Galp Gás Natural Distribuição, S.A.

Management Report and Accounts 2017

Head Office: Rua Tomás da Fonseca – Torre C – 1600-209 Lisboa
Share Capital: 89,529,141.00 EUR

MCRC/NIPC: 509148247

CONTENTS

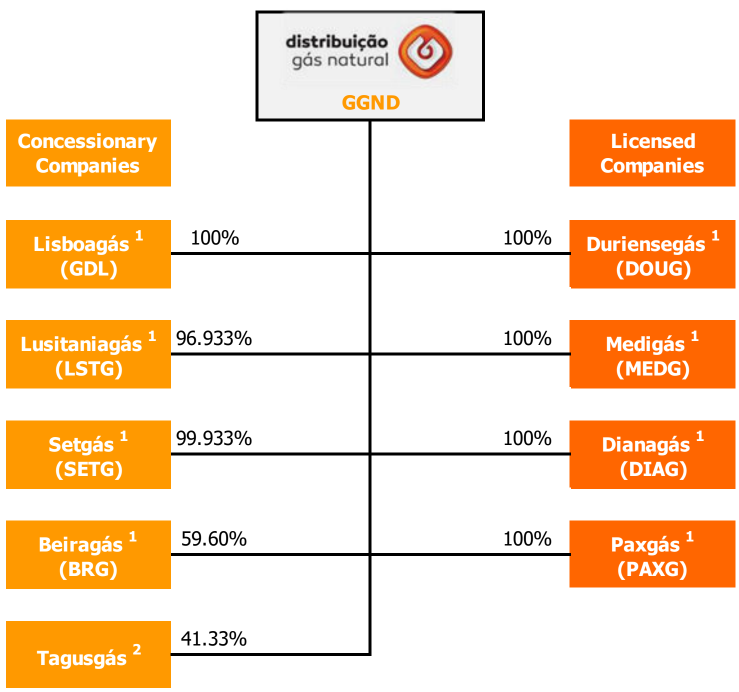
1. INTRODUCTION

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 2017, the key operational indicators of a GGND Group are as follows:

Lisboagás
Total Network Extension: 4,548 km
Connection Points: 532,443
Gas Volume Distributed: 391,291 mm^3

Lusitaniagás
Total Network Extension: 3,424 km
Connection Points: 224,113
Gas Volume Distributed: 724,461 mm^3

Setgás
Total Network Extension: 2,176 km
Connection Points: 168,277
Gas Volume Distributed: 164,844 mm^3

Beiragás
Total Network Extension: 819 km
Connection Points: 53,891
Gas Volume Distributed: 77,641 mm^3

Duriensegás
Total Network Extension: 477 km
Connection Points: 30,024
Gas Volume Distributed: 18,463 mm^3

Medigás
Total Network Extension: 272 km
Connection Points: 22,524
Gas Volume Distributed: 9,178 mm^3

Dianagás
Total Network Extension: 192 km
Connection Points: 9,998
Gas Volume Distributed: 7,053 mm^3

Paxgás
Total Network Extension: 65 km
Connection Points: 6,078
Gas Volume Distributed: 1,343 mm^3

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:	Ana Paz Ferreira da Câmara Perestrelo de Oliveira [1]
Secretary:	Rafael de Almeida Garrett Lucas Pires [1]

Company Secretary

Permanent:	Rita Andrade Lopes Picão Fernandes Campos de Carvalho
Alternate:	Inês Freire Figueira Ribeiro

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

[1] Election by unanimous social resolution of shareholders of December 21, 2017, replacing Rui de Oliveira Neves and Maria Helena Goldschmidt, respectively, Chairman and Secretary of the General Meeting Board

Executive Committee

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

Supervisory Board [2]

Chairman:	Daniel Bessa Fernandes Coelho
Members:	Pedro Antunes de Almeida
	Armindo José Faustino dos Santos Marcelino
Alternate Member:	Amável Alberto Freixo Calhau

Statutory Auditor [2]

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

[2] Election at the Shareholders' Meeting held on May 26, 2017

3. RELEVANT FACTS OCCURRED IN 2017

REGULATORY FRAMEWORK

The natural gas distribution business is supported by the application of regulated tariffs defined by 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.

On July 1, 2017 began the Gas Year 2017-2018, corresponding to the 2nd Gas Year of the 4th Regulatory Period of the Natural Gas Sector.

The asset remuneration rate established by the ERSE for the aforementioned Gas Year 2017-2018 was 6.65% in the Natural Gas Distribution business, compared with 6.20% in the previous Gas Year.

Despite the increase in the comparison between Gas Year, there was a decrease in the average remuneration rate of the regulated assets applied in terms of Fiscal Year, calculated by the average of the two semesters of each Gas Year that make-up the corresponding Fiscal Year.

In fact, the average rate for Fiscal Year 2016 was 7.02%, while the Fiscal Year 2017 stood at 6.42%.

FINANCIAL RATING

On October 25, 2017, following its usual annual review, S&P Global Ratings affirmed GGND's long-term corporate credit rating of "investment grade" BBB-, keeping its outlook stable.

BUSINESS EVOLUTION

The activity of GGND, on a consolidated basis, generated a net income of €30.4 million in 2017, corresponding to €3.8 million less than in the same period of 2016, with EBITDA having reached €106.1 million, representing €6.1 million less than in the previous year.

In 2017, 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 2017, the receivable balance of the tariff deviation stood at approximately €11.4 million, representing €1.5 million less than at the end of 2016.

Net operating costs reached €75.6 million, standing at 12% lower than that recorded in the same period of 2016, mainly due to the decrease, on average basis, of the costs related to transmission tariff published by ERSE.

During 2017, investment amounted to €22.7 million, with approximately 73% of the total having been allocated to business development, which included the expansion of the distribution network by 138 km, construction of 5,224 service lines and connection of 16,110 new connection points, of which 10,333 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 2017, the natural gas distribution system of the companies controlled by GGND reached a total of 11,974 km of distribution network, covering a total number of 1,047,348 connection points with an active contract, with a volume of 16,267 GWh of natural gas having been distributed.

Close to 94% 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 2017 there was an increase in activities managed by the "Asset Management System" (SGA), with the introduction of new functionalities, namely the development of the reporting component and control tools of engineering activities and facilities management.

In 2017, the second phase of the "Distribution Portal" project was completed and its use is expanding. This solution allows companies controlled by GGND to provide their stakeholders, namely Providers and Customers, a relationship platform with greater efficiency and transparency in the management of processes. It is a communication channel that uses the new tools of the digital era, whose access is made via the Web, that is, always available and customized, depending on the activity and the user's profile that relates to the companies of the GGND Group.

The "Star Programme - Client Experience" reinforced its agglutinating focus dimension in order to promote a relationship with the client focused on meeting its expectations, maintaining the development of several initiatives of a formative nature and reinforcing the matrix of the efficient management of Natural Gas Partners in the context of field activities and interaction with natural gas clients.

In 2017, the tender process for new contracting contracts of typology B and C was carried out, aiming to reinforce the service quality to the natural gas customer, with the process proceeding efficiently, emphasizing the capacity observed in the corresponding process of operational transition of the activity that took place without constraints or breaks in the operation and quality of the actions developed.

The second phase of the project "Reporting Management to ERSE" (Project BI) was completed. Its objective is to ensure regulatory obligations for the periodic submission of quantitative information to ERSE, with the automation and optimization of the information extraction processes of OpenSGC, SGA, SIGAS and SCADA.

In 2017, GGND redefined the quality control model of the commercial processes of relationship with the market, aligned with the requirement and the ambition to become a reference in the dimension of customer experience, an indispensable factor for Natural Gas to be preferred by Clients.

As a result of this commitment, in 2017 and following the measures adopted, the GGND was recognized by the Portuguese Contact Center Association, with the following Awards:

- Best Customer Service in the Energy sector;
- Best Management in Outsourcing, in the set of all sectors of economic activity; and,
- 2nd Best Performance in Customer Service, in all sectors of economic activity.

CERTIFICATION OF THE INTEGRATED ENVIRONMENT, QUALITY AND SAFETY MANAGEMENT SYSTEMS

The companies controlled by GGND have maintained the certification of their integrated systems for the management of the Environment, Quality and Safety, having made the transition to ISO 9001:2015 and ISO 14001:2015, anticipating in this way the transition that had as a deadline September of 2018.

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

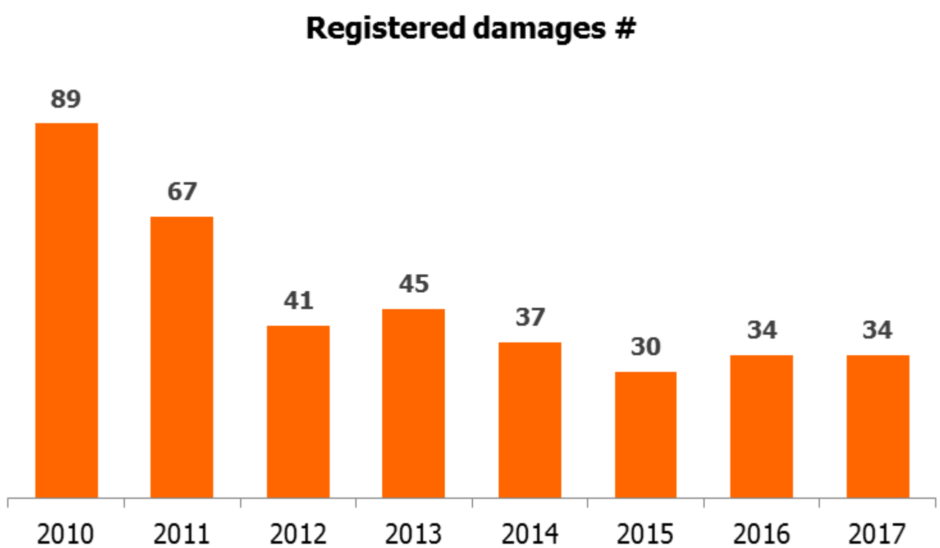
The need for the continuous improvement of consumer satisfaction is an indispensable attitude for any organization to achieve success.

Throughout 2017, 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 1 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.

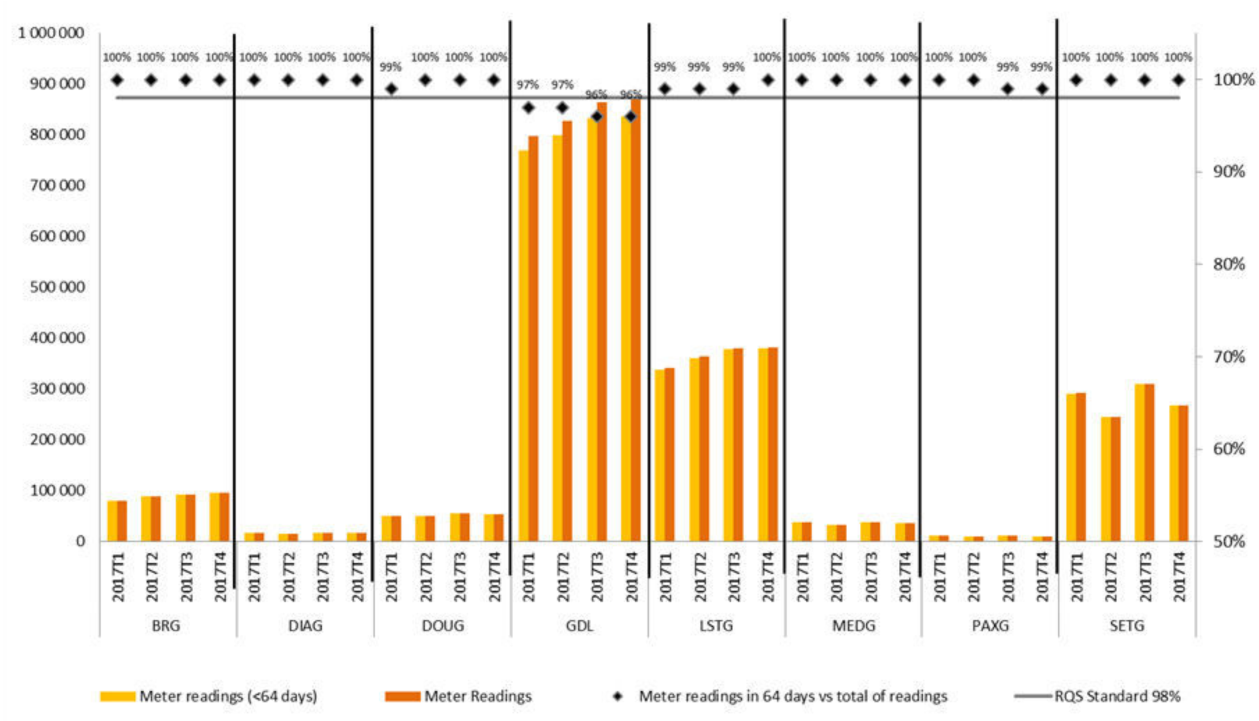
In 2017, for the group of companies controlled by GGND, 34 accidents with damage caused by third parties were recorded.



INDICATORS ON THE REGULATION OF SERVICE QUALITY (RQS)

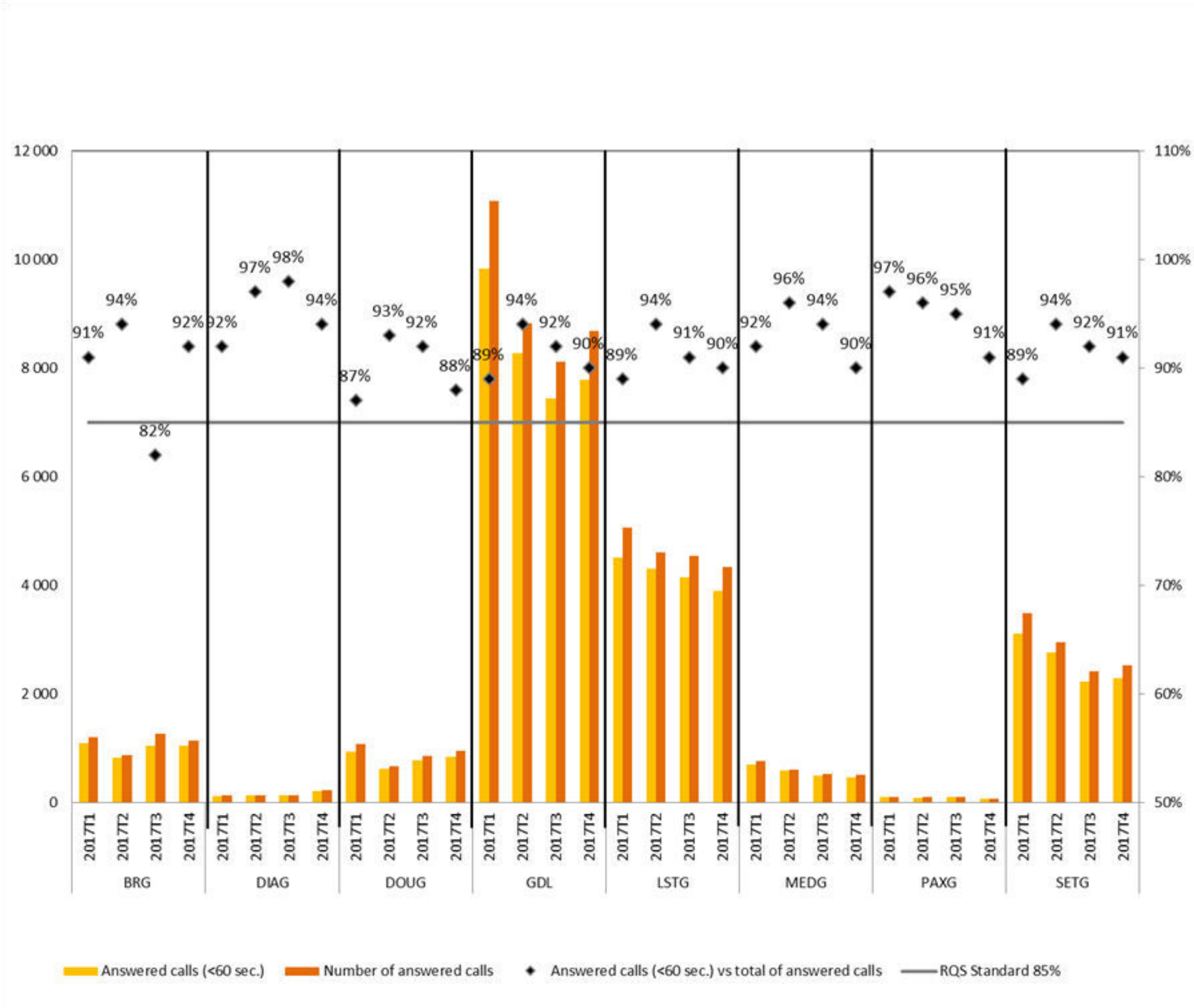
Focusing on the Quality of Service to the natural gas consumer, as the mechanism facilitating and promoting the use of natural gas as a source of energy, and keeping in line with the standards established by the ERSE, the individual indicators on Service Quality in 2017 for the group of companies controlled 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, with the exception of Lisboagás (GDL) as a consequence of the number of meters that are inside the houses, making it difficult to access them for the accomplishment of the readings. In 2017, the automatic flow of incoming readings from Providers was also implemented, also looking for a way to reduce the number of meters without readings for more than 64 days.

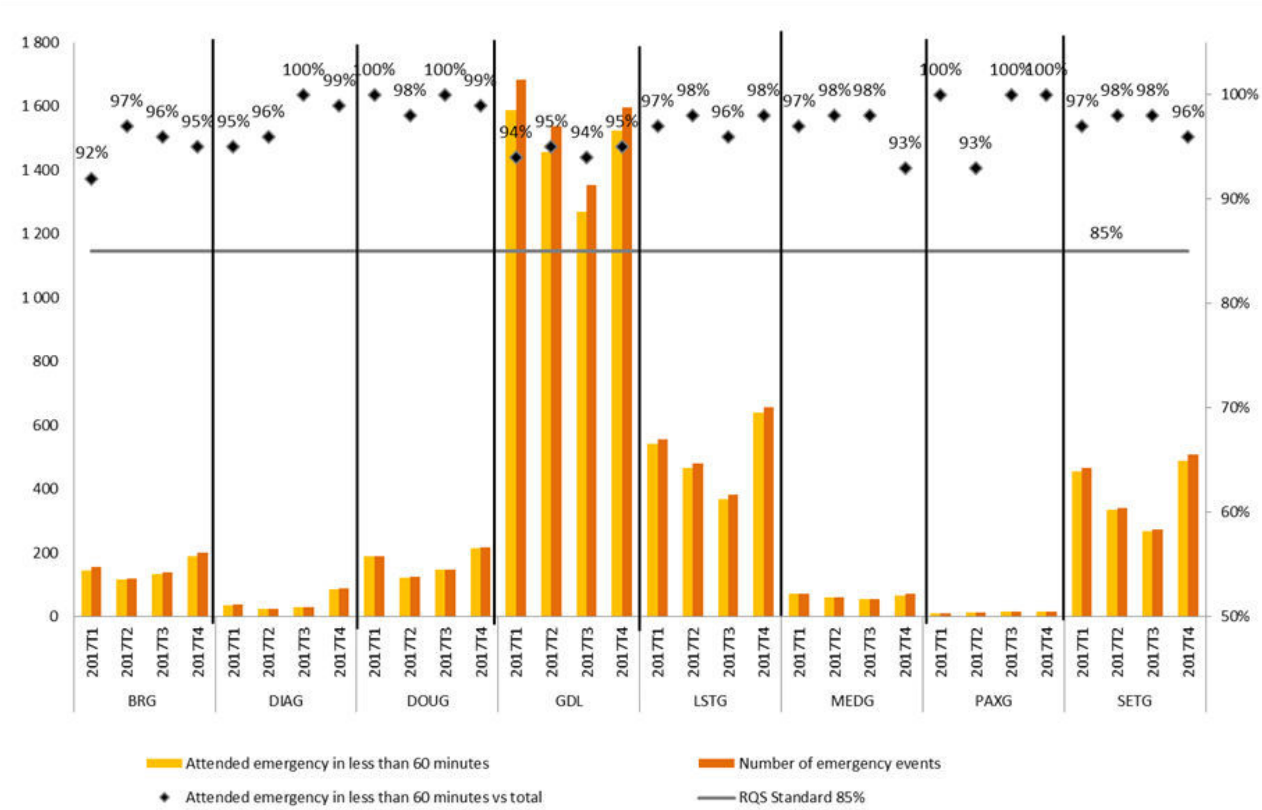
- Number of telephone calls attended in relation to emergencies and breakdowns with waiting time of 60 seconds or less



- Full compliance with the indicator, consistently and surpassing the minimum required by the ERSE, with the exception of Beiragás (BRG), for the 3rd quarter, due to the high flow of calls for about 30 hours, associated with an occurrence that motivated the interruption of supply to 60 Customers, of which 1 of the Industrial Segment;

- Stability of the number of telephone calls attended.

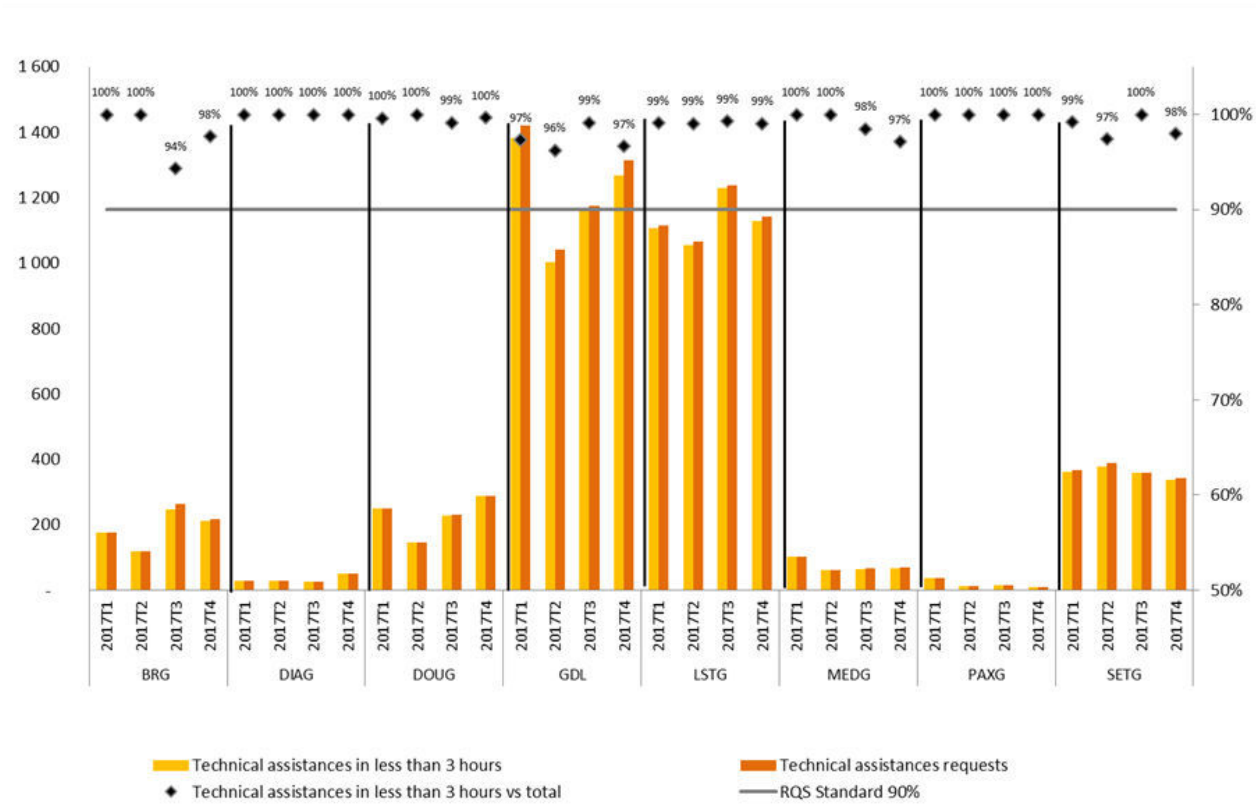
- Number of emergency situations with time of arrival at the site of 60 minutes or less



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

- Minor increase in the number of emergency situations.

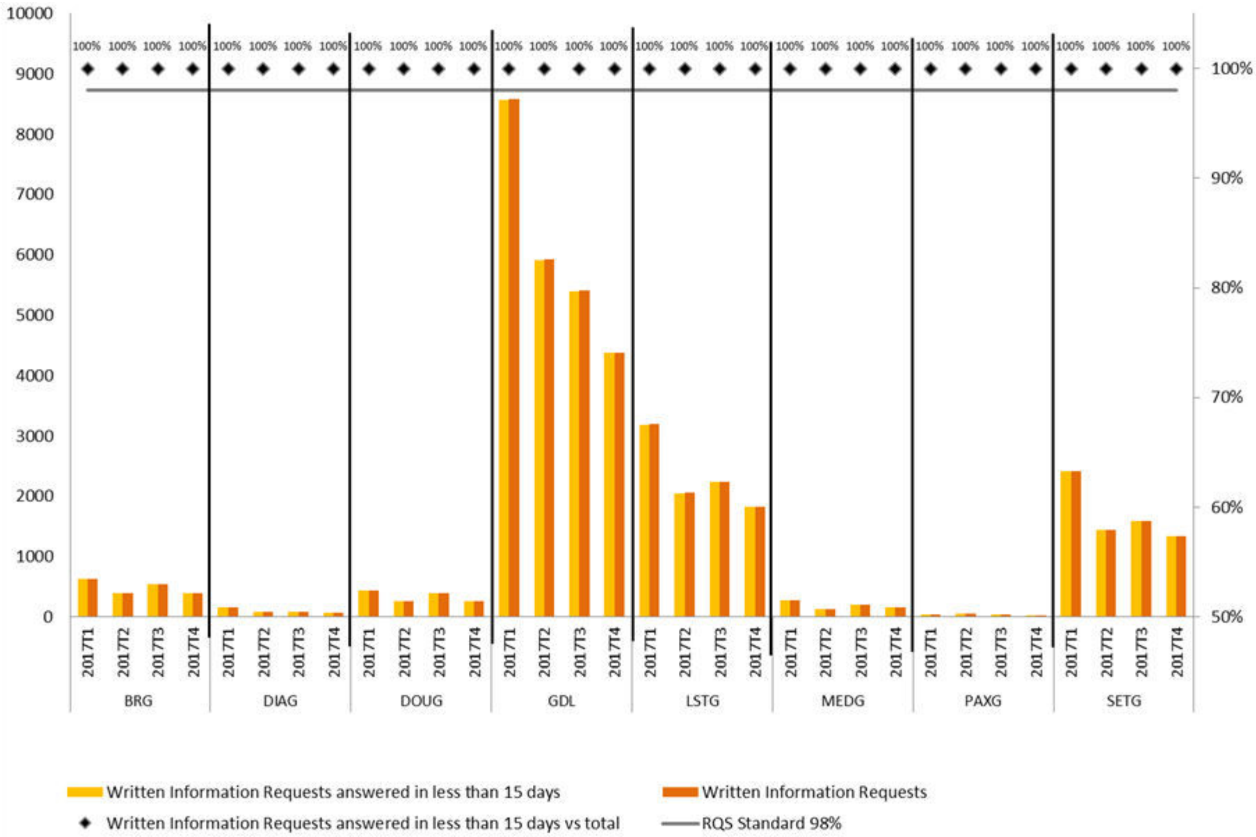
- Number of technical assistance actions with time of arrival at the site of 3 hours or less



- 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



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

- 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	2016	2017	Variation	% Var.
Connection Points	#	1,033,867	1,047,348	**13,481**	**1.3%**
Gas Volume Distributed	Gwh	15,926	16,267	**341**	**2.1%**
Total Network Extension	km	11,836	11,974	**138**	**1.2%**
20bar network	km	648	648	**-**	**%**
4bar network	km	11,188	11,326	**138**	**1.2%**

Financial Indicators (thousands of euros)	2016	2017	Variation	% Var.
Turnover	201,516	183,955	**(17,561)**	**(9%)**
EBITDA	112,162	106,093	**(6,068)**	**(5%)**
EBIT	71,077	63,751	**(7,327)**	**(10%)**
Financial Results	(22,110)	(8,531)	**13,579**	**(61%)**
Consolidated Net Income	26,552	30,365	**3,813**	**14%**
Cash Flow [1]	85,149	78,825	**(6,324)**	**(7%)**
Financial Debt [2]	638,253	626,418	**(11,835)**	**(2%)**
Net fixed assets [3]	1,113,986	1,094,403	**(19,583)**	**(2%)**
Other Investiments [4]	17,337	13,838	**(3,499)**	**(20%)**
CAPEX	23,084	22,682	**(402)**	**(2%)**

[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] Investmenst 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)	**2016**	**2017**	**Variation**	**% Var.**
Turnover	201,516	183,955	(17,561)	(9%)
Cost of Sales	(3,161)	(2,310)	(851)	(27%)
External Supplies and Services	(74,614)	(63,706)	(10,908)	(15%)
Employee Costs	(20,650)	(21,609)	959	5%
Other Operating Income	33,670	32,665	(1,005)	(3%)
Other Operating Costs	(24,599)	(22,902)	1,697	(7%)
EBITDA	**112,162**	**106,093**	**(6,068)**	**(5%)**
Amortization, Depreciation and Provision	(41,084)	(42,342)	1,257	3%
EBIT	**71,077**	**63,751**	**(7,327)**	**(10%)**
Financial Results	(22,110)	(8,531)	13,579	(61%)
Profit Before Tax	**48,967**	**55,220**	**6,253**	**13%**
Taxes	(12,358)	(14,529)	2,171	18%
Energy sector extraordinary contribution	(10,057)	(10,326)	269	3%
Profit Attributable to Non-Controling Interests	1,508	1,103	405	(27%)
Consolidated Net Income	**26,552**	**30,365**	**3,813**	**14%**

TURNOVER

Turnover reached €184 million in 2017, showing a 9% decrease (€17.6 million) year-on-year.

This variation was mainly due to the combined effect of (i) the reduction of the average rate of remuneration of regulated assets and the average values of these assets, (ii) the decrease, on average basis, of transmission tariff, both published by ERSE, as well as (iii) the Reinstatement of Financial Neutrality (RNF), completed in June 2016 (Gas Year 2015-2016).

EBITDA

In 2017, GGND reached an EBITDA of €106.1 million, a decrease of 5% over the previous year, mainly explained by the aforementioned change in turnover, which was largely offset by the reduction in net operating costs.

OPERATING COSTS

Net Operating Costs				
(thousands of euros)	**2016**	**2017**	**Variation**	**% Var.**
External Supplies and Services	(74,614)	(63,706)	(10,908)	(15%)
Employee Costs	(20,650)	(21,609)	959	5%
Other Operating Costs	(24,599)	(22,902)	1,697	(7%)
Other Operating Income	33,670	32,665	(1,005)	(3%)
Total	**(86,194)**	**(75,552)**	**(10,642)**	**(12%)**

Net Operating costs amounted to €75.6 million, corresponding to 12% less than that recorded in 2016. This result was mainly due to the reduction in external supplies and services.

Amortization, Depreciation and Provision				
(thousands of euros)	**2016**	**2017**	**Variation**	**% Var.**
Amortization and Depreciation	(41,464)	(42,120)	656	2%
Provision and impairment loss on receivables	379	(222)	601	(159%)
Total	**(41,084)**	**(42,342)**	**1,257**	**3%**

Amortization and depreciation reached €42.1 million in 2017, corresponding to 2% more than the previous year.

Provisions and impairment loss on receivables increased by €0.6 million due mainly to the reinforcement of Clients debts.

FINANCIAL RESULTS

Financial Results				
(thousands of euros)	**2016**	**2017**	**Variation**	**% Var.**
Financial Income	995	496	(499)	(50%)
Financial Costs	(23,954)	(9,659)	14,295	(60%)
Share Results of Investments in Associates	849	632	(217)	(26%)
Total	**(22,110)**	**(8,531)**	**13,579**	**(61%)**

In 2017, GGND reported negative financial results of €8.5 million, but there was a significant improvement of €13.6 million over the previous year.

The reduction in financial costs was mainly due to the change in sources of financing in the last four months of 2016, when GGND issued Eurobond and reimbursed the loans that had been granted by its majority shareholder.

NET INCOME

In 2017, GGND achieved Profit before Tax of €55.2 million which, net of Income Tax and the Energy Sector Contribution Tax, generated a Net Income of €30.4 million, 14% higher than the same period of the previous year, mainly due to the improvement in Financial Results.

5.2 REVIEW OF THE FINANCIAL SITUATION

Financial Position				
(thousands of euros)	**2016**	**2017**	**Variation**	**% Var.**
Fixed Assets	1,113,986	1,094,403	**(19,583)**	**(2%)**
Investments in associates and jointly controlled entities	15,059	11,560	**(3,499)**	**(23%)**
Other Investments [1]	2,278	2,278	**0**	**%**
Other receivables [2]	48,912	32,092	**(16,819)**	**(34%)**
Non-current Assets	1,180,235	1,140,333	**(39,902)**	**(3%)**
Equity	265,143	232,799	**(32,344)**	**(12%)**
Non-current liabilities	959,440	947,107	**(12,333)**	**(1%)**
Permanent Capital	1,224,583	1,179,906	**(44,678)**	**(4%)**
Working Capital	44,348	39,572	**(4,776)**	**(11%)**
Operational necessity. [3]	88,046	82,214	**(5,832)**	**(7%)**
Operating resources [4]	73,461	46,125	**(27,336)**	**(37%)**
Working capital needs	14,584	36,089	**21,504**	**147%**
Cash and cash equivalents	43,065	16,683	(26,382)	(61%)
Net Debt [5]	595,188	609,735	**14,546**	**2%**
Total Equity	265,143	232,799	**(32,344)**	**(12%)**
Capital employed [6]	860,331	842,534	**(17,797)**	**(2%)**
Debt to equity	**2.2x**	**2.6x**	**0.4x**	

[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

[6] Net Debt + Total Equity

The total of Non-current Assets of GGND, as of December 31, 2017, amounted to €1,140 million, 3% (€39.9 million) below comparing to the previous year, as a result of:

- Reduction of fixed assets by €19.6 million;
- Reduction in the value of interests in associates and jointly controlled entities by €3.5 million, mainly due to the distribution of dividends by Tagusgás, S.A.;
- Reduction of the Medium and Long-Term Tariff Deviation by €3.6 million;
- Reduction of the Underground Occupation Taxes (TOS) by €7.0 million;
- Receipt of Shareholder Loans granted to Tagusgás, S.A., at €5.4 million;
- Reduction of Deferred Taxes by €0.8 million.

The Permanent Capital of GGND stood at €1,180 million, €44.6 million below comparing to the previous year, as a result of the decrease in Equity of €32.3 million and the reduction of Non-current Liabilities by €12.3 million. The decrease in Equity was due to the distribution of dividends in the amount of €62 million.

As of December 31, 2017, GGND's Net Debt of €609.7 million increased by €14.5 million due to the decrease in Cash and Cash Equivalents of €26.4 million. The company continued in 2017 to follow the repayment plan of the Bank Loans, reducing the debt by about €11.8 million.

The debt to equity ratio has increased by 0.4x as a consequence of the results described above.

FINANCIAL RATIOS

Under the conditions of the Eurobond issued by GGND, Financial Ratios were defined ("Financial Covenants"), which represent a protection for its Creditors. These ratios have two limits, one in the form of a "lock-up of dividends distribution" and the other in the form of an "event of default":

Financial Ratios	
	31-12-2017
Net Debt [1]/ EBITDA [2]	5.8x
Debt Service Coverage Ratio [3]	5.9x

[1] Bank Loan + Bond + Accrued Interest - Cash and equivalents
[2] EBITDA + Provisions
[3] (Cash Flow from Operacional Activity - Capital Expenditure)/Interest Service

As of December 31, 2017, both ratios are within the established limits.

6. CORPORATE GOVERNANCE

6.1 QUALIFYING STAKES IN THE COMPANY'S SHARE CAPITAL AS OF 31/12/2017

(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%**

6.2 SHAREHOLDERS WITH SPECIAL 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.

6.3 RESTRICTIONS ON VOTING RIGHTS

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

There are no restrictions on voting rights.

6.4 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 h) 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.

6.5 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.

6.6 INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

INTERNAL CONTROL SYSTEM

The internal control system, whose structure is under review, intends to be based on a set of policies and procedures, in order to ensure the fulfillment of the GGND objectives in:

- Conduct of activities in an orderly and efficient manner;
- Prevention and detection of fraud and errors;
- Compliance with laws and regulations; and,
- Financial and non-financial reporting.

The control environment consists of the set of standards, processes and structures available to the GGND, which forms the basis of its internal control system. It influences how the Company's strategy and objectives are defined, how operational activities are structured and how the risk culture is assumed.

The control environment is influenced by internal and external factors, such as GGND values and the market in which it is integrated, reflecting the position of the management bodies in relation to the internal control system and guiding all employees in the decision making process with emphasis on its control.

The control environment is supported by organizational culture as it establishes expectations of behavior that reflect a commitment to ethical values, responsibilities, policies, norms and procedures. Top management establishes and communicates the importance of internal control and expected standards of conduct and ensures the scrutiny of different management acts, in line with best practices and in compliance with legal and regulatory requirements.

It should be noted that the strictly regulated framework in which GGND Group companies operate has led to the establishment of a Compliance Program. In accordance with the applicable regulations, an independent entity was appointed to ensure the activity of Compliance Officer in the three Distributors with more than 100 thousand customers. This entity monitors the proper application of the principles set forth in the program and the compliance of the companies with the established obligations.

The definition or revision of the GGND objectives is the triggering factor for the risk assessment process. A timely identification of the objectives and consequent identification and analysis of the risks associated to the fulfillment of the main objectives allows the GGND to identify the potential events that can affect the pursuit of the same.

To ensure an effective internal control system, GGND promotes the exchange of relevant information, maintaining a permanent communication with the various stakeholders, both internal and external.

Finally, operational, compliance and financial audits, as well as reviews of information systems, are aimed at testing the effectiveness of existing internal control mechanisms, ensuring adequate conditions for maintaining a continuous improvement process.

REPORT ON FINANCIAL INFORMATION

The process of disclosure of mandatory financial information is monitored by the administrative and supervisory bodies. In particular, in relation to the annual and semi-annual accounts, the documents are sent to the Board of Directors and Supervisory Board, which approve them before they are disclosed.

Within the scope of their functions, the ROC evaluates the internal control mechanisms of the main functional cycles of GGND and its Group companies with effects on financial reporting.

RISK MANAGEMENT MODEL

As a holding company of a set of regulated companies operating geographically dispersed in the Natural Gas Distribution and Commercialization sector in Portugal, the existence of a robust internal regulatory framework and a disciplined approach to risk are important elements in the GGND. This regulatory framework ensures that the activity is carried out in accordance with strategic objectives, the risks accepted are duly mitigated and that long-term value is created for the shareholders.

The Company's day-to-day management is exercised by the Executive Committee in accordance with the delegation of powers conferred by the Board of Directors, which supervises and monitors the management through its non-executive and independent members.

The Supervisory Board has the role of monitoring the effectiveness of risk management, internal control and internal audit systems, as well as annually assessing their operation and internal procedures.

The Board of Directors is responsible for defining the strategy and supervision of risk management that the GGND is willing to accept and for ensuring the alignment of the strategy with this level of risk, monitoring and controlling the performance of the delegated functions in the Executive Committee.

The Executive Committee is responsible for monitoring risk management with a focus on the main risks that GGND exposes, including strategic, operational, financial and regulatory risks.

As part of the reorganization of GGND in 2016, GGND is densifying its risk analysis and management procedures, as well as internal control, taking into account its specific area of activity (Natural Gas Distribution and Commercialization), as well as the framework legislative and regulatory framework.

In this framework, a Compliance Program, a Code of Ethics and Conduct and anticorruption and anti-money laundering policies were approved, which list the obligations and behaviors expected, also in terms of management and minimization of the risks to which GGND and its Group companies are subject.

MAIN RISKS

GGND identified the following risks as being of priority:

- Regulatory and compliance uncertainties;
- Failures of information systems and cybersecurity;
- Execution of projects, particularly in technical, safety and environmental aspects.

The main risks and uncertainties of GGND are managed, monitored and communicated at the counterparty, project and geography level, as appropriate.

The strategies for responding to specific situations are defined to ensure that the risks are within the general guidelines acceptable to GGND and its Group companies.

GGND and its Group companies guarantee through the subscription of the Insurance Policies deemed necessary to cover the risks identified, with a view to transferring the risk and minimizing potential reputational, operational and financial damages.

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

7. FUTURE OUTLOOK

In line with the goals, 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 SNGN.

The GGND Group shall continue investing and concentrating its efforts in developing natural gas infrastructures and increasing connection points, aimed to make this economically advantageous and environmentally clean energy available to the largest number of consumers and economic agents, and achieving efficiency levels that are appropriate to the investments made without, however, failing to fulfill its Public Service mission.

In 2018, GGND shall continue focusing 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.

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 supporting the Projects of the GGND Group;
- Our contractors and service providers, as important business partners;
- The City Councils of the Municipalities of the concession and license areas of our companies;
- The Supervisory Board, the Statutory Auditor and the 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 service quality provided to the final users.

10. PROPOSED APPROPRIATION OF NET INCOME

GGND closed the 2017 financial year with a positive net income of EUR 25,480,869.59 (twenty-five million, four hundred and eighty thousand, eight hundred and sixty-nine euros and fifty-nine cents), calculated on an individual basis, in accordance with the International Financial Reporting Standards (IFRS).

The Board of Directors proposes, under legal terms, that the net income for 2017 should be appropriated as follows:

- Endowment to the legal reserve in the amount of EUR 1,274,043.48;
- Coverage of accumulated losses in the amount of EUR 36,858.22;
- Distribution of dividends in the amount of EUR 24,169,967.89

It is further proposed that a maximum amount of EUR 1,434,560.05 (one million, four hundred and thirty-four thousand, five hundred and sixty euros and five cents) be distributed to GGND Group employees and executive directors of GGND as profit sharing, an amount already recognized and expressed in the consolidated financial statements of GGND and in the individual of each of its subsidiaries, and the respective net results for 2017 have been calculated already considering that amount.

The breakdown of this amount among the GGND Group's employees shall be determined by the Executive Committee in accordance with the applicable internal rules and among the executive directors of the GGND shall be determined by the General Meeting, in accordance with applicable legal terms.

Lisbon, 10 April 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 Geraldes
Member

Yoichi Noborisaka
Member

ANNEX I – MANDATORY MENTIONS

1. 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 2017.

As of 31 December 2017, GGND did not hold any of its own shares.

2. SHAREHOLDER POSITION OF THE MEMBERS OF THE ADMINISTRATION AND SUPERVISORY BODIES AS OF 31/12/2017

(Article 447, number 5 of the Commercial Companies Code)

As of 31 December 2017, none of the members of the administration and supervisory board held shares or bonds issued by GGND.

3. ANNUAL VALUE OF THE REMUNERATION EARNED, IN AGGREGATED AND INDIVIDUAL FORM, BY THE MEMBERS OF THE COMPANY'S ADMINISTRATION AND SUPERVISORY BODY IN 2017

(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)

The gross annual value of the remuneration earned in aggregated and individual form in 2017 by the members of the Company's administration and supervisory body currently in office, is presented in the table below.

Name	Position	Fixed Remuneration	Other Remunerations	Total [4]
Maria Leonor Machado	Non-executive Deputy Chairman	28,000.00	0.00	28,000.00
Gabriel Sousa	Executive Director (CEO)	126,000.00	32,404.50[1]	158,404.50
Naohiro Hayakawa	Executive Director (CFO)	108,000.00	72,070.30[2]	180,070.30
José Vieira	Executive Director (COO)	87,878.00	22,415.00[1]	110,293.00
Armindo Marcelino	Member of Supervisory Board	10,790.32[3]	0.00	10,790.32
Total				487,558.12

(1) Includes amounts related to Variable Remuneration and Food Subsidy
(2) Includes amounts associated to the impatriation of Naohiro Hayakawa and Food Subsidy
(3) Remuneration referring to the period from May 26 to December 31, 2017
(4) Remuneration presented on a cash basis

The members of the Company's administration and supervisory body not indicated in the table above did not earn remuneration in 2017.

4. 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.

ANNEX II – DECLARATION OF CONFORMITY OF THE BOARD OF DIRECTORS

DECLARATION OF CONFORMITY OF THE MEMBERS OF THE BOARD OF DIRECTORS

Under the terms and for the purposes of 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.

Lisbon, 10 April 2018

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 III – CONSOLIDATED FINANCIAL STATEMENTS

GALP GÁS NATURAL DISTRIBUIÇÃO, S.A.

FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2017

ÍNDICE

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016

Galp Gás Natural Distribuição, S.A.
Consolidated Statement of Financial Position as of 31 December 2017 and 31 December 2016
(Amounts stated in thousand Euros- €K)

Assets	Notes	December 2017	December 2016
Non-current assets:			
Tangible assets	12	525	543
Goodwill	11	2,275	2,275
Intangible assets	12	1,093,878	1,113,444
Investments in associates and joint ventures	5	11,560	15,059
Financial assets available for sale	5	3	3
Other receivables	14	15,753	31,754
Deferred tax assets	10	16,339	17,158
Total non-current assets:		**1,140,333**	**1,180,236**
Current assets:			
Inventories	15	1,938	1,207
Trade receivables	14	10,315	10,094
Other receivables	14	69,944	76,746
Cash and cash equivalents	16	16,683	43,064
Total current assets:		**98,880**	**131,111**
Total assets:		**1,239,213**	**1,311,347**

Equity And Liabilities	Notes	December 2017	December 2016
Equity:			
Share capital	17	89,529	89,529
Reserves	17	5,964	3,166
Retained earnings		88,151	127,757
Consolidated net income for the period	17	29,262	25,044
Total equity attributable to shareholders:		**212,906**	**245,496**
Non-controlling interests	17	19,893	19,647
Total equity:		**232,799**	**265,143**
Liabilities:			
Non-current liabilities:			
Bank loans	18	20,908	29,462
Bonds	18	596,001	595,490
Other payables	20	223,661	232,870
Post-employment and other employee benefits liabilities	19	57,089	60,122
Deferred tax liabilities	10	6,802	9,410
Provisions	21	42,646	32,086
Total non-current liabilities:		**947,107**	**959,440**
Current liabilities:			
Bank loans and overdrafts	18	9,509	13,301
Trade payables	20	10,360	14,196
Other payables	20	35,765	44,107
Current income tax payables	10	3,673	15,160
Total current liabilities:		**59,307**	**86,764**
Total liabilities:		**1,006,414**	**1,046,204**
Total equity and liabilities:		**1,239,213**	**1,311,347**

The accompanying notes form an integral part of the consolidated statement of financial position as of 31 December 2017.

CONSOLIDATED STATEMENT OF FINANTIAL POSITION

Galp Gás Natural Distribuição, S.A.
Consolidated Income Statement of Financial Position for the year ended 31 December 2017 31 December 2016
(Amounts stated in thousand Euros- €K)

	Notes	December 2017	December 2016
Operating income:			
Sales	**6**	3,996	5,826
Services rendered	**6**	179,959	195,69
Other operating income	**6**	32,665	33,67
Total operating income:		**216,620**	**235,186**
Operating costs:			
Cost of sales	**7**	2,310	3,161
External supplies and services	**7**	63,706	74,614
Employee costs	**7**	21,659	20,65
Amortization, depreciation and impairment losses on fixed assets	**7 and 12**	42,120	41,464
Provisions and impairment losses on receivables	**7**	222	(379)
Other operating costs	**7**	22,852	24,599
Total operating costs:		**152,869**	**164,109**
Operating income:		**63,751**	**71,077**
Financial income	**9**	496	995
Financial costs	**9**	(9,659)	(23,954)
Income from financial investments and impairment losses on Goodwill	**5 and 11**	632	849
Income before taxes:		**55,220**	**48,967**
Income tax	**10**	(14,529)	(12,358)
Energy sector extraordinary contribution	**10**	(10,326)	(10,057)
Consolidated net income for the period		**30,365**	**26,552**
Income attributable to:			
Non-controlling interests	**17**	**1,103**	**1,508**
Galp Gás Natural Distribuição, S,A, Shareholders	**17**	**29,262**	**25,044**
Consolidated net income for the period		**30,365**	**26,552**
Basic Earnings per share(amount in Euros)	**17**	**0,33**	**0,28**
Earnings per share(amount in Euros)	**17**	**0,33**	**0,28**

The accompanying notes form an integral part of the consolidated statement of financial position as of 31 December 2017.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Galp Gás Natural Distribuição, S.A
Consolidated Statement of Comprehensive Income for the year ended
31 December 2017 and 31 December 2016
(Amounts stated in thousand Euros- €K)

		December 2017		December 2016	
	Notes	**Atributtable to the Shareholders**	**Non-controlling interests (Note 17.4)**	**Atributtable to the Shareholders**	**Non-controlling interests (Note 17.4)**
Consolidated net income for the period [A]	**17**	**29.262**	**1.103**	**25.044**	**1.508**
Other comprehensive income for the period which will not be recycled in the future through net income of the period [B]:		**567**	**8**	**(8,382)**	**(2)**
Actuarial Gains and losses - pension fund:		**567**	**8**	**(8,382)**	**(2)**
Actuarial Gains and losses - pension fund (Group Companies)	19	1,070	11	(10,786)	(2)
Tax related to actuarial gains and losses - pension fund (Group Companies)	10.3 and 19	(503)	(3)	2,404	-
Other comprehensive income for the period which will be recycled in the future through net income of the period [C]:		**(255)**	**-**	**43**	**-**
Hedging reserves:		**(255)**	**-**	**43**	**-**
Increases / (decreases) in hedging reserves (Associates)	22 and 17.2.2	(340)	-	(22)	-
Deferred tax related to hedging reserves components (Associates)	10.3 and 17.2.2	85	-	65	-
Other increases/decreases [D]		**-**	**(56)**	**-**	**(24)**
Other increases/decreases	17.4	-	(56)	-	(24)
Other Comprehensive income for the period net of taxes [D] = [B]+[C]		**312**	**(48)**	**(8,339)**	**(26)**
Comprehensive income for the period atributtable to shareholders		**29,574**		**16,705**	
Comprehensive income for the period atributtable to non-controlling interests	**17.4**		**1,055**		**1,482**
Total Comprehensive income for the period [A]+[D]		**29,574**	**1,055**	**16,705**	**1,482**

The accompanying notes form an integral part of the consolidated statement of financial position as of 31 December 2017.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Galp Gás Natural Distribuição, S.A
Consolidated Statement of changes in equity for the year ended 31 December 2017 and 31 December 2016
(Amounts stated in thousand Euros- €K)

Changes in the period	Notes	Share Capital	Legal Reserves	Hedging Reserves	Other Reserves	Retained earnings - actuarial Gains and losses - pension fund	Retained earnings	Consolidated net income for the period	Sub-Total	Non-controlling interests	Total
		(Note 17.1)	(Note 17.2.1)	(Note 17.2.2)	(Note 17.2.3)	(Note 19)		(Note 17.3)		(Note 17.4)	
Balance as of 1 January 2016		**89,529**	**2,986**	**(237)**	**(79)**	**(16,198)**	**131,687**	**29,620**	**237,308**	**19,245**	**256,553**
Consolidated net income for the period		-	-	-	-	-	-	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 period		**-**	**-**	**43**	**-**	**(8,382)**	**-**	**25,044**	**16,705**	**1,482**	**18,187**
Dividends distributed / Interim dividends		-	-	-	-	-	(8,522)	-	(8,522)	(1,068)	**(9,590)**
Changes in the consolidation perimeter		-	-	-	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**	**(194)**	**(74)**	**(24,580)**	**152,337**	**25,044**	**245,496**	**19,647**	**265,143**
Balance as of 1 January 2017		**89,529**	**3,434**	**(194)**	**(74)**	**(24,580)**	**152,337**	**25,044**	**245,496**	**19,647**	**265,143**
Consolidated net income for the period	17	-	-	-	-	-	-	29,262	29,262	1,103	**30,365**
Other gains and losses recognised in Equity		-	-	(255)	-	567	-	-	312	(48)	**264**
Comprehensive income for the period		**-**	**-**	**(255)**	**-**	**567**	**-**	**29,262**	**29,574**	**1,055**	**30,629**
Dividends distributed / Interim dividends	17.5	-	-	-	-	-	(61,956)	-	(61,956)	(809)	**(62,765)**
Increase in share capital in subsidiaries	5 e 22	-	-	-	(208)	-	-	-	(208)	-	**(208)**
Increase of reserves by appropriation of profit		-	3,261	-	-	-	21,783	(25,044)	-	-	-
Balance as of 31 December 2017		**89,529**	**6,695**	**(449)**	**(282)**	**(24,013)**	**112,164**	**29,262**	**212,906**	**19,893**	**232,799**

The accompanying notes form an integral part of the consolidated statement of financial position as of 31 December 2017.

CONSOLIDATED STATEMENT OF CASH FLOW

Galp Gás Natural Distribuição, S.A.
Consolidated Statement of Cash Flow for the year ended 31 December 2017 and 31 December 2016
(Amounts stated in thousand Euros- €K)

	Notes	December 2017	December 2016	
Operating activities:				
Cash received from customers		270,605	319,942	
Cash (payments) to suppliers		(95,513)	(103,758)	(a)
Payments relating to employees		(8,475)	(8,306)	(a)
(Payments) relating to Tax on oil products		(308)	(377)	
(Payments)/receipts of income taxes	**10**	(28,270)	(42,486)	
Contributions to the pension fund and other benefits	**19**	(458)	(310)	
(Payments) relating to pre-retirement and early retirement	**19**	(2,685)	(2,199)	
(Payments) relating to insurance costs with retirement	**19**	(1,298)	(933)	
Other receipts/(payments) relating to the operational activity		(58,559)	(82,294)	(a)
Cash flows from operating activities (1)		**75,039**	**79,279**	
Investing activities:				
Receipts from:				
Investment grants	**13**	14	(18)	
Interests and similar income	**9**	66	16	
Dividends	**5.4**	3,850	-	
Loans granted	**14,18 and 23**	5,375	145	
		9,305	**143**	
Payments relating to :				
Financial investments	**5**	(267)	(31)	
Tangible Assets	**12**	(485)	(239)	
Intangible Assets	**12**	(25,720)	(21,837)	
		(26,472)	**(22,107)**	
Cash flows from investing activities (2)		**(17,167)**	**(21,964)**	
Financing activities:				
Receipts from:				
Loans obtained	**18**	-	600,000	
		-	**600,000**	
Payments relating to:				
Loans obtained	**18**	(12,403)	(603,433)	
Interests from loans obtained	**9**	(45)	(22,094)	
Interests and similar income	**9**	(762)	(5,354)	
Dividends paid	**17.5**	(62,765)	(958)	
Interests from Bonds	**9**	(8,255)	-	
		(84,230)	**(640,461)**	
Cash flows from financing activities (3)		**(84,230)**	**(40,461)**	
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		(26,358)	16,854	
Cash and cash equivalents at the beginning of the period		43,030	26,176	
Cash and cash equivalents at the end of the period	**16**	**16,672**	**43,03**	

The accompanying notes form an integral part of the consolidated statement of financial position as of 31 December 2017.
(a) Reclassification of caption payments to suppliers and other (payments) / receipts related to operational activity to caption of payments relating to employee, of costs with seconded staff

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

INTRODUCTION

1.1. Parent Company:

Galp Gás Natural Distribuição, S.A. (hereinafter referred to as GGND or the Company), has its Head Office in Rua Tomás da Fonseca in Lisbon, Portugal and its corporate business is to carry out activities in the energy sector, in particular in natural gas distribution, including the rendering of support services in corporate management, administration and logistics, as well purchasing and supply and also information systems.

The company shareholder structure as of 31 December 2017 is stated in Note 17.1.

1.2. The Group:

As of 31 December 2017, GGND Group ("Group") consists of Galp Gás Natural Distribuição and its subsidiaries, integrating the distribution and marketing of natural gas activities.

In October 2016, Galp Gás & Power SGPS, SA sold 22.5% of its participating interest in Galp Gás Natural Distribuição, SA Group to Meet Europe Natural Gas, Lda. This sale resulted from the agreement signed on July 28th, 2016 between Galp Energia SGPS, SA, through its subsidiary Galp Gas & Power, SGPS, SA and Marubeni Corporation and Toho Gas Co. Ltd. The remaining 77.5% GGND share capital continues to be held by Galp through its subsidiary Galp Gas & Power, SPGS, SA.

As a result of this agreement, the GGND Group was jointly controlled by Galp Gás & Power, SGPS, S.A. and Meet Europe Natural Gas, Lda ..

1.2.1. Natural Gas activity

The Natural Gas business segment encompasses the Distribution of Natural Gas, developed under public service regime, and Commercialization of natural gas developed by the last resort retailers, in accordance with the applicable regulations.

This public service was granted by the Portuguese Government to GGND Group Companies through a concession contract for a period of 40 years, or through local distribution licenses for periods of 20 years, starting from January 1, 2008 (up to year 2047 or 2027, respectively) under the new sector legislation.

According sector legislation, Law no. 30/2006, of February 15, in the wording given to it by Law no. 230/2012, of October 26, and Law no. No. 140/2006 of 26 July, as amended by Law no. 231/2012 of 26 October, as well as by the provisions stated in the Tariff Regulations approved by Regulation No. 415/2016, of April 29, and for providing gas to less than 100,000 customers, it was also granted to GGND Group companies a Last Resort Commercialization License (CURR) for the sale of natural gas in the concession area to customers with consumption less than 2Mm3 / year, who choose to remain in the regulated tariff regime. In these companies case, the CURR licenses are valid for the same period of the distribution certificate.

1.2.1.1. Distribution Network Operators

Natural gas distribution activity performed by the distribution network operators, includes the following functions:

- Natural gas distribution activity;
- Access to the Natural Gas National Transportation Network (NGNTN) and the Natural Gas National Distribution Network (NGNDN);

1.2.1.2. Commercialization of last resort retailers

The natural gas marketing activity, exercised by the last resort retailers, includes the following functions:

- Natural gas purchase and sale;
- Access to the Natural Gas National Transportation Network (NGNTN) and Natural Gas National Distribution Network (NGNDN);
- Natural gas marketing.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of presentation

The accompanying financial statements are presented in thousands of euros, unless otherwise stated.

GGND Group consolidated financial statements were prepared on a going concern basis, at historical cost except for financial derivative instruments which are stated at fair value, based on the accounting records of the companies included in the consolidation maintained in accordance with International Financial Reporting Standards as adopted by the European Union, effective for the period beginning in 1 January 2017. 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 accounting policies adopted are in accordance with their content in the respective note to the annex. The common or generic accounting policies for several notes are stated in this respective note.

2.2. Estimates and judgements

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, financial investments and goodwill impairment (Notes 5 and 12); (ii) provision for contingencies (Note 21); (iii) demographic and financial assumptions used to calculate retirement benefits (Note 19); (iv) accounts receivable impairment (Note 14); (v) tangible and intangible assets useful lives and residual values (Note 12); (vi) deferred tax assets (Note 10) and (vii) estimates over uncertain tax positions (Note 21).

2.2.1. Tangible and intangible assets useful lives and residual values

The determination of the assets residual values and useful lives, as well as the depreciation / amortization method to be applied is essential to determine the amount of depreciation and amortization to be recognised in the consolidated statement of comprehensive income for each period. These two parameters are set according to the best judgment of the Board of Directors for the assets and respective businesses, considering also the practices adopted by other sector companies at the international level.

See Note 12.

2.2.2. 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.

See Note 12.

2.2.3. 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.

See Note 14.

2.2.4. 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.

See Note 21.

2.2.5. Demographic and financial assumptions used in the retirement benefits liabilities

See Note19.

2.2.6. 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.

See Note 10.

2.2.7. Estimates over uncertain tax positions

The measurement of uncertain tax positions with respect to tax estimates is carried out at its most probable value and not at a value weighted by associated probabilities.

Regarding uncertain tax positions that are provisioned See Note 21.

2.3. General accounting policies

2.3.1. Classification in the consolidated statement of financial position

Assets realizable and liabilities payable in more than one year from the consolidated financial statements date are classified as non-current assets and non-current liabilities, respectively.

2.3.2. 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:

- Loans and trade receivables (note 14);
- 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 at 31 December 2017 the GGND 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, except for investments measured at fair value through profit and loss.

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.

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

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

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

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

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

b) Equity or liability classification

Financial liabilities and equity instruments are classified in accordance with substance of the contractual arrangement, independent of their legal form. Thus, financial instruments with no interest rate and no defined repayment term are considered by GGND as equity instruments (i.e. "quasi-capital").

c) Receivables

See Note 14.

d) Loans

See Note 18.

e) Trade and other payables

See Note 20.

f) Cash and cash equivalentes

See Note 16.

3. SEGMENT REPORTING

Accounting policy

A Business segment is an entity component that:

a) Develop business activities that can earn revenues and incur in expenses (including revenues and expenses related to transactions with other components held by the same entity);

b) Which operational results are regularly reviewed by the entity's primary decision-maker for the purpose of making decisions about resources allocation to the segment and evaluating its performance; and

c) For which separate financial information is available.

The accounting policies in the segment reporting are used consistently in the Group. All inter-segment revenues are at market prices and are eliminated in consolidation process.

Business segments

The Group on 31 December, 2017 consists of Galp Gás Natural Distribuição and its subsidiaries that carry out their activities of distribution and marketing of natural gas under a last resort regime.

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

Regarding "Other", the Group considered the holding company Galp Gás Natural Distribuição, S.A ..

The financial information for the previously identified segments, as of 31 December 2017 and 2016 is presented as follows:

Unid: €k

	Natural Gas		Others		Eliminations		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016
Income								
Sales	**183,676**	**201,236**	**11,582**	**11,482**	**(11,303)**	**(11,202)**	**183,955**	**201,516**
Between segments	-	290	11,303	10,912	(11,303)	(11,202)	-	-
External	183,676	200,946	279	570	-	-	183,955	201,516
Cost of sales	**(2,323)**	**(3,165)**	**53**	**4**	**(40)**	**-**	**(2,310)**	**(3,161)**
Cost of sold materials and consumables	(2,323)	(3,165)	53	4	(40)	-	(2,310)	(3,161)
Production variation	-	-	-	-	-	-	-	-
EBITDA	**105,619**	**111,647**	**474**	**515**	**-**	**-**	**106,093**	**112,162**
Non- disbursable Costs								
Amortisations and Adjustments	**(42,120)**	**(41,464)**	**-**	**-**	**-**	**-**	**(42,120)**	**(41,464)**
Depreciations and amortisations	(42,120)	(41,464)	-	-	-	-	(42,120)	(41,464)
Impairments	-	-	-	-	-	-	-	-
Provisions (net)	**(222)**	**379**	**-**	**-**	**-**	**-**	**(222)**	**379**
Provisions	(233)	(233)	-	-	-	-	(233)	(233)
Impairments	(81)	(170)	-	-	-	-	(81)	(170)
Provisions- Reversals	-	777	-	-	-	-	-	777
Impairments- Reversals	92	5	-	-	-	-	92	5
EBIT	**63,277**	**70,562**	**474**	**515**	**-**	**-**	**63,751**	**71,077**
Results on financial investments	**-**	**-**	**632**	**849**	**-**	**-**	**632**	**849**
Other financial results	**(26,250)**	**(27,418)**	**17,087.0**	**4,459**	**-**	**-**	**(9,163)**	**(22,959)**
Interest costs	(25,789)	(23,148)	(8,749)	(23,058)	26,235	27,379	(8,303)	(18,827)
Interest income	449	994	26,282	27,745	(26,235)	(27,379)	496	1,360
Other financial charges	(910)	(5,264)	(446)	(227)	-	-	(1,356)	(5,492)
Income tax	**(9,794)**	**(11,049)**	**(4,735)**	**(1,309)**	**-**	**-**	**(14,529)**	**(12,358)**
Energy sector extraordinary contribution	**(10,326)**	**(10,057)**	**-**	**-**	**-**	**-**	**(10,326)**	**(10,057)**
Consolidated Net income	**16,907**	**22,038**	**13,458**	**4,514**	**-**	**-**	**30,365**	**26,552**
Non-controlling interests	**(1,103)**	**(1,508)**	**-**	**-**	**-**	**-**	**(1,103)**	**(1,508)**
Net income attributable non-controlling interests	**15,804**	**20,530**	**13,458**	**4,514**	**-**	**-**	**29,262**	**25,044**
	As of 31 December 2017 and 31 December 2016							
Other informations								
Segments assets (2)								
Financial Investments (3)	2	3	13,833	17,334	-	-	13,835	17,337
Non-current assets held for sale							-	-
Other assets	1,225,221	1,265,232	549,236	592,404	(549,079)	(563,626)	1,225,378	1,294,010
Total consolidated Assets	**1,225,223**	**1,265,235**	**563,069**	**609,738**	**(549,079)**	**(563,626)**	**1,239,213**	**1,311,347**
Other liabilities	946,704	994,649	608,789	615,181	(549,079)	(563,626)	1,006,414	1,046,204
Total consolidated liabilities	**946,704**	**994,649**	**608,789**	**615,181**	**(549,079)**	**(563,626)**	**1,006,414**	**1,046,204**
Investment in Intangible and tangible assets	**22,683**	**15,904**	**-**	**-**	**-**	**-**	**22,683**	**15,904**

(1) EBITDA = Segment Results/EBIT+Amortisation+Provisions
(2) Net amount
(3) By equity equivalence method

Inter-Segmental Sales and Services Rendered:

Unid: €k

Segments	Natural gas	Others	TOTAL
2017	**-**	**11,303**	**11,303**
Natural Gas	-	11,303	11,303
Other	-	-	-
2016	**290**	**10,912**	**11,202**
Natural Gas	-	10,912	10,912
Other	290	-	290

The main inter-segment transactions regarding services rendered refers to back-office and management services.

The commercial and financial transactions between related parties are performed according to the usual market conditions similar to transactions performed between independent companies (Note 22).

The assumptions underlying the determination of prices in transactions between Group companies rely on the consideration of the economic realities and characteristics of the situations in question, in other words, from comparing the characteristics of operations or companies that might have an impact on the intrinsic conditions of the commercial transactions in analysis. In this context an analysis is made, amongst others, of the goods and services traded, the functions performed by the parties (including the assets used and risks assumed), the contractual terms, the economic situation of the parties as well as their negotiation strategies.

In a related party's context, the remuneration thus corresponds to what is considered appropriate, as a rule, to the functions performed by each participant company, taking into account the assets used and risks assumed. Thus, in order to determine the level of remuneration, the activities and risks taken by companies within the value chain of goods/services transacted are identified according to their functional profile, particularly with regard to the functions that they perform - import, manufacturing, distribution and retail.

In conclusion, market prices are determined not only by analyzing the functions performed, the assets used and the risks incurred by one entity, but by also considering the contribution of these elements to the Company's profitability. This analysis assesses whether the profitability indicators of the companies involved fall within the calculated ranges based on an evaluation of a panel of functionally comparable but independent companies, thus allowing the prices to be fixed in order to comply with the arm's length principle.

The reconciliation between the items of the Segment Report and the Income Statement for the periods ended December 31, 2017, 2016 (restated) is as follows:

unit:€K

Caption of segment reporting	December 2017	December 2016	Caption of income statement	December 2017	December 2016
Income					
Sales and Services Rendered	183,955	201,516	Sales	3,996	5,826
			Services Rendered	179,959	195,690
Cost of sales	(2,310)	(3,161)	Cost of sales	(2,310)	(3,161)
			Other operating income	32,665	33,670
			External services and supplies	(63,706)	(74,614)
			Personnel costs	(21,609)	(20,650)
			Other operational costs	(22,902)	(24,599)
EBITDA IAS/IFRS (1)	**106,093**	**112,162**	**Operational result before amortisations and provisions**	**106,093**	**112,162**
Non-disbursable Costs					
Amortisations and Adjustments	(42,120)	(41,464)	Amortisations, depreciations and impairment losses on fixed assets	(42,120)	(41,464)
Provisions (net)	(222)	379	Provisions and impairment losses on receivables	(222)	379
EBIT IAS/IFRS	**63,751**	**71,077**	**Other operational costs**	**63,751**	**71,077**
Results financial investments	632	849	Results of financial investments and goodwill impairment losses	632	849
			Financial income	496	995
Other Financial Results	(9,163)	(22,959)	Financial costs	(9,659)	(23,954)
Income Tax	(14,529)	(12,358)	Income tax	(14,529)	(12,358)

Energy Sector Extraordinary Contribution	(10,326)	(10,057)
Consolidated Net Income	**30,365**	**26,552**
Non-controlling interests	(1,103)	(1,508)
Net result attributable to Galp Gás Natural Distribuição, S.A shareholders	**29,262**	**25,044**

Energy Sector Extraordinary Contribution	(10,326)	(10,057)
Consolidated Net Income	**30,365**	**26,552**
Non-controlling interests	(1,103)	(1,508)
Net result attributable to Galp Gás Natural Distribuição, S.A shareholders	**29,262**	**25,044**

4. CONSOLIDATED COMPANIES

Accounting policy

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 in accordance with the full consolidation method are disclosed in Note 4.1.

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 they exceed, in case of losses, the amount invested by the non-controlling interests.

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 11)). 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%, under the purchase method, non-controlling interests may be measured at fair value or at the ratio between acquired assets fair value and acquired liabilities fair value, being the option defined for each transaction.

The results of subsidiaries acquired or sold during the year are included in the consolidated income statement from the date of acquisition or the date of the exercise of control up to the date of disposal.

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 the losses which are indicators of impairment losses in the assets transferred.

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 this Note.

4.1. 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		Percentage of interest held		Main activity
		City	Country	2017	2016	
Galp Gás Natural Distribuição, S.A.		Lisboa	Portugal	-	-	Activities on energy sector, particularly in distribution of natural gas, including the rendering of support services in corporate management, administration and logistics, as well purchasing and supply and also information systems.
Subsidiaries						
Beiragás - Companhia de Gás das Beiras, S.A.		Viseu	Portugal	59,59%	59,59%	Natural gas distribution, in medium and low pressure, exercised in public service regime according to the applicable regulations, in the concession geographical area, including the construction and operation of infrastructures that integrate the National Network of Natural Gas Distribution, the promotion the construction, conversion or adequacy of facilities for the use of natural gas, and other complementary activities to the main purpose.
Dianagás - Sociedade Distribuidora de Gás Natural de Évora, S.A.		Lisboa	Portugal	100%	100%	Distribution of natural gas under the public service regime, in accordance with the applicable regulations, in the geographical area of licenses for the operation of autonomous local distribution networks and the use of these infrastructures and equipment for other compatible uses, as well as the exercise of all direct activities or indirectly related.
Duriensegás - Sociedade Distribuidora de Gás Natural do Douro, S.A.		Vila Real	Portugal	100%	100%	Distribution of natural gas under the public service regime, in accordance with the applicable regulations, in the geographical area of licenses for the operation of autonomous local distribution networks and the use of these infrastructures and equipment for other compatible uses, as well as the exercise of all direct activities or indirectly related.
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.		Lisbon	Portugal	100%	100%	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 the exploration of spare capacity of telecommunications network installed
Lusitaniagás - Companhia de Gás do Centro, S.A.	**a)**	Aveiro	Portugal	96,93%	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 the exploration of spare capacity of telecommunications network installed
Medigás - Sociedade Distribuidora de Gás Natural do Algarve, S.A.		Lisbon	Portugal	100%	100%	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 equipment's 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.		Lisbon	Portugal	100%	100%	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 equipment's 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 the exploration of spare capacity of telecommunications network installed

Subsidiaries with non-controlling interests have the same (i.e. country) of activity as the one indicated in the table above.

a) Acquired companies:

In the year ended 31 December 2017 through the subsidiary Galp Gás Natural Distribuição, S.A., the Group acquired, 0.09088% of the share capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A. by the amount of € 88k. With this acquisition, the Group now holds 96.9327% of the subsidiary's share capital.

The subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., was previously controlled by the Group and consolidated by the application of integral method (held at 96.8418%). The difference between the amount paid and the book value of equity on the acquisition date was recognised in reserves caption on equity for the amount of € 29k (Note 17.2).

As a result of the increase of 0.09088%, the negative amount of € 56k, which corresponds to the variation of interests that do not control the accumulated income items up to the date of the increase in participation, was recorded in Non-controlling interests caption (Note 17.4).

5. FINANCIAL INVESTMENTS

Accounting policy

Investments in associates

Investments in associated companies (companies in which the Group exercises significant influence, but do not hold either control or joint control, usually holding between 20% and 50% of a company's share capital) are recorded using the equity method.

Investments in affiliated companies (companies in which the group has no significant influence or control, usually when it holds less than 20% of its share capital or voting rights) are recorded at fair value or at acquisition cost in cases where have no listed capital and the fair value cannot be reliably measured.

Financial investments in subsidiaries are classified as available-for-sale assets in accordance with the classification in IAS 39 and are classified as non-current assets.

According to equity method, financial investments are recorded at cost, adjusted by the amount corresponding to the Group's participation in changes in shareholders' equity (including net income) of associate companies, against results relating to financial investments in associated companies, as well as dividends received.

The excess of acquisition cost over the fair value of identifiable assets and liabilities of the associate company at the acquisition date is recognised as goodwill and maintained at the value of the financial investment in associates. If the difference between the acquisition cost and the fair value of the net assets and liabilities acquired is negative, it is recognised as a profit for the year in the caption of income from financial investments in associated companies, after confirmation of the attributed fair value.

It is carried out an evaluation of investments in associates when there are indications that the interest may be impaired, and any impairment losses if any are recorded as cost. When the impairment losses recognised in prior years cease to exist, they are reversed.

When the proportion of the Group in accumulated losses of the associate exceeds the value by which the investment is registered, the financial participation is reported at a nil value, except when the Group has entered into commitments with the associate, in which case the Group amount of joint liability assumed with the associate.

Unrealised gains and losses on transactions with associates are eliminated proportionally to the Group's interest in the associate, against the investment on that associate. Unrealised losses are similarly eliminated, but only to the extent that the loss does not show that the transferred asset is impaired.

5.1. Investments in associates

Investments in associates, their head offices and the percentage or interest held as of 31 December 2017 and 2016 are as follows:

Company		Head Office		Main activity	Percentage of interest held		Book Value	
		City	Country		2017	2016	2017	2016
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	(a)	Santarém	Portugal	Natural gas production and distribution and other pipelined fuelled gases	41.33%	41.33%	11,560	15,059
Book value of financial investments in associates							**11,560**	**15,059**

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

Following the summary of the financial statements of the associates as at 31 December 2017 and 2016:

unit:€K

	Financial information of the associate entities as of 31 December 2017 (*)																				Percentage held and Book Value			
Companies	Non current assets	Current assets- cash and cash equivalents	Current assets- others	Total assets	Non current financial liabilities	Non current liabilities- other	Current liabilities- other	Total liabilities	Equity	Operating income	Operating costs- amortisation, depreciation and impairment loss on fixed assets	Operating costs- other	Operating result	Financial income- other	Financial costs- other	Financial result	Income tax	Energy sector extraordinary contribution	Net result for the year	Comprehensive result for the year (a)	% share held	Book value	Gains Losses	Comprehensive inocme
2017																								
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	83,539	5,891	2,972	**92,402**	(38,311)	(16,602)	(9,519)	**(64,432)**	**27,970**	17,058	(2,720)	(9,781)	**4,557**	23	(1,784)	**(1,761)**	(637)	(693)	**1,466**	**849**		11,560	606	351
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**	31	(1,680)	**(1,649)**	(662)	(693)	**2,053**	**2,154**		15,059	849	891

(*) Provisional accounts at closing date, considered by the Group for application of the equity method

(a) Including hedging reserves

The changes in the caption "Financial investments in associates" for the years ended December 31, 2017 and 2016, which are reflected in the equity method, were as follows:

unit:€K

Financial Investments	Initial balance	Gains / Losses (Note 5.3)	Adjustments on hedging reserves	Actuarial gains and losses	Dividends (Note 5.4)	Transfer/adjustments	Final balance
2017							
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	**15,059**	606	(255)	(2)	(3,850)	2	**11,560**
2016							
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	**14,169**	849	43	(2)	-	-	**15,059**

5.2. Financial assets held for sale

The financial investments, presented in the Statement of financial position as Financial assets held for sale, its head offices and the percentage or interest held as of 31 December 2017 and 2016 are as follows:

(€ k)

Company	Head office		Percentage of interest held		Book value	
	City	Country	2017	2016	2017	2016
AGENEAL Agência Municipal Energia de Almada	Almada	Portugal	0.04%	0.04%	3	3
					3	**3**

Financial assets held for sale were recorded at acquisitiuon cost, as described in Note 2.3.2. The book value of these participations as of 31 December 2017 amounts to € 3K.

5.3. Results from financial investments

The caption "Income from financial investments and impairment losses on Goodwill", presented in the consolidated income statement for the year ended 31 December 2017 and 31 December 2016 is comprised as follows:

(€ k)

	December 2017	December 2016
	606	**849**
Effect of equity method application:		
Associated companies (Note 5.1)	606	849

5.4. Dividends from financial investments

The caption "Investments in associates" (Note 5.1) includes the total amount of €3,850K related to dividends corresponding to amounts approved in the General meetings of the respective companies. The dividends received in the year ended 31 December 2017 amounted to €3,850K.

6. OPERATING INCOME

Accounting policy

Income from sales of natural gas (last resort retailers) and services rendered (natural gas distribution) are recognised in the income statement when the risks and benefits inherent to the ownership of the assets are transferred to the buyer or the services are provided and the amount of the corresponding income can be reasonably quantified. Sales are recognised net of taxes with the exception of tax on petroleum products, discounts and other costs related to their realization, at the fair value of the amount received or receivable.

Costs and income are recorded in the period to which they relate, regardless of the date of their payment or receipt. Costs and income whose actual value is not known are estimated.

In the caption "Other current receivables" and "Other current payables", costs and income attributable to the current period are recorded and expenses and revenues will only occur in future periods, as well as expenses and revenues that have already occurred but are related to future periods and which will be charged to the results of each of these periods, at the amount corresponding to them.

Income interest received is recognised on the accrual basis, taking into account the amount of the outstanding and the effective interest rate over the period to maturity.

Dividend income is recognised when the company's right to recognize the amount is established.

Natural gas activities

The regulated tariffs used for invoicing natural gas in the national natural gas system are approved by Entidade Reguladora do Sector Energético ("ERSE"), so that they allow the recovery of the estimated regulated revenue for each gas year calculated for each regulated activity. Regulated revenue includes, in addition to operating costs for each activity, the following remuneration:

(i) for the commercialisation of last resort retailers activity, the remuneration of the purchase and sale of natural gas, which corresponds to the effective cost recovery of natural gas and to the remuneration of operating commercialisation costs plus a commercialisation margin; and

(ii) for the activities of receipt, transport and storage of natural gas, the 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.

The regulatory framework for calculating regulated revenues, foreseen the adjustment of the difference between the forecasted amounts published by ERSE and the actual amounts recalculated based on the actual verified values of assets remuneration and operating costs, also considering the invoiced income made by the Group companies, and the difference is incorporated in the calculation of the regulated revenue of the following second gas year. Thus, the difference between the actual regulated revenues for 2017 and those estimated for 2016-2017 and 2017-2018 gas years will be incorporated in the 2019-2020 gas year, with the difference to the amount reflected in the increases and deferrals above, reversed in each of the corresponding semesters.

Since the natural gas regulated system is intended to result in a uniform distribution tariff (applicable to all the country's regions) and once different levels of efficiency are verified in the utilization of distribution networks, 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 the scope of its last resort commercialization and natural gas distribution activities.

Given the regulatory framework and legislation in place, the differences between regulated revenues meet some conditions (measurement reliability; financial asset remuneration; entitlement to their recovery and transmissibility, among other) that support their recognition as income and asset in the year they are calculated, namely that they can be reliably measured and the certainty that economic benefits will flow to the Company. The regulated revenue calculation formula for the "Gas Year n", in the first and second regulated periods as published in the Tariff Regulation, include the differences in regulated revenue in the "Gas Year n-2". This rationale is also applied to the negative differences in regulated revenue, which are recorded as liabilities and costs.

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

Un-invoiced gas sales are recorded monthly in the caption "Other receivables" based on the estimated amount to be invoiced according to historical information grade depending on the client type, and corrected in the income statement in the period in which they are invoiced (Note 14.2).

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 are then recognised.

The Group's operating income for the years ended 31 December 2017 and 2016 is as follows:

Unit: €k

Captions	December 2017	December 2016
Operating Income	**216,620**	**235,186**
Sales:	**3,996**	**5,826**
Goods	3,996	5,826
Services Rendered:	**179,959**	**195,690**
Services Rendered	179,959	195,690
Other operating income:	**32,665**	**33,670**
Supplementary income	1,252	1,247
Revenues arising from the construction of assets under IFRIC12	22,265	23,191
Investment government grants (Note 13)	8,790	8,882
Others	358	350

The variation in the caption Sales is mainly due to a decrease of gas quantities sold, due to the reduction of customer's number and also due to the decrease in tariffs amount.

The captions "Sales" and "Services rendered" include the negative amount of €10,429 k related to commercialisation and distribution activities of natural gas as a result of (Note 14.2):

- negative €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 14.2);

- negative €3,256 k concerning the adjustment made by ERSE in the fixation of the tariff deviations – regulated revenue of the Companies (Note 14.2);

- negative €5,325 k concerning the corresponding regulated revenue amortization for 2014 (Note 14.2);

- positive €34 k concerning the corresponding regulated revenue amortization for 2015 (Note 14.2).

As referred, the total amount to be recovered was included by ERSE in the regulated revenue to be returned in the 2017-2018 Gas Year, thus the Group is recognizing in the income statement the reversal of the amount of the approved tariff deviation.

Regarding the construction contracts under IFRIC12, the construction of the concession assets is subcontracted to specialised entities which assume their own construction activity risk. Income and expenses associated with the construction of these assets are of equal amounts and can be detailed as follows:

Unit: €k

Captions	December 2017	December 2016
Margin	-	-
Costs arising from the Construction of Assets under IFRIC12 (Note 7)	(22,265)	(23,191)
Revenues arising from the Construction of Assets under IFRIC12	22,265	23,191

7. OPERATING COSTS

The results for the years ended 31 December 2017 and 2016 were affected by the following items of operating costs:

Captions	Notes	December 2017	December 2016
Operating Costs		**152,869**	**164,109**
Costs of sales:		**2,310**	**3,161**
Goods		2,296	3,165
Impairment in inventories	15	14	-
Exchange rate differences		-	(4)
External supplies and services:		**63,706**	**74,614**
Subcontracts - Third party access to network		33,584	42,212
Rental costs		1,238	1,293
Maintenance and repairs		2,553	2,673
Insurance		1,192	1,360
IT Services		7,180	6,491
Electricity, water, vapour and communications		476	508
Readings, billing and collection		1,301	1,426
Technical Assistance Maintenance and inspection		2,962	3,157
Other specialised services		11,187	13,764
Other external supplies and services		1,616	1,254
Other costs		417	476
Employee costs:		**21,659**	**20,650**
Statutory board salaries	8	471	151
Employee salaries		12,514	11,385
Social charges		3,871	3,651
Retirement benefits - pensions and insurance		2,436	3,293
Other insurance		1,313	1,285
Other costs		1,054	885
Amortisation, depreciation and impairment:		**42,120**	**41,464**
Amortisation and impairment of tangible assets	12.3	18	19
Amortisation and impairment of intangible assets	12.3	51	-
Amortisation and impairment of concession agreements	12.3	42,051	41,445
Provision and impairment losses on receivables		**222**	**(379)**
Provisions and reversals	21	234	(544)
Impairment losses on trade receivables	14.1	(12)	165
Other operating costs		**22,902**	**24,599**
Other taxes		157	231
Costs arising from the construction of Assets under IFRIC12	6	22,265	23,191
Losses on fixed assets		150	801
Donations		154	144
Other operating costs		126	232

The variation in the caption “Cost of sales” is mainly due to the gas volumes, final customers and alteration of the acquired Natural Gas tariffs decrease.

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

- Transportation network use (“URT”) in the amount of € €20,499 k;and
- Global system use (“UGS”) in the amount of €13,085 k.

8. REMUNERATION OF THE BOARD

Accounting policy

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 period.

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

The remuneration of GGND board members, recorded under caption of personnel costs in the income statement for the years ended 31 December 2017 and 2016, is detailed as follows:

unid: €k

	Salary	Allowances for rent, travel expenses and others	Bonus	Other charges and adjustments	Total
December 2017	**395**	**7**	**-**	**69**	**471**
Executive management	317	7	-	69	**393**
Non executive management	33	-	-	-	**33**
Audit committee	11	-	-	-	**11**
General Assembly	34	-	-	-	**34**
					-
December 2016	**175**	**1**	**(45)**	**20**	**151**
Executive management	113	1	(45)	20	**89**
General Assembly	62	-	-	-	**62**

9. FINANCIAL INCOME AND COSTS

Accounting policy

Financial charges arising from general and specific loans obtained to finance fixed assets investments are assigned to tangible and intangible assets in progress, in the proportion of the total expenses incurred on those investments net of Investment government grants (Note 12), until its operations start, the remainder were recognised in financial expenses caption in the income statement for the year. Any interest income from loans directly related to the financing of fixed assets in progress construction is deducted from the financial charges capitalised.

The financial charges included in the fixed assets are depreciated according to the useful life of the respective assets.

The remaining financial charges with loans obtained are recorded as financial cost in accordance with the accrual basis.

The detail of the determined amount in relation to financial income and costs for the years ended 31 December 2017 and 2016 is as follows:

Unid: €k

Captions	December 2017	December 2016
Financial income and costs:	**(9,163)**	**(22,959)**
Financial income:	**496**	**995**
Interest of bank deposits	449	628
Interest and other income with related companies (Note 22)	47	367
Financial costs:	**(9,659)**	**(23,954)**
Interest of loans, bank overdrafts and others	(8,303)	(2,424)
Interest with related companies	-	(20,724)
Charges related to loans	(1,160)	(608)
Other financial costs	(196)	(198)

10. INCOME TAXES AND ENERGY SECTOR EXTRAORDINARY CONTRIBUTION

Accounting policy

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 where each GGND 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.

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.

The Group companies 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 the taxable income of GGND Group being determined in the Galp Energia, SGPS, S.A. tax perimeter. The weighted income tax rate applied to the Companies headquartered in Portugal is of 29%.

However, estimated income tax of the Company and its subsidiaries is accounted based on their tax results.

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

iii) Under current legislation, tax losses in Portugal can be reported and carried forward during a period of 5 and 12 years, depending on the year that it were generated.

Income tax and Energy sector extraordinary contribution for the year ended 31 December 2017 and 2016 are as follows:

Unid: €k

Captions	December 2017			December 2016		
	Current tax	Deferred Tax	Total	Current tax	Deferred Tax	Total
			24,855			22,415
Income Tax	**16,815**	**(2,286)**	**14,529**	**18,037**	**(5,679)**	**12,358**
Current income tax	16,965	(2,286)	14,679	19,012	(5,679)	13,333
(Excess)/Insufficiency of income tax for the preceding years	(150)	-	(150)	(975)	-	(975)
Energy sector extraordinary contribution			**10,326**			**10,057**

Below is a reconciliation of the income tax for the years ended 31 December 2017 and 2016, and detail of deferred taxes:

Unid: €k

	December 2017	Rate	Income tax	December 2016	Rate	Income tax
Result before taxes:	**55,220**	**25.00%**	**13,805**	**48,967**	**25.00%**	**12,243**
Adjustments to taxable income:						
Effective tax rate and Tax Income		**26.31%**	**14,529**		**25.23%**	**12,358**
Application of the equity method		0.28%	152		0.42%	207
Fiscal benefits		(0.05%)	(29)		-0.06%	(27)
Income tax rates differences		1.14%	627		1.46%	714
(Excess)/Insufficiency of income tax of the preceding year		(0.27%)	(150)		(1.99%)	(976)
Autonomous taxation		0.53%	295		0.73%	358
Other accruals and deductions		(0.31%)	(171)		(0.33%)	(161)

10.1. Energy Sector Extraordinary Contribution

For the year ended 31 December 2014, the Group was subject to a special tax (Energy Sector Extraordinary Contribution "CESE I"), pursuant to Article 228 of Law 83C/2013 of 31 December, which states that the energy companies that detain net assets in certain activities as at 1 January 2014 are subject to a tax calculated on the amount of net assets at that date.

On 31 December 2017 and 31 December 2016, the Group recognised in income statement the amount of €10,326 k and €10,057 k, respectively (Note 21).

10.2. Current income tax

As of 31 December 2017 and 31 December 2016, the current tax balance on income receivable and payable amounts to €3,673k and €15,160k respectively is as follows:

Unid: €k

	2017	2016
	(3,673)	(15,160)
Galp Energia, S.G.P.S., S.A. (Note 22)	(4,236)	(15,397)
State and other public entities	563	237

10.3. Deferred taxes

As at 31 December 2017 and 31 December 2016, the balance of deferred tax assets and liabilities is as follows:

Unid: €k

	Deferred Tax December 2017 - Assets			
	Initial Balance	Effects in results	Effect in Equity	Final Balance
Caption	17,158	(313)	(506)	16,339
Adjustments to tangible and intangible assets	7	-	-	7
Retirement benefits and other benefits	12,620	(160)	(506)	11,954
Regulated revenue	2,015	169	-	2,184
Non-deductible provisions	1,779	(322)	-	1,457
Others	737	-	-	737

Unid: €k

	Deferred Tax December 2016 - Assets			
	Initial Balance	Effects in results	Effect in equity	Final Balance
Caption	15,453	(699)	2,404	17,158
Adjustments 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

Unid: €k

	Deferred Tax December 2017- Liabilities		
	Initial Balance	Effects in results	Final Balance
Caption	(9,410)	2,608	(6,802)
Adjustment to tangible and intangible assets - Fair Value	(3,434)	111	(3,323)
Regulated revenue	(4,822)	2,431	(2,391)
Accounting revaluations	(1,154)	66	(1,088)

Unid: €k

	Deferred Tax December 2016- Liabilities		
	Initial Balance	Effects in results	Final Balance
Rubricas	**(15,788)**	**6,378**	**(9,410)**
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)

Changes in deferred taxes reflected in Equity refers to deferred tax related to the actuarial gains/(losses).

11. GOODWILL

Accounting policy

The differences between the subsidiaries acquisition cost and the fair value of the identifiable assets and liabilities of these companies at the acquisition date (or during a period of 12 months after that date), if positive, are recorded under Goodwill (when it results from goodwill in Group companies) or included in the caption "Investments in associated companies" (when it results from associates). The negative differences are recognised immediately in the income statement.

The difference between the amounts paid to acquire an equity share in Group companies and the fair value of the acquired companies' equity as at 31 December 2017 was as follows:

Unid: €k

			Percentage of equity held at acquisition date		Goodwill	
Subsidiaries	Acquisition year	Acquisition cost	%	Amount	December 2017	December 2016
					2,275	**2,275**
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 09-08-2007	1,440	1.54%	856	584	584
Beiragás - Companhia de Gás das Beiras, S.A.	2003/6 and 2007	152	0.94%	107	51	51

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).

Cash generating unit	Valuation model	Assumptions			
		Cash flow	Groth factor	Discount Rates:	
				Dec 17	Dec 16
Investment (Business segment)	DCF (Discounted Cash Flow)	According to corporate business plan	Gordon Model with growing perpetuity of 2%	WACC between: G&P [6,3%-6,9%]	WACC between: G&P [6,3%-6,9%]
G&P - Gás & Power					

According to the defined assumptions, in the year ended December 31, 2017, there were no impairment losses under Goodwill.

The demand and consumption of natural gas have been constant over several years, with no impairment indication. Given that the GGND Group business is regulated the impairment analysis is based on the Regulatory Asset Base (RAB).

12. TANGIBLE AND INTANGIBLE ASSETS

Accounting policy

Tangible assets

Tangible assets acquired up to 1 January 2004 (date of transition to IFRS) are measured according with IFRS 1 option, at deemed cost, which corresponds to cost, revalued, when applicable, in accordance with the legislation in force up to that date, less accumulated depreciation and cumulative impairment losses.

Tangible assets acquired after that date are recorded at cost less accumulated depreciation and cumulative impairment losses. Acquisition cost includes the invoice price, transport and assembly costs and financial costs incurred during the construction phase.

Tangible assets in progress refer to tangible assets in construction and are recorded at cost less cumulative impairment losses. Tangible assets are depreciated as from date the assets are substantially completed or the assets are ready for use.

Deemed cost (for acquisitions up to 1 January 2004) or acquisition cost depreciation is calculated on a straight-line basis (on a monthly basis), as from the year the assets are available for use, as intended by management, at the rates considered most appropriate to depreciate the assets during their estimated economic useful life, limited, when applicable, to the concession period.

The average annual depreciation rates used are as follows:

	Rates 2017	Rates 2016
Buildings and other constructions	2%	2%

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

Recurring repair and maintenance costs are expensed in the year they are incurred. Major overhauls involving the replacement of parts of equipment or of other tangible assets are recorded as tangible assets if the replaced parts are identified and written off, and depreciated over the remaining period of economic useful life of the respective tangible assets.

Leases

Lease contracts are classified as:

- Finance leases if all the risks and benefits of ownership are substantially transferred, and
- Operating leases when this does not occur.

Finance and operating leases are classified based on the substance rather than the form of the legal contract.

Leases in which the Group is the Lessee

Tangible assets acquired under finance lease contracts and the corresponding liabilities are recorded in accordance with the financial method. In accordance with this method the cost of the assets (the lower of the fair value or the discounted amount of the lease instalments) is recorded in tangible assets, the corresponding liability is recorded and interest included in the lease instalments and depreciation of the fixed assets, calculated as explained in Note 7, 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".

Intangible assets

Intangible assets are measured at cost less accumulated amortization and impairment losses. Intangible assets are only recorded if it is probable that they will result in future economic benefits to the Group, they are controlled by the Group and can be reliably measured.

Development expenses are only recognised as intangible assets if the Group has the technical and financial ability to develop the asset, decides to complete the development and starts commercializing or using it, and it is probable that the asset created will generate future economic benefits. If the development costs do not fulfil these requirements, they are recorded in profit and loss for the year when occurred.

Research expenses are recognizes as expense of the period.

Intangible assets with finite useful life are amortised on a straight-line basis.

The amortisation rates are set in accordance with the period of the existing contracts or expected use of the 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.

Tangible and Intangible assets impairment

Accounting policy

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.

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 "Amortization, depreciation and impairment loss of tangible assets". However, impairment losses are only reversed up to the amount the asset would be recorded (net of amortization or depreciation) if the impairment loss had not been recorded previously.

Whenever exists impairment trigger in the company Assets, impairment tests were performed. The CGU is defined as its concessions. Once the company assets are regulated, the impairment tests were based on the remunerated Assets for the purposes of regulated tariffs.

The cash flows projection period changes according to the average useful life of the cash-generating unit.

12.1. Movements in tangible and intangible assets:

Movements in tangible assets at 31 December 2017 and 2016 are as follows:

		(€ k)
	2017	2016
Tangible assets:	**Land and natural resources**	**Land and natural resources**
Acquisition cost:		
Acquisition cost as of 01 January	**938**	**938**
Acquisition cost as of 31 December	**938**	**938**
Accumulated depreciation:		
Accumulated depreciation as of 01 January	**(395)**	**(376)**
Depreciation of year	**(18)**	**(19)**
Accumulated depreciation as of 31 December	**(413)**	**(376)**
Net Amount as of 31 December	**525**	**543**

Movements in intangible assets at 31 December 2017 are as follows:

2017 Unid: €k

Intangible Assets	Land	Buildings	Basic Equipment	Transport Equipment	Tools	Administrative equipment	Retumable containers	Other equipment	R&D expenses	Industrial property and other rights	Reconversion of consumption to natural gas	Intangible assets in progress	Total concession agreements	Industrial property and other rights	Intangible assets in progress	Total intangible assets
	Concession agreements															
Acquisitions Cost:																
Gross acquisition on cost at 1 January 2017	**12,170**	**8,852**	**1,154,433**	**160**	**3,789**	**7,303**	**4**	**5,950**	**3,712**	**829**	**572,842**	**1,211**	**1,771,255**	**-**	**261**	**1,771,516**
Additions	-	-	-	-	-	-	-	-	-	-	-	22,265	22,265	-	417	**22,682**
Write- off's / Disposals	-	-	(1,548)	-	(82)	(60)	-	-	-	-	(29)	-	(1,719)	-	-	**(1,719)**
Transfers	-	106	17,883	-	109	27	-	2	-	86	4,582	(22,795)	-	614	(614)	**-**
Gross acquisition on cost at 31 December	**12,170**	**8,958**	**1,170,768**	**160**	**3,816**	**7,270**	**4**	**5,952**	**3,712**	**915**	**577,395**	**681**	**1,791,801**	**614**	**64**	**1,792,479**
Accumulated Amortisations:																
Accumulated Amortisations at 1 January 2017	**(3,501)**	**(5,418)**	**(426,421)**	**(151)**	**(3,664)**	**(7,010)**	**(4)**	**(5,796)**	**(2,798)**	**(461)**	**(202,848)**	**-**	**(658,072)**	**-**	**-**	**(658,072)**
Amortisation for the year	(265)	(333)	(27,070)	(1)	(71)	(127)	-	(66)	(63)	(162)	(13,893)	-	(42,051)	(51)	-	**(42,102)**
Write-off's / Disposals	-	-	1,407	-	82	60	-	-	-	-	24	-	1,573	-	-	**1,573**
Accumulated Amortisations at 31 December 2017	**(3,766)**	**(5,751)**	**(452,084)**	**(152)**	**(3,653)**	**(7,077)**	**(4)**	**(5,862)**	**(2,861)**	**(623)**	**(216,717)**	**-**	**(698,550)**	**(51)**	**-**	**(698,601)**
Net Amount as of 31 December 2017	**8,404**	**3,207**	**718,684**	**8**	**163**	**193**	**-**	**90**	**851**	**292**	**360,678**	**681**	**1,093,251**	**563**	**64**	**1,093,878**

Movements in intangible assets at 31 December 2016 are as follows:

2016 Unid: €k

Intangible Assets:	Land	Buildings	Basic Equipment	Transport Equipment	Tools	Administrative equipment	Retumable containers	Other equipment	R&D expenses	Industrial property and other rigths	Reconversion of consumption to natural gas	Intagible assets in progress	Total concession agreements	Intangible assets in progress	Total intangible assets
	Concession agreements														
Acquisitions Cost:															
Gross acquistion on cost at 1 January 2016	**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**	**-**	**1,750,520**
Additions	355	-	-	-	-	-	-	-	-	-	-	22,836	23,191	261	**23,452**
Write-off's / Disposals	-	(231)	(2,197)	-	(8)	(20)	-	-	-	-	-	-	(2,456)	-	**(2,456)**
Transfers	24	19	18,693	8	(642)	29	-	-	-	127	5,068	(23,326)	-	-	**-**
Gross acquisition on cost at 31 December 2016	**12,170**	**8,852**	**1,154,433**	**160**	**3,789**	**7,303**	**4**	**5,950**	**3,712**	**829**	**572,842**	**1,211**	**1,771,255**	**261**	**1,771,516**
Accumulated Amortisations:															
Accumulated Amortisations at 1 January 2016	**(3,243)**	**(5,234)**	**(400,524)**	**(150)**	**(4,316)**	**(6,888)**	**(4)**	**(5,687)**	**(2,733)**	**(319)**	**(189,183)**	**-**	**(618,281)**	**-**	**(618,281)**
Amortisation for the year	(258)	(332)	(26,678)	(1)	(54)	(141)	-	(109)	(65)	(142)	(13,665)	-	(41,445)	-	**(41,445)**
Write-off's / Disposals	-	148	1,479	-	8	19	-	-	-	-	-	-	1,654	-	**1,654**
Transfers	-	-	(698)	-	698	-	-	-	-	-	-	-	-	-	**-**
Accumulated Amortisations at 1 December 2016	**(3,501)**	**(5,418)**	**(426,421)**	**(151)**	**(3,664)**	**(7,010)**	**(4)**	**(5,796)**	**(2,798)**	**(461)**	**(202,848)**	**-**	**(658,072)**	**-**	**(658,072)**
Net amount as of 2016	**8,669**	**3,434**	**728,012**	**9**	**125**	**293**	**-**	**154**	**914**	**368**	**369,994**	**1,211**	**1,113,183**	**261**	**1,113,444**

12.2. Main events occurring during the year ended 31 December 2017:

The increases noted in tangible and intangible assets, amounting to € 22,682 k, mainly refers to rights on regulated assets related to the concession of the natural gas distribution, namely the construction of natural gas infrastructures (networks, branches and other infrastructures) in which the amount of € 22,265 k is under IFRIC 12 (Notes 6 and 7).

12.3. Amortization, depreciation and impairment losses in the year

Amortization, depreciation and impairment losses for the years 2017 and 2016 are as follows:

(€ k)

	December 2017			December 2016		
	Tangible	Intangible	Total	Tangible	Intangible	Total
Amortisation, depreciation and impairments (Note 7)	18	42,102	42,120	19	41,445	41,464
Amortisation / depreciaton of the year	18	51	69	19	-	19
Amortisation of the year – concession agreements	-	42,051	42,051	-	41,445	41,445

13. GOVERNMENT GRANTS

As of 31 December 2017 and 2016, the amounts received and to be recognised as government grants is as follows:

Unid: €k

Program	December 2017	December 2016
Amount to be Recognised (Note 20.2)	**227,472**	**236,247**
Received Value:	**406,929**	**406,914**
Programa Energia	103,689	103,689
Protede	19,708	19,708
Programa Operacional Economia	282,650	282,635
PROALGARVE- FEDER	882	882
Accumulated amount recognised in income	**(179,457)**	**(170,667)**

During the years ended 31 December 2017 and 31 December 2016, grants amounting €8,790 k and €8,882 k, respectively (Note 6) were recognised in the consolidated income statement according to the assets useful life.

14. TRADE AND OTHER RECEIVABLES

Accounting policy

According to the categories established in IAS 39, Loans granted and accounts receivable are initially recorded at fair value and subsequently measured at amortised cost, less any impairment losses, recognised under "Impairment losses on accounts receivable". Usually, the amortised cost of these assets does not differ from their nominal value or their fair value. Third party debt is a category of financial assets (see note 2.3.2 a)).

14.1. Trade receivables

The caption "Trade receivables" as of 31 December 2017 and 31 December 2016 includes the following detail:

€k

Caption	December 2017 Current	December 2016 Current
	10,315	**10,094**
Trade receivables	**10,758**	**10,644**
Trade receivables- Current accounts	10,301	10,057
Trade receivables- doubtful accounts	457	587
Impairment on trade receivables	**(443)**	**(550)**

The movements in the caption "Impairment of trade receivables" for the years ended 31 December 2017and 2016 were as follows:

€k

Impairment on trade receivables	Initial Balance	Increases	Decreases	Utilisation	Final Balance
2017	550	80	(92)	(95)	443
2016	1,059	169	(5)	(673)	550

The increase and decrease in the caption "Impairment of trade receivables" in the net amount of €12 m was recorded in the caption "Provision and impairment losses on receivables" (Note 7).

The following is an ageing schedule of Group trade receivables as of 31 December 2017 and 2016:

(€ K)

Ageing of 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
2017	**8,703**	**1,422**	**93**	**15**	**82**	**-**	**-**	**1,315**
Gross	8,703	1,422	100	52	121	83	277	10,758
Impairment	-	-	(7)	(37)	(39)	(83)	(277)	(443)
2016	**8,417**	**1,465**	**92**	**26**	**94**	**-**	**-**	**10,094**
Gross	8,417	1,465	105	89	225	81	262	10,644
Impairment	-	-	(13)	(63)	(131)	(81)	(262)	(550)

Overdue balances which have not been subject to adjustments are in respect of receivables for which there are payment agreements or for which there is a total or partial expectation of settlement.

The average days receivable of GGND not overdue trade receivables balance is lower than 30 days.

14.2. Other receivables

Accounting policy

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;

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.

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.

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

€k

		December 2017		December 2016	
Caption	**Note**	**Current**	**Non Current**	**Current**	**Non Current**
		69,944	**15,753**	**76,746**	**31,754**
		69,947	**15,753**	**76,749**	**31,754**
State and Other Public Entities		-	-	**130**	-
Social security		-	-	130	-
Other debtors:		**175**	-	**1,377**	-
Suppliers debtor balances		165	-	1,364	-
Advances to suppliers		10	-	13	-
Related Parties:		**410**	-	**1,600**	**5,375**
Loans to associates, joint ventures and other related parties	22	-	-	-	5,375
Other receivables - associates, joint ventures and other related parties	22	410	-	1,600	-
Other accounts receivables		**24,456**	**11,860**	**27,402**	**18,848**
Personnel		78	-	78	-
Loans granted		17	-	19	-
Subsoil rate		22,686	11,860	26,954	18,848
Other receivables		1,675	-	351	-
Accrued income:		**44,065**	**3,886**	**45,430**	**7,528**
Sales and services rendered not yet invoiced - Natural Gas		25,372	-	24,754	-
Adjustment to tariff deviation - "pass through" - ERSE regulation		11,455	-	4,737	-
Adjustment to tariff deviation- Regulated Revenue		5,673	3,886	11,880	7,528
Uniformity tariff compensation		1,054	-	3,601	-
Other accrued income		511	-	458	-
Deferred charges:		**841**	**7**	**810**	**3**
Prepaid rents		7	-	7	-
Interest and other financial charges		94	-	55	-
Prepaid insurance		59	-	59	-
Other deferred costs		681	7	689	3
Impairment of other receivables		**(3)**	**-**	**(3)**	**-**

There were no movements during the years ended 31 December 2017 and 2016 in the caption "Impairment of other accounts receivable".

The caption "Subsoil occupation levies" amounting to €34,546 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 invoice 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 €410 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 22).

The caption "Accrued income - sales and services rendered not yet invoiced", amounting to €25,372 k, is mainly related with the December natural gas consumption to be invoiced to customers in January.

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

Unid: €k

Distribution and commercialisation of natural gas	2016	Gas year Regulated Revenue Adjustments(Note 6)	Gas Year Regulated Revenue difference amortisation / reversal (Note 6)	Adjust between estimate regulated revenue and invoiced revenue (Note 6)	Other reclassifications	2017
	11,101	**(3,256)**	**(5,293)**	**(1,880)**	-	**672**
Fiscal Year of 2014	**7,640**	**(2,313)**	**(5,327)**	-	-	-
First half of 2014	215	-	-	-	-	215
Second half of 2014	12,524	-	-	-	-	12,524
Adjusment to Fiscal year 2014	2,978	(2,313)	-	-	-	665
Reversal of 2014 Regulated Revenue	(2,751)	-	(5,327)	-	-	(8,078)
Reclassification	(5,326)	-	-	-	-	(5,326)
Fiscal year of 2015	**1,819**	**(943)**	**34**	-	-	**910**
First half of 2015	(9,644)	-	-	-	-	(9,644)
Second half of 2015	11,137	-	-	-	-	11,137
Adjusment to Fiscal year 2015	-	(943)	-	-	-	(943)
Reversal of 2015 Regulated Revenue	-	-	34	-	-	34
Reclassification	326	-	-	-	-	326
Fiscal year of 2016	**1,642**	-	-	-	-	**1,642**
First half of 2016	(13,690)	-	-	-	-	(13,690)
Second half of 2016	15,332	-	-	-	-	15,332
Fiscal year of 2017	-	-	-	**(1,880)**	-	**(1,880)**
First half of 2017	-	-	-	(5,655)	-	(5,655)
Second half of 2017	-	-	-	3,775	-	3,775
	11,101	**(3,256)**	**(5,293)**	**(1,880)**	-	**672**
Accrued cost	(8,307)	(912)	4,243	(6,906)	2,995	(8,887)
Accrued income	19,408	(2,344)	(9,536)	5,026	(2,995)	9,559

The caption "Adjustment of tariff deviation – regulated revenue" amounting to € 672 k relates to the difference between the estimated regulated revenue published for the regulated activity and the revenue for the real invoices issued. These amounts are remunerated considering the twelve-month Euribor rate plus a spread as 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

During the year ended 31 December 2017, the differences for the Group's Regulated Revenue for the calendar year 2015 were settled, amounting to a recoverable amount of € 910k. As the accrual made is lower than the amount agreed, the Group recognised in the caption "Services rendered" the respective decrease amounting to € 943k.

As mentioned the total amount to be recovered was included by ERSE in the regulated revenues to be recovered in the gas year 2017-2018, thus the Group recognised the reversal of the amount of the approved tariff deviation in the income statement.

The following is an ageing schedule of Group "Other receivables" as of 31 December 2017 and 2016:

(€ 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
2017	**85,567**	**101**	**1**	**-**	**-**	**-**	**28**	**85,697**
Gross	85,567	101	1	-	-	-	31	85,700
Impairment	-	-	-	-	-	-	(3)	(3)
2016	**108,334**	**102**	**30**	**3**	**-**	**3**	**28**	**108,500**
Gross	108,334	102	30	3	-	3	31	108,503
Impairment	-	-	-	-	-	-	(3)	(3)

Other receivables balances overdue that have not been impaired correspond to receivables in which payment agreements exist, or that are covered by credit insurance for which there is an expectation of partial or total settlement.

15. INVENTORIES

Accounting policy

Inventories (merchandise, raw and subsidiary material, finished and semi-finished products, and work in progress) are stated at the lower acquisition cost (in the case of merchandise and raw and subsidiary material) or production cost (in the case of finished and semi-finished products and work in progress) or net realizable value.

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

Whenever cost exceeds net realizable value, the difference is recorded in the operating cost caption "Cost of sales".

As such, the cost of inventories used/sold is determined as follows:

Raw and subsidiary materials

The cost includes the invoice price, transport and insurance costs, determined on a weighted average basis.

Inventories as of 31 December 2017 and 31 December 2016 are detailed as follows:

unit: €m

	December 2017	December 2016
Captions	**1,938**	**1,207**
Raw materials, subsidiary and consumption goods:	**1,842**	**1,114**
	2,011	**1,269**
Other raw materials and various materials	2,011	1,269
Impairment of raw materials, subsidiaries and consumption goods	**(169)**	**(155)**
Goods:	**96**	**93**
	96	**93**
Goods	96	93

As of 31 December 2017, the caption "Other raw and various materials" amounting € 2,011 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 2017 and 2016 are as follows:

unit: €k

Captions	Initial balance	Increases	Ending balance
December 2017	**155**	**14**	**169**
Impairment of raw materials, subsidiaries and consumption goods	155	14	169
December 2016	**155**	**-**	**155**
Impairment of raw materials, subsidiaries and consumption goods	155	-	155

The increases amounting to € 14k was recorded against the caption "Cost of Sales - inventory reductions" in the income statement (Note 7). This reduction is mainly due to the evolution of market prices.

16. CASH AND CASH EQUIVALENTS

Accounting policy

The amounts included in cash and cash equivalents correspond to cash values, bank deposits, time deposits and other cash investments, which maturity is less than three months and can be immediately mobilised with a risk of insignificant change in value.

For the purposes of the statement of cash flows, the caption "Cash and cash equivalents" also includes bank overdrafts included in the caption "Loans and overdrafts" in the statement of financial position.

For the periods ended 31 December 2017 and 31 December 2016 the caption "Cash and cash equivalents" is detailed as follows:

unit: €k

Captions	December 2017	December 2016
Cash and cash equivalents in the consolidated statement of cash flows	**16,672**	**43,030**
Cash and cash equivalents	**16,683**	**43,064**
Cash	35	34
Cash Deposits	14,298	39,530
Other treasury investments	2,350	3,500
Bank overdrafts	**(11)**	**(34)**
Bank overdrafts (Note 22)	(11)	(34)

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

unit: €k

Companies	December 2017	December 2016
Other treasury investments	**2,350**	**3,500**
Beiragás - Companhia de Gás das Beiras, S.A.	2,350	3,500

During 2017, there were no restrictions, in addition to those resulting from the law application and the use of cash and cash equivalents that the Group has classified as Cash and Cash Equivalents.

17. EQUITY

Equity management policy

Galp Gás Natural Distribuição, S.A. (GGND) is a Group holding company of gas infrastructures business segment in Portugal, which Group Consolidated equity as of 31 December 2017 amounts to €232,799 k.

Regarding to the financing model, the GGND Group was historically financed through loans from Galp Group sub-holding for the Gas business. Following the long-term partnership established with Marubeni Corporation and Toho Gas Co. Ltd on 29 July 2016, which foresees the acquisition by Marubeni of 22.5% of the GGND Group (formalised on 27 October 2016), GGND established a Euro Medium Term Note Program on August 25, 2016 up to a maximum amount of € 1,000,000 k (Note 18). On 19 September 2016, GGND issued notes amounting to € 600,000 k, allowing the fully reimbursement of the shareholder loans granted by Galp.

The indebtness ratio of GGND Group is about 5.8x Net Debt / EBITDA, in line with natural gas infrastructure companies and lower than established in contracts with banks, which allow a ratio up to 7x.

17.1. Share capital

Capital structure

As of 31 December 2017 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:

	December 2017			December 2016		
	Number of shares	Participation (%)	Imputable participation %	Number of shares	Participation (%)	Imputable participation %
Total	**89,529,141**	**100%**	**100%**	**89,529,141**	**100%**	**100%**
Galp Gas & Power,SGPS, SA	69,385,084	77.50%	77.50%	69,385,084	77.50%	77.50%
Meet Europe Natural Gas , Lda	20,144,057	22.50%	22.50%	20,144,057	22.50%	22.50%

17.2. Reserves

As of 31 December 2017 and 31 December 2016 "Translation reserves" and "Other reserves" are detailed as follows:

unit: €k

Captions	Notes	December 2017	December 2016	Changes in the period (December 2017-December 2016)
Reserves		**5,964**	**3,166**	**2,798**
Legal reserves		**6,695**	**3,434**	**3,261**
Hedging reserves	17.2.2	**(449)**	**(194)**	**(255)**
Reserves - financial derivatives	17.2.2	(599)	(259)	(340)
Reserves - Deferred tax on financial derivatives	17.2.2 and 10.3	150	65	85
Other reserves:	**17.2.3**	**(282)**	**(74)**	**(208)**
Reserves - Increases of 10.7532% in 2012, 0.3438% in 2013 and 0.0909% in 2017 in Lusitaniagás - Companhia de Gás do Centro, S.A.'s share capital		384	413	(29)
Reserves - 33.05427% increase in 2015 of Setgás - Sociedade de Produção e Distribuição de Gás, S.A.'s share capital	*	(671)	(492)	(179)
Reserves - 0.08842% increase in 2016 of Beiragás - Companhia de Gás das Beiras, S.A.'s share capital		5	5	-

* €179k variation refers to ENAGÁS acquisition value in 2017.

17.2.1. 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 2017 the caption "Legal Reserves" fluctuated positively amounting €3,261k.

17.2.2. Hedging reserves

In the year ended 31 December 2017, the negative amount of € 599 k (note 22) referring to the fair value of financial derivatives - cash flow hedges related to associated companies and € 150k related to its fiscal effect details as follows:

unit: €k

Hedging reserves:		December 2017	December 2016	Changes in the period (December 2017-December 2016)
Hedging reserves:		**(449)**	**(194)**	**(255)**
Reserves - financial derivatives (Note 22)		**(599)**	**(259)**	**(340)**
Financial investments in associates and joint ventures	(*)	(599)	(259)	(340)
Reserves - Deferred tax on financial derivatives		**150**	**65**	**85**
Group Companies (Note 10)	(*)	150	65	85
(*) Comprehensive income for the year attributable to shareholders				

17.2.3. Other reserves

Reserves – increase of 14,35486% of the capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A

On December 2017, the Group acquired 0,002575% of the equity 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 negative difference of €8k between the amount paid and the book value of the equity at acquisition date, was recognised in the caption "Reserves" in equity.

On November 2017, the Group acquired 0,06513% of the equity 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 negative difference of €21k between the amount paid and the book value of the equity at acquisition date, was recognised in the caption "Reserves" in equity.

On March 2016, the Group acquired 10.59122% of the equity 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 the caption "Reserves" in equity.

On 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 the caption "Reserves" in equity.

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

On 11 August 2017, the Group settled an adjustment to the purchase price of 2016 to Enagás in the negative amount of € 179 k.

On 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 caption "Reserves" in equity.

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

On 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 caption "Reserves" in equity.

17.3. Earnings per share

Earnings per share as of 31 December 2017 and 2016 were as follows:

unit: €k

	Note	December 2017	December 2016
Consolidated net income for the year attibutable to the Shareholders of Galp Gás Natural Distribuição, S.A.		29,262	25,044
Weighted average number of shares for the purpose of net income per share	17.1	89,529,141	89,529,141
Basic and diluted earnings per share (amounts in Euro):		**0.33**	**0.28**

Due to the fact that there were no dilutive situations, the diluted earnings per diluted share was equal to the net earnings per basic share.

17.4. NON-CONTROLLING INTERESTS

As of 31 December 2017 and 2016, the caption "Non-controlling interests" included in equity refers to the following subsidiaries:

unit: €k

Movement occurred under Non-controlling interests:		Beiragás - Companhia de Gás das Beiras, S.A.		Lusitaniagás - Companhia de Gás do Centro, S.A.		Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	
		Dec 17	Dec 16	Dec 17	Dec 16	Dec 17	Dec 16
% Non-controlling interest at December 2016		**40.407%**	**40.495%**	**3.158%**	**3.158%**	**0.067%**	**0.067%**
Non-controlling interests at the beginning of the year		**17,643**	**17,145**	**1,974**	**2,039**	**30**	**61**
Share capital		-	-	-	-	-	-
Share premium		-	-	-	-	-	-
Reserves							
Other reserves		-	(12)	-	-	-	-
Retained earnings							
Retained earnings - Actuarial gains and losses	(*)	7	(2)	1	-	-	-
Previous years results	(*)	-	(24)	(56)	-	-	-
Net result for the year	(*)	990	1,346	112	161	1	1
Distributed dividends(a)		(808)	(810)	-	(226)	(1)	(32)
Non-controlling interests at 31 December 2017		**17,832**	**17,643**	**2,031**	**1,974**	**30**	**30**
% Non-controlling interest at 31 December 2017		**40.407%**	**40.407%**	**3.067%**	**3.158%**	**0.067%**	**0.067%**
Dividends paid to other shareholders (a)		(808)	(810)	-	(218)	(1)	(30)

(*) Comprehensive income for the year attributable to non-controlling interests

Dividends attributed and paid to minority shareholders (Note 17.5).

During the year ended 31 December 2017 were attributed and paid dividends amounted to € 809 k (Note 17. 5).

The following table includes the detail of the separate financial statements (i.e. statement of financial position and income statement) of the entities with non-controlling interests as of 31 December 2017 and 31 December 2016:

Statement of Financial Position unit €k

Assets	Beiragás - Companhia de Gás das Beiras, S.A.		Lusitaniagás - Companhia de Gás do Centro, S.A.		Setgás - Sociedade de Produção e Distribuição de Gás, S.A. (a)	
	December 2017	December 2016	December 2017	December 2016	December 2017	December 2016
Non-current assets:						
Intangible assets	-	-	-	-	526	544
Tangible assets	69,606	70,574	275,262	279,130	171,444	173,223
Investments in associates and joint ventures	-	-	-	-	3	3
Other receivables	2,205	1,963	3,574	9,304	2,030	3,399
Deferred tax assets	532	579	657	94	296	183
Total non-current assets:	**72,343**	**73,116**	**279,493**	**288,528**	**174,299**	**177,352**
Current assets						
Inventories	230	180	230	194	167	76
Trade receivables	660	821	1,867	2,316	1,426	824
Other receivables	2,401	2,562	20,131	18,883	8,974	9,529
Income tax receivables	560	-	-	-	112	290
Cash and cash equivalents	3,587	5,231	699	1,034	205	553
Total current assets:	**7,438**	**8,794**	**22,927**	**22,427**	**10,884**	**11,272**
Total assets:	**79,781**	**81,910**	**302,420**	**310,955**	**185,183**	**188,624**
Liabilities:						
Non-current liabilities:						
Loans	9,375	9,473	2,302	4,604	-	-
Other payables	17,406	18,510	207,232	207,231	122,934	123,798
Retirement benefits and other benefits liabilities	323	320	306	276	384	660
Deferred tax liabilities	98	155	1,775	2,971	3,346	3,673
Provisions	2,546	1,967	10,219	7,548	5,697	4,199
Total non-current liabilities:	**29,748**	**30,425**	**221,834**	**222,630**	**132,361**	**132,330**
Current liabilities:						
Bank loans and overdrafts	1,042	2,770	2,313	2,302	-	2,043
Trade payables	825	1,305	3,826	5,732	1,774	1,765
Other payables	4,034	3,691	6,456	14,694	5,554	7,150
Current income tax payable	-	55	1,795	3,096	-	-
	5,901	**7,821**	**14,390**	**25,824**	**7,328**	**10,958**
Total Current liabilities:	**5,901**	**7,821**	**14,390**	**25,824**	**7,328**	**10,958**
Total liabilities	**35,649**	**38,246**	**236,224**	**248,454**	**139,689**	**143,288**
Total Equity and Liabilities	**79,781**	**81,910**	**302,420**	**310,955**	**185,183**	**188,624**

(a) Includes the amounts related to fair value of the 2012 acquisition, which amounted to €13,292k.

unit: €k

Income Statement	Beiragás - Companhia de Gás das Beiras, S.A.		Lusitaniagás - Companhia de Gás do Centro, S.A.		Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	
	December 2017	December 2016	December 2017	December 2016	December 2017	December 2016
Operating income:						
Sales	1,942	2,528	-	-	-	-
Services rendered	10,992	11,985	49,381	54,964	23,399	25,125
Other operating income	2,363	2,418	8,505	8,537	5,707	6,543
Total operating income:	**15,297**	**16,931**	**57,886**	**63,501**	**29,106**	**31,668**
Operating costs						
Cost of sales	1,069	1,566	11	4	-	-
External supplies and services	5,185	5,764	23,490	27,473	8,818	9,955
Employee costs	850	983	2,638	2,407	1,796	1,908
Amortisation, depreciation and impairment losses on fixed assets	2,552	2,507	9,762	9,605	5,975	5,786
Provisions and impairment losses on receivables	(67)	83	1	(13)	1	6
Other operating costs	1,625	1,707	5,977	6,117	4,259	5,089
Total operating costs:	**11,214**	**12,610**	**41,879**	**45,593**	**20,849**	**22,744**
Operating result:	**4,083**	**4,321**	**16,007**	**17,908**	**8,257**	**8,924**
Financial income	41	58	35	50	51	73
Financial costs	(119)	(170)	(7,283)	(7,512)	(4,410)	(4,665)
Income before taxes:	**4,005**	**4,209**	**8,759**	**10,446**	**3,898**	**4,332**
Income tax	(974)	(336)	(2,443)	(2,762)	(940)	(1,161)
Energy sector extraordinary contribution	(579)	(547)	(2,671)	(2,598)	(1,498)	(1,439)
Consolidated net income for the year	**2,452**	**3,326**	**3,645**	**5,086**	**1,460**	**1,732**

17.5. DIVIDENDS

In accordance with the deliberation of the General Meeting of Shareholders held on 26 May 2017, dividends amounting to € 61,956 k relating to the distribution of net result for the year 2016 were attributed to the shareholders of Galp Gás Natural Distribuição, S.A. and fully liquidated during the year ended 31 December 2017.

During year ended 31 December 2017 dividends amounting to € 809 k were attributed to the shareholders, of which € 809 k were paid by subsidiaries of the Galp Gás Natural Distribuição, S.A. Group to minority shareholders (Note 17.4).

As a consequence of the previously mentioned, during the year ended 31 December 2017, the Group paid dividends amounting €62,765k.

18. LOANS

Accounting policy

Loans are recorded in liabilities at the nominal value received, net of expenses incurred in the issuance of these loans. Loans are subsequently measured at amortised cost.

Financial charges are calculated at the effective interest rate and are recorded in the income statement in accordance with the accrual basis, when not capitalised to investment in qualifying tangible and intangible fixed assets.

The financial charges include interest and possibly commission expenses with the structuring of the loans.

Loan details

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

unit: €k

	December 2017		December 2016	
	Current	Non-current	Current	Non-current
	9,509	616,909	13,301	624,952
Bank loans:	**9,509**	**20,908**	**13,301**	**29,462**
Origination Fees	-	-	-	(80)
	9,509	**20,908**	**13,301**	**29,542**
Loans	9,498	20,908	13,267	29,542
Bank overdrafts (Note 16)	11	-	34	-
Bonds and Notes:	-	**596,001**	-	**595,490**
Origination Fees	-	(3,999)	-	(4,510)
	-	**600,000**	-	**600,000**
Notes	-	600,000	-	600,000

Current and non-current loans, excluding origination fees, bank overdrafts and discounted notes, have the following reimbursement plan as of 31 December 2017:

unit: €k

	Loans		
Maturity	Total	Current	Non-current
	630,406	**9,498**	**620,908**
2018	9,498	9,498	-
2019	8,346	-	8,346
2020	5,270	-	5,270
2021	1,042	-	1,042
2022	1,042	-	1,042
2023 and subsequent years	605,208	-	605,208

As of 31 December 2017 and 31 December 2016, Loans obtained, excluding bank overdrafts and discounted notes, are expressed in the following currencies:

		December 2017		December 2016	
Currency		Total initial amount	Amount in due (€k)	Total initial amount	Amount in due (€k)
			630,406		642,808
Euros	EUR	736,928	630,406	759,374	642,808

Description of the main loans

Bank loans – European Investment Bank

The Group has a financing contract with the European Investment Bank amounting to €19,989 k, and split into €8,456 k short-term and €11,533 k medium and long-term. These instruments bear interest at a variable rate pointed by EIB, assured by a banking institution.

Loans with European Investment Bank have the following associated covenants:

"Own financial resources / net fixed assets" in the statement of financial position as of 31 December of each year is not lower than 25%;

"Financial indebtedness / own funds", verified at the end of each year, does not exceed 1.5 in the subsidiaries Lusitaniagás - Companhia de Gás do Centro, S.A. and Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A. and 2.5 in subsidiary Setgás - Sociedade de Produção e Distribuição de Gás, S.A..

As of 31 December 2017 the mentioned covenants are in compliance.

Bank loans - Others

As of December 2005, was established a project finance agreement by the company of the Beiragás Group - Companhia de Gás das Beiras, SA, which includes an investment credit facility up to a maximum amount of € 27,000 k (Tranche A) which could be used until December 2008 a support line to exploration up to the maximum amount of € 4,000 k (Tranche B) which could be used and repaid until December 2012, being this term extended until 31 December 2013.

In 2017, an amendment to the abovementioned agreement was signed, in which the following changes were made: i) to the Agent Bank; ii) Tranche A repayment plan (repayment in 36 consecutive semiannual installments, from 15 June 2010 until 15 December 2027); (iii) the margin.

The outstanding amounts of the loan bear interest at the six-month Euribor rate plus margin, which varies over the repayment period.

The outstanding amount as of 31 December 2017, regarding the utilisation of credit line to investment, amounts to €10,417 k, with a split of €1,042 k short term and €9,375 k medium and long term.

Revolving Credit Facility

As of 31 December 2017, Galp Gás Natural Distribuição has contracted a Revolving Credit Facility, with a commitment in the total amount of € 50,000 k and with a maturity of more than 4 years. This amount was fully available as of 31 December 2017.

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.

Under the program (EMTN), a set of Financial Covenants were defined in order increase the protection of GGND Group's creditors. Such covenants - Net Debt/EBITDA (ND/E) and Debt Service Coverage Ratio (DSCR) have two limits – one in lock-up event and other in event of default:

Financial ratios	December 2017
Net Debt [1]/EBITDA [2]	5.8x
Debt Service Coverage Ratio [3]	5.9x

[1] Bank Debt + Bond loans + Accrued interest - Cash and cash equivalents

[2] EBITDA + Provisions

[3] Operating Cash Flow - CAPEX Payments/Interest Service

As of 31 December 2017 the mentioned covenants are in compliance.

Detail of the reconciliation of liabilities arising from financing activities (including loans obtained, excluding overdrafts) as of 31 December 2017, for the purposes of the consolidated statement of cash flows:

unit: €k

	December 2016	Cash flow	December 2017
Long term debt	**642,809**	**(12,403)**	**630,406**
Long term loans	642,809	(12,403)	630,406

19. POST EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Accounting policy

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".

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"

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.

The discount rate is determined by the actuary through developed models that take into account the maturity of the liabilities and characteristics of the population for each plan. The discount rate consists of half-yearly rates (i.e. zero coupon) developed from high-quality corporate bond pricing and yield information in accordance with IAS 19.

Net interest related with retirement benefits is reflected on the income statement caption Net interest on retirement benefits and other benefits.

The benefit plans identified by the GGND Sub-Group for the calculation of these liabilities are:

- Pension supplements for retirement, disability and surviving orphan;
- Early retirement;
- Pre-retirement;
- Defined contribution minimum benefit plan

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.

Post Service Liability (PSL) result from the sum of the accumulated liabilities for all participants in the plan.

The GGND Group Pension Plan is a Final Pay type.

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 Defined Contribution Plan provides that, in the event of death or disability of a worker in active employment, the monthly benefit to be paid added to the Social Security pension shall guarantee a minimum total pension equal to 50% of the worker's pensionable salary at the occurrence.

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.

Other retirement benefits - health care, life insurance and minimum defined benefit plan benefit (disability and survival)

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. Payments to the beneficiaries are deducted from the liability.

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.

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.

The actuarial gains and losses recorded in each year are recorded as described above.

As of 31 December 2017 and 2016, 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:

Unid: €k

	2017				2016			
		Fair Value - valuation levels				Fair Value - valuation levels		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	Total	Market quotes	Observable market inputs	Other valuation techniques	Total	Market quotes	Observable market inputs	Other valuation techniques
Total	**22,753**	**22,753**	**-**	**-**	**23,337**	**23,337**	**-**	**-**
Shares	6,131	6,131	-	-	7,036	7,036	-	-
Bonds	15,878	15,878	-	-	15,252	15,252	-	-
Real State	238	238	-	-	316	316	-	-
Liquidity	506	506	-	-	733	733	-	-

During the year ended 31 December 2017, no endowment to the Fund were made.

As of 31 December 2017 and 2016 the Group had the following amounts related to liabilities for retirement benefits and other benefits:

unit: €k

Captions	December 2017	December 2016
	(57,089)	**(60,122)**
Post-employment benefits	**(32,262)**	**(32,729)**
Other Benefits	**(24,827)**	**(27,393)**

As of 31 December 2017 and 2016, the Group had recorded in equity the following amounts related to retirement benefits and other benefits:

unit: €k

Captions	December 2017	December 2016
	24,013	24,580
	29,485	30,558
Retirement benefits	18,747	16,738
Other benefits	10,738	13,820
Deferred tax (note 10)	(5,472)	(5,978)

Caption "Retirement benefits" include Retirement, Disability and Orphanage Supplements, Pre-Retirement and Early Retirement. The other benefits consist essentially of Health Insurance, Life Insurance and the minimum Benefit of the defined contribution plan.

Caption "Retirement Benefits" amounting to €32,262 k includes €464 k for the subsidiary Lisboagás, S.A., to cope with already agreed pre-retirements that will only be effective in 2018.

The caption "Employee costs - Retirement benefits" in the amount of € 1,174 k includes essentially:

unit: €k

Captions	December 2017	December 2016
	1,174	2,133
Retirement benefits	1,628	1,216
Other benefits	724	655
Defined contribution plan	418	351
Pre-retirements and early retirements not included in previous items	(1,596)	(89)

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

	December 2017	December 2016
	619	625
Active	185	188
Pre-Retired	34	39
Early Retirements	35	32
Disability Retirements	5	5
Age Retirements	199	199
Pensioners - Widows/Orphans	161	162

During 2017 there were 5 new cases of pre-retirement

The average maturity of liabilities for the defined benefit plans, is 13,4 years.

The assumptions used for the calculation of post-employment benefits are considered by the Group as those that best meet the commitments set out in the pension plan and are set out as follows:

	Retirement benefits		Other Benefits	
	2017	2016	2017	2016
Rate of return on assets	2.25%	2.25%	-	-
Technical interest rate	2.25%	2.25%	2.25%	2.25%
Rate of increase in salaries	1.00%	1.00%	[1,00% - 3,50%]	[1,00% - 4,00%]
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	INE 2009-2011	INE 2009-2011
Retired personnel mortality table	INE 2009-2011	INE 2009-2011	INE 2009-2011	INE 2009-2011
Disability table	50% EVK 80	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	66 years or 65 years if at least with 43 years of discounts to S.S. at 65
Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit

The detail of caption Retirement Benefits and Other benefits at 31 December 2017 and 31 December 2016 are as follows:

unit: €k

	TOTAL		Retirement benefits		Other benefits	
	2017	2016	2017	2016	2017	2016
Changes in past service liability (PSL)						
PSL at the end of the previous year	81,404	72,687	54,011	52,166	27,393	20,521
Current service cost	1,715	1,539	991	884	724	655
Interest cost	1,772	1,753	1,166	1,249	606	504
Actuarial (gain) / loss	(928)	10,412	2,153	3,879	(3,081)	6,533
Benefit payments made by the Fund	(1,240)	(1,221)	(1,240)	(1,221)	-	-
Benefit payments made by the Company	(3,984)	(4,098)	(3,169)	(3,278)	(815)	(820)
Cut back - Early retirements	237	126	237	126	-	-
Cut back - Pre-retirement	400	206	400	206	-	-
Other adjustments	**2**	-	2	-	-	-
PSL at the end of the current year	**79,378**	**81,404**	**54,551**	**54,011**	**24,827**	**27,393**
Changes in coverage of financial assets (pension fund)						
Assets at the end of the previous year	23,337	24,340	23,337	24,340	-	-
Net interest	511	593	511	593	-	-
Benefit payments	(1,240)	(1,221)	(1,240)	(1,221)	-	-
Financial gains / (losses)	145	(375)	145	(375)	-	-
Assets at the end of the current year	**22,753**	**23,337**	**22,753**	**23,337**	-	-
Reconciliation of gains and losses - through Comprehensive Income						
(Gain) / loss from actuarial experience	(939)	(7,791)	(2,153)	(2,520)	1,214	(5,271)
(Gain) / loss by actuarial assumptions change	1,867	(2,621)	-	(1,359)	1,867	(1,262)
Financial (Gain) / loss	145	(375)	145	(375)	-	-
Other impacts	(1,073)	10,787	2,008	4,254	(3,081)	6,533
(Gains) / losses to be recognised in the year-end	-	-	-	-	-	-
Reconciliation to the Statement of Financial Position						
(Gains) / losses recognised at the beginning of the year - Asset/(Liability)	(58,067)	(48,347)	(30,674)	(27,826)	(27,393)	(20,521)
Net cost of the year	(3,613)	(3,031)	(2,283)	(1,872)	(1,330)	(1,159)
Benefit payments made directly by the Company	3,984	4,098	3,169	3,278	815	820
Gains / (losses) recognised - through Comprehensive Income	1,073	(10,787)	(2,008)	(4,254)	3,081	(6,533)
Other adjustments effects	(2)	-	(2)	-	-	-
Total recognised at year end - Assets / (Liabilities)	**(56,625)**	**(58,067)**	**(31,798)**	**(30,674)**	**(24,827)**	**(27,393)**
Net cost of the year						
Current service cost	1,715	1,539	991	884	724	655
Interest cost	1,261	1,160	655	656	606	504
Net cost of the year before special events	**2,976**	**2,699**	**1,646**	**1,540**	**1,330**	**1,159**
Cut back impact - Early Retirement	237	126	237	126	-	-
Cut back impact - Pre-retirement	400	206	400	206	-	-
Net cost of the year	**3,613**	**3,031**	**2,283**	**1,872**	**1,330**	**1,159**
Reconciliation of gains and loss recognised- through Comprehensive Income						
Cummulative (Gains) / losses recognised at the beginning of the year	30,558	19,770	16,738	12,483	13,820	7,287
Actuarial (Gains) and Losses from experience	939	7,791	2,153	2,520	(1,214)	5,271
(Gains) / losses from change in assumptions	(1,867)	2,621	-	1,359	(1,867)	1,262
Financial (Gains) / losses	(145)	375	(145)	375	-	-
Other impacts	-	**1**	-	1	-	-
Cummulative (Gains) / losses recognised at the end of the year	**29,485**	**30,558**	**18,746**	**16,738**	**10,739**	**13,820**
Non-controlling interests	**9**	**(2)**	-	-	9	(2)
Cummulative (Gains) / losses recognised at the end of the year	**29,494**	**30,556**	**18,746**	**16,738**	**10,748**	**13,818**

The actuarial losses related to past service liabilities which occurred in 2017 amounting to €928 k can be segregated as follows:

- by changes in assumptions: losses amounting €1,867 k; and

- by experience: losses amounting €939 k

The financial losses resulting from the Funds, amounting to €145 k, are a consequence of the difference between the estimated value for the development of the Funds and the actual value shown in the previous paragraph, as detailed below:

unit: €k

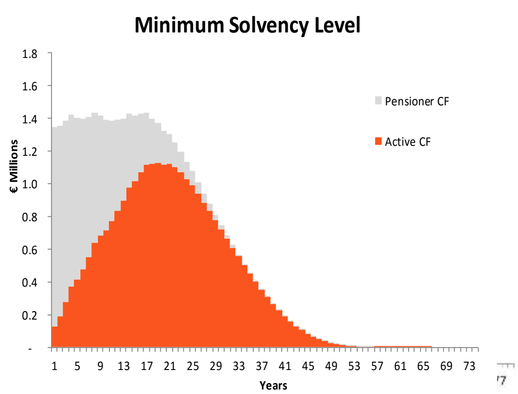
	Estimated	Real	Deviation	Date
Initial balance	**25,321**	**23,337**	**(1,984)**	**31-12-2016**
Estimation adjustment	(1,984)	-	1,984	
Benefits payment	(1,288)	(1,240)	48	
Associates contributions	953	-	(953)	
Total Movements	**(2,319)**	**(1,240)**	**1,079**	**2017**
Fund return	511	656	145	
Ending balance	**23,513**	**22,753**	**(760)**	**31-12-2017**

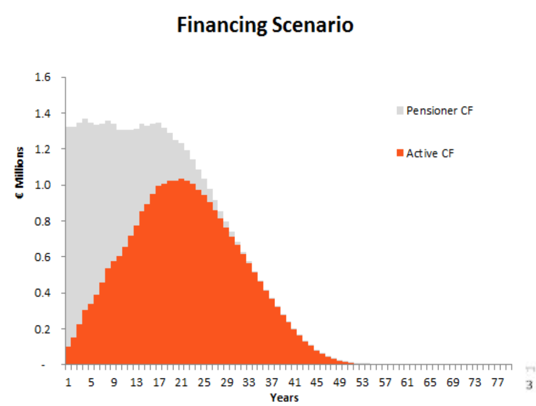
As of 31 December 2017, the breakdown of the expected value of future benefit payments for the next five years is as follows:

unit: €k

	Payment Expectation		
	Total	Retirement benefits	Other benefits
	20,980	**16,342**	**4,638**
2018	4,959	4,052	907
2019	4,577	3,663	914
2020	4,268	3,338	930
2021	4,083	3,145	938
2022	3,093	2,144	949

Payment distribution associated with the GGND Pension Fund:





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.

unit: €k

Liabilities	Discount rate 2,25%	Discount rate 2,00%	Variation
	79,378	**81,752**	
Retirement benefits	54,551	55,978	2.62%
Other benefits	24,827	25,774	3.81%

Sensitivity analysis of the salaries growth rate

A sensitivity analysis was carried out to measure the impact on the responsibilities caused by the change in the rate of salary / pension growth. For this purpose, we considered a positive variation of 100 bp. in the rate of salary / pension growth as follows:

unit: €k

Liabilities	Rate 1,00%	Rate 2,00%	Variation
	55,969	**59,819**	
Retirement benefits	54,551	58,262	6,80%
Other benefits	1,418	1,557	9,80%

Health Insurance sensitivity analysis

unit: €k

Captions	2.50%	3.50%	4.50%
Past Services Liabilities	20,222	23,409	27,358
Impact on past services liabilities	(3,187)	-	3,949
Increase / (Decrease) in Liabilities	(14%)	-	17%

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:

unit: €k

discount rate	2.25%	2.25%	2.50%	2.75%
	2017	**2016**	**2015**	**2014**
Liabilities amount (a)	**26,935**	**26,163**	**25,621**	**24,256**
Value of the Fund (b)	**22,753**	**23,337**	**24,340**	**23,375**
Actuarial Gains (+) and Losses (-)	**1,056**	**797**	**(1,582)**	**(1,783)**
Gains (+) and Losses (-) for changes in assumptions	-	840	(820)	(2,873)
Actuarial Gains (+) and Losses (-) from experience (c)	1,056	(43)	(762)	1,090
Financial Gains (+) and Losses (-) (d)	**(145)**	**375**	**(85)**	**709**
(c)/(a)	3.92%	,(16)%	2.97%	4.49%
(d)/(b)	,(64)%	1.61%	,(35)%	3.03%
Real Return on Plan Assets (%)	2.88%	0.92%	2.38%	6.70%
Real Return on Plan Assets	656	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:

a) Longevity Risk

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

b) Bond Interest Rate Risk

A decrease of the reference interest rate used as discount rate leads to increased liabilities, which can be mitigated in cases where there is a fund as a financing vehicle, by the exposure of the assets to the Bond segment.

c) Investment Risk

The main investment risks are the risk of the interest rate, credit risk, equity market risk and currency risk. The implications that the level of risk related to the investment policy may have on compliance with the minimum solvency of the fund, result from interest rate fluctuations, exposure to shareholders and alternative markets, resulting in a lower performance to the discount rate. The risk of interest rate fluctuation is the most relevant. In this particular case, since the portfolios are primarily invested in this asset class. This, together with the impact of risks which cannot be mitigated (e.g. variations of the population), increases the probability of necessary additional contributions (other than the current service cost) to maintain the solvency of the fund.

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

Asset / Liability management strategy used for risk mitigation

The fund's current investment strategy resulted from an alignment study between the financial asset and liabilities promoted by the Associate. The Associate collaborates with the Actuary in monitoring the adequacy of the financial assets that comprise the portfolio of the fund and the liabilities assumed by the pension plan.

The Fund management entity has software in which the investment restrictions established by the legislation in force at each moment are modeled. It has also modeled the restrictions arising from the Investment Policy agreed with the Associate. Since all assets in the portfolio are classified and framed in one or more groupings created for this purpose, daily deviations control reports are available automatically and the need for management adjustments is analyzed.

20. TRADE AND OTHER PAYABLES

20.1. Trade payables

Accounting policy

Trade payables and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective rate method. Usually, the amortised cost of these liabilities does not differ from their nominal value.

As of 31 December 2017 and 31 December 2016 the amounts recorded in the caption "Trade payables" were as follows:

unit: €k

	December 2017	December 2016
	10,360	**14,196**
Trade payables - current accounts	7,094	9,816
Trade payables - pending invoices	3,266	4,380

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

20.2. Other Payables

As at 31 December 2017 and of 31 December 2016 the non-current and current captions “Other payables” were detailed as follows:

unit: €k

Captions	Note	December 2017 Current	December 2017 Non-Current	December 2016 Current	December 2016 Non-Current
		35,765	**223,661**	**44,107**	**232,870**
State and Other Public Entities:		**5,960**	**-**	**5,489**	**-**
Value Added Tax payables		5,095	-	4,593	-
"ISP" - Tax on oil products		57	-	63	-
Personnel and Corporate Income Tax Withheld		345	-	357	-
Social Security contributions		461	-	474	-
Other taxes		2	-	2	-
Other creditors		**3,450**	**-**	**5,260**	**-**
Tangible and intangible assets suppliers		3,439	-	5,247	-
Trade receivables credit balances		7	-	9	-
Advances on sales		4	-	4	-
Other accounts payables		**1,063**	**-**	**927**	**-**
Personnel		34	-	71	-
Guarantee deposits and guarantees received		455	-	240	-
Other creditors		574	-	616	-
Accrued costs		**15,764**	**4,947**	**22,904**	**4,976**
External supplies and services		1,564	-	4,064	-
Holiday , holiday subsidy and corresponding contributions		2,578	-	2,486	-
Bonuses to employees		1,943	-	2,351	-
Accrued interest		2,316	-	2,317	-
Accrued insurance premiums		769	-	859	-
Adjustment to tariff deviation - regulated revenue - "ERSE" regulation	**14.2**	3,940	4,947	3,331	4,976
Adjustment to tariff deviation - other activities - "ERSE" regulation		2,527	-	5,093	-
Accrued personnel costs - others		125	-	125	-
Financial costs and losses		2	-	-	-
Other accrued costs		-	-	2,278	-
Deferred income:		**9,528**	**218,714**	**9,527**	**227,894**
Services rendered		-	-	-	-
Investment government grants		8,942	218,530	8,942	227,305
Optical fiber		404	184	402	589
Others		182	-	183	-

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 €227,472 k (Note 13).

Taking into consideration the consolidated results obtained by GGND Group, net income for the year includes an accrued cost of € 1,435 k, corresponding to employees' participation in earnings for the year, which is included in the current bonuses to employees in the amount of € 1,943 k.

21. PROVISIONS

Accounting policy

General

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 statement of financial position 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.

The changes in provisions in the year ended 31 December 2017 and 2016 were as follows:

unit: €k

Captions	Initial balance	Increases	Decreases	Ending balance
December 2017	**32,086**	**10,560**	**-**	**42,646**
Lawsuits	430	51	-	481
Energy sector extraordinary contribution	29,408	10,326	-	39,734
Other risks and charges	2,248	183	-	2,431
December 2016	**22,572**	**10,290**	**(776)**	**32,086**
Lawsuits	1,155	51	(776)	430
Energy sector extraordinary contribution	19,351	10,057	-	29,408
Other risks and charges	2,066	182	-	2,248

The increase in provisions, net of the decreases, in the year ended 31 December 2017 were as follows:

unit: €k

	Operating Costs Provisions	Energy sector extraordinary contribution	Total
December 2017	**234**	**10,326**	**10,560**
Other risks and charges (Note 7)	234	-	**234**
Energy sector extraordinary contribution (10.1)	-	10,326	**10,326**
December 2016	**(543)**	**10,057**	**9,514**
Other risks and charges (Note 7)	(543)	-	**(543)**
Energy sector extraordinary contribution (10.1)	-	10,057	**10,057**

Lawsuits

The provision for lawsuits amounts to € 481 k and includes mainly ongoing lawsuits.

Energy Sector Extraordinary Contribution - CESE

In the year ended 31 December 2017, the item provisions for the tax "Energy Sector Extraordinary Contribution" that the group is challenging, the amount of € 39,734 k corresponds to the total responsibility. This provision was increased in the amount of € 10,326 k recognised in income statement in the caption " Energy Sector Extraordinary Contribution " (Note 10).

Other risks and charges

As of 31 December 2017 the caption "Provisions – other risks and charges", amounting €2,431 k, mainly comprises:

- €2,427k 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 € 183 k concerns charges received during 2017.

22. RELATED PARTIES

Accounting policy

A related party is a person or entity related to the entity that is preparing its financial statements. (a) a person or an intimate member of your family is related to a reporting entity if: (i) you have joint control or control of the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent undertaking of that reporting entity; (b) an entity is related to a reporting entity if any of the following conditions is met: (i) the reporting entity and entity are members of the same reporting group (which implies that parent, subsidiary and subsidiary interrelated); (ii) an entity is associated with or constitutes a joint venture of the other entity (or is associated or constitutes a joint venture of a member of a group to which another entity belongs); (iii) both entities are joint ventures of the same third party; (iv) one entity represents a joint venture of the third entity and the other entity is associated with the third entity; (v) the entity is a post-employment benefit plan for the employees of the reporting entity or an entity related to the reporting entity. If a reporting entity is itself a plan of this type, the sponsoring employers are also related to the reporting entity; (vi) the entity is controlled or jointly controlled by a person identified in (a); (vii) a person identified in (a) (i) has significant influence over the entity or is a member of key management personnel of the entity (or a parent entity of the entity).

Balances and transactions with related parties in 2017 and 2016, respectively, were as follows:

Receivables

unit: €k

	2017			
		Current		
	Total related parties	Trade receivables	Other receivables (Note 14.2)	Accruals and deferrals
	23,055	**3,413**	**410**	**19,232**
Group companies (a)	23,017	3,380	405	19,232
Associates	38	33	5	-

(a) Caption Group Companies is comprised by companies from Galp Energia Group unit: €k

	2016				
	Total related parties	Non current	Current		
		Loans granted (Note 14.2)	Trade receivables	Loans granted (Note 14.2)	Accruals and deferrals
	30,953	**5,375**	**3,369**	**1,600**	**20,609**
Group companies (a)	25,571	-	3,369	1,600	20,602
Associates	5,382	5,375	-	-	7

(a) Caption Group Companies is comprised by companies from Galp Energia Group

Current and non-current loans granted to associates, joint ventures and related companies as of 31 December 2017 refer essentially to loans granted to the following entities:

Unit: €k

	Interest on loans granted (Note 9)
by Galp Gás Natural Distribuição, S.A.	**(47)**
to Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	(47)

Payables

unit: €k

	Total related parties	2017	
		Current	
		Trade payables	Accruals and deferrals
	3,489	**2,544**	**945**
Group companies (a)	3,480	2,535	945
Associates	9	9	-

(a) Caption Group Companies is comprised by companies from Galp Energia Group

unit: €k

	Total related parties	2016	
		Current	
		Trade payables	Accruals and deferrals
	2,689	**1,706**	**983**
Group companies (a)	2,676	1,706	970
Associates	13	-	13

(a) Caption Group Companies is comprised by companies from Galp Energia Group

Payable current income tax

The caption "Current Income Tax Payable" 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:

unit: €k

	Income tax (Note 10)
Galp Gás Natural Distribuição, S.A.	(4,750)
Lusitaniagás - Companhia de Gás do Centro, S.A.	(1,795)
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	(218)
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	(148)
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	(145)
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	5
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	112
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	2,703
	(4,236)

Transactions

unit: €k

	2017			
	Purchases	Operating costs	Operating Income	Financial Income (Note 9)
	2,288	**15,986**	**(90,294)**	**(47)**
Group companies (a)	2,288	15,786	(91,735)	-
Associates	-	83	1,441	(47)
Other related parties	-	117	-	-

(a) Caption Group Companies is comprised by Galp Energia Group companies

unit: €k

unit: €k

	2016				
	Purchases	Operating costs	Operating Income	Financial costs (Note 9)	Financial income (Note 9)
	3,132	**17,312**	**(120,322)**	**20,724**	**(367)**
Group companies (a)	3,132	17,003	(122,054)	20,717	-
Other related parties	-	309	1,732	7	(367)

(a) Caption Group Companies is comprised by Galp Energia Group companies

23. FINANCIAL AND RISK MANAGEMENT

Accounting policy

The Group has an organization and systems to identify, measure and control the different risks to which it is exposed and uses various financial instruments to hedge, in accordance with corporate guidelines common to the Group. The contracting of these instruments is centralised.

Risk Management

Galp Gás Natural Distribuição is mainly exposed to interest rate risk.

Market Risk

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 2017 and 2016. 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.

A summary of the sensitivity analysis for financial instruments reflected on the statement of financial position is presented below:

unit: €k

		2017					2016				
		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 the interest rate	+0.5%	630.406	(130)	(22)	-	-	642.808	(188)	(26)	-	-
	-0,5%		31	21	-	-		37	25	-	-
Applications - parallel shift in the interest rate (a)	+0.5%	2.350	7	5	-	-	3.500	10	7	-	-
	-0,5%		(3)	(2)	-	-		(5)	(4)	-	-

<u>Liquidity risk</u>

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. These credits can cover all loans that are repayable in 12 months. The available short term lines of credit that are not being used, amount to 70 million Euros as of 31 December 2017, and are sufficient to meet any immediate demand. In 2016 GGND Group had no short term credit lines available. In addition to these credits, the Group has approximately 17 million Euros of cash and cash equivalents, as stated in the statement of financial position, as of 31 December 2017, and 43 million Euros as of 31 December 2016, which combined with the credit facilities amounts to 87 million Euros of liquidity as of 31 December 2017.

Crédit 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.

Group GGND has no credit risk concentration (most of the clients are domestic, with no credit rating).

Impairment of accounts receivable is explained in Notes 13.1 and 13.2

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;
- Other insurances - covering vehicles, travel, etc.

24. CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities

As of 31 December 2017, the Company and its subsidiaries had the following contingent liabilities:

i) Several municipal councils are demanding payments (liquidations and executions) amounting to €674 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 2017 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:

unit: € k

Settled value	Subsoil occupation levies - current account interest	Amounts invoiced to customers	Recoverable amount (Note 14)
139,604	4,749	(109,807)	34,546

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

As of 31 December 2017, 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 2017, responsibilities with guarantees granted amounted to €13,216 k and included essentially the following:

i) Guarantees, undated, amounting to €7,648 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.;

ii) Guarantees of €3,054 k (of which €2,254 k are undated and €800 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

iii) Guarantees in the amount of € 1,826 k provided to municipal coucils, in the context of legal proceedings concerning the subsoil occupation rates;

iv) Guarantees provided in the amount of € 649 k in benefit of IP - Infraestruturas de Portugal, SA (former Estradas de Portugal), aiming to guarantee the obligations arising from the respective license for the installation of natural gas pipelines, parallels and road crossings.

25. FINANCIAL ASSETS AND LIABILITIES AT BOOK VALUE AND FAIR VALUE

Accounting policy

Fair Value Hierarchy

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

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

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

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

The carrying amount and fair value of the financial assets and liabilities presented in Statement of Financial Position are the same for most of the cases. However, due to difficulties in the settlement of the fair value, investments held-for-sale (which are equity instruments not admitted to listing on regulated markets) are recorded at acquisition cost as referred in the respective note. For the bond loans recognised in the Financial Position, their fair value is € 617,760 k as of 31 December 2017 and € 594,816 k as of 31 December 2016, and was measured based on observable market variables, so that the classification in the hierarchy of Fair Value is Level 2.

26. SUBSEQUENT EVENTS

Accounting policy

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.

There are no subsequent events for disclosure purposes.

27. IFRS STANDARDS ADOPTED AND TO BE ADOPTED

27.1. IFRS standards published by IASB

The IFRS standards published by the IASB, with accounting application foreseen in post-2017 exercises, as well as the approval status by the European Union (EU) are summarised in the following tables:

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

IAS Standard	IASB publishing date	Estimated EU approval date	Year to which it applies	Comments
Annual improvements in IFRS 2015-2017 cycle	12/DEC/2017	2018	2019	No estimated impact.
IFRS 17: Insurance contracts	18/MAY/2017	No estimate date	2021	Impact of the application of the norm still to be determined.
IFRIC 23: Uncertainty over Income Tax Treatments	07/JUN/2017	2018	2019	No relevant accounting impacts.
Amendments to IAS 28: Investments in associates and joint ventures	12/OCT/2017	2018	2019	No estimated impact.
Amendments to IFRS 9: Prepayment with negative compensation	12/OCT/2017	2018	2019	Predictable impact on those payments occur.
Amendments to IFRS 2: Shared-based Payment	20/JUN/2016	1st quarter 2018	2018	Not applicable.
Annual improvements in IFRS 2014-2016 cycle	08/DEC/2016	1st quarter 2018	2018	No relevant accounting impacts.
IFRIC 22: Foreign Currency Transactions and Advance Consideration	08/DEC/2016	1st quarter 2018	2018	No estimated impact.
Amendments to IAS 40: Investment Property	08/DEC/2016	1st quarter 2018	2018	No estimated impact.

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

IAS Standard	EU publishing date	Year to which it applies	Comments
IFRS 9: Financial Instruments	29/NOV/2016	2018	Impacts as detailed in Note 30.2.
Clarificação à IFRS 15: Réditos de contratos com clientes	09/NOV/2017	2018	Impacts as detailed in Note 30.2.
IFRS 15: Revenue from Contracts with Customers	29/OCT/2016	2018	Impacts as detailed in Note 30.2.
Amendments to IFRS 4: Insurance Contracts, in IFRS 9 application with IFRS 4	09/NOV/2017	2018	No estimated impact.
IFRS 16: Leases	09/NOV/2017	2019	Ongoing project in order to determine and evaluate accounting policies.

Standards and Interpretations published by IASB and approved by EU, which came into effect in 2017:

IAS Standard	EU publishing date	Year to which it applies	Comments
Amendments to IAS 7: Statement of Cash Flows	09/NOV/2017	2017	Impact on financial statement notes.
Amendments to IAS 12: Recognition of deferred tax assets	09/NOV/2017	2017	No impact.

Standards and Interpretation published by IASB but still not endorsed by the European Union:

Annual improvements in the IFRS cycle 2015-2017

- IAS 23 – Borrowing Costs

This improvement clarifies that specific loans obtained that still in place, after the qualifying assets to which they relate are in their use or sale condition should be added to the generic loans to determine the average capitalization interest rate on the other qualifying assets.

- IAS 12 – Income taxes

This improvement clarifies that the tax impacts of dividends are recognised on the date the entity recognizes the responsibility for the dividends payment, which are recognised in the income statement for the year, other comprehensive income or equity, depending on the transaction or event that gave rise to dividends.

- IFRS 3 - Business Combinations and IFRS 11 - Joint Arrangements

These improvements clarify that: (i) when gaining control over a business that is a joint venture, the interests held previously by the investor are remeasured at fair value; and (ii) where an investor in a joint venture, which does not exercise joint control, obtains joint control over a joint transaction that is a business, the interest held previously is not remeasured.

GGND considers that the amendments to IAS 23 intended to clarify the existing standard and have no material effects on the measurement or presentation of the accounts. With regard to the amendments to IAS 12, GGND stipulates that they will not have an accounting impact on the financial statements. As for the amendments to IFRS 3 and IFRS 11, GGND foresees that the amendments may have potential future impacts.

IFRS 17: Insurance Contracts

The standard applies to all entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation characteristics and is based on the current measurement of technical liabilities at each reporting date. Such measurement can be based on a complete building block approach or a simplified model (premium allocation approach).

As already provided in IFRS 4 - 'Insurance Contracts', financial guarantee contracts may be included under IFRS 17 as long as they are classified as insurance contracts. Fixed rate service contracts, whose objective is the provision of services, is the option in accounting according to IFRS 17 or IFRS 15 - ' Revenue from Contracts with Costumers'.

With the approval of the European Union, this standard will replace the current IFRS 4, which is being applied to the Group's insurance activity.

GGND considers that this amendment is not applicable to GGND financial statements.

IFRIC 23: uncertainty over income tax treatments

Interpretation aims to clarify how to apply the recognition and measurement requirements in IAS 12 - 'Income Tax' when there is uncertainty about the fiscal framework of a transaction.

In these situations, the entity shall make the best estimate and record the income tax assets or liabilities in accordance with IAS 12 - 'Income Tax', based on the expected value or the most probable amount and not in accordance with IAS 37 - 'Provisions, Liabilities and Contingent Assets'.

GGND considers that the interpretation has no accounting impact on the accounts, to the extent that GGND already accounts in accordance with such interpretation, already clarified in the accounting policy regarding tax provisions.

Amendments to IAS 28: Investments in Associates and Joint Ventures

The amendment seeks to clarify that an entity applies IFRS 9 - 'Financial instruments' to long-term investments in associated companies and joint ventures for which the equity method is not applied, either in registration forms and subsequently being subject to the "expected credit losses" model.

From this amendment it is not expected to have any foreseeable impacts on GGND financial statements.

Amendments to IFRS 9: Prepayment features with negative compensation

According to IFRS 9 published in November 2016, when an instrument does not pass the SPPI (Solely Payments of Principal and Interest) test, it should be measured at fair value through profit or loss. The amendment to IFRS 9 allows, subject to certain conditions, that in the case of prepayments with negative compensation, the condition of the SPPI is exceeded, and the instrument is measured at amortised cost.

GGND considers that these amendments will only have impacts when there are situations of early payments with negative compensations, however they are not recurring situations.

Amendments to IFRS 2 Share based payments

This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications to a share-based payment plan that change the classification of an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

This amendment has no accounting impact in GGND financial statements, has there are no share-based payment plans.

Annual improvements in the IFRS cycle 2014-2016

- IFRS 1 – First time adoption of IFRS

This improvement deletes the short term exemptions for IFRS 7, IFRS 10 and IAS 19 because they were no longer applicable, for first time adopters of IFRS.

- IFRS 12 – Disclosure of interest in other entities

The improvement clarifies the scope of application of the standard, specifying that disclosure requirements apply to share interests in entities covered by the standard (subsidiary, joint, associate and unconsolidated structured entities) that are held for sale or as discontinued operations, and that the only exemption relates to the disclosure of the summary of the financial information of these entities.

- IAS 28 – Investments in associates and joint ventures

This improvement clarifies that investments in associates or joint ventures held by a venture capital organization are allowed to be measured at fair value in accordance with IFRS 9, on a standalone basis. This improvement also clarifies that an entity that it is not an investment entity but holds investments in associates and joint ventures that are investment entities, is entitled to retain the fair value measurement of the associate's and joint venture's interest in its own subsidiaries.

GGND considers that the amendments referred above clarify the standards in force, not presenting relevant impacts on the measurement or presentation of financial statements.

IFRIC 22 Foreign currency transactions and advance consideration

This Interpretation intends to determine the date of transaction which determines the exchange rate used to translate the foreign currency transactions. The Interpretation is applied when an entity either pays or receives consideration in advance for foreign currency denominated contracts and defines that:

i) The transaction date, for determination of the Exchange rate, is the date of initial recognition of the non-financial asset or the non-financial liability resulting from the consideration in advance.

ii) If several payments or receipts in advance are noted, a date of transaction is established for each payment or receipt.

GGND considers that this Interpretation has no accounting impact in its financial statements, as GGND is already performing accounting in accordance with this Interpretation.

Amendments to IAS 40 Investment Property

This amendment clarifies when assets are transferred to, or from investment properties, the evidence of the change in use is required. A change of management intention in isolation is not enough to support a transfer.

GGND estimates that the amendment will not have an accounting impact on its financial statements.

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

IFRS 9 – Financial instruments

IFRS 9 replaces the guidance in IAS 39 - Financial Instruments: recognition and measurement, regarding:

(i) the classification and measurement of financial assets and liabilities, introducing a simplification in the classification based on the business model defined by the management;

(ii) the recognition of "own credit risk" in the fair value measurement of liabilities classified voluntarily as at fair value;

(iii) the recognition of credit impairment (through the expected credit losses model); and

(iv) the hedge accounting requirements and recognition on the business model defined by the management

Clarification to IFRS 15 Revenue from contracts with customers

The amendments refers to: (i) additional indications for determining the performance obligations of a contract, the timing of recognition of the proceeds of an intellectual property license; (ii) the revision of the indicators for the classification of the main versus agent relationship and (iii) the new arrangements envisaged to simplify the transition.

GGND considers that the new accounting policy provided for in this new standard and the accounting policy currently adopted by GGND does not have a material accounting impact on GGND financial statements.

IFRS 15 – Revenue from contracts with customers

This new 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, following a five step approach.

The estimated accounting impacts arising from the adoption of this new standard and the accounting policy currently followed by GGND will not be relevant.

Amendments to IFRS 4 Insurance Contracts, in the application of IFRS 9 and IFRS 4

In response to the volatility resulting from the application of IFRS 9 to insurance contracts under IFRS 4, these amendments allow two different solutions for insurance companies: a temporary exemption from IFRS 9 - 'Financial Instruments' for entities meeting requirements specific (applied at reporting entity level); and the "overlay approach".

Both the temporary exemption and the overlay approach will no longer apply when the new IFRS 17 - 'Insurance Contracts' policy comes into force, with insurance companies having the option to cease this exemption before that date.

GGND believes that these amendments will have no impact on the financial statements.

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.

In order to evaluate the impacts arising from the changes provided for in this standard, a project is currently underway based on the exhaustive analysis of all the contracts that underlie the "use" of an asset. GGND is still determining and quantifying the impacts of this new standard on its activities.

Standards, Amendments to Standards and Interpretations published by the IASB and approved by the EU, which entered into force in 2017:

IAS 7 – Statement of Cash Flows: Disclosures

Requires an entity to disclose information on the changes in liabilities related to the financing activity, namely:

(i) Changes in financing cash flows;

(ii) Changes arising from obtaining or losing control on subsidiaries or other businesses;

(iii) The effect of changes in exchange rates;

(iv) Changes in fair value; and

(v) Other changes.

The impact of this amendment on disclosures is presented in the notes to the accounts.

Amendments to IAS 12 – Income taxes

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

i) 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.

ii) The carrying amount of an asset does not limit the estimation of probable future taxable profits.

iii) Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

iv) 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.

This clarification had no impact on the deferred tax calculations and records made.

27.2. Changes in accounting policies by the introduction of new IFRS standards

As a result of the approval of IFRS 9 - 'Financial Instruments' and IFRS 15 - ' Revenue from Contracts with Customer ' by IASB, from January 1, 2018, GGND will begin to recognize the requirements of the new regulations .

IFRS 9 replaces IAS 39 - 'Financial Instruments: Recognition and Measurement' and introduces divisible changes into three major blocks:

- Classification and measurement - simplifies the classification in only three categories depending on the nature of the respective contractual cash flows and the business model associated with their holding (amortised cost, fair value through profit or loss and fair value through other comprehensive income);
- Hedge accounting - presents an approach based on principles, not so much on rules, whose main objective is to align hedge accounting with the entities' risk management practices;
- Impairment of financial assets - introduces a set of significant changes in the methodology for calculating and reporting impairment losses, changing the method of estimating losses from operations to the expected loss model where credit risk assessment is required since the initial recognition.

With respect to the transition from IAS 39 to IFRS 9 and in accordance with the possibility expressed in paragraph 7.2.15 of IFRS 9, GGND will apply the effects of this standard retrospectively to the cumulative effect on the initial application recognised as balance sheet adjustment of the retained earnings of the annual reporting period beginning on January 1, 2018.

The IFRS 15 defines a unique and robust model to be used by entities in recognizing revenue, improving comparability among companies, jurisdictions, industries and capital markets, by simplifying and improving information for readers of the financial statements.

In conceptual terms, IFRS 15 is distinguished essentially from the previous revenue standard, IAS 18, in the following respects:

- IFRS 15 is based on a single revenue recognition model applicable to all customer contracts, known as the 5-step model, rather than the 5 different revenue recognition models advocated by IAS 18 (goods, services, interest , royalties and dividends); and

- The IFRS 15 revenue recognition model is based on the concept of control, that is, recognition of revenue as control over goods and services is transferred to the customer, rather than the concept of significant transfer of risks and benefits advocated by IAS 18.

With its approval by the IASB and the European Union, this standard replaces the following standards / interpretations: IAS 11 - 'Construction Contracts', IAS 18 - 'Revenue', SIC 31 - 'Barter Transactions Involving Advertising Services' , IFRIC 13 - 'Customer Loyalty Programmes', IFRIC 15 - 'Agreements for the Construction of Real Estate' and IFRIC 18 - 'Transfers of Assets from Costumers'.

With respect to the transition from IAS 18 to IFRS 15 and in accordance with the possibility expressed in paragraph C3 of IFRS 15, Galp will apply the effects of this standard retrospectively to the cumulative effect of the initial application recognised as adjustment to the opening balance sheet of retained earnings from the annual reporting period beginning on 1 January 2018.

The accounting impacts deriving from IFRS 9 and 15 are not currently relevant in the GGND Group, and do not change the way in which revenue is recognised in the accounts of the Companies.

28. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 10 April 2018.

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.

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

ANNEX IV – INDIVIDUAL FINANCIAL STATEMENTS

FINANCIAL STATEMENTS 31 DECEMBER 2017

Galp Gás Natural Distribuição, S.A.

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STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2017 AND 31 DECEMBER 2016

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

ASSETS	Notes	2017	2016
Non-current assets:			
Intangible assets	12	626,915.52	260,570.05
Financial investments in subsidiary	4	163,416,250.29	163,148,930.90
Financial investments in associates	4	17,807,939.32	17,807,939.32
Other receivables	14	540,110,810.22	545,484,259.45
Deferred tax assets	9	12,048.99	930.83
Total non-current assets:		**721,973,964.34**	**726,702,630.55**
Current assets:			
Trade receivables	15	1,319,783.04	4,488,828.92
Other receivables	14	3,574,627.69	7,941,869.03
Cash and cash equivalents	18	3,563,683.12	34,194,001.24
Total current assets:		**8,458,093.85**	**46,624,699.19**
Total assets:		**730,432,058.19**	**773,327,329.74**

EQUITY AND LIABILITIES	Notes	2017	2016
Equity:			
Share capital	19	89,529,141.00	89,529,141.00
Other reserves	20	6,695,062.72	3,434,209.60
Retained earnings – remeasurement		(37,461.94)	(603.72)
Retained earnings		603.72	27.45
Net result for the year		25,480,869.59	65,217,062.29
Total equity attributable to shareholders:		**121,668,215.09**	**158,179,836.62**
Total equity:		**121,668,215.09**	**158,179,836.62**
Liabilities:			
Non-current liabilities:			
Bank loans	22	596,000,634.96	595,490,292.86
Post-employment and other employee benefits	23	53,551.00	4,137.00
Total non-current liabilities:		**596,054,185.96**	**595,494,429.86**
Current liabilities:			
Trade payables	26	1,075,260.93	1,301,442.83
Other payables	24	6,883,687.26	17,002,669.76
Current income tax payable	9	4,750,708.95	1,348,950.67
Total current liabilities:		**12,709,657.14**	**19,653,063.26**
Total liabilities:		**608,763,843.10**	**615,147,493.12**
Total equity and liabilities:		**730,432,058.19**	**773,327,329.74**

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

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

	Notes	2017	2016
Operating income:			
Services rendered	5	11,583,099.56	11,482,443.01
Other operating income	5	51,612.74	-
Total operating income:		**11,634,712.30**	**11,482,443.01**
Operating costs:			
External supplies and services	6	(3,725,728.72)	(4,940,722.05)
Personnel costs	6	(7,394,082.68)	(6,029,269.87)
Amortisation, depreciation and impairment loss on fixed assets	6	(51,149.92)	-
Other operating costs	6	(10,663.15)	(163.81)
Total operating costs:		**(11,181,624.47)**	**(10,970,155.73)**
Operating results:		**453,087.83**	**512,287.28**
Financial income	8	26,282,000.23	27,745,933.43
Financial costs	8	(9,194,153.89)	(23,259,459.74)
Exchange rate gains/(losses)	8	(4.73)	-
Financial investments gains/(losses) – associates, affiliates and related companies	4	12,674,070.58	61,527,637.44
Result before taxes:		**30,215,000.02**	**66,526,398.41**
Income tax	9	(4,734,130.43)	(1,309,336.12)
Net result for the year		**25,480,869.59**	**65,217,062.29**

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

	Notes	2017	2016
Net result for the year		**25,480,869.59**	**65,217,062.29**
Other comprehensive income for the year which will not be recycled in the future for net result of the year:			
Remeasurement	23	(47,559.00)	(779.00)
Remeasurement tax	9	10,700.78	175.28
		(36,858.22)	(603.72)
Gains and Losses recognised in Equity net of taxes		**25,444,011.37**	**65,216,458.57**
Total comprehensive income for the year		**25,444,011.37**	**65,216,458.57**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

Changes in the period	Notes	Share Capital (Note 19)	Other Reserves (Note 20)	Actuarial Gains and Losses	Retained Earnings	Total
Balance as of 1 January 2016		**89,529,141.00**	**2,985,727.80**	**793.99**	**8,969,636.08**	**101,485,298.87**
Net result for the year		-	-	-	65,217,062.29	65,217,062.29
Other Gains and Losses recognised in Equity		-	-	(603.72)	-	(603.72)
Comprehensive income for the year		-	-	(603.72)	65,217,062.29	65,216,458.57
Dividends distributed / Interim dividends		-	-	(8,521,920.82)	-	(8,521,920.82)
Increase of reserves by appropriation of profit		-	448,481.80	8,521,154.28	(8,969,636.08)	-
Balance as of 31 December 2016		**89,529,141.00**	**3,434,209.60**	**(576.27)**	**65,217,062.29**	**158,179,836.62**
Balance as of 1 January 2017		**89,529,141.00**	**3,434,209.60**	**(576.27)**	**65,217,062.29**	**158,179,836.62**
Net result for the year		-	-	-	25,480,869.59	25,480,869.59
Other Gains and Losses recognised in Equity		-	-	(36,858.22)	-	(36,858.22)
Comprehensive income for the year		-	-	(36,858.22)	25,480,869.59	25,444,011.37
Dividends distributed / Interim dividends	30	-	-	(61,955,632.90)	-	(61,955,632.90)
Increase of reserves by appropriation of profit		-	3,260,853.12	61,956,209.17	(65,217,062.29)	-
Balance as of 31 December 2017		**89,529,141.00**	**6,695,062.72**	**(36,858.22)**	**25,480,869.59**	**121,668,215.09**

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2017 AND 31 DECEMBER 2016

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

	Notes	2017	2016	
Operating activities:				
Cash received from customers		17,520,914.07	15,415,287.13	
Cash payments to suppliers		(6,597,770.37)	(4.052.329,98)	(a)
Payments relating to employees		(6,964,194.45)	(7.045.097,19)	(a)
(Payments)/ Receipts of income taxes		(1,308,279.53)	(328,967.85)	
Contributions to the pension fund	23	(17,030.01)	(3,797.93)	
Other (payments)/ Receipts relating to the operational activity		(3,124,947.74)	(1,413,203.27)	
Cash flows from operating activities (1)		**(491,307.03)**	**2,571,891.91**	
Investing activities:				
Receipts from:				
Interests and similar income		26,236,086.23	22,876,366.73	
Dividends	4	12,674,070.58	61,527,637.44	
Loans obtained		10,029,089.08	21,323,880.90	
		48,939,245.89	**105,727,885.07**	
Payments relating:				
Financial investments		(267,319.39)	(30,717.00)	
Tangible assets		(438,752.59)	(239,321.99)	
Loans obtained		(402,624.79)	(6,193,541.75)	
		(1,108,696.77)	**(6,463,580.74)**	
Cash flows from investing activities (2)		**47,830,549.12**	**99,264,304.33**	
Financing activities:				
Receipts from:				
Loans obtained		1,923,940.58	601,247,574.28	
		1,923,940.58	**601,247,574.28**	
Payments relating:				
Loans obtained		(9,318,760.11)	(633,406,575.61)	
Interests from loans obtained		(8,619,102.99)	(26,735,627.12)	
Dividends distributed	30	(61,955,632.95)	(8,521,920.82)	
		(79,893,496.05)	**(668,664,123.55)**	
Cash flows from financing activities (3)		**(77,969,555.47)**	**(67,416,549.27)**	
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		(30,630,313.38)	34,419,646.97	
Effect of exchange rate differences		(4.74)	-	
Cash and cash equivalents at the beginning of the year	18	34,194,001.24	(225,645.73)	
Cash and cash equivalents at the end of the year	18	3,563,683.12	34,194,001.24	

(a) – Reclassification between captions "Payments to suppliers" and "Payments relating to employees" relating to assigned personnel.

The accompanying notes form an integral part of the statement of cash flow for the year ended 31 December 2017.

1. INTRODUCTION

Galp Gás Natural Distribuição, S.A. ("Company") has its Head Office in Lisbon and was constituted in 2 December 2009 under the company Galp Gás Natural Distribuição, S.G.P.S., S.A., with the corporate business of managing other companies' shares. At April 1st 2015, by unanimous deliberation of the sole shareholder GDP Gás de Portugal, S.G.P.S., S.A., the Company changed its social name to the current one, Galp Gás Natural Distribuição, S.A., becoming its corporate business activities in the energy sector, particularly related to natural gas, including services rendering to business support, in management, administration and logistics, purchases and supply and information systems.

Its Head Office is in Lisbon, Tomás da Fonseca Torre C 1, 1600-209 Lisbon.

During the year ended 31 December 2016, the Company changed its shareholder structure and the position as of 31 December 2017 is detailed in Note 19.

Financial Statements are presented in Euro (functional currency), given that it is the currency preferably used in the economic environment in which the Company operates.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used by the Company to prepare the financial statements are explained below.

2.1. Basis of presentation

Company's financial statements were prepared on a going concern basis, at historical cost, except for financial derivative instruments which are stated at fair value on the accounting records of the Company maintained in accordance with International Financial Reporting Standards as adopted by the European Union, effective for the economic exercise beginning in 1 January 2017. 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 International Financial Reporting Interpretation Committee ("IFRIC") and Standing Interpretation Committee ("SIC"). These standards and interpretations are hereinafter referred to as "IFRS".

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

Standards, Amendments to Standards and Interpretations published by IASB and not yet approved by EU:

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

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

IAS Standard	Publishing date in EU	Date of accounting application	Comments
IFRS 9 Financial Instruments	29/NOV/2016	2018	No relevant accounting impacts.
IFRS 15 clarification: Revenue from Contracts with Customers	09/NOV/2017	2018	No relevant accounting impacts.
IFRS 15 Revenue from Contracts with Customers	29/OUT/2016	2018	No relevant accounting impacts.
Amendments to IFRS 4 Insurance contracts, applying IFRS 9 with IFRS 4	09/NOV/2017	2018	No estimated impact.
IFRS 16 Leasing	09/NOV/2017	2018	Ongoing project to determine and evaluate accounting impacts.

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

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

In the preparation of the financial statements were used estimates that affect the amounts of assets, liabilities, income and costs were used in preparing the accompanying financial statements. The estimates and assumptions used by the Board of Directors were based on the best information available regarding events and transactions in process at the time of approval of the financial statements.

The Company, for the elaboration and presentation of the financial statements, declares to be, explicitly and completely, according with the "IAS/IFRS" standards and respective interpretations "SIC/IFRIC", approved by the European Union.

2.2. Foreign currency balances and transactions

Transactions are recorded in the separate financial statements of subsidiaries in their functional currencies, at the exchange rates in force on the dates of the transactions.

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 income statement caption "Exchange gain / (loss)", except for those relating to non-monetary items, that are recorded directly in equity.

2.3. Income and accrual basis

Expenses and revenues are recorded in the corresponding period, independently of the date of payment or receipt. Expenses and revenues for whose real amount is unknown, Company uses estimations.

Under the captions "Other current assets" and "Other current liabilities" are recorded expenses and revenues of the current period and which receipt and payment will only occur in future periods, as well as receipts and payments already occurred but related to future periods and that are assigned to each periods income.

2.4. Financial costs on loans obtained

Financial costs on loans obtained are recorded as financial costs on an accruals basis.

2.5. Income tax

Income tax is calculated based on the taxable results of the Company in accordance with the applicable tax rules in force in Portugal.

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.

2.6. Financial instruments

Financial investments are accounted for at acquisition cost, deducted from impairment losses.

2.7. Retirement benefits

The Company has assumed the commitment to pay their employees' pension supplements for retirement due to age and pensions to survivors, in the exceeding part of social security contributions.

At the end of each reporting period the Company obtains 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 (Note 23).

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.

2.8. Other retirement benefits – defined contribution minimum benefit

The Company's costs with respect to 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 Company obtains actuarial valuations calculated by a specialised entity in accordance with the Projected Unit Credit Method and compares 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 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.

2.9. Financial instruments

Financial assets and liabilities are recorded in the statement of financial position when the Company becomes a contractual part of the financial instrument.

a) Investments

Investments are classified as follow:

- Held-to-maturity investments;
- Investments at fair value through profit and loss;
- Available-for-sale investments.

Held-to-maturity investments are classified as non-current investments, unless they mature in less than 12 months from the statement of financial position date, being recorded under this caption investments which have a defined maturity date and that the Group intends and has the ability to retain them up to their maturity.

Investments at fair value through profit or loss are classified as current investments.

Available-for-sale investments are classified as non-current assets.

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

Investments are initially recorded at cost, which is the fair value of the price paid, including transaction costs.

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

Gains and losses resulting from changes in the fair value of available-for-sale investments are recognized in the equity caption “Fair value reserve” until the investment is sold, redeemed or in some way disposed of, or until the fair value of the investment falls below cost over a long period, at which time the accumulated gain or loss is recorded in the income statement.

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

Held-to-maturity investments are recorded at amortized cost using the effective interest rate, net of repayments of principal and interest received.

b) Receivables

Receivables are recorded at fair value. At each financial statements' date, the amount is deducted of impairment losses, which are recognised under "Impairment losses on receivables", so that it reflects its net realisable value.

Usually, receivables arising from operating activity do not bear interests.

c) Equity and 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 as liabilities at their nominal received amount, net of issuance expenses pertaining to those loans.

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

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

e) Trade and other payable

Accounts payable are recorded at amortised cost. Usually amortised cost of such liabilities does not differ from its 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".

2.10. Classification in the statement of financial position

Assets realisable and liabilities payable in more than one year from the financial statements date are classified as non-current assets and non-current liabilities, respectively.

2.11. 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, if material, in the financial statements.

2.12. 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 current 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.

Provision for contingencies

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

3. COMPANIES INCLUDED IN CONSOLIDATION

Not applicable.

4. FINANCIAL INVESTMENTS

4.1. Financial investments in subsidiaries and joint-venture

Financial investments hold by the Company as of 31 December 2017 and 2016, were as following:

		Head Office		Percentage of interest held			
		City	Country	2017	2016	Main activity	Book Value
Subsidiary Companies:							
Beiragás - Companhia de Gás das Beiras, S.A.		Viseu	Portugal	59.60%	59.60%	Operation, construction and maintenance of local natural gas distribution network.	20,293,462.59
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.		Lisboa	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	986,859.89
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.		Vila Real	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	6,765,589.44
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.		Lisboa	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	47,285,389.85
Lusitaniagás - Companhia de Gás do Centro, S.A.	(a)	Aveiro	Portugal	96.93%	96.84%	Operation, construction and maintenance of local natural gas distribution network.	26,384,169.72
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.		Lisboa	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	1,072,656.89
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.		Lisboa	Portugal	100.00%	100.00%	Operation, construction and maintenance of local natural gas distribution network.	994,734.43
Setgás-Sociedade de Distribuição de Gás Natural, S.A.	(b)	Setúbal	Portugal	99.93%	99.93%	Operation, construction and maintenance of local natural gas distribution network.	59,633,387.48
							163,416,250.29
						Financial investments impairment	
							163,416,250.29

(a) During the year ended 31 December 2017, the Company acquired 18,631 shares of Subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A. by 88,497.25 Euro.

(b) During the year ended 31 December 2017, an adjustment to the equity acquisition price of 33.054% of Setgás, S.A., amounting 178,822.14 Euro, in favour of Enagás, S.G.P.S., S.A., as established by the purchasing contract between the Companies, dated 9 November 2015.

	Subsidiary's Financial Information				2017		2016	
	Total Assets	Total Liabilities	Equity	Net result of the year	%	Amount	%	Amount
Subsidiary Companies:								
Beiragás, S.A.	79,780,114.87	35,649,411.68	44,130,703.19	2,451,862.18	59.60%	26,301,899.10	59.60%	26,022,785.64
Dianagás, S.A.	15,025,541.93	13,748,838.93	1,276,703.00	224,918.18	100.00%	1,276,703.00	100.00%	1,316,399.08
Duriensegás, S.A.	39,907,790.95	33,576,696.90	6,331,094.05	467,850.00	100.00%	6,331,094.05	100.00%	6,735,300.07
Lisboagás GDL , S.A.	579,866,962.45	467,075,623.00	112,791,339.45	8,525,732.82	100.00%	112,791,339.45	100.00%	108,524,186.88
Lusitaniagás, S.A.	302,418,944.98	236,223,260.20	66,195,684.78	3,645,019.01	96.93%	64,163,477.26	96.84%	60,526,912.61
Medigás, S.A.	20,310,833.05	19,069,780.41	1,241,052.64	139,230.62	100.00%	1,241,052.64	100.00%	1,378,941.69
Paxgás, S.A.	6,326,751.86	5,268,820.82	1,057,931.04	7,496.27	100.00%	1,057,931.04	100.00%	1,162,943.98
Setgás, S.A.	171,842,892.30	136,318,323.77	35,524,568.53	1,792,142.39	99.93%	35,500,767.07	99.93%	35,009,899.53
	1,215,479,832.39	**946,930,755.71**	**268,549,076.68**	**17,254,251.47**		**248,664,263.61**		**240,677,369.48**

During the years ended 31 December 2017 and 2016, the movements of the caption "Financial investments gains / (losses) - associates, affiliates and related companies", were as follows:

	2017	2016
Dividends:		
Subsidiary companies:		
Lusitaniagás - Companhia de Gás do Centro, S.A.	-	6,895,789.49
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	4,800,000.00	5,500,000.00
Beiragás - Companhia de Gás das Beiras, S.A.	1,191,862.00	1,190,093.53
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	266,399.08	1,153,344.79
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	278,941.69	449,489.45
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	112,943.98	107,553.59
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	1,299,133.33	44,970,000.00
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	875,016.52	1,261,366.59
	8,824,296.60	**61,527,637.44**
Investments in associates and joint ventures:		
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	3,849,773.98	-
	3,849,773.98	**-**
	12,674,070.58	**61,527,637.44**

4.2. Investments in associates

Investments in associates, their head offices and the percentage or interest held as of 31 December 2017 and 2016 are as follows:

	Head Office		Percentage of interest held		
Companies	**City**	**Country**	**2017**	**2016**	**Book Value**
Associated companies:					
Tagusgás-Empresa de Gás do Vale do Tejo, S.A.	Cartaxo	Portugal	41.33%	41.33%	17,807,939.32
					17,807,939.32

	31 December 2017			2017		2016	
	Head Office	Equity	Net Result	%	Amount	%	Amount
Tagusgás-Empresa de Gás do Vale do	Santarém	27,970,556.00	1,387,127.00	41.33%	11.560.230,79	41.33%	15,059,474.32
					11.560.230,79		15,059,474.32

5. OPERATING INCOME

The Company's operating income for the years ended 31 December 2017 and 2016 is as follows:

CAPTIONS	2017	2016
Services Rendered:		
Internal Market	11,583,099.56	11,482,443.01
	11,583,099.56	11,482,443.01
Other operating income:		
Other	51,612.74	-
	51,612.74	-
	11,634,712.30	11,482,443.01

During the years ended 31 December 2017 and 2016, the Company rendered services to other group companies, amounting 11,583,099.56 Euro and 11,482,443.01 Euro, respectively (Note 28).

6. OPERATING COSTS

As of 31 December 2017 and 2016, operating costs presents the following detail:

CAPTIONS	2017	2016
External supplies and services		
Other specialised services	1,825,052.58	3,126,944.82
Travel and accommodation	328,957.37	221,296.60
Other costs	284,656.69	282,521.17
Rental costs	263,970.21	219,394.63
IT Services	243,488.24	245,096.59
Fees	201,534.29	35,827.00
Communication	143,588.54	155,428.88
Marketing and Communication	127,704.22	277,376.44
Fuel	117,272.59	106,636.05
Surveillance and Security	58,749.96	3,213.92
Juridical Services	47,911.42	143,423.04
Insurance	41,516.49	51,188.24
Legal services	14,813.18	2,936.77
Maintenance and repairs	8,603.26	3,372.74
Office materials	8,440.58	7,919.67
Gifts	4,741.50	4,911.62
Studies and projects	4,171.77	40,247.09
Personnel transportation	231.99	-
Books and technical documentation	147.50	420.98
Cleaning, hygiene and comfort	140.60	52.22
Tools	35.74	220.37
Representational expenses	-	12,293.21
	3,725,728.72	**4,940,722.05**
Personnel costs		
Statutory board salaries (Note 29)	437,558.12	134,352.37
Employee salaries	6,663,974.60	5,690,685.23
Social charges	163,680.91	43,561.84
Retirement benefits - pensions and insurance (Note 23)	16,866.57	5,215.49
Other insurances	31,646.75	11,153.61
Other costs	80,355.73	144,301.33
	7,394,082.68	**6,029,269.87**
Amortisation, depreciation and impairment on fixed assets	51,149.92	-
Amortisation and impairment of intangible assets (Note 12)	**51,149.92**	-
Other operating costs		
Other taxes	8,656.77	144.75
Other operating costs	2,006.38	19.06
	10,663.15	**163.81**
	11,181,624.47	**10,970,155.73**

7. SEGMENT REPORTING

Not applicable.

8. FINANCIAL INCOME AND COSTS

Financial income and financial costs for the years ended 31 December 2017 and 2016 are as follows:

CAPTIONS	2017	2016
Financial income:		
Interest with related companies (Note 28)	26,282,000.23	27,745,933.43
	26,282,000.23	**27,745,933.43**
Financial costs:		
Interest with related companies (Note 28)	-	(20,716,822.62)
Other interests	(8,250,103.13)	(2,315,406.74)
Interest net of retirement benefits and other benefits (Note 23)	(93.00)	(47.00)
Commissions	(943,957.76)	(227,183.38)
	(9,194,153.89)	**(23,259,459.74)**

9. INCOME TAXES

Since 31 December 2000, the Company is 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.. However, estimated income tax of the Company is accounted based on its tax results, which at 31 December 2017 and 31 December 2016 represents a payable income tax to Galp Energia, S.G.P.S., S.A., amounting to 4,750,708.95 Euro and 1,348,950.67 Euro, respectively, and was calculated as follows:

CAPTIONS	2017	2016
Current tax	4,775,218.95	1,382,490.67
Tax withholding	(24,510.00)	(33,540.00)
	4,750,708.95	**1,348,950.67**

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 (five years for Social Security). Therefore, tax returns concerning the years from 2014 to 2017 can still be subject to review.

The Board of Directors understands that corrections arising from revisions/inspections by fiscal authorities to those tax returns will not have a significate impact over the financial statement as of 31 December 2017 and 2016.

Recognised income tax for the year ended 31 December 2017 and 2016 are as follows:

CAPTIONS	2017	2016
Current income tax	4,775,218.95	1,382,490.67
(Excess)/Insufficiency of income tax for the preceding years	(40,671.14)	(72,820.65)
Corrections from preceding years	(417.38)	(333.90)
	4,734,130.43	**1,309,336.12**

Below is a reconciliation of the income tax for the years ended 31 December 2017 and 2016:

	2017	Rate	Income tax	2016	Rate	Income Tax
Result before taxes:	30,215,000.02	21.00%	6,345,150.00	66,526,398.41	21.00%	13,970,543.67
Adjustments to taxable income:						
Received dividends		(8.81)%	(2,661,554.82)		(19.42)%	(12,920,803.86)
(Excess)/Insufficiency of income tax of the preceding year		(0.13)%	(40,671.14)		(0.11)%	(72,820.65)
Local State Tax		2.27%	685,927.16		0.16%	105,031.29
Municipal Tax		0.87%	264,278.15		0.11%	75,015.65
Autonomous taxation		0.41%	125,119.56		0.23%	152,224.69
Other accruals and deductions		0.05%	15,881.52		-	145.33
Income tax and rate		**15.67%**	**4,734,130.43**		**1.97%**	**1,309,336.12**

Deferred Taxes

As of 31 December 2017 and 2016, the balance of deferred tax assets and liabilities is as follows:

	Assets	
	2017	2016
Retirement benefits	12,048.99	930.83
	12,048.99	**930.83**

The changes in the caption "Deferred taxes" in the years ended 31 December 2017 and 2016 are justified as follows:

	Assets	
	2017	2016
Initial Balance	**930.83**	**421.65**
Effect in results:		
Retirement benefits	417.38	333.90
	1,348.21	**333.90**
Effect in Equity:		
Retirement benefits	10,700.78	175.28
Final Balance	**12,048.99**	**930.83**

10. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2017 and 2016 are as follows:

	2017	2016
Results:		
Net result for purposes of calculating earnings per share (net result of the period)	25,480,869.59	65,217,062.29
Number of shares		
Weighted average number of shares for purposes of calculation earnings per share (Note 19)	89,529,141	89,529,141
Basic earnings per share (amounts stated in Euro):	**0.28**	**0.73**

The diluted earnings per share are equal to basic earnings per share, since there are no situations that give rise to dilution.

11. GOODWILL

Not applicable.

12. INTANGIBLE ASSETS

The changes in the caption in the year ended in 31 December 2017 and 2016 are justified as follows:

Intangible assets	2017		
	Industrial property and other rights	**Intangible assets in progress**	**Total intangible assets**
Acquisition cost:			
Balance as of 01 January 2017	-	260,570.05	260,570.05
Additions	353,229.02	64,266.37	417,495.39
Transfers	260,570.05	(260,570.05)	-
Gross acquisition cost as of 31 December 2017	**613,799.07**	**64,266.37**	**678,065.44**
Accumulated amortisations and impairment losses:			
Balance as of 01 January 2017	-	-	-
Amortisations for the year (Note 6)	(51,149.92)	-	(51,149.92)
Balance as of 31 December 2017	**(51,149.92)**	-	**(51,149.92)**
Net Amount:			
As of 31 December 2017	**562,649.15**	**64,266.37**	**626,915.52**

Intangible assets	**2016**	
	Intangible assets in progress	**Total intangible assets**
Acquisition costs:		
Balance at 1 January 2016	-	-
Additions	260,570.05	260,570.05
Balance at 31 December 2016	**260,570.05**	**260,570.05**

13. GOVERNMENT GRANTS

Not applicable.

14. OTHER RECEIVABLES

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

	2017		**2016**	
Captions	**Current**	**Non-current**	**Current**	**Non-current**
Loans to associates, joint ventures and other related parties (Note 28)	1,970,638.92	540,108,664.38	6,217,864.12	545,483,565.03
Advances to suppliers	10,000.00	-	12,556.34	-
Personnel	136.47	-	438.81	-
Other receivables (Note 28)	9,642.50	-		
Other receivables	609.47	-	39,764.84	-
	1,991,027.36	540,108,664.38	6,270,624.11	545,483,565.03
Accrued income:				
Accrued interest (Note 28)	1,138,024.41	-	1,153,446.49	-
	1,138,024.41	-	1,153,446.49	-
Deferred charges:				
Prepaid insurance	15,887.44	-	12,960.79	-
Other deferred costs	429,688.48	2,145.84	504,837.64	694.42
	445,575.92	2,145.84	517,798.43	694.42
	3,574,627.69	540,110,810.22	7,941,869.03	545,484,259.45
Impairment of other receivables	-	-	-	-
	3,574,627.69	**540,110,810.22**	**7,941,869.03**	**545,484,259.45**

15. TRADE RECEIVABLES

As of 31 December 2017 and 2016, this caption includes amounts related to other group companies (Note 28).

CAPTIONS	2017	2016
	Current	
Trade receivables – current account (Note 28)	1,319,783.04	4,488,828.92
	1,319,783.04	**4,488,827.92**

The following is an ageing schedule of trade receivables as of 31 December 2017 and 2016:

Ageing Trade Receivables	Not overdue	Overdue up to 90 days	Total
2017			
Gross amount	1,317,460.63	2,322.41	1,319,783.04
Impairments	-	-	-
	1,317,460.63	2,322.41	1,319,783.04
2016			
Gross amount	4,488,038.38	790.54	4,488,828.92
Impairments	-	-	-
	4,488,038.38	790.54	4,488,828.92

16. INVENTORIES

Not applicable.

17. OTHER FINANCIAL INVESTMENTS

Not applicable.

18. CASH AND CASH EQUIVALENTS

As of 31 December 2017 and 2016, the caption "Cash and cash equivalents" presented the following detail:

	2017	2016
Cash Deposits	3,563,683.12	34,194,001.24
Cash and cash equivalents in the statement of financial position	**3,563,683.12**	**34,194,001.24**
Cash and cash equivalents in the statement of cash flow	**3,563,683.12**	**34,194,001.24**

19. SHARE CAPITAL

Capital Structure

As of 31 December 2017 and 2016, the Company's share capital, amounting 89,529,141.00 Euro, is represented by 89,529,141 shares with a nominal value of 1.00 Euro each and entirely subscripted and realised by:

2017

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

2016

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

20. OTHER 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 cannot 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.

As of 31 December 2017 and 2016, the caption is detailed as follows:

	2017	2016
Legal Reserves	6,695,062.72	3,434,209.60
	6,695,062.72	**3,434,209.60**

21. NON-CONTROLLING INTERESTS

Not applicable.

22. LOANS

Detail of loans

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

	2017	2016
	Non-Current	Non-Current
Bond loans:		
Notes	600,000,000.00	600,000,000.00
	600,000,000.00	600,000,000.00
Origination Fees	(3,999,365.04)	(4,509,707.14)
	596,000,634.96	595,490,292.86
	596,000,634.96	**595,490,292.86**

Details of main loans

Revolving Credit Facility

As of 31 December 2017, Galp Gás Natural Distribuição, S.A. contracted a Revolving Credit Facility, with a firm underwriting commitment amounting 50,000 K Euro and maturity over 4 years. The amount is fully available as of 31 December 2017.

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.

Under the program (EMTN), a set of Financial Covenants were defined in order increase the protection of GGND Group's creditors. Such covenants - Net Debt/EBITDA (ND/E) and Debt Service Coverage Ratio (DSCR) have two limits – one in lock-up event and other in event of default:

Financial Covenants	2017
Net Debt / EBITDA	5.8x
Debt Service Coverage Ratio	5.9x

As of 31 December 2017 the mentioned covenants are in compliance.

23. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS

As mentioned in Note 2.7. and 2.8. the Company assumed liabilities with retirement benefits.

As of 31 December 2017 and 2016 the Company registered the following amounts relating liabilities with retirement and other benefits:

Captions	2017	2016
Defined contribution plan minimum benefit	(53,551.00)	(4,137.00)
	(53,551.00)	**(4,137.00)**

As of 31 December 2017 and 2016 the Company registered in equity the following amounts relating liabilities with retirement and other benefits:

Captions	2017	2016
Defined contribution plan minimum benefit	48,338.00	779.00
Subtotal	**48,338.00**	**779.00**
Deferred tax (Note 9)	(175.28)	(175.28)
Total	**48,162.72**	**603.72**

Other retirement benefits - life insurance and minimum benefit defined contribution plan (disability and survival)

As mentioned in Note 2.7 and 2.8, the Company has registered at 31 December 2016 a provision to cover its 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:

	Defined contribution plan minimum benefit	
	2017	**2016**
Assumptions		
Technical interest rate	2.25%	2.25%
Rate of increase in salaries	1.00%	1.00%
Rate of increase in pensions	0.00%	0.00%
Current personnel and pre-retirees mortality table	INE 2009-2011	INE 2009-2011
Retired personnel mortality table	GKF95	GKF95
Disability table	EVK 80 - 50%	EVK 80 - 50%
Common age for retirement	66 years or 65 years if at least with 43 years of discounts to S.S. at 65	66 years or 65 years if at least with 43 years of discounts to S.S. at 65
Method	Projected credit unit	Projected credit unit
Changes in past service liability (PSL)		
PSL at the end of the previous year	4,137.00	1,874.00
Current service cost	1,762.00	1,437.00
Interest cost	93.00	47.00
Actuarial (gain) / loss	47,559.00	779.00
PSL at the end of the current year	53,551.00	4,137.00
Reconciliation to the Statement of Financial Position		
(Gains) / losses recognized at the beginning of the year - Asset/(Liability)	(4,137.00)	(1,874.00)
Net cost of the year	(1,855.00)	(1,484.00)
Gains / (losses) recognized – through Comprehensive Income	(47,559.00)	(779.00)
Total recognized at year end - Assets / (Liabilities)	(53,551.00)	(4,137.00)
Net cost of the year		
Current service cost	1,762.00	1,437.00
Interest cost	93.00	47.00
Net cost of the year	1,855.00	1,484.00
Reconciliation of gains and loss recognized- through Comprehensive Income		
Cumulative (Gains) / losses recognized at the beginning of the year	779.00	-
Changes in the "asset ceiling" effect	47,559.00	(295.00)
(Gains) / losses from actuarial experience	-	1,074.00
Cumulative (Gains) / losses recognized at the end of the year	48,338.00	779.00

The amount of 16,866.57 Euro under "Personnel costs" in the income statement (Note 6) is detailed as follows: (i) current service costs in a total amount of 1,762.00 Euro e (ii) 15,104.57 Euro related to benefit defined contribution.

Interest cost, in a total amount of 93.00, was recorded by the Company under "Other interest" in the income statement (Note 8).

Sensitivity analysis

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:

Liabilities	**Discount Rate 2.25%**	**Discount Rate 2.00%**	**Variation**
Other benefits:			
Defined contribution plan minimum	53,551.00	54,257.00	1.32%
	53,551.00	**54,257.00**	

The sensitivity analysis performed, demonstrates that a 1% increase in the discount rate, *ceteris paribus*, implies the followed decrease in past service liabilities:

Liabilities	**Percentage**
Other benefits:	
Defined contribution plan minimum benefit	(5.27)%

A sensitivity analysis was performed in order to measure the impact on liabilities caused by a change in the salary/pension growth. For this purpose a positive variation of 100 b.p. in the salary/pension growth was considered:

Liabilities	**Rate 1%**	**Rate 2%**	**Variation**
Other benefits:			
Defined contribution plan minimum	53,551.00	57,700.00	7.75%
	53,551.00	**57,700.00**	

24. OTHER PAYABLES

As of 31 December 2017 and 2016 the caption "Other payables" is detailed as following:

	Current	
Captions	**2017**	**2016**
State and other public entities:		
Value Added Tax payable	316,103.49	996,465.30
Income Tax Withheld to third parties	12,141.00	10,674.00
Social Security	18,372.36	26,914.91
Loans - Associates, affiliates and related companies (Note 28)	3,306,766.79	10,737,209.58
Personnel	-	1,120.22
Other creditors	121.75	-
	3,653,505.39	11,772,384.01
Accrued costs:		
External supplies and services	130,637.05	2,086,379.53
External supplies and services (Note 28)	158,472.63	177,988.80
Accrued interest	2,314,583.33	2,314,583.33
Holiday , holiday subsidy and corresponding contributions	112,491.76	76,185.16
Productivity bonuses (Note 28)	450,239.58	543,214.92
Productivity bonuses	43,090.32	22,858.32
Short and long-term incentives	1,863.45	-
Accrued insurance premiums	18,803.75	9,075.69
	3,230,181.87	5,230,285.75
	6,883,687.26	**17,002,669.76**

25. PROVISIONS

Not applicable.

26. TRADE PAYABLES

As of 31 December 2017 and 2016 the caption "Trade payables" was detailed as follows:

Captions	2017	2016
Trade payables – current accounts	957,507.69	1,160,265.67
Trade payables – pending invoices	117,753.24	141,177.16
	1,075,260.93	**1,301,442.83**

27. OTHER FINANCIAL INSTRUMENTS – FINANCIAL DERIVATIVES

Not applicable.

28. RELATED PARTIES

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

Receivables	2017					
		Non-Current	Current			
Companies	Total Related Parties	Granted Loans (Note 14)	Trade Receivables (Note 15)	Granted Loans (Note 14)	Other Receivables (Note 14)	Accruals and Deferrals (Note 14)
Lisboagás GDL , S.A.	253,981,891.20	252,165,731.63	925,594.63	360,680.68	-	529,884.26
Lusitaniagás, S.A.	149,355,206.55	148,626,674.72	416,217.64	-	-	312,314.19
Setgás, S.A.	89,605,128.36	87,609,341.19	303,916.18	1,504,698.50	-	187,172.49
Duriensegás, S.A.	22,470,410.45	22,505,026.50	(81,906.61)	-	-	47,290.56
Medigás, S.A.	14,254,031.53	14,330,667.88	(106,749.86)	-	-	30,113.51
Dianagás , S.A.	10,368,887.02	10,212,856.56	29,310.10	105,259.74	-	21,460.62
Tagusgás, S.A.	33,775.00	-	28,700.00	-	5,075.00	-
Paxgás, S.A.	4,596,953.46	4,658,365.89	(71,201.21)	-	-	9,788.78
Beiragás, S.A.	(119,530.33)	-	(124,097.83)	-	4,567.50	-
	544,546,753.24	**540,108,664.38**	**1,319,783.04**	**1,970,638.92**	**9,642.50**	**1,138,024.41**

The amount of 540,108,664.38 Euro under "Loans granted – non-current" to subsidiaries bear interest at market rate and have no reimbursement date defined. The Board of Directors believes that the amounts will not be reimbursed in 2018 and, for that reason, are qualified as non-current.

The amount of 1,970,638.92 Euro under "Loans granted – current" to subsidiaries refers to Cash Pooling with those Companies.

The amount of 1,138,024.41 Euro under "Income accrual – current", refers to interests from loans granted to subsidiary companies, which overdue during 2017 and are to be capitalised during 2018 (Note 14).

Receivables	2016				
		Non-Current	Current		
Companies	Total Related Parties	Granted Loans (Note 14)	Trade Receivables (Note 15)	Granted Loans (Note 14)	Accruals and Deferrals (Note 14)
Lisboagás GDL , S.A.	255,852,958.47	252,165,731.63	3,151,178.53	-	536,048.31
Lusitaniagás, S.A.	153,300,258.80	148,626,674.72	481,109.71	3,876,527.09	315,947.28
Setgás, S.A.	90,281,900.73	87,609,341.19	240,314.71	2,240,711.34	191,533.49
Duriensegás, S.A.	22,674,069.82	22,505,026.50	121,202.64	-	47,840.68
Medigás, S.A.	14,457,219.62	14,330,667.88	96,087.92	-	30,463.82
Dianagás , S.A.	10,503,368.36	10,212,856.56	209,824.35	58,977.19	21,710.26
Tagusgás, S.A.	5,359,675.66	5,374,900.66	-	-	-
Paxgás, S.A.	4,757,304.96	4,658,365.89	47,387.92	41,648.50	9,902.65
Beiragás, S.A.	141,723.14	-	141,723.14	-	-
	557,343,705.56	**545,483,565.03**	**4,488,828.92**	**6,217,864.12**	**1,153,447.49**

The amount of 545,483,565.03 Euro under "Loans granted – non-current" to subsidiaries bear interest at market rate and have no reimbursement date defined. The Board of Directors believes that the amounts will not be reimbursed in 2018 and, for that reason, are qualified as non-current.

The amount of 6,217,864.12 Euro under "Loans granted – current" to subsidiaries refers to Cash Pooling with those Companies.

The amount of 1,153,447.49 Euro under "Income accruals – current" refer to interests from loans granted to subsidiary companies, which overdue during 2016 and were capitalised during 2017 (Note 14).

Payables	2017				
		Current			
Companies	Total Related Parties	Trade payables	Loans obtained (Note 24)	Payable Tax (Note 9)	Accruals and Deferrals (Note 24)
Galp Energia, SGPS, S.A.	4,750,708.95	-	-	4,750,708.95	-
Lusitaniagás, S.A.	1,669,439.64	82,150.43	1,504,666.09	-	82,623.12
Duriensegás, S.A.	1,054,841.99	5,033.77	1,044,633.82	-	5,174.40
Medigás, S.A.	615,298.16	-	615,298.16	-	-
Lisboagás GDL, S.A.	505,896.43	290,239.67	-	-	215,656.76
Galp Energia, S.A.	418,775.85	385,075.11	-	-	33,700.74
GDP-Gás de Portugal, S.A.	194,822.31	42,823.26	-	-	151,999.05
Paxgás, S.A.	142,168.72	-	142,168.72	-	-
Setgás, S.A.	142,049.77	68,815.35	-	-	73,234.42
Petrogal, S.A.	63,354.12	39,690.48	-	-	23,663.64
Beiragás, S.A.	26,805.37	13,793.89	-	-	13,011.48
Galp Gás Natural, S.A.	23,037.80	16,719.32	-	-	6,318.48
Dianagás, S.A.	5,183.41	1,853.29	-	-	3,330.12
				-	
	9,612,382.52	**946,194.57**	**3,306,766.79**	**4,750,708.95**	**608,712.21**

The amount of 3,306,766.79 Euro under "Loans obtained – current" to subsidiaries refers to Cash Pooling with those Companies.

Regarding the amount of 608,712.21 Euro, 158,472.63 Euro refers to external services and supplies to be invoiced to group companies and 450,239.58 Euro relates to productivity bonuses to be invoiced to subsidiary companies (Note 24).

Payables	**2016**				
	Current				
Companies	**Total Related Parties**	**Trade payables (Note 26)**	**Loans obtained (Note 24)**	**Payable Tax (Note 9)**	**Accruals and Deferrals (Note 24)**
Lisboagás GDL, S.A.	9,838,098.19	279,801.52	9,318,760.11	-	239,536.56
Galp Energia, SGPS, S.A.	1,348,950.67	-	-	1,382,490.67	-
Duriensegás, S.A.	941,749.12	5,065.66	928,843.50	-	7,839.96
Galp Energia, S.A.	653,769.16	550,959.78	-	-	102,809.38
Medigás, S.A.	489,605.97	-	489,605.97	-	-
Lusitaniagás, S.A.	203,901.92	72,421.16	-	-	131,480.76
Setgás, S.A.	142,510.49	64,317.05	-	-	78,193.44
GDP-Gás de Portugal, S.A.	132,175.11	25,233.25	-	-	106,941.86
Petrogal, S.A.	58,223.24	39,611.24	-	-	18,612.00
Beiragás, S.A.	41,744.36	13,794.56	-	-	27,949.80
Galp Gás Natural, S.A.	14,117.97	6,278.01	-	-	7,839.96
	13,864,846.20	**1,057,482.23**	**10,737,209.58**	**1,382,490.67**	**721,203.72**

The amount of 10,737,209.58 Euro under "Loans obtained – current" to subsidiaries refers to Cash Pooling with those Companies.

Regarding the amount of 721,203.72 Euro, 177,988.80 Euro refers to external services and supplies to be invoiced to group companies and 543,214.92 Euro relates to productivity bonuses to be invoiced to subsidiary companies (Note 24).

Transactions	**2017**				
Companies	**External Supplies and Services**	**Personnel Costs Incurred**	**Operating Income (Note 5)**	**Personnel Costs Charged**	**Financial Costs (Note 8)**
Lisboagás GDL, S.A.	-	3,610,357.93	(7,494,323.59)	-	(12,153,284.61)
Lusitaniagás, S.A.	-	996,823.22	(1,371,696.29)	-	(7,198,068.32)
Setgás, S.A.	-	896,620.55	(761,215.07)	-	(4,386,371.09)
Duriensegás, S.A.	-	66,609.63	(197,308.39)	-	(1,084,637.88)
Galp Energia, S.A.	1,134,321.00	261,500.12	-	-	-
Medigás, S.A.	-	-	(122,741.63)	-	(690,671.71)
Dianagás, S.A.	-	24,593.17	(476,159.32)	-	(496,484.65)
Tagusgás , S.A.	-	-	(279,999.96)	(60,000.00)	(47,299.13)
Beiragás, S.A.	-	165,432.40	(871,781.70)	(54,000.00)	-
Petrogal, S.A.	112,692.46	300,963.40	-	-	-
Paxgás, S.A.	-	-	(47,573.61)	-	(225,182.84)
GDP-Gás de Portugal, S.A.	797,402.50	-	-	(13,315.84)	-
Galp Gás Natural, S.A.	-	199,372.95	-	-	-
Galp Energia España, S.A.	476.32	-	-	-	-
	2,044,892.28	**6,522,273.37**	**(11,622,799.56)**	**(127,315.84)**	**(26,282,000.23)**

Transactions	2016					
Companies	**External Supplies and Services**	**Personnel Costs Incurred**	**Operating Income (Note 5)**	**Personnel Costs Charged**	**Financial Costs (Note 8)**	**Financial Income (Note 8)**
Galp Gas & Power,S.G.P.S., SA	-	(46,770.70)	-		20,716,822.62	-
Lisboagás GDL, S.A.	-	3,186,523.25	(7,355,819.34)		-	(12,867,421.24)
Lusitaniagás, S.A.	-	1,125,437.48	(1,123,057.40)		-	(7,412,799.19)
Setgás, S.A.	-	781,053.70	(559,123.19)		-	(4,506,237.10)
Duriensegás, S.A.	-	63,573.83	(282,924.14)		-	(1,119,365.00)
Galp Energia, S.A.	982,123.72	212,198.86	-		-	-
Medigás, S.A.	-	-	(224,298.60)		-	(712,785.14)
Dianagás, S.A.	-	-	(489,794.71)		-	(511,829.82)
Tagusgás , S.A.	-	-	(279,999.96)	(60,000.00)	-	(366,607.09)
Beiragás, S.A.	-	214,489.55	(1,056,807.77)	(36,000.00)	-	(17,064.43)
Petrogal, S.A.	98,808.24	271,343.54	-		-	-
Paxgás, S.A.	-	-	(110,617.90)		-	(231,824.42)
GDP-Gás de Portugal, S.A.	306,288.63	(86,403.76)	-		-	-
Galp Gás Natural, S.A.	-	(11,868.90)	-		-	-
Galp Energia, SGPS, S.A.	1,803.89	-	-		-	-
Galp Energia España, S.A.	388.73	-	-		-	-
	1,389,413.21	**5,709,576.85**	**(11,512,443.01)**	**(96,000.00)**	**20,716,822.62**	**(27,745,933.43)**

29. REMUNERATION OF THE BOARD

The remuneration of the board members of GGND for the years ended 31 December 2017 and 2016 is detailed as follows:

	2017			2016		
	Base wage	**Other charges and regularisations**	**Total**	**Base wage**	**Other charges and regularisations**	**Total**
Board members						
Executive management	324,327.61	69,466.30	393,793.91	112,639.63	21,712.74	134,352.37
Non-executive management	32,973.89	-	32,973.89	-	-	-
Fiscal Board	10,790.32	-	10,790.32	-	-	-
	368,091.82	**69,466.30**	**437,558.12**	**112,639.63**	**21,712.74**	**134,352.37**

30. DIVIDENDS

In accordance with the deliberation of the General Meeting of Shareholders held on 26 March 2017, the Company distributed dividends to its shareholder Galp Gás & Power, S.G.P.S., S.A. and Meet Europe Natural Gás, Ltd., amounting 48,015,615.52 Euro and 13,940,017.43 Euro, respectively, regarding the net result of 2016.

31. OIL AND GAS RESERVES

Not applicable.

32. FINANCIAL RISK MANAGEMENT

Risk Management

The Company is exposed to several types of market risks (price risk and interest rate risk) inherent to the natural gas industries, which affect the Company's financial results.

Market risks

Interest rate risk

The total interest rate position is managed centrally. Interest rate exposure relates mainly to bank loans bearing interests. The purpose of managing interest rate risk is to reduce the volatility of financial costs in the income statement. The interest rate risk management policy aims to reduce exposure to variable rates fixing interest rate risk on loans, using simple derivatives such as swaps.

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 Company's constraint to obtain the financial resources necessary to meet its operating and investment commitments.

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

Credit risk

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

Impairment of "Other receivables" is analysed in the Notes 14 and 15.

33. CONTINGENT ASSETS AND LIABILITIES

Not applicable.

34. INFORMATION ON ENVIRONMENTAL MATTERS

Not applicable.

35. SUBSEQUENT EVENTS

Not applicable.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors at 10 April 2018.

37. 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
	José Manuel Rodrigues Vera
	Ana Isabel Simões Dias dos Santos Severino
	Maria Marta de Figueiredo Geraldes Bastos
	Yoichi Noborisaka
	Naohiro Hayakawa

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

We have audited the accompanying consolidated financial statements of Galp Gás Natural Distribuição, S.A. (the Group), which comprise the consolidated statement of financial position as at December 31, 2017 (which shows total assets of Euro 1,239,213 thousand and total equity including non-controlling interests of Euro 232,799 thousand including a net profit of 29,262 thousand), the consolidated statements of income by nature, comprehensive income, changes in equity and cash flows for the year then ended, and the accompanying explanatory notes to these consolidated financial statements, which include a summary of the 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 December 31, 2017, 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 matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	*Summary of the Audit Approach*
Fiscal litigation and contingencies	
Disclosure related to tax litigation and contingencies in Notes 2, 10, 21 and 26 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 2017 the amount of tax provisions presented in the consolidated financial statements of Group GGND amounts to thousand Euro 39,734 (2016: thousand Euro 29,408). 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: - comprehension of tax and legal contingency processes; - obtaining and analysing of confirmation letters sent from external lawyers; - obtaining a detailed listing of ongoing tax and legal contingencies, categorised by probable outcome; - inquiring management and legal and tax responsible personnel about the estimates and judgments performed. We also verified the adequacy of the disclosures in the consolidated financial statements, according to the applicable reporting standard.

Responsibilities of management and supervisory board 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; and

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.

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

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

h) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the 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; and

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

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the 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 opinion that the Aggregated Report including Director's Report and Corporate Governance Report (hereinafter the Aggregated Report) has been prepared in accordance with applicable requirements of the law and regulation, that the information included is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified. As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the non-financial statement included in the Director's report.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Aggregated 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 April 12, 2018.

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

e) In addition to the services disclosed in the Directors' report of the Group, 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;

12 April 2018

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

António Joaquim Brochado Correia, R.O.C.

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Galp Gás Natural Distribuição, S.A. (the Entity), which comprise the statement of financial position as at 31 December 2017 (which shows total assets of Euro 730,432 thousand and total shareholders' equity of Euro 121,668 thousand including a net profit of Euro 25,481 thousand), the statement of income by nature, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

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

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Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20171485

Key audit matters

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

Key Audit Matter	*Summary of the Audit Approach*
Financial participations valorisation	
Disclosure related to the financial participations in Note 2 and 4 of financial statements.	
As at 31 December 2017, Galp Gás Natural Distribuição, SA holds financial participations in subsidiaries and associated amounting Euro 181,224 thousand, which are measured at acquisition cost net of impairment losses. Impairments tests are performed whenever there are evidence or changes in circumstances that may indicate that the presented value may not be recoverable. For such, the recoverable value is determined by its value in use, according with the discounted cash flow model. The relevance of such mater in our audit work results in the high amount and judgement level of the impairment model. The calculation of the recoverable amount requires the use of estimations and assumptions by the Management that depends on economic and market forecasts, namely future cash flows, rates for perpetuity growing and discount rates. As a result of impairments tests made by the Management, no identified impairment losses were noted in the financial participations held by Galp Gás Natural Distribuição SA.	To ensure the correct valuation of financial participations, the following audit procedures were performed: - evaluation of impairment evidences on financial participations; and - obtain and analyse impairment tests on financial participations, when applicable. Impairment tests analysis, based on the discounted cash flow model, comprehends the following procedures: - check of arithmetic accuracy of the model; - assessment of the reasonability of future cash flow projections compared with historical performance; - evaluation of adequacy of the discount rate used; and - evaluation of estimates and judgements assumed by the Management, inherent to the relevant assumptions supporting the model. We also verified the adequacy of the disclosures in Note 4 of the financial statements, in accordance with the required applicable standards.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

Directors' report

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

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 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 financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Entity's supervisory board as of April 12, 2018.

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

e) In addition to the services disclosed in the Aggregated 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 Entity:

Other reliability assurance services

- Reports on Regulated Financial Statements (“ERSE”; “ASECE”; “TOS”);
- Revision of financial statements in English;

April 12, 2018

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

António Joaquim Brochado Correia, R.O.C.

Report and opinion of the Audit Committee of Galp Gás Natural Distribuição, S.A.

Honourable Shareholders,

Under current legislation, articles of association of the Company and in the performance of the mandate that was conferred to us, we hereby present our opinion on the 2017 Management Report (which includes the report on corporate governance), the financial statements, both individual and consolidated, and the proposed allocation of surplus that the Board of Directors of Galp Gás Natural Distribuição, S.A. (GGND) presented for the financial year ending December 31, 2017.

During the year 2017, we met with the Statutory Auditor/External Auditor of the Company, monitoring the performance of his duties.

We followed the process of preparation and dissemination of financial information, as well as the statutory audit of annual accounts, both individual and consolidated.

We checked and followed the independence of the Statutory Auditor/External Auditor under the legal terms.

We assessed the Legal Certification of Accounts and Audit Report on the individual and consolidated financial statements for the financial year 2017, with which we agree.

Pursuant to article 245, paragraph 1, subparagraph c), of the Securities Code, each member of the Audit Committee below declares that, to the best of their knowledge, the management report, annual accounts, legal certification of accounts and other accountability documents were drawn up in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial position and the results of GGND and companies included in the scope of consolidation, and that the management report faithfully reflects the evolution of the business, performance and position of GGND and companies included in the consolidation perimeter and contains a description of the main risks and uncertainties that these companies are facing in their activity.

The Audit Committee further confirms that the chapter of the 2017 Management Report on corporate governance includes the elements referred to in article 245-A, paragraph 6 of the Securities Code applicable to companies whose securities are different from shares admitted to trading on a regulated market.

In these terms, taking into account the information received from the Board of Directors and

Company services, as well as the conclusions in the Legal Certification of Accounts and Audit Report on the financial statements, both individual and consolidated, we express our agreement with the 2017 Management Report, the Individual and Consolidated Financial Statements and the proposal for application of the individual net income for the year 2017, for which reason we are of the opinion that it should be approved at the General Meeting.

Lastly, the Audit Committee wishes to thank the Board of Directors and Executive Committee of GGND for their cooperation in the performance of its duties.

Lisbon, April 12, 2018

Chairman
Daniel Bessa

Member
Armindo Marcelino

Member
Pedro Antunes de Almeida

distribuição gás natural

Annual Report of Activities of the Audit Committee of Galp Gás Natural Distribuição, S.A. for the year 2017

In accordance with the provisions of subparagraph g) of paragraph 1 of article 420 of the Code of Commercial Companies ("CSC"), the Audit Committee of Galp Gás Natural Distribuição, S.A. (GGND) hereby presents the report on the auditing activity that took place in the financial year of 2017.

I. Introduction

As a result of the Company's issuance of bonds admitted to trading on the London Stock Exchange, the Company became an entity of public interest, having thus changed its corporate governance model. This model, corresponding to the Latin model provided for in articles 278, paragraph 1, subparagraph a) and 413, paragraph 1, subparagraph b), both of the "CSC", includes a Board of Directors, responsible for the management of the Company, an Audit Committee, responsible for monitoring the Company's activity, and an Statutory Auditor - independent of the Audit Committee.

The Audit Committee in office was elected at the general meeting held on May 26, 2017 for the 2015-2018 term and is composed of three members, all independent, in accordance with the criteria set out in Article 414, paragraph 5, of the "CSC".

All members of the Audit Committee comply with the compatibility criteria for the financial year of the respective function, which are provided for in Article 414-A, paragraph 1 of the "CSC".

II. Activity developed by the Audit Committee concerning the financial year 2017

Since its election, at the end of May 2017, the Audit Committee has held 6 meetings, having developed various activities within the scope of its powers, some of which are highlighted below:

The permanent monitoring of the Company during this period was conducted, inter alia, through meetings with the Chairman of the Executive Committee, the administrator responsible for the financial department, employees and head of the financial and administrative management of GGND, heads of department of Business Processes, Regulation and Regulatory Compliance and the Statutory Auditor/External Auditor.

Through these meetings, the Audit Committee monitored, in particular, the compliance activities of the GGND Group, the main litigation processes with possible impact on the financial statements and the impacts of regulation on the Group's business.

During the year 2017, the Audit Committee carried out the monitoring of the functioning of the corporate governance system adopted by GGND and of compliance with legal, regulatory and statutory provisions, having provided important recommendations towards the improvement of the

Company's governance.

The Audit Committee's access to financial information was carried out on a regular and appropriate fashion, through both GGND's financial management and the accounting management of Galp Energia, S.A., responsible for preparing the financial information, without any constraints in the performance of its duties.

Verification of the accuracy of the documents of accountability and reliability of financial information and monitoring of compliance with the policies, criteria and accounting practices was carried out by the Audit Committee through analysis of reports prepared by the Statutory Auditor/External Auditor.

The Audit Committee held, during the year 2017, several activities of monitoring, supervision and evaluation of the operation and adequacy of internal control systems, risk management and internal audit of GGND and accompanied the measures taken by the Company to identify, manage, monitor and control the financial and operational risks associated with the activity of GGND and its subsidiaries.

The Audit Committee considers that the Company has assigned increasing and enhanced importance to developing and improving systems of risk management, internal control and internal audit.

The Audit Committee conducted, in the year 2017, the assessment of the activity of the External Auditor, with regular monitoring of his activity, in particular through the critical assessment of the reports and documentation produced by him as part of his duties.

In the context of verification of compliance with the rules on independence of the External Auditor, the Audit Committee authorized the provision of services not related to audit services for which it is necessary to have prior ruling from this body, having confirmed that the independence of the External Auditor was ensured. These services accounted for 78.9% compared to the audit services provided in 2017. The exceeding of the 70% limit for the provision of separate audit services in relation to the audit services provided by the External Auditor, a limit established in article 4, paragraph 2, of the European Regulation on Auditing No. 537/2014, was due to the provision of an exceptional service that was not expected, for certifying the ERSE accounts of 2015, with the Audit Committee accepting the opinion of the External Auditor, in accordance with the letter of this regulatory provision, stating that this limit applies to the services provided during a consecutive three-year period and not to services rendered in a single year.

As part of its duties of annually assessing the activity of the External Auditor, the Audit Committee considers that the External Auditor has provided his services in a satisfactory manner, in accordance with the Audit Plan for the GGND Group in 2017, as submitted to the Audit Committee, having complied with the applicable rules and regulations and revealed in his performance technical rigor, quality in the conclusions presented, namely in the area of statutory auditing, opportunity and efficiency in the recommendations presented, and competence in developing procedures that were performed.

In order to select the Statutory Auditor and External Auditor to be proposed to the General Meeting for the new term starting in 2019, for a period of four years, the Audit Committee monitored the process of market consultation organized by the Company with the support of Galp Energia, S.A., namely in the areas of Accounting and Taxation and Purchases and Contracts, under a service contract in force, signed by the two entities, having approved the rules of the respective process and defined the criteria and form of selection.

Lisbon, April 11, 2018

Chairman
Daniel Bessa

Member
Armindo Marcelino

Member
Pedro Antunes de Almeida