

Galp 4Q21 and FY2021 results, short term outlook and shareholder distributions

Following Article 29º F of the Portuguese Securities Code, this announcement is made available only in English.

All the materials related with the results and the short-term outlook, as well as the video presentation from Galp's executives, are available [here](#). Galp's analyst Q&A session will be held at 14h (Portugal / U.K. time).

"This was my first year as Galp's CEO, and what an exciting journey it has been!

We defined a new purpose, refreshed our strategy, and reshaped our organisation, positioning Galp to achieve its ambition of being a net zero emission Company by 2050. But we didn't stop on the drawing board. During 2021, we advanced significantly in the strategy execution across all our businesses and towards our decarbonisation targets.

In 2021, Galp delivered a robust set of results, driven by strong a Upstream contribution and despite a challenging downstream performance. With confidence in our financial robustness and resilience of our cash flow growth, the Board adjusted the distributions to shareholders to exclude transitory effects that impacted the net debt position at year-end, aiming to launch a buyback of €150 m, on top of the proposed base dividend of €0.5/sh. We also revised our shareholder distribution guidelines going forward, considering a progressive dividend and supplementary buybacks, as we expect to distribute up to 1/3 of our Adjusted Operating Cash Flow in the coming years.

Looking forward, we are confident that we are building the team, capabilities and projects to execute our strategy. Galp is building a distinctive investor value proposition, based on strong growth, a superior pace of decarbonisation and attractive shareholder distributions."

Andy Brown, Galp's CEO

Full Year 2021

Galp's RCA Ebitda was €2,322 m, 48% higher YoY, whilst adjusted operating cash flow (OCF) increased 49% YoY to €1,852 m, supported by strong Upstream results.

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

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

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

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

Fourth quarter 2021

Galp's RCA Ebitda reached €644 m, 57% higher YoY, driven by the strong Upstream performance, more than offsetting the lower contribution from the downstream activities:

- Upstream: RCA Ebitda was strong at €593 m, supported by the favourable oil price environment.
- Commercial: RCA Ebitda was €59 m, 17% lower YoY, as the increase in oil volumes sales was offset by the pressured price environment, namely on the B2B segment, and increased costs with digitalisation projects.
- Industrial & Energy Management: RCA Ebitda was €5 m, down from €17 m in 4Q20, with the improved refining environment contribution offset by planned and unplanned maintenances in Sines, and negative performance from gas supply and trading activities due to persisting natural gas sourcing restrictions.
- Renewables & New Businesses: No relevant RCA Ebitda as most of the operations are not consolidated. The pro-forma Ebitda of the Renewables operations was strong, reaching €29 m in the period, capturing the strong power prices during the period.

RCA net income was €130 m. IFRS net income was €106 m, with an inventory effect of €65 m and special items of -€89 m, which include mark-to-market swings from derivatives and impairments related to the Porto cogeneration discontinuity.

OCF increased 26% YoY to €470 m. CFFO was €61 m, reflecting a working capital build, caused by the higher commodities' prices and refining restrictions, as well as temporary increase in derivatives margin accounts of €161 m.

FCF was negative at -€236 m, with net debt increasing to €2,357 m, also after dividends paid to minorities of €120 m. Net debt to RCA Ebitda was 1.1x at the end of the period, or 0.8x if excluding the non-recurrent temporary working capital effects related with margin accounts.

Note: Adjusted operating cash flow (OCF) indicator represents a proxy of Galp's operational performance excluding inventory effects, working capital changes and special items. The reconciliation of this indicator with CFFO using IFRS is in chapter 6.3 Cash Flow of the report. Pro-forma considers all Renewables projects as if they were consolidated according to Galp's equity stakes.

2021 shareholder distributions

In relation to the 2021 fiscal year, Galp's Board of Directors will propose to the next Annual General Meeting in April (AGM) a base dividend of €0.50/share, paid in cash. In addition, the Board plans to launch a share buyback of €150 m.

The base dividend in cash is as per previous guidance, while the buyback programme will be in lieu of the variable cash distribution announced last year.

In assessing the proposed total distributions related to the 2021 fiscal year, the Board considered that a relevant part of the working capital variations at year-end, related to derivative margin accounts effects, were extraordinary and in the process of being reversed during 2022.

An interim dividend of €0.25/share was distributed on 16 September 2021, as an anticipation of the 2021 base distribution related with the fiscal year, with the remaining €0.25/share to be paid once the full year dividend is approved at the AGM.

The €150 m buyback programme will be subject to shareholder authorisation at the AGM for the subsequent cancelation of shares. The programme's details will be announced after the AGM, with its implementation planned to commence thereafter and to be executed throughout the year.

2021 fiscal year:

Base Dividend	Annual cash dividend of €0.50/share <ul style="list-style-type: none">- interim €0.25/share paid on September 16, 2021- remaining €0.25/share to be paid post approval at the AGM 2022
Additional Distribution	€150 m share buyback <ul style="list-style-type: none">- to be executed post AGM 2022 and throughout the year

Revised shareholder distribution guidelines

Galp's Board of Directors has revised the shareholder distributions guidelines, now with a progressive base cash DPS, growing at 4% per year. The base dividend related to 2022 is therefore expected to be €0.52/share and grow at the same rate over the subsequent years.

Additional supplementary distributions are now being planned to be made through buybacks, whenever Galp's Net Debt to RCA Ebitda remains below the Company's target of 1x. Total distributions to shareholders (cash dividend + buyback) are limited at one third of the adjusted operational cash flows (OCF).

Considering the expected deleveraging of the Company, Galp plans to distribute one third of the OCF generated in each year.

Guidelines for distributions related to the 2022 fiscal year and beyond:

Base Dividend	cash dividend of €0.52/share, increasing at a rate of 4% each year
Supplementary Distributions	share buyback whenever Net Debt / RCA Ebitda at year end is < 1x in the amount which would have raised the ratio to 1x
Total Distributions	Base Dividend + Supplementary Distributions total amounts limited at 1/3 of the OCF generated in the year

Note: total distributions are now linked to OCF instead of CFFO, which excludes the variations related with working capital, inventory effects and other special items (OCF = RCA Ebitda + dividends received from associates – taxes paid).

In relation to the 2022 fiscal year, the €0.52/share cash dividend will consider an interim payment of €0.26/share in September 2022, with the remaining amount to be paid after the dividend approval at the 2023 AGM. The buyback related with 2022 is expected to be executed during 2023.

Short Term Outlook

For 2022, Galp revised upwards its macro assumptions, considering the strength experienced during 2H21 and the beginning of 2022. Additionally, minor adjustments to key operational estimates were made to reflect Galp's most updated view.

		2022
Macro		
Brent	\$/bbl	75
Realised refining margin	\$/boe	4 - 5
Iberia solar capture price	€/MWh	150
Average exchange rate	EUR:USD	1.15
Operational indicators		
WI production	kboepd	Flat YoY
Upstream production costs	\$/boe	<3
Oil products sales to direct clients	mton	c.7.0
EV charging points	-	>2x vs 2021
Sines refining throughput	mboe	c.90
Sines refining cash costs	\$/boe	c.2.0
Renewable generation capacity by YE (@100%)	GW	1.4
Renewable generation (@100%)	TWh	>2.0
Financial indicators (consolidated, except otherwise stated)		
RCA Ebitda	€ bn	c.2.7
<i>Upstream</i>	<i>€ bn</i>	<i>c.2.2</i>
<i>Commercial</i>	<i>€ m</i>	<i>c.300</i>
<i>Industrial & Energy Management</i>	<i>€ m</i>	<i>200 - 250</i>
<i>Renewables pro-forma</i>	<i>€ m</i>	<i>180 - 200</i>
OCF	€ bn	c.2.0
<i>Upstream</i>	<i>€ bn</i>	<i>>1.5</i>
<i>Commercial</i>	<i>€ m</i>	<i>c.230</i>
<i>Industrial & Energy Management</i>	<i>€ m</i>	<i>200-250</i>
<i>Renewables pro-forma</i>	<i>€ m</i>	<i>>140</i>
Net capex	€ bn	c.1.0
Net debt to RCA Ebitda by YE	-	<1
Total expected distributions to shareholders	€ m	1/3 OCF

Distinctive investment case

Galp aims to thrive through the energy transition by:

- Continuing to deliver 25%₂₀₂₁₋₂₅ Upstream production growth from one of the most efficient portfolios in the industry, whilst progressively transforming its Downstream activities in alignment with the energy transition.
- Continuing to expand its Renewable businesses, ambitioning to reach a total gross installed capacity of 12 GW by 2030, and explore further opportunities in the energy value chain.
- Accelerating the decarbonisation of its operations, with the ambition to be a net zero emissions Company by 2050 and with intermediate targets by 2030.
- Distributing competitive returns to shareholders, which are expected to represent 1/3 of Galp's OCF.

Galp Energia, SGPS, S.A.

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