

energy creates energy



RESULTS FIRST QUARTER 2017

May 2, 2017
Investor relations

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1. Executive summary

Main highlights during the first quarter of 2017

- **Working interest production increased 4% QoQ and 56% YoY** to 88 thousand barrels of oil equivalent per day (kboepd), of which 87% was oil. It is worth highlighting the **maintenance work that was carried out in FPSO Cidade de Angra dos Reis (#1) and Cidade de Paraty (#2) during the quarter.**
- The **Lula and Iracema** fields currently have five units producing at plateau levels, with FPSO Cidade de Saquarema (#6) in production ramp-up phase. **The first replicant FPSO (#7) is installed in the Lula South area** and is expected to start production during the second quarter of 2017.
- **RCA Ebitda for Exploration & Production (E&P) was €204 m, up €155 m YoY supported by increased production and higher oil and natural gas prices.**
- **Ebitda RCA in Refining & Marketing (R&M) increased €40 m YoY to €187 m**, with Galp's refining margin increasing from \$4.1/boe to \$5.1/boe in the period, benefiting from sourcing opportunities. Marketing of oil products was supported by demand in the retail segment, as well as by demand for jet fuel and marine bunkers in the wholesale segment.
- **RCA Ebitda for Gas & Power (G&P) was down €68 m YoY to €22 m, affected by sourcing restrictions** and by the **deconsolidation of the regulated infrastructure business.**
- **Consolidated Ebitda RCA increased €126 m YoY to €419 m**, with the performance of R&M and E&P offsetting the lower G&P contribution.
- **The Group's Ebit RCA was €220 m** and was **impacted by higher depreciation charges in the E&P business** - due to the increased asset base under production - **and in the R&M business.**
- **RCA net income decreased €15 m YoY to €99 m, impacted by a swing in the mark-to-market of hedging derivatives and by an increase in taxes.** Higher taxation was due to the higher E&P results, a reversal in deferred taxes and a provision for oil tax payable in Angola.
- Non-recurring items totalled €18 m, with the Portuguese extraordinary contribution on the energy sector (CESE) impacting IFRS results in €25 m. **IFRS net income reached €134 m.**
- **Net debt was stable during the first quarter of 2017**, despite the €203 m increase in working capital during the period, which was due to the temporary increase in inventories. **Net debt** on 31 March **amounted to €1.3 bn**, considering the loan to Sinopec as cash and equivalents, with net debt to Ebitda ratio standing at 1.0x.

2. Key figures

Financial data

€m (RCA)

	Quarter				
	1Q16	4Q16	1Q17	Var. YoY	% Var. YoY
Ebitda RCA	293	396	419	126	43%
Exploration & Production	48	232	204	155	n.m.
Refining & Marketing	148	105	187	40	27%
Gas & Power	90	53	22	(68)	(76%)
Ebit RCA	137	238	220	83	60%
Ebit IFRS	(3)	221	286	289	n.m.
Net income RCA	114	121	99	(15)	(13%)
Non-recurring items	(80)	(108)	(18)	62	(77%)
Inventory effect	(92)	67	54	145	n.m.
Net income IFRS	(58)	80	134	192	n.m.
Capex	343	344	227	(116)	(34%)
Net debt	2,467	1,870	1,895	(573)	(23%)
Net debt including loan to Sinopec¹	1,841	1,260	1,333	(507)	(28%)
Net debt to Ebitda RCA²	1.4x	1.0x	1.0x	-	-

¹ Considering loan to Sinopec as cash. ² As at 31 March 2017, ratio considers net debt including €561 m loan to Sinopec as cash, plus €176 m of Sinopec MLT shareholder loan to Petrogal Brasil and LTM Ebitda RCA of €1,537 m.

Operational data

	Quarter				
	1Q16	4Q16	1Q17	Var. YoY	% Var. YoY
Average working interest production (kboepd)	56.3	84.9	88.0	31.6	56%
Average net entitlement production (kboepd)	53.7	82.7	86.2	32.5	60%
Oil and gas average sale price (USD/boe)	26.2	42.1	45.4	19.2	73%
Raw materials processed (mmboue)	25.2	28.8	26.1	0.9	4%
Galp refining margin (USD/boe)	4.1	5.2	5.1	1.0	26%
Oil sales to direct clients (mton)	2.1	2.2	2.1	(0.1)	(3%)
NG sales to direct clients (mm ³)	901	1,048	1,149	249	28%
NG/LNG trading sales (mm ³)	960	814	857	(102)	(11%)

Market indicators

	Quarter				
	1Q16	4Q16	1Q17	Var. YoY	% Var. YoY
Average exchange rate (EUR:USD)	1.10	1.08	1.06	(0.04)	(3%)
Dated Brent price ¹ (USD/bbl)	33.9	49.3	53.7	19.8	58%
Heavy-light crude price spread ¹ (USD/bbl)	(2.3)	(1.6)	(1.8)	0.5	(21%)
U.K. NBP natural gas price ¹ (USD/mmbtu)	4.3	5.9	6.0	1.7	40%
U.S. Henry Hub natural gas price ² (USD/mmbtu)	2.0	3.2	3.1	1.1	55%
LNG Japan and Korea price ¹ (USD/mmbtu)	5.0	7.5	7.0	2.0	40%
Benchmark refining margin ³ (USD/bbl)	3.3	3.9	3.5	0.2	6%
Iberian oil market ⁴ (mton)	14.9	15.5	15.1	0.2	1.3%
Iberian natural gas market ⁵ (mm ³)	8,653	9,530	9,734	1,080	12.5%

¹ Source: Platts. Urals NWE dated for heavy crude; dated Brent for light crude. ² Source: Nymex.

³ For a complete description of the method of calculating the benchmark refining margin see "Definitions".

⁴ Source: APETRO for Portugal; CORES for Spain.

⁵ Source: Galp and Enagás.

3. Market environment

Dated Brent

During the first quarter of 2017, the average price of dated Brent increased \$19.8/bbl YoY to \$53.7/bbl. This increase reflected confidence in the market re-balance following compliance from OPEC and non-OPEC countries on the agreed cuts.

The average price spread between Urals and dated Brent narrowed from \$2.3/bbl the previous year, to \$1.8/bbl, with the Russian crude price benefiting from Asian market demand, as a result of the OPEC production cuts.

Natural gas

The natural gas price in Europe (NBP) increased from \$4.3/mmbtu in the first quarter of 2016 to \$6.0/mmbtu in the same period of 2017. This was driven by rising demand for electricity production, which resulted from an overall increase in the price of coal, following constraints on domestic production in China.

During the first quarter of 2017, the Asian LNG reference price (JKM) increased from \$5.0/mmbtu to \$7.0/mmbtu compared to the previous year, supported by a strong increase in demand from China.

Refining margins

During the first quarter, the benchmark refining margin increased by \$0.2/bbl YoY to \$3.5/bbl, with higher diesel and fuel oil prices offsetting the increased cost of crude oil.

The diesel crack stood at \$11.8/bbl, up by \$2.7/bbl YoY, supported by higher demand and lower global inventories.

During the first quarter of 2017, the fuel oil crack was at -\$5.3/bbl, up by \$6.6/bbl YoY, due to lower product supply from Russia.

Iberian market

During the first quarter of 2017, the Iberian market for oil products grew 1.3% and totalled 15.1 million tonnes (mton), up from 14.9 mton YoY, impacted by higher demand for diesel and LPG, resulting from a higher economic activity and the implementation of an incentive plan for LPG in Spain.

The natural gas market in Iberia rose 12.5% during the first quarter of 2017 compared to the previous year, to 9,734 mm³. This increase was due to a greater demand for gas in the conventional segment, due to a higher economic activity, and for electricity production, due to the low levels of wind and hydroelectric power generation during the period.



4. Exploration & Production

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

	Quarter				
	1Q16	4Q16	1Q17	Var. YoY	% Var. YoY
Average working interest production¹ (kboepd)	56.3	84.9	88.0	31.6	56%
Oil production (kbpd)	52.9	75.6	76.9	24.0	45%
Average net entitlement production¹ (kboepd)	53.7	82.7	86.2	32.5	60%
Angola	7.9	6.8	6.9	(1.0)	(13%)
Brazil	45.8	75.8	79.3	33.5	73%
Oil and gas average sale price² (USD/boe)	26.2	42.1	45.4	19.2	73%
Royalties³ (USD/boe)	2.8	4.1	4.6	1.7	61%
Production costs (USD/boe)	8.9	5.8	8.0	(0.9)	(10%)
Amortisation⁴ (USD/boe)	15.8	5.8	13.4	(2.5)	(16%)
Reallocation to E&P of the contribution of oil trading activities related to previous quarters ²	-	22	-	-	n.m.
Ebitda RCA	48	232	204	155	n.m.
Depreciation & Amortisation ⁴	70	41	97	27	39%
Provisions	-	0	-	-	n.m.
Ebit RCA	(22)	191	106	128	n.m.
Ebit IFRS	(31)	103	108	139	n.m.
Net Income from E&P Associates	3	4	9	6	n.m.

¹ Includes natural gas exported; excludes natural gas used or reinjected.

² In the fourth quarter of 2016, the contribution of the trading activity related to the oil produced was reallocated from the R&M business to the E&P business. The full year impact was accounted for in 4Q16, but the average realised sale price in 4Q16 is normalised.

³ Based on production in Brazil.

⁴ Includes abandonment provisions.

Operations

During the first quarter of 2017, the average working interest production of oil and natural gas increased 56% YoY to 88.0 kboepd, due to higher production from Brazil. Of total volumes, 87% corresponded to oil.

It should be noted that, in Brazil, maintenance work was carried out in FPSO #1 and FPSO #2, which impacted production mainly during March.

Galp and its partners continued with the development works on the Lula and Iracema fields, currently featuring five units producing at plateau and with the FPSO Cidade de Saquarema (#6) in production ramp-up, with the connection of the fifth producer well during the quarter.

Currently, all units are connected to the gas export network, including FPSO #6, which was

connected during April but which is under commissioning.

The first replicant FPSO is installed in the Lula South area and is expected to start production during the second quarter of 2017.

In Angola, although working interest production declined 18% YoY, due to the natural decline in block 14, net entitlement production fell by only 13% YoY, benefiting from the cost-recovery mechanism under the production sharing agreement.

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During the first quarter of 2017, Ebitda RCA amounted to €204 m, up €155 m YoY, on the back of increased production and higher oil and natural gas prices. The Group's average sale price was \$45.4/boe, compared to \$26.2/boe the previous year.

Production costs increased €19 m YoY to around €58 m in the quarter, mainly due to the start of production of FPSO Cidade de Maricá (FPSO #5) and FPSO #6 during 2016. In unit terms and on a net entitlement basis, production costs

Results

decreased by \$0.9/boe to \$8.0/boe, benefiting from higher production dilution.

During the first quarter of 2017, depreciation charges (including abandonment provisions) amounted to €97 m, up 38% YoY, on the back of an increased asset base in Brazil. On a net entitlement basis, depreciation charges decreased from \$15.8/boe to \$13.4/boe YoY.

RCA Ebit was €106 m, up €128 m YoY.

Results from associated companies related to the E&P activities were €9 m.



5. Refining & Marketing

€m (RCA, except otherwise stated)

	Quarter				
	1Q16	4Q16	1Q17	Var. YoY	% Var. YoY
Galp refining margin (USD/boe)	4.1	5.2	5.1	1.0	26%
Refining cash cost¹ (USD/boe)	2.0	1.7	1.7	(0.3)	(14%)
Impact of hedging on refining margin² (USD/boe)	0.1	(0.2)	(0.0)	(0.2)	n.m.
Raw materials processed (mboe)	25.2	28.8	26.1	0.9	4%
Crude processed (mmbbl)	23.9	27.0	22.9	(1.0)	(4%)
Total refined product sales (mton)	4.1	4.6	4.4	0.3	7%
Sales to direct clients (mton)	2.1	2.2	2.1	(0.1)	(3%)
Reallocation relative to the contribution of oil trading activities to E&P ³	-	(25)	-	n.m.	n.m.
Ebitda RCA	148	105	187	40	27%
Depreciation & Amortisation ⁴	65	105	91	26	40%
Provisions	5	(1)	3	(2)	(46%)
Ebit RCA	78	1	94	16	21%
Ebit IFRS	(47)	72	150	197	n.m.
Net Income from R&M Associates	1	0	(2)	(2)	n.m.

¹ Excluding impact of refining margin hedging operations.

² Impact on Ebitda.

³ In the fourth quarter of 2016, the contribution of the trading activity related to the oil produced was reallocated from the R&M business to the E&P business. The full year impact was accounted for in 4Q16.

⁴ During the fourth quarter of 2016, the useful life of certain refining assets was reviewed. The fourth quarter of 2016 includes the third quarter impact.

Operations

Raw materials processed during the first quarter of 2017 increased 4% to 26.1 mboe, compared to the previous year, which had been affected by the planned outage of the hydrocracker (HC) at the Sines refinery. Crude oil accounted for 88% of raw materials processed, of which 84% corresponded to medium and heavy crudes.

The production of middle distillates (diesel and jet) accounted for 47% of total production in the quarter, up 3 p.p. YoY, due to higher availability

of the HC. Gasoline production accounted for 24% of production, while consumption and losses accounted for 8% of raw materials processed.

Volumes sold to direct clients stood at 2.1 mton, down 3% YoY, as a result of the Group's strategy of reducing exposure to low margin wholesale activities in Iberia. Volumes sold in Africa accounted for 9% of sales to direct clients.

Results

RCA Ebitda in the R&M business increased €40 m YoY to €187 m, mainly due to improved benchmark refining margins.

Galp's refining margin stood at \$5.1/boe, compared to \$4.1/boe the previous year. The spread to benchmark margin was \$1.6/boe, as

the Company benefited from sourcing opportunities.

Refining cash costs stood at €42 m, lower than in the first quarter of 2016. In unit terms, cash costs were \$1.7/boe.

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Marketing of oil products was supported by robust demand in the retail segment, as well as for jet fuel and marine bunkers in the wholesale segment.

Depreciation and provisions increased €23 m YoY to €93 m.

Ebit RCA stood at €94 m and Ebit IFRS increased to €150 m. The inventory effect amounted to €60 m.

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 **6. Gas & Power**

€m (RCA except otherwise stated)

	Quarter				
	1Q16	4Q16	1Q17	Var. YoY	% Var. YoY
NG/LNG total sales volumes (mm³)	1,860	1,861	2,006	146	8%
Sales to direct clients (mm ³)	901	1,048	1,149	249	28%
Trading (mm ³)	960	814	857	(102)	(11%)
Sales of electricity (GWh)	1,192	1,292	1,350	158	13%
Sales of electricity to the grid (GWh)	356	470	496	140	39%
Ebitda RCA	90	53	22	(68)	(76%)
Natural Gas	60	34	13	(48)	(79%)
Infrastructure	32	8	-	(32)	n.m.
Power	(3)	10	9	12	n.m.
Depreciation & Amortisation	15	8	5	(10)	(69%)
Provisions	0	3	3	3	n.m.
Ebit RCA	75	42	15	(60)	(80%)
Ebit IFRS	69	43	22	(46)	(68%)
Net Income from G&P Associates	18	20	25	8	43%

Operations

During the first quarter of 2017, Galp was affected by sourcing restrictions from its natural gas supplier in Algeria.

Total NG/LNG volumes sold amounted to 2,006 mm³, up 8% YoY, due to the increase in volumes sold to direct clients, namely to the electrical segment, which was due to lower wind and hydroelectric production in Iberia.

Network trading volumes reached 500 mm³, up 223 mm³ YoY, which did not fully offset the decrease in LNG trading.

Results

Ebitda RCA for the G&P business was down €68 m YoY to €22 m, following a lower contribution from the natural gas business and the deconsolidation of the regulated infrastructure business.

Ebitda of the natural gas segment stood at €13 m, down €48 m compared to the first quarter of 2016, due to a lower contribution from the LNG trading activity and impacted by sourcing restrictions.

Volumes sold in the conventional market, i.e. in the industrial and retail segments, also increased by 15%, driven by higher volumes sold in the industrial segment. This was supported by a higher consumption from the Sines refinery, which had been impacted by an outage the previous year.

Sales of electricity increased 140 GWh YoY to 496 GWh, benefiting from a better performance by the refineries' cogeneration units.

Ebitda for the power business increased €12 m compared to the previous year to €9 m, which had been affected by the cogeneration performance and by the lag in the natural gas purchase price indexes and the produced energy sold.

It should be noted that in the first quarter of 2017, the regulated infrastructure business was no longer fully consolidated, following the completion of the sale of the 22.5% stake in Galp

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Gás Natural Distribuição S.A. (GGND) during the fourth quarter of 2016.

Ebit RCA decreased €60 m to €15 m. Ebit IFRS reached €22 m, compared to €69 m the previous year. The inventory effect amounted to €7 m.

Results from associated companies amounted to €25 m, of which €8 m from GGND.

7. Financial data

7.1. Income statement

€m (RCA, except otherwise stated)

	Quarter				
	1Q16	4Q16	1Q17	Var. YoY	% Var. YoY
Turnover	2,822	3,547	3,844	1,022	36%
Cost of goods sold	(2,155)	(2,731)	(2,975)	820	38%
Supply & Services	(306)	(334)	(376)	69	23%
Personnel costs	(75)	(89)	(79)	4	6%
Other operating revenues (expenses)	8	2	6	(3)	(31%)
Ebitda RCA	293	396	419	126	43%
Ebitda IFRS	164	467	485	322	n.m.
Depreciation & Amortisation	(151)	(174)	(194)	43	28%
Provisions	(5)	17	(5)	0	4%
Ebit RCA	137	238	220	83	60%
Ebit IFRS	(3)	221	286	289	n.m.
Net income from associated companies	21	24	32	11	51%
Financial results	3	(27)	(12)	(15)	n.m.
Net interests	(28)	(22)	(21)	(6)	(23%)
Interest capitalised	21	10	24	3	13%
Exchange gain (loss)	(7)	(1)	(3)	4	53%
Mark-to-market of hedging derivatives	22	(14)	(4)	(26)	n.m.
Other financial costs/income	(5)	(0)	(7)	(2)	(39%)
Net income RCA before taxes and non-controlling interests	162	236	241	79	49%
Taxes ¹	(39)	(88)	(123)	84	n.m.
Non-controlling interests	(9)	(27)	(18)	10	n.m.
Net income RCA	114	121	99	(15)	(13%)
Non recurring items	(80)	(108)	(18)	(62)	(77%)
Net income RC	34	13	81	47	n.m.
Inventory effect	(92)	67	54	145	n.m.
Net income IFRS	(58)	80	134	192	n.m.

¹ Includes the Special Participation tax payable in Brazil and IRP payable in Angola.

RCA Ebitda increased 43% YoY to €419 m, following a higher contribution from the E&P and R&M businesses. IFRS Ebitda rose €322 m to €485 m.

Considering the higher depreciation charges, namely in the E&P and R&M businesses, Ebit RCA stood at €220 m, while Ebit IFRS increased €289 m to €286 m.

Results from associated companies were up to €32 m.

Financial results were negative by €12 m, down €15 m YoY, driven by a €26 m mark-to-market swing, namely related to refining margin hedging.

RCA taxes increased to €123 m, mainly due to higher results in the E&P business, with taxes on oil and gas production reaching €68 m. It is also worth noting the reversal of c.€8 m in deferred taxes, as well as the €6 m provision in oil tax payable in Angola.

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Non-controlling interests, mainly attributable to Sinopec's stake in Petrogal Brasil, increased to €18 m.

RCA net income reached €99 m, while IFRS net income was €134 m. The inventory effect was €54 m and non-recurring items were €18 m.

The CESE tax in Portugal had a negative impact on IFRS results of around €25 m, including

€16 m related to CESE I, whose annual impact was fully accounted for in the first quarter. This provision related to CESE results from the strict applicability of accounting standards. However, in Galp's opinion, based on the opinion of renowned legal experts, the laws regarding CESE have no legal grounds and, accordingly, such amounts are not due.

7.2. Capital expenditure

€m

	Quarter				
	1Q16	4Q16	1Q17	Var. YoY	% Var. YoY
Exploration & Production	316	269	209	(108)	(34%)
Exploration and appraisal activities	10	0	17	7	71%
Development and production activities	306	269	192	(115)	(37%)
Refining & Marketing	23	68	16	(7)	(31%)
Gas & Power	3	4	2	(1)	(42%)
Others	1	3	0	(0)	(33%)
Capex	343	344	227	(116)	(34%)

Capital expenditure during the quarter was €227 m, 84% of which was allocated to upstream development and production activities, namely in block BM-S-11 in Brazil and in block 32 in Angola. Within the exploration and appraisal activities, it is worth highlighting the ongoing 3D seismic campaign in São Tomé and Príncipe.

Capital expenditure in downstream and gas activities reached €18 m, including maintenance activities in the Sines refinery.

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7.3. Cash flow**Indirect method**

€m (IFRS figures)

	Quarter		
	1Q16	4Q16	1Q17
Ebit	(3)	221	286
Dividends from associates	-	26	-
Depreciation, Depletion and Amortisation (DD&A)	162	260	194
Change in Working Capital	141	51	(203)
Cash flow from operations	300	558	277
Net capex ¹	(343)	(200)	(204)
Net financial expenses	(28)	(22)	(21)
SPT and Corporate taxes	(25)	(30)	(81)
Dividends paid	-	(6)	-
Free cash flow	-	300	(30)
GGND deconsolidation ²	-	632	-
Others ³	50	2	5
Change in net debt	45	(935)	24

¹ The first quarter of 2017 includes the proceeds of €22 m from the sale of the 25% indirect stake in Ancora project, and the fourth quarter of 2016 includes the proceeds of €141 m from the sale of 22.5% in GGND.

² Deconsolidation of assets and liabilities from GGND.

³ Includes CTAs (Cumulative Translation Adjustment) and partial reimbursement of the loan granted to Sinopec.

Net debt increased by only €24 m during the first quarter of 2017, considering the €277 m cash flow from operating activities.

The €203 m increase in working capital was mainly due to a temporary increase in inventories.

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Direct method

€m

	Quarter		
	1Q16	4Q16	1Q17
Cash and equivalents at the beginning of the period¹	1,045	1,084	923
Received from customers	3,265	4,242	4,363
Paid to suppliers	(1,836)	(2,600)	(3,013)
Staff related costs	(76)	(117)	(71)
Dividends from associated companies	-	26	-
Taxes on oil products (ISP)	(604)	(737)	(612)
VAT, Royalties, PIS, Cofins, Others	(380)	(374)	(376)
Total operating flows	369	441	290
Net capex ²	(379)	(161)	(238)
Net Financial Expenses	(52)	(20)	(50)
Dividends paid	-	(6)	-
SPT and Corporate taxes	(25)	(30)	(81)
Net new loans	(44)	(451)	(19)
Sinopec loan reimbursement	68	-	42
FX changes on cash and equivalents	(28)	66	(11)
Cash and equivalents at the end of the period¹	954	923	858

¹ Cash and equivalents differ from the Balance Sheet amounts due to IAS 7 classification rules. The difference refers to overdrafts which are considered as debt in the Balance Sheet and as a deduction to cash in the Cash Flow Statement.

² The first quarter of 2017 includes the proceeds of €22 m from the sale of the 25% indirect stake in Ancora project, and the fourth quarter of 2016 includes the proceeds of €141 m from the sale of 22.5% in GGND.

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7.4. Consolidated financial position and debt

	31 December, 2016	31 March, 2017	Var. vs 31 Dec., 2016
Net fixed assets	7,723	7,901	177
Working capital	490	693	203
Loan to Sinopec	610	561	(49)
Other assets (liabilities)	(408)	(586)	(178)
Non-current assets/liabilities held for sale	(1)	-	1
Capital employed	8,414	8,569	155
Short term debt	325	672	347
Medium-Long term debt	2,578	2,181	(396)
Total debt	2,903	2,853	(50)
Cash and equivalents	1,032	959	(74)
Net debt	1,870	1,895	24
Total equity	6,543	6,674	131
Total equity and net debt	8,414	8,569	155

On 31 March 2017, net fixed assets stood at €7,901 m, a €177 m increase compared to the end of 2016, as a result of investment in the period.

Work-in-progress, mainly related to the E&P business, was €2,687 m at the end of the period.

Financial debt

€m (except otherwise stated)

	31 December, 2016	31 March, 2017	Var. vs 31 Dec.2016
Bonds	1,683	1,684	(2)
Bank loans and other debt	1,220	1,169	51
Cash and equivalents	(1,032)	(959)	(74)
Net debt	1,870	1,895	(24)
Net debt including loan to Sinopec¹	1,260	1,333	(73)
Average life (years)	2.6	2.4	0.2
Average debt interest rate	3.5%	3.5%	0.0 p.p.
Net debt to Ebitda RCA ²	1.0x	1.0x	-

¹ Net debt of €1,333 m adjusted for the €561 m loan to Sinopec. ² As at 31 March 2017, ratio considers net debt including loan to Sinopec as cash, plus €176 m corresponding Sinopec MLT Shareholder Loan to Petrogal Brasil, and LTM RCA Ebitda of €1,537 m.

On 31 March 2017, net debt stood at €1,895 m, up €24 m compared to the end of 2016.

Considering the €561 m balance of the Sinopec loan as cash, net debt at the end of the period totalled €1,333 m, resulting in a net debt to Ebitda ratio of 1.0x. This ratio also considers

Sinopec's €176 m shareholder loan to Petrogal Brasil as of the end of the period.

The average interest rate was 3.52% during the period.

At the end of March, c.49% of total debt was on a fixed-rate basis. Debt had an average maturity

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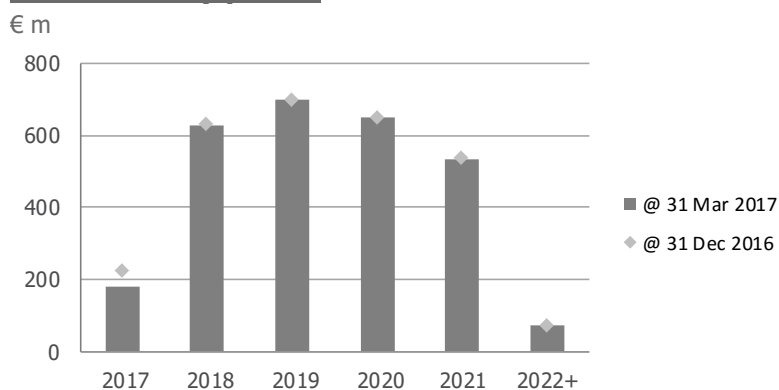
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of 2.4 years, and medium and long-term debt accounted for 76% of Galp's total debt.

amount, around 70% was contractually guaranteed.

At the end of the first quarter, Galp had unused credit lines of approximately €1.4 bn. Of this

Debt maturity profile



7.5. Turnover RCA by segment

€ m

	Quarter				
	1Q16	4Q16	1Q17	Var. YoY	% Var. YoY
RCA Turnover	2,822	3,547	3,844	1,022	36%
Exploration & Production ¹	111	361	308	197	n.m.
Refining & Marketing	2,160	2,839	2,869	709	33%
Gas & Power	676	630	713	37	5%
Other	28	36	30	2	5%
Consolidation adjustments	(154)	(318)	(75)	(78)	(51%)

¹ Does not include change in production. RCA turnover in the E&P segment, including change in production, amounted to €330 m during the first quarter of 2017.

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7.6. Reconciliation of IFRS and replacement cost adjusted figures**Ebitda by segment**

€m

2017	First quarter				
	Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
Galp	485	(68)	418	1	419
E&P	204	-	204	0	204
R&M	246	(60)	186	1	187
G&P	29	(7)	22	-	22
Others	6	-	6	-	6

€m

2016	First quarter				
	Ebitda IFRS	Inventory effect	Ebitda RC	Non-recurring items	Ebitda RCA
Galp	164	115	278	15	293
E&P	42	-	42	6	48
R&M	31	108	139	9	148
G&P	83	7	90	0	90
Others	7	-	7	0	8

Ebit by segment

€m

2017	First quarter				
	Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
Galp	286	(68)	218	2	220
E&P	108	-	108	(2)	106
R&M	150	(60)	90	4	94
G&P	22	(7)	15	(0)	15
Others	5	-	5	-	5

€m

2016	First quarter				
	Ebit IFRS	Inventory effect	Ebit RC	Non-recurring items	Ebit RCA
Galp	(3)	115	112	26	137
E&P	(31)	-	(31)	9	(22)
R&M	(47)	108	61	17	78
G&P	69	7	75	(0)	75
Others	6	-	6	0	7

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Non-recurring items

€m

	Quarter		
	1Q16	4Q16	1Q17
Non-recurring items impacting Ebitda	15.0	11.0	1.3
Accidents caused by natural events and insurance compensation	0.1	0.9	0.0
Gains/losses on disposal of assets	(0.5)	(0.5)	(0.1)
Asset write-offs	0.0	0.7	0.1
Employee restructuring charges	5.0	0.0	-
Compensation early termination agreement for service and equipment	5.9	0.1	-
Litigation costs	4.5	3.4	1.4
Taxes from previous years	-	6.3	-
Non-recurring items impacting non-cash costs	10.8	87.9	0.4
Provisions for environmental charges and others	0.1	2.5	0.0
Asset impairments	10.7	85.4	0.4
Non-recurring items impacting financial results	14.1	39.7	(17.9)
Gains/losses on financial investments	14.1	(36.8)	(17.9)
Impairment of financial investments	-	76.5	-
Non-recurring items impacting taxes	39.8	(2.9)	34.2
Income taxes on non-recurring items	(5.4)	(6.3)	(0.9)
Tax deferrals on E&P	-	(10.3)	-
Income tax from previous years	-	5.9	-
Energy sector contribution tax	45.2	7.7	35.2
Non-controlling interests	(0.0)	(27.4)	0.1
Total non-recurring items	79.8	108.2	18.1

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7.7. IFRS consolidated income statement

€ m

	Quarter		
	1Q16	4Q16	1Q17
Sales	2,650	3,402	3,684
Services rendered	172	145	160
Other operating income	18	32	28
Total operating income	2,840	3,579	3,872
Inventories consumed and sold	(2,270)	(2,650)	(2,908)
Materials and services consumed	(317)	(337)	(377)
Personnel costs	(80)	(89)	(79)
Other operating costs	(9)	(37)	(23)
Total operating costs	(2,676)	(3,112)	(3,387)
Ebitda	164	467	485
Amortisation, depreciation, impairments	(162)	(260)	(194)
Provision and impairment of receivables	(5)	14	(5)
Ebit	(3)	221	286
Net income from associated companies	7	(15)	50
Financial results	3	(27)	(12)
Interest income	6	11	8
Interest expenses	(34)	(33)	(29)
Interest capitalised	21	10	24
Exchange gain (loss)	(7)	(1)	(3)
Mark-to-market of hedging derivatives	22	(14)	(4)
Other financial costs/income	(5)	(0)	(7)
Income before taxes	7	179	324
Taxes ¹	(11)	(92)	(136)
Energy sector contribution tax ²	(45)	(8)	(35)
Income before non-controlling interests	(49)	80	153
Profit attributable to non-controlling interests	(9)	0	(19)
Net income	(58)	80	134

¹ Includes tax related to the production of oil and natural gas, namely Special Participation Tax payable in Brazil and IRP payable in Angola.

² Includes €16.3 m, €8.3 m and €10.6 m related to the CESE I, CESE II and Fondo Eficiencia Energética, respectively, in the first quarter of 2017.

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7.8. Consolidated financial position

€m

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

¹ Includes €119 m in inventories from third parties on 31 March 2017.² Includes €176 m long-term loan from Sinopec to subsidiary Petrogal Brasil on 31 March 2017.³ Includes €41 m in advance payments related to inventory from third parties on 31 March 2017.

8. Basis of presentation

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

Galp's financial statements are prepared in accordance with IFRS, and the cost of goods sold and materials consumed is valued at weighted-average cost. When goods and commodity prices fluctuate, the use of this valuation method may cause volatility in results through gains or losses in inventories, which do not reflect the Company's operating performance. This is called the inventory effect.

Another factor that may affect the Company's results, without being an indicator of its true performance, is the set of non-recurring items, namely gains or losses on the disposal of assets, impairments or reinstatements of fixed assets, and environmental or restructuring charges.

For the purpose of evaluating Galp's operating performance, RCA profit measures exclude non-recurring items and the inventory effect, the latter because the cost of goods sold and materials consumed has been calculated according to the Replacement Cost (RC) valuation method.

Recent changes

As of 1 October 2016, the contribution of the trading activity related to the oil produced, which was previously accounted for in the R&M business, started to be accounted for under E&P. The full year impacts on E&P and R&M were accounted for in the fourth quarter of 2016.

During the fourth quarter of 2016, the useful life of certain refining assets was reviewed, contributing to the increase in DD&A in the second half of 2016. The fourth quarter of 2016 includes the impact of the third quarter.

9. Definitions

Benchmark refining margin

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

Rotterdam hydrocracking margin

The Rotterdam hydrocracking margin has the following profile: -100% Brent dated, +2.2% LGP FOB Seagoing (50% Butane + 50% Propane), +19.1% PM UL NWE FOB Bg., +8.7% Naphtha NWE FOB Bg., +8.5% Jet NWE CIF, +45.1% ULSD 10 ppm NWE CIF Cg. +8.9% LSFO 1% FOB Cg; Terminal rate: \$1/ton; Ocean loss: 0.15% over Brent dated; Freight 2015: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat \$7.60/ton. Yields in % of weight.

Rotterdam cracking margin

The Rotterdam cracking margin has the following profile: -100% Brent dated, +2.3% LGP FOB Seagoing (50% Butane + 50% Propane), +25.4% PM UL NWE FOB Bg., +7.5% Naphtha NWE FOB Bg., +8.5% Jet NWE CIF, +33.3% ULSD 10 ppm NWE CIF Cg. and +15.3% LSFO 1% FOB Cg.; C&L: 7.4%; Terminal rate: \$1/ton; Ocean loss: 0.15% over Brent dated; Freight 2015: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat \$7.60/ton. Yields in % of weight.

Rotterdam base oils margin

Base oils refining margin: -100% Arabian Light, +3.5% LGP FOB Seagoing (50% Butane + 50% Propane), +13.0% Naphtha NWE FOB Bg., +4.4% Jet NWE CIF, +34.0% ULSD 10 ppm NWE CIF, +4.5% VGO 1.6% NWE FOB Cg., +14%; Base Oils FOB, +26% HSFO 3.5% NWE Bg.; Consumptions: -6.8% LSFO 1% CIF NWE Cg.; Losses: 7.4%; Terminal rate: \$1/ton; Ocean loss: 0.15% over Arabian Light; Freight 2015: WS Aframax (80 kts) Route Sullom Voe / Rotterdam – Flat \$6.95/ton. Yields in % of weight.

Rotterdam aromatics margin

Rotterdam aromatics margin: -60% PM UL NWE FOB Bg., -40% Naphtha NWE FOB Bg., +37% Naphtha NWE FOB Bg., +16.6% PM UL NWE FOB Bg., +6.5% Benzene Rotterdam FOB Bg., +18.5% Toluene Rotterdam FOB Bg., +16.6% Paraxylene Rotterdam FOB Bg., +4.9% Ortoxylene Rotterdam FOB Bg. Consumption: -18% LSFO 1% CIF NEW. Yields in % of weight.

Replacement cost (RC)

According to this method of valuing inventories, the cost of goods sold is valued at the cost of replacement, i.e. at the average cost of raw materials on the month when sales materialise irrespective of inventories at the start or end of the period. The Replacement Cost Method is not accepted by the Portuguese IFRS and is consequently not adopted for valuing inventories. This method does not reflect the cost of replacing other assets.

Replacement cost adjusted (RCA)

In addition to using the replacement cost method, RCA items exclude non-recurrent events such as capital gains or losses on the disposal of assets, impairment or reinstatement of fixed assets and environmental or restructuring charges which may affect the analysis of the Company's profit and do not reflect its operational performance.

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ABBREVIATIONS

APETRO: *Associação Portuguesa de Empresas Petrolíferas* (Portuguese association of oil companies)

bbl: barrel of oil

Bg: Barges

bn: billion

boe: barrels of oil equivalent

CESE: *Contribuição Extraordinária sobre o Sector Energético* (Portuguese Extraordinary Energy Sector Contribution)

Cg: Cargoes

CIF: Costs, Insurance and Freight

CORES: *Corporación de Reservas Estratégicas de Productos Petrolíferos*

CTA: Cumulative Translation Adjustment

E&P: Exploration & Production

Ebit Earnings before interest and taxes

Ebitda: Ebit plus depreciation, amortisation and provisions

EUA: United States of America

EUR/€: Euro

FOB: Free on Board

FPSO: Floating, production, storage and offloading unit

Galp, Company or Group: Galp Energia, SGPS, S.A., subsidiaries and participated companies

G&P: Gas & Power

GGND: Galp Gás Natural Distribuição, S.A.

GWh Gigawatt per hour

HC: hydrocracker

IAS: International Accounting Standards

IFRS: International Financial Reporting Standards

IRP: Oil income tax (Oil tax payable in Angola)

IRC: portuguese corporate income tax

ISP: Tax on oil products

JKM: Japan Korea Marker

k: thousand

kbbl: thousands of barrels

kboe: thousands of barrels of oil equivalent

kboepd: thousands of barrels of oil equivalent per day

kbopd: thousands of barrels of oil per day

LNG: liquid natural gas

LSFO: low sulphur fuel oil

m: million

mmbbl: millions of barrels

mmboe: millions of barrels of oil equivalent

mmbtu: million British thermal units

mm³: million cubic metres

mton: millions of tonnes

MW: megawatt

NBP: National Balancing Point

NG: natural gas

n.s.: no significance

NWE: Northwestern Europe

OPEC: Organisation of Petroleum Exporting Countries

p.p.: percentage points

QoQ: quarter-on-quarter

R&D: Refining & Distribution

RC: Replacement Cost

RCA: Replacement Cost Adjusted

T: tonnes

USA: United States of America

USD/\$: Dollar of the United States of America

VAT: value-added tax

VGO: vacuum gas oil

YoY: year-on-year

CAUTIONARY STATEMENT

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

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

The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. Although Galp believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant known and unknown risks, uncertainties, contingencies and other important factors which are difficult or impossible to predict and are beyond its control. No assurance, however, can be given that such expectations will prove to have been correct. Important factors that may lead to significant differences between the actual results and the statements of expectations about future events or results include the Company's business strategy, industry developments, financial market conditions, uncertainty of the results of future projects and operations, plans, objectives, expectations and intentions, among others. Such risks, uncertainties, contingencies and other important factors could cause the actual results of Galp or the industry to differ materially from those results expressed or implied in this report by such forward-looking statements.

Real future income, both financial and operating; an increase in demand and change to the energy mix; an increase in production and changes to Galp's portfolio; the amount and various costs of capital, future distributions; increased resources and recoveries; project plans, timing, costs and capacities; efficiency gains; cost reductions; integration benefits; ranges and sale of products; production rates; and the impact of technology can differ substantially due to a number of factors. These factors may include changes in oil or gas prices or other market conditions affecting the oil, gas, and petrochemical industries; reservoir performance; timely completion of development projects; war and other political or security disturbances; changes in law or government regulation, including environmental regulations and political sanctions; the outcome of commercial negotiations; the actions of competitors and customers; unexpected technological developments; general economic conditions, including the occurrence and duration of economic recessions; unforeseen technical difficulties; and other factors.

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