# Capital Markets Day 2018 Transcript

London, February 20, 2018

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

Good morning ladies and gentlemen, and welcome to Galp's 2018 Capital Markets Day and fourth quarter (Q4) results. Today we are going to discuss our strategy and financial outlook and briefly go over 2017 results. As you will see, we will have a lot of interesting things to cover this morning.

You will find the cautionary statement on your presentation, which I advise you to read. And before I start, I must advise you on some safety evacuation procedures. In case of emergency, the alarm will sound and please exit the building. The hotel security team will be in charge and direct guests accordingly. The fire exits are also clearly marked.

Carlos will begin today's session with the strategy update and Filipe will follow with the financial outlook. Thore will close the session with an overview of our upstream operations. At the end, we will have the Q&A, after which I invite you to lunch with our Executive team, the Leadership team, and as well our IR team.

I hope you enjoy the morning that we prepared for you. And before Carlos starts, let's look at a video reflecting how fast the world is changing.

**Carlos Gomes da Silva, CEO**

Good morning ladies and gentlemen, a big welcome to you all. Joining me, I have my colleagues from the Executive team and some of the non-Executive Directors that have also joined us, including our Chairman that is together with us.

As we have seen, looking back will not lead us into the future, but it surely gives us the basis on which we can build our path. We are leaving in an ever-changing world, which dynamics are evolving faster and faster. And the question is that, in such an uncertain world where we are today, one thing is for sure: we continue relentlessly to execute our strategy.

Let me start by highlighting the four key messages about our unique position. You might call it 'Galp in a nutshell', I think it is simple to you. The first one is that we are in a much better than expected financial position and we are entering in what we call a new cash cycle, which will allow us to have more flexibility and more options going forward.

Secondly, we are developing one of the most competitive portfolios worldwide, and we are making it even more resilient.

Thirdly, we have a value and growth story. I have to highlight, a unique value and growth story up to 2020 and beyond. In fact we are already preparing the next growth cycle that will be developed in the next decade.

And last but not least, our ultimate goal will continue to be delivering value, and commitment to shareholders return.

So these are the four key messages that I think give Galp, or grant Galp, a unique position in the global economy and in the industry.

But before looking into the future, let me invest a few minutes in a quick review on our 2017 achievements. The key message here is that we continued to deliver strongly in our strategy.

Starting by the upstream. In the upstream, our production continues to grow, and last year grew about 40%, and we have passed the mark of 100,000 barrels (kboepd), with the first replicant unit already producing in Lula. We have also taken the final investment decision (FID) in the Coral South in Mozambique, which has been the only liquefied natural gas (LNG) project to be sanctioned last year.

We were also able to capture market opportunities by ensuring availability, and at the same time flexibility from our refining system. We also continued to focus on leaner operations and launching new digital initiatives.

At the Group level, cash flow was strongly positive and we have reached around €150 m of positive free cash flow, and this is post-dividends and already considering the acquisition that we have made in Carcará North in Brazil.

And while we are delivering today, we are simultaneously investing to continue with profitable and sustainable growth on the next decade, where Carcará is one of the good examples that we have to show.

Let's now look into the future. And one of the things that we have to ask ourselves is: How will the future look like? Everyone is making projections, forecasting. What we have done is slightly different. Looking forward, there is an ample consensus in relation to several new mega trends.

Let me just highlight a few that I think could collect the common consensus. Energy efficiency will be one of them. Secondly, a more digital economy. Thirdly, we are entering in a context where environmental policies will play an important role.

So for that, we have built four different scenarios based on the assumptions that technological disruption and regulation will be the key drivers for change, and we stress tested our portfolio against these scenarios.

The first one is perhaps closer to today's reality, without major technological disruptions and political consensus on new policies. The two middle scenarios are either dominated by technological disruption or by new regulations.

The greener scenario, as you may call it, that is in the right side, assumes a high level of technological disruption alongside a strong political consensus, both contributing effectively to manage climate change.

So these are the four scenarios on which we are preparing ourselves for the future. And regardless of the scenario, we believe that hydrocarbons will continue to play a vital role in supplying the growing demand of energy, and renewables will continue to gain relevance within the overall energy mix. And most likely, natural gas and renewables may, and I would say should, complement one another as gas will balance the natural intermittency that renewables present.

So it is in this complex, uncertain, and difficult to forecast world, that scenario planning is so important. We are living in days where there is no roadmap for energy transition and there is also no room space for guessing how the future will look like. So, this scenario planning approach is part of our strategic framework and it supports to guarantee that the Company will continue to be resilient under different scenario conditions.

We continue to be anchored in our 3E's approach, and I recall to all of you: Execute, Extract and Explore. As I usually say, the first and foremost is Execute. We focus on safe and efficient operations in order to be competitive and giving high returns.

Secondly, and hand in hand with execution, we are working in extracting. That is to say, unlocking more value from the existing asset base. I have highlighted, and have underlined several times to all of you, that our second best investment that we can do is extracting more value from the existing outstanding asset base.

And explore, our third pillar. Today we have to think about tomorrow, establishing a clear path to deliver sustainable value, thinking about new ways to do business and adapting to an evolving world. In summary, today we are delivering both growth and value, while we are sowing the seeds for the next cycle.

Let's now go over the five key strategic drivers that we are following, starting by the first one, which is to grow a profitable and resilient E&P portfolio.

We have a phenomenal asset base that ranks top first quartile in the industry, and we plan to keep it that way. It defines what one could call Galp's unique DNA. By doing so, we ensure that we are making money even in lower oil price conditions, and in a scenario with a more aggressive switch into a lower carbon economy, we will keep our resilience. The current breakeven of our portfolio stands at around $25 dollars per barrel (bbl). Ladies and gentleman, I underline and I emphasise that. This is not top Tier 1 just because - it's $25/bbl. And this considers, and I ask your attention, not only Lula, Iara, Iracema and Block 32, but it is already with Carcará, the Coral South FLNG and the first two trains in Mamba. I also highlight to you, this doesn't consider any potential upsides whatsoever in any of these assets. So you might look into our portfolio taking that in consideration and see what does that mean, $25/bbl.

In Brazil, we continue to focus on executing our pre-salt projects. We are close to complete our first phase in Lula and Iracema, but there's a lot more to be done. We are already working on enhancing the development of those fields so that we can extract more value and more barrels over time, as Thore will later explain to you.

We have to deliver Iara, and continue to de-risk Carcará, now within an enlarged area considering both BM-S-8 and the North area of Carcará, and to mature the concept and the technological solutions to develop Júpiter, which is another very large resource in our portfolio. And of course, we will continue looking for new opportunities. Having the knowledge, the learnings, and the local experience is of course one of our advantage. But for us, which is another relevant message that I would like that you take, it will be always a matter of value.

Let's now move to Mozambique, another relevant asset and project within Galp's portfolio that will strongly contribute for developing our Company, the growth of our Company in the next decade. Today the LNG market is oversupplied, but it is forecasted that the LNG global demand will grow at about 5% per annum, which will imply that new projects have to be sanctioned to fill this gap in the early '20s. By

2025, the supply gap could be well above 50 million tonnes per annum (mtpa). When I say well above, it means that it could be even closer to 100 mtpa.

Our project in Mozambique fits well into this timeline. Of course we have to run, and we have to run fast, and we have to do it in the right way. The project will also benefit from scalability, namely the onshore development.

Today we are focused on the Coral South development with the first LNG cargo targeted for 2022. And this is a project that is the beginning of Area 4 development. We all know that the largest value lies in Mamba and we are working together with our partners on the development programme to make it one of the most competitive projects worldwide. It is time to progress with this mega development so that we are able to fully capture market opportunities which the market will offer us by the middle of the next decade.

So summing up, we are starting to reap the rewards of our upstream strategy. Production grew close to 40% in 2017 and it will continue to grow over 15% per year until 2020. Moreover, by combining sanctioned and under development projects, our current portfolio is set up to allow production to continue to grow in the long run. And this is embedding only the current recover factor in Lula and Iracema, and not considering any potential upsides, and, for instance, we have those in Carcará and also in Mamba. I am sure that Thore will also go deeper in this point.

Our projects are Tier 1 and rest assured that our top notch partners are as keen as we are to accelerate the de-risking of these assets. Yes, it will require more capex, but it is the good capex to have, aiming higher to reach the returns that we are committed to. Mozambique also helps us to balance our exposure to natural gas. And finally, we will continue to selectively feed our upstream funnel.

Moving now to our second strategic driver, downstream. Here the objective is to optimise, adapt and expand our presence both in oil and in gas businesses.

Starting by refining. In refining, we have been implementing several projects to increase energy efficiency and to improve our conversion capacity. These are relatively marginal investments and we are on track to get the additional \$1/bbl by 2020. So the full year of 2020 is the year that we are aiming to have the contribution of those incremental projects.

Meanwhile, the market will be impacted by the IMO global cap on sulphur. We believe that it will be a disruptive but a transitory period. We are prudently considering measures in this respect. As you all know, even if we don't have full conversion, we do have a feasible solution to address and to comply with the new specs requirements.

Indeed, we have flexibility to maximise our desulphurisation capacity, to blend and to use sweeter crudes. All in all, our downstream business should benefit from the expected increase in refining margins, even if we may not capture the full potential from this upside.

However, I would like also to highlight to all of you that we will benefit in the upstream business as we produce sweet crudes. This is another advantage of being an integrated energy company. So the rebalancing between the two areas is bringing us more resilience for different scenarios.

We also have to explore other value driven opportunities. An example will be the integration into petrochemicals to adjust our production to the market mix trends.

We are developing new ways to interact with clients, becoming more digital, improving customer experience and developing new business models. Just to give you some example, because this sounds too general: addressing mobility as a service, using digital in the relationship with clients, more digital facilities, by using our hotspots as places to do other digital businesses, and meeting points where we can increase and optimise the utilisation and extract more value from those areas [service stations].

Finally, a word to Africa. Africa is also an important market to us. We are present today in five countries and we will continue to selectively expand our operations, taking advantage of the demand growth in this large region.

As for the natural gas activities, performance in the recent past has been impacted by fewer LNG trading opportunities, which is expected to remain. Despite this, we are working in new sourcing opportunities to reshape our supply mix. And we intend that the contribution of this business recovers in the meantime. The market has been moving from long, to short, and to spot with buyers looking for more flexible contracts with different indexes. We are adapting our portfolio to this new demand profile.

On the marketing side, we are committed to increase our market share in Iberia since we are capable to our offer clients a truly integrated offer from fuels to gas and power, and energy efficiency solutions. We are also developing new businesses like LNG in marine transportation and as well heavy duty transportation, which have a significant potential. At the same time, we want to expand our supply and trading activities, exploring new opportunities in emerging markets, namely in Asia and LatAm.

Moving to the third strategic driver, which is to develop a stronger position in low carbon solutions. Today we are already exploring opportunities, particularly in solar power generation, meaning that we anticipate that we will have a few hundred of megawatt capacity in place by the beginning of the next decade. Electrification rates will also increase through decentralised production, which makes us focus on developing the prosumers segment.

Let's now move for the fourth and the fifth strategic drivers, which are crucial to transform the existing business model and reinvent and open new avenues with a growth mindset. We are adapting our DNA, fostering values like innovation and agility in our corporate culture. We are becoming more digital, improving systems and launching platforms to provide enhanced offers to clients.

Just to give you some examples. In upstream, we are conducting over 25 innovation projects related to the pre-salt, of which seven are focused on carbon capture and use. We have partnered with one of the leading tech players worldwide to develop an artificial intelligence system for geo-sciences in order to better appraise reservoirs. This is truly one of its kind.

A word about sustainability. It goes without saying that we will continue executing our strategy, aiming at delivering value in a sustainable manner. We have consistently been recognised by our environmental, safety and corporate governance practices. This is because we conduct safe operations in an eco-efficient way. We have zero fatalities during 2017 and we remain committed with zero accidents as a target.

At the same time, we are working to continue to reduce the carbon intensity of our activities all across our value chain. We are stress testing every new project at a carbon price of $40 per tonne (ton). As I've mentioned before, we want to make sure that our portfolio continues to be resilient under any scenario.

We are subscribers to a number of public initiatives like the United Nations Global Compact. We have just recently subscribed the Task Force for Climate-Related Financial Disclosure initiative. We are also committed to promote a more balanced relation between satisfying energy needs and minimising the carbon intensity of our operations. We are effectively incorporating climate change and risks and opportunities into our strategy implementation.

With all of these, and it has to be our ultimate goal, it is to create value, and is to create value not only today, tomorrow, but always. Today we are in a better position than we have anticipated and we have come this far by pursuing a clear path and a strict financial discipline.

By 2020, we will be generating over €1 billion (bn) of positive cash flow. This is just generated from our current portfolio. Going forward, our Group cash breakeven is expected to be around $25/bbl without considering potential upside that the lower Brent would have in the downstream. That means that being an integrated company, we are just comparing and testing to Brent price. But in that condition, there's more money to come, and more cash to extract from the downstream activities.

Our focus, as I mentioned, is and will continue to be Oil & Gas. But as announced last year, we are gradually developing low carbon and new business solutions. Our priority continues to be reinvesting in high value opportunities.

Nonetheless, considering our cash generation during 2017 and our solid capital structure, we have decided to propose to the upcoming AGM in May a dividend increase of 10%. This corresponds to €0.55 per share (sh). And this will be our new base case going forward. We do believe we might have flexibility to grow dividends in the coming future, but first and foremost we will continue to explore opportunities to redeploy capital driven by value from one side, and financial discipline from the other. And it is never too much to recall that our ultimate goal is to deliver competitive shareholder return.

Well, ladies and gentlemen, to conclude let me summarise why Galp is and will continue to be a unique growth and value story.

First, we have a solid financial position as we start a new cash cycle. Secondly, we are delivering profitable growth. Daily production is expected to reach 150 kboepd in 2020, and by then, we should be generating over €1 bn of free cash flow from our current portfolio.

Moreover, our growth story will not end by 2020. In fact, we are delivering and we are developing now a competitive portfolio and we are also making it even more resilient, while sowing the seeds and adding competitive assets and promoting lower carbon and new business models.

This will lead us to the next growth cycle with Group cash breakeven estimated at around $25/bbl. Certainly, we will continue to pursue a disciplined capex allocation, aiming to have a 15% return on capital employed (ROACE). Our ultimate goal is to create value and deliver a competitive shareholder return.

Our commitment is that Galp will remain faithful to itself, while adapting to a new normal.

Thank you for your attention.

Filipe will now go over the financials. Thank you.

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

Thank you, Carlos. Good morning. Thank you guys for making the time. We'll go over our 2017 results, including highlights from Q4, and then we'll move to the plan. And you will see that the fundamental points have not changed from last year.

Our growth and cash flow plans remained fairly robust and we are, however, clearly in a very different place today than where we were just 2 or 3 years ago. 2017 group Ebitda was up 32% in the year to about €1.9 bn. If you consider the deconsolidation of Galp Gás Natural Distribuição, S.A. (GGND), it was actually up 42% on a like-for-like basis.

Exploration & Production (E&P) full year Ebitda of €913 m was up 85% year-on-year (YoY), and this is on the back of rising production and higher Brent prices. In the quarter, production was over 100 kboepd and with Brent at over $60/bbl, so this brought home more than €300 m of Ebitda in the quarter.

Refining & Marketing (R&M) Ebitda was €785 m in the year, up 36%, and this is on the back of strong operational performance in the refineries, higher refining margins and we also had good and healthy volumes both in Iberia and in Africa.

Gas & Power (G&P), however, was down in the year. Now, the headline reduction of 55% really is 23% down on a like-for-like basis given the deconsolidation of GGND. As flagged before, we had fewer LNG trading opportunities during 2017, and if you recall, we also had gas sourcing constrains in Q1.

Capex was around €1 bn in 2017, at the very low end of our guidance, and this includes the €150 m investment in Carcará North. The acquisition of 3% in Carcará South from Statoil has not been completed, so this would be a 2018 capex number. So it's not in the 2017 capex numbers. Net debt of €1.9 bn leads us to a net debt to Ebitda of exactly 1 times (x).

Now, we are no longer including the loan to Sinopec as cash as part of our net debt to Ebitda calculation, so simply €1.9 bn of net debt, €1.9 bn of Ebitda in 2017. And related to our debt, you'll see in the back of the book we had at year-end €1.3 bn of undrawn credit lines, plus €1.2 bn of cash on the balance sheet.

Now, on free cash flow during 2017, this is the key slide to understand the fundamental competitiveness of our asset base. On the left hand side, you have effectively Ebitda plus associates, and this was almost €2.1 bn in 2017. It's up over 40% from the year before.

Now, if you take out working capital, interest and tax payments and all capex during 2017, we're left with €572 m of free cash flow, which more than covers the dividend.

Now, as you know, we continue to have a very high proportion of our capex geared towards expansion for new projects. So this expansion capex was 75% of our capex last year. We are on build mode and we are building the profile of cash flows that Carlos has alluded to and this will take us well into the 2020s. Now, if for a second you park this expansion capex, you'll see how much our existing asset base is generating today with Brent at $54/bbl.

Brazil free cash flow was positive in 2017 as per our guidance, and this is before considering the Carcará North signing bonus.

So this takes us to our business plan. Now, first on the macro side. We have built a business plan with Brent at $60/bbl this year and next, going up to $65/bbl in 2020. We've also assumed benchmark refining margins falling to $3.5/bbl this year, falling further to $3.2/bbl in '19, before picking at $4.3/bbl in 2020 on the back of expected market disruptions related to IMO. And we've also assumed a dollar to the euro at 1.20 flat throughout the plan.

Now, on this basis, and these are very key drivers for our performance, we're guiding to a Ebitda this year of €1.8 bn to €1.9 bn, with higher production in E&P not sufficient to compensate the lower refining margins and the lower dollar.

This 2018 guidance also includes the planned stoppages in our key units in the refineries. So we had the hydrocracker stopped for maintenance earlier this year. It's now complete. It's back up at 100%. We'll also have the FCC stopped for maintenance later in the year.

Cash flow from operations, i.e., Ebitda plus associates minus taxes, should be €1.4 – 1.5 bn in 2018, and this is down from €1.6 bn last year. Now, going forward, given how important associates and taxes are becoming to our business, we will be using a lot more cash flow from operations (CFFO) as a key metric rather than Ebitda.

Upstream CFFO should grow 30% compound between now and 2020 and this is driven by fairly unchanged production guidance, so 150 kboepd in 2020 on the back of the upcoming FPSOs, which Thore will cover later on.

Downstream CFFO should remain stable at about €800 – 900 m per year. Again, this is net of tax payments. It's not on the same basis as our previous guidance of €1 bn of Ebitda and associates since this is net of tax. Again, €800 – 900 m per year.

Refining should continue to have a good performance given the ongoing investments to capture the additional $1/boe with higher conversion and higher efficiency. For 2018, we have hedged to-date about 25% of our refining volumes at about $3.8/bbl, so this is higher than what we have as an assumption in the plan of $3.5/bbl. And for '19, we have 10% of the volumes hedged at $3.9/bbl, which is also significantly higher than what we have in the plan.

Oil marketing in Iberia and Africa should continue to be resilient cash flow generators and we expect to continue to invest and to gain market share in these businesses. So CFFO from refining and distribution should average about €600 m per year.

In G&P, we do see less LNG trading opportunities going forward and hence our cash flow guidance is now €200 – 250 m. We are, however, quite excited about the medium-term prospects for this business given our commitment to renewable power and the Iberian gas and electricity supply markets.

Now, Group-wise, by 2020 CFFO should be comfortably above €2 bn, and this with upside potential, for example from faster FPSO ramp-ups or higher utilisation rates.

Capex for this year, so 2018, capex guidance is €1.0 – 1.1 bn, two thirds of which to be allocated to upstream. And this is with a big focus on BM-S-11 and Block 32 in Angola.

Now, Carcará also starts to become relevant with exploration and appraisal activities planned for this year, and this is in addition to the payment for Statoil's 3% stake in BM-S-8.

For the next 3 years, capex is expected to average €1 bn per year and this is up from the midpoint of our previous guidance. And why is it up? So in addition to the BM-S-11 and the Angolan FPSOs, we now have the Greater Carcará project with higher appraisal intensity, and we are also assuming additional wells to enhance recovery factors in the pre-salt. So this is good capex.

Now, the plan is also assuming only very small cost optimisations and we are certain that Thore and his team will do much better than that, much better than that.

Now, you see on the right hand side of this slide that Brazil capex is gradually losing its once dominant role. Now, we assume that the large Mamba onshore project in Mozambique will see its FID within the next couple of years. We are assuming that Mamba will be project financed, so this reduces our overall capex commitment in line with what was achieved with Coral FLNG also in Mozambique last year.

As for downstream, capex should average about €200 m per year, with some front-loading in 2018. This is exactly the same message we've given last year. This downstream capex is centered around refining maintenance, higher conversion, higher efficiency. We have the retail network investments and logistics and investments we want to build in this downstream business. We have the renewable energy generation and we have the digital initiatives Carlos alluded to. Clearly some of this capex is still uncommitted at this stage.

Cash generation, and this slide is really combining the last two slides on CFFO minus capex. Here on the right hand side, you see that we're expecting a small negative free cash flow (FCF) number this year. This is post-dividend and this is also in line with our previous guidance.

However, we are now factoring in the higher dividend payments and the payment for the 3% stake in BM-S-8. For '19 and 2020, FCF starts to grow meaningfully, and this is already net of the dividend to the Galp shareholders and it's also net to the dividend payments to Sinopec, which are paid out of our Brazilian subsidiary. This is really what we mean by minorities here on the left hand side.

To conclude, this FCF profile provides Galp with options to redeploy cash into good yield investments and/or to redeploy funds as shareholder distributions. This is not a bad problem to have.

The primary focus, however, is on the good execution of the projects that we already have in our pipeline, and we have quite a few of those. And we have, as you know, a very clear line of sight. We have 10 new units entering production until '22, that's 3 in Lula, 3 in Iara, 2 in Angola, we have Sépia and Coral. And then we would have Carcará, we would have the Mambas, and Júpiter. And last but not least, and very much in our pipeline, we have the enhanced recovery factors.

These are all very large and long life projects and this will keep us busy for many years. Having said this, we would look at additional investments for our businesses and we would consider incremental high value opportunities in Brazil in partnership with our Sinopec partner, and this is not factored in the plan.

We may also consider additional investments in downstream to enhance the resilience of our portfolio with even more conversion and even more integration.

Investments in renewable electricity generation are embedded in the plan and they are part of our low carbon strategy. This should be carried out on an unsubsidised basis and with a business model where the economics work given the risk returns in these businesses.

Irrespective of our future portfolio and shareholder distribution decisions, we will stick always to our commitment of less than 2x net debt to Ebitda.

Now, one last word before I go on the quality of our FCFs. This is the sixth time I stand here, and in this short time frame, we have worked with Brent at over $120/bbl and below $30/bbl. We have worked with very rich refining margins and they have been also negative in this time frame. And the dollar has been close to parity, and only recently at $1.40. It's now $1.25.

For Galp, and you look at the quality and the stability of our cash flow, it has been a very smooth journey. And this is because of our integrated nature. We are deeply integrated vertically. So this is highly valued not just by our shareholders, but also by our creditors.

And I'll stop here. Thore?

**Thore E. Kristiansen, Chief Operating Officer E&P (COO E&P)**

Thank you very much, Filipe. Very much appreciate it and very good to be back here in London again. Today I will mainly focus in my short presentation about how are we further going to develop Galp's E&P portfolio. But first I will do a short flashback to see where were we and what did we achieve in 2017.

The E&P strategy is focused on the three Es, to Execute, Extract and to Explore. On execution, we delivered a production that grew with 38% versus last year and a record financial result. Actually, only 3.5 years ago, we produced something like 30 kboepd. Last year we passed through 100 kboepd and we're now full steaming ahead towards 150 kboepd and beyond, which I actually will spend some time with you later today in this presentation to show you where we can really go.

A very, very important milestone for us last year was the FID on Coral South. The FID on Coral South will open up Mozambique as a new natural gas hub which will for decades provide Galp with significant business development opportunities and it will transform Galp. Galp will become a much more balanced company with a more significant natural gas production.

Another important execution milestone last year was the fact that we got the first replicant in production, the P-66, which started actually on the 17th of May last year.

On extraction, the key deliveries for Galp was that we were able to improve recovery on Lula/Iracema with 1 percentage point (p.p.). Not so much, you might think, but actually 1 p.p. of improved recovery on Lula/Iracema is nothing less than 200 million barrels (mmboe) of increased reserves that you can recover.

And we had a very strong focus on improving on the cost side. The drilling and completion (D&C) cost came in 8% below our plan and the subsea cost came in something like 20% below plan. So trying to look for ways to optimise the operations in our business.

On exploration, the key delivery for us last year was the 20% acquisition of Carcará North, plus 3 p.p. increase in BM-S-8. We think that Carcará and the Greater Carcará area is really a world-class asset and something that will become a new legacy asset for Galp. And we are very, very pleased with the strong partnership that we are enjoying in this asset with Statoil and ExxonMobil.

And our operating capabilities has been further enhanced during 2017 through the operatorships that we have in Namibia and São Tomé.

I think we are holding some very interesting exploration acreage, also justified by the fact that ExxonMobil has chosen to farm-in the PEL 82 in Namibia. In São Tomé, we carried out a successful exploration campaign of no less than 16,000 square kilometers ($km^2$) without any serious incidents, on time and below budget.

And this is really the backbone of Galp's E&P portfolio. We are enjoying an extremely strong asset base, with nothing less than 2.1 bn boe of 2P reserves and 2C resources. Our 3-year reserve replacement ratio came in with 198%, mainly due to the FID on South Coral, due to the reinforced position in Carcará, and increased reserves that we can book in Lula/Iracema and Iara. And you will find the full disclosure of these reserves and resources in the appendix in your book.

This resource base is what leads us to the fact that we can present this to you today. I think this is unique in the industry when it comes to visible growth until 2030. We are saying today that we believe that we can deliver more than 8% annual growth from today and until 2030 based on the assets that we have in the portfolio. I think this is quite unique.

And as you can see, this is high quality assets. This is Lula/Iracema, this is Iara, this is Sépia, this is Carcará, this is Area 4 and this is Júpiter. Only some 30 kboepd by 2030 is expected to be exploration success. I think this quality portfolio with low cost assets is really unique in the business and we see several upsides in this portfolio.

We have not factored into this plan more than 31% recovery in Lula/Iracema. We have based this plan on 5 mtpa LNG trains in Mozambique and we believe there could be upside. And we have based this plan on 2 bn bbl of oil to be recovered in Carcará, and we think there is upside. So in sum, I think this is a quite unique growth basis with an upside potential.

For 2018, we are promising to grow our production between 15% and 20% versus what we did in '17. P-66 in Lula South is continually ramping up and we are hoping that it can reach plateau by this summer. Also, this year we are expecting Lula North and Lula Extreme South to start up, and in the second half of 2018, we will have our first production vessel in Block 32, the Kaombo North FPSO to start production. And maintenance levels will be more or less the same as it were last year, reducing production with around 4 kboepd on an annualised basis.

A few words about the key assets. Lula/Iracema is very much on track. We have now seven units producing and we have close to 1 million barrels (mmbbl) of installed capacity, and this is only seven years after first oil. I think it's very fair to compliment Petrobras for having done a really outstanding job on bringing this field onstream and with such a high level of production already only after seven years. And as I said, the first replicant came into production last year. And for 2018, we expect two more replicants to come into production.

In Lula/Iracema, we continue to look for ways to optimise production and we continue to benefit from the fact that we can use the learning curve in order to make things continuously more efficient and to optimise both the reservoir management and the production plants. But we are getting closer to the end of the first phase of investment and we are now starting to think ahead. So what are then going to be the next phases of this giant resource?

As I said, we have only booked 31% of the reserves in place as we are only booking when there are really firm plans behind how we are going to maximise and increase recovery. And we believe there are significant opportunities for more. In Galp, we continue to find ways for how we can further improve the recovery in Lula/Iracema and we believe that there is an opportunity, and we maintain our goal and ambition of recovering at least 40% of the oil in place in Lula/Iracema.

We are therefore continuously studying ways to improve recovery, that being with infill drilling, that being with water alternating gas injection, that being with extensive usage of 4D seismic, with subsea separation and compression, just to mention a few techniques that are being studied in order to improve the performance of this field.

And as you have seen over time, we have been gradually improving the recovery of Lula/Iracema and this will be something that will go on for many, many years to come. The next important addition for Galp when it comes to pre-salt will be the Iara project, which is another really sizable project and where we expect first oil from Berbigão, and which will have a tie-in from Sururu, to happen in 2019. Currently, we are in the middle of the drilling campaign and we have drilled 10 wells out of approximately 50 wells in total that will have to be drilled in Iara. So we will be ramping up the drilling campaign during the course of '18 and '19.

We have also started an extended well test (EWT) in Sururu earlier this month, which will be very important to de-risk and to understand better what is the optimal development concept in the drainage plan for Sururu.

And regarding the unitisation process, we have actually concluded with the partners the tract participation for Berbigão and for Sururu, and we're now working on Atapu. These unitisation effects are included in our forecasted production, but I ask for your understanding that I cannot be more precise on that today, before we have obtained the final conclusion from the Brazilian government when it comes to what is going to be the final tract participation rates.

Carcará, as I said, I think can be another legacy asset in Galp's portfolio. This is a world giant by any standard and it actually underlines that Galp, and why we did reinforce our position, is that this is a reinforcement in core assets with really high quality resources. There's light oil under high pressure, so we believe that the produceability will be very high and that the recovery factors also will be high, and it will make the overall development cost quite competitive with a breakeven below $40/bbl. And we believe that at least 2 bn bbl can be recovered from the Greater Carcará area. And the partnership with Statoil, Exxon and Galp believe that first oil can be due by 2023 and 2024.

At this stage, we are in the midst of an appraisal campaign. Actually, we started three days ago with a DST in Carcará Northwest. This is going to be important to understand more of the Carcará reservoir and how it is performing. After that DST is performed, we will go and drill an exploration well in Guanxuma, which is also in BM-S-8, but which is an exploration asset today. And thereafter, we will well in Carcará North, all within 2018 with the current plans.

Next step in pre-salt will be BM-S-24 and first there will be Sépia East, which actually extends into the Transfer of Rights area (ToR) of Sépia. There's a unitisation process ongoing, which we expect will conclude during the course of this year as it's only between Galp and Petrobras that this unitisation process is belonging. And during 2017, you might have seen that Petrobras has given Modec the first FPSO, an FPSO of 180 kbpd and where first oil is expected in 2021.

And then there's Júpiter, which is a giant both oil, gas and condensate discovery, and we're working very hard together with Petrobras in order to find the optimal technical solution for this field. And there's a lot about finding ways to handle the high $CO_2$ content. And we are today benefiting from the fact that we’re also taking learnings from the Libra field in order to apply that on Júpiter. We have an extensive R&D program in order to find solutions for Júpiter, and we are planning to build an onshore pilot plant in 2018 in order to also start to test these technical solutions. And the first look of this looks quite exciting. In our plans, we have not factored in any contribution from Júpiter before the mids of the 2020s, but eventually this will be another giant in our portfolio.

Then Mozambique. Mozambique with 85 trillion cubic feet (tcf) of natural gas just in Area 4 will become a natural gas hub in the world. And this is high quality gas. The gas has a low nitrogen content. There's virtually no $H_2S$, which will have a very positive impact in the processing cost. The first step, as you will know, was the fact that we took FID on Coral South in June last year. This will enable a speedy first gas to Mozambique and it has really opened the basin. All the necessary legislations and conditions have been put in place due to the fact that this project came forward. This project is currently progressing according to plan. But it's very early stages, so it is too early to make any sort of specific judgment on where we're heading. Right now focusing on engineering and procurement and building the teams that are needed in order to develop this project. Also, actually benefiting from the fact that we have done significant pre-FID engineering, procurement, construction, installation and commissioning (EPCIC) work.

Mamba is really then the jewel in the crown, a world class resource. And next two years will be very important for this. The plan is to deliver both the Plan of Development (PoD) and an FID within the next two years. And now the partners are working very hard in order to optimise this product, find even better solutions offshore and better solutions onshore.

And Exxon is fully onboard on this project now, and they will have the responsibility for the onshore part of this project. In Galp, we expect that they will bring with them significant learnings from Qatar, where they very successfully have been able to develop low cost to supply LNG through using mega-trains and novel technology. And Mozambique have, as I said, also some advantages versus Qatar. It has had the advantage because there's low nitrogen content. It has the advantage that it has virtually no $H_2S$. Even actually the detected ambient temperature is lower in Mozambique than in Qatar is an advantage, because we can avoid using seawater cooling and actually the compressors are also then working more efficiently in Mozambique than they will do in Qatar.

And we enjoy a very strong partnership with ExxonMobil, with Eni, with CNPC, with Kogas, with ENH and with Galp, all very committed to maximise these reserves. And I think actually we have an unparalleled combined LNG experience within this partnership. We, in Galp, believe that this can become a very competitive project developed in the right way.

In Angola, our key focus right now is to get the first FPSO onstream in Block 32. Kaombo North is supposed to get in production in the second half of this year, and then in 2019 Kaombo South will come into production. And we think these two units will more than offset the natural decline that we have in Block 14 and 14k. In Block 14, our work is now looking into if it is possible to extend the field life through an infill drilling campaign, which we most likely will take a decision during the course of this year.

Galp is continuously screening for new business opportunities within the Atlantic margin; that is our strategic focus area. And within the Atlantic margin, Brazil is a key area and pre-salt is something that we particularly like. It is top tier generally and is still very early in its exploitation. And we believe we have some natural synergies and advantages having been there from the first day.

The Brazilian government has also implemented some positive changes during the course of this year. They have removed the obligation for Petrobras to be the operator, they have improved local content requirements and they have also created clarity in the fiscal framework, all positively and, in our mind, making investments in Brazil even more attractive. And it's therefore natural for Galp to analyse all E&P opportunities that come across in Brazil.

But we also do so in the totality of the Atlantic margin. Last year we screened deeply more than 60 projects in the Atlantic margin, but we decided to go only for two, Carcará North and 3 p.p. extra in BM-S-8, because we always have value, and value for our shareholders as the key determining factor for our decision making.

So to sum this up, I believe Galp's E&P portfolio offers unparalleled profitable growth opportunities from top tier assets, with an unusual level of visibility all the way to 2030. For 2018, our key deliveries will be: on execution is to deliver 15% – 20% growth, it will be to start up three new FPSOs and it will be to progress the execution of Coral South. On extraction, our focus is to further mature the Mamba concept definition, it is to de-risk Carcará, and it is to further improve recovery on Lula/Iracema. And on exploration, our focus will be to continue to screen for value creating opportunities for the E&P portfolio within the Atlantic margin and to further develop a mature or operated positions in São Tomé and Namibia. Thank you for your attention.

**Questions & Answers**

**Alwyn Thomas, Exane**

Just a couple of questions on production. Firstly, 2018 outlook. Can you just perhaps explain what do we take to get to either the lower end of the range or the upper end of the range for the guidance you provided?

And perhaps it looks like there has been a couple of little slips there in terms of some of the FPSOs, in terms of the online and ramp-up. Can you perhaps give us an overview of the progress on each of those FPSOs?

And then perhaps on a longer term to 2020, I appreciate you can't give a huge amount of detail on the unitisation agreements, but do you think it's prudent to be cautious on areas like Iara, particularly Atapu, in terms of the equity volume that we should assume from that reservoir?

**Thore E. Kristiansen, COO E&P**

The forecast that we have given you for 2018 between 15% and 20% means that it's somewhere between 107 – 112 kboepd on average for 2018. That is according to what we have had in our plan, in our expectations. So I don't really have any further comments to that than this is within our plans and our expectations.

Going forward to 2020, I think you have seen something that is relevant, and that is the fact that for Iara, which consists of Berbigão, Sururu and Atapu, there is of course unitisation process that will be done. Sururu is, for all practical purpose, the majority of the asset is within BM-S-11, while Berbigão has actually quite a bit of a part that is outside that needs them to be unitised, and in Atapu is even more. As I said in my speech, I will refrain today to be specific on what one can expect because we have to wait for both the conclusion from the Brazilian government, and in the case of Atapu also the discussions that we have with the partners. But, yes, we have tried to anticipate what we think is the likely outcomes, and therefore also incorporated that in our production plans in order not to guide you in the wrong direction.

**Robert Pulleyn, Morgan Stanley**

If I could just refer to Slide 22, where you showed the operating cash flow growth, and for 2018 versus 2017, it looks like there's almost no upstream operating cash flow growth despite the production growth you just alluded to. I appreciate euro/dollar has changed, but so has the oil price. There will be a tax impact. But could you maybe just talk a little bit around why there isn't more of an uplift in operating cash flow from upstream in 2018? And then secondly, if we could just ask a bit of a housekeeping question given the importance of tax, could you give us a bit of a steer to tax rates per segment going forward please?

**Filipe Silva, CFO**

We're guiding on cash flow from operations as you rightly say, this is now net of tax. Tax rates in Brazil are going up. The SPT tax is closer to 40% given the size of Lula and Iracema. By business, we're taxed at about 28% in downstream; it depends on the geographies. Longer term for the plan, you will see a continuing difference between cash tax on the cash flow statement and the P&L. So the P&L is moving to 50%, and should stay at around 50% throughout the plan. Whilst on a cash basis, you're much closer to 40%, going up very gradually to 50% longer term.

**Joshua Stone, Barclays**

I've got 2 questions please. First is on the capex guidance of €1 bn over the longer term, or the medium term. Can you just expand a little bit why that's the right number, why you feel that's the right number? You alluded to some conservatism over potential efficiency gains in the upstream. If you were to realise those, what would you do with that excess cash? Would you reinvest it or would that come back elsewhere?

And then secondly, just back on the dividend increase announced, or proposal announced this morning of 10%. Why the 10%? And if I look at your FCF for next year post-dividends, it appears to be coming down. So could you talk a little bit behind the decision to increase dividends during that period?

**Carlos Gomes da Silva, CEO**

So in terms of the reinvestment, and it has been alluded during the presentation, effectively we also consider that we will be very selective in the way we will approach the capex allocation with having this 15% of target in terms of ROACE. So as far as we move forward, we will continue to explore new opportunities, to bring new assets and to bring new projects to the company in order to continue our growth story. So what you can count is that we will be completely selective and rigorous in the way we will do the capital allocation.

In what respects dividends, there's always the two approaches: the ones that will prefer that we continue to reinvest, and the ones that are waiting for some increase in dividends. Based on both, the best environment/macro conditions that we have experienced last year, and at the same time the better performance that we take, achieving our breakeven ahead of what we have target, we put ourselves in a position that we were almost obliged to share part of the gains with our shareholders. Nevertheless, we should keep in mind that we had last year a total shareholders return (TSR) of about 25%. So this is not a minor detail. Nevertheless, we have also had this room space to accommodate around €150 m that we have invested in Carcará North, which is absolutely amazing.

And I will take also the chance to elaborate a little bit, if you allow me, in what relates to capex allocation for 2019. This year we have two major planned maintenances/stoppage both in Sines and also in Matosinhos refinery. The first one has been already been done. It was the planned maintenance in the hydrocracker, that, by the way, we have considered 40 days, and we have concluded it in 30 days. It was less than planned. And we will have in the fourth Q a stoppage in the FCC. So this year, we have, let's say, between €60 - 70 m that are related with one-off maintenance activities.

As Filipe has also alluded to, we have also to pay our 3% increased exposure to BM-S-8, which means that this year we will spend an additional €59 - 60 m on that initiative. So that gives you, or all of us, a sensitivity of where we are in terms of capex allocation.

Thore has mentioned about our efficiency in terms of our costs of D&C and how we are integrating that. So effectively we are getting more initiatives. This year we will accelerate the de-risking of Carcará, the entire area of Carcará, which is good.

So when we speak about capex, and when you are looking into Galp, I ask you all that you take into consideration that the discipline that we use to allocate capex is always based in our medium/long-term return on capital employed of 15%. So this is a high level summary that tries to address not only, Joshua, your questions, but also some question marks that can arise from the capex that we have presented to you for 2018. For 2019 onwards, we think that we will continue at around €1 bn. But over time, and once we are entering in a new cash cycle, and we are well prepared with a robust financial position to develop the new growth cycle of this company, we will be in conditions to increase our capex. And that is good news, because, if that happens, it's because we will be capable to find and to integrate additional projects that are targeting the levels of returns that we aim to have. This is good news, I emphasise. If we will not be capable to do that, we have to distribute dividends, which is at the end of the day, so bottom line, a justification that we have not been able to allocate capex, or to redeploy capex to high and profitable return capex.

**Biraj Borkhataria, RBC**

Two questions: one on the upstream, one on the downstream. Going back to the production, with the first replicant FPSO starting last year, I believe there was some delay between actually getting on site to starting up. Could you talk about what you're doing, or what you're planning to do, to mitigate some of the risk with the upcoming start-ups in 2018?

And then second question is on the downstream. With the Q1 maintenance now done, could you talk about whether there was any kind of impact on your ability to capture premium above the refining benchmark and the same question on your views into Q4?

**Carlos Gomes da Silva, CEO**

So I will address the second one and Thore will go over the replicants issue.

So in the downstream, refining planned maintenance is, in a regular basis, a request to guarantee that we continue to have an efficient and capable operations. So this year, at the same time that we are doing that maintenance, we are preparing at the same time our incremental projects for the $1/boe additional that we will have by 2020. In 2017, our premium over benchmark was already captured by around $0.20/boe in our refining margin increase, so it makes part of our $1/boe. So you can consider that 20% has already been reached. Going forward, we are prepared for the remaining part of the year to capture the conversion refining margins that the market might offer. We have used a hedging strategy for 2018 that allows us to have around 30 mmbbl hedged at $3.8/bbl, even if in our business case we have considered, as Filipe has allude to, $3.5/bbl. So we have at least in 25 - 30% of our throughput an upside that you should also consider. So all in all, refining is today prepared to capture what might be the opportunities that the market will offer and we have anticipated these outages in order to guarantee that during the gasoline season and also for the middle distillates increasing in the cracks, we'll be prepared to capture what the market is to offer. So this is basically how we have prepared ourselves.

**Thore E. Kristiansen, COO E&P**

And then when it comes to learnings with respect to the start-up of the replicants, very correct. Your comment was that the first replicant, P-66, that started off was somewhat delayed. It actually was due to the process of getting the approvals from the Brazilian authorities were delayed.

They are very cumbersome sometimes. It's quite thorough and very demanding on fulfilling all their expectations before you get the licenses. So what has been tried to do now with the coming one is then to piggyback on those learnings, making sure that the interaction with the relevant authorities are more upfront. And I think that is being planned, seems to be planned in a quite a good way. But I think it's also fair to remind everybody about what Petrobras, in particular, but with the support of the partners have done in this respect, and I would really say to save the replicants has been remarkable, really remarkable. Remember these were units that were supposed to be built in Brazil. Due to the fact that several of the shipyards in Brazil were not able to deliver what they did, very severe mitigating action needed to be taken place and making sure that these units were built then in other places. And when you look at the overall picture, this is outstanding what has been done. The costs are kept within the framework. I think on average each of these FPSO are going to come out around €1.7 bn a piece. And compare that with anywhere in the world, this is very competitive, even though these extraordinary measures have been. So, yes there might be one or the other months missing, but when you look at the totality of the picture, I think the history when it looks back will say this is going to be outstanding really.

**Thomas Adolff, Credit Suisse**

The first question is on extract more. And on Lula, you now talk about a recovery factor of 31% and you talk about the plateau duration on average of 4 years. And on Slide 29-30, you show us a nice production profile to 2030. Without assuming an improvement in the recovery factor from 31%, I wonder whether you can actually better manage the production profile on Lula in the year 2020s. For example, I'm sure there is enough recoverable resources to do tiebacks even at 31%. Maybe if you can talk about that?

Secondly, you looked at the opportunity set in the 2020s and you talked about the Greater Iara complex. Certainly, there are some uncertainties around unitisation, etc. But it is a giant field and there's nothing called Phase 2 on the Greater Iara complex, and I wonder why you haven't included Phase 2 in the pre-FID hopper.

And maybe if can, a very quick one on Guanxuma, how big is that prospect?

**Thore E. Kristiansen, COO E&P**

No, I think, Thomas, what you see here reflected is that we in Galp, when we're presenting plans like this for you, we like to present them with substance, quality and something that we feel that we really can deliver. But I think you also heard that I said that in Galp we have an ambition of getting at least 40% recovery on Lula/Iracema, but we do not dare to factor it into our plans before we have concrete, identified projects that will then also deliver on it. And this is the way we work.

We have had really good collaboration with both Shell and Petrobras during the course of 2017, now identified very specific steps on what we need to do on, for instance, infill drilling. And the first infill well has now been done in Iracema. And so we will work. And so, yes, do I think there is upsides in the numbers we showed you? Yes, but I will not dare to factor it in before I have the plan in my hand. And tiebacks will be one of the issues that will be evaluated.

Now, the whole thinking here is that: How can we extend the plateau times? We know that on Angra dos Reis, we're able to keep it on plateau for seven years. We have set an average, now it's four years for the portfolio. But we continue to work and try to push and find ways of how we can keep more units for longer on plateau. But what we have for now is what I showed you.

When it comes to Iara, there is absolutely also upside in Iara, and one of the biggest upside there is really in Sururu and Sururu Main, where there's a giant accumulation of oil in place, but where the reservoir is quite tight. And that is why the extended well test that we're doing now and a planned extended well test in Sururu Main that is planned for 2019 is going to be so important, so that we understand more of the reservoir dynamics in that field. But also here, we have not dared to factor that in before we have concrete plans.

On Guanxuma, I will refrain from speculating in any volumes at this stage, just saying that the structure looks nice. I know the operator has a POS of 50% on Guanxuma. And then we shall see what the outcome will be. It will be a very interesting spring. This DST where we are right now will last for 38 to 40 days. And then the next step will go and reevaluate Guanxuma.

**Jon Rigby, UBS**

So two related questions I guess. The first is that it occurs to me although you plot out a very attractive evolution of growth, a lot of it is not specifically in you as a management's teams control. It's out with your control. You can have some input into it, but it's largely with other operators. So maybe given this is as strategy event, could you probably identify the one or two or three things over the next two years that you as a management team materially can deliver that will see this strategy evolving?

And then second I guess related to that, unless I'm inferring something, it seems to me you're dropping some fairly significant hints that over the next two to three years there's likely to be a fairly large inorganic deal assessed at the very least or maybe even indulged in. So is that right or am I inferring too much from the things that you said?

**Carlos Gomes da Silva, CEO**

So it's a good question. I will start by addressing the fact that we have to continue to execute our outstanding projects. This is our first priority. By doing so, we have to have the chance to de-risk the existing assets and namely to go deeper, as Thore has mentioned, in Iara fields to increase our ability to extract more barrels and to push forward the enhancing process of extracting more barrels from Lula and Iracema; to go ahead and to pursue with Carcará, so accelerating Carcará de-risking is something that is also important; we have also to bear in mind that the new Mamba approach will lie Mozambique in a position that is a huge challenge for Galp, but at the same time with an extraordinary value increasing capture. Depending on the strategy, on the development concept strategy that should be approached, Mozambique could be a completely different reality. So what we have in our plans, I underline this, is two trains of 5 mtpa for the first phase, and we are now working internally in the consortium in order to address if it is the case or if we can go beyond. And these could change in an important way the way we approach Mozambique.

From what relates to inorganic projects, everyone knows that 2018 will be a crucial year, and as well 2019, in what respects to Brazil. Brazil will experience two bid rounds. The first one this March, which is the 15th bid round. The 4th PSC will take place this June. We still don't know exactly, but the excess of the Transfer of Rights might also be offered in the first half of this year. So in Brazil, there will be plenty of opportunities for inorganic growing. But again, and I am sorry for repeating myself, we will be there because we have the knowledge, the experience, the local culture and the partnerships of high quality starting by Petrobras, which is an outstanding partner and a unique operator. But it will always be value driven capex decisions.

But answering to your questions, yes, from the inorganic point of view, this is one of the regions that could bring us some news as it was the case of Carcará last year, both North of Carcará and the increase in BM-S-8. So we are not desperate or anxious on getting more projects to our Company. We have an outstanding set of assets with the room to increase and to extract more value from them and we have to be focused on that. So it is more important to us to get more barrels, to get more value from the existing portfolio, rather than to be exposing ourselves to inorganic projects. But we have to combine both and we will do it.

**Michele Della Vigna, Goldman Sachs**

I wanted to ask you two questions if I may. The first one is on your renewable power generation strategy. I understand it's early days, but where do you think you've got the biggest competitive advantage and where do you see the most interesting investment opportunities?

And then secondly, I was wondering if you could give us a bit more detail on the actions that you are taking to address the IMO 2020 regulation and what kind of investments they involve.

**Carlos Gomes da Silva, CEO**

So in what respects to renewables, we are in an early stage. We intend to start by Iberia, which for sun exposure is one of the best places around the world. Technology is evolving very, very fast. We have to consider that we are already selling electricity to our clients, domestic and as well industrial, but we have a very small power generation. Moving to the renewables front, we will be in a much better position to be integrated in a gas to power business and in a power generation basis, where we have the same client base to be supplied. This is very early stage, as I mentioned to you. We are screening alternatives and we think that we might have some hundreds of megawatt of capacity by the beginning of the next decade. Meanwhile, we will be prudently developing the part of the low carbon energy solutions.

In what respects to IMO, IMO is a recent surprise to the market. The industry was expecting that this would only happen by 2025, and yet it has been anticipated. When we look to the trends, no one is capable to bet which will be the prevailing technology or solution going forward. We have considered that this is a disruptive period, but in any way should be also transitory, which means not having enough conversion capacity in the refining system. Secondly, there are no desulphurisation capacity also in the system. We can also try to test and see that it's not feasible to install either scrubbers in the vessels or to convert the vessel fleets into LNG fleets. Therefore, it will take time.

So the alternatives are clear. It will be a combination, but it has to be the industry to answer. And the industry will answer with the three initiatives that I have referred in my presentation. First, we have to maximise the desulphurization capacity. Secondly, we have to use some blending with distillates, namely with diesel. And thirdly, we have to use more sweet crudes to process in our refining system. During these disruptive period, we do think, and I think there's some consensus in the market, that the refining margins will increase. What is important for you to retain is that Galp has a feasible solution to address this challenge by combining desulphurization capacity maximisation and conversion capacity, by using some blending and by processing sweeter crudes. We will capture partially the increase of those margins and we are prudently analysing which might be the alternatives, including exposing to more conversion in our refining system.

But there's one point that I have to put some figures because bottom line if we don't put figures in our life, there's no colour on that. What we have been observing in the last couple of months is that our Brazilian crudes are starting to benefit of an increase in their market value. If you look into the differential between Brent and our Brazilian crudes that in average used to rank between $5/bbl and

$4/bbl at a discount, 2017 we have already sold cargoes below $1/bbl discount versus Brent. The last cargoes that we have sold in 4Q17, we have been above Brent, with a premium. So over time, we consider that the market will offer for the sweeter crudes an incremental differential that could stand between $4/bbl and $10/bbl to $12/bbl per barrel. That's where we think that, combining both upstream and downstream contributions, will take a positive result from this IMO context. I am sure that in the next year we will be prudently approached for the industrial strategy and coming to you to say how we will move forward in the next phase.

**Marc Kofler, Jefferies**

I just had an upstream and a downstream question, please. On the upstream and the medium-term and long-term guidance that you're giving us today, I was just wanting to double-check that those targets are organic and that there's no acquisitions or inorganic from earlier changes. And then maybe also just perhaps a confirmation that you are not assuming anything there in terms of divestments.

And then on the downstream, Carlos, you talked about exploring integration with petrochemicals. Can you just say a bit more about that please?

**Carlos Gomes da Silva, CEO**

So clarifying your first question, it's all organic. So no divestments, all organic, end of speech.

Second part, petrochemicals. Over time, market demand in what respects to gasoline will tend to decrease in Europe. We continue to have, and I have to highlight to all of you that we are still in a well position to address the United States and Canadian markets in what relates to gasoline. But that might end one of these days. And therefore, looking to the market trends without no anxiety or any stress, we are observing and we are studying alternatives to produce higher feedstock for petrochemicals purposes. That means that we can, going forward, allocate part of our gasoline for other petrochemical purposes. So this is just an example that we are analysing in order to see how we can combine and we can have a more resilient downstream activity.

**Oswald Clint, Bernstein**

Carlos, maybe a question on the marketing initiative. You do have a bit of an edge in Africa. You speak about it this morning. I guess there's no numbers in your plan, but some of your peers are talking about marketing expanding quite quickly. Why can't that be faster for Galp to add some extra Ebit from marketing initiatives in Africa pre-2020?

And then secondly, I guess I was struck by the breakeven price on Mamba. You're saying it's in the sub-$25/bbl bucket in quartile one. I just want to know, is that based on hard conversations with contractors on the capex/ton, is that based on appetite for this gas for contracts and pricing? Or, is it almost a bit of a scenario at this point or is there some real data kind of behind that $25/bbl number?

**Carlos Gomes da Silva, CEO**

Africa effectively is one of the regions that are offering outstanding increasing demand. There are other challenges for those that are operating in Africa. You might know how difficult sometimes it is to work there.

Nevertheless, we do think that, in the countries where we are exposed to, we are observing interesting increasing rates of demand. 2017 has been the case. For instance, in Angola, we have relevantly increased our operations and we will continue do that either in Angola and as well in Mozambique and in the hinterlands. We have effectively, in our capex, that was so referred to today, we have the reinforcement of our logistic capacity in Mozambique to supply the entire hinterland around Mozambique countries, which are four or five alternatives to fast growing in that region. So effectively, we don't need to put too much capex to allocate to these activities. But there is some capex that we are taking and we are allocating to it.

In what relates to Mamba, Thore, if you would like to do that?

**Thore E. Kristiansen, COO E&P**

Yes, I can address that. The number that we gave you with respect to, that is a breakeven below $25/bbl is for the Galp portfolio, including the two first trains in Mamba. We are not saying explicitly that is for Mamba. It is for the portfolio that we have of sanctioned and identified projects to be sanctioned, including Mamba and the two first trains. And we will not break it down at this stage on a project by project basis. It's early days for Mamba, but we have some quite interesting indications on where this is heading and that's why we felt we had sufficient data to include it in our portfolio. If you ask me, I actually think that we continue to have further opportunities to improve on Mamba versus what we have in the plan. Remember I said in my speech that we are including 5 mtpa trains for Mamba at this stage. Let's see whether that can be improved.

**Hamish Clegg, Bank of America Merrill Lynch**

Two questions; first, I guess probably to Filipe. On slide 22, I wondered if you could help me understand particularly the sort of steps that take you from 2017 to 2018 cash flow from operations. Noting all of your sensitivities, it seems that you've got a very, very small change in cash flow from ops YoY, despite a 15% to 20% volume growth and oil up nearly 10%. The deltas seem somewhat more positively skewed. The only reason I can see is maybe currency, but I don't think that's enough to offset that. So that's the first question, just explaining how we get from '17 to '18.

And my second question just on the downstream capex. You've talked about preparation for IMO, which we fully understand. We see in slide 23 your capex nearly doubles, versus the previous three years, and we also see your benchmark margin in 2020 is somewhat higher. As a company, you always make a premium above that benchmark margin that you talk about. Could you tell us how we should expect that premium to evolve between now and 2020, after your significant spend on your downstream?

**Filipe Silva, CFO**

If you look at the pre-capex numbers, so cash flow from operations, it is highly sensitive to the Dollar. Now, we are a Dollarized company and we are reporting those numbers in Euros. So, a 10% change in the Dollar has significant impact in our cash flow from operations. That is one. We're also now subject to higher taxation, so these are cash taxes, it goes up YoY. We have lower refining margins. Now, it was $4.2/bbl in '17. We're assuming $3.5/bbl. And we have the shutdowns in the refineries. So it's just a function of that, nothing else. So, comparing '17 and '18.

**Hamish Clegg, Bank of America Merrill Lynch**

And the capex in downstream?

**Filipe Silva, CFO**

Capex in downstream. So we are full heads on the extra $1/boe initiative. So this should be an extra full extra Dollar in conversion by 2020. So, capex is being built in. And we have the shutdowns of the refineries. Now, we capitalised that cost, so that's also a one-off 2018 number. Carlos alluded to a number of initiatives that we have, digitalisation. You just heard about logistics in Africa. So we're building – you cannot run a competitive business in Africa without having control on logistics. So we're expanding that and this weights in our numbers for this year.

**Carlos Gomes da Silva, CEO**

Can I complement, just to be clear in your question? The $/boe that is coming from the projects that we are implementing today, and that should be fully here in 2020, will allow us to have an increase in our refining margin premium. So, this is over benchmark of about $1/boe. So as I referred to you, in 2017 we have already captured 20% of that. So $0.20/boe have already been captured. The range for our premium over benchmark now stands between $1.2/boe and $1.7/boe. So when you look at Galp and you consider both the existing range in terms of premium over benchmark and the additional $1/boe, you have to consider both effects. But there's one point that I would like to highlight to all of you. If, and I underline, if the IMO sulphur cap will trigger a disruptive situation in the market, we no longer have a reference in terms of benchmark comparable from 2019/20 onwards. So it will be a challenge for all of us to be capable to compare both, because we can suddenly see the refining margins rising very fast and we cannot see where is the benchmark comparable because there's this disruptive period of time in the market. But even if it will be the case, we are not taking that into consideration in our business plan and we prefer to approach prudently, and as some of you use to say, in a conservative way, because over time we will have more visibility. What is important for today is that we will be focused on the conversion and the additional margin initiatives that we have presented and announced to you last year.

**Matthew Lofting, JP Morgan**

Two questions if I could. First just coming back to capex. You talked about, and bridged some of the moving parts on 2018. And specifically, when you think more about 2019 and 2020 capex and compare, perhaps, against the midpoint of the previous guidance range you gave 12 months ago, can you sort of quantify and breakdown how much of the uplift is related to taking a more proactive view around Carcará, both in terms of activity levels and the increased stake versus a more offensive view on capex from the rest of the portfolio. And then secondly, the extent to which that's linked to the oil price assumption deck that you're assuming and how much downside there could be to capex guidance in the scenario that oil prices move lower?

And then second, if I could just ask on cash return, accepting the points around the sort of the higher dividend for 2017. When you think again about the medium term best in cash breakevens or moving down to $25 a barrel, what are the triggers for Galp to start to convert that falling cash breakeven and strong balance sheet position into a more progressive approach to medium term cash return aligned with the free cash flow growth?

**Carlos Gomes da Silva, CEO**

Would you like to go, Filipe?

**Filipe Silva, CFO**

Again, on capex, I think you've heard Carlos loud and clear, we have a very ambitious return on capital employed. Every project we invest in is very high return for our shareholders. Almost all the capex that we have in the plan is bolt-on capex. It extracts more from what we already have. So, the marginal capex that we have is small relative to what we're going to get in return. So that is the key message, 15% return on capital employed. And whenever you take decisions, you look at what's the IRR our shareholders are going to get from this additional capex.

Now, we can then tweak: Is it going to be a bit more refining, a bit more logistics park in Mozambique? Then we will take those decisions as they come. What we have done today is give you an indication of what we know, we are giving you enough data points. And one of the key data points you alluded to is Carcará.

In Carcará, there's not only a payment which is built into our capex numbers, there's a payment. And because you also have a higher percentage in there, so we have more capex. So our percentage of the overall capex of the project goes up. And it also just so happens that the project might be launching earlier than we were expecting before. So these are all very good reasons to have higher capex.

On breakevens and cash returns, the board will be taking that decision permanently as the business plan pans out in each of the next few years. So, whenever we see good opportunities to redeploy cash into projects that are good for our shareholders on a total return basis, that will consume resources for our shareholders. If we don't see those opportunities coming into our portfolio, our shareholders decide that returns are more important, then there will be more distribution. So, all we can commit at this stage today is given how good '17 was, given the good visibility that we have for '18 and '19, 10% looks like a good number.

**Tim Keevil, Fukoku Life International**

You're highlighting how LNG trading has been down. Just can you elaborate on why? You guided that it would recover in the mid-term. What does mid-term mean to you, three years, five years, eight, etc? And third, what gives you the confidence that it will recover?

**Carlos Gomes da Silva, CEO**

The market has observed after the Fukushima impact going back to a certain normal where the supply has increased and is over the demand that we have observed. And therefore, even though the economy is more demanding, the arbitrage alternatives have been relevantly reduced. So what we observe today is that the arbitrage opportunities are relatively few. What do you think about mid-term? So mid-term, and when you look to the regions that will be more demanding, namely in LatAm and also in Asia, and if you go back to the forecast that there are relatively high consensus, by the beginning of the next decade we might end up in a situation where we have a gap to fill, even though the United States will continue to put additional volumes in the market. So by that moment in time, we think that we can come again into the business and benefit from that alternative arbitrage opportunities. Meanwhile, what have we done? If you look into our account details, we have increased volumes that we have sold. The difference is between the fact that we have swapped between LNG high margin businesses by network sales across all Europe that have relatively small margins. So we will continue to be active, using our agility for capturing the alternative arbitrage that the market might offer. And we think that it might start to happen by the beginning of the next decade.

**David Mirzai, Deutsche Bank**

Given the fairly high target you've set yourself in terms of total capital employed, how does that influence your appetite for exploration than development acreage in Brazil? I am thinking of the signature bonuses paid for lot of the exploration acreage last year and how will that be in a sense risk capital.

Just secondly, in terms of Carcará, you've again set yourself a fairly high benchmark in terms of recovery per well, which I will assume is the key variable due to the economics coming in below $40/bbl. Will the price or DST test you're doing at the moment answer a number of those questions or will you have to go back to the Carcará field to do an extended well test to try and get an idea as to if those recovery rates per well are actually achievable?

**Carlos Gomes da Silva, CEO**

So let me start addressing your first question and I am sure Thore will go further in depth in the second part.

So, today we have ended up 2017 with a return on capital employed of close to 10% and this is considering €2.6 bn of projects under development, which means that we are still investing and we are not getting the reward of those investments. If we exclude that, we might be above 12% or 13%, which means that it is competitive in any terms. Again, any capex allocation or re-deployments' decision will always take the 15% as our target. And that happened with our investment in Carcará. So when we look back to the investments, both inorganic investments that we have done last year, in North Carcará and also in BM-S-8, have in mind that we are already there. And we do believe that with the simplicity of having a single, or close to a single consortium, in both sides of an area that should be unitised, will accelerate the development of Carcará and, of course, it will allow for synergies that for us should be at least at that level, I repeat, at least at that level.

So, Thore?

**Thore E. Kristiansen, COO E&P**

On your question with respect to the ultimate recovery from Carcará, I think having been in this business for more than 25 years, I think you have to be quite humble about geology and that geology can surprise you. But the benefit and the strength of Carcará is that, at least in BM-S-8, we know for sure that this is a high pressure reservoir. We think there is around, on average, 13,000 PSI pressure in the reservoir. The permeability and porosity that we have seen in the three wells that we already have drilled in BM-S-8 are making us quite confident on these numbers.

But having said that, we will continue to do a quite extensive mapping work in order to understand the reservoir more. That including having a significant quarrying program for the next wells to be drilled both in Carcará North which, by the way, there has not been any wells in so far, and also what we are now doing in Guanxuma. And we will also decide to possibly do DSTs in that connection depending on what sort of geological information we get and whether we believe that this could be valuable in order to de-risk and improve our understanding of what will be the optimal drainage plan. But based on what we know as of today, we feel quite confident that this will be a very high yielding reservoir and where the ultimate recovery will be quite a bit higher than what we have seen in other places in the pre-salt area.

**David Mirzai, Deutsche Bank**

And could you just talk about exploration acreage, will you consider it?

**Thore E. Kristiansen, COO E&P**

As Carlos has highlighted several times, for Galp there's three things that counts, that's value, value and value. We will continue to look for exploration opportunities. We have felt there has been a period in the market now where discovered resources have been priced at the level that has been making a lot of sense for us to acquire. But we will always measure those opportunities versus exploration opportunities, then factoring in the different risk profiles there are for exploration assets. We have today more than 60 G&G specialists in Galp, with significant experience from particularly the pre-salt area in Brazil and we believe that we have a pretty good ability to evaluate the opportunities. And if we can get them at the right prices and at the right levels, then also exploration could be an interesting opportunity for us in these areas.

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

And I think that we come to an end. Well, thank you very much everybody. Thank you.

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