

## OFFERING CIRCULAR



### **Galp Gás Natural Distribuição, S.A.**

*(incorporated with limited liability in Portugal)*

**EUR1,000,000,000**

#### **Euro Medium Term Note Programme**

Under this EUR1,000,000,000 Euro Medium Term Note Programme (the **Programme**), Galp Gás Natural Distribuição, S.A. (the **Issuer**) may from time to time issue notes (the **Notes**) denominated in any currency (as can be settled through Interbolsa from time to time) agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed EUR1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors".**

Application has been made to the Financial Conduct Authority in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended (the **UK Listing Authority**) for Notes issued under the Programme during the period of twelve months from the date of this Offering Circular to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Notes to be admitted to trading on the London Stock Exchange's regulated market. References in this Offering Circular to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2004/39/EC, as amended).

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the **Final Terms**) which will be delivered to the UK Listing Authority and the London Stock Exchange. A copy of the relevant Final Terms will also be published on the website of the London Stock Exchange through a regulatory information service. Any websites referred to herein do not form part of this Offering Circular.

The Issuer is rated BBB- and the Notes to be issued under the Programme are expected to be rated BBB- by Standard & Poor's Credit Market Services France SAS (**Standard & Poor's**), in each case on a preliminary basis and subject to (amongst other things) the receipt by Standard & Poor's of final documentation and the successful completion of the Minority Transaction (as defined and further described under "*Description of the Issuer - Ownership*" below). If any of those conditions are not met to the satisfaction of Standard & Poor's within a reasonable time frame, it reserves the right to withdraw or revise its rating. Standard and Poor's is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is rated, such rating will be disclosed in the Final Terms and will not necessarily be the same as the rating assigned to the Programme by Standard and Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction.

**Arranger**

**BofA Merrill Lynch**

**Dealers**

**Banco Santander Totta, S.A.**

**J.P. Morgan**

**BofA Merrill Lynch**

The date of this Offering Circular is 25 August 2016.

## IMPORTANT INFORMATION

This Offering Circular comprises a base prospectus in respect of all Notes issued under the Programme for the purposes of Article 5.4 of the Prospectus Directive. When used in this Offering Circular, **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in a relevant Member State of the European Economic Area.

The Issuer accepts responsibility for the information contained in this Offering Circular and the Final Terms for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular is to be read in conjunction with any supplement thereto, if any. This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the Programme.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Dealers to any person to subscribe for or to purchase any Notes.

The information contained in this Offering Circular is given as of the date hereof. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

## **IMPORTANT INFORMATION RELATING TO THE USE OF THIS OFFERING CIRCULAR AND OFFERS OF NOTES GENERALLY**

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Dealers do not represent that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which is intended to permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and Portugal) and Japan, see "*Subscription and Sale*".

Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate (either alone or with the help of a general adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## PRESENTATION OF INFORMATION

In this Offering Circular, all references to:

- **EUR, euro** and **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- **U.S. dollars, U.S.\$, USD** and **\$** are to the lawful currency of the United States;
- **Sterling, GBP** and **£** are to the lawful currency of the United Kingdom;
- **JPY, Yen** and **¥** are to the lawful currency of Japan;
- **AUD** and **A\$** are to the lawful currency of Australia;
- **CHF** are to the lawful currency of Switzerland; and
- **CAD** are to the lawful currency of Canada.

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## STABILISATION

**In connection with the issue of any Tranche of Notes, one or more relevant Dealers (the Stabilisation Manager(s)) (or persons acting on behalf of any Stabilisation Manager(s)) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation action may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.**

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.*

*This Overview constitutes a general description of the Programme for the purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004, as amended, implementing Directive 2003/71/EC (the **Prospectus Regulation**).*

*Words and expressions defined in "Form of the Notes" and "Terms and Conditions of the Notes" shall have the same meanings in this Overview.*

Issuer: Galp Gás Natural Distribuição, S.A.

Risk Factors: There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under "*Risk Factors*" below.

Description: Euro Medium Term Note Programme

Arranger: Merrill Lynch International

Dealers: Banco Santander Totta, S.A.  
J.P. Morgan Securities plc  
Merrill Lynch International

and any other Dealers appointed from time to time in accordance with the Programme Agreement (as defined below).

Certain Restrictions: Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Offering Circular.

### **Notes having a maturity of less than one year**

Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000, as amended, unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see "*Subscription and Sale*".

Agent: Banco Santander Totta, S.A.

Paying Agent: The Agent, and any other Paying Agent appointed from time to

time by the Issuer in accordance with the Agency Agreement (as defined below).

- Programme Size: Up to EUR1,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) aggregate nominal amount of Notes outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
- Distribution: Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
- Specified Currencies: Subject to any applicable legal or regulatory restrictions, Notes may only be denominated in Euro, U.S. dollars, Sterling, Japanese yen, Swiss francs, Australian dollars and Canadian dollars or any other currency as can be settled through Interbolsa from time to time, as agreed between the Issuer and the relevant Dealer.
- Maturities: The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the relevant Specified Currency.
- Issue Price: Notes may be issued on a fully-paid basis and at an issue price which is at par value or at a discount to, or premium over, the par value of the relevant Notes as at the Issue Date.
- Clearing Systems: Interbolsa, Euroclear and/or Clearstream, Luxembourg (each as defined below) and any additional or alternative clearing system specified in the applicable Final Terms.
- Form of Notes: The Notes will be issued in dematerialised book-entry form (*forma escritural*) and can be either *nominativas* (in which case Interbolsa, at the Issuer's request, can ask the Affiliate Members of Interbolsa for information regarding the identity of the Noteholders and transmit such information to the Issuer) or *ao portador* (in which case Interbolsa cannot inform the Issuer of the identity of the Noteholders).
- Fixed Rate Notes: Fixed interest will be payable in respect of Fixed Rate Notes on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
- Floating Rate Notes: Floating Rate Notes will bear interest at a rate determined:
- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or

- (b) on the basis of the reference rate set out in the applicable Final Terms.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Notes.

Floating Rate Notes may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Step-up/Step-down Rate of Interest:

If Step-up/Step-down Rate of Interest is specified as being applicable in the applicable Final Terms:

- (c) the Rate of Interest shall be increased by the Step-up Margin if the rating of the Notes assigned by a Rating Agency falls below an Investment Grade Rating such that the Notes cease to be assigned an Investment Grade Rating by at least one Rating Agency (a **Step-up Rating Change**); and
- (d) any such increase shall cease to apply if the rating of the Notes assigned by any Rating Agency is subsequently raised to at least an Investment Grade Rating (a **Step-down Rating Change**).

In each case, the relevant increase or decrease shall take effect from and including the Interest Payment Date immediately following the date of the Step-up Rating Change or Step Down Rating Change, subject to the terms of Condition 5.3.

Redemption:

The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices as may be agreed between the Issuer and the relevant Dealer and/or that the Notes will be redeemed early upon the occurrence of a Non-disposal Event (as further described below).

In particular, if Event Put is specified in the applicable Final Terms, the Notes may be redeemed at the option of the Noteholders following certain sales or disposals of assets and/or loss of licences and/or change of control which cause either a Negative Rating Event or a Rating Downgrade, as further



described in Condition 7.6.

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions - Notes having a maturity of less than one year*" above.

Mandatory Early Redemption for non-disposal:	If Mandatory Early Redemption is specified as being applicable in the applicable Final Terms, the Issuer will on 31 July 2017 redeem all (but not some only) of the Notes then outstanding at 101 per cent. of their principal amount (together with any accrued interest thereon), if at least 22.5 per cent. of the ordinary shares in the share capital of the Issuer has not been sold to a Person other than Galp Energia, SGPS, S.A. or any Successor in Business of Galp Energia, SGPS, S.A. or any of their respective Subsidiaries on or prior to 30 June 2017.
Denomination of Notes:	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see " <i>Certain Restrictions - Notes having a maturity of less than one year</i> " above, and save that the minimum denomination of each Note will be EUR100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Notes will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction as provided in Condition 8. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 8, be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The terms of the Notes will contain a negative pledge provision as further described in Condition 3.
Restrictive Covenants:	The Issuer is subject to certain additional restrictive covenants relating to its business and including, in certain circumstances, restrictions on transactions except on arm's length terms, the provision of funding in certain circumstances and distributions and disposals to and acquisitions from Affiliates, as further described in Condition 4.
Financial Covenant:	The Issuer shall ensure that (i) the DSCR in respect of the Relevant Period expiring on each Calculation Date exceeds 1.50:1.00; and (ii) Leverage in respect of the Relevant Period expiring on each Calculation Date does not exceed 7.00:1.00, in each case tested by reference to the Audited Consolidated Financial Statements in respect of each Calculation Date falling on 31 December and the Interim Consolidated Financial Statements in respect of each Calculation Date falling on 30 June.

Cross Default:	The terms of the Notes will contain a cross default provision as further described in Condition 9.
Substitution:	The terms of the Notes will contain a substitution provision as further described in Condition 15. In the event of any substitution pursuant to Condition 15 (except where the Substituted Debtor is the Successor in Business of the Issuer) the Issuer, acting either through its head office or through an international branch as it may determine in its sole discretion, shall irrevocably and unconditionally guarantee in favour of each Noteholder the payment of all sums payable by the Substituted Debtor as principal debtor and (without prejudice to such guarantee) shall remain bound by the obligations (other than the obligations to make payments of interest or principal) of the Issuer under the Notes and the Agency Agreement (with any consequential amendments as may be necessary).
Modification:	The Agent and the Issuer may, in accordance with Condition 12, without the consent of the Noteholders, make any modification of the Notes which (a) is not prejudicial to the interests of the Noteholders, (b) is of a formal, minor or technical nature; (c) is made to correct a manifest or proven error; or (d) is to comply with mandatory provisions of any applicable law or regulation. Any modification so made shall be binding on all Noteholders.
Status of the Notes:	The Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Conditions 2 and 3) unsecured obligations of the Issuer and will rank <i>pari passu</i> among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Issuer, from time to time outstanding. The Noteholders acknowledge and accept that (subject to the Condition 3), the Notes do not benefit from, or entitle Noteholders to make any claim under, any guarantees from any Person, security or other credit support and unconditionally and irrevocably waive any rights they might have against Galp Gás & Power, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of the Issuer) or Galp Energia, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of Galp Gás & Power, SGPS, S.A.) arising pursuant to articles 501 and 491 of the Portuguese Companies Code.
Representative of Noteholders:	The Noteholders may appoint a common representative.
Credit Ratings:	The Issuer is rated BBB- and the Notes to be issued under the Programme are expected to be rated BBB- by Standard & Poor's, in each case on a preliminary basis and subject to (amongst other things) the receipt by Standard & Poor's of final documentation and the successful completion of the Minority Transaction (as defined and further described under " <i>Description of the Issuer - Ownership</i> " below). If any of those conditions are not met to the satisfaction of Standard & Poor's within a reasonable time frame, it reserves the right to withdraw or revise its rating. Series of Notes issued under the Programme may be rated or unrated.

Where a Series of Notes is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the rating assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

- Use of Proceeds: The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes or for such other reason as may be specified in the applicable Final Terms.
- Listing: Application has been made for Notes issued under the Programme to be listed on the regulated market of the London Stock Exchange.
- Governing Law: The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and construed in accordance with, English law save that, the form (*forma de representação*) and transfer of the Notes, the creation (if any) of security over the Notes, the Interbolsa procedures for the exercise of rights under the Notes and the waiver by Noteholders pursuant to Condition 2 of any rights they might have against Galp Gás & Power, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of the Issuer) or Galp Energia, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of Galp Gás & Power, SGPS, S.A.) arising pursuant to articles 501 and 491 of the Portuguese Companies Code are governed by, and shall be construed in accordance with, Portuguese law.
- Selling Restrictions: There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom and Portugal) and Japan and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".
- United States Selling Restrictions: Regulation S, Category 2. TEFRA C and TEFRA not applicable as specified in the applicable Final Terms.

## **RISK FACTORS**

*In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There are a wide range of factors which, individually or together, could result in the Issuer becoming unable to make all payments due in respect of the Notes. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Offering Circular the principal risks which the Issuer believes could materially adversely affect its business and ability to make payments due under the Notes.*

*In addition, the principal risks which the Issuer believes are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision.*

### **FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME**

The risks described below are the risks that the Issuer believes could have a negative impact on its strategy, stakeholders (including its employees), the regions in which it operates, its operations, results and assets. Furthermore, these risks may have an impact on the return for the business, financial condition and/or results of operations of the Issuer.

#### ***The Issuer is subject to political, legal and regulatory risks.***

The Issuer carries out activities related to regulated natural gas infrastructure. These activities are based on concession agreements with the Portuguese authorities that encompass compensation systems geared to safeguard the recovery of the Issuer's investments and operational costs. Consequently, the recovery of such investments and costs is conditional upon the terms and stability of such legal and regulatory frameworks, which are out of the Issuer's scope of control. As such, any change at that level could adversely affect the Issuer's results of operations and financial condition.

Concessions, licences and permits might, in some cases, be granted for certain periods of time only or might be subject to early termination or revocation ("revogação" or "resgate") under certain circumstances, including as a result of legal proceedings, challenges, disputes, legal or regulatory changes and/or failure to comply with the terms of the relevant concession, licence or permit. Upon termination of a concession or the expiration of a licence or permit, the fixed assets associated with such concessions, licences or permits, in general, revert to the government or municipality, which granted the relevant concession, licence or permit. Under these circumstances, although specified compensatory amounts might be payable to the Issuer with respect to these assets, such amounts, if any, may not be sufficient to compensate the Issuer for its actual or anticipated loss and the loss of any of these assets may adversely affect the Issuer's business, financial condition, prospects and/or results of operations. Moreover, if a concession is terminated by the Portuguese Republic on the grounds that the Issuer has breached the terms of such concession, the concession assets would revert to the Portuguese Republic. In such circumstances, the Issuer would not be entitled to any compensation and the Portuguese Republic may be entitled to indemnities against civil liability. The loss of any of the Issuer's concession assets could have a material adverse effect on its results of operations and potentially on its financial condition.

The Portuguese Republic has created the current legal and regulatory framework governing the Portuguese electricity and natural gas sectors in which the Issuer operates. Laws, regulations and policies, as well as decisions of the European Union (the EU), the Portuguese Republic and the Portuguese regulatory authorities may have a material effect on the Issuer's business, financial condition and/or results of operations. The Issuer cannot predict to what extent regulatory changes will be made in the future or, if any

such regulatory changes are made, the effects these changes would have on its business, financial condition and/or results of operations.

The Portuguese Republic has established an independent regulator, the Entidade Reguladora dos Serviços Energéticos (**ERSE**) to regulate natural gas industries in Portugal. The ERSE Tariff Code (Regulamento Tarifário, [www.erse.pt](http://www.erse.pt)) defines the remuneration that the Issuer may receive in these regulated sectors. In attempting to achieve an appropriate balance between the interests of electricity and natural gas consumers, as well as the interests of the Issuer and those of other participants in the energy sector in generating an appropriate remuneration, ERSE may take actions that have an adverse impact on the Issuer's profitability. Although ERSE is an independent regulator entrusted with powers to sanction energy providers, the Portuguese Republic could also pass laws or take other actions that could have a material impact on the Issuer's business.

***The Issuer's future profitability may be adversely affected by changes in the tariff and remuneration regime established by ERSE.***

The vast majority of the Issuer revenues are generated by a remuneration on the natural gas distribution assets, which are regulated. Tariffs are set annually by ERSE within the parameters of regulatory frameworks it establishes, which are revised by ERSE every three years. A new regulatory period commenced in July 2016 and will expire in June 2019. Although ERSE takes into account the information provided by operators, including the Issuer, to determine both the tariffs and the parameters, the Issuer cannot ensure whether ERSE, in the future, will not materially modify the regulatory framework or set out tariffs in a manner that could have a material adverse effect on the Issuer's business, financial condition and/or results of operations.

***The Issuer could be adversely affected by a change in tax laws, rules and regulation and increased taxes or decreased tax benefits.***

Changes to tax laws, rules and regulations by Portuguese tax authorities or other governmental bodies, including changes in the interpretation or implementation thereof, could have a material adverse effect on the Issuer's business, financial condition and/or results of operations. For example, recent legislation requires that energy operators in Portugal pay an "Energy Sector Extraordinary Contribution" (**ESEC**).

With regard to regulated activities, the ESEC is levied on the higher of the following: (i) the value of the relevant regulated assets (as recognised by ERSE and used by ERSE for the purposes of determining the allowed revenues for the following year); or (ii) the net book value of such assets as of 1 January 2015 or the first day of the relevant financial year. The ESEC is levied at a rate of 0.85 per cent. The ESEC cannot be, directly or indirectly, passed-through to tariffs nor can it be considered for purposes of determining the respective capital cost of the Issuer's regulated assets. In addition, the ESEC is not deductible for corporate tax purposes.

The Issuer's total ESEC (Lisboagás, Lusitaniagás, Dianagás, Duriensegás, Medigás, Paxgás, Beiragás and Setgás) amounted to EUR9,459,498.06 in 2014. The Issuer has not paid that amount and is disputing the existence of the ESEC and commenced legal proceedings on 7 May 2015 to contest such payment. The Issuer estimates that in 2015, its ESEC should have been approximately EUR9,220,000.00, which will have a corresponding impact on its net profit.

It is possible that the ESEC will remain in force in the following years, and there is no assurance that a similar, or higher tax will not be imposed in the future, whether on an extraordinary or permanent basis. Should ESEC continue to apply, the Issuer intends to initiate further legal proceedings to contest the respective payments. The extension of the ESEC (or imposition of similar or higher taxes) could have a material adverse effect on the Issuer's business, financial condition and/or results of operations and could adversely affect its ability to pay dividends.

***The successful delivery of the Issuer's business strategy is dependent on having experienced and qualified management teams.***

The Issuer depends on the skills and efforts of its employees and management teams to execute its strategy.

If the Issuer fails to attract, retain, motivate and organise highly skilled human resources in the future, this may have an adverse impact on the success of its business and consequently on its financial condition and results of operations.

***The Issuer is subject to risks associated with business continuity and effective crisis management.***

The Issuer is subject to business continuity risk, both of its own and of its partners, and may suffer financial losses resulting from any kind of interruption to business, namely due to natural disasters, industrial accidents, power outages, and loss of information technology (IT) systems. Although the Issuer has in place risk mitigation measures, it is subject to cyber risk and its impacts may negatively affect the Issuer's reputation, operational performance and/or financial condition.

Crisis management plans and the ability to deal with a crisis scenario are essential to deal with emergencies at every level of the operations of the Issuer. If the Issuer does not respond or if it is perceived not to respond in an appropriate manner to either an external or internal crisis, the Issuer's business and operations could be severely disrupted, with a potential negative effect on the Issuer's reputation, results of operations and financial condition. Additionally, an inability to restore or replace critical capacity to an agreed level within an agreed time frame could prolong the impact of any disruption.

***The Issuer is exposed to health, safety and environmental risks, which may negatively affect its reputation, operational performance or financial condition.***

Given the Issuer's operations, the potential risks for health, safety and the environment are considerable. This includes major incidents involving safe processes and installations, failure to meet approved policies, natural disasters and civil unrest, civil war and terrorism. The Issuer is further exposed to generic operational, health and personal safety risks and criminal activities.

Such incidents may cause injury or loss of life, environmental damage or the destruction of premises, and, depending on their cause, severity and extent, they may negatively affect the Issuer's reputation, operational performance and/or financial condition.

***Failure to report data accurately and in compliance with standards may result in regulatory action, legal liability and damage to the Issuer's reputation.***

External reporting of financial and non-financial data is reliant on the integrity of systems and people. Failure to report data accurately and in compliance with external standards could result in regulatory action, legal liability and damage to the reputation of the Issuer, with a potential adverse impact on the Issuer's results of operations and financial condition.

***The Issuer's current insurance coverage for all its operational risks may not be sufficient.***

Natural gas distribution activities involve significant hazards. The Issuer's operations are subject to risks generally that can result in personal injuries, loss of life and property and environmental damage.

In line with industry best practices, the Issuer contracts insurance to cover business-specific risks. The insured risks include, among other hazards, damage to property and equipment, industry liability, pollution and contamination, third-party liability of Executive Directors and staff, and work accidents.

Nevertheless, some major risks inherent in the Issuer's activities cannot reasonably be insured for a commercially appropriate sum. In addition, the Issuer's insurance policies contain exclusions that could result in limited coverage in certain circumstances. Furthermore, the Issuer may not be able to maintain adequate insurance at rates or on terms that it considers reasonable or acceptable, or be able to obtain

insurance against certain risks that could materialise in the future. As such, under extreme conditions, the Issuer may incur substantial losses following events that are not covered by insurance, which would have an adverse impact on the business, financial condition and/or results of operations of the Issuer.

***The Issuer is subject to extensive environmental regulation.***

The Issuer is subject to the effects of government policies to curb climate change, including extensive environmental, health and safety laws and regulations, which include, for example, those relating to emissions, energy consumption and waste treatment and disposal. These initiatives may affect the conditions in which the Issuer conducts its business, with a potential negative impact on its results of operations and financial condition.

The Issuer has made, and will continue to make, expenditures to comply with environmental, health and safety laws and regulations. To the extent that the cost of compliance increases and the Issuer cannot pass on future increases to its customers, such increases may have an adverse effect on the Issuer's results of operations and financial condition. Failure to comply with environmental, health and safety laws and regulations could result in substantial cost for the Issuer, as well as liabilities vis-à-vis third parties or governmental authorities.

***The Issuer's activity is subject to uncertainty in the economic context.***

Economic tensions are causing a rise in social tensions as well as the upsurge of protectionist tendencies in various parts of the world. The Eurozone remains especially vulnerable, the main risk to the global outlook being a new escalation of the crisis in the area. The key focus is on the ability of peripheral countries to repay their debt, including Portugal. The fundamental problem behind this is their difficulties in stimulating growth and increasing competitiveness without being able to benefit from currency devaluation. In countries such as Portugal, the expectation is that a combination of policies that include support to the banking sector and sovereign debt will decrease the respective spreads and give them time to improve their public finances and their banking sector balance sheets. In the meantime, in order to address the imbalances that the crisis has revealed, the Eurozone leaders are studying the next steps to move European integration forward.

The persistent pressure on the sustainability of government finances in advanced economies has led to strong tensions in credit markets. In fact, a new escalation of crises in the Eurozone could impair the Issuer's ability to refinance its debt. In addition, there could be fiscal reforms or changes in the European regulatory framework of the gas distribution business, which may potentially be imposed with immediate effect.

In addition, the ongoing instability and economic-financial situation may have a negative impact on third parties with whom the Issuer does or could do business with. In particular, the economy in Portugal may continue to be restrained in the coming years, thus potentially impacting the business environment in which the Issuer operates.

Any of the factors described above, whether in isolation or in combination with each other, could have an adverse effect on the financial condition, businesses, and/or results of operations of the Issuer.

***The Issuer's financial condition may be adversely affected by a number of factors, including restrictions in borrowing and debt arrangements and volatility in the global credit markets.***

The Issuer's business is partly financed through debt. A shortage of liquidity, lack of funding, pressure on capital and extreme price volatility across a wide range of asset classes are putting financial institutions under considerable pressure and, in certain cases, placing downward pressure on credit availability for companies.

Any increase in the financing needs of the Issuer may have a negative impact on its financial performance and gearing ratio, affecting both its borrowing capacity and the cost of those borrowings.

The Issuer is exposed to the risk that credit facilities may not be available to refinance maturing debt or to meet cash shortfalls in a timely manner, or at an acceptable and competitive rate, in order to allow the Issuer

to fulfil its financial commitments, which could have a material adverse effect on its business or financial condition.

***The Issuer may be affected by downgrades in its credit rating.***

The Issuer's ability to obtain funding on favourable terms depends on various factors including its financial stability as reflected by its results of operations and credit ratings by internationally recognised credit agencies.

The Issuer is rated BBB- by Standard & Poor's, on a preliminary basis and subject to (amongst other things) the receipt by Standard & Poor's of final documentation and the successful completion of the Minority Transaction (as defined and further described under "*Description of the Issuer - Ownership*" below). If any of those conditions are not met to the satisfaction of Standard & Poor's within a reasonable time frame, it reserves the right to withdraw or revise its rating.

The Issuer's credit rating and costs of funding are influenced by the credit rating of Portugal's sovereign debt and by Standard & Poor's view of the consolidated creditworthiness of Galp Energia, SGPS, S.A. (**Galp**), over which the Issuer has no control.

A downgrade in credit ratings for Portugal or a deterioration of Galp's consolidated creditworthiness according to Standard & Poor's view, as well as any downgrade in the Issuer's own credit rating, may impact the Issuer's ability to raise funding and could materially adversely affect its business, financial condition and/or results of operations.

***The Issuer may be adversely affected by interest rate fluctuations.***

Interest rate fluctuations have an effect on both the Issuer's revenue and financing costs. Firstly, ERSE has been establishing the rate of return (**RoR**) for the Issuer's natural gas distribution businesses on the basis of indexation to the average 10 year Portuguese Republic treasury bond rates, with base rates determined for each regulatory period. Accordingly, if bond yields decline, the RoRs on the Issuer's natural gas distribution businesses automatically decline in tandem. However, it should be noted that, during each regulatory period, the RoR varies between a cap and a floor. For the regulatory period starting on 1 July 2016, the base rate is 6.2 per cent., floored at 5.7 per cent. and capped at 9.3 per cent. This was decided on 15 June 2016.

Secondly, despite any ability to access the market for instruments designed to hedge interest rate risk, the Issuer's funding costs may be affected by volatile market rates, which may negatively influence its results.

***The Issuer may incur future costs with respect to its defined benefit pension plans.***

Under the pension plans of Lisboagás, a subsidiary of the Issuer, benefit payments are calculated as a complement of the social security pension, based on years of service and salary. The most critical risks relating to pensions accounting often relate to the returns on pension plan assets and the discount rate used to assess the present value of future payments. Pension liabilities can place significant pressure on cash flows. In particular, if the defined benefit pension fund of Lisboagás is underfunded, the Issuer may be required to make additional contributions to the funds, which could adversely affect its business, financial condition and/or results of operations.

***The Issuer relies on expropriation and rights of way over land in building its networks and storage facilities.***

In order to build or extend its natural gas distribution network in Portugal, the Issuer can request the expropriation for public purposes of, or the establishment of easements for the Issuer's benefit on, the land on which the network is to be constructed. This includes land used for natural gas pipelines, dispatching centres, operation and maintenance centres and pipeline stations. Objections by landowners and environmental and other groups may prevent the Issuer from obtaining necessary expropriation or rights of way over such land, which may cause the process to be more expensive and may cause delays, any of which could adversely affect the expansion and upgrading of the Issuer's natural gas distribution network.



***Part of the Issuer's real estate assets have not been registered in the land registry or with the tax authority.***

Some of the Issuer's real estate assets have not yet been registered with the land registry or with the tax authority. In regard to the land registry, the ownership of real estate assets is subject to mandatory registration, failing which ownership of such assets may be challenged by third parties.

Furthermore, there is a legal presumption that the land registry is correct and no rights over real estate may be transferred by the Issuer to third parties if they are not registered under the Issuer or any of its subsidiary's name.

Consequently, if the entities in whose name the real estate assets are currently registered in the land registry were to sell or encumber those properties to third parties acting in good faith and the latter registers them in the real estate register prior to the Issuer doing so, they would become the lawful owners of such real estate or encumbrances, as applicable. These circumstances could have a material adverse effect on the Issuer's business, financial condition and/or results of operations.

***The Issuer conducts its operations through subsidiaries.***

The Issuer is a holding company which is dependent on the earnings and cash flows of, and dividends and distributions from, its operating subsidiaries to meet its debt servicing obligations. The Issuer's subsidiaries are not guarantors of the Notes. Moreover, these subsidiaries are not required and may not be able to pay dividends to the Issuer. The Issuer's subsidiaries are not bound by obligations under the Notes.

## **FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME**

### **Risks related to the structure of a particular issue of Notes**

A range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

***If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.***

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

***If Mandatory Early Redemption is specified as being applicable in the applicable Final Terms, the Notes will be redeemed early upon the occurrence of a Non-disposal Event, which may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.***

If Mandatory Early Redemption is specified as being applicable in the applicable Final Terms, the Issuer will on 31 July 2017 redeem all (but not some only) of the Notes then outstanding at 101 per cent. of their principal amount (together with any accrued interest thereon), if at least 22.5 per cent. of the ordinary shares in the share capital of the Issuer has not been sold to a Person other than Galp Energia, SGPS, S.A. or any

Successor in Business of Galp Energia, SGPS, S.A. or any of their respective Subsidiaries on or prior to 30 June 2017 (**Non-disposal Event**).

An early redemption of the Notes as described above may limit the market value of such Notes and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return. Potential investors should consider reinvestment risk in light of other investments available at that time.

***If the Issuer has the right to convert the interest rate on any Notes from a fixed rate to a floating rate, or vice versa, this may affect the secondary market and the market value of the Notes concerned.***

Fixed/Floating Rate Notes are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market in, and the market value of, the Notes since the Issuer may be expected to convert the rate when it is likely to result in a lower overall cost of borrowing for the Issuer. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing market rates.

***Notes which are issued at a substantial discount or premium may experience price volatility in response to changes in market interest rates.***

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for more conventional interest-bearing securities. Generally, the longer the remaining term of such securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

### **Risks related to Notes generally**

Set out below is a description of material risks relating to the Notes generally:

***The conditions of the Notes contain provisions which may permit their modification and a substitution of the Issuer without the consent of all investors.***

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The conditions of the Notes also provide that the Agent and the Issuer may, without the consent of the Noteholders, make any modification of the Notes, the Agency Agreement, or the Interbolsa Instrument in certain circumstances as further described in Condition 12.

The conditions of the Notes also provide that the Issuer may, without the consent of the Noteholders, and without regard to the interests of particular Noteholders, be replaced and substituted by (i) any Successor in Business of the Issuer; or (ii) any other company, in each case as principal debtor in respect of the Notes, in the circumstances described in Condition 15.

***The Notes may be subject to withholding taxes in circumstances where the Issuer is not obliged to make gross up payments and this would result in holders receiving less interest than expected and could significantly adversely affect their return on the Notes.***

#### *Withholding under Portuguese tax law*

Under Portuguese tax law, interest and other types of investment income derived from Notes issued by Portuguese resident entities are generally subject to Portuguese domestic withholding tax, currently assessed at the rate of 25 per cent. in case of resident or non-resident legal persons. However, in the case of resident entities, as well as for non-resident investors holding a Portuguese permanent establishment to which the income is allocated, such withholding tax rate is withheld on account of the final income tax due, while in the case of non-residents without a Portuguese permanent establishment to which the income is allocated, such withholding tax will be deemed as final, unless a withholding tax exemption applies. Also as a rule interest and other types of investment income derived from Notes issued by Portuguese resident entities and paid to resident or non-resident individual investors are subject to Portuguese final withholding tax at the rate of 28 per cent. unless the individual resident elects to aggregate such income to his taxable income, subject to (i) progressive income tax rates of up to 48 per cent. and depending on the total income obtained by an individual on each tax year; (ii) an additional income tax of up to 2.5 per cent. on taxable income exceeding EUR80,000 and 5 per cent. on taxable income exceeding EUR250,000; and (iii) an additional surcharge of up to 3.5 per cent. (see “*Taxation – Portugal*”). However, interest and other types of investment income paid or made available to accounts opened in the name of one or several accountholders acting on behalf of undisclosed third parties is subject to a withholding tax rate of 35 per cent., except where the beneficial owner(s) of such income is/are disclosed, in which case the general rules will apply. A final withholding tax rate of 35 per cent. applies in case of investment income payments to individuals or companies domiciled in one of the “low tax jurisdictions” set out in the list approved by Ministerial Order (*Portaria*) no. 150/2004, of 13 February 2004, as amended from time to time (*Lista dos países, territórios e regiões com regimes de tributação privilegiada, claramente mais favoráveis*) (**Ministerial Order no. 150/2004**).

Notwithstanding the above, said non-resident investors (both individual and corporate) without a Portuguese permanent establishment to which the income may be attributable, eligible for the debt securities special tax exemption regime which was approved by Decree-law no. 193/2005, of 7 November 2005, as amended from time to time (**Decree-law no. 193/2005**), may benefit from an upfront withholding tax exemption, provided that certain formal procedures and requirements are met (see “*Taxation - Portugal*”, for information on these formal procedures and certification requirements). Failure to comply with these procedures and certifications will result in the application of the Portuguese domestic withholding rate of 25 per cent. (in case of non-resident legal persons), 28 per cent. (in case of non-resident individuals) or 35 per cent. (in case of investment income payments to (i) individuals or legal persons who are resident in the countries and territories included in the Portuguese “blacklist” approved by Ministerial Order no. 150/2004, or (ii) accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties in which the beneficiaries are not disclosed) which may be reduced in relation to entities or individuals domiciled in certain jurisdictions pursuant to the provisions of treaties for the avoidance of double taxation entered into by Portugal, as may be in force from time to time provided that the formal procedures and certification requirements established by the relevant treaties are complied with (see “*Taxation - Portugal*”).

#### *Risks related to procedures for collection of Noteholders’ details*

It is expected that the direct registering entities, the participants and the clearing systems will follow certain procedures to facilitate the collection from the Noteholders of the information referred to in “*Withholding under Portuguese tax law*” above required to comply with the procedures and certifications required by Decree-law no. 193/2005. Under Decree-law no. 193/2005, the obligation of collecting from the Noteholders proof of their non-Portuguese resident status and of the compliance with the other requirements for the exemption rests with the direct registering entities, the participants and the entities managing the international clearing systems. A summary of those procedures is also set out in “*Taxation - Portugal*”. Such procedures may be revised from time to time in accordance with applicable Portuguese laws and

regulations, further to clarifications from the Portuguese tax authorities regarding such laws and regulations and the operational procedures of the clearing systems.

Noteholders must seek their own advice to ensure that they comply with all applicable procedures and to ensure the correct tax treatment of their Notes. None of the Issuer, the Dealers, the Agent or the clearing systems assumes any responsibility in this regard.

*Administrative cooperation in the field of taxation*

The EC Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments (the **Savings Directive**), as amended by Council Directive 2014/48/EU, of 24 March 2014, was repealed by Council Directive 2015/2060, of 10 November 2015. The aim was the adoption of a single and more comprehensive cooperation system in the field of taxation in the European Union under Council Directive 2011/16/EU, of 15 February 2011. The new regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive.

Under Council Directive 2014/107/EU, financial institutions are required to report to the tax authorities of their respective Member State (for the exchange of information with the state of residence) information regarding bank accounts, including custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Directive. The information refers to the account balance at the end of the calendar year, income paid or credited in the account and the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

It is currently uncertain how such reporting obligations will be complied with and investors should consult their own tax advisers to obtain a more detailed explanation of this regime and how it may individually affect them.

*Noteholders will have a claim under the Notes against the Issuer only.*

The Notes will be direct obligations of the Issuer. Noteholders will have a claim under the Notes against the Issuer only and not against Galp Gás & Power, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of the Issuer) or Galp Energia, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of Galp Gás & Power, SGPS, S.A.) (and together referred to as the **Shareholders**). The Shareholders do not in any way guarantee or have any liability whatsoever in relation to the Notes. In particular, Noteholders have, pursuant to Condition 2, waived any rights they might have against the Shareholders arising pursuant to articles 501 and 491 of the Portuguese Companies Code. If there are insufficient funds available to the Issuer to pay in full any principal, interest and other amounts due in respect of the Notes, Noteholders will have a claim in respect of any such unpaid amounts against the Issuer only and not against the Shareholders.

*The value of the Notes could be adversely affected by a change in English law, Portuguese law or administrative practice.*

Certain provisions of the Notes are governed by Portuguese law in effect as at the date of this Offering Circular. These provisions include those relating to the form (*forma de representação*) and transfer of the Notes, the creation (if any) of security over the Notes, the Interbolsa procedures for the exercise of rights under the Notes and the waiver by Noteholders pursuant to Condition 2 of any rights they might have against Galp Gás & Power, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of the Issuer) or Galp Energia, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of Galp Gás & Power, SGPS, S.A.) arising pursuant to articles 501 and 491 of the Portuguese Companies Code.

Otherwise the conditions of the Notes are based on English law in effect as at the date of this Offering Circular.

No assurance can be given as to the impact of any possible judicial decision or change to English or, as the case may be, Portuguese law or administrative practice after the date of this Offering Circular. Any such change could materially adversely impact the value of any Notes affected by it.

### **Risks related to the market generally**

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

***An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Notes.***

Notes may have no established trading market when issued, and one may never develop. If a market for the Notes does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of any Notes.

***If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of his holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.***

The Issuer will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency-equivalent value of the principal payable on the Notes and (3) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***The value of Fixed Rate Notes may be adversely affected by movements in market interest rates.***

Investment in Fixed Rate Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Notes, this will adversely affect the value of the Fixed Rate Notes.

***Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes.***

The Issuer is rated BBB- and the Notes to be issued under the Programme are expected to be rated BBB- by Standard & Poor's, in each case on a preliminary basis and subject to (amongst other things) the receipt by Standard & Poor's of final documentation and the successful completion of the Minority Transaction (as defined and further described under "*Description of the Issuer - Ownership*" below). If any of those conditions are not met to the satisfaction of Standard & Poor's within a reasonable time frame, it reserves the right to withdraw or revise its rating.

One or more independent credit rating agencies may assign credit ratings to the Issuer or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors

discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances whilst the registration application is pending). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Offering Circular.

## FORM OF THE NOTES

### Form of the Notes

Notes to be issued under the Programme will be represented in dematerialised book-entry form (*forma escritural*) and can be either *nominativas* (in which case Interbolsa (as defined below), at the Issuer's request, can ask the Affiliate Members of Interbolsa (as defined below) information regarding the identity of the Noteholders and transmit such information to the Issuer) or *ao portador* (in which case Interbolsa cannot inform the Issuer of the identity of the Noteholders).

The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant currency, and save that the minimum denomination of each Note will be EUR100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

In this Offering Circular, **Interbolsa** means Interbolsa - Sociedade Gestora de Sistemas de Liquidação de Sistemas Centralizados de Valores Mobiliários, S.A., the Portuguese central securities depository, also acting as operator and manager of **CVM** (*Central de Valores Mobiliários*), the Portuguese centralised system of registration of securities. The expression **Affiliate Member of Interbolsa** means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of Noteholders and includes any depository banks appointed by Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**) for the purposes of holding accounts on behalf of Euroclear and Clearstream, Luxembourg.

Any reference herein to Interbolsa, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

### Clearing and Settlement

CVM is the Portuguese centralised system (*sistema centralizado*) for the registration and control of securities operated by Interbolsa. CVM is composed of interconnected securities accounts, through which securities (and inherent rights) are created, held and transferred. This allows Interbolsa to control the amount of securities created, held and transferred at each time. Issuers, Affiliate Members of Interbolsa and the Bank of Portugal, all participate in CVM.

CVM provides for all the procedures which allow the owners of securities to exercise their rights.

In relation to each issue of securities, CVM comprises *inter alia*, (a) the issue account, opened by the relevant issuer in CVM and which reflects the full amount of securities issued; (b) the individual accounts, opened in the Affiliate Members of Interbolsa by their respective customers; and (c) the control accounts opened by each Affiliate Member of Interbolsa, and which reflect, at all times, the aggregate nominal amount of securities held in the individual securities accounts opened by holders of securities with each of the Affiliate Members of Interbolsa.

Each person shown in the records of an Affiliate Member of Interbolsa as having an interest in Notes shall be treated as the holder of the principal amount of the Notes recorded.

Notes registered with Interbolsa will be attributed an International Securities Identification Number (ISIN) code through Interbolsa's codification system and will be accepted for registration and clearing through the system operated at Interbolsa and settled by Interbolsa's settlement system.

## Exercise of Financial Rights

Payment of principal and interest in respect of the Notes will be subject to Portuguese laws and regulations, notably the regulations from time to time issued and applied by the Comissão do Mercado de Valores Mobiliários, the Portuguese Securities Market Commission (**CMVM**) and by Interbolsa.

The Issuer must give Interbolsa advance notice of all payments and provide all necessary information for that purpose, including the identity of the financial intermediary (which shall be a participant in Interbolsa) appointed by the Issuer to act as the Paying Agent in respect of the Notes and is responsible for the relevant payments.

Prior to any payment, such Paying Agent shall provide Interbolsa with a statement of acceptance of its role of Paying Agent.

Interbolsa must notify such Paying Agent of the amounts to be settled, which will be determined by Interbolsa on the basis of the account balances of the control accounts of each relevant Affiliate Member of Interbolsa.

On the date on which any payment in respect of the Notes is to be made, the corresponding entries and counter-entries will be made by Interbolsa *(i)* in the TARGET2 current accounts held by such Paying Agent and by the relevant Affiliate Members of Interbolsa in the case of payments in euro or *(ii)* in the Caixa Geral de Depósitos, S.A. current accounts held by such Paying Agent and by the relevant Affiliate Members of Interbolsa in the case of payments in currencies acceptable by Interbolsa other than euro.

Whilst the Notes are held through Interbolsa, payment of principal and interest in respect of the Notes will be *(i)* if made in euro *(a)* credited, according to the procedures and regulations of Interbolsa, from the payment current account which the relevant Paying Agent (acting on behalf of the Issuer) has indicated to, and has been accepted by, Interbolsa to be used on the relevant Paying Agent's behalf for payments in respect of securities held through Interbolsa to the payment current accounts held according to the applicable procedures and regulations of Interbolsa by the Affiliate Members of Interbolsa whose control accounts with Interbolsa are credited with such Notes and thereafter *(b)* credited by such Affiliate Members of Interbolsa from the aforementioned payment current accounts to the accounts of the owners of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; or *(ii)* if made in currencies other than euro *(a)* transferred, on the payment date and according to the procedures and regulations applicable by Interbolsa, from the account held by the relevant Paying Agent in the Foreign Currency Settlement System (*Sistema de Liquidação em Moeda Estrangeira*), managed by Caixa Geral de Depósitos, S.A., to the relevant accounts of the relevant Affiliate Members of Interbolsa, and thereafter *(b)* transferred by such Affiliate Members of Interbolsa from such relevant accounts to the accounts of the owners of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.



## APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

### GALP GÁS NATURAL DISTRIBUIÇÃO, S.A.

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the EUR1,000,000,000  
Euro Medium Term Note Programme

#### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated 25 August 2016 [and the supplement[s] to it dated [ ] [and [ ]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Offering Circular**). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular has been published on the London Stock Exchange plc's website (<http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>).

**Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

1. Issuer: Galp Gás Natural Distribuição, S.A.
2. (a) Series Number: [ ]  
(b) Tranche Number: [ ]  
(c) Date on which the Notes will be consolidated and form a single Series: [The Notes will be consolidated and form a single Series with [ ] on [[ ] / the Issue Date] [Not Applicable]
3. Specified Currency or Currencies: [ ]
4. Aggregate Nominal Amount:  
(a) Series: [ ]  
(b) Tranche: [ ]
5. Issue Price: [ ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [ ]]
6. Specified Denomination: [ ]

7. (a) Issue Date: [ ]
- (b) Interest Commencement Date: [[ ]/Issue Date/Not Applicable]
8. Maturity Date: [[ ]/ Interest Payment Date falling in or nearest to [ ]]
9. Interest Basis: [[ ] per cent. Fixed Rate]  
 [[ ] month [LIBOR/EURIBOR] +/- [ ] per cent. Floating Rate]  
 [Zero coupon]  
 (further particulars specified below)
10. Redemption Basis: Subject to any purchase and cancellation or early redemption [(including Mandatory Early Redemption)], the Notes will be redeemed on the Maturity Date at [ ] per cent. of their nominal amount.
11. Change of Interest Basis: [ ] [Not Applicable]
12. Put/Call Options: [Not Applicable]  
 [Investor Put]  
 [Event Put]  
 [Issuer Call]  
 [(further particulars specified below)]
13. Date [Board] approval for issuance of Notes obtained: [ ] [Not Applicable]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

14. Fixed Rate Note Provisions [Applicable/Not Applicable]
- (a) Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]  
 [ ]]
- (c) Fixed Coupon Amount(s): [ ] per Specified Denomination
- (d) Broken Amount(s): [[ ] per Specified Denomination, payable on the Interest Payment Date falling [in/on] [ ]] [Not Applicable]
- (e) Day Count Fraction: [30/360] [Actual/Actual (ICMA)]
- (f) Determination Date(s): [[ ] in each year] [Not Applicable]
- (g) Step-up/Step-down Rate of Interest: [Applicable] [Not Applicable]

- (h) Step-up Margin: [ ] per cent. per annum] [Not Applicable]
15. Floating Rate Note Provisions [Applicable/Not Applicable]
- (a) Specified Period(s)/Specified Interest Payment Dates: [ ]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention]
- (c) Additional Business Centre(s): [ ] [Not Applicable]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party Responsible for Calculating the Rate of Interest and the Interest Amount (if not the Agent) [ ]
- (f) Screen Rate Determination: [Applicable/Not Applicable]
- Reference Rate: [ ] month [LIBOR/EURIBOR]
  - Interest Determination Date(s): [ ]
  - Relevant Screen Page: [ ]
- [Applicable/Not Applicable]
- (g) ISDA Determination:
- Floating Rate Option: [ ]
  - Designated Maturity: [ ]
  - Reset Date: [ ]
- (h) Margin(s): [+/-] [ ] per cent. per annum
- (i) Minimum Rate of Interest: [ ] per cent. per annum
- (j) Maximum Rate of Interest: [ ] per cent. per annum

- (k) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]  
 [Actual/365 (Fixed)]  
 [Actual/365 (Sterling)]  
 [Actual/360]  
 [30/360] [360/360] [Bond Basis]  
 [30E/360] [Eurobond Basis]  
 [30E/360 (ISDA)]
- (l) Step-up/Step-down Rate of Interest: [Applicable] [Not Applicable]
- (m) Step-up Margin: [[ ] per cent. per annum] [Not Applicable]
16. Zero Coupon Note Provisions [Applicable/Not Applicable]
- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]
- (c) Day Count Fraction in relation to Early Redemption Amounts: [30/360]  
 [Actual/360]  
 [Actual/365]

#### PROVISIONS RELATING TO REDEMPTION

17. Notice periods for Condition 7.2: Minimum period: [30] days  
 Maximum period: [60] days
18. Issuer Call: [Applicable/Not Applicable]
- (a) Optional Redemption Date(s): [ ]
- (b) Optional Redemption Amount: [[ ] per Specified Denomination] [Spens Amount]<sup>1</sup>  
 [Make-Whole Amount] [(as specified in 18(a) above)]
- (c) Reference Bond: [ ]
- (d) Redemption Margin: [ ]
- (e) Quotation Time: [ ]
- (f) If redeemable in part:
- (i) Minimum Redemption Amount: [ ] [Not Applicable]
- (ii) Maximum Redemption Amount: [ ] [Not Applicable]

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<sup>1</sup> To be used for Notes denominated in sterling only.

(g) Notice periods: Minimum period: [15] days  
Maximum period: [30] days

*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

19. Investor Put: [Applicable/Not Applicable]

(a) Optional Redemption Date(s): [ ]

(b) Optional Redemption Amount: [ ] per Specified Denomination

(c) Notice periods: Minimum period: [15] days  
Maximum period: [30] days

*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

20. Event Put: [Applicable/Not Applicable]

(a) Material Licence Event: [Applicable/Not Applicable]

(b) Material Disposal Event: [Applicable/Not Applicable]

(c) Change of Control Event: [Applicable/Not Applicable]

(d) Event Put Redemption Amount: [ ] per Specified Denomination] [in respect of a [Material Licence Event/Material Disposal Event/Change of Control Event]]

(e) Event Put Redemption Date: [ ] days after the last day on which Noteholders are able to exercise the Event Put, being [ ] days after the end of the Relevant Event Period.

*(Ensure that this date falls sufficiently after the date referred to in paragraph (f) below)*

(f) Period for exercising Event Put: Not later than the date falling [ ] days after the end of the Relevant Event Period.

*(N.B. When setting notice periods, the Issuer is advised*

*to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 15 clearing system business days' notice for a put) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Agent)*

21. Final Redemption Amount: [ ] per Specified Denomination
22. Early Redemption Amount payable on redemption for taxation reasons or on event of default: [ ] per Specified Denomination
23. Mandatory Early Redemption: [Applicable] [Not Applicable]

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

24. Form of Notes: Dematerialised book-entry form (*forma escritural*) held through Interbolsa
- [*Nominativas*]  
[*Ao portador*]
25. Additional Financial Centre(s): [Not Applicable/[ ]]

#### **Third Party Information**

[[ ] has been extracted from [ ]]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of **Galp Gás Natural Distribuição, S.A.**

By: .....

*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing and Admission to trading:

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market with effect from [ ].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the London Stock Exchange's regulated market with effect from [ ].]

- (ii) Estimate of total expenses related to admission to trading:

[ ]

### 2. RATINGS

Ratings:

[The Notes to be issued [have been/are expected to be] rated:

[insert details]] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].

[Each of [defined terms] is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the CRA Regulation).]

[Not Applicable]

### 3. USE OF PROCEEDS

[As specified in the Offering Circular] [ ]

### 4. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business [and [ ]]]

### 5. YIELD (Fixed Rate Notes only)

Indication of yield:

[ ]

[Not Applicable]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of further yield.

**6. HISTORIC INTEREST RATES** (Floating Rate Notes only)

[Details of historic [LIBOR/EURIBOR] rates can be obtained from [Reuters].] [Not Applicable]

**7. OPERATIONAL INFORMATION**

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ] [Not Applicable]
- (iii) Any clearing system(s) other than Interbolsa, Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/[ ]]
- (iv) Delivery: Delivery [against/free of] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [ ] [Not Applicable]

**8. DISTRIBUTION**

- (i) If syndicated, names of Managers: [Not Applicable/[ ]]
- (ii) Date of Subscription Agreement: [ ]
- (iii) If non-syndicated, name of relevant Dealer: [Not Applicable/[ ]]
- (iv) U.S. Selling Restrictions: Reg. S Compliance Category 2; [TEFRA C applies / TEFRA not applicable]



## TERMS AND CONDITIONS OF THE NOTES

*The following (save for any sentences in italics) are the Terms and Conditions of the Notes which will be applicable to each Note. The applicable Final Terms in relation to any Tranche of Notes will complete the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be applicable to each Note. Reference should be made to "Applicable Final Terms" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Notes issued by Galp Gás Natural Distribuição, S.A. (the **Issuer**) pursuant to the Agency Agreement (as defined below).

References herein to the **Notes** shall be references to the Notes of this Series and shall mean the book-entries representing the Notes while held through Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A. (**Interbolsa**), as management entity of the Portuguese Centralised System of Registration of Securities (**Central de Valores Mobiliários**).

The Notes have the benefit of a deed poll given by the Issuer in favour of the Noteholders dated 25 August 2016 (such deed poll as amended and/or supplemented and/or restated from time to time, the **Interbolsa Instrument**) and of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 25 August 2016 and made and agreed between the Issuer and Banco Santander Totta, S.A. as agent (the **Agent**, which expression shall include any successor agent) and any other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the applicable Final Terms which complete these Terms and Conditions (the **Conditions**). References to the **applicable Final Terms** are, unless otherwise stated, to Part A of the Final Terms (or the relevant provisions thereof).

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean the persons in whose name the Notes are registered in the individual securities account held with an Affiliate Member of Interbolsa (as defined below) in accordance with Portuguese law and the relevant Interbolsa procedures and, for the purposes of Condition 8, the effective beneficiary of the income attributable thereto.

In the Conditions, the expression **Affiliate Member of Interbolsa** means any authorised financial intermediary entitled to hold control accounts with Interbolsa on behalf of Noteholders and includes any depository banks appointed by Euroclear and Clearstream, Luxembourg, for the purposes of holding accounts on behalf of Euroclear and Clearstream, Luxembourg; **Clearstream, Luxembourg** means Clearstream Banking S.A.; and **Euroclear** means Euroclear Bank SA/NV.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Interbolsa Instrument and the Agency Agreement are available for inspection during normal business hours at the specified office of the Agent. As the Notes are to be admitted to trading on the regulated market of the London Stock Exchange, the applicable Final Terms will be published on the website of the London Stock Exchange through a regulatory information service. The Noteholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Interbolsa Instrument, the Agency

Agreement and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Interbolsa Instrument or the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Interbolsa Instrument and the Agency Agreement, the Interbolsa Instrument shall prevail, and that in the event of inconsistency between the Interbolsa Instrument or the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

In the Conditions, **euro** and **EUR** means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

## 1. FORM, DENOMINATION AND TITLE

The Notes are issued in the currency (the **Specified Currency**) and the denomination (the **Specified Denomination**) specified in the applicable Final Terms, provided that the minimum Specified Denomination of each Note will be EUR100,000 (or if the Notes are denominated in a currency other than euro, the equivalent amount in such currency). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

This Note may be a Fixed Rate Note, a Floating Rate Note or a Zero Coupon Note, or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

The Notes are held through Interbolsa in dematerialised book entry form (*forma escritural*) and can either be *nominativas* (in which case Interbolsa, at the Issuer's request, can ask the Affiliate Members of Interbolsa for information regarding the identity of the Noteholders and transmit such information to the Issuer) or *ao portador* (in which case Interbolsa cannot inform the Issuer of the identity of the Noteholders), and title to the Notes is evidenced by registration in the relevant individual securities accounts held with an Affiliate Member of Interbolsa in accordance with the provisions of the **Portuguese Securities Code** (*Código dos Valores Mobiliários*) enacted by Decree-law no. 486/99, of 13 November 1999, as amended, and the applicable regulations of Comissão do Mercado de Valores Mobiliários, the Portuguese Securities Market Commission (**CMVM**). No physical document of title will be issued in respect of the Notes. Each person shown in the relevant individual securities accounts held with an Affiliate Member of Interbolsa as having an interest in Notes shall be treated as the holder of the principal amount of the Notes recorded therein. The Issuer and the Paying Agents will (except as otherwise required by law) deem and treat the registered holder of any Note as the absolute owner thereof (whether or not overdue) for all purposes.

The transferability of the Notes is not restricted. Subject as set out below, title to Notes will pass upon registration of transfers in the relevant individual securities accounts held with an Affiliate Member of Interbolsa in accordance with the provisions of the Portuguese Securities Code and the relevant procedures of Interbolsa. Notes may, subject to compliance with all applicable rules, restrictions and requirements of Interbolsa and Portuguese law, be transferred to a person who wishes to hold such Note. No holder of a Note will be able to transfer such Note, except in accordance with Portuguese law and with the applicable procedures of Interbolsa.

Any reference herein to Interbolsa, Euroclear or Clearstream, Luxembourg shall, wherever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms. The holders of Notes will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or

expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

## **2. STATUS OF THE NOTES**

The Notes are direct, unconditional, unsubordinated and (subject to the provisions of this Condition 2 and Condition 3) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured and unsubordinated obligations of the Issuer, from time to time outstanding. The Noteholders acknowledge and accept that (subject to Condition 3), the Notes do not benefit from, or entitle Noteholders to make any claim under, any guarantees from any Person, security or other credit support and unconditionally and irrevocably waive any rights they might have against Galp Gás & Power, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of the Issuer) or Galp Energia, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of Galp Gás & Power, SGPS, S.A.) arising pursuant to articles 501 and 491 of the Portuguese Companies Code.

## **3. NEGATIVE PLEDGE**

So long as any of the Notes remains outstanding, the Issuer will not (and will procure that none of its Material Subsidiaries will) create or have outstanding any Security Interest other than any Permitted Security upon the whole or any part of its undertaking or assets, present or future (including any uncalled capital) to secure any Loan Stock of any Person without at the same time or prior thereto at the option of the Issuer either:

- (i) securing the Notes equally and rateably with such Loan Stock; or
- (ii) providing such other security for or other arrangement in respect of the Notes as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of the Noteholders.

## **4. COVENANTS**

So long as any Note remains outstanding:

- (a) *Arm's length terms*: except for any Group Transaction and unless otherwise permitted pursuant to Conditions 4(c) and 4(d), the Issuer shall not, and shall procure that no member of the Group shall, enter into any transaction except on arm's length terms and for full market value (or on terms more favourable for the relevant member of the Group);
- (b) *Restrictions on Indebtedness*: the Issuer shall not, and shall procure that no member of the Group shall, be a creditor in respect of any Indebtedness, nor provide any guarantees or indemnities in respect of the Indebtedness of any other party, except (in either case) for any Permitted Indebtedness;
- (c) *No disposals to Affiliates*: the Issuer shall not, and shall procure that no member of the Group shall, dispose of any asset to an Affiliate (which is not a member of the Group) unless such disposal is on arm's length terms and for full market value (or on terms more favourable for the relevant member of the Group) and:

- (i) the net proceeds of any such disposal by themselves or when aggregated with the net proceeds of each other disposal made in the same Relevant Period do not in aggregate exceed EUR10,000,000; or
  - (ii) such disposal is a disposal of Cash to fund a Restricted Payment provided that such Restricted Payment is permitted to be made pursuant to Condition 4(e); or
  - (iii) if there are Rated Securities, having consulted with the relevant Rating Agencies, in the reasonable opinion of the Issuer, any current Rating assigned to the Rated Securities would not be withdrawn or reduced from an Investment Grade Rating to a rating below an Investment Grade Rating by any Rating Agency or, if a Rating Agency shall already have rated the Rated Securities below an Investment Grade Rating, any such rating would not be lowered one (or more) full rating notch (for example, Ba1 to Ba2 by Moody's or BB+ to BB by S&P or Fitch) in whole or in part as a result of such disposal;
- (d) *No acquisitions from Affiliates*: the Issuer shall not, and shall procure that no member of the Group shall, acquire any asset from an Affiliate (which is not a member of the Group) unless such acquisition is on arm's length terms and for full market value (or on terms more favourable for the relevant member of the Group) and:
- (i) the consideration payable for such acquisition by itself or when aggregated with the consideration paid or payable in respect of each other acquisition undertaken in the same Relevant Period does not in aggregate exceed EUR10,000,000; or
  - (ii) if there are Rated Securities, having consulted with the relevant Rating Agencies, in the reasonable opinion of the Issuer, any current Rating assigned to the Rated Securities would not be withdrawn or reduced from an Investment Grade Rating to a rating below an Investment Grade Rating by any Rating Agency or, if a Rating Agency shall already have rated the Rated Securities below an Investment Grade Rating, any such rating would not be lowered one (or more) full rating notch (for example, Ba1 to Ba2 by Moody's or BB+ to BB by S&P or Fitch) in whole or in part as a result of such acquisition;
- (e) *Lock-up*: save as set out below, the Issuer shall not:
- (i) make any loan to its shareholders or any Affiliate thereof (other than a member of the Group);
  - (ii) declare, make or pay any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital);
  - (iii) repay or distribute any dividend or share premium reserve; or
  - (iv) redeem, repurchase, defease, retire or repay any of its share capital or resolve to do so,

each of the above being a **Restricted Payment**, if at the time of such proposed Restricted Payment either a Lock-up Event has occurred and is continuing or would occur as a result of the making of such proposed Restricted Payment (on the basis that such Restricted Payment had been taken into

account when the most recent Audited Consolidated Financial Statements or Interim Consolidated Financial Statements (as applicable) were prepared).

The above restriction shall not apply to:

- (i) any payment made by a member of the Group to any of its Affiliates in respect of amounts due from time to time under any service level agreement in consideration for the services provided under such agreements; and
  - (ii) any payments made by members of the Group to any of its Affiliates in respect of tax contributions in relation to the RETGS; and
- (f) *Financial Covenant*: the Issuer shall ensure that (i) the DSCR in respect of the Relevant Period expiring on each Calculation Date exceeds 1.50:1.00; and (ii) Leverage in respect of the Relevant Period expiring on each Calculation Date does not exceed 7.00:1.00, in each case tested by reference to the Audited Consolidated Financial Statements in respect of each Calculation Date falling on 31 December and the Interim Consolidated Financial Statements in respect of each Calculation Date falling on 30 June.

## 5. INTEREST

### 5.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.1:

- (a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the

product of (I) the number of days in such Determination Period and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

- (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
  - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

## 5.2 Interest on Floating Rate Notes

### (a) Interest Payment Dates

Each Floating Rate Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 5.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall

apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of Floating Rate Notes will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is a period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

(A) Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- I. the offered quotation; or
- II. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR or EURIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service that displays the information) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent, for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

(B) If the Relevant Screen Page is not available or if, in the case of paragraph 5.2(b)(ii)(A)I, no offered quotation appears or, in the case of subclause 5.2(b)(ii)(A)II, fewer than three offered quotations appear, in each case as at the Specified Time, the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question. If two or more of the Reference Banks provide the Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

(C) If on any Interest Determination Date:

- I. one only or none of the Reference Banks provides the Agent with an offered quotation as provided in the preceding paragraph, the Rate of Interest for the relevant Interest Period shall be the rate per annum which the Agent determines as being the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the rates, as communicated to (and at the request of) the Agent by the Reference Banks or any two or more of them, at which such banks were offered, at approximately the Specified Time on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or



the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any); or

- II. if fewer than two of the Reference Banks provide the Agent with offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for the purpose) informs the Agent it is quoting to leading banks in the London inter-bank market (if the Reference Rate is LIBOR) or the Euro-zone inter-bank market (if the Reference Rate is EURIBOR) plus or minus (as appropriate) the Margin (if any),

provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period in place of the Margin relating to that last preceding Interest Period).

Unless otherwise stated in the applicable Final Terms, the Minimum Rate of Interest shall be deemed to be zero.

**(c) Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

**(d) Determination of Rate of Interest and calculation of Interest Amounts**

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Notes for the relevant Interest Period by applying the Rate of Interest to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 5.2:

- (i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30;

- (vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D<sub>2</sub> will be 30;

- (vii) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D<sub>2</sub> will be 30.

**(e) Notification of Rate of Interest and Interest Amounts**

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer and any stock exchange on which the relevant Floating Rate Notes are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 11 as soon as

possible after their determination but in no event later than the fourth Lisbon Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Notes are for the time being listed and to the Noteholders in accordance with Condition 11. For the purposes of this paragraph, the expression **Lisbon Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in Lisbon.

**(f) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 5.2 by the Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent, the other Paying Agents and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Issuer and the Noteholders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**(g) References to Agent**

References in this Condition 5.2 to “the Agent” shall be deemed to refer instead to such other person as identified in the Applicable Final Terms if such Final Terms name another person as the party for calculating the Rate of Interest and the Interest Amount.

**5.3 Step-up/Step-down Rate of Interest**

If Step-up/Step-down Rate of Interest is specified as being applicable in the applicable Final Terms, the Rate of Interest shall be subject to adjustment by the amount (a **Step-up Margin**) specified in the applicable Final Terms in the event of any Step-up Rating Change or any subsequent Step-down Rating Change, as the case may be, in accordance with the following provisions in respect of those Notes (**Applicable Notes**).

For any Interest Period commencing on or after the first Interest Payment Date immediately following the date of a Step-up Rating Change, if any, the Rate of Interest shall be increased by the Step-up Margin specified in the applicable Final Terms.

In the event that a Step-down Rating Change occurs after the date of a Step-up Rating Change (or on the same date but subsequent thereto), then for any Interest Period commencing on the first Interest Payment Date following the date of such Step-down Rating Change, the Rate of Interest shall be the initial Rate of Interest as specified in the Final Terms.

The Issuer shall cause each Rating Change (if any) and the applicable Rate of Interest (as adjusted in accordance with this Condition 5.3) to be notified to the Agent and any stock exchange on which the relevant Notes are for the time being listed and the Noteholders (in accordance with Condition 11) as soon as practicable after such Rating Change.

For the avoidance of doubt, a Step-up Rating Change may occur more than once, if a Step-down Rating Change has occurred prior to the relevant subsequent Step-up Rating Change.

## 5.4 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 11.

## 6. PAYMENTS

### 6.1 Method of payment

Subject as provided below:

- (a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency; and
- (b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto.

### 6.2 Payments in respect of the Notes

Whilst the Notes are held through Interbolsa, payment of principal and interest in respect of the Notes will be (i) if made in euro (a) credited, according to the procedures and regulations of Interbolsa, from the payment current account which the relevant Paying Agent (acting on behalf of the Issuer) has indicated to, and has been accepted by, Interbolsa to be used on the relevant Paying Agent's behalf for payments in respect of securities held through Interbolsa to the payment current accounts held according to the applicable procedures and regulations of Interbolsa by the Affiliate Members whose control accounts with Interbolsa are credited with such Notes of and thereafter (b) credited by such Affiliate Members of Interbolsa from the aforementioned payment current accounts to the accounts of the owners of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be; or (ii) if made in currencies other than euro (a) transferred, on the payment date and according to the procedures and regulations applicable by Interbolsa, from the account held by the relevant Paying Agent in the Foreign Currency Settlement System (*Sistema de Liquidação em Moeda Estrangeira*), managed by Caixa Geral de Depósitos, S.A., to the relevant accounts of the relevant Affiliate Members of Interbolsa, and thereafter (b) transferred by such Affiliate Members of

Interbolsa from such relevant accounts to the accounts of the owners of those Notes or through Euroclear and Clearstream, Luxembourg to the accounts with Euroclear and Clearstream, Luxembourg of the beneficial owners of those Notes, in accordance with the rules and procedures of Interbolsa, Euroclear or Clearstream, Luxembourg, as the case may be.

### **6.3 General provisions applicable to payments**

The holder of a Note, as shown in the relevant individual securities accounts held with an Affiliate Member of Interbolsa as having an interest in Notes shall be the only person entitled to receive payments in respect of Notes recorded therein.

The Issuer will be discharged by payment to the Noteholders according to the procedures and regulations of Interbolsa in respect of each amount so paid.

### **6.4 Payment Day**

If the date for payment of any amount in respect of any Note is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 13) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Lisbon and London and any Additional Financial Centre (other than TARGET2 System) specified in the applicable Final Terms;
- (b) if TARGET2 System is specified as an Additional Financial Centre in the applicable Final Terms, a day on which the TARGET2 System is open; and
- (c) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

### **6.5 Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 8;
- (b) the Final Redemption Amount of the Notes;
- (c) the Early Redemption Amount of the Notes;
- (d) the Optional Redemption Amount(s) (if any) of the Notes;
- (e) in relation to Zero Coupon Notes, the Amortised Face Amount; and

- (f) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 8.

## **7. REDEMPTION AND PURCHASE**

### **7.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

### **7.2 Redemption for tax reasons**

Subject to Condition 7.7, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is not a Floating Rate Note) or on any Interest Payment Date (if this Note is a Floating Rate Note), on giving not less than the minimum period and not more than the maximum period of notice specified in the applicable Final Terms to the Agent and, in accordance with Condition 11, the Noteholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts described in Condition 8 as a result of any change in, or amendment to, the laws or regulations of the Relevant Jurisdiction or any political subdivision of, or any authority in, or of, the Relevant Jurisdiction having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the Notes; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Agent to make available at its specified office to the Noteholders (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment and the Agent shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above in which event they shall be conclusive and binding on the Noteholders.

Notes redeemed pursuant to this Condition 7.2 will be redeemed at their Early Redemption Amount referred to in Condition 7.7 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### **7.3 Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified as being applicable in the applicable Final Terms, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in applicable Final Terms to the Noteholders in accordance with Condition 11 (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only (as specified in the applicable Final Terms) of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. The Optional Redemption Amount will be the specified percentage of the nominal amount of the Notes stated in the applicable Final Terms.

If Spens Amount is specified in the Final Terms as the Optional Redemption Amount, the Optional Redemption Amount shall be an amount equal to the higher of (i) 100 per cent. of the nominal amount outstanding of the Notes to be redeemed and (ii) the nominal amount outstanding of the Notes to be redeemed multiplied by the price, as reported to the Issuer and the Agent by the Independent Financial Adviser, at which the Gross Redemption Yield on such Notes on the Reference Date is equal to the Gross Redemption Yield (determined by reference to the middle market price) at the Quotation Time specified in the applicable Final Terms on the Reference Date of the Reference Bond, plus the Redemption Margin, all as determined by the Independent Financial Adviser.

If Make-Whole Amount is specified in the applicable Final Terms as the Optional Redemption Amount, the Optional Redemption Amount shall be an amount calculated by the Independent Financial Adviser equal to the higher of (i) 100 per cent. of the nominal amount outstanding of the Notes to be redeemed or (ii) the sum of the present values of the nominal amount outstanding of the Notes to be redeemed and the Remaining Term Interest on such Note (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on an annual basis at the Reference Bond Rate, plus the Redemption Margin.

Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the nominal amount of all outstanding Notes will be reduced proportionally.

### **7.4 Mandatory Early Redemption for non-disposal**

If Mandatory Early Redemption is specified as being applicable in the applicable Final Terms, the Issuer will on 31 July 2017 redeem all (but not some only) of the Notes then outstanding at 101 per cent. of their principal amount together, if appropriate, with interest accrued to (but excluding) the date of redemption, if at least 22.5 per cent. of the ordinary shares in the share capital of the Issuer has not been sold to any Person (other than (i) Galp Energia, SGPS, S.A. or (ii) any Successor in Business of Galp Energia, SGPS, S.A. or any of their respective Subsidiaries) on or prior to 30 June 2017.

### **7.5 Redemption at the option of the Noteholders (Investor Put)**

If Investor Put is specified as being applicable in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 11 not less than the minimum period nor more than the maximum period of notice specified in the applicable Final Terms, the Issuer will, upon the expiry of such notice, redeem such Note on the Optional Redemption Date and at the



Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date.

To exercise the right to require redemption of this Note under this Condition 7.5, the holder of this Note must deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account to which payment is to be made under this Condition 7.5. Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable. The right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent.

## **7.6 Redemption at the option of the Noteholders (Event Put)**

If Event Put is specified as being applicable in the applicable Final Terms, if a Relevant Event occurs and, within the applicable Relevant Event Period either a Negative Rating Event or a Rating Downgrade occurs, then, unless the Issuer shall have previously given notice under Condition 7.2, Condition 7.3 or Condition 7.4 or the holder has given notice to redeem some or all of its Notes under Condition 7.5 or, in respect of the occurrence of a previous Relevant Event, in accordance with this Condition 7.6, upon the holder of any Note giving notice to the Issuer in accordance with Condition 11 not later than the date specified in the applicable Final Terms after the end of the Relevant Event Period, the Issuer will, upon the expiry of such notice, redeem such Note on the Event Put Redemption Date specified in the applicable Final Terms and at the Event Put Redemption Amount specified in the applicable Final Terms, together, if appropriate, with interest accrued to (but excluding) the Event Put Redemption Date.

Promptly upon the Issuer becoming aware that a Relevant Event has occurred, the Issuer shall give notice (a **Relevant Event Notice**) to the Agent and to the Noteholders in accordance with Condition 11 specifying the nature of the Relevant Event and the procedure and other pertinent information for exercising the Event Put.

To exercise the right to require redemption of this Note under this Condition 7.6, the holder of this Note must deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed Put Notice and in which the holder must specify a bank account to which payment is to be made under this Condition 7.6. Any Put Notice given by a holder of any Note pursuant to this paragraph shall be irrevocable. The right to require redemption will be exercised directly against the Issuer, through the relevant Paying Agent.

## **7.7 Early Redemption Amounts**

For the purpose of Condition 7.2 above and Condition 9, each Note will be redeemed at its Early Redemption Amount calculated as follows:

- (a) each Note (other than a Zero Coupon Note) will be redeemed at its Early Redemption Amount; and
- (b) each Zero Coupon Note will be redeemed at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

**RP** means the Reference Price;

**AY** means the Accrual Yield expressed as a decimal; and

$y$  is the Day Count Fraction specified in the applicable Final Terms which will be either (i) 30/360 (in which case the numerator will be equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (ii) Actual/360 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 360) or (iii) Actual/365 (in which case the numerator will be equal to the actual number of days from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator will be 365).

## **7.8 Purchases**

Subject to applicable provisions of Portuguese law, the Issuer or any of its Subsidiaries (as defined below) may at any time purchase or otherwise acquire Notes at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer or the relevant Subsidiary (as the case may be), cancelled.

## **7.9 Cancellation**

All Notes which are redeemed will forthwith be cancelled in accordance with Interbolsa regulations. All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 7.8 above shall be cancelled by Interbolsa in accordance with Interbolsa regulations and cannot be held, reissued or resold.

## **7.10 Late payment on Zero Coupon Notes**

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Conditions 7.1, 7.2, 7.3, 7.4, 7.5 or 7.6 above or upon its becoming due and repayable as provided in Condition 9 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 7.7(b) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Agent and notice to that effect has been given to the Noteholders in accordance with Condition 11.

## 8. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any taxes imposed or levied in the Relevant Jurisdiction, unless the withholding or deduction of the taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, except that no additional amounts shall be payable in relation to any payment in respect of any Notes:

- (a) to, or to a third party on behalf of, a Noteholder who is liable to the taxes in respect of the Notes by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of Notes; or
- (b) to, or to a third party on behalf of, a Noteholder that may qualify for the application of Decree-law no. 193/2005, of 7 November 2005, as amended from time to time (**Decree-law no. 193/2005**), and in respect of whom all procedures and information required from a Noteholder in order to comply with Decree-law no. 193/2005, and any implementing legislation, are not performed or received, as the case may be, in due time; or
- (c) to, or to a third party on behalf of, a Noteholder resident for tax purposes in the Relevant Jurisdiction, or a resident in a country, territory or region subject to a clearly more favourable tax regime (a tax haven jurisdiction) as defined in Ministerial Order (*Portaria*) no. 150/2004, of 13 February 2004, as amended from time to time, issued by the Portuguese Minister of State and Finance (*Portaria do Ministério das Finanças e da Administração Pública no. 150/2004*) with the exception of (a) central banks and governmental agencies, as well as international institutions recognised by the Tax Jurisdiction, of those tax haven jurisdictions, and (b) tax haven jurisdictions which have a double taxation treaty in force or a tax information exchange agreement in force with Portugal; or
- (d) to, or to a third party on behalf of (i) a Portuguese resident legal entity subject to Portuguese corporation tax with the exception of entities that benefit from an exemption of Portuguese withholding tax or from Portuguese income tax exemptions, or (ii) a legal entity not resident in Portugal with a permanent establishment in Portugal to which the income or gains obtained from the Notes are attributable (with the exception of entities which benefit from a Portuguese withholding tax waiver); or
- (e) presented for payment by or on behalf of a Noteholder who would not be liable for or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or
- (f) presented for payment into an account held on behalf of undisclosed beneficial owners where such beneficial owners are not disclosed for purposes of payment and such disclosure is required by law.

## 9. EVENTS OF DEFAULT

If any or more of the following events (each an **Event of Default**) shall occur and be continuing:

- (a) the Issuer fails to pay any amount of principal or interest due in respect of the Notes and the default continues for a period of 7 days in the case of principal and 14 days in the case of interest; or

- (b) the Issuer fails to perform or observe any of its other obligations under these Conditions and such failure continues unremedied for a period of 30 days, or in the case of failure by the Issuer to comply with Condition 4(f) 90 days, after any Noteholder has given written notice to the Issuer requiring the failure to be remedied; or
- (c) (i) any Indebtedness for Borrowed Money of the Issuer or any Material Subsidiary becomes due and payable prior to the stated maturity thereof following the occurrence of any event of default (howsoever described); or (ii) any Indebtedness for Borrowed Money of the Issuer or any Material Subsidiary is not paid on the due date of payment (as extended by any applicable grace period); or (iii) following the occurrence of any event of default (howsoever described), any guarantee or indemnity in respect of Indebtedness for Borrowed Money given by the Issuer or any Material Subsidiary is not honoured when due (as extended by any applicable grace period); or (iv) any security interest, present or future, over the assets of the Issuer or any Material Subsidiary for any Indebtedness for Borrowed Money becomes enforceable following the occurrence of any event of default (howsoever described) and steps are taken to enforce the same, **provided that** an event described in this subparagraph (c) shall not constitute an Event of Default (I) if it is being contested in good faith by appropriate means by the Issuer or the relevant Material Subsidiary, as the case may be, and the Issuer or such Material Subsidiary, as the case may be, has been advised by recognised independent legal advisers of good repute that it is reasonable to do so; or (II) if the Indebtedness for Borrowed Money, either alone or when aggregated (without duplication) with other amounts of Indebtedness for Borrowed Money in respect of which any of the events specified above has occurred and is continuing, does not exceed EUR30,000,000 (or its equivalent in any other currency or currencies); or
- (d) if (i) any steps are taken with a view to the liquidation or dissolution of the Issuer or any Material Subsidiary or the Issuer or any Material Subsidiary becomes insolvent, is unable to pay its debts or admits in writing its inability to pay its debts as and when the same fall due, or a receiver, liquidator or similar officer shall be appointed over all or any part of the Issuer or any Material Subsidiary's assets or an application shall be made for a moratorium or an arrangement with creditors of the Issuer or any Material Subsidiary or proceedings shall be commenced in relation to the Issuer or any Material Subsidiary under any legal reconstruction, readjustment of debts, dissolution or liquidation law or regulation, or a distress shall be levied or sued out upon all or any part of the Issuer or any Material Subsidiary's assets or anything analogous to the foregoing shall occur; and (ii) in any case shall not be discharged for 60 days, **provided that** no such event shall constitute an Event of Default if (A) it arises for the purposes of a Permitted Transaction; or (B) it is being contested in good faith by appropriate means by the Issuer or the relevant Material Subsidiary, as the case may be, and the Issuer or such Material Subsidiary, as the case may be, has been advised by recognised independent legal advisers of good repute that it is reasonable to do so; or
- (e) save for the purposes of a Permitted Transaction (i) the Issuer ceases or (ii) the Issuer and its Material Subsidiaries taken as a whole cease, in each case to carry on the whole or substantially the whole of the business conducted by it or them; or
- (f) any authorisation, approval, consent, licence, decree, registration, publication, notarisation or other requirement of any governmental or public body or authority necessary to enable or permit the Issuer to comply with its obligations under the Notes or to carry out the whole or substantially the whole of its business is revoked, withdrawn or withheld or otherwise fails to remain in full force and effect or any law, decree or directive of any competent authority of Portugal is enacted or issued which materially impairs the ability or right of the Issuer to

perform such obligations or to carry out the whole or substantially the whole of its business;  
or

- (g) any event occurs which under the laws of any Relevant Jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs; or
- (h) it is or becomes unlawful for the Issuer to perform or comply with any of its material obligations under the Notes,

any Noteholder may by written notice to the Issuer and to the Agent at the specified office of the Agent, declare the principal amount outstanding of the Notes to be forthwith due and payable whereupon the same shall become forthwith due and payable at their Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind, *provided that* any such action is not contrary to the terms of any Extraordinary Resolution or other resolution of the Noteholders.

No later than 30 days prior to any Solvent Voluntary Reorganisation, the Issuer shall notify the Noteholders in accordance with Condition 11 of its intention to carry out a Solvent Voluntary Reorganisation. Following such Solvent Voluntary Reorganisation, the Issuer shall make available for inspection by Noteholders a report signed by two directors of the Issuer confirming on behalf of the Issuer that such event was a Solvent Voluntary Reorganisation and such report shall (unless the contrary be proven) be sufficient evidence of such confirmation of the Issuer.

## **10. PAYING AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Issuer is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent;
- (b) so long as any of the Notes are registered with Interbolsa there will at all times be a Paying Agent having a specified office in such place of registration and complying with any requirements that may be imposed by the rules and regulations of Interbolsa; and
- (c) so long as any of the Notes are listed on any stock exchange or listed or admitted to trading by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority.

Notice of any variation, termination, appointment or change in Paying Agents will be given to the Noteholders promptly by the Issuer in accordance with Condition 11.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any Noteholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor Paying Agent.

## 11. NOTICES

All notices regarding the Notes will be deemed to be validly given if published in accordance with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading, which may include publication in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall comply with disclosure obligations applicable to listed companies under Portuguese law in respect of notices relating to the Notes, which are integrated in and held through Interbolsa in dematerialised book-entry form. Any notice shall be deemed to have been given on the date of publication or, if published more than once or on different dates, on the date of the first publication.

Notices to be given by any Noteholder shall be in writing and given by lodging the same either with the Issuer or with the Agent.

## 12. MEETINGS OF NOTEHOLDERS AND MODIFICATION

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by resolution of a modification of these Conditions or any of the provisions of the Agency Agreement.

The quorum at any meeting convened to vote on a resolution will be any person or persons holding or representing Notes whatever the nominal amount of the relevant Series of Notes so held or represented, save in the case of an Extraordinary Resolution when the quorum shall be any person or persons holding or representing in the aggregate not less than 50 per cent. in nominal amount of the relevant Series of Notes for the time being outstanding (or, in the case of a meeting the business of which includes a Reserved Matter, holding or representing in the aggregate not less than three quarters in nominal amount of the relevant Series of Notes for the time being outstanding), or, at any adjourned meeting, any person or persons holding or representing Notes whatever the nominal amount of the relevant Series of Notes so held or represented (or, in the case of an adjourned meeting the business of which includes a Reserved Matter, holding not less than one quarter in nominal amount of the relevant Series of Notes for the time being outstanding).

The majorities required to approve a resolution at any meeting convened in accordance with the applicable rules shall be: (i) if in respect of a resolution other than an Extraordinary Resolution, the majority of the votes cast at the relevant meeting; or (ii) if in respect of an Extraordinary Resolution, at least 50 per cent. in nominal amount of the relevant Series of Notes for the time being outstanding or, at any adjourned meeting, 2/3 of the votes cast at the relevant meeting.

The power to resolve on any Reserved Matter is exercisable only by Extraordinary Resolution. For the purposes of these Conditions, a **Reserved Matter** means any proposal: (i) to change any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce the amount of principal or interest due on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity; (iii) to effect the exchange, conversion or substitution of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed; (iv) to change the currency in which amounts due in respect of the Notes are payable; (v) to alter the priority of payment of interest or principal in respect of the Notes; (vi) to amend this definition; and (vii) that by operation of law requires the same majority as an Extraordinary Resolution in order to be approved.

A resolution approved at any meeting of the holders of Notes of a Series shall be binding on all the holders of Notes of such Series, whether or not they are present at the meeting.

The chairman of the general shareholders meeting of the Issuer may at any time and, if required in writing by the Issuer or Noteholders holding not less than five per cent. in nominal amount of the relevant Series of Notes for the time being outstanding, shall convene a meeting of the relevant Noteholders unless the Noteholders have appointed a common representative in which case the meetings shall be convened by the common representative and if it fails for a period of seven days to convene the meeting, the meeting may be convened by the chairman of the general shareholders meeting of the Issuer. If the chairman of the general shareholders meeting of the Issuer fails to convene the meeting, then at least five per cent. in nominal amount of the relevant Series of Notes for the time being outstanding held or represented by any person or persons may request the competent court in Portugal to convene the meeting.

The Agent and the Issuer may, without the consent of the Noteholders (and by acquiring the Notes, the Noteholders agree that the Agent and the Issuer may, without the consent of the Noteholders) make any modification (except as mentioned in these Conditions) of the Notes, the Agency Agreement or the Interbolsa Instrument which:

- (a) is not prejudicial to the interests of the Noteholders;
- (b) is of a formal, minor or technical nature;
- (c) is made to correct a manifest or proven error; or
- (d) is to comply with mandatory provisions of any applicable law or regulation.

Any modification so made shall be binding on all Noteholders and shall be notified to the Noteholders in accordance with Condition 11 as soon as practicable after it has been agreed.

### **13. PRESCRIPTION**

The Notes will become void unless presented for payment within 10 years (in the case of principal) and 5 years (in the case of interest) in each case from the date on which such payment first becomes due, subject in each case to the provisions of Condition 6.

### **14. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes of such Series.

### **15. SUBSTITUTION**

#### **15.1 Conditions Precedent to Substitution**

The Issuer may, without the consent of the Noteholders, be replaced and substituted by (i) any Successor in Business of the Issuer; or (ii) any other company, in each case as principal debtor (the **Substituted Debtor**) in respect of the Notes provided that:

- (a) no Event of Default has occurred and is continuing;
- (b) a deed poll (to be available for inspection by Noteholders at the specified office of the Agent) and such other documents (if any) as may be necessary to give full effect to the

substitution (together the **Documents**) are executed by the Substituted Debtor pursuant to which (i) the Substituted Debtor shall undertake in favour of each Noteholder to be bound by the Conditions and the provisions of the Interbolsa Instrument and the Agency Agreement (with any consequential amendments as may be necessary) as fully as if the Substituted Debtor had been named in the Notes, the Interbolsa Instrument and the Agency Agreement as the principal debtor in respect of the Notes in place of the Issuer (or any previous substitute); **and** (ii) except where the Substituted Debtor is the Successor in Business of the Issuer, the Issuer, acting either through its head office or through an international branch as it may determine in its sole discretion, shall irrevocably and unconditionally guarantee (the **Guarantee**) in favour of each Noteholder the payment of all sums payable by the Substituted Debtor as principal debtor and (without prejudice to such guarantee) shall remain bound by the obligations (other than the obligations to make payments of interest or principal) of the Issuer under the Notes and the Agency Agreement (with any consequential amendments as may be necessary);

- (c) without prejudice to the generality of subparagraph 15.1(b) above, where the Substituted Debtor is incorporated, domiciled or resident for taxation purposes in a territory other than Portugal, the Documents contain a covenant by the Substituted Debtor and/or such other provisions as may be necessary to ensure that each Noteholder has the benefit of a covenant in terms no less favourable to Noteholders (as determined by the Issuer) than the provisions of Condition 8 with the substitution for the references to Portugal in the definition of "Relevant Jurisdiction" of references to the territory or territories in which the Substituted Debtor is incorporated, domiciled and/or resident for taxation purposes;
- (d) the Substituted Debtor and the Issuer, by means of the deed poll, jointly and severally agree to indemnify and hold harmless each Noteholder against (i) any tax, duty, assessment or governmental charge with respect to any Note which (A) is or may be imposed, incurred by or levied on it by (or by any authority in or of) the jurisdiction of the country of the Substituted Debtor's and the Issuer's residence for tax purposes and, if different, of its jurisdiction of incorporation; and (B) which would not have been so imposed had the substitution not been made; and (ii) any tax, duty, assessment or governmental charge, and any liability, charge, cost or expense, in connection with the substitution;
- (e) the Documents contain a warranty and representation by the Substituted Debtor and the Issuer that (i) each of the Substituted Debtor and the Issuer has obtained all necessary governmental and regulatory approvals and consents (if any) for such substitution and for the performance by each of the Substituted Debtor and the Issuer of its obligations under the Documents and the Notes and that any such approvals and consents are in full force and effect; and (ii) the obligations assumed by each of the Substituted Debtor and the Issuer under the Documents and the Notes are all legal, valid and binding in accordance with their respective terms;
- (f) following the proposed substitution of the Substituted Debtor, the Notes will continue to be listed on each stock exchange on which the Notes are listed;
- (g) the Substituted Debtor has delivered to the Agent or procured the delivery to the Agent of a legal opinion from a leading firm of lawyers in the jurisdiction of the Substituted Debtor to the effect that the Documents and its obligations under the Notes constitute legal, valid, binding and enforceable obligations of the Substituted Debtor, such opinion to be dated not more than three days prior to the date of the substitution of the Substituted Debtor for the Issuer and to be available for inspection by Noteholders at the specified office of the Agent;



- (h) the Issuer shall have delivered to the Agent or procured the delivery to the Agent of a legal opinion from a leading firm of lawyers in the jurisdiction of the Issuer to the effect that the Documents (including the Guarantee (if applicable)) constitute legal, valid, binding and enforceable obligations of the Issuer, such opinion to be dated not more than three days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by Noteholders at the specified office of the Agent;
- (i) the Issuer shall have delivered to the Agent or procured the delivery to the Agent of a legal opinion from a leading firm of English lawyers to the effect that the Documents constitute legal, valid, binding and enforceable obligations of the parties thereto under English law, such opinion to be dated not more than three days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by Noteholders at the specified office of the Agent; and
- (j) the Substituted Debtor (if not incorporated in England or Wales) shall have appointed the process agent appointed by the Issuer in Condition 17 or another person with an office in England as its agent in England to receive service of process on its behalf in relation to any legal action or proceedings arising out of or in connection with the Notes.

No later than 30 days prior to any substitution to a Successor in Business of the Issuer, the Issuer shall notify the Noteholders in accordance with Condition 11 of its intention to create a Successor in Business of the Issuer. Following creation of a Successor in Business of the Issuer, the Issuer shall make available for inspection by Noteholders a report signed by two directors of the Issuer confirming on behalf of the Issuer that a company was a Successor in Business of the Issuer and such report shall (unless the contrary be proven) be sufficient evidence of such confirmation of the Issuer.

## **15.2 Assumption by Substituted Debtor**

Upon execution of the Documents as referred to in Condition 15.1, the Substituted Debtor shall be deemed to be named in the Notes as the principal debtor in place of the Issuer (or of any previous substitute under these provisions) and the Notes shall thereupon be deemed to be amended to give effect to the substitution. The execution of the Documents shall operate to release the Issuer as issuer (or such previous substitute as aforesaid) from all of its obligations as principal debtor in respect of the Notes, notwithstanding the provisions of subparagraph 15.1(b) and 15.1(d).

## **15.3 Further substitution**

After a substitution pursuant to Condition 15.1 the Substituted Debtor may, without the consent of the Noteholders, effect a further substitution. All the provisions specified in Conditions 15.1 and 15.2 shall apply *mutatis mutandis*, to such further substitution and references in these Conditions to the Issuer shall, where the context so requires, be deemed to be or include references to any such further Substituted Debtor, ***provided that***, in the event of a further substitution (except where the Substituted Debtor is the Successor in Business of the Issuer in both the original substitution and each further substitution), Galp Gás Natural Distribuição, S.A. or its Successor in Business (and not any other Substituted Debtor in respect of any substitution occurring prior to the relevant further substitution), acting either through its head office or through an international branch as it may determine in its sole discretion, shall irrevocably and unconditionally guarantee in favour of each Noteholder the payment of all sums payable by the Substituted Debtor as principal debtor and (without prejudice to such guarantee) shall remain bound by the obligations (other than the obligations to make payments of interest or principal) of the Issuer under the Notes and the Agency

Agreement (with any consequential amendments as may be necessary) and Conditions 15.1 and 15.2 shall be construed accordingly.

#### **15.4 Reversal**

After a substitution pursuant to Condition 15.1 or 15.3 any Substituted Debtor may, without the consent of any Noteholder, reverse the substitution, *mutatis mutandis*.

#### **15.5 Deposit of Documents**

The Documents shall be deposited with and held by the Agent for so long as any Note remains outstanding and for so long as any claim made against the Substituted Debtor or the Issuer by any Noteholder in relation to the Notes or the Documents shall not have been finally adjudicated, settled or discharged. The Substituted Debtor and the Issuer shall acknowledge in the Documents the right of every Noteholder to production of the Documents for the enforcement of any of the Notes or the Documents.

#### **15.6 Notice of Substitution**

Before such substitution comes into effect, the Substituted Debtor shall give notice thereof to the Noteholders in accordance with Condition 11.

### **16. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

### **17. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

#### **17.1 Governing law**

The Notes and the Interbolsa Instrument and any non-contractual obligations arising out of or in connection with the Notes and the Interbolsa Instrument are governed by, and shall be construed in accordance with, English law, save that the form (*forma de representação*) and transfer of the Notes, the creation (if any) of security over the Notes, the Interbolsa procedures for the exercise of rights under the Notes and the waiver by Noteholders pursuant to Condition 2 of any rights they might have against Galp Gás & Power, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of the Issuer) or Galp Energia, SGPS, S.A. (being, as at the date of this Offering Circular, the sole shareholder of Galp Gás & Power, SGPS, S.A.) arising pursuant to articles 501 and 491 of the Portuguese Companies Code are governed by, and shall be construed in accordance with, Portuguese law.

The Agency Agreement and any non-contractual obligations arising out of or in connection with this Agreement are governed by, and shall be construed in accordance with, Portuguese law.

#### **17.2 Submission to jurisdiction**

- (a) Subject to Condition 17.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in

connection with the Notes (a **Dispute**) and accordingly each of the Issuer and any Noteholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

- (b) For the purposes of this Condition 17.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Noteholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

### 17.3 Appointment of Process Agent

The Issuer irrevocably appoints Law Debenture Corporate Services Limited at 100 Wood Street, London, as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Law Debenture Corporate Services Limited being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

## 18. DEFINITIONS

**Acceptable Bank** means a bank or financial institution which has a rating for its long-term unsecured and non credit-enhanced debt obligations of at least BBB or Baa2 (or their respective equivalents at any Rating Agency for the time being).

**Accounting Principles** means the principles adopted by the Issuer in the preparation of the relevant Audited Consolidated Financial Statements or (as applicable) Interim Consolidated Financial Statements.

**Accrual Period** has the meaning given to it in Condition 5.1.

**Affiliate** means, in relation to any Person, a Subsidiary of that Person or a Holding Company of that Person or any other Subsidiary of that Holding Company.

**Affiliate Member of Interbolsa** has the meaning given to it in the preamble to these Conditions.

**Agency Agreement** has the meaning given to it in the preamble to these Conditions.

**Agent** has the meaning given to it in the preamble to these Conditions.

**Amortised Face Amount** has the meaning given to it in Condition 7.7.

**applicable Final Terms** has the meaning given to it in the preamble to these Conditions.

**Applicable Notes** has the meaning given to it in Condition 5.3.

**Audited Consolidated Financial Statements** means the annual audited consolidated financial statements of the Group.

**Available Cashflow post Capital Expenditure** means, in respect of any Relevant Period, Cash Flows from Operating Activities for that Relevant Period after deducting Capital Expenditure during that Relevant Period.

**Business Day** means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Lisbon and London and each Additional Business Centre (other than TARGET2 System) specified in the applicable Final Terms;
- (b) if TARGET2 System is specified as an Additional Business Centre in the applicable Final Terms, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open; and
- (c) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open.

**Calculation Date** means 30 June and 31 December in each year.

**Capital Expenditure** means any expenditure or obligation in respect of expenditure (other than expenditure or obligations in respect of means the acquisition of a company or any shares or securities or a business or undertaking (or, in each case, any interest in any of them) or the incorporation of a company) which, in accordance with the Accounting Principles, is treated as capital expenditure of the Group calculated on a consolidated basis. *On the Issuer's annual report for the year ended 31 December 2015, capital expenditure is described as "Cash receipts from sale of tangible and intangible assets".*

**Cash** means, at any time, cash denominated in euro, sterling, US Dollars and any other currency in hand or at a bank and (in the latter case) credited to an account in the name of a member of the Group with a bank or financial institution and to which a member of the Group is alone (or together with other members of the Group) beneficially entitled and for so long as:

- (a) that cash is repayable within 10 business days after the relevant date of calculation;
- (b) repayment of that cash is not contingent on the prior discharge of any other indebtedness of any member of the Group or of any other person whatsoever or on the satisfaction of any other condition;
- (c) there is no Security Interest over that cash except for any Security Interest constituted by a netting or set-off arrangement entered into by members of the Group in the ordinary course of their banking arrangements; and
- (d) the cash is freely and (except as mentioned in paragraph (c) above) immediately available.

**Cash Equivalent Investments** means at any time:

- (a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;
- (b) any investment in marketable debt obligations issued or guaranteed by the government of the United States of America, the United Kingdom, Australia, Canada or any member state of the European Economic Area which (in the case of a member state) has a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's, maturing within one year after the relevant date of calculation and not convertible or exchangeable to any other security;
- (c) commercial paper not convertible or exchangeable to any other security:
  - (i) for which a recognised trading market exists;
  - (ii) issued by an issuer incorporated in the United States of America, the United Kingdom, Australia, Canada, any member state of the European Economic Area;
  - (iii) which matures within one year after the relevant date of calculation; and
  - (iv) which has a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;
- (d) sterling bills of exchange eligible for rediscount at the Bank of England and accepted by an Acceptable Bank (or their dematerialised equivalent); or
- (e) any investment in money market funds which (i) have a credit rating of either A-1 or higher by S&P or F1 or higher by Fitch or P-1 or higher by Moody's, (ii) which invest substantially all their assets in securities of the types described in paragraphs (a) to (d) above and (iii) can be turned into cash on not more than 30 days' notice,

in each case, denominated in euro, sterling or US Dollars and to which any member of the Group is alone (or together with other members of the Group) beneficially entitled at that time and which is not issued or guaranteed by any member of the Group or subject to any Security Interest.

**Cash Flows from Operating Activities** means, in respect of any Relevant Period, cash receipts from customers minus

- (a) cash payments to suppliers;
- (b) cash payments for operating expenses, including salaries, contributions to the pension fund and other benefits; and
- (c) cash payments for income taxes,

in each case of the Group calculated on a consolidated basis.

**Central de Valores Mobiliários** has the meaning given to it in the preamble to these Conditions.

a **Change of Control Event** shall be deemed to have occurred if the Majority Shareholder ceases to control (directly or indirectly) more than 50 per cent. of the voting rights of the Issuer.

**Clearstream, Luxembourg** has the meaning given to it in the preamble to these Conditions.

**Code** has the meaning given to it in Condition 6.1.

**Conditions** has the meaning given to it in the preamble to these Conditions.

**Current Assets** means the aggregate (on a consolidated basis) of all inventory, work in progress, trade and other receivables of each member of the Group including prepayments in relation to operating items and sundry debtors (but excluding Cash and Cash Equivalent Investments) expected to be realised within 12 months from the date of computation but excluding amounts in respect of:

- (a) receivables in relation to corporation tax;
- (b) Exceptional Items and other non-operating items;
- (c) insurance claims; and
- (d) any interest owing to any member of the Group.

**Current Liabilities** means the aggregate (on a consolidated basis) of all liabilities (including trade creditors, accruals and provisions) of each member of the Group expected to be settled within 12 months from the date of computation but excluding amounts in respect of:

- (a) liabilities for Indebtedness and Finance Charges;
- (b) liabilities for any corporation tax;
- (c) Exceptional Items and other non-operating items;
- (d) insurance claims; and
- (e) liabilities in relation to dividends declared but not paid by a member of the Group in favour of a person which is not a member of the Group.

**Day Count Fraction** has the meaning given to it in Condition 5.1 and Condition 5.2(d), as the case may be.

**Decree-law no. 193/2005** has the meaning given to it in Condition 8.

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

**Disposal Percentage** means, in relation to a sale, transfer or other disposal or dispossession of any Disposed Assets, the ratio of (a) the aggregate EBITDA attributable to such Disposed Assets to (b) the consolidated EBITDA of the Group, expressed as a percentage.

**Disposed Assets** means, where any member of the Group sells, transfers or otherwise disposes of or is dispossessed by any means (but excluding sales, transfers, disposals or dispossessions which, when taken together with any related lease back or similar arrangements entered into in the ordinary course of business, have the result that EBITDA directly attributable to any such undertaking, property or assets continues to accrue to a wholly owned member of the Group), otherwise than to a

wholly owned member of the Group, of the whole or any part (whether by a single transaction or by a number of transactions whether related or not) of its undertaking or property or assets, the undertaking, property or assets sold, transferred or otherwise disposed of or of which it is so dispossessed.

**Dispute** has the meaning given to it in Condition 17.2.

**Documents** has the meaning given to it in Condition 15.

**DSCR** means the ratio of Available Cashflow post Capital Expenditure to Interest Service in respect of any Relevant Period, provided that, in respect of any Calculation Date falling on 30 June, Available Cashflow post Capital Expenditure and Interest Service shall be calculated by reference to the amount of Available Cashflow post Capital Expenditure and Interest Service (as applicable) as calculated by reference to the relevant Interim Consolidated Financial Statements annualised on a straight line basis (without overstating any annual payments or receipts).

**EBITDA** means the consolidated operating result of the Group before taking into account amortisations, depreciation and impairment charges of the Group, each as determined by the most recent Audited Consolidated Financial Statements at the time of the relevant Loss of Relevant Licence or sale, transfer or other disposal or dispossession of any Disposed Assets or (in the case of a determination of EBITDA for any Relevant Period) determined by reference to the Audited Consolidated Financial Statements in respect of each Calculation Date falling on 31 December and the Interim Consolidated Financial Statements in respect of each Calculation Date falling on 30 June. *By way of example, for the year ended 31 December 2015, the EBITDA was EUR127,125 thousand and for the six months ended 30 June 2016, the EBITDA was EUR65,898 thousand.*

**Euro** has the meaning given to it in the preamble to these Conditions.

**Euroclear** has the meaning given to it in the preamble to these Conditions.

**Event of Default** has the meaning given to it in Condition 9.

**Exceptional Items** means any exceptional, one off, non-recurring or extraordinary items, including those arising on:

- (a) the restructuring of the activities of an entity and reversals of any provisions for the cost of restructuring;
- (b) any decommissioning costs in relation to the discontinuation of use of assets within the Group;
- (c) disposals, revaluations, write downs or impairment of non-current assets or any reversal of any write down or impairment; and
- (d) disposals of assets associated with discontinued operations.

**Finance Charges** means, for any Relevant Period, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment fees, premia or charges and other finance payments in respect of Indebtedness or the issue of any Trade Instruments paid or payable by any member of the Group (calculated on a consolidated basis) in cash or capitalised in respect of that Relevant Period:

- (a) excluding any upfront fees or costs (but including, for the avoidance of doubt, any commitment fees and other periodic or recurring fees);
- (b) including the interest (but not the capital) element of payments in respect of Finance Leases;
- (c) including any commission, fees, discounts and other finance payments payable by (and deducting any such amounts payable to) any member of the Group under any interest rate hedging arrangement;
- (d) excluding any interest cost or expected return on plan assets in relation to any post-employment benefit schemes;
- (e) taking no account of any unrealised gains or losses on any financial instruments; and
- (f) excluding any capitalised interest to the extent that once capitalised, such amounts may not be paid in cash prior to the Maturity Date of the relevant Series of Notes then outstanding,

so that no amount shall be added (or deducted) more than once.

**Finance Lease** means any lease or hire purchase contract which would, in accordance with the Accounting Principles, be treated as a finance or capital lease.

**Fitch** means Fitch Ratings Limited.

**Fixed Interest Period** has the meaning given to it in Condition 5.1.

**Gross Redemption Yield** means, with respect to a security, the gross redemption yield on such security, expressed as a percentage and calculated by the Independent Financial Adviser on the basis set out by the United Kingdom Debt Management Office in the paper “Formulae for Calculating Gilt Prices from Yields”, page 4, Section One: Price/Yield Formulae “Conventional Gilts”; Double dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date” (published 8 June 1998, as amended or updated from time to time) on a semi-annual compounding basis (converted to an annualised yield and rounded up (if necessary) to four decimal places) or on such other basis as agreed between the Issuer and the Independent Financial Adviser.

**Group** means the Issuer and its Subsidiaries taken as a whole.

**Group Transaction** means any transaction between members of the Group (including any such transactions entered into for the purposes of or pursuant to a Solvent Voluntary Reorganisation).

**Guarantee** has the meaning given to it in Condition 15.

**Holding Company** means, in relation to any Person, any other Person in respect of which it is a Subsidiary.

**IFA Selected Bond** means a government security or securities selected by the Independent Financial Adviser as having an actual or interpolated maturity comparable with the remaining term of the Notes that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities denominated in the same currency as the Notes and of a comparable maturity to the remaining term of the Notes.



**Indebtedness** means any Indebtedness for Borrowed Money other than any indebtedness which is owed to a Holding Company of the Issuer or any of its Affiliates and which is subordinated to the Notes.

**Indebtedness for Borrowed Money** means (i) any indebtedness (whether being principal, premium interest or other amounts) for or in respect of notes, bonds, debentures, debenture stock, loan stock or other securities; or (ii) any borrowed money, in each case other than Intra-Group Indebtedness.

**Independent Financial Adviser** means an independent financial institution of international repute appointed by the Issuer at its own expense.

**Interbolsa** has the meaning given to it in the preamble to these Conditions.

**Interbolsa Instrument** has the meaning given to it in the preamble to these Conditions.

**Interest Determination Date** means the second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR, as specified in the applicable Final Terms.

**Interest Payment Date** has the meaning given to it in Condition 5.2(a).

**Interest Period** has the meaning given to it in Condition 5.2(a).

**Interest Service** means, in respect of any Relevant Period, Finance Charges for that Relevant Period less the amount of any interest received by members of the Group from third parties during that Relevant Period.

**Interim Consolidated Financial Statements** means the semi-annual unaudited consolidated financial statements of the Group.

**Intra-Group Indebtedness** means money borrowed by one entity within the Group from another entity within the Group.

**Investment Grade Rating** means a Rating of at least BBB- or Baa3 (or their respective equivalents at each Rating Agency for the time being).

**ISDA Definitions** has the meaning given to it in Condition 5.2(b).

**ISDA Rate** has the meaning given to it in Condition 5.2(b).

**Issuer** has the meaning given to it in the preamble to these Conditions.

**Joint Venture** means any arrangement or agreement for any joint venture, co-operation or partnership pursuant to required or conducive to the operation of the business of the Group.

**Leverage** means the ratio of Total Net Debt as at the last day of any Relevant Period to EBITDA for that Relevant Period, provided that, in respect of any Calculation Date falling on 30 June, EBITDA shall be calculated by reference to the amount of EBITDA as calculated by reference to the relevant Interim Consolidated Financial Statements annualised on a straight line basis (without overstating any annual payments or receipts).

**Loan Stock** means (i) indebtedness (other than the Notes) having an original maturity of more than one year which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other debt securities (not comprising, for the avoidance of doubt, preference shares or other equity securities) which for the time being are, or are intended to be with the consent of the issuer thereof, quoted, listed, ordinarily dealt in or traded on any stock exchange and/or quotation system or over-the-counter or other securities market other than any such indebtedness where the majority thereof is initially placed with investors domiciled in Portugal and who purchase such indebtedness in Portugal and (ii) any guarantee or indemnity in respect of any such indebtedness.

A **Lock-up Event** shall be deemed to have occurred on the date of publication of the relevant Audited Consolidated Financial Statements or Interim Consolidated Financial Statements (as applicable) if either:

- (a) DSCR in respect of any Relevant Period expiring on the most recent Calculation Date is or would have been less than 2.00:1.00; or
- (b) Leverage in respect of any Relevant Period expiring on the most recent Calculation Date exceeds or would have exceeded 6.50:1.00,

in each case tested by reference to the Audited Consolidated Financial Statements in respect of each Calculation Date falling on 31 December and the Interim Consolidated Financial Statements in respect of each Calculation Date falling on 30 June.

**Loss of Relevant Licence** means:

- (a) the revocation or termination by any event of any Relevant Licence as a result of a final decision from the relevant administration that cannot be appealed in an administrative proceeding provided that the enforceability of such final decision is not preventatively suspended within a judicial proceeding, without such Relevant Licence being replaced, renewed or extended; or
- (b) the withdrawal or surrender of any Relevant Licence without such Relevant Licence being replaced, renewed or extended.

**Majority Shareholder** means Galp Energia, SGPS, S.A. and any Successor in Business of Galp Energia, SGPS, S.A.

a **Material Disposal Event** shall be deemed to have occurred at any time (whether or not approved by the board of directors of the relevant members of the Group) that the sum of all (if any) Disposal Percentages for the Group is more than 35 per cent. in any relevant period, where **relevant period** means (i) on or before the third anniversary of the Issue Date of the first Tranche of Notes (the **Initial Issue Date**), the period from and including the Initial Issue Date to the relevant time, and (ii) after the third anniversary of the Initial Issue Date, any period of 36 consecutive months commencing on or after the Initial Issue Date.

a **Material Licence Event** shall be deemed to have occurred at any time (whether or not approved by the board of directors of relevant members of the Group) that the sum of all (if any) Relevant Licence Percentages for the Group is more than 35 per cent. in any relevant period, where **relevant period** means (i) on or before the third anniversary of the Issue Date, the period from and including the Issue Date to the relevant time, and (ii) after the third anniversary of the Issue Date, any period of 36 consecutive months commencing on or after the Issue Date.

**Material Subsidiary** means at any time a Subsidiary of the Issuer:

- (a) whose total assets or revenues (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest consolidated accounts of the Issuer relate, are equal to) not less than 10 (ten) per cent. of the consolidated total assets or consolidated revenues of the Issuer, all as calculated by reference to the then most recent financial statements of that Subsidiary (consolidated or, as the case may be, unconsolidated) and the most recent consolidated financial statements of the Issuer; or
- (b) to which the whole or substantially the whole of the assets and undertaking of a Subsidiary is transferred which, immediately prior to such transfer, is a Material Subsidiary,

provided that:

- (i) in subparagraph (a), if the Subsidiary was acquired after the financial period to which the most recent consolidated accounts of the Issuer relate, the reference to the then latest consolidated accounts of the Issuer shall, until consolidated accounts of the Issuer for the financial period in which the acquisition is made have been approved, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant accounts, adjusted as deemed appropriate by the Issuer;
- (ii) in subparagraph (b), the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall cease to be a Material Subsidiary on the date on which the consolidated accounts of the Issuer and its Subsidiaries for the financial period current at the date of the transfer have been approved, save if the transferor Subsidiary or the transferee Subsidiary qualify as a Material Subsidiary on or at any time after the date on which such consolidated accounts have been approved as aforesaid by virtue of the provisions of subparagraph (a) above; and
- (iii) any reference to “financial statements” or “accounts” in these Conditions refer to such “financial statements” or “accounts” as approved by the relevant company’s shareholders meeting.

A Noteholder shall be entitled to request at any time a report signed by two directors of the Issuer confirming on behalf of the Issuer that a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period, a Material Subsidiary. Any such report shall be made available for inspection by all Noteholders, and notification thereof shall be delivered in accordance with Condition 11 within 14 days of such request, and such report shall (unless the contrary be proven) be sufficient evidence of such confirmation of the Issuer.

**Moody’s** means Moody's Investors Service, Inc.

a **Negative Rating Event** shall be deemed to have occurred in respect of a Relevant Event if there are no Rated Securities at the date of the Relevant Event and either:

- (a) the Issuer does not, either prior to or not later than 21 days after the Relevant Event occurs, seek and thereafter through the Relevant Event Period use all reasonable endeavours to obtain, a rating of the Notes or any other Rateable Debt from a Rating Agency; or

- (b) if the Issuer does so seek and use such endeavours, it is unable to obtain a rating of the Notes or any other Rateable Debt from a Rating Agency of an Investment Grade Rating.

**Notes** has the meaning given to it in the preamble to these Conditions.

**Noteholders** or **holders** has the meaning given to it in the preamble to these Conditions.

**Paying Agents** has the meaning given to it in the preamble to these Conditions.

**Payment Day** has the meaning given to it in Condition 6.4.

**Person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state, agency of a state or other entity, whether or not having separate legal personality.

**Permitted Indebtedness** means:

- (a) any guarantee or indemnity in respect of, any Indebtedness of any member of the Group;
- (b) any loan provided to, or any guarantee or indemnity in respect of Indebtedness owing by, any Affiliate, provided that any such loan, guarantee or indemnity complies with Condition 4(a);
- (c) any loan provided to, or any guarantee or indemnity in respect of any Indebtedness of, a Joint Venture, provided that such loan, guarantee or indemnity complies with Condition 4(a);
- (d) any amount due to the Issuer or any member of the Group by way of deferred consideration for any disposal by the Issuer or any member of the Group, where such disposal is not otherwise restricted by these Conditions;

For the purposes of this definition of Permitted Indebtedness, **loan** shall mean any moneys provided by a Person as lender to any other Person as borrower (whether with or without interest).

**Permitted Security** means:

- (a) in the case of a consolidation or merger of the Issuer or any Material Subsidiary with or into another company (the **Combining Company**) any Security Interest over assets of the Combining Company (prior to consolidation or merger with the Issuer or the relevant Material Subsidiary) provided that:
  - (i) such Security Interest was created by the Combining Company over assets owned by the Combining Company prior to consolidation or merger with the Issuer or the relevant Material Subsidiary;
  - (ii) such Security Interest is existing at the time of such consolidation or merger;
  - (iii) such Security Interest was not created in contemplation of such consolidation or merger; and
  - (iv) the amount secured by such Security Interest is not increased thereafter; or
- (b) any Security Interest on or with respect to assets (including but not limited to receivables) of the Issuer or any Material Subsidiary which is created in respect of indebtedness raised in

the context of project finance transactions, securitisations or like arrangements in accordance with normal market practice (or guarantees or indemnities of such indebtedness) and whereby the payment obligations of the Issuer or the relevant Material Subsidiary in respect of such indebtedness (or guarantees or indemnities of such indebtedness) are limited to the value of such assets; or

- (c) any Security Interest created before the Issue Date of the first Tranche of the Notes; or
- (d) any Security Interest arising by operation of law.

**Permitted Transaction** means (i) a transaction on terms previously approved by an Extraordinary Resolution or (ii) a Solvent Voluntary Reorganisation of any Group member (other than the Issuer) in connection with any combination with, or transfer of any or all of its business and/or assets to, the Issuer or another Group Member or (iii) a reorganisation, reconstruction, amalgamation, merger, consolidation or transfer of undertakings, assets or rights resulting in a Successor in Business of the Issuer provided that the Issuer exercises its rights pursuant to Condition 15 to be replaced and substituted by the Successor in Business at the same time as the relevant entity becomes the Successor in Business of the Issuer.

**Portuguese Securities Code** has the meaning given to it in Condition 1.

**Public Announcement** means the date the Issuer gives notice of the occurrence of the Relevant Event to Noteholders (or, in the case of a Change of Control Event, any earlier date on which a public announcement or statement is made by the Issuer, any actual or potential bidder or any advisor thereto relating to any potential Change of Control Event where within 180 days following the date of such announcement or statement, a Change of Control Event occurs).

**Put Notice** has the meaning given to it in Condition 7.5.

**Rateable Debt** means any unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more.

**Rated Securities** means the Notes, if and for so long as they shall have an effective Rating from a Rating Agency, and otherwise any Rateable Debt which is Rated by a Rating Agency.

**Rating** means a long-term credit rating ascribed by a Rating Agency (whether preliminary or final) at the request (or with the consent of) the Issuer and **Rated** shall be construed accordingly.

**Rating Agency** means any of (a) Fitch, (b) Moody's, (c) S&P, and (d) any other rating agency of similar international standing and (in each case, including in the case of any references to any specific Rating Agency) their respective affiliates and successors and **Rating Agencies** shall be construed accordingly.

**Rating Change** means a Step-up Rating Change and/or a Step-down Rating Change.

a **Rating Downgrade** shall be deemed to have occurred in respect of the Relevant Event, if there are Rated Securities at the date of the Relevant Event and:

- (a) in circumstances where the Rated Securities are assigned an Investment Grade Rating by at least one Rating Agency, the Investment Grade Rating assigned to the Rated Securities by each such Rating Agency is withdrawn or reduced to a rating below an Investment Grade Rating; or

- (b) in circumstances where the Rated Securities are not assigned an Investment Grade Rating by at least one Rating Agency, a rating by one of the Rating Agencies is lowered one (or more) full rating notch (for example, Ba1 to Ba2 by Moody's or BB+ to BB by S&P or Fitch),

provided that a Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Relevant Event if each such Rating Agency (in the case of (a) above) or the relevant Rating Agency (in the case of (b) above) making the reduction in rating to which this definition would otherwise apply does not announce or publicly confirm, or inform the Issuer in writing, that the reduction was, in whole or in part, the result of any event or circumstance comprised in or arising as a result of, or in respect of, the applicable Relevant Event (whether or not the applicable Relevant Event shall have occurred at the time of the Rating Downgrade).

**Redemption Margin** shall be as set out in the applicable Final Terms.

**Reference Banks** means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Agent.

**Reference Bond** shall be as set out in the applicable Final Terms or, if no such bond is set out or if such bond is no longer outstanding, shall be the IFA Selected Bond.

**Reference Bond Price** means, with respect to any date of redemption, (A) the arithmetic average of the Reference Government Bond Dealer Quotations for such date of redemption, after excluding the highest and lowest such Reference Government Bond Dealer Quotations, or (B) if the Independent Financial Adviser obtains fewer than four such Reference Government Bond Dealer Quotations, the arithmetic average of all such quotations.

**Reference Bond Rate** means, with respect to any date of redemption, the rate per annum equal to the annual or semi-annual yield (as the case may be) to maturity or interpolated yield to maturity (on the relevant day count basis) of the Reference Bond, assuming a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such date of redemption.

**Reference Date** will be set out in the relevant notice of redemption.

**Reference Government Bond Dealer** means each of five banks selected by the Issuer (or the Independent Financial Adviser on its behalf), or their affiliates, which are (A) primary government securities dealers, and their respective successors, or (B) market makers in pricing corporate bond issues.

**Reference Government Bond Dealer Quotations** means, with respect to each Reference Government Bond Dealer and any date for redemption, the arithmetic average, as determined by the Independent Financial Adviser, of the bid and offered prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) at the Quotation Time specified in the applicable Final Terms on the Reference Date quoted in writing to the Independent Financial Adviser by such Reference Government Bond Dealer.

**Relevant Event** means any one or more Material Licence Event, Material Disposal Event and/or Change of Control Event in each case if specified as applicable in the applicable Final Terms.

**Relevant Event Notice** has the meaning given to it in Condition 7.6.

**Relevant Event Period** means:

- (a) if at the time the Relevant Event occurs there are Rated Securities, the period beginning on and including the date of the relevant Public Announcement and ending on the date falling 90 days after the Relevant Event occurs; or
- (b) if at the time the Relevant Event occurs there are no Rated Securities, the period beginning on and including the date on which the Relevant Event occurs and ending on the date falling 90 days after the later of (i) the date on which the Issuer seeks to obtain a rating as contemplated in the definition of Negative Rating Event prior to the expiry of the 21 days referred to in that definition, and (ii) the date of the relevant Public Announcement,

or, in the case of either (a) or (b) above, such longer period in which the Rated Security is under consideration (such consideration having been announced publicly within the first mentioned 90 day period) for rating review or, as the case may be, rating by any Rating Agency.

**Relevant Jurisdiction** means the Portuguese Republic or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax in which the Issuer becomes tax resident.

**Relevant Licence** means, from time to time, any licence(s) or other authorisation(s) granted to members of the Group which means that the activity of natural gas distribution and/or commercialisation cannot be carried on by such member of the Group without such licence, exemption, permission or other authorisation.

**Relevant Licence Percentage** means, in relation to a Loss of Relevant Licence, the ratio of (a) the aggregate EBITDA associated with such Relevant Licence to (b) the aggregate EBITDA of the Group, expressed as a percentage.

**Relevant Period** means each period of 12 months, ending on the relevant Calculation Date.

**Remaining Term Interest** means, with respect to any Note, the aggregate amount of scheduled payment(s) of interest on such Note for the remaining term of such Note determined on the basis of the rate of interest applicable to such Note from (and including) the date on which such Note is to be redeemed by the Issuer pursuant to Condition 7.3.

**Reserved Matter** has the meaning given to it in Condition 12.

**Restricted Payment** has the meaning given to it in Condition 4.

**RETGS** means *regime especial de tributação de grupos de sociedades*, being the Portuguese special taxation regime applicable to corporate groups.

**S&P** means Standard & Poor's Credit Market Services Europe Limited.

**Security Interest** means a mortgage, lien, pledge, charge or other security interest.

**Series** has the meaning given to it in the preamble to these Conditions.

**Solvent Voluntary Reorganisation** means a reorganisation, reconstruction, amalgamation, merger, consolidation or transfer of undertakings, assets or rights (a **reorganisation**) in each case where the

aggregate amount of the undertakings, assets and rights of the Group owned, controlled or otherwise held, directly or indirectly, by the Issuer immediately following the completion of such reorganisation is not substantially less than the corresponding amount of undertakings, assets and rights owned, controlled or otherwise held, directly or indirectly, by the Issuer immediately prior to the completion of such reorganisation.

**Specified Currency** has the meaning given to it in Condition 1.

**Specified Denomination** has the meaning given to it in Condition 1.

**Specified Time** means 11.00 a.m. (London time, in the case of a determination of LIBOR, or Brussels time, in the case of a determination of EURIBOR).

**Step-up Margin** has the meaning given to it in Condition 5.3.

**Step-down Rating Change** means the first public announcement after a Step-up Rating Change by any Rating Agency of an increase in, or confirmation of, the Rating of the Notes to at least an Investment Grade Rating. For the avoidance of doubt, any further increases in the credit rating of the Notes above Baa3 or BBB- shall not constitute a Step-down Rating Change.

**Step-up Rating Change** means the first public announcement by a Rating Agency of a decrease in the Rating of the Notes such that the Notes cease to be assigned an Investment Grade Rating by at least one Rating Agency. For the avoidance of doubt, any further decrease in the credit rating of the Notes below Baa3 or BBB- shall not constitute a Step-up Rating Change.

**Subsidiary** means, in respect of any Person, an entity from time to time in respect of which such Person (a) has the right to appoint the majority of the members of the board of directors or similar board or (b) owns directly or indirectly more than 50 per cent. of (i) the share capital or similar right of ownership or (ii) voting rights (by contract or otherwise).

**Substituted Debtor** has the meaning given to it in Condition 15.

**Sub-unit** means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

**Successor in Business** means, in relation to any Person (the **Predecessor**), any company which, as a result of any reorganisation, reconstruction, amalgamation, merger, consolidation or transfer of undertakings, assets or rights:

- (a) acquires or owns (directly or indirectly) the whole or substantially the whole of the undertakings, assets and rights that were owned (directly or indirectly) by the Predecessor immediately prior thereto, as certified by two directors of the Predecessor; and
- (b) carries on (directly or indirectly) the whole or substantially the whole of the business that was carried on (directly or indirectly) by the Predecessor immediately prior thereto.

**Sterling, GBP and £** are to the lawful currency of the United Kingdom.

**TARGET2 System** has the meaning given to it in paragraph (b) of the definition of Business Day in this Condition 18.



**Total Net Debt** means at any time the aggregate amount of all obligations of members of the Group for or in respect of Indebtedness at that time but:

- (a) adding any amounts that are due and payable at such time by any member of the Group under any interest rate hedging arrangement; and
- (b) deducting the aggregate amount of Cash and Cash Equivalent Investments held by any member of the Group at that time,

and so that no amount shall be included or excluded more than once.

**Tranche** has the meaning given to it in the preamble to these Conditions.

**Trade Instruments** means any performance bonds, advance payment bonds or documentary letters of credit issued in respect of the obligations of any member of the Group arising in the ordinary course of trading of that member of the Group.

**US Dollars, U.S.\$, USD** and **\$** are to the lawful currency of the United States.

## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be applied by the Issuer for its general corporate purposes or for such other reason as may be specified in the applicable Final Terms.

## DESCRIPTION OF THE ISSUER

### OVERVIEW

Galp Gás Natural Distribuição, S.A. (the **Issuer**) is a private company incorporated under the laws of Portugal and registered with the Commercial Registry of Lisbon under no. 509148247. Its registered head office is located at Rua Tomás da Fonseca, Torre C, 1600-209 Lisboa, Portugal.

As at the date of this Offering Circular, the Issuer's share capital is EUR89,529,141 consisting of 89,529,141 shares of EUR1 nominal value each. The Issuer is 100 per cent. owned by Galp Gás & Power, SGPS, S.A. (**Galp Gás & Power**), which is in turn a fully owned subsidiary of Galp Energia, SGPS, S.A. (**Galp**). Please see further details in the section "*Ownership*" below.


The Issuer holds stakes in nine of the 11 gas distribution companies in Portugal, which together cover approximately 1.4 billion cubic metres (**bcm**) of the gas distributed each year in Portugal through a distribution infrastructure of approximately 12,000 kilometres.

The Issuer was incorporated on 2 December 2009 under the name Galp Gás Natural Distribuição, SGPS, S.A. Its business was the management of equity participations in other companies. On 1 April 2014, the Issuer changed its corporate name to Galp Gás Natural Distribuição, S.A., its business having been amended to the exercise of activities in the energy sector, in particular in the distribution of natural gas through distribution companies, and the provision of services related to management support.

### DESCRIPTION OF THE ISSUER GROUP

During 2014 and 2015, the Issuer acquired significant shareholdings in nine gas distribution companies.

As of the date of this Offering Circular, the Issuer has the following subsidiaries (the Issuer together with its subsidiaries, the **Issuer Group**):

			
Lisboagás	100%	100%	Duriensegás
Lusitaniagás	96.84%	100%	Medigás
Setgás	99.93%	100%	Dianagás
Beiragás	59.50%	100%	Paxgás
Tagusgás	41.33%		

Note: Tagusgás participation is taken into account as a financial income, since the Issuer's stake in this company is below 50 per cent.

## BUSINESS DESCRIPTION

### Distribution of Natural Gas

#### *Overview*

The Issuer Group is responsible for the operation, construction and maintenance of regional natural gas distribution networks. With over 1 million connection points (from a total of 1.4 million in Portugal), the Issuer Group is the largest natural gas distribution group operating in Portugal. Approximately 1.4 bcm of gas is distributed each year through a distribution infrastructure of approximately 12,000 kilometres, with the major contributors being LisboaGás, Lusitaniagás and Setgás networks. Additionally, the Issuer operates on the basis of a modern network with an overall average age of nine years.

The Issuer Group operates in a fully regulated sector, with a consolidated regulated asset base (RAB) of EUR1.1 billion as of 31 December 2014 (excluding Tagusgás). The regulatory framework is set by the ERSE<sup>1</sup>, an independent body responsible for the regulation of the natural gas and electricity sectors in Portugal.

The Portuguese natural gas distribution activities started in April 1997 in Valongo (Portgás - Sociedade de Produção e Distribuição de Gás, S.A. (**Portgás**)), followed by the regional distributors in Lisbon (Lisboagás), Leiria, Coimbra and Aveiro (Lusitaniagás) and in Setúbal (Setgás). The gas distribution network has since developed to other areas in Portugal and currently there are six regional gas distributors that operate under concession contracts (Lisboagás, Lusitaniagás, Setgás, Tagusgás, Beiragás and Portgás) and five autonomous gas distribution units which operate under a license (Duriensegás, Medigás, Dianagás, Paxgás and Sonorgás - Sociedade de Gás do Norte, S.A.).

The current concession contracts between the Portuguese State and the regional distributors were signed in April 2008. These contracts set out rules applicable to the distribution of natural gas under a 40-year concession period (starting on 1 January 2008). Autonomous gas distribution units operate under a 20-year agreement and the contracts were signed between 2007 and 2009.

#### *Key operational indicators*

The table below is a summary of selected operational information of the Issuer Group as at 31 December 2015.

	2015
Gas Distributed (million m <sup>3</sup> )	1,359
Connection Points (#)	1,021,442
Network Length (Km)	11,689

Note: Excludes Tagusgás.

The breakdown of operational indicators by each distributor, as of 31 December 2015, is as follows:

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<sup>1</sup> The legal entity governed by public law and its statutes (approved by Decree-law no. 97/2002, as amended by Decree-law no. 84/2013, of 25 July 2013) with administrative and financial autonomy. ERSE is responsible for the regulation of the natural gas and electricity markets in Portugal with a wide scope of attributions foreseen in Decree-law no. 140/2006, as amended by Decree Law no. 231/2012, of 26 October 2013.

**Lisboagás**  
 Convec. points: 525,894  
 Network length: 4,473Km  
 RAB: €529mn  
 Gas Distributed: 399mn m<sup>3</sup>

**Lusitaniagás**  
 Convec. points: 215,736  
 Network length: 3,335Km  
 RAB: €279mn  
 Gas distributed: 689mn m<sup>3</sup>

**Setgás**  
 Convec. points: 162,945  
 Network length: 2,102Km  
 RAB: €152mn  
 Gas distributed: 161mn m<sup>3</sup>

**Beiragás**  
 Convec. points: 51,590  
 Network length: 799Km  
 RAB: €60mn  
 Gas distributed: 76mn m<sup>3</sup>



**Duriensegás**  
 Convec. points: 29,134  
 Network length: 469Km  
 RAB: €33mn  
 Gas distributed: 18mn m<sup>3</sup>

**Medigás**  
 Convec. points: 20,727  
 Network length: 262Km  
 RAB: €16mn  
 Gas distributed: 8mn m<sup>3</sup>

**Dianagás**  
 Convec. points: 9,378  
 Network length: 184Km  
 RAB: €11mn  
 Gas distributed: 7mn m<sup>3</sup>

**Paxgás**  
 Convec. points: 6,038  
 Network length: 65Km  
 RAB: €6mn  
 Gas distributed: 1mn m<sup>3</sup>

Note: RAB figures above are as of 31 December 2014.

## Supply of Natural Gas

The Issuer Group is also present in the natural gas supply business, as last resort supplier, which is also a regulated activity. This is done through its integrated distribution companies, directly in the case of companies with less than 100,000 end consumers, including Tagusgás, Beiragás, Duriensegás, Medigás, Dianagás and Paxgás or through an independent entity initially incorporated by the distribution companies with more than 100,000 end consumers, including Lisboagás, Lusitaniagás and Setgás. This business represents less than 1 per cent. of the Issuer Group's EBITDA. Taking into account the market liberalisation process in course, the regulated tariffs are expected to end by 31 December 2017.

For further information regarding the Portuguese natural gas distribution sector and regulatory framework please see section "*Description of the Portuguese Natural Gas Distribution Sector*".

## ORGANISATIONAL STRUCTURE

The Issuer Group is organised through centralised management functions at the Issuer level, including the functions of process management, regulatory compliance, operating assets management, performance and holding management and commercial management. This centralisation allows for efficient operations, while ensuring control and aligned practices across the Issuer's subsidiaries. The nine subsidiaries and their employees are responsible for the operation of their respective gas distribution networks. The board of directors of each subsidiary includes the general manager of the Issuer and one or more of the distribution company's key managers, except for Tagusgás, where the Issuer has only one board member.

## INVESTMENTS

Capital Expenditure in the year ended 31 December 2015 amounted to EUR20 million, which was mainly focused on the maintenance of the existing network and on investment which was intended to increase the profitability of connection points, rather than the expansion of the Issuer's network.

This has a budgeted total capital expenditure of approximately EUR24 million in 2016 and EUR22 million per annum between 2017 and 2020. This assumes that investments will continue to be focused on maintenance and the profitability of connection points, instead of network expansion.

## MANAGEMENT

As at the date of this Offering Circular, the members of the board of directors of the Issuer, their position on the board and their principal activities outside the Issuer, where applicable and appropriate, are the following:

Members of the Board of Directors	
Name	Position
Gabriel Nuno Charrua de Sousa	Chairman
Adelino Joaquim Melo Rodrigues	Director
João Diogo de Melo Marques da Silva	Director

**Gabriel Sousa** has been the Chairman of the Issuer's Board of Directors and General Manager of the Issuer Group since August 2015. He has been a Member of the Board of Directors since January 2015, and Third Party Access Manager since January 2013. Before joining the holding company, Gabriel had been the General Manager of Lusitaniagás since September 2007. With more than 20 years of experience in the natural gas sector, Gabriel joined Lusitanigás in 1995, where he worked as a commercial manager between 1999 and 2006. He then moved to Beiragás as general manager for one year. Before entering the natural gas sector, Gabriel worked in the automotive and metallurgical sectors. Gabriel holds a Degree in Mechanical Engineering from Universidade de Coimbra and an Executive MBA from AESE/IESE.

**Adelino Melo Rodrigues** has been the Head of Performance & Holdings Management of the Issuer and a member of the Issuer's Board of Directors since April 2014. Previously, he was the General Manager of Duriensegás after being Chief Financial Officer (CFO) of Lusitaniagás between 1992 and 2001. He was the Chairman of Dianagás, Paxgás and Medigás from 2008 to 2013. Before joining Galp in June 1992, Adelino worked at Fitor SA as CFO since 1988. Before that, he worked at Caixa Geral de Depósitos Porto as Chief of the International Business since 1980. Adelino holds a graduation in Economics from Faculdade de Economia do Porto and several post-graduations: Natural Gas Management from College of Petroleum Studies, Oxford; Strategic Planning and Innovation Management from Universidade Católica de Lisboa and International Financial Management from Universidade Católica do Porto.

**João Diogo Silva** has been a member of the Issuer's Board of Directors since January 2015. Since May 2014, he has served as the Head of Corporate Finance and Mergers and Acquisitions at Galp since May 2014. Since João joined Galp in 1998, he has performed several roles: he was the CFO of two business units (Supply & Trading - Oil and Gas unit and Gas & Power unit) from 2012 to May 2014; he worked in planning

departments at corporate level and in Gas & Power business between 2006 and 2012; he led the innovation process that conceived Galp LPG cylinder “pluma” in 2005 and before that, he worked in Madrid from 2001 to 2004 in various managing roles. João holds a Degree in Business Administration from ISCTE Business School.

The business address of the members of the Issuer’s Board of Directors is Rua Tomás da Fonseca, Torre C, 1600-209 Lisboa, Portugal.

### **Conflicts of interests**

The members of the Issuer’s Board of Directors do not have, as of the date hereof, any conflicts, or any potential conflicts, between their duties to the Issuer in such capacities and their private interests or other duties.

### **OWNERSHIP**

As at the date of this Offering Circular, the Issuer is 100 per cent. owned by Galp Gás & Power, which is in turn a fully owned subsidiary of Galp.

Galp has conducted a competitive process aiming at the sale of a minimum stake of 22.5 per cent. in the share capital of the Issuer to a long-term investor (the **Minority Transaction**). On 28 July 2016, Galp announced that (through its subsidiary Galp Gas & Power, SGPS, S.A.) it had reached an agreement to sell the 22.5 per cent. stake in the share capital of the Issuer to a consortium comprising Marubeni Corporation and Toho Gas Co., Ltd (the **Purchaser**) for a consideration of EUR138 million. The Minority Transaction is subject to regulatory approval and completion is expected to take place in the fourth quarter of 2016. Upon completion, Galp would grant certain blocking voting rights to the Purchaser in relation to material resolutions, such as dividends distribution, business plan and budget approval and disposals, among others. In addition, the Purchaser would appoint two out of eight members of the Issuer’s Board of Directors, including one executive director. Moreover, the shareholders would appoint one out of the eight members of the Issuer’s Board of Directors as a senior independent director (under the criteria of the UK Corporate Governance Code) and Vice-Chairman of the Board of Directors, who would have certain blocking voting rights over dividends distributions. Upon completion of the transaction, this governance model would result in a joint control operation over the Issuer and its subsidiaries.

### **EXTERNAL AUDITOR**

The Issuer’s external auditor is PricewaterhouseCoopers & Associados, SROC, Lda., member no. 183 of the Portuguese Institute of Statutory Auditors and member no. 20161485 of the CMVM, represented by António Joaquim Brochado Correia.

## DESCRIPTION OF THE PORTUGUESE NATURAL GAS DISTRIBUTION SECTOR

### PORTUGUESE NATURAL GAS DISTRIBUTION SECTOR

The legal framework of the Portuguese natural gas sector is primarily set out in two Portuguese laws: (i) Decree-law no. 30/2006, of 15 February 2006<sup>2</sup> (**Decree-law no. 30/2006**), and (ii) Decree-law no. 140/2006, of 26 July 2006<sup>3</sup> (**Decree-law no. 140/2006**).

The Regulations approved by the ERSE, which all agents acting in the natural gas sector must comply with, provide a general framework in relation to the following areas: (i) Infrastructures Operation; (ii) Access to Grids, Infrastructures and Interconnections; (iii) Tariffs; (iv) Commercial Relations; (v) Service Quality and (vi) Conflicts Mediation and Conciliation.<sup>4</sup>

Natural gas distribution is considered to be a public service and is one of the main activities of Sistema Nacional de Gás Natural (the **SNGN**). According to the applicable legal framework, natural gas distribution is described as the transmission of natural gas throughout high, medium and low pressure grids, for its delivery to the end consumer, excluding the supply activity<sup>5</sup>.

From an historical perspective, it is important to note that the Issuer's subsidiaries (the **Subsidiaries**) have been restructured as a result of the implementation of the European competitive internal market and unbundling regime imposed by Directive 2003/55/EC<sup>6</sup>, concerning common rules for the internal market in natural gas, transposed by Decree-law no. 30/2006.

Where the distribution network operator (**DNO**) is part of a vertically integrated undertaking (as is the case for the Subsidiaries, which are part of the Galp Energia group within which there are companies that supply natural gas to final clients on a free market basis (Galp Power, S.A. and Galp Gás Natural, S.A.)), the basic elements of this unbundling regime are the following:

- a) Legal unbundling of the DNO from other activities carried out in or by the vertically integrated undertaking not related to distribution, by means of a separate network company which ensures a sufficient level of independence of the management of the DNO from other parts of the vertically integrated undertaking in order to fulfill the requirements of functional unbundling;
- b) Functional unbundling of the DNO in order to ensure its independence from other activities of the vertically integrated undertaking, by establishing rules concerning management separation; and
- c) Accounting unbundling: requirement to keep separate accounts for DNO activities.

Pursuant to the regulatory requirements imposed by the European Union legislation, article 31 of Decree-law no. 30/2006 provides the following:

- a) The DNO must be independent from activities not related to distribution, as per the following minimum criteria:

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<sup>2</sup> Amended and republished by Decree-law no. 230/2012, of 26 October 2012.

<sup>3</sup> Amended and republished by Decree-law no 231/2012, of 26 October 2012.

<sup>4</sup> All of them available at [www.erse.pt/pt/gasnatural/regulamentos](http://www.erse.pt/pt/gasnatural/regulamentos).

<sup>5</sup> Which is an activity which is legally independent from the natural gas distribution.

<sup>6</sup> Repealed and replaced by Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC.



- Managers cannot participate in corporate bodies or in the corporate structure of companies carrying out other natural gas activities (such as storage, transmission network and trading/supply);
  - Professional interests of managers should be safeguarded in order to ensure their independence. Therefore, such managers:
    - i. Are prevented from having contractual/professional relationships with companies engaged in other activities in the natural gas sector, or from holding any economic or financial interests in such companies;
    - ii. Are prevented from receiving compensation or financial benefits (whether directly or indirectly) from companies engaged in other activities in the natural gas sector; and
    - iii. Have the right to file a complaint with ERSE for unjust early termination of their contracts/mandates (ERSE's decision in this respect shall be binding);
- b) The DNO shall keep and publish an ethical code of conduct on the functional independence of the network operations;
  - c) The DNO shall differentiate their image/communications from other entities operating within the SNGN, as per de Commercial Relations Regulation;
  - d) The DNO may not hold stakes (whether directly or through a controlled company) in companies engaged in other natural gas activities;
  - e) The DNO belonging to a vertically integrated company shall have the necessary resources (namely personnel, technical, financial and material resources) to operate, maintain and develop the network, and must have the effective capacity to decide independently on the assets required to operate, maintain or develop the network, as well as real and independent decision-making power, real and independent from the vertically integrated company, in what concerns the assets necessary therefor. Without preventing that:
    - There are appropriate coordination mechanisms to ensure protection of economic supervision and management rights of the company vertically integrated with regards to the operator's return on assets, under the terms regulated by ERSE;
    - The vertically integrated company approves the operator's annual financial plan or budget or equivalent instrument and sets global limits on the levels of indebtedness of the operator. However, it cannot give instructions on daily operations or on decisions related to the construction or upgrading of facilities that do not exceed the terms of such plan, budget or equivalent instrument;
  - f) Managers remuneration cannot depend on activities/results of companies being part of the vertically integrated company.

The legal and functional separation mentioned above is only required in relation to a DNO with more than 100,000 end consumers. The other DNOs (with less end consumers than the referred number) are only obliged to comply with the accounting unbundling rules.

Pursuant to article 31-A of Decree-law no. 30/2006, DNOs belonging to vertically integrated companies and serving over 100,000 customers are also obliged to establish a compliance programme (including measures to avoid discriminatory conducts), observing the following criteria:

- a) The compliance programme and the reports monitoring its implementation shall follow the Commercial Relations Regulation, and shall be approved by ERSE; and
- b) The DNO shall designate an entity responsible for: (i) preparation of the compliance program, (ii) monitoring of the implementation and (iii) submission of an annual report to ERSE. The entity must be independent and must have access to all the necessary information.

The requirements of legal and functional unbundling referred above have had the effect that the Subsidiaries serving more than 100,000 customers (Lisboagás, Lusitaniagás and Setgás), which, at the relevant time (2006), were responsible for the distribution and supply of natural gas on an exclusive basis within their concession areas, had to separate those activities. This led to the creation of different companies for natural gas supply activity as a last resort supplier, to which the assets of those Subsidiaries were transferred.

In particular, the new legal framework introduced by Decree-law no. 30/2006 and by Decree-law no. 140/2006 imposed the amendment of the concession agreements of the Subsidiaries pursuant to the legal bases provided for in Decree-law no. 140/2006 in order to reflect the unbundling rules.

The Portuguese legal framework distinguishes between two different types of natural gas distribution activity: (i) regional natural gas distribution and (ii) local natural gas distribution. In Portugal, the natural gas distribution activity is carried out by six regional operators (five of them part of Issuer Group) and five local operators (four of them part of Issuer Group).

Regional natural gas distribution depends on a concession awarded by the Portuguese State and it is developed on an exclusive basis in the relevant concession area.

The distribution grid exploited under these concessions is directly connected to the high-pressure transmission grid and to the end consumers' installations (creating the link between the transmission grid and the end consumers), although some concessions also include the distribution through liquefied natural gas (LNG) regasification units (referred to as "*unidades autónomas de GNL*" or "*UAG*") when the network does not cover a specific parcel of the concession area.

Such concessions were awarded for a maximum period of 40 years starting from 1 January 2008, and can be renewed once if justified by public interest reasons and only if the concessionaire has fulfilled all its obligations<sup>7</sup>. With the termination of the concession agreement all assets used in the performance of the distribution activity, which are legally considered as an integral part of the concession, are transferred to the Portuguese State. If the concession agreement is terminated on the expiry date, the concessionaire is entitled to compensation corresponding to the book value of the assets to be transferred to the Portuguese State by reference to the last approved balance sheet, net of amortisations and financial contributions and non-reimbursable subsidies. In the event the agreement is terminated by the Portuguese State due to a serious breach of the agreement by the concessionaire, the latter is not entitled to any compensation whatsoever. In the event of redemption of the concession by the Portuguese State for public interest reasons, the concessionaire is entitled to be compensated by an amount corresponding to the book value of the assets (net of amortisations and financial contributions and non-reimbursable subsidies) and indemnified by loss of profit.

Local natural gas distribution through UAG is permitted in specific areas not already covered by the existing regional natural gas distribution concessions (referred to as "*pólos de consumo*"). Such activity is also developed on an exclusive basis in a specific area and under a permit issued by the Portuguese Government<sup>8</sup>. The law establishes that these permits are granted for a maximum period of 20 years taking into account the

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<sup>7</sup> In accordance with the concession basis approved by Decree-law no. 140/2006.

<sup>8</sup> As general rule the member of the Government responsible for the energy sector.

expansion of the natural gas system, the amortisation of the construction and installation and development costs of the distribution grid. Like the natural gas regional distribution, all assets are transferred to the Portuguese State upon the termination of the permit.

According to article 23 of Decree-law 140/2006, local natural gas distribution activity comprises the exploitation of facilities for the reception, storage and regasification of liquefied natural gas<sup>9</sup>, since the areas involved have no physical connection with the natural gas transmission grid. Such facilities are supplied by road tankers that are loaded at LNG terminals<sup>10</sup>. Afterwards those facilities are directly connected with the distribution grid, in order to bring the natural gas to the end consumer.

In addition to any other obligations required by the Regulations applicable to the Portuguese natural gas system, natural gas distributors (either regional or local) are legally obliged to comply with the following obligations:

- a) Ensure the operation and maintenance of the respective distribution infrastructures in safe conditions, whilst maintaining reliability and quality of service;
- b) In the case of local natural gas distributors, to ensure the operation and maintenance of the facilities used for the reception, storage and regasification of LNG, in safe conditions, whilst maintaining reliability and quality of service;
- c) Manage natural gas flows in the relevant distribution grid, ensuring their interoperability with other grids and infrastructures to which they may be connected, in compliance with the applicable regulations;
- d) Ensure the provision of long-term capacity of the relevant distribution grid, contributing to a safe supply, pursuant to the approved Plan for the Development and Investment in the Distribution Grid (“*Plano de Desenvolvimento e Investimento na Rede de Distribuição*” – **PDIRD**);
- e) Ensure planning, expansion and technical management of the relevant distribution grid, in order to allow third-party access, in a non-discriminatory and transparent manner, and to manage efficiently the infrastructures and the available technical resources;
- f) Non-discrimination between users or categories of distribution grid users;
- g) Provide to the distribution grid users all information they need to access the grid;
- h) Provide to the operator of any other grid to which it may be connected and also the market players all the necessary information in order to allow a coordinated development of the several grids and a safe and efficient operation of the national natural gas system;
- i) Ensure the necessary treatment of the data concerning the distribution grid usage in compliance with the legal provisions of personal data protection and to preserve the confidentiality of commercially sensitive information obtained in the performance of the natural gas distribution activity;
- j) Provide to the regulatory entities all the information needed to carry out their specific mandates and market knowledge;

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<sup>9</sup> Commonly known as LNG, natural gas that is liquefied through the reduction of its temperature to minus 163 degrees Celsius.

<sup>10</sup> Portugal has one LNG terminal located at Sines, exploited by REN Atlântico – Terminal de GNL, S.A., which has a storage capacity of 390,000 m<sup>3</sup> and is currently equipped with three road tankers loading bays.

- k) Submit to ERSE an annual report describing the claims submitted, as well as its results, under the terms of the Quality of Service Regulation.

All distribution grid operators have the obligation to install and maintain meter devices in the consumer's premises, and to perform the necessary readings with the frequency established in ERSE's Regulations, in order to provide the natural gas supplier with the necessary data to invoice their clients<sup>11</sup>.

From an economic perspective, the allowed revenues of the natural gas distribution grid operators are recovered through the application of the access tariffs approved by ERSE each year, which is the price that the distribution grid operators are entitled to charge to those who access their facilities. The tariffs applicable to each agent performing an activity part of the SNGN are determined every year by ERSE, in order that each agent receives every year the allowed revenues as determined in accordance with the formula set out in the Tariffs Regulation of the Natural Gas Sector (the **Tariffs Regulation**)<sup>12</sup>.

The allowed revenues calculated under the aforementioned formula take into account different aspects of the distribution activity, *inter alia* (i) the amortisation of the assets that are an integral part of the distribution activity, (ii) the remuneration of such assets; and (iii) the exploitation costs (OPEX) duly recognised by ERSE based on an efficient management.

All distribution grid operators are legally obliged to prepare, in cooperation with Direção-Geral de Energia e Geologia (**DGEG**) and with the transmission system operator, every 2 years<sup>13</sup>, a PDIRD, covering a period of five years.

The PDIRD must provide for the existence of suitable capacity in the distribution grids and the investments necessary to comply with the service quality technical requirements.

The PDIRD is initially subject to ERSE's and REN's (as transmission system operator) opinion, and subsequently submitted for approval by the Portuguese Government.

The PDIRD which was submitted to the competent authorities in accordance with Decree-law no. 140/2006 and is currently implemented by the Subsidiaries covers the period 2015-2019. Although not formally and expressly approved by the Portuguese Government, as is the case for other operators in Portugal, DGEG has been approving the construction works needed for the development and maintenance of the Subsidiaries' distribution grid and ERSE has been recognising the investment costs incurred by the Subsidiaries pursuant to the current PDIRD.

The Subsidiaries exploit both regional and local natural gas distribution facilities under the necessary authorisations (concession agreements and simple permits).

The Subsidiaries acting under the regional concession contracts are: (i) Beiragás; (ii) Lisboaagás; (iii) Lusitâniagás; (iv) Setgás and (v) Tagusgás.

Conversely, the Subsidiaries that are local distributors of natural gas are: (i) Dianagás; (ii) Duriensegás; (iii) Medigás and (iv) Paxgás.

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<sup>11</sup> The invoice of the client has three key variables: (i) the price of the energy consumed and (ii) the access tariffs to the facilities used and (iii) other natural gas system costs.

<sup>12</sup> Article 83 of the Tariffs Regulation.

<sup>13</sup> Annually if the concessionaire is certified as an independent transmission operator as per Decree-law no. 30/2006.

The Subsidiaries are subject to ERSE's Sanctions framework, approved by Law no. 9/2013, of 28 January 2013, which provides for the imposition of fines for infringements of the legislation and regulation related with the SNGN's activities.

## **LAST RESORT SUPPLIER**

Last resort supplier is a separate part of the Portuguese natural gas system, developed in accordance with the public service regime and under a permit.<sup>14</sup>

The applicable legal framework also distinguishes between two different sorts of last resort suppliers: (i) wholesale last resort supplier and (ii) retail last resort supplier.

The wholesale last resort supplier<sup>15</sup> is the holder of the permit identified in article 43 no. 2 of Decree-law no. 140/2006, and is responsible for acquiring natural gas from the SNGN supplier in order to subsequently sell natural gas to the retail last resort suppliers. The SNGN supplier is the holder of the long term take-or-pay contracts entered into before Directive no. 2003/55/CE came into force. This entity is Galp Gas Natural, S.A., which is directly owned by Galp Gas & Power, and therefore part of the Galp Energia group. These contracts initially had a material relevance for the energy sector since Portugal has no natural gas resources of its own. The supply of natural gas to the Portuguese last resort market is carried out through these long term take-or-pay contracts, and their suppliers in turn are based in Algeria and Nigeria.

Last resort retail suppliers are licensed entities responsible for supplying natural gas to the end consumers with an annual consumption equal to or less than 10,000 m<sup>3</sup><sup>16</sup> during the maintenance of the regulated tariffs or transitory tariffs and, after their expiration, to the final costumers considered as economically vulnerable pursuant to article 5 of Decree-law no. 74/2012, of 26 March 2012, as amended by Decree-law no. 15/2015, of 30 January 2015, such end consumers having chosen to be supplied by such last resort suppliers instead of being supplied by suppliers in the free market. As per the referred Decree-law, the date for the expiration of the regulated tariffs to end consumers (save for economically vulnerable clients) is established by an ordinance to be issued by the member of the government responsible for the energy sector. Currently, the date for the referred expiration is 31 December 2017, as per article 4 of Ordinance no. 97/2015, of 30 March 2015.

According to the applicable legal framework, at the date of the unbundling, local and regional distributors with less than 100,000 customers were provided with a permit of last resort supplier in order to temporarily supply their customers physically located within the area foreseen in the concession agreement (in what concerns regional distributors) or permit (in relation to local distributors), and with an annual consumption less than 2,000,000 m<sup>3</sup>.

However, and as referred to above, local or regional distributors with more than 100,000 customers had to create a company that would be temporarily responsible for the last resort supply activity. In this case, the last resort supplier permit was provided to a company legally independent from the natural gas distributor.

Some Subsidiaries hold the necessary authorisation to perform the distribution activity and also the permit of last resort supplier, since the following subsidiaries had less than 100,000 customers, namely the following: (i) Beiragás, (ii) Dianagás, (iii) Duriensegás, (iv) Medigás, (v) Paxgás and (vi) Tagusgás.

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<sup>14</sup> Pursuant to the legal framework set out in Decree-law no. 30/2006 and Decree-law no. 140/2006, in particular article 40 *et seq.* of Decree-law no. 140/2006.

<sup>15</sup> This entity is Transgás, S.A., which is directly owned by Galp Gás Natural, S.A.

<sup>16</sup> According to article 40 of Decree-law no. 30/2006, the last resort retail suppliers are also responsible for the supply of natural gas to end consumers (up to a consumption of 2,000,000 m<sup>3</sup>) in case the respective supplier on the free market has been prevented from supplying natural gas and also whenever, at the place of the client's delivery point, there are no offers from the suppliers on the free market.

In addition to any other obligations required by the Regulations applicable to the Portuguese natural gas system, wholesale last resort suppliers have to comply with the following public service obligations:

- a) Provide the public service of natural gas supply to final clients referred to in paragraph 5 of Article 42 of Decree-law no. 140/2006<sup>17</sup> while regulated tariffs or transitional rates legally established are in force, and after their expiration, to supply natural gas to economically vulnerable customers;
- b) Purchase natural gas for last resort supply activity in accordance with the terms foreseen in Decree-law no. 140/2006;
- c) Ensure natural gas supply in places where there is no gas offer within traders market system, during the time this supply absence remains;
- d) Supply natural gas to customers whose supplier has been prevented from performing the activity of natural gas supplier;
- e) Ensure the establishment and maintenance of natural gas safety reserves in accordance with the provisions of Decree-law no. 140/2006 and the Regulations in force;
- f) Submit to the competent authorities all the information required by applicable law and in the applicable Regulations;
- g) Comply with all rules set forth in the respective Regulations and last resort supply permits.

Last resort suppliers have their allowed revenues determined every year. The allowed revenues are recovered by the application of the natural gas regulated tariff, which is the price that the last resort supplier is entitled to charge customers for their gas consumptions.

Tariffs applied by last resort suppliers to their customers are also calculated under a formula set forth in the Tariffs Regulation, and are obtained by adding (i) the regulated tariffs for the use of the grids, (ii) the regulated last resort supply tariffs and (iii) the prices of the energy.

Last resort supply tariffs include inter alia the natural gas acquisition costs, costs of the reception, storage and regasification of the natural gas, and underground storage costs of the natural gas.

ERSE's Directive no. 9/2016<sup>18</sup> approved the transitory tariffs to be applied by last resort suppliers to final costumers during the period between 1 May 2016 and 30 June 2016.

Lastly, ERSE Directive no. 13/2016<sup>19</sup> established, notably, the tariffs applicable in the gas year 2016-2017, with effect as of 1 July 2016.

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<sup>17</sup> As previously described, customers with an annual consumption equal or less than to 10.000 m<sup>3</sup>, and economically vulnerable costumers.

<sup>18</sup> Published in the Portuguese Official Gazette (DR) no. 86, Series II, on 4 May 2016.

<sup>19</sup> Published in the Portuguese Official Gazette (DR) no. 121, Series II, on 27 June 2016.

## TAXATION

### Portugal

*The following description summarises the material anticipated tax consequences relating to an investment in the Notes according to Portuguese law. The description does not deal with all possible consequences of an investment in the Notes and is not intended as tax advice. Accordingly, each prospective investor should consult its own professional advisor regarding the tax consequences to it of an investment in the Notes under local or foreign laws to which it may be subject. This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date.*

### Portuguese Republic Taxation

***Portuguese taxation relating to all payments by the Issuer in respect of Notes issued within the scope of Decree-law no. 193/2005***

Economic benefits derived from interest, amortisation, reimbursement premiums and other types of remuneration arising from the Notes are qualified as investment income for Portuguese tax purposes. Gains obtained with the repayment and disposal of Notes are qualified as capital gains for Portuguese tax purposes.

This section summarises the tax consequences of holding Notes issued by the Issuer when such Notes are integrated (i) and held through Interbolsa, as management entity of the **CVM** (*Central de Valores Mobiliários*), the Portuguese centralised system of registration of securities or (ii) in an international clearing system operated by a managing entity established in a member state of the EU other than Portugal or (iii) in a European Economic Area Member State provided, in this case, that such State is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the EU Member States or (iv) integrated in other centralised systems not covered above provided that, in this last case, the Portuguese Government authorises the application of Decree-law no. 193/2005 and have been issued within the scope of Decree-law no. 193/2005. References in this section are construed accordingly.

Investment income (i.e. economic benefits derived from interest, amortisation or reimbursement premiums as well as other forms of remuneration which may be paid under the Notes) on the Notes, paid to a corporate holder of Notes (who is the effective beneficiary thereof (the **Beneficiary**)) resident for tax purposes in Portuguese territory or to a non-Portuguese resident having a permanent establishment therein to which income is attributable, is subject to withholding tax currently at a rate of 25 per cent., except where the Beneficiary is either a Portuguese resident financial institution (or a non-resident financial institution having a permanent establishment in the Portuguese territory to which income is imputable) or benefits from a reduction or a withholding tax exemption as specified by current Portuguese tax law (such as pension funds, retirement and/or education savings funds, share savings funds, venture capital funds and collective investment undertakings constituted under the laws of Portugal). In relation to Beneficiaries that are corporate entities resident in Portuguese territory (or non-residents having a permanent establishment therein to which income is imputable), withholding tax is treated as a payment in advance and, therefore, such Beneficiaries are entitled to claim appropriate credit against their final corporate income tax liability. If the payment of interest or other investment income on Notes is made available to Portuguese resident individuals, withholding tax applies at a rate of 28 per cent., which is the final tax on that income unless the individual elects to aggregate such income to his taxable income, subject to tax at progressive income tax rates of up to 48 per cent. In the latter circumstance an additional income tax will be due on the part of the taxable income exceeding EUR80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding EUR80,000 up to EUR250,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding EUR250,000. Additionally, should income aggregation be chosen, an additional

surcharge is due for the tax year of 2016 according to the taxpayer taxable income, as follows: (i) 0 per cent. for taxable income not exceeding EUR7,070; (ii) 1 per cent. for taxable income exceeding EUR7,070 and not exceeding EUR20,000; (iii) 1.75 per cent. for taxable income exceeding EUR20,000 and not exceeding EUR40,000; (iv) 3 per cent. for taxable income exceeding EUR40,000 and not exceeding EUR80,000 and (v) 3.5 per cent. for taxable income exceeding EUR80,000. For 1 January 2017 onwards, it is foreseen that such additional surcharge will no longer be applicable.

Investment income paid or made available on accounts held by one or more parties on account of unidentified third parties is subject to a withholding tax rate of 35 per cent., except where the beneficial owner of the income is identified, in which case the general rules will apply.

Pursuant to Decree-law no. 193/2005, investment income paid on, as well as capital gains derived from a sale or other disposition of the Notes, to non-Portuguese resident Noteholders will be exempt from Portuguese income tax provided the debt securities are integrated in (i) a centralised system for securities managed by an entity resident for tax purposes in Portugal (such as the CVM managed by Interbolsa), or (ii) an international clearing system operated by a managing entity established in a member state of the EU other than Portugal or in a European Economic Area Member State provided, in this case, that such State is bound to cooperate with Portugal under an administrative cooperation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the EU Member States or (iii) integrated in other centralised systems not covered above provided that, in this last case, the Portuguese Government authorises the application of Decree-law no. 193/2005, and the beneficiaries are:

- (i) central banks or governmental agencies; or
- (ii) international bodies recognised by the Portuguese State; or
- (iii) entities resident in countries or jurisdictions with which Portugal has a double tax treaty in force or a tax information exchange agreement; or
- (iv) other entities without headquarters, effective management or a permanent establishment in the Portuguese territory to which the relevant income is attributable and which are not domiciled in a blacklisted jurisdiction as set out in the Ministerial Order no. 150/2004, as amended.

For purposes of application at source of this tax exemption regime, Decree-law no. 193/2005 requires completion of certain procedures and the provision of certain information. Under these procedures (which are aimed at verifying the non-resident status of the Noteholder), the Noteholder is required to hold the Notes through an account with one of the following entities:

- (i) a direct registered entity, which is the entity with which the debt securities accounts that are integrated in the centralised system are opened;
- (ii) an indirect registered entity, which, although not assuming the role of the "direct registered entities", is a client of the latter; or
- (iii) an international clearing system, which is an entity that proceeds, in the international market, to clear, settle or transfer securities which are integrated in centralised systems or in their own registration systems.

Capital gains obtained on the disposal of Notes issued by the Issuer, by corporate entities resident for tax purposes in the Portuguese Republic and by non-residents corporate entities with a permanent establishment therein to which the income or gain are attributable are included in their taxable income and are subject to corporate income tax at a 21 per cent. tax rate or at a 17 per cent. tax rate on the first EUR15,000 in the case



of small or small and medium-sized enterprises, to which may be added a municipal surcharge (“*derrama municipal*”) of up to 1.5 per cent. of its taxable income. A state surcharge (“*derrama estadual*”) also applies at 3 per cent. on taxable profits in excess of EUR1,500,000 and up to EUR7,500,000, 5 per cent. on taxable profits in excess of EUR7,500,000 and up to EUR35,000,000 and 7 per cent. on taxable profits in excess of EUR35,000,000.

Capital gains obtained on the disposal of Notes issued by the Issuer, by individuals resident for tax purposes in the Portuguese Republic are subject to tax at a rate of 28 per cent. levied on the positive difference between the capital gains and capital losses realised on the transfer of securities and derivatives of each year, unless the individual elects to include such income in his taxable income, subject to tax at progressive income tax rates of up to 48 per cent. In the latter circumstance an additional income tax will be due on the part of the taxable income exceeding EUR80,000 as follows: (i) 2.5 per cent. on the part of the taxable income exceeding EUR80,000 up to EUR250,000 and (ii) 5 per cent. on the remaining part (if any) of the taxable income exceeding EUR250,000. Additionally, should aggregation be chosen, an additional surcharge is due for the tax year of 2016 according to the taxpayer taxable income, as follows: (i) 0 per cent. for taxable income not exceeding EUR7,070; (ii) 1 per cent. for taxable income exceeding EUR7,070 and not exceeding EUR20,000; (iii) 1.75 per cent. for taxable income exceeding EUR20,000 and not exceeding EUR40,000; (iv) 3 per cent. for taxable income exceeding EUR40,000 and not exceeding EUR80,000 and (v) 3.5 per cent. for taxable income exceeding EUR80,000. For 1 January 2017 onwards, it is foreseen that such additional surcharge will no longer be applicable.

#### **Domestic Cleared Notes – held through a direct registered entity**

Direct registered entities are required to register the Noteholders in one of two accounts: (i) an exempt account or (ii) a non-exempt account. Registration in the exempt account is crucial for the tax exemption to apply upfront and requires evidence of the non-resident status of the Beneficiary, to be provided by the Noteholder to the direct registered entity (this will have to be made by no later than the second ICSD Business Day prior to the Relevant Date, as defined in Condition 18 ), as follows:

- (a) if the Noteholder is a central bank, an international body recognised as such by the Portuguese State, or a public law entity and respective agencies, a declaration issued by the beneficial owner of the Notes itself duly signed and authenticated, or proof of non residence pursuant to (d) below. The respective proof of non-residence in Portugal is provided once, its periodical renewal not being necessary and the beneficial owner should inform the direct register entity immediately of any change in the requisite conditions that may prevent the tax exemption from applying;
- (b) if the Noteholder is a credit institution, a financial company, a pension fund or an insurance company domiciled in any OECD country or in a country with which Portugal has entered into a double taxation treaty, certification shall be made by means of the following: (A) its tax identification official document; or (B) a certificate issued by the entity responsible for such supervision or registration, or by tax authorities, confirming the legal existence of the beneficial owner of the Notes and its domicile; or (C) proof of non residence pursuant to (d) below. The respective proof of non-residence in Portugal is provided once, its periodical renewal not being necessary and the beneficial owner should inform the direct register entity immediately of any change in the requisite conditions that may prevent the tax exemption from applying;
- (c) if the Noteholder is an investment fund or other collective investment scheme domiciled in any OECD country or in a country with which Portugal has entered into a double tax treaty in force or a tax information exchange agreement in force, it shall make proof of its non-resident status by providing any of the following documents: (a) a declaration issued by the entity responsible for its supervision or registration or by the relevant tax authority, confirming its legal existence, domicile and law of incorporation; or (b) proof of non-residence pursuant to the terms of paragraph (d) below.

The respective proof of non-residence in Portugal is provided once, its periodical renewal not being necessary and the beneficial owner should inform the direct register entity immediately of any change in the requisite conditions that may prevent the tax exemption from applying;

- (d) other investors will be required to make proof of their non-resident status by way of: (a) a certificate of residence or equivalent document issued by the relevant tax authorities; (b) a document issued by the relevant Portuguese Consulate certifying residence abroad; or (c) a document specifically issued by an official entity which forms part of the public administration (either central, regional or peripheral, indirect or autonomous) of the relevant country. The Noteholder must provide an original or a certified copy of such documents and, as a rule, if such documents do not refer to a specific year and do not expire, they must have been issued within the three years prior to the relevant payment or maturity dates or, if issued after the relevant payment or maturity dates, within the following three months. The Noteholder must inform the registering entity immediately of any change in the requirement conditions that may eliminate the tax exemption.

### **Internationally Cleared Notes – held through an entity managing an international clearing system**

Pursuant to the requirements set forth in the tax regime, if the Notes are registered in an account held by an international clearing system operated by a managing entity, the latter shall transmit, on each interest payment date and each relevant redemption date, to the direct register entity or to its representative, and with respect to all accounts under its management, the identification and quantity of securities, as well as the amount of income, and, when applicable, the amount of tax withheld, segregated by the following categories of beneficiaries:

- (a) entities with residence, headquarters, effective management or permanent establishment to which the income would be imputable and which are non-exempt and subject to withholding;
- (b) entities which have residence in country, territory or region with a more favourable tax regime, included in the Portuguese “blacklist” (countries and territories listed in Ministerial Order no. 150/2004) and which are non-exempt and subject to withholding;
- (c) entities with residence, headquarters, effective management or permanent establishment to which the income would be imputable, and which are exempt or not subject to withholding;
- (d) other entities which do not have residence, headquarters, effective management or permanent establishment to which the income generated by the securities would be imputable.

On each interest payment date and each relevant redemption date, the following information with respect to the beneficiaries that fall within the categories mentioned in paragraphs (a), (b) and (c) above, should also be transmitted:

- (a) name and address;
- (b) tax identification number (if applicable);
- (c) identification and quantity of the securities held; and
- (d) amount of income generated by the securities.

If the conditions for the exemption to apply are met, but, due to inaccurate or insufficient information, tax was withheld, a special refund procedure is available under the special regime approved by Decree-law no. 193/2005, as amended from time to time. The refund claim is to be submitted to the direct register entity of

the Notes within 6 months from the date the withholding took place. A special tax form for these purposes was approved by Order (*despacho*) 2937/2014, published in the Portuguese Official Gazette, second series, no. 37, of 21 February 2014, issued by the Portuguese Minister Secretary of State and Tax Matters (currently *Secretário de Estado e Assuntos Fiscais*) and may be available at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

The refund of withholding tax after the above six-month period is to be claimed from the Portuguese tax authorities within two years, starting from the term of the year in which the withholding took place.

**The absence of evidence of non-residence in respect to any non-resident entity which benefits from the above mentioned tax exemption regime shall result in the loss of the tax exemption and consequent submission to applicable Portuguese general tax provisions.**

***Portuguese taxation relating to all payments by the Issuer in respect of Notes issued out of the scope of Decree-law no. 193/2005***

The tax considerations made above in relation to corporate holders of Notes resident for tax purposes in Portuguese territory, non-Portuguese resident having a permanent establishment therein to which income is attributable, investment income paid or made available on accounts held by one or more parties on account of unidentified third parties, as well as to individuals resident for tax purposes in the Portuguese Republic also apply in case of Notes issued out of the scope of Decree-law no. 193/2005.

Investment income paid to non-Portuguese resident corporate entities or individuals in respect of Notes are subject to withholding tax at a rate of 25 per cent. (in case of corporate entities), at a rate of 28 per cent. (in case of individuals) or at a rate of 35 per cent. (in case of investment income payments (*i*) to individuals or corporate entities domiciled in a "low tax jurisdiction" list approved by Ministerial Order no. 150/2004, or (*ii*) to accounts opened in the name of one or more accountholders acting on behalf of one or more unidentified third parties, in which the relevant beneficial owner(s) of the income is/are not identified), as the case may be; or if applicable, at reduced withholding tax rates pursuant to tax treaties signed by the Portuguese Republic, provided that the procedures and certification requirements established by the relevant tax law are complied with.

Capital gains obtained from a sale or other disposition of Notes by individuals non-resident in Portugal for tax purposes are exempt from Portuguese capital gains taxation, unless the individual is domiciled in a "low tax jurisdiction" list approved by Ministerial Order no.150/2004. If the exemption does not apply, the positive difference obtained in a tax year between such gains and gains on other securities and losses in securities is subject to tax at 28 per cent., which is the final tax on that income. Accrued interest does not qualify as capital gains for tax purposes.

Capital gains obtained on the disposal of Notes by a legal person non-resident in Portugal for tax purposes and without a permanent establishment in Portugal to which gains are attributable are exempt from Portuguese capital gains taxation, unless the share capital of the holder is more than 25 per cent. directly or indirectly held by Portuguese resident entities (the referred 25 per cent. threshold will not be applicable to the taxation of capital gains obtained on the disposal of securities when the following cumulative requirements are met by the seller: (a) it is an entity resident in the European Union or in the European Economic Area State or in any country with which Portugal has a double tax treaty in force that foresees the exchange of information; (b) such entity is subject and not exempt to IRC (Portuguese corporate income tax), or a tax of similar nature with a rate not lower than 60 per cent. of the Portuguese IRC rate; (c) it holds at least 10 per cent. of the share capital or voting rights regarding the entity subject to disposal for at least 1 year uninterruptly; and (d) it does not intervene in an artificial arrangement or a series of artificial arrangements that have been put into place for the main purpose, or one of the main purposes, of obtaining a tax advantage. Although the abovementioned cumulative requirements are in full force and effect since 31 March 2016 and apply to securities in general, the law is not clear on the application thereof in order for

holders of debt representative securities to benefit from the relevant capital gains exemption, as some of the alluded requirements appear not to apply to debt representative securities) or if the holder is domiciled in a “low tax jurisdiction” list approved by Ministerial Order no.150/2004. If the exemption does not apply, the gains will be subject to tax at 25 per cent.

Under the tax treaties entered into by Portugal, the above gains are usually not subject to Portuguese tax, but the applicable rules should be confirmed on a case by case basis.

### ***Administrative cooperation in the field of taxation***

On 10 November 2015, the Council of the European Union adopted a Council Directive (Council Directive (EU) 2015/2060 of 10 November 2015) applicable from 1 January 2016 in the case of Portugal (subject to on-going requirements to fulfil administrative obligations such as the reporting and exchange of information relating to, and accounting for withholding taxes on, payments made before those dates) to prevent an overlap between Council Directive 2003/48/EC (the **Savings Directive**) and a new automatic exchange of information regime to be implemented under Council Directive 2011/16/EU of 15 February 2011. The new regime under Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, of 9 December 2014, introduced the automatic exchange of information in the field of taxation concerning bank accounts and is in accordance with the Global Standard released by the Organization for Economic Co-operation and Development in July 2014. This regime is generally broader in scope than the Savings Directive and shall completely replace the Savings Directive.

Portugal has implemented the Savings Directive into the Portuguese law through Decree-Law no. 62/2005, of 11 March 2005, as amended from time to time. The forms currently applicable to comply with the reporting obligations arising from the implementation of the Savings Directive were approved by Governmental Order (*Portaria*) no. 563-A/2005, of 28 June 2005, and may be available for consultation at [www.portaldasfinancas.gov.pt](http://www.portaldasfinancas.gov.pt).

Accordingly, as a consequence of the repeal of the Savings Directive by the recent Council Directive (EU) 2015/2060, of 10 November 2015, it is expected that Decree-Law no. 62/2005, of 11 March 2005, as amended from time to time, as well as the forms approved by Governmental Order (*Portaria*) no. 563-A/2005, of 28 June 2005, will be revoked.

Under Council Directive 2014/107/EU, financial institutions are required to report to the tax authorities of their respective Member State (for the exchange of information with the state of residence) information regarding bank accounts, including custodial accounts, held by individual persons residing in a different Member State or entities which are controlled by one or more individual persons residing in a different Member State, after having applied the due diligence rules foreseen in the Council Directive. The information refers to the account balance at the end of the calendar year, income paid or credited in the account and the proceeds from the sale or redemption of the financial assets paid or credited in the account during the calendar year to which the financial institution acted as custodian, broker, nominee, or otherwise as an agent for the account holder, among others.

Notwithstanding the repeal of the Savings Directive as of 1 January 2016, certain provisions will continue to apply for a transitional period. As to the new regime, Portugal has implemented Directive 2011/16/EU through Decree-Law No. 61/2013, of 10 May 2013. However, it still has to implement Council Directive 2014/107/EU. The Portuguese State Budget Law for 2016 has included a legislative authorisation which allows the Portuguese Government to implement Council Directive 2014/107/EU, as well as to legislate on the OECD’s Standard for Automatic Exchange of Financial Account Information.

In view of the abovementioned regimes, it is currently uncertain how reporting obligations shall be complied with.

## 2 Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Portugal, which entered into an intergovernmental agreement based largely on the Model 1 IGA on 6 August 2015) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. The United States has reached a Model 1 intergovernmental agreement with Portugal (“IGA”), signed on 6 August 2015 and ratified by Portugal on 5 August 2016. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the Issuer). However, if additional Notes (as described under Condition 14) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA.

Portugal has implemented, through Law 82-B/2014, of 31 December 2014, the legal framework based on reciprocal exchange of information on financial accounts subject to disclosure in order to comply with FATCA. In such Law, it is also foreseen that additional legislation regarding certain procedures and rules in connection with FATCA will be created in Portugal.

The deadline for the financial institutions to report to the Portuguese tax authorities the mentioned information has been postponed several times, the last time to the last day of September 2016 pursuant to Order no. 150/2016.XXI, of 30 June 2016 issued by the Portuguese Secretary of Tax Affairs.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes.

## 3. The proposed financial transaction tax (FTT)

On 14 February 2013, the European Commission published a proposal (the **Commission’s Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission’s Proposal has a very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad

range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 25 August 2016, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Final Terms will identify whether TEFRA C rules apply or whether TEFRA is not applicable.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Circular as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision:

- the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and
- the expression **Prospectus Directive** means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act of 2000, as amended (**FSMA**) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### **Japan**

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer or



sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

## **Portugal**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes may not be and will not be offered to the public in Portugal under circumstances which are deemed to be a public offer under the Portuguese Securities Code unless the requirements and provisions applicable to the public offering in Portugal are met and registration, filing, approval or recognition procedure with the CMVM is made. In addition, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that (i) it has not directly or indirectly taken any action or offered, advertised, marketed, invited to subscribe, gathered investment intentions, sold or delivered and will not directly or indirectly take any action, offer, advertise, invite to subscribe, gather investment intentions, sell, re-sell, re-offer or deliver any Notes in circumstances which could qualify as a public offer (*oferta pública*) of securities pursuant to the Portuguese Securities Code, notably in circumstances which could qualify as a public offer addressed to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be; (ii) it has not distributed, made available or cause to be distributed and will not distribute, make available or cause to be distributed the Offering Circular or any other offering material relating to the Notes to the public in Portugal; other than in compliance with all applicable provisions of the Portuguese Securities Code, the Prospectus Regulation implementing the Prospectus Directive and any applicable CMVM Regulations and all relevant Portuguese securities laws and regulations, in any such case that may be applicable to it in respect of any offer or sale of Notes by it in Portugal or to individuals or entities resident in Portugal or having permanent establishment located in Portuguese territory, as the case may be, including compliance with the rules and regulations that require the publication of a prospectus, when applicable, and that such placement shall only be authorised and performed to the extent that there is full compliance with such laws and regulations.

## **General**

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular or any Final Terms and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer and the Dealers has represented that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes thereunder have been duly authorised by a resolution of the Board of Directors of the Issuer dated 11 July 2016.

### Listing of Notes

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. The listing of the Programme in respect of Notes is expected to be granted on or before 31 August 2016.

### Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Lisbon:

- (a) the constitutional documents (with a direct and accurate English translation thereof) of the Issuer;
- (b) the most recently published audited annual financial statements of the Issuer and the most recently published interim financial statements (if any) of the Issuer (with a direct and accurate English translation thereof), in each case together with any audit or review reports prepared in connection therewith;
- (c) the Programme Agreement, the Interbolsa Instrument and the Agency Agreement;
- (d) a copy of this Offering Circular;
- (e) any future offering circulars, prospectuses, information memoranda, supplements and Final Terms and any other documents incorporated herein or therein by reference;
- (f) in the case of each issue of Notes admitted to trading on the London Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document); and
- (g) in the event of a substitution pursuant to Condition 15 taking place, the deed poll and other documents as described in Condition 15.1(b).

### Clearing Systems

The Notes have been accepted for registration and clearance through CVM managed by Interbolsa. The address of Interbolsa is Avenida da Boavista 3433, 4100-138 Porto, Portugal.

The Notes will also be eligible for clearing and settlement through Euroclear and Clearstream, Luxembourg holding Notes through a custodian that is an Affiliate Member of Interbolsa. The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

If the Notes are to be cleared through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

### **Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

### **Yield**

In relation to any Tranche of Fixed Rate Notes, an indication of the yield in respect of such Notes will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Notes on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Notes and will not be an indication of future yield.

### **Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries since 30 June 2016 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2015.

### **Litigation**

There are no, and there have not been any, governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer and its subsidiaries.

### **Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. Certain of the Dealers or their respective affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Publication of supplements to the Offering Circular or a new Offering Circular**

Following the publication of this Offering Circular a supplement may be prepared by the Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to

the extent applicable, be deemed to modify or supersede statements contained in this Offering Circular or in a document which is incorporated by reference in this Offering Circular. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Offering Circular.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Notes, prepare a supplement to this Offering Circular or publish a new Offering Circular for use in connection with any subsequent issue of Notes.

## FINANCIAL STATEMENTS IN RELATION TO THE ISSUER

The following section contains:

- (i) an English translation of the unaudited consolidated financial statements of the Issuer for the six months ended 30 June 2016; and
- (ii) an English translation of the audited consolidated financial statements of the Issuer for the year ended 31 December 2015<sup>1</sup> and the audited non-consolidated financial statements of the Issuer for the financial year ended 31 December 2014,

in each case prepared in accordance with International Financial Reporting Standards and (in the case of the audited consolidated and non-consolidated annual financial statements) together with the audit report thereon.

The Issuer is not required to prepare consolidated financial statements under Portuguese law or applicable accounting rules. However, in order to prepare for the Minority Transaction described under “*Description of the Issuer - Ownership*” above, the Issuer decided to prepare its financial statements for the year ended 31 December 2015 and the six months ended 30 June 2016 on a consolidated basis.<sup>2</sup>

The Issuer confirms that the financial statements referred to in paragraphs (i) and (ii) above are direct and accurate translations into English of the relevant financial statements and audit reports issued in Portuguese, which are provided solely for the convenience of English speaking users. In case of a discrepancy between the original documents in Portuguese and the English translation thereof, the original document will prevail.

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<sup>1</sup> The audited consolidated financial statements of the Issuer for the year ended 31 December 2015 include non-audited consolidated numbers in relation to the financial year ended 31 December 2014 for comparative purposes, which have the same basis of preparation as the audited consolidated numbers as of 31 December 2015. However, the Issuer’s subsidiaries as of 31 December 2014 financial year were materially different from the consolidated subsidiaries as of 31 December 2015 as the Issuer acquired significant shareholdings in the interim.

<sup>2</sup> Historically, the Issuer has been financed through intragroup loans and as such the consolidation was done at the level of the holding company, Galp Energia, SGPS, S.A., without any intermediate consolidation (by the Issuer or any other distribution companies of the group). In preparation for the Minority Transaction, the Issuer’s intention is to replace such intragroup loans with external financing instruments, such as the Notes. In this context, it was necessary to prepare consolidated accounts of the Issuer, which reflected the financial position of the Issuer and its subsidiaries.

**Galp Gás Natural Distribuição, S.A.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN 30 JUNE 2016 AND 31 DECEMBER 2015**

(Amounts expressed in thousands of Euros - €k)

<b>ASSETS</b>	<b>JUNE 2016</b>	<b>DECEMBER 2015</b>
<b>Non-current assets:</b>		
Tangible assets	553	562
Goodwill	2.275	2.275
Intangible assets	1.120.074	1.132.240
Investments in associates and joint ventures	14.843	14.169
Assets held for sale	3	3
Other receivables	40.786	49.189
Deferred tax assets	19.311	15.453
<b>Total non-current assets:</b>	<b>1.197.845</b>	<b>1.213.891</b>
<b>Current assets:</b>		
Inventories	1.588	1.239
Trade receivables	14.091	14.745
Other receivables	82.426	95.544
Cash and cash equivalents	34.321	28.526
<b>Total current assets:</b>	<b>132.426</b>	<b>140.054</b>
<b>Total assets:</b>	<b>1.330.271</b>	<b>1.353.945</b>
<b>EQUITY AND LIABILITIES</b>	<b>JUNE 2016</b>	<b>DECEMBER 2015</b>
<b>Equity:</b>		
Share capital	89.529	89.529
Reserves	3.149	2.670
Retained earnings	132.183	115.489
Consolidated net result for the year	13.150	29.620
<b>Total equity attributable to shareholders:</b>	<b>238.011</b>	<b>237.308</b>
Non-Controlling Interests	19.179	19.245
<b>Total equity:</b>	<b>257.190</b>	<b>256.553</b>
<b>Liabilities:</b>		
<b>Non-current liabilities:</b>		
Bank loans	35.067	42.710
Shareholder Loans – Galp Gás & Power, SGPS, S.A.	567.800	587.800
Other payables	252.329	246.599
Post-employment and other employee benefits liabilities	54.943	50.494
Deferred tax liabilities	10.586	15.788
Provisions	31.299	22.572
<b>Total non-current liabilities:</b>	<b>952.024</b>	<b>965.963</b>
<b>Current liabilities:</b>		
Bank loans and overdrafts	15.316	17.517
Trade payables	13.536	8.926
Other payables	74.762	65.340
Current income tax payable	17.443	39.646
<b>Total current liabilities:</b>	<b>121.057</b>	<b>131.429</b>
<b>Total liabilities:</b>	<b>1.073.081</b>	<b>1.097.392</b>
<b>Total equity and liabilities:</b>	<b>1.330.271</b>	<b>1.353.945</b>

**Galp Gás Natural Distribuição, S.A.**

**CONSOLIDATED INCOME STATEMENT FOR THE PERIODS ENDED 30 JUNE 2016 AND 30 JUNE 2015**

(Amounts expressed in thousands of Euros - €k)

	<b>JUNE 2016</b>	<b>JUNE 2015</b>
<b>Operating income:</b>		
Sales	4.257	4.889
Service Rendered	104.426	104.318
Other operating income	13.640	12.996
<b>Total operating income:</b>	<b>122.323</b>	<b>122.203</b>
<b>Operating costs:</b>		
Cost of sales	2.281	3.262
Supplies and external services	36.740	34.792
Employee costs	9.183	10.279
Amortisation, depreciation and impairment loss on fixed assets	20.670	20.293
Provisions and impairment losses on receivables	(545)	422
Other operating costs	8.770	8.215
<b>Total operating costs:</b>	<b>77.099</b>	<b>77.263</b>
<b>Operating result:</b>	<b>45.224</b>	<b>44.940</b>
Financial income	243	266
Financial costs	(14.953)	(15.428)
Results from financial investments and impairment losses on Goodwill	644	519
<b>Result before taxes:</b>	<b>31.158</b>	<b>30.297</b>
Income tax	(7.668)	(4.646)
Energy sector extraordinary contribution	(9.338)	(9.778)
<b>Consolidated net result for the year</b>	<b>14.152</b>	<b>15.873</b>
<b>Result attributable to:</b>		
<b>Non-controlling interests</b>	1.002	2.009
<b>Galp Gas Natural Distribuição, S.A. Shareholder</b>	13.150	13.864
<b>Consolidated net income for the period</b>	<b>14.152</b>	<b>15.873</b>
<b>Earnings per share (in Euros)</b>	<b>0,15</b>	<b>0,15</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS AT  
30 JUNE 2016**

(Amounts expressed in thousands of Euros - €k)

	JUNE 2016	DECEMBER 2015
<b>Operating activities:</b>		
Receipts from customers (including VAT and ISP Taxes)	193.831	351.473
Paid to suppliers (including VAT)	(50.988)	(127.854)
Payment of tax on oil products (ISP)	(250)	(359)
Payment of Value-Added Tax (VAT)	(25.291)	(47.318)
<b>Cash gross margin</b>	<b>117.303</b>	<b>175.942</b>
Payment of Wages and employee benefits	(5.481)	(11.114)
Payment of IRS staff income tax withheld	(3.315)	(5.717)
Payment of TSU social security charges	(2.600)	(5.761)
<b>Payments related to employees</b>	<b>(11.396)</b>	<b>(22.592)</b>
Other payments/receipts relating to operating activities	(11.111)	6.660
<b>Operating cash flow</b>	<b>94.796</b>	<b>160.010</b>
Payments/Receipts relating to income tax	(37.732)	(4.923)
<b>Net cash (used in)/provided by operating activities (1)</b>	<b>57.064</b>	<b>155.087</b>
<b>Investing activities:</b>		
Payments relating to Tangible and Intangible assets	(11.096)	(19.913)
Payments relating to Investments	-	(84.955)
<b>Net cash investment</b>	<b>(11.096)</b>	<b>(104.868)</b>
Receipts relating to Loans granted	145	-
Payments relating to Loans granted	-	(22.754)
Receipts relating to Interest and similar income	8	125
<b>Net cash (used in)/provided by investing activities (2)</b>	<b>(10.943)</b>	<b>(127.497)</b>
<b>Financing activities:</b>		
Loans obtained	-	144.300
Loans repaid	(28.049)	(40.632)
Payments relating to Interest on loans and bonds	(426)	(31.053)
Capital increases/decreases and other equity instruments	-	(3.100)
Payments relating to Dividends	(9.580)	(56.646)
<b>Net cash (used in)/provided by financing activities (3)</b>	<b>(38.055)</b>	<b>12.869</b>
Net change in cash and cash equivalents (4) = (1) + (2) + (3)	8.066	40.459
Cash and cash equivalents at the beginning of the year	26.176	(14.283)
Cash and cash equivalents at the end of the year	34.242	26.176



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# GALP GÁS NATURAL DISTRIBUIÇÃO S.A. AND SUBSIDIARIES

FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS AS AT 31 DECEMBER 2015



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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### Galp Gás Natural Distribuição, S.A. and subsidiaries

#### Consolidated Statement of Financial Position as of 31 December 2015 and 31 December 2014

(Amounts stated in thousand Euros - €K)

Assets	Notes	december 2015	december 2014
<b>Non-current assets:</b>			
Tangible assets	12	562	581
Goodwill	11	2.275	2.275
Intangible assets	12	1.132.240	1.153.727
Investments in associates and joint ventures	4	14.169	12.941
Other receivables	14	49.189	66.353
Deferred tax assets	9	15.453	12.698
<b>Total non-current assets:</b>		<b>1.213.891</b>	<b>1.248.578</b>
<b>Current assets:</b>			
Inventories	16	1.239	1.222
Trade receivables	15	14.745	12.851
Other receivables	14	95.544	119.103
Cash and cash equivalents	18	28.526	11.532
<b>Total current assets:</b>		<b>140.054</b>	<b>144.708</b>
<b>Total assets:</b>		<b>1.353.945</b>	<b>1.393.286</b>
Equity and Liabilities	Notes	december 2015	december 2014
<b>Equity:</b>			
Share capital	19	89.529	89.529
Share premium	19	-	100
Reserves	20	2.670	(243)
Retained earnings		115.489	(12.763)
Consolidated net results for the year	10	29.620	191.401
<b>Total equity attributable to shareholders:</b>		<b>237.308</b>	<b>268.024</b>
Non-controlling interests	21	19.245	51.050
<b>Total Equity:</b>		<b>256.553</b>	<b>319.074</b>
<b>Liabilities:</b>			
<b>Non-current liabilities:</b>			
Bank loans	22	42.710	57.975
Other payables	24	834.399	713.509
Post-employment and other employee benefits liabilities	23	50.494	47.687
Deferred tax liabilities	9	15.788	27.042
Provisions	25	22.572	12.579
<b>Total do Liabilities non-current:</b>		<b>965.963</b>	<b>858.792</b>
<b>Liabilities current:</b>			
Bank loans and overdrafts	22	17.517	43.817
Trade payables	26	8.926	24.605
Other payables	24	65.340	129.039
Current income tax payable	9	39.646	17.959
<b>Total current liabilities:</b>		<b>131.429</b>	<b>215.420</b>
<b>Total liabilities:</b>		<b>1.097.392</b>	<b>1.074.212</b>
<b>Total equity and liabilities:</b>		<b>1.353.945</b>	<b>1.393.286</b>

The accompanying notes form an integral part of the consolidated statement of financial position as of 31 December 2015.



## CONSOLIDATED INCOME STATEMENT

### Galp Gás Natural Distribuição, S.A. and subsidiaries

#### Consolidated Income Statement for the year ended 31 December 2015 and 31 December 2014

(Amounts stated in thousand Euros - €K)

	Notes	december 2015	december 2014
<b>Operating income:</b>			
Sales	5	8.026	1.336
Services rendered	5	208.910	73.984
Other operating income	5	30.248	11.091
<b>Total operating income:</b>		<b>247.184</b>	<b>86.411</b>
<b>Operating costs:</b>			
Cost of sales	6	4.878	819
External supplies and services	6	70.699	28.049
Employee costs	6	23.264	6.853
Amortisation, depreciation and impairment loss on fixed assets	6	41.073	11.997
Provisions and impairment losses on receivables	6	372	(106)
Other operating costs	6	20.846	8.087
<b>Total operating costs:</b>		<b>161.132</b>	<b>55.699</b>
<b>Operating result:</b>		<b>86.052</b>	<b>30.712</b>
Financial income	8	1.167	3.367
Financial costs	8	(32.188)	(4.873)
Results from associates	4 e 11	1.175	175.647
<b>Result before taxes:</b>		<b>56.206</b>	<b>204.853</b>
Income tax	9	(13.340)	(10.153)
Energy sector extraordinary contribution	9	(9.778)	(1.529)
<b>Consolidated net result for the year</b>		<b>33.088</b>	<b>193.171</b>
<b>Result attributable to:</b>			
<b>Non-controlling interests</b>	<b>21</b>	<b>3.468</b>	<b>1.770</b>
<b>Galp Gás Natural Distribuição, S.A. Shareholders</b>	<b>10</b>	<b>29.620</b>	<b>191.401</b>
<b>Consolidated net result for the year</b>		<b>33.088</b>	<b>193.171</b>
<b>Earnings per share (in Euros)</b>	<b>10</b>	<b>0,33</b>	<b>2,14</b>

The accompanying notes form an integral part of the consolidated income statement for the year ended 31 December 2015.



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Galp Gás Natural Distribuição, S.A. and subsidiaries  
 Consolidated Statement of Comprehensive Income for the year ended 31 December 2015 and 31 December 2014  
 (Amounts stated in thousand Euros - €K)

	Notes	december 2015		december 2014	
		Atributable to the Shareholders	Non-controlling interests (Note 21)	Atributable to the Shareholders	Non-controlling interests (Note 21)
<b>Consolidated net result for the year</b>	10	<b>29.620</b>	<b>3.468</b>	<b>191.401</b>	<b>1.770</b>
<u>Other comprehensive income for the year which will not be recycled in the future for net result of the year:</u>					
<b>Actuarial Gains and losses - pension fund:</b>					
Actuarial Gains and losses - pension fund	23	(4.136)	(1)	(15.632)	-
Tax related to actuarial gains and losses - pension fund	9	619	-	2.951	-
		<b>(3.517)</b>	<b>(1)</b>	<b>(12.681)</b>	-
<b>Hedging reserves:</b>					
Increases / (decreases) in hedging reserves (Associates)	4 e 20	49	-	(286)	-
		<b>49</b>	-	<b>(286)</b>	-
<u>Other increases/decreases</u>					
<b>Changes on the financial interests held in the share capital of subsidiaries (Note 3 and 21):</b>					
Increase in the financial interests held in the share capital of subsidiaries (Note 3 and 21)	21	-	(24.640)	-	(1.090)
		-	<b>(24.640)</b>	-	<b>(1.090)</b>
<b>Other Comprehensive income for the year net of taxes</b>		<b>(3.468)</b>	<b>(24.641)</b>	<b>(12.967)</b>	<b>(1.090)</b>
<b>Comprehensive income for the year attributable to shareholders</b>		<b>26.152</b>		<b>178.434</b>	
<b>Comprehensive income for the year attributable to non-controlling interests</b>	21		<b>(21.173)</b>		<b>680</b>
<b>Total Comprehensive income for the year</b>		<b>26.152</b>	<b>(21.173)</b>	<b>178.434</b>	<b>680</b>

The accompanying notes form an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2015



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Galp Gás Natural Distribuição, S.A. and subsidiaries  
 Consolidated Statement of changes in equity for the year ended 31 December 2015 and 31 December 2014  
 (Amounts stated in thousand Euros - €K)

Changes in the period	Notes	Share Capital (Note 19)	Share Premium	Translation reserves (Note 20)	Other reserves (Note 20)	Hedging reserves (Note 20)	Retained earnings - actuarial Gains and losses - pension fund (Note 23)	Retained earnings	Consolidated net result for the year	Sub-Total	Non-controlling interests (Note 21)	Total
<b>Balance as of 1 January 2014</b>		<b>50</b>	<b>100</b>	-	-	-	-	(59)	(23)	<b>68</b>	-	<b>68</b>
Consolidated net result for the year	10	-	-	-	-	-	-	-	191.401	191.401	1.770	193.171
Other gains and losses recognised in Equity		-	-	-	-	(286)	(12.681)	-	-	(12.967)	(1.090)	(14.057)
Comprehensive income for the year		-	-	-	-	(286)	(12.681)	-	191.401	178.434	680	179.114
Dividends distributed / Interim dividends	30	-	-	-	-	-	-	-	-	-	(4.965)	(4.965)
Increase / decrease in Equity		89.479	-	-	-	-	-	-	-	89.479	-	89.479
Increase of equity in subsidiaries		-	-	-	43	-	-	-	-	43	(946)	(903)
Changes in the consolidation perimeter	3 e 21	-	-	-	-	-	-	-	-	-	56.281	56.281
Increase of reserves by appropriation of profit		-	-	-	-	-	-	(23)	23	-	-	-
<b>Balance as of 31 December 2014</b>		<b>89.529</b>	<b>100</b>	-	<b>43</b>	<b>(286)</b>	<b>(12.681)</b>	<b>(82)</b>	<b>191.401</b>	<b>268.024</b>	<b>51.050</b>	<b>319.074</b>
Increase / decrease in Equity		-	-	-	-	-	-	-	-	-	-	-
<b>Balance as of 1 January 2015</b>		<b>89.529</b>	<b>100</b>	-	<b>43</b>	<b>(286)</b>	<b>(12.681)</b>	<b>(82)</b>	<b>191.401</b>	<b>268.024</b>	<b>51.050</b>	<b>319.074</b>
Consolidated net result for the year	10	-	-	-	-	-	-	-	29.620	29.620	3.468	33.088
Changes in the consolidation perimeter	3 e 21	-	-	-	-	-	-	-	-	-	-	-
Other gains and losses recognised in Equity		-	-	-	-	49	(3.517)	-	-	(3.468)	(24.641)	(28.109)
Comprehensive income for the year		-	-	-	-	49	(3.517)	-	29.620	26.152	(21.173)	4.979
Dividends distributed / Interim dividends	30	-	-	-	-	-	-	(59.632)	-	(59.632)	-	(59.632)
Increase / decrease in Equity		-	(100)	-	-	-	-	-	-	(100)	-	(100)
Increase of equity in subsidiaries	3 e 20	-	-	-	(122)	-	-	-	-	(122)	(10.632)	(10.754)
Increase of reserves by appropriation of profit		-	-	2.986	-	-	-	191.401	(191.401)	2.986	-	2.986
<b>Balance as of 31 December 2015</b>		<b>89.529</b>	-	<b>2.986</b>	<b>(79)</b>	<b>(237)</b>	<b>(16.198)</b>	<b>131.687</b>	<b>29.620</b>	<b>237.308</b>	<b>19.245</b>	<b>256.553</b>

The accompanying notes form an integral part of the consolidated statement of changes in equity for the year ended 31 December 2015



## CONSOLIDATED STATEMENT OF CASH FLOW

**Galp Gás Natural Distribuição, S.A. and subsidiaries**  
**Consolidated Statement of Cash Flow for the year ended 31 December 2015 and 31 December 2014**  
**(Amounts stated in thousand Euros - €K)**

	Notes	December 2015	December 2014
<b>Operating activities:</b>			
Cash received from customers		351.473	91.977
Cash (payments) to suppliers		(127.854)	(30.483)
(Payments) relating to Tax on oil products ("ISP")		(359)	(14)
(Payments) relating to VAT		(47.318)	(10.306)
<b>Operating gross margin</b>		<b>175.942</b>	<b>51.174</b>
Salaries, contributions to the pension fund and other benefits (payments)		(11.114)	(2.085)
Withholding to third parties (payments)		(5.717)	(1.499)
Social Security contributions ("TSU")		(5.761)	(1.738)
<b>Payments relating to employees</b>		<b>(22.592)</b>	<b>(5.322)</b>
Other receipts/(payments) relating to the operational activity		6.660	(56.692)
<b>Cash flows from operations</b>		<b>160.010</b>	<b>(10.840)</b>
(Payments)/receipts of income taxes		(4.923)	(13.597)
<b>Cash flows from operating activities (1)</b>		<b>155.087</b>	<b>(24.437)</b>
<b>Investing activities:</b>			
Cash receipts from sale of tangible and intangible assets		(19.913)	(5.409)
Cash (payments) relating to financial investments		(84.955)	(395.192)
<b>Net financial investment</b>		<b>(104.868)</b>	<b>(400.601)</b>
Cash receipts from loans granted		-	22.458
Cash (payments) relating to loans granted		(22.754)	(469)
Cash receipts from interests and similar income		125	2
<b>Cash flows from investing activities (2)</b>		<b>(127.497)</b>	<b>(378.610)</b>
<b>Financing activities:</b>			
Cash receipts from loans obtained		144.300	464.613
Cash (payments) relating to loans obtained		(40.632)	(38.464)
Cash receipts/(payments) from interests and similar costs		(31.053)	(20.330)
Achievements / (reductions) of share capital and other equity instruments	20	(3.100)	-
Dividends paid	30	(56.646)	(4.940)
<b>Cash flows from financing activities (3)</b>		<b>12.869</b>	<b>400.879</b>
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		40.459	(2.168)
Effect of foreign exchange rate changes in cash and cash equivalents		-	-
Cash changes by changes in the consolidation perimeter	3	-	(12.115)
Cash and cash equivalents at the beginning of the year	18	(14.283)	-
Cash and cash equivalents at the end of the year	18	26.176	(14.283)

The accompanying notes form an integral part of the consolidated statement of cash flow for the year ended 31 December 2015.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2015

### 1. INTRODUCTION

#### a) Parent Company:

Galp Gás Natural Distribuição, S.A. (hereinafter referred to as GGND or the Company) has its Head Office in Rua Tomás da Fonseca in Lisbon, Portugal and its corporate business is the exercise of activities in the energy sector, in particular in the distribution of natural gas, including the service delivery of support to corporate business, in the areas of management, administration and logistics, purchase and supply and information systems.

The Company shareholder structure as of 31 December 2015 is stated in Note 19.

#### b) The Group:

As of 31 December 2015 the GGND Group (“the group”) consists of Galp Gás Natural Distribuição and its subsidiaries which integrates in the natural gas distribution area.

The Gas business segment is responsible for the areas of Distribution and Commercialization of natural gas in the liberalized market of Portugal. Its purpose is to sell natural gas to residential, commercial and industrial customers.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Group to prepare the consolidated financial statements are explained below. There were no prior year material errors.

#### 2.1. BASIS OF PRESENTATION

The accompanying financial statements are presented in thousands of euros, unless otherwise stated.

GGND consolidated financial statements were prepared on a going concern basis, at historical cost, on the accounting records of the companies included in the consolidation (Notes 3 and 4) maintained in accordance with International Financial Reporting Standards as adopted by the European Union, effective for the economic year beginning in 1 January 2015. These standards include International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (“IASB”) and International Accounting Standards (“IAS”) issued by the International Accounting Standards Committee (“IASC”) and respective interpretations – SIC and IFRIC, issued by the Standing Interpretation Committee (“SIC”) and International Financial Reporting Interpretation Committee (“IFRIC”). These standards and interpretations are hereinafter referred to as “IFRS”.

The IFRS standards published by International Accounting Standard Board (IASB) and approved and published in the Official Journal of the European Union (“OJEU”) during 2015, applicable to subsequent years are presented in the tables below:



Standards and Interpretations published by IASB but not endorsed by the EU:

IAS Standard	Publishing date in IASB	Estimated date of approval by EU	Year to which it applies	Comments
IFRS 14 Regulatory Tariff Deviations	30 January 2014	no estimated date	2016	Not applicable
Amendments to IFRS 10, 12 and IAS 2 - Investment entities: applying consolidation exception	18 December 2014	2nd Quarter 2016	2016	Impact of the application of the standard still to be determined
Amendments to IAS 12 Income taxes	19 January 2016	4th Quarter 2016	2017	No estimated impact
IFRS 9 Financial Instruments	24 July 2014	2nd Semester 2016	2018	Impact on the derivative financial instruments, classified in accordance with accounting standards as hedging and in the calculation of the impairment losses on accounts receivable
IFRS 15 Revenue from contracts with customers	28 May 2014 and 11 September 2015	2nd Quarter 2016	2018	Impact, still to be determined, on the revenue recognition
IFRS 16 Leases	13 January 2016	no estimated date	2019	Impact of the application of the standard still to be determined
IAS 7 Statement of Cash Flow	29 January 2016	4th Quarter 2016	2017	Impact on disclosures in the notes to the financial statements

Standards and Interpretations to be applied in subsequent years, if applicable:

IAS Standard	Publishing date in OJEU	Date of accounting application	Year to which it applies	Comments
Amendments to IAS 27 Separate Financial Statements	23 December 2015	01 January 2016	2016	Impact, still to be determined, of the application of the amendment
Amendments to IAS 1 Presentation of Financial Statements	19 December 2015	01 January 2016	2016	Impact on the presentation of the financial statements of the respective disclosures
Annual improvements to IFRS 2012-2014	16 December 2015	01 January 2016	2016	No estimated impact
Amendments to IAS 16 Tangible Fixed Assets and IAS 38 Intangible Assets	03 December 2015	01 January 2016	2016	Not applicable
Amendments to IFRS 11 Joint arrangements	25 November 2015	01 January 2016	2016	Estimated impact on new acquisitions of joint operations
Amendments to IAS 16 Tangible Fixed Assets and IAS 41 Agriculture	24 November 2015	01 January 2016	2016	Not applicable
Amendments to IAS 19: Defined Benefits Plan: Employees contributions	9 January 2015	after 1 February 2015	2016	No relevant accounting impacts
Annual Improvements IFRS 2010-2012	9 January 2015	after 1 February 2015	2016	No relevant accounting impacts

Standards and Interpretations adopted, if applicable:

IAS Standard	Publishing date in OJEU	Date of accounting application	Year to which it applies	Comments
IFRIC 21 Levies	14 June 2014	after 17 June 2014	2015	No relevant accounting impacts
Annual improvements IFRS 2011-2013	19 December 2014	after 1 January 2015	2015	No relevant accounting impacts

**Standards and Interpretations published by IASB, but not endorsed by the European Union:**



## *IFRS 14 – Regulatory Tariff Deviations*

The standards permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and respective movements, are presented separately in the statement of financial position, income statement and other comprehensive income, and specific disclosures are required.

As GGND is not a first-time adopter of the IFRS, will not apply this standard. Additionally, it is expected that the European Union will not endorse this standard.

## *Amendment to IFRS 10, 12 and IAS 28, 'Investment entities: applying consolidation exception'*

This amendment clarifies that the exemption from the obligation to prepare consolidated financial statements by investment entities applies to an intermediate parent which is a subsidiary of an investment entity. The policy choice to apply the equity method is extended to an entity which is not an investment entity, but has an interest in an associate, or joint venture, which is an investment entity.

Not applicable.

## *Amendments to IAS 12 – Income taxes*

The amendments in IAS 12 refer to the recognition of deferred tax assets for unrealized losses, and clarify the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

It is not expected that this clarification in IAS 12 will have any impact on the calculations and records for deferred taxes made by GGND.

## *IFRS 9 – Financial Instruments*



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IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement, and introduces the following changes:

- (i) classification and measurement of financial assets, simplifying the classification based on the business model defined by management;
- (ii) recognition of the “own credit risk” component in the fair value measurement of liabilities classified as voluntarily measured at fair value;
- (iii) recognition of impairment on receivables, based on the model of estimated losses, replacing the losses incurred model;
- (iv) rules of hedge accounting, which are intended to be more aligned with the hedging economic rationale defined by Management.

GGND believes that IFRS 9 will change the form of impairment recognition on receivables, the classification and measurement of financial assets and may affect hedge accounting, as it will be more aligned with the economic hedging. GGND is still determining the impact of this standard.

#### *IFRS 15 – Revenue from contracts with customers*

This standard applies only to contracts with customers to provide goods or services, and requires an entity to recognize revenue when the contractual obligation to deliver the goods or services is satisfied and by the amount that reflects the consideration the entity is expected to be entitled to, in accordance with the methodology established in the standard.

GGND is analyzing the future impact of this standard particularly in the recognition of revenue in the various activities developed.

#### *IFRS 16 – Leases*

This standard specifies how leases should be recognized, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

GGND is still determining the impact of this new standard on its activities. However it believes that it should not be relevant for leases related to the Gas activity, since the standard does not apply (IFRS 16 p.3).

#### *IAS 7 – Statement of Cash Flows: Disclosures*

Requires an entity to disclose information on the changes in liabilities related to the financing activity, namely:

- (i) Changes in financing cash flows;
- (ii) Changes arising from obtaining or losing control on subsidiaries or other businesses;
- (iii) The effect of changes in exchange rates;
- (iv) Changes in fair value; and
- (v) Other changes.

This amendment will have impact on the future disclosures to be presented in the notes to the financial statements.

#### **Standards and Interpretations endorsed by the European Union to be applied for accounting years after 2015:**



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### *Amendment to IAS 27 – Separate financial statements*

This amendment allows entities to use equity method to measure investments in subsidiaries, joint ventures and associates in separate financial statements. This amendment applies retrospectively.

GGND is still considering whether or not to change the measurement criterion for its subsidiaries, joint ventures and associates in their individual accounts. This amendment has no impact in GGND' consolidated financial statements, as it is not applicable.

### *Amendments to IAS 1 – Presentation of financial statements*

This amendment to IAS 1 results from an IFRS disclosure initiative, and provides guidance on materiality and aggregation of captions and the presentation of subtotals in the IFRS financial statements.

This amendment will have impact on the way GGND presents the information in its financial statements.

### *Annual Improvements 2012 – 2014*

#### *- IFRS 5 - 'Non-current assets held for sale and discontinued operations'*

This improvement clarifies that when an asset (or disposal group) is reclassified from “held for sale” to “held for distribution”, or vice versa this does not constitute a change to a plan of sale or distribution.

#### *- IFRS 7 - 'Financial instruments: disclosures'*

This improvement provides guidance on what is meant by continuing involvement in a transfer (de-recognition) of financial assets, for the purpose of required disclosures.

#### *- IAS 19 - 'Employee benefits'*

This improvement clarifies that, when determining the discount rate for post-employment defined benefit obligations, this must refer to high quality bonds with the same currency at which liabilities are denominated.

#### *- IAS 34 - 'Interim financial reporting'*

This improvement clarifies the meaning of “information disclosed elsewhere in the interim financial report” and requires the cross referencing to that information.

GGND considers that the amendments in question clarify the existing rules, having no material effect on the disclosures and values presented.

### *Amendments to IAS 16 Tangible fixed assets and IAS 38 Intangible assets*

This amendment clarifies that the use of revenue-based methods to calculate the depreciation / amortization of an asset is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an asset.



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GGND considers this amendment as not applicable, as GGND does not depreciate/amortize their assets based on revenue obtained, but their technical use.

#### *Amendments to IFRS 11 Joint arrangements*

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business, through the application of IFRS 3's principles, except on the remeasurement to fair value of any interest previously held.

This amendment to IFRS 11 applies to GGND joint agreements future acquisitions.

#### *Amendments to IAS 16 Tangible Fixed Assets and IAS 41 Agriculture*

This amendment defines the concept of a bearer plant and removes it from the scope of IAS 41 – Agriculture, to the scope of IAS 16 – Property, plant and equipment, with the consequential impact on measurement. However, the produce growing on bearer plants will remain within the scope of IAS 41 - Agriculture.

This amendment does not apply to GGND Group subsidiaries and therefore has no relevance in the measurement or presentation of the financial statements.

#### *Amendments to IAS 19 Defined benefit plans – Employee contributions*

This amendment applies to contributions from employees or third parties to defined benefit plans and aims to simplify the accounting when contributions are not associated to the number of years of service (dependence on other factors).

GGND believes that this amendment has no relevant accounting impacts.

#### *Annual Improvements 2010 - 2012*

##### IFRS 2 - Share based payments

This improvement amends the definitions of vesting conditions and considers that only two types of conditions exist, the performance conditions and the service conditions. The new definition of performance condition foresees that only conditions relating to the entity are considered.

##### IFRS 3 - Business combinations

This improvement clarifies that an obligation to pay contingent consideration is classified in accordance with IAS 32, as liability or equity, if it meets the financial instrument definition. The contingent consideration which classifies as a liability shall be measured at fair value through profit and loss. The contingent consideration which classifies as equity is only measured at fair value in the initial recognition.

##### IFRS 8 - Operating segments



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This improvement amends IFRS 8 to require disclosure of the judgments made by management in aggregating operating segments and the reconciliation of segment assets with the entity's total assets in financial statements, when the information is reported.

IFRS 13 - Fair value: measurement and disclosure

This improvement clarifies that the ability to measure short-term receivables and payables at the invoiced amounts where the impact of not discounting is immaterial, was not removed by IFRS 13.

GGND believes that these amendments to the standards have no material impact on its accounting policies.

#### **Standards and Interpretations published by IASB and endorsed by the European Union for applied in 2015:**

*IFRIC 21 - Levies*

As a result of an accounting interpretation of the Securities Market Commission in 2015 on the treatment of the Energy Sector Extraordinary Contribution (Contribuição Extraordinária sobre o Sector Energético - "CESE") established by Law 82-B/2014 of 31 December, with the objective to standardize the accounting policies between the various market operators, GGND is now recognizing the full cost and the appropriate liability at 1 January, instead of making the deferral of such costs during the year. This accounting change only impacted the interim accounts without relevance in annual accounts.

*Annual Improvements 2011 – 2013*

IFRS 1 – First time adoption of IFRS

This improvement clarifies that a First time adopter can use either the old or the new version of a standard that is not yet mandatory but is available for early adoption.

IFRS 3 - Business combinations

This improvement clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11, in the financial statements of the joint arrangement itself.

IFRS 13 - Fair value: measurement and disclosure

This improvement clarifies that IFRS 13's portfolio exception for the measurement at fair value on a net basis applies to all contracts (including non-financial contracts) within the scope of IAS 39.

IAS 40 - Investment properties

This improvement clarifies that IAS 40 and IFRS 3 are not mutually exclusive. It is necessary to refer to IFRS 3 when an investment property is acquired, to determine if it is a business combination.

GGND considers that these clarifications had no impact on the 2015 financial statements.



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

In the preparation and presentation of consolidated financial statements GGND complies with the IAS / IFRS and their interpretations SIC / IFRIC adopted by the European Union.

## 2.2. CONSOLIDATION METHODS

The consolidation methods adopted by the Group are as follows:

### a) Investments in Group companies

Investments in companies in which the Group holds control, namely if it has cumulatively:

- power over the investee;
- exposure or rights in relation to variable results through its relationship with the investee; and
- ability to use its power over the investee to impact the amount of the results to the investors,

were included in these consolidated financial statements in accordance with the full consolidation method. The companies consolidated by the integral consolidation method are detailed in Note 3.

Equity and net result for the year corresponding to third party participation in subsidiaries are reflected separately in the consolidated statement of financial position and in the consolidated income statement, respectively, in the caption "Non-controlling interests". The gains and losses attributable to non-controlling interests are allocated to them.

The assets and liabilities of each Group company are recorded at fair value as of the date of acquisition, as established in IFRS 3, and can be reviewed over a period of 12 months after that date. Any excess of cost over the fair value of the net assets and liabilities acquired is recognized as Goodwill (Note 2.2.d)). If the difference between the cost and the fair value of the net assets and liabilities acquired is negative, it is recorded as income of the year.

When, at the date of the control acquisition, the Group already holds a previously acquired interest, its fair value is used to determine Goodwill or negative Goodwill.

Transaction costs directly attributable to business combinations are immediately recognized in profit and loss.

Non-controlling interests include the third parties' portion of the fair value of the identifiable assets and liabilities as of the date of acquisition of the subsidiaries.

When control is acquired for a percentage below 100%, under the purchase method, non-controlling interests may be measured at fair value or at the ratio between acquired assets fair value and acquired liabilities fair value, being the option defined for each transaction.

The results of subsidiaries acquired or sold during the year are included in the consolidated income statement from the date of acquisition or the date of the exercise of control up to the date of disposal.





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Subsequent disposal or acquisition transactions of financial investments on non-controlling interests, which do not involve changes in control, do not result in recognition of gains, losses or Goodwill, being any resulting difference between the transaction amount and the carrying amount of the transacted investment recognized in Equity.

Whenever necessary, adjustments are made to the financial statements of subsidiaries to be in accordance with the Group's accounting policies. Transactions (including unrealized gains and losses on sales between Group companies), balances and dividends distributed between Group companies are eliminated in the consolidation process.

Where the Group has, in substance, control over other structured entities, even if it does not have a direct participation in their capital, these are consolidated in accordance with the full consolidation method. When such entities exist, they are detailed in Note 3.

**b) Investments in associates and affiliates**

Investments in associates (companies in which the Group has significant influence but does not have control or joint control through participation in the company's financial and operating decisions, normally where it holds between 20% to 50%) are recorded in accordance with the equity method.

Investments in affiliates (companies in which the Group does not have significant influence or control, normally where it holds less than 20%), are recorded at fair value or alternatively, at cost, when the affiliates are not listed and their value cannot be measured reliably.

The Investments in affiliates are classified as Assets held for sale in accordance with the classification of IAS 39 and are classified as non-current assets.

In accordance with the equity method, investments are recorded at the acquisition cost and subsequently adjusted by the Group's share of the post-acquisition changes in net equity (including net result) of the associates, recorded against income statement caption "Share of results of investments in associates", as well as by dividends received.

The excess of acquisition cost in relation to the fair value of the identifiable assets and liabilities of the associate at the date of acquisition is recognized as goodwill and included in the value of the investment. If the difference between acquisition cost and fair value of the assets and liabilities acquired is negative, it is recognized in the income statement caption "Share of results of investments in associates", after confirmation of the fair value.

An assessment of investments in associates is performed when there are indications that the investment may be impaired, and impairment losses that are noted are then recorded. When impairment losses recognized in prior years no longer exist, they are reversed.

When the Group's share of cumulative losses of an associate exceeds the book value of the investment, the investment is written-off, except where the Group has assumed commitments in favor of the associate, in which case the Group recognizes a loss and a liability for the amount for which the Group has taken responsibility.

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Unrealized gains and losses on transactions with associates are eliminated in proportion to the Group's interest in the associate and recorded against the investment in the associate. Unrealized losses are also eliminated, but only up to the point that the loss does not provide evidence that the transferred asset is impaired.

Investments in associates and assets held for sale are detailed in Note 4.

c) **Goodwill**

The positive differences between the acquisition cost of subsidiaries and the fair value of the identifiable assets and liabilities of these companies at the date of acquisition (or during a period of 12 months after that date), are recognized as goodwill (when it results from goodwill in Group companies) (Note 11) or as investments in associates (when it results from associates). The negative differences are recognized immediately in the income statement.

The positive differences between the acquisition cost of investments in foreign entities and the fair value of the identifiable assets and liabilities at the date of acquisition (or during a period of 12 months after that date), are recognized in their functional currencies and translated to the Group's functional currency (Euros) at the rate of exchange at the end of the reporting period. Exchange rate differences resulting from the translation are recorded in equity in the caption "Translation reserve".

Goodwill on acquisitions prior to the date of transition to IFRS (1 January 2004) has been maintained at the amounts recorded in accordance with generally accepted accounting principles in Portugal (deemed cost) as at that date and was subject to impairment tests at the reporting date. Goodwill stopped being amortized as at that date, but is subject to impairment tests, at least annually, to determine if there are impairment losses.

Any impairment losses are recorded immediately in the statement of financial position as a deduction to the amount of the assets and are recorded against the income statement caption Results from investments in associates and impairment losses on Goodwill, included in financial results.

If initial recognition of a business combination can only be determined provisionally at the end of the period in which the concentration occurred ( due to the fact that the fair value attributed to the identifiable assets, liabilities and contingent liabilities of the acquired entity can only be determined provisionally) GGND Group recognizes the business combination using the information available. The amounts determined provisionally are adjusted when the fair value of the assets and liabilities are accurately determined, up to a period of 12 months after the acquisition date. During that period, Goodwill or any other recognized gain will be adjusted by an amount equal to the adjustment to the fair value at the date of acquisition of assets, liabilities and contingent liabilities identifiable being recognized or adjusted and the comparative information presented for the periods prior to the completion of the initial accounting of the combination. This includes any depreciation, amortization or other additional gain or loss recognized as result of completing the initial recognition.

When performing impairment testing on Goodwill, the Goodwill amount is added to the respective cash generating unit. The recoverable value of Goodwill is estimated on the basis of value in use and is determined by the present value of the estimated future cash flows of the cash generating unit. The recoverable value is estimated on the respective cash generating unit, according to the cash discounted flow method. The discount rate used reflects GGND Group WACC

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before tax (Weighted Average Cost of Capital) for the reporting segment and country to which the cash generating unit belongs to.

### **2.3. TANGIBLE ASSETS**

As result of IFRIC 12, GGND recognizes natural gas assets included in the concession arrangements whose remuneration is defined by ERSE in accordance with the intangible assets model. Consequently, the tangible assets of regulated activities are recognized as intangible assets, in the caption “Service Concession Arrangements”, and amortized in accordance with their economic useful life, namely in accordance with the economic benefits model used by the regulator (ERSE) for effects of establishing the regulated tariffs and consequently the Group regulated revenue.

The natural gas infrastructures, namely the gas distribution networks, are amortized over the concession period (45 years) or of the exploration license (20 years).

The Group capitalizes costs relating to the conversion of natural gas consumptions, which involves costs incurred adapting the installations. The Group considers that it can control the future economic benefits resulting from this conversion through the continued sale of gas to its clients (Dec-law 140/2006 of 26th of July). These costs are amortized on a straight-line basis up to the end of the natural gas distribution company’s concession period.

### **2.4. IMPAIRMENT OF NON-CURRENT ASSETS, EXCEPT GOODWILL**

Impairment tests are performed as of the financial statements 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 against income statement caption “Amortization, depreciation and impairment loss of tangible assets”.

The recoverable amount is the greater of the fair value and the value in use. Fair value 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 belongs. The discount rate used reflects the weighted average cost of capital before tax (WACC) used by the GGND Group for the reporting segment and country of the asset. The cash generating unit subject to impairment analysis depends on the reporting segment: in the refining and distribution segment the cash generating unit is the service station network in each country; in the exploration segment the cash generating unit is the property (commonly referred as Block) or the country, depending on the stage of the investment; and in the gas & power segment the cash generating unit is the set of assets generating the economic benefits.

Impairment losses recorded 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 recorded in an earlier period has reverted. Reversal of impairment is recognized as a decrease in the income statement caption “Amortization, depreciation and impairment loss of tangible assets”. However, impairment losses are only reversed up to the amount the asset would be recorded (net of amortization or depreciation) if the impairment loss had not been recorded previously.



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The gas business CGU is defined as the gas networks and its concessions.

## 2.5. LEASES

Lease contracts are classified as:

- Finance leases if all the risks and benefits of ownership are substantially transferred, and
- Operating leases when this does not occur.

Finance and operating leases are classified based on the substance rather than the form of the legal contract.

### Leases in which the Group is the Lessee

Tangible assets acquired under finance lease contracts and the corresponding liabilities are recorded in accordance with the financial method. In accordance with this method the cost of the assets (the lower of the fair value or the discounted amount of the lease instalments) is recorded in tangible assets, the corresponding liability is recorded and interest included in the lease instalments and depreciation of the fixed assets, calculated as explained in Note 2.3, are recorded as a financial cost and amortization and depreciation cost in the income statement of the year to which they relate, respectively. In the case of operating leases, the lease instalments are recorded as costs for the year, on a straight-line basis over the period of the contract, in the income statement caption "External supplies and services".

The Group does not hold materially relevant operating or finance leases.

## 2.6. INVENTORIES

Inventories (merchandise, raw and subsidiary material, finished and semi-finished products, and work in progress) are stated at the lower acquisition cost (in the case of merchandise and raw and subsidiary material) or production cost (in the case of finished and semi-finished products and work in progress) or net realizable value.

Net realizable value corresponds to the normal selling price less costs to complete production and costs to sell.

Whenever cost exceeds net realizable value, the difference is recorded in the operating cost caption "Cost of sales".

Cost includes the invoice price and transport and insurance costs. The cost of sales is determined on a weighted average basis.

## 2.7. GOVERNMENT GRANTS AND OTHER GRANTS

Government grants are recorded at fair value when there is certainty that they will be received and that Group companies will comply with the conditions required for them to be granted.

Government grants for operating costs are recorded in the consolidated income statement in proportion of the costs incurred.



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Non-repayable government grants for tangible and intangible assets (conversions) are recorded as deferred income in the caption "Other payables" and recognized in the consolidated income statement as other operating income, in proportion to the depreciation and amortization of the granted assets.

## **2.8. PROVISION**

Provisions are recorded when, and only when, the Group 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 on each consolidated balance sheet date so as to reflect the best estimate at that date.

GGND measures the uncertain tax positions, including provisions for taxes, by the tax estimate amount and not by probabilities.

## **2.9. RETIREMENT BENEFITS**

Some GGND Group companies have assumed the commitment to pay their employees' pension supplements for retirement due to age, disability and pensions to survivors, as well as early retirement and pre-retirement pensions. With the exception of early retirement and pre-retirement pensions, these payments are calculated on an incremental basis in accordance with the years of service of the employee. Early retirement and pre-retirement pensions mainly correspond to the employee's wage. When applicable, these commitments also include the payment of Social Security of pre-retired personnel, voluntary social insurance of early retirees and retirement bonuses payable upon normal retirement.

The Group has created autonomous pension funds managed by external entities ("Fundo de Pensões GGND") to cover their liabilities relating to pension supplements for retirement due to age, incapacity and survivor pensions to current employees and retired personnel. These liabilities are covered by specific provisions included on the statement of financial position caption Post-employment and other employee benefits liabilities (Note 23).

In addition, the GGND pension plan does not cover the liability assumed by GDL to reimburse retirement pension supplements payable by EDP to its retired personnel and pensioners relating to GDL, as well as retirement and survivor supplements payable to retired personnel at the time of creating the Fund. These liabilities are covered by specific provisions included in the balance sheet caption Post-employment and other employee benefits liabilities (Note 23).

At the end of each reporting period the companies obtain actuarial valuations by a specialized entity in accordance with the Projected Unit Credit Method and compare the amount of their liabilities with past services with the market value of the funds and with the balance of the liabilities recognized, in order to determine any additional liabilities that need to be recorded.

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



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Net interest related with retirement benefits is reflected on the income statement caption Net interest on retirement benefits and other benefits.

The benefit plans identified by the GGND Sub-Group for the calculation of these liabilities are:

- Pension supplements for retirement, disability and surviving orphan;
- Early retirement;
- Pre-retirement;
- Defined contribution minimum benefit plan

On 31 December 2002 the Portuguese Insurance Institute authorized the creation of the Galp Energia defined contribution Pension Fund. In 2003 Galp Energia, SGPS, S.A. created a defined contribution Pension Fund for its employees and allowed employees of other Group companies to join this fund. Petróleos de Portugal – Petrogal, S.A., GDP – Gás de Portugal, SGPS, S.A., LisboaGás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. and Galp eNova S.A. (on 17 December 2003 Galp eNova S.A. was merged into Galp Energia, S.A.) as associates of the Fund, allowed their employees to elect between this new defined contribution pension plan and the previous defined benefits plan. When the new plan is chosen, Group companies contribute with an annually defined amount to the fund, corresponding to a percentage of the salary of each employee, which is recorded as a cost for that year.

#### **2.10. OTHER RETIREMENT BENEFITS – HEALTHCARE, LIFE INSURANCE AND DEFINED CONTRIBUTION MINIMUM BENEFIT PLAN**

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

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

Actuarial gains and losses determined in each year are recorded as explained in Note 2.10 above.

#### **2.11. FOREIGN CURRENCY BALANCES AND TRANSACTIONS**

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

All foreign currency monetary assets and liabilities in the separate financial statements of subsidiaries are translated to the functional currency of each subsidiary using the exchange rates in force at the end of each reporting period. Foreign currency non-monetary assets and liabilities recorded at fair value are translated to the functional currency of each subsidiary at the exchange rate in force on the date fair value is determined.



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

Translation differences arising from intra-group loans and that are part of the net investment in foreign operations are recorded in the consolidated financial statements directly in equity.

When the Group intends to reduce its exposure to exchange rate risk, it contracts derivative instruments (Note 2.16.f)).

## **2.12. INCOME AND ACCRUALS BASIS**

Sales income is recognized in the income statement when the risks and benefits of ownership of the assets are transferred to the buyer and the amount of the income can be reasonably measured. Sales are recorded at the fair value of the amount received or receivable, net of taxes except for tax on oil products in the distribution of oil products segment, discounts and other costs incurred to realize them.

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 current assets” and “Other current liabilities” captions include the income and costs from the current period for which revenues or expenses will only occur in future periods, as well as revenues or expenses that have already occurred, relating to future periods and that will be recorded to profit and loss in upcoming periods.

The interest received is recorded in accordance with the accruals principle, taking into account the debt amount and the effective interest rate during the period until maturity.

Revenue from dividends is recognized when it established the right of the company to recognize the appropriate amount.

### **Natural gas activity**

The sales price of natural gas to electricity production companies, in the free regime, is based on specific commercial agreements.

The regulated tariffs used for invoicing natural gas in the national natural gas system are established by Entidade Reguladora do Sector Energético (“ERSE”), so that they allow the recovery of the estimated regulated revenue for each gas year calculated for each regulated activity. Regulated revenue includes, in addition to operating costs for each activity, the following remuneration: (i) for the commercialization activity, remuneration for the purchase and sale of natural gas, which corresponds to the effective cost of natural gas and remuneration of the operating commercialization costs plus a commercialization margin; (ii) for the activities of receipt, transport and storage of natural gas, remuneration on the fixed assets net of depreciation and grants relating to these activities, (iii) for the activity of distribution of natural gas, remuneration on the fixed assets net of depreciation and grants relating to these activities. The regulated revenue of

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the pass-through activities/functions assumes the recovery of the costs incurred. Consequently, each activity is compensated for the costs incurred plus an additional remuneration, when applicable.

Following the above, and as the Group holds credit risk related to the tariff invoiced to final customers, the regulated Group companies, as trading companies to end customers, include in their income, the tariffs that include the remuneration/recovery of all the previous activities.

Given the regulatory framework and legislation in place, the differences between regulated revenues meet some conditions (measurement reliability; financial asset remuneration; entitlement to their recovery and transmissibility, among other) that support their recognition as income and asset in the year they are calculated, namely that they can be reliably measured and the certainty that economic benefits will flow to the Company. The regulated revenue calculation formula for the “Gas Year n”, in the first and second regulated periods as published in the Tariff Regulation, include the differences in regulated revenue in the “Gas Year n-2”. This rationale is also applied to the negative differences in regulated revenue, which are recorded as liabilities and costs.

In previous years, differences to the regulated revenue recorded by the Group were incorporated in the respective tariff calculations in accordance with the established mechanisms.

In the wholesale intermediate storage, distribution and commercialization activity, the Group books in accruals and deferred income the difference between the effective invoicing through sales of the natural gas regulated tariff and the regulated revenue defined for each Gas Year by ERSE, allocated to each semester in accordance with the agreed seasonality coefficient of included for the compensation mechanism by the natural gas companies – Regulated revenue (Notes 14 and 24).

In the wholesale last resort commercialization activity, the Group books in accruals and deferred income the difference between the effective invoicing through the sales of natural gas regulated tariff and the effective cost of natural gas acquired – Energy Tariff Deviation (Note 14).

Since the natural gas regulated system is intended to result in a uniform tariff (applicable to all the country’s regions) and considering the various levels of efficiency of the companies in the regulated market, ERSE published the compensation mechanism to be practiced between the companies in the sector, so as to allow approximation of income recovered by application of the regulated tariffs to regulated revenue of these companies. Therefore ERSE, in its documents “Tariffs and prices of natural gas” for each Gas Year, identifies the amount of compensation to be transferred (charged) between companies of the national gas system. In order to ensure a practical, objective and transparent procedure for the referred settlement, the companies have agreed seasonal coefficients to be applied in the issuance of the invoice for the uniform tariff. The seasonality differences between distribution and commercialization activities reflect the difference in payment terms.

The meter reading, invoicing and respective collection related to the gas distribution and commercialization activities are performed directly by the companies or, in respect of the meter reading and collection activities, by subcontracted external partners.



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Un-invoiced gas sales are recorded monthly in the caption “Other receivables” based on the estimated amount to be invoiced according to historical information or meter reading depending on the client type, and corrected in the income statement in the period in which they are invoiced (Note 14).

Regarding construction contracts included under IFRIC12, the construction of concession assets is outsourced to specialized entities which themselves assume the risk of construction activity, and income and costs associated with building of these assets (Notes 5 and 6) are then recognized.

### **2.13. FINANCIAL COSTS ON LOANS OBTAINED**

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

Financial costs on loans to finance investments in tangible assets are capitalized in fixed assets in progress in proportion to the total costs incurred on the investments, net of government grants received (Note 2.8), up to the time they start operating (Notes 2.3 and 2.4), the remaining financial costs being recorded in the income statement caption “Financial costs” (Note 8). Any interest income on amounts obtained from loans that are obtained directly to finance tangible assets in construction is deducted from the capitalized financial costs.

Financial costs included in tangible assets are depreciated over the period of useful life of the assets.

### **2.14. INCOME TAX**

Income tax is calculated based on the taxable results of the companies included in the consolidation in accordance with the applicable tax rules in force in the area each GGND Group company head office is located.

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

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

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

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



## 2.15. FINANCIAL INSTRUMENTS

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

The financial assets and liabilities are not offset, unless there is legal or contractual conditions that allow it.

### a) Investments

Investments are classified as follows:

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

Held-to-maturity investments are classified as non-current investments, unless they mature in less than 12 months from the consolidated statement of financial position date. These investments have a defined maturity date, and the Group intends and has the ability to retain them up to their maturity. As of 31 December 2015 the Group does not own held-to-maturity investments.

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

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

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

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

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

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

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

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

### b) Receivables



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Receivables are initially recorded at fair value and subsequently measured at amortized cost, less any impairment losses, recognized in the caption Impairment losses on receivables.

Usually, amortized cost of these assets does not differ from their nominal value.

**c) Equity or liability classification**

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

**d) Loans**

Loans are recorded at their nominal received amount, net of issuance expenses pertaining to those loans. The loans are measured at amortized cost.

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

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

**e) Trade and other payables**

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

**f) Cash and cash equivalents**

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

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

## **2.16. CLASSIFICATION IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

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

## **2.17. SUBSEQUENT EVENTS**

Events that occur after the financial statements date that provide additional information on conditions that existed at the end of the reporting period are recorded in the consolidated 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 consolidated financial statements (Note 35).



## **2.18. SEGMENT REPORTING**

A business segment is a group of assets and operations of the Group that are subject to risks and returns different from other business segments, being reported on a consistent way with the management internal reporting.

The accounting policies for segment reporting are consistently used in the Group. All inter-segmental revenues are at market prices and are eliminated in the consolidation process.

Financial information related to income for identified segments is provided in Note 7, where they are identified and characterized.

## **2.19. ESTIMATES AND JUDGMENTS**

The preparation of financial statements in accordance with generally accepted accounting principles requires estimates to be made that affect the recorded amount of assets and liabilities, the disclosure of contingent assets and liabilities at the end of each year and income and costs recognized 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 the situation and; (ii) the impact of the estimates on the financial situation or operating performance is significant.

The accounting principles and areas that require the greatest number of judgments and estimates in the preparation of financial statements are: (i) proven crude oil reserves relating to the petroleum exploration activity; (ii) tangible and intangible assets, investments in associates and goodwill impairment tests; (iii) provision for contingencies and environmental liabilities; (iv) demographic and financial assumptions used to calculate retirement benefits; v) accounts receivable impairment; (vi) tangible and intangible assets useful lives and residual values; (vii) deferred taxes and viii) abandonment cost provisions.

### **Goodwill impairment**

The Group performs annual impairment tests on goodwill, as explained in Note 2.2.d). The recoverable amounts of the cash generating units were determined based on their value in use. In calculating value in use, the Group estimated the expected future cash flows from the cash generating units, as well as an appropriate discount rate to calculate the present value of the cash flows. The amount of goodwill is referred in Note 11.

### **Impairment of tangible and intangible assets and financial investments**

Identifying impairment indicators, estimating future cash flows and determining asset fair value imply a high judgment level from the Board of Directors in respect to the identification and evaluation of the different impairment indicators, expected cash flows, applicable discount rates, useful lives and residual amounts.

### **Provisions for contingencies**



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

#### **Demographic and financial assumptions used in the retirement benefits liabilities**

See Note 23.

#### **Accounts receivable impairment**

The credit risk of the accounts receivable balances is evaluated at each reporting date, taking into consideration historical client information and its risk profile. Accounts receivable are adjusted by the evaluation made by management of the estimated collection risks existing at the date of the statement of financial position, which may differ from the actual risk for impairment to be incurred.

#### **Tangible and intangible assets**

Determining the assets useful lives, as well as the method of depreciation/amortization to apply, is essential to determine the depreciation/amortization amount to recognize in each period's consolidated statement of comprehensive income. These two parameters are defined accordingly to the best judgment made by the Board of Directors for the assets and businesses in question, and also considering the practices adopted by companies in the sector internationally.

#### **Deferred tax assets**

Deferred tax assets are recognized only when there is strong assurance that future taxable profits will be available for use of the temporary differences or when there are deferred tax liabilities for which a reversal is expected within the same period that the deferred tax assets are reversed. Evaluation of deferred tax assets is made by management at the end of each period, taking into account expectations for the Group's future performance.

### **2.20. EQUITY MANAGEMENT POLICY**

As at 31 December 2015, GGND has Equity amounting to €256.553 k and reflects in its equity management policy that the company's funding is guaranteed through Galp Energia SGPS, SA. Group holding.

The organization of the Group is supported by three Sub-holdings, belonging Galp Gás Natural Distribuição, S.A. to the G&P business segment, where is concentrated the participations on the Distribution Operators of Galp's natural gas.

Galp Gás Natural Distribuição, S.A. has been financed with shareholders loans, amounting to €587.800 k and capital employed of 101.485 k.

The indebtedness ratio amounts to approximately 5x Net Debt/EBITDA of GGND, in line with the infrastructure companies.



## 2.21. RISK MANAGEMENT AND HEDGING

The Group's operations lead to exposure of the following risks: (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; (iii) liquidity risk, as the Group could have difficulty in obtaining the financial resources to cover its commitments.

The Group has an organization 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 centralized.

The description of these hedges is explained in further detail in the accounting policies described in this section

## 3. CONSOLIDATED COMPANIES

The companies included in the consolidation, their head offices, percentage of interest held and their main activities are as follows:

Companies	Head office		Percentage of interest held			Main activity
	City	Country	2015	2014		
Galp Gás Natural Distribuição, SGPS, S.A.	Lisbon	Portugal	c) 100%	100%	(i)	Management of equity investments.
<b>Subsidiaries:</b>						
Beiragás - Companhia de Gás das Beiras, S.A.	Viseu	Portugal	59,51%	59,51%	(ii)	Operation, construction and maintenance of regional natural gas distribution networks.
Dianagás - Sociedade Distribuidora de Gás Natural de Évora, S.A.	Lisbon	Portugal	100%	100%	(i)	Operation, construction and maintenance of regional natural gas distribution networks.
Duriensegás - Sociedade Distribuidora de Gás Natural do Douro, S.A.	Vila Real	Portugal	100%	100%	(i)	Operation, construction and maintenance of regional natural gas distribution networks.
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	Lisbon	Portugal	100%	100%	(i)	Operation, construction and maintenance of regional natural and other gas distribution networks.
Lusitaniagás - Companhia de Gás do Centro, S.A.	Aveiro	Portugal	b) 96,84%	96,84%	(i) (iv)	Operation, construction and maintenance of regional natural and other gas distribution networks.
Medigás - Sociedade Distribuidora de Gás Natural do Algarve, S.A.	Lisbon	Portugal	100%	100%	(i)	Operation, construction and maintenance of regional natural and other gas distribution networks.
Paxgás - Sociedade Distribuidora de Gás Natural de Beja, S.A.	Lisbon	Portugal	100%	100%	(i)	Operation, construction and maintenance of regional natural and other gas distribution networks.
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	Setubal	Portugal	a) 99,93%	66,88%	(i) (iii)	Natural gas distribution in medium and low pressure, exercised in the public interest under the rules applicable in the geographical area of the concession, covering in particular the construction and operation of infrastructure to integrate the National Network for Natural Gas Distribution, the promotion of construction, facilities conversion or adequacy for natural gas use, but also other activities related to the main subject, including exploitation of spare capacity of telecommunications network installed.

The place of activity (e.g. country) of subsidiaries with non-controlling interests is the same as shown in the table above.

Given the organizational structure for the natural gas distribution business, Galp Energia Group understands to be more appropriate for its subsidiary Galp Gás Natural Distribuição, S.A. to group the participations on the distribution network operators. For that reason, during the year ended 31 December 2014 the following operations took place:

Galp Gas & Power, SGPS, S.A. (previously named GDP - Gás de Portugal, SGPS, S.A., holder of GGND), increased capital in Galp Gás Natural Distribuição, S.A. as follows:

- In 5 September 2014 the increase was made by delivery of representative shares held by the subsidiaries Lusitaniagás - Companhia de Gás do Centro, S.A. (82,5778%), Lisboagás GDL - Sociedade Distribuidora de



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Gás Natural de Lisboa, S.A. (100%) and Setgás - Sociedade de Produção e Distribuição de Gás, S.A (54,92511%);

- In 3 December 2014, the increase was made by delivery of representative shares held by the subsidiaries Dianagás - Sociedade Distribuidora de Gás Natural de Évora, S.A. (100%), Duriensegás - Sociedade Distribuidora de Gás Natural do Douro, S.A. (100%), Medigás - Sociedade Distribuidora de Gás Natural do Algarve, S.A. (100%) and Paxgás - Sociedade Distribuidora de Gás Natural de Beja, S.A. (100%).

In 22 December 2014 Galp Gás Natural Distribuição, S.A. acquired to Galp Gas & Power, SGPS, S.A., 59,505% of the share held in its subsidiary Beiragás - Companhia de Gás das Beiras, S.A. and 41,33% of the share held in its subsidiary Tagusgás - Empresa de Gás do Vale do Tejo, S.A (Note 4.2);

In 04 September 2014 the subsidiary Petróleos de Portugal - Petrogal, S.A. sold to the subsidiary Galp Gás Natural Distribuição, SGPS, S.A., 11,9539% of share held by Setgás - Sociedade de Produção e Distribuição de Gás, S.A.;

In 22 December 2014 the subsidiary Petróleos de Portugal - Petrogal, S.A. sold to 3,67391% of the share held by Lusitaniagás - Companhia de Gás do Centro, S.A. having the subsidiary Galp Gás Natural Distribuição, S.A. acquired 3,67276% and AICP-Associação Industrial do concelho de Pombal the remaining 0,00115%;

Following such operations, Galp Gás Natural Distribuição, S.A., became a sub-holding of Galp Gas & Power, SGPS, S.A.

At the date of the share increase in Galp Gás Natural Distribuição, S.A., values referring to differences in the acquisition of subsidiaries (goodwill and fair value) were recognized in the financial statements of the holding Galp Gas & Power, SGPS, S.A.

After share increase in Galp Gás Natural Distribuição, S.A, the amounts of Goodwill and fair value referring to subsidiaries acquisitions in prior years were integrated in Galp Gás Natural Distribuição, S.A. as follows:

- €584 k of Goodwill resulting from the acquisitions that occurred between 2002 and 2009 of 1,543% of shares of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A. (note 11);
- €1.640 k of Goodwill resulting from the acquisitions that occurred in 2006, of 25% of shares of the subsidiary Duriensegás - Sociedade Distribuidora de Gás Natural do Douro, S.A. (note 11);
- €51 k of Goodwill resulting from the acquisitions that occurred between 2003 e 2009 of 0,94% of shares of the subsidiary Beiragás - Companhia de Gás das Beiras, S.A. (note 11);
- € 7.211 of Net Fair Value resulting from the acquisitions that occurred in 2012 of 21,8708 of shares of the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A.:

	July 2012			5 September 2014	
	Net book value at acquisition date	Fair Value	Changes to fair value	Changes from July 2012 until 5 September 2014	Changes to net fair value
(€ k)					
<b>Non-current assets:</b>					
Tangible assets	627	627	-	-	-
Intangible assets	162.286	178.237	15.951	(1.181)	14.770
Assets held for sale	3	3	-	-	-
Deferred tax assets	1.428	1.428	-	-	-
<b>Total non-current assets:</b>	<b>164.344</b>	<b>180.295</b>	<b>15.951</b>	<b>(1.181)</b>	<b>14.770</b>
<b>Current assets:</b>					
Inventories	134	134	-	-	-
Trade receivables	1.662	1.662	-	-	-
Other receivables	13.625	13.625	-	-	-
Current income tax receivable	402	402	-	-	-
Cash and cash equivalents	39	39	-	-	-
<b>Total current assets:</b>	<b>15.862</b>	<b>15.862</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets:</b>	<b>180.206</b>	<b>196.157</b>	<b>15.951</b>	<b>(1.181)</b>	<b>14.770</b>
<b>Liabilities:</b>					
<b>Non-current liabilities:</b>					
Loans	41.985	41.985	-	-	-
Other payables	41.667	41.667	-	-	-
Post-employment and other employee benefits liabilities	165	165	-	-	-
Deferred tax liabilities	1.792	6.498	4.706	(718)	3.988
<b>Total non-current liabilities:</b>	<b>85.609</b>	<b>90.315</b>	<b>4.706</b>	<b>(718)</b>	<b>3.988</b>
<b>Current liabilities:</b>					
Bank loans and overdrafts	28.111	28.111	-	-	-
Other payables	8.289	8.289	-	-	-
<b>Total current liabilities:</b>	<b>36.400</b>	<b>36.400</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total liabilities:</b>	<b>122.009</b>	<b>126.715</b>	<b>4.706</b>	<b>(718)</b>	<b>3.988</b>
<b>Assets - Liabilities:</b>	<b>58.197</b>	<b>69.442</b>	<b>11.245</b>	<b>(463)</b>	<b>10.782</b>
<b>Non-controlling interests:</b>			<b>(3.724)</b>	<b>153</b>	<b>(3.571)</b>
<b>% held</b>		<b>21,87080%</b>			
<b>% held at acquisition date</b>		<b>45,00830%</b>		<b>66,87910%</b>	
Acquisition price	15.188	-	-	-	-
Book value of financial share	12.729	15.188	2.459	(310)	7.211
Financial share in associates at acquisition date	26.193	31.255	5.062	-	-
<b>Fair value of net assets, liabilities and contingent liabilities</b>	<b>38.922</b>	<b>46.443</b>	<b>7.521</b>	<b>(310)</b>	<b>7.211</b>





As of 31 December 2014, the changes within the scope of consolidation had the following impact in the consolidated statement of financial position of GGND Group:

		(€ k)									
		Subsidiaries									Associates
Financial information at acquisition date :)	Notes	Total	Lisboagás - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	Lustanagás - Companhia de Gás do Centro, S.A.	Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	Beiragás - Companhia de Gás das Beiras, S.A.	Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	Durlenagás - Soc. Distrib. de Gás Natural do Douro, S.A.	Mediçgás - Soc. Distrib. de Gás Natural do Algarve, S.A.	Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	Tagusgás - Empresa de Gás do Vale do Tejo, S.A.
<b>Non-current assets:</b>											
Tangible assets	12	587	-	-	587	-	-	-	-	-	-
Intangible assets	12	1.158.337	546.833	287.348	175.991	72.479	11.804	39.233	18.767	5.882	-
Financial investments in joint ventures and associates	4	12.942	-	-	-	-	-	-	-	-	12.942
Assets held for sale	4	3	-	-	3	-	-	-	-	-	-
Other receivables	14	78.989	50.971	11.046	7.268	5.976	1.596	1.091	881	160	-
Deferred tax assets	9	14.645	11.092	2.501	125	67	65	466	327	2	-
<b>Total non-current assets:</b>		<b>1.265.503</b>	<b>608.896</b>	<b>300.895</b>	<b>183.974</b>	<b>78.522</b>	<b>13.465</b>	<b>40.790</b>	<b>19.975</b>	<b>6.044</b>	<b>12.942</b>
<b>Current assets:</b>											
Inventories	16	1.552	531	279	144	347	24	156	49	22	-
Trade receivables	15	9.094	3.406	1.416	1.135	1.250	225	1.087	406	169	-
Other receivables	14	107.525	60.592	21.741	10.066	5.996	2.633	3.321	2.766	410	-
Current income tax receivable	9	2.535	-	1.248	736	470	8	3	70	-	-
Cash and cash equivalents	18	8.183	229	131	205	7.613	-	3	2	-	-
<b>Total current assets:</b>		<b>128.889</b>	<b>64.758</b>	<b>24.815</b>	<b>12.286</b>	<b>15.676</b>	<b>2.890</b>	<b>4.570</b>	<b>3.293</b>	<b>601</b>	<b>-</b>
<b>Total assets:</b>		<b>1.394.392</b>	<b>673.654</b>	<b>325.710</b>	<b>196.260</b>	<b>94.198</b>	<b>16.355</b>	<b>45.360</b>	<b>23.268</b>	<b>6.645</b>	<b>12.942</b>
<b>Liabilities:</b>											
<b>Non-current liabilities:</b>											
Loans	22	65.371	30.769	10.360	8.162	16.080	-	-	-	-	-
Other payables	24	718.005	389.486	168.990	65.667	27.119	11.936	32.924	17.643	4.240	-
Post-employment and other employee benefits liabilities	23	41.376	40.867	47	457	5	-	-	-	-	-
Deferred tax liabilities	9	29.361	15.253	5.819	5.736	1.590	39	353	518	53	-
Provisions	25	10.958	6.405	2.006	1.114	829	93	317	148	46	-
<b>Total non-current liabilities:</b>		<b>865.071</b>	<b>482.780</b>	<b>187.222</b>	<b>81.136</b>	<b>45.623</b>	<b>12.068</b>	<b>33.594</b>	<b>18.309</b>	<b>4.339</b>	<b>-</b>
<b>Current liabilities:</b>											
Bank loans and overdrafts	22	37.988	6.184	5.083	24.281	2.425	13	-	2	-	-
Trade payables	26	14.925	4.618	4.475	3.617	1.127	278	454	255	101	-
Other payables	24	85.787	24.660	41.698	5.296	5.788	2.075	3.692	2.050	528	-
Current income tax payable	9	24.488	15.049	5.173	1.265	1.532	302	872	169	126	-
<b>Total current liabilities:</b>		<b>163.188</b>	<b>50.511</b>	<b>56.429</b>	<b>34.459</b>	<b>10.872</b>	<b>2.668</b>	<b>5.018</b>	<b>2.476</b>	<b>755</b>	<b>-</b>
<b>Total liabilities:</b>		<b>1.028.259</b>	<b>533.291</b>	<b>243.651</b>	<b>115.595</b>	<b>56.495</b>	<b>14.736</b>	<b>38.612</b>	<b>20.785</b>	<b>5.094</b>	<b>-</b>
<b>% held</b>			<b>100%</b>	<b>82,5778%</b>	<b>66,87905%</b>	<b>59,5050%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>41,33%</b>
Acquisition price		46.984	-	-	8.913	20.263	-	-	-	-	17.808
Supplementary contributions		8.008	-	-	5.008	-	750	-	1.500	750	-
Share capital increase by financial investments incorporation	19	89.479	47.285	18.418	15.955	-	237	6.766	573	245	-
<b>Acquisition value</b>		<b>144.471</b>	<b>47.285</b>	<b>18.418</b>	<b>29.876</b>	<b>20.263</b>	<b>987</b>	<b>6.766</b>	<b>2.073</b>	<b>995</b>	<b>17.808</b>
Assets - Liabilities		366.133	140.363	-	82.059	80.665	37.703	1.619	6.748	2.483	1.551
Non controlling interests	21	(56.281)	-	(14.296)	(26.717)	(15.268)	-	-	-	-	-
Book value of financial share		309.852	140.363	67.763	53.948	22.435	1.619	6.748	2.483	1.551	12.942
Goodwill	11	2.275	-	585	-	50	-	1.640	-	-	-
<b>Results from financial investments and impairment losses on Goodwill</b>		<b>312.127</b>	<b>140.363</b>	<b>68.348</b>	<b>53.948</b>	<b>22.485</b>	<b>1.619</b>	<b>8.388</b>	<b>2.483</b>	<b>1.551</b>	<b>12.942</b>
Retained earnings - Actuarial Gains and losses		(7.702)	(7.720)	12	4	1	-	-	-	-	1
Non controlling interests - Actuarial Gains and losses	21	(3)	-	(2)	(1)	-	-	-	-	-	-
Hedging reserves	20	(286)	-	-	-	-	-	-	-	-	(286)
<b>Comprehensive income at acquisition date</b>		<b>(7.991)</b>	<b>(7.720)</b>	<b>10</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(285)</b>
Financial investment earnings	4	175.647	100.798	49.920	24.069	2.221	632	1.622	410	556	(4.581)



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During the year ended 31 December 2015 the changes in the scope of consolidation compared with the previous year are as follows:

**a) Acquired companies:**

In 21 December 2015, the Group acquired to Enagás – SGPS, S.A. 33.05427% interest in the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A. (Setgás ORD) thru its subsidiary Galp Gás Natural Distribuição SGPS, S.A. for €29.578k.

The subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A. is already controlled by the Group and consolidated using the full consolidation method (owned by 66.87906%). The difference between the amount paid and equity book value at the acquisition date was recognized in equity in the caption “Reserves” by €492k negative (Note 20).

With this acquisition the Group now holds a 99.93333% interest in the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A.

**b) Corporate restructuring:**

Considering the organizational structure of the Group for the Natural gas distribution business, the Group considered it more adequate for the subsidiary Galp Gás Natural Distribuição, SGPS, S.A., to hold the financial participations in the distribution network operators. For this purpose, as at 30 March 2015 the subsidiary Galp Gás & Power, SGPS, S.A. sold to the subsidiary Galp Gás Natural Distribuição, SGPS, S.A., 10.59122% of the share capital held in Lusitaniagás - Companhia de Gás do Centro, S.A..

The subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A. is already controlled by the Group and consolidated using the full consolidation method (owned by 86,25056%). The difference between the amount paid and equity book value at the acquisition date was recognized in equity in the caption “Reserves” by €413k (Note 20).

With this acquisition the Group now holds a 96,8418% interest in the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A.

**c) Other operations:**

On 12 February 2015 GDP – Gás de Portugal, SGPS, S.A. was renamed Galp Gas & Power, SGPS, S.A.

On 12 February 2015 GDP – Gás Serviços S.A. was renamed GDP Gás de Portugal S.A.



## 4. FINANCIAL INVESTMENTS

### 4.1. INVESTMENTS IN ASSOCIATES

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

(€ k)									
Company		Head Office		Percentage of interest held		Book Value		Main activity	
		City	Country	2015	2014	2015	2014		
Tagusgás - Company de Gás do Vale do Tejo, S.A.	(a)	Santarém	Portugal	41,33%	41,33%	14.169	12.941	Production and distribution of Natural Gas and other piped combustible gases	
						<u>14.169</u>	<u>12.941</u>		

(a) Participation held by Galp Gás Natural, S.A.

Following the summary of the financial statements of the associates as at 31 December 2015 and 2014:

(€ k)																					
Financial information of the associate entities as at 31 December 2015 (*)																					
Companies	Non current assets	Current assets-Cash and cash equivalents	Current assets-other	Total Assets	Non current financial liabilities	Non current liabilities-Other	Current financial liabilities	Current liabilities-Other	Total liabilities	Equity	Operating income	Operating costs- Amortisation, depreciation and impairment loss on fixed assets	Operating costs - other	Operating result	Financial income - interests	Financial costs - interests	Financial costs - other	Financial result	Income tax	Energy sector extraordinary contribution	Net result for the year
<b>2015:</b>																					
Tagusgás - Company de Gás do Vale do Tejo, S.A.	83.506	5.611	4.814	<b>93.931</b>	(20.226)	(24.378)	(4.650)	(10.395)	<b>(59.649)</b>	<b>34.282</b>	21.505	(2.522)	(12.805)	<b>6.178</b>	60	(2.035)	-	<b>(1.975)</b>	(708)	(693)	<b>2.802</b>
<b>2014:</b>																					
Tagusgás - Company de Gás do Vale do Tejo, S.A.	82.666	8.904	3.057	<b>94.627</b>	(30.661)	(17.582)	(3.487)	(11.577)	<b>(63.307)</b>	<b>31.320</b>	24.664	(2.369)	(15.717)	<b>6.578</b>	64	(1.759)	(154)	<b>(1.849)</b>	(1.029)	(615)	<b>3.085</b>

(\*) Provisional accounts at closing date, considered by the Group for application of the equity method.



The changes in the caption “Investments in associates” for the year ended 31 December 2015 were as follows:

Companies	(€ k)				
	Initial Balance	Gains / Losses	Adjustments to hedging reserves	Actuarial gains and losses	End balance
Financial investments:					
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	12.941	1.175	49	4	14.169
	<b>12.941</b>	<b>1.175</b>	<b>49</b>	<b>4</b>	<b>14.169</b>

#### 4.2. FINANCIAL ASSETS HELD FOR SALE

The financial investments in affiliates, presented in the Statement of financial position as Assets held for sale, the head offices and the percentage or interest held as of 31 December 2015 and 2014 are as follows:

Company	Head Office		Percentage of interest held		Book Value	
	City	Country	2015	2014	2015	2014
	AGENEAL Agência Municipal Energia de Almada	Almada	Portugal	0,04%	0,04%	3
					<b>3</b>	<b>3</b>

The financial assets held for sale were reflected for accounting purposes at the acquisition cost as described in Note 2.2 paragraph c). The net book value of these investments amounts to €3 k as at 31 December 2015.

### 4.3. RESULTS FROM FINANCIAL INVESTMENTS

The caption Results from financial investments in subsidiaries (Goodwill and changes in Equity), associates and joint ventures presented in the consolidated income statements for the year ended 31 December 2015 and 31 December 2014 are comprised as follows:

	(€ k)	
	December 2015	December 2014
<b>Effect of applying the equity method:</b>		
Associated companies	1.175	-
<b>Effect of the acquisition of investments in group companies and associates (Note 3):</b>		
Acquisition of 86,25056% of capital in the year ended 31 December 2014 of Lusitaniagás - Companhia de Gás do Centro, S.A.	-	49.920
Acquisition of 66,87905% of capital in the year ended 31 December 2014 of Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	-	24.069
Acquisition of 100% of capital in the year ended 31 December 2014 of LisboaGás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	-	100.798
Acquisition of 100% of capital in the year ended 31 December 2014 of Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	-	632
Acquisition of 100% of capital in the year ended 31 December 2014 of Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	-	556
Acquisition of 41,33% of capital in the year ended 31 December 2014 of Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	-	(4.581)
Acquisition of 100% of capital in the year ended 31 December 2014 100% of Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	-	1.622
Acquisition of 59,505% of capital in the year ended 31 December 2014 of Beiragás - Companhia de Gás das Beiras, S.A.	-	2.221
Acquisition of 100% of capital in the year ended 31 December 2014 of Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	-	410
	<b>1.175</b>	<b>175.647</b>



## 5. OPERATING INCOME

The Group's operating income for the years ended 31 December 2015 and 2014 is as follows:

	(€ k)	
Captions	2015	2014
Sales:		
Goods	8.026	1.336
	<b>8.026</b>	<b>1.336</b>
Services rendered	<b>208.910</b>	<b>73.984</b>
Other operating income		
Supplementary income	1.248	326
Revenues arising from the construction of assets under IFRIC12	19.816	7.636
Investment government grants (Note 13)	8.905	3.048
Others	279	81
	<b>30.248</b>	<b>11.091</b>
	<b>247.184</b>	<b>86.411</b>

The caption Sales and Services rendered includes the amount of €31.574 k related to the marketing, distribution and storage of natural gas activities as a result of (Note 14):

- positive €1.493 k concerning the adjustment of the estimated regulated revenues and the value of the invoiced income in relation to distribution, marketing and storage activities (Note 14);
- negative €1.003 k concerning the adjustment made by ERSE in the fixation of the tariff deviations – regulated revenue of the Companies (Note 14);
- negative €20.530 k concerning the corresponding regulated revenue amortization for 2012 (Note 14);
- negative €11.534 k concerning the corresponding regulated revenue amortization for 2013 (Note 14).

As referred in Note 2.12, the total amount to be recovered was included by ERSE in the regulated revenue to be returned in the 2015-2016 Gas Year, thus the Group is recognizing in the income statement, the reversal of the amount of the approved tariff deviation.



Regarding the construction contracts under IFRIC12, the construction of the concession assets is subcontracted to specialized entities which assume their own construction activity risk. Income and expenses associated with the construction of these assets are of equal amounts and are immaterial when compared to total revenues and operating costs and can be detailed as follows:

<b>Captions</b>	<b>(€ k)</b>	
	<b>2015</b>	<b>2014</b>
Costs arising from the construction of assets under IFRIC12 (Note 6)	(19.816)	(7.636)
Revenues arising from the construction of assets under IFRIC12 (Note 6)	19.816	7.636
<b>Margin</b>	<b>-</b>	<b>-</b>



## 6. OPERATING COSTS

The results for the years ended 31 December 2015 and 2014 were affected by the following items of operating costs:

	(€ k)	
	<u>2015</u>	<u>2014</u>
<b>Cost of sales:</b>		
Goods	4.863	810
Raw and subsidiary materials	15	9
	<b><u>4.878</u></b>	<b><u>819</u></b>
<b>External supplies and services:</b>		
Subcontracts - network use	42.877	12.971
IT services	3.862	593
Maintenance and repairs	3.110	1.182
Technical assistance and inspection	2.978	901
Services reading, billing and collection	1.612	757
Rental costs	1.307	259
Insurance	1.140	320
Fuel and other fluids	524	111
Oblivious staff	330	25
Travel and accommodation	327	474
Communications	312	59
Surveillance and Security	202	42
Electricity and water	174	57
Cleaning	87	25
Other specialised services	11.750	10.233
Other external supplies and services	66	36
Other costs	41	4
	<b><u>70.699</u></b>	<b><u>28.049</u></b>
<b>Employee costs:</b>		
Statutory board salaries (Note 29)	10	(38)
Employee salaries	18.631	7.190
Social charges	3.675	1.127
Retirement benefits - pensions and insurance (Note 23)	4.193	2.363
Other insurances	1.261	371
Other costs	(4.506)	(4.160)
	<b><u>23.264</u></b>	<b><u>6.853</u></b>
<b>Amortisation, depreciation and impairment:</b>		
Amortisation and impairment of tangible assets (Note 12)	19	6
Amortisation and impairment of concession arrangements (Note 12)	41.054	11.991
	<b><u>41.073</u></b>	<b><u>11.997</u></b>
<b>Provision and impairment losses on receivables:</b>		
Provisions and reversals (Note 25)	215	93
Impairment losses on trade receivables (Note 15)	157	(199)
	<b><u>372</u></b>	<b><u>(106)</u></b>
<b>Other operating costs:</b>		
Other taxes	339	84
Donations	184	19
Fines and other penalties	101	1
Quotizations	136	6
Costs arising from the construction of assets under IFRIC12	19.816	7.636
Other operating costs	270	341
	<b><u>20.846</u></b>	<b><u>8.087</u></b>
	<b><u>161.132</u></b>	<b><u>55.699</u></b>





The caption “Subcontracts – network use” refers to charges for the use of:

- Distribution network use (URD);
- Transportation network use (URT);
- Global system use (UGS).

## 7. SEGMENT REPORTING

### Business segments

At 31 December 2015 the GGND Group is constituted by Galp Gás Natural Distribuição e its subsidiaries that develop their activities in distribution of natural gas area.

The business segment of natural gas reaches Distribution and Commercialization of natural gas in the free market of Portugal. The purpose is selling natural gas to residential, commercial and industrial customers.

## 8. FINANCIAL INCOME AND COSTS

Financial income and financial costs for the years ended 31 December 2015 and 2014 are as follows:

Captions	(€ k)	
	2015	2014
<b>Financial income:</b>		
Interest on bank deposits	826	3.358
Interest and other income with related companies (Note 28)	341	9
	<b>1.167</b>	<b>3.367</b>
<b>Financial costs:</b>		
Interest on bank loans, overdrafts and others	(624)	(504)
Interest with related parties (Note 28)	(30.903)	(4.096)
Charges relating to loans	(593)	(271)
Other financial costs	(68)	(2)
	<b>(32.188)</b>	<b>(4.873)</b>
	<b>(31.021)</b>	<b>(1.506)</b>



## 9. INCOME TAXES

The Group companies headquartered in Portugal in which the Group has an interest equal or greater than 75%, if such participation ensures more than 50% of voting rights, 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 accounted based on their tax results. In the year ended 31 December 2015, €39,646 k was recorded in the caption Income tax.

Captions	(€ k)	
	2015	2014
Galp Energia, SGPS, S.A. (Note 28)	(37.333)	(16.420)
State and Other Public Entities	(2.313)	(1.539)
	<u>(39.646)</u>	<u>(17.959)</u>

The following situations may 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 except when there are carried forward tax losses, 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 tax returns concerning the years from 2012 to 2015 can still be subject to review. However, the administration considers the corrections resulting from revisions or inspections by the tax authority to those tax returns as not having a relevant impact in the financial statement at 31 December 2015 and 2014;
- iii) Pursuant existing legislation, tax losses in Portugal are reportable e subject to utilization for 6, 4, 5 and 12 years, as they are generated in years before 2010, in 2010 and 2011, in 2012 and 2013 or 2014 and after, respectively.

Income tax and Energy sector extraordinary contribution for the year ended 31 December 2015 and 2014 are as follows:

(€ k)		
Captions	December 2015	December 2014
Current income tax	27.040	9.928
(Excess)/Insufficiency of income tax of the preceding year	(420)	(311)
Deferred tax	(13.280)	536
	<b>13.340</b>	<b>10.153</b>
Energy sector extraordinary contribution	9.778	1.529
	<b>23.118</b>	<b>11.682</b>

Below is a reconciliation of the income tax for the years ended 31 December 2015 and 2014, and detail of deferred taxes:

(€ k)						
	December 2015	Tax rate	Income tax	December 2014	Tax rate	Income tax
<b>Result before taxes:</b>	56.206	27,00%	15.176	204.853	27,00%	55.310
<b>Adjustments to taxable income:</b>						
Application of the equity method		0,56%	317		23,15%	47.425
Fiscal benefits		-0,06%	(33)		-0,01%	(24)
Achievements of social utility		0,59%	330		-0,01%	(16)
Income tax rates differences		0,00%	-		-0,44%	(899)
		0,00%	-		-35,52%	(72.773)
(Excess)/Insufficiency of income tax of the preceding year		-0,75%	(420)		-0,15%	(311)
Autonomous taxation		0,63%	352		-0,02%	49
Other additions and deductions		-4,24%	(2.381)		-9,08%	(18.609)
<b>Effective tax rate and Tax income</b>		<b>23,73%</b>	<b>13.340</b>		<b>4,92%</b>	<b>10.153</b>



## Deferred taxes

The tax rates used by GGND Group take into account the risk of substantively enacted tax rates do not become effective, which essentially depends on the reliability associated with the legal certainty of the legislative production.

This analysis takes into account the associated jurisdiction, the respective political risk and its legislative history.

As for the rate changes observed in Portugal for the financial years 2014 and 2015 as a result of Law No. 2/2014 of 16 January and Law No. 82 -B / 2014 of 31 December, they were considered by the company as substantively enacted on 31 December 2013 and 31 December 2014 respectively and were therefore considered in the measurement of deferred taxes on those dates.

As at 31 December 2015, the balance of deferred tax assets and liabilities is as follows:

(€ k)				
Deferred Taxes December 2015 - Assets				
Captions	Initial balance	Effect in results	Other adjustments	Ending balance
Adjustments to tangible and intangible assets	4	3	-	7
Retirement benefits and other benefits	10.803	(137)	619	11.285
Regulated revenue	157	2.019	-	2.176
Non deductible provisions	870	251	-	1.121
Others	864	-	-	864
	<b>12.698</b>	<b>2.136</b>	<b>619</b>	<b>15.453</b>

(€ k)				
Impostos Diferidos December 2015 - Liabilities				
Captions	Initial balance	Effect in results	Other adjustments	Ending balance
Adjustments to tangible and intangible assets	-	(4)	-	(4)
Adjustments to tangible and intangible assets Fair Value	(3.766)	112	110	(3.544)
Regulated revenue	(22.014)	10.983	-	(11.031)
Accounting revaluations	(1.262)	53	-	(1.209)
	<b>(27.042)</b>	<b>11.144</b>	<b>110</b>	<b>(15.788)</b>

The variations in deferred taxes reflected in Equity correspond to actuarial gains and losses.



## 10. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2015 and 2014 are as follows:

	(€ k)	
	December 2015	December 2014
<b>Results</b>		
Net result for purposes of calculating earnings per share (consolidated net result for the period)	29.620	191.401
<b>Number of shares</b>		
Weighted average number of shares for purposes of calculation earnings per share (Note 19)	89.529.141	89.529.141
<b>Basic and diluted earnings per share (amounts in Euros):</b>	<b>0,33</b>	<b>2,14</b>

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



## 11. GOODWILL

The difference between the amounts paid to acquire an equity share in Group companies and the fair value of the acquired companies' equity as at 31 December 2015 was as follows:

Subsidiaries	Acquisition year	Acquisition cost	(€ k)			
			Equity proportion at the acquisition date		Goodwill movement	
			%	Amount	2014	2015
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	2006	3.094	25,00%	1.454	1.640	1.640
Lusitaniagás - Companhia de Gás do Centro, S.A.	2002/3 and 2007/8/9	1.440	1,543%	856	584	584
Beiragás - Companhia de Gás das Beiras, S.A.	2003/6 and 2007	152	0,94%	107	51	51
					<u>2.275</u>	<u>2.275</u>

Goodwill corresponds to values that were accounted for in the financial statements of the holding Galp Gas & Power, SGPS, S.A., concerning differences in acquisition of subsidiaries in years preceding the date of the share increase of Galp Gás Natural Distribuição, S.A. (Note 3).

### Goodwill Impairment analysis

When performing impairment tests, goodwill is allocated to the respective cash generating unit. Value in use is determined by the present value of the estimated future cash flows of the cash generating unit. The recoverable amount is estimated for the cash-generating unit to which it may belong, according to the method of discounted cash flows. The discount rate used reflects Galp Energia Group's WACC (Weighted Average Cost of Capital) for the reporting segment and country of each cash generating unit.

Cash generating unit	Evaluation method	Assumptions		
		Cash flows	Growth factor	Discounted rates
Financial Investment (comprised in business segments)	DCF (Discounted Cash Flow)	According to corporate business plan	Gordon model with a growth factor to perpetuity of 2%	WACC between:
				R&M [7,2%-10%] E&P [9,8%-12,2%] G&P [6,2%-6,8%]

R&M - Refining & Marketing of Oil products  
E&P - Exploration & Production  
G&P - Gas & Power

According to the defined assumptions for the year ended 31 December 2015 no impairment losses in Goodwill were noted.



## 12. TANGIBLE AND INTANGIBLE ASSETS

Movements in tangible assets at 31 December 2015:

	( € K)			
	Tangible Assets			
	2015		2014	
	Land and natural resources	Total tangible assets	Land and natural resources	Total tangible assets
<b>Acquisition cost:</b>				
<b>Balance at 1 January 2015</b>	938	938	-	-
Changes in the consolidation perimeter	-	-	938	938
<b>Gross acquisition cost at 31 December</b>	<b>938</b>	<b>938</b>	<b>938</b>	<b>938</b>
<b>Accumulated depreciations and impairment losses:</b>				
<b>Balance at 1 January</b>	(357)	(357)	-	-
Depreciations for the year	(19)	(19)	(6)	(6)
Changes in the consolidation perimeter	-	-	(351)	(351)
<b>Accumulated balance at 31 December</b>	<b>(376)</b>	<b>(376)</b>	<b>(357)</b>	<b>(357)</b>
<b>Net amount:</b>				
<b>as at 31 de december</b>	<b>562</b>	<b>562</b>	<b>581</b>	<b>581</b>

(€ k)

Intangible assets	Service Concession Arrangements - Land	Service Concession Buildings	Service Concession Arrangements - Basic Equipment	Service Concession Arrangements - Transport Equipment	Service Concession Arrangements - Tools and Utensils	Service Concession Arrangements - Administrative Equipment	Service Concession Arrangements - Returnable containers	Service Concession Arrangements - Other equipment	Service Concession Arrangements - R&D Expenses	Service Concession Arrangements - Industrial property	Service Concession Arrangements - Reconversion of consumption to natural gas	Service Concession Arrangements - Intangible assets in progress	Total intangible assets
<b>2015</b>													
<b>Acquisition cost:</b>													
Balance at 1 January	11.706	9.053	1.123.862	150	4.446	7.044	4	5.953	3.712	334	562.765	3.197	1.732.226
Additions	-	-	-	-	-	-	-	-	-	-	-	19.818	19.818
Write-offs/Disposals	-	-	(1.480)	-	(28)	(8)	-	(3)	-	-	(5)	-	(1.524)
Transfers	85	11	15.555	2	21	258	-	-	-	368	5.014	(21.314)	-
<b>Gross acquisition cost at 31 December</b>	<b>11.791</b>	<b>9.064</b>	<b>1.137.937</b>	<b>152</b>	<b>4.439</b>	<b>7.294</b>	<b>4</b>	<b>5.950</b>	<b>3.712</b>	<b>702</b>	<b>567.774</b>	<b>1.701</b>	<b>1.750.520</b>
<b>Accumulated depreciations and impairment losses:</b>													
Balance at 1 January	(2.987)	(4.876)	(375.367)	(149)	(4.283)	(6.778)	(3)	(5.468)	(2.668)	(234)	(175.686)	-	(578.499)
Amortisation for the year	(255)	(358)	(26.412)	(1)	(61)	(118)	-	(222)	(65)	(85)	(13.477)	-	(41.054)
Write-offs/Disposals	-	-	1.282	-	28	8	-	3	-	-	3	-	1.324
Adjustments	(1)	-	(27)	-	-	-	-	-	-	-	(23)	-	(51)
<b>Accumulated balance at 31 December</b>	<b>(3.243)</b>	<b>(5.234)</b>	<b>(400.524)</b>	<b>(150)</b>	<b>(4.316)</b>	<b>(6.888)</b>	<b>(3)</b>	<b>(5.687)</b>	<b>(2.733)</b>	<b>(319)</b>	<b>(189.183)</b>	<b>-</b>	<b>(618.280)</b>
<b>Net amount:</b>													
as at 31 December	8.548	3.830	737.413	2	123	406	1	263	979	383	378.591	1.701	1.132.240

(€ k)

Intangible assets	Service Concession Arrangements - Land	Service Concession Buildings	Service Concession Arrangements - Basic Equipment	Service Concession Arrangements - Transport Equipment	Service Concession Arrangements - Tools and Utensils	Service Concession Arrangements - Administrative Equipment	Service Concession Arrangements - Returnable containers	Service Concession Arrangements - Other equipment	Service Concession Arrangements - R&D Expenses	Service Concession Arrangements - Industrial property	Service Concession Arrangements - Reconversion of consumption to natural gas	Service Concession Arrangements - Intangible assets in progress	Total intangible assets
<b>2014</b>													
<b>Acquisition cost:</b>													
Balance at 1 January	-	-	-	-	-	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-	-	-	-	-	7.636	7.636
Write-offs/Disposals	-	-	(1.719)	(119)	-	-	-	-	-	-	-	-	(1.838)
Transfers	66	-	4.887	-	55	66	-	181	-	729	1.899	(7.883)	-
Changes in the consolidation perimeter	11.640	9.053	1.120.694	269	4.391	6.978	4	5.772	3.712	(395)	560.866	3.444	1.726.428
<b>Gross acquisition cost at 31 December</b>	<b>11.706</b>	<b>9.053</b>	<b>1.123.862</b>	<b>150</b>	<b>4.446</b>	<b>7.044</b>	<b>4</b>	<b>5.953</b>	<b>3.712</b>	<b>334</b>	<b>562.765</b>	<b>3.197</b>	<b>1.732.226</b>
<b>Accumulated depreciations and impairment losses:</b>													
Balance at 1 January	-	-	-	-	-	-	-	-	-	-	-	-	-
Amortisation for the year	(83)	(64)	(8.072)	-	(20)	(26)	-	(72)	(22)	(730)	(2.902)	-	(29.063)
Write-offs/Disposals	-	-	1.465	119	-	-	-	-	-	-	-	-	(260)
Alteração de Perímetro	(2.904)	(4.812)	(368.760)	(268)	(4.263)	(6.752)	(3)	(5.396)	(2.646)	496	(172.784)	-	568.092
<b>Accumulated balance at 31 December</b>	<b>(2.987)</b>	<b>(4.876)</b>	<b>(375.367)</b>	<b>(149)</b>	<b>(4.283)</b>	<b>(6.778)</b>	<b>(3)</b>	<b>(5.468)</b>	<b>(2.668)</b>	<b>(234)</b>	<b>(175.686)</b>	<b>-</b>	<b>(578.499)</b>
<b>Net amount:</b>													
as at 31 December	8.719	4.177	748.495	1	163	266	1	485	1.044	100	387.079	3.197	1.153.727





Tangible and intangible assets are recorded in accordance with the accounting policy defined in Note 2.3 and 2.4. The depreciation rates that are being applied are disclosed in the same notes.

Captions related to Variation of the perimeter at 31 December 2015 are disclosed in Note 3.

Amortisation and depreciation for the years 2015 and 2014 are as follows:

	(€ k)					
	2015			2014		
	Tangible	Intangible	Total	Tangible	Intangible	Total
Depreciation for the year	19	-	19	6	-	6
Amortisation for the year - Service Concession Arrangements	-	41.054	41.054	-	11.991	11.991
Total (Note 6)	19	41.054	41.073	6	11.991	11.997

Relevant variations in amortizations and depreciation in the years ended 31 December 2015 and 31 December 2014 are from variations of the perimeter in the year ended 31 December 2014 as in Note 3.

#### Main events occurring during the year ended 31 December 2015:

Changes in the caption tangible and intangible assets amounting € 29.816 k relates to the construction of infrastructures (networks, plot and other infrastructures) covered by IFRIC 12 (Note 5 and 6).

In the year ended 31 December 2015, intangible assets amounting to a net €200 k were disposed and written-off mainly relating to the improvement of the registered books occurred during the year.

### **13. GOVERNMENT GRANTS**

As of 31 December 2015 and 2014 the amounts to be recognized as government grants in future years amount to €245.147 k and €253.851 k, respectively (Note 24).

During the years ended 31 December 2015 and 31 December 2014, subsidies of €8.905 k and €3.048 k, respectively (Note 5) were recognized in the income statement.



## 14. OTHER RECEIVABLES

The non-current and current caption "Other receivables" as of 31 December 2015 and 31 December 2014 is detailed as follows:

(€ k)				
Captions	December 2015		December 2014	
	Current	Non-current	Current	Non-current
State and Other Public Entities:				
Social Security	125	-	124	-
Subsoil levies	24.696	28.068	18.862	34.044
Other receivables - associates, joint ventures and other related parties (Note 28)	2.818	-	995	-
Loans to associates, joint ventures and other related parties (Note 28)	145	5.008	-	4.358
Personnel	103	-	102	-
Ceding rights contract of telecommunications infrastructures usage	61	-	222	-
Paid guarantees	28	-	35	-
Advances to suppliers	1	-	292	-
Other receivables	1.642	-	2.045	-
	<u>29.619</u>	<u>33.076</u>	<u>22.677</u>	<u>38.402</u>
Accrued income:				
Sales and services rendered not yet invoiced	28.898	-	30.766	-
Adjustment to tariff deviation - Regulated revenue - ERSE regulation	22.814	16.080	34.843	27.889
Financial neutrality - regulation ERSE	6.102	-	17.499	-
Adjustment to tariff deviation - "pass through" - ERSE regulation	3.665	-	3.321	-
Compensation for the uniform tariff	3.197	-	6.248	-
Accrued interest	5	-	310	-
Other accrued income	742	31	2.981	62
	<u>65.423</u>	<u>16.111</u>	<u>95.968</u>	<u>27.951</u>
Deferred charges:				
Prepaid insurance	238	-	8	-
Interest and other financial costs	78	-	224	-
Prepaid rent	8	-	9	-
Other deferred costs	181	2	220	-
	<u>505</u>	<u>2</u>	<u>461</u>	<u>-</u>
	<u>95.547</u>	<u>49.189</u>	<u>119.106</u>	<u>66.353</u>
Impairment of other receivables	(3)	-	(3)	-
	<u>95.544</u>	<u>49.189</u>	<u>119.103</u>	<u>66.353</u>

The movements which occurred in the caption "Impairment of other receivables" for the years ended 31 December 2015 and 2014 were as follows:

(€ K)						
Other receivables	Initial balance	Increases	Decreases	Utilisation	Changes in consolidation perimeter (Note 3)	Ending balance
2015	3	-	-	-	-	3
2014	-	-	-	-	3	3

The caption Subsoil levies amounting to €52.764 k refers to levies on subsoil occupation already paid to local municipalities. According to the natural gas supply concession agreement between the Portuguese Government and the Group companies, and in accordance with the Resolution of the Council of Ministers No. 98/2008, dated 8 April, companies have the right to pass on the full amount of subsoil levies paid to the local authorities for the area under concession to marketing entities or to end customers.

The amount of €2.813 k recorded in the current and non-current caption Other receivables– associates, joint ventures, affiliates and related entities refers to amounts receivable from non-consolidated companies.

The caption Accrued income - sales not yet invoiced, amounting to €28.898 k, is mainly related with the billing of natural gas consumption and electricity in December, to be issued to customers in January next year and is detailed as follows:

(€ k)	
Company	Natural Gas
LUSITANIAGÁS – Companhia de Gás do Centro, S.A.	12.896
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, SA	10.968
SETGÁS - Sociedade de Distribuição de Gás Natural, SA	3.256
Duriensegás – Sociedade Distribuidora de Gás Natural do Douro, SA	825
Dianagás – Sociedade Distribuidora de Gás Natural de Évora, SA	417
MEDIGÁS - Sociedade Distribuidora de Gás Natural do Algarve, SA	264
BEIRAGÁS – Companhia de Gás das Beiras, S.A.	237
PAXGÁS – Sociedade Distribuidora de Gás Natural de Beja, SA	35
	28.898

There are core activities and pass through activities within the Operators of Natural Gas Distribution Networks (ONGDN) and in the Retailers of Last Resort (RLR). This classification relates to the nature of which. In the first there is "value creation" intrinsic to the company. In the second activity the company is limited to billing its customers, and to pass on to the companies the amounts due for their core activities.

In the case of ONGDNs, the pass through activity is called "Access Activity to NGNTN and NGNDN performed by Operators of the Distribution Networks" ("Atividade de Acesso à RNTGN e à RNDGN exercida pelos Operadores das Redes de Distribuição"), and in RLRs the pass-through functions are called "Natural Gas Purchase and Sale" and "Purchase and Sale of Access to NGNTN and NGNDN" ("Compra e Venda de Gás Natural" e "Compra e Venda do Acesso à RNTGN e à RNDGN"). These activities / functions performed by various participants are regulated by ERSE through a regulatory mechanism of costs and revenues for regulated tariffs, resulting from the sector legislation. This regulatory mechanism gives rise to deviations, positive or negative, which stem from different periods of billing/collections and existing tariff structures in the various regulated activities.

In general terms, in the case of the pass through activities:



- For ONGDNs, they charge to the retailers the amounts related to the access tariffs to the Natural Gas Transportation Network (UGS and URT tariffs), passing on these values to REN , which is the holder of this infrastructure;
- For Retailers of Last Resort (RLRs), they charge to the end customers the tariffs for access to the transport and distribution infrastructures (UGS, URT and URD tariffs), which pass on the ONGDNs (the fraction of transportation access fee is then passed by these to REN) and the cost of natural gas is simply passed on to the Retailer of Last Resort Wholesaler (RLRW) in the Energy Tariff;

The caption Accrued income – Adjustments to tariff deviation – Energy tariff – ERSE regulation contains the following detail:

						(€ k)
Activities of receipt, transport and storage of natural gas	2014	Adjustment to regulated revenue - Real - Gas Year (Note 5)	Regulated Revenue in respect of Gas year - Amortisation / Reversal (Note 5)	Adjustment between the estimated regulated revenue and the revenues invoiced (Note 5)	Other reclassifications	2015
First Half of 2012	16.288	-	-	-	-	16.288
Second Half of 2012	24.285	-	-	-	-	24.285
Adjustment Year 2012	243	244	-	-	-	487
Reversal of 2012 Regulated revenue	(20.530)	-	(20.530)	-	-	(41.060)
	<b>20.286</b>	<b>244</b>	<b>(20.530)</b>	-	-	-
First Half of 2013	4.263	-	-	-	-	4.263
Second Half of 2013	23.727	-	-	-	-	23.727
Reclassification	-	-	-	-	(3.304)	(3.304)
Adjustment Year 2013	-	(809)	-	-	-	(809)
Reversal of 2013 Regulated revenue	-	-	(11.534)	-	-	(11.534)
	<b>27.990</b>	<b>(809)</b>	<b>(11.534)</b>	-	<b>(3.304)</b>	<b>12.343</b>
First Half of 2014	215	-	-	-	-	215
Second Half of 2014	12.524	-	-	-	-	12.524
Reclassification	-	-	-	-	6.924	6.924
Adjustment Year 2014	-	(438)	-	-	-	(438)
	<b>12.739</b>	<b>(438)</b>	-	-	<b>6.924</b>	<b>19.225</b>
First Half of 2015	-	-	-	(9.644)	-	(9.644)
Second Half of 2015	-	-	-	11.137	-	11.137
Reclassification	-	-	-	-	(3.620)	(3.620)
	-	-	-	<b>1.493</b>	<b>(3.620)</b>	<b>(2.127)</b>
	<b>61.015</b>	<b>(1.003)</b>	<b>(32.064)</b>	<b>1.493</b>	-	<b>29.441</b>
Accrued Charges (Note 24)	(1.717)	-	575	(6.223)	(2.088)	(9.453)
Accrued Income (Note 14)	62.732	(1.003)	(32.639)	7.716	2.088	38.894
	<b>61.015</b>	<b>(1.003)</b>	<b>(32.064)</b>	<b>1.493</b>	-	<b>29.441</b>

The caption Adjustment to tariff deviation – regulated revenue amounting to €29.441 k is related to the difference between the estimated regulated revenue published for the regulated activity and the revenue for the real invoices issued (Note 2.13). These amounts are remunerated at the three month Euribor rate.

The amounts to be paid or received for each gas year are presented for each activity at the net amount, depending on their nature in each gas year, as this is the manner in which the regulated revenue deviations allowed by ERSE are approved.

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From 2010, financial statements for “ERSE - Entidade Reguladora do Sector Energético”, started to be reported in accordance with the calendar year. Consequently the opening balances have been reclassified to reflect the calendar year.

During the year ended 31 December, 2015, the differences for the Group's Regulated Revenue for the calendar year 2013 were settled, amounting to a recoverable amount of € 23.068 k. As the accrual made is lower than the amount agreed, the Group recognized in the caption Sales the respective decrease amounting to €809 k.

During the year of 2015 adjustments to accrued income of years 2013, 2014 e 2015 were made.

As mentioned in Note 2.13 the total amount to be recovered was included by ERSE in the regulated revenues to be recovered in the 2015-2016 gas year, thus the Group recognized the reversal of the amount of the approved tariff deviation in the income statement.

The caption Accrued income - financial neutrality - ERSE regulation refers to the gradual replacement of financial neutrality which will be recovered over 6 years, associated with the termination of the flattening of the cost of capital for the first regulatory period mechanism, resulting from the difference between the cost of the flattened and non-flattened capital, to be recovered during 6 years. Accrued amounts refer to the amounts to be recovered in the tariff for the Gas Year 2015-2016 and Gas Year 2016-2017.

Items contained in Section IX of the Tariff Regulations: "Compensation for the application of tariff uniformity of the Tariff Regulations" defines the Compensations and Transfers between Regulated Entities. These amounts, enshrined in the annual publication of ERSE for Regulated Revenues are designed to ensure the recovery of the regulated revenues and ensure economic and financial equilibrium for the Regulated Entities.

Finally, it should be noted that the ERSE has established this compensation and transfer mechanism to allow the establishment of a uniform national tariff, since from the consumption structure in each distribution area (absolute size of the consumption and weight on the domestic and industrial sectors) there are distributors which are not able to achieve a recovery of the revenue ("insufficient" tariff), while in others there is an over- recovery ("high" tariff). Thus, in the latter case ("payers") the excess income recovered is transferred to the former ("receivers"), ensuring a balanced recovery of the regulated revenues.

Accruals for compensations related to the uniform tariff amount to €3.197 k.

The following is an ageing schedule of Group Other receivables as of 31 December 2015 and 2014:

(€ k)								
Ageing other receivables	Not overdue	Overdue up to 90 days	Overdue up to 180 days	Overdue up to 365 days	Overdue up to 545 days	Overdue up to 730 days	Overdue over 730 days	Total
2014 Gross amount	1.715.522	24.122	2.038	1.311	395	5.360	6.347	1.755.095
Impairments	(2.753)	-	-	(142)	(438)	(544)	(6.282)	(10.159)
	<u>1.712.769</u>	<u>24.122</u>	<u>2.038</u>	<u>1.169</u>	<u>(43)</u>	<u>4.816</u>	<u>65</u>	<u>1.744.936</u>
2013 Gross amount	1.801.567 (a)	1.437	766	5.319	126	676	6.220	1.816.111 (a)
Impairments	-	-	-	(154)	(148)	(564)	(6.124)	(6.990)
	<u>1.801.567 (a)</u>	<u>1.437</u>	<u>766</u>	<u>5.165</u>	<u>(22)</u>	<u>112</u>	<u>96</u>	<u>1.809.121 (a)</u>

(a) Amounts reexpressed according to the changes of accounting classification in Note 2.23.

The Group has included as amounts not overdue, balances related to other receivables that are not in arrear and the captions of accrued income and deferred charges amounting to €82.041 k and €122.371 k in 2015 and 2014, respectively.

The amounts of other receivables that are overdue but for which no impairment has been recognized correspond to credits which have payment agreements, are covered by credit insurance or for which there is an expectation of partial or total settlement.



## 15. TRADE RECEIVABLES

The caption “Trade receivables” as of 31 December 2015 and 31 December 2014 includes the following detail:

Captions	December 2015	December 2014
	Current	Current
Trade receivables - current accounts	14.666	12.824
Trade receivables - doubtful accounts	1.138	1.009
	<b>15.804</b>	<b>13.833</b>
Impairment on trade receivables	(1.059)	(982)
	<b>14.745</b>	<b>12.851</b>

The movements in the caption “Impairment of trade receivables” for the years ended 31 December 2015 and 2014 were as follows:

Impairment on trade receivables	Initial balance	Increases	Decreases	Utilisation	(€ K)	
					Changes in consolidation perimeter (Note 3)	Ending balance
<b>2015</b>	982	198	(41)	(80)	-	1.059
<b>2014</b>	-	-	(199)	(246)	1.427	982

The increase and decrease in the caption “Impairment of trade receivables” amounting to €157 k net was recorded in the caption “Provision and impairment losses on receivables” (Note 6).

The following is an ageing schedule of Group trade receivables as of 31 December 2015 and 2014:

Ageing trade receivables	Not overdue	Overdue up to 90 days	Overdue up to 180 days	Overdue up to 365 days	Overdue up to 545 days	Overdue up to 730 days	Overdue over 730 days	(€ k)
								Total
<b>2015</b>								
Gross amount	9.100	2.239	1.770	511	454	842	888	15.804
Impairment	-	(5)	(9)	(121)	(45)	(67)	(812)	(1.059)
	<b>9.100</b>	<b>2.234</b>	<b>1.761</b>	<b>390</b>	<b>409</b>	<b>775</b>	<b>76</b>	<b>14.745</b>
<b>2014</b>								
Gross amount	6.525	5.582	481	192	154	216	683	13.833
Impairment	-	(4)	(19)	(68)	(115)	(110)	(666)	(982)
	<b>6.525</b>	<b>5.578</b>	<b>462</b>	<b>124</b>	<b>39</b>	<b>106</b>	<b>17</b>	<b>12.851</b>

Overdue balances which have not been subject to adjustments are in respect of receivables for which there are payment agreements or for which there is a total or partial expectation of settlement.

The average collection period for not overdue trade receivables balance is lower than 30 days.

## 16. INVENTORIES

Inventories as of 31 December 2015 and 31 December 2014 are detailed as follows:

(€ k)		
Captions	December 2015	December 2014
Raw, subsidiary and consumable materials:		
Other raw materials	1.273	1.251
	<b>1.273</b>	<b>1.251</b>
Impairment on raw, subsidiary and consumable materials	(155)	(177)
	<b>1.118</b>	<b>1.074</b>
Goods	121	148
	<b>121</b>	<b>148</b>
Impairment on goods	-	-
	<b>121</b>	<b>148</b>
	<b>1.239</b>	<b>1.222</b>

As of 31 December 2015, the caption "Goods" amounting to € 1.273 k, mainly relates to materials to be applied in infrastructures of the Group.

The movement in Inventories impairment captions for the years ended 31 December 2015 and 2014 are as follows:

(€ K)						
Captions	Initial balance	Increases	Decreases	Utilisation	Changes in consolidation perimeter (Note 3)	Ending balance
2015						
Impairment on raw, subsidiary and consumable materials	177	-	-	(22)	-	155
	<b>177</b>	<b>-</b>	<b>-</b>	<b>(22)</b>	<b>-</b>	<b>155</b>
2014						
Impairment on raw, subsidiary and consumable materials	-	-	-	-	177	177
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>177</b>	<b>177</b>

## 17. OTHER FINANCIAL INVESTMENTS

Not applicable.

## 18. CASH AND CASH EQUIVALENTS

For the years ended 31 December 2015 and 31 December 2014 the caption "Cash and cash equivalents" is detailed as follows:





	(€ k)	
Captions	December 2015	December 2014
Cash	42	28
Cash Deposits	24.484	5.504
Other treasury applications	4.000	6.000
<b>Cash and cash equivalents in the consolidated statement of financial position</b>	<b>28.526</b>	<b>11.532</b>
Bank overdrafts (Note 22)	(2.350)	(25.815)
<b>Cash and cash equivalents in the consolidated statement of cash flow</b>	<b>26.176</b>	<b>(14.283)</b>

The caption "Other treasury applications" includes applications of surplus cash, with maturities up to three months, in respect of the following Group companies:

	(€ k)	
Companies	December 2015	December 2014
Beiragás - Companhia de Gás das Beiras, S.A.	4.000	6.000
	<b>4.000</b>	<b>6.000</b>

The funds that the Group has classified as Cash and Cash equivalents, in various geographies, have no restrictions or relevant legal conditions in order to be used or distributed as dividends to their shareholders (subject to the legal requirements of the Commercial Company Code in each country).

## 19. SHARE CAPITAL

### Capital Structure

As of 31 December 2015 share capital amount to € 89.529.141, compounded by 89.529.141 shares with nominal value amounting one euro each, entirely subscribed and realized by Galp Gás & Power, S.G.P.S., S.A..

In 2014 Galp Gás & Power, S.G.P.S., S.A. increased the realized share capital amounting to €89.479 k through delivery of representative shares held by subsidiaries as follows:

- a) At 5 September 2014:
  - €18.418 k concerning 82,5778% of the capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A.;
  - €47.285 k concerning 100% of the capital of the subsidiary LisboaGás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.;
  - €15.955 k concerning 66,87905% of the capital of the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A.;
- b) At 3 December 2014:



- €237 k concerning 100% of the capital of the subsidiary Dianagás - Sociedade Distribuidora de Gás Natural de Évora, S.A.;
- €6.766 k concerning 100% of the capital of the subsidiary Duriensegás - Sociedade Distribuidora de Gás Natural do Douro, S.A.;
- €573 k concerning 100% of the capital of the subsidiary Medigás - Sociedade Distribuidora de Gás Natural do Algarve, S.A.;
- €245 k concerning 100% of the capital of the subsidiary Paxgás - Sociedade Distribuidora de Gás Natural de Beja, S.A.

## 20. RESERVES

As of 31 December 2015 and 31 December 2014 “Translation reserves” and “Other reserves” are detailed as follows:

	(€ k)	
Captions	December 2015	December 2014
<b>Reserves:</b>		
Legal reserves	2.986	-
	<u>2.986</u>	<u>-</u>
<b>Hedging reserves:</b>		
Reserves - financial derivatives	(237)	(286)
	<u>(237)</u>	<u>(286)</u>
<b>Other reserves:</b>		
Reserves - Increase of 10,59122% in 2015 and 3,67276% in 2014 in the participation in the share capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A. (Note 3)	413	43
Reserves - Increase of 33.05427% in 2015 in the participation in the share capital of the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A. (Note 3)	(492)	-
	<u>(79)</u>	<u>43</u>
	<u><b>2.670</b></u>	<u><b>(243)</b></u>

### **Legal reserves:**

According to the company’s statute and the Commercial Companies Code, the company has to transfer to the caption Legal Reserves, included in other reserves, in share capital, a minimum of 5% of the net profit for each year up to a limit of 20% of the share capital. Legal reserves can’t be distributed to shareholders, whichever, under certain circumstances, it may be used to increase share capital or absorb losses after all other reserves are exhausted. In 2015 the caption Legal Reserves fluctuated positively amounting to €2.986 k.

### **Hedging reserves:**

In the year ended 31 December 2015, the amount of € 237 k is related with the fair value of financial derivatives - cash flow hedges related to associated companies.



## Other reserves:

### Reserves – Increase of 14,26398% of the capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A

In March 2015, the Group acquired 10,59122% of the capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., which was previously controlled by the Group and consolidated using the full consolidation method. Accordingly, the difference of €370 k between the amount paid and the book value of the equity at the acquisition date, was recognized in equity under reserves (Note 3).

In December 2014, the Group acquired 3,67276% of the capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., which was previously controlled by the Group and consolidated using the full consolidation method. Accordingly, the difference of €43 k between the amount paid and the book value of the equity at the acquisition date, was recognized in equity under reserves:

				(€ k)
	Share capital at acquisition date	% acquired	Acquisition value	Other reserves (Note 20)
Reserves - Increase of 10,59122% at 30 March 2015, in the participation in the share capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A.	59.085	10,59122%	5.888	370
Reserves - Increase of 3,67276 at 22 December 2015, in the participation in the share capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A.	55.360	3,67276%	1.990	43
				<u>413</u>

### Reserves - increase of 33.05427% in the capital of the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A.

On 21 December 2015, the Group acquired 33.05427% of the capital of the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A. from Enagás – SGPS, S.A., which was already previously controlled by the Group and consolidated using the full consolidation method. Accordingly, the negative difference of €492 k (Note 3) between the amount paid and the book value of the equity at the acquisition date, was recognized in equity under reserves.

				(€ k)
	Share capital at acquisition date	% acquired	Acquisition value	Other reserves (Note 20)
Reserves - Increase of 33,05427% at 21 December 2015, in the participation in the share capital of the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A. (Note 3)	87.995	33,05427%	29.578	(492)



## 21. NON-CONTROLLING INTERESTS

As of 31 December 2015 and 31 December 2014, the caption “Non-controlling interests” included in equity refers to the following subsidiaries:

2015:								(€ k)		
Subsidiaries		% Non-controlling interest 2014	Balance as at December 2014	Share capital and reserves	Assigned dividends	Prior year results	Retained earnings - actuarial gains and losses	Net result for the year	Balance as at December 2015	% Non-controlling interest 2015
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	(a)	33,12%	27.457	(7.903)	-	(21.122)	1	1.628	61	0,07%
Beiragás - Companhia de Gás das Beiras, S.A.		40,50%	15.705	-	-	-	-	1.440	17.145	40,50%
Lusitaniagás - Companhia de Gás do Centro, S.A.	(b)	13,75%	7.888	(2.729)	-	(3.518)	(2)	400	2.039	3,16%
			<b>51.050</b>	<b>(10.632)</b>	<b>-</b>	<b>(24.640)</b>	<b>(1)</b>	<b>3.468</b>	<b>19.245</b>	

2014:								(€ k)		
Subsidiaries		% Non-controlling interest (Note 3)	Changes in consolidation perimeter (Note 3) (c)	Share capital and reserves	Assigned dividends	Prior year results	Retained earnings - actuarial gains and losses	Net result for the year	Balance as at December 2014	% Non-controlling interest 2014
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.		33,12%	26.717	-	-	-	-	740	27.457	33,12%
Beiragás - Companhia de Gás das Beiras, S.A.		40,50%	15.268	-	-	-	-	437	15.705	40,50%
Lusitaniagás - Companhia de Gás do Centro, S.A.	(d)	17,42%	14.296	(946)	(4.965)	(1.090)	-	593	7.888	13,75%
			<b>56.281</b>	<b>(946)</b>	<b>(4.965)</b>	<b>(1.090)</b>	<b>-</b>	<b>1.770</b>	<b>51.050</b>	

### On the year ended 31 December 2015:

(a) The subsidiary Setgás – Sociedade de Produção e Distribuição de Gás, S.A., which was previously owned at 66.87906%, is now held 99.93333% by the Group. Due to the increase of 33.05427%, a negative amount of €25.025 k, relating to the variation in the percentage held by the Group, was recorded in Non-controlling interests (Note 3 and 20).

The negative amount of €7,903 k corresponds to the variation of non-controlling interests in the captions “Share capital”, “Other reserves” and “Share premium” and the negative amount of €21.122 k corresponds to the variation of non-controlling interests in the caption “Retained earnings” until the date of the participation increase.

(b) The subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., which was previously owned at 86,25058% is now held 96,8418% by the Group. Due to the increase of 10,5912%, a negative amount of €6.247 k relating to the variation in the percentage held by the Group, was recorded in Non-controlling interests (Note 3 and 20).

The negative amount of €2.729 k corresponds to the variation of non-controlling interests in the captions “Share capital”, “Other reserves” and “Share premium” and the negative amount of €3.518 k corresponds to the variation of non-controlling interests in the caption “Retained earnings” until the date of the participation increase.



On the year end 31 December 2014:

- (c) The amount of €56.281 k in the caption non-controlling interests – Differences of consolidation perimeter, corresponding to non-controlling interests at the date of acquisition of the subsidiary as disclosed in Note 3.
- (d) At the date of consolidation of Galp Gás Natural Distribuição, S.A Group an increase of share capital was made, through the delivery of representative shares of 82,5778% of the capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A, recorded in non-controlling interests – Differences of consolidation perimeter amounting to 14.296 k corresponding to 17,4222% of the capital at acquisition.

On 22 December 2014 the subsidiary Galp Gás Natural Distribuição, S.A acquired to Petróleos de Portugal - Petrogal, S.A., 3,67276% of the share held in Lusitaniagás - Companhia de Gás do Centro, S.A. being now held 86,25058% of the capital. Due to the increase of 3,67276% a negative amount of €2.036 k relating to the variation in the percentage held by the Group, was recorded in Non-controlling interests (Note 3 and 20).

The negative amount of €946 k corresponds to the variation of non-controlling interests in the captions “Share capital”, “Other reserves” and “Share premium” and the negative amount of €1.090 k corresponds to the variation of non-controlling interests in the caption “Retained earnings” until the date of the participation increase.

## 22. LOANS

### Detail of loans

Loans obtained as of 31 December 2015 and 31 December 2014 were as follows:

	(€ k)			
	December 2015		December 2014	
	Current	Non-current	Current	Non-current
Bank loans:				
Loans	15.167	42.808	18.002	57.975
Bank overdrafts (Note 18)	2.350	-	25.815	-
	<b>17.517</b>	<b>42.808</b>	<b>43.817</b>	<b>57.975</b>
<i>Origination Fees</i>	-	(98)	-	-
	<b>17.517</b>	<b>42.710</b>	<b>43.817</b>	<b>57.975</b>



Current and non-current loans, excluding origination fees, bank overdrafts and discounted notes, have the following repayment plan as at 31 December 2015:

		(€ k)		
		<b>Loans</b>		
Maturity		Total	Current	Non-current
	2016	15.167	15.167	-
	2017	13.267	-	13.267
	2018	11.361	-	11.361
	2019	10.491	-	10.491
	2020	7.689	-	7.689
		<b>57.975</b>	<b>15.167</b>	<b>42.808</b>

As of 31 December 2015 and 31 December 2014, Loans obtained are expressed in the following currencies:

		December 2015		December 2014	
Currency		Total initial amount	Amount in due (€k)	Total initial amount	Amount in due (€k)
Euros	EUR	181.820	57.975	188.920	75.977
			<b>57.975</b>		<b>75.977</b>

### Description of the main loans

#### Bank loans

The Group has a financing contract with the European Investment Bank amounting to €43.022 k, and split into €12.537 k short-term and €30.485 k medium and long-term. These instruments bear interest at a variable rate pointed by EIB, assured by a banking institution.

Additionally, the Group has recorded in loans an amount of €14.953 k, obtained by the company Beiragás – Companhia de Gás das Beiras, S.A., which split into €2.630 k short-term and €12.323 k medium and long-term.



### 23. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

The Group provides its employees with 3 defined benefit plans, which are non-contributory for the participants, and one defined contribution plan, which is contributory. In addition, it provides benefits for health insurance, life insurance and a complimentary defined contribution plan in the event of death or disability.

The GGND Group Pension Plan provides the following benefits:

- Pension supplements for retirement and disability;
- Pension supplements for surviving orphans (death in the active or post retirement);
- Early retirement pension; and
- Pre-retirement pension.

The closed GGND Group Pension Fund aims for the payment of pension supplements for retirement and disability and survival pensions under the GGND Group Pension Plan.

Two scenarios have been used for the calculation of the liabilities of these defined benefit plans:

- Finance scenario - used by GGND Group for determination of past liabilities; and
- Minimum Solvency Level scenario - scenario using recommended assumptions to calculate the minimum amount of funding of the Pension Funds (Rule No. 21/96 -R).

The liabilities presented in this report have been calculated based on the Projected Unit Credit method. The principle behind this method is to cover the benefits of each of the participants of the plan as they accrue, taking into account the future growth of costs associated with the benefit under analysis. Thus, the total cost for each participant is divided into units, each of which is associated with a past or future year of service.

For the purpose of the assessment, the cumulative liability of an individual is the present value of the accumulated benefits, at the reference date.

Responsibilities for Past Services (RPS) result from the sum of the accumulated liabilities for all participants of the plan.

The GGND Group Pension Plan is a Final Pay type.

The benefits provided under the Plan are paid directly by the Pension Fund. For the early retirement pension, the benefit is paid by the Fund to 2 early retirees whose early retirement started before 30/09/2009, with the liabilities corresponding to the remaining early retirees and pre-retirees, as well as to future cases, recognized through an accounting provision created for that purpose.



The Group also offers its employees a defined contribution plan, to which the following companies are currently associated: LisboaGás GDL, Beiragás - Companhia de Gás das Beiras, S.A., Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A., Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A., Lusitaniagás - Companhia de Gás do Centro, S.A., Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A., Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A., and Setgás - Sociedade de Produção e Distribuição de Gás, S.A..

In the Defined Contribution Plan, the benefits to be attributed to employees are the result of the contributions made up to the time of retirement of both the company and their employees.

The Companies make contributions of 3% of the pensionable salary and a "matching" contribution of an amount equal to the employee's contribution up to a limit of 1% of pensionable salary.

The annual cost is fixed as a percentage and has no risk to changes in life expectancy, fund performance, Social Security contributions, and does not require actuarial valuations.

This defined contribution plan also includes a minimum benefit in case of death or disability of active participants, by attributing a minimum total pension to be added to that from Social Security, which guarantees a minimum total pension equal to 50% of the pensionable salary of the employee to date of occurrence.

All Galp Energia Group pension plans are governed by Portuguese law applied to pension funds and supervised by the Supervisory Authority for Insurance and Pensions ("Autoridade de Supervisão de Seguros e Pensões – ASF").

It is the Fund Management Company that is responsible for executing all necessary or convenient acts and operations to ensure the good administration and management of the Fund, in accordance with what has established in the Constitution Agreement and in the Fund Management Contract.

BPI Vida e Pensões manages the GGND Fund.

The Health Insurance benefit aims to cover medical/hospital expenses in accordance with existing policies.

The Life Insurance benefit aims to ensure financial protection of employees and/or spouses and children in the event of death or disability and in accordance with the existing policies.

On 31 December, 2015 and 2014, the net assets of the GGND Pension Fund, valued at fair value, were as follows according to the reports submitted by the respective fund management companies:

	(€ k)	
	<u>December 2015</u>	<u>December 2014</u>
Bonds	14.826	13.607
Shares	7.014	7.133
Real Estate	324	301
Liquidity	2.177	2.334
	<u><b>24.341</b></u>	<u><b>23.375</b></u>



Lisboagás, S.A. was the only Group company to make contribution to the Pension Fund amounting to €1,650 k, during the year ended 31 December, 2015.

On 31 December 2015, the Group had the following amounts related to liabilities for retirement benefits and other benefits:

(€ k)				
Captions	2015		2014	
	Liabilities	Equity	Liabilities	Equity
Post employment benefits:				
Relating to the Pension Fund	(1.281)	5.493	(881)	3.826
Retired Employees	(3.068)	1.906	(3.195)	1.557
Pre-retirement	(7.201)	955	(7.477)	983
Early retirement	(18.431)	4.129	(16.491)	2.174
Other benefits:				
Healthcare	(19.587)	7.462	(19.021)	7.240
Life insurance	(387)	(7)	(347)	(42)
Defined contribution plan minimum benefit	(539)	(168)	(275)	(109)
	<b>(50.494)</b>	<b>19.770</b>	<b>(47.687)</b>	<b>15.629</b>

The Pre-retirement caption amounting to €7.201 k includes €1,754 k and €222 k respectively for the subsidiaries Lisboagás, SA and Beiragás - Companhia de Gás das Beiras, SA, to cope with already agreed pre-retirements that will only be effective in 2016.

In addition, the Group has an amount of €179 k for early retirements already agreed, which will only become effective in 2016.

The caption Employee costs - retirement benefits amounting to €4.193 k (Note 6) includes mainly: (i) €361 k relating to benefits related to the Fund; (ii) €1.463 k from the remaining retirement benefits; (iii) a loss of €755 k of other benefits; (iv) €135 k for the defined contribution plan and (v) a loss of €267 k regarding pre-retirements and early retirements not included in the other benefits.

The difference of €3.571 k between the amount recorded in the Equity detail above and the amount in the caption Retained earnings – actuarial gains and losses - pension fund, of the consolidated statement of changes in equity is due to the amount relating to deferred tax.

The table below shows the number of participants and beneficiaries sorted by category:

	<u>December 2015</u>	<u>December 2014</u>
Active	176	167
Pre-retirement	41	38
Early retirement	28	24
Disability Retirements	5	6
Elderly Retirements	207	213
Pensioners - Widowhood/Orphanhood	178	179
	<b>635</b>	<b>627</b>

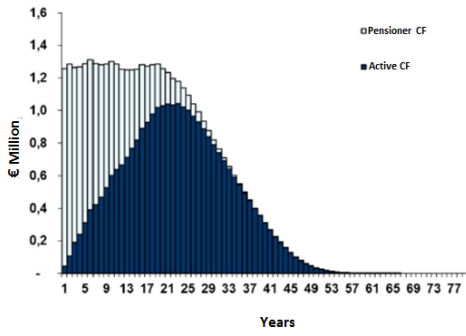


The average maturity of liabilities for the defined benefit plans, is 13,6 years.

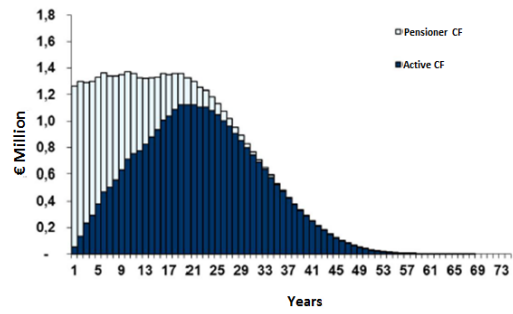
Payment distribution associated with the GGND Group Pension Funds:

- GGND Group

**Financing scenario**



**Solvency Minimum**



The assumptions used for the calculation of post-employment benefits are considered by the Group and an entity specialized in actuarial studies as those that best meet the commitments set out in the pension plan and their respective liabilities with the retirement benefits and are set out as follows:

(€ k)		
	<b>Galp Gas Group in Portugal</b>	
	<b>2015</b>	<b>2014</b>
<b>Assumptions</b>		
Rate of return on assets	2,50%	2,75%
Technical interest rate	2,50%	2,75%
Rate of increase in salaries	1,00%	1,00%
Rate of increase in pensions	[0,00% - 2,00%]	[0,00% - 2,00%]
Current personnel and pre-retirees mortality table	INE 2009-2011	INE 2009-2011
Retired personnel mortality table	INE 2009-2011	INE 2009-2011
Disability table	EVK 80 - 50%	EVK 80 - 50%
Common age for retirement	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	66 years or 65 years if at least with 43 years of discounts to S.S. at 65
Method	Projected credit unit	Projected credit unit
<b>Changes in past service liability (PSL)</b>		
PSL at the end of the previous year	24.256	24.290
Current service cost	325	122
Interest cost	650	295
Actuarial (gain) / loss	1.582	1.783
Benefit payments made by the Fund	(1.226)	(434)
Cut back - Early retirements	9	(144)
Cut back - Pre-retirement	25	(8)
Cut Back - Mutual termination agreement	-	(6)
Cut Back - Migration to DC	-	(1.642)
<b>PSL at the end of the current year</b>	<b>25.621</b>	<b>24.256</b>
<b>Changes in coverage of financial assets (pension fund)</b>		
Assets at the end of the previous year	23.375	25.018
Net interest	626	300
Associates contribution	1.650	-
Benefit payments	(1.226)	(434)
Cut Back - Migration to DC	-	(1.642)
Financial gains / (losses)	(85)	133
<b>Assets at the end of the current year</b>	<b>24.340</b>	<b>23.375</b>
<b>Reconciliation of gains and losses - through Comprehensive Income</b>		
(Gain) / loss from actuarial experience	762	(1.090)
(Gain) / loss by actuarial assumptions change	820	2.873
Financial (Gain) / loss	85	(133)
Other impacts	(1.667)	(1.650)
<b>(Gains) / losses to be recognized in the year-end</b>	<b>-</b>	<b>-</b>
<b>Reconciliation to the Statement of Financial Position</b>		
(Gains) / losses recognized at the beginning of the year - Asset/(Liability)	(881)	728
Net cost of the year	(383)	41
Associates contribution	1.650	-
Gains / (losses) recognized - through Comprehensive Income	(1.667)	(1.650)
<b>Total recognized at year end - Assets / (Liabilities)</b>	<b>(1.281)</b>	<b>(881)</b>
<b>Net cost of the year</b>		
Current service cost	325	608
Interest cost	24	(5)
<b>Net cost of the year before special events</b>	<b>349</b>	<b>603</b>
Cut back impact - Early Retirement	9	(144)
Cut back impact - Pre-retirement	25	(8)
Liquidations impacts	-	(6)
<b>Net cost of the year</b>	<b>383</b>	<b>445</b>
<b>Reconciliation of gains and loss recognized-through Comprehensive Income</b>		
Cummulative (Gains) / losses recognized at the beginning of the year	3.826	2.176
Actuarial (Gains) and Losses from experience	762	(1.090)
(Gains) / losses from change in assumptions	820	2.873
Financial (Gains) / losses	85	(133)
<b>Cummulative (Gains) / losses recognized at the end of the year</b>	<b>5.493</b>	<b>3.826</b>



The actuarial losses related to past service liabilities which occurred in 2015 year amounting to €1.582 k can be segregated as follows:

- by changes in assumptions: losses amounting to €820 k. This amount is related only to the change in the discount rate. As the change in the regular retirement age was driven by the change in legislation, the impact was considered as a gain/loss by experience;

- by experience: losses amounting to €762 k.

The financial losses of the fund, amounting €85 k, arise from the difference between the estimated value for the found evolution and its real value present in the previous section, as detailed below:

	(€ k)			
	Estimated	Real	Deviation	Date value
<b>Initial balance</b>	<b>23.375</b>	<b>23.375</b>	-	<b>31-12-2014</b>
Pensions	(1.210)	(1.226)	(16)	
Acquired rights	-	-	-	
Associates contributions	1.229	1.650	421	
Participant contributions	-	-	-	<b>2015</b>
<b>Total Movements</b>	<b>19</b>	<b>424</b>	<b>405</b>	
Fund return	626	541	(85)	
<b>Ending balance</b>	<b>24.020</b>	<b>24.340</b>	<b>320</b>	<b>31-12-2015</b>

In 2015, financial deviations amounted to € 320 k, as detailed in the table above.

## Other pension benefits not affecting the fund:

	(€ k)			
	2015			
	Retired	Pre-retirement	Early Retirement	Total
<b>Assumptions</b>				
Technical interest rate	2,50%	2,50%	2,50%	
Rate of increase in salaries	1,00%	1,00%	1,00%	
Rate of increase in pensions	[0,00% - 2,00%]	[0,00% - 2,00%]	[0,00% - 2,00%]	
Current personnel and pre-retirees mortality table	INE 2009-2011	INE 2009-2011	INE 2009-2011	
Retired personnel mortality table	INE 2009-2011	INE 2009-2011	INE 2009-2011	
Disability table	EVK 80 - 50%	EVK 80 - 50%	EVK 80 - 50%	
Common age for retirement	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	
Method	Projected credit unit	Projected credit unit	Projected credit unit	
<b>Changes in past service liability (PSL)</b>				
PSL at the end of the previous year	3.195	5.589	16.491	25.275
Current service cost	-	3	472	475
Interest cost	80	133	437	650
Actuarial (gain)/loss	348	(28)	1.955	2.275
Benefits payment made by the Company	(555)	(1.474)	(1.089)	(3.118)
Cut back - Early retirements	-	-	193	193
Cut back - Pre-retirement	-	1.002	(207)	795
PSL at the end of the current year	3.068	5.225	18.252	26.545
<b>Reconciliation to the Statement of Financial Position</b>				
(Gains)/losses recognized at the beginning of the year - Asset/(Liability)	(3.195)	(5.589)	(16.491)	(25.275)
Net cost of the year	(80)	(1.138)	(895)	(2.113)
Benefits paid directly by the Company	555	1.474	1.089	3.118
Gains / (losses) recognized - through Comprehensive Income	(348)	28	(1.955)	(2.275)
Total recognized at year end - Assets / (Liabilities)	(3.068)	(5.225)	(18.252)	(26.545)
<b>Net cost of the year</b>				
Current service cost	-	3	472	475
Interest cost	80	133	437	650
Net cost of the year before special events	80	136	909	1.125
Cut back impact - Early Retirement	-	-	193	193
Cut back impact - Pre-retirement	-	1.002	(207)	795
Net cost of the year	80	1.138	895	2.113
<b>Reconciliation of gains and loss recognized- through Comprehensive Income</b>				
Cummulative (Gains) / losses recognized at the beginning of the year	1.557	983	2.174	4.714
Actuarial (Gains) and Losses from experience	317	(66)	1.555	1.806
(Gains)/losses from change in assumptions	32	38	400	470
Cummulative (Gains) / losses recognized at the end of the year	1.906	955	4.129	6.990
Non-controlling interests	-	-	-	-
Cummulative (Gains) / losses recognized at the end of the year	1.906	955	4.129	6.990

The current service cost, interest cost, cut back impact – Early retirement and cut back impact – Pre-retirement, amounting to €475 k, €650 k, €193 k e €795 k, respectively, were recorded by the Group in the caption Employee costs in the consolidated income statement (Note 6).

As mentioned in Note 2.10, the ISP authorized the establishment of the Galp Energia Defined Contribution Pension Fund in 31 December 2002, giving the possibility for the employees to choose between this new defined contribution pension plan and the existing defined benefit plan. During 2015, a cost of € 135 k was recognized in the Employee cost caption in respect of the contributions of the year, paid to the Fund management company of the associated companies of the Galp Energia Defined Contribution Pension Fund, in favor of their employees.

(€ k)				
	2014			
	Retired	Pre-retirement	Early Retirement	Total
<b>Assumptions</b>				
Technical interest rate	2,75%	2,75%	2,75%	
Rate of increase in salaries	1,00%	1,00%	1,00%	
Rate of increase in pensions	[0,00% - 2,00%]	[0,00% - 2,00%]	[0,00% - 2,00%]	
Current personnel and pre-retirees mortality table	INE 2009-2011	INE 2009-2011	INE 2009-2011	
Retired personnel mortality table	INE 2009-2011	INE 2009-2011	INE 2009-2011	
Disability table	EVK 80 - 50%	EVK 80 - 50%	EVK 80 - 50%	
Common age for retirement	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	
Method	Projected credit unit	Projected credit unit	Projected credit unit	
<b>Changes in past service liability (PSL)</b>				
PSL at the end of the previous year	3.113	4.235	14.997	22.345
Current service cost	-	1	152	153
Interest cost	39	47	178	264
Actuarial (gain)/loss	245	682	1.200	2.127
Benefits payment made by the Company	(202)	(485)	(273)	(960)
Cut back - Early retirements	-	-	377	377
Cut back - Pre-retirement	-	1.109	(139)	970
Cut back - Mutual termination agreement	-	-	(1)	(1)
PSL at the end of the current year	3.195	5.589	16.491	25.275
<b>Reconciliation to the Statement of Financial Position</b>				
(Gains) / losses recognized at the beginning of the year - Asset/(Liability)	(3.113)	(4.235)	(14.997)	(22.345)
Net cost of the year	(39)	(1.157)	(567)	(1.763)
Benefits paid directly by the Company	202	485	273	960
Gains / (losses) recognized - through Comprehensive Income	(245)	(682)	(1.200)	(2.127)
Total recognized at year end - Assets / (Liabilities)	(3.195)	(5.589)	(16.491)	(25.275)
<b>Net cost of the year</b>				
Current service cost	-	1	152	153
Interest cost	39	47	178	264
Net cost of the year before special events	39	48	330	417
Cut back impact - Early Retirement	-	-	377	377
Cut back impact - Pre-retirement	-	1.109	(139)	970
Cut back - Mutual termination agreement	-	-	(1)	(1)
Net cost of the year	39	1.157	567	1.763
<b>Reconciliation of gains and loss recognized- through Comprehensive Income</b>				
Cummulative (Gains) / losses recognized at the beginning of the year	1.312	301	974	2.587
Actuarial (Gains) and Losses from experience	114	529	(172)	471
(Gains) / losses from change in assumptions	131	153	1.372	1.656
Cummulative (Gains) / losses recognized at the end of the year	1.557	983	2.174	4.714
Non-controlling interests	-	6	-	6
Cummulative (Gains) / losses recognized at the end of the year	1.557	977	2.174	4.708

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

As mentioned in Note 2.11, the Group has accounted for on 31 December, 2015, a provision to cover its liability for healthcare, life insurance for past services of active population and total liabilities for the remaining population and the liability for the minimum benefit defined contribution plan. The current value of liabilities for past services and actuarial assumptions used in their calculation is as follows:

	(€ k)			
	2015			
	Healthcare	Life insurance	Defined contribution plan minimum benefit	Total
<b>Assumptions</b>				
Technical interest rate	2,50%	2,50%	2,50%	
Rate of increase in Costs	4,00%	1,00%	1,00%	
Current personnel and pre-retirees mortality table	INE 2009-2011	INE 2009-2011	INE 2009-2011	
Retired personnel mortality table	INE 2009-2011	INE 2009-2011	GKF95	
Disability table	EVK 80 - 50%	EVK 80 - 50%	EVK 80 - 50%	
Common age for retirement	66*	66*	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	
Method	Projected credit unit	Projected credit unit	Projected credit unit	
<b>Changes in past service liability (PSL)</b>				
PSL at the end of the previous year	19.020	347	275	19.642
Current service cost	428	12	10	450
Interest cost	514	9	8	531
Actuarial (gain) / loss	223	35	(59)	199
Benefits payment made by the Company	(590)	(16)	-	(606)
Other adjustments	-	-	305	305
PSL at the end of the current year	19.595	387	539	20.521
<b>Reconciliation to the Statement of Financial Position</b>				
(Gains) / losses recognized at the beginning of the year - Asset/(Liability)	(19.020)	(347)	(275)	(19.642)
Net cost of the year	(942)	(21)	(323)	(1.286)
Benefits paid directly by the Company	590	16	-	606
Gains / (losses) recognized - through Comprehensive Income	(223)	(35)	59	(199)
Total recognized at year end - Assets / (Liabilities)	(19.595)	(387)	(539)	(20.521)
<b>Net cost of the year</b>				
Current service cost	428	12	10	450
Interest cost	514	9	8	531
Net cost of the year before special events	942	21	18	981
Other adjustments	-	-	305	305
Net cost of the year	942	21	323	1.286
<b>Reconciliation of gains and loss recognized- through Comprehensive Income</b>				
Cumulative (Gains) / losses recognized at the beginning of the year	7.240	(42)	(109)	7.089
Actuarial (Gains) and Losses from experience	(575)	25	(62)	(612)
(Gains) / losses from change in assumptions	797	10	3	810
Cumulative (Gains) / losses recognized at the end of the year	7.462	(7)	(168)	7.287
Non-controlling interests (Note 21)	-	(2)	-	(2)
Cumulative (Gains) / losses recognized at the end of the year	7.462	(5)	(168)	7.289

\* For the Company Lisboagás, S.A. are deemed to be fulfilled the retirement conditions when achieved 40 years of service, 35 service and age equal or over 60 years or when achieved 66 years or 65 years of age with at least 43 years of contributions to Social Security at that age ( first occurrence of the 4 conditions ).

The current service cost, interest cost and other adjustments amounting to €450 k, €531 k e €305 k, respectively, were recorded by the Group in the caption Employee costs in the consolidated income statement (Note 6).

(€ k)

	2014			
	Healthcare	Life insurance	Defined contribution plan minimum benefit	Total
<b>Assumptions</b>				
Technical interest rate	2,75%	2,75%	2,75%	
Rate of increase in Costs	4,00%	1,00%	1,00%	
Current personnel and pre-retirees mortality table	INE 2009-2011	INE 2009-2011	INE 2009-2011	
Retired personnel mortality table	INE 2009-2011	INE 2009-2011	GKF95	
Disability table	EVK 80 - 50%	EVK 80 - 50%	EVK 80 - 50%	
Common age for retirement	66*	66*	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	
Method	Projected credit unit	Projected credit unit	Projected credit unit	
<b>Changes in past service liability (PSL)</b>				
PSL at the end of the previous year	16.792	439	174	17.405
Current service cost	116	5	3	124
Interest cost	203	6	2	211
Actuarial (gain) / loss	2.107	(98)	96	2.105
Benefits payment made by the Company	(198)	(5)	-	(203)
<b>PSL at the end of the current year</b>	<b>19.020</b>	<b>347</b>	<b>275</b>	<b>19.642</b>
<b>Reconciliation to the Statement of Financial Position</b>				
(Gains) / losses recognized at the beginning of the year - Asset/(Liability)	(16.792)	(439)	(174)	(17.405)
Net cost of the year	(319)	(11)	(5)	(335)
Benefits paid directly by the Company	198	5	-	203
Gains / (losses) recognized - through Comprehensive Income	(2.107)	98	(96)	(2.105)
<b>Total recognized at year end - Assets / (Liabilities)</b>	<b>(19.020)</b>	<b>(347)</b>	<b>(275)</b>	<b>(19.642)</b>
<b>Net cost of the year</b>				
Current service cost	116	5	3	124
Interest cost	203	6	2	211
<b>Net cost of the year</b>	<b>319</b>	<b>11</b>	<b>5</b>	<b>335</b>
<b>Reconciliation of gains and loss recognized - through Comprehensive Income</b>				
Cummulative (Gains) / losses recognized at the beginning of the year	5.133	56	(205)	4.984
Actuarial (Gains) and Losses from experience	(703)	(133)	82	(754)
(Gains) / losses from change in assumptions	2.810	35	14	2.859
<b>Cummulative (Gains) / losses recognized at the end of the year</b>	<b>7.240</b>	<b>(42)</b>	<b>(109)</b>	<b>7.089</b>
Non-controlling interests (Note 21)	-	(8)	-	(8)
<b>Cummulative (Gains) / losses recognized at the end of the year</b>	<b>7.240</b>	<b>(34)</b>	<b>(109)</b>	<b>7.097</b>

\* For the Company Lisboagás, S.A. are deemed to be fulfilled the retirement conditions when achieved 40 years of service, 35 service and age equal or over 60 years or when achieved 66 years or 65 years of age with at least 43 years of contributions to Social Security at that age ( first occurrence of the 4 conditions ).

According to actuarial studies prepared by a specialized entity, the estimated contribution to the various defined benefit plans for 2016 is €5.552 K.



### Discount rate changes

Changing the discount rate from 2.75% to 2.50% from 2014 to 2015 reflects the decrease which has occurred in the reference interest rates of the market.

### Sensitivity analysis of the discount rate

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

(€ k)			
Liabilities	Discount rate 2,50%	Discount rate 2,25%	Variation
<b>Retirement benefits:</b>			
Related to the pension fund	25.621	26.486	3,38%
Non-related to the pension fund	26.545	27.032	1,83%
	52.166	53.518	
<b>Other benefits:</b>			
Healthcare	19.595	20.444	4,33%
Life insurance	387	397	2,57%
Defined contribution plan minimum benefit	539	544	0,93%
	20.521	21.385	
	72.687	74.903	

### Trend rate of medical costs

Galp Energia Group has considered a growth rate of 4% for medium and long term medical costs, based on historical growth rates of premiums and claims. The sensitivity analysis performed, demonstrates that a 1% increase in the growth rate of premiums implies a 19% increase in liabilities (€ 3.648 k), whereas a decrease of 1% in the growth rate of premiums results in a decrease of 15% of liabilities (€ 2.903 k).

### Health Insurance sensitivity analysis

(€ k)			
Captions	3,00%	4,00%	5,00%
Current services costs	16.692	19.595	23.243
Impact on past services liabilities	(2.903)	-	3.648

### Historical analysis of the actuarial gains and losses

The historical analysis of actuarial gains and losses was carried out with reference to the GGND Group Pension Funds:

	(€ k)	
<i>discount rate</i>	2,50%	2,75%
	<b>2015</b>	<b>2014</b>
<b>Liabilities amount (a)</b>	<b>25.621</b>	<b>24.256</b>
<b>Value of the Fund (b)</b>	<b>24.340</b>	<b>23.375</b>
<b>Actuarial Gains (+) and Losses (-)</b>	<b>(1.582)</b>	<b>(1.783)</b>
Gains (+) and Losses (-) for changes in assumptions	<b>(820)</b>	<b>(2.873)</b>
Actuarial Gains (+) and Losses (-) from experience (c)	<b>(762)</b>	<b>1.090</b>
<b>Financial Gains (+) and Losses (-) (d)</b>	<b>(85)</b>	<b>709</b>
(c)/(a)	-2,97%	4,49%
(d)/(b)	-0,35%	3,03%
Real Return on Plan Assets (%)	2,38%	6,7%
Real Return on Plan Assets	541	1.609

Group Post-employment Defined Benefit Pension Plan and Health and Life Insurance are exposed to various risks, among which are the following:

a) Longevity Risk

Real longevity higher than projected may be reflected by an increase in liabilities.

b) Bond Interest Rate Risk

A decrease of the reference interest rate used as discount rate leads to increased liabilities, which can be mitigated in cases where there is a fund as a financing vehicle, by the exposure of the assets to the Bond segment.

c) Investment Risk

The main investment risks are the risk of the interest rate, credit risk, equity market risk and currency risk. The implications that the level of risk related to the investment policy may have on compliance with the minimum solvency of the fund, result from interest rate fluctuations, exposure to shareholders and alternative markets, resulting in a lower performance to the discount rate. The risk of interest rate fluctuation is the most relevant. In this particular case, since the portfolios are primarily invested in this asset class. This, together with the impact of risks which cannot be mitigated (e.g. variations of the population), increases the probability of necessary additional contributions (other than the current service cost) to maintain the solvency of the fund.

d) Risk of adverse developments in the real cost with Health Insurance and Life Insurance

## 24. OTHER PAYABLES

As at 31 December 2015 and of 31 December 2014 the non-current and current captions “Other payables” were as follows:

Captions	(€ k)			
	December 2015		December 2014	
	Current	Non-current	Current	Non-current
State and other public entities:				
Value Added Tax payables	7.545	-	5.938	-
Social Security contributions	446	-	492	-
Personnel and Corporate Income Tax Withheld	350	-	425	-
"ISP" - Tax on oil products	68	-	42	-
Other taxes	2	-	2	-
Other payables - Associates, affiliates and related companies (Note 28)	15.550	-	56.485	-
Tangible and intangible assets suppliers	6.148	-	6.638	-
Guarantee deposits and guarantees received	79	-	92	-
Personnel	33	-	47	-
Advances on sales (Note 16)	4	-	4	-
Loans - Associates, affiliates and related companies (Note 28)	-	587.800	-	455.080
Loans - Other shareholders (Note 28)	-	448	20.704	11.218
Trade receivables credit balances	-	-	1.236	-
Other creditors	580	-	894	-
	<b>30.805</b>	<b>588.248</b>	<b>92.999</b>	<b>466.298</b>
Accrued costs:				
Adjustment to tariff deviation - other activities - "ERSE" regulation	11.526	-	13.483	-
Productivity bonuses	3.701	225	2.302	187
Holiday , holiday subsidy and corresponding contributions	2.608	-	2.657	-
External supplies and services	2.590	-	1.856	-
Accrued interest	1.390	-	943	-
Adjustment to tariff deviation - regulated revenue - "ERSE" regulation (Note 14)	723	8.730	661	1.056
Accrued insurance premiums	599	-	548	-
Financial neutrality - "ERSE" regulation	161	-	462	-
Financial costs	33	-	33	-
Other accrued costs	1.664	-	3.214	-
	<b>24.995</b>	<b>8.955</b>	<b>26.159</b>	<b>1.243</b>
Deferred income:				
Investment government grants (Note 13)	8.942	236.205	9.410	244.441
Fibre optics	404	991	272	1.527
Others	194	-	199	-
	<b>9.540</b>	<b>237.196</b>	<b>9.881</b>	<b>245.968</b>
	<b>65.340</b>	<b>834.399</b>	<b>129.039</b>	<b>713.509</b>

The amount of €587.800 k recorded in the caption “Loans – associates, affiliates and related companies”, non-current, refers group loans obtained by the Group to be paid to Galp Gás & Power, SGPS, S.A., which is remunerated at market rate (Note 28).

The amount of €448 k in the caption “Loans – other shareholders”, non-current, mainly relates to obtained supriments obtained by the subsidiary Beiragás – Companhia de Gás das Beiras, S.A., to be paid to Visabeira Telecomunicações, SGPS, S.A., which bears interest at market rates and does not have a defined maturity (Note 28).

Government investment grants are recognized as income over the useful life of the assets. The amount to be recognized in future periods amounts to €245.147 k (Note 13).

Income from the contract of assignment of rights to use telecommunication infrastructures is deferred in the caption “Deferred income – Fiber optics” and is recognized as income during the period of the contract. As at 31 December 2015, the balance of deferred income to be recognized in future periods amounts to €1.395k.

## 25. PROVISIONS

The changes in provisions in the year ended 31 December 2015 and 2014 were as follows:

(€ k)						
Captions	Initial balance	Increases	Decreases	Utilisation	Changes in consolidation perimeter (Note 3)	Ending balance
<b>2015</b>						
Lawsuits	1.121	107	(73)	-	-	1.155
Other risks and charges	<u>11.458</u>	<u>9.959</u>	-	-	-	<u>21.417</u>
	<u>12.579</u>	<u>10.066</u>	<u>(73)</u>	-	-	<u>22.572</u>
<b>2014</b>						
Lawsuits	-	33	-	-	1.088	1.121
Other risks and charges	-	<u>1.590</u>	-	-	<u>9.868</u>	<u>11.458</u>
	-	<u>1.623</u>	-	-	<u>10.956</u>	<u>12.579</u>

The increases in provisions, net of the decreases, in the year ended 31 December 2015 were as follows:

(€ k)	
Provisions of the year (Note 6)	215
Energy sector extraordinary contribution	<u>9.778</u>
	<u>9.993</u>

### Lawsuits

The provision for ongoing lawsuits amounts € 1.155 k and includes mainly ongoing lawsuits with the Labor Court.

## Other risks and charges

As at 31 December 2015 the caption “Provisions – other risks and charges”, amounting to €21.417 k, mainly comprises:

- €2.062 k to cover charges received for the year 2012 made by the Lisbon Port Administration, for the use of the Cabo Ruivo land occupation as claimed by the Company. The increase of provisions by € 182 k concerns charges received for the year 2015.

- €19.350 k relating to the provision to cover the Energy sector extraordinary contribution “CESE I”

For the year ended 31 December 2014, the Group was subject to a special tax (Energy Sector Extraordinary Contribution "CESE I"), pursuant to Article 228 of Law 83C/2013 of 31 December, which states that the energy companies that detain net assets in certain activities as at 1 January 2014 are subject to a tax calculated on the amount of net assets at that date.

As it intends to challenge the Law, the Group decided to record the total value of the liability amounting to €19.350 k under “Provisions” caption. The total value of the liability on 31 December 2014 amounted to €9.572 k. In the year ended 31 December 2015, in order to cover the full responsibility, the provision was reinforced by €9.778 k (Note 9), and recognized in the income statement under the caption “Energy sector extraordinary contribution”

## **26. TRADE PAYABLES**

As of 31 December 2015 and 31 December 2014 the amounts recorded in the caption “Trade payables” were as follows:

	(€ k)	
Captions	December 2015	December 2014
Trade payables - current accounts	3.718	18.583
Trade payables - pending invoices	5.208	6.022
	<b>8.926</b>	<b>24.605</b>

The balance of the caption “Trade payables –pending invoices” mainly corresponds to the purchase of crude oil, natural gas and goods in transit at those dates.

## **27. OTHER FINANCIAL INSTRUMENTS – FINANCIAL DERIVATIVES**

Not applicable.

## 28. RELATED PARTIES

Balances and transactions with related parties in 2015 and 2014, respectively, were as follows:

### Receivables

	(€ k)				
	2015				
	Total related parties	Non-current	Current		
Loans granted (Note 14)		Trade receivables	Loans granted (Note 14)	Other receivables (Note 14)	
<b>Group Companies (a)</b>					
Lisboagás Comercialização, S.A.	9.189	-	2.426	-	6.763
Lusitaniagás Comercialização, S.A.	7.449	-	582	-	6.867
Galp Power, S.A.	6.150	-	2.052	-	4.098
Galp Gás Natural, S.A.	4.444	-	72	-	4.348
GDP - Gás de Portugal, SGPS, S.A.	3.083	-	-	2.580	503
Setgás Comercialização, S.A.	1.897	-	442	-	1.455
Galp Energia, S.A.	368	-	-	152	216
Galp Energia, SGPS, S.A.	145	-	-	145	-
Petróleos de Portugal - Petrogal, S.A.	54	-	-	-	31
Galp Gás & Power, SGPS, S.A.	34	-	-	-	-
Galp Marketing International, S.A.	15	-	-	-	10
	<b>32.828</b>	-	<b>5.574</b>	<b>145</b>	<b>2.818</b>
<b>Assets held for sale and other related parties</b>					
Tagusgás - Company de Gás do Vale do Tejo, S.A.	5.445	5.008	437	-	-
	<b>5.445</b>	<b>5.008</b>	<b>437</b>	-	-
	<b>38.273</b>	<b>5.008</b>	<b>6.011</b>	<b>145</b>	<b>2.818</b>

(a) Group Companies caption is made of companies belonging to Galp Energia Group.

	(€ k)				
	2014				
	Total related parties	Non-current	Current		
Loans granted (Note 14)		Trade receivables	Loans granted (Note 14)	Other receivables (Note 14)	
<b>Group Companies (a)</b>					
Lisboagás Comercialização, S.A.	11.333	-	1.672	-	9.661
Lusitaniagás Comercialização, S.A.	8.639	-	753	-	7.886
Galp Gás Natural, S.A.	6.236	-	456	-	5.773
Galp Power, S.A.	5.710	-	1.657	-	4.053
Setgás Comercialização, S.A.	2.590	-	568	-	2.022
GDP - Gás de Portugal, SGPS, S.A.	1.532	-	-	795	737
Galp Energia, S.A.	261	-	-	129	132
Petróleos de Portugal - Petrogal, S.A.	47	-	-	22	25
Galp Gás & Power, SGPS, S.A.	34	-	-	-	-
C.L.T. - Companhia Logística de Terminais Marítimos, S.A.	8	-	-	8	-
Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A.	6	-	-	-	6
	<b>36.396</b>	-	<b>5.106</b>	-	<b>30.295</b>
<b>Assets held for sale and other related parties</b>					
Tagusgás - Company de Gás do Vale do Tejo, S.A.	4.691	4.358	23	-	310
	<b>4.691</b>	<b>4.358</b>	<b>23</b>	-	<b>310</b>
	<b>41.087</b>	<b>4.358</b>	<b>5.129</b>	-	<b>30.605</b>

(a) Group Companies caption is made of companies belonging to Galp Energia Group.

Current and non-current loans granted to associates, joint ventures and related companies as of 31 December 2015 refer essentially to loans granted to the following entities:

	Assets - Current - Granted loans	Assets - Non-current - Granted loans	Interests related to granted loans
Galp Gás Natural Distribuição, S.A.	-	5.008	341
<b>to Tagusgás - Company de Gás do Vale do Tejo, S.A.</b>	-	<b>5.008</b>	<b>341</b>
Galp Gás Natural Distribuição, S.A.	145	-	-
<b>to Galp Energia, SGPS, S.A.</b>	<b>145</b>	-	-
	<b>145</b>	<b>5.008</b>	<b>341</b>

(a) Interests related to loans ended during year ended 31 Decemebr 2013.

These loans bear interest at market rate.

## Payables

	2015					
	Total related parties	Non-current	Current			Accruals and deferrals
		Loans obtained (Note 24)	Loans obtained (Note 24)	Trade payables	Other payables (Note 24)	
<b>Group Companies (a)</b>						
Galp Gás & Power, SGPS, S.A.	589.154	587.800	-	8	-	1.346
Galp Gás Natural, S.A.	10.356	-	-	-	10.312	44
Galp Power, S.A.	5.203	-	-	23	5.112	68
GDP - Gás de Portugal, SGPS, S.A.	1.143	-	-	363	-	780
Galp Energia, S.A.	675	-	-	647	-	28
Transgás, S.A.	461	-	-	461	-	-
Lisboagás Comercialização, S.A.	343	-	-	343	-	-
Petróleos de Portugal - Petrogal, S.A.	211	-	-	87	80	44
Setgás Comercialização, S.A.	49	-	-	3	46	-
Galp Energia, SGPS, S.A.	3	-	-	3	-	-
	<b>607.598</b>	<b>587.800</b>	-	<b>1.938</b>	<b>15.550</b>	<b>2.310</b>
<b>Assets held for sale and other related parties</b>						
Visabeira Global, SGPS, S.A.	460	448	-	-	-	12
Tagusgás - Company de Gás do Vale do Tejo, S.A.	15	-	-	-	-	15
	<b>475</b>	<b>448</b>	-	-	-	<b>27</b>
	<b>608.073</b>	<b>588.248</b>	-	<b>1.938</b>	<b>15.550</b>	<b>2.337</b>

(a) Group Companies caption is made of companies belonging to Galp Energia Group.

	2014					
	Total das entidades relacionadas	Non-current	Current			Accruals and deferrals
		Loans obtained (Note 24)	Loans obtained (Note 24)	Trade payables	Other payables (Note 24)	
<b>Group Companies (a)</b>						
Galp Gás & Power, SGPS, S.A.	508.009	455.080	-	34	52.061	834
Galp Energia, SGPS, S.A.	20.707	-	20.704	3	-	-
GDP - Gás de Portugal, SGPS, S.A.	10.562	-	-	10.562	-	-
Galp Gás Natural, S.A.	2.308	-	-	-	2.308	-
Petróleos de Portugal - Petrogal, S.A.	2.155	-	-	85	2.070	-
Transgás, S.A.	827	-	-	827	-	-
Galp Energia, S.A.	714	-	-	706	-	8
Lisboagás Comercialização, S.A.	199	-	-	127	-	72
Setgás Comercialização, S.A.	54	-	-	3	46	5
Galp Power, S.A.	32	-	-	23	-	9
Lusitaniagás Comercialização, S.A.	3	-	-	3	-	-
	<b>545.570</b>	<b>455.080</b>	<b>20.704</b>	<b>12.373</b>	<b>56.485</b>	<b>928</b>
<b>Assets held for sale and other related parties</b>						
Enagás, S.A.	8.938	8.938	-	-	-	-
Visabeira Global, SGPS, S.A.	2.340	2.280	-	-	-	60
Tagusgás - Company de Gás do Vale do Tejo, S.A.	148	-	-	26	-	122
	<b>11.426</b>	<b>11.218</b>	-	<b>26</b>	-	<b>182</b>
	<b>556.996</b>	<b>466.298</b>	<b>20.704</b>	<b>12.399</b>	<b>56.485</b>	<b>1.110</b>

(a) Group Companies caption is made of companies belonging to Galp Energia Group.

## Current Income Tax Payable

The caption Operating Income includes the values found through the special group of societies tax scheme to pay to Galp Energia, SGPS, S.A. and is as follows:

	(€ k)
	<u>Income tax payable (Note 9)</u>
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	(268)
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	(984)
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	(28.619)
Galp Gás Natural Distribuição, SGPS, S.A.	(402)
Lusitaniagás - Companhia de Gás do Centro, S.A.	(6.275)
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	(556)
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	(229)
<b>to Galp Energia, SGPS, S.A.</b>	<b><u>(37.333)</u></b>

Current and non-current loans granted to associates, joint ventures and related companies as of 31 December 2015 refer essentially to loans granted to the following entities:

	(€ k)	
	<u>Liabilities - Non-current - Obtained loans</u>	<u>Interests related to obtained loans</u>
Galp Gás Natural Distribuição, S.A.	587.800	30.133
Lusitaniagás - Companhia de Gás do Centro, S.A.	-	148
<b>to Galp Gás &amp; Power, SGPS, S.A.</b>	<b><u>587.800</u></b>	<b><u>30.281</u></b>
Beiragás - Companhia de Gás das Beiras, S.A.	448	45
<b>to Visabeira Global, SGPS, S.A.</b>	<b><u>448</u></b>	<b><u>45</u></b>
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	-	490
<b>to Enagás, S.A.</b>	<b><u>-</u></b>	<b><u>490</u></b>
Lusitaniagás - Companhia de Gás do Centro, S.A.	-	48 (a)
Galp Gás Natural Distribuição, S.A.	-	39 (a)
<b>to Galp Energia, SGPS, S.A.</b>	<b><u>-</u></b>	<b><u>87</u></b>
	<b><u>588.248</u></b>	<b><u>30.903</u></b>

(a) Interests related to loans ended during year ended 31 Decemebr 2015.

These loans bear interests at market rates.



## Transactions

	(€ k)				
	2015				
	Purchases	Operating costs	Operating income	Financial costs (Note 8)	Financial income (Note 8)
<b>Group Companies (a)</b>					
Galp Gás Natural, S.A.	-	(285)	55.544	-	-
Lisboagás Comercialização, S.A.	-	-	34.177	-	-
Galp Power, S.A.	-	(149)	32.705	-	-
Lusitaniagás Comercialização, S.A.	-	-	12.709	-	-
Setgás Comercialização, S.A.	-	-	7.594	-	-
GDP Gás de Portugal, S.A.	-	(10.940)	4.401	-	-
Galp Energia, S.A.	-	(3.359)	1.671	-	-
Petróleos de Portugal - Petrogal, S.A.	-	(853)	307	-	-
C.L.T. - Companhia Logística de Termimais Marítimos, S.A.	-	-	9	-	-
Transgás, S.A.	(4.831)	-	-	-	-
Galp Gás & Power, SGPS, S.A.	-	(98)	-	(30.281)	-
Galp Energia, SGPS, S.A.	-	(7)	-	(87)	-
Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A.	-	-	(6)	-	-
	(4.831)	(15.691)	149.111	(30.368)	-
<b>Assets held for sale and other related parties</b>					
Tagusgás - Company de Gás do Vale do Tejo, S.A.	-	(188)	(860)	-	341
Visabeira Global, SGPS, S.A.	-	(14)	-	(45)	-
Enagás, S.A.	-	-	-	(490)	-
	-	(202)	(860)	(535)	341
	(4.831)	(15.893)	148.251	(30.903)	341

(a) Group Companies caption is made of companies belonging to Galp Energia Group.

	(€ k)				
	2014				
	Purchases	Operating costs	Operating income	Financial costs (Note 8)	Financial income (Note 8)
<b>Group Companies (a)</b>					
Galp Gás Natural, S.A.	-	-	18.633	-	-
Lisboagás Comercialização, S.A.	-	-	14.879	-	-
Galp Power, S.A.	-	(51)	9.490	-	-
Lusitaniagás Comercialização, S.A.	-	-	5.603	-	-
GDP Gás de Portugal, S.A.	-	(8.451)	3.606	-	-
Setgás Comercialização, S.A.	-	-	3.300	-	-
Galp Energia, S.A.	-	(1.120)	663	-	-
Petróleos de Portugal - Petrogal, S.A.	-	(119)	123	-	-
C.L.T. - Companhia Logística de Termimais Marítimos, S.A.	-	-	8	-	-
Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A.	-	-	1	-	-
Galp Gás & Power, SGPS, S.A.	-	(20)	-	(3.863)	-
Galp Energia, SGPS, S.A.	-	(3)	-	(225)	1
Transgás, S.A.	(813)	-	-	-	-
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	-	-	(189)	-	-
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	-	-	(306)	-	-
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	-	-	(406)	-	-
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	-	-	(493)	-	-
Beiragás - Companhia de Gás das Beiras, S.A.	-	-	(735)	-	-
	(813)	(9.764)	54.177	(4.088)	1
<b>Assets held for sale and other related parties</b>					
Tagusgás - Company de Gás do Vale do Tejo, S.A.	-	(77)	(487)	-	8
Visabeira Global, SGPS, S.A.	-	-	-	(8)	-
	-	(77)	(487)	(8)	8
	(813)	(9.841)	53.690	(4.096)	9

## 29. REMUNERATION OF THE BOARD

The remuneration of the board members of GGND for the years ended 31 December 2015 and 2014 is detailed as follows:

	(€ K)	
	December 2015	December 2014
	Wage	Wage
<b>Board members</b>		
Executive management	-	(38)
General Assembly	10	-
	<b>10</b>	<b>(38)</b>

Of the amounts of €10 k and €38 k, recorded in the year ended 31 December 2015 and 2014 respectively, refers to presence tickets of the General Assembly and the negative amount as of 31 December 2014 represents the annulment of paid holiday and Christmas accrual.

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

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 9 April 2015, dividends amounting to € 56.646 k relating to the distribution of net result for the year 2014 were attributed to the shareholders of Galp Gás Natural Distribuição, S.A.

In the year ended 31 December 2014 dividends amounting to € 4.965 k were attributed to the shareholders, of which € 4.940 k were paid by subsidiaries of the Galp Gás Natural Distribuição, S.A. Group to minority shareholders (Note 21).

## 31. OIL AND GAS RESERVES

Not applicable.

## 32. FINANCIAL RISK MANAGEMENT

### Risk Management

Galp Gás Natural Distribuição is exposed mainly to interest rate.

### Market risks

#### Interest rate risk

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

As at 31 December 2015 GGND did not hold interest rate derivatives in its subsidiaries.

#### Sensitivity analysis performed to market risks resulting from financial instruments, as required by IFRS 13

The analysis prepared by the Group in accordance with IFRS 7 and IFRS 13 is intended to illustrate the sensitivity of profit before taxes and of equity to potential variations in the Brent or natural gas and electricity prices, exchange rates and interest rates of financial instruments, as defined in IAS 32, such as financial assets and liabilities and financial derivatives reflected on the statement of financial position as of 31 December 2015 and 2014. The financial instruments affected by the above mentioned market risks include Trade receivables, Other receivables, Trade payables, Other payables, Loans, Cash and Financial derivatives. When cash flow hedges are applied, fair value is recorded in the equity caption "Hedging reserves" only if it is shown that the hedge is efficient.

There may be financial instruments with more than one market risk, in which case the sensitivity analysis is performed for each variable at a time, the others remaining constant, therefore ignoring any correlation between them, which is unlikely to occur.

Sensitivity analyses do not include the impact of current or deferred taxes, which could reduce the presented variations, depending on the tax laws in the various geographic areas where the Group operates, as well as fiscal conditions for each company.

Therefore, the sensitivity analysis is illustrative and does not represent actual current loss or gain, or other current variations in equity.

The following assumptions were considered in the interest rate sensitivity analysis:

- Parallel shift of 0.5% in the time structure of interest rates;
- Analysis of interest rate risk includes variable interest rate loans and interest rate financial derivative;



- The income before taxes is affected by the interest rate risk sensitivity analysis, except for interest rate financial derivatives classified as cash flow hedges, in which the sensitivity analysis, if within the required efficiency parameters, affects Equity.

A summary of the sensitivity analysis for financial instruments reflected on the statement of financial position is presented below:

(€k)

	2015					2014				
	Income statement			Equity		Income statement			Equity	
	Exposure amount	Attributable to Shareholders	Non-controlling interests	Attributable to Shareholders	Non-controlling interests	Exposure amount	Attributable to Shareholders	Non-controlling interests	Attributable to Shareholders	Non-controlling interests
Loans- parallel shift in interest rate	+0,5%		(268)	(32)	-		(416)	(89)	-	-
	-0,5%	59.975	268	32	-	101.053	416	89	-	-
Loans- Galp Energia Group	+0,5%		(133)	-	-		(108)	-	-	-
	-0,5%	588.248	133	-	-	466.298	108	-	-	-
Applications-parallel shift in interest rate (a)	+0,5%		127	9	-		18	12	-	-
	-0,5%	27.200	(127)	(9)	-	6.000	(18)	(12)	-	-

### 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.

Galp Energia Group finances itself through cash flows generated by its operations and maintains a diversified portfolio of loans. The Group has access to credit amounts that are not fully used but that are at its disposal. These credits can cover all loans that are repayable in 12 months. The available short term lines of credit that are not being used, amount to 532 million Euros as of 31 December 2015, and 577,7 million Euros as of 31 December 2014, and are sufficient to meet any immediate demand. In addition to these credits, the Group has approximately 28,5 million Euros of cash and cash equivalents, as stated in the statement of financial position, as of 31 December 2015, and 11,5 million Euros as of 31 December 2014 which combined with the credit facilities amounts to 560 million Euros of liquidity as of 31 December 2015, and 589 million Euros as of 31 December 2014, respectively.

### Credit risk

Credit risk results from potential non-compliance by third parties of contractual obligation to pay and so the risk level depends on the financial credibility of the counterparty. In addition, counterparty credit risk exists on monetary investments and hedging instruments. Credit risk limits are established by Galp Energia 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 accounts receivable is explained in Notes 14 and 15.

### Insurance Claim Risk

Galp Energia Group has insurance contracts in place to reduce its exposure to various risks resulting from insurance claims that may occur during the pursuit of its activities, as follows:

- Property insurance - covering risks of Material Damages, Machinery Breakdown, Loss on Exploration and Construction;



- General liability insurance - covering risks of general activity (on-shore), risks related to maritime activities (off-shore), aviation risks, environmental risks and management risks (Directors & Officers);
- People insurance - covering risks of work accidents, personal accidents, life and health;
- Financial Insurance - covering credit risk, collateral and theft;
- Transportation Insurance - covering all risks related to cargo and hull;
- Other insurances - covering vehicles, travel, etc.

### 33. CONTINGENT ASSETS AND LIABILITIES

#### Contingent liabilities

As of 31 December 2015, the Company and its subsidiaries had the following contingent liabilities:

- Several municipal councils are demanding payments (liquidations and executions) amounting to €2,519 k, relating to licenses for sub-soil usage for underground gas pipes by the natural gas distribution and supply concessions. As the Group companies do not agree with the municipal councils, they have contested the settlements demanded by municipal councils at the Fiscal Administrative Court, with the requests for suspension of the execution being agreed, and the execution suspended until a final and non-appealable decision is given. Guarantees have been provided for these processes.

In the course of negotiating the Concession Contract between the General Directorate for Energy and Geology (“Direção Geral de Energia e Geologia”) and concessionary companies of the Group, it was agreed, among other matters, that the Concessionaire has the right to charge, on to the entities selling natural gas and to the final consumers, the full amount of the subsoil usage levies assessed by the municipalities in the areas conceded under the previous concession contract but not yet paid or contested legally by the Concessionaire if such payment is considered to be mandatory by the competent authority, after issuance of the sentence, or after express prior consent of the Conceding entity. The subsoil usage levies paid each year will be reflected on the entities supplying gas that use the infrastructures or on the final consumers served by them, during the subsequent years, under the conditions to be defined by ERSE. The subsoil occupation levies will be assessed for each municipality, based on the amount charged by it;

Given the fact that eventual levies to be paid and interest to be paid can be passed on to customers, the Group has decided not to recognize any liabilities concerning this issue.

As of 31 December 2015 the amounts paid to Municipal Councils and charged to customers related to subsoil usage levies are as follows (the transfer conditions, including the amount to be recovered each year, the number of years of transfer and unit values for customers are governed by ERSE):

(€ k)			
<u>Settled amount</u>	<u>Subsoil levies - current account interests</u>	<u>Amounts invoiced to customers</u>	<u>Amount to be received (Note 14)</u>
107.458	3.854	(58.548)	52.764

The amount to be received bears interests at the 3 month Euribor plus a spread stipulated by ERSE.



- As of 31 December 2015, a legal proceeding concerning a contractual breach has been filed by Dourogás Propano, S.A. against the Group, asking for compensation amounting to approximately €1,463 k. The Board of Directors, supported by its legal advisors, believes that the process will not result in any liability for the Group, which is the reason why no provision was recorded. It should be noted that the favorable decisions issued by the 1st and 2nd instance courts reinforce the probability of success.
- As of 31 December 2015, a legal proceeding was filed concerning unfair competition in natural gas amounting to €4,008 k. The Board of Directors, supported by its legal advisors, believes that the process will not result in any liability for the Group.

#### Other financial commitments

The financial commitments established by the Group and not included in the consolidated statement of financial position in the year ended 31 December 2015 are as follows:

- i) €25.621 k related to the liability for past services covered by the GGND Group Pension Funds, which are covered by the assets of the respective funds amounting to €24.340 k (Note 23);
- ii) GGND Group has non-current contracts with Gas suppliers and Gas clients, which guarantee a minimum of acquisitions and sales, guaranteeing a good operational performance.

#### Guarantees granted

As of 31 December 2015, responsibilities with guarantees granted amounted to €13.638 k and included essentially the following:

- i) Guarantees amounting to €2.678 k in benefit of city councils regarding subsoil occupation levies;
- ii) Guarantees, undated, amounting to €7,000 k in benefit of the Portuguese State with respect to the obligations and duties resulting from the Concession Contract to operate the natural gas regional distribution networks of Lisboagás, GDL – Sociedade Distribuidora de Gás Natural de Lisboa S.A., Lusitaniagás – Companhia de Gás do Centro, S.A., Beiragás– Companhia de Gás das Beiras, S.A. and Setgás - Sociedade de Produção e Distribuição de Gás, S.A.;
- iii) x) Guarantees of €3,054 k (of which €2,354 k are undated and €700 k issued until 2024) given to Directorate General for Geology and Energy (“Direção Geral de Geologia e Energia”) in guarantee of full compliance with the obligations assumed by the Company under the plan to construct the infrastructures relating to operation of the natural gas local networks and allocation of power injection in the network of the public electrical system; and
- iv) Guarantees of €804 k in benefit of the Institute for Roads in Portugal (“Instituto de Estradas de Portugal”) based on paragraph a) of article 15º of the Law-decree 13/71 to license the installation of natural gas conducts, parallels and road crossings.

### 34. FINANCIAL ASSETS AND LIABILITIES AT BOOK VALUE AND FAIR VALUE

The book value and fair value of the financial assets and liabilities are detailed in the table below in € k:

	(€ k)	
Balance sheet captions	Book Value	Fair value
<b>Assets</b>		
Financial assets held for sale	3	a)
Trade receivables	14.745	14.745
Other receivables	144.733	144.733
Cash and cash equivalents	28.526	28.526
<b>Liabilities</b>		
Bank loans and overdrafts	60.227	60.227
Trade payables	8.926	8.926
Other payables	899.739	899.739

- a) Due to difficulties in calculating the fair value of the Assets held for sale (that comprise equity instruments not admitted to trading on regulated markets), these are recognized at the acquisition cost, as referred in note 2.2 c) and 2.16 a).

### 35. INFORMATION ON ENVIRONMENTAL MATTERS

Not applicable.

### 36. SUBSEQUENT EVENTS

There are no subsequent events for disclosure purposes.

### 37. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 1 April 2016.

However, they are still subject to approval by the General Meeting of Shareholders, in accordance with the commercial law in place in Portugal. The Board of Directors believes that these financial statements reflect in a true and fair manner the Group's operations, financial performance and cash flows.

### 38. 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.



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**THE BOARD OF DIRECTORS:**

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**Chairman:**

\_\_\_\_\_  
Gabriel Nuno Charrua de Sousa

**Members:**

\_\_\_\_\_  
Adelino Joaquim Melo Rodrigues

\_\_\_\_\_  
João Diogo de Melo Marques da Silva

**THE ACCOUNTANT:**

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\_\_\_\_\_  
Carlos Alberto Nunes Barata





# ***Auditor's Report***

***(Free translation from the original in Portuguese)***

To the Shareholders

## ***Introduction***

1 We have audited the consolidated financial statements of Galp Gás Natural Distribuição, SA, comprising the consolidated statement of financial position as at 31 December 2015 (which shows total assets of thousand Euro 1,353,945 and total shareholder's equity of thousand Euro 256,553, including a net profit of thousand Euro 29,620), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the corresponding notes to the accounts.

## ***Responsibilities***

2 It is the responsibility of the Board of Directors to prepare the consolidated Directors' Report and the consolidated financial statements which present fairly, in all material respects, the consolidated financial position of the Company, the consolidated results and the consolidated comprehensive income of its operations, the consolidated changes in equity and the consolidated cash flows, as well as to adopt appropriate accounting policies and criteria and to maintain an appropriate system of internal control.

3 Our responsibility is to express an independent and professional opinion on these financial statements based on our audit.

## ***Scope***

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Accordingly, our audit included: (i) verification that the Company and its subsidiaries' financial statements have been appropriately examined and, for the cases where such an audit was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations and the utilization of the equity method; (iii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; and (v) assessing the overall presentation of the consolidated financial statements.

5 Our audit also covered the verification that the information included in the Directors' Report is consistent with the consolidated financial statements.

6 We believe that our audit provides a reasonable basis for our opinion.

## ***Opinion***

7 In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the consolidated financial position of Galp Gás Natural Distribuição, SA as at 31 December 2015, the consolidated results and the consolidated comprehensive income of its operations, the consolidated changes in equity and the consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

***Report on other legal requirements***

8 It is also our opinion that the information included in the consolidated Directors' Report is consistent with the consolidated financial statements for the year.

4 April 2016

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

António Joaquim Brochado Correia, R.O.C.

**(This is a translation, not to be signed)**

## ***Report and Opinion of the Statutory Auditors***

***(Free translation from the original in Portuguese)***

To the Shareholders,

1 In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the consolidated Directors' Report and consolidated financial statements as presented by the Board of Directors of Galp Gás Natural Distribuição, S.A. with respect to the year ended 31 December 2015.

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

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

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

i) the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and the corresponding notes to the accounts permit an adequate understanding of the financial position, the results, the comprehensive income, the changes in equity and cash flows of the Company;

ii) the accounting policies and valuation methods applied are appropriate;

iii) the consolidated Directors' Report is sufficiently clear as to the developments of the business and the position of the Company and the subsidiaries included in the consolidation and highlights the more significant aspects;

iv) the proposed appropriation of results is not contrary with the applicable laws and Company's articles of association.

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

i) the consolidated Directors' Report be approved;

ii) the consolidated financial statements be approved;

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

4 April 2016

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

António Joaquim Brochado Correia, R.O.C.

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**GALP GÁS NATURAL DISTRIBUIÇÃO, S.A.**

**STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2014 AND 31 DECEMBER 2013**

<b>Assets</b>	<b>Notes</b>	<b>2014</b>	<b>2013</b>
<b>Non-current assets:</b>			
Investments in subsidiaries	4	128,651,792.90	-
Investments in associates	4	17,807,939.32	-
Other receivables	14	521,218,395.20	-
<b>Total non-current assets:</b>		<b>667,678,127.42</b>	<b>-</b>
<b>Current assets:</b>			
Other receivables	14	1,549,414.70	-
Current income tax receivable	9	-	7,569.96
Cash and cash equivalents	18	66,949.31	167,526.79
<b>Total current assets:</b>		<b>1,616,364.01</b>	<b>175,096.75</b>
<b>Total Assets</b>		<b>669,294,491.43</b>	<b>175,096.75</b>
<b>Equity and Liabilities</b>	<b>Notes</b>	<b>2014</b>	<b>2013</b>
<b>Equity:</b>			
Share capital	19	89,529,141.00	50,000.00
Supplementary capital		100,000.00	100,000.00
Retained earnings		(81,773.35)	(59,063.47)
Net result for the year		59,714,556.02	(22,709.88)
<b>Total Equity</b>		<b>149,261,923.67</b>	<b>68,226.65</b>
<b>Liabilities:</b>			
<b>Non-current liabilities:</b>			
Other payables	24	443,500,000.00	-
<b>Total non-current liabilities:</b>		<b>443,500,000.00</b>	<b>-</b>
<b>Current liabilities:</b>			
Trade payables	26	6,713.20	105,970.10
Other payables	24	75,559,104.28	900.00
Current income tax payable		966,750.28	-
<b>Total current liabilities:</b>		<b>76,532,567.76</b>	<b>106,870.10</b>
<b>Total liabilities</b>		<b>520,032,567.76</b>	<b>106,870.10</b>
<b>Total Equity and Liabilities</b>		<b>669,294,491.43</b>	<b>175,096.75</b>

The accompanying notes form an integral part of the statement of financial position as of 31 December 2014.

**GALP GÁS NATURAL DISTRIBUIÇÃO, S.A.**

**INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013**

	Notes	2014	2013
<b>Operating costs:</b>			
External supplies and services	6	(24,904.78)	(24,589.79)
Other operating costs	6	(1,285.70)	(5,538.75)
<b>Operating costs</b>		<u><b>(26,190.48)</b></u>	<u><b>(30,128.54)</b></u>
<b>Operating result</b>		<u><b>(26,190.48)</b></u>	<u><b>(30,128.54)</b></u>
Financial income	8	6,937,524.28	-
Financial costs	8	(3,232,239.42)	(151.30)
Results from associates and joint-ventures	4	57,001,582.00	-
<b>Result before taxes:</b>		<u><b>60,680,676.38</b></u>	<u><b>(30,279.84)</b></u>
Income tax	9	966,120.36	(7,569.96)
<b>Net result for the year</b>		<u><b>59,714,556.02</b></u>	<u><b>(22,709.88)</b></u>

The accompanying notes form an integral part of the income statement for the year ended 31 December 2014.

## GALP GÁS NATURAL DISTRIBUIÇÃO, S.A.

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013

Changes in the period	Notes	Share capital	Supplementary capital	Retained earnings	Net result for the year	Total
<b>Balance as of 1 January 2013</b>		780,000,000.00	-	(36,444.98)	(22,618.49)	779,940,936.53
Net result for the year		-	-	-	(22,709.88)	(22,709.88)
Comprehensive income for the year		-	-	-	(22,709.88)	(22,709.88)
Decrease in equity	19	(779,950,000.00)	-	(22,618.49)	22,618.49	(779,950,000.00)
Supplementary payments		-	100,000.00	-	-	100,000.00
<b>Balance as of 31 December 2013</b>		50,000.00	100,000.00	(59,063.47)	(22,709.88)	68,226.65
Net result for the year		-	-	-	59,714,556.02	59,714,556.02
Comprehensive income for the year		-	-	-	59,714,556.02	59,714,556.02
Increase in Equity	19	89,479,141.00	-	-	-	89,479,141.00
Increase/(Decrease) of reserves for dividends distributed		-	-	(22,709.88)	22,709.88	-
<b>Balance as of 31 December 2014</b>		89,529,141.00	100,000.00	(81,773.35)	59,714,556.02	149,261,923.67

The accompanying notes form an integral part of the statement of changes in equity for the year ended 31 December 2014.



**GALP GÁS NATURAL DISTRIBUIÇÃO, S.A.**

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013**

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Net result for the year		<u>59,714,556.02</u>	<u>(22,709.88)</u>
Comprehensive income for the year		<u><u>59,714,556.02</u></u>	<u><u>(22,709.88)</u></u>

The accompanying notes form an integral part of the statement of comprehensive income for the year ended 31 December 2014.

**GALP GÁS NATURAL DISTRIBUIÇÃO, S.A.**

**STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2014 AND 31 DECEMBER 2013**

	Notes	2014	2013
<b>Operating activities:</b>			
Payments to suppliers		(129,573.10)	-
(Payments)/receipts of income tax		8,199.88	7,308.70
Other (payments)/receipts related to operating activity		(422.40)	(654.02)
<b>Cash flows from operating activities (1)</b>		<b>(121,795.62)</b>	<b>6,654.68</b>
<b>Investing activities:</b>			
Receipts from:			
Financial investments		-	233,996,000.00
Interests and similar income		5,822,032.92	-
Dividends	4	57,001,582.00	-
		<b>62,823,614.92</b>	<b>233,996,000.00</b>
Payments relating:			
Granted loans		(524,577,403.97)	-
		<b>(524,577,403.97)</b>	<b>-</b>
<b>Cash flows from investing activities (2)</b>		<b>(461,753,789.05)</b>	<b>233,996,000.00</b>
<b>Financing activities:</b>			
Receipts from:			
Obtained loans		464,200,000.00	-
Achievements of share capital, supplementary payments and share premium		0.86	-
Supplementary payments		-	100,000.00
		<b>464,200,000.86</b>	<b>100,000.00</b>
Payments relating:			
Obtained loans		-	-
Interests of obtained loans		(2,424,993.67)	(184.54)
Reductions of share capital		-	(233,950,000.00)
		<b>(2,424,993.67)</b>	<b>(233,950,184.54)</b>
<b>Cash Flows from financing activities (3)</b>		<b>461,775,007.19</b>	<b>(233,850,184.54)</b>
Net changes in cash and cash equivalents (4) = (1) + (2) + (3)		(100,577.48)	152,470.14
Effect of foreign exchange rate changes in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year	18	167,526.79	15,056.65
Cash and cash equivalents at the end of the year	18	66,949.31	167,526.79

The accompanying notes form an integral part of the statement of cash flow for the year ended 31 December 2014.

**GALP GÁS NATURAL DISTRIBUIÇÃO, S.A.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2014**

(Amounts stated in Euros)

**1. INTRODUCTION**

Galp Gás Natural Distribuição, S.A. (hereinafter referred to as Company) has its head office in Lisbon and was created in 2 December 2009 under the name Galp Gás Natural Distribuição, SGPS, S.A.. Its corporate business is the management of equity participations in other companies. In 1 April 2014, by unanimous decision of the sole shareholder GDP Gás de Portugal, SGPS, S.A., the Company changed its corporate name to the current, Galp Gás Natural Distribuição, S.A., becoming its corporate business the exercise of activities in the energy sector, in particular in the distribution of natural gas, including the service delivery of support to corporate business, in the areas of management, administration and logistics, purchase and supply and information systems.

Its head office is in Lisbon, at Rua Tomás da Fonseca Torre C 1, 1600-209 Lisbon.

The accompanying financial statements are presented in Euros (functional currency), given the fact that this is the preferred currency used in the economic environment in which the Company operates.

**2. SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1. Basis of Presentation**

The Company's financial statements were prepared on a going concern basis, at historical cost, on the accounting records of the Company maintained in accordance with International Financial Reporting Standards as adopted by the European Union, effective for the economic year beginning in 1 January 2014. These standards include International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC") and respective interpretations – SIC and IFRIC, issued by the 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 International Accounting Standard Board (IASB) and approved and published in the Official Journal of the European Union (“OJEU”) during 2014, applicable to present and subsequent years are presented in the tables below:

Standards and Interpretations to be applied in subsequent years, if applicable:

IAS Standard	Publishing date in OJEU	Date of accounting application	Year to which it applies	Comments
Amendments to IAS 19: Defined Benefits Plan: Employees contributions	9 January 2015	after 1 February 2015	2015	No relevant accounting impacts
Annual Improvements IFRS 2010-2012	9 January 2015	after 1 February 2015	2015	No relevant accounting impacts
Annual improvements IFRS 2011-2013	19 December 2014	after 1 January 2015	2015	No relevant accounting impacts
IFRIC 21 Levies	14 June 2014	after 17 June 2014	2015	No relevant accounting impacts

The IAS/IFRS standards published by International Accounting Standard Board (IASB) and approved and published in the Official Journal of the European Union (“OJEU”) during 2013 and 2014, applicable to the year 2014 and subsequent are presented in the tables below:

Standards and Interpretations adopted, if applicable:

IAS Standard	Publishing date in OJEU	Date of accounting application	Year to which it applies	Comments
Amendments to IAS 36: Impairment of Assets	20 December 2013	01 January 2014	2014	Impact on disclosure. Explanation in a)
Amendments to IAS 39: Financial Instruments: Recognition and Measurement	20 December 2013	01 January 2014	2014	No relevant accounting impacts
Amendments to IFRS 10, 12 and IAS 27: Investment Entities	21 November 2013	01 January 2014	2014	Non applicable
Amendments to IFRS 10, 11 and 12: Consolidated financial statements, joint arrangements and Disclosure of Interests in Other Entities	5 April 2013	01 January 2014	2014	No relevant accounting impacts
Amendments to IAS 32: Financial Instruments: Presentation	29 December 2012	01 January 2014	2014 depending on article	No relevant accounting impacts
IFRC 10: Consolidated financial statements	29 December 2012	01 January 2014	2014	No relevant accounting impacts
IFRC 11: Joint arrangements	29 December 2012	01 January 2014	2014	With reduced impact. Explanation in b)
IFRC 12: Disclosure of Interests in Other Entities	29 December 2012	01 January 2014	2014	Impact on disclosure. Explanation in c)
IAS 27: Separate Financial Statements	29 December 2012	01 January 2014	2014	No relevant accounting impacts
IAS 28: Investments in Associates and Joint Ventures	29 December 2012	01 January 2014	2014	No relevant accounting impacts

Estimates that affect the amounts of assets, liabilities, income and costs 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 financial statements the Company complies with the IAS / IFRS and their interpretations SIC / IFRIC adopted by the European Union.

## **2.2. Foreign currency balances and transactions**

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

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

### **2.3. Income and accruals 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 current assets” and “Other current liabilities” captions include the income and costs from the current period for which revenues or expenses will only occur in future periods, as well as revenues or expenses that have already occurred, relating to future periods and that will be recorded to profit and loss in upcoming periods.

### **2.4. Financial costs on loans obtained**

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

### **2.5. Income tax**

Income tax is calculated based on the taxable results of the Company in accordance with the applicable tax rules in force in the area in which the Company head office is located.

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

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

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

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

### **2.6. Financial instruments**

Financial instruments are recorded at cost, deducted of any impairment losses.

### **2.7. Financial assets and liabilities**

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

#### **a) Investments**

Investments are classified as follows:

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

Held-to-maturity investments are classified as non-current investments, unless they mature in less than 12 months from the statement of financial position date. These investments have a defined maturity date, and the Company intends and has the ability to retain them up to their maturity.

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

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

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

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

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

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

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

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

b) Receivables

Receivables are initially recorded at nominal value. At each statement of financial position the amount is deducted of any impairment losses, recognized in the caption Impairment losses on receivables.

Usually, receivables from operational activities do not bear interests.

c) Equity or liability classification

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

d) Loans

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

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

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

e) Trade and other payables

Accounts payable from the operational activity do not bears interest and are recorded at nominal value.

f) Cash and cash equivalents

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

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

**2.8. Classification in the statement of financial position**

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

**2.9. Subsequent events**

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

**2.10. Estimates and judgments**

The preparation of financial statements in accordance with generally accepted accounting principles requires estimates to be made that affect the recorded amount of assets and liabilities, the disclosure of contingent assets and liabilities at the end of each year and income and costs recognized 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 the situation and; (ii) the impact of the estimates on the financial situation or operating performance is significant.

Provisions for contingencies

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

**3. CONSOLIDATED COMPANIES**

Not applicable.

**4. FINANCIAL INVESTMENTS**

**4.1. Investments in associates**

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

	Head Office		Percentage of	Main activity	Acquisition cost
	City	Country	2014		2014
			interest held		
Beiragás - Companhia de Gás das Beiras, S.A. (a)	Viseu	Portugal	59.51%	Operation, construction and maintenance of regional natural gas distribution networks.	20,262,745.59
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	Bucelas	Portugal	100.00%	Operation, construction and maintenance of regional natural gas distribution networks.	986,859.89
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	Bucelas	Portugal	100.00%	Operation, construction and maintenance of regional natural gas distribution networks.	994,734.43
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	Bucelas	Portugal	100.00%	Operation, construction and maintenance of regional natural gas distribution networks.	2,072,656.89
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	Bucelas	Portugal	100.00%	Operation, construction and maintenance of regional natural gas distribution networks.	6,765,589.44
Lusitaniagás - Companhia de Gás do Centro, S.A.	Aveiro	Portugal	86.25%	Operation, construction and maintenance of regional natural gas distribution networks.	20,407,607.18
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	Lisboa	Portugal	100%	Operation, storage and distribution of piped fuel gas.	47,285,389.85
Setgás - Sociedade de Distribuição de Gás Natural, SA	Setúbal	Portugal	67%	Production and distribution of natural gas and such substitute gases.	29,876,209.63
					<u>128,651,792.90</u>

	31 december 2014			2014	
	Head office	Share capital	Net result for the year	%	Value
Beiragás - Companhia de Gás das Beiras, S.A.	Viseu	38,667,525.38	4,337,073.88	59.51%	23,009,110.98
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	Bucelas	1,764,977.87	714,977.87	100%	1,764,977.87
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	Bucelas	943,567.59	(106,432.41)	100%	943,567.59
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	Bucelas	2,424,060.98	324,060.57	100%	2,424,060.98
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	Bucelas	6,688,263.74	990,019.41	100%	6,688,263.74
Lusitaniagás - Companhia de Gás do Centro, S.A.	Aveiro	57,419,346.49	10,523,163.62	86.50%	49,667,734.71
Lisboagás GDL - Soc. Distrib. de Gás Natural de Lisboa, S.A.	Lisboa	110,063,932.47	21,261,022.01	100%	110,063,932.47
Setgás, S.A.	Setúbal	72,117,005.98	5,474,568.37	66.88%	48,231,853.60
					<u>242,793,501.94</u>

During the year ended 31 December 2014, by decision of the shareholder GDP Gás de Portugal, S.A., the Company increased the share capital amounting 89,479,141.00 Euros, through 86 cents in cash and 89,479,140.14 Euros in kind, referring to the following subsidiaries:

	Participation value
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	236,859.89
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	244,734.43
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	572,656.89
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	6,765,589.44
Lusitaniagás - Companhia de Gás do Centro, S.A.	18,417,539.95
Lisboagás GDL - Soc. Distrib. de Gás Natural de Lisboa, S.A.	47,285,389.85
Setgás, S.A.	15,956,369.69
	<u>89,479,140.14</u>

As a consequence of such increase, the Company delivered to its shareholder GDP Gás de Portugal, SGPS, S.A. the amount of 8,007,218.56 Euros, corresponding to supplementary contributions that the shareholder made to the following companies:



	Supplementary contributions
Dianagás, S.A.	750,000.00
Medigás, S.A.	1,500,000.00
Paxgás, S.A.	750,000.00
Setgás, S.A.	5,007,218.56
	8,007,218.56

During the year ended 31 December 2014, the Company acquired from its shareholder GDP Gás de Portugal, SGPS, S.A. , amounting 20,262,745.59 Euros the share of 6,890,344 shares held in its subsidiary Beiragás, S.A..

During the year ended 31 December 2014, the Company acquired 752,915 shares in the subsidiary Lusitaniagás, S.A. and 215,171 shares of Setgás, S.A., from Petrogal, S.A., by the amounts of 1,990,067.23 Euros and 8,912,621.38 Euros, respectively.

During the year 2014, the Company received from the subsidiaries Lusitaniagás, S.A., Lisboagás, S.A. and Paxgás, S.A., dividends amounting 23,534,678.56 Euros, 33,000,000.00 Euros and 466,903.45 Euros, summing the amount of 57,001,582.00 Euros.

#### **4.2. Investments in associates and joint-ventures**

Investments in associates and joint-ventures, their head offices, the percentage or interest held and their main activities as of 31 December 2014 are as follows:

	Head Office		Percentage held	Main activity	Acquisition cost
	City	Country	2014		2014
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	Santarém	Portugal	41.33%	Production and distribution of natural gas and other piped fuel gases.	17,807,939.32
					17,807,939.32
	<b>31 december 2014</b>			<b>2014</b>	
	Head office	Share capital	Net result for the year	%	Value
Tagusgás-Empresa de Gás do Vale do Tejo, S.A.	Santarém	31,363,064.38	3,098,196.13	41.33%	12,962,354.51
					12,962,354.51

During the year ended 31 December 2014, the Company acquired from its shareholder GDP Gás de Portugal, SGPS, S.A. , by the amount of 17,807,939.32 Euros, 1,033,219 shares held in the subsidiary Tagusgás, S.A..

#### **5. OPERATING INCOME**

Not applicable.

## 6. OPERATING COSTS

The results for the years ended 31 December 2014 and 31 December 2013 were affected by the following items of operating costs:

<u>CAPTIONS</u>	<u>2014</u>	<u>2013</u>
<b>External supplies and services</b>		
Litigation and notaries	1,157.50	653.75
Other specialised services	23,747.28	23,936.04
	<u>24,904.78</u>	<u>24,589.79</u>
<b>Other operating costs</b>		
Other operating costs	1,285.70	5,538.75
	<u>1,285.70</u>	<u>5,538.75</u>
	<u>26,190.48</u>	<u>30,128.54</u>

## 7. SEGMENT REPORTING

Not applicable.

## 8. FINANCIAL INCOME AND COSTS

Financial income and financial costs for the years ended 31 December 2014 and 31 December 2013 are as follows:

	<u>2014</u>	<u>2013</u>
<u>Financial income:</u>		
Interest - Group companies (Note 28)	6,937,521.60	-
Interest - Other	2.68	-
	<u>6,937,524.28</u>	<u>-</u>
<u>Financial costs:</u>		
Interest - Group companies (Note 28)	3,227,014.39	-
Other financial costs and losses	5,225.03	151.30
	<u>3,232,239.42</u>	<u>151.30</u>

## 9. INCOME TAXES

From 31 December 2000, the Company became taxed by a special regime for the taxation of groups of companies, with taxable income being determined in Galp Energia, SGPS, S.A.. However, estimated income tax is accounted based of their tax results which in the year ended 31 December 2014 represents the payable amount of 966,750.28 Euros to Galp Energia, SGPS, S.A.

In accordance with the current Portuguese legislation, corporate income tax returns are subject to review and correction by the tax authorities for a period of four years (five to social security). For that reason, tax returns concerning the years from 2011 to 2014, can still be subject to review.

Company's Board of Directors believes that any corrections arising from reviews/inspections by the tax authorities of these tax returns will not have a significant impact on the financial statements as of 31 December 2014 and 31 December 2013.

Income taxes for the years ended 31 December 2014 and 31 December 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Current income tax (Note 28)	966,750.95	(7,569.96)
(Excess)/Insufficiency of income tax of the preceding years	(630.59)	-
	<u>966,120.36</u>	<u>(7,569.96)</u>

Below is a reconciliation of the income tax for the years ended 31 December 2014 and 31 December 2013:

	2014	Tax rate	Income Tax	2013	Tax rate	Income Tax
<b>Result before taxes:</b>	60,680,676.38	26.50%	16,080,379.24	(30,279.84)	25.00%	(7,569.96)
<u>Adjustments to taxable income:</u>						
Received dividends		(24.89%)	(15,105,419.23)	-	-	-
(Excess)/Insufficiency of income tax of the preceding years		-	(630.59)	-	-	-
Other additions and deductions		(0.01%)	(8,209.06)	-	-	-
<b>Effective tax rate and tax income</b>		<b>1.59%</b>	<b>966,120.36</b>		<b>25.00%</b>	<b>(7,569.96)</b>

#### 10. EARNINGS PER SHARE

Not applicable.

#### 11. GOODWILL

Not applicable.

#### 12. TANGIBLE AND INTANGIBLE ASSETS

Not applicable.

#### 13. GOVERNMENT GRANTS

Not applicable.

#### 14. OTHER RECEIVABLES

The non-current and current caption "Other receivables" as of 31 December 2014 and 31 December 2013 is detailed as follows:

<u>CAPTIONS</u>	<u>Current</u>		<u>Non-current</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
State and Other Public Entities:				
Value Added Tax ("VAT") receivable	4,421.43	-	-	-
Loans to associates and joint-ventures (Note 28)	-	-	521,218,385.20	-
	<u>4,421.43</u>	<u>-</u>	<u>521,218,385.20</u>	<u>-</u>
Accrued income:				
Accrued interest (Note 28)	1,544,993.27	-	-	-
	<u>1,544,993.27</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,549,414.70</u>	<u>-</u>	<u>521,218,385.20</u>	<u>-</u>

#### 15. TRADE RECEIVABLES

Not applicable.

## 16. INVENTORIES

Not applicable.

## 17. OTHER FINANCIAL INVESTMENTS

Not applicable.

## 18. CASH AND CASH EQUIVALENTS

For the years ended 31 December 2014 and 31 December 2013 the caption "Cash and cash equivalents" is detailed as follows:

CAPTIONS	2014	2013
Cash deposits	66,949.31	167,526.79
<b>Cash and cash equivalents in the statement of financial position</b>	<b>66,949.31</b>	<b>167,526.79</b>
<b>Cash and cash equivalents in the statement of cash flow</b>	<b>66,949.31</b>	<b>167,526.79</b>

## 19. SHARE CAPITAL

### Capital Structure

During the year ended 31 December 2014, by unanimous decision of the sole shareholder, the Company increased its Share Capital from 50,000.00 Euros to 89,529,141.00 Euros, divided in 89,529,141 shares, with the nominal value of 1 Euro each. It is fully subscribed and paid up, 50,000.86 Euros in cash and 89,479,140.14 Euros in kind (Note 4.1), and 100% held by GDP Gás de Portugal, S.G.P.S., S.A..

## 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.

## 21. NON-CONTROLLING INTERESTS

Not applicable.

## 22. LOANS

Not applicable.

## 23. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Not applicable.

## 24. OTHER PAYABLES

As of 31 December 2014 and 31 December 2013 the non-current and current captions "Other payables" were as follows:

<u>CAPTIONS</u>	<u>2014</u>		<u>2013</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Loans - Associates, affiliates and related companies (Note 28)	20,703,860.66	443,500,000.00	-	-
Other payables - Associates, affiliates and related companies (Note 28)	54,051,907.06	-	-	-
	<u>74,755,767.72</u>	<u>443,500,000.00</u>	<u>-</u>	<u>-</u>
Accrued costs:				
Accrued interests (Note 28)	803,336.56	-	-	-
Other accrued costs	-	-	900.00	-
	<u>803,336.56</u>	<u>-</u>	<u>900.00</u>	<u>-</u>
	<u>75,559,104.28</u>	<u>443,500,000.00</u>	<u>900.00</u>	<u>-</u>

## 25. PROVISIONS

Not applicable.

## 26. TRADE PAYABLES

As of 31 December 2014 and 31 December 2013 the amounts recorded in the caption "Trade payables" were as follows:

	<u>2014</u>	<u>2013</u>
Trade Payables - current accounts (Note 28)	6,713.20	105,970.10
	<u>6,713.20</u>	<u>105,970.10</u>

## 27. OTHER FINANCIAL INSTRUMENTS – FINANCIAL DERIVATIVES

Not applicable.

## 28. RELATED PARTIES

Balances and transactions with related parties in 2014 and 2013, respectively, were as follows:

### Receivables

2014			
Companies	Total related parties	Non-current	Current
		Loans granted (Note 14)	Accruals and deferrals (Note 14)
Lisboagás, S.A.	302,808,760.37	302,165,731.63	643,028.74
Lusitaniagás, S.A.,	137,322,771.53	137,046,907.91	275,863.62
Duriensegás, S.A.	25,062,571.40	25,005,026.50	57,544.90
Setgás, S.A.	17,713,439.87	17,671,585.70	41,854.17
Medigás, S.A.	14,363,647.52	14,330,667.88	32,979.64
Dianagás, S.A.	10,236,359.74	10,212,856.56	23,503.18
Beiragás, S.A.	5,920,096.28	5,769,412.33	150,683.95
Paxgás, S.A.	4,668,180.19	4,658,365.89	9,814.30
Tagusgás, S.A.	4,667,561.57	4,357,840.80	309,720.77
	<u>522,763,388.47</u>	<u>521,218,395.20</u>	<u>1,544,993.27</u>

2013		
Companies	Total related parties	Current
		Income tax (Note 9)
GALP ENERGIA, SGPS, S.A.	7.569,96	7.569,96
	<u>7.569,96</u>	<u>7.569,96</u>

### Payables

2014							
Companies	Total related parties	Non-current	Current				
		Loans obtained (Note 24)	Trade payables	Loans obtained (Note 24)	Other payables (Note 24)	Accruals and deferrals (Note 24)	Income tax (Note 9)
Paxgás, S.A.	738,00	-	-	-	738,00	-	-
Galp Energia, SGPS, S.A.	21.670.610,94	-	-	20.703.860,66	-	-	966.750,28
Petrogal, S.A.	1.990.067,23	-	-	-	1.990.067,23	-	-
GDP Gás de Portugal, SGPS, S.A.	496.364.438,39	443.500.000,00	-	-	52.061.101,83	803.336,56	-
Galp Energia, S.A.	6.713,20	-	6.713,20	-	-	-	-
	<u>520.032.567,76</u>	<u>443.500.000,00</u>	<u>6.713,20</u>	<u>20.703.860,66</u>	<u>54.051.907,06</u>	<u>803.336,56</u>	<u>966.750,28</u>

Companies	2013		
	Current		
	Total related parties	Trade payables (Note 26)	Other payables (Note 24)
Galp Energia, S.A.	106,720.10	105,820.10	900.00
GDP Gás de Portugal, SGPS, S.A.	150.00	150.00	-
	<u>106,870.10</u>	<u>105,970.10</u>	<u>900.00</u>

### Transactions

2014			
Companies	Operating costs	Financial costs (Note 8)	Financial income (Note 8)
Lisboagás, S.A.	-	-	(4,739,719.72)
GDP Gás de Portugal, SGPS, S.A.	-	3,223,069.89	-
Lusitaniagás, S.A.	-	-	(1,648,091.82)
Duriensegás, S.A.	-	-	(101,937.16)
Setgás, S.A.	-	-	(317,660.01)
Medigás, S.A.	-	-	(58,421.35)
Dianagás, S.A.	-	-	(40,864.66)
Tagusgás, S.A.	-	-	(7,830.02)
Beiragás, S.A.	-	-	(5,627.47)
Paxgás, S.A.	-	-	(17,285.55)
Galp Energia, SGPS, S.A.	-	3,944.50	(83.84)
Galp Energia, S.A.	23,747.28	-	-
	<u>23,747.28</u>	<u>3,227,014.39</u>	<u>(6,937,521.60)</u>

Current	
2013	
Companies	Operating costs
Galp Energia, S.A.	<u>23,936.04</u>
	<u>23,936.04</u>



**29. REMUNERATION OF THE BOARD**

The Board is not remunerated by the Company and its financial statements are consolidated in Galp Energia, SGPS, S.A.. The information related to the certified public accountant fees is presented in the Governance Report of the entity.

**30. DIVIDENDS**

Not applicable.

**31. OIL AND GAS RESERVES**

Not applicable.

**32. FINANCIAL RISK MANAGEMENT**

Not applicable.

**33. CONTINGENT ASSETS AND LIABILITIES**

Not applicable.

**34. INFORMATION ON ENVIRONMENTAL MATTERS**

Not applicable.

**35. SUBSEQUENT EVENTS**

There are no relevant subsequent events after 31 December 2014.

**36. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved by the Board of Directors on 3 March 2015. However, they are still subject to approval by the General Meeting of Shareholders, in accordance with the commercial law in force in Portugal.

**THE BOARD OF DIRECTORS:**

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**CHAIRMAN:**

\_\_\_\_\_  
Luis Fernando Muñoz de Moura

**MEMBERS:**

\_\_\_\_\_  
Adelino Joaquim Melo Rodrigues

\_\_\_\_\_  
Gabriel Nuno Charrua de Sousa

\_\_\_\_\_  
João Diogo de Melo Marques da Silva

**THE ACCOUNTANT:**

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\_\_\_\_\_  
Carlos Alberto Nunes Barata

# ***Auditor's Report***

***(Free translation from the original in Portuguese)***

To the Shareholders

## ***Introduction***

1 We have audited the financial statements of Galp Gás Natural Distribuição, S.A., comprising the statement of financial position as at 31 December 2014 (which shows total assets of Euro 669,294,491.43 and total shareholder's equity of Euro 149,261,923.67, including a net profit of Euro 59,714,556.02), 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 corresponding notes to the accounts.

## ***Responsibilities***

2 It is the responsibility of the Board of Directors to prepare the Directors' Report and the financial statements which present fairly, in all material respects, the financial position of the Company, the results and the comprehensive income of its operations, the changes in equity and the cash flows, as well as to adopt appropriate accounting policies and criteria and to maintain an appropriate system of internal control.

3 Our responsibility is to express an independent and professional opinion on these financial statements based on our audit.

## ***Scope***

4 We conducted our audit in accordance with the Standards and Technical Recommendations issued by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Accordingly, our audit included: (i) verification, on a sample basis, of the evidence supporting the amounts and disclosures in the financial statements and assessing the reasonableness of the estimates, based on the judgements and criteria of the Board of Directors used in the preparation of the financial statements; (ii) assessing the appropriateness of the accounting principles used and their disclosure, as applicable; (iii) assessing the applicability of the going concern basis of accounting; and (iv) assessing the overall presentation of the financial statements.

5 Our audit also covered the verification that the information included in the Directors' Report is consistent with the financial statements.

6 We believe that our audit provides a reasonable basis for our opinion.

## ***Opinion***

7 In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Galp Gás Natural Distribuição, S.A. as at 31 December 2014, the results and the comprehensive income of its operations, the changes in equity and the cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

***Report on other legal requirements***

8 It is also our opinion that the information included in the Directors' Report is consistent with the financial statements for the year.

5 March 2015

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

António Joaquim Brochado Correia, R.O.C.

**(This is a translation, not to be signed)**

## ***Report and Opinion of the Statutory Auditors***

***(Free translation from the original in Portuguese)***

To the Shareholders,

1 In accordance with the law and our mandate, we herewith present the report on our supervisory activity and our opinion on the Directors' Report and financial statements as presented by the Board of Directors of Galp Gás Natural Distribuição, S.A. with respect to the year ended 31 December 2014.

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

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

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

i) the statement of financial position, the statement of income, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the corresponding notes to the accounts permit an adequate understanding of the financial position, the results, the comprehensive income, the changes in equity and cash flows of the Company;

ii) the accounting policies and valuation methods applied are appropriate;

iii) the Directors' Report is sufficiently clear as to the developments of the business and the position of the Company and highlights the more significant aspects;

iv) the proposed appropriation of results is not contrary with the applicable laws and Company's articles of association.

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

i) the Directors' Report be approved;

ii) the financial statements be approved;

iii) the proposed appropriation of results be approved.

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

5 March 2015

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

António Brochado Correia, R.O.C.

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