

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

Good morning, ladies and gentlemen. Welcome to Galp's second quarter results conference call.

Today, Carlos will start with an overview of the quarter and a quick update on Galp's operations and strategy execution. Filipe will then go through the results. At the end of the presentation, we'll be available to take any questions you may have. There is here with us as well.

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

Carlos, the floor is yours. Thank you.

**Carlos Gomes da Silva, CEO**

Thank you, Pedro, and good morning to you all.

I will start with the key messages of our performance during the quarter. Cash flow was robust during a very challenging refining period. Free cash flow in the quarter actually more than covered the dividends paid and that's already considering the 15% dividend increase. We have experienced a quarter-on-quarter (QoQ) improvement across all businesses, and mostly supported by the upstream ramp-up performance, helped by higher oil prices, better refining performance, despite weaker margins context, as you all know, and the robust performance from the commercial activities.

Let me briefly go through the performance of our divisions, and I will start with Exploration & Production (E&P) on slide #5.

The working interest (WI) production was flat QoQ and this was as expected. Galp's output benefited from the ramp-up of two units, unit #9, which started in February in Lula North, and the unit #8 that is also ramping up in Lula Extreme South. All in all, if we look at Brazil, it has contributed with around 98 thousand barrels of oil per day (kboepd), as we had some other units ongoing maintenance during the quarter, and that was mostly planned. As you also know, our production in Brazil reflects now the Lula unitisation stake adjustment from 10% to c.9.2%, and is in place since April 1<sup>st</sup>. On a QoQ basis, this unitisation impact was c.5 kboepd. Moving to Angola, and where Kaombo South has started in April, the unit ramped up very nicely, already producing over 100 thousand barrels per day (kbpd).

In Iara, works are progressing and production start-up is expected by the year-end from the Berbigão / Sururu fields. In Carcará, with ANP approval, we have completed the acquisition of the remaining 3% stake in BM-S-8. We are currently performing a drill stem test (DST) in Carcará East and advancing with the concept solution definition for the first relevant phase of Carcará. In Mozambique, we are proceeding with the construction works in Coral South, in South Korea, as you'll know, and we are currently analysing and optimising the engineering, procurement and construction (EPC) proposals for the Rovuma LNG development, with the goal of taking final investment decision (FID) later this year.

Overall, our upstream performance has been consistent with our plan. On a shorter-term outlook, Galp continues to see good progress with the ramp-ups in Brazil and Angola, very much aligned with what we had planned. Production is expected to pick up during this third quarter (3Q) and we are currently producing above 120 kboepd. We are maintaining our guidance for

the year, within the range between 8% and 12% growth year-on-year (YoY), but of course the positive results to date may lead us to the right-hand side of that range.

Moving to our downstream businesses on slide #6. As you all know, this was a challenging quarter for European refiners. Galp's margins were pressured by weaker middle and light distillate cracks, together with the lower sourcing optimisation opportunities during the quarter. Having said this, our margins were up QoQ, given our own operational restrictions during the Q1. After the collapse during the beginning of June, margins in the North Atlantic recovered only at the very end of the quarter. Galp's realised margins have been about \$4/boe during July, and we expect them to stand at least around this level during the second half of the year. The IMO Bunker Fuel regulation should start having a positive impact on the demand and product pricing during the Q4, and we will be ready for it.

Just a word on the Q3 planned maintenance. We will stop our atmospheric distillation unit in Sines this August for between 40-50 days, which should not compromise the operational availability of the conversion units and their respective margins. I underline that part, the conversion units will continue to work at the optimal levels. During this stoppage, we will also perform some works related with the "+\$1/boe" initiatives.

Moving to the downstream activities, more related with our commercial business. Oil marketing has been consistently resilient and solid quarterly results are being supported by higher volumes sold into a healthy Iberian market.

The Gas & Power (G&P) business has had a particularly strong quarter, driven by the ability to capture market conditions and the flexibility to optimise our sourcing basket. It also benefitted from a better performance of the natural gas and electricity commercial activities.

The strong first half performance is taking us close to what we were planning for the full year. Even expecting lower seasonal demand and margins during the second half, we should exceed the initial estimates for the Gas & Power Ebitda, which normally stands at between €100 m and €150 m.

We are also working to secure a competitive long-term gas and electricity sourcing basket. After adding LNG volumes from the United States to our portfolio, we have now agreed the sourcing of 2.5 billion cubic metres (bcm) per year of piped gas from Algeria, effectively extending for up to another ten years the contracts currently in place. Mozambique will also play a role within our supply basket, with Area 4 partners securing the offtake for the Rovuma LNG project.

Moving to slide #7, and to highlight Galp's path and our investment case. Our performance execution, on a year-to-date (YTD) basis, provides us with the confidence that we will deliver according to what we have guided to you, if not better. Galp is set to reach €1 bn free cash flow (FCF) soon and remains focused on a continuous value creation path for many years to come. This will be achieved by extracting value from our current outstanding portfolio, as well as from selective additions, if accretive. We will remain very selective with our capital allocation decisions, and we are well aware of the current market sentiment in favour of shareholder distributions. The projects we are considering will prioritise the efficiency, the resilience, and the complementarity of the existing businesses, with lower carbon also in mind. The discipline of our portfolio decisions will also take into consideration our financial position at any time and the longer-term returns of such projects, having in mind the 15% average capital employed return we aim for.

We are still planning to provide you with high-level strategic guidelines in October on the quarter results day for the Q3. The team will be there in London and available to meet you afterwards. Our annual Capital Markets Day will resume in early 2020, most likely together with the full year 2019 results presentation. By then, we will have the outcome of the bid rounds in Brazil, which have now been postponed to November.

Filipe, the floor is now yours to go through the financials. Thank you.

### **Filipe Silva, CFO**

Thank you, Carlos. Good morning.

I'm on slide #9. As you see, Ebitda was €615 m in the quarter and this includes the positive effects from IFRS 16. E&P Ebitda was €408 m, that's down YoY, with the lower oil prices more than offsetting the higher production and the stronger dollar. Refining & Marketing (R&M) Ebitda was €142 m, also down YoY, driven by much lower refining margins. The Galp refining margin last year was \$6/boe and it was down 50% to only \$3/boe this last quarter. G&P, however, had a strong quarter, with Ebitda up €23 m YoY. This reflects a favourable sourcing basket and a stronger gas and electricity commercial activity in Iberia. Below the line, I would highlight the negative swing in financial results. This is driven mostly by €23 m in operating lease interest coming from IFRS 16. The implicit tax rate on the P&L has now come back down to 45% as the downstream contribution improved QoQ. Net income under replacement cost adjusted (RCA) was down YoY and up QoQ to €200 m. Under IFRS, net income was supported by non-recurrings of €14 m and a positive inventory effect of €17 m.

Moving to cash flow on slide #10. Cash flow from operations (CFFO) in Q2 was a healthy €613 m, despite the weak refining contribution and Brent, which was \$5/bbl lower than last year. Net capex was €223 m, and two-thirds of this is related with our upstream activities and includes the payment of €77 m for the 3% stake in BM-S-8. Group FCF in the quarter was €342 m, covering the dividends paid to Sinopec in Brazil and €286 m of dividends paid to the Galp shareholders. Now, just a reminder that our free cash flow includes all operating lease payments, that is deemed interest and principal repayments, with IFRS 16 neutral at the FCF level.

On slide #11, we map our February guidance versus what was achieved so far and the updated guidance for year end. On Ebitda, we expect an acceleration of the operational performance for the rest of the year. We anticipate to get to above the upper limit of the previous €2.1-€2.2 bn range. Now, this considers the revised assumption of \$65/bbl for Brent and refining margins for the full year of around \$4/boe. This compares with the \$5-\$6/boe range that we had expected earlier this year. We also fine-tuned our capex estimate down to about €900 m. All in all, free cash flow generation is expected to remain strong and certainly better than what we had expected earlier this year.

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

## Questions & Answers Session

### **Biraj Borkhataria – RBC**

Hi, thanks for taking my questions. Two quick ones, please.

The first one, could you run through, in the second quarter, the key difference in the P&L tax and the cash tax, and what we should expect for the second half of the year.

Then, the second question is on the downstream. It looks like the implied number for marketing looks particularly strong this quarter. Is there anything to read into that, and again, how we should think about it going forward? Thank you.

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

Hi, Biraj. Good morning. I will take the second question and Filipe will go through the first one.

So, effectively, the demand is still increasing in Iberia, middle distillates with a strong increase, more in jet fuel, the marine fuels and also gasoline. More stable in diesel. Looking to the second half of this year, we continue to see that the market is highly supportive and we anticipate that our marketing oil activities will continue to be strong and positive going forward.

Filipe?

### **Filipe Silva, CFO**

Hi, Biraj. I think it's important to remind that we are taxed in the different jurisdictions based on IFRS results, so RCA only shows part of the picture. It's also quite relevant that you look at the entire first half and to remind you that in Q1 we took the unitisation adjustment in our IFRS

numbers. That's a €200 m hit, as a reflection of the extra production we took when we had 10% of Lula versus the new c.9.2% stake. This has gone to the tax P&L in Brazil.

Looking forward, we'll not change our guidance, so IFRS on a cash basis of about 40% tax rate and 50% on the P&L rate. This will converge over time, over the next two or three years.

Thank you.

### **Oswald Clint – Bernstein**

Good morning. The first question's just on the Ebitda guidance. Obviously, you're revising it up a little bit but kind of leaving the numbers open, and you spoke about your production guidance being probably towards the right-hand side of the range. I just wanted to get your sense of whether you look at market estimates and see consensus Ebitda of €2.4 bn for this year and consider that achievable, or perhaps that's too optimistic at this stage of the year, please.

Then secondly, just talking about the next growth cycle, the post-2020 period, and obviously, transfer-of-rights (ToR) still coming up. I just want to get your latest thoughts. You know, the next growth cycle, it could be upstream if you win the ToR, or it can equally be downstream or it could be chemicals? So, are all options open at this point and we'll hear later, post the ToR? Ultimately, Carlos, do you think if it is downstream or chemicals, you can really pitch a particular investment in those areas at 15% hurdle rates? Thank you.

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

Hi, good morning, Oswald. In relation to the Ebitda, effectively, the consensus is within our range because we are saying above €2.2 bn. We do see market conditions to achieve the



consensus. So, we are being prudent in the approach, because in part, it depends on us. We do think, and we are confident, that operational-wise we will have the conditions to be above €2.2 bn and to be close to the consensus, but we do need also to have the right environment for that. We have already anticipated that, for instance, refining margins will be higher, and we do see they will increase, definitely, due to the IMO impact. In a small statement, yes, we do see room space to align with the consensus.

On the next growth cycle and all the options that we have open, clearly, we will continue with our financial discipline and finding projects that could continue to complement our portfolio. We have a great portfolio basis to start and I think we still have room space to continue to extract value from that portfolio.

For the next decade, we do see space to make this Company grow above 10% per year, but, of course, we are looking at alternatives, and those alternatives should include many different options. The ones that could allow us to adjust and adapt our midstream infrastructure to the new demands or the evolution of the market demand. Possibly less keen about oil to PetChems, less keen on that, but continuously looking at profitable projects that could achieve the returns that we are aiming for, as the 15% continues to be our target, within the portfolio and the different alternatives for this new cycle.

The new energy solutions, the ones related with renewable energies, will also have a relevant position in our portfolio, even though, all in all, if we will compare our capital allocation going forward, most of the resources, most of the capex allocation will be for the upstream activity, and that should continue to be. Some adjustments, of course, with discipline, but that should continue be our primary focus of capital allocation.

Thank you.

**Flora Trindade – CaixaBank BPI**

Yes, thank you very much for the opportunity. Just following up on your previous answer and considering the Group's FCF performance in the quarter, the cut in capex, the expectation of €1 bn free cash flow in 2020, are you considering any potential buyback in line with what the companies are doing in the sector, or do you prefer a dividend increase? Also, is this dependent on the bid rounds outcome in Brazil? Can you help us understand your rationale on this matter?

Then, just secondly, a short question on the potential truck drivers strikes in Portugal during August, do you have any contingency plan? Do you have any expectation of the potential impact? Thank you.

**Carlos Gomes da Silva, CEO**

Hi, Flora. Good morning. Thank you for your two questions. The first one. We are entering clearly in a new cash cycle and that brings a good problem to have, which means that we have to continuously find projects with high-quality that fit our strategy, following financial discipline. Entering in alternative solutions, like buyback shares or other identical alternatives, I think it is a conclusion that we were not capable of finding additional projects that could be value accretive for our shareholders. We are sensitive with the sentiment of the market to have more shareholder remunerations and distributions, but we are also aware that the best way to bring value for our shareholders is to target and to find projects that could clearly, continuously create value. I think, probably, we will stand in a balanced position, where we will be capable of

doing both: to continuously increase our dividend policy, and to find value creative projects with the right strategic fit and with the right earnings or profitability.

About the strike, the truck drivers' strike that is announced for this August. Of course, we have a contingency plan. That is already prepared, but the contingency plan will depend on the duration of this possible strike. We have identified all the sensitive clients and we have also identified all the relevant positions that should be continuously supplied. We have also part of our network included in the emergency network and addressing clearly all the priority entities that during this period should be supplied.

Again, Galp is preparing to react to a strike that is not related with us and that is more of an expense to the country. It goes to the other supply chains, like the food retailers, like the non-food retailers, so it's a broader one. Let's hope that we will be fully prepared and the strike will be abandoned sooner rather than later. Thank you.

**Thomas Adolff – Credit Suisse**

Good morning. Two questions from me as well, please. Just firstly on Mozambique. I believe there's a slight delay to the budgeted timeline for FID of Mamba LNG. Perhaps you can explain what is driving that. Are you unhappy with the cost estimates and are we starting to see some signs of tightness with the contractors?

Then secondly, just, kind of, portfolio shaping moves. What are your plans for the remaining stake in the RAB business and how strategic is Angola in upstream to you? Thank you.

**Carlos Gomes da Silva, CEO**

Good morning, Thomas.

Mozambique. It is one of the relevant projects where Galp is involved. Where we are today? Today, we are analysing, as we speak we can say, we are deep-diving on the proposals that we have for the EPC in order to see how we can optimise those proposals and how we can move forward. Important here is to say that we have already some of the most relevant milestones with a tick in the box, as it is in the case of the marketing, it is the case of financing, it is the case of the relationship between the parties in what respects to governance, is the upstream activities that are progressing with a good pace, and this part of the EPC is already undergoing. It is one of the most relevant ones and we hope, as I mentioned during my previous statement, that up to the year-end, we will be in conditions to take a positive FID.

In what respects to your second question about regulated assets, these are good assets. It's clearly an operation that we have prepared to be part of a possible asset rotation in our portfolio and we will only consider that if projects with a strategic fit for Galp and value creative are captured by us. We will continue to be shareholders in GGND. We have recently increased our shareholding in one of the local distribution companies, where we take almost the total of the shareholding, allowing us to integrate and to merge in GGND. We have done that based on the cash available at GGND level, so it was nothing impacting Galp, and we will continue with this approach. It is a good business, it's behaving very positively, and we will consider it as a global portfolio management at Galp level.

Angola in the upstream is one of the three strategic pillars of the Company, in what upstream relates. Therefore, what I can tell to you is that it is and it will continue to be. If you ask, if Angola

is providing us today with many potential alternatives, the answer is, unfortunately, no, but we will see. From the downstream point of view, it's completely different, because downstream, our activities are relatively small and therefore the impact in the Company is almost irrelevant.

Thank you.

### **Joshua Stone – Barclays**

Hi, good morning. Thanks for the presentation. I've got two questions, please.

First, could you talk specifically about ToR bidding round in Brazil, how you're looking at that opportunity and if there's any more clarity on the potential terms of the licence?

Then secondly, on the G&P division, you talk about a normalisation of earnings and also a new basket of gas, including volumes from the U.S. and Algeria. What would you say is an appropriate run rate of earnings to assume, given those things? Thank you.

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

Josh, good morning. Bid rounds in Brazil. The main question here, or the main statement here, is that we will approach Brazil in a very careful way. The excess of ToR is impacting Galp because one of the parts, or one of the assets, that will be offered is precisely the one related with Atapú. There is a second one, which the impact isn't smaller, related with Sépia. And considering those two, of course, impacting Galp, we have to analyse carefully the terms and conditions of these auctions. Brazil starts to be relatively expensive. You can see by the bonuses that have been released by the regulator, and therefore we have to do it in a prudent way, ensuring at least two or three elements that are relevant for us: that we will be able to have

reasonable returns, that we will be capable to implement strong partnerships, and that we'll get the access to assets with the right size. The complexity of these negotiations is clearly a challenge for the result of the auction. That's the reason why we prudently approach it, even though we have this interest of seeing what is going on, on two of our assets, and looking at what might be the future development of those two assets.

In what relates to the gas business, what we are observing in Europe is that the prices are historically low. This declining has to do with some market share fighting that we are observing from different locations, and Europe is being clearly the centre of that dispute. Prices are so low that it seems that suddenly LNG cargos could reach the U.S. at a reasonable price. So, U.S. being possibly in the neutral level of import/export.

Going forward, what will we see? We do see that the inventories are relatively high and the price is completely under stress. The second half will be much more challenging for G&P businesses, especially for gas. Galp will continue to work. You should remember that we have always the possibility to arbitrate between long-term and spot prices, but complying with the long-term contracts' quantity is in an annual basis. We do see a second half less promising rather than it was the first, even though we have already flagged that we might land above our right-hand limit of the range that we will always use as a guidance for the yearly result. Thank you.

**Michael Alford – Citigroup**

Hi, good morning, a couple of questions if I could, please, just on your guidance for the year.

On refining, you talk about a \$4/boe refining margin for Galp for the full year 2019. You've realised about \$2.7/boe for 1H19, so it implies a pretty decent step up in 2H19. Could you maybe

explain how much you expect from market effects in the second half and how much you expect to benefit from the investments you're making into the refining system for the second half?

Then, just secondly, on capex, you've obviously reduced your capex guidance, I'm just wondering whether you could tell us what's driving that? How much is just related to the delay to the Mozambique FID and how much we expect that to go into 2020? Thank you.

**Carlos Gomes da Silva, CEO**

Michael, good morning. Guidance and refining margins. Clearly the market or the margins are recovering. You may remember that, as you mentioned, we have been more positive, anticipating that the differentials of the middle distillates will impact the market sooner than later due to the IMO regulation. It has not been the case, but it's like a tsunami has already happened and the wave has been formed and no-one is looking at that. So, sooner or later, we will see the margin going up.

Saying that it's around \$4/boe, we may see the second half slightly above the \$4/boe. This is the guidance and this is the assumption that we have taken for the guidance for the full year. As I mentioned before, effectively, if the market could be back up, we will be much better in terms of the full year. The investment and the work that we will do this August in our Sines refinery will tend not to affect relevantly the margins since the conversion units will continue to work at the optimal condition due to the market framework. So, all in all, we are seeing a second half much better than the first one and, specifically 4Q19 has to be much better and we will have the full system working properly.

In what respects capex guidance, we are pointing to a downwards revision from what we had at the beginning of the year. Part of that is related to Mamba. We anticipate that we might be spending at a higher pace than we are doing today, not necessarily due to the fact that we were taking the FID earlier, but of course, it has also to do with other areas of the Company, including Brazil. So, it's a mix, it's a combination, and we think that it could be slightly higher, slightly lower, but around €0.9 bn. That gives you an idea of where we will be by the end of the year. Thank you.

**Michael Alford – Citigroup**

Thank you, Carlos, and just to follow up then. So you'd expect next year's capex to be still around the €1 bn mark? It wouldn't be higher than that, given, as you say, timing effects of Mozambique?

**Carlos Gomes da Silva, CEO**

We will go to that in the near future but one can see that, most likely, we will be around the numbers that we have provided to you. So €1 bn a year is the guidance that we have for our annual capex and you should consider that. There's no indication for having a different approach. Thank you.

**Irene Himona – Société Générale**

Thank you very much. I had two questions please. Firstly, upstream unit production costs, which in the second quarter, you say that excluding the benefit of IFRS, increased about \$1/boe to \$8.70/boe. I wonder if you can give us some guidance please for the second half or full year unit production costs and the same for unit upstream DD&A.



Then secondly, back to the cash cycle, Carlos, as you said, it's a nice problem to have. I'm just trying to understand the urgency to reinvest the FCF. In a scenario where near term, 2019 to 2020, let's say you don't win Brazil or you cannot find some other cash accretive project, are you prepared to see the balance sheet deleveraging materially until such time as you may identify the right projects? In other words, would it bother you to sit on cash? Thank you.

**Carlos Gomes da Silva, CEO**

First of all, thank you, Irene, and a warm welcome to this call. There will go through the first question about the production costs.

So taking and picking up the cash cycle and the reinvestment in our organic growth. One should bear in mind that the capex that we have pointed out for the future is what we call a risked capex. I mean, if we look at the upstream projects, we are considering a certain probability of them to be successful. So, if we put us in a best-case scenario, we might have a clear requirement in terms of capex to develop those projects that will succeed. That's the reason why having a financial strong position is important to us to guarantee that we will be able to develop the full Galp's portfolio. Anyway, in the second level, if it will not be possible to find additional accretive projects, clearly, we will not start to spend our money and we have to reinforce and to give back to the shareholders the money that we will be not capable to redeploy. I hope that myself, with the team, will be capable to do precisely the opposite and find those fit for purpose and with strategic alignment projects that could bring us returns allowing this Company to progress and to succeed. There, can you elaborate on production costs, please?

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

Absolutely. Thank you, Carlos, and thank you for the question. The increase in the production cost on a unit basis is related to the fact that we are starting off new units. That is the simple and straight answer. As these units are getting up to plateau production, you will see that the unit cost will also then start to come down again. This is normal behaviour, and the same related to the DD&A.

When it comes to guiding and going forward, for this year, you will have to expect that the level that you saw in the second quarter should come somewhat down during the rest of the year, as the ramp-up continues. There will be no new unit coming on stream before, towards the end of this year. Thank you.

**Jon Rigby – UBS**

Yes, thanks for taking my question. There are two. One is just thinking about the perimeter that you have or you enjoy in terms of reinvestment. I'm thinking about a few things. One is what you think your balance sheet capacity is, whether you think the 2x Ebitda number continues to be a figure that we should think about as the upper limit of the year and you'd like to get to. Then, the second I think is, clearly if you make additional investments, they bring with them additional capex but probably not a huge amount of production for a while, maybe some. So, I just wondered whether you could give me some kind of indication about where you think the Company, all equal, should be cash neutral going forward, just so that we have some idea about the way you would think about new investments and the commitments that they bring with them.

Then the second one is just a point of detail or clarification. If and when you FID Mozambique this year, is there a relatively big cash call that comes on the point of FID, which may be disproportionate to the ongoing capex that comes with the FID announcement? Thanks.

**Carlos Gomes da Silva, CEO**

Jon, good morning, thank you for your questions. From the balance sheet point of view and looking at our self-defined covenant of 2x Ebitda to net debt, the principle is that in our industry that is quite volatile, it is important to have a safe zone from a financing point of view. As I mentioned before, we are entering in a level where this Company is being deleveraged, which was planned a couple of years ago. We are clearly complying with what was our plan, and from an organic cash spending point of view we still have a few projects, a few assets, inside of our portfolio that will require capex for the coming years.

You mentioned the balance between reinvesting with new capex and a longer-term production. It is something that we have continued to look at due to the fact that we are not desperate or anxious to capture new projects just to guarantee new production, we still have it in our plan for the next decade. What is important is that we can find additional and creative projects that could continue to allow us to evolve with the same growth and value profile in the new cycle. So, from the cash neutrality point of view, from the organic point of view, I think we are clearly balanced. If we will find additional projects, we have to consider that at the light of our portfolio management, being by exchanging long-term production with short-term production, looking at different assets that we have and considering them for asset rotations. So, it's portfolio management, if you allow me.

In what relates to the FID of Mozambique, we should not consider a relevant cash call, a front payment let's say, apart from the ones that are related with financing the project. That is in line with what we have planned and there should not be any surprises in that respect. Thank you.

**Matt Lofting – J.P. Morgan**

Thanks, morning all, thanks for taking the questions. Two, please, if I could. I mean, firstly, just coming back to some of the earlier comments around strategic growth opportunities and balancing that against cash return. Could you clarify, Carlos, what you analyse as the right range of investment for Galp in the ToR, if the terms are right, and calibrate it either against where that could take Galp in Ebitda terms against the 2x ceiling or the scaling of capex, or a more holistic view on capital allocation.

Then secondly, on capex, I didn't fully follow the earlier answer, to what extent is lower full year 2019 guidance structural or really a function of Mozambique phasing between 2019 and 2020? Put it a different way, is there really an underlying cut here on accumulative 2019-20 basis? Thank you.

**Carlos Gomes da Silva, CEO**

Matt, good morning. Brazil, and Brazil is not just ToR, its ToR amongst other assets that will be offered in the auctions to come. So, you have to excuse me, I will not answer in detail in what respects, or what could be. It's not a secret but it is part of the game, but you know our side, you know our perspective. I think we consistently have played in a certain dimension. You know that primarily it is important to have financial discipline and find out the right economics to

expose ourselves, because in some cases it seems to be exchanging future barrels for today's volumes. Let's see if there is value in between.

In what relates to capex, let's put that also in a context. This is a fine-tuning. We are guiding you that it is not €1 bn, but a lower capex perspective going forward. If it was higher, we should also do the same. Please consider this as a fine-tuning, nothing else. Thank you.

**Christopher Kuplent - Bank of America**

Thank you very much, I've got two questions as well. They're on guidance, and I appreciate that you're going to have your investor day in maybe half a year's time, but if you can maybe respond to a bit of impatience. You've changed your 2019 guidance and I wonder, on Ebitda first of all, whether that has any bearing on how you think about 2020? You've obviously raised the underlying oil price assumption. I believe your existing €3 bn plus Ebitda guidance for 2020 has already been based on \$65 Brent, but would you make any comment please on refining margin guidance behind that €3 bn guidance for next year? You've obviously made quite a significant change for your underlying 2019 assumptions.

And also perhaps comment a little bit about Gas & Power Ebitda which seems to be running potentially ahead of guidance for this year, whether you can see the same happen next year. I'll leave it there, thank you.

**Carlos Gomes da Silva, CEO**

Chris, good morning. As you correctly mentioned, technically we are better than expected this year, even though in a very challenging context. It should happen the same for the next year, so we are not seeing any grounds different from being consistent with what we have guided to

you for 2020. Therefore, we hope we can do at least what we have guided you for 2020, if not better.

**Christopher Kuplent - Bank of America**

I'm sorry. If I can just double check, the earlier communication you gave us on 2020 and the refining profitability environment, you said at the time, I think it was in February, that profitability should be slightly higher than in 2019. Now, 2019 seems to have come down in your expectations, does that not impact how you think about 2020 too?

**Carlos Gomes da Silva, CEO**

Yes, you're right, we have adjusted, as you have noticed, our refining, not our Refining & Marketing, due to the margins that were not there before. Anyway, we are seeing the market going forward stronger, and if you look at the futures, clearly the market is there, and therefore we are not seeing any grounds for being lower to what we have guided for 2020. Again, the refining business by itself is being less and less weighted in the global Ebitda. So, there will be much more contribution from the other areas, and mainly from the upstream activities.

**Yuriy Kukhtanych – Deutsche Bank**

Good afternoon, gentlemen, two questions please, both on downstream because it is still important for your cash flow, I believe. First question on the arbitrage opportunities in the Atlantic basin. Gasoline exports are still very important for your refining business, I'm just wondering if you still see this opportunity, if you still see the market to sell profitably, going into the East Coast, especially in light of the recent supply disruptions?

The second question on the marketing, please. You mentioned that demand is growing in the Iberian Peninsula, but it is not reflected in your volumes, which are down more than 5% YoY. If you could just elaborate a little bit more on how profitability and marketing worked in 2Q19 and what drove that profitability apart from volumetric changes on the market? Thank you.

**Carlos Gomes da Silva, CEO**

Thank you Yuriy and good morning. On arbitrage in the Atlantic basin, you know that we have several initiatives related with export and swapping products, mainly starting in Iberia which is an important source of supply optimisation. The second element, as you know, is related with RBOB gasoline for the U.S. that allow us to capture a premium over the European gasoline, and we do see that this will continue in the coming quarters, not for saying in the coming years.

In what respect to the arbitrage, that's something that might happen, and we have this as a base case, which is the increasing of the middle distillates cracks. Actually, looking at the IMO regulation, looking at the inventories of fuel oil, there will be a market requirement to be more demanding on marine diesel and on very low sulphur fuel oil, and the positive impact on middle distillates cracks is something that will allow us, for sure, to capture part of that. I hope, and it seems to be the case, that during the 4Q19, we will have our full refining system working properly. We have already anticipated some deliveries to a few clients and that could be one of the key elements for the margins increasing in Q4.

The volumes in Iberia, what I can tell to you is that we are being more selective, so demand is growing. The volumes of Galp sold to direct clients are also growing. In the other segments, we are being very selective because it's not a volume-driven commercial strategy, it's a value-

driven commercial strategy, and therefore what is important is that we can follow clearly the segments where we can capture more value. Thank you.

**Alwyn Thomas - Exane BNP Paribas**

Hi guys, just a couple of quick ones from me. Firstly, on your investment plans regarding low carbon, we haven't seen that many material moves from you guys as yet, but I know you're planning to spend 5% to 15% of the budget in coming years. Any colour on where you might be looking? Any projects in particular that could start to ramp up a little bit on the capex side in the near term?

Then, actually if I just turn attention to exploration, excluding the payment in 2Q19, your exploration spend this year has been pretty low. I was just wondering what your plans are for drilling, further appraisal on the Carcará assets but also Uirapuru, when you expect that to be drilled and other key wells to watch for the next twelve months or so, if you could help me there, Thore?

**Carlos Gomes da Silva, CEO**

Hi, good morning Alwyn. On low carbon, you're right, what we have provided to you is our guidance of 5% to 15%, and levered. I mean that for the typology of projects we have also to consider that they are project financeable, most of them. We are building a portfolio of solar PV projects, we have a few of them already under development. Let us go more into detail in the coming future to allow you to know where we will stand. Anyway, our plans are clearly to increase our renewable power generation capacity in a way that we will progressively balance



our commercial electricity business in a way that we will be fully integrated as we are in other businesses.

Exploration capex, we have several activities, I will pass to Thore to go further in depth on those. Anyway, we have many of the initiatives, either in Brazil, in Namibia and São Tomé, but I will pass to Thore to elaborate on that. Thore?

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

Yes, thank you Carlos. On exploration, what is to look for there is that the next things that will happen is that we will do a DST on Guanxuma. We will take the rig that has now been drilling Carcará North to Guanxuma and then do a DST.

Secondly, it is an ambition that we will spud the first well in Uirapuru during 4Q19. This is still not confirmed, but that is the ambition.

Then, we are continuously maturing our position in São Tomé and Príncipe and in Namibia. In São Tomé and Príncipe, we have now a very, very good seismic acquisition that was done. We are very close to conclude with our partner the first drillable prospect, and that there is the possibility that we can spud and drill the first well there during the end of next year, or early 2021. We're going through exactly the same process in Namibia, de-risking and analysing seismic data, both in PEL 82 and PEL 83. For the time being, it is too early to forecast any drilling activities there, but we are maturing the data. Thank you.

**Alwyn Thomas - Exane BNP Paribas**

Thanks. If I could just follow up on the low carbon investments, Carlos, would you consider adding some existing power generation through inorganic activities? I notice your peer Repsol has obviously done some reasonably large acquisitions in that area. I was wondering whether you feel that perhaps you need some critical mass in terms of customer base in order to springboard that side of the investment? Thanks.

**Carlos Gomes da Silva, CEO**

Alwyn, we have a different approach because we have a starting point where we have already a client base for our business. Therefore, we are much more focused on the upstream of that activity, meaning to be capable to generate, to produce the electrons. We might consider some inorganic moves. Anyway, they should be with small scale and more related with the acquisition of portfolio projects rather than to be exposed to a big transaction. We also consider other instruments but not with the dimension that you have referred to. Thank you.

**Alessandro Pozzi - Mediobanca**

Good afternoon. I have two questions. The first one is on Lula. I remember you previously indicated recovery factors just above 30%. I was wondering if you can maybe give us an update on potential upgrading of the recovery factors there going forward?

Also, second question is on the scrubber update. We've seen that increasing over the last year or so. I was wondering if that is going to change a little bit your view on the impact of IMO in 2020 or its duration? Thank you.

**Carlos Gomes da Silva, CEO**

Alessandro, good morning. Thank you to you and to all of you to wait to this moment. So, Thore will take the first question about our recovery factor targets and the work that is being done towards that.

So, scrubbers, what can I tell to you? It's according with what we have expected. We are not seeing too many, but what we are observing is that some of the big companies have considered that scrubbers is one of the possible and economic solutions, which means that the market will continue to have a portfolio of different marine fuel specifications. It will be a combination, as anticipated. And it will take time in the market, up to a full conversion.

Thore, can you elaborate on the recovery factor, please?

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

Yes, thank you very much, Alessandro, for your question as well. Our ambitions for Lula remain as they have been stated before. Our long-term ambition is to get a recovery that is about 40%. Right now, we have identified measures that can bring us to around 31% and then there is a systematic day-by-day, year-by-year work in order to find ways to improve. Our focus so far has been to bring up the units that are now producing in Lula, second ambition then will then be to keep them on plateau for as long as possible, and that will then include looking for infill drilling opportunities so that you can maximise the plateau period. Over and above that, we have nothing new to say to the market for now, thank you.

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

Well, ladies and gentlemen, apologies again for the interruption. We hope you have found this update useful, and I remind you that the IR team is always available for additional clarifications. Have a great day and good holidays. Goodbye.

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