

SONATRACH FINANCIAL REPORT

Index

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I. KEY INDICATORS

1. NET INCOME

Net earnings for financial year 2006 dropped by AD 35.7 billion from 575.3 to 539.6 billion dinars representing a drop of 6%.

This drop can be explained by the level of quite substantial operating charges, more than 24% in relation to the previous year and by the constitution of a provision for contingencies of nearly 70 billion dinars representing the estimate of the tax differential derived from the new oil law as from January 1 2006 in relation to the law 86-14.

2. TURNOVER

Revenues excluding services provided to third parties, reached AD 4,003 billion in 2006 against AD 3,461 billion in 2005.

	2006	2005	Change
Foreign sales	3,989	3,356	16%
Domestic sales	114	105	7%
Total	4,003	3,461	16%

- The volume of production sales (TOE million) saw a slight drop:

	2006	2005	Change
Foreign sales	136	141	-3%
Domestic sales	29.3	28.5	3%
Total	165.3	169.5	-3%

Exports for financial year 2006 totalled \$US 53.5 billion, up 17% from \$US 45.7 billion in 2005. The increase was the result of higher average prices for the following products:

Income	2006	2005	Change
Crude oil (\$/MT)	516.55	429.97	20%
NGL (\$/MT)	543.9	455.58	19%
Refinery products (\$/MT)	495.1	415.18	19%
LPG (\$/MT)	517.36	446.46	16%
NG (\$/MM BT day)	6.3	4.92	28%
NGL (\$/MM BT day)	6.92	5.74	21%

3. CHARGES

The financial year saw changes in the primary charges below:

Gross remuneration of partners

Revenues, excluding services provided to third parties, reached AD 454 billion in 2006 against AD 374 billion in 2005, so an increase of 21%.

SERVICES (EXCLUDING PETROLEUM PRODUCTION ROYALTIES)

They totalled AD 433 billion in 2006 versus AD 252 billion in 2005, being an increase of 72%. Improvements mainly came from freight and transport of sales, research and the operation of reserves, charges re-invoiced by the partners under production sharing agreement, plus sundry works and services.

Payroll expenses

They totalled AD 61 billion in 2006 versus AD 54 billion in 2005, being an increase of 12%. This increase was primarily driven by the wage agreement signed in October 2006.

Depreciation and amortizations

They rose 1% up to AD 1.6 billion, from AD 196 billion to AD 198 billion in 2006. This increase is mainly due to the bringing on line of new projects and acquisitions of various equipments.

Interest on borrowings

Interests on borrowings fell 68%, dropping from AD 7.5 billion in 2005 to AD 2.4 billion in 2006. This drop was mainly due to the early repayment over the previous years and a low level of credit mobilization.

Income tax (IDP)

Income tax payable was AD 1,825 billion against AD 1,584 billion in 2005 showing an increase of AD 241 billion and breaks down as follows by sector:

Upstream	1,754
Pipeline transportation	63
Downstream	1
Head office	7

Tax on partner remuneration

This tax totalled AD 173 billion in 2006, while it was only AD 142 billion in 2005.

4. FIXED ASSETS

Income from fixed assets was up 18% in 2006 compared to the previous year. They levelled off at AD 350 billion compared to AD 297 billion in 2005 and break down as follows:

Upstream	261
Pipeline transportation	68
Downstream	11
Head office	9

I. KEY INDICATORS

5. ACCOUNTS RECEIVABLE

Gross receivables, excluding cash, rose AD 154 billion in 2006 to AD 1,274 billion and break down as follows:

- Receivable from associates and related companies: AD 584 billion;
- Trade receivables: AD 366 billion of which AD 289 billion for foreign customers and AD 77 billion for local customers;
- Operating advances: AD 87 billion of which AD 80 billion of advances on taxes (IDP: 71 billion + 9 billion other);
- Investment receivables: AD 167 billion;
- Other receivables: AD 69 billion of which AD 38 billion of translation gains.

6. CASH AND CASH EQUIVALENT

Net cash improved significantly over the period and levelled off at AD 824 billion compared to AD 502 billion in 2005. This situation is primarily explained by the improvement of cash flow of the company, the level of interests, income from investments and higher petroleum income receipts. This cash situation breaks down as follows, by financial agency:

BEA	815
CITIBANK	2
BACE	1
Accounts in Financial Institutions	5

7. DEBT

Debt for financial year 2006 dropped 9% over the previous year. It totalled AD 48 billion and breaks down as follows:

Foreign debt	AD 43 billion Equivalent to USD 586 million
Domestic debt	AD 5 billion

Foreign debt dropped 10% on the previous period, from DZD 47 billion in 2005 to AD 42.6 billion in 2006.

Domestic debt for the financial year was:

- AD 5 billion of debenture loan;
- AD 0.31 billion of ENEP debt.

8. LIABILITIES TO ASSOCIATES AND RELATED COMPANIES

This type of debts is primarily comprised of conditional loans recorded under production sharing agreements, and by commercially viable overdrafts. They totalled AD 1,029 billion in 2006 versus AD 922 billion in 2005, being an increase of 12%.

9. CASH FLOW

Cash flow rose 5% in 2005 from AD 782 billion to AD 819 billion.

10. FINANCIAL STRUCTURE

Analysis of the financial structure for financial year 2005 reveals a well-balanced financial improvement.

Indeed, the financing surplus reflected by the surplus cash flow provides the ability to cover all requirements lined to:

- Due debt commitments,
- Investment cash hedges
- Tax liabilities due,
- Investment opportunities with financial institutions.

Working capital

Over the financial year 2006, working capital soared by AD 409 billion, moving from AD 1,049 billion to AD 1,458 billion.

Working capital requirements

Working capital requirements also increased over the financial year, from AD 87 billion to level off at AD 635 billion versus AD 548 billion in 2005.

II. BALANCE SHEET AT 31 DECEMBER 2006

ASSETS

(Millions of dinars)

Item	Gross	Amortization or depreciation	Net		
			2006	2005	2004
Investments (NOTES 1-2-3)	3,403,528	1,812,895	1,590,930	1,445,627	1,377,072
Initial expenses	7,500	3,481	4,019	5,886	6,699
Intangible assets	4,735	2,800	1,935	2,271	1,636
Land	6,925	1,927	4,998	4,239	3,550
Production equipment	2,493,564	1,558,246	935,317	904,052	867,848
social facilities	79,204	40,603	38,601	37,600	37,197
Petroleum studies and prospecting	218,651	205,839	12,812	16,051	19,282
Investments in progress	593,248	0	593,248	475,527	440,859
Inventories	127,210	10,396	116,814	103,130	96,042
Goods for resale	0	0	0	0	0
Raw materials and supplies	100,076	10,396	89,680	79,042	69,231
Assets in construction and WIP	0	0	0	0	0
Finished products	22,984	0	22,984	18,260	23,572
External inventory	4,150	0	4,150	5,828	3,239
Receivables	2,098,302	10,396	2,085,682	1,609,827	1,199,449
Investments	167,370	132	167,238	126,306	79,448
Inventories	16,101	0	16,101	9,746	5,674
Associates and related companies	584,493	52	584,441	530,195	433,685
Advances on account	13,636	131	13,505	10,429	8,041
Operating advances	87,472	58	87,415	52,396	24,430
Trade receivables	366,109	11,756	354,353	341,821	210,725
Cash and cash equivalent	824,196	491	823,704	501,808	377,306
Debit liabilities	38,925	0	38,925	37,124	60,140
TOTAL assets	5,629,337	1,835,912	3,793,425	3,158,584	2,672,562

LIABILITIES

(Millions of dinars)

Item	Nets		
	2006	2005	2004
Shareholders' equity	1,866,787	1,305,815	1,072,338
Statutory reserve	350,000	350,000	277,000
Legal reserve	35,000	27,700	27,700
Discretionary reserves	1,371,443	888,440	704,947
Grants	184	53	184
Grants recognized in extraordinary income	-162	0	-101
Assets assigned by the state	0	0	0
Expense pending allocation	0	0	0
Provisions for loss and charges	110,322	39,623	62,608
Profit for the period (before allocation)	539,582	575,303	341,492
Liabilities	1,387,056	1,277,466	1,258,731
Investments	89,448	89,015	199,569
Inventory	11,907	7,718	5,575
Withholdings on account	21,091	17,924	13,244
Associates and related companies	1,029,008	922,001	872,811
Operating liabilities	206,022	215,810	128,926
Trade advances	2,010	2,131	3,119
Debts	256	256	256
Credit assets	27,313	22,610	35,231
– Cash and cash equivalent	184	186	186
– Other accounts	27,129	22,424	35,045
TOTAL liabilities	3,793,425	3,158,584	2,672,562

FINANCIAL REPORT

II. BALANCE SHEET AT 31 DECEMBER 2006

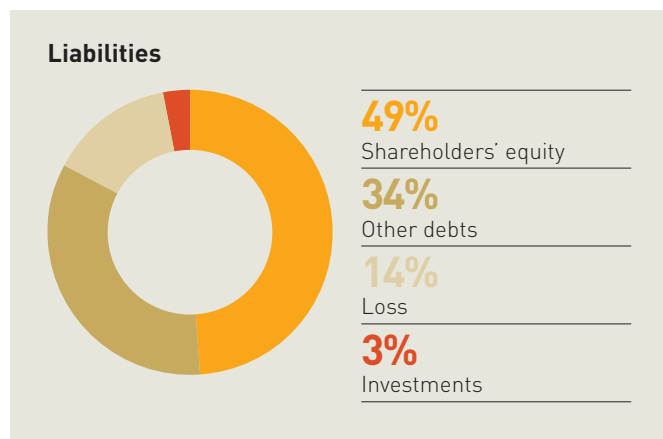
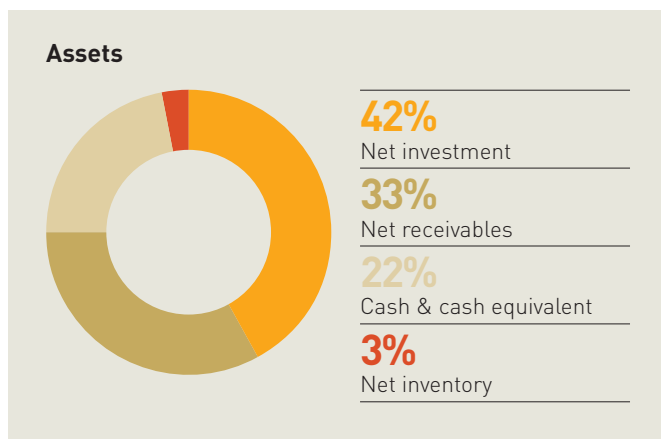
STRUCTURE OF THE COMPANY BALANCE SHEET AT 31 DECEMBER 2006

(Millions of dinars)

	Assets	%
Net investment	1,590,930	42
Net inventory	116,814	3
Net receivables	1,261,977	33
Cash & cash equivalent	823,704	22
TOTAL Assets	3,793,425	100

(Millions of dinars)

	Liabilities	%
Shareholders' equity	1,866,787	49
Investments' debts	89,448	3
Other debts	1,297,608	34
Loss	539,582	14
TOTAL Liabilities	3,793,425	100



III. ANALYSIS OF BALANCE SHEET ITEMS

NOTE 1

INITIAL EXPENSES

(Millions of dinars)

Item	Gross	Amortization	Net		
			2006	2005	2004
Interests	5,576	2,902	2,674	4,483	5,643
Investment expenses	0	0	0	0	0
Professional training expenses	1	1	0	0	37
Operating expenses before start-up	15	15	0	15	15
Studies and prospecting	1,907	562	1,345	1,388	1,004
TOTAL	7,500	3,481	4,019	5,886	6,699

This item covers the expenses incurred by the Company for the acquisition of permanent operating and development resources for its various activities.

This heading is down by AD 1,428 million gross over the previous year.

In financial year 2006, new acquisitions totalled AD 282 million committed by head office and primarily concerning the item **Studies and prospecting**.

Initial expenses absorbed over the 2006 financial year reached an amount of AD 2,117 million. Pursuant to current regulation, the absorption was spread over a period of five (05) years

NOTE 2

INTANGIBLE ASSETS

(Millions of dinars)

Item	Gross	Amortization	Net		
			2006	2005	2004
Industrial and commercial property rights	4,735	2,800	1,935	2,270	1,636

Intangible assets rose by AD 383 million gross, mainly as a result of software acquisitions.

III. ANALYSIS OF BALANCE SHEET ITEMS

NOTE 3

PROPERTY PLANT & EQUIPMENT

(Millions of dinars)

Headings	Gross	Amortization	Net		
			2006	2005	2004
Land	6,925	1,926	4,998	4,239	3,550
Production Equipment	2,493,564	1,558,246	935,317	904,052	867,848
Social facilities	79,204	40,603	38,601	37,600	37,197
Petroleum studies and prospecting	218,651	205,839	12,812	16,051	19,282
Investments in progress	593,248	0	593,248	475,527	440,859
TOTAL other investments	3,391,592	1,806,614	1,584,978	1,445,627	1,368,736

3.1. Land

The increase in the gross value of land and improvements totalled AD 844 million and breaks down as follows:

- Building land and sites 843
- Improvements 1

Acquisition of these property assets break down as follows:

- Upstream 467
- Downstream 1
- Pipeline Transportation 216
- Central activities 161

3.2. Production Equipment

This item includes fixed and complex production equipment whose gross value increased by AD 190,255 million as follows:

- Realised over the financial year:
AD 3,261 million.
- Reclassifications of investments in progress:
AD 209,004 million.
- Investment disposals:
AD 22,010 million.

3.2.1. PRODUCTION INVESTMENT

The item covers the fixed and complex plants, represented by integrated group or specific units necessary for production, transportation and processing of hydrocarbons. It recorded an increase of AD 160,961 million on the items below:

- Reclassifications of investments in process **180,496**
 - Wells and extraction facilities 88,254
 - treatment, processing and manufacturing plant 22,228
 - Pipeline transportation plant 28,867
 - Production-related plants 26,589
 - Receipt, storage and shipping facilities 14,559
- Company production for own use **412**
- Acquisitions from third parties **497**
- Adjustments **4**
- Disposals, destructions, others **(20,449)**

3.2.2. OTHER PRODUCTION EQUIPMENT

This item comprises all kinds of assets, moveable and immovable with the exception of land and fixed structures and production complexes. It is used by the company as a working instrument. It reported an increase of AD 29,294 million.

It breaks down as follows:

• Reclassification of equipment in progress	28,508
• Purchase of securities	2,577
• Production for own use	6
• Disposals to third parties, destruction	(1,562)
• Adjustments	(236)

3.3. Social Facilities

This item covers the moveable and immovable items comprising the Company's social infrastructure, namely: compounds, canteens, staff accommodation, company medical centres, etc.

The increase in this heading for this financial year totalled AD 6,091 million and primarily concerns the construction of social buildings and fittings.

3.4. Petroleum studies and prospecting

This item records the effort carried out in the context of the petroleum prospecting by the implementation of specialised techniques such as:

- Terrain geology,
- Geological interpretation,
- Geophysics,
- Seismic interpretation,
- Exploratory drilling
- Etc.

It increased by AD 12,810 million corresponding to the items below:

• Reclassification of investment in progress	5,998
• Company production for own use	6,872
• Destructions, etc.	(60)

3.5. Investments in progress

The amount of investments in progress in 2006 totalled AD 593,248 million versus AD 475,527 million in 2005.

Investments made over the period reached AD 339,425 million corresponding to:

• Acquisitions from third parties	250,263
• Investments production	87,207
• Adjustments	1,955

Developments by activity, under the heading « Investments in progress » excluding advances and advance payments for the investments, break down as follow:

• Upstream	252,919
• Downstream	11,851
• Pipeline transportation	65,275
• Central activities	9,380

Reclassifications of outstanding in the appropriate investment accounts totalled AD 220,473 million, representing a decline of AD 21,251 million over the previous year.

3.5.1. INVESTMENTS BY ACTIVITY

The carrying amounts of investments for the year comprise acquisitions from third parties, production for own use, advances and deposits on investments and adjustments for the previous year totalled AD 349,906 million compared to AD 297,354 million in 2005.

III. ANALYSIS OF BALANCE SHEET ITEMS

3.5.1.1. Investments by activity

(Millions of dinars)

Activity	Investment receivables (balance)	Third party purchases	production for own use	Adjustment	Total
Central activities	-1,900	11,127	421	-338	9,310
Upstream	95	163,993	93,122	3,685	260,894
Downstream	-1,304	12,523	161	-76	11,304
Pipeline Transportation	1,268	67,909	803	-1,581	68,398
TOTAL	-1,840	255,551	94,507	1,689	349,906

3.5.1.2. Investments by type

(Millions of dinars)

Item	2006 Achievements
Initial expenses	250
Intangible assets	378
Land	844
Production Equipment	3,262
Social facilities	715
Petroleum studies and prospecting	6,873
Investments in progress	339,425
Investment receivables (balance)	-1,840
TOTAL	349,906

NOTE 4 INVENTORIES

(Millions of dinars)

Item	Gross	Provision	Net		
			2006	2005	2004
Goods for resale	0	0	0	0	0
Raw materials and supplies	100,076	10,396	89,680	79,042	69,231
Finished products	22,984	0	22,984	18,260	23,572
External inventory	4,150	0	4,150	5,828	3,239
TOTAL	127,210	10,396	116,814	103,130	96,042

4.1. Raw materials and supplies

The gross inventory value at the beginning of the year amounted to AD 85,637 million, up in 2006 to a level of AD 100,076 of available inventory.

Destocking carried out over the period for operating requirements amounted to AD 45,472 million.

The use of raw materials and supplies generally grew at the same pace as production.

Destocking mainly applied to the following products:

• Casing	24,174
• Spare parts for equipment	5,176
• Spare equipment	4,406
• Construction and drilling equipment	3,755
• Chemical and petrochemical products	2,421

4.2. Finished products

The "finished products" item totalled AD 22,984 million and breaks down as follows:

• Crude oil	14,038
• NGL	3,554
• LNG	2,031
• Other oil products	3,361

4.3. External inventory

External inventory, worth AD 4,150 million comprise:

- Goods for AD 764 million.
- Raw materials and supplies for AD 3,098 million.
- Finished products for AD 288 million.

III. ANALYSIS OF BALANCE SHEET ITEMS

FINISHED PRODUCTS INVENTORY

December 31, 2006	UM product mouvmnt					
Product name	UM	Initial inventory	Production for the period	Available production	Destocked production	Final inventory
		1	2	3 = 1 + 2	4	5 = 3 - 4
Crude oil	TM	1,315,017	63,864,724	65,179,741	63,670,836	1,508,905
NGL	TM	448,612	13,440,341	13,888,953	13,509,157	379,796
Natural gas	10 ³ CM	0	86,860,441	86,860,441	86,860,441	0
LPG	TM	14,169	8,403,810	8,417,979	8,399,955	18,024
LNG	CM	411,065	39,082,770	39,493,835	39,119,702	374,133
Naphta	TM	15,501	284,130	299,631	289,021	10,610
Ethane	TM	0	164,935	164,935	164,935	0
Butane	TM	92,820	4,054,950	4,147,770	4,022,244	125,526
Propane	TM	66,047	4,392,220	4,458,267	4,325,660	132,607
Refinery products	TM	0	9,251,626	9,251,626	9,251,626	0

Product name	Product mouvmnt (TOE)				
	Initial inventory	Production for the period	Available production	Destocked production	Final inventory
	1	2	3 = 1 + 2	4	5 = 3 - 4
Crude oil	1,315,017	63,864,724	65,179,741	63,670,836	1,508,905
NGL	499,754	14,972,540	15,472,294	15,049,201	423,093
Natural gas	0	82,083,117	82,083,117	82,083,117	0
GPL	16,337	9,689,593	9,705,930	9,685,148	20,782
LNG	244,173	23,215,165	23,459,338	23,237,103	222,235
Naphta	17,051	312,543	329,594	317,923	11,671
Ethane	0	190,170	190,170	190,170	0
Butane	107,021	4,675,357	4,782,379	4,637,647	144,731
Propane	76,152	5,064,230	5,140,382	4,987,486	152,896
Refinery products	0	10,176,789	10,176,789	10,176,789	0
TOTAL	2,275,505	214,244,228	216,519,733	214,035,420	2,484,313

TOE conversion factors

Crude oil	NLG	Refinery products	Natural gas	LPG	LNG
1.00	1.114	1.10	0.945	1.153	0.594

NOTE 5 RECEIVABLES

(Millions of dinars)

Item	Gross	Provisions	Net		
			2006	2005	2004
Investments	167,370	132	167,238	126,306	79,448
Inventory	16,101	0	16,101	9,746	5,674
Associates and related companies	584,493	52	584,441	530,195	433,685
Advances and down payments	13,637	131	13,505	10,429	8,041
Operating advances	87,473	58	87,415	52,396	24,430
Trade receivables	366,109	11,756	354,353	341,821	210,725
Cash and cash equivalent	824,196	491	823,704	501,808	377,306
Debit liabilities	38,925	0	38,925	37,124	60,140
TOTAL receivables	2,098,302	12,620	2,085,682	1,609,827	1,199,449

Gross receivables were up by AD 475,457 million, or 29% over the previous period.

5.1. Investment receivables

Gross investment receivables on the balance sheet date totalled AD 167,370 million. They were written down by AD 132 million and finally levelled off at AD 167,238 million versus AD 126,306 million in 2005.

Gross receivables were broken down as follows:

• Participating shares	12,924
• Participating shares in subsidiaries (*)	40,192
• Advances and down payments on investments	18,530
• Investment securities	93,156
• Loans	2,147
• Security deposits	392
• Other investment receivables	28

(*) Participating shares acquired for the year amounted to AD 26,831 million and concerned:

• API	1,230
• SOPREP	60
• SHARIKET KAHRABA	0.1
• TAL	9,000
• RCH	16,000
• TRANSMED SPA	6
• MEDGAZ	197
• GALSI	338

5.2. Inventory

In 2006, gross inventory value amounted to AD 16,101 million, up by AD 6,355 million over 2005.

They comprise the following:

• Advances to suppliers	15,985
• Deposits paid	116

5.3. Receivable from associates and related companies

These receivables totalled AD 584,493 million, or were up 10% over the previous period. They primarily comprised partners' lifting rights and calls for funds under production sharing contracts for joint reserves.

III. ANALYSIS OF BALANCE SHEET ITEMS

It should be noted that lifting by partners during the period, deducted from debts of the same kind under production sharing, stood at AD 383,439 million versus AD 347,972 million in 2005.

This line item mainly comprises:

• Advances on services	4,080
• Tax and duty prepayments (*)	79,773
• Prepaid expenses	3,184
• Expenses pending allocation	424
• Advance payments to staff and others	12

5.4. Operating advances

Gross operating advances amounted to AD 87,473 million. They were written down by AD 58 million over the period.

(*) These advances are mainly tax advance payments on the following activities:

• Upstream(non associates)	30,005
• Associations	32,145
• Head office	8,655
• Downstream	396

5.5. Local and foreign trade accounts receivable

(Millions of dinars)

Item	Period			Change 2006-2005
	2006	2005	2004	
Local customers	76,567	53,297	57,688	44%
Foreign customers	289,542	300,507	158,187	-4%
Total trade receivables	366,109	353,804	215,875	5%
Provisions for doubtful receivables	11,756	11,983	5,150	-2%
Net total	354,353	341,821	210,725	4%

Gross trade receivables from foreign customers, payable within one (1) month fell by 4%. Those for local customers payable in six (06) months on average increased 44%.

Accruals for doubtful receivables were AD 11,756 million, down by AD 227 million versus the figure in 2005.

5.6. Cash and cash equivalent

Cash and cash equivalent rose by AD 321,896 million over the previous year, to a net balance of AD 823,704 million at year end 2006.

5.7. Debit liabilities

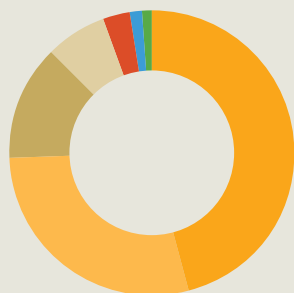
This item stood at AD 38,925 million, up by AD 1,801 million, or 5% over the previous period.

5.8. Liquidity of gross receivables at 31 December 2006

(Millions of dinars)

Item	Receivables' liquidity			Total
	Short term	Medium Term	Long term	
Investments	78,364	35,497	53,509	167,370
Inventory	16,101	0	0	16,101
Associates and related companies	584,493	0	0	584,493
Payments for own account	13,637	0	0	13,637
Operating advances	87,473	0	0	87,473
Trade receivables	366,109	0	0	366,109
Debt liabilities	38,925	0	0	38,925
TOTAL	1,185,101	35,497	53,509	1,274,106
Liquidity in %	93	3	4	100

Receivables breakdown



587,493

Associates and related companies

366,109

Trade receivables

167,370

Investments

87,473

Operating advances

38,925

Debit liabilities

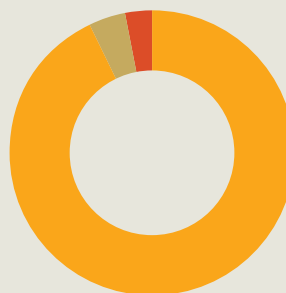
16,101

Inventory

13,637

Payments for own account

Receivables' liquidity



1,185,101

Short term

53,509

Long term

35,497

Medium Term

III. ANALYSIS OF BALANCE SHEET ITEMS

NOTE 6

SHAREHOLDERS' EQUITY

(Millions of dinars)

Items	2006	2005	2004
Statutory reserve	350,000	350,000	277,000
Legal reserve	35,000	27,700	27,700
Discretionary Reserves	1,371,443	888,440	704,947
Grants received	184	53	184
Grants recognized in extraordinary income	-162	0	-101
Assets assigned by the State	0	0	0
Provisions for loss and charges	110,322	39,623	62,608
Profit for the period	539,582	575,303	341,492
TOTAL equity	2,406,370	1,881,118	1,413,830

6.1. Share capital

Share capital of an amount of AD 350,000 million comprises 350,000 shares with a unit value of of AD 1 million.

6.2. Legal reserve

The 10% of share capital threshold for the legal reserve was reached in 2006, bringing the reserve to AD 35,000 million.

6.3. Net earnings for the financial year

Net profit for financial year 2006 amounted to AD 539,582 million, showing a drop of AD 35,721 million, or less 6% over the previous period.

This situation can be explained by the constitution of a provision for contingencies of nearly AD 70 billion, not deducted from the tax expense, representing the estimate of the tax differential derived from the new petroleum law as from 1 January 2006 in relation to law 86-14.

NOTE 7

PROVISIONS FOR LOSS AND CHARGES

This item covers accruals for risks and charges likely to result from current events, it changed as follows:

(Millions of dinars)

Items	2006	2005	2004
Provisions for litigation	3,362	2,694	2,700
Provisions for translation losses	36,942	36,906	59,908
Other contingent liability	70,017	23	0
TOTAL	110,322	39,623	62,608

Other contingent liability led to accruals of AD 70,017 million, up by AD 69,994 million over the previous period.

This provision reflects the tax difference caused by the new law (05-07) on petroleum products.

NOTE 8

LIABILITIES

(Millions of dinars)

Items	2006	2005	2004
Investments	89,448	89,015	199,568
Inventory	11,907	7,718	5,575
Withholdings on account	21,091	17,924	13,244
Associates and related companies	1,029,008	922,001	872,811
Operating liabilities	206,022	215,810	128,926
Trade advances	2,010	2,131	3,119
Financial debt	256	256	256
Credit assets	27,313	22,610	35,231
– Cash and cash equivalent	184	186	186
– Other accounts	27,129	22,424	35,045
TOTAL	1,387,056	1,277,466	1,258,731

Special attention will be paid to the debts below:

8.1. Investments

Investment liabilities rose by AD 433 million over the previous year. They comprised:

- Investment debts of AD 36,301 million of which AD 25,616 million for joint reserves under production.
- Financial debt of AD 47,584 million, broken down as follows:
 - Foreign debt: AD 42,552 million.
 - Domestic debt: AD 5,031 million of which AD 31 million for ENEP.
- Post-completion guarantee and other investment liabilities for AD 5,563 million.

8.2. Associates and related companies

Debts to associates and related companies stood at AD 1,029,008 million, up by AD 107,007 million, or 12% over the previous year.

These debts comprise:

- Conditional liabilities under shared production contracts for AD 872,717 million. These debts are cancelled by the lifting rights on production held by foreign partners. They breakdown by phase as follows:
 - Operating phase 861,611
 - Development phase 11,106
- Conditional liabilities incurred for petroleum studies in the exploratory phase for AD 141,627 million.
- AD 500 million represents the shares imputable to employees but undistributed.

8.3. Operating debts

These are mainly tax and contributions, pay, services and third-party compensations. These debts dropped 5% over the previous period, from AD 215,810 billion to AD 206,022 million in 2006.

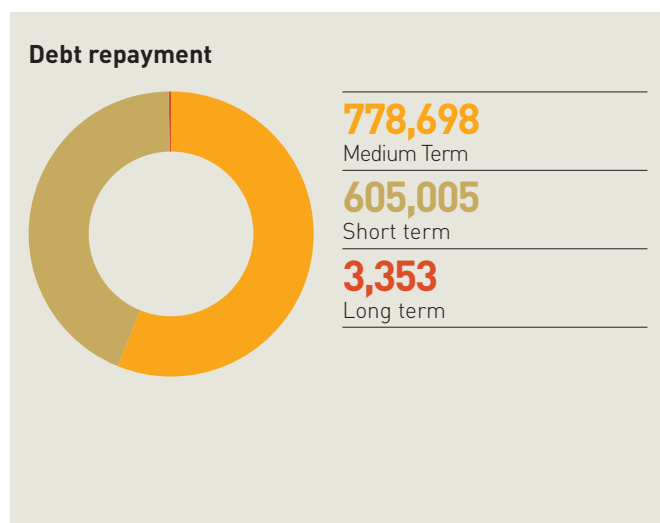
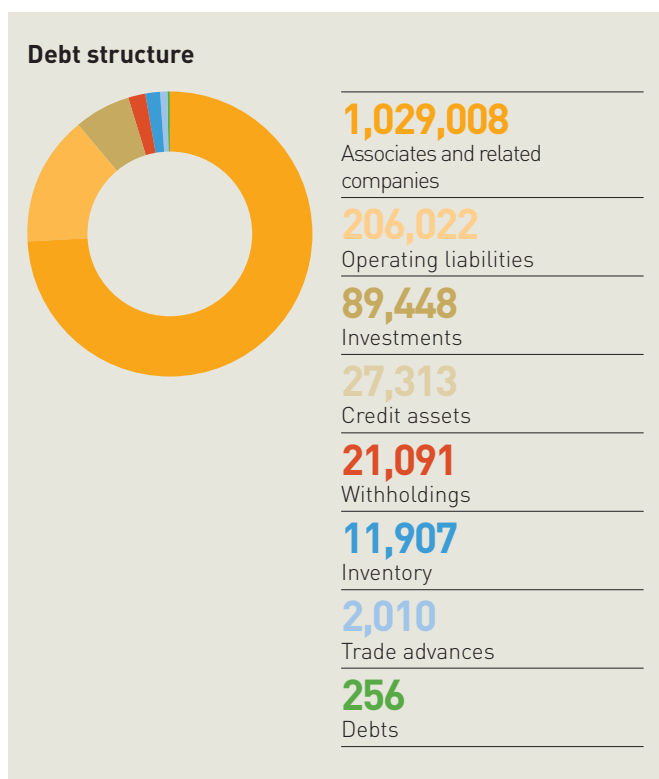
III. ANALYSIS OF BALANCE SHEET ITEMS

8.4. Repayment of debts

Debt structure repayments at december 31, 2006

(Millions of dinars)

Items	Due			Total
	Short term	Medium Term	Long term	
Investments	23,135	62,960	3,353	89,448
Inventory	11,907	0	0	11,907
Withholdings	21,091	0	0	21,091
Associates and related companies	313,270	715,737	0	1,029,008
Operating liabilities	206,022	0	0	206,022
Trade advances	2,010	0	0	2,010
Debts	256	0	0	256
Credit assets	27,313	0	0	27,313
TOTAL	605,005	778,698	3,353	1,387,056
Due %	44	56	0	100



IV. INCOME STATEMENT 2006

INCOME STATEMENT 2006

(Millions of dinars)

Item	Net total		
	2006	2005	2004
Turnover (Note 9)	4,222,746	3,535,750	2,450,765
Inventory production	3,762	-4,073	6,616
Self-constructed assets and inventory	94,576	80,348	71,055
Goods for resale, cost of materials and services (Notes 10-11-12)	1,176,334	890,596	662,604
Value added	3,144,751	2,721,430	1,865,832
Sundry income	14,964	4,982	6,141
Payroll charges (Note 13)	60,951	54,468	50,214
Taxes and duties	6,065	6,862	5,690
Financial expenses (Note 14)	453,743	382,089	234,036
Sundry expenses	3,061	3,040	3,250
Depreciations and provisions (Note 15)	197,579	196,019	172,947
Operating profit	2,438,315	2,083,933	1,405,837
Non-operating charges	218,404	152,317	139,157
Non-operating income	144,659	227,731	122,874
Non-operating profit (loss)	-73,746	75,414	-16,283
Operating profit	2,438,315	2,083,933	1,405,837
Non-operating profit (loss)	-73,746	75,414	-16,283
Pre-tax profit	2,364,569	2,159,347	1,389,553
Income tax	1,824,987	1,584,044	1,048,061
After-tax profit	539,582	575,303	341,492

V. ANALYSIS OF MANAGEMENT ITEMS

Analysis of income

NOTE 9

GLOBAL TURNOVER COMPARISON

(Millions of dinars)

Items	2006	2005	2004
Goods sold	11,906	3,201	2,445
Sold production	3,991,290	3,457,842	2,368,382
Services to third parties	219,551	74,707	79,937
TOTAL turnover	4,222,746	3,535,750	2,450,765

The achievement of global turnover in 2006 rose 19% to AD 4,222,746 million versus AD 3,535,750 million in 2005. They mainly comprised production sales, which breaks down as follows:

	2006	2005
Foreign sales	3,889,005	3,356,050
Domestic market	114,190	104,993

The main reasons for the improvement were:

- the rise in crude oil prices from \$US 54.59 in 2005 to \$US 65.75 in 2006;
- changes in export sales of products were as follows:

	2006	2005
Crude oil	1,640,698	1,418,689
NG	646,540	537,134
LNG	456,648	402,302
Condensate	527,235	461,313

The statement of production sold to third parties is as follows:

(Millions of dinars)

Products	Market		Total
	Domestic	Foreign	
Crude oil	84,185	1,640,698	1,724,883
NGL	0	527,235	527,235
Natural Gas	17,914	646,540	664,455
LNG	40	456,648	456,687
Butane	2,321	113,833	116,154
Propane	827	149,040	149,867
Light Naphta	0	11,280	11,280
Ethane	43	0	43
Premium petrol	0	10,897	10,897
Regular petrol	0	5,604	5,604
Heavy Naphta	0	119,628	119,628
Kerosene (kero – jet)	0	24,203	24,203
Fuel oil	0	6,572	6,572
BTS Fuel	0	159,582	159,582
HTS Fuel	0	0	0
Accessories	0	4,788	4,788
Sub-total	105,330	3,876,549	3,981,879
COM sales	6,973	2,437	9,411
TOTAL production sold	112,304	3,878,986	3,991,291

V. ANALYSIS OF MANAGEMENT ITEMS

Analyses of charges

STATEMENT OF CHARGES

(Millions of dinars)

Items	2006	2005	2004
Goods used in the business	11,823	3,019	2,465
Raw materials and supplies	38,819	33,707	26,562
Services	433,234	252,092	208,228
Payroll expenses	60,951	54,468	50,214
Financial expenses (bank charges and commissions)	1,272	2,445	2,372
Gross remuneration of partners	450,089	372,111	223,827
Sundry expenses	3,061	3,040	3,250
Sub-total (A)	999,250	720,882	516,918
Fee on oil production	692,458	601,777	425,349
Taxes and similar payments	6,065	6,862	5,690
Sub-total (B)	698,523	608,640	431,040
Financial expenses (interest on loans)	2,382	7,533	7,836
Depreciation and amortizations	197,579	196,019	172,947
Sub-total (C)	199,961	203,552	180,783
TOTAL charges (A + B + C)	1,897,734	1,533,074	1,128,741

Charges for the financial year amounted to AD 1,897,734 million of which AD 94,507 million were devoted to investments in production.

NOTE 10

RAW MATERIALS AND SUPPLIES

This item records removals from inventory of raw materials and supplies for production or operating use.

They rose by 15% or AD 5,112 million over the previous year.

NOTE 11

SERVICES

Services (excluding petroleum production royalties) increased by AD 181,142 million or 72% and break down as follows (in millions of dinars):

• Freight and transport of sales	83,542
• Personnel transportation	3,660
• Maintenance and repairs	11,004
• Technical support	1,291
• Works, research and operation of reserves	212,222
• Other remuneration to third parties	108,840
• Rent and rental charges	4,943
• Other fees	2,045
• Sundry services	5,687

NOTE 12

PETROLEUM PRODUCTION ROYALTIES

Royalties paid in 2006 were higher than the previous year. They rose from AD 601,777 million in 2005 to AD 692,458 million in 2006, being an increase of 5% primarily due to the change in production level and the sale price of finished products.

NOTE 13

PAYROLL EXPENSES

Cash and cash equivalent rose by AD 6,483 million (+12%) over the previous year, this increase was mainly driven by the wage agreement signed in October 2006.

NOTE 14

FINANCIAL EXPENSES

Financial expenses comprised interests on loans, overdraft charges, commissions and the gross remuneration of partners in respect of oil profits and totalled AD 453,743 million.

- Interests on loans for AD 2,382 million fell by 68% to AD 5,151 million compared to the previous year, owing to the early repayment of bank loans for previous financial years and the weak mobilisation level of new credits.

- Overdraft charges and bank commissions tumbled 48% to AD 1,272 million in 2006, versus AD 2,445 million in 2005 following the revision of interest rate scales and the merger of the bank accounts opened in the *Banque Extérieure d'Algérie*.
- Remuneration of partners in association under the profit oil sharing agreement increased by AD 77,998 million, moving from AD 372,111 million in 2005 to AD 450,109 million in 2006.

NOTE 15

DEPRECIATIONS AND AMORTISATIONS

This item recorded a slight increase (1%). Depreciations and amortisations for new acquisitions and commissioning of investments during financial year 2006 were determined on a prorata temporis basis, moving from AD 196,019 million in 2005 to AD 197,579 million in 2006.

VI. PARTICIPATING SHARES

Algerian companies

AT DECEMBER 31, 2006

(Millions of dinars)

Company	Acronym	Equity in original currency	Sonatrach's participation (in Dinars)		Partners
			Historic cost	Amount after discount	
Société d'investissement et participation	SIP	DA 200	200	200	SH 100%
Groupe raffinerie et chimie des hydrocarbures	RCH	DA 20,000	20,000	20,000	SH 100%
Services para-pétroliers	SPP	DA 400	400	400	SH 100%
Groupe distribution	SVH	DA 200	200	200	SH 100%
Société algéro-libyenne d'exploitation et de production des produits pétroliers	ALEPCO	\$ 1,000,000	3	3	SH 50% NOC 50%
NAFTOGAZ	NAFTOGAZ	DA 30	30	30	SH 100%
Institut algérien des Hautes Études Financières		DA 30	3	3	SH 10% banques 30% ASSUR et SRH 20% STRATEGICA 40%
SHARIKET KAHRABA EN NOUSS	SKH	DA 1	0	0	SH 10%
Société chargée des relations publiques	SOPREP	DA 100	60	60	SH 60% ENAFOR/ENTP/ EGZIA/NAFTAL et TAL 40%
Algerian Petroleum Institute	API	DA 1,500	1,230	1,230	SH 82% STATOIL 10% NAFTEC 4% NAFTAL 4%
TAL	TAL	DA 9,000	9,000	9,000	SH 100%
TOTAL			31,126	31,126	

Foreign companies

AT DECEMBER 31, 2006

(Millions of dinars)

Company	Acronym	Equity in original currency	Sonatrach's participation (in Dinars)		Partners
			Historic cost	Amount after discount	
Mariconsult SPA	MARICONSULT	EUR 51,645.68	0.5	5	SH 50% snam 50%
Société à garantie limitée (SAGL)	SAMCO	F.S. 20,000	0	0	TMPC 90% SH 5% SNAM 5%
Medgaz	Medgaz	EUR 28,500,000	697	732	SH 26.32% CEPSA 26.32% ENDESA 15.79% ENI 15.79% GDF 15.79%
Sonatrach International Holding Corporat.	SIHC	\$US 111,616,500	4,864	7,943	SH 100%
Société in Salah Gas Limited	ISGL	£ 180	0	0	SH 50% BP E ISL 50%
Société in Salah Gas Services Limited	ISGSL	£ 180	0	0	SH 50% BP E ISL 50%
Joint Venture Algeria Nippon Gas Transp., Corp.	JV ANGT	\$US 100,000	2	2	SH 25% HYPROC 25% ITOCHU 25% MOL 25%
GALSI	GALSI	EUR 10,838,000	365	366	SH 36% EDISON GAS 18% WINTERSHAL 13.5% ENEL POWER 13.5% SFIRS 5% PROGEMISA 5% EOS ENERGIA 9%
Joint Venture Mediterranean LNG Transp., Corp.	M.LNG.T.C	USD 200,000.00	4	4	SH 25% HYDROC 25% ITOCHU 25% MOL 25%
Joint Venture Skikda LNG Transp., Corp.	SLTC	USD 200,000	4	4	SH 25% HYPROC 25% ITOCH 25% MOL 25%
Transmed SPA	TRANSMED	EUR 240,000	11	11	SH 50% ENI 50%
TOTAL			5,947	9,066	

VII. FINANCIAL STRUCTURE

(Millions of dinars)

Item		2006	2005	2004
Invested capital (A)		3,181,039	2,649,030	2,246,545
Fixed assets (B)		1,722,931	1,599,683	1,463,375
working capital	C = (A - B)	1,458,108	1,049,348	783,170
Operating assets (D)		1,242,771	1,051,207	825,181
Short-term liabilities (E)		608,183	503,481	419,131
Working capital requirement	F = (D - E)	634,588	547,726	406,050
Cash surplus	G = (C - F)	823,520	501,622	377,120

VIII. KEY RATIOS

Ratios		2006	2005	2004
YIELD				
Operating result/invested capital		77%	79%	63%
Operating result/revenues		58%	59%	57%
Operating result/production for the period		57%	58%	56%
SOLVECY				
Investment liability/shareholders' equity		4%	5%	15%
Cash flow/MLT liabilities		92%	96%	56%
Operating assets/short-term liabilities		2.04	2.09	1.97
Financial expenses/MLT liabilities		0%	1%	1%
Financial expenses/revenues		0.06%	0.21%	0.32%
Total liabilities/total assets		0.40	0.42	0.50
Total assets/total assets (excluding 44)		1.18	1.20	1.19

IX. PRESENTATION OF ACCOUNTING PRINCIPLES

The financial statements for financial year 2005 have been prepared in compliance with the Algerian general Chart of Accounts, the generally accepted accounting principles and the standards applying to the petroleum industry.

The SONATRACH Spa balance sheet for financial year 2006 does not consolidate the accounts of its subsidiaries, including those of which it exercises exclusive control. A statement of shareholding is however attached to this document.

The group consolidated financial statements in Algerian GAAP are prepared and presented separately.

Participating shares in Group subsidiaries are measured at purchase cost and recognised in investment receivables under "participating shares".

The carrying value of shares in foreign subsidiaries is automatically discounted at the above balance sheet date.

1. INVESTMENTS

1.1. Investment depreciation method

- Company investments are depreciated on a straight line basis Law 86.14 (19 August 1989) as amended, on the oil business, sets out the depreciation rates applicable to investments. These rates vary according to the allocation of moveable and immovable assets. Investments in the southern regions attract higher depreciation rates than those in the north.
- Initial expenses should be absorbed as quickly as possible and within five years at most. Once fully written down, initial expense and absorption accounts are automatically balanced.

1.2. Initial expenses

They include expenses incurred in the incorporation of the Company when it acquired its long-term operating, development and/or business improvement resources.

Initial expenses are expensed by type and are moved to "initial expense" in assets at year end with a reversing entry under transfer of charges. They are measured at purchase cost or cost and are never recognized directly in accounts 200 to 208.

1.3. Intangible assets

Intangible assets include the different items below:

- goodwill;
- Industrial property and commercial rights.

Intangible assets are measured at purchase, production or contribution cost in the accounts.

1.4. Production Equipment

The "Production Equipment" account includes in particular:

- Fixed and complex production equipment: these are permanently fixed complex units for specialist purposes and includes all equipment, items and elements that although can be separated by type, are technically critical for the operation of the whole and are irreversibly incorporated in the whole. Owing to the incorporation, they are subject to the same rate of depreciation and are therefore measured at purchase or production cost.
- Other production equipment: assets of whatever nature, moveable or unmoveable, that have been purchased or produced by the Company for use as work tools.

1.5. Social Equipment

This item comprises all kinds of assets, moveable and immovable with the exception of land acquired or created by the Company and assigned for occupational operations.

1.6. Petroleum studies and prospecting

Petroleum studies and prospecting costs are recognised by type and allocated to the year in which they were incurred. At year end, these costs are carried in the investment account under "petroleum studies and prospecting" if the investments are completed. They are carried in "Investments in progress" if they are not completed at the balance-sheet date with a reversing entry in income under "Self-constructed assets".

IX. PRESENTATION OF ACCOUNTING PRINCIPLES

Prospecting costs, where no commercially exploitable reserves are discovered, are heavily written down over the period pursuant to Law 86.14.

2. ACCOUNTING TREATMENT OF OPERATIONS INVOLVING JOINT RESERVES

Operations involving joint reserves are recognised in the accounts by phases:

- exploration;
- development;
- operation.

2.1. Accounting treatment of specific phase costs

2.1.1. EXPLORATION COSTS

Exploration costs are financed by partners and are therefore recognised in the appropriate investment accounts, with reversing entries in debt conditional on the discovery of a commercially viable reserve. The conditional debt is balanced by:

- either the repayment of part of the production costs (if a commercially exploitable reserve is found) as stated in the contract, or
- cancellation of the debt if no commercially exploitable reserve is found. In which case, the investment costs will be hugely depreciated.

2.1.2. DEVELOPMENT COSTS

Development costs are expensed to the appropriate investment accounts, with reversing entries in a conditional debt account for the portion financed by partners.

The liability, which is conditional on sufficient production being discovered in the reserve is reduced at the partner lifts its share of production.

2.1.3. OPERATING COSTS

Operating costs (oil cost) incurred by partners are carried in the appropriate account, with reversing entries in debt conditional on the continued operation of the reserve.

The conditional debt is repaid as oil is lifted, as set out in the production sharing agreement.

2.2. Accounting treatment of partner remuneration (Oil profit)

Partners are remunerated as per contract. Such remunerations are recognised in "Financial expense" pursuant to Law 86.14.

The remuneration incurs 38% income tax paid by SONATRACH on behalf of its partners.

3. PETROLEUM STOCKS

Petroleum stocks are measured at cost and recognized at the last known cost or realisable value if lower.

4. RECEIVABLES FROM AND LIABILITIES TO ASSOCIATES AND RELATED COMPANIES

4.1. Receivable from associates and related companies

This asset account recognises advances and receivables from associates and related companies, plus oil lifted by foreign partners from their share of production.

4.2. Liabilities to associates and related companies

This liabilities account recognises debts to associates and related companies, plus conditional debt to foreign partners.

5. (FOREIGN CURRENCY) RECEIVABLES AND LIABILITIES

(Foreign currency) receivables and liabilities are recognized in the appropriate account at the exchange rate in force on the balance sheet date.

Translation differentials arising from changes in the exchange rate are recorded under deferred loss (assets) or deferred gains (liabilities), as appropriate.

Deferred gains are not taken into consideration when calculating results. However, provisions are systematically set aside for the full amount of deferred losses in accordance with the principle of prudence.

5.1. Particularities of foreign trade accounts receivable

Given the volatility of crude oil prices and fluctuating exchange rates, foreign accounts receivable are given special treatment.

Over the period, foreign currency invoices are recorded in dinars when issued. At the balance-sheet date invoices still outstanding are recognised in dinars at the exchange rate applying at 31 December of the financial year in question. The invoices are then adjusted during the course of the following period as they are paid. Any resulting differential is carried to "exchange differential" in the income statement.

6. MEASUREMENT AND ACCOUNTING TREATMENT OF SALES

6.1. Measurement

6.1.1. DOMESTIC SALES

Sales to meet domestic market needs are measured at the prices reported in accordance with legal requirements.

6.1.2. FOREIGN SALES

Export sales are measured at international market price or contract price, depending on the product concerned.

6.2. Accounting treatment

Sales of Company products are credited to "production sales".

7. FISCAL REGIME

SONATRACH spa is subject to two fiscal regimes pursuant to Law 86.14. Petroleum prospecting and production is subject to the oil taxation regime. Other activities are subject to the ordinary law regime.

7.1. Oil taxation

Law 86.14 defines two separate taxes namely: petroleum production royalties and income tax.

7.1.1. PETROLEUM PRODUCTION ROYALTIES

Royalties on petroleum extracted from reserves are 20%, (except zones A and B).

If warranted by the financial conditions under which reserve prospecting and operation are carried out, royalty rates may be reduced, depending on zone, as follows:

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

At the accounting level, petroleum production royalties are recorded under "services". They do not constitute a tax but an operating charge.

7.1.2. INCOME TAX

Gross profit for the period is subject to income tax at 85% (except zones A and B) for the prospecting, research and operation of petroleum reserves.

If the financial conditions for prospecting and operation set out in Law 86.14 are met, this rate may be reduced to:

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

7.2. Ordinary law regime

Profits obtained during the period from pipeline transportation and downstream activities (LPG liquefaction and separation) are subject to 38% tax and Head quarter to 25% tax.

X. OPINION OF THE STATUTORY AUDITORS

Dear Shareholders,

We are pleased to present you with our report on the audit assignment that we have completed, in our capacity as statutory auditors of SONATRACH.


We have reviewed the financial statements as compiled by the Board of Directors of your company for financial year 2006, with total assets and liabilities of three thousand seven hundred and ninety-three billion, four hundred and twenty-five million, four hundred and seventy-three thousand, five hundred and forty dinars and seventy-four cents (3,793,425,473,540.74) and net profit of five hundred and thirty nine billion, five hundred and eighty-two million, three hundred and thirteen thousand, eight hundred and fifty-one dinars and twenty-four cents (539,582,313,851.24).

Our different verifications, carried out mostly by spot checking, cross-checking and other techniques that seemed most appropriate to us, were carried out in accordance with the rules for obtaining reasonable assurance.

Given the results of these reviews, we hereby certify that the consolidated accounts of Sonatrach are true and sincere and give a true and fair view of the results of operations for the year ending 31 December 2006, and of the financial situation and assets of your Company at the end of the said financial year.

Algiers, 20 May 2007

FOR AND ON BEHALF OF THE BOARD OF STATUTORY AUDITORS
THE COORDINATOR



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