Results' Presentation

Otelo Ruivo, Head of IR

Good morning to you all and welcome to Galp 2Q21 and 1H21 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 our operations, as well as cover the recent developments and the short-term outlook. Filipe will then take us through the quarterly and half year results. At the end, we will be happy to take your questions during the Q&A session, when Thore will join us as well. 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 estimates and actual results may differ due to factors included in the cautionary statement at the beginning of the presentation, which we advise you to read.

I will now hand over to Andy.

RECENT DEVELOPMENTS

Andy Brown, CEO

Thank you Otelo and good morning everyone. It's a pleasure to be able to present the 2Q21 results and the 1H21 for Galp. These are solid results with robust cash flows, and now with a refreshed leadership team.

Our 1H21 Adjusted operating cash flow (OCF) was €0.9 bn. We've seen a recovery in 2Q21 in our Brent prices but also in the Iberian market demand. But this business is not yet at its full potential. Covid-19 is still constraining us, both in our Brazilian operations with other maintenance issues, but also in Iberia with liquid demand still 25% below the equivalent 2Q19. But we have still delivered robust cash. We have been disciplined in our investment. And with the proceeds that we've received from GGND, we've delivered €0.7 bn of Free Cash Flow (FCF) in 1H21. This allowed us to decrease net debt in 1H21, at the same time improving our Ebitda meaning the net debt to Ebitda is now c.1x and this unlocks an opportunity with a sustained macro which should be able to deliver a variable component of dividend at the end of the year.

Our Upstream business has an implicit FCF of c.€0.5 bn, €736 m of OCF and €248 m of net capex. This is a business with a high cash margin and now relatively low capex which yields these strong FCF.

We also see, even with this modest capex, a business that will grow 25% to 2025. But operational performance could have been better. We've seen lower availabilities. We've seen a slower execution pace. And also an increase in the backlog of some of our maintenance activities. So, although we've seen a 3% increase QoQ (in WI Production), we still have ongoing maintenance, but also inspection activities and, as a result, we expect 2021 to be at the lower half of our range between 125 and 135 kboepd. But we are working hard with our partners to continue to optimise production, but we still maintain safe operations as the top priority.

That said, the growth funnel continues with Sépia not far off its date. With Coral making great progress to start up next year and Bacalhau starting well after its FID in June.

So, in summary, this is a business with a strong FCF. Despite the increased maintenance, we see these cash flows continuing for the coming years with further significant growth in 2025.

Moving to our Commercial business. As I said, we've seen recovery in the quarter, 20% up QoQ. And actually we expect 2H21 to be c.20% higher than 1H21. But in the 2Q21, our volumes are still 25% below what they were in 2Q19, 10% below in our B2C business and 30% below in our B2B business, with aviation being 65% below the run rate in 2019.

But this is not all just disappointment, we've been able to reposition this business and are starting to improve our non-fuel contributions, with 1H21 now 18% higher YoY in absolute terms. And we do see the return of aviation, we do see the return of bunkers and we do see growth in our gas and power clients. But also we see new opportunities in the EV charging space. We have about 700 charging units today and will increase this to 10,000 by 2025. So, despite the headwinds in this business, it has delivered €136 m of OCF, but only about €26 m capital expenditure YTD.

Moving to our Industrial & Energy Management business. We have seen for 1H21 a positive Ebitda contribution from refining. The margins in the 1H21 are c.$2.1/boe and in the 2Q21 $2.4/boe. Demand has been low and diesel cracks have suffered as a consequence. We've also had outages in our FCC that makes gasoline. This is now back up at full capacity, taking full benefit from somewhat higher margins already in July versus 2Q21, but we maintain our $2-3/boe guidance. We have included CO_2 price in our margin and not anymore in our Opex.

Our Energy Management business has had headwinds because of the LNG regasification costs. From 4Q21 we see an improving situation here as we've re-negotiated our access without the premium that we've suffered this YTD. Given the GGND sale, this business is showing very strong FCF.

Going forward with Fit for 55, we do see increasing CO_2 costs in this business, but at the same time we see a very favourable environment for our biofuels investment, particularly HVO, but also in green hydrogen. And today we're co-leading a consortium of 100 MW electrolyser, which has recently received a €30 m grant.

In our renewables business, in 2Q21 we saw higher radiation and very strong solar capture prices of c.€70/MWh. This allowed us, on a pro-forma OCF basis, to deliver about €19 m. But we also see strong growth with 200 MW still to be connected up this year, and another 100 MW in our funnel so that we have 4 GW of firm projects under development today. This is ahead of potential expansions that we may have outside Iberia and we've already put together a strong team for Latin America. So, this business grows from strength to strength with a very strong outlook.

In summary, Galp is delivering against its guidance, its FCF in 1H21 of €0.7 bn is 75% of the guidance for the year. It's actually 10% of our current market capitalisation.

We are maintaining our discipline, we spent c.€0.4 bn this year on capex, which is almost completely compensated by the proceeds from the GGND sale.

Going forward, we are going to maintain our guidance. This remains a volatile market but our net debt/Ebitda is now at 1x and with the current macro we see it coming below 1x through the rest of the year. Given our remuneration framework we laid out in our Capital Markets Day, we should see this coming below 1x which will allow us to pay a variable component. We can't promise this, we still have six months to go, but assuming a favourable macro, we should be able to deliver that variable component up to a maximum of base and variable of a third of our CFFO.

But in the first instance, we pay half of the base of €0.25/share in September. And then, depending on the macro, will calculate how much of that third of CFFO we would be able to contribute towards a variable component.

So, in summary, this is a distinctive investment opportunity, it has growth, growth and yield. Growth from existing businesses, an Upstream that will grow 25% to 2025. Growing our commercial sales in electricity and EVs. But also growing exciting new renewable businesses. Our renewable capacity will increase fourfold to 2025. At the same time, building hydrogen and biofuels businesses and through the agility of Galp able to offer 40% decarbonisation by 2030.

This is also a business with a competitive yield. Our base dividend is now 6% of our market capitalisation. On top of that would be any variable component that we'll be able to pay depending on macro and performance.

So to finalise, on Friday, we announced some management changes. I have now assembled a team that I believe has the capacity, the teamwork and agility to take Galp forward. This is a smaller team, tight knit. Galp aims to regenerate its future and to thrive through the energy transition.

We have in Thore, who will be now running our Production & Operations unit, someone with a broad base of Upstream and downstream experience that will be able to take that business into the future.

We are discussing with some exciting candidates with global experience, the opportunity to take our Renewables & New Businesses into the future.

We have in Teresa, a candidate that has both consulting but deep marketing and commercial experience that is joining the Executive Committee.

We have assembled a team that I am convinced can take us into the future. I have in Energy Management reporting to me now, a reinforced team that touches all of our business oil products, gas, LNG, renewable electricity, taking full value from that businesses.

So we have a new strategy, we have a refreshed team, we have a distinctive investment opportunity. It is now about delivery.

I'm going now to hand over to Filipe.

2Q21 AND 1H21 RESULTS

Filipe Silva, CFO

Thank you, Andy. Good morning guys.

I will start on slide 14. You see our Ebitda of €571 m, this is coming predominantly from Upstream, as you would expect, given the current macro and more so as the mobility restrictions were still impacting our Iberian businesses during Q2. The downstream segments are gradually recovering QoQ but of course not as quickly as Upstream.

Upstream production of 128 kboepd reflects the lower restrictions. The Ebitda growth to €467 m was really driven by rising Brent prices. Do bear in mind that what we produced but have not yet sold is booked at cost of production, not at market prices. So, in a fast-rising price environment, you only capture the Ebitda's full benefit of the higher Brent during the following period.

Commercial Ebitda was €73 m in the quarter, this reflects the higher demand in Iberia, even if we're still way below 2019 volumes, but it's picking up.

Industrial & Energy Management Ebitda was €50 m. Now, with Energy Management helped by derivative gains in Ebitda, some of our gas derivative hedges expire during Q2, so we needed to book the gains in Ebitda even if some are related to H2 deliveries to clients. This gain was about €30 m and should partially revert during the second half of this year. Having said this, the fundamentals of the gas trading business are improving, even if we are still paying until Q3 this year the premium prices for access to the Sines regasification terminal.

On refining, the Sines refining margin was $2.4 /boe and this was impacted by the operational constraints in the FCC which are now fully behind us.

As you know, renewables are not consolidated, the JV results are presented under associates, so the Ebitda that you see of -€6 m refers mostly to overheads and development costs related with our renewables and new businesses areas.

Now renewables pro-forma Ebitda, if our assets were consolidated in proportion to our equity stakes, was €17 m in Q2. This is a very strong number and it has benefited from the good capture prices during the quarter.

You also see that still in Ebitda under the "Others" line with €13 m negative, this includes €18 m in Brent price hedging costs which before we used to book under financial costs, so it's now in Ebitda.

Ebit was €305 m supported by the stronger operational performance and this already includes €50 m in impairments from exploration assets mostly in the Potiguar basin.

Associates are in line YoY considering the contribution from the international pipelines and the solar ventures. GGND, of course, is no longer a relevant contributor to the associate's line.

Financial results negative by €4 m only, this includes a positive FX effect as well as the re-classification to Ebitda of the Brent price hedging costs I just mentioned.

Our RCA net income was €140 m and IFRS net income was €71 m. IFRS net income was positively impacted by €68 m of inventory FX effect, this comes from the rising commodity prices, of course, and it was impacted by negative €137 m of special items and here it includes the discontinued Matosinhos operations and the market-to-market (MTM) swings on the gas derivatives to hedge client exposures.

On slide 15, just a reminder that we started last quarter to provide an adjusted operating cash flow indicator as a proxy of our clean CFFO performance and that is excluding volatile inventory effects, working capital variations and special items. OCF was €470 m in the quarter, a strong number considering the downstream is still picking up. You can see that Upstream continues to be a strong cash contributor with over €200 m in cash generated after covering all capex in the period. And old non-E&P units have delivered positive contribution, despite the macro. In total, €125 m from downstream and renewables pro-forma.

During the quarter, capex was €186 m with most of the investment directed to growth in Upstream projects such as Tupi-Iracema and Bacalhau and to our solar projects pipeline.

The quarter also collected the final €25 m from the GGND stake sale and it's captured here under the Industrial line.

Slide 16 shows our cash generation during the first half, so this removes a bit the QoQ differences. In the first half, €900 m of OCF, €800 m of CFFO and this considers a working capital build with a higher commodity prices.

Net capex close to 0 given the proceeds from GGND and €35 m related to the ongoing sale of FPSO P-71 to Petrobras.

With this, FCF was very strong at €746 m during the 1H21 which, after distributions, leads to net debt reduction of €354 m. Net debt to Ebitda at around 1x, which effectively has reached our target leverage ratio and will support our capital allocation framework. So that's all from me. I will now pass on to Q&A, thank you.

Questions & Answers Session

Mehdi Ennebati – Bank of America

Hi everyone, the line was pretty bad on my side so excuse me if I ask questions which have already been answered during the call.
I have just one question regarding the production. So, your production averaged roughly 127 kboepd in the 1H21. It seems that in the second half there might be some maintenance impact, a little bit higher than in the 1H21. However, we can see that the Covid-19 situation is improving in Brazil. So, in that kind of context, should we expect that the operator Petrobras might decide to ease a little bit the constraints on the FPSOs? Or do you think we're still at a very early stage of the Covid-19 situation improvement and it will take much more time for the situation to improve on the FPSOs? Thank you.

Thore E. Kristiansen, Production & Operations COO

Thank you for the question. You know, in our plans and in the way we are guiding you, we do not dare at this stage to factor in any positive offsets. I would like to see that that could happen, but in our guiding, we still try to continue with prudence. What we like is that we see that we are having more maintenance on the plan than what was originally expected. That's good for the longer term, it will hurt us a little bit in the shorter term but for the longevity of the assets, this is good. So, our encouragement to Petrobras is that we now are catching up with the backlog, doing the maintenance that is planned and that will have some impact on production in the 2H21, but going forward, this will be good for the life of the assets. Thank you.

Mehdi Ennebati – Bank of America

Thanks very much Thore, and I have a question now on the refining side please. With the closure of Matosinhos, you are lowering your jet fuel production, also your middle distillate production and it seems, according to me, that the Portuguese market will be much more balanced thanks to that. Should we expect, or did you noticed that you are now benefiting from an increasing premium on your petroleum products in Portugal due to a better-balanced market? Or no, because imports remain high from Iberia or from somewhere else?

Filipe Silva, CFO

Hi. Yes, so you know we exported close to 50% of what we were refining, so the premium is captured within the Sines refinery only. Also, a reminder that Matosinhos' main product was VGO which is now trading at, I think, $37/ton to $40/ton discount, so negative crack. So, in a way, Sines was the prime off taker of the Matosinhos VGO, it is now buying from the outside market at a hefty discount. So yes, it's a much more balanced market and the mix is a lot more attuned to what the domestic market requires.

Mehdi Ennebati – Bank of America

Alright, thank you. But you don't expect with the demand on petroleum products, which is now picking up, you don't expect any kind of positive impact on the local petroleum product market now that it is more balanced? Or do you think that most of it has already been taken into account?

Filipe Silva, CFO

No, every time we can place the molecules in the hinterland, we capture the imports parity difference. So yes, we will benefit from growing demands in Iberia, and in Portugal in particular. Where we are capturing a big premium is on Rbob, which you did not see much in 2Q21 because of the FCC constraints. This is now operating fully, and we are sending cargoes to the U.S. at a good premium. Thank you.

Alessandro Pozzi - Mediobanca

Hi there, good morning. I have two questions and the first one is on the discount of the realised price versus Brent, I think in this quarter was slightly wider. Can you give us maybe a bit more colour about what's going on? And also, what would you expect that to involve in the next few quarters? That's the first question.

And the second one, in order to better understand the potential variable payment, can give us any sense of the potential difference between the adjusted cash flow and the operating cash flow for 2021? I guess, probably working capital is one element of that. Thank you.

Thore E. Kristiansen, Production & Operations COO

Thank you, Alessandro. I'll take the first part regarding the discount to Brent. Yes, you are correct, we had a somewhat higher discount to Brent for the 2Q21, $8.9/boe in totality, when you combine both what we realise on oil and on gas. This has two main factors, one, we have seen some softness in the Chinese market that has been one of the primary destinations for our crude cargo, so the differential has therefore increased. And secondly, we have also an impact on the fact that since this is a combined realised price, that we are not able to fully capture the offset because the gas prices have a cap at $55/boe. That gives us a cap and that means that there is, in totality, a somewhat weaker price. Thank you.

Filipe Silva, CFO

Thank you Thore. Alessandro, if you look at the 1H21, OCF was €914 m, and CFFO was €817 m. Given the magnitude of the increase in prices over the last few months, we would expect going forward, if the current macro stays, that we want to see more consumption of working capital. So, the inventories are fully valued, and we have more money outstanding with our clients because the molecules are more expensive. Now, at current levels, this should be as high as it gets, the gap between OCF and CFFO. Thank you.

Alessandro Pozzi - Mediobanca

Okay, thank you and just going back on the discount. Should I expect a similar discount in the coming quarters?

Thore E. Kristiansen, Production & Operations COO

So, Alessandro, the way we see the market now, yes. I think you have to expect that it would be in that part. Somewhere above $8/boe as a discount.

Joshua Stone - Barclays

Thank you. Hi, good afternoon. Two questions please. Firstly, I hope you can be a bit more specific on the maintenance in Brazil. You mentioned the backlog. How large is the backlog or how much production will be offline this year because of that? And when do you think you'll be able to get through this backlog and be back to more normal conditions?

And the second question is on refining. You mentioned the impact of rising CO_2 costs or at least including that in the margin now so maybe just talk about what is that impact today and where could it get to if carbon prices continue to increase? Thank you.

Thore E. Kristiansen, Production & Operations COO

Thank you, Joshua. There is more maintenance in Brazil now and that is needed because actually, as we're speaking, we have 14 wells out of production, 11 of which are producers, the three others are injectors. So, this is important for us in order to keep off the issues, 50% of the wells that are out, are out due to the fact that we have an issue that is called stress corrosion due to CO_2. This is preventative maintenance, so we are taking them out just to inspect them to make sure that their full integrity is still being preserved. These inspections take some time, they are going quite well so far, but the wells are out of production. It would be speculating to say then what would be the production impact, because as you noticed, there's a balance there depending on also what sort of injection capacity you have versus what is the capacity also for gas injection. But I think it's safe to say that we are at least in the area around 10 kboepd that is out of the production due to this, thanks.

Andy Brown, CEO

If I can address the CO_2 Joshua.

Yes, at the moment we have high CO_2 prices. So, in the 2Q21 the effect is about $0.3/boe. You know, I think this has potential to go up to more like $0.5/boe. Clearly, we have, at the moment, 65% to 70% of our CO_2 covered by free allowances but with the "fit for 55", those allowances will decrease overtime. I mean, our challenge is obviously to put in the efficiency projects and the hydrogen projects in order to reduce our CO_2 footprint, but we can see the decrease of those allowances moving from 2026 towards a 2.5% decrease a year from the 1.6% we've seen. But this is already within our margin guidance. Thank you.

Sasikanth Chilukuru - Morgan Stanley

Hi, thanks for taking my questions, I have two please. The first was related to the dividend and the variable component for 2021. Can you provide more colour on how we should be thinking about the level of the variable component, assuming 2H21 CFFO is similar to the 1H21, the base level of €0.5/sh would go on to represent around 25% of the overall CFFO, so there is room for the variable component to be up to 8% of the CFFO. If this were to play out, what additional criteria would you be looking at before declaring the variable component? What would it take for this variable component to reach this 8% of CFFO?

The second question was related to the production cost in the Upstream segment. It seems like there's another dip in the cost to $1.2/boe from $1.8/boe in 1Q21 and $2.8/boe in 2Q20. Lower personnel expenses on the FPSOs had been highlighted as one of the key reasons for the decrease in 1Q21. I was just wondering what the reasons for this further increase in production costs. What's the guidance for the 2H21 and what would you highlight as the normalised cost of production for these FPSOs?

Andy Brown, CEO

Thank you for questions Sasi. I'll take the first one and I'll ask Thore to take the second.

About the variable component: it's just going to be a calculation. As I just said with net debt/Ebitda of 1x now, obviously, with the current macro in the 2H21, we will be generating operational cash flows similar to the ones that we had in 1H21. This should allow us to deleverage further. And then at the end of the year we will see what our net debt/Ebitda is and will make up with a variable component up to 1/3 of CFFO as long as there is space up to the 1x net debt/Ebitda level.

If we deleverage a lot and there is space, we pay the full 1/3 of CFFO being the variable plus the base. And obviously that's contingent on what that CFFO is but at the current CFO rate that then obviously delivers a substantial amount of variable component. This is not contingent on expectations of future macro or anything, this will just be a calculation at the end of the year that we will then approve through the AGM to distribute to the shareholders.

Thore E. Kristiansen, Production & Operations COO

And Sasikanth, to your question regarding our opex, the two key factors driving it down is: 1) less POB on board of the installations than what was expected due to restrictions that Covid-19 has caused. And 2) less the number of well interventions that we had in our plans. When it comes to guidance, you should expect it to be normalising between $2/boe to $3/boe. That is the sort of guidance of opex that you should expect, thanks.

Jon Rigby - UBS

Two questions if I can.

The first is, Andy can you just sort of revisit what took place on Friday with the changes in the Executive Committee and the drivers behind those changes? I mean, I'm struck by the fact that people have left their roles without you identifying replacements. So, what was the driver behind the timing and the reasons? You are obviously sort of six or eight weeks from a big strategy event which they all attended, so I'm just sort of struck by that and, in fact actually, in overall terms, the lack of context that we've seen with any of the changes at the executive level since your predecessor left in January. So, I wonder whether you could just talk a little bit more about that.

The second question is, I'm struck by the share price performance this year, which has been weak for any number of reasons, but you just talked about variable dividend component and that you thought more about whether actually using that variable element as a share buyback as opposed to a bonus dividend would make some sense at this point?

Thanks.

Andy Brown, CEO

Thank you, Jon and thanks for your question.

So, what's behind the leadership changes? Well, you know, if I go through this almost six months now, I inherited a team. They had their own strengths and weaknesses. If I looked at my task list, I had first; clarify the strategy, clarify the capital allocation, make sure we understand where we are going, what we're doing. We leveraged the whole sort of top 50 people in order to come up with that strategy, which we then presented at the Capital Markets Day.

Over this period of time, I've obviously observed the performance of the team as well as the individuals and for me, clearly, this is a challenging agenda we have with the energy transition. I need absolutely the best team to go forward. I talk about a team that has the right capacity, so strategic capacity, very much for us to work into that future. Teamwork, our ability to work together as a team across all our businesses, which integrate quite a lot in a number of areas. But also that agility, the ability to make decisions quickly and to make sure we take the opportunities that we need to take. And you know that has then driven, for me, what is a much tighter, much more aligned team.

Then the third thing on my task list is just execute. It's then to get after this business with the team that I have absolute confidence in their ability to do it. Now you say, well, you haven't got a full team yet, you've got a blank box here. Well, I have to say what I wanted to do is be clear about that team, the ones that I have already in the Company I want to take forward. But I'm not going to wait for a long time as we recruit the very best person to run our renewables business, to wait for that moment before I announce the changes. This does come with not only a change of strategy, but a change in the way we lead in Galp. So this is a big change for the Company. I now have the leadership team I believe, or the Executive Committee I believe that can take that forward. And I have to say, the people that we discussed today, with also the COO that I'm going to put in that sixth slot, I think will have a real capability to build a global world scale, profitable renewable business.

So, you know it's exciting for me. I now actually look around the table and I have absolute confidence that the people around me will be able to deliver this this challenging strategy.

On your second point, Jon, we've had a lot of discussions with a lot of shareholders since Capital Markets Day and this issue of buybacks vs cash dividends has come up. I have to say that the jury is split on this, some liking cash, some preferring us to use the buybacks. We will continue to study this. We will continue to consider whether a buyback vs cash dividend is the best way to reward shareholders on the variable components and we will continue to talk to all of our shareholders about that. At the moment, it's cash dividends, but we will continue to review the option of using buybacks.

You are right, the share price has gone down more than I would have hoped, but that's where we are today. But I think, and I hope, that people recognise we've got a really differentiated investment case here, and I think we've got to make sure that we get our message out clearly, and we now have the team that can execute and deliver what we say we are going to do.

Thanks Jon.

Biraj Borkhataria - RBC

Hi there, thanks for taking the question. I've got a couple of quick ones. The first one is just on taxes. As I'm thinking about the 2H21, do you expect any meaningful differences between cash taxes and P&L?

And the second question is something you mentioned about underlift, are you able to quantify the underlift position as of the 2Q21? Thank you.

Filipe Silva, CFO

Hi Biraj.

If you look at H1, and not 1Q and 2Q this year, H1 gives you a good view of what the P&L tax looks like in an environment where it's really all about Upstream. So, we have some bit over 60% taxation. We do expect as Downstream and Refining and Commercial starts to contribute much more meaningfully as we get into Q3/Q4, so we should expect to see the P&L tax rate close to 50%. On a cash basis, and if you look at the cash flow statement you see the numbers are below that.

On the underlift position, hence my comment you don't seen in the Upstream Ebitda all the benefit of the rising Brent prices. So far we had one full cargo priced at cost of production which was $40/bbl when Brent was in the c.$70/bbl. So if you take say 1 mbbl x $30/bbl difference, you've c.$30 m that will be recognised during Q3. Thank you.

Matt Lofting - JP Morgan

Great thanks gents for taking the questions, two quick ones please.

First, Andy, I sort noticed during the call that you referenced several times that the focus and the importance around execution from here. When we sort of take stock opposed to CMD and maybe taking a time horizon to year end, could you be a bit more specific around what you see as the key issues and key deliverables for the rest of the year?

And then secondly, just following up on this or the previous comments and questions around the renewed executive management structure, one of the things that struck me was the consolidation of the Industrial units alongside Upstream under Thore. Could you expand on how that signals an intent, or a shift around the day to day running of Galp's businesses and, mindful that the Upstream is largely non-operated today, to what extent that could generate synergistic benefits? Thanks.

Andy Brown, CEO

Thanks Matt, thanks for those questions.

Firstly about execution, and I largely talk about execution around the strategy, but I also want to talk about execution on a day to day basis. In Q2, I know it's a non-operated position but we're still seeing some softness in our production numbers. You know, I think we need to stay on top of our partners to make sure that we are getting the production that we need. We've had problems with our FCC, we need to make sure that all our units are firing and going forward.

So there's something in my mind still about delivery that we need to get deep in the organisation and for me it's also about performance management, it's also about understanding where we are today as a business, what is the best business in our industry, or even outside our industry, and what's our gap? What is our gap that we can close if we get the right culture through the organisation? This comes with everything, from how we performance manage; how do we reward people; how do we motivate people? So, this is a very deep delivery and execution strategy that we're going to go into today. You know, an absolutely crucial part of this is that we get a team around us that have that focus and we create that context going forward. So, it's about operational delivery, but it's also about performance management.

When I touch then on why did you bring Upstream and Industrial together? If I think about the business, if I think about what I have as a business challenge in Galp? I think very clearly of three things we've got to be really good at. We've got to be good at managing oil and gas operations, investments in big projects, so project management and operational excellence. You know, what you get in a refinery in terms of the equipment and the pumps and compressors and the bad actors and the cost per barrel operating performance is not so dissimilar from managing an FPSO with the units you have on top of that. That's the first most important thing to do, manage operations, manage our projects, getting the most for the capital we put into those things.

Secondly is, how do we manage our sales to our businesses, to our customers? How do we give that whole ability to sell at a premium our products into the market? And how do we think about how we cross sell? How we digitalise? How exercise that interface and delight our customers? A completely different mind-set from the oil and gas operations.

And then thirdly, how do I build a new zero CO_2 business? A renewable business. A business that is global, growing, focused on renewable energy, looking also things at battery value chain, but a completely, entirely new business, with different ways of thinking about how you maximise value. And that's the third big area of our business and those are the three big businesses. And I have in Thore someone who has actually some downstream experience before and some marketing and trading experience, able in my mind to look at that whole base of Upstream and that Industrial business and optimising that, getting the lowest cost delivery, but also strategically placing that industrial business and the green energy part going forward. So, this is very much in my mind about what is a key skill set that will unlock superior performance.

And also, I know Thore is a great safety leader, so making sure in the way we manage our assets we're keeping people safe day in day out. So that's the fundamental thinking behind the new structure and why we've been given these additional challenges to take on.

Raphael Dubois - Société Générale

Hello, thank you very much for taking my question.

I have only one left, it's about the renewables business and solar generation sales price that you could obtain in Q2. As much as it must be enjoyable to see such an increase in your earnings generation, I'm a bit surprised that you could obtain such a nice increase and I would have expected that you would transact in this division in a way that you would be immune from such volatility. So, could you please remind us of the weight of your PPA contracts and how much volatility should we expect from this division going forward? For the moment it does not matter too much because it's still quite a small division, but as you deploy further GW, it will obviously have an impact on your overall earnings. It would be great if you could give us more visibility on how variable this sales price could get with your contract.

Thank you.

Andy Brown, CEO

Thank you Raphael.

So yes, indeed. If I just talk about the portfolio we have today. This a legacy portfolio that actually enjoys a floor in the Spanish market that gives us a base return on the downside, but is completely exposed to the upside. So, this is something we really like. So, protected on the downside but exposed to the merchant market on the upside. So that clearly is the position we're in today. So that's why we can enjoy the increase.

Going forward, we're not going to enjoy that. So going forward, we are going to have to consider how we are managing the balance between merchant market and PPAs because obviously in time as we grow that portfolio, we're going to have to consider how much we risk cover and what's our view on that market. Clearly, as we go overseas, we're probably going to be, because we will be exposed to some other risks, we'll probably be more wanting to go to more PPAs. So, this is a balance of securing a base of return, but also enjoying some of the upside. I don't know if Filipe, you want to add anything more to that?

Filipe Silva, CFO

Raphael, what you see in Iberia, as we speak is quite a number of, I would say, almost a distressed situation. People that have projects, they're trying to build, trying to get finance, trying to get PPAs, at very distressed prices. So, it's not at levels that we would want to lock in our margins for 100% of our production for the next 10 or 15 years.

At Galp and in Iberia, we have an integrated model so we can manage some of those risks. Outside Iberia, yes, I know we will want to protect, at inception or very close to inception, a lot of the volatility.

Thank you.

Jorge Guimarães - JB Capital

Good morning, I have two questions. The first one is related with renewables. I have a feeling that the installation of the portfolio is running behind schedule. If I'm not mistaken, you should be close to 1.9 GW by the end of 2021 and will be at 1.1 GW. So, in your view, what was the main reason behind this delay in installation, which given the current environment is costing some opportunity costs but anyway, what is the main reason for the delay? Can the issues be tackled? This would be the first one.

The second one is: is it possible to provide us with an estimate for the full closure cost of the Matosinhos refinery? And if so, how much of that is already provisioned and how much is not? What do you plan to do with the terrains where the refinery is located? Thank you very much.

Andy Brown, CEO

Thank you, Jorge. So on the renewables, yes, we are seeing some delays. Those delays are actually quite predictable, they're Covid-19 related, they're supply chain related. There are also licencing issues that we have some delays. This is really just a timing issue. We don't believe this leads to any reduction in the volume going forward. But in our deal with ACS, because we're actually only paying at milestones as things come online, it doesn't mean we've sort of paid money up front and are not enjoying the benefits. The capital injections go backwards as well as when the projects go backwards with those sort of supply chain and licencing delays. So, it's obviously a little bit disappointing that we're seeing some delays, but it doesn't actually affect the economics of what we've been doing.

I think I will ask Filipe to talk about Matosinhos. Matosinhos obviously is a difficult closure for us. We have completely closed down operations apart from cogeneration. We're engaging with the local authorities there and talking about what we can do with the future for that great bit of real estate in the heart of a really vibrant city. Clearly, we're going to have our logistics park and we have a lubricants blending plant there as well, so we have a number of activities. But we were working quite closely with the authorities on what we can do there, but I think Filipe has some of the numbers on provisioning that he can give you an update on.

Filipe Silva, CFO

Hi Jorge, so the provisioning when we announced was close to €200 m. This includes decontamination, it includes the decommissioning process, so we have, of course, come through the difficult discussions with people and their redundancy packages, so that is part of that. We have not considered any value of the land because that is open for discussion. What will be used and for what purpose? This may still take a while to figure out, but we have no changes. The activity is going well, it is a delicate exercise to decommission a refinery, so safety is paramount and it's all going according to plan. Thank you.

Pedro Alves – Caixabank

Hi everyone, just a final one. Not sure, probably it's not easy for you to understand right now, but whether or not if you could comment, or at least give any additional colour on your side, on the news that the Portuguese Government is proposing to introduce a cap on fuel retail margin. Thank you.

Andy Brown, CEO

Thank you, Pedro. Yes, it's an interesting moment to be in Portugal. Clearly, for us, we don't know what this legislation is going to look like, we're waiting to see the proposal. They talk about a potential for short term interventions in extreme margin cases. So, we're going to have to see if that actually impacts us.

I guess if we look at the ENSE report, I think we've been disappointed that there were actually a lot of errors in how they calculate their margin. We would actually argue that about 80% of that margin increase, they talk about, is actually errors in their calculations. So, to be honest, we haven't been very vocal on this, but that is really disappointing.

Just to give you a sense, if you look at the price at the pump today in Portugal, 12% goes on that whole distribution costs. That's 700 fuel stations to manage, 900 direct staff, 2,500 individuals indirect, also working with our partners. So, an enormous number of people but it kind of hasn't been addressed anywhere. And if I look at that business, so I look at that Commercial business, it's only generating about 7% of our total Ebitda in in 2Q21. If I look at refining 1% of Ebitda in 2Q21, so 8% in total and 40% of our employees in Galp. So, this idea that somehow this is where we make all our money, we have to get this news into the public in Portugal, because it's really sad. We have 60% tax, one of the top five highest tax payers in Europe, and, you know, I think we are barking at the wrong tree here and I just want to make sure that everyone on the call knows that we will make sure that our position is made very clear to the Portuguese Government. Any type of regulation is very negative for any kind of country and we're really keen to get the truth out there so people can make up their own minds.

So, thank you for your question Pedro.

Otelo Ruivo, Head of IR

Thank you. So, this ends our Q&A session, we hope it was a helpful one for you. In case you may have some follow ups, the Investor Relations teams will be here for you as always, so reach out if that's the case.

Thank you for participating. I wish you a good break during the summer.