

Galp Energia's nine months and third quarter 2011 results

Introduction

Good afternoon, ladies and gentlemen. Please welcome to Galp Energia's 2011 third quarter results conference call and Strategy Update. I will now pass the floor to Mr. Tiago Villas-Boas, Head of the Investor Relations Division. Thank you.

Tiago Villas-Boas, Head of Investor Relations

Good afternoon and welcome to Galp Energia's 2011 first nine months and third quarter results conference call and strategy execution update.

Joining me today is, as usual, our CEO, Manuel Ferreira De Oliveira, and our CFO, Claudio De Marco. We'll start our presentation with the results overview and short-term outlook, followed by the usual update of the execution status of our strategy.

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 over to Claudio.

Claudio De Marco, Chief Financial Officer

Thank you Tiago, and good afternoon to all of you joining this call.

I would like to start with the key highlights of this presentation and then I'll go over the results performance and short term outlook. Afterwards Manuel will elaborate on the strategy execution of our key projects.

First of all, from a negative side, our operational and financial results were negatively impacted by the performance of the R&M business. On the other hand, and very positive, we can say definitely that we are accomplishing important milestones that will contribute to Galp Energia's future success as an integrated energy Company.

In particular, Sines refinery upgrade project will reach steady production in 2012. And in the E&P business, the Lula/Cernambi development is being executed with great progress, with better performance than we were expecting. Both projects will allow us to increase cash flow generation from 2012 onwards.

Moreover, we continue our work on the de-risking of resources, with 4Q drilling activity focused on high potential areas, which include our outstanding acreage in Mozambique.

Nevertheless, we reinforce our commitment to support our strong development activity with a solid and trustable capital structure, thanks to the forthcoming completion of the Brazilian transaction. I'll say more about this later on the presentation.

Now, let's move to the 3Q11 results in slide number 5. G&P business was the main contributor in the quarter due to the better natural gas supply margins, driven by natural gas purchases optimization. In line with our expectations, the E&P economic performance took advantage from the increase in Brazilian production, reaching more than 4 kbopd in the last months. But, unfortunately, the performance of the R&M segment continued to be affected by the depressed European refining environment. Let me emphasize that the Galp benchmark refining margins were negative during 8 months (only in August were a lit bit positive) and, in 12th September, reached one of the lowest levels of the last years, -3.2 \$/bbl.

At the EBIT level, the performance was affected by the Angola E&P non cash costs evolution linked to the reserves net entitlement downward revision, already posted last June.

Regarding financial results, they were penalized, of course, by the average debt increase but also by the adverse financial conditions that put pressure on the debt spreads. In fact, if we look into the balance sheet in slide 6, you'll see that our net debt increased by €170 mln to €3.4 bln, which was mainly driven by our ongoing investment program, which reached more than €200 mln during the quarter and was mainly channelled to the upgrade project of Sines refinery.

The working capital reduction, compared with June, was exclusively related to the reduction of suppliers.

Despite our uneven capital structure for the time being, we continue to maintain our liquidity position at a comfortable level. We have additional liquidity facilities of €900 mln, from which 60% are committed lines and around 40% is contracted with international banks. I recall you that our imminent capital increase in Brazil will permanently balance our gearing level.

Moving on to the key drivers that may impact our earnings performance in the short-term, let me tell you that we are somewhat optimistic on some recovery in the last quarter of the year.

Working interest production should reach around 23 kbopd, mainly driven by the ramp-up in Lula production with the connection of two additional production wells.

In what regards the refining business, notwithstanding the still negative environment, we expect that margins will be positively impacted by the Matosinhos upgrade, which, as you know, is already up and running. However, on the oil

distribution business, we expect volumes to decrease on a quarterly basis, on the back of continued depressed economic environment in Iberia. Also, I remind you that usually the third quarter of the year shows the most robust volumes sold.

Finally, on the G&P business, we expect higher natural gas volumes sold this quarter, not only driven by the Winter period, but mostly due to higher leverage to better LNG market opportunities, namely on the back of increased demand from Asia.

Moving forward to our strategy execution, regarding our capital increase in Brazil, as you are aware, we are in the negotiation stage, after receiving final binding offers from a short list of bidders. Let me remind you that this is an extremely complex process, but we are prepared to announce the transaction final results in the near term and to proceed with the financial close until the year end, as planned.

Regarding the natural gas infrastructure sale previously announced, although we have received binding offers, this transaction has been impacted by the current macro environment and we still have to take a final decision on this process. However, I remind you that the Brazilian transaction is the key to ensure a solid and trustable capital structure, capable of supporting our strong growth going ahead.

Thank you very much for your attention and now Manuel will proceed focusing on the key highlights of the strategy execution going forward.

Manuel Ferreira De Oliveira, Chief Executive Officer

Thank you, Claudio and good afternoon for all of you ladies and gentlemen.

As you all know, we are facing challenging times, but I'm glad to tell you that we are progressing well in our key strategic projects.

In fact, the forthcoming months will be key in terms of value realization: not only we will have the E&P Brazilian transaction crystallizing value in the upstream, but also we'll have the completion of our refineries upgrade project. As you know, our Matosinhos refinery post-upgrade scheme is now running since July. In Sines, our works are advancing well and the physical completion is expected by the end of 2011, after which we will have a completely integrated refining system. However, I remind you that commissioning takes place for about three months, and as such we will only see the positive impact in earnings by the second quarter 2012. That is why we will only start to see the total impact of Matosinhos start-up this quarter. Indeed, this timing represents a three month delay from our original forecast, and of course we are not happy with this, but, as you all know, this is a complex project and one on which return, we continue to be confident even in the present refining margin environment.

As you all now, we are now moving towards a completely integrated energy Company and we have promised you to deliver sustainable growth through exploration and production. As such, in the upstream business, besides the capital increase in Brazil, we will have important value drivers coming ahead.

First, I would highlight the exploration drilling campaign in Mozambique. As you know, we have announced last week a giant natural gas discovery at the Mamba South prospect in Area 4. This discovery well found a continuous gas pay in high-quality Oligocene sands and led the consortium to confirm at least 15 Tcf of gas in place estimates. Yesterday, as you know, it was with great satisfaction that we announced that, even before reaching total depth of the well, we have found a new separated reservoir that contains up to 7.5 Tcf, this time in clean sands of the Eocene age, thus revealing an unprecedented potential of this Tertiary play in Area 4. This discovery, which shows by now a potential up to 22.5 Tcf of gas in place, further supports a multi-train LNG development scenario. Results on this prospect far exceeded our pre-drill expectations and confirm the Rovuma basin as a world-class natural gas province. This discovery is the result of our focus on the upstream growth and in high-risk frontier regions, high value exploration. We can now say that we are on the right track in terms of portfolio diversification and Mozambique is already a core appraisal area for our Company.

Moving on to Brazil, we will continue our efforts on de-risking our high potential portfolio, through a drilling campaign this quarter. First, on BM-S-8, an exploration well in the Biguá prospect is being drilled and, in case of success, it will support our previous findings on that area. After this well is completed, the rig will be moved to the Carcará prospect and so continuing our de-risking on that block. Then, on the high potential Potiguar basin, we will be drilling our first exploration well, spudding this year. This is, as you know, an unexplored high risk/high potential area, as it was the Santos basin not so many years ago. Drilling on these two areas may bring material resources addition to our already strong base of contingent resources, thus reinforcing our upstream portfolio potential. We will also be drilling a second appraisal well in Lara, which will allow us to gather the necessary data on reservoir characteristics, required for the preparation of its development plan. In Júpiter, we had planned an appraisal well to spud this quarter. However, and unfortunately, due to rig unavailability, this well has been rescheduled by the operator Petrobras for 2012.

Moving on to the execution of our major project, the Lula/Cernambi development, we are once again happy to say that this is going as programmed at full speed, as it has been happening in that area, with production reaching c.80 kbbl/d by the end of this year. In fact, flow rates of the wells are proving to be higher than we anticipated and, with the next 3 planned producer wells, we will be reaching full capacity at the FPSO Cidade de Angra dos Reis in early 2012, well ahead of the initial forecast that pointed for full capacity by the year end.

Now, allow me to conclude by emphasizing our upcoming key value drivers:

First, we will have our upcoming Brazilian transaction final results announcement and we will continue with our active exploration program, which will both crystallize and unlock value on our upstream business. Then, in terms of shareholder value delivery, we will have as main drivers the completion of the upgrade project, which will start

generating returns early next year, and also the ongoing development of Lula/Cernambi reservoirs which will also impact positively, and in a relevant manner, 2012 earnings.

Let me now refer to the capital increase of our Brazilian subsidiary. As expected, and as programmed, the competitive process for the subscription of the capital increase was ended by the end of September. We have been evaluating the proposals received and negotiating their terms. We expect to conclude this process sometime in November and, because the process is in its final stage, I will be extremely thankful if you do not ask questions on this issue.

I would also like to conclude my remarks by asking you to save the date for our Capital Markets Day, which will take place next March in London. This time, unfortunately, there will be no visit to an FPSO, but we will take the chance to share insights on our strategy for the upcoming years with you, giving more colors to other projects like Mozambique.

Thank you for your time and now we are open to your questions.

Questions & Answers Session

Bruno Silva, BPI

I have two simple questions. The first one on refining and marketing, in particular if you could give us a number on the expected contribution of this upgrade to EBIT and EBITDA in 2012 or if there is going to be a sort of a lagged impact ramp up in that initial contribution you have given to the market? And secondly, regarding the retail margin outlook numbers, in this quarter, they seemed rather weak, I just wonder if it is a direct impact from lower pricing or if there is also an impact coming from the different sales mix of your retail sales? Thank you very much.

Manuel Ferreira De Oliveira

Bruno, good afternoon. We have been consistent in saying that the upgrade project in the present market environment will add to our present benchmark refinery margin just \$3 a barrel, that's a number that we have been saying since the very beginning. For your information this number is sensitive to the spread between the fuel oil price and the middle distillates. In the present environment, that spread is actually above our original assumption; this is because the negative spread of fuel oil is very high at this moment, which reinforces the value of the existing project. As far as the marketing margins are concerned, we are fundamentally maintaining our margins. The volumes in Portugal and in Spain have been reducing, as you know, like across all Europe. And we have been practically maintaining market share on volumes and the unit margin. Thank you, Bruno.

Filipe Rosa, BES

Good afternoon, everyone. Okay, first on Mozambique, just if you could give us a timeframe of the exploration development and production stages that you expect at this stage? On Brazil, I've seen in your presentation that you started and you currently have an average production of 28 kbopd in the first well of Lula, but you are targeting for four wells 80 kbopd. So, this is a significant reduction of the productivity of the wells. Are you just being conservative or you actually expect the next wells to have much lower productivity than the first one? Thank you very much

Manuel Ferreira De Oliveira

Okay, let's move to Mozambique. We, in our corporation, are extremely accelerating Mozambique at this moment. Regarding the discoveries, although expected from our geologists and from the different information that we have collected during the last couple of years on that basin, we were expecting a successful exploration, but not as successful as it happened to be. The following stage is appraisal wells; there's a program that has been set up by the operator (in this case, ENI) that implies the completion of some exploration wells, at least another one, and then some appraisal wells which will reinforce or strengthen the dimension of the reserves already announced. So then there's a development plan to be taken and that takes a long time. So if everything goes well, we will probably be taking gas out of Mozambique after 2016, but the normal case is more close to 2018. So it's still early to start talking about quality timing forecasts. The basic concept is to produce the reservoir through subsea equipment, pipeline the gas to onshore (the reservoir is 40 kilometers away from Cabo Delgado) and then an infrastructure, with most likely liquefaction, will be installed in that neighborhood and exports will start, but the project is still in early stages to have a clear program on that.

Filipe Rosa, BES

Now on Brazil?

Manuel Ferreira De Oliveira

On Brazil, the answer is very simple. We have already announced that the productivity per well is higher than the original plan. It was around 20 kbopd to 22 kbopd; we are now producing between 28 kbopd and 30 kbopd. So, by the end of year, we'll have three wells and the fourth well early next year, and that will take the capacity of FPSO Cidade de Angra dos Reis to its nominal capacity.

Filipe Rosa, BES

So, can I do like 28 kbopd times for well or are you targeting 80 kbopd. I'm just questioning...

Manuel Ferreira De Oliveira

No, wait a minute. The 80 kbopd is for the total wells, so that's the capacity. The capacity is 80 kbopd, but we will have ups and downs on the production of different wells.

Hootan Yazhari, Bank of America Merrill Lynch

Good afternoon, gentlemen. It's Hootan Yazhari from Bank of America/Merrill Lynch. A couple of quick questions. You indicated that Júpiter has now been thrown into 2012. Can you just give us how that came to being – given there was some drilling activity which did take place I understand in the – earlier on few months ago on the Júpiter prospects. So, can you just give us a picture of what happened there? And secondly, with regards to the delays in the upstart of the Sines refinery upgrade, do you have any recourse against your contractors given the delay there and is this something that you are pursuing? Thank you.

Manuel Ferreira De Oliveira

Hootan, good afternoon and thank you for your question once again. Let's go to Júpiter. The declaration of commerciality of Júpiter is by 2016. So, from the technical point of view, I would give priority to Júpiter in relation for instance to BM-S-8, but for BM-S-8, we have a declaration of commerciality in 2012. So, what drives the allocation of rigs is the timing that we have for the present exploration phase. And so, confronted with the rescheduling of the available rigs, Júpiter was sacrificed. We hoped, ourselves and Petrobras, we could have spudded that well this year, because of the valuable information that we expect to take from it. Unfortunately, reality is the one that commands us.

Going to the delay in our Company, in our upgrade project, let me tell you that the project in Matosinhos, which was directly managed by our Company, was completed on time and on budget, actually slightly below the original budget. We had some support, but the project was totally managed by the Company. This project in Sines is a lump sum turnkey project, which was contracted to Tecnicas Reunidas which are doing a good work, but the timing has this delay. Our relationship with Tecnicas Reunidas is of high quality. We are cooperating with them. They are doing their best efforts to minimize the delay and I would not want to elaborate on it. We have terms in the contract that we will use, and this is my response to your question. As you know, in these kinds of projects, there are always kind of bonus for completion on time and penalties for late completions– they are included in the contracts of every lump sum turnkey project. Unfortunately, the bonus has been lost and we entered into the other phase, but this is the moment of completing the project, the moment of bringing the project online as soon as possible and that is where our focus is now. Thank you.

Hootan Yazhari, Bank of America Merrill Lynch

Understood. Manuel, just before I let you go, can you be a little bit more specific about when in 2012 you expect to spud the second exploration well or appraisal well in Júpter?

Manuel Ferreira De Oliveira

Hootan, I've seen a program of the rigs, which is not definitive. It is now scheduled for the second part of the year, but we are doing everything that we can to anticipate that well. But, as I've seen it in the allocation program of the available rigs, it is the second half of the year. Thank you, Hootan.

Anish Kapadia, TPH

Good afternoon. A couple of questions, firstly on your exploration and appraisal program for next year, I was just wondering if you could run through the list of wells that you'll be drilling. And then going back to Mozambique, a couple of things over here, given now that you have found enough gas standalone two to three train LNG projects at least would you look to go it alone in developing that i.e., you and ENI or would you look to do that in partnership with Anadarko which I believe has found similar amounts of gas? And the second part of that question on Mozambique, I don't think there is any provision at the moment in terms of gas sales price, the gas sales agreement within the contract. Can you just explain the process for agreeing gas commercialization in terms with the government?

Manuel Ferreira De Oliveira

Let me start with Mozambique and then I'll go to the appraisal program. So, you referred that there are ideas going around of two to three LNG trains, but it could well be four to five or three to four – we're still at very early stage for talking on definitive issues. We still did not complete the drilling of the first well. Everybody talks about unitization of one of the reservoirs, but there were no discussions so far with Anadarko. ENI did not start any discussion with Anadarko yet, so those issues will be then discussed after the necessary data is available.

On Area 4, I wanted to remember you that the partners of the Block are ENI, Galp Energia, KOGAS and ENH. ENH is the hydrocarbon national company of Mozambique. I'm sure that we'll be able to have a program and as soon it is available the parties will share them with you. But it is early stages to speculate on contract terms and on other related issues.

Now the exploration program, for 2012 we do not have yet a definitive exploration project for 2012. So, what we have this year are the wells that we are spudding. We know which rigs are totally available and we are now negotiating with the different partnerships in which we participate to allocate the rigs to what we call the priority

wells. That's the negotiation process, it is going on now and it will be shared with our investors as soon as it is completed.

Anish Kapadia, TPH

Just looking at just two specific wells and maybe I can ask about, in East Timor I think you were planning to drill another well by this year, is that planned for next year now? And then also, follow on from Caramba in Brazil, is that planned for next year at the moment?

Manuel Ferreira De Oliveira

Okay. In East Timor, we are actually reviewing the location and that well has been displaced for next year as has already been announced when the rig was taken out of East Timor. Now, as far as Caramba, yes there is a well in the program, in the multiyear program, that will be allocated in time very soon, and we're in the process of preparing the following year. The priority, in the Santos basin from the pure exploration and contractual point of view is now the BM-S-8, we've got another well to drill in BM-S-8. As soon as we complete Biguá, that is now being drilled, we'll be moving to Carcará with the same rig and then rushing for a third well in BM-S-8 in order to complete the evaluation and prepare the development plan to submit to ANP. I think this completes the answer to your question. Thank you, Anish.

Michael Alsford, Citigroup

Hi, my name is Michael Alsford from Citigroup. Just a quick question, I might have missed it at the beginning of the call, but just what you were saying about the regulated gas asset business sale, is that now off the table or are you just waiting to see whether conditions improve in Iberia before making a decision on the sale? If you could maybe clarify that, that would be great. Thank you.

Manuel Ferreira De Oliveira

Michael, thank you for the question. We have completed the process of the regulated asset sale. As Claudio referred to you, because it is a regulated business, its value is dependent on the WACC of the bidder and the financial conditions around us are not the most optimistic at this moment. So what we decide is to hold the process and communicate to the market the two decisions together, this one and the capital increase in Brazil. So soon – and they are related in terms of capital needs. Our total priority is Brazil. If the capital raise is more than what we need, we probably delay the regulated asset sale, but that is a decision for my Board and it will be taken simultaneously with the decision of the capital increase in Brazil.

Manuel Ferreira De Oliveira

Unfortunately, there was a failure in the telecom system. If you are hearing me, we just want to apologize for this unfortunate failure and we are not in a position to continue this Q&A session which I feel very sorry. So, if you are hearing us, thank you for taking the time to hear us and we apologize more than once. So thank you and keep in touch. Goodbye.