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Pedro Dias, Head of Strategy and Investor Relations

Good morning, ladies and gentlemen and welcome to Galp's Capital Markets Day 2017. We are here again in London, this time around to present both the annual results as well as the update on strategy, operations and financial outlook.

But before we start, I must advise you on some evacuation procedures. In the case of an emergency, the hotel security team will be in charge and direct guests accordingly. The fire exits are also clearly marked. The evacuation meeting points will be the Embankment Gardens and there is a fire alarm that will sound.

So this morning, we will open the session with Carlos, our CEO; and then we move to Filipe, our CFO. After Filipe's presentation, we'll have a short break and we will come back afterwards with Thore, our Executive Director for the E&P business. At the end as usual, we'll go to a session of Q&A. And after the Q&A, we'll have a lunch buffet where you can have lunch together with our management.

I would advise you as well to look and read carefully the cautionary statement that is in your presentation. I hope you will enjoy the morning that we have prepared for you and that it will be helpful to understand Galp's strategy.

Carlos Gomes da Silva, CEO

Good morning to you all. Welcome and thank you for joining us for our Annual Capital Markets Day. It's good to see so many familiar faces. And let me tell you, it's great to be here today and have the opportunity for sharing and discussing with you our achievements and also our goals for the future.

As I was preparing this event, I remember the quiz that we have made during last Capital Markets Day, on your views about oil prices, American elections and of course Mourinho's new team. Reality was surprisingly surprising, except for the predictability of Mourinho. Yes, the Portuguese has joined Manchester United, whether you like or not. Hillary is not in the White House, and oil prices end year of 2016 were higher than our expectations.

So this tells us why it's forbidden to make guesses about things that are out of our control. That's what we have not to do in our professional lives. Instead, I think we must design resilient strategies and be focused on their execution. That is Galp's way, and in that way that myself and my colleagues, we will try to take you out during this presentation.

First of all, I would like to underline five key messages that we can summarize, the reason why our investment case remains unique.

The first one is the competitiveness of our outstanding portfolio.

The second one is the unique growth profile that our Company is continuing offering to you all.

The third is the strong financial position and as we will present to you, the new cash cycle that we have aspired since a few years ago.

The fourth one has to do with the flexibility and the optionality build-up that this new financial position will gain to us.

And the last one is our commitment to shareholders' value creation. So these are the five key messages that make Galp a unique Company within our industry.

So before looking into the future, because I think it is the most important thing that we have to do today, I will invest a couple of minutes just looking through the 2016 achievements. So, 2016 was a strong execution year, both at the operational and the financial levels in a challenging macro environment.

In the upstream, we have deployed two new units in Brazil. So, one in Lula Alto and the other in Lula Central, and the remarkable ramp-up times that we have got from the units that we are ramping up in Brazil were absolutely unique again. We have had also a production profile during the year that was fantastic, achieving a production growth of about 50% by the end of the year.

We continued to de-risk our forthcoming production facility units, namely the replicants in Brazil, working together with a consortium on de-risking, namely the hulls and taking the direct management control of those hulls and the entire projects; and in Mozambique, namely in what respects to the FLNG units.

Our refineries, even though we had some outages to recover their operationality, we have had a mechanical operationality above 95%. And we continued to benefit from our integrated profile during the whole year. So that said, let's now look to the figures that come out from the 2016 achievements.

In a challenging year, we have become ahead of our forecasted main figures. The higher operation availability, as I mentioned to you, allowed us a production growth that ends up with a 50% growth with an annual exit production of close by 90,000 barrels a day.

The resilient contribution from the downstream activities was also important, despite the challenging year in what relates to the refining margins. Our annual Ebitda stands close by EUR1.4 billion and our capex totalled €1.2 bn, which is in the middle of the range that we have forecasted.

The net debt to Ebitda was close one times, and that was supported by two major contributions; the strong cash flow generation from one side and from the other side, the partial divestment that we have done in the infrastructure natural gas regulated assets.

I also have to highlight three partnerships that we have entered into last year. And let me underline that partnerships are one amongst our Galp's five values, as you can see over there. So the first one was related with precisely the Gas & Power business, where we have had the opportunity to, jointly with Marubeni, to open up new ways in the future, explore and develop opportunities in the Gas & Power businesses.

With Statoil, we also have strengthened our position in Carcará, that was one of the key assets that we have de-risked during last year and again, opened the opportunity not only to look into the BM-S-8 as it is today, as it will be in the coming months or years. And last, but not least, we have reinforced our strategic partnership with Petrobras, which is an ever partner where we are covering potential exploration and production opportunities and as well technical and research programs in areas of common interest.

So that said and we've underlined that 2016 has been really a strong execution year, based on operational and financial achievements.

I would like now to move you into in the future. I think it is much more interesting looking what we have ahead. So, for that, I will put you the same question that we have put to ourselves several times: What are Galp's key priorities? I think we have to have this very clear in our minds. Execute, and I underline again, execute remains our number one priority. We continued focused on delivering the outstanding projects that we have, safely, on time, on budget, optimising always the cash flow and targeting higher returns.

When it came to extract and you know that we underline that our second best project is extracting more value from the existing assets that we have within our portfolio. We continue to unlock value from those assets and feel our growth story investing in project enhancement and accelerating the time to market. I think one of the examples that we had the chance to experience during last year, it was related with Carcará and BM-S-8 as a whole. But during the business plan that we have designed and we will present to you today, we have already incorporated a second wave of developments, namely in Lula field.

The third one and I must assume as the third pillar of our strategy is explore. For that, we will continue to develop our portfolio and complement it. We will explore new businesses and new opportunities based on innovation across our systems, value creative partnerships and promoting Galp's long-term sustainability. This is who we are at Galp. You saw in the video that we have started this presentation, is executing today, whilst thinking about tomorrow.

Let's now step into the execution and extract from our cornerstone strategy. Starting by the outlook, just a few words in the outlook. So the outlook might be lower for longer, but not lower forever. Indeed, the fundamentals of oil and gas are showing favourable indicators. Let's take into account the current breakeven for taking FID projects, an oil price of at least $70 per barrel will be required to incentivize sanctioning of new projects. And this is in line with Galp's long-term Brent assumptions.

For the LNG, demand projections remain strong at 5% in basis of annual growth rate, and this is namely focused on Asia-Pacific, with India and China leading and playing a key role. After the U.S. and the Australian projects come online, around 50 mtpa of additional liquefaction capacity should be required by 2025. This is a huge amount of new capacity that the system will require. So therefore, there is an opportunity window for new projects to come on-stream that will open up during the next decade. That's precisely where our Mozambican projects will play a key role.

Moving to Galp's portfolio and make it in perspective to what is the industry world-class upstream portfolios. As you know, when we mentioned that we have a world-class upstream portfolio, it's not just because they are beautiful words, all we would like to put ourselves in a positive perspective.

Now, let's put figures on the paper. And you can see that we have that by having operating and sanctioned projects breakeven that stands now below $25 per barrel.

So you can see from our sanctioning and producing assets, which is the resilience that they could have in our stress test situation. And of course, we will have room to improve. You know, we are still ramping up and we need to move forward to what we call the second wave of development to extract the additional value that I've already referred to you. So in few words, I would say that these allow us to be resilient in a low-for-longer oil prices context, and that makes one of the key issues that, I underline, puts Galp as a unique company within the industry.

On execute and extract, our priorities in the upstream are remaining the same, but of course, we have progressing in the last year. So, currently we have eight producing units, two CPTs in Angola and two FPSOs in Brazil. So we have put the system in Lula Alto and Lula Central in the last year additional two units, and the seventh one which is the first replicant is already on location. And we expect to have the first oil in the coming weeks as it was planned; I insist as it was planned.

By 2021, we will double the number of producing units and that will deliver significant production growth during these next five years, and even beyond. Other key assets that we have within our portfolio are expected to come online in the next few years, and namely in the next decade. And I'm referring to Coral, Mamba and, of course, to Carcará and Júpiter.

So we cannot be doing our strategy update without highlighting the two most important projects that we have within our portfolio. So let's now move to Lula/Iracema and Mozambique Area 4 projects. So quick view in Lula/Iracema. So the execution has been exceptional and has been exceptional taking in consideration the magnitude of this outstanding project.

The first development phase has already 70% of capex invested, and it is one of our key areas of working that we continue to implement a set of actions to reduce the replicants' execution risk and meet the targets of the deployment dates. Thore, later on in our presentation, will enter in details on this issue.

Our strategy is also to extract more value from our portfolio over the entire project lifecycle. There are two levers that we are pulling in this Lula/Iracema project. The first is the economic improvement, achieving reductions in drilling and completion times and taking advantage of the industry deflation.

The second one and we have insisted on this several times and we are, let me tell you face to face, we are fully committed to improve the recovery factor of this outstanding project, aiming at 40% during the entire lifecycle of this project.

In our business plan that we are today presenting to you, we have already incorporated some incremental recovery factor from 28% to 30%. It's a small sign, but it gives you our commitment on what we have to achieve in the coming years. So, moving now to Mozambique. It is another outstanding project. We have internally approved the investments in Coral South, with a FLNG unit with a capacity of 3.3 mtpa. We are getting closer the pre-FID. As we achieve approval from all partners, the conclusion of some key documentation that as you might understand is quite complex and, at the end, the financial closing.

For the Mamba onshore project, which is the core one for the Mozambican development, we have received the EPC proposals and we are working on them, optimising them, and taking all the re-engineering that allow us to have the best project in place. Of course, the cost deflation is helping us, and that coupled with the quality and scalability of the resource base, places Rovuma as one of the most competitive LNG projects in the world. And of course, this will also rebalance the gas weight in Galp's portfolio, which is in line with the low carbon pattern that the world is experiencing. Altogether, execute and extract, and I'm speaking about the current portfolio that Galp has, will result in a unique growth story. It comes again the unique profile.

An annual production growth from those projects will reach 15% to 20% until 2021. Our growth guidance remains the same as you are seeing, albeit, now from a higher base. In long-term, by executing the projects that are still to be sanctioned like Carcará, Júpiter, Coral and Mamba, and extracting more volumes from the assets already producing, we expect to maintain Galp leading growth as this pattern. And these growths will be driven by value over volume. I will repeat this, these growths will be driven by value over volume.

So moving now to the downstream, what we use to call our legacy business. But at the end of the day, it is still contributing with approximately €1 bn to our Ebitda. It will decrease the relative weight in our P&L, but that is due to the fact that our outstanding projects in the upstream will gain a visibility and importance in our P&L. So starting by the outlook in the refining, and especially in the European refining industry. I think these challenging times are here to stay. So, let me tell you the reasons why we think it is like that.

So, from one side, the demand growth will slow. So it continues to increase but is slowing, and it shifts towards Asia, Africa and Latin America. And this is due to or driven by urbanisation and demography. The largest crude supply growth come from unconventionals, and that is resulting in an overall lightening of the global crude slate, and you can realise what are the implications of that new reality.

Access of European refining capacity will increase, lowering the utilisation rates, which of course, should lead to additional capacity rationalisation. And the last one, it's a key driver that is changing the paradigm in the industry. In fact, the product demand will be done by the International Marine Organization sulphur cap to a 0.5% that we'll put by 2020 as a target. A target that was previously established for 2025, so it has been anticipated five years. This will cause a shift in bunker global supply, from high sulphur fuel oils to compliant fuel oils or to marine diesel but with the long-term solutions still to be defined. So I think the industry is not still yet prepared to fully address those challenges.

So that said, how is Galp positioned in this macro environment? As you know, and you know well our Company, Galp has a reliable refining system, and we have still further room to improve. By 2020, we are targeting a top quartile benchmark in what concerns to energy intensity and of course, operational availability. The plan that we have under development and execution will increase our conversion capacity and our energy efficiency adding to our refining margin $1 per barrel. We are pursuing in a committed and disciplined way this target by the end of this decade.

On the marketing side, our goal is to address our clients with different differentiated offers that are able to reinforce our business competitiveness. In Gas & Power, we want to grow, and we want to grow our gas portfolio and sustain its profitability. To do this move, we will expand and leverage our client base first in Iberia and then abroad. All-in-all, and as I've mentioned to you in the beginning, the downstream business stays with a relevance in our P&L of approximately €1 bn taking into consideration all the consolidations and all the assets that are included in the portfolio.

So based on our execution and extract focus, we will take now to a new cash cycle. We are close to 2018 and we remember how we were expecting to reach 2018 sooner than later. So this is something that we have to deserve to be there. And I think we at Galp, we have been committed. We have to have luck, of course, but luck has a lot of work behind that. And this new cash cycle puts Galp expecting to have a free cash flow positive, considering a $55 per barrel, in 2018. And I have also to highlight that as previously anticipated, our Brazilian operation should become free cash flow positive during 2017 based on a $50 per barrel, I will say, based in a lower than $50 per barrel basis.

So our cash breakeven should continue to reduce over time as our portfolio is maturing, and it was from around $65 per barrel as the previous period to less than $35 per barrel in this new cash cycle. I think this new cash cycle allows us to capture new opportunities in a world that are under accelerated transformation; And, of course, again underlining our commitment with a financial discipline with a solid capital structure.

Let's move now to the third pillar of our cornerstone strategy and I'm speaking about explore.

One can assume that fossil fuels will continue to be the base of the primary energy system for decades to come, but at the same time, we cannot ignore that the risk might come from a faster transition for lower carbon world. So that said and again knowing that we have this execution and extract outstanding challenges, how should we take decisions in this new macro environment? We have been thinking about that in the last couple of months together with our Board. And we have built internally different scenarios. You remember as I started, we should not make guesses about things that are out of our control. Therefore, we have used this scenario approach with different intensities of technology disruptions and regulation levels. They are the two main issues that could make different worlds that we have to un-shrink with proper strategies.

So looking at to those different scenarios, we came to common challenges that apply across all the scenarios even if with different levels of impact. One is related to oil & gas, and in all scenarios it's expected that oil & gas maintains an important role, while renewables were growing their weight in the primary energy mix and in any ever scenario.

Primary energy demand will increase mainly in regions where demography is also increasing, so in LatAm, in Asia and, of course, in Africa. The world is under a transition for a lower carbon and that lower carbon economy is I think something that could our industry with a different perspective for the answers and the strategies that we have to build. The electrification rates will also increase through a decentralized production with what is so-calling the presuming coming as a new trend. So producers and consumers become the same entity and they will be around every part with the urbanisation processes leveraging that trend.

Customer solutions also become smarter and much more interconnected. We are all of us today completely interconnected. Technology, innovation and digitalisation will be a key success factor and a competitive advantage for any business. So this is why at Galp, we assume adaptation as a mandatory process for sustainability and that's why we have been adjusting our strategic positioning.

In this world with these trends, with different levels of intensity, how can Galp be more resilient, because resilience is one of the assets that we have. So let's move across our business and try to get the main conclusions that we have achieved. Starting by the upstream. We will continuously feed our upstream funnel with projects where Galp has either a competitive advantage or a strategic angle, namely through exploration and discovered resources opportunities in order to sustain the competitiveness of our future production growth. We will also maintain a balanced exposure to gas.

In the downstream, we will adapt to new product specifications on demand patterns as well to a digital hope and shared economy in a world where the consumers' behaviour is permanently changing, and with the growing cross-industry competition where the competitors are less visible. All the industries are crossing their competition and we have to take that within our industry. We will continue to develop exports and trading skills to leverage on a global market growth, and we also seek to develop our hinterlands within the countries in Africa, where we have a strong position and I'm speaking about Angola and Mozambique. To be clear, fossil fuels continue to be core in our strategy. And at the same time, we will need to develop new primary energy solutions and new business opportunities to address this industry's challenges.

For that, we have to expose ourselves to lower carbon solutions and improve our resilience in this new world; at the same time evolve from the so-called product-driven for a solutions-driven provider with innovation, convenience and flexibility. If you look around you see Galp's values, you can see sustainability and, of course, partnership, agility, innovation and trust. So this is within Galp, where we are trying to incorporate also in our strategy. We are placing technology development and digital agenda as a priority at Galp, at all organisational levels, and I have to say starting by the leadership. This is really important and for an industry that is viewed and is thought as a kind of too conservative is absolutely required to keep that transformational agenda in our mind. But underlining that our core remains fossil fuels, with a more balanced gas in our portfolio.

So we are reaching the ending part of my interaction, and I would like now to move to the capex allocation and the final remarks. Starting by the capex allocation that has to be seen at the light of the strategy that I've shared with you. So going forward, our capital allocation remains consistent with the strategy and that I briefly described to you. To execute that strategy, there are two things that have to be very clear.

The first one is that, oil & gas business remains our core activities. And these are the activities where we will allocate most of our capex, that has to be crystal clear in your mind. That said, we have to start kind of a diversification into lower carbon solutions and develop new business opportunities. This ultimately will result in our main goal, which is sustainable value creation to our shareholders. It's our purpose and has to be our commitment. We are also committed with a balanced dividend policy. In the business plan that we are presenting to you today, we have considered €0.50 per share as a reference dividend policy. But that is, I also underline a reference.

In future distributions, we will take in consideration several important aspects. The first one is the macro context, one thing that is out of our control but that we have resiliently defined our strategy. The second one and I think this is one of the most important, is the opportunities to redeploy capital that continue to create value for our shareholders. The third one is cash flow generation. And finally, we have to keep doing this with a strong financial position.

So moving now to the main messages that I would like you to retain from today's presentation. And they are basically three. So, the first one is that Galp is a growth and value story, and why is that? Let's put figures on that. Our annual production will grow 15% to 20% from projects that have a breakeven below $25 per barrel. With that, we will have an annual Ebitda growth rate of around 20%, and this will lead to a 15% return on capital employed by 2020.

The second one, is the growth profile that gives us the flexibility and the optionality for our portfolio, expanding the existing businesses and entering into new ones, supporting Galp's resilience while maintaining our profitability at a target of 15%.

Finally, the third one, and this is the one that we will sustain. This strategy is keeping a disciplined capital allocation and a commitment to shareholders' return. So our growth and value story, I think it is simple and unique. Galp remains faithful to itself, while we are adapting to a new world and we have to take that seriously within our strategy execution.

So I will now thank you for your attention, and I will pass to Filipe, he will cover the financial matters. Thank you.

Filipe Silva, Chief Financial Officer (CFO)

Thank you, Carlos. Good morning. Thank you for joining us, you know, this is important to us. My job today is to go over our 2016 results, before getting into the key highlights of our five-year business plan.

You will see that our equity story is very much on track and is being de-risked year after year. Starting with our 2016 net debt evolution and cash generation. This is the key slide, if you want to understand the Galp fundamentals. On the left-hand sidebar, you have Ebitda plus associates. This is on an IFRS basis, no adjustments. It reaches almost €1.5 bn, up 20% in a year with Brent down 17% and refining margins down 40%. Net of all, capex, interest, taxes and paying the dividends, we were left with €357 m of negative free cash flow.

Galp is of course, a high growth story, with a very high proportion of our capex going into new development projects. These do not generate any cash at this stage. So if you were to exclude the capex going into this expansion, €800 m in 2016, you would be left with €450 m of positive free cash flow after dividends. So €450 m of pre-expansion free cash flow post dividends, and this with two FPSOs still being ramped up, way below their nameplate capacity. Including the 22% divestments in the gas infrastructure business, GGND, deconsolidating that business and the monies we got back from Sinopec from the loan we have to them, we have net debt down €0.5 bn, over €0.5 bn during the year.

A few words now on our 2016 P&L and balance sheet, and please bear with me for this one slide, as there are a few points I need to make here. RCA Ebitda was down 8% in the year. Ebitda for E&P was up 40%. The fourth quarter E&P numbers you saw this morning were probably higher than what you were expecting on the back of rising production, rising Brent prices and a stronger dollar. But as you would have seen, we have also started to allocate to E&P the trading activity related to our crude oil produced, and this is consistent with what we have in the business plan. This activity used to be booked under Refining & Marketing, where the trading and shipping division sits and as the production from E&P grows so quickly, we think it makes sense not to allocate all value to E&P.

Upstream opex continues to benefit from the dilution effect of the much higher number of barrels that we are producing both oil and gas. However, in 2016, opex also includes a one-off positive adjustment, so less opex related to an operating levy paid during previous years, for which we've got credit for now in Brazil.

So overall, a strong period for E&P, albeit supported by a couple of positive one-offs. On the other hand, Refining & Marketing Ebitda, as expected down 26% in the year. We are comparing 2016 versus 2015 that had bumper refining margins, if you recall. And we are also allocating now to E&P the trading of the oil produced. Also bear in mind that our FCC was down for two weeks during this last quarter and we had a negative time lag effect.

Overall a weak quarter for Refining & Marketing, albeit a bit of temporary noise in what was an otherwise quite reasonable year for Refining and Marketing.

Gas & Power Ebitda down 18% in the year. Here we need to bear in mind that we have deconsolidated GGND at the end of October, so there are no Ebitdas for the last two months of the year. And the natural gas business was also weaker in Q4, especially compared to a very strong Q4 in 2015. Below the Ebitda line, we have incremental amortisations coming from the commissioning of the new FPSOs. And also, as you may have noticed this morning, we have increased the depreciation rates on some of our refinery assets to be more in tune with a more conservative view of their useful lives. This faster depreciation is also built in in every year of the plan that we are presenting today.

Full-year net income on an RCA basis was down 24% and up 46% under IFRS, most of the difference coming from important and negative inventories effect we had in 2015. With the deconsolidation of GGND, our balance sheet here on your right-hand side now gives a better picture of a pure integrated oil and gas companies, having deconsolidated the infrastructure assets.

In the balance sheet, I would highlight the work in progress line, €2.6 bn, which is almost a full third of our entire net assets. This gives you the magnitude of what Galp is undertaking at this stage, and this is what underpins the cash flows about to come our way. Net debt, €0.5 bn or so down as we have discussed and equity up €350 m. This was supported by an appreciating dollar and Brazilian real. These are the currencies of some of our largest subsidiaries.

You'll see at the back of our book in the appendix that our gross debt continues to fall. It was down to €2.9 bn at the end of 2016, down €700 m from the previous year. Net debt at year end was €1.2 bn considering the loans to Sinopec and this leaves Galp with just 1 time net debt to EBITDA. Finally, our liquidity €2.8 bn, this includes cash credit lines and loans to Sinopec. This is almost as much as our entire gross debt outstanding. So this is based on which we have filled the business plan.

So business plan, and first the key macro assumptions that we have made. You know that in this business, this is really what drives business performance, other than exceptional management, of course.

During 4Q16, Brent was hovering at around $50 per barrel and this is what we have used for the entire 2017. From then onwards, we increased $5 per barrel per year until we get to the same $70 we had at the end of the plan last year. We just take longer, so we take a more conservative approach on the speed at which Brent goes up over time.

As for refining margins, here on the right hand side, 2016 happened to be quite weaker than what we were expecting, $3.1 benchmark versus $3.6 expected, which is not entirely surprising given that we also had higher Brent prices. Going forward, we are assuming that the benchmark falls gradually to just $2.2 per barrel, and we have kept our dollar assumptions fairly unchanged at $1.1 to the euro throughout the period.

Two slides now on capex. The 2016 capex of €1.2 bn was helped by significant savings in drilling and completion in Brazil and by delays in our Mozambique projects. However, these savings were partially offset by higher dollars and reals, which affect our capex. For this year, 2017, capex guidance is between €1 bn and €1.2 bn with over 70% allocated to BM-S-11, so the rest of Lula effectively, and Block 32 in Angola. We are updating downwards our capex guidance for the next five years to €800 m to €1 bn per year on average. At the midpoint of €900 m, this is about 20% below the guidance we had given you last year.

I must stress however, that we are not reducing the number of projects or the scope of the projects. Galp continues to invest and is taking full advantage of the market downturn to consolidate the competitiveness of its asset base. The lower capex estimates come essentially from a gradual roll off of the plan, as the peak capex years in Brazil are behind us.

On this slide, you have here it under project execution bar, which is really the effect of taking out 2016 and adding 2021, which has lower capex. We also have efficiency gains and cost deflation, which continue to contribute very materially to our business plan. So we are assuming lower costs from faster drilling and completion in Brazil, now adjusted to be in line with what was actually achieved in 2016. And we are assuming spread rates to come down from 2018 onwards. Now, Thore will expand on this.

On the right hand side, you see that we have about 60% of our upstream capex already committed. This is Lula and Iara in Brazil, Blocks 14 and 32 in Angola, and Coral in Mozambique. That leaves about 40% of the planned upstream capex still to be sanctioned such as Mamba, Sépia and/or Carcará. And we continue to be disciplined on the exploration front, so we have no relevant to drilling commitments for the next couple of years. All-in-all, upstream capex should account for roughly 80% of our Group capex commitments for the entire plan period. Our capex assume that Mozambique is project financed. This reduces our overall capex commitments in the plan and we are still working on that finance package as we speak. As for the downstream, and Gas & Power capex, this should amount to about €200 m per year on average, albeit somewhat front-loaded in 2017 and 2018, and this is centred around Refining & Marketing maintenance, and the enhanced conversion in the refineries.

Two slides now on Ebitda and cash generation. So we are guiding towards Group Ebitda annual increase of 20% compound between 2016 and 2021, as Carlos mentioned. These upstream Ebitdas are somewhat impacted by the low Brent assumptions or Brent assumptions are down versus last year's plan, and we are assuming that the unitisations in Brazil start from 2018 onwards. We are also still assuming that the ramp-ups for the forthcoming FPSOs take 15 months. Upstream technical costs should remain under $20/boe after 2020, even after the higher cost Block 32 comes on stream next year. This is driven by scale, efficiency and the increasing mix of our Brazilian barrels in the overall portfolio. Brazil overall, so not just Lula and Iracema, should be close to $15/boe. And Group lifting costs should remain well under $5/boe. So we're not assuming in the plan any Ebitda from Mozambique nor Carcará nor the third units for Iara nor Lula West. All of these should come on stream by 2021 and beyond.

Downstream, Gas & Power Ebitda, plus the respective associates that are becoming quite material now, this is expected to grow gradually over time to approach the €1 bn mentioned by Carlos. Within this, we have oil marketing Ebitda and we are expecting this to remain flattish over time and the declining refining margins to be more than compensated by our premium over the benchmark. This should continue to go up over time. We are assuming $1 increment from higher efficiency conversion capability in the refineries. Our €150 m per year cost program is progressing well, and we have about €100 m of that already implemented.

On the Gas & Power side, we see the business delivering Ebitdas of €150 m to €200 m per year, plus around €100 m from our stakes in GGND and international pipelines and these are booked below the line and their associates. Now since late 2016, when we prepared the plan, we have managed to hedge about 20% of our 2017 refining volumes with a margin of $3.4 per barrel. The benchmark we're assuming in the plan is $2.5. And so far this year, refining margins, Brent, the dollar and production are holding quite well, so better than we have in the budget, so let's see.

On free cash flow, we are still expecting a negative number this year post dividends. We are now much more confident that Brazil will become free cash flow this year. And as a Group, we should turn free cash flow positive sometime during next year, as per previous guidance. As six new FPSOs start producing in Brazil and Angola over the course of 2017 and 2018, our cash flows become meaningfully positive in 2019 or starting in 2018. In that year, 2019, Galp should be free cash flow positive post dividends with Brent well under $35 per barrel.

Our net debt-to-Ebitda should peak at around 1.2 times this year, 2017, falling quickly thereafter as Ebitdas increase quite sharply. This is on the basis of the current plan, and by that I mean without investments in projects not already in our portfolio, nor considering changes to IFRS rules, which may lead to the re-classification to debt of some of our operating leases.

You heard Carlos saying that the business plan continues to assume a flat dividend of €0.50 per share. This is the base case, and we are confident that we have the opportunities to recycle excess cash into new value enhancing opportunities, if not, then it will be distributed away.

To wrap up, our portfolio is very competitive, and well-suited to the current environment. The existing asset base is already free cash flow positive post dividends and our capex commitments are being channelled into incremental projects, which are also of the highest value to Galp.

I will also remind you that our upstream portfolio is highly geared to rising oil prices. Galp is able to capture any oil price upsides, given that its production is overwhelmingly under concession contracts, not production sharing agreements. The Galp portfolio also includes cash generative downstream assets, which we are optimising further. And as we have said before many times, our integrated business model works with invertly correlated cash flows between our core divisions, so less volatility than many of our peers.

Our balance sheet is stronger than ever, which gives us the flexibility around our portfolio options. Having said this, we are primarily focused on the good execution of our projects in the current portfolio, as Carlos made it clear. Thore will go over these projects and you'll see that he's got his plate quite full already.

So to conclude, and with no surprises, we stick to the very same metrics we have been announcing here every year for the last four years; free cash flow positive in Brazil in 2017, free cash flow positive at Group level post dividends in 2018, post dividends paid in cash. What changes, is that every time we stand here we get one year closer and we increase very materially the confidence with which now we are committing to the metrics we're giving you.

With this, I conclude my presentation and we break for coffee. If I could please ask that you are back in the room by 11:00 AM. Thank you.

Thore Kristiansen, Executive Director E&P (COO E&P)

Welcome back, ladies and gentlemen. My name is Thore Kristiansen, and I will give you an update where are we on our E&P growth story, and where we are heading. Hopefully, you will remember from last year that we have a very clear and simple E&P strategy focused on the 3Es. The number one E is to execute and to deliver our products safely on time and on budget. That is our number one priority. Number two, is to extract maximum value out of the assets that we have in our portfolio. That is by improving profitability, improving robustness and squeezing as much out of the ground as possible by improving recovery.

And the third E is exploration that we continuously look for ways to fill our portfolio of new opportunities, either through the exploration bit or through inorganic opportunities. We continuously screen the market for opportunities within our area of interest, and where we believe we have a strategic advantage, namely in the Atlantic margin. And we do this, while we continuously try to build our operating capabilities, slowly but surely, but strengthening the muscle also on Galp, when it comes to be an operator. We are investing systematically in R&D in order to improve our technical know-how and competencies, so we can add even more values to our barrels. And in that respect, people development is really key, to continuously develop our people, so that we have the best competencies also in-house. And we try to work in a long term and sustainable way by building our relationships to our key stakeholders.

Let me share with you a little bit where are we and what some of the key achievements were in 2016. 2016 was a good year for Galp in E&P and I hope that from this slide, you can see that it's quite evident that the 3E strategy is working. We kept on delivering as we had promised and actually delivered a 48% increase in production through the two new FPSOs. Thirdly or secondly, we were able to extract more value. And we were able to extract more value by improving the profitability in the products. For example, by that drilling and completion times were reduced with 23%, operating costs were down with 14%, and we have dared for the first time to improve expected recovery on Lula/Iracema with two percentage points. I'll come back to that a little later.

Thirdly, through exploration, and to expand our opportunity set, we secured two, we think strategic MoUs with two world-class companies, Petrobras and with Statoil, which we believe that over time will open up the opportunity set for Galp in this business.

And last but not least, we internally came to FID in Coral South. And for us this is a very, very material project, something that for many decades from now on Galp can enjoy. This is a long-term development of significant world-class gas resources in Mozambique, and it will in an important way also start to change the Galp portfolio to become also a more gassy portfolio. And I think it is fair to say that Galp has been through a remarkable journey over the last ten years on E&P.

Our current production is running around 90,000 barrels per day, that is more than five times what it was 10 years ago. And we have expanded our portfolio, so we now have 53 projects of different levels of maturity in six different countries. And our capacity installed has increased significantly. And we continue to bring on new units in order to further expand this capacity, the latest now being Lula South that is heading towards production in this quarter. But you should also note here that this also factors in 32,000 barrels of installed capacity in Angola in Block 14 and where you would know that there is a huge under-utilisation of the capacity due to the level of maturity of those fields.

And we have been able to recruit and hire good people, first-class people from 16 different nationalities that is really is the core of this transformation of Galp, and the company and which I also think is the sort of the key reason for why we believe that this journey will and can continue. And we do this on a very, very strong asset base. We have almost 2 bn barrels of 2P reserves and 2C resources, and that is actually a 31 years reserve life. And this is what will sustain our long-term production as Carlos referred to in his presentation. There was this year no major changes to our reserves and resources as we did not FID any projects in 2016, but we continue to work hard on maturing the barrels, moving them from resources into reserves and you know we have projects like Carol South, Carcará, Sépia, Mamba and also the Lula Phase 2 as very, very important part of the resources that we can now bring into reserves in the years to come; almost 2 bn barrels, strong by any standards.

And the project execution is also on track. We have no major changes to the project execution compared to what we have said last year and that is actually really good news. Lula South, which is the first replicant, is now on the field, eight anchors are secured. We believe the ninth anchor is going to be secured today, after the 24 anchors you need in order to secure the FPSO offshore, which leads us to believe that there is a really good probability that we will have first oil by the end of this quarter.

Lula North is expected to deliver first oil late in 2017 or early 2018 based on our current expectations. And 2018 will be a really exciting year for us, where we will get four new units to come into production, including Kaombo, where possibly the last unit will slip over to 2019, as there has been some execution challenges with regard to Kaombo FPSOs at the shipyard.

On Coral, we're currently expecting first gas in 2022. And I would say it has been a really good job done by the team in order to make sure that we are able to deliver the projects on time and on budget. And since the revised schedule that we shared with you two years ago, here in London, there are really no major changes to the schedules based on the internal plans of Galp. And key in this aspect has been the de-risking of the replicants. Some of you will remember that I, two years ago here, was really concerned about the risks associated with delivering the FPSOs in Brazil. But really good work has been undertaken by the partnership by de-risking the execution and I can say today that I believe that risk associated with delivering the replicants in Brazil is significantly reduced.

Key in this aspect has been the risk mitigation activities undertaken that being the three hulls and two integrations has been moved to China. That being that we have re-awarded the gas compression contracts. That being that escrow accounts have been established in order to make sure that the payment can be delivered directly to the sub-suppliers. And it also means that actually Galp's internal cost estimates for these replicants is maintained and within our business plan budget and also the timing, which I shared with you on the previous slide. And actually on this slide, you see the first replicant, which is on its way sailing towards Lula South.

And I need to spend a little bit time on Lula/Iracema. Just to remind you all, what a fantastic reservoir this is. We continue to be positively surprised about the performance of this reservoir. On average, we are currently seeing 30 kbpd, significantly outpacing other pre-salt fields in Brazil, making this world-class. And ramp up is taking place faster than expected.

Actually Lula Alto reached plateau in 10 months. And Lula Central, we expect plateau to be reached in 13 months. But for our business planning purposes, we are expecting the next unit to spend around 15 months for ramp-up. That is what we're putting into the plan and we hope that this can be improved over time.

And I think also this illustrates on this slide some of the operational efficiency improvements that has been undertaken in order to maximise returns. Look on the drilling and completion time here. We started spending more than 200 days drilling and completing a well in Lula/Iracema. In 2015, that was 100 days. Last year, it was 85 and the long-term ambition is to get it down to 75. And as well, we are trying to work now in order to also optimise the rig fleet and the costs associated with the rigs that we are employing, so that we also get the spread rates down.

And the third very important thing we work within this respect is to try to extend the plateau periods. On the first unit, we believe we can extend plateau period to seven years. For the remaining units, we continue to use three years as the plateau period that we have in our business plan. But rest assured that that is an area where we're spending a lot of time to see how can we extend it even further. Infill drilling being an obvious answer in this respect. And we have already located that we have 18 unused drilling slots on these units, which is then an opportunity to have more drilled well capacity.

Another very import factor in Lula/Iracema, which we believe contains some 20 bn barrels of oil in place, is to improve recovery. One percentage point improved recovery is 200 million barrels of extra oil, 1 percentage point. And we have this year, included for the first time a 2% increase in expected recovery and 2% doesn't sound that much, but it's actually 400 million barrels of increased recovery.

And we work now very hard and systematically with our partners to detail out the plan for how to reach this ambition of 40%. This is not easy, it's not walk in a park, it's going to take a long time. But there is a very, very dedicated work done on it and we have a special dedicated team in turn in Galp that works in order to detail this out.

The next important step for us in BM-S-11 is to put Iara on stream. And I think we will highly benefit from all experience from Lula/Iracema when putting this field on stream.

And it's interesting to see the company like Total has also now expressed an interest for this field. On Berbigão and Atapu 1, it is now being executing according to the plan and we expect first oil in 2018 and then we spend time with respect to Atapu 2, where is the best possible location of this unit. In this respect, we know that there is significant amount of oil in place in Sururu Central, but it is a much tighter reservoir and we need to better understand the reservoir dynamics in this area of the field.

And we are right now drilling a well in Sururu Central and we are also planning to do an extended well test in the second half of 2017. And this together will improve our understanding of the reservoir in this area in order to hopefully find ways where we can better utilise these significant resources that are also in the middle of the Iara field.

And we are preparing for the next phase of pre-salt deliveries. And I would like to say it in this way, *Velkommen til Statoil – det vil bli en glede å jobbe sammen med dere – igjen* and I'm sure that was crystal clear for you all, but it was something in Norwegian, saying something about, welcome to Statoil, it's going to be very nice to work with you again. Some of you know that I worked with Statoil for many years, and I think we are very lucky to have such a capable operating company coming in and leading now the further development of BM-S-8.

We love Carcará, we see it as a fantastic reservoir. It's high pressure, so it is technically more complicated, but we believe that the reservoir salts really can be performing very well, and with Statoil putting on their A team on this, this is a way for us to de-risk a very, very important asset. And then you know that the discoveries in Carcará extends outside of the licensed BM-S-8, and we expect that there will be a licensing around taking place in Brazil for this area during the course of 2017.

Another very interesting asset that we're going to put on stream in Brazil in not so distant future will be Sépia. And Sépia is actually a little part of BM-S-24, where you will know that we have Júpiter. But in the northern part, we have a sliver of something that extends into the Transfer of Rights area, and which will be called Sépia and in our part Sépia Leste or Sépia East. And we expect today first oil there to be around 2020.

On Júpiter, which is technically very challenging, mainly due to significant demands of CO_2, the key work right now is research and development in order to find technical solutions in order to manage the very high CO_2 content.

Then I need to spend a little bit of time also on Mozambique. Let's remember, 85 trillion cubic feet of gas in place just in Area 4, 85 trillion cubic feet and we actually see Coral and Mamba asset as an integrated project to be developed together. Coral as a first enabler breaking ground and then we will see Mamba coming on stream in the years to come with significant opportunities for synergies among the different trends and also for synergies with Area 1, as that is a straddling reservoir.

This is the first step to enable a long-term natural gas strategy for Galp in Mozambique. This is very material and it will be an important enhancement of the production profiles for Galp. And it represents a portfolio diversification. This is a long life asset with stable cash flow, which I think is very important to get into the portfolio over time.

And on Mamba, the current focus is now to find the best development solutions and to see what is going to be the sort of the compositions of the trends. We have had bids out in 2016 and the price indication that we've gotten back from the market has been very interesting. I promise that there is real opportunity to make some very interesting business out of the natural gas business in Mozambique.

In Angola, Kaombo will be very important for us in order to make sure that we are able to recover production in Angola. Angola right now is in heavy decline, Block 14 is very mature and we are not currently drilling any new well, so I actually expect that we could have up to 25% decline in Block 14 this year. But Block 32, when it comes on stream and we expect it to come on stream in 2018 at least with a first unit, hopefully two, will stabilise our production in Angola.

In Block 14, our key focus is cost and cost control and at the same time that we are discussing with the government what will be the terms and conditions for any further investments. Let's see what the outcome is going to be on that.

And then on our exploration strategy, I say this is focused and for those of you that did not sleep in your geography lessons, there hasn't happened anything in the world, as Namibia is still south of Angola, that's just a little print arrow in our program, but we are in both countries. And Namibia remains to be south of Angola. But it is a very important long-term contributor to our portfolio.

We continue to look for opportunity in the Atlantic margin where we should participate in licensing rounds and we continuously screen for inorganic opportunities. And we believe that the two MoUs that we have secured with Statoil and with Petrobras, also long-term will create opportunities for us to further develop the portfolio together with these two companies. And it's important for us also here to slowly but surely also resume operatorship and you will have noticed that in 2016, we assumed operatorship both in São Tomé and in Namibia.

On the exploration scene for 2016, the most important well we are going to drill is Guanxuma in Block BM-S-8. That is a real exploration opportunity in BM-S-8, which on the seismic pictures looks very interesting and could if successful represent a significant additional resource to our BM-S-8 reserves and resources. And then we are possibly going to drill in Portugal for the first time next year and the first deep offshore well, let's see.

In Potiguar, our key exploration activity is to analyse the 3D seismic that we have acquired in order to identify new drillable prospects. And in São Tomé, we are part of the largest seismic acquisition campaign ever in Galp's history, 16,000 square km of seismic is being shot, 16,000, that is, one-sixth of the acreage of Portugal. It's a significant campaign by all standards, actually will last for seven months, 3D seismic, and we hope that in these four blocks where we are present that we then can find some really interesting drillable prospects. We have a very interesting collaboration with Kosmos in this area.

And of course, safety is paramount in what we do here and then both in São Tomé and in Namibia, Galp is operating ourselves. And this I think is also fair to say, this has led to sustainable growth. I think we can say that the 3E strategy is paying off. We delivered 50% production growth from 2014 to 2015.

We delivered 48% production growth from 2015 to 2016. And we are promising you that from 2016 to 2021, we will deliver on average a compounded annual growth rate of 15% to 20% and that's only based on BM-S-11 and on Block 32. Thereafter, will come the other Brazilian pre-salt assets and Mozambique. So I think you see that we have a portfolio where there is long-term opportunity for growth and development.

For 2017, we are guiding you that we expect a production of between 90,000 and 95,000 barrels per day. That is factoring in two things and that is that we expect significant maintenance to take place in 2017, actually seven units will be down for maintenance affecting the annualized production with around 4,000 barrels per day. And as I mentioned, we have approximately 25% decline in Angola and that need also to be offset. But still this represents almost 35% growth in next year as well.

So let me end then this presentation really where I started. I hope that you see that we have a simple and clear E&P strategy, where our focus is on; one, executing safely on time and on budget; two, extracting maximum value out of the assets where we are present through improving efficiencies and by maximizing recovery. And thirdly continue to explore and looking for ways and opportunities to grow our portfolio either through the licensing round or through inorganic moves that we believe are value accretive for our shareholders.

I thank you for your attention. And then I leave the stage to Pedro Dias for the Q&As. Thank you.

Questions & Answers

Pedro Dias, Head of Strategy and Investor Relations

So we'll start now with the Q&A session. So please raise your hand and state your name and the name of your company and wait for my signal. One of the assistants will get to you and please ask only two questions for the sake of time. Thank you. I'm just waiting for people coming on the stand. So this gentleman over here.

Michael Alsford, Citi

Thank you. It's Michael Alsford from Citi. So I just wanted to ask a couple of questions on your growth profile for your E&P business. Thore, you mentioned in your presentation around your planning assumptions of around about 15 months per FPSO going forward. I was just wondering, why the conservatism in that estimate given the recent track record, particularly we should think about as to how you can ramp up those projects specifically? And then also maybe in that assumption what is the flow rate you are expecting from the wells going forward, again they have been outperforming? So can you give some context about this? Thank you.

Thore Kristiansen, COO E&P

I think what is important to remember is that we will now for the first time put in operation the so-called replicants. The six units that already are producing, are units operated by SPM and Modec and we will now have units that have a very, very different setup operated by Petrobras and I think it is only prudent of us to use this assumption in the first place when it comes to sort of a completely new setup. It is a new invention.

Having said that, I think you will see technically they are possibly even more advanced replicants than the existing units. So they might even have more flexibility. The processing equipment has more capacity than what we have currently in the chartered FPSOs, but we have felt that without any experience, with any evidence, we think it is more prudent for us to using 15 months. That's number one. And number two, on the well deliverability, we are now expecting for instance for Lula South 22,500 barrels per day on average for the new wells. That is for the fact that we naturally, we have placed first FPSOs in the *fillet mignon* and the field is of course being so much depleted still that 22,500 per day in expected average production rate is still high by any standards, that is what we are using currently.

Pedro Dias, Head of Strategy and Investor Relations

The gentleman over there, on that table.

Haythem Rashed, Morgan Stanley

Thank you. It's Haythem Rashed from Morgan Stanley. Two questions from my side. Just I wanted to come back to comment you made earlier Carlos about sort of shifting capital allocation sort of mentioned in the presentation and that this idea of moving to low carbon. If you could just talk a little bit more of what that means to you, are we thinking about renewables here or what that could mean in terms of your capex going forward?

And the second one is just also around the downstream. You sort of alluded to the spec changes on the IMO side that will come in 2020. Are you making investments to prepare for that? Is that something that you think could be quite meaningful for your downstream business coming up into 2020?

Thank you.

Carlos Gomes da Silva, CEO

Yes. Thank you for your questions. So effectively, I think it's a good opportunity to clarify or to go further in that in what relates to capital allocation. So, let's put that in a simple approach. Effectively, that is coherent with the strategy we have presented to you today. The first statement is that oil & gas will remain our core business. So this is the first one. The second one is the low carbon economy that is facing ahead. And therefore, what we have considered, as uncommitted capex, and it's kind of a long-term view assumption is, once we become free cash flow positive, we have to increase progressively our exposure to lower carbon alternative solutions on primary energy generation, which means more gas and over time renewable power energy. There is no commitment on that, but there is a trend that we have to move forward. Taking in consideration that our commitment and our nuclear basis of our strategy is oil & gas.

So secondly is IMO. IMO is I would say one of the disruptions that we will face across all the industry. So the 0.5% sulphur content in marine fuels was forecasted for 2025, so that has been anticipated for 2020. So major conversions will be required on the technologies that we face is that is not still clear. So they are at least outside three alternatives to face that.

The first one is, of course, recurring to more desulphurisation and using lower content of sulfur crude slate. So I would say this is the first one. The second has to do with the technology that will prevail, and that could be a mix between different ones. There are scrubbers that could be installed in the ships. There is also a fleet transition from marine diesel or marine fuel oil mixed to LNG fuels, or finally the refining system has to adapt itself, which means that requires more conversion capacity.

So internally at Galp what we are doing. So we are playing all the balls, the balls that we are dealing is in the first phase and looking into the future is that might be required some combination of at least two. So the crude slate using batches in our refining system and at the same time having kind of a blending of fuel oils with some low-sulphur content feedstock. But taking in consideration that we are addressing the challenges of new conversion capacity, we are taking that opportunity to test our refining system and see how we can fine tune it, basically is more this utilisation capacity that will be required to the system. But this is clearly a sign where regulation is playing a key role. So we might be here addressing questions about Mr. Trump in office will make oil & gas again the new energy that really emerge, that's possibly one of the possibilities. But the low carbon world is facing our lives in a daily basis and we have to address properly, timely and adequately the repositioning of our strategies. And as I've told you in the beginning, we should refrain ourselves to make guesses about the future. This is a trend and we have to fine tune our strategy. I'm sorry for being so long in my exposition, but there is one point that is important. We have also seen that even though low carbon is there to come, at least additional 30 million barrels a day of oil and gas will be required over the next 10 years just to feed the demand growth, which means we will have time ahead to progressively transform and make the transition for this low carbon economy by developing oil and gas resources and we have time to do it progressively. But we have to start to keep that in our mind and progressively allocate capex to this new economy based on the EVs are there, the mobility solutions are there, the more interconnected and integrated solutions for the clients are there. So we have to be working and competing on that space. That's the reason why we have allocated. It's an ambition; it's not a commitment, in terms of what we will do in 2017 or 2018. So that has to be clear enough in your minds. And thank you for the question.

Pedro Dias, Head of Strategy and Investor Relations

The gentleman there on your right, please.

Thomas Adolff, Credit Suisse

Good morning, Thomas Adolff from Credit Suisse. Two questions please. You've given us a lot of numbers. Your balance sheet today is very strong. Net debt-to-Ebitda of 1 time. And your cash flow breakeven longer term is very competitive, $35, which assumes an organic capex of $0.82 billion per annum at an oil price $65 to $70. So it feels like you're holding on to a lot of cash longer-term. So I really wondered, how you think about reinvestment, not just organically, but also inorganically. And then the question around inorganically, when I look at your portfolio today, and take into account the upside from improved recovery factor, your resource base is pretty good until the end of 2020. So how do you think about inorganic opportunities and in which geographies?

The second question I had is on Brazil. We were in Brazil a few months ago and we have met with a number of Ministers thanks to Shell. And they have talked about reform. So I want to get an update on where we are in reform, perhaps talk about Repetro, unitisation, ring fencing, and maybe an update on where Petrobras is with the E&P with regards to the five Transfer of Rights area. And once there is a resolution on the Transfer of Right, can Petrobras farm down an equity in these fields and would that be of any interest?

Thank you.

Carlos Gomes da Silva, CEO

So, I think it is the first time in many years that we are speaking about a good problem to have that I will put under comments as an excess of cash within Galp system. When we look at our outstanding quality of upstream assets, we are committing ourselves with returns to the shareholders in that time have to be around 15%. We have to pursue a strategy in terms of capital deployment that is in line with that. So you know how we like to be and how it makes sense to continue to develop and to deepening our presence in Brazil. Thore has mentioned that 2017, we'll open grounds for new bid rounds. We are preparing ourselves for that as the other operators in the industry, so it shouldn't be any surprise for any one of you. We always mentioned that Brazil was, is and still continue to be one key strategic country for Galp. There are many alternatives to invest in Brazil, not only coming from the bid rounds, but other divestment alternatives that are happening in Brazil. And therefore what we are doing is preparing ourselves attentively, carefully, because we should not be way too much hungry to go to any asset that comes along, by the opposite, it has to make sense strategic wise and also economically wise. So it's good to be prepared to face the challenges in the next coming months or years having a strong financing position.

So therefore keeping the financing robustness and commitment of having net-to-Ebitda below two times, but having a strong position from the starting point, I think we will face the next coming times in a good way. But Brazil, as you have properly mentioned is facing a lot of challenges. There are things that are happening in Brazil related with regulation, tax framework, politics, country risk. There are several issues and angles that we can look into Brazil. But if we start by the fundamentals, the quality of the assets that we have in Brazil, and the ones that might come to the system, they are really outstanding. And you can look around the world, and you cannot find similar qualified assets at least to propose yourselves to invest in. That's the reason why we are looking into Brazil in a completely different way. We look to the reforms that are being implemented in a positive way.

So giving examples to you. Releasing Petrobras of being obliged to invest at least 30% in every new bid rounds and every new assets is something that is reducing the risk exposure to the oil & gas industry in Brazil.

And you can see also at the same time that the competitiveness of the major companies, the major oil & gas companies is increasing in Brazil though. Finally, they have realised and they have discovered Brazil. So we have done that some centuries ago and within Galp some decades ago and we are comfortable. We will continue to deepening our presence in Brazil and I highlight, I underline the two partnerships that I've referred and Thore have reinforced during our presentations, Statoil and Petrobras. So I think that flags to you the work that we are doing and the preparation that we are doing for the coming times in order to guarantee that at least we will be prepared to re-deploy adequately and in good assets other opportunities.

Of course, one of them and we cannot run from that is the surrounding area of BM-S-8. So that makes all the sense for us. Of course, we can have or we have the scenario where we will not be the winning part, but at least we will be there competing, because the unitisation process will be easier and it makes all the sense for us. And as Thore has already emphasized the reservoir of Carcará is expanding to outside of the Carcará of the BM-S-8 area. So, all-in-all, I would say that Brazil is giving positive signs to the industry, is taking the adequate measures that will strengthen the oil & gas industry. There are also some issues related with tax and levies that were challenged by Rio de Janeiro State that are properly being addressed. And we are in Brazil to stay, to reinforce and to deepening our participation and waiting that we will be succeeded, starting by that strong financing position.

Pedro Dias, Head of Strategy and Investor Relations

The gentleman near number five, please.

Hamish Clegg, Bank of America Merrill Lynch

Thanks very much. It's Hamish Clegg from Bank of America Merrill Lynch. I've got three questions, quite short ones. You talked a little bit about your free cash flow breakeven in 2018. I wondered if we could phrase it in a slightly different way and what oil price would you require to breakeven in 2017, all things being equal?

My second question is just on refining margins. We typically haven't spoken that much about them, but you've cut your refining margin outlook. You mentioned the tough environment. Could you talk to us a little bit more detail around that, and how we can see your premium above the benchmark evolving?

And finally my third question is on Mozambique. In your capex slide, you highlighted about a third of your upstream capex over the five-year period is assigned to Mozambique, implying about €1 bn of potential capex on that project. From my understanding, there could be quite a large chunk of project finance used to fund Mamba, sorry, to fund Coral, I should say, and put possibly Mamba beyond that. Could you tell us a little bit about the assumptions you've made on that capex for Mozambique?

Carlos Gomes da Silva, CEO

Okay. Thank you, Hamish. I will take the second one, refining margins and Filipe will take the other two. So refining margins, as we have shared with you, we have considered that under the present market conditions, even though the demand is growing, the the excess refining capacity is there to stay, mainly in European region and the competition is not only within European refiners, but also coming from the Middle East, the independent refiners and from the East part of the Europe.

So that said, the prudence that we have put in our business plan is precisely due to the fact that if the economy will not fly, possibly a pressure on excess of refining capacity will put downwards the refining margins. That said, you know that the projects that we have under development either in the energy efficiency and as well in the conversion capacity will add by the end of this decade $1 per barrel of premium margin additional in refining the Galp refining system.

So what are we seeing today? We are seeing that we will continue to explore our capacity to achieve the United States Coast by using the exports of reformulated gasolines, which grants us an interesting premium. So the differential cracks between European and American gasoline is quite interesting and is contributing for that.

We are also benefiting for the fact that we had reduced our consumption losses within our refining system, so the energy efficiency that we have based on the projects that we have implemented are starting to give fruits to us. Filipe has mentioned that, we have already achieved €100 m of cost reductions in our downstream business.

And, of course, the way we are optimising our refining and marketing system is now much more integrated. So what we have done, we have expanded the borders of the optimisation, so the linear programing economic model is now within the entire refining and marketing boundaries, which gives us much better optimisation in economic terms.

But again, no one could make guesses about things that are out of our control. $2.5 is a reference, if you think it is $3.5 or $4.0 or even higher, the sensitivity analysis that we are going to use that every single dollar per barrel means €100 m in our Ebitda P&L, so it's easy to go. At the same time, to guarantee that we are smoothing our approach, we have some hedging protection, namely for 2017, and we have also started to do some hedging in a small portion for 2018 and 2019.

So basically, we are just starting, but we are hedging at $3.6, $3.8 per barrel, which is much above what we have considered in our base case scenario in terms of the business plan that we have presented to you. But Filipe?

Filipe Silva, CFO

Hamish, when you focus your question about what is Galp's breakeven for Brents and all, again, let me say this, we are an integrated company. So Brent is one of many factors. The biggest is actual our capex profile. Galp is very cash flow positive today and last year and the year before. We're just building another Galp on the side, which is even bigger and even better.

So if you try to get to what is the competitiveness of our existing asset base and look at the pre-expansion capex on my first slide, and Brent could be, whatever, 20, 15, because if you have a very good refining margin environment, like we had in 2015, we were free cash flow positive. So we're not guiding you to 2017, other than to say we expect to be marginally cash flow negative in 2017 with all this capex, Brent at $50, including all this expansion capex.

Your question on Mozambique. On the plan, we have about €2 bn of capex for Mozambique, of which, €1 bn is project finance, i.e., off balance sheet. So the net number that you see in our capex profile for the five years is €1 bn, and we're counting on another €1 bn of project finance, which may or not come as we are negotiating this. And this is for Mamba and Coral, both together.

Pedro Dias, Head of Strategy and Investor Relations

Gentleman there please.

Theepan Jothilingam, Exane BNP

Hi. It's Theepan Jothilingam from Exane BNP. Two questions, please. Just sticking to capex. Could you just give us the profile in terms of thinking about Brazil capex 2017 and 2018, it appears there's probably a rollover there in terms of capex there and perhaps a little bit of color on how you see the rig contracting and your opportunities?

The second point, just coming back to the question on distribution and your comment around, if we can't find the opportunities to re-deploy capital, then we will return cash back to shareholders. So, I just wanted to think about the current five-year plan. Is there some sort of time frame in terms of when you actually genuinely think about an increase in cash return back to shareholders?

Carlos Gomes da Silva, CEO

I will take the second one, I think it's a joint statement between myself and Filipe. But, thank you for the opportunity to make it as clear as possible. 2017 dividends are already decided based on what happened in 2016, so it will be €0.50 per share. For 2017 onwards, the €0.50 that we have considered in our business plan is a floor. Let me put it in that perspective, because it might be sought as okay, these gentlemen are trying to playing with it and could be lower, could be higher. It's a reference, which is a floor.

So we have had to increase progressively, at the same time that we are re-deploying capital in interesting and profitable projects. And as we have already shared with you, there's plenty of alternatives to continue to re-deploy capital mainly in Brazil, in the over coming months and years that we'll take in consideration of that. The cash flow generation, let's go to the assumptions that we have used for 2017, $2.5 per barrel benchmark refining margin, $50 per barrel oil prices.

So imagine as a scenario that this will be much lower than we are considering, and the cash flow that we will generate during the year is much above. But we have re-deployed capital, we have to fine-tune the dividends in one way. If not, of course, we will increasingly take the dividend upwards over time. But don't look at the dividend policy going forward, as a fix blocked and a tricky issue, now by the opposite, should be competitive comparing with the industry for one side. But the other side, I think the shareholders would like and will prefer to have value creative projects that will grant them profit of about around 15%, which is our goal today and tomorrow. And that's for what we are working. Filipe.

Filipe Silva, CFO

On Brazil capex, no surprise that it falls quite quickly. Two elements, we have Sépia coming and we have Lula falling quite rapidly. Then we have built in our plan what we call Phase 2 for Lula/Iracema, so to make sure that we get to the enhanced recoveries Thore alluded to. We have within our plans, something that is not always obvious that as we unitise, we have a lesser percentage of the existing fields. And we have been investing a higher share because our share today is higher than the capex that at the end of the day will come out. So we are assuming some cash-in from the unitisation negotiations as they come along in 2018 onwards. So with the existing portfolio, it falls quite quickly even with that in mind.

Pedro Dias, Head of Strategy and Investor Relations

Number three please.

Biraj Borkhataria, RBC

Hi, Biraj Borkhataria, RBC. I just had a question on Mozambique and Coral specifically. I think the tone's changed slightly since from a few months ago, you're a bit more cautious then and seem to be a bit more positive now. So I was wondering if you can talk about what has changed from the project specifically not related to the financing but the economics of the project? And I think that's happened there over the last few months. Thanks.

Carlos Gomes da Silva, CEO

Thank you for the questions. It's really, so the mood has changed and that is due to reasons that I have shared with you several times. We were re-engineering the projects again and again and again and removing costs that were completely out of a fit-for-purpose project. So we take advantage for the re-engineering for one side, and the market deflation situation. So we have a mix between hard work and luck. So, in our days we are looking into Mozambique as a global project. Of course, Mamba with its scalability and dimension will be the one that puts the profitability of the project, marking its world competitiveness. But one can say that the pre-FID that we have decided internally to accelerate the time to market of the Mozambique and LNG, it's under our risk acceptance from one side and the economics and profitability that we aim to have in those projects. So we have hugely de-risked this project, but we take more than two years or two years and a half and now we are supporting completely the operator on moving forward. Small things to fixed, but I'm expecting that we will be capable to do and to solve them and address them in the coming weeks, I hope not months as I hope weeks. Thank you.

Pedro Dias, Head of Strategy and Investor Relations

Number one here, please.

Marc Kofler, Jefferies

It's Marc Kofler from Jefferies. Two questions please. Firstly, Carlos, would you be able to comment at all on anything around divestments? Do you see parts of the portfolio today which might be perceived as a higher value by others?

And then secondly I just wanted to come back to the strategic relationship with Petrobras. I think we've seen other operators moving forward in terms of these new alliances with Petrobras. Is there any sense that you might be missing out on some of the best opportunities there? And then also perhaps if you could just clarify how you see that relationship moving forward? Is it explicitly in the upstream, could there be some opportunities in Gas & Power or perhaps even in the downstream in Brazil with Petrobras?

Carlos Gomes da Silva, CEO

So I will start by Brazil and Petrobras. If you look to what happened in the last couple of months, Petrobras entering three strategic partnerships. One with Total, another one with Statoil and another one with Galp. Actually with Galp, it was not a new partnership; it was reinforcing our partnership and our alliance in a strategic basis. So that I think flags the way we are working together on looking into mutual opportunities in Brazil, either in exploration and production areas and as well in technical and development areas. I have to clarify also if you have asked, this is in the upstream, so we are oil and gas focused upstream activities. So that is the main statement that I can give to you today in what relates to the divestments.

So we have partially divested in our natural gas regulated assets. So we didn't divest completely because we think that we still are the best owners based on the model that we have designed, but it's still there. And today, you can look into Galp as a pure oil & gas company, that is completely separated from regulated and subsidised or any other kind of business that other utilities companies are developing and are managing. So looking into Galp as it is today, and the way we are presenting our P&L, it's a pure oil & gas and these regulated assets still be there if in the cash cycle we can have any optionality to leverage our position, they still be there and it's a continuous source of funding future alternative capex re-deployment that if we will find, we can use.

Pedro Dias, Head of Strategy and Investor Relations

Gentleman there, please, number two.

Tom Robinson, Deutsche Bank

Thank you. It's Tom Robinson from Deutsche. Two questions. The first one, I suppose is really around capital allocation and thinking how do you diversify your capital allocation without diluting return on capital? Clearly you have a fantastic asset in the portfolio, Brazil offshore, depending on what assumptions you use, potentially that's 20% or thereabout return on capital. When you screen other investment decisions, when you take other investment decisions, they're likely to screen as inferior compared with the options, so I just wondered how you approach that conundrum around capital allocation?

And then the second one, much more detailed around operating leases. Filipe, I think you mentioned maybe there is an accounting reclassification that might be coming up and partially that leading into net debt. How material would that be, please?

Carlos Gomes da Silva, CEO

So thank you for your two questions. I will take the first, so. In fact, it will be a challenge for us. We have a starting position that is really outstanding. We are heading to the assets under production that are really unique in the world. But we must also take in consideration that last year, so in 2016, it was the first year that the renewables entering into the system in economic terms. What does that mean? That means for the first time in our recent history, renewable source energy without any subsidies, without any guarantee taxes or incentives became competitive in all primary energy baskets. So therefore technology is accelerating. I'm sure that you have saw that some of the major oil & gas companies are investing now in producing PV sales and things like that. So this is not our business. This is not where we are, we intend to go through.

But renewable energy is there, and progressively will come into the system. And you should also remember and take as an assumption that electrification of the society will grow up, and the interconnectivity of the society will grow up, and we have to be there. And we have a fantastic retail network. We are in hundreds of thousands of houses today, and we have to leverage that position in order to achieve our client base in a client centric position to feed them with primary energy and other alternative solutions in a competitive, flexible and convenient way. So this has to be seen in different perspectives, and not only just the pure primary energy based company. But again, and I have to underline that every time we will not aim to be an utility company. End of statement.

Filipe Silva, CFO

IFRS 16 kicks in in January 1, 2019, so the reclassification of operating leases as debt, so we have six units that we're leasing out in Brazil, so what you see today in opex is really a combination of two elements. There is an amortisation of principal element, and there is a real O&M fee within opex. So the impact in 2019 if this were to apply, we're still seeking guidance, because there is a carve out for E&P somehow under IFRS. But if this were to apply, our Ebitdas go up because opex goes down by the amount of the amortisation bit, and always part of the principal and our net debt goes up by about €1 bn as of today. So this will amortise, so less than €1 bn in 2019. As Galp's Ebitda goes to €3 bn or so or north of that, so we’re talking about 0.3 times turn to Ebitda on our ratio, so it's not material.

Pedro Dias, Head of Strategy and Investor Relations

Number five, please.

Matt Lofting, JPMorgan

Thanks. Matt Lofting, JPMorgan. I'll limit myself to one question. Can I just come back to, I think something told that you talked about in terms of enhancing the recovery factors on Lula/Iracema, is obviously a significant source of medium-term upside for Galp equally something that you've talked about for some time. With that in mind, I mean, can you just provide a bit more granularity on the key work streams where we are on that process today and what you guys think a feasible time horizon is in terms of a more meaningful uptake that could unlock some of that value? Thanks.

Thore Kristiansen, COO E&P

This is really a long-term process, but what we have taken this year is a very important first step, and the first step being the fact that we have in Galp identified the first step how to move from 28% to 30%, and that is really by using increased oil recovery mechanism, and primarily actually using more infill drilling. That is the first step that we are assuming in our business plan. To come further, it is to be expanding more when it comes to the refining way of debottlenecking the units. Debottlenecking the units can be a question of subsea separation. It can be a way of making sure that we are handling. Today there are bottlenecks in some of the units when it comes to gas processing capacity. We need to see ways to handle those debottlenecking opportunities, and it can be ways to finding ways to penetrate the best one more efficiently, could be new wells, using the 18 existing wells that we already have identified, but there's possibly even more ways of doing that.

Where we don't need and in my vision but we haven't laid the plans out in detail yet. But in my vision of it is that, you will see a second phase coming. And the second phase coming for Lula would be a major further development of this field, where this would be coupled with a big investment program, but also with an extension of the license time. But this is quite a few years down the road. We have embarked on a journey now together with our partners, where we're trying to define those steps starting with picking the low-hanging fruits, and then it gradually will get to more advance. And I will refrain myself to go into more detail here now, because as you can imagine, Galp is a 10% partner in this field. So one of the key ways we try to work it is to try to influence all partners about the profitability and the opportunities that are in these ideas and these visions. And we are getting good dialogs, I have to say, with our partners. But we haven't sanctioned any of them. We haven't approved any of them yet, so it will not be prudent of me to go into more detail at this stage.

Matt Lofting, JPMorgan

Thank you.

Carlos Gomes da Silva, CEO

I will just complement if you allow, because this 10% for us, effectively is 100%. So our 100% is fully focused on the way we look forward. So it's just more to tell you that we really take this seriously as one of the optionalities to extract more value from the existing asset base. And I'm sorry Thore.

Thore Kristiansen, COO E&P

No. Absolutely.

Pedro Dias, Head of Strategy and Investor Relations

Number one, please.

Jon Rigby, UBS

It's Jon Rigby from UBS. Two questions. First, you sort of alluded to quite a lot of potential inorganic opportunities in Brazil, can you just clarify or remind me does all of that have to be done within the Petrogal Brasil joint venture? You've talked about two joint ventures as being very important, Petrobras and Statoil, and not acknowledge the one that you are actually directly in. So can just explain how that legal structure will take place and whether indeed it might inhibit you from doing additional transactions?

And the second is on Mozambique. You talked about synergies between Coral and Mamba. It's not obvious when I look at it directly what those are, are they logistic or fiscal, and maybe you can just talk about what those synergies are? And then secondly, I think the operator has sort of talked at least initially about two FLNG units on the southern part of the Block, is that also your understanding?

Thanks.

Carlos Gomes da Silva, CEO

Thank you. I will take the first one. So effectively up to recently, our sole and prior strategic partner in Brazil has been Petrobras. So Petrobras is now facing a different challenge, and it's not a given that we will have Petrobras in any new bid round and any asset that will be auctioned in Brazil.

And as you correctly mentioned, we have now Statoil in BM-S-8. So the structures that will serve our purpose of the business, it will be the best ones to serve that business. What is important is the quality of the asset and the profitability of the business. So that said, BM-S-8 is clearly an asset that has been divested by Petrobras and Statoil is the obvious partner for Galp. So it's the operator and is the obvious one. I think that's what the partnership that we are entering into with Statoil will flag.

In other assets, where Petrobras will continue to have appetite to develop their investment in Brazil and there are plenty of opportunities in the Transfer of Right areas, or other in the new bid rounds that are up for coming and it's not clear for the time being, under which conditions Petrobras might participate in those bid rounds. But of course, it's a partnership that we will continue to deepen and the MoU and the strategic alliance that we have also flags that if there are common interest areas, we will be together. We have also to refer and you haven't mentioned, we have another partner in Petrogal Brasil, and to clarify taking the opportunity. New assets that will come to the system, we hope they will come through Petrogal Brasil, because it makes all the sense. So the obvious structure that we have to invest in Brazil is Petrogal Brasil. That is something that remains our best case scenario. So would you take the Mozambique issue?

Thore Kristiansen, COO E&P

Yes. Jon good question, because of course the traditional synergies in Mozambique between Coral and Mamba is not that obvious. But there still are, and they are significant. And why is that the case? It is because this is really the first time that Mozambique is developing offshore gas. That means that we are breaking ground when it comes to establishing the whole framework that you need in order to do this kind of operation. That means all possible legal agreements, that means agreements with respect to the shareholders' agreement, with respect to the joint operating agreement, with respect to the agreements that we need with the government, the agreements that are needed when it comes to sort of how is ENH, the domestic incumbent going to be financed and carried. All of this we're doing for the first and that is things that we will benefit from going down the road when Mamba comes to the stage and that's why I think the synergies are not to be underestimated, also in the dimension of project financing.

And in addition, I think it is important to highlight that FLNG is also an interesting way of handling country risk. Mozambique is a beautiful country. I don't know how many of you have been to Cabo Delgado, where actually we're going to land the Mamba LNG. But it's also an area that requires significant development. I think the life expectancy in Cabo Delgado is 36 years. And we should not underestimate the challenges by also building a big onshore facility in that respect. To have an offshore facility that is 85 kilometers from the coast is also a way to handle and to manage risk in the larger perspective. So that's why I think, it is very important to look upon the two as a combination and also with respect to some of the legal rights that you have if you're not in the one and only in the other.

And then to your question regarding Coral, more Corals. Thereclearly are the resources, in the first Coral self-development, I think we will be taking out around 4 tcf. Just in Coral there's around 15. So, yes, there is more room. But the focus in the next phase, what the partnership has agreed, it will then to be focusing on the onshore development. And then we will gain experiences with Coral, we will have to know to execute. And if we have had a very challenging time, I think with our partners the last two years in order now to get the project that we in the end factor we could support, I think there we only started because now we will go into an execution period, which I'm sure is going to be quite demanding. As you know, there are not very many FLNG projects up and running as of now and the ones that are in the construction yards are many of them facing challenges. However, I think we will be the fourth or the fifth unit coming out and we should be able to benefit from the learning curve based on the others. And then we will see down the road whether there will be then such a good project for us that it should then also enable more. But at this stage, the focus after Coral South will be on Mamba and the onshore development. Thank you.

Pedro Dias, Head of Strategy and Investor Relations

Number three please.

Josh Stone, Barclays

Hello. Hi, it's Josh Stone from Barclays. I got two questions please. You talked about Galp being bigger and better every day. Is there a particular size Galp is looking to sort of long time ambition, it used to be 3,000 barrels a day production, ambition is that still there? And what is the right measure to measure size, your metric to measure size, is it production or something else?

And then second on the recovery rate, you guided to a 30% expected oil recovery rate, is that consistent with a three-year plateau period or near the seven-year plateau?

Thank you.

Carlos Gomes da Silva, CEO

So I would say that the first question, I have addressed it during my intervention, is value over volume. So you have realised that we refrain to speak about volumes, because what really counts is profitability and value-driven. So we will continue to feed and to explore opportunities to sustain the growing profile of our Company but it's not a volume driven exercise, it's a value driven exercise and we will keep that as it is in order to guarantee that the profitability will be there. Do you like to take the second one?

Thore Kristiansen, COO E&P

I think, could you repeat it? I didn't understand the second question to be honest.

Josh Stone, Barclays

On the 30% recovery factor versus three-year plateau period on the current year as well. Are those things consistent, is that how we should look at it?

Thore Kristiansen, COO E&P

The increase to 30% is basically post 2020, where we're factoring in that the new wells are going to come into play. So I think you will have to look upon this as upside, we are using in our current business plan until 2021, the expectation that the plateau period will be only three years. But as I said in my interaction, that is one of the key activities that we're now doing, in the more short term to see what can we do with each single unit to extend the plateau period. And this increase of 30% and increase therefore drilling we have only factoring in from 2021 and onwards in our plans. So that is beyond this period.

Pedro Dias, Head of Strategy and Investor Relations

Well, this is probably the last question.

Anish Kapadia, Tudor Pickering & Holt

Hi. It's Anish Kapadia from Tudor Pickering & Holt. My first question is back to M&A again. We've seen a lot of your competitors pick up activity in terms of integrated buying assets in the last few months or so. You've remained on the sidelines, including some deals in Brazil. So I'm just wondering, what's been holding you back in terms of some of the recent acquisitions that you have looked at? What needs to change for you to kind of get a bit more active?

Second question is going back to Mozambique again. I was just wondering if you could give some indication of how you see the profitability of the initial Coral project in Mozambique? If you can give what's the oil price breakeven that you see from that project or what kind of IRR you see at your long-term $70 oil price assumption?

Carlos Gomes da Silva, CEO

So M&A is always for the market a very interesting discussion, but instead of being pre-announcing pre-deals that we don't still know what they are and they are not closed, we prefer to do our handwork and that doesn't mean that we are not active. That only does mean that we only announced what we do and not what we intend to do.

So that said, I think we have already opened our hearts and our minds and explained to you that we are continuously working hard in Brazil and in other regions, but mainly in Brazil. And if the opportunities will be capable to fit the purpose and the targets that we aim to have, we'll do it. But we will announce when we will do it, no pre-announcements every couple of months. So that's not our way of being and you know that.

Filipe Silva, CFO

On Coral, so our Board has given the management team a strict set of instructions that we are going to be ready for FID at that stage and at that stage only will we be in a position to give you the metrics you're seeking. So, for now it's just an in-principle green light subject to a number of conditions, which we are still working on.

Pedro Dias, Head of Strategy and Investor Relations

Last question please.

Oswald Clint, Bernstein

Thank you. Oswald Clint at Bernstein. Maybe back to Brazil please Thore, you said two years ago, you were quite concerned about the replicants and the execution of them and today you are a lot more confident. We know two hulls went to China, but can you may be -- sorry a few more.

Thore Kristiansen, COO E&P

Three.

Oswald Clint, Bernstein

Three, but what else has happened to give or to increase your confidence with the replicant execution from here?

And then maybe secondly, just a refining question. I noticed your light heavy spreads narrowed a bit sequentially in the fourth quarter, but as we look into 2017 with the OPEC cuts, are you factoring in or do you expect to see any further narrowing of those spreads on your refining business for 2017?

Thank you.

Thore Kristiansen, COO E&P

So if I take the issue of the de-risking of the replicants, I think, for me this is the key message to you here today. There is a significant reduced risk and they are related to, as you said, the fact that we took three hulls to China and actually two of the integrations were moved to China as well.

Number two that we actually re-awarded the gas compressor contracts and then got them replaced by the local supplier that was supposed to produce them in the first place. And then thirdly, that we established an escrow account and solved the issue with very, very deep and difficult position that Ecovix were in. That was really holding back a lot of the execution, because of the financial turmoil that this company was in.

And we came at the end of last year to a very fruitful solution with all parties involved, which means now that the partnership and Petrobras have taken over much more operating role, when it comes to now completing the existing facilities and without the risk associated with this company that I mentioned, which was in a very dire financial state. So now we see that the situation is much more manageable and, on our risk map, significantly de-risked.

Carlos Gomes da Silva, CEO

So, in what relates to the refining margins to 2017, it is I think the point. So you have seen our assumptions, but we are starting the year in a completely different mood. The European gasoline cracks are much higher than what was our expectations. Demand continues to press up, it has been a cold winter with some pressure on fuel oils consumption. So therefore, we will see within a few months as the travel season will start in United States that might continue to support high cracks in RBOB gasolines.

If it will be the case, I think we probably will have a first half of strong refining margins that were much higher than the assumptions that we have designed a few months ago. So therefore, we are going progressively to hedging our position if the market were there above $3.5, $3.6, $3.7 per barrel. But up today, we have already 18% of our annual throughput hedged at $3.5 per barrel, which gives us a comfort to sustain the Ebitda that we have forecasted for 2017.

Let's see the second half of the year, it will depend on what will happen with this sustainability of the demand. What we are seeing is that, due to several market conditions, Iberia, is now looking at us as a touristic destiny and therefore is putting also high pressure on jet fuels and has incentivized the car users either in Portugal and as well in Spain. And therefore, we are quite I would say positive on having that as a contribution to sustain the refining margins.

But again, we are experienced independent refiners and the trading companies to operate and to compete in the Mediterranean basis and we are making our best efforts and preparing ourselves to be in the export mode namely for United States. We have improved our logistic capacity for moving from three cargos to five cargos of gasolines per month, which gives us much more flexibility to sustain the differential between the cracks of European and RBOB gasoline.

So it's a mixed sense between prudent and slightly positive, but I think making an approach by a slower tendency is preferable. But you know again, $1 per barrel you can count with €100 million in our Ebitda P&L. So it's something that is out of our control. We have to keep the operationality and we have to keep the efficiency, which is our main obligation.

Thank you, Clint.

Pedro Dias, Head of Strategy and Investor Relations

Well, thank you very much. We conclude our Q&A session. Carlos will have a few words too.

Carlos Gomes da Silva, CEO

Yes. First of all, I will stand up. So first of all, I have to thank you all for joining us today. I think it has been an interesting morning session. The capex allocation and the dividends issue is always a point. But I would like to recap you that is possibly the first time in many years that we are speaking about a new cash cycle for this Company and open up optionalities to recycle this cash.

Our profile will continue to be an integrated energy company with an outstanding upstream portfolio that is breakeven now at below $25 per barrel. I think that is in terms of the industry, the reason why we can say that we have a unique growth and value story to tell to the market.

Our capital structure is also something that we have taken in our hands properly and we will continue to have this solid and respectful way to approach and to deal with our Company.

So just to conclude on I think based on what we have reflected today, I have way to step up to a more philosophical approach in our business. You may consider, this is daring, it may look this is daring, but I think it's time to dare. And even knowing that greatness is a result of hard work, we want to dare to be great. And we hope to take you with us in this journey that we have to face onwards.

Thank you very much and hope to see you soon all.

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