



# REGENERATING THE FUTURE

Integrated Management Report 2021

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# STRATEGIC FRAMEWORK



## 2.1 How we plan the future

As the pace of energy transition accelerates, markets must adapt. Today's context is of a world that will see a rapid change in the energy outlook and an increase in renewable energy investments and associated technologies to meet the Paris Agreement goals.

Galp's strategic planning is based on a set of energy beliefs with a common assumption that a deep transformation will impact the energy sector during this decade towards a cleaner future:

- Social and regulatory pressure accelerating the decarbonisation pace;
- Growing share of electricity with expected significant increase in electric vehicle sales;
- Solar and wind becoming a relevant energy source for power generation;
- Green/blue hydrogen gaining momentum with viable options emerging;
- European Union setting the strategic ambition to build an integrated lithium-ion battery value chain;
- Significant decrease in oil demand in Europe, leading to a wave of refinery rationalisation;
- More electrified global energy mix, although oil and gas maintain a crucial role for several years.

## 2.2 Our strategy

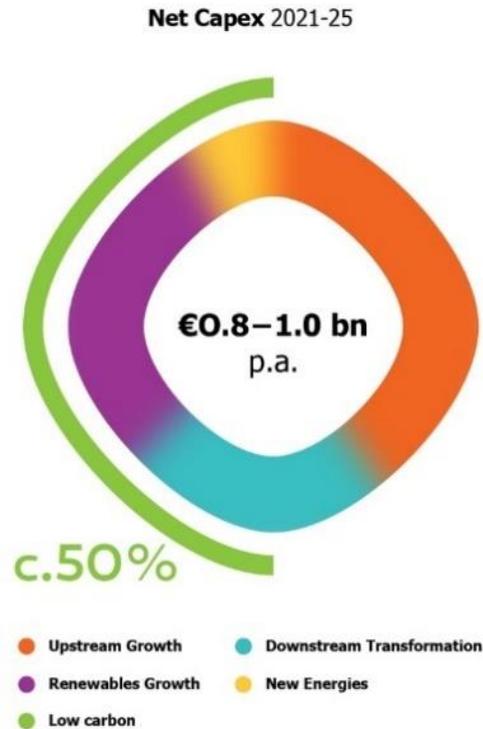
The need for society's decarbonisation has brought challenges to all economic sectors. Nowadays, it is clear that the way energy is generated, transformed and consumed will change, and this means shaping and adapting Galp's strategy to present and future needs.

In 2021, Galp updated its strategy towards a resilient investment case in an accelerated energy transition. Galp aims to reshape its portfolio and become a dynamic, digitally enabled customer-oriented company, with a material position in renewables and new energies, and industrial operations being progressively decarbonised and transformed towards a green energy hub.

The Company's strategy originates a value-driven investment case, which relies on a clear capital allocation framework, allocating around 50% of its net investments in the 2021-25 period towards low-to-no-carbon activities.

This enables Galp to reshape its portfolio, whilst maintaining its ability to deliver resilient cash-flow growth and a competitive shareholder remuneration, envisaging to distribute up to 1/3 of its operational cash flow.

## 2.2 Our strategy



### Upstream

The Upstream will continue to be one of the cornerstones of Galp over the next few years. Galp's Upstream portfolio is based on top tier assets, both in terms of production cost and carbon intensity, delivering the right conditions to focus Galp on the value maximisation from core projects and not to pursue with new frontier exploration. Nevertheless, Galp aims to continue to deliver a peer-leading production increase, by delivering c.25% more to the current Upstream production capacity by 2025 from already sanctioned projects.

At the same time, the carbon intensity of Galp's Upstream business is considerably lower than the sector's average and Galp is committed to continuing to pursue carbon efficiency excellence to support the responsible growth of production.

### Industrial & Energy Management

Transforming our Industrial assets and other energy-related activities is fundamental to progressively adapting the Company's portfolio to the unfolding needs of the market. This is why, at Galp, work is underway to decarbonise the Sines refinery, with the goal of transforming it into a Green Energy Hub. Along the way to decarbonising Sines, Galp is also committed to optimising refining efficiency and enhancing its resilience, ensuring the competitiveness of its industrial activities, while expanding the share of low-carbon products, such as advanced biofuels with HVO plant being planned.

Together with the low-carbon products diversification, the gradual transformation into a Green Energy Hub is also expected to be leveraged on the production of green hydrogen, which will allow further industrial and mobility applications, such as synthetic fuels, and support an operational carbon footprint reduction of approximately 50% by 2030.

Galp recognises the potential of hydrogen and is evaluating the development of green hydrogen solutions, coupling its privileged position to its industrial skills to move this new business forward. By 2025, the Company aims to control the first 100 MW of electrolysis capacity with additional capacity being planned up to 1 GW.

Galp's Energy Management activities are at the core of our energy supply activities, ensuring reliable and competitive sourcing of raw materials and other energy products and the value maximisation of the sales of all produced and transformed products. Additionally, Galp will enhance the role of Energy

## 2.2 Our strategy

Management in its organisation in order to obtain additional value from the integrated profile across the different energy value chains

### Commercial

Galp holds a reference position as an energy supplier in Iberia. The response to changes in consumption patterns is addressed on a daily basis at Galp. The Company's goal is to continuously support customers' lives, both through a physical platform, with the convenience and proximity of its network, and through a digital platform, accompanying customers throughout their daily journey.

In this context, Galp continues to expand the customer experience, aiming to transform the current fuel stations towards innovative, multi-energy and convenience concepts, by modernising and expanding its products and services offered using a new hub concept. Within this scope, Galp aims to double the contribution of convenience in its retail network by 2025, together with a fast expansion of its offer of electric vehicle charging points, achieving c.10k in Iberia by 2025. At home, Galp aims to significantly grow the electricity sales to its clients, while maintaining a leading position in natural gas sales. Both in mobility and at home, Galp will continue to deliver the energy of today along with the solutions of tomorrow, leveraging decentralised generation and fleet management solutions, aligned with the energy transition.

As a One Galp, the Company will be able to deliver products and services tailored to both present and future needs while supporting its clients' journey towards the decarbonisation and digitalisation of their consumption.

### Renewables & New Businesses

Galp intends to play an active role in the energy transition that society is facing, seeking to anticipate trends, develop a portfolio in line with future needs,

establish synergies with its current business whenever possible, and progressively reduce the carbon intensity of its activity and its customers. In this context, Galp is building a renewable energy generation portfolio as well as innovating towards the development of new energies across the value chain.

In the renewables sector, Galp is already one of the leading solar PV players in Iberia, with c.1 GW in operation and 3.1 GW of projects under development, together with 0.6 GW under development in Brazil. By 2030, the Company is targeting a gross renewable operating capacity of about 12 GW, promoting an agile portfolio expansion based on a geographic and technological diversification. To promote this growth and support value creation, Galp will continue to maximise value through an appropriate capital structure, as well as a partnership model and asset rotation. Galp is also building some distinctive capabilities to enhance portfolio resilience, such as behind-the-meter battery storage options, technological hybridisation.

Regarding New Businesses, Galp is proactively looking into solutions that can play a key role in the energy value chain of the future. The New Businesses area is designed to serve as an incubator for new value creation streams, testing, validating, and developing concepts to a mature stage, which can then flourish on their own, or be incorporated by other business units, such as the green hydrogen that has recently been included under the Industrial & Energy Management area, as well as Galp Solar and GowithFlow that have been integrated in the Commercial business.

Galp is also assessing entry opportunities in the fast-growing battery value chain, capturing an early mover advantage in Europe. Galp's joint venture 'Aurora' with Northvolt is engaged in the development of Europe's first lithium conversion plant, to be located in Portugal.

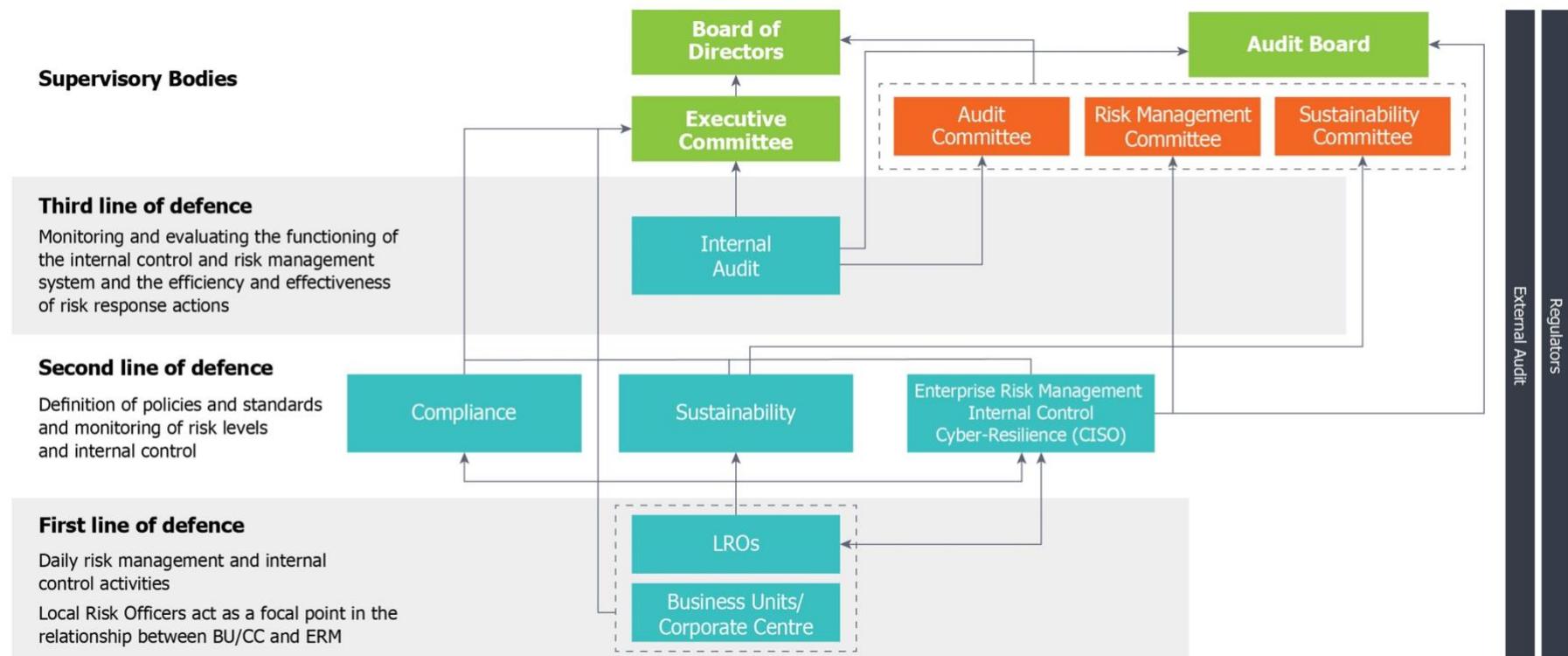
## 2.3 How we manage risk

Galp is exposed to risks that may have a negative impact on its operational and financial performance, reputation and market capitalisation.

The management of these risks is based on a Risk Management Model, implemented through an integrated, continuous, and dynamic process that involves the business units and Galp's corporate areas, and which is supported

by the Risk Management Policy, the Risk Management Governance Model and the Internal Control Manual, approved by the Board of Directors.

Galp's risk management governance and organisational structure follows the COSO (Committee of Sponsoring Organizations of the Treadway Commission) methodology and is structured according to the three-lines-of-defence organisational model, in cooperation with the supervisory bodies, as represented in the image below:



## 2.3 How we manage risk

Galp has a governance structure, procedures and systems that enable the Company to manage the risks to which it is exposed, so that risk management is an integral part of the decision-making processes.

In addition to the main risks and opportunities inherent to Galp's activity, we identify below the emerging risks, defined as those that (i) are not currently having a significant impact on the Company, but which are highly uncertain due to their rapid evolution, non-linearity or both; or (ii) even if they have already started to impact the Company's business, they will continue to have an impact in the long term and may materially influence Galp's business model. The way the Company addresses and mitigates them is also described.

The results are discussed in greater detail in Part II of this report - Corporate Governance Report.

Some of these risks are sensitive to climate change phenomena and low-carbon economy transition scenarios, particularly those associated with regulation, future trends in demand, commodity price fluctuations and potential increase in competition. Given the emerging nature of climate change risks in the current energy context, and in accordance with the commitments undertaken, Galp includes them in the scope of its risk analysis, together with other emerging risks. The Sustainability Committee, supported by the Risk Management Committee, is the board level committee responsible for climate related issues, being key in assisting the Board in integrating sustainability principles into the decision-making process and ensuring that the main risks and opportunities that we face are identified and continually managed.

The risk analysis and the resulting risk matrix are regularly discussed with the Executive Committee and the Risk Management Committee.

Risks	
<b>Strategic Risks</b>	
Climate Change	The physical risks (acute or chronic) associated with climate change may have a potential impact on Galp's activities, causing damage or interruptions and delays in its operations. Transition risks (regulatory and legal, market, technological and reputational risks) will lead to a change in consumer behaviour, reducing demand for O&G, and will potentially affect fossil fuel prices and could drive the creation of "stranded assets".
Performance Management	The inability to restructure business models through intelligent operational models supported by innovative technologies data analysis and, simultaneously, adopt a new paradigm of work model, while maintaining employee engagement and productivity, would undermine Galp's ability to properly executing its strategy, impacting results and financial performance.
Portfolio	Galp's sustainability depends on its ability to reshape its portfolio, focusing on opportunities that ensure a portfolio capable of creating long-term sustainable value, taking advantage of the Company's existing competitive advantages, while diversifying and exploring adjacent synergies and opportunities aligned with market trends, enabling it to meet its decarbonisation ambition at the pace demanded by the market.

## 2.3 How we manage risk

Risks	
Price	Galp's business portfolio is exposed to volatility in prices of crude oil, natural gas, LNG, electricity and CO <sub>2</sub> , and other raw materials, as well as changes in interest and exchange rates. The variability of commodity and financial prices, resulting from macroeconomic, geopolitical or technological factors that affect the dynamics of demand and supply, may have a material adverse effect on the value of Galp's assets, results and financial performance.
Market & Competition	Galp faces strong competition in all its business segments and its competitive position and financial performance may be harmed, specifically if the Company is unable to respond adequately and in time to the new demand paradigm, reshaping its portfolio in accordance with the energy transition, accessing new technologies and keep up with innovation to improve operational efficiency, and recruit and retain talent.
Partnership	Most projects developed by Galp in the various segments depend on partnerships with other entities which, while allowing the Company to take advantage of complementary capabilities and resources, as well as adequate risk sharing, give Galp less control over the execution, performance and operating costs of projects and expose the Company to the risks associated with partners (financial, technical, operational, cyber and reputational, etc.).
Concentration	Galp's major projects are mainly in Iberia and Brazil and the supply of natural gas comes largely from Algeria and Nigeria, which creates a risk of dependence on these countries, which is aggravated by the high political, regulatory and social risks in some of these geographies. Additionally, the still significant weight of Oil & Gas segment in the Company's portfolio may represent an added challenge for Galp in the face of energy transition and the new demand paradigm.
<b>Financial Risks</b>	
Financing & Insurance Risks	Galp's ability to access the financial and capital markets to finance its strategy and obtain insurance quotes for its investment projects could be affected by the growing pressure on investors to divest from fossil fuel companies and on companies to perform according to stricter regulations and standards.
Assets	Several factors, both internal and external, may affect Galp's assets, its performance and value, namely technical challenges and/or appraisal and development difficulties; geopolitical, fiscal and regulatory issues; failure to replace old or obsolete infrastructure or equipment; incorrect evaluation of Oil&Gas reserves or recovery levels, amongst others.
New Business Returns Risk	Galp's strategy of developing a set of diversified projects (renewables, battery value chain and green hydrogen, etc.), in line with the energy transition, and that allow capturing synergies with other businesses, may be compromised if the investment options do not meet the defined objectives and/or do not contribute to the fulfilment of Galp's Decarbonisation Roadmap.
<b>Operational Risks</b>	
Major Accidents	The nature, technical complexity, and diversity of Galp's Upstream and Industrial operations expose the Company and its communities to a broad spectrum of disruptive health, safety, security and environment risks.
Efficiency and Effectiveness	The inability to ensure the efficiency and effectiveness of its operations may threaten the Company's ability to provide services at cost levels equal to or lower than those of its competitors, compromising Galp's productivity and competitive performance.
Business Continuity	The nature, technical complexity, and diversity of Galp's operations expose the Company to a wide range of disruptive risks that may give rise to incidents that disrupt or threaten Galp's critical business processes and may impact human resources, the environment, the value of assets and results and, ultimately, the continuity of its business.
Project Execution	The execution of Galp's projects is exposed to several risks (market, liquidity, political, legal, regulatory, technical, commercial, climatic and others) that may compromise their execution within budget and deadlines, and compliance with the defined specifications and operational reliability.
<b>Legal and Governance Risks</b>	
Legal	Galp is subject to a wide range of international laws and standards or those of the various countries in which it operates, whether industry-specific, or transversal. Additionally, part of Galp's activity is carried out in emerging or developing economies, with a relatively unstable legal and regulatory framework, which may lead to legislative and regulatory changes that may alter the business context in which Galp operates.
ESG Regulatory Compliance Risk	Any failures by the company, its employees, governing bodies, suppliers/service providers or counterparties relating to compliance with ESG laws and standards, or failure to respond to ESG topics, which are gaining prominence and being increasingly scrutinised by several stakeholders, may have adverse effects on the Company's investment case and reputation.

## 2.3 How we manage risk

Risks	
Reputational	Actual or perceived failures in governance, regulatory compliance, or a lack of understanding of how our operations affect communities and the environment or how the Company is responding to expectations from customers and the Society, namely on the energy transition arena, could damage our brand and reputation.
<b>Information Technology Risks</b>	
CyberRisk	Most of Galp's processes rely heavily on digital systems and data. Any failure in the security of these systems, whether accidental (due to network, hardware or software failures), or resulting from intentional actions (cybercrime), or negligence (internal or due to service providers) may have severe negative impacts for Galp's operations, its customers and suppliers.
Disruptive Technologies & DigitalRisk	The inability to identify and integrate new digital transformation trends, particularly in terms of automation and solving complex industrial challenges or developing new practices that speed up processing times and reduce human labour, would affect Galp's efficiency and its competitive position.

Galp has defined a methodology that allows the Company to obtain an overview of its main risks, classifying them according to their materiality, characterizing them in a comprehensive and robust manner, assessing the probability of occurrence, quantifying their potential impact (in financial results, shareholder value, business continuity, environment, reputation, quality, health and safety, and human capital dimensions) in each business unit or corporate area, integrating them, and identifying, when appropriate, effective mitigation measures.

Galp has also been working on identifying climate-related risks, considered as strategic risks for the Company. From 2021, these risks are assessed for all business units and geographies on an annual basis using scenario-based modelling. This procedure aims to assess the resilience of the Company's strategy to different climate scenarios and integrate the most relevant associated risks in the risk management framework.

Galp's main & emergent risks are shown below, based on their criticality in terms of "probability x impact".

