



Galp Gás Natural Distribuição, S.A.

Management Report and Accounts First Half of 2018

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

Share Capital: 89,529,141.00 EUR

MCRC/NIPC: 509148247

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1. Executive Summary

Main Highlights for the First Half of 2018

Consolidated EBITDA of Galp Gás Natural Distribuição, S.A. ("GGND") was €55.6 million, up by €4.1 million corresponding to 8% increase year-on-year ("YoY") mainly due to the increase occurred on the remuneration rate on its assets ("RoR") established by Entidade Reguladora do Setor Energético ("ERSE").

Net income reached €12.7 million, increase of 30% or €3 million YoY, of which the main effects are the increase in allowed revenue due to the increase of the RoR and decrease of Opex.

Financial Position of GGND in the first half of 2018 is in line with the ending balance of December 31, 2017.

Net Debt on June 30, 2018 reached €582.9 million, with the Net Debt to EBITDA ratio standing at 5.3x and the Debt Service Coverage Ratio at 8.2x, both fulfill financial ratios with enough buffers which are defined under Eurobond agreement.

In the first half of 2018, 8,991 GWh of natural gas was distributed, increase of 649 GWh corresponding to 8% YoY, which is justified by increase in consumption of all the segments, especially in large industrial customers.

Investment was amounted to € 13.9 million, up by €2.7 million YoY which represents an 23% increase, allowing the development of 4,897 of connection points and the construction of 74 km network comparing to the end of 2017.

The Cash Flow from operating activity was € 65.1 million, 76% increase YoY.

Regulatory Framework

The natural gas distribution business is supported by the application of regulated tariffs defined by ERSE, based on Allowed Revenue, which are calculated based on the recovery of the capital, recovery of allowed operating costs, and adjustments mainly related to the tariff deviation.

The recovery of the capital is defined by multiplying the regulated asset base by RoR published by ERSE, plus the recovery of depreciation of the assets.

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

The RoR is calculated according to the average yield of 10-years treasury bonds issued by the Portuguese State.

The RoR established by ERSE for Gas Year 2017-2018 was 6.65% in the natural gas distribution business, comparing to 6.20% in the previous Gas Year.

Risk Management

As a holding company of the regulated group companies (“GGND Group Companies”) which operate in the natural gas distribution sector, the existence of robust internal regulatory system and the disciplined approach to the risks are important aspects of GGND.

GGND Group Companies’ operations are of long-term nature, which implies that many of the risks to which it is exposed are permanent. However, the internal framework assures that the activities are conducted in accordance with strategic objectives, and the risks are properly managed in a way that created long-term value for shareholders.

GGND identified as the main risks of the first half of 2018, as described in the Management Report for 2017: (i) Regulatory, Legislative and Compliance Uncertainties, (ii) Information System Failure, (iii) Project Implementation Risks, (iv) Financial and Market Risks, (v) Dependence on Third Parties.

GGND's main risks are managed, monitored and communicated according to the general guidelines accepted by GGND and its Group Companies.

The main risks identified above are those also potentially foreseen in the second half of 2018.

2. Key Indicators

Operational Indicators	FIRST HALF				
	UNIT	2017	2018	Variation	% Var.
Connection Points *	#	1,047,348	1,052,245	4,897	0.5%
Gas Volume Distributed	GWh	8,342	8,991	649	7.8%
Total Network Extension *	km	11,974	12,048	74	0.6%
20bar network	km	648	648	-	%
4bar network	km	11,326	11,400	74	0.7%
CAPEX	€k	11,277	13,932	2,655	23.5%

* The values related to 2017 refers to 31 December

Financial Indicators	FIRST HALF				
	(thousand Euros)	2017	2018	Variation	% Var.
Turnover		94,821	91,154	(3,667)	(3.9%)
EBITDA ¹		51,490	55,569	4,079	7.9%
EBIT		30,560	34,324	3,764	12.3%
Financial Results		(4,550)	(4,333)	217	(4.8%)
Net Income		9,724	12,686	2,961	30.5%
Cash Flow From Operating Activities		36,955	65,062	28,107	76.1%
Cash Flow from Investing Activities		(3,967)	(12,047)	(8,080)	203.7%
Financial Debt ²		630,743	622,131	(8,612)	(1.4%)
Net Fixed Assets ³		1,104,259	1,087,093	(17,166)	(1.6%)

¹ Operating Result (excluding Amortisation, depreciation and impairment loss on fixed assets)

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

³ Tangible Assets + Intangible Assets

3. Economic and Financial Review

3.1 ANALYSIS OF RESULTS

Income Statement	FIRST HALF			
(thousand Euros)	2017	2018	Variation	% Var.
Turnover	94,821	91,154	(3,667)	(3.9%)
Cost of Sales	(1,457)	(1,711)	(254)	17.4%
Net Operating Costs	(41,874)	(33,874)	7,999	(19.1%)
<i>External Supplies and Services</i>	<i>(35,748)</i>	<i>(28,635)</i>	<i>7,112</i>	<i>(19.9%)</i>
<i>Employee Costs</i>	<i>(10,811)</i>	<i>(9,722)</i>	<i>1,088</i>	<i>(10.1%)</i>
<i>Other Operating Income (Costs)</i>	<i>4,742</i>	<i>4,640</i>	<i>(102)</i>	<i>(2.2%)</i>
<i>Impairment Loss on Receivables</i>	<i>34</i>	<i>(58)</i>	<i>(92)</i>	<i>(270.5%)</i>
<i>Provisions</i>	<i>(91)</i>	<i>(98)</i>	<i>(7)</i>	<i>7.7%</i>
EBITDA	51,490	55,569	4,079	7.9%
Amortisation, Depreciation and Imparment Loss on Fixed Assets	(20,930)	(21,245)	(315)	1.5%
EBIT	30,560	34,324	3,764	12.3%
Financial Results	(4,550)	(4,333)	217	(4.8%)
Profit before Tax	26,010	29,991	3,981	15.3%
Income Tax	(6,728)	(7,696)	(969)	14.4%
Energy Sector Extrordinary Contribution (CESE)	(9,558)	(9,609)	(51)	0.5%
Consolidated Net Income	9,724	12,686	2,961	30.5%

TURNOVER

Turnover reached €91.2 million in first half of 2018, showing 4% decrease or €3.7 million YoY. This variation was due to the decrease of the Network Access Tariff, partially offset by the increase of allowed revenue, inherent to higher RoR published by ERSE and lower negative amount of ERSE adjustment as well.

NET OPERATING COSTS

Net Operating Costs was €33.9 million, 19% decrease YoY, primarily due to the decreased of tariff for Network Access Tariff.

EBITDA

GGND recorded in the first half of 2018, an EBITDA of €55.6 million, which represents 8% increase YoY, mainly due to increase of RoR and lower negative amount of ERSE adjustment, and also the decrease of the Net Operating Costs.

AMORTISATION AND DEPRECIATION

Amortisation and Depreciation reached €21.2 million which is almost in line with the result in the first half of 2017.

FINANCIAL RESULTS

The negative Financial Results were €4.3 million, which shows slight improvement of €0.2 million, mainly due to the results of associated companies, Tagusgás - Empresa de Gás do Vale do Tejo, S.A.

NET INCOME

Net Income of the period was €12.7 million, 30% higher YoY mainly due to the increase of RoR and the reduction in Net Operating Costs.

The Corporate Income Tax reached €7.7 million, mainly due to the higher results obtained until June 30, 2018.

The Energy Sector Extraordinary Contribution ("CESE") had negative impact on results of around €9.6 million, of which annual impact is fully accounted in the first quarter of 2018.

3.2 REVIEW OF THE FINANCIAL SITUATION

Financial Position			
(thousand Euros)	31 December, 2017	30 June, 2018	Variation
Fixed Assets	1,094,402	1,087,093	(7,310)
Investments in Associates and Jointly Controlled Entities	11,560	12,246	686
Goodwill and Other Investments	2,278	2,278	-
Other Receivables	15,753	13,904	(1,849)
Deferred Tax Asset	16,339	20,801	4,462
Non-current Assets	1,140,333	1,136,322	(4,011)
Inventories	1,938	1,695	(243)
Trade and Other Receivables	80,260	87,144	6,885
Cash and Cash Equivalents	16,683	39,254	22,571
Current Assets	98,880	128,093	29,213
Total Assets	1,239,213	1,264,415	25,202
Equity	232,799	219,494	(13,304)
Long Term Debt	616,909	612,445	(4,463)
Other Non-current Liabilities	323,396	349,785	26,389
Deferred Tax Liabilities	6,803	5,750	(1,053)
Non-Current Liabilities	947,107	967,980	20,873
Bank Loans and Overdrafts	9,509	9,685	176
Trade and Other Payables	46,125	50,499	4,374
Current Income Tax	3,673	16,757	13,084
Current Liabilities	59,307	76,941	17,634
Total Liabilities	1,006,414	1,044,921	38,506
Total Liabilities and Equity	1,239,213	1,264,415	25,202
Net Debt ¹	609,735	582,877	(26,858)
Capital Employed ²	842,534	802,371	(40,162)

¹ Bank loans (non-current) + Bonds + Bank loan and overdrafts - Cash and Cash Equivalents

² Equity + Net Debt

In the first half of 2018, Non-Current Assets decreased by €4 million due to the depreciation of Fixed Assets, which was partially offset by the increase of deferred tax assets.

The increase of Total Assets was due to higher balance of Cash and Cash Equivalents, as a result that payment of current tax related to 2017 has not occurred on June 2018.

Total Equity of GGND decreased to €219.5 million comparing to that presented on 31 December 2017 mainly due to €25.6 million of dividends distributed to shareholders.

FINANCIAL RATIOS

Financial Ratios	FIRST HALF	Lock-up	Default
	2018	Threshold	
Net Debt ¹ / EBITDA	5.3x	> 6.5x	> 7.0x
Debt Service Coverage Ratio ²	8.2x	< 2.0x	< 1.5x

¹ Bank Loan + Bond + Accrued Interest - Cash and equivalents

² (Cash Flow from Operacional Activity - Capital Expenditure)/Interest Service

Financial Ratios as of June 30, 2018 are in compliance with financial covenants under the Eurobond agreement.

3.3 REVIEW OF THE CASH FLOW STATEMENT

Cash Flow Statement	FIRST HALF		
(thousand Euros)	2017	2018	Variation
Cash and Cash Equivalents at the Beginning of the Period	43,030	16,672	(26,358)
Clients receipts	147,967	148,004	37
Payments to suppliers	(51,768)	(37,798)	13,970
Payments related to Employees	(6,230)	(6,045)	185
Other operating (payments)/receipts	(37,756)	(39,097)	(1,341)
(Payment)/Receipt of Income Tax	(15,257)	(1)	15,257
Cash flows from Operating Activities	36,955	65,062	28,107
Cash Flow from Capital Expenditure	(13,250)	(12,050)	1,200
Dividends from Associated Companies and Other Financial Investments	9,283	3	(9,280)
Cash flows from Investing Activities	(3,967)	(12,047)	(8,080)
(Payment)/Receipt of Loans	(7,654)	(4,749)	2,905
Net Financial Expenses	(520)	(245)	274
Payment of Dividends	(57,765)	(25,626)	32,139
Cash flows from Financing Activities	(65,938)	(30,620)	35,318
Cash and Cash Equivalents at the End of the Period	10,080	39,067	28,987

Cash Flow from Operating Activities increased by €28.1 million YoY, mainly because of delay of income tax payment and lower payment to suppliers. After the payment of dividends of €25.6 million to shareholders, the Cash and Cash Equivalents of GGND at the end of the period stands at €39.1 million.

4. Relevant Events Occurred after the Closing of the First Half of 2018

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

Lisbon, 19 September 2018

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 Geraldès
Member

Yoichi Noborisaka
Member

Annex

I - Governing Bodies

Composition of the governing bodies of Galp Gás Natural Distribuição as of 30 June 2018 is as follows:

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

Executive Committee

Chairman:

Gabriel Nuno Charrua de Sousa (CEO)

Members:

Naohiro Hayakawa (CFO)

José Manuel Rodrigues Vieira (COO)

Supervisory Board

Chairman:

Daniel Bessa Fernandes Coelho

Members:

Pedro Antunes de Almeida

Armindo José Faustino dos Santos Marcelino

Suplente:

Amável Alberto Freixo Calhau

Statutory Auditors

Standing:

PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., inscrita na OROC com o nº 183 e inscrita na CMVM com o nº 20161485, representada pelo Dr. António Joaquim Brochado Correia, ROC n.º 1076, ou pela Dra. Ana Maria Ávila de Oliveira Lopes Bertão, ROC n.º 902.

Alternate:

Dr. José Manuel Henriques Bernardo, ROC nº 903.

General Shareholders Meeting Board

Chairman:

Ana Perestrelo de Oliveira

Secretary:

Rafael Lucas Pires

Company Secretary

Standing:

Rita Picão Fernandes

Alternate:

Inês Figueira

II - Notice and Statement

1. Shareholders with qualifying holdings on 30 June 2018

Shareholders	Nr. of Shares	Nominal Value	%
Galp Gás & 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. Share ownership on 30 June 2018 by current members of the Board of Directors and the supervisory bodies

As of 30 June 2018, none of the members of the administration and supervisory board held shares or bonds issued by GGND.

3. Main Transactions between related parties during the first half of 2018

(Article no. 246, paragraph 3 c) of the CVM).

During the first half of 2018 there were no relevant transactions between GGND related parties that had a significant effect on its financial situation or respective performance, nor that had an impact on the information included in the annual report concerning the financial year 2017, which were susceptible to have a significant effect on its financial position or on its respective performance over the first six months of the financial year 2018.

4. Statement of compliance of information presented

Statement of compliance of the Board of Directors

According to article 246, paragraph 1. c) of the CVM, the Board of Directors of GGND declares that:

To the best of their knowledge, (i) the information presented in the financial statements concerning the first half of the financial year 2018 was produced in conformity with the applicable accounting requirements and gives a true and fair view of GGND's assets and liabilities, financial position and results as well as the companies included in the consolidation as a whole, and (ii) the report and accounts for the first half of 2018 faithfully describes the main developments that occurred during the period and the impact on the income statements, as well as a description of the principal risks and uncertainties for the next six months.

Lisbon, 19 September 2018

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 Geraldes

Yoichi Noborisaka

Statement of compliance of the Supervisory Board

According to article 246, paragraph 1. c) of the CVM, each of the members of the Supervisory Board of GGND mentioned below declares that, to the best of their knowledge, the information presented in the financial statements concerning the first half of the financial year 2018 was produced in conformity with the applicable accounting requirements and gives a true and fair view of GGND's assets and liabilities, financial position and results as well as the companies included in the consolidation as a whole, and the report and accounts for the first half of 2018 faithfully describes the main developments that occurred during the period and the impact on the income statements, as well as a description of the principal risks and uncertainties for the next six months.

Lisbon, 19 September 2018

The Supervisory Board

Chairman:

Daniel Bessa Fernandes Coelho

Members:

Pedro Antunes de Almeida

Armando José Faustino dos Santos Marcelino

III - CONSOLIDATED FINANCIAL STATEMENTS



GALP GÁS NATURAL DISTRIBUIÇÃO, S.A.

**Condensed Consolidated Financial Statements as of 30 June
2018**

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Galp Gás Natural Distribuição, S.A.

Consolidated Statement of Financial Position as of 30 June 2018 and 31 December 2017

(Amounts stated in million Euros - €m)

Assets	Notes	June 2018	December 2017
Non-current assets:			
Tangible assets	3	516	525
Intangible assets and Goodwill	4	1,088,852	1,096,153
Investments in associates and joint ventures	5	12,246	11,560
Deferred tax assets	6	20,801	16,339
Other receivables	7.2	13,904	15,753
Other financial assets		3	3
Total non-current assets:		1,136,322	1,140,333
Current assets:			
Inventories	8	1,695	1,938
Trade receivables	7.1	17,348	10,315
Other receivables	7.2	69,796	69,944
Cash and cash equivalents	9	39,254	16,683
Total current assets:		128,093	98,880
Total assets:		1,264,415	1,239,213
Equity and Liabilities			
Equity:			
Share Capital and Share Premium		89,529	89,529
Reserves		7,525	5,964
Retained Earnings		103,549	117,413
Total equity attributable to shareholders:		200,603	212,906
Non-controlling interests		18,891	19,893
Total equity:		219,494	232,799
Liabilities:			
Non-current liabilities:			
Financial debt	10	612,445	616,909
Other payables	11	240,111	223,661
Post-employment and other employee benefits liabilities	12	57,321	57,089
Deferred tax liabilities	6	5,750	6,802
Provisions	13	52,353	42,646
Total non-current Liabilities:		967,980	947,107
Current Liabilities:			
Financial debt	10	9,685	9,509
Trade payables		10,242	10,360
Other payables	11	40,257	35,765
Current income tax payables		16,757	3,673
Total current Liabilities:		76,941	59,307
Total Liabilities:		1,044,921	1,006,414
Total equity and Liabilities:		1,264,415	1,239,213

The accompanying notes form an integral part of the consolidated statement of financial position and must be read in conjunction.

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Galp Gás Natural Distribuição, S.A.

Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the six-month periods ended 30 June 2018 and 30 June 2017

(Amounts stated in million Euros - €m)

	Notes	June 2018	June 2017
Operating income:			
Sales		2,863	2,302
Services Rendered		88,290	92,519
Other operating income		18,791	16,397
Total Operating income:		109,944	111,218
Operating costs:			
Cost of Sales	14	1,711	1,457
External supplies and services	14	28,635	35,748
Employee costs	14	9,722	10,811
Amortization, depreciation and impairment losses on fixed assets	3, 4, 14	21,245	20,930
Provisions	13, 14	98	91
Impairment losses on receivables	7.3, 14	58	(34)
Other operating costs	14	14,151	11,655
Total Operating costs:		75,620	80,658
Operating profit:			
Financial income	15	(4,731)	(4,767)
Income from financial investments	5	398	217
Profit before taxes:		29,991	26,010
Income tax	6	(7,696)	(6,728)
Energy sector extraordinary contribution	6	(9,609)	(9,558)
Consolidated net profit for the period		12,686	9,724
Income attributable to:			
Non-controlling interests		462	339
Galp Energia SGPS, S.A. Shareholders		12,224	9,385
Basic and Diluted Earnings per share (in Euros)		0,14	0,10
Consolidated net profit for the period		12,686	9,724
Items which will not be recycled in the future through net income of			
Actuarial gains and losses – pension fund		643	(771)
Items which will be recycled in the future through net income of the			
Hedging reserves		(383)	(198)
Income taxes related to Currency translation adjustments and hedging		96	(49)
Total Comprehensive income for the period, attributable to:		13,042	8,706
Non-controlling interests		(1,464)	(809)
Galp Energia SGPS, S.A. Shareholders		14,506	9,515

The accompanying notes form an integral part of the consolidated income statement and consolidated statement of comprehensive income and must be read in conjunction.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Galp Gás Natural Distribuição, S.A.

Consolidated Statement of changes in equity for the six-month periods ending on 30 June 2018 and 30 June 2017

(Amounts stated in million Euros - €m)

Changes in the period	Share Capital	Reserves			Retained earnings		Sub-Total	Non- controlling interests	Total
	Share Capital	Currency Translation Reserves	Hedging Reserves	Other Reserves	Net Actuarial Losses	Retained earnings			
Balance as of 1 January 2017	89,529	-	(194)	3,360	(24,580)	177,381	245,496	19,647	265,143
Consolidated net income for the period	-	-	-	-	-	9,385	9,385	339	9,724
Other gains and losses recognized in Equity	-	-	(149)	-	771	-	622	-	622
Comprehensive income for the period	-	-	(149)	-	771	9,385	10,007	339	10,346
Dividends paid / Interim dividends	-	-	-	-	-	(61,956)	(61,956)	(809)	(62,765)
Increase/decrease in share capital of Joint ventures	-	-	-	3,261	-	(3,261)	-	-	-
Balance as of 30 June 2017	89,529	-	(343)	6,621	(23,809)	121,549	193,547	19,177	212,724
Balance as of 1 January 2018	89,529	-	(449)	6,413	(24,013)	141,426	212,906	19,893	232,799
Consolidated net income for the period	-	-	-	-	-	12,224	12,224	462	12,686
Other gains and losses recognized in Equity	-	-	287	-	(643)	(1)	(357)	(8)	(365)
Comprehensive income for the period	-	-	287	-	(643)	12,223	11,867	454	12,321
Dividends paid / Interim dividends	-	-	-	-	-	(24,170)	(24,170)	(1,456)	(25,626)
Increase/decrease in share capital of Joint ventures	-	-	-	1,274	-	(1,274)	-	-	-
Balance as of 30 June 2018	89,529	-	(162)	7,687	(24,656)	128,205	200,603	18,891	219,494

The accompanying notes form an integral part of the consolidated statement of changes in equity and must be read in conjunction.

CONSOLIDATED STATEMENT OF CASH FLOW**Galp Gás Natural Distribuição, S.A.**

Consolidated Statement of Cash Flow for the six-month periods ended 30 June 2018 and 30 June 2017

(Amounts stated in million Euros - €m)

	Notes	June 2018	June 2017
Operating activities:			
Cash received from customers		148,004	147,967
Cash payments to suppliers		(37,798)	(51,768)
Cash payments to employee		(3,919)	(5,083)
Payments relating to Tax on oil products ("ISP")		(203)	(210)
Payments of Income tax		(1)	(15,257)
Contributions to the pension fund		(387)	(126)
(Payments) to retired people in advance and pre-retired		(1,311)	(994)
(Payments) of insurance expenses with pensioners		(428)	(28)
Other payments relative to the activity		(38,895)	(37,546)
Cash flows from operating activities (1)		65,062	36,955
Investing activities:			
Receipts from:			
Financial Holdings		-	5,375
Interest and similar income		3	58
Dividends		-	3,850
		3	9,283
Payments relating to:			
Tangible assets		(193)	(176)
Intangible assets		(11,857)	(13,074)
		(12,050)	(13,250)
Cash flows from investing activities (2)		(12,047)	(3,967)
Financing activities:			
Payments relating to:			
Loans obtained		(4,749)	(7,654)
Interest on loans obtained		(46)	(25)
Interest and similar costs		(199)	(494)
Dividends / distribution of income		(25,626)	(57,765)
		(30,620)	(65,938)
Cash flows from financing activities (3)		(30,620)	(65,938)
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		22,395	(32,950)
Cash and cash equivalents at the beginning of the period	9	16,672	43,030
Cash and cash equivalents at the end of the period	9	39,067	10,080

The accompanying notes form an integral part of the consolidated statement of cash flow and must be read in conjunction.



1. Significant accounting policies

The consolidated financial statements for the six-month period ended 30 June 2018 were prepared under IAS 34 - Interim Financial Reporting. These financial statements do not include all the notes that are normally prepared in the annual financial statements. In addition, only the material changes required by IFRS 7 and IFRS 13 were disclosed. In this context, these financial statements must be read in conjunction with the consolidated financial statements of the GGND Group for the year ended 31 December 2017.

1.1. Standards, amendments to standards and interpretations endorsed by the European Union, to be applied in subsequent years, applicable to GGND Group.

IFRS 16 – Leases

This standard specifies how leases should be recognized, measured, presented and disclosed. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has an immaterial value. The application of this accounting standard will mainly focus on operations included in the Exploration & Production and Refining & Marketing segments, namely changing the way by which the Group accounts for the vessel charter contracts activities related to the Exploration and Production activity, as well as of leases of land use and constructions rights, used in the Refining & Marketing of oil products activities.

Its application will result in changes in the accounting of lease contracts, which will result in impacts on the Group's financial statements, namely the income statement and statement of financial position, as well as the respective adjustment in the ratios that affect the operating results (ie EBITDA, EBIT), net debt, capital employed, among others.

GGND is still determining and quantifying the impacts of IFRS 16 on its financial statements. This standard will be applied to the GGND Group from the year beginning on 1 January 2019.

2. Segment reporting

The Group on June 30, 2018 is made up of Galp Gás Natural Distribuição, S.A. and subsidiaries that carry out their activities of distribution and sale of natural gas under a regime of last resort.

The Natural Gas operating segment covers the areas of distribution and commercialization of natural gas under a regime of last resort.

With regard to "Other" the Group considered the holding company Galp Gás Natural Distribuição, S.A .

The financial information relating to the reportable segments for the six-month period ended June 30, 2018 and 2017 is as follows:

	Unit: €k							
	Consolidated		Gas & Power		Others		Eliminations	
	2018	2017	2018	2017	2018	2017	2018	2017
Income								
Sales and Services Rendered	91,153	94,821	90,987	94,681	5,894	5,734	(5,728)	(5,594)
Inter-segmental	-	-	-	-	5,728	5,594	(5,728)	(5,594)
External	91,153	94,821	90,987	94,681	166	140	-	-
Cost of Sales	(1,711)	(1,457)	(1,711)	(1,457)	-	-	-	-
EBITDA	55,667	51,581	53,278	49,332	2,389	2,249	-	-
Amortizations and Adjustments	(21,245)	(20,930)	(21,245)	(20,930)	-	-	-	-
Depreciation and Amortization	(21,245)	(20,930)	(21,245)	(20,930)	-	-	-	-
Provisions (Net)	(98)	(91)	(98)	(91)	-	-	-	-
EBIT	34,324	30,560	31,935	28,311	2,389	2,249	-	-
Financial results	(4,333)	(4,550)						
Income tax	(7,696)	(6,728)						
Energy Sector Extraordinary Contribution	(9,609)	(9,558)						
Consolidated net income for the period	12,686	9,724						
Net income attributable to non-controlling interests	(462)	(339)						
Net income attributable to Galp Gás Natural Distribuição, S.A.	12,224	9,385						

At 30 June 2018 and 31 December 2017

OTHER INFORMATION

Segment Assets (1)

Financial investments (2)	14,524	13,835	3	2	14,521	13,833	-	-
Other Assets	1,249,891	1,225,378	1,234,040	1,225,221	575,563	549,236	(559,712)	(549,079)
Total consolidated assets	1,264,415	1,239,213	1,234,043	1,225,223	590,084	563,069	(559,712)	(549,079)

(1) Net amount

(2) at the Equity Method

Inter-segmental Sales and Services Rendered:

Segment	Unit: €k	
	Others	TOTAL
	5,728	5,728
Gas & Power	5,728	5,728

3. Tangible assets

During the six-month period ended June 30, 2018, the composition and movements in tangible assets were as follows:

	Unit: €k
	Buildings and other constructions
<i>As of 30 June 2018</i>	
Acquisition cost	938
Accumulated depreciation	(422)
Net amount	516
<i>Six-month period ended 30 June 2018</i>	
Balance as of 31 December 2017	525
Depreciation	(9)
Balance as of 30 June 2018	516

4. Intangible assets and Goodwill

During the six-month period ended June 30, 2018, the composition and movements in intangible assets were as follows:

Unit: €k										
Intangible assets:	Concession agreements							Other intangible assets	Goodwill	Total intangible assets
	Lands	Buildings	Basic equipment	Reconversion consumption GN	Fixed assets in progress	Other Agreements concession	Total Agreements concession			
<i>As of 30 June 2018</i>										
Acquisition cost	12,171	8,965	1,179,216	580,174	2,822	21,758	1,805,106	693	2,336	1,808,135
Accumulated amortization	(3,899)	(5,915)	(465,095)	(223,746)	-	(20,414)	(719,069)	(153)	(61)	(719,283)
Net amount	8,272	3,050	714,121	356,428	2,822	1,344	1,086,037	540	2,275	1,088,852
<i>Six-month period ended 30 June 2018</i>										
Balance as of 31 December 2017	8,404	3,207	718,684	360,678	681	1,597	1,093,251	627	2,275	1,096,153
Additions	-	-	-	-	13,951	-	13,951	15	-	13,966
Amortization	(133)	(164)	(13,625)	(7,028)	-	(184)	(21,134)	(102)	-	(21,236)
Write-offs and sales	-	-	(31)	-	-	-	(31)	-	-	(31)
Transfers	1	7	9,093	2,778	(11,810)	(69)	-	-	-	-
Balance as of 30 June 2018	8,272	3,050	714,121	356,428	2,822	1,344	1,086,037	540	2,275	1,088,852

5. Investments in associates

The Investments in associated companies, their head offices, capital ratio and their activities held on June 30, 2018 and December 31, 2017 are as follows:

Company	Main Office		Main activity	Percentage of detained capital		Accounting value		
	Local	Country		2018	2017	2018	2017	
				Unit: €k				
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	(a)	Santarém	Portugal	Production and distribution of natural gas and other channeled fuel gases.	41,33%	41,33%	12,246	11,560
Net value of financial investments							12,246	11,560

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

The changes in financial investments in associates in the period ended June 30, 2018 reflected in the equity method were as follows:

Company	Initial balance	Equity income result	Adjust. Coverage reserves	Ending balance
				Unit: €k
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	11,560	398	288	12,246

6. Income tax and Energy sector extraordinary contribution

The companies of the Group with their head office in Portugal and whose percentage stake in the Group is equal to or greater than 75%, provided that such participation gives them more than 50% of the voting rights, are taxed through the special tax regime for groups of. The tax rate applied to companies based in Portugal was 25%.

The income tax estimate of the Company and its subsidiaries is recorded based on its taxable income, which in the six-month period ended June 30, 2018 represents a tax payable of € 16,757k.

Income and extraordinary taxes on the energy sector recognized in the consolidated income statement for the six-month period ended June 30, 2018 and 2017 are detailed as follows:

Captions	Notes	June 2018			June 2017		
		Current tax	Deferred tax	Total	Current tax	Deferred tax	Total
Income tax:		13,100	(5,404)	7,696	9,882	(3,154)	6,728
Current income tax		13,356	(5,404)	7,952	9,973	(3,154)	6,819
(Excess)/Insufficiency of income tax for the prior year		(256)	-	(256)	(91)	-	(91)
Energy sector extraordinary contribution	13			9,609			9,558

As of 30 June 2018, the movement in deferred tax assets and liabilities is as follows:

	Unit: €k				
	Initial balance	Impact on the income statement	Impact on equity (Note 12)	Other adjustment	Ending balance
Deferred Taxes – Assets	16,339	4,352	111	(1)	20,801
Adjustments to tangible and intangible assets	7	(1)	-	-	6
Retirement benefits and other benefits	11,954	(191)	111	(1)	11,873
Regulated revenue	2,184	4,542	-	-	6,726
Non deductible provisions	1,457	2	-	-	1,459
Others	737	-	-	-	737
Deferred Taxes – Liabilities	(6,802)	1,052	-	-	(5,750)
Adjustments to tangible and intangible assets fair value	(3,323)	55	-	-	(3,268)
Regulated revenue	(2,391)	969	-	-	(1,422)
Accounting revaluations	(1,088)	28	-	-	(1,060)

7. Trade receivables and other receivables

Trade receivables

The caption Trade receivables as of 30 June 2018 and 31 December 2017 includes the following detail:

	Unit: €k		
	Notes	June 2018	December 2017
		17,348	10,315
Trade receivables		17,849	10,758
Trade receivables impairment	7.3	(501)	(443)

Other Receivables

The Other receivables presents the following detail as of 30 June 2018 and 31 December 2017:

	Unit: €k				
	Notes	June 2018		December 2017	
		Current	Non-current	Current	Non-current
Other receivables		69,796	13,904	69,944	15,753
State and Other Public Entities		-	-	-	-
Other debtors:		163	-	175	-
Debit balances of suppliers		153	-	165	-
Advances to suppliers		10	-	10	-
Related Parties:		186	-	410	-
Other receivables - associates, joint ventures and other related parties		186	-	410	-
Other receivables:		22,336	11,860	24,456	11,860
Employees		163	-	78	-
Bonds suppliers		10	-	17	-
Taxes subsoil		20,619	11,860	22,686	11,860
Other receivables		1,544	-	1,675	-
Accrued income:		45,577	2,035	44,065	3,886
Sales and services rendered not yet invoiced		25,179	-	25,372	-
Adjustment to tariff deviation - "pass through"		14,076	-	11,455	-
Adjustment to tariff deviation		3,711	2,035	5,673	3,886
Compensation for uniformity of tariff		1,968	-	1,054	-
Other accrued income		643	-	511	-
Deferred costs		1,537	9	841	7
Charges for prepaid rent		7	-	7	-
Interest and other financial charges		18	-	94	-
Prepaid insurance		749	-	59	-
Other deferred costs		763	9	681	7
Other receivables impairment	7.3	(3)	-	(3)	-

The sub-base rate heading with amount of € 32,479k refers to subsoil occupancy rates already paid to the Municipalities. In accordance with the Concession Agreement for the Gas Natural Distribution activity between the Portuguese State and the Group companies and according to the Resolution of the Council of Ministers no. 98/2008, of April 8, companies have the the right to pass on to marketers or final consumers, the full value of subsoil settlement fees paid to the local authorities that are part of the concession area.

The item "Revenue accrued" - sales and services rendered and unbilled natural gas services, in the amount of € 25,179k, refers essentially to the issuance of natural gas of June 2018 to be issued and will be billed in the following months.

Impairment of Trade Receivables and Other Receivables

The movement of impairment of customers and other accounts receivable in the period ended June 30, 2018 is as follows:

	Unit: €m				
	Notes	Initial balance	Increases	Decreases	Ending balance
June		446	95	(37)	504
Trade receivables	7.1	443	95	(37)	501
Other receivables	7.2	3	-	-	3

8. INVENTORIES

Inventories as of 30 June 2018 and 31 December 2017 are detailed as follows:

	Unit: €k	
	June 2018	December 2017
Captions	1,695	1,938
Raw, subsidiary and consumable materials:	1,607	1,842
Other raw materials and materials diverse	1,741	2,011
Impairment on Raw, subsidiary and consumable materials	(134)	(169)
Goods	88	96
Goods	88	96

On June 30, 2018, the item Other raw materials and miscellaneous materials, amounting to € 1,741k, corresponds essentially to materials to be applied in the construction and maintenance of the Group's infrastructure and to accountants.

The movements in inventory impairment in the period ended June 30, 2018 were as follows:

	Raw, subsidiary and consumable materials
Balance as of 31 December 2017	169
Net additions	(35)
Balance as of 30 June 2018	134

The net movement in the amount of €35m was recorded as a contra entry to the item of cost of sales in the income statement. This increase is mainly due to the evolution of market prices.

9. Cash and cash equivalents

For the periods ended 30 June 2018 and 31 December 2017 the caption "Cash and cash equivalents" is detailed as follows:

	Unit: €k		
	Notes	June 2018	December 2017
Cash and cash equivalents in the consolidated statement of cash flows		39,067	16,672
Cash and cash equivalents		39,254	16,683
Bank overdrafts	10	(187)	(11)

10. Financial debt

Financial debt as of 30 June 2018 and 31 December 2017 presents the following details:

Unit: €k					
	June 2018			December 2017	
	Notes	Current	Non-Current	Current	Non-Current
Financial debt		9,685	612,445	9,509	616,909
Bank loans:		9,685	16,110	9,509	20,908
Origination Fees		-	(49)	-	-
Loans and commercial paper		9,498	16,159	9,498	20,908
Bank overdrafts	9	187	-	11	-
Bond loans and notes:		-	596,335	-	596,001
Origination Fees		-	(3,665)	-	(3,999)
Bond loans		-	600,000	-	600,000

Changes in financial debt during the period from December 31, 2017 to June 30, 2018 are as follows:

Unit: €k				
	Initial	Principal repayment	Changes in Overdrafts	Ending balance
Financial debt	626,418	(4,464)	176	622,130
Bank loans:	30,417	(4,798)	176	25,795
Origination Fees	-	(49)	-	(49)
Loans	30,406	(4,749)	-	25,657
Bank overdrafts	11	-	176	187
Bond loans and notes:	596,001	334	-	596,335
Origination Fees	(3,999)	334	-	(3,665)
Bond loans	600,000	-	-	600,000

During the first half of 2018 the following loan agreements were repaid:

- Partial repayment of € 521k - Project Finance financing agreement that includes an investment credit line signed in December 2005 by Beiragás - Companhia de Gás das Beiras, S.A.;
- Partial repayments of € 4,228k of financing contracted with the European Investment Bank;

The financial debt, excluding origination fees and bank overdrafts, on June 30, 2018 presented the following expected repayment plan:

Unit: €k			
Loans			
Maturity	Total	Current	Non-Current
	625,657	9,498	616,159
2018	4,749	4,749	-
2019	8,347	4,749	3,598
2020	5,270	-	5,270
2021	1,042	-	1,042
2022	1,042	-	1,042
2023 and subsequent years	605,207	-	605,207

11. Other payables

As of 30 June 2018 and 31 December 2017, the caption "Other payables" presents the following detail:

Captions	Unit: €k			
	June 2018		December 2017	
	Current	Non-Current	Current	Non-Current
	40,257	240,111	35,765	223,661
State and other public entities:	7,389	-	5,960	-
Payable VAT	5,878	-	5,095	-
"ISP" - Tax on oil products	57	-	57	-
Income tax - withholdings made to third parties	628	-	345	-
Social Security – social charges	824	-	461	-
Other taxes	2	-	2	-
Other creditors:	5,091	-	3,450	-
Tangible and intangible assets suppliers	4,811	-	3,439	-
Advances on sales	276	-	7	-
Advances on customer	4	-	4	-
Related parties:	46	-	-	-
Other accounts payables	46	-	-	-
Other accounts payables:	2,147	-	1,063	-
Employee	193	-	34	-
Guarantee deposits and guarantees received	471	-	455	-
Other creditors	1.483	-	574	-
Accrued costs:	16,237	25,150	15,764	4,947
External supplies and services	2,064	-	1,564	-
Holiday, holiday subsidy and corresponding contributions	1,879	-	2,578	-
Bonuses to employees	862	-	1,943	-
Accrued interest	6,443	-	2,316	-
Insurance premiums payable	536	-	769	-
Adjustment to tariff deviation - "ERSE" regulation	4,181	25,150	6,467	4,947
Accrued employee – other	250	-	125	-
Financial costs and losses	22	-	2	-
Deferred income:	9,347	214,961	9,528	218,714
Investment subsidies	8,783	214,960	8,942	218,530
Optical fiber	384	1	404	184
Other	180	-	182	-

Investment subsidies are being recognized in the income statement over the useful life of the assets. The amount to be recognized in future periods amounts to € 223,743k.

12. Retirement benefits and other benefits

On June 30, 2018 and December 31, 2017, the assets of the Pension Fund of the Group GGND, valued at fair value and classified in Level 1, are as follows, according to the report presented by the respective management company:

	Unit: €k	
	2018	2017
Total	22,067	22,753
Shares	5,982	6,131
Bonds	15,184	15,878
Real Estate	244	238
Liquidity	657	506

As of June 30, 2018 and December 31, 2017, the assets affected by the Pension Fund were insufficient at € 4,703k and € 4,182k, respectively, to cover the areas of performance it assumed. In addition, the Group is expected to offer reforms, retirement and disability, pre-retirement and early retirement, whose liability amount as of June 30, 2018 is € 27,189k (December 2017 - € 28,080k), as well as post-employment and benefits formed by health insurance and minimum life of defined task plan, whose liability value is from June 30, 2018 to € 25,429k (December 2017 - € 24,827k).

At June 30, 2018 and December 31, 2017, the Group has registered, in capital, the following initiatives with retirement benefits and other benefits:

		Unit: €k	
Captions	Notes	June 2018	December 2017
		24,656	24,013
		30,239	29,485
Retirement benefits		19,057	18,747
Other benefits		11,182	10,738
Deferred tax	6	(5,583)	(5,472)

13. Provisions

During the six-month period ended 30 June 2018, the caption "Provisions" presented the following movements:

	Unit: €k		
Captions	Initial balance	Increases	Ending balance
June 2018	42,646	9,707	52,353
Lawsuits	481	5	486
"CESE I"	39,734	9,609	49,343
Other risks and charges	2,431	93	2,524

14. Operating costs

The operating costs for the six-month periods ended 30 June 2018 and 2017 are detailed as follows:

				Unit: €k
Caption	Notes	June 2018	June 2017	
Operating Costs		75,620	80,658	
Cost of sales:		1,711	1,457	
Goods		1,746	1,443	
Inventories impairment	8	(35)	14	
External supplies and services:		28,635	35,748	
Subcontracts – network uses		13,544	20,630	
Rental costs		533	626	
Conservation and repair		1,272	1,021	
Insurance		611	600	
Computer services		3,619	3,637	
Travel and stays		180	240	
Electricity, water, steam and communications		244	262	
Fuels		292	285	
Reading, Billing and billing services		704	630	
Technical assistance and inspection services		1,360	1,430	
Other specialized services		5,994	5,766	
Other costs		282	621	
Employee costs		9,722	10,811	
Remuneration board of directors		267	227	
Employee remuneration		8,482	8,666	
Social charges		1,700	1,918	
Retirement benefits - pension and insurances		1,615	1,629	
Other insurances		305	647	
Capitalization of employee costs		(648)	-	
Other expenses		(1,999)	(2,276)	
Amortization, depreciation and impairment on fixed assets	3 and 4	21,245	20,930	
Depreciation and impairment of tangible assets		9	9	
Amortization and impairment of intangible assets		102	-	
Amortization and impairment of Concession Agreements		21,134	20,921	
Provisions	13	98	91	
Impairment losses on receivables	7.3	58	(34)	
Other operating costs		14,151	11,655	
Costs of Asset Construction under IFRIC12		13,952	11,262	
Other operating costs		199	393	

With respect to construction contracts under IFRIC 12, the construction of Concession Assets is subcontracted to specialized entities, which assume their own risk of construction, and the costs and income associated with the construction of these assets are recognized. The costs presented in the amount of € 13,952k have an equal amount of income.

15. Financial result

The detail of the financial income and costs for the six-month periods ended 30 June 2018 and 30 June 2017 is as follows:

	Unit: €k	
Captions	June 2018	June 2017
Financial incomes and costs	(4,731)	(4,767)
Financial Income	42	91
Interest on bank deposits	42	44
Interest obtained and other income with related companies	-	47
Financial Costs:	(4,773)	(4,858)
Interest on loans, overdrafts and others	(4,175)	(4,151)
Interest related to loans	(511)	(576)
Interest related to Bank Guarantees	(21)	(60)
Costs related to surface rights	-	1
Costs several with banking services	(66)	(70)
Other financial costs	-	(2)

16. Approval of the financial statements

The consolidated financial statements were approved by the Board of Directors on 19 September 2018.

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 Geraldês Bastos

Yoichi Noborisaka

The ACCOUNTANT:

Carlos Alberto Nunes Barata

Review Report on the Condensed Consolidated Financial Statements

(Free translation from the original in Portuguese)

Introduction

1 We have reviewed the accompanying consolidated financial statements of Galp Gás Natural Distribuição, S.A. (the Entity), which comprise the consolidated statement of financial position as at 30 June 2018 (which shows total assets of Euro 1,264,415 thousands and total shareholder's equity of Euro 219,494 thousands, including a net profit of Euro 14,506 thousands), the consolidated statements of income by nature, comprehensive income, changes in equity and cash flows for the six-month period then ended, and the accompanying explanatory notes to the condensed consolidated financial statements, which includes a summary of significant accounting policies.

Management's responsibility

2 The Management is responsible for the preparation of the condensed consolidated financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union, as well as to create and maintain appropriate systems of internal control to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3 Our responsibility is to express a conclusion on the accompanying condensed consolidated financial statements. We conducted our review in accordance with ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Those standards require that we conduct the review in order to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

4 A review of financial statements is a limited assurance engagement. The procedures performed mainly consist of making inquiries and applying analytical procedures, and evaluating the evidence obtained.

5 The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs). Accordingly, we do not express an opinion on these consolidated financial statements.

Conclusion

6 Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of Galp Gás Natural Distribuição, S.A. as at 30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

19 September 2018

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda
Registered in the Comissão do Mercado de Valores Mobiliários with no. 20161485
represented by:

António Joaquim Brochado Correia, R.O.C.

(This is a translation, not to be signed)