Pedro Dias, Head of Strategy and Investor Relations

Good morning ladies and gentlemen, and welcome to Galp's first quarter of 2016 results conference call.

Joining me today is Carlos, who will start with our strategy execution update and Filipe who will run you through our first quarter results. At the end, we will be available for Q&A, for which Thore will join us as well.

I would like to highlight that we may be making several forward-looking statements. Actual results may differ materially due to factors included on the cautionary statement at the beginning of our presentation.

I will now hand over to Carlos. Thank you.

Carlos Gomes da Silva, Chief Executive Officer (CEO)

Thank you Pedro.

And good morning to you all.

Let me take this opportunity to thank you for participating in our Capital Markets Day just a few weeks ago, both in person or through the webcast. Attendance to our CMD keeps rising every year and it's great for us to see such a highly participative event.

You may also have noticed that we have refreshed our brand and look. I would just highlight that we have simplified our name. Galp Energia is now simply referred to as Galp. Simply Galp, as all our energies are committed to create value to our shareholders.

Let's now, move to the Q1 2016 results and operations update.

Needless to say, the first quarter of 2016 continued to be very challenging for the industry, and Galp was no exception. Given the backdrop, we think we have managed to deliver a reasonable set of results, achieving an Ebitda of €293 m. This was possible due to our integrated portfolio, with a combination of increased upstream production with a still robust downstream and gas performance.

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Share Capital: 829,250,635 Euros | Registered at the Commercial Registry Office of Lisbon | Company tax number 504 499 777

Some word on the macro environment over the quarter, on slide number 5. The start of the year was marked by another sharp drop in oil prices, down almost $10 per barrel QoQ, with continued increase in oil production, especially from OPEC members, and with inventories achieving record-high levels.

The mild winter also contributed to the build-up of product inventories, and particularly of middle distillates, which saw cracks falling almost 50% YoY, impacting overall refining margins.

The natural gas market in Iberia was also impacted by the warmer climate and by higher hydro and wind power generation.

The Iberian oil market was stable YoY, although impacted by lower heating oil demand, given also the warm weather, while positively impacted by increasing demand for gasolines and motor middle distillates. Bear in mind that February this year had one more day, and that Easter also fell in the Q1, which are two positives for the results.

Now a closer look at our operations this quarter. Our average working interest production was just above 56 thousand barrels per day, as Brazil pre-salt production continues to rise. The units there contributed to almost 46 thousand barrels per day, on average, during the quarter, despite some maintenance activities.

On the FPSO #1, we continued to operate steadily during the quarter. The unit stopped in mid-April for scheduled maintenance, which was concluded safely. This lasted around 11 days, and it is now running at normal levels.

Some maintenance also in FPSO #2 during the quarter. This will also affect the production for April, which means the start of Q2, even with the consortium taking the opportunity to bring forward maintenance planned for later this year.

As for the unit #3, Cidade de Mangaratiba, operations were slightly constrained on the gas side, which impacted production as this unit is not yet connected to the Cabiúnas pipeline, which is expected to happen very soon. By then, we will have additional operational flexibility.

On FPSO #4, Cidade de Itaguaí, ramp-up is continuing to be done, with the fourth producer well connected at the end of March.

And finally, unit #5, Cidade de Maricá, started production last February. This unit is producing in the Lula Alto area, and the first producer well flow rate averaged about 33 kboepd. The second producer well was already connected during April.

As you know, we are expecting an additional FPSO this year, called Cidade de Saquarema, for Lula Central area. This unit is almost ready and we expect to have it started early in the second half of this year.

Regarding the gas export pipeline to Cabiúnas, the commissioning activities were concluded in March and it has already started to export gas from the unit #2. This is the second natural gas export route to the Santos basin, and is key to ensure the monetisation of associated gas as well as to support oil production and unit ramp-up stability. We expect the remainder of the other existing FPSOs to be connected to the gas export network during the course of this year.

Now moving East, to our projects in Africa, starting by Mozambique. In Mozambique, the Government has approved the Coral South PoD during the first quarter. The consortium is now finalising the gas sale agreements and continues with the efforts to optimise the EPCIC proposals.

In Angola, regarding block 32, the drilling campaign in Kaombo proceeded as well as the construction of the two FPSO units in Singapore. An onshore logistics base is also being built, which will provide support to this important project.

So, to sum up, despite the challenging quarter for E&P, with lower oil prices and some instability in the production units, Galp was able to continue to execute its strategy and increase its production.

Let’s move on to the downstream and gas businesses, on slide 10. Our downstream operations were impacted by the planned outage in our hydrocracking complex, in the Sines refinery, which lasted around 60 days. It was completed safely, on time and on budget. Despite this outage, we were able to achieve a premium to benchmark of almost $1 per barrel. We continue to realise profitable arbitrage opportunities, namely through gasoline exports to the United States, leveraged by logistics improvements that were implemented in our Sines refinery.

The marketing of oil products activity also contributed steadily to results, even though volumes sold decreased, on the back of the lower sales to low margin wholesale clients, and of course, as I’ve mentioned, the hydrocracker outage.

In Gas & Power, we were impacted by lower prices of natural gas and LNG in the market, and particularly in our supply and trading activity, with fewer trading opportunities. However, our structured LNG contracts, as well as some opportunistic trading activities, contributed to a reasonably sound business performance.

Filipe will now go over the financial overview. Thank you.

Filipe Silva, Chief Financial Officer (CFO)

Thank you Carlos and good morning.

As usual, I will start with the P&L on slide 12. This last quarter, Group Ebitda was €293 m. This is down 22 per cent year-on-year, a reduction driven by the E&P and Gas & Power businesses. The Refining & Marketing business was quite resilient considering the 37% decline in benchmark refining margins and the hydrocracker planned outage.

I would like to highlight that, starting this year, we are allocating to the Ebitda of each business the exchange rate differences which are related to operating flows. These FX difference used to be booked under financial results. To make periods comparable, we have reallocated the 2015 numbers accordingly. During Q1 last year, the Dollar actually shot up some 10%, and our financial results included €23 m in FX losses which were related to the Refining & Marketing business. We have now allocated those to the 2015 Refining & Marketing Ebitda. This reallocation has no impact on net income, nor cash flows of course.

Considering this impact, Refining & Marketing Ebitda was up 3% YoY, to €148 m. Despite the lower benchmark margins, the refining business benefitted from gains on our margin hedges, versus a loss last year.

E&P Ebitda was down to €48 m, with the increase in production being insufficient to offset the considerably lower oil prices in the period.

Gas & Power Ebitda was down to 90 million euros, mostly on lower results from the supply and trading of natural gas. This was driven by falling prices, less arbitrage opportunities, the Sines refinery outage, and the sale of the Spanish residential gas business. The Ebitda for the infrastructure business was slightly down, as well given the lower regulatory rate of return. Power was also down, driven by the lower contribution from the cogeneration, and particularly from the declining Brent.

For this first quarter of 2016, financial results were positive €3 m, driven by a gain in unrealised refining margin hedges. In Q4 last year, if you recall, we had mark-to-market losses on such hedges.

Q1 net income this quarter of €114 m on an RCA basis. Under IFRS, the bottom line was negative by €58 m, this is impacted by a negative inventory effect of €92 m and non-recurring items of €80 m. Non-recurring line includes the extraordinary taxes on the energy sector, which we are challenging. I must highlight that the full year impact for such extraordinary taxes is now accounted for entirely in the first quarter.

On the next slide, you will see that the capex of €343 m during the quarter was mostly allocated to the E&P business, and primarily to the development of BM-S-11 and to a lower extent, to block 32 in Angola.

On slide 14, we have a summary of our balance sheet, where you see that working capital has continued to decrease, with investment in inventories benefitting from the lower commodity prices. Net debt was up €45 m in the quarter, to €1.8 bn considering the balance of the loan to Sinopec as cash. And this gives us a net debt to Ebitda of 1.4 times.

Finally, our liquidity remains high, at about €3 bn, of which just over €1 bn in cash, undrawn credit lines of €1.3 bn, and the loan to Sinopec of about €600 m.

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

Questions & Answers Session

Mehdi Ennebati, Société Générale

Hi. Good afternoon all and thanks for taking my questions. I will ask two questions, please. First on the impact of Cabiúnas pipeline start-up, you said that Mangaratiba FPSO has been connected recently in March and Itaguaí, Maricá and Saquarema FPSOs should be connected in Q2/H2 2016. Can you tell us what natural gas production level you should achieve when all of those FPSOs will be connected? And what will be the impact on your realised sales price, because - if I remember well - you sell gas in Brazil at a much lower price than oil, so I expect a negative impact on the realised sales price.

Second question, regarding your Q1 2016 refining margin premium - which has been, as you said, almost $1 per barrel, meaning above H2 2015 level of $0.5 per barrel - does it mean that the hydrocracker unit has almost no impact on your premium margin, and then most of your premium comes from the gasoline differential – price differential between North America and Europe? Or is there anything else which materially positively impacted your premium in Q1 versus H2 2015? Thank you.

Carlos Gomes da Silva, CEO

Good morning, Mehdi, it's Carlos. Thank you for your two questions. I will start with the refining. As mentioned and as you are aware, we have had this outage in Sines refinery, in hydrocracking, and we have operated the Sines refinery as it was before the investment on hydrocracking. There are several effects that supported our refining margins. So starting with the first one, it has to do with the dramatic fall in the cracks of diesel, but we end up sustained by the cracks in gasoline. So we were running our industrial asset for gasoline and we have taken the opportunity to leverage on the fact that the cracks of the gasoline have been sustained quite high. So this is the first impact.

The second one has also to do with the hedging that we have made in our refining margin. You know that we have approximately 30% of our refining capacity in a year-based hedged. And therefore, that has positively contributed for sustained Refining & Marketing – mainly refining - value.

The third effect that I also would like to highlight has to do with the premium that we have been able to capture to our benchmark. And that premium also includes some activities that have been done on optimising our activity. Example: we have taken advantage of the contango situation that the market has offered in the recent past and we have implemented some of those operations in a short/medium-term basis, which means during this year, and that also contributed for the refining margin, and it will also contribute, I would say, in the next quarter, for composing partially our refining margin. So all in all, I would say that we have been able to capture the opportunity and to maximise the strategy of our refining system, driven by the gasolines that were quite strong during the first quarter.

In relation to Cabiúnas pipeline, the Cabiúnas pipeline is a key strategic asset. It's the second route of evacuating gas in the overall fleet of the pre-salt of Santos Basin. It is also more visible now because, since we have anticipated the first call and the ramp up of both of FPSO #3 and #4, we are now experiencing and taking the sensitivity of the importance of Cabiúnas pipeline. The route #2 is key and essential to guarantee the oil production stability in all the units that are now onstream. That said, of course, the gas prices are diluting the overall oil and gas realised price has to do with that. But to get more detail on that, I will ask Thore to take the word. Thank you.

Thore E. Kristiansen, Chief Executive Director of E&P

So, completely correct. The commissioning of the Cabiúnas pipeline was done in March this first quarter, and already FPSO #1 and #2 are connected to the Cabiúnas pipeline, and we have an evacuation capacity there. The second phase that now will happen is that during the second quarter, FPSO #3 and #4 will be connected to the pipeline, so that we also get evacuation capacity there. And that is, for us, strategically very important, because contrary to what we have had so far, where we've had to hold back somewhat on the oil production, we will now have sufficient capacity to maximise on oil production and that is really the key driver. You know there are limits to how much we can inject into the reservoir and we need the gas pipeline to have sufficient capacity to take away the gas, so that's because of flaring restrictions in Brazil. And then what will happen is that FPSO #5 and #6 will be connected to the Cabiúnas pipeline during the second half of 2016. The prices we achieve for the gas is fair, it's relevant prices for the Latin American market, but please remember that the key reason for this pipeline is to have no limits on our oil production. Thank you.

Mehdi Ennebati, Société Générale

Thank you very much.

Filipe Rosa, Haitong Investment Bank

Hi, good morning everyone. Two questions from me. The first one relates to this recent regulatory visibility we have had on your infrastructure for natural gas distribution. Is it fair to say that now the way is open for you to be able to monetise this asset, in case a good opportunity for you to reinvest in upstream shows up? Could you just give us an idea whether you are looking at potential targets to invest in upstream, trying to take advantage of the current prices, and whether this net debt to Ebitda ceiling of 2 times would still be valid in case a good opportunity shows up? Okay, that's the first question.

The second one relates to the unitisation talks and these new taxes in Brazil, whether there have been any development on the new taxes and when could you start to have some better colour on the impact from the unitisation on your output cash flows and for your assets in Brazil as well.

Thank you very much.

Carlos Gomes da Silva, CEO

Okay, Filipe. Thank you for your questions and good morning.

Starting by our regulated assets, as you correctly said, for the next regulatory period that will enter in force after next July, and based on the change on the rate of return that has a link with the decrease of the Portuguese 10-year treasury bonds, there's a review that we can anticipate in relation to the remuneration of those assets. That said, we are considering that the lower limit and the upper limit that were applied in the previous regulatory period will fall and we are anticipating that RoR could stay in a bandwidth between 6% and 6.5%. This is one of the points that is a given.

The second part of your question is if this is triggering any decision in the Company for selling these assets? The answer is no. But that said, and as we have mentioned several times, we are always, in a recurrent basis, analysing the possibility to actively extract and manage our portfolio, and extract the maximum value that we could. And that's it. We don't comment on potential M&A activities, but we keep our eye open and we are working always for capturing value.

After that, you have also mentioned things related with potential investments that we might have. So, I think we have been quite clear on our CMD, where we have stated that our first priority is to execute the projects that we are facing, which are profitable and outstanding projects, first, and second is extracting more value from the existing assets in the Company. We have the luck to have those quality assets in our portfolio and therefore we should be focused on extracting value from those before thinking on additional steps.

The second point: unitisation. It's a complex process. We will be exposed to the different unitisation processes. The first one is in the south of Lula, which has been already delivered to ANP. As we have stated before, I think the time that has been spent on that is because it is the first and somehow this reflects an anchor position and a result that will give a sound for the next unitisation processes. We don't anticipate when it could end. What we can say is that in our production forecast we have designed our plans as if the unitisation has happened in the beginning of the year, and that's it. Meanwhile, we will wait for that to be concluded. I think it is important that the authorities that are analysing the process will have the time to do it correctly and in a proper way.

Filipe Rosa, Haitong Investment Bank

Just a follow-up on the unitisation, sorry. In your guidance, what has been your assumption for the impact of the unitisation on your production? Can you give us more colour on that or will we need to wait for the approval of this process?

Carlos Gomes da Silva, CEO

As you can easily anticipate, if we don't have a conclusion, we should be prudent on the way we approach it. We prefer not to give any colour on that. I think it is the fair way to approach it.

In the Rio de Janeiro state's new taxes, so ICMS and the new levy tax. The process, I think we have already given you all the information related with the process that we have triggered, either through the IBP in Brazil, and as well as the *Mandato de Segurança* that we have also implemented. What we can say is that it will be required at least between six and 12 months to have a final decision from the Supreme Court. Meanwhile, the execution of those taxes are suspended and has been decided by different courts, by the first instance, now for the second instance court. So we have to wait, Filipe, for at least between six months and 12 months, as it is our best estimate today to have a final conclusion on this.

Thank you.

Filipe Rosa, Haitong

Thank you very much.

Haythem Rashed, Morgan Stanley

Thank you and good afternoon gentleman, thanks for the presentation. Two questions from my side, please. Firstly, could you perhaps provide us a brief update on the refining environment so far in April? The benefit around gasoline that you achieved in 1Q, have you been able to see that carry on through 2Q so far? If you could give us some colour on that. Actually, related to that, as a sub-point to that question, I understand this quarter your yield on gasoline was a little higher than you normally would have, given the hydrocracker being offline. Could you just give us a sense of theoretically how much you could boost your gasoline yield to, if you wanted to, in the coming quarters, to take advantage of the strength in that market, if you wanted to. From the 25% yield that you had in 1Q 2016, how high could that potentially go?

Second question was relating to Brazil and just to get a better sense of the production profile over the next couple of quarters. My understanding is maintenance on FPSOs #1 and #2, and also connections of FPSOs #3 and #4 to Cabiúnas. Would those events be enough to see your production actually lower in 2Q, but then actually a fairly strong rebound in 3Q and 4Q? If you could just give us a sense of would production be, say, below the 54 thousand barrels a day entitlement production that you produced in 1Q, but then actually potential for it to be quite a bit higher in 3Q and 4Q. Some colour on that would be very helpful. Thank you.

Carlos Gomes da Silva, CEO

Good morning, Haythem, and thank you for your two questions. Starting by the refining environment, what we are experiencing now, as you probably are aware, is that the crack in gasolines, namely in Eurobob are being sustained; they have even increased in the last couple of weeks. It happens the same with the RBOB, so the gasoline for the United States. Therefore, we are forecasting, and we are estimating that taking in consideration that the driving season will start soon, in the next weeks, the gasoline will continue to drive the refining margins and pressing them up in the next couple of months.

In the opposite side, what we are seeing is that diesel still remains very weak. That has to do not only with the inventories that were quite high, but as well that the consumption is not increasing as it was previewed. We can also see that in Iberia, namely in Spain, that in the 1Q16, the consumption of diesel has decreased, which is, I would say, a unique situation since a long time ago.

We have both and, therefore, what we are doing is maximising, in economic terms, our refining system, pressing as maximum as possible the gasoline. We think that in terms of yields we can reach between 23% and 25%. Therefore, we will deal also with the crude mix that could maximise and optimise our system and keep going on that.

The first point I would say that refining margins on that context will continue to be driven by gasoline. We should also take into consideration that we have considered in our annual forecast a benchmark of $3.6/bbl, around that. We have part of our refining margin, which is about 30%, that is hedged at $3.53, or so.

So I think in that part, we are quite aligned with what we have forecasted and we have shared with you in the last CMD and if something better happens, I would say that it could come from the side of the diesel.

In what relates to the production profile in Brazil, and I will share the answer with Thore. Giving just the maximum flavour that we can, you know that the stability of the existing and still operating units is a given. We have the four first units at plateau level and the plateau of FPSO #4 will be achieved in the next three or four months. I would say the fifth producer well should be by mid of the year working for the unit at close to full capacity. We also know that the first oil of the fifth unit has already been done, so two producer wells already working. Cidade de Saquarema should be by the mid of the year, I would say early in the second half, with first oil. With that production unit on the system and some maintenance that has been forecasted for the end of the year that has been already anticipated, I think it is relatively more simple to approach to the production profile, that should be in line with what we have said in the last CMD, which is growing between 35% and 40% this year. But I'll pass now to Thore to give more insight on that. Thank you.

Thore E. Kristiansen, Chief Executive Director of E&P

I can just confirm. First of all, the key message here is that we are standing by what we said at the time of CMD, that our production you can expect will grow between 35% and 40% for the year.

It is a very correct observation what you are also picking up, the fact that April will be a weak month, due to the maintenance that we have had in April and then we will pick up for the rest of the year, due to additional production capacity – we have a total of 12 producers being connected during the course of 2016 and a totality of 21 wells that we're drilling; the rest of them being injectors. That will lead to the second half of the year being significantly stronger than the first half of the year.

We are refraining from giving a specific guidance on a quarterly basis. The guidance that I will stick with is that you should expect a production in growth between 35% and 40%.

And then if I just may add; and then there might be an addition upside and that is the fact that if the unitisation doesn't take place there will be additional barrels on top of that.

Haythem Rashed, Morgan Stanley

Thanks. Just to pick up on the sixth FPSO actually. Given the connection to the Cabiúnas pipeline, as you mentioned earlier, allows you to produce more unrestricted given the gas constraint moving away, can we then expect the ramp-up to be much less than 12 months, or the so 12 months to 18 months that has been talked about before, as kind of your typical ramp-up for these FPSOs. Could we see something more like a 6-month ramp-up with that gas pipeline connected?

Thore E. Kristiansen, Chief Executive Director of E&P

No, that you cannot. Twelve months is really still to stretch it. We have, as you know, brought down significantly from where we initially were. Twelve months is really getting close to the technical limits where we are and it's a function of that we really need time to hook up the producers and the injectors. So there will be time in between. So 12 months is the stretch target that we have internally in the Company for the ramp-up period. Thank you.

Haythem Rashed, Morgan Stanley

Very helpful. Thank you.

Anish Kapadia, Tudor, Pickering, Holt & Co

Hi. A couple of questions please. Firstly, on Mozambique, I'm just wondering how the current economic and political situation is affecting your forward plans in Mozambique. You've seen the IMF suspend aid to Mozambique, it seems like there's political issues, potential in fighting, civil war-type issues as well and you've had a big devaluation of the currency. So, I'm just wondering how does that affect your forward plan, how does that affect your conversations with banks with regards to funding? It certainly feels like the risk level has gone up in Mozambique.

And the second question relates to the entity you have in Brazil, the Tupi BV entity. I was just wondering if you could talk a bit more about how you see that impacting the financial statements over the coming years? And I was just wondering, is that a saleable entity? So, could you monetise that entity at some point over time if you choose to do so?

Thank you.

Carlos Gomes da Silva, CEO

Good morning, Anish, and thank you for your questions. So, I will take the first and I will ask Filipe to take the second one. In what concerns to Mozambique, of course, we are concerned about what is going in Mozambique, since we are investing both in upstream and as well in the downstream. So, sometimes we are not speaking about the downstream activities in the country, but we are now investing on two parks; one in Maputo and one more in the north, in Beira, and of course we are concerned about it. That said, the Mozambican project on the LNG side is less affected by the Mozambique context or framework as it is more exposed to the international LNG market. But, of course, for funding purposes and being a project that is exposed to Mozambique, that is something that is, of course, at least, a side impact. And we are not considering that could be the decision issue for the project. And therefore, we are following what is going on. But our effort and our energy is more driven by the cost optimisation and the efficiency, in order to see if we could bring the economics to a level that could allow the partners to take a decision on investment during the course of this year.

Thank you. I will pass now to Filipe.

Filipe Silva, CFO

Anish, in theory yes, Tupi BV could be monetised, even if this is really designed to be neutral to the partners of BM-S-11. So, it does not make a lot of sense to dis-align the interest in one entity versus the others. Tupi BV, is just a vehicle, again, with the exact same shareholders as BM-S-11. And there are no plans to monetise. The impact to Galp, because we only own 10%, is that you don't see any of the economics of Tupi BV in Ebitda, it will fall under the associates line. Thank you.

Anish Kapadia, Tudor, Pickering, Holt & Co

So, just what I was wondering was in terms of the contribution to the associates line, how should we think about that going forward? Should we assume that's kind of neutral or, how should we look at that?

Filipe Silva, CFO

To the bottom line of Galp, to the cash flows of Galp, this is completely neutral, yes, and same to all the shareholders, yes.

Anish Kapadia, Tudor, Pickering, Holt & Co

Thank you.

Henri Patricot, UBS

Hello everyone. Thank you for the presentation. I have two questions for you. The first one on the upstream. Just looking at your oil and gas realised prices over the first quarter. The discount to Brent has narrowed compared to the fourth quarter, but it remains quite wide against the previous quarters, so I was wondering what explains this wider discount and what you expect for the rest of the year? And the second question, just a quick one on refining. Can you tell us if you've changed your hedging policy for the rest of the year? Is it still 30% hedged at $3.50 per barrel? And also where you've started to hedge yourself for 2017? Thank you.

Carlos Gomes da Silva, CEO

Good morning, Henri, and thank you for your question. So, going directly to the first one, you are right. So in terms of the realised price, the content of gas is diluting and is increasing the discount to Brent. But we should bear in mind that there is some under-lifting that has been made also during the 1Q that also will affect the results in a yearly approach. And of course, we have to see now the underlying positive impacts of the fact that Galp has now a logistics facility, based on DP vessels that allow us to optimise our commercial activity on selling that oil. Therefore, I would say that going forward, we will have room space to optimise our realized price.

In what relates to the hedging policy, the answer is no, we are not, and we will not change our hedging policy. So, as you are aware, we have hedged about 30% for this year. We have the same strategy for the coming years. Of course, we are establishing our own limits and we only hedge if, and only if, the levels of the refining margins will achieve the value that we think are required. You can see that by the forecast that we have shared with you in the last CMD. For 2017, we have already approximately 10% of the full year volumes hedged at a level that is around $3.3 per barrel and that's it. Thank you.

Henri J. Patricot, UBS

Okay. Thank you.

Joshua Stone, Barclays

Hi good afternoon. Two questions, please. One follow-up on the royalty – or the new tax in Brazil. Can you confirm while the Supreme makes its decision that Galp doesn't have to pay any money before that decision is made? And then secondly, in refining, on the premium margin you've achieved, is this more crude or product-driven, or is it a balance between the two? And with Sines up and running, would you expect this level of premium margin to increase for the rest of this year? Thanks.

Carlos Gomes da Silva, CEO

Thank you, Josh. So, in terms of the first one – the first question, the Supreme Court in Brazil is the ultimate entity that will decide anything that has to deal with the constitution and, therefore, it will be a binding decision. That said, we have to see the consequences not only for Galp, but for the oil industry in Brazil and therefore, we are confident that the decision will be positive. We have signs of that coming from the proceedings that we are following and we prefer not to go in that issue.

In what relates to the refining margins, I would say that the premium margin – the premium to the benchmark margin that we have - that should be slightly between $1 and $1.5 per barrel and it, is something that we can count on and take for the coming months. What you see is that we are pretty much affected by the fact that the arbitrage between the European and American gasolines has an impact on this premium. I mean that when the benchmark is based on the Eurobob, so in the European refinery – in European gasoline, when we see the American gasoline rising, that puts an additional premium on our refining benchmark which is higher comparing with what we can capture in Europe. Therefore, what we think for the coming months is that with the United States starting the driving season and putting more pressure on the gasoline products, we hope that could drive our margins in a positive side. That is more for that side than for the diesel, because we are not seeing diesel recovering as fast as we'd like, due to the high level of the inventories. But that also will depend increasing of the demand. And thank you for your question.

Joshua Stone, Barclays

Okay, thank you.

Edward Pybus, Exane

Hi, good afternoon. Two questions from me, please. Firstly, your marketing margin seems to improve this quarter, just wondering how we should think about that, whether it's sustainable or not.

And then, secondly, within Gas & Power, the natural gas volumes sold to the electrical segment increased by 26%. Just wonder if you guys could provide some more color on that, just what's driving that increase in volumes? Thank you.

Carlos Gomes da Silva, CEO

Thank you, Edward, for your questions. So, in marketing I would say that the margins that we are getting are stable. So, the business has been re-sizing and optimising, in order to guarantee that we are targeting the valuable segments. We have made some adjustments, especially on Spain where the B2B businesses were not behaving in the best way and we have introduced some optimising actions. We've used some segments of clients in order to get more focus on those that are higher value, and at the same time, with the volumes on which we were not getting the better value, we are using the international channels to sell our products. So, going forward you can count on, I would say, a stable marketing activity and if the market continues to demand and to increase the demand, I think we can count on a year that will be positive for the marketing activities.

In the Gas & Power, and namely the sales to the electrical sector. The electrical sector has no relevance in the overall gas for primary energy. If you see for what counts the natural gas in the electrical sector, it's relatively low, which means that a small increase will trigger immediately the consumption in the natural gas. You also have to take into consideration that in this first quarter, we have sold less gas to the power generation, mainly in Portugal, due to the fact that we have had the outage in our hydrocracking system in Sines. So going forward and taking into consideration that it has been a rainy winter, and the wind power generation is getting more space and, in the order of merit, it's being the first priority, I would say that we should not count on having increasing sales on the electrical sector. But we should count on the opposite, with the fact that our cogenerations will be at a higher level in the next coming quarters and therefore, could be one positive contribution for that. Thank you.

Edward Pybus, Exane

Thank you.

Thomas Adolff, Credit Suisse

Good afternoon. All my questions on refining, please. One set of fairly boring modelling questions. On the consumption and losses, it's come down to 6% in 1Q16. I wondered whether that's just a function of maintenance at the hydrocracker and if so, whether we should think of 8% being the norm, or whether you have achieved some improvements there, so 7% is a better number for our modelling?

Continuing with the modelling side, utilisation rates in 2Q16, should I think of it being better than 1Q16 and 1Q16 was already pretty good?

On the refinery costs, they have come down now to $2/boe, a significant improvement to last year, or even the year before. So on a structural basis, is that the right figure? And how have you achieved this improvement?

Beyond modelling, just going back to the point you made on the gasoline yield shift, my understanding, and please correct me, the typically immediate opportunities include optimisation of the distillation cut points, rerouting of intermediate streams and tank optimisation. But then you can also do things that take a bit more time like catalyst change or minor hardware changes. From Galp's perspective, as you look at the market in the next few years, both gasoline and diesel, is it necessary to do a little bit more to shift yields towards gasoline or are you generally happy with the current configuration? Thank you.

Carlos Gomes da Silva, CEO

I thank you for the boring questions, I will try to give you a boring answer, but at the end of the day these are not so boring issues.

You're absolutely right. The consumptions and losses have fallen in the 1Q16. You should bear in mind that our cracking system was down, which is a highly energy consuming unit, and therefore we cannot expect in the coming quarters to stay at the same level. The outage that we had for 60 days in the refining and namely in Sines brought up some contributions for that.

I will move now from your first question to the second and try to answer to both in the same answer. We have, as shared with you during the last CMD, an optimisation cost reduction program that is highly driven by energy efficiency and at the same time, value creation. Also, you know that we are investing - we have made some minor investments, minor capex - on refining to reduce our energy invoice, which will bring less cost for our system. Last year was pretty good on costs because we have had lower costs, but higher volumes processed. Having a higher throughput, we can dilute, namely, the fixed costs in a better way. But we keep moving on that and opex is between \$1.8/boe, \$1.9/boe up to \$2/boe, which is a bandwidth where we intend to be in the present and also in the future.

Moving more for the future and the question that you have put in terms of the optimisation and what could happen in the future. Of course, some of the limitations that we have are more related with the platforming unit, that limits our capacity to process naphtha, and therefore to maximise our yield in terms of gasoline. We are also considering in our LNP model the possibility to import straight from naphtha or to import the reformate that could bring value for blending finished gasoline. This is a flexibility that I would like you to have clear in your mind that we are keeping open, and if there's value on that, we will utilise that.

What we have done, it was optimising our logistics facility in order to improve the capacity to export more gasoline, namely through our Sines refinery. The limitations are not platforming, they are more the logistics, but we are now in a much better position since we have removed the constraint that we had in the logistics side. So we have all the conditions to run at maximum capacity, with all the flexibility for driving that yield with the value on the gasoline side.

In the new cars that are coming to the system, we see that the increasing sales on the gasoline cars is what is putting more pressure on the system. You see that the refining system in Europe has been developed for gasoline and, due to the tax legislation and the tax regulation in the last 20 years, it has changed, it has shift to diesel. Now, I think there's the move in the opposite side since the gasoline engines are quite developed and quite optimised, and could be flexible, if you have combined motor engines. We can see that trend continues to consolidate, I think that the gasoline has to be considered as a positive trend for the future. Nevertheless, we are studying alternatives, namely for the petrochemicals value chain, that could be an alternative to get value for our gasoline in the future.

The decision that we will have to take in the next one or two years, is if we will invest and put our capex and our strategy on the petrochemicals side for gasolines; or if we keep getting these movement and postponing any decision, due to the fact that the gasoline is now re-coming to the system. It's a question that we still don't have a clear view. We have to wait more for the coming months, or even coming years, to see if that shift is consolidated or not. Thank you.

Michael Alsford, Citi

Thank you for taking my question. Sorry to come back to it, but a question on Mozambique. One of my takeaways from the Capital Markets Day was that you felt that the returns for the Coral FLNG project weren't sufficient to meet Galp's threshold to sanction the project. I'm just wondering, since the Capital Markets Day, has there been any real visible sign that the costs are coming down to meet that threshold?

Then maybe linked to that, around capital allocation, we all know how great Brazil is in terms of the returns from E&P investment and clearly better than Mozambique. So I'm just wondering, we know the operator is looking to sell down in Area 4, why is Galp not considering selling down partially your stake to monetize perhaps some of that value in Mozambique, to then I guess, redistribute it back into Brazil? Could you maybe talk around that? Thank you

Carlos Gomes da Silva, CEO

Thank you, Michael, for your question. Effectively it's more than a question, it's a strategic challenge. But let me try to answer to the basics, which have to do with the profitability of the project. Since the CMD, what happened is that we kept our move on optimising the capex and the opex, and I underline, it is not only the capex, it's also the opex, because going forward we have to keep the guarantee that the operation costs will be a reasonable estimate.

There are progresses, I have to admit. The team that is working together with the operator is getting some results on costs reduction. I also can emphasize that those results are still not enough, so we keep working on that, and working on other point that sometimes we are not giving any attention, which is production capacity of the unit. We are also analysing if the production capacity is reliable and could be optimised upwards, which will dilute the investment cost and, of course, the operating cost.

There's room to work in the next coming months. We are in the frontier of taking that decision. If we didn't yet take the decision, I have to assume it is because the economics are not mature enough for doing that. But all of us, and I can speak for Galp, are committed and completely involved on getting the best possible solution for Mozambique, in order to see if we can get that positive FID for this important project for the Company.

The other point or the other part of your question, we truly believe that the gas business in the coming future, in the next decade, is one of the driving activities in the energy industry. Therefore, even though really concentrate our efforts in Brazil could be a scenario, we think that Mozambique and the natural gas activity is a must and we should be exposed to that.

We are glad to participate in this project. It's a challenging one, for different reasons, but we have only one attitude towards this project and this asset. It's cooperation and being close by the operator to guarantee that together we get and we extract the best value for that. Thank you, Michael.

Nitin Sharma, JP Morgan

Good afternoon, gentlemen. Two questions from my side as well. Carlos, you've flagged in past the pressure that your LNG trading business has been facing, in terms of earnings pressure, because of the end to the arbitrage opportunities. But could you give us a flavour of where the contributions from LNG trading business stood in 1Q16?

The second one is on Angola. Now, some of your peers in the country have flagged the possibility of more favourable fiscal terms. I'm trying to understand, where are you in terms of your discussion for block 32? Has there been material renegotiations that happened on the fiscal terms? Thank you.

Carlos Gomes da Silva, CEO

Thank you, Nitin. I will take the first question, and I will pass the second one to Thore.

You're absolutely right. We are observing in the market the closing of the arbitrages between the different price hubs, namely between Asia and Europe, and therefore our alternative opportunistic trading activities are not open for the time being.

But you should bear in mind that we have closed some structured contracts two years ago that will stay in force for the next two years, which means 2016, 2017, and also 2018, the years that are more challenging for Galp and that will stabilise our business performance. This 1Q16 in what concerns to the gas business, has a comparison with the quarter of last year that is almost unfair, because the 1Q15 was the most profitable quarter ever in Galp's history. The results that we are getting for the 1Q16, when compared with 1Q15, seem to be low.

Effectively, they are quite in line, and even above, of what we have shared with you in the last CMD. Our activities are still running properly, we have done eight cargoes in terms of international trading activities, which compares with 10 cargoes last year, that has been affected by low Brent prices. Meanwhile, the Brent has fallen, even though there are some time lag effects on the prices, you know that we are comparing an average price that is likely between $35/bbl and $45/bbl, when compared with the prices that were in force in the past that were between $90/bbl and $100/bbl.

So going forward, I would say that we'll keep working hard on gas business. The international activities are not only on the LNG side, but also in the European market, where we continue to develop our activity to create and capture all the opportunities in those markets.

And looking at all the alternatives that could appear, namely in South America and also in Asian markets, where there are always opportunities. You can see that the activity that we've had in the 1Q16, was more than 90% for the Asian market. So we keep working on that part.

In what relates to the second question, I will pass now to Thore. Thank you.

Thore E. Kristiansen, COO E&P

I confirm that in block 32, we have achieved improvements in the fiscal terms. The fiscal terms have been improved, mainly due to the fact that the PSA is now more robust for lower oil prices and the chief contributor there is the fact that we have more cost that we can deduct at low oil prices.

Number two, we are also working to improve the fiscal terms in block 14, which is another important asset for us in Angola, in addition to the work that we're doing to improve on the capex and on operating cost on block 14. Thank you.

Hamish Clegg, Bank of America Merrill Lynch

This is Hamish Clegg from Bank of America Merrill Lynch. Just multi-tasking the two conference calls. I just wondered if you could tell me if there are any plans to take advantage of the European bond buying program in terms of work you can do on your balance sheet and potentially seeking any form of credit rating, with a view to some of the minor restructuring that's been talked about over the years in your regulated gas business?

Filipe Silva, CFO

Hamish, just like for M&A, we like to comment once we complete what we have to do. We now have a Draghi put in the market for investment grade instrument and this has not gone unnoticed at Galp. I'll just say what we said before, at the CMD in particular, our average maturities are becoming shorter, so we are planning to do something sometime during 2016. Thank you.

Carlos Gomes da Silva, CEO

Ladies and gentlemen, thank you for your time and for your questions. I will end now, just saying that we have had challenging times and that we have had to focus our efforts in continuing our strategy execution path, delivering projects on time and on budget, in a safe way, and working closely with our partners, aiming at maintaining alignment on key strategic and operational decisions. We have a competitive portfolio which benefits from its integrated profile, and has proved its resilience despite the adverse macro conditions.

We reiterate our strong production growth outlook, as we have already mentioned in the last CMD and emphasised today, through both the ramp-up of existing units and the start-up of a new FPSO.

Our resilient Refining & Marketing and also Gas & Power businesses will continue to contribute to the robust financial position of the Company, which is essential to support further growth, and we are now keeping working on cost optimisation and also margin improvements.

And with this, we conclude our session of today. Thank you for your time and I hope to see you soon. Thank you. Bye, bye.