

# ***SONATRACH PETROLEUM CORPORATION***

Consolidated Financial Statements  
for the Year ended December 31, 2004  
and Independent Auditors' Report

États financiers consolidés  
de l'exercice clos le 31 décembre 2004  
et Rapport des vérificateurs indépendants

## INDEPENDENT AUDITORS' REPORT

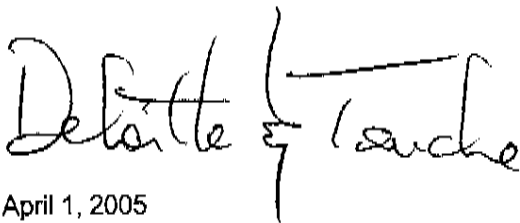
To the Members of the Board of Directors and Shareholder of:

### **Sonatrach Petroleum Corporation**

We have audited the accompanying consolidated balance sheet of Sonatrach Petroleum Corporation and its subsidiaries (the "Group") as at December 31, 2004, 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, 2004, 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.



April 1, 2005  
British Virgin Islands

**SONATRACH PETROLEUM CORPORATION**

**CONSOLIDATED BALANCE SHEET**

**DECEMBER 31, 2004**

*(Expressed in United States dollars)*

	2004	2003
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash (Note 3)	5,333,616	7,852,908
Time deposits (Note 3)	178,469,884	125,142,971
Accounts receivable (Note 4)	168,810,668	107,608,362
Due from parent company (Note 10)	5,030,986	31,000
Due from related parties (Note 5)	21,591,154	19,630,188
Inventory	485,992	374,505
Investments in securities (Note 6)	4,598,926	3,789,931
	<u>384,321,226</u>	<u>264,429,865</u>
<b>LONG-TERM ASSETS</b>		
Fixed assets (Note 7)	233,284,159	154,993,554
Due from related parties (Note 5)	-	50,309,817
Long-term investment (Note 8)	-	23,289,000
	<u>233,284,159</u>	<u>228,592,371</u>
	<u>\$ 617,605,385</u>	<u>\$ 493,022,236</u>
<b><u>LIABILITIES</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable (Note 9)	39,406,163	38,497,709
Due to parent company (Note 10)	8,704,084	9,900,000
Due to related parties (Note 11)	116,772,782	90,437,178
Income taxes payable (Note 12)	206,200	109,821
Current portion of long-term debt (Note 13)	11,735,000	8,200,000
	<u>176,824,229</u>	<u>147,144,708</u>
<b>LONG-TERM LIABILITIES</b>		
Long-term debt (Note 13)	<u>128,165,000</u>	<u>69,200,000</u>
<b><u>SHAREHOLDER'S EQUITY</u></b>		
SHARE CAPITAL (Note 14)	-	-
SHARE PREMIUM (Note 14)	20,000,000	15,000,000
GENERAL RESERVE	241,677,528	229,368,962
RETAINED EARNINGS	50,938,628	32,308,566
	<u>312,616,156</u>	<u>276,677,528</u>
	<u>\$ 617,605,385</u>	<u>\$ 493,022,236</u>

APPROVED BY THE BOARD OF DIRECTORS:

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Director - treasurer

See notes to consolidated financial statements

**SONATRACH PETROLEUM CORPORATION****CONSOLIDATED STATEMENT OF INCOME****YEAR ENDED DECEMBER 31, 2004***(Expressed in United States dollars)*

	2004	2003
<b>SALES</b>		
Hydrocarbon products (Note 17)	1,948,674,730	1,349,430,131
Freight, demurrage and others (Note 17)	83,693,351	73,329,820
	<u>2,032,368,081</u>	<u>1,422,759,951</u>
<b>COST OF SALES</b>		
Hydrocarbon products (Note 17)	1,891,331,126	1,312,740,810
Realised (losses)/gains on forward contracts	17,712,517	(1,993,213)
Other operating costs	69,616,934	69,266,695
	<u>1,978,660,577</u>	<u>1,380,014,292</u>
<b>GROSS PROFIT</b>	53,707,504	42,745,659
<b>ADMINISTRATIVE EXPENSES</b>	(12,374,107)	(12,577,059)
<b>OPERATING INCOME</b>	<u>41,333,397</u>	<u>30,168,600</u>
<b>FINANCIAL EXPENSES</b>	(2,011,573)	(1,788,296)
<b>FINANCIAL INCOME</b>	3,957,693	3,634,675
<b>OTHER INCOME</b>	1,260,746	797,656
<b>GAIN ON DISPOSAL OF FIXED ASSET</b>	6,766,250	-
<b>INCOME BEFORE INCOME TAXES</b>	<u>51,306,513</u>	<u>32,812,635</u>
<b>INCOME TAXES</b>	367,885	504,069
<b>NET INCOME</b>	<u>\$ 50,938,628</u>	<u>\$ 32,308,566</u>

See notes to consolidated financial statements

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

**YEAR ENDED DECEMBER 31, 2004**

*(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, 2003</b>	-	15,000,000	7,292,962	92,677,040	301,378,561	52,295,708	488,644,271
Net income	-	-	-	-	-	32,308,566	32,308,566
Transfers	-	-	(7,292,962)	(92,677,040)	152,265,710	(52,295,708)	-
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
Net income	-	-	-	-	-	50,938,628	50,938,628
Transfers	-	-	-	-	32,308,566	(32,308,566)	-
Dividends (Note 14)	-	5,000,000	-	-	(20,000,000)	-	(15,000,000)
<b>SHAREHOLDER'S EQUITY</b>							
<b>BALANCE DECEMBER 31, 2004</b>	\$ -	\$ 20,000,000	\$ -	\$ -	\$ 241,677,528	\$ 50,938,628	\$ 312,616,156

See notes to consolidated financial statements

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

**YEAR ENDED DECEMBER 31, 2004**

*(Expressed in United States dollars)*

	2004	2003
<b>CASH FLOW PROVIDED BY/(USED IN):</b>		
<b>OPERATING ACTIVITIES</b>		
Net income	50,938,628	32,308,566
Adjustments for items not involving the movement of cash:		
Depreciation	12,698,759	12,253,837
Gain on disposal of fixed asset	(6,766,250)	-
Changes in non-cash operating working capital:		
Accounts receivable	(61,202,306)	16,736,590
Due from parent company	(4,999,986)	-
Due from related parties	(1,960,966)	29,580,558
Inventory	(111,487)	(33,884)
Investments in securities	(808,995)	(771,945)
Accounts payable	908,454	27,373,180
Due to parent company	(1,195,916)	9,900,000
Due to related parties	76,645,421	(66,139,844)
Income taxes payable	96,379	(39,218)
	64,241,735	61,167,840
<b>INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(99,320,614)	(21,156,088)
Proceeds from disposals of fixed assets	15,097,500	-
Disposal of subsidiary	-	(89,930,273)
Proceeds on disposal of long-term investments	23,289,000	-
	(60,934,114)	(111,086,361)
<b>FINANCING ACTIVITIES</b>		
Repayment of long-term debt	(8,200,000)	(8,200,000)
Proceeds from long-term debt	70,700,000	-
Dividends paid	(15,000,000)	(24,000,000)
	47,500,000	(32,200,000)
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	50,807,621	(82,118,521)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	132,995,879	215,114,400
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 183,803,500	\$ 132,995,879

See notes to consolidated financial statements

**SONATRACH PETROLEUM CORPORATION**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**

**YEAR ENDED DECEMBER 31, 2004**

*(Expressed in United States dollars)*

	2004	2003
<b>REPRESENTED BY</b>		
Cash	5,333,616	7,852,908
Time deposits	178,469,884	125,142,971
	\$ 183,803,500	\$ 132,995,879
<b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>		
Dividends received	\$ 30,994	\$ 31,907
Interest received	\$ 4,663,432	\$ 1,835,693
Dividends paid	\$ 15,000,000	\$ 24,000,000
Interest paid	\$ 1,472,267	\$ 1,920,231

See notes to consolidated financial statements