

Galp Energia Second Quarter and First Half 2009 Results

Introduction

Good morning ladies and gentlemen. Welcome to Galp Energia's Second Quarter and First Half 2009 Results. I will now pass the floor to Mr. Tiago Villas-Boas, Head of Investor Relations.

Tiago Villas-Boas, IR Galp Energia

Good morning to you all and welcome to Galp Energia's 2009 second quarter and first half conference call. Joining me today is our CEO, Manuel Ferreira De Oliveira and our CFO, Claudio De Marco. We start our presentation with the second quarter and first half results, which will be presented by Manuel. Let me just remind you that we will be making forward-looking statements. So I'd like to draw your attention to the disclaimer at the end of our presentation. And now over to Manuel.

Manuel Ferreira De Oliveira, CEO Galp Energia

Slide # 3

Thank you Tiago, and very good morning to all of you that are joining us in this call. Let me start with the second quarter and first half 2009 highlights and then move to the business review and to very short statements about the financial review. I am jumping to slide number three. Let me just start with what we consider to be the main highlights of our results. In the first half of 2009 as you all know, the crude oil prices posted a strong decrease of 53% year-on-year. The global weak demand for oil products had a negative impact on refining margins, we all are aware of that. The Gas & Power business showed in our particular case the recovery in supply margins particularly in the liberalized market, which is increasing in Portugal. The financing strategy that we have presented to you last May is in place allowing us to proceed with the transformational projects that have been communicated to the shareholders.

Slide # 4

Moving to slide four, what I want to refer to, are the P&L figures. We should highlight that net profit on replacement cost base adjusted was as you see €52 million. At operating level, we need to mention that despite the worse results in the Refining and Marketing business, the E&P and the G&P businesses posted a sequential improvement. Net profit also benefited from lower effective tax rate in 2009, basically due to lower petroleum taxes in Angola, consequence of lower crude oil prices. We will provide some detail of each business area in the following overview.

Slide # 5

Let's move to slide five referring to operating data. Here I would like to highlight the following. The OPEC cuts impacted our working production which is down when compared with the second quarter and in the first half of



2008. Our refining margin is also lower, following the negative trend of benchmark margins. Our sales to direct customers were up in the low 20s, both in the quarter and year-on-year benefiting from the Iberian acquisitions that we've done at the end of the 2008. Natural Gas volumes posted a double-digit decrease year-on-year, mainly hurt by lower demand in the electrical segment, lowering gas consumption and the non-existence of opportunistic trading.

Slide # 7

Now let me go to slide number seven, referring to E&P. In E&P the EBITDA was impacted by the decrease in crude prices on a yearly basis. The quarterly basis posted significant increase of 90%, reaching €29 million in 2Q09 benefiting not only from the recovery in the net entitlement production, but also in crude oil prices. I highlight the fact that net entitlement production was up 11% QoQ and that OpEx cuts in 2009 impacted our production level. Good news is that production costs decreased mainly on a quarterly basis as a consequence of the completion of maintenance works in the BBLT field.

Slide # 8

The Refining and Marketing business was hurt by decrease in refining margins, as the global demand for oil products remained weak. On top of that, the narrowing of the light heavy crude oil crude spread led not only to a decrease in refining margins, but also to a lower premium of Galp Energia's refining margin over the benchmark. The crude processed showed a decrease on a yearly basis both in the quarter and in the semester, which was not only due to the Sines refinery incident in the first quarter, but also to the optimization of crude runs in face of the low refining margins. Our performance was also impacted in the quarter by €24 million negative time lag due to crude oil volatility. On the positive side, we must highlight that, despite the economic crisis, we were able to post strong volume sales to our customers, which were up around 20% year-on-year both in the quarter and in the semester impacted by the Iberian acquisitions. It also demonstrates that if you look at the overall division results, the downstream business had a very resilient contribution to offset the weak refining environment. The EBITDA in the division reached €42 million in line with the previous quarter.

Slide # 9

On slide nine, we would like to point out, in the natural gas division the recovery of natural gas supply margins. We observe that natural gas volumes increased on a quarterly basis around 4% due to the businesses segments, electrical, industrial and regulated. The recovery of volumes in the liberalized market during the second quarter and the recovery of supply margins was in line with what was previously guided and contributed to the positive evolution of EBITDA, which was up 12% on quarterly basis. I would like also to highlight the resilient contribution from the natural gas distribution activity business.

Slide # 11

Now let me refer to the P&L account. Here I'm referring to slide number 11. We can review that net income was €52 million in the 2Q and also mention that our EBITDA year-on-year was impacted across all segments. I would like to highlight in this slide the contribution of the item "others" to the EBITDA. This amount is mainly related to cost savings achieved at the holding level, that in the future will be allocated to business segments. Typically in our accounting system, the corporate centre consolidates the cost of services to the businesses. This will be done in order to properly and fairly reflect the positive impact of current and future actions. All in all, the net income had a positive contribution from associates that offset lower financial results. Results were also helped by a lower effective tax rate, as I referred previously.

Slide # 12

Now referring to CapEx, we can observe that capital expenditure in the second quarter went up 43% when compared with the similar quarter of last year, meaning that we continue to execute our core transformational projects as planned. We can note the E&P gaining more relevance in the investment due to the relevant investments in Angola's Block 14, particularly the Tômbua-Lândana field and also activities in Brazil namely the investments in BM-S-11 project. Regarding the refining division, we should simply say that the conversion project is on track and as planned. In the G&P business, we continue expanding our natural gas distribution at a normal pace, connecting to our grid around 10,000 customers a quarter.

Slide # 13

In the balance sheet, we can highlight the stable level of gearing supported by the improved management of the working capital in the second quarter. Then we highlight an item in the balance sheet that includes work in progress, which is going to be relevant throughout the next couple of years, and which is mainly related to E&P Brazil particularly BM-S-11, to the Angolan Tômbua-Lândana project and to the conversion project. We really want to show this figure as it reveals the stage of our project and it demonstrates that there is a considerable amount of capital employed not yet generating cash.

Slide # 14

Now a reference to debt. As you can see, at the end of the first half our debt totaled €2.1 billion. I highlight the good job that has been done in restructuring the debt. In fact, the medium long-term debt was 89%, up from 71% at the end of the first quarter, thus increasing the maturity to 4.3 years from 4.1 at the end of the first quarter. At the end of June, we had a liquidity position of €1.6 billion. About this Claudio could make some remarks later on in the discussion.

Slide # 15

Now a short statement about our outlook. We want to make some remarks in terms of guidance for us and for our investors. On E&P, I must highlight the drilling program namely in the Santos and Espírito Santo basins in Brazil that has been planned for the next six to eight months. In the Santos Basin in Block BM-S-11 the consortium is planning to drill two additional appraisal wells, one due to start as we speak and the other in the fourth quarter of the year. We expect a continued success in this drilling program. In BM-S-8, another relevant participation of Galp Energia, where we have an equity of 14%, we are planning another appraisal well to target a different reservoir and the drilling is expected at the beginning of 2010. In the Espírito basin, as we already informed the market, our plan is to drill an exploration well in BM-ES-31 in the fourth quarter of this year. So we will have a second half of the year with some activity and we hope that these wells could bring positive news for our investors. On the Refining and Marketing side, we should refer our cautious stance regarding the refining margin outlook. In fact, we are still in the bottom of the cycle in terms of refining margins. We have assisted to a harsh drop in demand which is not yet recovering and consequently we don't foresee an upturn at least in the 3Q of 2009. In Natural gas business I must highlight that supply margins have already opened in the 2Q of 2009. From 3Q onwards the mismatch of sourcing and marketing Natural Gas contracts referred in the first quarter, will cease to exist with a positive impact on supply margins going forward. This was the consequence of the negotiations that we conducted with our main customers. I must also assure you that the investment in the execution of our transformational projects is underway. I want to note, that we call transformational projects, fundamentally to the investment that we made in the Iberian acquisitions, which is over, the investments in our refinery infrastructure and the investments in E&P both in Block 14, and in deep offshore Brazil.



Slide # 16

Now, some comments about strategy execution. Before we start the Q&A session, I want to leave some key points that reveal the execution and goals of our strategy. In our view, we are in the right path to achieve our long-term production target of the 150,000 barrels a day from our present 10,000 to 15,000 barrels a day. In this respect, we highlight the step up of Tômboa-Lândana production which will be starting operations in 3Q09. And in the medium long-term, the development of BM-S-11 projects which is on a fast track development namely the discoveries of Tupi, Iara and Iracema. In the Refining and Marketing side, we've been successfully managing the integration of the Iberian acquisitions from which we are already benefiting from the expected synergies which were actually included in the business case that supported acquisitions, and here we are already delivering. On the other hand, we are investing on the conversion project. The investment is on-track and I remind you that the rationale for this project is based on the spread between fuel oil and middle distillates and obviously on the base of refinery margins across the cycle. Additionally, we also must manage and put in place short term actions that enable us to grow without keeping fat. With this in mind, we have increased substantially our focus on cost control, on cash generation and on promoting internal efficiency in our organization. And I can assure that we will deliver it in these dimensions of our responsibility. And with this statement, we are now available to questions and I'll be as usually supported by our CFO, Claudio De Marco. Thank you very much.

Questions & Answers Session**Jason Kenney, ING**

Hi, guys, Jason Kenney from ING. I've got three short questions, if possible. I think the profitability enhancements in the downstream, the guidance for the spread over benchmark was \$4.50 for 2011, I just wondered, if you could comment on that guidance? My second question has to do with natural gas and I wondered if you could define the profit impact year-to-date of the sourcing and marketing mismatch and the potential unwinding of that over the second half? And then thirdly on your EBITDA uplift guidance which following the funding strategy update was 12% CAGR overtime. I just wonder, given the interim earnings in downstream and the still challenging outlook in Gas and Power, if you foresee any revision of that 12% CAGR guidance further down?

Manuel Ferreira De Oliveira, CEO Galp Energia

Okay, thank you, Jason. Let's look at \$4.5 barrel guidance in downstream business. We are at present starting to prepare our review business plan for 2010 to 2014. We will have a conservative view to force discipline in the management of the refining business. We have not yet formed a long-term view for this period of what we expect to be the refining margins. But what is of most concern to us in the short term is the economic viability of the upgrading project that we are investing. We are putting a lot of money in that project, and I want to comfort you, as investor or potential investor that even with today's spreads between the middle distillates and fuel oil the project is viable. And if we consider that we are actually at the bottom of the cycle, that is typical in capital intensive industries, we feel the good this project could bring to the long-term health of our corporation. But as far as to the medium term view of our refining margins, obviously we have to think and we prefer to plan for the worst and deliver the best. We are at this moment, as everybody affected by low refining margins. We will have a view, probably in our presentation corresponding to the 3Q of this year.

Going to the natural gas business what we have, and making it simple, is that we have the long-term supply contracts and we have also our regulated business which in a way is unaffected by this mismatch, but we also have large customers particularly in industrial sector and in power sector. And we had a mismatch which was not good for anybody in terms of pricing of acquisition and selling to the customers. What we have negotiated is indexes that will eliminate that mismatch. Obviously that the value of that negotiation on a long-term is zero.



What it eliminates is volatility in the short-term. So when the gas price was going up, we were losing, when the gas price was going down, we were gaining. So what we need to account for us and for the customer was to eliminate the noise in the P&L. So it was a win-win deal. Going to the EBITDA, we have guided that we'll have a 12% growth in the business plan. I want you to know that the assumptions behind those numbers were conservative and they were the substance of our business plan of 2009 to 2013. As I referred before, we are preparing our business plan for 2010 to 2014. We will be working on it and give guidance as soon as we've got reliable figures to share with you. But I want to emphasize that fundamental assumptions behind our business plan for 2009 to 2013 are conservative.

Claudio De Marco, CFO Galp Energia

I just want to complement what Manuel said. Our EBITDA CAGR is based on the contribution in 2011 of the additional EBITDA from the conversion project start up in the first half of 2011 and the Tupi project that we expect will enter in production at the end of 2010.

Jason Kenney, ING

Thank you.

Theepan Jothilingam, Morgan Stanley

Good morning gentleman. Three questions also actually, firstly just going back to marketing, could you perhaps give an update on what was the contribution of the acquired Iberian assets from Exxon and Agip in Q2. Perhaps give us an update on the synergies? Secondly, I just wanted to ask whether if you're comfortable with your CapEx guidance taking into account the relatively light spend in the first half? And then thirdly just on Brazil you've mentioned a couple of times now BM-ES-31, I was wondering if you could give some sort of prospective around that well in 4Q? Thank you.

Manuel Ferreira De Oliveira, CEO Galp Energia

Good morning, Theepan. Thank you for the questions on Iberian acquisitions. We have just, as you are aware, sold out the assets that the European Commission imposed on us, by €46 million, as announced last week. So, now what are we doing? The business case if you remember assumed synergies. I am referring particularly to Spain. We have three companies there, that were at a certain level basically independent, Galp Energia, ESSO Spain and Agip Spain. They're more or less of the same size. Each one of them has a market share between 2% and 3%, but the total is now close to 10%. So, we are now the third largest distributor in Spain after Repsol and Cepsa. The synergies that supported the business case were around €30 million of EBITDA. I can confirm to you that the synergies identified, not yet achieved, but for which there are working teams to implement them have been clearly identified and are 20% above the original business case. We have two issues there. The operational issue, operational synergies basically from savings in cost from supply, optimization from logistics and optimization from supply. But we also have unfortunately excess personnel, which by contract we cannot deal with before the end of this year. It's only on the 4Q of this year, 1Q of next year that we will be rationalizing the personnel and that we'll complement all the synergies that need to be achieved. But we are actually above the business case. If you compare the EBITDA of the business plan, we're clearly on track to achieve that level in 2011. So in 2010 we are still in the transit phase. So this year, the main objective was to maintain the customers, to keep the market shares, so the merger does not lose customers and we can say that we'll achieve it. The second is to identify and start implementing synergies which we have done. The third is the re-branding. The re-branding is ongoing. We have 400 retail sites to re-brand to be completed by September. And the fourth is Human Resources and structure integration which will start happening on the 4Q. We will have then a very

profitable operation in Spain with the similar profitability, as that we have in Portugal. Going to CapEx, you've seen what it looks to be a low execution of our CapEx commitments. The reality is that what was going on in the first part of the year, as far as the conversion project is regarded, it was the placement of equipment orders. Civil construction work has been completed in both refineries. The erection is starting and the major pieces of equipment are arriving to Porto in August and to Sines in September. So erection work starts fundamentally in the 3Q and it is with the arrival of equipment that we have cash outflow. And so we have now basically contracted and placed orders that did not pay much cash. Nowadays the money has gone basically to Angola to the completion of Tômbua-Lândana project which is a project that is public, an investment which the total construction is up to now of about \$3 billion, and the continuation of the exploration in deep offshore Brazil. Back to the BM-ES-31, which is in the central basin in the Espirito Santo Basin, BM-ES-31 is a block where we have 20% and Petrobras 80%, which has attractive prospects, the geoscientists already know that. We will be drilling one of those prospects this year according to our commitments with the petroleum agency of Brazil. It will take place later in the year. It is a question of programming the utilization of rigs. We are optimistic about the block independently of the success or otherwise of the present prospects, there are other prospects that need to be drilled also later on.

Claudio De Marco, CFO Galp Energia

To answer to your question about the expectation of the level of expenditure in 2009, our expectation is a figure in the order of €700 million.

Theepan Jothilingam, Morgan Stanley

Okay. Great. Thank you very much Manuel and Claudio.

Iain Reid, Macquarie

Hi, Good morning gentlemen. A couple of questions please. Firstly, I think you said that you're drilling another well on BM-S-8 earlier. But you're targeting a new reservoir. Are you saying that you are not actually going to drill the appraisal well on Bem-te-vi. But there is a new field you're targeting there maybe. If you give us some idea of the scale of the resource, which you're targeting on that, if it is a new field. And secondly, I think you said, in the last conference call in the first quarter that you had bids on the table for disposal of some of the CCGT assets, which you could be in the process of building or delay. I'm wondering if you could update us on the project status in the moment. Thanks a lot.

Manuel Ferreira De Oliveira, CEO Galp Energia

So let's talk about BM-S-8. By the way, I take this opportunity to let you know, that all the evaluation programs for the four blocks in this Santos Basin have already been approved by the national agency of the petroleum of Brazil. Block BM-S-8 where we have 14%, BM-S-21 where we have 20%, BM-S-24 where we have 20% and in BM-S-11 where we have 10%. The last one approved, a couple of weeks ago, was the evaluation program for the block BM-S-24, Jupiter. Focusing on BM-S-8 which was your question, that evaluation program commits us to an evaluation well late this year beginning of next year. It is our understanding that, and according to the information we have, the availability of the rigs of the nature required for this well pushes us for the drilling into 2010. So as far as BM-S-8 is concern, there is also, let me say, a well being drilled in BM-S-9 where we do not have a stake, but I leave this statement to you, that we wish it to be very successful because it adds value to BM-S-8. I stay with this statement, so following the successful drilling of the BM-S-9 well, that could have impact in resources of BM-S-8. Now moving to Tupi in BM-S-11, as you know to date we have one producing well at this moment for the early well test. Than there is another well to be drilled to be complimentary. This one, is actually



a development well and there's an evaluation well that we call the Tupi North East to be drilled this year. Iracema, which was drilled 30 kilometres away from the Tupi-1, has been commented to be a successful evaluation well, confirming the same quality of oil and the dimension of that reservoir. In Iara, we have a well which is a short drilling test and is actually taking place at this moment with no special news to announce. The development decision of the consortium is that we will kick off with the first production volume with a capacity of about 100,000 barrels a day by the end of 2010. The production is on schedule, the placement of orders, the engineering, the contracting, everything is on schedule, then we have a second one to be commissioned by late 2013, two years later, being proceeded by an extended well test. We are together with the other members of the consortium deciding which will be the candidate for the second module, which could be either Iracema or Tupi North East which is going to be drilled this year. One of these three complimentary discoveries will be the second production module in the BM-S-11 field. Obviously, the decision takes into account lots of logistics aspects, as well as the gas to oil ratio we'll be able to use. The pipeline or the gas line is being built to connect BM-S-11 with Mexilhão and then to onshore. Regarding the CGCT question, we are not in a much different position. We have now an engineering team working full time on the evaluation of the different proposals that we have to build the plan. We have decided that we'll do it with partnership with somebody else, a 50-50 partnership and the project will be supported by project finance with minimum equity. We expect around 25%. We cannot do anything before we know the total investment, who is the winner of the bids and have the associated licenses for the timing associated with the project. So we need that the government agrees the timing once we selected the bidder. And it has a construction timing associated with them. And then we have to negotiate that with the government, so that the license is updated in line with the construction project. And below all of that, we will start the project finance exercise and the selection of the partner. We're confident that we have candidates for it and we have no problem with that.

Iain Reid, Macquarie

Just coming back on the BM-S-8. Thanks for the information about everything else, but did you say that you're drilling a separate prospect to the one you already discovered in the block? Are you drilling any separate prospect to the one you already discovered in the block?

Manuel Ferreira De Oliveira, CEO Galp Energia

No, I didn't say that. I have to be very careful because I don't want to mislead anybody. What I said is the following. As all pre-salt basins, there are prospects in different blocks and we are very, very excited about the drilling that is going on block BM-S-9 of which we don't have any data. But knowing the geology of the region, we know that the results of that drilling will have impact on the value of BM-S-8. I cannot say anything more.

Pablo Pena-Rich, BPI

Good morning. Just three short questions regarding E&P. Regarding the Brazilian recent news on oil tax law, this would imply a change to the previous company position? Secondly, if you could give us an update on the projects in Venezuela? And finally, regarding cost control generated, if you could quantify the P&L impact for 2009 and 2010? Thanks very much.

Manuel Ferreira De Oliveira, CEO Galp Energia

Okay. Thank you. Let's talk about the Brazilian news. We are simply waiting and we have been, as I stated many times, comforted by the Brazilian authorities and by our sources of information that the existing contracts are not in discussion. So we are just waiting and seeing what comes out of the discussion in the congress. And we have no indication of anything different than what we think. But obviously, the away our new acreage in the pre salt

basins is going to be awarded will be changed. There are different scenarios that are under discussion in Brazil. I want to remind what we are doing in Venezuela. We have been in two things already. We have been involved in studies for the first two LNG projects. The projects are in the phase of feasibility studies. We believe that if those works go on as planned, and sometimes these things don't go as planned, particularly in the early stage of that conceptual phase, we will have the feasibility studies completed by the end of 2010. This as to do not only with the economics of the liquefaction facilities but also with the pricing of supplying gas into the liquefaction facilities that come from the Mariscal Sucre field currently operated by PDVSA and from block 2 offshore between Venezuela and Trinidad, operated by Chevron. So pricing of the gas into the liquefaction facilities is critical for the economics of the overall project. There are working teams of the different partners that are involved, we are the largest private partner of the two facilities. We are far away from taking a decision to proceed. We expect that feasibility studies including engineering, will be completed by the end of 2010. As far as cost control is concern, nobody that has responsibility in managing an oil and gas company could ignore the need for, in the present circumstances, focusing on cost. We have the company totally mobilized. You've seen some results in the "others" that are expressed in our P&L this quarter. But we are not yet in a position to announce commitments on cost savings. We are working hard to offer to shareholders and employees good news on that. Thank you.

Nitin Sharma, Cazenove

Good morning. Just one question. Looking at the cash flow for the second quarter, I was wondering if you could just update us on what you see as the implication of weak refining margins and probably you would not have such a big positive from your working capital in the second half of the year. Does it have any implication for your investment grade rating and what gearing would you be happy with at end of this year? Thanks.

Claudio De Marco, CFO Galp Energia

Okay, thank you. I remember that the first half was also affected by the incident of Sines refinery, where we lost about €60 million in terms of the EBITDA, but to be clear to respond your question I have to say that in addition to our cash flow generation, we have a liquidity position of €1.6 billion, and then we have all the capability to finance our investment for 2009 and also for 2010. About the evolution of our debt, we think that the negative refining margin conditions, could affect our cash flow generation, but we think that at the end of the year the level of the debt will be a little bit higher than the actual amount.

Anish Kapadia, UBS

Good morning. Anish from UBS. I have three questions please. Firstly, I was wondering if you could give some tax rate guidance for the second half of the year, given what we've seen so far. And secondly, you mentioned that you finalized the evaluation program for Block 24 in Brazil. I was just wondering if you could tell us what now? And finally, just looking at Block 32 in Angola, Marathon received a very attractive price for the sale of its stake in Block 32. I was wondering if you had considered selling also that Block and what are your thoughts about the price?

Manuel Ferreira De Oliveira, CEO Galp Energia

I leave the first question on the tax rate guidance to Claudio, and going to block BM-S-24. Block BM-S-24 has the evaluation plan, which is now a public document in the site of ANP. It allows us, the consortium, which is 20% Galp Energia and 80% Petrobras, to extend the evaluation program up to 2015. So we have no rush on proceeding with the block BM-S-24, because there's no rig availability. The pressure is not imposed by the agreement with ANP. We have, which is good news for us, a very extended period for the evaluation of the



block with one well to be drilled in 2010. Coming to block 32, we are now working very hard with Total to put together the business case for the first production unit, which will be in the North East of the block and at this stage, we are not considering any disposal of those assets. We are happy that Marathon has made a good transaction, which I understand, as not yet been completed, but at present at least, we are not considering in selling block 32. What I want however to let you know, is that asset optimization in the E&P business is a normal practice and we are always considering those opportunities if they are either required or good for the company. But at this moment, there is no plan to sell our equity in block 32, particularly before the present exercise is completed with Total.

Claudio De Marco, CFO Galp Energia

About tax rate, the tax rate in the first half was 24% and benefited from lower tax oil in Angola. We expect tax rate in line with what we had in the first half of the year.

Michael Alsford, Nomura

Good morning, three questions actually first, could you give me a colour as where do you expect the exact rate on production at Tômbua-Lândana in Angola by the end of the year? And secondly, you mention optimization of assets in E&P business, but could you maybe give an update as to where you are as regards the changing in the legal entity of the natural gas distribution business and the plans to monetize that part of the portfolio? Thank you.

Manuel Ferreira De Oliveira, CEO Galp Energia

Let me say that in Tômbua-Lândana field, there are at this moment about, I don't have it in my memory, but there are 13 wells already prepared to connect to the new platform, but the platform will be connecting only one production well. So it is to start operations throughout September. It will start producing with one well, then with about another six wells that have been pre-drilled. That means they need to be completed before initiating production and connected to the platform. And then with another six wells that are in the initial stage, that need some additional drilling and completion. So the ramp up to 100,000 barrels a day will take place as from September starting with one well to the total production capacity and plateau in 2011. So it will take nearly a year to reach 100,000 barrels a day. As far as the legal entity, we are working with our lawyers and with our gas teams. There are a lot of government authorizations that are needed to transform that to a single operation entity and we will need a good time. We hope that by the 1Q next year we will have that structure set up in place. The work is basically legal work that as to do with concessions and contracts that we have with the government and that need to be transferred from one legal entity to another legal entity. So there is no special issue, but it's time consuming.

Lydia Rainforth, Barclays Capital

Good morning gentlemen basically three questions. Firstly on cost savings, I realize that you can't give an exact number, so I was just wondering what is your best guide for cost reduction. Secondly, just on a longer-term



issue if you tell us how you see the carbon credit scheme evolving for Galp and the impact that could have? Thank you.

Manuel Ferreira De Oliveira, CEO Galp Energia

Let's go to the first question. I just want to say to you that we have several teams in the company working hard in all areas on the efficiency of the corporation. And our business plan, that is now under preparation, will incorporate all the contributions of those teams and we at the executive board are particularly happy with the way the company is addressing this topic. Obviously it goes from internal restructuring to renegotiation of all supply contracts that we have with the companies that work with us. So the work is hard, and will be incorporated in the forthcoming business plan. What is important is the work that is being done by people totally motivated and understanding why we are doing that. Going to the carbon credit scheme we are all aware that sooner or later, they will be a cost of CO₂ in our refinery infrastructure. What we have today, to be clear, is excess credits. So the allocated quota is materially irrelevant, but it is important to refer. We're allowed to emit more CO₂ than what we really emit because we are continuously improving our operations in terms of energy efficiency and the base allowance is previous operations. So we are absolutely relaxed on that. What we don't know yet is how the cost of the additional CO₂ will be incorporated in our refining margins. In the business case of our conversion project, we assumed that the cost is in the Usd20's of CO₂/ton. So we assume that, in one way or the other, we'll have to pay for incremental CO₂ emissions. And that is part of our economic analysis, but how it is going to happen, it's still unclear for us.

Hootan Yazhari, Bank of America Merrill Lynch

Good morning gentlemen. Just a couple of quick questions. When you came out with your financing strategy, you indicated that you're going to spin-off your regulated natural gas business into a separate entity and sell potentially a stake. I just want to get an update on how you think around that? Whether, given the high level of gearing you currently have, you are looking to actually execute on that or whether you're comfortable at the moment and plan on holding on to that. The second question is an update of the position on onshore Cabinda in Angola. And whether you have had any success or whether there has been any update on the re-entering of those assets. Thank you.

Manuel Ferreira De Oliveira, CEO Galp Energia

Let me talk again about the regulated business. So, what we are doing is actually the legal reorganization of the business. We have not indicated that we are going to spin-off that business. What we are indicating is that if we have it organized, that way, we could sell to an investment fund or any other entity a minority stake. It could be an alternative for financing our CapEx program. But whether it is going to happen or not, it will come out from our business plan that we are preparing for 2010 to 2014. With the present number that we have obviously, subject to the reliability of our assumptions, is that we feel comfortable with the decisions that we committed. When we announced the financing strategy, we contemplated scenarios, where all assumptions were challenged. And that is one of the scenarios that is on the table. But the decision has not yet been taken. It will be taken in the context of the discussion of our 2010 to 2014 business plan. Back to onshore, we have



unfortunately, no onshore in Angola. As you remember, we had a position in Cabinda centre field, but the license was cancelled because that area was under force majeure for a very long period. And then, Sonangol decided, because of the closing of the contract, that they will have to bid again. The bid was initiated, but was cancelled because of the elections in Angola. It will come out in the forthcoming bidding round in Angola that will probably take place by late 2010. We have onshore operations in Brazil, which are being developed as expected. We are present in four basins, we have about 14 evaluation programs going on, as we have been announcing from time to time, to materialize a small, but relevant operation in onshore Brazil by 2012, 2013.

Hootan Yazhari, Bank of America Merrill Lynch

Thank you.

Tiago Villas-Boas, IRO Galp Energia

Thank you very much, I think this was the last question. I would like to thank you in the name of the management your presence in the call and wish you a very nice holidays. Thank you very much.

Galp Energia, SGPS, S.A.

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