

Oil Outlook

By Imen-Nidhal Boudinar

By the end of July, the downward trend driven by anticipation of falling stock markets impacting negatively on world oil demand, has been accentuated in August, totalling a decrease of nearly \$ 6/Bbl of Brent Dtd monthly price in contrast with July levels. The downturn occurs amid a market marked by:

- Signs of slackening US economy, world's second growth pole of oil demand.
- Deterioration of refinery margins inducing a reduction of refineries operation rate.
- Ample losses registered in the stock markets following a crisis over risk related to real estate credit in the USA amplifying fears over stagnation of US and world economies.
- Continued downturn trend of Cushing, significantly reducing the gap between WTI and Brent.

In addition, some bullish factors have curbed the downturn trend of prices during the month, mainly due to:

- The shutdown of upgrading units in Canada added to intensified maintenance in North Sea inducing a significant decrease of oil production in August.
- The US Federal Reserve decision to reduce its discount rate in order to restore favourable conditions on stock markets.
- US oil stocks decreasing during the third week in August hitting levels lower than last year's.
- Hurricane Dean striking near the Mexican peninsula of Yucatan without affecting the oil installations in the Gulf of Mexico
- Multiplied technical incidents on several US refineries (Citgo-Texas, Valéro-Texas, Chevron - Mississippi) cutting by nearly 258 000 B/d the processing capacity of the units and resulting in a drastic decrease of gasoline stock levels in August.

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Shipping

Launching of Mesdar, Sonatrach first VLCC

MESDAR, first VLCC of the Sonatrach group, has been launched on 2nd August 2007 at the NanTong COSCO KHI Ship Engineering Co. Ltd. Shipyard (NACKS).



The oil tanker has a deadweight of 300 000 tons and a transport capacity of more than 2 million barrels of crude oil. During the vessel launching, water is pumped into the water-ballast tank and the vessel is moved from dry-dock and slid to a berth conterminous to an outfitting dock for completion. During a straightforward operation which lasted four hours, all the parties associated in the project were present, namely: Sonatrach

Petroleum Corporation (SPC), Sonatrach Marketing Activity, Kawasaki Shipbuilding Corporation (KSC) and the Chinese team of NACKS shipyard. We may recall that SPC and KSC set up on 13th June 2006, a 50/50 joint venture, denominated New Ocean Shipping Venture (NOSVL), in charge of acquiring the VLCC. Mesdar will be delivered on 31 October 2007.

"Rhourd El Adra", a new LPG tanker to reinforce Sonatrach fleet



Through its affiliate Hyproc Shipping Company in charge of sea transport of hydrocarbons, Sonatrach is reinforcing its fleet with the acquisition of a new LPG tanker having a capacity of 22 500 cm, "Rhourd El Adra", named after the Algerian condensate- rich gas field uncovered in 1964 and which became operational in 1989. After Alrar (58 000 cm), Rhourd Nouss (58 000 cm) in 2004 and Hassi Messaoud2 (58 000 cm) in 2005, the newly acquired tanker will be delivered next October at Arzew

loading port. Sonatrach is implementing an investment strategy to reinforce its fleet and become a ship-owner of new generation vessels for the purpose of transporting 50% of its LPG exports. Hyproc Shipping Company CEO presided at the naming ceremony which took place at the Namura shipyard South of Japan in the presence of the Algerian Ambassador to Japan and the senior executives of Namura shipyard.

Oil outlook

Highlights

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FRANCE

Petroplus acquires from Shell two refineries in France

The Swiss- based oil refiner Petroplus finalised in the first half of 2007 the acquisition of two refineries in Europe (Coryton and Ingolstadt) and announced it planned to buy the refineries at Petit Couronne and Reichstett Vendenheim.

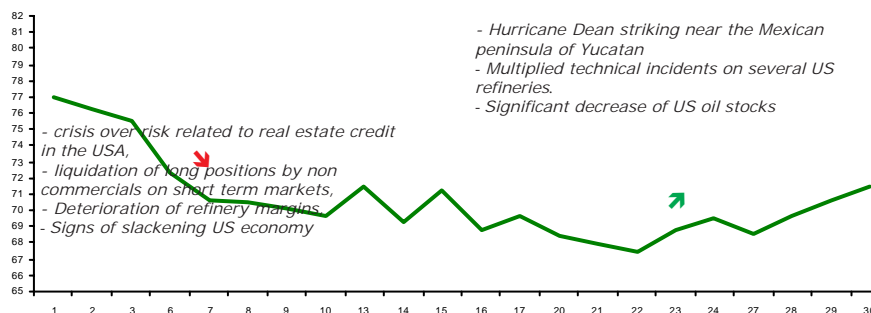
Two out of the three refineries in France from Royal Dutch-Shell for a total amount of \$ 875 million including \$ 400 million of the working capital. The transaction is expected to close in the second quarter of 2008. The Swiss group Petroplus is also conducting discussions with Shell for the supply of its retail business in France and other activities. The two refineries, with a refining capacity of 150000 B/d and 85000 B/d, respectively, should contribute by a 38 % increase of the processing capacity and finally reach 864000 B/d.

SENEGAL

Iran to take a 34 % stake in Senegal's oil refinery firm (SAR)

The state-owned Iranian company NIORDC (National Iranian Oil Refining and Distribution Co), has concluded an agreement with the Senegalese authorities in order to acquire one third

\$/Bbl



in the Senegal's sole refinery SAR. On 29 March, the Senegalese government has become majority shareholder in SAR increasing its participation up to 57.2 % via its company Petrosen whereas Total the French group, holds 42.8 %. The Iranian company projects modernising the installations and lifting the processing capacity from 1.2 to 3 million tons per year. Iran will invest in the oil products storage and distribution company recently created in Senegal. In addition, the Senegalese government has announced that Iran will build a petrochemical plant and an oil refinery in the country.

Argentina/ Venezuela

Cooperation Energy agreement between Venezuela and Argentina

The Venezuelan President and his Argentinean counterpart signed in Buenos Aires an energy security

Agreement between the two countries. Pursuant to the treaty a joint energy multinational, " Petrosuramerica ", will be created.

The multinational includes several bi-national companies and will operate in the oil, gas refining, petrochemical activities, and development of transport, storage, distribution infrastructures, electricity, alternate energies and shipping. Under the terms of the five-year agreement, the Venezuelan state-owned company PDVSA will take part in the exploration works in Argentina and will supply oil to the joint enterprise Enarsa-PDVSA (Enarsa is an Argentinean state-owned company).

The agreement also outlines a nationalisation plan, named PDV and concerns 275 service stations, the construction of two oil tankers with a capacity of 47 000 tons. For this project, Enarsa and PDVSA will team up with Ancap (Uruguay).

Gas outlook

By Bouzid Ahmed

North Europe:

Natural gas spot prices in the UK registered a downward trend in August 2007, reaching an average of 28.41 pence/th.

Opening the month at 27 pence/th, NBP Day Ahead prices steadily climbed and reached 31 pence/th by the end of the first half of the month, then fell and closed at 26 pence/th by the end of the month.

Decline in prices is due to a decreasing demand in the residential and industry sectors registering a level below the normal season and also because of significant volumes of gas from the UK market.

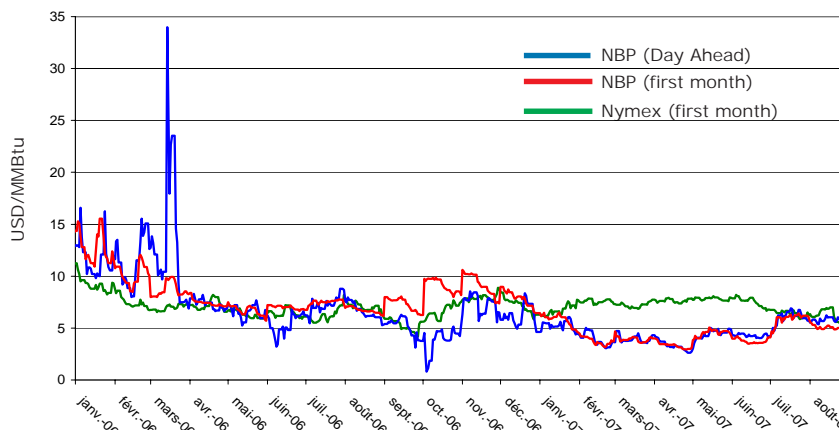
In average, daily demand declined by nearly 14.5 Mm3 in August to settle at around 188 Mm3/d against 202.5 Mm3/d, in the previous month.

In addition, the level of the average demand in August 2007 compared to the demand level registered in August 2006 showed a slight decline of nearly 3 Mm3/d. However, Day Ahead prices were in average 6 pence/th down compared to the prices registered last year at the same period.

On Zeebrugge market, Day Ahead prices showed a trend different from those registered by NBP prices. Opening the month around 27 pence/th, Zeebrugge Day Ahead prices closed at 32.67 pence/th with a positive differential of the average prices compared to NBP estimated at nearly 0.65 pence/th

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UK and US price evolution

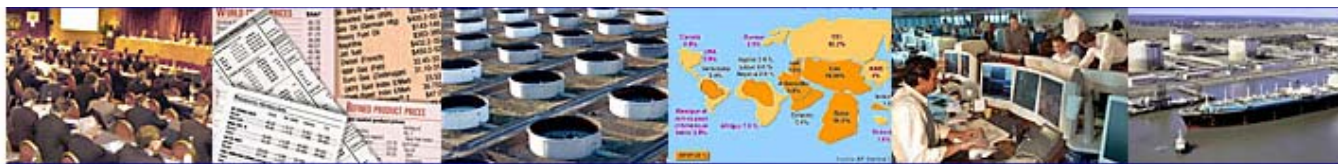


EVENTS

OPEC

Ceiling output boosted by 500 000 b/d

Further to the Meeting held in Vienna on 11 September 2007, OPEC has decided to increase by 500 000 barrels a day its supplies to the oil market as from 1st November 2007.



After examining the current oil market situation, the Conference has estimated that the actions taken by the member countries to increase production over the last years have permitted rebuilding ample oil stocks in particular, crude oil inventories. In addition, in the USA, a tight market of oil products continues to impact the stock levels and prices. The Conference has also noted the current shifting of the forward market structure into backwardation and its implications

on the evolution of inventories on the short term. The Conference has also assessed the necessity to maintain an adequate level of the market to face the season increase of demand in winter. Reaffirming their availability to address any development which could affect the stability of oil market, the OPEC countries agreed to convene an extraordinary meeting in Abu Dhabi on 5th December, 2007. The Conference has confirmed that the next ordinary OPEC meeting will take place in Vienna on 8 March 2008.

Dr. Chakib Khelil, Minister of Energy and Mines has been appointed President of the OPEC for a year as from 1st January 2008.

Founded in 1960, the OPEC counts 12 members: Algeria, Angola, Saudi Arabia, UAE, Iraq, Iran, Libya, Indonesia, Nigeria, Venezuela, Kuwait and Qatar.

M Chakib Khelil will replace the UAE Minister of Energy, Mr. Mohamed Ben Zaen Al-Hameli.

Spanish gas market

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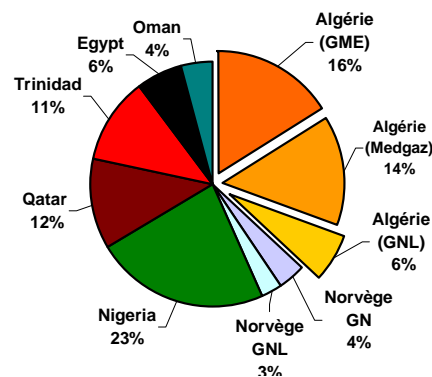
The Spanish gas market has been the fastest growing market in Europe over the last decade.

Today, Spain owns five international connections. It is linked to international gas pipelines of which two import gas lines, one from Algeria (Maghreb-Europe gas pipeline) the other one, from Norway (NORFRA gas pipeline via France). The overall import capacity through the gas lines is 11.5 bcm/year. However, Spain has clearly opted for LNG imports through its six terminals totalling a nominal capacity of 52 bcm/ year. Enagas, in charge of the management, owns three out of the six terminals; the remainder has been constructed and managed by companies operating in the gas and electricity sale activities in Spain, and also by producing companies such as Sonatrach which holds a 10 % share in the Ferrol terminal. Due to seasonal demand fluctuation, storage capacity is a key element for security of supply. Spain owns two underground natural gas storage sites totalling an operational volume of 2.5 bcm, which is lower than consumption level. Nevertheless, other storage sites are under way of development in order to increase capacity to 7 bcm by 2012. In 1999, the Body in charge of supervising the energy sector, "the National Commission for Energy", was set up in order to supervise the

implementation of an effective competition on the energy markets. From the regulatory point of view, Spain ranks among the most advanced European countries in terms of implementation of the European gas directive after the UK. Practically, the former monopoly Gas Natural, which has the most important import portfolio, remains a major player in the gas market. By 2010, Spanish gas needs will reach 42 bcm/ year. However, at this date, the contract volumes supplied to the Spanish market will be much higher than the expected demand. Indeed, the operators in the market have signed a set of 28 natural gas sale agreements with 7 producing countries, Algeria being the most important one. Apart from being the closest supply source, Algeria has proven its reputation of reliable and constant supplier to the Spanish gas market. Therefore, in 2010 with the commissioning of the Medgaz gas pipeline, Algeria will strengthen its position in the market and meet nearly 49 % of the needs. Finally, as part of its penetration strategy of the international gas downstream, Sonatrach has created the affiliate Sonatrach Gas Comercializadora for the main purpose of marketing gas directly to this market.



Distribution supply in 2010



Gas outlook

(continued from page 2)

The strong increase in prices on 31st August has been driven by the declining supplies from the UK further to the scheduled shutdown for maintenance on the Interconnector as from 3rd September.

Indeed, in August 2007, the Interconnector operated mainly in forward direction on account of ample gas volumes on the UK market and increasing demand on Zeebrugge market. However, throughout the month, the Interconnector registered twelve changes of direction.

In addition, the average net flow registered in August reached 95 GWh/d against 262 GWh/d in the previous month, namely, a 175 % decline.

NBP first month prices (September 2007 contracts) declined in comparison to the previous month by nearly 3.5 pence/th. Starting the month at around 27.45 pence/th, First Month prices fell significantly thereafter closed at 24.55 pence/th.

Similarly, First Month prices on Zeebrugge registered in average a level of 28.7 pence/th against nearly 29.1 pence/th in the previous month; i.e declining by almost 0.40 pence/th.

For Q4-2007 ICE contract, forward prices climbed and finished at 35.2 pence/th whereas prices for Q1-2008 contract declined and closed at 42.9 pence/th.

USA :

In August 2007, US natural gas prices declined in comparison to the previous month to settle below \$6 / MMBtu

at the closing. Thus, opening the month at \$6.35 /MMBtu, First Month prices (September 2007 contract) registered an upward trend and reached \$7.01/MMBtu then dropped and closed at \$ 5.46/MMBtu by the end of the month following indications about Hurricane "Dine" moving away from Florida and Gulf of Mexico coasts. Decline in prices is also driven by a very high level of inventories.

Contrarily to stock markets, on spot markets, gas prices were slightly pushed upward due to an increasing demand driven by high temperature levels. Indeed, spot prices in the North East region registered an average of \$ 6.89/MMBtu, whereas prices in the Gulf of Mexico (Henry Hub) stood in average at \$ 6.18/MMBtu.

Stock markets :

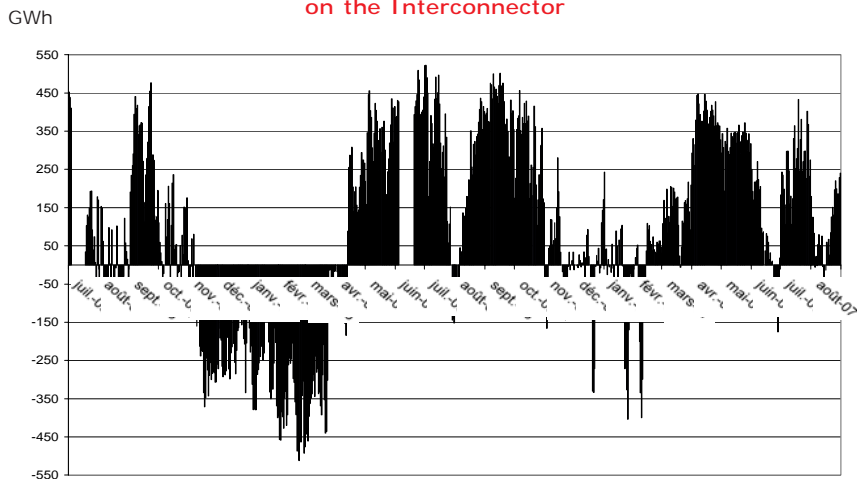
Closing above the 2.00 limit in the previous month (July), GBP fell and reached 1.98 by mid August, then climbed against the dollar. Thus, the £/\$ parity closed at 2.017 against 2.029 at the opening.

CO2 market:

CO2 quota prices for the first phase (December 2007 contract) continued their downward trend registered in the previous month, and settled below 1 euro/EUA and closed at 0.10 euro/EUA against 0.12 euros/EUA in the previous month.

Therefore, quota prices for the second phase (2008 and 2009 contracts), in average, slightly decreased to settle at 19.48 and 20 euros/EUA, respectively.

Evolution of natural gas flow on the Interconnector



In brief

ROYAUME - UNI

The British group BP said it expected CATS sub-sea gas pipeline network to restart in the British North Sea in September. The network was closed on 1st July after a vessel anchor caused damages to the pipeline. CATS system transports some 160 Mm3 of gas per day towards the UK, over a distance of 404 km.

QATAR

Starting of the expansion project of Qapco ethane cracker

The expansion project of Qapco ethane cracker of Messaied (South East of Qatar) launched in 2003 has added a new train of 200 000 T/ year of ethylene bringing the total ethylene capacity of the cracker to 720 000 tons per year. Total Petrochemicals holds a stake of 20 % in Qapco, a joint venture where it is associated to Industries Qatar (80 %). The project represents an investment of US \$ 230 million. Additional ethane supplied by the Dolphin project where Total is also a partner, will serve as feedstock to the expansion of Qapco

BRASIL

Launching of construction works of new refinery

The Brazilian state-owned company Petrobras and the Venezuelan state-owned company PDVSA should start next month, the construction works of the new \$ 4.5 billion refinery, to be build in Brazil. With a capacity of 200 000 b/day, the installation should be operational by 2011. Petrobras will hold 60 % of the refinery and PDVSA 40 %. The installation will reprocess crude oil of the Brazilian offshore and also Venezuelan extra heavy crude from the Orinoco belt.

CHINA

Ambitious expansion project in refining

In order to reduce its dependency to imported oil products, China has envisaged a large scale expansion of its refining capacity by 2015. Thus, the country which currently owns nine refineries able to process 10 million tons per year of crude oil (namely, 220 000 B/d), ambitions to lift the number to 31. The overall investment in refining would represent nearly 20 billion euros. The development is part of a project of the Chinese National Commission in charge of development and reforms.