Andy Brown
CEO

Welcome back and firstly, thank you so much for listening to our presentation. We now have the Q&A and hopefully we can answer all your questions and explain our plans further. Before that, I have got some support from some colleagues from the Excom. I want to just introduce them. Firstly, I think a lot of you know Otelo, he's going to be our master of ceremonies. He's in charge of IR, we've got Filipe, who is my CFO, he keeps me on the straight and narrow. We have Carlos Costa Pina, he's our COO Corporate. He will answer questions around sustainability. We've got Susana. She's in charge of Renewables and New Business development. We've got Thore, he's responsible for our Upstream Growth business. We've got Sofia. She's responsible for our Commercial business. And we've got Carlos Silva, who is responsible for our Industrial & Energy Management business. So, I have the whole team here ready to answer your questions. And I'm going to hand to Otelo to actually introduce all those questions for us to answer. Otelo!

Otelo Ruivo

Head of Investor Relations

Thank you, Andy. Before we jump into Q&A, a couple of organizational questions. So, we're having sell-side analysts connected through video. And I will also read some questions made through the chat platform. Because we already have a lot of participants, we will need to limit some of the questions. For the video participants, we will limit your questions to two per each person. Ok? We will try to limit the Q&A up to 90 minutes. And I was told that I already have the first in line for the questions. Joshua Stone from Barclays Capital. Joshua, good to see you. The floor is yours.

Joshua Stone, Barclays Capital

Hello, yes, thank you and good afternoon, thanks for the presentation.

Two questions, please. Firstly, you defined a base dividend level at€0.50/share. Can you talk about why is that the right level for Galp? Should we consider it a sacrosanct regardless of the environment, or is it defined by a particular oil price? And then my second question on Brazil. You mentioned recovery rates, I have to say where we are today, you previously talked about a long-term ambition of 40%. Is that still the case or has that now gone down the order of priority? Thank you.

Andy Brown

CEO

OK, so, thank you very much for that. And firstly, let's talk about the dividends. I've got Filipe to help me here, but I think you got a question about the base and why do we set the base at €0.50/share and then have a variable component? Well, it was very much for as you explain, this is a base case, a resilience case. And in our planning, we actually looked, particularly if we have an accelerated transition and I mentioned that at the start of the presentation, what kind of prices may we get in oil and other parts of our business and what can we afford as a base dividends? And our conclusion was the€0.50/share was resilient through the cycle to keep our balance sheet in shape. And then the variable component is very much related to if we got a macro, more like the base case, that that would start to pay up. Do you want to add anything to that, Filipe?

Filipe Silva

CFO

Joshua, so the €0.50/share is designed to withstand macro events and we all have learned our lesson last year, so we want to avoid this. Does€0.50/share stand if Brent is below $50/bbl, refining margins go down? Yes, it does. The upside and you see Andy say it c.35% of our current market cap could be distributed in the plan. So, if you do the math, that would be on average, c.€0.20 across the period with Brent at $60/bbl.

So, €0.50/share is resilient. There is upside. One of the questions we also get asked a lot, Joshua, is paybacks. And what we've kind of tried to provide the solution on having the variable component working a bit like a variable dividend if we have excess cash flows. So, that is the lot.

Andy Brown

CEO

Joshua, then your second question around the recovery factor, particularly what we now call the Tupi Field and, you know, what we think their recovery factor is that's something that we really leave to Petrobras to reveal to the market as the operator. But to answer your question, no, we haven't changed our view on how much oil we can recover from this field, as I said in my remarks, we really just produced a fraction. We're essentially in plateau now, but with a lot of development opportunities still to come.

So, actually, it's kind of premature to really count on those last percentage of recovery. But that is because we're not announcing that number today, it is not because we've changed our view in the field, but it is contingent on agreeing a plan of development and possibly a field lifetime extension, which will be part of discussions this year. I don't know if Thore want to add any more to that.

Thore E. Kristiansen

COO Upstream

I certainly would like! You know, you guys that have followed Galp for many years, you know that, I think the world about Tupi/Iracema, it's a world class field by any standard. Six years ago, Galp launched on its Capital Markets Day the ambition that we should really drive up the recovery on Lula and Tupi/Iracema. Actually, last year, there was a major breakthrough on this because then we agreed in the partnership that we should sign an Memorandum of Understanding (MOU) where the whole purpose is that we are working this year in order to agree a new plan of operation and development, which we have all the ambition to deliver by the end of this year.

This will be a significant step in order to realize that long-term ambitions, which I have to say, I'm extremely proud of what the Galp team have contributed and how they have been asserting into the partnership that we should really try for this. I remind you, one percentage point increase recovery on Tupi/Iracema is nothing less than 200 mbbl. That's a good day at work for any explorationist.

Otelo Ruivo

Head of Investor Relations

Thank you, Thore. I think we can move on. We will now have Mehdi Ennabati from Bank of America. Mehdi, bon après-midi. We are happy to take your question.

Mehdi Ennabati, Banks of America

Hi. So, good afternoon, everyone, and thanks for taking the questions. So, two questions, please. And one follow-up on the dividend that you detailed a little bit. And it seems that you are accepting for your dividend to be quite volatile. Let me give you an example.

Imagine the oil price this year. We have had $70/bbl, so you will have a relatively strong CFFO. And next year we go to $60/bbl. Then you might have, you know, to lower the dividend in order to respect your dividend policy. So, am I understanding well, when you say that your dividend could be quite volatile in the coming years, depending on the oil price? And just one very small question on that: you expect€2.3 bn of CFFO, by OCF let's consider this is roughly the same, by 2025. So, if I am understanding well, does that mean something like €0.92/share dividend in 2025?

Next question regarding your production growth in 2025, OK? So, you provided a 25% growth compared to 2021 production. So, this gives c.160 kboed guidance in 2025. However, currently, in your production at plateau is c.140 kboed, excluding the pandemic impact. And Bacalhau will add another 40 kboed at plateau. So that means that makes your production significantly above your guidance without even including Coral or Sepia production, which would add another 10 kboed.

So, my question is very simple: are you expecting a significant depletion rate from your existing production in Brazil to justify 160 kboed and why? Or do you already take into account, you know, some delays regarding Bacalhau start-up and ramp-up due to the pandemic situation in Brazil? Thank you.

Andy Brown

CEO

Thank you very much, Mehdi. And so, let's first answer your question around, will this dividend be quite variable? The answer to that is, yes, it will be, but it has the resilient €0.50/share. And it has an ability, and your calculations are right, in 2025 it could be up, and it could be more like €0.90/share or 9% yield at that point. As Filipe pointed out, on the average, if we look at our plan, it's c.7% over the 5 years.

Clearly, if we have a real dip, we will use the balance sheet a little bit to smooth out and allow the debt to go up a little bit if, you know, and still pay the€0.50/share. So, it has a floor, and it has this flexible variable element that is very much aligned with the macro because we're pretty clear about how much capital we're going to spend, and we've got pretty clear ideas of how much cash our business can generate. So, you know, I think the answer is yes, you are right, it will have that variable, but it means our shareholders are enjoying the business when we're enjoying it, and as Filipe says, it avoids the situation, this boom and bust, that we have to cut the dividends and everyone's disappointed and you don't have any understanding predictability of where we're going. Now, you understand steady base with variable that reflects the macro. You know, I think we just leave on the dividend and move on. I'm going to ask Thore to contribute here. The numbers and, you know, so we've got Bacalhau at 40 kboepd in 2025. How do we think about that 25% increase? Does that mean, you know, our base is declining? Perhaps you can explain a few things around that, Thore.

Thore E. Kristiansen

COO Upstream

Thank you. You know, I think it is very important to factor in here that even in 2025, Bacalhau will be in a ramp-up state. We are expecting no delays to the start of Bacalhau, but as we have guided to, this is 2H24, 2025 will be a ramp-up year. And then we have put into and it's in our plan that there will be a natural decline from the existing fields.

In addition to that, we have put in an element of cautiousness where we have sort of in general assumed on some of the Brazilian assets that we have a somewhat lower production efficiency because we see that the units will require more maintenance. So, you can say it might be prudency. We think it is good business practice to put this in, and we are feeling comfortable, therefore, with the 25% growth target that we have put forward for 2025.

Andy Brown

CEO

So, you know, I think, so, the base is pretty stable. I think that's the conclusion. And the Bacalhau comes up and is still in ramp-up in 2025. And that really fundamentally I think is the answer to that one. Yeah. Thank you for the question, Mehdi.

Otelo Ruivo

Head of Investor Relations

And the next in line will be Oswald Clint from Bernstein. Oswald, good to see you. Please go ahead.

Oswald Clint, Bernstein

Thank you very much, everybody. Andy, it's refreshing, I guess, to hear your enthusiasm about the Upstream, your developments and even exploration, certainly in this day and age. But I want to ask you around, what's the longer-term growth rate do you think is possible beyond or what should be targeted, given your accelerated decarbonisation targets today, please? And secondly, I wanted to ask around the retail network, the B2B and the cross-selling. This is new, I think, this is a strategy. It wasn't on the agenda before. It certainly felt very Shell like listening to it. But we know the business through Repsol in Spain. But others like Cepsa, I think have been less successful trying to replicate them there. So, I can see why Galp should be successful, but why is it not done before? Why are you confident? And the 20 to 40% uplift here, is that back end loaded or is that rateable across the next 5 years? Thank you.

Andy Brown

CEO

Yeah, thank you very much. We're not disclosing numbers beyond 2025, you can see that. The exploration, I have to be clear, and I think this is quite an important point. You know, after the two wells that I have indicated with follow ups, we are going to hold our exploration, our frontier exploration program. This is very much, you know, saying we have enough in our resource base to stimulate growth for some time, 2.4 bn bbl of 2P and 2C resources, 50 years at current production rates. So, that's a lot of oil and gas currently discovered, which gives us an ability to grow after 2025.

Clearly, what happens to Mozambique when that LNG project is brought in line is an important element in that. But we're not guiding on long term production for very much, you know, the reason you indicate, you know, we're taking a cautious approach today. We're growing alternative businesses. We have the options in Upstream and we will pursue those when, for instance, the security allows on when they become very attractive opportunities within our capital discipline.

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And we talked about our new energy business, a hydrogen business, battery value chain. So, we're going to have options for investment after 2025. But today, we can't be fully predictable. So, it isn't at this stage, I think, appropriate for us to be giving you production numbers beyond 2025, when we really don't understand which are going to be the most attractive investments for Galp and which fits our long-term strategy. So, we come to the commercial business, and I think this realisation that we can do so much more with customers, I think is one that, yeah, I think it's it is a new fresh approach in Galp. It's, you know, I have brought something, but Sofia, who's only recently joined our Executive, also has brought that sort of insight. You know, I think particularly in Portugal, you know, we have such a strong brand. We know we are the market leader. We have the opportunity to offer much more to our customers than we're offering today.

I'm very excited about the opportunity that this gives. We're actually already on the journey. So, this isn't just like "let's do that tomorrow". 2020, we actually started to do quite some exciting things and we're going to have some of these new hubs online relatively soon. So, we're going to lean into this quite quickly. And I'm going to hand over to Sofia to perhaps talk in about a couple of things we're doing and just a touch on how quickly we're going to be able to offer more services and hopefully make more money in the nonfuel space. Sofia.

Sofia Tenreiro

COO Commercial

Thank you, Andy. And thank you Oswald for your question. We are super excited to speed up on this transformation. I mean, we believe that we have the right to be on this area. I mean, actually, the C-stores represent €60 m of Ebitda today, and we believe that we can double them until 2025. Why? Because we have, and as Andy mentioned before, we have half a million of people entering into our stores, customers that are engaged with our strong brand, that have been engaged with more digital tools that we are implementing.

And on the other side, we can also cross-sell, as you mentioned, to these customers and touch them during their day, not only on our ecosystem of e-mobility, but also in our ecosystem of the home. And as Andy mentioned, we are rethinking, and we just conceived three concept stores for the new service hubs around mobility and around lifestyle. With these, we are going to offer products and services totally different around these new trends, these community trends.

And, you know, the world has been changing. So, we are also changing. We believe that with this, we will be able to go from 20% of low carbon contribution into 40% in 2025. And it's true that it's something that it's new and it's something that other companies didn't succeed. But we believe that we have the right to do because we have such a broad portfolio that allows us to really cross-sell and to touch point with the customers on all of these journeys. And on top, we had recently launched new businesses like Energia Independente (EI) and like Flow that are also being speeding up towards our customers and towards the B2B and with also these new energies will be able to cross-sell and to maximize the value towards our customers.

Andy Brown

CEO

Yeah, so I mean, and last year, we started to expand in Uber Eats and Glovo and we found customers really like ice cream, particularly in the evenings. And so, you get this array of products that we're able to offer customers. But I think we hadn't really discovered previously that I think will be very successful for the future. So, Otelo.

Otelo Ruivo

Head of Investor Relations

Next time you think on ice cream, just call us. So now next guest is Raphaël Dubois. Salut Raphaël from Société Générale, please. We are happy to take your question.

Raphaële Dubois , Société Générale

Bonjour, bonjour à tous. Thank you very much for setting up this event, and you should not be talking about ice cream. I'm starving now. Anyway, two questions, please. You showed on slide 31 your expectation for €100 m of OCF by 2025. Can you please share with us a little bit more your assumptions behind this number, what kind of power prices is embedded and also what will be left once project finance debt servicing is achieved? So that's my first question.

And the second one is on the offtake agreement that you mentioned in the new energy business for lithium. I think you talked about a mine. Are you referring to the project of Savannah Resources? And if not, can you maybe share with us a bit more information? And what is the plan B if this mine of Savannah Resources is not up and running by 2025?

Andy Brown

CEO

OK, thank you, Raphaël. It's really important for us to perhaps explain a little the rate around the CF around our renewable energy business. We have taken a more conservative approach. We have increased the number of PPAs and therefore the risk management of that, and perhaps Filipe can explain how we managed and the debt and how much of the €100 m that we can recover.

Filipe Silva

CFO

Raphaël, it's actually quite a simple business, the price at which you sell the electrons drives, capex is relatively standardized certainly in Iberia now. So, if you have a solar capture price, which we've now assumed at a deeper discount to baseload prices, pool prices, and you take €35/MWh to €40/MWh and you multiply by 20% yields on your installed capacity, and that's a net of 2 GW, not 4 GW. So, because we're assuming we're rotating out of half of what we have, then you get that sort of number, fairly straightforward. What is left, so, this is a deconsolidated business, so, this money, in 2025, is still not coming to Galp. We are servicing the debt of the project companies and where we're deploying excess cash into our projects. So FCF positive only a few years after. What we are not factoring-in in this plan is dividend recaps, and that's a huge upside. So, there's very little point in having this great business delivering quickly, not paying dividends. So most likely, given that it's such a low-risk business that you will do a dividend recap and upstream cash into Galp much earlier than we are building up in the plan.

Andy Brown

CEO

So, look, if I can perhaps then just address the whole issue around, you know, we are assuming a decline in solar capture price of the pool prices. We are assuming that we're going to take a fair amount of short and long-term PPAs. We've got some merchant exposure as well. This is Iberia, outside Iberia and the rest of the world, we think we'll take a larger amount of PPAs. But some of these things are clearly, as time goes on, we see opportunities to leverage up returns more than perhaps just even the 9% that we put into the presentation. And I'm going to ask Susanna to say a little bit about how we might think about, we might even get some more from this base plan, which I think we've conservatively said. So, Susana.

Susana Quintana-Plaza

COO Renewables & New Businesses

Thank you, Andy. So, of course, as Andy have mentioned, we have considered a larger share of PPAs in our portfolio. We are planning that, by the end of this period, will have between 80% and 90% of all our projects under PPA, more outside Europe, of course than in Iberia. But I think there is a lot of upsides that you can put on top of these returns with PPAs. Of course, you have financial returns, you have asset management returns, you have some short-term hedges returns that you can improve the economics of the projects.

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But I am also especially excited about, let's say four. One of them is because of our integration with the commercial business, we can take some merchant risk and they can balance across our business so we can take some of this upside. And I think for me, it's also very important, as Andy already mentioned, the asset management where we will be able to anticipate some of the value of these projects and rotate the capital for further projects. And that will also increase the overall returns of these projects.

But maybe for me, because I'm also into innovation, the two that I'm most excited about are storage behind the meter batteries. We are already working on a pilot that we hope to have ready by 1Q22, where we see a huge upside about being able to balance the production curve and being able to capture the hours of the day with higher electricity prices. And, of course, also hybridisation with wind. This is an upside everywhere, but especially here in Iberia, where you can get up to higher 50% more capacity on your connection point. And by combining solar and wind, you are able to create a much more baseload profile, more profitable for our clients. So, this is a very conservative scenario, a lot of upsides, a lot of leverage that we can have in order to increase these IRRs going forward.

Andy Brown

CEO

Thank you, Susana. Let me now address the whole issue of the battery value chain. And I did mention that we're in discussions with a mine and you may as well have seen a press release that we issued at the end of last week. We don't like negotiating via press releases, but we're in discussions with the mine still. So, I have to confirm that. But this is a lithium prone area that spans across north Portugal into Spain, in northeast Iberia. So, it's an area where we believe there will be more opportunities. But because we're planning on the processing side over time to perhaps take a really big position, we also have to consider opportunities also to import some of the raw material. So, we're looking at all sorts of options, but our focus is on lithium processing. And for that, we're actually working with a leading European battery manufacturer on understanding how we can work together. As I said, there's no lithium processing in Europe.

There's going to be an enormous demand. So, we see a key opportunity. Obviously, sourcing renewable feedstocks is going to be crucial. Clearly, the mine in Portugal is one that we have been working in. We've done some due diligence and we need to work with them on how we could work that particular mine. These things have to come together for us to make this whole chain. But Galp really wants to be right in the middle of that chain, working from the sourcing of the spodumene, I mean, through to the delivery to the EV manufacturers into the giga factories.

So, it's early days, it's by the week, things are moving fast. But I have to say, as a business leader, looking at the future of Europe and the future battery demand of Europe and the geology of Portugal and the deep sea ports and the capabilities of Galp, this is a business that I think could be, you know, really very big for Galp, for the future, and very much aligned with the energy transition.

Otelo Ruivo
Head of Investor Relations

So, I will take the opportunity to read one of the questions that we received in the platform from Jorge Guimarães from JB Capital Markets

Jorge Guimarães, JB Capital Markets

Since Galp is not a renewables developer, how do you expect to create value in the development phase in order to farm down with the profit later the 50% we expect to farm down? I assume part will be capturing the margins of electricity supply from cheaper sourcing. But even so, the question remains

Andy Brown
CEO

So, Filipe, are you're going to take this one?

Filipe Silva
CFO

So, we do have very significant capabilities and you will have noticed our capex into renewables has gone up compared with our previous plan. So, we are assuming we'll hold on to the projects during the build, develop derisk phase, project finance only at that stage and find partners whilst before the plan had this monetization much before. So, there is significant value to capture and using our skills, our balance sheet, derisking, PPA, commercial contracts so that we monetize the premium that comes with the higher risk as well. And we have very significant demand by very low risk, very low cost of capital investors that would like to come in at that stage with a much lower cost of capital. So, the rotation part of the built, derisk and sell down is integral to our business case.

Otelo Ruivo
Head of Investor Relations

And our next question comes from Biraj Borkhataria from RBC Capital Markets. Biraj, please go ahead.

Biraj Borkhataria, RBC

Thank you for taking my question, two please. Regarding decarbonisation targets, the base here is 2017. Could you talk about the impact of the refinery closure on those targets? I would have thought that's quite a significant step, both in absolute and intensity. The same questions on Bacalhau, and one point earlier on in the process you were talking about, two production units, is that still being considered at all or at some point in the future? Thank you.

Andy Brown

CEO

Hi, Biraj! Good to see you again. You know, clearly, Matosinhos closure has helped us with the overall scope 1 and 2 decarbonisation and also towards the 50% reduction in the refinery CO_2 emissions that we have. I think on the refinery of the 50%, c.27% is actually from the Matosinhos, if I am right. So, it's an important part of it. And clearly, you know, refinery closures and the CO_2 we save from that. But the rest of that and I look at the 50% we're talking at Sines or the refineries in total is going to be various decarbonisation projects that we're going to go through, low-cost decarbonisation projects, but also then the introduction of hydrogen over time in Sines. So that really are the key elements, on a whole Galp basis, to reduce 40% from 1 and 2. The second question was related to Bacalhau and the second unit, and so what happens? We got the first phase FIDed yesterday. Great news. So, Thore, where is the second unit?

Thore E. Kristiansen

COO Upstream

First of all, I have to say that I'm so proud of Galp also in this case, because we are the only original partner in Bacalhau. The others disappeared, Equinor and Exxon came in. That really accelerated it. And yesterday we have done the FID of something that is a world class project by any standards. And yes, we think there are more that will happen in this second phase. What we need to do before we decide on that is to do further appraisal work, and based on that appraisal work, we will then decide what will then be the best way of developing the next phase. Several options: it could be a tie back. It could be a standalone unit. But we need more appraisal. But a big, big triumph day for the Galp team yesterday that actually was the only original investor in the Bacalhau FID.

Andy Brown

CEO

Good. Thank you, Thore. So, more news to come on further development to Bacalhau beyond phase one.

Otelo Ruivo

Head of Investor Relations

Next one, from Peter Low from Redburn. Peter, good to see you. Please go ahead.

Peter Low, Redburn

The first one was on renewables, most of your growth post-2025 looks like it will be outside of Iberia, which on the face of it is your natural market, given your existing customer base brand. Is that because you see competition and returns in Iberia more challenging versus what is available elsewhere or what's driving that switch?

And then the second question, which is a clarification, you talked about portfolio management in Upstream to help manage the capex commitments. Can you just clarify what that means? Are you looking to reduce your stakes in certain projects or actually other parts of the portfolio you would consider exiting? Thanks.

Andy Brown

CEO

Let me answer the second one first, around portfolio management in Upstream. You know, clearly no company wants to reveal what they may be thinking of selling but Galp has an enormous Upstream portfolio. And I talked about the 2.4 bn boe of contingent resources. We have a lot of exploration positions. We have pipelines. We have positions on production. What I'm really keen to get a message across is that we are going to manage that portfolio for value. And it doesn't mean we're going to stop all new business development. It means that we're going to keep Thore strictly to his net capital number and we're going to manage the portfolio, which means selling some things and means developing some things. But it's too early for us to give you a definitive list of these things that we're firmly planning to sell.

On your first question around renewables post-2025 and, you know, why leave your home base in Iberia? This is really about risk management, to be honest with you. But also, growth of capabilities. You know, Iberia is a competitive market. Iberia is a fantastic market for solar because of the opportunity, the how much solar radiation there is, the drive of the Spanish and Portuguese governments to bring more renewables into the portfolio. But as we also mentioned, it is somewhere where with a lot of solar penetration, you're going to get a disconnection between solar capture prices and pool prices. In order to manage this, as a well-managed risk portfolio, we are looking to expand overseas as well. And we see overseas locations where you get much more attractive long term PPAs, where we're building a team with some real capabilities of understanding some of those locations. And with an opportunity to move into markets, perhaps also earlier in the evolution, where there are some higher returns than we think we may be able to enjoy in Iberia. So, risk management, diversification of both, using solar, using solar and wind, in order to make sure that we have a well risk management, you know, high yield portfolio. I don't know, Susana, do you want to add anything to that?

Susana Quintana-Plaza

COO Renewables & New Businesses

Maybe one thing is, yes, we are building a team, but we already have an outstanding team. Over the last year, we have been building a team that has been developing tens of GW in around 35 countries around the world, that have managed GW of assets also in many countries, have also built these assets. So, we have a very robust team already with experience that, as Andy very well said, we are continuing to expand and bring new capabilities into these teams. And I don’t see it as a risk, I see it as an opportunity. As Andy very well said, this growth is enormous, is enormous around the world. We have the capability. We have the agility that we have shown in building the team and building the assets. We have the financing power that the small players don't have, we have the ability to partner. I think one of the things I like the most about Galp is what a great partner it is and how easy it is to partner with Galp and the great relationships that it has with his current partners. And we already mentioned the team. For me, what is important about new geographies, as Andy said, stable market for PPAs where you can have businesses taking PPAs at much more attractive conditions that we have today in Iberia, countries where we have a reasonable country and currency risk and renewable growth, where we have long-term investors that are interested in asset rotation and sticking to those assets in those markets. And as he said, in order to also come into these markets earlier where we can do greenfield or develop early-stage projects in order to maximise the returns for Galp. So, it is not that we want to leave our home market, is that we are ready to grow internationally.

Andy Brown

CEO

And can I just say, you know, I've come in as the CEO of Galp, obviously having had an international career, I find such good, competent people here and very international people as well. I think there's a great opportunity for Galp to continue to develop business overseas. As you see, everyone speaks excellent English. That's very lucky for me. And I think they have the potential to expand internationally. And I'm very excited about that.

Otelo Ruivo
Head of Investor Relations

And in Spanish. And we will continue with the Spanish accent because we will now have Pablo Cuadrado from Kepler Cheuvreux. Pablo, the floor is yours. Happy to take your questions.

Pablo Cuadrado, Kepler Cheuvreux

Hi. Good afternoon, everyone, from Madrid. I hope all of you are fine. Two questions, please. The first one is can you clarify a little bit, which is the assumption that you have on the Upstream volumes by 2030, basically included in your target of 40% reduction in your carbon intensity production figure when compared to 2017. Particularly, I'm looking, you know, if you are assuming on those figures Rovuma LNG and the level of production that you are including there.

And the second question will be on the announcement on the biofuel HVO investment. I know that the FID is next year, and you are talking about 0.3 mton capacity. But I also was a little bit surprised when you talk about IRRs c.15%, because if we compare to two other peers that they have announced investments on HVO biofuel, I think that level of return seems to be a little bit off. I was wondering if you can detail a little bit more on the basis of that investment, what type of feedstock that you have in mind. I guess probably something into waste. If you can also share the margin that you expect per ton that you think you can make or basically the numbers that you used to get to those€50 m Ebitda that I think Filipe mentioned as a potential contribution. And on that front as well, and I finish, is that the first step, this potential FID, but you still see that you can enhance more that business exposure?

Andy Brown
CEO

Yeah, thank you, thank you, Pablo. And let me first say on the 40%. I don't really want this to be an opportunity to try and back calculate, to see what our production numbers are. It's a target that we take on today that we mean to adhere to. And if we have more production, we may need more renewable energy. I think this is something where I don't want this to be an engineering way to back calculate our production number.

You just have to believe that this is something that we're going to be very focused on. And as I say, we've using this 40% production number. You know, a lot of people have been looking at the sales and yeah, we're going to do that and 20%. But for me, we spend our money, 30% in renewables, 40% in Upstream growth. Gosh, that's where we're spending our money. That's our contribution to the world in terms of new energies or new energy supplies. So that's the number we're focusing on, the 40% reduction.

And, you know, we have a plan, but that plan will change over time. And as I said before, it is too early for us to give you some definitive numbers post-2025.

On the HVO project, I'm going to ask Carlos Silva in a minute to talk a little bit about the sourcing. And as I said before, obviously this HVO unit, what we have to position is in within an Iberian context and predominantly, of course, Portugal for us and some Spain in terms of how much HVO is going to be needed to meet the RED II directives in each of the countries. So how much space is there for it to achieve the margins we expect to achieve? We also have made the very strong point that we think we've got some tailwinds on the project in terms of cost with the Matosinhos equipment reuse and some spare hydrogen capacity that exists in Sines today. So, I'd like Carlos to really focus on the feedstock sourcing and perhaps also explain that we have some experience already.

Carlos SIlva

COO Refining & Midstream

Thank you. Pablo, the HVO project is really an opportunity to a value creation project at new Sines Green Energy Park. This project will allow us to be aligned with the RED II that is coming on stream. And it will give us the opportunity to assess new value pools on the industrial arena. And regarding the feedstocks, we have already experience regarding the feedstocks for biofuels. We are already in the international market. We have some partnerships that we keep developing. And by that mean we are de-risking the feedstock for our project, as well we are progressing with the studies in terms of engineering and construction. Towards the FID early next year, we will be ready. Ready for it. Thank you.

Andy Brown

CEO

We're going to be looking at use, cooking oils and animal fats and other products. We're looking at Asia, we're looking at Americas, Latin America, Europe. So, we have a global sourcing effort on at the moment to make sure that… I think certainly 75% or so I think. Carlos, we're going to want to have some long-term agreements in place ready for the FID moment.

And the €50 m Ebitda you mentioned, you know, that really is calculating where we assume these feedstock costs are going to be and where we think the renewable fuel replacement… taking into account the RED II multiplier that we will enjoy in the market.

Otelo Ruivo

Head of Investor Relations

Next question comes from Sasikanth Chilukuru from Morgan Stanley. Sasi, good to see you. We are all hears.

Sasikanth Chilukuru , Morgan Stanley

Hi! Thanks for taking my question. I have two related ones, please. The first one was, you've kind of highlighted that there is no material contribution from Mozambique Rovuma LNG in your capex guidance. I was just wondering, is that a view that it's kind of shared by the other partners as well, in case this project does come back onto the drawing board during 2021, but before 2025? I was just wondering… does that mean there's upside risks to the Capex or is it something to do with your asset rotation as well? Would you be looking to exit Mozambique's Rovuma LNG, for example?

Andy Brown

CEO

Sasi, can I just take that? For us to actually give you a date of when this project with FID will almost presume we understand how the world will develop and how the social scene there will develop. We really regret the loss of life that happened in Palma just a couple of months ago. I think the Mozambique government is working hard to restore stability there. I think we're hopeful that the situation will stabilise.

We haven't put capital in the 5-year plan for that. It doesn't mean to say we don't think the project will go forward. There is a scenario where we go forward with the project. And because Thore is under some pretty strict guidance on net capex, if he wants to do that, he may need to find how we can release some capital elsewhere in order to afford that.

This is very much us saying it is premature for us to declare a date. We have a clear amount of capex we are allocating to our Upstream. 40% of the€0.8 to €1 bn. And then Thore is going to have to manage all his portfolio to make the numbers work. So, too early to say this is going to be divested. Too early to say when it's going to FID, but the discipline will stay in place.

Otelo Ruivo

Head of Investor Relations

And now we will take the chance to read one of the questions that we received from the platform from Richard from BC Canada. And he seems to be concerned about the dividend policy uncertainty as the cost of capital would be increased due to the variability. Why buybacks were not being considered?

Andy Brown

CEO

So, Filipe, this is yours.

Filipe Silva

CFO

Richard, I'm not so certain it's going to be that variable if you set the dividend policy based on FCF, so you post you get all the volatility that comes from volatile capex. CFFO as the anchor is actually quite stable even if you have big variations in say, Brent prices. Say Brent prices collapse, you release a ton of working capital that's within CFFO. So, you do have quite high visibility on something that is designed to be variable in the first instance. So, €0.50 baseline, the 20% that is supposed to be variable is actually not that variable itself. So, I would reinstate that the base dividend withstands very low macro conditions, everything that comes on top and whereas should be $60/bbl, if it's more than $60/bbl, then dividends could be quite meaningful. And, you know, just as much as we do, because it's a very simple 1x net debt to Ebitda, all is distributed to you with a cap of 1/3. In the plan, we hit the cap all the time because we do have our very strong balance sheet throughout the entire period.

Otelo Ruivo

Head of Investor Relations

On the share buybacks.

Filipe Silva
CFO

On the share buyback, if you look back at the last, say, decades, a lot of the buybacks have really been to neutralize scrip dividends. We pay good old cash dividends. We generate cash, we distribute cash when we can. The concern of using the buybacks as a top up to a base dividends, because it's true that you can be more volatile if you do buybacks when you can afford it. We've kind of replicated this with the cash variable dividend. So, it's not that different. There are no scrip dividends to neutralise, hence 100% in cash.

Otelo Ruivo
Head of Investor Relations

OK, and we'll come back now to the video platform. We'll have Pedro Alves from CaixaBank BPI. Pedro, please go ahead.

Pedro Alves , CaixaBank BPI

Hi, everyone. Thank you very much for the event. I have here one question regarding your guidance for the new Industrial & Energy Management division. We see here a big jump in Ebitda from the first years of c.€200 m to €400 m in 2025. And I'm sorry if I'm missing something, but I'm struggling to reach these levels only by incorporating the refining margin of $4/boe and $1.7/boe of opex and obviously the contribution from advanced biofuels and €120 m of Energy Management. So, could you please clarify the bridge to get these €400 m?

And then my second question regards to renewables. I think you mentioned partnerships to expand the business. Do you consider eventually, M&A, to reach the 12 GW target by the end of the decade? And if not, if you don't plan M&A, can you give us more visibility on the status of the pipeline of greenfield opportunities to reach those 12 GW target? Thank you.

Andy Brown
CEO

Thank you, Pedro. On the first question, I'm going to ask Filipe to make the bridge and talk about some of the one-offs that we're experiencing in the moment.

Filipe Silva

CFO

Pedro, it's really the €400 m is a lot more normal than the starting point. So, I'm not certain the market appreciates how bad this has been, both with our gas trading and the hit we got with regasification costs and how bad refining has been. We start with a very low base. So, if you normalise refining margins closer to $4/boe, add the efficiencies we're building, add the new units and a very significant investment in energy management across all products. That's power as well, gas and oil, of course. We get to that sort of numbers. So, of the base effects is what is driving your question.

Andy Brown

CEO

Yes, and particularly this year, you know, we've had… the regasification costs have been, as you mentioned Filipe, it's quite a big one-off hit. We hope is not one we have going forward. But, yeah, if you look at energy management and the HVO unit, that gives you more than €170 m. So, that's a big contribution to that future.

And the second question was the renewables partnership's M&A. And I'm going to ask Susana to perhaps give a little bit of colour about how much we're looking at, obviously nothing firm yet. At the moment we will continue to look whether there are any attractive renewable platforms for us to acquire. And we haven't any firm plans at the moment. At the moment, our focus is on organic growth and why? Because we think we get a higher return from that, because the platforms that are quite highly priced at the moment, because obviously renewables is in the vogue at the moment. So, we think we get a better return from our own capabilities going in very early in the piece into a development with the developer and then taking it over and developing it. So, Susana, perhaps give a little bit of colour of how… because we look at a lot of these options all the time at the ExCom.

Susana Quintana-Plaza

COO Renewables & New Businesses

Definitely, I think, as Andy said, we may do selective M&A opportunities, but it will be very rarely. We still believe with the growth there is in the market, there is a lot of opportunities for greenfield or maybe early-stage development. So, it doesn't have to be pure greenfield. So just for example, you know that we acquired a 2.9 GW from the ACS group last year. But on top of that, we have added another 900 MW to the portfolio that adds to the 3.8 GW that you saw, but only this week we have executed some contracts for another close to 200 MW, not exactly 200, and we expect to close another 500 MW in the next month or two.

…

On top of that, we have a pipeline of at least 2 GW of projects that we are looking at outside Iberia. So, we feel very confident about being able to develop our pipeline through greenfield or mostly, as I mentioned, early development projects and maybe in some markets we may choose some M&A opportunities, but we are more cherry-picking good projects than just trying to make massive acquisitions for the future. And we feel confident with the thing we have and the capabilities we have, and the ones we are building, I will say at this point, at the end of the year, we will be ahead of our targets.

Andy Brown

CEO

I think Susana is very much keen to go even faster than we're revealing today in the Capital Markets Day and look, I have to say never say never. We will continue to screen opportunities for inorganic acquisitions as well. But it's not part of our core base plan in the short term anyway.

Otelo Ruivo

Head of Investor Relations

OK, I will take the chance to read one of the questions made through the platform is basically related with Bacalhau Norte, the question is actually asking: "when should we take a FID on Bacalhau Norte? How do you think about the possibilities to monetise the associated gas in there? Any production for it, included in the 25% production growth by 2025?" Should we clarify?

Andy Brown

CEO

So... I think... Thore, is Bacalhau Norte in our plans? Is it going to be producing gas or not? What can we say?

Thore E. Kristiansen

COO Upstream

Good questions. First, it is not in our plan. We have not included any contribution from Bacalhau Norte by 2025. How we are going to handle the gas in the second phase is still to be discussed. As you know, in the first phase, all the gas of Bacalhau is being reinjected into the reservoir and as part of the plan that we are now going to go through, we will also then decide what would be the optimal development concept for Bacalhau Norte. So, nothing included now, that's an upside for the period beyond 2025.

Otelo Ruivo

Head of Investor Relations

And we'll come back to the video questions we have now, Alejandro Demichelis from Nau Securities. Alejandro.

Alejandro Demichelis, NAU Securities

Good afternoon and thank you very much for the presentation. A couple of questions, if I may. If I start as a follow up with all renewables, please. I think that you mentioned the importance of having an integration between the commercial and the power generation part. And the question is: as you go abroad, can you see a situation where you start internationalising the commercial business so you can extract even higher returns for that business?

And then the second question moving on the Upstream, and cash flows. Brazil is due to auction some of the fields of the pre-salt fields again later this year. How should we think about your positioning in those fields and those auctions, please?

Andy Brown

CEO

Thank you, Alejandro. Firstly, enewables integration down the value chain in overseas locations. Saying that we're going to build a commercial position, I think it would be a bit of a stretch. Saying that we will have energy management capabilities to place the renewable energy for value and to understand how we can bundle our offerings to customers is something that we will look at. But as I said, we're also looking at quite a heavy weight to long-term PPAs in some of our overseas businesses. But as we get more confidence in that market, we may evolve that strategy. But the first plan is the long-term PPAs. But we're going to have, as I talked about, reinforcing our energy management capabilities and Galp doesn't just mean in Iberia, it means internationally. So that will open up opportunities.

Let's go to the Transfer of Rights. As you might imagine, we have now seen Transfer of Rights at Atapu, Sépia, we're in them. You know, we have some unique experience on Sépia also. Are we interested? Well, I'm going to come back to Thore and say, “well, Thore are you interested? You've got a net capex you have to stay within. So, tell us, what do we think about this bid round? Are we interested? You know, are you going to have enough money to do anything there or not?

Thore E. Kristiansen

COO Upstream

Andy, the money that depends on you actually. No, kidding aside, Brazil is really a key country for us. And we are continuously examining all business opportunities. And if we see that we can find something that is really as value creating, is adding value to that already very competitive portfolio we have, there's a development breakeven now at $25/bbl at NPV_{10}, yes, certainly we will then think about that. But we have also then taken on the big challenge that Andy has given us, namely that we need to keep in within the capex framework we have, i.e. we have to find also ways for how we can finance it. And so we are doing both. We are in the one hand really looking into it. There is more information to come from Brazil by June with respect to the details. And then we will also look into how can we finance that in a smart and creative way. Thanks.

Andy Brown

CEO

I think with the ToR round, we've seen some of the bonus numbers significantly down from the last round, which obviously gets people like Thore quite excited. But he also knows the rules of this game on capital discipline. We'll have to see if we can make anything work there.

Otelo Ruivo

Head of Investor Relations

Great, we are getting close to the end. Not before we go to Edinburgh and Jason Kenney from Santander. Jason, good to see you. I hope next time you also have a Portuguese flag behind you.

Jason Kenney, Santander

Good afternoon everyone, and thanks for the refreshing outlook in the reenergised strategy. I really like it. Going back to the Upstream, the new development sanction 21 to 25 and NPV $25/bbl. You've highlighted Bacalhau as a most attractive project with an NPV $35/bbl. So, I'm just wondering if you can remind us of the range of breakeven some of the other projects that you are sanctioning in 2021 to 2025 to give us the average of $25. And I realise that this is a number of smaller projects within assets you're already developing. But if you could just go over some of that, that would be great.

Secondly, on green hydrogen. Is there a specific or formal role for Galp in the MoU between Portugal and the Netherlands to supply green hydrogen by 2025? I think it is. And how much of the conversion of Sines will need EU grant funding and what kind of level of funding would you see by 2025 or 2030 for that support of that project? Thanks.

Andy Brown

CEO

Thank you, Jason. And, you know, let's address this. The below $35/bbl, I think we said well below $35/bbl for Bacalhau. And what else are we doing? Well, we're doing a lot of infill drilling, which is pretty low breakeven price. Thore may say some things, but it's a combination of where we think Bacalhau sits, where we have the other opportunities, we have in particularly these very attractive infill opportunities in places like Tupi, we will give a blended that is in around 2025. Anything more to add to that?

Thore E. Kristiansen

COO Upstream

The only thing that I would add is perhaps also the Sépia into that equation, which is a very attractive, very attractive field that is coming into production and in 3Q this year. So that is the add on. And then I think I would just underline what Andy said, namely well below $35/bbl. And I leave it by that.

Andy Brown

CEO

You're going to get into trouble, Thore. All right. Green hydrogen. Yeah, indeed. So, you know, I think, you know, I can formally say that we're actually stepping out of H2Sines of the consortium that was planning to deliver this liquefied hydrogen to the Netherlands. We did that a little bit because we want to actually go fast, we want to get crack on. The main customer for green hydrogen is in the Netherlands. It's Sines. It's our own grey hydrogen position. So that needed for us to be our focus is to start moving on that. It doesn't mean to say that as we get into this as part of the Portuguese national plan, there is a plan to build up hydrogen. And as I say, we've got the low-cost renewable energy. We believe with, you know, a skilled workforce, a competitive workforce, we can build relatively cost effectively. But the third thing is this whole incentives and how many of the EU funds do we need and which ones? Now, this is obviously something it's too early for us to, you know, to pick where and how. But there is a combination of attracting some of the funds that the EU is offering in this area, but also the regulation around how hydrogen fuels are treated in the market. And all I can say is that the will of the government, the will of Galp to actually move fast. I think is going to come and give a good conclusion here.

And I think the H2 Sines consortium is going to continue to explore the opportunity of making the hydrogen for the Netherlands. But our focus is going to be firstly on what we need. Secondly, on further industrialisation of Sines itself, with e-fuels, with hydrogen into the gas grid, with hydrogen sold to heavy duty transport and perhaps ammonia. And these other products, I think for us are more obvious and immediate and we believe economic. And that should be where Galp is focusing today.

Otelo Ruivo

Head of Investor Relations

And we come to the end of the Q&A.

Andy Brown

CEO

So, is that the end of the Q&A, Otelo?

Otelo Ruivo

Head of Investor Relations

It is, Andy.

Andy Brown

CEO

Well, look, can I just say to all of you, thank you for your patience. It's been a long presentation and a long Q&A.

I hope you can appreciate that we believe Galp has a very distinctive investment case, an investment case of growth, of growth in renewables, of growth in Upstream. We hope you also understand that we believe we are decarbonising, and we've given you some of the metrics, faster than some of our peers.

We are going to keep financial discipline, I hope you got that message in terms of our capital discipline, in terms of our balance sheet, in terms of being able therefore to distribute competitively and to offer the shareholders the upsides when the macro allows. I think it's an exciting plan! The team here is also excited to deliver that. I've just got one message to you: let's regenerate the future together! Thank you!