



galp energia

27 April 2012

## Results & strategy execution update

### FIRST QUARTER 2012



*Solid foundations to deliver sustainable value*

## Introduction

### Operator

Good afternoon, ladies and gentlemen. Welcome to Galp Energia's first quarter 2012 results conference call and strategy execution update. I'll now pass the floor to Mr. Tiago Villas-Boas, Head of Investor Relations.

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

Good afternoon ladies and gentlemen and welcome to Galp Energia's first quarter 2012 results and strategy execution update conference call.

Joining me today is our CEO, Manuel Ferreira De Oliveira, and our CFO, Claudio De Marco. Before we start our presentation, Manuel would like to address you regarding the latest changes in our Company.

Then, we will proceed with the results overview and a short-term outlook, followed by an update on our strategy execution.

And as usual, let me by remind 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 published presentation. And now over to Manuel.



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#### Manuel Ferreira De Oliveira, CEO

Thank you, Tiago, and good afternoon to all of you. It is a pleasure to address you once again. As most of you are already aware, I was recently reelected as Deputy Chairman of the board of directors of our Company and as its Group Chief Executive. Allow me to take this opportunity to reaffirm my full commitment to the short, medium, and long-term objectives recently shared with investors during our Capital Markets Day. I can also assure you that all my new colleagues in the board and in the executive board fully support the strategy, the transformational programs, and objectives we shared with the investor community. We are fully empowered and fully committed to deliver on what was promised. As you are also aware, Amorim Energia, Caixa Geral de Depósitos, and Eni recently agreed on the well structured exit of Eni from our shareholder base anticipating events that in one form or another would occur by early 2014. This agreement removes the uncertainty and clears the way for a successful decade ahead of us.

The substance of this agreement was shared with the market by our present reference shareholders. In short, it leads to the termination of the existing shareholders' agreement, Caixa Geral de Depósitos will exit in compliance with government guidelines, Eni will exit our shareholder structure disposing through the market 18% of our shares, and Amorim Energia will reinforce its exposure to Galp Energia and as our reference shareholder.



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Eni has on multiple occasions stated that it is committed to maximize proceeds from its exit as was already clearly confirmed by the recently announced price for the first lot of 5% of our shares to be acquired in the near future by Amorim Energia. Mr. Américo Amorim was this week elected as Chairman of our board, a clear indication of his commitment to the success of the ongoing process. I have personally had discussions with him on his views about our long-term strategy and objectives and as I expected, he is fully supportive of our view of Galp's development path.

In short, I want to emphasize that our growth conditions will not be affected by a ongoing change in our shareholder base. If anything, they will be strengthened and that we are now we have now the shareholder stability, the management team, the asset base, and the financial resources to continue our trajectory of creating value to all those that invest in our company.

With this formal introduction, let us now go back to our more standard work and pass the word to Claudio.

## Key highlights

- Net profit in 1Q12 reached €50 Mln
- Outstanding exploration and appraisal results in Mozambique
- Exploration drilling activity underway on high potential projects
- Upgrade project commissioning headed to its end

2 | First quarter 2012 results 

### Claudio De Marco, Chief Financial Officer

Thank you Manuel, and good afternoon to all of you.

After a tough 2011, we started 2012 with some signs of recovery, particularly when comparing with the first quarter last year.

The net income reached €50 million, so 16% higher on a yearly basis, driven by the higher production coming from the ramp-up of the Lula field, and by the stable contribution of the Gas & Power business segment, which continued to benefit from a boosting international LNG market.

Looking particularly to the E&P business, we had very positive newsflow during the first quarter of the year, namely through the ongoing exploration and appraisal campaign in Mozambique and through the ongoing prospects de-risking elsewhere.

In the downstream, the upgrade project is on track to start impacting positively earnings by the second half of this year, with some units at the Sines refinery currently under commissioning. I emphasize the importance of this project to the profitability of the refining business, with a significant middle distillates yield increase.

## Key highlights

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2 | First quarter 2012 results



Before going in detail to our results this quarter, I must refer the successful close of the capital increase in our Brazilian subsidiary, in late March, and which marked the beginning of a new growth era in our Company, with a distinctive financial strength. You already had the opportunity to see this impact in our balance sheet, but I will get back to this in a while.

Net profit in 1Q12 reached €50 Mln

Profit & Loss (€Mln)

	1Q12	1Q11	YoY	4Q11	QoQ
Turnover	4,795	5,798	+28%	4,375	+10%
EBITDA	200	135	+48%	212	(6%)
E&P	88	48	+83%	88	+54%
R&M	29	25	+20%	35	(46%)
G&P	83	81	+25%	87	(5%)
Others	1	4	(75%)	5	(88%)
EBIT	95	34	+75%	110	(14%)
Associates	20	20	+0%	20	+1%
Financial results	(41)	(29)	(40%)	(29)	(41%)
Taxes	(28)	(1)	n.m.	(21)	(11%)
Net Profit	50	45	+11%	79	(57%)
Net Profit (FRS)	172	192	(10%)	48	+258%

- E&P and G&P supported earnings growth
- R&M impacted by the evolution of refining margins
- Financial results impacted by both higher average net debt and interest rate

Final quarter 2012 results



For now, let's look into our first quarter 2012 results overview in slide number 5.

The E&P business continued to deliver increasing performance, with operational result more than doubling year-on-year, following a higher oil price, with dated Brent increasing almost 14 dollars per barrel between periods, and also, and more importantly, an increased production.

This production growth was mainly driven by the Lula project ramp-up, which produced an average 7.4 thousand daily barrels of oil equivalent during the first quarter of 2012, an increase of 6 thousand barrels per day comparing to the same period last year. This was due to the fact that, during the quarter, we had three producing wells and one injector well operating at the FPSO Cidade de Angra dos Reis, versus only one producer well in the first quarter last year.

Net entitlement production in Angola was also positively impacted by the increase of the cost oil rates available under the PSA agreement, following the initial recovery of abandonment costs in BBLT, given its current mature stage.

The Gas & Power business continued performing well, with increased results reflecting higher opportunities taken under our trading activities, namely following higher LNG demand mainly from Japan.

On the negative side, Refining & Marketing continued to be impacted by the adverse refining environment, with benchmark falling as much as 21% year-on-year to -\$0.6/bbl, mainly on the back of a poor performance by the aromatics and base oils margins.

**Net profit in 1Q12 reached €50 Mln**

**Profit & Loss (€Mln)**

	1Q12	1Q11	YoY	4Q11	QoQ
Turnover	4,795	3,796	+26%	4,375	+10%
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<b>Net Profit</b>	<b>50</b>	<b>45</b>	<b>+10%</b>	<b>79</b>	<b>(37%)</b>
Net Profit (PMS)	172	192	(10%)	48	+255%

- E&P and G&P supported earnings growth
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The marketing business also continued to reflect the difficult situation in Iberia, with demand continuing to be impacted by the current austerity programmes in place, both in Portugal and in Spain. In fact, volumes continued to decrease, and margins were also affected by the higher crude oil prices and the increased competition pressure in Iberia.

Depreciations increased year-on-year, reflecting the Lula pilot project increased production and the start up of Matosinhos upgrade project. On a QoQ basis, although depreciations have also increased, this number should not be read out of context, as the reserves revision in the last quarter of 2011 led to a depreciations reduction in that quarter, due to the reverse effect.

The operations improvement relating to the Exploration & Production and Gas & Power business segments supported higher results in the first quarter of the year. EBIT was of €95 million, up from €54 million in the first quarter 2011, and up €22 million quarter-on-quarter in a like for like basis, so excluding the one-off depreciations impact already mentioned. Below the EBIT line, results were impacted by worse financial results and by higher taxes.

Financial results were penalized by the average net debt increase, as the Brazilian deal was only closed in the last days of March, and by the higher total cost of debt, as the prevailing adverse financial setting led the cost of debt to increase by 82 basis points.

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Net Profit (IFRS)	172	192	(10%)	48	+258%

- E&P and G&P supported earnings growth
- R&M impacted by the evolution of refining margins
- Financial results impacted by both higher average net debt and interest rate

Final quarter 2012 results



Concluding the P&L, net income stood at €50 million this quarter, up €7 million from the same quarter last year, following better operating performance overall.

**Net debt impacted by the cash-in from capital increase in Petrogal Brasil**

**Balance sheet (€Mln)**

	Mar. 2012	Dec. 2011	Change
Fixed assets	6,120	6,002	+118
Work in progress	2,115	2,174	(59)
Strategic stock	829	996	(167)
Other assets (liabilities)	430	(407)	+836
Working capital	227	(146)	+373
<b>Net debt</b>	<b>790</b>	<b>3,504</b>	<b>(2,714)</b>
Equity	6,816	2,941	+3,875
<b>Capital employed</b>	<b>7,606</b>	<b>6,446</b>	<b>+1,160</b>
<b>Net debt to equity</b>	<b>12%</b>	<b>119%</b>	<b>(107.5 p.p.)</b>

- \$5.2 bln deal successfully completed in March, ending a period of stretched balance sheet
- Cash-in ensures the capex execution going ahead
- Net debt to equity of 12% in 1Q12

Final quarter 2012 results



Looking at our balance sheet in slide 6, our net debt decreased substantially from €3.5 billion to only €790 million at the end of March, following the successful closing of the Brazilian deal.

In the first quarter of 2012, capex amounted to around €200 million, from which 70% was allocated to Exploration & Production, not only to the ongoing development of the Lula project, in Brazil, but also the exploration and appraisal activity carried out elsewhere in Santos basin, like in Lara and BM-S-8

In the Mozambican Area, we continue with our successfully campaign, accounting for 25% of the exploration capex.

With the cash-in from the capital increase in Brazil, we will be able to proceed with our capex programme with no major financial constraints. We are on track to keep investing in exploration and appraisal activities throughout the year, particularly in Júpter and Potiguar, in Brazil, and in the Rovuma basin, in Mozambique. We will also continue allocating capex to the development of the Lula project.

I recall that we plan to invest, in total, between €1 billion and €1.2 billion in 2012. The cash-in of \$5.2 billion significantly de-gearred our capital structure, which now presents a net debt to equity ratio of only 12%, after the loan to Sinopec of \$1.2 billion dollars.

**Net debt impacted by the cash-in from capital increase in Petrogal Brasil**

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- Cash-in ensures the capex execution going ahead
- Net debt to equity of 12% in 1Q12

# First quarter 2012 results

Confirming what I mentioned in the recent meeting in London, from a long term perspective the cash flow from the capital increase will be applied to finance the development plan of our promising Brazilian E&P activity. Meanwhile, in short term, we have in our hands an excess cash that has to be managed in the most efficient, flexible and optimized manner. As such, and from a total cash in of \$5.2 billion dollars, \$0.4 billion dollars are related to existing loans reimbursement that came directly to Galp holding level and \$0.7 billion dollars will be allocated to short term capex needs at Petrogal Brasil and other related companies. The remaining \$4.1 billion dollars will be lent to Galp and Sinopec on a pro rata basis, respectively 70% and 30%. The loan will be repaid on a yearly basis according capex needs in the next four years. Finally, with regards to funds allocation received at Galp level, a portion of it will be use to reimburse most expensive loans with nearer maturity, and other portion will be deposited in relationship banks to be invested in low risk and high quality securities. This policy aims to preserve capital, maintain liquidity and optimize returns.

Now, looking at our working capital needs at the end of the period, these increased mainly due to the higher operational stocks, following the higher prices of crude oil, natural gas and oil products in the quarter.

### Short term outlook

- 2Q12 working interest production targeted at c.25 kboepd
- Refining margin to recover QoQ, following benchmark trend
- Marketing volumes to remain depressed, still impacted by the Iberian economic environment
- Natural gas volumes to decrease QoQ due to seasonality, but still positively impacted by trading opportunities

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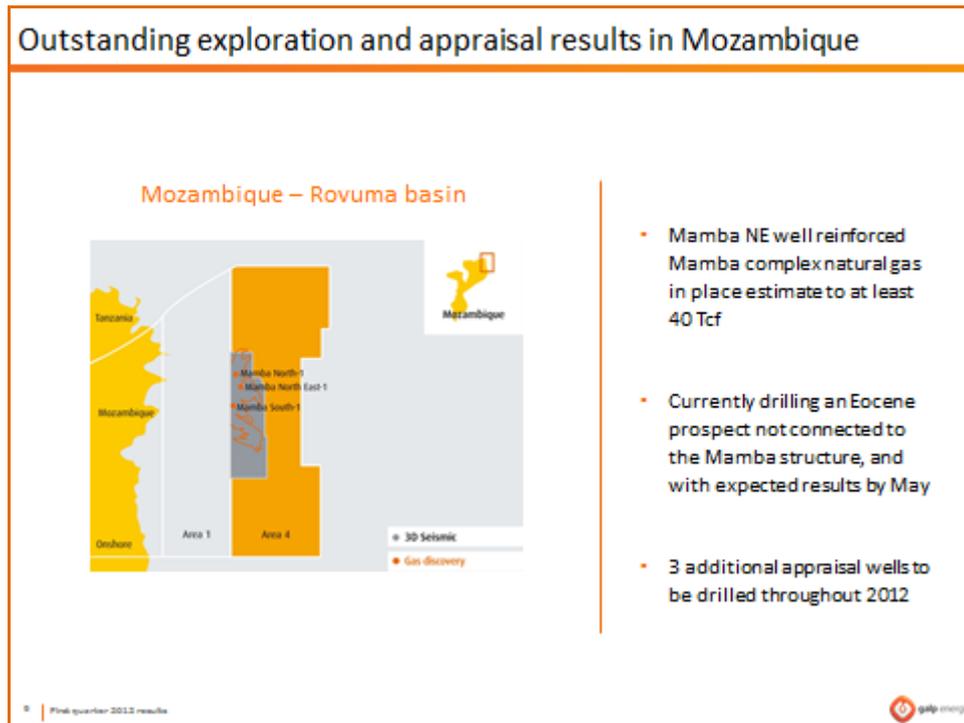
Now, as for the key drivers that may impact our earnings performance in the second quarter, and starting with the upstream business, we expect working interest production to increase from 22.6 thousand barrels of oil equivalent per day to around 24 thousand barrels, as the fourth producing well in the Lula pilot, connected at the end of the quarter, and the Iracema South test, producing steadily since March, will contribute throughout the quarter.

Regarding the refining business, we expect that performance can show some positive progress during this quarter, as benchmark refining margins are improving, namely with cracking refining margin around 3,5\$/bbl in April. The seasonal maintenance should support the better refining margins in the 2Q. However, benchmark margins are likely to remain under pressure and subject to some volatility.

In the oil marketing business, we expect volumes to remain depressed quarter on quarter, due to the current economic context in Portugal and in Spain, which should not allow for a positive shift in this trend.

And finally, on the natural gas business, we expect Iberian demand continues weak, given the economic environment. However, outside Iberia, the LNG demand will be supported by the continued favourable market dynamics, particularly with increased demand arising from emerging markets like Asia, Middle East and Latin America.

Thank you very much for your attention. Manuel will now proceed with our strategy execution update.



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

Thank you Claudio.

Here I am again with a summary of the strategy execution update.

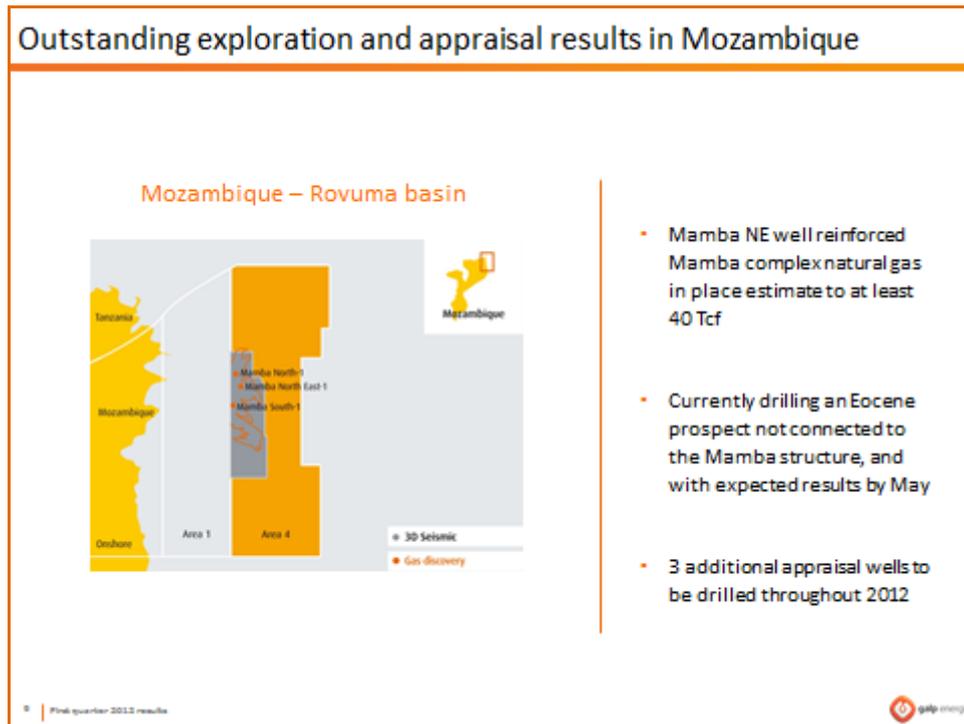
I will now tell you about what we have been working on in the last few months, in line with the strategy we've presented in the beginning of March, in our Capital Markets Day.

I will start by referring the very positive results we have achieved in Mozambique, with the latest exploration well increasing the gas in place estimate to at least 40 Tcf and the identification of a reservoir that does not need to unitise with Area 1.

The outstanding discoveries in the Rovuma basin have already turned our focus towards the East African coast, with Mozambique now being a core area within our upstream portfolio.

We will continue our exploration and appraisal campaign in Area 4, in order to evaluate the full potential of the area.

We are presently drilling a prospect to the South of the previous discoveries, which results are expected by May. This prospect is not connected to the Mamba structure and it is targeting Eocene-age reservoirs expected to be confined only to the Area 4.



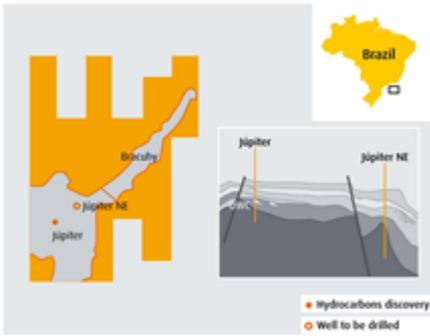
During the remaining of the year, we'll be drilling additional appraisal wells, aimed at reducing some residual uncertainties on reservoir thickness and quality, as well as assessing reservoir productivity. These appraisal well activities will be key when outlining the development plan that we've already started to develop.

Further, the consortium will shoot over 1,800 square kilometres of 3D seismic to the North of Mamba structure, in order to evaluate a potential extension of the Mamba complex to the North and to identify additional exploration prospects. We will also be shooting over 2,100 square kilometres of 2D seismic in still unexplored areas in the block.

As a consequence, you can expect this area to continue deliver some newsflow in the short-term.

### 1<sup>st</sup> drilling phase completed in Júpiter NE key well

BM-S-24



- Júpiter NE well primary aim is to assess CO<sub>2</sub> distribution and thickness of oil rim
- The well is currently drilled until the top of the salt layer (c. 3,000 metres)
- Ultra-deepwater rig is expected to be in place by August to start the crucial drilling phase to the reservoir target

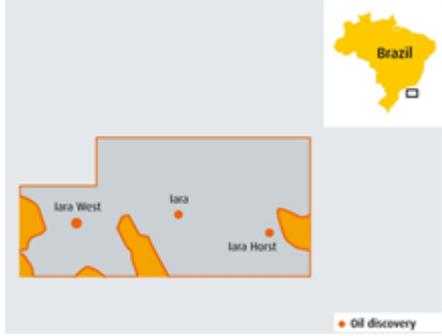
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Moving now to slide number 10, referring to the drilling of the Júpiter Northeast well in the second half of this year, I want to tell you that this is on track. In fact, during the first quarter, we took the opportunity to use an available rig, to start drilling this well, and it was successfully drilled until the top of the salt layer thus shortening the time of the drilling that will take place later in this year. The ultra-deepwater rig that will complete the well is expected to arrive to the region by August with the results to be expected during the last quarter of the year.

I remind you that this well is absolutely key to understand the potential of the Júpiter reservoir. As we've told you in our Capital Markets Day, we believe that the oil-water contact was not reached in the first well back in 2008. We will now test a deeper oil-water contact and if it is confirmed, we can potentially deliver a relevant upside on the current 5 billion barrels of oil equivalent certified as contingent resources.

This well will also and more importantly help us to assess the Co2 distribution across the reservoir, an important step to start studying the best development for this field.

### Appraisal activities reinforced lara's potential



- lara West well successfully confirmed the discovery extension in the pre-salt layer
- Forthcoming DST will be key to define the subsequent appraisal activities, pending on rig availability
- Further appraisal activities being analysed towards the DoC by Dec 2013

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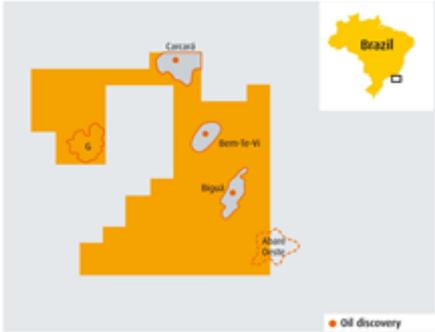


Now moving to slide number 11. In the lara area, we have concluded the drilling of the lara West well, which confirmed the extension of the previous discoveries in the pre-salt layer.

The next step will be performing a production test in that well, in order to better understand its dynamics and, potentially, decide on the best candidate to perform an extended well test before the deadline for the submission of the declaration of commerciality due in December 2013.

We will be now focusing on this issue in the forthcoming year-and-a-half. This necessary production test is just pending on rig availability.

### Currently drilling Carcará prospect in BM-S-8



- Carcará well has already confirmed the presence of high quality oil in reservoirs located at c.5,750 meters
- The well continues being drilled to find the lower limit of the reservoirs with results expected by the end of 2Q12
- Results will be important towards the DoC by the end of the year

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Moving now to slide number 12 and still in the Santos Basin. I want to inform you that we are now presently drilling the Carcará prospect in Block BM-S-8. This well already confirmed the presence of high quality oil in the reservoir as communicated to the market in due time and we are continuing drilling in order to find those reservoirs' lower limit and to identify other areas of interest.

I recall that, if successful, this discovery can unlock in a relevant manner the development of the Bem-Te-Vi and Biguá discoveries in this block.

### Upgrade project commissioning headed to its end

Sines refinery



- Commissioning started, with c. 450 systems out of 600 already completed
- Hydrocracker handover to the refinery during 2Q12
- Production from new units should progressively start during 3Q12

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Let me now move to another strategic project, the upgrade project in the Sines refinery. This project is on track to start contributing positively to our refining business by the second half of this year. In fact, commissioning has already been completed for 450 subsystems out of a total of 600 that makes up the hydrocracker complex. The new steam reformer, the deisobutaniser, the new storage facilities, the new electrical supply grid are some examples of the units that have already been handed over to the refinery.

This quarter we will have the handover of the new sulphur recovery unit, will be of the flare which is close to conclusion, the new flare in the plant hopefully to be lighted early next month, and more importantly on the hydrocracker unit, which represents a significant milestone in the project. We expect to start producing from the new units installed in Sines in the third quarter. Due to the high complexity of this project, the setup should be progressive with full impact in margins expected to take place in the fourth quarter of 2012 and the partial impact during the third quarter of this year. I recall that this project will be key to increase the refinery's profitability especially considering the uncertain long-term refining outlook in Europe.

### Final remarks

- Promising exploration and appraisal activity throughout 2012
- Lula development project on track with growing impact in earnings
- Upgrade project to positively impact earnings in 2H12
- Sound capital structure to fund current transformational projects and enabling flexibility to pursue new ventures

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Let me now conclude by emphasizing that we have solved all our funding needs, which is remarkable in today's volatile and risk-adverse financial markets.

Our upgrade project is being set to start generating earnings in the third quarter of this year, with 75% of the new systems already commissioned.

In the upstream front, we will continue de-risking our high potential exploration portfolio, particularly in Mozambique and Brazil, where we will see the results from key wells, like Júpter North East, during the year.

In what regards the development of our world-class projects, our main focus continues to be, in the short and medium term, the Lula field, which is showing a formidable performance delivering ahead of expectations and expected to continue driving production growth quarter-on-quarter.

We are now set to grow in the upstream, not only due to our exploratory potential and the development of our ongoing projects, but also because we have now the financial strength we need and that was restraining us until 2011.

And now, let's start with the Q&A session. And I'm available to answer to your questions.

## Questions & Answers Session

### Jason Kenney, Santander

Good afternoon and thanks for your comment today. I have got two questions on the shareholder change. The first one is I was wondering if the announcement of Eni to sell the 5% stake to Amorim at €14.25 is a surprise and is a surprise either in the deal itself and/or the price?

Secondly, on the move with Amorim, and I note your comments on Amorim support firstly for your strategy and secondly for the well structured exit of Eni as you mentioned, now ENI this afternoon has said that its exit is unlikely to progress at the current market price to Galp and I suppose this bags the question as to how do you get the share price back to a level where Eni is happy to exit in the very near term. Obviously Júpiter is a key well for you, but can you give us a time line around the key catalysts events over the next six months?

Maybe on the back of both of these questions you must have a view of the consensus target price for Galp at the moment. I know you have a compilation of fair values which would be much higher than €14.25 which is the exit price for Eni certainly for the 5%. What is the market overlooking today because it seems mostly your businesses are for free if you exclude Brazil valuation?

### Manuel Ferreira De Oliveira

Thank you Jason for your questions and I will be we trying to answer to some of those not necessarily to all of them. As far as the shareholder change I think my reference shareholders have communicated to the market that agreement is binding agreement which basically with effects starting after a deal of 5% which is the kick off of the process of exiting of Eni. That is ongoing, expected to be closed as we heard yesterday from a message received, issued by Amorim Group that would be closed within three to four weeks. And that was the reference price for that transaction as I understand, €14.25 per share.

Second you asked me what is the exit strategy for Eni. I cannot tell you the details of that strategy. First because I don't know it, secondly, because it is the responsibility of Eni to do that. We are available and Eni knows that to support, to help and cooperate with Eni in that activity. What I understand and from the colleagues that are informing me is that Eni will exit in a rational manner to maximise proceeds and there is no timeline to do that.

Let me refer to the key moments that could affect our company throughout the year. Unequivocal is the Júpiter well. Additionally is the reporting of the performance of the first commercial activity in the pre-salt

which is the Cidade de Angra dos Reis FPSO, which as it achieves full capacity the reporting of its performance in my view will be important. It's a benchmark for all the future development of the pre-salt.

Another news flow important is the completion of the Carcará field, the Carcará well in BM-S-8 which is presently being drilled with a discovery announced but no reference made to the size of the discovery will be critical to the value of BM-S-8. And last but not least, the exit ongoing exploration well in Mozambique in area four and the appraisal well that will follow throughout the year. Let me also refer to the successful completion of our upgrade project would be in my understanding key for the trust that we deserve from the market. That's everything I can tell you about what's going on. Thank you Jason.

## **Flora Trindade, BPI**

Yes, good afternoon. Two questions if I may. The first one is just clarification on your upgrade project. You mentioned progressively the start up of units during the third quarter. I think you had mentioned before steady production since the end of second quarter so I was just wondering if this means there is a slight delay in the execution of the upgrade project? And when you mentioned the full impact in the fourth quarter in incremental margins if you are still referring to the target of \$2.5 to \$3.5 per barrel incremental margin?

The second one is around Mozambique. Eni commented that it will work with Anadarko for the development of the Mozambique fields. So if you could share with us how is this process going and if the unitisation talks have advanced. Thank you.

## **Manuel Ferreira De Oliveira**

Starting with your first question. Yes, it is true. There is a slight delay in the upgrade project. In our programme we should have completed by now the testing of all the subsystems of the hydrocracker complex and we had only completed 75% of those. We need still - I refer we have 600 subsystems, 450 being completed and ready to hand over and handed over, 150 ongoing.

It is extremely difficult to have an accurate forecast of timing because the handover process of each subsystem requires testing and when you are testing instrumentation, cables, pipelines, valves, weldings, pressures, depends on the problems you find and then the remediation that you apply that then is linked to timing of completion of the work. At this moment with the experience we had so far, we believe that we complete the handover and the testing of all the subsystems in a conservative scenario throughout this

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quarter, so ramping up production throughout the third quarter offering only full margin contribution in the fourth quarter. But yes back to your question, there is a slight delay in the programme.

Referring to margins, if we were today the margins were above \$2.5/bbl to \$3.5/bbl bracket. Still on a quarterly basis, if we apply the first quarter margins we would be within that range, so the information we shared on our Capital Markets Day if anything we have now a better short-term expectations from the project.

Going to the second question, it is only obvious and natural that the operators of area one and area four at Mozambique respectively, Anadarko and Eni, work and we as partners support and stimulate that discussion because as everybody knows there is an unitisation discussion to be done. It can only be completed after appraisal is finished of the reservoir that needs to be unitised. I think I answered, Flora, to your questions. Thank you.

#### **Brendan Warn, Jefferies**

Thanks gentlemen, good afternoon. Actually just following on from Flora's question, I think it's the confidence of the margin uplift in this first quarter if the refining upgrade would have been completed. Can you just remind us though what could put the \$2.5 to \$3.5 per barrel incremental uplift at risk if there is a change of reference conditions over the remainder of this year in terms of the different spreads?

Secondly my question more relates to the upstream. Just in terms of Júpiter Northeast if you can again remind us also in terms of what we are looking for in terms of liquids down dip in terms of the water contact and what sort of announcement or results would you actually provide or detail? Will you provide the time of the results in the fourth quarter?

#### **Manuel Ferreira De Oliveira**

Ok, let me start with the refinery margins. The key drivers of value resulting from the upgrade project are three. One is the differential between heavy and sour crudes and light sweet crudes. This is a key variable, as you know they have been narrowed, extremely narrowed, and as they widened up as everybody expects the better for the project. That is a contribution to the increasing refinery margin.

Another one is the energy efficiency. The project as enshrined in this complexity a lot of measures that increase the process efficiency within the overall refinery. Finally, and most importantly, is the negative crack of fuel oil that means the differential between Brent and fuel oil which is negative and the positive crack between Brent and middle distillates being middle distillate diesel and jet fuel. These are the cracks.

In our basic scenario we assume that differential price between fuel oil and middle distillates to be around \$300 a tonne, they are higher than that at this moment and we capturing in \$0.5 per barrel on energy efficiency and \$0.5 per barrel in crude price because of heavy diet. That's your first question.

The second question has to do with liquids in Mozambique.

**Brendan Warn, Jefferies**

Sorry, it was the liquids down dip the Júpiter Northeast.

**Manuel Ferreira De Oliveira**

Júpiter, sorry. The discovery well I want to note that we drilled only one well in the gigantic field although we had entered the well twice. The first time we drilled at a dept of 5,200 metres. Now the second well will be drilled up to at least 6,000 metres deep. Why are we doing that? In the first well, because of drill, again rig availability, it stopped when it found water. Now, all the analysis indicate that the water, that was understood as the first time water contact, was trapped water. From extrapolation from other wells in the region, we can see that the water contact is much deeper, and the deeper it is, the thicker the reservoir, the higher reserves. How deep it is we can have assumptions but we have assumptions but we prefer to complete the well before releasing information to the market. Thank you Brendan.

**Hootan Yazhari, Bank of America Merrill Lynch**

Good afternoon, gentlemen. It's Hootan Yazhari from Merrill Lynch. Just a couple of questions. First of all, on Júpiter there is always a niggling doubt in the market I feel that Petrobras might not necessarily dedicate a drilling rig to come down and finish off what you have already started especially given we have already seen about a year's delay in that well. What assurances are you able to give us that this will definitely happen and comfort that Petrobras won't divert the wells to other acreage which some might it's more attractive?

Then on the second question I had was regarding the forthcoming bidding rounds in Mozambique. Can you confirm if you are looking at this closely and indeed what steps you are taking at the moment to expand your footprint in Mozambique? Thank you.

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## **Manuel Ferreira De Oliveira**

Ok, Hootan, thank you for your two questions. Let's talk first about what I call our jewel Júpiter. I was actually last week in Brazil and the topic was Júpiter. Petrobras is as committed as we are to push ahead in lapidating that jewel to understanding that reservoir. They agree completely with our assessment that the Júpiter reservoir is gigantic one. Second the oil water contact had high probability of being deeper than the originally estimated. And thirdly we agree on the value of CO2. You know that CO2 is most likely, not to say very likely to be an asset rather than a liability. If we clarify these issues technically and we have ongoing research and development programmes and tests being made in order to offer to the market reliable information on these issues I hope that throughout this year a lot about Júpiter will be clarified.

Let me say the simple fact that for the first available rig that we rush the rig to the region to drill the well up to the salt layer and we didn't go deeper because the rig could not face the pressures of the reservoir so we needed another rig. The commitment is there. The timing obviously nobody can guarantee that we will do it as programmed but, Hootan, everybody us and Petrobras is working for that to happen.

Now in Mozambique. Yes, we are working hard to increase our exposure to Mozambique and obviously what we are doing, what everybody can do and I hope throughout the year to demonstrate to the market how deep is our commitment to that country through actions more than through words. But at this moment I prefer to say what I have said. Thank you Hootan.

## **Matt Lofting, Nomura International**

Hi, afternoon. Two questions please. Firstly I think with the Capital Markets Day you issued EBITDA guidance of €900 million to €1.1 billion for 2012. I just wondered if you could confirm whether that guidance still holds in the context of the slight delay in the downstream upgrade programme completion?

Secondly on Brazil working interest production for Q2 is expected around 25,000 barrels a day. How is that expected to continue to step up through the second half of the year please? Thanks.

## **Manuel Ferreira De Oliveira**

I pass the first question to Claudio. Thank you.

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**Claudio De Marco**

Thank you. I confirm the expectation that the EBITDA will be around €900 million to €1.1 billion supported by the oil price and the good performance in E&P and also in Gas and Power.

**Manuel Ferreira De Oliveira**

Now, the second part of your questions I can take it which is referring to the increase in production in Brazil. What we are working to is to take Cidade de Angra dos Reis to full capacity which we are not far from it. We will have news. As soon as we get that point it is a major event and we will communicate it to the market.

We are having, you know that capacity of the unit is 90,000 to 100,000 barrels a day and the gas/oil ratio in that field, is about, the used gas, that means the non-injected gas and non-consumed gas is approximately 20% of the production. It will go up to say 110,000 to 120,000 barrels or boe per day and when we reach that, it will be static. We are all working to get to that point as soon as possible. Up to then will be rising production.

The next major step in Brazil is in 2013 when Cidade de Paraty in Júpiter Northeast is commissioned. I think I answered to your questions Matt. Thank you.

**Filipe Rosa, Espírito Santo Investment Bank**

Hi, good afternoon, everyone. Two questions if I may. The first one on the marketing division, the margins in that division has deteriorated sequentially quite strongly. I would like to ask whether you expect a recovery in the next few quarters or do you think that the situation remains very tough in terms of the competition and so the margins are expected to remain low?

The second question relates to exploration front. You have not talked about Potiguar. I don't know if you still plan to drill an exploration well on this new basin or this has been delayed to 2013? Thank you very much.

**Manuel Ferreira De Oliveira**

Filipe, thank you for your questions. Let's start with the second one, the Potiguar well, yes it is on schedule. We had already a rig on site to refer to 41 but we didn't have the right governmental permits and they have been now obtained and discussed with the authorities. It's an issue of drilling of permits

related to the governmental licenses. We are waiting for all the documentation to be approved and then programmed. The rig originally scheduled to go there and to be diverted because of that administrative issue on the Potiguar exploration well.

As far as the downstream business, let me say one thing. If you see Iberia not Portugal as a whole we can say that we have particularly marginally smaller margins. But the margins have increased in Spain and decreased in Portugal, the unit margins balancing the performance in the two markets. The performance of refining and marketing on a year-on-year basis is practically identical in Iberia and the difference comes from the performance of the refining and the logistic operations.

## **Filipe Rosa, Espírito Santo Investment Bank**

Could I just follow up on that question? Last year I believe that you reported some problems in the marketing business that Spain that were rated as one-offs. Can we expect from the Q2 and Q3 to have a better margins like we had last year or basically you think that the margins could remain at the current level?

## **Manuel Ferreira De Oliveira**

Filipe, I congratulate you for your good memory. Yes, it was. In the first quarter last year we had a kind of price war in the B2B business in Spain and this is why we have this year better results in Spain, so year-on-year. So we have effectively come back to normal competition in the business. That was a one-off unexpected event and that is what balanced the results this year compared to last year. The environment, Filipe, you are a Portuguese citizen, you know that it is not easy both in Portugal and Spain. We are basically trying to maintain results under this competitive and pressure by cost reduction and efficiency and efficiency and efficiency. Thank you Filipe.

## **Thomas Adolff, Credit Suisse**

Good afternoon. Just a couple of question on Brazil and then on the financials. First on the horizontal well that you said you are planning on Lula. When is this happening? And regarding BM-S-8 and Carcará you said you had some early indication. Is there ahead, a preliminary kind of estimate at this stage? And if you were to exclude Carcará, just on Biguá and Bem-Te-Vi together how much resources have you discovered thus far on BM-S-8?

Just on the financials, in terms of the interest expense can you give us some sort of guidance for the quarter for Q2, Q3 etc? I am just looking at the interest rate in Q1 which is quite high. Is there a way to lower this from those 4.6%? And also can you give us guidance on the tax rate please? Thank you.

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**Manuel Ferreira De Oliveira**

I will leave the financial questions to Claudio so let me take the two exploration questions. Yes, we agree it's not exactly a horizontal well, it's a deviation well which is to test the possibility of deviating wells throughout the salt layer. That well is close to completion. By the way it is an appraisal well, it's not an exploration well. The drilling trial which is to try to deviate the well through the salt layer. The well is statistically complete, will be connected by the end of this year and then tested next year. But from the drilling point of view only positive surprises.

We concluded that we can deviate wells throughout the salt layer. As going to the Biguá, Bem-Te-Vi or back to the BM-S-8 block, the two prospects are there, the Bem-Te-Vi and the Biguá, and there is one which is Abaré Oeste which is unitised with the neighbouring block. We have now the Carcará. We are excited about that well and this is why drilling takes place. We already informed the market that was light oil with good reservoir characteristics, better than the previous discoveries, and it looks like to be a super candidate to be the hub of the development of the neighbouring reservoirs.

But it is still too early to make more definitive statements. Hopefully throughout May we will come back to the investors. The well is presently being drilled, in the drilling process. We have to change the drilling programme when we are faced with positive news from the reservoir and that's everything I can say. Thank you.

**Thomas Adolff, Credit Suisse**

OK. From Carcará would you then move the rig to G prospect, if successful?

**Manuel Ferreira De Oliveira**

What happens is that yes we are rushing against the declaration of commerciality. On that block it would have priority, always depending on the rig availability on the area.

Thank you. Now Claudio will take the financial questions.

**Claudio De Marco**

About the financial cost in the first quarter the cost of interest was 4.6% but now we have cash in our hands, we gain flexibility to negotiate with our banks and then we have the possibility to have lower cost of debt. We are using part of the money to reimburse our most expensive loans and applied another important portion in available cash in with a low risk and high liquidity. Then I can expect that in the year the cost of debt will be lower than the first quarter.

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About the tax rate, the tax rate in the first quarter was 31% and we expect a little bit higher tax rate in the rest of the year because the special participation tax in Brazil will increase and will increase also the portion of earnings coming from the Brazilian that has a higher tax rate. I remember that in Brazil we pay 34% and in Portugal just 31%.

## **Dan Ekstein, UBS**

Thanks. Good afternoon everyone. Can I ask you about your gas and power division? Earnings have been very, very robust over the past few quarters. But you have referenced yourself at very tough conditions in Iberia, so it's somewhat counterintuitive I suppose, and it's quite difficult to get a feel for how strong the underlying business is there because I know your trading profits have been very strong from diverting Nigerian cargos to higher margins spot markets. Is there any chance you could help by giving some guidance about how much money you have made from such trading opportunities over the past few quarters so we can get a feel for how much contribution has been? Thanks.

## **Manuel Ferreira De Oliveira**

OK, thank you Dan for your questions. Yes the gas and power division is offering us robust results and they are due to two reasons: one is seasonality and the second is trading activity. As you are aware we have the LNG contracts, three LNG contracts and one large pipeline contract with minimums and maximums. We have take or pay conditions and add maximum values. Under the present market conditions of the LNG business what we are doing is buying spot cargos to replace our contracted gas and play with that flexibility to take gas to Japan. That's what we have been doing, very successful and very profitable. I would not release our trading profits on it.

However we see already from our programming activities a similar performance in the second quarter. We have already contracted deals similar to the ones of the first quarter exploring the arbitration between the Atlantic basin and the Far East on the LNG business and that will contribute to the results in the second quarter. Claudio has already gave guidance on the EBITDA for the business and for the corporation which is basically achieving an EBITDA around €1 billion this year.

## **Dan Ekstein, UBS**

That's interesting. How far in advance are you able to hedge these transactions. Is it just a few months ahead or where is the further visibility on that at the moment?

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**Manuel Ferreira De Oliveira**

You see, we have I would say a small but highly competent trading team in our LNG business. We have already fixed all the transactions for the second quarter and that is playing with contract flexibility. Cargo is available in the spot market, preferably cargos under stress which are not very common but if they are we catch them. And then demand in the local market, so we play with this. Now let me add to you, we have take or pay contracts with power utilities in Iberia and because gas in Iberia is losing competitiveness versus coal, coal is now the king in power in Iberia. That is we are releasing some take obligations and make more money in trading that gas elsewhere in the world. Thank you.

**Shola Labinjo, Tudor, Pickering, Holt & Co.**

Hello, good afternoon. I just had two questions. The first is on Lula. I was wondering if you could just tell us what the current flow rate is at Lula?

The second question was on Mozambique. I know you mentioned that you were looking to grow your footprint out there but given the recent valuations, I was wondering if you were also considering partial monetisation of your position out there?

**Manuel Ferreira De Oliveira**

Ok, we expect in the Lula field, in order to make sure that we manage the reservoir appropriately, to have an average production per well of 25,000 barrels a day and that's what we are observing. Remember that the business case for Lula was 20,000 barrels a day. Now we can push wells up to 30,000 barrels a day or plus, but reservoir management prudence is now indicating that 25,000 barrels a day seems to be a stable number. That is part of the Lula-1 project so still with that variable open. Additionally let me add that we are going to have very soon four production wells in connected to that FPSO and the unit is only able to handle 100,000 barrels a day of oil plus the equivalent of 20% in gas. That's the answer to your question on Lula.

Mozambique, we are not thinking about monetising our stake in Mozambique. We are thinking about increasing our exposure to Mozambique but not in an advance stage of de-risking prospects. What we are looking at entering the early stage of creation of value, our geologists are very involved in studying the local geology, all opportunities, preparing for forthcoming round of bids in Mozambique and this is simply in line with our strategy - is enter into the value chain as early as possible, taking risks and hoping with competence and work to succeed. That's our strategy. Thank you.

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**Lydia Rainforth, Barclays Capital**

Thanks. Good afternoon gentlemen. Most of my questions have been asked but just coming back to the downstream if I could. Clearly has taken you longer to ramp up than you expected it to do. Is there anything in the testing that has caused you concern that you had to go back?

Then secondly when you actually started up what sort of utilisation rate do you think you can run up for the first year given that there is large amount in Portugal you will have to export from that production?

**Manuel Ferreira De Oliveira**

OK, Lydia, thank you. Let me take your question. The problem that we are facing in Sines, let me be extremely clear to the market, is essentially due to a fact that is the following. The contractors that are there, are actually, when they finished the work, they have no further work, that's unfortunately the reality in Iberia. We have still many subcontractors of Tecnicas Reunidas working there and they all know that when they finish the work they have no further work. So it is extremely difficult to push them to meet the committed targets.

We are doing everything that we can to ensure that we deliver as we promised. There is a question of managing the contractor at this moment in which we have a lot of focus and our own management is interfering on a daily basis to ensure that this does not jeopardise our timing and secondly is the technological complexity. I never emphasised that so clearly. But if you put in a metrics, size of the hydrocracker system versus deepness of conversion the two dimensions, this is the most complex hydrocracker built in the world. We expect technological challenges and a lot of care in testing and commissioning all the subsystems of this project. It's quite an important project, is a profitable investment but we must go through this process very professionally.

As far as your utilisation rate for the hydrocracker is 100% and we have no doubt about it. The question is even after the first year or so of operation the bottleneck is to obtain production above its nameplate capacity. That's what happens in all major projects of this nature. Thank you Lydia.

**Closing remarks****Manuel Ferreira De Oliveira**

Gentlemen, I just want to thank you for your attention and let us keep in touch. If you have any questions about whatever we said during this conference call do not hesitate to call Tiago and his team and we are available to answer to your questions. Have a good day, hear you next quarter.