

## Operator

Good morning, ladies and gentlemen. Welcome to Galp Energia's twelve months and fourth quarter 2012 results conference call and Strategy Execution Update. I will now pass the floor to Mr. Tiago Villas-Boas, Head of the Investor Relations Division.

## Tiago Villas-Boas, Head of Investor Relations

Hello, good morning ladies and gentlemen and welcome to Galp Energia's twelve months and fourth quarter of 2012 results and strategy execution update conference call.

Joining me today is our CEO, Manuel Ferreira De Oliveira, and our CFO, Filipe Silva, who will start by summarising our fourth quarter results. Manuel will then proceed with an update on our strategy execution, after which we will be available for a brief Q&A session.

As usual, I remind you that we will be making several forward-looking statements during the call, so I'd like to draw your attention to the disclaimer at the end of the published presentation.

I'll now pass the floor to Filipe.

## Filipe Silva, Chief Financial Officer (CFO)

Thank you Tiago, and good morning to you all.

We will start with the profit and loss statement on slide fourteen. Ebitda was up 10% over the equivalent quarter of the previous year, to €229 million, on the back of higher production in Brazil and a less adverse refining margin environment.

On the E&P front, despite maintenance works in Brazil, and in Angola, production during the fourth quarter was 23 kboepd, of which 46% from Brazil.

On the Refining & Marketing side, operational issues related to the conclusion of the upgrade project, and the strike in October, impacted the refineries' utilization during the quarter. With these factors, we managed to capture only a part of the refining margin tailwinds.

Refining & Marketing quarterly Ebitda stood at €76 million, with a lower contribution from the marketing side of the business which continued to be impacted by the downturn in Iberia. I highlight that Refining & Marketing results were supported by cost restructuring measures put in place during 2012, namely

employee health insurance costs, with an actuarial effect of around €23 million pre-tax, fully accounted for in the fourth quarter.

Regarding Gas & Power, lower gas demand in Iberia allowed us to continue to divert cargoes to premium international markets, namely to Asia. Gas & Power earnings were however impacted by lower margins, as take-or-pay clauses led to higher sourcing costs during the fourth quarter.

All in all, 2012 Ebitda was €1,015 million, in line with previous guidance, and up 27% from the previous year.

As for Ebit, at €142 million during the quarter, it benefited from lower non-cash costs. I highlight the lower provisions in E&P, following a reclassification to the tax line of provisions for oil taxes in Angola, related to previous periods. Ebit was also supported by the upward revision of reserves in Angola, leading to lower depreciations, although to a lesser extent than in the previous year.

Below the Ebit line, results in the quarter were impacted by lower financial results and by higher taxes.

On financial results, I draw your attention that in the fourth quarter we were still capitalizing the interest costs related to the Sines refinery upgrade. Our average cost of debt has been stable at around 4.5% even as our average maturities continue to increase.

In the end, net profit reached €83 million in the fourth quarter, or about 10% above the previous' year equivalent quarter.

Moving on to our balance sheet on slide 15, net debt increased €328 million to around €1.7 billion euros, which resulted in part from anticipated higher capex throughout the fourth quarter. We have now also reduced to almost zero all outstanding factoring balances which had been in place since 2011. Our crude and products inventories were also up €115 million in 2012, as a side effect of the hydrocracker commissioning delay; we are expecting to adjust this amount downwards during the course of 2013 as the hydrocracker regime stabilizes. Considering our loan to Sinopec of about €920 million as cash and equivalents, our year-end net debt would stand at €780 million, or about 0.8x last year's Ebitda.

Capex amounted to €327 million in the quarter. From these, around 70% were allocated to the E&P business, namely to the development activities in the Lula field in Brazil, and to the exploration and appraisal activities in the Rovuma basin offshore Mozambique.

Now, let me go briefly through the main drivers we expect will impact our performance in this first quarter of 2013.

Working interest production is expected to be in line with the fourth quarter of 2012, around 24 kboepd, as some Angolan fields mature while the Lula pilot recovers to full speed, after the maintenance works of the last quarter.

On the refining business, we will see for the first time the positive impact from the upgrade. However, it will still be a partial impact considering that this is a quarter to ramp-up and to stabilise production.

On the oil marketing business, we expect volumes to be lower compared to the first quarter of last year, as austerity measures in Portugal and Spain will continue to impact demand for oil products.

On the natural gas business, volumes are expected to continue to benefit from a strong LNG trading activity, as this market remains supported by healthy Asian demand. We have a few LNG cargoes contracted for this first quarter already, supporting increased volumes in the period.

And now, for our strategy execution update, I'll pass the floor to Manuel. Thank you.

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

Good morning and thank you Filipe for passing me the word. Let us now try and review our strategy update. As Filipe mentioned, we accomplished important milestones on our strategy execution over the last quarter, namely in the Exploration & Production business, as we further de-risked resources and strengthened our exploration portfolio.

We have concluded drilling in Carcará and in Júpiter, both in the pre-salt Brazil, two key wells that allowed us to gather relevant information for the future development of these reservoirs.

Regarding Carcará, the well reached the final depth of around 6,700 metres, proved an oil column with at least 471 metres, and showed excellent porosity and permeability characteristics. In addition, we have found high pressures in the reservoir, which is a positive variable when estimating future well flow rates. Let me add that the quality of this reservoir, is the most attractive among what I have seen so far in the pre-salt Santos basin.

We have our own internal estimate on resources for Carcará. I'm aware that most of you would like us to share those estimates with the market. However, and because our numbers are still preliminary and subject to discussion with our partners, we, unfortunately, can not release them at this stage.

Nonetheless, Carcará is unequivocally a commercial discovery that unlocked the development of the block BM-S-8. As we still have to better understand the extension and the characteristics of the reservoir, an

appraisal well is scheduled to be drilled in the second half of 2013, targeting the flank of the reservoir, which will give us more certainty on the recoverable resources and on the full characteristics of the reservoir. We expect first oil in Carcará to occur in 2018.

Regarding now Júpiter Northeast, the well has reached a final depth of 6,018 metres and it confirmed an hydrocarbon column of 176 metres. It is a reservoir that is much larger than Carcará and with lower thickness, with good permeability and porosity characteristics. Additionally, as we have already announced, the well proved the connectivity of the reservoir with the first Júpiter discovery and it confirmed our base case reservoir model and the same hydrocarbon mix, i.e. 1/3 of oil, 1/3 of gas and 1/3 of condensate, with volumes in line with previous indications of the reservoir size.

What I can advance at this stage is that we continue to evaluate all the data collected so far, but considering the dimension of this discovery, we are already confident on its commercial development. We continue to mature different development scenarios, assuming the first FPSO to be operational as soon as 2018.

Let us now move to the Rovuma basin, which in 2012 delivered excellent results, far exceeding any initial expectation, as we almost doubled the already outstanding volumes estimated to be in place in Area 4. We've drilled six wells during the course of the year, and we will continue with the appraisal activities in the block during the first half of 2013. These activities are key to better outline the development plan of the area. So far an impressive 75 Tcf of gas in place has been identified, leaving no doubt whatsoever about the commercial development of these discoveries.

The FEED, the front-end engineering and design studies have already been contracted, and we anticipate that the final investment decision for the area will be taken at the beginning of next year.

Still regarding exploration, I want to highlight the farm-ins we have announced last November, in Namibia and Morocco, in line with our Exploration & Production strategy, further diversifying our exploration portfolio.

In fact, I reaffirm our focus on exploration, not only key to sustain our production in the long term, but more importantly as it enables us to maximize the creation of value by entering at the early stages of the value creation process. We have today one of the most exciting portfolios in the industry, for a company of our size, with exposure to world-class basins and to promising frontier areas. In 2013 alone, we have scheduled at least 10 potentially high impact wells, which we expect to add material value to our portfolio, namely in Mozambique and in the pre-salt Santos basin, but also in underexplored areas like Potiguar and Namibia. We will give you more colour on that in our Capital Markets Day on March the fifth.

Regarding the development of the Lula field, in Brazil, it is evolving at programmed. I emphasise the development of the Lula field is evolving as programmed. FPSO Cidade de Angra dos Reis is running at full capacity and the second FPSO, Cidade de Paraty, is on track to be producing at the Lula NE location by the second quarter of this year. It will be on site by the end of this quarter.

I want to reassure you that, although it will be the first time that semi-rigid risers are deployed in the field, we are comfortable with our previous ramp-up estimate. We have always guided for around one year to one year and a half of production ramp-up. We anticipate that three production wells and one gas injection well will be connected by the end of the year, with an exit rate of production at around 75 kboepd.

But we are not only delivering on upstream. Since the beginning of the year, we have announced the start-up of the production of the Sines hydrocracker, the central piece of our refining upgrade project. After the first month of operations, I'm glad to share with you that it is already running at around 80% utilization rate and with 99% conversion, which is clearly an extraordinary positive result. We will continue operations with maximum safety and ensure that we do not jeopardize value delivery going forward. We expect that the hydrocracker will have a full contribution to our results in the second quarter this year, by achieving full utilization rate, total conversion and full stability throughout March.

As Filipe mentioned, we will see a partial uplift in the refining margin already this quarter, and we expect to deliver full impact from the second quarter onwards, as we reach a steady level of production.

To conclude, in 2013 we are on track to deliver additional value to our shareholders:

On the Iberian Peninsula, earnings will be impacted by the refining upgrade and will continue to benefit from the LNG trading activity.

On the upstream, we will continue to deliver production growth and de-risking of resources and prospects, which will also have a positive impact on earnings and value.

Considering all these variables, we are prepared to deliver improved performance in 2013. Furthermore, with at least ten high impact wells scheduled for 2013, we also have the potential to unlock and add further value to our portfolio, and ultimately to our shareholders.

I also want to share with you our satisfaction for having been recently included in the 100 Global more sustainable companies, in Davos, which confirms our commitment to sustainability as it is our duty. With this, I conclude our presentation for the day. Thank you for your attention.

We are now available to answer your questions.

## Questions & Answers Session

### Thomas Adolff, Credit Suisse

Good morning. Thanks for taking my question. Firstly to Filipe, can you give me some sort of guidance for depreciation and tax rate for 2013?

And then the second question is just on Brazil. Firstly, on the Júpiter block, can you comment on the size of the next exploration well on Bracuhy? Just to clarify, haven't you encountered any additional oil volumes in the Júpiter Northeast appraisal well? And, just a follow-up on the Carcará, now that you've kind of unveiled the drilling plan for 2013, would it be fair to assume that the ANP is now officially giving you the extension, and what does this extension allows you to do in terms of drilling, not just the appraisal well but also exploration wells including the G prospect? Thank you.

### Filipe Silva, CFO

Thank you, Thomas. This is Filipe. On depreciation, we are expecting an impact of about €100 million during 2013, as Sines is commissioned. The tax rate we are assuming is, as per previous guidance, on the mid-30s. So, mid 30%.

### Manuel Ferreira De Oliveira, CEO

Thomas, thank you for your questions. So, you went straight to both Júpiter and Carcará. Let me refer to Júpiter first. You remember that when we started drilling this well, we had unknowns to be removed. The well was drilled after a fault, to test the continuity of the reservoir and also to test whether we had the water cut perceived in the first well. So, regarding results, we confirmed the continuity of the reservoir, that is to say, that the fluids are exactly the same, the pressure is the same and the water is at the same level. That means that the fault was developed after the formation of the reservoir. So, the conclusion of that was the following: our previous 3C estimate for the resources in the block are the same, i.e. 1/3 of oil, 1/3 of gas, 1/3 of condensate, totalling, at a 3C level, about 5 billion barrels. So what we are doing now in Júpiter, as we have already shared with the market, we are developing options for the production of the mixture of natural gas and CO<sub>2</sub>, because the production of condensate and crude oil is technically simple. So that's Júpiter.

As for Carcará, we will be drilling a well on the flank of the reservoir. The objective of that well is clearly to assess the quality of the reservoir, because in the well that we drilled, we have a high quality, as we said many times before, in terms of porosity and permeability. The question is if that quality is the same across all the reservoir, and that's the major question that we are going to answer. So, if the quality and the

volume of the reservoir are beyond the heavier influence of the discovery well. We have no plans to drill this year in prospect G. As you are aware, the ANP, the National Agency of Petroleum of Brazil, already accepted the extension of the exploration phase of the well. We are negotiating the final terms of that extension with ANP, including the dates to drill prospect G. Thank you, Thomas for your question.

## Dan Ekstein, UBS

On Mozambique, we're coming to the conclusion of the appraisal phase, in the gas window at least, and it seems that there is a potential decision point coming for the participants, given that ENI and Anadarko are likely to launch a farm-down process in the second half of this year. I wonder if you could tell us how you are thinking about Galp's equity stake in Mozambique at the moment. Is 10% the right number? Is it potentially too high or is it potentially too low? I just wonder if you could talk about parameters there. Thanks.

## Manuel Ferreira De Oliveira, CEO

Thank you, Dan. But I want to complement my answer to Thomas first, if you allow me. He asked us about Bracuhy. Bracuhy is a materially relevant prospect. There is another one also, but not as big as this one, in the Júpiter block, and we'll be drilling this well this year. We have high confidence on the success of that well. Our technical curiosity, let us call it that, is the concentration of CO<sub>2</sub> there. We expect it to be slightly different than Júpiter, and to contribute to the optimization of Júpiter field. The drilling will start in the second quarter this year.

Now Dan, Mozambique. The problem of Mozambique is no longer gas. The issue now is the development and consolidation of a shareholding structure that is stable, looking forward. We have a 10% stake, which is materially relevant for us. What I can tell you on that is that we are satisfied with our participation in that world-class project. We'll be paying attention to what's going on around us, and take decisions accordingly. We have no specific intention either to reduce or to increase. We'll see how things move and we'll take those decisions in due time. Thank you, Dan.

## Theepan Jothilingam, Nomura International

Hi, good morning. Firstly, just coming back to Brazil, I just wanted to get your thoughts on how you prioritize dollars into Carcará versus Júpiter, particularly from a development perspective, and the date you've given around a potential FPSO in the Carcará area. In your view, what do you consider more valuable today, putting dollars into Júpiter or Carcará?

Then, the second question is just on Namibia. Could you just remind us around the key risks on the different prospects? Is the Wingat prospect, and the drilling of that, independent of drilling on Moosehead in PEL 24?

And just one last question, actually. Could you give a net number in terms of what you're drilling for in 2013? Thank you.

**Manuel Ferreira De Oliveira, CEO**

Theepan, thank you for your questions once again. Now back to Carcará and Júpiter. These are two totally different reservoirs. The issue of Carcará is to understand the size and the characteristics of the reservoir. Obviously, there is one optimistic scenario, which is, basically, if what we've seen in the first well can be extrapolated for the overall reservoir. That would create an extremely exciting scenario. Another one is that it would be something in between, so to see what we have elsewhere in the Santos basin and what we discovered. Another one is, if what is beyond the area of influence of this well is just simply similar to what is elsewhere in the pre-salt. So those scenarios introduce some uncertainty, and what we have to do is drill the well in a flank, as I referred, to understand the characteristics and the size of the reservoir. There is no technological issue in this area.

Moving to Júpiter, it is a totally different issue. We have a gigantic reservoir with 1/3 of gas, 1/3 of condensate and 1/3 of oil. On the third of hydrocarbons which is natural gas highly mixed with CO<sub>2</sub>, this can either be an asset or a liability, and we are conducting studies to de-risk the value of that. And that has a major influence on the timing and value of the reservoir. On the timing, because we might create more value by delaying the exploration of that part of the reservoir to use that fluid to enhance the recovery factor of the neighbouring reservoirs. We hope to be able to give you material information on that in our Capital Markets Day. We are conducting studies both internally and through the support of specialists consultants to help us to have a view about how this can be done and what is best for the Company and for everybody. Then, as far as the oil and the condensate, we know already that we can produce them, and because we have the Declaration of Commerciality in Júpiter by 2016, we are already programming to have the first production unit or first oil in Júpiter by 2018, so two years after the Declaration of Commerciality. We hope, however, that the full development plan for the gas with CO<sub>2</sub> component of this huge reservoir, will be clarified through the studies and tests that we need to do going forward.

Going to Namibia, the three prospects are independent. And, using the standard technology of peer review by geologists, we are talking about a probability of success in the range of 15% to 25%. So, all the wells are high risk and potentially high reward. Now let us trust and keep our fingers crossed. We've done our work so far. Thank you.

## Theepan Jothilingam, Nomura International

I'm sorry. Can you provide the net number for the aggregates ten wells for this year, the high impact wells?

## Manuel Ferreira De Oliveira, CEO

We don't have that number at hand at this moment. We will try to share that with you on our Capital Markets Day.

## Filipe Rosa, Espírito Santo Investment Banking

Hi, good morning, everyone. On Mozambique, regarding the oil prospect, that you intend to drill, you are also talking about a high impact well. Could you provide us some colour on the pre-drill estimates for that prospect in Mozambique? And the same for Potiguar, as apparently there are parts from Namibia where you already gave some details, and we don't have any pre-drill estimates for Potiguar or Mozambique oil.

And my second question with regards to net debt, it has steadily increased along 2012, despite year-end capex has been below your initial guidance. You have growing exploration capex commitment and the development of Mozambique is about to start. Could we have some divestments this year to help funding the capex plan or do you feel comfortable with the net debt level that you have currently? Thank you.

## Manuel Ferreira De Oliveira, CEO

Filipe, thank you for your questions. Before I'll give the word to Filipe Silva, to answer to the second part of your questions, as far as Mozambique oil, you know it's important for Mozambique and for us to see whether that basin has an oil potential. So, we are excited about this well, not only because of its materiality, it is a material well, but also because it will help us to prepare ourselves for the forthcoming bidding round in Mozambique with a strategy geared for oil. So, the well is important to see, whether we will have oil or not in Mozambique. And the dimension of the prospect is material to support a medium-sized offshore facility to send it to shore if oil is there.

Going to Potiguar, for different projects and prospects, we share different types of information. We fundamentally have different consortiums in every project that we have. So, what we tend to do is to ensure that we have an opinion and that we express our opinion to the conversions we are part of, and then try to create a consensus. We all know that geoscience is not an absolute science, so we value very much the opinion of others and try to share with the investors not only our opinion but the opinion of the consortiums. And this is why we, sometimes, have different criteria in different projects, because we get different partners. Fundamentally, that's it.

## Filipe Silva, CFO

Filipe, on net debt, yes, we are comfortable, but we are expecting to see net debt going up over the next few years as you would expect. So, given the capex we have ahead of us both in Brazil and in Mozambique, net debt is expected to go up.

Now, the big shift in 2012 was working capital, and that we expect to be stable going forward. And to answer your question on our portfolio, yes, we would expect to have a very active portfolio review of what assets we consider as core assets and those that we consider not so core. So, this is work in progress, decisions to be taken throughout the life of the plan. So, we expect to have more debt in euros, but we expect to keep our debt to EBITDA well within very healthy multiples.

## Filipe Rosa, Espírito Santo Investment Banking

Ok, but sorry, related to that fact, this year, you probably will be accelerating capex significantly. Do you think that this portfolio optimization measures that you are talking about, could start already in 2013, given this step up in the capex plan almost for sure in 2013?

## Filipe Silva, CFO

Filipe, our leverage ratios are very comfortable and so is our liquidity position. So we are not expecting any major moves in the short-term, no. We would expect fine tunings of some of the lines in our balance sheet. We've mentioned stocks. We've mentioned there's some small stakes that we own here and there that are not key. So that you could expect to see during 2013, but none of the big strategic assets that you might have in mind, like our gas infrastructure network or our E&P portfolio.

## Mehdi Ennebati, Société Générale

Good afternoon, gentlemen. Only two questions: first one, regarding your new hydrocracker at Sines refinery, you said you have a positive contribution in terms of refining margins. But just to be sure, will it have a positive contribution in terms of Ebit, meaning that the start-up production costs will not offset the gain on refining margins?

And the second question is regarding BM-S-24, on the 5 billion barrel of oil equivalent resources estimate in BM-S-24, does this include any estimates from Bracuhy, or not yet? Thank you.

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

Thank you Mehdi for your two questions. Starting with the second one, the 5 billion barrels of oil, if you remember the statement saying that the Júpiter field was as big as the Lula field, which was at that time about five billion, and we keep maintaining the same number. But it does not include Bracuhy.

The second is about the hydrocracker. The hydrocracker will have, we expect, a positive contribution at the EBIT line. But none of us will be able to forecast refining margin. I think if we attempt to forecast, it's an attempt to fail. But our expectation is that we'll get an incremental refining margin, versus the pre-upgrade condition of the refining system, as we have said many times of about \$2 to \$3 per barrel. Let's wait and see what the market offers us.

## **Mehdi Ennebati, Société Générale**

Okay. Thank you very much. Just to be sure regarding Bracuhy, BM-S-24, so if you find hydrocarbons at Bracuhy, you could be able to increase your resource estimates for BM-S-24?

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

The answer is yes. Bracuhy is at this moment a prospect and if the prospect is confirmed, we will increase the resources. And if economically demonstrated, it will be reserves.

Let me take the first question for the hydrocracker as well. One factor that the hydrocracker investment brings is that we will be having a higher load factor in the refinery business as a whole, because in the previous configuration, if we look at our largest refinery Sines, above 80% load factor it would be pure hydroskimming, which means negative refining margin. So, in fact it was limited on capacity. With a full conversion, we have now the total capacity available to exploit the full scale of the conversion process. So, we have not only higher volumes going through resulting from the simpler application of the linear programming model, but also higher margins. Thank you, Mehdi.

## **Haythem Rashed, Morgan Stanley**

Thank you and good afternoon. Two quick questions, if I may. Most of my others have been already answered. But firstly, just to come back on the Sines upgrade, just a clarification, Manuel, if I may. You mentioned the \$2 to \$3 per barrel uplift previously when you've given the capital markets update on Sines. You've talked about \$2.5 to \$3.5 per barrel at 2011 conditions. I just wanted to get a sense of if you look at to what 2012 refining conditions, which were obviously relatively different from 2011, does that \$2 to \$3 per barrel still hold or does it look quite different going forward?

The second question I had was just on capex: on the cash flow capex that's reported, it seems like there's been restated versus 3Q and I just wanted to understand what was driving that restatements in net investments in the cash flow statement. Thank you.

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

Haythem, I'll leave the second question to Filipe and I'll take the first one. So, when we look at the Sines upgrade, you know that in refining margins, what we can say professionally is tell you what would have happened in the previous year. So, last year in the Capital Markets Day, we said that if we had the hydrocracker operational during 2011, we would have had incremental refining margin of \$2.5 to \$3.5 per barrel, plus at least 20 million barrels of processing crude. That's what we've said. Now, moving to this year, we are saying, looking to 2012 conditions, if we plot the incremental refining margin, we'll have a high volatility between \$2 and \$3 per barrel. And again, the same incremental volumes processed. So that's what I can tell you. What is going to happen this year? We don't know. And so in 2012, we would have had throughout the period \$2 to \$3 per barrel and an additional 20 million barrels of processing crude oil. Thank you. Now to Filipe.

## **Filipe Silva, CFO**

Haythem, there is a difference between the P&L and the cash flow statement. So the P&L shows interest cost. It does not capture the interest that we are capitalizing as part of the capex in the refineries. So the cash flow statement, correctly, as to the interest line, shows the interest pay to our lenders and capex is deducted from the interest component. So, capex is for the actual investment and the interest line captures the entirety of the interest.

## **Haythem Rashed, Morgan Stanley**

Ok. My question is more specifically about the 3Q number seeing that was changed compared to what you had reported previously when I look at the sort of supplementary numbers you've given that I just wondered if there was, what the restatement was relating to and specifically on the cash flow statement, not the P&L.

## **Filipe Silva, CFO**

So, we have restated the Q3 numbers as well so that it is consistent across the quarters.

## Flora Trindade, BPI

Hi, good morning. I just have some follow-up questions. The first one is on Carcará. You mentioned that you still need to negotiate with your partners in the consortium, but could you share with us, if you have any idea of when we can have some novelties here? Could we have some news already in your Capital Markets Day?

And then, a follow-up on a previous question regarding potential disposals, regarding your portfolio of E&P. Could you be considering selling an additional stake in Galp Brazil?

And then finally, just a specific on refining, could we expect any relevant impact from the cost restructuring or this was basically accounted fully in Q4? Thank you.

## Manuel Ferreira De Oliveira, CEO

Flora, thank you for the three questions. Let me go to the Carcará again. Let me clarify, we do not negotiate numbers. We discuss numbers which is different than negotiating. And I emphasize that the geoscience is not an absolute science. So, typically, the numbers that come out are obtained from analytical models, but they are result for what we call the peer review. So, senior geologists, together with the mathematical model of the reservoir, create a consensus about the numbers that we share with the market.

So, what happens is that this reservoir offers, as per what we have seen in the Carcará well, is excellent porosity, in fact, unique qualities in terms of porosity and permeability. Obviously, porosity impacts resources and permeability impacts flow rates and productivity.

Because of these are so good results, it is fair to question whether that can be fully extrapolated to the total reservoir. And there's no way that we can do it through seismic. So, we can only conclude reliable numbers after drilling another well. And we are going to do. So, on the Capital Markets Day, the well will not have been drilled and I'm afraid we will not be able to have a clear view on the resources of the reservoir.

In terms of the second question, the disposals, I'm going to repeat what Filipe summarized, we are not anticipating any disposal from strategic assets. We consider most, if not all, of the E&P assets are strategic at this stage. That does not mean that someday, sometime, we will not optimize our portfolio, which is what everyone does in this industry. We are not considering that at this stage. We are referring to small stakes in the logistic companies and other activities where we participate just to clean the balance sheet and cash-in some resources. As far as the third question, I think Filipe will take care of it.

## Filipe Silva, CFO

The last question was related to our refinery cost optimization. So, the number is in the range of €2 million to €3 million per annum on a sustainable basis. So, the €23 million that we have announced today, this is an actuarial calculation and it is pre-tax. So, post-tax, it's somewhere closer to €16 million. Thank you.

## Matthew Yates, Bank of America Merrill Lynch

Hi, thank you. A couple of questions please. One, just a clarification around the upgrade. You mentioned the €100 million incremental depreciation. Could you also give us what that would be for the financial expense once you stopped capitalizing that?

And the second question, just to hear your thoughts on your LNG business. Obviously 2012 was a pretty good year, just how do you see that in 2013, in particularly your flexibility and any hedges you may have put in place? Thank you.

## Filipe Silva, CFO

As we commissioned the refinery, one would expect about €15 million of interest cost to run through the P&L per quarter, and, as you said, €100 million throughout 2013 for depreciation. Thank you.

## Manuel Ferreira De Oliveira, CEO

Matthew, taking your second question, the LNG trading activity, we see a similar level of volumes to occur this year when compared with 2012 and with similar level of margin. Most of the operations have or are being negotiated so that we can make it as a safe bet. Thank you, Matthew.

## Oswald Clint, Sanford C. Bernstein

The first one, just on the upstream with your production cost per barrel, a nice drop there year-on-year from \$16/bbl down to \$13/bbl, as the Brazilian volumes come through. Can you talk about what you expect this year on that number as the Brazilian barrels get a bit more, coming through this year?

Secondly, could I ask, on exploration, should we expect to see Galp bidding or participating in the new license runs in Brazil, both onshore and offshore?

And then, maybe third one, just on a very weak gasoline and diesel demand indicators that you're seeing. Are you expecting another 9% to 10% drop in domestic demand in 2013? Do you think it's going to end up as bad as 2012? Thank you.

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

Thank you, Oswald, for the questions. Taking the first one, the production cost in Brazil. You see that the reason why the production cost declined from 2011 to 2012, was simply the because of increasing production in Brazil. So, we have now a number of around \$8/bbl, which clearly shows the tremendous competitiveness of that field. And it reminds me the time when somebody was arguing of the economic viability of the pre-salt in Brazil. I do not anticipate it will go down in a material manner because they correspond to the operations of one module, which has been running nearly or close to full capacity. We'll expect the Tupi Northeast fields to offer the same cost structure. New licensing rounds, yes we are already studying all the opportunities that will come this year in terms of licensing rounds in Mozambique, Angola and Brazil. It's our duty, whether we participate in one basin or another depends on the evaluation that we are going to make. At this stage, that's what I can say to you.

Now, to the markets of gasoline and diesel. Our forecast is not optimistic, but now it's more a personal view than a company view. In the last couple of years, the reduction in consumption has been so high that we expect this year not to be as bad as the previous years, but keeping reducing. So it's a kind of saturation of reduction of consumption. And we hope in 2014 to start reversing this trend. But it's difficult to forecast. Thank you, Oswald.

## **Marc Kofler, Macquarie**

Hi, good afternoon, thanks for taking my question, just two very quick questions, please. Firstly, on the upstream production outlook for 2013, can you just confirm that there will be growth this year? And then, just to follow-on from that, what you might think would be a sensible increase year-on-year based on what we know today?

And then secondly, just on the exploration and appraisal drilling, at Lula West-2, I was just wondering if you could give a bit more color there, in terms of the pre-drill objectives, key risks and where we might expect some newsflow? Thanks.

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

Marc, thank you for your two questions. First the view of production this year. It will be increased after the commissioning of Lula Northeast. We will close the year with an exit production of about 75 kboepd, with three-wells in production, which means 7.5 for us. So it's quite material. Starting with one well, the unit will be commissioned in the second Q, we hope by mid-second Q to be already producing. It would be with one production well and one injection well, gas injection well. So the associated gas will be re-injected into the reservoir because the connection of the gas line to the Mexilhão platform that takes the gas to

onshore, will be completed only in October. So we will be injecting the well during two quarters, injecting gas, and then selling gas after that in the fourth Q, and rising production with another two wells. So we'll have an increasing production, but more clear guidance will be shared with you on the Capital Markets Day. On the Lula West well that is presently being drilled, it's a new area, yes, that was originally not considered in the resources of the Lula Field. So, I would say that it's an exploratory well, at this stage. So, if it is a discovery well, it will increase the reserves of Lula. If not, is another element to demonstrate there is no continuity between Lula and Cernambi. So, if it is successful in terms of exploration, it can't be concluded that this continuity does not exist. But if it is a dry well, it is another argument to support the discontinuity of the well. And you know that there are tax implications in Brazil.

### **Lydia Rainforth, Barclays Capital**

Thank you. Good morning gentlemen. Two questions or two question areas, if I could please. The first one on the downstream, Manuel, if I can come back to that, are you able to give us what sort of assumption that \$2/bbl to \$3/bbl margin uplift is based on in terms of the diesel/fuel oil spread, please.

And then just around that, are you able to go through what the sort of maintenance schedule that you will be looking for the hydrocracker? Once every four years, once every year?

And then finally on the utilization rate, you mentioned running about 80% utilization at the moment. Is the intention that that can be up 100% or given the market conditions, you would take that as being a normal operating now going forward.

And then secondly in that separate area. About six months ago when we're talking about ENI and the stakes that they have, you said that you would be actively supporting ENI in its attempt to divest its stake in Galp. But it clearly is an overhang on your share price. Is there anything that you are looking still to actively do with ENI? Thank you.

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

Thank you, Lydia. Starting with the downstream questions, you know that the incremental margin that will be associated with the new configuration of the refinery is dependent fundamentally on two variables: some differentials in the input and some differentials in the output. In the input is the differential between light and heavy crudes, which effectively last year were very narrow and this is why, what we would have had in 2012 is different than 2011. It was because of the narrowing of the differentials between light and heavy crude. On the other side of the black box, let us call it that way, it is basically dependent on the differential between the price of VGO, vacuum gas oil, and the middle distillates. And vacuum gas oil is typically \$80 to \$90 per ton below the crude oil price. And middle distillates is \$180, \$170 to \$200 per ton

above the oil price. And it's that differential that creates value in our hydrocrackers. An additional component of value creation is because our refinery no longer is exposed to pure hydroskimming margins. Which means, that every barrel that goes through the system is converted, and that leads to higher loading capacity in the refinery, in the economic model of the refinery, which I referred before as most likely increasing the throughput capacity by 20 million barrels a year. So, now, the second question is what can we do to support ENI? We are always available to support ENI in whatever they request us to do. It is the responsibility of managing the disposing process of the shares is ENI's. And we have said and we had continuously available to support ENI in whatever they ask us to do. Thank you, Lydia.

**Anish Kapadia, TPH**

Good afternoon. I have two areas. Just firstly on the upstream, I was wondering if in Mozambique you could explain what interval play type you're going after and why you still believe in the old prospectivity, which we've seen in a number of unsuccessful oil tests by the consortium on the adjoining blocks and I believe Total as well. So, just wondering if you're targeting a different play there?

And also, in terms of your farm-ins to Namibia and Morocco, just wondering, are there any specific plays that you're targeting, you'd focusing on any particular area of expertise within your technical team in terms of getting into those areas?

And then a question on the downstream, I was just wondering how you've seen and how you see going forward the impact of rapidly increasing U.S. oil production which seems to be leading to much higher exports of gasoline and diesel than previously expected. Just wondering how you're seeing that impacts the European refining market? Thank you.

**Manuel Ferreira De Oliveira, CEO**

Anish, thank you for the two questions you've asked there. The first one is the geological questions. I'll leave that for the Capital Markets Day. Can you agree with that? But in short, yes, we are targeting two places in Mozambique. One of them has potential for oil. Let's wait and see.

Now, going to the downstream in business, we are, as you are aware, already a large exporter of gasoline, fundamentally to the U.S.A. and Mexico. And we will be doing the same basically to Europe on middle distillates. However, our balance of middle distillates, in Iberia, is only marginally positive in a sense, because when you talk about the market for diesel, you look at Portugal. But we sell more diesel in Spain than in Portugal. So, it is transferring it in economic terms, although might not be physically directly from Portugal to Spain.

The U.S.A. refineries are now benefiting from very low cost of energy. They are using basically natural gas which is much cheaper than in the side of the world, which is a major cost component of the refinery. But we believe that we will be competing with the European refining system and we have now, going forward, a competitive and efficient refining system. So what is going to happen, I would not like to forecast. I really believe that in the gasoline market will be either in Africa or in the Americas and the diesel market is basically Europe. That's how we see it now. Thank you, Anish.

**Anish Kapadia, TPH**

Can you just remind me in terms of your gasoline production, how much is sold domestically and then in terms of the exports, what are kind of the main destinations do you look at for your exports?

**Manuel Ferreira De Oliveira, CEO**

We are exporting slightly above 1 million tons a year of gasoline, which is twice our own market in Portugal. We are exporting fundamentally to the U.S.A. for blending with ethanol so it's RBOB, and to Mexico. But remember, these are commodities and by definition a commodity has always a market is a question of price and so far, we had our gasoline, because of its high octane content, it is very easy to market. You probably are not aware that we have alkylation facilities in our refinery, Sines refinery, and our gasoline comes from an FCC. So FCC plus alkylation offer gasoline that is very valued for blending with alcohol, and there is scarcity of high-octane gasoline. Thank you, Anish.

**Brendan Warn, Jefferies**

Good afternoon, gentlemen. Brendan Warn from Jefferies. Just one question to keep it short. Can you give a indicational range as to the dry well cost exposure for the three-well program in Namibia and just in terms of your equity, but also the part carry of the operator, please?

**Manuel Ferreira De Oliveira, CEO**

Brendan, thank you for the question. If we assume that the three wells are going to be dry, and the total failure in the entrance in Namibia, it will cost us \$100 million, including the farm-in that we made. So, it's the type of risk that we are prepared to take. So, it's not too big, not too small, and high potential. You know that in terms of unrisked resources in the three wells, in the three petroleum licenses, we have about 8 billion barrels of unrisked resources. And we think testing it, is worth our \$100 million. That's fundamental.

## Closing remarks

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

Ladies and gentlemen, thank you for the time and patience that you had with us. We conclude now our session. And my good friends, we hope to see you in our Capital Markets Day on the next 5th of March in London, and I hope it to be as successful as, or even more successful than our last year's Capital Markets Day. See you there. Thank you.