Tiago Villas-Boas, Head of Investor Relations

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

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

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

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

Manuel Ferreira De Oliveira, Chief Executive Officer

Good morning and thank you Tiago. I will start by summarizing the progress of our strategy and the progress of our operational performance.

And this quarter I am glad to say that we continued to prove our firm commitment to deliver on our strategy, and in particular on our Exploration & Production business.

On exploration, we've continued to pursue an intensive drilling campaign, namely in Brazil, Namibia and in Mozambique. And although we have made no commercial discoveries, we've obtained valuable data that will help us to define our exploration programme going forward.

In the Potiguar basin in Brazil, the first well, named Araraúna, proved the presence of a working hydrocarbon system. In this basin we are already drilling the second well, Tango, with results expected during this quarter. I emphasize that this is a high risk exploration area, with a probability of success of around 15%. In the second part of the year, we have still to drill another well in this basin called Pitú.

In Namibia, the first two wells, Wingat and Murombe, were unsuccessful. However, the existence of a source rock within the oil window was proved. In Wingat we found a source rock but no reservoir; in Murombe we found a reservoir but no source rock. This is, as you can imagine, valuable information for the forthcoming decisions related with this Cretaceous targets in the Orange basin. We will now move the rig to the Moosehead prospect in the Walvis basin, in the South of Namibia, located near the Kudu discovery, where an hydrocarbon system has already been proved. In our view, it is a target with relatively

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high probability of success. I recall that this prospect is independent from the first two wells that we've already drilled.

Then, apart from the exploration campaign in Namibia and in the Potiguar basin, we are drilling the Agulha well in Mozambique and the Bracuhy prospect in BM-S-24, in Brazil.

In the case of Bracuhy in the Santos basin, if the well is successful, it will deliver further upside to the block, and it could be developed as a satellite of the Júpiter field.

Still in the Santos basin, I'd like to point out Iara, where we have just concluded a DST in the West area of the field. Iara, like most carbonaceous reservoirs, is an heterogeneous field, and in the Western area we found excellent reservoir characteristics, particularly in what refers to porosity and permeability, which will translate into higher productivity, in line with, let me emphasise that, what we have seen in the extraordinary Lula field. In fact, the results from the formation test have confirmed the excellent productivity of the reservoirs, which is great news for the future development of Iara.

We have also started to drill the first horizontal well in the area that we named "High Angle", which should be concluded in the next quarter. I recall that horizontal wells should help to improve productivity and the overall recoverability of resources. We will then perform an extended well test in the area, either at the Iara West, that I referred before, or at Iara High Angle, which we are presently drilling. This has still to be decided. And it would be a major step for the development of the Iara reservoir.

We are now confident on the development of Iara, where the first FPSO is expected to arrive as soon as 2017. I note that this field contains 3 to 4 bn boe with a recovery factor below 20%, which was assumed before the successful drilling of the Iara West-2 well.

On the development front, we have made significant progress in the Lula field, where the second FPSO, Cidade de Paraty, started to produce in the Lula Northeast area in the beginning of June.

I'd like now to say a few words in this regard. As you know, there have been some concerns surrounding potential delays in the development of Lula Northeast, following the Subsea7 recent announcement. I must reassure you that there are no changes to our previous guidance, as Steve explained when we received some of you at our offices earlier this month. We anticipate a production of 75 kboepd by the end of 2013, and we expect that the FPSO will reach full capacity within 18 months after the commissioning took place in early June this year.

I want to emphasise that this is, unequivocally, a pioneer engineering project in the world, and as such there are some adjustments that have to be made along the way. Our job is to anticipate risks, and at the end of the day to do everything that we can to ensure that the project is developed on time and on budget. In this particular case, the operator already considered adequate contingency measures for this

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context. As a consequence, we had already decided to use flexible risers to connect the first two wells, instead of the initially planned of using only BSRs.

So, just to be clear, we have currently one production well, and we expect that the first gas injection well will be connected in August. Two additional producer wells will be connected until the end of the year, and the gas pipeline export facility would be available before the end of the year. And this supports our production guidance.

But we are not only advancing in the Lula Northeast area. We continue to execute the Lula/Iracema development plan in light of our procurement strategy, which so far has proved to be successful. We continue to actively manage the sourcing of equipment and infrastructure required, adjusting our options as we move forward. We've already seen the delivery of the FPSO Cidade de Paraty and the arrival of the third FPSO, Cidade de Mangaratiba, to the Brazilian shipyard for the assembling of its tops in accordance with the original timing. Cidade de Mangaratiba is now 65% complete and absolutely on schedule to be delivered by the end of 2014. Cidade de Itaguaí, the forthcoming one to be delivered in 2015 is already 20% complete, again in line with plan.

We are not only focused on bringing production onstream, we are also committed to maximising the value extracted from the field. And at this level, I highlight that we have started to test the water-alterning-gas injecting system in the Lula field in the first days of June, with the first cycle of gas. I emphasize that this project is a world pioneer in ultradeep offshore. The second WAG well was also connected during the quarter, and it started with the water cycle. Cycles are expected to take approximately three months, and we expect to share some of those results with you early next year. As you know, WAG helps to improve reservoir management and we have high expectations with regard to increasing oil recovery factor of the field, which is currently estimated, as you are aware, at 28%. The good use of CO_2 in the Santos basin is also excellent news for the forthcoming long-term development of the Júpiter field.

At the same time, we continue to conduct an intensive appraisal drilling campaign aimed at reservoir data acquisition, what we simply name as RDA, which of course is key to increase our knowledge of the reservoir and to help optimise the development of the different areas in the Lula/Iracema field.

Still on development, it is important to mention the current status of our LNG project in Mozambique. FEED contracts are currently underway, both for the construction of onshore liquefaction units and for the offshore infrastructure. As you know, the fact that this is being handled as a sole project between Area 4 and Area 1 facilitates the acceleration of the project, which is clearly a positive regarding the time to market of these resources. We are planning to take the final investment decision next year, after which the engineering and procurement contracts will be awarded. On the other hand, we are already working on securing long-term LNG supply contracts, and we see particularly strong demand from the Indian and

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the Far East markets, particularly considering, as it is obvious, the natural competitive geographic location of our project.

The consortium is also working closely with the government authorities on the definition of the legal framework applicable to the onshore facilities. We have so far received good cooperation from the local authorities.

Moving to our downstream business, this was also an important quarter for us. As you know, this was the first quarter when the upgrade project contributed fully to earnings. We managed to ramp-up the hydrocracker in maximum safety, I emphasise that, during the first quarter and it has run smoothly since the end of March with the load factor always around 100% plus.

This is an important landmark in our story: we have concluded the upgrade and it is now delivering results. We can now benefit from the delivery from our Sines and Matosinhos projects, while focusing on the execution of the upstream plans.

In the oil marketing business, we continue to see a tough environment in Iberia and this is why it is important for us to continue working to increase the efficiency of our business and to, fundamentally, optimise costs. This is key and it is a relevant and material part of our focus on improving the return on capital employed in our downstream business.

Then, on the gas business, we continue to take advantage of the tight LNG market worldwide, and we continued to divert cargoes, mainly to Asia and Latin America from the West coast of Africa. We are expecting to sustain earnings in this activity, and to that end we have already secured demand for the next few years, thus creating all the conditions to sustain the G&P Ebitda going forward.

Finally let me tell you that we have not yet agreed the extension until 2014 of the operation of the Kuito FPSO presently producing for Galp 1.2 kbopd in terms of working interest production, and 0.7 kbopd of net entitlement production. If this extension is not successfully negotiated in safety conditions, we might, gross, lose 4 mbbl of oil in terms of reserves. Filipe will come back to this, but we are already provisioning this event as if FPSO Kuito will not be operational in 2014.

As you can see we are materialising our strategy, by improving the profitability of our downstream and gas businesses, which will in turn support the execution of our upstream growth plans.

And this is exactly what you can expect us to continue to do going forward.

In particular, until the end of the year:

- We will continue to pursue our exploration campaign in Brazil, Namibia and Mozambique;

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- We will continue to execute our Lula/Iracema project, making sure that this is delivered on time, and as importantly, on budget;

- We will see higher production already this quarter and progressively until the end of the year, as operations of the second FPSO in Brazil evolve;

- We will continue working to maximise the value extracted from Lula/Iracema, through the ongoing RDA campaign and more importantly through the testing of the WAG techniques;

- And we will continue to de-risk the development of three important projects in Brazil, namely Iara, Júpiter and Carcará.

With that I finish my presentation, and Filipe will now continue by summarising our results in the quarter.

Thank you all very much for your attention and I will be available to answer your questions when Filipe finishes his presentation.

Filipe Silva, Chief Financial Officer

Thank you Manuel, and good morning to you all.

We faced a number of headwinds during this second quarter, such as a $6 lower Brent, 40% lower benchmark refinery margins, tighter light-heavy crude differentials, Nigeria force majeure, and the continued decline in marketing volumes and margins in Spain and Portugal. We also had the planned maintenance in the Angra dos Reis FPSO in Brazil and in our Matosinhos refinery in Portugal.

However, Q2 Ebitda was up 7% over last year's figure and 20% up over Q1. Unless indicated otherwise, all my comments relate to the second quarter rather than the first half.

If you are with me on slide 20 you will see the Q2 Ebitda of €304 m, with a higher contribution from Refining & Marketing and Gas & Power.

E&P Ebitda decreased by €14 m year on year, as opex and other operating costs increased in the quarter. Net entitlement production increased by 3% in the second quarter of 2013, to around 19 kboepd, 60% of which from Brazil. The decline in average Brent to $102 from $108 last year was partially mitigated by the Q1 underlifting correction of about $7 m which we have booked in this second quarter.

The increase in opex was a result of higher expenses in Angola, related to the advanced maturity stage of the fields currently under production, and in Brazil, due to maintenance activities in the Angra dos Reis FPSO and related to the start-up of the Paraty FPSO.

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Insurance costs allocated to our Brazil division have gone up by about €6 m to reflect arms-length transfer pricing principles for our now much bigger asset base in that country. This amount shows as revenue at the corporate centre, booked under operating income. So group wise this is awash.

Refining & Marketing Ebitda increased by 8% as the hydrocracker contributed for the first time to earnings. The Galp refining margin increased by around $1 per barrel, even when benchmark European margins went down.

On the other hand, the oil marketing business continued to be adversely impacted by the Iberian economic environment. Although the current macro situation took its toll on overall marketing margins, the Ebitda of this business remained flat compared to last year, as we continued to take steps to optimise our cost base.

Gas & Power Ebitda rose €18 m year on year, to €93 m, as we continued to leverage our LNG trading. At this level, I would highlight the force majeure in force during the period in Nigeria, which impacted our activity during the quarter. Although we have somewhat flexible supply, we could have sold a couple of extra LNG cargoes in the international markets, on top of the six cargoes we did sell.

Group Ebit in the second quarter was €151 m, affected by higher DD&A related to Exploration & Production and Refining & Marketing.

In the E&P business, depreciation increased due to the higher asset base in Brazil and the start of production of the Paraty FPSO. About €6 m allocated to Paraty FPSO non cash cost in the quarter. In Angola, depreciation and provisions were up as a consequence of the decision to potentially demobilise the Kuito FPSO by year end as Manuel explained. This equates to about €9 m of non cash cost in the period. This has led to a downwards revision of reserves of the Kuito field, with an impact both in depreciation and provisions in the period. And for reference, the end of production of Kuito FPSO will reduce our 2014 working interest production by around 1 kbopd.

Regarding the Refining & Marketing business, Ebit was impacted by the start of depreciation related to the hydrocracker, with a quarterly impact of around €20 m, as per previous guidance.

Below the Ebit line, results were impacted by higher financial charges versus last year. Also as per our previous guidance, we have now started to run through the P&L the interest costs associated with the refinery upgrade, of around €15 m per quarter. In addition, we had FX gains of around €29 m last year, compared with only €16 m this quarter.

With that, and concluding with the P&L, net profit was €86 m in the quarter.

If we move to our balance sheet on slide 21, net debt as of June 30 went up to €1.2 bn considering our loan to Sinopec, and this equates to 1.1x Ebitda. The increase in debt resulted from the capex execution and from the dividend that we paid in May of about €100 m. So, no surprises here.

Capex in the quarter amounted to €286 m, most of which was allocated to the E&P business. Investment was mainly channelled to the development of block BM-S-11 in Brazil, namely to drilling and completion of development wells, works related to production tests and to the start-up of the Paraty FPSO.

Fixed assets actually came down, impacted by the high level of depreciation in the period, by currency exchange effects in our non-euro denominated assets, and by the €44 m impairments in E&P assets during the second quarter, mainly related to the Namibia exploration.

Working capital improved in the quarter due to the reversion of the Easter effect which we mentioned last quarter, when there was some slippage in clients' receivables, but it was also due to lower inventories.

On the funding side, during the second quarter we raised €200 m, which bring total issuance to around €1.5 bn since the beginning of the year. Average life of debt now stands at around 3.5 years, comparing with less than 3 years at the end of 2012. At the end of June, the all-in cost of our debt was 4.5%, in line with the average cost last year. In addition, we have just recently signed a five year, $200 m loan with ICBC. This was the first time this leading Chinese Bank has lent to a Portuguese entity.

We are currently fully funded and we are using our excess liquidity to early amortize some of our upcoming 2013 and 2014 redemptions. Our total liquidity of €4.2 bn is divided as €2 bn in cash, €900 m loan to Sinopec and €1.3 bn in unused credit lines.

The proceeds of €111 m from the recent sale of our 5% stake in CLH were received during this month of July. This sale, as announced, will impact our third quarter results with a capital gain of around €50 m, to be booked as non-recurrent.

Now, to conclude, I'll through slide 22 with the main drivers that we expect will impact our performance during this third quarter of the year.

Working interest production is expected to increase to 27 kboepd, as the Angra dos Reis FPSO operates fully after its second quarter maintenance, and as the Paraty FPSO in Lula Northeast ramps up, mainly following the commissioning of the systems related to gas processing and injection.

Regarding the refining business, this will continue to benefit from the contribution of the hydrocracker, and from the higher crude processed in the quarter, notwithstanding some partial outages scheduled for maintenance in the period.

Given seasonality, we should see some support in volumes of oil products sold when comparing with the second quarter. However, on a year on year basis, we expect to continue to see pressure on volumes, although the fall should not be as steep as seen last year.

On the Gas & Power business, we expect that volumes will be in line with the second quarter of this year, with continued solid LNG volumes expected to be sold in the international markets, namely on the back of cargoes which have already been contracted.

With this, I conclude our introductory statements for the day, and we are now available for Q&A.

Thank you.

Questions & Answers Session

Bruno Silva, BPI

Good morning, everyone. I have two questions. The first one, you have reiterated today the potential upside on the current estimated recovery rates for Lula, Iracema and Iara. The question is, considering the current appraisal campaign, what would be the earliest date possible for the consortium to be able to confirm and upgrade those estimates and whether it makes sense to assume potential convergence in your estimates of recovery rates in both areas? Or if you can already say that for structural reasons it won't be possible to see that level of convergence or upward convergence, I would say?

The second question is regarding the marketing margins. You have said that margins are lower year on year but opex cutting has allowed you to keep Ebitda. When we look at Ebitda on a per tonne basis of sales, refining product sales, the margin increased significantly. And maybe I'm wrong, but it doesn't look like opex cutting is the sole responsible for that. So, I would like you to confirm and give a little bit more guidance in terms of opex cutting that you are doing. And if there is any other factor to justify the strong evolution in the first half of this year versus last year in terms of the increased contribution from the African unit. And that's it. Thank you very much.

Manuel Ferreira De Oliveira, Chief Executive Officer (CEO)

Good morning, Bruno, and thank you for your two questions. Let me start with the first one.

Iara, as I referred in my introductory presentation, has been so far assumed as having average recovery factor fairly below 20%. The numbers that we share with investors and analyst are always numbers that have been previously independently audited, so we cannot change the numbers. We first have to produce the facts, then submit the facts to our auditors and then share them with the market. This will be done, as usual, next year.

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So, what we saw at Iara West-2 well is that the region that is under influence of this well showed productivity level of the same quality that we have seen in Lula, but we do not have yet information of how far this quality can be extrapolated for other regions of the same field.

As far as Lula, we are, as you know, investing on this WAG project. We will have results by next year and that will not probably be reflected in the revision of the recovery factor for Lula by the end of this year. That will be for the forthcoming year.

Whether they converge or not, I'm sure that there are areas of Iara that will converge with the average of Lula. How far this goes, we still have to do our work.

Second question has to do with the market. We are doing everything that we can to cut costs on the marketing division. And I don't need to explain why. The numbers you've seen are influenced by the supply function. Filipe can complement my answer, but this was value that was created in the supply function related to the trade of the products and which was not directly allocated to the refining budget.

Filipe Silva, Chief Financial Officer (CFO)

Hi Bruno. If you look at our report on page 14, we actually make mention of this. So, this is margin that is not captured strictly by the refining function. So I assume you are allocating this to marketing by default. It's actually something you should allocate to the refining function and it's related to acquisition in good terms by our traders of raw materials. But it really should be seen as part of the refining activity not marketing.

Bruno Silva, BPI

Ok. Sorry. So, in that case, what is the contribution of that item to Ebitda?

Thank you very much.

Filipe Silva, CFO

About €15 m in Q2.

Haythem Rashed, Morgan Stanley

Thank you and good afternoon gentlemen. I have two questions please. Firstly, one on some exploration updates. One is on Agulha-1 in particular in Mozambique. I wonder if you could just provide any thoughts on if we should be thinking about any read across from the recent Cachalote result which was also a prospect targeting oil. Are you targeting the same play as that one? Or is it something a little bit different?

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And again sticking with exploration, Namibia, it would be great to hear your thoughts on where you see your activities in the country paying out beyond Moosehead. So assuming if there is, for example, no success on Moosehead, would you consider drilling more wells on the blocks that you have? Or would it then be a case of moving on from there?

The second question I had was on earnings and the inflection point we should be seeing from the businesses going forward. I guess what would be great to hear your thoughts on is where you think that earnings inflection point comes. Are we there now? Or, given some of these headwinds that you've talked about over the quarter, the DD&A, opex that might persist in coming quarters, is this is a sustainable earnings inflection, something that we shouldn't really be thinking about until maybe end of this year or early next year? I appreciate it might be a bit tricky to sort of comment on that, but any colour there would be great. Thank you.

Manuel Ferreira De Oliveira, CEO

Haythem, thank you for your questions and good morning.

Let me take the first one and Filipe will take care of the second. As far as Mozambique and Namibia, we are actually drilling now, not far away from the target depth of Agulha and I know more than what I can say. So we will be completing the well soon, an communicating that to the market. As you know, our ultimate target was to confirm, or otherwise, the existence of the gas in the top target – there were several targets in the well – and confirm, or otherwise, the existing of oil in target which is deeper. We'll share those informations with you soon.

As far as Namibia, we are now moving the rig to Moosehead, basically very close to the Kudu field which is now under development study. And the probability of success there is higher than in the North, because we are close to a functional oil production system. Let's see what nature offers us.

But leaving the Moosehead targets to comment after the drilling, let's go back to the Northern targets. They've given us extremely valuable information. The next step is to do what we call inversion of seismic. We are going to recalibrate the seismic models that we have and once we have conclusions, we decide whether we should withdraw from the area or actually maintain the exploration campaign that is in our plans. But we have not done that work yet.

So now I will pass the the second question to Filipe.

Filipe Silva, CFO

Haythem, let me recap the DD&A and provisions charges or the deltas which I assume surprised you. So in the quarter we had the Kuito with €9 m. This is something that will continue this year - but will stop this year if we abandon the field. So, for the rest of the year there's another €21 m to be provisioned/amortized. That should be it.

In Paraty we had €6 m. This is something that will continue, so this is about the run rate you should project per quarter.

Then we had €20 m for the hydrocracker, which is also to be expected for 15 years or so, and then we had about €6 m of one-offs, which related to provisions/amortizations in Brazil, including a fine for a potential abandonment of a field or premature abandonment of a smallish field. And we had another €3 m of amortization of the new cogeneration in Matosinhos which is also going to be recurring.

Haythem Rashed, Morgan Stanley

Ok. All right. So, in your view, this obviously will be headwinds for the coming quarters. But from your perspective, do you see that earnings inflection then, later on in the year, potentially as you have the production from Lula ramping up? Thank you very much.

Filipe Silva, CFO

Well, some of the headwinds I referred were Nigeria force majeure, and tight light-heavy crude differentials. Your opinion is as good as mine. Now, we have a significant number of projects ongoing. We are carrying in our balance sheet the production ramps up so quickly over the next few quarters, so some of these get diluted.

Now I wouldn't get tangled too much into non-cash costs. This is capex which we have invested over the last few quarters, it's all non-cash. So this is cash flow, it's cash coming into Galp.

Brendan Warn, Jefferies

Good morning, gentlemen. Look, I appreciate the world might be considered still tight in terms of information, but I was just wondering if you could give us any more detailed clarity on what you've learnt from the Araraúna well in Brazil and lessons learnt that have been carried across to obviously Tango which is spud and drilling already. And can you just sort of clarify when you refer to a deeper objective at Tango, how different are we talking about than the Araraúna well please?

Manuel Ferreira De Oliveira, CEO

Brendan, thank you for your question and good morning to you. Let me go to the Araraúna well. It was a discovery well, so that means that we had a source rock and a reservoir. That's what means a discovery well. Simply the reservoir was too small to be considered in any shape or form commercial, so it was not successful.

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So the main conclusion was that we have a petroleum system working in Potiguar. You've seen a farm-in of a major multinational, in the particular case, BP, into Potiguar and I'm sure that it was not independent of these major achievements.

In the past bidding round in Brazil we acquired a participation in other block in Potiguar. So, we continue believing that this is a frontier area worth exploring with the major news, that is now available to all the actors there, and that are that we have a petroleum system working there.

Now, let's go to the Tango. Tango is a prospect that is being drilled. We have now an increased likelihood that it could be charged. We have now a higher chance of success in Tango than previously, but it is still a risky project, let's wait and see. So that's what I have to say about Potiguar. It is now a frontier area with a petroleum system working and higher probability of success for exploration. Tango is a target that we are now drilling. Thank you.

Alejandro Demichelis, Exane BNP Paribas

Yes, good afternoon gentlemen. A couple of questions here. The first one is, could you please elaborate what's your current thinking about Libra? And how do you think that Libra could affect some of your developments, in particular I'm thinking about Júpiter and Carcará?

And the second question is, I think Filipe you have been saying these are non-cash costs. Maybe you can give us an indication of, from a cash perspective, if what you have seen so far is in line with the objectives you gave us at the Capital Markets Day, or how do you see this evolving going forward?

Thank you.

Manuel Ferreira De Oliveira, CEO

Alejandro, thank you for your questions. Libra is now closed to the bidding, as you are aware of. We have, as we always do, the duty to be modelling the project for Libra. We are now working on it to understand the potential economics behind this large project. We are not yet committed neither to bid nor not to bid for Libra.

As far as the implications of the development of Libra into the development of Júpiter in Carcará, I do not see any implications. As you've seen in the Edital, Libra will have four years of exploration and an obligation to be in production within nine years. So we are taking Libra late to the decade for first production.

Júpiter and Carcará will follow their trajectory according to the development plans that will be submitted to the authorities in 2016, in the case of Júpiter, and hopefully in 2015 for Carcará. I'm not concerned on the interaction of these projects with the ones that we are in here.

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As for the second question, Filipe will give you an answer. Thank you, Alejandro.

Filipe Silva, CFO

Alejandro, on cash, we're not giving any revised guidance at this stage. What I can comment on, as we stated in the Capital Markets Day, our budgets were prepared for 2013 using $95 Brent. So we're a bit higher than that. Marketing in Iberia is worse than expected. I would also say that, refining margins are worse than expected, and we are seling tighter light-heavy differentials. This is all I can say. So overall there are some pluses and some minuses to make on a cash basis.

Oswald Clint, Sanford Bernstein

Thank you very much. One question on Brazil, in relation to the recent license round, where you did quite well. Could you talk about that in terms of forthcoming activity, but also in terms of exploration expenditures going into 2014, how much you might have to spend next year or even over the course of this year?

And then secondly, just on the Iberian Peninsula demand, you talk about it being tough, but you also say the contraction should continue to slow and something Repsol were talking about as well. Could you talk about that, what you're seeing so far in July and what you might expect through 3Q and 4Q? Thank you.

Manuel Ferreira De Oliveira, CEO

Very good morning, Oswald. Thank you for your two questions. Let me take the first one. We have, as you are aware, gained access to nine blocks in the past bidding round, of which four in Parnaíba, where we took a stake of 50% in all of them. Our partner is Petrobras. We operate two of the blocks, and the other two are operated by Petrobras.

We are also in Barreirinhas, where we're replicating the composition of the block BM-S-11 consortium, so we have only 10% and we are with BG and Petrobras. And also we took 20% in another block in Potiguar. We will be signing these documents on August 6 in Rio, so next week.

The investment for next year is not material because there will be basically studies and interpretation to initiate 3D seismic in 2015. We have a couple of committed wells but in our overall budget, up to 2018, these are not material. So this is exploration for post 2017, in terms of materiality.

As far as the market in Iberia, I can see that, on my left-hand side, Filipe is prepared to answer your question. Thank you.

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Filipe Silva, CFO

Oswald, it's still pretty ugly out there. The good news, it's less ugly than it was before. July is looking not as bad as before. I can also say that Spain is worse than Portugal. Portugal seems to be approaching rock bottom and Spain is still falling quickly, and this applies to most products. Interesting, in Portugal the jet volumes have been relatively stable throughout the crisis. Not in Spain, where jet volumes are also way down. Thank you.

Manuel Ferreira De Oliveira, CEO

With one mathematical statement: the function is still negative but the derivative, the second derivative, is positive. So if you like mathematics, that's how we see it. So, we are now positive. The derivative is positive, okay. Thank you, Oswald.

Anish Kapadia, TPH

Hi. Good afternoon. A couple of questions. Firstly, on the exploration side I was wondering if you could give an update on your exploration plans in both Portugal and Uruguay. We haven't heard too much about those recently.

And then the second one, going back to Brazil, you've talked about very good productivity from the initial wells you've seen in the Lula field. Less wells now required than initially expected to get to full capacity, on the pilot FPSO and potentially the Lula Northeast FPSO. I was wondering on the back of that, what's the potential for debottlenecking of the Lula pilot FPSO, maybe the Lula Northeast FPSO? Are you doing any work on this and any potential timing? Thank you.

Manuel Ferreira De Oliveira, CEO

Anish, good morning to you. So let's talk about these two frontier areas, Portugal and Uruguay.

In Uruguay we have just contracted additional, more focused, 3D seismic, so we are in that phase. We have no drilling commitments in Uruguay. We completed the analysis of 2D seismic. Only after we end this, we will either take the decision to drill or drop. We focus now on a much reduced area in the blocks we are in.

As far as Portugal, we are at this moment interpreting seismic with the priority for the Southern Basin, because we have a commitment well in one of the two basins, either Peniche or Alentejo. And we will take a drill or drop decision, according to our contracts with the government, by next year. And that's the case that we are discussing with our partners. Again, these are frontier exploration areas and these decisions are not easy to take. We are on that process.

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Back to Lula, obviously, we have already looked at the engineering design of the FPSO and are looking at the possibilities of debottlenecking. We have no conclusions achieved yet. We are at the early stages of that, but that will be a natural step going forward.

We are extremely happy with the development of Lula and the recent DST test in Iara West is changing our view of Iara. I said that the recovery factor in Iara we are assuming is below 20%, and to neutralize that, we are preparing horizontal wells. And Iara West-2 is forcing us to re-think the development of Iara and its total recoverable reserves, but it's still early stage to have the comments on that. Thank you, Anish.

Anish Kapadia, TPH

Just a follow-up. In terms of the Lula potential debottlenecking, what's the process? What's the earliest potential timing that you could see for an increase in the capacity at Lula? Thank you.

Manuel Ferreira De Oliveira, CEO

Anish, I cannot answer to your question. We are still in the early stages of looking at the design and see what we can do. But the focus, to be straight to you, has been totally to bring Paraty and Mangaratiba on board as soon as we can. But, as soon as we have news on that, we will share with you. Thank you.

Thomas Adolff, Credit Suisse

Hi. Thanks for taking my questions. The first one on refining. I was interested why the consumptions and losses was still at 9% this quarter versus 8%, your guidance or your target, and whether the 18% fuel oil yield is what we should be expecting going forward? And also you indicated to increase throughput in 3Q and I'm guessing this is all going into the export market given the weak Iberian demand. And if so, where are you taking the market share away?

The second question is on Iara. We knew that Iara West is a sweet spot on the field and you've also said that the reservoir fluid properties look pretty much in line with Lula. But I was wondering whether you can quantify the kind of initial flow rates under a development scenario, one should expect where your base case is now, is it at 20, 25, 30 kboepd? We're seeing on Lula pilot 25 kboepd. Thank you.

Manuel Ferreira De Oliveira, CEO

Thomas, good morning and thank you for your three questions. You've got three here, don't you? The first one on the consumption and losses. Let me tell you that I was once upon a time deputy refinery manager. And the way of maintaining reliability, typically, implies the increase of consumptions and losses. If you are an operator there you understand that.

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What happens is that in the first quarter of full operations, the priority of the management is to keep it running safely and smoothly. So, the focus is not on energy efficiency, on optimizing consumptions and losses. I really expect that we'll bring it back to 8%. The 9%, we consider it excessive.

On the other hand, there is one point to note, and that is important for you to know and we don't have yet it quantified: because of the very low or negative hydroskimming margins, what happens is that we are importing at this moment the VGO. So we take VGO from Sines, VGO from Matosinhos and do not front-end load the distillation unit. Instead, we import VGO because there's some liquidity on it.

So what happens with that? The consumptions per barrel produced increases because you do not complete the full chain process. We do not know exactly to quantify that. So, at this stage, to be rigorous to you, I do not know whether 9% was an active consumptions or losses or otherwise. But, if it were consumptions and losses from the full processing chain, it will be a high number.

The second question is related to market share in Iberia. We are maintaining or increasing market share in the middle of this turmoil, which means that we have an efficient and competitive offer in the market. Even with the tremendous competition from the hypermarket chains, we are successfully sustaining our position in the market. I think it's the only good news I can share with you on that.

Thomas Adolff, Credit Suisse

Just to stay with this question, regarding the market share gain in the Iberian market, in marketing, is this exact volume vis-a-vis the increase in the refinery throughput? I'm guessing it's not. So I was just wondering where this incremental refinery product is going and where that market share is coming from?

Manuel Ferreira De Oliveira, CEO

Look, what we do, Thomas, is the following. We run our refinery model for the local market, I mean Portugal and Spain. The value at the plant gates is CIF quotations. Not Western Europe, CIF quotations. If it is for export it's run as FOB quotation. So, the load factor of the refinery is conditioned by that. So you put the value of, let’s say diesel, if it is to export it, FOB North Western Europe, if it is for local market, CIF not Western Europe. And then the model tells us how we should load the different units. When you are seeing an increase of the load factor it is effectively exports.

So, the major change, the material change has been with diesel or gasoil. What happened, is now we are not importing gasoil, we used to do so. We are exporting it. The major country is Spain because we have a market there, we used to import it into Spain, and also Morocco and France, so very close to here where there is a deficit of diesel. And the load factor is a function of the cracks of the different fuels in the refinery.

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Now back to our sweet spot in Iara West, yes, it is a sweet spot. We would expect that area of Iara to have a productivity per well in the 20 kboepd. So 20-25 kboepd per well, as we have on average in Lula so far. I want to note to you that our economic model for Iara was 5 kboepd to 10 kboepd. So, that gives you the change in view of the development of Iara.

Marc Kofler, Macquarie

Hi. Good afternoon all. Two quick questions, please. Firstly, just coming back to this year, we're now halfway through, in terms of upstream production I was wondering if you'd be able to give us a steer in terms of your full-year 2013 production outlook and what we might be expecting there?

And then secondly, just quite a specific one on rig availability for the 2014 proposed campaign in Morocco targeting the Trident prospect. I was just wondering if you'd been able to secure a rig for that campaign yet. Thank you.

Manuel Ferreira De Oliveira, CEO

Marc, thank you for your two questions. As far as the production, Filipe gave you a guidance of 27 kboepd of working interest production for the third quarter. So, what happens is that we have now Cidade de Angra dos Reis FPSO at full capacity. The wells are not showing any declination whatsoever, and the growth depends only on Cidade de Paraty FPSO.

On the other side of the Atlantic, in Angola, BBLT is increasing production, whilst Tômbua-Landana is maintaining it, and if Kuito is closed by the end of the year, we would lose in terms of net entitlement approximately 0.7 kbopd from Kuito. Within the Kuito field there is an area of light crude which will be maintained in production by tying in into BBLT. So, that's as much as I can say about that.

As far as rig availability, yes we have no issue for our 2014 drilling program. We have reviewed it recently. What is happening is that the drilling time per well is being reduced throughout the time.

But back to your core question which was Morocco, we have a commitment well to be drilled next year. And there are other companies that will have commitment wells next year and we are negotiating with them to bring a rig to drill sequentially all the commitment wells in the neighbouring areas. So far that negotiation is going well. We see no stress from our operating team dedicated to it.

Thank you, Marc.

Mehdi Ennebati, Société Generale

Hi. Good afternoon gentlemen. So, I have two questions. The first one regarding your hydrocarbon production for Q3. So you provided a guidance of 27 kboepd. I just would like to know how many barrels

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per day do you expect from the FPSO Cidade de Paraty? And you've said that the gas injection well should start in August. But when do you expect the gas pipeline from Paraty to be connected to Mexilhão pipeline?

Second question is regarding the capex. Could you please provide us or remind us your capex guidance for H2 2013?

And maybe a very quick follow-up question on Iara. You've said that you are now expecting productivity per well of about 20-25 kboepd. Can we now expect, so let's say very close to Lula? So can we now expect that your recovery rate for Iara should increase to a level close to Lula? Thank you.

Manuel Ferreira De Oliveira, CEO

Mehdi, thank you for your three questions. Let me just do production. You see the growth of production is highly dependent on the gas injection well so that we could receive the gas while the pipeline is not completed. The program for having the exit gas pipeline operational is by the end of the year. We'll have now in August the first well at full capacity as we reinject the associated gas. Of course that throughput of the well is conditioned to the ability to reinject into the well, as well as the remaining wells that will go on. We'll get only full production at 75 kboepd after the pipeline is completed and I think that's as much as I can say on that.

In terms of capex guidance, we told you that our annual capex will be between €1.2 bn and €1.4 bn. I think, unless Filipe corrects me, we are within that target.

What I referred in terms of productivity - I want to be absolutely clear - is for the Iara West area of influence. We do not have evidence yet that what we've seen can be extrapolated to the total reservoir. One thing is sure, in that region of the field we will have a higher recovery factor because it's the nature of things. So the high productivity per well in Iara is only referred to the Iara West region.

The complementary information of the Iara High Angle – as you know, we expect a higher productivity from horizontal wells – will let us have a clearer view of a development strategy for the tight part of the reservoir and the development strategy for a more open area in the Iara region. The real development could be a combination of the two.

The recovery factor that I referred to you, which is currently below 20% depending on the region, assumed between 15% and 20%, will be totally reviewed after the completion of these two wells, the Iara High Angle and the Iara West.

Thank you, Mehdi.

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Michael Alsford, Citi

Good afternoon. I've just got a couple of questions on Mozambique, if I could. Could you maybe talk a little bit more about the plans around your monetizing of your gas volumes in terms of whether you'd be prepared to take those volumes on, and trade those volumes, or if will you look to secure long-term contracts for those supply volumes?

And then secondly, could you maybe give a bit of a roadmap for us in terms of understanding the key milestones for the projects before FID in early 2014? Thank you.

Manuel Ferreira De Oliveira, CEO

Michael, good morning and thank you for the two questions. So, regarding the monetisation of gas. By contract, the gas has to be jointly commercialized by all partners. That's the first statement I want to make. So what the partnership is doing is selling the gas as a whole.

What we do expect the partners to have, is some kind of preferential rights at the same price. We would, in principle, be willing to take some gas, but subject to the pricing that will be coming out of this process. If we feel that is a very good pricing, and that we could not add any value to it we will not take any volume. If we feel that we can benefit from our experience, that on a long-term basis we can extract value, we think we could take some of the gas, but not all of it. I emphasized that the commercialization is a joint commercialization among the partners of the consortium.

The second is the key milestones for the project. Now what is going on in Mozambique is the dialogue with the government authorities to crystallize, in a piece of legislation, the legal framework for the onshore facilities. This because the concession refers only to offshore facilities.

What is fundamental to agree, and the materiality of the options is not relevant, is whether the liquefaction facilities are treated as a production facility or if they are treated as an industrial facility onshore. From the legal point of view, this is important and we want to clarify that with the government before the FID is taken. By the way, the government is taking a very cooperative attitude in this, and this week the President of the Republic of Mozambique, in Aberdeen, said that he wanted to have everything cleared by June next year, which coincides with our target date for a final investment decision in Mozambique.

And these are the key milestones: clarifying the legislation for the onshore facilities, completing the FEED and the commercialization to support the final investment decision. Thank you, Michael.

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Henry Morris, Goldman Sachs

Yes, good afternoon. Thanks very much for taking my questions. I've just got two please. The first is going back to the Kuito FPSO. Assuming it is brought offline at the end of this year, what would the cash costs of decommissioning be to you? And, Filipe, am I correct from what you said earlier that from a provisioning standpoint, what you would just have another €21 m to go to effectively amortize all of that asset?

And then the second is on the supply gain you had this quarter of €15 m. Am I correct in thinking that this was effectively a trading gain that is more or less one-off in nature or is it something that can be repeated in coming quarters? Thank you.

Manuel Ferreira De Oliveira, CEO

I'll give part of the answers and the other part I'll pass to Filipe, in what refers to depreciation and amortizations.

The Kuito field, we like that field very much, because it's where we started our production in 1999. The original objective was to recover about 201 mbbl. That was the base case for the commissioning of that FPSO.

We still have, according to our analysis of the reservoir and the historic numbers, 4 mbbl to produce by the end of the year. So, what happens if this is closed is that, instead of 201 mbbl, we'll be recovering only 197 mbbl. So because we have 9% of the field, we will lose 9% of the 4 mbbl.

What Filipe is doing as a prudent CFO is saying look, because we don't know we are now starting to depreciate with lower reserves, so what's the rate in depreciation and making sure that if it happens no cost is transferred to next year. But Filipe will complement my answer.

Filipe Silva, CFO

Your question is related to the cash costs. We expect it to be in line with the amount of provisions that we have disclosed earlier today, so about €20 m. We would expect this to be recuperated through the cost oil mechanism.

On the supply gain, I would not call it a one-off, to the extent that it could happen more times in the future, but it's clearly not a recurring effect that you could project. Thank you.

Nitin Sharma, JP Morgan

Thanks. Afternoon, gentlemen. Couple of clarifications from my side. I am going back to the earlier discussion on recovery factors. You mentioned in the past that the successful completion of WAG testing in Lula and Iracema will lead to 3% to 4% upside in the recovery factor for the field. So the first clarification

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I wanted was: does that guidance still hold? And do also please clarify if the success in Lula/Iracema on WAG front, would that have any read across for recovery factors in other pre-salt blocks? Thanks.

Manuel Ferreira De Oliveira, CEO

Nitin, thank you for the questions. Let me tell you that we never said that the WAG will lead to a 2% to 3% increase in recovery factor. Although I do not disagree that this is, to be honest, a conservative estimation. But we formally, and I think we have to distinguish between our opinions and formal information, we never commented on it.

We have to wait for it. In an analytical model and in a logical model we have seen much higher benefits from the WAG system. But, on other areas of the field, this will basically mean that CO_2 in the pre-salt region is an asset, because it helps to increase the recovery factor and that has a major implication in the development of Jupiter, which is a field where we have plenty of CO_2 to look after.

I think if there is a company that is most sensitive to the success of the WAG project it's Galp Energia because of the reasons I have told to you. And we are monitoring these projects very clearly. And we always said that we can only have definitive statements throughout 2014, because it's a recovery factor mechanism, and it takes time to really have reliable data.

Thank you.

Matt Lofting, Nomura

Thanks. Just one question left please. I wanted to come back to the Sines hydrocracker and if you could talk a little bit about the profitability contribution for the second quarter? Utilization and underlying performance was clearly strong as you reached a steady state. I see the normalized Ebitda contribution or uplift of €150 m to €250 m was sort of reiterated this morning. Could you just give us a sense of whether the Ebitda contribution was in line with that run rate in the second quarter or whether there is a bit more upside there as you roll forward? Thanks.

Manuel Ferreira De Oliveira, CEO

Thank you for your question once again. Let me tell you that in our numbers we are now in the lower range of, on an annual basis, of that €150 m to €250 m contribution to the Ebitda. But we are within that range as you can see from the numbers that are in the report.

Remember please that these are incremental refinery margins versus the previous refining configuration, so they do not translate the absolute refinery margins that we expect. Unfortunately, the cracking refinery margins have been very poor, as you might be aware.

Filipe, do you want to complement anything? Filipe is telling me that I've answered well the question. Thank you.

Lydia Rainforth, Barclays

Gentlemen, thank you for taking the time. I appreciate it. It's been a long call. I have a couple of quick questions hopefully on the numbers. Firstly, on the working capital move for the quarter, can you just give us an idea of what you would expect for the rest of the year?

And then secondly, can I just ask how you decide between what is recurring items and what is non-recurring items in the P&L. And I am thinking particularly within the exploration expense that you would book during the year, particularly given that, that program would seem to be ongoing on a longer term basis. Thank you.

Manuel Ferreira De Oliveira, CEO

Lydia, it's nice to hear you again, and good morning to you. I'll take the second question and Filipe will take the first one. The second one is the concept of the non-recurrent event.

While we are effectively a project E&P company, so we are still in the ramping-up phase of our history, the exploration is a discretionary action. We are not doing exploration to maintain production. If we were doing the exploration to maintain production that would be a recurrent activity and it should be taken on a quarterly basis through the P&L account on an RCA basis.

In discussing this with our auditors we agreed that while this ramping up is taking off, and we have a discretionary decision on whether we have higher or lower E&P budget, that it should be separately reported as a non-recurrent event, when we abandon an area. We have taken that decision for the two wells in Namibia this year. I think it was about €40 m, the costs including the carry that we took on those wells. And what matters is not where we put it, is that we make it clear to everyone that this exists and that is our full commitment.

So, if we were doing exploration, I repeat it again, to maintain production that would be a kind of recurrent investment to maintain the level of activity. This is fundamentally to search for resources to maintain production beyond 2020, once we achieve our target of 300 kboepd. This is the reason of our interpretation of that.

Filipe will take the working capital issue. Thank you, Lydia.

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Filipe Silva, CFO

Hi, Lydia. We are not expecting major differences to our working capital levels. Some of the components, not stocks, should go down a bit throughout the year depending, of course, on the price of Brent, but tonnage we hope that we will trim some of that.

We are having a tough time with client receivables. So clients in Iberia are not fast payers, unlikely to improve any time soon. I would say on suppliers, the trend in suppliers and stocks it should be awash, so expect one to complement the other. So, overall, assuming stable Brent prices, I would assume same levels of working capital as you see it at the end of the second quarter.

Thank you.

Filipe Rosa, Espírito Santo Equity Research

Hi. Good morning everyone. Very quickly, just two questions. The first one, could you update us on your guidance for opex and capex for Brazil? Basically because you already have one FPSO at full capacity and there has been a lot of other costs that have come up over the recent quarters, so could you include them in your guidance and update us on that front?

And the second question, when could we have more FPSO sanctioned for Iara because so far we only have two and I believe that Iara West-2, for instance, is not yet included in the pipeline. Thank you very much.

Manuel Ferreira De Oliveira, CEO

Filipe, thank you for your questions. I'm sure that my answers will be complemented by Filipe.

Our guidance for capex plus opex in Brazil is about $15 a barrel. Obviously, we have the overhead costs in Brazil, and what we have done now, because we have a partner in Brazil, is that we have to charge Brazil at the arm's-length cost in terms of all the corporate services that we provide to Brazil. These are audited, verified and they are material.

But these costs that you see now in our numbers, the overheads costs in Brazil, will be diluted as the production goes up. But you've seen some increase in numbers because of that need to ensure that we neither benefit nor lose from the transfer mechanisms between overhead costs in Lisbon and Brazil.

And I am sure that Filipe want's to complement something on this.

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Filipe Silva, CFO

Filipe, just to be clear, the $15 opex plus capex is throughout the life of development. You will see, depending on quarters and production, this could go up and down significantly as production ramps up. So this is a longer term number. Thank you.

Closing remarks

Manuel Ferreira De Oliveira, CEO

I don't know whether you are still online or not, but for the friends and colleagues that have been talking with us, as we are now entering August, I wish you to have a relaxing summer holiday and rest. We need your energy and enthusiasm about our Company so that we continue working together for the forthcoming of the year. Thank you for your time. Happy holidays, and a good summer.

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