RESULTS
SECOND QUARTER
2016

July 29, 2016
Investor Relations

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1. Executive summary

Main highlights during the second quarter of 2016

- Consolidated Group Ebitda down 25% year-on-year (YoY), on a replacement cost adjusted (RCA) basis to €337 m, given the lower contribution from the Refining & Marketing (R&M) and Exploration & Production (E&P) business segments. These were impacted, respectively, by the decrease of the refining margins and the lower prices of oil and natural gas on the international markets. The Ebitda from the Gas & Power (G&P) business segment increased 10% benefitting from the sourcing optimisation within the natural gas activity.
- RCA net income reached €133 m, a €56 m decrease YoY, and included a positive €31 m inventory effect, as well as €98 m in non-recurring items, mainly related to impairments in the E&P business. International Financial Reporting Standards (IFRS) net income was €66 m.
- Working interest production of oil and natural gas increased 25% YoY to 54.7 kboepd, driven by higher production from Brazil, namely from two new production units in the Lula/Iracema field. It should be highlighted that, during July, FPSO Cidade de Saquarema (FPSO #6) started production in the Lula Central area.
- Galp's refining margin stood at $4.6/boe during the quarter, compared to $7.3/boe during the previous year, as refining margins decreased in the international markets. Marketing of oil products maintained its positive contribution to results.
- Natural gas sold decreased 15% to 1,593 million cubic metres (mm³), mainly due to the decrease in volumes sold in the trading segment.
- Capital expenditure amounted to €287 m, of which 85% was allocated to the E&P business, mainly to the development of block BM-S-11 in Brazil and block 32 in Angola.
- Net debt at the end of the quarter amounted to €1,891 m, considering the loan to Sinopec as cash and equivalents, with a net debt to Ebitda ratio of 1.6x.
- On July 28, Galp reached an agreement with a consortium led by Marubeni, with the participation of Toho Gas, based on which the consortium will acquire a 22.5% stake in the share capital of Galp Gás Natural Distribuição, S.A. (GGND), for €138 m. Based on the agreed equity price and outstanding liabilities, the implied enterprise value (EV) for 100% of GGND is of c.€1.3 bn, equivalent to a 27% premium over the regulated asset base (RAB). Prior to transaction completion, GGND will raise stand-alone funding to reimburse existing shareholder loans of €568 m, leading to total cash proceeds to Galp of c.€700 m.

2. Main indicators

Financial performance

€ m (RCA)

Quarter						First Half			
1Q16	2Q15	2Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
293	**447**	**337**	**(110)**	**(25%)**	**Ebitda RCA**	**822**	**631**	**(192)**	**(23%)**
48	119	86	(33)	(27%)	Exploration & Production	213	135	(78)	(37%)
148	230	143	(87)	(38%)	Refining & Marketing	373	291	(82)	(22%)
90	89	97	9	10%	Gas & Power	220	187	(33)	(15%)
137	**304**	**185**	**(119)**	**(39%)**	**Ebit RCA**	**531**	**323**	**(209)**	**(39%)**
(3)	**284**	**131**	**(152)**	**(54%)**	**Ebit IFRS**	**341**	**128**	**(213)**	**(62%)**
114	**189**	**133**	**(56)**	**(29%)**	**Net income RCA**	**310**	**247**	**(63)**	**(20%)**
(58)	**110**	**66**	**(45)**	**(40%)**	**Net income IFRS**	**71**	**8**	**(63)**	**(89%)**
343	**313**	**287**	**(26)**	**(8%)**	**Capex**	**596**	**630**	**34**	**6%**
1.841	**1.494**	**1.891**	**397**	**27%**	**Net debt including loan to Sinopec[1]**	**1.494**	**1.891**	**397**	**27%**
1.4x	**1.2x**	**1.6x**	**-**	**-**	**Net debt to Ebitda[2]**	**1.2x**	**1.6x**	**-**	**-**

[1] Considering loan to Sinopec as cash and equivalents. [2] As at 30 June 2016, ratio considers net debt including loan to Sinopec of €576 m, plus €169 m corresponding to Sinopec MLT Shareholder loan to Petrogal Brasil and LTM Ebitda RCA of €1,323 m.

Operational data

Quarter						First Half			
1Q16	2Q15	2Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
56.3	43.8	54.7	10.9	25%	Average working interest production (kboepd)	42.7	55.5	12.9	30%
53.7	40.9	52.2	11.3	28%	Average net entitlement production (kboepd)	39.8	53.0	13.1	33%
26.2	53.0	38.3	(14.6)	(28%)	Oil and gas average sale price (USD/boe)	51.8	32.1	(19.7)	(38%)
25.2	29.8	26.3	(3.5)	(12%)	Raw materials processed (mmboe)	56.0	51.5	(4.5)	(8%)
4.1	7.3	4.6	(2.7)	(37%)	Galp refining margin (USD/boe)	6.6	4.3	(2.3)	(35%)
2.1	2.3	2.3	(0.1)	(2%)	Oil sales to direct clients (mton)	4.6	4.4	(0.2)	(3%)
901	919	882	(37)	(4%)	NG supply sales to direct clients (mm^3)	1,918	1,782	(136)	(7%)
960	951	712	(239)	(25%)	NG/LNG trading sales (mm^3)	2,146	1,672	(474)	(22%)

Market indicators

Quarter						First Half			
1Q16	2Q15	2Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
1.10	1.11	1.13	0.02	2%	Exchange rate (EUR:USD)	1.12	1.12	(0.00)	(0%)
33.9	61.9	45.6	(16.3)	(26%)	Dated Brent price[1] (USD/bbl)	57.8	39.8	(18.0)	(31%)
(2.3)	(0.7)	(2.2)	(1.6)	n.m.	Heavy-light crude price spread[2] (USD/bbl)	(1.0)	(2.3)	(1.2)	n.m.
29.9	43.3	30.5	(12.8)	(30%)	UK NBP natural gas price[3] (GBp/therm)	45.5	30.2	(15.3)	(34%)
5.0	7.3	4.7	(2.6)	(36%)	LNG Japan and Korea price[1] (USD/mmbtu)	7.5	4.8	(2.7)	(36%)
3.3	5.2	2.9	(2.3)	(45%)	Benchmark refining margin[4] (USD/bbl)	5.3	3.1	(2.2)	(41%)
14.9	14.8	15.2	0.4	3%	Iberian oil market[5] (mton)	29.6	30.1	0.5	2%
8,653	6,885	7,020	135	2%	Iberian natural gas market[6] (mm3)	15,959	15,674	(285)	(2%)

[1] Source: Bloomberg. [2] Source: Platts. Urals NWE dated for heavy crude; dated Brent for light crude. [3] Source: Platts [4] For a complete description of the method of calculating the benchmark refining margin see "Definitions". [5] Source: APETRO for Portugal; CORES for Spain; the figures include an estimate for June 2016. [6] Source: Galp and Enagás.

3. Market environment

Dated Brent

During the second quarter of 2016, the average price of dated Brent decreased $16.3/bbl YoY to $45.6/bbl. This decrease was mainly due to surplus production and large inventories, as a result of increased crude oil production by OPEC countries.

During the first half of 2016, dated Brent averaged $39.8/bbl, down $18.0/bbl YoY.

During the second quarter of 2016, the average price spread between Urals and dated Brent widened from -$0.7/bbl, during the same period of 2015, to -$2.2/bbl. The lower price for Urals crude resulted from its increased production, lower runs by the Russian refineries and competition from similar grades from the Middle East. During the first half of 2016, the price spread widened $1.2/bbl YoY, to -$2.3/bbl.

Natural gas

The natural gas price in Europe (NBP) decreased from 43.3 GBp/therm during the second quarter of 2015, to 30.5 GBp/therm, as a result of lower oil prices, to which natural gas contracts are typically indexed, and of a relatively mild winter in Europe.

During the first half of 2016, NBP averaged 30.2 GBp/therm, corresponding to a decrease of 15.3 GBp/therm YoY.

The Asian liquefied natural gas (LNG) reference price (JKM) decreased to $4.7/mmbtu during the second quarter of 2016, compared to $7.3/mmbtu during the previous year. This decrease was due to lower than expected growth in demand and the start of production of several LNG projects, namely in Australia and the USA.

During the first half of 2016, JKM averaged $4.8/mmbtu, corresponding to a decrease of $2.7/mmbtu YoY.

Refining margins

During the second quarter of 2016, the benchmark refining margin decreased by $2.3/bbl YoY to $2.9/bbl, due to the lower gasoline and middle distillates cracks.

The gasoline crack averaged $13.0/bbl during the period, compared to $18.5/bbl YoY, impacted by high stocks and maximisation of the refining system to produce light distillates. The diesel crack stood at $10.9/bbl, down by $6.5/bbl YoY, mainly due to large stocks globally.

During the first half of 2016, the benchmark refining margin decreased by $2.2/bbl to $3.1/bbl, as the gasoline and diesel crack spreads dropped, respectively, $11.5/bbl and $7.7/bbl YoY.

Iberian market

During the second quarter of 2016, the Iberian market for oil products grew by 2.6% YoY to 15.2 million tonnes (mton), led by higher demand for diesel and jet fuel.

During the first half of 2016, the Iberian market for oil products rose 1.9% YoY to 30.1 mton.

During the second quarter of 2016, the Iberian natural gas market grew 2% YoY to 7,020 mm^3, driven by a 6% increase in conventional consumption (i.e., from industrial and retail segments) in a quarter with lower average temperatures than those in the same period of 2015. The electrical segment saw a contraction of 14% in natural gas consumption, impacted by high hydroelectric power generation.

During the first half of 2016, the Iberian natural gas market decreased by 2% YoY to 15,674 mm³, due to the lower demand from the electrical segment.

4. Exploration & Production

4.1. Development activities

Brazil

During the second quarter of 2016, Galp and its partners continued with the development works on the Lula/Iracema project. The connection rate of new wells to units already in operation is noteworthy, with a total of five producer and two injector wells connected during the quarter. Drilling and completion performance continued to improve, with average duration on these activities decreasing by around 20% compared to the 2015 average of 110 days.

Production during the quarter was impacted by maintenance activities during April in the units allocated to the Lula Pilot and Lula Northeast areas.

In the Lula Pilot area, FPSO Cidade de Angra dos Reis (#1) had a planned outage for equipment maintenance, which lasted around 11 days. Production from FPSO Cidade de Paraty (#2), in the Lula Northeast area, was also affected by maintenance works, which led to a stoppage of around 15 days.

Both units returned to plateau production once maintenance was concluded.

At FPSO #1 a new producer well was connected in May, which will contribute to a better reservoir management and a higher operational availability.

In the Iracema South area the sixth producer well was connected to FPSO Cidade de Mangaratiba (#3). The unit continues to produce at plateau and its connection to the gas network through the pipeline to Cabiúnas is expected during the fourth quarter of 2016, which will contribute to lower operational restrictions and to allow the marketing of associated gas.

In the Iracema North area, FPSO #4 (Cidade de Itaguaí) is already connected to five producer wells. The fourth well was connected at the end of the first quarter and the fifth in June. This unit is expected to be connected to the gas export network during the third quarter of 2016, which will support the production ramp-up.

In the Lula Alto area, where production began in February, two new producer wells were connected during April and June. At the end of the quarter, FPSO Cidade de Maricá (#5) was producing over 90 kbopd from three wells, showing the excellent productivity.

FPSO Cidade de Saquarema (#6) started producing at the beginning of July, in the Lula Central area. This unit has a daily installed production capacity of 150 kbbl and 6 mm^3 of natural gas. The unit is currently producing c.30 kbopd through one well. The development plan for this area includes the connection of nine producer and nine injector wells. Two additional producer wells are expected to be connected by the end of 2016.

Regarding the replicant FPSO units, the first stage of the topsides' integration works of the unit to be allocated to the Lula South area was concluded during the quarter. Meanwhile, CO_2 and gas compression and injection modules, built by BJC, arrived at the Keppel Fels shipyard (Brazil) during May, and are already being installed in the unit.

Development wells in the Lula/Iracema areas

Project		Type of wells	Planned	Drilled	Connected
#1	Lula Pilot	Producers	7	6	6
	FPSO Cidade de Angra dos Reis	Injectors	5	5	5
#2	Lula Northeast	Producers	8	6	6
	FPSO Cidade de Paraty	Injectors	6	6	6
#3	Iracema South	Producers	8	7	6
	FPSO Cidade de Mangaratiba	Injectors	8	7	5
#4	Iracema North	Producers	8	7	5
	FPSO Cidade de Itaguaí	Injectors	9	7	3
#5	Lula Alto	Producers	10	7	3
	FPSO Cidade de Maricá	Injectors	7	6	2
#6	Lula Central	Producers	9	7	1
	FPSO Cidade de Saquarema	Injectors	9	7	0

Mozambique

In Mozambique, the Area 4 partners continue to negotiate the Engineering, Procurement, Construction, Installation and Commissioning (EPCIC) proposals for the offshore Coral project. The consortium is also negotiating the financing solution for the project as well as finalising the sales and purchasing agreement (SPA) for LNG.

Regarding the Mamba onshore project, EPC proposals continue to be analysed. The unitisation process of the Mamba project (Area 4) and of the Prosperidade project (Area 1), which was concluded by the partners during 2015, is still pending approval from the Mozambican Government.

Angola

In block 32, the drilling and completion campaign of the Kaombo project proceeded at good pace. During the second quarter, conversion works of the two FPSO units, as well as the construction of subsea equipment, continued.

4.2. Operating performance

€ m (RCA, except otherwise stated; unit figures based on net entitlement production)

Quarter						First Half			
1Q16	2Q15	2Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
56.3	**43.8**	**54.7**	**10.9**	**25%**	**Average working interest production[1] (kboepd)**	**42.7**	**55.5**	**12.9**	**30%**
52.9	40.5	51.7	11.2	28%	Oil production (kbopd)	39.4	52.3	12.8	33%
53.7	**40.9**	**52.2**	**11.3**	**28%**	**Average net entitlement production[1] (kboepd)**	**39.8**	**53.0**	**13.1**	**33%**
7.9	7.4	7.1	(0.2)	(3%)	Angola	7.6	7.5	(0.0)	(1%)
45.8	33.5	45.0	11.5	34%	Brazil	32.2	45.4	13.2	41%
26.2	**53.0**	**38.3**	**(14.6)**	**(28%)**	**Average realised sale price[2] (USD/boe)**	**51.8**	**32.1**	**(19.7)**	**(38%)**
2.8	**5.4**	**3.8**	**(1.5)**	**(28%)**	**Royalties[3] (USD/boe)**	**4.8**	**3.3**	**(1.5)**	**(30%)**
8.9	**7.6**	**9.8**	**2.2**	**29%**	**Production costs (USD/boe)**	**9.6**	**9.3**	**(0.2)**	**(3%)**
15.8	**18.8**	**14.8**	**(4.0)**	**(21%)**	**Amortisation[4] (USD/boe)**	**17.6**	**15.4**	**(2.3)**	**(13%)**
48	**119**	**86**	**(33)**	**(27%)**	**Ebitda RCA**	**213**	**135**	**(78)**	**(37%)**
70	63	63	(0)	(1%)	Depreciation & Amortisation[4]	114	133	19	17%
-	-	(0)	n.m.	n.m.	Provisions	-	(0)	n.m.	n.m.
(22)	**56**	**24**	**(32)**	**(57%)**	**Ebit RCA**	**99**	**2**	**(97)**	**(98%)**
(31)	**25**	**(62)**	**(87)**	**n.m.**	**Ebit IFRS**	**14**	**(93)**	**(107)**	**n.m.**
3	**1**	**8**	**7**	**n.m.**	**Net Income from E&P Associates**	**9**	**11**	**2**	**21%**

[1] Includes natural gas exported; excludes natural gas used or reinjected.
[2] Galp average realised sale price for oil and natural gas, including change in production effects.
[3] Based on production in Brazil.
[4] Includes abandonment provisions.

Operations

Second quarter

During the second quarter of 2016, the average working interest production of oil and natural gas increased 25% YoY to 54.7 kboepd, of which 94% was oil production.

Production from Brazil increased 11.5 kboepd YoY to 45.0 kboepd. This increase was primarily a result of the production from FPSO #4 and #5, which averaged 7.6 kbopd and 5.9 kbopd, respectively. However, production during the quarter was impacted by maintenance stoppages in April at units #1 and #2. Gas exports remained stable at 3.1 kboepd, of which 2.6 kboepd were from the Lula field.

In Angola, working interest production was 9.7 kbopd, a decrease of 6% YoY, with the production increase at block 14k insufficient to offset the decline of the Tômbua-Landana (TL) and BBLT fields.

Net entitlement production was 52.2 kboepd in the quarter, an increase of 28% YoY, in line with the working interest production. In Angola, net entitlement production declined only 3% having benefitted from an increase in cost oil production rates, under the production sharing agreements (PSA).

Production from Brazil accounted for 86% of total net entitlement production during the period.

First half

During the first half of 2016, working interest production increased 30% YoY to 55.5 kboepd, which was mainly due to the start-up of units #4 and #5 and increased production at FPSO #3 in Brazil.

Net entitlement production increased 33% YoY to 53.0 kboepd.

Results

Second quarter

During the second quarter of 2016, RCA Ebitda amounted to €86 m, down €33 m YoY, as the increase in production did not offset the lower average sale price of oil and natural gas.

The average realised sale price during the period was $38.3/boe, down from $53.0/boe during the previous year.

Production costs increased €16 m YoY to around €41 m in the quarter, following the start-up of FPSO #4 and #5 in Brazil. In unit terms and on a net entitlement basis, production costs increased $2.2/boe YoY to $9.8/boe, as a result of a higher cost base and lower production dilution given maintenance activities.

During the second quarter of 2016, amortisations (including abandonment provisions) were in line YoY, at €62 m. Despite the increased asset base in Brazil, there was a decrease of abandonment provisions in Angola following the downwards revision of demobilisation costs. On a net entitlement basis, unit depreciation charges decreased to $14.8/boe from $18.8/boe in the previous period.

RCA Ebit was €24 m during the period, compared to €56 m the previous period. Non-recurring items amounted to €86 m, of which c.€76 m were related to an impairment on block 14/14K in Angola, following the decision to reduce drilling activities. Ebit on an IFRS basis was negative by €62 m.

Results from associated companies related to the E&P business totalled €8 m, due to the increase in services rendered by Tupi BV to the BM-S-11 consortium.

First half

During the first half, RCA Ebitda decreased by €78 m YoY to €135 m, after a drop in the average sale price, which was not offset by the increase in net entitlement production.

The average sale price was $32.1/boe, compared to $51.8/boe during the first half of 2015.

Production costs increased €19 m YoY to €81 m, due to the higher number of production units in Brazil. In unit terms, production costs were down YoY and amounted to $9.3/boe.

Depreciation charges (including abandonment provisions) increased c.€19 m YoY to €133 m, on the back of the increased asset base in Brazil. On a net entitlement basis, unit depreciation charges were $15.4/boe, compared to $17.6/boe the previous year.

RCA Ebit was €2 m in the period, or €97 m lower YoY. IFRS Ebit was negative by €93 m. Non--recurring items of €95 m included the impairment in block 14/14K during the second quarter.

During the first half of 2016, the contribution of associated companies related to the E&P business increased €2 m YoY to €11 m.

5. Refining & Marketing

€ m (RCA, except otherwise stated)

Quarter						First Half			
1Q16	2Q15	2Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
4.1	**7.3**	**4.6**	**(2.7)**	**(37%)**	**Galp refining margin (USD/boe)**	**6.6**	**4.3**	**(2.3)**	**(35%)**
2.0	**1.4**	**1.7**	**0.3**	**25%**	**Refining cash cost[1] (USD/boe)**	**1.6**	**1.8**	**0.3**	**17%**
0.1	**(1.1)**	**(0.0)**	**1.1**	**98%**	**Impact of refining margin hedging[2] (USD/boe)**	**(0.9)**	**0.1**	**0.9**	**n.m.**
25.2	**29.8**	**26.3**	**(3.5)**	**(12%)**	**Raw materials processed (mmboe)**	**56.0**	**51.5**	**(4.5)**	**(8%)**
23.9	26.3	23.2	(3.1)	(12%)	Crude processed (mmbbl)	49.5	47.1	(2.3)	(5%)
4.2	**4.7**	**4.6**	**(0.2)**	**(4%)**	**Total refined product sales (mton)**	**9.1**	**8.7**	**(0.4)**	**(4%)**
2.1	2.3	2.3	(0.1)	(2%)	Sales to direct clients (mton)	4.6	4.4	(0.2)	(3%)
148	**230**	**143**	**(87)**	**(38%)**	**Ebitda RCA**	**373**	**291**	**(82)**	**(22%)**
65	69	65	(4)	(5%)	Depreciation & Amortisation	137	130	(7)	(5%)
5	(6)	7	13	n.m.	Provisions	4	12	9	n.m.
78	**167**	**71**	**(96)**	**(58%)**	**Ebit RCA**	**233**	**149**	**(84)**	**(36%)**
(47)	**185**	**103**	**(82)**	**(44%)**	**Ebit IFRS**	**144**	**56**	**(88)**	**(61%)**
1	**(1)**	**(0)**	**1**	**n.m.**	**Net Income from R&M Associates**	**0**	**0**	**0**	**n.m.**

[1] Excluding impact of refining margin hedging operations.
[2] Impact on Ebitda.

Operations

Second quarter

Raw materials processed during the second quarter of 2016 decreased 12% YoY to 26.3 million barrels (mmboe). The lower utilisation of the refining system was a result of the lower refining margins on the international markets, as well as to planned outages for maintenance at some units in Matosinhos. Crude oil accounted for 88% of raw materials processed, of which 81% corresponded to medium and heavy crudes.

Gasoline production increased 2 p.p. YoY and accounted for 25% of production, while production of middle distillates (diesel and jet) increased 1 p.p. and accounted for 48% of total production. Consumption and losses accounted for 8% of raw materials processed.

Volumes sold to direct clients stood at 2.3 mton, down 2% YoY, following the diversion of volumes to higher margin trading clients. Volumes sold in Africa accounted for 8% of total volumes sold to direct clients, in line with the previous year.

First half

Raw materials processed during the first half decreased 8% YoY to 51.5 mmboe, given the planned outages at the hydrocracker in Sines during the first quarter and at some units in Matosinhos during the second quarter. Crude oil accounted for 92% of raw materials processed, of which 78% corresponded to medium and heavy crudes.

Gasoline production increased 3 p.p YoY and accounted for 25% of production, while production of middle distillates accounted for 46% of total production. Consumption and losses accounted for 7% of raw materials processed.

Volumes sold to direct clients stood at 4.4 mton, down 3% YoY, impacted by the optimisation of the client portfolio. Volumes sold in the Africa accounted for 8% of total volumes sold to direct clients.

Results

Second quarter

RCA Ebitda for the R&M business in the second quarter of 2016 decreased YoY to €143 m, reflecting the drop in refining margins in the international markets.

During the quarter, Galp's refining margin stood at $4.6/boe, compared to $7.3/boe the previous year. The spread over the benchmark margin was $1.7/boe, benefitting from gasoline arbitrage opportunities between the USA and Europe. During the second quarter of 2015, the spread had been higher due to the lower cost of other raw materials compared to Brent.

Refining cash costs increased €3 m YoY to €40 m, due to higher maintenance costs during the second quarter of 2016. In unit terms cash costs increased $0.3/boe to $1.7/boe.

Refining margin hedging operations had a neutral impact in Ebitda during the period, compared to a loss of €30 m the previous year.

Marketing of oil products maintained its contribution to results, in spite of the slightly lower volumes sold in the period.

DD&A and provisions increased €9 m to €72 m, mainly due to the higher provisions for doubtful receivables. Ebit RCA totalled €71 m.

Ebit IFRS decreased €82 m during the period to €103 m. The inventory effect was positive €38 m and non-recurring items, of €6 m, were mainly related to restructuring charges.

First half

RCA Ebitda for the R&M business during the first half decreased €82 m YoY to €291 m.

Galp's refining margin stood at $4.3/boe during the first half, compared to $6.6/boe the previous year, reflecting the lower margins on the international markets. The spread over the benchmark margin amounted to $1.2/boe, in line YoY, as the previous year had also been impacted by outages in some units.

Refining cash costs increased €6 m YoY to €85 m, due to higher maintenance costs during 2016. In unit terms, cash costs were $1.8/boe.

Hedging operations had a positive impact of €3 m in Ebitda during the first half.

Marketing of oil products maintained its contribution to results.

Amortisations and provisions remained in line YoY at €142 m.

Ebit RCA amounted to €149 m and Ebit IFRS decreased €88 m to €56 m. Inventory effect was negative €71 m and non-recurring items amounted to €23 m and were mainly related to impairments on refining equipment and restructuring charges.

6. Gas & Power

€ m (RCA except otherwise stated)

Quarter						First Half			
1Q16	2Q15	2Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
1,860	**1,869**	**1,593**	**(276)**	**(15%)**	**NG supply total sales volumes (mm³)**	**4,064**	**3,454**	**(610)**	**(15%)**
901	919	882	(37)	(4%)	Sales to direct clients (mm³)	1,918	1,782	(136)	(7%)
960	951	712	(239)	(25%)	Trading (mm³)	2,146	1,672	(474)	(22%)
1,192	**1,120**	**1,229**	**109**	**10%**	**Sales of electricity (GWh)**	**2,247**	**2,421**	**174**	**8%**
90	**89**	**97**	**9**	**10%**	**Ebitda RCA**	**220**	**187**	**(33)**	**(15%)**
60	55	61	6	11%	Natural Gas	153	121	(32)	(21%)
32	32	33	1	2%	Infrastructure	66	65	(1)	(1%)
(3)	2	4	2	n.m.	Power	1	1	(0)	(0%)
15	17	15	(3)	(15%)	Depreciation & Amortisation	32	30	(3)	(8%)
0	(2)	1	3	n.m.	Provisions	2	1	(1)	(40%)
75	**73**	**81**	**8**	**11%**	**Ebit RCA**	**185**	**156**	**(29)**	**(16%)**
69	**66**	**82**	**16**	**24%**	**Ebit IFRS**	**168**	**151**	**(18)**	**(10%)**
18	**17**	**17**	**0**	**0%**	**Net Income from G&P Associates**	**34**	**34**	**0**	**0%**

Operations

Second quarter

Volumes sold of natural gas amounted to 1,593 mm³ during the second quarter of 2016, down 15% YoY, mostly as a result of the lower volumes sold in the trading segment.

During the quarter, six LNG trading operations were carried out, compared to eight during the previous year. Cargoes were mostly shipped to the Asian market. Network trading volumes also decreased from 291 mm³ to 208 mm³.

Sales to direct clients decreased 4% mainly caused by a 9% decrease in volumes sold to the electrical segment, which reached 240 mm³, following greater use of hydroelectric power in Iberia.

Volumes sold in the conventional market, i.e. in the industrial and retail segments, remained in line YoY.

Sales of electricity in the quarter stood at 1,229 GWh, up 109 GWh YoY. This was mainly due to an increase of 71 GWh in electricity sold to the grid, which had been impacted by an outage at the Sines cogeneration the previous year.

First half

Sales of natural gas in the first half of 2016 totalled 3,454 mm³, a decrease of 15% YoY which was driven by lower volumes in the trading segment.

Volumes sold in that segment decreased 22% as a result of fewer opportunities in the international markets. During the first half of 2016, 14 LNG trading operations were carried out, compared to 18 the previous year.

Volumes sold to direct clients also dropped, by 7%, impacted by the decrease in volumes sold to the industrial segment, particularly during the first quarter of 2016.

Sales of electricity increased 174 GWh YoY to a total of 2,421 GWh, mainly due to the increased marketing of electricity.

Results

Second quarter

Ebitda RCA for the G&P business was up €9 m YoY to €97 m, benefitting from sourcing optimisation within natural gas activities, and despite lower volumes sold.

Ebitda for the natural gas segment increased €6 m YoY to €61 m.

Ebitda for the regulated infrastructure business remained stable at €33 m.

Ebitda for the power business was up by €2 m YoY to €4 m. This was mainly due to the performance of the Sines cogeneration unit and to the fact that, during the second quarter of 2015, business had been impacted by the lag in natural gas purchase price indexes.

Ebit RCA increased 11% YoY to €81 m. Ebit IFRS reached €82 m, up from €66 m the previous year. Inventory effect was negative by €2 m and non-recurring items stood at -€3 m.

Results from associated companies, namely from the stakes held in the international pipelines, maintained its €17 m contribution to results.

First half

The Ebitda of the G&P segment decreased by €33 m to €187 m during the first half, due to lower results from the natural gas activity.

Ebitda for the natural gas segment decreased 21% YoY to €121 m, due to lower volumes sold, particularly in the international market.

The contribution to results of the regulated infrastructure business remained stable at €65 m.

Ebitda for the power business stood stable at €1 m.

Depreciation and amortisation in the G&P business segment stood at €30 m, in line with the previous year.

Ebit RCA decreased €29 m to €156 m YoY, and included a negative €8 m inventory effect and non-recurring items of -€3 m. Ebit IFRS reached €151 m, down from €168 m the previous year.

Results from associated companies related to the G&P business maintained its €34 m contribution to results.

7. Financial performance

7.1. Income statement

€ m (RCA, except otherwise stated)

Quarter						First Half			
1Q16	2Q15	2Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
2,829	4,247	3,267	(981)	(23%)	Turnover	8,179	6,095	(2,083)	(25%)
(2,155)	(3,432)	(2,554)	(878)	(26%)	Cost of goods sold	(6,606)	(4,710)	(1,897)	(29%)
(313)	(299)	(310)	11	4%	Supply & Services	(609)	(623)	15	2%
(75)	(73)	(73)	0	0%	Personnel costs	(156)	(148)	(8)	(5%)
8	4	8	4	n.m.	Other operating revenues (expenses)	15	16	2	11%
293	**447**	**337**	**(110)**	**(25%)**	**Ebitda RCA**	**822**	**631**	**(192)**	**(23%)**
164	**466**	**366**	**(100)**	**(21%)**	**Ebitda IFRS**	**725**	**530**	**(195)**	**(27%)**
(151)	(147)	(144)	(4)	(3%)	Depreciation & Amortisation	(282)	(295)	13	4%
(5)	4	(8)	13	n.m.	Provisions	(9)	(13)	5	50%
137	**304**	**185**	**(119)**	**(39%)**	**Ebit RCA**	**531**	**323**	**(209)**	**(39%)**
(3)	**284**	**131**	**(152)**	**(54%)**	**Ebit IFRS**	**341**	**128**	**(213)**	**(62%)**
21	17	24	7	42%	Net income from associated companies	43	45	2	5%
3	(10)	15	26	n.m.	Financial results	(60)	18	78	n.m.
162	**311**	**224**	**(86)**	**(28%)**	**Net income before taxes and non-controlling interests**	**514**	**386**	**(128)**	**(25%)**
(39)	(107)	(79)	(28)	(26%)	Taxes[1]	(179)	(118)	(60)	(34%)
(9)	(15)	(12)	(2)	(16%)	Non-controlling interests	(26)	(21)	(5)	(19%)
114	**189**	**133**	**(56)**	**(29%)**	**Net income RCA**	**310**	**247**	**(63)**	**(20%)**
(80)	(96)	(98)	3	3%	Non recurring items	(170)	(178)	8	5%
34	**93**	**35**	**(58)**	**(63%)**	**Net income RC**	**140**	**69**	**(71)**	**(51%)**
(92)	17	31	14	80%	Inventory effect	(69)	(61)	(8)	(12%)
(58)	**110**	**66**	**(45)**	**(40%)**	**Net income IFRS**	**71**	**8**	**(63)**	**(89%)**

[1]Includes the Special Participation tax payable in Brazil and IRP payable in Angola.

Second quarter

During the second quarter of 2016, turnover amounted to €3,267 m, down 23% YoY. This was mainly due to the decrease in the prices of oil, natural gas and oil products on the international market, but also to lower volumes sold, mainly in the G&P business.

Operating costs decreased by 23% YoY to €2,929 m, given a 26% fall in the cost of goods sold. Supply & services costs increased 4%, including maintenance, as well as costs related to the marketing of oil products activity. Personnel costs remained stable YoY.

RCA Ebitda fell 25% to €337 m in the period as a result of a lower contribution from the R&M and E&P businesses. IFRS Ebitda also fell by €100 m to €366 m.

RCA Ebit was €185 m, or €119 m less YoY, while IFRS Ebit fell by €152 m to €131 m.

Net income from associated companies totalled €24 m, against €17 m during the previous year, mainly due to the higher contribution from E&P associated companies, namely related to the BM-S-11 development in Brazil.

Financial results were positive by €15 m YoY, due to the €23 m gain mainly related to the mark-to--market of refining hedge instruments, and which compares to a €4 m loss during the previous period.

Net interest expenses decreased €4 m YoY, to €28 m, following the lower cost of debt.

RCA taxes decreased by €28 m to €79 m, mostly due to lower results in the E&P and R&M businesses. Taxes related to oil production decreased by €6 m to €25 m.

Non-controlling interests, mainly attributable to Sinopec's interest in Petrogal Brasil, decreased to €12 m as a result of lower income from this activity.

RCA net income reached €133 m, a €56 m decrease YoY, and included a positive €31 m inventory effect, as well as €98 m in non-recurring items. These were mainly related to the E&P business, specifically the impairment booked in Angola after the decision to stop drilling in block 14/14K. IFRS net income was €66 m in the quarter.

First half

During the first half of 2016, turnover amounted to €6,095 m, down 25% YoY. This was mainly due to the decrease in the prices of oil, natural gas and oil products, but also to lower volumes sold in the R&M and G&P businesses.

Operating costs decreased by 26% YoY to €5,465 m, following a 29% fall in the cost of goods sold.

RCA Ebitda amounted to 631 m, down 23% YoY, with a lower contribution across all business segments. IFRS Ebitda fell by €195 m YoY to €530 m.

Thus, RCA Ebit also fell to €323 m, while IFRS Ebit decreased €213 m YoY to €128 m.

Net income from associated companies totalled €45 m, against €43 m the previous year, due to higher contribution from E&P affiliates.

Financial results were positive €18 m, compared to a loss of €60 m YoY, essentially due to a €44 m gain in the mark-to-market mostly related to refining hedging instruments, which compares to a loss of €22 m in the previous period.

Net interest expenses also improved by €9 m YoY, to €55 m.

RCA taxes decreased by €60 m to €118 m, due to lower results.

Non-controlling interests, mainly attributable to Sinopec, decreased by €5 m to €21 m.

RCA net income reached €247 m, a €63 m decrease YoY. IFRS net income was €8 m.

Inventory effect was negative €61 m and non--recurring items, of €178 m, included not only the impairment recorded in the E&P business in the second quarter of 2016, but also the Portuguese Extraordinary Energy Sector Contribution (CESE), which impacts the R&M and G&P businesses.

The CESE had a negative impact on IFRS results of around €51 m, of which €27 m related to CESE I, whose annual impact was fully accounted for in the first quarter of the year. This provision related with CESE results from the strict applicability of accounting standards. However, in Galp's opinion, based on the opinion of renowned legal experts, the laws regarding CESE have no legal grounds and, accordingly, such amounts are not due.

7.2. Capital expenditure

€ m

Quarter						First Half			
1Q16	2Q15	2Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
316	285	245	(41)	(14%)	Exploration & Production	558	561	3	0%
10	32	12	(21)	(64%)	Exploration and appraisal activities	69	21	(47)	(69%)
306	253	233	(20)	(8%)	Development and production activities	489	540	50	10%
23	21	35	14	67%	Refining & Marketing	26	59	33	n.m.
3	5	7	1	19%	Gas & Power	9	9	1	9%
1	0	0	(0)	(54%)	Others	3	1	(2)	(77%)
343	**313**	**287**	**(26)**	**(8%)**	**Investment**	**596**	**630**	**34**	**6%**

Second quarter

Capital expenditure during the second quarter of 2016 amounted to €287 m, of which 85% was allocated to the E&P business.

Investment in this business was mainly allocated to development and production (D&P) activities, namely to the development of block BM-S-11 in Brazil, which accounted for 76% of investment in D&P in the period. Activities in block 32, in Angola, accounted for around 18% of that total.

In the R&M and G&P businesses, investment totalled €42 m, up €15 m YoY. Maintenance activities at the Matosinhos refinery contributed to this increase.

First half

During the first half of 2016, capital expenditure totalled €630 m, 89% of which was allocated to E&P.

D&P activities accounted for 96% of capital expenditure in the E&P business, and investment in Brazil accounted for c.75% of that total.

Capital expenditure in downstream and gas activities reached €68 m, including investment in planned maintenance at the refineries.

7.3. Cash flow

Indirect method

€ m (IFRS figures)

Quarter				First Half	
1Q16	2Q15	2Q16		2015	2016
(3)	284	131	Ebit	341	128
-	37	25	Dividends from associates	37	25
162	180	221	Depreciation, Depletion and Amortization (DD&A)	368	383
141	11	(8)	Change in Working Capital	117	133
300	**512**	**369**	**Cash flow from operations**	**863**	**669**
(343)	(245)	(269)	Net capex	(547)	(612)
(28)	(32)	(28)	Net financial expenses	(64)	(55)
(25)	(34)	(55)	SPT and Corporate taxes	(67)	(80)
-	(145)	(175)	Dividends paid	(145)	(175)
50	(33)	141	Others[1]	151	191
45	**(24)**	**16**	**Change in net debt**	**(191)**	**61**

[1]Includes CTAs (Cumulative Translation Adjustment) and partial reimbursement of the loan granted to Sinopec.

Second quarter

During the second quarter of 2016, net debt increased only €16 m, despite higher dividend payments.

Cash flow from operations amounted to €369 m, benefitting from sound operational performance across all business segments and stable working capital.

Cash flow in the period includes the €66 m loan reimbursement by Sinopec.

First half

During the first half of 2016, net debt increased €61 m compared to the end of 2015, due to higher capex and dividends.

Cash flow from operations benefitted from a further reduction in working capital, which was mainly driven by lower inventories during the first quarter of 2016.

Loan reimbursement by Sinopec totalled €134 m in the period.

Direct method

€ m

Quarter				First Half	
1Q16	2Q15	2Q16		2015	2016
1,045	**1,010**	**954**	**Cash and equivalents at the beginning of the period**[1]	**1,023**	**1,045**
3,265	4,671	3,762	Received from customers	9,094	7,027
(1,836)	(2,900)	(2,226)	Paid to suppliers	(5,854)	(4,062)
(76)	(99)	(106)	Staff related costs	(176)	(182)
-	37	25	Dividends from associated companies	37	25
(604)	(798)	(649)	Taxes on oil products (ISP)	(1,314)	(1,253)
(380)	(448)	(410)	VAT, Royalties, PIS, Cofins, Others	(905)	(790)
369	**463**	**395**	**Total operating flows**	**882**	**764**
(379)	(220)	(273)	Net capex	(574)	(652)
(52)	(26)	(32)	Net Financial Expenses	(71)	(84)
-	(145)	(175)	Dividends paid	(145)	(175)
(25)	(34)	(55)	SPT and Corporate taxes	(67)	(80)
(44)	126	(86)	Net new loans	(89)	(130)
68	51	66	Sinopec loan reimbursement	129	134
(28)	(57)	60	FX changes on cash and equivalents	82	32
954	**1,169**	**856**	**Cash and equivalents at the end of the period**[1]	**1,169**	**856**

[1] Cash and equivalents differ from the Balance Sheet amounts due to IAS 7 classification rules. The difference refers to overdrafts which are considered as debt in the Balance Sheet and as a deduction to cash in the Cash Flow Statement.

7.4. Financial situation

€ m (IFRS figures)

	31 Dec., 2015	31 March, 2016	*30 June, 2016 (prior to GGND reclassification)[1]*	30 June, 2016	Chg. *vs* 31 Dec., 2015	Chg. *vs* 31 Mar., 2016
Net fixed assets	7,892	8,077	*8,439*	7,304	(588)	(773)
Working capital	510	369	*377*	365	(145)	(4)
Loan to Sinopec	723	627	*576*	576	(147)	(50)
Other assets (liabilities)	(515)	(573)	*(624)*	(335)	180	238
Non-current assets/liabilities held for sale	-	-	-	842	842	842
Capital employed	**8,610**	**8,499**	***8,768***	**8,752**	**142**	**253**
Short term debt	493	485	*751*	736	243	250
Medium-Long term debt	3,060	3,015	*2,702*	2,667	(393)	(348)
Total debt	**3,552**	**3,500**	***3,453***	**3,402**	**(150)**	**(98)**
Cash and equivalents	1,130	1,033	*970*	935	(195)	(98)
Net debt[2]	**2,422**	**2,467**	***2,483***	**2,467**	**45**	**(0)**
Total equity	**6,188**	**6,032**	***6,285***	**6,285**	**97**	**253**
Total equity and net debt	**8,610**	**8,499**	***8,768***	**8,752**	**142**	**253**

[1] Figures do not consider non-current assets/liabilities held for sale, in order to make previous periods comparable.
[2] Net debt as at 30 June 2016 excludes net debt of GGND (€16 m), which is considered under non-current assets/liabilities held for sale.

The June 2016 column shown above as prior to GGND reclassification has been prepared on the same basis as December 31 and March 31, for comparison purposes. On that basis, net fixed assets stood at €8,439 m, a €362 m increase compared to the end of March. Work in progress amounted to €2,347 m, mainly related to the E&P business.

Considering non-current assets/liabilities held for sale of €842 m, related to the subsidiary GGND, net fixed assets at the end of the quarter totaled €7,304 m.

Once this transaction is completed, GGND will cease to be fully consolidated.

7.5. Financial debt

€ m (except otherwise stated)

	31 December, 2015	31 March, 2016	30 June, 2016	Chg. *vs* 31 Dec., 2015	Chg. *vs* 31 Mar., 2016
Bonds	2,154	2,155	2,134	(20)	(21)
Bank loans and other debt	1,398	1,345	1,268	(130)	(77)
Cash and equivalents	(1,130)	(1,033)	(935)	195	98
Net debt[1]	**2,422**	**2,467**	**2,467**	**45**	**(0)**
Net debt including loan to Sinopec[2]	**1,699**	**1,841**	**1,891**	**192**	**50**
Average life (years)	3.1	2.9	2.7	(0.3)	(0.1)
Average debt interest rate	3.8%	3.5%	3.5%	(0.2 p.p.)	(0.0 p.p.)
Net debt to Ebitda[3]	1.2x	1.4x	1.6x	-	-

[1] Net debt at the end of June 2016 excludes net debt related to GGND (€16 m).
[2] Net debt at the end of June 2016 of €1,891 m adjusted for the €576 m loan to Sinopec.
[3] Ratio considers net debt including the €576 m loan to Sinopec as cash, plus €169 m corresponding to Sinopec MLT Shareholder Loan to Petrogal Brasil and LTM Ebitda RCA of €1,323 m.

On 30 June 2016, net debt amounted to €2,467 m, in line with net debt at the end of March. This excludes €16 m net debt related to assets held for sale.

Considering the €576 m balance of the Sinopec loan as cash and equivalents, net debt at the end of the quarter totalled €1,891 m, resulting in a net debt to Ebitda ratio of 1.6x. This ratio also considers Sinopec's €169 m shareholder loan to Petrogal Brasil as of the end of the period.

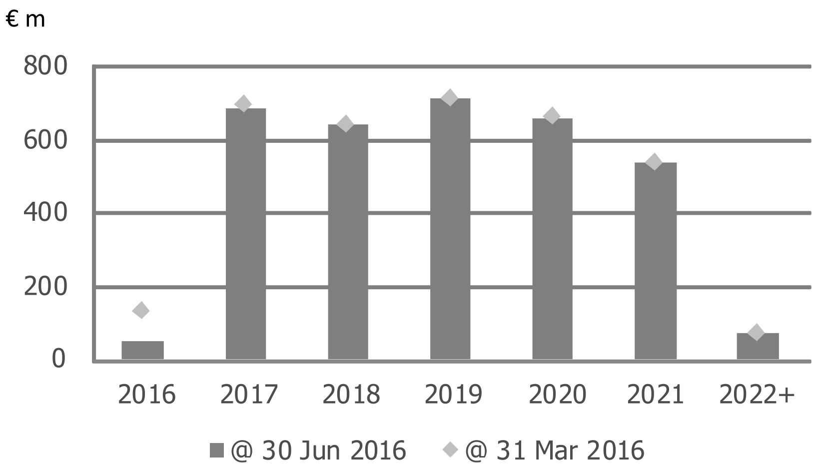
During the second quarter of 2016, the average interest rate was 3.5%, with 43% of total debt on a fixed-rate basis.

Debt had an average maturity of 2.7 years, and medium and long-term debt accounted for 78% of the total.

As of 30 June 2016, around 60% of total debt was scheduled to mature from 2019 onwards.

At the end of the second quarter of 2016, Galp had unused credit lines of approximately €1.2 bn. Of this amount, around 60% was contractually guaranteed.

Debt maturity profile



7.6. RCA turnover by business

€ m

Quarter						First Half			
1Q16	2Q15	2Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
2.829	**4.247**	**3.267**	**(981)**	**(23%)**	**RCA Turnover**	**8.179**	**6.095**	**(2.083)**	**(25%)**
111	183	165	(18)	(10%)	Exploration & Production[1]	327	276	(50)	(15%)
2.167	3.332	2.657	(675)	(20%)	Refining & Marketing	6.192	4.824	(1.368)	(22%)
676	784	545	(240)	(31%)	Gas & Power	1.810	1.221	(589)	(33%)
28	31	31	0	0%	Other	60	59	(1)	(2%)
(154)	(83)	(131)	48	58%	Consolidation adjustments	(210)	(284)	74	35%

[1] Does not include change in production. RCA turnover in the E&P segment, including change in production, amounted to €162 m during the second quarter of 2016 and €284 m during the first half of 2016.

7.7. Reconciliation of IFRS and replacement cost adjusted figures

Replacement cost adjusted Ebitda by segment

€ m

Second Quarter					2016	First Half				
Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA		Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
366	**(36)**	**330**	**7**	**337**	**Galp**	**530**	**79**	**609**	**22**	**631**
82	-	82	5	86	**E&P**	124	-	124	11	135
177	(38)	139	4	143	**R&M**	207	71	278	13	291
98	2	100	(2)	97	**G&P**	181	8	189	(2)	187
10	-	10	0	10	**Outros**	17	-	17	1	18

€ m

Second Quarter					2015	First Half				
Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA		Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
466	**(22)**	**444**	**3**	**447**	**Galp**	**725**	**91**	**816**	**6**	**822**
115	-	115	4	119	**E&P**	209	-	209	4	213
257	(30)	227	4	230	**R&M**	293	74	367	6	373
85	8	93	(4)	89	**G&P**	206	17	223	(3)	220
9	-	9	(0)	9	**Outros**	17	-	17	(0)	17

Replacement cost adjusted Ebit by segment

€ m

Second Quarter					2016	First Half				
Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA		Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
131	**(36)**	**95**	**90**	**185**	**Galp**	**128**	**79**	**207**	**116**	**323**
(62)	-	(62)	86	24	**E&P**	(93)	-	(93)	95	2
103	(38)	65	6	71	**R&M**	56	71	126	23	149
82	2	84	(3)	81	**G&P**	151	8	159	(3)	156
9	-	9	0	9	**Outros**	15	-	15	1	16

€ m

Second Quarter					2015	First Half				
Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA		Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
284	**(22)**	**262**	**42**	**304**	**Galp**	**341**	**91**	**433**	**99**	**531**
25	-	25	31	56	**E&P**	14	-	14	84	99
185	(30)	155	12	167	**R&M**	144	74	218	15	233
66	8	75	(1)	73	**G&P**	168	17	186	(1)	185
8	-	8	(0)	8	**Outros**	15	-	15	(0)	15

7.8. Non-recurring items

€ m

Quarter				First Half	
1Q16	2Q15	2Q16		2015	2016
15.0	**2.9**	**7.0**	**Non-recurring items impacting Ebitda**	**6.2**	**22.0**
0.1	(0.7)	(2.2)	Accidents caused by natural events and insurance compensation	(0.9)	(2.2)
(0.5)	(2.1)	(0.2)	Gains/losses on disposal of assets	(2.8)	(0.7)
0.0	0.3	0.6	Asset write-offs	0.3	0.6
-	3.7	-	Fines	3.7	-
-	(2.6)	-	Investment subsidies	(2.6)	-
5.0	4.4	4.8	Employee restructuring charges	8.5	9.7
5.9	-	4.1	Compensation early termination rigs agreement	-	10.0
4.5	-	-	Litigation costs	-	4.5
10.8	**39.2**	**82.9**	**Non-recurring items impacting non-cash costs**	**92.4**	**93.7**
0.1	6.6	5.4	Provisions for environmental charges and others	6.4	5.5
10.7	32.7	77.4	Asset impairments	86.0	88.2
14.1	**64.4**	**5.3**	**Non-recurring items impacting financial results**	**64.4**	**19.4**
14.1	15.4	5.3	Gains/losses on financial investments	15.4	19.4
-	48.9	0.0	Provision for impairment of financial investments	48.9	0.0
39.8	**(5.2)**	**3.4**	**Non-recurring items impacting taxes**	**21.1**	**43.2**
(5.4)	(17.6)	(2.4)	Income taxes on non-recurring items	(31.7)	(7.8)
45.2	12.4	5.8	Energy sector contribution tax	52.8	51.0
(0.0)	(5.6)	(0.2)	Non-controling interest	(14.2)	(0.2)
79.8	**95.7**	**98.4**	**Total non-recurring items**	**169.9**	**178.2**

7.9. IFRS consolidated income statement

€ m

Quarter				First Half	
1Q16	2Q15	2Q16		2015	2016
			Operating income		
2,657	4,100	3,110	Sales	7,881	5,766
172	148	157	Services rendered	298	329
18	24	34	Other operating income	47	52
2,847	**4,271**	**3,301**	**Total operating income**	**8,226**	**6,148**
			Operating costs		
(2,270)	(3,411)	(2,518)	Inventories consumed and sold	(6,698)	(4,788)
(324)	(299)	(314)	Materials and services consumed	(609)	(638)
(80)	(77)	(78)	Personnel costs	(164)	(158)
(9)	(19)	(25)	Other operating costs	(30)	(34)
(2,683)	**(3,806)**	**(2,935)**	**Total operating costs**	**(7,501)**	**(5,618)**
164	**466**	**366**	**Ebitda**	**725**	**530**
(162)	(180)	(221)	Amortisation, depreciation, impairments	(368)	(383)
(5)	(2)	(14)	Provision and impairment of receivables	(15)	(19)
(3)	**284**	**131**	**Ebit**	**341**	**128**
7	(47)	19	Net income from associated companies	(21)	26
3	(10)	15	Financial results	(60)	18
6	7	5	Interest income	13	11
(34)	(38)	(33)	Interest expenses	(78)	(67)
21	25	25	Interest capitalised	39	46
(7)	5	(0)	Exchange gain (loss)	(4)	(7)
22	(4)	23	Mark to market of hedging derivatives	(22)	44
(5)	(4)	(4)	Other financial costs/income	(9)	(9)
7	**226**	**165**	**Income before taxes**	**260**	**172**
(11)	(94)	(82)	Taxes[1]	(125)	(93)
(45)	(12)	(6)	Energy sector contribution tax[2]	(53)	(51)
(49)	**119**	**78**	**Income before non-controlling interests**	**82**	**29**
(9)	(9)	(12)	Profit attributable to non-controlling interests	(12)	(21)
(58)	**110**	**66**	**Net income**	**71**	**8**

[1] Includes tax related to the production of oil and natural gas, namely Special Participation Tax payable in Brazil and IRP payable in Angola.
[2] Includes €26.7 m, €12.3 m and €12 m related to the CESE I, CESE II and Fondo Eficiência Energética, respectively, during the first half of 2016.

7.10. Consolidated financial position

€ m

	31 December, 2015	31 March, 2016	30 June, 2016
Assets			
Non-current assets			
Tangible fixed assets	5,216	5,363	5,686
Goodwill	137	136	134
Other intangible fixed assets[1]	1,403	1,388	264
Investments in associates	1,114	1,164	1,188
Investments in other participated companies	2	2	3
Other receivables	322	308	253
Deferred tax assets	462	427	391
Other financial investments	24	27	32
Total non-current assets	**8,681**	**8,817**	**7,952**
Current assets			
Inventories[2]	873	733	694
Trade receivables	805	831	865
Other receivables	577	598	625
Loan to Sinopec	723	627	576
Other financial investments	4	11	25
Cash and equivalents	1,131	1,036	938
Sub-total current assets	**4,112**	**3,835**	**3,723**
Non-current assets held for sale	-	-	1,297
Sub-total current assets	**4,112**	**3,835**	**5,020**
Total assets	**12,793**	**12,652**	**12,972**
Equity and liabilities			
Equity			
Share capital	829	829	829
Share premium	82	82	82
Translation reserve	(0)	(79)	154
Other reserves	2,684	2,684	2,684
Hedging reserves	(2)	(7)	(2)
Retained earnings	1,056	1,178	1,029
Profit attributable to equity holders of the parent	123	(58)	8
Equity attributable to equity holders of the parent	**4,772**	**4,631**	**4,784**
Non-controlling interests	1,416	1,401	1,501
Total equity	**6,188**	**6,032**	**6,285**
Liabilities			
Non-current liabilities			
Bank loans and overdrafts	1,151	1,105	1,005
Bonds	1,908	1,910	1,661
Other payables[3]	551	550	299
Retirement and other benefit obligations	422	421	340
Liabilities from financial leases	0	0	0
Deferred tax liabilities	109	93	92
Other financial instruments	2	2	0
Provisions	429	457	450
Total non-current liabilities	**4,573**	**4,538**	**3,847**
Current liabilities			
Bank loans and overdrafts	247	240	263
Bonds	246	246	473
Trade payables	656	658	717
Other payables[4]	844	896	858
Other financial instruments	29	23	10
Income tax payable	9	19	64
Sub-total current liabilities	**2,032**	**2,082**	**2,385**
Non-current liabilities associated with non-current assets held for sale	-	-	455
Total current liabilities	**2,032**	**2,082**	**2,841**
Total liabilities	**6,605**	**6,620**	**6,687**
Total equity and liabilities	**12,793**	**12,652**	**12,972**

[1] Includes concession agreements for the distribution of natural gas.

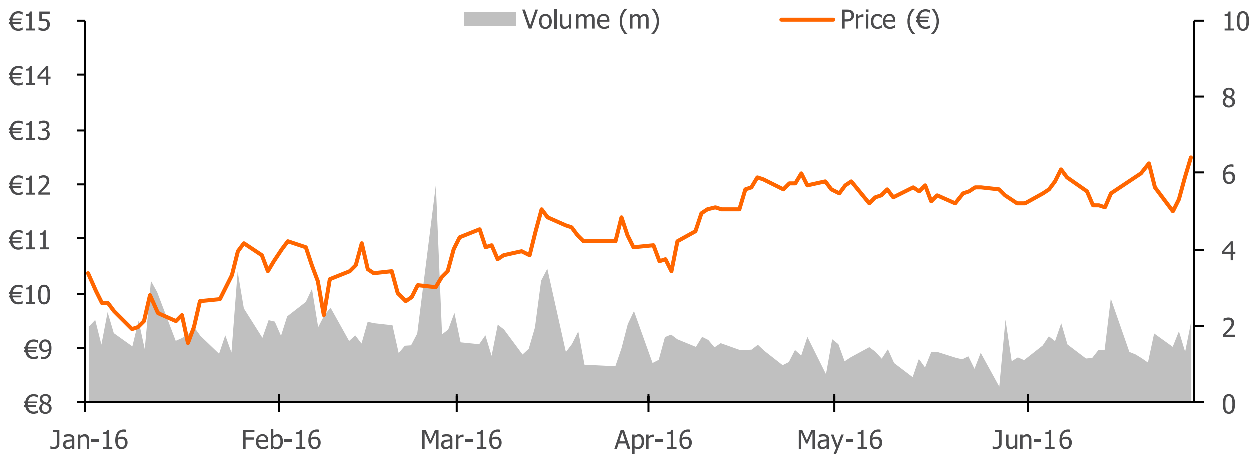
[2] Includes €69 m in inventory from third parties on 30 June 2016.

[3] Includes €169 m long-term loan from Sinopec to subsidiary Petrogal Brasil on 30 June 2016.

[4] Include €31.5 m in advance payments related to inventory from third parties on 30 June 2016.

8. Galp Share

Performance of Galp share



Source: Euroinvestor.

Second quarter

Galp's share price gained 13% during the second quarter, closing the period at €12.50.

During the second quarter, around 90 m shares were traded on regulated markets, with the daily traded volume on Euronext Lisbon averaging 1.4 m shares. Galp's market capitalisation at the end of the second quarter of 2016 was €10.4 bn.

First half

During the first half of 2016, Galp's share price increased 17% compared to the closing price of 2015. The volume of shares traded on regulated markets was 211 m.

The average daily volume traded on regulated markets was 1.7 m shares.

Main indicators			
	2015	2T16	2H16
Min (€)	7.81	10.31	9.03
Max (€)	12.48	12.50	12.50
Average (€)	10.17	11.76	11.10
Close price (€)	10.72	12.50	12.50
Market cap[1] (€m)	8,890	10,366	10,366
Regulated markets volume[2] (m shares)	420.7	89.6	211.9
Average volume per day (m shares)	1.6	1.4	1.7

[1] As of the last trading day of the period.
[2] Volume traded on Euronext Lisbon.

9. Subsequent events

On July 28, Galp Energia, SGPS, S.A. (Galp), through its subsidiary Galp Gas & Power, SGPS, S.A. (GGP), has reached an agreement with a consortium led by Marubeni Corporation, with the participation of Toho Gas, to establish a joint venture covering Galp's natural gas regulated infrastructure business. The consortium will acquire a 22.5% stake in the share capital of Galp Gás Natural Distribuição, S.A. (GGND), for a consideration of €138 m, and share certain governance rights within the joint venture.

Based on the agreed equity price and outstanding liabilities, the implied enterprise value for 100% of GGND is of c.€1.3 bn, equivalent to a 27% premium over the regulated asset base (RAB) and to an enterprise value multiple of 11.5x 2016 expected Ebitda.

Prior to transaction completion, GGND will raise stand-alone funding to reimburse existing shareholder loans of €568 m, leading to total cash proceeds to Galp of c.€700 m.

Following the completion, Galp will cease to fully consolidate GGND into its Group accounts.

10. Basis of presentation

Galp's consolidated financial statements for the quarters ended on 30 June 2016 and 2015 and 31 March 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial information in the consolidated income statement is reported for the quarters ended on 30 June 2016 and 2015, and 31 March 2016. The financial information in the consolidated financial position is reported on 31 March 2016 and on 31 December 2015.

Galp's financial statements are prepared in accordance with IFRS, and the cost of goods sold is valued at weighted-average cost (WAC). When goods and commodity prices fluctuate, the use of this valuation method may cause volatility in results through gains or losses in inventories, which do not reflect the Company's operating performance. This is called the inventory effect.

Another factor that may affect the Company's results, without being an indicator of its true performance, is the set of non-recurring items, namely gains or losses on the disposal of assets, impairments or reinstatements of fixed assets, and environmental or restructuring charges.

For the purpose of evaluating Galp's operating performance, RCA profit measures exclude non-recurring items and the inventory effect, the latter because the cost of goods sold and materials consumed has been calculated according to the Replacement Cost (RC) valuation method.

Recent changes

Effective on 1 January 2016, exchange rate differences from operating activities are allocated to operating results of the respective business segment. Until the end of 2015, these exchange rate differences were accounted for under financial results.

Following an accounting interpretation from Portuguese Securities Market Commission (CMVM) regarding the accounting treatment for CESE I, Galp started to recognise the total amount of the cost and liability as of 1 January, instead of deferring the cost along the year.

Regarding the energy sector contribution in Spain, to the Fondo Nacional de Eficiência Energética, the impact was also fully accounted for during the first quarter of 2016.

These changes were applied to 2015 figures in order to make periods comparable.

11. Definitions

Benchmark refining margin
The benchmark refining margin is calculated with the following weighting: 45% hydrocracking margin + 42.5% Rotterdam cracking margin + 7% Rotterdam base oils + 5.5% Aromatics.

Rotterdam hydrocracking margin

The Rotterdam hydrocracking margin has the following profile: -100% Brent dated, +2.2% LGP FOB Seagoing (50% Butane + 50% Propane), +19.1% PM UL NWE FOB Bg., +8.7% Naphtha NWE FOB Bg., +8.5% Jet NWE CIF, +45.1% ULSD 10 ppm NWE CIF Cg. +8.9% LSFO 1% FOB Cg; Terminal rate: $1/ton; Ocean loss: 0.15% over Brent dated; Freight 2015: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat $7.60/ton. Yields in % of weight.

Rotterdam cracking margin

The Rotterdam cracking margin has the following profile: -100% Brent dated, +2.3% LGP FOB Seagoing (50% Butane + 50% Propane), +25.4% PM UL NWE FOB Bg., +7.5% Naphtha NWE FOB Bg., +8.5% Jet NWE CIF, +33.3% ULSD 10 ppm NWE CIF Cg. and +15.3% LSFO 1% FOB Cg.; C&L: 7.4%; Terminal rate: $1/ton; Ocean loss: 0.15% over Brent dated; Freight 2015: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat $7.60/ton. Yields in % of weight.

Rotterdam aromatics margin

Rotterdam aromatics margin: -60% PM UL NWE FOB Bg., -40% Naphtha NWE FOB Bg., +37% Naphtha NWE FOB Bg., +16.6% PM UL NWE FOB Bg., +6.5% Benzene Rotterdam FOB Bg., +18.5% Toluene Rotterdam FOB Bg., +16.6% Paraxylene Rotterdam FOB Bg., +4.9% Ortoxylene Rotterdam FOB Bg. Consumption: -18% LSFO 1% CIF NEW. Yields in % of weight.

Rotterdam base oils margin

Base oils refining margin: -100% Arabian Light, +3.5% LGP FOB Seagoing (50% Butane + 50% Propane), +13.0% Naphtha NWE FOB Bg., +4.4% Jet NWE CIF, +34.0% ULSD 10 ppm NWE CIF, +4.5% VGO 1.6% NWE FOB Cg.,+ 14%; Base Oils FOB, +26% HSFO 3.5% NWE Bg.; Consumptions: -6.8% LSFO 1% CIF NWE Cg.; Losses: 7.4%; Terminal rate: $1/ton; Ocean loss: 0.15% over Arabian L

Replacement cost (RC)
According to this method of valuing inventories, the cost of goods sold is valued at the cost of replacement, i.e. at the average cost of raw materials on the month when sales materialise irrespective of inventories at the start or end of the period. The Replacement Cost Method is not accepted by the Portuguese IFRS and is consequently not adopted for valuing inventories. This method does not reflect the cost of replacing other assets.

Replacement cost adjusted (RCA)
In addition to using the replacement cost method, RCA items exclude non-recurrent events such as capital gains or losses on the disposal of assets, impairment or reinstatement of fixed assets and environmental or restructuring charges which may affect the analysis of the Company’s profit and do not reflect its operational performance.

ABBREVIATIONS

APETRO: *Associação Portuguesa de Empresas Petrolíferas* (Portuguese association of oil companies)
bbl: barrel of oil
BBLT: Benguela, Belize, Lobito and Tomboco
bcm: billion cubic metres
Bg: Barges
BJC: BJC Heavy Industries Plc.
bn: billion
boe: barrels of oil equivalent
CESE: *Contribuição Extraordinária sobre o Sector Energético* (Portuguese Extraordinary Energy Sector Contribution)
Cg: Cargoes
CIF: Costs, Insurance and Freights
CMVM: Portuguese Securities Market Commission
CORES: *Corporación de Reservas Estratégicas de Produtos Petrolíferos*
CTA: Cumulative Translation Adjustment
D&P: Development & Production
E&P: Exploration & Production
Ebit Earnings before interest and taxes.
Ebitda: Ebit plus depreciation, amortisation and provisions.
EMPL: Europe Maghreb Pipeline
EPCIC: Engineering, Procurement, Construction, Installation and Commissioning
EUR/€: Euro
FOB: Free on Board
FPSO: Floating, production, storage and offloading unit
Galp, Company or Group: Galp Energia, SGPS, S.A., subsidiaries and participated companies
G&P: Gas & Power
GWh Gigawatt per hour
IAS: International Accounting Standards
IBAMA: Brazilian Institute of the Environment and Renewable Natural Resources
IFRS: International Financial Reporting Standards.
IRP: Oil income tax
ISP: Tax on oil products
JKM: Japan Korea Marker
k: thousand
kbbl: thousands of barrels
kboe: thousands of barrels of oil equivalent
kboepd: thousands of barrels of oil equivalent per day
kbopd: thousands of barrels of oil per day
LNG: liquid natural gas
LSFO: low sulphur fuel oil
m: million
mmbbl: millions of barrels
mmboe: millions of barrels of oil equivalent
mmbtu: million British thermal units
mm^3: million cubic metres
mton: millions of tonnes
MW: megawatt
NBP: National Balancing Point
NG: natural gas
n.m.: no meaning
NWE: Northwestern Europe
OPEC: Organization of Petroleum Exporting Countries
p.p.: percentage points
PSA: Production Sharing Agreement
R&M: Refining & Marketing
RC: Replacement Cost
RCA: Replacement Cost Adjusted
SPA: Sales and purchasing agreement
TL: Tômbua-Lândana
T: tonnes
USA: United States of America
USD/$: Dollar of the United States of America
VGO: vacuum gas oil
WAC: weighted-average cost
YoY: year-on-year

CAUTIONARY STATEMENT

This report has been prepared by Galp Energia SGPS, S.A. ("Galp" or the "Company") and may be amended and supplemented.

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The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. Although Galp believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant known and unknown risks, uncertainties, contingencies and other important factors which are difficult or impossible to predict and are beyond its control. No assurance, however, can be given that such expectations will prove to have been correct. Important factors that may lead to significant differences between the actual results and the statements of expectations about future events or results include the Company's business strategy, industry developments, financial market conditions, uncertainty of the results of future projects and operations, plans, objectives, expectations and intentions, among others. Such risks, uncertainties, contingencies and other important factors could cause the actual results of Galp or the industry to differ materially from those results expressed or implied in this report by such forward-looking statements.

Real future income, both financial and operating; an increase in demand and change to the energy mix; an increase in production and changes to Galp's portfolio; the amount and various costs of capital, future distributions; increased resources and recoveries; project plans, timing, costs and capacities; efficiency gains; cost reductions; integration benefits; ranges and sale of products; production rates; and the impact of technology can differ substantially due to a number of factors. These factors may include changes in oil or gas prices or other market conditions affecting the oil, gas, and petrochemical industries; reservoir performance; timely completion of development projects; war and other political or security disturbances; changes in law or government regulation, including environmental regulations and political sanctions; the outcome of commercial negotiations; the actions of competitors and customers; unexpected technological developments; general economic conditions, including the occurrence and duration of economic recessions; unforeseen technical difficulties; and other factors.

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