Galp Gás Natural Distribuição, S.A.

Annual Report and Accounts 2016

Head Office: Rua Tomás da Fonseca – Torre C – 1600-209 Lisboa

Share Capital: 89,529,141.00 EUR

MCRC/NIPC: 509148247

CONTENTS

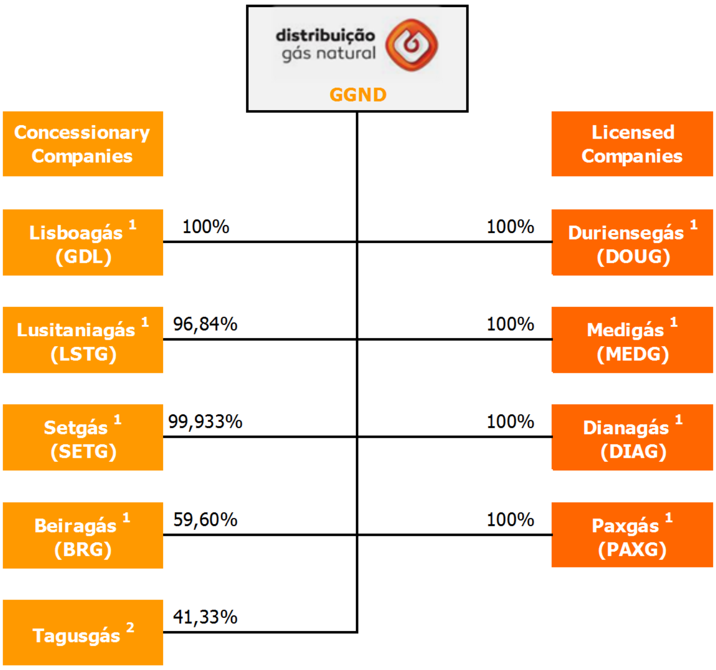
1. INTRODUCTION

The corporate objective of Galp Gás Natural Distribuição, S.A., hereinafter referred to as GGND, is the undertaking of business activities in the energy sector, in particular in natural gas distribution, including the provision of services supporting business management, in the areas of management, administration and logistics, purchases and procurement, and information systems.

GGND has stakes in nine natural gas distributors in Portugal, five of which operate under concession contracts lasting 40 years, while the rest operate under licenses with an operating period of 20 years.

GGND provides its services to the companies in which it holds direct stakes, namely:

GGND's SUBSIDIARIES AND RESPECTIVE SHARES



[1] GGND Group
[2] Information related to this company are not included in this report

GGND, through the companies it controls, operates natural gas distribution infrastructures in Portugal, with the Energy Services Regulating Entity (ERSE) being the Portuguese regulator for the energy sector.

As of 31 December 2016, the key operational indicators of a GGND Group are as follows:

Lisboagás
Total Network Extension: 4.515 km
Connection Points: 529.373
Gas Volume Distributed: 395.986 mm³

Lusitaniagás
Total Network Extension: 3.380 km
Connection Points: 219.531
Gas Volume Distributed: 702.661 mm³

Setgás
Total Network Extension: 2.140 km
Connection Points: 165.479
Gas Volume Distributed: 155.602 mm³

Beiragás
Total Network Extension: 811 km
Connection Points: 52.642
Gas Volume Distributed: 75.104 mm³

Duriensegás
Total Network Extension: 472 km
Connection Points: 29.457
Gas Volume Distributed: 18.579 mm³

Medigás
Total Network Extension: 265 km
Connection Points: 21.645
Gas Volume Distributed: 8.443 mm³

Dianagás
Total Network Extension: 187 km
Connection Points: 9.702
Gas Volume Distributed: 7.210 mm³

Paxgás
Total Network Extension: 65 km
Connection Points: 6.038
Gas Volume Distributed: 1.435 mm³

2. GOVERNING BODIES

At the present date, the composition of the governing bodies of GGND, for the current term of office of 2015-2018, is as follows:

Board of the General Meeting

Chairman:	Rui de Oliveira Neves
Secretary:	Maria Helena Goldschmidt

Company Secretary

Permanent:	Rita Picão Fernandes
Alternate:	Inês Figueira

Board of Directors

Chairman:	Pedro Carmona de Oliveira Ricardo*
Deputy Chairman (independent):	Maria Leonor Galo Pedrosa dos Santos Machado de Baptista Branco*
Members:	Gabriel Nuno Charrua de Sousa
	Naohiro Hayakawa*
	José Manuel Rodrigues Vieira*
	Ana Isabel Simões Dias dos Santos Severino*
	Maria Marta Geraldes*
	Yoichi Noborisaka*

* Elected on 27 October 2016, for the term of office in course of 2015-2018

Executive Committee

Chairman:	Gabriel Nuno Charrua de Sousa (CEO)
Members:	Naohiro Hayakawa (CFO)
	José Manuel Rodrigues Vieira (COO)

Statutory Auditor

Permanent:	PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., represented by António Joaquim Brochado Correia, ROC number 1076, or by Ana Maria Ávila de Oliveira Lopes Bertão, ROC number 902.
Alternate:	José Manuel Henriques Bernardo, ROC number 903.

Representative for Relations with the Capital Market and Securities Market Commission (CMVM):

Gabriel Nuno Charrua de Sousa

During 2016, the following resigned from office:

- Maria Helena Goldschmidt, who held the position of Chairman of the Board of the General Meeting up to 2016.10.27; and the position of Alternate Company Secretary up to 18 November 2016.
- Gabriel Nuno Charrua de Sousa, who held the position of Chairman of the Board of Directors up to 27 October 2016.
- Adelino Melo Rodrigues and João Diogo de Melo Marques da Silva, both of whom held the position of Director up to 27 November 2016.

3. RELEVANT FACTS OCCURRED IN 2016

CORPORATE REORGANISATION

On 28 July 2016, following a process of negotiation with potential investors, the single shareholder of GGND, at that time, Galp Gás & Power, SGPS, S.A., reached an agreement with a consortium composed of Marubeni Corporation and Toho Gas Co., Ltd., through which this consortium acquired 22.5% of the share capital of GGND, subject to certain conditions, namely its approval by the European Commission and Portuguese State. The operation was completed on 27 October 2016, from which date onwards a qualifying stake of 22.5% of the share capital of GGND, corresponding to 20,144,057 shares became imputable to MEET Europe Natural Gas, Lda., a company held in equal parts by Marubeni Corporation and Toho Gas Co., Ltd.

As a consequence of this operation, changes were made to the corporate governance model, including the composition of its governing bodies.

Indeed, by unanimous corporate decision of the shareholders on 27 October 2016, the Board of Directors, previously composed of three members, shifted to comprising eight directors.

Furthermore, by decision of the Board of Directors at a meeting held on 18 November 2016, an Executive Committee was appointed, composed of three members, which was entrusted with the Company's current management.

REGULATORY FRAMEWORK

The natural gas distribution business is supported by the application of regulated tariffs defined by the ERSE, based on allowed revenues, which is derived from the ratios between the capital cost of the investments made, the recovery of allowed operating costs and adjustments, namely the tariff deviation.

The cost of capital is calculated as the product of the regulated asset base by the remuneration rate established by the regulator, plus the depreciation of these assets.

The tariff deviation is defined as the difference between the estimated allowed revenues for year n-2 and the "actual allowed revenues" in that same period.

The remuneration rate is calculated according to the average yield of 10-year treasury bonds issued by the Portuguese State.

The 4th regulatory period of the natural gas sector started on 1 July 2016, following the ERSE's approval of the new regulations (Tariff, Commercial Relations, Access to Networks, Infrastructures and Interconnections, Infrastructures Operation and Quality of Service).

The asset remuneration rate established by the ERSE for the Gas Year 2016-2017 was 6.20% in the Natural Gas Distribution business, compared with 7.94% in the previous Gas Year.

DEBT ISSUANCE

On 19 September 2016, GGND issued debt instruments of the value of €600 million, with maturity of 7 years and a coupon of 1.375%.

These debt instruments have a unit nominal value of €100 thousand and were issued under the €1,000,000,000 Euro Medium Term Note (EMTN) Programme of GGND, established on 25 August 2016, and listed on the regulated market of the London Stock Exchange (ISIN: PTGGDAOE0001).

FINANCIAL RATING

On 5 October 2016, the agency Standard & Poors attributed to GGND a long-term rating of "investment grade" BBB-, one level above the rating attributed to the Portuguese Republic (BB+, non-investment grade), with stable outlook.

BUSINESS EVOLUTION

The activity of GGND, on a consolidated basis, generated a net income of €26.6 million in 2016, corresponding to €6.5 million less than in the same period of 2015, with EBITDA having reached €112.2 million, representing €15.3 million less than in the previous year.

In 2016 there was a reduction in the consolidated balance of the tariff deviation of the natural gas distribution business, corresponding to the difference between the revenues effectively invoiced by the companies controlled by GGND and the allowed revenues estimated by the ERSE.

In fact, by the end of 2016, the receivable balance of the tariff deviation stood at approximately €12.9 million, representing €16.1 million less than at the end of 2015.

Net operating costs reached €86.2 million, standing at 2% higher than that recorded in the same period of 2015, influenced by the continued improvement of processes in terms of customer service.

During 2016, investment amounted to €23.1 million, with approximately 68% of the total having been allocated to business development, which included the expansion of the distribution network by 147 km, construction of 4,685 branch lines and connection of 14,871 new consumer points, of which 9,569 installations required adjustment for natural gas.

The investment effort is in line with the strategic guidelines that have steered the company's investment efficiency policy, reflected in the Natural Gas Distribution Network Development and Investment Plan (PDIRD) submitted to the Directorate General for Energy and Geology (DGEG). Here, the objective is to assure compliance with the concession and regulatory obligations, and contribute to the consolidation of the Natural Gas distribution project in the concession areas at levels ensuring the sustainability of the pricing of the National Natural Gas System (SNGN).

GGND has maintained rigorous monitoring of the indicator "Investment in connections to new consumers" at economically efficient levels.

By the end of 2016, the natural gas distribution system of the companies controlled by GGND reached a total of 11,867 km of distribution network, covering a total number of 1,033,867 consumer points with an active contract, with a volume of 1,365 million cubic metres of natural gas having been distributed.

Close to 93% of the volume of gas is already distributed to consumption sites with an active contract on the free market, in line with the progressive liberalization of the natural gas sector and consequent transfer of consumption sites to the free market.

MAIN INITIATIVES

In 2016, the development of the "Asset Management System" (SGA) installed in the previous year was pursued, with the introduction of new functionalities, in particular development of the reporting component.

The second phase of the "Distribution Portal" was developed and completed in 2016, enabling the companies controlled by GGND to provide their stakeholders, namely Salespersons and Customers, with a platform for more effective and transparent relations in the management of processes.

This communication channel uses the new tools of the digital era, with access by Internet, so it is always available and personalized according to the activity and intended user engaging with companies of the GGND Group.

The "Star Programme – Positive Service" was improved during 2016, strengthening the focus on customer satisfaction through the launch of the "Star Programme – Client Experience", while maintaining the main drive of efficient management of Natural Gas Partners in the context of field activities and interaction with natural gas clients.

CERTIFICATION OF THE INTEGRATED ENVIRONMENT, QUALITY AND SAFETY MANAGEMENT SYSTEMS

The companies controlled by GGND have once again assured the certification of their integrated management systems of the Environment, Quality and Safety, that in 2016 was achieved through joint certification.

This fact was the result of an enormous effort towards harmonization of practices, procedures and processes, contributing to improve our action and that of our service providers.

CONSUMER SATISFACTION

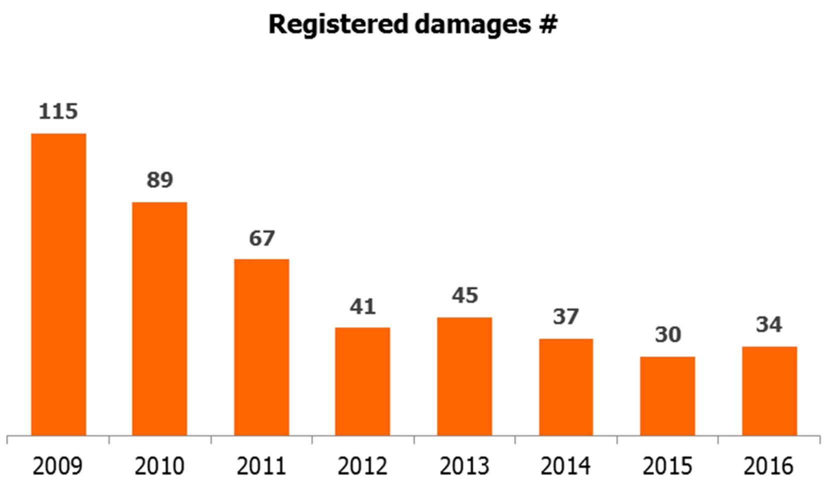
The need for the continuous improvement of consumer satisfaction is an indispensable attitude for any organization to achieve success.

Throughout 2016, for the group of companies controlled by GGND consumer satisfaction was assessed by questionnaires conducted by telephone. The analysis is based on the percentage of consumers who classify the services with grades above 2, considering a scale of 0 to 4, where 4 is the highest classification. It was found that the different services are assessed positively by the great majority of the Consumers.

PREVENTION OF ACCIDENTS WITH INFRASTRUCTURE CAUSED BY THIRD PARTIES

Accidents with damage caused in the natural gas distribution infrastructure have been examined carefully and a prevention campaign has been implemented, namely with the signing of a protocol with EDP and provision of records to city councils, by the Network Operators, over the past years.

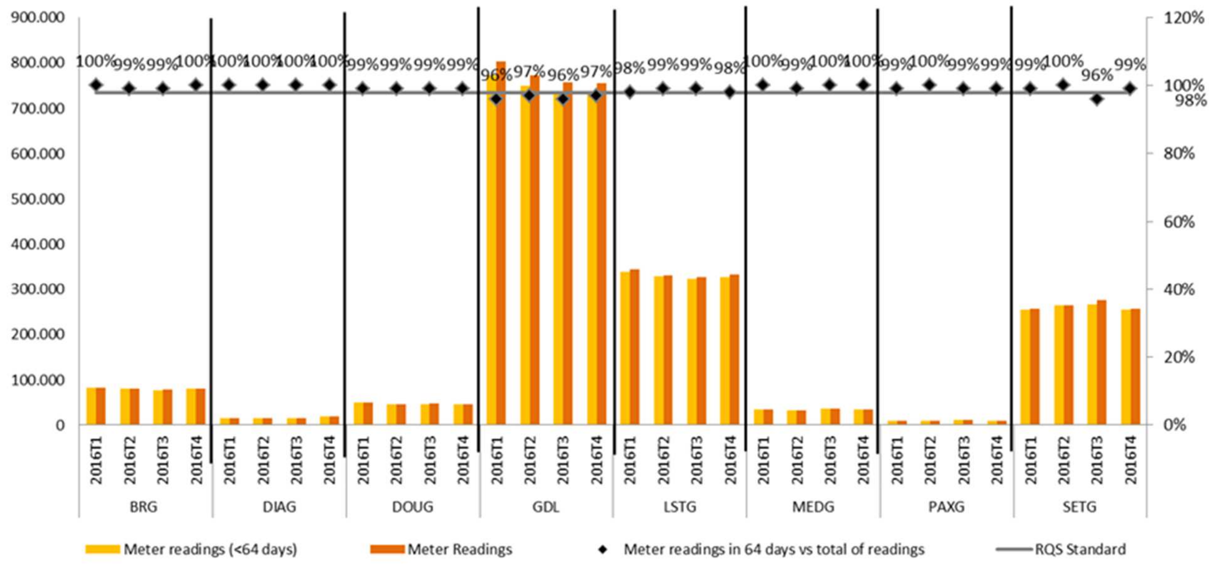
In 2016, for the group of companies controlled by GGND, 34 accidents with damage caused by third parties were recorded.



INDICATORS ON THE REGULATION OF SERVICE QUALITY (RQS)

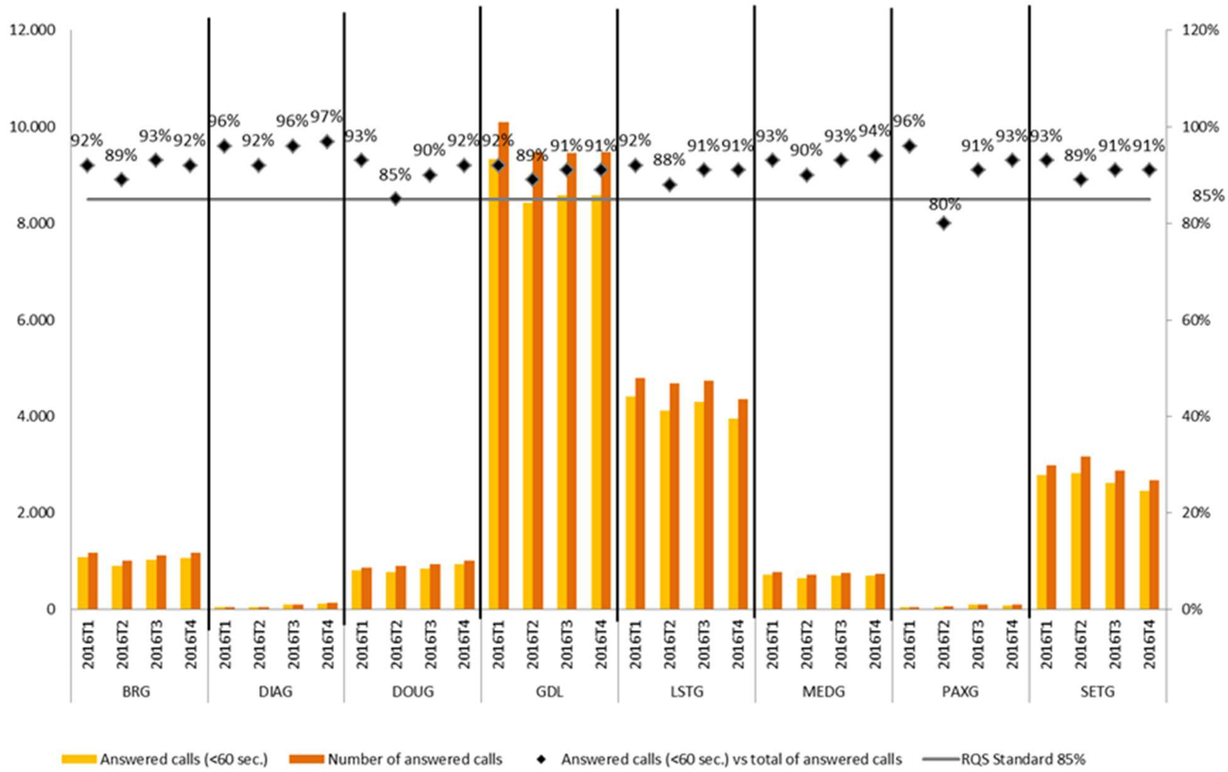
Focusing on the Quality of Service to the natural gas consumer, as the mechanism facilitating and promoting the use of natural gas as a source of energy, and keeping in line with the standards established by the ERSE, the individual indicators on Service Quality in 2016 for the group of companies controlled by GGND are presented below:

- Number of readings with interval, compared to the previous reading, of 64 days or less



- Full compliance with the indicator, consistently and surpassing the minimum required by the ERSE, except GDL for entire year and SETG for the 3rd quarter.

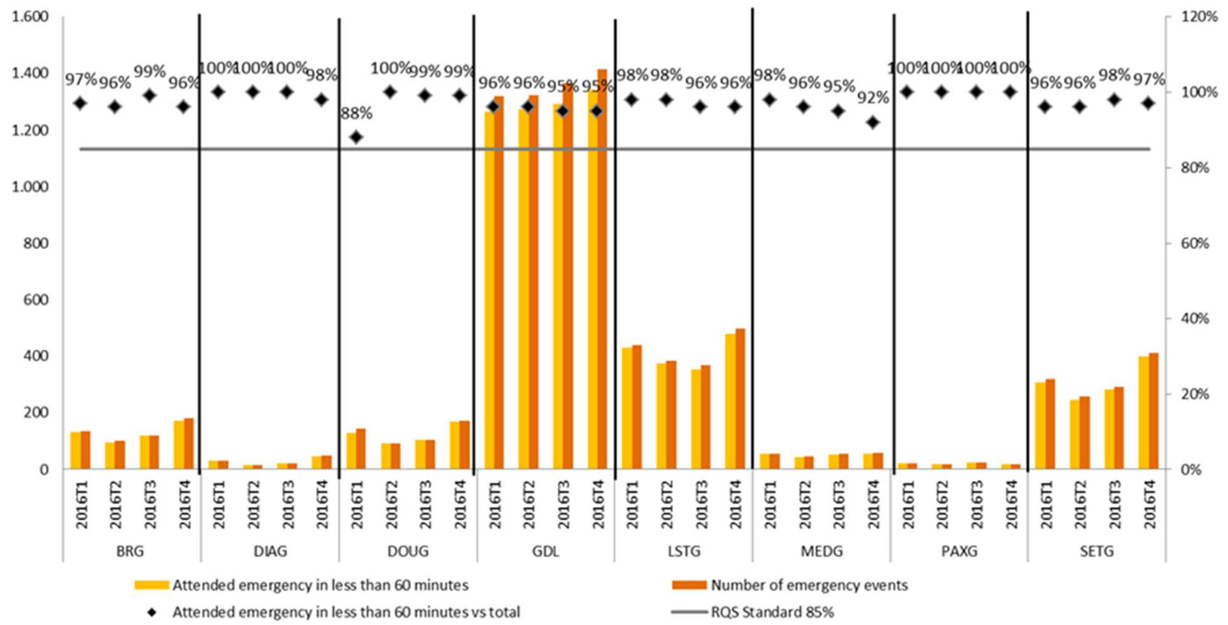
- Number of telephone calls attended in relation to emergencies and breakdowns with waiting time of 60 seconds or less



- Full compliance with the indicator, consistently and surpassing the minimum required by the ERSE, except PAXG for the 2nd quarter;

- Stability of the number of telephone calls attended.

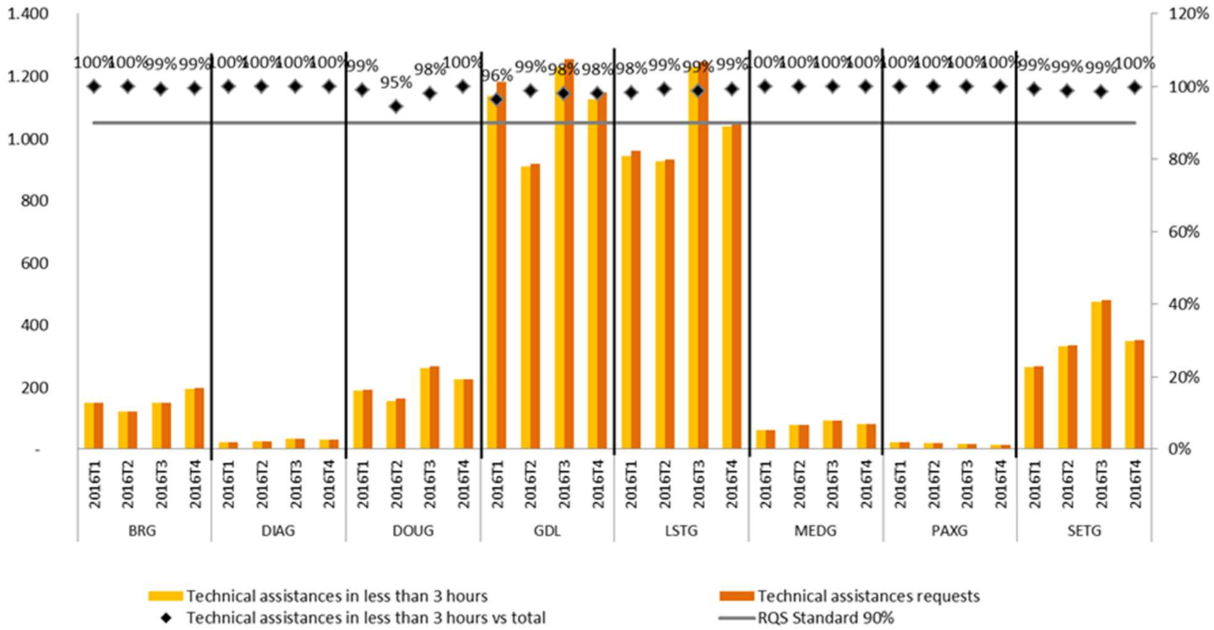
• Number of emergency situations with time of arrival at the site of 60 minutes or less



- Full compliance with the indicator, consistently and surpassing the minimum required by the ERSE;

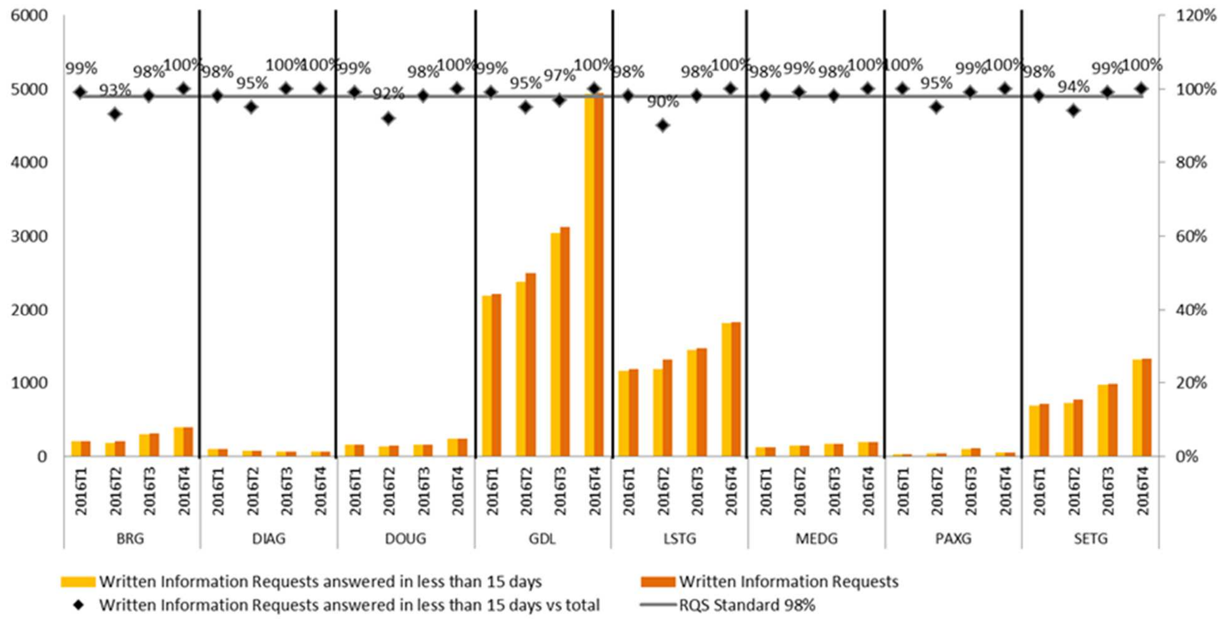
- Minor increase in the number of emergency situations.

• Number of technical assistance actions with time of arrival at the site of 3 hours or less



- Full compliance with the indicator, consistently and surpassing the minimum required by the ERSE;
- Stability of the number of situations of breakdowns requiring presence at the site.

- Number of written requests for information received in the quarter that were answered in a period of 15 business days or less



- Compliance with the minimum indicator required by the ERSE, except:

- For the 2nd and 3rd quarter => GDL;

- For the 2nd quarter => BRG, DIAG, DOUG, LSTG, PAXG e SETG.

- Growing number of written requests, with the companies controlled by GGND now including all written requests received regardless of whether they are directly from the consumer or mandated entity (Provider).

4. KEY INDICATORS

Operational Indicators	UNIT	2015	2016	Variation	% Var.
Connection Points	#	1.021.442	1.033.867	**12.425**	**1,2%**
Gas Volume Distributed	kcm	1.359.175	1.365.021	**5.846**	**0,4%**
Total Network Extension	km	11.689	11.836	**147**	**1,3%**
20bar network	km	648	648	**-**	**%**
4bar network	km	11.041	11.188	**147**	**1,3%**

Financial Indicators (thousands of euros)	2015	2016	Variation	% Var.
Turnover	216.936	201.516	**(15.420)**	**(7%)**
EBITDA	127.498	112.162	**(15.336)**	**(12%)**
EBIT	86.052	71.077	**(14.975)**	**(17%)**
Financial Results	(29.846)	(22.110)	**7.736**	**(26%)**
Net Income	33.088	26.552	**(6.536)**	**(20%)**
Cash Flow [1]	83.570	85.149	**1.579**	**2%**
Financial Debt [2]	648.027	638.253	**(9.774)**	**(2%)**
Net fixed assets [3]	1.132.802	1.113.987	**(18.814)**	**(2%)**
Other Investments [4]	16.447	17.337	**891**	**5%**
CAPEX	19.696	23.084	**3.388**	**17%**

[1] Net Income + Amortization and Depreciation +/- Variation of Provisions

[2] Bank loans (non-current) + Bonds + Shareholder loan + Bank loan and overdrafts

[3] Tangible Assets + Intangible Assets

[4] Investment in associates and jontly controlled entities + Goodwill + Investments in other companies

5. ECONOMIC AND FINANCIAL REVIEW

5.1 ANALYSIS OF RESULTS

Income Statement				
(thousands of euros)	**2015**	**2016**	**Variation**	**% Var.**
Turnover	216.936	201.516	(15.420)	(7%)
Cost of Sales	(4.878)	(3.161)	(1.716)	(35%)
External Supplies and Services	(70.699)	(74.614)	3.915	6%
Employee Costs	(23.264)	(20.650)	(2.614)	(11%)
Other Operating Income	30.249	33.670	3.421	11%
Other Operating Costs	(20.846)	(24.599)	(3.753)	18%
EBITDA	**127.498**	**112.162**	**(15.336)**	**(12%)**
Amortization, Depreciation and Provision	(41.445)	(41.085)	(360)	(1%)
EBIT	**86.052**	**71.077**	**(14.975)**	**(17%)**
Financial Results	(29.846)	(22.110)	7.736	(26%)
Profit Before Tax	**56.206**	**48.967**	**(7.239)**	**(13%)**
Taxes	(13.340)	(12.358)	(982)	(7%)
Energy sector extraordinary contribution	(9.778)	(10.057)	280	3%
Consolidated Net Income	**33.088**	**26.552**	**(6.536)**	**(20%)**

TURNOVER

Turnover reached €201.5 million in 2016, showing a 7% decrease (€15.4 million) year-on-year. This variation was due to the effects of allowed revenues, essentially inherent to the change of the rate of asset remuneration, published by the ERSE.

OPERATING COSTS

Net Operating Costs				
(thousands of euros)	**2015**	**2016**	**Variation**	**% Var.**
External Supplies and Services	(70.699)	(74.614)	3.915	6%
Employee Costs	(23.264)	(20.650)	(2.614)	(11%)
Other Operating Costs	(20.846)	(24.599)	(3.753)	18%
Other Operating Income	30.249	33.670	3.421	11%
Total	**(84.561)**	**(86.193)**	**1.632**	**2%**

Net Operating costs amounted to €86.2 million, corresponding to 2% more than that recorded in 2015. This result was primarily influenced by the increased technical assistance activity and systems development, partly offset by the lower staff costs.

In 2016, considering the amount of the turnover and operating costs, GGND recorded EBITDA of €112.2 million, 12% lower than in the same period of the previous year, strongly influenced by the revised asset remuneration rate.

Amortization, Depreciation and Provision				
(thousands of euros)	**2015**	**2016**	**Variation**	**% Var.**
Amortization and Depreciation	(41.073)	(41.464)	391	1%
Provision and impairment loss on receivables	(372)	379	(751)	(202%)
Total	**(41.445)**	**(41.085)**	**(360)**	**(1%)**

Amortization, depreciation and provisions reached €41.1 million in 2016, corresponding to 1% less than the previous year.

FINANCIAL RESULTS

Financial Results				
(thousands of euros)	**2015**	**2016**	**Variation**	**% Var.**
Financial Income	1.167	995	(172)	(15%)
Financial Costs	(32.188)	(23.954)	8.234	(26%)
Share Results of Investments in Associates	1.175	849	(326)	(28%)
Total	**(29.846)**	**(22.110)**	**7.736**	**(26%)**

The financial results were negative by €22.1 million, having improved by €7.7 million in relation to the previous year.

NET INCOME

In 2016, GGND achieved Profit before Tax of €49 million which, net of Income Tax and the Extraordinary Contribution of the Energy Sector, generated a Net Income of €26.6 million, 20% lower than the same period of the previous year, primarily due to the decline of Allowed Revenues.

5.2 REVIEW OF THE FINANCIAL SITUATION

Financial Position				
(thousands of euros)	**2015**	**2016**	**Variation**	**% Var.**
Fixed Assets	1.132.802	1.113.987	**(18.814)**	**(2%)**
Investments in associates and jointly controlled entities	14.169	15.059	**891**	**6%**
Other Investments [1]	2.278	2.278	**0**	**%**
Other receivables [2]	64.642	48.912	**(15.730)**	**(24%)**
Non-current Assets	1.213.890	1.180.237	**(33.654)**	**(3%)**
Equity	256.553	265.143	**8.590**	**3%**
Non-current liabilities	965.963	959.440	**(6.523)**	**(1%)**
Permanent Capital	1.222.516	1.224.583	**2.067**	**0%**
Working Capital	8.626	44.347	**35.721**	**414%**
Operational necessity. [3]	111.528	88.048	**(23.480)**	**(21%)**
Operating resources [4]	113.911	73.462	**(40.449)**	**(36%)**
Working capital needs	(2.383)	14.586	**16.969**	**(712%)**
Cash and cash equivalents	28.526	43.064	14.537	51%
Net Debt [5]	619.500	595.189	**(24.311)**	**(4%)**
Total Equity	256.553	265.143	**8.590**	**3%**
Capital employed	876.053	860.332	**(15.721)**	**(2%)**
Debt to equity	**241%**	**224%**	**(17%)**	**(7%)**

[1] Goodwill + Investments in other companies

[2] Includes Shareholder loan and Defered Tax assets

[3] Inventories + Trade receivables + Other receivables

[4] Trade payables + Other payables

[5] Bank loans (non-current) + Bonds + Shareholder loan + Bank loan and overdrafts - Cash and Cash Equivalents

In 2016, GGND recorded a positive Working Capital of €44.4 million, as its Fixed Capital was sufficient to cover its Non-Current Assets in addition to generating a surplus used to meet its Working Capital Needs.

As at 31 December 2016, Net Debt stood at €595.2 million, reflecting a reduction of €24.3 million compared to 2015.

Concerning financing policy, we highlight the fact that in 2016 GGND had paid up its shareholders' loans raised from its majority shareholder and, on 19 September 2016, had issued a €600 million bond, with a maturity of 7 years.

Financial Ratios	
	31-12-2016
Net Debt / EBITDA	5.4x
Debt Service Coverage Ratio	2.1x

6. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

RISK MANAGEMENT MODEL

As the holding of a group of regulated companies operating in geographically dispersed areas in the Natural Gas Distribution sector, the existence of a robust internal regulatory system and a disciplined approach to risk are important aspects at GGND. This regulatory framework assures that the activity is developed in accordance with strategic objectives, that the accepted risks are properly rewarded and that long term value is created for the shareholders.

The Board of Directors is the body responsible for establishing, based on the Company's strategy, the risk level that GGND is willing to accept and for assuring the alignment of the strategy with that risk level.

The Executive Committee is responsible for monitoring risk management, focusing on the main risks faced by GGND, including strategic, operational, financial and regulatory risks.

As the reorganization of GGND occurred in 2016, GGND is tightening its procedures for risk analysis and management and internal control, considering its specific area of action (Natural Gas Distribution) and the legislative and regulatory framework in which it operates.

In this context, a Compliance Programme, a Code of Conduct and an Anti-Corruption Policy have been approved, which stress the expected obligatory duties and procedures, also in the perspective of management and mitigation of the risks faced by GGND and its participated companies.

INTERNAL CONTROL SYSTEM

The internal control system, whose structure is under review, is intended to be based on a series of policies and procedures, aimed at assuring compliance with GGND's objectives concerning:

- Conduct of business activities in an ordered and efficient manner;
- Prevention and detection of frauds and errors;
- Compliance with the laws and regulations;
- Financial Reporting.

The control environment constitutes the basis of the internal control system. It influences the way that the Company's strategy and objectives are defined, how the operating activities are structured and how the risk culture is assumed.

GGND's control environment is intended to be based on a series of internal codes, policies, rules and procedures, which define principles of ethical conduct and assure scrutiny of the different management acts, in line with best practices and in conformity with the legal and regulatory requirements.

It should be noted in particular that the highly regulated framework in which GGND's participated companies operate has led to the establishment of a Compliance Programme and Code of Conduct, which are binding to the entire organization. This programme establishes the creation of a Monitoring Committee that includes an independent auditor, which should monitor the appropriate application of the principles laid down in the programme and the compliance of action of the companies to the established obligations.

The definition or review of GGND's objectives is the factor which triggers the risk management process. The timely identification of the factors and consequent assessment of the risks enables GGND to detect potential events that might affect the pursuit of the objectives.

In order to assure an effective internal control system, GGND promotes the exchange of significant information, maintaining permanent communication with the different agents involved, both internal and external.

Finally, plans are being made for the conduct of operational, compliance and financial audits, as well as reviews of the information systems, aimed at testing the effectiveness of the existing internal control mechanisms and providing for their continuous improvement.

REPORTING OF FINANCIAL INFORMATION

The process of mandatory disclosure of financial information is monitored by the administration and supervisory bodies. In particular, regarding the presentation of annual and six-monthly financial statements, the documents are sent to the administration and supervisory bodies, which are responsible for their approval before disclosure.

MAIN RISKS

GGND has identified the following risks as priority:

- Regulatory and compliance uncertainties;
- Failures of information systems and cybersecurity;
- Project Implementation, namely in the technical, safety and environmental areas.

GGND's main risks and uncertainties are managed, monitored and communicated at the level of the counterpart, project and geographic area, according to the case.

The strategies of response to specific situations are defined in order to assure that the risks are placed within the general guidelines accepted by GGND and its group of companies.

GGND and its participated assure coverage of the identified risks by taking out the Insurance Policies deemed necessary, with a view to the transfer of the risk and minimization of potential reputation, operational and financial damage.

GGND's operations are of a long term nature, which implies that many of the risks to which it is exposed are permanent. However, the factors triggering internal or external risks are changeable and can develop and evolve over time, and may vary in terms of probability, severity and detectability.

7. FUTURE OUTLOOK

In line with the goals presented in each companies' PDIRD 2017-2021 (Natural Gas Distribution Network Development and Investment Plan), the GGND Group shall maintain its rigorous principles underpinning the choice of investment following a perspective of economic rationality and efficiency of the investments that contribute favorably to the tariff system and sustainability of the National Natural Gas System (SNGN).

The GGND Group shall continue to invest and concentrate its efforts in developing natural gas infrastructures and increasing consumer points, aimed at giving access to this more economic and environmentally "cleaner" energy to the largest number of consumers and economic agents possible, and achieving efficiency levels that are appropriate to the investments made without, however, failing to fulfill its Public Service mission.

In 2017, GGND shall continue to focus on the continuous and sustained improvement of processes and the fine-tuning of practices and adjustment of the means supporting the business, without neglecting the strengthening of the skills of its employees.

The best practices for the promotion of awareness-raising actions on service quality will be maintained among the employees and suppliers, with SAFETY continuing to remain as the principal guideline in business management, contributing to the desired sustainability of the GGND Group.

Service quality shall always be one of its priority missions, aimed at assuring the continuous supply of natural gas to consumers, under the best safety conditions.

8. RELEVANT EVENTS OCCURRED AFTER THE CLOSING OF THE YEAR

No materially relevant events occurred after the closing of the financial year which should be mentioned.

9. FINAL REMARKS

The Board of Directors of GGND is grateful for the cooperation provided by all who, individually or collectively, contributed to the accomplished results. We acknowledge, with great appreciation:

- All the dedicated collaboration of the shareholders;
- The work carried out and commitment shown by the employees of the GGND Group, especially the teamwork;
- The financial institutions that continue to support the Projects of the GGND Group;
- Our contractors and service providers, as important business partners;
- The City Councils of the all the Municipalities of the concession areas of our companies;
- The Statutory Auditor and External Auditor for the effort and dedication with which they performed their duties.

And lastly, and because they are the first, to our clients, for their trust given to the companies of the GGND Group, the Board of Directors of GGND would like to express its recognition and assure them that it shall do everything within its reach to improve the quality of the service provided to the final users.

10. PROPOSED APPROPRIATION OF NET INCOME

On an individual basis, GGND closed the financial year of 2016 with a positive net income of €65,217,062.29 (sixty-five million, two hundred and seventeen thousand, sixty-two euros and twenty-nine cents), calculated in conformity with the International Financial Reporting Standards (IFRS).

The Board of Directors proposes, under the legal terms, that the net income for 2016 should be appropriated as follows:

Endowment to the Legal Reserve	3,260,853.12 Euros
Distribution of Dividends	61,955,632.90 Euros
Retained Earnings	576.27 Euros

Lisbon, 30 March 2017

The Board of Directors

Pedro Carmona de Oliveira Ricardo
Chairman

Maria Leonor Galo Pedrosa dos Santos Machado de Baptista Branco
Deputy Chairman

Gabriel Nuno Charrua de Sousa
Member

Naohiro Hayakawa
Member

José Manuel Rodrigues Vieira
Member

Ana Isabel Simões Dias dos Santos Severino
Member

Maria Marta Geraldes
Member

Yoichi Noborisaka
Member

ANNEX I – MANDATORY STATEMENTS AND NOTES

1. Qualifying stakes in the company's share capital as at 31/12/2016

(Articles 448, number 4 of the Commercial Companies Code and Article 245-A, number 1, c) of the Securities Market Code, applicable by force of number 4 of the same article)

Shareholders	N.º of Shares	Nominal Value	%
Galp Gas & Power, SGPS, S.A.	69.385.084	1,00 EUR	77,50%
MEET Europe Natural Gas, Lda.	20.144.057	1,00 EUR	22,50%
Total	**89.529.141**	**1,00 EUR**	**100,00%**

2. Special voting rights

(Article 245-A, number 1, subparagraph d) of the Securities Market Code, applicable by force of number 4 of the same article)

There are no shareholders with special rights.

They are no restrictions on matters of voting rights.

3. Voting rights

(Article 245-A, number 1, subparagraph f) of the Securities Market Code, applicable by force of number 4 of the same article)

They are no restrictions on matters of voting rights.

4. Own shares

(Articles 66, subparagraph d) and 325-A, number 1 of the Commercial Companies Code)

GGND did not acquire or divest any of its own shares during 2016.

As at 31 December 2016, GGND did not hold any of its own shares.

5. Shareholder position of the members of the Administration and Supervisory Bodies as at 31/12/2016

(Article 448, number 5 of the Commercial Companies Code)

As of 31 December 2016, none of the members of the administration and supervisory board held shares or bonds issued by GGND.

6. Rules applicable to the appointment and replacement of members of the administration body and amendment of the memorandum of association of the company

(Article 245-A, number 1, subparagraph d) of the Securities Market Code, applicable by force of number 4 of the same article)

The shareholders of GGND attending the General Meeting are responsible for electing and replacing the members of the Board of Directors, including the respective chairman and deputy chairman.

The election of the members of the Board of Directors is conducted by list, with indication of the proposing shareholders. The votes are cast based on the whole lists rather than each member, pursuant to the law.

The Deputy Chairman shall replace the Chairman of the Board of Directors in the event of absence or impediment. In the case of definitive absence or impediment of any of the members of the Board of Directors, this body shall be responsible for their replacement through co-optation, which should be submitted for ratification to the following General Meeting.

The Memorandum of Association of GGND establishes that the members of the Board of Directors are appointed for three-year periods, with their re-election being permitted once or more times.

For the purposes of the arrangement concerning replacement of directors due to definitive absence, established in number 1 of article 393 of the Commercial Companies Code, the Company's Memorandum of Association considers that a director is definitively absent when, without justification accepted by the Board of Directors, the director fails to attend three consecutive meetings or five interpolated meetings.

Under the applicable legal terms, if the appointed directors have an employment contract in force with the Company for which they have been appointed or with a company in a controlling or group relationship with it, this contract shall be terminated if it has been concluded less than a year ago, or shall be suspended if it has lasted for more than one year.

Pursuant to article 10, number 3 of the Memorandum of Association of GGND, any decision of the General Meeting involving amendment of the Memorandum of Association must necessarily be approved by shareholders holding at least 90% of the share capital, except for amendments derived from capital increase and reductions required for compliance with legal or regulatory obligations or compliance with the Company's policy on distribution of dividends.

7. Powers of the administration body, namely with respect to deliberations to increase share capital

(Article 245-A, number 1, subparagraph i) of the Securities Market Code, by application of number 4 of the same article)

The Board of Directors of GGND is vested with the Company's administration powers typically established in the legislation for the respective corporate governance model. The Memorandum of Association of GGND does not foresee any special powers for this body, namely the possibility of the Board of Directors deliberating on an increase of the Company's share capital.

8. Annual value of the remuneration earned, in aggregated and individual form, by the members of the Company's administration and supervision body in 2016

(Article 3 of Law 28/2009 of 19 June, applicable by force of article 3 of the Legal Framework for Audit Supervision approved by Law 148/2015 of 9 September)

Board of Directors

The gross annual value of the remuneration earned, in aggregated and individual form in 2016, from the date of their election on 27 October 2016, by the members of the Company's administration body currently in office, is presented in the table below.

The member of the Company's administration body Gabriel Sousa did not earn any remuneration for the performance of duties prior to the date referred to above.

Name	Position	Fixed Remuneration	Other Remunerations	Total
Maria Leonor Branco	Non-executive Deputy Chairman	5,047.89	0.00	5,047.89
Gabriel Sousa	Executive Director	20,951.61	455.40[1]	21,407.01
Naohiro Hayakawa	Executive Director	19,473.54	20,801.94[2]	40,275.48
José Vieira	Executive Director	14,612.59	455.40[1]	15,067.99
Total				81,798.37

(1) Includes the amounts relative to meals expenses
(2) Includes the amounts relative to meals and other expenses associated to the impatriation of Naohiro Hayakawa

The members of the Company's administration body not indicated in the table above did not earn remuneration in 2016.

Statutory Auditor

The remuneration paid to the Company's permanent Statutory Auditor in 2016 was €2,700.

9. Provision of services to Group companies and creditor positions over participated companies

(Article 5, number 4 of Decree-Law 495/88 of 30 December, as amended by Decree-Law 318/94 of 24 December)

See Note 28 of the Notes to the Statement of Financial Position and Income Statement of the individual accounts.

10. Declaration of Conformity of the Board of Directors

Pursuant to article 245, number 1, subparagraph c) of the Securities Market Code, each of the directors indicated below declares that, to the best of their knowledge, the management report, the annual financial statements, the legal certification of accounts and all other documents presenting accounts were prepared in conformity with the applicable accounting rules, giving a true and appropriate image of the assets and liabilities, the financial situation and the results of GGND and the companies included in the consolidation perimeter. Furthermore, they also declare that the management report faithfully presents the evolution of the business, performance and position of GGND and the companies included in the consolidation perimeter, and contains a description of the main risks and uncertainties faced by GGND and the companies included in the consolidation perimeter in their activity.

The Board of Directors

Chairman:

Pedro Carmona de Oliveira Ricardo

Deputy Chairman:

Maria Leonor Galo Pedrosa dos Santos Machado de Baptista Branco

Members:

Gabriel Nuno Charrua de Sousa

Naohiro Hayakawa

José Manuel Rodrigues Vieira

Ana Isabel Simões Dias dos Santos Severino

Maria Marta Geraldes

Yoichi Noborisaka

ANNEX II – CONSOLIDATED FINANCIAL STATEMENTS

GALP GÁS NATURAL DISTRIBUIÇÃO, S.A. AND SUBSIDIARIES

Financial Statements and Notes to the Consolidated Financial Statements as of 31 December 2016

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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 2016 and 31 December 2015
(Amounts stated in thousand Euros - €K)

ASSETS	Notes	December 2016	December 2015
Non-current assets:			
Tangible assets	12	543	562
Goodwill	11	2,275	2,275
Intangible assets	12	1,113,444	1,132,240
Investments in associates and joint ventures	4	15,059	14,169
Financial assets held for sale	4	3	3
Other receivables	14	31,754	49,189
Deferred tax assets	9	17,158	15,453
Total non-current assets:		**1,180,236**	**1,213,891**
Current assets:			
Inventories	16	1,207	1,239
Trade receivables	15	10,094	14,745
Other receivables	14	76,746	95,544
Cash and cash equivalents	18	43,064	28,526
Total current assets:		**131,111**	**140,054**
Total assets:		**1,311,347**	**1,353,945**

EQUITY AND LIABILITIES	Notes	December 2016	December 2015
Equity:			
Share capital	19	89,529	89,529
Reserves	20	3,166	2,670
Retained earnings		127,757	115,489
Consolidated net results for the year	10	25,044	29,620
Total equity attributable to shareholders:		245,496	237,308
Non-controlling interests	21	19,647	19,245
Total equity:		**265,143**	**256,553**
Liabilities:			
Non-current liabilities:			
Bank loans	22	29,462	42,710
Shareholder loans	22	595,490	-
Other payables	24	232,870	834,399
Post-employment and other employee benefits liabilities	23	60,122	50,494
Deferred tax liabilities	9	9,410	15,788
Provisions	25	32,086	22,572
Total non-current liabilities:		**959,440**	**965,963**
Current liabilities:			
Bank loans and overdrafts	22	13,301	17,517
Trade payables	26	14,196	8,926
Other payables	24	44,107	65,340
Current payable income tax	9	15,160	39,646
Total current liabilities:		**86,764**	**131,429**
Total liabilities:		**1,046,204**	**1,097,392**
Total equity and liabilities:		**1,311,347**	**1,353,945**

The accompanying notes form an integral part of the consolidated statement of financial position as of 31 December 2016.

CONSOLIDATED INCOME STATEMENT

Galp Gás Natural Distribuição, S.A. and subsidiaries
Consolidated income statement for the year ended 31 December 2016 and 31 December 2015
(Amounts stated in thousand Euros - €K)

	Notes	December 2016	December 2015
Operating income:			
Sales	5	5,826	8,026
Services rendered	5	195,690	208,910
Other operating income	5	33,670	30,248
Total operating income:		**235,186**	**247,184**
Operating costs:			
Cost of sales	6	3,161	4,878
External supplies and services	6	74,614	70,699
Employee costs	6	20,650	23,264
Amortisation, depreciation and impairment loss on fixed assets	6	41,464	41,073
Provisions and impairment losses on receivables	6	(379)	372
Other operating costs	6	24,599	20,846
Total operating costs:		**164,109**	**161,132**
Operating result:		**71,077**	**86,052**
Financial income	8	995	1,167
Financial costs	8	(23,954)	(32,188)
Results from financial investments and impairment losses on Goodwill	4 and 11	849	1,175
Result before taxes:		**48,967**	**56,206**
Income tax	9	(12,358)	(13,340)
Energy sector extraordinary contribution	9	(10,057)	(9,778)
Consolidated net result for the year		**26,552**	**33,088**
Result attributable to:			
Non-controlling interests	21	**1,508**	**3,468**
Galp Gás Natural Distribuição, S.A. shareholders	10	**25,044**	**29,620**
Final consolidated net result for the year		**26,552**	**33,088**
Earnings per share (in Euros)	10	**0.28**	**0.33**

The accompanying notes form an integral part of the consolidated income statement for the year ended 31 December 2016.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Galp Gás Natural Distribuição, S.A. and subsidiaries
Consolidated Statement of Comprehensive Income for the year ended 31 December 2016 and 31 December 2015
(Amounts stated in thousand Euros - €K)

	Notes	December 2016 Atributtable to the Shareholders	December 2016 Non-controlling interests (Note 21)	December 2015 Atributtable to the Shareholders	December 2015 Non-controlling interests (Note 21)
Consolidated net result for the year	10	**25,044**	**1,508**	**29,620**	**3,468**
Other comprehensive income for the year which will not be recycled in the future for net result of the year:					
Actuarial Gains and losses - pension fund:					
Actuarial Gains and losses - pension fund	23	(10,786)	(2)	(4,136)	(1)
Tax related to actuarial gains and losses - pension fund	9	2,404	-	619	-
		(8,382)	**(2)**	**(3,517)**	**(1)**
Other comprehensive income for the year which will be recycled in the future for net result of the year:					
Hedging reserves:					
Increases / (decreases) in hedging reserves (Associates)	20	(22)	-	49	-
Deferred tax related to hedging reserves (Associates)	20	65	-	-	-
		43	**-**	**49**	**-**
Other increases/decreases					
Changes on the financial interests held in the share capital of subsidiaries (Note 3 and 21):					
Increase in the financial interests held in the share capital of subsidiaries (Note 3 and 21)	21	-	(24)	-	(24,640)
		-	**(48)**	**-**	**(24,640)**
Other Comprehensive income for the year net of taxes		**(8,339)**	**(26)**	**(3,468)**	**(24,641)**
Comprehensive income for the year atributtable to shareholders		**16,705**		**26,152**	
Comprehensive income for the year atributtable to non-controlling interests	21		**1,482**		**(21,173)**
Total Comprehensive income for the year		**16,705**	**1,482**	**26,152**	**(21,173)**

The accompanying notes form an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2016

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	Legal Reserves	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
Balance as of 1 January 2015		**89,529**	**100**	**-**	**43**	**(286)**	**(12,681)**	**(82)**	**191,401**	**268,024**	**51,050**	**319,074**
Consolidated net result for the year	10	-	-	-	-	-	-	-	29,620	29,620	3,468	33,088
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 / descrease in Equity		-	(100)	-	-	-	-	-	-	(100)	-	(100)
Increase of equity in subsidiaries		-	-	-	(122)	-	-	-	-	(122)	(10,632)	(10,754)
Increase of reserves by appropriation of profit		-	-	2,986	-	-	-	191,401	(191,401)	2,986	-	2,986
Balance as of 31 December 2015		**89,529**	**-**	**2,986**	**(79)**	**(237)**	**(16,198)**	**131,687**	**29,620**	**237,308**	**19,245**	**256,553**
Balance as of 1 January 2016		**89,529**	**-**	**2,986**	**(79)**	**(237)**	**(16,198)**	**131,687**	**29,620**	**237,308**	**19,245**	**256,553**
Consolidated net result for the year	10	-	-	-	-	-	-	-	25,044	25,044	1,508	26,552
Other gains and losses recognised in Equity		-	-	-	-	43	(8,382)	-	-	(8,339)	(26)	(8,365)
Comprehensive income for the year		-	-	-	-	43	(8,382)	-	25,044	16,705	1,482	18,187
Dividends distributed / Interim dividends	30	-	-	-	-	-	-	(8,522)	-	(8,522)	(1,068)	(9,590)
		-	-	-	5	-	-	-	-	5	(12)	(7)
Increase of reserves by appropriation of profit		-	-	448	-	-	-	29,172	(29,620)	-	-	-
Balance as of 31 December 2016		**89,529**	**-**	**3,434**	**(74)**	**(194)**	**(24,580)**	**152,337**	**25,044**	**245,496**	**19,647**	**265,143**

The accompanying notes form an integral part of the consolidated statement of changes in equity for the year ended 31 December 2016

CONSOLIDATED STATEMENT OF CASH FLOW

Galp Gás Natural Distribuição, S.A and subsidiaries
Consolidated statement of cash flow for the year ended 31 December 2016 and 31 December 2015
(Amounts stated in thousand Euros - €K)

	Notes	December 2016	December 2015
Operating activities:			
Cash received from customers		319,942	351,473
Cash (payments) to suppliers		(104,691)	(127,854)
Payments relating to employees		(12,165)	(11,224)
(Payments) relating to Tax on oil products ("ISP")		(377)	(359)
(Payments)/receipts of income taxes		(42,486)	(4,923)
Contributions to the pension fund	23	(310)	(1,785)
Payments to early retirements and pre-retirements	23	(2,199)	(2,563)
Payments of insurance expenses with retirements	23	(933)	(1,162)
Other receipts/(payments) relating to the operational activity		(77,502)	(46,516)
Cash flows from operating activities (1)		**79,279**	**155,087**
Investing activities:			
Receipts from:			
Investment grants	13	(18)	201
Interests and similar income		16	125
Loans obtained		145	-
		143	**326**
Payments relating:			
Financial investments		(31)	(84,955)
Tangible assets		(239)	-
Intangible assets		(21,837)	(20,114)
Loans granted		-	(22,754)
		(22,107)	**(127,823)**
Cash flows from investing activities (2)		**(21,964)**	**(127,497)**
Financing activities:			
Receipts from:			
Loans obtained	22	600,000	144,300
		600,000	**144,300**
Payments relating:			
Loans obtained		(603,433)	(40,632)
Interests from loans obtained		(22,094)	(30,003)
Interests and similar expenses		(5,354)	(1,050)
Dividends distributed / Interim dividends	30	(9,580)	(59,746)
		(640,461)	**(131,431)**
Cash flows from financing activities (3)		**(40,461)**	**12,869**
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		16,854	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	18	43,030	26,176

The accompanying notes form an integral part of the consolidated statement of cash flow for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2016

1. INTRODUCTION

a) Parent Company:

Galp Gás Natural Distribuição, S.A. (hereinafter referred to as GGND or 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 2016 is stated in Note 19.

b) The Group:

As of 31 December 2016 the GGND Group ("Group") consists of Galp Gás Natural Distribuição and its subsidiaries which integrates in the natural gas distribution area.

The natural gas business segment encompasses the natural gas distribution, exercised under public interest regime, and natural gas commercialisation as last resort, according to the applicable regulation.

In October 2016, Galp Gás & Power S.G.P.S., S.A. sold 22.5% of Group Galp Gás Natural Distribuição, S.A. to Meet Europe Natural Gas, Lda.. Such sale resulted from the agreement signed at 28 July 2016 between Galp Energia S.G.P.S., S.A. and Marubeni Corporation and Toho Gas Co., Ltd.. The remaining 77.5% of the share capital of GGND is still held by Galp through its subsidiary Galp Gás & Power, S.A..

Resulting from the agreement, Group GGND is now jointly controlled by Galp Gás & Power, S.G.P.S., S.A. and Meet Europe Natural Gas, Lda..

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Group to prepare the consolidated financial statements are explained below. During the year ended 31 December 2016 there were changes in the accounting policies, in relation to those used to prepare the financial information for the preceding year, as expressed in Note 2.22. 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 2016. 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 2016, applicable to subsequent years are presented in the tables below:

Standards and Interpretations published by IASB and not yet approved by the EU:

IAS Standard	Publishing date in IASB	Date of accounting application	Year to which it applies	Comments
IFRS 14 Regulatory Tariff Deviations	30/JAN/2014	no estimated date	-	Not applicable
IFRS 16 Leases	13/JAN/2016	2nd Semester 2017	2019	Not applicable
Amendments to IAS 12 Income Taxes	19/JAN/2016	2nd Quarter 2017	2017	No estimated impact
Amendments to IAS 7 Statement of Cash Flow	29/JAN/2016	2nd Quarter 2017	2017	Impact on disclosures in the notes to the financial statements
Clarification of IFRS 15 Revenue from contracts with customers	12/APR/2016	2nd Quarter 2017	2018	Impact of the application of the standard still to be determined
Amendments to IFRS 2 Share based payments	20/JUN/2016	2nd Semester 2017	2018	Not applicable
Amendments to IFRS 4 Insurance Contracts	12/SEP/2016	2017	2018	Not applicable
IFRS annual Improvements cycle 2014-2016	08/DEC/2016	2nd Semester 2017	2017/2018	No relevant accounting impacts
IFRIC 22 Foreign Currency Transactions and Advance Consideration	08/DEC/2016	2nd Semester 2017	2018	No estimated impact
Amendments to IAS 40 Investment Properties	08/DEC/2016	2nd Semester 2017	2018	No estimated impact

Standards and Interpretations approved by the EU and applicable to subsequent years, if applicable:

IAS Standard	Publishing date in OJEU	Date of accounting application	Year to which it applies	Comments
IFRS 9 Financial Instruments	29/NOV/2016	01/JAN/2018	2018	Impact on the classification of financial instruments and in the calculation of the impairment losses on accounts receivable
IFRS 15 Revenue from contracts with customers	29/OCT/2016	01/JAN/2018	2018	Impact, still to be determined, on the revenue recognition

Standards and Interpretations adopted, if applicable:

IAS Standard	Publishing date in OJEU	Date of accounting application	Year to which it applies	Comments
Amendments to IFRS 10, 12 and IAS 28 - Investment entities: applying consolidation exception	23/SEP/2016	01/JAN/2016	2016	Not applicable
Amendments to IAS 27 Separate Financial Statements	23/DEC/2015	01/JAN/2016	2016	No impact
Amendments to IAS 1 Presentation of Financial Statements	19/DEC/2015	01/JAN/2016	2016	No relevant accounting impacts
IFRS annual improvements cycle 2012-2014	16/DEC/2015	01/JAN/2016	2016	No relevant accounting impacts
Amendments to IAS 16 Tangible Fixed Assets and IAS 38 Intangible Assets	03/DEC/2015	01/JAN/2016	2016	Not applicable
Amendments to IFRS 11 Joint arrangements	25/NOV/2015	01/JAN/2016	2016	Potential impact on new acquisitions of joint operations
Amendments to IAS 16 Tangible Fixed Assets and IAS 41 Agriculture	25/NOV/2015	01/JAN/2016	2016	Not applicable
IFRS annual improvements cycle 2010-2012	09/JAN/2015	01/FEB/2015	2016	No relevant accounting impacts
Amendments to IAS 19 Defined Benefits Plan: Employees contributions	09/JAN/2015	01/FEB/2015	2016	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.

IFRS 16 – Leases

This standard specifies how leases should be recognised, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognise 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 the Group believes that it should not be relevant for leases related to the Gas activity, since it is concessionary, under IFRIC 12 and for that reason the standard does not apply (IFRS 16 p.3).

Amendments to IAS 12 – Income taxes

The amendments to IAS 12 refer to the recognition of deferred tax assets for unrealised losses, and clarify the following aspects:

a) Unrealised 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.
b) The carrying amount of an asset does not limit the estimated future value, which might be higher.
c) Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

d) An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation 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 to IAS 12 will have any impact on the calculations and records for deferred taxes made by GGND.

IAS 7 – Statement of Cash Flows: Disclosures

Requires an entity to disclose a reconciliation on the changes in financial liabilities with cash flows (financing activities), 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 not monetary changes.

This amendment will have impact on the future disclosures to be presented in the notes to the financial statements.

Clarification to IFRS 15 Revenue from contracts with customers

Changes refer to additional guidelines to be followed to determine the performance obligations of a contract, at the moment of revenue recognition of an intellectual property license, the revision of indicators to classify the main relation versus agent, and new regimes predicted to simplify the transaction.

GGND is analysing future impacts of the standard on the activity revenue recognition.

Amendments to IFRS 2 Share based payments

The amendment clarifies the measurement basis for payments transactions based in cash-settled and accounting of modifications to the payment plan based on shares that change its classification as cash-settled to equity-settled.

Additionally, the amendment introduces an exception to IFRS 2, now demanding that a share base payment plan is handled as equity-settled when the employer is obliged to retain the tax amount for the employee and pay such amount to the fiscal authorities.

The amendment has no impact according to GGND, given no share base payments exist.

Amendments to IFRS 4 Insurance contracts

Amendments to IFRS 4 allow two distinct solutions for insurance companies: a temporary exemption to IFRS 9 for entities which satisfy specific requirements (applied at the reporting entity level); and overlay approach.

However it is predicted that IFRS 4 will be replaced by the next new insurance contracts standard. Consequently, it is expected that the temporary exemption and overlay approach will no longer be applicable when the new insurance standard is in place.

Such amendment has no impact in GGND given that the Group does not pursue insurance activities.

IFRS annual improvements cycle 2014-2016

- IFRS 1 – First-time Adoption of International Financial Reporting Standards

This improvement to IFRS 1 eliminates short term exemptions predicted for first time adopters.

- IFRS 12 – Disclosure of Interests in Other Entities

The improvement clarifies the scope of the standard application, specifying that the disclosure requirements apply to interests in entities mentioned in the standard (e.g. subsidiary, joint-ventures, associated and unconsolidated 'structured entities') held for sale or as discontinued operations in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, and the only exemption refers to the disclosure of the entities resumed financial information.

- IAS 28 – Investments in Associates and Joint Ventures

The improvement clarifies that the adoption of the option to measure by fair value through income the investments in associated companies and joint-ventures, held by a venture capital organisation or other similar entities, is made by investment in each associated company or joint-venture (in an individual basis without demanding the consistency by investment class), in the initial measurement.

GGND considers that the amendments clarify the existing standard and have no relevant impacts in measurement or financial presentation.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Interpretation regarding the exchange rate to be used when reporting transactions that are denominated in a foreign currency. The Interpretation applies when the entity pays or receives in advance due to foreign currency contracts and defines as follows:

i) The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
ii) If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

GGND considers the standard has no impact given that GGND already accounts for according with the standard.

Amendments to IAS 40 Investment properties

The amendments intends to clarify that in order to transfer to/from investment properties, a usage alteration is needed. In order to conclude if a usage alteration to investment properties was noted, an evaluation needs to be performed to confirm if the property achieves the definition predicted in the Standard. This alteration must be supported by evidences, given that a change of intention by management on its own is not sufficient to support a transfer.

GGND predicts such amendments have no impact.

Standards and Interpretations endorsed by the European Union to be applied to subsequent years, if applicable:

IFRS 9 – Financial Instruments

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 recognise 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 analysing the future impact of this standard particularly in the recognition of revenue in the developed activities.

Standards and interpretations adopted in 2016, if applicable:

Amendments to IFRS 10, 12 and IAS 28 Investment entities: applying consolidation exception

This amendments clarify 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.

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.

GGND does not change it accounting policy of accounting financial investment by acquisition cost in separate financial statements, so the amendment has no impact.

Amendments to IAS 1 – Presentation of financial statements

This amendments to IAS 1 results from an IFRS disclosure initiative, and provides guidance on materiality and aggregation of captions, financial statements estructure, accounting policies disclosure, presentation of other comprehensive income generated by investments mensured according to the equity method and the presentation of subtotals in the IFRS financial statements.

GGND considers the amendment has no relevant impact in the 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 / amortisation of an asset is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an asset.

GGND considers this amendment as not applicable, as GGND does not depreciate/amortise 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 re-measurement 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 consumable biological assets produced 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

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.

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 and applicable at 31 December 2016.

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, even if negative.

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 recognised as Goodwill (Note 2.2.c)). 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 recognised 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%, according with 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.

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 recognised 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 unrealised gains and losses on sales between Group companies), balances and dividends distributed between Group companies are eliminated in the consolidation process, except for losses arising from impairment losses in transferred assets.

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, usually where it holds between 20% to 50% of the company's voting rights or capital) 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% of voting rights or capital), are recorded at fair value or alternatively, at cost, when the affiliates are not listed and their value cannot be measured reliably.

"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 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 in the 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 recognised 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 recognised 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 recognised 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 favour of the associate, in which case the Group recognises a loss and a liability for the amount for which the Group has taken responsibility.

Unrealised 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. Unrealised 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 recognised 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 recognised 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 recognised 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 amortised 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 in the income statement caption "Results from investments in associates" and "Impairment losses on Goodwill", included in financial results.

If the 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 recognises 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 recognised gain will be adjusted by an amount equal to the adjustment to the fair value at the assets acquisition date, liabilities and contingent liabilities identifiable being recognised 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, amortisation or other additional gain or loss recognised 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 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

Tangible assets acquired until 1 January 2004, up to the date of the IFRS transaction, are registered according to IFRS 1, by deemed cost, at revaluated acquisition cost when applicable, in accordance with the legal disposals, deducted of depreciations and impairment losses.

Tangible assets acquired after that date are registered at acquisition cost deducted of depreciations and impairment losses. The acquisition cost includes invoice price, transportation, assembly and incurred financial costs during the construction phase.

Depreciations are calculated based on deemed cost (for acquisitions previous to 1 January 2004) or acquisition cost, by the straight line method, applied from the date in which the asset is available for use, as intended by management. It is used between the most appropriate economic rates, the ones that allow the fixed asset reintegration, during the estimated useful life considering, when applicable, the concession period.

Average annual depreciation rates used may be presented as follows:

	2016 Rates	2015 Rates
Buildings and other constructions	2%	2%

Gains or losses arising from the write-off or disposal of tangible assets are determined by the difference between selling price and net book value at the date of the write-off/disposal. When applicable, the net book value is registered under "Accumulated impairment losses". Gains and losses noted are registered in the income statement under "Other operating income" or "Other operating expenses", respectively.

2.4. Intangible assets

As result of IFRIC 12, GGND recognises natural gas assets included in the concession arrangements and exploration licenses whose remuneration is defined by ERSE in accordance with the intangible assets model. Consequently, the tangible assets of regulated activities are recognised as intangible assets, in the caption "Service Concession Arrangements", and amortised in accordance with their economic useful life by the straight line method, applied from the date in which the asset is available for use. It is used between the most appropriate economic rates, the ones that allow the fixed asset reintegration, during the estimated useful life considering the concession period or usage expectation.

The natural gas infrastructures, namely the gas distribution networks, are amortised over the concession period (45 years) or exploration license (20 years).

The Group capitalises 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 (Decree-law

140/2006, 26 July). These costs are amortised on a straight-line basis up to the end of the company's natural gas distribution concession period.

2.5. 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 in the income statement caption "Amortisation, depreciation and impairment loss of tangible assets".

The recoverable amount is the greater between fair value and 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 recognised as a decrease in the income statement caption "Amortisation, depreciation and impairment loss of tangible assets". However, impairment losses are only reversed up to the amount the asset would be recorded (net of amortisation or depreciation) if the impairment loss had not been recorded previously.

The gas business CGU is defined as the gas networks and its concessions.

2.6. 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 between fair value and 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 amortisation 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.

2.7. Inventories

Inventories (goods, raw and subsidiary material) are stated at the lower acquisition cost (in case of goods, raw and subsidiary material) or net realisable value.

Net realisable value corresponds to the normal selling price less costs to complete production and costs to sell.

Whenever cost exceeds net realisable 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.

2.8. 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.

Non-repayable government grants for tangible and intangible assets – concession agreements are recorded as deferred income in the caption "Other payables" and recognised in the consolidated income statement as other operating income, in proportion to the depreciation and amortisation of the granted assets.

2.9. Provisions

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.

2.10. 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 specialised 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 recognised, 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.

Net interest related with retirement benefits is reflected in the income statement caption "Personnel costs - 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 authorised the creation of the Galp Energia defined contribution Pension Fund. In 2003 Galp Energia, S.G.P.S., 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, S.G.P.S., 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.

2.11. 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 recognised 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 specialised 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 2.9 above.

2.12. Foreign currency balances and transactions

Transactions are recorded in the individual financial statements of subsidiaries in their functional currencies, at the exchange rates in force at 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 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.

2.13. Income and accruals basis

Natural gas selling income and services rendered (natural gas distribution) income are recognised in the income statement when the risks and benefits inherent to the possession of the assets are transferred to the buyer or when services are rendered and the amount of the income can be reasonably measured. Sales and services rendered are recorded at the fair value of the amount received or receivable, net of taxes, discounts and other costs incurred to realise 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 recognised when it established the right of the company to recognise the appropriate amount.

Natural gas activity

The regulated tariffs used for invoicing natural gas in the national natural gas system are regulated by Entidade Reguladora do Sector Energético ("ERSE"), so that they allow the recovery of the estimated regulated revenue calculated at the beginning of 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 commercialisation activity, remuneration for the purchase and sale of natural gas, which corresponds to the effective cost of natural gas and remuneration of the operating commercialisation costs plus a commercialisation 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 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 tariffs invoiced to commercialisation companies and final customers, the regulated companies of the Group include in their income the tariffs that incorporate the remuneration/recovery of all activities.

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 t", as published in the ERSE's Tariff Regulation, includes a component related to the adjustment over "Civil Year s-2" and "Civil Year s-2". This rationale is also applied to the negative tariff deviations, which are recorded as liabilities and costs.

In previous years, differences to the regulated revenue recorded by the Company were incorporated in the respective tariff calculations in accordance with the established mechanisms.

In the distribution and last resort commercialisation 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).

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 commercialisation activities reflect the difference in payment terms.

The meter reading, invoicing and respective collection related to the gas distribution and commercialisation activities are performed directly by the companies or, in respect of the meter reading and collection activities, by subcontracted external partners.

Natural gas sales not yet invoiced are recorded monthly in the caption "Other receivables" based on the customers historical information by consumption class, and corrected in the income statement in the period in which they are invoiced (Note 14).

Under the captions "Other receivables" is presented a monthly estimation based on historical information (daily average consumptions, days not invoiced and tariffs) or readings performed depending on the client's situation and corrected in income on the period in which it is invoiced (Note 14).

Regarding construction contracts included under IFRIC12, the construction of concession assets is outsourced to specialised 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 recognised.

2.14. 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 capitalised in fixed assets in progress in proportion to the total costs incurred on the investments, net of government grants received (Note 2.7), up to the time they start operating (Notes 2.3), 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 capitalised financial costs.

Financial costs included in tangible assets are depreciated over the period of useful life of the assets.

2.15. 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 recognise deferred tax assets that were not recorded in prior years as they did not fulfil all requisites and/or to reduce the amounts of deferred tax assets recorded based on the current expectation of their future recovery (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.

2.16. 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 2016 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 recognised 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.

This assets are derecognised when (i) the Groups' contractual rights to receive its future cash flows expire, (ii) the Group has substancially tranfered all risks and benefits associated with its ownership or (iii) otherwise, retains part, but not substancially, of the risks and benefits associated with its ownership, the Group has tranfered the control of such assets.

b) Receivables

Receivables are initially recorded at fair value and subsequently measured at amortised cost, less any impairment losses, recognised in the caption "Impairment losses on receivables".

Usually, amortised 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 amortised cost.

Financial costs are calculated at the effective interest rate and recognised in the income statement on an accrual basis, then they are not related with qualified fixed assets investments.

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 amortised cost, by the effective interest rate method. Usually, the amortised 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 realised 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".

2.17. Classification in the consolidated statement of financial position

Assets realisable 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.

2.18. 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 36).

2.19. 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 operational 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 characterised.

2.20. 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 recognised each year. The actual results could be different depending on the estimates made.

Certain estimates are considered critical if: (i) the nature of the estimates is considered to be significant due to the level of subjectivity and judgment required to record situations in which there is great uncertainty or are very susceptible to changes in 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) tangible and intangible assets, investments in associates and goodwill impairment tests; (ii) provision for contingencies; (iii) demographic and financial assumptions used to calculate retirement benefits; (iv) accounts receivable impairment; (v) tangible and intangible assets useful lives and residual values; (vi) deferred taxes.

Goodwill impairment

The Group performs annual impairment tests on goodwill, as explained in Note 2.2.c). 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

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/amortisation to apply, is essential to determine the depreciation/amortisation amount to recognise 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 recognised 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.

2.21. Equity management policy

Galp Gás Natural Distribuição, S.A. (GGND) is the Group holding for natural gas infrastructures in Portugal and as of 31 December 2016 its consolidated equity were €265,175 k.

GGND Group's financing model is historically maintained through loans of the Galp Group sub-holding for the gas business. As a result of the long-term partnership established with Marubeni Group, announced at 29 July 2016, that predicted the acquisition of 22.5% of GGND Group (formalised at 27 October 2016), GGND established at 25 August 2016 a program of Euro Medium Term Note Program up to €1,000,000 k (Note 22). At 19 September 2017 GGND issued notes amounting €600,000 k, allowing the full reimbursement of loan granted by Galp. The indebtedness covenant of Group GGND amounts to approximately 5x Net Debt/EBITDA, in line with the natural gas infrastructures companies and lower to the established by the bank contracts, which allow a covenant up to 7x.

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

3. CONSOLIDATED COMPANIES

3.1. Consolidation perimeter

The companies included in the consolidation, their head offices, percentage of interest held and their main activities are as follows:

Companies		Head Office City	Head Office Country	Percentage of interest held 2016	Percentage of interest held 2015	Main activity
Group Companies						
Holding						
Galp Gás Natural Distribuição, S.A.		Lisboa	Portugal	-	-	Pursue of activities in the energy sector, particularly of natural gas distribution including service rendering to support corporate management, administration and logistics, purchases and supply and IT.
Subsidiaries:						
Beiragás - Companhia de Gás das Beiras, S.A.	***a)***	Viseu	Portugal	59.59%	59.50%	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.
Dianagás - Sociedade Distribuidora de Gás Natural de Évora, S.A.		Lisboa	Portugal	100.00%	100.00%	Natural gas distribution, exercised in the public interest regime, under the rules applicable in the geographical area of the exploration license of autonomous local distribution networks and their supply and equipments for other compatible infrastructures, as well as the pursue of directly and indirectly related activities.
Duriensegás - Sociedade Distribuidora de Gás Natural do Douro, S.A.		Vila Real	Portugal	100.00%	100.00%	Natural gas distribution, exercised in the public interest regime, under the rules applicable in the geographical area of the exploration license of autonomous local distribution networks and their supply and equipments for other compatible infrastructures, as well as the pursue of directly and indirectly related activities.
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.		Lisboa	Portugal	100.00%	100.00%	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.
Lusitaniagás - Companhia de Gás do Centro, S.A.		Aveiro	Portugal	96.84%	96.84%	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.
Medigás -Sociedade Distribuidora de Gás Natural do Algarve, S.A.		Lisboa	Portugal	100.00%	100.00%	Natural gas distribution, exercised in the public interest regime, under the rules applicable in the geographical area of the exploration license of autonomous local distribution networks and their supply and equipments for other compatible infrastructures, as well as the pursue of directly and indirectly related activities.
Paxgás - Sociedade Distribuidora de Gás Natural de Beja, S.A.		Lisboa	Portugal	100.00%	100.00%	Natural gas distribution, exercised in the public interest regime, under the rules applicable in the geographical area of the exploration license of autonomous local distribution networks and their supply and equipments for other compatible infrastructures, as well as the pursue of directly and indirectly related activities.
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.		Setúbal	Portugal	99.93%	99.93%	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.

a) *Acquired companies:*

During the year ended 31 December 2016, through the subsidiary Galp Gás Natural Distribuição, S.A., the Group acquired 0.08842% of shares in its subsidiary Beiragás - Companhia de Gás das Beiras, S.A. by € 31 k. With this acquisition, the Group holds 59.5931% of the subsidiary's shares.

Subsidiary Beiragás - Companhia de Gás das Beiras, S.A. was previously controlled by the Group and consolidated by the full consolidation method (held by 59.50468%). The difference between the amount paid and equity book value at the acquisition date was recognised in equity €5k (Note 20).

Resulting from the increase of 0.08842%, the negative amount of €12 k was accounted for under "Non-controlling interests", referring to the variation of non-controlling interests in the captions of "Share capital", "Other reserves" and "Share premium", and the negative amount of €24 k refers to the variation of non-controlling interests under "Retained earnings" up to the date of the participation increase (Note 21).

4. FINANCIAL INVESTMENTS

4.1. Investments in associates

Investments in associates, their head offices and the percentage or interest held as of 31 December 2016 and 2015 are as follows:

(€ k)

Company		Head Office		Percentage of interest held		Book Value		Main activity
		City	Country	2016	2015	2016	2015	
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	a)	Santarém	Portugal	41.33%	41.33%	15,059	14,169	Natural gas production and distribution and other pipelined fuelled gases.
Value of financial investments in associates						**15,059**	**14,169**	

a) Participation held by Galp Gás Natural, S.A.

Following the summary of the financial statements of the associates as of 31 December 2016 and 2015:

(€ k)

Financial information of the associate entities as of 31 December 2016 (*)

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
2016:														
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	82,870	4,160	4,566	**91,596**	(20,276)	(23,418)	-	(11,466)	**(55,160)**	**36,437**	17,638	(2,630)	(9,951)	**5,057**
2015:														
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	83,506	5,611	4,814	**93,931**	(20,226)	(24,378)	(4,650)	(10,395)	**(59,649)**	**34,282**	21,505	(2,522)	(12,805)	**6,178**

Companies	Financial income - interests	Financial costs - interests	Financial income - other	Financial costs - other	Financial result	Income tax	Energy sector extraordinary contribution	Net result for the year	Comprehensive result for the year	Percentage held and Book value: % share held	Book Value	Gains / Losses	Comprehensive income
2016:													
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	-	-	31	(1,680)	**(1,649)**	(662)	(693)	**2,053**	**2,154**	41.33%	15,059	849	891
2015:													
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	60	(2,035)	-	-	**(1,975)**	(708)	-	**2,802**	**2,930**	41.33%	14,169	1,175	1,228

(*) Previsional accounts at closing date, considered by the Group for application of the equity method.
(a) Including hedging reserves

Changes in “Financial investments in associates” for the year ended 31 December 2016 by equity equivalence method was as follows:

Financial investments	Initial balance	Gains / Losses (Note 4.4)	Adjustments to hedging reserves	Actuarial gains and losses	Final Balance
2016:					
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	14,169	849	43	(2)	15,059
2015:					
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	12,941	1,175	50	3	14,169

4.2. Financial assets held for sale

The financial investments in associated companies, presented in the consolidated statement of financial position as “Financial assets held for sale”, the head offices and the percentage or interest held as of 31 December 2016 and 2015 are as follows:

(€ k)

Company	Head Office		Percentage of interest held		Book Value	
	City	Country	2016	2015	2016	2015
AGENEAL Agência Municipal Energia de Almada	Almada	Portugal	0.04%	0.04%	3	3
					3	3

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 of 31 December 2016.

4.3. Results from financial investments

The caption "Results from financial investments" presented in the consolidated income statement for the year ended 31 December 2016 and 31 December 2015 are comprised as follows:

	December 2016	December 2015
		(€ k)
Effect of applying the equity method:		
Associated companies (Note 4.2)	849	1,175
	849	**1,175**

5. OPERATING INCOME

The Group's operating income for the years ended 31 December 2016 and 2015 is as follows:

Captions	**2016**	**2015**
		(€ k)
Sales:		
Goods	5,826	8,026
	5,826	**8,026**
Services Rendered	195,690	208,910
	195,690	**208,910**
Other operating income:		
Supplementary income	1,247	1,248
Revenues arising from the construction of assets under IFRIC12	23,191	19,816
Investment government grants (Note 13)	8,882	8,905
Others	350	279
	33,670	**30,248**
	235,186	**247,184**

The captions "Sales" and "Services rendered" include the amount of €18,340 k related to commercialisation and distribution activities of natural gas as a result of (Note 14):

- positive €1,642 k concerning the adjustment of the estimated regulated revenues and the value of the invoiced income in relation to distribution and commercialisation activities (Note 14);

- negative €3,122 k concerning the adjustment made by ERSE in the fixation of the tariff deviations – regulated revenue of the Companies (Note 14);

- negative €11,534 k concerning the corresponding regulated revenue amortisation for 2013 (Note 14);

- negative €5,326 k concerning the corresponding regulated revenue amortisation for 2014 (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 2016-2017 Gas Year, thus the Group is recognising 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 specialised 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:

		(€ k)
Captions	**2016**	**2015**
Revenues arising from the Construction of Assets under IFRIC12	(23,191)	(19,816)
Costs arising from the Construction of Assets under IFRIC12	23,191	19,816
Margin	**-**	**-**

6. OPERATING COSTS

The results for the years ended 31 December 2016 and 2015 were affected by the following items of operating costs:

(€ k)

CAPTIONS	2016	2015
Cost of Sales:		
Raw and subsidiary materials	-	15
Goods	3,165	4,863
Exchange rate differences	(4)	-
	3,161	**4,878**
External supplies and services:		
Subcontracts - Third party access to network	42,212	42,877
Rental costs	1,293	1,307
Maintenance and repairs	2,673	3,110
Insurance	1,360	1,140
IT services	6,491	3,862
Electricity, water, vapour and communications	508	486
Readings, billing and collection	1,426	1,612
Technical Assistance Maintenance and inspection	3,157	2,978
Other specialised services	13,764	11,655
Other external supplies and services	1,254	1,236
Other costs	476	436
	74,614	**70,699**
Personnel costs:		
Statutory board salaries (Note 29)	151	10
Employee salaries	16,811	18,631
Social charges	3,651	3,675
Retirement benefits - pensions and insurance (Note 23)	3,293	4,193
Other insurance	1,285	1,262
Other costs	(4,541)	(4,507)
	20,650	**23,264**
Amortisation, depreciation and impairment on fixed assets		
Amortisation and impairment of tangible assets (Note 12)	19	19
Amortisation and impairment of concession agreements (Note 12)	41,445	41,054
	41,464	**41,073**
Provision and impairment losses on receivables		
Provisions and reversals (Note 25)	(543)	215
Impairment losses on trade receivables (Note 15)	164	157
	(379)	**372**
Other operating costs		
Other taxes	231	339
Costs arising from the construction of Assets under IFRIC12	23,191	19,816
Losses on fixed assets	801	200
Donations	144	184
Other operating costs	232	307
	24,599	**20,846**
Total of operating costs	**164,109**	**161,132**

The caption "Subcontracts – network use" refers to charges for the use of:

- Transportation network use (URT);
- Global system use (UGS).

7. SEGMENT REPORTING

Business segments

As of 31 December 2016 the GGND Group is constituted by Galp Gás Natural Distribuição and its subsidiaries that develop activities of natural gas distribution and commercialisation.

The Natural Gas business segment reaches Natural Gas Distribution and Last Resort Commercialisation.

In "Others", the Group considered the holding Galp Gás Natural Distribuição, S.A..

The finantial statements of the previously identified segments as 31 December 2016 and 31 December 2015 is presented as follows:

(€ k)

	Natural Gas		Others		Eliminations		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015
Income								
Sales and Services Rendered	201,236	216,656	11,482	9,007	(11,202)	(8,727)	201,516	216,936
Between Segments	290	-	10,912	8,727	(11,202)	(8,727)	-	-
External	200,946	216,656	570	280	-	-	201,516	216,936
Cost of Sales	-	-	-	-	-	-	(3,161)	(4,878)
Cost of Sold Materials and Consumables	(3,165)	(4,878)	4	-	-	-	(3,161)	(4,878)
Production Variation	-	-	-	-	-	-	-	-
EBITDA (1)	**111,647**	**127,114**	**515**	**383**	**-**	**-**	**112,162**	**127,497**
Non-disbursable Costs								
Amortisations and Adjustments	(41,464)	(41,073)	-	-	-	-	(41,464)	(41,073)
Depreciations and Amortisations	(41,464)	(41,073)	-	-		-	(41,464)	(41,073)
Impairments	-	-					-	-
Provisions (net)	379	(372)	-	-	-	-	379	(372)
Provisions	(233)	(288)	-	-		-	(233)	(288)
Impairments	(170)	(198)	-	-		-	(170)	(198)
Provisions - Reversals	777	73	-	-		-	777	73
Impairments - Reversals	5	41	-	-		-	5	41
EBIT IAS/IFRS	**70,562**	**85,669**	**515**	**383**	**-**	**-**	**71,077**	**86,052**
Financial Investments Results	-	-	849	1,175	-	-	849	1,175
Other Financial Results	(27,418)	(27,338)	4,459	(3,683)	-	-	(22,959)	(31,021)
Interest Costs	(23,148)	(31,528)	(23,058)	(30,170)	27,379	26,157	(18,827)	(35,541)
Interest Income	994	1,166	27,745	26,498	(27,379)	(26,157)	1,360	1,507
Other Financial Charges	(5,264)	3,024	(227)	(11)		-	(5,492)	3,013
Income Tax	(11,049)	(13,906)	(1,309)	566	-	-	(12,358)	(13,340)
Energy Sector Extraordinary Contribution	(10,057)	(9,778)	-	-	-	-	(10,057)	(9,778)
Non-controlling Interests	(1,508)	(3,468)	-	-	-	-	(1,508)	(3,468)
Consolidated net result of the year	**20,530**	**31,179**	**4,514**	**(1,559)**	**-**	**-**	**25,044**	**29,620**
As of 31 December 2016 and 31 Decemebr 2015								
OTHER INFORMATIONS								
Segment Assets (2)								
Financial Investments (3)	3	3	17,334	16,444	-	-	17,337	16,447
Other Assets	1,265,232	1,388,196	592,404	569,941	(563,626)	(620,637)	1,294,010	1,337,498
Total Consolidated Assets	**1,265,235**	**1,388,199**	**609,738**	**586,383**	**(563,626)**	**(620,637)**	**1,311,347**	**1,353,945**
Total Consolidated Liabilities	**994,649**	**1,068,649**	**615,181**	**649,380**	**(563,626)**	**(620,637)**	**1,046,204**	**1,097,392**
Investment in Intangible and Tangible Assets	**15,904**	**19,816**	**-**	**-**			**15,904**	**19,816**

(1) EBITDA = Segment Resutls / EBIT + Amortisation + Provisions

(2) Net amount.

(3) By equity equivalence method.

Sales and Services Rendered Between Segments

(€ k)

Segments	Natural Gas	Others	TOTAL
Natural Gas	-	10,912	10,912
Others	290	-	290
	290	**10,912**	**11,202**

The core of between segments services rendered are:

i) Others: back-office and management services

The reconciliation between Segment Reporting and Income Statement for the years ended 31 December 2016 and 2015 is as follows:

(€ K)

Captions of Segment Reporting	2016	2015	Caption of Income Statment	2016	2015
Income					
Sales and Services Rendered	201,516	216,936	Sales	5,826	8,026
			Services Rendered	195,690	208,910
Cost of Sales	-3,161	-4,878	Cost of Sales	-3,161	-4,878
			Other operating income	33,670	30,248
			External services and supplies	-74,614	-70,699
			Personnel costs	-20,650	-23,264
			Other operational costs	-24,599	-20,846
EBITDA IAS/IFRS (1)	**112,162**	**127,497**	**Operational result before amortisations and provisions**	**112,162**	**127,497**
Non-disbursable Costs					
Amortisations and Adjustments	-41,464	-41,073	Amortisations, depreciations and impairment losses on fixed assets	-41,464	-41,073
Provisions (net)	379	-372	Provisions and impairment losses on receivables	379	-372
EBIT IAS/IFRS	**71,077**	**86,052**	**Other operational costs**	**71,077**	**86,052**
Financial Investments Results	849	1,175	Results of finanical investments and goodwill impairment losses	849	1,175
Other Financial Results	-22,959	-31,021			
			Financial income	995	1,167
			Financial costs	-23,954	-32,188
Income Tax	-12,358	-13,340	Income tax	-12,358	-13,340
Energy Sector Extraordinary Contribution	-10,057	-9,778	Energy Sector Extraordinary Contribution	-10,057	-9,778
Minoraty Interests	-1,508	-3,468	Non-controlling interests	-1,508	-3,468
Net Result	**25,044**	**29,620**	**Net Result**	**25,044**	**29,620**

8. FINANCIAL INCOME AND COSTS

Financial income and financial costs for the years ended 31 December 2016 and 2015 are as follows:

		(€ k)
Captions	**2016**	**2015**
Financial income:		
Interest of bank deposits	628	826
Interest and other income with related companies (Note 28)	367	341
	995	**1,167**
Financial costs:		
Interest of loans, bank overdrafts and others	(2,424)	(624)
Interest with related companies	(20,724)	(30,903)
Charges related to loans	(608)	(493)
Other financial costs	(198)	(168)
	(23,954)	**(32,188)**
	(22,959)	**(31,021)**

9. INCOME TAX

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, S.G.P.S., S.A.. The average tax rate applicable to companies with head offices in Portugal was 25%.

However, estimated income tax of the Company and its subsidiaries is accounted based on their tax results. In the year ended 31 December 2016, €15,160 k was recorded in the caption "Income tax".

(€ k)

Captions	2016	2015
Galp Energia, S.G.P.S., S.A. (Note 28)	(15,397)	(37,333)
State and other public entities	237	(2,313)
	(15,160)	**(39,646)**

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 2013 to 2016 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 2016 and 2015;

iii) Pursuant existing legislation, tax losses in Portugal are reportable e subject to utilisation for 5 and 12 years, as they are generated in 2012 and 2013 or 2014 or in 2014, 2015 and 2016 afterwards, respectively.

Income tax and Energy sector extraordinary contribution for the years ended 31 December 2016 and 2015 are as follows:

(€ k)

Captions	December 2016	December 2015
Current income tax	19,013	27,040
(Excess)/Insufficiency of income tax for the preceding years	(976)	(420)
Deferred tax	(5,679)	(13,280)
Income tax	**12,358**	**13,340**
Energy sector extraordinary contribution	**10,057**	**9,778**
	22,415	**23,118**

Below is a reconciliation of the income tax for the years ended 31 December 2016 and 2015, and detail of deferred taxes:

(€ k)

	December 2016	Rate	Income tax	December 2015	Rate	Income tax
Result before taxes:	48,972	25.00%	12,243	56,206	27.00%	15,176
Adjustments to taxable income:						
Application of the equity method		0.42%	207		0.56%	317
Fiscal benefits		(0.06%)	(27)		(0.06%)	(33)
Achievements of social utility		0.00%	-		0.59%	330
Income tax rates differences		1.46%	714		0.00%	-
(Excess)/Insufficiency of income tax of the preceding year		(1.99%)	(976)		(0.75%)	(420)
Autonomous taxation		0.73%	358		0.63%	352
"PE" - Special participation and "IRP" - Tax on Oil Income		0.00%	-		0.00%	-
Other accruals and deductions		(0.33%)	(161)		(4.24%)	(2,382)
Income tax and rate		**25.23%**	**12,358**		**23.73%**	**13,340**

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.

As for the rate changes observed in Portugal, the Company considered by as substantively enacted at 31 December 2016 and 31 December 2015. The average tax rate applicable to companies with head offices in Portugal was 25%.

As of 31 December 2016 and 31 December 2015, the balance of deferred tax assets and liabilities is as follows:

(€ k)

	Deferred tax December 2016 - Assets			
Captions	**Initial balance**	**Effect in results**	**Effect in equity**	**Final balance**
Adjustment to tangible and intangible assets	7	-	-	7
Retirement benefits and other benefits	11,285	(1,069)	2,404	12,620
Regulated revenue	2,176	(161)	-	2,015
Non-deductible provisions	1,121	658	-	1,779
Others	864	(127)	-	737
	15,453	**(699)**	**2,404**	**17,158**

(€ k)

	Deferred tax December 2015 - Assets			
Captions	**Initial balance**	**Effect in results**	**Effect in equity**	**Final balance**
Adjustment 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
	12,698	**2,136**	**619**	**15,453**

(€ k)

	Deferred tax December 2016 - Liabilities		
Captions	**Initial balance**	**Effect in results**	**Final balance**
Adjustment to tangible and intangible assets	(4)	4	-
Adjustment to tangible and intangible assets – Fair Value	(3,544)	110	(3,434)
Regulated revenue	(11,031)	6,209	(4,822)
Accounting revaluations	(1,209)	55	(1,154)
	(15,788)	**6,378**	**(9,410)**

(€ k)

Deferred tax December 2015 - Liabilities

Captions	Initial balance	Effect in results	Other adjustments	Final balance
Adjustment to tangible and intangible assets	-	(4)	-	(4)
Adjustment 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)
	(27,042)	**11,144**	**110**	**(15,788)**

The changes 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 2016 and 2015 are as follows:

(€ k)

	December 2016	December 2015
Results		
Net result for purposes of calculating earnings per share (consolidated net result for the period)	25,044	29,620
Number of shares		
Weighted average number of shares for purposes of calculation earnings per share (Note 19)	89,529,141	89,529,141
Basic and diluted earnings per share (value in Euros):	**0.28**	**0.33**

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 of 31 December 2016 and 2015 was as follows:

(€ k)

Subsidiaries	Acquisition year	Acquisition cost	Proportion of equity own at acquisition date %	Proportion of equity own at acquisition date Amount	Goodwill December 2015	Goodwill December 2016
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
					2,275	**2,275**

Goodwill corresponds to values that were accounted for in the financial statements of the holding Galp Gás & Power, S.G.P.S., S.A., concerning differences in acquisition of subsidiaries in years preceding the date of the share increase of Galp Gás Natural Distribuição, S.A..

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 GGND Group's WACC (Weighted Average Cost of Capital).

31 December 2016:

Cash flow units	Evaluation model	Assumptions: Cash flow	Assumptions: Growing Rate	Assumptions: Discount rates
Financial participation (by business segment)	DCF (Discounted Cash Flow)	According to corporate business	Gordon Model with growing perpetuity of 2%	WACC between: G&P [6.3%-6.9%]

G&P - Gas & Power

31 December 2015:

Cash flow units	Evaluation model	Assumptions Cash flow	 Growing Rate	 Discount rates
Financial participation (by business segment)	DCF (Discounted Cash Flow)	According to corporate business	Gordon Model with growing perpetuity of 2%	WACC between: G&P [6.2%-6.8%]

G&P - Gas & Power

According to the defined assumptions for the year ended 31 December 2016 no impairment losses in Goodwill were noted.

12. TANGIBLE AND INTANGIBLE ASSETS

Tangible and intangible assets are recorded in accordance with the accounting policy defined in Note 2.3 and 2.4. The depreciation / amortisation rates that are being applied are disclosed in the same notes.

12.1. Changes in tangible assets:

Movements in tangible assets as of 31 December 2016:

(€ k)

	2016	2015
Tangible assets:	Land and natural resources	Land and natural resources
Acquisition cost:		
Balance as of 01 January 2016	938	938
Gross acquisition cost as of 31 December 2016	**938**	**938**
Accumulated amortisations and impairment losses:		
Balance as of 01 January 2016	(376)	(357)
Amortisations for the year	(19)	(19)
Balance as of 31 December 2016	**(395)**	**(376)**
Net Amount:		
As of 31 December 2016	**543**	**562**

12.2. Changes in intangible assets:

Movements in intangible assets as of 31 December 2016:

(€ k)

Intangible assets	Service Concession Arrangements - Land	Service Concession Arrangements - Buildings	Service Concession Arrangements - Basic Equipment	Service Concession Arrangements - Transport Equipment	Service Concession Arrangements - Tools	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	Intangible assets in progress	Total intangible assets
2016														
Acquisition cost:														
Balance at 1 January	11,791	9,064	1,137,937	152	4,439	7,294	4	5,950	3,712	702	567,774	1,701	-	1,750,520
Additions	355	-	-	-	-	-	-	-	-	-	-	22,836	261	23,452
Write-offs/Disposals	-	(231)	(2,197)	-	(8)	(20)	-	-	-	-	-	-	-	(2,456)
Transfers	24	19	18,693	8	(642)	29	-	-	-	127	5,068	(23,326)	-	-
Gross acquisition cost at 31 December	12,170	8,852	1,154,433	160	3,789	7,303	4	5,950	3,712	829	572,842	1,211	261	1,771,516
Accumulated amortisations and impairment losses:														
Balance at 1 January	(3,243)	(5,234)	(400,524)	(150)	(4,316)	(6,888)	(4)	(5,687)	(2,733)	(319)	(189,183)	-	-	(618,281)
Amortisation for the year	(258)	(332)	(26,678)	(1)	(54)	(141)	-	(109)	(65)	(142)	(13,665)	-	-	(41,445)
Write-offs/Disposals	-	148	1,479	-	8	19	-	-	-	-	-	-	-	1,654
Transfers	-	-	(698)	-	698	-	-	-	-	-	-	-	-	-
Accumulated balance at 31 December	(3,501)	(5,418)	(426,421)	(151)	(3,664)	(7,010)	(4)	(5,796)	(2,798)	(461)	(202,848)	-	-	(658,072)
Net amount:														
as of 31 December	8,669	3,434	728,012	9	125	293	-	154	914	368	369,994	1,211	261	1,113,444

(€ k)

Intangible assets	Service Concession Arrangements - Land	Service Concession Arrangements - Buildings	Service Concession Arrangements - Basic Equipment	Service Concession Arrangements - Transport Equipment	Service Concession Arrangements - Tools	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	Intangible assets in progress	Total intangible assets
2015														
Acquisition cost:														
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)	-	-
Gross acquisition cost at 31 December	11,791	9,064	1,137,937	152	4,439	7,294	4	5,950	3,712	702	567,774	1,701	-	1,750,520
Accumulated amortisations and impairment losses:														
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
Transfers	(1)	-	(27)	-	-	-	-	-	-	-	(23)	-	-	(51)
Accumulated balance at 31 December	(3,243)	(5,234)	(400,524)	(150)	(4,316)	(6,888)	(3)	(5,687)	(2,733)	(319)	(189,183)	-	-	(618,280)
Net amount:														
as of 31 December	8,548	3,830	737,413	2	123	406	1	263	979	383	378,591	1,701	-	1,132,240

12.3. Main events occurring during the year ended 31 December 2016:

Changes in the caption "Tangible and intangible assets" amounting € 23,452 k are mainly related to rights on regulated assets subject to natural gas distribution concession, namely to the natural gas infrastructures construction (networks, branches and other infrastructures) covered by IFRIC 12 (Note 5 and 6).

During the year ended 31 December 2016, intangible assets amounting to a net € 802 k were disposed.

12.4. Amortisation and depreciation of the year

Amortisation and depreciation for the years 2016 and 2015 are as follows:

(€ k)

	December 2016			December 2015		
	Tangible	**Intangible**	**Total**	**Tangible**	**Intangible**	**Total**
Amortisation / depreciation of the year	19	-	19	19	-	19
Amortisation of the year – concession agreements	-	41,445	41,445	-	41,054	41,054
Amortisations, depreciations and impairments (Note 6)	19	41,445	41,464	19	41,054	41,073

13. GOVERNMENT GRANTS

As of 31 December 2016 and 2015 the amounts to be recognised as government grants in future years arise to €236,247 k and €245,147 k, respectively (Note 24).

During the years ended 31 December 2016 and 31 December 2015, grants amounting €8,882 k and €8,905 k, respectively (Note 5) were recognised in the consolidated income statement noted in Note 2.3. and 2.4. according to the assets useful life.

14. OTHER RECEIVABLES

The non-current and current caption "Other receivables" as of 31 December 2016 and 31 December 2015 is detailed as follows:

(€ k)

Caption	December 2016 Current	December 2016 Non-current	December 2015 Current	December 2015 Non-current
State and Other Public Entities:				
Social Security	130	-	125	-
Subsoil occupation levies	26,954	18,848	24,696	28,068
Other receivables - associates, joint ventures and other related parties (Note 28)	1,600	-	2,818	-
Personnel	78	-	103	-
Paid guarantees	19	-	28	-
Advanced payments to suppliers	13	-	1	-
Loans to associates, joint ventures and other related parties (Note 28)	-	5,375	145	5,008
Ceding rights contract of telecommunications infrastructures usage	-	-	61	-
Other receivables	1,715	-	1,642	-
	30,509	**24,223**	**29,619**	**33,076**
Accrued income:				
Sales and services rendered not yet invoiced – natural gas	24,754	-	28,898	-
Regulated revenue - ERSE regulation	11,880	7,528	22,814	16,080
Adjustment to tariff deviation - "pass through" - ERSE regulation	4,737	-	3,665	-
Tariff adjustment - ERSE regulation	3,601	-	3,197	-
Financial neutrality - ERSE regulation	-	-	6,102	-
Receivable interest	-	-	5	-
Other accrued income	458	-	742	31
	45,430	**7,528**	**65,423**	**16,111**
Deferred charges:				
Prepaid insurance	59	-	238	-
Interest and other financial costs	55	-	78	-
Prepaid rentals	7	-	8	-
Other deferred costs	689	3	181	2
	810	**3**	**505**	**2**
	76,749	**31,754**	**95,547**	**49,189**
Impairment of other receivables	(3)	-	(3)	-
	76,746	**31,754**	**95,544**	**49,189**

(a) Amounts restated in accordance with Note 2.23.

"Impairment of other receivables" amounting € 3k noted no changes during the years ended 31 December 2016 and 2015.

The caption "Subsoil occupation levies" amounting to €45,802 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 €1,600 k recorded in the current and non-current caption "Other receivables– associates, joint ventures, affiliates and related entities" refers to receivable amounts from unconsolidated companies (Note 28).

The caption "Accrued income – sales and services rendered not yet invoiced", amounting to €24,754 k, is mainly related with the billing of natural gas consumption and electricity in December 2016, to be invoiced in the following months and is detailed as follows:

(€ k)

Companies	TOTAL	Natural Gas
Lusitaniagás - Companhia de Gás do Centro, S.A.	10,990	10,990
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	9,216	9,216
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	2,606	2,606
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	1,092	1,092
Beiragás - Companhia de Gás das Beiras, S.A.	400	400
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	246	246
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	159	159
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	45	45
	24,754	**24,754**

There are core activities and "pass-through" activities within the Operators of Natural Gas Distribution Networks ("ORD") and in the Last Resort Commercialisation Companies ("CUR"). This classification relates to the nature of each and in the first there is intrinsic value creation 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 Distribution Network Operators, the "pass-through" activity is called "Access Activity to National Natural Gas Transportation Network and National Natural Gas Distribution Network performed by Distribution Networks Operators ", and for last resort retailers, the "pass-through" functions are called "Natural Gas Purchase and Sale" and "Purchase and Sale of Access to National Natural Gas Transportation Network and National Natural Gas Distribution Network". 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 vary within 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 National Natural Gas Distribution Network, they charge to 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 Last Resort Retailers, 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 National Natural Gas Distribution Network (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 in the Energy Tariff;

The caption "Accrued income – Adjustments to tariff deviation – Energy tariff – ERSE regulation" contains the following detail:

(€ k)

Natural gas commercialisation and distribution activities	2015	Gas Year Real Regulated Revenue Adjustments (Note 5)	Gas Year Regulated Revenue difference amortisation / reversal (Note 5)	Adjust between estimate regulated revenue and invoiced revenue (Note 5)	Other reclassifications	2016
2013						
1st Semester of 2013	4,263	-	-	-	-	4,263
2nd Semester of 2013	23,727	-	-	-	-	23,727
Reclassification	(3,304)	-	-	-	-	(3,304)
Adjustment to Year 2013	(809)	(809)	-	-	-	(1,618)
Reversal of 2013 Regulated revenue	(11,534)	-	(11,534)	-	-	(23,068)
	12,343	**(809)**	**(11,534)**	**-**	**-**	**-**
2014						
1st Semester of 2014	215	-	-	-	-	215
2nd Semester of 2014	12,524	-	-	-	-	12,524
Reclassification	6,924	-	-	-	(3,946)	2,978
Adjustment to Year 2014	(438)	(2,313)	-	-	-	(2,751)
Reversal of 2014 Regulated revenue	-	-	(5,326)	-	-	(5,326)
	19,225	**(2,313)**	**(5,326)**	**-**	**(3,946)**	**7,640**
2015						
1st Semester of 2015	(9,644)	-	-	-	-	(9,644)
2nd Semester of 2015	11,137	-	-	-	-	11,137
Reclassification	(3,620)	-	-	-	3,946	326
	(2,127)	**-**	**-**	**-**	**3,946**	**1,819**
2016						
1st Semester of 2016	-	-	-	(13,690)	-	(13,690)
2nd Semester of 2016	-	-	-	15,332	-	15,332
	-	**-**	**-**	**1,642**	**-**	**1,642**
	29,441	**(3,122)**	**(16,860)**	**1,642**	**-**	**11,101**

(€ k)

Natural gas commercialisation and distribution activities	2015	Gas Year Real Regulated Revenue Adjustments (Note 5)	Gas Year Regulated Revenue difference amortisation / reversal (Note 5)	Adjust between estimate regulated revenue and invoiced revenue (Note 5)	Other reclassifications	2016
Accrued Charges (Note 24)	(9,453)	-	723	(13,404)	13,827	(8,307)
Accrued Income (Note 14)	38,894	(3,122)	(17,583)	15,046	(13,827)	19,408
	29,441	**(3,122)**	**(16,860)**	**1,642**	**-**	**11,101**

The caption "Adjustment to tariff deviation – regulated revenue" amounting €11,101 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 2.12). These amounts are remunerated at a rate plus a spread defined by ERSE.

The amounts to be paid or received for each gas year are presented for each activity by 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.

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 2016, the differences for the Group's Regulated Revenue for the calendar year 2014 were settled, amounting to a recoverable amount of € 7,639 k. As the accrual made is lower than the amount agreed, the Group recognised in the caption "Services rendered" the respective decrease amounting to € 2,313 k.

As mentioned in Note 2.12 the total amount to be recovered was included by ERSE in the regulated revenues to be recovered in the gas year 2016-2017, thus the Group recognised the reversal of the amount of the approved tariff deviation in the income statement.

Items contained in Section IX of the Tariff Regulations: "Compensation for the application of tariff uniformity of the Tariff Regulations" define 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 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 €3.601 k.

The following is an ageing schedule of Group "Other receivables" as of 31 December 2016 and 2015:

(€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
2016 Gross amount	108,334	102	30	3	-	3	31	108,503
Impairments	-	-	-	-	-	-	(3)	(3)
	108,334	102	30	3	-	3	28	108,500
2015 Gross amount	143,195	137	140	821	-	443	3	144,739
Impairments	-	-	-	-	-	-	(3)	(3)
	143,195	137	140	821	-	443	-	144,736

The Group considers as not overdue amounts balances of other receivables and income and charges accruals amounting €53,771 k and €82,041 k in 2016 and 2015, respectively.

The amounts of other receivables that are overdue but for which no impairment has been recognised 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 2016 and 31 December 2015 includes the following detail:

(€ k)

Captions	December 2016 Current	December 2015 Current
Trade receivables - current accounts	10,057	14,666
Trade receivables - doubtful accounts	587	1,138
	10,644	**15,804**
Impairment on trade receivables	(550)	(1,059)
	10,094	**14,745**

The movements in the caption "Impairment of trade receivables" for the years ended 31 December 2016 and 2015 were as follows:

(€ K)

Impairment on trade receivables	Initial Balance	Increases	Decreases	Utilisation	Final Balance
2016	1,059	169	(5)	(673)	550
2015	982	198	(41)	(80)	1,059

The increase and decrease in the caption "Impairment of trade receivables" amounting to €164 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 2016 and 2015:

(€ K)

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	Total
2016 Gross amount	8,417	1,465	110	94	225	81	262	10,654
Adjustments	-	-	(13)	(63)	(131)	(81)	(262)	(550)
	8,417	1,465	97	31	94	-	-	10,104
2015 Gross amount	9,100	2,239	1,770	511	454	842	888	15,804
Adjustments	-	(5)	(9)	(121)	(45)	(67)	(812)	(1,059)
	9,100	2,234	1,761	390	409	775	76	14,745

The amounts of other receivables that are overdue but for which no impairment has been recognised correspond to credits which have payment agreements, are covered by credit insurance or for which there is an expectation of partial or total settlement.

The average collection period for not overdue trade receivables balance is lower than 30 days.

16. INVENTORIES

Inventories as of 31 December 2016 and 31 December 2015 are detailed as follows:

(€ k)

CAPTIONS	December 2016	December 2015
Raw, subsidiary and consumption materials:		
Other raw and various materials	1,269	1,273
	1,269	**1,273**
Impairment to raw, subsidiary and consumable materials	(155)	(155)
	1,114	**1,118**
Goods	93	121
	93	**121**
	1,207	**1,239**

As of 31 December 2016, the caption "Other raw and various materials" amounting € 1.269 k, mainly relates to materials to be applied on the construction and maintenance of Groups' infrastructures and counter meters.

The movement in "Inventories impairment" for the years ended 31 December 2016 and 2015 are as follows:

(€ K)

Captions	Initial balance	Utilisations	Final balance
2016			
Impairment to raw, subsidiary and consumable materials	155	-	155
	155	-	155
2015			
Impairment to raw, subsidiary and consumable materials	177	(22)	155
	177	(22)	155

17. OTHER FINANCIAL INVESTMENTS

Not applicable.

18. CASH AND CASH EQUIVALENTS

For the years ended 31 December 2016 and 31 December 2015 the caption "Cash and cash equivalents" is detailed as follows:

(€ k)

Captions	December 2016	December 2015
Cash	34	42
Cash deposits	39,530	24,484
Other treasury applications	3,500	4,000
Cash and cash equivalents in the consolidated statement of financial position	**43,064**	**28,526**
Bank overdrafts (Note 22)	(34)	(2,350)
Cash and cash equivalents in the consolidated statement of cash flow	**43,030**	**26,176**

The caption "Other treasury applications" includes applications of treasury surplus, with maturities up to three months, in respect to the following Group companies:

(€ k)

Companies	December 2016	December 2015
Beiragás - Companhia de Gás das Beiras, S.A.	3,500	4,000
	3,500	**4,000**

The funds that the Group has classified as "Cash and Cash equivalents" have no restrictions or relevant legal conditions in order to be used or distributed as dividends to their shareholders.

19. SHARE CAPITAL

Capital Structure

As of 31 December 2016 share capital amounting € 89,529,141.00 compounded by 89,529,141 shares with nominal value amounting one euro each, entirely subscripted and realised by the following shareholders:

2016:

	No. of Shares	Participation (%)	Imputable participation (%)
Galp Gas & Power, S.G.P.S., S.A.	69,385,084	77.50%	77.50%
Meet Europe Natural Gas, Lda.	20,144,057	22.50%	22.50%
Total	**89,529,141**	**100.00%**	**100.00%**

2015:

	No. of Shares	Participation (%)	Imputable participation (%)
Galp Gas & Power, S.G.P.S., S.A.	89,529,141	100.00%	100.00%
Total	**89,529,141**	**100.00%**	**100.00%**

20. RESERVES

As of 31 December 2016 and 31 December 2015 "Translation reserves" and "Other reserves" are detailed as follows:

(€ k)

Captions	December 2016	December 2015
Reserves		
Legal Reserves	3,434	2,986
	3,434	2,986
Hedging reserves:		
Reserves - financial derivatives	(259)	(237)
Reserves - Deferred tax on financial derivatives	65	-
	(194)	(237)
Other reserves:		
Reserves - Increase of 10.7532% in 2012 and 0.3438% in 2013 in the participation in the share capital of the subsidiary Lusitaniagás - Companhia de Gas do Centro, S.A.	413	413
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.	(492)	(492)
Reserves - Increase of 0.08842% in 2016 in the participation in the share capital of the subsidiary Beiragás - Companhia de Gás das Beiras S.A.	5	-
	(74)	(79)
	3,166	**2,670**

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 2016 the caption "Legal Reserves" fluctuated positively amounting €448 k.

Hedging reserves:

In the year ended 31 December 2016, the negative amount of € 259 k is related to the fair value of financial derivatives - cash flow hedges related to associated companies and € 65 k related to its fiscal effect.

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 acquisition date, was recognised in equity under "Reserves".

In December 2015, 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 acquisition date, was recognised in equity under "Reserves":

(€ k)

	Equity at acquisition date	% acquired	Book 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 Gas do Centro, S.A.	59,085	10.59122%	5,888	370
Reserves - Increase of 3.67276% at 22 December 2014 in the participation in the share capital of the subsidiary Lusitaniagás - Companhia de Gas do Centro, S.A.	55,360	3.67276%	1,990	43
				413

Reserves - increase of 33.05427% in the capital of the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A.

At 21 December 2016, the Group acquired 33.05427% of the capital of the subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A. from Enagás – S.G.P.S., S.A., which was already previously controlled by the Group and consolidated using the full consolidation method. Accordingly, the negative difference of €492 k between the amount paid and the book value of the equity at acquisition date, was recognised in equity under "Reserves".

(€ k)

	Equity at acquisition date	% acquired	Book 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)

Reserves - increase of 0.08842% in the capital of the subsidiary Beiragás - Companhia de Gás das Beiras, S.A.

During the year ended 31 December 2016, the Group acquired 0.08842% of the capital of the subsidiary Beiragás - Companhia de Gás das Beiras, S.A., which was already previously controlled by the Group and consolidated using the full consolidation method. Accordingly, the difference of €5 k between the amount paid and the book value of the equity at acquisition date, was recognised in equity under "Reserves" (Note 3.1. a)):

(€ k)

	Equity at acquisition date	% acquired	Book Value	Other reserves (Note 20)
Reserves - Increase of 0.08842% during the year ended 31 December 2016 in the participation in the share capital of the subsidiary Beiragás - Companhia de Gás das Beiras, S.A. (Note 3.1 a))	40,334	0.08842%	31	5

21. NON-CONTROLLING INTERESTS

As of 31 December 2016 and 31 December 2015, the caption "Non-controlling interests" included in equity refers to the following subsidiaries:

2016: (€ k)

		% of non-controlling interests December 2015	December 2015	Share capital and reserves	Assigned dividends (a)	Prior year results	Retained earnings - actuarial gains and losses	Result for the year	December 2016	% of non-controlling interests December 2016
Beiragás - Companhia de Gás das Beiras, S.A.	(b)	40.50%	17,145	(12)	(810)	(24)	(2)	1,346	17,643	40.41%
Lusitaniagás - Companhia de Gás do Centro, S.A.		3.16%	2,039	-	(226)	-	-	161	1,974	3.16%
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.		0.07%	61	-	(32)	-	-	1	30	0.07%
			19,245	**(12)**	**(1,068)**	**(24)**	**(2)**	**1,508**	**19,647**	

2015: (€ k)

		% of non-controlling interests December 2014	December 2014	Share capital and reserves	Assigned dividends (a)	Prior year results	Retained earnings - actuarial gains and losses	Result for the year	December 2015	% of non-controlling interests December 2015
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.	(d)	13.75%	7,888	(2,729)	-	(3,518)	(2)	400	2,039	3.16%
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	(c)	33.12%	27,457	(7,903)	-	(21,122)	1	1,628	61	0.07%
			51,050	**(10,632)**	**-**	**(24,640)**	**(1)**	**3,468**	**19,245**	

31 December 2016:

e) From €1,068 k of attributed dividends, during the year ended 31 December 2016, €1,058 k were paid to minority shareholders (Note 30).

f) Subsidiary Beiragás - Companhia de Gás das Beiras, S.A., previously held by 59.50468%, is now held by 59.5931% by the Group. Due to the increase of 0.08842%, a negative increase of €36 k was accounted for under "Non-controlling interests" (Note 3.1 a)).

The negative amount of € 12k relates to the variation of non-controlling interests under "Share capital", "Other Reserves" and "Supplementary income" and the negative amount of € 24 k refers to the variation of non-controlling interests under "Retained earnings" up to the date of the participation increase.

31 December 2015:

g) 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 €29,025 k, relating the variation in the percentage held by the Group, was recorded in Non-controlling interests.

   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.

h) 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.

   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.

Individual statements of financial position, income and cash flow of the companies with non-controlling interests as of 31 December 2016 and 2015 are as follows:

Statement of financial position:

2016:

ASSETS	Setgás - Sociedade de Produção e Distribuição de Gás, S.A. (a)	Beiragás - Companhia de Gás das Beiras, S.A.	Lusitaniagás - Companhia de Gás do Centro, S.A.
Non-current assets:			
Tangible assets	544	-	-
Intangible assets	173,223	70,574	279,130
Financial assets held for sale	3	-	-
Other receivables	3,399	1,963	9,304
Deferred tax assets	183	579	94
Total non-current assets:	**177,352**	**73,116**	**288,528**
Current assets:			
Inventories	76	180	194
Trade receivables	824	821	2,316
Other receivables	9,529	2,562	18,883
Receivable income tax	290	-	-
Cash and cash equivalents	553	5,231	1,034
Total current assets:	**11,272**	**8,794**	**22,427**
Total assets:	**188,624**	**81,910**	**310,955**

EQUITY AND LIABILITIES	Setgás - Sociedade de Produção e Distribuição de Gás, S.A. (a)	Beiragás - Companhia de Gás das Beiras, S.A.	Lusitaniagás - Companhia de Gás do Centro, S.A.
Equity:			
Share capital	9,000	11,580	20,500
Share premium and other capital instruments	7,482	-	-
Reserves	7,426	2,273	5,266
Retained earnings	19,696	26,485	31,649
Net result of the year	1,732	3,326	5,086
Total equity attributable to shareholders:	**45,336**	**43,664**	**62,501**
Liabilities:			
Non-current liabilities:			
Bank loans	-	9,473	4,604
Other payables	123,798	18,510	207,231
Post-employment and other employee benefits liabilities	660	320	276
Deferred tax liabilities	3,673	155	2,971
Provisions	4,199	1,967	7,548
Total non-current liabilities:	**132,330**	**30,425**	**222,630**
Current liabilities:			
Bank loans and overdrafts	2,043	2,770	2,302
Trade payables	1,765	1,305	5,732
Other payables	7,150	3,691	14,694
Current payable income tax	-	55	3,096
Total current liabilities:	**10,958**	**7,821**	**25,824**
Total liabilities:	**143,288**	**38,246**	**248,454**
% of non-controlling interests	**0.07%**	**40.41%**	**3.16%**
Non-Controlling interests	**30**	**17,643**	**1,974**

(a) Includes Fair Value amounts resulting from the acquisition in 2012.

2015:

ASSETS	Setgás - Sociedade de Produção e Distribuição de Gás, S.A. (a)	Beiragás - Companhia de Gás das Beiras, S.A.	Lusitaniagás - Companhia de Gás do Centro, S.A.
Non-current assets:			
Tangible assets	563	-	-
Intangible assets	173,655	71,239	281,207
Financial assets held for sale	3	-	-
Other receivables	5,924	2,886	10,684
Deferred tax assets	501	88	482
Total non-current assets:	**180,646**	**74,213**	**292,373**
Current assets:			
Inventories	61	246	189
Trade receivables	1,520	1,826	1,937
Other receivables	55,751	5,007	21,681
Cash and cash equivalents	14	5,249	6,069
Total current assets:	**57,346**	**12,328**	**29,876**
Total assets:	**237,992**	**86,541**	**322,249**

EQUITY AND LIABILITIES	Setgás - Sociedade de Produção e Distribuição de Gás, S.A. (a)	Beiragás - Companhia de Gás das Beiras, S.A.	Lusitaniagás - Companhia de Gás do Centro, S.A.
Equity:			
Share capital	9,000	11,580	20,500
Share premium and other capital instruments	7,482	-	-
Reserves	7,426	2,084	5,266
Retained earnings	58,923	24,873	30,359
Net result of the year	5,497	3,678	7,177
Total equity attributable to shareholders:	**88,328**	**42,215**	**63,302**
Liabilities:			
Non-current liabilities:			
Bank loans	2,041	12,225	6,906
Other payables	125,262	20,370	209,517
Post-employment and other employee benefits liabilities	631	291	179
Deferred tax liabilities	4,527	463	3,288
Provisions	2,760	1,421	4,970
Total non-current liabilities:	**135,221**	**34,770**	**224,860**
Current liabilities:			
Bank loans and overdrafts	6,205	2,630	2,302
Trade payables	1,141	1,256	4,195
Other payables	5,931	4,520	21,315
Current payable income tax	1,166	1,150	6,275
Total current liabilities:	**14,443**	**9,556**	**34,087**
Total liabilities:	**149,664**	**44,326**	**258,947**
% of non-controlling interests	**0.07%**	**40.50%**	**3.16%**
Non-Controlling interests	**61**	**17,145**	**2,039**

(a) Includes Fair Value amounts resulting from the acquisition in 2012.

Income statement:

2016:

	Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	Beiragás - Companhia de Gás das Beiras, S.A.	Lusitaniagás - Companhia de Gás do Centro, S.A.
Operating income:			
Sales	-	2,528	-
Services rendered	25,125	11,985	54,964
Other operating income	6,543	2,418	8,537
Total operating income:	**31,668**	**16,931**	**63,501**
Operating costs:			
Cost of sales	-	1,566	-
External supplies and services	9,955	5,764	27,473
Employee costs	1,908	983	2,407
Amortisation, depreciation and impairment loss on fixed assets	5,786	2,507	9,605
Provisions and impairment losses on receivables	6	83	(13)
Other operating costs	5,089	1,707	6,121
Total operating costs:	**22,744**	**12,610**	**45,593**
Operating result:	**8,924**	**4,321**	**17,908**
Financial income	73	58	50
Financial costs	(4,665)	(170)	(7,512)
Result before taxes:	**4,332**	**4,209**	**10,446**
Income tax	(1,161)	(336)	(2,762)
Energy sector extraordinary contribution	(1,439)	(547)	(2,598)
Net result for the year	**1,732**	**3,326**	**5,086**
% of non-controlling interests	**0.07%**	**40.41%**	**3.16%**
Non-Controlling interests	**1**	**1,346**	**161**

2015:

	Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	Beiragás - Companhia de Gás das Beiras, S.A.	Lusitaniagás - Companhia de Gás do Centro, S.A.
Operating income:			
Sales	-	3,586	-
Services rendered	27,216	12,898	57,989
Other operating income	5,519	2,052	8,149
Total operating income:	**32,735**	**18,536**	**66,138**
Operating costs:			
Cost of sales	-	2,368	-
External supplies and services	9,850	5,298	27,110
Employee costs	2,031	1,266	2,697
Amortisation, depreciation and impairment loss on fixed assets	5,670	2,457	9,460
Provisions and impairment losses on receivables	(3)	96	42
Other operating costs	4,262	1,320	5,683
Total operating costs:	**21,810**	**12,805**	**44,992**
Operating result:	**10,925**	**5,731**	**21,146**
Financial income	95	72	75
Financial costs	(2,187)	(348)	(7,938)
Result before taxes:	**8,833**	**5,455**	**13,283**
Income tax	(1,961)	(1,237)	(3,592)
Energy sector extraordinary contribution	(1,375)	(540)	(2,514)
Net result for the year	**5,497**	**3,678**	**7,177**
% of non-controlling interests	**0.07%**	**40.50%**	**3.16%**
Non-Controlling interests	**1,628**	**1,440**	**400**

Statement of cash flow:

2016: (€ k)

	Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	Beiragás - Companhia de Gás das Beiras, S.A.	Lusitaniagás - Companhia de Gás do Centro, S.A.
Operating activities:			
Cash received from customers	39,240	23,524	95,689
Cash (payments) to suppliers	(12,736)	(8,738)	(56,944)
Payments relating to employees	(1,723)	(754)	(2,260)
(Payments) relating to Tax on oil products ("ISP")	-	(196)	-
(Payments)/receipts of income taxes	(3,237)	(2,268)	(6,287)
Contributions to the pension fund	(58)	(27)	(78)
Payments to early retirements and pre-retirements	(124)	(12)	-
Other receipts/(payments) relating to the operational activity	(6,749)	(3,625)	(16,704)
Cash flows from operating activities (1)	**14,613**	**7,904**	**13,416**
Investing activities:			
Receipts from:			
Investment grants	-	-	(18)
Interests and similar income	-	11	4
Loans obtained	44,000	-	-
	44,000	**11**	**(14)**
Payments relating:			
Intangible assets	(4,507)	(1,495)	(5,364)
	(4,507)	**(1,495)**	**(5,364)**
Cash flows from investing activities (2)	**39,493**	**(1,484)**	**(5,378)**
Financing activities:			
Receipts from:			
Loans obtained	2,241	-	3,857
	2,241	**-**	**3,857**
Payments relating:			
Loans obtained	(4,081)	(4,275)	(2,302)
Interests from loans obtained	(4,452)	(77)	(7,404)
Interests and similar expenses	(153)	(86)	(110)
Dividends distributed / Interim dividends	(45,000)	(2,000)	(7,114)
	(53,686)	**(6,438)**	**(16,930)**
Cash flows from financing activities (3)	**(51,445)**	**(6,438)**	**(13,073)**
Net change in cash and cash equivalents (4) = (1) + (2) + (3)	2,661	(18)	(5,035)
Cash and cash equivalents at the beginning of the year	(2,110)	5,249	6,069
Cash and cash equivalents at the end of the year	551	5,231	1,034

2015: (€ k)

	Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	Beiragás - Companhia de Gás das Beiras, S.A.	Lusitaniagás - Companhia de Gás do Centro, S.A.
Operating activities:			
Cash received from customers	41,489	26,467	109,845
Cash (payments) to suppliers	(17,849)	(10,697)	(75,677)
Payments relating to employees	(1,531)	(212)	(2,131)
(Payments) relating to Tax on oil products ("ISP")	-	(174)	-
(Payments)/receipts of income taxes	(2,663)	(2,270)	(8)
Payments to early retirements and pre-retirements	(145)	-	-
Other receipts/(payments) relating to the operational activity	(8,478)	(4,510)	(2,415)
Cash flows from operating activities (1)	**10,823**	**8,604**	**29,614**
Investing activities:			
Receipts from:			
Investment grants	-	-	201
Interests and similar income	-	21	30
	-	**21**	**231**
Payments relating:			
Intangible assets	(4,285)	(1,400)	(5,582)
Loans granted	(44,000)	-	-
	(48,285)	**(1,400)**	**(5,582)**
Cash flows from investing activities (2)	**(48,285)**	**(1,379)**	**(5,351)**
Financing activities:			
Receipts from:			
Loans obtained	61,000	-	71,990
Interests and similar income	(955)	-	-
	60,045	**-**	**71,990**
Payments relating:			
Loans obtained	(7,051)	(9,148)	(74,292)
Interests from loans obtained	(25)	(271)	(7,657)
Interests and similar expenses	(605)	(46)	(167)
	(7,681)	**(9,465)**	**(82,116)**
Cash flows from financing activities (3)	**52,364**	**(9,465)**	**(10,126)**
Net change in cash and cash equivalents (4) = (1) + (2) + (3)	14,902	(2,240)	14,137
Cash and cash equivalents at the beginning of the year	(17,012)	7,489	(8,068)
Cash and cash equivalents at the end of the year	(2,110)	5,249	6,069

22. LOANS

Detail of loans

Loans obtained as of 31 December 2016 and 31 December 2015 were as follows:

(€ k)

	December 2016		December 2015	
	Current	Non-current	Current	Non-current
Bank loans:				
Loans	13,267	29,542	15,167	42,808
Bank overdrafts (Note 18)	34	-	2,350	-
	13,301	**29,542**	**17,517**	**42,808**
Origination Fees	-	(80)	-	(98)
	13,301	**29,462**	**17,517**	**42,710**
Bonds and Notes:				
Notes	-	600,000	-	-
	-	**600,000**	**-**	**-**
Origination Fees	-	(4,510)	-	-
	-	**595,490**	**-**	**-**
	13,301	**624,952**	**17,517**	**42,710**

Current and non-current loans, excluding origination fees, bank overdrafts and discounted notes, have the following reimbursement plan as of 31 December 2016:

(€ k)

	Loans		
Maturity	Total	Current	Non-current
2017	13,267	13,267	-
2018	11,361	-	11,361
2019	10,491	-	10,491
2020	7,690	-	7,690
2023	600,000	-	600,000
	642,809	**13,267**	**629,542**

As of 31 December 2016 and 31 December 2015, loans obtained are expressed in the following currencies:

(€k)

		December 2016		December 2015	
Currency		Total initial amount	Due amount	Total initial amount	Due amount
Euros	EUR	759,374	642,809	181,820	57,975
			642,809		**57,975**

Description of main loans

Bank loans

The Group has a financing contract with the European Investment Bank amounting to €30,486 k, and split into €10,497 k short-term and €19,989 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 €12,323 k, obtained by the company Beiragás – Companhia de Gás das Beiras, S.A., which split into €2,770 k shot-term and €9,553 k medium and long-term.

Notes Issuance – Galp Gás Natural Distribuição, S.A.

At August 25th 2016, Galp Gás Natural Distribuição, S.A. established an EMTN Programme ("EUR 1,000,000,000 Euro Medium Term Note Programme").

Under the EMTN Programme, at September 19th 2016, Galp Gás Natural Distribuição, S.A., issued notes amounting €600,000 k, which overdue at September 19th 2023, with coupons of 1.375%, admitted to negotiation on the regulated market of London Stock Exchange.

JP Morgan, BofA Merrill Lynch and Banco Santander Totta acted as Joint-Bookrunners in this transaction.

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, recognised 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 GGND 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.

As of 31 December 2016 and 2015, the net assets of GGND Pension Fund, valued at fair value, were as follows according to the reports submitted by the respective fund management companies:

(€ k)

	2016				2015			
	Fair Value – Levels of valorisation				Fair Value – Levels of valorisation			
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
	Market Value	Observable market inputs	Other valorisation technics	Total	Market Value	Observable market inputs	Other valorisation technics	Total
Shares	7,036	-	-	7,036	7,014	-	-	7,014
Bonds	15,252	-	-	15,252	14,826	-	-	14,826
Real Estate	316	-	-	316	324	-	-	324
Liquidity	733	-	-	733	2,177	-	-	2,177
	23,337	-	-	23,337	24,341	-	-	24,341

During the year ended 31 December 2016, no endowment to the Fund were made.

As of 31 December 2016 and 2015 the Group had the following amounts related to liabilities for retirement benefits and other benefits:

(€ k)

Captions	December 2016 Liability	December 2016 Equity	December 2015 Liability	December 2015 Equity
Post-employment benefits:				
Relating to the Pension Fund	(2,826)	6,665	(1,281)	5,493
Retired Employees	(2,536)	1,837	(3,068)	1,906
Pre-retirement	(6,506)	1,114	(7,201)	955
Early retirement	(20,861)	7,122	(18,431)	4,129
Other benefits:				
Healthcare	(26,161)	13,914	(19,587)	7,462
Life insurance	(413)	16	(387)	(7)
Defined contribution plan minimum benefit	(819)	(110)	(539)	(168)
	(60,122)	**30,558**	**(50,494)**	**19,770**

The "Pre-retirement" caption amounting to €6,506 k includes €1,882 k and €173 k respectively for the subsidiaries Lisboagás, S.A. and SETGÁS – Sociedade de Distribuição de Gás Natural, S.A., to cope with already agreed pre-retirements that will only be effective in 2017.

The caption "Employee costs - retirement benefits" amounting to €3,293 k (Note 6) includes mainly: (i) €373 k relating to benefits related to the Fund; (ii) €1,499 k from the remaining retirement benefits; (iii) a loss of €1,159 k of other benefits; (iv) €351 k for the defined contribution plan and (v) a gain of €100 k regarding pre-retirements and early retirements not included in the other benefits.

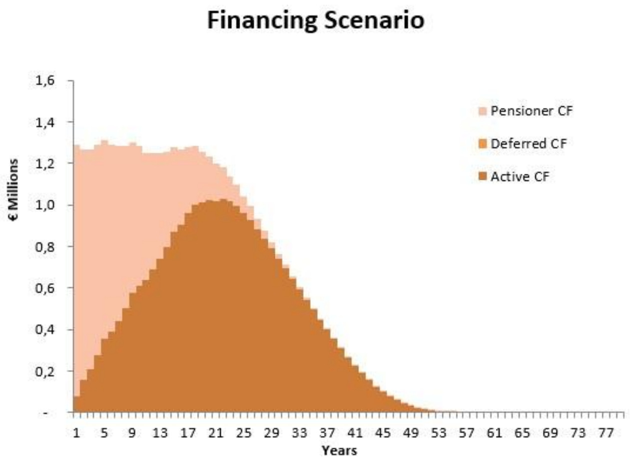
The difference of €5,978 k between the amount recorded in the Equity detail above and the amount in the caption "Retained earnings – actuarial gains and losses - pension fund", of the consolidated statement of changes in equity, is due to the amount relating to deferred tax.

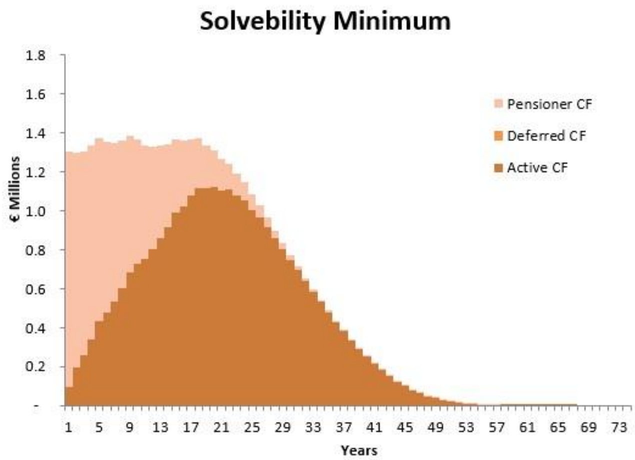
The table below shows the number of participants and beneficiaries sorted by category:

	December 2016	December 2015
Active	188	176
Pre-Retired	39	41
Early Retirements	32	28
Disability Retirements	5	5
Elderly Retirements	199	207
Pensioners – Widowhood / Orphan hood	162	178
	625	**635**

The average maturity of liabilities for the defined benefit plans, is 13.6 years.

Payment distribution associated with the GGND Group Pension Funds:





The assumptions used for the calculation of post-employment benefits are considered by the Group and an entity specialised 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)

	2016	2015
Assumptions		
Rate of return on assets	2.25%	2.50%
Technical interest rate	2.25%	2.50%
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	50% EVK 80	50% EVK 80
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
Changes in past service liability (PSL)		
PSL at the end of the previous year	25,621	24,256
Current service cost	334	325
Interest cost	625	650
Actuarial (gain) / loss	797	1,582
Benefits payment made by the Company	(1,221)	(1,226)
Cut back - Early retirements	17	9
Cut back - Pre-retirement	(10)	25
PSL at the end of the current year	26,163	25,621
Changes in coverage of financial assets (pension fund)		
Assets at the end of the previous year	24,340	23,375
Net interest	593	626
Associates contribution	-	1,650
Benefit payments	(1,221)	(1,226)
Financial gains / (losses)	(375)	(85)
Assets at the end of the current year	23,337	24,340
Reconciliation of gains and loss recognised - through Comprehensive Income		
Actuarial (Gains) and Losses from experience	43	(762)
(Gains) / losses from change in assumptions	(840)	(820)
Financial (Gains) / Losses	(375)	(85)
Other impacts	1,172	1,667
Cumulative (Gains) / losses recognised at the end of the year	-	-
Reconciliation to the Statement of Financial Position		
(Gains) / losses recognised at the beginning of the year - Asset/(Liability)	(1,281)	(881)
Net cost of the year	(373)	(383)
Benefits paid directly by the employee	-	1,650
Gains / (losses) recognised - through Comprehensive Income	(1,172)	(1,667)
Total recognised at year end - Assets / (Liabilities)	(2,826)	(1,281)
Net cost of the year		
Current service cost	334	325
Interest cost	32	24
Net cost of the year before special events	366	349
Cut back impact - Early Retirement	17	9
Cut back impact - Pre-retirement	(10)	25
Net cost of the year	373	383
Reconciliation of gains and loss recognised - through Comprehensive Income		
Cumulative (Gains) / losses recognised at the beginning of the year	5,493	3,826
Actuarial (Gains) and Losses from experience	(43)	762
(Gains) / losses from change in assumptions	840	820
Financial (Gains) / Losses	375	85
Cumulative (Gains) / losses recognised at the end of the year	6,665	5,493

The actuarial losses related to past service liabilities which occurred in 2016 amounting €797 k can be segregated as follows:

- by changes in assumptions: losses amounting €840 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 €43 k.

The financial losses of the fund, amounting €375 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	Data Value
Initial balance	**24,340**	**24,340**	**-**	**31-12-2015**
Pensions	(1,259)	(1,221)	38	
Acquired rights	-	-	-	
Associates contributions	1,647	-	(1,647)	
Participant contributions	-	-	-	**2016**
Total Movements	**388**	**(1,221)**	**(1,609)**	
Fund return	593	218	(375)	
Ending balance	**25,321**	**23,337**	**(1,984)**	**31-12-2016**

Other pension benefits not affecting the fund:

(€ k)

	Group in 2016			
	Retired	Pre-retirement	Early retirement	Total
Assumptions				
Technical interest rate	2.25%	2.25%	2.25%	
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	
Changes in past service liability (PSL)				
PSL at the end of the previous year	3,068	5,225	18,252	26,545
Current service cost	-	3	547	550
Interest cost	70	115	439	624
Actuarial (gain) / loss	(69)	159	2,992	3,082
Benefit payments made by the Company	(533)	(1,467)	(1,278)	(3,278)
Cut back - Early retirements	-	-	109	109
Cut back – Current personnel	-	415	(199)	216
Other adjustments	-	1	(1)	-
PSL at the end of the current year	2,536	4,451	20,861	27,848
Reconciliation to the Statement of Financial Position				
(Gains) / losses recognised at the beginning of the year - Asset/(Liability)	(3,068)	(5,225)	(18,252)	(26,545)
Net cost of the year	(70)	(533)	(896)	(1,499)
Benefits paid directly by the Company	533	1,467	1,278	3,278
Gains / (losses) recognised – through Comprehensive Income	69	(159)	(2,992)	(3,082)
Effect of other adjustments	-	(1)	1	-
Total recognised at year end - Assets / (Liabilities)	(2,536)	(4,451)	(20,861)	(27,848)
Net cost of the year				
Current service cost	-	3	547	550
Interest cost	70	115	439	624
Net cost of the year before special events	70	118	986	1,174
Cut back impact - Early Retirement	-	-	109	109
Cut back impact - Pre-retirement	-	415	(199)	216
Net cost of the year	70	533	896	1,499
Reconciliation of gains and loss recognised-through Comprehensive Income				
Cumulative (Gains) / losses recognised at the beginning of the year	1,906	955	4,129	6,990
Actuarial (Gains) and Losses from experience	(95)	132	2,526	2,563
(Gains) / losses from change in assumptions	26	27	466	519
Other impacts	-	-	1	1
Cumulative (Gains) / losses recognised at the end of the year	1,837	1,114	7,122	10,073
Non-controlling interests	-	-	-	-
Cumulative (Gains) / losses recognised at the end of the year	1,837	1,114	7,122	10,073

The current service cost, interest cost, cut back impact – Early retirement and cut back impact – Pre-retirement, amounting to €550 k, €624 k, €109 k e €216 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 authorised 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 2016, a cost of € 351 k was recognised in the "Employee cost" caption in respect to the contributions of the year, paid to the Fund management company of the associated companies of the Galp Energia Defined Contribution Pension Fund, in favour of their employees.

(€ k)

	Group in 2015			
	Retired	Pre-retirement	Early retirement	Total
Assumptions				
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	50% EVK 80	50% EVK 80	50% EVK 80	
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	
Changes in past service liability (PSL)				
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
Benefit payments made by the Company	(555)	(1,474)	(1,089)	(3,118)
Cut back - Early retirements	-	-	193	193
Cut back – Current personnel	-	1,002	(207)	795
PSL at the end of the current year	3,068	5,225	18,252	26,545
Reconciliation to the Statement of Financial Position				
(Gains) / losses recognised 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) recognised – through Comprehensive Income	(348)	28	(1,955)	(2,275)
Total recognised at year end - Assets / (Liabilities)	(3,068)	(5,225)	(18,252)	(26,545)
Net cost of the year				
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
Reconciliation of gains and loss recognised- through Comprehensive Income				
Cumulative (Gains) / losses recognised 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
Cumulative (Gains) / losses recognised at the end of the year	1,906	955	4,129	6,990
Non-controlling interests	-	-	-	-
Cumulative (Gains) / losses recognised at the end of the year	1,906	955	4,129	6,990

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 at 31 December 2016, 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)

	Group in 2016			
	Healthcare	Life insurance	Defined contribution plan minimum benefit	Total
Assumptions				
Technical interest rate	2.25%	2.25%	2.25%	
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	50% EVK 80	50% EVK 80	50% EVK 80	
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	
Changes in past service liability (PSL)				
PSL at the end of the previous year	19,595	387	539	20,521
Current service cost	434	12	209	655
Interest cost	482	9	13	504
Actuarial (gain) / loss	6,452	23	58	6,533
Benefits payment made by the Company	(802)	(18)	-	(820)
PSL at the end of the current year	26,161	413	819	27,393
Reconciliation to the Statement of Financial Position				
(Gains) / losses recognised at the beginning of the year - Asset/(Liability)	(19,595)	(387)	(539)	(20,521)
Net cost of the year	(916)	(21)	(222)	(822)
Benefits paid directly by the Company	802	18	-	1,036
Gains / (losses) recognised - through Comprehensive Income	(6,452)	(23)	(58)	(6,533)
Total recognised at year end - Assets / (Liabilities)	(26,161)	(413)	(819)	(26,840)
Net cost of the year				
Current service cost	434	12	209	655
Interest cost	482	9	13	504
Net cost of the year	916	23	222	1,159
Reconciliation of gains and loss recognised- through Comprehensive Income				
Cumulative (Gains) / losses recognised at the beginning of the year	7,462	(7)	(168)	7,287
Actuarial (Gains) and Losses from experience	5,409	12	(150)	5,271
(Gains) / losses from change in assumptions	1,043	11	208	1,262
Cumulative (Gains) / losses recognised at the end of the year	13,914	16	(110)	13,820
Non-controlling interests	-	1	(3)	(2)
Cumulative (Gains) / losses recognised at the end of the year	13,914	15	(107)	13,822

Current service and interest cost amounting €1,814 k and €482 k, respectively, were recorded by the Group in the caption "Employee costs" in the consolidated income statement (Note 6).

(€ k)

	Group in 2015			
	Healthcare	**Life insurance**	**Defined contribution plan minimum benefit**	**Total**
Assumptions				
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	
Changes in past service liability (PSL)				
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
Reconciliation to the Statement of Financial Position				
(Gains) / losses recognised 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) recognised - through Comprehensive Income	(223)	(35)	59	(199)
Total recognised at year end - Assets / (Liabilities)	(19,595)	(387)	(539)	(20,521)
Net cost of the year				
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
Reconciliation of gains and loss recognised-through Comprehensive Income				
Cumulative (Gains) / losses recognised 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 recognised at the end of the year	7,462	(7)	(168)	7,287
Non-controlling interests (Note 21)	-	(2)	-	(2)
Cumulative (Gains) / losses recognised at the end of the year	7,462	(5)	(168)	7,289

* For Lisboagás, S.A. retirement conditions are considered satisfied when fulfilled 40 years of service, 35 years of service and age equals or above 60 years or when reached 66 years or 65 years with at least 43 years of discounts to S.S. at that age (first occurrence between the four).

According to actuarial studies prepared by a specialised entity, the estimated contribution to the various defined benefit plans for 2017 is €4,941 k.

Discount rate changes

Changing the discount rate from 2.50% to 2.25% from 2015 to 2016 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 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 2.25%**	**Discount rate 2.00%**	**Variation**
Retirement benefits:			
Related to the pension fund	26,163	27,049	3.39%
Non-related to the pension fund	27,848	28,387	1.94%
	54,011	55,436	
Other benefits:			
Healthcare	26,161	27,270	4.24%
Life insurance	413	425	2.90%
Defined contribution plan minimum benefit	819	828	1.10%
	27,393	28,523	
	81,404	**83,959**	

Trend rate of medical costs

GGND 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 an 18% increase in liabilities (€ 4,742 k), whereas a decrease of 1% in the growth rate of premiums results in a decrease of 15% of liabilities (€ 3,794 k).

Health Insurance sensitivity analysis

(€ k)

Captions	3.00%	4.00%	5.00%
Current services costs	22,367	26,161	30,903
Impact on past services liabilities	(3,794)	-	4,742

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)

discount rate	2.25%	2.50%	2.75%
	2016	**2015**	**2014**
Liabilities amount (a)	**26,163**	**25,621**	**24,256**
Value of the Fund (b)	**23,337**	**24,340**	**23,375**
Actuarial Gains (+) and Losses (-)	**797**	**(1,582)**	**(1,783)**
Gains (+) and Losses (-) for changes in assumptions	840	(820)	(2,873)
Actuarial Gains (+) and Losses (-) from experience (c)	(43)	(762)	1,090
Financial Gains (+) and Losses (-) (d)	**375**	**(85)**	**709**
(c)/(a)	-0.16%	-2.97%	4.49%
(d)/(b)	1.61%	-0.35%	3.03%
Real Return on Plan Assets (%)	0.92%	2.38%	6.70%
Real Return on Plan Assets	218	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:

i) Longevity Risk

Real longevity higher than projected may be reflected by an increase in liabilities.

j) 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.

k) 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.

l) Risk of adverse developments in the real cost with Health Insurance and Life Insurance

24. OTHER PAYABLES

As of 31 December 2016 and 31 December 2015 the non-current and current captions "Other payables" were as follows:

(€ k)

Captions	December 2016 Current	December 2016 Non-current	December 2015 Current	December 2015 Non-current
State and other public entities:				
Value Added Tax payables	4,593	-	7,545	-
Social Security contributions	474	-	446	-
Personnel and Corporate Income Tax Withheld	357	-	350	-
"ISP" - Tax on oil products	63	-	68	-
Other taxes	2	-	2	-
Tangible and intangible assets suppliers	5,247	-	6,148	-
Guarantee deposits and guarantees received	240	-	79	-
Other payables - Other shareholders	116	-	-	-
Personnel	71	-	33	-
Trade receivables credit balances	9	-	-	-
Advances on sales	4	-	4	-
Other payables - Associates, affiliates and related companies (Note 28)	-	-	15,550	-
Loans - Associates, affiliates and related companies (Note 28)	-	-	-	587,800
Loans - Other shareholders	-	-	-	448
Other creditors	500	-	580	-
	11,676	**-**	**30,805**	**588,248**
Accrued costs:				
Adjustment to tariff deviation - other activities - "ERSE" regulation	5,093	-	11,526	-
External supplies and services	4,064	-	2,590	-
Adjustment to tariff deviation - regulated revenue - "ERSE" regulation (Note 14)	3,331	4,976	723	8,730
Holiday , holiday subsidy and corresponding contributions	2,486	-	2,608	-
Productivity bonuses	2,351	-	3,701	225
Accrued interest	2,317	-	1,390	-
Accrued insurance premiums	859	-	599	-
Accrued personnel costs – other	125	-	-	-
Financial costs	-	-	33	-
Financial neutrality - "ERSE" regulation	-	-	161	-
Other accrued costs	2,278	-	1,664	-
	22,904	**4,976**	**24,995**	**8,955**
Deferred income:				
Investment government grants (Note 13)	8,942	227,305	8,942	236,205
Fibre optics	402	589	404	991
Others	183	-	194	-
	9,527	**227,894**	**9,540**	**237,196**
	44,107	**232,870**	**65,340**	**834,399**

(a) Amounts restated in accordance with Note 2.23.

Government investment grants are recognised as income over the useful life of the assets. The amount to be recognised in future period's amounts to €236,247 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 recognised as income during the period of the contract. As of 31 December 2016 the balance of deferred income to be recognised in future periods amounts to €991k.

25. PROVISIONS

The changes in provisions in the year ended 31 December 2016 and 2015 were as follows:

(€ k)

Captions	Initial balance	Increases	Decreases	Ending balance
2016				
Lawsuits	1,155	51	(776)	430
Other risks and charges	21,417	10,239	-	31,656
	22,572	10,290	(776)	32,086
2015				
Lawsuits	1,121	107	(73)	1,155
Other risks and charges	11,458	9,959	-	21,417
	12,579	10,066	(73)	22,572

The increases in provisions, net of decreases, in the year ended 31 December 2016 were as follows:

	(€ k)
Energy sector extraordinary contribution ("CESE I")	10,057
Provisions (Note 6)	(543)
	9,514

Lawsuits

The provision for ongoing lawsuits amounts € 430 k and includes mainly ongoing lawsuits.

The decrease in "Provisions" amounting €776 k results mainly from the end of lawsuits in Labour Court of the associate Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A..

Other risks and charges

As of 31 December 2016 the caption "Provisions – other risks and charges", amounting €31,656 k, mainly comprises:

- €2,248 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 during 2016.

- €29,408 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 of 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 GGND Group decided to record the total value of the liability amounting to €29,408 k under "Provisions" caption. The total value of the liability at 31 December 2016 amounted to €19,350 k. In the year ended 31 December 2016, in order to cover the full responsibility, the provision was reinforced by €10,057 k, and recognised in the income statement under the caption "Energy sector extraordinary contribution".

26. TRADE PAYABLES

As of 31 December 2016 and 31 December 2015 the amounts recorded in the caption "Trade payables" were as follows:

(€ k)

Captions	December 2016	December 2015
Trade payables - current accounts	9,816	3,718
Trade payables - pending invoices	4,380	5,208
	14,196	**8,926**

The balance of the caption "Trade payables – pending invoices" mainly corresponds to the purchase of natural gas at those dates.

27. OTHER FINANCIAL INSTRUMENTS – FINANCIAL DERIVATIVES

Not applicable.

28. RELATED PARTIES

Balances and transactions with related parties in 2016 and 2015, respectively, were as follows:

Receivables

(€ K)

	2016				
		Non-current	Current		
	Total related parties	Loans granted (Note 14)	Trade receivables	Other receivables (Note 14)	Accruals and deferrals
Group companies (a)					
Lisboagás Comercialização, S.A.	7,301	-	1,173	-	6,128
Lusitaniagás Comercialização, S.A.	6,454	-	342	-	6,112
Galp Power, S.A.	5,209	-	1,618	-	3,591
Galp Gás Natural, S.A.	3,233	-	88	51	3,094
GDP-Gás de Portugal, S.A.	1,706	-	-	1,432	274
Setgás Comercialização, S.A.	1,323	-	148	(46)	1,221
Galp Energia, S.A.	271	-	-	120	151
Petróleos de Portugal - Petrogal, S.A.	64	-	-	38	26
Galp Marketing International, S.A.	10	-	-	5	5
	25,571	**-**	**3,369**	**1,600**	**20,602**
Other related parties					
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	5,382	5,375	-	-	7
	5,382	**5,375**	**-**	**-**	**7**
	30,953	**5,375**	**3,369**	**1,600**	**20,609**

(a) "Group companies" are companies of the Galp Energia Group

(€ K)

	2015					
		Non-current	Current			
	Total related parties	Loans granted (Note 14)	Trade receivables	Loans granted (Note 14)	Other receivables (Note 14)	Accruals and deferrals
Group companies (a)						
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	-	24	4,348
GDP-Gás de Portugal, 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, S.G.P.S., S.A.	145	-	-	145	-	-
Petróleos de Portugal - Petrogal, S.A.	54	-	-	-	23	31
Galp Gas & Power,S.G.P.S., S.A.	34	-	-	-	34	-
Galp Marketing International, S.A.	15	-	-	-	5	10
	32,828	**-**	**5,574**	**145**	**2,818**	**24,291**
Other related parties						
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	5,445	5,008	437	-	-	-
	5,445	**5,008**	**437**	**-**	**-**	**-**
	38,273	**5,008**	**6,011**	**145**	**2,818**	**24,291**

(a) "Group companies" are companies of the Galp Energia Group

Current and non-current loans granted to associates, joint ventures and related companies as of 31 December 2016 refer essentially to loans granted to the following entities:

(€ K)

	Non-current Assets - Loans granted (Note 14)	**Interests related to loans granted (Note 8)**
Galp Gás Natural Distribuição, S.A.	5,375	367
to Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	**5,375**	**367**
	5,375	**367**

These loans bear interest at market rate.

Payables

(€ K)

	2016		
	Total related parties	Trade payable	Accruals and deferrals
Group companies (a)			
Galp Energia, S.A.	1,266	1,065	201
Lusitaniagás Comercialização, S.A.	465	4	461
Transgás, S.A.	284	284	-
Lisboagás Comercialização, S.A.	174	111	63
GDP-Gás de Portugal, S.A.	132	25	107
Petróleos de Portugal - Petrogal, S.A.	113	94	19
Galp Power, S.A.	85	49	36
Setgás Comercialização, S.A.	66	4	62
Galp Energia, S.G.P.S., S.A.	60	60	-
Galp Gás Natural, S.A.	27	6	21
Galp Gas & Power,S.G.P.S., S.A.	4	4	-
	2,676	1,706	970
Other related parties			
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	13	-	13
	13	-	13
	2,689	1,706	983

(a) "Group companies" are companies of the Galp Energia Group

(€ K)

	2015				
		Non-current	Current		
	Total related parties	Loans obtained (Note 24)	Trade payables	Other payables (Note 24)	Accruals and deferrals
Group companies (a)					
Galp Gas & Power,S.G.P.S., 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, 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, S.G.P.S., S.A.	3	-	3	-	-
	607,598	587,800	1,938	15,550	2,310
Other related parties					
Visabeira Global, S.G.P.S., S.A.	460	448	-	-	12
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	15	-	-	-	15
	475	448	-	-	27
	608,073	588,248	1,938	15,550	2,337

(a) "Group companies" are companies of the Galp Energia Group

Payable current income tax

The caption "Operating Income" includes the values found through the special group of society's tax regime payable to Galp Energia, S.G.P.S., S.A. and is as follows:

(€ k)

	Income tax (Note 9)
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	(9,925)
Lusitaniagás - Companhia de Gás do Centro, S.A.	(3,094)
Galp Gás Natural Distribuição, S.A.	(1,349)
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	(545)
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	(212)
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	(210)
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	(62)
by Galp Energia, S.G.P.S., S.A.	**(15,397)**

Current and non-current loans granted to associates, joint ventures and related companies as of 31 December 2016 refer essentially to loans granted to the following entities:

(€ K)

	Interests related to loans granted (Note 8)	
Beiragás - Companhia de Gás das Beiras, S.A.	7	(a)
by Visabeira Global, S.G.P.S., S.A.	**7**	
	7	

(a) Interest related to loans reimbursed during the year ended 31 December 2016

These loans bear interest at market rate.

Transactions

(€ K)

	2016				
	Purchases	Operating costs	Operating income	Financial costs (Note 8)	Financial income (Note 8)
Group companies (a)					
Galp Gás Natural, S.A.	-	12	39,304	-	-
Galp Power, S.A.	-	(150)	37,617	-	-
Lisboagás Comercialização, S.A.	-	-	25,816	-	-
Lusitaniagás Comercialização, S.A.	-	-	8,200	-	-
Setgás Comercialização, S.A.	-	-	5,405	-	-
GDP-Gás de Portugal, S.A.	-	(12,040)	3,560	-	-
Galp Energia, S.A.	-	(4,022)	1,699	-	-
Petróleos de Portugal - Petrogal, S.A.	-	(770)	391	-	-
Galp Marketing International, S.A.	-	-	62	-	-
Galp Gas & Power,S.G.P.S., S.A.	-	3	-	(20,717)	-
Galp Energia, S.G.P.S., S.A.	-	(36)	-	-	-
Transgás, S.A.	(3,132)	-	-	-	-
	(3,132)	(17,003)	122,054	(20,717)	-
Other related parties					
Visabeira Global, S.G.P.S., S.A.	-	(115)	-	(7)	-
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	-	(194)	(1,732)	-	367
	-	(309)	(1,732)	(7)	367
	(3,132)	(17,312)	120,322	(20,724)	367

(a) "Group companies" are companies of the Galp Energia Group

(€ K)

	2015				
	Purchases	Operating costs	Operating income	Financial costs (Note 8)	Financial income (Note 8)
Group companies (a)					
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 Terminais Marítimos, S.A.	-	-	9	-	-
Transgás, S.A.	(4,831)	-	-	-	-
Galp Gas & Power,S.G.P.S., S.A.	-	(98)	-	(30,281)	-
Galp Energia, S.G.P.S., S.A.	-	(7)	-	(87)	-
Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A.	-	-	(6)	-	-
	(4,831)	(15,691)	149,111	(30,368)	-
Other related parties					
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	-	(188)	(860)	-	341
Visabeira Global, S.G.P.S., S.A.	-	(14)	-	(45)	-
Enagás	-	-	-	(490)	-
	-	(202)	(860)	(535)	341
	(4,831)	(15,893)	148,251	(30,903)	341

(a) "Group companies" are companies of the Galp Energia Group

29. REMUNERATION OF THE BOARD

The remuneration of the board members of Galp Gás Natural Distribuição, S.A. for the years ended 31 December 2016 and 2015 is detailed as follows:

(€ k)

	December 2016					December 2015	
	Salary	**Allowances for rent, travel expenses and others**	**Bonuses**	**Other charges and adjustments**	**Total**	**Salary**	**Total**
Executive management	113	1	(45)	20	89	-	-
General Assembly	62	-	-	-	62	10	10
	175	**1**	**(45)**	**20**	**151**	**10**	**10**

Of the amounts of €62 k and €10 k, recorded in the year ended 31 December 2016 and 2015 respectively, refers to presence tickets of the General Assembly and the negative amount under "Bonuses" as of 31 December 2016 represents the annulment of management bonus of 2013 and 2014.

In accordance with the current policy, remuneration of the GGND 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 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 4 May 2016, dividends amounting to € 8,522 k relating to the distribution of net result for the year 2015 were attributed to the shareholders of Galp Gás Natural Distribuição, S.A. and fully liquidated during the year ended 31 December 2016.

In the year ended 31 December 2015 dividends amounting to € 1,068 k were attributed to the shareholders, of which € 1,058 k were paid by subsidiaries of the Galp Gás Natural Distribuição, S.A. Group to minority shareholders (Note 21. a)).

As a consequence of the previously mentioned, during the year ended 31 December 2016, the Group paid dividends amounting €9,580 k.

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 through contracting fixed rate debt.

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 reflected on the statement of financial position as of 31 December 2016 and 2015. The financial instruments affected by the above mentioned market risks include Loans and Cash.

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 law 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)

		2016					2015				
			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%	642,808	-188	-26	-	-	59,975	-268	-32	-	-
	-0.5%		188	26	-	-		268	32	-	-
Loans - Galp Energia Group	0.5%	-	-	-	-	-	588,248	-133	-	-	-
	-0.5%		-	-	-	-		133	-	-	-
Applications-parallel shift in interest rate	0.5%	3,500	10	7	-	-	27,200	127	9	-	-
	-0.5%		-10	-7	-	-		-127	-9	-	-

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.

GGND Group finances itself through cash flows generated by its operations and maintains a diversified portfolio of loans. The Group has approximately 43 million Euro and 29 million Euro of cash and cash equivalents, as stated in the statement of financial position, as of 31 December 2016 and 31 December 2016, 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. Credit risk limits are established by GGND. 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

GGND 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 2016, the Company and its subsidiaries had the following contingent liabilities:

i) Several municipal councils are demanding payments (liquidations and executions) amounting to €902 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 recognise any liabilities concerning this issue.

As of 31 December 2016 the amounts paid to Municipal Councils and charged to customers related to subsoil usage levies are as follows, according with the methodology defined by ERSE:

Settled amount	Subsoil levies - current account interests	Amounts invoiced to customers	Amount to be received (Note 14)
124,709	4,397	(83,304)	45,802

The amount to be received bears interests at the 3 month Euribor plus a spread stipulated by ERSE.

As of 31 December 2016, 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 new conviction stated by Court of Vila Real publically evaluated such action as totally unfounded, which enforces the failure probabilities of the action.

Guarantees granted

As of 31 December 2016, responsibilities with guarantees granted amounted to €13,837 k and included essentially the following:

i) Guarantees amounting to €2,325 k in benefit of city councils regarding subsoil occupation levies;

ii) Guarantees, undated, amounting to €7,527 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) 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 €801 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, 23 January, 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

	2016		2015	
Balance sheet captions	**Book Value**	**Fair value**	**Book Value**	**Fair value**
Assets				
Financial assets held for sale	3	a)	3	a)
Trade receivables	10,094	10,094	14,745	14,745
Other receivables	108,501	108,501	144,733	144,733
Cash and cash equivalents	43,064	43,064	28,526	28,526
Liabilities				
Bank loans	42,763	42,763	60,227	60,227
Shareholder loans	595,490	594,816	0	0
Trade payables	14,196	14,196	8,926	8,926
Other payables	276,946	276,946	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 recognised 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 30 March 2017. 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 free 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.

THE BOARD OF DIRECTORS:

Chairman:

Pedro Carmona de Oliveira Ricardo

Vice-Chairman:

Maria Leonor Galo Pedrosa dos Santos Machado de Baptista Branco

Members:

Gabriel Nuno Charrua de Sousa

Naohiro Hayakawa

José Manuel Rodrigues Vieira

Ana Isabel Simões Dias dos Santos Severino

Maria Marta de Figueiredo Geraldes Bastos

Yoichi Noborisaka

THE ACCOUNTANT:

Carlos Alberto Nunes Barata

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Galp Gás Natural Distribuição, S.A. (the Group or GGND Group), which comprise the consolidated statement of financial position as at 31 December 2016 (which shows total assets of thousand Euro 1,311,347 and total shareholders' equity attributable to shareholders of thousand Euro 245,496 including a net profit of thousand Euro 25,044), 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Galp Gás Natural Distribuição, S.A. as at 31 December 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

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

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

Key audit matters

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

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da PricewaterhouseCoopers International Limited, cada uma das quais é uma entidade legal autónoma e independente.

Key Audit Matter	*Summary of the Audit Approach*
Fiscal litigation and contingencies	
Disclosure related to tax litigation and contingencies in Notes 2, 9, 25 and 33 of the consolidated financial statements. The dimension and structure of GGND Group and dispersion of its operational activity originates a higher level of complexity in the accounting of taxes in the consolidated financial statements of the Group. Consequently, the Group has various ongoing fiscal issues in Portugal, accounting a provision whenever it considers probable an adverse outcome to the Group, according with IAS 37. The evaluation of the outcome probability is supported on the judgement of the Groups' juridical and fiscal advisers as well as the judgement made by Management. As of 31 December 2016 the amount of tax provisions presented in the consolidated financial statements of Group GGND amounts to thousand Euro 29,408 (2015: thousand Euro 19,350). The relevance of such mater in our audit work results in the complexity and judgement level inherent to the tax matters in question and the uncertainty level involved in their outcome.	Audit work procedures included: - obtaining a detailed listing of ongoing tax and legal contingencies, categorised by probable outcome; - comprehension of tax and legal contingency processes; - obtaining and analysing of confirmation letters sent from external lawyers; - inquiring management and legal and tax responsible personnel about the estimates and judgements performed. We also verified the adequacy of the disclosures in the consolidated financial statements.

Responsibilities of management for the consolidated financial statements

Management is responsible for:

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

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

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

d) the adoption of appropriate accounting policies and criteria;

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

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

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

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

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

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

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

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

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Corporate governance report

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

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

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

a) We were appointed auditors of Galp Gás Natural Distribuição, S.A., for the first time, in the Shareholders' General Meeting of 7 July 2011, for the mandate between 2011 and 2013, having been nominated for 2014 on Shareholders' General Meeting of 21 April 2011 and subsequently we were nominated for the period between 2015 and 2018 on Shareholders' General Meeting of 20 April 2015.

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

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Group's supervisory board as of xx April 2017.

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

e) In addition to the services disclosed in the Group's report we inform that, besides the audit services, the following additional services, permitted by law and regulation in force, were provided by us to the Group:

Other reliability assurance services
- Reports on Regulated Financial Statements ("ERSE"; "ASECE"; "TOS");
- Revision of financial statements in English;

April 3, 2017

PricewaterhouseCoopers & Associados
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represented by:

António Joaquim Brochado Correia, R.O.C.

Report and Opinion of the Supervisory Body

(Free translation from the original in Portuguese)

To the Shareholders,

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 consolidated financial statements as presented by the Board of Directors of Galp Gás Natural Distribuição, S.A with respect to the year ended December 31, 2016.

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 consolidated 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.

As a consequence of our work, we have issued the attached Statutory Audit Report.

Within the scope of our mandate, we have verified that:

i) the consolidated statement of financial position, the consolidated statement of income by nature, 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 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.

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 consolidated financial statements be approved;

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Finally, we would like to express our gratitude to the Board of Directors and all those whom we contacted, for their valuable contribution.

April 3, 2017

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represented by:

António Joaquim Brochado Correia, R.O.C.