



FINANCIAL STATEMENTS 31 DECEMBER 2016

Galp Gás Natural Distribuição, S.A.

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**STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2016 AND 31 DECEMBER 2015****Galp Gás Natural Distribuição, S.A.**

(Amounts stated in Euro)

ASSETS	Notes	2016	2015
Non-current assets:			
Intangible assets	12	260,570.05	-
Financial investments in subsidiary	4	163,148,930.90	163.118.213,90
Financial investments in associates	4	17,807,939.32	17.807.939,32
Other receivables	14	545,484,259.45	566.249.652,20
Deferred tax assets	9	930.83	421,65
Total non-current assets:		726,702,630.55	747.176.227,07
Current assets:			
Trade receivables	15	4,488,828.92	1.363.798,55
Other receivables	14	7,941,869.03	1.817.083,17
Cash and cash equivalents	18	34,194,001.24	-
Total current assets:		46,624,699.19	3.180.881,72
Total assets:		773,327,329.74	750.357.108,79
EQUITY AND LIABILITIES	Notes	2016	2015
Equity:			
Share capital	19	89,529,141.00	89.529.141,00
Other reserves	20	3,434,209.60	2.985.727,80
Retained earnings – remeasurement		(603.72)	-
Retained earnings		27.45	793,99
Net result for the year		65,217,062.29	8.969.636,08
Total equity attributable to shareholders:		158,179,836.62	101.485.298,87
Total equity:		158,179,836.62	101.485.298,87
Liabilities:			
Non-current liabilities:			
Bank loans	22	595,490,292.86	-
Other payables	24	-	587.931.455,19
Post-employment and other employee benefits	23	4,137.00	1.874,00
Total non-current liabilities:		595,494,429.86	587.933.329,19
Current liabilities:			
Short-term bank loans and other loans	22	-	225.645,73
Trade payables	26	1,301,442.83	1.350.851,38
Other payables	24	17,002,669.76	58.960.146,51
Current income tax payable	9	1,348,950.67	401.837,11
Total current liabilities:		19,653,063.26	60.938.480,73
Total liabilities:		615,147,493.12	648.871.809,92
Total equity and liabilities:		773,327,329.74	750.357.108,79

The accompanying notes form an integral part of the statement of financial position as of 31 December 2016.

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015****Galp Gás Natural Distribuição, S.A.**

(Amounts stated in Euro)

	Notes	2016	2015
Operating income:			
Services rendered	5	11,482,443.01	9,006,639.90
Other operating income	5	-	1.34
Total operating income:		<u>11,482,443.01</u>	<u>9,006,641.24</u>
Operating costs:			
External supplies and services	6	(4,940,722.05)	(2,013,768.18)
Personnel costs	6	(6,029,269.87)	(6,609,549.59)
Other operating costs	6	(163.81)	(190.62)
Total operating costs:		<u>(10,970,155.73)</u>	<u>(8,623,508.39)</u>
Operating results:		<u>512,287.28</u>	<u>383,132.85</u>
Financial income	8	27,745,933.43	26,498,396.87
Financial costs	8	(23,259,459.74)	(30,181,728.46)
Financial investments gains/(losses) – associates, affiliates and related companies	4	61,527,637.44	11,704,500.00
Result before taxes:		<u>66,526,398.41</u>	<u>8,404,301.26</u>
Income tax	9	(1,309,336.12)	565,334.82
Net result for the year		<u>65,217,062.29</u>	<u>8,969,636.08</u>

The accompanying notes form an integral part of the income statement for the year ended 31 December 2016.



STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

	Notes	2016	2015
Net result for the year		65,217,062.29	8,969,636.08
<u>Other comprehensive income for the year which will not be recycled in the future for net result of the year:</u>			
Remeasurement	23	(779.00)	-
Remeasurement tax	9	175.28	-
		(603.72)	-
Gains and Losses recognised in Equity net of taxes		65,216,458.57	8,969,636.08
Total comprehensive income for the year		65,216,458.57	8,969,636.08

The accompanying notes form an integral part of the statement of comprehensive income for the year ended 31 December 2016.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015**Galp Gás Natural Distribuição, S.A.**

(Amounts stated in Euro)

Changes in the period	Notes	Share Capital (Note 19)	Share Premium	Other Reserves (Note 20)	Actuarial Gains and Losses	Retained Earnings	Total
Balance as of 1 January 2015		89,529,141.00	100,000.00	-	(81,773.35)	59,714,556.02	149,261,923.67
Net result for the year		-	-	-	-	8,969,636.08	8,969,636.08
Share premium		-	(100,000.00)	-	-	-	(100,000.00)
Comprehensive income for the year		-	(100,000.00)	-	-	8,969,636.08	8,869,636.08
Increase/decrease of reserves by appropriation of profit		-	-	2,985,727.80	(56,646,260.88)	-	(53,660,533.08)
Constitution/deliver of share premium		-	-	-	56,728,828.22	(59,714,556)	(2,985,728)
Balance as of 31 December 2015		89,529,141.00	-	2,985,727.80	793.99	8,969,636.08	101,485,298.87
Balance as of 1 January 2016		89,529,141.00	-	2,985,727.80	793.99	8,969,636.08	101,485,298.87
Net result for the year		-	-	-	-	65,217,062.29	65,217,062.29
Other Gains and Losses recognised in Equity		-	-	-	(603.72)	-	(603.72)
Comprehensive income for the year		-	-	-	(603.72)	65,217,062.29	65,216,458.57
Dividends distributed / Interim dividends	30	-	-	-	(8,521,920.82)	-	(8,521,920.82)
Increase of reserves by appropriation of profit		-	-	448,481.80	8,521,154.28	(8,969,636.08)	-
Balance as of 31 December 2016		89,529,141.00	-	3,434,209.60	(576.27)	65,217,062.29	158,179,836.62

The accompanying notes form an integral part of the statement of changes in equity for the year ended 31 December 2016.



STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2016 AND 31 DECEMBER 2015

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

	Notes	2016	2015
Operating activities:			
Cash received from customers		15,415,287.13	9,799,473.27
Cash payments to suppliers		(10,992,363.29)	(5,681,315.48)
Payments relating to employees		(105,063.88)	(44,568.87)
(Payments)/ Receipts of income taxes		(328,967.85)	(48.61)
Contributions to the pension fund	23	(3,797.93)	-
Other (payments)/ Receipts relating to the operational activity		(1,413,203.27)	(981,862.03)
Cash flows from operating activities (1)		2,571,891.91	3,091,678.28
Investing activities:			
Receipts from:			
Interests and similar income		22,876,366.73	25,949,178.93
Dividends	4	61,527,637.44	11,704,500.00
Loans obtained		21,323,880.90	37,227,074.18
		105,727,885.07	74,880,753.11
Payments relating:			
Financial investments		(30,717.00)	(86,955,374.31)
Tangible assets		(239,321.99)	-
Loans obtained		(6,193,541.75)	(83,753,931.73)
		(6,463,580.74)	(170,709,306.)
Cash flows from investing activities (2)		99,264,304.33	(95,828,552.9)
Financing activities:			
Receipts from:			
Loans obtained		601,247,574.28	239,396,210.91
Increase of share capital, share premium and issue premium		-	1,104,000.00
Interest and similar income		-	145,056.48
		601,247,574.28	240,645,267.3
Payments relating:			
Loans obtained		(633,406,575.61)	(60,703,860.66)
Interests from loans obtained		(26,735,627.12)	(29,646,866.24)
Dividends distributed	30	(8,521,920.82)	(57,850,260.88)
		(668,664,123.5)	(148,200,987.)
Cash flows from financing activities (3)		(67,416,549.27)	92,444,279.61
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		34,419,646.97	(292,595.04)
Cash and cash equivalents at the beginning of the year	18	(225,645.73)	66,949.31
Cash and cash equivalents at the end of the year	18	34,194,001.24	(225,645.73)

The accompanying notes form an integral part of the statement of cash flow for the year ended 31 December 2016.

1. INTRODUCTION

Galp Gás Natural Distribuição, S.A. ("Company") has its Head Office in Lisbon and was constituted in 2 December 2009 under the company Galp Gás Natural Distribuição, SGPS, S.A., with the corporate business of managing other companies' shares. At April 1st 2015, by unanimous deliberation of the sole shareholder GDP Gás de Portugal, S.G.P.S., S.A., the Company changed its social name to the current one, Galp Gás Natural Distribuição, S.A., becoming its corporate business activities in the energy sector, particularly related to natural gas, including services rendering to business support, in management, administration and logistics, purchases and supply and information systems.

Its Head Office is in Lisbon, Tomás da Fonseca Torre C 1, 1600-209 Lisbon.

During the year ended 31 December 2016, the Company changed its shareholder structure and the position as of 31 December 2016 is detailed in Note 19.

Financial Statements are presented in Euro (functional currency), given that it is the currency preferably used in the economic environment in which the Company operates.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used by the Company to prepare the financial statements are explained below.

2.1. Basis of presentation

Company's financial statements were prepared on a going concern basis, at historical cost, except for financial derivative instruments which are stated at fair value on the accounting records of the Company maintained in accordance with International Financial Reporting Standards as adopted by the European Union, effective for the economic exercise beginning in 1 January 2016. These standards include International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC") and respective interpretations – SIC and IFRIC, issued by the International Financial Reporting Interpretation Committee ("IFRIC") and Standing Interpretation Committee ("SIC"). These standards and interpretations are hereinafter referred to as "IFRS".

The IFRS standards published by International Accounting Standard Board (IASB) and approved and published in the Official Journal of the European Union ("OJEU") during 2016, applicable to subsequent years are presented in the tables below:



Standards and Interpretations published by IASB and not yet approved by the EU:

IAS Standard	Publishing date in IASB	Date of accounting application	Year to which it applies	Comments
IFRS 14 Regulatory Tariff Deviations	30/JAN/2014	no estimated date	-	Not applicable
IFRS 16 Leases	13/JAN/2016	2nd Semester 2017	2019	Impact of the application of the standard still to be determined
Amendments to IAS 12 Income Taxes	19/JAN/2016	2nd Quarter 2017	2017	No estimated impact
Amendments to IAS 7 Statement of Cash Flow	29/JAN/2016	2nd Quarter 2017	2017	Impact on disclosures in the notes to the financial statements
Clarification of IFRS 15 Revenue from contracts with customers	12/ABR/2016	2nd Quarter 2017	2018	Impact of the application of the standard still to be determined
Amendments to IFRS 2 Share based payments	20/JUN/2016	2nd Semester 2017	2018	Not applicable
Amendments to IFRS 4 Insurance Contracts	12/SET/2016	2017	2018	Not applicable
IFRS annual Improvements cycle 2014-2016	08/DEZ/2016	2nd Semester 2017	2017/2018	No relevant accounting impacts
IFRIC 22 Foreign Currency Transactions and Advance Consideration	08/DEZ/2016	2nd Semester 2017	2018	No estimated impact
Amendments to IAS 40 Investment Properties	08/DEZ/2016	2nd Semester 2017	2018	No estimated impact

The “IAS/IFRS” standards approved and published in the Official Journal of the European Union (“OJEU”) during 2016, applicable to present and subsequent years are presented in the table below:

Standards and Interpretations approved by the EU and applicable to subsequent years, if applicable:

IAS Standard	Publishing date in OJEU	Date of accounting application	Year to which it applies	Comments
IFRS 9 Financial Instruments	29/NOV/2016	01/JAN/2018	2018	Impact on the derivative financial instruments, classified in accordance with accounting standards as hedging and in the calculation of the impairment losses on accounts receivable
IFRS 15 Revenue from contracts with customers	29/OUT/2016	01/JAN/2018	2018	Impact, still to be determined, on the revenue recognition



The “IAS/IFRS” standards approved and published in the Official Journal of the European Union (“OJEU”) during 2015 and 2016, applicable in 2016 and subsequent years are presented in the table below:

Standards and Interpretations adopted, if applicable:

IAS Standard	Publishing date in OJEU	Date of accounting application	Year to which it Applies	Comments
Amendments to IFRS 10, 12 and IAS 28 - Investment entities: applying consolidation exception	23/SET/2016	01/JAN/2016	2016	Not applicable
Amendments to IAS 27 Separate Financial Statements	23/DEZ/2015	01/JAN/2016	2016	No impact
Amendments to IAS 1 Presentation of Financial Statements	19/DEZ/2015	01/JAN/2016	2016	No relevant accounting impacts
IFRS annual improvements cycle 2012-2014	19/DEZ/2015	01/JAN/2016	2016	No relevant accounting impacts
Amendments to IAS 16 Tangible Fixed Assets and IAS 38 Intangible Assets	03/DEZ/2015	01/JAN/2016	2016	Not applicable
Amendments to IFRS 11 Joint arrangements	25/NOV/2015	01/JAN/2016	2016	Potential impact on new acquisitions of joint operations
Amendments to IAS 16 Tangible Fixed Assets and IAS 41 Agriculture	25/NOV/2015	01/JAN/2016	2016	Not applicable
IFRS annual improvements cycle 2010-2012	09/JAN/2015	01/FEV/2015	2016	No relevant accounting impacts
Amendments to IAS 19 Defined Benefits Plan: Employees contributions	09/JAN/2015	01/FEV/2015	2016	No impact

In the preparation of the financial statements were used estimates that affect the amounts of assets, liabilities, income and costs were used in preparing the accompanying consolidated financial statements. The estimates and assumptions used by the Board of Directors were based on the best information available regarding events and transactions in process at the time of approval of the financial statements.

The Company, for the elaboration and presentation of the financial statements, declares to be, explicitly and completely, according with the “IAS/IFRS” standards and respective interpretations “SIC/IFRIC”, approved by the European Union.

2.2. Foreign currency balances and transactions

Transactions are recorded in the separate financial statements of subsidiaries in their functional currencies, at the exchange rates in force on the dates of the transactions.

Gains and losses resulting from differences in exchange rates in force on the dates of the transactions and those prevailing at the date of collection, payment or at the end of the reporting period are recorded as income and expenses, respectively, in the income statement caption “Exchange gain / (loss)”, except for those relating to non-monetary items, that are recorded directly in equity.

2.3. Income and accrual basis

Expenses and revenues are recorded in the corresponding period, independently of the date of payment or receipt. Expenses and revenues for whose real amount is unknown, Company uses estimations.

Under the captions "Other current assets" and "Other current liabilities" are recorded expenses and revenues of the current period and which receipt and payment will only occur in future periods, as well as receipts and payments already occurred but related to future periods and that are assigned to each periods income.

2.4. Financial costs on loans obtained

Financial costs on loans obtained are recorded as financial costs on an accruals basis.

2.5. Income tax

Income tax is calculated based on the taxable results of the Company in accordance with the applicable tax rules in force in Portugal.

Deferred taxes are calculated based on the liability method and reflect the temporary differences between the amounts of assets and liabilities recorded for accounting purposes and their amounts for tax purposes.

Deferred tax assets and liabilities are calculated and reviewed annually using the tax rates expected to be in force when the temporary differences revert.

Deferred tax assets are recorded only when there is reasonable expectation of sufficient future taxable income to use them or whenever there are taxable temporary differences that offset the deductible temporary differences in the period they revert. Temporary differences underlying deferred tax assets are reviewed at each statement of financial position date in order to recognise deferred tax assets that were not recorded in prior years as they did not fulfil all requisites and/or to reduce the amounts of deferred tax assets recorded based on the current expectation of their future recovery (Note 9).

Deferred taxes are recorded in the income statement for the year, unless they result from items recorded directly in equity, in which case the deferred tax is also recorded in equity.

2.6. Financial instruments

Financial investments are accounted for at acquisition cost, deducted from impairment losses.

2.7. Retirement benefits

The Company has assumed the commitment to pay their employees' pension supplements for retirement due to age and pensions to survivors, in the exceeding part of social security contributions.

At the end of each reporting period the Company obtains actuarial valuations by a specialised entity in accordance with the Projected Unit Credit Method and compare the amount of their liabilities with past services with the market value of the funds and with the balance of the liabilities recognised, in order to determine any additional liabilities that need to be recorded (Note 23).

Actuarial gains and losses determined in each year and for each of the benefits granted, resulting from adjustments to the demographic assumptions, experience adjustments, are recorded in the statement of comprehensive income impacting the financial position.

2.8. Other retirement benefits – defined contribution minimum benefit

The Company's costs with respect to defined contribution minimum benefit plan are recognised over the period the employees entitled to these benefits are in service of the respective companies, the liability being reflected in the statement of financial position caption "Post-employment and other employee benefits liabilities" (Note 23). Payments to the beneficiaries are deducted from the liability.

At the end of each reporting period the Company obtains actuarial valuations calculated by a specialised entity in accordance with the Projected Unit Credit Method and compares the amount of their liabilities with the market value of the funds and with the balance of the liabilities, in order to determine the additional liabilities to be recorded.

Actuarial gains and losses determined in each year and for each of the benefits granted, resulting from adjustments to the demographic assumptions, experience adjustments, are recorded in the statement of comprehensive income impacting the financial position.

2.9. Financial instruments

Financial assets and liabilities are recorded in the statement of financial position when the Company becomes a contractual part of the financial instrument.

a) Investments

Investments are classified as follow:

- Held-to-maturity investments;
- Investments at fair value through profit and loss;
- Available-for-sale investments.

Held-to-maturity investments are classified as non-current investments, unless they mature in less than 12 months from the consolidated statement of financial position date, being recorded under this caption investments which have a defined maturity date and that the Group intends and has the ability to retain them up to their maturity.

Investments at fair value through profit or loss are classified as current investments.

Available-for-sale investments are classified as non-current assets.

All purchases and sales of these investments are recorded on the date of the signature of the respective purchase and sale contracts, independently of the financial settlement date.

Investments are initially recorded at cost, which is the fair value of the price paid, including transaction costs.

After initial recognition, investments at fair value through profit or loss and available-for-sale investments are revalued to fair value by reference to their market value at the financial statements date, with no deduction for transaction costs which could be incurred upon sale. For equity instruments not listed on a regulated market, where it is not possible to reliably estimate their fair value, these are maintained at cost less any non-reversible impairment losses.

Gains and losses resulting from changes in the fair value of available-for-sale investments are recognized in the equity caption "Fair value reserve" until the investment is sold, redeemed or in some way disposed of, or until the fair value of the investment falls below cost over a long period, at which time the accumulated gain or loss is recorded in the income statement.

Gains and losses resulting from changes in the fair value of investments at fair value through profit or loss are recorded in the income statement.

Held-to-maturity investments are recorded at amortized cost using the effective interest rate, net of repayments of principal and interest received.

b) Receivables

Receivables are recorded at fair value. At each financial statements' date, the amount is deducted of impairment losses, which are recognised under "Impairment losses on receivables", so that it reflects its net realisable value.

Usually, receivables arising from operating activity do not bear interests.

c) Equity and liability classification

Financial liabilities and equity instruments are classified in accordance with substance of the contractual arrangement, independent of their legal form.

d) Loans

Loans are recorded as liabilities at their nominal received amount, net of issuance expenses pertaining to those loans.

Financial costs are calculated at the effective interest rate and recognised in the income statement on an accrual basis.

Financial costs include interest and any origination fees incurred relating to project finance.

e) Trade and other payable

Accounts payable are recorded at amortised cost. Usually amortised cost of such liabilities does not differ from its nominal value.

f) Cash and cash equivalents

The amounts included in the caption "Cash and cash equivalents" includes cash, bank deposits, term deposits and other treasury applications that mature in less than three months, and that can be realised immediately with insignificant risk of change in their value.

For cash flow statement purposes the caption "Cash and cash equivalents" also includes bank overdrafts included in the statement of financial position caption "Bank loans and overdrafts".

2.10. Classification in the statement of financial position

Assets realisable and liabilities payable in more than one year from the financial statements date are classified as non-current assets and non-current liabilities, respectively.

2.11. Subsequent events

Events that occur after the financial statements date that provide additional information on conditions that existed at the end of the reporting period are recorded, if material, in the financial statements.

2.12. Estimates and judgments

The preparation of financial statements in accordance with generally accepted accounting principles requires estimates to be made that affect the recorded amount of assets and liabilities, the disclosure of contingent assets and liabilities at the end of each year and income and costs recognised each year. The actual results could be different depending on the current estimates made.

Certain estimates are considered critical if: (i) the nature of the estimates is considered to be significant due to the level of subjectivity and judgment required to record situations in which there is great uncertainty or are very susceptible to changes in the situation and; (ii) the impact of the estimates on the financial situation or operating performance is significant.

Provision for contingencies

The final cost of lawsuits, settlements and other litigation can vary due to estimates based on different interpretations of the rules, opinions and final assessment of the losses. Consequently, any change in circumstances relating to these types of contingency can have a significant effect on the recorded amount of the provision for contingencies.



3. COMPANIES INCLUDED IN CONSOLIDATION

Not applicable.

4. FINANCIAL INVESTMENTS

4.1. Financial investments in subsidiaries and joint-venture

Financial investments hold by the Company as of 31 December 2016 and 31 December 2015, were as following:

	Head Office		Percentage of interest held		Main activity	Book Value
	City	Country	2016	2015		
Subsidiary Companies:						
Beiragás - Companhia de Gás das Beiras, S.A.	Viseu	Portugal	59.60%	59.51%	Operation, construction and maintenance of local natural gas distribution network.	20,293,462.59
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	Lisboa	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	986,859.89
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	Vila Real	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	6,765,589.44
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	Lisboa	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	47,285,389.85
Lusitaniagás - Companhia de Gás do Centro, S.A.	Aveiro	Portugal	96.84%	96.84%	Operation, construction and maintenance of local natural gas distribution network.	26,295,672.47
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	Lisboa	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	1,072,656.89
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	Lisboa	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	994,734.43
Setgás-Sociedade de Distribuição de Gás Natural, S.A.	Setúbal	Portugal	99.93%	66.88%	Operation, construction and maintenance of local natural gas distribution network.	59,454,565.34
						163,148,930.90
Financial investments impairment						
						163,148,930.90

	Subsidiary's Financial Information				2016		2015	
	Total Assets	Total Liabilities	Equity	Net result of the year	%	Amount	%	Amount
Subsidiary Companies:								
Beiragás, S.A.	81,990,071.15	38,327,679.14	43,662,392.01	3,213,984.87	59,60%	26.022.785,64	59,51%	25.262.456,58
Dianagás, S.A.	15,477,343.65	14,160,944.57	1,316,399.08	267,665.43	100,00%	1.316.399,08	100,00%	2.203.344,79
Duriensegás, S.A.	41,819,947.52	35,084,647.45	6,735,300.07	923,032.81	100,00%	6.735.300,07	100,00%	7.075.498,50
Lisboagás GDL , S.A.	600,194,238.26	491,670,051.38	108,524,186.88	10,312,900.08	100,00%	108.524.186,88	100,00%	112.118.625,80
Lusitaniagás, S.A.	310,955,531.51	248,453,556.49	62,501,975.02	5,084,621.84	96,84%	60.526.912,61	96,84%	62.499.925,11
Medigás, S.A.	20,564,986.03	19,186,044.34	1,378,941.69	279,966.24	100,00%	1.378.941,69	100,00%	1.549.489,45
Paxgás, S.A.	6,703,255.83	5,540,311.85	1,162,943.98	113,712.78	100,00%	1.162.943,98	100,00%	1.157.553,59
Setgás, S.A.	174,888,244.58	139,854,872.69	35,033,371.89	2,063,436.42	99,93%	35.009.899,53	66,88%	77.879.063,94
	1,252,593,618.53	992,278,107.91	260,315,510.62	22,259,320.47		240.677.369,48		289.745.957,76



During the years ended 31 December 2016 and 2015, the movement of the caption "Financial investments gains / (losses) - associates, affiliates and related companies", were as follows:

	2016	2015
Dividends:		
Subsidiary companies:		
Lusitaniagás - Companhia de Gás do Centro, S.A.	6,895,789.49	1,440,000.00
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	5,500,000.00	9,000,000.00
Beiragás - Companhia de Gás das Beiras, S.A.	1,190,093.53	-
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	1,153,344.79	-
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	449,489.45	324,000.00
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	107,553.59	-
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	44,970,000.00	-
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	1,261,366.59	940,500.00
	61,527,637.44	11,704,500.00

4.2. Investments in associates

Investments in associates, their head offices and the percentage or interest held as of 31 December 2015 and 2014 are as follows:

Companies	Head Office		Percentage of interest held		Book Value
	City	Country	2016	2015	
Associated companies:					
Tagusgás-Empresa de Gás do Vale do Tejo, S.A.	Cartaxo	Portugal	41.33%	41.33%	17,807,939.32
					17,807,939.32

	31 December 2016			2016		2015	
	Head Office	Equity	Net Result	%	Amount	%	Amount
Tagusgás-Empresa de Gás do Vale do	Santarém	36.437.150,54	1.666.122,80	41.33%	15,059,474.32	41.33%	14,248,262.00
					<u>15,059,474.32</u>		<u>14,248,262.00</u>

5. OPERATING INCOME

During the years ended at 31 December 2016 and 2015, the Company, besides financial investments' management, also rendered services to subsidiary companies, amounting 11,482,443.01 Euro and 9,006,639.90 Euro, respectively (Note 28).



6. OPERATING COSTS

As of 31 December 2016 and 2015, operating costs presents the following detail:

CAPTIONS	2016	2015
External supplies and services		
Other specialised services	3,126,944.82	724,451.88
Other costs	282,521.17	25,277.99
Marketing and Communication	277,376.44	241,821.73
IT Services	245,096.59	82,457.67
Travel and accommodation	221,296.60	208,466.27
Rental costs	219,394.63	222,187.24
Communication	155,428.88	96,106.15
Legal services	143,423.04	1,999.99
Fuel	106,636.05	111,424.51
Insurance	51,188.24	5,356.59
Studies and projects	40,247.09	15,075.00
Salaries	35,827.00	2,986.64
Representational expenses	12,293.21	793.55
Office materials	7,919.67	12,080.80
Gifts	4,911.62	1,916.17
Maintenance and repairs	3,372.74	4,681.49
Surveillance and Security	3,213.92	1,462.97
Litigation and notary	2,936.77	3,450.51
Technical documentation and books	420.98	3,486.40
Tools	220.37	362.23
Cleaning, hygiene and comfort	52.22	56.73
Personnel assigned from other companies	-	247,284.92
Publicity	-	460.00
Personnel transportation	-	120.75
	4,940,722.05	2,013,768.18
Personnel costs		
Employee salaries	5,690,685.23	6,502,756.58
Social charges	43,561.84	12,842.78
Retirement benefits - pensions and insurance (Note 23)	5,215.49	1,874.00
Other insurances	11,153.61	3,655.63
Other costs	144,301.33	88,420.60
	6,029,269.87	6,609,549.59
Other operating costs		
Other taxes	144.75	68.33
Other operating costs	19.06	122.29
	163.81	190.62
	10,970,155.73	8,623,508.39



7. SEGMENT REPORTING

Not applicable.

8. FINANCIAL INCOME AND COSTS

Financial income and financial costs for the years ended 31 December 2016 and 2015 are as follows:

CAPTIONS	2016	2015
Financial income:		
Interest with related companies (Note 28)	27,745,933.43	26,498,202.43
Interest – Others	-	194.44
	27,745,933.43	26,498,396.87
Financial costs:		
Interest with related companies (Note 28)	(20,716,822.62)	(30,170,891.95)
Other interests	(2,315,406.74)	-
Interest net of retirement benefits and other benefits (Note 23)	(47.00)	-
Commissions	(227,183.38)	(10,836.51)
	(23,259,459.74)	(30,181,728.46)

9. INCOME TAXES

Since 31 December 2000, the Company is taxed in accordance with the special regime for the taxation of groups of companies, with taxable income being determined in Galp Energia, S.G.P.S., S.A.. However, estimated income tax of the Company is accounted based on its tax results, which at 31 December 2016 and 31 December 2015 represents a payable income tax to Galp Energia, S.G.P.S., S.A., amounting to 1,348,950.67 Euro and 401,837.11 Euro, respectively, and was calculated as follows:

CAPTIONS	2016	2015
Current tax	1,382,490.67	(509,621.30)
(Excess)/Insufficiency of income tax for the preceding years	-	(55,291.87)
2014 tax	-	966,750.28
Tax withholding	(33,540.00)	-
	1,348,950.67	401,837.11

In accordance with current Portuguese legislation, corporate income tax returns are subject to review and correction by the tax authorities for a period of four years (five years for Social Security). Therefore, tax returns concerning the years from 2013 to 2016 can still be subject to review.

The Board of Directors understands that corrections arising from revisions/inspections by fiscal authorities to those tax returns will not have a significant impact over the financial statement as of 31 December 2016 and 2015.



Recognised income tax for the year ended 31 December 2016 and 2015 are as follows:

CAPTIONS	2016	2015
Current income tax	1,382,490.67	(509,621.30)
(Excess)/Insufficiency of income tax for the preceding years	(72,820.65)	(55,291.87)
Corrections from preceding years	(333.90)	(421.65)
	<u>1,309,336.12</u>	<u>(565,334.82)</u>

Below is a reconciliation of the income tax for the years ended 31 December 2016 and 2015:

	2016	Rate	Income tax	2015	Rate	Income Tax
Result before taxes:	66,526,398.41	21.00%	13,970,543.67	8,404,301.26	21.00%	1,764,903.26
<u>Adjustments to taxable income:</u>						
Received dividends	(19.42)%	(12,920,803.86)		(29.25)%	(2,457,945.00)	
(Excess)/Insufficiency of income tax of the preceding year	(0.11)%	(72,820.65)		(0.66)%	(55,291.87)	
Local State Tax	0.16%	105,031.29		-	-	
Municipal Tax	0.11%	75,015.65		-	-	
Autonomous taxation	0.23%	152,224.69		2.18%	183,001.21	
Other accruals and deductions	-	145.33		-	(2.43)	
Income tax and rate	1.97%	1,309,336.12		(6.73)%	(565,334.82)	

Deferred Taxes

As of 31 December 2016, the balance of deferred tax assets and liabilities is as follows:

	Assets	
	2016	2015
Retirement benefits	930,83	421,65
	<u>930,83</u>	<u>421,65</u>



The changes in the caption "Deferred taxes" in the years 2016 and 2015 are justified as follows:

	Assets	
	2016	2015
Initial Balance	421.65	-
Effect in results:		
Retirement benefits	333.90	421.65
	755.55	422.65
Effect in Equity:		
Retirement benefits	175.28	-
Final Balance	930.83	421.65

10. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2016 and 2015 are as follows:

	2016	2015
Results:		
Net result for purposes of calculating earnings per share (net result of the period)	65,217,062.29	8,969,636.08
Number of shares		
Weighted average number of shares for purposes of calculation earnings per share (Note 19)	89,529,141	89,529,141
Basic earnings per share (amounts stated in Euro):	0.73	0.10

The diluted earnings per share are equal to basic earnings per share, since there are no situations that give rise to dilution.

11. GOODWILL

Not

applicable.



12. INTANGIBLE ASSETS

The changes in the caption in the year ended in 31 December 2016 are justified as follows:

<u>Intangible assets</u>	2016	
	Intangible assets in progress	Total intangible assets
Acquisition costs:		
Balance at 1 January 2016	-	-
Additions	260,570.05	260,570.05
Balance at 31 December 2016	260,570.05	260,570.05

13. GOVERNMENT GRANTS

Not

applicable.



14. OTHER RECEIVABLES

The non-current and current caption "Other receivables" as of 31 December 2016 and 31 December 2015 is detailed as follows:

Captions	2016		2015	
	Current	Non-current	Current	Non-current
Loans to associates, joint ventures and other related parties (Note 28)	6,217,864.12	545,483,565.03	145,180.42	566,249,335.68
Advances to suppliers	12,556.34	-	-	-
Personnel	438.81	-	-	-
Other receivables	39,764.84	-	48.61	-
	<u>6,270,624.11</u>	<u>545,483,565.03</u>	<u>145,229.03</u>	<u>566,249,335.68</u>
Accrued income:				
Accrued interest (Note 28)	1,153,446.49	-	1,208,662.37	-
Other accrued income (Note 28)	-	-	463,191.77	-
	<u>1,153,446.49</u>	<u>-</u>	<u>1,671,854.14</u>	<u>-</u>
Deferred charges:				
Prepaid insurance	12,960.79	-	-	-
Other deferred costs	504,837.64	694.42	-	316.52
	<u>517,798.43</u>	<u>694.42</u>	<u>-</u>	<u>316.52</u>
	<u>7,941,869.03</u>	<u>545,484,259.45</u>	<u>1,817,083.17</u>	<u>566,249,652.20</u>
Impairment of other receivables	-	-	-	-
	<u>7,941,869.03</u>	<u>545,484,259.45</u>	<u>1,817,083.17</u>	<u>566,249,652.20</u>



15. TRADE RECEIVABLES

As of 31 December 2016 and 2015, this caption includes amounts related to other group companies (Note 28).

	2016	2015
CAPTIONS	Current	
Trade receivables – current account (Note 28)	4,488,828.92	1,363,798.55
	<u>4,488,827.92</u>	<u>1,363,798.55</u>

16. INVENTORIES

Not applicable.

17. OTHER FINANCIAL INVESTMENTS

Not applicable.

18. CASH AND CASH EQUIVALENTS

As of 31 December 2016 and 2015, the caption “Cash and cash equivalents” presented the following detail:

	2016	2015
Cash Deposits	34,194,001.24	-
Cash and cash equivalents in the statement of financial position	34,194,001.24	-
Bank overdrafts (Note 22)	-	(225,645.73)
Cash and cash equivalents in the statement of cash flow	34,194,001.24	(225,646.73)

19. SHARE CAPITAL

Capital Structure

As of 31 December 2016, the Company’s share capital, amounting 89,529,141.00 Euro, is represented by 89,529,141 shares with a nominal value of 1.00 Euro each and entirely subscribed and realised by:



2016			
Shareholders	No of shares	Participation (%)	Imputable participation %
Galp Gás & Power, S.G.P.S., S.A.	69,385,084	77.50%	77.50%
Meet Europe Natural Gas, Lda.	20,144,057	22.50%	22.50%
	89,529,141	100.00%	100.00%

2015			
Shareholders	No of shares	Participation (%)	Imputable participation %
Galp Gás & Power, S.G.P.S., S.A.	89,529,141	100.00%	100.00%
	89,529,141	100.00%	100.00%

20. OTHER RESERVES

According to the company's statute and the Commercial Companies Code, the company has to transfer to the caption Legal Reserves, included in other reserves, in share capital, a minimum of 5% of the net profit for each year up to a limit of 20% of the share capital. Legal reserves can't be distributed to shareholders, whichever, under certain circumstances, it may be used to increase share capital or absorb losses after all other reserves are exhausted.

As of 31 December 2016 and 2015, the caption is detailed as follows:

	2016	2015
Legal Reserves	<u>3,434,209.60</u>	<u>2,985,727.80</u>
	<u>3,434,209.60</u>	<u>2,985,727.80</u>

21. NON-CONTROLLING INTERESTS

Not applicable.

22. LOANS

Detail of loans

Loans obtained as of 31 December 2016 and 31 December 2015 were as follows:

	2016	2015
	Non-Current	Current
Bank loans:		
Bank overdrafts (Note 18)	-	225.645,73
	-	225.645,73
Bond loans:		
Notes	600.000.000,00	-
	600.000.000,00	-
Origination Fees	(4.509.707,14)	-
	595.490.292,86	-
	595.490.292,86	225.645,73

Notes Issuance – Galp Gás Natural Distribuição, S.A.

At August 25th 2016, Galp Gás Natural Distribuição, S.A. established an EMTN Programme (“EUR 1,000,000,000 Euro Medium Term Note Programme”).

Under the EMTN Programme, at September 19th 2016, Galp Gás Natural Distribuição, S.A., issued notes amounting €600,000 k, which overdue at September 19th 2023, with coupons of 1.375%, admitted to negotiation on the regulated market of London Stock Exchange.

JP Morgan, BofA Merrill Lynch and Banco Santander Totta acted as Joint-Bookrunners in this transaction.

Under the program (EMTN), a set of Financial Covenants were defined in order increase the protection of GGND Group’s creditors. Such covenants - Net Debt/EBITDA (ND/E) and Debt Service Coverage Ratio (DSCR) have two limits – one in lock-up event and other in event of default:

Financial Covenants	December 2016
Net Debt / EBITDA	5.3x
Debt Service Coverage Ratio	2.1x

As of 31 December 2016 the mentioned covenants are in compliance.



23. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Other retirement benefits - life insurance and minimum benefit defined contribution plan (disability and survival)

As mentioned in Note 2.7 and 2.8, the Company has registered at 31 December 2016 a provision to cover its liability for the minimum benefit defined contribution plan. The current value of liabilities for past services and actuarial assumptions used in their calculation is as follows:



	2016	2015
	Defined contribution plan minimum benefit	Defined contribution plan minimum benefit
Assumptions		
Technical interest rate	2,50%	2,50%
Rate of increase in salaries	1.00%	1.00%
Rate of increase in pensions	0.00%	0.00%
Current personnel and pre-retirees mortality table	INE 2009-2011	INE 2009-2011
Retired personnel mortality table	GKF95	GKF95
Disability table	EVK 80 - 50%	EVK 80 - 50%
Common age for retirement	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	66 years or 65 years if at least with 43 years of discounts to S.S. at 65
Method	Projected credit unit	Projected credit unit
Changes in past service liability (PSL)		
PSL at the end of the previous year	1,874.00	-
Current service cost	1,437.00	-
Interest cost	47.00	-
Actuarial (gain) / loss	779.00	-
Other adjustments	-	1,874.00
PSL at the end of the current year	4,137.00	1,874.00
Reconciliation to the Statement of Financial Position		
(Gains) / losses recognized at the beginning of the year - Asset/(Liability)	(1,874.00)	-
Net cost of the year	(1,484.00)	(1,874.00)
Gains / (losses) recognized – through Comprehensive Income	(779.00)	-
Total recognized at year end - Assets / (Liabilities)	(4,137.00)	(1,874.00)
Net cost of the year		
Current service cost	-	-
Interest cost	-	-
Other adjustments	138,599.00	138,599.00
Net cost of the year	138,599.00	-
Reconciliation of gains and loss recognized- through Comprehensive Income		
Cumulative (Gains) / losses recognized at the beginning of the year	-	-
Changes in the "asset ceiling" effect	295.00	-
(Gains) / losses from actuarial experience	(1,074.00)	-
Cumulative (Gains) / losses recognized at the end of the year	(779.00)	-



The amount of 5,215.49 Euro under "Personnel costs" in the income statement (note 6) is detailed as follows: (i) current service costs in a total amount of 1,437.00 Euro e (ii) 3,778.49 Euro related to benefit defined contribution.

Interest cost, in a total amount of 47.00, was recorded by the Company under "Other interest" in the income statement (Nota 8).

Sensitivity analysis

A sensitivity analysis was performed in order to measure the impact on liabilities caused by a change in the discount rate. For this purpose a negative variation of 25 b.p. in the discount rate was considered:

Liabilities	Discount Rate 2.25%	Discount Rate	Variation
Other benefits:			
Defined contribution plan minimum benefit	4,137	4,205	1.64%

The sensitivity analysis performed, demonstrates that a 1% increase in the discount rate, ceteris paribus, implies the followed decrease in past service liabilities:

Liabilities	Percentage
Other benefits:	
Defined contribution plan minimum benefit	(6.57)

A sensitivity analysis was performed in order to measure the impact on liabilities caused by a change in the salary/pension growth. For this purpose a positive variation of 100 b.p. in the salary/pension growth was considered:

Liabilities	Rate 1%	Rate 2%	Variation
Other benefits:			
Defined contribution plan minimum benefit	4,137	4,522	9.31%



24. OTHER PAYABLES

As of 31 December 2016 and 2015 the caption "Other payables" is detailed as following:

Captions	2016	2015	
	Current	Current	Non-Current
State and other public entities:			
Value Added Tax payable	996,465.30	401,973.14	-
Income Tax Withheld to third parties	10,674.00	466.00	-
Social Security	26,914.91	1,192.20	-
Loans - Associates, affiliates and related companies (Note 28)	10,737,209.58	55,096,210.91	587,800,000.00
Personnel	1,120.22	17.84	-
	<u>11,772,384.01</u>	<u>55,499,860.09</u>	<u>587,800,000.00</u>
Accrued costs:			
External supplies and services	2,086,379.53	1,311,486.70	-
External supplies and services (Note 28)	177,988.80	-	-
Accrued interest	2,314,583.33	1,299,643.70	-
Holiday , holiday subsidy and corresponding contributions	76,185.16	7,273.50	-
Productivity bonuses (Note 28)	543,214.92	813,176.71	-
Productivity bonuses	22,858.32	25,597.00	-
Short and long-term incentives	-	-	131,455.19
Accrued insurance premiums	9,075.69	3,108.81	-
	<u>5,230,285.75</u>	<u>3,460,286.42</u>	<u>131,455.19</u>
	<u>17,002,669.76</u>	<u>58,960,146.51</u>	<u>587,931,455.19</u>

25. PROVISIONS

Not applicable.

26. TRADE PAYABLES

As of 31 December 2015 and 31 December 2014 the caption "Trade payables" was detailed as follows:

Captions	2016	2015
Trade payables – current accounts	1,160,265.67	1,294,874.18
Trade payables – pending invoices	141,177.16	55,977.20
	<u>1,301,442.83</u>	<u>1,350,851.38</u>

27. OTHER FINANCIAL INSTRUMENTS – FINANCIAL DERIVATIVES

Not applicable.



28. RELATED PARTIES

Balances and transactions with related parties in 31 December 2016 and 2015 were as follows:

Receivables		2016			
		Non-Current	Current		
Companies	Total Related Parties	Granted Loans (Note 14)	Trade Receivables (Note 15)	Granted Loans (Note 14)	Accruals and Deferrals
Lisboagás GDL , S.A.	255,852,958.47	252,165,731.63	3,151,178.53	-	536,048.31
Lusitaniagás, S.A.	153,300,258.80	148,626,674.72	481,109.71	3,876,527.09	315,947.28
Setgás, S.A.	90,281,900.73	87,609,341.19	240,314.71	2,240,711.34	191,533.49
Duriensegás, S.A.	22,674,069.82	22,505,026.50	121,202.64	-	47,840.68
Medigás, S.A.	14,457,219.62	14,330,667.88	96,087.92	-	30,463.82
Dianagás , S.A.	10,503,368.36	10,212,856.56	209,824.35	58,977.19	21,710.26
Tagusgás, S.A.	5,359,675.66	5,374,900.66	-	-	-
Paxgás, S.A.	4,757,304.96	4,658,365.89	47,387.92	41,648.50	9,902.65
Beiragás, S.A.	141,723.14	-	141,723.14	-	-
Galp Energia, SGPS, S.A.	33,540.00	-	-	-	-
	557,362,019.56	545,483,565.03	4,488,828.92	6,217,864.12	1,153,447.49

The amount of 1,153,447.49 Euro, accounted for under "Income accrual – current", refers to interests from loans granted to subsidiary companies, which overdue during 2016 and are to be capitalised during 2017 (Note 14).

Receivables		2015			
		Non-Current	Current		
Companies	Total Related Parties	Granted Loans (Note 14)	Trade Receivables (Note 15)	Granted Loans (Note 14)	Accruals and Deferrals
Lisboagás GDL ,	273,432,871.87	272,165,731.63	537,980.46	-	729,159.78
Lusitaniagás, S.A.	149,265,806.15	148,626,674.72	89,663.42	-	549,468.01
Setgás, S.A.	87,948,244.68	87,609,341.19	125,528.80	-	213,374.69
Duriensegás, S.A.	22,612,778.10	22,505,026.50	21,519.22	-	86,232.38
Medigás, S.A.	14,375,702.19	14,330,667.88	13,449.52	-	31,584.79
Dianagás, S.A.	10,280,197.39	10,212,856.56	44,831.69	-	22,509.14
Tagusgás, S.A.	5,412,693.57	5,008,293.57	404,400.00	-	-
Paxgás, S.A.	4,677,599.29	4,658,365.89	8,966.36	-	10,267.04
Beiragás, S.A.	1,279,095.13	1,132,377.74	117,459.08	-	29,258.31
Galp Energia,	145,180.42	-	-	145,180.42	-
	569,430,168.79	566,249,335.68	1,363,798.55	145,180.42	1,671,854.14



Regarding the amount of 1,671,854.14 Euro, accounted under "Income accruals – current", 1,208,662.37 Euro refer to interests from loans granted to subsidiary companies, which overdue during 2015 and were capitalised during 2016 and 463,191.77 Euro relates to services provided to subsidiary companies to be invoice in 2016 (Note 14).

Payables		2016			
		Current			
Companies	Total Related Parties	Trade payables	Loans obtained (Note 24)	Payable Tax (Note 9)	Accruals and deferrals
Lisboagás GDL, S.A.	9,838,098.19	279,801.52	9,318,760.11	-	239,536.56
Galp Energia, SGPS, S.A.	1,382,490.67	-	-	1,382,490.67	-
Duriensegás, S.A.	941,749.12	5,065.66	928,843.50	-	7,839.96
Galp Energia, S.A.	653,769.16	550,959.78	-	-	102,809.38
Medigás, S.A.	489,605.97	-	489,605.97	-	-
Lusitaniagás, S.A.	203,901.92	72,421.16	-	-	131,480.76
Setgás, S.A.	142,510.49	64,317.05	-	-	78,193.44
GDP-Gás de Portugal, S.A.	132,175.11	25,233.25	-	-	106,941.86
Petrogal, S.A.	58,223.24	39,611.24	-	-	18,612.00
Beiragás, S.A.	41,744.36	13,794.56	-	-	27,949.80
Galp Gás Natural, S.A.	14,117.97	6,278.01	-	-	7,839.96
	13,898,386.20	1,057,482.23	10,737,209.58	1,382,490.67	721,203.72

Regarding the amount of 721,203.72 Euro, 177,988.80 Euro refers to external services and supplies to be invoiced to group companies and 543,214.92 Euro relates to productivity bonuses to be invoiced to subsidiary companies (Note 24).

Payables		2015					
		Non-Current		Current			
Companies	Total Related Parties	Loans Obtained (Note 24)	Accruals and Deferrals (Note 24)	Trade payables (Note 26)	Loans Obtained (Note 24)	Payable Tax (Note 9)	Accruals and deferrals
Galp Gas & Power, SGPS, SA	589,146,414.40	587,800,000.00	31,182.23	-	-	-	1,315,232.17
Setgás, S.A.	44,239,613.65	-	-	110,877.48	44,000,000.00	-	128,736.17
Lisboagás GDL, S.A.	8,649,538.50	-	-	237,606.38	8,071,185.83	-	340,746.29
Medigás, S.A.	999,957.22	-	-	-	999,957.22	-	-
Duriensegás, S.A.	976,352.47	-	-	4,959.38	960,376.20	-	11,016.89
Galp Energia, S.G.P.S., S.A.	401,837.11	-	-	-	-	401,837.11	-
Dianagás, S.A.	550,899.44	-	-	-	550,899.44	-	-
Paxgás, S.A.	513,792.22	-	-	-	513,792.22	-	-
Beiragás, S.A.	64,813.79	-	-	26,557.55	-	-	38,256.24
Galp Energia, S.A.	440,643.28	-	-	413,549.26	-	-	27,094.02
Lusitaniagás, S.A.	285,646.77	-	31,182.24	89,306.99	-	-	165,157.54
Galp Gás Natural, S.A.	110,593.63	-	69,090.72	(916.66)	-	-	42,419.57
Petrogal, S.A.	82,647.04	-	-	38,485.52	-	-	44,161.52
	646,462,750.52	587,800,000.00	131,455.19	920,425.90	55,096,210.91	401,837.11	2,112,820.41

Regarding the amount of 2,112,820.41 Euro, 1,299,643.70 Euro refers to overdue interest from loans obtained from Galp Gás & Power, SGPS, S.A. during 2015 which were paid in 2016 and 813,176.71 Euro related to productivity bonuses to be invoiced to subsidiary companies (Note 24).



Transactions						
2016						
Companies	External Supplies and Services	Personnel Costs Incurred	Operating Income (Note 5)	Personnel Costs Charged	Financial Costs (Note 8)	Financial Income (Note 8)
Galp Gas & Power, S.G.P.S., SA	-	(46,770.70)	-		20,716,822.62	-
Lisboagás GDL, S.A.	-	3,186,523.25	(7,355,819.34)		-	(12,867,421.24)
Lusitaniagás, S.A.	-	1,125,437.48	(1,123,057.40)		-	(7,412,799.19)
Setgás, S.A.	-	781,053.70	(559,123.19)		-	(4,506,237.10)
Duriensegás, S.A.	-	63,573.83	(282,924.14)		-	(1,119,365.00)
Galp Energia, S.A.	982,123.72	212,198.86	-		-	-
Medigás, S.A.	-	-	(224,298.60)		-	(712,785.14)
Dianagás, S.A.	-	-	(489,794.71)		-	(511,829.82)
Tagusgás, S.A.	-	-	(279,999.96)	(60,000.00)	-	(366,607.09)
Beiragás, S.A.	-	214,489.55	(1,056,807.77)	(36,000.00)	-	(17,064.43)
Petrogal, S.A.	98,808.24	271,343.54	-		-	-
Paxgás, S.A.	-	-	(110,617.90)		-	(231,824.42)
GDP-Gás de Portugal, S.A.	306,288.63	(86,403.76)	-		-	-
Modelo Continente SA	135,497.26		-		-	-
Galp Gás Natural, S.A.	-	(11,868.90)	-		-	-
Galp Energia, SGPS, S.A.	1,803.89	-	-		-	-
Galp Energia España, S.A.	388.73	-	-		-	-
	1,524,910.47	5,709,576.85	(11,482,443.01)	(96,000.00)	20,716,822.62	(27,745,933.43)



Transactions		2015			
Companies	External Supplies and Services	Personnel Costs Incurred	Operating Income (Note 5)	Financial Costs (Note 8)	Financial Income (Note 8)
Galp Gas & Power, SGPS, SA	-	46.770,70	-	30.132.324,37	-
Galp Energia, S.A.	517.018,98	267.783,81	-	-	-
GDP-Gás de Portugal, S.A.	574.235,00	189.105,00	-	-	-
Petrogal, S.A.	90.515,00	356.763,08	-	-	-
Galp Energia, S.G.P.S., S.A.	-	-	-	38.567,58	-
Galp Energia España, S.A.	229,20	-	-	-	-
Galp Açores, S.A.	13,41	-	-	-	-
Paxgás, S.A.	-	-	(69.111,35)	-	(241.052,19)
Beiragás, S.A.	-	340.128,09	(734.984,79)	-	(113.670,43)
Tagusgás, S.A.	-	(60.000,00)	(280.000,00)	-	(340.732,00)
Medigás, S.A.	-	-	(116.196,09)	-	(741.555,94)
Dianagás, S.A.	-	-	(397.521,70)	-	(528.475,34)
Setgás, S.A.	-	791.987,42	(687.694,78)	-	(1.050.959,61)
Duriensegás, S.A.	-	66.685,63	(246.574,90)	-	(1.217.765,31)
Lusitaniagás, S.A.	-	1.208.331,78	(1.096.659,90)	-	(7.541.860,99)
Lisboagás GDL, S.A.	-	3.011.870,70	(5.377.896,39)	-	(14.722.130,62)
	1.182.011,59	6.491.036,66	(9.006.639,90)	30.170.891,95	(26.498.202,43)

29. REMUNERATION OF THE BOARD

The remuneration of the board members of GGND for the years ended 31 December 2016 and 2015 is detailed as follows:

	December 2016		
	Base wage	Other charges and regularisations	Total
Board members			
Executive management	112,639.63	21,712.74	134,352.37
	112,639.63	21,712.74	134,352.37

30. DIVIDENDS

In accordance with the deliberation of the General Meeting of Shareholders held on 4 May 2016, the Company distributed dividends to its shareholder Galp Gás & Power, SGPS, SA, amounting 8,521,920.82 Euro, regarding the net result of 2015.



31. OIL AND GAS RESERVES

Not applicable.

32. FINANCIAL RISK MANAGEMENT

Risk Management

The Company is exposed to several types of market risks (price risk and interest rate risk) inherent to the natural gas industries, which affect the Company's financial results.

Market risks

Interest rate risk

The total interest rate position is managed centrally. Interest rate exposure relates mainly to bank loans bearing interests. The purpose of managing interest rate risk is to reduce the volatility of financial costs in the income statement. The interest rate risk management policy aims to reduce exposure to variable rates fixing interest rate risk on loans, using simple derivatives such as swaps.

Liquidity risk

Liquidity risk is defined as the amount by which profit and/or cash flow of the business are affected as a result of the Company's constraint to obtain the financial resources necessary to meet its operating and investment commitments.

The Company finances itself through cash flows generated by its operations and maintains a diversified portfolio of loans. The Company has access to credit amounts that are not fully used but that are at its disposal. These credits can cover all loans that are repayable in 12 months. The available short term lines of credit that are not being used are sufficient to meet any immediate demand.

Credit risk

Credit risk results from potential non-compliance by third parties of contractual obligations to pay and so the risk level depends on the financial credibility of the counterparty. In addition, counterparty credit risk exists on monetary investments and hedging instruments. Credit risk limits are established by Galp Energia Group and are implemented in the various business segments. The credit risk limits are defined and documented and credit limits for certain counterparties are based on their credit ratings, period of exposure and monetary amount of the exposure to credit risk.

Impairment of "Other receivables" is analysed in the Notes 14 and 15.



33. CONTINGENT ASSETS AND LIABILITIES

Not applicable.

34. INFORMATION ON ENVIRONMENTAL MATTERS

Not applicable.

35. SUBSEQUENT EVENTS

Not applicable.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors at March 30th 2017.

37. EXPLANATION ADDED FOR TRANSLATION

These financial statements are a free translation of the financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards as adopted by the European Union (Note 2.1) some of which may not conform to generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.



THE BOARD OF DIRECTORS:

Chairman: Pedro Carmona de Oliveira Ricardo

Vice-Chairman: Maria Leonor Galo Pedrosa dos Santos Machado de Baptista Branco

Members: Gabriel Nuno Charrua de Sousa

José Manuel Rodrigues Vera

Ana Isabel Simões Dias dos Santos Severino

Maria Marta de Figueiredo Geraldês Bastos

Yoichi Noborisaka

Naohiro Hayakawa

THE ACCOUNTANT:

Carlos Alberto Nunes Barata



Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Galp Gás Natural Distribuição, S.A. (the Entity), which comprise the statement of financial position as at 31 December 2016 (which shows total assets of Euro 773,327,330 and total shareholders' equity of Euro 158,179,837 including a net profit of Euro 65,217,062), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Galp Gás Natural Distribuição, S.A. as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of the Entity and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matter described below to be the key audit matter to be communicated in our report.

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Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

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Key Audit Matter	Summary of the Audit Approach
Financial participations valorisation	
<i>Disclosure related to the financial participations in Note 2 and 4 of financial statements.</i>	
<p>As at 31 December 2016, Galp Gás Natural Distribuição, SA holds financial participations in subsidiaries and associated amounting Euro 180,956,870, which are measured at acquisition cost net of impairment losses. Impairments tests are performed whenever there are evidence or changes in circumstances that may indicate that the presented value may not be recoverable. For such, the recoverable value is determined by its value in use, according with the discounted cash flow model.</p> <p>The relevance of such mater in our audit work results in the high amount and judgement level of the impairment model. The calculation of the recoverable amount requires the use of estimations and assumptions by the Management that depends on economic forecasts, namely future cash flows, rates for perpetuity growing and discount rates.</p> <p>As a result of impairments tests made by the Management, no identified impairment losses were noted in the financial participations held by Galp Gás Natural Distribuição SA.</p>	<p>To ensure the correct valuation of financial participations, the following audit procedures were performed:</p> <ul style="list-style-type: none"> - evaluation of impairment evidences on financial participations; and - obtain and analyse impairment tests on financial participations, when applicable. <p>Impairment tests analysis, based on the discounted cash flow model, comprehends the following procedures:</p> <ul style="list-style-type: none"> - check of arithmetic accuracy of the model; - assessment of the reasonability of future cash flow projections compared with historical performance; - evaluation of adequacy of the discount rate used; and - evaluation of estimates and judgements assumed by the Management, inherent to the relevant assumptions supporting the model. <p>We also verified the adequacy of the disclosures in Note 4 of the financial statements.</p>

Responsibilities of management for the financial statements

Management is responsible for:

- a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Entity in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;
- b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;
- c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- d) the adoption of appropriate accounting policies and criteria;
- e) the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- f) communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- g) of the matters we have communicated to those charged with governance, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure;
- h) confirm that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements [and the verification set forth in paragraphs 4 and 5 of article No. 451 of the Portuguese Company Law.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Entity, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report, included in the Director's report, includes the information required under article No. 245-A of the Portuguese Securities Market Code, that no material misstatements were identified in the information disclosed in this report and that it complies with paragraphs c), d), f), h), i) and m) of that article.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

- a) We were appointed auditors of Galp Gás Natural Distribuição, S.A., for the first time, in the Shareholders' General Meeting of 7 July 2011, for the mandate between 2011 and 2013, having been nominated for 2014 on Shareholders' General Meeting of 21 April 2011 and subsequently we were nominated for the period between 2015 and 2018 on Shareholders' General Meeting of 20 April 2015.
- b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.
- c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Entity's supervisory board as of xx April 2017.
- d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Entity in conducting our audit.

e) In addition to the services disclosed in the Directors' report of the Entity, we inform that, besides the audit services, the following additional services, permitted by law and regulation in force, were provided by us to the Entity:

Other reliability assurance services

- Reports on Regulated Financial Statements ("ERSE"; "ASECE"; "TOS");
- Revision of financial statements in English;

April 3, 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

António Joaquim Brochado Correia, R.O.C.



Report and Opinion of the Supervisory Body

(Free translation from the original in Portuguese)

To the Shareholders,

In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the Directors' Report and financial statements as presented by the Board of Directors of Galp Gás Natural Distribuição, S.A with respect to the year ended December 31, 2016.

During the year, we have accompanied the evolution of the Company's activity, as and when deemed necessary. We have verified the timeliness and adequacy of the accounting records and respective supporting documentation, as well as the effectiveness of the internal control system, only to the extent that the controls are of relevance for the control of the Company's activity and the presentation of the financial statements, of the risk management system and internal audit. We have also ensured that the law and the Company's articles of association have been complied with.

As a consequence of our work, we have issued the attached Statutory Audit Report.

Within the scope of our mandate, we have verified that:

- i) the statement of financial position, the statement of income by nature, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the corresponding notes to the accounts permit an adequate understanding of the financial position, the results, the changes in equity and cash flows of the Company;
- ii) the accounting policies and valuation methods applied are appropriate;
- iii) the Directors' Report is sufficiently clear as to the developments of the business and the position of the Company and highlights the more significant aspects;
- iv) the proposed appropriation of results is not contrary with the applicable laws and Company's articles of association.

On this basis, and taking into account information obtained from the Board of Directors and the Company's employees, together with the conclusions in the Statutory Audit Report, we are of the opinion that:

- i) the Directors' Report be approved;
- ii) the financial statements be approved;
- iii) the proposed appropriation of results be approved.

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Finally, we would like to express our gratitude to the Board of Directors and all those whom we contacted, for their valuable contribution.

April 3, 2017

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represented by:

António Joaquim Brochado Correia, R.O.C.