Galp Energia
Nine Months 2008 Results Presentation

Introduction

Tiago VILLAS-BOAS, Head IR, Galp Energia
Okay, thank you very much. Good morning and welcome to Galp Energia 3Q results conference call. Joining me today is Manuel Ferreira De Oliveira our CEO and Claudio De Marco our CFO. Let me just remind you that we will be making forward looking statements, so I would like to draw your attention to the disclaimer at the end of your presentation and now over to Manuel Ferreira De Oliveira.

Manuel Ferreira DE OLIVEIRA, CEO, Galp Energia
Thank you Tiago and good morning to all of you joining this call. I will now be with a quick picture of our performance during the nine months period.

Slide # 3
Let's now go to slide three and start with the 3Q results which as you can see from the numbers, they are reasonably good or excellent if you prefer and they reflect an increase in EBITDA going up 33% year-on-year to €282 million on replacement cost basis. This performance was mainly driven by the recovery in the refinery environment impacting the refining and marketing results. Later in this presentation we will elaborate on the business segments performance during the quarter. The net profit at replacement cost adjusted was up by 52% year-over-year to €139 million.

Looking at our replacement cost adjusted EBITDA in the nine months, it was up 3% year-over-year reaching €731 million. By business segment, we would point out the good performance of the E&P division during this period supported by the high crude prices despite some operational problems in the BBLT field in Angola that we reported previously to all of you. In the Refining & Marketing segment, the results were influenced by low margins throughout the year.

On the positive side, the Gas & Power division showed good results that were basically driven by margins and volumes. During the nine months period, the replacement cost adjusted net profit was down 6% year-on-year to €353 million. Net profit was partially impacted by a decrease in contribution from associated companies, this was basically due to a decrease in the results from our participation in CLH that in 2007 posted a capital gain due to a disposal of one asset.

Slide # 4
Now I move to slide four, in this slide, we can see the difference in results between the IAS and the results on replacement cost basis. In the nine months period and on IAS, which takes into account, as you know the stock effect, our net profit was down 12% to €521 million, on the replacement cost basis as mentioned the net profit was down 6% year-on-year.
Slide # 6
In slide six we now proceed to the business review and to its drivers. Looking at the E&P division, we see that working interest production was stable in the quarter to 15.5 thousand barrels a day despite the Kuito forecasted decline and BBLT lower working production for the reasons I explained before. We note that we had some operational problems in the field which were already solved in the 2Q but which as mentioned previously has implications in the volumes throughout the year.

Net entitlement production was down 18% qoq to 0.8 million barrels. For the 4Q we expect an increase in the net entitlement production due obviously to the decrease in the crude oil prices and not to the increase in working production. Compared to last year our realization price was 52% higher although when compared with the previous quarter it was 12% down. Regarding OpEx per barrel it was down and this was influenced by the higher cost in the 2Q due to the BBLT problems.

Now let me end saying that during the quarter we had confirmations of two important results in Brazil it was the major discovery in Iara that was recently announced and the second or the completion of the Júpiter field, the Júpiter well that was, that confirms the excellence of this reservoir.

Slide # 7
In slide number seven we touch, we go to Refining & Market where you can see that the 3Q refinery margins showed some improvement versus the previous period, reaching a level of $5.4 per barrel 34% up on q-on-q which were fuelled in part due to the increase in the improvement of the value of fuel oil and also because of the good performance of our base oil plant in the Porto refinery. Regarding the crude processed, we processed 20 million barrels during the quarter down from what is the standard run of the refineries and that was due to turnaround outage of the Sines refinery that was started on the 10th of September this year. I want you to know that the refinery is now up and running in all of its sectors except the FCC which will be turning to normal activity in the last week of this month of November, by the 23rd or 24th of November.

Slide # 8
Let us now address the Distribution division or the Distribution segment and look at the volumes sold. The volumes were down 3.3% year-on-year for the nine months period and they were pressed by reduction of volumes in the 3Q which were down 9.1% year-on-year. This figure reflects not only the economic environment which we are living but also the negative influence in the Iberian demand and as such the volumes sold. I also emphasize the sales to our direct customers which declined less than the other sales. Exports were down because of the outage of the Sines refinery.

Slide # 9
In slide number nine, we are looking at our natural gas business which was the star once again of our business during this period. The volumes were up 17% year-on-year and reached 4.4 bcm for this nine months period. The 3Q showed volume growth of 13% year-on-year. Volumes were once again driven by the Electrical segment because electricity generation particularly in Portugal was very much supported by natural gas during the quarter.
I would like also to mention that in the 3Q volumes in Spain already represented for us 279 million cubic meters which represents a slow, but consistent increase in volumes in that market, in the industrial segment in particular where growth is obvious. What I want is to say to you that in Spain we are continuously establishing profitable contracts in industrial sector. In the last quarter we signed eight new customers in Spain.

I want to draw your attention to the fact that this quarter was the 1Q where we felt, we had the full impact of the gas regulation with effect in the regulated market in Portugal namely on the natural gas distribution and on the last resort supply activities. For the 4Q we expect volumes in the Gas division similar to those of the 3Q.

Slide # 11

In slide number 11, we want to move to the 3Q results by business segment. In the quarter the growth in replacement cost adjusted EBIT was 35% year-on-year and was driven basically by Refining & Marketing and Gas & Power. E&P was the worst performance when compared with the previous year and that was because the net entitlement production decreased on a yearly basis due to the impact on higher crude prices and by higher depreciation, we are talking about EBIT. I want to clarify this moment that higher depreciation was due to the fact that as on the 2Q of 2008 the depreciation charges are calculated on the basis of net entitlement production and proven reserves. That means we depreciate taking into account that ratio. As such the depreciation which impacted EBIT was due to the increased depreciation rate as reserves diminished anticipating the impact of the higher crude prices in 2008 on the value of the net entitlement reserves at the end of 2008 when compared with 2007 reference price.

I just clarify to you that the depreciation is made as follows: At the end of the year the auditors taking into account, the crude oil prices at the end of the year calculated the net entitlement reserves and then is with that number that depreciation is calculated. And in a conservative approach, we are estimating with high prices of crude oil that we have in the first part of the year that the reserves would decline in the sense the depreciation would increase. So, we are taking here a conservative approach. With the present profile, this might be mitigated. With the present levels of crude oil, this might be mitigated in the 4Q.

On the Refining & Marketing division, we would like to highlight that besides from the already mentioned recover in the refinery margins that we had a positive lag effect of €32 million. This is the time lag that we referred in previous presentations due to the way how we price the products to the distribution businesses, in Portugal both to the Galp business and to other operators. We have one week time lag which is due to the declining prices of crude and products. We remind that the effect is opposite when the trend of crude and products is positive, a situation that was visible in the results of the first half of 2008. We expect with the reality of the 4Q that this time lag compensates for losses that we had in the 1Q.

On G&P, on Gas & Power business we highlight that in addition to the good volumes that we observed, we also posted international strong margins that contributed to an increase of EBIT by 66% when compared with last year. Here I just note that the margins in the trading segment benefited from the increase in LNG prices because as we all know we saw the Henry Hub quoted prices going up on a quarterly basis by 46% and we took benefit of that.

Slide # 12
In slide 12, I'd like to look deeper to the net profit figure which during the quarter reached €139 million and as you know is the best quarter of 2008. I'd like to highlight that the net profit was negatively affected by the financial function. In fact financial results were impacted by a 10 million non-realized, I emphasize €10 million non-realized loss due to the devaluation of the real versus the US dollar and also to the increase of the reference interest rate by approximately 60 basis points.

Going back to the foreign exchange impact, I clarify that it was the consequence of loans that Galp Energia SA, the holding company had to our affiliate in Brazil which were nominated in US dollars. Once the Brazilian real devaluated against the US dollar, this movement led to a non-realized loss that we had to book in our financial costs. This as I referred before is approximately €10 million. In what regards taxes I note that the effective tax rate is 22% and that results from a low IRP which means the petroleum tax in Angola due to adjustments of excess in previous quarters.

Slide # 13
Summing up in slide number 13, the 3Q results were in my view good and represent a good performance at operating level with an EBIT going up 35% year-on-year on replacement cost basis. Our earnings per share went up year-on-year by 52%. On IFRS accounts, which take in to account the stock effect, the results were not favourable and we presented a net loss of €3 million due to the decline of the value of stocks. That was compensated by also exceptional good results in the first part of the year.

Slide # 14
In slide 14, I want to note that during the quarter our CapEx reached €211 million and this is a consequence of the materialization of our investment program. The main components of these investments were in the refining and marketing division due to the acquisition of the, concession of the, 30 years concession for the Sines terminal and also the ongoing conversion project at Sines.

I must stress at this stage that the Sines conversion project is on schedule and on cost and we have plenty of confidence on the economics of the project as we emphasized in previous occasions.

The gas business CapEx was up 96% that was driven by the practically conclusion of the co-generation plant in Sines which has been mechanically completed. Tests were already made, were successfully tested and will be up and running under normal conditions before the year end. On the other hand the E&P business, we continue the investment in exploration in Angola, in exploration in Brazil, and in the development of the Tombua Lândana field in Angola.

Slide # 15
In slide 15, here we show our balance sheet which is already familiar to you. There are no major changes on it. We would highlight that the decrease in working capital in the quarter is mainly due to the decrease in receivables and inventories which were driven by the negative trend in the crude and product prices. During the quarter, the net debt increased by €63 million and we maintained a healthy level of 31% of net to equity ratio, almost the same level as the 2Q.
Slide # 16
In slide 16, I want to summarize the main highlights of the 3Q. In E&P, we had a negative effect of net entitlement production due to higher crude oil prices which impacted the depreciation in the period as already explained. On the other hand, we are happy to see the production of Tombua Lândana posting a good increase which compensated, that partially compensated the decrease in BBLT. I must inform you that Tombua Lândana project is underway. It will be completed by the end of 2009. The first oil is expected before the end of next year and then the production would ramp up. In 2009, the production would achieve by the end of the year something around 70,000 to 80,000 barrels a day then the peak production of the field would be in 2010 at the level of 130,000 barrels a day. As you remember in Block 14, we have 9% of this production.

I would like to emphasize once again the recovery of the Refining & Marketing division which contributed in the quarter to 56% of our replacement cost adjusted EBIT. The Gas division continued with its good performance, a consequence of the high demand of the electrical sector and the successful trading activity of the division. Our gearing is supportive, is healthy and as you know it’s highly valuable and supportive of our investment plan that we face for the forthcoming years.

Slide # 17
Now let us anticipate one of your questions that I expect is referring to as it is summarized in slides 18 and 19 to the financial situation of the company and the liquidity side of our statements.

Slide # 18
In slide 18 we present an analysis of our debt and reimbursement profile. Our net debt in our accounts is €875 million although the total debt is €985 millions the remaining is cash at hand from which 87% is floating debt and 53% is medium, long-term debt. The average maturity of the total debt is 3.05 years, but if we exclude the short-term debt, the maturity is five years. 100% of our debt is in Euro denominated and has an average interest rate of 5.03%. I will like to emphasize that the medium, long-term debt reimbursement will peak as shown in the graph in 2012. This amount corresponds to the commercial paper that is linked to the refinancing of the securitization of receivables that was issued in 2003 and refinanced in July 2008.

In addition I must say that we are currently negotiating the renewal of existing credit lines. We also note that we don't have any relevant financial covenants or MAC triggers related to our debt.

Slide # 19
In terms of liquidity, you can see in slide number 19, we have a robust position, which enables us to face the short-term refinancing, to guarantee the short-term refinancing needs. We have a total liquidity position at the end of September of €1.1 billion, which already takes into account the amount that we paid recently to the acquisition of Agip and to the payment of dividends in the end of October.

In addition, we have committed credit lines representing 50% of the total available financial facilities. Our bank lines and commercial paper have maturities until 2012. As such our liquidity position coupled with our cash flow generation of around €1 billion per year makes us comfortable in pursuing the CapEx program that we are executing. At this point, I would like to add that we are also negotiating new loans such as one that was recently made public of €50 million with the European Investment Bank which is debt with a nine-year bullet
loan with a fixed interest rate of 4.4%. We are in negotiations with a European investment bank for complementary facilities for our conversion projects in Sines and Porto and we are confident that negotiations will be successful.

In the negotiations – re-negotiations of our short term debt that are ongoing, we have found no major difficulty in ensuring that we maintain, that we are able to renegotiate in the forthcoming months the short term loans that we have with the banks that we’ve been working for many years.

Slide # 20
I would like to end this presentation with a note on the pre-salt in the Santos Basin where we have achieved the results that are familiar to all our shareholders.

Slide # 21
As referred in slide 21, we drilled so far in the Santos. Better we participated in the drilling of six wells in the Santos basins that led to world class discoveries including the Iara discovery and Jupiter completion that was recently announced.

This slide summarizes the six discoveries that I referred to you.

On Jupiter I want to take your attention to the fact has already been communicated to the market that opposed to the initial expectations, the data from the well indicates that there is higher content of oil than originally expected. That is the oil-to-gas ratio is higher than originally expected which as you all know improves the economics of the field.

In addition the reservoir has proven to have a higher content than we expected of carbon-dioxide which will be re-injected contributing to a substantial increase in the oil recovery factor both in the Jupiter reservoir and most likely also in the Tupi reservoir which is close by, increasing the recovery factor and hence having a good value for the carbon-dioxide.

On the Iara field which is a world class discovery recently announced. I point out that this structure is very thick and in a more concentrated area which improves the economics of its development. The Tupi development is going ahead. We and the consortium have approved fast track development of the field reflecting the optimism on the economics of the project and on the outlook of the sector. We will have our first extended well test pilot project starting in March 2009 with estimation, with maximum production of 20,000 barrels a day. That production is limited to the authorizations for flaring the gas, the associated gas.

The extended well test will be followed by what we call a pilot project but in fact is the first module of the development of the, from the reservoir point of view is a pilot test, from the engineering point of view is also a pilot test, but from the commercial point of view is effectively the first module of the development of the field and it will be starting by December 2010. Contracts are being executed. Development is on schedule. And it will reach a production of 100,000 barrels a day. The optimism of the consortium is such that, we are now trying to
accelerate the development of the Iara field with a similar program, so that we have the first module on Iara, in operation in 2012 basically one year and a half after Tupi with similar production of 100,000 barrels a day.

So, at the end of the day, I want to emphasize that how happy we are with the results on the Santos Basin and note that from the geological data that we have, from the analysis of the characteristics of the reservoirs, we can state with confidence that we have already 1 billion barrels of confirmed resources. I emphasize is 1 billion barrels of confirmed resources. Considering additionally what we know from the multiple fields that have been discovered, we are confident to state being conservative that the resource on the, that our share of resources of the pre-salt Santos Basin is between 2 and 2.5 billion barrels. I must highlight that this statement is conservative, it’s prudent, and does not eliminate other upsides that we have in the blocks in which we operate, and as and when we have further date, we will update this view of the level of resources allocated to our company. I think this is a major milestone in the strategic development of the corporation because it gives us this basin a solid ground to pursue the development of our E&P activities.

Thank you for your attention, and I, myself and my colleague, Claudio we are here and available to, willing to answer to any question that you might want to ask to us. Thank you.

Questions & Answers Session

Alastair Syme, Merrill Lynch
Good morning Manuel and Claudio. Can I ask a bit of back on the question of debt, just remind us where you stand on your 2009 CapEx program, what figure you think you want to put on that? And how much of that is at this point committed and you know in terms of what loans you need to put in place to be absolutely secure on that capital program?

Manuel Ferreira De Oliveira
We are at this moment, thank you for the question, we are at this moment reviewing our CapEx project and we will inform the market in our February results about the real numbers that we will execute. What we are doing is what anybody would do in the present financial environment. One, we are trying to maximize the generation of internal cash flow. We are highly focused on costs, costs, costs, because those go straight to the bottom line. We are looking at any investment that is not structural that we have in our business plan and we are trying to ensure that we maintain the development of what we call the transformational projects, the projects that are transforming our company.

So far we have no reason to say that we will not be able to finance the projects, the transformational projects that we are developing which means the E&P projects and the conversion project and those are the two transformational projects, because this year with the completion of acquisitions in Spain we have balanced basically our distribution business. We also have the project of the combined cycle plant in Sines that we have on the table. We are now, we have bids for it and our CapEx for 2009 will be approved by our Board in simultaneously with the financing of the projects. We have a lot of flexibility in the CapEx. We have lot of flexibility in the financing and our expectations and they are well funded, my statement is robust is that we see no reasons from the discussions we are having with the financial institutions that we will not be able to finance the transformational projects that we are developing. I want to emphasize to you that the projects I summarized
to you before with conservative assumptions, will take the EBITDA of our company from the present €1 billion to about €2 billion, so, they effectively are transformation in the five-year period. So, we will do everything that we can without putting at risk the balance sheet of the company, everything that we can to ensure that those projects are materialized.

Alastair Syme, Merrill Lynch
Just as a follow-up on the conversion projects, I guess specifically the Sines project, is there a trigger point somewhere in this contract, does it go from fee to cutting, and you have to have financing in place for that point?

Manuel Ferreira De Oliveira
The conversion project, you are referring to the conversion projects, aren't you?

Alastair Syme, Merrill Lynch
Yes.

Manuel Ferreira De Oliveira
The conversion project is a project that is ongoing. We did not convert the project yet to, we are developing at cost. We have our project team working with both Fluor and Técnicas Reunidas and paying at cost and placing the orders for the major pieces of equipment that are already ordered. There is a moment in the contract where we have the option to convert it after what is call the OBE, open book estimate that is agreed between the parties, we can convert it into a lump sum turnkey. So that is the moment when we convert the project from the present status of management to a lump sum turnkey with associated warranties that the project becomes, that we have to have the financing on that moment. While the project is as we have it, we go by, we have the timing as a variable that we can control. But I am saying this to you to show how conservative we are, we have no reason whatsoever to doubt that we can finance the conversion project. But we have degrees of flexibility on the timing of the project. We believe that is on the best interest of our shareholders not to extend the execution time because the return on that project is because of the crack between the fuel and gasoil is so high that the longer it takes to execute the more we penalize our shareholders. So we are focused on executing it on time and on budget as you would expect from us.

Alastair Syme, Merrill Lynch
Okay thank you very much.

Iain Reid, Macquarie Securities
Hi gentlemen, three questions. I understand that you are still in the process of drawing the CapEx budget but I wonder if you could, you could just tell us on the Tupi Phase 1 development what the, what your net cost of that would be rather in billion dollars or in dollars per barrel? And secondly in terms of the breakdown of the resource in the Santos Basin, the $1 billion barrels for Tupi and they are – it seem to be about mid range of what has been announced. I wonder if you could say a bit more about the breakdown of the other discoveries Júpiter, Caramba, Bem-te-vi, etcetera? And third on the tax rates, you are now at 22% profit – but you were talking last quarter about taxes going up say more like 30%, so I wonder if you can give us some indications of where you think that's going in the kind of medium term?
Manuel Ferreira De Oliveira
Okay, thank you for the questions Iain. So, first of all the development of the Module 1. I have to be transparent with you as very clear we have the numbers. We know how much it cost. But, we have not, because there are some pieces of equipment, some major projects that are still being bidded. The consortium as agreed that we should not disclose the CapEx associated with Module 1. What we have agreed between BG and Petrobras, so I have to, I'm bounded by these agreements, is say to you that we are very comfortable with the present prices of oil and we wish that all our projects were as profitable as this one. The statements are the ones I can say to you, we feel relaxed with it both in terms of operating cost and in terms of CapEx per barrel, the numbers, I apologize but we have to, we will release them when the consortium authorizes that, which will be only after the conclusion of the bidding of certain pieces of the project.

But, you can understand the confidence because the consortium has decided to replicate the EWT and first Module I in Iara close by. So, that means that we just decided to take this decision. So, indicating clearly the confidence that we have in the economics of the field and economics of the production facilities. I apologize for not being able to say anymore. The one billion barrel that we referred to you are obviously as you immediately sensed are from Tupi and Iara. Iara as you said the middle values of the expected reserves. We wanted to be conservative on it when we made those statements.

In terms of the other 1 to 1.5 million barrels that add to the 1 billion barrel comes from Jupiter, Bem-te-vi, and Caramba. And we would prefer not to separate the numbers. I want you to know also that is a conservative, this is a conservative interval that we have, but we owe this to our shareholders particularly in this moment of uncertainty that we tell them numbers that we, that are robust, reliable and we want to be conservative at this stage. Did I ask your questions?

Iain Reid, Macquarie Securities
Yeah

Manuel Ferreira De Oliveira
It's not the way that you expected but is what I can do...

Iain Reid, Macquarie Securities
Yeah, don't worry I kind of expected that, and just come back on the discoveries outside of Tupi and Iara, given the fact that you obviously got a lot on your plate at the moment. Would you consider as part of the funding plan of the overall area to potentially farm some of this out or sell it as a kind of way of funding the kind of core developments which is probably Tupi, Iara, and may be Júpiter?
Manuel Ferreira De Oliveira
If we wanted to fund all our CapEx, if we sell some little thing of the Santos Basin will have all the CapEx for our projects, but let me is not what we have in our plans. However, we have all options open. No company, with this state of things close options. So, but that is not our preferred option. We will go through other options because what we want to do is to create value to the shareholders. So, we will chose and in due time we will announce them. The options that are best for all the shareholders, but we have no, I emphasize no option close. What we want is to pursue our development that we have immense opportunity in Brazil and we want to capture the most value out of our reserves there.

Iain Reid, Macquarie Securities
Okay, on the tax rate?

Manuel Ferreira De Oliveira
The tax rate, what happens this quarter is that the tax, our tax team every quarter estimate the tax rate of the quarter and what we do is that in the previous two quarters the IRP, the tax rate in Angola was overestimated. In the 4Q it was an adjustment to the overestimation, sorry, in the 3Q was an adjustment to the overestimation of the previous quarter. The tax rate is a function of the crude oil prices and of the entitlement production. We estimate at this moment if we have to give you a guidance and I am reading a note that Tiago was kind enough to put in front of me, yes, we can give you a guidance of 25%, an effective rate of 25% for the overall company.

Iain Reid, Macquarie Securities
For the full year '08?

Manuel Ferreira De Oliveira
Yeah, for the 4Q, I apologize, for the 4Q 25%, is a note that Tiago is presenting to me.

Iain Reid, Macquarie Securities
Okay, thank you very much.

Manuel Ferreira De Oliveira
Okay, thank you.

Jason Kenney, ING
Hi there, just following upon Brazil. Are you expecting to book any reserves for Brazil in the 2008 full year period? And then secondly on some excitement, could you outline your current outlook for gas sales volumes going through Q4 looking into the early part of next year and maybe your view of Iberian gas demand trends medium term given recent economic changes?
Manuel Ferreira De Oliveira

Okay, let's go to the reserves in Brazil. I think you are, you know that we have other operations in Brazil both offshore and onshore, they are of different level of relevance when we consider the Santos Basin. We will be for instance next year drilling a well in what we expect a very attractive prospect in another basin offshore Brazil. But, let's concentrate on the Santos Basin. We only, you know the definition of reserves imply that the production facilities are designed and approved by the investors, by the companies. So we can only incorporate proven reserves, P1 reserves once the, with the reserves associated with Module 1 in Tupi, and in Module 1 in Iara, these are the proven reserves.

Then we talk about P2 reserves as you know what they mean and resources. So the numbers I referred to you are resources. Our definition and the international definition of resource is, they are hydrocarbons in place, recoverable hydrocarbons in place with present technology, but for which we don't have yet a development project approved, so these are resources. The numbers I referred to you are resources. And 1 billion barrels are our confident expected resources for the Tupi and Iara fields and remaining 1.5 for the Jupiter, Caramba and Bem-te-vi, most of them coming from Jupiter where we have 20% equity, once the Caramba and Bem-te-vi fields have not yet been totally worked out. They are development projects going slow at this moment.

As far as gas sales, we expect in the fourth Q a volume of about 1.4 bcm of gas to be sold in the fourth Q and we see the following. Even in the present, we are basically in distribution gas, a Portuguese company, our entrance in Spain is limited with our availability of gas, and to basically Iberian customers that operate in two countries and want us to be their supplier. We see even now the domestic market growing and the industrial market growing in Portugal, even with the present context, that is due to the infancy of the use of gas in Portugal.

We are growing even in the first Q at rate as previously described to our shareholders in the range of 3 to 6%. So, that is an organic growth of the consumption of gas that it comes from the connection of the new houses to the distribution network. We are connecting to our grid approximately 40 to 50,000 customers a year on a continuous basis. And also the continuous conversion from other fuels to natural gas of industrial, of the Portuguese industrial base. Because of the nature of our supply contracts we keep having volumes for trading, and between trading and the power generations, we make the remaining of the sales. The sales volumes for the power generation have take-or-pay clauses which insure that we sell minimum volumes, but the generators typically want more than the minimum volumes and the level of sales depends a lot on the level of electricity generation in the system.

Jason Kenney, ING

Yeah, good. Maybe just go back on the Brazil resources versus reserves, can I imply that you are waiting for final investment decisions that going to be driven by the extended well test next year therefore you will be drifting reserves in 2009 rather than 2008?
Manuel Ferreira De Oliveira
You see, let me say, the word booking means that we have them audited and certified. We already have, if you, in our report, in our accounts of the previous 2007 approximately 700 million barrels, 750, if my memory is not wrong, million barrels of resources certified. Resources are certified by our auditors through basically reservoir auditing and reservoir studies and reservoir data. From resources to reserves, we will book them as the projects are, as the final investment decision is taken on each project. For module 1 in Tupi the final investment decision has been taken, we can book the associated reserves. For Module 1 in Iara if by the end of the year we have the final investment decision taken and what I want to know is at technical level the consortium has already approved the project which is now being submitted to the Boards of the three companies Petrobras, BG, and Galp Energia. There is no reason whatsoever for Iara not to be approved and if it is approved before the end of the year, they will be booked, if not would be booked later in the 1Q of 2009. And the approving time from the board is dependent on the completion of the investment estimate which is affected by the reality of Tupi. We are now bidding – bid all the components of the project. So far, with the bidding results matching the estimates of the investments. So, we are – this is what makes us confident in Tupi and is the anchor for the approval of Iara.

Jason Kenney, ING
So with the module one on Tupi? Already with FID what kind of reserves you are expecting to recover from that module one?

Manuel Ferreira De Oliveira
You see, you know what module is. You have a huge reservoir. The module is supposed to deplete a little portion of that reservoir.

Jason Kenney, ING
Yeah.

Manuel Ferreira De Oliveira
And which is – I am talking by memory so this is – which is supposed to deplete about 300 million barrels or so.

Jason Kenney, ING
Okay. That’s the number I was looking for...

Manuel Ferreira De Oliveira
So, that number is the depletion associated with module.

Jason Kenney, ING
Just the first phase, and I am sure there is many more phases to address the full reserves?

Manuel Ferreira De Oliveira
Yeah and module is basically an FPSO.
Jason Kenney, ING
Okay.

Manuel Ferreira De Oliveira
Which is also about 20 production wells and 10 injector wells, so is 30 wells makes a module in this concept of development. And the FPSO will have a capacity of about 150,000 barrels of liquids which is approximately 100,000 barrels of crude oil, the remaining is water, and about 2 bcm of gas, so one module we will produce approximately 2 bcm of gas and 100,000 barrels of, 100,000 barrels a day of crude oil, and is suppose to deplete a specific region of the reservoir.

Jason Kenney, ING
Is this still the case you see may be 10 or 11 modules in total?

Manuel Ferreira De Oliveira
Than is a question of reserves you go the reserves, you made your sums – you see our estimation is that, although now the conceptual module that was presented to the shareholders by Petrobras is modules of 100,000 barrels each one in sequential terms, there is a high probability that as the time goes by the increase of size of the modules will reduce the number but that is still basic considerations not – now we are now focused on the optimization and modularization of these modules.

Jason Kenney, ING
Okay many thanks.

Manuel Ferreira De Oliveira
Thank you.

Anish Kapadia, UBS
Good morning, I have got three questions if I may. And firstly on Jupiter I was wondering given the second well that you've drilled over there, as anything changed with your impressions of size – I believe your original assessment was the same size discovery as Tupi, and if you can give some details on when you actually expect to develop Jupiter? And secondly if you could outline what's your financing options are that you are looking at for post 2010? And then finally just if you can give your drilling schedule for the Santos basin that you expect at the moment to next year?

Manuel Ferreira De Oliveira
Let me, one at a time. So, as far as the Júpiter field, as you remember the statement, it is a reservoir and I can confirm you that the statement, nothing changed in that statement. The size of recoverable reserves of hydrocarbons is similar to those of Tupi. In that moment it was supposed that most of the reservoir was a gas reservoir. With a relative low or very high gas-to-oil ratio from the test realized as it was announced, it was, there were two news that added to the understanding of the field, one is that the gas-to-oil ratio is lower than originally thought which is good news, because as you know, in the reservoir the oil has higher value than gas because of reasons that are well known. The second is the content of CO2 in the gas which is separated from the gas is higher than expected. So the, we spent a lot of time looking at the technologies to separate the CO2 which to understand their economics and we ended up concluding that CO2 although reducing the availability of
natural gas is a valuable component of the fluids in the reservoir because it can be, the consequence of re-injecting the CO2 due to environmental reasons is also that increases the recovery factor. So, is the mathematics of all of these that are being worked by the reservoir engineers at this stage and we cannot say more than this. I have no disappointment whatsoever about the statement, the first statement of the Jupiter field. Once the geoscientists and the reservoir engineers understand the reservoir fully, then we have, we start planning a development program similar to that of Tupi and Iara fields. This is everything I can say to your question. The second question was?, what was the second question?

Anish Kapadia, UBS
It was on your financing options for Brazil after 2009.

Manuel Ferreira De Oliveira
Okay, what I want you to know that you know as well as I do what are the financial options for a company and what I wanted you to know that we have no options closed whatsoever. We are looking carefully to all the options. We want to discuss them fully in the Board, but I think what matters to you is two things, one is that we will maintain, we will do not want to stretch the balance sheet beyond what is prudent and reasonable, one assumption. The second is the criteria to choose options is not our emotional intelligent, it is our rational intelligence. We want to go to the options that give more value to the shareholders, but all the options are open and you know what they are. From the sale of assets, to securitization, to financing, to equity issue – all are open and we have to look at very carefully and we have one year 2009 to think and decide on that. Thank you.

Anish Kapadia, UBS
Sorry, on your drilling schedule?

Manuel Ferreira De Oliveira
What we have is that because of the, as you know the drilling program in Brazil was under stress, we even had wells where we completed the wells. Take samples on the reservoir and that to run from another reservoir to comply with obligations on the ANP. Now, it seems that the pressure on rigs is not so high, so we will do probably a better job on that. We will anticipate in early 2009, the drilling program. However, I can say to you that we will be drilling wells in BMS-8 and BMS-21 next year. But the final program has not yet been yet approved by the parties, but in February we will show it. We will present it to you.

Anish Kapadia, UBS
Okay, great. Thanks.

Henry Morris, Goldman Sachs
Thank you. Good morning, just most of my questions have been answered actually but a couple more that I have. In regard to Jupiter, you mentioned that the gas/oil ratio is lower than you first thought. So, I was wondering if you could perhaps quantify what that I mean in order you're looking to 30% oil, 70% gas, would be any information on that? Secondly, in regarding the CapEx per barrel for Tupi I appreciate you don't want to commit yourself a number now. I was wondering when we might expect to hear an estimate on that, would the February results be a likely time for you to give us an update on that? And lastly actually just off Brazil but in terms of refining some of your refining peers are mentioning given the current refining margins of economic run
cuts at their refineries, I was wondering if margins have got to a stage whereby you are considering that or whether that's not the case?

Manuel Ferreira De Oliveira
You see, now I am not talking to you as a CEO of Galp Energia but as an engineer, we can only have definitive statements on the gas/oil ratio with the second well in Jupiter. But, you see that the basic assumption when we look at the reservoir was a very high gas/oil ratio. So anything that we found it is in discussion neither the thickness nor the quality of the reservoir is the content of the reservoir. So that more oil we have in the reservoir the better for the shareholders. So, the level we cannot, we have now the results which surprised us in the positive terms on the second entrance in the well, but we need a second well to confirm a reliable gas/oil ratio to the reservoir. So I prefer not to mislead anybody. We should look at Jupiter as, basically as a gas reservoir and if we have then better use it will be good for everybody. But presently I say that the presence of oil is relevant, materially relevant. At the beginning we thought it was non material, of imaterial relevance.

As far as the refining margins, we are at this moment by the way just today even the, what we call the atmospheric distillations margins are positive. So, we are not considering any run cuts on our refinery systems at this moment, but we will do those if the numbers, if the numbers determine that. We have no, we program our refineries on a weekly basis and adjust them on a daily basis, so we react very, very promptly to any major relevant changes in the market.

Henry Morris, Goldman Sachs
Thanks. Now, just lastly on the CapEx about when we might expect an update on that, is the full year result the reasonable time?

Manuel Ferreira De Oliveira
Each one of us has little power. Now, my power is try to influence my partners, our partners in the consortium to release the numbers. That's my power. I think it is reasonable not to release the numbers before we have, because it's so important that number before we have a reliable full estimate of the investment in the Module 1. At this moment, we are working in interval between X and Y and when I say that we are optimistic we are looking into the higher number. We are waiting to have a reliable number to communicate it to the market. Once the contracts are closed, I will try to propose to our business partners to release that number.

Henry Morris, Goldman Sachs
Okay, thanks very much.

Manuel Ferreira De Oliveira
Thank you.

Will Forbes, Credit Suisse
Any guidance for the 4Q CapEx? The second question is, is there any reason why you haven't gone forward or move forward with a potential pilot at Jupiter? And then the third one is have you got any updates on Angola and potentially any development plans for Block 32? Thanks.
Manuel Ferreira De Oliveira

So, the 4Q will be affected by, in terms of CapEx by the acquisition of Agip which has already happened. We are already – have integrating teams and ensuring that we capture the EBITDA and the synergy as soon as possible and the Esso transaction has been approved by the European commission. It will be closed on the 1st or 2nd of December. As has been already published we will have to dispose some assets in Portugal of Esso. We are now preparing the package to start the selling process. We have nine months to sell those assets.

And the two transactions which total €700 million plus some variations in working capital will be in our CapEx project of the 4Q. The remaining are the ongoing projects – these are the exceptional items that will enter and complete the phase of balancing the market of Galp Energia. We will have – with these transactions plus some organic growth that is forecasted a balance of sales between Spain and Portugal and we will be able to sell all the products that we refine– that we produce in our refineries which is particularly valuable in the gasoline market. We are now a large exporter of gasoline as you know, the market in the USA of gasoline is closing and the ability to place in the markets – all the gasoline that we produce is of tremendous economic value for the Refining division, so, as far as CapEx. The second question was...

Will Forbes, Credit Suisse

Is there any reason why you haven't projected a potential pilot for Júpiter?

Manuel Ferreira De Oliveira

The reason is you see when, again it is an engineer talking to you, when we call a pilot project is pilot project from the engineer point of view, it means that we have to know very well the reservoir and then what we want is to optimize the number of wells, optimize the number of wells, optimize the subsea infrastructure and more than above water infrastructure, because that standard. So, it is optimization of the subsea and optimization of the reservoir. So, we will, but first we have to understand very well the reservoir and that's where the Jupiter is. Jupiter is now in the phase of reservoir understanding, having a correct and accurate model of the reservoir of the field. We hope to have that understanding throughout next year.

And then the process is similar to one. First a project that is pilot in the sense that it is sub-optimized or under optimized then optimize the first unit that we call pilot and then replicate that unit with economics of scale. As far as block 32, I want you to know that we have already confirmed the potential of the Louro discover which was the last relevant discovery in the field and we are now pursuing with the FEED, Front End Engineering and Design, of the southern central area of the field to put together several discoveries in the area and develop the first project. The FEED is going on. Total is working hard on it to present to the partners the proposal for the final investment decision, once the FEED is completed.

Will Forbes, Credit Suisse

And do you have any idea on the timing of that FID?

Manuel Ferreira De Oliveira

I hope that will be completed throughout next year. It takes time no it's several reservoirs, all the subsea infrastructure it takes time. So, the working – our engineers are monitoring the project and we expect to have at
least that we – to be prepared to take a decision. That doesn’t mean that we will take a decision, but we prepare to take a decision in the second part of next year.

Will Forbes, Credit Suisse
Great, thank you.

Pablo Pena-Rich, BPI
Yes, hello good morning. All my questions have been answered. Thank you.

Manuel Ferreira De Oliveira
Okay, it was near to you, good morning. Okay, thank you very much to all of you. It has been once again a pleasure to answer the questions. Claudio, I am becoming an expert in financing. Claudio was on my right hand side trying to help me, but next time I hope you ask me questions in a manner that he can help in this debate. Thank you very much indeed, good morning.