Pedro Dias, Head of Strategy and Investor Relations

Good morning, ladies and gentlemen, and welcome to our second quarter 2018 results conference call.

Joining me today is Carlos, who will start with a quick update on our operations during the quarter, and our strategy execution achieved so far. As always, we will then go through the results. At the end of the presentation, Thore will join us and we will be available to take any questions you may have.

I would like to remind you that we may be making several forward-looking statements. Actual results may differ due to factors included in the cautionary statement available at the beginning of our presentation, which we advise you to read.

Carlos, the floor is yours.

Carlos Gomes da Silva, Chief Executive Officer (CEO)

Thank you, Pedro, and good morning to you all. We are pleased to present another strong set of operational and financial results. Galp continues to be focused on its strategy execution.

In the Q, Ebitda reached €628 million (m) and our production growth story continues to be supported by higher oil prices and refining performance. More important is the cash flow from operations that during the quarter has reached €604 m and after dividends, the free cash flow was €146 m.

The macro context plays an important role on these results but it is also important to highlight the operational performance of our activities and execution progress of our key projects.

Considering where we are year to date and our revision of the market conditions for the second half of the year, we now expect 2018 Ebitda to be over €2.1 billion (bn). As for capex, we are keeping our guidance of €1.0 to €1.1 bn, but now also considering the Brazilian bids rounds payments on the Campos basin 791 block, and also Uirapuru. So actually, it will be a re-guidance on the capex.

I will now briefly go over the performance of our divisions, starting with upstream on slide 6 of our presentation.

Working interest production increased QoQ and it was supported by the ongoing development of Lula and Iracema, mainly driven by the FPSO #7 in Lula South, which has reached oil production plateau in April. We have now all the seven units running at plateau level and that surpassed the 100,000 barrels a day as a mark in Brazil.

We will bring online two additional units in Lula during this year, which will complete the first stage of development of Lula and Iracema. The FPSO to develop the Lula North area has arrived to the Rio de Janeiro bay from China earlier this month. There are still some works to do and usual regulatory procedures before the unit is placed on its final location. As for the unit to develop the Lula Extreme South area, the integration works are being finalised and the unit is expected to sail to its final location in the coming weeks. Actually, this FPSO might come onstream before the Lula North one.

Moving now to Angola. The first FPSO in Kaombo has started production this last Friday and it is an important milestone for this project. I remind you that the development plan for Kaombo comprises two FPSO units, which should more than offset our production decline from our legacy assets currently producing in block 14. All in all, we remain confident that we will deliver on our 2018 production guidance, with full-year average production 15% to 20% above last year's.

Moving to the downstream on slide 7. So refining had a good quarter with a high utilisation rate and a positive performance. Galp's realised refining margin was $6.1 per barrel. We captured the strong middle distillate cracks during the quarter, as well as the slight recovery in gasoline cracks when comparing with the last quarter. Exports to US also contributed positively with a supportive RBob and EuroBob spread in the quarter. It is also worth highlighting our refining' system flexibility to accommodate different raw materials and energy sources, which allowed us to optimise our sourcing and energy costs, supporting our margin. In addition, and as you know, we are working to increase the efficiency and the conversion capacity of our refining system, implementing projects to capture an extra $1/boe. There is already $0.30/boe of this value on the margin achieved this quarter.

As for the marketing activity, it continues to be a stable contributor to results although our RCA results were impacted by the lag in the pricing formulas, deriving from a rapid increase in commodity prices.

On the Gas & Power, we had volumes sold to industrial clients higher than in the past Q, especially in Iberia. And we also increased traded volumes, even though this was mainly due to lower-margin network trading activities, which offset the decline in LNG trading volumes.

Now let me take the opportunity to highlight some of our recent key strategic developments, which will enhance our portfolio competitiveness. And I'm on slide number 8.

After acquiring a stake in block 791 in the Campos basin during the first Q, this last quarter, we reached an agreement to increase our exposure to the pre-salt, with an additional 3% in BM-S-8. We will therefore have a fully aligned interest of 20% in both Carcará and North of Carcará, alongside Equinor and Exxon, each one with 40%. Additionally, in the latest Brazilian bid round held in June, we acquired a 14% interest in Uirapuru, and also alongside top tier partners - Petrobras will act as operator, and also with Equinor and Exxon. The interest for this asset was very high and we are happy with the outcome of this licensing round. We have been very selective in what regards which assets to bid for, and I can assure you that we will remain disciplined with our portfolio decisions.

Also in Brazil, we have spudded the Guanxuma exploration well in BM-S-8, where oil was found. The preliminary results are encouraging, but further analysis and evaluation is needed.

In Mozambique, Area 4 partners submitted to the government the Plan of Development (PoD) for the first phase of the Rovuma LNG project, which will start developing the large Mamba reservoir. This first phase PoD comprises two LNG trains, each with 7.6 mtpa capacity. This is an important milestone for the Mozambican project, and we are targeting FID for next year and first LNG for 2024.

In relation to the Coral South FLNG project execution, we are observing that the project is proceeding according to plan and we expect to have the first steel cut for the hull during the second half of this year.

The Mozambique projects are key to Galp strategy, allowing us to have equity LNG, as well as progressing towards a lower carbon portfolio mix.

As for the downstream, and as previously mentioned, we have a feasible solution to supply IMO compliant products by 2020. We are already producing some bunkering batches according to future specifications, which are being tested in a real environment.

On the gas business, we established a long-term agreement to access 1 million tonnes per annum (mtpa) of LNG to be supplied from the U.S.. This is part of our well-flagged gas sourcing strategy to secure a balanced and competitive long-term gas-sourcing portfolio.

So to conclude, our strong focus on executing highly competitive and fast growing projects, together with our disciplined capital allocation, makes us confident with the targets we have committed to. The current macro environment is helping, and therefore we are adjusting upwards our short-term guidance. However, and more importantly, our long-term investment case is becoming more and more robust and de-risked.

I will now pass the floor to Filipe.

Filipe Silva, Chief Financial Officer (CFO)

Thank you, Carlos.

And I'll move straight to slide 10, to some of the items which drove our P&L.

E&P Ebitda was significantly up YoY to €411 m and this is supported by increasing production and oil prices. And that's despite the weaker Dollar when we compare with last year. We have about €40 m in positive underlifting effects; i.e. in Q1 we were accruing volumes which we ended up selling at a higher price during Q2. Unit costs were also down in E&P, mainly driven by higher production dilution. We have past cost adjustments in Brazil as well, and we also have a conversion effect from the weaker Brazilian Real.

On R&M, Ebitda was €174 m. That's down YoY and impacted by about €50 m in a swing in time lag and this is given our marketing price formulas and exchange rates effects with refining cargoes. These are effects from the rapid increase in Brent prices and the Dollar in the period. Yet, on a QoQ basis, R&M Ebitda was supported by a better realised refining margin and the high availability of the units. If you recall, we had maintenance in the hydrocracker in Q1.

G&P Ebitda decreased €11 m, and that's YoY, to €34 m. This is impacted by the expected lower contribution from LNG trading. Not really much else worth highlighting here.

Below the line, I would highlight the positive swing in financial results, mostly driven by a positive mark-to-market in refining hedges. Net interests also improved YoY and this is driven by lower debt and a lower cost of debt. Net income RCA was €251 m in the quarter, whilst under IFRS it was €330 m, and this is helped by a positive inventory effect of €68 m plus €11 m in non-recurring items.

On slide 11, we have Galp's cash flow generation during 1H18. Cash flow from operations accounted to €849 m. Again, this is two quarters, and this is net of about €200 m in working capital build, which was mostly commodity price-induced. Overall cash conversion was quite healthy this semester.

Capex so far this year amounted to €368 m, the main developments being BM-S-11 and block 32. This quarter's exploration capex also includes the €70 m or so payment for the acquisition of the first 3% stake in BM-S-8, which we announced back in October last year.

Our free cash flow during the first half reached €427 m, or €175 m post dividends.

The updated guidance we are providing on slide 12 derives mainly from higher Brent price assumptions. In that case, fully year Ebitda guidance is over €2.1 bn, with every $5/bbl move in Brent translating to around €140 m in Ebitda. We're keeping our capex guidance unchanged at €1.0 to €1.1 bn, including the about €130 m in signature bonuses for our recent acquisitions in Block 791 in Campos plus the Uirapuru asset in Santos. These should be payable later this year, whilst the payments for the additional 3% stake in BM-S-8 likely to take place only next year.

And I will stop here, and we're happy to take your questions. Thank you.

Questions & Answers Session

Oswald Clint – Bernstein

Hi, good morning. Thank you very much.

The first question just on Brazil, and obviously you've said you've been successful in the two most recent license rounds and adding more Brazilian acreage and resource. I just want to get your sense here – and obviously you kind of flagged that interest last year so I wanted to know if you still have appetite for more acreage within Brazil, and if so, are there any more license rounds coming up that you can talk about? That's the first question.

And then maybe going back to Gas & Power. I'm just curious about your LNG trading underperforming a little bit in the second quarter. It looks like an attractive environment for LNG trading in 2Q. Just wonder what happened that kind of prevented Galp from benefiting from that. Thank you.

Carlos Gomes da Silva, CEO

Hi, Oswald, good morning. Thank you for attending to our call.

In Brazil, effectively we think that we have a strategic angle and we know quite well the resources. We are in Brazil for almost 20 years, where we are the third producer today, and we always look to Brazil in a value approach. We think that our strategic angle in terms of knowledge will allow us to focus in the most promising assets. We will continue to do that, using our capital allocation with discipline and focused on value.

All in all, we will continue to look into Brazil as we look around the Atlantic basin, but Brazil for the time being will continue to offer interesting opportunities to different players.

In what relates to the LNG, you know quite well that a couple of years ago we have entered in medium-term international contracts that have secured some of our trading activities. Those contracts are ending and the arbitrage alternative in the market are insufficient to continue to capture those values. So what we have done is converting our international LNG trading into hub network activities, which grants us lower unitary margins, and that's what you are observing. We will continue to be attentive to opportunities, and going forward, to any opening of the demand in the market that could bring additional opportunities to the market. Thank you.

Mehdi Ennebati – Société Générale

Hi. Good morning all and thanks for taking my questions. I will ask two questions please.

The first one on the upstream. Your average realised price shows a $10.6/boe discount to Brent during the second quarter, whereas the discount used to be around $8/boe in the last quarter. I just wanted to know why did you have a higher discount this quarter? How much discount should we expect as well in the following quarter?

I also have a question regarding your upstream opex, which was $7.7/boe in the second quarter. You highlighted that you benefited from past cost adjustments. Can you please provide us with the level of those adjustments, and if we should consider those as one-off? Thank you.

Carlos Gomes da Silva, CEO

Hi Mehdi, thank you for your two questions. I will take the second one. I will let Filipe address the realised price.

So in what respects to opex in our upstream activities, we have experienced the ramp-up of the last unit, and therefore the volume dilution has increased. And as I've mentioned to you before, the reference opex guidance for you should be around $8/boe. So that's, I think, more important for your consideration.

Filipe Silva, CFO

Good morning, Mehdi.

The realised price is a mix of oil and gas from Angola and Brazil. Brazil of course is the biggest part of these volumes. And without any underlifting or overlifting effects. This gives you a pure delivered to shore price net of the logistics cost of taking it shore from the FPSOs in Brazil. And it's pretty much according to plan. Thank you.

Biraj Borkhataria – Royal Bank of Canada

Hi. Thanks for taking my questions. I had a couple, please.

First on Brazil again. Could you just clarify what production contribution you assume in your guidance for the two FPSOs starting up later this year?

The second question is for you, Carlos. Can you just give a bit of colour in Brazil, Petrobras seems to be quite challenging with the CEO leaving. I just wanted to get your updated thoughts on what's going on there, and any changes to your expectations on progress? Thanks.

Carlos Gomes da Silva, CEO

Hi Biraj, good morning.

In what relates to production, you should count with our guidance of 15% to 20%, which includes all the effects – the first oil of new units, the ramping up, the plateau level and maintenance activities. So you should consider that we will stand between 15% and 20% comparing to last year.

The second question, effectively we saw our colleague Pedro Parente from Petrobras leaving the company. I think it has been a movement that surprised everyone, including ourselves. What we can say is that we have always worked with Pedro and his team in a fantastic and excellent way, and I think that with Ivan [Monteiro] will continue to do it. Being the people that gives you the importance in the company, I think that relationship between the companies, as partners, goes beyond that.

The relevance of the projects that we have developed are so important that we will continue to work together. Effectively, if you ask us what we see in terms of changes in the short-term, we are not observing any. We continue to work close to one another, not only to push ahead the projects where we are already under development, but as well to work on how we can extract and optimise value not only from the ones that are under development, but also from those that are still in a pre-development phase.

So all in all, we continue to work with Petrobras in the same terms. Of course, these changes are part of the company's life, but we cannot comment in detail on anything else. Thank you.

Rafal Gutaj – Bank of America Merrill Lynch

Good morning. Thank you for taking my questions.

First one just on your higher Ebitda guidance. I note that the oil price assumption is driving this, you've shared. Could you comment on how the refining margins assumptions have changed between new guidance and the old guidance, because thinking back to your sensitivity, I think you guided before €280 m Ebitda move for every $10 rule of thumb and I guess the increase of €200 m to 300 m is perhaps a bit modest on that basis.

And then second question, just around IMO and thinking out to 2020. I'd wondered if you could give us a sense of the timing and duration of any maintenance downtime between now and I guess 2020, if you've given any guidance out to the market on that?

Thank you.

Carlos Gomes da Silva, CEO

Good morning, Rafal. Thank you for your questions.

So first one, the Ebitda guidance and about refining margins. Effectively, we are keeping more or less the same range, now looking at Galp refining margins and not following only the benchmarks. We think that we can stand between $4.5/boe and $5.5/boe for the 2018 year, which is pretty in line with what we have guided in our CMD.

In what relates to the IMO and any stoppages that we have after that. We are planning to have a stoppage in our FCC and that is not related with IMO for the end of the year. That would be during the fourth Q, where we think that we can have between 40 and 50 days the FCC in maintenance for a general shutdown, during a period where the gasolines are less demanding. So we have planned in order to have the lowest effect in our operations.

Looking into the IMO specifically, we are already making some batches production and testing in with clients to guarantee that we will be compliant by the second half of next year. So, we don't anticipate any specific turnaround for that purpose. What will happen is that some of the investments that we are promoting are increasing our conversion capacity for the one Dollar per barrel additional margin, and these will be onstream by the end of next year or beginning of 2020. And that's the major investments that will not conflict with the normal operations, because we will anticipate the tie-in timings to accommodate those units timely when they will be ready to go.

Thomas Adolf – Credit Suisse

Hello. Two questions from me, please.

Firstly to the point of discipline and the bid rounds in Brazil, and we have extensively talked about, for example, the third bid round – how the third bid round was very aggressive, more volume than value. And when I look at the fourth bid round, where you won Uirapuru, it looks just as bad as Peroba in terms of government profit oil share. So, I'm sure there is something that sparked your interest, and perhaps, you can kind of talk around it because, at first sight, it looks quite an aggressive bid.

Secondly, again on Brazil. And you've mentioned you now have seven FPSOs producing at plateau, some of which producing for many years, some of a bit younger. I wanted to know how many wells you have drilled on these seven FPSOs and how many are actually not producing because the reservoir is just behaving better. And what it means in terms of potentially giving us an update again on the plateau guidance?

Thank you.

Carlos Gomes da Silva, CEO

Good morning Thomas, and thank you.

I will take the first question and Thore will address the second one.

Discipline is a word that we value at Galp. One might say that the profit sharing that has been offered in Uirapuru asset is quite aggressive. We cannot disclose this from the fact that it is not the profit sharing that is important. It is looking at the global economic conditions that are offered. This is a production sharing agreement contract, which means that the production sharing agreement firstly goes to pay the cost, and we look at the volume and the probability of success of the offer in a positive sense. Our geologists' team is quite positive in the potential of this asset and it was also the case of our partners in the consortium.

Therefore, I do think that we have well flagged the best assets that we could offer during the bid rounds. And, of course, we will need additional appraisal to see if the potential will be converted into reality. We do think so and we are positive on that. Time will give us reason or not.

And you should also see that, from the competitive point of view, everyone was bidding, and the difference between the first offer and the second and the third one was really minimum, which is completely different from what happened in the different bid rounds and in the different assets. So I think it gives all of us what is the difference between this asset and the others.

I will pass now to Thore.

Thore Kristiansen – COO E&P

Thank you very much Carlos. And actually, I would like to add that within the Company and in the consortium, we actually called it a sweet win. When you win with a 3 percentage points from the next that's a really sweet win, and we were very happy with it.

When it comes to your question with respect to the wells, the situation is that there currently there are 92 wells operating in Lula/Iracema, 50 of which are producers, 42 of which are injectors. And we have completed 101 out of the total plan of 153 wells in the current plan, and that's where we are. So we are quite happy with the developments. We have the reserves so that, as soon as the units are ready, we can go on and hook them up as fast as possible, and it's one of the key reasons why P-66 was able to ramp up to total production in 11 months. So this trend will continue.

Thank you.

Josh Stone - Barclays

Thanks, good afternoon. I have two questions please, both on the downstream.

First, can I just follow up on the IMO preparations you're making. Could you maybe provide some indication of how much of your fuel oil production you expect to be compliant to the IMO standards before 2020 and maybe if you're willing to give some details of how you expect to achieve that?

Secondly in marketing, if I heard correctly, you mentioned a €50 m negative impact from the time lag effect. I guess, firstly did I hear that correctly and secondly, is that an appropriate sensitivity for us to use if we think the oil price is up around $8/bbl, so around a $10/bbl move would be €70 m per quarter. Is that the sort of magnitude?

Thank you.

Carlos Gomes da Silva, CEO

Hi, Josh. Good morning.

Fuel oil compliant with IMO. First and foremost important is to understand that it will depend on the market conditions. I mean, we are capable to have bunkering fuel oil compliant, which means that we have to play with optimising and maximising our conversion capacity and using different crude slates. But, what we will do is look into the economics and search the best economic alternatives, between bunkering compliant fuel oil and other fuel that would be with higher sulphur content. We will continue to have a flexible mind-set and a value-driven approach, instead of being only producing IMO compliant for the global production.

In what relates to the time lag, what Filipe has mentioned is that YoY the swing between time lag and FX, and the first was affecting more the supply chain and also some marketing activities, and the second is globally in our [R&M] P&L, is €50 m. So, the time lag YoY was €30 m, the swing, and the FX was €20 m also the swing YoY. If you look to the QoQ, the time lag was €20 m, again the swing between the two quarters, the first and the second one, and the FX was €12 m.

I think this is clarifying your question. Thank you.

Jon Rigby – UBS

Thank you, just two questions.

The first is on Brazil. I can see the impact of FX on opex, and I guess by extension on DD&A as well as you revalued your historic cost. But is there a deferred tax impact at all that you recognise? If so, where is it, because presumably those are reported in BRL as well.

The second question is to do with the cash flow and the balance sheet. As you acknowledged, cash flow is being very strong, you've upgraded Ebitda which I guess is a reflection of the higher oil price but obviously if you move through the year, you've de-risked your underlying cash flows as well, - and you've talked to the two FPSOs start-ups, as well as Kaombo on Friday - I suppose that kind of begs the question about how you're thinking now about optimal balance sheet structure and when that starts to have an impact on your payouts, so dividends, and I guess probably at some point consideration of buybacks as well. Given that we are half-way through the year, given that oil prices have exceeded most people's expectations and given that your sort of execution has been pretty much spot on, can you sort of update on your thinking around shareholder remuneration as well? Thanks.

Filipe Silva, CFO

Good morning. I'll take your second question first.

You see that we had good cash conversion this first semester. That does not mean that discipline will have to change. We continue, in a very disciplined way, to look at potential new assets to reinforce our core portfolio. There are three transactions we announced over the last few months: around Carcará; bid rounds in Brazil; with Uirapuru and 791 in Campos. That's what you should expect from Galp now, to look at where we can add value to our portfolio. So no, this is not the time of year to discuss shareholder versus strategic options. You should expect a continuation of what you have been seeing over the last few quarters and nothing else.

On the impacts of tax and opex in Brazil, so we have some Q1 versus Q2 timing allocations and some costs affecting opex between the two quarters. We do not have a lot of deferred taxation left in Brazil. What we do have in Brazil is a mix of currency impacts and we also have accelerated depreciations, which, in the local accounts helps on taxation.

Thank you.

Matt Lofting – J.P. Morgan

Morning all. Thanks for taking the questions. Two please, if I could.

First, just on full-year capex. Could you just expand on what has created the flexibility to accommodate additional Brazil-related licensing rounds costs into the unchanged budget? I'm just wondering the extent to which you already allowed for that contingency at the beginning of the year versus having outperformed on capital efficiency through Brazil, first half of the year.

Then second, just going back to the downstream. A strong performance in Q2, especially the margin premium over benchmark. Do you see scope to continue to exceed the sort of the normalised guidance, which I think you referred to as around $1.5/boe previously, particularly if wider light/heavy spreads persist, because OPEC production rises, and you deliver the rest of the dollar per barrel on the conversion projects? Thanks.

Carlos Gomes da Silva, CEO

Hi Matt, good morning. I will take the second question, and Filipe will go over the first one in capex.

In the downstream and looking at the refining margin, I would like to clarify that due to this uncertainty and discussions about refining benchmark, and approaching the IMO, it becomes more difficult to have a precise benchmark for you to look for.

That's the reason why we look to our Galp's margin and the guidance that we are providing to you is precisely related with Galp's margin. You should also bear in mind that on top of the range of some $4.5-5.5/boe of Galp's margin, you should consider that we still have $0.7/boe of the Dollar per barrel investments project that we have still to capture. Looking to the future, those $0.7/boe should be integrated in our Galp's refining margin, but for the time being, we will not look to the benchmark or the premiums, but the margin as a whole.

Filipe will elaborate now on capex.

Filipe Silva, CFO

Matt, when we give you guidance, we have a few irons on the fire all the time. So, we build sufficient cushion into our guidance to accommodate little inorganic, attractive assets. We also have this year a lower BRL and a slightly lower USD than expected, which also helped us build a cushion. There is no more than that. Thank you.

Alwyn Thomas – Exane BNP Paribas

Good morning guys. Firstly, on cash flow, from me. It seems to me pre-working capital cash flow was higher than your actual Ebitda during the quarter. I appreciate you mentioned some underlifting impacts, but could you perhaps bridge or outline the specific reasons as to that?

Just to follow up, were you in an overall underlift position at the end of 2Q and whether this might be reversed or what the outlook is, going forward, for the rest of the year.

Carlos Gomes da Silva, CEO

Hi, good morning, Alwyn.

Cash flow pre-dividend: there are, as Filipe has mentioned to you, several effects that we have had during the quarter and also from the first half of the year. The most relevant ones are flagged in slide number 11 where you can find the two components that most influenced the free cash flow increase.

First, the working capital management, namely the inventory of the stocks optimisation. We came from a stoppage in the hydrocracker in 1Q18 and, during 2Q18, we consumed some of the products that have been prepared for that stoppage. Therefore, together with a more straight and tight management of our inventory, we have had a decrease in the valuation of the inventory.

The second one has to do with taxes. As you can also see, the difference between the IFRS and the P&L taxes are also contribution for that. These are the main differences. Of course, there are other effects, as the underlifting component that Filipe already mentioned to you, but we have also negative effects, as the time lag. All in all, those are the most relevant ones that you can find in our free cash flow.

Alwyn Thomas – Exane BNP Paribas

And I guess for the rest of the year, just on cash flows, if there's anything you're able to say on whether you were in an underlift position at the end of the second quarter?

Carlos Gomes da Silva, CEO

For the rest of the year, we will still have maintenance in our FCC system, as I mentioned to you previously, which means that we will have to make stock builds to prepare that maintenance in 3Q18. That should be recovered by the end of the year, so we think that we can be in a similar, stable position as we have been in the first half of the year. Thank you.

Yuriy Kukhtanych – Deutsche Bank

Hi, good afternoon, gentlemen. Two questions on downstream, please.

First, on the marketing volumes. Your direct sales declined 4% YoY and at the same time the Iberian market grew 6% for the same period. I'm just wondering what was the reason for the lower volumes. Are these driven mostly by the domestic market decline, because I understand you had something to Africa as well reported under direct clients? I would really appreciate it if you could elaborate on that one.

The second question is on IMO again, for which I apologise. You mentioned that you are testing some products with your clients and if you could provide us with a little bit more details: what exact products are you testing? Is that some kind of blend or mix of gasoil and heavy fuel oil, or rather ultra-low sulphur fuel oil? Would be very helpful, thank you.

Carlos Gomes da Silva, CEO

Good morning, Yuriy, and thank you for your questions.

In relation to the market sales, first and most important is the fact that we had a turnaround in Sines refinery, therefore, the volumes available for trading activities were different. Also, one of our major clients, naphtha clients, in Iberia had made a major turnaround in their industrial system and therefore, it is the one that more explains what happened in terms of volume.

In what relates to retail activities, we have more than consolidated our market share. We are following the market in a stable way, which means that we have been able to benefit from the demand increase in the retail business.

From the IMO, it will depend on the market dynamics and we are prepared for all the movements. Depending on the spreads between sweet/sour crudes and on the demand from high-sulphur fuel vis-à-vis the marine diesel or the very low-sulphur fuel our refining system is fully prepared to respond to the optimal economic solution. I mean, we can put our system producing only VLSFO, we can combine that with diesel, we can use more sours depending on the sweet/sour spread. Effectively, we are keeping all the optionality in order to guarantee that we will use our linear programing optimisation model to get to extract the maximum value from the refining operations in what relates to IMO and in relation to anything.

So, there is not a unique question in this respect, but what I can assure to you all is that we will get and we will work in the optimal solution. If we have to make an evaluation in terms of the IMO impact in Galp's P&L, I would say that it will be neutral to positive going forward. In what respects to the upstream, it will have a positive impact, as far as we anticipate that the spread between sweet and sour crudes will increase, and being Galp a sweet producer, we will get there and we will capture that.

Thank you.

Jason Kenney – Santander

Hi, there, Carlos, Filipe. It's Jason, Santander. A usual question from me on the effective tax rate, please. I think the effective tax was 43% in the quarter. I was thinking it might be closer to 45%, 46%, particularly with the upstream delivery. So, if you can give us some insights as to where that might move over the second half, that would be great.

And secondly, on the refining hedging support in the quarter, how do you see refining hedging moving over the second half of the year, and can you update us on how much of your output is hedged going into 2019, also?

And then maybe if I could just sneak a third one in. Is there a pre-drill estimate on Guanxuma that you could share with us, risked resource estimate, if you've got that? Thanks.

Carlos Gomes da Silva, CEO

Hi, Jason. Good morning. We have to let Guanxuma for another call and another place. I'm sure that everyone is anxious to get more information, but it is still soon to elaborate on that. We need time to better appraise.

In what relates to refining hedging, so, you know, we have implemented a couple of years a strategy which intends to have between 20% and 30% of our throughput volumes hedged. So, 2018 year end, we will have approximately 30%, so it's around 30 million barrels that we have secured at our benchmark refining margin, as it was considered in the past, at $3.9 per barrel.

I will let to Filipe the tax issue.

Filipe Silva, CFO

Morning Jason. No changes in guidance from our side. At the CMD we said 40% cash tax, 50% P&L tax, at least until the early 2020s, and then it should converge to 50s. So, we have timing differences – especially when you are in this environment when Brent goes up relatively quickly – we pay our taxes in Brazil the quarter after, so on a cash flow trail, P&L taxes. And we have mentioned before, we also have accelerated depreciation, which is helpful.

Now, do bear in mind that in our P&L and cash flow statements, you have this Associates line, which is quite relevant for us. We have deconsolidated GGND, we have pipelines, we have assets, where you show on the P&L and on the cash flow statement, these are post-tax numbers. So, you're not taxed again on the associates line.

Filipe Rosa – Haitong Bank)

Hi, good morning, everyone. So, two for me, as well. The first one relates to the FPSO number three at Lula. We have seen in 2017 a capacity utilisation not much above 80% in the first half '18. Again, the capacity utilisation has been around 82%. I believe this is partly driven by the fact that the gas processing capacity has been reached already, so I would like to understand whether this is the case or if there is any other explanation. And more importantly, what should be the guidance for the capacity utilisation at this specific FPSO at Iracema.

And related with this, the capacity utilisation of the second FPSO at Iracema is also coming down. It's still higher, but it's coming down as well, so whether any issue regarding the gas and oil content here in this mix, in these FPSOs at Iracema. That's the first question.

And the second question relates to the refining cash cost in Q2. Okay, if you exclude the impact from hedging, we have had the same unit cost in dollars than – that we had in Q2 despite a much higher capacity utilisation. Could you just provide an explanation why this has happened, because the cost, the opex for refining has been much higher in this quarter than in Q1. Thank you very much.

Carlos Gomes da Silva, CEO

Hi, Filipe, good morning. I will take the second question, and Thore will go over the first one.

So, the cash cost in our refining system. One should bear in mind that during the first half, and specifically the first Q, we have been executing a turnaround, and therefore, we have a double effect. First, the costs have increased for that purpose, for that reason. And the second one is that throughput has decreased due to the fact that the hydrocracker has been under a maintenance programme. So, those two effects combined are the reason why we have in unitary basis higher costs.

So, I will now pass to Thore.

Thore Kristiansen – COO E&P

Thank you very much, Filipe, for your question. I think number one, I will have to highlight that on average the availability of both Lula and Iracema FPSOs is between 85% and 90%. This is in line with our expectations, and is an acceptable performance. That's number one.

Number two, we are – and that has also been what is baked into our production guidance, by the way, we have given you for this year. Number two, this has all to do with prudent reservoir management. We need to think longer term so that we are optimising the ultimate recovery of the reservoir, and that's what it is, from a reservoir management point of view, where we look into what is the optimal mass balance in the reservoir so important. It has not to do anything with gas injection. This is all to do with the mass balance in the reservoir and the balance between the oil we take in and the water we bring into the reservoir. So, it's the totality of the mass balance that is the issue, and we continue to look for what is the optimal level. My expectation is that we will not go lower than this. And that's what I will have to say on this right now. Thank you.

Pedro Dias, Head of Strategy and Investor Relations

We're ready to end this session, which we hope has been useful to update you on our strategy execution and Q2 highlights. As always, feel free to contact our IR team for further clarifications. We wish you all a great summer, and the team is looking forward to seeing you soon after. Thank you.