



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 second quarter 2012 results and strategy execution update conference call. I'll now pass the floor to Mr. Tiago Villas-Boas, Head of Investor Relations division. Please, go ahead Sir.

Tiago Villas-Boas, Head of Investor Relations

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

Joining me today is our CEO, Manuel Ferreira De Oliveira, who will first address the latest changes to our management team.

Afterwards, we will proceed with the second quarter results overview and with a short-term outlook, which will in turn be followed by an update to our strategy execution. And, we will then be available for Q&A.



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FIRST HALF AND SECOND QUARTER 2012



Solid foundations to deliver sustainable value

Manuel Ferreira De Oliveira, Chief Executive Officer

Good afternoon to all of you. I want to start today by elaborating on the latest change to our management team.

As you know, with the last week completion of the sale of a 5% stake by Eni to Amorim Energia, and the subsequent exit of Eni from the shareholder agreement in place, our management team changed accordingly.

But before that, I would like to thank Claudio De Marco, who took upon him the role of CFO for the last four years, working with dedication and professionalism during a transformational time of our Company, and for that I want express publicly my sincere gratitude.

I would also like to thank Fabrizio Dassogno, who was in charge of our Gas & Power division, for all his work and cooperation in the last few years. To both, we would like to wish all the best in their forthcoming new responsibilities at Eni Group.

I would like now to refer to new board members Luís Palha da Silva and Filipe Silva. Luís Palha da Silva has a well known and successful experience as CFO and CEO on one of the largest Portuguese corporations, and I am most pleased to have him joining our management team. Luís will assume the role of vice president of the Executive Committee and he will also be leading the Refining & Marketing business into its new era, as you know, that starts after the commissioning of hydrocracker, during this summer.



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Filipe Silva, with a remarkable and also a well know career in the financial sector, will take the responsibility of Chief Financial Officer of the company.

As for the remaining team, already elected in April, the responsible for the Exploration & Production business will be Stephen Whyte, who has a long and successful track record in our industry, wide experience and exposure to the E&P business.

Carlos Gomes da Silva, part of our management team since 2008, will now oversee the Gas & Power business, and the increasingly relevant oil & gas trading activity.

Carlos Costa Pina is taking the responsibility of Corporate Director, responsible for most of Galp's corporate services, and will also be responsible for our growing Biofuels business.

We have today, as we can see from this short statement, an experienced and qualified team, who will be focused and fully committed to the success of the Company, and in delivering our commitment that we have clearly set up in our recent Capital Markets Day in London. We will continue to deliver the execution of the strategy that in due time we shared with all investors.

I also want to welcome two new non-executive members of our board, Sérgio Gabrielli de Azevedo and Abdul Magid Osman. Sérgio Gabrielli was, as all of you know, the CEO of Petrobras until earlier this year, while Abdul Osman worked for the Mozambican government in the 90's and now works in the Mozambican financial sector. These two professionals will largely enrich our board, and their vast experience, track record, values and knowledge of the industry will most contribute to the success of the company.

Further, I want you to be informed that a non-executive directors' committee was created to advise the board on its international strategy. This committee will be headed by our chairman Mr. Amorim and will include Sérgio Gabrielli, Baptista Sumbe and Abdul Osman, highly respected personalities, respectively, in Brazil, in Angola and Mozambique, countries that are key to our strategy.

With this brief introduction and reference to the recent changes in our corporate governance I will now pass the floor to Tiago, which will summarize our quarter results. I will comeback to you later.

Key highlights

- Net profit in 2Q12 reached €129 Mln, up 81% YoY
- Several high impact wells to be drilled before year end
- Sines hydrocracker commissioning to start early August
- Sound financial position despite sovereign credit risk

2 | First half and second quarter 2012 results



Tiago Villas-Boas, Head of Investor Relations

Thank you Manuel. Following Manuel's introduction, I would just like to leave here my special thanks to Claudio, not only for his cooperation throughout the last few years, but more importantly for his support and trust. So, thank you Claudio.

And now, before starting with the results overview, I remind you that, as usual, we will be making several forward-looking statements, so I'd like to draw your attention to the disclaimer at the end of the published presentation.

So let's now go over to the second quarter results. After seeing some signs of recovery already during the first quarter, we were able to deliver a better performance in the second, while benefiting from some interesting market opportunities.

The net income reached €129 million, up €79 million quarter-on-quarter and 81% above the same period last year, mainly driven by the higher production in Brazil and by the increased volumes of LNG sold.

Looking particularly to the E&P business, this quarter was not only marked by the on track execution of the Lula development project, but also by the continued focus in exploration. During the second half of the year, we will step up our exploration campaign, with the drilling and completion of BM-S-8, Júpter and Potiguar, in Brazil, and with the first well in Portugal onshore.

Key highlights

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In what regards our refining upgrade project, the hydrocracker commissioning will be carried out during this quarter, the last milestone of this project.

Finally, given the current financial markets setting, it is important to note our strong financial position that has prevented us from suffering the adverse credit conditions surrounding Iberia. This solid financial position, and the flexibility that it provides us, is clearly a competitive advantage in today's world.

Net profit in 2Q12 reached €129 Mln, up 81% YoY

Profit & Loss (€Mln)

	2Q12	2Q11	YoY	QoQ	1H12	YoY
Turnover	4,336	4,336	+8%	(5%)	9,251	+13%
EBITDA	281	231	+21%	+42%	481	+51%
E&P	99	75	+32%	+13%	157	+53%
R&M	104	96	+8%	+26%	152	+11%
G&P	75	59	+26%	(10%)	157	+50%
Others	3	1	+92%	n.m.	4	(26%)
EBIT	174	122	+43%	+54%	269	+55%
Associates	21	25	+41%	+5%	42	+17%
Financial results	24	(25)	n.m.	n.m.	(17)	+74%
Taxes	(72)	(27)	+262%	n.m.	(95)	n.m.
Minority interests	(19)	(4)	n.m.	n.m.	(21)	n.m.
Net Profit	129	71	+81%	+132%	175	+57%
Net Profit (IFRS)	(15)	101	n.m.	n.m.	157	(46%)

- EBITDA increase driven by higher Brazilian oil production and by LNG trading opportunities
- EBIT positively impacted by lower DD&A due to the reserves increase in 2011
- Net profit benefited from lower net interest costs and forex gains

2 | First half and second quarter 2012 results



Now, let's start running through our quarterly results, in slide number 5.

Ebitda grew by over 20% year-on-year, with the positive contribution from all business segments. The 40% increase compared with the first quarter, was mainly driven by the refining business.

The E&P business continued delivering on production growth in Brazil, with the 40% increase in net entitlement production more than offsetting the decrease in oil price. The production growth comes as you know, as the fourth production well connected to the FPSO Cidade Angra dos Reis contributed steadily for the first time this quarter. So we had four production wells contributing to a total average production of 9.2 kboepd in FPSO Cidade Angra dos Reis.

Refining & Marketing also posted an increase, contributing with an extra €75 million versus the previous quarter, as the overall improvement in benchmark refining margins counterweighted the still challenging performance of the oil marketing business. Benchmark margins moved to positive ground for the first time since the fourth quarter 2010. I highlight the fact that our premium to benchmark decreased in the quarter to below \$1 per barrel. This decline was mainly due to: the non-optimal utilization at Sines refinery, as the refinery is already optimised for the hydrocracker, which operation has not yet started; to the heavy-light spread decline; and due to some technical outages.

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	2Q12	2Q11	YoY	QoQ	1H12	YoY
Turnover	4,336	4,336	-8%	(5%)	9,331	-13%
EBITDA	281	232	+21%	+42%	481	+51%
E&P	99	75	+32%	+15%	127	+53%
R&M	104	96	+8%	+26%	152	+11%
G&P	75	59	+26%	(10%)	157	+50%
Others	3	2	+50%	n.m.	4	(26%)
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The marketing business continued to be impacted by the difficult situation in Iberia, as the economic recession and the austerity measures in place continued to erode demand, which fell by 7% in Portugal and another 5% in Spain, in the second quarter. On the other hand, our small African business continues to perform well.

The Gas & Power business continued benefiting from increased LNG trading opportunities, on the back of increased demand from emerging markets, and more importantly from Japan. Overall depreciations had a positive impact in quarterly results, as E&P depreciations decreased. This decrease followed the reserves upwards revision at the end of 2011.

So, all of these effects drove Ebit to grow by over 40% year-on-year, reaching €174 million in the quarter.

Below the Ebit line, results were also positively impacted by the lower cost of debt, which is now standing at 4.40%, and by forex potential gains, which resulted mainly from allocation of available cash in Brazil, as the Brazilian real depreciated against the dollar. These impacts were more than enough to offset the increased minorities, which resulted of the Sinopec deal in Brazil.

Concluding with the P&L, second quarter net income stood at €129 million.

Sound financial structure enabling flexibility

Balance sheet (€Mln)

	Jun.2012	Mar.2012	Jun - Mar	Dec.2011	Jun - Dec
Fixed assets	6,154	6,120	+34	6,002	+152
Working progress	2,399	2,318	+83	2,174	+225
Strategic stock	754	823	(73)	936	(242)
Other assets (Intangibles)	315	450	(-135)	(407)	+922
Working capital	960	227	+733	(146)	+708
Net debt	1,221	793	+428	3,504	(2,283)
Equity	6,763	6,826	(-63)	2,941	+3,822
Capital employed	7,983	7,806	+177	6,445	+1,538
Net debt to equity	18%	12%	6.3 p.p.	119%	n.m.

- Net debt increase followed capex, working capital needs and the dividend payment during 2Q12
- Working capital negatively impacted by the decrease in accounts payables
- Competitive cost of debt maintained and debt maturity extended

• First half and second quarter 2012 results



Moving on to the balance sheet in slide 6.

The net debt now stands at c.€1.2 billion and it was negatively impacted in the quarter by the working capital needs, by capex and by the dividends payment of €166 million.

In what regards working capital, the main driver behind its increase was the change at the suppliers level, with payables going down QoQ.

Capex amounted to €190 million in the second quarter, with Exploration & Production accounting for over 70% of the total. Around 50% of the cash was allocated to development activities in Brazil, particularly to the drilling of development wells in the Lula area, while the other 50% was mainly allocated to exploration activities, specially in Mozambique, with the drilling of Coral-1 well in the Mamba complex, the 3D seismic acquisition in the North and the 2D seismic along the remaining Area 4.

Net debt to equity stood at 18%, within the financial policy we have defined, while net debt to ebitda was of 1.3x.

Short term outlook

- 3Q12 working interest production targeted at c.26 kboepd
- Cautious outlook on refining, despite the robust benchmark margin QTD
- Marketing volumes increasing QoQ due to seasonality despite harsh Iberian environment
- Natural gas volumes to remain stable QoQ supported by electrical and trading segments
- Expected 2012 EBITDA close to €1 Bln, in line with previous guidance

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Now, in slide 7, our short term outlook, we expect 3Q working interest production to be in line with 2Q, standing at 26 thousand barrels per day. I highlight that at the end of the quarter, the FPSO Cidade de Angra dos Reis was almost at full production, with an average gross production in June of 110 thousand barrels per day, boe.

As for refining, we maintain a cautious outlook, despite the higher margins in July, when benchmark margin was close to \$4 per barrel, we still maintain a cautious outlook considering the volatility we expect to occur this quarter. In the oil marketing business, despite the typical 3Q seasonality effect, volumes should remain depressed, so below last year's level, in line with what we have seen in the first half of the year.

As far as the Gas & Power business is concerned, natural gas volumes should remain stable QoQ, supported by demand from the electrical segment and by volumes sold through our trading activity.

All in all, we are set to deliver a full year ebitda of around €1 billion, within the guidance provided before, assuming a conservative refining margin level and an oil price averaging around \$100 per barrel in the second half of the year.

Thank you very much for your attention. Manuel will now proceed with the remaining part of the presentation.

Lula development project execution on the right path

FPSO Cidade de Paraty (120 kbopd)



Hull conversion was concluded at the Keppel shipyard, in Singapore
Topsides are already under construction at the Bastfels shipyard, in Brazil

- FPSO Cidade de Paraty to be allocated to Lula NE area is on schedule to start operations by 2Q13
- Topside modules contracts for the first replicants being built in Brazil already awarded at competitive costs
- Increased project flexibility through the chartering of additional FPSO units

First half and second quarter 2012 results



Manuel Ferreira De Oliveira, Chief Executive Officer

Thank you Tiago.

Let me try and summarize our operating activity throughout the company and give you an overview about the update of strategy execution. Let me first look at Brazil and, in particular, to the Lula development project, that continues to proceed according to the plan, previously communicated to all of you.

Regarding the FPSO Cidade de Paraty, which will have a 120 thousand barrels of oil per day of capacity and will be placed in the Lula NE area, I'm glad to say that the hull is already in Brazil, where the topside is being integrated. This is evolving as expected and the unit will be operational in the 2Q13.

Regarding the first replicants, after contracting the hulls in late 2010, the consortium has now contracted the topsides for six 150 thousand barrels of oil per day FPSOs, which will be assembled in Brazil, at an extremely competitive cost, as has already been communicated. Additionally, we will have another three chartered FPSO's to start operations in 2Q13, as I referred before, a third one by mid-2014 and another one in 2015.

Lula development project execution on the right path

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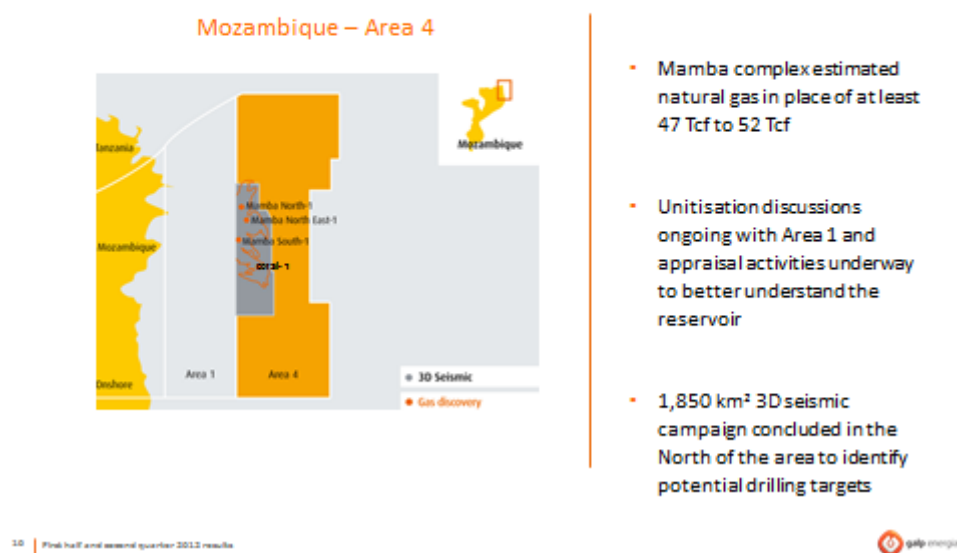
First half and second quarter 2012 results



Now I am moving to slide number nine. I also want to tell you that we have already successfully completed the drilling of the first deviated well through the pre-salt, in Lula, which truly represents an operational breakthrough. Despite no production test has yet been done, we believe this well will be important, not only in terms of productivity increase per well, and then reducing all the drilling costs, but also, and more importantly, as it can be replicated in other fields, like Lara, with a direct impact on recovery rates.

I recall also that we are evaluating the options to use water-alternating-gas injection and CO₂ injection on reservoirs in that area, which could represent innovative and proven techniques to increase the so much valued recovery factor.

Preparing world class province development

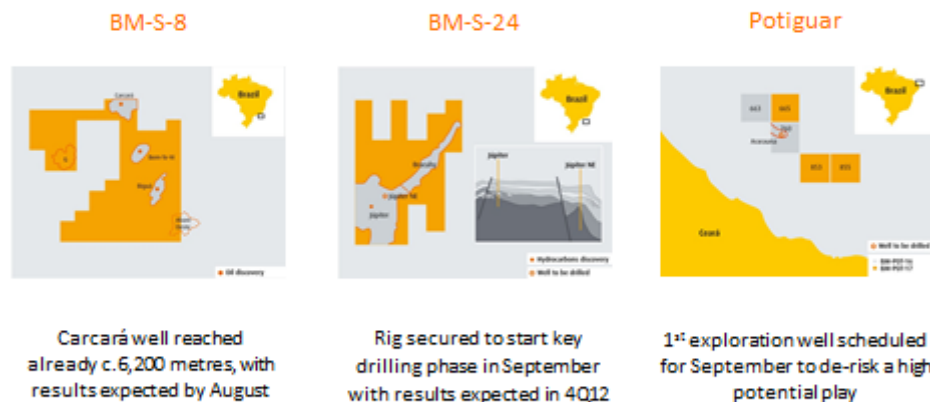


Now in slide number 10 I am referring to Mozambique. In Mozambique we continue to deliver the progress of its exploration program, well above our initial expectations, with gas in place now standing at around 50 Tcf.

After drilling four wells so far, all with the results above the expectations, as I previously referred, we have already shot most of the seismic in the underexplored part of the block, namely 3D seismic in the North of the Mamba complex, and 2D seismic in the remaining area, in order to find the new drilling targets.

We will continue to focus on this area, with appraisal drilling activity in the second half of the year aiming at gathering data to better understand this major reservoir and to support optimum development plan for the area, which is now our base priority. Still, I highlight that there is room for further upside in Area 4.

Several high impact wells to be drilled before year end



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Now the next slide, as regarding other exploration activity in Brazil, I want that you to know that we expect to have some interesting newsflow in this second half of the year.


I start with Carcará, which is being drilled in block BM-S-8 and could potentially have the drilling results by August. I can advance that the data we have collected so far came above our initial expectations. The issue with Carcará is that, due to the high pressure of the reservoir, we are proceeding with additional caution, taking into account the highest safety standards that are adopted by the operator. I remind you that this discovery can unlock the commercial development of the total block.

In Júpiter, a rig has been secured and it will be displaced to the drilling position in August, with results expected in the 4Q of this year. As you know, this well is of great importance, as it will confirm the oil-water contact, potentially adding up to 1 billion barrels of oil equivalent to the already 5 billion barrels existing in the reservoir. This is even more material considering that Galp holds a 20% stake in this field. Additionally, this well will mark an important step towards outlining the development of the field, as it will also help us to understand the CO₂ distribution across the reservoir.

The third potentially high relevant impact well to be drilled this year in Brazil will be in Potiguar, which is a frontier exploration area. Drilling will start this September. We consider that this may open a new play with significant resource potential, but let's wait for the results of the drilling programme.

Exploration acreage addition materializing strategy outlined


Aljubarrota-3 concession



- Entering in early exploration phase with a material stake, with an option to become operator
- Aljubarrota-3 concession is more gas prone with 1.3 bln boe of exploration resources²
- Alcobaça #1 exploration well to start in August targeting pre-salt layer

² mean unrisked estimate
Source: Halliburton Development Services (HDS) as of March 2012

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Now I am moving to the slide number 12. Concluding with the E&P strategy update, I would emphasize the latest acreage acquisition onshore Portugal, which represents our first portfolio addition, in line with the strategy we've defined to support our production growth in the long term.

We have acquired a 50% stake in Aljubarrota-3 concession materializing a decision to hold more material stakes, having the optionality to become the operator of the block, which we anticipate to hold gas. Additionally, by entering at the early stage of exploration, we will be more exposed to the value creation potential.

The first well in this area will start to be drilled next month, and completed before the end of the year.

It is important to note that we have a competitive advantage here, because if the exploration programme is successful, we will be able to monetize directly the gas in our domestic business.

The farm-in agreement recently signed, also provides us with the option to acquire a 25% working interest in each of Mohave's other six concessions in Portugal, it is only an option, I emphasize, which could further enlarge our exploration footprint.

Sines hydrocracker commissioning to start early August

Sines refinery



- 571 of the 585 new systems already handed-over to the refinery
- Hydrocracker commissioning expected to take 60 days to reach full capacity
- Additional flexibility to adjust production yield to market conditions

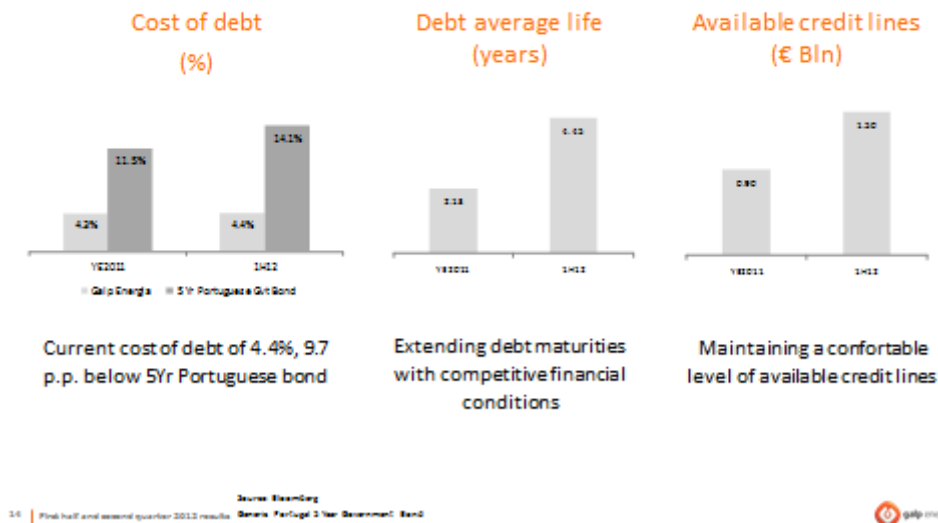
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Now let us go to our Sines hydrocracker project. Regarding this project I want you to know that 577 systems, out of 585, were already handed-over to the refinery, so 99% of the project has been totally completed. The remaining 8 systems, which are now being tested at this moment, will be transferred from the contractor and the internal project team to the refinery operations throughout next week. Commissioning will be then undertaken under the leadership of the operation area of the refinery, and it will last 60 days, according to the programme that has been agreed with the licensor of the technology. We hope consequently that the first gasoil will be out the system throughout September with stability of production expected in the last quarter of the year. This an important milestone to our refinery and downstream business.

As you know, despite the recent support of the refining margins, which structural problems around European refining are still there. We are still suffering from excess capacity and from the chronic oil product mix imbalance. And in this scenario, the upgrade project is of special importance, given that it provides us with greater flexibility in terms of product yield. Once we have the hydrocracker up and running, we will be able to optimize our refining system to better capture the dynamics between different oil products pricing that we see every day. Additionally, we will have also more flexibility in our crude mix input.

Sound financial position despite sovereign credit risk



Now, a word to our financial position. I want to re-ensure you that Galp remains with a unique solid capital structure and reduced financial outlook. Regarding our financial strength, I want to reassure you that Galp remains with a unique solid capital structure and robust financial outlook. Our cost of debt has remained stable, while the Portuguese sovereign cost of debt increased by 3% recently.

We are as well focused today on sustaining our financial position, because we were last year at not so comfortable levels. We have been negotiating part of our debt, being able to benefit from competitive conditions. We already addressing our 2012 refinancing needs and we remain with available credit lines that are slightly beyond €1.5 billion which give us additional flexibility.

Final remarks

- Lula world class development project being successfully executed and with increased operational flexibility
- 2H12 exploration campaign focusing on high impact exploration wells
- Exploration acreage addition materializing exploration strategy outlined
- Upgrade project contributing to incremental cash flow generation in 4Q12

18 | Final half and second quarter 2012 results



To conclude, I would like to leave you with our final thoughts:

Our share price has been hurt in the last couple of months, and we identify, after some internal consideration, two main drivers behind this underperformance.

Firstly, the exit of one of our reference shareholders and the subsequent wrongly perceived overhang of shares. I would point out that the first 5% have already been sold to Amorim Energia at the value of €14.25 per share and that Eni has more than once publicly stated that they would not be stress sellers.

Nonetheless, I want to tell you that Galp is cooperating and assuming the role in surpassing this potential overhang, namely by speaking proactively to institutional investors and other industrial/financial investors.

Secondly, the Euro debt crisis and the concerns around the Iberian economies have further dragged our stock price well below its fundamentals. At the operational level, which is our main responsibility, we continue to be challenged in our Iberian businesses with decreasing demand, but I want to emphasize and point out that most of our value already rests in businesses away from Iberia.

But, our focus continues to be, namely, in executing our strategy.

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We have been increasing our exploration focus, with four potentially high impact wells, that I referred to you before, and will be completed before year end, as it is the case of Júpter in the third quarter and other ones that I referred to you before.

We continue executing our Brazilian projects and we have ensured already, as I referred before, the additional infrastructure and additional flexibility.

We are also focused in our project in Mozambique, whose development will start to be discussed very soon.

These projects will enable our production to grow, subsequently impacting our earnings.

On the downstream front, we will continue to work on its efficiency and operational improvement and we are implementing several optimization measures, that will impact our costs' structure and will ensure that these businesses continue to deliver reliable and resilient earnings.

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Particularly in the refining business, our focus now is to have the upgrade project up and running.

So, our investment case remains solid and our aim is to continue delivering the value that is expected from us.

We are set to deliver profitable growth, basically, from the upgrading project and the upstream business. Our downstream businesses profitability and resilience will support this growth. Ultimately, we plan to increase the dividend, in line with the dividend policy that we announced in our Capital Markets Day.

With this I conclude my introduction and long remarks, for which I apologize this time, and we are now available to Q&A and the floor is yours.

Questions & Answers Session

Brendan Warn, Jefferies

Thank you gentlemen. It's Brendan Warn from Jefferies. I've just got two questions. Just one regarding your frontier well coming up in the Potiguar Basin. Can you just remind us of pre-drill sort of target size, and in the past you've referred to sort of other prospects on your blocks, just in terms of what are the prospects of de-risk or what sort of materiality will be unlocked through this first well with successful plays?

And then just a second question, when we start to think about first half next year, just can you give us an idea of what sort of regions are moving from the evaluate to the drilling segment of your funnel of your exploration funnel, please?

Manuel Ferreira De Oliveira

Thank you, Brendan. Thank you for the question. As far as our frontier exploration well and I emphasize, by frontier we mean high risk, high reward, by definition. So let us assume the two scenarios at this stage of the game. We will be drilling the well this year. We call relevant discovery anything that is beyond or above 1 billion barrels of recoverable reserves. That's the kind of the size of target that the play incorporates. As far as other targets, I would prefer at this moment to wait for this well and then review our position of that area. It is unequivocally a high-risk, high reward well to be drilled.

Now, next year, the first half of next year we'll be basically sharing with you the decision of where we have to drill, if we decide to drill in offshore Portugal. We also have a major decision to take on BM-S-21 in the pre-salt in Brazil, a well to be drilled. We will have, again, a frontier well in Pernambuco in another basin, different than the Potiguar we refer to you, and we will continue exploration in Mozambique. So BM-S-21, Pernambuco, additional exploration in Mozambique resulting from the recently acquired 3D seismic and Portugal, deep offshore Portugal, so quite a lot on plate for high-risk wells.

Thank you, Brendan.

Bruno Silva, BPI

Good afternoon, everyone. I have two questions, the first one relating to working capital. In the first quarter this year working capital deteriorated, as you have said, if I remember correctly, that was driven by fuel prices, with impact in inventories, whereas now there is a change apparently in the average

settlement of payables, as you have referred, having a material impact in net debt in this quarter. In this sense, could you please add more visibility on what is behind accounts payable change in terms of settlement period and what can we expect for the full year in the evolution of working capital? And related with that what would now be a good estimate of net debt for this year, for year end?

Secondly, regarding the marketing business, comparing this first half and last year's in terms of EBITDA for the unit, the evolution seems quite resilient, particularly if we ignore the lag effect, which I guess is very encouraging in this context. However, should we expect a similar year-on-year evolution in the second half this year or do we expect a relevant EBITDA erosion? And extrapolating from historical data, let's say that you have an EBITDA in the second half last year in this unit, excluding refining of about €185 million, I just don't know if that is consistent with your own records. Thank you very much.

Manuel Ferreira De Oliveira

Bruno, thank you for your questions, which are always clear. So let me tackle the working capital issue, which is of relevance. First of all, I want you to remember that we, last year, up to the closing of the transaction with Sinopec, we had a balance sheet that was stressed, so I do not want to reemphasize that because you followed that very well, for a company of our nature. So what we did? What we did last year was managing the receivables and payables with actions that sometimes costed money, in order to ensure that we had the debt under control. This year, or this quarter, particularly, we decided to not to take actions of that nature that costed money. So in order to optimize the economic value of the company, instead of the shape of the balance sheet. So these decisions, they are a one-off decision, basically a resetting the payables and receivables to what is standard in the industry and used to be common in the past. That represented an increase in working capital of something slightly above €300 million. It is a one-off operation, unless we manage to repeat the operations at a lower cost that we could have now. That has to do with monetizing, particularly some receivables.

So going to the second question, the second question is the downstream resilience. This is more than an information, is an opinion. My opinion is that the downstream markets in Iberia will be under stress that we cannot change the unit margins. So we have the improvement that we can see will come from the upgrading project in the refinery, essentially, and which will be neutralized slightly by the decline in EBITDA from the downstream business in Iberia.

We never talk a lot about Africa, but our EBITDA in downstream Africa is increasing. So the numbers that you've seen there are a consequence of that. In comparison with the EBITDA in the first year, last year, our downstream business was basically improved due to a better refinery margins, particularly in May and June and to some time lag cost neutralization in the first part of the second Q. Thank you, Bruno, for your questions.

Bruno Silva, BPI

Right. Sorry. If I may, a quick follow-up on the net debt for year end 2012, could you provide what would be a good estimate considering the current conditions? Thank you.

Manuel Ferreira De Oliveira

You see, particularly if the crude oil price doesn't go up, so if it stays at the present \$100 barrel today, so the working capital would be not a penalty in our debt. So the capex that we are executing, will determine the variation in debt. And EBITDA, as referred by Tiago before, would be of the order of €1 billion as far as we can forecast now.

Rob West, Sanford Bernstein

Hi, all. My first question is about the Portuguese onshore exploration that you are looking at later this year and the question is, what kind of chance of success do you get and what are the key geological risks for a success there?

And my second question is about the impact of ENI's stake sale. Is there a share price at which point you would consider stepping in and buying back some of your own shares direct from ENI and would it just stabilize the situation and generate value from the cheaper share price? Thanks.

Manuel Ferreira De Oliveira

Rob, thank you for your question once again. So let's speak to our project onshore. There is this company, Mohave, is an American-based company, actually controlled by another holding quoted in Calgary, has been working onshore of Portugal since the early 1990s and so they have collected a lot of information and they have a team on the ground, they are extremely confident about the potential of our onshore. But, obviously, these are not major prospects. But they could be materially relevant. We also had worked in the past in onshore Portugal. We, actually a couple of years ago, withdrew from activities in the onshore Portugal.

Today, after reviewing the data with better seismics, we decided to step in, in order to support the next phase of the development of Mohave in the most promising block, which is Aljubarrota block. It is a pre-salt prospect in the region and with all the indications that it could have gas, in what seems to be an obvious reservoir that we can read clearly on the 3D seismic. Let's see whether the reservoir is charged or

not. That it has all the conditions to find gas, it is our conviction that it will, the major unknown is the dimension of it. But whatever the dimension, because we have our distribution network right in the area, it will be a very low cost to integrate into the market. So let us wait for the well and then think of the future. Then upside is that, if these prospects are successful, they are replicable. There are other formations in the neighboring areas that indicate the same geological attractiveness. We also agreed with Mohave to take at cost, to have an option to enter into all other areas in the region with a 25% stake if we so decide. So we are taking one step at the time and keep the fingers crossed and trust in the judgments of our geologists. So that's the answer to your questions.

As far as ENI, what I wanted to say is the following. It is ENI that has to take the decisions on how they will sell the 18% shares that they have agreed to sell through the stock market with Amorim Energia. So I cannot be the person that shares with you their strategy for that. What I can tell you that our relationship with ENI is of high quality. We maintain a deep cooperation with ENI and we are available to support whatever action they decide and we hope and we are fully confident that they will not sell shares under stress. What is the definition of stress I cannot tell you that because I don't know the answer. Thank you, Rob.

Matt Lofting, Nomura

Hi, good afternoon. Two questions please. Firstly, on refining, I wonder if you could just clarify the sort of uplift in the margin as a function of the progressive sort of delivery of the upgrade projects in terms of where that was in Q2 and what you expect for Q3 relative to the \$2.5 to \$3.5 per barrel range, in the context that the hydrocracker at Sines also would still be commissioning ramping up through that period?

And secondly, on the balance sheet and the credit lines that you pointed to, about €1.5 billion. Could you just give us an indication of the average maturity of those lines and the structure of them? Thanks.

Manuel Ferreira De Oliveira

Matt, thank you for the questions. Let's take the refining issue and that the lift in refinery margins. We have guided the market throughout many quarters on the \$3.5 a barrel of uplift in margin versus the previous configuration of our refinery system. And that number is a reliable number as far as we can judge. It is effectively slightly below the average that would have happened last year. So if we replicate 2011, we would have added, if we had hydrocracker operating, we would have added another \$3.5 a barrel that's mathematics. Then what is happening now, the recent improvement in the refinery margins is due to a phenomenon that we don't know whether how long it lasts. It is essentially due to the increase in the

value of fuel oil. Additionally, we have seen recently a phenomena which is linked to the previous statement that brings the differential between heavy crude oils and the light crude oils to minimums that I ever saw in my 41 years of professional career. So we are in a period of instability. So the overall margin expected from the new facility will increase, in my view, versus a theoretical case, by \$3.5 a barrel. However, that could be due to different reasons. That could be due to the – increasing the base of refinery margins, pre upgrading, if the fuel oil crack maintains at its present level. And if that happens, the incremental that can be technically attributable to the hydrocracker will be lower. How much lower depends on the crack, the differential between heavy, sour and light sweet crudes and to the negative crack of fuel oil. So if things are as if they are today, we will have a refinery margin that will well remunerate the capital investment. But the components of that margins are attributable also to the previous configuration. Was I clear to you or confusing?

Matt Lofting, Nomura

No, that's clear. Thank you.

Manuel Ferreira De Oliveira

Now let me speak about the maturity of the liquidity, I've just been told, Matt, that is above one year.

Jason Kenney, Santander

Hi, there. Please add my thanks to Claudio for his support over recent years as well. And in terms of questions, can you give me some guidance on the forward tax rate later in 2012, maybe going into 2013?

Secondly, the depreciation decline, I was just wondering if you could give us some guidance on the direction going forward?

And then finally, I noted your comments on the ENI exit in your introduction, suggesting you're going to be proactive to lessen the potential of the hangover by talking with institutions. I just wondered if you could expand on that comment if possible?

Manuel Ferreira De Oliveira

Jason, so let me answer to your two questions, the first is the forward tax rate. I had been now clearly advised by my colleagues that are with me that a good guideline for this year is 30%. Going forward global tax rate increases as the production in Brazil grows. But for the short term taking 30% is a reliable indication.

Now the ENI exit, I referred being proactive. We have that duty towards the shareholders to be proactive, so that we can, if we see opportunities that create value to the shareholders and to ENI that would be delighted. So what we are working is on it. So without any mandate by ENI at this stage but with open cooperation with ENI. So that's basically what I can say about that. Thank you, Jason. I think I answered your questions.

Thomas Adolff, Credit Suisse

Afternoon. Just a few question as well, please. On Mozambique, can you give a more clear timeline, you're drilling a bit more in 2013. How much resources lie in your block, not subject to unitization and how you're kind of progressing on adding more acreage in Mozambique?

The second question on the financials. Your run rate on capex for the first half looks a little low. Just wondering whether your capex guidance is unchanged and if possible if you can give me a split of between exploration and development capex for this year and next year? Thank you.

Manuel Ferreira De Oliveira

Thank you, Thomas. So, thank you for referring to Mozambique, which is now our main focus in terms of exploration. In Area 4, we have already basically informed the market that the resource is in place, the gas in place, is something between 47 and 52 Tcf. So let's say 50 Tcf. What I can add to that is that the reservoir and the characteristics of the reservoir are not good, they are excellent. So you can expect a very high recovery factor. Thinking about 75% to 80% is a reliable number. So that gives you sufficient reserves. So I think now the priority is to put, as fast as we can, the development plan for the existing reserves. As in every occasion, when you have unitization you have the potential of having delays. So I am emphasizing the word potential. When you have unitization it's all over the world, you've got negotiations to complete and potential delays. I do not see from what I know on the debates that are going on, in order to make unitization a non-issue, I do not see that that would be a cause for delay. However, if that is the cause, if it

causes any delay, the resources already exclusive, not subject to unitization and exclusive to block Area 4, will be more than enough to kick off the first liquefaction facility. So I still support the common sense is that unitization will be agreed and the optimum development project would be set up and production on line as soon as possible.

By the way, the government of Mozambique is putting, in its interest to be a facilitator, because it has much interested, as the operators of the two blocks, to have production as soon as possible. I take this opportunity to emphasize that in this process of increasing relevance of Mozambique in the world gas market that our company has been working closely and successfully with ENH to see how we can cooperate and enlarge our exposure to Mozambique. That is a constructive discussion that is going on and if we agree anything that is material, we will immediately present it to the market.

As far as the capex, effectively the capex throughout the year, the overall capex of the year for E&P was essentially concentrated on the second part of the year, because of the drilling program that we referred to you before. And it is approximately 50% exploration, 50% development. We'll have a total capex of around €700 million to €800 million this year in E&P. As you expect, the weight of development will shift and probably next quarter, we'll be saying to you that it will be much higher in development than in exploration. That's the natural course of growth of our company to E&P. Thank you, Thomas, for your questions.

Marc Kofler, Macquarie

Hi, good afternoon, everyone. I just had one question, just coming back to ENI and your comments about cooperating with that sales process. I was wondering if there was any scenario in which the transaction may occur that may involve Galp potentially taking, be it temporary or perhaps more long-term, some of the equity that ENI is looking to sell?

Manuel Ferreira De Oliveira

Marc, thank you. So thank you for the question. Let me tell you one thing. Our cooperation with ENI has already existed, exists and I hope and I'm sure that we'll continue existing in many other areas of the company. But on this specific issue let me say you the following. For the company to acquire its own shares, that requires a shareholders' meeting resolution. So, the Board of Directors has no authority to take that decision. So, it has to be proposed by shareholders or by the Board to the shareholders. If that decision is taken, then we will act accordingly. As you probably are aware and I'm sure that you are aware

that although on our balance sheet we have a net debt of €1.2 billion, effectively our debt is slightly more than €200 million, because we have financial assets. We lent money to Sinopec of €1.5 billion that is now in our balance sheet as a financial asset. So effectively if you consider that an application of funds, we will have a consolidated net debt of approximately \$300 million. So that's the real economic balance sheet that for an engineer like I am. But from the accounting point of view, we got €1.2 billion of debt. This issue of buying shares of the company cannot be a decision of the Board as I referred to you. If we sense that this is something that we should do, which we have not done it yet, we have to convene first to a shareholders meeting. Thank you, Marc.

Hootan Yazhari, Bank of America Merrill Lynch

Hi, there, gentlemen, thanks for taking the question. I wanted to discuss around your recent acquisitions of acreage on onshore Portugal. I wanted to see whether this marks a shift in your strategy at all. And are you looking to build a core competence in unconventional, is this going to become a bigger portion of your future strategy and mark a move up the cost curve or is this just something you're doing, because you have a competitive advantage in Portugal and you don't want to look at any further unconventional plays globally? And also, I just wanted to see how you're facilitating getting the know-how. I mean, obviously this marks a big diversion from the sorts of projects you've been involved largely, which have been offshore deepwater and then moved to onshore unconventional, obviously a very different sort of play type. What are you doing in order to get the expertise into the company? Thank you.

Manuel Ferreira De Oliveira

Hootan, thank you for your questions. If you ask me whether this small decision that is qualified that way marks a change in our strategy, I could not say that is a discontinuity, but it is an execution of the strategy that was an ultimate point where I would like to be. We clearly are developing the competencies to be what I called an explorer company, which means that having higher stakes in the high risk exploration phase of the business. And then, as we move down the value creation phases of exploration and development, reducing the stake. So this taking a 50% stake in this project indicates that. Secondly is our availability to be the operator. We have no doubt whatsoever, I emphasize that, that we have the knowledge and the skills to be an operator in the upstream of upstream, which is basically the predevelopment phase and we have to grab for that if the opportunity arises. The concept is always going, as early as possible, into the exploration value creation chain and use more human capital than financial capital in that first stage of value creation. As the requirements for financial capital increase in the

evolution of the value chain, we would reduce our exposure, monetizing some of the previously created value. Was that clear to you, Hootan?

Hootan Yazhari

Yes. Very much Sir.

Closing remarks

Manuel Ferreira De Oliveira

I understand that we've answered to all your questions. I take this opportunity for wishing you good summer holidays. And I promise that next time we will not be the only one answering to your questions. Thank you very much and let us keep in touch.