Video Presentation

Strategy and Business Overview

Andy Brown, CEO

Welcome to the Galp Q2 results call. Overall, this quarter we saw a favorable macro, although challenging in some business segments. We achieved robust operational performance leading to strong results.

The macro remains extremely volatile, with Q2 seeing rising oil prices, elevated gas prices and oil product cracks. These are unprecedented market conditions. And Galp's asset base is well positioned to capture this strong macro: Upstream production was softer, as anticipated, although we still saw very strong financial result. Equally in Refining, there we achieved high utilisation rate. Commercial oil volumes are still also recovering from the pandemic but still below 2019 levels. We also enjoyed increased capacity, higher generation and strong solar capture prices in renewables.

This strong operational performance in the second quarter led to strong RCA Ebitda surpassing €1.2 bn and OCF close to €1 bn. The working capital reflected a natural build from the increased commodity price environment. Still, we started to release some of the temporary working capital related with derivative hedges. In Q2 we already released c.€200 m and we should release the remaining c.€630 m by YE.

Despite the working capital build, our FCF reached almost half a billion euros allowing for a clear deleveraging trajectory. I note that OCF minus Capex was over €700 mn. And ultimately, net debt at the end of the Q was at €2.2 bn, with net debt to Ebitda already well below 1x at 0.7.

I will now quickly run through the performance of our different divisions:

In Upstream, production was lower than previous quarters given increased concentration of maintenance. Unlike the first quarter, there were many shutdowns in Q2, mostly planned. However, the offshore situation is improving (logistics & POB), but still, there's a lot of work to do. We expect this to be the weakest quarter in production terms this year and we keep our guidance unchanged with production in line with last year.

More importantly, there were increased realisations, both in oil and gas. Upstream Ebitda almost doubled to €878 m. Of course, there was also double the taxes paid in Brazil and Angola, as you can see in our OCF numbers.

We also made good progress on our projects. Coral Sul FLNG remains on time and on budget! An excellent performance! And the operator has already connected the first gas wells to the processing units, with the first commercial cargo expected in the Q4. In São Tome and Principe, we are finalising the Jaca well operations. The well was safely drilled, and we are now analysing the data. In Bacalhau, together with partners, we also making steady progress, adding an additional drilling rig

Looking forward, there are still exciting options with our upstream portfolio. We are progressing Namibia, now planning an exploration well for next year or 2024.

In Commercial, we saw a gradual demand recovery, now also in B2B activities, where aviation and bunkers demand is increasing towards pre-covid levels.

The Retail segment recovery remains understandable under pressure and Galp has rolled out discount campaigns to mitigate the impact on prices to our loyalty customers. We recently increased these discounts in our summer campaign. I am also happy to see the transformation of this legacy business starting to really show results. Contribution to Ebitda from convenience retail increased 25% YoY. All in all, Commercial Ebitda was up by 33%. Looking forward, Q3 is the summer driving season so should be supportive on volumes.

Galp is actively developing decarbonization solutions for our clients and we just announced the first delivery of sustainable aviation fuels in Portugal to TAP. Focusing on mobility solutions, we have been increasing the pace of our EV charging network deployment. End Q2 we had 1.5k charging points, on track to our target of 2k by end 2022.

Galp's industrial performance is improving, both in terms of safety and reliability as we continue to implement a very strong safety culture.

European refining margins rose significantly as demand continues to recover, whilst EU sanctions on Russian products combined with limited refining capacity puts pressure on prices. We saw record-high diesel cracks. Our Refining system was fully available, performing at maximum capacity to capture the favourable environment and to keep the markets well supplied. We managed to secure access to VGO supply alternatives. As since the end of March, no VGO has been imported from Russia.

The strong refining contribution in the quarter was offset by yet another negative impact from the time lag in the oil supply pricing formulas. In periods of steep variations in commodities prices, customer prices structurally lag the assumed input costs. Also, our Energy Management team continues to deal with persistent restrictions from gas sourcing leading to weak gas trading contributions. And this Q we had to buy LNG at spot prices, which translated into a negative Ebitda margin.

Looking into the rest of the year, we are expecting products' cracks to remain quite high at least for the summer. This should continue to support refining margins. We also expect to perform some planned maintenance activities in Sines during Q4. However, we maintain the 90 mboe guidance for raw materials processed during the year.

On our industrial low carbon projects, namely the HVO project in Sines we made good progress particularly on developing partnerships to address our feedstock sourcing strategy. We also qualified for the EU Recovery and resilience fund support for our HVO and Hydrogen projects, which is still subject to negotiation with Government.

We achieved strong renewables performance in the quarter, benefiting from additional capacity, seasonality and high availabilities with all PV plants now fully operational. We currently have 1.2 GW under operation, all sold under merchant conditions, capturing the current market price environment.

In the quarter there were also good developments on our Aurora JV with Northvolt, and after selecting Setúbal for our Lithium conversion plant, we have qualified, now with others in the value chain, for the Portuguese recovery and resilience plan funding. Important step for this project, a relevant one for Portugal and completely aligned with the electrification ambitions in Europe.

Looking ahead we are progressing rapidly to de-risk our portfolio and get our projects into a Ready-to-Build stage. In fact, we believe we can have more than 800 MW reaching that stage of maturity still in 2022. However, securing licensing and development permits continues to be our main bottleneck. By the end of this year, we estimate that we'll have 1.4 GW operational capacity online.

Today we are pleased to announce that we have acquired the remaining 25% stake in Titan, the solar PV joint venture initially established with the ACS group. Titan holds our entire solar PV projects under operation, almost 1.2 GW. And a large pipeline of projects under development, now c. 1.6 GW, all in Spain.

The acquisition terms were compelling, but more importantly, assuming full ownership of these assets will allow us to unlock more value, including new financing, risk management and accretive moves such as hybridisation. Cobra will remain as the main EPC provider, with adjusted execution terms to align with market conditions. Galp's total pipeline is maintained, with a robust position to achieve more than 4 GW operating capacity by 2025.

In summary, we are making good progress to deliver on our investment proposition! Galp is well placed to deliver strong growth from well-established businesses as well as on the low carbon front.

We have a robust financial position, which should see increased distributions, in line with the current distributions framework. Filipe will go through the details of our outlook shortly, but I see Galp at year end generating close to €3 bn OCF and therefore 2022 distributions will be close to €1 bn. Until then, we are delivering on our €150 m buyback programme related with 2021 and expect to pay €0.26/sh in September corresponding to half of the 2022 cash dividend.

I will now pass the floor to Filipe, who will cover the financials of this Q and the updated outlook.

Thank you very much.

Financial Overview

Filipe Silva, CFO

Thank you, Andy, thanks for watching everybody.

Financial highlights. Group Ebitda was strong, over €1.2 bn, with all businesses contributing. And because we report in Euros, we also had US dollars tailwinds.

We had an Upstream Ebitda of €878m was up 9% from last quarter, and that despite the lower production. OCF was close to 600m, given all the taxes we pay in the countries where we generate those good results.

On Commercial, Ebitda was €97 m. This was supported by the gradual post covid recovery in oil volumes, and particularly in B2B, with aviation, marine bunkers, picking up very nicely.

Industrial & Energy Management Ebitda was €283 m, with our industrial assets working flat out to capture the very strong refining environment. But we had another c.€50 m or so in price lag effects in our oil supply business, so we are not passing on to clients the rising commodity prices as quickly as our own input costs. We also continue to have gas sourcing restrictions, so we had to tap the spot market to purchase more expensive gas during this quarter. This was a €65 m hit in Q2.

On Renewables, we are not consolidating here, so we focus on the pro-forma indicators. Ebitda was €62 m, in the Q, with higher generation capacity online and higher irradiation given seasonality. Now with the recent acquisition of the remaining stake in Titan, 100% of this business will now start to flow through our consolidated P&L and cash flows.

On the P&L, we have within Ebit, impairments of some €85 m and this is related with an exploration asset in Brazil. Associates' contribution includes the strong performance from Titan solar.

Financial Results include some €330 m in market-to-market swings on our still outstanding brent and refining hedges. Now from that we have about €130 m related with Q1 which had been booked as special items. For clarity, we book as special items only the mark to market of derivatives which we entered to cover client positions. All this leads to a RCA Net Income of €265 m.

Operating Cash Flow was strong at €964 m. Now this is the metric we focus on, as it reflects the underlying fundamentals of our business, and OCF is also a key parameter for our distribution's framework.

During Q2 we had a large working capital build, this is because of the commodity price environment. However, this was partially offset by the roll-off of our hedged gas exposures, so we had about €200 m have now come back to Galp. The balance of the still open positions as of June 30 was €630 m in margin accounts and this should gradually be recovered fully until year-end.

Net capex was €244 m, in cash terms, this compares with €224 m economic capex which you will find in our report as well. The difference between the two are timing between billings and the actual payments.

FCF was €488 m, which after dividends and buybacks allowed for a reduction in our net debt of about €200 m in the quarter. So Net debt to Ebitda is at 0.7x, even with €630 m tied up in the margin accounts.

Now we have adjusted our full year guidance, now expecting group Ebitda of around €4 bn. This assumes Brent of $90/b during Q3 and Q4, and we keep our production guidance unchanged. Bear in mind that around 3.2 mbbl of our Upstream production for the rest of the year is hedged at c.$80/bbl.

Refining margins have already come down during July and here we also have we about 11 mbbl of our throughput hedged at around $8-9/bbl for the remainder of 2022.

On Renewables, we will start consolidating fully the Renewables business from now onwards, and this should add some €60 m to our group Ebitda related to the 2H of the year.

And overall for the group, OCF guidance is €2.9 bn. Capex remains unchanged at about €1.0 bn, even considering the Titan 25% acquisition.

Net Debt to Ebitda should remain well under 1x, already considering the onboarding of Titan's net debt of about €220 m. Given our 1/3 of OCF distributions framework, this should imply over €500 m in buybacks next year.

Thank you.

Q&A session

Q&A Introduction

Otelo Ruivo, Head of IR

Hello everyone. And welcome to the Analyst Q&A session related to Galp's second quarter and first half 2022 results. Thank you for joining us today.

Earlier this morning, we released all the results materials, and included a video presentation from Andy and Filipe, highlighting the key achievements during the quarter and covering the financial results. As such, this session should be shorter, as we will go straight to Q&A.

Together with Andy, we have Filipe, Teresa, Georgios, and Thore, so the full Executive Team, here available to take your questions.

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

Andy, do you want to say a few words before we start the Q&A?

Andy Brown, CEO

Thank you, Otelo. I just want to reiterate some of our messages. We were pleased with results we presented earlier today. Cash generation, close to €0.5 bn of free cash flow despite the working capital build. This was supported by strong performance on all business segments. As a result, today, Galp is in an even more robust position with our leverage now down well below one Net debt to Ebitda, giving us additional financial strength to execute our strategy. And with our distribution framework, we should be able to offer 2022 dividends of a third of our operating cash flow. And operating cash flow is now expected to be close to €3 bn.

As I also alluded to in my video presentation, we made really good progress on the execution of our key projects that underpin our portfolio reshape. So, exciting times for Galp. And we're all here ready to take your questions. Thank you very much.

Questions & Answers Session

Biraj Borkhataria - RBC

So, two questions. The first one is on the low carbon portfolio. So, following the Titan deal, if we think about 2023, how much Capex is moving from deconsolidated to being consolidated? I'm just trying to understand the moving parts versus the prior plan.

And then the second question is on shareholder returns. You guide to the one-third payout, €500 m of buybacks, obviously in 2022. How are you thinking about second half of this year given where the share price is and the visibility you have on volumes and, I guess, commodities prices. So, to some extent you may want to look to accelerate that? So, how should we think about the balance of the second half of this year, and into next year? Thank you.

Andy Brown, CEO

Thanks, Biraj. Look, firstly, I think we've given some guidance on where we see the commodity prices for the remainder of this year; around $90, $15/boe refinery margin, that gives us close to €3 bn of OCF. We have no additional guidance at this moment on how we will distribute the 2022 dividend, but I think we're pretty clear that it will be a third of OCF.

Now, on the Titan deal, clearly this was an opportunity to take control of this portfolio. The reason we take control isn't, per se, to consolidate it, but to create some more flexibility, going forward, to unlock more value. But perhaps I can hand over to Filipe to give some guidance on how this may affect Capex going forward. Early days for us to actually announce anything particularly, but Filipe, how do we see the numbers?

Filipe Silva, CFO

So, in the real world, the assets are generating and producing as before, so Galp now has increased the exposure from 75% to 100%. That's really what has happened.

From an accounting point of view, before, when it was deconsolidated, we would put in our equity into the project, our partner would put in its 25% share.

We have project finance in some of the underlining assets. So, the plan is that we keep 100% of the top company that we now fully control. The underlining assets have project finance, and what you had in our cash flow statements before was whatever money would come to Galp after the assets would service their debt. So, it was a relatively small amount.

So, you will now see the full cash flow coming to us. You will also see more Capex going out, and also the project finance debt that we have now brought onboard to Galp. So, net-net, we're bringing a lot of visibility of this business into our consolidated statements, and so the market will have a much better view of the true cash flow generation without the project finance associated movements.

Biraj Borkhataria - RBC

Are you able to quantify the Capex that is being consolidated for 2023?

Filipe Silva, CFO

So, if you look at our long-term plan assumption, what we have disclosed earlier this year. We're growing the portfolio 300 to 400 MW per year. If you put in - assume a round number - €700k to €800k per MW, it's giving you €300 m to €400 m of gross Capex before asset rotations, and also you'll see that as a Capex number.

Andy Brown, CEO

I mean, obviously, this is a great portfolio, it's exposed to the merchant market, generated €200 m in the last 12 months in Titan. And you may ask, well, why do we do this? And I might ask Georgios to just say a few words about what's the flexibility that we will bring by taking full control of this asset base.

Georgios Papadimitriou, COO Renewables & New Business

I think that was perhaps also the pre-empt question. So, Biraj, that was the opportunity to do a comprehensive deal to get control of the assets and be able to have execution of the portfolio in our own, let's say, hands. We had the opportunity to get this deal in the comprehensive way, exchanging also certain things that we had to sort out with Cobra. Cobra is not a natural owner of this 25%. Cobra wanted to focus more on the development and on the execution of the portfolio. We had agreed EPC prices at different times, so that was an opportunity also to update EPC prices to a more current context.

We also had the opportunity to change the engineering of those projects, to change the scope of the EPC agreement so that we have higher yields. And that, with getting the 25% on our hands, gives us the opportunity to be able to market the energy ourselves, to consider other value pools in the future from energy management, but also eventual asset rotation. So, all in all, it's a deal that gives us more control and more optionality for the future.

Oswald Clint – Bernstein

Could I ask about Bacalhau North, please? Good to see the rig secured. So, that's still a 2023 drilling, I think, to appraise Bacalhau North, if you could confirm that. But I just wanted to get your broader thoughts around Bacalhau North. At this point, do you think it could be a standalone development or still be very much a resource for the first FPSO? And, I mean, perhaps more broadly, just what's the latest on the Tupi redevelopment plan, please? That's the first question.

And then, I mean, the second question just a little bit further on renewables, please. The comments around continual licensing and permitting delays, I thought in the context of Russia gas, that Europe and Portugal were going to speed up some of these approvals. So, if that's the case, does it make you lean more towards the acquisition side of the renewable portfolio, especially given your financial strength? Would you look to do more such acquisitions here? Thank you.

Andy Brown, CEO

So, can I ask Thore to talk about Bacalhau North and an update on the PoD for Tupi?

Thore E. Kristiansen, COO Production & Operations

So, when it comes to the latest rig that we're taking in for Bacalhau, it actually has two purposes. One is, exactly as you were alluding to, that we are going to use that rig to drill the ADR well in the north, in order to better understand what is really the potential for Bacalhau North.

Of course, the outcome of this well will very much determine what will then be the way forward. Is it going to be a tied-back or is it going to be a standalone? So, that has not been decided at this stage. But the latest rig we took in has also a second purpose. Namely, having additional drilling capacity to make sure that Bacalhau Phase 1 has all the available production capacity when it comes on stream, so that we get a swift ramp-up.

When it comes to Tupi and the second phase and the new PoD, it is moving ahead according to plan. We are just now starting to drill the first infill wells for the project. Then we are in active dialogue with ANP with respect to approvals of the new PoD that has been handed in. And that is a dialogue that goes back and forth between the partnership and ANP.

Andy Brown, CEO

On renewables, on the licensing delays. I think, clearly, the European Union has set out an ambition to accelerate these permittings. And what happens now is that the different countries are putting in legislation to kind of underpin that and to create the environment where they can accelerate those approvals.

Portugal has recently put a package through. And so, I think for us, the jury is out a little bit about how effective these are. Does that change our strategy from going from a kind of organic growth to one that's inorganic? No, I don't think you can draw that conclusion. But I think we will continue to make the point that there is more money pointed towards renewables growth in Europe than there is the capacity for the governments to give the permits to actually pursue them.

And if REPower Europe is going to become a reality, we are going to have to accelerate permitting, not only just for electricity, but also for other value streams, like hydrogen. And so, this is a really important point. That we want to work very closely with government to make sure that all the money we want to spend in renewables can actually find a home.

Mehdi Ennebati – Bank of America

The first question, on the maintenance schedule in Brazil, so, can you please remind us how many maintenances you have realised on FPSOs in Brazil in the first half of this year? And how many maintenances are scheduled during the second half of this year? Because it seems that this year, the first half was pretty heavy in terms of maintenance. So, should we expect let's say a little bit less maintenance in the second half?

And maybe can you also tell us more about the current production level of the FPSOs which were on maintenance in the first half? Would you say that production is back to 2019 levels, or would you say that the depletion started having an impact, and it is almost impossible for you or too challenging for you to come back to 2019 production on those FPSOs which were on maintenance in the first half of 2022?

And the second question is about your gas business. This quarter again you have highlighted that you have met some gas sourcing issues. From what I understood last year, or let's say in February, you were highlighting that you took some measures to significantly limit those gas sourcing issues, but we can still see this quarter quite a significant impact.

So, would you say that you have been surprised by – or you were thinking that it will be much easier you to find some natural gas or, let's say, lower the purchase on the spot market? Was this purchase a negative surprise, or would you say that it is in line with what you've scheduled? Or unfortunately you have been surprised by the price of the natural gas?

In fact, the real question behind that is, is there a very significant risk for you this winter in case there are some difficulties of gas supply in Europe? Should we expect that division, that business of yours, to be under pressure? Thank you.

Andy Brown, CEO

Thanks, Mehdi. And I will hand over the second or both, actually, subjects to Thore. But firstly on the maintenance schedule, I think we can roughly see the planned shutdown to be evenly distributed between the first-half and the second-half of the year, but in the first-half they were really concentrated in the second quarter and not in the first quarter, and I think that's something we see.

Now, do we have to fight against declining production as the pressure comes out of the reservoir? Yes. I think it's the normal oil business we do, but Thore might be able to add some colour on the maintenance planning.

I'll just address the gas topic as well now. We had a schedule of deliveries for our gas business that is being maintained. It is below what we had originally contracted, and we have taken whatever measure we can to reduce our own gas consumption, and part of that was to fire a hydrocracker on naphtha instead of gas. That is a new operation, and it's one where it creates some additional fouling, and Thore can talk a bit about how we will be looking for forward to see how we can balance the gas versus naphtha in using in the hydrocracker.

What I can tell you will is that it all rely on whether the deliveries can keep up with the schedule that we were promised probably nine months ago. And if does, then we will be in a reasonable position to cover the obligations of gas we've sold for our own use but also for the use of our customers. So, we hope, Mehdi, that we aren't going to have to go the market again, but it will all rely on receiving the cargoes as per schedule we've been given before.

So, Thore, perhaps a little bit more colour on maintenance. And then anything more on the natural gas used in the refinery.

Thore E. Kristiansen, COO Production & Operations

Sure, Andy. Thank you, Mehdi. It is very correct what Andy said. The heaviest part of our maintenance this year, as we see it today, actually took place in the second quarter of this year.

All the FPSOs are planned to go down for maintenance during the course of the year, but it was a heavy bunch in the second quarter. We expect there will be maintenance also in the third quarter, and then, the lightest quarter will be the fourth quarter.

So, that is what you can expect in the ramp-up. I will not go into the details for each one of the units, but that is what you can expect. Production impacted by the maintenance also in the third quarter and even less in the fourth quarter. That is what the planning is of today.

When it comes to production, the production potential remains very good. Tupi is astounding when it comes to sort of the level of production capacity, but it is a depletion business and there is a decline in Tupi, which is not very high, but it's still there. So, we have to really run fast in order to stand still and that's why the infill drilling programme, that I just spoke of, is so important and we have fantastic economics on these infill wells that are now being contemplated.

And when it comes to gas sourcing, yes, the refinery has shown an astounding level of flexibility to adjust to market. We worked really as one team within the Company between the refinery and the Energy Management teams to see what is it that creates the most value for the Company: successful switching into naphtha during the second quarter, and very high operational availability of the facility.

What I perhaps was most impressed with, and satisfied with, was that we had such a high availability of the refinery during the second quarter, which of course was very nicely timed versus also fantastic refinery margins, and that's one of the key reasons why the refinery contributed in such a good way in the second quarter and continues to do so as we speak.

Sasikanth Chilukuru – Morgan Stanley

I have two please. Both on the refinery side.

The first was on throughput. During last quarter's earnings call it was highlighted that securing VGO supplies remains the risk to refinery throughput. But today it appears that this risk is largely minimised. I was just wondering, what were the actions taken? And also, if you could comment on the impact of securing these new sources of VGO, what the impact was on refinery margins? And also, if you could comment on the sustainability on securing these VGO supplies from these new sources. Is that sustainable over the period as well?

The second question was also kind of related to this, mostly on the refinery margins. You have laid out reference conditions of $15/boe Galp refinery margin for the second half, but lately we've been seeing benchmark refinery margins could decrease quite materially, although from record high levels. Just wondering if you could possibly give some details on how you see the refinery market evolving in the second-half, and what level of refinery margins you're currently witnessing?

Andy Brown, CEO

Okay, thank you very much, Sasi. So, yes, VGO sourcing, we have managed to secure all the cargoes of VGO that we needed to keep the refinery at full throughput. I have to say that some of those are secured just weeks before you need them. So, it's an active work of our Energy Management. We're sourcing them from Europe, we're sourcing some from the Middle East.

Now, those cargoes have been sold at quite a high margin themselves. So, we always have to check whether there's actually positive economics in buying them. And over time that looks attractive and sometimes it looks marginal. But all of these have been positive in terms of our overall financial delivery. We will continue to do that. Refining margins are much lower, I think around $10/boe today. They were much higher in the earlier parts of July. But we are seeing some softness. So, July-to-date, I think we're looking at about $17.

Now, going forward, clearly we haven't got a crystal ball. I don't know if you have, Thore, or if you want to say a few words, but at the moment, it's hard to tell how the market is responding. We're getting through the driving season. We'll see how the volumes are affected and how stocks are affected vis-a-vis an economic downturn. But clearly the situation is with weaker refinery margins than we had previously. I don't know if you want to add anything, Thore?

Thore E. Kristiansen, COO Production & Operations

No, I think you have basically captured it, it's just volatile. The cracks this morning were expanding again, actually. So, the market is just volatile. What we do is, really, just make sure that we're really optimising the runs on a daily basis and making sure that the refinery runs with the highest possible availability, so that we can maximise what the market has, but for sure we don't have a crystal ball and let's see how the margins are going to pan out by the end of this year. But right now, still quite good margins, at least when you see it in a historic perspective.

Joshua Stone – Barclays

Two questions please. First of all, can I just come back to the Titan acquisition and the decision to fully consolidate? Is this a change in the approach of Galp in renewables? In particular, how should we think about the ownership structure going forward in renewables and is it your intention to still reduce your stake over time and, if so, over what timeframe do you think is likely?

And then a second question on Brazil. There was a €85 m write-off from exploration assets. Maybe if you could just provide a little bit more detail about what those were and what else is left in that portfolio that could be impaired? Thank you.

Andy Brown, CEO

Hi, Joshua. I think the first thing to say is that our strategy hasn't changed. We have taken 100% control of this asset. It is delivering significant cash flows at the moment. It is a position clearly that we're enjoying, and there's some additional debt that appears on our balance sheet, some €220 m.

Now, going forward, I think, as you have obviously outlined, we have a lot of flexibility. And that may include asset rotations, it may in turn include deconsolidation again, but at this stage, I think we're not giving any clear guidance on that. And I think when we come back to the market, we'll create some clarity.

What I can say is that we, in control of this asset, have a lot more flexibility to actually unlock value for the shareholders. And in due course, we'll see which levers - whether they're rotation, energy management, hybridisation - of those we will pull to extract even more value from those assets.

Thore, talk about Uirapuru impairment.

Thore E. Kristiansen, COO Production & Operations

Okay. So, we have not made a commercial discovery in Uirapuru. That is the reason why we then decided to make the impairment in this quarter. There are still prospects in that license that we would like to explore. We have not aligned in the partnership when the next step will be, but we do see structures that could potentially be interesting.

The current plan is therefore to do that ADR in Bacalhau North first. That will enrich our understanding of the Northern part of Bacalhau, and the next door neighbour to the Northern part of Bacalhau is actually the Uirapuru license. So, that is why we take it in sort of a step-by-step approach. First figuring out Bacalhau North, and then the partnership will decide what would be the next step for Uirapuru and its license.

Henry Patricot – UBS

One on the downstream and then one on Capex. So, on the downstream, following on from the discussion around refinery margins, can you perhaps comment on what you are seeing on demand in your own retail network? Are you seeing much of an impact from higher prices, or not so much in the time being?

And secondly, just on Capex guidance for the full-year, no change, still one €1 bn despite the acquisition. Can you talk about some of the moving parts offsetting the acquisition there? Thank you.

Andy Brown, CEO

So, I'm going first ask Teresa to talk a bit about what we see in the oil demand side. I think one thing to say is that YoY, I think we're 22% up, but we're still a bit shy of 2019. Teresa, give a bit of a colour on what we see in the demand side of the business.

Teresa Abecasis, COO Commercial

We definitely see an overall increase in demand versus last year, and that is coming mostly from the B2B segment, aviation with very high volumes and marine bunkering also with very high volumes.

On the retail side, we do observe a slightly different picture. So, volumes are not picking up as much as in the B2B segment. Still, we see improvements coming. It depends, geography by geography, but we see improvements coming.

Andy Brown, CEO

So, I'm going to ask Filipe to talk a bit about the Capex. I think we spent €365 m in the first half, but €1 bn for the year, we think, Filipe?

Filipe Silva, CFO

No change in guidance, despite bringing the whole of Titan on board. And the reason is we were not planning on having project finance on our Capex in Titan this year anyways, so the only difference is the 25% share goes up. But we have other areas of Galp where we are having timing, phasing of payments, will likely move to the right. So, this gives us cushion to absorb the original guidance of €1 bn.

Giacomo Romeo – Jefferies

Two questions for me. The first one is there has been some headlines regarding a potential for windfall tax in Brazil. I'm just wanting to get sort of your view on the likelihood of something happening before elections and how do you think this would take shape?

And the second question is about Coral FLNG. You said you expected first carbon Q4. Just going to have a view of your latest view on the timeline to get to capacity level of liquefaction there, and when do you expect this to happen?

And finally, if I may squeeze a third one, I'm just wondering if you can quantify the impact from your discount offering on retail customers and until when you expect this to continue.

Andy Brown, CEO

On the windfall tax, I think clearly, it's something that's talked a lot about, and there were discussions actually earlier on this year in Brazil, and draft legislations were never put through. So, at this stage, we can never say never. It's now only a few months to elections and we're not expecting that to pass through Congress. Clearly, we're going to keep an eye on that going forward, but obviously as we make more money in Brazil, taxes go up. Our taxes have doubled, as well as our revenue to the upstream business.

Coral is a probably good one for Thore. Obviously, we're not the operator. I have to say Eni is doing a fabulous job on Coral. Some of Galp employees are also working hand in hand with Eni. So, Thore do you want to give a little bit about where we are and what we can say about the progress, but it has been impressive.

Thore E. Kristiansen, COO Production & Operations

Really, remember this, we FID-ed this in 2017. First gas came into the facility on the 18th of June, virtually exactly 60 months after the FID. Now the final commissioning is going on for the LNG factory. Actually, as we speak, the defrosting has started which isn't a very exciting part of the commissioning, but it looks still good. And that's why we expect first cargoes the latest by the fourth quarter. We expect to be at plateau during the course of next year. So, this ramp-up will now go according to plan. So, still very healthy and very robust project in this market environment, very robust.

Andy Brown, CEO

Teresa, do you want to say something about discounts? And I think I have to stress this is for our loyalty customers, this isn't a general discount across all our forecourts.

Teresa Abecasis, COO Commercial

Yes, sure. Given the highly pressured current price environment, it is important that we support our clients and alleviate some of the strain that has been put upon them by a very volatile context. As such, we have indeed launched some campaigns within our loyalty programmes, namely with our key retail partner Sonae, in Portugal, and this offers a top-up of discounts of $0.04, so it goes into the $0.14 per litre which is a very good value proposition for our customers. In Spain, we're also launching summer discount promotions aiming at acquiring new customers and also activating and retaining existing clients during the summer. These discounts can add up to $0.25 per litre.

So, just one final note that the B2B recovery more than compensates in terms of the margin that we're generating in the business.

Raphaël Dubois – Société Générale

The first one is about São Tomé and Príncipe. I understand you're still analysing the drilling results, but is there any chance you could already share with us some of what you already know? I guess if you encountered hydrocarbons, you should at least already know that. So, that will be my first question.

And then on the dividends to non-controlling interest, I note that it dropped from €110 m to just €1 m in Q2. Can you also maybe give us some idea of what it will look like for the next few quarters? Is the drop in Q2 something that was planned? Is this due to a special schedule of payment to Sinopec or is this because of the Bacalhau spending?

Andy Brown, CEO

Okay, can I ask Thore to talk about São Tomé?

Thore E. Kristiansen, COO Production & Operations

So, the rig is still on location in São Tomé. We are finishing now a very comprehensive data acquisition programme that we've had there. And what I can tell you is that, yes, we are analysing the data and I will not conclude anything or communicate anything before we have done a really proper and thorough job there and aligned in the partnership. This is of course, very exciting. It is a completely frontier area. So, we need also to be very careful to make sure that we spend enough time so that we really also understand what we have acquired. But I can tell you we have had a big acquisition of data and which we now will need some time to analyse.

Andy Brown, CEO

Thank you, Thore, and perhaps I will ask Filipe to give a bit of a colour to the dividends to our minorities, particularly Sinopec through the year?

Filipe Silva, CFO

Raphaël, I would not read much into the timings. So, we usually pay in Q1 and then late in the year we see how the year is going in Brazil, and we adjust dividends. So, we had budgeted some

€200 m for 2022 of payments to Sinopec. Given the macro, this could go up, but it was never meant to be done in Q2. So, it could be Q3 or Q4 to be decided. Thank you.

Pedro Alves – CaixaBank

The first one on Upstream, we have seen some players closing or at least analyzing disposals in their upstream businesses. So, would you consider crystallizing value at this point of the cycle, because portfolio management in upstream was something that you have flagged at the Capital Markets Day one year ago, and the price or the valuation context is perhaps more appealing now? And so, your thoughts on this topic would be helpful.

Then the second question regards working capital evolution for the full-year. Given your commodity price now, what is your base case for working capital? Thank you.

Andy Brown, CEO

So, you will excuse me not to say too much about upstream disposals. Clearly, we have guided that it is something that we will continue to look at. And so, I think that's all we want to say at this stage about that.

When it comes to working capital, I think as you have seen in our numbers, there was a working capital build of €1.1 bn just really from our stock and inventory position this year. Clearly, if you take that away from our net debt, then you are getting even better numbers. But, Filipe, what do we assume in terms of the end of the year of any working capital release? This in addition to the €630 m we have on margin accounts. So, we can expect quite lot of working capital to come back, certainly versus the end of Q2.

Filipe Silva, CFO

We do, Pedro. So, we have two components. You have the margin accounts related to the hedges of €630 m by June 30. This should turn to zero by year end. And then, you have the fundamental working capital, that is, client receivables and inventories. And this is highly dependent on the Brent prices. So, if Brent prices correct downwards, we should see a meaningful adjustment downwards of our working capital balances on top of the margin account releases.

Alejandro Demichelis – Nau Securities

Could you please update us on how you are seeing the development of the Bacalhau FPSO in terms of timing and in terms of the costs?

Thore E. Kristiansen, COO Production & Operations

So, the project is going quite well. The major construction is taking place in China. We have had some issues in China with respect to COVID and very strict closedowns that have been put in place from time to time. So, there is this slight delay. Still the latest forecast is that we will still see first oil in 2024. So, overall, quite good. And on the cost side, there is good control. The major cost positions have lump sum contracts. So, at least for the time being there is a good control on the cost side in the product.

Alejandro Demichelis – Nau Securities

Thank you. And just as a quick follow-up. From what you are saying, then we should expect kind of late 2024. Is that what you are saying?

Thore E. Kristiansen, COO Production & Operations

So, what we have said is the second half of 2024 and that's what you should continue to expect.

Matt Lofting – JP Morgan

First on hedging. Business is effectively giving up some of its strong leverage to higher oil and refining at the moment through the hedging positions they are on, particularly given the clear potential to deleverage the business under prevailing macro conditions. Could you just talk a bit about the philosophy around hedging here and triggers, and whether investors should expect further opportunistic hedging mechanisms to be entered into 2023 and beyond?

And then second, if I could just sort of come back on the distribution policy and just clarify there. I think in the context of talking about the working cap and margin releases earlier, the potential for in the region of sort of €500 m of buybacks for calendar year '23. I think Filipe mentioned earlier that sort of derived primarily from the underlying OCF generation rather than headline CFFO inclusive of those effects, if I understand correctly? Thank you.

Andy Brown, CEO

Look, I'll again ask Filipe to say a little bit about our hedging strategy and what to expect for 2023.

On the distributions and working capital - he might also talk about that - but I just want to stress we did move from a third of CFFO to a third of OCF, basically because we wanted to take the big swings in working capital out of that distribution framework.

But Filipe, a bit on hedging and what to expect going forward.

Filipe Silva, CFO

So, given the extraordinary volatility that we've seen in 2022, really unprecedented. Yes, we did have a lot of hedging noise in our numbers. So, the one thing that we will do differently, going forward, is that we will be using options and not swaps, so that if we take a decision, and you ask about the philosophy behind this. So, if we take a decision, sometime in the future, to protect some of the downsides on Brent, which is really what moves the needle at Galp, then it would be done through options. So, we would invest in premiums, and we would protect the downside without giving up any of the upside.

Ignacio Doménech –JB Capital

My first question is on the refining cash cost in the second quarter. We saw refining cash costs going down on the insurance receivable. But at the same time, for FY22, you are guiding towards $2/boe, which would imply a significant increase during the second half. So, if you could provide us some light here?

And then my second question is on Namibia. It's exciting to see Galp going forward with the exploration campaign there. So, it would be interesting if you could give us an idea of what should we expect. Should we expect Galp to lead the exploration from an operator's perspective or is Galp looking to farm down its stake in the two blocks in Namibia.

Andy Brown, CEO

So, I'm going to ask Filipe, actually, to tell us a little bit about the refinery cash costs, and what this insurance receivable was. And then I'll ask Thore to talk a bit about Namibia and the exploration prospect there

Filipe Silva, CFO

Ignacio, you'll recall we did have an incident in the refinery late last year, so the Opex this quarter looks artificially low because there is €10 to €15 m of insurance collection. We continue to guide to $2/boe as recurring fundamental Opex.

Thore E. Kristiansen, COO Production & Operations

Ignacio, what I can tell you regarding Namibia is that we really like our ZIP code in Namibia. I think we have a good address, a good location. Actually, the Galp team has been quite persistent in Namibia. We have been there since 2014, and we have drilled three dry wells in Namibia. But I think, through those three drywells, we learned something about where there could be an additional potential. So, quite excited.

Next step for us now is to de-risk this further, and that would be by drilling a well. So, our target is to drill an exploration well there during 2023 or 2024. That's really where we're going to focus right now.

Mehdi Ennebati – Bank of America

Just yesterday I was reading that there were some issues regarding the pipeline connecting Algeria to Spain. And I wanted to know if you would observe some gas sourcing issue today because of that? And what are the measures that you could take if this lasts for quite some time?

Andy Brown, CEO

At the moment there's nothing to report there, Mehdi, from our side in terms of gas sourcing through from Algeria. Of course, the line from Morocco into Spain actually has not been flowing at all since earlier this year. But we haven't got any notification of an issue with gas supply from Algeria.

Mehdi Ennebati – Bank of America

All right, okay. I think it was an operational issue at some compressor units in Spain, but all right. No worries, maybe it's not that important.

Raphaël Dubois – Société Générale

Two quick follow-ups. I noticed that you've received €9 m of dividends from associates in Q2. Could you please confirm that it's coming from the solar JV, maybe? And also, on the buyback, what sort of visibility do you have on who participates? When could we know whether Amorim Energia is participating? Thank you.

Andy Brown, CEO

Raphaël, I'm going to ask Filipe to answer both these questions

Filipe Silva, CFO

Yes, Raphaël, so we have the Titan dividend payments. We also have a bit of our Brazilian JV related to biofuels that is also paying dividends.

On the buyback, we have no visibility, nor do we seek to have any visibility. So, we have contracted a bank to do this for us. So, they intervene in the market without actively seeking specific sources of shares or price influence. So, we have no visibility from any shareholder on who is selling and what their intentions are.

Otelo Ruivo, Head of IR

So, I think this was the last question. So, thank you all for participating on the Q&A session. We hope it was a useful one for all of you. Do reach out to our IR Team if there some additional clarification needed from our side.

So, to conclude, I would just like to wish you all the best for the rest of the earnings season, and hope it is followed by a great summer holiday. Hope to see you all in person after the break.