RESULTS
FOURTH QUARTER
2016

February 21, 2017
Investor Relations

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1. Executive summary

Main highlights of the full year of 2016

- **Group Ebitda** on a replacement cost adjusted (RCA) basis **amounted to €1.4 billion (bn)**, above the Company's guidance of €1.2 - €1.3 bn.
- **Capital expenditure totalled €1.2 bn**, in the middle of the expected range. Of that total, 85% was allocated to the Exploration & Production (E&P) business, namely to block BM-S-11 in Brazil.
- **Net debt at the end of 2016 was €1,260 million (m)**, considering the loan to Sinopec as cash and equivalents, **down €439 m YoY**, due to a robust operating performance and to the partial divestment of the regulated gas infrastructure business. In this context, **net debt to Ebitda stood at 1.0x**.

Main highlights of the fourth quarter of 2016

- **Working interest production increased 15% QoQ, and 63% YoY** to 84.9 thousand barrels of oil equivalent per day (kboepd). In Brazil, FPSO #4 reached plateau production during 3Q16, and FPSOs #5 and #6 started production during the year, respectively in the Lula Alto and Lula Central areas. FPSO #5 reached plateau production in December, 10 months after starting production.
- **Consolidated RCA Ebitda was €396 m**, **up 28% YoY** as the increased results of the E&P business offset the lower contribution from the Refining & Marketing (R&M) and Gas & Power (G&P) businesses.
- **E&P RCA Ebitda was up by €181 m YoY to €232 m**, driven by the increase in production and higher oil prices during the period. It should be noted that, **as of October 1 2016, the contribution of the oil trading activity started to be allocated to the E&P business**. This **was previously accounted for in the R&M business**. The impact of the first nine months of 2016, of €22 m, was accounted for during 4Q16.
- **R&M Ebitda decreased €60 m YoY to €105 m.** In addition to the reallocation of the trading contribution, R&M was also impacted by the **time lag in pricing formulas**, given the significant increase in commodity prices during the quarter. Results were also impacted by **operational exchange rate differences** from the rapid Dollar appreciation during the quarter, allocated to operating results since the beginning of 2016. The refining activity increased its contribution to results. The spread over the benchmark margin was $1.4/boe, as the Company benefited from gasoline arbitrage opportunities with the USA.
- **G&P Ebitda amounted to €53 m,** down €36 m YoY, **affected by the lower contribution of the natural gas business**, which had benefited from a higher NG/LNG sourcing optimisation effect in the previous year, and by the **deconsolidation of GGND's regulated gas infrastructure business** as of the end of October 2016.
- **Group RCA Ebit was €238 m**. DD&A increased €52 m YoY, mainly due to the R&M business, following the revised useful life of certain refining assets. The 4Q16 figure includes the impact of the 2H16.
- **RCA net income decreased €27 m YoY to €121 m**. Non-recurring items amounted to €108 m. The impairments were mainly in block 14 in Angola, as well as in relation to the transfer of contracts for the construction of the replicant FPSO hulls. International Financial Reporting Standards (IFRS) net income was €80 m.
- **Cash flow from operations amounted to €558 m and more than offset the investment made during the period.** Excluding the GGND deal impact, net debt during the fourth quarter would have decreased by €160 m.

2. Key figures

Financial data

€ m (RCA)

Quarter						Twelve Months			
3Q16	4Q15	4Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
384	**309**	**396**	**87**	**28%**	**Ebitda RCA**	**1,538**	**1,411**	**(127)**	**(8%)**
127	51	232	181	n.m.	Exploration & Production[1]	352	494	141	40%
180	165	105	(60)	(36%)	Refining & Marketing[1]	779	576	(203)	(26%)
73	90	53	(36)	(40%)	Gas & Power	382	313	(69)	(18%)
211	**178**	**238**	**60**	**34%**	**Ebit RCA**	**969**	**772**	**(197)**	**(20%)**
194	**(18)**	**221**	**239**	**n.m.**	**Ebit IFRS**	**423**	**544**	**120**	**28%**
115	**148**	**121**	**(27)**	**(18%)**	**Net income RCA**	**639**	**483**	**(156)**	**(24%)**
91	**6**	**80**	**75**	**n.m.**	**Net income IFRS**	**123**	**179**	**57**	**46%**
244	**431**	**344**	**(87)**	**(20%)**	**Capex**	**1,283**	**1,218**	**(64)**	**(5%)**
1,631	**1,699**	**1,260**	**(439)**	**(26%)**	**Net debt including loan to Sinopec[2]**	**1,699**	**1,260**	**(439)**	**(26%)**
1.4x	**1.2x**	**1.0x**	**-**	**-**	**Net debt to Ebitda RCA[3]**	**1.2x**	**1.0x**	**-**	**-**

[1] Reallocation to the E&P business of the contribution of the trading activity related to the oil produced. This was previously accounted for in the R&M business. The full year impact was accounted for in 4Q16. [2]Considering loan to Sinopec as cash. [3]As at 31 December 2016, ratio considers net debt including €610 m loan to Sinopec as cash, plus €179 m of Sinopec MLT shareholder loan to Petrogal Brasil and 2016 Ebitda of €1,411 m.

Operational data

Quarter						Twelve Months			
3Q16	4Q15	4Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
74.0	52.1	84.9	32.9	63%	Average working interest production (kboepd)	45.8	67.6	21.8	48%
71.5	49.2	82.7	33.4	68%	Average net entitlement production (kboepd)	43.2	65.1	21.9	51%
36.4	30.0	42.1	12.1	40%	Oil and gas average sale price (USD/boe)	43.5	37.7	(5.8)	(13%)
29.4	28.8	28.8	0.1	0%	Raw materials processed (mmboe)	114.6	109.7	(4.8)	(4%)
3.4	4.1	5.2	1.1	26%	Galp refining margin (USD/boe)	6.0	4.3	(1.7)	(29%)
2.3	2.2	2.2	(0.0)	(2%)	Oil sales to direct clients (mton)	9.1	8.8	(0.3)	(3%)
950	992	1,048	56	6%	NG sales to direct clients (mm^3)	3,843	3,780	(63)	(2%)
800	700	814	113	16%	NG/LNG trading sales (mm^3)	3,822	3,285	(537)	(14%)

Market indicators

Quarter						Twelve Months			
3Q16	4Q15	4Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
1.12	1.10	1.08	(0.02)	(1%)	Exchange rate (EUR:USD)	1.11	1.11	(0.00)	(0%)
45.9	43.8	49.3	5.6	13%	Dated Brent price[1] (USD/bbl)	52.4	43.7	(8.7)	(17%)
(2.1)	(2.3)	(1.6)	0.8	(32%)	Heavy-light crude price spread[2] (USD/bbl)	(1.4)	(2.1)	(0.6)	45%
4.4	5.5	5.9	0.4	6%	UK NBP natural gas price[3] (USD/mmbtu)	6.2	4.7	(1.5)	(24%)
5.6	7.1	7.5	0.4	6%	LNG Japan and Korea price[1] (USD/mmbtu)	7.5	5.7	(1.7)	(23%)
2.3	4.0	3.9	(0.1)	(3%)	Benchmark refining margin[4] (USD/bbl)	5.2	3.1	(2.1)	(40%)
16.0	15.1	15.5	0.4	3.0%	Iberian oil market[5] (mton)	60.1	61.7	1.6	2.7%
7,135	8,370	9,530	1,159	13.9%	Iberian natural gas market[6] (mm^3)	31,497	32,338	842	2.7%

[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. [6] Source: Galp and Enagás

3. Market environment

Dated Brent

During the fourth quarter of 2016, the average price of dated Brent increased $5.6/bbl YoY to $49.3/bbl, reflecting market expectations following the agreement to reduce production reached by OPEC and other oil-producing countries.

During 2016, dated Brent averaged $43.7/bbl, down $8.7/bbl YoY.

In the fourth quarter of 2016, the average price spread between dated Brent and Urals narrowed YoY from $2.3/bbl to $1.6/bbl, due to higher demand for Urals in Asia, as well as a high fuel oil crack, which supported the demand for heavy crude with high sulphur content.

During 2016, the price spread widened $0.6/bbl YoY, to $2.1/bbl.

Natural gas

During the fourth quarter, the natural gas price in Europe (NBP) increased YoY from $5.5/mmbtu to $5.9/mmbtu, due to higher gas consumption, on the back of a more severe winter and lower exports of electricity from non-fossil fuel, mainly from France.

In 2016, NBP averaged $4.7/mmbtu, down $1.5/mmbtu YoY.

During the fourth quarter, the Asian LNG reference price (JKM) increased YoY from $7.1/mmbtu to $7.5/mmbtu, following higher demand, namely from China, which hit an all-time high of LNG imports in December.

During 2016, JKM averaged $5.7/mmbtu, a decrease of $1.7/mmbtu YoY.

Refining margins

During the fourth quarter of 2016, the benchmark refining margin remained stable YoY at $3.9/bbl, with the appreciation of fuel oil offsetting the depreciation of light distillates.

The gasoline crack was $9.9/bbl during the period, compared to $10.9/bbl the previous year, on the back of larger inventories of light distillates, namely in the U.S. East Coast, a regular outlet for European production.

In the fourth quarter, the diesel crack stood at $13.0/bbl, up $0.2/bbl YoY, supported by higher European demand.

During 2016, the benchmark refining margin was $3.1/bbl, down $2.1/bbl YoY, as the gasoline and diesel crack spreads dropped $4.4/bbl and $5.2/bbl YoY, respectively, pressured by larger inventories throughout the year.

Iberian market

During the fourth quarter of 2016, the Iberian market for oil products grew 3.0% and reached 15.5 million tonnes (mton), impacted by higher demand for jet, resulting from a rise in tourism, and LPG, which benefited from an incentive programme in Spain.

In 2016, the Iberian market for oil products rose to 61.7 mton from 60.1 mton during the previous year.

During the fourth quarter, the Iberian natural gas market increased 13.9% YoY to 9,530 mm³. This increase resulted from a greater demand for natural gas for electricity generation, part of which was exported to France, due to nuclear power plants' maintenance.

In 2016, the Iberian natural gas market increased 2.7% YoY to 32,338 mm³, due to higher demand for gas for electrical generation in Portugal, as well as higher conventional consumption in the Spanish market.

4. Exploration & Production

4.1. Development activities

Brazil

Galp and its partners continued with the development works on the Lula/Iracema field. It is worth highlighting the operational efficiency achieved by the consortium in ramping-up production, with a total of 11 wells connected during the fourth quarter of 2016.

FPSOs Cidade de Angra dos Reis (FPSO #1) and Cidade de Paraty (FPSO #2), allocated to the Lula Pilot and Lula Northeast (NE) areas, respectively, continued to produce at plateau levels. A seventh producer well was connected to FPSO #1, which is currently conducting the extended well test (EWT) of the Lula West area, aiming to increase reservoir knowledge in the area.

FPSO Cidade de Mangaratiba (FPSO #3), in the Iracema South area, produced at plateau levels, benefiting from a higher operational flexibility, after the connection in October to the gas export network through the Cabiúnas pipeline.

FPSO Cidade de Itaguaí (#4), in the Iracema North area, contributed at plateau production during the quarter. This unit had been connected to the gas export network in August.

FPSO Cidade de Maricá (#5), in the Lula Alto area, reached plateau production in December, only 10 months after starting production, following the connection of the fifth producer and third injector wells and the connection to the gas export network.

FPSO Cidade de Saquarema (#6), allocated to the Lula Central area, continues to ramp-up, with the connection of three additional producer and two injector wells during the fourth quarter. In early 2017, the fifth producer well was connected. The connection to the gas export network is planned for the first half of 2017.

It is also worth highlighting the arrival of the first replicant FPSO to the Lula South area on February 6, with the start of production planned for the first half of the year. This unit has a daily production capacity of 150 thousand barrels of oil (kbpd) and 6 mm^3 of natural gas, with the development plan including the connection of 10 producer wells and eight injector wells. Out of the 18 planned wells, 13 were already drilled.

Regarding the remaining replicant FPSOs, the unit allocated to the Lula North area is currently at the COOEC shipyard (China), where the topsides integration works are being executed. In what concerns the third replicant unit scheduled to start production, in the Lula Extreme South development area, the hull construction works in the COSCO shipyard (China) were completed in January 2017, and it sailed away to Brazil, where the topsides modules will be installed at Brasfels shipyard.

Development wells in the Lula/Iracema areas

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

Note: As at February 20, 2017.

Mozambique

In December 2016, Galp's Board of Directors approved the investment in the Coral South area, the first development project related to the discoveries made in Area 4 of the Rovuma basin. The Final Investment Decision is still subject to the approval of the project by the remaining partners in the consortium, closing of the financing of the project and approval by the Mozambican Government of the financing conditions related to the Empresa Nacional de Hidrocarbonetos carry.

It is also worth noting that, during the fourth quarter of 2016, the consortium signed an agreement with BP for the entire offtake of LNG produced in the Coral South area for a 20-year period.

The Coral South project involves the construction of a floating LNG (FLNG) unit with a capacity of more than 3.3 mtpa that will be connected to six wells.

Regarding the Mamba onshore project, the consortium continued to analyse the engineering, procurement and construction (EPC) proposals for the upstream and midstream solutions.

Angola

In block 32, the two FPSO units that will be allocated to the Kaombo area are currently being converted in the Sembawang shipyards in Singapore. Also, the drilling campaign continues with two rigs drilling simultaneously.

4.2. Operating performance

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

Quarter						Twelve Months			
3Q16	4Q15	4Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
74.0	**52.1**	**84.9**	**32.9**	**63%**	**Average working interest production[1] (kboepd)**	**45.8**	**67.6**	**21.8**	**48%**
68.8	48.9	75.6	26.7	54%	Oil production (kbpd)	42.5	62.3	19.8	46%
71.5	**49.2**	**82.7**	**33.4**	**68%**	**Average net entitlement production[1] (kboepd)**	**43.2**	**65.1**	**21.9**	**51%**
7.3	7.6	6.8	(0.8)	(10%)	Angola	7.2	7.3	0.1	1%
64.2	41.6	75.8	34.2	82%	Brazil	36.0	57.8	21.8	60%
36.4	**30.0**	**42.1**	**12.1**	**40%**	**Oil and gas average sale price[2] (USD/boe)**	**43.5**	**37.7**	**(5.8)**	**(13%)**
3.7	**3.6**	**4.1**	**0.5**	**13%**	**Royalties[3] (USD/boe)**	**4.2**	**3.7**	**(0.5)**	**(12%)**
7.6	**10.5**	**5.8**	**(4.7)**	**(45%)**	**Production costs (USD/boe)**	**9.8**	**7.7**	**(2.1)**	**(22%)**
13.8	**9.8**	**5.8**	**(4.0)**	**(41%)**	**Amortisation[4] (USD/boe)**	**14.8**	**11.9**	**(3.0)**	**(20%)**
-	-	22	22	n.m.	Reallocation to E&P of the contribution of oil trading activities related to previous quarters[2]	-	-	-	n.m.
127	**51**	**232**	**181**	**n.m.**	**Ebitda RCA**	**352**	**494**	**141**	**40%**
82	41	41	0	1%	Depreciation & Amortisation[4]	211	255	44	21%
(0)	-	0	0	n.m.	Provisions	-	(0)	(0)	n.m.
46	**10**	**191**	**181**	**n.m.**	**Ebit RCA**	**142**	**239**	**97**	**69%**
18	**(76)**	**103**	**179**	**n.m.**	**Ebit IFRS**	**(28)**	**28**	**56**	**n.m.**
2	**2**	**4**	**2**	**92%**	**Net Income from E&P Associates**	**13**	**17**	**4**	**30%**

[1] Includes natural gas exported; excludes natural gas used or reinjected.
[2] Starting in the fourth quarter of 2016 (and for the twelve months period), the contribution of the trading activity related to the oil produced has been reallocated from the R&M business to the E&P business. The full year impact was accounted for in 4Q16, but the average realised sale price in 4Q16 is normalised.
[3] Based on production in Brazil.
[4] Includes abandonment provisions.

Operations

Fourth quarter

During the fourth quarter of 2016, the average working interest production of oil and natural gas increased 63% YoY to 84.9 kboepd, of which 89% was oil production.

Production from Brazil increased 34.2 kboepd YoY to 75.8 kboepd. This increase was mainly due to the contribution of FPSOs #4, #5 and #6. Exports of natural gas also increased 6.2 kboepd YoY to 9.4 kboepd.

In Angola, working interest production was 9.1 kbpd in the quarter, down 12% YoY, impacted by the natural decline of the mature fields in block 14.

Net entitlement production increased 68% YoY to 82.7 kboepd in the quarter, a progress in line with the working interest production.

Twelve months

During 2016, working interest production increased 48% YoY to 67.6 kboepd, on the back of the higher contribution of the Brazilian pre-salt, with the start of production of units #5 and #6, as well as the ramp-up of FPSO #4.

Exports of natural gas increased 2.0 kboepd to 5.3 kboepd, following the connection of FPSOs #3, #4 and #5 to the gas export infrastructure. Out of the total gas exports, 4.8 kboepd were from the Lula/Iracema area.

Net entitlement production increased 51% YoY to 65.1 kboepd.

Results

Fourth quarter

Ebitda RCA amounted to €232 m, up €181 m YoY, mainly on the back of increased production, but also higher oil and natural gas prices during the period.

It is worth highlighting that, as of October 1, 2016, the contribution of the trading activity related to oil produced, which used to be accounted for under the R&M business, is now accounted for in the E&P business. The impact of €22 m from the previous three quarters was also accounted for in the fourth quarter of 2016.

Production costs decreased around €3 m YoY to €41 m in the quarter. In unit terms and on a net entitlement basis, production costs decreased by $4.7/boe YoY to $5.8/boe, as a result of production dilution and a one-off adjustment in Brazil, corresponding to $2.0/boe.

During the fourth quarter of 2016, depreciation charges (including abandonment provisions) amounted to €41 m, in line YoY. On a net entitlement basis, depreciation charges (including abandonment provisions) decreased YoY to $5.8/boe from $9.8/boe.

Ebit RCA was €191 m, compared to €10 m in the fourth quarter of 2015. Non-recurring items reached €88 m, mostly related to impairments in exploration assets from block 14, in Angola.

Results from associated companies related to the E&P activities amounted to €4 m.

Twelve months

In 2016, Ebitda RCA increased €141 m YoY to €494 m, benefiting from higher net entitlement production and despite the lower average sale price of $37.7/boe.

Production costs increased €26 m YoY to €166 m, due to the higher number of operating units in Brazil. In unit terms, production costs decreased $2.1/boe YoY to $7.7/boe, also impacted by a one-off adjustment in Brazil.

Depreciation charges (including abandonment provisions) increased €44 m YoY to €255 m, following the increased asset base in Brazil. On a net entitlement basis, unit depreciation charges were $11.9/boe, compared to $14.8/boe in 2015.

Ebit RCA was €239 m during the year, up €97 m YoY, while Ebit IFRS stood at €28 m. Non-recurring items of €211 m included impairments in block 14/14k in Angola accounted for during the year, as well as the Brazilian onshore impairment, which had been accounted for in the third quarter of 2016.

The contribution of associated companies related to the E&P activities reached €17 m in the period.

5. Refining & Marketing

€ m (RCA, except otherwise stated)

Quarter						Twelve Months			
3Q16	4Q15	4Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
3.4	**4.1**	**5.2**	**1.1**	**26%**	**Galp refining margin (USD/boe)**	**6.0**	**4.3**	**(1.7)**	**(29%)**
1.5	**1.8**	**1.7**	**(0.1)**	**(6%)**	**Refining cash cost[1] (USD/boe)**	**1.6**	**1.7**	**0.1**	**5%**
0.2	**(0.2)**	**(0.2)**	**(0.0)**	**(9%)**	**Impact of refining margin hedging[2] (USD/boe)**	**(0.8)**	**0.0**	**0.8**	**n.m.**
29.4	**28.8**	**28.8**	**0.1**	**0%**	**Raw materials processed (mmboe)**	**114.6**	**109.7**	**(4.8)**	**(4%)**
26.4	25.6	27.0	1.4	6%	Crude processed (mmbbl)	102.0	100.5	(1.5)	(1%)
4.6	**4.5**	**4.6**	**0.1**	**1%**	**Total refined product sales (mton)**	**18.2**	**17.8**	**(0.4)**	**(2%)**
2.3	2.2	2.2	(0.0)	(2%)	Sales to direct clients (mton)	9.1	8.8	(0.3)	(3%)
-	-	(25)	(25)	n.m.	Reallocation relative to the contribution of oil trading activities to E&P[3]	-	(25)	(25)	n.m.
180	**165**	**105**	**(60)**	**(36%)**	**Ebitda RCA**	**779**	**576**	**(203)**	**(26%)**
70	66	105	40	60%	Depreciation & Amortisation[4]	271	305	35	13%
3	(4)	(1)	3	69%	Provisions	4	14	10	n.m.
107	**103**	**1**	**(103)**	**(99%)**	**Ebit RCA**	**504**	**257**	**(248)**	**(49%)**
116	**(1)**	**72**	**73**	**n.m.**	**Ebit IFRS**	**156**	**243**	**87**	**55%**
(2)	**0**	**0**	**0**	**n.m.**	**Net Income from R&M Associates**	**(1)**	**(2)**	**(0)**	**(25%)**

[1] Excluding impact of refining margin hedging operations.
[2] Impact on Ebitda.
[3] Starting in the fourth quarter of 2016 (and for the twelve months period), the contribution of the trading activity related to the oil produced has been reallocated from the R&M business to the E&P business. The full year impact was accounted for in 4Q16.
[4] During the fourth quarter of 2016, the useful life of certain refining assets was reviewed, leading to an increase in DD&A for the second half of 2016. The fourth quarter of 2016 includes the third quarter impact.

Operations

Fourth quarter

During the fourth quarter of 2016, 28.8 mmboe in raw materials were processed, in line with the same period of 2015, which had been impacted by instability in some units. It is worth highlighting the planned outage for 13 days of the FCC unit in the Sines refinery during the fourth quarter of 2016. Crude oil accounted for 94% of raw materials processed, of which 82% were to medium and heavy crudes.

Gasoline accounted for 20% of production, down 2 p.p. YoY, namely due to the lower availability of the FCC, while middle distillates (diesel and jet) accounted for 48% of total production. Consumption and losses accounted for 7% of raw materials processed.

Volumes sold to direct clients stood at 2.2 mton in the quarter, down 2% YoY, following the Group's strategy of reducing exposure to low margin wholesale activities in Iberia. Volumes sold in Africa accounted for about 9% of total volumes sold to direct clients.

Twelve months

Raw materials processed of 109.7 mmboe implied a decrease of 4% YoY resulting from the planned outages at the Sines and Matosinhos refineries during 2016. Crude oil accounted for 92% of raw materials processed, of which 83% were medium and heavy crude.

Gasoline accounted for 23% of production in the period, while middle distillates accounted for 46%. Consumption and losses accounted for 7% of raw materials processed.

Volumes sold to direct clients reached 8.8 mton in the year, down 3% YoY, given the reduced exposure to low margin clients. Volumes sold in Africa rose 7% YoY, accounting for 9% of total volumes sold to direct clients during 2016.

Results

Fourth quarter

Starting on October 1, 2016, the contribution of the trading activity related to oil produced, which used to be accounted under the R&M business, is accounted for in the E&P business. The full year impact was accounted for in the fourth quarter of 2016, totalling €25 m.

Ebitda RCA for the R&M business decreased YoY to €105 m, reflecting a lower contribution from marketing of oil products. This activity was impacted by a time lag from pricing formulas, which was due to the significant increase in commodity prices during the fourth quarter. Results were also negatively impacted by operational exchange rate differences from the rapid appreciation of the Dollar against the Euro during the period, which are allocated to operating results since the beginning of 2016.

The refining activity increased its contribution to results, as Galp's refining margin reached $5.2/boe, compared to $4.1/boe in the previous year. The spread to the benchmark margin was $1.4/boe, as the Company benefited from gasoline arbitrage opportunities with the USA.

Refining cash costs stood at €46 m, in line with the fourth quarter of 2015. In unit terms, cash costs were $1.7/boe.

During the period, refining margin hedging operations had a negative impact in Ebitda of €5 m.

Depreciation and provisions increased €42 m YoY to €104 m, following a revision in the useful life of certain refining assets. The fourth quarter of 2016 includes the third quarter impact.

RCA Ebit stood at €1 m. IFRS Ebit increased to €72 m. The inventory effect amounted to €78 m and non-recurring items were €8 m.

Twelve months

Ebitda RCA for the R&M business during the year decreased €203 m YoY to €576 m, due to the lower contribution from the refining activity, the time lag in pricing formulas and the reallocation of the contribution of the oil trading activity.

Galp's refining margin was $4.3/boe, compared to $6.0/boe during the previous year, reflecting the lower refining margins. The spread over the benchmark margin was $1.2/boe.

Refining cash costs increased €2 m YoY to €172 m, on the back of higher costs with maintenance in 2016, mainly related to the hydrocracker in Sines. In unit terms, cash costs were $1.7/boe.

Hedging operations had a positive impact in Ebitda of €3 m during 2016, compared to a loss of €83 m the previous year.

Depreciation charges and provisions totalled €319 m, up €45 m YoY following the revision of the useful life of certain refining assets.

Ebit RCA decreased to €257 m, while Ebit IFRS increased €87 m YoY to €243 m. There was an inventory effect of €23 m and non-recurring items reached €37 m, mainly related to restructuring costs and to impairments in refining equipment.

6. Gas & Power

€ m (RCA except otherwise stated)

Quarter						Twelve Months			
3Q16	4Q15	4Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
1,750	**1,692**	**1,861**	**169**	**10%**	**NG/LNG total sales volumes (mm³)**	**7,665**	**7,065**	**(600)**	**(8%)**
950	992	1,048	56	6%	Sales to direct clients (mm³)	3,843	3,780	(63)	(2%)
800	700	814	113	16%	Trading (mm³)	3,822	3,285	(537)	(14%)
1,297	**1,170**	**1,292**	**123**	**10%**	**Sales of electricity (GWh)**	**4,636**	**5,010**	**374**	**8%**
73	**90**	**53**	**(36)**	**(40%)**	**Ebitda RCA**	**382**	**313**	**(69)**	**(18%)**
39	60	34	(25)	(42%)	Natural Gas	251	194	(57)	(23%)
26	31	8	(22)	(73%)	Infrastructure	129	100	(29)	(23%)
8	(1)	10	11	n.m.	Power	2	19	18	n.m.
15	15	8	(6)	(45%)	Depreciation & Amortisation	61	52	(8)	(14%)
3	12	3	(9)	(73%)	Provisions	19	7	(11)	(60%)
55	**63**	**42**	**(21)**	**(33%)**	**Ebit RCA**	**303**	**253**	**(49)**	**(16%)**
57	**58**	**43**	**(15)**	**(26%)**	**Ebit IFRS**	**275**	**251**	**(24)**	**(9%)**
16	**18**	**20**	**2**	**13%**	**Net Income from G&P Associates**	**69**	**70**	**2**	**2%**

Operations

Fourth quarter

Total NG/LNG volumes sold increased 10% YoY to 1,861 mm³, mostly due to higher network trading volumes and higher sales to direct clients.

During the quarter, network trading volumes increased 159 mm³ to 370 mm³. On the other hand, five LNG trading operations were carried out, based on sale contracts previously established (structured contracts), one less than during the previous quarter.

Sales to direct clients increased 6%, with a 7% increase in volumes sold to the electrical segment to 376 mm³, benefiting from lower renewable production in Iberia. Volumes sold in the conventional segment (industrial and retail) went up 5% YoY, mostly due to higher consumption from the units installed in the Galp refineries.

Sales of electricity increased 123 GWh YoY to 1,292 GWh, due to higher sales of electricity to the grid by the cogenerations and the start of production of five new wind farms during 2016, with a combined capacity of c.172 MW.

Twelve months

Sales of natural gas in 2016 decreased 8% YoY to 7,065 mm³, mainly reflecting the lower volumes sold in the trading segment.

Volumes sold in this segment decreased 14%, due to fewer opportunities in the international markets. There were 25 LNG trading operations during the period, eight less than during the previous year. Network trading volumes amounted to 1,151 mm³.

Volumes sold to the electrical segment reached 1,179 mm³, up 9% YoY, mostly from the lower use of coal for electricity generation in Iberia.

Volumes sold in the conventional market decreased 6%, particularly due to increased competition in the industrial segment. The sale in 2015 of the marketing activities related to the Spanish residential segment also contributed to this decrease.

Sales of electricity increased 374 GWh YoY to 5,010 GWh, mainly due to the increased production from the wind farms in which Galp holds a stake, and to the higher sales of electricity to the grid by the cogenerations in the refineries.

Results

Fourth quarter

Ebitda RCA for the G&P business during the fourth quarter of 2016 was down €36 m YoY to €53 m, following the lower contribution from the natural gas activity and the deconsolidation of the regulated infrastructure business.

Ebitda for the natural gas segment was €34 m, a decrease of €25 m compared to the previous year, which had benefited from a higher NG/LNG sourcing optimisation effect.

Ebitda for the regulated infrastructure business was €8 m, due to the deconsolidation of Galp Gás Natural Distribuição, S.A. (GGND) as of the end of October, following the conclusion of the deal announced during the third quarter.

Ebitda for the power business was €10 m, up €11 m compared to the previous year, which had been negatively affected by the sub-optimal operation of the cogeneration units.

Ebit RCA went down €21 m to €42 m. The inventory effect was €3 m and non-recurring items amounted to €2 m. Ebit IFRS reached €43 m, compared to €58 m the previous year.

Results from associated companies increased to €20 m, reflecting the partial contribution from GGND.

Twelve months

Ebitda for the G&P segment decreased €69 m YoY to €313 m during the year, mainly following lower results from the natural gas activity.

Ebitda for the natural gas segment decreased 23% YoY to €194 m, mostly due to narrowed opportunities in the international LNG market.

Ebitda of the regulated infrastructure business was €100 m, down €29 m YoY, reflecting the lower remuneration rate during the second half of 2016 and the full deconsolidation of GGND in November and December.

Ebitda for the power business increased €18 m compared to the previous year, which had been affected by the sub-optimal operation of the cogeneration units and by the lag in the natural gas purchase price indexes, compared to the pricing formulas of energy produced.

Ebit RCA was €253 m, down €49 m YoY. The inventory effect was €3 m in the period. Ebit IFRS reached €251 m, compared to €275 m the previous year.

Results from associated companies related to the G&P business amounted to €70 m.

7. Financial data

7.1. Income statement

€ m (RCA, except otherwise stated)

Quarter						Twelve Months			
3Q16	4Q15	4Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
3,492	3,429	3,547	118	3%	Turnover	15,504	13,119	(2,384)	(15%)
(2,715)	(2,714)	(2,731)	18	1%	Cost of goods sold	(12,436)	(10,156)	(2,281)	(18%)
(318)	(325)	(334)	9	3%	Supply & Services	(1,228)	(1,259)	31	3%
(83)	(89)	(89)	(1)	(1%)	Personnel costs	(330)	(319)	(11)	(3%)
8	7	2	(5)	(66%)	Other operating revenues (expenses)	29	26	(3)	(10%)
384	**309**	**396**	**87**	**28%**	**Ebitda RCA**	**1,538**	**1,411**	**(127)**	**(8%)**
392	**198**	**467**	**269**	**n.m.**	**Ebitda IFRS**	**1,174**	**1,389**	**215**	**18%**
(168)	(122)	(174)	52	43%	Depreciation & Amortisation	(544)	(636)	92	17%
(6)	(8)	17	(25)	n.m.	Provisions	(25)	(3)	(22)	(89%)
211	**178**	**238**	**60**	**34%**	**Ebit RCA**	**969**	**772**	**(197)**	**(20%)**
194	**(18)**	**221**	**239**	**n.m.**	**Ebit IFRS**	**423**	**544**	**120**	**28%**
16	23	24	1	4%	Net income from associated companies	83	85	2	2%
(16)	(2)	(27)	(25)	n.m.	Financial results	(70)	(25)	45	65%
211	**200**	**236**	**36**	**18%**	**Net income RCA before taxes and non-controlling interests**	**982**	**833**	**(150)**	**(15%)**
(83)	(43)	(88)	44	n.m.	Taxes[1]	(290)	(289)	(2)	(1%)
(13)	(8)	(27)	19	n.m.	Non-controlling interests	(54)	(61)	8	14%
115	**148**	**121**	**(27)**	**(18%)**	**Net income RCA**	**639**	**483**	**(156)**	**(24%)**
(37)	(55)	(108)	53	97%	Non recurring items	(244)	(324)	80	33%
77	**93**	**13**	**(80)**	**(86%)**	**Net income RC**	**395**	**159**	**(236)**	**(60%)**
14	(88)	67	155	n.m.	Inventory effect	(272)	20	292	n.m.
91	**6**	**80**	**75**	**n.m.**	**Net income IFRS**	**123**	**179**	**57**	**46%**

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

Fourth quarter

RCA Ebitda went up 28% to €396 m, following a higher contribution from the E&P business. IFRS Ebitda rose €269 m to €467 m.

RCA Ebit was €238 m, up €60 m YoY, while IFRS Ebit increased €239 m to €221 m.

Results from associated companies remained stable at €24 m.

Financial results were negative €27 m, and included a €14 m loss in the mark-to-market operations, mainly related to refining margin hedging. Net financial interest was €22 m, down €3 m YoY.

RCA taxes increased to €88 m, due to higher E&P results. Taxes on oil and gas production totalled €57 m.

Non-controlling interests, mainly attributable to Sinopec's stake in Petrogal Brasil, increased €19 m to €27 m.

Net income RCA reached €121 m, down €27 m YoY, considering a €67 m inventory effect and non-recurring items of €108 m. The impairments were mainly in block 14 in Angola, as well as in relation to the transfer of contracts for the construction of the replicant FPSO hulls.

IFRS net income was €80 m.

Twelve months

RCA Ebitda was €1,411 m, down €127 m YoY, following a lower contribution from the R&M and G&P business segments. IFRS Ebitda was €1,389 m.

RCA Ebit decreased 20% to €772 m, while IFRS Ebit increased €120 m to €544 m.

Results from associated companies accounted for €85 m, in line YoY.

Financial results were negative €25 m, compared to -€70 m the previous year. This was due to a gain of €17 m in mark-to-market hedging operations, which compares to a loss of €13 m during 2015, and also to a €19 m decrease in net interest.

RCA taxes stood in line YoY at €289 m.

Non-controlling interests, primarily attributable to Sinopec, increased €8 m to €61 m, following improved results in Brazil.

RCA net income was €483 m, down €156 m YoY, while IFRS net income was €179 m.

The inventory effect was €20 m and non-recurring items reached €324 m, including the asset impairments in Angola, as well as in relation to the transfer of contracts for the construction of the replicant FPSO hulls.

The CESE tax had a negative impact on IFRS results of around €56 m, of which c.€28 m related to CESE I, whose annual impact was fully accounted for in the first quarter. CESE II also amounted to c.€28 m. This provision related to CESE results from the strict applicability of accounting standards. However, in Galp's opinion, based on the opinion of renowned legal experts, the CESE laws have no legal grounds and, accordingly, such amounts are not due.

7.2. Capital expenditure

€ m

Quarter						Twelve Months			
3Q16	4Q15	4Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
208	321	269	(52)	(16%)	Exploration & Production	1,103	1,039	(64)	(6%)
15	(1)	0	1	n.m.	Exploration and appraisal activities	94	37	(57)	(61%)
194	322	269	(53)	(17%)	Development and production activities	1,009	1,003	(7)	(1%)
26	60	68	8	14%	Refining & Marketing	110	153	42	39%
10	49	4	(45)	(93%)	Gas & Power	65	23	(43)	(65%)
1	1	3	2	n.m.	Others	4	4	(0)	(4%)
244	**431**	**344**	**(87)**	**(20%)**	**Capex**	**1,283**	**1,218**	**(64)**	**(5%)**

Fourth quarter

Capital expenditure during the fourth quarter of 2016 was €344 m.

Investment in the E&P business, namely in development and production (D&P) activities, accounted for 78% of the total, with capex in the development of block BM-S-11 accounting for 69% of that total.

In the R&M and G&P businesses, capex amounted to €72 m in the quarter, including the investment in maintenance activities in the Sines refinery.

Twelve months

In 2016, capital expenditure was €1,218 m, 85% of which was allocated to E&P.

Development and production activities accounted for 96% of the investment in the E&P business, mainly allocated to the development of block BM-S-11 in Brazil, which accounted for 73% of D&P investment. The investment in block 32 in Angola accounted for around 21% of that total.

Capital expenditure in downstream and gas activities reached €175 m, and included investment in maintenance activities, in the ongoing upgrade of the oil retail network and of the natural gas infrastructure, as well as of IT systems, among others.

7.3. Cash flow

Indirect method

€ m (IFRS figures)

Quarter				Twelve Months	
3Q16	4Q15	4Q16		2015	2016
194	(18)	221	Ebit	423	544
19	27	26	Dividends from associates	73	70
193	209	260	Depreciation, Depletion and Amortization (DD&A)	720	835
(164)	66	51	Change in Working Capital	458	21
242	**285**	**558**	**Cash flow from operations**	**1,674**	**1,469**
(242)	(390)	(200)	Net capex[1]	(1,190)	(1,054)
(23)	(25)	(22)	Net financial expenses	(119)	(101)
(63)	(33)	(30)	SPT and Corporate taxes	(127)	(172)
(207)	(1)	(6)	Dividends paid	(318)	(387)
-	-	632	GGND deconsolidation[2]	-	632
(29)	130	1	Others[3]	179	164
322	**35**	**(933)**	**Change in net debt**	**(98)**	**(550)**

[1] The fourth quarter and the twelve months of 2016 include the proceeds of €141m from the sale of 22.5% in GGND.
[2] Deconsolidation of assets and liabilities from GGND.
[3] Includes CTAs (Cumulative Translation Adjustment) and partial reimbursement of the loan granted to Sinopec.

Fourth quarter

The deal regarding the partial sale of the share capital of GGND was concluded at the end of October. As such, GGND ceased to be fully consolidated from that date, resulting in a €632 m positive impact from deconsolidation plus €141 m cash proceeds to Galp. Hence, the total impact from GGND deal in the Group's financial position amounted to €773 m.

Excluding that impact, net debt during the fourth quarter would have decreased by €160 m.

Twelve months

During 2016, net debt decreased €550 m, on the back of the partial divestment of the regulated infrastructure activity.

Excluding that impact, net debt would have increased by €223 m after dividends, considering the strong cash flow from operations of €1,469 m.

Direct method

€ m

Quarter				Twelve Months	
3Q16	4Q15	4Q16		2015	2016
856	**1,087**	**1,084**	**Cash and equivalents at the beginning of the period**[1]	**1,023**	**1,045**
3,887	4,166	4,242	Received from customers	17,666	15,156
(2,432)	(2,785)	(2,600)	Paid to suppliers	(11,421)	(9,094)
(74)	(123)	(117)	Staff related costs	(371)	(373)
19	27	26	Dividends from associated companies	73	70
(762)	(635)	(737)	Taxes on oil products (ISP)	(2,633)	(2,752)
(407)	(334)	(374)	VAT, Royalties, PIS, Cofins, Others	(1,721)	(1,571)
231	**317**	**441**	**Total operating flows**	**1,594**	**1,436**
(261)	(385)	(161)	Net capex[2]	(1,194)	(1,074)
(16)	(26)	(20)	Net Financial Expenses	(111)	(120)
(207)	(1)	(6)	Dividends paid	(318)	(387)
(63)	(33)	(30)	SPT and Corporate taxes	(127)	(172)
549	(28)	(451)	Net new loans	(124)	(32)
0	79	-	Sinopec loan reimbursement	261	134
(6)	35	66	FX changes on cash and equivalents	40	93
1,084	**1,045**	**923**	**Cash and equivalents at the end of the period**[1]	**1,045**	**923**

[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.
[2] The fourth quarter and the twelve months of 2016 include the proceeds of €141m from the sale of 22.5% in GGND.

7.4. Financial position

€ m (IFRS figures)

	31 December, 2015	30 September, 2016	31 December, 2016	Var. vs 31 Dec., 2015	Var. vs 30 Sep., 2016
Net fixed assets	7,892	7,357	7,721	(171)	364
Working capital	510	529	492	(18)	(37)
Loan to Sinopec	723	575	610	(113)	35
Other assets (liabilities)	(515)	(383)	(409)	107	(26)
Non-current assets/liabilities held for sale	-	270	(1)	(1)	(271)
Capital employed	**8,610**	**8,348**	**8,414**	**(196)**	**65**
Short term debt	493	754	325	(167)	(429)
Medium-Long term debt	3,060	2,628	2,578	(482)	(51)
Total debt	**3,552**	**3,383**	**2,903**	**(649)**	**(480)**
Cash and equivalents	1,130	1,177	1,032	(98)	(145)
Net debt[1]	**2,422**	**2,205**	**1,870**	**(552)**	**(335)**
Total equity	**6,188**	**6,143**	**6,543**	**355**	**401**
Total equity and net debt	**8,610**	**8,348**	**8,414**	**(196)**	**65**

[1] Net Debt as at 30 September 2016 does not include net debt of GGND (€599 m), which was considered under Non-current assets/liabilities held for sale.

On December 31, 2016, net fixed assets stood at €7,721 m, a €364 m increase compared to the end of September, as a result of investment made and of the Dollar appreciation in the period.

Work-in-progress, mainly related to the E&P business, amounted to €2,650 m at the end of the period.

7.5. Financial debt

€ m (except otherwise stated)

	31 December, 2015	30 September, 2016	31 December, 2016	Var. *vs* 31 Dec., 2015	Var. *vs* 30 Sep., 2016
Bonds	2,154	2,136	1,683	(471)	(453)
Bank loans and other debt	1,398	1,247	1,220	(178)	(27)
Cash and equivalents	(1,130)	(1,177)	(1,032)	98	145
Net debt[1]	**2,422**	**2,205**	**1,870**	**(552)**	**(335)**
Net debt including loan to Sinopec[2]	**1,699**	**1,631**	**1,260**	**(439)**	**(371)**
Average life (years)	3.1	3.2	2.6	(0.5)	(0.6)
Average debt interest rate	3.8%	3.5%	3.5%	(0.2 p.p.)	0.0 p.p.
Net debt to Ebitda RCA[3]	1.2x	1.4x	1.0x	-	-

[1]Net Debt as at 30 September 2016 does not include net debt of GGND (€599 m). [2] Net debt of €1,260 m adjusted for the €610 m loan to Sinopec. [3] As at 31 December 2016, ratio considers net debt including loan to Sinopec as cash, plus €179 m corresponding Sinopec MLT Shareholder Loan to Petrogal Brasil, and 2016 RCA Ebitda of €1,411 m.

On December 31, 2016, net debt stood at €1,870 m, down €335 m compared to the end of September.

Considering the €610 m balance of the Sinopec loan as cash, net debt at the end of the period totalled €1,260 m, resulting in a net debt to Ebitda ratio of 1.0x. This ratio also considers Sinopec's €179 m shareholder loan to Petrogal Brasil as of the end of the period.

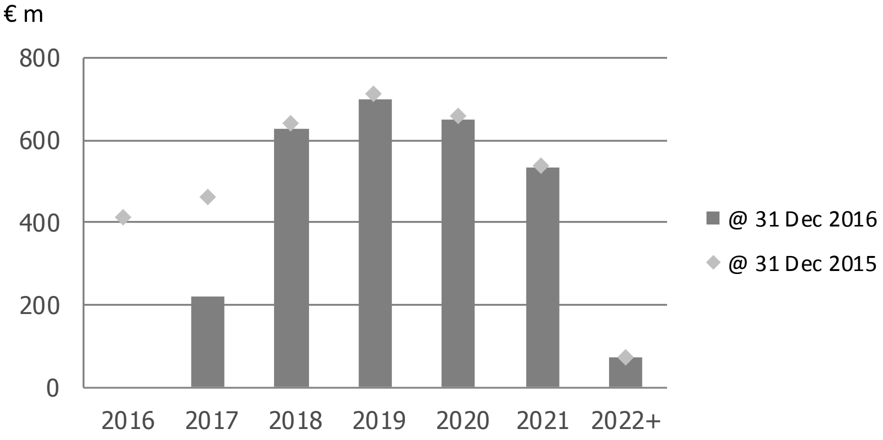
The average interest rate was 3.52% during the period.

At the end of December, around 50% of total debt was on a fixed-rate basis. Debt had an average maturity of 2.6 years, and medium and long-term debt accounted for 89% of Galp's total debt.

It should be noted that a €455 m bond, maturing in 2017, was called by Galp and was redeemed on November 21, 2016.

At the end of the fourth 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						Twelve Months			
3Q16	4Q15	4Q16	Var. YoY	% Var. YoY		2015	2016	Var.	% Var.
3,492	**3,429**	**3,547**	**118**	**3%**	**RCA Turnover**	**15,504**	**13,119**	**(2,384)**	**(15%)**
215	129	361	232	n.m.	Exploration & Production[1]	617	852	235	38%
2,870	2,732	2,839	107	4%	Refining & Marketing	12,097	10,518	(1,580)	(13%)
586	679	630	(49)	(7%)	Gas & Power	3,230	2,437	(793)	(25%)
29	33	36	3	8%	Other	124	124	1	1%
(210)	(144)	(318)	174	n.m.	Consolidation adjustments	(565)	(812)	247	44%

[1] Does not include change in production. RCA turnover in the E&P segment, including change in production, amounted to €322 m during the fourth quarter of 2016 and €823 m during the twelve months of 2016.

7.7. Reconciliation of IFRS and replacement cost adjusted figures

Ebitda by segment

€ m

Fourth Quarter					2016	Twelve Months				
Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA		Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
467	**(82)**	**385**	**11**	**396**	**Galp**	**1,389**	**(20)**	**1,369**	**42**	**1,411**
232	-	232	0	232	**E&P**	481	-	481	13	494
176	(78)	98	8	105	**R&M**	572	(23)	549	27	576
54	(3)	51	3	53	**G&P**	310	3	312	1	313
5	-	5	0	6	**Others**	27	-	27	1	28

€ m

Fourth Quarter					2015	Twelve Months				
Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA		Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
198	**116**	**313**	**(5)**	**309**	**Galp**	**1,174**	**357**	**1,531**	**7**	**1,538**
51	-	51	(0)	51	**E&P**	348	-	348	5	352
60	112	172	(7)	165	**R&M**	445	330	775	4	779
84	4	88	2	90	**G&P**	357	27	383	(2)	382
3	-	3	0	3	**Others**	25	-	25	0	25

Ebit by segment

€ m

Fourth Quarter					2016	Twelve Months				
Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA		Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
221	**(82)**	**140**	**99**	**238**	**Galp**	**544**	**(20)**	**523**	**249**	**772**
103	-	103	88	191	**E&P**	28	-	28	211	239
72	(78)	(7)	8	1	**R&M**	243	(23)	220	37	257
43	(3)	40	2	42	**G&P**	251	3	254	(0)	253
4	-	4	0	4	**Others**	22	-	22	1	23

€ m

Fourth Quarter					2015	Twelve Months				
Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA		Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
(18)	**116**	**98**	**81**	**178**	**Galp**	**423**	**357**	**780**	**189**	**969**
(76)	-	(76)	86	10	**E&P**	(28)	-	(28)	170	142
(1)	112	111	(7)	103	**R&M**	156	330	487	18	504
58	4	62	1	63	**G&P**	275	27	302	1	303
2	-	2	0	2	**Others**	20	-	20	0	21

7.8. Non-recurring items

Quarter				Twelve Months	
3Q16	4Q15	4Q16		2015	2016
9.1	**(4.7)**	**11.0**	**Non-recurring items impacting Ebitda**	**7.4**	**42.1**
0.0	0.1	0.9	Accidents caused by natural events and insurance compensation	(0.8)	(1.2)
(0.3)	(5.5)	(0.5)	Gains/losses on disposal of assets	(8.4)	(1.5)
0.4	0.7	0.7	Asset write-offs	6.1	1.7
-	-	-	Investment subsidies	(2.6)	-
5.0	0.1	0.0	Employee restructuring charges	13.2	14.7
0.2	-	-	Advisory fees and others	-	0.2
2.0	-	0.1	Compensation early termination rigs agreement	-	12.0
1.8	-	3.4	Litigation costs	-	9.7
-	-	6.3	Taxes from previous years	-	6.3
25.0	**85.4**	**87.9**	**Non-recurring items impacting non-cash costs**	**181.6**	**206.6**
0.0	(1.6)	2.5	Provisions for environmental charges and others	6.0	8.1
25.0	87.0	85.4	Asset impairments	175.5	198.5
8.9	**(3.5)**	**39.7**	**Non-recurring items impacting financial results**	**64.0**	**68.0**
(6.1)	(6.6)	(36.8)	Gains/losses on financial investments	12.0	(23.5)
15.0	3.1	76.5	Provision for impairment of financial investments	52.0	91.5
(0.8)	**(14.0)**	**(2.9)**	**Non-recurring items impacting taxes**	**12.5**	**39.5**
(10.2)	(1.8)	(6.3)	Income taxes on non-recurring items	(35.0)	(24.2)
-	-	(10.3)	Tax deferrals on E&P	-	(10.3)
-	(19.4)	-	Tax deferrals reversions	(19.4)	-
-	-	5.9	Income tax from previous years	-	5.9
9.4	7.2	7.7	Energy sector contribution tax	67.0	68.0
(5.0)	**(8.3)**	**(27.4)**	**Non-controlling interests**	**(22.0)**	**(32.6)**
37.2	**54.9**	**108.2**	**Total non-recurring items**	**243.6**	**323.6**

7.9. IFRS consolidated income statement

€ m

Quarter				Twelve Months	
3Q16	4Q15	4Q16		2015	2016
3,334	3,252	3,402	Sales	14,869	12,488
157	177	145	Services rendered	634	631
37	32	32	Other operating income	101	121
3,529	**3,461**	**3,579**	**Total operating income**	**15,605**	**13,241**
(2,698)	(2,829)	(2,650)	Inventories consumed and sold	(12,793)	(10,136)
(325)	(325)	(337)	Materials and services consumed	(1,228)	(1,285)
(87)	(89)	(89)	Personnel costs	(343)	(334)
(26)	(21)	(37)	Other operating costs	(66)	(98)
(3,136)	**(3,264)**	**(3,112)**	**Total operating costs**	**(14,431)**	**(11,851)**
392	**198**	**467**	**Ebitda**	**1,174**	**1,389**
(193)	(209)	(260)	Amortisation, depreciation, impairments	(720)	(835)
(6)	(7)	14	Provision and impairment of receivables	(31)	(11)
194	**(18)**	**221**	**Ebit**	**423**	**544**
7	27	(15)	Net income from associated companies	19	17
(16)	(2)	(27)	Financial results	(70)	(25)
11	10	11	Interest income	28	34
(35)	(35)	(33)	Interest expenses	(148)	(134)
26	23	10	Interest capitalised	89	82
(1)	(2)	(1)	Exchange gain (loss)	(10)	(9)
(13)	5	(14)	Mark-to-market of hedging derivatives	(13)	17
(5)	(3)	(0)	Other financial costs/income	(17)	(14)
185	**6**	**179**	**Income before taxes**	**373**	**536**
(76)	6	(92)	Taxes[1]	(151)	(260)
(9)	(7)	(8)	Energy sector contribution tax[2]	(67)	(68)
99	**5**	**80**	**Income before non-controlling interests**	**154**	**208**
(8)	1	0	Profit attributable to non-controlling interests	(32)	(29)
91	**6**	**80**	**Net income**	**123**	**179**

[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 €28.4 m, €27.6 m and €12 m related to the CESE I, CESE II and Fondo Eficiencia Energética, respectively, in the twelve months of 2016.

7.10. Consolidated financial position

€ m

	31 December, 2015	30 September, 2016	31 December, 2016
Assets			
Non-current assets			
Tangible fixed assets	5,216	5,715	5,910
Goodwill	137	134	87
Other intangible fixed assets[1]	1,403	261	268
Investments in associates	1,114	1,218	1,432
Investments in other participated companies	2	3	3
Receivables	322	243	247
Deferred tax assets	462	338	335
Financial investments	24	30	26
Total non-current assets	**8,681**	**7,943**	**8,307**
Current assets			
Inventories[2]	873	736	869
Trade receivables	805	944	1,041
Receivables	577	545	556
Loan to Sinopec	723	575	610
Financial investments	4	9	19
Cash and equivalents	1,131	1,179	1,033
Sub-total current assets	**4,112**	**3,987**	**4,128**
Non-current assets held for sale	-	1,300	4
Total current assets	**4,112**	**5,287**	**4,132**
Total assets	**12,793**	**13,229**	**12,439**
Equity and liabilities			
Equity			
Share capital	829	829	829
Share premium	82	82	82
Translation reserve	(0)	127	404
Other reserves	2,684	2,684	2,687
Hedging reserves	(2)	(3)	4
Retained earnings	1,056	822	795
Profit attributable to equity holders of the parent	123	99	179
Equity attributable to equity holders of the parent	**4,772**	**4,641**	**4,980**
Non-controlling interests	1,416	1,501	1,563
Total equity	**6,188**	**6,143**	**6,543**
Liabilities			
Non-current liabilities			
Bank loans and overdrafts	1,151	964	912
Bonds	1,908	1,665	1,666
Other payables[3]	551	299	305
Retirement and other benefit obligations	422	347	359
Liabilities from financial leases	0	0	0
Deferred tax liabilities	109	78	66
Other financial instruments	2	0	1
Provisions	429	441	429
Total non-current liabilities	**4,573**	**3,794**	**3,738**
Current liabilities			
Bank loans and overdrafts	247	283	308
Bonds	246	471	17
Trade payables	656	629	850
Other payables[4]	844	837	884
Other financial instruments	29	5	17
Income tax payable	9	36	75
Sub-total current liabilities	**2,032**	**2,262**	**2,152**
Non-current liabilities associated with non-current assets held for sale	-	1,030	5
Total current liabilities	**2,032**	**3,292**	**2,157**
Total liabilities	**6,605**	**7,087**	**5,896**
Total equity and liabilities	**12,793**	**13,229**	**12,439**

[1] Includes concession agreements for the distribution of natural gas on 31 December 2015.
[2] Includes €75 m in inventory from third parties on 31 December 2016.
[3] Includes €179 m long-term loan from Sinopec to subsidiary Petrogal Brasil on 31 December 2016.
[4] Includes €35 m in advance payments related to inventory from third parties on 31 December 2016.

8. Basis of presentation

Galp's consolidated financial statements for the years ended on 31 December 2016 and 2015 have been prepared in accordance with IFRS. The financial information in the consolidated income statement, as well as the consolidated financial position, is reported for the quarters ended on 31 December 2016 and 2015, and on 30 September 2016.

Galp's financial statements are prepared in accordance with IFRS, and the cost of goods sold is valued at weighted-average cost. 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

As of October 1, 2016, the contribution of the trading activity related to the oil produced, which was previously accounted for under R&M, started to be accounted for under E&P. The full year impacts on E&P and R&M were accounted for in the fourth quarter of 2016.

During the fourth quarter of 2016, the useful life of certain refining assets was reviewed, leading to an increase in DD&A for the second half of 2016. The fourth quarter of 2016 includes the third quarter impact.

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

Following an accounting interpretation from Portuguese Securities Market Commission 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.

9. 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 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 Light; Freight 2015: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat $6.95/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.

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

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

ABBREVIATIONS

APETRO: *Associação Portuguesa de Empresas Petrolíferas* (Portuguese association of oil companies)
bbl: barrel of oil
BBLT: Benguela, Belize, Lobito and Tomboco
Bg: Barges
bn: billion
boe: barrels of oil equivalent
CESE: *Contribuição Extraordinária sobre o Sector Energético* (Portuguese Extraordinary Energy Sector Contribution)
Cg: Cargoes
CIF: Costs, Insurance and Freights
CMVM: Portuguese Securities Market Commission
COOEC: China Offshore Oil Engineering Corporation
CORES: *Corporación de Reservas Estratégicas de Produtos Petrolíferos*
COSCO: China Ocean Shipping Company
CTA: Cumulative Translation Adjustment
D&P: Development & Production
E&P: Exploration & Production
Ebit Earnings before interest and taxes.
Ebitda: Ebit plus depreciation, amortisation and provisions.
EPC: Engineering, Procurement and Construction
EUR/€: Euro
EWT: Extended well test
FCC: Fluid catalytic cracking
FLNG: Floating liquefied natural gas
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
LPG: liquefied petroleum gas
LSFO: low sulphur fuel oil
m: million
mmbbl: millions of barrels
mmboe: millions of barrels of oil equivalent
mmbtu: million British thermal units
mm³: million cubic metres
mton: millions of tonnes
MW: megawatt
NBP: National Balancing Point
NG: natural gas
n.m.: no meaning
NWE: Northwestern Europe
OPEC: Organisation of Petroleum Exporting Countries
p.p.: percentage points
QoQ: quarter-on-quarter
R&D: Refining & Distribution
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

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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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