galp

Global Energiser

Individual Accounts 2017

INDEX

PART I

Individual Accounts

Statement of financial position as of 31 December 2017 and 2016

GALP ENERGIA, SGPS, S.A.
(Amounts stated in thousands of Euros - €k)

ASSETS	Notes	2017	2016
Non-current assets:			
Tangible assets	12	9	13
Investments in subsidiaries and associates	4.1	2,644,262	2,514,262
Investments in affiliates	4.2	350	350
Assets available for sale	4.3	-	1
Other receivables	14	1,987,590	1,660,090
Deferred tax assets	9	180	245
Total non-current assets:		**4,632,391**	**4,174,961**
Current assets			
Trade receivables	15	1,334	208
Other receivables	14	120,703	629,384
Current income tax receivable	9	65,597	116,962
Cash and cash equivalents	18	11,211	8,882
Total current assets:		**198,845**	**755,436**
Total assets		**4,831,236**	**4,930,397**

EQUITY AND LIABILITIES	Notes	2017	2016
Equity:			
Share capital	19	829,251	829,251
Share premium		82,006	82,006
Other reserves	20	193,827	193,827
Retained earnings		261,966	261,840
Net profit for the year		421,888	413,784
Total equity:		**1,788,938**	**1,780,708**
Liabilities:			
Non-current liabilities:			
Bank loans	22	688,437	743,427
Bonds	22	1,594,868	1,665,656
Other payables	24	2,142	3,000
Total non-current liabilities:		**2,285,447**	**2,412,083**
Current liabilities:			
Bank loans and overdrafts	22	57,332	140,857
Bonds	22	391,938	18,139
Trade payables	26	435	2,473
Other payables	24	241,035	497,115
Current income tax payable	9	66,111	79,022
Total current liabilities		**756,851**	**737,606**
Total liabilities		**3,042,298**	**3,149,689**
Total equity and liabilities		**4,831,236**	**4,930,397**

The accompanying notes form an integral part of the statement of financial position for the year ending 31 December 2017.

Income statement for the years ending 31 December 2017 and 2016

GALP ENERGIA, SGPS, S.A.
(Amounts stated in thousands of Euros - €k)

	Notes	2017	2016
Operating income:			
Services rendered	5	8,443	6,900
Other operating income	5	30	-
Total operating income:		**8,473**	**6,900**
Operating costs:			
External supplies and services	6	(2,844)	(2,954)
Employee costs	6	(7,626)	(6,285)
Amortisation, depreciation and impairment loss on fixed assets	6	(4)	(4)
Other operating costs	6	(505)	(794)
Total operating costs:		**(10,979)**	**(10,037)**
Operating result:		**(2,506)**	**(3,137)**
Financial income	8	96,139	91,315
Financial costs	8	(83,837)	(108,396)
Exchange gain (loss)		(899)	(482)
Results on investments in subsidiaries and associates	4	415,638	435,576
Profit before tax:		**424,535**	**414,875**
Income tax	9	(2,647)	(1,091)
Net profit		**421,888**	**413,784**
Basic and diluted earnings per share (in Euros)	10	**0.51**	**0.50**

The accompanying notes form an integral part of the income statement for the year ending 31 December 2017.

Statement of comprehensive income for the years ending 31 December 2017 and 2016

GALP ENERGIA, SGPS, S.A.
(Amounts stated in thousands of Euros - €k)

	Notes	2017	2016
Net profit for the year		421,888	413,784
Comprehensive income for the year		421,888	413,784

The accompanying notes form an integral part of the income statement for the year ending 31 December 2017.

Statement of changes in equity for the years ending 31 December 2017 and 2016

GALP ENERGIA, SGPS, S.A.
(Amounts stated in thousands of Euros - €k)

Movements for the year	Notes	Share capital	Share premium	Other reserves (Note 20)	Retained earnings	Net profit for the year	Total
Balance as of 1 January 2016		**829,251**	**82,006**	**193,827**	**261,483**	**378,658**	**1,745,220**
Net profit for the year		-	-	-	-	413,784	413,784
Comprehensive income for the year		-	-	-	-	413,784	413,784
Dividends distributed/interim dividends		-	-	-	(378,297)	-	(378,297)
Increase of reserves by appropriation of profit	30	-	-	-	378,654	(378,654)	-
Balance as of 31 December 2016		**829,251**	**82,006**	**193,827**	**261,840**	**413,784**	**1,780,708**
Balance as of 1 January 2017		**829,251**	**82,006**	**193,827**	**261,840**	**413,784**	**1,780,708**
Net profit for the year		-	-	-	-	421,888	421,888
Comprehensive income for the year		-	-	-	-	421,888	421,888
Dividends distributed/interim dividends	30	-	-	-	(413,658)	-	(413,658)
Increase of reserves by appropriation of profit	30	-	-	-	413,784	(413,784)	-
Balance as of 31 December 2017		**829,251**	**82,006**	**193,827**	**261,966**	**421,888**	**1,788,938**

The accompanying notes form an integral part of the financial statements of changes in equity for the year ending 31 December 2017.

Statement of cash flows for the years ending 31 December 2017 and 2016

GALP ENERGIA, SGPS, S.A.
(Amounts stated in thousands of Euros - €k)

	Notes	2017	2016	
Operating activities:				
Cash receipt from customers		9,437	14,694	
Cash paid to suppliers		(7,193)	(4,245)	(a)
Cash paid to employees		(4,094)	(3,742)	(a)
Income tax received/(paid)		35,872	(3,057)	
Other (payments)/receipts from operating activities		(5,895)	(1,682)	
Cash flow from operating activities (1)		**28,127**	**1,968**	
Investing activities:				
Cash receipts related to:				
Interests and similar income		125,372	57,836	
Dividends	4	414,603	435,542	
Loans granted		183,123	813,471	
		723,098	**1,306,849**	
Cash payments related to:				
Financial investments		(130,000)	(477,932)	
Loans granted		(25,431)	(7,886)	
		(155,431)	**(485,818)**	
Cash flow from investing activities (2)		**567,667**	**821,031**	
Financing activities:				
Cash receipts related to:				
Loans obtained		3,968,345	4,442,976	
		3,968,345	**4,442,976**	
Cash payments related to:				
Loans obtained		(4,052,961)	(4,797,975)	
Interests and similar costs		(91,579)	(111,943)	
Dividends	30	(413,658)	(378,297)	
		(4,558,198)	**(5,288,215)**	
Cash flow from financing activities (3)		**(589,853)**	**(845,239)**	
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		5,941	(22,241)	
Effect of foreign exchange rate changes		137	(448)	
Cash and cash equivalents at beginning of the year	18	2,246	24,935	
Cash and cash equivalents at end of the year	18	8,324	2,246	

(a) Reclassification between payments to suppliers and payments to employees referring to payments and receipts of assigned personnel.
The accompanying notes form an integral part of the statement of cash flows for the year ending 31 December 2017.

Notes to the financial statements

1. Introduction

Galp Energia, SGPS, S.A. (hereinafter referred to as Galp or the Company), was incorporated as a government-owned corporation under Decree-Law 137-A/99 of 22 April 1999, under the name Galp – Petróleos e Gás de Portugal, SGPS, S.A., having adopted its present designation of Galp Energia, SGPS, S.A. on 13 September 2000.

The Company's Head Office is in Lisbon and its main purpose is the management of other companies having, as of the date of its incorporation, taken control of the Portuguese state's direct participations in the following companies: Petróleos de Portugal – Petrogal, S.A.; GDP – Gás de Portugal, SGPS, S.A. and Transgás – Sociedade Portuguesa de Gás Natural, S.A. ("Transgás, S.A." currently designated Galp Gás Natural, S.A.)

During the previous years the Company shareholders structure suffered several changes and the Company shareholder position as of 31 December 2017 is stated in Note 19.

Part of the Company's shares, representing 93% of its share capital, is listed on the Euronext Lisbon stock exchange.

The following financial statements are presented in thousand euros, unless otherwise stated.

2. Significant accounting policies

2.1. Basis of presentation

Company' financial statements were prepared on a going concern basis, at historical cost, except for financial derivative instruments, which, when applicable, are stated at fair value, based on the accounting records of the Company, maintained in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), effective for the year beginning on 1 January 2017. These standards include IFRS issued by the International Accounting Standards Board (IASB) and International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC) and respective interpretations – SIC and IFRIC, issued by the Standing Interpretation Committee (SIC) and International Financial Reporting Interpretation Committee (IFRIC). These standards and interpretations are hereinafter referred to as IFRS.

The IAS/IFRS standards published by IASB with predicted application after 2017, as well as its approval status by the European Union are presented below:

Standards, amendments to standards and interpretations published by IASB and not yet approved by EU:

IAS Standard	Publishing date in IASB	Date of predicted approval by EU	Date of accounting application	Comments
IFRS 17: Insurance Contracts	18/MAY/2017	No estimated date	2021	No impact given the fact that the Company does not pursue insurance activities.
IFRS 23: Uncertainty regarding the recognition of income tax	07/JUN/2017	2018	2019	No relevant accounting impacts.
Amendments to IAS 18: Investment in associates and joint ventures	12/OCT/2017	2018	2019	No estimated impact.
Amendments to IFRS 9: Anticipated payment with negative compensation	12/OCT/2017	2018	2019	Estimated impact when such payments occur.
Amendments to IFRS 2: Share based payments	20/JUN/2016	1st Quarter 2018	2018	Not applicable.
IFRS annual improvements cycle 2014-2016	08/DEC/2016	1st Quarter 2018	2018	No relevant accounting impacts.
IFRIC 22: Foreign Currency Transactions and Advance Consideration	08/DEC/2016	1st Quarter 2018	2018	No estimated impact.
Amendments to IAS 40: Investment Properties	08/DEC/2016	1st Quarter 2018	2018	No estimated impact.
IFRS annual improvements cycle 2015-2017	12/DEC/2017	2018	2019	No estimated impact.

The IAS/IFRS standards and interpretations approved and published in the Official Journal of the European Union (OJEU) during 2017, applicable to subsequent years are as follows:

Standards, amendments to standards and interpretations approved by EU applicable to subsequent years, if applicable:

IAS Standard	Publishing date in EU	Date of accounting application	Economic year application	Comments
IFRS 9: Financial Instruments	29/NOV/2016	01/JAN/2018	2018	No relevant accounting impacts.
IFRS 15 clarification: Revenue from Contracts with Customers	29/OCT/2016	01/JAN/2018	2018	No estimated impact.
IFRS 15: Revenue from Contracts with Customers	09/NOV/2017	01/JAN/2018	2018	Not applicable.
Amendments to IFRS 4: Insurance contracts, applying IFRS 9 and IFRS 4	09/NOV/2017	01/JAN/2018	2018	Not applicable.
IFRS 16: Leasing	09/NOV/2017	01/JAN/2019	2019	Ongoing project to determine and evaluate accounting impacts.

Amendments to Standards and Interpretations published by IASB and approved by UE effective in 2017:

Standards, Amendments to Standards and Interpretations adopted, if applicable:

IAS Standard	Publishing date in EU	Date of accounting application	Economic year application	Comments
Amendments to IAS 7: Disclosures review	09/NOV/2017	01/JAN/2017	2017	Impact on financial statements disclosures.
Amendments to IAS 12: Recognition of deferred tax assets	09/NOV/2017	01/JAN/2017	2017	No impact.

The Board of Directors of the Company believes that these separate financial statements and notes provide a fair view of the Company's financial information. Estimates that affect the amounts of assets, liabilities, income and costs, at the reporting date, were used in preparing the accompanying financial statements. The estimates and assumptions used by the Board of Directors were based on the best information available regarding events and transactions in process at the time of approval of the financial statements.

In the preparation and presentation of these separate financial statements, the Company declares that is in compliance with the IAS/IFRS and their interpretations SIC/IFRIC as adopted by the EU.

The main accounting principles considered by the Company in the preparation of its separate financial statements are stated below. During the year ending 31 December 2017, there were no significant changes in accounting principles applied compared to those considered in the preparation of financial information for the previous year. Additionally, the Company did not record material errors in respect of previous years.

The financial statements presented refer to the Company's separate financial statements and were prepared according to the legal terms so that they may be approved at the general shareholders meeting, having the investments in other companies been recorded at acquisition cost as explained in note 2.2. The Company will prepare and separately present consolidated financial statements consolidating the financial statements of the companies it controls.

2.2. Investments in subsidiaries and associates

Investments in subsidiaries and associates are recorded at the acquisition cost net of impairment losses, when applicable.

Investments in other companies are presented in Note 4.

Dividends received from subsidiaries and associates are recorded as Results on investments in subsidiaries and associates.

2.3. Tangible assets

Tangible assets are recorded at acquisition cost net of accumulated depreciation and impairment losses.

Depreciation is calculated on the acquisition cost, on a straight-line basis, as from the date it starts to be used or the assets are available for use, at the rates considered most appropriate to depreciate the assets during their estimated economic useful life.

The average depreciation rates used were as follows:

	Useful life (in years)
Administrative equipment	5 to 8
Other tangible assets	8

The capital gains/losses resulting from the write-off or disposal of tangible assets is determined by the difference between the sale price and the net book value as of the date of the write-off/disposal. The net book value includes accumulated impairment losses. The resulting accounting capital gain/loss is recorded in the income statement "Other operating income" or "Other operating costs" captions, respectively.

2.4. Impairment of non-current assets

Impairment tests are performed at the reporting date and whenever a decline in the asset value is identified. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recorded in the income statement.

The recoverable amount is the greater of the net selling price and the value in use. Net selling price is the amount that would be obtained from selling the asset in a transaction between independent knowledgeable parties, less the costs directly attributable to the sale. Value in use corresponds to the present value of the future cash flows generated by the asset during its estimated economic useful life. The recoverable amount is estimated for the asset or cash generating unit to which it is allocated. The discount rate used reflects the Weighted Average Cost of Capital (WACC) used by the Galp Group, applicable to the business segment in which the asset or the cash generating unit is included.

Impairment losses recognised in previous periods are reversed when it is concluded that they no longer exist or have decreased. Such tests are made whenever there are indications that an impairment recognised in an earlier period has reverted. Reversal of impairment is recognised as a decrease in the income statement caption where originally the impairment loss was recognised. However, impairment losses are only reversed up to the amount that the asset would present (net of amortisation or depreciation), if the impairment loss had not been recorded previously.

2.5. Provisions

Provisions are recorded when, and only when, the Company has a present obligation (legal, contractual or constructive) resulting from a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed and adjusted at each reporting date so as to reflect the best estimate at that date. Provisions for restructuring costs are recognised by the Company whenever there is a formal detailed restructuring plan.

During the year ending 31 December 2017, there were no transactions that should be classified as restructuring provisions.

2.6. Foreign currency balances and transactions

Transactions are recorded in the separate financial statements of the Company in its functional currency, at the exchange rates in force on the dates of the transactions.

Gains and losses resulting from differences between the exchange rates in force on the dates of the transactions and those prevailing at the date of collection, payment or at the end of the reporting period are recorded as income and expenses, respectively, in the income statement caption "Exchange, gain, (loss)".

As of 31 December 2017 and 2016, the Company had no balances denominated in foreign currency.

2.7. Income and accrual basis

Costs and income are recorded in the period to which they relate, independently of when they are paid or received. When the actual amounts of costs and income are not known, these are estimated.

The "Other receivables" and "Other payables" captions include the income and costs from the current period for which the financial receipt or disbursement will only occur in future periods, as well as financial receipts or disbursements that have already occurred, relating to future periods, and that will be charged to the income statement in the respective periods.

The revenue from dividends is recognised when the right of the Company to receive the amount is established.

2.8. Financial costs on loans obtained

Financial costs on loans obtained are recorded in accordance with the effective interest rate method.

2.9. Income tax

Since 2001, companies with head offices in Portugal in which the Company has a direct or indirect participation interest greater than 75%, if that participation gives the Company more than 50% of the voting rights, have been taxed in accordance with the special regime for the taxation of groups of companies, taxable income being determined in Galp Energia, SGPS, S.A.

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

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

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

2.10. Financial instruments

Financial assets and liabilities are recorded on the statement of financial position when the Company becomes a contractual party to the financial instrument.

a) Financial assets

Financial assets are classified as follows:

- Loans and trade receivables (note 14);
- Held-to-maturity;
- At fair value through profit and loss;
- Available-for-sale.

Investments at fair value through profit or loss are classified as current investments if maturity or expected realisation is less than 12 months, otherwise they are classified as non-current investments.

Financial assets at fair value through profit or loss are classified as current assets.

Available-for-sale financial assets are classified as non-current assets, for the investments in affiliates.

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

Financial assets are initially recorded at cost, which is the fair value of the consideration paid, including transaction costs, except for financial assets measured at fair value through profit and loss.

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

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

Interest income, calculated using the effective interest rate method, as well as exchange gains and losses related to debt instruments classified as available-for-sale financial assets, are recognized in the income statement for the period.

Dividends obtained from equity instruments, classified as available-for-sale financial assets, and impairment losses for all these financial assets are also accounted for in the income statement for the period.

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

Galp derecognises a financial asset when, and only when, the contractual rights to the cash flows resulting from the financial assets expire or transfers the financial asset and the transfer qualifies for the derecognition, as required by IAS 39.

Regarding the derecognition of a financial liability, it occurs when and only when it is extinguished, that is, when the specified obligation in the agreement is satisfied, cancelled or expires.

b) Equity or liability classification

Financial liabilities and equity instruments are classified in accordance with substance of the contractual arrangement, independent of their legal form. Thus, financial instruments with no interest rate and no defined repayment term are considered by Galp as equity instruments.

c) Receivables

According to the categories established in IAS 39, loans granted and accounts receivable are initially recorded at fair value and subsequently measured at amortized cost, less any impairment losses, recognized under "Impairment losses on accounts receivable". Usually, the amortized cost of these assets does not differ from their nominal value or their fair value.

d) Loans

Loans are recorded as liabilities based on the nominal amount received, net of issuance expenses related to these loans. Loans are subsequently measured at amortised cost.

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

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

e) Trade and other payables

Accounts payable are initially measured at fair value and subsequently measured at amortised cost by the effective interest rate method. Usually, the amortised cost of these liabilities does not differ from their nominal value.

f) Derivative instruments

Hedge accounting

The Company uses derivative instruments to manage its financial risks as a way to hedge those risks. Derivative instruments to hedge financial risks are not used for trading purposes.

Derivative instruments used by the Company to hedge cash flows mainly relate to interest rate hedging instruments on loans obtained. The coefficients, calculation conventions, interest rate re-fixing dates and interest rate hedging instrument repayment schedules are in all ways identical to the conditions established in the underlying contracted loans, and as such represent perfect hedges.

The following criteria is used by the Company to classify derivative instruments as cash flow hedging instruments:

- The hedge is expected to be highly effective in offsetting the changes in the cash flow of the hedged risk;
- The hedging effectiveness can be reliably measured;
- There is adequate documentation of the hedge at the beginning of the operation; and
- The hedged transaction is highly probable.

Financial derivatives are initially recorded at fair value, calculated by independent external entities using generally accepted methods (such as discounted cash flows, the Black-Scholes model, Binomial and Trinomial model, and Monte-Carlo simulations, among others, depending on the type and characteristics of the financial derivative) and observable variables. Changes in the fair value of these instruments are presented in the equity caption "Hedging reserves", being transferred to the income statement when the hedged instrument affects profit and loss.

Hedge accounting is discontinued when the derivative instruments mature or are sold. Where the derivative instrument stops qualifying as a hedging instrument, the accumulated fair value differences deferred in the equity caption "Hedging reserves" are transferred to the income statement or added to the book value of the asset which gave rise to the hedging transaction, and subsequent revaluations are recognised directly in the income statement.

A review was made of the Company's existing contracts so as to detect embedded derivatives, namely contractual clauses that could be considered as financial derivatives. No financial derivatives that should be recognised at fair value have been identified.

When embedded derivatives exist in other financial instruments or other contracts, they are recognised as separate derivatives in situations in which the risks and characteristics are not intimately related to the contracts and in situations in which the contracts are not reflected at fair value with unrealised gains and losses reflected in the income statement.

In addition, in specific situations the Company also contracts interest rate derivatives to hedge fair value. In such situations the derivatives are recorded at fair value through the profit and loss. When the hedged instrument is not measured at fair value (namely loans measured at amortised cost), the effective portion of the hedge is adjusted in the hedged instrument's book value through the income statement.

In accordance with IFRS 13 an entity must classify the fair value measurement, based on a fair value hierarchy that reflects the meaning of the inputs used in measurement. The fair value hierarchy must have the following levels:

- Level 1 - the fair value of assets or liabilities is based on active liquid market quotation at the date of the statement of financial position;

- Level 2 - the fair value of assets or liabilities is determined through valuation models based on observable market inputs;

- Level 3 - the fair value of assets or liabilities is determined through valuation models, whose main inputs are not observable in the market

g) Cash and cash equivalents

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

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

2.11. Statement of the financial position classification

Realisable assets and liabilities payable in more than one year from the reporting date are classified as non-current assets and non-current liabilities, respectively.

2.12. Subsequent events

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

2.13. Judgments and estimates

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

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

The accounting principles and areas requiring a greater degree of judgment and estimates in the presentation of the financial statements are: (i) provisions for contingencies; and (ii) impairment of investments in subsidiaries and associates.

Provisions for contingencies

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

Impairment of investments in subsidiaries and associates

The identification of impairment indicators, the estimation of future cash flows and the determination of the fair value of assets imply a high degree of judgment by the Board of Directors regarding the identification and evaluation of the different indicators of impairment, expected cash flows and discount rates.

2.14. Risk management and hedging

The Galp Group's operations lead to the exposure to risks of: (i) market risk, as a result of the volatility of prices of oil, natural gas and its derivatives, exchange rates and interest rates; (ii) credit risk as a result of its commercial activity; and (iii) liquidity risk as the Group could have difficulty in obtaining financial resources to cover its commitments.

The Company has an organisation and systems that enable it to identify, measure and control the different risks to which it is exposed and uses several financial instruments to hedge them in accordance with the corporate directives common to the whole Group. The contracting of these instruments is centralised.

The accounting policies explained in this section as well as the Company's consolidated financial statements contain more details of these hedges.

During the year ending 31 December 2017, only material changes required by IFRS 7 – Financial instruments: Disclosures were disclosed.

2.15. Share capital

Common shares are classified as equity. The costs directly attributable to the issuance of new shares or other equity instruments are presented as a deduction, net of taxes, of the amount received resulting from the issuance.

3. Companies included in the consolidation

Not applicable.

4. Investments in other companies

4.1. Investments in subsidiaries and associates

Investments held as of 31 December 2017 and 2016 are as follows:

	Head office		Percentage held			Acquisition cost	
	City	Country	2017	2016	Main activity	2017	2016
Subsidiaries:							
Galp Energia, S.A.	Lisbon	Portugal	100%	100%	Business management and consultancy services	6,154	6,154
Galp Energia E&P, B.V.	Rotterdam	The Netherlands	100%	100%	Exploration and production of oil and natural gas. Trading of oil, natural gas and petroleum products; management of equity investments in other companies and financing businesses and companies	1,672,692	1,542,692
Galp Gas & Power,SGPS, S.A.	Lisbon	Portugal	100%	100%	Management of equity investments	161,765	161,765
Petróleos de Portugal - Petrogal, S.A.	Lisbon	Portugal	100%	100%	Refining crude oil and derivatives; transport, distribution and trading of crude oil and derivatives and natural gas; research and exploration of crude oil and natural gas; and any other industrial, commercial, research and related services.	803,556	803,556
Enerfuel S.A.	Sines	Portugal	10.56%	10.56%	Studies, projects, installation, production and commercialization of biofuels, treatment, waste recovery, purchase and sale of equipment.	95	95
						2,644,262	**2,514,262**

During the year ending 31 December 2017, the Company executed capital increases in the amount of € 130,000 k in the subsidiary Galp Energia E&P, B.V.

				31 December 2017			
		Head office		Preliminary financial information of subsidiaries			
		City	Country	Total assets	Total liabilities	Equity	Net profit
Galp Energia, S.A.		Lisbon	Portugal	52,041	49,062	2,979	271
Galp Energia E&P, B.V.	i)	Rotterdam	The Netherlands	2,585,697	1,405,564	1,180,133	219,040
Galp Gas & Power,SGPS, S.A.		Lisbon	Portugal	377,037	8,518	368,519	202,580
Petróleos de Portugal - Petrogal, S.A.		Lisbon	Portugal	4,709,195	3,744,714	964,481	203,660
Enerfuel S.A.		Sines	Portugal	16,004	12,000	4,004	1,974
				7,739,974	**5,219,858**	**2,520,116**	**627,525**

Preliminary financial statements at year end.

i) USD financial statements translated to Euro considering spot exchange rates.

During the year ending 31 December 2017 and 2016, gains and losses related to subsidiaries, affiliates and associates were as follows:

Dividends received	2017	2016
Galp Energia, S.A.	-	300
Galp Energia E&P, B.V.	62,573	54,220
Galp Gas & Power,SGPS, S.A.	332,236	155,973
Petróleos de Portugal - Petrogal, S.A.	20,571	224,985
Enerfuel S.A.	258	98
	415,638	**435,576**

4.2. Investments in affiliates

Investments in affiliates as of 31 December 2017 and 2016 were as follows:

		Head office		Percentage held		Acquisition cost	
Company		City	Country	2017	2016	2017	2016
ISPG-Instituto do Petróleo e do Gás	(a)	Lisbon	Portugal	66.67%	66.67%	200	200
Adene-Agência para a Energia, S.A.		Lisbon	Portugal	10.98%	10.98%	114	114
Omegas - Sociedade D'Etuded du Gzoduc Magreb-Europe		Tanger	Morocco	-	-	35	35
OEINERGE-Agência Municipal de Energia e Ambiente		Lisbon	Portugal	1.45%	1.45%	1	1
Galp Suazilândia		Matsapha	Swaziland	0.01%	0.01%	-	-
						350	**350**

a) ISPG is a non-profit association, established by Galp Energia, Universidade de Aveiro, Universidade de Coimbra, Universidade do Minho, Universidade Nova de Lisboa, Universidade do Porto, Instituto Superior Técnico and Faculdade de Ciências da Universidade de Lisboa. ISPG's mission is to gather and centralise knowledge and promote the development, transmission and diffusion of science and technology applied to the activities in the energy sector, especially oil and gas. The activities carried out aim at enhancing the competitiveness of the energy industries, in particular through the advanced training of relevant technical staff, a network of cooperation between enterprises, higher education institutions and other public and private R&D and industrial innovation entities.

On 29 November, 2016, Galp Energia SGPS, S.A. subscribed and paid €230 k by the participating units in ISPG (230 PU's). Additionally, in the year ending 31 December 2016 Galp Energia SGPS, S.A. sold to Petróleos de Portugal - Petrogal, S.A. 30 PU's for €30 k.

Galp Energia SGPS maintains its Founding Member status and holds 200 PU's and Petrogal joins as ISPG Associate with 30 PU's (of the total 300 which represent ISPG share capital, while the remaining are owned by the universities).

4.3. Assets available for sale

During the year ending 31 December 2017, the Company concluded the sale of the participation held in Galp Gambia, Limited, which, as of 31 December 2016 was included under this caption.

5. Operating income

The operating income of the Company for the years ending 31 December 2017 and 2016 was as follows:

Captions	2017	2016
Services rendered		
Domestic market	7,804	6,448
Foreign market	639	452
	8,443	**6,900**
Other operating income	30	-
	8,473	**6,900**

The services rendered in the amount of €8,443 k, are essentially related to management services provided to other Group companies.

The increase in service rendered, when compared with 2016, are mainly related to the adjustment in the Board of Directors costs, which led to an increase in fees, since these are determinant in the valuation of the price of the operational management activity provided to the subsidiaries.

6. Operating expenses

As of 31 December 2017 and 2016 the operating expenses are detailed as follows:

Captions	2017	2016
External supplies and services		
Other specialised services	1,738	1,406
Travel and accomodation	416	443
Insurance	240	145
Rents	126	101
Legal services	58	448
IT services	51	52
Fuel	23	23
Communication	20	78
Office supplies	18	16
Representation costs	14	12
Litigation and notaries	7	19
Maintenance and repairs	5	8
Gifts	1	3
Fees	1	19
Advertising	-	120
Other costs	126	61
	2,844	**2,954**
Employee costs:		
Remuneration of Statutory Board members (Note 29)	5,773	4,387
Remuneration of personnel	650	672
Social charges	1,027	1,020
Retirement benefits	9	13
Other insurance	84	77
Other costs	83	117
	7,626	**6,285**
Amortisation, depreciation and impairment of fixed assets:		
Depreciation and impairment of tangible assets (Note 12)	4	4
	4	**4**
Other operating costs		
Other taxes	278	207
Other operating costs	227	587
	505	**794**
	10,979	**10,037**

Other specialised services mainly include corporate services, namely accounting services, personnel management, general services, financial services and audit services, invoiced by the subsidiary Galp Energia, S.A. (Note 28).

7. Segment reporting

Not applicable.

8. Financial income and expenses

Financial income and expenses for the years ending 31 December 2017 and 2016 are detailed as follows:

Captions	2017	2016
Financial income		
Interest obtained – related parties (Note 28)	96,139	91,314
Interest obtained – other	-	1
	96,139	**91,315**
Financial expenses		
Interest incurred – related parties (Note 28)	2,555	1,988
Interest incurred – other	80,434	99,795
Commissions and other charges	848	6,613
	83,837	**108,396**

9. Income tax

The Company and some of its subsidiaries are taxed in accordance with the special regime for the taxation of groups of companies, with taxable income being determined in Galp Energia, SGPS, S.A. However, estimated income tax of the Company and its subsidiaries is recorded based on their individual tax results which, for the year ending in 31 December 2017, amounted to an account payable and receivable from these Group companies of €16,260 k and €54,723 k (Note 28), respectively.

The following matters could affect income tax payable in the future:

i) In accordance with current Portuguese legislation, corporate income tax returns are subject to review and correction by the tax authorities for a period of four years (social security can be reviewed for five years), except when there are tax losses carried forward, tax benefits have been granted or there are claims or appeals in progress where, depending on the circumstances, the period can be extended or suspended;

ii) Galp's tax returns for the years 2014 to 2017 are still subject to review. However, Galp's Board of Directors believes that any corrections arising from inspections by the tax authorities of these tax returns will not have a significant impact on the separate financial statements as of 31 December 2017 and 2016.

As of 31 December 2017 and 2016, receivable and payable income tax was as follows:

	Assets		Liabilities	
	2017	2016	2017	2016
Group companies:				
Current income tax receivable/payable (Note 28)	54,723	102,902	16,260	29,195
	54,723	**102,902**	**16,260**	**29,195**
State:				
Current income tax receivable/payable	10,874	14,060	49,851	49,827
	10,874	**14,060**	**49,851**	**49,827**
	65,597	**116,962**	**66,111**	**79,022**

The estimated income tax of the Company based on its taxable income in the fiscal year ending 31 December 2017 represents a tax payable in the amount of €2,329 k and was calculated as follows:

Captions	2017	2016
Current taxes	2,329	(4,419)
Insufficiency/(excess) of income tax estimated in previous years	253	5,351
Deferred taxes	65	159
	2,647	**1,091**

The reconciliation of the income tax for the years ending 31 December 2017 and 2016 is presented below:

	2017	Rate	Income tax	2016	Rate	Income tax
Profit before tax:	**424,535**	**21.00%**	**89,152**	**414,875**	**21.00%**	**87,123**
Adjustments to taxable income:						
Dividends received		(20.56%)	(87,284)		(22.05%)	(91,471)
Insufficiency/(excess) of income tax estimated in previous years		0.06%	253		1.29%	5,351
Autonomous taxation		0.02%	84		0.02%	64
Other increases and deductions		0.01%	442		0.01%	23
Effective tax rate and Income tax expense		**0.62%**	**2,647**		**0.26%**	**1,091**

Deferred taxes

The balance of deferred tax assets as of 31 December 2017 and 2016 was as follows:

	Assets	
	2017	2016
Other deferred taxes	180	245
	180	**245**

The movements occurred in deferred taxes for the years ending 31 December 2017 and 2016 were as follows:

		Assets
	2017	2016
Opening balance	**245**	**404**
Effect in results:		
Tax losses carried forward	-	(159)
Other	(65)	-
	(65)	(159)
Ending balance	**180**	**245**

10. Earnings per share

Earnings per share for the years ending 31 December 2017 and 2016 were as follows:

	2017	2016
Net profit		
Net profit for purposes of calculating earnings per share	421,888	413,784
Number of shares		
Weighted average number of shares for purposes of calculation of net earnings per share (Note 19)	829,250,635	829,250,635
Basic and diluted earnings per share (amounts in Euros)	**0.51**	**0.50**

As there are no situations that give rise to dilution, the diluted earnings per share are the same as the basic earnings per share.

11. Goodwill

Not applicable.

12. Tangible and intangible assets

Tangible assets are recorded in accordance with the accounting policy explained in Note 2.3. The depreciation rates being used are disclosed in the same note. In the years 2017 and 2016 tangible assets had the following changes:

Tangible assets					2017
	Basic equipment	Transport equipment	Administrative equipment	Other tangible assets	Total tangible assets
Acquisition cost:					
Acquisition cost as of 1 January	34	52	324	1,009	1,419
Acquisition cost as of 31 December	34	52	324	1,009	1,419
Accumulated depreciations and impairment losses:					
Accumulated depreciations as of 1 January	(34)	(52)	(311)	(1,009)	(1,402)
Depreciation for the year (Note 6)	-	-	(4)	-	(4)
Accumulated depreciations as of 31 December	(34)	(52)	(315)	(1,009)	(1,410)
Net amount:					
Balance as of 31 December	-	-	9	-	9

Tangible assets					2016
	Basic equipment	Transport equipment	Administrative equipment	Other tangible assets	Total tangible assets
Acquisition cost:					
Acquisition cost as of 1 January	34	52	324	1,009	1,419
Acquisition cost as of 31 December	34	52	324	1,009	1,419
Accumulated depreciations and impairment losses:					
Accumulated depreciations as of 1 January	(34)	(52)	(307)	(1,009)	(1,401)
Depreciation for the year (Note 6)	-	-	(4)	-	(4)
Accumulated depreciations as of 31 December	(34)	(52)	(311)	(1,009)	(1,405)
Net amount:					
Balance as of 31 December	-	-	13	-	13

As of 31 December 2017 and 2016 intangible assets had the following movements:

Intangible assets		2017
	Industrial property and other rights	Total intangible assets
Acquisition cost:		
Acquisition cost as of 1 January	8	8
Acquisition cost as of 31 December	8	8
Amortisation:		
Accumulated amortisation as of 1 January	(8)	(8)
Accumulated amortisation as of 31 December	(8)	(8)
Net amount:		
Balance as of 31 December	-	-

Intangible assets		2017
	Industrial property and other rights	Total intangible assets
Acquisition cost:		
Acquisition cost as of 1 January	8	8
Acquisition cost as of 31 December	8	8
Amortisation:		
Accumulated amortisation as of 1 January	(8)	(8)
Accumulated amortisation as of 31 December	(8)	(8)
Net amount:		
Balance as of 31 December	-	-

13. Government grants

Not applicable.

14. Other receivables

The non-current and current caption "Other receivables" as of 31 December 2017 and 2016 is detailed as follows:

	2017		2016	
Captions	**Current**	**Non-current**	**Current**	**Non-current**
State and other public entities:				
Value added tax	194	-	669	-
Other receivables - related parties (Note 28)	10,462	-	32,857	-
Loans to related parties (Note 28)	100,835	1,987,590	585,375	1,660,090
Advances to suppliers	2	-	-	-
Personnel	111	-	92	-
Other receivables	138	-	560	-
	111,742	**1,987,590**	**619,552**	**1,660,090**
Accrued income:				
Accrued interest (Note 28)	7,004	-	8,016	-
Other accrued income	11	-	11	-
	7,015	**-**	**8,027**	**-**
Deferred costs:				
Interest and other financial costs	1,898	-	1,978	-
Prepaid Insurance	48	-	112	-
	1,946	**-**	**2,090**	**-**
	120,703	**1,987,590**	**629,669**	**1,660,090**
Impairment of other receivables	-	-	(286)	-
	120,703	**1,987,590**	**629,384**	**1,660,090**

During the year 2017, as approved by the Executive Committee as of 28 November, the Company proceeded to write-off the debt from E3G Consortium, amounting €286 k, using the provision created for that purpose.

15. Trade receivables

As of 31 December 2017 and 2016, caption "Trade Receivables" presented balances in the amount of €1,334 k and €208 k, respectively, regarding exclusively to related parties (Note 28).

16. Inventories

Not applicable.

17. Other financial investments

Not applicable.

18. Cash and cash equivalents

Caption "Cash and cash equivalents" as of 31 December 2017 and 2016, had the following detail:

Captions	2017	2016
Cash	5	6
Bank deposits	11,206	8,876
Cash and cash equivalents in the statement of financial position	**11,211**	**8,882**
Bank overdrafts (Note 22)	(2,887)	(6,636)
Cash and cash equivalents in the statement of cash flows	**8,324**	**2,246**

19. Share capital

Capital structure

The share capital of Galp is comprised of 829,250,635 shares with nominal value of 1 Euro each and fully subscribed. Of these, 771,171,121 (93% of the share capital), are traded in the Euronext Lisbon stock exchange. The remaining 58,079,514 shares, representing some 7% of the share capital, are indirectly held by the Portuguese State through Parpública – Participações Públicas, SGPS, S.A. (Parpública) and are not available for trade.

The Company's shareholder structure as of 31 December 2017 and 31 December 2016 was held as follows:

			2017
	Nr. of shares	% of capital held	% of voting rights
Amorim Energia, B.V.	276,472,161	33.34%	33.34%
Parpública - Participações Públicas, SGPS, S.A.	62,021,340	7.48%	7.48%
Free float	490,757,134	59.18%	59.18%
Total	**829,250,635**	**100.00%**	-

			2016
	Nr. of shares	% of capital held	% of voting rights
Amorim Energia, B.V.	276,472,161	33.34%	33.34%
Parpública - Participações Públicas, SGPS, S.A.	58,079,514	7.00%	7.00%
Free float	494,698,960	59.66%	59.66%
Total	**829,250,635**	**100.00%**	-

20. Other reserves

In accordance with the Company deeds and Commercial Law ("Código das Sociedades Comerciais - CSC"), the Company must transfer a minimum of 5% of its annual net profit to a legal reserve until the reserve reaches 20% of share capital. The legal reserve cannot be distributed to the shareholders but may, in certain circumstances, be used to increase capital or to absorb losses after all the other reserves have been utilised.

As of 31 December 2017 and 2016, Other reserves details as follows:

	2017	2016
Legal reserve	165,850	165,850
Free distribution reserve	27,977	27,977
	193,827	**193,827**

On 31 December 2017 and 2016, the legal reserve is fully provided for in accordance with the commercial legislation.

21. Non-controlling interests

Not applicable.

22. Loans

Detail of loans

Loans obtained as of 31 December 2017 and 2016 were as follows:

	2017		2016	
	Current	Non-current	Current	Non-current
Bank loans:				
Commercial paper issuance	-	490,000	-	490,000
Foreign loans - EIB	55,375	199,014	135,101	254,390
Bank overdrafts (Note 18)	2,887	-	6,636	-
	58,262	689,014	141,737	744,390
Origination fees	(930)	(577)	(880)	(962)
	57,332	**688,437**	**140,857**	**743,427**
Notes and Bonds:				
Bonds	395,000	100,000	22,500	670,000
Notes	-	1,500,000	-	1,000,000
	395,000	1,600,000	22,500	1,670,000
Origination fees	(3,062)	(5,132)	(4,361)	(4,344)
	391,938	**1,594,868**	**18,139**	**1,665,656**
	449,270	**2,283,305**	**158,996**	**2,409,083**

Description of the main loans

Commercial paper issuance

On 31 December 2017, the Company has contracted commercial paper programmes which are fully underwritten, amounting to €940,000 k, which are divided into €490,000 k medium and long-term and €450,000 k short-term. Of this amount, the Group has used €490,000 k of the medium and long-term program.

These instruments bear interests at a Euribor rate for the respective period of issuance, plus variable spreads defined in the contractual terms of the commercial paper programmes subscribed by the Company. The specified interest rates are applicable to the amount of each issuance and remains unchanged during the respective period of the issue.

Revolving credit facility

As of 31 December 2017, Galp has contracted Revolving Credit Facilities, with an underwriting commitment totalling €300,000 k and with approximately 1.5 years of maturity. This amount was fully available, but not used, as of 31 December 2017.

Bank loans

As of 31 December 2017, loans obtained from the European Investment Bank (EIB) have the following detail:

Entity	Amount due	Interest rate	Maturity	Reimbursement
EIB (Instalment A - Sines cogeneration)	15,826	Fixed rate	September 2021	Semi-annual installments beginning in March 2010
EIB (Instalment B - Sines cogeneration)	8,563	Fixed rate	March 2022	Semi-annual installments beginning in September 2010
EIB (Instalment A - Refinery conversion)	138,000	Revisable fixed rate	February 2025	Semi-annual installments beginning in August 2012
EIB (Instalment B- Refinery conversion)	92,000	Fixed rate	February 2025	Semi-annual installments beginning in August 2012
Total	**254,389**			

Loans contracted with the EIB, for the purpose of financing the cogeneration projects in the Sines and Oporto refineries and Instalment A for the conversion project of the Sines and Oporto refineries, are guaranteed by guarantee contracts signed by Petróleos de Portugal - Petrogal, S.A.

The remaining loan with the EIB, in the amount of €92,000 k, is guaranteed by a bank syndicate.

Bonds

Detailed information for bonds as of 31 December 2017:

Issue	Amount due	Interest rate	Maturity	Reimbursement
GALP ENERGIA/2012-2018 FRN	260,000	3m Euribor + spread	February 2018	February 2018
GALP ENERGIA/2013 - 2018	110,000	3m Euribor + spread	March 2018	March 2018
GALP ENERGIA/2013-2018 €200 M.	25,000	6m Euribor + spread	April 2018	April 2018
GALP ENERGIA/2012-2020	100,000	6m Euribor + spread	June 2010	June 2020
Total	**495,000**			

Notes issuance

Galp established, under its financing plan, an Euro Medium Term Note Programme (€5,000,000,000).

On 15 November 2017, Galp issued notes under the EMTN Program in the amount of €500,000 k, reaching maturity on 15 February 2023 and a 1% coupon, which are admitted to trading on the London Stock Exchange.

BNP Paribas, Caixa BI, Deutsche Bank, Société Générale CIB (B&D) and UniCredit acted as joint-bookrunners in this transaction.

As of 31 December 2017, the issuances are detailed as follows:

(k€)

Issue	Amount due	Interest Rate	Maturity	Reimbursement
Galp 4,125% 01.2019	500,000	Fixed rate 4.125%	January 2019	January 2019
Galp 3,000% 01.2021	500,000	Fixed rate 3.000%	January 2021	January 2021
Galp 1,000% 02.2023	500,000	Fixed rate 1.000%	February 2023	February 2023
	1,500,000			

23. Post employment and other employee liabilities

Not applicable.

24. Other payables

The caption "Other payables" as of 31 December 2017 and 2016, has the following detail:

		2017		2016
Captions	Current	Non-current	Current	Non-current
State and other public entities:				
Personnel and corporate income tax withheld	239	-	158	-
Social security contributions	121	-	117	-
Loans – related parties (Note 28)	198,543	-	451,044	-
Trade receivables credit balances	-	-	2,208	-
Personnel	52	-	52	-
Other creditors	12	-	18	-
	198,967	**-**	**453,597**	**-**
Accrued costs:				
External supplies and services	7	-	13	-
Accrued interest	40,278	-	41,730	-
Holiday pay, holiday subsidy and corresponding contributions	634	-	633	-
Productivity bonus	1,085	-	1,078	-
Medium and long term incentives	-	2,142	-	3,000
Financial costs	64	-	65	-
Other accrued costs	-	-	-	-
	42,068	**2,142**	**43,519**	**3,000**
	241,035	**2,142**	**497,115**	**3,000**

25. Provisions

Not applicable.

26. Trade payables

As of 31 December 2017 and 2016, caption "Trade payables" had the following detail:

Captions	2017	2016
Trade payables – current account	261	2,309
Trade payables – pending invoices	174	164
	435	**2,473**

27. Other financial instruments – derivatives

Not applicable.

28. Related parties

Balances and transactions with related parties in the years ending 31 December 2017 and 2016 were as follows:

Receivables

							2017
		Non-current	Current				
Company	Total related parties	Loans granted (Note 14)	Trade Receivables (Note 15)	Loans granted (Note 14)	Other receivables (Note 14)	Current income tax receivable (Note 9)	Accruals and deferrals (Note 14)
Subsidiaries	2,157,426	1,987,500	1,326	100,835	10,450	50,311	7,004
Associates and Joint ventures	4,432	-	8	-	12	4,412	-
Other related entities	90	90	-	-	-	-	-
	2,161,948	**1,987,590**	**1,334**	**100,835**	**10,462**	**54,723**	**7,004**

The amounts of €1.987.590 k and €100.835 k registered under "Loans granted", current and non-current, refer to the following contracts:

		Amount due			
Contract	Company	Non current	Current	Interest rate	Reimbursement
3500010000	ADENE - Agência para a Energia	90		Non remunerated	2022
3500140003	Petróleos de Portugal - Petrogal, S.A.		30,000	Fixed rate	2018
3500140003	Petróleos de Portugal - Petrogal, S.A.	30,000		Fixed rate	2019
3500140003	Petróleos de Portugal - Petrogal, S.A.	24,000		Fixed rate	2020
3500140003	Petróleos de Portugal - Petrogal, S.A.	15,000		Fixed rate	2021
3500140003	Petróleos de Portugal - Petrogal, S.A.	12,000		Fixed rate	2022
3500140003	Petróleos de Portugal - Petrogal, S.A.	12,000		Fixed rate	2023
3500140003	Petróleos de Portugal - Petrogal, S.A.	12,000		Fixed rate	2024
3500140003	Petróleos de Portugal - Petrogal, S.A.	3,000		Fixed rate	2025
3500140004	Petróleos de Portugal - Petrogal, S.A.		20,000	Fixed rate	2018
3500140004	Petróleos de Portugal - Petrogal, S.A.	20,000		Fixed rate	2019
3500140004	Petróleos de Portugal - Petrogal, S.A.	16,000		Fixed rate	2020
3500140004	Petróleos de Portugal - Petrogal, S.A.	10,000		Fixed rate	2021
3500140004	Petróleos de Portugal - Petrogal, S.A.	8,000		Fixed rate	2022
3500140004	Petróleos de Portugal - Petrogal, S.A.	8,000		Fixed rate	2023
3500140004	Petróleos de Portugal - Petrogal, S.A.	8,000		Fixed rate	2024
3500140004	Petróleos de Portugal - Petrogal, S.A.	2,000		Fixed rate	2025
3500140009	Petróleos de Portugal - Petrogal, S.A.	477,500		6m Euribor + spread	2020
3500140010	Petróleos de Portugal - Petrogal, S.A.	25,000		6m Euribor + spread	2024
3500140011	Petróleos de Portugal - Petrogal, S.A.	1,305,000		6m Euribor + spread	2026
Cash pooling	Galp Power, S.A.		23,818	Market rate	2018
Cash pooling	Galp Exploração e Produção Petrolífera, S.A.		23,373	Market rate	2018
Cash pooling	Galp Marketing International, S.A.		2,135	Market rate	2018
Cash pooling	Transgás, S.A.		919	Market rate	2018
Cash pooling	GDP - Gás de Portugal, S.A.		447	Market rate	2018
Cash pooling	Galp Exploração e Produção (Timor-Leste), S.A.		108	Market rate	2018
Cash pooling	Galp Gas & Power, SGPS, SA		35	Market rate	2018
		1,987,590	**100,835**		

The amount of €7,004 k recorded in accruals and deferrals, in current assets, refers to accrued interest on loans granted, on 31 December 2017, to other Group companies.

Receivables

							2016
		Non-current	Current				
Company	Total related parties	Loans granted (Note 14)	Trade receivables (Note 15)	Loans granted (Note 14)	Other receivables (Note 14)	Current income tax receivables (Note 9)	Accruals and deferrals (Note 14)
Subsidiaries	2,373,088	1,660,000	118	585,375	32,845	86,734	8,016
Associates and joint ventures	16,270	-	90	-	12	16,168	-
Outras empresas	90	90	-	-	-	-	-
	2,389,448	**1,660,090**	**208**	**585,375**	**32,857**	**102,902**	**8,016**

The amount of € 1,660,090 k recorded in non-current loans granted, essentially respects to shareholder loans granted to related parties which bear market interests rates and do not have a defined repayment plan. According to the Board of Directors' expectations, the loans will not be received in the short term.

From the amount of €585,375 k recorded in current loans granted, €557,500 k are related to loans granted to the subsidiary Petrogal, S.A. with expectation of reimbursement in 2017 and €27,875 k respect to cash pooling receivable from Group companies.

The amount of €8,016 k recorded in accruals and deferrals, in current assets, refers to accrued interest on loans granted, on 31 December 2016, to other Group companies.

Payables

					2017
		Current			
Company	Total related parties	Trade payables	Loans obtained (Note 24)	Current income tax payable (Note 9)	Accruals and deferrals
Subsidiaries	214,890	223	198,543	16,117	7
Associates and joint ventures	143	-	-	143	-
	215,033	**223**	**198,543**	**16,260**	**7**

The amount of €198,543 k recorded as current loans obtained respects to "cash pooling" obtained from the following companies:

Company	Amount due	Interest Rate
Petróleos de Portugal - Petrogal, S.A.	97,829	Market rate
Galp Gás Natural, S.A.	67,031	Market rate
Sacor Marítima, S.A.	7,125	Market rate
Portcogeração, S.A.	5,885	Market rate
Setgás Comercialização, S.A.	3,534	Market rate
Tanquisado - Terminais Marítimos, S.A.	2,418	Market rate
Lusitaniagás Comercialização, S.A.	2,222	Market rate
C.L.T. - Companhia Logística de Terminais Marítimos, S.A.	2,040	Market rate
Galpgeste - Gestão de Áreas de Serviço, S.A.	1,992	Market rate
Enerfuel S.A.	1,969	Market rate
Lisboagás Comercialização, S.A.	1,813	Market rate
Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A.	1,691	Market rate
Galp Madeira - Distrib. e Comercializ. de Combustíveis e Lubrificantes, S.A.	1,311	Market rate
Galp Açores - Distrib. e Comercialização de Combustíveis e Lubrificantes, S.A.	892	Market rate
Galp Energia, S.A.	663	Market rate
Agroger - Sociedade de Cogeração do Oeste, S.A.	111	Market rate
Galp Alentejo E&P, S.A.	17	Market rate
	198,543	

The amount of €16,260 k recorded in current income tax payable, relates to income tax payable to group companies under the special taxation regime for groups of companies (Note 9).

Payables

					2016
		Current			
Company	Total related parties	Trade payables	Loans obtained (Note 24)	Current income tax payable (Note 9)	Accruals and deferrals
Subsidiaries	480,511	289	451,044	29,161	17
Associates and joint ventures	34	-	-	34	-
	480,545	**289**	**451,044**	**29,195**	**17**

The amount of €451,044 k recorded as current loans obtained includes €336,544 k from cash pooling payable to Group companies, and €114,500 related with loans obtained from Galp Energia E&P, B.V.

The amount of €29,195 k recorded in current income tax payable, relates to income tax payable to Group companies under the special taxation regime for groups of companies (Note 9).

Transactions

					2017
Company	Operating expenses	Allocated personnel costs	Operating income (Note 5)	Financial expenses (Note 8)	Financial income (Note 8)
Subsidiaries	1,248	650	(8,443)	2,555	(96,139)
Other related entities	200	-	-	-	-
	1,448	**650**	**(8,443)**	**2,555**	**(96,139)**

The amount of €1,448 k recorded as operating expenses, includes the amount of €200 k related with the Board of Directors costs charged by the shareholder Amorim Energia BV, and the amount of €1,218 k related with services rendered by the subsidiary Galp Energia, S.A., namely, consulting services and management support in the areas of accounting, treasury, financial management, administrative and logistics, purchasing and procurement, fixed assets, auditing, information systems, human resources and training.

The amount of €8,443 k recorded as operating income relates to management services provided to Group companies.

Transactions

					2016
Company	Operating expenses	Allocated personnel costs	Operating income (Note 5)	Financial expenses (Note 8)	Financial income (Note 8)
Subsidiaries	1,332	671	(6,900)	1,988	(91,314)
Associates and joint ventures	-	-	-	-	-
Other related entities	168		-	-	-
	1,500	**671**	**(6,900)**	**1,988**	**(91,314)**

The amount of €1,500 k recorded as operating expenses, includes the amount of €168 k related with the Board of Directors costs charged by the shareholder Amorim Energia BV, and the amount of €1,306 k related with services rendered by the subsidiary Galp Energia, S.A., namely, consulting services and management support in the areas of accounting, treasury, financial management, administrative and logistics, purchasing and procurement, fixed assets, auditing, information systems, human resources and training.

The amount of €6,900 k recorded as operating income relates to management services provided to Group companies.

29. Remuneration of the board

The remuneration of the board members of Galp Energia SGPS, SA for the years ending 31 December 2017 and 2016 is detailed as follows:

(€k)

2017	Salary	Pension plans	Allowances for rent and travels	Bonuses	Other charges and adjustments	Total
Corporate Boards of Galp Energia, SGPS, S.A.						
Executive management	3,567	982	276	449	28	5,302
Non-executive management	575	-	-	-	-	575
Supervisory Board	92	-	-	-	-	92
General Assembly	4	-	-	-	-	4
	4,238	**982**	**276**	**449**	**28**	**5,973**

(€k)

2016	Salary	Bonuses	Pension plans	Allowances for rent and travels	Bonuses	Other charges and adjustments	Total
Corporate Boards of Galp Energia, SGPS, S.A.							
Executive management	3,518	-	762	277	(836)	(69)	3,652
Non-executive management	546	-	-	-	-	-	546
Supervisory Board	92	-	-	-	-	-	92
General Assembly	4	-	-	-	-	-	4
	4,160	**-**	**762**	**277**	**(836)**	**(69)**	**4,294**

The amounts of €5,973 k and €4,294 k, recorded in the years ending 31 December 2017 and 2016, respectively, include €5,773 k and €4,387 k recorded as "Employee costs" (Note 6), and €200 k and (€ 93) k recorded as "External supplies and services".

In accordance with the current policy, remuneration of Galp Corporate Board members includes all the remuneration due for the positions occupied in Galp Group companies and all accrued amounts related to the current period.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or non-executive) of the entity. According to Galp Energia's interpretation of this standard only the members of the Board of Directors meet these characteristics.

30. Dividends

In accordance with the deliberation of the General Meeting of Shareholders held on 12 May 2017, dividends amounting to €412,688k relating to the distribution of net result for the year 2016 were paid, which corresponds to a dividend of €0.497664 per share. Of this amount €206,344 k were paid to shareholders in September 2016.

Additionally the Board of Directors approved the payment of interim dividends amounting to €207,313 k, which were fully paid on 21 September 2017.

31. Oil and gas reserves

Not applicable.

32. Financial risk management

Risk management

Galp is exposed to several types of risks, market (interest rate), liquidity and credit risks, inherent to its activity, which affect its results.

Market risks

Interest rate risk

The total interest rate position is managed centrally. Interest rate exposure relates mainly to bank loans. Exposure to interest rate is mostly related with interest bearing bank debt. The goal of managing interest rate risk is to reduce the volatility of financial costs in the income statement. The interest rate risk management policy is aimed at reducing exposure to variable rates fixing interest rate risk on loans, using simple derivatives such as swaps.

Liquidity risk

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

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

Credit risk

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

Impairment of receivables is explained in Notes 14 and 15.

33. Contingent assets and contingent liabilities

Pledged guarantees

As of 31 December 2017, responsibilities with pledged guarantees amounted to €37,811 k and include essentially the following:

- Guarantees of €35,686 k in benefit of the tax administration;
- Guarantees of €2 k in benefit of the Lisbon Port Authority;
- Guarantees of €1,650 k in benefit of REN – Rede Eléctrica Nacional, S.A.;
- Guarantees of €473 k in benefit of Costumes authorities.

As of 31 December 2017, there were standby letters of unused import credits totalling USD 12,770 k related to insurance premiums.

34. Information regarding environmental matters

Not applicable.

35. Subsequent events

Not applicable.

36. Financial statements approval

The financial statements were approved by the Board of Directors on 13 April 2018.

The Accoutant

Carlos Alberto Nunes Barata

The Board of Directors

Chairman:
Paula Amorim

Vice-Chairmen:
Miguel Athayde Marque
Carlos Gomes da Silva

Members:
Filipe Crisóstomo Silva
Thore E. Kristiansen
Sérgio Gabrielli de Azevedo
Abdul Magid Osman
Marta Amorim
Raquel Vunge
Carlos Costa Pina
Francisco Rêgo
Jorge Seabra de Freitas
José Carlos Silva
Pedro Ricardo
Tiago Câmara Pestana
Rui Paulo Gonçalves
Luís Todo Bom
Diogo Tavares
Joaquim Borges Gouveia

37. Explanation added for translation

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

PART II

Statutory audit report and auditors' report

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Galp Energia S.G.P.S., S.A. (the Entity), which comprise the statement of financial position as at December 31, 2017 (which shows total assets of Euro 4,831,236 thousand and total shareholders' equity of Euro 1,788,938 thousand including a net profit of Euro 421,888 thousand), the statement of income, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Galp Energia S.G.P.S., S.A. as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

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

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

Key audit matters

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

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Matriculada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20171485

Key Audit Matter	*Summary of the Audit Approach*
Valuation of financial investments *Disclosures related to financial investments are presented in the notes 2 and 4 of the financial statements.* As at December 31, 2017, Galp Energia, SGPS, SA holds financial investments in subsidiaries and associates in the amount of Euro 2,644,262 thousand, which are valued at acquisition cost, deducted of impairment losses, when applicable. These financial investments are subject to impairment testing whenever there are indicators or changes in the underlying circumstances which indicate that the carrying value may not be recoverable. For that purpose, the recoverable amount is determined by the value in use, in accordance with the discounted cash flows method. The relevance of this matter in our audit is related to the significance of the amount and level of judgement involved in the impairment model. The calculation of the recoverable amount requires the use of estimates and assumptions by the management, which depend on economic and market estimates, namely those related to future cash-flows, growth rates for the perpetuity and discount rates used. As a result of the impairment testes performed by the management, no impairment losses were noted on the financial investments held by Galp Energia, S.G.P.S., S.A.	To assure the accurate valuation of the financial investments the following audit procedures were performed: - evaluation of impairment indicators in the financial investments; and - obtaining and analysing the impairment testing on financial investments, when applicable. The analysis of the impairment testing, based on discounted cash flows models, considers the following procedures: - verifying the mathematical accuracy of the model; - assessing the reasonableness of the future cash flows projections, from the comparison with historical performance; - evaluating the accuracy of the discount rate considered; and - evaluating the estimates and judgments assumed by the management, underlying the relevant assumptions supporting the model. Additionally, we have verified the accuracy of the disclosures presented in note 4 of the financial statements, considering the requirements of the applicable accounting standard.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Entity in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report, including the Corporate governance Report, in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Entity's financial information.

Auditor's responsibilities for the audit of the financial statements

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

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

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

g) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

h) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

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

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our opinion that the Director's report including the information related to management, sustainability and governance (hereinafter referred as Integrated Report) has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Integrated report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Entity, no material misstatements were identified. As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the non-financial information included in the Integrated report.

Non-financial information set forth in article No. 66-B of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the entity included in its Integrated report the non-financial information set forth in article No. 66-B of the Portuguese Company Law.

Corporate governance report

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

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

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

a) We were first appointed auditors of the Entity in the Shareholders' General Meeting of April 16, 2015 for the period from 2015 to 2018.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. We have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Entity's supervisory board as of April 16, 2018.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Entity in conducting our audit.

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

Other assurance services

- Limited review on the interim financial statements;
- Agreed upon procedures report on financial ratios;
- Certification of the annual declaration of assets under the scope of the Oil Insurance Policy;
- Reports on regulated accounts ("ERSE"; "ASECE"; "TOS"; Purchases of natural gas);
- Reports on Successive Revaluations ("ERSE");
- Verification of sustainability information (Sustainability Report and Databooks);
- Issuance of comfort letter regarding debt issuance;
- Verification of the Man Power rate; and
- Verification of the *Replacement Cost* performance measure.

Other non-assurance services

- Consulting over the information to be provided for the Dow Jones Sustainability Index.

April 16, 2018

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

António Joaquim Brochado Correia, R.O.C.

PART III

Audit Board's reports and opinion

Dear shareholders,

According to the Legislation in force and the Company's By-laws, and under our mandate, we hereby present our opinion on the management Integrated Annual Report (including the Corporate Governance reporting), the individual and consolidated financial statements and the proposed allocation of net profit presented by the Board of Directors of Galp Energia SGPS, S.A., with regards to the year ending 31 December 2017.

We have met several times with the statutory auditor/external auditor, monitoring the performance of their role.

We have monitored the process of preparation and disclosure of financial statements, as well as the legal certification of the accounts.

We have verified and supervised the independence of the statutory auditor/external auditor, in compliance with the applicable law, mainly verifying the adequacy and approving the providing of other services than auditing.

We have reviewed the legal certification of the accounts and the audit report of the individual and consolidated accounts regarding the year of 2017, which deserve our agreement.

Under the terms and for the purposes of article 245, first paragraph c) of the Portuguese Securities Code, each of the below indicated members of the Audit Board declares that, to the extent of his/her knowledge, the management report, the financial statements, the legal certification of the accounts and further accounting documents were prepared in compliance with the applicable accounting rules and gives a true and fair view of the assets, liabilities, financial position and profit or loss of Galp and the companies included in the consolidation perimeter, and the management report includes a fair view of the development of the business and the performance and position of Galp and the companies included in the consolidation perimeter, and includes on description of the main risks and uncertainties faced by Galp and the companies included in the consolidation perimeter in their operations.

Under the scope of our mandate, we have verified and we hereby declare also to the extent of our knowledge that:

a) the accounting principles and the metrical criteria used follow the IFRS, as adopted by the EU, and are adequate as to guarantee an appropriate representation of both the Company's and the other companies' included in the consolidation perimeter assets and results;

b) the corporate governance chapter of the management report regarding the year of 2017 includes all the information required by article 245-A of the Portuguese Securities Code.

Accordingly, taking into consideration the information received from the Board of Directors and other Company departments, as well as the conclusions set out in the legal certification of the accounts and the audit report about the individual and consolidated financial statements, we express our agreement to the management report, to the individual and consolidated financial statements and to the proposal of application of net profit for the financial year 2017, so we are of the opinion that those documents should be approved by the General Shareholders Meeting.

Lastly, the Audit Board wishes to express its gratitude to the Board of Directors and to the Executive Committee of Galp Energia, SGPS, S.A., whose cooperation greatly simplified, at all times, the exercise of the Audit Board duties.

Lisbon, 16 April, 2018

Chairman
Daniel Bessa Fernandes Coelho

Member
Gracinda Augusta Figueiras Raposo

Member
Pedro Antunes de Almeida

Annual activity report of the Audit Board for the financial year 2017

In accordance with paragraph 1 g) of article 420 of the Portuguese Commercial Companies Code (CSC) and of paragraph 1 g) of article 8 of the regulations of the Audit Board of Galp Energia, SGPS, S.A. (hereinafter referred to as Galp or Company), the Board hereby presents its report on the supervisory activities performed during 2017.

I. Introduction

According to the corporate governance model implemented by Galp, which consists in the Latin model set out in paragraph 1 a) of article 278 and paragraph 1 b) of article 413, both from the Companies Code, the Audit Board is responsible for supervising the Company's activities.

The Audit Board in office was elected at the general shareholders' meeting held on April 16, 2015, for the 2015-2018 term of office, and comprises three members, two of whom are independent in accordance with the criteria set out in paragraph 5 of article 414 of the CSC.

All members of the Audit Board meet the compatibility criteria for the performance of their duties as laid down in paragraph 1 of article 414-A of the CSC.

The main duties of the Audit Board stemming from applicable legislation and the respective regulation, refer to the following key areas:

a) permanently monitoring the Company's activities, monitoring compliance with the law and articles of association, and overseeing the Company's management;

b) monitoring compliance with accounting policies and practices, as well as the preparation and disclosure of financial information, and supervising the audit of the accounts included in the Company's accounting documents;

c) monitoring the effectiveness of the risk-management and internal-control systems, annually assessing with the Executive Committee the internal-control and audit procedures and any issues raised about the accounting practices adopted by the Company, addressing to that Committee such recommendations as it may deem fit;

d) overseeing the adoption by the Company of the principles and policies for the identification and management of the key risks of a financial and operational nature related to the Company's business, and monitoring and performing adequate and timely control and disclosure of such risks;

e) receiving reports of irregularities made by shareholders, Company employees or others;

f) proposing to the general shareholders' meeting the appointment of the Statutory Auditor or the statutory auditing company;

g) monitoring the independence of the External Auditor, notably as regards the provision of additional services;

h) appointing or dismissing the Company's External Auditor and assessing its activity each year through a critical appraisal of the reports and documentation that it draws up in the performance of its duties.

II. Activity performed by the Audit Board concerning the financial year 2017

During 2017 the Audit Board held 15 (fifteen) meetings and implemented several measures within the scope of its duties, of which the following are highlighted:

1. Permanently monitoring the Company's activity, monitoring compliance with the law and articles of association, and overseeing the Company's management

Ongoing monitoring of the Company during 2017 was undertaken, in particular, through meetings with the heads of Galp's corporate centre, most regularly the Internal Audit Department, the Risk Management Department and the Legal & Governance Department.

The Audit Board met regularly with the Statutory Auditor/External Auditor and the head of Accounts department, and met with the Chairman of the Board of Directors and the Executive Director responsible for finance.

Moreover, members of the Audit Board attended the meetings of the Board of Directors at which the quarterly, half-yearly and annual accounts were approved, along with the annual plan and budget.

During 2017, the Audit Board also monitored the functioning of Galp's corporate governance system and its compliance with legal requirements, regulations and by-laws, and monitored legislative and regulatory developments in the field of corporate governance, having also monitored the process of the Company´s corporate governance improvement.

Also within the context of monitoring corporate governance matters, the Audit Board reviewed the Corporate Governance Report for 2017, and confirmed that the report includes the information required by article 245-A of the Portuguese

Securities Code (CVM) and by Portuguese Securities Market Commission (CMVM) regulation no. 4/2013.

2. Monitoring compliance with the accounting policies and practices and with the process of preparation and disclosure of financial information and of the legal audit of the accounts

The Audit Board monitored the accounting policies, criteria and practices and the reliability of the financial information through the information received from the Accounts Department and the reports of the Statutory Auditor/External Auditor, and through an appraisal of the findings of the audits and of the procedure evaluations performed during the year by the Statutory Auditor/External Auditor.

The Audit Board reviewed the documents relating to the 2017 audit and legal certification of the accounts, having issued a favourable opinion thereupon.

Access to the financial information by the Audit Board was conducted on a regular and adequate basis, and there were no constraints on its duties.

3. Monitoring and overseeing the effectiveness of the internal-control and risk-management systems, and annual review of the working of the systems and internal procedures

During 2017, the Audit Board performed several actions directed at monitoring, supervising and evaluating the working and adequacy of Galp's internal-control, risk-management and internal-audit systems, either through the reporting of information by the Internal Audit and Risk Management department or through the report on internal control issued by the External Auditor.

Within the scope of its supervisory duties, the Audit Board was also charged with supervising the implementation by the Company of principles and policies for the identification and management of key financial and operational risks associated with Galp's business, having supervised the measures to monitor, control and disclose the risks.

The Audit Board's understanding is that the Executive Committee and the Board of Directors have attributed increasing importance to the development and improvement of the risk-management, internal-control and internal-audit systems, in line with CMVM recommendations in relation to the Corporate Governance Code.

4. Supervision of the activity of the Internal Audit Department

During 2017, the Audit Board supervised the activity of the Internal Audit Department, which reports officially to this Board, through monthly monitoring of the implementation of the respective annual plan of audit activities approved by the Audit Board and of the information on resource allocation, having received from that department periodic reports on the audits.

Evaluation of the proper working of the risk-management and internal-control systems, and assessment of the effectiveness and efficiency of the implementation of controls and mitigation systems were performed by the Internal Audit department, independently and systematically, having regularly informed and drawn the attention of the Audit Board to the most significant comments and recommendations, detailing opportunities for improvement and corrective measures.

The Audit Board also considers that, in implementing the Internal Audit department plan of activities, the assessment of the internal control systems and of compliance with established procedures, as well as the use of the resources allocated, were performed efficiently.

5. Annual assessment of the activity of the Company's External Auditor

The Audit Board performed its duties as the Company's interlocutor with the External Auditor and as the first recipient of the information it draws up, having provided the External Auditor with the information and other appropriate conditions required for the effective performance of its activity.

During 2017, the Audit Board assessed the activity of the External Auditor, having monitored its activity on a regular basis, in particular through critical appraisal of the reports and documentation that it produced in the performance of its duties.

In its annual assessment, the Audit Board considers that the External Auditor provided its services in a satisfactory manner in accordance with the defined work plan, having complied with the applicable rules and regulations, displayed technical rigour in its activities, quality in its conclusions – particularly with regard to the legal certification of the accounts – timeliness and efficiency in the recommendations presented and competence in its procedures.

Within the scope of its verification of compliance by the External Auditor with the rules of independence, the Audit Board monitored, during 2017, the provision of services other than audit services, which depends on a prior appraisal by the Audit Board, having confirmed the safeguarding of the independence of the External Auditor. The Audit Board notes that the value of services other than auditing corresponds to 16.3% of the total services provided by the External Auditor, thus complying with recommendation IV.2 of the CMVM Corporate Governance Code approved in 2013. On the other hand, non-audit services provided by the External Auditor did not exceed 70% of the total value of the fees paid in the last three financial years for the legal certification of Galp Group's accounts, complying with the limits imposed by Regulation (EU) No 537/2014 and Statute of the Order of Statutory Auditors.

With a view to selecting the Statutory Auditor and External Auditor to propose to the General Shareholders' Meeting for the new term to begin in 2019, the Audit Board monitored the market consultation process organized by Galp Energia, SA, namely by the Accounting and Procurement departments, having approved the rules of the respective process, defined the criteria and the selection process.

6. Company business with related parties

During 2017 there were no related-party transactions subject to the prior opinion of the Audit Board under "Regulation applicable to related-party transactions by the Galp Group".

7. Reporting irregularities

In accordance with best corporate governance practices and applicable market rules, as well as in line with the principles of fairness, correctness, honesty, transparency and integrity on the basis of which Galp conducts its business, the Galp Irregularity Reporting - Ethics Line Procedure, available on its website and intranet, governs the mechanism for reporting to the body responsible, the Audit Board, through Galp's Committee of Ethics and Conduct, alleged irregularities or breaches of the Code of Ethics or the rules that develop it or that deal with the matters listed in it, in the fields of accounting, internal accounting controls, auditing, fight against corruption and banking and financial crime occurring at Galp Group companies.

In the course of 2017, Galp's Committee of Ethics and Conduct held periodic meetings with the Audit Board to report communications received and assessment on the respective forwarding.

In fulfillment of the reporting obligation provided for in point eight of Galp's Committee of Ethics and Conduct Regulations, this Committee presented to the Audit Board the annual report on the communications received in 2017, the procedures adopted and the actions/measures proposed.

Lastly, the Audit Board would like to express its thanks to the Board of Directors and to the Executive Committee of Galp for the co-operation provided in the performance of their duties.

Lisbon, 16 April, 2018

Chairman

Daniel Bessa

Member

Gracinda Raposo

Member

Pedro Antunes de Almeida

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