energy creates energy

galp

RESULTS FIRST QUARTER 2016

April 29, 2016
Investor Relations

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1. Executive summary

Main highlights during the first quarter of 2016

- Consolidated Group Ebitda amounted to €293 m, a 22% decrease year-on-year (YoY), on a replacement cost adjusted (RCA) basis, following the lower contribution from the Exploration & Production (E&P) and Gas & Power (G&P) businesses, with the Refining & Marketing (R&M) business maintaining its positive contribution to results.
- Net income reached €114 m, down €7 m YoY, on a RCA basis. International Financial Reporting Standards (IFRS) net income was negative €58 m, including a €92 m negative inventory effect, following a decrease in commodity prices in the period, as well as €80 m in non-recurring items, mainly related to the R&M and G&P businesses.
- The working interest production of oil and natural gas increased 36% to 56.3 kboepd, due to higher production from Brazil.
- Galp's refining margin was $4.1/boe, on the back of lower refining margins in the international market. The marketing of oil products maintained its contribution to results.
- Natural gas sold decreased to 1,860 million cubic metres (mm³), mainly due to the decrease in volumes sold in the trading segment.
- Capital expenditure amounted to €343 m, of which 92% was allocated to the E&P business, mainly in the development of block BM-S-11 in Brazil and of block 32, in Angola.
- Net debt at the end of the quarter amounted to €1,841 m, considering the loan to Sinopec as cash and equivalents, with a net debt to Ebitda of 1.4x.

Recent changes in accounting:

Effective on 1 January 2016, exchange rate differences from operating activities are allocated to operating results of the respective business segment. Until the end of 2015, these exchange rate differences were accounted for under financial results.

Following an accounting interpretation from Portuguese Securities Market Commission (CMVM) regarding the accounting treatment for CESE I, Galp started to recognise the total amount of the cost and liability as of 1 January, instead of deferring the cost along the year.

Regarding the energy sector contribution in Spain, to the Fondo Nacional de Eficiência Energética, the impact was also fully accounted for during the first quarter of 2016.

These changes were applied to 2015 figures in order to make periods comparable.

2. Key figures

Financial data

€ m (RCA)

	Quarter				
	4Q15	1Q15	1Q16	YoY Chg.	YoY % Chg.
Ebitda RCA	**309**	**375**	**293**	**(82)**	**(21.8%)**
Exploration & Production	51	94	48	(45)	(48.4%)
Refining & Marketing	165	143	148	5	3.4%
Gas & Power	90	131	90	(41)	(31.5%)
Ebit RCA	**178**	**227**	**137**	**(90)**	**(39.5%)**
Ebit IFRS	**(18)**	**58**	**(3)**	**(61)**	**n.m.**
Net income RCA	**148**	**121**	**114**	**(7)**	**(6.1%)**
Net income IFRS	**5**	**(39)**	**(58)**	**(18)**	**46.5%**
Capex	**431**	**283**	**343**	**60**	**21.0%**
Net debt including loan to Sinopec[1]	**1,699**	**1,429**	**1,841**	**412**	**28.8%**
Net debt to Ebitda	**1,2x**	**1,0x**	**1.4x**[2]	**-**	**-**

[1] Considering loan to Sinopec as cash and equivalents.

[2] Ratio considers net debt including loan to Sinopec of €627 m as cash, plus €165 m corresponding to Sinopec MLT Shareholder Loan to Petrogal Brasil and LTM Ebitda RCA €1,437 m.

Operational data

	Quarter				
	4Q15	1Q15	1Q16	YoY Chg.	YoY % Chg.
Average working interest production (kboepd)	52.1	41.5	56.3	14.9	35.8%
Average net entitlement production (kboepd)	49.2	38.7	53.7	15.0	38.7%
Oil and gas average sale price (USD/boe)	30.0	50.6	26.1	(24.5)	(48.3%)
Raw materials processed (mmboe)	28.8	26.2	25.2	(1.0)	(3.9%)
Galp refining margin (USD/boe)	4.1	5.9	4.1	(1.8)	(30.4%)
Oil sales to direct clients (mton)	2.2	2.2	2.1	(0.1)	(4.8%)
NG supply sales to direct clients (mm^3)	992	999	901	(99)	(9.9%)
NG/LNG trading sales (mm^3)	700	1,195	960	(235)	(19.7%)

Market indicators

	Quarter				
	4Q15	1Q15	1Q16	YoY Chg.	YoY % Chg.
Exchange rate (EUR:USD)	1.10	1.13	1.10	(0.02)	(2.1%)
Dated Brent price[1] (USD/bbl)	43.8	53.9	33.9	(20.0)	(37.1%)
Heavy-light crude price spread[2] (USD/bbl)	(2.3)	(1.3)	(2.3)	(0.9)	(69.6%)
UK NBP natural gas price[3] (GBp/therm)	38.0	47.6	29.9	(17.7)	(37.3%)
LNG Japan and Korea price[1] (USD/mmbtu)	7.1	7.8	5.0	(2.8)	(35.7%)
Benchmark refining margin[4] (USD/bbl)	4.0	5.3	3.3	(2.0)	(37.3%)
Iberian oil market[5] (mton)	15.1	14.8	14.7	(0.0)	(0.2%)
Iberian natural gas market[6] (mm3)	8,370	9,074	8,653	(420)	(4.6%)

[1] Source: Bloomberg.

[2] Source: Platts. Dated Urals NWE for heavy crude; Dated Brent for light crude.

[3] Source: Platts.

[4] For a complete description of the method of calculating the benchmark refining margin see "Definitions".

[5] Source: Apetro for Portugal; CORES for Spain; the figures include an estimate for March 2016.

[6] Source: Galp and Enagás.

3. Market environment

EUR:USD

During the first quarter of 2016, the average EUR:USD exchange rate was 1.102, as the Dollar appreciated 2.1% against the Euro YoY.

Dated Brent

During the first quarter of 2016, the average dated Brent decreased $20.0/bbl YoY to $33.9/bbl, following a successive surplus production and large inventories as a result of increased crude oil production, mainly by the OPEC countries.

The average price spread between the Urals and the dated Brent widened from -$1.3/bbl, in the previous year, to -$2.3/bbl. The lower price for Urals crude resulted from its increased production and lower runs by the Russian refineries.

Natural gas

The natural gas price in Europe (NBP) decreased to 29.9 GBp/therm in the first quarter of 2016, from 47.6 GBp/therm in the previous year, as a result of lower oil prices, to which natural gas contracts are typically indexed, and of a mild winter in Europe.

During the quarter, the Asian liquefied natural gas (LNG) reference price (JKM) decreased from $7.8/mmbtu to $5.0/mmbtu YoY, as a result of an inventory increase, with a lower demand in Japan and South Korea.

Refining margins

During the first quarter of 2016, the benchmark refining margin decreased by $2.0/bbl YoY to $3.3/bbl, mainly following the lower middle distillates cracks, which stemmed from a lower demand.

The gasoline crack remained stable at $10.0/bbl YoY, supported by demand in the USA and Western Africa.

The utilisation of the European refining system remained unchanged at 12.0 mmbopd due to gasoline demand, and continued generating a production surplus of middle distillates, impacting the jet and diesel cracks.

The jet crack decreased $8.1/bbl YoY to $9.2/bbl, conditioned by large stocks and imports from the Middle East and Asia.

During the first quarter of 2016, the diesel crack was at $9.1/bbl, down by $9.1/bbl YoY, due to large stocks and exports from Russia and Asia to Europe.

Iberian market

During the first quarter of 2016, the Iberian market for oil products was stable YoY at 14.7 million tonnes (mton), although impacted by lower seasonal demand for heating oil.

During the first quarter of 2016, the Iberian natural gas market decreased 5% YoY to 8,653 mm^3, with conventional consumption (ie, from industrial and retail segments) down 4%, as a result of a warmer winter than normal, and with the electrical segment consumption decreasing 11%, affected by high hydroelectric and wind power generation.

4. Exploration & Production

4.1. Development activities

Brazil

During the first quarter of 2016, Galp and its partners continued with the development works on the Lula/Iracema project.

FPSO Cidade de Maricá (#5) started production on time, in the Lula Alto area, at the beginning of February. This unit has a production capacity of 150 kbopd and 6 mm^3 of natural gas per day, with the development plan including the connection of 17 wells, of which 12 are already drilled. This unit reached an average production of around 33 kbopd during March from one producer well, with the connection of the second producer well and first gas injector well having taken place in April.

FPSO Cidade de Itaguaí (#4), in the Iracema North area, reached an average production of c.75 kbopd during the period, with the unit production still restricted until the connection to the Cabiúnas gas export pipeline, which is expected during the second quarter. The fourth producer well was connected to that FPSO at the end of March.

Production from FPSO #2, in the Lula Northeast area, was affected by maintenance works during the quarter, although it benefitted from the connection of the sixth injector well. It is worth highlighting that the consortium brought forward additional maintenance works, originally planned later in the year, in order to reduce annual downtime. In the Iracema South area, FPSO #3 continued to produce from five producer wells.

FPSO #1 continued producing steadily in the Lula Pilot area. In April, the unit was subject to planned maintenance, which has meanwhile been completed.

Regarding the gas export pipeline to Cabiúnas, commercial operation has already started after the completion of installation works at the end of 2015 and the commissioning of the onshore treatment unit which was completed in March. FPSO #2 has already started exporting gas through the pipeline, and it is expected that FPSO #3 and #4 will be connected during the second quarter. The connection of FPSO #5 and #6 is expected during the second half of 2016.

FPSO Cidade de Saquarema (#6), a unit chartered from SBM Offshore (SBM) that will develop the Lula Central area, is now at the SBM shipyard, in Brazil, where integration works are close to conclusion.

Regarding the replicant FPSO units, the first stage of the topsides' integration works of the unit to be allocated to the Lula South area is expected to be completed during the second quarter of 2016, in the Keppel Fels shipyard, in Brazil. The second stage will consist of integrating the CO_2 and gas compression and injection modules, built by BJC in Thailand, and which transportation to Brazil started in April. During the quarter, the hull of the FPSO allocated to the Lula North area arrived to the COOEC shipyard, in China, where the topsides integration works are already being executed.

Regarding the unit assigned to the Lula Extreme South area, the hull construction works proceeded in the COSCO shipyard, in China.

Development wells in the Lula/Iracema areas

Project		Type of wells	Planned	Drilled	Connected
#1	Lula Pilot	Producers	7	6	5
	FPSO Cidade de Angra dos Reis	Injectors	5	5	5
#2	Lula Northeast	Producers	8	6	6
	FPSO Cidade de Paraty	Injectors	6	6	6
#3	Iracema South	Producers	8	7	5
	FPSO Cidade de Mangaratiba	Injectors	8	7	5
#4	Iracema North	Producers	8	7	4
	FPSO Cidade de Itaguaí	Injectors	9	7	3
#5	Lula Alto	Producers	10	7	2
	FPSO Cidade de Maricá	Injectors	7	5	1

Mozambique

In Mozambique, the consortium for Area 4 is finalising negotiations of the Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) proposals, as well as the conditions for the offshore Coral project LNG sales contract. The consortium is also preparing the financing solution for the project. In the first quarter of 2016, the Mozambican Government approved this area's development plan.

Regarding the Mamba onshore project, the EPCIC proposals are being assessed. The unitisation process was concluded during 2015, between the partners of the Mamba project (Area 4) and of the Prosperidade project (Area 1), which is still pending approval from the Mozambican Government.

Angola

Regarding block 32, the development drilling campaign of the Kaombo project proceeded in the quarter, as well as the conversion works of the two FPSO at the Sembcorp shipyard, in Singapore. Also during the quarter, the onshore logistics base started to be built.

4.2. Operating performance

€ m (RCA, except otherwise stated; unit figures based on net entitlement production)

	Quarter				
	4Q15	1Q15	1Q16	YoY Chg.	YoY % Chg.
Average working interest production[1] (kboepd)	**52,1**	**41,5**	**56,3**	**14,9**	**35,8%**
Oil production (kbopd)	48,9	38,4	52,9	14,5	37,8%
Average net entitlement production[1] (kboepd)	**49,2**	**38,7**	**53,7**	**15,0**	**38,7%**
Angola	7,6	7,8	7,9	0,1	1,7%
Brazil	41,6	31,0	45,8	14,9	48,0%
Average realised sale price[2] (USD/boe)	**30,0**	**50,6**	**26,1**	**(24,5)**	**(48,3%)**
Royalties[3] (USD/boe)	**3,6**	**4,1**	**2,8**	**(1,3)**	**(31,5%)**
Production costs (USD/boe)	**10,5**	**11,8**	**8,9**	**(2,8)**	**(24,2%)**
Amortisation[4] (USD/boe)	**9,8**	**16,3**	**15,8**	**(0,5)**	**(3,2%)**
Ebitda RCA	**51**	**94**	**48**	**(45)**	**(48,4%)**
Depreciation & Amortisation[4]	41	51	70	20	38,6%
Provisions	-	-	-	-	-
Ebit RCA	**10**	**43**	**(22)**	**(65)**	**n.m.**
Ebit IFRS	**(76)**	**(10)**	**(31)**	**(21)**	**n.m.**

[1] Includes natural gas exported; excludes natural gas used or injected.
[2] Galp average realised sale price, including change in production effects.
[3] Based on production in Brazil.
[4] Includes abandonment provisions.

Operations

During the first quarter of 2016, the average working interest production of oil and natural gas increased 36% YoY to 56.3 kboepd, of which 94% was oil production.

Production from Brazil increased 14.9 kboepd YoY to 45.8 kboepd, due to the increase in production from FPSO #3 and the start-up of FPSO Cidade de Itaguaí (#4) and of FPSO Cidade de Maricá (#5). FPSO #1 and #2 produced on average 10.9 kboepd and 12.0 kboepd, respectively. Gas exports also increased, from 3.1 kboepd to 3.5 kboepd, of which 3.0 kboepd from the Lula field.

In Angola, working interest production stood at 10.5 kbopd, in line YoY, with the start of production in block 14k offsetting the natural decline of the BBLT and Tômbua-Landana (TL) fields.

Net entitlement production increased 39% YoY to 53.7 kboepd in the quarter, a progress in line with the working interest production. Net entitlement production in Angola was stable at 7.9 kbopd.

Production from Brazil accounted for 85% of total net entitlement production in the period, compared to 80% in the previous year.

Results

In the first quarter of 2016, RCA Ebitda amounted to €48 m, down €45 m YoY, as the increase in production did not offset the lower average sale price of oil and natural gas.

The average sale price during the period was $26.1/boe, down from $50.6/boe the previous year, following the decrease in the oil price in the international market.

Production costs increased €3 m YoY to around €40 m in the quarter, following increased production in Brazil, namely from FPSO #4 and #5. In unit terms and on a net entitlement basis, production costs decreased $2.8/boe YoY to $8.9/boe, as a result of production dilution.

On a working interest basis, and taking into account the impact from associated companies related to ongoing production activities, production costs stood at $7.0/boe.

Depreciation charges (including abandonment provisions) in the first quarter of 2016 increased €20 m YoY to €70 m, not only on the back of the increased asset base in Brazil, but also due to the depreciation charges of block 14k in Angola. On a net entitlement basis, unit depreciation charges decreased to $15.8/boe from $16.3/boe the previous year.

RCA Ebit was negative in €22 m in the period, compared to a positive Ebit of €43 m in the previous year. Ebit on an IFRS basis was also negative in €31 m, impacted by €9 m in non-recurring items, of which c.€6 m were related to a compensation for early termination of a contract for drilling rigs in block 14, in Angola.

5. Refining & Marketing

€ m (RCA, except otherwise stated)

	Quarter				
	4Q15	1Q15	1Q16	YoY Chg.	YoY % Chg.
Galp refining margin (USD/boe)	**4.1**	**5.9**	**4.1**	**(1.8)**	**(30.4%)**
Refining cash cost[1] (USD/boe)	**1.9**	**1.8**	**2.0**	**0.2**	**10.4%**
Impact of refining margin hedging[2] (USD/boe)	**(0.2)**	**(0.6)**	**0.1**	**0.7**	**n.m.**
Raw materials processed (mmboe)	**28.8**	**26.2**	**25.2**	**(1.0)**	**(3.9%)**
Crude processed (mmbbl)	25.6	23.1	23.9	0.7	3.2%
Total refined product sales (mton)	**4.6**	**4.4**	**4.2**	**(0.2)**	**(5.1%)**
Sales to direct clients (mton)	2.2	2.2	2.1	(0.1)	(4.8%)
Ebitda RCA	**165**	**143**	**148**	**5**	**3.4%**
Depreciation & Amortisation	67	68	65	(3)	(5.1%)
Provisions	(5)	9	5	(4)	(45.6%)
Ebit RCA	**103**	**65**	**78**	**12**	**19.1%**
Ebit IFRS	**(1)**	**(41)**	**(47)**	**(6)**	**15.2%**

[1] Excluding impact of refining margin hedging operations.
[2] Impact on Ebitda

Operations

Raw materials processed during the first quarter of 2016 decreased 4% YoY to 25.2 million barrels (mmboe). This reduction was mainly a result of the hydrocracker planned outage at the Sines refinery in order to replace the catalyst, and which lasted c.60 days. Crude oil accounted for 95% of raw materials processed, of which 75% corresponded to medium and heavy crudes.

The production of middle distillates (diesel and jet) in the quarter accounted for 44% of total production, down 3 p.p. YoY, following the hydrocracker outage. In turn, gasoline production increased 3 p.p YoY and accounted for 25% of production. Consumption and losses in the quarter accounted for 6% of raw materials processed.

Volumes sold to direct clients stood at 2.1 mton, down 5% YoY, impacted by the hydrocracker outage and following the diversion of volumes to higher margin trading clients. Volumes sold in Africa accounted for 8% of total volumes sold to direct clients, in line with the previous year.

Results

Effective on 1 January 2016, exchange rate differences from operating activities are allocated to operating results. Until the end of 2015, these exchange rate differences were accounted for under financial results. This change was applied to 2015 figures in order to make periods comparable. For additional detail, please see section 9. Basis of presentation on page 25 of this report.

RCA Ebitda for the R&M business in the first quarter of 2016 increased €5 m YoY to €148 m.

Galp's refining margin stood at $4.1/boe in the quarter, compared to $5.9/boe the previous year, as refining margins decreased in the international markets. The spread over the benchmark margin amounted to $0.8/boe in the period, up $0.2/boe YoY, benefiting from arbitrage opportunities for gasoline exports to the USA and also from the lower middle distillates production whose prices decreased in the international market. It should be noted that in the previous year the spread had been impacted by outages for maintenance, as well as by the lag of pricing formulas of some raw materials.

Refining cash costs increased €4 m YoY to €45 m, or $2.0/boe in unit terms.

However, the refining activity benefitted from the Dollar appreciation against the Euro, and especially from the results relating to hedging of the refining margin.

In fact, the hedging of the refining margin generated a €3 m gain in the first quarter of 2016, compared to a €14 m loss in the previous year.

Marketing of oil products maintained its contribution to results, in spite of the lower volumes sold.

Depreciation charges and provisions reached €70 m in the first quarter of 2016, down €8 m YoY, with RCA Ebit reaching €78 m.

IFRS Ebit decreased €6 m during the period and was negative in €47 m, including an inventory effect of €108 m, following the decrease in oil and oil products' prices, as well as €17 m in non-recurring items, mainly related to impairments on equipment allocated to the refining activity.

6. Gas & Power

€ m (RCA except otherwise stated)

	Quarter				
	4Q15	1Q15	1Q16	YoY Chg.	YoY % Chg.
NG supply total sales volumes (mm³)	**1,692**	**2,195**	**1,860**	**(334)**	**(15.2%)**
Sales to direct clients (mm³)	992	999	901	(99)	(9.9%)
Trading (mm³)	700	1,195	960	(235)	(19.7%)
Sales of electricity (GWh)	**1,170**	**1,127**	**1,192**	**65**	**5.8%**
Ebitda RCA	**90**	**131**	**90**	**(41)**	**(31.5%)**
Natural Gas	60	98	60	(38)	(38.7%)
Infrastructure	31	34	32	(1)	(3.8%)
Power	(1)	(1)	(3)	(2)	n.m.
Depreciation & Amortisation	15	15	15	0	0.5%
Provisions	12	4	0	(4)	(98.7%)
Ebit RCA	**63**	**112**	**75**	**(37)**	**(33.2%)**
Ebit IFRS	**58**	**102**	**69**	**(34)**	**(32.9%)**

Operations

Volumes sold of natural gas amounted to 1,860 mm³ during the first quarter of 2016, down 15% YoY, mostly as a result of the decrease in volumes sold in the trading segment.

Trading volumes decreased 20% to 960 mm³, following the lower number of LNG cargoes sold in the international market. During the quarter, eight LNG trading operations were carried out, compared to 10 during the previous year. Cargoes were mostly shipped to the Asian market. Network trading volumes decreased 24% to 278 mm³.

Volumes sold in the conventional segment, i.e. to industrial and retail clients, decreased 146 mm³ YoY to 670 mm³. In the industrial segment, volumes sold decreased 14% to 556 mm³, mainly due to the lower consumption of Galp's hydrocracker, following the outage during the quarter.

Volumes sold in the retail segment decreased 34% to 114 mm³, following the sale of the natural gas marketing activities in the Madrid region during the second half of 2015.

In the electrical segment, volumes increased 26% to 231 mm³, with electrical production in Iberia registering a higher utilisation of alternatives sources to coal.

Sales of electricity in the quarter stood at 1,192 GWh, up 65 GWh YoY, mainly as a result of the expansion of the marketing of electricity activity. Sales of electricity to the grid decreased 34 GWh YoY to 356 GWh due to the lower contribution from the Carriço cogeneration, a Galp associate, and despite the start of operations of a new 22.6 MW wind farm, where Galp holds an interest.

Results

RCA Ebitda for the G&P business was down €41 m YoY to €90 m, following lower results from the natural gas supply and trading activities.

Ebitda for the natural gas segment decreased €38 m YoY to €60 m, impacted by lower volumes sold and lower natural gas and LNG prices in international markets.

Ebitda for the regulated infrastructure business stood at €32 m, compared to €34 m in the previous year. This was a result of the downwards revision of the rate of return to 7.94%, effective on 1 July 2015.

Ebitda for the power business was negative €(3) m, impacted by the cogenerations performance, namely considering the outage at the Matosinhos cogeneration, as well as by the lag in natural gas purchase price indexes compared to the pricing formulas of energy produced.

Depreciation and amortisation in the G&P business stood at €15 m.

During the first quarter of 2016, RCA Ebit decreased 33% YoY to €75 m. IFRS Ebit stood at €69 m, down from €102 m in the previous year, and includes a €9 m inventory effect.

7. Financial performance

7.1. Income statement

€ m (RCA, except otherwise stated)

	Quarter				
	4Q15	1Q15	1Q16	YoY Chg.	YoY % Chg.
Turnover	3,437	3,931	2,829	(1,103)	(28.0%)
Cost of goods sold	(2,714)	(3,174)	(2,155)	(1,019)	(32.1%)
Supply & Services	(333)	(310)	(313)	3	1.1%
Personnel costs	(89)	(83)	(75)	(8)	(9.8%)
Other operating revenues (expenses)	7	11	8	(3)	(24.6%)
Ebitda RCA	**309**	**375**	**293**	**(82)**	**(21.8%)**
Ebitda IFRS	**198**	**259**	**164**	**(95)**	**(36.8%)**
Depreciation & Amortisation	(122)	(135)	(151)	16	12.1%
Provisions	(8)	(13)	(5)	(8)	(62.0%)
Ebit RCA	**178**	**227**	**137**	**(90)**	**(39.5%)**
Ebit IFRS	**(18)**	**58**	**(3)**	**(61)**	**n.m.**
Net income from associated companies	22	26	21	(5)	(18.6%)
Net income from investments	1	0	-	(0)	n.m.
Financial results	(2)	(50)	3	53	n.m.
Net income before taxes and non-controlling interests	**200**	**204**	**162**	**(42)**	**(20.5%)**
Taxes[1]	(43)	(71)	(39)	(32)	(44.6%)
Non-controlling interests	(8)	(11)	(9)	(2)	(22.0%)
Net income RCA	**148**	**121**	**114**	**(7)**	**(6.1%)**
Non recurring items	(56)	(74)	(80)	(5)	(7.4%)
Net income RC	**93**	**47**	**34**	**(13)**	**(27.6%)**
Inventory effect	(88)	(86)	(92)	(5)	(6.2%)
Net income IFRS	**5**	**(39)**	**(58)**	**(18)**	**46.4%**

[1] Includes the Special Participation tax payable in Brazil and IRP payable in Angola.

In the first quarter of 2016, turnover amounted to €2,829 m, down 28% YoY. This was mainly due to the decrease in the prices of oil, natural gas and oil products on the international market, but also to lower volumes sold in the R&M and G&P businesses.

Operating costs decreased by 29% YoY to €2,535 m, following a 32% fall in the cost of goods sold. The supply and services cost remained in line, whilst personnel costs decreased by 10%.

RCA Ebitda fell 22% to €293 m in the period as a result of a lower contribution from the E&P and G&P businesses. IFRS Ebitda also decreased, by €95 m to €164m in the first quarter of 2016.

RCA Ebit was €137 m, down €90 m YoY, whilst IFRS Ebit fell by €61 m to negative in €3 m.

Net income from associated companies totalled €21 m, against €26 m in the previous year, due to the lower contribution from Tupi B.V.

Financial results were positive by €3 m, a €53 m improvement YoY, due to the €22 m gain related to the mark-to-market of financial instruments, and which compares to an €18 m loss in the previous period.

Net interest expenses in the first quarter decreased by €5 m YoY, to €28 m.

RCA taxes fell by €32 m to €39 m due to lower results across all business segments. Taxes on oil production from E&P decreased by €23 m to €1 m.

Non-controlling interests, mainly attributable to Sinopec's interest in the E&P subsidiary in Brazil, decreased to €9 m, as a result of lower income.

RCA net income reached €114 m, a €7 m decrease YoY.

IFRS net income was negative by €58 m, including a €92 m negative inventory effect which stemmed from lower commodity prices, as well as €80 m in non-recurring items.

The Portuguese Extraordinary Energy Sector Contribution (CESE) had a negative impact on IFRS results of around €33 m, of which €27 m related to CESE I, whose annual impact is fully accounted for in the first quarter of the year. This provision, related with CESE, results from the strict applicability of accounting standards. However, Galp's opinion, based on the opinion of renowned legal experts, is that the laws regarding CESE have no legal grounds and, accordingly, these amounts are not due.

In 2015, the CESE taxes and the Spanish energy sector contribution to the Fondo Nacional de Eficiência Energética had been booked evenly throughout the year. To make periods comparable, the full year impact of these taxes has been applied to the first quarter of 2015.

Non-recurring items in the first quarter of 2016 also included €14 m related to taxes on income from the associated Europe Maghreb Pipeline (EMPL) and €11 m related to impairments, mainly related to the R&M business.

7.2. Capital expenditure

€ m

	Quarter				
	4Q15	1Q15	1Q16	YoY Chg.	YoY % Chg.
Exploration & Production	321	273	316	43	15.9%
Exploration and appraisal activities	46	37	10	(27)	(73.1%)
Development and production activities	276	236	306	70	29.7%
Refining & Marketing	60	5	23	19	n.m.
Gas & Power	49	3	3	(0)	(8.7%)
Others	1	3	1	(2)	(80.7%)
Investment	**431**	**283**	**343**	**60**	**21.0%**

Capital expenditure during the first quarter of 2016 amounted to €343 m, of which 92% was allocated to the E&P business.

Investment in the E&P business was mainly allocated to development and production (D&P) activities, namely to the development of block BM-S-11 in Brazil, which accounted for 72% of investment in D&P in the period. Activities in block 32, in Angola, accounted for around 20% of that total.

Investment in exploration and appraisal activities totalled €10 m in the period.

Capital expenditure in R&M and G&P totalled €26 m, including investment in the Sines refinery – mainly allocated to maintenance activities –,in the natural gas infrastructure and also in the construction of a logistics terminal in Mozambique.

7.3. Cash flow

Indirect method

€ m (IFRS figures)

	Quarter		
	4Q15	1Q15	1Q16
Ebit	(18)	58	(3)
Dividends from associates	27	0	-
Depreciation, Depletion and Amortization (DD&A)	209	188	162
Change in Working Capital	66	105	141
Cash flow from operations	**285**	**351**	**300**
Net capex	(390)	(303)	(343)
Net financial expenses	(24)	(33)	(28)
SPT and Corporate taxes	(33)	(33)	(25)
Dividends paid	(1)	-	-
Others[1]	129	184	50
Change in net debt	**35**	**(167)**	**45**

[1]Includes CTAs (Cumulative Translation Adjustment) and partial reimbursement of the loan granted to Sinopec.

In the first quarter of 2016, the €300 m cash flow from operating activities benefitted from a €141 m reduction in working capital, due to lower inventories.

Considering the cash flow from operating activities and the €68 m loan reimbursement by Sinopec, net debt increased by only €45 m during the first quarter of the year.

Direct method

€ m

	Quarter		
	4Q15	1Q15	1Q16
Cash and equivalents at the beginning of the period[1]	**1,087**	**1,023**	**1,045**
Received from customers	4,166	4,423	3,265
Paid to suppliers	(2,785)	(2,954)	(1,836)
Staff related costs	(123)	(77)	(76)
Dividends from associated companies	27	0	-
Taxes on oil products (ISP)	(635)	(516)	(604)
VAT, Royalties, PIS, Cofins, Others	(333)	(457)	(380)
Total operating flows	**318**	**418**	**369**
Net capex	(391)	(355)	(379)
Net Financial Expenses	(26)	(46)	(52)
Dividends paid	(1)	-	-
SPT and Corporate taxes	(33)	(33)	(25)
Net new loans	(24)	(215)	(44)
Sinopec loan reimbursement	88	78	68
FX changes on cash and equivalents	26	139	(28)
Cash and equivalents at the end of the period[1]	**1,045**	**1,010**	**954**

[1] Cash and equivalents differ from the Balance Sheet amounts due to IAS 7 classification rules. The difference refers to overdrafts which are considered as debt in the Balance Sheet and as a deduction to cash in the Cash Flow Statement.

7.4. Financial situation

€ m (IFRS figures)

	31 December, 2015	31 March, 2016	Chg. *vs* 31 December, 2015
Net fixed assets	7.892	8.077	185
Working capital	510	369	(141)
Loan to Sinopec	723	627	(96)
Other assets (liabilities)	(515)	(573)	(58)
Capital employed	**8.610**	**8.499**	**(111)**
Short term debt	493	485	(7)
Medium-Long term debt	3.060	3.015	(45)
Total debt	**3.552**	**3.500**	**(52)**
Cash and equivalents	1.130	1.033	(97)
Net debt	**2.422**	**2.467**	**45**
Total equity	**6.188**	**6.032**	**(156)**
Total equity and net debt	**8.610**	**8.499**	**(111)**

On 31 March 2016, net fixed assets stood at €8,077 m, €2,133 m of which related to work-in-progress, namely in the E&P business.

Capital employed at the end of the period amounted to €8,499 m, including the €627 m loan granted to Sinopec.

7.5. Financial debt

€ m (except otherwise stated)

	31 December, 2015	31 March, 2016	Chg. *vs* 31 December, 2015
Bonds	2,154	2,155	2
Bank loans and other debt	1,398	1,345	(53)
Cash and equivalents	(1,130)	(1,033)	97
Net debt	**2,422**	**2,467**	**45**
Net debt including loan to Sinopec[1]	**1,699**	**1,841**	**142**
Average life (years)	3.1	2.9	(0.2)
Average debt interest rate	3.8%	3.5%	(0.2 p.p.)
Net debt to Ebitda	1,2x	1.4x[2]	-

[1] During the first quarter of 2016, net debt of €2,467 m adjusted for the €627 m loan to Sinopec.
[2] Ratio considers net debt including loan to Sinopec of €627 m as cash, plus €165 m corresponding to Sinopec MLT Shareholder Loan to Petrogal Brasil and LTM Ebitda RCA €1,437 m.

On 31 March 2016, net debt amounted to €2,467 m, up €45 m compared to the end of 2015.

Considering the €627 m balance of the Sinopec loan as cash and equivalents, net debt at the end of the year totalled €1,841 m, resulting in a net debt to Ebitda ratio of 1.4x. This ratio also considers Sinopec's €165 m shareholder loans to Petrogal Brasil as of the end of the quarter.

At the end of the first quarter of 2016, the average interest rate was 3.5%, with 42% of total debt on a fixed-rate basis.

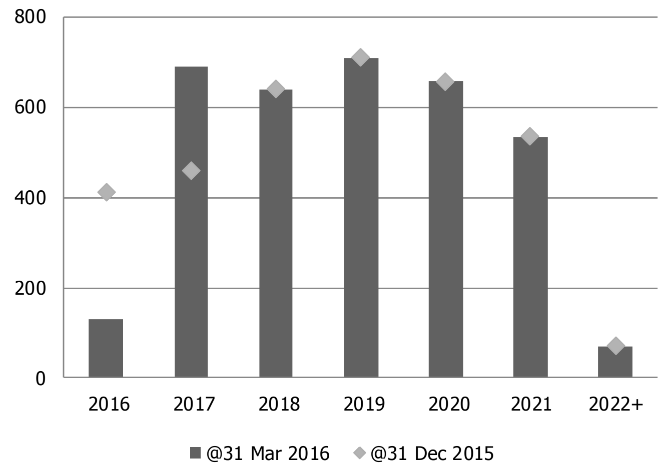
Debt had an average maturity of 2.9 years, and medium and long-term debt accounted for 86% of the total.

On 31 March 2016, around 55% of total debt was scheduled to mature from 2019 onwards.

It is also worth mentioning that, at the end of the first quarter of 2016, Galp had unused credit lines of approximately €1.3 bn. Of this amount, around 65% was contractually guaranteed.

Debt maturity profile

€ m



7.6. RCA turnover by business

€ m

	Quarter				
	4Q15	1Q15	1Q16	YoY Chg.	YoY % Chg.
RCA Turnover	**3,437**	**3,931**	**2,829**	**(1,103)**	**(28.0%)**
Exploration & Production[1]	129	144	111	(32)	(22.6%)
Refining & Marketing	2,740	2,859	2,167	(693)	(24.2%)
Gas & Power	679	1,026	676	(350)	(34.1%)
Other	33	29	28	(1)	(4.3%)
Consolidation adjustments	(144)	(128)	(154)	26	20.4%

[1] Does not include change in production. RCA turnover in the E&P segment, including change in production, amounted to €122 m in the first quarter of 2016

7.7. Reconciliation of IFRS and replacement cost adjusted figures

Replacement cost adjusted Ebitda by segment

€ m

2016	First quarter				
	Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
Galp	**164**	**115**	**278**	**15**	**293**
E&P	42	-	42	6	48
R&D	31	108	139	9	148
G&P	83	7	90	0	90
Outros	7	-	7	0	8

€ m

2015	First quarter				
	Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
Galp	**259**	**113**	**372**	**3**	**375**
E&P	94	-	94	(0)	94
R&D	36	104	140	3	143
G&P	121	9	130	1	131
Outros	8	-	8	-	8

Replacement cost adjusted Ebit by segment

€ m

2016	First quarter				
	Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
Galp	**(3)**	**115**	**112**	**26**	**137**
E&P	(31)	-	(31)	9	(22)
R&D	(47)	108	61	17	78
G&P	69	7	75	(0)	75
Outros	6	-	6	0	7

€ m

2015	First quarter				
	Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
Galp	**58**	**113**	**171**	**56**	**227**
E&P	(10)	-	(10)	53	43
R&D	(41)	104	63	2	65
G&P	102	9	111	1	112
Outros	7	-	7	-	7

7.8. Non-recurring items

€ m

	Quarter		
	4Q15	1Q15	1Q16
Non-recurring items impacting Ebitda	**(4.7)**	**3.3**	**15.0**
Accidents caused by natural facts and insurance compensation	0.1	(0.2)	0.1
Gains/losses on disposal of assets	(5.5)	(0.6)	(0.5)
Asset write-offs	0.7	0.0	0.0
Employee restructuring charges	0.1	4.1	5.0
Compensation early termination rigs agreement	-	-	5.8
Litigation cost	-	-	4.5
Non-recurring items impacting non-cash costs	**85.4**	**53.2**	**10.8**
Provisions for environmental charges and others	(1.6)	(0.2)	0.1
Asset impairments	87.0	53.4	10.7
Non-recurring items impacting financials	**(3.5)**	**(0.0)**	**14.1**
Capital gains/losses on disposal of financial investments	(6.6)	(0.0)	-
Tax on results from EMPL (Associates)	-	-	14.1
Provision for impairment of financial investments	3.1	-	-
Non-recurring items impacting taxes	**(13.3)**	**26.3**	**39.8**
Income taxes on non-recurring items	(1.8)	(14.0)	(5.4)
Tax deferral reversions	(19.4)	-	-
Energy sector contribution tax	8.0	40.3	45.2
Non-controling interest	(8.3)	(8.5)	(0.0)
Total non-recurring items	**55.6**	**74.2**	**79.8**

7.9. IFRS Consolidated income statement

€ m

	Quarter		
	4Q15	1Q15	1Q16
Operating income			
Sales	3,260	3,781	2,657
Services rendered	177	150	172
Other operating income	32	23	18
Total operating income	**3,470**	**3,954**	**2,847**
Operating costs			
Inventories consumed and sold	(2,829)	(3,287)	(2,270)
Materials and services consumed	(333)	(310)	(324)
Personnel costs	(89)	(87)	(80)
Other operating costs	(21)	(11)	(9)
Total operating costs	**(3,272)**	**(3,695)**	**(2,683)**
Ebitda	**198**	**259**	**164**
Amortisation, depreciation, impairments	(209)	(188)	(162)
Provision and impairment of receivables	(7)	(13)	(5)
Ebit	**(18)**	**58**	**(3)**
Net income from associated companies	27	26	7
Net income from investments	-	-	-
Financial results			
Interests income	10	6	6
Interests expenses	(34)	(39)	(34)
Interests capitalised	23	14	21
Exchange gain (loss)	(2)	(8)	(7)
Mark to market of hedging derivatives	5	(18)	22
Other financial costs/income	(4)	(4)	(5)
Income before taxes	**6**	**34**	**7**
Taxes[1]	6	(31)	(11)
Energy sector contribution tax[2]	(8)	(40)	(45)
Income before non-controlling interests	**4**	**(37)**	**(49)**
Profit attributable to non-controlling interests	1	(3)	(9)
Net income	**5**	**(39)**	**(58)**

[1] Includes tax related to the production of oil and natural gas, namely Special Participation Tax payable in Brazil and IRP payable in Angola.
[2] Includes €26.7 m, €6.5 m as well as €12 m related to the CESE I, CESE II and Fondo Nacional de Eficiência Energética, respectively, during the first quarter 2016.

7.10. Consolidated financial position

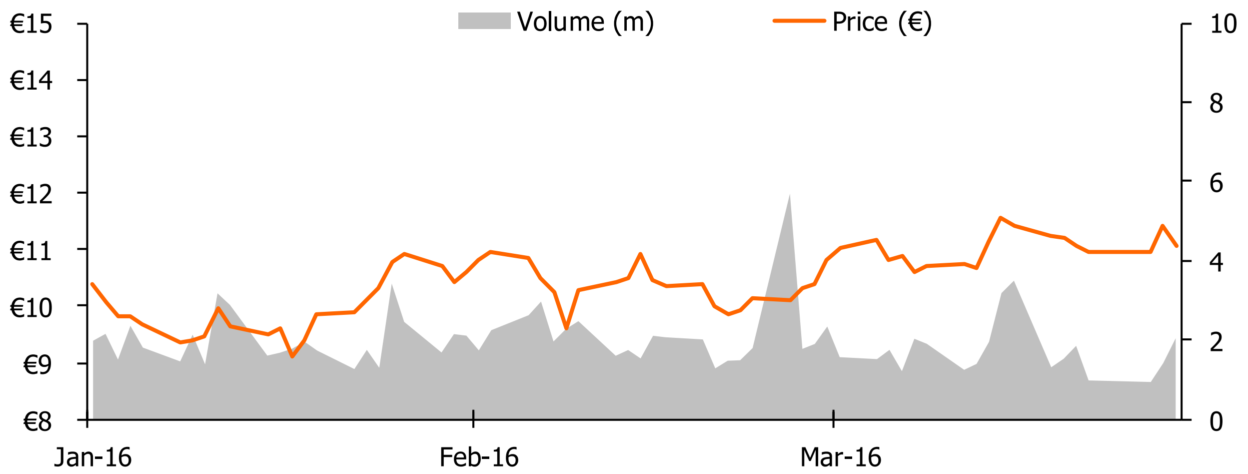
€ m

	31 December, 2015	31 March, 2016
Assets		
Non-current assets		
Tangible fixed assets	5,216	5,363
Goodwill	137	136
Other intangible fixed assets[1]	1,403	1,388
Investments in associates	1,114	1,164
Investments in other participated companies	2	2
Other receivables	322	308
Deferred tax assets	462	427
Other financial investments	24	27
Total non-current assets	**8,681**	**8,817**
Current assets		
Inventories[2]	873	733
Trade receivables	805	831
Other receivables	577	598
Loan to Sinopec	723	627
Assets available for sale	-	-
Other financial investments	4	11
Current Income tax recoverable	-	-
Cash and equivalents	1,131	1,036
Total current assets	**4,112**	**3,835**
Total assets	**12,793**	**12,652**
Equity and liabilities		
Equity		
Share capital	829	829
Share premium	82	82
Translation reserve	(0)	(79)
Other reserves	2,684	2,684
Hedging reserves	(2)	(7)
Retained earnings	1,056	1,178
Profit attributable to equity holders of the parent	123	(58)
Equity attributable to equity holders of the parent	**4,772**	**4,631**
Non-controlling interests	1,416	1,401
Total equity	**6,188**	**6,032**
Liabilities		
Non-current liabilities		
Bank loans and overdrafts	1,151	1,105
Bonds	1,908	1,910
Other payables[3]	551	550
Retirement and other benefit obligations	422	421
Liabilities from financial leases	0	0
Deferred tax liabilities	109	93
Other financial instruments	2	2
Provisions	429	457
Total non-current liabilities	**4,573**	**4,538**
Current liabilities		
Bank loans and overdrafts	247	240
Bonds	246	246
Trade payables	656	658
Other payables[4]	844	896
Liabilities from financial lease	-	-
Other financial instruments	29	23
Income tax payable	9	19
Total current liabilities	**2,032**	**2,082**
Total liabilities	**6,605**	**6,620**
Total equity and liabilities	**12,793**	**12,652**

[1] Includes concession agreements for the distribution of natural gas.
[2] Includes €23.0 m in inventory from third parties on 31 March 2016.
[3] Includes €165.0 m long-term loan from Sinopec to subsidiary Petrogal Brasil on 31 March 2016.
[4] Includes €18.2 m in advance payments related to inventory from third parties on 31 March 2016.

8. Galp share

Performance of Galp share



Source: Euroinvestor.

Galp's share price ended the first quarter of 2016 at €11.05, a 3% gain during the period. The share price reached a low of €9.03 and a high of €11.78.

During the first quarter, around 225 m shares were traded on regulated markets, 122 m of which on Euronext Lisbon. Thus, the average daily volume traded on regulated markets was approximately 3.6 m shares, 2.0 m of which on Euronext Lisbon. Galp's market capitalisation at the end of the quarter was €9.2 bn.

Main indicators		
	2015	1Q16
Min (€)	7.81	9.03
Max (€)	12.48	11.78
Average (€)	10.17	10.40
Close price (€)	10.72	11.05
Market cap[1] (€m)	8,890	9,163
Regulated markets volume (m shares)	711.6	225.4
Average volume per day (m shares)	2.8	3.6
of which Euronext Lisbon (m shares)	*1.6*	*2.0*

[1] As of the last trading day of the period.

9. Basis of presentation

Galp's consolidated financial statements for the quarters ended on 31 March 2016 and 2015 and 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial information in the consolidated income statement is reported for the quarters ended on 31 March 2016 and 2015, and 31 December 2015. The financial information in the consolidated financial position is reported on 31 March of 2016 and on 31 December 2015.

Galp's financial statements are prepared in accordance with IFRS, and the cost of goods sold is valued at weighted-average cost (WAC). When goods and commodity prices fluctuate, the use of this valuation method may cause volatility in results through gains or losses in inventories, which do not reflect the Company's operating performance. This is called the inventory effect.

Another factor that may affect the Company's results, without being an indicator of its true performance, is the set of non-recurring items, namely gains or losses on the disposal of assets, impairments or reinstatements of fixed assets, and environmental or restructuring charges.

For the purpose of evaluating Galp's operating performance, RCA profit measures exclude non-recurring items and the inventory effect, the latter because the cost of goods sold and materials consumed has been calculated according to the Replacement Cost (RC) valuation method.

Recent changes

Effective on 1 January 2016, exchange rate differences from operating activities are allocated to operating results of the respective business segment. Until the end of 2015, these exchange rate differences were accounted for under financial results.

Following an accounting interpretation from Portuguese Securities Market Commission (CMVM) regarding the accounting treatment for CESE I, Galp started to recognise the total amount of the cost and liability as of 1 January, instead of deferring the cost along the year.

Regarding the energy sector contribution in Spain, to the Fondo Nacional de Eficiência Energética, the impact was also fully accounted for during the first quarter of 2016.

These changes were applied to 2015 figures in order to make periods comparable.

10. Definitions

Benchmark refining margin
The benchmark refining margin is calculated with the following weighting: 45% hydrocracking margin + 42.5% Rotterdam cracking margin + 7% Rotterdam base oils + 5.5% Aromatics.

Rotterdam hydrocracking margin
The Rotterdam hydrocracking margin has the following profile: -100% Brent dated, +2.2% LGP FOB Seagoing (50% Butane + 50% Propane), +19.1% PM UL NWE FOB Bg., +8.7% Naphtha NWE FOB Bg., +8.5% Jet NWE CIF, +45.1% ULSD 10 ppm NWE CIF Cg. +8.9% LSFO 1% FOB Cg; Terminal rate: $1/ton; Ocean loss: 0.15% over Brent dated; Freight 2015: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat $7.60/ton. Yields in % of weight.

Rotterdam cracking margin
The Rotterdam cracking margin has the following profile: -100% Brent dated, +2.3% LGP FOB Seagoing (50% Butane + 50% Propane), +25.4% PM UL NWE FOB Bg., +7.5% Naphtha NWE FOB Bg., +8.5% Jet NWE CIF, +33.3% ULSD 10 ppm NWE CIF Cg. and +15.3% LSFO 1% FOB Cg.; C&L: 7.4%; Terminal rate: $1/ton; Ocean loss: 0.15% over Brent dated; Freight 2015: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat $7.60/ton. Yields in % of weight.

Rotterdam aromatics margin
Rotterdam aromatics margin: -60% PM UL NWE FOB Bg., -40% Naphtha NWE FOB Bg., +37% Naphtha NWE FOB Bg., +16.6% PM UL NWE FOB Bg., +6.5% Benzene Rotterdam FOB Bg., +18.5% Toluene Rotterdam FOB Bg., +16.6% Paraxylene Rotterdam FOB Bg., +4.9% Ortoxylene Rotterdam FOB Bg. Consumption: -18% LSFO 1% CIF NEW. Yields in % of weight.

Rotterdam base oils margin
Base oils refining margin: -100% Arabian Light, +3.5% LGP FOB Seagoing (50% Butane + 50% Propane), +13.0% Naphtha NWE FOB Bg., +4.4% Jet NWE CIF, +34.0% ULSD 10 ppm NWE CIF, +4.5% VGO 1.6% NWE FOB Cg.,+ 14%; Base Oils FOB, +26% HSFO 3.5% NWE Bg.; Consumptions: -6.8% LSFO 1% CIF NWE Cg.; Losses: 7.4%; Terminal rate: $1/ton; Ocean loss: 0.15% over Arabian Light; Freight 2015: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat $7.60/ton. Yields in % of weight.

Replacement cost (RC)
According to this method of valuing inventories, the cost of goods sold is valued at the cost of replacement, i.e. at the average cost of raw materials on the month when sales materialise irrespective of inventories at the start or end of the period. The Replacement Cost Method is not accepted by the Portuguese IFRS and is consequently not adopted for valuing inventories. This method does not reflect the cost of replacing other assets.

Replacement cost adjusted (RCA)
In addition to using the replacement cost method, adjusted profit excludes non-recurrent events such as capital gains or losses on the disposal of assets, impairment or reinstatement of fixed assets and environmental or restructuring charges which may affect the analysis of the Company’s profit and do not reflect its operational performance.

ABBREVIATIONS

APETRO: *Associação portuguesa de Empresas petrolíferas* (Portuguese association of oil companies)
bbl: oil barrel
BBLT: Benguela, Belize, Lobito and Tomboco
bcm: billion cubic metres
Bg: Barges
BJC: BJC Heavy Industries Plc.
bn: billion
boe: barrels of oil equivalent
Cg: Cargoes
CESE: Contribuição Extraordinária sobre o Sector Energético, i.e., Portuguese Extraordinary Energy Sector Contribution
CIF: Costs, Insurance and Freights
CMVM: Portuguese Securities Market Commission
COOEC: Offshore Oil Engineering Co. Ltd
CORES: *Corporación de Reservas Estratégicas de Produtos Petrolíferos*
COSCO: China Ocean Shipping Company
CTA: Cumulative Translation Adjustment
Ebit: Earnings before interest and tax
Ebitda: Earnings before interest, tax, depreciation and amortisation
E&P: Exploration & Production
EMPL: Europe Maghreb Pipeline
EPCIC: Engineering, Procurement, Construction, Installation and Commissioning
EUR/€: Euro
EWT: Extended well test
FOB: Free on Board
FPSO: Floating, production, storage and offloading unit
Galp, Company or Group: Galp Energia, SGPS, S.A., subsidiaries and participated companies
G&P: Gas & Power
GWh: Gigawatt per hour
IBAMA: Brazilian Institute of the Environment and Renewable Natural Resources
IFRS: International Financial Reporting Standards
IRP: Oil income tax
JKM: Japan Korea Marker
k: thousand
kbbl: thousand barrels
kboe: thousand barrels of oil equivalent
kboepd: thousand barrels of oil equivalent per day
kbopd: thousand barrels of oil per day
LNG: liquefied natural gas
LSFO: low sulphur fuel oil
m: million
mmbbl: million barrels
mmbtu: million British thermal units
mm³: million cubic metres
mton: million tonnes
MW: Megawatt
NBP: National balancing point
NG: natural gas
n.m.: not meaningful
NWE: North-western Europe
OPEC: Organisation of Petroleum Exporting Countries
p.p.: percentage points
R&M: Refining & Marketing
RC: Replacement Cost
RCA: Replacement Cost Adjusted
SBM: SBM Offshore
TL: Tômbua-Lândana
T: tonnes
USA or US: United States of America
USD/$: Dollar of the United States of America
VGO: vacuum gas oil
WAC: Weighted-average cost
YoY: year-on-year (annual change rate)

CAUTIONARY STATEMENT

This report has been prepared by Galp Energia, SGPS, S.A. ("Galp" or the "Company") and may be amended and supplemented.

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