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galp

RESULTS FOURTH QUARTER 2017

February 20, 2018
Investor Relations

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1. Executive summary

FY2017 highlights

- **Ebitda for 2017 reached €1.87 billion (bn)**, on the back of the c.40% production growth in the upstream business and the solid operational performance from the downstream activities, whilst benefiting from the supportive macro environment.
- **Capital expenditure totalled €1.01 bn during the period**, at the lower end of the guidance provided, and including the c.€150 m payment related to the Carcará North signing bonus.
- **Post-dividend free cash flow (FCF) during 2017 was positive by €149 m**, confirming the high competitiveness and resilience of the Company's portfolio.
- **Net debt** on 31 December **amounted to €1.89 bn**, with a **net debt to Ebitda RCA ratio of 1.0x**.

4Q17 highlights

- **Consolidated RCA Ebitda increased €93 m year-on-year (YoY) to €489 m**, on the back of the performance of the E&P and R&M businesses.
- **RCA Ebitda for E&P was €306 m**, up €74 m YoY, supported by **production growth and higher oil and natural gas prices**, despite the depreciation of the US Dollar against the Euro. **The average working interest (WI) production reached 101.2 kboepd**, up 19% YoY, supported by the progressive development of the Lula and Iracema projects, in Brazil. Production in the quarter benefited from the ramp-up of FPSO P-66 (#7).
- **RCA Ebitda for R&M was €147 m, a €42 m increase YoY,** as the same period in 2016 had been impacted by the reallocation to E&P of the trading contribution of the oil produced and by one-off items. **Galp's refining margin was $4.9/boe**, reflecting the lower refining margins in the international markets.
- **RCA Ebitda for G&P stood at €28 m**, mainly impacted by the lower YoY contribution from the NG/LNG supply and trading business. **Volumes sold reached 1.9 bcm in the quarter**, benefiting from higher sales to the industrial segment.
- **Group RCA Ebit was €287 m**, reflecting the Ebitda evolution and the impact of increased upstream DD&A and exploration expenses of €28 m, mainly in Angola.
- **RCA net income was €186 m, up €65 m YoY, while IFRS net income increased to €217 m**. The inventory effect corresponded to €67 m, and non-recurring items amounted to €36 m.
- **Capex totalled €370 m** during the quarter, of which 79% was allocated to E&P activities, including the c.€150 m Carcará North signing bonus.

2. Key figures

Financial data

€m (RCA)

Quarter						Year			
4Q16	3Q17	4Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
396	**487**	**489**	**93**	**24%**	**RCA Ebitda**	**1,411**	**1,869**	**458**	**32%**
232	215	306	74	32%	Exploration & Production	494	913	419	85%
105	218	147	42	40%	Refining & Marketing	576	785	209	36%
53	45	28	(26)	(48%)	Gas & Power	313	141	(172)	(55%)
238	**302**	**287**	**49**	**21%**	**RCA Ebit**	**772**	**1,063**	**291**	**38%**
221	**314**	**336**	**115**	**52%**	**IFRS Ebit**	**544**	**1,135**	**592**	**n.m.**
121	**166**	**186**	**65**	**54%**	**RCA Net income**	**483**	**602**	**120**	**25%**
(108)	(14)	(36)	(72)	(66%)	Non-recurring items	(324)	(85)	(239)	(74%)
67	11	67	(0)	(1%)	Inventory effect	20	96	76	n.m.
80	**163**	**217**	**136**	**n.m.**	**IFRS Net income**	**179**	**614**	**435**	**n.m.**
344	**227**	**370**	**26**	**8%**	**Capex**	**1,218**	**1,008**	**(210)**	**(17%)**
300	**(37)**	**114**	**(187)**	**(62%)**	**Post-dividend free cash flow**	**(246)**	**149**	**395**	**n.m.**
1,870	**1,967**	**1,886**	**15**	**1%**	**Net debt**	**1,870**	**1,886**	**15**	**1%**
1.3x	**1.1x**	**1.0x**	**-**	**-**	**Net debt to RCA Ebitda**	**1.3x**	**1.0x**	**-**	**-**

Operational data

€m (RCA)

Quarter						Year			
4Q16	3Q17	4Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
84.9	94.6	101.2	16.2	19%	Average working interest production (kboepd)	67.6	93.4	25.8	38%
82.7	92.4	99.1	16.4	20%	Average net entitlement production (kboepd)	65.1	91.5	26.4	41%
42.1	45.3	53.6	11.5	27%	Oil and gas average sale price (USD/boe)	37.7	47.6	9.9	26%
28.8	29.7	28.4	(0.4)	(1%)	Raw materials processed (mmboe)	109.7	114.2	4.5	4%
5.2	7.4	4.9	(0.3)	(6%)	Galp refining margin (USD/boe)	4.3	5.8	1.5	35%
2.2	2.4	2.2	0.0	2%	Oil sales to direct clients (mton)	8.8	8.9	0.1	1%
1,048	1,064	1,109	62	6%	NG sales to direct clients (mm^3)	3,780	4,374	594	16%
814	652	790	(24)	(3%)	NG/LNG trading sales (mm^3)	3,285	2,974	(311)	(9%)

Market indicators

€m (RCA)

Quarter						Year			
4Q16	3Q17	4Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
1.08	1.17	1.18	0.10	9%	Average exchange rate (EUR:USD)	1.11	1.13	0.02	2%
3.55	3.71	3.83	0.28	8%	Average exchange rate (EUR:BRL)	3.85	3.61	(0.24)	(6%)
49.3	52.1	61.3	11.9	24%	Dated Brent price[1] (USD/bbl)	43.7	54.2	10.5	24%
(1.6)	(1.3)	(1.1)	(0.5)	(32%)	Heavy-light crude price spread[1] (USD/bbl)	(2.1)	(1.4)	(0.7)	(34%)
5.9	5.4	7.2	1.3	22%	U.K. NBP gas price[1] (USD/mmbtu)	4.7	5.8	1.1	23%
3.2	3.0	2.9	(0.3)	(8%)	U.S. Henry Hub gas price[2] (USD/mmbtu)	2.6	3.0	0.5	18%
7.5	6.3	9.6	2.1	28%	LNG Japan and Korea price[1] (USD/mmbtu)	5.7	7.1	1.4	25%
3.9	5.5	3.5	(0.3)	(8%)	Benchmark refining margin[3] (USD/bbl)	3.1	4.2	1.1	37%
15.7	16.4	15.9	0.2	1.2%	Iberian oil market[4] (mton)	62.2	63.2	1.0	1.5%
9,530	8,387	10,293	764	8.0%	Iberian natural gas market[5] (mm^3)	32,338	36,048	3,709	11.5%

[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 fourth quarter of 2017, the average price of dated Brent increased $11.9/bbl YoY to $61.3/bbl. This increase resulted from a stronger than expected performance of the global economy and the extension of the OPEC production cuts, which caused a reduction of global inventories.

In 2017, dated Brent averaged $54.2/bbl, up $10.5/bbl YoY.

During the quarter, the average price spread between the Urals and the dated Brent narrowed from -$1.6/bbl, in the previous year, to -$1.1/bbl. The relative valuation of the Urals crude was due to the decrease in Russian exports, coupled with high demand from European refineries.

During the year, the price spread decreased when compared to 2016, from -$2.1/bbl to -$1.4/bbl.

Natural gas

Natural gas prices in Europe (NBP) increased $1.3/mmbtu YoY to $7.2/mmbtu during the fourth quarter of 2017, as a result of reduced inventories and higher demand from Asia.

During 2017, NBP averaged $5.8/mmbtu, up $1.1/mmbtu YoY.

In the quarter, LNG reference price in the USA (Henry Hub) decreased $0.3/mmbtu YoY, to $2.9/mmbtu, due to increased production and higher inventories in that region.

During the year, Henry Hub averaged $3.0/mmbtu, up $0.5/mmbtu YoY.

Refining margins

During the fourth quarter of 2017, the benchmark refining margin was $3.5/bbl, down 8% YoY, mainly due to the impact of higher oil prices in consumption and losses inherent to the activity.

In the fourth quarter of 2017, the diesel crack was $13.8/bbl, up $0.8/bbl YoY, impacted mainly by lower inventories and unplanned outages in Europe.

The fuel oil crack was -$7.3/bbl, compared to -$5.1/bbl in the previous year, pressured by the higher fuel oil supply from Russia.

In 2017, the benchmark refining margin increased $1.1/bbl YoY to $4.2/bbl, supported by the increase in diesel, fuel and gasoline cracks.

Iberian market

During the fourth quarter of 2017, the Iberian market for oil products totalled 15.9 million tonnes (mton), above the 15.7 mton in the previous year, benefiting from higher demand for jet fuel and diesel.

In 2017, the Iberian market for oil products grew 1.5% YoY to 63.2 mton.

In the quarter, the Iberian natural gas market went up 8.0% YoY to 10,293 mm^3, supported by an increase of 13.9% in the consumption by the electricity production segment, which was in turn due to lower hydroelectric power generation, caused by low rainfall levels.

In 2017, the Iberian natural gas market increased by 11.5% YoY to 36,048 mm^3.

Exploration & Production

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

Quarter						Year			
4Q16	3Q17	4Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
84.9	**94.6**	**101.2**	**16.2**	**19%**	**Average working interest production[1] (kboepd)**	**67.6**	**93.4**	**25.8**	**38%**
75.6	82.8	88.6	13.0	17%	Oil production (kbpd)	62.3	81.6	19.3	31%
82.7	**92.4**	**99.1**	**16.4**	**20%**	**Average net entitlement production[1] (kboepd)**	**65.1**	**91.5**	**26.4**	**41%**
6.8	5.6	5.2	(1.6)	(24%)	Angola	7.3	6.0	(1.3)	(18%)
75.8	86.8	93.9	18.1	24%	Brazil	57.8	85.5	27.7	48%
42.1	**45.3**	**53.6**	**11.5**	**27%**	**Oil and gas average sale price (USD/boe)**	**37.7**	**47.6**	**9.9**	**26%**
4.1	**4.5**	**5.4**	**1.3**	**32%**	**Royalties[2] (USD/boe)**	**3.7**	**4.7**	**1.0**	**27%**
5.8	**7.5**	**8.0**	**2.3**	**40%**	**Production costs (USD/boe)**	**7.7**	**8.2**	**0.5**	**6%**
5.8	**12.4**	**8.5**	**2.7**	**46%**	**Depreciation & Amortisation[3] (USD/boe)**	**11.9**	**12.0**	**0.2**	**2%**
232	**215**	**306**	**74**	**32%**	**RCA Ebitda**	**494**	**913**	**419**	**85%**
41	90	66	25	62%	Depreciation, Amortisation and Impairments[3]	255	356	101	39%
-	0	28	28	n.m.	Exploration expenditures written-off[4]	-	50	50	n.m.
0	-	(0)	(0)	n.m.	Provisions	(0)	(0)	(0)	(2%)
191	**125**	**212**	**21**	**11%**	**RCA Ebit**	**239**	**507**	**268**	**n.m.**
103	**125**	**190**	**87**	**85%**	**IFRS Ebit**	**28**	**483**	**456**	**n.m.**
4	**13**	**13**	**9**	**n.m.**	**Net Income from E&P Associates**	**17**	**41**	**25**	**n.m.**

[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.
Note: 4Q16 Ebitda includes an €22 m adjustment from the contribution of the trading activity related to the oil produced, which was reallocated from the R&M business to the E&P business.

Operations

Fourth quarter

During the fourth quarter of 2017, the average working interest production of oil and natural gas was 101.2 kboepd, with oil accounting for 88% of production.

Production increased 19% YoY due to the progressive development of the Lula and Iracema projects, where there are currently seven FPSOs operating, with six units producing at plateau.

FPSO #7, which started production in May, continued to ramp-up, with the connection of three producer wells during the fourth quarter. At year end, the FPSO was connected to a total of five producer wells and two injector wells. The connection to the natural gas export network is planned for the first quarter of 2018.

The topsides' integration works of FPSO #8, to be allocated to the Lula North area, proceed at the COOEC's shipyard in China, and the unit is expected to sail away to Brazil in the first quarter of 2018. Regarding the unit to develop the Lula Extreme South area (FPSO #9), the integration works proceed in the Brasfels shipyard, in Brazil.

In Angola, WI production was 7.2 kbpd, down 21% YoY, due to the natural decline of the fields in block 14. Net entitlement production decreased 24%, impacted by the cost recovery mechanism under the production sharing agreement.

In block 32, the two FPSO units to be allocated to the Kaombo area are undergoing conversion works in Singapore, with the remaining development works proceeding. Production is expected to start during 2018.

Following the production growth from Brazil, the Group's net entitlement production increased 20% YoY to 99.1 kboepd.

Full year

In 2017, the average WI production was 93.4 kboepd, up 38% YoY, on the back of the performance of FPSOs #4, #5 and #6, as well as the start of production of FPSO #7, in the Lula and Iracema fields.

Net entitlement production increased 41% YoY to 91.5 kboepd.

Results

Fourth quarter

During the fourth quarter of 2017, RCA Ebitda was €306 m, up €74 m YoY, on the back of higher production and increased oil and natural gas prices, despite the depreciation of the US Dollar against the Euro. The Group's average sale price was $53.6/boe, up $11.5/boe.

Production costs increased €22 m YoY to €62 m, mainly due to the start of production of FPSO #7 in May 2017. In unit terms and on a net entitlement basis, production costs stood at $8.0/boe, with the YoY change reflecting an extraordinary adjustment in production costs in Brazil, in the fourth quarter of 2016.

Amortisation and depreciation charges (including abandonment provisions) increased €25 m YoY to €66 m, due to the increased producing asset base. On a net entitlement basis, depreciation and amortisation charges increased from $5.8/boe to $8.5/boe.

During the fourth quarter of 2017, write-offs amounted to €28 m, mainly related to exploration assets in block 14, in Angola.

RCA Ebit was €212 m in the fourth quarter of 2017, up €21 m YoY.

IFRS Ebit totalled €190 m in the period, with non-recurring items reaching €22 m, mainly related to an impairment in producing assets in block 14.

Full year

In 2017, RCA Ebitda amounted to €913 m, up €419 m YoY, benefiting from increased production and higher average sale price, which reached $47.6/boe, compared to $37.7/boe in 2016.

Production costs increased €76 m YoY to €242 m, due to the higher number of operating units in Brazil. In unit terms and on a net entitlement basis, production costs were $8.2/boe, in line YoY.

Amortisations, depreciation charges and abandonment provisions amounted to €356 m, up €101 m YoY, reflecting the production growth. On a net entitlement basis, unit depreciation charges were $12.0/boe, in line with the previous year.

Besides the impairment recorded in the fourth quarter, Ebit was also impacted by the €22 m impairment in Portugal accounted for in the second quarter of the year.

5. Refining & Marketing

€m (RCA, except otherwise stated)

Quarter						Year			
4Q16	3Q17	4Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
5.2	**7.4**	**4.9**	**(0.3)**	**(6%)**	**Galp refining margin (USD/boe)**	**4.3**	**5.8**	**1.5**	**35%**
1.7	**1.6**	**1.9**	**0.2**	**11%**	**Refining cash cost[1] (USD/boe)**	**1.7**	**1.7**	**(0.0)**	**(1%)**
(0.2)	**(0.7)**	**0.1**	**0.3**	**n.m.**	**Impact of refining margin hedging[2] (USD/boe)**	**0.0**	**(0.2)**	**(0.3)**	**n.m.**
28.8	**29.7**	**28.4**	**(0.4)**	**(1%)**	**Raw materials processed (mmboe)**	**109.7**	**114.2**	**4.5**	**4%**
27.0	27.5	26.5	(0.4)	(2%)	Crude processed (mmbbl)	100.5	103.6	3.1	3%
4.6	**4.9**	**4.5**	**(0.1)**	**(2%)**	**Total oil products sales (mton)**	**17.8**	**18.5**	**0.7**	**4%**
2.2	2.4	2.2	0.0	2%	Sales to direct clients (mton)	8.8	8.9	0.1	1%
105	**218**	**147**	**42**	**40%**	**RCA Ebitda**	**576**	**785**	**209**	**36%**
105	82	93	(13)	(12%)	Depreciation, Amortisation and Impairments	305	355	49	16%
(1)	2	9	10	n.m.	Provisions	14	13	(2)	(11%)
1	**134**	**45**	**45**	**n.m.**	**RCA Ebit**	**257**	**418**	**161**	**63%**
72	**148**	**114**	**42**	**59%**	**IFRS Ebit**	**243**	**507**	**264**	**n.m.**
0	**2**	**2**	**2**	**n.m.**	**Net Income from R&M Associates**	**(2)**	**11**	**12**	**n.m.**

[1] Excluding impact of refining margin hedging operations.
[2] Impact on Ebitda.
Note: 4Q16 Ebitda includes an €25 m adjustment from the contribution of the trading activity related to the oil produced, which was reallocated from the R&M business to the E&P business.

Operations

Fourth quarter

Raw materials processed reached 28.4 million barrels (mmboe), in line YoY. Crude oil accounted for 93% of raw materials processed, of which 85% corresponded to medium and heavy crudes.

Middle distillates (diesel and jet) accounted for 45% of production, whereas gasoline corresponded to 23%. Consumption and losses accounted for 7% of raw materials processed.

Volumes sold to direct clients stood at 2.2 mton, 2% higher YoY, mainly due to increased sales in the wholesale segment in Iberia and a 12% increase in volumes sold in Galp's African downstream operations.

Full year

Raw materials processed during 2017 increased 4% YoY to 114.2 mmboe, as the previous year had been impacted by outages in units at the Matosinhos and Sines refineries. Crude oil accounted for 91% of raw materials processed, of which 84% corresponded to medium and heavy crudes.

Middle distillates accounted for 46% of production, whereas gasoline corresponded to 23%. Consumption and losses accounted for 8% of raw materials processed.

Volumes sold to direct clients stood at 8.9 mton, up 1% YoY, despite the lower exposure to low margin activities within Iberia. Volumes sold in Galp's African downstream operations increased 14% and accounted for 10% of total volumes sold to direct clients.

Results

Fourth quarter

RCA Ebitda in R&M reached €147 m, up from €105 m in 4Q16, which was impacted by the reallocation to E&P of the trading contribution of the oil produced, by operational exchange rate differences from the rapid Dollar appreciation, and by the lag of pricing formulas, due to the significant increase in the price of commodities during that period.

Galp's refining margin was $4.9/boe, compared to $5.2/boe in the previous year, reflecting the refining margins trend in the international markets. The spread to benchmark margin was $1.4/boe.

Refining cash costs stood at €47 m, or $1.9/boe in unit terms.

The marketing of oil products business benefited from the economic environment in Iberia.

Depreciation charges and provisions amounted to €101 m, compared to €104 m in the previous year, which had been impacted by the revision of the operating life of certain refining assets, whose accounting for the second half was booked in the fourth quarter of 2016.

RCA Ebit went up to €45 m, while IFRS Ebit totalled €114 m. The inventory effect was €83 m and non-recurring items amounted to €15 m, due to a provision related to logistic assets in Portugal.

Full year

Ebitda RCA for the R&M business increased €209 m to €785 m, supported by the market environment and by the refineries' operational availability.

Galp's refining margin reached $5.8/boe, compared to $4.3/boe in the previous year. The spread to benchmark margin was $1.6/boe, as the Company captured an additional premium from gasoline exports to the USA, mainly during the third quarter.

Refining cash costs stood at €173 m, in line YoY. In unit terms, cash costs were $1.7/boe.

During the period, refining margin hedging operations had a negative impact in Ebitda of €24 m.

The marketing of oil products business benefited from the economic upturn in Iberia. The activity's contribution in Africa increased following higher volumes sold.

Depreciation charges and provisions totalled €367 m, up €48 m YoY, following the revision of the useful life of certain refining assets at the end of 2016.

RCA Ebit was €418 m, while IFRS Ebit increased to €507 m. The inventory effect was €111 m.

6. Gas & Power

€m (RCA, except otherwise stated)

Quarter						Year			
4Q16	3Q17	4Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
1,861	**1,716**	**1,899**	**38**	**2%**	**NG/LNG total sales volumes (mm^3)**	**7,065**	**7,348**	**283**	**4%**
1,048	1,064	1,109	62	6%	Sales to direct clients (mm^3)	3,780	4,374	594	16%
814	652	790	(24)	(3%)	Trading (mm^3)	3,285	2,974	(311)	(9%)
1,292	**1,292**	**1,361**	**68**	**5%**	**Sales of electricity (GWh)**	**5,010**	**5,172**	**163**	**3%**
470	348	356	(113)	(24%)	Sales of electricity to the grid (GWh)	1,614	1,548	(66)	(4%)
53	**45**	**28**	**(26)**	**(48%)**	**RCA Ebitda**	**313**	**141**	**(172)**	**(55%)**
34	36	16	(18)	(52%)	Natural Gas	194	104	(90)	(47%)
8	-	-	(8)	n.m.	Infrastructure[1]	100	-	(100)	n.m.
10	10	11	1	6%	Power	19	37	18	94%
8	5	5	(3)	(39%)	Depreciation, Amortisation and Impairments	52	19	(34)	(64%)
3	5	0	(3)	(88%)	Provisions	7	10	3	34%
42	**36**	**22**	**(20)**	**(47%)**	**RCA Ebit**	**253**	**112**	**(141)**	**(56%)**
43	**34**	**24**	**(19)**	**(44%)**	**IFRS Ebit**	**251**	**119**	**(132)**	**(52%)**
20	**25**	**22**	**2**	**8%**	**Net Income from G&P Associates[1]**	**70**	**98**	**27**	**39%**

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

Operations

Fourth quarter

Total volumes sold in the natural gas segment increased 38 mm³ YoY to 1,899 mm³, driven by a 6% rise in sales to direct clients, following the increase of the customer base in the industrial segment.

Trading volumes decreased 3% YoY, as the larger NG volumes sold in European markets were not sufficient to offset the lower volumes of LNG sold in the international market.

Sales of electricity increased 5% YoY to 1,361 GWh due to the greater contribution from the marketing activity in Portugal.

Full year

Sales of natural gas were 7,348 mm³, up 283 mm³ YoY, which mostly reflected an increase in volumes sold to direct clients.

Volumes sold in the conventional segment (ie, industrial and retail) went up 14%, driven by higher volumes sold to the industrial segment.

In the electricity generation segment, volumes sold were 1,397 mm^3, up 19% YoY, benefiting from a lower hydro power generation in the Iberian Peninsula.

Volumes sold in the trading segment decreased 9% to 2,974 mm³, with the network trading increase not offsetting the lower LNG volumes sold.

Sales of electricity totalled 5,172 GWh, up 163 GWh YoY.

Results

Fourth quarter

RCA Ebitda for the G&P business was €28 m, down €26 m YoY, mainly due to lower results from the natural gas activity, but also due to the full deconsolidation of the regulated infrastructure business, since late October 2016.

RCA Ebit was €22 m, while IFRS Ebit totalled €24 m.

Results from associated companies reached €22 m.

Full year

RCA Ebitda was €141 m, down €172 m YoY, reflecting the deconsolidation of Galp Gás Natural Distribuição (GGND).

Ebitda for the natural gas segment decreased €90 m YoY to €104 m, due to the lower contribution from the trading activity and to the negative impact from sourcing restrictions during the first quarter of 2017.

Ebitda for the power business rose €18 m YoY to €37 m, as the previous year had been affected by lower cogeneration performance and by the lag in the natural gas purchase price indexes and the produced energy sold.

RCA Ebit decreased €141 m YoY to €112 m. IFRS Ebit was €119 m, compared to €251 m in the previous year.

Results from associated companies related to the G&P business reached €98 m, up €27 m YoY, on the back of the incorporation of GGND in this caption since the fourth quarter of 2016.

7. Financial data

7.1. Income statement

€m (RCA)

Quarter						Year			
4Q16	3Q17	4Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
3,547	3,892	3,689	142	4%	Turnover	13,119	15,204	2,085	16%
(2,731)	(2,966)	(2,688)	(43)	(2%)	Cost of goods sold	(10,156)	(11,494)	1,339	13%
(334)	(367)	(420)	86	26%	Supply & Services	(1,259)	(1,545)	286	23%
(89)	(83)	(84)	(4)	(5%)	Personnel costs	(319)	(317)	(2)	(1%)
2	11	(7)	(10)	n.m.	Other operating revenues (expenses)	26	22	(4)	(17%)
396	**487**	**489**	**93**	**24%**	**RCA Ebitda**	**1,411**	**1,869**	**458**	**32%**
467	**500**	**573**	**106**	**23%**	**IFRS Ebitda**	**1,389**	**1,980**	**591**	**43%**
(174)	(178)	(193)	19	11%	Depreciation, Amortisation and Impairments	(636)	(783)	147	23%
17	(8)	(9)	(25)	n.m.	Provisions	(3)	(22)	20	n.m.
238	**302**	**287**	**49**	**21%**	**RCA Ebit**	**772**	**1,063**	**291**	**38%**
221	**314**	**336**	**115**	**52%**	**IFRS Ebit**	**544**	**1,135**	**592**	**n.m.**
24	40	37	13	51%	Net income from associated companies	85	150	65	76%
(27)	(15)	10	37	n.m.	Financial results	(25)	(28)	3	12%
(22)	(19)	(16)	(5)	(25%)	Net interests	(101)	(75)	(25)	(25%)
10	21	17	7	71%	Capitalised interest	82	89	8	9%
(1)	5	(9)	(8)	n.m.	Exchange gain (loss)	(9)	(18)	(9)	n.m.
(14)	(18)	25	39	n.m.	Mark-to-market of hedging derivatives	17	(0)	(18)	n.m.
(0)	(5)	(7)	(6)	n.m.	Other financial costs/income	(14)	(23)	(9)	(64%)
236	**327**	**334**	**98**	**42%**	**RCA Net income before taxes and non-controlling interests**	**833**	**1,185**	**352**	**42%**
(88)	(135)	(112)	24	28%	Taxes[1]	(289)	(490)	201	70%
(27)	(25)	(36)	9	34%	Non-controlling interests	(61)	(92)	31	51%
121	**166**	**186**	**65**	**54%**	**RCA Net income**	**483**	**602**	**120**	**25%**
(108)	(14)	(36)	(72)	(66%)	Non-recurring items	(324)	(85)	(239)	(74%)
13	**152**	**150**	**137**	**n.m.**	**RC Net income**	**159**	**517**	**358**	**n.m.**
67	11	67	(0)	(1%)	Inventory effect	20	96	76	n.m.
80	**163**	**217**	**136**	**n.m.**	**IFRS Net income**	**179**	**614**	**435**	**n.m.**

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

Fourth quarter

RCA Ebitda went up 24% YoY to €489 m, due to a higher contribution from the E&P and R&M businesses. IFRS Ebitda reached €573 m.

Considering the increase in amortisations and depreciation charges, RCA Ebit stood at €287 m. IFRS Ebit reached €336 m.

Results from associated companies increased to €37 m, with a higher contribution from Tupi B.V., related to the E&P activity, and from GGND within the G&P business.

Financial results were positive by €10 m, compared to a €15 m expense the previous year. This evolution was mainly due to the change in mark-to-market of refining margin hedging.

RCA taxes increased to €112 m, considering the growth of the Group's operating results, while benefiting from the reversal of a tax provision in the E&P business.

Non-controlling interests rose to €36 m due to higher results attributable to Sinopec's stake in Galp's Brazilian subsidiary.

RCA net income reached €186 m, while IFRS net income stood at €217 m. The inventory effect was €67 m and non-recurring items amounted to €36 m, of which €22 m related to impairments within the E&P activity and €15 m related to provisions within the R&M business.

Full year

RCA Ebitda was €1,869 m in 2017, up 32% YoY, supported by the performance of the E&P and R&M businesses. IFRS Ebitda was €1,980 m.

RCA Ebit went up €291 m to €1,063 m, while IFRS Ebit totalled €1,135 m.

Results from associated companies increased €65 m to €150 m, with a higher contribution from the companies related to the E&P and G&P activities.

Financial results were negative €28 m, in line with the previous year.

RCA taxes increased €201 m to €490 m, with taxes on oil and gas production reaching €239 m.

Non-controlling interests, mainly attributable to Sinopec's stake in Petrogal Brasil, reached €92 m.

RCA net income reached €602 m, while IFRS net income was €614 m. The inventory effect was €96 m and non-recurring items accounted for €85 m.

CESE in Portugal had a negative impact on IFRS results of around €53 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 laws regarding CESE have no legal grounds and, accordingly, such amounts are not due.

7.2. Capital expenditure

€m (RCA)

Quarter						Year			
4Q16	3Q17	4Q17	Var. YoY	% Var. YoY		2016	2017	Var. YoY	% Var. YoY
269	194	291	22	8%	Exploration & Production	1,039	852	(187)	(18%)
0	9	169	169	n.m.	Exploration and appraisal activities	37	204	168	n.m.
269	185	122	(147)	(55%)	Development and production activities	1,003	647	(355)	(35%)
68	30	75	7	10%	Refining & Marketing	153	145	(7)	(5%)
4	2	1	(3)	(75%)	Gas & Power	23	7	(15)	(67%)
3	0	2	(0)	(12%)	Others	4	4	(0)	(12%)
344	**227**	**370**	**26**	**8%**	**Capex**	**1,218**	**1,008**	**(210)**	**(17%)**

Fourth quarter

Capital expenditure totalled €370 m, 79% of which was allocated to the E&P business. Investment in the period includes the c.€150 m signing bonus related to Carcará North, in which Galp's subsidiary Petrogal Brasil acquired a 20% stake in the 2nd Production Sharing Bidding Round in Brazil.

Investment in development and production (D&P) activities reached €122 m, mainly allocated to the development of block BM-S-11.

Investment in downstream activities (R&M and G&P) amounted to €76 m and was mainly allocated to maintenance, and improvements on energy efficiency and conversion flexibitlity of the refinery systems, as well as to the maintenance and partial renewal of the retail network.

Full year

During 2017, capital expenditure reached €1.0 bn, at the lower end of the €1.0 – 1.2 bn guidance, and including the Carcará North signing bonus.

E&P accounted for 88% of the total, of which development activities accounted for 76% of E&P capex, mostly allocated to Brazil and the development of the Kaombo project, in Angola. It is also worth highlighting the start of development activities for the FLNG unit to be allocated to the Coral South project, in Mozambique.

As part of the E&A activities, in addition to the reinforcement of the Brazilian pre-salt portfolio, the 3D seismic data acquisition programme in São Tomé and Príncipe, which was completed during the third quarter of 2017, also stands out.

The capital expenditure of €153 m in downstream activities was mainly aimed at refinery maintenance activities and energy efficiency improvements, downstream network development and programs to improve the customer experience.

7.3. Cash flow

Indirect method

€m (IFRS figures)

Quarter				Year	
4Q16	3Q17	4Q17		2016	2017
221	314	336	Ebit	544	1,135
26	13	35	Dividends from associates	70	134
260	178	215	Depreciation, Depletion and Amortisation (DD&A)	835	808
47	18	(19)	Change in Working Capital	17	(72)
(30)	(106)	(70)	Corporate income taxes and oil and gas production taxes	(172)	(373)
524	**417**	**497**	**Cash flow from operations**	**1,293**	**1,632**
(200)	(228)	(367)	Net capex[1]	(1,054)	(985)
(22)	(19)	(16)	Net financial expenses	(101)	(75)
302	**170**	**114**	**Free cash flow**	**138**	**572**
(2)	(208)	-	Dividends paid	(383)	(423)
300	**(37)**	**114**	**Post-dividend free cash flow**	**(246)**	**149**
633	(73)	(33)	Others[2]	796	(164)
(933)	**111**	**(81)**	**Change in net debt**	**(550)**	**15**

[1] The full year of 2017 includes, among others, the payment of Carcará North signature bonus of c.€150 m and 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.

Fourth quarter

Post-dividend free cash flow reached €114 m, with cash flow from operations more than offsetting capital expenditure in the period, including Carcará North c.€150 m signing bonus.

Cash flow generated by operating activities benefited from improved business performance in E&P and R&M.

Full year

The full year FCF reached €149 m, after the payment of dividends in the amount of €423 m.

The FCF generated post-dividends and expansion capex reflects the competitiveness and resilience of its portfolio.

Direct method

€m

Trimestre				Ano	
4Q16	3Q17	4Q17		2016	2017
1,084	**902**	**746**	**Cash and equivalents at the beginning of the period**[1]	**1,045**	**923**
4,242	4,282	4,605	Received from customers	15,156	17,598
(2,600)	(2,662)	(2,768)	Paid to suppliers	(9,094)	(10,986)
(117)	(71)	(103)	Staff related costs	(373)	(344)
26	13	35	Dividends from associated companies	70	134
(737)	(658)	(816)	Taxes on oil products (ISP)	(2,752)	(2,825)
(374)	(411)	(450)	VAT, Royalties, PIS, Cofins, Others	(1,571)	(1,669)
441	**494**	**502**	**Total operating flows**	**1,436**	**1,908**
(161)	(264)	(344)	Net capex[2]	(1,074)	(975)
(24)	(9)	(20)	Net Financial Expenses	(124)	(102)
(2)	(208)	-	Dividends paid	(383)	(423)
(30)	(106)	(70)	Corporate income taxes and oil and gas production taxes	(172)	(373)
(451)	(50)	265	Net new loans	(32)	183
-	-	48	Sinopec loan reimbursement	134	90
66	(13)	(31)	FX changes on cash and equivalents	93	(135)
923	**746**	**1,096**	**Cash and equivalents at the end of the period**[1]	**923**	**1,096**

[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 full year of 2017 includes, among others, the payment of Carcará North signature bonus of c.€150 m and 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	30 Sep., 2017	31 Dec., 2017	Var. vs 31 Dec., 2016	Var. vs 30 Sep., 2017
Net fixed assets	7,721	7,505	7,565	(156)	60
Working capital	512	565	584	72	19
Loan to Sinopec	610	512	459	(151)	(53)
Other assets (liabilities)	(428)	(648)	(645)	(217)	3
Non-current assets/liabilities held for sale	(1)	-	-	1	-
Capital employed	**8,414**	**7,934**	**7,963**	**(450)**	**29**
Short term debt	325	709	551	226	(158)
Medium-Long term debt	2,578	2,038	2,532	(45)	494
Total debt	**2,903**	**2,746**	**3,083**	**180**	**337**
Cash and equivalents	1,032	780	1,198	165	418
Net debt	**1,870**	**1,967**	**1,886**	**15**	**(81)**
Total equity	**6,543**	**5,968**	**6,078**	**(466)**	**110**
Total equity and net debt	**8,414**	**7,934**	**7,963**	**(450)**	**29**

On December 31 2017, net fixed assets stood at €7,565 m, up €60 m compared to the end of September, as capital expenditure more than offset the depreciation charges and the US Dollar devaluation during the period.

Work-in-progress, mainly related to the E&P business, was €2,616 m at the end of the period.

Financial debt

€m (except otherwise stated)

	31 Dec., 2016	30 Sep., 2017	31 Dec., 2017	Var. vs 31 Dec., 2016	Var. vs 30 Sep., 2017
Bonds	1,683	1,665	1,987	304	322
Bank loans and other debt	1,220	1,082	1,096	(124)	14
Cash and equivalents	(1,032)	(780)	(1,198)	(165)	(418)
Net debt	**1,870**	**1,967**	**1,886**	**15**	**(81)**
Average life (years)	2.6	2.1	2.5	(0.1)	0.4
Average funding cost	3.52%	3.45%	3.46%	(0.06 p.p.)	0.01 p.p.
Net debt to Ebitda RCA	1.3x	1.1x	1.0x	-	-

On December 31, 2017, net debt stood at €1,886 m, in line YoY and down €81 m compared to the end of the third quarter. Net debt to Ebitda ratio was 1.0x.

The average interest rate was 3.46% during the year.

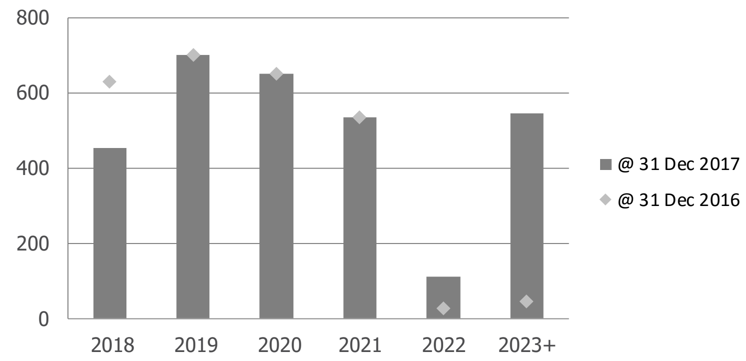
During the fourth quarter, the issuance of €500 m debt securities under the EMTN program should be highlighted. These securities mature in February 2023 and pay an annual coupon of 1.0%.

At the end of December, around 60% of total debt was on a fixed-rate basis. Debt had an average maturity of 2.5 years, and medium and long-term debt accounted for 82% of total debt.

At the end of 2017, Galp had unused credit lines of approximately €1.3 bn. Of this amount, around 70% was contractually guaranteed.

Debt maturity profile

€m



7.5. Reconciliation of IFRS and replacement cost adjusted figures

Ebitda by segment

€m

Fourth quarter					2017	Full year				
Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA		Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
573	**(85)**	**488**	**1**	**489**	**Galp**	**1,980**	**(116)**	**1,865**	**4**	**1,869**
306	-	306	0	306	**E&P**	912	-	912	0	913
229	(83)	146	1	147	**R&D**	892	(110)	782	4	785
29	(2)	28	(0)	28	**G&P**	146	(5)	141	(0)	141
9	-	9	(0)	9	**Others**	30	-	30	(0)	30

€m

Fourth quarter					2016	Full year				
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&D**	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

Ebit by segment

€m

Fourth quarter					2017	Full year				
Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA		Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
336	**(85)**	**251**	**36**	**287**	**Galp**	**1,135**	**(116)**	**1,019**	**43**	**1,063**
190	-	190	22	212	**E&P**	483	-	483	23	507
114	(83)	31	15	45	**R&D**	507	(111)	397	22	418
24	(2)	23	(0)	22	**G&P**	119	(5)	114	(2)	112
8	-	8	(0)	8	**Others**	25	-	25	(0)	25

€m

Fourth quarter					2016	Full year				
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&D**	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

Non-recurring items

€m

Quarter				Full year	
4Q16	3Q17	4Q17		2016	2017
11.0	**0.5**	**0.9**	**Non-recurring items impacting Ebitda**	**42.1**	**4.0**
0.9	0.0	(3.0)	Accidents caused by natural events and insurance compensation	(1.2)	(2.9)
(0.5)	0.0	(0.4)	Gains/losses on disposal of assets	(1.5)	(1.1)
0.7	(0.0)	0.6	Asset write-offs	1.7	0.6
0.0	-	3.1	Employee restructuring charges	14.7	3.1
-	-	-	Advisory fees and others	0.2	-
0.1	-	-	Compensation early termination agreement for service and equipment	12.0	-
3.4	0.4	0.6	Litigation costs	9.7	4.3
6.3	-	-	Taxes from previous years	6.3	-
87.9	**0.5**	**35.3**	**Non-recurring items impacting non-cash costs**	**206.6**	**39.4**
2.5	0.1	13.2	Provisions for environmental charges and others	8.1	14.4
85.4	0.4	22.1	Asset impairments	198.5	24.9
39.7	**3.1**	**(5.1)**	**Non-recurring items impacting financial results**	**68.0**	**(16.2)**
(36.8)	3.1	(2.4)	Gains/losses on financial investments	(23.5)	(13.4)
76.5	-	(2.8)	Impairment of financial investments	91.5	(2.8)
(2.9)	**9.8**	**5.2**	**Non-recurring items impacting taxes**	**39.5**	**57.3**
(6.3)	(0.3)	(4.9)	Income taxes on non-recurring items	(24.2)	(6.7)
(10.3)	-	-	Tax deferrals on E&P	(10.3)	-
5.9	-	-	Income tax from previous years	5.9	-
7.7	10.0	10.1	Energy sector contribution taxes	68.0	64.1
(27.4)	0.1	0.1	Non-controlling interests	(32.6)	0.4
108.2	**13.9**	**36.4**	**Total non-recurring items**	**323.6**	**84.9**

7.6. IFRS consolidated income statement

€m

Quarter				Full year	
4Q16	3Q17	4Q17		2016	2017
3,402	3,745	3,517	Sales	12,488	14,576
145	147	172	Services rendered	631	628
32	28	21	Other operating income	121	105
3,579	**3,920**	**3,710**	**Total operating income**	**13,241**	**15,308**
(2,650)	(2,953)	(2,603)	Inventories consumed and sold	(10,136)	(11,379)
(337)	(367)	(420)	Materials and services consumed	(1,285)	(1,550)
(89)	(83)	(87)	Personnel costs	(334)	(320)
(37)	(17)	(25)	Other operating costs	(98)	(80)
(3,112)	**(3,420)**	**(3,137)**	**Total operating costs**	**(11,851)**	**(13,328)**
467	**500**	**573**	**Ebitda**	**1,389**	**1,980**
(260)	(178)	(215)	Amortisation, depreciation and impairments	(835)	(808)
14	(8)	(22)	Provision and impairment of receivables	(11)	(37)
221	**314**	**336**	**Ebit**	**544**	**1,135**
(15)	37	42	Net income from associated companies	17	166
(27)	(15)	10	Financial results	(25)	(28)
11	7	11	Interest income	34	33
(33)	(25)	(28)	Interest expenses	(134)	(108)
10	21	17	Capitalised interest	82	89
(1)	5	(9)	Exchange gain (loss)	(9)	(18)
(14)	(18)	25	Mark-to-market of hedging derivatives	17	(0)
(0)	(5)	(7)	Other financial costs/income	(14)	(23)
179	**336**	**388**	**Income before taxes**	**536**	**1,273**
(92)	(137)	(125)	Taxes[1]	(260)	(503)
(8)	(10)	(10)	Energy sector contribution taxes[2]	(68)	(64)
80	**189**	**253**	**Income before non-controlling interests**	**208**	**706**
0	(26)	(36)	Profit attributable to non-controlling interests	(29)	(93)
80	**163**	**217**	**Net income**	**179**	**614**

[1] Includes corporate income taxes and taxes payable on oil and gas production, namely Special Participation Tax (Brazil) and IRP (Angola).
[2] Includes €17.6 m, €35.9 m and €10.6 m related to the CESE I, CESE II and Fondo Eficiencia Energética, respectively, during 2017.

7.7. Consolidated financial position

€m

	31 Dec., 2016	30 Sep., 2017	31 Dec., 2017
Assets			
Non-current assets			
Tangible fixed assets	5,910	5,658	5,554
Goodwill	87	84	84
Other intangible fixed assets	268	256	410
Investments in associates	1,432	1,474	1,483
Investments in other participated companies	3	3	3
Loan to Sinopec	-	-	-
Receivables	247	242	235
Deferred tax assets	335	310	293
Financial investments	26	32	32
Total non-current assets	**8,307**	**8,060**	**8,093**
Current assets			
Inventories[1]	869	915	970
Trade receivables	1,041	1,014	1,018
Other receivables	556	573	538
Loan to Sinopec	610	512	459
Assets available for sale	-	-	-
Financial investments	19	28	66
Current Income tax recoverable	-	11	4
Cash and equivalents	1,033	780	1,198
Sub-total current assets	**4,128**	**3,833**	**4,253**
Non-current assets held for sale	4	-	-
Total current assets	**4,132**	**3,833**	**4,253**
Total assets	**12,439**	**11,893**	**12,346**
Equity and liabilities			
Equity			
Share capital	829	829	829
Share premium	82	82	82
Translation reserve	404	(61)	(187)
Other reserves	2,687	2,687	2,687
Hedging reserves	4	7	5
Retained earnings	795	569	587
Profit attributable to equity holders of the parent	179	397	614
Equity attributable to equity holders of the parent	**4,980**	**4,511**	**4,617**
Non-controlling interests	1,563	1,457	1,461
Total equity	**6,543**	**5,967**	**6,078**
Liabilities			
Non-current liabilities			
Bank loans and overdrafts	912	940	937
Bonds	1,666	1,098	1,595
Other payables[2]	305	290	286
Retirement and other benefit obligations	359	348	326
Liabilities from financial leases	0	0	0
Deferred tax liabilities	66	130	82
Other financial instruments	1	18	3
Provisions	429	576	619
Total non-current liabilities	**3,738**	**3,401**	**3,848**
Current liabilities			
Bank loans and overdrafts	308	142	159
Bonds	17	567	392
Trade payables	850	799	889
Other payables[3]	884	934	844
Liabilities from financial lease	-	-	-
Other financial instruments	17	27	21
Income tax payable	75	56	115
Sub-total current liabilities	**2,152**	**2,525**	**2,420**
Non-current liabilities associated with non-current assets held for sale	5	-	-
Total current liabilities	**2,157**	**2,525**	**2,420**
Total liabilities	**5,896**	**5,925**	**6,268**
Total equity and liabilities	**12,439**	**11,893**	**12,346**

[1] Includes €40.5 m in inventories from third parties on 31 December 2017.
[2] Includes €156.0 m long-term loan from Sinopec to subsidiary Petrogal Brasil on 31 December 2017.
[3] Includes €12.1 m in advance payments related to inventory from third parties on 31 December 2017.

8. Basis of presentation

Galp's consolidated financial statements have been prepared in accordance with IFRS. The financial information in the consolidated income statement is reported for the quarters ended on 31 December 2017 and 2016 and 30 September 2017. The financial information in the consolidated financial position is reported on 31 December and 30 September 2017 and 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, started to be accounted for in the E&P business.

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 L.

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 items 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.

ACRONYMS

APETRO: *Associação Portuguesa de Empresas Petrolíferas* (Portuguese association of oil companies)
bbl: barrel of oil
Bg: Barges
bcm: billion cubic metres
bn: billion
boe: barrels of oil equivalent
BRL: Reais of Brazil
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&A: Exploration & Appraisal
E&P: Exploration & Production
Ebit: Earnings before interest and taxes
Ebitda: Ebit plus depreciation, amortisation and provisions
EMTN: Euro Medium Term Note
EUA: United States of America
EUR/€: Euro
FCF: free cash flow
FLNG: Floating liquefied natural gas unit
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 (Portugal)
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
mmboe: millions of barrels of oil equivalent
mmbtu: million British thermal units
mm³: million cubic metres
mton: millions of tonnes
NBP: National Balancing Point
NG: natural gas
n.m.: not meaningful
NWE: Northwestern Europe
OPEC: Organisation of Petroleum Exporting Countries
R&D: Refining & Distribution
RC: Replacement Cost
RCA: Replacement Cost Adjusted
ton: tonnes
USA: United States of America
USD/$: Dollar of the United States of America
VAT: value-added tax
VGO: vacuum gas oil
WI: working interest
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.

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