

## Galp Energia Fourth Quarter and Full Year 2009 Results and Strategy Update 2010-2014

### Introduction

Good afternoon, ladies and gentlemen. Welcome to Galp Energia's Fourth Quarter and Twelve Months 2009 Results and Strategy Update 2010-2014 conference call. I'll now pass the floor to Mr. Tiago Villas-Boas, Head of Investor Relations division.

### Tiago Villas-Boas, Head of Investor Relations

Hello, good afternoon and good morning to all of you and welcome to Galp Energia's 2009 fourth quarter and full year results conference call. Joining me today is our CEO, Manuel Ferreira De Oliveira, and our CFO, Claudio De Marco. We'll start our presentation with the fourth quarter and full year results overview and following this presentation we will move to our 2010-2014 Strategy Plan Presentation, which will be presented by our CEO, Manuel Ferreira De Oliveira.

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 our presentation.

And now over to Claudio.

### Galp Energia Fourth Quarter and Full Year 2009 Results

### Claudio De Marco, Chief Financial Officer

Thank you Tiago, and good afternoon to all of you joining this call. I will go over the fourth quarter and full year highlights and later Manuel will show you the update of our Strategy Plan for the 2010-2014 period.

### Slide # 3

Let me start on slide number three, I would like to emphasise the main issues of the fourth quarter results:

- The first production from the Extended Well Test Tupi field is included in our results.
- The refining environment continued to be depressed during the fourth quarter, even more than in the third quarter.
- We continued to benefit from the stable contribution from the Natural Gas Distribution business.
- All in all, the 4Q09 net profit decreased 73% YoY to €34 million.



In addition, in line with our dividend policy published last May, our Board of Directors is going to propose a dividend of €0.20 per share in the next Annual General Meeting.

## Slide # 5

Moving on to slide 5 we have to refer that:

- The fourth quarter incorporates all Tupi's EWT production since its beginning and which contributed with a production of 283 thousand barrels, net for Galp Energia.
- This contribution, together with the increase in crude oil prices, were the key to reach the fourth quarter EBITDA level, which was up 18% YoY.

## Slide # 6

And now in slide 6.

- The operating performance of Refining and Marketing business in the fourth quarter, as I said earlier, was hit by the continued depressed refining margin environment and as well by the negative time-lag effect of €19 mln. The full year time-lag effect was minus €56 mln.
- On the positive side, the marketing oil business performance, boosted also by the Iberian acquisition, partially offset the worse performance of the refining business.

## Slide # 7

- In the Gas & Power business, despite the stable contribution from the regulated infrastructure business, natural gas volumes sold were down, fundamentally due to strong hydro electric generation during the fourth quarter. I can say that it rained a lot in Portugal.
- In this segment, I have to mention the start up of Sines cogeneration plant, with an impact on Galp Energia's electricity generation of 165 GWh, 53% of the total electricity generated in the fourth quarter, and as well with a positive impact on the energy efficiency of Sines's refinery.

## Slide # 9

Now let's move on to the profit and loss statement:

- On a quarterly basis, the contribution from both the E&P and the Gas & Power business segments were not sufficient to compensate the strong decline of the Refining & Marketing segment. So, on an EBIT basis, the fourth quarter of 2009 showed a decline of 71%, being further dragged down by higher non-cash costs due to on-going investments and the Iberian acquisition.
- Below the EBIT line, we had lower financial results due to the higher average debt level, partially offset



by a lower debt cost. In 2009 the cost of debt was 3,8% which compares to 5,1% in 2008.

- In terms of tax, the decrease is due to lower oil tax paid in Angola and lower earnings before taxes due to the decrease in operating profit.
- In conclusion, the fourth quarter net profit was €34 mln, corresponding to a decrease of 73% YoY.

## Slide # 10

Moving on to capex, in slide 10, the annual spending was €730 mln, which incorporate the actions identified last May in order to optimize the spending without compromise the start up of the main projects. In the last quarter the spending was €295 mln, well far from fourth quarter 2008 spending of €1,132 mln that includes the investment related to the acquisition of the Iberian subsidiaries of Agip and Esso.

On a yearly basis in the E&P, the capex was focused in development works in Angola's Tômbua-Lândana field and in Tupi's field in Brazil. In R&M an important component of capex was allocated to the refining upgrade project, which is on time and on budget. In the G&P, capex was related to the cogenerations at Porto and Sines refineries and to the gas network distribution development.

## Slide # 11

Regarding the financial Position, in slide 11, the capital employed increased as a result of our intensive investment programme partially offset by an active and diligent working capital management. This effort gave a strong contribution in debt reduction from end of September, allowing Galp Energia to decrease its gearing from 96% at the end of the third quarter to 81% at the end of the fourth quarter 2009.

We have to highlight that €1 bln of our total fixed assets is allocated to work in progress assets which are not generating any return.

## Slide # 12

Now in slide 12, we would like to give you an update of our debt structure.

Total net debt totalled €1.9 billion at the end of the year, with a maturity of the medium/long term debt of four years. The major debt reimbursement amount will take place from 2011 onwards, when the company will be in a different position in terms of cash flow generation, benefiting from ongoing projects, such as Tupi and Tômbua-Lândana, the upgrade of the refining project, and the full synergies from Esso and Agip Iberian acquisitions. I must also point out, that the timing of incremental cash flow generation from those projects will match the end of the investment phase in our downstream projects. Until then and to take us into 2011, we have a liquidity position of 1.7 billion euros, as of end of December 2009.



And now, I handover to Manuel, that will focus on the update of our Strategy Plan 2010-2014.

## Strategy Update 2010-2014

### **Manuel Ferreira De Oliveira, Chief Executive Officer**

Thank you Claudio and good afternoon to all of you. Let me say that this presentation that I'm going to make was just sent to you just before 2 p.m. and I expect it is already in your computers. I will now proceed with the strategy update for the next five years and focus on the update of the status of our main projects now underway. And finally, we will elaborate on our current financing and liquidity position.

### **Slide # 2**

Let's start with slide number two. Let me begin by giving you a picture about the position of our company today and on what we are working on to lead us to our target profile. The recent and current investments on the downstream and upstream, enable us to strengthen our position as an integrated energy company. On the downstream we are close to complete a high investment phase to support future organic growth. The funding needs to support our short term investments are already secured, while the future upstream growth will be supported by the downstream business, particularly from 2011 onwards. All in all, our current efforts and capex in the downstream will allow us to invest in the future in the upstream component of our business. Our strategy is well-defined and I hope well understood by all of you, as I can assure you that the decisions we took to reach the targets that we are proposing are coherent and realistic.

### **Slide # 4**

In slide number four, I'll start to show you the resources that have just being audited by DMAC. And now let me ask a simple question, what are the basis and competitive advantages that support our upstream growth? On our resource base, and I am only referring to contingent resources (3C) we showed an increase of 45% YoY, namely coming from Brazil. I can say that this level of resources is excellent particularly taking into account the large component of our exploration activity that is yet to be done, meaning that the upside, considering only the existing assets, is high and will be material in the coming years. When these resources are developed, the level of reserves upside will be obvious and the true value creation for our company will be materialized.

You can see, I emphasize again, that one of the most relevant results that we are today presenting to you is the audited numbers of our resource base moving from 2.1 billion barrels to 3.1 billion barrels, basically from Brazil.



## Slide # 5

Now in slide number five. In Angola, as you already know, the Tômbua-Lândana project is now ramping up. The platform is in place, wells are being connected and we hope that this unit will be producing 90 kbbbl/d in 2010 achieving at a later stage 100 kbbbl/d. This project is now close to completion on the well site.

## Slide # 6

In slide number 6, I'm referring to the Tupi's pilot project which is developing on track and offering us valuable data for future development of the area, totally consistent with our expectations. The Tupi development is, as I said on track, and it has produced in 2009 283 thousand barrels, net for Galp, and I must remind you that the flow rate is limited, by facilities and licenses, to 20 kbopd. The timing of development of this project from exploration to production was impressive and we are really happy with the results obtained so far. This field as you know has recoverable volumes of 5-8 bln boe, without considering the upside coming from the review of recovery factors, as we know and learn more about the reservoir. By the end of this year, the Tupi's pilot as it is known, or the Tupi first commercial operation, as it could be known, will come on stream with a production capacity of 100 kbopd. That will be a major milestone and the de-risking of all Santos Basin, in particularly the area where we are operating, BM-S-11. The development capex associated with this pilot is estimated at \$3.7 bln, not including the FPSO because it is leased, although including the pipeline cost to be shared by at least the next three modules in the area.

## Slide # 7

Now let us move to slide number seven and talk about the full Tupi development and refer to some major milestones. The next steps that will support development of block BM-S-11 include further tests in the successful Iracema DSTs and in the Tupi NE wells. The second module in Tupi field is in the process of sanctioning and will be initiating production at the end of 2013 and with an expected capacity of 120 kbopd. The main concept for the full development of Tupi field consists, as it is already been shared with the investors, with 8 to 10 FPSOs, the development of which will be basically phased on every two years.

## Slide # 8

In slide number eight I refer to the Lara appraisal works, that are still on going. On Lara another great discovery with recoverable volumes of 3-4 bln boe we are continuing our appraisal works, namely doing additionally 3D seismic as a basis for the seismic interpretation that will help us to understand better the reservoir. In addition, an appraisal well will be drilled during 2010, followed by a DST in 2011. We expect an EWT in Lara to take place in 2013, which in practice represents the beginning of production of another material field to Galp.



## Slide # 9

Let us move to slide number 9. In the coming years, we will execute key exploration activities, as you will see later, we have an intensive exploration program for 2010 and particularly in the Santos basin, which represents as you know an important part of our portfolio. In 2010 we will be drilling one exploration well in each block, BM-S-24, BM-S-21 and BM-S-8. These wells, which we hope will lead us to positive news flow, will take place in new areas with high potential.

## Slide # 10

Now let's move to the Espírito Santos Basin, which is outside the Santos basin as it is obvious. It is another another basin with great potential, where we hold a 20% stake. Currently we are about to finish the drilling of Ambrosia well, which is targeting a post-salt prospect which we expect to be an extension of a neighbouring discovery. As you are aware, in this block we've already identified some pre-salt prospects which will be drilled later. We hope to have positive news on BM-ES-31 in the forthcoming months.

## Slide # 11

Now in slide eleven. Looking at numbers in this slide you can see the intensity of our exploration program for 2010. Besides the drilling program in Brazil, with wells in the BM-S-8, BM-S-11, BM-S-21 e BM-S-24, we also have the exploration wells in shallow blocks in Espírito Santos basin and as well appraisal wells in Angola on block 14 and 32. We will also be drilling an exploration well in Angola LNG project and in block C in East Timor. All together, we will be drilling in 2010, 18 exploration and appraisal wells, which will be a major source of news flow that we hope, will support the value of our company.

## Slide # 12

No let's move to slide twelve. To finish this part of the presentation, I want to emphasise that we also have a portfolio of prospective resources. This portfolio has been reduced, according to numbers given by DMAC, from 2 to 1.8 billion barrels because some of these prospects were included in contingent resources. So, we have a lot of exploration drilling work to complete and we hope this makes up a sound basis for the future production growth. We remind to those of you that are not as close as others on the E&P terminology that prospective resources are identified through seismics and seismic activity, then after drilling we name what is identified as contingent resources, and then, after sanctioning we transform contingent resources into reserves.



## Slide # 14

Now let's go into the downstream business. We show you an illustrative and non-exhaustive diagram that clarifies to you the relevance of the investments that we are making in Sines and Porto. This investment in the upgrade project is critical to our strategy of benefiting from a structural diesel deficit position in Iberia. It is not only a question of volume upside, but also margin upside. The upgrade project will be fully on stream, meaning Sines and Porto will be running hopefully smoothly in the 3Q11, with full year impact in 2012. We will have oil in the second quarter for Porto and oil in the third quarter for Sines. I must highlight that this project will enable us to add value from more efficiency in our refineries, mostly regarding the decrease of energy consumption, a key factor to our refining margin, mainly when crude oil prices are at high levels.

I note to you that 70% of the operating cost in a typical refinery are fuel consumptions. So the relevance of having an energy efficient refinery is of extreme value. The project is on schedule, and as already been referred from 2011 onwards we'll benefit from the margins that will come from the spread between fuel oil and middle distillates. This will offer us a double digit positive impact in cash flow generation from this project.

## Slide # 15

Now let's look at a conceptual diagram that shows you how we can benefit from our Iberian footprint. As you know we have achieved, after the Iberian acquisitions, critical volumes in Spain and Portugal, enabling a geographical balance position in both countries with volumes close to 100% of our refinery output. Those are key to our earnings stability, in an already stable business segment, meaning by that with a lower systematic risk than in refining for instance.

Speaking about synergies, I must remind you that the synergies already captured in the integration of these companies in Spain are ahead of the initial estimate, with 100% of the expected synergies nearly achieved and being consolidated throughout 2010 with an impact on EBITDA going forward.

We are also ready to profit from organic growth with our well fit and existing assets. If in one hand we have an optimized retail network to benefit from organic growth in Spain, on the other hand we are ready to explore the economic recovery after past turbulent times. We believe that downstream business in Iberia will be a major source of funds to support our growth in the upstream.

## Slide # 16

Now let's go to slide number sixteen referring to natural gas. In natural gas supply we are well positioned to capture market volumes and margin growth in Iberia. Starting by the sourcing base, we are currently studying new midstream options, which, we hope, will put us in advantage in terms of positioning when compared to our potential competitors.



We are also anticipating an increase in volumes, due to a structural change in market dynamics, which will fuel natural gas consumption in Portugal, a still immature market. In Spain, we plan to increase penetration, acquiring new customers, such as the recent acquisition of Gas Natural assets. So in Portugal, volumes will increase with market growth, including natural gas consumption by Galp's power projects and in Spain through organic growth gaining market share.

In addition, volumes in the liberalized market are increasing at the expense of the regulated market, with positive impact in our marketing margin. Here, let me just make a point related to tariff regulation. At this moment in time it is on the table the potential end of the regulated tariff in the industrial segment, meaning that the best company, the one that has more know how, best client relationship and access to unique resources will be the one that will most profit from this change in regulatory framework.

## Slide # 17

In slide number seventeen I refer to the natural gas infrastructure. This is a stable business, with a guaranteed cash flow, with a guaranteed return on investment of about 9% for the distribution assets, which RAB stood at €1.2 bln at the end of 2009. In addition, although with contribution below the ebitda line, we have an operation outside Portugal, basically in Morocco and Spain, which offer us a net profit benefit of approximately €40 mln per year.

## Slide # 19

Now let's look at capex, as you can see the graph in slide 19, the profile of our capex changes drastically among the periods of 2010-2011 and 2012-2014. In the first period, our investment is concentrated in refining and marketing, which is basically completing the upgrade project in Sines and Porto. As from that moment, most of the investment as expressed in the right hand side diagram, will be concentrated in E&P fundamentally, in the development of the Santos basin.

## Slide # 20

Now let us move to slide number twenty. There is a conceptual slide that tells you in a diagrammatic manner, how we see the cash flow generation and the capex in the forthcoming years. In the straight line, we see the growth of EBITDA coming essentially from: (i) the Iberian acquisitions and the synergies that will be materialized, (ii) the upgrade project and (iii) the Tômbua-Lândana project and Tupi projects, to be completed before 2011. You can see in this conceptual diagram that in 2010-2011 we will have an EBITDA lower than the capex. After 2011, once these major projects are in place, cash flow generated will be above the capex requirements to support the upstream growth, implying reduction in debt as from 2011.



## Slide # 21

Now a closing statement on the funding issue. You can see that the sources of funds will come, as it is obvious, from the cash flow from operations, and we assume a conservative estimation of our cash flow, and from the liquidity that Claudio as referred to you before. These sources are more than enough, as we see them now, for the period 2010-2011 to support the capex and the debt repayment program that we have. As from 2011 onwards and as seen in the period of this conceptual diagram, EBITDA would be higher than capex requirements.

## Slide # 22

Now in slide 22. We are as you know the most leveraged player to pre salt with a valuable E&P portfolio which is not replicable and we feel very proud and very committed to the development of our projects in the pre-salt basins. Additionally, we have a strong Iberian position that will be leveraged with the upgrade project in Sines and Porto, and with our leading positions in the natural gas and oil distribution markets, we will be generating cash flow to support the growth of our E&P projects.

Last, but not least, we feel comfortable with our funding options that will support the growth in all segments of the businesses.

With this, I'm available to answer any question that you might have and be assured of our commitment to deliver the growth that you expect from us. Thank you.

## Questions & Answers Session

### **Bruno Silva, BPI**

Good afternoon. I have some questions, number one, if you could give us a bit of color on contingent resources breakdown. What was the major driver on the YoY growth and if you are including or not the BM-S-8 and BM-S-21. Question number two is about working capital. There was an important recovery in the fourth quarter and I would like to know if it is possible to know exactly what is the origin and how commodity prices and volume effect could have impacted in this working capital performance?

And finally if you don't mind on capex, I would like to know if in the plan through 2014 apart from Angolan blocks and Block 11 what other investment is considered in the Santos Basin? Thank you very much.

### **Manuel Ferreira De Oliveira, Chief Executive Officer**

Okay. I'll take the first, the third and the fourth questions, and let Claudio answer the second question. So as far as contingent resources, we contracted an external auditor, which is DeMac and they audit the resources.

We do not disclose where the resources come from. But from the diagram you've seen, the growth came essentially from Brazil and conceptually it comes from the de-risking associated with the exploration work completed in 2009. So that's where it comes from.

For you Bruno, let me say that what we deliver to the auditors is all the geological data and all the data that come from the different well tests that are performed, and they review the resources supported by those data. And you've seen the growth that is reported in the documents distributed. We cannot disclose specifically where they are because those are responsibilities of each consortium. So as far as BM-S-11, we maintain our optimistic view on reserves that are between a minimum of eight billion barrels and twelve 12 billion of which five to eight are from the Tupi Iracema area and three to four from the Iara area. And basically what we want to say is that the result achieved let us be very optimistic about this range of numbers.

As far as the capex from 2011 onwards it will be dedicated to the continuous growth in the Santos basin, we referred already that we expect one commercial project with a production capacity of 100,000 to 150,000 barrels a day to be commissioned every two years that will be captured there and also the development of additional fields in Angola as I referred to you. We maintain the exploration projects in the Potiguar and Pernambuco basins, as well as in the Amazon basins that are relevant areas of exploration.

Now I pass the working capital question to Claudio.

## **Claudio De Marco, Chief Financial Officer**

Thank you, Manuel. We improve significantly our working capital management and in particular we improve the receivable turnover, we've negotiate better payment terms with our suppliers, and we've improved also the stock management. In particular, the account payable turnover increased from 21 to 30 days in the operating suppliers, and from 26 to 38 in the investment suppliers, and we reduced also the accounting receivable turnover from 20 to 19 days.

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

Ok. Thank you, Bruno.

## **Iain Reid, Macquaire**

Hi, Manuel. Sorry I want to come back on these contingent reserve upgrades because I think it's pretty important and pretty material and I think it's worth perhaps exploring a bit further. You say the increase results of exploration activities have taken place on BM-S-11 and particularly on the Tupi field. I'm wondering when D&M did this analysis I presume they made their own assumptions for reserves in place and recovery factor on the Tupi field. And I'm wondering if they making, more positive assumptions there which drove this rather remarkable increase. And are they making similar assumptions on recovery factor for instance from the



consortium or are they taking their own view and perhaps being a bit more optimistic on that? I just think it's important if you give us a bit more color on that.

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

Thank you. I wish I could Iain, but let me tell you what we cannot, and I'm sure that you understand the express of any views different than the views of the consortium as far as reserves or expected reserves from any project where we are involved in. So please understand I cannot be specific on the answer to your question. What is the process? The process that we have, you know how auditors work, they take from us the data that we have from all the wells and all the seismic associated in a certain area and they make their own assumptions. So we do not impose on them any type of assumptions. They ask questions and we give technical answers and then they have their own opinion, which is an auditor opinion. So we've clearly three areas in the BM-S-11 that are of high prospect, which is the traditional Tupi area, the Iracema area and the Lara area, all of those represent valuable resources. I want you to know that we also have in the Santos Basin, also a major position in BM-S-21, 24 and 8 and all of them are included in this analysis. So it's an objective, an independent number. Officially, when we talk about expected reserves in BM-S-11, we confirm an optimistic view in the interval that the consortium has already been communicated to the market.

## **Iain Reid, Macquaire**

Can I ask one more question? On the prospective resources, the exploration risk reserves, how much of that is in the Santos Basin roughly?

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

It is the same question. We are moving from contingent to prospective resources, so those prospective resources are associated with prospective leads. They include the Santos Basin but more and more, the Santos Basin is becoming an area of contingent resources rather than prospective resources. As the geology of the area is better understood and better known, they become more contingent resources. But we still have a large component of our prospective resources in the Santos Basin.

## **Iain Reid, Macquaire**

But it looks to me that you are drilling separate prospects in your Santos Basin blocks and particularly in the Bem-te-Vi block and the Caramba block. So I presume these are new prospects which you are drilling there in 2010. So they must be in your prospective resources number.

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

In any exploration program, you only drill to a prospect, so before that you call it a lead. So we call prospects when it is prepared for drilling. And it is obvious, we have identified prospects in basically 8 and 21. Thank you.



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**Iain Reid, Macquaire**

Ok, Thank you.

**Jason Kenney, ING**

Hi, there. It's Jason from ING. So I've got a big picture question if I may. And that's if you can picture yourself in 2014, what is more likely in your opinion: Galp will sell down part of its exposure in Brazil or Galp will sell its gas distribution assets? And if you see neither of these as likely in 2014, what probability would you put on the scenario of not having to sell either of those?

**Manuel Ferreira De Oliveira, Chief Executive Officer**

Jason, thank you for the question. Let me say first, we have no plans to sell any asset in Brazil in the Santos Basin. So what we have and we have already informed the market is a contingency plan for a cycle of low refinery margins. If we have in 2010 refinery environment similar to 2009, in order to meet our commitment of maintaining a strong balance sheet, we will be selling a minority stake in our regulated distribution business. This has been already communicated to the market. We are prepared to do it, but we will do it only and only if the refining environment does not support the levels of cash flow that we need to maintain our debt within the limits that we consider acceptable. So, in legal terms we are preparing everything to do it, but we only do it, if the refinery environment determines that and you know that none of us can make definite statements about the development of the short term refinery environment. Although, let me say, we are seeing signs of recovery in the refining margins.

**Jason Kenney, ING**

Thank you. Can I just ask what your core assumption is for refining margins, say, 2010/11 and then further up?

**Manuel Ferreira De Oliveira, Chief Executive Officer**

In a base case, we see our refining margins going to what I call the minimum normality by the end of next year and then maintaining them basically stable, looking at our benchmark between, \$1.4 and \$1.5 a barrel for EAI standard cracking refinery \$1.4 to \$1.6. We do not expect in our business case a relevant change in the refinery environment, the growth will come from the upgrade project, which will may have a major impact on our bottom-line and the energy efficiency programs that we are developing.

**Jason Kenney, ING**

Thank you. So if you see, sorry if I may, if you see refining margins moving to your minimum normality level by the end of this year 2010 or by the end of 2011, does that mean that you're below the minimum normality?



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**Manuel Ferreira De Oliveira, Chief Executive Officer**

Yes, we are below the minimum normality, so we consider \$1.4/bbl close to our minimum normality. We haven't been there yet.

**Jason Kenney, ING**

But with no sales of anything, if you get back to the minimum normality level, or if it stays at this level?

**Manuel Ferreira De Oliveira, Chief Executive Officer**

Okay, you are pushing me for, but let me say, we are monitoring our debt level and our commitments to the market and that would be the ultimate decision, so it's up to our team to decide the trigger point to call a board meeting and proceed, but at this stage we are being very prudent in making more definite statements of our debt. Let me tell you, that will reduce the debt level and remove all pressure on our balance sheet.

**Jason Kenney, ING**

Thank you very much.

**Manuel Ferreira De Oliveira, Chief Executive Officer**

Thank you.

**Michael Alsford, Nomura**

Good afternoon. I've got two questions please. And firstly could you maybe give a bit more color about how much of the prospective resources are you actually targeting in 2010 given your active program of the 1.8 billion barrels? And then also secondly just on your current planning assumptions for refining, could you maybe give some guidance to what you see now, as the the incremental EBITDA per barrel from the conversion project that you are currently investing in? Thank you.

**Manuel Ferreira De Oliveira, Chief Executive Officer**

Okay, thank you. Thank you for the question. Looking at the programs that we have, the movement from prospective resources to contingent resources basically has taken place in the more mature areas in the Santos basin. So the drilling that will take place in block BM-S-8 and 21 will be the ones that could have an impact on our contingent resources next year. The drilling in block BM-S-24 and in Iara, we hope to be de-risking of contingent resources more than having new resources. So that's the answer to your first question. As far as the refining, we see in the minimum normality an incremental of at least \$3 a barrel from our refinery margins after



the conversion project is complete added by \$0.5 a barrel from the energy efficiency program consistent with other statements that we have made before about that. And that represents as you know a lot of money because if you take \$3.5 a barrel of incremental margins we will be processing something between 100 and 120 million barrels and you just multiply that by \$3.5 and see the impact on our EBITDA. Thank you.

## **Michael Alsford, Nomura**

Great, thank you very much.

## **Hootan Yazhari, Bank of America**

Gentlemen I just had a question regarding your debt profile, you have given us an updated debt repayment profile and it looks like you've extended the life of your average debt life. Do you have at the moment any fears over reinvestment risk given the negative rhetoric going on in the Portuguese market and fears out there that the debt markets might close down? And what contingencies have you put in place aside from a potential sale of your regulated gas business in order to make sure that you will not have problems rolling your debt over? Thank you.

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

Claudio can give you the more financial answer to your question. But by the way, all the debate of the Portuguese economy we do not feel affected by it to be open and straight, and there, I emphasize, that the partial sale of regulated assets will be a way of financing the projects in case we don't generate the cash flow that we expect. But, I think Claudio can give you a more comprehensive answer to your question.

## **Claudio De Marco, Chief Financial Officer**

The recent volatility in the financial markets didn't have any impact on the current financial situation of Galp Energia and it was no reaction from the banks that support higher spreads and we continue to have the same conditions in the existing loans of our available lines. Referring to the financial risk we have to said that in 2010 we have to reimburse just €100 million and €400 million in 2011. In terms of our liquidity we have €1.7 billion from which 70% is a committed line with the average maturity over three years.

## **Hootan Yazhari, Bank of America**

So, you shouldn't have any problems there?

## **Claudio De Marco, Chief Financial Officer**

No at this moment we have no problems.



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**Hootan Yazhari, Bank of America**

Okay, just one more question, regarding your exploration program and Espírito Santos Basin. You indicated that you are now looking at a post-salt prospect, are you more excited about the pre-salt prospects and the BM-ES-31 or is it the post-salt which is providing the lot of the optimism on that?

**Manuel Ferreira De Oliveira, Chief Executive Officer**

We are talking about the BM-ES-31, that is a block where we have high expectations, whether they will materialize or not let's wait for them, really. But the first prospect is not the one that we initially intended to drill, we wanted to drill a pre-salt prospect. The rig that was available could not drill pre-salt prospects so in order to meet our commitments with ANP, we have to drill the well and we drilled a shallower prospect, in the post-salt area, so let's wait for the Ambrosia results and then program the coming drilling. But, we were more excited at the very beginning, with the pre-salt prospect than the post-salt prospect.

**Hootan Yazhari, Bank of America**

And do you have any ideas on when you will be able to drill the pre-salt prospects in BM-ES-31?

**Manuel Ferreira De Oliveira, Chief Executive Officer**

It will not be in 2010, because these are questions of drill rig availability and we have to discuss that with ANP, so we have to drill this well then back to the drawing board with the agency of petroleum and discuss the drilling over the forthcoming well together with Petrobras. We have not decided the timing of it yet.

**Hootan Yazhari, Bank of America**

Ok, thank you.

**Manuel Ferreira De Oliveira, Chief Executive Officer**

Thank you.

**Oswald Clint, Sanford Bernstein**

Hi good afternoon. Two questions, first one could you maybe just give us a bit more detail on the floating LNG aspect of development in Santos Basin, in terms of how long this stage will actually last or when you would expect to make some progression with that plan? And maybe another one, we could maybe get your thoughts such that at the end of the year or in 2011 when the shareholder agreement opens up somewhat, what probability or what do you think about the prospects and perhaps Petrobras taking or just really swapping the

ENI stake that's held within Galp and maybe swapping on some Petrobras acreage to ENI, just curious to see what you would think about that type of scenario? Thank you.

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

Talking about the FLNG, what we have done, you know that we've setup a joint venture, which is 51% Petrobras and then the remaining 49% are equally distributed between the partners in block BM-S-9 and BM-S-11, BG, Repsol and ourselves. So, we have 16.3% of that venture. What has been done, we have hired 3 engineering companies with different engineering background, we have engineers for the three companies, four companies working together with these engineering companies, and we will have by the end of this year three FEEDs, front ending engineering designs studies, which is the basic engineering for three projects. Then the joint work of the companies will leave the selection of the best in terms of investment, cost operation, reliability, and safety. Then in parallel, we are comparing this option with a pipeline infrastructure to onshore and building a liquefaction facility onshore. And if the FLNG project is more competitive, we will move forward with the FLNG unit. Otherwise, the more traditional option will be implemented. So, this is basically a knowledge and technological project, which will be at the end an asset in itself for any project that we might have elsewhere. It is obviously a candidate to optimize in the gas infrastructure in the pre-salt area. It's a project that in technological terms is relevant and it has strategic value for our company. In terms of the second question, I use to say that the companies do not choose their shareholders. It is the shareholders that choose the companies. So, there is nothing else that I can say. I feel very proud that shareholders would like to have a stake in our company. We feel only very proud that our job is to work for today's shareholders and we're doing it very excitedly. Thank you.

## **Oswald Clint, Sanford Bernstein**

Thank you.

## **Rashid Olsen, Morgan Stanley**

Hi good afternoon gentlemen. Thank you. Just three quick questions if I may. Firstly just to clarify on the funding position, could you just tell us what are the underlying assumptions you are assuming for the cash flow estimate that you've shown in the slide, and perhaps just on refining margin and oil price? And secondly just wondering if you could compare on the latest guidance for capex for 2010, I've got the split, I was just wondering more in terms of the absolute number. And then thirdly just a more general question regarding what you're currently seeing in natural gas supply markets in terms of the environment, sort of current market environment at the moment, will give us on the outlook for 2010? Thank you.

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

I'll leave the funding position cash flow to Claudio, which will give you a comprehensive answer on that. As for the capex in 2010, we are expecting something between €1 and €1.5 billion euros of capex. As far as our



natural gas supply, you know that we have long-term gas supply agreements and they offer us a position in the market that is competitive, particularly gas contracts that are not back-to-back, but close to back-to-back. As far as the domestic market, we still have a tariff regime that in a way makes the price of gas a passthrough. So, what excites us in the gas market is the liberalization that is happening. We probably will lose market share, but we will have better results in the gas, particularly in the industrial sector. We see already the competition coming along and we welcome it and that will leave us with the natural gas to be competitive in the Spanish market where we have also a competitive portfolio of gas supply contracts. So, we feel fairly relaxed on our natural gas supply for the time being. As far as a funding position, Claudio will answer the question. Thanks.

## **Claudio De Marco, Chief Financial Officer**

In relation to the cash flow expectation, we can say that despite all the environment in the refining margin, we expect positive contribution in 2010 from the higher crude oil price, secondly from the higher production in Angola of more or less 6 to 7,000 barrel per day and also to the additional synergies from the integration of the distribution business in Spain and Portugal. And then we expect a cash flow in 2010 better than 2009.

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

I emphasize the cash flow increase was mostly driven by controlled variables, which is operational variables rather than markets variables.

## **Rashid Olsen, Morgan Stanley**

Ok. Thanks very much.

## **Kim Fustier, Credit Suisse**

Hi good afternoon gentlemen it's Kim Fustier from Credit Suisse. Just two questions if I could. And firstly just wanted to go back to your new EBITDA growth guidance, so it looks like you are now guiding to EBITDA CAGR over 2009 to 2014 of between 15 and 20% so that should give us a range of about 1.2 to €1.5 billion by 2014, but if we go back to your May 2009 presentation you were guiding to EBITDA CAGR of 12% from a 2008 base which gave us 1.7 billion in 2013, so it looks you've cut your EBITDA guidance so I could just ask what's changed in your outlook? And secondly, wondering if you could give us a bit more precise timing on the exploration drilling on Júpiter, Caramba and then Tupi? Thank you.

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

Okay, as far as the first question I think you understand that the world changed a little in 2009, so we are also entitled to change our expectations, unfortunately to all of us. But what we can see is that the evolution of EBITDA will be a non-continuous process, it's discreet because it's linked to the commissioning of new facilities. The commissioning of the new conversion project will take place in a quarter, the commissioning of the Tupi



commercial project, the first one of this year, will happen in the fourth quarter of this year and then that runs up in terms of working through 2011. As far as the underlined EBITDA, which is linked to the critical variables of the business, which are crude oil prices, refining margins and euro-dollar exchange rate we are being very conservative, we are in our assumptions making sure that we are not over optimistic. But the growth comes from the execution of major last projects. Your second question was about drilling in the Santos basin. In block BM-S-21 we are planning to start drilling in the 3Q, in BM-S-8 in the 2Q and in BM-S-24 in the 4Q. In Espírito Santo BM-ES-31 we are drilling in the 1Q, so we have one in the 1Q in the Espírito Santo 31, in the 2Q in block BM-S 8, in 3Q in BM-S-21 and in 4Q in BM-S 24.

## **Kim Fustier, Credit Suisse**

Ok, thank you.

## **Manuel Ferreira De Oliveira, Chief Executive Officer**

And on behalf of my colleagues Tiago and Claudio. I will like to thank you for the time you dedicated to us and let's all expect that 2010 is more generous then it was in 2009. Thank you very much.

## **Galp Energia, SGPS, S.A.**

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