

FINANCIAL REPORT

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I. Financial highlights

1. NET PROFIT

Net profit for 2004 registered a strong 17% increase to AD 341 billion compared with AD 292 billion in 2003.

This performance reflects growth in sales from AD 1,989 billion in 2003 to AD 2,451 billion in 2004 or approximately 23% notably in response to the increase in the average price per barrel to \$38.50 versus \$28.99 in 2003.

2. SALES

Excluding services provided to third parties, sales totalled AD 2,371 billion in 2004 versus AD 1,938 billion in 2003, an increase of 22% reflecting the following:

– Growth in sales in billions of AD

	2004	2003	Change
Foreign market	2,278	1,848	23%
National market	93	90	3%
Total	2,371	1,938	22%

– Growth in sales in billions of TOE:

	2004	2003	Change
Foreign market	133	130	2%
National market	26.3	26	1%
Total	159.3	156	2%

Exports for 2004 increased to \$31.6 billion compared with \$24 billion in 2003, up 32%. This trend reflected the increase in average prices for the following products in US dollars:

Products	2004	2003	Change
Crude oil	303.93	228.33	33%
Condensate (LNG)	359.13	257.92	39%
Refined products	302.89	240.91	26%
LPG	354.53	272.38	30%
NG	3.56	3.13	14%
LNG	3.97	3.43	16%

3. EXPENSES

Changes in expenses in 2004 included notably the following items:

Gross remuneration of partners

This item includes oil income of AD 224 billion in 2004 versus AD 158 billion in 2003, increasing sharply 41%.

Services

Services totalled AD 208 billion in 2004 versus AD 174 billion in 2003, up 19%. This increase was due primarily to freight and transport costs on sales, research services and oil exploration and sundry work and services.

Personnel costs

Personnel costs totalled AD 50 billion in 2004 versus AD 47 billion in 2003, up 7%. This increase includes a provision for employee profit-sharing expenses of AD 4.7 billion in line with the amount of 2003.

Allowances for depreciation and reserves

This item increased AD 33 billion from AD 140 to 173 billion in 2004 in response to the implementation of new projects and the acquisition of equipment.

Interest expense

Interest expense in contrast declined 29% from DZD 11 billion in 2003 to DZD 8 billion in 2004 in response to the prepayment of certain loans.

Income tax (IDP)

Income tax payable for 2004 totalled AD 1,048 billion versus AD 833 billion in 2003, an increase of AD 215 billion. Broken down by activity, income tax payable was as follows:

Upstream	997
Pipeline transportation	49
Downstream	1
Corporate	1

Tax on remuneration paid to partners

Tax payable on remuneration paid to partners totalled AD 85 billion in 2004, an increase of AD 15 billion in relation to 2003.

4. LONG-LIVED ASSETS

Proceeds from the sale of long-lived assets decreased 9% in relation to the prior year, totalling AD 264 billion versus AD 289 billion in 2003 and breaking down by activity as follows:

Upstream	196
Pipeline transportation	54
Downstream	5
Corporate	9

5. RECEIVABLE

Gross receivables, excluding cash and cash equivalents, of AD 830 billion increased 53 AD billion in 2004 in response to the following items:

- Receivables from associates and affiliates: AD 435 billion;
- Trade receivables: AD 216 billion including AD 158 billion from foreign customers and AD 58 billion from national customers;
- Operating advances: AD 25 billion including AD 20.5 billion in prepayments for taxes and similar expenses;
- Investment receivables: AD 79 billion;
- Other receivables: AD 75 billion including translation adjustments of AD 60 billion.

6. CASH AND CASH EQUIVALENTS

Net cash improved significantly in the period under review to AD 377 billion versus 219 billion in 2003. This increase reflects notably the improvement in earnings, decreased interest expense (prepayment of debt), positive interest income generated by different investments and hydrocarbon receipts.

This cash situation breaks down as follows:

BEA	374
CITIBANK	2
BACE	1

7. LONG-TERM BORROWINGS

Long-term borrowings for 2004 declined 22% in relation to the prior period to AD 165.5 billion, breaking down as follows:

Total debt AD 159.7 billion
corresponding to \$2.197 billion
Internal debt AD 5.8 billion

External debt declined 22% relation to the prior period from AD 204 billion in 2003 to AD 159.7 billion in 2004.

Internal debt for the period under review included:

- A bond issue of AD 5 billion.
- CNEP debt in connection with the subrogation of the SIM debt of AD 0.825 billion and ENEP debt of AD 0.31 billion.

8. PAYABLES TO ASSOCIATES AND AFFILIATES

This consists primarily of conditional debt subject to the discovery of commercially viable deposits. It totalled AD 872 billion in 2004 versus AD 782 billion in 2003, an increase of 12%.

Partnerships that contributed to this debt included:

- ARCO	106	6%	- BHP OHANET		
			GAZ	66	8%
- ANADARKO	127	15%	- AGIP (BRN)	16	2%
- OURHOUD	77	9%	- BHP BILLINTON	38	4%
- TEPA-REPSOL	47	5%	- BP AMOCCO		
			TIGUENTOURINE	69	8%
- AGIP-ANADARCO	25	3%	- BP IN SALAH		
- AMERADA-HESS	36	4%	GAZ	146	17%

9. CASH FLOW

Cash flow increased 24% in 2004 from AD 408 billion to AD 507 billion.

10. CAPITAL STRUCTURE

The capital structure of 2004 reflected a solid balance sheet.

In effect, free cash flow generated provides a level of security to meet current needs:

- Debt payment commitments,
- Cash resources to cover investments,
- Current tax liabilities,
- Investment opportunities in financial institutions.

Working capital

Working capital increased in 2004 AD 231 billion, from AD 552 billion to AD 783 billion.

Working capital requirements

Working capital requirements also increased in the period under review from AD 73 billion to AD 406 billion versus 332 AD billion in 2003.

II. Balance sheet at 31 december 2004

Assets

(AD millions)

Item	Gross amount	Depreciation amortization or provisions	2004	Net amounts 2003	2002
Investments (NOTES 1-2-3)	2,804,217	1,427,145	1,377,072	1,299,232	1,155,058
Pre-operating costs (NOTE 1)	11,066	4,366	6,699	6,684	6,624
Intangible fixed assets (NOTE 2)	3,154	1,518	1,636	924	550
Land (NOTE 3)	5,312	1,762	3,550	3,257	3,209
Production equipment (NOTE 3)	2,097,033	1,229,185	867,848	746,438	672,834
Facilities destined for employees (NOTE 3)	69,317	32,120	37,197	34,032	25,234
Hydrocarbon research work and studies (NOTE 3)	177,476	158,194	19,282	17,698	11,414
Current investments (NOTE 3)	440,859		440,859	490,199	435,194
Inventories (NOTE 4)	102,469	6,427	96,042	87,808	88,371
Goods for resale					1,475
Materials and supplies	75,658	6,427	69,231	69,907	71,752
Products and work in progress					
Finished products	23,572		23,572	16,955	13,317
External inventory	3,239		3,239	946	1,826
Accounts receivable (NOTE 5)	1,207,273	7,825	1,199,449	977,910	819,810
Investment receivables	79,460	12	79,448	47,812	43,862
Advances to suppliers, deposits, rebates and related receivables	5,674		5,674	4,172	1,419
Receivables from associates and affiliates	435,185	1,500	433,685	346,537	295,847
Tax and related receivables	8,406	365	8,041	6,376	3,310
Operating advances	25,228	798	24,430	100,578	52,279
Trade receivables	215,875	5,150	210,725	183,189	174,670
Cash and cash equivalents	377,306		377,306	219,294	143,187
Other receivables	60,140		60,140	69,951	105,236
Total assets	4,113,959	1,441,397	2,672,562	2,364,950	2,063,239

Shareholders' equity and liabilities

(AD millions)

Item	2004	Net amount 2003	2002
Shareholders' equity (NOTE 6-7)	1,072,338	870,347	800,905
Share capital	277,000	277,000	245,000
Legal reserves	27,700	24,500	24,500
Revenue reserves	704,947	496,381	391,493
Grants received	184	184	184
Grants recorded as exceptional income	-101	-68	-35
Property granted by the State			31,984
Earnings pending appropriation			
Provisions for losses and charges	62,608	72,350	107,779
Profit of the year (before appropriation)	341,492	291,766	174,904
Liabilities (NOTE 8)	1,258,731	1,202,837	1,087,431
Non-current liabilities	199,569	239,142	266,719
Trade payables	5,575	4,933	4,086
Other non-trade payables	13,244	9,147	8,043
Payables to associates and affiliates	872,811	782,028	666,724
Trade payables	128,926	123,654	112,388
Down payments from customers	3,119	2,965	2,654
Long-term borrowings	256	5,900	-
Payables on fixed assets	35,231	35,069	26,815
– Cash and cash equivalents	186	186	188
– Other accounts	35,045	34,883	26,627
Total shareholders' equity and liabilities	2,672,562	2,364,950	2,063,239

II. Analysis of the parent company balance sheet at 31 December 2004

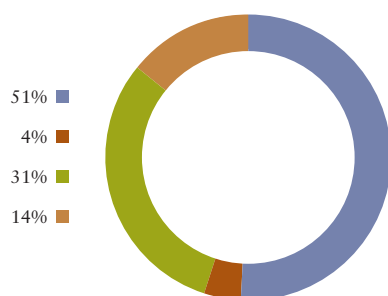
(AD millions)

	Assets	%
Net long-lived assets	1,337,072	51
Net inventories	96,042	4
Net receivables	822,142	31
Cash and cash equivalents	377,306	14
Total Assets	2,672,562	100

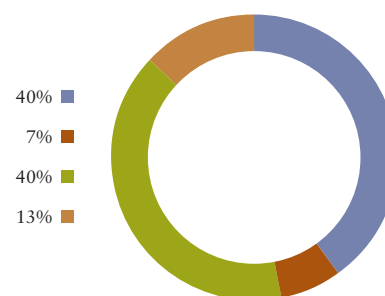
(AD millions)

	Liabilities	%
Shareholder's equity	1,072,338	40
Long-term debt	199,569	7
Other liabilities	1,059,163	40
Net income	341,492	13
Total shareholder's equity & liabilities	2,672,562	100

ASSETS



LIABILITIES



II. 2004 income statement

Liabilities

(AD millions)

Item	2004	Net amount 2003	2002
Sales (Note 9)	2,450,765	1,988,655	1,569,477
Production held in inventory	6,616	3,639	172
Variation in stock of manufactured goods and inventories	71,055	57,941	74,715
Goods for resale, materials and other services purchased (Notes 10-11-12)	662,604	568,069	479,630
Added value	1,865,832	1,482,166	1,164,734
Other income	6,141	8,066	11,935
Personnel costs (Note 13)	50,214	46,902	44,542
Taxes and similar payments	5,690	14,592	11,614
Interest and similar expenses (Note 14)	234,036	172,047	131,816
Other expenses	3,250	2,923	4,277
Allowances for depreciation and reserves (Note 15)	172,947	139,931	119,828
Operating profit	1,405,837	1,113,837	864,592
Nonoperating expenses	139,157	94,053	132,196
Nonoperating income	122,874	104,599	75,921
Nonoperating profit	-16,283	10,545	-56,275
Operating profit	1,405,837	1,113,837	864,592
Nonoperating profit	-16,283	10,545	-56,275
Gross profit	1,389,553	1,124,382	808,317
Income tax	1,048,061	832,616	633,413
Net profit	341,492	291,766	174,904

III. Notes to the balance sheet

> Note 1

Pre-operating costs

(AD millions)					
Item	Gross	Depreciation	2004	Net 2003	2002
Borrowing costs	9,403	3,760	5,643	6,378	6,257
Investment expenses					
Training costs	524	486	37	142	314
Pre-start up operational costs	79	64	15	28	37
Research and studies	1,059	55	1,004	136	16
Total pre-operating costs	11,066	4,366	6,699	6,684	6,624

This item includes costs incurred by the company in connection with the acquisition of long-lived assets to operate and develop its different businesses.

This item declined AD 1,776 million in gross value in relation to the prior period.

In 2004, new acquisitions totalled AD 1,543 million that broke down as follows:

– **Interest expense:** mobilisation of credit lines to finance investment programs resulting in interest expenses of AD 644 million in connection with the pipeline transportation activity.

– **Research and studies:** AD 899 million including AD 531 million for the downstream activity and AD 368 million at the corporate level.

The depreciation of pre-operational costs for the period represented AD 1,354 million. In compliance with applicable regulations, these costs will be amortized over (5) years.

> Note 2

Intangible assets

(AD millions)					
Item	Gross	Depreciation	2004	Net 2003	2002
Industrial and commercial property rights	3,154	1,518	1,636	923	550

The gross value of intangible assets increased AD 1,027 million and concerned primarily the acquisition of software applications.

> Note 3

Tangible assets

(AD millions)					
Items	Gross	Depreciation	2004	Net 2003	2002
Land	5,312	1,762	3,550	3,257	3,209
Production equipment	2,097,033	1,229,185	867,848	746,438	672,833
Facilities destined for employees	69,317	32,120	37,197	34,032	25,234
Hydrocarbon research work and studies	177,476	158,194	19,282	17,698	11,414
Investments in progress	440,859		440,859	490,199	435,194
Total	2,789,997	1,421,261	1,368,736	1,291,624	1,147,884

3.1. Land:

The increase in the gross value of land and improvements totalled AD 357 million and broke down as follows:

– land and construction sites	234
– other land	49
– improvements, fixtures, fittings	73

The acquisition of this property by activity breaks down as follows:

– Upstream	128
– Pipeline transportation	145
– Corporate	84

3.2. Production equipment:

This item includes fixed equipment and production facilities whose gross value increased AD 270,002 million and includes the following items:

- Investments made in the period: AD 3,872 million.
- Reclassifications of current investments: AD 267,182 million.
- Investment disposals: AD (1,052) million.

3.2.1. PRODUCTIVE INVESTMENTS:

This includes fixed installations and facilities consisting of integrated assemblies or specific units required for the production, transportation and processing of hydrocarbon. The increase of this item by AD 253,704 million concerns notably the following accounts:

– The reclassification of investments in progress	252,581
– Pipeline transportation installations	105,914
– Installations for processing, transformation and manufacturing	68,367
– Wells and extraction equipment	68,194
– Related production facilities	9,180
– Installations for reception, storage and shipment	916
– Installations for packaging	10
– Production for the Company's own use	686
– Third-party acquisitions	1,275
– Third-party disposals, destructions and other	(837)

3.2.2. OTHER PRODUCTION EQUIPMENT:

Changes for this item are analysed below:

Items	Acquisitions	Reclassifications	Disposals, destructions, others	Adjustments	PEPEM
Machinery and equipment	594	1,487	(56)	(68)	
Transportation equipment	748	436	(280)	7	
Office equipment	209	42	(6)	3	
Fixtures and installations	272	5,779	(12)	(13)	
Computer equipment	262	169	(17)	(6)	
Buildings	68	5,116	(107)		24
Infrastructure works		1,571			
Other	75	1			
Total	2,228	14,601	(478)	(77)	24

3.3. Facilities destined for employees:

This item includes furnished and unfurnished property destined for Company employees including notably living areas, canteens, company housing, occupational medical facilities, etc.

In 2004, this item totalled AD 5,480 billion which breaks down as follows:

Item	Acquisitions	Reclassifications	Disposals and other changes
Company buildings	63	5,282	416
Equipment	246	1	5
Household furnishings and equipment	91	-20	3
Improvements	23	298	80
Total	423	5,561	504

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Notes to the balance sheet

3.4. Hydrocarbon research work and studies:

This item includes hydrocarbon research focusing on the following areas:

- Field geology,
- Geological interpretation,
- Geophysics,
- Seismic interpretation,
- Exploratory drilling.

The increase in this item of AD 29,970 million reflects the following:

– Reclassification of current investments	17,661
– Production by the Company for its own use	12,438
– Disposals and other	(129)

3.5. Current investments:

In 2004 current investments totalled AD 440,859 million versus AD 490,199 million in 2003.

Acquisitions in 2004 of AD 241,804 million included:

– Acquisitions from third parties	166,756
– Production investments for the Company's own use	57,850
– Adjustments	17,198

Broken down by activity, current investments excluding advances and deposits on investments, broke down as follows:

– Upstream	184,577
– Downstream	2,400
– Pipeline transportation	49,211
– Corporate	5,616

The reclassification of investments in progress for the appropriate items totalled AD 291,017 million, an increase of AD 76,340 million in relation to the prior period.

3.5.1. INVESTMENTS BY ACTIVITY:

Investments in the period included acquisitions from third parties, production by the Company for its own use and advances and deposits for investments and adjustments in relation to the prior year.

3.5.1.1. BREAKDOWN OF INVESTMENTS BY ACTIVITY:

(AD millions)	Receivables from investments (balance)	Third-party acquisitions	Production of the Company for its own use	Adjustments	Total
Corporate	1,865	5,522	1,251	16	8,654
Upstream	-1,395	113,926	66,520	16,933	195,984
Downstream	1,910	3,564	81	-34	5,520
Pipeline transportation	754	49,817	3,147	-66	53,652
Total	3,134	172,829	70,998	16,849	263,811

Investments made in 2004 totalled AD 263,811 million versus AD 289,412 million in 2003.

3.5.1.2. INVESTMENTS BY NATURE:

(AD millions)

Items	2004 investments
Pre-operating costs	1,543
Intangible assets	306
Land	290
Production equipment	3,872
Facilities destined for employees	423
Hydrocarbon research work and studies	12,438
Investments in progress	241,804
Receivables from investments (balance)	3,134
Total des réalisations	263,811

> **Note 4**

Inventories

(AD millions)

Items	Gross	Provision	2004	Net 2003	2002
Goods for resale					1,475
Materials and supplies	75,658	6,427	69,231	69,907	71,752
Finished products	23,572		23,572	16,955	13,317
External inventory	3,239		3,239	946	1,826
Total inventory	102,469	6,427	96,042	87,808	88,371

4.1. MATERIALS AND SUPPLIES:

The initial gross value of inventory of AD 71,935 million increased in 2004 to AD 102,641 million of stock on hand.

Destocking in 2004 for represented AD 26,983 million.

Materials and supplies adhered to the same trend, keeping pace with the annual growth in production.

Destocking concerned notably the following products:

– Casing	12,348
– Spare parts for equipment	3,008
– Replacement equipment	2,485
– Construction and drilling equipment	3,414
– Chemicals and petrochemicals	1,426

4.2. FINISHED PRODUCTS:

Finished products totalled AD 23,572 million breaking down as follows:

– Crude oil	14,341
– Condensate (LNG)	4,929
– LNG	2,129
– Other petroleum products	2,173

4.3. EXTERNAL INVENTORY:

External inventory of AD 3,239 million including primarily materials and supplies surged 242% in relation to 2003.

Inventory of finished products

31 December 2004

Products	UM	Changes in finished products (in units of measure) - Upstream				
		Initial inventory 1	Production of the period 2	Available production 3 = 1+2	Destocked production 4	Year-end inventory 5=3-4
Crude (*)	TM	1,601,159	60,154,346	61,755,505	59,710,806	2,044,699
Condensate NGL (**)	TM	569,174	14,173,998	14,743,172	13,924,333	818,839
Natural gas	10 ³ M ³		84,990,557	84,990,557	84,990,557	
LPG	TM	11,658	8,735,951	8,747,609	8,726,062	21,547
NGL	M ³	766,437	40,683,444	41,449,881	40,948,816	501,065
Naphta	TM	10,599	281,638	292,237	286,140	6,097
Ethane	TM		61,460	61,460	61,460	
Butane	TM	99,831	4,131,539	4,231,370	4,111,132	120,238
Propane	TM	111,571	4,521,170	4,632,741	4,504,151	128,590
Refined products	TM		9,719,429	9,719,429	9,719,429	

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Notes to the balance sheet

Inventory of finished products

Products	Inventory changes (in TOE)				
	Initial inventory 1	Production of the period 2	Available production 3=1+2	Destocked production 4	Year-end inventory 5=3-4
Crude (*)	1,601,159	60,154,346	61,755,505	59,710,806	2,044,699
Condensat NGL (**)	634,060	15,789,834	16,423,894	15,511,707	912,187
Natural gas		80,316,076	80,316,076	80,316,076	
LPG	13,442	10,072,552	10,085,993	10,061,149	24,844
NGL	455,264	24,165,966	24,621,229	24,323,597	297,633
Naphta	11,659	309,802	321,461	314,754	6,707
Ethane		70,863	70,863	70,863	
Butane	115,105	4,763,664	4,878,770	4,740,135	138,634
Propane	128,641	5,212,909	5,341,550	5,193,286	148,264
Refined products		10,691,372	10,691,372	10,691,372	
Total	2,959,329	211,547,384	214,506,713	210,933,746	3,572,967

TOE conversion factors					
Crude oil	Condensate (NGL)	Refined products	Natural gas	LPG	NGL
1.00	1.114	1.10	0.945	1.153	0.594

> Note 5

Receivables

(AD millions) Item	Gross	Provis.	2004	Net 2003	2002
Receivables from investments	79,460	12	79,448	47,812	43,862
Advances to suppliers, deposits, rebates and related receivables	5,674		5,674	4,172	1,419
Receivables from associates and affiliates	435,185	1,500	433,685	346,537	295,847
Tax and related receivables	8,406	365	8,041	6,376	3,310
Operating receivables	25,228	798	24,430	100,578	52,279
Trade receivables	215,875	5,150	210,725	183,189	174,670
Cash and cash equivalents	377,306		377,306	219,295	143,187
Other receivables	60,140		60,140	69,951	105,236
Total receivables	1,207,273	7,825	1,199,449	977,910	819,810

The gross value of receivables increased AD 210,577 million or 21% in relation to the prior period.

5.1. RECEIVABLES FROM INVESTMENTS:

Gross receivables from investments ended the year at AD 79,460 million. A provision for loss of AD 12 million was set aside resulting in a total of AD 79,448 million versus AD 47,812 million in 2003.

The gross value of receivables from investments breaks down as follows:

– Nonvoting shares (Titres participatifs)	9,415
– Equity interests in subsidiaries (*)	39,298
– Advances and deposits on investments	23,524
– Short-term investment securities	4,700
– Loans	2,355
– Guarantees paid	141

– Other investment receivables 26

(*) Equity interests acquired in 2004 totalled AD 10,623 million and concerned:

– SHARIKET KAHRAMA SKIKDA	4,410
– Holding RCH	2,800
– AEC	1,500
– Société KAHRABA CHERCHELL	700
– Société KAHRABA BERROUAGHIA	490
– STH	600
– INST. ALG. HAUTES ETUDES FIN	3
– MEDGAZ	116
– JOINT V M.LNG.T.C	4

5.2. INVENTORY RECEIVABLES:

En 2004, the gross value of inventory receivables totalled AD 5,674 million representing an increase of AD 1,502 million in relation to 2003.

This item break down as follows:

–Down payments to suppliers	5,665
–Deposits paid	9

5.3. RECEIVABLES FROM ASSOCIATES AND AFFILIATES:

This amount totalled AD 435,185 million, increasing 23% in relation to the prior period. It consisted primarily in partners' lifting rights and calls for funds within the framework of production sharing agreements, related to deposits operated under partnerships.

In this respect, the lifting rights exercised in the period, reducing debts of the same nature, represented AD 207,835 million versus AD 170,241 million in 2003.

5.4. OPERATING RECEIVABLES:

The gross amount of operating receivables was AD 25,228 million. A provision for impairment of AD 798 million was set aside in this period.

This account includes notably:

–Advances for services	1,342
–Tax prepayments (*)	20,507
–Accrued expenses	1,926
–Expenses pending allocation	1,422
–Advances to personnel and others	30

(*) These advances consist notably of withholding taxes in connection with the following activities :

–Upstream (excluding partnerships)	646
–Partnerships	19,861

5.5. TRADE RECEIVABLES (NATIONAL AND FOREIGN CUSTOMERS):

(AD millions) Item	2004	Fiscal year 2003	2002	Change 2004-2003
National customers	57,688	49,489	42,552	17%
Foreign customers	158,187	142,634	137,842	11%
Total trade receivables	215,875	192,123	180,394	12%
Provisions for doubtful debt	5,150	8,934	5,724	-42%
Net amount	210,725	183,189	174,670	15%

The gross amount of foreign trade receivables for which the collection period is one month (01) increased 11%. For local customers for which the average collection period is six (06) months, the gross amount increased 17%.

A provision of AD 5,150 million, was set aside for doubtful accounts, a decrease of AD 3,784 million in relation to the amount set aside in 2003.

5.6. CASH AND CASH EQUIVALENTS:

Cash and cash equivalents increased AD 158,011 million in relation to the prior period, resulting in a year-end Cash balance of AD 377,306 million.

5.7. OTHER RECEIVABLES:

Other receivables totalled AD 60,140 million, of which AD 59,908 million reflects restating at year-end exchange rates payables and receivables denominated in foreign currencies. As a result, this item declined AD 9,017 million or 14% in relation to the prior period.

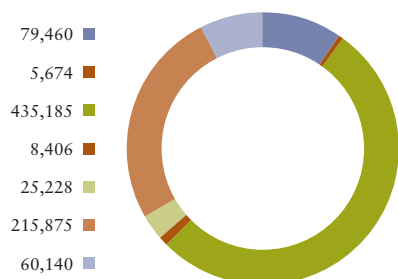
FINANCIAL REPORT

Notes to the balance sheet

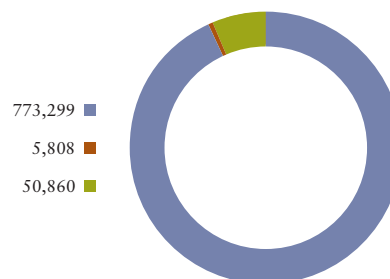
5.8. LIQUIDITY OF GROSS RECEIVABLES AT 31 DECEMBER 2004:

(AD millions) Account	Short-term	Medium-term	Liquidity Long-term	Total
Receivables from investments	22,792	5,808	50,860	79,460
Advances to suppliers, deposits, rebates and related receivables	5,674			5,674
Receivables from associates and affiliates	435,185			435,185
Tax and related receivables	8,406			8,406
Operating receivables	25,228			25,228
Trade receivables	215,875			215,875
Other receivables	60,140			60,140
Total	773,299	5,808	50,860	829,967
Liquidity (%)	93	1	6	100

BREAKDOWN OF RECEIVABLES



LIQUIDITY OF RECEIVABLES



> Note 6

Share capital

(AD millions) Item	2004	2003	2002
Shareholders' equity	277,000	277,000	245,000
Legal reserve	27,700	24,500	24,500
Revenue reserves	704,947	496,381	391,493
Grants received	184	184	184
Grants recorded as exceptional income	-101	-68	-35
Property granted by the State			31,984
Provisions for losses and charges	62,608	72,350	107,779
Profit of the year	341,492	291,766	174,904
Total shareholders' equity	1,413,830	1,162,113	975,809

6.1. SHARE CAPITAL:

Share capital totalled AD 277,000 million divided into 277,000 shares with a par value of AD 1 million.

6.2. LEGAL RESERVE:

The legal reserve represented AD 27,700 million in compliance with the requirement to set aside 10% of the capital for this purpose.

6.3. NET PROFIT OF THE PERIOD:

A net profit for 2004 was recorded of AD 341,492 million, an increase of AD 49,726 million or 17 in relation to the prior period

This performance reflected 23% increase in total sales from AD 1,988,655 million in 2003 to AD 2,450,765 million in 2004 combined with further growth in the price of crude oil from \$28.99 per barrel in 2003 to \$38.52 in 2004.

> **Note 7**

Provisions for risks and charges

(AD millions) Item	2004	2003	2002
Lawsuit contingency provisions	2,700	2,625	2,646
Unrealised foreign exchange losses	59,908	69,725	105,133
Other contingencies			
Total	62,608	72,350	107,779

This item represents provisions for risks and charges destined to meet expenses that events in progress render probable.

A provision was set aside for unrealised foreign exchange losses on payables and receivables of AD 59,908 million, a decrease of AD 9,817 million in relation to the prior period.

> **Note 8**

Debts

(AD millions) Items	2004	2003	2002
Non-current liabilities	199,568	239,142	266,719
Trade payables	5,575	4,933	4,086
Other non-trade payables	13,244	9,147	8,043
Payables to associates and affiliates	872,811	782,028	666,724
Liabilities incurred in operations	128,926	123,654	112,388
Down payments from customers	3,119	2,965	2,654
Long-term borrowings	256	5,900	
Payables on fixed assets	35,231	35,069	26,815
– Cash and cash equivalents	186	186	188
– Other accounts	35,045	34,883	26,627
Total	1,258,731	1,202,837	1,087,430

Further analysis is provided for the following liabilities:

8.1. NON-CURRENT LIABILITIES:

This item declined AD 39,574 million in relation to the prior period and included the following:

- Trade payables totalling AD 188,545 million including AD 22,110 in connection with jointly run deposits.
- Long-term borrowings of AD 165,537 million include:
 - External debt: AD 159,680 million,
 - Internal debt: AD 5,856 million: This latter item includes AD 825 million in connection with SIM and AD 31 million for ENER.

8.2. PAYABLES TO ASSOCIATES AND AFFILIATES:

Payables to associates and affiliates totalled AD 872,811 million, up AD 90,783 million or 12%.

This includes:

- Conditional liabilities incurred in connection with production sharing agreements of AD 860,072 million. These liabilities are repaid by the exercise of lifting rights by foreign partners.

The conditional liabilities concerned the following investments:

- | | |
|--------------------------|---------|
| – Operating facilities | 518,313 |
| – Development | 253,362 |
| – Exploration (research) | 88,397 |
- DZD 500 million represents the portion not distributed and payable to workers.

FINANCIAL REPORT

Notes to the balance sheet

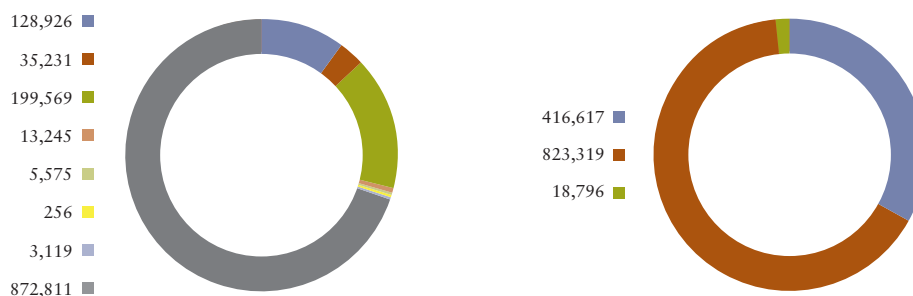
8.3. LIABILITIES INCURRED IN OPERATIONS:

These include notably tax and social security charges, salaries and wages, services and payable to third parties. This item increased 4% in relation to the prior period, from AD 123,654 million to AD 128,926 million in 2004.

8.4. MATURITY OF DEBTS:

Account	Short-term	Medium-term	Liquidity		Total
			Long-term		
Non-current liabilities	38,289	142,484	18,796		199,569
Trade payables	5,575				5,575
Other non-trade payables	13,245				13,245
Payables to associates and affiliates	191,976	680,835			872,811
Liabilities incurred in operations	128,926				128,926
Downpayments from customers	3,119				3,119
Long-term borrowing	256				256
Payables on fixed assets	35,231				35,231
Total	416,617	823,319	18,796		1,258,731
Liquidity (%)	33	66	1		100

BREAKDOWN AND MATURITY OF DEBTS AT 31 DECEMBER 2004



IV. Notes to the income statement

Analysis of income

> Note 9

Breakdown of total sales

Item	2004	2003	2002
Sale of goods	2,445	8,840	138
Sale of production	2,368,382	1,928,902	1,530,828
Sale of services to third parties	79,937	50,913	38,512
Total sales	2,450,765	1,988,655	1,569,477

Sales in 2004 totalled AD 2,450,765 million versus AD 1,988,655 million in 2003, surging 23%. The major contribution to sales was production sold which breaks down as follows:

	2004	2003
– Foreign market	2,277,743	1,848,003
– National market	93,084	89,739

This improvement reflects notably:

- The increase in the price of crude oil from US \$ 28.99 per barrel in 2003 to US \$ 38.52 in 2004;
- Positive sale price trends for the following products:

	2004	2003
– Crude oil	905,839	589,326
– NG	342,281	286,622
– LNG	272,668	290,004
– Condensate	352,054	274,512

Production sold to third party breaks down as follows:

(AD millions) Products	National	Market Foreign	Total
Crude oil	72,618	905,839	978,457
LGN		352,054	352,054
Natural gas	14,428	342,281	356,709
LNG	27	272,668	272,695
Butane	2,326	79,713	82,039
Propane	799	106,809	107,607
Light Naphta		7,336	7,336
Ethane	7		7
Heavy Naphta		79,239	79,239
Kerosene (kero – jet)		17,990	17,990
Gas-oil		10,836	10,836
Low Sulphur Content Fuel		101,979	101,979
High Sulphur Content Fuel		999	999
Accessory products	2		2
Subtotal	90,207	2,277,743	2,367,948
Liquefaction sales (upstream)	432		432
Total production sold	90,639	2,277,743	2,368,383

Analysis of expenses

(AD millions) Item	2004	2003	2002
Purchase of goods	2,465	8,828	150
Materials and supplies	26,562	24,770	24,326
Services	208,228	174,328	163,485
Personnel costs	50,214	46,902	44,542
Interest and similar expenses (bank charges + commissions)	2,372	2,711	2,839
Gross compensation of partners	223,827	158,226	177,188
Other expenses	3,250	2,923	4,277
SUBTOTAL (A)	516,918	418,688	356,807
Taxes on hydrocarbon production	425,349	360,143	291,669
Other taxes and similar payments	5,690	14,592	11,614
SUBTOTAL (B)	431,040	374,735	303,283
Interest and similar expenses	7,836	11,110	11,788
Allowances for depreciation and amortization	172,947	139,931	119,828
SUBTOTAL (C)	180,783	151,041	131,616
TOTAL CHARGES (A+B+C)	1,128,741	944,464	791,707

Expenses relating to the period totalled AD 1,128,741 million including AD 71,055 million devoted primarily to production investments. Overall, these increased 20% in relation to the prior year.

> Note 10

Materials and supplies

This item included materials and supplies taken out of storage to be commissioned for production or operating purposes and increased AD 1,792 million or 7% in relation to 2003.

> Note 11

Services

Services (excluding taxes on hydrocarbon production) increased AD 33,900 million, or 19% and breakdown as follows:

	(AD millions)
–Freight and transport for sales	45,336
–Transport of personnel	3,490
–Maintenance and repairs	7,082
–Technical assistance	440
–Research work and services and exploration of deposits	127,232
–Other third-party compensation	13,888
–Transit and customs services	30
–Lease payments and rental charges	4,113
–Other fees	2,512
–Miscellaneous services	4,105

> Note 12

Tax on hydrocarbon production

The hydrocarbon production tax for 2004 increased in relation to the prior period from AD 360,143 million in 2003 to AD 425,349 million in 2004 or 18%, reflecting notably an increase in the sale price of finished products.

> Note 13

Personnel costs

Personnel costs increased AD 3,312 million or 7% in relation to 2003.

> Note 14

Interest and similar expenses

Interest and similar expenses include interest on loans, bank charges, commissions and the gross remuneration of partners for profit oil and totalled AD 234,036 million.

- Interest expense of AD 7,836 million declined AD 3,274 million or 29% in relation to the prior period, benefiting from the prepayment of bank loans to BEA, SG and BNP.
- Bank charges and commissions totalled AD 2,372 million in 2004 versus AD 2,711 million in 2003, declining 12%.
- Compensation of partners within the framework of production sharing agreements (profit oil) increased AD 65,601 million from AD 158,226 million in 2003 to AD 223,827 million in 2004.

> Note 15

Allowances for depreciation

Allowances for depreciation and amortization increased 24% in response to new acquisitions and the commissioning of investments in 2004, increasing from AD 139,931 million in 2003 to AD 172,947 million in 2004.

Allowances for depreciation cover 66% of investments made of 2004 in terms of cash flow.

V. Subsidiaries and affiliates

Algerian Companies

At 31 December 2004

(AD millions)

Company name	Designation	Capital in original currency	GROUP SHAREHOLDING IN DINARS	
			Historical cost	After revaluation
Société d'investissement et participation	SIP	AD 200	200	200
Groupe raffinerie et chimie des hydrocarbures	RCH	AD 4,000	4,000	4,000
Services para-pétroliers	SPP	AD 400	400	400
New Energy Company	NEAL	AD 200	90	90
Groupe distribution	SVH	AD 200	200	200
Société pour la construction et l'exploitation d'une usine d'hélium liquide et d'azote	HELIOS	AD 691	352	352
Société algéro-libyenne d'exploitation et de production des produits pétroliers	ALEPCO	\$ 1,000,000	3	3
Société Transport des Hydrocarbures	STH	AD 1,000	600	600
Algerian Energy Company	AEC	AD 3,200	1,600	1,600
BAOSEM	BAOSEM	AD 1	0.35	0.35
Shariket Kahraba Skikda	SKS	AD 15,000	4,500	4,500
Institut Algérien des Hautes Études Financières		AD 30	3	3
Société Kahraba Berrouaghia	SKB	AD 1,000	490	490
Société Kahraba Cherchell	SKC	AD 2,000	700	700
Total			13,139	13,139

Foreign Companies

At 31 December 2004

(AD millions)

Company name	Designation	Capital in original currency	GROUP SHAREHOLDING IN DINARS	
			Historical cost	After revaluation
Mariconsult SPA	MARICONSULT	LIT. 200,000,000	0.5	5
Société à garantie limitée (SAGL)	SAMCO	F.S. 20,000		
Medgaz	MEDGAZ	EUROS 23,000,000	406	455
Sonatrach International Holding Corporation	SIHC	\$US 111,616,500	4,864	8,106
Société in Salah Gas Limited	ISGL	£ 180		
Société in Salah Gas Services Limited	ISGSL	£ 180		
Anadarko	ANADARKO	\$US 239,464,035.8	5,881	17,390
Joint Venture Algeria Nippon Gas Transp. Corp.	JV ANGT	\$US 100,000	2	2
GALSI	GALSI	EUROS 5,000,000	181	198
Joint Venture Mediterranean LNG Transp. Corp.	M.LNG.T.C.	USD 200,000.00	4	4
Total			11,339	26,159

VI. Financial structure

(AD millions) Designation	2004	2003	2002
Permanent capital (A)	2,246,545	1,960,893	1,700,624
Fixed assets (B)	1,463,375	1,408,930	1,245,887
Working capital C = (A - B)	783,171	551,963	454,737
Operating assets (D)	825,181	730,041	667,541
Current liabilities (E)	419,131	397,187	355,803
Working capital requirements F = (D - E)	406,051	332,854	311,738
Free cash flow G = (C - F)	377,120	219,109	142,999

VII. Key ratios

Ratios	2004	2003	2002
Operating profit/Capital	63%	57%	51%
Operating profit/Sales	57%	56%	55%
Operating profit/Production	56%	55%	53%
Non-current liabilities/Equity	15%	22%	31%
Cash flow/MLT debt	56%	46%	38%
Operating assets/current liabilities	1.97	1.84	1.88
Interest expense/MLT debt	1%	1%	1%
Interest expenses/sales	0.32%	1%	1%
Total liabilities/Total assets	0.50	0.54	0.58
Total assets/Total assets excluding account 44*	1.19	0.63	0.68

* "receivables from associates and affiliates", Algerian national chart of accounts.

VIII. Accounting policies

The 2004 financial statements have been prepared in accordance with rules set forth in the Algerian national chart of accounts (*plan comptable national algérien*), Algerian generally accepted accounting principles and standards normally applied in the hydrocarbon sector. In Sonatrach's 2004 balance sheet, subsidiaries are not consolidated, including those over which exercises exclusive control. However, a list of shareholdings is enclosed.

The company has implemented a project for the consolidation of group financial statements in collaboration with the international accounting firm Ernst & Young. This will be in place in 2005.

Equity interests in Group subsidiaries are recorded at the level of investment receivables under "Investments" at acquisition cost. The carrying value of shares in foreign subsidiaries are systematically revalued at year-end.

1. INVESTISSEMENTS :

1.1. Method for depreciation and amortization:

- Investments of the company are depreciated according to the straight-line method. Law 86.14 of 19 August 1986 as amended, which concerns specifically the petroleum industry, has defined depreciation rates applicable to investments in this sector. These rates vary according to the site of allocation of immovables and movables where investments in the southern regions are amortized more quickly than in the North.
- Pre-operational costs must be amortized within a period not exceeding five years. Once fully amortized, pre-operational cost and amortization accounts are systematically closed.

1.2. Pre-operating costs:

Pre-operational costs include costs incurred in connection with the creation of the company when the latter acquires its long-lived assets for operations, development and the furtherance of its activities.

Pre-operational costs are expensed by nature and transferred at year-end to "pre-operating costs" under assets and a contra-entry in the account for charge transfers. They are recorded at acquisition or cost price. Pre-operating costs are never recorded directly in accounts 200 to 208.

1.3. Intangible assets:

Intangible assets include the following:

- Goodwill;
- Industrial property and commercial rights.

Intangible assets are recorded at their acquisition cost, creation value or contribution value.

1.4. Production equipment:

"Production equipment" includes notably:

- Fixed production equipment and installations. These represent complex installations destined for specialized applications and of a permanent nature, including all equipment, parts or components which even if technically separate by nature, are technically indispensable for their operation and irreversibly incorporated in the installation. On this basis, they are subject to the same rate of depreciation. They are recorded at acquisition cost or manufacturing cost.
- Other production equipment: this covers property of all natures, immovable or movable, acquired or created by the company destined to perform work.

1.5. Facilities destined for employees:

This item covers property of any nature, movable or immovable, with the exception of land, acquired or created by the company and allocated for purposes not related to operating activities.

1.6. Hydrocarbon research and studies:

Costs incurred in connection with hydrocarbon research work are expensed by nature in the period in which they are performed. At year-end, these costs are recorded in

“hydrocarbon research and studies” under investments, provided the investments have been completed. If not completed at year-end they are recorded under “current investments” in the closing balance sheet, with a reverse entry under self-constructed assets (“variation in stock of manufactured goods and inventories”).

Research costs which have not resulted in the discovery of commercially viable deposits are largely depreciated in the period in compliance with the provisions of Law 86.14.

2. ACCOUNTING TREATMENT OF TRANSACTIONS RELATING TO JOINTLY OWNED DEPOSITS:

The accounting treatment for transactions relating to jointly owned deposits is divided into the following phases:

1) Exploration. 2) Development. 3) Production.

2.1. Accounting treatment of costs relating to each phase:

2.1.1. EXPLORATION COSTS:

Exploration costs are financed by partners and recorded in accounts for this purpose with a contra-entry under debt conditional on the discovery of commercially viable deposits. The settlement of the conditional debt results either in:

- Repayment of a share of the production (if a commercially viable deposit is discovered) as specified in the contract;
- The cancellation of this debt if the exploration has failed to result in the discovery of a commercially viable deposit. In this latter case, the investments are fully depreciated.

2.1.2. DEVELOPMENT COSTS:

Development costs are recorded in the appropriate investment accounts with a contra-entry under conditional debt for the portion financed by the partner. This debt, subject to sufficient production by the reserve discovered, is decreased as the partner is provided with production corresponding to its share.

2.1.3. OPERATING COSTS:

Operating costs (cost oil), incurred by partners are recorded in the appropriate accounts with a contra-

entry as debt subject to the condition that the reserve continues to produce oil.

This conditional debt is repayable as the partner is provided with production in accordance with the terms of the production sharing agreement.

2.2. Accounting treatment of compensation of partners (profit oil):

Partners’ compensation is determined on the basis of contractual terms and conditions. It is recorded under “Interest and similar expenses” in compliance with Law 86.14.

This compensation is subject to income tax rate of 38% that Sonatrach is required to pay on behalf of the partner.

3. HYDROCARBON INVENTORY:

Hydrocarbon stocks are measured at cost and recognized on the basis in the last known price or their realizable value when lower.

4. RECEIVABLES AND PAYABLES – ASSOCIATES AND AFFILIATES:

4.1. Receivables from associates and affiliates:

This item corresponds to advances to associates and affiliates as well as lifting rights of partners within the framework of production sharing agreements.

4.2. Payable to associates and affiliates:

This account covers payables owed by partners and affiliates as well as conditional liabilities of foreign partners.

5. RECEIVABLES AND PAYABLES IN FOREIGN CURRENCY:

Receivables and payables denominated in foreign currency are recorded in the appropriate accounts at the year-end exchange rate.

Translation adjustments resulting from exchange rate fluctuations, are recorded as unrealised currency losses under assets or unrealised currency gains under liabilities according to the case.

Unrealised currency gains are not taken into account for net income. In contrast, unrealised currency losses are fully accrued for systematically in compliance with the conservatism principle.

5.1. Specific treatment for trade receivables concerning foreign customers:

Because of the volatility in the price of crude oil and currency fluctuations, trade receivables concerning foreign customers are subject to specific treatment.

During the financial year invoices denominated in foreign currency are recorded in dinars upon collection. At the financial statement cut-off date if the invoices have not yet been paid, they are recorded in dinars at the year-end exchange rate. These trade receivables are subject to adjustments during the following year as payments are received. The resulting translation differential is recorded under "currency gains or losses" in the income statement.

6. RECOGNITION OF SALES – PRICING AND TREATMENT:

6.1. Sales prices:

6.1.1. NATIONAL MARKET:

For the purpose of the national market sales prices are set on the basis of prices notified by official regulatory channels.

6.1.2. FOREIGN MARKET:

Export sales prices are based on the price applicable in the international market or at contractual prices according to the products.

6.2. Recognition of sales:

Sales of company products are recognized in the income statement under "sold production".

7. TAXATION:

Sonatrach spa's activities are subject to different tax provisions defined by Law 86.14. Hydrocarbon research and production activity is subject to special tax provisions applicable to the petroleum industry. The other activities are subject to the provisions applicable under the general tax law.

7.1. Special tax provisions applicable to the petroleum industry:

Law 86.14 provides for two specific taxes, a tax on hydrocarbon production and an income tax.

7.1.1. TAX ON HYDROCARBON PRODUCTION:

The tax rate applicable to the value of hydrocarbon production from deposits is 20%, (excluding zones A and B).

When justified by the economic conditions for exploration and operating deposits the tax rates may be reduced accordingly:

- 16.25% in zone A;
- 12.50% in zone B.

The hydrocarbon production tax in the accounting plan is recorded under "Services". It is not recognized as a tax but rather an operating expenses.

7.1.2. INCOME TAX:

The gross profit for the financial year is subject to an income tax of 85% (excluding zones A and B) for the activities of inspection, exploration and operating hydrocarbon deposits.

When the economic conditions for exploration and operations defined by Law 86.14 are met, the above rates may be reduced to:

- 75% in zone A;
- 65% in zone B.

7.2. General tax provisions:

Profit in the period generated by the pipeline transportation and downstream activities (liquefaction and separation of LPG) is subject to a tax rate of 38% and profit generated by corporate activities a rate of 30%.

IX. Statutory auditors' opinion

To the Members of the Ordinary General Meeting of Shareholders

We are pleased to be able to report to you concerning our audit of the consolidated financial statements of SONATRACH.

We have audited the consolidated financial statements prepared by your Board of Directors in respect of the 2004 financial year. These show a balance sheet total of two thousand six hundred and seventy-two billion, five hundred and sixty-one million, seven hundred and ninety-five thousand, six hundred and seventy-one dinars and thirty-four centimes (2,672,561,795,671.34 DA), and net profit of three hundred and forty-one billion, four hundred and ninety-two million, two hundred and twenty-nine thousand, eight hundred and fifty-nine dinars and fifty-eight centimes (341,492,229,859.58 DA).

The checks we have made are based essentially on sampling, cross-checking and other auditing techniques applied in what we believe to be the most appropriate way, and have been made in accordance with the normal rules of due diligence.

On the basis of the results of our audit, we certify that the annual consolidated financial statements of SONATRACH give a true and fair view of the financial results achieved from operations in the financial year ended 31 December 2004, as well as the financial situation and assets of your company at the end of that financial year.

Algiers, 06 June 2005

For and on behalf of the College of Statutory Auditors

The Coordinator

Mohammed El-Bachir BERMANSSOUR
Expert Comptable D.P.L.E.
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