energy creates energy

galp

RESULTS
THIRD QUARTER
2016

October 28, 2016
Investor Relations

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1. Executive summary

Main operating highlights during the third quarter of 2016

- The Group's consolidated Ebitda increased 14% quarter-on-quarter (QoQ) to €384 m, on a replacement cost adjusted (RCA) driven by higher production in the Exploration & Production (E&P) business and by oil marketing seasonality within the Refining & Marketing (R&M) business. Year-on-year (YoY), Ebitda decreased 6%, driven by lower refining margins in R&M, and despite the higher contribution of the E&P business; the Gas & Power (G&P) business segment maintained its stable contribution to the Group's Ebitda.
- RCA net income reached €115 m, a €66 m decrease YoY, considering an inventory effect of €14 m and €37 m in non-recurring items. International Financial Reporting Standards (IFRS) net income was €91 m.
- Working interest production of oil and natural gas increased 35% QoQ and 62% YoY to 74.0 kboepd, mostly on the back of higher production from Brazil, namely of increased production in the Iracema North area and the start of production in the Lula Alto and Lula Central areas.
- Galp's refining margin stood at $3.4/boe, compared to $6.7/boe in the third quarter of the previous year. The marketing of oil products maintained its positive contribution to results.
- Natural gas sales decreased 8% to 1,750 million cubic metres (mm³), driven by a 18% decrease in volumes in the trading segment, only partially compensated by higher volumes sold to the electrical segment.
- Capital expenditure amounted to €244 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 amounted to €1.6 bn at the end of September, considering GGND assets and liabilities as held for sale and the loan to Sinopec as cash and equivalents, with a net debt to Ebitda ratio of 1.4x.
- During the quarter, GGND issued notes on the amount of €600 m and repaid the €568 m shareholder loan to Galp. On October 27, Galp completed the sale of 22.5% of GGND to Meet Europe Natural Gas, Lda. (Meet Europe), owned by Marubeni Corporation (50%) and by Toho Gas Co., Ltd. (50%), with the equity price set at €141 m, based on the initially agreed price plus adjustments as established in the Sale and Purchase Agreement (SPA). Effective from this date, GGND ceases to be consolidated into the Group accounts.

2. Key figures

Financial data

€ m (RCA)

Quarter						Nine Months			
2Q16	3Q15	3Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
337	**407**	**384**	**(23)**	**(6%)**	**Ebitda RCA**	**1,229**	**1,015**	**(215)**	**(17%)**
86	89	127	38	43%	Exploration & Production	302	262	(40)	(13%)
143	241	180	(61)	(25%)	Refining & Marketing	614	471	(142)	(23%)
97	72	73	0	0%	Gas & Power	292	260	(32)	(11%)
185	**259**	**211**	**(48)**	**(19%)**	**Ebit RCA**	**791**	**534**	**(257)**	**(33%)**
131	**100**	**194**	**94**	**94%**	**Ebit IFRS**	**441**	**322**	**(119)**	**(27%)**
133	**180**	**115**	**(66)**	**(36%)**	**Net income RCA**	**490**	**361**	**(129)**	**(26%)**
66	**46**	**91**	**45**	**97%**	**Net income IFRS**	**117**	**99**	**(18)**	**(15%)**
287	**256**	**244**	**(11)**	**(4%)**	**Capex**	**852**	**874**	**22**	**3%**
1,891	**1,606**	**1,631**	**25**	**2%**	**Net debt including loan to Sinopec[1]**	**1,606**	**1,631**	**25**	**2%**
1.6x	**1.1x**	**1.4x**	**-**	**-**	**Net debt to Ebitda RCA[2]**	**1.1x**	**1.4x**	**-**	**-**

[1]Considering loan to Sinopec as cash and equivalents.

[2]As at 30 September 2016, ratio considers net debt including €575 m loan to Sinopec as cash, plus €169 m corresponding to Sinopec MLT Shareholder loan to Petrogal Brasil and LTM Ebitda of €1,297 m.

Operational data

Quarter						Nine Months			
2Q16	3Q15	3Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
54.7	45.7	74.0	28.3	62%	Average working interest production (kboepd)	43.7	61.7	18.1	41%
52.2	43.9	71.5	27.6	63%	Average net entitlement production (kboepd)	41.2	59.2	18.0	44%
38.3	43.8	36.4	(7.4)	(17%)	Oil and gas average sale price (USD/boe)	49.0	33.9	(15.1)	(31%)
26.3	29.8	29.4	(0.4)	(1%)	Raw materials processed (mmboe)	85.8	80.9	(4.9)	(6%)
4.6	6.7	3.4	(3.4)	(50%)	Galp refining margin (USD/boe)	6.6	4.0	(2.7)	(40%)
2.3	2.4	2.3	(0.1)	(5%)	Oil sales to direct clients (mton)	6.9	6.7	(0.3)	(4%)
881	933	950	17	2%	NG sales to direct clients (mm^3)	2,851	2,732	(119)	(4%)
712	976	800	(176)	(18%)	NG/LNG trading sales (mm^3)	3,122	2,471	(651)	(21%)

Market indicators

Quarter						Nine Months			
2Q16	3Q15	3Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
1.13	1.11	1.12	0.00	0%	Exchange rate (EUR:USD)	1.11	1.12	0.00	0%
45.6	50.5	45.9	(4.6)	(9%)	Dated Brent price[1] (USD/bbl)	55.3	41.9	(13.4)	(24%)
(2.2)	(1.3)	(2.1)	(0.8)	66%	Heavy-light crude price spread[2] (USD/bbl)	(1.1)	(2.2)	(1.1)	100%
4.4	6.0	4.4	(1.6)	(27%)	UK NBP natural gas price[3] (USD/mmbtu)	6.4	4.3	(2.1)	(32%)
4.7	7.6	5.6	(2.0)	(26%)	LNG Japan and Korea price[1] (USD/mmbtu)	7.6	5.2	(2.3)	(31%)
2.9	6.2	2.3	(3.9)	(63%)	Benchmark refining margin[4] (USD/bbl)	5.6	2.8	(2.7)	(49%)
15.3	15.5	16.0	0.5	4%	Iberian oil market[5] (mton)	45.0	46.2	1.2	3%
7,020	7,168	7,135	(33)	(0.5%)	Iberian natural gas market[6] (mm^3)	23,127	22,809	(318)	(1.4%)

[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 September 2016. [6] Source: Galp and Enagás.

3. Market environment

Dated Brent

During the third quarter of 2016 the average price of dated Brent decreased $4.6/bbl YoY to $45.9/bbl. This decrease resulted from the unbalanced supply and demand, leading to larger crude oil inventories on a global scale.

During the first nine months of 2016, dated Brent averaged $41.9/bbl, corresponding to a decrease of $13.4/bbl YoY.

YoY the average price spread between Urals and dated Brent widened from $1.3/bbl to $2.1/bbl. This spread resulted from the increased production of crude oil by Russia, aggravated by a higher supply of competing crudes from the Middle East to the Mediterranean region.

During the first nine months of 2016, the Urals-dated Brent spread widened $1.1/bbl YoY, to $2.2/bbl.

Natural gas

The natural gas price in Europe (NBP) decreased from $6.0/mmbtu during the third quarter of 2015 to $4.4/mmbtu during the third quarter of 2016, as a result of the lower oil price – as many natural gas contracts are oil-linked – and of gas storage constraints in the United Kingdom.

During the first nine months of 2016, NBP averaged $4.3/mmbtu, corresponding to a decrease of $2.1/mmbtu YoY.

The Asian liquefied natural gas reference price (JKM) decreased to $5.6/mmbtu during the third quarter of 2016 from $7.6/mmbtu during the previous year.

During the first nine months of 2016, JKM averaged $5.2/mmbtu, corresponding to a decrease of $2.3/mmbtu YoY.

Refining margins

During the third quarter of 2016, the benchmark refining margin decreased by $3.9/bbl YoY to $2.3/bbl, following the lower gasoline and diesel cracks.

The gasoline crack was $9.1/bbl during the period, compared to $20.1/bbl YoY, on the back of larger inventories of light distillates, namely in the East Coast of the USA, a regular outlet for European production.

During the third quarter of 2016, the diesel crack stood at $10.1/bbl, down $5.8/bbl YoY, pressured mainly by large inventories throughout the period.

During the first nine months of 2016, the benchmark refining margin was $2.8/bbl, down $2.7/bbl YoY, as the gasoline and diesel crack spreads dropped $5.6/bbl and $7.1/bbl YoY, respectively.

Iberian market

During the third quarter of 2016, the Iberian market for oil products grew by 4% YoY to 16.0 million tonnes (mton), led by the rise in tourism, which resulted in higher demand for diesel and jet fuel.

During the first nine months of 2016, the Iberian market for oil products rose to 46.2 mton, from 45.0 mton, YoY.

During the third quarter of 2016, the Iberian natural gas market decreased approximately 0.5% YoY to 7,135 mm³. That result was driven by a 5% decrease in the demand of gas for electrical generation due to higher production of renewable and nuclear energy.

During the first nine months of 2016, the Iberian natural gas market decreased 1.4% YoY to 22,809 mm³, mostly due to the lower demand from the Spanish electrical segment, following a higher hydroelectric power generation.

4. Exploration & Production

4.1. Development activities

Brazil

During the third quarter of 2016, Galp and its partners continued with the development works on the Lula/Iracema field. It is worth noting the drilling and completion performance of the consortium, as well as in the units' ramp-up, which has resulted in a continuous decrease of these activities' average duration.

FPSO Cidade de Angra dos Reis (#1) and FPSO Cidade de Paraty (#2) resumed their plateau production in the Lula Pilot and Lula Northeast areas, following the completion of the maintenance works that took place during the second quarter.

In the Iracema South area, FPSO Cidade de Mangaratiba (#3) continued producing at plateau levels, with six producer and five injector wells currently connected to this unit. The connection to the gas export network, expected during the fourth quarter of 2016, will allow for a greater operational flexibility and the marketing of natural gas associated with oil production.

In the Iracema North area, FPSO Cidade de Itaguaí (#4) was connected to the gas export network during the quarter, which enabled the unit to reach plateau production only 13 months after first oil.

FPSO Cidade de Maricá (#5), allocated to the Lula Alto area, continued benefitting from excellent productivity, and a fourth producer well was connected during the quarter.

FPSO Cidade de Saquarema (#6), allocated to the Lula Central area, started production in July, as planned. The development plan for this area includes the connection of nine producer and nine injector wells. This FPSO produced an average of c.30 kbpd since it started operating, through one producer well. It is worth highlighting that, already during October, FPSO #6 reached a production of c.80 kbpd, following the connection of two additional producer wells.

Regarding the replicant FPSO units, the unit allocated to the Lula South area is at the Brasfels shipyard (Brazil), where the integration works are being finalized, with the CO_2 and gas compression and injection modules reaching their final stage of integration. The second replicant FPSO, to be allocated to the Lula North area, is at the COOEC shipyard (China), where the topside modules' integration works are ongoing.

Development wells in the Lula/Iracema areas

Project		Type of wells	Planned	Drilled	Connected
#1	Lula Pilot	Producers	7	7	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	4
	FPSO Cidade de Maricá	Injectors	7	6	2
#6	Lula Central	Producers	9	7	3
	FPSO Cidade de Saquarema	Injectors	9	6	1

Note: As at October 27, 2016.

Mozambique

Regarding the offshore Coral South project in Area 4, it is worth highlighting the signing of the Sale and Purchase Agreement of the liquefied natural gas (LNG) with BP. The contract guarantees the sale of LNG volumes for a period of 20 years, based on the production from the Coral South area, although it is conditional on a final investment decision (FID). Meanwhile, the consortium is finalising the remaining commercial agreements and negotiating the project finance for the project.

Regarding the Mamba onshore project, EPC proposals continue to be analysed for the upstream and midstream solutions.

Angola

In block 32, the drilling and completion campaign of the wells regarding the Kaombo development area is proceeding. The two FPSO units are being converted at the Sembawang shipyards, in Singapore.

4.2. Operating performance

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

Quarter						Nine Months			
2Q16	3Q15	3Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
54.7	**45.7**	**74.0**	**28.3**	**62%**	**Average working interest production[1] (kboepd)**	**43.7**	**61.7**	**18.1**	**41%**
51.7	42.2	68.8	26.6	63%	Oil production (kbpd)	40.4	57.8	17.4	43%
52.2	**43.9**	**71.5**	**27.6**	**63%**	**Average net entitlement production[1] (kboepd)**	**41.2**	**59.2**	**18.0**	**44%**
7.1	6.1	7.3	1.2	19%	Angola	7.1	7.5	0.4	5%
45.0	37.8	64.2	26.4	70%	Brazil	34.1	51.7	17.6	52%
38.3	**43.8**	**36.4**	**(7.4)**	**(17%)**	**Average realised sale price[2] (USD/boe)**	**49.0**	**33.9**	**(15.1)**	**(31%)**
3.8	**3.9**	**3.7**	**(0.2)**	**(4%)**	**Royalties[3] (USD/boe)**	**4.4**	**3.5**	**(1.0)**	**(22%)**
9.8	**9.5**	**7.6**	**(2.0)**	**(21%)**	**Production costs (USD/boe)**	**9.6**	**8.6**	**(0.9)**	**(10%)**
14.8	**15.5**	**13.8**	**(1.7)**	**(11%)**	**Amortisation[4] (USD/boe)**	**16.9**	**14.7**	**(2.1)**	**(13%)**
86	**89**	**127**	**38**	**43%**	**Ebitda RCA**	**302**	**262**	**(40)**	**(13%)**
63	56	82	25	45%	Depreciation & Amortisation[4]	170	215	44	26%
(0)	-	(0)	n.m.	n.m.	Provisions	-	(0)	n.m.	n.m.
24	**33**	**46**	**13**	**39%**	**Ebit RCA**	**131**	**48**	**(84)**	**(64%)**
(62)	**33**	**18**	**(16)**	**(46%)**	**Ebit IFRS**	**48**	**(75)**	**(123)**	**n.m.**
8	**2**	**2**	**0**	**8%**	**Net Income from E&P Associates**	**11**	**13**	**2**	**19%**

[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

Third quarter

During the third quarter of 2016, the average working interest production of oil and natural gas increased 62% YoY to 74.0 kboepd, of which 93% was oil.

Production from Brazil increased 26.4 kboepd YoY to 64.2 kboepd. This increase was primarily a result of the production from FPSO #4 and #5, which averaged 13.0 kboepd and 10.2 kbpd, respectively, as well as of the start of production of FPSO #6, which contributed with an average production of 2.7 kbpd during the quarter. Natural gas exports also increased 1.8 kboepd YoY to 5.2 kboepd, following the connection of FPSO #4 to the gas export network.

In Angola, working interest production was 9.8 kbpd, up 25% YoY, when production had been impacted by an outage at the BBLT platform for maintenance works and for the tie-back of the Lianzi field.

Net entitlement production in the quarter increased 63% YoY to 71.5 kboepd, in line with the working interest production progress.

Nine months

During the first nine months of 2016, working interest production increased 41% YoY to 61.7 kboepd, which was mainly due to the start-up of units #4, #5 and #6, as well as to increased production at FPSO #3 in Brazil.

Natural gas exports increased 0.6 kboepd YoY to 3.9 kboepd, following the connection of FPSO #4 to the gas export infrastructure. Out of the total gas exported, 3.4 kboepd was from the Lula/Iracema area.

During the first nine months of 2016, net entitlement production increased 44% YoY to 59.2 kboepd, as a result of higher working interest production.

Results

Third quarter

During the third quarter of 2016, RCA Ebitda amounted to €127 m, up €38 m YoY. The increase in production offset the lower average realised sale price.

Production costs increased around €10 m YoY to €45 m in the quarter, following the start of production of FPSO #5 and #6 in Brazil. However, in unit terms and on a net entitlement basis, production costs decreased $2.0/boe to $7.6/boe, due to a higher production dilution effect and to a one-off adjustment in Brazil.

During the third quarter of 2016, amortisations (including abandonment provisions) stood at €82 m, up €25 m YoY, due to higher production and to the increased asset base in Brazil. On a net entitlement basis, unit depreciation charges decreased YoY to $13.8/boe from $15.5/boe, benefiting from the dilution effect.

RCA Ebit was €46 m during the period, compared to €33 m in the previous year. Non-recurring items amounted to €28 m, mainly related to an asset impairment in a Brazilian onshore project.

Results from associated companies related to the E&P business totalled €2 m in the quarter.

Nine months

RCA Ebitda for the first nine months of 2016 dropped €40 m YoY to €262 m, following the decrease in the average sale price, and despite the increase in net entitlement production.

Production costs increased €29 m YoY to €125 m in the quarter, as a result of the higher number of operating units in Brazil. In unit terms, production costs decreased YoY to $8.6/boe during the period.

Depreciation charges during the first nine months of 2016 (including abandonment provisions) increased around €44 m YoY to €215 m, following the increased asset base in Brazil. On a net entitlement basis, unit depreciation charges were $14.7/boe, compared to $16.9/boe YoY.

RCA Ebit was €48 m in the period, or €84 m lower YoY, while IFRS Ebit was negative by €75 m. Non-recurring items of €123 m included the impairment in block 14/14K during the second quarter, after the decision of reducing drilling activities, as well as the Brazilian onshore impairment during the third quarter.

During the first nine months of 2016, the contribution of associated companies related to the E&P business reached €13 m.

5. Refining & Marketing

€ m (RCA, except otherwise stated)

Quarter						Nine Months			
2Q16	3Q15	3Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
4.6	**6.7**	**3.4**	**(3.4)**	**(50%)**	**Galp refining margin (USD/boe)**	**6.6**	**4.0**	**(2.7)**	**(40%)**
1.7	**1.6**	**1.5**	**(0.1)**	**(4%)**	**Refining cash cost[1] (USD/boe)**	**1.6**	**1.7**	**0.2**	**10%**
(0.0)	**(1.3)**	**0.2**	**1.5**	**n.m.**	**Impact of refining margin hedging[2] (USD/boe)**	**(1.0)**	**0.1**	**1.1**	**n.m.**
26.3	**29.8**	**29.4**	**(0.4)**	**(1%)**	**Raw materials processed (mmboe)**	**85.8**	**80.9**	**(4.9)**	**(6%)**
23.2	27.0	26.4	(0.5)	(2%)	Crude processed (mmbbl)	76.4	73.6	(2.9)	(4%)
4.6	**4.8**	**4.7**	**(0.1)**	**(2%)**	**Total refined product sales (mton)**	**14.0**	**13.4**	**(0.5)**	**(4%)**
2.3	2.4	2.3	(0.1)	(5%)	Sales to direct clients (mton)	6.9	6.7	(0.3)	(4%)
143	**241**	**180**	**(61)**	**(25%)**	**Ebitda RCA**	**614**	**471**	**(142)**	**(23%)**
65	68	70	2	3%	Depreciation & Amortisation	205	200	(5)	(2%)
7	4	3	(1)	(28%)	Provisions	8	16	8	96%
71	**168**	**107**	**(61)**	**(36%)**	**Ebit RCA**	**401**	**256**	**(145)**	**(36%)**
103	**14**	**116**	**102**	**n.m.**	**Ebit IFRS**	**158**	**171**	**14**	**9%**
(0)	**(2)**	**(2)**	**(1)**	**(39%)**	**Net Income from R&M Associates**	**(2)**	**(2)**	**(0)**	**25%**

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

Operations

Third quarter

Raw materials processed during the third quarter of 2016 stood at 29.4 million barrels (mmboe), in line with the same period of 2015. It is worth highlighting the high availability of the refining system during the period, namely of the main conversion units. Crude oil accounted for 90% of raw materials processed, of which 92% corresponded to medium and heavy crudes.

Gasoline production accounted for 21% of production, in line with the previous year, while middle distillates (diesel and jet) accounted for 46% of total production. Consumption and losses accounted for 7% of the raw materials processed, in line with the third quarter of 2015.

Volumes sold to direct clients stood at 2.3 mton, down 5% YoY, reflecting the Group's strategy of minimising exposure to low margin wholesale activities within Iberia. Volumes sold in Africa accounted for about 9% of total volumes sold to direct clients.

Nine months

Raw materials processed during the first nine months of 2016 stood at 80.9 mmboe, down 6% YoY. That decrease reflects the planned outage of the hydrocracker at the Sines refinery and of units in the Matosinhos refinery during the first half of 2016. Crude oil accounted for 91% of raw materials processed, of which 83% corresponded to medium and heavy crudes.

Gasoline production accounted for 23% of production, while 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 6.7 mton, down 4% YoY, following the reduced sales to low margin clients. Volumes sold in Africa accounted for 8% of total volumes sold to direct clients.

Results

Third quarter

RCA Ebitda for the R&M business decreased to €180 m, reflecting the drop in refining margins.

In fact, Galp's refining margin stood at $3.4/boe, compared to $6.7/boe during the previous year. The spread over the benchmark margin was $1.1/boe, with the Company benefiting from gasoline arbitrage opportunities between the USA and Europe.

Refining cash costs reached €40 m, in line with the same period in 2015. In unit terms, cash costs stood at $1.5/boe.

Refining margin hedging operations had a positive impact in Ebitda of €5 m during the period, compared to a loss of €35 m the previous year.

Marketing of oil products maintained its positive contribution to results in the period.

Depreciation charges and provisions remained in line with the previous year, standing at €73 m. Ebit RCA totalled €107 m, affected by a negative inventory effect of €15 m.

Ebit IFRS increased YoY to €116 m, and it was affected by non-recurring items of €6 m, mainly related to restructuring charges.

Results from associated companies related to the R&M business were negative €2 m in the period, affected by the ongoing investment in storage facilities in Mozambique.

Nine months

RCA Ebitda for the R&M business during the first nine months of 2016 decreased €142 m YoY to €471 m, impacted by the lower contribution from the refining activity.

Galp's refining margin was $4.0/boe, compared to $6.6/boe in the previous year, which reflects the lower refining margins in the international markets. The spread over the benchmark margin amounted to $1.2/boe.

Refining cash costs increased €4 m to €125 m, due to higher maintenance costs during 2016, namely in the hydrocracker in the Sines refinery. In unit terms, cash costs stood at $1.7/boe.

Hedging operations had a positive impact of €8 m in Ebitda during the period.

Marketing of oil products was in line YoY, despite the impact of a drop in volumes sold compared to the previous year.

Amortisations and provisions amounted to €215 m, up €3 m YoY.

Ebit RCA fell to €256 m, while Ebit IFRS increased €14 m to €171 m in the period. Inventory effect was positive €56 m and non-recurring items amounted to €29 m and were mainly related to impairments on refining equipment and restructuring charges.

6. Gas & Power

€ m (RCA except otherwise stated)

Quarter						Nine Months			
2Q16	3Q15	3Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
1,593	**1,909**	**1,750**	**(160)**	**(8%)**	**NG/LNG total sales volumes (mm^3)**	**5,973**	**5,203**	**(770)**	**(13%)**
881	933	950	17	2%	Sales to direct clients (mm^3)	2,851	2,732	(119)	(4%)
712	976	800	(176)	(18%)	Trading (mm^3)	3,122	2,471	(651)	(21%)
1,229	**1,219**	**1,297**	**77**	**6%**	**Sales of electricity (GWh)**	**3,466**	**3,718**	**252**	**7%**
97	**72**	**73**	**0**	**0%**	**Ebitda RCA**	**292**	**260**	**(32)**	**(11%)**
61	38	39	0	1%	Natural Gas	191	159	(32)	(17%)
33	32	26	(6)	(19%)	Infrastructure	98	91	(7)	(7%)
4	2	8	6	n.m.	Power	3	9	6	n.m.
15	14	15	1	6%	Depreciation & Amortisation	46	44	(2)	(4%)
1	4	3	(1)	(32%)	Provisions	6	4	(2)	(35%)
81	**54**	**55**	**1**	**1%**	**Ebit RCA**	**240**	**211**	**(28)**	**(12%)**
82	**49**	**57**	**8**	**17%**	**Ebit IFRS**	**217**	**208**	**(9)**	**(4%)**
17	**16**	**16**	**(1)**	**(5%)**	**Net Income from G&P Associates**	**50**	**50**	**(1)**	**(1%)**

Operations

Third quarter

Volumes sold in the natural gas segment reached 1,750 mm³ during the third quarter of 2016, down 8% YoY, mostly as a result of the lower volumes in the trading segment.

During the period, six LNG trading operations were carried out, based on the structured contracts, three less than during the previous year. Network trading volumes also decreased 59 mm^3 to 295 mm^3.

Sales to direct clients increased 2%, mainly driven by a 18% increase in volumes sold to the electrical segment, which reached 332 mm³. This increase follows a greater use of electricity generation from natural gas in Portugal.

Volumes sold in the conventional market, i.e. in the industrial and retail segments, went down 5% YoY, mostly due to lower volumes sold to the industrial segment in Portugal.

Sales of electricity increased 77 GWh YoY to 1,297 GWh, with the positive contribution from the cogeneration operations.

Nine months

Sales of natural gas in the first nine months of 2016 totalled 5,203 mm³, a decrease of 13% YoY.

Volumes sold in the trading segment decreased 21%, reflecting fewer opportunities in the international markets. During the first nine months of 2016, 20 LNG trading operations were carried out, seven less than during the previous year.

Volumes sold to direct clients also dropped, by 4%, with lower volumes sold to the conventional segment.

Sales of electricity increased 252 GWh YoY to 3,718 GWh, mainly due to the increased marketing of electricity.

Results

Third quarter

Ebitda for the G&P business during the third quarter of 2016 was €73 m on a RCA basis, in line YoY.

Ebitda for the natural gas segment stood stable YoY at €39 m supported by the structured trading activity and despite lower volumes sold.

Ebitda for the regulated infrastructure business dropped €6 m to €26 m, reflecting the remuneration rate revision to 6.2%, compared to 7.9% during the previous year.

Ebitda for the power business was €8 m, up €6 m compared to the third quarter of 2015, which had been negatively affected by the lag in the natural gas purchase price indexes, compared to the energy sale price.

Ebit RCA stood at €55 m, in line YoY, and included a negative €2 m inventory effect. Ebit IFRS reached €57 m, compared to €49 m the previous year.

Results from associated companies, namely from stakes held in international pipelines, maintained their €16 m stable contribution to results.

Nine months

Ebitda for the G&P segment decreased €32 m to €260 m during the first nine months of 2016, mainly due to lower results from the natural gas activity.

Ebitda for the natural gas segment decreased 17% YoY to €159 m, due to lower volumes sold.

The contribution to results of the regulated infrastructure business was €91 m, down €7 m YoY, reflecting the lower remuneration rate effective from July 1, 2016.

Ebitda for the power business normalised from the previous year level, and increased €6 m YoY to €9 m.

DD&A and provisions in the G&P business segment stood at €49 m, in line with the previous year.

Ebit RCA decreased €28 m YoY to €211 m, and was impacted by a positive €6 m inventory effect and non-recurring items of -€3 m. Ebit IFRS reached €208 m, compared to €217 m the previous year.

Results from associated companies related to the G&P business maintained their €50 m contribution to results during the period.

7. Financial data

7.1. Income statement

€ m (RCA, except otherwise stated)

Quarter						Nine Months			
2Q16	3Q15	3Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
3,267	3,904	3,499	(405)	(10%)	Turnover	12,083	9,595	(2,488)	(21%)
(2,554)	(3,116)	(2,715)	(402)	(13%)	Cost of goods sold	(9,723)	(7,424)	(2,298)	(24%)
(310)	(303)	(325)	22	7%	Supply & Services	(911)	(948)	37	4%
(73)	(85)	(83)	(3)	(3%)	Personnel costs	(241)	(231)	(11)	(4%)
8	8	8	(0)	(1%)	Other operating revenues (expenses)	22	24	2	7%
337	**407**	**384**	**(23)**	**(6%)**	**Ebitda RCA**	**1,229**	**1,015**	**(215)**	**(17%)**
366	**252**	**392**	**141**	**56%**	**Ebitda IFRS**	**976**	**922**	**(54)**	**(6%)**
(144)	(140)	(168)	28	20%	Depreciation & Amortisation	(422)	(462)	40	10%
(8)	(8)	(6)	(2)	(27%)	Provisions	(17)	(19)	2	13%
185	**259**	**211**	**(48)**	**(19%)**	**Ebit RCA**	**791**	**534**	**(257)**	**(33%)**
131	**100**	**194**	**94**	**94%**	**Ebit IFRS**	**441**	**322**	**(119)**	**(27%)**
24	17	16	(1)	(8%)	Net income from associated companies	60	61	1	2%
15	(8)	(16)	(8)	n.m.	Financial results	(68)	3	70	n.m.
224	**269**	**211**	**(58)**	**(22%)**	**Net income before taxes and non-controlling interests**	**783**	**597**	**(186)**	**(24%)**
(79)	(68)	(83)	15	21%	Taxes[1]	(247)	(201)	(46)	(18%)
(12)	(20)	(13)	(7)	(34%)	Non-controlling interests	(46)	(34)	(12)	(25%)
133	**180**	**115**	**(66)**	**(36%)**	**Net income RCA**	**490**	**361**	**(129)**	**(26%)**
(98)	(19)	(37)	18	98%	Non recurring items	(189)	(215)	27	14%
35	**161**	**77**	**(84)**	**(52%)**	**Net income RC**	**301**	**146**	**(155)**	**(52%)**
31	(115)	14	129	n.m.	Inventory effect	(184)	(47)	(137)	(74%)
66	**46**	**91**	**45**	**97%**	**Net income IFRS**	**117**	**99**	**(18)**	**(15%)**

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

Third quarter

During the third quarter of 2016, turnover amounted to €3,499 m, down 10% YoY. This was mainly due to the decrease in the prices of oil, natural gas and oil products.

Operating costs decreased by 11% YoY to €3,115 m, following a 13% drop in the cost of goods sold. The costs of external supplies and services increased by 7%, on the back of higher production in Brazil. Staff costs fell 3% YoY.

RCA Ebitda fell 6% to €384 m in the period as a result of a lower contribution from the R&M business. On the other hand, IFRS Ebitda increased €141 m to €392 m.

RCA Ebit was €211 m, down €48 m YoY, while IFRS Ebit rose €94 m to €194 m.

Results of associated companies accounted for €16 m, compared to €17 m the previous year.

Financial results during the quarter were negative by €16 m, driven by a €13 m loss mainly related to the mark-to-market of refining margin hedging operations.

Net financial interest was €23 m, a decrease of €6 m YoY, which reflects the lower cost of debt.

RCA taxes increased to €83 m as a result of higher E&P results. Taxes on oil and gas production totalled €23 m.

Non-controlling interests, mainly attributable to Sinopec's stake in Petrogal Brasil reached €13 m.

Net income RCA reached €115 m, down €66 m YoY, including an inventory effect of €14 m and non-recurring events of €37 m. The non-recurring events were mainly related to an onshore oil block in Brazil and assets related to the biofuel business.

IFRS net income was €91 m.

Nine months

During the first nine months of 2016, turnover decreased 21% YoY to €9,595 m. This was mainly due to the decrease in the prices of oil, natural gas and oil products in the international markets.

Operating costs went down 21% YoY to €8,580 m, mainly following a 24% fall in the cost of goods sold.

RCA Ebitda was €1,015 m, down 17% YoY, after a lower contribution from all business segments. IFRS Ebitda fell by €54 m YoY to €922 m.

RCA Ebit decreased 33% to €534 m, while IFRS Ebit fell €119 m to €322 m.

Results of associated companies accounted for €61 m, in line YoY.

Financial income was positive by €3 m, compared to a loss of €68 m in the same period of 2015, essentially due to a gain of €31 m in mark-to-market operations, mainly related to refining margin hedging, which compares to a loss of €18 m during the previous year.

Net interest expenses improved by €15 m YoY, to €79 m.

RCA taxes decreased €46 m to €201 m, due to lower results.

Non-controlling interests, primarily attributable to Sinopec, fell €12 m to €34 m, following the lower results generated in Brazil.

RCA net income was €361 m, down €129 m YoY, while IFRS net income was €99 m.

The inventory effect was €47 m and non-recurring items reached €215 m, including not only E&P impairments, but also the Portuguese Extraordinary Energy Sector Contribution (CESE), which affects the R&M and G&P businesses.

The CESE had a negative impact on IFRS results of around €48 m, of which €28 m related to CESE I, whose annual impact was fully accounted for in the first quarter of the year. CESE II amounted to c.€20 m. 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						Nine Months			
2Q16	3Q15	3Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
245	223	208	(15)	(7%)	Exploration & Production	782	770	(12)	(2%)
12	26	15	(11)	(43%)	Exploration and appraisal activities	95	36	(59)	(62%)
233	197	194	(3)	(2%)	Development and production activities	687	734	47	7%
35	24	26	1	6%	Refining & Marketing	50	84	34	68%
7	8	10	2	20%	Gas & Power	17	19	2	14%
0	0	1	0	n.m.	Others	3	1	(2)	n.m.
287	**256**	**244**	**(11)**	**(4%)**	**Capex**	**852**	**874**	**22**	**3%**

Third quarter

Capital expenditure during the third quarter of 2016 was €244 m, of which 85% was allocated to the E&P business.

Investment in development and production (D&P) activities accounted for 93% of total investment in E&P, of which 78% in Brazil, namely in the development of block BM-S-11. Investment in Angola accounted for c.20% of total D&P capex, mainly allocated to block 32.

In the R&M and G&P businesses, capex amounted to €35 m, in line YoY, and included investment in maintenance activities, in the ongoing upgrade of the oil retail network and of the natural gas infrastructure, and as well of IT systems.

Nine months

During the first nine months of 2016, capital expenditure was €874 m, 88% of which was allocated to E&P.

D&P activities accounted for 95% of the investment in the E&P business, mainly allocated to the development of block BM-S-11 in Brazil, which accounted for 75% of that total.

Capital expenditure in downstream and gas activities reached €103 m, including investment in planned maintenance at the refineries.

7.3. Cash flow

Indirect method

€ m (IFRS figures)

Quarter				Nine Months	
2Q16	3Q15	3Q16		2015	2016
131	100	194	Ebit	441	322
25	8	19	Dividends from associates	45	44
221	142	193	Depreciation, Depletion and Amortization (DD&A)	510	575
(8)	275	(164)	Change in Working Capital	392	(30)
369	**526**	**242**	**Cash flow from operations**	**1,389**	**911**
(269)	(252)	(242)	Net capex	(800)	(854)
(28)	(30)	(23)	Net financial expenses	(94)	(79)
(55)	(27)	(63)	SPT and Corporate taxes	(94)	(142)
(175)	(172)	(207)	Dividends paid	(317)	(382)
141	(102)	(29)	Others[1]	49	163
16	**57**	**322**	**Change in net debt**	**(133)**	**383**

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

Third quarter

The cash flow from operations during the third quarter of 2016 was €242 m, and was negatively affected by an increase in working capital.

Net debt increased by €322 m during the period as the cash flow from operating activities was not enough to offset the investment made during the period and the payment of interim dividends related to the 2016 financial year.

Nine months

During the first nine months of 2016, net debt increased €383 m compared to the end of 2015, due to an increase in capex and dividends during the period.

Working capital has remained fairly unchanged YoY, after a strong performance during 2015.

Change in net debt in the period considers reimbursement of €134 m related to the loan granted to Sinopec.

Considering the booking of the Galp Gás Natural Distribuição, S.A. (GGND) assets and liabilities under the caption assets held for sale, the September 2016 net debt (€2,205 m) was €216 m lower than that of December 31, 2015.

Direct method

€ m

Quarter				Nine Months	
2Q16	3Q15	3Q16		2015	2016
954	**1,169**	**856**	**Cash and equivalents at the beginning of the period**[1]	**1,023**	**1,045**
3,762	4,405	3,887	Received from customers	13,499	10,914
(2,226)	(2,782)	(2,432)	Paid to suppliers	(8,636)	(6,494)
(106)	(72)	(74)	Staff related costs	(248)	(256)
25	8	19	Dividends from associated companies	45	44
(649)	(683)	(762)	Taxes on oil products (ISP)	(1,997)	(2,015)
(410)	(482)	(407)	VAT, Royalties, PIS, Cofins, Others	(1,387)	(1,197)
395	**395**	**231**	**Total operating flows**	**1,276**	**996**
(273)	(234)	(261)	Net capex	(809)	(913)
(32)	(14)	(16)	Net Financial Expenses	(85)	(99)
(175)	(172)	(207)	Dividends paid	(317)	(382)
(55)	(27)	(63)	SPT and Corporate taxes	(94)	(142)
(86)	(7)	549	Net new loans	(95)	420
66	53	0	Sinopec loan reimbursement	182	134
60	(76)	(6)	FX changes on cash and equivalents	5	27
856	**1,087**	**1,084**	**Cash and equivalents at the end of the period**[1]	**1,087**	**1,084**

[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 December, 2015	30 June, 2016 (before assets held for sale)	*30 September, 2016 (before assets held for sale)[1]*	30 September, 2016	Var. vs 31 Dec., 2015	Var. vs 30 Jun., 2016
Net fixed assets	7,892	8,439	*8,486*	7,357	(535)	(1,082)
Working capital	510	377	*541*	529	19	153
Loan to Sinopec	723	576	*575*	575	(148)	(2)
Other assets (liabilities)	(515)	(624)	*(654)*	(383)	133	241
Non-current assets/liabilities held for sale	-	-	-	270	270	270
Capital employed	**8,610**	**8,768**	***8,947***	**8,348**	**(262)**	**(420)**
Short term debt	493	751	*768*	754	262	3
Medium-Long term debt	3,060	2,702	*3,258*	2,628	(431)	(73)
Total debt	**3,552**	**3,453**	***4,025***	**3,383**	**(169)**	**(70)**
Cash and equivalents	1,130	970	*1,221*	1,177	47	208
Net debt[2]	**2,422**	**2,483**	***2,805***	**2,205**	**(216)**	**(278)**
Total equity	**6,188**	**6,285**	***6,143***	**6,143**	**(45)**	**(142)**
Total equity and net debt	**8,610**	**8,768**	***8,947***	**8,348**	**(262)**	**(420)**

[1] Figures do not consider non-current assets/liabilities held for sale, in order to make periods comparable.
[2] Net debt at 30 September 2016 excludes net debt of GGND (€599 m), which is considered under non-current assets/liabilities held for sale.

The September 30, 2016 column shown above as prior to the GGND reclassification to assets held for sale was prepared on the same basis as December 31 and June 30, in order to make the periods comparable. On that basis, net fixed assets stood at €8,486 m, a €48 m increase compared to the end of June. Work-in-progress, mainly related to the E&P business, was €2,455 m.

7.5. Financial debt

€ m (except otherwise stated)

	31 December, 2015	30 June, 2016	30 September, 2016	Chg. *vs* 31 Dec., 2015	Chg. *vs* 30 Jun., 2016
Bonds	2,154	2,134	2,136	(18)	2
Bank loans and other debt	1,398	1,268	1,247	(151)	(21)
Cash and equivalents	(1,130)	(935)	(1,177)	(47)	(242)
Net debt[1]	**2,422**	**2,467**	**2,205**	**(216)**	**(262)**
Net debt including loan to Sinopec[2]	**1,699**	**1,891**	**1,631**	**(68)**	**(260)**
Average life (years)[3]	3.1	2.7	3.2	0.1	0.4
Average debt interest rate[3]	3.8%	3.5%	3.5%	(0.3 p.p.)	(0.0 p.p.)
Net debt to Ebitda RCA[4]	1.2x	1.6x	1.4x	-	-

[1] Net Debt at 30 September 2016 excludes net debt of GGND (€599 m). [2] Net debt at 30 September 2016 of €1,631 m adjusted for the €575 m loan to Sinopec. [3] Includes net debt of GGND, ie, considers Group net debt of €2,805 m as at the end of September. [4] As at 30 September 2016, ratio considers net debt including loan to Sinopec as cash (€575 m), plus Sinopec MLT Shareholder Loan to Petrogal Brasil (€169 m) and LTM Ebitda RCA €1,297 m.

On September 30, 2016, net debt stood at €2,205 m, down €262 m compared to the end of June. This amount does not include net debt related to GGND (held for sale) of €599 m. It should be noted that GGND repaid the shareholder loan of €568 m to Galp during September.

Considering the €575 m balance of the Sinopec loan as cash and equivalents, net debt at the end of the period totalled €1,631 m, resulting in a net debt to Ebitda ratio of 1.4x. This ratio also considers Sinopec's €169 m shareholder loan to Petrogal Brasil as of the end of the period.

The average interest rate was 3.48% during the period.

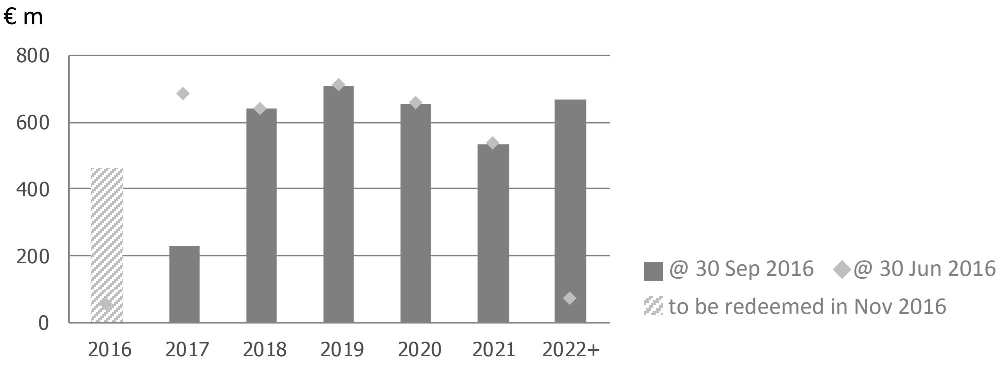
At the end of September, 51% of total debt was on a fixed-rate basis. Debt had an average maturity of 3.15 years, and medium and long-term debt accounted for 78% of the total.

As of September 30, 2016, around 65% of total debt was scheduled to mature from 2019 onwards, considering debt from subsidiary GGND, which at that date was still consolidated (albeit booked under assets held for sale).

It should be noted that a €455 m bond, maturing in 2017, has been called by Galp and will be redeemed on November 21, 2016. This change was reflected on the debt maturity profile graph below.

At the end of the third 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						Nine Months			
2Q16	3Q15	3Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
3,267	**3,904**	**3,499**	**(405)**	**(10%)**	**RCA Turnover**	**12,083**	**9,595**	**(2,488)**	**(21%)**
165	162	215	53	33%	Exploration & Production[1]	489	491	3	1%
2,657	3,182	2,878	(304)	(10%)	Refining & Marketing	9,373	7,702	(1,672)	(18%)
545	741	586	(154)	(21%)	Gas & Power	2,551	1,807	(744)	(29%)
31	30	29	(1)	(2%)	Other	91	89	(2)	(2%)
(131)	(211)	(210)	(1)	(0%)	Consolidation adjustments	(421)	(494)	73	17%

[1] Does not include change in production. RCA turnover in the E&P segment, including change in production amounted to €218 m during the third quarter of 2016 and €502 m during the first nine months of 2016.

7.7. Reconciliation of IFRS and Replacement Cost Adjusted figures

Replacement cost adjusted Ebitda by segment

€ m

Third Quarter					2016	Nine Months				
Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA		Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
392	**(17)**	**375**	**9**	**384**	**Galp**	**922**	**62**	**984**	**31**	**1,015**
125	-	125	2	127	**E&P**	249	-	249	13	262
189	(15)	174	7	180	**R&M**	396	56	452	19	471
74	(2)	72	0	73	**G&P**	256	6	262	(2)	260
4	-	4	(0)	4	**Others**	22	-	22	1	22

€ m

Third Quarter					2015	Nine Months				
Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA		Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
252	**150**	**401**	**6**	**407**	**Galp**	**976**	**241**	**1,217**	**12**	**1,229**
88	-	88	1	89	**E&P**	297	-	297	5	302
92	144	237	4	241	**R&M**	385	218	603	10	614
67	5	72	0	72	**G&P**	272	23	295	(3)	292
5	-	5	0	5	**Others**	22	-	22	0	22

Replacement cost adjusted Ebit by segment

€ m

Third Quarter					2016	Nine Months				
Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA		Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
194	**(17)**	**177**	**34**	**211**	**Galp**	**322**	**62**	**384**	**150**	**534**
18	-	18	28	46	**E&P**	(75)	-	(75)	123	48
116	(15)	101	6	107	**R&M**	171	56	227	29	256
57	(2)	55	0	55	**G&P**	208	6	214	(3)	211
3	-	3	(0)	3	**Others**	18	-	18	1	19

€ m

Third Quarter					2015	Nine Months				
Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA		Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
100	**150**	**250**	**10**	**259**	**Galp**	**441**	**241**	**682**	**108**	**791**
33	-	33	(1)	33	**E&P**	48	-	48	84	131
14	144	158	10	168	**R&M**	158	218	376	25	401
49	5	54	(0)	54	**G&P**	217	23	240	(1)	240
4	-	4	0	4	**Others**	19	-	19	0	19

7.8. Non-recurring items

€ m

Quarter				Nine Months	
2Q16	3Q15	3Q16		2015	2016
7.0	**5.9**	**9.1**	**Non-recurring items impacting Ebitda**	**12.1**	**31.1**
(2.2)	0.0	0.0	Accidents caused by natural events and insurance compensation	(0.9)	(2.1)
(0.2)	(0.1)	(0.3)	Gains/losses on disposal of assets	(2.8)	(1.0)
0.6	5.1	0.4	Asset write-offs	5.4	1.0
-	(3.7)	-	Fines	-	-
-	-	-	Investment subsidies	(2.6)	-
4.8	4.5	5.0	Employee restructuring charges	13.1	14.7
-	-	0.2	Advisory fees and others	-	0.2
4.1	-	2.0	Compensation early termination rigs agreement	-	11.9
-	-	1.8	Litigation costs	-	6.3
82.9	**3.7**	**25.0**	**Non-recurring items impacting non-cash costs**	**96.1**	**118.7**
5.4	1.2	0.0	Provisions for environmental charges and others	7.6	5.5
77.4	2.5	25.0	Asset impairments	88.5	113.1
5.3	**3.2**	**8.9**	**Non-recurring items impacting financial results**	**67.5**	**28.3**
5.3	3.2	8.9	Gains/losses on financial investments	18.6	28.3
0.0	-	(0.0)	Provision for impairment of financial investments	48.9	-
3.4	**5.5**	**(0.8)**	**Non-recurring items impacting taxes**	**26.5**	**42.4**
(2.4)	(1.5)	(10.2)	Income taxes on non-recurring items	(33.2)	(18.0)
5.8	7.0	9.4	Energy sector contribution tax	59.8	60.4
(0.2)	**0.5**	**(5.0)**	**Non-controlling interests**	**(13.6)**	**(5.2)**
98.4	**18.8**	**37.2**	**Total non-recurring items**	**188.7**	**215.4**

7.9. IFRS Consolidated income statement

€ m

Quarter				Nine Months	
2Q16	3Q15	3Q16		2015	2016
3,110	3,744	3,342	Sales	11,625	9,108
157	160	157	Services rendered	457	487
34	22	37	Other operating income	69	89
3,301	**3,926**	**3,536**	**Total operating income**	**12,151**	**9,684**
(2,518)	(3,266)	(2,698)	Inventories consumed and sold	(9,964)	(7,486)
(314)	(303)	(332)	Materials and services consumed	(911)	(970)
(78)	(90)	(87)	Personnel costs	(254)	(245)
(25)	(15)	(26)	Other operating costs	(46)	(60)
(2,935)	**(3,674)**	**(3,144)**	**Total operating costs**	**(11,175)**	**(8,762)**
366	**252**	**392**	**Ebitda**	**976**	**922**
(221)	(142)	(193)	Amortisation, depreciation, impairments	(510)	(575)
(14)	(9)	(6)	Provision and impairment of receivables	(25)	(25)
131	**100**	**194**	**Ebit**	**441**	**322**
19	14	7	Net income from associated companies	(8)	32
15	(8)	(16)	Financial results	(68)	3
5	6	11	Interest income	19	23
(33)	(35)	(35)	Interest expenses	(113)	(102)
25	27	26	Interest capitalised	66	72
(0)	(4)	(1)	Exchange gain (loss)	(8)	(7)
23	4	(13)	Mark to market of hedging derivatives	(18)	31
(4)	(5)	(5)	Other financial costs/income	(13)	(14)
165	**106**	**185**	**Income before taxes**	**366**	**357**
(82)	(32)	(76)	Taxes[1]	(157)	(169)
(6)	(7)	(9)	Energy sector contribution tax[2]	(60)	(60)
78	**67**	**99**	**Income before non-controlling interests**	**149**	**128**
(12)	(21)	(8)	Profit attributable to non-controlling interests	(32)	(29)
66	**46**	**91**	**Net income**	**117**	**99**

[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 €27.9 m, €20.4 m and €12.0 m related to the CESE I, CESE II and Fondo Eficiência Energética, respectively, in the nine months 2016.

7.10. Consolidated financial position

€ m

	31 December, 2015	30 June, 2016	30 September, 2016
Assets			
Non-current assets			
Tangible fixed assets	5,216	5,686	5,715
Goodwill	137	134	134
Other intangible fixed assets[1]	1,403	264	261
Investments in associates	1,114	1,188	1,218
Investments in other participated companies	2	3	3
Other receivables	322	254	243
Deferred tax assets	462	391	338
Other financial investments	24	32	30
Total non-current assets	**8,681**	**7,953**	**7,943**
Current assets			
Inventories[2]	873	694	736
Trade receivables	805	869	944
Other receivables	577	605	545
Loan to Sinopec	723	576	575
Other financial investments	4	25	9
Cash and equivalents	1,131	938	1,179
Sub-total current assets	**4,112**	**3,708**	**3,987**
Non-current assets held for sale	-	1,297	1,300
Sub-total current assets	**4,112**	**5,005**	**5,287**
Total assets	**12,793**	**12,958**	**13,229**
Equity and liabilities			
Equity			
Share capital	829	829	829
Share premium	82	82	82
Translation reserve	(0)	154	127
Other reserves	2,684	2,684	2,684
Hedging reserves	(2)	(2)	(3)
Retained earnings	1,056	1,029	822
Profit attributable to equity holders of the parent	123	8	99
Equity attributable to equity holders of the parent	**4,772**	**4,784**	**4,641**
Non-controlling interests	1,416	1,501	1,501
Total equity	**6,188**	**6,285**	**6,143**
Liabilities			
Non-current liabilities			
Bank loans and overdrafts	1,151	1,005	964
Bonds	1,908	1,664	1,665
Other payables[3]	551	299	299
Retirement and other benefit obligations	422	345	347
Liabilities from financial leases	0	0	0
Deferred tax liabilities	109	92	78
Other financial instruments	2	0	0
Provisions	429	450	441
Total non-current liabilities	**4,573**	**3,854**	**3,794**
Current liabilities			
Bank loans and overdrafts	247	263	283
Bonds	246	471	471
Trade payables	656	729	629
Other payables[4]	844	826	837
Other financial instruments	29	10	5
Income tax payable	9	64	36
Sub-total current liabilities	**2,032**	**2,363**	**2,262**
Non-current liabilities associated with non-current assets held for sale	-	455	1,030
Total current liabilities	**2,032**	**2,818**	**3,292**
Total liabilities	**6,605**	**6,673**	**7,087**
Total equity and liabilities	**12,793**	**12,958**	**13,229**

[1] Includes concession agreements for the distribution of natural gas (31 Dec. 2015).
[2] Includes €56 m in inventory from third parties on 30 September 2016.
[3] Includes €169 m long-term loan from Sinopec to subsidiary Petrogal Brasil on 30 September 2016.
[4] Includes €31 m in advance payments related to inventory from third parties on 30 September 2016.

8. Subsequent events

On October 27, Galp Energia, SGPS, S.A. (Galp), through its subsidiary Galp Gas & Power, SGPS, S.A. (GGP), completed the sale of 22.5% of GGND to Meet Europe, owned by Marubeni Corporation (50%) and by Toho Gas Co., Ltd. (50%). The closing price was set at €141 m, based on the initially agreed price plus adjustments, as established in the SPA. Considering that GGND repaid the shareholder loan of €568 m to Galp during September, total cash proceeds from this transaction stood at €709 m.

GGND will now cease to be consolidated into the Group accounts, and as such its contribution will start to be accounted for as income from associates, based on the equity method.

9. Basis of presentation

Galp's consolidated financial statements for the quarters ended on 30 September 2016 and 2015 and 30 June 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 September 2016 and 2015, and 30 June 2016. The financial information in the consolidated financial position is reported on 30 September and 30 June 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 full year 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 Eficiencia 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.

10. 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 ajustado (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
bn: billion
boe: barrels of oil equivalent
BP: British Petroleum
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
DD&A: Depreciation, Depletion & Amortisation
D&P: Development & Production
E&P: Exploration & Production
Ebit Earnings before interest and taxes.
Ebitda: Ebit plus depreciation, amortisation and provisions.
EPC: Engineering, Procurement, Construction
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
GGND: Galp Gás Natural Distribuição, S.A.
GWh Gigawatt per hour
IAS: International Accounting Standards
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
kbpd: 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
NBP: National Balancing Point
NG: natural gas
n.s.: no significance
NWE: Northwestern Europe
p.p.: percentage points
R&M: Refining & Marketing
PSA: Production Sharing Agreement
RC: Replacement Cost
RCA: Replacement Cost Adjusted
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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