Otelo Ruivo, Head of Investor Relations

Good morning to you all. Welcome to Galp's 2Q20 2020 results conference call. Today, Carlos will provide you with an overview of the recent developments in only a short-term outlook, given the current volatility. Filipe will then take us through the quarterly results.

At the end we will be available to take your questions when Thore will join us as well.

As always, I would like to remind you that we may be making several forward-looking statements. Actual results may differ due to factors included in the cautionary statements available at the beginning of our presentation, which we advise you to read.

Thank you, Carlos, the floor is yours.

Carlos Gomes da Silva, CEO

Thank you Otelo and good morning to you all. I hoped that in these challenging times you and your families remain safe and healthy.

So, as we all knew that the second quarter was going to be a challenging one for everybody. And facing such unprecedented challenges, the priority quickly become adapting our operations to increase the resilience and also the flexibility of our businesses.

So still our lighthouse is unchanged and that is to deliver Galp's transformational and growth strategy.

Looking at the quarter and looking at our Upstream activities, we are seeing that they were only marginally impacted, having quickly reinforced preventive measures to ensure the safety of our people and of course, the safeguard of the continuity of our operations.

In the downstream operations, however, we have tough times especially during April and May. The resilience of our overall portfolio and the immediate actions put in place have allowed us to mitigate effects of the pandemic and the crude oil price war. Free Cash Flow (FCF) remained positive year to date. We have reinforced our liquidity and remain with a solid financial position.

But first, let's look at the market environment evolution so far, and I'm on slide five.

The worldwide lockdown led to unforeseeable demand reduction and the massive environment inventory build-up. We have observed Brent prices hit $13/bbl in April and gradually recovering to just above $40/bbl, as we had advised.

On the product side, refining margins were at first supported by cheap crudes and cracks were helped by opportunistic trading demands, but this quickly faded and low consumption resulted in inventory build-ups and pressured the cracks of all products.

In April, and also in May we saw gasoline diesel demand declining over 50% YoY and lockdown measures in Iberia were gradually lifted, demand picked up better than expected. However, uncertainty remains high.

Given the recent developments, we are now adjusting our macro assumptions. We are now using Brent at $40/bbl in 2020 and increasing by $5/bbl over each of the following years. Long term Brent price has been lowered to $60/bbl in real terms 2019.

Of course, that we naturally test our balance sheet according to these revised assumptions, and no impairments were registered given the quality and I would say also the resilience of our assets.

Now looking into our operations in the quarter and I'm in slide six.

As mentioned, our Upstream operations so far were only marginally impacted by this pandemic. In May, two FPSO stoppages in Brazil resulted from the identification of Covid-19 cases. All in all, just c.3 kboepd impact in the second quarter.

We have also the new unit that will develop south of Atapu that has started in June, ahead of our plan. After the unitisation agreements I would like to recall you that Galp has only 1.7% stake here, so not that material.

On refining, tough times. The significant demand decline and the high level of inventories led us to stop Sines refinery and several units in our Matosinhos system. The midstream operations were also impacted by harsh environment, with the demand destruction and strong supply levels into Iberia putting high pressure on also natural gas prices.

With the lockdowns, April and May were very difficult months for our Commercial business, which shows in oil and natural gas volumes sold this last quarter. June was already a more supportive month and keeps improving in July to date.

On the renewables front, we have set up a joint venture under which Galp acquires 75.01% of the Spanish solar portfolio of 2.9 GW and ACS Group remains as our partner with just under 25%, with a joint control structure.

I would say that this agreement follows the strategy we had set for our renewable business, which is to develop a competitive portfolio through partnerships while maintaining a relevant role and integration with Galp's activities.

The transaction value remains unchanged, which means an enterprise value of c.€2.2 bn, which includes all acquisition, development and construction costs associated with the existing and future portfolio. On a 100% basis, pre-project financed.

Galp is to pay an amount that should range between €300-350 m at the closing for the stake acquisition and previous development costs, with the final value dependent on the development status of some of the projects at the deal completion date. And this includes c.1 GW already under operation fully project financed.

This agreement maintains development and construction of the portfolio with Cobra, which is an affiliate of ACS Group. We are happy to have partnered with ACS Group, as this JV combines Galp's integrated energy position in Iberian market with ACS's renewables engineering and development expertise. So, this is a good combination.

The transaction is expected to be completed before year end and likely still during the third Q after the EU competition approval.

Moving now to slide #7. Let's look at the short-term call to action programmes. So, in this front Galp responded quickly to the challenging environment resulting from the Covid-19 lockdown and also the oil prices fall. Words like resilience, flexibility and adaptation capacity were, and will continue to be, critical.

Zooming in on what we are doing actively and with visible results already in the quarter. On the Upstream, operations continued to be optimised, allowing us to keep production cost consistently below $3/boe. The cost saving initiatives halved our Upstream capex plan with almost all those initiatives being implemented. And the team is successfully reducing services and other overhead costs.

On Refining & Midstream, we adjusted the level of our operations to deal with a very low demand and, as I mentioned before, high level of inventories. This allowed us to increase our gross margin, mitigating the effects of the more depressed environment and reduce our operational costs. Additionally, this slowdown time was used to bring forward some scheduled maintenance works.

On the Commercial side, several initiatives were promptly put in place to enhance the robustness of the business and also to adapt to unique market conditions.

The Company also took this opportunity to reinvent the business and to reach clients in a more digital and contactless way, innovating especially the non-fuel offer. We established agreements with several partners like Uber and Glovo, for examples, which allowed us to enforce and explore different sales channels that are linked with the last mile logistics. But we kept also with very special focus on optimising our operations and of course our cost structure that will remains.

On the Renewables & New Businesses, we are adjusting our short-term plan, keeping strategic development of this new division.

Our efforts go beyond improving efficiency of our operations and also includes the adjustment of Galp's corporate and business units' organisational structure.

The efforts are paying off and Galp remains very much on track to deliver its over half billion capex and opex reduction target, having over 90% of the identified initiatives behind and that ambition already being implemented.

Looking ahead and I'm now in slide eight. So, starting by short-term outlook. Which, although limited considering the still reduced visibility and also high level of uncertainty. Galp and its partners expect to resume the connection of wells and therefore the ramp-up in production. In fact, by the end of June we connect the third producer well in Berbigão/Sururu FPSO and of course, we remain cautious on how Covid-19 may impact our operations in the future. However, we should be able to grow our production at about 10% YoY basis, which is slightly below our initial guidance that was ranged between 13 and 17%.

As mentioned before, refining environment remains depressed and under pressure, and economic incentive to push our system seems not to be there. Utilisation of our refineries as well as supply and trading volumes will depend on how the market evolves from this point onwards.

On Commercial, although we are seeing positive supportive signs, we prefer to maintain a cautious approach as the full economic fallout from this crisis has yet to be understood. We should see an improvement of this segment contribution, especially during the summer, but uncertainty remains.

So, on the right side of this slide we want to flag that despite the challenging 2020 and the attention we need to put on the short-term we are continuing to position Galp for the future of energy. Keeping focus on value protection and enhancement of our key strategic projects as you already know well and that will play a major role for our future. And of course, we are well aligned with our partners, conducting relevant value improvement programmes around these key assets.

At the same time, we continue to evaluate opportunities to adapt to market trends and also to regulation, increasing our competitiveness and reduce our carbon footprint as part of our strategy to address the energy transition challenges.

We are analysing the production of lower carbon products content in our industrial facilities, anticipating market trends and reducing the carbon intensity of our portfolio, namely through co-processing or reconfiguration of existing units.

These are potential options to increase Galp's competitiveness on Refining & Midstream with marginal investments over our existing industrial base and that may also benefit from the alignment with the EU guidelines. Longer-term we are also analysing new energy sources and technologies such as hydrogen. In this case, Galp sponsors with other companies a feasibility study for a pan-European project leveraging on a cluster that could be implemented in Sines to develop a green hydrogen supply chain project.

This kind of projects may have a natural integration with Galp's activities and ambitions, so we are focused on the short-term plan given the current circumstances while actively preparing future alternatives that may fit our strategy and also our investment criteria.

So, to finish on slide nine. Just a couple of words. Clearly, we were significantly impacted by the commodities price crash and this obviously impacts cash generation. Still, as the cash spending reduction initiatives are being implemented, we are increasing the resilience of the Company leading to a going forward FCF neutrality at $20/bbl. This assumes a net capex that range between €0.5-0.7 bn that should support our FCF on average during this year and next year.

However, we need to be prepared to navigate through the uncertainty and volatility expected over the next few quarters, ensuring Galp's financial position to be as strong as possible to protect and support our transformational and growth strategy.

With this in mind, and as part of the mitigation measures undertaken to preserve the strength of Galp's financial position under unprecedent market circumstances, no interim distribution will be made during the second half of this year in relation with 2020 fiscal year dividend. This considers the prudency and the short-term flexibility we want to maintain as mentioned to you back in April. The proposal for the 2020 dividend shall be made considering the full year results expected to be announced in 1Q21.

Ultimately, our commitment for the rest of this year is to keep our financial discipline, employing efforts to control the net debt and therefore to protect the Company's balance sheets.

So, two key messages that I want to leave with you from today. We have a highly resilient portfolio and we are successfully implementing value protecting measures that are increasing this resilience even further. Our FCF line already tells everyone that.

The second point is that we have a unique transformational and growth investment case, well supported on clearly identified projects. And on top of that, several potential options to explore.

Thirdly, we are keeping the same discipline that brought us today.

So, I will now hand over to Filipe to go through the financials. Filipe.

Filipe Silva, CFO

Thanks, Carlos, good morning guys. I am on slide 11.

Group Ebitda of €291 m in the quarter. This is down more than 50% YoY. And this is from the very harsh environment on most of the businesses we are operating in.

Upstream Ebitda was €204 m, that's 50% down YoY. This with an average Brent of under $30/bbl in the quarter and more than offsetting production growth YoY. Bear in mind here we have about €50 m in positive underlifting effects during 2Q20.

Refining & Midstream Ebitda was impacted by the significant slowdown of the refining activity and a lower contribution from supply and trading.

Commercial Ebitda of €59 m, that's down over 40% from last year, impacted by very, very weak demand in Iberia.

Group Ebit of -€57 m already include the impairments of €92 m related to small exploration assets. Now this is a reflection of a conservative assessment of the discovery's potential. This is not from our lower Brent price assumptions going forward. So, we have no impairments coming from the revised long-term price assumptions.

Financial results of -€10 m in the quarter with the negative effects from exchange valuations on our Brazil currency cash positions and losses on CO_2 derivatives compensated by positive mark-to-market valuation of derivatives to cover natural gas price risk.

And net income was a -€52 m, while under IFRS net income was -€154 m with a negative inventory effect of €84 m.

On slide 12 and cash flow. So, we start with IFRS Ebitda, which includes the negative inventory effects. Working capital release was only €11 m in the quarter with lower capital tied up in inventories but with elevated payments to suppliers for some cargos priced during 1Q20.

Taxes paid were €83 m. This is significantly higher than what you see on the P&L taxes, and this mainly reflects the timing mismatch of SPT payments. So, the SPT in Brazil which was affected by the more elevated 1Q20 Brent prices. And all this leads to a CFFO of only €160 m during 2Q20.

Capex payments were €149 m in the quarter. And we also have the net cash in of €83 m from the equalisations related with the Lula, Sépia and Atapu unitisations. Please note that our net capex guidance always considers these equalisation proceeds. And we are expecting further equalisation proceeds from the Berbigão/Sururu unitisation likely next year.

The derivative outflow number of €43 m that you see here is basically driven by the CO_2 licences impact, as per our announcement recently. And this is partially offset by the unwind of the outstanding 2020 refining margin hedges. Now given the current market circumstances and the volatility, we opted to crystallise this value.

FCF was -€10 m in the quarter and positive €52 m during a most challenging first semester. Again, some payment phasing impacts on these numbers. And also bear in mind that we include within FCF all operating lease payments under IFRS 16 and that is the interest component and the principle amortisation component that is within our FCF numbers.

During the quarter, we have also paid to the Galp's shareholders €318 m in dividends related to 2019, as well as €86 m to Sinopec, our partner in in Brazil.

And with this net debt increased €436 m in the quarter.

Moving to the balance sheets on my final slide, slide 13.

The net fixed assets decline results from the accounting effects of the unitisations and the exploration impairments of €93 m.

Net debt to Ebitda was up to 1.1x with the combined effect of both higher net debt and lower Ebitda. And to conclude, during the quarter we have increased our liquidity to €3 bn, with cash of €1.7 bn and undrawn credit lines of €1.3 bn.

We are now happy to take your questions. Thank you.

Questions & Answers Session

Biraj Borkhataria – Royal Bank of Canada

Hi, thanks. This is Biraj from RBC. A couple of questions if that's OK. The first one is on your new production guidance. I know Galp typically puts some contingency in this. So, could you just outline how much contingency you've put in for either slower well connections or any other potential delays due to Covid-related incidents.

And the second one is on the dividend. With the big capex cut this year and obviously the new structure of the renewable deal, at 1x net debt to Ebitda your balance sheet looks actually quite healthy. I was wondering, can you just comment on your intention for the dividend going into 2021? Is it just a pause and then the intentions to get back up to the prior run rate? Or is anything else within that? Thank you.

Carlos Gomes da Silva, CEO

Hi good morning Biraj, thank you. I will address the dividend question and Thore will address the production guidance.

So in relation to the dividend, we are living uncertain times and therefore the decision that we are taking now is to guarantee that we are protecting and preserving our balance sheet and other decisions should be based on full year cash availability, our financial position, and of course, the outlook that we will have at that moment in time. So, I think we have to wait for the second half of the year and based on this principles we will address it.

Thore E. Kristiansen, COO Upstream

Thank you, Carlos, and thank you Biraj for your question, which is actually a difficult question because you know the big challenge for us here is actually to estimate the Covid impact. I think you pointed to it very correctly and, as Carlos said in his opening remarks, we have had direct impact on production on two units during the first half and we have also had somewhat slower well ramp up due to Covid and actually the restrictions that were put in the operations in order to preserve the health and well-being to the people.

So, we have made a guesstimate for the second half. What that would be, I believe that what we have given you as guidance, namely that we are able to increase YoY with 10%, should under normal circumstances be conservative, but the big unknown and which we read on this, what will happen with Covid during the second half of this year? That is the big unknown and we have put in some cushion for that.

Mehdi Ennebati – Bank of America

Hi, good afternoon all and thanks for taking my question. Two questions please. The first one regarding with the working capital. So, during the first quarter conference call I think to Filipe who guided on the working capital release during the second quarter and this obviously did not happen. So, can you explain why? So, is it related to the maintenance that you have made? Should we still consider working capital release will happen in the second half of this year or no.

Maybe one question as well regarding the refining costs which were pretty low in the second quarter, so I wanted to know if this is all related to the savings made from the maintenance. If this is also partly due to cost reduction programme that you recently announced, meaning that we should take lower refining cash costs in the near term. Thank you.

Carlos Gomes da Silva, CEO

Hi Mehdi. Bonjour. Thank you for your questions. Filipe will address the working capital.
So, in relation to refining. Clearly, the decisions that we have taken allow us to reduce relevant costs structure and therefore, based on environment that we have lived during the Q, it were the ones that protected cash and costs for the Company. So, clearly, I think it was the right decision we have taken.
Filipe, working capital?

Filipe Silva, CFO

Good morning Mehdi. So, in 1Q20 and IFRS balance sheet, we have a release of working capital, just because we marked down the inventories – mostly accounting. In 2Q20, what you see on a cash basis is that we were still paying suppliers, so significant cash outs, more than the run rate cash out that you would expect for cargos you would be acquiring during 2Q20.
Going forward and the three moving pieces within working capital: clients, suppliers and inventories, of course, it depends to a very significant extent on your views on what the commodity prices are going to be. From this month onwards we would not expect working capital to change massively if the commodity prices stay within what we are observing today.

Joshua Stone - Barclays

Hi, good afternoon. Thanks for the presentation. I've got two questions please. First just going back on the cash flow. It was in particular weak during the first half of the year. You highlighted a number of factors, your timing effects and working capital. Is there a number we should be adding back to get to an underlying cash flow? For instance, if I look at that €404 m on the slide 12 of CFFO. Are you thinking about adding something back to help us with those moving parts?
And then secondly on the Commercial business. It does seem that margins have been pretty resilient there despite the lockdown. The fall in earnings has pretty much matched the fall in volumes. Can you talk about what's driving this and how you've managed to perform so well? Thanks.

Filipe Silva, CFO

Good morning, Josh. On working capital and CFFO of €404 m in 1H20, clearly, as I have alluded to, this has a number of phasing impact. If the commodity prices stay where they are, we would expect for example to have lower SPT payments going forward than what we have seen, we would expect to be paying for capex at much lower levels and the same with suppliers. So, without giving you any hints on what year end will look like on CFFO basis, it's hard to imagine that it would be below what you've seen in H1.

Carlos Gomes da Silva, CEO

Hi Josh, good morning. So, on the Commercial front and the resilience of our business. We have saw that we have been hit by a relevant demand decrease. Even in those circumstances, we have been able to adapt our cost structure, first, and secondly, the sales that we have made were mostly in higher margin segments. So that contributed for sustaining even in a specific and complex environment. But these are the two key effects that I would that mostly contributed for that. Thank you.

Thomas Adolff - Credit Suisse

Good afternoon, I couldn't hear you very well Filipe, so I wanted to ask you a question on the SPT as well. You said it's a lagged payment, so there's a difference between P&L and cash flow. Can you perhaps say how big of a difference it was in the second quarter? Was it something like a €50 m or €100 m euros?

That's the first question and the second question, just on the solar deal essentially. I was a bit surprised that you ended up partnering with the seller. I was wondering if it, whether it was at all a competitive process? Were there other interested parties you were talking to? Thank you.

Carlos Gomes da Silva, CEO

Thank you, Thomas. Good to listen to you. Filipe will address the SPT. Let me just handle the solar process.

Clearly this was an evolution during the negotiation process. We realised that we would be able to combine Galp's integrated energy position in Iberian market with actually what is ACS' renewables engineering and portfolio development extensive expertise, combined with Galp. So, clearly this is a kind of an industrial partner that will will speed up our developments and clearly achieves the targets that we have established for this process. So we are happy with that, and I think this will contribute significantly for accelerating our renewable projects. Filipe?

Thomas Adolff - Credit Suisse

So, there were no interested party that were willing to pay a better valuation than you did. That was kind of my question essentially.

Carlos Gomes da Silva, CEO

If you ask me if we had a competitive open tender towards this, the answer is no. If you ask if we have had signs of interest to partnering with Galp, the answer is yes. So, for the time being, that has been the decision that we have taken, Thomas, and we are happy.

Filipe Silva, CFO

Thomas, on the SPT. So, we pay SPT the month after the end of each quarter, so we pay in January related to 4Q19. Brent in 4Q19 was $63/bbl, on average. So, in January, we payed SPT based on Brent at $63/bbl. In 1Q20, Brent was $50/bbl, and so, coming April of this year, we paid SPT related to Brent of $50/bbl. The drag on the cash out of SPT, based on the quarter before, is very significant. But the flipside of that, is when Brent goes back up, we're still paying low Brent and we're paying low taxation, when we're cashing in higher crude sales.

Jon Rigby - UBS

Yes. Hi, thank you for the question, or allowing me to ask a question. The first question, just going back to the dividend a moment, just so I can sort of understand what the thought process is going to be. You seem to be sort of indicating some sort of hybrid between a progressive dividend and a payout, and I just wondered what sort of thought process you have about what the relationship should be between dividend and earnings or dividend and cash flow, and at what point do you consider the balance sheet, sort of intervening to that point? So, put in another way, can we expect dividend policy, which seems to have now been changed to be addressed come February, and where do you think that might be headed?

The second question, just a small one, is just intrigued on you cashing out your hedging structures around the refining. I think you've indicated two or three times through the speech about the absence of visibility going into 2H, etc. So, just wondered what the thought process was behind removing an element of sort of protection against exactly that volatility, thanks.

Carlos Gomes da Silva, CEO

Hi Jon, thank you for your questions. So, how the process is going to be in terms of dividends. First we have to look at our free cash flow position for the year end, I think it is the first point, and there's still some uncertainty in the market. The second one has to do with cash position and our debt position, so our net debt to Ebitda is relevant so we know that we are looking at our net debt to Ebitda in a rolling year. We know that we are conceding 1H20 with the 2H19, so let's see how the 2H20 will evolve and how that will impact the net debt to Ebitda. Thirdly, it is also important to have not only the outlook in the cash evolution but also to analyse how the global sector remuneration will evolve and that is also something that is important for us.
There is one point that I would like to emphasise, at this time. We are not considering dilutive cash distribution whatsoever. So, I think that is also important for your considerations. Filipe, the second point?

Filipe Silva, CFO

Hi Jon, so the way we think through our risk modelling on hedges, whilst a few years back Galp was very exposed to refining margin, now we are more exposed to Brent price variations. What we have seen this quarter and something we have never seen at the same time, simultaneously, we have our three key businesses going south. So the risk models went berserk. So no inverted correlation on each of these and when we saw our refining margin hedges very deeply in the money, we just took the money. It was a financial call. Again, the biggest risk we need to protect long term is on the upstream increase going forward, is Brent prices, not so much in Refining margins.

Jon Rigby - UBS

I understand. Can we just come back on to Carlos for a second, on the dividend. When you come to consider the dividend in February, will you be thinking about the full year 2020 dividend or are you going to be just effectively saying 1H20 the write off we're thinking only about what the final dividend is going to be? Or will you be thinking about the full year in the round or just the sort of second half.

Carlos Gomes da Silva, CEO

Jon, it will have to be the full year for sure.

Jon Rigby - UBS

Okay, thank you.

Jason Gammel - Jefferies

Thanks very much. I'm trying to understand how to think about organic capital spending this year given the guidance on net investment, but also the payment for the solar JV and the inflow from unitisation. I guess the other piece that's out there is unitisation at Berbigão / Sururu. So, can you perhaps discuss whether you expect to be in a net receivable position there and maybe give an idea of the order of magnitude.
And then the second question relates to comments you made about April and May being particularly bad for the downstream business. Can you talk about how maybe utilisation rates on the refineries currently and how refined product demand has recovered in your markets?

Carlos Gomes da Silva, CEO

Good morning Jason. Thank you for your questions. So, I will address the second one and Filipe will take the first.
Utilisation rates: This is highly correlated with the demand evolution, so clearly in the second quarter we were, I would say, at about 50% of utilisation rate, because we took the decision to shut down or slow down some units, because the margins were not there. That was the right decision from the economic point of view. That was definitely affected by the high level of inventories.
So, looking into the second half, the inventories are still high. We are also looking at the cracks that are still depressed and the decision of utilisation rates, which includes not only atmospheric distillation as always it also impacts the conversion units, will much depend on what it will be the economics and the environment. It will always be an economic decision, not a physical one, so going forward, as we always do, we will keep that decision based on pure economics. Filipe?

Filipe Silva, CFO

Good morning Jason. Your question on capex. So, the guidance of €0.5 bn to €0.7 bn this year. This is all inclusive, so this does include the solar acquisition, so the equity piece of the solar acquisition. We're still considering asset rotation in that guideline. More importantly, and if you structure it longer term for Galp, we are a low capex Company on a run rate basis, so a lot of what you see in our guidance for the future is our incremental new projects like Mozambique, Bacalhau, etc.. But if you take that out from the equation and we have very long life assets, with very limited capex to sustain production for the upcoming years.

Jason Gammel - Jefferies

Understood, and would you expect to be in a receivable position on the unitization Berbigão / Sururu?

Filipe Silva, CFO

Yes, we do. Double digit number, but this is going to be received most likely only next year.

Alwyn Thomas - Exane BNP Paribas

Hi, thanks for taking my questions. A couple for me. Could I just ask for an update on the potential asset sales processes you're considering and whether you would expect any of them to potentially close this year or 2021 is a more likely and realistic impact?
And secondly on the two big projects Mozambique and Bacalhau, could you give us an update firstly on Covid impact to the projects and whether they're likely to be pushed further. And in Mozambique in particular, what the security situation is there and the likelihood of achieving any material progress in the next 12 months on the project. Thank you.

Carlos Gomes da Silva, CEO

Hi, good morning, Alwyn. I will handle the first question and Thore will go through Mamba and Bacalhau, the two projects that we have under development. So, actually we are considering several assets for potential rotation. You know that out of them, we have said in the past, there are some candidates that are quite well known. So, we will consider all the options open and we will continue with that and execute on any of those options only if we consider that they are adequate for the Company, from one side, and they are a right and at a fair value, from the other side.
So, in what respects to Mamba and Bacalhau, Thore?

Thore E. Kristiansen, COO Upstream

Thank you, Carlos, thank you Alwyn for the question. As it is known in the market, the partnership on Rovuma LNG has decided to delay the FID. We have not given an update to the market yet with respect for how long. What has been happening right now is that there is intensive value engineering that is being done in order to utilise the opportunities in the market and the same actually happens now with Bacalhau.
In Bacalhau we see that there is an opportunity in the market to fine tune, to optimise, to lower costs, and that is what is happening also on Bacalhau. None of these projects are, at this stage, impacted by Covid. Actually, as a matter of fact, the same also goes for Coral. Coral South, you know, is the floating LNG project that we have been developing in Mozambique. It is developing very much according to schedule and we are still on track for first gas in 2022, and no impact of Covid, so far, on that project either.

Alwyn Thomas - Exane BNP Paribas

Okay, thanks. Any estimate on how much cost saving you might be able to see, or that you are trying to achieve?

Thore E. Kristiansen, COO Upstream

We have internal targets and goals for that Alwyn, but it would be incorrect of me to communicate that to the market at this stage. But yes, we do see that there's opportunity now to further improve the projects. Thank you.

Alwyn Thomas - Exane BNP Paribas

Okay, thanks, worth a try.

Alessandro Pozzi - Mediobanca

Good morning, thank you for taking my questions. I just wanted to go back to the ACS assets. I was wondering whether the target of the 2.9 GW still holds for 2023 and if you can maybe give us more colour on how you're planning to go there. Whether you really planning to add capacity starting from 2021 and whether we should see a quick ramp-up in terms of power capacity.
And also, given now that we have probably a bit better visibility on what the structure is going to be, can you give us a sense of the earnings potential of the current assets from ACS? I believe you're not going to see any bigger, but probably income from associates, or any colour on that would be great, thank you.

Carlos Gomes da Silva, CEO

Good morning, Alessandro. Thank you. I would say that at the completion of this deal, we will have to reschedule and to review the projects that were in the pipeline, so the ones that are for developing and based also on the existing environment because it is useless to say that some of the Covid impacts also will have to be taken in consideration for setting up the scheduling for the projects 2020 onwards. What I've mentioned to you before is that there is already under production about 1 GW and the plan for 2020 onwards is being reviewed in a way that we will be able to address this.
Clearly, the structure that is being set up is an independent JV that will be self-financed and that will impact Galp throughout the associates line through a non-recursive project solution and clearly its equity investments from Galp side and where you see that is coming from dividends from associates. Thank you.

Alessandro Pozzi - Mediobanca

And any guidance or what the earnings could be based on the existing assets producing at the moment?

Carlos Gomes da Silva, CEO

I would say it's too soon to release that to the market. We intend to do that later on this process, once we have the rescheduling for completing the projects, that in a way I had mentioned to you.

Alessandro Pozzi - Mediobanca

Okay, perfect. I have a second one on Brazil. You have had a bit of an issue with Covid at the FPSOs, but not much in terms of volumes, I believe you mentioned just 3 kboepd. I was wondering can you give us a bit more colour on what your protocol or precautions measure you are taking to avoid any repeat of that in the second half of this year?

Thore E. Kristiansen, COO Upstream

Thank you, Alessandro. There are two sorts of key measures. One, a mandatory quarantine period for the offshore personnel before they are boarding the ship. Typically, that is between one and two weeks. Secondly, of course, temperature is being measured on a frequent basis, both before entering the ship and while on the ship. And thirdly, the number of weeks that the people stay on the FPSO, before they are changed, is also being now longer – It used to be two weeks, now the typically rotation scheme is three weeks, so that you have fewer rotations for the ship.
So, that's the sort of the key measures that have been implemented. But as we all know, Covid is no small issue in Brazil, so I think we all need to be cautious on it. But so far it has been rather limited, the impact on our production. Thank you.

Sasikanth Chilukuru - Morgan Stanley

Hi, good afternoon now. Thanks for taking my question. I have quite a few answered already but I had one for the upstream. It appears that the oil and gas price realisations in 2Q came in at a significantly higher discount to Brent prices. More than 25% in 2Q compared to c.12% in the 1Q. Can you talk about the reasons behind this, whether this was purely to do with the timing of the cargos? Also, can you let us know what kind of differentials are you using right now after the recovery in the Brent prices? And if we should expect the differentials to revert from the 2 Qs to a more normalised level in the future?

Thore E. Kristiansen, COO Upstream

Let me try to address this. So, the key effect that we saw during 2Q20 is mainly relating to increased shipping costs that have had a direct impact on the realised prices. We have seen in June that is starting to recover already, but we do see that there is a bigger discount this year then what we initially had expected. So, YTD we are running c.$4/bbl in discount to Brent. Thank you.

Michael Alsford - Citi

Thanks, good afternoon. A question on refining. You've updated your medium-term outlook on oil prices and I just wondered if you could maybe talk a little bit about how you're seeing the medium-term outlook for refining margins. I think from the previous plan in February you were thinking of $4/boe to $5/boe and I know clearly we are in an uncertain environment, but I just wondered if you can give us a sense as to where you think refining margins might recover towards over the next couple of years.
Secondly on the exploration write off. I just wanted to confirm whether the write off have included or didn't include any value for the Uirapuru well that was recently drilled. Thank you.

Carlos Gomes da Silva, CEO

Hi Michael, good morning. Thank you. Actually, comparing with the world that we have been observing back in February, we are in a completely the opposite side. Nowadays if you look at where they are, the refining margins, we are barely covering our refining costs, which means that if the demand will not go up and the inventories will not be reducing, it could stand in the market for a couple of months ahead with some refining pressure and I would say that for the full year, refining might have a marginal contribution for Galp.

Thore E. Kristiansen, COO Upstream

When it comes to your second question, what I can say to you is that the majority of our impairments are related to our assets in Potiguar, where we have done a review of the portfolio and decided that there are few of the licences we wanted to step out, and then it's natural that we also did the impairment. What is related to Uirapuru is very, very marginal what we have impaired in this quarter. Thank you.

Michael Alsford - Citi

Okay, thank you. Just following up on Carlos' point. Do you think that the refining margins or the refining business has a meaningful contribution in 2021? Or do you think that still, refining margins are under pressure as we see the oversupply in the markets maintaining?

Carlos Gomes da Silva, CEO

Michael, that will depend very much on how the markets will evolve and how these uncertainties will evolve. So I think that it's highly difficult to have a view on that. We can only play with scenarios. If the more recent times will continue to evolve as positive as they are, we might see a more positive world. If we will have ups and downs, even with partial lockdowns, this could take more time. Clearly, I think we have hit the floor and step after step we will recover, but the speed of recovery will depend highly on how the demand will go.

Matt Lofting - JPMorgan

Hi gentlemen, thanks for taking the questions. Two if I could please. First just coming back on dividends and Galp's dividend policy. Clearly 2020 is an exceptional year in a number of different ways, but when we look forward, can you characterise a bit more specifically that the nature of the dividend policy that you're looking to structure Galp around? Is this ultimately a through cycle absolute focus dividend policy where you're looking to grow the distributions commensurate with earnings and CF? Or while Galp remains in growth mode does this need to be more of a backward-looking process on an annual basis where you're pivoting the annual payouts primarily around the macro environment and cash distribution combined with net debt on an annual basis?
Secondly, could I just ask on the long-term oil price assumptions and carrying values of Galp's assets, we saw you reduce from long-term $70/bbl to $60/bbl. I understand clearly that Galp's assets are differentiated by being low on the cost curve, equally taking $10 off the long-term price must have a negative connotation for long-term value and CF potential. So, I am surprised that there's no relevant asset impairments. If you could just elaborate on that. Thank you.

Carlos Gomes da Silva, CEO

Thank you, Matt. Good morning. I will take the dividends and I will coordinate with Filipe the answer to the second question. Clearly this is an exceptional year, not only for dividends' purpose but also for the global business and environment. Once we will be able to be back to a certain normal, we intend to recover our dividend policy as it was pre Covid-19, let's say. That said, we have of course certain caveats or restrictions or elements that should be taken in consideration, which are our cash position, our net debt to Ebitda that we will continue to follow as a kind of a self-covenant below 2x, and of course, I have said that before, we have also to look at what is the competitiveness of the remaining markets. But clearly as we go back to normality, hopefully we will continue to evolve as it was previewd in a pre Covid-19 context.

In what relates to the long-term oil prices that we have now reduced, not only in the case of oil, but also in the remaining variables that are also impacting our different business units. Clearly, we are benefitting, and that has been said already, on the fact that we have very low-cost producing assets. Which means that we can live a couple of years without, or with a minimum capex, in this context. What we can see is that for the assets that are under development, and as Thore already mentioned, this has no impairment impact whatsoever, which reveals the competitiveness of those projects. That's all on my side, I will now pass to Filipe to complement my answer.

Filipe Silva, CFO

Matt, if you look at our balance sheet you see that we have virtually no goodwill. So the assets that we have on the balance sheet, mostly the big ones, are all discoveries and we do have a history of accelerated depreciations in most of the assets that we have, so the carrying value of our assets is very low and if you look at our share price, our market cap as a multiple of value, that kind of gives you a hint. The market is giving us like 2x book value which is double the sectors. That gives you an indication of how low the carrying value on the balance sheet we have.

Jorge Guimarães - JB Capital Markets

Good morning. Thank you very much for taking my question. I have three. Firstly, is it possible to give us some visibility about how volumes are evolving in July in Portugal and in Spain, namely in the context of concerns about tourists.

The second one would be related on your capex comment - capex and opex reduction. Should I assume that on the over 90% reduction in capex and opex, is already included the reduction in capex from the change in the structure of the ACS deals? This would be the second one.

And the third one it's also related to this changing in renewables. I thought to understand that you mentioned in a question that you expect the JV to be self-funded after the initial acquisition. Is this so, and if not, what are the equity capex needs of the JV with the new capital structure? Thank you very much.

Carlos Gomes da Silva, CEO

Thank you, Jorge. Going straight forward to your questions. First volumes. I would say that July-to-date we are observing YoY mid-10% reduction in Iberia.

In capex, yes, you should consider that we have already included the deal.

In renewables acquisition, I'll let Fiipe go through on that.

Filipe Silva, CFO

Yes, the ACS transaction on our guidance was already only the equity piece component. And going forward, self-funded means that it might be c.70% project financed and the Galp equity piece, that would be 75% of the equity piece, will be our contributions for each of the next few years as we develop the portfolio.

Alejandro Demichelis - NAU Security

Good afternoon gentlemen. Thank you very much for taking my question. Coming back to the renewables deal. Obviously, you changed your planning assumptions on the oil price. You were talking about downstream also being challenging, but we have also seen electricity prices in Iberia coming down a lot. So, the question is, have you changed your planning assumptions on electricity prices? And if so, how is this impacting the value of the deal? So just trying to make sure that we are unlikely to see an impairment of these deal that you just negotiated.

Carlos Gomes da Silva, CEO

Alejandro, good morning, thank you for your question. Clearly, we have also been reviewing our power prices and solar capture prices going forward, and there was no relevant impact in the transaction that we have designed with ACS. If we look at the returns, they are pretty aligned with what was our initial decision, so nothing to alluded on this front. Thank you.

Alejandro Demichelis - NAU Security

OK, thank you Carlos for that. As a follow-up, is this because you're compensating part of that lower electricity price with better financing conditions on this renewal project?

Carlos Gomes da Silva, CEO

When looking at the project in a global perspective it is all in all – a single package analysis – with the combination of the two elements that you have mentioned, with also what I’ve already referred related with the scheduling of the development of these projects. Thank you.

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This announcement may include forward-looking statements, including, without limitation, regarding future results, namely cash flows, dividends, and shareholder returns; liquidity; capital and operating expenditures; performance levels and project plans, timing, and outcomes; production rates; developments of Galp's markets; and impacts of the COVID-19 pandemic on Galp's businesses and results, which may significantly differ depending on a number of factors including supply and demand for oil, gas, petroleum products, power and other market factors affecting them; the outcome of government policies and actions, including actions taken to address COVID-19 and to maintain the functioning of national and international economies and markets; the impacts of the COVID-19 pandemic on people and economies; the impact of Galp's actions to protect the health and safety of its employees, customers, suppliers and communities; actions of Galp's competitors and commercial counterparties; the ability to access short- and long-term debt markets on a timely and affordable basis; the actions of consumers; other legal and political factors including obtaining necessary permits; unexpected operating events or technical difficulties; the outcome of commercial negotiations including negotiations with governments and private entities; and other factors discussed in Galp's Management Report & Accounts filed with the Portuguese Securities Market Commission (CMVM) for the year ended December 31, 2019 and available on our website at galp.com. Statements regarding potential future financial or operating results made at Galp's Capital Markets Day of February 18, 2020 should not be considered to be updated or re-affirmed as of any later date except to the extent specifically updated or re-affirmed in this release or in subsequent public disclosures. Forward-looking statements are statements other than in respect of historical facts and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied by such forward-looking statements. Important factors that may cause actual results to differ from forward-looking statements are referred in Galp's Management Report & Accounts for the year ended 31 December 2019. Galp and its respective representatives, agents, employees or advisers do not intend to, and expressly disclaim any duty, undertaking or obligation to, make or disseminate any supplement, amendment, update or revision to any of the information, opinions or forward-looking statements contained in this announcement to reflect any change in events, conditions or circumstances.