

Galp Energia's Second Quarter and First Half 2011 Results

Introduction

Good afternoon, ladies and gentlemen. Please welcome to Galp Energia's second quarter 2011 results conference call and Strategy Update. I will now pass the floor to Mr. Tiago Villas-Boas, Head of the Investor Relations Division. Please go ahead.

Tiago Villas-Boas, Head of Investor Relations

Good afternoon and welcome to Galp Energia's 2011 second quarter and first half results conference call.

Joining me today is our CEO, Manuel Ferreira De Oliveira, and our CFO, Claudio De Marco. We'll start our presentation with the key highlights of the second quarter results overview followed by a short-term outlook and an update on the execution status of our key operational and financial projects in hand, after which we will be available for your questions.

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

And now over to Manuel.

Manuel Ferreira De Oliveira, Chief Executive Officer

Thank you, Tiago, and good afternoon to all of you and welcome to our second quarter results and a brief strategy update. I will now give you the highlights of this presentation, and Claudio will go through the second quarter operating performance, after which I will elaborate on the execution of the key projects on our portfolio.

Let us go to slide number three. I will start on this slide sharing with you the main highlights of this presentation. After a very tough first quarter, we are glad to present our second quarter results with an operating performance showing a positive evolution QoQ mainly driven by our oil marketing business. In fact, notwithstanding the negative economic environment that still characterizes Iberia, the oil marketing business posted a very favourable evolution compared to the first quarter, especially in the Spanish market.

In addition, the exploration and production business also presented a good evolution both on annual and on a quarterly basis. This improvement was mainly driven by higher oil price and an increase in net entitlement production with the production coming from Brazil already gaining a relevant share on our total production. At the

bottom line, the net profit was up 68% QoQ reaching €70 million in the second quarter. However, when we compare the second quarter with the second quarter of last year, the net profit came down by 36%.

In terms of strategy execution, I'm pleased to announce that the Matosinhos refinery upgrade project is already on stream and since the end of June is producing VGO. As you know, this feedstock will be converted into diesel at our Sines refinery after the completion of the project, of the upgrade project. We will come to this later on. Additionally, we have continued to strengthen our upstream position. I highlight that as previously announced, the FPSO Cidade de Angra dos Reis has already one gas injection well in operation which supported the increased production during the quarter. Additionally, the Lula Northeast well is producing since April with the FPSO Cidade de São Vicente and is confirming the high productivity of the reservoir and obviously also contributing to the production growth.

Later on in this presentation, I'll give you more details on the execution of this important project to Galp Energia. Claudio will also elaborate on both processes, the NG infrastructure sale and the capital increase in the Brazilian subsidiary, on their status. Last but not least and before we start with the business overview, I am very happy to announce that following the analysis of the new data from drilling, seismic and reservoir modeling we have revised Galp Energia's production targets for the year 2020 to 300,000 boe per day from the previous 200,000 boe per day. We will elaborate on these, ahead in the presentation, but now over to Claudio who will present the 2Q results.

Claudio De Marco, Chief Financial Officer

Thank you Manuel and good afternoon to all of you attending this call.

I'll now go through the business overview, with focus on how our operational indicators evolved during the second quarter of the year and afterwards on the financials of the company. I'll conclude with our usual short term outlook, meaning our view about the business drivers that should impact third quarter results. Also, I'll elaborate on the ongoing funding solutions execution, namely the NG infrastructure sale and the capital increase at our Brazilian subsidiary.

Turning now to results, this quarter was a positive quarter for Galp Energia in the majority of the key drivers that impact our results.

Going through the business review and starting with the E&P segment, I would like to highlight that the increase in crude prices, on the back of the continued conflicts in North African countries, mainly in Libya, contributed to a strong average realized sale price of our crude production. In addition, in the second quarter, our net entitlement production increased driven by higher contribution from Lula field, where we are producing from two wells. One is Lula P1 at the FPSO Cidade de Angra dos Reis, where crude production is no longer limited by gas flaring restrictions, as the gas injection well became operational. The other is Lula NE well in the Extended Well Test stage.

I would like to emphasize that production from Brazil reached 3.7 kbpd this quarter and already represents 27% of our total equity production.

In Angola, net entitlement production posted an increase of 23% QoQ in consequence of lower production in the first quarter which was negatively affected by a one off event related to past adjustments.

Turning to the refining business, the refining margin environment maintained its negative trend of the first quarter into the second quarter with a deterioration of fuel oil and diesel cracks negatively impacting benchmark refining margins. Of course, this trend impacted our own refining margin, which reached \$0.6/bbl in the quarter, with our premium over the benchmark showing a marginal improvement on a quarterly basis.

Also, this quarter, Sines refinery operated on a normal basis. As you remember in the first quarter, it was shut down for 40 days to execute interconnection works related with the upgrade project.

The oil marketing business recovered from the previous quarter, with an increase of 7% in the sales to direct clients, mainly in the retail and marine businesses, however still impacted by the economic environment in the Iberian Peninsula, on a yearly basis, posting a decrease of 3%.

The natural gas supply volumes reached 1.2 bcm in the quarter, up 7% YoY and mainly due to higher volumes in Spain, which enjoyed from the active presence in auctions and also from Madrilena Gas contribution in the residential market. As you remember, this company was acquired in May 2010.

Moving to slide 6, we see the impact of the operating performance of the company during the second quarter in our profit and loss account.

As I mentioned before, considering the negative economic environment, this quarter was really a very favourable one in terms of operating performance for Galp Energia, with relevant incremental contribution from the Exploration & Production and Refining & Marketing businesses segments on a quarterly basis.

The exploration and production business segment benefited from an increase in oil prices and higher production, driving the EBITDA of this business to €75 million in the 2Q11.

Despite the more negative refining margin environment, the refining and marketing business benefited from the return to normal levels of the crude processed and as well by the increase in oil products sold and margins in Iberia, especially in Spain.

The EBITDA reached €95 million in the second quarter, up €73 million when compared to the 1Q11, but still below last year's levels, when refining margins were at much higher levels.

The Gas & Power business segment maintained its contribution to overall results with an EBITDA of €59 million, however impacted by lower supply margins due to a higher acquisition cost of natural gas. Also, 2Q10 was positively impacted by one off events of €40 million. As you remember, we're talking about ONI/REN renegotiation contracts.

At the EBIT level, it was mainly penalized by higher depreciations in Angola, following a higher depreciation rate on the back of the reserves downward revision and to the increase in the crude price used as a reference.

Below the EBIT line, I would like to highlight the decrease in financial results to €35 million negatives due to higher average net debt in the period and an higher cost of debt.

The cost of debt in the first half of the year was 4.1%, a very reasonable cost, taking into account the turmoil that unfortunately is still affecting the credit markets, in particular in Portugal.

In the tax line, the effective tax rate was of 27%, in line with our guidance.

In summary, net profit reached €70 mln in this quarter, 36% lower than same period last year, but up 68% QoQ, supported by a stronger operational performance during this quarter.

Now let's move on to capex, in slide 7.

During this quarter we have continued the execution of our transformational projects, namely the refineries' upgrade project and the Lula field development. The 2011 spending is strongly focused on projects that will generate cash flow in a short period.

The investment in the quarter reached €278 million, of which over 50% was channelled to the upgrade project. Manuel will elaborate on that later on, namely on Matosinhos upgrade, which is already onstream.

As the CFO of the company, I would like to emphasize the importance of this project to our cash flow profile going forward, meaning that with the conclusion of the upgrade project by year end, we will benefit in two ways. Firstly, by the end of allocating funds to the capex execution of this project and secondly by the expected material incremental impact in our refining margin, and therefore in the cash flow generated in the refining business.

In another important segment of our capex allocation, and especially going forward, in the Exploration & Production business segment, capex amounted to around €80 million and was focused in the development of Lula field in Brazil with several works done in this quarter, such as the start up of the EWT in Lula Northeast, the start up of the first gas injection well, the conclusion of the Drilling Steam Test in Iara Horst. Manuel will give more detail about the Lula project later on. But important to highlight is that production from Lula already represented 27% of total equity production for Galp Energia this quarter.

In the Gas & Power division, the spending of €12 million was mainly focused to the extension of the natural gas distribution grid.

Overall, capex in this second quarter was below the first quarter's level, as said before, once we're reaching the final stage of the investment in the upgrade project.

Now, let's move to slide 8 and analyse the capital structure of the company at the end of the quarter.

As expected, the capex execution of our transformational projects continues to push our net debt, which reached €3.2 billion at the end of June, an increase of €145 million from the end of the first quarter 2011. I highlight that in this quarter we paid the final dividend component with a total outflow of around €116 million.

Notwithstanding the increase in crude and oil product prices, the evolution of the strategic stock was impacted by lower quantities of stock.

With the conclusion of the upgrade project, working capital is being impacted by lower accounts payable of fixed assets suppliers.

We still have a major amount allocated to work in progress related to our transformational projects that are being executed and which reached €2.4 bln in the quarter. This amount will start to generate cash in the short term, especially the one which is related to the upgrade project.

Additionally, due to our corporate profile, Galp Energia continues to enjoy a trustable perception from the banking community which allows us to continue to have a comfortable level of additional facilities, with increasing support from international banks. At the end of June, those facilities amounted to €1 billion.

To finalize on this subject, the ongoing funding solutions that are being executed, in particularly the capital raising in Brazil, will allow us to rebalance one shot our capital structure to a very solid level. In addition, the start up of the upgrade project will improve significantly the Galp's cash flow profile contributing to maintain a solid capital structure going ahead.

I will now proceed, as usual, with our short term view of some key drivers that should influence our operating performance in the short term, part of them, though, not dependent on own internal performance, but dependent on exogenous factors. We are facing this particularly negative environment with efficient decisions and optimization measures.

Starting with the working interest production, it is expected to reach 19 kbopd, so decreasing on a quarterly basis. It will be the result of production decrease coming from Angola, due to the natural depletion rate and workovers in BBLT field. On the other hand, the Brazil production will continue to increase with the interconnection of the second

production well to the FPSO Cidade Angra dos Reis in August. Manuel will elaborate on this later in this presentation.

Unfortunately, in the third quarter, the higher production coming from Brazil won't be enough to compensate the decline in Angola.

In what regards the refining business, and taking into account the expected oil price of above \$100 per barrel and weak demand for refined products, we continued to see depressed refining margins in line with first half of the year.

In terms of Marketing Oil, the depressed Iberian economic environment will continue to impact oil products demand, however we expect higher volumes in the third quarter than in the second one since we are in the holiday season.

In the natural gas business, due to seasonality it is expected a decrease in terms of volumes mainly driven by lower demand from the residential segments.

Just a final word on capex. We will continue to execute our main projects according to plan and in line with capex guidance for 2011 of 1.3 bln euro. As you expect, it will be mainly focused in Brazil and in the Sines refinery upgrade project, as we are reaching the final stage of this very important project for Galp Energia.

Now, I will start the next section of the presentation with an overview and an update on our funding solutions that will enable us to reach a solid capital structure going ahead.

Moving then to slide 11, I'll go through the strategic funding solutions status. Starting with the NG infrastructure sale, as referred in the past, the objective is to sell a stake up to 49% of a company that holds the distribution assets of the companies Lisboagás, Lusitaniagás and Setgás, which have an asset regulated base of around €900 mln.

The final decision should be taken during this quarter, as the macro issues in Portugal, namely the increase in sovereign risk has delayed the anticipated schedule of this process.

At this stage, we are receiving bidding proposals, and only after that we will take a decision and announce it. This is a local regulated business very exposed to interest rate movements and country risk, and we will take the best decision to our shareholders considering the current circumstances.

Regarding the capital increase in our Brazilian subsidiary, from which we expect to cash in a minimum of €2 billion, I'm glad to announce that the process is ongoing.

Last May we have sent a teaser and a process letter to potential buyers. We have already received several letters of interest and, we have selected a restricted group to proceed to the due diligence phase. At this stage, these selected

companies, from different parts of the world and with different profiles, have started to study and analyse the relevant data which, I can tell you, is very comprehensive and very detailed.

To conclude on this transaction, and I prefer not to enter in much detail, the process is going very well and I can you reassure that the deal can be concluded by the end of 3Q, in line with our previous guidance.

Now, Manuel will proceed with the strategy execution update, focusing on the execution of our current major projects.

Manuel Ferreira De Oliveira

Thank you, Claudio. So, let me now go to slide number 12. I would like to stress on the good progress of the upgrade project in terms of costs and calendar. At this stage the work in the Matosinhos refinery has been concluded and the refinery is producing vacuum gas oil at the expense of fuel oil. As you know the vacuum gas oil will be the feedstock for the hydrocracker at the Sines refinery where it is expected the production of diesel to increase by 1.5 million to 2 million tons a year depending on hydrocracking margins. However and before the work in Sines is completed, the VGO, the vacuum gas oil produced in Matosinhos will be exported. And we have started to use heavier crudes for the Matosinhos refinery. As an example while in 2010 runs, 50% of the crudes processed in Matosinhos were medium/heavy, after the upgrade this ratio will go up to 90%. As you know the crack between light and heavier has narrowed, but on a long term basis, we all expect widening of that crack creating value to our refinery system.

I would also like to draw you attention to the fact that Matosinhos is currently at a nominal capacity of 110 kbb/d up from the 90 kbb/d barrels a day that used to be the nominal distillation capacity and this was due to revamping that was made throughout the works being done in the refinery.

I highlight that the major impact to Galp Energia of these investments will happen only after the Sines refinery project is completed, after that, our two refineries will operate as a single complex refinery benchmarking against a composite of 42.5% cracking, 45% hydrocracking, 7.5% base oil and then 5% aromatics.

As we expected according to the original schedule, the Sines refinery upgrade project is physically concluded during this quarter, the 3Q and will be commissioned during the 4Q, for using gas oil from hydrocracker before the year end. This will be the major transformational project in our refining system in terms of profitability and contribution to results.

Now, let's go to slide number 13. I will go through the remaining parts of the strategy execution and start with the status of the exploration and appraisal activity already executed and planned until the year end.

First, I'd like to highlight that the formation tests in Lara horst were already concluded. The DST was concluded in April and the initial results pointed to very positive permeability and porosity characteristics and as such very

positive data in terms of reservoir quality and well productivity. In fact this DST showed better results than those of the first well drilled in 2007, but we are still in the process of further evaluating these results to confirm probably a most positive view on Iara.

Still in Brazil and in the Cernambi field in block BM-S-11, we are currently drilling an appraisal well named Cernambi Alto which should be concluded in October and which will provide us with relevant information for this area.

In the Lula field, we are planning to drill at this moment two appraisal wells. The first one in the 3Q and the second one in the 4Q and which will be crucial to the ramp up in production for the forthcoming FPSOs and they will give us, as we expect better knowledge of the reservoir of the area, supporting the engineering of the subsea facilities and FPSOs. The activity in BM-S-11 is, as expected the most intensive, as we are accelerating the development of the area. Moving to other areas in the Santos Basin, namely to the BM-S-8, we are already drilling an exploration well in the Biguá prospect from which we expect results in the 4Q. Still in that block we will drill another well this year, another exploration well, in the Carcará prospect, starting in the 4Q. Another very important milestone for us is the appraisal well scheduled for the 4Q in BM-S-24 that will be named Júpiter Northeast. The results of this well, in this important and large reservoir, will help us to gather more information about it, namely a better understanding of the oil/water contact and the CO₂ content and respective profile within the reservoir. This well and another well next year will be crucial to define the development plan for that reservoir.

Still in Brazil, but out of Santos basin, we are planning to drill an exploration well in the Potiguar basin which is a deep water area on which we have relatively high expectations. We will start drilling this well in this area this year.

Now jumping to the other side of Atlantic and focusing on Angola the appraisal well drilled in the 1Q in Block 32 has been completed. Preliminary results were positive and reinforced the volumes of resources to develop in the future. Those tests also confirmed the oil-water contact seen on the seismic data. As you remember, we plan to initiate production in the first cluster of Block 32 by 2016.

Last but not least, let me elaborate on the drilling activity we are planning for Mozambique at the end of this year. We are excited with the drilling activity in the country with the first well to be drilled during the 3Q. Another well, the second well, is also planned to be drilled in Mozambique this quarter this year in the 4Q. The decision to drill more than one well in 2011 shows our commitment and positive expectations for the exploration works at the Rovuma basin based on our own data and on adjacent area successful results.

Just a final word to the fact that the drilling of some wells has been delayed when compared with the previous drilling plan that we have presented in the 1Q results. This delay was due to rig availability on those areas that in no way compromises in a structural way the core drilling plan that we set to ourselves.

Moving on to slide number 14 and to the development of the Lula and Cernambi fields, I must say that the production from this field, currently from only two wells, already represents as Claudio referred to 27% of our total

net entitlement production and we are just beginning the development of the field. So far, the development of this project has been on track, being the recent developments the start of operation of the gas injection well in the beginning of April, which was a major milestone, which benefited considerably the production from just one well in Cidade de Angra dos Reis that achieved an average production throughout May of 36 kboe/d, confirming the extraordinary productivity per well.

I want to note at this moment in time that it will be important for my later statements that our base case for the Lula area is that the average well will produce about 20 kboe/d. As well, in this quarter, we have started the EWT at Lula Northeast, which will be the location of the second FPSO Cidade de Paraty that will be there by early 2013. In what regards the ongoing EWT production level, it has been around 14 kbb/d and this production is being limited due to gas flaring restrictions imposed by ANP, but more importantly we are confirming the excellency of the reservoir in terms of porosity, permeability and connectivity.

Now, looking forward, two additional producer wells will be connected to Cidade Angra dos Reis this year. One in August, which is already completed. We are now connecting risers so that we have that well on-stream throughout this month and the second well will be on-stream in October this year and by the end of the year, we should be producing in Cidade Angra dos Reis at a rate of approximately 70 kbb/d assuming conservative production ratios.

I also highlight that the water injection well should start production in 4Q. So after that we will have three production wells, one water injection well and one gas injection well. I would like to highlight on the contrary of what we have said three months ago that the second producer well will be in operation in May. As I refer to you it will start in August and this was a result of some delays, which are not materially relevant. Also by the end of this month, the EWT Lula Northeast should be concluded and then the Cidade de São Vicente, the FPSO, will move to Cernambi South for another test, which will be the place that we will receive the first 150 kbb/d FPSO to be in operation as I referred in 2013/2014.

On the natural gas evacuation, during the 3Q, we should start to evacuate the gas to the local market in Brazil because the on-shore gas treatment plant in Caraguatatuba will be completed and then operations can be started having gained another option for the gas and trading conditions to start selling gas to the national market. As you know, as you remember, gas will be transported in pipeline that the consortium built with about 216 kilometers of length to the Mexilhão platform of Petrobras and from there it goes to onshore to the Caraguatatuba plant. In summary, the project is up and running and demonstrating good progress.

Now, a reference to a review of our production targets. As you can imagine, we move forward the project. As we move forward, we got data, we optimize models with a continuous flow of information and studies that we do and have access to. Today, we have much more information than we had a couple of months ago. That information has been very positive and takes into consideration recent drilling works, namely the wells in Lula and Iara and the flow rates and the DSTs that have been executed in Iara Horst.

We highlight that our resources have been audited by the year end. Since then a lot of work has been done, but we will only review formally our resource base by the year end, after having completed the audit by our external audits on resources and reserves. Just a word in the infrastructure front, an issue that has been raised many times. It is very important to highlight that the production target that we announced today takes into account the infrastructure context and the dynamics that are currently facing the Lula development project. Considering all the new information, all the studies that we developed, all the technical support that we obtained from external consultants, we can now raise our production targets both for the medium term and for the long-term. I'm happy to announce that our new production target for the company for 2015 will be at least 70 kboe/d, higher than the 50 kboe/d per day that we anticipated in the Capital Markets Day.

This is really important in terms of value once we are anticipating at least 20 kboe/d of incremental production by 2015. But more importantly than this and as a natural consequence of the development of the different projects, we are expecting to reach a production target of at least 300 kboe/d by 2020, up from 200 kboe/d per day that we have announced last March, reflecting the commitment and the exceptional progress in the development of our portfolio in Brazil. The change is totally associated with Brazil.

I must highlight that this new production target does not incorporate any contribution from Mozambique, so it is comparable with the previous guidance. We are already drilling here with good execution progress and with very material impact in time to market to deliver our targets. These are really important positive news for our shareholders.

I will now conclude before the Q&A, highlighting the main messages that we want to leave with you. We are living tough times in Iberia and it should continue like this at least for another year, and some will say for two years. Such as the business changes, especially in the oil marketing business, we needed to change ourselves too. So we will go through a very intensive exercise to adapt our business structure to this new environment and to maintain that business important contribution to reserve some sustained base.

As referred before, we are progressing with the execution of the funding solutions to reach our commitment to a solid capital structure as we consider it fundamental to execute our medium, long-term strategy. I will say that this is one of the major pillars that will support our execution strategy for the remaining of the decade. In the short-term, we will continue our focus on the conclusion of the upgrade project before year end, as it will improve considerably the profitability of the refining business with material impact on the cash flow profile of our Iberian business.

After the conclusion of the upgrade project and the capital structure being rebalanced, which we will do in the remaining of the year, our focus will be totally allocated to the upstream growth in a sustained way for at least the next 10 to 15 years. These are the main messages I want to conclude with. Thank you very much for your attention and now we are available to answer to the questions you might have.

Questions & Answers Session

Bruno Silva, BPI

Good afternoon, everyone. I think the news from Brazil are really impressive. So, on that regard and looking at what BG has already said and what Repsol has been saying as well, would you say that regarding the capital increase in Brazil, that all of that information gathered so far together with today's announcement of your new production targets and information you had from potential bidders, would the implicit valuation you may get for the portfolio would convince you to sell the stake closer to 49%? Do you still stick to a minimum stake that could offer you the €2billion of proceeds for Galp Brazil.

And the second question, still relative to these production targets, are you comfortable to confirm if this increase will have no impact whatsoever in terms of the capex expected for development and in terms of opex per barrel, if the valuation that this increasing production indicates will actually bring those benchmarks down and I think checking from what BG has been saying \$9 per barrel including leasing and transport costs could be beaten with information you've gathered so far? And I am sorry for having the third question on guidance if you don't mind, the marketing business and excluding the refining, it looks like the margin measured with EBIT ex-refining divided by refined products, it went down in this quarter by roughly 14% if I see the numbers I have. Can you comment on this and if this margin evolution is reflective of the trend for the full year and possibly for the coming years in Iberia? Thank you very much.

Manuel Ferreira De Oliveira

Bruno, thank you for three questions. Let us go to Brazil, Bruno. So first of all the issue of the capital increase, you see the news that we shared with you people and other shareholders does not change the strategy for the capital increase. We will have at minimum capital increase of €2 billion, that's what we do. Also and then we will decide when we have the final proposals on our table. We will not think to be anything close to 49%, forget about it. The work is going on. I think as Claudio described to you, we have a diverse portfolio of people, of entities in our data rooms doing their professional work, the work is intensive, we have to wait for the results, we are doing our duty.

As far as the production targets, the impact on capex and opex, just starting from the easiest question opex, obviously one of the main reasons of the increase in targets is the expectation of the certainty of a higher increase in productivity per well, that reduces automatically the opex per well, the opex per barrel and the capex per barrel. I would not say that the increase in target does not have any impact on capex, but it would have a relatively small impact on capex. We will prefer not to quantify it, although we have numbers, but we are incorporating that with our business, and in due time we will share that with you and other colleagues.

Now the marketing business, yes it is true. You live in Iberia, you know that the market environment is tough. Our gross margin in the market activity has declined. We are cutting costs. So, we are doing whatever we can to cut costs

and increase market share to compensate for those unit margins reduction. But this is the fact, the market is compress, but we still believe that we have a top world class distribution infrastructure in Iberia and we will be able to sustain results on the medium term. Thank you, Bruno.

Hootan Yazhari, Bank of America Merrill Lynch

Good afternoon, gentlemen. A lot of positive news has been coming out of Brazil recently, Petrobras, BG, now yourselves. I'm interested to see, part of your asset sell down process in Brazil, are you giving this updated production profile and productivity etc. to the bidders so that they can bid for a more attractive asset base, then we all thought maybe three, four months ago or are you still going on the base case you had three or four months ago? Thank you.

Manuel Ferreira De Oliveira

We maintain our data room updated. We let our bidders to judge the quality of the data. So the data has been flowing, the news is unique. When we communicate with the markets, there's discontinuity because it is on a quarterly basis. But the flow of information is on a daily basis. So the news that have recently come out were not a surprise to us, we probably use different languages, but the substance of everybody is the same what everybody says is the same. We are receiving good news from the reservoirs down in the Santos Basin. We expect this will have an influence in the bidding of our capital increase that we are structuring. Thank you Hootan.

Filipe Rosa, BES

Hi, good afternoon everyone. Two questions if I may. Also related to the upgrade in production. The first one relates to if you could provide some detail, if you change the number of FPSOs that you are assuming by 2020 and connected to this question, results of Lara Horst apparently were quite good, so can we assume that Lara will have more FPSOs in put online up to 2020 and also related to this upgrade, I believe that this new guidance of 2016 has also an impact in terms of guidance for EBITDA growth. Could you provide us some update for your 15% CAGR guidance for EBITDA of 2015? Thank you very much.

Manuel Ferreira De Oliveira

Thank you for your questions. Let's start to the long-term target, obviously the aim in supporting a long-term target of 300 kbb/d for us is a major number. We are extremely motivated with that and we hope that this is more than achieves. The major change is in best case the incorporation of the development of Lara. So, we are optimistic about Lara and that is now in our model right there. But we also include the developments of some other fields like Bem-te-vi and Caramba that will contribute to the major resource. As far as the short-term implication of reviewing the upgrading targets in 2015, that we have not yet modeled it in our business plan, rough numbers just as a simple gross indication we could have assumed composite annual growth rate of around 20%.

Filipe Rosa, BES

Ok, thank you very much. Just a follow-up sorry if I may, on the Iara issue I got the impression that you are implicitly guiding to higher well flow rates following the data that you have received. So, I believe, I don't know if I can conclude this, but basically you are not putting more 50% up to number of FPSOs when you guide to an upgrading long-term production of 50%. I don't know if you could just provide us a broader outline between the increase in the number of FPSOs you are assuming and the increase you are now assuming in terms of well flow rates going forward? Thank you very much.

Manuel Ferreira De Oliveira

I would prefer Filipe to be conservative in my statement. And, base my answer with data that you are aware of. We have recently communicated to the market that the consortium, both us, BG and Petrobras throughout May the well that is continuously producing without gas restrictions in Cidade Angra dos Reis to produce during May at the rate of 36 kboe/d. I just note that the base for development Lula was assumed an average production per well of 20 kboe/d. So, you can see the difference in expected production. So, now any one of us can set the assumptions. We are modeling what are the implications of these results, trying to think that the, understand the continuity of the reservoirs and we came up with the production profile that supports the targets I referred to you. Detailed numbers of number of wells, numbers of FPSOs we have to evaluate for a review of our business plan.

Nitin Sharma, JPMorgan

Hi, thanks. First question regarding the sale of a minority stake in regulated business. Obviously the prevailing macro conditions are tough, would you be willing to sell at a significant discount to your RAB value? And question number two, probably I'm repeating something that's been asked before, what fields are contributing to the target increase in 2015-2020. Could you give some more color on that front please? Thank you.

Manuel Ferreira De Oliveira

Thank you, Nitin. A straight answer and simple to the natural gas stake that we are taking. We have high value on RAB. We have a reliable operation on our regulated assets. We are not prepared to sell below RAB. We have bids coming in. We'll see how they match our targets and then we'll share our conclusions with you. We are not prepared to sell below RAB. So, the second question, I answered that question. You see the review of our targets include the different exploration assets that we have, but obviously including all the assets in the Santos basin, and we are now including some positive results that we expect from Mozambique and normal growth in Angola that has been shared with you in the capital markets day. So, when we put all that together, we can get to the 300 kbbls/d plus. Thank you, Nitin.

Lydia Rainforth, Barclays Capital

Good afternoon. I was just wondering in terms of the, obviously a lot of information is coming from Iara, when do you expect the declaration of commerciality for that? Can you give us some idea in terms of timing of the ramp up if it is likely to be in 2019, 2018, rather than early parts of that 2016 and 2017 period?

Manuel Ferreira De Oliveira

The Iara declaration of commerciality will be in 2013, by the way we'll have Bem-te-vi in Block BM-S-8 in 2012, Iara in 2013, Caramba in 2015 and Júpiter in 2016. And these are key developments that hopefully contribute to our targets in 2020.

Lydia Rainforth, Barclays Capital

Ok, and then can I just ask on the downstream projects, are you able to give, what contribution you expect from the operation in the 4Q?

Manuel Ferreira De Oliveira

I happened to make the sums yesterday, we compare it to market conditions just yesterday. It is extremely difficult to forecast the evolution of refinery margins, so we better not speculate on it. We can have views, but we better not speculate on it. We at this moment will have an increase refinery margins of about \$3 a barrel plus some additional coming from energy efficiency. So, even into this environment the fundamentals of our upgrade projects are solid, which is a consequence of the negative crack of the fuel oil and the relative attractive crack from diesel.

Oswald Clint, Sanford Bernstein

Thank you very much. Just back on Brazil I think that BG were talking about the convergence of view points across different partners in the consortium, are you saying today that the convergence has been reached in terms of the forward plans that the technical data of the reservoirs, or do you think all three consortium partners are actually at the same point today. Secondly, what are your thoughts on Shell's divestment from BM-S-8? And just a point of clarification, you mentioned that there is water contact in Júpiter, I'm trying to read that on the second well. Can you just confirm that you didn't actually reach that on the first well? Thank you.

Manuel Ferreira De Oliveira

Ok, let's go to the convergence issue. You will see that developing a project is a technical strategy. And all of those converge in trying to maximize the NPV of the future cash flows, associated with the project. So, in that sense, we are all convergent. Obviously, there are certain options that we still be waiting to choose the best technical options.

So, all of us understand that we use the same language about the ultimate potential of the reservoir. And the different views are one of the stances of the consortium, because they contribute to an optimization of the project.

Now, to the Shell's divestment in BM-S-8. We could have preempted the transaction, but we did not do it because of two reasons. Let me use your questions to clarify that. One is because we are in the phase of capital constraint, we did not abdicate of capital discipline in everything that we do, the second is that we were in the process of capital increase. We have all the data on data room, so everything was prepared and we would not want to be buying something that we are in a way selling. So, we thought that it could disturb the ongoing process. We thought and I'm convinced that the new partners in BM-S-8, which are two Brazilian companies that we both respect a lot, did a good business.

As far as Júpiter, the second well is complementary to the first well. We drilled the first well that was a discovery well. We've reentered at a later stage, but we still do not have a clarity of the reservoir about to distribution of CO2 and that's the major issue on that reservoir. How it is distributed along that huge reservoir that is very important for the development of the field. You probably remember that the CO2 in that area is a valuable asset for secondary recovery in the neighboring reservoirs. Thank you.

Anish Kapadia, TPH

Good afternoon. I'm just looking on the Brazil theme, first question is just on the development of Lula, Cernambi, is it still correct to assume the full development of those two fields will be done with nine FPSOs with a typical capacity of 1.1 million barrels of oil per day, or will more FPSOs be needed and is it your expectation that out of the eight new build FPSOs, six will go to Lula, Cernambi and one to lara. And then just secondly going to Petrobras' target for 2020, is judging by a very little increase I targets in existing pre-salt, it appears they didn't have Júpiter in there, I was just wondering how your discussions are going in terms of developing those projects ahead of some of the other potential prospects over the next few years?

Manuel Ferreira De Oliveira

So, the first question on the development of Lula/Cernambi, there was no change from the consortium in the existing development project for Lula/Cernambi. We will have 8 to 9 FPSO's in Lula Cernambi, and for lara in the base case we have one, as you are aware. But obviously, one is not enough for development of the lara, it's just the first one for lara. We will be reviewing and influencing our partners in the consortium to push for the materialization of our views. Now, as fas the number that Petrobras publishes is not up to me to comment on. What we refer to, includes the production, either directly or through tie ins of Cernambi or Bem-te-vi and Cernambi areas, yes. You know that in smaller fields, you do not have necessarily to have a multitude of FPSOs, you can go through tie-ins and bring in the oil from a more distant location to centrally located at FPSO, but these are studies that are going on. We have got time to optimize the studies and to come up with an efficient production infrastructure. Thank you.

Anish Kapadia, TPH

Just to clarify on the eight new build FPSOs, seven of those will be going on to BMS-11?

Manuel Ferreira De Oliveira

The base case is six for BM-S-11 and two for BM-S-9. That's the base case for the eight hulls that are now under construction. But this is not the final infrastructure for the total locations. These are the ones that have been contracted, six plus two. Thank you.

Anish Kapadia, TPH

And for Tupi, you think you can produce the entire reserve base from a maximum of nine FPSOs, you won't need more than that?

Manuel Ferreira De Oliveira

You see, we should because this is a question of maintaining the plateau of production. So once you raise production, basically we will increase the recovery of the reservoir by maintaining the plateau, the peak production. So the best way in engineering terms is maximize the use of infrastructure, extending the peak production of the field. That's what in principle should be done, but obviously that has to be technically evaluated.

Brendan M. Warn, Jefferies

Thank you gentlemen. Outside of Brazil, although there is a question I would like to ask just in Mozambique now that we're close to the drilling, can you give us a bit of detail just in terms of location of your first proposed well and whether you are drilling tertiary and cretaceous? And just secondly have you had any discussions pre-drill with the Government of Mozambique in terms of LNG export or any discussions with other parties about sharing the infrastructure?

Manuel Ferreira De Oliveira

In Mozambique, you are aware Brendan of the discoveries on the neighboring block. We already told during our Capital Markets Day to investors that it is our interpretation that the reservoir extends largely to the block in which we participate. We will be drilling to confirm that. The exact location of the well I'm not yet in a position to share it with you. The relevant information is that we'll be drilling one well, we are moving the rig. It is a rig that is now moving to the location, hopefully, and the second well is planned for this year. We did not enter into negotiations with the Mozambiquean authorities, but I have no doubt whatsoever, that we expected the local authority would like the development of the resources, employment and value and it is obvious that major problem will be a large

liquefaction project there, but that is for the operator to propose which is Eni, as you are aware, and for us to discuss with the operator. We're not yet there. Now let's us drill the first well.

Brendan M. Warn, Jefferies

And can you remind us whether you're testing the cretaceous as well please? Can you remind us if you're drilling further than the tertiary and testing the cretaceous?

Manuel Ferreira De Oliveira

The first well will be targeted to confirm the next section of the existing reservoir to the new area that is, the target is moving. The potential of the reservoir is high so the objective of the well progress that we'll drill as we progress with it. We've managed to secure the availability of the rigs and then we will do it as the well is drilled. Thank you.

Thomas Adolff, Credit Suisse

Good afternoon gentlemen. Just firstly going to the Brazil stake sale. In the assumption you raised, let's say €3 billion from the stake sale, it probably looks like you'd have €1 billion in excess to initial target, how should we be thinking about capital deployment of the excess funds in terms of dividend policy and/or exploration acreage purchases? And the second set of question just to clarify with you given the new production target, what you're basically saying is because you have higher and sustainable flow rates you need fewer wells to reach plateau and therefore you are not really worried about rig availability and you're also not worried about the lack of gas demand longer term being a possible bottleneck for the FPSO development. I remember, the delay to the first gas from the Mexilhão field was probably related to the lack of gas demand and you're also not worried about from an infrastructure angle, where you are actually seeing now a lower gas ratio in the pre-salt? Thank you.

Manuel Ferreira De Oliveira

So your first exercise, our basic principle, and this is not a dogma, is that the resources that we obtain from the capital increase, we do not use it towards sale of assets. The capital increase of Petrobras Brazil, our Brazilian subsidiary will be to support the development of Brazil. That is the base case that we presented to our Board, that is being supported to the Board. So, we are not considering any extraordinary dividend but we need that capital for the strengthening the balance sheet and give us the opportunity of capturing value in our development in Brazil. As far as the targets, what you basically said is right, is mostly higher productivity per well that drives the growth in our project targets. We are not reviewing at this stage in our models the total recoverable resources. We are assuming that the recoverable resources are those that we're aware of. You made the point of in the development that was lack of demand for gas. We will have in the Santos Basin as an option if the local market doesn't absorb the natural gas that it will be a liquefaction facility for export. What we clearly see is that the presence of CO2 in the neighboring field like Júpiter could be of extraordinary value to replace that natural gas for secondary recovery. So, that is,

replacing natural gas, the increasing availability of gas for commercial sense. But these are the issues that have been debated among the different partners of the consortium and we will get hold to the option that creates most value.

Thomas Adolff, Credit Suisse

Ok and can I just ask one more question, just, in view of the recent decision by the ANP in essence rejecting all your thesis that Lula and Cernambi are separate reservoirs. I wonder why the ANP didn't even allow you to prove your point by drilling a well, was it more politically driven?

Manuel Ferreira De Oliveira

What the authority ANP basically said, they took their resolution and we're technically debating the issue obviously. My point is extremely simple and clear, is drilling a well, and everybody will be happy with it. If the well is dry, the ANP is wrong and the two fields are separated for tax purposes. If the well is successful, the ANP is right and we're happy because we increase our reserves, but we have to debate that with ANP which has not yet accepted this theory. It's step by step, ANP is a technically very solid entity that takes their decision on technical terms. It is an ongoing discussion.

Thomas Adolff, Credit Suisse

Thank you very much.