

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

Good morning ladies and gentlemen, and welcome to Galp Energia's Q3 2015 results conference call.

Joining us today is our CEO Carlos, who will start with our strategy execution update and our CFO Filipe who will go over our third quarter results. At the end, we will be available for Q&A, together with Thore, our head of E&P.

As always, we should highlight that we may be making several forward-looking statements. Actual results may differ materially due to factors included on the disclaimer at the beginning of our presentation. I will now hand over to Carlos. Thank you.

**Carlos Gomes da Silva, Chief Executive Officer (CEO)**

Thank you Pedro, and good morning to you all.

I'm glad to be here today presenting another set of solid results.

In a scenario of low for longer oil prices, the benefits of the integrated business model stand out: effectively Galp's Ebitda was up 9% in an environment where Brent was down 50%.

This was due to the contribution of our Refining & Marketing activities and to the strong execution in the E&P business, where net entitlement production was up 56% YoY, partially offsetting the lower oil price.

I am now on slide 4 where you see the negative correlation between Brent and refining margins over the last five quarters. Indeed, refining margins have continued to be supported by the lower refinery input prices, and by the strong gasoline demand in the United States and also in Europe.

Our refinery margins have peaked at around \$8/bbl during the Summer, but have since fallen back to around \$3/bbl. As such, we will continue to be conservative about the refining outlook. To date, we have hedged around 30% of our Q4 2015 expected refining throughput, and around 20% for the next year.

On the demand side, the Iberian oil and gas market is growing 2% and 6% respectively, on the back of lower prices and the economic recovery both in Portugal and Spain, which is supportive of our marketing activities.

You see now on slide number 5 that over the last twelve months, production has gone from around 30 thousand barrels of oil equivalent per day (kboepd), to an average of 46 kboepd during the third quarter, due to the start-up of the FPSO #4 in Lula/Iracema. Those reservoirs continue to perform strongly, with wells producing over 30 kbopd.

And we are now over 50 thousand barrels per day.

This is a symbolic, but important, milestone for Galp on our journey to much, much higher, production levels. In fact, our current production should double again over the next couple of years.

Let me take this opportunity to thank our people at Galp, and also our partners, who have worked together with us on this journey.

Moving to the slide number 6, a word on FPSO #3, Cidade de Mangaratiba, installed in Iracema South and where we expect to see the fifth producer coming on stream in Q4. With the 30 kbopd per well, we expect the unit to reach plateau production of around 150 kbopd by the end of 2015. This would be achieved one year after first oil, vis-à-vis the planned 18 months ramp-up.

In FPSO #4, Cidade de Itaguaí, as I said, we've just connected the second producer well. And we could still have an additional producer during Q4. This would be the third producer well and would mean that this unit would be reaching over 50% of its nameplate capacity in less than six months.

As for the upcoming units, and you can see it on slide 8, the delivery of FPSOs #5 and #6 are expected during the first half of 2016.

The FPSO #5, Cidade de Maricá, is undergoing integration works at Mauá shipyard in Rio, and #6, Cidade de Saquarema, is on its way to Brazil, also for final integration works.

As such, by the middle of next year, we should have 820 kbopd of installed capacity in Lula/Iracema, about five years since the first oil and eight years after the first discovery. This in an area which was considered to be frontier.

As for the replicants, the first unit is at Brasfels in Rio de Janeiro, and we are comfortable with the expected delivery date of 2017. Concerning the second replicant, the hull is on its way to China for integration works. This is part of our mitigation measures put in place.

In relation to the remaining replicants, hulls are being built in Brazil and China. We are sticking to our timing guidance on the replicants.

As for Iara also on BM-S-11, we continue to prepare the development of the three fields, and we remain confident that this project will start producing in 2018.

Moving now to slide 9. We are currently preparing a drill stem test (DST) in Carcará, in BM-S-8, where we have drilled two successful appraisal wells this year. These have confirmed the extension of the high quality reservoir to the North and to the West of the first discovery. Once this DST is concluded in Carcará North, we will have more visibility on the commercial potential of the area, but we are increasingly confident on Carcará. The appraisal results so far have confirmed our expectations.

In Potiguar, we are currently drilling Pitú North, in order to appraise this offshore discovery in the Brazilian Equatorial margin. We are positive on this area, but we need to conclude the well and then decide if we will have a DST there.

On slide 10, moving to the other side of the Atlantic, in Angola we continue to focus on extracting additional resources from block 14, with relatively low marginal capex.

The tie-back connection of Lianzi field to the platform in BBLT has been concluded during September, and Lianzi is ready to start production shortly.

In block 32, development activities are proceeding according to the plan. This project is on track for first oil during 2017.

In Mozambique, the Area 4 consortium continues to work on Coral FLNG, in order to prepare the investment decision. There is not much I can advance at this stage, other than to say that the consortium continues to negotiate the EPCIC (Engineering, Procurement, Construction, Installation and Commissioning) with the contractors and that we continue to work on a robust LNG off-take agreement.

Although the FID on Coral would be an important milestone for the Rovuma project, I would stress that the key development will be the onshore solution, with the first phase of development of Mamba expected to be sanctioned in late 2016.

Turning now to slide 11 and the downstream businesses.

Performance was supported by the high refining margins observed during the first nine months of the year. This was possible due to the recent refinery upgrades and to the reliability-centered maintenance system in place. We continue to focus on increasing the return on capital employed in this business, namely through the optimization of the refining process and the energy efficiency.

Marketing has also been stronger this year, with an improving Iberian market and the operational efficiencies which we continue to implement in the business.

Gas & Power has also taken advantage of the increased focus on LNG trading and on the medium term supply contracts that have been secured. And we continue to diversify our trading activity, namely by gaining access to new European markets.

These trading capabilities will support our strategy for the future, when our equity gas from Mozambique becomes available.

Filipe will now go over our results for this quarter. Thank you.

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

Thank you Carlos and good morning to all of you.

As usual, I will start with the P&L, on slide 13. Group Ebitda was €411 million (m), up 9% YoY despite much lower oil prices. As Carlos mentioned, this was mainly driven by higher refining margins and upstream volumes. Refining & Marketing Ebitda increased over €100 m to €245 m. Marketing also provided a solid contribution during the quarter, benefiting from higher operational efficiency.

E&P Ebitda, however, was down YoY by almost a third, to €89 m. Higher volumes and a stronger Dollar could not make up for lower oil prices.

Gas & Power Ebitda was also down, to €72 m, with fewer arbitrage opportunities in the LNG market, only partially offset by network gas trading activities in Europe.

Group Ebit was up 8% YoY to €263 m, and this was driven by the improvement in Ebitda.

Net income was €180 m on a RCA basis. Under IFRS, the bottom line was €27 m, this was impacted by a negative inventory effect of €115 m in the quarter and non-recurring items of €38 m, €27 m of which relate to a temporary energy tax in Portugal.

On the next slide, capex reached €256 m, with E&P accounting for 87%, mostly allocated to the drilling of development wells and the construction of FPSOs and subsea systems in Lula and Iracema. The rest of the capex was mainly allocated to development activities in block 32 in Angola. As we have mentioned during the last quarterly presentation, capex this year should be around €1.3 billion (bn).

Looking at our balance sheet on slide 15, you can see that working capital was down again, benefitting from the lower value of inventories.

Net debt continues to be lower than at the beginning of the year, even after the dividend payments. Net debt stood at just under €2.4 bn at the end of September. And if we consider the outstanding amount of the loan to Sinopec as cash, our net debt was €1.6 bn, or about 1.1x net debt to Ebitda. You will see on footnote 3 of this slide that we have made the calculation of this key ratio more stringent: we now add the quasi-equity Sinopec shareholder loan to Petrogal Brasil as if it were bank debt.

Our liquidity remains high, at €3.1 bn, of which cash of €1.2 bn, loan to Sinopec of €0.8 bn and undrawn credit lines of €1.1 bn.

We are now happy to take your questions. Thank you.

## Questions & Answers Session

### Oswald Clint, Sanford C. Bernstein

Thank you very much. Maybe a question initially just on your Ebitda target for the year. Obviously you're closing in on the lower end of your guidance after nine months, what's preventing you to increasing that guidance for 2015? That's my first question.

And then secondly - I'm just curious - there is quite a bit of news flow, I guess on Petrobras and specifically the rigs portfolio, in terms of some of the rigs potentially being renegotiated, I wonder if you could shine any light on that. And say what implications it might have for Galp's capex? Thank you.

**Carlos Gomes da Silva, CEO**

Hi, Oswald, good morning, and thank you for your questions.

In relation to the Ebitda for 2015, and as it has been mentioned, we are not giving additional guidance, but saying that we will be on the higher level of the guidance. So, it would be around €1.5 bn and depending on the scenario, I would say that could be slightly above that.

In what relates to the news flow that are coming from Brazil, from the rig portfolio, you're absolutely right, we are experiencing the renegotiation process that has to do with the fleet that is being evaluated related with the new needs for the coming future. That has to do with the productivity of the wells and the number of the wells that will be required in the future. And of course, at the same time, the time schedule, that is ending up for some rigs that have been contracted. We are in the position where we can, of course, enter in the new contracting process that could bring more savings to our capex.

**Haythem Rashed, Morgan Stanley**

Thank you. Good morning, gentlemen. Two questions from my side, please.

Firstly, if you could talk a little more about the Gas & Power results for this quarter. And in particular, whether some of the trends you saw around the fewer LNG arbitrage opportunities and the weaker prices is something you expect to continue going forward, but also whether that changes your view on the guidance you've given previously of Ebitda in the range of €350 m to €400 m from that business going forward on a sustainable basis?

My second question is also on the downstream business, the Refining & Marketing business. In particular you mentioned the hedges you've put in place for next year. I just wanted to confirm that's something that's been put in place relatively recently because I remember you talking about 30% for this year, but the 20% for next year is a relatively new thing. Also, is there anything you can say about at what levels these sort of hedges are in? Does this give you some confidence around your \$3/bbl refining margin assumption? Or are these hedges somewhat above that level? Thank you.

**Carlos Gomes da Silva, CEO**

Thank you Haythem, for your questions.

Starting with the Gas & Power. Effectively the Gas & Power has been affected by the lack of arbitrage in the market. But at same time, I have to recall all of you that we have closed contracts for the long term. So contracts that will be in force up to 2017/2018, and that will sustain the results of this division. On top of that, we have the regulated assets that will keep to have profitability according with the remuneration that has been applicable to the business. Lastly, I think it is important that you will consider that the team is now opening new areas of business as we are now making new activities on the European network hubs in different countries in Europe that have already overpassed more than 1 bcm. As a matter of fact, we are opening new segments of activities in order to sustain those results. Of course, with so low Brent prices, that will affect the Gas & Power once our contracts are, all of them, Brent-indexed. But I think that we are well prepared to face a period of Brent prices in the lower limit.

In what relates to Refining & Marketing, we have already closed some hedging for the next year, but I will pass to Filipe to better elaborate on that.

**Filipe Silva, CFO**

Hi Haythem, you're right. The 2016 hedges were put in place very recently. So, we have not added any for 2015. We have covered about 20% of our expected throughput for 2016 and very small amount for 2017. To your question on how does this impact our views of refining margins, the only thing I would mention is that the hedges we have in place are north of \$3/bbl, but that's all we're going to share with you at this stage. Thank you.

**Filipe Rosa, Haitong Securities**

Hi. Good morning, everyone. Two questions from me as well.

The first one related to upstream, in Brazil. Petrobras has recently downgraded their guidance in terms of capex, you are - at least from the presentation - it seems that all your FPSOs are coming on stream in line with expectations. But could you just clarify whether this new guidance of capex from Petrobras has any impact on your ramp-up of FPSOs for the next years? And associated also with that, I've read that apart

from the rigs, you could also try to renegotiate your rents for the FPSOs. Could you just elaborate a little bit on that?

My second question relates to downstream. In terms of marketing, you have had a quite strong Q3. Just based on your gross margin and your cash costs for refining, we can calculate your marketing performance. Could you just clarify whether there has been any relevant one-offs in Q3 or should we assume that this is the new performance we should expect from the marketing division? Thank you very much.

**Carlos Gomes da Silva, CEO**

Hi, Filipe. Good morning and thank you for your questions.

Starting from Brazil, as we have been reiterating during the time, the projects where Galp is involved in Brazil are top priority for Petrobras. Therefore, all the statements and all the plans that we have for the units that are coming into production, will not be affected by the questions that you have raised. So, therefore, we keep our view and we keep our plan with confidence that it will be implemented, since we are speaking about the project with the biggest priority in Brazil.

In relation to the rents around the rigs we do not comment on that. We only comment after the things will be done. So, in rentals, we will not elaborate more on that.

In what relates to the marketing activity. You know already that we are not splitting between refining and marketing, but what we can say is that it is not only Portugal that is improving but also Spain. So, our activities in the retail market are improving, the costs are coming down and our operation is getting more efficient. Therefore you should consider this as a trend for the activity and has to do with some of the initiatives that we are implementing in order to optimize our downstream business. Thank you.

**Michael Alford, Citi**

Thanks for taking my questions.

A follow-up on capex if I could. I just want to get an understanding, if you could, on the unit capex for E&P going forward. Clearly there has been some positive data points on the flow rates from the wells – clearly, rates are coming down - therefore the cost of drilling comes down substantially. I just wanted to get an



understanding of what you think the forward spend will be on your sanctioned projects in Brazil. I think, in the Capital Markets Day you've talked about a range 2015 through 2019 of €1.2 bn to €1.4 bn of which 40-odd-% is sanctioned capex. Could you give us a sense of what the deflation is on that capex spend, given your recent data points on the E&P projects?

Secondly on Mozambique, Coral FLNG, you've talked a bit about the onshore, saying that you're still pushing for FID at the second half of 2016. But could you maybe talk about really the likelihood of timing on Coral, and really what are the key question marks ahead of sanctioning that project? Thank you.

**Carlos Gomes da Silva, CEO**

Thank you, Michael.

In what relates to capex, we maintain the guidance that we have provided before. Even though, as we are facing with the oil services deflation coming back, we start to have more flexibility in our capex. Therefore, when we will come with new guidance for the next coming years, and we will share that with you. But, we are mostly positive about the possibility to have some savings on capex side.

In what relates to the Mozambique projects, we are working hard in Coral, so we are being very supportive to our operator. Some evolutions have been made, nevertheless, we are still doing the renegotiation of the EPCIC process. It is also important to close the marketing activities and also the financial activities, but for the time being, that's what we are doing. I think part of the question that you have addressed related with the capex savings will also apply to Coral FLNG, and we are convinced that it will be the same for Mamba project. Thank you.

**Michael Alford, Citi**

Thanks, Carlos. And just a quick follow-up, if I may. What's the sort of capacity you're targeting for the Coral FLNG vessel, please?

**Carlos Gomes da Silva, CEO**

We have not that still closed, but should be around 3 to 3.3 million tonnes per annum (mtpa).

**Jason Kenney, Santander**

Hi, good morning, and congratulations on the 50 kboepd. It's a great milestone.

My question concerns production numbers. I'm conscious you still have a 43-45 kboepd average target for this year in upstream production, and there is still the potential for unitisation with Lula, I think before the year end. I was just wondering if that target was still relevant, or if we should be thinking of another number now that you're over 50 kboepd?

And with respect to unitisation, if there would be a reimbursement of costs associated with any re-unitisation figure and if we could expect that to be supportive in Q4 or would it be it a 2016 contribution? Thanks.

**Carlos Gomes da Silva, CEO**

Thank you, Jason, and thank you for your compliments. I think for today, Galp is of course in a very positive mood, and I think this also applies to our fellow colleague Pedro Dias who's 50th birthday is today, so I take the chance to compliment him also.

Going back to your questions, we are still undergoing with unitisation process in Lula, as you are aware and as you have mentioned. We think that we will be able to close it up to the end of the year. At least, we are working together within the consortium to do it. Therefore, having a precise guidance, it's quite difficult. What we have said to you all is that, a new producer well came to the surface in Cidade de Mangaratiba, and a second well is already producing in Cidade de Itaguaí. A potential third well will also come to the daylight in Cidade de Itaguaí. Therefore the 50 kboepd will be overpassed by the end of 2015. Of course, the guidance that we have released to you in the last quarter, will be overpassed. Depending on the unitisation process, we will be slightly higher than what we have said before. If you ask for numbers, it's hard to say a close number, but something around 54-55 kboepd of exiting production is something that we can consider, for the time being.

You're absolutely right in terms of unitisation process. It will be a standard process. We will have an initial tract participation, with future readjustments, as it will apply also redetermination process in the future. Therefore in the percentage that have been to readjust the past capex, and also the past oil that has been sold by the part that should be allocated after the unitisation, has to be adjusted. We are considering that,

of course, for the coming future. Therefore, it will happen most probably in 2016. And then, in net terms it will affect our capex, in a positive way I would say.

**Bruno Silva, BPI**

Hello. Good morning, everyone. I have two questions.

The first one, from the comments you made on capex, namely the likelihood of seeing lower capex deployment over the coming years, and the savings you can obtain, and also the better numbers on production versus those in the Capital Markets Day. I wonder if all of that will translate into higher free cash flow generation for the upcoming years? And if so, I would suspect they are, what are the priorities for the use of that free cash flow generation? Should we expect that to just allow net debt to come down? Or considering that you were already comfortable with the leverage you were seeing before this potential increase in free cash flow, you are already happy with that. So can we see that being distributed or any other alternative investments you may have? I just would like you to comment and give more light on that.

The second question is related to downstream and opex. I do not really expect you to comment what your peers are doing, but as you are aware, one of them has been very bullish on the potential and further cost cutting in downstream. Today you have commented that cost cutting in downstream is continuing and sustaining growth in Ebitda. Can you please be more precise on the results to date of that cost cutting in downstream? And what are the possible actions going forward, and potential upside on that front? Thank you very much.

**Carlos Gomes da Silva, CEO**

Thank you Bruno. Thank you for your two questions. I will take the second one and I will let Filipe take the first one.

I have to tell you that we are starting, of course, in a much better position financial wise, considering the present results that we are experiencing in 2015. In Refining & Marketing, we have shared with you that we have put in force several measures to optimise our operations and to cut costs. We have launched now a second wave of those initiatives, that is a long list of items of initiatives that is not only to cut costs, but also to increase the margin and it is related with the Refining & Marketing activities. I hope, during the next Capital Markets Day, we can elaborate details on those initiatives. What I can tell to you is that,

having so huge throughputs, which is historically on the maximum that the Company has in the Refining & Marketing activity days, of course, the dilution of the costs are bigger. Therefore, we have faced \$1.6/bbl of opex in our refining activities, which is by far in the top of the benchmark, so that is one of the key contributions for that. In the cost savings, and as we have mentioned before, we have already confirmed or guaranteed more than €50 m in a yearly basis and we are working for achieving at least €100 m in a yearly basis. As I mentioned to you, the second wave of savings and margin increasing is on the spot. We are working hard on that and hope to be able to release to all of you our plans for the coming times in the next Capital Markets Day.

I will pass now to Filipe.

### **Filipe Silva, CFO**

Good morning, Bruno.

We have performed better than we were expecting, but we are cautious going forward as we have always been. Going forward, it is not because we are in a better position than expected today that we are necessarily anticipating big differences into 2016 and 2017. So we will have less leverage going forward than expected but it takes a brave man these days to have a view on refining margins. We will continue to manage our balance sheet as if the guidance we have provided to you on refining margins will happen. So, we are not expecting meaningful changes on a yearly basis than from what we have indicated at the Capital Markets Day, even if the base is better than anticipated. This is not the time to discuss changing free cash flow priorities or distribution policy. So it's business as usual for us. Thank you.

### **Mehdi Ennebati, Société Générale**

Hi, good afternoon all. Thanks for taking my questions.

First one, a follow up on Petrobras capex cut announcement in the beginning of October. I understand that there was a very low probably this will impact the BM-S-11 developments. However, I wanted to know if you think that the Petrobras capex cut announcement will delay the development of Carcará and Júpiter? I remember you saying during the Capital Markets Day that you don't included production from Carcará and Júpiter before 2020. However, you included some capex, so maybe can you just remind us the amount of

capex from Carcará and Júpiter you took into account on your capex guidance until 2020? So this is the first question.

The second question regards with Refining & Marketing division. Despite refining margin indicator at the top, even higher than Q2 2015, your realised refining margin has been lower than Q2 2015. Can you please tell us why your premium decreased that much versus Q2? As we were in the same kind of environment with an extremely strong gasoline crack.

And maybe just a small additional one, if your refining margins indicator is decreasing to \$3/bbl, as it is the case currently, should we expect your utilisation rate to decrease as well in Q4 from the very high level you've realized in Q2 and Q3? Thank you.

**Carlos Gomes da Silva, CEO**

Thank you Mehdi for your two questions.

Let me just start that you're absolutely right. As a matter of fact we have not included production in our business plan up to 2020. But, I have also to recall you of two relevant facts related either with BM-S-8 and also with BM-S-24. Starting by BM-S-8, in Carcará, all the appraisal program that has been designed are being complied. We are adjusting it, but we have experienced not only the new appraisal wells and as well the DST that is being performed in BM-S-8. Therefore, I think with small adjustments we are moving forward and the quality of the results are, I would say, promising and could drive us to a better position. Of course, it will depend on several factors, but I think we are reaching a position where we can take the development decisions properly. We have, as you are aware, up to 2018 to build the plan of development. So, I think we are on track even though all the shadows around the capex in Brazil.

In Júpiter, we have to address the problem in two different areas. The first one, and we have not mentioned that several times, not deeply, the Sépia prospect in the Northeast of BM-S-24 will be submitted to a unitisation process and possibly will be under production during this decade. It is one anticipation that has not been considered in any case in our plans. In what relates to Júpiter itself, it is all something that we have to better elaborate. There's technical issues to be addressed, namely related with the CO<sub>2</sub> content in the reservoir with flow assurance, with metallurgy, with subsea facilities, with subsea separation, so there is a lot of work in terms of investigation and technology that should be addressed. And I think we have the time to do it as long as we have asked to ANP an extension of the concession.

Therefore that will be in line with the plans that we have forecasted. And as you know, we are always approaching to this with prudence and, of course, we have to revise those two fantastic assets according with the news flow that you have mentioned related with Petrobras.

In what relates to Refining & Marketing margins, and namely with refining, there is one contribution for the refining benchmark margins that has to do with the differential of the cracks of the gasoline in the United States and also in Europe. The last quarter has specially experienced high cracks of gasoline in the United States, so which means that normally, there is a differential between the Europe and the United States of about \$40-\$45/ton. During this summer, this interval has narrowed and the United States crack has approached to the European, which means that the premiums that applies to the refining margin benchmark of Galp has shortened, because it is already included on that. Therefore, I think the refining margins of Galp have suffered of that. In the second point, that is also important, sometimes it has to do with the yields that every company is considering on the benchmark. We keep the yields as they were, in order to guarantee that the benchmark is completely comparable. Therefore, I think that explains the questions that you have asked. Thank you.

#### **Mehdi Ennebati, Société Générale**

Just on the utilisation rate, if we remain at a \$3/bbl indicator, could we see a decline in the utilisation rate or will you keep it at the same level of Q2 and Q3?

#### **Carlos Gomes da Silva, CEO**

You know, the utilisation rate that we use is a consequence of the optimization of the Refining & Marketing system. Working with refinery margins that are much above our opex, of course, we have the incentive to have maximum utilisation of the refining system. We will keep working on having our refinery utilisation as maximum as possible. But you should also take in consideration that most of the time the refinery utilisation is indexed to the crude distillation unit and we have to recall all of you that our conversion units are working at 100-plus-% every single day. So, what is more important than speaking about refinery utilisation ratio is speaking about our conversion utilisation ratio and we are above 100% and that is what brings value to the system.

**Matt Lofting, Nomura**

Thanks for the presentation all. Two questions if I could.

Firstly just on Brazil and coming back to lara, I think you referred earlier to expectations around first oil still in 2018. If you could just talk about the project sanctioning status and when you think that needs to be finalised and delivered in order to support that 2018 timeline? That would be helpful.

And then secondly, on the Sinopec JV, the loan balance fell during Q3, I think to about €780 m by the end of the quarter. Could you just comment on the rate at which you expect to see that loan balance drawn down over the next 12 to 18 months as you continue to invest in FPSO construction with the consortium? Thanks.

**Carlos Gomes da Silva, CEO**

Thank you, Matt for your two questions. I will now ask to Thore and also to Filipe to address the two questions. So, Thore will take lara and then Filipe the Sinopec loan. Thank you.

**Thore E. Kristiansen, Executive Director E&P**

Good morning, Matt and thank you very much for your question.

When it comes to lara, that is already an ongoing process. The development plan has been submitted and as you are indicating, that is why we are basing this that we will have first oil in lara as we have indicated to the market, in 2018. That remains very much in line with what we also indicated for you at the Capital Markets Day on the March 10 this year. Thank you.

**Filipe Silva, CFO**

Matt, as of the cash that we have lent to Sinopec, this is a treasury operation. It is recalled on a need basis so it's highly dependent, as you would imagine, on Brent prices. So, the lower the Brent prices, the faster we need to ask the shareholders to put the money back into the Petrogal Brazil JV. So, it is hard to anticipate at this stage what that would be. What is known is that this loan has a maturity of March 2016 and the parties will decide, as we approach the deadline, whether we roll this a bit longer or not, but there is clearly enough flexibility within the parties to manage the balances. Thank you.

**Nitin Sharma, JP Morgan**

Good afternoon gentlemen.

Two clarifications from my side. First one on Gas & Power segment. My question here relates to natural gas business, where total sales volume and trading volumes are both up QoQ, but the Ebitda contribution of this business has come down. Could you maybe explain this please?

The second on Carcará. When should we expect an update on resource volumes for this discovery, especially given that you're guiding for a September DST now? Thank you.

**Carlos Gomes da Silva, CEO**

Thank you, Nitin.

Starting with Gas and Power. You're absolutely right and I have to recall you that effectively the volumes that we have sold in the natural gas activities have been a mix, a combination between structured contracts that we have fixed last year and are in force; some international arbitrage opportunities in terms of trading; and of course the last one that is around 1 bcm related with network trading activities.

Of course, the volumes are increasing but the margins that are released by the different activities are completely different. In the past, as you are aware, the international trading activities, with the arbitrage that was in force, were releasing much higher margins than they are today. Secondly, that happened in a Brent scenario that impacted positively the gas prices, and therefore in the slope of the curves and in the margin of this activity.

In what relates to Carcará, we are still under appraisal phase and therefore we are not releasing, for the time being, the reserves or the resources that we are getting from Carcará. We still have some works to do up to the year-end and I'm sure that in the beginning of next year we will have time to disclose to the market the results of this appraisal campaign.

I also take the opportunity to clarify that in what relates to those fields, namely to the BM-S-11, which includes Iara, the replicants that are being built are for this development. Therefore, the confidence we have on the development and on complying of our plan, has to do with initiatives and activities that are still under progress. So therefore, I think that is important, and what we have to do is to guarantee that



they will be on time and at cost available, to start the production around the dates that we have committed ourselves. Thank you.

**Lydia Rainforth, Barclays Capital**

Thank you and good afternoon, gentlemen. A couple of just tidy up questions, if I could.

For the downstream, can you just confirm whether there is any planned maintenance or not for next year at either the refineries?

And partly then just linked to what you were talking about earlier on the cost savings side. It's actually quite difficult to understand what's happening to the underlying cost base on the refining cash cost side, because of the hedging movement, and if I look at even sort of 3Q14 through to 3Q15, it does look like the cash cost has gone up and filled up the hedging side. So, I'm just trying to work out what you're actually saying on a per barrel basis the costs coming down so far this year.

Then, just a final one on the change that you've made to how you account for the Sinopec Shareholder loan, the €168 m. Is there anything specific that triggers that, or was that just a standard review of accounting policy? Thank you.

**Carlos Gomes da Silva, CEO**

Hi, good morning Lydia, and thank you for your questions.

Starting with the maintenance schedule for the refining system for the next year. Yes, we have some maintenance works that are already being prepared to be launched between the first and the second quarter of next year. We are mainly planning some maintenance to our hydrocracking system and also to our FCC unit, both in Sines, and we will put that in our budgets and in our business plan.

In what relates to the cost savings, and the mix between the costs and the hedging of the margins, what I can say is that in the costs of the refineries, the refining and marketing activities, there are €78 m that are due to the hedge of the refining margins. If you put that in terms of unitary cost, you can see that \$1.6 is due to cash costs, and \$1.3 is the part related with hedging, in dollars per barrel. So \$1.6/bbl is the cash cost related with the activity and \$1.3 is the cost related with the hedging activity. So, the \$2.9 are split accordingly.

Therefore for the future what we have to look through is for \$1.6 per barrel, which has been also impacted by the outstanding throughput that we have had in our refining system. So, we will be much above 100 mbbbl of oil processed by the end, I would say 110 mbbbl, possibly above that. Therefore, the variable costs are much lower than the fixed cost and the unitary opex will be positively impacted for this, so the high level of refinery utilization.

Now I will pass to Filipe for the question of the loans. Thank you.

**Filipe Silva, CFO**

Hello, Lydia.

No, there is no specific trigger nor accounting changes. As you know, this is the metrics that we use internally, the way we've computed the ratio.

What we've done is to be conservative, we have considered the quasi equity loan from Sinopec to Petrogal Brazil as if it were financial debt. This shareholder loan is in dollars, it's long-term, it matures in 2022 unless the parties decide otherwise. Again, this is quasi equity. It does bear interests at Libor plus 4%, and this interest has always been included in our interest line. So, it is there and so is the loan. This shareholder loan has always been well flagged into our accounts. But by putting this on the ratio, we increased the visibility, that is all.

**Hamish Clegg, Merrill Lynch**

Good afternoon, two questions as directed. Thanks for taking my questions.

First of all, just wanted to ask you about gas infrastructure in Iberia. There is somewhat increased activity in assets being traded, would you guys consider either selling any of your assets, or potentially even buying future gas pipeline assets, infrastructure assets in the region?

My second question relates to the downstream. We've obviously seen refining margins rollover quite hard in Q4. Your hedging guidance would suggest that you believe margins are not that sustainable. Some of your competitors, however, do believe high margins are sustainable on the longer term basis. Can you sort of confirm your medium term outlook on refining margins? What do you consider a mid-cycle refining margin for the business?

**Carlos Gomes da Silva, CEO**

Good morning, Hamish, and thank you for your two questions.

Of course, I will refrain myself truly to comment on the gas infrastructures. Of course, when we look to the market and what is going on, there is lot of opportunities over there. But I'm really sorry, our policy is not to comment on potential asset management activities. Anyway, we are looking through and screening all the opportunities in order to grow the value of our portfolio.

When looking to the refinery margins, our medium/long term view is quite conservative, I would say. We are not far away from what we've released during the last Capital Markets Day.

When we read what is going on around the world and mainly between Europe and the Middle East and new refining system coming to the spotlight, and seeing that just few refineries are being shut down. Even though, with low oil prices which are an incentive for higher consumption, and the economy in Europe growing a little bit, and mainly in Iberia, I would say, that we will still work with conservative refining margins because we are not seeing many contributions to consider the opposite. Therefore, I think you can use the guidance that we have released to you during the last Capital Markets Day and it is around that we are working with. Thank you.

**Thomas Y. Adolf, Credit Suisse**

Hi. Two questions, as well.

First one on downstream. Downstream ex-refining, very big uplift sequentially and very big uplift year-on-year. Earlier on, you said that seasonally adjusted, these efficiency gains should be sustainable and clearly. That would indicate, based on your guidance early in the year, that the profitability of the downstream should be actually higher, ex the refining business.

Yet, in the last question you answered, you said we should think of it as unchanged at €450 m, assuming refining in three bucks. So, can you kind of say what it is because I'm a little bit confused here.

Second one, I guess you might have already answered that in the last quarter round, but past 12 months have been good, outlook is uncertain. Why increase the dividend, why not change the dividend policy? No one really invests in Galp for the dividend. Thank you.

**Carlos Gomes da Silva, CEO**

Thank you, Thomas for your questions, and good morning.

As a policy, we don't split between refining and marketing. But follow me on a very simple calculation. When you look through what is going on, volume wise and margin wise, we can see easily that we are in refining and marketing more than \$400 m above what we were last year and it was due to the two main contributions that we have mentioned during this conference call. The first one, with increasing of the margins, the refinery margins. And the second one, the energy efficiency and the increasing of the throughput.

I would say that, if you have to split between one and the other, one-third is due to internal actions and two thirds to the context. Therefore, and the confusion that you mentioned, if you split between what is internal contribution and what is the external contribution, I think you get a more clear analysis about the results that we are presenting today.

Of course, the level of utilization, which means that the throughputs of the refining system is highly contributing for that efficiency, because as I mentioned before, the additional barrel that we process in our refining system only has variable costs applicable. That's the reason why the dilution is completely a key factor for the process.

In what relates to the dividend policy, we have a dividend policy that is in force and it will be up to the next year. I think depending on the financials, on the way we will read the future, and taking in consideration our commitment to get a free cash flow positive around 2018, I think we have to review that.

In the next year during the Capital Markets Day, we possibly will come with our position and our proposal that we will do for the shareholders meeting that will take place in 2016. Thank you.

**Henri Patricot, UBS**

I have two questions on the replicant FPSO's in Brazil.

You mentioned during the presentation that you are sticking with your new guidance and the start-ups. I was wondering, given the measures that you've taken in recent months and the fluctuation of average

price, whether you are more comfortable around this target compared to a few months ago or, on the contrary if you see more risk.

My second question will be more specific. Can you say whether moving some of the integration works to China from Brazil, an indication on the cost? Thank you.

**Carlos Gomes da Silva, CEO**

Hi, Henri. Good morning. Since, there are two technical issues from E&P, I would like Thore to share with you our view. Thank you.

**Thore E. Kristiansen, Executive Director E&P**

Good afternoon, Henri.

The overall picture is that what we communicated at the Capital Markets Day in March this year still remains the key view on the theme of Galp, i.e., on average we see a delay of approximately one year.

What has been achieved so far is the successful handling of issue of IESA. There has been a successful handling of issue of Integra. We're now working to implement the other sort of key measures that we have in the mitigation plan.

It is not without complication and it's not without challenge, but I'm confident that we, together with the operator and the other partner, are going to acknowledge to do this. We, therefore, feel that on balance and totality that the plan that we presented to you in one year ago still remains firm.

On the second issue, we're then moving to parts of the works outside of Brazil. We can see that there is an opportunity to improve somewhat on the cost. On the other hand, there is also compensation that needs to be done in Brazil, in order to de-lock these obligations.

So, overall, I don't think that we should any of us expect that this, per say, will lead to cost savings. However, cost savings for us in Galp is very important to pursue when it comes to the development in Brazil. I think, where we particularly have seen a good progress is in the efficiency of completing and developing the wells.

Just to give you one measure, in 2012 it cost an average \$200 m to drill and complete the a well in BM-S-11. But this year, we're targeting \$125 m. So, there is a 37.5% of improvement just on that and I think still we can further improve. Thank you.

**Anish Kapadia, Tudor**

Hi. Good afternoon. A couple of questions from me.

Firstly, on Santos Basin, I was just wondering, what's the potential timing for a possible sale and leaseback of both of the replicant FPSO's and also the Santos Basin gas pipelines?

And then, the second question was just on the financials. Your cash tax has been significantly lower than your P&L tax. I was wondering if you could just explain that and run through the trend in cash taxes versus P&L tax that you expect over the coming years. Thank you.

**Carlos Gomes da Silva, CEO**

Hi Anish. Good morning.

In what relates to the question that you have addressed to the leaseback, there are no plans for that at all for the time being.

In what relates to the taxes, I will leave that to our CFO, Filipe, to elaborate on that.

Thank you.

**Filipe Silva, CFO**

The mix between upstream and downstream on taxes is fundamental. Overall and depending on where Brent prices are, and production in Brazil, the SPT tax goes up to 40% or will get to 40% as it gets fully developed. Plus the income tax in Brazil, which is 34% on pre-tax income. Round numbers you get fairly quickly into the 50% for our upstream division.

Downstream is an entirely different story on a cash tax basis, because of the level of our investments up until last year. So, we are amortizing very large capex in the refineries. As we were discussing with you last year our performance for Q3, you see how negative our income statement was in downstream Portugal.

We still have significant tax credit, tax loss carry forwards in our balance sheet. Going forward, if you assume Brent prices higher and sustained refining margins, then we should approach the nominal tax rates of Portugal, which are 20%/22% and 50% in the E&P division, but today we are still amortizing, and we are still consuming tax credits. Thank you.

**Anish Kapadia, Tudor**

Just a quick follow-up on that. In terms of the tax credits you got available, can you say what they are or when you'd expect to run those?

**Filipe Silva, CFO**

Again, it makes a huge difference whether refining margins are \$6/bbl or \$2/bbl. It is very hard to take a view. But clearly, over the course of 2015, we have consumed a very significant amount of carry forwards. Thank you.

**Brendan Warn, BMO Capital**

Good afternoon gentlemen. It's Brendan Warn from BMO Capital Markets.

I'll hold it to one question and probably towards Filipe. Referring to slide, or should I say page 33, but also it's similar to slide 73 of the Capital Markets Day, can you just talk through your debt maturity profile and how we should be thinking about it going into, certainly into 2016, please? Thank you.

**Filipe Silva, CFO**

We are in a different place today than we thought we would be. The plan was that we would have gone through the capital markets or to the banking markets throughout 2016. Now, we have not increased our net debt one bit in 2015 whilst we had planned for negative free cash flows. Hence, our maturities are getting shorter because we have not gone to the market.

In 2016, if the world remains as we see it today, then it will have a mix of consumption of cash plus new financings throughout 2016. But again, we need to monitor this clearly, based on our cash flow generation. Thank you.

**Carlos Gomes da Silva, CEO**

Thank you to all.

I hope this session has been useful, and that we have answered to all of your questions. I also will thank to you all, as it's really encouraging to have so many people attending to our conference call. In today's conference call, it was above 130 persons. So thank you to all for that.

I also have to say that our production is increasing very quickly with two units ramping up in Brazil and Lianzi starting the production in Angola. In addition, you should also take in consideration that the production units #5 and #6 is on track and will start production during the first half of next year. We are also advancing with our projects elsewhere, namely in Mozambique and also in Block 32 in Angola where we expect to have two production units by the end of this decade, so between 2017 and 2018.

Our integrated, and diversified, business profile is being vindicated by the recent macro environment. Galp is in a good place at this stage, with strong earnings growth and a solid financial position. We are conscious, however, that the generous refinery margins may not last and that the sector may go through a challenging period and we have to be prepared for that.

But let me be clear: we are adapting our company to this new reality, and we will ensure that we will remain one of the most competitive players in the industry. Our resources are world-class and sit at the low-end of the cost curve. I emphasize that we are in the lower end of the cost curve. Increasing scale, cost deflation in the sector, and efficiency improvements will also help support our performance.

Thank you very much and hope to see you soon. Bye bye and thank you in the name of our colleagues. Have a nice day.