

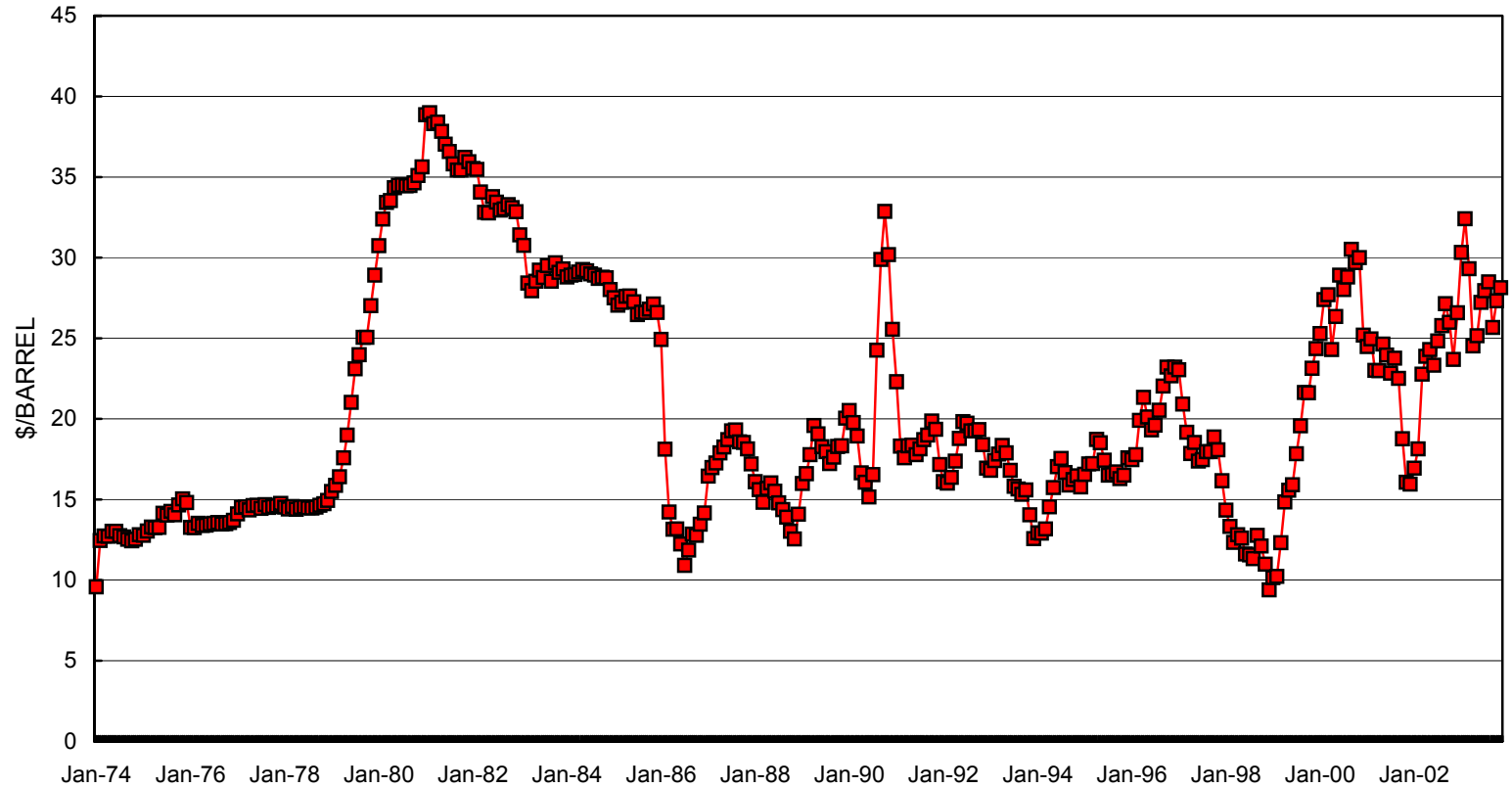
WORLD OIL MARKET
IN 2005
August 2004

Michael C. Lynch
President, Strategic Energy & Economic
Research, Inc

EXTRAODINARY PRICE LEVELS

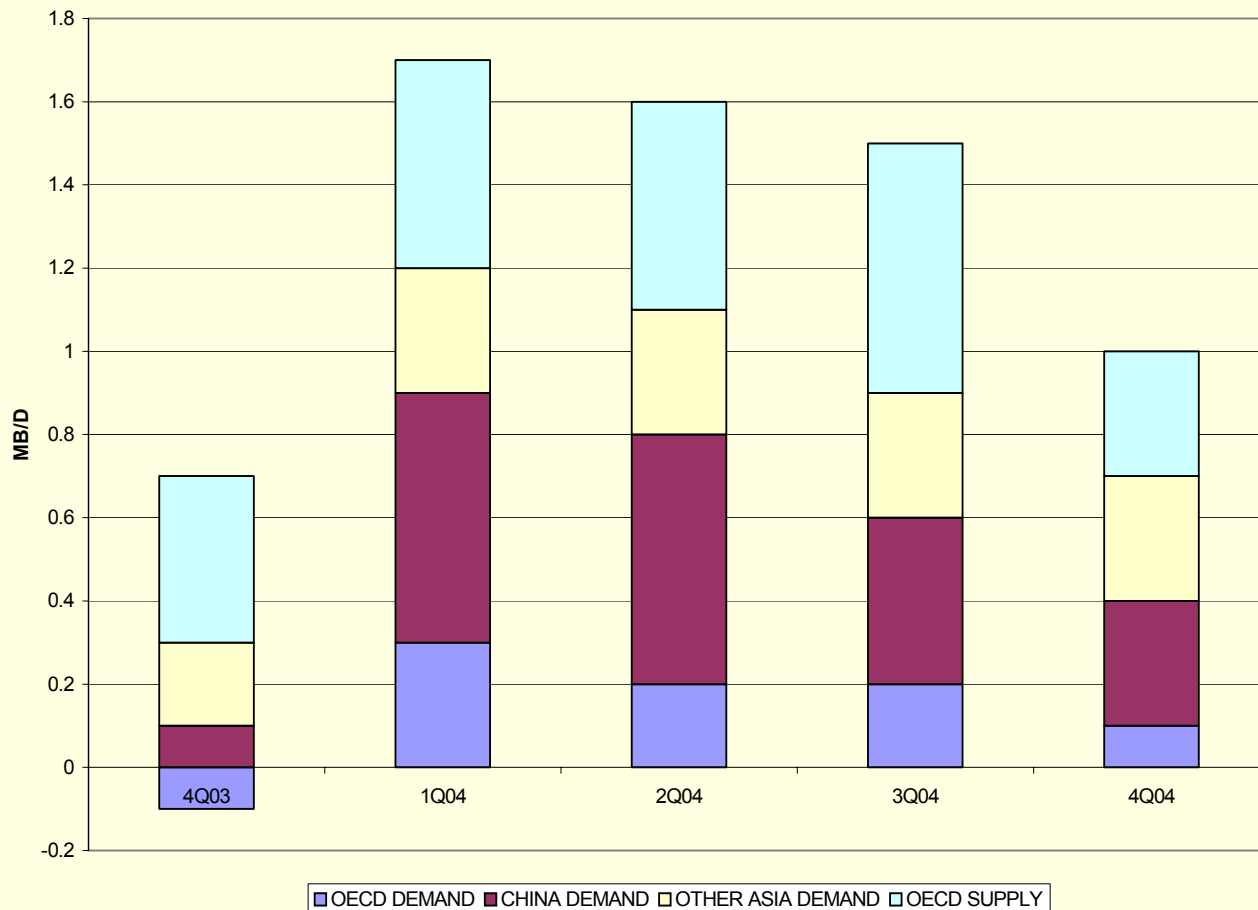
- LONGEST 'BUBBLE' WITHOUT MAJOR DISRUPTION
- UNUSUAL MARKET THIS YEAR
 - POST SARS, RECESSION
- PRODUCT MARKETS
 - ENVIRONMENTAL REQUIREMENTS
- SPECULATORS

US OIL PRICES (nominal)



REVISIONS TO OIL MARKET

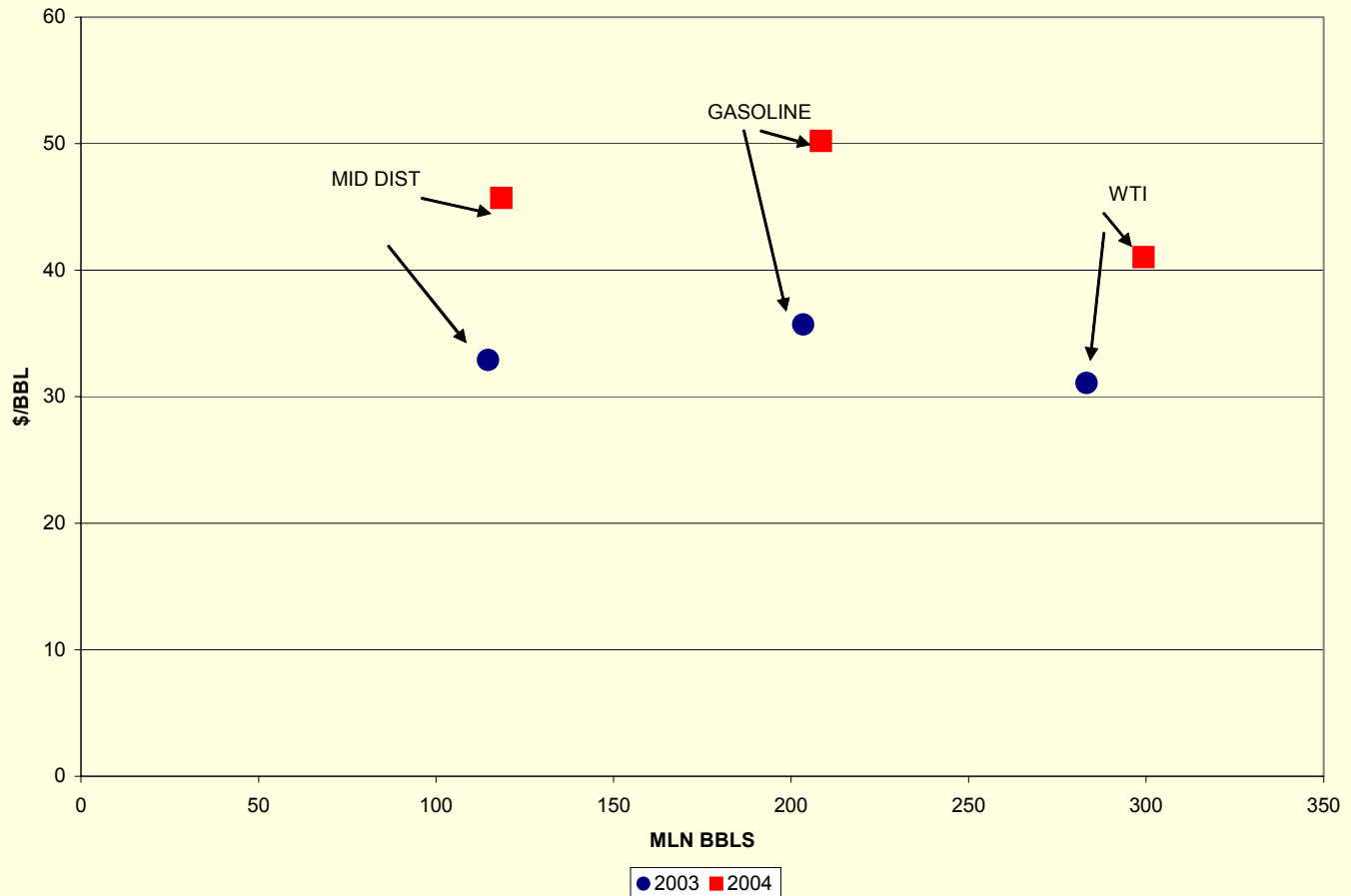
CHANGES IN IEA FORECAST, DECEMBER 2003 TO MAY 2004



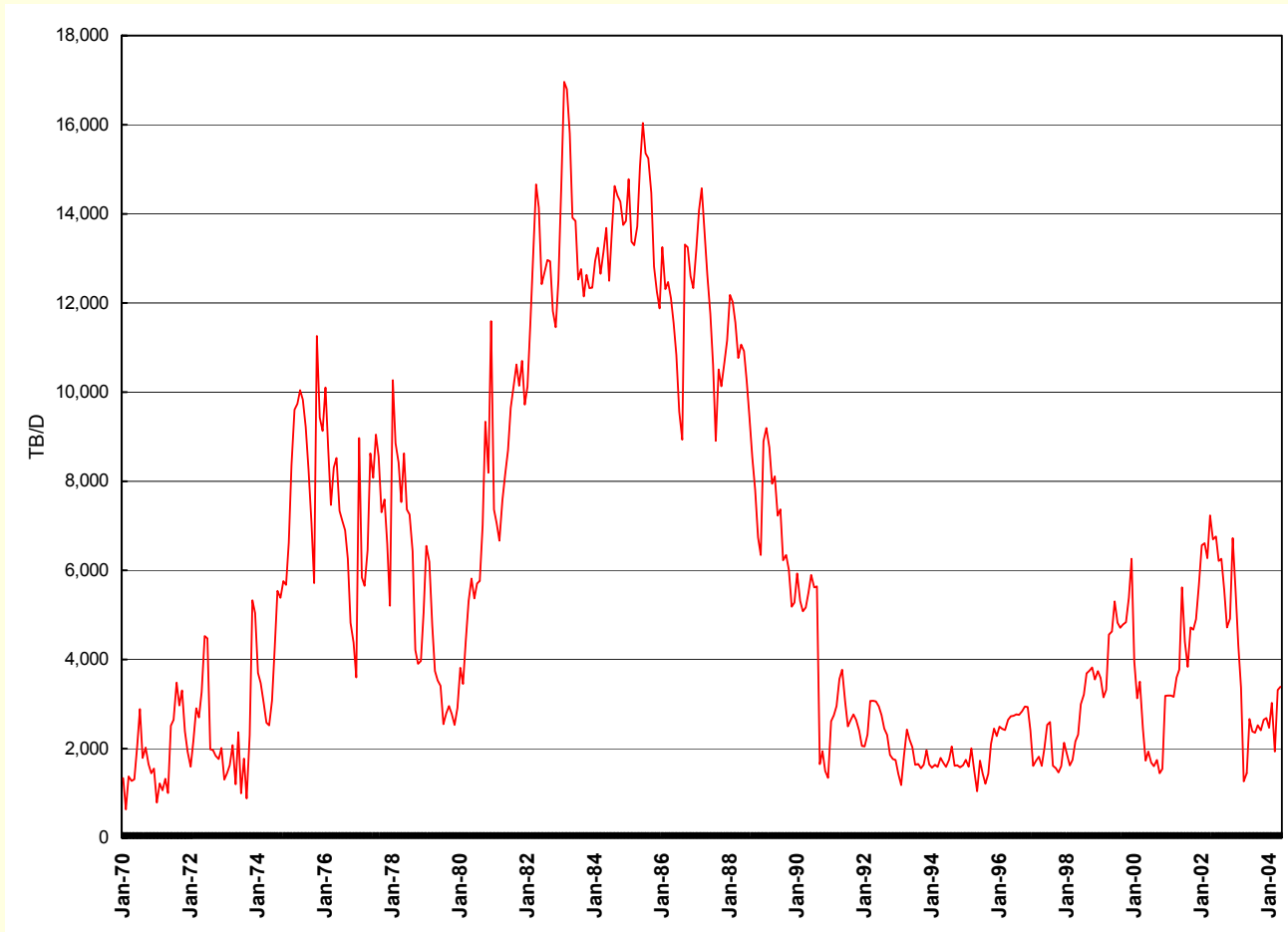
SECURITY PREMIUM

- THREATS UNUSUAL IN BREADTH AND DEPTH
 - MINOR: NIGERIA, VENEZUELA
 - MEDIUM: IRAQ
 - MAJOR: SAUDI ARABIA
- NO SURPLUS CAPACITY
- LOW PRIVATE INVENTORIES
- RELUCTANCE TO USE SPR
 - BUSH IN VENEZUELA STRIKE, CONTINUING FILL

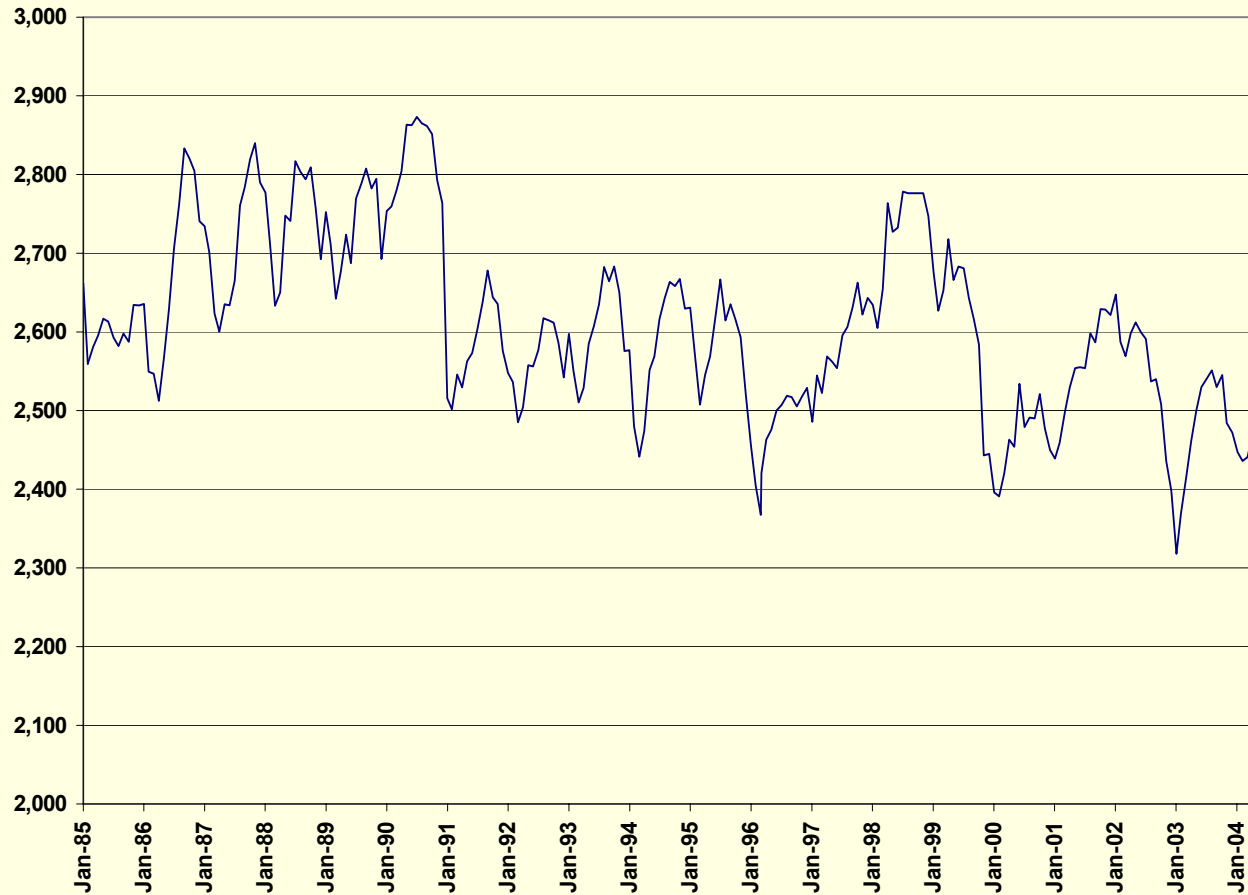
SECURITY PREMIUM



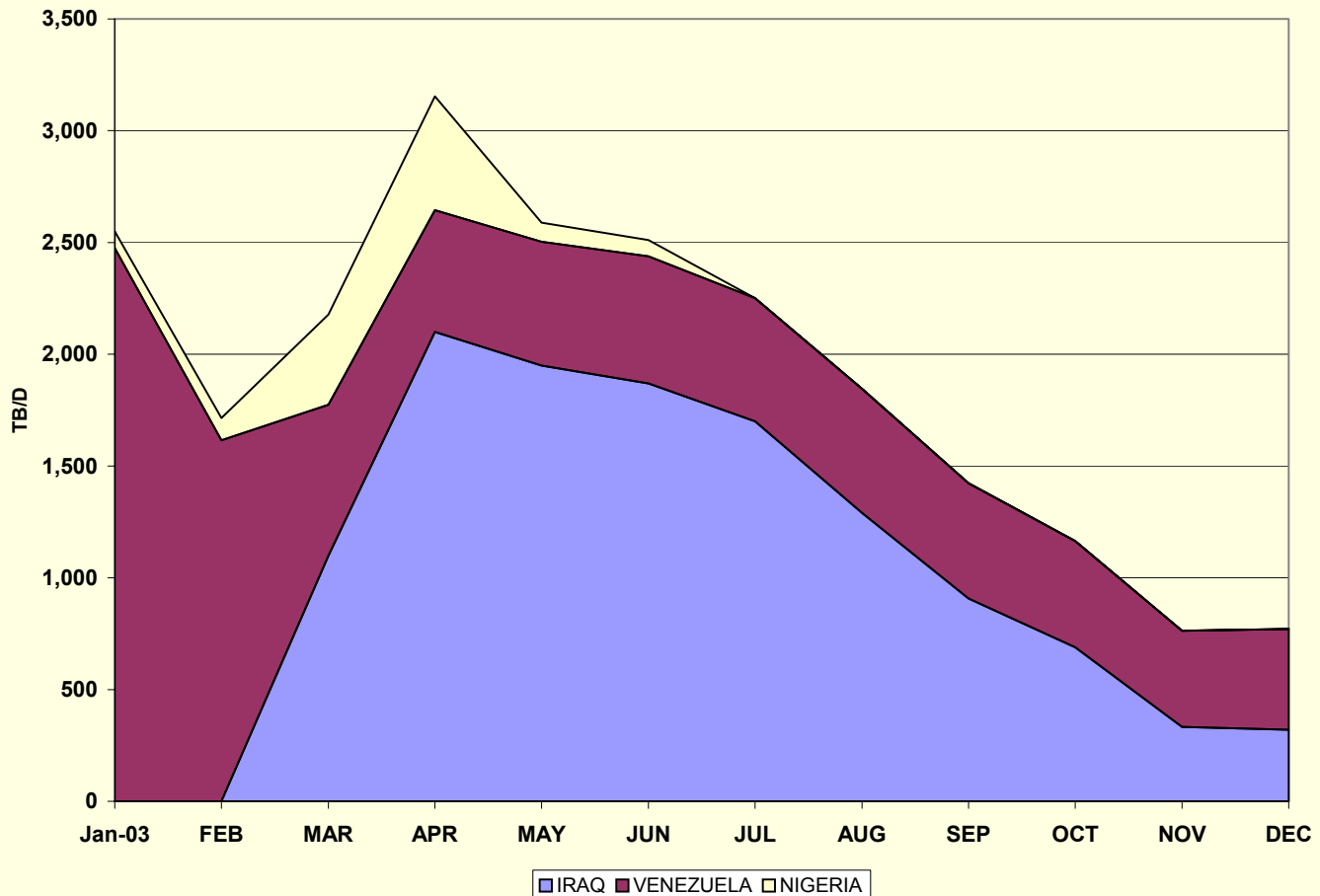
OPEC SURPLUS CAPACITY



OECD COMMERCIAL INVENTORIES



LOST PRODUCTION, 2003



IRAQI OUTLOOK

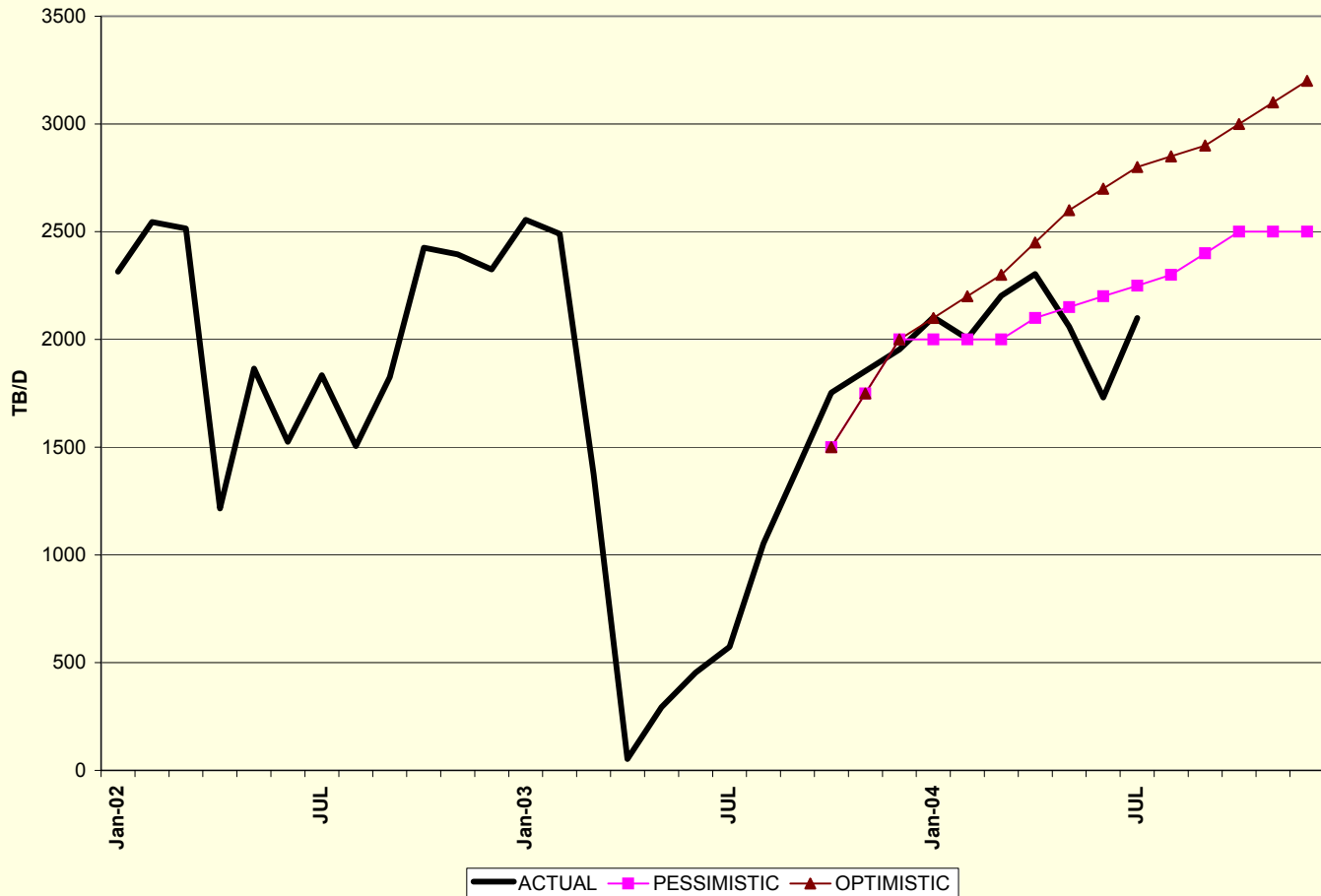
- VIOLENCE AGAINST OIL INFRASTRUCTURE SHOULD SUBSIDE
 - SPEED UNCERTAIN
- GRADUAL IMPROVEMENT IN EQUIPMENT
 - LESS DOWNTIME
- REHABILITATION OF FIELDS ONGOING
 - GRADUAL INCREASE IN CAPACITY
- MOVING TOWARDS NEW FIELD DEVELOPMENT
 - MAJOR CAPACITY INCREASES FROM 2005

TRANSFER OF POWER AND FUTURE VIOLENCE

Mode of attack	Baathists Guerilla: Sabotage, ambush	Zarqawi Terrorism: Suicide bombings	Nationalists Random: RPG, IEDs
Target	Oil and other infrastructure, US forces, pro-regime civilians	Civilians; Kurdish and Shi'ite targets	US forces
Impact of Sovereignty Change	Unclear	None	Reduced activity

IRAQI PRODUCTION

AND SEER 9/03 FORECAST



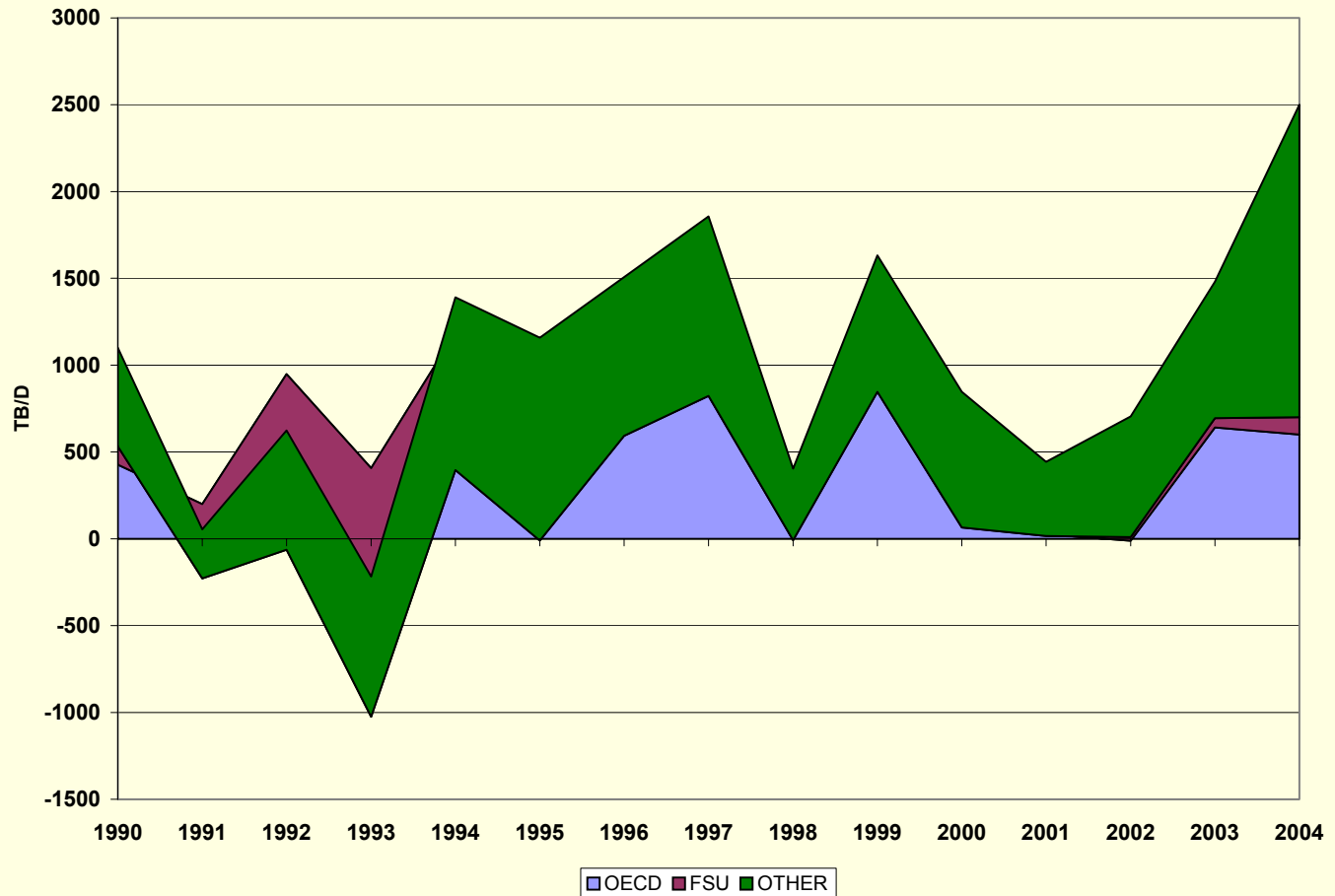
THE BIG QUESTION: VULNERABILITY OF SAUDI OIL

- SECURITY AT OIL FACILITIES HIGH
 - BUT NEVER PERFECT
- BASRA SUICIDE SPEEDBOATS FIRST OIL FACILITY ATTACK
- FUNDAMENTALISTS STRONG IN SAUDI
 - BUT ATTACKS TARGET FOREIGNERS
- THREAT PROBABILITY: VERY LOW
- THREAT IMPACT: VERY HIGH

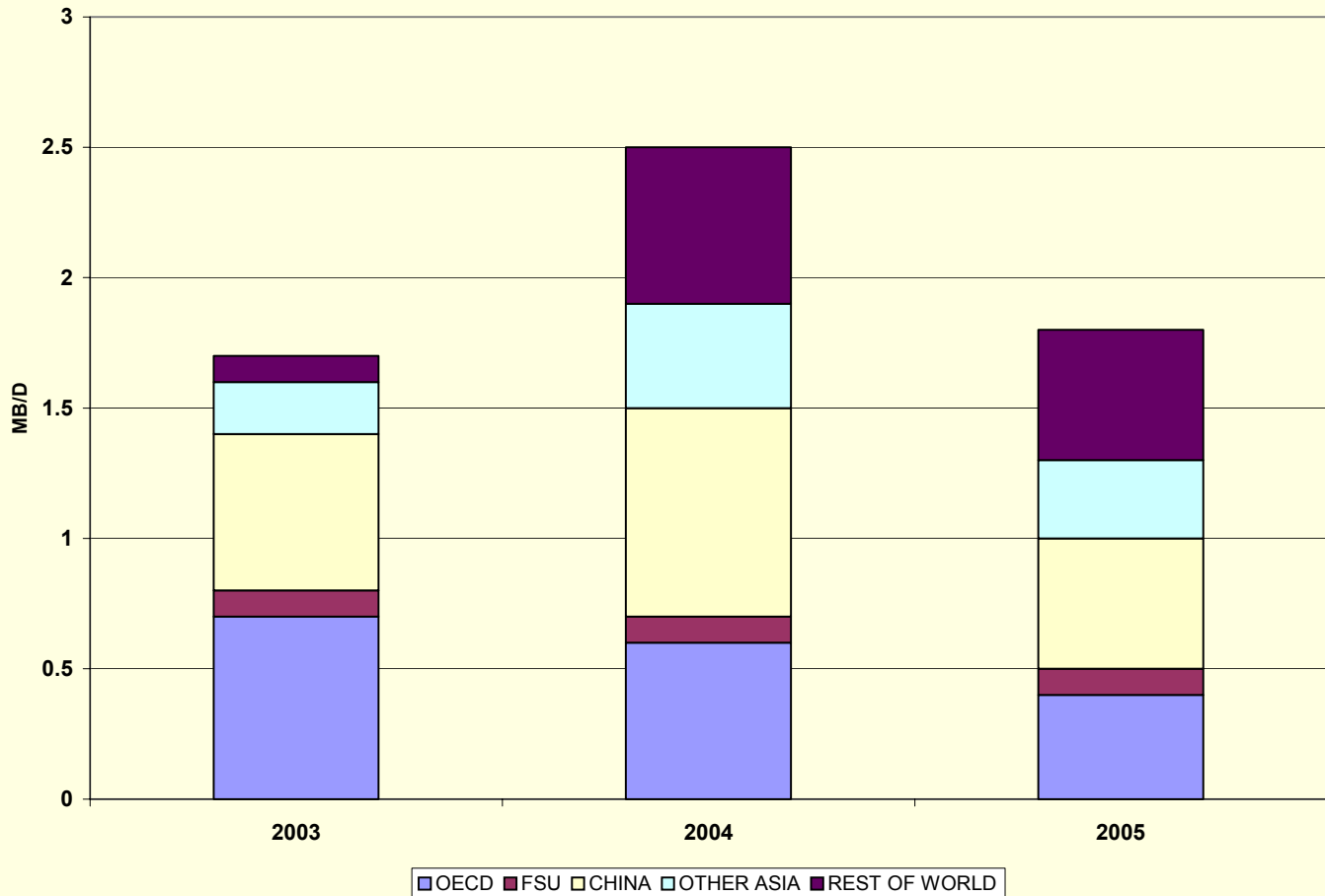
MARKET IN 2005

- DEMAND GROWTH LOWER
- NON-OPEC SUPPLY GROWTH HIGH
- IRAQI PRODUCTION UP 500 TB/D OR MORE
- CALL ON OTHER OPEC SHOULD BE LOWER BY AS MUCH AS 1.5 MB/D
- BUT: EASY TO ABSORB
- PRICES SLIGHTLY WEAKER
 - UNLESS OPEC MISCALCULATION

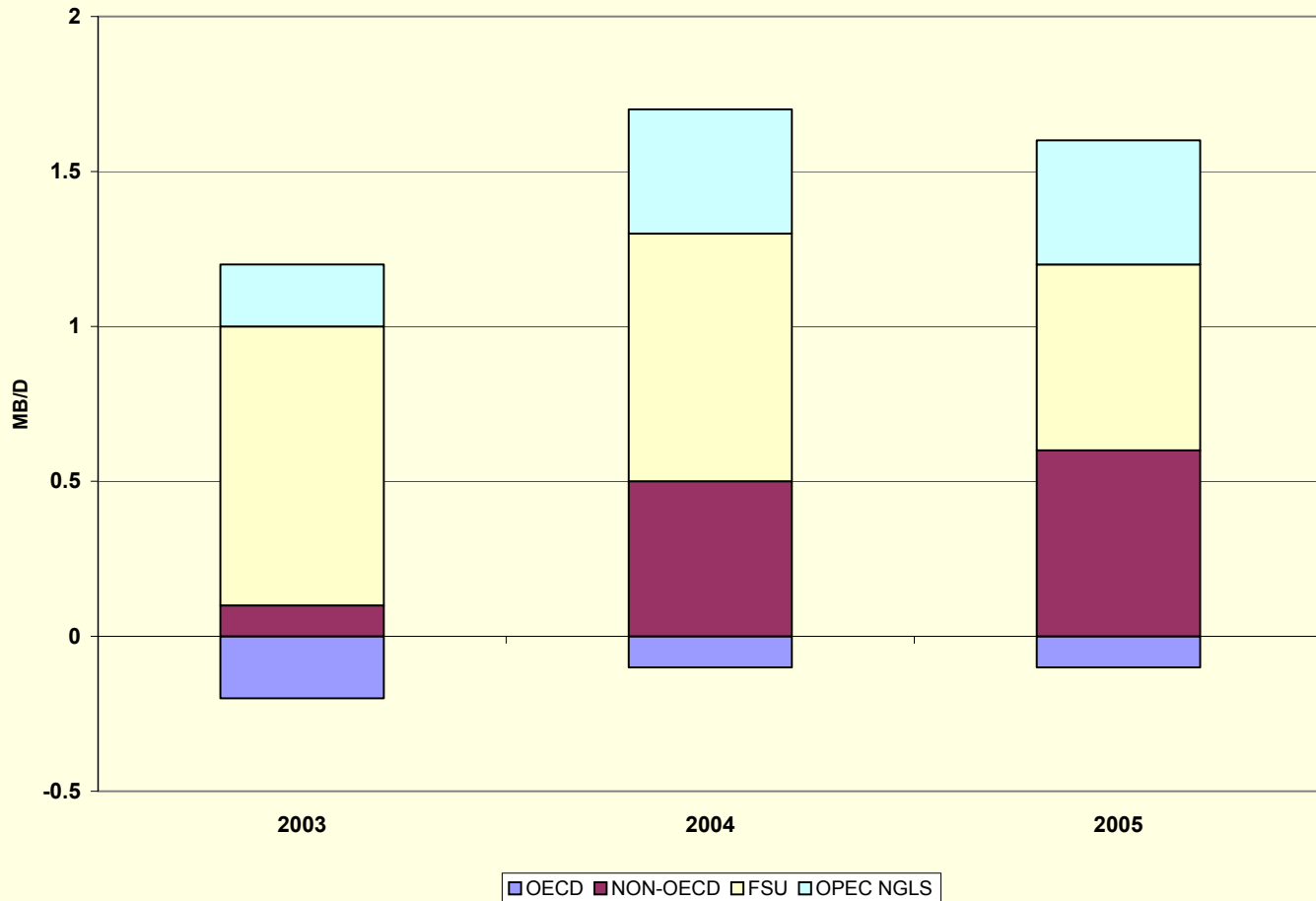
HISTORICAL DEMAND GROWTH



DEMAND CHANGE

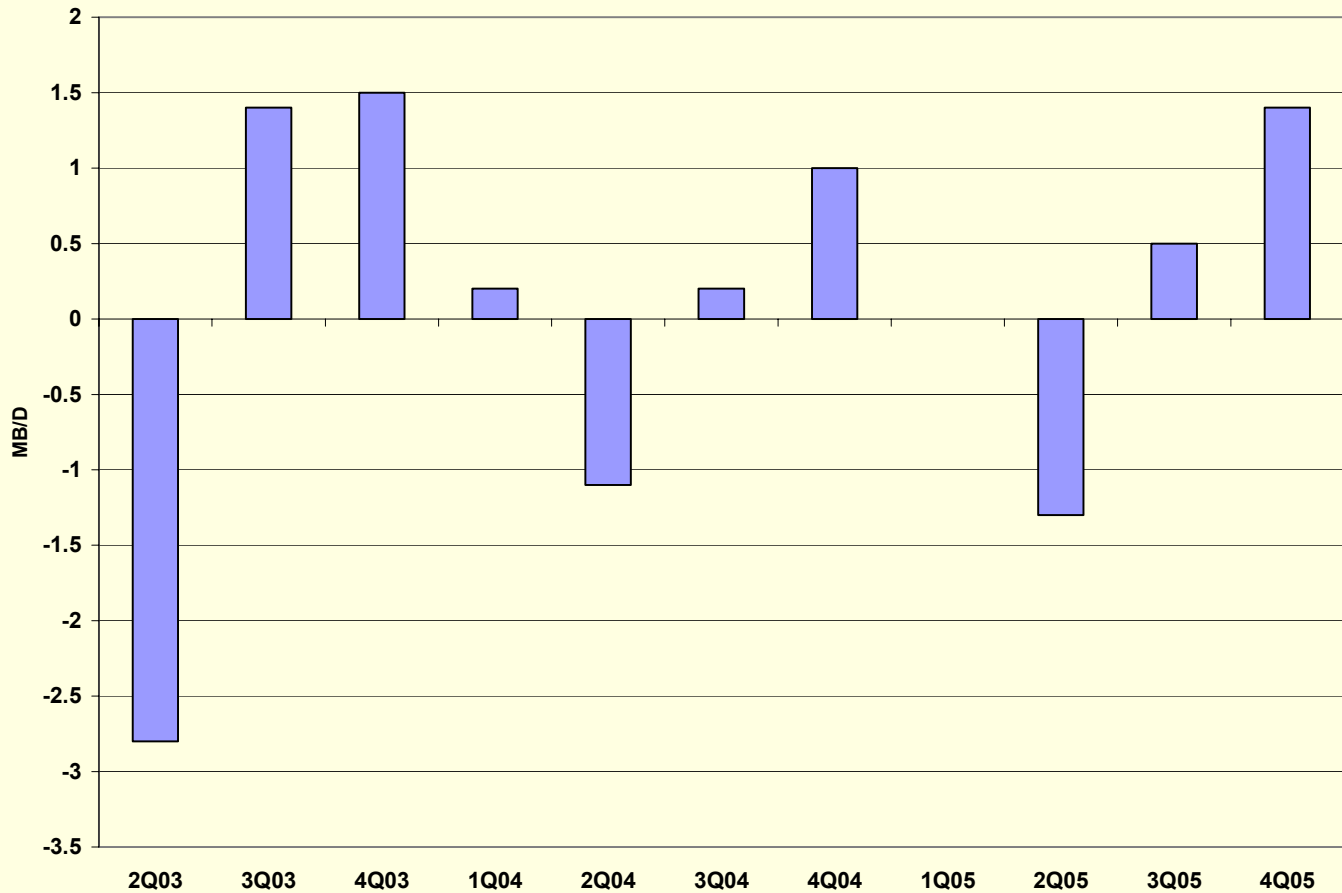


NON-OPEC SUPPLY CHANGE



CALL ON OPEC+STOCKS

QUARTERLY CHANGE



MARKET BALANCE

- ABOUT EVEN FOR OPEC
 - DEMAND AND NON-OPEC SUPPLY BOTH UP ABOUT 1.5 MB/D
- BUT INTERNAL PRESSURES
 - IRAQ UP 0.5 MB/D, OTHERS ABOUT 1 MB/D
- SAUDI, KUWAIT CAN EASILY ABSORB
- BIG QUESTION
 - DO SAUDIS WANT 8.5 MB/D OR MARKET SHARE?
 - PREPARING FOR AN IRAQI BOOM???