

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

Good morning ladies and gentlemen and welcome to Galp Energia's third quarter of 2013 results and strategy execution update conference call.

Joining me today, as usually, is our CEO, Manuel Ferreira De Oliveira, and our CFO, Filipe Silva. Manuel will first provide an update on our strategy execution and Filipe will follow with an overview on our third quarter results. In the end, we will be available for a brief Q&A session.

I remind you that we will be making several forward-looking statements during the call, namely that refer to our estimates, plans and expectations. Actual results and outcomes can differ materially due to factors that we note on the disclaimer we publish in the beginning of the presentation, and which you are advised to read.

I'll now pass the floor to Manuel. Thank you.

## **Manuel Ferreira De Oliveira, Chief Executive Officer (CEO)**

Thank you Tiago, and good morning to all of you.

I would like to begin our call today with an update on our Lula project.

First, regarding Lula Northeast, you saw that production already increased during the third quarter. This was due to the connection of the first gas injector well which allowed us to ramp up oil production to around 30 thousand barrels of oil per day and with just one single producer.

Now, as for the remain works on Lula Northeast, we are planning to have the second producer connected until the end of the year using a flexible riser. This is in fact a contingency measure that we are considering to mitigate the delay in the installation of buoyancy supported risers.

As you know, the works for the installation of the BSR at the Sapinhoá field suffered delays due to tough winter weather conditions, which impacted the works in our area. Nevertheless, we expect the weather window of summer season to improve in the coming months allowing us to proceed with the installation of the BSR's in Lula Northeast. We now anticipate that the first buoy will be installed during the first quarter of next year, starting in early January.

I want to make it clear that all the steps that could be taken in advance to the installation of the buoy were already taken. Not only have we drilled more than half of all development wells needed for the entire project, we have also concluded all the eight foundations for the two buoys at the subsea level. So we are prepared for the buoy installation and to connect additional producer wells as soon as possible.

As we mentioned before, we see two bottlenecks in what regards production ramp up at Cidade de Paraty, and these are the buoy installation, which should be overcome early next year, and the connection to the gas export pipeline, which we expect also during the early phase of the first quarter of next year.

So yes, there has been in fact a delay, and it will impact our 2013 exit production target for Lula Northeast of 75 thousand barrels per day. However, I want to make it clear that this setback is not material when considering the value of the project, as we are confident on the full ramp up in 18 months as initially projected.

Let me tell you that we do not regret having chosen this technology for Lula Northeast. We believe that, depending on the area of the field, the use of BSR will prove to be positive in the long term, in terms of reducing equipment fatigue throughout the project and increasing competition in the market of oil services companies. Thus, it was a valuable strategic decision made with a long term view.

To mitigate the delay I referred before, we will have a standard flexible riser well operation as from December and two EWT, one with a dynamic producer and another with FPSO Cidade de São Vicente, each one in Lula Central and Lula South locations. With that, we will mitigate our end of year production target.

Moving ahead, the third FPSO is on track for delivery next year, with around 70% of the works already completed, and we are taking all the necessary steps in advance by drilling development wells before the arrival of the FPSO units. As an example, we have already completed three development wells in Iracema South location, where the FPSO Cidade Mangaratiba is scheduled to arrive in the second half next year.

And we also have good visibility for the units that are planned to be delivered, in particular until 2016. For example, FPSO Cidade de Itaguaí for Iracema North is with more than 35% of works completed and in line with timetable initially defined.

Regarding Cabiúnas, the second pipeline to export gas from Lula, works are progressing as planned with most of the pipes already manufactured and already in Brazil. As you know, this will be key to increase oil production in line with the capacity build up in the field. We feel confident that the pipeline will be working by 2015, but, in case of any potential delay, we should be able to inject more gas into the reservoir.

At the same time, we proceed with the reservoir data acquisition campaign, namely at the flanks of the Lula field. This increases our knowledge on those areas and helps us to better adjust the development plan of Lula/Iracema, allowing us to adapt the infrastructure to be allocated to each part of the field. As you know, in 2012, RDA wells were the main reason behind the increase of the expected recovery factor of the field.

Continuing with value upside opportunities, I remind you that we continue to test the water alternating gas injection in Lula, with the first WAG well in the gas cycle, after having gone through the water phase, and the second well is now currently injecting water. So far, we had some positive indications but I expect to have preliminary results to share with you next year at our Capital Markets Day.

I understand that there is a perception in the market of considerable execution risk on our projects in Brazil. It is our duty to share with you what we are doing to successfully develop Lula on time and on budget, and I hope it is clear to you that, despite all the challenges faced in a project of this magnitude and complexity, the operator, with the contribution from BG and ourselves, is doing an amazing job.

A good example of that, is that in this fourth quarter we will have four FPSO's producing at Lula: Cidade Angra dos Reis at full capacity; Cidade de Paraty with two highly productive wells producing; Cidade de São Vicente and Dynamic Producer, each one performing an EWT with approximately 12 to 15 thousand barrels per day in two other locations in the Lula field.

Still in Santos basin, I am glad to share with you the success we have achieved in Bracuhy where we have found a significant oil column of 100 meters, and with the same mix of hydrocarbons that we have seen in Jupiter, proving in this way that the two areas are just one structure.

So what we are doing now, is not only evaluating the data gathered in Bracuhy, but also reprocess data from Júpter in light of these results. This means that when we announce our first estimate for Bracuhy resources, we may also revise our current assumptions for Júpter. We will see in the future that Júpter/ Bracuhy structure are one single structure.

In any case, the results from Bracuhy that we already obtained are supporting the reinforcement of the development case for Jupiter, with first oil planned for 2019. We will first focus on the development of the oil and condensates. Our base case as of today is that we will be able to develop the oil, strip the condensates and re-inject the gas, including CO<sub>2</sub>.

As my final message on Jupiter, I want to highlight the commitment of the consortium to de-risk the development plan for this project. And a good demonstration of that, is the plan for 2014, when we will execute at least two production tests and two appraisal wells, but most likely it will also include a wider range of other engineering activities.

In Mozambique, works continue in preparation for the FID by 2014. To pursue this objective, we have concluded this quarter the appraisal campaign in the Mamba/Coral complex, and we are now focused on the establishment of LNG supply contracts, of an adequate legal framework that supports a medium long term project of this magnitude, and also on the finalisation of the unitisation agreement, with all the discussions currently ongoing. To conclude, we have at this moment no indication that the 2014 FID objective is at risk.

On the exploration front, I must highlight the positive results obtained in the South of Area 4, where the Agulha well proved the existence of a new play. More important than finding up to 7 Tcf of natural gas in place, we have discovered wet gas in the Cretaceous interval, which was tested for the first time, and increased the probability of finding oil in the area. We expect to have a better understanding of this potential after executing a three well exploration campaign in the area next year.

But there is another important message that I want to convey today: considering the results of Agulha 1 and the volume of resources in reservoirs exclusively located in our Area, which are already over 30 Tcf, we are now able to consider new alternatives to monetize those volumes of gas in place, being FLNG and GTL options under study.

Regarding exploration elsewhere, let me tell you that:

- in Brazil, we recently concluded the well Tango in the Potiguar basin, where so far we proved the existence of a working petroleum system, but we have made no commercial discovery to date. At this moment we are drilling Pitú and we expect its results in first quarter next year; and
- in Namibia, as you know, unfortunately we had no commercial discovery on the three wells drilled. However, I highlight that it was the first time that potential for oil offshore Namibia was proven. We will now reprocess all the seismic we have and analyse all the data gathered before deciding about the future of our activity there.
- Both projects are frontier exploration and subsequently high risk, and in case of success we expect high reward. We already had some of these successes in our portfolio, and I name Lula and Rovuma as excellent examples. Namibia and Potiguar are still areas of interest for further evaluation.

To conclude, I ensure you that we are working intensively to not only protect the value of our businesses, but also importantly, to take advantage of potential upsides and to deliver additional value to our shareholders. The development of the Lula field is our number one priority at Galp, alongside its partners, and we are working intensively to make sure that this unique project is brought onstream on time and on budget, and a clear example of that is the start of production of Cidade de Paraty.

Not only that, we continue to evaluate new ways to extract more value from Lula/Iracema, as we continue with reservoir data acquisition, with six of this wells completed so far this year, and as we continue to test the impact of EOR, with two WAG wells currently connected and in operation.

In addition, in the short term we will continue to de-risk the development of another high potential project, Iara. In fact, on Iara we are currently drilling the Iara High Angle well, which after completed will proceed with a production test. In addition, we will also performing a DST in Iara West-1. These results will

be key to define the full potential of this field and its development plan, and we have until the end of 2014 to declare it commercial.

Just a word on Carcará, we had plan to drill an appraisal well on this structure later this year with potential results expected by the beginning of 2014. This plan has changed as a consequence of required rig availability and now the well will be drilled in two phases. The first phase starting this November, and the second planned for second half next year using a different rig, meaning that results on Carcará extension well will only be available by the end of 2014. The first rig will drill the well up to the salt layer, will not enter the reservoir, because, as you remember, we expect high pressure in the reservoir. The second phase will enter into the reservoir and has the specifications to do that job.

On downstream and gas businesses, I will refer in short:

- In refining and marketing, the hydrocracker is having an exceptional operational performance since it began operations, however not being able to shine in our numbers due to the very harsh environment that is currently impacting the refining industry in Europe. On the positive side, we are seeing the first signs of recovery in the Iberian market with third quarter numbers showing an increase on consumption of diesel and jet. Let's hope that these signs are sustainable.
- In gas and power, our LNG trading team is doing an amazing job in capturing value from our LNG portfolio contracts and the work done so far gives me great comfort that we should be able to maintain this performance at least for the next couple of years.

Whit this, I'll now pass the floor to Filipe, who will summarise our results this quarter.

## **Filipe Silva, Chief Financial Officer (CFO)**

Thank you Manuel, and hello to all of you.

I'm on slide 16 and we don't need to tell you this was a so-so quarter for us and probably also for other downstream players

Third quarter Ebitda of €312 m was flat year on year and only 3% up from the previous quarter. In a nutshell, the dreadful conditions in refining have taken the shine off an otherwise strong quarter for our LNG trading activities.

I highlight that, unless otherwise indicated, all my comments relate to this third quarter.

E&P Ebitda of €110 m was in line with the previous year. Net entitlement production was up 12%, to 22 thousand boe per day, from which about 60% came from Brazil. However, the higher production and the increase in the average realized price per barrel equivalent were offset by higher operating costs.

We have flagged before those higher costs and they relate mostly to the start of operations of Paraty FPSO, which is producing from one well only, and the advanced maturity stage of a couple of our fields in Angola. We have also guided you to the €6 million expense to reflect arms-length transfer price principles for the insurance costs allocated to our Brazilian division. Those costs, and also additional headcount in E&P, will get diluted over time as the Paraty production ramps up.

Refining & Marketing Ebitda was down to €74 m, on the back of a much worse refining environment, with benchmark refining margins down a whopping \$5 per barrel from last year.

However, Galp's refining margin was down by "only" \$2.8 per barrel given that the new hydrocracker operated at 105% load factor during this quarter.

Volumes in the oil marketing business in Iberia were just marginally up this last quarter versus last year, after significant declines, as you know, throughout the last few years. We are hopeful we have reached the bottom here.

Gas & Power Ebitda was up 16%, to €122 million in the quarter. We continue to leverage on our strong LNG trading position, with about a dozen cargoes sold in the quarter, mainly to Latam and Asia. It could have been even better without the Nigerian force majeure, although this situation improved a bit since the previous quarter.

Group Ebit in the third quarter was €142 million, down 20% on higher DD&A and provision charges mainly related to E&P and Refining & Marketing.

On the E&P front, depreciation increased significantly in Angola as reserves were revised downwards last quarter, on the back of the earlier than expected abandonment of the Kuito field later this year.

On the Refining & Marketing business, the higher depreciation charges are related to the hydrocracker. It was commissioned at the end of Q1, at about €21 million there, and another €21 million in provisions for major client receivables, a nasty consequence of the tough economic environment in Iberia.

Below the Ebit line, results were mainly impacted by higher financial charges, a result of higher net debt between periods and of the interest costs related to the upgrade which are no longer being capitalized. These now all flow through the P&L.

With that, and concluding with the P&L, third quarter net profit stood at €57 million.

Moving to our balance sheet on slide 17, most lines are pretty unchanged from June 30.

Net debt was stable QoQ at €2.2 billion or €1.3 billion considering the funds we have lent to Sinopec. This equates to 1.2 times Ebitda. The €120 million interim dividend which we distributed to our shareholders in September was, to simplify, funded with the proceeds from the sale of our stake in CLH.

Capex amounted to €253 million during the quarter, with E&P activities accounting for around 85% of that. Capex was mainly in Brazil, allocated to the development of block BM-S-11 in Brazil, including development and RDA wells, subsea equipment and FPSO construction.

The non-current assets line, mostly Fixed Assets, remained stable despite this additional capex. That is because of currency exchange effects in our non-euro denominated assets, the higher depreciation in the period, exploration charges of €18 million related to Namibia which were accounted for this quarter, and, of course, the sale of 5% in CLH for €111 million.

Working capital improved slightly in the quarter.

On the funding side, on the slide 18, we remain fully funded and are using excess liquidity to early amortize some of our more expensive upcoming redemptions.

Total liquidity of around €3.9 billion is divided between €1.6 billion in cash, around €900 million equivalent loan to Sinopec and €1.4 billion in unused credit lines as of September 30. So we still have more liquidity available than the €3.8 billion of gross debt outstanding.

Average life of debt now stands at 3.3 years. This compares with less than three years at the end of last year. At the end of September, the all-in cost of our outstanding debt was 4.4%, but this still includes expensive legacy facilities. Our average cost of money should continue to decline as new funding is currently being offered to us at lower levels, and as the situation in Portugal improves, same with Spain, the euroland concerns recede, and also our funding sources diversify.

Internally we will continue to run our downstream and gas operations for cash and to engage in portfolio management to keep our financial ratios well balanced.

Now, to conclude, I'll go through the main drivers that we expect will impact our performance during the last quarter of the year. I'm on slide 19.

Working interest production is expected to increase marginally to about 27 thousand barrels of oil equivalent per day, as we will have two extended well tests in the Lula field offsetting the lower production of the Angra dos Reis FPSO. This low production is due to maintenance activities in the Mexilhão platform, which impacts the level of natural gas we can export, and thus constraining oil production. For the avoidance of doubt, there are no problems with the FPSO itself.

The refining and marketing business may continue to be impacted by macro factors, namely the persistence of tough refining conditions in Europe. However, these headwinds are expected to be cushioned by the hydrocracker operations and hopefully by the slowdown in oil demand contraction in Iberia.

Gas volumes are expected to come down comparing with the third quarter, as we may not be able to maintain such high LNG trading volumes. We have eight LNG cargoes already contracted to be sold during this fourth quarter.

Now for some specific guidance on numbers at group level, we expect 2013 Ebitda of about €1.1 billion, within, but at the low end of the range that we guided you to during our Investor Day this year. This is almost entirely due to a much tougher refining environment that we were expecting. On the other hand, we expect full year capex, net of divestments, of around €1.1 billion, as well below our previous guidance.

With this, I conclude our presentation for the day, and we are now available for Q&A. Thank you.

## Questions & Answers Session

### Filipe Rosa, Espirito Santo Investment Bank

Hi good morning everyone. Firstly, on the provisions for the marketing division I would like to ask, looking at your clients and the situation of the balance sheet of your clients, do you expect any further provisions this year and next? Because this has been a major hit for your profitability.

And my second question, regards Bracuhy, you said on the one hand that there is been a sizeable oil column but you also said that the mix between oil, gas and condensates is similar to Jupiter. Should we expect that oil could have a bigger weight in Bracuhy or you are just talking about a lot of resources but with a same mix of Jupiter? Thank you very much.

### Manuel Ferreira de Oliveira, CEO

Very good morning and thank you for the two questions. I'll pick up the second and Filipe Silva will take the first.

About Bracuhy, I will refrain from telling you more than I can, because we are at this moment redesigning the model of the reservoir. Let me tell you one thing, the composition of the fluids is the same as the composition of the fluids in the old Júpter. So that simply means that the structure is exactly the same separated by a fault that geologically happened after the formation of the reservoirs.

Effectively in Bracuhy, oil will have a higher weight than in the Jupiter field, because the height of the reservoir is lower than in Jupiter. So the ratio between oil condensate and natural gas is different because of the size of the reservoirs not because of the composition of the fluids. We are very optimistic about the

results. We are now considering the development plan which we are discussing with our partner and we'll be sharing this in detail hopefully in the forthcoming Capital Markets Day. We will have one unit operating in 2019, and now the discussion here is whether we'll need two units or three units to develop that field.

Now, I'll pass the word to Filipe to take the provision issue.

## **Filipe Silva, CFO**

Good morning Filipe. We typically have about €7 million or so per quarter of provisions for clients. This quarter was a one-off. This is one outlier. It's one very large clients which shall remain unnamed for which the Portuguese banking system is restructuring and the number of parties, including Galp as a creditor, are likely to contribute for the restructuring of the client. So, this is a large client which is viable and for which we're likely to have convert almost our debt into an equity-like instrument. So, it is the one-off this quarter.

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

Thank you very much.

## **Thomas Adolff, Credit Suisse**

Afternoon. Two questions please. One on Mozambique, and I was wondering what progress you're making there vis-à-vis the off-take agreements and when you think you're in a position to submit the PDO to the ministry? The second question is on the Cabiúnas pipeline. If, for whatever reason, the pipeline is operational say by 2015, and the permit being delayed again, I was just wondering what impact do you see to the production, since my guess is that the Mexilhão platform even with great reinjection cannot accommodate five FPSOs? Thank you.

## **Manuel Ferreira de Oliveira, CEO**

Thomas, good morning and thank you for your questions. Let me pick up this one. Regarding the off-take agreements, there are already some MoUs discussed. All the parties are trying to consolidate the information, but we want to consolidate our positions to start executing formally those MoUs. This is a process that is ongoing, it's dependent on the approval of the legal framework of the construction of the liquefaction facility. It's also dependent on the timing of the development that is being now fine tuned with the first FEED, Front End Engineering Design, being contracted. So, we continue believing that on or before 2019, we will have the the first liquid gas in Mozambique.

## **Thomas Adolff, Credit Suisse**

Just if I can come back to Mozambique and just on the plan of development, do you expect it to submit before the elections or after the elections?

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## **Manuel Ferreira de Oliveira, CEO**

See, what we are already working with the government is in putting together the legislation that will support the development. Effectively, Thomas, the legislation already exists, but is spreading in several legal documents. So, what we want is to consolidate all that legislation in a single decree law to make sure that everybody feels comfortable with the clarity and the scope of the legislation. We don't anticipate a major issue on it. It'll be submitted before elections. And we are hoping to be passed by the government before the Presidential elections next year. You know that in November this year we will have local elections, and a year from now we'll have Presidential elections.

As far as the Cabiúnas pipeline, it is, as in every project, always a frustration when you want to move fast and the governmental authorities slow us down, despite there are good reasons for that, as Ibama is a very rigorous institution in Brazil. We are now negotiating with them the mitigating measures for the crossing of sensitive area by the pipelines in their way to onshore. Option is that we might have to change the route, but we are not yet considering that option. And, we hope that is clarified on time. If there is a delay, that would mean that in 2016 the new FPSOs that will come on stream and on Lula there are four FPSOs to come on stream in 2016, will have some consequences. What we will do is simply maximizing the gas injection but there is a material production loss if were delayed beyond 2015. We believe that such will not happen. Thank you.

## **Haythem Rashed, Morgan Stanley**

Good afternoon gentlemen. Three questions from my side, please, or rather two questions, one with two parts. Firstly, on Lula and on the BSR solution, you mentioned earlier on the call that you continue to believe this will prove to be, it is the right solution for this development in the long run. I just wondered for Lula Northeast, I mean is this view shared by the rest of the partners on BM-S-11 and I really just wanted to understand if there's any risk of any sort of considerable change in the riser solution for Lula Northeast that could result in an obviously a more meaningful delay.

And, secondly again on Lula, with regards to the contingency flexible riser, who ends up bearing the cost for this? Is this something that's incremental to the partners of BM-S-11 or is this borne ultimately by the contractors?

And then my final question is on your Capex guidance for 2013, as you mentioned that some sort of below where you had originally guided to the €1.2 m to €1.4 m at the Capital Markets Day. Perhaps, if you could then just provide us with a bit of colour as to what are the key moving parts there and what is lower than what you had initially expected? Thank you.

## **Manuel Ferreira de Oliveira, CEO**

Haythem, thank you for your three questions.

The first one has to do with BSR value, the reason of this project is twofold. One is to have a more efficient and cheaper riser systems, because the specs of the flexible riser from the buoy to the FPSO had totally different and much more extended than the specs from the full riser from the well head up to the FPSO. So having a rigid riser from the well head to the buoy and then the flexible riser from the buoy to the FPSO will offer us more competitive offers throughout the development of Lula.

The technology conceptually is extremely simple, but its application is totally innovative. I'll not go in detail to explain the technology. That has been applied for many, many years in subsea static systems. Applied to these specifications is innovative. So that's the first question I would say.

As far as what we did when we saw a delay of fundamentally three months, the consortium together tried to mitigate the consequences of that by launching and stepping up a well with the flexible riser. Actually in the beginning of the first week of December, it will operate with a flexible riser up to June/July. Then the flexible riser is disconnected and used elsewhere and that well will be connected to the BSR in the same manner. So that will put production of one well straight away, because we have sufficient injection capacity and there is availability of other subsea system to ensure that goes.

Together with that, we moved two EWTs that are needed and they were not needed in this time frame, which is Cidade de São Vicente FPSO and the Dynamic Producer that will be in place, each one being able to produce between 10 and 15 thousands of barrels per day and flaring the gas and taking data from two future locations in the field. So we will have roughly the equivalent to two wells operating as from the end of the year, so in a way mitigating the delay as from the early of next year.

We hope that by the end of the first quarter, the BSR system will be installed and the first well connected and then the process will continue to complete the full project at the end of the year. So that's basically my answer.

As far as Capex, Filipe will take up the question.

## **Filipe Silva, CFO**

The key differences in Capex from our guidance are related to Brazil. Cabiúnas is one. We have Lula and Cernambi, where we have some subsea and some drilling delays that we move to early 2014. And in Angola, we have a delay in block 32 FID, which was due in the first quarter this year and it's going to be pushed back for later this year. So, no material Capex during 2013. Thank you.

## **Haythem Rashed, Morgan Stanley**

Great. Thanks very much. And just if I could come back very briefly on the answer to the second question. And I just wanted to understand, presumably with the flexible riser system for the second producer well, there is presumably cost associated with that in terms of vessel time and obviously the flexible riser itself.

So I just wondered, if that is something that is one, meaningful, and two, is being sort of borne as an additional cost in the project or if this is being borne elsewhere, that's really my question. Thank you.

**Manuel Ferreira de Oliveira, CEO**

This is an issue that is related with the contractual arrangements between the consortium and Subsea 7 and that I would prefer not to comment on it. Thank you.

**Alejandro Demichelis, Exane**

Good morning, gentlemen. A couple of questions here. The first one coming back to the Lula Northeast and buoyancy riser. My understanding is, as soon as we get into January into the summer season, there are some further restrictions on vessel movements and so on. So the question is whether that new guidance for the new buoy has been taken into consideration or you're just assuming that will start improving and the vessels will be moving around.

And the second question is coming back to Mozambique, maybe you can tell us how you see the new political environment in Mozambique, and if that's changing in any way, shape or form what's your thinking in terms of development? Could this politically charged environment push you more to that floating LNG solution that you were talking about or are you still committed to the onshore development?

**Manuel Ferreira de Oliveira, CEO**

Alejandro, thank you for your two questions, one political and other technical. I'll try to take the two. Let's see how I do on the second one. The first one related to the Lula Northeast riser issue, what happens is that everything started with the delivery time of the first buoy from China to the Sapinhoá field, which should have arrived late in the summer this year, so by May. Effectively it came right in the summer in the northern hemisphere and the winter in the south, and that has introduced the complexities of Sapinhoá. So, they, in a way, have to delay it. They are now starting the installations of the unit, that is the summer in the south.

So, we hope that by now up to May, all the units will be installed, as our two buoys are already in Brazil. The vessel is in place, so once we finished, now the installation is happening in Sapinhoá, they will move to Lula and then they will, subsequently, after the first one, they will install the second one. So that's the weather issue.

As far as the political environment, we have in Portugal two weeks ago, the Mayor of Palma, for a special event we organize here in Portugal, twinning two cities, in Portugal and in Palma. He was very relaxed on the situation that is going on in Mozambique. It is an issue that concerns all of us as citizens but will have no material implication in the development up in the north in the Capo Delgado province. This is

happening in the center of Mozambique and we hope that the common sense prevails and the issue is resolved, with no impact in the development of the project as we see it.

## **Jason Kenney, Santander**

Hi there. Just going back to BM-S-24 please, can you remind us your previous guidance on oil and gas split for resources in that license and percentage terms? And then is it your view that the net present of BM-S-24 is being included or risked out of consensus sum of the parts valuations or certainly the ones that you have access to. In either way, I suppose what kind of unit NPV should we be using for BM-S-24 relative to lara in BM-S-11, and again, proportionately if you can. So that's my question on BM-S-24.

The second question I have was, in the 3Q period I'm assuming that the E&P profit is nearly all from Brazil. And I just want to know, did you make any money in Angola and if you are expecting to make any money from Angola in 2014?

## **Manuel Ferreira de Oliveira, CEO**

Jason, good afternoon to you and thank you for your two questions. I'll take the first one, the Jupiter BM-S-11 issue, and Filipe will comment on the contribution of Angola to our Ebitda.

Starting with BM-S-24, what we shared with the market was the numbers we got from our reservoir auditors. They were 3C numbers, which basically say that we will have the three natures of hydrocarbons, condensates, natural gas and oil in the old Jupiter, approximately with the same value, 1.6 billion, 1.6 billion and 1.6 billion barrels, making 4.8 billion barrels of 3C resources.

What I can tell is from very preliminary indications is that the Júpiter/Bracuhy complex, our new Jupiter complex, will be, I would say, not less than these values. What will happen is that we are now producing 2C values because we are now starting to define the project, but they are consistent and more positive than the previous numbers indicated.

Please allow me not to go deeper on the positiveness of this statement, because it is not fair that without having our peer review of the numbers that we are obtaining from the preliminary indications that I should say more than usual, Bracuhy added material value for the development of Jupiter.

In lara, as we have to look at commercialization of lara by the end of 2014 and remember BM-S-24 is 2016. In lara we have a big reservoir and we are drilling lara High Angle which entered the salt layer with a slope of 74 degrees. Operational problems are inexistent and obviously the productivity per well will be much higher than previous well. At least this is our expectation from the data that we are collecting. The last well that we drilled was a very good productive well, so we have already effectively two locations for two FPSOs for lara which are in the plan.

The discussion is whether we need more than two FPSOs in the area, or not. That will come from the future evaluation of the first one.

Thank you, Jason. And the question on the distribution of EBITDA in Angola will be taken by Filipe.

## **Filipe Silva, CFO**

Hi, Jason. Yes, indeed we are making money in Angola. We need to define what making money means. So, at the Ebitda level, nine months we have €146 million of Ebitda, we have €36 million EBIT and then we have taxes that take out about half of the Ebit. Next year should be a bit lower than that. We have mature fields and so production is coming down until the Block 32 comes on stream. Then this is going to be a slowly declining performance. Including capex or from a cash-flow perspective Angola is cash-flow negative as we ramp-up the Block 32 development. Thank you.

## **Michael Alford, Citi**

Hi, good afternoon. I've got two questions please. Firstly, just on your exploration strategy and plans. I guess you have drilled about 15 exploration and appraisal wells in 2013. Could you talk a little bit about what we should expect in 2014, and perhaps talk about some of the high impact wells you might be drilling next year?

And then my second question is about the recent Libra auction. I think you mentioned on the last quarter that you were interested in Libra and were considering making a bid, which obviously didn't happen. Can you comment about why you didn't bid on Libra? Thank you.

## **Manuel Ferreira De Oliveira, CEO**

Michael, thank you for your two questions. We are at this moment, going through the process of preparing the exploration program for next year. So, I will not be able to enter into details.

But there are at least two material exploration activities that are already public: Carcará extension well, that will give us clarity on Carcará results and confirms, or otherwise, the development of that field; Agulha, in Mozambique, where we will have two to three wells to evaluate the extension of the existing field, namely targeting oil resources. I cannot ignore also, our well that we will drill, as operator, in Morocco next year, with, in our opinion, high probability of success and material sizeable target. So, I would say that Agulha, Carcará and Morocco will be our target in 2014 at this stage.

As far as Libra, let me tell you that we complimented formally all the winners of the consortium. We studied the project, we believe that is a valuable project. However we decided not to be included in the consortium. It was our decision not to pursue that further, because, very simply, on financial grounds it would put pressure on our balance sheet in 2015 and 2016, and we are committed to our shareholders to

ensure that our debt to Ebitda even in these critical years of investment will be around two, and it was a financial constraint that made us not to bid.

We wish we could have done that, as a professional but we have to stick to the rules imposed by the balance sheet that we have. Thank you, Michael.

## **Lydia Rainforth, Barclays**

Good afternoon. I have two questions. One is a clarification, if I could. In the press release, you talked about evaluating the flexible option, and I was just wondering what is the evaluation actually is dependent on, because during the call I think you talked more about it will be place in December. So I am just wondering what the uncertainty level is there.

And then the second one, if I could come back to defining at least in terms of the refining cash costs, they were up significantly, and they seem to have been about \$2.7 per barrel for most of this year. I was just wondering, is that a level that we should assume going forward or is the degree of which there was some start-up cost associated with the hydrocracker and when we could see that number going down?

Thank you.

## **Manuel Ferreira De Oliveira, CEO**

Lydia, good morning and thank you for your two questions. Let's start with the easiest one. The second flexible riser well in Tupi Northeast which hopefully will be connected by the second week of December. What I said, it is In evaluation, because once we agree on it, that are certain formalities with the consortium that requires a formal proposal and approval, and the approval has not yet been given, although it is already a proposal from the operator.

Going to the refining issue, I have been working for many years in the industry and you know me Lydia, you know how old I am. The reason is, I have never seen refinery margins as low as they are. We believe that we will get out of this hole in one way or another. There is certain excess refining capacity in Europe. Now, the question is, who will close that. The cash costs per barrel that you have seen are a consequence of lower refinery runs. We are basically minimizing the distillation capacity, because the distillation units are having tremendously negative margins. And the spread between light and heavy crudes is now practically inexistent. So that is creating conditions to increase lower runs on the upfront of the refinery, not on the back of the refinery. So we are concerned and we will be taking the appropriate measures. At this moment, it's minimizing capex, minimizing every penny that we can spend in refinery, exploiting the integration between refining and distribution to sell as much as possible from our refinery at CIF quotations. We have to navigate with our eyes and hears open. Thank you.

**Matthew Yates, Merrill Lynch**

Hi. Thanks, just one question please. I wanted to talk about your LNG performance in the quarter, it was very strong. And in particular, could you just elaborate a little bit more on the strategy that enabled such a big growth in volume, and therefore how sustainable that would be into the coming quarters? Thank you.

**Manuel Ferreira De Oliveira, CEO**

Matthew, good morning and thank you for your question. We have access to three sources of gas, one is the open, competitive spot market in Europe, through reserve capacity that we have in the connections between France and Spain. So we can buy that gas, then it enters in the Iberian Peninsula. We have what is called a stamp price in each country, it pays a fee per mmbtu. We pay that, we make the sums, we know the spot value of the gas, and we know how competitive it is. This is one of the sources of gas. Another is our contract from Algeria, which is oil-linked and we know the price of it. Another is LNG that comes from Nigeria, again oil-linked. So, we have flexible contracts with minimum take or pay clauses that but maximum volume. We also have spot LNG cargoes that are sometimes on the market, and we keep our eyes open so that we are able to identify and take advantage of what we call spot LNG cargoes under stress.

So, we play with these four variables. We have to maintain a competitive supply to Iberia, to our customers, since we still have good results from the customers we supply. And we try to make available our LNG gas from Nigeria. The Nigerian gas we sold in CIF, meaning that for every cargo or every set of cargos, we have to agree with the Nigerians the split of the added margin that we get from arbitrating, from moving that cargo either for Latin America or to Far East. The cooperation with our supplier in Nigeria has been excellent, because we have been making always win-win proposals and that give us the result that we have. Thank you.

**Flora Trindade, BPI**

Good morning. Very short questions. The first one is just a clarification. Can you just tell us again, because I missed it, the reasons for the delays in Carcará and just secondly you mentioned the efforts you are doing on Refining & Marketing. Just wondering if you think there is still scope for cost cutting in 2014 considering that you've been doing this already over the last quarters in order to improve the profitability of this business and taking this into account, what is your expectation for the profitability of R&M in 2014?

Thank you.

**Manuel Ferreira De Oliveira, CEO**

Flora, Good morning and thank you. Related to Carcará, due to expected high pressure in the reservoir, we will need a special rig designed to face safely that possible high pressure of the reservoir. Since we don't

have a rig available for that, we are bringing a standard rig that drills nearly up to the reservoir, but does not enter the reservoir, then move the rig to do other activities.

And we have only in the second part of the next year a rig available that could re-enter the well, straight into the salt layer and then hit the reservoir and test the well. And the rig is prepared to perform a DST as well. That's the reason of the delay. We will have two entrances into the well, with the objective to have the full results by the end of next year. It's also a commitment with the ANP on that timing.

The second question regarding the Refining & Marketing business segment. We have been and we will continue to optimize the cost structure and energy consumption in the refining business, that's our duty. But the issue of the refining is not solved by that. It's important, but not enough. So it is a question of supply and demand of refining products in Europe.

So we will be monitoring closely the development of the refining system in Europe. According to all the data that we have, our two refineries after the recent investment are on the upper cluster in terms of complexity. They are not candidates for closure as far as we see in the benchmark exercise that we have done, but right now nobody is able to forecast. We have all the options available and we will take decisions when they have to be taken. Thank you, Flora.

## **Matt Lofting, Nomura**

Hi, thanks, gentlemen. A couple of quick questions left please. Firstly, just coming back to the sort of option around linking up the second producing well on Lula Northeast through a flexible riser. I'm just wondering if you confirm if there's any sort of logistical or equipment constraints there, whether all the necessary equipment you need to do that is already available and onsite in Brazil.

Secondly, just on numbers, related to high depreciation in the last couple of quarters and I guess all that have been as well as the underlying increases, there's been some non-recurring provisions in there as well. I was just wondered if you could sort of clarify where you see the underlying quarterly run rate going into next year on that line? Thanks.

## **Manuel Ferreira De Oliveira, CEO**

Matt, thank you. I will take the first question and Filipe the second.

The second production well, the supporting vessels are the same that we'll keep doing the job for the BSR. So we will have them there and we have no constraints for that. So the availability of the vessel is more related with weather conditions than with the vessels themselves. For the connection of these flexible risers, we do not need divers, but for the installation of the BSR you need divers that require stable weather for it. Thank you. Filipe will take the question.

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## Filipe Silva, CFO

Hi, Matt. So excluding the one-off, the run rate depreciation levels are of course affected by the hydrocracker amortization that's about €20 m per quarter. So you should expect about €120 million per quarter in depreciations going forward. Thank you.

## Iain Pyle, Sanford Bernstein

Good afternoon. Just two quick follow-up questions left from me. Firstly, on the LNG, you mentioned that volumes could have been even higher without the force majeure situation in Nigeria. So I just wondered how many cargos you feel you might have missed out on there?

And secondly, you mentioned there's been some improvement in product demand in Iberia. So I just wondered how that is trended through October and whether do you've still seen that improvement continuing. Thank you.

## Manuel Ferreira De Oliveira, CEO

Thank you for your two questions Iain. As far as the first one, yes, we unfortunately lost two cargos in the third quarter due to force majeure in Nigeria.

The second question is related to product demand. Yes, we see some picking up in the jet fuel and diesel. It is a signal that transportation, particularly goods, is improving and the economy could be getting out of this hole in which we're in. Gasoline are still declining, but aviation fuel and the diesel fuels are picking up. So we are moderately optimistic for next year, which means, we are maintaining the demand of the oil products at the same level of this year, and not declining it. Thank you.

## Daniel Ekstein, UBS

Thank you. Good afternoon, everyone. My question is on BM-S-8. We had the Carcará appraisal well delayed by about 12 months to the end of next year. How confident are you still on that basis of the 2018 start-up date for that project, based on that delay we've seen?

Then secondly, is there still going to be a rig available to drill the Guanxuma prospect of BM-S-8 next year? Because previously you've mentioned that was one of your high impact wells and you didn't mention that earlier. And then, to what extent do we need to be concerned that infrastructure and resource constraints could have similar issues on BM-S-24 in terms of your availability to drill wells and rigs being prioritized to other parts of the Petrobras portfolio? Thanks.

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## **Manuel Ferreira De Oliveira, CEO**

Good morning, Dan. The delays in Carcará were related to safety concerns. We could have used a standard rig to drill Carcará, which would be unacceptable, because we might be surprised with a very high pressure well, which is good news, by the way, from the reservoir point of view, but it is a risk that nobody can take. It was really a question of specific rig availability that determined the programme that I summarised before.

The reason why we believe that by 2018 Carcará could be on production is related to the expected productivity of the well – because as you know high pressure reservoir means high flows from the wells - and to the fact that we have to declare commerciality by 2015. So that means that we will have three years to put the first production unit onstream. This is what the consortium is expecting and as you know Petrobras is a member of the consortium and that fits in their portfolio of options to growth production.

As far as Guanxuma, yes, it is expected that immediately after the drilling of Carcará, Guanxuma will be drilled, probably with the same rig.

I want to add that this project is so complex that we had to split the project into smaller projects, and try to ensure that each one will have a development program and that it is executed. So, we will need to have a gas route for Carcará that has to be developed. The pipeline, the second gas route to onshore which is now being under construction, will give us space, but most likely we need the third gas route, not because of Carcará but because of other developments that are taking place. We have, as you are also aware, a designed FLNG facility to put on the Santos basin, which is totally designed. We even bid it to be prepared to award the contract eventually if that is necessary. So all the options are always on the table and the decisions will be taken in the right moment.

## **Daniel Ekstein, UBS**

Can I ask a follow-up? If your confidence level in starter day defined by declaration of commerciality dates, is there any concern that those could be some fluidity to those dates, particularly given the Petrobras could quite legitimately go to the regulator and say the new legislation such as the Libra is placing significant constraints on its resources. Is there any indication that is a risk in your eyes? Thank you.

## **Manuel Ferreira De Oliveira, CEO**

I have no indications that will happen. Petrobras and the other three shareholders in BM-S-8, Barra Energia, Queiroz Galvão and ourselves, are committed to a time frame of development imposed by the contracts, and that's how we see the future. We have no signals that the targets that we have shared with the market are at risk because of other commitments of Petrobras. Thank you.

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## **Shola Labinjo, TPH**

Hello. Good morning. I just had a question on exploration. I was trying to get a sense of where things are now. So, with the Tango well non-commercial, when you're going to take a decision to drill any follow-up well at that location, and I mean specifically any appraisal given that the well had oil shows.

And also in Morocco, I know, you're still putting together the program, but I'm just thinking about rigs and the activity, and that we're going to see offshore Morocco next year, are you looking to bring the rig into the country as well or are you going to be opportunistic with getting the rig slot over there?

## **Manuel Ferreira De Oliveira, CEO**

Thank you for the two questions. Both Araraúna and Tango were discovery wells. They were not commercially discoveries, but they were discovery wells. So, there are other prospects in the same block. What we are doing now is what we call invert the seismic, and qualify those prospects that have now a higher probability of being real discoveries. We have not done that work. We are now finishing the Pitú well, with that we will integrate all the information that we have in the region and we have now a couple of years, up to 2015, to agree with the authorities what to do: to release the area or retain them and drill further prospects, but that decision has not been taken.

As far as Morocco, we have a team working on the project already and actually trying to find the slot of the rigs. We have options on the table, so we have no issue on complying with the obligations that we have. We have not fixed it yet, but there are rigs in the neighbourhood, but we are also considering the option of bring a new rig. There is no issue from that point of view. Thank you, Shola.

## **Manuel Ferreira De Oliveira, CEO**

I understand that we have answered all the questions that you asked to us and I want to thank you very much for the attention that you, ladies and gentlemen, offered us. It is always a pleasure to hear from you. But before you go today just a note, please save date for next year on our Capital Markets Day. I would like to see you there. It will be on March 4, 2014 in London, and I'm sure that will be an exciting day. We will be well prepared to discuss and to answer all the questions and summarize to you how we see 2014.

Thank you to all of you and have a good day.