

## World Oil Market Outlook

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2005



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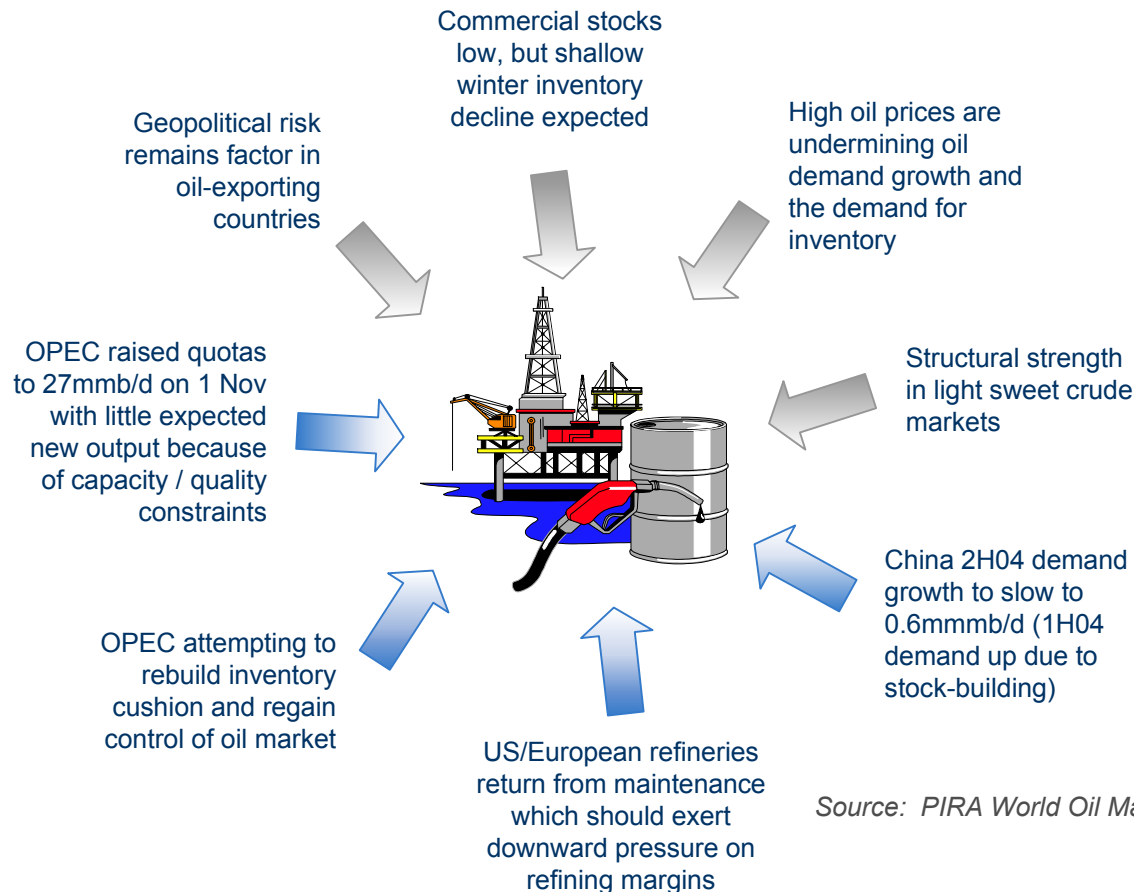
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## Crude Oil Prices Remained Volatile in 2004

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Crude and product prices are driven by many, sometimes conflicting, market forces



- Hurricane Ivan caused potential loss of over 50m barrels of oil and 40m barrels oil equivalent of natural gas
- Economic, financial, and oil market forces have driven pension fund investment in oil and support continued strong oil prices
- Higher deferred crude oil prices reflect higher finding and development costs, greater supply risks and growing demand and will anchor prompt prices

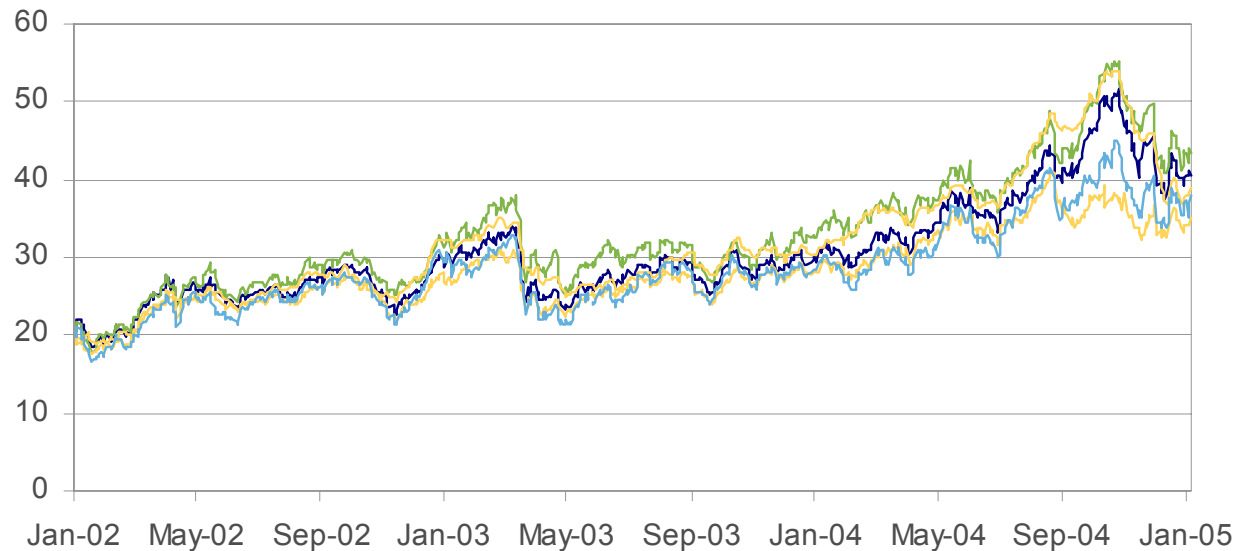
Grey arrow: Pushing prices higher  
Blue arrow: Pulling prices lower

Source: PIRA World Oil Market Outlook, November 2004

## Spot Benchmark Crude Prices – 3 Years

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All crude markets have been climbing in the past 3 years, but have come off their October 2004 highs



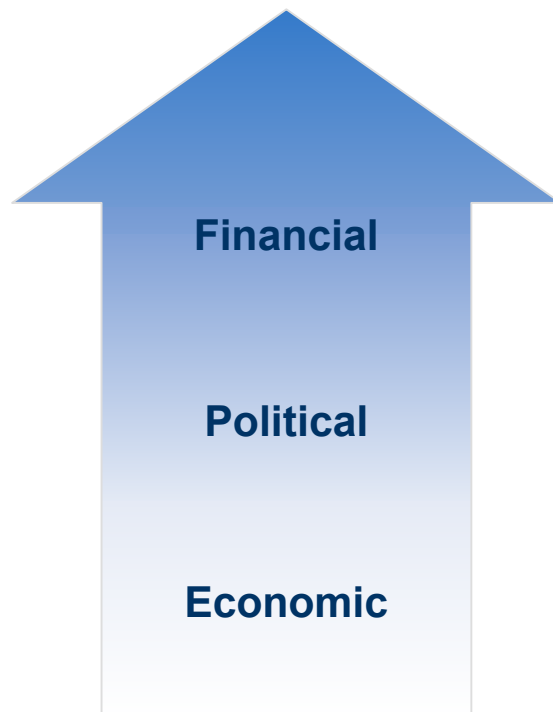
- IPE: Brent Crude Futures
- NYMEX: Light, Sweet Crude Oil Futures
- Dubai 1st Mth
- Tapis Swap Spore 1-Mo
- Urals CIF Med 1st Mth Daily

## Price Drivers - 2004

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2004 crude oil prices climbed higher, but were driven by more than market fundamentals

26 October 2004 - **\$51.56 / bbl\***



6 February 2004 - **\$28.83 / bbl\***

*Hedge fund activity*

*Demand from China and India*

*Demand / Supply balance – low inventories,  
supply cushion eroded*

*Refining at capacity*

*US Elections - uncertainty*

*Geopolitical risk – Iraq war, Russia, Saudi  
Arabia, Nigeria unrest, Venezuela Strike*

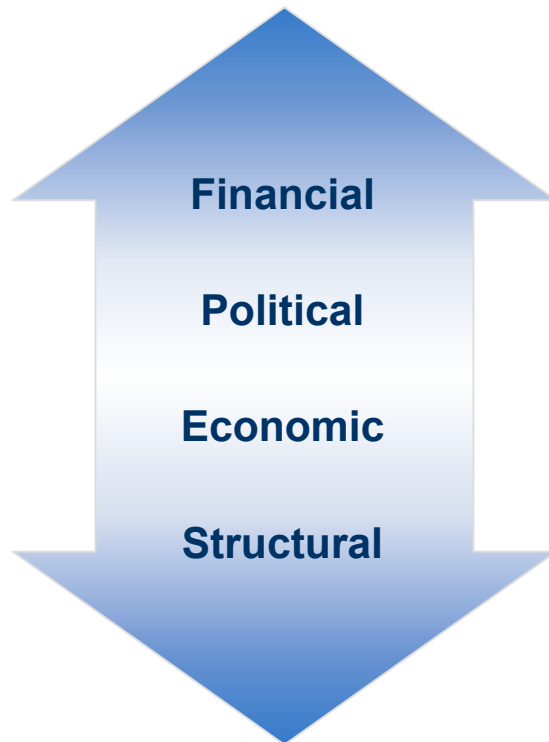
*Hurricane Ivan – production shut-in*

*Fear premium*

\* IPE Brent Crude Futures, 1 January – 31 December 2004

Prevalent uncertainty in the market makes it vulnerable to shocks

*2005 – Prices above \$50 ?*



*2005 – Prices below \$30 ?*

*Oil demand growth slows, but still strong at 1.8mmb/d*

*FSU output growth moderates, but with growth elsewhere,  
Non-OPEC supply grows posts gains*

*More vessels being built, more on order pushing freight rates  
lower allowing for cheaper transport*

*OPEC excess capacity low, production cuts agreed; price  
band may rise*

*Financial investor appetite and profit taking*

*Low surplus capacity / inventories; Structurally tight  
refined products and sweet crude markets*

*Geopolitical risk – ongoing*

*Iraqi production increases, Gulf of Mexico production  
recovers – upstream and midstream investment growing*

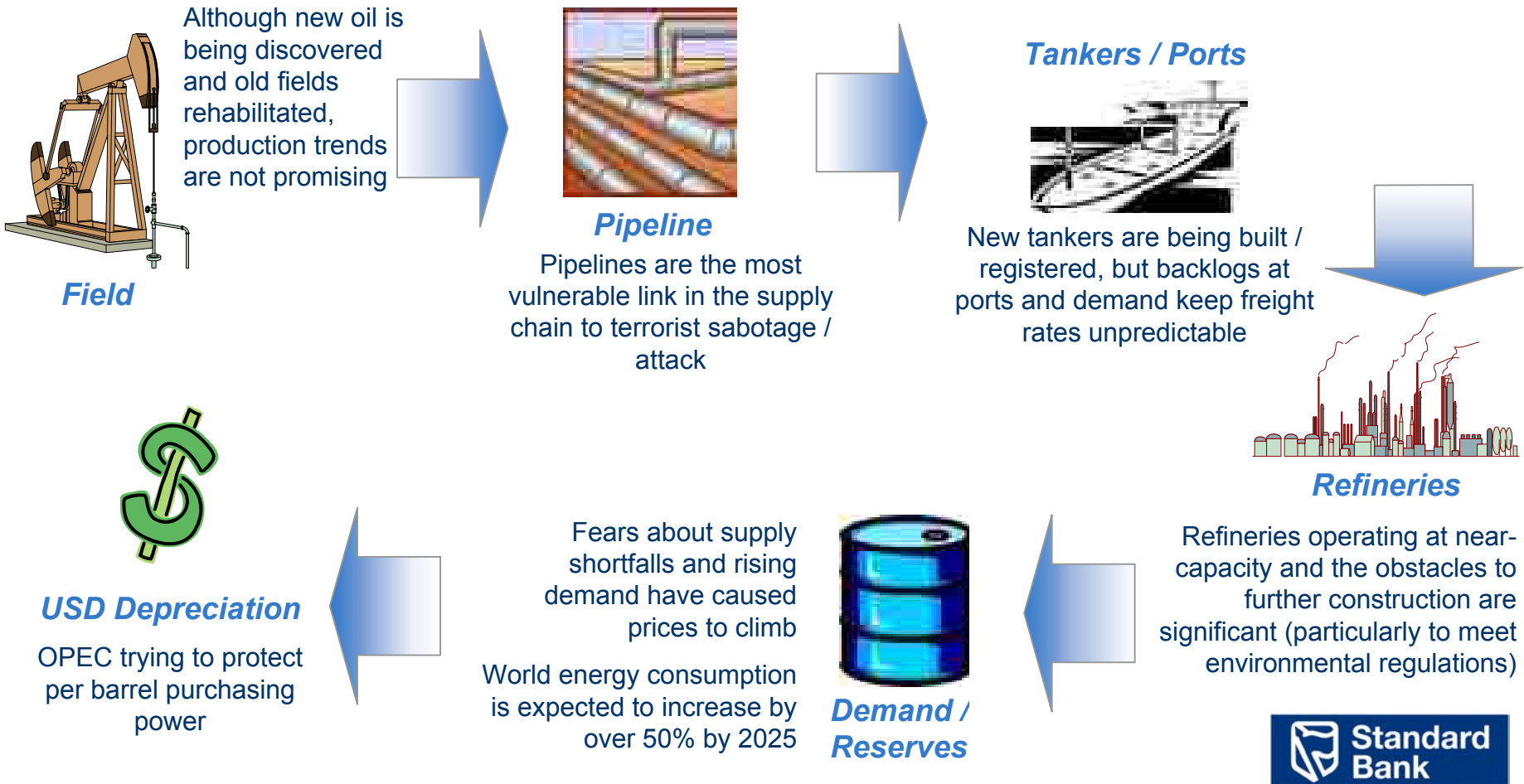
*US Dollar weakness*

*Weather in northern hemisphere*

## The End of Cheap Oil?

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Numerous supply chain obstacles may force paradigm shift



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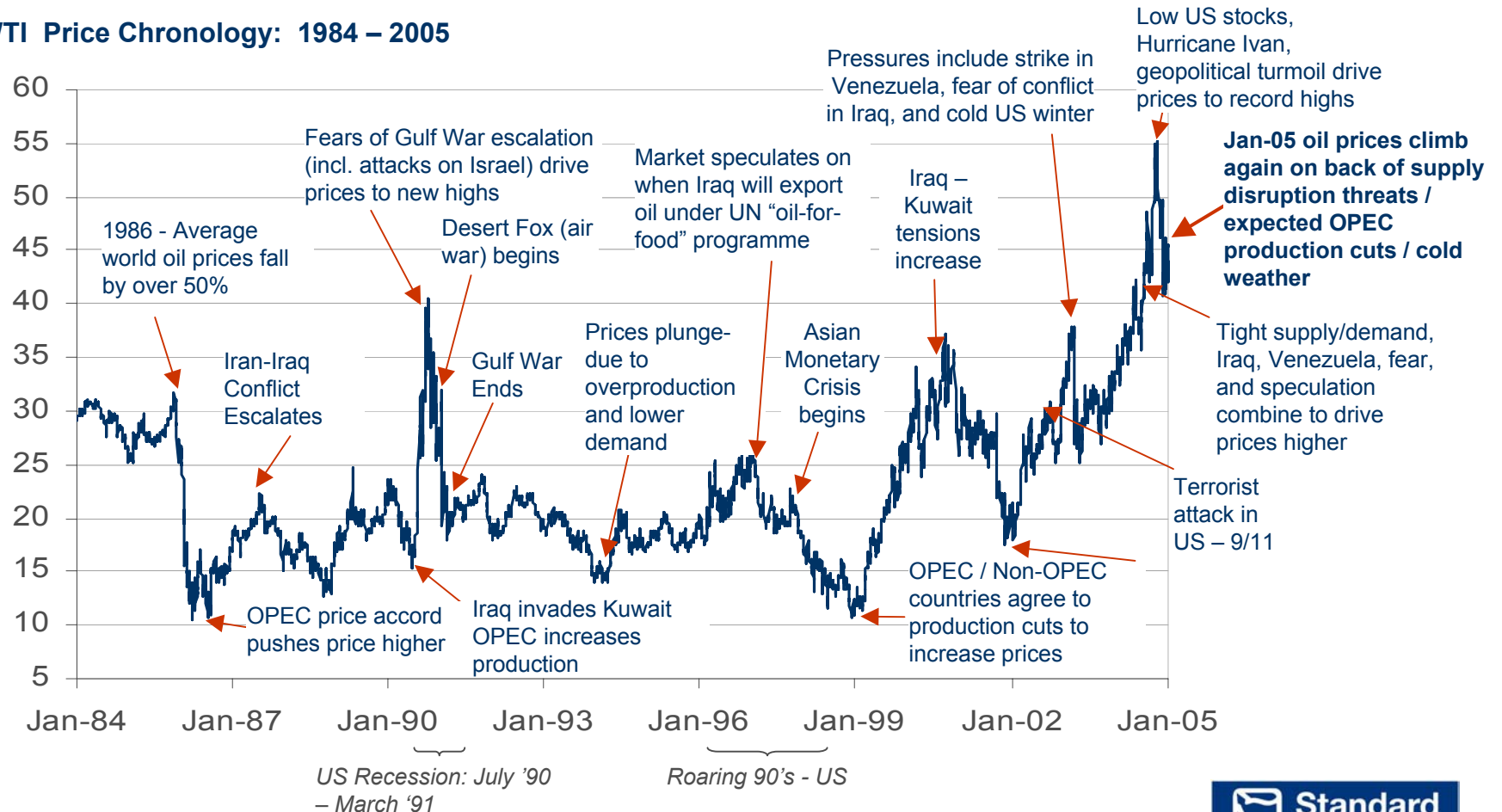
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## Oil Price Chronology

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Global events greatly influence oil prices

### WTI Price Chronology: 1984 – 2005

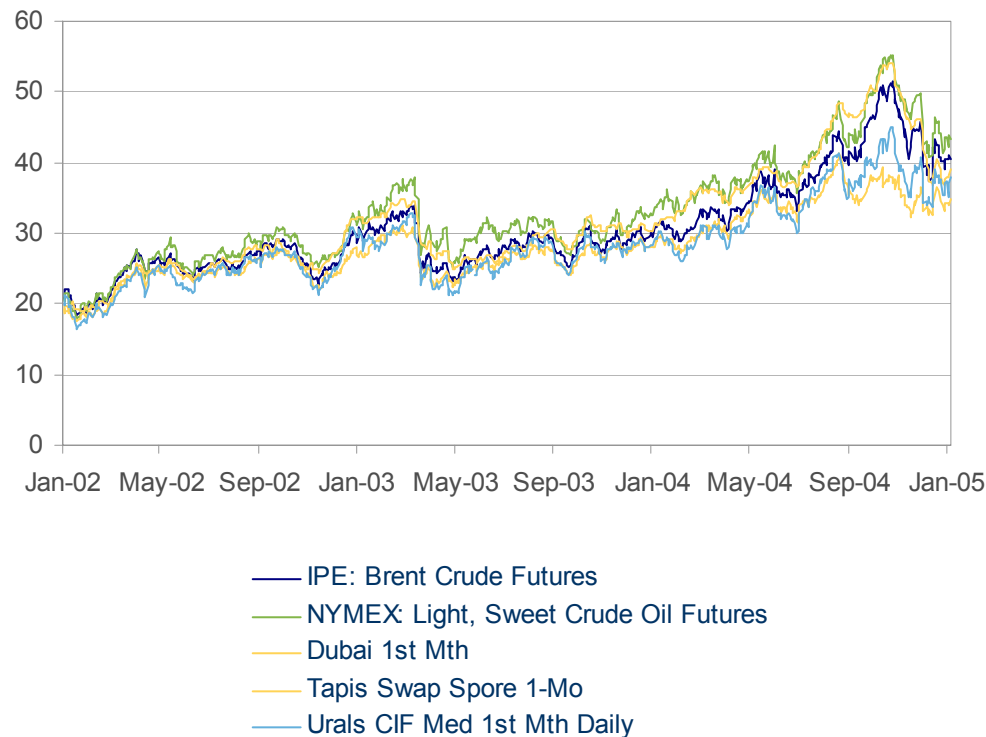


## Spot Benchmark Crude Prices

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All crude markets have been climbing in the past 3 years, but have come off their October 2004 highs

**Benchmark Crude Prices\*: 2002 - 2005**



\* All amounts in USD / bbl

- Most world oil exporters set their official price formulae against certain benchmark crudes including:
  - WTI
  - Brent
  - Dubai
  - Urals
  - Tapis
- All benchmark crudes have been trending upwards over the past three years
- Light, sweet crudes tend to be priced higher than heavier crudes, but this relationship can become distorted depending on liquidity, manipulation, market demand and producer exports

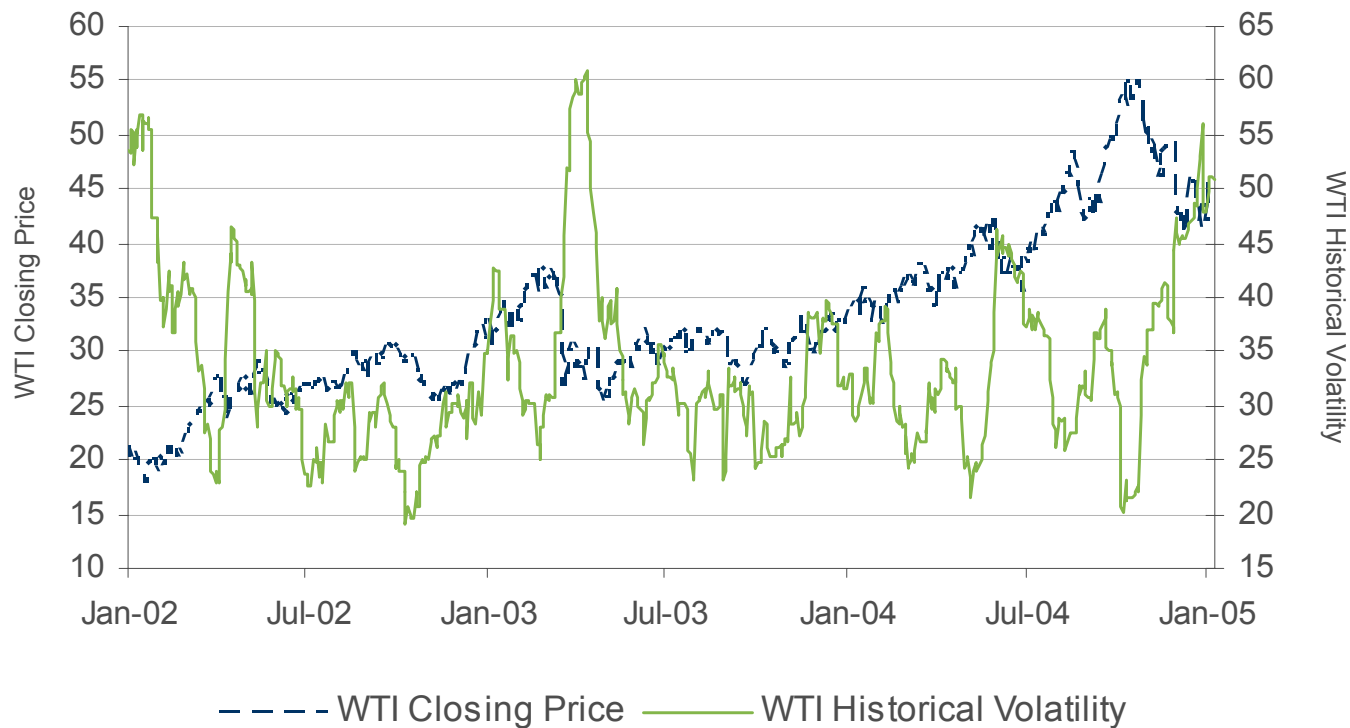
## Volatility Has Been High Over The Past 3 Years

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In addition to climbing, prices have been volatile - increasing uncertainty and potentially profitability

### WTI – 3 Year Historical and Volatility

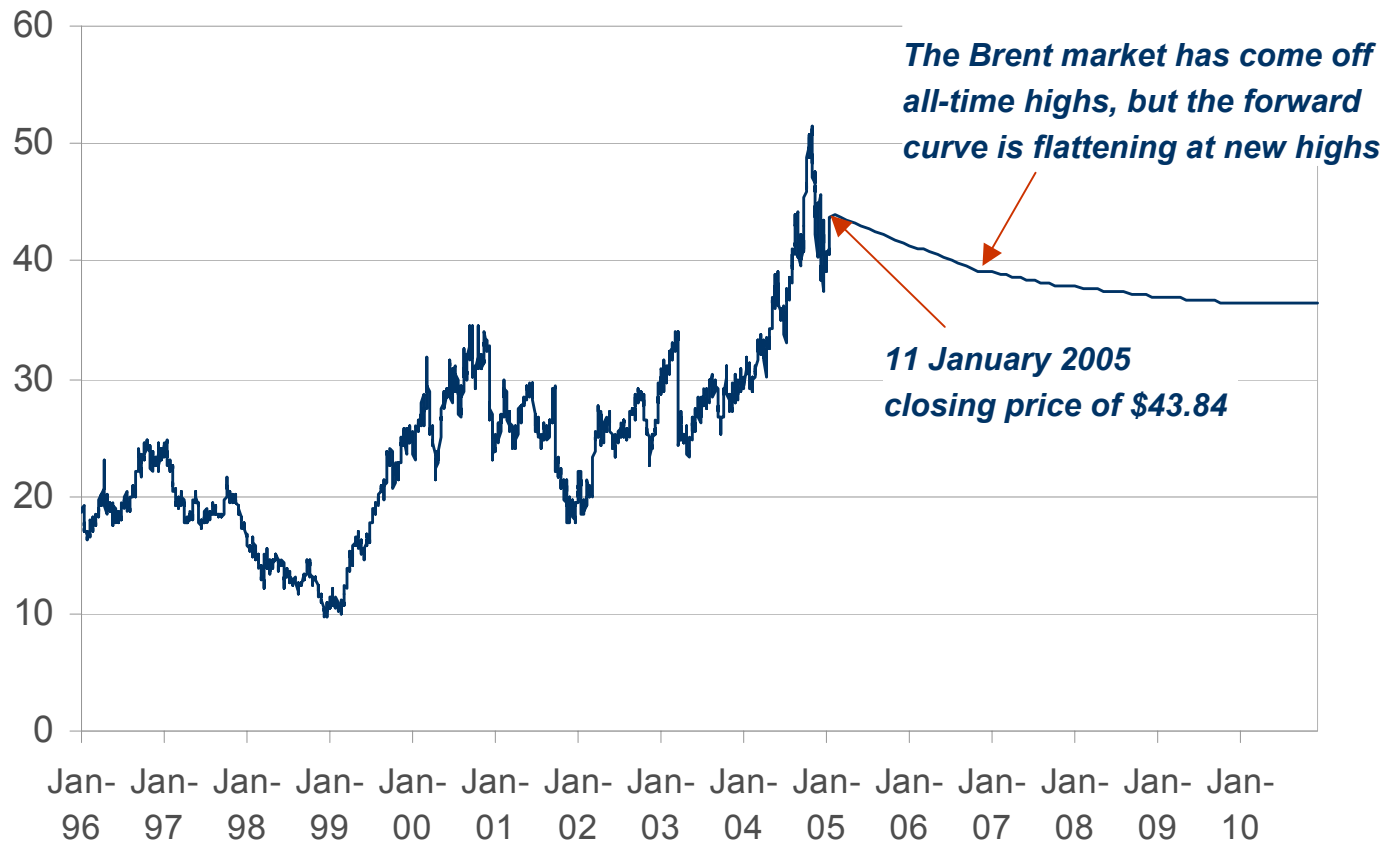
(all amounts in USD / bbl)



## IPE Brent Crude Historical and Forward Market

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The forward market is in backwardation but at historically high levels



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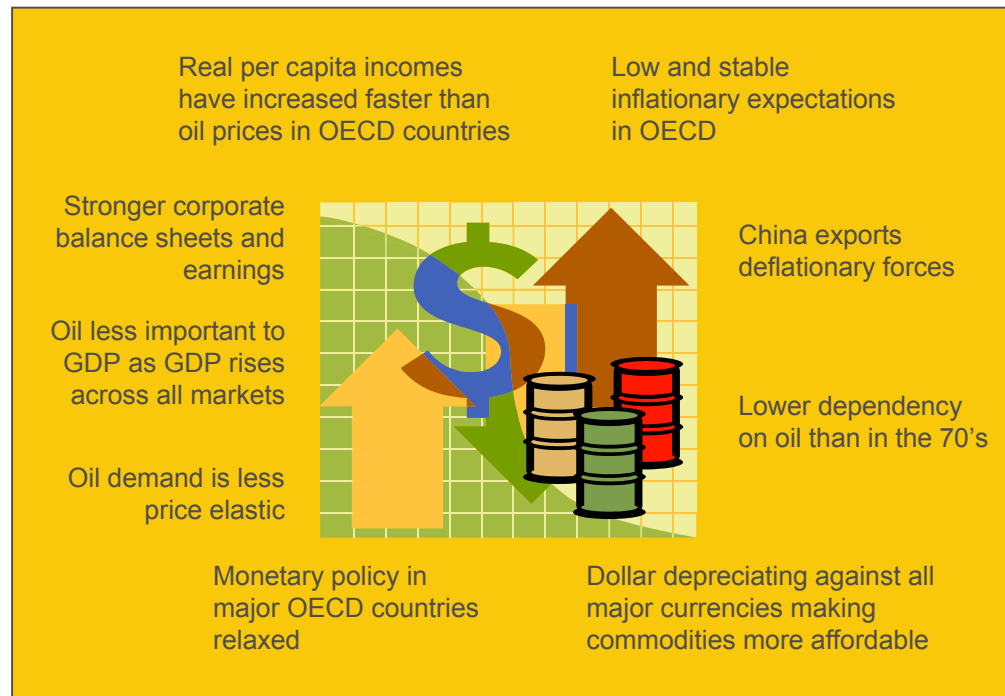
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While oil prices have eased, global appetite for oil has kept prices firm

### Can the World Afford Higher Oil Prices?

*Most OECD economies are in a different position than they were in the 70's*

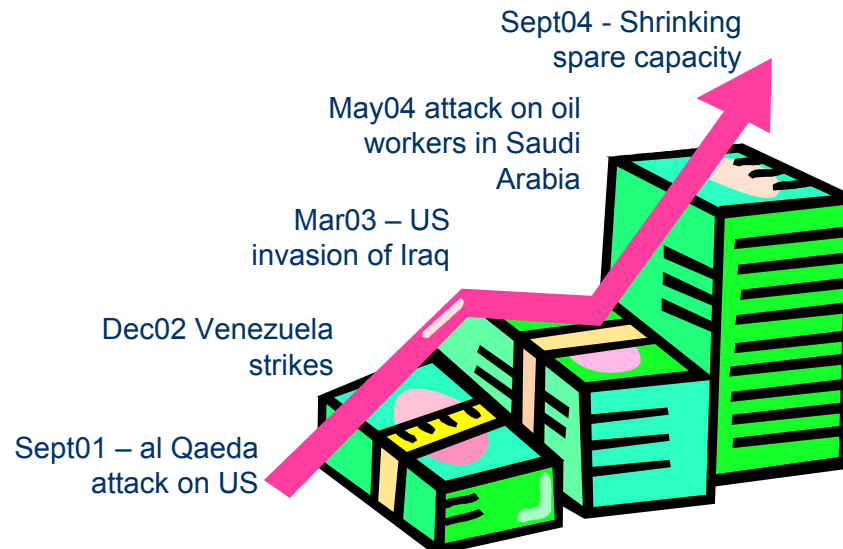


*But, most oil-importing developing economies are too fragile to support prices of \$50....*

- Adjusted for inflation, oil prices remain about half as high as the prices reached in the late 70's and early 80's which enforces SBL target of \$50 Brent as oil would need to be in the \$80s to have a 70's-style spike
- Crude oil freight rates are at their highest levels since 1973, with AG – US rates having doubled to \$4.50/bbl since August 2004
- Hedge funds and other passive investors still bullish on oil and refined products
- Hedge funds are an accelerator and can push prices to a level much more quickly
- Commodities have outperformed many equity markets in real terms

Steep rise in oil prices due to fears in consuming nations over supply disruptions in producing nations

### Fear Premium or Irrational Exuberance?



*With increased demand, and oil production at its limits, any supply disruption would cause markets to become tight immediately. Effectively, that probability of disruption is reflected in current oil prices*

- Supply disruptions, planned elections, and potential for civil war magnify Iraqi production uncertainty
- Attacks in Saudi Arabia and continued calls for reform from the left and calls for an Islamic state from the right could harm the oil infrastructure
- Trend in Russia toward weakening the influence of private oil companies, concentration of power at Kremlin – market and security concerns; additional concerns as pipelines go through unstable outlying republics
- Tight stocks pointing to little spare refining capacity



High oil prices and a disorderly fall in the dollar may hit global economic growth

### Oil Price Impact on Asia\* Appears Marginal

	Real GDP	Inflation	Trade Balance (% of GDP)
<b>Asia</b>	-0.8%	1.4%	-0.1%
<b>China</b>	-0.8%	0.8%	-0.6%
<b>India</b>	-1.0%	2.6%	-1.2%
<b>Malaysia</b>	-0.4%	2.0%	0.0%
<b>Philippines</b>	-1.6%	1.6%	-2.0%
<b>Thailand</b>	-1.8%	0.8%	-3.0%

\* Effect of \$10 oil price rise after one year

Source: International Oil Daily, 17 August 2004

Study undertaken by IEA / IMF

### Effects of Changes on Real US GDP\*\*

% change from baseline in real GDP

	After Year 1	After Year 2
<b>100 basis point of Fed Easing</b>	0.6	1.7
<b>10% decline in real value of the USD</b>	0.4	1.6
<b>20% rise in stock prices</b>	0.4	0.8
<b>income tax cut of 1% of GDP</b>	0.4	0.8
<b>\$10 per barrel decline in oil prices</b>	0.2	0.4

\*\* PIRA Energy Group, World Market Outlook, November 2004

Source: Federal Reserve Bulletin, January 1999

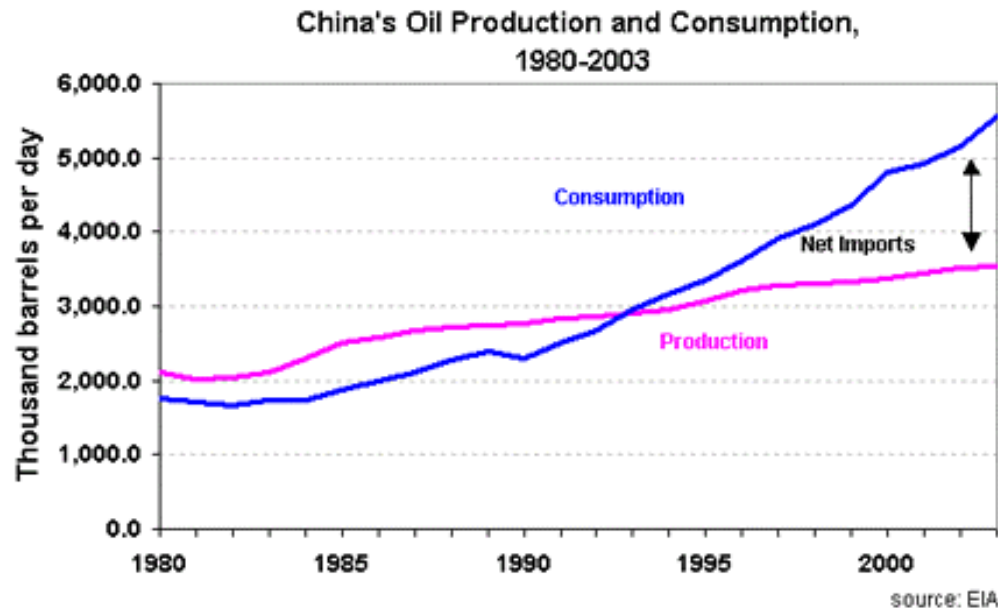
- November 2004 OECD report confirms that the economic slowdown in 2H04 was “oil-related”
- The OECD has cut its estimate of growth across the OECD next year from 3.3% to 2.9%, while China is expected to lead the emerging market with 8% growth
- Poor 3Q04 economic data from the Euro-zone indicates growth may soften in 2005
- However, major currencies have appreciated against the USD, thus the real cost of oil in those economies has not risen as quickly
- **But while significant increases in oil prices may dampen growth prospects, most models indicate that it has only a marginal impact**

## China – Fueling Energy Price Escalation

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China is the 2<sup>nd</sup> largest global energy consumer behind the US – markets and consumers failed to forecast demand spike

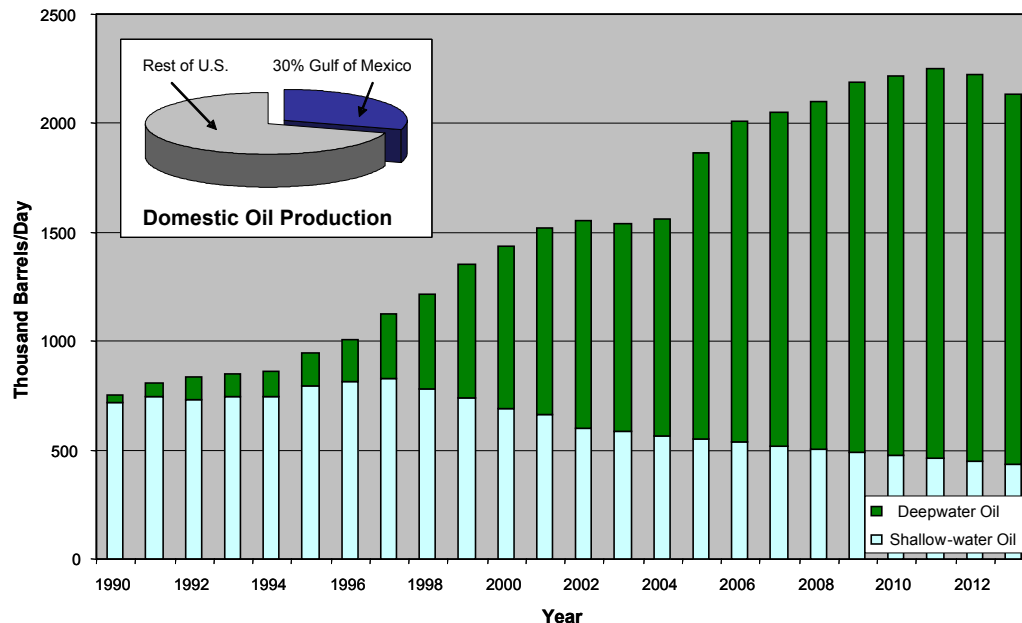
- China is the world's second largest energy consumer (behind the US, but surpassing Japan in 2003)
- As the source of around 40% of global oil demand growth, China is already a dominant player in global energy markets
- Total demand for oil in 2003 topped 5.56 million bbl / d, and is projected by the EIA to reach 12.8 million bbl/d by 2025, with net imports of 9.4 million bbl/d
- Chinese oil demand was up an estimated 19% in 1H04, or around 980,000 bpd
- De-regulation is not only introducing competition but further fueling demand growth - but may strain consumers



## Gulf of Mexico

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### Gulf of Mexico production interruptions caused by Hurricane Ivan induced price spikes beyond WTI



*As of 3 January 2005 this shut-in oil production is equivalent to 8.54% of daily production of oil in GOM, which is approximately 1.7 million BOPD*

*But some analysts express concern whether investment will be made to rebuild mostly depleted gas fields – production may never rebound to its historic highs*

Production forecasts prepared by the US Minerals Management Service  
<http://www.mms.gov>

- Damage caused by Hurricane Ivan drove U.S. domestic oil production to a 50-year low in 2H04 - slow recovery of production has prevented world oil markets from shaking residual concerns
- A full month after Hurricane Ivan made landfall, 27.2% of daily crude oil production and 13.8% of daily natural gas production remained shut-in in the Gulf of Mexico - this translates to volumes of 460k b/d and 1.7b cubic feet of natural gas a day offline
- The fact that much of the lost crude production is of light, sweet crude is especially worrying since the low-sulfur crude is in high demand as refiners work to rebuild inventories of heating fuel before winter

Tight global markets made Yukos' 2% of global production meaningful enough to drive markets higher

## Russian Oil Output

(in thousands of b/d)

	Jul '04	Chg. On Jul '03	Avg to Jul '04
<b>Yukos</b>	<b>1,728.9</b>	<b>7%</b>	<b>1,714.6</b>
Lukoil	1,682.2	6%	1,670.3
Surgutneftgas	1,202.6	11%	1,168.3
Tyumen oil (TNK)	1,024.2	17%	962.9
Sibneft	698.5	8%	672.4
Other Producers	571.1	-3%	517.0
Tatneft	501.0	1%	503.2
Slavneft	444.6	20%	424.9
Rosneft	434.9	4%	421.2
Sidanco	423.5	11%	401.1
Bashneft	243.1	0%	242.1
Gazprom	236.5	15%	238.6
Rusneft	137.8	299%	116.2
<b>Total</b>	<b>9,328.9</b>	<b>9%</b>	<b>9,052.8</b>

\* Source: International Oil Daily, 13 August 2004

- Yukos produced one-fifth of Russia's oil output (about 2% of global production) and spent much of 2004 locked in a struggle with Russian authorities over a \$3.4 billion tax bill, fraud charges, and the fate of its former CEO
- When Yukos was ordered to halt production in late July 2004, oil prices surged to almost \$44 / bbl - But despite the headlines, the bulk of Yukos' production transferred seamlessly to Rosneft
- Debate still rages over whether Yukos was politically motivated or the first of a series of moves by the Kremlin to consolidate power
- Investment community uncertain whether to buy or sell Russian assets, despite the intense need for investment in the Russian oil & gas sectors – but investment by the majors has continued at record levels

While OPEC influence may be softening, the world is reliant on Mideast oil

### Key Data – Middle East

	Oil Production	Oil Exports	Oil Reserves
	mmb/d	mmb/d	billion bbl
Iran	3,561	2.6	90
Iraq	2,319	2	113
Kuwait	1,943	1.3	97
Oman	874	0.9	6
Qatar	704	0.7	15
Saudi Arabia	8,153	7	262
Yemen	469	0.4	4
UAE	2,064	2.1	98
<b>Total Mideast Gulf</b>	<b>20,087</b>	<b>17</b>	<b>685</b>
World	68,428	30	1,046
<b>Mideast % of World</b>	<b>29%</b>	<b>57%</b>	<b>65%</b>

*While the Middle East may control only about 30% of global oil production, it makes up 57% of global oil exports as well as 65% of global reserves*

- The Mideast Gulf remains (ex-Iraq) a stable area of production
- Asia is heavily reliant on Mideast oil, importing as much as 67% of its total needs
- The US and Europe obtain about a quarter of their oil from the Middle East
- Although OPEC's share of world oil supply is projected to increase over the next two decades, market forces will continue to forestall its ability to escalate real oil prices significantly
- It is generally acknowledged that OPEC, with its large reserves and relatively low cost of expansion can absorb significant increases in demand
- Iraq's role in OPEC remains uncertain, but of continuing interest - it remains exempt from quotas while it undertakes reconstruction

## Asia Demand Trend

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China and India have set the pace, but other Asian countries have continued their upward demand trend

### Asia's Big Four: Imports & Demand\*

	1H04	1H03	Vol. Chg.	% chg.
<b>China</b>				
Crude imports	2,451	1,759	<b>692</b>	<b>39.3%</b>
Apparent Demand*	6,059	5,081	<b>978</b>	<b>19.2%</b>
<b>Japan</b>				
Crude imports	4,123	4,528	<b>-405</b>	<b>-8.9%</b>
Demand	4,209	4,371	<b>-162</b>	<b>-3.7%</b>
<b>India</b>				
Crude imports	1,403	1,376	<b>27</b>	<b>2.0%</b>
Demand	2,186	1,997	<b>189</b>	<b>9.5%</b>
<b>South Korea</b>				
Crude imports	2,158	2,136	<b>22</b>	<b>1.0%</b>
Demand	2,131	2,191	<b>-60</b>	<b>-2.7%</b>

\* Petroleum Intelligence Weekly, 16 August 2004

- While Chinese consumption of oil is racing forward, Japan's consumption continues to slump
- Coal shortages and gaps in delivery infrastructure left China dependent on fuel oil deliveries – fuel oil imports were running at 600,000 b/d (up over 50% from a year ago) by August 2004
- China's substantial growth in power generation (usually coal-fired, but fuel oil is a key substitute) could result in an upsurge in demand for fuel oil
- South Korean demand slipped 3% in the year through June, declining by about 60,000 b/d
- Indian oil consumption was up 9% or about 189,000 b/d in 1H04

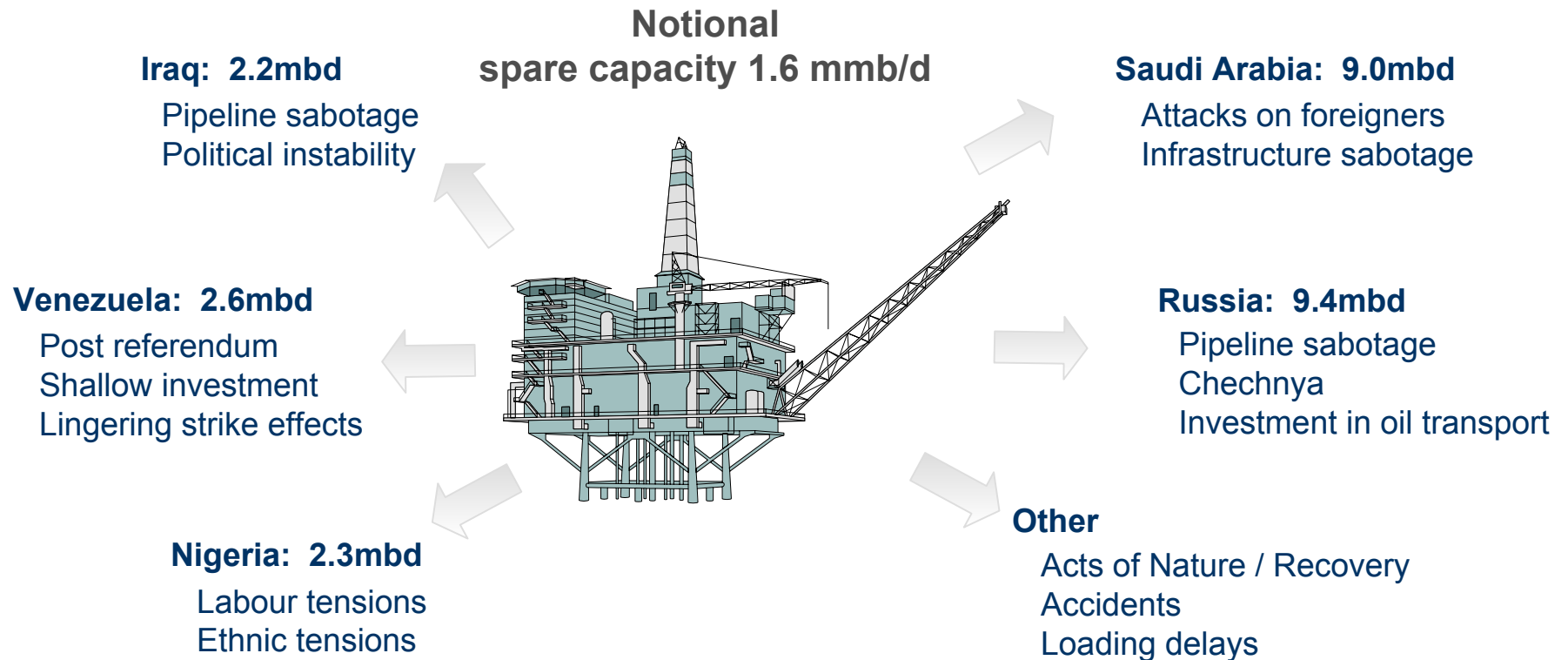
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Output risks have eased in 1Q05



\* Slide courtesy of PIRA Energy Group, World Market Outlook, November 2004



## OPEC – Production Cuts In January 2005

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In a move to arrest the fall in oil prices, OPEC ministers agreed in Dec '05 to cut production targets

### OPEC Oil Production: Current and January 2005\* Forecast

	Output	Ceiling		Cut
	<u>Nov</u>	<u>Nov-Dec</u>	<u>Jan</u>	<u>Jan</u>
Saudi Arabia	9.5	8.775	9.00	0.5
Iran	3.95	3.964	3.94	n/a
Kuwait	2.4	2.167	2.32	0.12
UAE	2.5	2.356	2.36	0.12
Qatar	0.8	0.700	0.76	0.04
Algeria	1.28	0.862	1.22	0.06
Libya	1.62	1.446	1.52	0.08
Nigeria	2.4	2.224	2.25	0.12
Indonesia	0.97	1.399	0.95	n/a
Venezuela	2.6	3.107	2.61	n/a
<b>Total (10)</b>	<b>28.02</b>	<b>27.000</b>	<b>26.93</b>	<b>1.04</b>
Iraq	1.7	n/a	n/a	n/a
<b>Total (11)</b>	<b>29.72</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

\* Petroleum Argus, Volume XXXIV, 50, 20 December 2004

\*\* The Centre for Global Energy Studies, as quoted in the FT, 10 Dec 2004

- While production targets have been lowered for 1Q05, OPEC must look at capacity expansion
- With most members pumping oil at full capacity (and exceeding quota allocation) OPEC has lost significant influence over the market
- A recent study\*\* indicates that the 10 member of OPEC (excluding Iraq) have added only a net 300k bpd, or 1%, to their production capacity since 1998
- Over this same period world oil demand has increased by 7.7m bpd (10%) – an increase that has been met by exhausting spare OPEC capacity and increased output from Russia
- OPEC can no longer rely on Saudi Arabia to build and maintain its extra capacity to provide leverage over the market

## OPEC Spare Capacity

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Not all oil is created equal – OECD countries are demanding lighter, sweeter crudes to meet emissions standards

### OPEC Capacity\*: 3Q04

	Capacity	Production	Spare	Quality of Spare	
	mmb/d	mmb/d	mmb/d	API Gravity	Sulphur Wt Pct
Saudi Arabia	10.20	9.20	<b>1.00</b>	33	2.1
Kuwait	2.15	2.10	<b>0.05</b>	31	2.5
Neutral Zone	0.62	0.60	<b>0.02</b>	28	3.0
UAE	2.45	2.40	<b>0.05</b>	38	1.0
Iran	3.90	3.90	<b>0.00</b>	31	1.7
Iraq	2.35	2.35	<b>0.00</b>	33	2.0
Qatar	0.80	0.80	<b>0.00</b>	36	1.6
Algeria	1.30	1.28	<b>0.02</b>	45	0.1
Libya	1.60	1.60	<b>0.00</b>	39	0.3
Nigeria	2.35	2.25	<b>0.10</b>	34	0.2
Venezuela	2.50	2.50	<b>0.00</b>	20	2.4
Indonesia	0.96	0.96	<b>0.00</b>	35	0.1

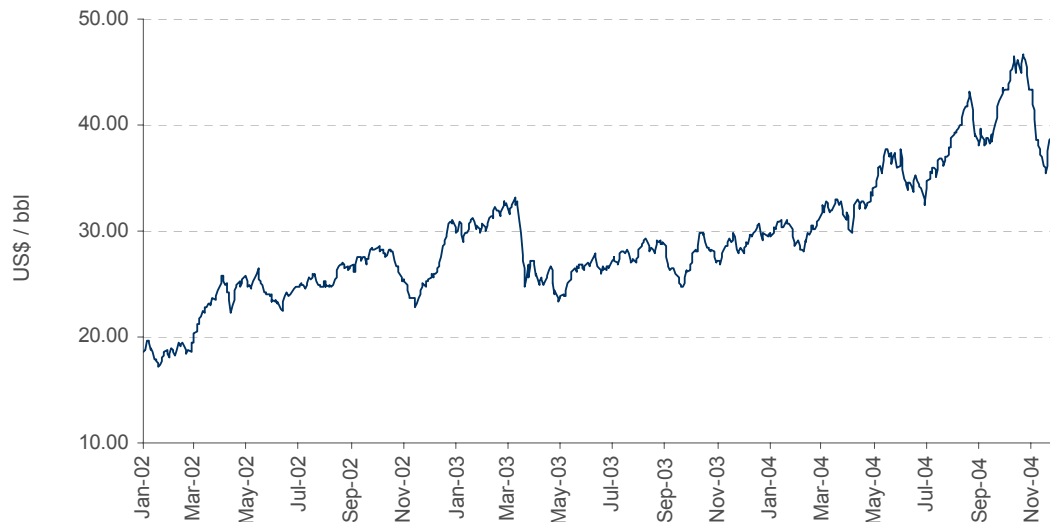
\* PIRA, World Oil Market Outlook, November 2004

Other data from petroleum Intelligence Weekly, 30 August 2004

*OPEC's spare capacity is medium sour quality which will change the ratio of global production in favor of the medium / heavy grades (particularly in light of a possible decline in North Sea production)*

- OPEC was caught short by recent high oil prices
- A surge in demand forced OPEC producers to pump at their highest level in 25 years
- At an extraordinary meeting on 10 December, OPEC ministers agreed to cut production to 27m b/d from Jan '05 to keep prices high
  - Members have recently been pumping well above their quota to sooth the markets
  - Ministers also agreed to fight to keep the price around \$35 / bbl
- OPEC's leverage now may be limited to smoothing peaks and troughs rather than markedly changing direction or holding within a pricing band

### OPEC Basket Performance



*The OPEC Reference Basket price is the arithmetic average of seven selected crudes: Saharan Blend (Algeria); Minas (Indonesia); Bonny Light (Nigeria); Arab Light (Saudi-Arabia); Dubai (United Arab Emirates), Tia Juana Light (Venezuela), and Isthmus (Mexico). Mexico is not a member of OPEC*

*The OPEC Basket has largely become irrelevant, with most pricing done against the benchmarks*

- The pricing band effectively sets the floor price for global oil prices
- OPEC's price band (target), was set in 2000 and currently sits in a range of \$22 - 28 / bbl for the OPEC basket of crude oil, which equates to a WTI price range of \$25 – 31 / bbl
- January production cuts signal that OPEC is committed to a higher pricing band - the Saudi cut of 500k b/d in early January sent a strong signal to the market that they are committed to keeping oil prices above \$40 per barrel
- The OPEC basket price touched \$40 / bbl in August and has remained well above the indicative band in 2H04
- Some OPEC members have argued for a new pricing band of US\$30 – 35 / bbl; continued dollar depreciation may convince more members

## US Dollar – Sustained Depreciation?

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Altering the path of the US external accounts, while sustaining the global economy is the major challenge

### EUR / USD Exchange Rate – 18 months



*The shortfall in the U.S. budget deficit grew to a record \$412 billion in the fiscal year ended Sept. 30*

*The current account, a measure of trade, services, tourism and investments, widened to a record \$166.2 billion in the second quarter*

*\* Sourced from: "The US Current Account Deficit and Global Economy, Per Jacobsson Lecture, 3 October 2004, [www.imf.org](http://www.imf.org)*

- The current account deficit's trajectory cannot be explained away by positive features in the US economy
- The US current account deficit is close to 6% of gross domestic profit, while net external liabilities are approaching 30% of GDP
- Net investment has declined over the past 5 years suggesting that the deterioration of the current account can be attributed to reduced savings and increased consumption
- A significant real depreciation of the dollar is inescapable if the trend is to be changed
- But, this depreciation makes oil cheaper for non dollar-based countries

Most analysts agree that marginally higher oil prices will not significantly derail global economic growth

*In late 2003 and early 2004, market sentiment was hopeful as US and Europe posted modest growth, with India and China racing ahead*



*But the ongoing conflict in Iraq and a sliding dollar exacerbate market uncertainties*

- China's robust economy fuelled by resource consumption pulled many of the natural resource markets into new highs and pushed freight rates on selected routes higher
- The IMF is revising downwards its global economy growth forecast for 2005 to about 4.0 pct from the 4.3 pct it announced in September – the figure has been revised based on continued high oil prices and record US deficits
- The Asian tsunami disaster may force further downward revisions from debt freezes, loss of workforce, and re-allocation of global investment

Global energy demand increased, coupled with upstream under-investment – the demand/supply gap is here to stay?

### Global Oil Demand: 2003 - 2005

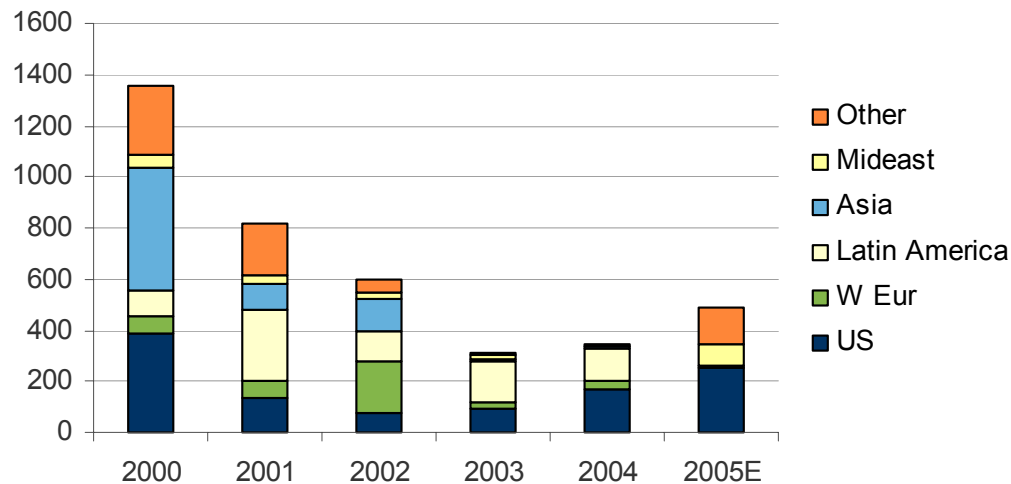
	Demand mb/d	Annual Change %	mb/d
<b>1Q03</b>	80.3	3.1	2.4
<b>2Q03</b>	77.2	1.4	1.1
<b>3Q03</b>	79.3	2.2	1.7
<b>4Q03</b>	82.1	2.5	2
<b>1Q04</b>	82.4	2.7	2.1
<b>2Q04</b>	81.2	5.1	3.9
<b>3Q04</b>	81.9	3.3	2.6
<b>4Q04</b>	83.9	2.3	1.9
<b>1Q05</b>	84.0	1.9	1.6
<b>2Q05</b>	82.3	1.4	1.1
<b>3Q05</b>	83.4	1.8	1.5
<b>4Q05</b>	85.5	1.9	1.6
<b>2003</b>	79.7	2.3	1.8
<b>2004</b>	82.4	3.3	2.6
<b>2005</b>	83.8	1.8	1.4

IEA, Monthly Oil Market Report, 10 November 2004

- The global demand is growing at the fastest pace since the late 1970s, to meet that demand the supply-side is pushed to the limit
- In 1994, global oil demand was about 68.6 mbd, in 2005, consensus estimate for global oil demand is 84 mbd for 2004 – a 22% increase
- If oil demand continues to grow at this pace, in 10 years, oil demand could exceed 100 mbd
- Morgan Stanley research indicates that crude oil demand is expected to accelerate by 2mbpd year-on-year in 2005, against planned increases in refinery capacity for the year at “merely” 1,5mbpd

Low oil prices in last decade has suppressed critical investments in oil & gas infrastructure

### Global Refinery Upgrading / Capacity Additions: 2000 – 2005E



PIRA, World Oil Market Outlook, November 2004

*Oil refining capacity and the number of rigs reached their peaks in the early 1980's*

*It has taken the ramp up in long-term price expectations from \$22 to \$35 / bbl to attract capital back into the sector*

- Decade-long underinvestment in oil infrastructure due to low real oil prices
- Oil tanker capacity peaked in the late 1970's and fell measurably in the next decades, but global demand and high freight rates have pushed investment in new builds up dramatically
- Capacity investments favour:
  - Pacific: high growth rates
  - Mid East: serving Asian markets
  - US Gulf Coast – continued heavy crude upgrading
- New extractions will come from areas with higher political instability, further removed from the end-use market, or more costly to extract
- Oil prices must remain high to make such otherwise marginal investments worthwhile

Years of global upstream underinvestment in oil & gas may be over

### Forecasted Capital Expenditures - 2005

	# of Firms Surveyed	2004	2005	% Change
<b>Citigroup Survey</b>				
US Independents	109	24,631	27,026	9.7
US Majors	9	13,751	14,233	3.5
<b>US Total</b>	<b>118</b>	<b>38,382</b>	<b>41,259</b>	<b>7.5</b>
Canada	66	16,875	18,738	11.0
Outside N America	75	108,293	112,531	3.9
<b>Worldwide</b>	<b>183</b>	<b>163,550</b>	<b>172,528</b>	<b>5.5</b>
<b>Lehman Brothers Survey</b>				
US	249	37,933	40,898	7.8
Canada	75	17,142	18,609	8.6
Outside N America	87	112,191	117,275	4.5
<b>Worldwide</b>	<b>327</b>	<b>167,266</b>	<b>176,782</b>	<b>5.7</b>

\* Slide based on article in Petroleum Argus, Volume XXXIV, 50,  
20 December 2004

*Both the Lehman Brothers and Citigroup surveys indicate that budgets are based on prices over \$35.00/ bbl*

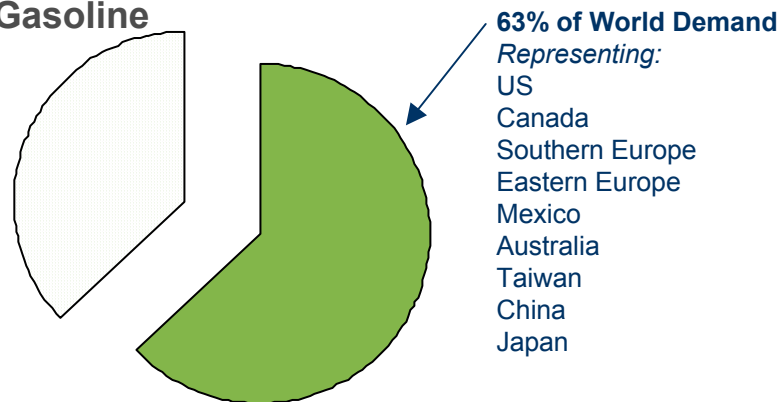
- Lehman Brothers and Citigroup surveys indicate that budgets are based on price expectations over \$35.00 / bbl (WTI)
- Global upstream spending is expected to increase by over 7% this year – driven by both higher expected oil prices, as well as stronger balance sheets, less economic uncertainty, and short-term drilling opportunities
- The Lehman Brothers and Citigroup surveys both indicate stronger upstream investment in the US and Canada
- Global investment is largely driven by large state-owned companies
- China and the US are leading growth in demand in refined products, but have a shortage of refining capacity – with few plans for expansion



Refinery upgrades and new builds are driven by increased demand and tighter clean fuel standards

### Estimated World Oil Demand Affected in 2005

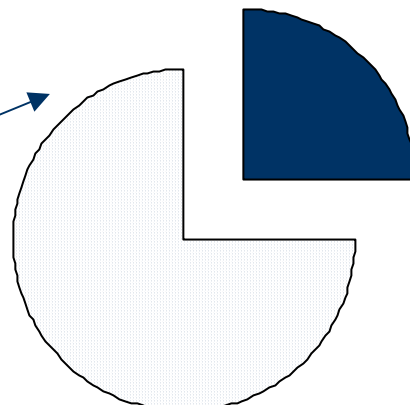
#### Gasoline



#### Diesel

**25% of World Demand**

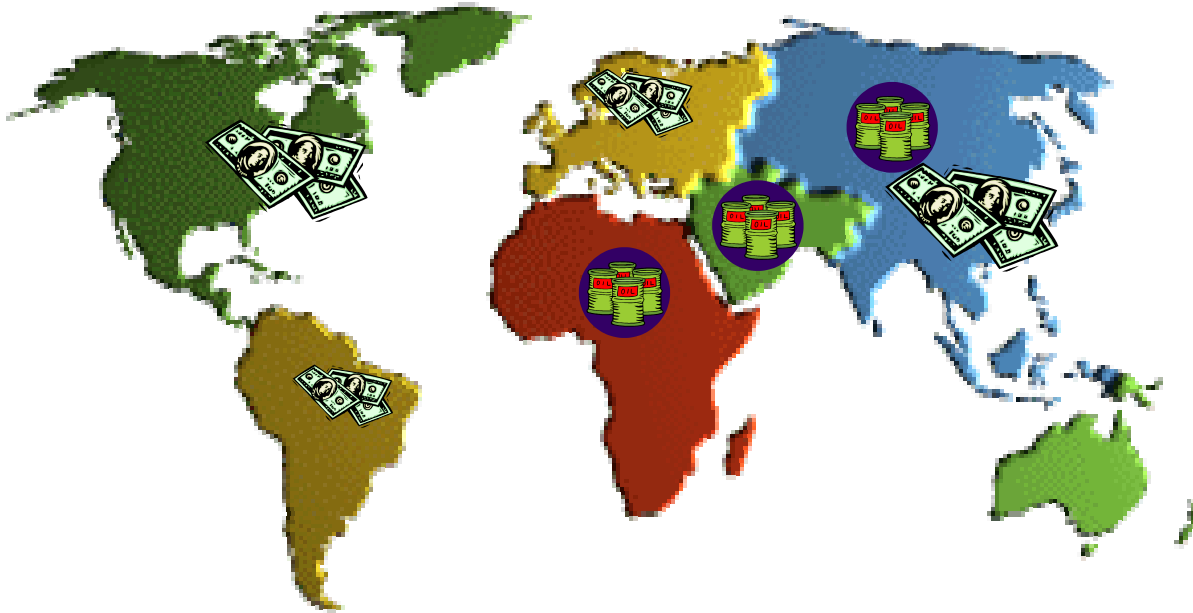
*Representing:*  
Southern Europe  
Eastern Europe  
Chile  
India  
Japan



- New low-sulphur refined product standards will affect a significant percentage of global demand
- New standard sulphur standards introduced in 2005 by the US (90 PPM for gasoline) and the EU (50 PPM for gasoline and diesel) will put further upward pressure on light, sweet crudes as they are naturally “cleaner” (lower sulphur content)
- Meanwhile China and India, the main drivers of global growth have introduced Euro II standards which call for 500 PPM for transportation fuel oil
- Oil companies in Europe, north Africa and the Middle East have been upgrading their refineries, or building new plants, to make cleaner fuels and maximise supply of higher value products that saw record profit margins in 2004

Escalating demand growth in Asia and tight global markets are shifting the balance power

### Energy Market Dynamics Are Shifting...



*The rise of China and India as major consumers of energy, as well as tight markets are changing the balance of power*

- Soaring energy demand in China, India, and other Asian tigers have driven the marginal price of oil to new highs
- Some product price hit new highs in 2004 on a mixture of crude highs, Chinese demand, and seasonal fundamentals
- Sweet crudes and distillates have emerged as a key intersection as refiners globally prepare for new low sulphur products
- Chinese, Indian, and South American state-owned enterprises are negotiating term contracts in order to secure long-term supplies of light sweet crude, coal, and gas
- Oil companies in these countries are also acquiring new fields and production / refining assets at higher prices than other bidders to secure stable supply for growing economies

\* Primary source: Petroleum Argus, 20 December 2004

## Challenging the Majors\*

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The prospect of declining reserves and rapidly expanding demand has changed the rules in taking on the Majors



- State-owned oil enterprises from emerging markets including China, India, and Brazil are making deals at home and abroad that may challenge the Majors
- Government-owned companies control 72% of the world's oil reserves, 55% of its gas reserves, and half of its production of oil and gas
- State-owned enterprises from oil producing countries like Russia and Libya are forcing the majors to share a greater part of the revenue – and take more risk – than they have in the past
- Other countries like, India and China, are using their massive demand to sign deals directly with producers that will bypass the Majors, or at least may change the power dynamics

\* Primary source: *Financial Times*, 2 December 2004

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The market will continue testing the ceiling – Brent likely to be closer to \$50 than \$30



*Although GDP growth may slow, China's demand for oil and products will continue to be a primary price driver*



*Continuing dollar depreciation has prevented real oil prices from approaching the 1970's level*



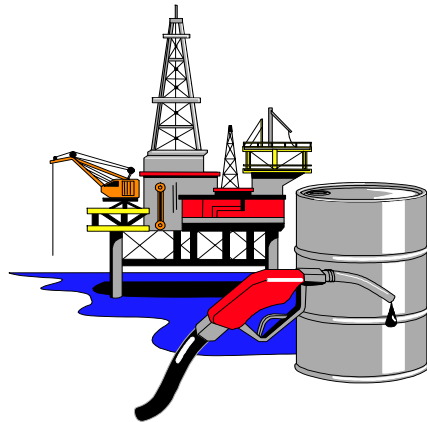
*Higher oil prices have not shown significant impact on GDP growth*



***SBL Energy Group forecast***

***The 2005 forecasted average price for Brent crude is \$50 / bbl***

Based on our view, we can recommend the following strategies



### Producer

**Assumption:** Producer is long crude oil or its related products

**Assumption:** Crude prices may average \$50 / bbl

**Strategy:** \$30 / \$50 Costless Collar for disaster insurance

### Consumer

**Assumption:** Consumer is short crude oil or its related products

**Assumption:** Crude prices may average \$50 / bbl

**Strategy:** Buy the \$42 / \$50 Call Spread and sell two \$35 Puts

***We would be pleased to execute these or any other trades for you***

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Steve gained a wealth of experience at Credit Lyonnais over a ten year period where he structured and priced products for hundreds of clients. In 2000 he became the head of Global Energy Trading at Credit Lyonnais. He currently heads a team of 5 traders.

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