

Oil outlook

By Imen-Nidhal Boudinar

During the first three weeks of July, soaring crude oil prices hit the \$ 80/Bbl limit, spurred by a firm world oil demand and tight offer, due to Nigerian crisis.

Other factors have also contributed to push prices up, namely:

- Low gasoline inventories in the USA due to multiple problems in several refineries, whereas fuel demand increased by 1.2 % compared to last year.
- Launching of maintenance on North Sea oil platforms further stressing a decreasing world offer.
- Declining oil stocks in Europe
- IEA forecasting an increase of nearly 2.2 MB/D of global oil demand in 2008 spurred by a vigorous growth of emerging countries.
- A significant increase of investments flows by non-commercials, reinforcing long positions on futures markets to historic records in July
- Accidental damage on natural gas line on the central system (CATS) in the North Sea amplifying fears over suspension of gas and oil production in the region.
- Total declaring force majeure on its exports from Dalia field in Angola, cutting output by half to 110 000 B/D.
- Sturdy Chinese economic growth with nearly 11 % increase of GDP in the second quarter and a 20 % increase of crude oil imports in June compared to last year.

End of July has been marked by declining crude oil prices due to a massive booksquaring of long positions by the end of the expiry of August contract. Anticipated negative impacts of declining stock exchange markets have also contributed to the downward trend in prices during the period.

HIGHLIGHTS

Prospects of Global Biofuels market evolution

According to the semester report (Medium Term Oil Market Report) published by the International Energy Agency, biofuel world production should reach 1.75 MB/D by 2012, namely, more than twice its 2006 level.

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Exports

Hydrocarbon marketing activity - 2007

Exports for the first semester reached 67.86 million TOE, namely, down by 3 % compared to the first half 2006 and a realization rate of 49 % of our budget.

In terms of value, the exports turnover reached US \$ 26.81 billion, i.e., slightly decreasing by 1% compared to the first half 2006.

The turnover of associates' share reached US \$ 1.99 billion, namely, a reduction of 33 % compared to the same period a year earlier mainly due to the volumes paid off for the windfall profits tax deducted in 2007. In addition, the semester closed with a weighted average price for Sahara Blend, i.e., \$ 66.07 /bbl against 66.44 for the same period in 2006.

Domestic market:

A turnover of DA 75.4 billion has been registered for the first half 2007 for

a global volume (including all products) of DA 17.5 million.

Crude oil supplies in the domestic market reached DA 55.35 billion for a volume of 4.4 million TOE, namely, slightly dropping by 2 % compared to the first semester 2006 and a realization rate of 47 % of our initial budget.

LPG sales (including ethane) reached 729 million TOE, i.e., 48 % of our initial budget.

The turnover for natural gas supplied to the domestic market reached DA 14.3 billion corresponding to 12.8 bcm (of which 9.1 bcm supplied to Sonelgaz) against 12.8 bcm for the first half in 2006.

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Achievements for the first half 2007

Marketed volumes in 10 ⁹ TOE	85,36
- Exports	67,86
- Domestic market	17,50
Overall turnover 10 ⁹ DA	1 980,38
- Domestic market	75,40
Overall turnover 10 ⁹ \$	26,81

Shipping

First cargo for Cheikh El Mokrani

The new LNG tanker delivered last June to Sonatrach by the Japanese shipyards Universal SC in TSU, proceeded on 19 July 2007 to the first loading of a 75 500 cm LNG cargo at M2 mooring in the Skikda port.

Cheikh El Mokrani tanker left Skikda port on 21st July 2007 at 10.30 am heading to Bilbao (Spain).

It is worth noting that the Medmax type Tanker (Mediterranean Maximum Size) has been acquired under the terms of a joint venture denominated "Mediterranean LNG Transport Co" (MLTC), between the Japanese company Itochu with 25 % share, Mitsui Osk Lines (25%) and the Algerian party represented by the Sonatrach group (25%) and its



affiliate "Hyproc Shipping Company" (25%). The latter will be in charge of managing all aspects, i.e., nautical, technical and commercial of the tanker. The inaugural loading ceremony of the tanker has been marked by the visit on board and a reception organized at the premises of "GL1K" in Skikda.

Oil Outlook

HIGHLIGHTS

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In spite of an upward review (+ 79 000 B/D) of the 2006 balance sheet, to 863 000 B/D, the Agency estimates that pressure on prices for commodities supplies (maize, sugar, corn and palm oil) accentuates fears over economic feasibility of biofuels due to competition between first generation derivatives and food chain. Competition should be accentuated with the advent of second generation biofuels derived from non-food crops.

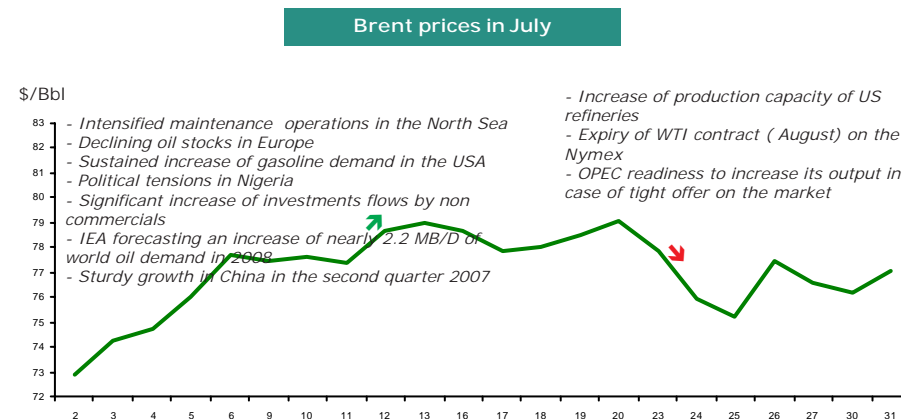
With this in view, potential capacities of biofuel production should stand at nearly 2.9 MB/d by 2012. Presently, it is difficult to assess the impact of incentive policies initiated by governments on biofuel production. However, Biofuel share in the global oil mix should not go beyond 2 %.

USA

Merger of Transocean and GlobalSantaFe.

The US group Transocean world leader in offshore drilling, announces merger with GlobalSantaFe, also one of the top leaders in the sector with a share capital market value of \$ 17 billion.

The combined entity - to be known as Transocean, is based in Houston and has a corporate capital of \$ 53 billion. It will include nearly 20 000 employees and offer customers services of \$ 33 billion. With a fleet of 146 rigs, Transocean will be positioned



to offer a full scope of offshore drilling services in the key geographical areas. Moreover, it projects cost reduction opportunities totalling \$ 100 million- to \$ 150 million by 2010. The merger is to be approved by the share-holders and the boards of directors, and should be finalised by the end of the year.

Marathon acquires Western Oil Sands.

Marathon Oil has announced that it is acquiring the Canadian oil producer, Western Oil Sands for about \$ 6.5 billion (4.5 billion Euros). Under the terms of the agreement, the US company will offer Western shareholders 3.8 billion Canadian \$ in cash and 34.4 million of Marathon shares. It will also assume about \$ 700 million of Western debt. The acquisition subjected to the required approvals should be finalised during the fourth quarter. Through the acquisition,

Marathon will acquire a 20 % stake in the Athabasca Oil Sands Project.

Angola

Greater Plutonio (BP) due on stream next September.

The British group BP projects the coming on stream of Greater Plutonio field in block 18 offshore Angola, some 160 km off in the West, early September.

The FPSO which will be used for the development of the field will have a storage capacity of 2 MB and a production capacity of 240 000 B/D. BP Angola has interests in four blocks off Angola, namely, blocks: 15, 17, 18 and 31. Greater Plutonio is the first project BP has operated with 50% participation with Shell. Angola, with a current production estimated at 1.4 MB/D and projected to reach 2 MB/D in 2008, joined the OPEC on 1st January 2007.

Gas Outlook

By Othmane Irain

North Europe :

Natural gas prices in the UK registered a bullish trend throughout July 2007 averaging 29.90 pence/th.

Thus, opening the month at around 25 pence/th, Day Ahead NBP prices progressively climbed to close at nearly 30.

This increase is mainly due to decreasing flows from the North Sea following the accident on CATS pipeline.

In average, daily demand increased by nearly 2 Mm3 in July to stand at 202 Mm3/d against 200 Mm3 during the previous month. In addition, the level of the average demand in July 2007 compared to the level of the

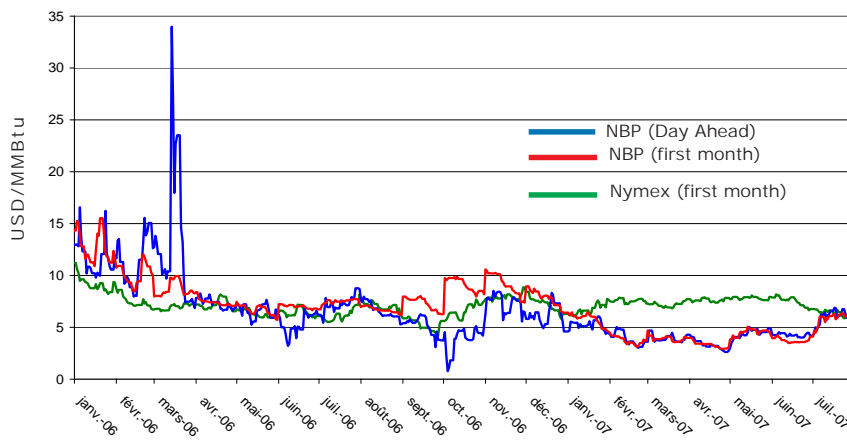
demand for the same period in 2006 shows a slight increase estimated at nearly 15 Mm3/d. However, Day Ahead prices are in average lower by nearly 10 pence/th in comparison

to those registered last year during the same period.

On Zeebrugge market, Day Ahead prices experienced the same trend as NBP prices.

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UK and US price evolution



Event

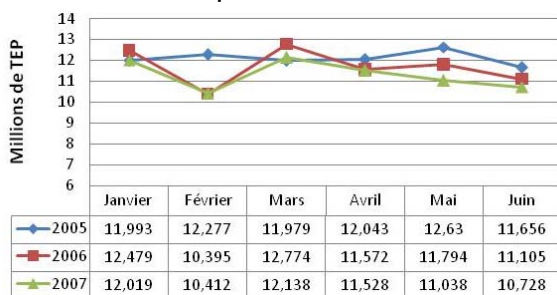
Exports

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It should be noted that oil products imports in the first half 2007 reached 490.3 million MT for an amount of US \$ 177.8 million, namely (HSFO: 165.5 million MT, Bunker C: 100 million MT, Bitumen: 138.5 million MT and gasoil: 86.1 million MT). Expect Bitumen, which exports registered an increase of 86 %, HSFO and Bunker C showed a decrease of 10.5 and 17 %, respectively.

TRENDS

Exports - Volume



Sonatrach/ KBR



Sonatrach and Kellogg Brown & Root sign EPC contract for new LNG liquefaction train in Skikda

Sonatrach and Kellogg Brown & Root signed on 7 July 2007, an agreement on a \$ 2.88 billion engineering, procurement and construction contract relating to the building of a new liquefaction train in Skikda.

Mr. Abdelhafid Feghouli, Vice President of Sonatrach Downstream Activity, and Mr John Rose, KBR Vice President signed the agreement in the presence of HE, Mr. Chakib Khelil, Minister of Energy and Mines.

The new train which will be supplied from Hassi R'Mel natural gas field, is due to come on stream in November 2011 and is expected to produce 4.5 million tons of LNG per year, 164.700 tons of ethane, 207.600 tons of propane, 171.400 tons of butane, 108.700 tons of gasoline and 163.1 million cm of helium enriched gas.

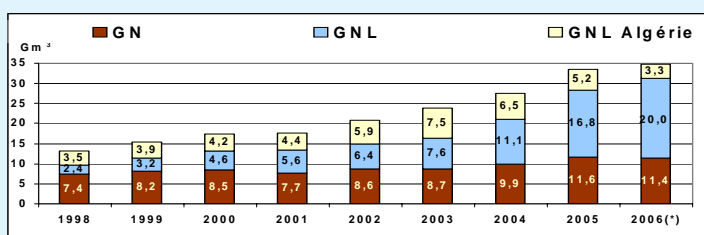
The project will enable Sonatrach to reinforce its position as major player in the LNG industry and strengthen its role as energy supplier of Europe, America and also Asia.

Spanish gas market

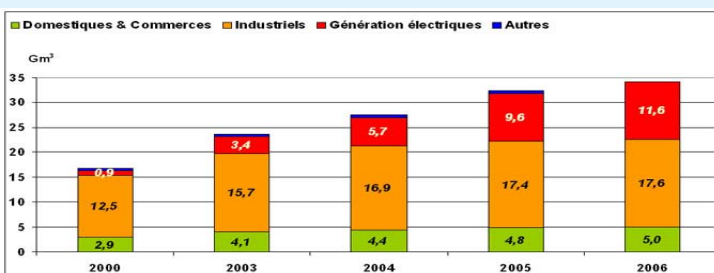
The Spanish gas market has been the fastest growing market in Europe over the last decade.

Indeed, since 1996, with the coming on stream of the Maghreb-Europe gas pipeline linking Algeria and the Iberian Peninsula, natural gas consumption in Spain shifted from 9.3 bcm /year to 34.2 bcm / year in 2006, namely, an average growth rate of 156 %per year, the highest in Europe over the period.

In 1998, a Royal order set to 60 % the limit of gas supplied from one source and opened up the route for diversification of supplies. At that date, Algeria and Norway accounted for 82 % of the global Spanish imports. However, although Algerian gas share has declined, the volumes exported toward Spain have been expanded thanks to the conclusion of new sale/purchase LNG and piped gas agreements.



The sector of power generation is the main driver of natural gas demand growth. Thus, the new combined cycle gas turbines represented 34 % of consumption in 2006, against 51 % for the industrial sector and 15 % for the residential sector.



Faced with a sustained growth of gas needs in Spain, the technical management responsible for the Spanish gas network, Enagas, has allocated huge investments for the development of the gas infrastructure.

(to be continued in next edition)

Asian market

Sale of a second LNG cargo to China

Sonatrach proceeded on last 20th July to the loading of a second LNG cargo to the Guangdong Dapeng terminal in China under the terms of the spot sale/purchase deal.

A first cargo was shipped in June 2007. As a reminder, Guangdong Dapeng terminal is the first LNG import terminal in China.

Having an annual capacity of 3.7 million tons, the terminal was inaugurated in 2006 and is owned by :

- CNOOC (33%),
- BP (30%),
- Shenzhen Inv., (14%),
- Guangdong Elec.Power (6%),
- Guangzhou Gas Co (6%),
- Foshan Gas (2.5%),
- HK Elec/HK & China Gas (5%).

Gas outlook

(continued from page 2)

Opening the month at around 25 pence/th, Day Ahead Zeebrugge prices closed around 30.7 pence/th with a positive differential estimated at nearly 0.27 pence/th compared to NBP prices.

Indeed, the Interconnector in July 2007 operated only in forward direction. This is due to ample gas volumes being available on the UK market and attractive prices on Zeebrugge market. In addition, the net average flow registered in July was 262 Gwh/d against 76 GWh/d a month earlier, namely, up by 245 %.

First Month NBP prices (August 2007 contract) were up in comparison to the previous month by an average estimated at nearly 10 pence/th. Opening the month around 23.5 pence/th, First Month prices have then significantly climbed to close at 30.10 pence/th.

Similarly, First Month prices on Zeebrugge showed in average a level of 29 pence/th against nearly 19 pence/th during the previous month, i.e up by nearly 10 pence/th.

Forward prices registered a bullish trend and closed at 39.85 pence/th for the Q 4-2007-ICE contract and 47.85 pence/th for the Q1-2008- ICE contract.

USA:

In July 2007, natural gas prices in the USA declined significantly to settle below \$ 6/MMBtu at the

closing. This decrease in prices is due to a weak demand resulting from a mild weather and increasing stocks levels.

Thus, starting the month around \$ 6.77/ MMBtu, First Month prices (August 2007 contract) showed a significant decline then stood at \$ 6.19/ MMBtu by the end of the month.

On spot markets, gas prices have also dropped as a result of a weak demand. Indeed, spot prices in the North East region registered an average of \$ 6.73 /MMBtu whereas prices in the Gulf of Mexico region (Henry Hub) settled at an average of \$ 6.18/ MMBtu.

Stock market:

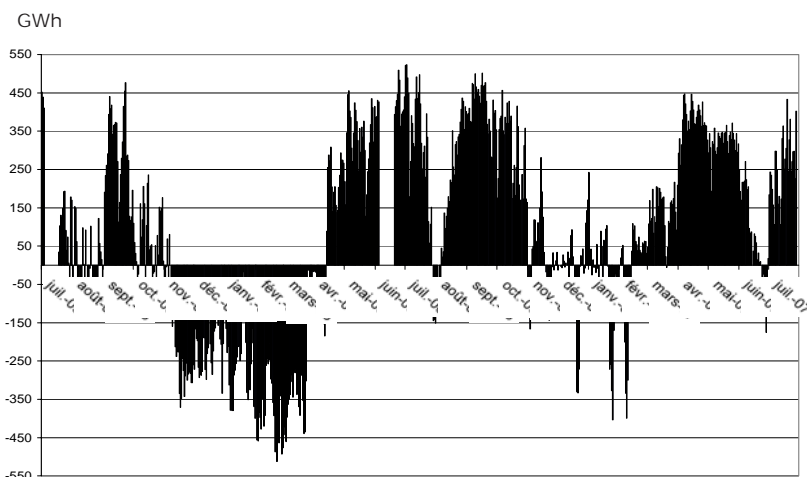
Closing above the 2.00 limit during the previous month, GBP continued rising against the \$. Thus, the £/\$ parity closed at 2.031 against 2.011 at the closing.

CO2 market:

Co2 quota prices for the first phase (2007 contract) registered the same bearish trend as the previous month to settle below 1 Euro /EUA and close at 0.12 euros/EUA against 0.13 Euro/EUA a month earlier.

Quota prices for the second phase (2008 and 2009 contracts) in average, slightly declined to close at 20.30 and 20.68 euros/EUA, respectively.

Evolution of natural gas flow on the Interconnector



In brief

Indonesia

New crude oil price formula

Indonesia has announced applying a new official crude oil formula with backdated effect as of 1st July 2007. The new ICP formula (Indonesian Crude Price) will be based on Platts and RIM Intelligence evaluations with 50 % each. It will no longer use the APPI Asian index (Asian PetroleumPrice Index) and should induce higher ICP values, whereas, the LNG price calculation formula will remain unchanged.

Iran

Iran urges Japanese refiners to pay in Yens

As of 10 July, all transactions between Iran and Japanese refiners will be dealt in Yen and no longer in dollars. Iran has decided to implement drastic cuts of its US dollar reserves so as to avoid potential sanctions.

Poland/UAE

Signing of oil supply agreement with major refiner

PKN Orlen, Polish refiner, has concluded a three year agreement with Petrotrade (UAE) for the supply of a volume of 2.4 MT/year of crude via the Druzhba oil pipeline for a total amount of \$ 3.9 Billion. The agreement will cover the period from 1st July 2007 through 30 June 2010. The volume supplied per year represents 20 % of PKN annual crude oil demand. The Polish company aims at reducing its reliance on Russian crude oil supplies.

ConocoPhillips

ConocoPhillips projects to adapt three refineries in the US region of Mexican Gulf to process Canadian heavy crude and develop its oil pipelines network. The US group and its Canadian partner EnCana have planned to produce from two oil sands projects, 400 000 b/d on the long term. For this purpose, the two companies aim at securing volumes for pipeline transport in North America.