Galp Energia
First Quarter 2008 Results Presentation

Introduction

Tiago Villas-Boas, Head of IR

Good morning and welcome to the Galp Energia Q1 2008 results presentation. As usual, we have the CEO, Manuel Ferreira De Oliveira and the CFO, who has changed since the last AGM. He is Claudio de Marco, who came from Italgas and has a financial background in the gas sector in Italy as well as in the exploration and production division of Eni. I will now pass the word to Mr. Ferreira de Oliveira, who will give the presentation, which will be followed by a questions and answers session.

Manuel Ferreira De Oliveira, CEO, Galp Energia

Good morning. As is my duty, I am here to present the Q1 results. I will go through the slide presentation and will focus on the final part, which is the recent agreement that we executed in Caracas, Venezuela.

Slide # 4

In slide four, you see the basic exogenous variables that impact our performance. I have nothing relevant to say here that you do not already know. The higher crude prices, which have been increasing throughout the quarter, clearly affect the gap between the IFRS results and the replacement costs results.

Refinery margins have been weaker than they were last year and this represents only the cracking refinery margin. When we put our hydroskimming centre in Porto, the gap is still higher. The exchange rate is another piece of news for the refinery. Because of the deterioration exchange rate, the only good news from the exogenous area was the pool prices in Spain. As you probably know, pool prices in Spain are mostly fixed by the gas prices and the entry into operation of marginal power, which comes from combined-cycle units, which are related to the gas prices. Effectively, gas prices were the start of the quarter in our business portfolio.

Slide # 6

If we go to page six, we summarise both the reported results in the International Financial Accounting Standards (IFRS) and the replacement costs results. As you all know, if the price of crude oil had been constant, both results would have been the same. However, this was not the reality. In international accounting standards (IAS), we have the results that you see, increasing turnover due to the higher prices in crude oil and in other oil products. EBITDA has increased by 30.7%, EBIT by 37.8% and net profit by 23%. However, this is not the picture when we look at replacement cost.

I will take this opportunity to say that replacement cost assumes that the cost of our crude during a period is equal to the average replacement cost of that crude during the period. With IFRS, we use the FIFO, the oldest crude oil in stock for processing first. The numbers speak for themselves. In replacement cost, EBITDA increased by 3.3%, to EUR 34 million and net profit declined by 8.4%. Much of this decline is due to the fall in net profits from our associates, companies where we have less than 20% stake. That EUR 7 million mostly comes from CLH in Spain, which had extraordinary results in Q1 2007 of about EUR 6 million, due to the sale of a specific asset. Theoretically, this was a non-recurring event but was not classified as such by our auditors.

Slide # 7

On page seven, we see the performance of the different business units. In Exploration and Production (E&P), on a year-on-year basis, EBITDA rose by 26%, or by 15% on a quarterly basis. This was due mostly to higher prices as well as lower production and lower entitlement production. In terms of Refining and Marketing (R&M), we had the worst segment performance of the business. On a yearly basis, it declined by 34%, slightly better than our peers' performance. This is basically due to lower refinery margins, the stagnation of sales, lower distribution margins and the Dollar devaluation. On a quarterly basis, this represented a big increase, since Q4 was not very successful, mostly due to the closing of one of our refineries. In Gas and Power (G&P), where we work mostly in volumes, we had good margins in trading of liquefied natural gas (LNG). In total, at replacement cost, we increased EBITDA by 3% year-on-year and by 30%, on a quarter-on-quarter basis over Q4 2007.

Slide # 9

On a business by business basis, on slide nine, we see that our working production has declined as we have only produced 13,800 barrels per day. This is less than the last quarter and less than Q1 2007. As we already reported to the market, this was due to problems in the BBLT field that have already been solved. We are already increasing production and expect to return to normal objectives before the end of Q2. The problems resulted from some water incompatibilities at the bottom of the wells. These could not be solved sooner due to a lack of rigs.

The reduction in working production was even more evident in net entitlement. The higher the crude oil prices, the lower the net entitlement production. During Q4 2007, we reduced entitlement production by 8% and by 21% compared to Q1 2007. However, this is not the case when we talk about margins and EBITDA because of the increase in prices, as I will refer to you later. The average price of a barrel sold from BBLT, Kuito and TL was USD 107.5 per barrel.

Slide # 10

The following page refers to the Refining business. We all know that refinery margins have declined and ours have declined versus Q1 2007 margins by 47%. This was mostly driven by the industry as a whole. The spread of the benchmark results from the mix of products and the balance between imports and exports occurring during this period. The content of the slide is self-explanatory: the gasoline and gas oil cracks have decreased on a year-on-year basis. We have processed more crude, which compensated somewhat for that decline in margins. We have now returned to what is an average crude processing capability of about 24 million barrels per quarter.

Slide # 11

On slide 11, we see the volume performance of our distribution business. As you probably know, the capital employed in our distribution business is not much different than that employed in the refinery business and is key for the performance of the whole segment. We have processed 3.1 million tonnes of crude oil and the total amount sold was 3.9 million tonnes, which results from imports of the balance to adjust to Portuguese demand. For our direct customers, we have increased sales in Spain by 1.8% and decreased sales in Portugal by 2.2%. In Portugal, wholesale means large customers, not other distribution operators. The wholesale business increased by about 7% and the retail business fell by almost 4%. This was due to high prices and the difficulties in the

Portuguese economy, as our exports have increased, mostly through gasoline to the USA, which helped the period.

Slide # 12

In slide 12, we look at the star of the quarter, which was the gas business. Basically, this resulted from higher volumes sold into the electric system in Portugal and trading sales in Spain and elsewhere. The margins were attractive and the results show this within the liberalised markets. In regulated markets, we have continuously increased our number of customers. As you are aware, tariffs have already been defined before being implemented in Q2 2008. During Q1, we increased our customer base by 16,000 and, for each connected customer, we receive EUR 4 per year for 15 years. Connecting customers in the natural expansion of the network provides a steady income.

Slide # 14

To summarise our financial performance, in slide 14, we chose to show you the EBITDA, other components of the P&L accounts are in your data. Year-on-year, E&P EBITDA increased by 26%. This was only due to price, as the volume effect was negative. Quarter-on-quarter, it increased by 15%. The corresponding R&F figures are minus 34% and plus 60%, year-on-year and quarter-on-quarter. In the Gas business, we see EBITDA of EUR 101million, totalling EUR 234 million. G&P EBITDA was mostly boosted by volume rather than margins. In the quarter, we recorded sales volumes close to 1.5bcm.

Slide # 15

Slide 15 shows the P&L account, which contains nothing special to report. I have already emphasised the gap between IFRS results, where we have EUR 0.21 per share, and at replacement cost results of EUR 0.13 per share. In Dollars per share, the results are much better as our company is mostly involved in Dollar-based economies and the devaluation of the Dollar reduces the Euro results. Even at replacement costs on a Dollar basis, our earnings per share have increased by 4.6%.

Slide # 16

In slide 16, we see the cash flow generated in Q1 2008. In operations, we generated EUR 229 million in cash flow and reduced our debt by EUR 136 million, to close to EUR 600 million.

Slide # 17

On the next slide, we see the company's balance sheet. Capital employed is close to EUR 3.2 billion and the debt to equity ratio is 23%, fallen by 7%. In our balance sheet, I would like to note that we have increased strategic stock by EUR 113 million, which results from the increase in oil prices. Notwithstanding this increase in oil prices, we reduced by the level I referred to you earlier.

Slide # 18

In short, E&P contributed 23% of our EBITDA at replacement cost, which shows the relevance of this segment in our portfolio. R&M was affected by the exchange rate, by lower refinery margins and by stress on the distribution margins. G&P was the star performer and I will not emphasise it any more. In financials, we reduced our debt and Capex has increased since investment in our refineries has picked off and our exploration in Brazil have commenced and are putting pressure on our capital spending. This is what I wanted to say to you on the Q1 results. We feel that we did our best during the quarter, which was not easy, and we expect that Q2 will offer better opportunities in terms of replacement cost results than we saw in Q1.

Slide # 20

Now, I will summarise our recent agreements signed in Venezuela, when the Portuguese prime minister visited Venezuela last week. I wanted to let you know that these agreements were developed through complex, friendly and long negotiations that lasted almost 18 months. Therefore, they have resulted from a year and a half of hard work between Galp Energia Petroleos de Venezuela (PDVSA) teams. They occurred in a context of excellent cooperation and friendship. We have executed and studied our preferred options, so we have not executed any agreement that has not been pre-studied in terms of its substance and background. We signed two contracts for the development of two LNG projects in Venezuela and one contract for the development of phase two of the Orinoco Belt reserves. I will refer to this later. Moreover, we have agreed on a crude oil acquisition contract and we have signed a cooperation agreement on wind technology, which I will refer to you later.

Slide # 21

I will start with the strategic projects in LNG. Since the 1980s, Venezuela has been developing natural gas reserves, most of them for internal consumption, because of their petrochemical development and the need for the upgrading projects in the Orinoco Belt. As you know, the production of oil in Venezuela is maintained by the state and the reserves are more or less stable. Looking to the future, hydrocarbon wealth in the country is based on natural gas and heavy crude oil. It is a nice combination because natural gas is needed for the process of upgrading heavy crude oil, where the combination of the two lead to conventional crude oil.

Most gas in Venezuela is oriented to the internal market and the export of LNG started in the 1980s. At present, there are two projects. One was conceptually developed by Shell: the export of LNG from the Mariscal Sucre field. The other was conceptually developed by Shell and PDVSA. Chevron and PDVSA work in what is called the Delta Caribe field. These reserves are there and are in the process of certification. PDVSA has assured us that the reserves in both fields are above 7 TCF required for the creation of a liquefaction chain of about 6.5bcm each.

What did we agree? We agreed that we would take 15% in each of the projects, including a pipeline from the field to Guiana as well as 15% of the liquefaction and export facilities. In these projects, we take 15%, PDVSA will take 60% and other partners are in the process of selection. They are first-class partners, which will most likely include the original project promoters. We have now created a joint committee for the development of these two projects. These projects will have different shareholding. The remaining 25% in the Delta Caribe project and the Mariscal Sucre will have complimentary shareholders and we will represent the largest private shareholder, with 15% in each project.

We will have two years to take over the studies that have already been done and to proceed with basic engineering with the monetisation of gas and the launch of an EPC tender. Once this is complete, we will have the reality of the numbers. At present, we only have an estimate of the investment. With the hard numbers and the accession system, we will define the economic viability of the projects, or otherwise. It is estimated that the final decision for investment will be taken by the end of 2009, early 2010. If things go as planned, we will have both projects starting by 2014. Together with our 15% participation in each project we will have the right to acquire, at prices that would make LNG competitive in the Iberian Peninsula, another 2 bcm of LNG. These 2 bcm represent 15% of the combined output of the two plants. Basically, this would create a vertically integrated project. This remains our task for the coming two years, before the final decision is taken.

Slide # 22

The Orinoco Belt remains the largest hydrocarbon reserve in the Western world. Unfortunately for Venezuela, it is very heavy crude oil, with densities below water density and with average gravity of between 7 and 8 degrees API. Last October, we agreed a memorandum of understanding with PDVSA for our involvement in the process of certification of the reserves in Boyaca block 6, which is in the western side of the Orinoco Belt. This is not far from existing upgrading projects in that locality. We now have a team working together in Venezuela, with our geologists and scientists, for a period. They have been evaluating block 6 and we are confident that the oil in place is between 60 and 80 billion barrels. With a recovery factor of 20%, this represents around 12-16 billion barrels of recovery oil from that area. However, these numbers are not yet certified.

To certify these reserves, both our geologists and PDVSA's geologists concluded that a further six wells would be needed. To date, seven wells have been drilled and they have all been successful, as it is a very local belt, and the seismic reports were studied. After the six additional wells are built, dynamic starting models of the reservoirs will be combined before an independent company certifies the results. Our discussions are not about whether or not we have the required reserves for an upgrading project but the absolute quantity of reserves. Therefore, we have agreed on a contract that will start developing a project for upgrading. This developing project will include the development of the field, the necessary infrastructure and an upgrading unit to produce crude oil of 25 to 30 degrees API. This would involve low sulphur and low metals.

Once the project is defined and is deemed viable, PDVSA and Galp Energia will co-submit the project for approval to the Bolivarian Republic of Venezuela. If approved, a concession will be awarded to the joint company and decisions will be taken to proceed. I would consider this as another project. Galp Energia is fortunate since the business frontier in the Oil land Gas sector is clearly in ultra-deep offshore and in extra-heavy crude oil. These represent the frontier of technology and the frontier of growth and we are fortunate to be in the ultra-deep waters of the Santos Basin in Brazil and in the extra-heavy crude oil in Venezuela. We are very proud of that.

Slide # 23

There are another two complimentary agreements that we have executed. The first is the straight acquisition of crude oil. This represents a relatively small contract, where we buy 2 to 4 million barrels per year. One should remember that we buy between 90 and 100 million barrels per year. This is at market prices and is the standard formula for PDVSA. However, it is still subject to pre-notice once prices are transmitted to Galp Energia. We will run our linear optimisation programmes and, if the crude oil proves uncompetitive, we have agreements not to lift the crude oil or to find alternatives. However, from existing runs on our linear programmes, we expect the crude oil contracted to be competitive in our refining portfolio. The agreement will be renewable annually.

Another programme that does not have much economic significance but has strategic relevance in Venezuela is what we call the exchange of fossil fuels for renewable energy. Venezuela is keen to develop wind farms and they have proposed four wind farms, totalling 72MW in all. We will be paid back at cost for the viability study for these projects as well as Venezuelan staff training for the building and operation of these fields. We will train our Venezuelan colleagues and help them in project development and engineering. This does not represent any special financial incentive for us, apart from cost recovery, but it is a clear signal of the cooperation that we wish to establish and develop with PDVSA. With these agreements, we are hoping to establish the third leg of our E&P strategy in Angola, Brazil and Venezuela's Atlantic basins. I believe that these will support the growth of this division and create value for the shareholders of this company.

I have now finished but I and my colleagues from the executive board can answer your questions. I will try to answer most of them but if one of my colleagues feels that they can add value to my answer, he is free to take the floor.

Questions & Answers Session

Bruno Silva, BPI

Good morning. Before anything else, congratulations on these agreements in Venezuela. I have some backward and forward questions, if I may. The first one is on Angola and the government sensitivity. Could entitlement production decrease further with further increases in oil prices or have you reached the top share of oil profits with the government? Second, as we have done in previous quarters, could you give details of the lag effect in the R&M business in this quarter? Third, I have a detailed question on working capital, which has changed significantly in this quarter and I wonder about the causes for that. Third, on Brazil, have you any comments on the long-awaited outcome from block eight? Also, there have been rumours in the market on a possible change in the Brazilian tax regime. Could you provide some information on the scope of possible changes for your business? There has been some news on Espírito Santo Basin. I know you do not even know if it is commercially viable but I would like a rough idea of the size of the prospects. Finally, on probably the most important one, in Venezuela, how safe is it to assume that you will gain a stake in the exploration and production of that block? Is there any agreement possible before the outcome of this exploratory work being carried out? If you are involved, will it be a highly attractive enterprise? Could you comment on the costs of upgrading the heavy oil that you mentioned? Anything else would be welcome to extrapolate a potential value range for that project.

Manuel Ferreira De Oliveira

You have prepared your questions very well, so let me go one at a time. As far as the Angolan business is concerned, the government stake increases as the oil price increases. However, the company always takes some stake in the incremental value. This means that if the crude oil is at USD 120 per barrel and rises to USD 130, as the price increases, the stake we take is less and less. There is a theoretical point where we will get practically zero but we are still ways from that. Another effect is that, as we recover our capital investment, the appreciation is lower as the cost of oil decreases. As the Capex is recovered, the cost of oil decreases and the available crude oil available to share with the local government is greater. These equations are relatively complex but Tiago Villas-Boas could help you understand these PSA agreements, which are very standard in the industry.

Bruno Silva, BPI

I have a very quick follow-up. In my understanding, and I may have mistakes in my estimate, are we saying that, given the stage of your project in Angola and the current oil price, you are already at a point where the internal rate of return that you recognise on a quarterly basis is already extremely high? Therefore, we may not be able to see significant changes to your entitlement production in the country. Is that correct or not?

Manuel Ferreira De Oliveira

That is basically applicable to the Quito field, which already has a small production level as the reserves decline quickly. As far as the BBLT is concerned, this is not the case. The star of block 14 would be Tombua-Landana, where a new platform is now under construction and we will keep production growing to the level that we already shared with the investors, which is in the range of 30,000 barrels a day. From the three fields, Kuito, BBLT and Tombua-Landana, we will continue to increase production. We started with Kuito, which is now declining, BBLT is taking off and may stabilise and start to decline. Tombua-Landana will then enter once the new platform is commissioned in 2009.

The second question was on refinery margins. This is a difficult forecast to make. The only things that we can look at in forward marketing are margins that we can see in what we call the paper market. We see better margins and have better margins in this quarter and the forwards that we see indicate that they will be reasonable until the end of the year. However, take that for what it is worth. However, if the Dollar does not continue its devaluation path, this will help, but this is pure speculation. I would prefer not to comment on that.

Bruno Silva, BPI

What about the lag effects in Q1?

Manuel Ferreira De Oliveira

You call it the lag effect. The lag effect in Q1 was smaller than the previous year because of the lag effect on transfer prices between refining and distribution. In Q1, it was only EUR 6 million and this is a result of our customer pricing based not on daily quotations but on the average quotations from the previous week. Last year, we used to do it on the average quotation of the previous fortnight and it cost us nearly EUR 60 million. This year, we are moving to our ultimate target, and the Portuguese know that our environment is not easy, where we should price our product at the daily international quotation. We are doing it cautiously so as not to introduce disruption in our business. It cost us EUR 6 million in Q1.

Bruno Silva, BPI

Obviously, it is difficult to extrapolate for the full year. Assuming that the pricing trend now stabilises, we could say this absolute effect will remain.

Manuel Ferreira De Oliveira

If the prices stabilise, that equals zero. If it declines, it is positive. Going to working capital, it is basically the cost of sales. We are maintaining the number of days of sales in our customer accounts well within control but the value of each invoice is higher because of the products. This also applies to higher stocks, as the cost of stocking is higher and this implies higher working capital.

In Brazil, everyone knows that the Bem-Te-Vi well has been completed in block BMS8, in which we have 14% and the consortium is preparing information for the market. I will ask you not to ask me any more questions on that because I cannot give information to you. This is a case where I feel a little embarrassed because I know that all the answers to the questions that you might ask will be on the market in a few days. We are carefully following the regulation changes in Brazil and do not know what will happen. If it happens, we have been assured that it is for further acreage. In the Santos Basin, there is still more acreage to be awarded, which was actually suspended. The risk on that acreage is more than the risk on the original blocks that were up for bidding. Since the risk is lower, there is now a possibility that the taxation regime will change. However, as far as I am aware, this would not be applicable to the existing operations.

Bruno Silva, BPI

I just have a final point on that because I really believe it is important. In Brazil, for Tupi for example, the tax schedule's top ceiling in the so-called marginal tax rate applicable to the size of the wells is open. This means that if the block is much bigger than the ceiling, the top reserves amount considered in the tax schedule could be 75%. I believe that some people believe that, for much bigger reservoirs, tax could be increased on a marginal basis. Do you think that is feasible or are you sticking to your first statement that for the existing certified reservoirs, nothing will change?

Manuel Ferreira De Oliveira

We cannot forecast. A country is a country and they have legislative powers. However, we trust Brazil and its regime to honour the contracts that we concluded. We have no reason whatsoever, I emphasise no reason whatsoever, not to consider that the contracts executed will not be respected. In this regard, we are not concerned. By the way, the higher the reserves, the better for the country and the better for the operators. Concerning the Espírito Santo Basin, our investors know that we are drilling some wells onshore, some small operations, where we have 50% in each area, in Portiguar, Espírito Santo and Sergipe/Alagoas. We have had certain successes in these drillings and, yesterday, there was a leak regarding one of the wells, saying that a discovery occurred in one of those drillings. These are really important but not of a magnitude that changes our future. When the numbers are ready and reliable, we will inform the shareholders on developments in our onshore investments.

As far as the Orinoco Belt is concerned, the contracts executed will not give us the right to be part of the joint company with PDVSA once the development project is approved by congress. We have an agreement between us and PDVSA to submit a project to congress. If we submit it jointly, we assume that congress awards authorisation for the project development to those that submit the project. PDVSA will hold 60% of this partnership. I want to inform you that a ceremony was held in Boyaca 6 and was broadcasted on all TV channels. The president of Venezuela was present, as well as three cabinet members, and they fully supported the joint agreement between Galp Energia and PDVSA. Our prime minister was also there, so we got the total support of PDVSA and its shareholder, the government of Venezuela, as well as the Portuguese government, for the development of the project. I am personally optimistic about that project.

Theepan, Morgan Stanley

Good afternoon. I just want to clarify a few targets or guidance, if that is possible, and then just a comment on demand in the downstream. Is it possible to give some guidance on production for 2008, at these higher oil prices if either USD100 or USD120? Second, I know it is incredibly difficult to forecast tax rates, particularly incorporating Portuguese GAAP, but I just want to know if you could reiterate a rule of thumb for the tax rate going forward. Finally, we saw some significant decline in demand for products in Iberia. I just wanted to know how you saw that evolving through the rest of this year and if you could give any evidence of what you've seen so far in Q2.

Manuel Ferreira De Oliveira

It is a privilege to have Tiago Villas-Boas here as he explains me your questions and not the answers I should give.

Concerning net entitlement production in Angola, we expect to achieve net entitlement output at 2007 levels. The difference will only be the price effect. That is our budget going forward.

Regarding the tax rate in Portugal, our tax rate includes the basic tax rate in Angola, called the IRP, which is 50% of net profit, plus taxes in Portugal. The tax rate in Portugal is calculated under Portuguese accounting standards, which are basically the results of last in-first out (LIFO). Unfortunately, we have three sets of results. If you bear with me, I will try to avoid confusing you. We have the reported results, IAS, which are FIFO. We have the results for tax purposes, which are last in-first out (LIFO) and we have management accounts at replacement costs. Theoretically, if the price of our commodities, crude oil and products, was constant, all three results are the same. When there are drastic variations, they change. Typically, the LIFO results are in between the adjusted results and the FIFO results.

We expect that, and this is just according to our forecast, which is only worth what I say, that our tax estimate is between 25% and 27%, including IRP in Angola. That is what we estimate for the forthcoming of the year. However, this depends on the rate of change of crude oil and oil products prices.

Regarding Iberia, as you are aware, our main strategy for Iberia is to do whatever we can, provided it is economical and rational, to balance refining output with our customer sales, so we can sell what we refine directly to Galp Energia's customers. We are not far from it, as we have announced. If the competition authorities approve, we will be acquiring the Agip operations and the Esso operations. With these two operations, we will be very close to our goal. Then, we expect some organic growth to balance refining throughput and distribution sales. This will reduce the volatility of the integrated results because the results of distribution and refining are negatively correlated and, by reducing volatility, we reduce the cost of capital of the business and increase value. This is the driving force on our thinking.

Alastair, Merrill Lynch

Good morning, can I just come back to Venezuela as I am struggling to put the size of Venezuela into perspective. Can you give us some context about your vision on the amount of capital you think might be employed eventually? Could I ask what sort of return you might hope to expect from that amount of capital?

Manuel Ferreira De Oliveira

Both LNG projects, which are strategic for us, are not in the basic engineering phase but in the engineering and the cost estimate phase but other things are projects. Not based on our specific projects, similar projects represent a Capex, for 15bcm of LNG, including transportation and facilities, of around USD 10 billion, at present costs. For the development of upgrading, for about 250,000 barrels in the Orinoco belt, producing crude oil, about 28 to 30 degrees API, low sulphur and low metals, total Capex would also be around USD 10 billion. That is the magnitude of the numbers. They are self-contained projects and we are minority shareholders, although the largest private shareholder in each consortium. If there are good sales contracts, it is reasonable to assume a gearing for those projects of 60% debt and 40% equity. The rest is mathematics. However, it is too early to provide more information on that issue. Our commitment to our shareholders, which is the same one that we made as the executive board to our board recently, is that, once the projects are developed and we have developed reliable numbers for Capex, before the final investment decision, we will conduct a financing assessment of the project as well as the impact of debt on the value of our shares. That will only be done if they create value for existing shareholders. That is the key decision that we have to take. We will never embark on a project that destroys value.

Alastair, Merrill Lynch

Which is a hurdle rate of return above cost of capital?

Manuel Ferreira De Oliveira

You know that Venezuela has a very low geological risk in this area, so our threshold of safe internal rate of return is between 12% and 14% for the total capital employed: debt plus equity.

Alastair, Merrill Lynch

That was very helpful, thank you.

Anish Kapadia, UBS

Could you provide an update on your exploration plans and timing for any expected results this year? Has anything changed over there? Second, could you give us some idea on your thinking on the development of Tupi, if you are able to do so? Related to some of the other things you have said, can you give an idea of your Capex plans over the next five years, including Brazil and Venezuela? Finally, could you give an outlook for the gas business, in terms of how you see the market and any potential impact that legislation changes might have?

Manuel Ferreira De Oliveira

Our E&P drilling programme information is published in our annual results and there has been no change. We and our consortia are following exactly what we have informed the market at the beginning of the year. The major wells to be drilled in the rest of the year are another well in the Jupiter field and another well in BMS 11 but not in the Tupi reservoir but Iara prospect. At the moment, rigs are being allocated for Yara and Jupiter. As you know, we concluded the Bem-Te-Vi well in BMS 8.

Regarding Capex, you are aware and we have already told you or your colleagues, that our successful exploration results in the overall Santos Basin, plus the eventual success of a large project in Venezuela, if the economics are right, I emphasise this, represent a discontinuity in our company. The way we monetise requires relevant capital and, before the projects going forward are approved by our board, we will share our strategy for financing those projects with all shareholders. I think that saying much more than this is not being cautious because we want to do it very well. Our commitment for the board is that, before the end of 2009, we will have discussed this fully and will have shared these discussions with the shareholders.

For the ongoing Capex, it is the one that was presented to you, with some minor adjustments, which is in the range of EUR 5.5 million. It was presented in our business plan and, as with any company, will be reviewed when we update the business plan in Q3 2008. Once it is completed, it will be shared with all investors. That is all that I can say for now.

As far as the gas business is concerned, we are unconcerned about it for two reasons. We have already negotiated with the government and effectively executed the contracts of transition from concession to a regulated market. The concessions have different durations, the longest one is 30 years, and they have all been extended to 40 years. We now have 40-year concessions for the distribution companies. We are the last resource supplier both for industrial and for commercial segments of the business. The contracts were executed in a manner that maintained the value of the business. Therefore, the tariffs published ensure that.

The growth of the P&L account here depends on the liberalised market, which I expect to bring value to us in Portugal and in Spain, as demonstrated in Q1. However, the regulated business will have the regulations of the regulated asset base (RAB), which is already published. We will have an increasing number of customers and the more we have the higher the remuneration we will have. This is a very simple business to forecast our performance. Now, the challenge for us is to be efficient in operations in the regulated business, and we are focused on that, and being creative and aggressive in the liberalised market and that is what we are expecting to do. Like other operators, our problem is the lack of gas. If we had more contracted gas, our results would be better, as there is demand for it. However, we are working hard to achieve that.

Kim Fustier, JP Morgan

Good morning. I have two quick questions. The first one is on the acquisition of the Shell Fuels business in Africa and the acquisition of Exxon's fuel and lubricant business in Spain and in Portugal. Could you just comment on that and does it change your guidance on market volumes? Second, in the gas business, could you just remind us of the value of your published RAB and the allowed rate of return?

Manuel Ferreira De Oliveira

You have noticed that we acquired three relatively small operations from Shell in selected countries in Africa. The reason for this is that we already have historic distribution operations in Africa. In Angola, we are the only alternative supplier to Sonangol. We have another in Mozambique, where we are ranked third or fourth. In Guinea Bissau, we supply almost 90% of the market. In Cape Verde, we have 40% of the leading operator, Enacol. On a consolidated basis, they all offered us an EBITDA of close to EUR 15 million. Therefore, it is important but relatively small. We are trying to optimise these operations and to give them some economies of scale, to improve results and to make it better. This is why we acquired Shell Gambia, where we will have about 40% to 50% market share. Shell Gambia, Guinea-Bissau and Cape Verde are close countries but we manage them in the same management unit. We supply logistics that are clearly optimised between the three countries.

In Mozambique, the other side of Africa, we have a relatively successful operation, where we are market leaders in LPG. We have about 25% market share in oil distribution products and we bought Shell Mozambique. Now, we will be number two in private operators after BP. We also acquired Shell Swaziland, which is very close to Maputo, where Shell was the clear market leader, with the same management team managing the LPG business in Mozambique. The distribution business in Mozambique includes our operations, Shell operations and the Swaziland operations. Together, they become reasonable operations. We acquired Shell Mozambique, Shell Gambia and Shell Swaziland because they had synergies with our existing operations in Africa worth EUR 36million. We used the equity value of these operations. That is it as far as Africa is concerned. I consider these as investments to improve the quality of our operations in Africa, around our existing operations that we ran on that continent.

In Europe, when we bid for Esso Portugal and Esso Spain, the lubricant business was not for sale. Therefore, during the post-bid negotiations, we agreed to negotiate the licensing for a couple of years to market Esso lubricants, mostly the Mobil brand, in Iberia. Once the transaction is concluded, and we are still preparing the data for the competition authorities in Brussels, we will inform the market about the impact of this transaction. In Portugal, we are very strong in lubricants and relatively weak in Spain. Having a leading brand in our portfolio will help us to push the lubricant business in Iberia, particularly the integrated networks that we will have.

As for gas, the RAB has not yet been officially published by the government. We think we know what it will be but we cannot state it at present. If you make an intelligent guess, you will be far off. The rate of return on RAB has already been published and it is 9%, before tax, and it was calculated to balance the value of the new system against the previous system. By the way, this rate of return will be contractually fixed for two regulatory periods, six years in all. If it is reduced after this time and it has an impact on the value of operations, we will have a right to compensation because the government cannot guarantee that the regulator will not change the rate of return on RAB. However, if it happens, we will reopen the economic equilibrium clause of the contract.

Avinash Ghalke, Lehman Brothers

I have two questions. The first is on the BBLT operations problems that you had in the quarter. Could you give us more details on that? Second, on R&M, you mentioned that you had rising cash costs in this quarter. Can we expect a similar trend for the rest of the year or will we see a decrease?

Manuel Ferreira De Oliveira

The BBLT problem was simple for a production engineer: there was a certain level of incompatibility of injection waters in the field. The fields receive water to maintain the pressure in the reservoirs and there was a problem there. The difficulty was in getting the rigs available for the workovers needed to correct the problem. There have been delays and it has obviously cost. The operations are ongoing and field production is going up. As I stated before, we will end Q2 with normal rates of production from BBLT. The problem was relatively simple. As we all know in the business, when you need a rig that has not been previously reserved, it is always a headache.

In terms of R&M, I think you wanted to ask on working capital. If the value of stocks is high, the cash allocated to the business is higher. The unit to operating costs are absolutely under control. I can assure you that we will have no major issue on that. Obviously, there is a certain seasonality with maintenance problems that have increased the cash costs of refining due to maintenance operations allocated in Q1. However, we must remember that, in Q3, we will have an outage of Sines, which is extremely well planned and will be made within our budget and the time allocated. Indeed, we have been working on it for over a year and it will happen in late September and throughout October.

Thank you, it was again a pleasure. On my behalf and on behalf of the colleagues here to support me, I want to thank you for your time and for having studied our results. We will be back to you within a quarter.

Galp Energia, SGPS, S.A.

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