

# ***SONATRACH PETROLEUM CORPORATION***

Consolidated Financial Statements  
For the year ended December 31, 2003  
and Independent Auditors' Report

États financiers consolidés  
de l'exercice clos le 31 décembre 2003  
et Rapport des vérificateurs indépendants

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**Deloitte  
& Touche**

## **INDEPENDENT AUDITORS' REPORT**

To the Members of the Board of Directors of

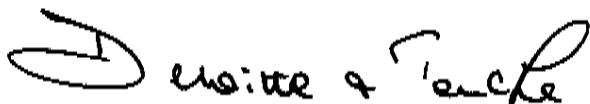
### **Sonatrach Petroleum Corporation**

We have audited the accompanying consolidated balance sheet of Sonatrach Petroleum Corporation and its subsidiaries (the "Group") as at December 31, 2003, and the related consolidated statements of income, changes in shareholder's equity and cash flows for the year then ended (all expressed in United States dollars). These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2003, and the results of its operations, changes in shareholder's equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.

We also audited the adjustment described in Note 28 that was applied to restate the 2002 consolidated financial statements to give retroactive effect to the correction of error for the calculation of the deferred tax liabilities. In our opinion, such adjustments are appropriate and have been properly applied.



February 28, 2004  
British Virgin Islands

**SONATRACH PETROLEUM CORPORATION**

**CONSOLIDATED BALANCE SHEET**

**DECEMBER 31, 2003**

*(Expressed in United States dollars)*

	2003	2002 As restated (refer to Note 27, 28)
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	7,852,908	3,794,090
Time deposits (Note 3)	125,142,971	211,320,310
Accounts receivable (Note 4)	107,584,042	138,620,586
Due from parent company (Note 19)	31,000	-
Due from related parties (Note 5)	19,654,508	23,350,303
Deferred tax assets (Note 6, 28)	-	4,131,489
Inventory	374,505	3,529,333
Investments in securities (Note 7)	3,789,931	4,277,086
	<u>264,429,865</u>	<u>389,023,197</u>
<b>LONG-TERM ASSETS</b>		
Fixed assets (Note 8)	154,993,554	258,479,667
Investments in securities (Note 7)	-	320,024,670
Interests in joint ventures (Note 9)	73,598,817	39,942,225
Long-term investment (Note 10)	84	84
	<u>228,592,455</u>	<u>618,446,646</u>
	<u>\$ 493,022,320</u>	<u>\$ 1,007,469,843</u>

See notes to consolidated financial statements

**SONATRACH PETROLEUM CORPORATION**  
**CONSOLIDATED BALANCE SHEET (continued)**

**DECEMBER 31, 2003**

*(Expressed in United States dollars)*

	2003	2002 As restated (refer to Note 27, 28)
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable (Note 11)	128,934,971	166,401,684
Due to parent company (Note 3, 15)	9,900,000	162,025,313
Due to related party (Note 15)	-	4,648,875
Deferred income (Note 12)	-	3,139,519
Income taxes payable (Note 13)	109,821	149,039
Deferred tax liabilities (Note 28)	-	49,383,000
Provisions and charges (Note 14)	-	1,061,124
Current portion of long-term debt (Note 16)	8,200,000	16,194,548
	147,144,792	403,003,102
<b>LONG-TERM LIABILITIES</b>		
Accounts payable (Note 11)	-	9,184,912
Long-term debt (Note 16)	69,200,000	126,282,155
Loan from minority interest (Note 24)	-	40,171
	69,200,000	135,507,238
<b><u>MINORITY INTEREST</u></b>		
MINORITY INTEREST (Note 24)	-	315,232
<b><u>SHAREHOLDER'S EQUITY</u></b>		
SHARE CAPITAL (Note 17)	-	-
SHARE PREMIUM (Note 17)	15,000,000	15,000,000
FOREIGN EXCHANGE RESERVE	-	7,292,962
REVALUATION RESERVE (Note 28)	-	92,677,040
GENERAL RESERVE	229,368,962	301,378,561
RETAINED EARNINGS	32,308,566	52,295,708
	276,677,528	468,644,271
	\$ 493,022,320	\$ 1,007,469,843

APPROVED BY THE BOARD OF DIRECTORS:

\_\_\_\_\_  
Director - treasurer

See notes to consolidated financial statements

**SONATRACH PETROLEUM CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**

**YEAR ENDED DECEMBER 31, 2003**

*(Expressed in United States dollars)*

	2003	2002 As restated (refer to Note 27, 28)
<b>SALES</b>		
Hydrocarbon products (Note 20)	1,417,650,312	1,485,307,032
Freight, demurrage and others (Note 20)	73,329,760	61,591,922
	1,490,980,072	1,546,898,954
<b>COST OF SALES</b>		
Hydrocarbon products (Note 20)	1,378,967,710	1,382,250,644
Other operating costs	69,349,567	116,811,573
	1,448,317,277	1,499,062,217
<b>GROSS PROFIT</b>	42,662,795	47,836,737
<b>ADMINISTRATIVE EXPENSES</b>	(11,260,812)	(14,849,844)
<b>OPERATING INCOME</b>	31,401,983	32,986,893
<b>FINANCIAL EXPENSES</b>	(1,788,296)	(6,196,377)
<b>FINANCIAL INCOME</b>	2,401,292	23,101,888
<b>OTHER INCOME</b>	797,656	2,022,669
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTEREST</b>	32,812,635	51,915,073
<b>INCOME TAXES</b>	(504,069)	390,116
<b>INCOME BEFORE MINORITY INTEREST</b>	32,308,566	52,305,189
<b>MINORITY INTEREST (Note 24)</b>	-	(9,481)
<b>NET INCOME</b>	\$ 32,308,566	\$ 52,295,708

See notes to consolidated financial statements

**SONATRACH PETROLEUM CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY**

**YEAR ENDED DECEMBER 31, 2003**

*(Expressed in United States dollars)*

	Share capital	Share premium	Foreign exchange reserve	Revaluation reserve	General reserve	Retained earnings	Total shareholder's equity
	\$	\$	\$	\$	\$	\$	\$
<b>SHAREHOLDER'S EQUITY</b>							
<b>BALANCE JANUARY 1, 2002</b>	-	15,000,000	7,643,078	302,508,647	276,905,507	59,590,340	661,647,572
as restated (refer to Note 27, 28)	-	-	-	-	-	52,295,708	52,295,708
Net income	-	-	-	(209,831,607)	-	-	(209,831,607)
Revaluation of long-term investments	-	-	(350,116)	-	-	-	(350,116)
Revaluation of foreign exchange reserve	-	-	-	-	(2,117,286)	-	(2,117,286)
Integration of a subsidiary	-	-	-	-	(33,000,000)	-	(33,000,000)
Dividends	-	-	-	-	-	-	-
Transfer	-	-	-	-	59,590,340	(59,590,340)	-
<b>SHAREHOLDER'S EQUITY</b>							
<b>BALANCE DECEMBER 31, 2002</b>	-	15,000,000	7,292,962	92,677,040	301,378,561	52,295,708	468,644,271
as restated (refer to Note 27, 28)	-	-	(7,292,962)	(92,677,040)	-	32,308,566	32,308,566
Net income	-	-	-	-	-	(52,295,708)	-
Transfers	-	-	-	-	-	-	-
Dividends	-	-	-	-	(224,275,309)	-	(224,275,309)
<b>SHAREHOLDER'S EQUITY</b>							
<b>BALANCE DECEMBER 31, 2003</b>	\$ -	\$ 15,000,000	\$ -	\$ -	\$ 229,368,962	\$ 32,308,566	\$ 276,677,528

See notes to consolidated financial statements

**SONATRACH PETROLEUM CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2003**

*(Expressed in United States dollars)*

	<b>2003</b>	<b>2002</b> As restated (refer to Note 27, 28)
<b>CASH FLOW PROVIDED BY/(USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net income	32,308,566	52,295,708
Adjustments for items not involving the movement of cash:		
Depreciation	12,253,837	12,453,725
Loss on disposal of fixed assets	-	17,309
Decrease in revaluation reserve	-	(209,831,607)
Decrease in foreign exchange reserve	-	(350,116)
Prior year adjustment	-	(55,844,100)
Changes in non-cash operating working capital:		
Accounts receivable	16,736,590	(31,172,404)
Due from related parties	29,580,558	(12,764,318)
Deferred tax assets	-	(4,131,489)
Inventory	(33,884)	(3,275,351)
Accounts payable	(3,392,869)	65,097,517
Due to parent company	9,900,000	-
Deferred income	-	3,139,519
Income taxes payable	(39,218)	(240,007)
Deferred tax liabilities	-	49,383,000
Provisions and charges	-	(101,533,872)
	<b>97,313,580</b>	<b>(236,756,486)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(21,156,088)	(16,887,809)
Proceeds from sales of fixed assets	-	4,440
Integration of subsidiary - fixed assets	-	(96,665,925)
Integration of subsidiary	-	(2,117,286)
Disposal of subsidiary net of cash and cash equivalents disposed	(89,930,273)	-
Minority interest	-	(263,704)
Investments in equities	(771,945)	317,753,802
Investments in joint ventures	(35,373,795)	13,360,525
	<b>(147,232,101)</b>	<b>215,184,043</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(8,200,000)	(8,200,000)
Proceeds from long-term debt	-	56,876,703
Dividends paid	(24,000,000)	(33,000,000)
	<b>(32,200,000)</b>	<b>15,676,703</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(82,118,521)</b>	<b>(5,895,740)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>215,114,400</b>	<b>221,010,140</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 132,995,879</b>	<b>\$ 215,114,400</b>

See notes to consolidated financial statements

**SONATRACH PETROLEUM CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**  
**YEAR ENDED DECEMBER 31, 2003**  
*(Expressed in United States dollars)*

	2003	2002 As restated (refer to Note 27, 28)
<b>REPRESENTED BY</b>		
Cash	7,852,908	3,794,090
Time deposits	125,142,971	211,320,310
	<b>\$ 132,995,879</b>	<b>\$ 215,114,400</b>
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Dividends received	\$ 31,907	\$ 19,030,957
Interest received	\$ 1,835,693	\$ 3,043,233
Dividends paid	\$ 24,000,000	\$ 33,000,000
Interest paid	\$ 1,920,231	\$ 6,161,412

See notes to consolidated financial statements