Results' presentation

Otelo Ruivo, Head of IR

Good morning and welcome to Galp's third quarter and nine months 2021 results presentation. I would like to thank you for joining us today and wish that you are all in good health. Today, Andy will provide an overview of the quarter performance and key strategic developments, as well as an updated guidance for the full year. Filipe will then take us through the third quarter financial results.

At the end we are happy to take your questions, where Andy and Filipe will be joined by the remaining members of the Executive Committee. If you want to participate, please follow the operator's instructions at the end of the call.

As usual, I would like to remind you that we will be making forward-looking statements that refer to our estimates and actual results may differ due to factors included in the cautionary statement at the beginning of our presentation, which we advise you to read.

I will now hand over to Andy.

Andy Brown, CEO

Good morning, ladies and gentlemen. Galp's Q3 operational results were robust, capturing the improved macro, namely higher Brent prices and improved refining margins. We delivered over €600 m of consolidated Ebitda, already at pre-Covid levels. On top of this, we now have a renewable business not consolidated but fully capturing improved market conditions, delivering €28 m of pro-forma Ebitda in the quarter.

We also generated a healthy Operational Cash Flow (OCF) of €468 m. Therefore, a robust contribution despite some operational challenges. However, our Free Cash Flow (FCF) reflected the temporary effect related with our gas hedging strategy and a significant spike in gas prices during the period. Due to this effect, as well as the interim dividend of €200 m paid to shareholders during the period, meant our net debt increased to €2 bn. This puts us slightly above our targeted net debt to Ebitda ratio of 1x.

However, we are expecting further deleveraging through Q4 and confident that the dividend variable component will be distributed, and I'll cover that again later in this call.

In addition to the actual Q3 financial numbers, we also made progress towards executing our strategy to create a more sustainable company.

Finally, I'm happy to see the external recognition of our strategy with Galp recurrently holding leading positions on the relevant ESG rankings, acknowledged further by the €700 m lending we have secured from EIB.

Now let's look at the businesses in more detail. During the period we have seen some operational improvements in Upstream, namely in Tupi in Brazil leading to a stronger oil output, welcome at a time of high oil prices. However, due to maintenance activities on gas exports overall oil and gas production was flat Quarter on Quarter (QoQ).

During the quarter, the largest FPSO so far in production in Brazil was started up on the Sépia field. Petrobras's delivery of the FPSO in these difficult times is to be commended. Although a small production contribution to Galp in the period, the production rate from the one well hooked up is prolific, boding well for the full potential of the field.

The FPSO in Atapu is also now producing high levels close to plateau production with only four wells connected. The Brazilian pre-salt continues to be an amazing story with new wells demonstrating high productivities and strong reservoir potential. The improved operational conditions allow us to resume some inspection and maintenance activities, and through Q4 we hope to see progress on working through the maintenance backlog. We remain confident on the full year production guidance, updated last quarter, at 125 to 130 kboepd.

Going forward, we expect the business to maintain its strong cash delivery with a disciplined approach to capex focused on key attractive low carbon developments such as Bacalhau, a project which continues to progress well.

Coral FLNG from Mozambique also progresses well and is on track for first gas during 2022 with sail away from Korea expected in Q4.

On the explorational front, we are keenly anticipating key wells in the Campos basin in Brazil and in São Tomé and Príncipe to be spudded later this year and early next year.

On the industrial side, refining margins have now recovered from the weak environment throughout 2020 and early 2021. They are up 70% QoQ to $4/boe supported by an increase of middle distillates and gasoline cracks during the quarter. This refining margin include all energy costs, such as natural gas and electricity, and any CO_2 licenses we may need to acquire.

On top of this, we're seeing Galp's refining margin October to date at above Q3 levels, at around $5/boe. However, we need to report that we will see some production limitations during this quarter. As announced a few days ago, there was an unplanned event in one of the two furnaces of the Sines atmospheric distillation unit. There were no injuries, but it's led to a temporary stoppage of the unit. However, during the rest of Q4 the throughput of the distillation unit will be restricted while repairs are completed on the impacted furnace. We expect the issue to be fully resolved during this quarter.

In addition, we have a planned maintenance in the hydrocracker which will start this week and should last around 20 days.

Considering these operational limitations for Q4, we expect throughputs of 15 mboe, about 30% down QoQ, while realised refining margins should stand $4-5/boe.

On Energy Management, this was a weak quarter impacted firstly by the extra costs related to the access to the LNG regasification terminal in Portugal. These extra costs are now no longer charged from Q4 onwards.

Also, we've been impacted by negative effects by the oil product supply pricing lag resulting from the commodity price increase during the period, but most importantly, by unplanned natural gas sourcing restrictions related to our long-term suppliers, which obliged us to acquire some volumes at expensive spot conditions.

All in all, Energy Management contribution was negative in the quarter and going into Q4 we are assessing with our main suppliers any potential deviations from the planned deliveries given the cost of securing alternative supplies and we are preparing contingency plans to mitigate any potential shortfalls. Clearly, shortfalls could have an impact on operations and results, and in such cases we may continue to see some weaknesses on the Energy Management contribution. Therefore, unfortunately, Q4 for Industrial & Energy Management may not be stronger than Q3.

Looking further ahead, we should have our Sines refining system operating in normal conditions by the end of this year, and I'm confident on the work we're doing on our gas trading strategy to allow some more flexibility and increased contributions from 2022 onwards.

In Commercial, mobility in Iberia is recovering with an all product sales increasing both in B2B and B2C segments, but still some 20% below pre-Covid levels. Our results showed this progressive positive trend. Where B2C has been recovering faster. But we now also see some positive signs in B2B, but aviation and marine segments do still remain weak.

And at the same time, we're taking steps to transform this business to adapt to consumer needs. Our efforts to extract more from non-fuel have been proving successful and our convenience retail is already delivering at pre-Covid levels and today represents over 20% of the Commercial contribution margin, which is up 5 p.p. on 2019.

We are progressively increasing convenience sales and expect convenience contribution to more than double by 2025.

In renewables, our production is sold under strong merchant conditions and our generation capacity could have been higher this quarter. However, four plants have been restricted due to an issue with one transformer. And we've been implementing mitigations with some of the 200 MW of impacted electricity. And we hope to get back to full operation in early 2022. But in addition, we plan to bring online an additional 236 MW of solar projects by year end.

Meanwhile we are executing our strategy and progressing with our renewable expansion inside and outside Iberia. In Q3, we acquired additional further capacity in Spain of 220 MW and last week we announced an important step in our renewables venture in Brazil, where we acquired 600 MW of solar capacity of high-quality projects in a pre-construction stage.

The acquisition costs in Brazil were not material. Further payments, however, will be made, but only when the project hit specific development milestones. These projects are expected to be online before 2025. This is a clear step forward for Galp in a country where we've been present for over 20 years. And we've recently reinforced our renewables team in Brazil, a country which offers an opportunity to develop a profitable renewable power generation platform.

But we will maintain our discipline. Entering in early, in pre-construction stage, and creating value by building our portfolio from there. Our Energy Management team will be fundamental to capture market dynamic opportunities, monitoring the market developments and evaluating valuing the best way to sell our power generation with a mix of PPAs and merchant exposure.

These acquisitions positions Galp with a 4.7 GW portfolio with projects both under operation, development and construction. This puts us in a strong position to at least meet our 2025 goal of having over 4 GW operating and well positioned for the 12 GW ambitions we have for 2030.

Thriving through the energy transition is not just about renewable capacity but also about developing low carbon businesses and making sure we have access to finance structures to provide us an efficient capital structure to develop these projects.

So, what are we doing on this front? In early August, we launched a pilot of a new convenience concept store in Portugal with no fuel offering. And in Spain we've upgraded around 35 stores which are also showing strong results.

We are also proceeding with our electrification plans, having acquired in the quarter 280 EV charging points across Iberia, and we will end the year with over 1,000 points, more than doubling since last year, and a step further to reach the Company's ambition by 2025.

Our new energies, green hydrogen plans are becoming real, currently developing a 2 MW pilot with FID expected by year end. This will accelerate our learning curve before the larger capacity electrolysers get closer to reality. We're advancing simultaneously with two projects of 100 MW each: one by ourselves and the other one in a consortium.

On another front, we are thrilled to have secured access to funding to our low to no carbon projects by a prestige entity like the European Investment Bank. This includes up to €730 million to finance solar PV projects in Portugal and Spain, as well as the roll out of 5,500 EV charging points across Iberia.

We've also secured project finance for a 50 MW project in Spain, operating in full merchant conditions. All our operating projects in Spain have now been project financed, all with debt levels above 70%.

Looking at 2021 overall, considering the status of operations and adjusting to the short-term macro-outlook, assuming a $70/bbl Brent for the year, we estimate now full year Ebitda and OCF to stand above €2.3 bn and €1.8 bn respectively, while on the operational side, Commercial and Industrial & Energy Management should stand below the estimates we provided last June, on the back of slower anticipated Iberian demand recovery and restrictions in Energy Management.

But Upstream and Renewables will benefit from higher oil, gas and power prices. Our CFFO, non-adjusted operating cash flow, is predicted to have a €400 m difference to our OCF. This impact is mostly driven by our hedging strategy to protect the commodities price risk related with our gas sourcing and supply activities.

In the recent months, we saw an increase in margin deposits related with future contracts as a result of the unexpected significant spike on gas prices. This impact derives mostly from contracts that will end in 2022 when the supplies are delivered to the customers. Therefore going forward, we will see cash inflows yielding CFFO levels above the OCF, either when we make these gas deliveries or when gas prices adjust downwards. Filipe today will elaborate a bit more on this later.

But let me reinforce, despite currently materially impacting our CFFO and net debt, this is a temporary effect, one that will be reverted on the short term during 2022. We are aware this may impact our shareholder distributions framework. We will need to monitor how gas prices evolve and what will the effect on our financials be at year end. By then, we'll take a view if some adjustments to the dividend framework should be considered when proposing our 2021 distributions, given the one-off and temporary nature of this impact.

Lastly, on net capex, we are now estimating year end to be at the lower half of the previously provided guidance, so to stay within €0.5 bn and €0.6 bn, demonstrating our continued capital discipline.

To wrap up, this quarter benefited from the more supportive macro, and we continued seeing positive signs of recovery and a strong commodity price environment ahead. This environment is causing some temporary impacts on our cash delivery, but as I mentioned, these are temporary and will revert.

More importantly, looking further ahead, we are starting to show clear and important signs of strategy execution, both around our legacy businesses' growth and transformation, but also around expanding our renewable footprint and moving forward with new businesses. Our operational momentum has room for improvement, and I am confident we will see a turnaround allowing us to deliver even stronger results.

Finally, a relevant part of our investment case is to maintain a competitive shareholder remuneration. We are conscious that our shareholders deserve to be rewarded in such a strong macro environment. Therefore, we're monitoring very closely the evolution of the lines impacting our net debt and CFFO. I'm confident that we will be able to recommend a variable component related with 2021.

Now, over to you, Filipe, to look more deeply at the financials.

Filipe Silva, CFO

Thank you, Andy, and good morning everyone.

I am on Slide 12 where we have the Upstream Ebitda of €522 m, which clearly benefited from the rise in Brent prices, even if we did continue to see below average premiums on the cargoes we sold to Asia. And this comes from China restrictions on some local importers and regional crudes being priced more competitively versus Brent. Our oil and gas realisations versus Brent were also affected by the cap we have for now on our Brazilian associated gas sales. The current gas price formula is capped at $55/bbl Brent.

Upstream capex was €187 m, and this went primarily to our pre-salt developments, mainly Tupi and Bacalhau, and Coral, in Mozambique.

The capex line this quarter also includes €34 m payment for the acquisition of a stake in BM-S-8. This increased the Galp stake from 14% to 20% back in 2017 and the payments were contingent on certain milestones and the final one should be distributed in Q4 or early Q1 next year of about $40 m to $50 m.

Commercial Ebitda was €87 m in the quarter, this with seasonal QoQ higher oil product sales and the gradual easing of lockdown measures. Still, Commercial Ebitda was down year-on-year (YoY) as the margin environment is being pressured by the current much higher commodity prices.

Industrial & Energy Management Ebitda was only €15 m, that's down €35 m from the previous quarter.

The Sines refinery had a healthy contribution with a realised margin of $4/boe and cost of $1.5/boe.

Energy Management, however, saw gas sourcing restrictions, leading to spot purchases to comply with our commitment with clients. Also, as we had flagged before, the increased regasification costs in Portugal impacted Ebitda with about €10 m during this quarter. In oil products, the rapid commodity price increases that we're seeing in the period has caused negative price lag effects under the formulas we have established with our clients.

Industrial & Energy Management OCF includes the contribution from associate companies such as the Galp stakes in the international pipelines, which brings the gas from Algeria through Morocco and Spain. Now after some 25 years invested in those assets, these concessions will end this month. So we will now bring the Algerian gas through the Medgaz pipeline where we are not an investor.

On Renewables, you know we don't consolidate this business. What we show here are pro forma numbers and a pro forma Ebitda was a very healthy €28 m in the quarter.

Now we do continue to see significant supply chain and permitting challenges to develop and build the renewable projects in Iberia at the speed we wanted to. But we remain committed to deploy the ambitious pipeline of projects and grow the installed capacity.

Short term we have over 200 MW of new build capacity coming online by year end. This is most welcome in this environment and, in addition, we should also see the transformer issue resolved shortly. And this has kept about 200 MW offline.

On slide 13, you have the P&L where you see the Ebitda of €607 m in the quarter and Ebit follows this in tandem.

Associates were up too, mainly from the increased net income from our solar JVs.

Net income was €161 m under RCA. Now under IFRS, net income was negative €334 m, driven by the negative €545 m in special items, and this comes mainly from the mark-to-market of our hedging positions. Now these price protection contracts do not qualify under IFRS hedge accounting rules, so we need to take this volatility to the P&L as opposed to equity. Throughout 2022, the revenues we generate from the gas volumes that underly these derivatives will compensate these mark-to-market variations, as it is designed to. The hedges are made to reduce our economic risks, so no worries here other than unwelcome temporary volatility.

The cash flow on slide 14. You see a strong OCF of €468 m. CFFO is affected by the working capital build resulting from the margin deposits to cover the exchange-traded derivative positions.

And maybe I should spend a minute on this derivative and margin deposit topic. In the P&L we have the mark-to-market of the entire derivative book. And in the cash flow statement, we have the cash that we need to post as collateral with the exchange. The number is quite high this quarter, €373 m, and €444 m for the full nine months. This is a reflection of how much gas prices have gone up.

And why do we enter into derivatives in the first place? We buy gas from our suppliers and we sell the gas to clients. And the business model is to make a commercial margin between the two. However, the cash that we buy is mainly priced off Brent and our sales, say to industrial clients, are normally TTF linked. So, we therefore protect the basis risk of the price of what we buy and what we sell through the derivatives market.

So, effectively, the gains that we could have made from the recent sharp increase in TTF versus Brent; those gains are neutralised by the derivatives. If you exclude these derivative margin accounts, which are temporary, the FCF was a healthy €260 m in the third quarter.

This is all from my side, Otelo. We'll now take your questions. Thank you.

Questions & Answers Session

Biraj Borkhataria - RBC

Hi there. Thanks for taking my questions. Apologies, I cut off, so this might have already been covered but two questions. The first one is on the shareholder distributions. You mentioned a number of times about the temporary nature of the margin impact. So, as I'm thinking about your full year dividend, is it fair to strip that number out and then run the calculation on that CFFO number?

And then the second question is on what you mentioned on gas sourcing. You highlighted some contingency plans for gas sourcing in the fourth quarter and I was wondering what exactly that would entail. Thank you.

Andy Brown, CEO

Thanks, Biraj, and thanks for your questions. Look, I have to say that what have said up to now is that we're just going to do a mathematics calculation on the supplementary dividend, and we will do a mathematical calculation on that. And depending on that working capital build, we will see what that yields. What I think we're saying here is we've agreed with the Board that there may well be a discretionary element that we will add to that. I can't tell you today how that will be calculated or what there will be, Biraj, but I think what we are indicating here is that we think this is a very much a one-off issue and the shareholders shouldn't be penalised for it. So more to come on that one.

On the gas sourcing. We are having some issues with our gas supplies and with the current gas markets, as you might imagine. Replacing and buying new cargoes can be really expensive, so we're very much looking at the demand side of that and seeing what we can do to reduce our own use as well, to be honest with you, Biraj, and to see how we can mitigate any potential sourcing constraints we get in the quarter. So, we're turning every stone and I would be very reluctant to go and buy new volumes at the kind of spot prices we're seeing today to be honest with you.

Alessandro Pozzi - Mediobanca

Hi. Good afternoon. Thank you for taking my questions. So, the first one is on the upstream guidance. I believe in Q2 you mentioned they would have been bottom end of the range for 2021 but you maintain it and I was wondering how should we think about maybe the exit rate in Q4? And maybe if you can give us maybe some key dates for 2022. I believe the start-up of Coral is one of them. And then maybe can you give us an update on that one as well? That's my first question.

Andy Brown, CEO

Thank you, Alessandro, for your question. I think I'll hand over to Thore to talk about the upstream position.

Thore E. Kristiansen, Production & Operations COO

Thank you, Andy. So, with respect to the upstream production and the guidance for the fourth quarter, I think you can expect a production that is very similar to the one that we've seen in the third quarter. That's our key guidance to you. With respect to 2022. That's a bit early. Let's work on 2022 at the Capital Markets Day when we have consolidated all our numbers and analysis for next year.

With respect to Coral, the project is going extremely well and now it's very visible that we will have a sail away from Korea in the middle of November. Then it sails to Mozambique for the offshore commissioning and in our plans we have first gas in the second half of 2022. Thank you.

Alessandro Pozzi - Mediobanca

Okay, thank you. The second question on renewables. I think part of your strategy is to farm down some of your positions in certain assets and given the spike in the electricity prices you are seeing; do you see this potentially happening sooner rather than later? And in general, I was wondering if you can give us an update on potential disposal opportunities there.

Andy Brown, CEO

Thank you for your comments. What we're doing is we're building a portfolio – we talked about 4.7 GW. We're continuing to build a portfolio to give us more options to make sure we are delivering the growth capacity of these 4 GW.

In terms of our sell down strategy, clearly we haven't yet got firm plans of when we're going to kick that process off. We're diversifying the countries we are working in. For instance, now we're moving into Brazil. But there will be a moment when we will both look at some sell downs, particularly when we de-risk the projects. But also, look at what timings we would take some more PPAs, because we are entirely merchant at the moment, which is obviously good for the current prices. But over time I think we will want to position more in the long-term market. But no, nothing definitive to say at the moment. So, thank you for that.

Alessandro Pozzi - Mediobanca

Just a follow-up on Brazil. Do you expect to sign PPA for the new asset?

Andy Brown, CEO

Yeah, Brazil has quite attractive index linked both open, commercial and government PPAs that we can take part in, but it also has a very attractive merchant market at the moment. We probably will plan to do a bit of both, to get a strong underpinning for the project, but then to enjoy some of the upside in the merchant market. At the moment in Brazil there has been quite a significant drought, which is putting some distress into the electricity system, and therefore I think it will be very welcome for us to build some more renewable capacity there and take part in the electricity growth that they are seeing in their country. I think they have an ambition for something like 40 GW of renewable capacity by 2030, so a very attractive market for us to participate in.

Michael Alsford - Citi

Thank you. Good afternoon. I've got a couple. Just firstly on the upstream, I was wondering whether you could update us on when we might expect a new development plan for Tupi, which could help offset the declines that we are going to see from the field in the next year or so.

And then secondly, just to follow up on the gas sourcing question from earlier. I appreciate you are looking at mitigating the cost impact of the gas sourcing in 4Q, but I don't know if you could maybe look out a little bit more into 2022 and why do we not still see a headwind around the costs associated with buying that gas for more of a medium term impact on the business and energy management? Thank you.

Andy Brown, CEO

So, firstly, can I ask Thore to talk about the development plan for Tupi?

Thore E. Kristiansen, Production & Operations COO

Thank you, Andy. So, the work for the new plan and the operations and development on Tupi and Iracema is actually going really well under the partnership, with significant work already done. I think the document is now in the order of around 900 pages. The expectation and full intention from the partnership is to deliver this plan to ANP by the end of this year. So, that's the forecast and the plan seems to be robust. Thank you.

Andy Brown, CEO

Yeah, so on the gas sourcing, quite early to talk too much about 2022. Clearly, we want to build more flexibility into our position. I think for us the lessons learned are that we did hedge 100% of the volume and I think going forward we are going to have to look to give ourselves a bit more flex if we do have supply restrictions. I'm quite optimistic about the long term. We've got Venture LNG coming in 2023 and I think we can position that in the market, hopefully in a strong profitable basis.

So, no specific guidance on 2022. The only thing I can say is we've secured the regasification here in Portugal without the premium that we paid up to the end of Q3. So, going through 2022 we will enjoy a lower cost of regasification of the LNG that is delivered, but I think we've now got a much better handle on our ability to respond to any supply shortfalls, particularly looking at some of our own use and how we can build more flexibility in that balance over time.

Michael Alsford - Citi

Great. Thanks, Andy. And just a follow-up on Thore's point on the field development plan in Tupi. Is there a prerequisite that you need to get a licence extension? And if that is the case, how's that going in terms of that negotiation? Thank you.

Thore E. Kristiansen, Production & Operations COO

Thank you, Michael. Without going into too much detail on this, Michael, you can expect that we will have several elements into this plan and some of the elements in the plan will also then be requiring a licence extension, correct. So, we expect that there will be some discussions going on before the whole plan is firm. We are looking for a 20 year plus extension on the field life. Thank you.

Sasikanth Chilukuru - Morgan Stanley

Hi, thanks for taking my questions. I had two, please. The first one is related to Brazil production. Last quarter you talked about preventing maintenance impacting production uplift in the second half of 2021. Just wanted to check if you could comment on the progress here. Is the maintenance activity completed in 3Q or is still persisting into the fourth quarter?

The second one is related to your shareholder distribution policy. Last quarter you mentioned that you are reviewing the option of using buybacks. I was just wondering if you had reached a decision on that or will we see the increase in the shareholder distribution all reflected in the additional dividend? Thanks.

Andy Brown, CEO

Let me just start with the second. What I have said and what we are doing is looking at and consulting with shareholders around buybacks versus cash dividends and that work is still ongoing. I have nothing to report on that at this stage. But just to reaffirm we're looking and consulting with the various shareholders about that.

On the Brazil production, I'll hand over to Thore in a second. I think one of the difficulties that we've had, and actually we see this in other parts of the world as well, where through Covid, clearly there was a maintenance backlog increase, but also a delay in hooking up wells, a delay in doing workovers, and so I don't think this is constrained just to Brazil. Thore, anything more to add on the normalisation of the situation in Brazil.

Thore E. Kristiansen, Production & Operations COO

We are moving in the right direction still, however, being constrained. Just to give you one indicator, the POB was restricted to around 60% of the capacity, and has now increased a bit, so we are around 80% of POB capacity on the different installations. We have more hands on the deck in order to work with the backlog. It's now being worked systematically, and we expect that those two units that are scheduled for maintenance in the fourth quarter of this year. So, it's picking up. But there is a backlog and that will take some time to be sorted out. Thank you.

Jon Rigby - UBS

Hello, thank you for taking the questions. I think this is for Filipe, actually. I noticed the step-up in contribution from renewables, obviously with the high electricity prices and that sort of flows through from your pro forma Ebitda mainly into associates, as you've noted. Can you run through how both the earnings and the cash flow cascade kind of works into your income statement, into your consolidated accounts? I'm particularly interested where you're doing refinancing, does that reappear back in your cash flow statement as a dividend or as a divestment?

And I just wanted to understand what the allocation and priority of cash flows would be to paying interest versus paying dividends back to yourselves, paying back some of the capital on the loans, et cetera. So if this makes sense, some sort of map of how cash flows and earnings work back into your businesses, if that's possible.

Filipe Silva, CFO

Good morning, Jon. I don't think what we are doing and will do is different from what we've done with other associates or what everybody else does. So, you have unconsolidated entities that are currently generating more cash, so that cash goes to pay project finance and opex, of course. And whatever is left under the financing agreement, as long as you comply with debt service coverage ratio, then you distribute the cash as dividends. We will show the numbers gross, so all the cash that comes to Galp comes in the cash flow statement as a dividend income and capex will be gross, so the money goes back into projects for expansion.

On the P&L, what you see is the share of profits. It's an accounting number, share of profits, that goes under associates in the P&L. So, because we have very long term funding, the one we've just closed has an 18 year maturity, we do expect, depending on power prices of course, significant cash flow coming in over the next few quarters.

Jon Rigby - UBS

Okay, cool, that makes sense. Can I just ask a follow-up question? Just on Mozambique. It's really about the onshore project itself and not really about the delays or visibility around that. But just as a higher level, just as the world is starting to focus very much on Scope 1, Scope 2 emissions around new projects, there's a dilemma or paradox with LNG is that Scope 1 and Scope 2 can be actually quite high or very high, although Scope 3's full life cycle can be relatively competitive, and clearly there's some advantages in terms of clean air where you're using the gas, generate electricity, et cetera. Does that present a problem for you in the context of your plans around going to lower emissions, to net zero, in terms of being a participant in that project? Or is the plan ultimately to physically deal with the carbon that will be emitted as part of the process of liquefying the gas? Thank you.

Andy Brown, CEO

Thanks, Jon, and I'll be asking Thore to follow through. Clearly, our net zero position is 2050, a long way off. Gas, as you know, particularly in an Asian context, replaces coal. So that's positive, but we are very focused on what the Scope 1 and Scope 2 emissions of the LNG plant being designed are. So, Thore, do you want to explain some of the things we're looking at?

Thore E. Kristiansen, Production & Operations COO

Yeah, I'll do that. Thank you, Jon. So yes, actually one of the things that is being looked at as the product now is being revised and we are using this time in order to see how we can optimise it further. One of the things that we've also look into is how to reduce the CO_2 emissions from the plant and with that in particular mind, what you just mentioned, Jon. So that is one of the factors that is now being put on the drawing board. Thank you.

Giacomo Romeo – Jefferies

Good morning.. Thank you for taking my questions. I have two left on my list. First one is if you can talk a little bit more about the size of the Brazilian renewable opportunity and what sort of pipeline beyond the capacity that you announced. And the other question still on renewables is if you can give an update on how the search for the new COO role is going and when we expect to have an update on that.

Andy Brown, CEO

Okay, thank you for the question. Look, the Brazilian pipeline is a significant one. We've announced our participation in two projects of total 600 MW. But we are looking at a much bigger funnel of opportunities there, both in solar and some in wind as well. But no deals done yet, but we continue to look at how we can expand away from that position.

We have selected someone to be the new COO. We haven't gone public on who that is yet, but just to say that that process has gone well. I'm very excited about the individual that we will announce that will take that business to the next level.

Joshua Stone - Barclays

Thanks. Hi, good afternoon. Two questions, please. Firstly, just a clarification on the dividend again. You mentioned there's going to be some discretionary elements, but you have quantified the year to date number at

€400 m of what you're losing on these temporary derivatives. So, would you not be able to know exactly what the number is at year end and just add it back?

And then a comment on that. Why not change the structure to be linking your dividend to the operating cash flow, ex-working capital? You might create more simplicity in the structure.

And then the second question on the upstream production run rate. As you're going through the rest of the year, you mention the maintenance backlog is improving, but it looks like QoQ volumes are looking pretty flattish. Can you maybe just quantify how much are you losing in production due to this maintenance issue and therefore how much is there to play with when we go into next year and thinking about what might come back? Thank you.

Andy Brown, CEO

Thanks, Josh. I don't want to give any definitive guidance on how we will calculate the supplementary dividend. We believe it will be partial. We have permission from our Board to say that this will be considered, but no clear mandate on the magnitude of that. When we look at our mechanism, we use CFFO because normally managing working capital is quite a bit of hard work in terms of managing stocks and everything else. This is a distinct one-off that we really couldn't control.

But actually, it not only affects CFFO, it effects net debt. So both those parameters are affected by this one-off margin account build, but I'm not in a position today to give you a definitive calculation method for how that supplementary dividend will be calculated. We will have to see how the rest of the year plays out with the macro, what our OCF is, how strong the Company is at the end of the year, before we declare what that supplementary dividend will be.

I think I'll hand over to Thore to talk a little bit about what we've seen in terms of shut-in production and how much there is behind the pipe there. Thore.

Thore E. Kristiansen, Production & Operations COO

Thank you, Andy. Thank you, Josh. So, when it comes to maintenance, it’s a part of life. That's the natural part of the way we do the business so also going forward you have to expect that we will have periodic maintenance on the different units, in all of our operation. Typically, the chartered FPSOs have 10 to 15 days of maintenance every year. On the replicants we have a longer but more periodic maintenance. Typically that is 20 days, but then only every three years. It is done with more force and typically also connecting with flotels, so you have more people to contribute.

So, what I can say is that we expect going forward that maintenance will be more or less as we have guided before and have an impact in the production in the order of around 5 kboepd. That is the best guidance I can give you also going forward, Josh, on that. Thank you.

Joshua Stone - Barclays

Thank you. Have you seen how much the impact is this year so far versus the 5 kboepd?

Thore E. Kristiansen, Production & Operations COO

Josh, actually I don't actually have that number in front of me so I can’t answer that now. I can get IR to follow up with you. Thank you.

Mehdi Ennebati – Bank of America

Good afternoon, all. Thanks for taking my questions. Sorry if my questions have already been answered. I had some issues with the connection. But two questions on my side. First, regarding your gas sourcing issues. Can you tell us if you could get some compensation from your insurance, as it seems you are not receiving contracted natural gas from suppliers? Or maybe, explain me again why you can't get any compensation, please?

And given the natural gas price development should we expect a significantly higher negative impact in the 4Q21 compared to the 3Q21, just for us to avoid a big negative surprise please.

And the second question is more about Petrogal dividend paid to Sinopec. Since you didn't pay any dividend in 3Q21, should we then expect two dividends to be paid in the 4Q21? Or did you just decide to skip the 3Q21 dividend? Thank you.

Andy Brown, CEO

Thank you, Mehdi. Let me answer the first question. I'll ask Filipe to do the second and third.

Indeed, we are in intensive negotiations with our suppliers to try and mitigate any impacts. There are some penalties, but I have to say that they are a very small fraction of the difference between the spot price and the price we have actually secured for these volumes. So, that really doesn't compensate the difference. But indeed, it is a discussion we have, and we are obviously working really hard to make sure that there is no interruption, and we are able to supply our customers without missing a beat. So, I can't give you any numbers on how much we would recover from any lack of supply. I can say we are in active discussions with them to make sure that they do supply.

So, Filipe, second and third question.

Filipe Silva, CFO

Hi, Mehdi. Your question is on working capital in Q4 and how does TTF change that, if I understood correctly.

Mehdi Ennebati – Bank of America

No, the question was about Sinopec.

Filipe Silva, CFO

Okay. That one I got. So, on Sinopec, what we have agreed with Sinopec way back then is that free cash flows, after paying all capex, are distributed out 30%/70%. So, depending on the free cash flow this year and next, and the following years, the rule is quite straight forward. This year we're expecting a payment - so within fiscal year 2021 - say €120-150 m, depending on how the macro will do.

Next year, it's not necessarily payable in Q1, we'll look at what the cash flows for 2022 look like and 30% of the free cash flows will be distributed out some time during next year.

Mehdi Ennebati – Bank of America

Thank you. And about the 4Q21 payment to Sinopec? Should we expect it to get back to normal around €40 million?

Filipe Silva, CFO

Again, it is not necessarily payable in the first quarter. So, we paid the Galp shareholders in the second quarter and we discussed with Sinopec depending on what the cash flows are, capex commitments, the best timing of payment. So, we have quite a flexibility on timing of payments. Within 2022, it should be about 30% of the free cash flows.

Michele Della Vigna – Goldman Sachs

Thank you. It's Michele here. Two quick questions if I may. The first one, I just wanted to check that Coral FLNG, because it's offshore, would not be in anyway affected by the security concerns that are lingering in Mozambique.

And then secondly, I was wondering if you had a chance to start looking at your business through the lenses of the EU green taxonomy and if you have an early indication of what percentage of revenue and capex will be taxonomy compliant for you. Thank you.

Andy Brown, CEO

Thank you, Michele. So, on the Coral security issues. Largely this is well offshore and therefore we believe outside the current insecurity. Clearly shore bases exist, but in places where I think security is better guaranteed. So, at this stage we do not have any specific concerns around that, but we need to stay alert of course.

On the EU taxonomy, I think it's early days for us to make any clear indication the market about the proportion that would fall under that requirement. So, at this stage no update on the EU taxonomy. Thank you.

Jason Kenney – Santander

Hi, thanks. Going back to Brazil and maybe a couple of the earlier questions. Is the Brazil renewable asset base going to be consolidated or non-consolidated? Will you treat it differently from the Iberian renewable business? What kind of capex do you think is needed to build out the Brazil solar project by 2025?

And obviously, you're looking at asset rotation in renewables, and you've got this target of 12 GW by 2030. Am I right to assume c.50% of that would be net capacity for Galp in 2030?

Andy Brown, CEO

I think firstly, we will approach Brazil the way we are approaching Iberia. So, the c.1 GW we've essentially added to the original ACS deal and Brazil is that, in the first instance, we develop it. After the COD, when it's online, we will sell it down and de-consolidate it. That is our current modus operandi. Clearly, we will also finance these projects. That's the way we will go about those projects.

About the capex, renewable costs have gone up a little bit globally in the last six to nine months, but I won't give you any clear guidance. Anything between €500 and €700/kMW would be in the ballpark of how much it costs to develop these projects. We hope to get 65%/70% or more, in financing as well, so the equity contribution is far lower.

About asset rotation and the 12 GW. We talked about a dilution of 50% in our portfolio on the 12 GW position and we maintain that. I think this is all going to be based on opportunity, on being able to maintain the deconsolidation, and when we can rotate it. So, the timing of it would de-risk them significantly. We can sell it down to a strategic investor in order to leverage up our own returns.

So, I don't want to give any firm indications about when we're going to do it or how we're going to do it, but I think it's about a discipline that we want to install within the renewable business, and about how we make sure that we do get and have an opportunity to get double digit equity returns on our renewable investments.

Ignacio Domínguez – JB Capital

I have two questions. My first question is on refining and the positive evolution of refining cash costs. Can you comment on what has been driving this trend and where should we see refining cash costs going forward?

And then my second question is on renewables. I see you mentioned generation was impacted by a transformer upset. So, my question is when do you expect this issue to be diverted. Would you expect any compensation to this impact?

Andy Brown, CEO

Let me start with the transformer issue. Clearly this was part of the legacy in the JV we had with ACS. We've had 200 MW that have been out of capacity. We are on the verge putting 100 MW back online to compensate for that. Potentially a transformer that was allocated to a future project, we have retrofitted. Clearly at this time of year and going forward with lower solar radiation, that really helps mitigate, if not totally mitigate, the losses we may get in the fourth quarter. But we have new transformers arriving to be installed just in the early months of next year, to have us completely ready to go once the sun comes back in Iberia for Q2 onwards.

Now, when we come to refinery cash costs, we've talked about driving down to $1.7/boe. Clearly safety comes first, and costs come second as we continue to emphasise to our people on the ground. But Thore, do you want to talk a bit about the cash cost and what we might see in Q4, particularly with the work we need to do on the furnace?

Thore E. Kristiansen, Production & Operations COO

Yes, you're right. So, the overall ambition has been to drive down the cash cost and be in the area of slightly below $2/boe. However, as you know we have had an operational issue in the atmospheric distillation unit which we would need to repair, and the repair is actually ongoing as we speak. That will impact our cash costs for the fourth quarter and our current best estimate is that we will be spending between €10 m to €12 m on those repairs. That will translate into cash costs. I guess the best guidance I can give you today is that in 4Q you will see it around $3/boe as an indication for what the cash costs will be for the Q4.

We, however, believe that by this quarter we should be back into normal operation unless we are getting any surprises during this repair work. So, all work is completed during this quarter.

Raphael Dubois - Société Générale

I have two left. The first one is still about this working capital build-up. Assuming that the TTF price stays where it is now, can you give a feel for what the working capital build-up could look like in Q4?

And then I have another question about renewables. You talk about €60 m of pro-forma Ebitda. Can you tell us which utilisation rate are you assuming as well as solar capture price that you assume as well?

Filipe Silva, CFO

Raphaël, on the balance sheet on September 30, the calendar 2022 TTF was trading at about €57/MWh and it is currently at €54/MWh, I think. So, given what where we are today and where we stand, I would say it should get a bit better. But it is incredibly volatile, so it's very hard to call the shots on December 31st. This is a daily mark to mark number, it changes every day.

Andy Brown, CEO

Hi, Raphaël. Yeah, just on this renewable question. In Q3 we enjoyed about €110/MWh as a solar capture price. Clearly, our generation capacity comes down in Q4 as we get less sun. But we will have c.100 MW extra available online to enjoy whatever sun we do get in Q4. So, €28 m was the pro-forma Ebitda for the Q3 to give you an idea of the kind of run rate. Clearly, if we would have had the extra 20% that would have been somewhat higher, so that's the current position we're in.

Matt Lofting - JP Morgan

Hi, two questions if I could please. First, I just wanted to come back to the operational outlook in pre-salt Brazil and the earlier comments. Could you just share a sense of how the operational backdrop has evolved since the update you provided in the summer? Where the maintenance backlog sits today compared to the middle of the year and how long you expect it to be to work through before you get back to a normalised 5 kbpd plus/minus of annual maintenance effect that Thore referenced earlier.

And then secondly just on price realisations of the upstream, we've seen a wider average oil and gas realisation discount to headline Brent the last couple of quarters. I think you've highlighted softer pricing or more competition into Asia on the Brazil exports. How do you see the outlook there looking into 2022? Is it something you still expect to be temporary and ultimately revert or something that could become more of a medium term structural issue?

Andy Brown, CEO

I can start and I'll hand over to Thore to add on the Brazilian outlook. We did quite a full analysis of what we produced this year versus what we had hoped to produce this year and to try and understand what the key issues for the shortfall were. One of the biggest things that we found was how it takes a lot longer to hook up wells now whether they are new wells or they are workover activities that need to be done.

We had also mentioned this issue about the riser issues and tests we have been doing on the corrosion - the stress corrosion cracking and corrosion of risers - and Petrobras has done a lot of work on that and that has an impact on a couple of points on availability at the moment and for a short time to come.

And then there's the overall availability level of the various FPSO's that Thore was alluding to. And then lastly, there's the reservoir performance. What we found was the reservoir actually performed slightly better than we expected this year. So, I think there's some good news below the wellhead in terms of the reservoir itself. These compounded issues that we have above the wellhead that we are after working through.

Thore E. Kristiansen, Production & Operations COO

I think, on the maintenance, Andy have covered it well. It's actually, to sum it up, 50% of the shortfall we have seen this year is due to delays in well connections. And then there's another 20% that is related to delays and well workovers. That's really capturing the majority. It actually has been slightly positive what has happened on the issue of stress corrosion. The inspection that was done over the summer actually proved to be better than anticipated, so that meant that a few producers could be put back in operation before expectations. So, hopefully and crossing fingers that is now going forward and in a good way. The long term solution, however, will take some time and because that will require new materials to be qualified for that issue.

When it comes to the price realisation and the market, that is very much dependent on the situation in China. We have seen that the Chinese market has been somewhat more difficult in the 3Q. The discounts had to be a little larger in order to place the volumes. Let's see what the role of the independent refiners in China will be going forward. That has a direct impact on that market and the outlook. So, we will stay with the same guidance that we have given you but expect it to be for this quarter in the area for $8 - 10/bbl overall.

You have to factor in, which is very important and which Andy also said in his speech in the beginning, that our gas prices in Brazil for the associated gas is actually capped at $55/boe, so there's a limit to how much we can get on the gas side. However, that ends by the end of this year. From next year we will actually dispose and handle the natural gas – associated gas – ourselves in Brazil and that should allow us to capture higher margin on that.

Anish Kapadia – Palissy Advisors

We are seeing evidence of strong inflation and it could be quite persistent inflation in the market and I'm thinking about that both from the raw material side of things, but also the potential for higher inflation and higher interest rates going forward. So, I was just wondering if you could cover the impact of that in particular on the renewables business of those higher import costs coming through, but also from a financing perspective and a returns perspective of how you think that higher inflation and higher interest rates could potentially impact that business.

Andy Brown, CEO

I'll ask Filipe in a second to talk a bit about interest rates. I think one of the benefits of our JV that we secured with ACS was it locked in construction costs going forward. We've largely de-risked, particularly with the 2.9 GW that we have in that particular deal. But what's interesting about these higher costs, and perhaps the risk of higher interest rates, is you also see a bit of a slowdown in people building more capacity. And, as a result, that feeds into what we also see, particularly at the moment, pretty high solar capture prices. So, I think these things have their own balance to them. We have a pretty strong position in that we've de-risked the construction costs in our deal with ACS.

Filipe, do you want to talk a bit about the interest rates and how exposed we are to them?

Filipe Silva, CFO

Because we financed the projects, the banks ask us for a very significant proportion of the funding to be swapped fixed rates. So, we're fairly hedged on the funding costs. We're fairly hedged through the EPC contract we've signed with ACS. We are seeing unit capex prices going up. So, everything is becoming more expensive: Access to land, interconnection, equipment.

Actually, quite a number of auctions took place recently. A number of bidders were betting on declining capex numbers and they bid very aggressively so also to be seeing how many of those projects will actually get funding and get off the ground. So, we'll see less projects being built and more challenges for those that are not hedged.

Having said this, we're seeing a lot of inflation on the price of the electrons. Net this is not necessarily bad for the project in the short term. In the longer term, we will see, but Galp is mostly hedged.

Otelo Ruivo, Head of IR

I think this ends our session. Thank you for your time and for participating. We hope you found this update useful. As always, the Investor Relations team is available for any additional clarifications.

We will be on the road again from November onwards, so really hope to meet you in person soon. Have a great day and a productive earnings season.