra-heavy oil

Venezuela has officially nationalised its Orinoco extra heavy oil fields on 1st May 2007.
State-owned company PDVSA will hold a 60 % stake.

Most of the foreign companies operating in Venezuela should negotiate the terms of their contracts by the end of June. Except ConocoPhillips which has massively invested in Orinoco oil, BP, ExxonMobil, Chevron, Total and Statoil have signed memoranda of understanding with Venezuela.

Moreover, PDVSA is seeking new partners, in particular Brazilian, Chinese and Indian state-owned companies.

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Shipping

Sonatrach reinforces its fleet with a new LNG tanker, Cheikh El Mokrani.

On 6 June 2007, Sonatrach took delivery of a MedMax LNG carrier, named Cheikh El Mokrani, in the Japanese city of Tsu.

The ceremony of the delivery of the new tanker took place in presence of Mr. Mohamed Meziane Sonatrach CEO, HE the Ambassador of Algeria to Japan, Hyproc Shipping Company Chief Executive officer and senior executives from two Japanese companies Mitsui OSK Lines and Itochu.
The Tanker has been acquired within the frame of a JV denominated "Mediterranean LNG Transport Co. (MLTC)"-between:

- The Japanese companies, ITOCHU (25%), Mitsui O.S.K.Lines (25%)

- The Algerian companies, Sonatrach (25%) and its affiliate Hyproc Shipping Company (25%).

The latter will manage the vessel as regards nautical, technical and commercial matters.
With a capacity of 74 365 cm and 220 m length, the LNG carrier has been constructed by Universal Shipbuilding Corporation TSU Shipyard in Japan.

In addition to Medmax I (Mediterranean Maximum Size), another tanker with the same capacity, Medmax II, named "Cheikh Bouamama" will be delivered next year.
The new acquisitions will be a strategic asset for Sonatrach LNG marketing.
With their optimal size, the vessels will be able to berth at any gas terminal in the world, especially at Mediterranean and Europeans terminals.

Technical characteristics of the LNG tanker

Signing of construction contract	31st July 2004
Keel laying	February 2006
Dropping	April 2006
Length	220.00 m
Width	35,00 m
Keel depth	22,55 m
Draft	9,75 m
Tonnage	53500 T
Dead weight capacity	37760 t / 44250 t
Crew	28

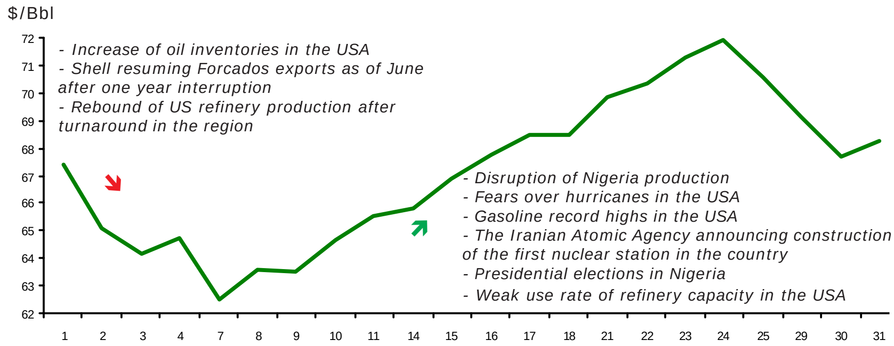
Oil outlook

Highlights

(Continued from page 1)

Petrobras, the Brazilian company signed in January 2007 an agreement for the production of 400 000 b/d on the Carabobo permit as of 2011, for a global investment of $ 1 billion, whereas PDVSA will construct a refinery with a capacity of 200 000 b/d in Brazil for nearly $ 2.8 billion.
In March, CNPC agreed with Venezuela the joint production of 400 000 b/d in the Orinoco.
PDVSA should invest in three refineries in China. The current capacity of the four extra heavy oil Orinoco fields represents 600 000 b/d.

Brent prices in May



Tunisia

Qatar Petroleum Company selected to build and operate a refinery

The Qatari Group (QP) has won the international invitation to tender for the construction and operation of the first private refinery in Tunisia.
The unit which cost $ 2 billion and whose minimum capacity will reach 120 000 b/d is located on the Skhira oil terminal. It is expected to come on stream in 2011.
The unit will supply the local and foreign markets.
The Skhira port which receives 120 000 MT capacity oil tankers is already equipped with installations for the storage of refined products and an oil pipeline.
Currently, Tunisia owns only one refinery built in 1961 in Bizerte, covering only half of the domestic needs.

Saudi Arabia

World scale petrochemical project between Aramco and Dow Chemical

The US chemical group and the Saudi state-owned company Aramco have announced launching a joint venture project to build in Saudi Arabia one of the largest petrochemical complexes in the world (production capacity of 7 MT/year).

The complex comprises an ethylene cracker and a polyethylene unit to be integrated to a refinery and a natural gas processing plant operated by Aramco at Tanura.
The whole installation will be owned by the Saudi company.

The new complex will be one of the largest plastic and chemicals production facilities in the world and will be ideally positioned to supply the major global markets.

Kuwait

A production of 4 MB/D in 2012

Current Kuwait production of 2.4 MB/D will reach its production target of 4 MB/D in 2012 instead of 2020 as previously projected.
This optimistic prospect is motivated by the recent discoveries announced last month in the Al Dhabi region, north of the country.
Kuwait is under way of finalising a development project of several oil fields north of the Emirates.
Furthermore, projects relating to storage located outside the country are also to be finalised considering the negotiations with South Korea aiming at increasing from 2 to 4 Mbls the volumes of Kuwait oil stored in the country.

However, there remain uncertainties as to the actual level of reserves and the determination of proven and non proven reserves.

Gas outlook

By Othmane Irain

North Europe

In May 2007, gas spot prices in the UK rose sharply then finished above 20 pence/th.

Starting the month around 15 pence/th, NBP Day Ahead prices continued their upward path through the month then closed at nearly 25 pence/th.

This surge in prices is mainly driven by a growing demand compared to the seasonal average coupled with a significant decrease of supplies from Norway and the Netherlands.

In average, daily demand fell by nearly 41 Mm3 in May to settle at 248 Mm3/d against 289 Mm3/d a month earlier.

In addition, May 2007 average demand level was up by nearly 20 Mm3/d compared to May 2006 demand.
However, Day Ahead prices are in average lower by 10 pence/th compared to prices registered during the same period last year.

On Zeebrugge market, Day Ahead prices experienced the same trend as NBP prices with a positive differential equivalent to the last 2 months level, namely 0.5 pence/th.

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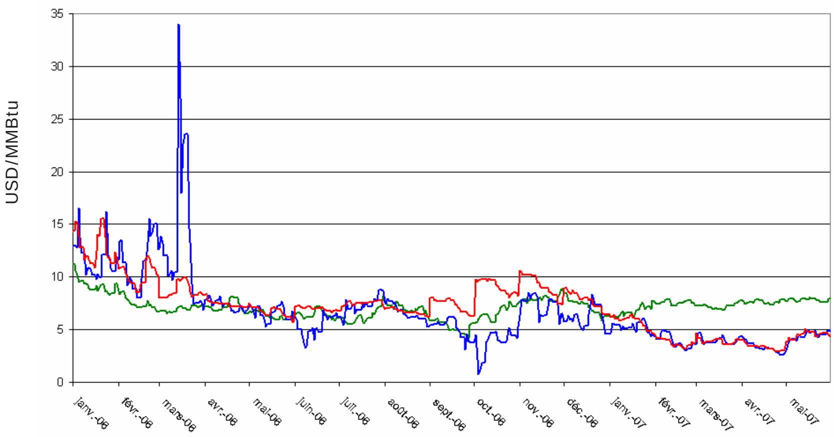
UK and US price evolution



EVENTS

Energy cooperation: Algeria-Brazil

Signing of Master Agreement and Mou with Petrobras

Sonatrach and Petrobras signed on 26 May 2007, in attendance of Mr. Chakib Khelil Minister of Energy and Mines and Mr. Mohamed Meziane CEO, a Master Agreement for the spot sale/purchase of LNG to the Brazilian market.
The Agreement will enable Sonatrach to diversify its LNG sales and to seize all the market opportunities especially in the Atlantic Basin.
Thus, the agreement will contribute to reinforce the partnership between the two companies and develop the business activities in LNG sector.
As a reminder, Petrobras plans to import LNG as of 2008 through two floating regasification terminal projects (FSRU) to be located in Guanabara Bay (Rio de Janeiro) and Pecem (Ceara), mainly for power generation.

In addition, the Master Agreement was concluded along with the signing of a Mou relating to onshore and offshore liquid and gaseous hydrocarbon research & development, refining and petrochemicals and also training.

Asian Market

Spot LNG cargo to China

After Japan, South Korea and Taiwan, Algeria is to deliver its first LNG cargo to China, a growing gas market where about ten projects of LNG regasification terminals have been planned, especially on the East and South of the Coast.
For the time being, only one terminal has started operating since last September.
Thus, within the frame of a spot sale/purchase deal, Sonatrach will supply LNG on behalf of CNOOC, to Guangdong Dapeng terminal as of 25 June 2007.

Referential of Engineering and Projects Management"

Technical workshops of TEC Central Directorate in Oran

The four workshops aimed at defining the company's expectations in matters such as procedures, standards, workbooks, guides and engineering and projects management tools, that Sonatrach, as a project manager, should acquire to ensure control over its future projects considering the Group intention to invest $ 45 billion over the five coming years.

TEC Central Director opened the work sessions and recalled in her address the main guidelines relating to the working out of the project of the Group referentials of engineering and management; she underlined the necessity to move to adopt the same strategy for all the projects and stressed the importance of consistency between all Sonatrach structures.

Four workshops were conducted by an Ad-Hoc Committee regrouping representatives from Sonatrach structures; the debates were centred on the management process to be implemented in order to achieve the projects and the referentials of engineering and management Sonatrach has to adopt for its future projects. Nearly fifty participants attended the workshops.

The four workshops dealt with the following topics:

Workshop 1: "Process of Decision taking on a project life cycle"
The works of the first workshop addressed essentially decision taking during the life cycle of a project, from the initial step to operation (maturation, definition, execution and operation) for an operational and optimal planning of a project.

Workshop 2 :" Referential engineering : general specifications and procedures".
The second workshop aimed at identifying the engineering procedures: the general referential and specifications of the company, procurement, construction, commissioning and the specificities of the branches.

Workshop 3 : " Referential of Project Management "
The workshop dealt with the process of preparing and conducting a project and the chain of procedures to implement in the future management of Sonatrach projects, from the project manager point of view.

Workshop 4: "Engineering policies to be implemented by Sonatrach"
The fourth workshop was devoted to determining the engineering strategy that the company has to implement as a project manager: the engineering part Sonatrach will achieve internally on its own and the part to be sub-contracted, the engineering types and realisation modes to be selected.

Mrs.Talantikit rounded off the work sessions reaffirming that the setting up of referentials of engineering and projects management is a necessity for the whole Group, and the debates and viewpoints that have prevailed during the meeting clearly point up the need for the management's commitment to finalize the first step and undertake new projects on sound bases.
Finally, according to the Central Director, the meeting has been a forum for exchange of expertise and ideas, opening up further opportunities aiming at reinforcing the organizational culture.

However, the Ad-Hoc committee has come up with the following recommendations:

1. Defining the strategy and policy to be implemented by the Group in the matter of Engineering, Management of investment projects.
2. Monitoring the implementation of the strategy and policies within all Sonatrach structures.
3. Drawing up the referential in both languages, French and English in order to avoid any ambiguity.
4. Developing expertise in Project Engineering and Management within the company.

Conjoncture gazière *(Suite de la page 2)*

Price differential between NBP and Zeebrugge markets has impacted on flows registered on the Interconnector which operated only in Forward direction through the month with export levels slightly lower than last month.
The net average flow registered over May was 324 GWh/d against 379 GWh/d in the previous month, i.e, down by 15 %.

NBP First Month prices (June 2007 contract) showed a rise lower than Day Ahead prices but with an average difference of 6 pence/th compared to the previous month. Starting the month around 19 pence/th, First Month prices increased by nearly 3 pence/th then closed at 22 pence/th.

Similarly, Zeebrugge First Month prices reached in average 23 pence/th against nearly 16 pence/th a month earlier, namely 7 pence/th higher.

Forward prices registered a bullish trend and finished at 39.66 pence/th for Q-4-2007 ICE contract and 50.38 pence/th for Q-1-2008 - ICE contract. Rising spot price drove Forward prices upward.

USA :

In May 2007, natural gas prices in the USA continued their upward trend mainly driven by an increasing demand boosted by stocks building with the perspective of an active hurricane season.

Opening the month around $ 7.72 /MMBtu, First Month prices (June 2007 contract) get over the $ 8/MMBtu level then slightly declined to close at $ 7.94 /MMBtu by the end of the month.
On spot markets, gas prices registered different trends depending on the region.
Indeed, due to mild temperatures, spot prices in the North Eastern region slightly declined then settled at nearly $ 8.26/MMBtu, whereas in the Gulf of Mexico, prices slightly climbed to $ 7.63 /MMBtu in the Henry Hub.

Stock market:

£/$ parity fell slightly compared to the beginning of the month then stood at 1.9782 at the closing against 1.9992 at the opening.

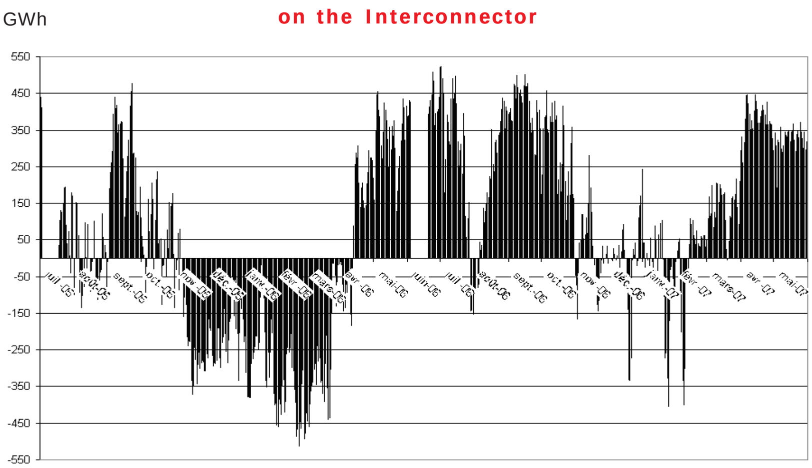
CO2 market:

CO_2 quota prices for the first phase (2007 contract) in May 2007 were traded below 1 Euro/EUA and closed at 0.29 Euros/EUA.
As mentioned earlier, the decline is due to preliminary results published by the European Commission confirming that CO_2 emissions for the first phase would be lower than the allowances.

Quota prices for the second phase (2008 and 2009 contracts) continued their bullish trend and finished at 23 and 23.38 Euros/EUA, respectively, against 19.01 and 19.54 euros/EUA during the previous month.

This increase is due to some power distributors making arbitrage between electricity sales and fuel/CO_2 permits purchase, on account of fears over high weather temperatures.

Evolution of natural gas flow on the Interconnector



In brief

UAE

Swiss Vitol acquires Fujairah refinery

Fujairah government, one of the UAE emirates, has sold most of the stakes of its refinery to the Swiss oil trading company, Vitol.
The 82 000 b/d refinery has been mothballed and the installations have been shutdown in March 2003 due to low refinery margins.
There is another refinery project in the UAE (a 500 000 b/d unit).

Norway

Production target down in 2007

Statoil, a 70.9% Norwegian state-owned company, has reviewed downward its output objective in 2007, projecting an average of 1.15 to 1.20 Mbep/d against an initial 1.30 Mbep/d.
This downward revision, the third in a year, is due to the temporary standstill of the Kvitebjorn field, the delays in development and the steady coming on stream of several oil fields in Scandinavia, Azerbaijan and Algeria.
The production cut on these oilfields has been only partly offset by an expanded natural gas production and the increase of exports from other fields.

Mexico

Construction of new refinery to meet domestic demand

Pemex the Mexican state-owned company plans the construction of two refineries in Mexico to meet the increasing fuel needs.
Oil products imports reached 364 000 b/d in 2006, of which 274 000 b/d of gasoline.
The upgrading of the existing installations proved insufficient to cover the growing Mexican market.

Canada

Total investments in extra heavy oil

Total E&P Canada, an affiliate of the French company Total, plans to build a processing plant to upgrade part of the extra heavy crude from the Canadian province of Alberta into non sulphur light crude.
The first phase of the project could be operational as of 2013 or 2014 with a production of 130 000 b/d, and in the second phase, output should be lifted to 200 000 b/d over 30 years.

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