



REGENERATING THE FUTURE

Integrated Management Report 2021

Index

4.	Financial performance	3
4.1	2021 highlights	4
4.2	Operational performance	6
4.3	Consolidated income	7
4.4	Capital expenditure	10
4.5	Cash flow	11
4.6	Financial position	12

FINANCIAL PERFORMANCE



REGENERATING THE FUTURE

4.1 2021 highlights

Galp's RCA Ebitda was €2,322 m, 48% higher YoY, whilst Adjusted Operating Cash Flow (OCF) increased 49% YoY to €1,852 m, supported by strong Upstream results.

Group cash flow from operations (CFFO) was €1,052 m, reflecting a working capital build during 2H21, which includes a temporary €605 m increase in hedging margin accounts to de-risk gas sourcing and supply prices, expected to be reversed during 2022.

Capex totaled €936 m, with Upstream accounting for 66% of total investments, whilst the downstream activities represented 17% and Renewables & New Businesses 15%. Net capex was €552 m, considering the proceeds from divestments, most notably the stake sale in Galp Gás Natural Distribuição (GGND) during 1H21.

FCF was €397 m and net debt increased to €2,357 m, also considering dividends paid to shareholders of €498 m and to minorities of €198 m, as well as other adjustments. Net debt to RCA Ebitda at the end of the period was 1.1x.

Excluding the non-recurrent temporary working capital effects related with margin accounts, FCF would have reached €1.0 bn and net debt to RCA Ebitda at year end would have been 0.8x.

4.1 2021 highlights

Ebitda and Ebit by business segment in 2021 (€m)

	IFRS Ebitda	Inventory effect	RC Ebitda	Non-recurring items	RCA Ebitda
Galp	2,698	(387)	2,311	11	2,322
Upstream	2,047	-	2,047	(27)	2,020
Commercial	294	(6)	288	-	288
Industrial & Energy Management	408	(382)	27	38	64
Renewables & New Bus.	(13)	0	(13)	-	(13)
Others	(38)	-	(38)	0	(38)

	IFRS Ebit	Inventory effect	RC Ebit	Non-recurring items	RCA Ebit
Galp	1,670	(387)	1,283	89	1,372
Upstream	1,461	-	1,461	(27)	1,434
Commercial	185	(6)	179	-	179
Industrial & Energy Management	93	(382)	(289)	115	(173)
Renewables & New Bus.	(13)	0	(13)	-	(13)
Others	(56)	-	(56)	-	(56)

4.2 Operational performance

Upstream

RCA Ebitda was €2,020 m, up 82% YoY, driven by the favourable oil price environment. OCF was €1,527 m, up YoY from €749 m.

Production costs were €62 m, excluding IFRS 16 leases of €125 m. In unit terms, and on a net entitlement basis, production costs were \$1.6/boe.

Amortisation and depreciation charges (including abandonment provisions) amounted to €586 m. On a net entitlement basis, DD&A was \$14.0/boe, also excluding impairments related with smaller scale exploration assets.

RCA Ebit was €1,434 m, up €1,028 m YoY, and IFRS Ebit was €1,461 m.

Commercial

RCA Ebitda decreased 12% YoY to €288 m, reflecting the more pressured market environment and considering a higher weight of digital transformation costs. OCF was €266 m, down 16% YoY.

RCA Ebit was €179 m, while IFRS Ebit was €185 m.

Industrial & Energy Management

RCA Ebitda for Industrial & Energy Management decreased €49 m YoY to €64 m, despite the higher Industrial performance in 2021, on the back of the improved international refining environment. OCF was €98 m, following Ebitda.

Galp's refining margin was up YoY, from \$1.1/boe to \$3.3/boe, following the more robust international refining context. Refining costs decreased YoY from \$2.6/boe to \$2.0/boe, now only reflecting Sines operational costs, and considering that in 2020 the system operated at sub optimal conditions.

Energy Management contribution decreased YoY, mostly due to natural gas sourcing restrictions, increased costs to access the regasification terminal in Portugal and given the material swing registered in the pricing formulas for oil products between the two periods, reflecting the different evolution trends on the commodity prices.

RCA Ebit was -€173 m and IFRS Ebit was €93 m.

Renewables & New Businesses

During 2021, Renewables & New Businesses consolidated RCA Ebitda was of -€13 m, which mostly includes consolidated overhead costs, also to explore opportunities in new businesses, such as Galp Solar, GoWithFlow and Galp position in the Li-on batteries value chain.

Renewables pro-forma Ebitda and OCF reached €76 m, higher €78 m YoY, also benefiting from high captured price throughout the year (most of Galp's renewable capacity under operation is within the JV with ACS, which only closed in September 2020).

4.3 Consolidated income

Consolidated income (RCA, except otherwise indicated)

	2020	2021	Var.	% Var
				€m
Turnover	11,381	16,117	4,737	42%
Cost of goods sold	(8,021)	(12,129)	4,107	51%
Supply & Services	(1,473)	(1,536)	63	4%
Personnel costs	(302)	(297)	(5)	(2%)
Other operating revenues (expenses)	(6)	173	179	n.m.
Impairments on accounts receivable	(8)	(7)	(1)	(9%)
RCA Ebitda	1,570	2,322	751	48%
IFRS Ebitda	1,113	2,698	1,585	n.m.
Depreciation, Amortisation and Impairments	(1,131)	(954)	(177)	(16%)
Provisions	(13)	3	16	n.m.
RCA Ebit	427	1,372	944	n.m.
IFRS Ebit	(282)	1,670	1,952	n.m.
Net income from associates	73	96	22	31%
Financial results	(182)	(138)	(44)	(24%)
Net interests	(39)	(31)	(8)	(21%)
Capitalised interest	22	15	(7)	(31%)
Exchange gain (loss)	(78)	(29)	(49)	(63%)
Mark-to-market of derivatives	(44)	-	44	n.m.
Leases interest (IFRS 16)	(80)	(76)	(5)	(6%)
Other financial costs/income	37	(17)	(55)	n.m.
RCA Net income before taxes and minority interests	319	1,329	1,011	n.m.
Taxes	(337)	(729)	392	n.m.
Taxes on oil and natural gas production ¹	(301)	(560)	259	86%

4.3 Consolidated income

	2020	2021	Var.	% Var
Non-controlling interests	(24)	(143)	120	n.m.
RCA Net income	(42)	457	499	n.m.
Non-recurring items	(171)	(737)	566	n.m.
RC Net income	(213)	(280)	67	32%
Inventory effect	(338)	284	622	n.m.
IFRS Net income	(551)	4	555	n.m.

¹ Includes income taxes and taxes on oil and natural gas production, such as Special Participation Tax (SPT) payable in Brazil and oil income tax (IRP) payable in Angola.

4.3 Consolidated income

RCA Ebitda was €2,322 m, 48% higher YoY, mostly supported by the improved Upstream conditions during the period.

RCA Ebit was €1,372 m, up from €427 m in 2020, following the higher operating contribution, although including €49 m of impairments related with exploration assets in Upstream.

IFRS Ebitda and IFRS Ebit of €2,698 m and €1,670 m, respectively, reflecting a positive inventory effect.

Financial results were -€138 m, including IFRS 16 leases, net interests and currency differences registered in the period.

RCA taxes increased YoY from €337 m to €729 m, mostly following the improved performance in Upstream.

Non-controlling interests of -€143 m are related with Sinopec's stake in Petrogal Brasil.

RCA net income was €457 m, while IFRS net income was €4 m, with a positive inventory effect of €284 m and special items of -€737 m, which includes mark-to-market swings related with derivatives.

Note: for the purpose of better assessing Galp's recurrent performance, from 1Q21 onwards mark-to-market swings related with derivative hedges to cover client positions, which have no direct translation into operating results, are considered as special items. No adjustments were made in the reported figures from previous periods.

Special items

	€m	
	2020	2021
Items impacting Ebitda	(12)	11
Margin (Change in production) - Unitisation	(30)	-
Headcount restructuring charges	54	-
Exchange rate differences related with Brazil unitisation processes	(36)	-
Termination agreement for service and equipment (P-71)	-	(27)
Matosinhos Refinery operations (under decommissioning)	-	38
Items impacting non-cash costs	252	78
Provisions for environmental charges and others (Matosinhos Refinery)	94	71
Depreciations and Amortisations - Unitisation	5	-
Asset impairments (Matosinhos Refinery)	153	7
Items impacting financial results	(142)	785
Gains/losses on financial investments (GGND) ¹	(91)	12
Gains/losses on financial investments - Unitisation	(56)	-
Financial costs - Unitisation	5	-
Mark-to-Market of derivatives	-	832
MTM of derivatives and FX from natural gas derivatives	-	(60)
Items impacting taxes	81	(140)
Taxes on special items	(75)	(179)
BRL/USD FX impact on deferred taxes in Brazil	119	8
Energy sector contribution taxes	36	31
Non-controlling interests (Unitisation and FX on deferred taxes Brazil)	(8)	3
Total special items	171	737

¹ Includes adjustments from the correspondent CESE, previously booked at GGND.

4.4 Capital expenditure

During 2021, capex was €936 m, of which 66% was allocated to the Upstream business, mainly directed to Brazil, namely the development of Bacalhau and BM-S-11.

Downstream activities represented 17% of 2021 capex. Commercial capex was mostly allocated to Mozambique logistic facilities and the retail network in Iberia. Industrial & Energy Management investments were allocated towards initiatives to improve the systems' efficiency.

Renewables & New Businesses capex, which accounted for 15% of the year's capex, was mainly related to the development and execution of solar projects in Iberia, which are net of project finance contributions.

Capital expenditure by segment

	€m		
	2020	2021	Var.
Upstream	326	616	290
Exploration and appraisal activities	0	-	(0)
Development and production activities	325	616	290
Commercial	127	92	(35)
Refining & Midstream	76	67	(10)
Renewables & New Businesses	350	142	(208)
Others	19	20	1
Capex¹	898	936	38

¹ Capex figures based in change in assets during the period.

4.5 Cash flow

Galp's OCF reached €1,852 m, 49% higher YoY, supported by the improved Upstream conditions. CFFO amounted to €1,052 m impacted by a working capital build.

The investment in working capital includes €605 m related with temporary margin accounts from derivatives to cover natural gas trading risk. Some of the derivatives in place to cover risk on trading gas activities require margin deposits (exchange-traded TTF futures), which temporarily affect Galp's cash position and which are released as TTF prices adjust downwards and/or gas is delivered to clients throughout 2022.

Net capex was €525 m, considering the proceeds from the GGND stake sale of €368 m, as well as the amounts related to the sale of FPSO P-71 to Petrobras.

FCF amounted to €397 m. Considering dividends paid to shareholders and to non-controlling interests, as well as other adjustments, net debt increased to €2,357 m.

Excluding the impact from the €605 m temporary build in working capital, FCF would have reached €1.0 bn and net debt would have declined YoY to €1.8 bn.

Cash flow

(IFRS figures except otherwise stated)

	€m	
	2020	2021
RCA Ebitda	1,570	2,322
Dividends from associates	90	132
Taxes paid	(417)	(602)
Adjusted operating cash flow	1,243	1,852
Special items	12	(11)
Inventory effect	(469)	387
Change in Working Capital	240	(1,176)
Cash flow from operations	1,025	1,052
Net capex ¹	(909)	(525)
Net financial expenses	(43)	(54)
IFRS 16 lease interest	(80)	(76)
Realised income from derivatives	80	-
Proceeds from equalisation	80	-
Free cash flow	153	397
Dividends paid to non-controlling interests ²	(225)	(198)
Dividends paid to Galp shareholders	(318)	(498)
Reimbursement of IFRS 16 leases principal	(110)	(115)
Others	(129)	122
Change in net debt	631	292

¹ 2021 includes the proceeds from the GGND stake sale of €368 m.

² Mainly dividends paid to Sinopec.

4.6 Financial position

Consolidated financial position

	€m		
	2020	2021	Var.
Net fixed assets ¹	6,259	6,667	408
Rights of use (IFRS 16)	1,002	1,079	77
Working capital	703	1,879	1,176
Other assets/liabilities ¹	(710)	(2,119)	(1,409)
Capital employed	7,254	7,506	252
Short term debt	539	1,305	766
Medium-Long term debt	3,204	2,995	(210)
Total debt	3,743	4,300	556
Cash and equivalents	1,678	1,942	265
Net debt	2,066	2,357	292
Leases (IFRS 16)	1,089	1,179	90
Equity	4,100	3,970	(130)
Equity, net debt and leases	7,254	7,506	252

¹ Net fixed assets and other assets/liabilities include the estimated impact from unitisations.

On December 31, 2021, net fixed assets were €6,667 m, up € 408 m YoY, including work-in-progress of €1,807 m, mostly related to the Upstream business.

Other assets / liabilities decreased €1,409 m YoY, reflecting temporary impacts from the mark-to-market of natural gas derivatives and the sale of GGND.

Equity was down €130 m YoY, impacted by the payment of dividends to Galp's shareholders and minorities, which were partially offset by from the USD appreciation against the Euro and the results from associates.

On December 31, 2021, net debt was €2,357 m, up €292 m YoY, as the CFFO was impacted by a temporary build in working capital. Net debt to RCA Ebitda was down from 1.5x to 1.1x, benefiting from the improvement YoY of the RCA Ebitda.

At the end of the period, Galp had unused credit lines of approximately €0.8 bn, of which c.60% were contractually guaranteed.