energy creates energy

galp

RESULTS SECOND QUARTER 2017

July 31, 2017

TABLE OF CONTENTS

1. 2Q17 highlights

- **Post-dividend free cash flow was €130 m during the quarter, benefiting from the cash flow from operating activities** and the lower capex in the period.

- **Consolidated RCA Ebitda increased €136 m year-on-year (YoY) to €473 m**, supported by the performance of the R&M and E&P businesses.

- **RCA Ebitda for Exploration & Production (E&P) was €188 m**, up €101 m YoY supported by **production growth and higher oil and natural gas prices**.

- The average **working interest production reached 89.9 kboepd**, up 64% YoY, supported by the development of the Lula field. FPSO P-66 (FPSO #7) started production and FPSO Cidade de Saquarema (FPSO #6) reached plateau production in June, only 11 months after its start. Production was impacted by planned maintenance activities, including the outage at FPSO Cidade de Mangaratiba (FPSO #3) and maintenance works at FPSO Cidade de Angra dos Reis (FPSO #1).

- **RCA Ebitda for Refining & Marketing (R&M) rose €90 m YoY to €233 m**, benefiting from the **higher realised refining margin of $5.7/boe** and from the **high availability of the refining system**. It is also worth noting **the strong contribution of the oil products marketing business**, supported by the economic context in Iberia and African countries in which Galp operates.

- **RCA Ebitda for the Gas & Power (G&P) business decreased €51 m YoY to €46 m**, due to the deconsolidation of the regulated infrastructure business and to the lower contribution of LNG trading and gas marketing in Iberia.

- **Group RCA Ebit amounted to €253 m**. During the second quarter, a €22 m impairment was booked related to exploration blocks offshore Portugal. As of the beginning of 2017, exploration expenses written-off started to be accounted for as recurring items.

- **RCA net income was €151 m, up €18 m YoY** despite higher taxes due to better results in the E&P business. **IFRS net income was €99 m**. The negative inventory effect amounted to €35 m and non-recurring items to €17 m.

- **Capex totalled €184 m** during the quarter, of which 85% from the E&P business.

- Net debt on June 30 reached €1.3 billion (bn), considering the loan to Sinopec as cash, with a **net debt to Ebitda RCA ratio of 0.9x**.

- On June 1, the consortium for the development of **Area 4 in Mozambique made the final investment decision (FID) for the Coral South FLNG project**. The project will be the first to develop the large natural gas discoveries made in the Rovuma basin and will consist of a floating liquefied natural gas unit (FLNG) with a capacity of c.3.4 million tonnes per annum (mtpa). The start of production is expected during 2022.

2. Key figures

Financial data

€m (RCA)

Quarter						First Half			
2Q16	1Q17	2Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
337	**419**	**473**	**136**	**40%**	**Ebitda RCA**	**631**	**892**	**262**	**41%**
86	204	188	101	n.m.	Exploration & Production	135	391	257	n.m.
143	187	233	90	63%	Refining & Marketing	291	420	129	45%
97	22	46	(51)	(53%)	Gas & Power	187	68	(119)	(64%)
185	**220**	**253**	**68**	**37%**	**Ebit RCA**	**323**	**473**	**151**	**47%**
131	**286**	**199**	**68**	**52%**	**Ebit IFRS**	**128**	**485**	**357**	**n.m.**
133	**99**	**151**	**18**	**14%**	**Net income RCA**	**247**	**250**	**3**	**1%**
(98)	(18)	(17)	82	83%	Non-recurring items	(178)	(35)	144	81%
31	54	(35)	(66)	n.m.	Inventory effect	(61)	18	79	n.m.
66	**134**	**99**	**34**	**51%**	**Net income IFRS**	**8**	**234**	**226**	**n.m.**
287	**227**	**184**	**(103)**	**(36%)**	**Capex**	**630**	**411**	**(219)**	**(35%)**
(157)	**(58)**	**130**	**-**	**-**	**Post-dividend free cash flow**	**(253)**	**73**	**-**	**-**
1,891	**1,333**	**1,329**	**(562)**	**(30%)**	**Net debt including loan to Sinopec[1]**	**1,891**	**1,329**	**(562)**	**(30%)**
1.6x	**1.0x**	**0.9x**	**-**	**-**	**Net debt to Ebitda RCA[2]**	**1.6x**	**0.9x**	**-**	**-**

[1] Considering loan to Sinopec as cash. [2]As at 30 June 2017, ratio considers net debt including €527 m loan to Sinopec as cash, plus €165 m of Sinopec MLT shareholder loan to Petrogal Brasil and LTM Ebitda RCA of €1,673 m.

Operational data

Quarter						First Half			
2Q16	1Q17	2Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
54.7	88.0	89.9	35.1	64%	Average working interest production (kboepd)	55.5	88.9	33.4	60%
52.2	86.2	88.1	35.9	69%	Average net entitlement production (kboepd)	53.0	87.2	34.2	65%
38.3	45.4	43.4	5.1	13%	Oil and gas average sale price (USD/boe)	32.1	43.9	11.8	37%
26.3	26.1	30.0	3.7	14%	Raw materials processed (mmboe)	51.5	56.1	4.6	9%
4.6	5.1	5.7	1.2	26%	Galp refining margin (USD/boe)	4.3	5.5	1.1	26%
2.3	2.1	2.3	0.0	1%	Oil sales to direct clients (mton)	4.4	4.4	(0.0)	(1%)
881	1,149	1,052	170	19%	NG sales to direct clients (mm^3)	1,782	2,201	419	23%
712	857	675	(37)	(5%)	NG/LNG trading sales (mm^3)	1,672	1,532	(140)	(8%)

Market indicators

Quarter						First Half			
2Q16	1Q17	2Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
1.13	1.06	1.10	(0.03)	(2%)	Average exchange rate (EUR:USD)	1.12	1.08	(0.03)	(3%)
45.6	53.7	49.6	4.1	9%	Dated Brent price[1] (USD/bbl)	39.8	51.7	11.9	30%
(2.2)	(1.8)	(1.2)	(1.1)	(48%)	Heavy-light crude price spread[1] (USD/bbl)	(2.3)	(1.5)	(0.8)	(34%)
4.4	6.0	4.8	0.4	9%	U.K. NBP gas price[1] (USD/mmbtu)	4.3	5.4	1.1	25%
2.2	3.1	3.1	0.9	40%	U.S. Henry Hub gas price[2] (USD/mmbtu)	2.1	3.1	1.0	46%
4.7	7.0	5.5	0.9	18%	LNG Japan and Korea price[1] (USD/mmbtu)	4.8	6.3	1.5	30%
2.9	3.5	4.3	1.4	49%	Benchmark refining margin[3] (USD/bbl)	3.1	3.9	0.8	26%
15.4	15.2	15.7	0.3	2%	Iberian oil market[4] (mton)	30.5	30.9	0.4	1.3%
7,020	9,734	7,634	613	9%	Iberian natural gas market[5] (mm^3)	15,674	17,367	1,694	10.8%

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

3. Market environment

Dated Brent

During the second quarter of 2017, the average price of dated Brent increased $4.1/bbl YoY to $49.6/bbl, following expectations of market rebalancing, particularly following OPEC's production restriction agreement, which was extended until March 2018.

During the first half of 2017, dated Brent averaged $51.7/bbl, up $11.9/bbl YoY.

During the second quarter of 2017, the average price spread between Urals and dated Brent decreased from -$2.2/bbl, in the previous year, to -$1.2/bbl. The relative valuation of Urals was due to the lower availability of this and other similar quality crudes produced by OPEC members, following the agreed production limits. During the first half of 2017, this average price spread narrowed $0.8/bbl YoY to -$1.5/bbl.

Natural gas

The natural gas price in Europe (NBP) increased from $4.4/mmbtu the previous year to $4.8/mmbtu during the second quarter of 2017, as a result of lower production in Western Europe, as well as the announcement of the closure of the largest natural gas storage facility in the United Kingdom.

During the first half of 2017, NBP averaged $5.4/mmbtu, up $1.1/mmbtu YoY.

The LNG reference price in the USA (Henry Hub) increased from $2.2/mmbtu in the second quarter of 2016 to $3.1/mmbtu. This increase was due to lower natural gas production and inventories in the USA, as well as the development of new LNG export projects.

During the first half of 2017, Henry Hub increased $1.0/mmbtu YoY to $3.1/mmbtu.

Refining margins

During the second quarter, the benchmark refining margin went up $1.4/bbl YoY to $4.3/bbl, as a result of stronger diesel and fuel oil cracks. During the first half, the benchmark margin increased $0.8/bbl YoY to $3.9/bbl.

The diesel crack increased $1.0/bbl YoY to $11.9/bbl in the quarter, due to increased demand and unplanned outages in refineries in Central Europe. During the first half of 2017, the diesel crack was $11.8/bbl, up $1.8/bbl YoY.

The fuel oil crack was -$3.5/bbl, an improvement of $9.2/bbl YoY, following lower inventories, which stemmed primarily from: lower exports from Russia, as a result of its upgrade programme and the higher taxes on fuel exports; and the reduction in the average residue yield of the crude oil available on the market, following the OPEC agreement.

During the first half of 2017, the fuel crack averaged -$4.4/bbl, compared to -$12.3/bbl during the first half of 2016.

Iberian market

During the second quarter of 2017, the Iberian market for oil products totalled 15.7 million tonnes (mton), compared to 15.4 mton the previous year, as demand for jet increased, driven by a pick-up in tourism activity.

During the first half of 2017, the Iberian market for oil products rose 1% YoY to 30.9 mton.

During the second quarter of 2017, the Iberian natural gas market increased 9% YoY to 7,634 mm^3, supported by a 52% increase in the electrical segment consumption, during a period of lower hydroelectric power generation.

During the first half, the Iberian natural gas market increased 11% YoY to 17,367 mm^3.

4. Exploration & Production

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

Quarter						First Half			
2Q16	1Q17	2Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
54.7	**88.0**	**89.9**	**35.1**	**64%**	**Average working interest production[1] (kboepd)**	**55.5**	**88.9**	**33.4**	**60%**
51.7	76.9	78.0	26.3	51%	Oil production (kbpd)	52.3	77.4	25.2	48%
52.2	**86.2**	**88.1**	**35.9**	**69%**	**Average net entitlement production[1] (kboepd)**	**53.0**	**87.2**	**34.2**	**65%**
7.1	6.9	6.2	(0.9)	(13%)	Angola	7.5	6.6	(1.0)	(13%)
45.0	79.3	81.8	36.8	82%	Brazil	45.4	80.6	35.2	77%
38.3	**45.4**	**43.4**	**5.1**	**13%**	**Oil and gas average sale price (USD/boe)**	**32.1**	**43.9**	**11.8**	**37%**
3.8	**4.6**	**4.3**	**0.5**	**13%**	**Royalties[2] (USD/boe)**	**3.3**	**4.4**	**1.1**	**33%**
9.8	**8.0**	**9.2**	**(0.6)**	**(6%)**	**Production costs (USD/boe)**	**9.3**	**8.6**	**(0.8)**	**(8%)**
14.8	**13.4**	**14.2**	**(0.7)**	**(5%)**	**Depreciation & Amortisation[3] (USD/boe)**	**15.4**	**13.8**	**(1.6)**	**(10%)**
86	**204**	**188**	**101**	**n.m.**	**Ebitda RCA**	**135**	**391**	**257**	**n.m.**
63	97	103	40	64%	Depreciation, Amortisation and Impairments[3]	133	200	67	51%
-	-	22	22	n.m.	Exploration expenditures written-off[4]	-	22	22	n.m.
(0)	-	-	0	n.m.	Provisions	(0)	-	0	n.m.
24	**106**	**63**	**39**	**n.m.**	**Ebit RCA**	**2**	**169**	**167**	**n.m.**
(62)	**108**	**59**	**121**	**n.m.**	**Ebit IFRS**	**(93)**	**168**	**261**	**n.m.**
8	**9**	**8**	**0**	**2%**	**Net Income from E&P Associates**	**11**	**16**	**6**	**54%**

[1] Includes natural gas exported; excludes natural gas used or reinjected.
[2] Based on production in Brazil.
[3] Includes abandonment provisions and excludes exploration expenditures written-off.
[4] Effective from 1 January 2017, exploration expenses written-off are considered as recurring items.

Operations

Second quarter

During the second quarter of 2017, working interest production of oil and natural gas averaged 89.9 kboepd, of which 87% was oil.

Production increased 64% YoY, supported by the development of the Lula/Iracema projects in Brazil, and particularly to the start-up of FPSO #6 and #7 and to the ramp-up of FPSOs #4 and #5.

On May 17, FPSO #7, the first replicant unit allocated to the Brazilian pre-salt, started production in the Lula South area. In Lula Central, FPSO Cidade de Saquarema (FPSO #6) reached plateau production in June, 11 months after coming onstream.

The planned maintenance works in some units in Brazil impacted production during the period, in particular the outage at FPSO #3 in Iracema South and the maintenance works at FPSO #1 in the Lula Pilot area.

Regarding the replicant unit to be allocated to the Lula North area (FPSO #8), the topsides' integration works proceed at COOEC's shipyard, in China. As for the hull of the replicant to develop the Lula Extreme South area (FPSO #9), it arrived during the quarter at the Brasfels shipyard and the integration works are underway.

In Angola, working interest production from BBLT and TL amounted to 8.0 kbpd, down 17% YoY as production from fields in block 14 continues to decline. Net entitlement production decreased 13% YoY, helped by the cost-recovery mechanism established under the production-sharing contracts.

Galp's net entitlement production increased 69% YoY to 88.1 kboepd, following production growth in Brazil.

First half

During the first half of 2017, working interest production was 88.9 kboepd, a 60% increase YoY, which was due to the increase in production from Brazil, where seven units are already in production, compared to five units in the previous year.

Net entitlement production went up 65% YoY to 87.2 kboepd.

Results

Second quarter

Ebitda RCA amounted to €188 m, up €101 m YoY, mainly on the back of increased production and higher sale prices of oil and natural gas. The average sale price was $43.4/boe, compared to $38.3/boe in the second quarter of 2016.

Production costs increased €25 m YoY to €67 m, mainly due to the contribution of FPSOs #6 and #7, which started production in July 2016 and May 2017, respectively. In unit terms, and on a net entitlement basis, production costs decreased by $0.6/boe YoY to $9.2/boe, benefiting from a higher production dilution effect.

During the second quarter, amortisation and depreciation charges (including abandonment provisions) amounted to €103 m, up €41 m YoY, on the back of increased producing assets in Brazil. On a net entitlement basis, depreciation charges decreased from $14.8/boe to $14.2/boe.

In the quarter, a €22 m impairment was made regarding the relinquishment of exploration blocks in Portugal. It should be noted that, as of 1 January 2017, exploration expenses written-off started to be accounted for as recurring items.

RCA Ebit totalled €63 m, up €39 m YoY. IFRS Ebit stood at €59 m.

First half

During the first half of 2017, RCA Ebitda amounted to €391 m, up €257 m YoY, benefiting from higher production and average sale price, which reached $43.9/boe, compared to $32.1/boe in the second quarter of 2016.

Production costs increased €44 m YoY to €125 m, due to the higher number of operating units in Brazil. In unit terms, and on a net entitlement basis, production costs decreased from $9.3/boe the previous year to $8.6/boe.

Amortisation, depreciation charges and abandonment provisions amounted to €200 m, up €68 m YoY following higher production. On a net entitlement basis, unit depreciation charges were $13.8/boe, against $15.4/boe in the previous year.

RCA Ebit went up to €169 m, although impacted by the exploration impairment in Portugal.

5. Refining & Marketing

€m (RCA, except otherwise stated)

Quarter						First Half			
2Q16	1Q17	2Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
4.6	**5.1**	**5.7**	**1.2**	**26%**	**Galp refining margin (USD/boe)**	**4.3**	**5.5**	**1.1**	**26%**
1.7	**1.7**	**1.6**	**(0.1)**	**(7%)**	**Refining cash cost[1] (USD/boe)**	**1.8**	**1.7**	**(0.2)**	**(10%)**
(0.0)	**(0.0)**	**(0.2)**	**(0.2)**	**n.m.**	**Impact of hedging on refining margin[2] (USD/boe)**	**0.1**	**(0.1)**	**(0.2)**	**n.m.**
26.3	**26.1**	**30.0**	**3.7**	**14%**	**Raw materials processed (mmboe)**	**51.5**	**56.1**	**4.6**	**9%**
23.2	22.9	26.7	3.5	15%	Crude processed (mmbbl)	47.1	49.6	2.5	5%
4.5	**4.4**	**4.7**	**0.3**	**6%**	**Total refined product sales (mton)**	**8.5**	**9.1**	**0.5**	**6%**
2.3	2.1	2.3	0.0	1%	Sales to direct clients (mton)	4.4	4.4	(0.0)	(1%)
143	**187**	**233**	**90**	**63%**	**Ebitda RCA**	**291**	**420**	**129**	**45%**
65	91	89	24	37%	Depreciation, Amortisation and Impairments	130	179	50	38%
7	3	(1)	(8)	n.m.	Provisions	12	2	(11)	(85%)
71	**94**	**145**	**74**	**n.m.**	**Ebit RCA**	**149**	**239**	**90**	**61%**
103	**150**	**96**	**(7)**	**(7%)**	**Ebit IFRS**	**56**	**245**	**190**	**n.m.**
(0)	**(2)**	**8**	**8**	**n.m.**	**Net Income from R&M Associates**	**0**	**6**	**6**	**n.m.**

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

Operations

Second quarter

Raw materials processed during the quarter increased 14% YoY to 30.0 mmboe, with the previous year impacted by lower benchmark refining margins and outages at the Matosinhos refinery. Crude oil accounted for 89% of raw materials processed, of which 83% corresponded to medium and heavy crudes.

During the period, 46% of oil products produced were middle distillates (diesel and jet) and 22% corresponded to gasoline. Consumption and losses accounted for 8% of raw materials processed.

Volumes sold to direct clients stood at 2.3 mton, in line with the second quarter of 2016. Volumes sold in Africa rose 22% YoY, accounting for c.10% of total volumes sold to direct clients.

First half

Raw materials processed during the first half of 2017 increased 9% YoY to 56.1 mmboe, mainly as a result of the planned outage of the hydrocracker at the Sines refinery and in several units in Matosinhos during the previous year. Crude oil accounted for 88% of raw materials processed, of which 83% corresponded to medium and heavy crudes.

Middle distillates accounted for 47% of total production, while gasoline accounted for 23%. Consumption and losses stood at 8%.

Volumes sold to direct clients stood in line YoY at 4.4 mton, despite the decreased exposure to lower margin activities in Iberia, namely in the wholesale segment. Volumes sold in Africa increased 18% and accounted for 10% of total volumes sold to direct clients.

Results

Second quarter

RCA Ebitda of R&M increased €90 m to €233 m, due to both the performance of the refining and oil products marketing activities.

Galp's refining margin stood at $5.7/boe, compared to $4.6/boe the previous year. The spread over the benchmark margin was $1.4/boe, as the Company benefited from the high availability of the conversion units and sourcing opportunities.

Refining cash costs stood at €44 m, or $1.6/boe.

The oil products marketing activity was supported by the economic environment in Iberia, which boosted demand, namely in the jet and marine bunkers segments. Activities in Africa increased their contribution to results.

Depreciation charges and provisions increased €16 m YoY to €88 m, following the revision of the useful life of certain refining assets made at the end of 2016.

RCA Ebit went up to €145 m, while IFRS Ebit totalled €96 m. The inventory effect was a negative €48 m.

First half

Ebitda RCA increased €129 m to €420 m, supported by the market environment and the operational availability of the refineries.

Galp's refining margin stood at $5.5/boe, compared to $4.3/boe the previous year. The spread to benchmark margin was $1.6/boe, as the Company benefited mainly from sourcing opportunities.

Refining cash costs stood at €86 m, in line YoY. In unit terms, cash costs were $1.7/boe.

The marketing of oil products benefited from the higher demand in the retail segment and in the wholesale segment, related to the increased economic activity.

Depreciation charges and provisions totalled €181 m, up €39 m YoY.

RCA Ebit was €239 m, while IFRS Ebit increased to €245 m. The inventory effect was positive by €12 m.

6. Gas & Power

€m (RCA except otherwise stated)

Quarter						First Half			
2Q16	1Q17	2Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
1,593	**2,006**	**1,726**	**133**	**8%**	**NG/LNG total sales volumes (mm^3)**	**3,454**	**3,733**	**279**	**8%**
881	1,149	1,052	170	19%	Sales to direct clients (mm^3)	1,782	2,201	419	23%
712	857	675	(37)	(5%)	Trading (mm^3)	1,672	1,532	(140)	(8%)
1,229	**1,350**	**1,170**	**(59)**	**(5%)**	**Sales of electricity (GWh)**	**2,421**	**2,520**	**99**	**4%**
380	496	348	(32)	(8%)	Sales of electricity to the grid (GWh)	735	844	108	15%
97	**22**	**46**	**(51)**	**(53%)**	**Ebitda RCA**	**187**	**68**	**(119)**	**(64%)**
61	13	39	(22)	(36%)	Natural Gas	121	51	(70)	(58%)
33	-	-	(33)	n.m.	Infrastructure[1]	65	-	(65)	n.m.
4	9	7	4	n.m.	Power	1	17	16	n.m.
15	5	5	(10)	(69%)	Depreciation, Amortisation and Impairments	30	9	(20)	(69%)
1	3	2	0	21%	Provisions	1	4	3	n.m.
81	**15**	**40**	**(41)**	**(51%)**	**Ebit RCA**	**156**	**55**	**(101)**	**(65%)**
82	**22**	**39**	**(43)**	**(52%)**	**Ebit IFRS**	**151**	**62**	**(89)**	**(59%)**
17	**25**	**25**	**8**	**50%**	**Net Income from G&P Associates[1]**	**34**	**50**	**16**	**47%**

[1] The regulated infrastructure business ceased to be fully consolidated as of the end of October 2016.

Operations

Second quarter

Volumes of natural gas sold amounted to 1,726 mm³, up 8% YoY driven by increased sales to direct clients.

Sales to direct clients increased 19%, mainly due to higher demand from the electrical segment, which had lower renewable power generation in Iberia.

Volumes sold in the conventional segment went up 7% YoY, mostly due to the performance in the industrial segment.

During the quarter, trading volumes decreased 5% to 675 mm^3, following lower LNG volumes sold under structured contracts.

First half

Sales of natural gas were 3,733 mm³, up 279 mm³ compared to the first half of 2016, which reflected an increase in volumes sold to direct clients, mainly in the electrical segment.

Volumes sold in the conventional segment also increased 11%, following the performance of the industrial segment.

Volumes sold in the trading segment decreased 8% to 1,532 mm³, due to lower LNG volumes sold.

Sales of electricity were 2,520 GWh, a 99 GWh increase compared to the previous year, which had been impacted by an outage of the cogeneration in the Matosinhos refinery.

Results

Second quarter

RCA Ebitda for the G&P business was down €51 m YoY to €46 m, following the deconsolidation of the regulated infrastructure business and the lower contribution from trading and the gas marketing activity in Iberia. Ebitda for the natural gas segment decreased €22 m YoY to €39 m.

Ebitda for the power business rose €4 m YoY to €7 m, benefiting from the time lag of the natural gas purchase price and the sale price of energy produced.

RCA Ebit decreased €41 m to €40 m, while IFRS Ebit was down to €39 m.

Results from associated companies reached €25 m, up €8 m YoY, reflecting the contribution in this caption of the 77.5% stake in Galp Gás Natural Distribuição S.A (GGND).

First half

Ebitda was €68 m during the first half of 2017, down €119 m YoY, mainly following lower results from the natural gas activity and the deconsolidation of GGND.

Ebitda for the natural gas segment decreased €70 m YoY to €51 m, due to the lower contribution of LNG trading and the gas marketing activity in Iberia, and considering the negative sourcing impact during the first quarter of 2017.

Ebitda for the power business was €17 m, compared to €1 m in the first half of 2016, which had been impacted by the outage of the cogeneration unit in the Matosinhos refinery and by the negative lag of the natural gas purchase price and the sale price of energy produced.

RCA Ebit decreased €101 m YoY to €55 m. IFRS Ebit was €62 m, compared to €151 m the previous year.

Results from associated companies related to the G&P business reached €50 m, up €16 m YoY.

7. Financial data

7.1. Income statement

€m (RCA, except otherwise stated)

Quarter						First Half			
2Q16	1Q17	2Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
3,267	3,844	3,779	512	16%	Turnover	6,081	7,623	1,542	25%
(2,554)	(2,975)	(2,865)	310	12%	Cost of goods sold	(4,710)	(5,840)	1,131	24%
(310)	(376)	(383)	73	24%	Supply & Services	(608)	(759)	151	25%
(73)	(79)	(70)	(3)	(4%)	Personnel costs	(148)	(150)	2	1%
8	6	13	5	58%	Other operating revenues (expenses)	16	18	2	13%
337	**419**	**473**	**136**	**40%**	**Ebitda RCA**	**631**	**892**	**262**	**41%**
366	**485**	**422**	**56**	**15%**	**Ebitda IFRS**	**530**	**908**	**378**	**71%**
(144)	(194)	(219)	75	53%	Depreciation, Amortisation and Impairments	(295)	(413)	118	40%
(8)	(5)	(1)	(8)	(89%)	Provisions	(13)	(6)	(7)	(54%)
185	**220**	**253**	**68**	**37%**	**Ebit RCA**	**323**	**473**	**151**	**47%**
131	**286**	**199**	**68**	**52%**	**Ebit IFRS**	**128**	**485**	**357**	**n.m.**
24	32	41	17	69%	Net income from associated companies	45	73	27	61%
15	(12)	(10)	(25)	n.m.	Financial results	18	(22)	(40)	n.m.
(28)	(21)	(19)	(9)	(32%)	Net interests	(55)	(40)	(15)	(28%)
25	24	27	2	10%	Interest capitalised	46	51	5	11%
(0)	(3)	(10)	(10)	n.m.	Exchange gain (loss)	(7)	(13)	(7)	(96%)
23	(4)	(4)	(26)	n.m.	Mark-to-market of hedging derivatives	44	(7)	(52)	n.m.
(4)	(7)	(4)	(0)	13%	Other financial costs/income	(9)	(12)	(3)	(27%)
224	**241**	**283**	**59**	**26%**	**Net income RCA before taxes and non-controlling interests**	**386**	**524**	**138**	**36%**
(79)	(123)	(120)	41	52%	Taxes[1]	(118)	(243)	125	n.m.
(12)	(18)	(12)	0	1%	Non-controlling interests	(21)	(31)	10	47%
133	**99**	**151**	**18**	**14%**	**Net income RCA**	**247**	**250**	**3**	**1%**
(98)	(18)	(17)	82	83%	Non recurring items	(178)	(35)	144	81%
35	**81**	**135**	**100**	**n.m.**	**Net income RC**	**69**	**215**	**147**	**n.m.**
31	54	(35)	(66)	n.m.	Inventory effect	(61)	18	79	n.m.
66	**134**	**99**	**34**	**51%**	**Net income IFRS**	**8**	**234**	**226**	**n.m.**

[1] Includes corporate income taxes and taxes payable on oil and gas production.

Second quarter

RCA Ebitda increased 40% YoY to €473 m, following a higher contribution from E&P and R&M. IFRS Ebitda rose €56 m to €422 m.

Considering the increase in depreciation and exploration impairments, RCA Ebit stood at €253 m. IFRS Ebit rose €68 m to €199 m.

Results from associated companies increased to €41 m, following the deconsolidation of the regulated infrastructure business.

Financial results were negative €10 m, down €25 m YoY, mainly due to a €26 m change in the mark-to-market of hedging derivatives, mainly related to refining margin hedging.

RCA taxes increased to €120 m, following the increase in the Group's operating results. Taxes on oil and gas production stood at €61 m, compared to €25 m in the previous year.

RCA net income reached €151 m, while IFRS net income was €99 m. The inventory effect was negative by €35 m and non-recurring items amounted to €17 m.

First half

RCA Ebitda was €892 m during the first half of 2017, a 41% increase YoY, due to the enhanced performance of E&P and R&M. IFRS Ebitda rose €378 m to €908 m.

Considering the increase in depreciation, namely in E&P and R&M, RCA Ebit was up to €473 m. IFRS Ebit was up to €485 m.

Results from associated companies increased to €73 m.

Financial results were negative €22 m, down €40 m YoY, mainly due to a €52 m change in mark-to-market of hedging derivatives, namely related to refining margin hedging.

RCA taxes reached €243 m, mainly due to higher results in the E&P business, with taxes on oil and gas production reaching €130 m.

Non-controlling interests, mainly attributable to Sinopec's stake in Petrogal Brasil, reached €31 m.

RCA net income reached €250 m, while IFRS net income was €234 m. The inventory effect was €18 m and non-recurring items stood at €35 m.

CESE tax in Portugal had a negative impact on IFRS results of around €33 m, including €16 m related to CESE I, whose annual impact is fully accounted for in the first quarter of the year. This provision related to CESE results from the strict applicability of accounting standards. However, in Galp's opinion, based on the opinion of renowned national legal experts, the laws regarding CESE have no legal grounds and, accordingly, such amounts are not due.

7.2. Capital expenditure

€m

Quarter						First Half			
2Q16	1Q17	2Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
245	209	157	(88)	(36%)	Exploration & Production	561	366	(195)	(35%)
12	17	9	(3)	(24%)	Exploration and appraisal activities	21	26	4	20%
233	192	148	(85)	(36%)	Development and production activities	540	340	(200)	(37%)
35	16	24	(11)	(32%)	Refining & Marketing	59	40	(19)	(32%)
7	2	2	(4)	(62%)	Gas & Power	9	4	(5)	(56%)
0	0	1	0	n.m.	Others	1	1	0	17%
287	**227**	**184**	**(103)**	**(36%)**	**Capex**	**630**	**411**	**(219)**	**(35%)**

Second quarter

Capital expenditure during the quarter amounted to €184 m, down €103 m YoY, mainly due to the lesser intensity of drilling activities in Brazil.

Of the total investment, 85% was allocated to development and production activities in E&P, namely to the development of block BM-S-11 in Brazil and block 32 in Angola. Within the exploration and appraisal activities, it is worth highlighting the 3D seismic data campaign ongoing in São Tomé and Príncipe.

Investment in downstream activities (R&M and G&P) amounted to €26 m, and was allocated to refining maintenance and energy efficiency, as well as to the renovation of downstream retail assets.

First half

Capital expenditure during the first half of 2017 amounted to €411 m, down 35% YoY, mainly due to the progress in the execution of Lula/Iracema.

E&P activities accounted for 89% of the total, with development activities in the BM-S-11 block accounting for 72% of the investment in E&P.

The €44 m investment in downstream activities was mainly aimed at refining maintenance activities, expansion of the downstream network and customer relationship management (CRM) programmes.

7.3. Cash Flow

Indirect method

€m (IFRS figures)

Quarter				First Half	
2Q16	1Q17	2Q17		2016	2017
131	286	199	Ebit	128	485
25	-	86	Dividends from associates	25	86
221	194	221	Depreciation, Depletion and Amortisation (DD&A)	383	415
(8)	(230)	159	Change in Working Capital	133	(71)
369	**250**	**665**	**Cash flow from operations**	**669**	**915**
(269)	(205)	(185)	Net capex[1]	(612)	(390)
(28)	(21)	(19)	Net financial expenses	(55)	(40)
(55)	(81)	(116)	Corporate income taxes and oil and gas production taxes	(80)	(197)
(175)	-	(215)	Dividends paid	(175)	(215)
(157)	**(58)**	**130**	**Post-dividend free cash flow**	**(253)**	**73**
141	33	(92)	Others[2]	191	(59)
16	**24**	**(39)**	**Change in net debt**	**61**	**(14)**

[1] The first quarter of 2017 includes the proceeds of €22 m from the sale of the 25% indirect stake in Âncora project.
[2] Includes CTAs (Cumulative Translation Adjustment) and partial reimbursement of the loan granted to Sinopec.

Second quarter

Post-dividend free cash flow reached €130 m in the second quarter of 2017. This resulted from the robust operating results and the lower investment in the period, and despite the €215 m dividend payment in May 2017.

Cash flow from operations benefited not only from improved E&P and R&M performance, but also from the normalisation of inventories during the quarter.

First half

At the end of June, post-dividend free cash flow totalled €73 m, on the back of the operating performance achieved on the second quarter.

Direct method

€m

Quarter				First Half	
2Q16	1Q17	2Q17		2016	2017
954	**923**	**858**	**Cash and equivalents at the beginning of the period**[1]	**1,045**	**923**
3,762	4,363	4,348	Received from customers	7,027	8,711
(2,226)	(3,013)	(2,543)	Paid to suppliers	(4,062)	(5,556)
(106)	(71)	(98)	Staff related costs	(182)	(169)
25	-	86	Dividends from associated companies	25	86
(649)	(612)	(739)	Taxes on oil products (ISP)	(1,253)	(1,352)
(410)	(376)	(433)	VAT, Royalties, PIS, Cofins, Others	(790)	(808)
395	**290**	**620**	**Total operating flows**	**764**	**912**
(273)	(238)	(150)	Net capex[2]	(652)	(367)
(32)	(50)	(23)	Net Financial Expenses	(84)	(73)
(175)	-	(215)	Dividends paid	(175)	(215)
(55)	(81)	(116)	SPT and Corporate taxes	(80)	(197)
(86)	(19)	8	Net new loans	(130)	(32)
66	42	-	Sinopec loan reimbursement	134	42
60	(11)	(79)	FX changes on cash and equivalents	32	(91)
856	**858**	**902**	**Cash and equivalents at the end of the period**[1]	**856**	**902**

[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 first quarter of 2017 includes the proceeds of €22 m from the sale of the 25% indirect stake in Âncora project.

7.4. Financial position and debt

€m (IFRS figures)

	31 Dec., 2016	31 Mar., 2017	30 Jun., 2017	Var. vs 31 Dec., 2016	Var. vs 31 Mar., 2017
Net fixed assets	7,721	7,901	7,458	(263)	(442)
Working capital	512	742	583	71	(159)
Loan to Sinopec	610	561	527	(83)	(34)
Other assets (liabilities)	(428)	(635)	(595)	(167)	40
Non-current assets/liabilities held for sale	(1)	-	-	1	-
Capital employed	**8,414**	**8,569**	**7,974**	**(440)**	**(595)**
Short term debt	325	672	808	483	136
Medium-Long term debt	2,578	2,181	2,068	(510)	(114)
Total debt	**2,903**	**2,853**	**2,876**	**(27)**	**22**
Cash and equivalents	1,032	959	1,020	(13)	61
Net debt	**1,870**	**1,895**	**1,856**	**(14)**	**(39)**
Total equity	**6,543**	**6,674**	**6,118**	**(426)**	**(557)**
Total equity and net debt	**8,414**	**8,569**	**7,974**	**(440)**	**(595)**

On June 30, 2017, net fixed assets stood at €7,458 m, down €442 m compared to the end of March as both the US Dollar and the Brazilian Real depreciated against the Euro during the second quarter.

Work-in-progress, mainly related to the E&P business, was €2,460 m at the end of the period.

Financial debt

€m (except otherwise stated)

	31 Dec., 2016	31 Mar., 2017	30 Jun., 2017	Var. vs 31 Dec., 2016	Var. *vs* 31 Mar., 2017
Bonds	1,683	1,684	1,663	19	(21)
Bank loans and other debt	1,220	1,169	1,212	8	43
Cash and equivalents	(1,032)	(959)	(1,020)	(13)	(61)
Net debt	**1,870**	**1,895**	**1,856**	**14**	**(39)**
Net debt including loan to Sinopec[1]	**1,260**	**1,333**	**1,329**	**(68)**	**(5)**
Average life (years)	2.6	2.4	2.3	0.3	(0.1)
Average debt interest rate	3.5%	3.5%	3.5%	0.0 p.p.	(0.0 p.p.)
Net debt to Ebitda RCA[2]	1.0x	1.0x	0.9x	-	-

[1] Net debt of €1,329 m adjusted for the €527 m loan to Sinopec. [2] As at 30 June 2017, ratio considers net debt including loan to Sinopec as cash, plus €165 m corresponding Sinopec MLT Shareholder Loan to Petrogal Brasil, and LTM RCA Ebitda of €1,673 m

On June 30, 2017, net debt stood at €1,856 m, down €39 m compared to the end of the first quarter.

Considering the €527 m balance of the Sinopec loan as cash, net debt at the end of the period totalled €1,329 m, resulting in a net debt to Ebitda ratio of 0.9x. This ratio also considers Sinopec's €165 m shareholder loan to Petrogal Brasil as of the end of the period.

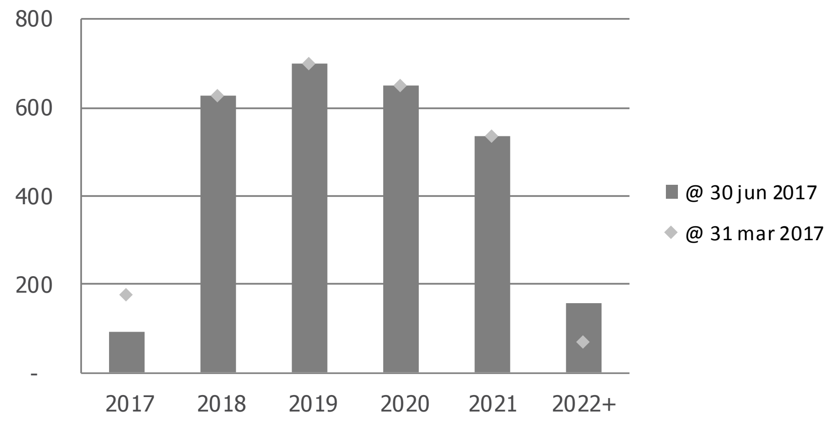
The average interest rate was 3.48% during the period.

At the end of June, around 49% of total debt was on a fixed-rate basis. Debt had an average maturity of 2.28 years, and medium and long-term debt accounted for 72% of total debt.

At the end of the first half, Galp had unused credit lines of approximately €1.3 bn. Of this amount, around 70% was contractually guaranteed.

Debt maturity profile

€m



7.5. RCA turnover by segment

€m

Quarter						First Half			
2Q16	1Q17	2Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
3,267	**3,844**	**3,779**	**512**	**16%**	**RCA Turnover**	**6,081**	**7,623**	**1,542**	**25%**
165	308	307	142	86%	Exploration & Production[1]	276	615	339	n.m.
2,657	2,869	2,899	242	9%	Refining & Marketing	4,809	5,768	959	20%
545	713	614	69	13%	Gas & Power	1,221	1,327	106	9%
31	30	33	2	5%	Other	59	62	3	5%
(131)	(75)	(74)	57	43%	Consolidation adjustments	(284)	(149)	135	47%

[1] Does not include change in production. RCA turnover in the E&P segment, including change in production, amounted to €322 m during the second quarter and €653 m during the first half of 2017.

7.6. Reconciliation of IFRS and replacement cost adjusted figures

Ebitda by segment

€ m

Second Quarter					2017	First Half				
Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA		Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
422	**50**	**472**	**1**	**473**	**Galp**	**908**	**(18)**	**890**	**3**	**892**
188	-	188	(0)	188	**E&P**	391	-	391	(0)	391
184	48	232	1	233	**R&M**	430	(12)	418	3	420
45	1	46	-	46	**G&P**	74	(6)	68	-	68
6	-	6	(0)	6	**Others**	12	-	12	(0)	12

€m

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

Ebit by segment

€m

Second Quarter					2017	First Half				
Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA		Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
199	**50**	**249**	**4**	**253**	**Galp**	**485**	**(18)**	**467**	**6**	**473**
59	-	59	4	63	**E&P**	168	-	168	2	169
96	48	144	1	145	**R&M**	245	(12)	233	6	239
39	1	41	(1)	40	**G&P**	62	(6)	56	(1)	55
5	-	5	(0)	5	**Others**	10	-	10	(0)	10

€m

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

Non-recurring items

€m

Quarter				Fist Half	
2Q16	1Q17	2Q17		2016	2017
7.0	**1.3**	**1.2**	**Non-recurring items impacting Ebitda**	**22.0**	**2.6**
(2.2)	0.0	0.0	Accidents caused by natural events and insurance compensation	(2.2)	0.0
(0.2)	(0.1)	(0.6)	Gains/losses on disposal of assets	(0.7)	(0.7)
0.6	0.1	(0.1)	Asset write-offs	0.6	0.0
4.7	-	-	Employee restructuring charges	9.7	-
4.1	-	-	Compensation early termination agreement for service and equipment	10.0	-
-	1.4	1.9	Litigation costs	4.5	3.2
82.9	**0.4**	**3.2**	**Non-recurring items impacting non-cash costs**	**93.7**	**3.6**
5.4	0.0	1.1	Provisions for environmental charges and others	5.5	1.1
77.4	0.4	2.1	Asset impairments	88.2	2.5
5.3	**(17.9)**	**3.8**	**Non-recurring items impacting financial results**	**19.4**	**(14.1)**
5.3	(17.9)	3.8	Gains/losses on financial investments	19.4	(14.1)
3.4	**34.2**	**8.2**	**Non-recurring items impacting taxes**	**43.2**	**42.4**
(2.4)	(0.9)	(0.6)	Income taxes on non-recurring items	(7.8)	(1.5)
5.8	35.2	8.8	Energy sector contribution taxes	51.0	43.9
(0.2)	**0.1**	**0.1**	**Non-controlling interests**	**(0.2)**	**0.2**
98.4	**18.1**	**16.5**	**Total non-recurring items**	**178.1**	**34.6**

7.7. IFRS consolidated income statement

€ m

Quarter				First Half	
2Q16	1Q17	2Q17		2016	2017
3,110	3,684	3,630	Sales	5,751	7,314
157	160	149	Services rendered	329	309
34	28	28	Other operating income	52	56
3,301	**3,872**	**3,807**	**Total operating income**	**6,133**	**7,679**
(2,518)	(2,908)	(2,914)	Inventories consumed and sold	(4,788)	(5,822)
(314)	(377)	(385)	Materials and services consumed	(623)	(762)
(78)	(79)	(70)	Personnel costs	(158)	(150)
(25)	(23)	(15)	Other operating costs	(34)	(37)
(2,935)	**(3,387)**	**(3,385)**	**Total operating costs**	**(5,603)**	**(6,771)**
366	**485**	**422**	**Ebitda**	**530**	**908**
(221)	(194)	(221)	Amortisation, depreciation and impairments	(383)	(415)
(14)	(5)	(2)	Provision and impairment of receivables	(19)	(7)
131	**286**	**199**	**Ebit**	**128**	**485**
19	50	37	Net income from associated companies	26	87
15	(12)	(10)	Financial results	18	(22)
5	8	7	Interest income	11	15
(33)	(29)	(26)	Interest expenses	(67)	(55)
25	24	27	Interest capitalised	46	51
(0)	(3)	(10)	Exchange gain (loss)	(7)	(13)
23	(4)	(4)	Mark-to-market of hedging derivatives	44	(7)
(4)	(7)	(4)	Other financial costs/income	(9)	(12)
165	**324**	**226**	**Income before taxes**	**172**	**550**
(82)	(136)	(105)	Taxes[1]	(93)	(241)
(6)	(35)	(9)	Energy sector contribution taxes[2]	(51)	(44)
78	**153**	**112**	**Income before non-controlling interests**	**29**	**265**
(12)	(19)	(12)	Profit attributable to non-controlling interests	(21)	(31)
66	**134**	**99**	**Net income**	**8**	**234**

[1] Includes corporate income taxes and taxes payable on oil and gas production, namely Special Participation Tax (Brazil) and IRP (Angola).
[2] Includes €16.3 m, €17.0 m and €10.6 m related to the CESE I, CESE II and Fondo Eficiencia Energética, respectively, in the first half of 2017.

7.8. Consolidated financial position

€m

	31 December, 2016	31 March, 2017	30 June, 2017
Assets			
Non-current assets			
Tangible fixed assets	5,910	6,021	5,693
Goodwill	87	86	85
Other intangible fixed assets	268	266	258
Investments in associates	1,432	1,501	1,391
Investments in other participated companies	3	3	3
Receivables	247	261	246
Deferred tax assets	335	317	339
Financial investments	26	26	31
Total non-current assets	**8,307**	**8,481**	**8,046**
Current assets			
Inventories[1]	869	1,049	894
Trade receivables	1,041	1,077	959
Receivables	556	530	457
Loan to Sinopec	610	561	527
Financial investments	19	13	12
Cash and equivalents	1,033	959	1,020
Sub-total current assets	**4,128**	**4,189**	**3,869**
Non-current assets held for sale	4	-	-
Total current assets	**4,132**	**4,189**	**3,869**
Total assets	**12,439**	**12,671**	**11,915**
Equity and liabilities			
Equity			
Share capital	829	829	829
Share premium	82	82	82
Translation reserve	404	386	41
Other reserves	2,687	2,687	2,687
Hedging reserves	4	5	5
Retained earnings	795	973	776
Profit attributable to equity holders of the parent	179	134	234
Equity attributable to equity holders of the parent	**4,980**	**5,097**	**4,654**
Non-controlling interests	1,563	1,577	1,464
Total equity	**6,543**	**6,674**	**6,118**
Liabilities			
Non-current liabilities			
Bank loans and overdrafts	912	885	971
Bonds	1,666	1,297	1,097
Other payables[2]	305	301	297
Retirement and other benefit obligations	359	359	348
Liabilities from financial leases	0	0	0
Deferred tax liabilities	66	69	99
Other financial instruments	1	3	10
Provisions	429	565	558
Total non-current liabilities	**3,738**	**3,479**	**3,380**
Current liabilities			
Bank loans and overdrafts	308	284	242
Bonds	17	388	566
Trade payables	850	837	726
Other payables[3]	884	883	811
Other financial instruments	17	10	18
Income tax payable	75	115	55
Sub-total current liabilities	**2,152**	**2,517**	**2,418**
Non-current liabilities associated with non-current assets held for sale	5	-	-
Total current liabilities	**2,157**	**2,517**	**2,418**
Total liabilities	**5,896**	**5,996**	**5,797**
Total equity and liabilities	**12,439**	**12,671**	**11,915**

[1] Includes €91 m in inventories from third parties on 30 June 2017.

[2] Includes €165 m long-term loan from Sinopec to subsidiary Petrogal Brasil on 30 June 2017.

[3] Includes €14 m in advance payments related to inventory from third parties on 30 June 2017.

8. Basis of presentation

Galp's consolidated financial statements have been prepared in accordance with IFRS, and subject to limited review. The financial information in the consolidated income statement is reported for the quarters ended on 30 June 2017 and 2016, and 31 March 2017. The financial information in the consolidated financial position is reported on 30 June 2017 and on 31 December 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

Effective on 1 January 2017, exploration expenses written-off in the E&P business are considered as recurring items.

Effective on 1 October 2016, the contribution of the trading activity of oil produced, which was previously accounted for in the R&M business, has been accounted for in the E&P business.

During the fourth quarter of 2016, the operating life of some refining assets was revised, contributing to an increase in depreciation and amortisation charges starting from the second half of 2016.

9. Definitions

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

Rotterdam hydrocracking margin
45% Rotterdam Hydrocraking margin: -100% Brent dated, +2.2% LPG FOB Seagoing (50% Butane + 50% Propane), +19.1% EuroBob NWE FOB Bg, +8.7% Naphtha NWE FOB Bg, +8.5% Jet NWE CIF, +45.1% ULSD 10 ppm NWE CIF, +9.0% LSFO 1% FOB Cg; C&L: 7.4%; Terminal rate: $1/ton; Ocean loss: 0.15% over Brent; Freight 2017: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat $7.66/ton. Yields in % of weight.

Rotterdam cracking margin
42.5% Rotterdam cracking margin: -100% Brent dated, +2.3% LPG FOB Seagoing (50% Butane + 50% Propane), +25.4% EuroBob NWE FOB Bg, +7.5% Naphtha NWE FOB Bg, +8.5% Jet NWE CIF, +33.3% ULSD 10 ppm NWE CIF, +15.3% LSFO 1% FOB Cg; C&L: 7.7%; Terminal rate: $1/ton; Ocean loss: 0.15% over Brent; Freight 2017: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat $7.66/ton. Yields in % of weight.

Rotterdam base oils margin
7% Rotterdam Base Oil margin: -100% Arabian Light, +3.5% LGP FOB Seagoing (50% Butane + 50% Propane), +13% Naphtha NWE FOB Bg, +4.4% Jet NWE CIF, 34% 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; C&L: 7.4%; Terminal rate: $1/ton; Ocean loss: 0.15% over Arabian Light; Freight 2017: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat $7.66/ton. Yields in % of weight.

Rotterdam aromatics margin
5.5% Rotterdam aromatics margin: -60% EuroBob NWE FOB Bg, -40% Naphtha NWE FOB Bg, +37% Naphtha NWE FOB Bg, +16.5% EuroBob 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-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
CORES: *Corporación de Reservas Estratégicas de Produtos Petrolíferos*
COOEC: Offshore Oil Engineering Co. Ltd.
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
EUR/€: Euro
FLNG: floating liquefied natural gas unit
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 (Oil tax payable in Angola)
ISP: Tax on oil products
k: thousand
kboepd: thousands of barrels of oil equivalent per day
kbpd: thousands of barrels of oil per day
LNG: liquid natural gas
LSFO: low sulphur fuel oil
m: million
mmbbl: millions of barrels
mmboe: millions of barrels of oil equivalent
mmbtu: million British thermal units
mm^3: million cubic metres
mton: millions of tonnes
MW: megawatt
NBP: National Balancing Point
NG: natural gas
n.m.: not meaningful
NWE: Northwestern Europe
OPEC: Organisation of Petroleum Exporting Countries
R&M: Refining & Marketing
RC: Replacement Cost
RCA: Replacement Cost Adjusted
T: tonnes
TL: Tômbua-Lândana
USA: United States of America
USD/$: Dollar of the United States of America
VAT: value-added tax
YoY: year-on-year

CAUTIONARY STATEMENT

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

This report does not constitute or form part of and should not be construed as, an offer to sell or issue or the solicitation of an offer to buy or otherwise acquire securities of the Company or any of its subsidiaries or affiliates in any jurisdiction or an inducement to enter into investment activity in any jurisdiction. Neither this report nor any part thereof, nor the fact of its distribution, shall form the basis of, or be relied on in connection with, any contract or commitment or investment decision whatsoever in any jurisdiction.

This report may include forward-looking statements. Forward-looking statements are statements other than in respect of historical facts. The words "believe", "expect", "anticipate", "intends", "estimate", "will", "may", "continue", "should" and similar expressions usually identify forward-looking statements. Forward-looking statements may include statements regarding: objectives, goals, strategies, outlook and growth prospects; future plans, events or performance and potential for future growth; liquidity, capital resources and capital expenditures; economic outlook and industry trends; energy demand and supply; developments of Galp's markets; the impact of regulatory initiatives; and the strength of Galp's competitors.

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.

The information, opinions and forward-looking statements contained in this report speak only as at the date of this report, and are subject to change without notice. Galp and its respective representatives, agents, employees or advisors do not intend to, and expressly disclaim any duty, undertaking or obligation to, make or disseminate any supplement, amendment, update or revision to any of the information, opinions or forward-looking statements contained in this report to reflect any change in events, conditions or circumstances.

Galp Energia, SGPS, S.A.
Investor Relations:

Pedro Dias, Head
Otelo Ruivo, IRO
Cátia Lopes
João G. Pereira
João P. Pereira
Teresa Rodrigues

Contacts:
Tel: +351 21 724 08 66
Fax: +351 21 724 29 65

Address:
Rua Tomás da Fonseca,
Torre A, 1600-209 Lisboa, Portugal

Website: www.galp.com
Email:investor.relations@galp.com

Reuters: GALP.LS
Bloomberg: GALP PL