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## **Pedro Dias, Head of Strategy and Investor Relations**

Good morning ladies and gentlemen, and welcome to Galp Energia's third quarter results conference call.

Joining me today is our CEO, Manuel Ferreira De Oliveira, our CFO, Filipe Silva, and Otelo Ruivo, our Investor Relations Officer. As usual, Manuel will begin with our execution update, and Filipe will cover our third quarter results. At the end, we will be available for Q&A.

Please bear in mind that we may be making several forward-looking statements, including about our plans and expectations. Actual results and outcomes may differ materially due to factors which are presented on the disclaimer shown at the beginning of our presentation.

I will now pass the floor to Manuel. Thank you.

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

Thank you Pedro. Good morning to each and all of you and thank you for being with us this morning.

As you are aware, we had some recent changes in our executive management team as a consequence of Stephen White's resignation.

It was in this context that Thore Kristiansen was appointed to be in charge of our Exploration & Production division.

Thore has an extensive career in the Oil & Gas industry. We are most pleased to have him with us in our executive management team. I am sure that Thore will successfully lead our highly motivated E&P division.

I would also like to take this opportunity to, once again, thank Stephen Whyte for all his contribution to the growth of our E&P activities over the last couple of years and we wish him good luck on his forthcoming endeavours.

Now, let me start with an update on the execution of our main upstream projects.

I will start with the Lula/Iracema in the Brazilian Santos basin.

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As you might remember, commercial production in the Lula field started at the end of 2010, with FPSO Cidade de Angra dos Reis, only four years – I would emphasise again, only four years – after the Tupi discovery.

Today we have three production units installed in the field.

These are for us particularly exciting times. After having the first FPSO at full capacity for a couple of years, we have accomplished another two important milestones since September.

FPSO Cidade de Paraty reached full capacity in mid-September, 15 months after starting production, three months ahead of our plans. This faster ramp-up was only possible due to the excellent reservoir characteristics, with well flow rates of around 30 kbopd. The timely ramp-up period was also a result of hard work from those involved in this operation. And I would like to take this opportunity to congratulate all of those that made this happen. It was unequivocally a job well done. We all remember the concerns expressed by many in relation to the timely installation of the two SBR systems designed and put into operation by Subsea 7; it was a successful innovative technology delivered, to us, on time and meeting all the required performance objectives.

Additionally, we recently had another very important milestone: it was the start of production of FPSO Cidade de Mangaratiba, in Iracema South. This is the third unit deployed in the field, and the first with a capacity to process 150 kboepd, eight million standard cubic metres of gas a day, and 264 thousand barrels of water injection capacity.

The unit started production on October 14, with a producer well which we expect to reach flow rates of around 30 kbopd. However, for the time being, and until an injector well – a gas injector well – is connected, in December, and the reinjection systems are fully commissioned, production of this first well is being restricted. Out of the 16 wells to be connected to Cidade de Mangaratiba, of which eight are producers and eight are injectors, 12 have already been drilled and, among these, three were already completed; of these, one is the injector well to be connected to the FPSO in December that I referred to you before.

Moving forward, we expect the next producer well to be connected in early next year and the ramp-up of this unit could take around 18 months, with plateau production expected during the first half of 2016.

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I have to say that, most likely, our 18-month ramp-up period for Cidade de Mangaratiba might end up to be conservative. But we prefer to remain prudent for the moment.

Now let me move ahead for the next upcoming units:

The hull of Cidade Itaguaí, our FPSO #4, is ready to leave the Cosco shipyard in China to the Brasfels shipyard in Brazil, for integration works, and is expected to be in Iracema North on time for the first oil during the fourth quarter of 2015.

As for Cidade Maricá and Cidade Saquarema, our FPSO's #5 and #6, works are ongoing in the Chengxi shipyards in China and we are positive that these chartered units will start production in the first half of 2016, as planned.

Regarding the additional FPSO units, named Replicants, works are ongoing both in Brazil and in the Chinese shipyards. In this regard, the consortium is fully aware of situations that may induce some delays on the contractual delivering of the FPSO components, for which mitigating actions are being prepared. Our current expectation is that potential delays from any additional works should not affect the schedule of the first oil for these units.

Still on Lula, the consortium made discussions, ongoing, on the unitisation process for the Lula South area. These negotiations are ongoing both with Petrobras and PPSA.

With regards to Iara, we are developing all of the necessary appraisal activities that will support the development plan of the area. We expect to issue the Declaration of Commerciality by year end. The Extended Well Test that started in June, in the Iara West location, has been showing positive indications and should last until the end of the year. I am happy to register the excellent results of this EWT, so far, with average flow rates of around 29 kbopd.

At the same time, we are drilling an appraisal well in the Eastern area of the field, and drilling should be concluded this quarter. These results will further support our understanding of this part of the field, as well as the process of unitisation with Iara Entorno, in the Transfer of Rights area. The discussions concerning this unitisation process have already been initiated with Petrobras.

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The consortium will have six months to present the development plan of Iara to ANP, after the Declaration of Commerciality, that will take place by the end of this year, and be submitted to ANP.

Moving on to BM-S-24, during this quarter, we continued with appraisal activities, with the conclusion of the Apollonia well, which confirmed hydrocarbons with the same fluid characteristics as those discovered in Júpiter and Bracuhy.

We are now conducting an important DST test in Bracuhy and we expect to spud an additional appraisal well until the end of the year. Both the results of this DST and this appraisal well are extremely important. The new well, to be named Elida, will contribute to increase our knowledge of the Júpiter area. As we have already stated, the consortium is fully committed to de-risking this major reservoir, and you should expect the appraisal campaign in BM-S-24 to continue throughout 2015. I remember that we have to declare the commerciality of this field throughout 2016.

Still in the Santos basin, I will refer now to the ongoing appraisal activities in BM-S-8. In September, the consortium resumed the first stage of drilling of the Carcará Extension well. As you know, this well will be important to help us understand the dimension and the quality of the Carcará discovery. However, I want to let you know that this well will only be concluded in the second part of 2015, as it was decided to use a second rig with Managed Pressure Drilling (MPD) to safely drill into this high-pressure reservoir.

Consequently the DST that needs to be done in this well will take place only in the second half of next year and, as such, you should not expect any major news flows from this field until then.

Now, let me move from the Santos basin in Brazil to the Rovuma basin in Mozambique.

We have now concluded the exploration and appraisal campaign of the licence. Coral-4 was the last well to be concluded, in August, confirming the high quality of the reservoir in the area. I suppose that everyone in the industry is well aware of the high quality of these reservoirs in the Rovuma basin. We will now concentrate our efforts on the development phase of this prolific area.

The Mozambican parliament has approved the Enabling Law, which delegates in the government the negotiation of the framework to develop the Rovuma project. We expect that approval of the related Decree-Law, that will establish the special conditions applied to the project, will take place before the end of the year.

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Regarding the development activities, we have now three consortia contracted to carry out the Front End Engineering and Design (FEED), and to submit an EPCIC contract for the FLNG option to the Coral area. We expect to receive these offers during the first half of 2015. Based on them we will take the decisions about how to proceed.

Regarding the development of the Mamba reservoir based on onshore liquefaction units, the consortium has already launched an invitation to tender for an EPC, with four entities pre-selected with offers due to be received in the first half of 2015.

And these two works, both the EPC proposals for both Coral and Mamba will be the basis for the future development of Coral and Mamba.

Now, let me go over to our downstream and gas activities.

After historically low refining margins in Europe during the first half of the year, finally in the third quarter market conditions improved, with our benchmark margins up to around 2.3 dollars per barrel. And this was the basis for the improvement of our results in this area.

We took advantage of these market conditions with our hydrocracking facility and our FCC running at full capacity throughout the entire quarter, and we have been able to improve our premium over benchmark by optimising the crude and VGO intakes. This was only possible due to the operational flexibility of our units and the quality of our logistics infrastructure.

This recovery of the refining margins and the positive contribution of our marketing business supported the improvement of our results in the oil downstream activities. In fact, I would say that even during adverse times in Iberia, we have been able to maintain our market share in a very competitive and difficult market. However, I must emphasize that we continue to be cautious on the refining environment and its future impacts on our downstream results, since the existence of refining overcapacity in Europe is still evident, and uncertainty remains in the market.

On the gas side, in addition to operating efficiently our regulated assets and our Iberian commercial activities, we are sustaining our international LNG structured sales with good contribution for our results, even if not as strong as in the last quarters, as previously expected and flagged out on our last short term

outlook. We are taking all the actions on our Gas & Power business to ensure that the results we are presenting are sustainable for the forthcoming few years.

With this, I now pass the floor to Filipe, to go over the results of the quarter.

Thank you very much for your attention.

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

Thank you Manuel. Good morning.

Starting with the P&L, on slide 14, Group Ebitda was €379 m the quarter, up 21% YoY, and the highlights being the production increase in Brazil and the recovery of European refining margins.

E&P Ebitda, was up 19% to €131 m, with increased production more than offsetting the fall in average sales prices, in this lower crude price environment.

Working interest production reached almost 32 kboepd, mainly driven by the contribution of FPSO #2, which had been ramping up over the last 15 months and reached full capacity at the end of the quarter. Net entitlement reached 28 kboepd, with Brazil up 61% YoY and already accounting for about three-quarters of Group production.

Realised sale price was down with Brent reaching the lowest level of the year during the quarter. During this period, production costs were stable YoY, with higher production costs in Brazil offset by lower production costs in Angola, following the decommissioning of the Kuito FPSO at the end of last year. In unit terms, production costs decreased 20% per barrel, due to the increased weight of Brazil and the higher utilisation of our production capacity.

Refining & Marketing Ebitda increased to €144 m, benefiting from the recovery of European refining margins. The marketing business also increased its contribution to Group results YoY on the back of improved operating efficiencies in Portugal, Spain and Africa.

Finally, Gas & Power Ebitda was down 18% YoY to €99 m in the quarter, with lower volumes of LNG traded in the international markets. Our regulated infrastructure and power businesses maintained their stable contribution to Ebitda during the period.

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Group Ebit in the third quarter reached €243 m, reflecting the improved Ebitda as well as the reduction in depreciation and abandonment costs in Angola and also lower provisions in the Marketing business. Refining and Marketing Ebit for the first nine months has now almost reached breakeven.

Below the Ebit line we would only highlight the increased amount of taxes, mostly as a result of higher production.

Moving to our balance sheet, on slide 15, our working capital was down €175 m, driven by a reduction in receivables after the one-off effect of the cargoes sold in late June and this effect has now waned down. This was expected and was well flagged during our Q2 conference call.

Net debt was stable in the quarter, even with the payment of the September interim dividend. Considering the outstanding loan to Sinopec as cash, net debt was €1.6 bn, or about 1.3x net debt to Ebitda.

On slide 16 we have capex, which amounted to €314 m in the quarter, about 90% of which was allocated to E&P. The investments there were mainly allocated to development activities in Lula/Iracema, in particular to the drilling of development wells and the construction of FPSOs and subsea systems. Exploration and appraisal capex reached €94 m, mostly allocated to appraisal activities in Iara, in Mozambique and, of course, Morocco.

Our cash flow statement, on slide 17, should really be looked at on the basis of the entire nine-months of 2014 versus nine-months of 2013. The quarterly figures within 2014 were quite volatile also because of the planned maintenance of the larger Sines refinery earlier this year. So comparing nine-months vs nine-months, the key take-aways are: higher cash flow from operations, on the back of higher Ebit IFRS this year and better working capital management; we also have higher capex – and that is even considering the sale of the CLH stake last year; we have lower interest expenses, even if the debt level was higher and the maturities have been extended; and we also have higher dividends.

On slide 18, you see that at the end of the third quarter the average maturity of our debt was extended to 3.8 years, with two-thirds of our gross debt now due from 2018 onwards, and with about 40% now on a fixed-rate basis. Our liquidity remains high, at €3.4 bn.

Finally, our usual guidance for this upcoming quarter.

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We are expecting Q4 production of around 35 kboepd, supported by the production plateau of FPSO #2 in Lula Northeast and by the contribution of FPSO #3.

We are expecting Iberian oil products sales to remain stable YoY. Natural gas volumes are expected to be stable QoQ, as we don't anticipate material changes to LNG volumes traded in the international markets.

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

## Questions & Answers Session

### Haythem Rashed, Morgan Stanley

Good afternoon gentlemen and thank you for the presentation. Two questions from my side.

Firstly, just wanted to get your thoughts with regard to the environment that we're in right now and concerns clearly are very much on the evolution of the oil price from current levels. Could you just give us a sense of how you are thinking about this internally – whether when it comes to capex plans specifically for the next 1-2 years, whether there is a kind of a scope for you to be flexible around some of those plans and whether, for example, Mozambique sort of being delayed or pushed out would be something you would consider or whether there are other levers in your current plans?

Second question I had is just on the downstream and sustainability of the results, which clearly in 3Q are very strong. You mention, Manuel, the cautiousness you still have around the environment. Perhaps you could give us specifically just some colour around 4Q – what you've seen so far in the quarter, we are now almost a month in. Are there signs that we should see it kind of maintain for some time? and any colour around that would be very helpful. Thank you.

### Manuel Ferreira De Oliveira, CEO

Haythem, very good morning to you and thank you for your two questions.

The first one, I wish I could answer. If I knew the evolution of the price of oil I would probably have a different job.

As far as capex, as I told you, we are now starting up, particularly in Mozambique, the FEEDs and engineering, and only then can we make more definitive statements. I hope that in our Capital Markets Day we already have some thoughts about it but, at this stage, our plan is our plan. We don't see this variation in prices should detonate such a short turn review on our numbers.

As far as the second question on refining margins. Prudently, I am telling you that so far so good. So, as far as the month is going we see the margins slightly declining but, day by day, we are still in a level that makes us happy. So I do not get over excited, but I'm not pessimistic as well.

These are my answers, thank you Haythem.

## **Brendan Warn, BMO Capital Markets**

Good afternoon gentlemen, this is Brendan Warn from BMO Capital Markets. Just two questions. It's more just a clarification of a couple of statements. Firstly, the statement on breakeven for R&M over the nine months period and just the expectations for the next outlook for 2015.

And also the comment on the throughput in terms of the hydrocracker, in terms of utilisation or run-rate for this quarter, what we could see going into the next couple of quarters please?

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

Brendan, thank you for your two questions and let me try to answer them. The first one is on the breakeven of R&M. As you see, we are nearly breakeven at Ebit line, although I emphasise with a very well needed contribution at the Ebitda level. Remember that we are minimising capex in this activity and it is generating cash flow to support our investment programme. So, as you can see from the results, *ceteris paribus*, with a \$2.3/bbl benchmark refining margins we are breaking even. I think this is the answer to your questions, through the quarter and through the nine-month period. We hope and we believe that in the mid-term at least, the benchmark refinery margins will be well above the \$2.5/bbl.

Your question number two is also related with refining. You have asked, what about the realisation of our run-rates? i) One characteristic of our refining system is its flexibility, and ii) the quality of our logistics. We are able to import VGO if we have got opportunistic operations to make, and one of the things that we have done in the last quarter and, being fair, throughout the year, is that as soon as we see VGO that is

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competitive with the acquisition of crude oil, and running the crude oil through the distillation infrastructure, if the economics so indicate, we reduce the run of crude oil but maintain always the FCC and the hydrocracker at full capacity through the acquisition of VGO. We have done that successfully in the third quarter of this year with good results, as you can see from the premium of our refining margin, versus the benchmark we have published in our accounts.

Thank you Brendan.

**Oswald Clint, Sanford C. Bernstein**

Hi, good afternoon. Just on FPSO Mangaratiba, which seemed to be coming ahead of schedule, which is good, and obviously has the China construction part of the formula. Using China and Brazil seems to work quite well. So, should we expect any difference for the next three FPSOs that kind of have that China-angle to them? And is there a scope to kind of use this China flexibility further down the line in some of the later FPSOs? And I think you also mentioned some mitigating factors that might help you circumvent any potential delays in some of your prepared comments. Could you just elaborate on those please? Thank you.

**Manuel Ferreira De Oliveira, CEO**

Oswald, thank you for your questions. Yes, I do agree with your comment, that the combination China-Brazil is working well, and the consortium is using that in a very wise manner.

For the next three FPSOs, as I referred in my introduction remarks, that combination will keep working. They should start on what we named Replicants and where decisions are being taken at this moment taken, to mitigate any delays that we are observing. The working plans that we have, and I cannot say any more than this, is to ensure that first oil of the first two Replicants that we will need on-site in the second part of 2016, will be according to plan. That is the work that we are presently doing. And I think this was your question, wasn't it? Thank you.

**Michael Alsford, Citigroup**

Thanks for taking my questions. Just wanted a follow-up on the last question actually. Could you maybe talk a little bit more about the Replicants that are obviously being built in Brazil. When is the timing of first

oil for those vessels and really what have the challenges been so far and how you see those being mitigated? Because I guess moving the couple of earlier FPSOs to China seems to have got around the problem, but I just wondered whether that is a possibility for the later vessels or whether you have to continue to build them within Brazil. That's the first question.

I guess just the second question relates to the schedule around Brazil. I think one of the challenges will be partners in a lower oil price environment funding the plans for pre-salt Brazil, and I just wondered, obviously, given the recent election results in Brazil, how you see that risk? Particularly yourselves, but also more importantly Petrobras, your partner, of delivering on that plan going forward financially. Thank you.

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

Thank you Michael. Let me start with your first question which is easier than the second, and I am sure that you agree with that. So, the forthcoming three FPSOs will be manufactured fundamentally in China and assembled part of them in Brazil, and they will be leased. So, we have no issue in the forthcoming three units. One will be commissioned by the end of 2015 and two will be commissioned in 2016. But in 2016 we will have another two. These two will be Replicants made in Brazil.

Let me tell you why they are named Replicants. They are named Replicants because they are absolutely equal and they have basically the hulls plus five subsystems and each subsystem is manufactured by the same supplier. It is then supplied to another entity that assembles the five subsystems, so integrating them in the hull.

What is happening is that some of the subcontractors of these subsystems are, for different reasons, now indicating some delays. What we are now doing is negotiating with them and redistributing the work so that compliance of the delivery time is not affected. Additionally, a scenario that part of them could be supplied abroad to neutralise, if it is confirmed that the target dates are not possible, I say that this scenario is on the table. So the focus of our engineering and procurement teams is now to ensure that the mitigating aspects being discussed are effective and that we will have the two FPSO Replicants in the second part of 2016. And we are optimistic about that, let me tell you that.

Now the second question is the most difficult one. What I see is that people at divisions of Petrobras we work with, are highly professional, and they are working very hard to meet the targets and I see no reason

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why the production targets or the production objectives of Petrobras will change. Brazil needs that growth, and because the projects we are in are the most attractive ones of the Petrobras portfolio, we are relaxed but, as everybody, we are always waiting and seeing. Thank you for your question.

**Filipe Rosa, BESI**

Hi, good morning everyone. My first question relates to lara. We are very close to the Declaration of Commerciality of this important field and so far you have only sanctioned two FPSOs. Could you update us on whether the appraisal activities that you have carried out so far this year already allows you to sanctioned another FPSO? What is currently your expectation in terms of recoverable resources that you could announce in terms of the time of the Declaration of Commerciality? This would be the first question.

The second relates to WAG testing at Lula. We have now been almost another year where you have been testing this technology, could you update us on this front? Do you still feel confident that you will be able to increase your recovery factors at a slow pace over the next few years due to this technology?

Thank you very much.

**Manuel Ferreira De Oliveira, CEO**

Filipe, taking the first question for lara. We are, at this moment, producing around 30 kbopd. That well is located in an area called lara West.

We are at this moment drilling a well in lara Central in the border with lara Central and lara East to better understand the homogeneity of that area. And we are discussing the unitisation concepts that will apply to this area. What seems more likely to happen is that we will look at lara as the Greater lara reservoir.

Petrobras has been extremely successful in their exploration in the lara Entorno that was transferred to them in the rights' issue programme a couple of years ago, and we are putting everything together, so that the Declaration of Commerciality most likely will happen together. This is the phase we are in. We are discussing the location of FPSOs, looking at the total, including our own participation in the core lara reservoir. So I would prefer not to go beyond this because we are negotiating that.

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In order for this to be professionally completed we need to do this well that is now being drilled – so one well being drilled – and another one programmed for early next year. Remember that once we declare commerciality, we have six months to present the development plan. We still do not have all the data to have a reliable development plan, which we will have to have by June-July next year. I hope that in our Capital Markets Day and early next year we will be sharing more concrete views about that.

As far as the WAG project, you Filipe know me and you know how enthusiastic I personally am about this project. As a petroleum engineer, if you want to call me that, I am extremely confident about the results of area. What has happened is that due to operational reasons, we have not effectively executed the program as it was originally conceived and there were good reasons for that not to have happened, which were operational. So we cannot present now objective data on the effectiveness of the WAG project but we know where it has been applied elsewhere. We know the laboratory results and we know the analytical models, and I am fully confident that WAG technology will gradually increase the recovery factor of the reservoir.

## **Filipe Rosa, BESI**

So, just to be sure, this means that this year there will not be any changes to the resources of Lula based on the WAG just because you have not been able to perform the tests as you expected to be able, right? Is that it?

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

Filipe, the reserves, resources and so on that we communicate to the market are the ones that come out from our reserve auditors so I would not want to comment on what they are going to do. It is their job to do so. What I told you, is that I have no expectations that reserves would be reviewed as a consequence of the on-going WAG project, because of some operational issues related with that project, basically the priority of the location of resources to the project.

## **Bruno Silva, BPI**

Good morning everyone. First of all congratulations for the excellent delivery this quarter. I still have a couple of questions pending.

The first one is more on the strategic side. I'd like to understand that with the current oil price environment, that is well below your assumption for the 2014/2018 period presented last March. I'd like to understand if this oil price level is maintained, what could be the consequences in terms of, first of all, considering the leverage of Galp, what would be the actions you'd be ready to take? Would you please try to make it more clear to whether you would prefer to maintain or increase the current shareholder remuneration policy or would Galp be ready to accelerate the asset rotation within its portfolio?

And actually, just to remind, in the Capital Markets Day you mentioned that possibility. The interest rate environment and the good news from the European banking sector probably are backing or supporting valuations of regulated assets. Is the dossier of the regulated infrastructure in Portugal presenting a short-term opportunity for selling a minority stake or not?

The second question, if I may, very quickly in gas sourcing businesses. Is Galp pushing for, or increasing debate on, expanding the sourcing of gas to boost the supply business? Or should we take the guidance provided in the Capital Markets Day, or should it be understood as the level of exposure the company is comfortable with going forward?

Thank you very much.

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

Bruno, thank you for your questions. Back to the oil price environment. None of the projects, the big projects that we are involved in, have their economics at risk with the present price environment. I want you to know that, we test these projects at a price of crude oils lower than the present ones. I want you to remember that the consortium of BM-S-11, to refer just Lula project, has stated in several occasions that our breakeven price of oil, in terms of remunerating capex at the cost of money, is at about \$35/bbl to \$40/bbl.

As far as our balance sheet, I am going to repeat what we have said, that we will continuously look at our balance sheet. Remember that Filipe told you that our net debt to Ebitda presently is 1.3x, so we feel extremely comfortable with that ratio at this moment. Again, our net debt to equity is within the industry standards, so we feel comfortable on that.

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Moving forward, if due to exogenous variables or endogenous events, we see that our net debt to Ebitda could become higher than 2x, we will reactivate mitigating actions that you are familiar with. As far as whether we should accelerate them or anticipate them, that is a strategic move that is always part of our ongoing thinking process and those concepts we prefer to share them once a year in our Capital Markets Day. So I would not want to make this presentation of quarterly results as a strategic review.

I will pass the word to Filipe to complement this answer.

As far as gas sourcing, we have today a set of contracts. We are also active in acquiring additional cargoes here and there, depending on where the opportunities arise. If you notice that this year, so far, 50% of our gas acquisition was traded internationally, which is quite an achievement, and we are gradually increasing our exposure to this activity. What we do, as the main characteristics of our strategy, is not to expose us to excessive risk. So it's typically operations that are nearly risk free.

And to the first question, I can see that Filipe is prepared to complement my answer, which I thank.

## **Filipe Silva, CFO**

Bruno, your question on our leverage and whether we should do something on the back of lower oil prices. As you recall, the two years where our balance sheet would be on the most stressed, it would be 2015 and 2016, because we are expanding all the capex now and the big hike in production only kicks-in in late 2016. Now we're fully funded, our ratios won't go over two times anyways, but in 2015 and 2016 our production is still relatively modest.

If you look at impacts, if we assume that lower oil prices is good for the consumers, people will drive more in general, so it's good for our downstream marketing business. It depends on refining margins where we are exposed multiple times, to those variations versus production in 2015. Net debt, there would be no related consequence on average in 2015 and 2016 from a lower oil price. And this quarter is a good indication of that. Thank you.

## **Bruno Silva, BPI**

Thank you very much.

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

Bruno, let me add one comment regarding your last question. We're well aware that our gas contracts that are terminating around 2020, and forward, and it's the duty of our marketing team not to wait for 2019 to negotiate these contracts. Effectively they are already working very hard on that, we will not wait for the 2018/2019 to extend those contracts. That's our base strategy. Thank you.

## **Matt Lofting, Nomura**

Two questions, please, if I could. Firstly just coming back to refining, if you could comment on the extent to which you've been able to hedge forward the margins of September and October, at least for the rest of Q4 and perhaps into the first part of 2015, and whether or not that's been possible in the market or not would be helpful.

And then secondly, just coming back to working capital, the sort of normalisation of the balance has clearly helped in the third quarter. Just wondered if there's scope for any further gains from that perspective into year-end, particularly with the oil price lower or whether that working cap correction is largely done as of the end of Q3? Thanks.

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

Thank you, Matt. I will take the first question and Filipe will take the second. We believe that we are in the business as a vertically integrated company. Our shareholders or our investors expect us to be exposed to the risks of the business. However, in terms of refining, we are prudently hedging some volumes. I repeat it again, prudently hedging, to the limit of 10% of the volumes. So we remain 90% totally exposed to the refining margins.

That's the kind of prudent strategy that we are making. In the understanding that it would be frustrating for our shareholders for us not to put on the table the real refining margins if they go up and we expect they understand that if the refining margin goes down, that we cannot present as good results, but that's my answer. As far as Filipe, Filipe can you complement that? Thank you.

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## Filipe Silva, CFO

Matt, one more word on hedging. In our Q3 numbers, our financial results have been hit by about €7 m in the quarter, so mark-to-market of derivatives on refining margins. So the margin is way up in Ebitda, but our hedges under financial income is hit by €7.3 m negative.

On working capital for the rest of the year, we believe in the end of Q3, we have reached normalised level in pretty much all the big items within working capital, so clients, stocks and suppliers. So, we're back at normalised levels, we don't expect major changes. Bear in mind, we publish numbers in euros, and the stronger dollar mitigates some of the impact of the lower Brent. Overall, expect limited changes from Q3 numbers. Thank you.

## Lydia Rainforth, Barclays Capital

Thanks and good afternoon, gentlemen. A couple of questions, if I could. The first one, Manuel, have you asked Thore Kristiansen to do anything differently, as Head of Upstream, to what was being done previously? I'm just wondering if there is any change in emphasis there.

And then secondly, I think more for Filipe. The discount on the sales price in the upstream was much lower than I thought it would be in terms of the fall from where we were in the third quarter last year. I'm just wondering what sort of oil discount to Brent do you expect your realised sale price to settle up on a long run basis? And then just one prompted by something you said earlier, have you actually seen volumes at the firm pick up with the fall in the oil price coming through? I was wondering if that's something you're actually seeing so far in the fourth quarter. Thank you.

## Manuel Ferreira De Oliveira, CEO

Lydia, good morning. And thank you for your questions. The first question is extremely simple to answer, Kristiansen will do his job in the continuation of the project that we have. The agenda is not of the new director agenda, it is the agenda of the Company. So, in his recruitment process, he was well briefed about what we were doing. And obviously, we will welcome any good contribution to improve the quality of our agenda. So that's how I see it going forward. He's a good professional, we expect him to bring some additional value to our corporation.

As far as the second question, we have a discount to Brent that is a function of the percentage of gas that is in our barrel. We have published in barrel of oil equivalent (boe) and sometimes we are injecting more gas than others, and that has an effect on the average value of our boe. So referring to just the barrel of oil, at this stage, we are selling our oil, FOB at the FPSO, under a mid-term agreement that we have with Petrobras. And we are having a discount to Brent in the range of \$3.5 to \$4 per barrel on oil. Going forward, what we are doing is what we have to do. The volumes that we are putting together are already big enough for us to have a unit on place that will enable us to lift the volumes ourselves and market them on the market. And this is the activity that our trading team is now developing. So, we hope to have soon – sooner rather than later – our own logistics on the Santos Basin to be the direct sellers of crude oil that we produce. And, I wanted you to know that when we have a EWT working – a EWT is a very, very transient production and that exists only for a short period of time – the discount on Brent is higher because of the logistics. Effectively it is \$1 per barrel higher discount than under a stable operation. And, I hope I have answered the two questions you asked, Lydia.

## **Anish Kapadia, Tudor, Pickering, Holt & Co**

Hey, good afternoon. Just on Brazil first of all. I was wondering if I could get clarified. You talked about getting to full capacity on Lula, whether you mean the full 120 kbopd or is more like around 90% of that level which is I think what Lula pilot is running at. And, then kind of going forward into 2015. Could you just layout the schedule of when you expect the wells to be tied in and what kind of intervals over 2015 for FPSO #3?

And then, I think the question is on the downstream, I was wondering if you could give what was the contribution in the third quarter from the falling oil prices in the marketing division? So I think generally you get benefit when oil prices are falling. And just on the refining side of things, we've seen kind of heavy discounts for Kurdish crude in the market, is that something you've been looking at using? Thank you.

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

Anish, thank you for your questions. Starting with Brazil, when we say full capacity, it means that we've got all the infrastructure in place to operate at 100% capacity. However, on a continuous base, you have to assume that not every piece of equipment is always 100% available. So in our plans, we assume that we have 90% to 95% availability of the total production capacity. So if you have 100 kbopd per unit production

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facility, it will be producing 90% to 95%. We apply the same for the 120 kbopd and for the 150 kbopd. So FPSO #3, the one that is incomplete to you, that's what we have guided because this is what the consortium agreed in our formal plan to have a ramp up period of 18 months. We do not guide on the timing of each well; that has to do with weather conditions, sometimes with availability of PLSVs. What we have is a master plan of when we should have it fully loaded. Obviously, the work is to do it in a shorter period of time. If you ask my opinion— it's not a guidance - I would say that we'll be able to have it at full capacity within 15 months. Will we be able to do it? There are exogenous variables that can limit this feasible objective.

The second question has to do with the reduction in oil prices and the impact of our business. When the prices are reduced in the market environment in Iberia, typically the demand picks up. But the correlation is not direct. We are in Iberia going through turbulent times in terms of the market. I would not expect any demand driven by the reduction of prices because the governments will put taxes on it to raise the prices again. So we look at this prudently. This is why we are focused on reducing costs and optimising our logistic infrastructure and ensuring that we are good operators. We are not counting on increasing unit margins in our marketing division.

I think I answered your questions, Anish.

## **Anish Kapadia, Tudor, Pickering, Holt & Co**

So just to clarify, what I was meaning on the marketing side of things is that I think in the past you've talked about a time lag effect that you had when oil prices have been rising. It has kind of caused a negative impact on your marketing results. I'm just wondering, if you have got kind of converse positive impact. And then the second part that was just kind of related to the refining side. Have you been using any or have you been looking at any Kurdish crude in your refineries, given the large discounts you're seeing? Are you able to do that? Thank you.

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

So the first question has to do with what we call *décalage*, but in terms of replacement cost, that is minimized. So you see that very intensively in our IFRS accounts. At replacement cost, basically we work as a pipeline. However, in Portugal we sell ex-refinery our products at the average price of the Platts

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quotation in the previous week. You can see that if the prices are going up, we as refiners lose a small margin because of it. If the prices go down, we make a small margin. So this is where we are. That has to do with the pricing arrangements at our ex-refinery. In Spain, for instance, the Spanish refineries set their prices at each day's quotation. So we have that provision in Portugal and we have not changed it yet. But this is a small number I would say, unless the change is very drastic which is not happening that way.

And if you are asking whether we are buying crude oil from Kurdistan, at presently no. The answer is no. Thank you.

## **Henri Patricot, UBS**

Hello, everyone. Just one quick question from me on Mozambique. You gave us an update us on the FEED of the EPC process, I was wondering if your estimate on the timing of your start-up has changed in any way. Are you still comfortable with the 2019 date? Thank you.

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

Presently, we are bound to the plans of the consortium, we will have first gas from conceptual FLNG facility by the end of 2019, first gas from onshore facility in 2020, but these are indicative objectives. What happens is that we are now doing the engineering and we are bidding for the EPC contracts, that's what's going on. We will receive for the FLNG project data all the EPC timing and the investments by second quarter of next year, and for the onshore projects, in the third quarter. So, only then can we review the timing of first gas in this country. At this moment, what we have is a conceptual objective and what I can do, other than this, is speculate which we should not do.

## **Hamish Clegg, Merrill Lynch**

Hi there, thanks for taking my question, a few things just to ask, quickly, first of all, just on lara: I have read in places that the quality of the crude has not flowed as well. I wondered if you could maybe tell us a little bit more about, what you know initially and if there is any risks to the EWT.

Second, on Brazil, I want just to ask you a little bit more about BM-S-24 in the Apollonia well, when you say it's got similar characteristics of Júpter, could you clarify the sort of oil/gas content, potential economics and how excited you are about that - basically commercialising Júpter - and whether it sits in Petrobras' kind of priority list?

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And then just finally, sort of more top down, wanted to ask you about capex particularly in light of your new head of Exploration & Production. Sorry to hear about the dry hole in Morocco. Could you maybe tell us a little bit about the direction we can expect exploration capex to go in, given that there seems to be more of a focus on appraisal, and as well as the direction, potentially, the geography, we can see that, it will be a focus on Brazil, still.

And finally you have mentioned a lot of efficiency improvements and cost savings. Could you elaborate a little bit more on that, in terms of where that is coming from, is it the rig rates? Is it cost of equipment? I know you have mentioned this time. And then, the money saved, will you reinvest that or will you kind of use that to bolster your balance sheet or payback to your shareholders? Sorry to ask a string of questions towards the end of the call.

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

Hamish, good morning to you and thank you. It is quite a lot of questions. Let me see whether I would be able to pick them all.

Let us start with lara. You see, the first dynamic test of lara is taking place now, with the EWT, which is in lara West region. And it is indicating – has been producing, for months, 29 to 30 kbopd, actually, a couple of days ago it was at 30 kbopd a day; with practically no CO<sub>2</sub>, which was a surprise. Now it is not a surprise, but it was a surprise at the very beginning and with very low gas to oil ratio. So, so far good news. What we have is, in lara Central, a big resource base is there – we still have unknowns to be answered, to be removed. And this is why this well that we are drilling now is important, to assess the lara Central. And the forthcoming well is also important.

So we have nothing else to add to it. lara is a large reservoir. From the very beginning, we knew that it was tight in relative terms when compared with other reservoirs in the area, it was a tight reservoir. But surprisingly, we are having high flow rates. So whether these high flow rates are just in hotspots or are all over the field, that is the unknown that we have today. So what we are being is prudent in extrapolating the 20's kbopd of the present EWT to the full field. And that is the reason why we need additional appraisal before we put forward the development plan.

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So going to BM-S-24. At this stage we are doing the first DST in Júpiter. So it's the first dynamic production of Júpiter, the first time that we will have the fluids in a ship, so that we can see how the fluids flow perform, with all the complexities associated to this three phase fluid, in this project. So we'll be sooner rather than later – in the next couple of weeks – sharing with investors, the results of this DST. We are right now starting the project and it would not be proper for me to comment on them. What I am being corrected by a friend of mine is that – by Filipe – is that I said that EWT was 20 kboepd, but it is 29 kboepd. So, if said so, I was wrong.

So we have an excellent hotspot in this EWT. And the question is, how many hotspots like that do we have in the lara field? That is the unknown that we have. Going to capex and to whether we will be changing our capex guidance. We have, this year and next year, for exploration and appraisal, about 25% of our E&P budget. One thing that we have committed in last Capital Markets Day is that we would not open new exploration areas that implied drilling, unless it was previously committed, during the period between now and 2017. So, that has been decided more than a year ago, and we'll be sticking to it, independently of having with us Thore or not. That is in our plans and that is what we will do.

So, we will continue our exploration activity, but more focused in acquiring acreage with minor capex commitments in this period, because we are clearly aware that we need to have development prospects for the post 2018 phase of our Company, and that it should be our plan now.

Back to cost efficiency and improvements. I think, it is becoming a component of our culture. Every year, and we have cost improvement exercises and efficiency improvements in the different areas of our corporation, and we will continue to do so. Typically, when we have a capex, as presented by our business units, we look at them and say, how can we do the same with, at least, 10% less capex. And we are continuously challenged project by project, in which we are involved in. That is more than an objective, it is a culture, that we want to impregnate in our Company. And we can't read it, we can't read those results, and so far, we have achieved that. Thank you, Hamish.

## **Thomas Adolff, Credit Suisse**

Hi, guys. Two questions please. One on Mozambique: if you can give an update on how many HOAs you actually have in place, if you can reveal the volume separately for the floating project and the onshore product please?

Secondly, on Brazil, presumably, any revised guidance will come from the operator, not yourself, intends to happen whenever the operator updates to market next year, and any comments before seems somewhat irrelevant, in my view, but – so, I am not quite sure, whether you can actually tell me anything new on Carcará, which is actually my question. I am looking at your drilling schedule now - was the second phase starting in the second half of 2015? And I am just trying to get comfortable, whether 2018 is still the year for first commercial production and how does the drilling of G play into this as well? Thank you.

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

Thomas, I will start with the second question, and, then, back to the first one. We are quite excited and you remember our happiness when we announced the Carcará discovery, and have good reasons for it. However, there is one thing that nobody is prepared to take, that is any kind of operational risk and that is not even assumed now under any scenario.

What we are doing is, we need to have, in order to assess whether the quality of the reservoir that we have, whether it is extended to the total reservoir or whether the Carcará discovery was simply a high quality hotspot in the reservoir. That is a question that we have. The optimistic say that the reservoir is, looking at all the data that we have, high quality in all its volume. The pessimists say that it is just a small hotspot around the well that we drilled. So, the reason of delay has nothing to do with us. Neither with us, nor with the operator. We wish we had them. It has to do with the availability of a rig that is in the area with the MPD (Managed Pressure Drilling) equipment installed. That is the issue. What are we doing is, that last year or recently, we started to drill a well but we had mechanical problem with the rig in the pre-reservoir section of the well. So, we had to remove the rig from the area. We are bringing a second rig now. And then we conclude the drilling in the second part of the year. Then follows a DST, and that is it. In the meantime, we are already engineering the site and the facilities for that pressure environment, because the FPSO is not a standard FPSO, so we are working on it, to advance the timing. Declaration of commerciality, unless ANP gives us more time, is in 2015, late 2015. So, if that happens, our target production is three years later (2018, early 2019). That is the target, as of today. Or else, we have either good or bad surprises, that make us change these targets.

As far as Mozambique, you are aware that total discoveries were about 85 tcfs, this is between 85 to 87 tcfs of gas in place, distributed between Mamba, Coral and Agulha, which, in Coral, are slightly above the

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30 tcf of gas - so quite a lot of gas. So the issue of development in the Rovuma basin is not the reserves, is infrastructure. So that's where our focus has to be.

**Thomas Adolff, Credit Suisse**

My question is on HOA, Heads Of Agreements for off-takes? Whether you have secured any.

**Manuel Ferreira De Oliveira, CEO**

Let me tell you. What is going on now, is what we called awareness. So the consortium has gone around the traditional buyers, has presented the project, so that they know that project is going to happen, that we try to understand, what are the pricing formulas, that they will be willing to buy. But before we have a clear schedule for the development of the project, which comes out from the engineering that is going on, it is very difficult to have committed HOAs.

**Thomas Adolff, Credit Suisse**

Ok. So, basically you have no HOAs, right now?

**Manuel Ferreira De Oliveira, CEO**

Yes. But we are confident that it is not the market that will limit the development of the project is the development of the reserves, at this stage. Thank you, Thomas.

So I understand that we have answered to all the questions. Thank you for asking them. It is now time for us to close this meeting.

Before we end the day. I would like, once again, to reaffirm our commitment to the development of our main upstream projects, that we discussed this morning.

We are working alongside our partners to ensure that our projects are executed on time and I think that is one of our main focus, executing on time what we are telling you we are going to do.

We also continue to pay great focus to our development projects which are still in the pre-sanctioned phase. Is moving them from pre-sanctioned to sanctioned phase that will create value to our shareholders. Although these projects are at different stages of appraisal, we are de-risking intensively Iara, Júpter and Carcará, at this time, and they should contribute to our production growth over the coming years.

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I would also like to take this opportunity to formally - and I emphasise that - to formally invite all of you to our 2015 Capital Markets Day, which will take place in London on the 10<sup>th</sup> of March. As you know, on this day we will provide an update on our main projects, as well as an update on the financial outlook for the coming years. If we have any strategic evolution in our present thinking, that would be the day for us to share with you any evolution from our present strategy. I speak on behalf of the entire management team, that I have the privilege to lead, when I say I hope that we see you there on the 10<sup>th</sup> of March next year.

Thank you my friends and we will talk through these means again in three months' time. Bye Bye