Galp Energia Third Quarter and Nine Months 2009 Results

Introduction

Good morning, ladies and gentlemen. Welcome to Galp Energia’s Third Quarter and Nine Months 2009 Results Conference Call. I’ll now pass the floor to Mr. Tiago Villas-Boas, Head of Investor Relations division.

Tiago Villas-Boas, Head of Investor Relations

Hello. Good morning, and welcome to Galp Energia’s 2009 third quarter and nine months results conference call. Joining me today is our CEO, Manuel Ferreira De Oliveira. We’ll start our presentation with the third quarter and nine months results reviews, which will be presented by Manuel. Let me just end by reminding that we'll 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, Chief Executive Officer

Very good morning to all of you, and thank you, Tiago. Let me first apology for the absence of Claudio De Marco, our CFO, which is unable to be present at this conference call.

Slide # 3

I will start with the third quarter, nine months results as indicated in the presentation that has been distributed to all of you. Let's go straight to slide number three. This quarter was impacted by the economic situation, which of course influenced our operating performance when compared with the last year.

The crude oil price recovered from the end of last year, but it's still down almost 50% year-on-year. The refining environment continued to be challenging, but partially offset by the resilience of our Marketing business which helped us a lot in this quarter. The Gas and Power business showed a recovery in supply margins in the liberalized market and the capital structure continued to be sound and we will manage our funds requirement and investments needs in order not to put at a risk a trustable capital structure as we have been emphasizing in many occasions.

Slide # 4

In slide four, we move on to the major P&L figures. We highlight a net profit on replacement cost basis of €179 million in the nine months period and €79 million in the third quarter, affected by the current economic downturn, with impact in all business segments.
Slide # 5

In slide five, we see some key operating drivers and I’d like to highlight the following. The OPEC cuts continued to impact the working production on a yearly basis in our activity in Block 14 in Angola.

Our refining margin is also lower, following the negative trend of the benchmark margins, namely related to the middle distillates cracks and the narrowing of the spread between heavy and light crude.

Our sales to direct customers were up, both in the third quarter and in the nine months on a yearly basis, with the quarter performance showing signs of upturn in the Portuguese market.

Natural gas volumes were down on a yearly basis, partially due to the slowdown of the current economy, on a quarterly basis they were up by 16%.

Slide # 7

Let me now move to slide number seven, where I will refer to each business segment. Let's start with E&P. In E&P, the EBITDA was impacted by the decrease of the crude prices and by the OPEC production cuts, as I referred before. It reached €28 million of EBITDA in the third quarter.

Nevertheless, we highlight that working production was up 7% on a quarter-on-quarter basis, partially benefiting from the ramp-up of the production in the Tômbua-Lândana field in block 14.

Slide # 8

Let’s move now to Refining and Marketing in the slide number eight. The Refining and Marketing business was hurt by the decrease in refining margins in line with benchmark and with the narrowing of the light/heavy crude spread affecting Galp Energia’s spread to benchmark. The worse results in the refining business were partially offset by the strong contribution of the marketing businesses with sales to direct clients increasing by more than 20% year on year both in the quarter and in the year, backed essentially by the Iberian acquisitions that we made last year.

In the third quarter, the EBITDA in this segment reached €106 million, more than doubling that of the previous quarter, clearly demonstrating the value of integrating the refining and the marketing businesses.

Slide # 9

In slide number nine, I refer to the Gas and Power division. We would like to point out here the continued recovery of the natural gas supply margins in the liberalized market as already guided in the previous quarters. Volumes are still down on a yearly basis but showing an increase of 16% quarter-on-quarter due to demand in
the electrical sector. Although the EBITDA was down 22% year-on-year in the third quarter, it benefited from the stable contribution of the infrastructure business.

Slide # 11

Moving now to slide number 11, where I will refer to our financial overview. All in all, the third quarter net profit reached €78 million, up 51% quarter-on-quarter, but still posting a decrease on a yearly basis due to a lower operating performance in all segments. The increase in average net debt levels led to a higher interest costs, partially offset by the decrease in interest rates. Net income benefited from associated companies which are now consolidated under the equity method, in accordance with the new recent recommendation of the IAS board. The decreasing in Angola’s petroleum tax also had a positive effect on our net profit.

Slide # 12

Now we refer to capex in slide number 12. Our capex reached €435 million, of which €171 million in the third quarter, with the E&P and the Refining and Marketing segments responsible for the major part of this investment. The E&P is gaining relevance, and capex was essentially concentrated in development works in Angola’s Tômbua-Lândana field and in the Tupi field in BM-S-11. In the Refining and Marketing segment the major part of the capex was channeled to the conversion project that is ongoing and on schedule.

Slide # 13

Now a statement about our financial position. In slide number 13 we highlight that we continue to have a stable level of gearing, supported by the improved management of our working capital in the third quarter. Once again we want to show you the amount of work-in-progress that is related to the Tupi and the conversion projects. I emphasize that the work-in-progress represents now 29% of our fixed assets above €1.1 billion. It is included in our balance sheet, but is not yet generating any cash flow.

Slide # 14

In slide 14, we show you that our net debt at the end of the quarter totaled €2.2 billion with the medium/long-term debt with a maturity of 4.1 years. This is important to highlight because we want to assure you that we have financial muscle to continue to execute our capex program, not withstanding the reduction of EBITDA, mainly taking into account the liquidity position of €1.6 billion that we had at end of September. The major debt reimbursement will take place within three years when current ongoing investments will be already generating substantial amount of cash.
Slide # 15

In slide number 15, I give you some views of our outlook. In the E&P business the fourth quarter will benefit from a three months of production in the Tômbua-Lândana’s project. So, that impact will be more visible than in the third quarter.

On the Refining and Marketing division, we continue to have a cautious stance regarding the refining margin outlook. The recovery is highly dependent on the performance of the economy, from which it will depend the improvement of the crack of middle distillates. In this area it is very difficult to predict when that upturn will start.

In the Gas and Power business, we highlight that Sines cogeneration plant has already started operations at the beginning of October benefiting the volumes of the Gas business and the Power business and also increasing the energy efficiency of the refinery.

For 2009, our current capex estimate is around €700 million, with the profile very similar to what we've seen to date, concentrated essentially on the conversion project and in the E&P.

Slide # 16

Before closing, let me address you the status of the most important transformational projects that we've ongoing, with specific reference to the E&P business.

Slide # 17

Starting with slide number 17, where we refer to the Tômbua-Lândana’s project. I want to leave you with some words about this project, which represents the third production field in Block 14, where Galp Energia holds 9% share. The production is ramping up with an expected gross production up to 90,000 barrels a day in 2010. The production is expected to reach a peak in 2011 of about 100,000 barrels a day. These numbers reflect the importance of this project, which will enable us to reach our production targets and this includes Galp Energia's growth strategy in upstream business.

Slide # 18

Now our reference in slide 18 is to the Tupi field. We'd like to finish by giving you some feedback about the developments and appraisal works in Tupi’s field in Block BM-S-11, which I guarantee you is progressing extremely well.

The Extended Well Test, that is going on Tupi South well has produced to date more than 1 million barrels of oil equivalent, above our more optimistic expectations for such an early stage, and even taking into consideration
that the flow rate is limited to 20,000 barrels a day due to gas constraints imposed by the ANP and obviously accepted by the consortium.

This matches with what we can call an excellent reservoir performance with good and sustained flow and derivability and more important with the practically constant pressure of the well. That is extremely good news.

The Iracema Drill Stem Test or DST as it's well known, is almost completed with very good results to date that we hope to be confirmed and reinforced in the second separate test in the new interval in the well. This is in our view extremely good news. Additionally, the well in the Tupi North East has reached the target depth and logging is in progress. All indications that we have from the online information we've received from the well are positive. We are also currently drilling Tupi P1, which is a development well, to be connected to the present FPSO, to gather additional information to help us to put in place in an efficient manner the development of the Tupi field.

Altogether, I want just to summarize to you that we are active in the BM-S-11 block, four ultra-deep water rigs operating, one in Tupi-1, another in Tupi North East, another in Iracema, another in Iara and a FPSO in Tupi South, which represents an impressive level of activity in this field. We simply have to accept that the speed of development of this major world discovery is impressive.

With this test results I want to show you that the start-up of the pilot project which is scheduled for the end of 2010 is on schedule with approximately 50% of the construction work being complete. And as you know we will expect to produce from it 100,000 barrels a day.

The following module which will have a capacity of about 120,000 barrels a day is at this moment in the process of bidding. And that's basically what I want to share with you. We feel extremely encouraged by the stabilization of our operations in Angola and by the development that is going on in Brazil particularly in the pre-salt formations.

Thank you and now. We are available to the Q&A.

Questions & Answers Session

Pablo Pena-Rich, BPI

Hello. Good morning. I have three questions. The first one is regarding refining margins, although I know it’s difficult to give an outlook. Could you let us know, how has been the quarter up to now in terms of oil refining margins for the company and in the month of October, if you have some information on that? Secondly, I was wondering if you could quantify the measures from Agip and Exxon that have impacted positively the Refining and Marketing business. And the last question is regarding the drilling program in the pre-salt, if you could give us an update, or which are your drilling plans in the exploration areas in Brazil? Thank you very much.
Manuel Ferreira De Oliveira

Pablo, good morning. And thank you for your questions. Starting with the refinery margins, what we see in October is a trend similar to September. We do not have any short-term signal of a change in refinery margins, so we see a difficult quarter this year from the benchmarking performance. We are doing everything that we can to optimize our costs, optimize our refinery runs, but we are confronted with this difficult moment. Our expectation is, as the economy picks up, we come back to what we call a normality which I hope we will see in the first quarter of next year. Actually the good results of marketing, they were driven by three factors. One was cost efficiency. We have been working very hard in the optimization of our cost structure throughout our marketing division. Second was driven by the integration of the Agip and Exxon operations. I just note that Agip and Exxon operations in Portugal increased our market share by 3% and operations in Spain led us to a market share of approximately 10%. Because of the context we had to work hard to accelerate the capture of synergies and we are well ahead of our assumptions of the business case in that area, so we feel very proud of the results achieved. The results achieved in the marketing division were driven by capture of synergies of the acquisitions we made last year and by cost efficiency, not by volumes. So they will be even more visible when volumes pick up. We saw the downstream market in Portugal stagnating, so we did not see a decline in the market this nine months period which is good. So the effect in the middle distillate market is increasing, slightly, but is increasing but the market in Spain is contracting, as we all know. Going to the drilling program, I referred to you in my introduction statement that we have an impressive activity in Block BM-S-11. I referred to you five levels of activity, but we are now this quarter going to start drilling in an other pre-salt objective in Block BM-ES-31. In our view the well will not be completed this quarter, but will be started this quarter. The additional information I can release to you is that next year in 2010 we’ll be drilling in Block BM-S-8, in Block BM-S-21 and in Block BM-S-24. So we'll have three relevant exploration wells in the pre-salt central basins to verify and extend our information on the Caramba, Bem-te-vi and Jupiter fields. Thank you.

Jean-Luc Thomas, Segespar Intermediation

Good morning. Two questions if I can. In the International Energy Agency in the energy outlook report, it was said that your refinery conversion project has been delayed to 2013. And since it was denied by Galp, I want to know if you confirm that there is no delay on that? My second question regards BM-S-8, how does the positive results of Abaré West drilling in BM-S-9 which is very close to the limits of BM-S-8, changes your evaluation about the potential of BM-S-8?

Manuel Ferreira De Oliveira

Okay, thank you. Thank you for true questions that give me an opportunity to clarify this misinformation from the report of the IEA. We don't know the origin of that information, the conversion project in Porto and Sines refinery are going on schedule, and very well. So everything is on schedule for the set up of units in the second half of 2011, as originally scheduled. So we will have oil in the first quarter of 2011 for Porto, stabilization of the units in second quarter and one quarter later for Sines. The project is going on there. Physically is happening at a very large speed. So, now let's go into BM-S-8. It was a discovery that we reported in due time of the large prospect, but we note later that it was sufficient and reliable enough to estimate reserves, recoverable reserves.
We don't have the total information of Abaré West, but what is public, indicates to us or confirms us, the high prospect of BM-S-8. I can not say more than this. So we were looking for the success of this well to reduce the risk of a well that we're planning for next year. We feel now very confident on the success of that well.

Iain Reid, Macquarie

Hi Manuel. Can I ask three questions please? Firstly on Iara, could you comment a little bit more about the progress in the well test, and what do you think the test is telling you in terms of potential of that particular field. We haven't heard very much about that since in the reserves number was issued. Secondly, on the EWT on Tupi, it seems to me that given your comments, and also BG was saying a few weeks ago that you're obviously in connection with the huge amount of oil and together with the successful test on Iracema, it seems to me that there is potentially more oil on the BM-S-11 than the 5 to 8 billion barrels initially talked about. So maybe you could, perhaps, give us some indications about what you're doing on estimating reserves, when we might hear about any potential changes for total reserves on BM-S-11. And thirdly, could you just give us a bit more indications of what the Tômbua-Lândana field could be providing in the fourth quarter?

Manuel Ferreira De Oliveira

Thank you for the three questions, let's start with the Iara. Iara is a fantastic volumetric formation. It contains, in a small space, as you know between 3 and 4 billion barrels of recoverable oil reserves. We have no evidence so far, no additional data either to review this one. So what we're seeing is a confirmation of the reserves as they have been announced when the well was drilled. What happened in Iara is that we are testing the well at three intervals and it is now going a test at the third interval and collecting all the data that is needed for laboratory analysis to try to extrapolate and define the second well that will be drilled in that formation. So the second well to be drilled next year I think, with the development plan that will take place in 2010 and 2011 will define the extension of this well. That reservoir is very thick, the quality has to be tested with an additional well and we can not say more than that. We are satisfied with the results, but the information obtained is not sufficient enough to review the number that we have. On the other hand, it confirms that this interval of 3 to 4 millions barrels of recoverable reserves is reliable. That's as much as I can tell of Iara. The EWT in Tupi and Iara fields offered us positive surprises. The consortium did not decide to review the reserves so far. Let me tell you, to change the reserves, the major event is the recoverability because we know fairly well the dimension of the reservoir, which means that we know the oil in place. So, as you remember the numbers that have been published, that were announced by the consortium, Petrobras and ourselves, assume a recovery factor on the area between 25% and 30%, let's put 27.5%. So, the key variable to assess or to quantify more reserves is understanding the possibility of increasing these recovery factors, which has to do with the nature of the sands, the nature of the permeability and the nature of the crude oil. I remember you that in the North Sea, when at this stage, some fields were at the stage of the Santos basin, the geologists we're talking about a recoverability of 20% to 25% and there are fields that have already recovery factors of about 50%. So, that is the major positive news flow that we can offer, understanding better the performance of the reservoirs that we can to have more reliable estimates of the ability to recover the crude oil in place. So far, we only have had positive news. So we tend to look at the upper side of the interval rather than to the lower side of the interval. We'll have in the fourth quarter a production of 14,400 barrels a day in Block 14, which includes the Tômbua-Lândana

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field. So we have only at this stage one well linked to the CPT tower and additional wells will be connected as they are completed. That program will go up throughout next year, achieving 90,000 barrels per day by the end of the year. As I referred, the fourth quarter estimate for working interest is 14,400 barrels a day with a net entitlement of 9,000 to 10,000 barrels a day. That's basically what we see in Block 14 in the fourth quarter. With the prices of oil as they are today, that will offer us a good contribution to our results. Thank you.

Michael Alsford, Nomura

Good morning Manuel, a quick question just on your capital structure actually. Obviously, it's stable quarter-on-quarter, as you mentioned in your comments. But could you maybe give a little bit more color as to your thoughts going into 2010, what your plans might be in terms of maybe realizing some value through the E&P portfolio, which is a large portfolio, obviously in Brazil, but also maybe your thoughts around the regulated natural gas distribution business and what you might plan going forward with that too? Thank you.

Manuel Ferreira De Oliveira

Thank you. Thank you for the question. We forecast a large capital investment next year. This is the peak of investment in E&P and in the conversion project. So we will see next year debt going up, basically with work in progress.

What we are doing is what we informed the market in the quarter, in May this year. We are basically organizing our legal structure of the infrastructure in the gas business segment to be able, if the Board decides so, to place in an investment fund a part of this value to ensure that we maintain a sound balance sheet. That decision has not been taken, we will take it when we look at the balance sheet and debt. In the meantime, what we are doing is preparing all the legal structure, so if decided it can be implemented efficiently. As far as the E&P portfolio, we are doing what everybody is doing. We are trying to ensure that we are able to optimize the portfolio with tax efficiency. The present legal structure of our E&P portfolio is inefficient for an optimization and we have to work on that. But we don't have any specific actions, neither approved, nor being discussed internally at this moment. But we feel relaxed about that.

Michael Alsford, Nomura

Great. I have a follow up please. On your rising debt next year, where do you see the gearing, maybe peaking up when going on into 2010?

Manuel Ferreira De Oliveira

My view is that when we present our results in February 2010, we will share with the market, the decisions that we are considering to ensure that we go through 2010 with a balance sheet as we promised the market. What we want to emphasize is that the issue we have is balance sheet and not liquidity. We have liquidity set up to go through 2010 and 2011, which are the critical years in our investment plan, with the liquidity we have plus
the cash flow that we generate in a conservative scenario. However, debt could put stress in our balance sheet if the EBITDA generated does not recover to the level that we all expect. So the actions to be taken are dependent on the EBITDA generation that we will have in the process between now and, I will say, the third quarter of next year. But we'll be prudent in those decisions.

Hootan Yazhari, Merrill Lynch

Good morning, gentlemen. A couple of questions, first of all on Brazil, BM-S-11, there is obviously an area between the Iara and the Tupi structure which is currently not in the consortium’s control. What, if any, progress are you making in acquiring rights to that area, and when do you think we could expect some news on that? And then the second question I have is more looking into 2010, away from the Brazilian portfolio. Where are the areas you’re getting most excited about, and what are your key drilling plans outside Brazil for next year? Thank you.

Manuel Ferreira De Oliveira

The area between Tupi and Iara that was released by the consortium a long time ago is part of the area that is not yet available. It's a decision of the ANP in Brazil. You know that the new legislation is being debated. We don't know when it is going to be approved. Everybody says that it will be approved in the first quarter next year, but let's wait and see. And we just think about that when the opportunity arises, the opportunity is not there yet. So I would not comment on it. As far as other activities elsewhere, you know that we have our mature but the key areas are Angola and Brazil. We also have exploration elsewhere. Next year we will be drilling in East Timor and we hope to have finished the three seismic interpretations to have clearly identified prospects that justify the drilling program for next year. In due time, by the beginning of next year, we will inform the market about the drilling program in the different prospects that we are working forward. Thank you.

Oswald Clint, Sanford Bernstein

Hi, good morning. Two quick questions. First, just focusing on your capex number and the €700 million for 2009. I'm just interested to know if that number has come down from your earlier guidance, which indicated something just below €1 billion, and if it has, then where has the decrease come from? And secondly, following up on exploration, if you could just perhaps talk a little bit about your acreage position going into Uruguay during the summer in block 3 and 4 I think, is there something offshore Uruguay you’re viewing in terms of similarities towards Brazil? Thank you.

Manuel Ferreira De Oliveira

Okay. As you remember, when we presented the results of the first quarter, our guidance for the capex this year was €1 billion, but now it's €700 million. We've actually rescheduled some investments, basically associated with the power business due to the permits and licenses associated with it, nothing that is critical in our strategy. Our estimates of payables in the conversion project was overestimated. As you know when the project
kicks off, there is not a direct relationship between payment and physical progress and our estimate was not reliable enough. So, one is a correction of an estimate and the other is a reschedule of some investments, particularly in the power business, the combined cycle units that we referred to you before. As far as Uruguay, we went there because our geoscientists were clearly convinced that there is an extension of the Southern part of Brazil, in geological terms, into the territorial waters of Uruguay. But I must emphasize we went there with Petrobras. When we saw their interest, as you know, Petrobras took 40%, we took 20% in this project. So that is more than the prospect itself, which is valuable in our judgment at this stage, and it’s a clear indication of the depthness of the partnership that we’ve managed to establish with Petrobras. Thank you.

Haythem Rashed, Morgan Stanley

Hi, good morning, gentlemen. Two quick questions, if I may. Just a quick follow-up on BM-ES-31 in Brazil, if you could give us any color on perhaps, a pre-drill estimate, expected size or just in terms of confirmation whether that’s an oil prospect that you’re looking for there? And also whether you have a rig contracted for the well? That would be great. And then secondly, just in terms of capex, if you could provide any guidance for 2010 in terms of how much of that €4.3 billion over that five-year period you expect to spend next year, and is the split between the downstream and E&P likely to remain similar to what we’ve seen? Thank you.

Manuel Ferreira De Oliveira

Okay, let’s go to BM-ES-31. We already made it public that there are, from the seismic work, two identified prospects identified by us and geosciences studies. We are going to drill the pre-salt prospect, which is larger and deeper. The well will be started early this year, according to our commitments to ANP and will be completed in the first quarter next year. So that’s as much as I can say. So if we decide to drill, the rig is contracted, the work is in progress, so nothing special about that. We will have newsflow when we get to the reservoir, probably by January or February next year.

As far as the capex guidance for next year, we did not review yet our capex for 2010 in detail to update the numbers that we have, but the most updated numbers indicate capex slightly above €1 billion, but not much more than it. That’s the capex we expect to spend in 2010. Thank you.

Anish Kapadia, UBS

Hi, I’ve got three questions. Firstly, I was wondering if you could just give a bit more detail on your gas supply division outlook given yet another quite weak quarter. Secondly, a couple of questions on Brazil; firstly I was just wondering, what do you expect to really learn from the Iracema drill stem test? And then the final question, with regards to timing on FPSOs, Petrobras has talked about three FPSOs coming on-stream and then a further eight. I was just wondering, out of the three, which Block do you think that the final FPSO is going to, to which field? And then from the next eight FPSOs, I was wondering what is your current thinking on how many of those are going to go on to BM-S-11 and whether you would expect to get any of those FPSOs on BM-S-8 or BM-S-21?
Manuel Ferreira De Oliveira

Okay. Let’s start with the gas supply division. Now the supply business is based on acquiring gas from our suppliers, basically Sonatrach and Nigeria, and selling it as a last resort supplier in Portugal, to the power utilities and to the industrial sectors. Then we sell it to the tariff regime, to the customers, to the industrial sector and to the power sector. The growth of this business has to do with the economic development, so if the industrial sector is more active, it grows. This year it declined. In the home sector, we are connecting to about 40,000 homes a year and building between 400 and 500 kilometers of pipelines a year to connect these homes to the gasification program and that brings additional demand every year. We are also building cogeneration plants in Portugal, which increase the demand on gas. What happened is that the time lag between contracts of gas and the price of crude oil introduces distortion in results understanding. We have managed to negotiate with every major customer, but one, to align our formulas of pricing of acquisition to the formulas of selling to the customers. This work is practically complete and when it is completed it will add more stable results in the supply business.

As far as Brazil, what we see is that Iracema is an area of the BM-S-11 linked with the Tupi area, the level of that linkage is not 100% understood yet and that’s why tests are needed to understand the closeness of crude oil in the reservoir. What I want to tell you is that the flow of oil in that region of that major reservoir is extremely good. So, obviously that such a massive reservoir is not homogenous. So we would expect one area of the reservoir to have a higher productivity than another area and this is why different wells are being drilled to have a model of the reservoir that is reliable enough. Iracema is clearly one of the excellent areas of that reservoir. The importance of this, is that on economic terms it is important to set up the infrastructure of the field, we are starting areas that are more productive. So that is the question of sequential development of the reservoir. It’s very important to identify the most promising areas and Iracema, I repeat, is clearly one of those. As far as the FPSOs, one has been contracted, which is the Tupi South FPSO that is under construction. Then there are bids for two. They are intended to go to block BM-S-11 and BM-S-9, so one will go to BM-S-9 and another to BM-S-11. The timing of those is only a forecast because the contracts have not yet been awarded. We expect the guideline that we offered before can be confirmed. As far as the 8 additional ones, what we are now interpreting, what Petrobras is proposing, is to assure that we have scale in the orders so to reduce the unit cost and help the the providers of the FPSOs to optimize those operations. That project is still under discussion and evaluation, so those will be allocated to the places that offer a more productivity in economic terms. But they have not been assigned. What we have is ideas, we have our ideas and others have others. But what I see is that we will have sufficient FPSOs to support a rational development of the fields where we operate. Thank you.

Lydia Rainforth, Barclays Capital

Thank you. Good morning, gentlemen. A couple of questions just on the downstream if I could. Firstly on the capex guidance, you mentioned that one of the reasons for the low cost issue was lower payables for the conversion. Does that mean that the overall cost of the project is actually lower for you now than you anticipated? And then secondly, can you tell us about the Sines cogeneration plant and what you expect to benefit in earnings in the current environment?
Manuel Ferreira De Oliveira

Okay. We do not estimate that the cost of the project is lower than the guideline we offered the market. So we are actually still negotiating contracts. The work has progressed, but not all contracts have been awarded. We see that as the time goes by, we manage to negotiate more competitive contracts. When I told you lower payables than forecasted is that what we’ve forecasted in terms of expenditure this year, we related it with the expected work in progress, and that is not what should have been done. Effectively the work in progress is not directly linked with payables. So it’s simply a correction of the forecast, do not interpret anything else other than that. As far as the cogeneration plants, one of the weaknesses of our refineries that is known by whoever follows our company is the energy efficiency of the two refineries, both Porto and Sines. The cogeneration is now running at full capacity in Sines. It’s the largest cogeneration of Portugal. It’s putting on the grid 80 megawatts and producing the steam for the refinery operations. The old boilers are basically better at this moment. And they will increase the efficiency together with other investments that are going on in the refinery, that we call recurrent investment. As you probably remember, we are committed to an improvement of $0.5 per barrel in our refineries as a result of improving energy efficiency and I can confirm you that with the projects ongoing we will achieve that. So that’s very good. Thus, the cogeneration plant represents a high consumer of gas. Our gas business is happy with the step-up of the cogeneration because it’s now consuming their gas as a good customer. Additionally, we produce steam for the refinery at competitive prices and improved efficiency of the refinery. That’s basically it.

Manuel Ferreira De Oliveira

Thank you.

Tiago Villas-Boas

Okay. Thank you very much and see you in next year. So have nice holidays. Bye.