

## Galp Energia's Fourth Quarter and Twelve Months 2010 Results

### Introduction

Good afternoon, ladies and gentlemen. Please welcome to Galp Energia's Fourth Quarter 2010 Results Conference Call and Strategy Update. I will now pass the floor to Mr. Tiago Villas-Boas, Head of Investor Relations division.

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

Hello, good afternoon and welcome to Galp Energia's 2010 fourth quarter results conference call. Joining me today as usual is our CEO, Manuel Ferreira De Oliveira, and our CFO, Claudio De Marco. We'll start our presentation with the fourth quarter and full year results overview followed by a short-term outlook and an update of the execution of our transformational projects, after which we will be available for your questions.

Let me just end by reminding you that we will be making forward-looking statements, so I'd like to draw your attention to the disclaimer at the end of your presentation.

And now over to Manuel.

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

Thank you Tiago, and good afternoon to all of you joining this call. And welcome to Galp Energia's fourth quarter results and a brief strategy execution status.

2010, as you know, was of crucial importance to Galp Energia as the largest growth opportunities in our E&P business began production and as we managed to increase and continue de-risking our resources portfolio.

During today's presentation we will give you an update on our key transformational projects execution in advance to our Capital Markets Day, that will be held on Rio de Janeiro, on March 14, and for which I expect to have the pleasure of your presence.

I will now go through the fourth quarter results.

Let me start on slide number three, sharing with you the main highlights of Galp Energia's fourth quarter.

Our EBITDA posted a yoy growth of 18% and 36%, respectively, in the fourth quarter and full year 2010, driven by the better performance of all our business segments.



Our net profit on replacement cost basis posted a YoY growth of 16% to €40 mln, while the net profit in the full year 2010 increased 43% to €306 mln, supported mainly by the improved performance in Refining & Marketing business segment.

Also during the fourth quarter, we reached a very important milestone for Galp Energia and our long term strategy with the beginning of the first commercial production from Lula field in Santos Basin, where in October, and ahead of scheduled, the pilot-project started operations.

Very, very important is the fact that at the end of 2010 Galp Energia's reserves base posted a very significant increase, following the submission to ANP of the development plan of Lula and Cernambi fields. That increase is a major breakthrough and has a read across to de-risking of Galp Energia's resources portfolio, which at the end of the day, is translated in a more valuable resources portfolio and more value added for the company.

I would also like to mention that our Iberian downstream business is also benefiting from increased efficiency, which helps us to disclose good results even in a not so positive macro environment.

Now, moving on to slide 5, I would like to draw your attention to:

The ramp up of Tômbua-Lândana and Tupi projects that were the main contributors for the strong increase in working interest production, which in the 4Q2010 reached 20.1 kbpd, up 14% YoY, including 0.9 kbpd from the FPSO Cidade de Angra dos Reis. This production in this FPSO had a neutral effect in results as it was accounted at production cost during the quarter.

Now regarding net entitlement production, it showed a 50% increase QoQ due to the PSA effects, namely due to adjustments on Galp Energia's cost oil share to reflect actual costs.

So the increase in both net entitlement production and crude price drove the EBITDA of the Exploration & Production division to €56 mln in the quarter, up 45% YoY.

Now let me move to Refining and Marketing, in slide 6.

In the 4Q2010 Galp Energia posted a refining margin of \$2.3/bbl, up \$1.4/bbl on a yearly basis. This increase follows the improvement in benchmark refining margins in international markets.

We must also highlight that our refining margin had the negative impact of the Matosinhos refinery outage in the 4Q2010 for 78 days, which led, not only to lower processed crude volumes but also to the decrease in Galp Energia's premium to the benchmark margin, due to the relatively high location premium that is also attached to the Matosinhos refinery.



This outage had the objective, apart from the programmed scheduled maintenance turnaround, to execute works of more than 600 interconnections between the refinery and the two new units of the upgrade project, namely the vacuum gasoil and visbreaker units.

Our marketing division continued to be a resilient business in terms of earnings contribution, benefiting also from the synergies, as I mentioned before, that are being captured following the Iberian acquisitions closed by the end of 2008.

In short, this division posted an EBITDA of €69 mln in the quarter, up 11% YoY, mainly driven by the increase in refining margins and let me conclude by saying that the yearly increase of EBITDA of this business unit was 33%.

Slide number 7 refers to the Gas & Power division. Looking at the Gas & Power operating performance was negatively impacted by lower supply margins, due, not only to higher NG cost due to less natural gas bought in the spot market, but also due to increasing market competitiveness.

However during 2010, this negative impact was more than offset by higher volumes that were up 5% with the liberalized market accounting for 75%.

I'd also like to highlight the positive contribution of our Spanish acquisitions earlier this year, which contributed with volumes sold of 115 million cubic meters, from which 72 million cubic meters in the 4Q2010 alone.

The EBITDA of the Gas & Power business reached €50 mln in the 4Q2010, with the NG infrastructure business continuing with its stable and predictable earnings contribution.

Allow me now to hand over to Claudio, who will present the financial performance and the short-term outlook. I will later conclude this presentation with a short strategy update about our strategic projects execution.

## **Claudio De Marco, Chief Financial Officer**

Thank you Manuel and good afternoon to everyone.

I'll go over the financials and I'll conclude my presentation with a short term outlook.

Let's start by outlining the annual increase in EBITDA in the 4Q10 and full year 2010. In the quarter it was mainly driven by the Exploration & Production and Refining & Marketing businesses, which was fuelled by higher prices and production, and refining margins, respectively. On an annual basis, also the Gas & Power business segment increased thanks to the higher natural gas volumes sold and Sines cogeneration plant full operation.



The fourth quarter, EBIT was €55 mln, an increase of 8% YoY, more moderate than the EBTIDA growth. This was a result of a higher depreciation of €22 mln in the Exploration & Production business due to a technical revision of reserves in Angola.

Below the EBIT line, the associates were positively impacted by a results improvement of the international natural gas pipeline companies. Financial results were €27 mln negative in 4Q10, and, in spite of the average debt increase, I would like to emphasize that during 2010 Galp Energia maintained a solid and trustable relationship with the banking system, benefiting from good contractual financing conditions. In fact, our cost of debt decreased 25 basis points, which confirms the ability to reduce the impact of the turmoil that hit the credit markets. Net profit was also negatively impacted by the higher oil tax paid in Angola, due to higher profit oil, and by the increase of marginal income tax in Portugal. All in all, the net profit, which reached €40 mln in the 4Q10 posted an increase of 16% YoY, or 43% YoY in the twelve months to €306 mln.

Now let's move on to capex, in slide 10. The investment reached €369 mln in the 4Q10, or €1,233 mln in the full year 2010, confirming the execution and commitment of our strategy towards our transformational projects. In Exploration & Production, the capex was mainly focused on Tupi's field in Brazil, with an annual spending of €170 mln in development activities. In 2011 we will continue to see an intense drilling activity that will enable the FPSO Cidade de Angra dos Reis to reach its full capacity. In Refining & Marketing, the capex was mainly allocated to the refining upgrade project, which accounted for around 50% of 2010 total capex. The physical execution is running as planned although the spending in the quarter has slowed down. Manuel will go through this project later in the presentation. In the Gas & Power division, the spending was mainly focused on the Matosinhos cogeneration plant, which is expected to start in operations by 4Q11.

Looking at the balance sheet on slide 11, it shows a significant increase of capital employed compared with the end of 2009, mainly due to the increase in fixed assets according to project execution. Once again, we have to point-out that from the 5.4 billion euro in fixed assets, €2 billion is allocated to work in progress related to our transformational projects that we expect, at least part of it, will generate cash flow starting from 2011.

In 4Q10, we've continued strengthening our focus in working capital management.

Total net debt reached €2.8 billion at the end of 2010, an increase mainly driven by the execution of our main investment projects.

In slide 12, the debt analysis is showed and you can see that in 2010 we have managed to structure the reimbursement of our debt according to the expected operating cash flow generation, so the reimbursement profile is concentrated from 2012 onwards. In 2011 we have planned no major debt reimbursements taking into account the expected high level of capex.



At the end of the year the additional facilities amounted to €1.2 bln of which 65% is already contracted guaranteed. Although the debt increases we maintain a comfortable level of additional facilities, dispersed over a group of local and international banks. The level has been always above €1 billion, despite the crisis that impacted the credit markets.

I'll now give you a short term outlook, based on our current forecast of some key drivers that will influence short term earnings.

In the Exploration & Production business, production is expected to reach 20 kbpd, on a working interest basis. In fact the decrease in Angola production will be compensated by the ramp up of the production from the FPSO Cidade de Angra dos Reis at the end of the quarter, with the end of the gas flaring limits.

In the Refining & Marketing segment, the depressed economic environment is obviously affecting oil demand, with volumes down more than 10% in January. We also want to highlight that our refining margin and crude processed are going to be impacted by Sines's refinery scheduled outage of 35 days, and we will use this period to complete the tie-in's for the new units to the refinery. The turnaround started on January 13 and we expect the refinery to come on-stream by mid-February.

Concerning the natural gas volumes for the 1Q11, we are expecting better volumes than in 4Q10 driven by the electrical segment in Portugal, backed on low hydro levels and higher electricity generation levels.

The level of liquidity facilities available gives us comfort to support our current project execution.

And now Manuel, will present the strategy update.

Thank you very much for your attention.

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

Thank you Claudio.

What I'm going to do next is just a summary of the ongoing major projects on the Company and we will leave for the Investor day on the 14<sup>th</sup> of March the detailed presentation of our business plan and the major strategic issues.

I will start this part of the presentation, in slide 16 with an update of the project CPT Tômbua-Lândana in Angola, where Galp Energia, as you know, has a stake of 9%.

The updated analysis of technical data led to a downward revision of reserves on a working interest basis. In fact, this project which greatly contributed to the incremental production coming from Angola, and which will continue to



contribute going forward, is now expected to have a gross production of around 60 kbpd in 2011. This level is lower than the initial forecast, constraint by well productivity factors, which limited the ability of the CPT Tômbua-Lândana to deliver according to our initial forecasts.

Let us now move to slide 17. As I already mentioned, 2010 was a really remarkable year on our E&P activity. On December 29, the consortium for BM-S-11 in Brazil has submitted to ANP the declaration of commerciality for the fields now named Lula and Cernambi, former Tupi and Iracema, respectively. This is truly an outstanding project. In less than 4 years the consortium was able to develop the first discover made in 2006 with the well Tupi. It is quite an achievement. Going into detail, Lula and Cernambi fields, as already announced, have recoverable volumes of 8.3 bln boe. The development of these fields envisages, at this moment, 9 FPSOs, from which 7 in the Lula field and 2 in the Cernambi field. In what regards the natural gas export infrastructure needed to develop the production, because flaring gas is not permitted in Brazil, as you already know the Mexilhão pipeline is already concluded with an investment close to \$800 mln, and it will be enough for the production of the first FPSO at full capacity. We can also add that the gas treatment unit in Caraguatatuba will be finished until the end of 1Q2011, and it is an infrastructure critical for the increase in the production of natural gas in the field.

In addition, I want to refer that the Front End Engineering and Design (FEEDs) by 3 firms for the FLNG option to process the associated gas in BM-S-11, have already been concluded, and the consortium is presently studying them in more detail and should have a final investment decision during this year. I recall, that the FLNG is one of the options that being study to export the gas from these fields. Alternatelively, we'll have sending the gas to the internal market or liquefying the gas onshore.

Now let me move to slide 18. In this slide I want to show you the incremental FPSO production capacity with the deployment of the 9 FPSOs that I've referred to you. It indicates the timing of the availability of that infrastructure. As you are aware, we have been announcing the steps that will enable us to have the FPSOs on time for the development of Cernambi and Lula fields. In fact, after the FPSO Cidade Angra dos Reis, another FPSO with a capacity of 120 kbpd is due onstream in Tupi NE are of the Lula field in 2013. This will be followed by a third FPSO to be deployed in Cernambi field in 2014, with an oil capacity of 150 kbpd. So by 2014, we'll have three full FPSOs operating: one in 2011, FPSO Cidade de Angra dos Reis; another in 2013, FPSO Cidade Paratí; and another in 2014, in the Cernambi field. Additionally, we will have the small FPSO Cidade de São Vicente continuing its EWT project to follow the evaluation of the reservoirs in the field and in the neighbourhood. The first three FPSOs will be leased, as already announced to the market. In addition, from 2015 to 2017, another 6 FPSOs, also with an oil capacity of 150 kbpd, should be allocated to the Lula and Cernambi fields. The hulls for these FPSOs have already been awarded to a Brazilian company, Engevix Engenharia, thus respecting the local content policy for the development of pre-salt fields in Brazil. According to this schedule, already approved by the consortium, the total FPSO gross capacity production is approximately 1,270 kbpd by 2017, which will support the production that will come from the wells to be drilled from now up to 2018. As you know, our aim of course is to provide you with further insights into this unique and fantastic project and we expect to give you more detail in our Capital Markets Day next March.



Moving to slide 19, I'm going to refer to you about the evolution of our reserves and contingent resources as well, as later, in prospective resources. In slide 19, we show you the results of our strategy and our point of view of identified resources. We have been successful at expanding and maturing our resources base. At the end of 2010, 3P reserves reached 574 Mln boe with 2P reserves reaching 397 Mln boe, on a net entitlement basis. The latter number compares with 35 mln boe of net entitlement reserves at the end of 2009, which were only coming from Block 14 in Angola. However, we must note now that based on our audited updated technical review, reserves in Angola decreased from 35 Mboe to 20 Mboe when compared to last year and that was due to the worse performance of the wells versus the base case.

In fact, the strong reserves addition was boosted by, basically, Lula and Cernambi fields, following the Development plan submission to ANP. Those fields are now responsible for more than 90% of total 2P reserves.

The global increase in the reserves base, materializes the de-risking of former resources and it is translated in higher value for the company.

In addition, at the end of 2010, the total amount of 3C contingent resources reached 2,356 Mln boe, which confirms the expected high quality of the projects we have in the pipeline, and which we are working to transfer to reserves.

All in all, at the end of 2010, Galp Energia showed a much better quality mix of resources and reserves volumes compared to year end 2009 and demonstrates the de-risking of our resource base following the 2010 intensive appraisal activity.

Moving to slide 20, I will now refer to prospective resources. As you know prospective resources are non-drilled prospects, and they also have been audited by the same entity DeGoyler and MacNaughton. This data confirms that our focus in the Exploration & Production business segment is getting more relevant each year and that we are paving the path to our strong production growth in the future. At the end of 2010 the unrisks prospective resources reached 2.5 Bln boe. The annual increase in prospective resources was driven by the intense seismic work and GHC studies, not only in Santos Basin, but also in other projects worldwide. I highlight, that even if the pre-salt Santos Basin is the mostly referred basin where we operate, our prospective resources shows that we are active in several projects worldwide clearly diversifying our resource base. Also very important is that we were able to diversify our mix of resources in terms of Oil & Gas, with the latter representing in 2010 around 15% of total prospective resources. We will carry forward an intensive drilling program, which will allow the de-risking of these exploration resources towards, in a first step, to contingent resources. As you know we are active in other than Brazil and Angola, in the offshore of East Timor, Mozambique and Portugal. Presently, what we have truly is a Portuguese speaking E&P company, as you can see.

We will give you more insight and detailed information about these prospects in Rio de Janeiro on March 14.



Moving from reserves and resources to our upgrade project in Matosinhos and Sines, I would like to reaffirm our confidence in our upgrade project, which is on time and on cost with €970 mln already invested until the end of 2010. In the Matosinhos refinery, the works are ahead of scheduled and full production should come one quarter before initially thought. In fact the production of vacuum gasoil, the main purpose of the investment in Matosinhos refinery, will start in the beginning of the second quarter of this year. The outage in 4Q2010 in the Matosinhos refinery allowed for the necessary interconnections and now similar works are being done in Sines's refinery. The Sines project is to be completed by 4Q2011. I must tell you that we are extremely proud of this project. This is an extremely complex project, which its successful execution accurately demonstrates our project management capabilities. The upgrade project is almost finished and ready to return cash to shareholders. Presently, the crack between fuel oil and 10 ppm southern middle distillates is well above 300 tonnes, ensuring a good return on the investment we are making.

Let me now move to slide 22. I would like to make an overview of our oil products distribution business in Iberia, where Galp Energia's currently has a market share of 15%, following the acquisition of the ExxonMobil and Agip Iberian operations back in the end of 2008. At the end of 2010, Galp Energia had around 1,400 service stations, from which 44% were located in Spain. We also have more than 500 convenience stores in Iberia, a value added service that we offer to our customers and which, together with our premium fuels, contributes to cash flow generation in the marketing business.

Very important is the fact that the acquisitions in Spain allowed us to leverage on network effects and to benefit from synergies, which in 2010 already reached €35 mln, and which considering the synergies consolidated in 2010 totaled €44 million, well ahead of what we announced at the time of the acquisition. This amount came mainly from the reorganization of Galp Energia's structure in Spain and from the revision of several, I would say most of our, operational procedures.

I also want to highlight that these acquisitions will allow us to organically grow our business in Spain given our still small presence in that market, where we have, as you know, a market share of close to 10%.

Now let us refer to our Spanish acquisition and referred in slide 23, where I would like to draw your attention to the natural gas supply business. The acquisition of the natural gas business of Madrileña Gas, in the region of Madrid, corresponding to 400 thousand customers, had the rationale of being a growth platform for the natural gas business in that country.

As from May 2010 until the end of the year we sold 115 Mm<sup>3</sup> of natural gas in the residential market. In Portugal, Galp Energia already has a very comfortable position and so we need to grow our activities in Spain, taking into account that our natural gas sourcing is able to allow us to have that ambition and offer gas to new customers in Spain.





This acquisition was a non-organic growth option that will enable us to grow organically in the future by conquering new clients based on our multi-fuel value proposition.

I would conclude referring to the Matosinhos cogeneration project, which is a project that is going again in line with the schedule. Regarding the status of the project, both mechanical and electrical erection is under progress and the installation of major equipments, such as Gas Turbines and Heat Recovery Steam, are currently under conclusion. According to our current estimate, Matosinhos' cogeneration should start operations in the beginning of 4Q2011.

This cogeneration will have an annual natural gas consumption of 250 million cubic meters, as much gas as the city of Lisbon consumes and the same as Sines cogeneration consumes, and as such, it will be a very positive incremental contributor to Galp Energia's natural gas supply business and to Power production business.

In terms of financials, this cogeneration, should post an EBITDA close to €16 mln per year, from 2012 onwards, which, I recall, is the same level of results we obtained from the similar cogeneration at Sines refinery, not considering the energy efficiency benefits that those projects made to the refineries operations.

To end this presentation I would like to tell you once again and I will repeat it that we would very much appreciate to see you in Galp Energia's Capital Markets day on the 14<sup>th</sup> of March in Rio de Janeiro, Brazil, where we will focus in our Exploration & Production business segment and will update our strategy for the period 2011-2015.

And now we are available to answer all questions you might have and again I will see you in Rio de Janeiro soon.

## Questions & Answers Session

### **Bruno Silva, BPI**

Good afternoon everyone. Thank you for taking my questions. Okay, I have two questions, the first one on E&P. If you don't mind – just trying to have a feeling and I don't want to spoil the impact of your Capital Markets Day in Brazil, but I think it would be very useful for now to have an idea or looking at prospective resources, how much of that is coming from outside of Brazil?

And also, following one of the members of the consortium statements over the last couple of months regarding Opex and Capex per barrel, \$9 Opex and \$5 Capex, if this is the figure that you would be comfortable with? And finally, on Refining & Marketing, on refining actually, assuming all the conditions that prevailed during 2010, what would be the impact of Sines outage in your refining margin spread? Thank you very much.



## Manuel Ferreira De Oliveira

Thank you Bruno for your questions. Let's start with the E&P. Truly, we would like to leave details of our development for that day, we want it to be a successful day with the participation of everybody. Our prospective resources this year have shifted—the majority of those prospective resources are outside Brazil at this moment. They represent slightly more than 50%. The remaining are in Brazil. And when I say outside Brazil, I mainly say Mozambique, East Timor, and deep offshore, Portugal.

Now referring to the estimated Opex and Capex from the consortium member BG, I will not want to comment BG's numbers, and these are indicative numbers for the first FPSOs of the development of the Lula, Cernambi fields, but what I can say is that our expectation, as the time passes and as technology consolidates, is we will keep improving those numbers with time.

Back to Refining & Marketing, and the effect of the Sines outage. In fact, Sines has been in non-operation since the 13th of January and is right now ramping up its production. So we already have the FCC operating and the remaining units will be on-stream by mid-next week. The interconnections have already totally been completed, where nearly 460 interconnections that were made successfully. And we could not have chosen a best period to do that, it was a little bit of luck. The cracking refinery margins were extremely low during this period. They are now picking up to the satisfaction of all of us. So the refinery was out while the cracking margins were extremely low, marginally simply, slightly above zero. So we expect now the refinery to bring the natural contribution for the remaining of the year and in the 4Q11, with the hydrocracker – at least part of the 4Q11 with the hydrocracking operations. Thank you, Bruno for your questions.

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

Good afternoon, it's Anish Kapadia here from Tudor, Pickering, Holt. I've got three questions if I may. Firstly, you mentioned I think the volumes in the marketing division are down around 10% in January and seems like a very sharp fall. Just wondering if you could give some more details on the breakdown over that and the reasoning behind that fall?

Secondly, I think the first well that you drilled in East Timor was dry, are you able to give some more details on the interpretation of that? And is there any further news on the second well over there? And the final question just relates to Brazil, can you give the breakdown of Capex in Brazil in 2011, '12 and '13?

## Manuel Ferreira De Oliveira

Anish, thank you for your questions. Let me take to the marketing volumes down. What my colleague Claudio referred to was the January – was January on January, so on a monthly basis, the marketing volumes were 10% down, in both markets. So this is not positive news for us. We expect the year will not terminate that way. And by the way, the total market is not just marketing volumes, we have the B2B business which has major contribution both in Portugal and Spain for our results in the downstream and the convenience business. So we don't want to make a future forecast about that. However, that is a reality that we are confronting, a recession in Portugal and Spain that will affect the retail business in this part of Europe. How much it will affect, I am not in a position to make a major reference.

As far as the East Timor dry well as you called it, our geologists told me when I was discussing the details of that well that it was a well that gave valuable information for the forthcoming well to be drilled in the same area, in a neighboring block. So we are



just waiting for that and see what comes out of it. We've identified prospects in that region. We want you to know that this is a high-risk, potentially high-reward region like that in Mozambique where we expect we'll have one day good news and as well as the deep offshore Portugal.

As far as the Capex, we have a base case for our Capex program, which we feel absolutely comfortable. But because of the Declaration of Commerciality for the Tupi or the Lula/Cernambi fields was only negotiated and submitted to the Agency in the end of December, we are now reviewing our Capex to ensure that it is totally consistent what was submitted to the ANP, and then we will share with you the details on the 14th of March.

Thank you, Anish, and I wish to see you see in Rio.

## **Michael Alsford, Citigroup**

Hi there. It's Michael Alsford here at Citi. Two questions, if I can, just firstly on the E&P production, could you just maybe give us split between what you see is the full-year 2011 production volumes will be from Brazil and what will be those volumes from Angola on a sort of working interest basis? And then secondly, could you provide potentially an update on to your plans for the regulated gas business in Portugal? Where are you in that process going forward? Thank you.

## **Manuel Ferreira De Oliveira**

Okay. Thank you. I'll leave the second question, the placement of natural gas infrastructure to my colleague, Claudio. To the production, the expected working production for the year, at least our estimate is about 22 kbpd, of which 6 kbpd from Brazil and 16 kbpd from Angola. That's how we see the year as from today. Obviously, this is an estimate and we'll see how the year goes.

Thank you. I will pass over to Claudio.

## **Claudio De Marco**

Okay. We're currently working on this transaction and next week we will send the information memorandum. We expect to receive non-binding offer by the middle of March and a binding offer by the end of April. In the same time, our advisor has conducted a pre-marketing activity and the feedback was very positive with several parties demonstrating their willingness to participate in this deal, for the quality of the asset, they are relative new, and also for the effective returns of the Galp.

## **Theepan Jothilingam, Morgan Stanley**

Yeah. Hi. Good afternoon, gentlemen. Theepan from Morgan Stanley. Two very straight-forward questions actually. Firstly just on the depreciation for the full year 2011, if you could give some guidance, particularly after the revision to Block 14. And then secondly, Claudio, could you perhaps also give some guidance on the tax rate for the full year?



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**Manuel Ferreira De Oliveira**

I'll take the first question and Claudio will refer to the second as far as the tax rate. The depreciation in the field is on a unit basis. When you have a PSA, Theepan, what we have is we have to depreciate a unit of entitlement reserves. So, every time the price of oil goes up, our entitlement reserves go down, and then say the depreciation per entitlement barrel produced goes up. Additionally to this, we had a review of reserves that was done at the end of the year that represented as from the Galp Energia's point of view for our own assets 15 million barrels of lost of production in reserves in Block 14. Because this was done at the end of the year, we have to make retroactive the review completely the depreciations allocated to Block 14. So, that reduced drastically the EBIT of E&P on the year. So, that's basically the first part of the question. And the numbers are in the data distributed to you. Now, Claudio will refer to you to the taxation applicable.

**Claudio De Marco**

There is no reason to expect a change in the tax structure of the company in 2011 and then the tax rate expectation is in line with 29%, 30%.

**Manuel Ferreira De Oliveira**

Okay, Theepan. So, what I will add by just complementing my short answer is that after this one off cumulative depreciation to take into account the reduction in reserves, 2011 is back to normality. Thank you.

**Theepan Jothilingam**

That's, great. Thank you.

**Filipe Rosa, BES**

Hi. Good afternoon, everyone. A couple of questions, if I may. The first one you mentioned that you have accelerated the development plan in Brazil, you are going to bring forward some of the FPSOs in Brazil, so already have an idea that your Capex plan is going to pickup and you are going to detail it in March. But given the expected pickup in the Capex plan, do you plan to decide to go for the second strategy that you have entered in May 2009 that you could try some E&P portfolio optimization? And then my second question is regarding Angola. You have spoken about Block 14. Could you provide some guidance or some updates on how the other developments are – all the other blocks that you expect are developing? Thank you.

**Manuel Ferreira De Oliveira**

Okay. So, we've got Block 14 and other fields now to develop with the 14K in the corridor with Congo, the Lucapa fields, Malange, Menangue, Gabela and Negage. So, these are another three, five, six fields to develop in the area. We expect first oils for these fields between 2016 to 2017. All the projects have been started, being sanctioned, and we will have a ramp up of production in Block 14 between 2015 and 2018, about that. And as far as Block 32 in the south, the first hub, which is the southeast hub, we anticipate it to be on stream by 2016 and then we have another two hubs to develop later after that. In Block 33, the Calulú field reservoir will be then connected to Block 32. As far as the options, that's what we will present on the 14<sup>th</sup> of



March, we would like first to obtain the full backup of our Board before we share it with the investors and we are working on it. One thing I can tell you Filipe Rosa is that an option that we are not considering in the acceleration of our E&P business is the issue of primary equity at the holding level. That option is not being considered. But what we'll present is a financing strategy for the execution of an accelerated program of expansion of our E&P business and we will do it after our Board's approval and present it immediately on the 14th of March in Brazil. Thank you.

## Daniel Ekstein, Jefferies

Yeah, thanks. It's Dan Ekstein here. I know you don't want to give any guidance on Capex ahead of the Capital Markets Day, I understand that. I am just trying to get a feel for how is your view of the pace of development of the Tupi project has changed, compared to when you gave the guidance for €4.5 billion at the start of 2010 for your Capex budget, you are now talking about nine FPSOs and 1.3 million barrels a day of capacity on that field. So, when you last gave guidance where did you imagine production would be in 2017? Second question is on Júpiter. I understand the appraisal well has been delayed until 4Q this year. Is there anything we can read into that, because originally that was scheduled to be a well in the first half of this year I understand? And finally just some housekeepings for my model, is there an updated regulated asset value for the gas distribution business please? Thanks.

## Manuel Ferreira De Oliveira

Daniel, thank you for your questions and also thank you for waiting for the Capital Markets Day. Let me say that our base case in developing Tupi/Iracema, as it's called now, Lula and Cernambi was that the development would be based upon the start up of one FPSO every two years.

So, every two years, that was the base case when we put together our investment plan, about slightly more than a year ago. Now we have a clear schedule of FPSOs and associated production and injection wells and other infrastructure, we know it. So we are putting the numbers together for that important day for us and for the investors. And I'm sure that we'll have positive news. So, my view is that on the 14th of March, we will be sharing information and sharing decisions that create value to our company. So, the base case is one every two years, now we have nine units in 2017, so you can see the difference.

As far as Júpiter, we have a well scheduled for this year. We are always struggling in that area. We have rigs available. We have at this moment five rigs operating in BM-S-11 and we are trying to give priority to the drilling and completion of the production wells, because our priority now is to use the capacity of the FPSO as soon as possible, because it's capital employed that we want to transform in cash flow. But this again has to be synchronized with our need of continuing the exploration program. So, that is the equilibrium that we are making. The postponing of the well in Júpiter for the second part of the year is simply a signal of our priority on the production wells needed to take FPSO Cidade de Angra dos Reis to full capacity. So, there is nothing special about it. We are now drilling as you are aware in Iara, an exploration well that will be completed very soon.

Thank you Daniel for your questions.

And far as the regulated business, Claudio already answered it, but he can summarize it to you again.



## Claudio De Marco

Okay. What I was just saying is that we are in the middle of the transaction and we expect in the next week to send the information memorandum and to receive, non-binding offer by the middle of the March and the binding offer by the end of April. And I said also that our advisor has conducted a pre-marketing activity and there is a lot of appetite on this transaction and some parties – several parties demonstrating a lot of interest in the asset and this both for the quality of the asset and also for the very, very high remuneration of the Galp.

## Thomas Adolff, Credit Suisse

Good afternoon. Thomas Adolff, Credit Suisse. Got three sets of questions please. Firstly, on the contingent resources, please help me reconcile. When comparing the year-on-year changes, the 3C revisions cannot really be fully explained by Lula and Cernambi. Could this perhaps be related to downgrades to Júpiter? If so, what does D&M carry for Júpiter? And then also does that updated resource number factor in the dry hole in East Timor? Secondly on BM-S-8, you're drilling two exploration wells in 2011, are they both commitment wells? And also I'm assuming the first well will be testing the extension of the Abaré West discover in the neighboring block, where is the second one drilling and why are you not appraising the Bem-te-vi discovery well. And finally, given the Capex profile or funding constrain, while it is nice to have these prospective resources, how much of this will be targeted for 2011? And if and when you manage to sell the gas-holding company, would you consider accelerating the drilling program? Thank you.

## Manuel Ferreira De Oliveira

Okay, thank you for that. Let's talk about contingency resources first, Thomas. So, let me tell you that our auditors did not review anything with Júpiter. So the Júpiter maintains the same contingent resources as in 2009. The seismic that was done throughout the year and the GHC studies did not led to any review of those resources.

So, now back to BM-S-8 that you referred to. We are committed to exploration wells. The reason is that we have until 2012 to complete the evaluation program of that block. So, we are constrained by timing and because of it we give priority to block BM-S-8. As far as block BM-S-21 that you referred to, we've got more time to conclude the evaluation program. It can go up to 2015, so is the timing is conditioned by – I repeated it again, priority for production elsewhere and commitment with the concession agreement with ANP. So, first priority is BM-S-8 because the deadline is end of 2012; second is BM-S-21. Júpiter, BM-S-24, we have as you are aware, we told you frequently, we brought the timing up to 2016 to complete the full evaluation of the field and declare commerciality. As far as Capex, I really would not want to enter into that because we've got the preliminary numbers, but they've not yet been discussed and approved and rectified by our Board. Thank you.

## Lydia Rainforth, Barclays Capital

Thanks. It's Lydia Rainforth from Barclays here. A couple of questions for you. Just on the – for cash flow outlook, I know you're not going to give a Capex number, but are you able to talk about when you expect the peak in net debt to be?



Is it going to be sub-2010 because then you got the regulated asset sales on business and the free cash flow from the downstream coming on, but – so if you could elaborate on that. And then secondly, you mentioned it a couple of times, but just can you give us an update on the exploration plans for 2011?

**Tiago Villas-Boas**

Sorry, Lydia. Could you repeat the last part of the second question please?

**Lydia Rainforth**

Just an update on your exploration plans for 2011. You've mentioned some of them in Brazil; I'm just wondering outside of Brazil.

**Manuel Ferreira De Oliveira**

Okay. What we have, we are – let's take two – so you basically – it was – the sound was not as good as it should and I think I understood half of what you said. Let me try to answer to the half I understood. You referred to the Capex project, we have this year drilling program, we have two wells committed on BM-S-8. We've got one well in BM-ES-31, Espírito Santo basin, and we've got some wells in onshore which are not relevant for the discussion, and then are exploration wells in Mozambique. We have two exploration wells in Mozambique and one additional well in Timor. So, these are the major wells that we will be developing this year. Other wells are basically appraisal wells in Cernambi/Lula, and development wells. So, we have quite an intensive drilling campaign, but dominated by appraisal and development. Exploration wells, I will repeat, two in BM-S-8, one in BM-ES- 31, in the pre-salt area, and one in East Timor and two in Mozambique in large potential gas prospect. We've got additionally one in Block 33 in Angola. So, that's basically what I understood. As far as the peak net debt, Claudio, will answer to you. Thank you.

**Claudio De Marco**

What I can say is that 2011 is another year in which we have overlapping of investment in the conversion project because we have the completion of the realization of the project's conversion in refinery in Sines and Porto and also the development of the Tupi project. And then I think the 2011 can be the year in which we'll have the peak of debt. And in 2012, we will enjoy from the full cash flow from the conversion project and the cash flow from Tupi and also in part of the Matosinhos cogeneration plant. And then I think 2011 is the critical year for the company in terms of debt.

**Nitin Sharma, J.P. Morgan**

Hi, thanks. All my questions have been asked. Thank you.

**Tiago Villas-Boas**

Thank you, Nitin.



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**Manuel Ferreira De Oliveira**

Thank you for the questions. Thank you for taking time to hear what we had to say about our quarterly results and about what we did in the last year. We are looking for an exciting 2011 with a lot of things to do. And I am sure that we'll bring you positive and value-creating use on the 14th of March. So I'm making my marketing of the day. We are preparing ourselves as well as we can and making sure that we are as deep as we can in most of the issues that are of some concern to the shareholders, including the Capex program and the financing of that Capex.

Thank you very much indeed and have a good day.