Galp Energia
First Half 2008 Results Presentation

Introduction

Tiago VILLAS-BOAS, Head IR, Galp Energia

Good morning, everybody. Thank you for attending the conference call of the first half results of Galp Energia. We have as usual Manuel Ferreira De Oliveira, the CEO of the company, and Claudio De Marco, the CFO. The management is also here as well to answer any questions you may have at the end of the presentation. This will now be done by Mr Ferreira De Oliveira.

Manuel Ferreira DE OLIVEIRA, CEO, Galp Energia

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Good morning to all of you, and thank you for spending some time thinking about our company. I will start with a short presentation, and then as usual we will be available to answer your questions. I am supposed to tell you to read the disclaimer that is in our presentation. I suppose you have done that already.

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Our EBITDA has gone down to EUR449 million at replacement cost adjusted. Our net profit is down 25% to EUR214 million. Our net profit went up by 31% to EUR524 million in IAS accounting.

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I will summarise the difference between EBITDA at IAS and EBITDA at replacement cost. This difference basically comes from refining and marketing activities. That is a major number, EUR405 million. This clearly emphasises the level of stocks we hold in our company, and also the degree of the slope of variation in crude oil prices. Regarding replacement cost, we account for the cost of crude oil on the day of processing. Regarding IAS, we process the oldest crude oil we have in our tanks. Therefore, the two criteria we use are FIFO for IAS and replacement cost for management purposes. The numbers are considerable, as you have seen.

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We will now proceed to the business review. We can now say to you that the operating problems in BBLT have been solved. That notwithstanding, the rigs available to us in the BBLT field were used for workover activities. Therefore, we have a delay in drilling that will continue throughout the year. That leads to lower working production, which we do not expect to recover in the second half of the year. Therefore, our production in the second quarter has gone up versus the first quarter, but below the second quarter of '07.

Regarding entitlement production, the numbers indicate that we sold 0.9 million barrels in Q1 and one million barrels in Q2. The OPEX in Q2 '08 was influenced by the extraordinary workovers that have already been completed in the BBLT field.

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I do not need to emphasise that the evolution of our refinery margins was substantially lower than in the previous year. However, we have better refinery margins in Q2, at USD4 a barrel, than in Q1. Later on I will come to what we call the time lag effect as far as distribution is concern.

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I will now talk about volumes sold. We sold eight million tonnes in Q1, which was basically in line with the previous year. Exports increased slightly to compensate for volume not sold to the Portuguese operators. Galp operations were practically at the same level as in the previous year.

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There was a major increase in natural gas sales. We achieved nearly three BCM of sales in the first half. This represents a major increase in Q2. The sales were basically concentrated in trading and electrical activities. The substantial growth in these activities represents 20% growth year on year on total sales. That has been the jewel of our crown in this half and quarter.

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We will move on to the results for the different business segments. I remember that IAS is basically affecting refining and marketing. IAS and at replacement cost are practically the same as far as E&P and G&P is concerned. Regarding at replacement cost, you have seen that EBITDA on E&P on a year on year basis has increased by 24%, and 64% on G&P. It is down 71% for refining and marketing quarter on quarter and on the first half 2008. Refining and marketing declined 55% in Q1 year on year, 60% on G&P and 25% on E&P.

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There is not much to be said about our P&L account. The underperformance was basically driven by refining and marketing. Cash flow from operations during Q2 generated EUR257 million. Having distributed the dividends and capex, debt has increased by EUR78 million. Our CAPEX in the first half was EUR216 million, mostly on E&P. This was mostly concentrated in the investment in the field of Tombua-Lândana in Angola. This will be operational by the fourth quarter of '09.

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Investments in refining and marketing are progressing as scheduled. I will refer to this later as one of the main topics of the closing statement.

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The balance sheet is healthy and strong, notwithstanding the fact that the strategic stocks of the company have increased substantially in value, not in volume. This represents an increase of tied-in capital from EUR566 million to EUR894 million. Net debt is now EUR812 million. Debt to equity ratio is at around 30%, which we consider healthy.

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We will now look at the main highlights of the results. I would like to emphasise that E&P already represented 28% of the EBITDA at replacement costs. I owe an explanation to investors in the company regarding time-lag in refining and marketing. I explained the issue last quarter, and I will repeat it now. We sell our product ex-refinery at the average price of the previous week. That is an evolution from past years, when we sold at the average price of the previous two weeks. We are tied to this by contracts with our main customers.

I want you to know that if we had maintained a time-lag of two weeks, as we did last year, it would have cost us an additional EUR21 million in Q2. This time lag cost us EUR53 million in Q2. This is because of the high slope of variation in product prices. The effect is just the opposite when the prices of products decline, as they are doing now. The dimension of the effect is proportional to the slope of the variation. We are addressing this issue, which is of concern to us. Therefore, the time-lag effect was EUR53.7 million in 2Q, and it would have been another EUR21 million if we had maintained a two-week time lag. We managed to negotiate a one-week lag with our customers as of 1 January this year.

The Gas & Power business performed excellently, mainly due to the results of our trading activities and the extraordinary growth of the power sector. EBITDA grew 60% on a year on year basis. Regarding financials, auditing of the accounts for the first half year will take place by the end of August. Subject to approval, we will be distributing a dividend of €0.16 per share in November according to the dividend policy we set up and our shareholder meeting approved. This basically says that we will distribute 50% of the dividends of the previous year in November if the results allow it.

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I will now focus on three key major drivers of value in our company. In the E&P we chose the Santos Basin for E&P. Everybody is focused on the Santos Basin. Galp Energia has on top of 4 the participations in 4 blocks in Santos Basin, another 17 blocks in Brazil. It also has onshore operations. However, I will focus on the Santos Basin. What is new there? We are now drilling in Block 11, in the well called Iara. We are about 5006 metres deep in the reservoir. We are very happy so far with the signals we have been getting from the logs. The consortium will very shortly be issuing a press release on the results to date. It is a good moment for Galp Energia.

We have been working hard with our consortium to approve the investment EWT, the Early Well Test, on the pilot project that will be converted in the first commercial unit. The Galp board of directors effectively approved it yesterday. The EWT already announced by Petrobras will be operational in March '09. The pilot project will be operational in 2011-2012. We hope to commence commercial operation by the end of 2010. It was a good day for us when we approved this investment, which is well within our ability to support. The details will be issued by the consortium when it has been agreed on by all parties and submitted to the ANP in Brazil. A second well is being drilled at Jupiter. I cannot reveal any further information, other than to say that we have had no negative surprises from the work that is underway.

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Let us now move on to the conversion project. This is a major project that we are undertaking, with an investment of above EUR1.2 billion. This project is on schedule. It is on budget, in the sense that we do not expect to have to make any major revisions to the investment estimate. All the major long-lead items have already been ordered. We maintain our estimate that the Porto investment will be completed in the first half of 2010, and that the project at Sines will be complete in the first half of 2011. We conducted a simple analysis of the economics of our investment. When we presented the investment to the investors, we assumed that the spread between diesel and fuel oil, the driver of value in this project, was about USD23 a barrel. That leads to an incremental margin of USD3 a barrel in the refinery system.

The incremental margin in the refinery system would have been above USD6 a barrel if these facilities had been operational in the first half of the year. This means that we would have had an additional contribution to our margins of about USD300 million. This clearly emphasises the value of the investment. We are strongly focused on it, and we are satisfied with the progress so far. We want to remind you that we also have a number of smaller projects within the refineries in addition to this big investment. That effort will be completed in parallel with the upgrade project, and will result in an additional USD1 a barrel of incremental margin. This will basically come from an improvement in energy efficiency and other operational improvements.

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I will now discuss the integration of refining and distribution businesses. We have informed the shareholders that we signed contracts with Agip and Esso a couple of months ago for the acquisition of the Iberian operations. We closed the contracts and agreed on prices with Agip only yesterday. The Esso deal took place a couple of months before. Both operations are now in Brussels for approval by the Competition Authority. We expect the Agip operation to be approved by September. We have already made the final submission, after some negotiations with the Commission. We expect the Esso deal to be approved in November.

Let me point out the strategic value of these acquisitions. Today we sell 72% of our refining capacity directly to our customers. With this acquisition, we will be selling 94% of our refining capacity directly. That obviously includes the swaps that we make with other operators. These operations will increase the number of our sites in Iberia to over 1,500. Company-owned sites will number nearly 995. Associated convenience stores will number 585. Our retail market share in Iberia will be 12%. Our oil products market share will be 16%. We will be selling 12.5% directly to our customers. We, the management, consider this to be a vertical integration. We know that under normal, or rather more normal conditions, there is a negative correlation between refinery margins and distribution margins. That will help us reduce the volatility of our refining and marketing results, and increase the value of the business by reducing the costs.

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Here is the business case for these transactions. We will pay EUR695 million for the two transactions. It is a major investment for our distribution activity. It changes the scale and depth of our Iberian operations. The transaction will bring us benefits at three different levels. One is what we call 'importing the EBITDA', or the EBITDA of the present operations. Another is the important and obvious factor of the synergies linked to the optimization of supply and logistics. These are easy and quick to capture. Then there is overhead and fixed cost dilution. That will bring us EUR35 million of synergies. Studies have already been completed and are awaiting implementation. We will be doing this throughout 2009. Therefore, these two components of value will be unlocked in 2009.

Once rebranding has been done and phase one is complete in 2010, we expect to create at least EUR25 million of additional value through network effects. This will add up to a total EBITDA of EUR120 million, which makes the value of the transaction attractive to the shareholders. These three projects are the three we have chosen to share with you. However, I can address any other issue you want to raise. Thank you.

Questions & Answers Session

Alastair Syme, Merrill Lynch

I would like to ask a question about financing of the business going forward. Looking at the first-half cash position, the outgoings are clearly more than the incomings. You have made some statements about of financing Tupi. What is your existing proposal to fund the business going forward?

Manuel Ferreira De Oliveira

We have a business plan for 2008-2012. We are now preparing the business plan for 2009-2013. We do not have any issues with financing investment projects under the 2008-2012 plan, according to the forecast for cash flow generated. Everybody knows that there is a discontinuity in this process which is associated with the Santos Basin, and with the Tupi development in the short term. We are very happy with the numbers that will release not so long ago, which the board discussed yesterday. Therefore, the effort will not be as big as we expected, we have fantastic solutions for developing of Block 11. Thanks to the efficiency and talent of the operator.

However, we cannot yet release them. We are in the process of preparing our business plan for 2009-2013. When this process is complete, we will be sharing with our shareholders the financing issues that will arise from that plan. At this moment I emphasise that, according to all the data that is available, we do not have an issue of financing the projects that we are developing.

Alastair Syme
Can I ask a supplementary? Do you think the current state of the debt markets allows you to use the certified Tupi reserves as collateral on debt?

Manuel Ferreira De Oliveira
The model we are working with is not thinking of using collateral to support financing. This is because we are only considering Block BM-S 11 to date. It would be different in Block 24 in particular where a major discovery was made, where we have 20% stake that could change the nature of my statement. We have no numbers whatsoever to enable a qualified answer to that question. Therefore, we focus on the projects whose CAPEX we know and to which we have made commitments. Our commitments to projects are supported by cash flows on the balance sheet and the increase in debt supported by the balance sheet.

Bruno Silva, BPI
Good morning, everyone. I have a couple of questions. Firstly, maybe I am a little obsessed by numbers, but I would like to have a feeling of the controllable variables in terms of the refining margin you have reported. What is the differential to the benchmark in terms of spread, quarter on quarter? What where the controllable variables that you have that could justify this slower spread in terms of conversion losses? Is there anything else you could add on this front?

Secondly, I am not entirely sure about the numbers that have been released in terms of the EBITDA quantification of the Agip and Esso acquisitions. I could not get all the numbers. Could you also quantify the impact of the full coverage of the refining output? That you now claim it is at 94%. How much could that add to the margin or some other benchmark you could provide for the refining and marketing business?

Manuel Ferreira De Oliveira
Regarding refining margins, If you do not have it we will send you the figures of the benchmark aligned with the processes we have in our refineries and our performance against the benchmark in terms of operational performance are satisfactory. I want you to note that international quotations of refining products and the price of crude oil are exogenous variables for any oil and gas company. We are price takers and not price makers in terms of quotations on oil products, be they fuel oil, jet oil etc, and in terms of crude oil. Therefore, the gross margin of the refining operation is a exogenous variable to every refinery in the world.

What do we have left then? We have left, process optimisation, on which we are always focused and where we always have opportunities for improvement. The environment is putting pressure on us to improve our operations. The second factor is energy consumption. The higher the price of oil the higher is energy consumption. We have high levels of energy consumption, above 8%. Which is very high. We have many minor investments on small projects across the two refineries that constitute a large amount of money. They will increase the total refinery margin by USD1 per barrel when they are completed by the end of 2010.

These are the variables you control. There is the quality of crude oil procurement. There is operational efficiency. There is energy efficiency. When we look at any refinery business, we look for a cycle. We cannot be obsessed by shorter margins, otherwise we stop investments and make our refineries inefficient. The investments we are making now should have been made five or six years ago. We are now paying the price for that.

Regarding the EBITDA of Agip and Esso, the contracts we have signed with both corporations have a clause that does not allow us to disclose the value of either transaction. Both of them imposed that clause. Therefore, we agreed with both that we would release the total value of the two transactions. That is what we did. The incremental benefit is clearly explained in the presentation in page 21 that I summarised for you. Tiago can provide any other details that you want within the constraints of the contracts we signed.

Now I will address the benefit of full refinery coverage. Substantially the reduction of volatility and in certain cases the delta between CIF and FOB. Because when you are fully integrated, if you do not manage a specific product to swap the product with other operators, you have to export it. This is the major difference between CIF and FOB quotations, and it is visible in Platts in every product. Therefore, that is the benefit of full vertical integration, and it is one of the pillars of our competitiveness in refining and marketing.

Bruno Silva
Am I allowed two follow-up questions? Is it possible to quantify the impact of the improved coverage in the first half, if you had completed the operation in December '07? The second question goes back to controllable variables in the refining business. Were there any reported increases in terms of conversion losses in the process that would justify a decrease in your benchmark spread quarter on quarter?

Manuel Ferreira De Oliveira
Regarding the quantification of improved coverage, this is a long-term strategy, as I said. It is not a short-term project. When you have a product you produce in your refineries and you have to export it. You export it at FOB prices. The refinery sells it at CIF prices when you place it in the internal market. The delta is typically the transportation costs from the formation centre price, whether Rotterdam or the Med, to the Portuguese coast. It depends on the freight of the day. It is a lot of money, and it depends on the products involved. Therefore, the data is dependent on the product. The major product that is influenced by that is obviously gasoline, of which we are clearly an exporter.

Your second question concerned the benchmark. We updated the benchmark of our refineries a couple of months ago following the guidelines of the International Energy Agency. Let me try to explain the weaknesses of Galp Energia's processes during the last quarter in particular. This was the crack between gasoline and crude oil, and between diesel and crude oil. We have in Sines a gasoline-oriented refinery. The cracks have reduced drastically, and mostly affect the gasoline-oriented refineries. We are making investments which will transform the processes at our refineries, making them diesel-oriented. They will be able to capture the cracks between gasoline and crude and diesel and crude.

Theepan Jothilingam, Morgan Stanley

I have three questions, a couple of which are hopefully quite brief. The first is on CAPEX. I just wanted to get a feeling for what you thought the CAPEX for the full year would be. Could you give a little colour in terms of how you see the CAPEX for the conversion project coming through in the numbers for both the second half of this year and into 2009? The follow-up question is on Brazil. Could you give a bit of flavour in terms of your perception of how discussions are going with the authorities in Brazil over fiscal terms on existing licenses? How about new fiscal terms following future licensing rounds?

Manuel Ferreira De Oliveira

Regarding the first question, at the beginning of the year we referred a CAPEX for this year of EUR1.5 billion. We will not achieve that, because we can include on that the Esso-Agip transaction, which will happen if the authorities approve them. We also have further payments on the operating project. Although the project has not been delayed, the down payments we are making are much lower than we expected. We are placing the orders on schedule, but we negotiated lower down payments in the bidding process. The other projects are more or less on schedule. My view is that we will be EUR200-300 million below what we indicated at the beginning of the year. However, the execution of some of that CAPEX does not depend on us. An example is the Esso and Agip transaction, which will happen only when the authorities approve it.

You asked about the conversion CAPEX. We continuously update the CAPEX on any engineering project as orders are placed. We have an estimate for an investment of between 1.2 and 1.3 million Euros. We know the components of that estimate, and we are placing the orders for different components. So far we are placing orders practically in line with our estimate. Some are slightly lower, some are slightly above. Therefore, we feel comfortable about it. We will convert the projects to a lump sum turnkey, if the numbers are acceptable to us, by end Q1 2009. Therefore, we will only have a fixed number for the project at that stage. Our contracts with the procurement and engineering companies allow the conversion to a lump sum turnkey after an OBE, open-book estimate, of the investment. We will be doing the OBE in Q1 2009, and then a conversion later on if the numbers are acceptable to us. Therefore, we have no reason to change our guideline of EUR1.2-1.3 billion for the two projects.

Regarding Brazil, the press is consistently reporting possible changes in the taxation regime and the licensing strategy for the subsalt offshore reservoirs. I can only state that we are in constant contact both with Petrobras and with some government authorities to monitor what is going on. We have no reasons to have any concern regarding the sanity of contracts within the Brazilian context. Therefore, we expect that whatever changes might happen will not affect the contracts in place.

Iain Reid, Macquaire

I have a question about the EWT and the pilot projects on Tupi. BG were talking at the beginning of the year about the EWT producing about 20,000 barrels a day gross, and production pilots of 50,000-100,000 barrels a day, as well as some gas. Can you say whether those numbers have changed significantly? Can you give us your view on when we might start to see full field developments and plateau production if these pilots and EWT are successful?

Manuel Ferreira De Oliveira
I obviously respect my colleague the CEO of BG, and what he said, he said. I can probably help you to understand what he said. The EWT test has a capacity to produce 20,000 barrels a day. However, it will not produce 20,000 barrels a day because of the constraints that will be imposed by ANP on gas flaring. Therefore, it is a pilot test on two wells. It is limited by the authorisations obtained from the ANP. They will take place, we hope, from the end of Q1 2009 until the end of 2010 while the EWT is being performed in order to understand the reservoir's performance.

We will be developing a pilot project. It is a pilot project because the facilities will be optimised for future modules. It will be completed at the end of 2013. It will then be used as model for the number one field development. The capacity of the pilot test will be 100,000 barrels. It will get to that stage by the end of 2013 as wells are drilled within the pilot area. It will remain at 100,000 barrels after 2013. Further wells will be drilled to compensate for the decline of production in the existing wells. We will have 100,000 barrels on a continuous basis as of the end of 2013 if everything goes as everybody expected. We will have to reach that point between 2011 and 2013.

We are very satisfied with our engineering project, and we are very lucky, we and BG, to have Petrobras as the operator. It is a world-class operator, and is fully committed to the project. Its strategies minimise CAPEX as will be than communicated by the consortium.

Iain Reid
I have just one more question. BG also mentioned growth production of up to 1 million barrels a day. Is that still what the consortium is thinking?

Manuel Ferreira De Oliveira
The reserves support well that level. We know the reserves of Tupi and Jupiter. The more we interpret the reservoir the happier we are with the reserves that have been announced. Therefore, the level of reserves supports that production level. The rate of growth to get is dependent on the pilot project and the first volume. Therefore, I can say that one million barrels a day from Tupi is feasible from the geological point of view. It is another issue whether this is the optimal way of production from these reservoirs. The consortium has not yet decided on this.

Henry Morris, Goldman Sachs
I have another question about Brazil. I understand from talking to Petrobras that the Jupiter well you are currently drilling will not be tested, as the drilling rig is required elsewhere. I just wanted to confirm whether that is the case. Can we conclude that we should not expect any update on potential reserves estimates in that block? Secondly, once the Iara and Jupiter wells are drilled, which blocks do you expect to prioritise in the Santos Basin?

Manuel Ferreira De Oliveira
I do not know whether I caught all of your question, but I will try to answer to what I understood. We are now drilling in four blocks. Let me look at them one at a time. We have the Bem-te-Vi project in Block BM-S-8. The

discovery was announced. The evaluation plan is under discussion with ANP. We intend to retain the total available area for further drilling and seismic on the grounds of the discovery announced at that time.

The Caramba discovery is in BMS-21. The evaluation plan has already been approved by ANP. We will be drilling further wells according to a plan that is under discussion with ANP. We are left with Tupi, Jupiter and Iara. We spoke about Tupi before. We are now drilling a side-track well at Jupiter. A well that starts with the same wellhead, and then is sidetracked 50-70 metres to improve the quality of data taken from the first discovery. This was announced by the consortium as being a reservoir of similar size to that of Jupiter.

Therefore, we are obtaining the data. Unfortunately, I cannot share the data we got with you. However, there are no negative surprises on this confirmation well. Regarding Iara, the well is being drilled, and the consortium is preparing a press release on the status of the well to be issued within a couple of days. That the status of our presence at the moment.

Lydia Rainforth, Lehman Brothers
I would like to go back to the figures for a moment. With respect to the production entitlement, I noticed that the statement states that the operators did not apply the higher crude prices in the second quarter, but they will be in the third and fourth quarter. Can you give us an idea of what that benefit was for the quarter, and what it means for production in the second half of the year?

Tiago Villas-Boas
Lydia, we are having some problems with the line. I do not know the cause, but we have not understood your question.

Lydia Rainforth
Sorry, gentlemen. I hope that is slightly better. It was just on the entitlement production in the second quarter. The operator chose not to apply the higher crude prices for that quarter. I was just wondering what benefit that gave you relative to what you might expect in the third and fourth quarter. So the benefit of the overlifting. Secondly, on the tax rate, can you give us some guidance on what you expect that to be for the rest of the year?

Manuel Ferreira De Oliveira
I think we understood your question. I understood that you were concerned about entitlement production in Block 14 from the BBLT and the Kuito fields. We had one million barrels of entitlement production in Q2. The present working production is higher. However, the high prices of crude oil are reflected in the net entitlement. It is our estimate that we will have something between 0.9 million and one million barrels in Q3 and Q4. Therefore, although the working production is slightly higher, the entitlement production will be in the range of Q1 and Q2. That is a function of the price of oil, as you know. Take a number between the two as a guideline.

Lydia Rainforth
The second one was just on the tax rate. Have you any guidance on that for the second half of the year into 2009?

Manuel Ferreira De Oliveira
We are modeling that regard at the moment. We are reviewing our expected tax rate because of the decline in crude oil prices and the refinery margins we are seeing. Tiago will let you and your colleagues know the expected tax rate for this year and 2009 as soon as we complete the ongoing exercise. The volatility of crude oil prices makes it very hard to give you a reliable number now.

Jean-Luc Romain, CM CIC Securities
I have a question on drilling in the BM-S-11 block. There was talk of drilling in the north of the main block, in the Iracema prospect. Could you update us on that, please?

Manuel Ferreira De Oliveira
We originally thought that there was an prospect independent from Tupi in the northwest of Block 11. We called that prospect Iracema and Tupi the other one. The geologists and geoscientists then concluded that the two prospects were linked. This is why it became the north-eastern part of Tupi. That principle had already been accepted by ANP, the Brazilian petroleum agency. However, in order to understand the reservoir, the consortium has decided to drill one exploratory well in that region next year. This is basically to confirm a solid theory and well-supported by the seismic data. The tests indicate that it is an extension of the Tupi reservoir.

Jean-Luc Romain
Is there a possibility that the Iara prospect and Tupi might be connected?

Manuel Ferreira De Oliveira
Let me say that I am in a very embarrassing position. I cannot answer this question. The Iara information is now hot, and I cannot say any more on that.

Will Forbes, Credit Suisse
I would like to switch over to non-Santos exploration, if I can, particularly the onshore blocks in Brazil and the large number of wells you are drilling in Angola. Can you give us an update of how those have gone in the first half, and also any drilling catalysts for the second half?

Manuel Ferreira De Oliveira
The Brazilian onshore project originally consisted of 44 small blocks. We operate most of them. The licenses are owned 50-50 by Galp Energia and Petrobras. The P2 reserves discovered by the consortium up to Q1 were of the order of 34 million barrels, 17 million being for Galp. The total CAPEX to date including the licence was very close to USD80 million. A lot of this CAPEX has already been written off in the E&P accounts as impairment. Any dry well we get is taken into the costs.

I may be slightly wrong about this as I am talking from memory, but there have been 11 discoveries up to the end of the first half. They are P2 reserves, with 17 million barrels attributable to Galp Energia. That is a total cost per barrel discovered of about USD4.5 per barrel, which is good. No infrastructure needs to be developed, because we simply link the wells to Petrobras's existing infrastructure. We are negotiating the terms of using their infrastructure. We will share the numbers with you as soon as we have them. We are very happy with that small operation. It is small but profitable, and it is a training field for our petroleum engineers.

Regarding Angola, we are in Block 14 and everybody knows what is going there. The Kuito field is now declining. The BBLT field has matured in terms of capacity. Two wells are going, and new wells area being developed to the new platform that will be operational by the end of next year. Engineering is being developed for Negage Field. Exploration is ongoing in Block 32. We are satisfied with what is going on there. The operator, Total, is putting together the first development project for the north-western section of Block 32. We had a discovery in Block 33 North. The operator was Exxon, but the operatorship has been transferred to Total in order to include the development of this block along with Block 32. Therefore, that is what is going on there in general terms.

Regarding offshore blocks in Brazil, we are now in the seismic interpretation phase. We will drill the first one or two wells next year in promising prospects which we have there. We will comment on that by the end of this year.

Will Forbes, Credit Suisse

I have one follow-up question. You said that the onshore prospects in Brazil were small but profitable. How quickly do you think you can develop those fields?

Manuel Ferreira De Oliveira

The process has less to do with engineering because these are onshore. These are small fields. Physically is very fast. However, every project, whether large or small, has to be submitted to the government agencies and to ANP. It is more of an administrative process than anything else. We believe that we will be producing oil from our onshore discoveries in the second part of 2009. We will include our small investments and production in onshore Brazil in the 2009 budget which we will present to the board in December.

Jon Rigby, UBS

I have a couple of questions, one about Portugal and one about Brazil again, I am afraid. You have noted some extreme demand characteristics in Portugal for oil products and gas because of the low hydro and high rising oil prices for end users. Can you talk a little about the Iberian product market and what you see as underlying demand decline? Are you seeing some of that demand come back as oil prices have declined post the quarter end? The second question is on natural gas. What portion of that demand is underlying and what portion is hydro? Can you just give me an update on the hydro levels you are seeing right now?

Can you confirm whether the Jupiter well is still drilling or not, or whether it has finished now?

Manuel Ferreira De Oliveira

We see demand stagnation in Portugal. We had a strike that effected demand in June. That also happened in Spain, and the effects were more significant than in Portugal. We see a recovery in diesel demand now that we are back to what we might call normality. Gasoline demand continues its decline. We typically lose market share in these conditions. However, we are very happy to say that, notwithstanding the difficulties our consumers are encountering, we are basically maintaining market share, which is very positive.

We have seen that the decline in retail demand was lower than expected. This was not because of economic activity, but because the daily news was continually talking about the high prices of oil and gasoline. That had an effect on the behaviour of consumers. We are assuming a stagnant demand for next year for both gas oil and gasoline. We expect a slight increase in the long term. It will not be a relevant increase.

Demand for gas in the power sector in Q1 was affected by lower level of hydro electricity. Consumption of coal in Portugal was low in Q2. Therefore, gas being the swing fuel filling the gap left by decline for coal and hydro. Therefore, we benefited during the first part of the year. We do not see the same level of results and optimism for the second half. The results in the first half were clearly influenced by low hydro production in Q1 and low coal production in Q2. However, we see very favourable trading conditions for gas outside the sector. The value of those trading conditions is volatile. We are not structured traders, in other words. We are what we call opportunistic traders. That means that we have volumes contracted that we can take or not, depending on the flexibility of the contracts. We do it if the margins are attractive, and we do not do it if they are not. Therefore, our trading activities are only a plus. We only trade when we make money. The international quotations on gas have ensured that we have been well supported in that business. ´

We now return to Brazil. Jupiter is being drilled at the moment, according to the most recent information. We are as optimistic as we were before starting to drill, if not more so. It is basically a confirmatory drill. The well was drilled in a hurry to complete the second phase of the exploration of Jupiter. It was a legal requirement. The rig had to return to dock for reclassification last year. We had to re-enter the well to obtain further information on the well and on the reservoir. The work continues, and Galp and Petrobras have no reason whatsoever to be unhappy with the results so far.

Kim Fustier, JP Morgan

I have three questions. They are not about E&P for a change. My first question is about gas and power. It is the second quarter in a row in which you beat expectations, thanks to Gas & Power. I am just trying to get a feel for the sustainability of these earnings. You just spoke about the factors which influenced demand from electrical customers in the first half. Can you just talk about the outlook for volumes to high-margin electrical customers in the second half? What sort of growth do you expect there, and how do you expect margins in the liberalised market to evolve?

My second question is on refining and marketing. Your refining margin increased by about USD1 quarter on quarter, but then your spread over the benchmark decreased. I was wondering if you could confirm whether this is entirely due to the lag effect, which is reflected in your refining margin rather in your marketing margin, for example.

The third question concerns your acquisitions in the retail market. Can you just clarify what you mean by network effects when you are referring to the synergies?

Manuel Ferreira De Oliveira

The reality about Iberia is that there is no gas. Therefore, whoever has access to it has good opportunities for making money if he is prudent. The contracts must be flexible enough to enable the gas to be used when it is not being provided to our direct customers. Our contracts have sufficient flexibility to allow us to make the gas to be used in this way. Therefore, we basically play the game of contract prices versus spot prices. There is no gas in the short and medium term in Iberia. Therefore, whoever has access to it has economic opportunities around.

It is not a question of whether the gas goes to plant A or plant B. It is that we would have sold more gas if we had more in Q1 and Q2. We reported what we did with our current availability of gas. We sold to those who paid us more. We sold where we had the better margins. We found that the better margins were in the power sector and in trading. There could be more trading in the second half depending on the spot evolution of the market. These operations are very difficult to forecast because they are opportunistic. Therefore, I cannot make a forecast on the sustainability of the margins. The context is very favourable to us. In Portugal demand from our direct customers is lower than the gas we have contracted.

We now go back to the national market. The Portuguese market has been totally transformed. We have a regulated and a liberalised market. We unbundled the distribution operations from the commercial selling of the gas. Therefore, the distribution is not affected. We are a last resource supplier. We have a RAB of EUR1 billion or so in the distribution network. We are remunerated at 9% before taxes on RAB. The liberalised market is basically industrial and power.

Our news in industrial is not so good, because the tariffs imposed by the regulator are impeding the development of the liberalised market. We are putting pressure on the regulator to eliminate the tariffs in order to bring competition into Portugal. We are already profitably selling gas in the profitable industrial sector Spain. We hope that Portugal will align itself with Spain in this regard. The regulator has already stated that he wants to open the market in the industrial sector. We see that as a tremendous opportunity for us, because we will lose the customers we do not like to our competition. We will be able to replace those customers by customers in Spain with higher margins. The market is there, and we have the contracts. Therefore, I would say that the second half of the year will give us an indication of the success of this strategy, or otherwise. We are optimistic.

The second question was on refining. The spread between benchmarks is a consequence of the following. The benchmark is a mathematical model recommended by the International Energy Agency. The level of energy consumption in the refineries is about 7%, if my memory is correct. We have sometimes 8-8.3% depending on the crudes we are processing. Therefore, cost of energy consumption increases as the cost of crude oil increases. We do not benefit from the so-called location premium. The spread between benchmarks and real margins is reduced at higher oil prices. The spread is increased as oil prices decline. We have also had a tremendous differential in the last quarter in the crack between gasoline and diesel and gasoline and fuel that has been drastically different from what we expected. That introduced distortions in the benchmark.

What do we mean by network effects? It is the difference between operating 1,000 stations and operating 1,500. There is the loyalty card business, the fleet business, the B2B business. We basically have an increasing margin. The network effect is that, if you are a Galp fleet cardholder, you have more places to use your card. We made some simulations. The EUR25 million figure is a conservative estimate for increasing the number of sales points from 1,000 to 1,500. That is induced by the more frequent use of the payment instruments we have on the ground among the existing customer base. It is a conservative estimate in our view.

Fred Lucas, Cazenove

Can I ask you what you made of the fairly explicit comments by Paulo Scaroni of Eni last week about their intentions regarding their 33% stake in Galp? I think he said they would either take control of Galp or look to liquidate their investment. I just wondered what you made of those comments.

Manuel Ferreira De Oliveira

You work with investors, so you know that it is not my role to comment on the investment strategies of my shareholders. I felt very proud about that statement, because it means that Mr Scaroni likes our company. However, regarding our relationship with Eni, I have never seen any indication on the ground to confirm that statement. I would rather you asked Mr Scaroni that question. I have a very good relationship with him. There is a shareholder's agreement between the three reference shareholders, Caixa Geral de Depositos, Amorim Energia and Eni, that they will cooperate in the agreed manner up to 2014. However, this can be changed by mutual agreement, as you know. Therefore, I would prefer not to comment on that.

Tiago Villas-Boas

Thank you very much for participating in this call. Please submit any further questions you may have after this call by email or phone.

Manuel Ferreira De Oliveira

Thank you and good morning to everybody.

Galp Energia, SGPS, S.A.

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