Galp Energia First Quarter 2009 Results

Introduction

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

Tiago Villas-Boas, Head of Investor Relations

Okay and thanks. Good morning and welcome to Galp Energia 2009 first quarter results conference call. Joining me today as usual is our CEO, Manuel Ferreira De Oliveira, and CFO Claudio De Marco. We will start our presentation with the first quarter 2009 results, which will be presented by Manuel Ferreira De Oliveira.

Before starting the presentation, I want to draw your attention to the fact that the associate companies which were consolidated by the proportional method change to the equity method since the first quarter of 2009. Let me just end by reminding you that we will be making forward-looking statements, so I'd like to draw your attention to the disclaimer at the end of the presentation. And now to Manuel.

Manuel Ferreira De Oliveira, Chief Executive Officer

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Thanks. Good morning and thank you Tiago. So, it's again a privilege to share with you the results that we published yesterday and ratifyed the Board yesterday corresponding to the first quarter of this year. And I'll follow the presentation that I assume you have in front of you. I'm already in page three where we basically summarize the highlights of the three business units that we run. In E&P, the negative highlight is what everybody knows the deep decline in crude oil prices. In Refining and Marketing is unfortunately the incident or the fire that we had in the Sines refinery on the 17th of January that which I will refer later on in this presentation and that cost us in terms of EBITDA and EBIT €57 million in the quarter. As far as the Gas and Power business, the environment was, the economic environment caused the reduction in sales that obviously impacted results as well as time lag between the supply contracts and the sales contracts.

Finally, we just want to emphasize that throughout this quarter and I'll refer again to it later that we have worked hard to ensure that we have liquidity for us to finance the projects, that we have ongoing well into the future.

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In the following page, we can see the P&L, the profit and loss account of our corporation. We closed the quarter with a net profit of €49 million as you see there the EBITDA of E&P declined as a consequence of my previous comments and the other numbers you can see them in front of you. There is nothing relevant that I should emphasize on this page. With the exception of seeing that the results in Refining and Marketing even with the fire that I referred improved versus the previous years which is fundamentally caused by the very good performance of our distribution business.

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Looking at the operating data, summarized in page five, we can see that work in production that fundamentally comes from Block 14 offshore Angola and from two fields the Kuito and BBLT was 13,300 barrels a day. The net entitlement production is lower. It could be a surprise to many of you why with the lower crude oil prices the net entitlement production is reduced, is lower than the previous quarter, that has to do with the level of depreciation already accounted in the first, in the two fields that were operational during the quarter, Kuito and BBLT. The third field that Tômbua-Lândana as you'll see in the numbers was not under production during this quarter and news of that data will refer to them. As far as the refinery margins slightly below previous year, but the event was not, refinery margin was the crude processing in the refineries that declined more than 10 million barrels affecting obviously the results. This declination came from the fire in Sines and from a two week outage in the Porto refinery due to bad weather conditions. We have a very rough sea in front of the refinery that will occured simultaneously with the fire in Porto and durng those two weeks we could not unload crude oil in the refinery, affecting us with the crude oil process. As far as the sales of products in, fundamentally in Iberia, Portugal, and Spain, you see a big increase in the volumes that is a consequence of the acquisitions we made last year. And I want to emphasize with very good performance. In terms of natural gas sales, the reduction in volume comes from two things, two components, one that is due to the fact of not, we were not present in the trading activity. So, we did not sell in international markets any of the volumes because there was no trading opportunity for trading. Additionally, it was a declination in the power sector as well as some declination in the industrial sector. As far as power generation the numbers talk by themselves.

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In the following page and one-by-one business unit, go into page seven. We can see the production, the net entitlement production for the three fields that are operational, one of which Tômbua-Lândana field actually was at the zero production. Why zero production? All the production in these three fields was affected by OPEC cut of Angola –Angola commitments to OPEC cuts that gave instructions to reduce production. Second, also to certain maintenance activities that took place in order to reduce the effect and respond to indirectly to the OPEC cuts. Additionally, the Tômbua-Lândana field is preparing itself for a new stage. As you probably remember the platform that is already in place in Tômbua-Lândana will be commissioned throughout the third quarter of the year and actually up and running in the fourth quarter and rise in production from 0 to 130,000 barrels a day by the end of 2010 for the total Tômbua-Lândana field. As you remember the investment in this field is about $3 billion, which is running on schedule and on budget. So that's the highlights for E&P. Another highlight that I don't need to emphasize is the extraordinary relevance of the start up of the long duration test for the Tupi field that is up and running as from the 1st of May as you well remember.

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Now to the Sines refinery. The fire that happened in the auxiliary plant of the steam and power in the refinery is one that was fundamentally caused by poor design that took place nearly 30 years ago. I want to emphasize the professionalism, the dedication and the competence of our colleagues at the Sines site, it's actually under normal circumstances the outage of the refinery could have been much longer than it was. The refinery has been up and running under normal conditions yes from the 1st May and was shut down for 38 days from the 17th of January. But after 38 days, only we did not have running the two most valuable conversion units which is the FFC, the catalytic cracker and the alkylation unit. Those units were up only on the 27th of March. The cost in terms of gross margin loss was as I referred to you about €57 million during this period. The real number was this plus €2.5 million, so €59.5 million, although the 2.5 was already included in the business interruption insurance. Our business interruption insurance policy applies only after 60 days of outage. So, had the outage been longer than it was we have been covered by the business interruption insurance. So, fortunate to everybody we managed to put it running within the 60 days period.

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Now moving to the data from the refinery and it is affected by this extraordinary event. In page nine, you'll see the crude processed as a result to you, but now I emphasize the product sales, so the product sales were maintained in 3.9 million tons with reduction in exports and I remember that we basically export fuel and gasoline plus aromatics benzene and paraxylene and you see that from the numbers the relevance of the Spanish market in the numbers. We sold to our direct customers in Spain 1.3 million tons and in Portugal 1.5. I want to note that in Spain we are not present in the marine bunker market that if we exclude that certain market we have basically the same sales volume in Portugal and Spain, a major achievement for a company with our profile. Margins had been positive and the results of the business unit supported by this activity.

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So, moving to the Gas and Power business, you see there that the volumes were reduced drastically by 27%, but they fundamentally were affected by the trading volumes and by the electric market, electrical market. The electrical market a consequence of the high levels of rain during the winter that reduced the consumption of gas. In terms of the home market, the consumer market actually the sales increased within the regulated market that as a consequence of the increase of new homes connected to our distribution network.

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In terms of, to close my comments, in page 12 you have the actually repeated our profit and loss account. So, I emphasize that within the results of the associates now of €70 million include some, we unconsolidated our participation in CLC and other companies with material relevance I assume about €3 million additionally at movements from the consolidated numbers and affected what and comes from net profit directly from the associates, initiating this in compliance with forthcoming guidelines from the international accounting standards.

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Moving to the next page, I refer to the CapEx. The CapEx is about €96 million concentrated in refining, is basically the forthcoming, is basically the development of the upgrading project. I wanted to share with you that in this project we have already placed orders that totaled €385 million for the conversion project and that is under bid analysis. That means our purchasing team has the bids on the table for another €300 million. So, we anticipate as the materials are starting to be delivered that we have to, that we will increase the payments for the development of this project. The project is on schedule, in both refineries work is on the ground and we expect, we have no data to expect any surprise. The two engineering firms that are working with us are fulfilling their duties according to our expectations. As far as E&P, the most of the investment in this period went to Angola and to the start-up of the Tupi field. The other investments are basically exploration in the different projects that we have fundamentally in Brazil and both onshore and offshore. The investments in Gas and Power are basically in the network expansion according to our commitments to increase or take the natural gas to about 20,000 to 50,000 clients a year in incremental terms.

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Our balance sheet is shown in page 14, also it talks by itself, it shows that we have capital employed of about €4.4 billion within which we have work in progress that is slightly above €900 million. So capital employed that is not generating an EBITDA, but I would say of the order of €900 million.

Anything, everything else is on the page. As you can see our net debt to equity is now about 95% and as you already know those who have been in touch with us, this is a variable that we are controlling and that we will be addressing in the forthcoming future. As you see in the forthcoming page, our finance department, our CFO and his team have been working towards the change of the profile of the timing of our debt. We have now only 29% of our debt is short-term, 71% is medium and long-term which is inline with our strategy. Throughout the period we have contracted another medium, long-term debt that was actually announced yesterday of €700 million from, it was from a bank consortium. It was in good terms as far as we concerned, it was over subscribed and that led us to a current liquidity of €1.7 billion which in terms of liquidity led us develop our transformational projects well into the first quarter of 2011. So, we are relaxed in terms of liquidity, although we maintain our work towards to ensure that we not only have liquidity but we also have balance sheet debt to supports the reference terms that we shared with you before.

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In terms of page 16, in closing I would say that and some outlook for the forthcoming period. We see that we will maintain production at the level of the 1Q during the 2Q. However, we see increases particularly in the second part of the year of volumes due to the entrance of Tômbua- Lândana field by the end of 3Q '09.

As far as our Refining & Marketing business, we continue to take benefit from the synergies and volumes that came from the acquisitions of last year in Spain and Portugal from Esso and AGIP. And we now benefit from the refinery that is up and running at full capacity – with full capacity capability. However, because of the refinery margins as you probably know and due to optimization of margins, we are now running at 70 to 75% capacity. We at this moment are gearing the refinery to gasoline, maximizing gasoline production due to the better margins that we have there. On Gas & Power, what we see is that on gas and power and to conclude what we see is that the mismatch between the sourcing contracts and marketing contracts is now being converging, and we expect to convert to normal margins as from the second quarter of this year to third quarter. This would be a transient quarter between the high-level of mismatch to what we expect in the third quarter. As far as financials, I've already referred to you the liquidity that keeps us a good position to look ahead and I'm in a position to tell you that – after the internal review of the CapEx for this year, we see that our CapEx this year would be below €1 billion. So, we look ahead with – without any concern as far as the transformational project are referred to. Now I'm available to answer to any questions from you and my colleagues are with me and here we are to take up your questions. Thank you for your time.

Questions & Answers Session

Theepan Jothilingam, Morgan Stanley

Hi, it's Theepan. Good morning Manuel. Good morning Claudio. I just wanted to ask three questions actually. Just firstly to Claudio whether you could give us any details on the terms of the syndicate loan perhaps the maturities and the interest rates? That would be great. Secondly, sticking to financing, I just want to know what the process would be in terms of increasing the loan facility from the EIB from €300 mln to €500 mln whether that's still available? And then lastly, I thought there wasn't any sort of slide or comments on Brazil, I think you mentioned the EWT starting at Tupi. I was wondering whether you could give any indications on flow rates or your thoughts on how it was going and also the progress being made on the drilling of Iracema. Thank you.

Manuel Ferreira De Oliveira

I will take the third question if you follow me and then Claudio will take up the two questions, the first two questions. As far as Brazil the EWT is running according to old expectations as you know, the production limitation is related to the allowance for flaring of gas, so the production is going unlimited by that and it is not the volumetric production that matters it is the understanding of the flow of liquids within the reservoir. So, if there is a comment I have to make is that we are optimistic in terms of the reality is better than what we expected. Iracema there is a well being drilled. We are not, I'm not allowed according to the agreements we have to reveal details on Iracema drilling project. But I can simply tell you that it will be news consistent with the good news that always come from that part of the world. That's the maximum I can say. So, the well is drilling under normal circumstances, already well into the reservoir with satisfaction for all the operators. So with this cautious statement but positive I will pass the word to Claudio. Thank you.

Claudio De Marco, Chief Financial Officer

Okay. As you know we signed yesterday €700 million loan and it is a credit facility in the form of floating rates notes. And this credit facility is part of Galp financial strategy to support the transformational execution project. And secure to Galp a comfortable position in terms of both financing and liquidity. The transaction was a great success and very well received by the market and this is a clear sign of the strong support of the financial community to Galp Energia growth strategy. The demand was higher, was strong and it was twice the initial target amount of €500 million. In terms of maturity, the final maturities of full year and the average maturities of 3.6 years and these because the reimbursement period is 40% after three years and 60% after four years. In terms of price, the price is based on Euribor with an additional spread of 312.5. The facility was arranged in a club deal format and that was participated by 14 domestic and international banks being coordinated by CGD and Santander banks. About the other question EIB, in last March, we signed a contract for €500 million. We have just €300 million since the end of March and the other portion of 200, we expected to sign a final contract in June.

Kim Fustier, JP Morgan

Yeah, hi, good morning gentlemen. Just going back to your new CapEx guidance of €1 billion for this year, I was wondering if you could give guidance on how that's broken down between the various divisions and also within what projects you've delayed and also if you could give us guidance on 2010 CapEx if possible? And then secondly your gas sales volumes were down 27% year-on-year what is the underlying fall in gas demand in Iberia, if we exclude the impact of hydropower generation in 1Q? Thank you.

Manuel Ferreira De Oliveira

We start with your last question. The gas business, the decline in gas volumes came essentially from, first of all trading which is an activity that we do work, we call opportunistic trading. That declined basically more than 200 million cubic meters. Then in the home market the declination in industry was 9%, in the regulated business in distribution, it's slightly increased. So that's the performance of the gas market. As far as the CapEx we as you are aware. We have committed to the market throughout the second Q, we will be presenting to the shareholders and to the investors. How are we rethinking our business plan? We have not yet concluded that exercise as soon as we have it, we will share with you. Our present estimate of the CapEx is of this order of magnitude is slightly below €1 billion and the big number that is not included here is the investment associated with the combined cycle plants. The bids are on the table and we have not yet awarded the contracts and we are discussing the timing and the scope of that project. I don't know, I think Claudio can give you some additional numbers that conceptually there is no change in any major projects that we are developing.

Claudio De Marco

In terms of portion in the new update CapEx, 35% is related to Refining & Marketing business about more or less than 30% is related to E&P and the other is in Gas & Power. And as Manuel say the delay and the reduction of investment is linked to the Refining & Marketing segment and the Gas & Power segment.

Iain Reid, Macquarie

Hi, good morning gentlemen just coming back on the financing and the CapEx, is there a change going on here in terms of what you told us at the end of last year because then you were talking about raising capital and now you are talking about bank debt and some and shaving down your CapEx, is there a kind of a subtle or not so subtle change going on here in terms of what you expect to do and how you see your capital equation working out this year, next year? And do you still expect to breach your 100% gearing limit some time by the end of the year or early next year, in which case you'd have to raise more capital? That's the first question. Second one is, in Angola I just wonder whether you could give us an estimate of where you expect to exit the year in terms of production as the TL field starts to ramp-up? Thanks very much.

Manuel Ferreira De Oliveira

Okay. So, the first one. We have not at this stage changing anything. We are just being consistent with what we told you before. We basically said and I will repeat that the first priority was to ensure peace of mind in terms of financing the transformational projects that will make ourselves a totally different company by 2012, so within three or four years. So now we have the financing in place. So having the finance in place, we have the time to, without any pressure to address the balance sheet issue. As we told before we are looking at all the options that are available and with consensus from all the shareholders in order to ensure that we maintain the ratios that we shared with you before, debt not higher than equity and EBITDA ratio between debt and EBITDA not higher than 2.5 times. That's the guideline that we've informed the market that's what we are doing. So but the first priority was ensuring that we do whatever we have do without any pressure that milestone has been achieved. Now we are working on the second step of, component of this exercise as soon as it is completed, indeed, the first people to know them would be our shareholders and the financing community. We hope to do it, we hope to do it throughout this quarter. So, the first step what we basically completed was financing and we are looking make obviously to the CapEx and ensure that we do not start-up any CapEx that any activity whose review is under consideration.

Iain Reid, Macquarie

Just one point on that Manuel. Is there a chance that maybe the CCGT program might not happen at all?

Manuel Ferreira De Oliveira

We are not closing any chance at this stage. I ask you the favor of not forcing me to answer that. We have all the piece of paper in front of us and we will take the rational decision. So as far as the CCGT project we have the bids on the table, so we know how much it costs. And we are putting all the combinations together to take a decision shortly. I apologize for that. As far as Angola, the uncertainty of Angola is the production of Angola is the OPEC cuts, it is the first time that Angola actually is the President of, leading, as the President of OPEC. So, we are submitted to their international commitments. We have the major milestone at the end of the year with the startup of Tômbua-Lândana. Tômbua-Lândana will kick off with a relatively small production in the order of 20 to 30,000 barrels a day and then goes up to 130,000 barrels a day within two years or so. So, the project, our project is on schedule, on budget and the first output would not be sacrificed by OPEC cuts because there are heavy crudes that will be taken out before Tômbua-Lândana. So, that's everything I can say about that. Our, we will have under normal circumstances, higher production in the second part of the year than in the first part of the year.

Mr. Hootan Yazhari, Bank of America Merrill Lynch

Good morning gentlemen. I had a quick question with regard to the extended well test of Tupi. I was wondering in terms of recovery rates whether there was any upside to the recovery rates that you initially indicated at Tupi and thus whether the 5 to 8 billion number could move up from there? And also if you could give us an update on the other high impact wells that you're potentially drilling this year i.e., BM-S-8 and BM-ES-31? Thank you.

Manuel Ferreira De Oliveira

Okay. So, as far as the recovery rates, I think it's too early for us to comment on that, too early to that. The major, if there is again we use very frequently in this company the word transformational, transformational event in the pre salt fields is the use of CO_2 to increase in a relevant manner the recovery rates of those fields. That is a technological challenge and that could change substantially the recovery rates on those fields. But that's an issue for the future. So, the ability and all the tests will be done. The studies are being developed that will be the event to follow and I'm not in a position and nobody is to really give you either positive or negative expectations on that issue. We technically know that the use of CO_2 for, to increase the recovery rates of reservoirs of that type would be highly efficient, however, there are technical changes to challenges to over come. And as far as and as you know there are fields nearby that have sufficient CO_2 to be applied for, to increase the recoverability of these fields. As far as additional drilling in the Espírito Santo basin, we have it on plan to do in the second part of this year. This schedule is always subject to other possible priorities in the use of the rigs. So far we have nothing new to tell you, we expect the well to be completed this year and we have to tell you that we expect good results we are used, we are used to good results coming from that area, but I cannot tell you anything else. Thank you. Hootan.

Oswald Clint, Sanford Bernstein

Hi, good morning. Just two quick questions, please. The first one generally, just on your refining operations, could you just tell us how quickly or how easily it is to switch over to more gasoline production and therefore I assume we could see some more gasoline volumes coming out in preference to diesel? And then secondly

just again back on Brazil but perhaps you could tell us if there is anything new on your onshore Brazilian operations for some of the recent discovery news flow in that region? Thank you.

Manuel Ferreira De Oliveira

Okay. As far as the refining issue, it is not easy task to change like, to change from gasoline to middle distillates. Our refinery is gasoline oriented. So, you can do it by crude switching. This is and we are very used to do. So and there are certain components that can bring flexibility, but fundamentally with the same crude oil, the same processing unit, the flexibility is there, but is not big. However, we have, operationally the flexibility by using different types of crudes or crude mixes. So, at this moment we are maximizing the production of gasoline.

As far as Brazil onshore, this is a small project that is going on in Brazil. We have already discovered, as has been announced both ourselves and Petrobras nearly 15 small discoveries. So, now we have putting together a business plan, submit into the national agency so that we can see the levels of production that we can achieve within the next three to five years. It's still too early to give you guidelines on production levels. As you know these are wells that are very cheap in comparative terms, one well would cost, is costing about $2 million. We have drilled, the success rate of our drilling onshore has been, in between 20, depending on the area between 25 and 35%. We are in three basins. We are satisfied with operations so far. The business plan for developing the discovered reservoirs some of them are already been presented to the National Agency of Petroleum in Brazil and none has been fully approved yet and as soon as we got a business plan for each basin we will share it with the investors. We do not expect major volumes out of the discoveries but they will offer a decent and attractive return for the investments made.

Lydia Rainforth, Barclays Capital

Good morning gentlemen. I have two questions, please. The first one is could you just talk us through what progress you are making in terms of cost cutting in each of the divisions? And then secondly on the Sines refinery, could you just walk me through in more detail what happened in terms of that fire and what caused the fire and how you minimized the risk of something similar happening again going forward? Thank you.

Manuel Ferreira De Oliveira

Thank you, Lydia. These are two very, very, very operational questions that I'd be proud to answer to you. The first one is cost cutting. If you know any company that is not doing that I would be surprised. So, we are focusing hardly on cost cutting. We have actually internally a cost cutting team that is presenting ideas in different fronts of the company to for that to contribute also to the declination of margins that we see. We cannot give you any guidelines at this stage. The team has ambitions on the projects, but I would expect this year to have to reduce our costs at least €40 million, at least €40 million this year. But it's a hard task in the present context. The work will be done as professional, yes, we can. As far as the fire itself in Sines, let me tell you what happens. A refinery has many processing units, many is a, refinery likes Sines occupies an area of nearly 350 hectares of land, full of technology and so. In the heart of the land there is a place which is very safe, is a place where you produce electricity and steam and from that place, you maintain the refinery running. The electricity network always has connection to the grid as backup, the backup facility.

What happened is one of the steam turbines that was running, that was up and running and its speed went above the limits. The controls did not act and when acting there was a reserve flow in steam that increased the speed then lubricant oil was exposed to higher temperature and then the fire started. The cables, that is an area full of cables, cable, electrical cables, those cables were there from the beginning of the refinery which was built 30 years ago. In those times the cables were inflammable. Today any electrical cable would not be easily exposed to fire. So, the cables got fire then they propagated themselves to the boards, to the electrical boards and collapsed the refinery completely. The electrical boards and of that site, as in any other refinery are built to measure. They have not off the shelfequipment. So, replacing them is a major task. It was, I tell you as an engineer the least probable event that we could consider in the refinery, but when it happens it has major consequences, not in terms of material losses, not in terms also of safety or personnel injuries. Actually from that point of view is the best accident that you can have in a refinery. However, in terms of outage is the worst one. So, the work has been done and I want to mention because I owe that extraordinary performance of one of our suppliers which is a Portuguese electrical company called Efacec that worked day and night to ensure the replacement of the electrical boards in a timing that anybody in the business considers near miracle. So, the work is done. The refinery is up and running. The cables are now cables that are not exposed to fire and everything else now is back into normality. Thank you for the question.

Jason Kenney, ING

Hi, there. I was just wondering about the arrangements that have been made for the sale of Tupi oil throughout the extended well test and what prices could you expect to be achieving relative to benchmark prices?

And then secondly, your source please on the timing and margin impact with the refinery upgrading investment, is it still anticipated to see maybe 3, $3.50 uplift over time?

Manuel Ferreira De Oliveira

The first one, you see the Tupi EWT is a technological test. So, we are not looking in our numbers in a relevant manner for the crude oil facilities. It will produce notwithstanding that something depending on the test that will be going on between 10 and 14,000 barrels a day. Obviously because we have a 10% of it, one-tenth is our. We sell it to Petrobras in a contract at market prices. So, it's linked to the, not crude oil with the quality differential nothing differential. So, we're not taking as you know in these consortiums each consortium takes its own oil and sells it, that how it works everywhere. Because of the small volumes it does make sense that we take just those volumes ourselves, we sell it to Petrobras and they will take care of it. So, the materiality is irrelevant for us. However, I emphasize that Petrobras pays us at international prices with quality and location differentials, just a normal sales contract. As far as the investment in Sines, you see the tougher of the context for refinery margins, the more important is the refinery in Sines because we see declination in the market of fuel and then as times goes by the crack between crude oil and fuel would be reduced and hence the crack between fuel and diesel, middle distillates will be increased. Even in today's circumstances at today's price which is I would say a difficult context for refineries the investment is highly attractive, the cracks are between fuel and middle distillates are above 160, $170 a ton. So we pursue the investment and at highest possible rate

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limited by the necessary timing that the project of this magnitude takes. We see the project on schedule and so far we have no reasons to say that this is not on budget.

Mr. Pablo Pena-Rich, BPI

Hello, good morning. Just need to clarify this issue in the Sines refinery. Will it still have any impact in refining margin for second half of the year? And if so, if you could give us some clarification of the refining margins spread you expect for the quarter? And lastly the second question is, I'm not sure if it was answered or not regarding the financing, will the new loan delay the announcement of the financing plans for E&P activity in Brazil or you still expect it for the first half of 2010? Thank you very much.

Manuel Ferreira De Oliveira

To begin the first question the fire is over, so the refinery is back into normality. So, refinery, the refinery margins of Sines would be determined by the value of the commodities it produces. So, it's no longer, so we should forget about fire for the second Q. As from the 1st of April this year the refinery is back to normality, so, without any penalty on the refinery margins. So, back to the financing the new loans represent the execution of the strategy that we announced. That which is offering, giving priority to have liquidities, to give us time to do the actions that will be announced in due time. So, that whatever we do is not under pressure of liquidity. That was the key strategy that we announced and we're executing. As far as the plans that we will make public that as soon as they are complete we will be immediately announcing them. And I emphasize the fact that whatever we do has only one objective to create additional value to the company versus the present status. We hope as we said before that throughout this quarter we will be announcing the conclusions of this debate once they are approved by our Board.

Luis Fañanas, Deutsche Bank

Hello, good morning to everyone. I have two very quick questions, the first one is, I have seen you have increased the proportion of the fixed debt since the end of last year, can you give us an indication roughly

which is the cost of this fixed debt? And the second one is going back to the refining margins in the second quarter, as you have just mentioned everything is back to normal, which is spread, do you think to have in the second quarter and as a bit of guidance for the rest of year against the benchmark in the refining segment? Thank you.

Manuel Ferreira De Oliveira

Okay, so as far as the refinery margins, guidelines you see we sort of plan it the operations of our refinery on a weekly basis. So, we look at the – you see we cannot in the present context that we cannot see refinery margins beyond the week. So, we sort of linear optimization of programs we run the – we choose the type of crude and the loads factor of which refining unit as a function of the refinery margins that we see a week ahead.

So, we'll be doing that in the quarter, that's the only strategy that we can have in turbulent times. However, we see that we traditionally the second quarter is the quarter where the gasoline market is more active typically from pushed by or pulled by the consumption of gasoline in the USA and I do not comment anymore about that.

So, we see now the gasoline market is very active, we'll be doing that, working for that. The premium that you referred before versus the benchmark is typically not much different from what is called the location premium which is the difference between FOB and CIF quotations and which is a function of the freights from either Lavera or Rotterdam to Sines. So there is no, no other miracle on that. It is also affected by the efficiency of the unit during that period. If our units are operating in a non-efficient manner, the refinery premium is penalized. Because Sines came out of a large maintenance outage last year, so it has all the units well fine tuned so we see no penalty from the performance of the units. As far as Porto is concerned again it's in the middle of the cycle so with units very efficient. The start-up of the co-generation plant in Sines also brings up which is now is staring up this month. We will also increase the energy efficiency of the Sines refinery contributing to better premium from the benchmark refinery, okay? Sorry, the second question, I will let Claudio answer you.

Claudio De Marco

Yeah. About the cost of fixed rate debt as you know our fixed rate debt include the 300 of the last, over the last transaction with EIB at a cost of 3.92 and including this one, the total cost of the fixed rate is 4.6. What is important to consider is that our policy has a good balance between the control of the cost of debt and to reduce the interest rate of volatility risk.

Anish Kapadia, UBS

It's Anish Kapadia from UBS. I've got three questions please, firstly, I was wondering if you can give some guidance on the Gas and Power profits this year, given the, you got the strange effect of the margins coming in? Secondly, there's been comments from the ANP that not going to be granted extensions on your licenses for a number of blocks that you're involved in, Block 8, 21, and 11. Can you just comment on what impact that will have? And then the third question is on the marketing business, I was wondering if the guidance on the profitability of the Eni and Exxon assets have changed given the demand scenario we're seeing the is year, and if you can compare the profitability of those assets to your existing marketing assets?

Manuel Ferreira De Oliveira

Okay, hello. So, first question, starting with the ANP rumors. We do not mandate ourselves by rumors, I was actually in Brazil weeks ago. So as far as ANPB we have no indication whatsoever that they will not take the normal processes that they take, that they have taken. So, I was actually with Chairman of the ANPB in Rio. And I see the actions as normal. We submitted all the evaluation plans. They have been approved in all the blocks. There is one, actually is 21 that is still under finalization of discussion. This is the only one that has not yet been approved. But, we see no concern whatsoever as far as its approval is concerned. So, as far as we are aware we have no evidence to have any concern or to express any concern as far as that is referred. To the G&P profits, as you know our power profits are minored in the context of our results so is gas projects. We see the second part

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of the year as a normal year. So, looking at historical margins we expect them to be like they were. But, in this first year, is a transition from high price environment last year to a low price environment as we see it in the first quarter, six months of this year. And we are suffering from what could be called time lag effects, the difference between the supply contracts of gas and the marketing contracts. The first one, we were penalized, the second quarter is a transition because there are six months involved in the acquisition formulas and that the second part of the year is back to normality, that's a guideline I can give to you. As far as the Eni and Exxon acquisitions what are we doing we are actually rebranding at this stage at the stations. The market study indicates that after rebranding the retail sites increase or are having better throughput from the test that we have made. The people is highly motivated and synergies that we are achieving on the ground are ahead of our expectations. So, we informed the market about the expected synergies when we announced the transaction. And if there is a guideline I gave is that they will be better than those announced. So, which is very good. As far as the distribution margins themselves they are at this moment in a good level whether they will be maintained or not we don't know, but we are satisfied with the acquisition, the results we are taking from it are above our expectations and above the terms that we have announced when the acquisitions was made.

Tiago Villas-Boas

Okay. Thank you very much for your attendance and see you next quarter. Bye.

Manuel Ferreira De Oliveira

And good luck to all of you. We all need luck in the forthcoming quarter. Thank you.

Galp Energia, SGPS, S.A.

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