



Portugal

Raising the bar for the energy market

COUNTRY PROFILE

COUNTRY NAME:
Portuguese Republic

POPULATION:
10,605,870 (July est.)

AREA:
35,900 sq. miles

GOVERNMENT TYPE:
Parliamentary democracy

CAPITAL:
Lisbon

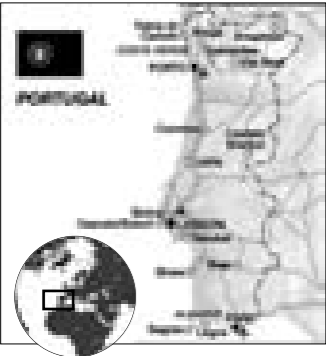
GDP PURCHASING POWER PARITY:
\$204.4 billion (2005 est.)

GDP REAL GROWTH RATE:
0.7% for 2006

RELIGIONS:
Roman Catholic (97%),
Protestant (2%), other (1%)

IMPORT COMMODITIES:
Machinery and transport
equipment, chemicals,
petroleum, textiles, agricultural
products

EXPORT COMMODITIES:
Clothing and footwear,
machinery, chemicals, cork and
paper products, hides



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▶▶▶ CHANGES ABOUND IN THE ENERGY SECTOR. AS LIBERALIZATION AND PRIVATIZATION PLANS UNFOLD, COMPANIES ARE FACING INCREASED COMPETITION, CUSTOMERS ARE LOOKING AT MORE CHOICES AND PORTUGAL IS WORKING TO BUILD A SINGLE IBERIAN ELECTRICITY MARKET

Reshaping, boosting and unifying the sector

For much of its history, the Portuguese energy sector has been comprised of a few state-owned companies; today however, Europe's western-most country is undergoing a series of important changes. In 2004 the market began to open up, finally giving customers freedom to choose their suppliers, and now the National Energy Strategy is shifting its course. Portugal is putting a lot of effort into liberalizing the energy sector and preparing the Portuguese pole for the Iberian market, and the sector is being further reshaped, boosted and unified into a single Iberian electricity market called MIBEL, Mercado Ibérico de Electricidad.

Liberalization is being carried out through the ongoing privatization of large national producers and distributors such as Galp Energia, REN (Rede Eléctrica Nacional) and EDP (Energias de Portugal). The Portuguese state budget for 2006 forecasts a privatization revenue of almost \$2 billion, mostly from the sale of stakes in energy companies. In the case of Galp, the government will be limited to a 10 percent share after its planned initial public offering (IPO) at the end of 2006, while Ren will be privatized at 50 percent. EDP, a €10 billion company, has already been privatized at 80 percent and has subsequently been listed on the stock market. Galp and Ren will follow suit.

The government's strategy, which is based on finding a balanced structure of energy production, has three principal objectives. The first is to guarantee the sta-

bility of its energy supply through the diversification of natural resources and energy services with a view to promoting efficiency in the energy supply and demand chain. Secondly, the strategy seeks to promote the competitiveness within the economy to favor consumer protection and manufacturing. Its third goal is to adjust the national energy sector in accordance with environmental criteria in an effort to guarantee environmental sustainability of the entire energy process.

In terms of the gas sector, the government is trying to anticipate the timeframe of the natural gas market's liberalization after having set up the single Iberian national gas market MIBEL. Now electricity and gas companies in Spain and Portugal are facing a merging process. José Penedos, CEO of REN, says, "Companies in both countries are reciprocally analyzing each other in order to find opportunities. Small companies which don't have enough capital or the possibility of acquiring other companies will be acquired."

The Portuguese government is also looking at countless new projects. One is a €1.5 billion investment to build various 3,200MW Combined Cycle Gas Turbine (CCGT) plants. New biomass proposals will allow companies to produce energy from wood and better prevent summer forest fires. BP Solar is looking to set up the world's largest solar energy plant in Alentejo, while a new factory in northern Portugal will be building solar panels. Portugal is considered to be in an excellent position to become the first country in the world to harness ocean wave-power for commercial electricity consumption, and plans are underway. Bio-diesel and bio-ethanol



MANUEL PINHO, Minister of Economy and Innovation, is the key decision-maker behind the Portuguese energy sector's reforms and progress.

projects are in the works, and the government is preparing to launch the largest tender in the sector's history in Portugal, with a view to developing more than 2,000 MW of wind generation power, to be added to the existing 1,000 MW. Manuel Pinho, Minister of Economy and Innovation, emphasizes the importance of striking a balance in terms of energy production. All of these ventures will create a unique opportunity for innovation and for developing the country's capital market.

Another growing market on which Portugal is capitalizing is renewable energy, primarily supplied by hydropower and biomass sources and wind power, which have a huge growth potential. Mr. Pinho explains, "Trying to reduce our dependency on nonrenewables drove us to make more investments in renewable energies and to promote measures improving energy efficiency. Nowadays we live in a

world of very expensive energy, so we must be actively looking for alternatives."

The U.S. Department of Commerce estimates that by 2013, Portugal will be the world's third largest producer of alternative energy. A new initiative aimed at promoting renewables is a feed-in tariff which pays renewable electricity producers of, for example, wind energy. About 2.5 percent of the price paid to wind farms for the electricity supplied to the national energy grid must be reverted back to the municipality where the farm is located. This, of course, has led to a large increase in the number of partnerships looking to develop wind projects.

Two other important programs are the Support Measure for the Maximization of Energy Potential and for Streamlining Consumption (MAPE) and the Incentives Program for the Modernization of the Economy (PRIME). MAPE provides public and private organizations with subsi-

dies for investments in four categories: renewables for electricity generation, energy management measures and co-generation, green fuels for transport fleets and fuel switching to natural gas. PRIME, as of this year, allocated \$39 million to be channeled into projects to contribute to the development of the renewable energy cluster.

REN'S IPO PLAN

A changing sector: REN to shift to public ownership

TO keep up with the changing times, the Portuguese government is not only implementing new laws to regulate gas and electricity, it's looking to reshape the national energy sector completely. As a result, Rede Eléctrica Nacional (REN), the company authorized to oversee the national electricity transmission grid, is preparing for its shift to public ownership through privatization and an initial public offering (IPO).

REN is currently 70 percent owned by the state and 30 percent owned by Energias de Portugal (EDP). However, European Union regulators are putting into effect new regulations to alter its shareholder structure, forcing EDP to renounce 25 percent of its shares before the IPO. New criteria will allow companies from the sector to have 5 percent at the most, while other businesses cannot have more than 10 percent.

Scheduled at the end of 2006 or the beginning of 2007, the IPO will take place after the transfer of assets from Transgas is completed, which is likely to happen this year, and also after a new set of regulatory statutes are established to support the privatization process. Four banks are set to be involved in the offering, whose goal is to enable the high-pressure natural gas network and the related reservoirs, caves and terminals to be integrated into REN. The value of the new enterprise is still pending.

According to its president, José Penedos, "It will be a good product for institutional investors because it is a predictable and reliable share and the revenue is stable. Our regulations are considered stable all over Europe." Of course other energy companies will be interested in obtaining shares. Mr. Penedos adds, "This is a way for them to be a part of an enlarged board and to know the activities, inside information and plans for the sector."

REN REINFORCES AND FURTHER DEVELOPS THE ENERGY MARKET

REN: a reliable driving force serving Portugal

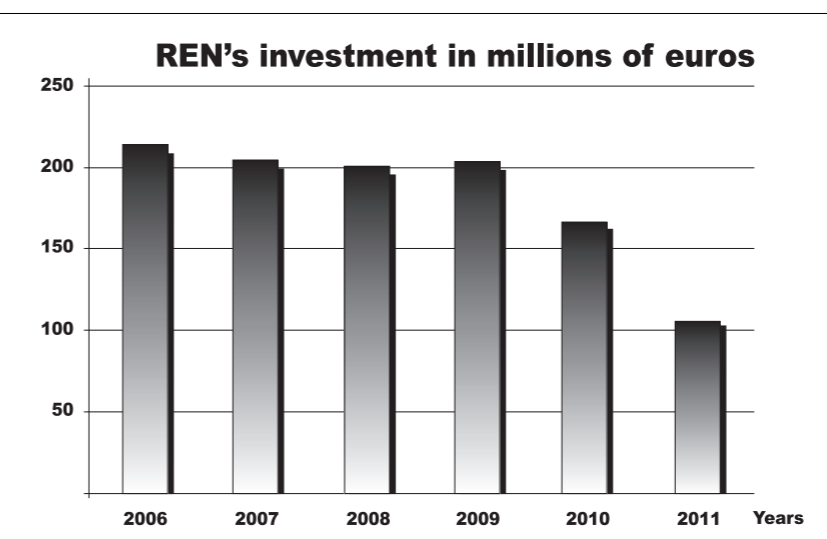
As REN prepares for major changes in the sector, it is looking to establish a platform with the Iberian market and transform into an integrated energy exchange

INITIALLY set up in 1994, Portugal's Rede Eléctrica Nacional (REN) is a solid and expert operator, responsible for one of the country's most essential activities: ensuring a continuous supply of electricity.

While REN holds the concession for the national electricity transmission grid, the network of transmission lines which covers Portugal, it also provides a wide range of services which include transmitting high voltage electricity (400, 220 and 150 kV), operating, building and planning National Electricity Transmission Network (RNT) infrastructures and guaranteeing access to that grid for all players in the sector. The company is likewise in charge of supervising technical aspects of the National Electricity System (SEN), managing the whole Public Electricity Supply System (SEP), forecasting electricity consumption and identifying the need for SEP generating centers.

REN's qualified and dynamic team of almost 600 pursues a philosophy based on transparency, technological leadership, the rational use of resources and respect for the environment. This allowed the company to record a net profit of €110 million in 2005, making it the most financially successful company in Portugal. Investment projections for 2006 to 2011 are estimated to be €1.08 billion, and will focus on reinforcing and developing the electricity grid both domestically and throughout the Iberian Peninsula. José Penedos, the company's president, says, "The key driver behind REN's performance is its operational standards. We are the benchmark for many grid companies worldwide."

JOSÉ PENEDOS,
President of REN



Between 2006 and 2011 REN is planning to invest approximately €1.08 billion.

Such success certainly gives way to growth, and REN's current pursuit of an internationalization and diversification strategy is allowing it to branch out. Its wide ranging capacities have grown to include consultancy, planning and construction services in electrical systems in Portugal and abroad, electricity transmission, telecoms and green certification. REN is also planning and constructing the electricity transmission network towards the renewable energy generating centers, allowing them to connect to the grid and to provide the system with its energy while allowing Portugal to accomplish the European Community directive. REN has also been designated the high pressure gas transmission operator.

Within the sector, changing governmental needs have led to the liberalization and restructuring of the market. Mr. Penedos says, "We are absolutely committed to creating the most efficient environment to facilitate the market." REN is undergoing changes, which will make it responsible for the transmission of electricity and gas. Meanwhile, the necessary grid infrastructure is being put in place to support the transmission of alternative and renewable energies, ranging from wind and hydro to bio-mass and wave energy. REN is hoping that such changes will help it to find a common ground with Spain and ultimately establish a platform for the Iberian market, thus becoming the third regional energy exchange in Europe to have an integrated system.

Ren recorded a net profit of €110 million in 2005, making it the most financially successful company in Portugal



ENERGIZING

PORTUGAL'S FUTURE

Building and operating the national electricity transmission network, REN is facilitating a greater capacity for renewable energy and the development of the Iberian Electricity Market. REN is fully prepared for the IPO and ready for the challenges that lie ahead in the Portuguese energy sector, where the company will also be responsible for the transportation of natural gas, for the related high-pressure pipeline network assets, underground storage and liquefied gas terminal.



ren
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Portugal

AN INTERVIEW WITH REN'S PRESIDENT, JOSÉ PENEDOS

'REN has outstanding operational standards and financial drive'

JOSÉ PENEDOS' long history in the national energy sector has ranged from serving as Secretary of State for Industry and Energy to Chairman of the World Energy Council Committee for Portugal. Today, as President of REN, he talks about the company's success, its alternative energy plan and its policy on environmental protection.

REN has maintained a strong rating despite the ups and downs the global energy sector is experiencing. What have been the key drivers behind your performance?

REN has outstanding operational standards. We are very proud of our performance, especially, for example, because we have not had a single blackout since 2000, which is extremely noteworthy. Also our financial drive and our human resources are important factors. We have a skilled and efficient team.

What are REN's plans in terms of the market and shareholder structure?

I have been preparing to put the company on the market since 2001. A national grid company is a good product. If you do not have companies that are reliable and stable in profits and results in a small market like Portugal, you cannot attract new investors. We need more investors and REN is the perfect company to put on the market. The fact that it is 70 percent owned by the state does not affect our reliability, effectiveness or profitability.

Portugal is developing new, innovative technologies to provide clean, renewable and alternative energy. How do the Priority Investments in Infrastructures Program (PIIP) and the al-

ternative energy programs work?

We are preparing our grid to be effectively compatible with all the wind clusters in Portugal. We are planning to have an additional 4,000 MW in addition to the existing 1,200 MW that we have today and we hope to generate 5,200 MW by 2010.

To succeed in renewable energies, our grids must be upgraded to absorb these new sources of energy. Our investment profile for the next five years, based on €200 million a year, will not only go towards the densification of our grids but towards our substations and networks so that they are compatible to accept all types of renewable energies, ranging from wind and hydro to biomass and wave energy. We are also implementing gas power plants, or Combined Cycle Gas Turbines (CCGTs), in the next six years.

'REN is the perfect company to put on the market. It is reliable, effective and profitable'



One of Ren's most important tasks is transmitting electricity and planning, constructing, operating and maintaining the National Electricity Transmission Network.

These new infrastructures will prepare us to accept all the energy delivered.

How is REN ensuring an environmentally friendly approach of operating in order to protect the natural beauty of Portugal?

We are collaborating with the Instituto de Conservação da Natureza, which is the Portuguese department for public administration in charge of environmental and licensing procedures. The amount of effort in collaborating with the environmental authorities behind the €200

million of annual investments requires a lot of work. In addition to our team, which is skilled in dealing with preservationist issues, we are investing money in environmental publications in collaboration with the Instituto do Ambiente to promote the preservation of the environment.

ONE OF PORTUGAL'S MOST REPUTABLE ENTERPRISES

Galp branches out to become a key player in international energy industry

A winning combination of excellent leadership, a solid shareholder structure, modern technology and environmental conscientiousness have made Galp what it is today: Portugal's leading oil and natural gas company

AS one of the major players defining the Portuguese energy sector, Galp, since its inception in 1999, has evolved into an indisputable leader in the oil and natural gas businesses. Comprised of more than 100 companies, the Galp Energia Group's extensive activities range from the exploration and production of crude, to refining, distribution and marketing of oil products, and the supply, distribution and marketing of natural gas.

Responsible for having developed all of the country's related oil and gas infrastructures, Galp has become one of Portugal's most reputable enterprises. Over the last seven years Galp has proven to be a key player in the national economy, a fixture in the international energy industry and a relevant competitor in the Iberian market.

The company has been able to strengthen its position in the market over the years due to the growth of the business at home and abroad. Its two refineries in Portugal have the capacity to process 15.2 million tons a year. Galp is also aiming at investing up to €1 billion in a refining conversion facility which will allow it to process heavier, more economical crude and obtain higher value products. These investments will serve to increase the company's refining competitiveness and align its production with market needs.

A growing company, Galp is branching out and entering into the electric and wind power generation fields, specifically looking at thermal generation using combined cycle generation plants. The firm recently entered, with a consortium of Portuguese companies, in a tender for the licensing issue of a project in wind power generation. The consortium, in which Galp has a 33 percent participation, is prepared to invest more than €1



Galp is headquartered in Lisbon and is also present in Spain, Brazil, Angola, Mozambique, Cape Verde and Guinea-Bissau.

billion in a vast project comprising the creation of an industrial cluster besides the windmill facilities.

Galp's stability and solid shareholder structure also make it a prime candidate for growth. Italy's ENI and Portugal's Amorim Energia own a significant portion of Galp, and are committed to a strategic plan for growth and development.

The company is currently planning an initial public offering (IPO) in October in which the Portuguese government plans to sell up to 25 percent of the company shares.

One of Galp's strengths is its ability to be creative in developing new ideas and services. The company recently made headlines with its new product, Pluma, a lightweight container for liquefied petroleum gas (LPG). The container has an innovative concept and design and is user friendly, and has thus been huge-

ly successful. Another project the firm is implementing is taking the same automated systems typically used to pay for highway tolls in Portugal and using them as no-cash/no-card petrol payment. The company has other innovative projects in the pipeline that will continue to demonstrate how Galp will provide technologically advanced products to its customers.

Aside from a strong focus on customer service, the company's firm commitment to protecting the environment is visible in its endeavors. The intention to use a combined cycle generation plant as one of the cleanest existing processes in generating electricity is a clear demonstration of this commitment. Investment in wind energy, a pollution-

free system, is yet a further testament to the company's environmental conscientiousness. Galp has also planned to invest to improve the environmental conditions of its refineries.

Besides Galp's operations in Portugal and Spain, the company is also present in Brazil, Angola, Mozambique, Cape Verde and Guinea-Bissau. In Brazil, through a strong partnership with Petrobras, Galp shares 54 exploration blocks. In Angola, together with Sonangol, the firm has participations in six large blocks and in the marketing of oil products. In Mozambique, Cape Verde and Guinea-Bissau, Galp has distribution and marketing activities, being a key player in the economy of those countries.

Galp's hundreds of stations throughout Spain and Portugal offer a wide range of technologically-advanced services to its customers.



PRIVATIZING GALP

IPO in late 2006 set to open up new cycle in Galp's history

GALP Energia, Portugal's primary oil and gas company, is planning its initial public offering (IPO) for October.

The state currently owns 30 percent of Galp, the Italian energy conglomerate ENI SpA has 33.34 percent, Portugal's Amorim Energia has 14.3 percent plus the option of buying another 18.3 percent from Rede Eléctrica Nacional (Ren), and Spain's Iberdrola SA has 4 percent. The government's decision to further privatize the company includes the plan to make up to 25 percent of the company shares available to private investors. The state will retain a minority share in the company.

The IPO can now proceed as a result of the approval of legislation which allows for the sale of Galp's natural gas high-pressure transportation network, strate-

gic storage facilities and LNG terminal regasification assets to the energy company Ren. These measures are part of the reorganization of Portugal's natural gas infrastructure systems and provide the rules for progressive liberalization of the market to be completed by 2010.

Privatization, together with a clear strategic plan, will drive Galp to become a stronger player in the competitive energy market. With its primary operations in Portugal and Spain and exploration and production partnerships in Angola and Brazil, the company will be looking to grow and diversify. Galp has been developing its business on the Iberian Peninsula in the past few years, and is looking to become one of the key players in the energy sector in the Iberian market where it's up against Spain's oil and gas companies.

PIONEERS IN THE FIELD

Innovation, customer service prove key to Galp's success

AS clients and markets become more and more demanding, it takes a highly innovative and customer-service driven company to stay on top. Galp is working hard to differentiate itself from the competition on the Iberian Peninsula, and a number of the company's projects have exceeded traditional frontiers. By consistently partnering up with leading technology companies, Galp combines its services with the latest technologies and offers attractive, quality and pioneering services to its clients.

Aside from the launching of Galp Gforce Diesel, a new generation fuel for diesel engines, the company has inaugurated Galp BioPay, a cutting-edge biometric technology which allows clients to pay at Galp service stations by pressing their thumb to a glass pad. The "paying by fingerprint" method has clearly increased convenience and efficiency and has been installed in gas stations all over Spain and Portugal. Galp Energia was a world pioneer in employing this technology. The system has likewise won various honors, including first prize in the e-commerce category of the *Wall Street Journal's* Technology Innovation Awards as well as the Neuróino prize in the Business to Consumer (B2C) category of Retail and Best Alternative Media.

The company also established its own TV channel, Galp TV, which is broadcast in hundreds of its service stations and provides weather information, news and promotions. Meanwhile, Galp Mobile became one of the very first portals providing mobile internet services to drivers, which include maps, traffic information and research facilities for places of interest. The firm's multimedia points, also located in service stations, offer internet access for free or for a very small fee. Clients can also print out itineraries and maps as well as find other travel information. The booths are installed and overseen by Galp Energia's subsidiary, Fastaccess, and fall within the Portuguese government's program for broadband access.

The launch of its electronic ordering service, or e-ordering, provides a wide range of order management solutions and is one of the first of its kind in the world in terms of internet sales with oil companies. It has likewise been key in consolidating the company's relationship with its corporate clients.

As customer service is such an important part of Galp's philosophy, an e-learning program was set up to provide special training to the company's employees.



The company has integrated internet into its services thereby opening up a wide range of options for its clients.

**AIM HIGH
TO REACH THE SKY**

High calibre people,
High capability,
High quality products and services,
High energy.
Why shouldn't we reach higher?

