Galp Gás Natural Distribuição, S.A.

Management Report and Accounts 2018

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

Share Capital: 89,529,141.00 EUR

MCRC/NIPC: 509148247

CONTENTS

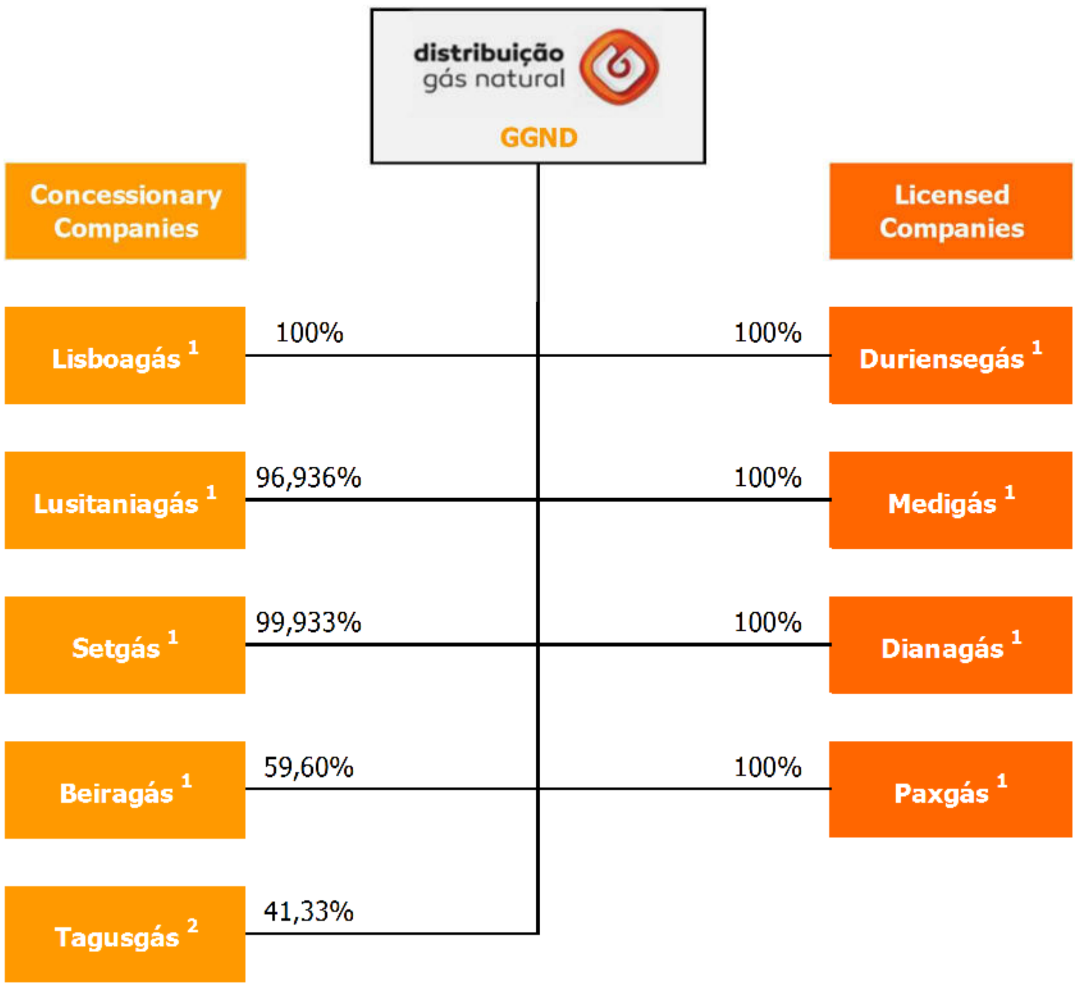
1. INTRODUCTION

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:

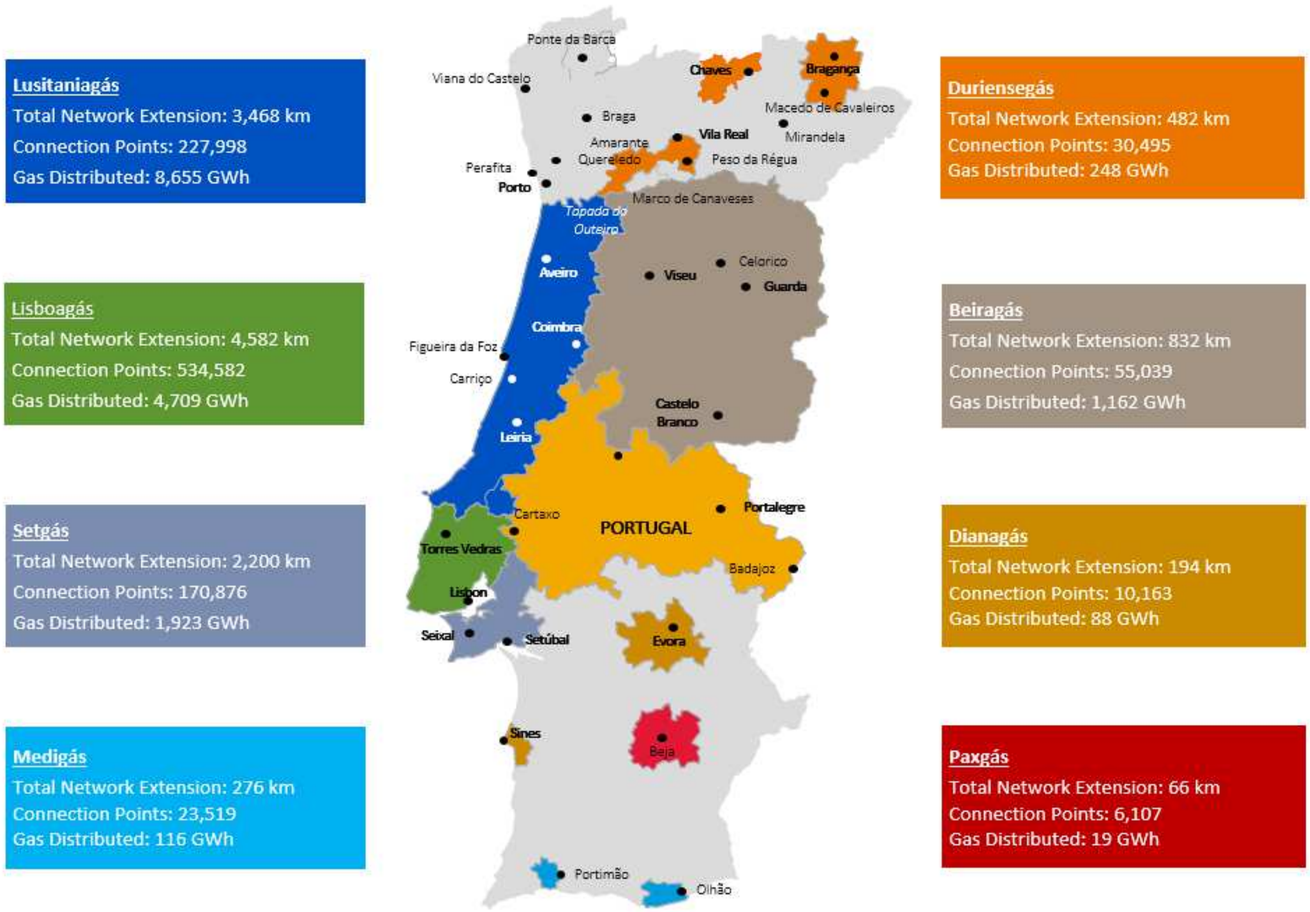
GGND's SUBSIDIARIES AND RESPECTIVE SHARES



[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 2018, the key operational indicators of a GGND Group are as follows:



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
Secretary:	Rafael de Almeida Garrett Lucas Pires

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 de Figueiredo Geraldes Bastos
	Yoichi Noborisaka

Executive Committee

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

Supervisory Board

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

Statutory Auditor

Permanent:	PricewaterhouseCoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda., registered with the Portuguese Institute of Statutory Auditors under nr. 183 and registered with the CMVM under number. 20161485, 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

Gabriel Nuno Charrua de Sousa

3. RELEVANT FACTS OCCURRED IN 2018

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, 2018 began the Gas Year 2018-2019, corresponding to the 3rd 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 2018-2019 is 5.82% in the Natural Gas Distribution business, compared with 6.65% in the previous Gas Year.

Aligned with the decrease 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 2017 was 6.42%, while the Fiscal Year 2018 stood at 6.24%.

FINANCIAL RATING

On December 13, 2018, 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 €29.5 million in 2018, corresponding to €0.9 million less than in the same period of 2017, with EBITDA having reached €105.2 million, representing €0.9 million less than in the previous year.

In 2018, 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 2018, the receivable balance of the tariff deviation stood at approximately €10.8 million, representing €1.2 million more than at the end of 2017.

Net operating costs reached €67.5 million, standing at 13.2% below than that recorded in the same period of 2017.

During 2018, investment amounted to €26.2 million, with approximately 73% of the total having been allocated to business development, which included the expansion of the distribution network by 125 km, the construction of 5,829 service lines and the connection of 16,229 new connection points, of which 11,728 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 2018, the natural gas distribution system of the companies controlled by GGND reached a total of 12,099 km of distribution network, covering a total number of 1,058,779 connection points with an active contract, with a volume of 16,897 GWh of natural gas having been distributed.

Improving the reliability and safety of the gas distribution system is also a priority for GGND, with 13.4 km of existing grid reinforcement network being built.

MAIN INITIATIVES

GGND started, installing mobility functionalities for the "Asset Management System" (SGA), allowing its field team to act more immediately and with improvements in the speed and quality of the information provided.

The commitment to quality of service to the final Customer was also reflected in the recognition of the Commercial Service Line, under the operational management of GGND, which was distinguished in 2018 by the Portuguese Contact Center Association with the GOLD award in the category of the Best Contact Center with less than 50 Agents and with the SILVER award in the ENERGY sector.

The companies controlled by GGND have maintained the certification in Environment, Quality and Safety (AQS), continuing to demonstrate knowledge and understanding of the requirements applicable to its products and services, including standards, relevant stakeholders, legal requirements of its own, and its customers

Continuing the work of previous years, 2018 was a year of continuity in the development and adaptation of the Information Systems, to enable the implementation of new functionalities developed in the OpenSGC system. These functionalities were mainly based on the adequacy to regulatory requirements and robustness of operation of the application.

4. KEY INDICATORS

OPERATIONAL INDICATORS	UNIT.	2017	2018	Variation	% Var.
Connection Points	#	1,047,348	1,058,779	11,431	1.1%
Gas Volume Distributed	GWh	16,267	16,897	630	3.9%
Total Network Extension	km	11,974	12,099	125	1.0%
20bar network	km	648	648	0	0.0%
4bar network	km	11,326	11,451	125	1.1%
Service Line	#	320,086	325,915	5,829	1.8%
Number of Employees	#	364	357	(7)	(1.9%)

FINANCIAL INDICATORS *(thousands of euros)*	2017	2018	Variação	% Var.
Turnover	183,955	172,716	*(11,239)*	(6.1%)
EBITDA	106,093	105,170	*(923)*	(0.9%)
EBIT	63,751	62,240	*(1,511)*	(2.4%)
Financial Results	(8,531)	(8,641)	*(110)*	1.3%
Consolidated Net Income	30,365	29,491	*(874)*	(2.9%)
Cash Flow [1]	72,707	72,421	*(286)*	(0.4%)
Financial Debt [2]	626,418	617,619	*(8,799)*	(1.4%)
Net fixed assets [3]	1,094,403	1,077,842	*(16,561)*	(1.5%)
Other Investments [4]	13,838	14,784	*946*	6.8%
CAPEX	22,682	26,205	*3,523*	15.5%

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

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

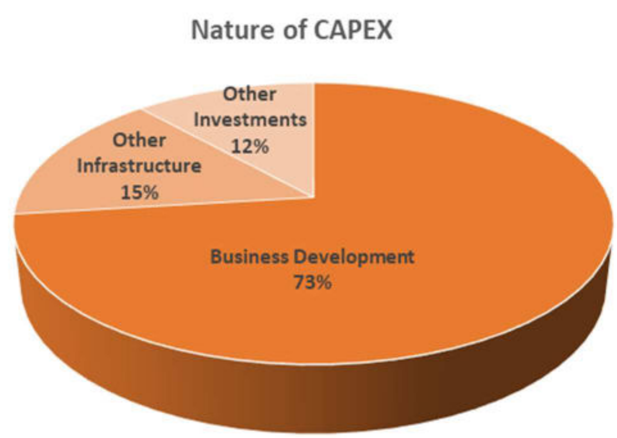
[3] Tangible Assets + Intangible Assets

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

5. OPERATING ACTIVITY

5.1 CAPEX

CAPEX				
(thousands of euros)	**2017**	**2018**	**Variation**	**% Var.**
Business Development	16,526	19,151	2,625	15.9%
Other Infrastructure	3,102	4,009	906	29.2%
Other Investments	3,054	3,045	(9)	(0.3%)
Total	**22,682**	**26,205**	**3,523**	**15.5%**



The investment carried out in 2018 reached € 26.2 million, of which € 19.2 million was allocated to Business Development, € 4 million to Network reinforcement and restructuring, and € 3.0 million to renewal of meters and information systems.

In the scope of Business Development, during the year of 2018, 125 km of distribution network and 5,829 service lines were constructed, 11,728 installations were infrastructures, which allowed the connection of 16,229 new consumer points.

This level of investment reflects the GGND's effort and contribution to the development of the natural gas sector, allowing significant part of the population and economic activities to have access to a safe and competitive form of energy such as natural gas.

5.2 OPERATION

Throughout 2018, the drive was maintained towards optimization of the processes supporting the distribution activities, aimed at assuring their efficiency, permitting the desired service quality levels and contributing to the satisfaction of the clients supplied by GGND's infrastructures.

DISTRIBUTION INFRASTRUCTURE

The main goals of the activity carried out in 2018 were to assure:

- Appropriate management and maintenance of the infrastructures of the natural gas distribution system, assuring the operation of the network and continuous supply of gas to consumers under the best conditions of safety and reliability;

- Quick and effective response to emergency situations, both in the distribution system and at the premises of natural gas users, in order to maximize the safety of the gas users and the community in general.

Among the infrastructure operation and maintenance activities, we highlight the following:

- Conducting a systematic leak detection preventive process to ensure the absence of gas leaks in the distribution network. In this process, about 2,400 km of network and service lines connected to it were surveyed, in compliance with the applicable legislation;

- The operation of the distribution system was continuously monitored 24 hours a day from the National Dispatch Center through the Telemetry System (SCADA) and the Remote Transmission Units (UTRs) in the Measurement Reduction Units (PRMs) and Autonomous Gas Units (UAGs) and in strategic points of the networks; and

  - 14 new UTRs were installed as part of the ongoing program to increase the monitoring points on the network pressure and improve the ability to anticipate malfunctions that result in a lack of pressure.

In 2018, regarding the concession area of the companies controlled by GGND, 71,288 calls on emergency line have been answered, resulting in 10,896 emergencies classified in the first contact. The others were supportive interventions consumer support or network operations.

TECHNICAL ASSISTANCE AND SERVICES

The number of consumption sites where service in the field are rendered increased by 11,431, with the total number of consumption sites with active contract reached 1,058,779, at the end of 2018.

During the year, approximately 6.2 million meter readings and 290 thousand interventions were carried out at the consumption sites; highlight the activities of cutting of supply, reconnections of supply and checking of meters.

The Company complied with the legal requirement relating to the metrology of meters of the domestic segment and meters and flow computers installed in the large consumers.

During the year 2018, the Mobile Solution Upgrade was developed and implemented, that allows greater agility to the operation.

5. 3 COMMERCIAL

The volume of natural gas distributed in the distribution network reached 16,897 GWh, presenting the following evolution in relation to the previous year:

VOLUME OF NATURAL GAS (GHw)

	2017	2018	Variation	% Var.
<10.000 m3/year	2,906	2,985	79	2.7%
>10.000 m3/year < 100.000 m3/year	566	644	78	13.8%
>100.000 m3/year	12,795	13,268	474	3.7%
Total	**16,267**	**16,897**	**630**	**3.9%**

At the end of 2018, in the Liberalized Market, 19 free suppliers had an active contract for access to the network with the companies controlled by GGND.

At the level of the criteria on the gas installations, a fundamental work was done in the creation of standard technical documents on Measurement Reduction Units (PRMs), with the main technical options of connection to the network that translate into a relevant work tool for the market of designers and installers that run gas installations in business customers.

5. 4 ENVIRONMENT, QUALITY AND SAFETY

In the scope of its activities, the AQS aims to promote the efficiency of processes in order to protect people, the environment and assets in a value creation perspective for all stakeholders.

In 2018, GGND defined the following goals:

- Achieve the goal of zero personal, material and environmental accidents with significant impact;
- Reduce the frequency rate of accidents with casualties and/or fatalities;
- Be a reference in the sector in 2020 for this indicator;

The results achieved in 2018 were as follows:

CLAIMS	
Nr. of Personal Accident, Materials and Environmental	9
Frequency Index of Accidents with casualties and fatalities	5,6

IMPROVEMENT OF ENVIRONMENT, QUALITY AND SAFETY PERFORMANCE AT THE WORK SITE

The monitoring of Safety, Health and Environment (HSE) performance of contractor at the service of the companies controlled by GGND is carried out through the Work Safety Coordination (CSO's) and the Environment Coordination (CAO's) units. The result of the coordination visits is embodied in Coordination reports, which refer to the existence or non-existence of non-compliance with the Environmental and Safety rules established in Procedures.

In 2018, HSE visits were made to 115 vans of the Technical Services, thereby fulfilling 73%, of the vans of the Technical Services providers.

The result of the defaults is taken into account to determine the performance of the Service Providers and for the awarding of the Star Programme.

TRAINING IN HSE

Continuing with the training plan, and with the goal to enhance human capital, GGND has invested in its Human Resources, providing in 2018 a set of training actions for employees, namely related to defensive driving and gas technician portfolios.

The service providers of Construction, Renovation and Maintenance of the distribution network and Conversion/Reconversion activities are required continuous training in AQS matters, held on a quarterly basis.

CUSTOMER SATISFACTION

GGND has continued to invest in improving the satisfaction of its end customers.

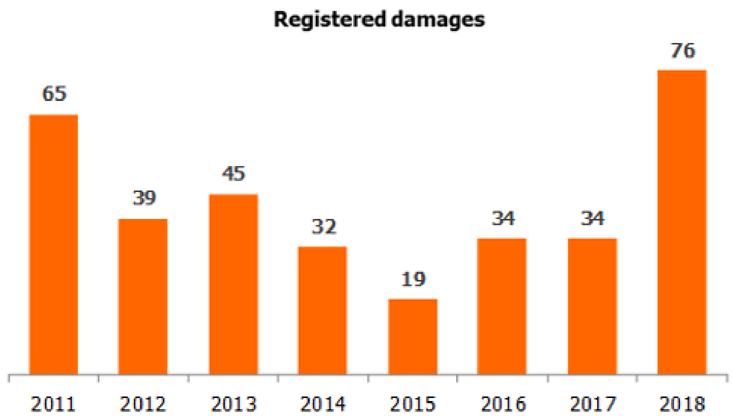
It is essential to know the Customers and their satisfaction in the relationship with the company and this has been one of the bets to differentiate positively the image of our performance and the image of natural gas.

In 2018, new methodologies for quality control of the service provided to natural gas consumers were implemented, and satisfaction surveys were carried out on the technical services provided by the company.

The graph below shows the degree of satisfaction of the consumers, by nature of service provided:

PREVENTION OF ACCIDENTS WITH INFRASTRUCTURE CAUSED BY THIRD PARTIES

Accidents with damage caused in the natural gas distribution infrastructure have been carefully analyzed and several measures together with in the responsible entities were taken.



One of the measures adopted culminated in the change in the methodology of reporting and accounting, resulting in the recording of all damages, in all types of assets, which ends up being visible in the evolution of the number of damages by third parties.

"OPAS'S"- PREVENTIVE OBSERVATION OF ENVIRONMENT AND SAFETY AND RAPID GAINS

The Programme of Preventive Observation of Environment and Safety "OPAS" is a tool that promotes awareness raising on environment and safety in the different companies of the distribution group and the overall involvement of all employees in improving HSE performance and in the adoption of good environmental and safety practices.

At these moments of follow-up of the operational activities, focus was placed on the importance of complying with the HSE requirements at all levels of the tasks and demonstrated the commitment and involvement of the Direction, 1st lines and leadership in the improvement of safety and environmental performance. In 2018, 429 hours of OPAS were held.

DRILLS

The training and testing procedures of emergency teams enable appraising the efficacy of the methodologies and means used for the swift resolution of emergencies and identifying possible improvements to be made to the system. Thus, in 2018 were carried out the follow drills:

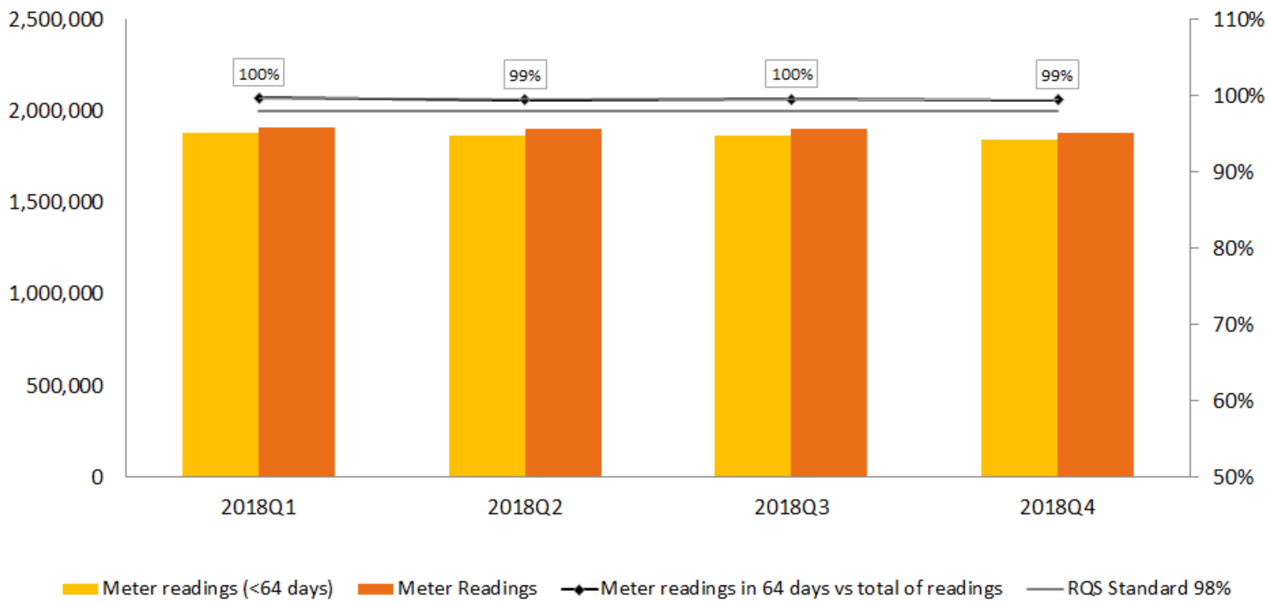
Nr. of DRILLS	
Distribution network	9
UAG's	9
Administrative Buildings	12

5. 5 REGULATORY INDICATORS OF QUALITY COMMERCIAL SERVICE

Indicators of 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 2018 for the group of companies controlled by GGND are presented below:

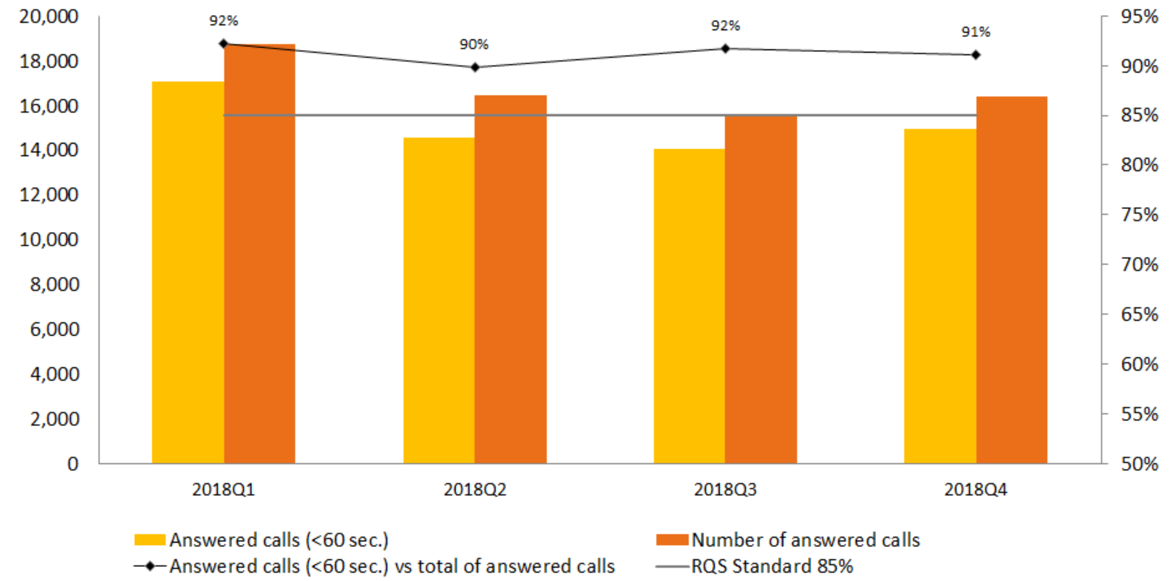
- **Number of readings with interval, compared to the previous reading, of 64 days or less**



✓ Full compliance with the indicator, consistently and exceeding the minimum required by ERSE, similar to the previous year, despite the fact that a greater number of readings were collected in 2018.

✓ This increase was due to GGND's initiative to obtain readings through the channels available for this purpose.

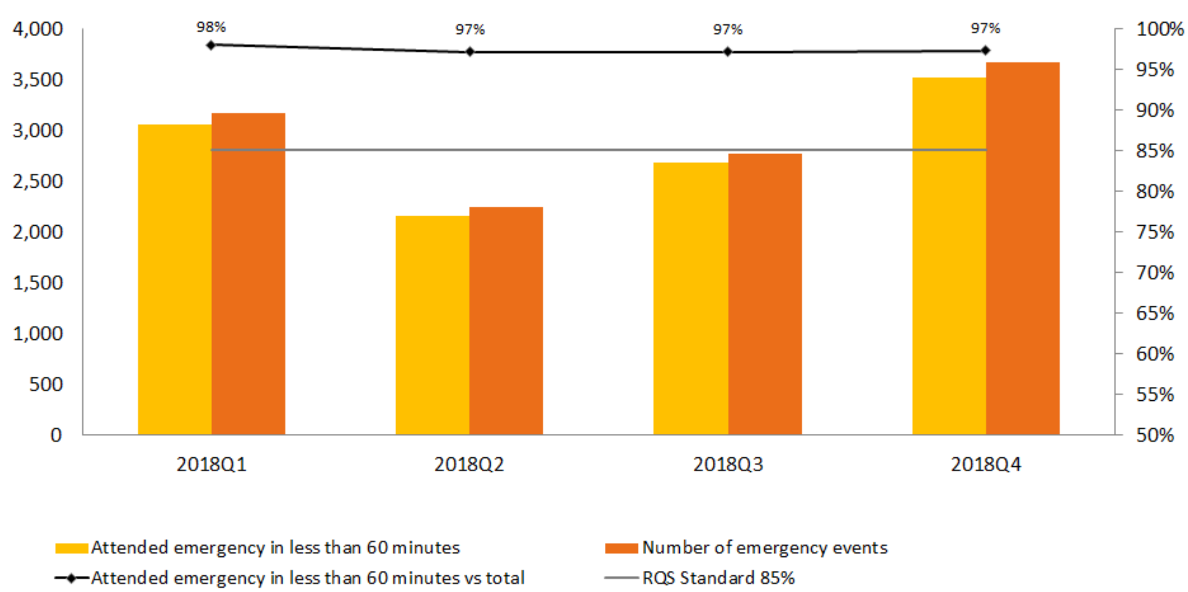
- **Number of telephone calls attended in relation to emergencies and breakdowns with waiting time of 60 seconds or less**



✓ Full compliance with the indicator, consistently and exceeding the minimum required by ERSE.

✓ There was a slight decrease in total calls received, compared to 2017.

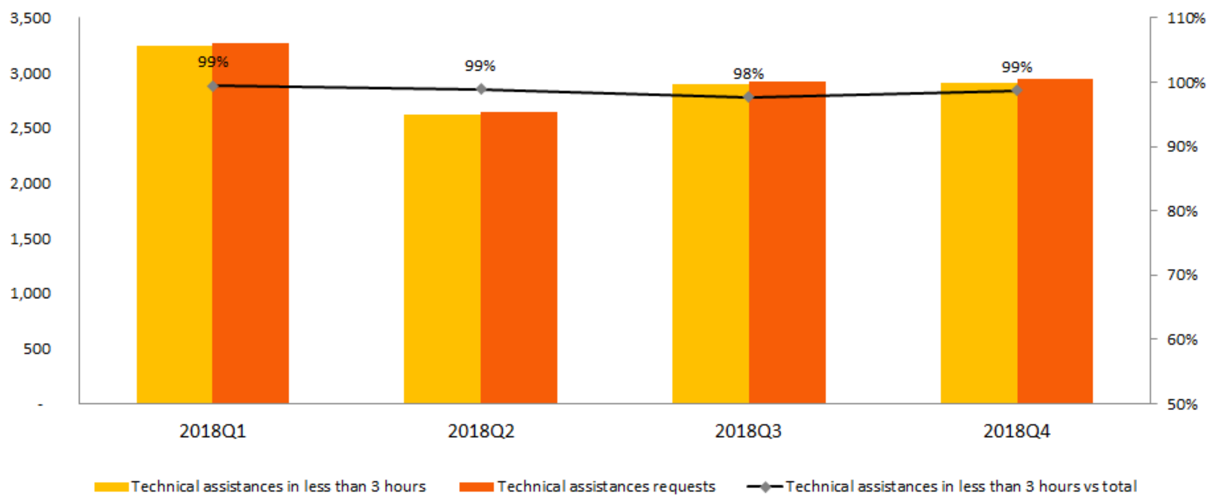
- **Number of emergency situations with time of arrival at the site of 60 minutes or less**



✓ Full compliance with the indicator, consistently and exceeding the minimum required by ERSE.

✓ There was a slight increase in total of emergencies, compared to 2017.

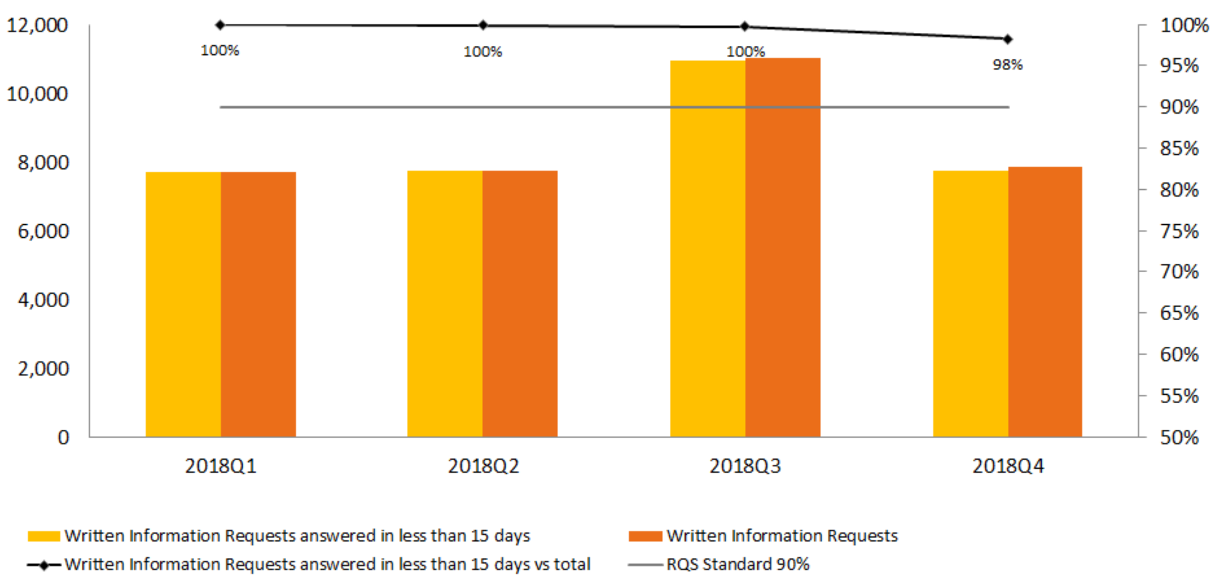
- **Number of technical assistance actions with time of arrival at the site of 3 hours or less**



✓ This Indicator is no longer a minimum standard in 2018 but GGND considers its monitoring to be relevant and maintained at the same period of the previous year.

✓ Compared to 2017, there was a slight decrease in total requests for assistance.

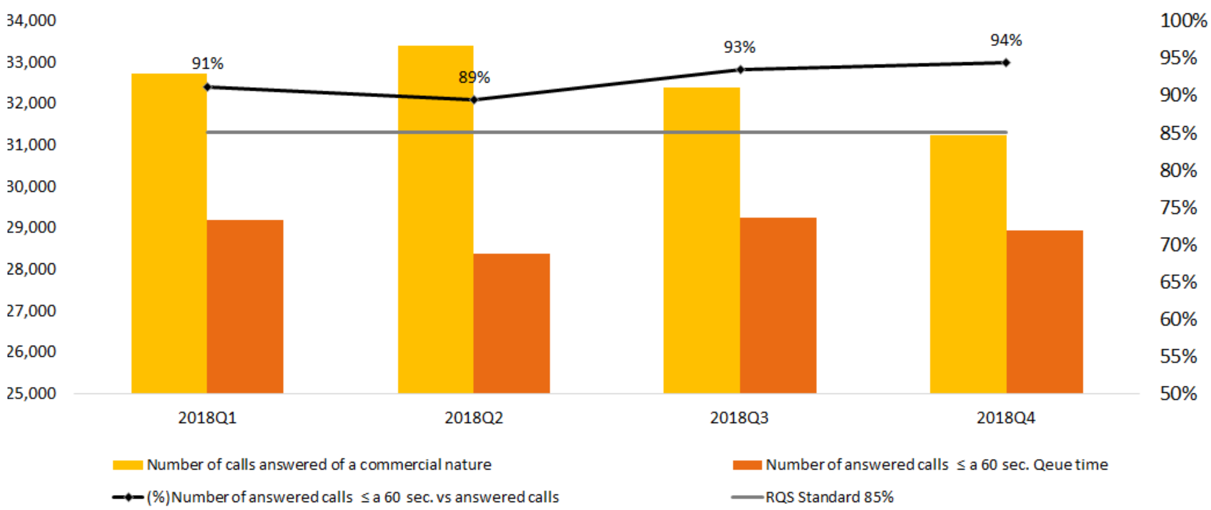
- **Number of written requests for information received in the quarter that were answered in a period of 15 business days or less**



✓ Full compliance with the indicator, consistently and exceeding the minimum required by ERSE.

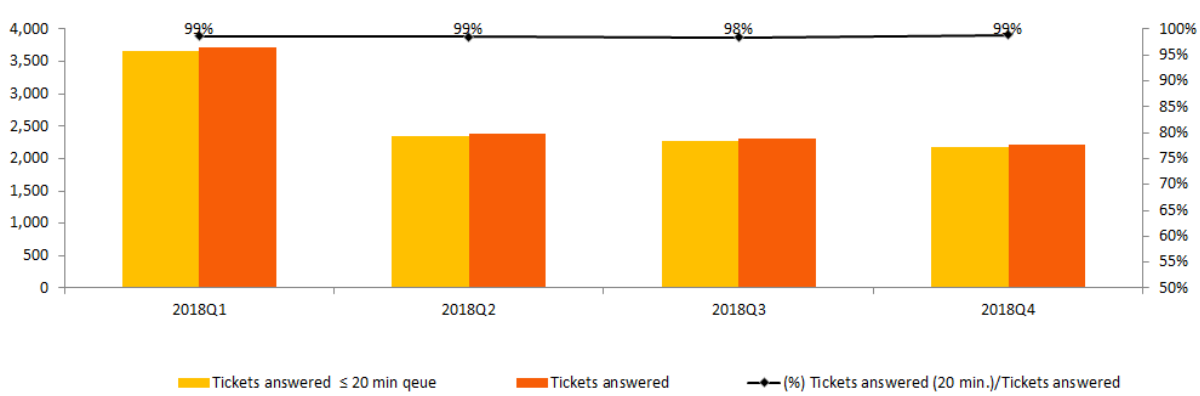
- ✓ Compared to the previous year, there was a reduction in the number of contacts received, the maximum recorded in the third quarter of this year being the average verified in 2017.
- ✓ Although the standard set by ERSE for 2018 was 90%, the quarterly indicators registered remained above the required level in 2017 (98%).

- **Number of telephone calls concerning sales issues with waiting time of 60 seconds or less**



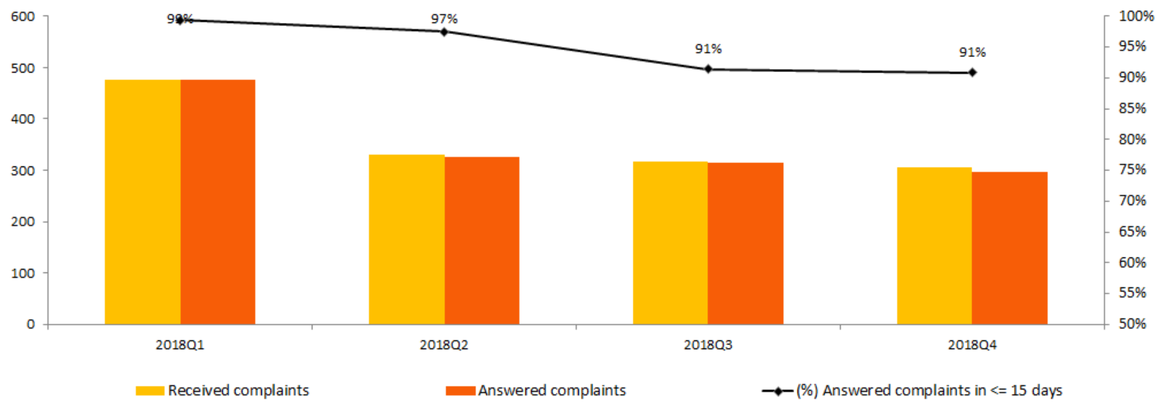
- ✓ Full compliance with the indicator, consistently and exceeding the minimum required by ERSE.
- ✓ There has been an increase in the number of calls received in the commercial field, while maintaining the efficiency levels registered in 2017.

- **Number of attendance in person with waiting time ≤ 20 minutes accomplished by the entity**



- ✓ This Indicator does not have a minimum standard defined by the ERSE but, given the criticality of the indicator for the activity, GGND monitors it with the same periodicity as the previous indicators.
- ✓ The volume recorded in the first quarter was due to an unusual number of calls made in March, in the Distribution Network Operator Lisboagás, with levels above 98% being maintained in the same way.
- ✓ The number of visits performed in the remaining quarters corresponds to the average verified in 2017

- **Number of complaints received in the quarter, which were answered within the regulatory periods**



- ✓ There is no minimum standard defined by the ERSE but, like the requests for information received, GGND monitors this indicator with the same frequency and equal level of demand.
- ✓ There was a slight decrease compared to the number of complaints received in 2017.

6. ECONOMIC AND FINANCIAL REVIEW

6.1 ANALYSIS OF RESULTS

INCOME STATEMENT				
(thousands of euros)	**2017**	**2018**	**Variação**	**% Var.**
Turnover	183,955	172,716	*(11,239)*	(6.1%)
Cost of Sales	(2,310)	(2,524)	*(214)*	9.3%
External Supplies and Services	(63,706)	(53,511)	*10,195*	(16.0%)
Employee Costs	(21,609)	(20,744)	*865*	(4.0%)
Other Operating Income	32,665	35,934	*3,269*	10.0%
Other Operating Costs	(22,902)	(26,701)	*(3,799)*	16.6%
EBITDA	**106,093**	**105,170**	***(923)***	**(0.9%)**
Amortization, Depreciation and Provision	(42,342)	(42,930)	*(588)*	1.4%
EBIT	**63,751**	**62,240**	***(1,511)***	**(2.4%)**
Financial Results	(8,531)	(8,641)	*(110)*	1.3%
Profit Before Tax	**55,220**	**53,599**	***(1,621)***	**(2.9%)**
Taxes	(14,529)	(13,623)	*906*	(6.2%)
Energy sector extraordinary contribution	(10,326)	(10,485)	*(159)*	1.5%
Profit Attributable to Non-Controling Interests	1,103	1,074	*(29)*	(2.6%)
Consolidated Net Income	**30,365**	**29,491**	***(873)***	**(2.9%)**

TURNOVER

In 2018, turnover reached €172.7 million, showing a reduction of 6% (€11.2 million) over the same period, mainly due to the reduction of services related to network access, namely tariffs UGS and URT.

EBITDA

In 2018, GGND reached an EBITDA of €105.2 million, a decrease of 1% over the previous year, mainly explained by the reduction of €11.2 million in turnover compensated by the reduction of €10.3 million in net operating costs.

OPERATING COSTS

NET OPERATING COSTS				
(thousands of euros)	**2017**	**2018**	**Variação**	**% Var.**
Cost of Sales	(2,310)	(2,524)	*214*	9.3%
External Supplies and Services	(63,706)	(53,511)	*(10,195)*	(16.0%)
Employee Costs	(21,609)	(20,744)	*(865)*	(4.0%)
Other Operating Costs	(22,902)	(26,701)	*(3,799)*	16.6%
Other Operating Income	32,665	35,934	*3,269*	10.0%
Total	**(77,862)**	**(67,546)**	**(10,316)**	**(13.2%)**

Net operating costs amounted to €67.5 million, 13.2% below than in 2017.

AMORTIZATION, DEPRECIATION, PROVISION AND IMPAIRMENT LOSS				
(thousands of euros)	**2017**	**2018**	**Variação**	**% Var.**
Amortization and Depreciation	(42,120)	(42,660)	(540)	1.3%
Provision and Impairment loss on receivables	(222)	(270)	(48)	21.7%
Total	**(42,342)**	**(42,930)**	**(588)**	**1.4%**

In 2018 depreciation and amortization amounted to €42.7 million, 1% higher than in the previous year.

Provisions and impairment losses on accounts receivable in the total slightly increased compared to 2017.

FINANCIAL RESULTS

FINANCIAL RESULTS				
(thousands of euros)	**2017**	**2018**	**Variação**	**% Var.**
Financial Income	496	291	(205)	(41.3%)
Financial Costs	(9,659)	(9,649)	10	(0.1%)
Results from Investments in Associates	632	717	85	13.4%
Total	**(8,531)**	**(8,641)**	**(110)**	**1.3%**

In 2018, GGND reported negative financial results of €8.6 million, representing a similar amount as in the previous year.

NET INCOME

In 2018, GGND achieved Profit before Tax of €53.6 million, which net of Income Tax and the Energy Sector Contribution Tax, generated a Net Income of €29.5 million, 3% down comparing to the same period of the previous year.

6.2 REVIEW OF THE FINANCIAL SITUATION

Financial Position

(thousands of euros)	2017	2018	Variação	% Var.
Fixed Assets	1,094,403	1,077,842	(16,561)	(1.5%)
Investments in associates and jointly controlled entities	11,560	12,506	946	8.2%
Other Investments [1]	2,278	2,278	0	%
Other receivables [2]	32,092	31,062	(1,030)	(3.2%)
Non-current Assets	**1,140,333**	**1,123,688**	**(16,645)**	**(1.5%)**
Equity	**232,799**	**236,840**	**4,041**	**1.7%**
Non-current liabilities	**947,107**	**943,060**	**(4,047)**	**(0.4%)**
Permanent Capital	**1,179,906**	**1,179,900**	**(6)**	**(0.0%)**
Current Assets	98,880	113,841	14,961	15.1%
Operational necessity [3]	**82,197**	**65,734**	**(16,463)**	**(20.0%)**
Current Liabilities	59,307	57,629	(1,678)	(2.8%)
Operating resources [4]	**49,798**	**49,280**	**(518)**	**(1.0%)**
Working Capital	32,399	16,454	(15,945)	(49.2%)
Cash and cash equivalents	16,683	48,107	31,424	188.4%
Net Debt [5]	**609,735**	**569,512**	**(40,223)**	**(6.6%)**
Capital employed [6]	**842,534**	**806,352**	**(36,182)**	**(4.3%)**
Net Debt to equity	**2.6x**	**2.4x**	**-0.2x**	

[1] Goodwill + Investments in other companies

[2] Includes Defered Tax assets

[3] Current Assets - Cash and cash equivalents

[4] Current Liabilities - Bank loans and Overdrafts

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

[6] Net Debt + Total Equity

The total Non-current Assets of GGND, as of December 31, 2018, amounted to €1,124 million, 1.5% (€16.6 million) below comparing to the previous year, as a result of:

- Reduction of fixed assets by €16.6 million;
- Increase of the value of interests in associates and jointly controlled entities by €0.9 million, mainly due to the recognition of the increase of equity method of GGND's stake in Tagusgás, S.A.;
- Increase of the Medium and Long-Term Tariff Deviation by €5.4 million;
- Reduction of the Underground Occupation Taxes (TOS) by €6.1 million;
- Reduction of Deferred Taxes by €0.3 million.

The Permanent Capital of GGND stood at €1,180 million, in line with 2017, as a result of the increase in Equity of €4.0 million and the decrease of Non-current Liabilities by €4.0 million.

As of December 31, 2018, GGND's Net Debt of €569.5 million decreased by €40.2 million due to the increase in Cash and Cash Equivalents of €31.4 million. The company continued in 2018 to follow the repayment plan of the Bank Loans, reducing the debt by about €9.5 million.

The net debt to equity ratio has decreased by 0.2 as a consequence of the results described above.

6.3 REVIEW OF CASH FLOW

Cash Flow				
(thousands of euros)	**2017**	**2018**	**Variação**	**% Var.**
Cash flows from operating activities (1)	75,039	99,312	**24,273**	**32.3%**
Cash flows from investing activities (2)	(17,167)	(23,903)	**(6,736)**	**39.2%**
Cash flows from financing activities (3)	(84,230)	(43,976)	**40,254**	**(47.8%)**
Net change in cash and cash equivalents (4) = (1) + (2) + (3)	(26,358)	31,433	**57,791**	**(219.3%)**
Cash and cash equivalents at the beginning of the period	43,030	16,672	**(26,358)**	**(61.3%)**
Cash and cash equivalents at the end of the period	16,672	48,105	**31,433**	**188.5%**

GGND in the year 2018 generated a positive cash change of €31.4 million, up by € 57.8 million a year when compared with 2017 essentially generated by the increase in the cash flows of its operating activity and by the improvement of its cash flow related to the financing activity.

At the end of 2018, GGND presented a cash and cash equivalents balance of €48.1 million, higher by €31.4 million than at the end of 2017.

6.4 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	**31-12-2018**
Net Debt [1]/ EBITDA [2]	5.5x
Debt Service Coverage Ratio [3]	8.5x

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

As of December 31, 2018, both ratios are within the established limits.

7. CORPORATE GOVERNANCE

7.1 QUALIFYING INTERESTS IN THE COMPANY'S SHARE CAPITAL AS OF 31/12/2018

(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	Nr. 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%**

7.2 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.

7.3 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.

7.4 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.

7.5 POWERS OF THE BOARD OF DIRECTORS, 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.

7.6 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 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 Statutory Auditor 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 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 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.

8. 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 National Natural Gas System.

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 2019, 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.

9. 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.

10. 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.

11. PROPOSED APPROPRIATION OF NET INCOME

GGND closed the 2018 financial year with a positive net income of EUR 37,511,244.82 (thirty-seven million, five hundred and eleven thousand, two hundred and forty-four euros and eighty-two cents), calculated on a separate basis, in accordance with the International Financial Reporting Standards (IFRS).

The Board of Directors proposes, under legal terms, that the net income for 2018 should be appropriated as follows:

- Endowment to the legal reserve in the amount of EUR 1,875,562.24;
- Distribution of dividends in the amount of EUR 35,635,682.58

The Board of Directors also proposes, under article 31 of Commercial Companies Code, the distribution of the amount of EUR 19,466.45 derived from retained earnings, it totals an amount to distribute to shareholders of EUR 35,655,149.03, corresponding to €0.398251883/share.

It is further proposed that a maximum amount of EUR 1,918,325.97 be distributed to GGND group's employees and executive directors of GGND as profit sharing, an amount already recognised and expressed in the consolidated financial statements of GGND and in the individual of each of its subsidiaries, and the respective net results for 2018 have been calculated already considering that amount. Of this amount, EUR 194,735.13 were already paid in 2018 as an advance on profit sharing for 2018.

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

Lisbon, 10 April 2019

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 2018.

As of 31 December 2018, 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 2018, 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 2018

(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 2018 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 [3]
Maria Leonor Machado	Non-executive Deputy Chairman	30,000.00	0.00	30,000.00
Gabriel Sousa	Executive Director (CEO)	126,000.00	38,081.71[1]	164,081.75
Naohiro Hayakawa	Executive Director (CFO)	108,000.00	91,795.02[2]	199,795.02
José Vieira	Executive Director (COO)	87,878.00	27,420.50[1]	115,298.50
Armindo Marcelino	Member of Supervisory Board	18,000.00	0.00	18,000.00
Total				527,175.27

(1) Includes amounts related to Variable Remuneration and Meal Compensation

(2) Includes amounts related to Variable Remuneration and Meal Compensation and amounts associated to impatriation

(3) 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 2018.

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 Financial Statements of the Separate Financial Statements.

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 2019

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 2018

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Galp Gás Natural Distribuição, S.A.

Consolidated statement of financial position as of 31 December 2018 and 31 December 2017

(Amounts stated in thousand Euro - €K)

ASSETS	Notes	December 2018	December 2017
Non-current assets:			
Tangible assets	**12.1**	507	525
Goodwill	**11**	2,275	2,275
Intangible assets	**12.1**	1,077,335	1,093,878
Investments in associates and joint ventures	**5.1**	12,506	11,560
Deferred tax assets	**10.3**	16,015	16,339
Other receivables	**14.2**	15,047	15,753
Other financial assets	**5.2**	3	3
Total non-current assets:		**1,123,688**	**1,140,333**
Current assets:			
Inventories	**15**	1,695	1,938
Trade receivables	**14.1**	12,093	10,315
Other receivables	**14.2**	51,946	69,944
Cash and cash equivalents	**16**	48,107	16,683
Total current assets:		**113,841**	**98,880**
Total assets:		**1,237,529**	**1,239,213**

EQUITY AND LIABILITIES	Notes	December 2018	December 2017
Equity:			
Share capital and share premium	**17.1**	89,529	89,529
Reserves	**17.2**	7,468	5,964
Retained earnings		120,324	117,413
Total equity attributable to shareholders:		**217,321**	**212,906**
Non-controlling interests	**17.4**	19,519	19,893
Total equity:		**236,840**	**232,799**
Liabilities:			
Non-current liabilities:			
Financial debt	**18**	609,270	616,909
Other payables	**20.2**	217,400	223,661
Post-employment and other employee benefits liabilities	**19**	55,802	57,089
Deferred tax liabilities	**10.3**	7,272	6,802
Provisions	**21**	53,316	42,646
Total non-current liabilities:		**943,060**	**947,107**
Current liabilities:			
Financial debt	**18**	8,349	9,509
Trade payables	**20.1**	11,111	10,360
Other payables	**20.2**	33,770	35,765
Current payable income tax	**10.2**	4,399	3,673
Total current liabilities:		**57,629**	**59,307**
Total liabilities:		**1,000,689**	**1,006,414**
Total equity and liabilities:		**1,237,529**	**1,239,213**

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

CONSOLIDATED INCOME STATEMENT AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Galp Gás Natural Distribuição, S.A.

Consolidated income statement and consolidated statement of comprehensive income for the years ended 31 December 2018 and 31 December 2017

(Amounts stated in thousand Euro - €K)

	Notes	December 2018	December 2017
Operating income:			
Sales	6	5,214	3,996
Services rendered	6	167,502	179,959
Other operating income	6	35,934	32,665
Total operating income:		**208,650**	**216,620**
Operating costs:			
Cost of sales	7	2,524	2,310
External supplies and services	7	53,511	63,706
Employee costs	7 and 8	20,744	21,609
Amortisation, depreciation and impairment loss on fixed assets	7	42,660	42,120
Provisions	7	190	234
Impairment losses on receivables	7	80	(12)
Other operating costs	7	26,701	22,902
Total operating costs:		**146,410**	**152,869**
Operating result:		**62,240**	**63,751**
Financial income	9	(9,358)	(9,163)
Results from financial investments and impairment losses on Goodwill	5.3	717	632
Result before taxes:		**53,599**	**55,220**
Income tax	10	(13,623)	(14,529)
Energy sector extraordinary contribution	10	(10,485)	(10,326)
Consolidated net result for the year		**29,491**	**30,365**
Result attributable to:			
Galp Gás Natural Distribuição, S.A. shareholders	17.3	**28,417**	**29,262**
Non-controlling interests		**1,074**	**1,103**
Earnings per share (in Euro)		**0.32**	**0.33**

	December 2018	December 2017
Consolidated net result for the year	**29,491**	**30,365**
Items which will not be recycled in the future through profit and loss:		
Actuarial gains and losses – Pension Fund	208	1,081
Income tax related to actuarial gains and losses	(255)	(506)
Other variations	-	(56)
Items which may be recycled in the future through profit and loss:		
Hedging reserves	307	(340)
Income tax related to exchange rate differences and hedging reserves	(77)	85
Total comprehensive income of the year attributable to:	**29,674**	**30,629**
Galp Gás Natural Distribuição, S.A. shareholders	**28,585**	**29,574**
Non-controlling interests	**1,089**	**1,055**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Galp Gás Natural Distribuição, S.A.

Consolidated Statement of changes in equity for the years ended 31 December 2018 and 31 December 2017

(Amounts stated in thousand Euro - €K)

		Reserves		Retained earinings				
Changes in the period	Share Capital	Helding reserves	Other Reserves	Net actuarial losses	Retained earnings	Sub-Total	Non-controlling interests	Total
Balance as of 1 January 2017	**89,529**	**(194)**	**3,360**	**(24,580)**	**177,381**	**245,496**	**19,647**	**265,143**
Consolidated net income for the year	-	-	-	-	29,262	29,262	1,103	**30,365**
Other Gains and Losses recognised in Equity	-	(255)	-	567	-	312	(48)	**264**
Comprehensive income	**-**	**(255)**	**-**	**567**	**29,262**	**29,574**	**1,055**	**30,629**
Dividends distributed / Interim dividends	-	-	-	-	(61,956)	(61,956)	(809)	**(62,765)**
Changes in consolidation perimeter	-	-	(208)	-	-	(208)	-	**(208)**
Increase in reserves by appropriation of results	-	-	3,261	-	(3,261)	-	-	**-**
Balance as of 31 December 2017	**89,529**	**(449)**	**6,413**	**(24,013)**	**141,426**	**212,906**	**19,893**	**232,799**
Balance as of 1 January 2018	**89,529**	**(449)**	**6,413**	**(24,013)**	**141,426**	**212,906**	**19,893**	**232,799**
Consolidated net income for the year	-	-	-	-	28,417	28,417	1,074	**29,491**
Other Gains and Losses recognised in Equity	-	230	-	(61)	(1)	168	15	**183**
Comprehensive income	**-**	**230**	**-**	**(61)**	**28,416**	**28,585**	**1,089**	**29,674**
Dividends distributed / Interim dividends	-	-	-	-	(24,170)	(24,170)	(1,463)	**(25,633)**
Increase in reserves by appropriation of results	-	-	1,274	-	(1,274)	-	-	**-**
Balance as of 31 December 2018	**89,529**	**(219)**	**7,687**	**(24,074)**	**144,398**	**217,321**	**19,519**	**236,840**

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

CONSOLIDATED STATEMENT OF CASH FLOW

Galp Gás Natural Distribuição, S.A.

Consolidated Statement of cash flow for the years ended 31 December 2018 and 31 December 2017

(Amounts stated in thousands Euro - €k)

	Notes	December 2018	December 2017
Operating activities:			
Cash received from customers		263,234	270,605
Cash (payments) to suppliers		(75,511)	(95,513)
(Payments) to employees		(8,226)	(8,475)
(Payments) relating to tax on oil products ("ISP")		(317)	(308)
(Payments) of income taxes		(12,328)	(28,270)
Contributions to the pension fund		(877)	(458)
(Payments) for early retirements and pre-retirements		(2,609)	(2,685)
(Payments) of insurance expenses for retirements		(878)	(1,298)
Other receipts/(payments) relating to the operational activity		(63,176)	(58,559)
Cash flows from operating activities (1)		**99,312**	**75,039**
Investing activities:			
Receipts from:			
Investment grants		-	14
Interests and similar income		3	66
Dividends		-	3,850
Loans obtained		-	5,375
		3	**9,305**
Payments relating to:			
Financial investments		(3)	(267)
Tangible assets		(243)	(485)
Intangible assets		(23,660)	(25,720)
		(23,906)	**(26,472)**
Cash flows from investing activities (2)		**(23,903)**	**(17,167)**
Financing activities:			
Payments relating to:			
Loans obtained	**18**	(9,498)	(12,403)
Interests from loans obtained		(91)	(45)
Interests and similar expenses		(511)	(762)
Dividends distributed / Interim dividends	**17.5**	(25,626)	(62,765)
Interests from Bonds		(8,250)	(8,255)
		(43,976)	**(84,230)**
Cash flow from financing activities (3)		**(43,976)**	**(84,230)**
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		31,433	(26,358)
Cash and cash equivalents at the beginning of the year		16,672	43,030
Cash and cash equivalents at the end of the year	**16**	**48,105**	**16,672**

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

Notes to the consolidated financial statements as of 31 December 2018

1. Introduction

1.1. Parent Company:

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

The Company's shareholder structure as of 31 December 2018 is stated in Note 17.1.

1.2. Group:

As of 31 December 2018, the GGND Group ("Group") consists of Galp Gás Natural Distribuição and its subsidiaries which pursue the natural gas distribution and commercialisation of last resort retailers activities.

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

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

1.2.1. Natural Gas Activity

The Natural Gas business segment encompasses the Distribution of Natural Gas, developed under public service regime, and Commercialisation 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, from 2008 (to 2047), or through local distribution licenses, and for providing gas to less than 100,000 customers, a last resort retailing license has also been granted to customers consuming less than 2Mm3 / year who opt to remain in the regulated tariff regime for a 20-year period, to be counted from January 1, 2008 until the year 2027.

According to sector legislation, we highlight Law no. 30/2006, 15 February, in the wording given to it by Law no. 230/2012, 26 October, and Law no. No. 140/2006 of 26 July, as amended by Law no. 231/2012 of 26 October. During the 2018 financial year, the Natural Gas Regulatory Regulation was approved in accordance with Regulation no. 225/2018, published on April 16, and amended by Regulation 385/2018, published on June 21, and finally, the approval of Natural Gas Rates and Prices for the gas year 2018-2019, according to Directive no. 9/2018, published on June 22.

The tariffs to be charged to customers include the transportation network usage tariff ("URT"), the global use tariff of the natural gas system ("UGS"), the distribution network usage tariff ("URD"), and from 1 July 2018, the logistics change tariff ("OLMC"), as well as energy and commercialisation tariffs, which remunerate regulated distribution and commercialisation activities.

1.2.1.1. Distribution Network Operator

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. Comercialisation of Last Resort Retailers

The Activity of Comercialisation of natural gas, exercised by last resort retailers, includes the following functions:

- Purchase and Sale of natural gas;

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

- Comercialisation of natural gas.

2. Significant Accounting Policies

2.1. Basis of presentation

The accompanying financial statements are presented in thousands of euro (Unit: €k), 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 2018. 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 finacial statements. The common or generic accounting policies are stated in this note.

2.2. Estimates and judgments

The preparation of financial statements in accordance with generally accepted accounting principles requires estimates to be made that affect the recorded amount of assets and liabilities, the disclosure of contingent assets and liabilities at the end of each year and income and costs recognised each year. The actual results could be different depending on the estimates made.

Certain estimates are considered critical if: (i) the nature of the estimates is considered to be significant due to the level of subjectivity and judgment required to record situations in which there is great uncertainty or are very susceptible to changes in the situation and; (ii) the impact of the estimates on the financial position 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 and financial investments impairment (Notes 5 and 12); (ii) provisions and 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 assests (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 / amortisation method to be applied is essential to determine the amount of depreciation and amortization to be recognized 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, intangible 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 group applies the simplified approach of IFRS 9 to measure expected credit losses, which uses the expected credit losses over the useful life for all accounts receivable. The accounts receivable were grouped by business segment for the purpose of evaluating the expected credit losses.

The credit risk of the accounts receivable balances is evaluated at each reporting date, taking into consideration historical client information and its risk profile. Credit risk analysis is based on the probability of annual default and also takes into consideration the customer's credit risk profile. The probability of uncollectibility represents an annual default probability that reflects the current position and future projections taking into account macroeconomic factors.

Accounts receivable are adjusted in each financial reporting period, taking into account Management's estimates regarding credit risk.

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 Note 19.

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

2.3.2. *Financial instruments*

a) Financial assests and liabilities

The Group classifies financial assets and liabilities in the following categories:

a) Financial assets at fair value through other comprehensive income;

b) Financial assets and liabilities at amortised cost;

c) Financial assets and liabilities at fair value through profit and loss (derivatives).

Management determines the investments classification at the initial recognition and re-evaluates at the end of each reporting period,if, and only if, there is a change in the business model. For financial liabilities, the classification change is not permitted.

Recognition and measurement

Purchases and sales of investments are recognised at the transaction date. Investments are initially recognised at fair value. Financial assests at fair value through other comprehensive income and financial assets at fair value through profit and loss are subsquently ajusted at fair value. Fair value disclosures are presented separately for each class of financial instruments at the end of the reporting period.

Derecognition of investments

Financial assests are derecognised from the statement of financial position when the rights to receive the cash flows from the investments have expired or have been transferred and GGND has transferred substantially all the risks and benefits of ownership.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income consist mainly of investments in equity. When these types of financial assets are derecognised, the gain or loss will be retained in equity. Dividends received are recognized in income for the year.

Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortized cost are non-derivative financial assets that are exclusively held for payments of principal and interest (SPPI). If the charge is expected within one year (or in the normal business cycle of the business, if more), they are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable and other receivable are initially recognized at fair value. Subsequently they are measured at amortized cost using the effective rate method, less impairment.

Fair Value Hierarchy

In accordance with the accounting standards an entity must classify the fair value measurement, based on a fair value hierarchy that reflects 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.

Accounting policy in 2017

Comparative figures follow preceding accouting policy IAS 39, since no restatement was executed when the Group adopted IFRS 9, as permitted by the modified retrospective transition model. Previous IAS 39 financial instruments categories were reclassified to present new IFRS 9 ones.

b) Classification of equity and financial liabilities

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) Cash and cash equivalents

See Note 16.

3. Segment reporting

Accounting policy

Operating segment is a component of an entity:

a) Developing activities from which it can obtain revenues and incur in costs (including revenues and costs related to transactions with other components of the same entity);

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

c) for which different financial information is available.

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

Operating segments

The Group on 31 December, 2018 consists of Galp Gás Natural Distribuição and its subsidiaries that carry out their activities of distribution and commercialisation of natural gas under a last resort regime.

The Natural Gas operating segment covers the areas of distribution and comercialisation of natural gas under a last regime 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 2018 and 2017 is presented as follows:

Unit: €k

	Consolidated		Natural Gas		Others		Eliminations	
	2018	2017	2018	2017	2018	2017	2018	2017
Income								
Sales and Services Rendered	172,716	183,955	172,410	183,675	12,487	11,583	(12,180)	(11,303)
Cost of Sales	(2,524)	(2,310)	(2,524)	(2,324)	-	53	-	(40)
EBITDA	105,090	106,105	104,731	105,630	564	474	(205)	
Amortisations, Depreciations and Impairments of fixed assets	(42,660)	(42,120)	(42,660)	(42,120)	(205)	-	205	-
Provisions (net)	(190)	(234)	(190)	(234)	-	-	-	-
EBIT	62,240	63,751	61,880	63,277	360	474	-	
Results from Financial Investments	717	632						
Financial Results	(9,358)	(9,163)						
Income Tax	(13,623)	(14,529)						
Energy Sector Extraordinary Contribution	(10,485)	(10,326)						
Consolidated net result of the year	29,491	30,365						
Net income attributable non-controlling interests	(1,074)	(1,103)						
Net result attributable to Galp Gás Natural Distribuição, S.A. shareholders	28,417	29,262						

As of 31 december 2018 and 31 december 2017

OTHER INFORMATIONS	Consolidated 2018	Consolidated 2017	Natural Gas 2018	Natural Gas 2017	Others 2018	Others 2017	Eliminations 2018	Eliminations 2017
Segment assets (1)								
Financial Investments (2)	14,785	13,835	3	2	14,782	13,833	-	-
Other assests	1,222,744	1,225,378	1,195,455	1,225,221	520,813	549,236	(493,524)	(549,079)
Total consolidated Assets	1,237,529	1,239,213	1,195,458	1,225,223	535,595	563,069	(493,524)	(549,079)

(1) Net amount.

(2) At the equity method, including Goodwill and Other financial assets

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 Reporting and the Income Statement for the periods ended 31 December 2018 and 2017 (restated) is as follows:

Unit: €k

Caption of segment reporting	December 2018	December 2017	Captions of the income statement	December 2018	December 2017
Sales and Services Rendered	172,716	183,955	Sales	5,214	3,996
			Services Rendered	167,502	179,959
Cos of sales	(2,524)	(2,310)	Cost of sales	(2,524)	(2,310)
			Other operating income	35,934	32,665
			External services and supplies	(53,511)	(63,706)
			Employee costs	(20,744)	(21,609)
			Impairment losses on receivables	(80)	12
			Other operational costs	(26,701)	(22,902)
EBITDA	**105,090**	**106,105**	**Operating result before amortisations and provisions**	**105,090**	**106,105**
Amortisations, depreciations and impairment losses on fixed assets	(42,660)	(42,120)	Amortisations, depreciations and impairment losses on fixed assets	(42,660)	(42,120)
Provisions (net)	(190)	(234)	Provisions (net)	(190)	(234)
EBIT	**62,240**	**63,751**	**Operating result**	**62,240**	**63,751**
Results from financial investments	717	632	Results of financial investments and goodwill impairment losses	717	632
Financial Results	(9,358)	(9,163)	Financial income	(9,358)	(9,163)
Income tax	(13,623)	(14,529)	Income tax	(13,623)	(14,529)
Energy Sector Extraordinary Contribution	(10,485)	(10,326)	Energy Sector Extraordinary Contribution	(10,485)	(10,326)
Net result of the year	**29,491**	**30,365**	**Net result of the year**	**29,491**	**30,365**

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	Office	2018	2017	
Parent Company:					
Galp Gás Natural Distribuição, S.A.	Lisbon	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 the public interest under the rules applicable in the geographical area of the concession, covering in particular the construction and operation of infrastructure to integrate the National Network for Natural Gas Distribution, the promotion of construction, facilities conversion or adequacy for natural gas use, but also other activities related to the main subject.
Dianagás - Sociedade Distribuidora de Gás Natural de Évora, S.A.	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 equipments for other compatible infrastructures, as well as the pursue of directly and indirectly related activities.
Duriensegás - Sociedade Distribuidora de Gás Natural do Douro, S.A.	Vila Real	Portugal	100%	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 equipments for other compatible infrastructures, as well as the pursue of directly and indirectly related activities.

Companies		Head Office		Percentage of interest held		Main activity
		City	Office	2018	2017	
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 exploitation of spare capacity of telecommunications network installed.
Lusitaniagás - Companhia de Gás do Centro, S.A.	**a)**	Aveiro	Portugal	96.94%	96.93%	Natural gas distribution in medium and low pressure, exercised in the public interest under the rules applicable in the geographical area of the concession, covering in particular the construction and operation of infrastructure to integrate the National Network for Natural Gas Distribution, the promotion of construction, facilities conversion or adequacy for natural gas use, but also other activities related to the main subject, including exploitation of spare capacity of telecommunications network installed.
Medigás - Sociedade Distribuidora de Gás Natural do Algarve, S.A.		Lisboa	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 equipments for other compatible infrastructures, as well as the pursue of directly and indirectly related activities.
Paxgás - Sociedade Distribuidora de Gás Natural de Beja, S.A.		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 equipments for other compatible infrastructures, as well as the pursue of directly and indirectly related activities.
Setgás - Sociedade de Distribuição de Gás Natural, S.A.		Setúbal	Portugal	99.93%	99.93%	Natural gas distribution in medium and low pressure, exercised in the public interest under the rules applicable in the geographical area of the concession, covering in particular the construction and operation of infrastructure to integrate the National Network for Natural Gas Distribution, the promotion of construction, facilities conversion or adequacy for natural gas use, but also other activities related to the main subject, including exploitation of spare capacity of telecommunications network installed.

The place of activity (e.g. country) of subsidiaries with non-controlling interests is the same as shown in the table above.

a) Acquired companies:

During the year ended 31 December 2018, through the subsidiary Galp Gás Natural Distribuição, S.A., the Group acquired 0.00288% of shares in its subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A. by €3 k. With this acquisition, the Group holds 96.9356% 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 full consolidation method (held by 96.9327%).

5. Financial investments in associates and affiliates

Accounting policy

Financial investments in associates and affiliates

Investments in associates (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 affiliates (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 affiliates 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 associates, against results relating to financial investments in associates, 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 recognized 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 recognized as a profit for the year in the caption of results from financial investments in associates, 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. Financial investment in associates

Financial investments in associates, their head offices and the percentage or interest held as of 31 December 2018 and 2017 are as follows:

Unit: €k

Companies		Head Office		Main activity	Percentage of interest held		Book Value	
		City	Country		2018	2017	2018	2017
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%	12,506	11,560
Net book value of financial investments							**12,506**	**11,560**

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

the associates as of 31 December 2018 and 2017:

Unit: €k

Financial information of associates as of 31 December 2018															Percentage held and and book value			
current abilities- other	Current liabilities - other	Total liabilities	Equity	Operating income	Operating costs- amortisation,depr eciation 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	Comprehen sive result for the year (a)	% Share held	Book value	Gain/ Losses	Comprehe nsive income
(14,524)	(8,846)	**(60,894)**	**30,261**	16,158	(2,820)	(8,738)	**4,600**	24	(1,405)	**(1,381)**	(773)	(711)	**1,735**	**2,291**	41.33%	12,506	717	947
(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**	41.33%	11,560	606	351

associates" for the years ended 31 December 2018 and 2017, which are reflected in the equity method, were as follows:

Unit: €k

	Initial balance	Gains / Losses (Note 5.3)	Adjustments on hedging reserves	Actuarial gains and losses	Dividends (Note 5.4)	Transfer/adjustments	Final balance
	11,560	717	230	-	-	(1)	**12,506**
	15,059	606	(255)	(2)	(3,850)	2	**11,560**

5.3. Financial assets availablefor sale

The financial investments, presented in the Statement of financial position as Financial assets available for sale, its head offices and the percentage or interest held as of 31 December 2018 and 2017 are as follows:

Unit: €k

	Head office		Percentage of interest held		Book value	
	City	Country	2018	2017	2018	2017
AGENEAL Agência Municipal Energia de Almada	Almada	Portugal	0.04%	0.04%	3	3
					3	**3**

Financial assets available for sale were recorded at acquisition cost, as described in Note 2.3.2. The book value of these participations as of 31 December 2018 amounts to € 3K.

5.4. Results from financial investments

The caption of results from financial investments, presented in the consolidated income statements for the year ended 31 December 2018 and 31 December 2017 is comprised as follows:

Unit: €k

	Notes	December 2018	December 2017
		717	**606**
Effect of equity method:			
Associates	5.1	717	606

6. Operating income

Accounting policy

Income from sales of natural gas (last resort retailers) and services rendered (natural gas distribution) are recognized 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 and services rendered are recognized 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 captions Other receivables and Other payables, are recorded costs and income attributable to the current period for which 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 recognized on the accrual basis, taking into account the outstanding amount and the effective interest rate over the period to maturity.

Dividend income is recognized 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 of 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 2018 and those estimated for 2017-2018 and 2018-2019 gas years will be incorporated in the 2020-2021 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.

The Group companies recognize in their financial statements under the accruals and deferrals items the difference between the allowable revenues estimated and published by ERSE for each year for their regulated activity and the income derived from the actual billing issued by the application of regulated rates to the natural gas sold / served.

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 Tariff Regulation published by ERSE includes a component relating to the adjustment of "Calendar year s-2" and "Calendar year s-1" in the expression for calculation of the allowable income of each "gas year". 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.

Regarding construction contracts included under IFRIC 12, 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 2018 and 2017 is as follows:

Unit: €k

Captions	Notes	December 2018	December 2017
Operating Income		**208,650**	**216,620**
Sales:		**5,214**	**3,996**
Goods		5,214	3,996
Services Rendered:		**167,502**	**179,959**
Services Rendered		167,502	179,959
Other operating income:		**35,934**	**32,665**
Supplementary income		768	1,252
Revenues arising from the construction of assets under IFRIC 12	12	26,094	22,265
Investment government grants	13	8,744	8,790
Others		328	358

The captions Sales and Services rendered include the amount of €1,077 k related to natural gas commercialisation and distribution activities as a result of (Note 14.2):

- positive €2,808 k concerning the adjustment between estimated regulated revenues and the value of the invoiced revenue regarding to distribution and commercialisation activities (Note 14.2);

- negative €564 k concerning the adjustment published by ERSE in the fixation of the tariff deviations – regulated revenue of the Companies (Note 14.2);

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

- negative €1,201 k concerning the corresponding regulated revenue amortization of 2016 (Note 14.2).

As referred, the total amount to be recovered was published by ERSE in the regulated revenue to be returned in the 2018-2019 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 IFRIC 12, the construction of the concession assets is subcontracted to specialized entities which assume their own construction activity risk. Income and expenses associated with the construction of these assets are of equal amounts and can be detailed as follows:

Unit: €k

Captions	Notes	December 2018	December 2017
Margin		**-**	**-**
Costs arising from the Construction of Assets under IFRIC 12	7	(26,094)	(22,265)
Revenues arising from the Construction of Assets under IFRIC 12		26,094	22,265

7. Operational costs

The results for the years ended 31 December 2018 and 2017 were affected by the following items of operating costs:

Unit: €k

Captions	Notes	December 2018	December 2017
Operating Costs		**146,410**	**152,869**
Costs of sales:		**2,524**	**2,310**
Goods		2,584	2,296
Impairment in inventories	15	(60)	14
External supplies and services:		**53,511**	**63,706**
Subcontracts – network use		22,504	33,584
Rental costs		1,060	1,238
Maintenance and repairs		2,888	2,553
Insurance		1,151	1,192
IT Services		7,207	7,180
Readings, billing and collection		1,430	1,301
Technical Assistance and inspection		2,863	2,962
Other specialised services		12,473	11,187
Others		1,935	2,509
Employee costs:	**8**	**20,744**	**21,609**
Amortisation, depreciation and impairment losses of fixed assets	**12**	**42,660**	**42,120**
Provisions	**21**	**190**	**234**
Provision and impairment losses on receivables	**14.1**	**80**	**(12)**
Other operating costs		**26,701**	**22,902**
Costs arising from the construction of Assets under IFRIC12	6	26,094	22,265
Other operating costs		607	637

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

The caption Subcontracts refers to charges for the use of:

- Transportation network ("URT") in the amount of €18,546 k;
- Global system use ("UGS") in the amount of €3,813 k; and
- Logistics change tariff ("OLMC") in the amount of €145k.

8. Employee costs

Accounting policy

Employee costs

Wages, social security contributions, annual and sick leave, bonuses and non-monetary benefits are recognised in the year in which the associated services are provided by GGND employees.

Remuneration of the board members

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.

Employee costs for the years ended 31 December 2018 and 2017 are as follows:

Unit: €k

	Notes	December 2018	December 2017
Employee costs:		**20,744**	**21,609**
Capitalisation of employee costs		(1,326)	-
Total costs of the year		**22,070**	**21,609**
Remuneration of the board		647	421
Remuneration of the employees		17,465	17,779
Social charges		3,652	3,871
Pension benefits – pensions and insurance	19	3,263	2,436
Other insurances		873	1,313
Cost recovery by employees assigned		(4,504)	(5,265)
Other costs		674	1,054
Remuneration of the board		**647**	**421**
Remuneration		400	344
Bonuses		180	-
Subsidies		67	77

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 13), until its operations start, the remainder were recognized 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 capitalized.

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 2018 and 2017 is as follows:

Unit: €k

Captions	December 2018	December 2017
Financial result	**(9,358)**	**(9,163)**
Financial income	**291**	**496**
Interest on bank deposits	291	449
Interest and other income with related companies	-	47
Financial costs	**(9,649)**	**(9,659)**
Interest on loans, bank overdrafts and others	(8,351)	(8,303)
Charges related to loans	(1,137)	(1,160)
Charges related to bank guarantees	(42)	(80)
Other financial charges	(119)	(116)

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 25%.

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 2015 to 2018 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 2018 and 2017;

iii) Under current legislation, tax losses in Portugal are reportable and may be used in future periods for a period of 12 and 5 years, depending on whether they are generated in the years 2014 to 2016 or 2017 and 2018, respectively.

Income tax and Energy sector extraordinary contribution for the years ended 31 December 2018 and 2017 are as follows:

Unit: €k

Captions			December 2018			December 2017
	Current tax	Deferred tax	Total	Current tax	Deferred tax	Total
			24,108			24,855
Income Tax	**13,084**	**539**	**13,623**	**16,815**	**(2,286)**	**14,529**
Current income tax	13,388	539	13,927	16,965	(2,286)	14,679
Excess of income tax for the preceding years	(304)	-	(304)	(150)	-	(150)
Energy sector extraordinary contribution			**10,485**			**10,326**

Following it is presented a reconciliation of the income tax for the years ended 31 December 2018 and 2017, and detail of deferred taxes:

Unid: €k

	December 2018	Tax rate	Income tax	December 2017	Tax rate	Income tax
Result before taxes:	**53,599**	**25.00%**	**13,400**	**55,220**	**25.00%**	**13,805**
Adjustments to taxable income:						
Effective tax rate and Tax Income		**25.42%**	**13,623**		**26.31%**	**14,529**
Application of the equity method		0.33%	179		0.27%	152
Tax benefits		(0.06%)	(34)		(0.05%)	(29)
Income tax rates differences		0.47%	253		1.14%	627
(Excess)/Insufficiency of income tax of the preceding year		(0.57%)	(304)		(0.27%)	(150)
Autonomous taxation		0.47%	252		0.53%	295
Other accruals and deductions		(0.23%)	(123)		(0.31%)	(171)

10.1. Energy Sector Extraordinary Contribution

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

On 31 December 2018 and 31 December 2017, the Group recognised in the income statement the amount of €10,485 k and €10,326 k, respectively (Note 21).

10.2. Current income tax in statement of financial position

As of 31 December 2018 and 31 December 2017, the Group presents as Income tax payable the amount of €4,399 k and €3,673 k respectively, as follows:

Unit: €k

	Notes	2018	2017
		(4,399)	**(3,673)**
Galp Energia. S.G.P.S.. S.A.	**22**	**(3,914)**	**(4,236)**
State and other public entities		**(485)**	**563**

10.3. Deferred taxes

As of 31 December 2018 and 31 December 2017, the balance of deferred tax assets and liabilities is as follows:

Unit: €k

	31 December 2017	Impact in results	Impact in equity	31 December 2018
Deferred tax – assets	**16,339**	**(71)**	**(253)**	**16,015**
Adjustments to tangible and intangible assets	7	(1)	-	6
Retirement benefits and other benefits	11,954	(310)	(253)	11,391
Regulated revenue	2,184	328	-	2,512
Non-deductible provisions	1,457	(88)	-	1,369
Others	737	-	-	737
Deferred tax – liabilities	**(6,802)**	**(470)**	**(2)**	**(7,272)**
Adjustments to tangible and intangible assets – Fair value	(3,323)	110	-	(3,213)
Retirement benefits and other benefits	-	-	(2)	(2)
Regulated revenue	(2,391)	(633)	-	(3,024)
Accounting revaluations	(1,088)	55	-	(1,033)

Unit: €k

	31 December 2016	Impact in results	Impact in equity	31 December 2017
Deferred tax – assets	**17,158**	**(313)**	**(506)**	**16,339**
Adjustment 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
Deferred tax – liabilities	**(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)

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 associates" (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 of 31 December 2018 and 2017 was as follows:

Unit: €k

			Percentage of equity held at acquisition date		Goodwill	
Subsidiaries	**Acquisition year**	**Acquisition cost**	**%**	**Amount**	**December 2018**	**December 2017**
					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 2007/8/9	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	Growth factor	Discount Rates:	
				December 2018	December 2017
Investment (Business segment)	DCF (Discounted Cash Flow)	According to corporate business plan	Gordon Model with growing perpetuity of 2%	WACC between: G&P [5.6%]	WACC between: G&P [6.3%-6.9%]

G&P - Gas & Power

According to the defined assumptions, in the years ended 31 December 2018 and 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 intagible assets

Accounting policy

Tangible assets

Tangible assets acquired up to 1 January 2010 (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 2010) 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 2018	Rates 2017
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 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”.

Intagible assests

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 use rights over natural gas infrastructures, in particular gas distribution networks, are being amortized over the concession period (45 years) or the operating 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/placement 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 recognized as a decrease in the income statement caption "Amortization, depreciation and impairment loss of tangible assets". However, impairment losses are only reversed up to the amount the asset would be recorded (net of amortization or depreciation) if the impairment loss had not been recorded previously.

Whenever impairment triggers are identified in the company Assets, impairment tests are performed. The CGU is defined as the gas network of its respective concessions. Once the company assets are regulated, the impairment tests were based on the remunerated Assets for the purposes of regulated tariffs, so it is based on RAB.

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 as of 31 December 2018 and 2017 are as follow:

Unit: €k

	Buildings and other constructions
As of 31 December 2018	
Acquisition cost	938
Accumulated depreciation	(431)
Net amount	**507**
As of 31 December 2017	
Acquisition cost	938
Accumulated depreciation	(413)
Net amount	**525**

Balance as of 1 January 2017	**543**
Depreciation of year	(18)
Balance as of 1 January 2018	**525**
Depreciation of year	(18)
Balance as of 31 December 2018	**507**

Movements in intagible assets as of 31 december 2018 and 2017:

Unit: €k

Intagible assets	Total intangible assets	Concession agreements							Other intangible assets
		Total concession agreements	Land	Buildings and other constructions	Basic Equipment	Reconversion of consumption to natural gas	Intagible assets in progress	Other concession agreements	
Balance as of 31 December 2018									
Acquisition cost	**1,816,713**	**1,815,924**	12,186	8,965	1,188,963	582,273	1,508	22,029	789
Accumulated amortisation	**(739,378)**	**(739,122)**	(4,031)	(6,080)	(477,830)	(230,836)	-	(20,345)	(256)
Net amount	**1,077,335**	**1,076,802**	**8,155**	**2,885**	**711,133**	**351,437**	**1,508**	**1,684**	**533**
Balance as of 31 December 2017									
Acquisition cost	**1,792,479**	**1,791,801**	12,170	8,958	1,170,768	577,395	681	21,829	678
Accumulated amortisation	**(698,601)**	**(698,550)**	(3,766)	(5,751)	(452,084)	(216,717)	-	(20,232)	(51)
Net amount	**1,093,878**	**1,093,251**	**8,404**	**3,207**	**718,684**	**360,678**	**681**	**1,597**	**627**
Balance as of 1 January 2017	**1,113,444**	**1,113,183**	**8,669**	**3,434**	**728,012**	**369,994**	**1,211**	**1,863**	**261**
Additions	**22,682**	**22,265**	-	-	-	-	22,265	-	417
Amortisation	**(42,102)**	**(42,051)**	(265)	(333)	(27,070)	(13,893)	-	(490)	(51)
Write-off's and Disposals	**(146)**	**(146)**	-	-	(141)	(5)	-	-	-
Transfers	**-**	**-**	-	106	17,883	4,582	(22,795)	224	-
Balance as of 1 January 2018	**1,093,878**	**1,093,251**	**8,404**	**3,207**	**718,684**	**360,678**	**681**	**1,597**	**627**
Additions	**26,205**	**26,094**	-	-	-	-	26,094	-	111
Amortisation	**(42,642)**	**(42,437)**	(265)	(328)	(27,396)	(14,120)	-	(328)	(205)
Write-off's and Disposals	**(104)**	**(104)**	-	-	(104)	-	-	-	-
Transfers	**(2)**	**(2)**	16	6	19,949	4,879	(25,267)	415	-
Balance as of 31 January 2018	**1,077,335**	**1,076,802**	**8,155**	**2,885**	**711,133**	**351,437**	**1,508**	**1,684**	**533**

12.2. Main events occurring during the year ended 31 December 2018:

The increases noted in tangible and intangible assets, amounting to € 26,205 k, mainly refers essentially 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 € 26,094 k is under IFRIC 12 (Notes 6 and 7).

13. Government Grants

As of 31 December 2018 and 2017, the amounts recognised and to be recognised as government grants is as follows:

Unit: €k

Program	December 2018	December 2017
Amount to be recognised (Note 20.2)	**218,728**	**227,472**
Amount received:	**406,929**	**406,929**
Programa Energia	103,689	103,689
Protede	19,708	19,708
Programa Operacional Economia	282,650	282,650
PROALGARVE –FEDER	882	882
Accumulated amount recognised in income	**(188,201)**	**(179,457)**

During the years ended 31 December 2018 and 31 December 2017, grants amounting €8,744 k and €8,790 k, respectively (Note 6) were recognised in the consolidated income statement according to the assets useful life.

14. Trade and other receivables

Accounting Policy

Third party debt is a category of financial assets (See Note 2). The amortized cost of these assets does not differ from their nominal value or their fair value.

14.1. Trade receivables

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

Unit: €k

	December 2018	December 2017
	12,093	**10,315**
Trade receivables	12,516	10,758
Impairment on trade receivables	(423)	(443)

The movements in impairment on trade receivables in the years ended 31 December 2018 and 2017 was as follows:

Unit: €k

Impairment on trade receivable	Initial Balance	Increases	Decreases	Utilisation	Final Balance
December 2018	**443**	**160**	**(80)**	**(100)**	**423**
Trade receivables- Current account	443	160	(80)	(100)	423
December 2017	**550**	**80**	**(92)**	**(95)**	**443**
Trade receivables- Current account	550	80	(92)	(95)	443

The increase and decrease in the caption "Impairment on trade receivables" in the net amount of €80 k was recorded in the caption "Impairment losses on receivables" (Note 7).

The following is an ageing schedule of Group trade receivables as of 31 December 2018 and 2017:

Unit: €k

	December 2018			December 2017		
	Gross	Impairment	Net	Gross	Impairment	Net
	12,516	**(423)**	**12,093**	**10,758**	**(443)**	**10,315**
Not overdue	11,342	-	11,342	8,703	-	8,703
Overdue up to 180 days	742	(6)	736	1,522	(7)	1,515
Overdue between 180 days and 365 days	40	(38)	2	52	(37)	15
Overdue up to 365 days	392	(379)	13	481	(399)	82

Overdue balances which have not been subject to impairment 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 Galp 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 Comercialisation 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:

- Operators of Natural Gas Distribution Network (ORDs) 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 Rede Elétrica Nacional - REN , which is the holder of this infrastructure;

- Last Resort Retailers charge to the end customers the tariffs for access to the transport and distribution infrastructures (UGS, URT and URD tariffs), which pass on the Operators of 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 (“CURG”) 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 Chapter IV of 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 2018 and 31 December 2017 is detailed as follows:

Unit: €k

		December 2018		December 2017	
Caption	**Notes**	**Current**	**Non current**	**Current**	**Non Current**
Other receivables		**51,946**	**15,047**	**69,944**	**15,753**
Other debtors		**153**	**-**	**175**	**-**
Suppliers debtor balances		143	-	165	-
Advances to suppliers		10	-	10	-
Related Parties		**306**	**-**	**410**	**-**
Other receivables - associates, joint ventures and other related parties	**22**	306	-	410	-
Other receivables		**22,174**	**5,755**	**24,456**	**11,860**
Personnel		99	-	78	-
Securities		52	-	17	-
Subsoil occupantion levies		20,448	5,755	22,686	11,860
Other receivables		1,575	-	1,675	-
Accrued income		**28,358**	**9,280**	**44,065**	**3,886**
Sales and services rendered not yet invoiced		14,428	-	25,372	-
Adjustment to tariff deviation – other activities		10,857	-	11,455	-
Adjustment to tariff deviation- Regulated Revenue		2,871	9,280	5,673	3,886
Uniformity tariff compensation		193	-	1,054	-
Other accrued income		9	-	511	-
Deferred charges		**958**	**12**	**841**	**7**
Prepaid rents		7	-	7	-
Interest and other financial charges		64	-	94	-
Prepaid insurance		141	-	59	-
Other deferred costs		746	12	681	7
Impairment on other receivables		**(3)**	**-**	**(3)**	**-**

There were no movements during the years ended 31 December 2018 and 2017 in the caption "Impairment on other receivables".

The caption "Subsoil occupation levies" amounting to €26,203 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 commercialisation entities or to end customers.

The amount of €306 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 €14,428 k, is mainly related with the 2018 natural gas consumption to be invoiced to customers in the year 2019.

The caption "Accrued income/ costs – Adjustments to tariff deviation – regulated revenue" presents the following detail:

Distribution and comercialisation of natural gas	2017	Adjustment to Gas year Actual Regulated Revenue (Note 6)	Amortisation / Reversal of the Gas Year Regulated Revenue Difference (Note 6)	Adjustment between estimated regulated revenue and invoiced revenue (Note 6)	2018
	672	**(564)**	**(1,167)**	**2,808**	**1,749**
Fiscal Year 2015	**910**	**(944)**	**34**	**-**	**-**
First half 2015	(9,644)	-	-	-	(9,644)
Second half 2015	11,137	-	-	-	11,137
Adjusment to Year 2015	(943)	(944)	-	-	(1,887)
Reversal of 2015 Regulated Revenue	34	-	34	-	68
Reclassification	326	-	-	-	326
Fiscal Year 2016	**1,642**	**380**	**(1,201)**	**-**	**821**
First half 2016	(13,690)	-	-	-	(13,690)
Second half 2016	15,332	-	-	-	15,332
Adjusment to Fiscal year 2016	-	380	-	-	380
Reversal of 2016 Regulated Revenue	-	-	(1,201)	-	(1,201)
Fiscal Year 2017	**(1,880)**	**-**	**-**	**-**	**(1,880)**
First half 2017	(5,655)	-	-	-	(5,655)
Second half 2017	3,775	-	-	-	3,775
Fiscal Year 2018	**-**	**-**	**-**	**2,808**	**2,808**
First half 2018	-	-	-	(21,235)	(21,235)
Second half 2018	-	-	-	24,043	24,043

	672	**(564)**	**(1,167)**	**2,808**	**1,749**
Accrued cost (Note 20.2)	(8,887)	(1,150)	5,092	(5,457)	(10,402)
Accrued income	9,559	586	(6,259)	8,265	12,151

The caption "Adjustment of tariff deviation – regulated revenue" amounting to €1,749 k relates to the difference between the estimated regulated revenue published for the regulated activity and the revenue corresponding to the actual 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 2018, the differences for the Group's Regulated Revenue for the calendar year 2016 were settled, amounting to a recoverable amount of €2,402 k. As the accrual made is lower than the amount agreed, the Group recognised in the caption "Services rendered" the respective increase amounting to €380 k.

As mentioned the total amount to be recovered was included by ERSE in the regulated revenues to be recovered in the gas year 2018-2019, thus the Group recognised the reversal of the amount of the approved tariff deviation in the income statement.

15. Inventories

Accounting policy

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

Net realisable 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:

Goods

The acquisition cost includes the invoice price, transport and insurance costs, being the cost of sales determined based on average weighted basis.

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

Unit: €k

	December 2018	December 2017
Captions	**1,695**	**1,938**
Raw materials, subsidiary and consumption goods:	**1,619**	**1,842**
Other raw materials and various materials	1,728	2,011
Impairment on raw materials, subsidiary and consumption goods	(109)	(169)
Goods	**76**	**96**

As of 31 December 2018, the caption "Other raw and various materials" amounting to €1,728 k, 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 2018 and 2017 are as follows:

Unit: €k

Captions	Initial balance	Increases	Decreases	Ending balance
December 2018	**169**	**-**	**(60)**	**109**
Impairment on raw materials, subsidiary and consumption goods	169	-	(60)	109
December 2017	**155**	**14**	**-**	**169**
Impairment on raw materials, subsidiary and consumption goods	155	14	-	169

The decreases amounting to (€60 k) were 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 mobilized 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 "Financial debt" in the statement of financial position.

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

Unit: €k

Captions	Notes	December 2018	December 2017
Cash and cash equivalents in the consolidated statement of cash flows		**48,105**	**16,672**
Cash and cash equivalents		48,107	16,683
Bank overdrafts	18	(2)	(11)

The caption "Other treasury investments", included in Cash and cash equivalents" includes applications of treasury surplus, with maturities up to three months, in respect to the following Group companies:

Unid: €k

Companies	December 2018	December 2017
Other treasury investments	**1,400**	**2,350**
Beiragás - Companhia de Gás das Beiras. S.A.	1,400	2,350

During 2018, there were no restrictions, in addition to those resulting from the law application and the use of cash and cash equivalents, over the amounts 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, amounting the Group Consolidated equity as of 31 December 2018 to €236,840 k.

Regarding 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 full reimbursement of the shareholder loans granted by Galp.

The indebtness ratio of GGND Group is about 5.5x Net Debt / EBITDA, below the ratio established in contracts with bank institutions, which allow a ratio up to 7x.

17.1. Share capital

Capital structure

As of 31 December 2018 share capital amounting €89,529,141 compounded by 89,529,141 shares with nominal value amounting to one euro each, entirely subscripted and realised by the following shareholders:

	December 2018			December 2017		
	Number of shares	Participation (%)	Voting rights %	Number of shares	Participation (%)	Voting rights %
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 2018 and 31 December 2017 "Legal reserves", "Hedging reserves" and "Other reserves" are detailed as follows::

Unit: €k

Captions	Notes	December 2018	December 2017	Changes in the period (December 2018-December 2017)
Reserves		**7,468**	**5,964**	**1,504**
Legal reserves		**7,969**	**6,695**	**1,274**
Hedging reserves	17.2.2	**(219)**	**(449)**	**230**
Reserves - Financial derivatives	17.2.2	(292)	(599)	307
Reserves - Deferred tax on financial derivatives	17.2.2 e 10.3	73	150	(77)
Other reserves:	**17.2.3**	**(282)**	**(282)**	**-**
Reserves - Increase of 14.34586% in Lusitaniagás - Companhia de Gás do Centro, S.A.'s share capital		384	384	-
Reserves – Increase of 33.05427% in Setgás - Sociedade de Distribuição de Gás Natural, S.A.'s share capital		(671)	(671)	-
Reserves – Increase of 0.00842% in Beiragás - Companhia de Gás das Beiras, S.A.'s share capital		5	5	-

17.2.1. Legal reserves

According to the company's bylaws and the Commercial Companies Code, the company has to transfer to the caption "Legal Reserves", included in other reserves, in equity, 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, however, under certain circumstances, it may be used to increase share capital or absorb losses after all other reserves are exhausted. In 2018 the caption "Legal Reserves" fluctuated positively amounting to €1,274 k.

17.2.2. Hedging reserves

In the year ended 31 December 2018, the amount of €292 k (Note 22) referring to the fair value of financial derivatives - cash flow hedges related to associates and €73 k related to its fiscal effect details as follows:

Unit: €k

Hedging reserves:		December 2018	December 2017	Changes in the period (December 2018-December 2017)
Hedging reserves:		**(219)**	**(449)**	**230**
Reserves - financial derivatives		**(292)**	**(599)**	**307**
Financial investments in associates and joint ventures	(*)	(292)	(599)	307
Reserves - Deferred tax on financial derivatives		**73**	**150**	**(77)**
Financial investments in associates and joint ventures	(*)	73	150	(77)

(*) Comprehensive income for the year attributable to shareholders

17.2.3. Other reserves

Reserves – increase of 14.35486% in the share capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A

On December 2017, the Group acquired 0.02575% of the share 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 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 share 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 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 share capital of the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., which was previously controlled by the Group and consolidated using the full consolidation method. Accordingly, the difference of €370 k between the amount paid and the book value of the equity at acquisition date, was recognised in the caption "Reserves" in equity.

On December 2015, the Group acquired 3.67276% of the share 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 share capital of the subsidiary Setgás - Sociedade de Distribuição de Gás Natural, S.A.

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

On December 21, 2016, the Group acquired 33.05427% of the capital of the subsidiary Setgás - Sociedade de Distribuição de Gás Natural, S.A. from Enagás – S.G.P.S., S.A., which was 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 share capital of the subsidiary Beiragás - Companhia de Gás das Beiras, S.A.

On the year ended 31 December 2016, the Group acquired 0.08842% of the share capital of the subsidiary Beiragás - Companhia de Gás das Beiras, S.A., which was 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 2018 and 2017 were as follows:

Unit: €k

	Notes	December 2018	December 2017
Consolidated net income for the year attibutable to the Shareholders of Galp Gás Natural Distribuição, S.A.		28,417	29,262
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):		**0.32**	**0.33**

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

17.4. Non-controlling interests

As of 31 December 2018 and 2017, 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 Distribuição de Gás Natural. S.A.**	
		December 2018	**December 2017**	**December 2018**	**December 2017**	**December 2018**	**December 2017**
% Non-controlling interest at the beginning of the year		**40.407%**	**40.407%**	**3.067%**	**3.158%**	**0.067%**	**0.067%**
Non-controlling interests at the beginning of the year		**17,832**	**17,643**	**2,031**	**1,974**	**30**	**30**
Share capital		-	-	-	-	-	-
Share premium		-	-	-	-	-	-
Reserves							
Retained earnings							
Retained earnings - Actuarial gains and losses	(*)	14	7	2	1	-	-
Previous years results	(*)	-	-	(2)	(56)	1	-
Net result for the year	(*)	941	990	132	112	1	1
Dividends paid (a)		(1,212)	(808)	(248)	-	(3)	(1)
Non-controlling interests at the end of the year		**17,575**	**17,832**	**1,915**	**2,031**	**29**	**30**
% Non-controlling interest at the end of the year		**40.407%**	**40.407%**	**3.070%**	**3.067%**	**0.067%**	**0.067%**
Dividends paid to other shareholders (a)		(1,212)	(808)	(241)	-	(3)	(1)
(*) Comprehensive income for the year attributable to non-controlling interests							

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

During the year ended 31 December 2018 dividends attributed amounted to €1,463 k and paid dividends amounted to €1,456 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 2018 and 31 December 2017:

Statement of Financial Position — Unit: €k

Assests	Beiragás - Companhia de Gás das Beiras. S.A.		Lusitaniagás - Companhia de Gás do Centro. S.A.		Setgás - Sociedade de Distribuição de Gás Natural. S.A. (a)	
	December 2018	December 2017	December 2018	Decdember 2017	December 2018	December 2017
Non-current assets:						
Tangible assets	-	-	-	-	507	526
Intagible assets	69,247	69,606	272,662	275,262	169,066	171,444
Financial assets available for sale	-	-	-	-	3	3
Other receivables	1,424	2,205	9,602	3,574	997	2,030
Deferred tax assets	945	532	654	657	511	296
Total non-current assets:	**71,616**	**72,343**	**282,918**	**279,493**	**171,084**	**174,299**
Current assets:						
Inventories	223	230	275	230	386	167
Trade receivables	1,065	660	2,666	1,867	1,679	1,426
Other receivables	4,376	2,401	8,812	20,131	7,305	8,974
Income tax receivables	-	560	756	-	-	112
Cash and cash equivalents	3,200	3,587	2,854	699	773	205
Total current assets:	**8,864**	**7,438**	**15,363**	**22,927**	**10,143**	**10,884**
Total assets:	**80,480**	**79,781**	**298,281**	**302,420**	**181,227**	**185,183**
Equity and Liabilities	**December 2018**	**December 2017**	**December 2018**	**December 2017**	**December 2018**	**December 2017**
Equity:						
Share capital	11,580	11,580	20,500	20,500	9,000	9,000
Supplementary and other capital instruments	-	-	-	-	7,482	7,482
Reserves	2,556	2,434	5,266	5,266	7,426	7,426
Acumulated results	27,029	27,666	32,398	36,785	17,813	20,126
Net income of the period	2,355	2,452	4,310	3,645	1,849	1,460
Total equity attributable to shareholders:	**43,520**	**44,132**	**62,474**	**66,196**	**43,570**	**45,494**
Non-controlling interests	-	-	-	-	-	-
Total equity:	**43,520**	**44,132**	**62,474**	**66,196**	**43,570**	**45,494**
Liabilities:						
Non-current liabilities:						
Loans	8,333	9,375	1,151	2,302	-	-
Other payables	18,555	17,406	204,018	207,232	118,580	122,934
Retirement benefits and other benefits liabilities	295	323	379	306	343	384
Deferred tax liabilities	98	98	2,458	1,775	3,224	3,346
Provisions	3,035	2,546	12,978	10,219	7,167	5,697
Total non-current liabilities:	**30,316**	**29,748**	**220,984**	**221,834**	**129,314**	**132,361**
Current liabilities:						
Bank loans and overdrafts	1,042	1,042	1,152	2,313	-	-
Trade payables	1,085	825	4,491	3,826	1,383	1,774
Other payables	4,032	4,034	9,180	6,456	5,503	5,554
Current income tax payable	485	-	-	1,795	1,457	-
Total Current liabilities:	**6,644**	**5,901**	**14,823**	**14,390**	**8,343**	**7,328**
Total liabilities:	**36,960**	**35,649**	**235,807**	**236,224**	**137,657**	**139,689**
Total Equity and Liabilities	**80,480**	**79,781**	**298,281**	**302,420**	**181,227**	**185,183**

(a) Includes the amounts related to fair value of the 2012 acquisition, which amounted to €12,850k.

Unit: €k

Income Statement	Beiragás - Companhia de Gás das Beiras. S.A.		Lusitaniagás - Companhia de Gás do Centro. S.A.		Setgás - Sociedade de Distribuição de Gás Natural. S.A.	
	December 2018	December 2017	December 2018	December 2017	December 2018	December 2017
Operating income:						
Sales	3,177	1,942	-	-	-	-
Services rendered	9,571	10,992	44,240	49,381	22,621	23,399
Other operating income	2,938	2,363	9,614	8,505	5,077	5,707
Total operating income:	**15,686**	**15,297**	**53,854**	**57,886**	**27,698**	**29,106**
Operating costs						
Cost of sales	1,263	1,069	(35)	11	-	-
External supplies and services	4,883	5,185	17,676	23,490	7,530	8,818
Employee costs	802	850	2,482	2,638	1,819	1,796
Amortisation, depreciation and impairment losses on fixed assets	2,591	2,552	9,832	9,762	6,071	5,975
Impairment losses on receivables	39	(67)	8	1	3	1
Other operating costs	2,254	1,625	7,325	5,977	3,731	4,259
Total operating costs:	**11,832**	**11,214**	**37,288**	**41,879**	**19,154**	**20,849**
Operating result:	**3,854**	**4,083**	**16,566**	**16,007**	**8,544**	**8,257**
Financial income	33	41	24	35	38	51
Financial costs	(157)	(119)	(7,172)	(7,283)	(4,238)	(4,410)
Income before taxes:	**3,730**	**4,005**	**9,418**	**8,759**	**4,344**	**3,898**
Income tax	(886)	(974)	(2,349)	(2,443)	(1,025)	(940)
Energy sector extraordinary contribution	(489)	(579)	(2,759)	(2,671)	(1,470)	(1,498)
Consolidated net income for the year	**2,355**	**2,452**	**4,310**	**3,645**	**1,849**	**1,460**

17.5. Dividends

In accordance with the deliberation of the General Meeting of Shareholders held on 25 May 2018, dividends amounting to € 24,170 k relating to the distribution of net result for the year 2017 were attributed to the shareholders of Galp Gás Natural Distribuição, S.A. and fully liquidated during the year ended 31 December 2018

During the year ended 31 December 2018 dividends amounting to €1,463 k were attributed to the shareholders of the subsidiaries of the Galp Gás Natural Distribuição, S.A. Group to minority shareholders, of which €1,456 k were paid in the year (Note 17.4).

As a consequence of the previously mentioned, during the year ended 31 December 2018, the Group paid dividends amounting €25,626 k.

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 amortized 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 capitalized to investment in qualifying tangible and intangible fixed assets.

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

Loans obtained as of 31 December 2018 and 31 December 2017 were as follows:

Unit: €k

		December 2018		December 2017	
	Notes	Current	Non-current	Current	Non-current
Financial debt		**8,349**	**609,270**	**9,509**	**616,909**
Bank loans:		**8,349**	**12,561**	**9,509**	**20,908**
Origination Fees		-	-	-	-
Loans and commercial paper		8,347	12,561	9,498	20,908
Bank overdrafts	16	2	-	11	-
Bonds and Notes:		**-**	**596,709**	**-**	**596,001**
Origination Fees		-	(3,291)	-	(3,999)
Bond loans		-	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 2018:

Unit: €k

	Loans		
Maturity	Total	Current	Non-Current
	620,908	**8,347**	**612,561**
2019	8,347	8,347	-
2020	5,268	-	5,268
2021	1,042	-	1,042
2022	1,042	-	1,042
2023	601,042	-	601,042
2024 and subsequent years	4,167	-	4,167

As of 31 December 2018 and 31 December 2017, Loans obtained, excluding bank overdrafts and discounted notes, are expressed in the following currencies:

Unid: €k

		December 2018		Decembero 2017	
	Currency	Total initial amount	Due amount	Total initial amount	Due amount
			620,908		**630,406**
Euro	EUR	690,073	620,908	736,928	630,406

Description of main loans

<u>Bank loans – European Investment Bank</u>

The Group has a financing contract with the European Investment Bank amounting to €11,533 k, of which €7,305 k are due in the short-term and €4,228 k are classified as medium and long-term. These loans 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%;

"Net debt/Equity", 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. .

As of 31 December 2018 the Group complies with the mentioned covenants.

Bank loans - Others

As of December 2005, a project finance agreement was established by the Group company Beiragás - Companhia de Gás das Beiras, SA, which includes an investment credit facility up to a maximum amount of € 27,000 k (Installment A) which could be used until December 2008 a support line to exploration up to the maximum amount of € 4,000 k (Installment 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) the Agent Bank; ii) repayment plan of Installment A (repayment in 36 consecutive semiannual installments, from June 15, 2010 until December 15, 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 2018, regarding the utilisation of credit line to investment, amounts to €9,375 k, of which €1,042 k are due on the short term and €8,333 k are due in medium and long terms.

Revolving Credit Facility

As of 31 December 2018, 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 3 years. This amount was fully available as of 31 December 2018.

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

As of 25 August 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, as of 19 September 2016, Galp Gás Natural Distribuição, S.A., issued notes amounting €600,000 k, which overdue at 19 September 2023, with coupons of 1.375%, admitted to negotiation on the regulated market of London Stock Exchange (See fair value assessment in Note 23).

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 to 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 as lock-up event and other as event of default:

Financial ratios	December 2018
Net Debt [1]/Ebitda [2]	5.5x
Debt Service Coverage Ratio [3]	8.5x

[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 2018 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 2018, for the purposes of the consolidated statement of cash flows::

Unit: €k

	December 2017	Cash flow	December 2018
Long term debt	**630,406**	**(9,498)**	**620,908**
Long term loans	630,406	(9,498)	620,908

19. Post-employment and other employee benefits

Accounting policy

Retirement benefits

Some GGND Group companies have undertaken to grant their employees, through a defined contribution non-contributory benefit plan and a defined contribution contributory plan, cash benefits for supplementary old-age and disability pensions and survival, early retirement and early retirement. These benefits, with the exception of pensions for early retirement and early retirement, consist of an increasing value with the number of years of service of the worker. Pre-retirement and pre-retirement pensions essentially correspond to a percentage of the value of the employee's salary. Included in these commitments, when applicable, are the payment of Social Security for pre-retired persons.

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 - Sociedade Distribuidora de Gás Natural de Lisboa. S.A., 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 Distribuição de Gás Natural, 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* manage 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 2018 and 2017, 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

	2018				2017			
		Fair Value - valuation levels				Fair Value - valuation levels		
		Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
	Total	Market quotation	Observable market inputs	Other valuation techniques	Total	Market quotation	Observable market inputs	Other valuation techniques
Total	**20,622**	**20,622**	**-**	**-**	**22,753**	**22,753**	**-**	**-**
Shares	5,326	5,326	-	-	6,131	6,131	-	-
Bonds	14,554	14,554	-	-	15,878	15,878	-	-
Real State	21	21	-	-	238	238	-	-
Liquidity	721	721	-	-	506	506	-	-

During the year ended 31 December 2018, no contributions to the Fund were made.

As of 31 December 2018 and 2017 the Group had the following amounts related to liabilities for retirement benefits and other benefits:

Unit: €k

Captions	December 2018	December 2017
	(55,802)	**(57,089)**
Post-employment benefits	**(31,297)**	**(32,262)**
Other Benefits	**(24,505)**	**(24,827)**

Caption "Retirement Benefits" amounting to €31,297 k includes essentially €91 k, €87 k and €49 k for the subsidiary Setgás - Sociedade de Distribuição de Gás Natural. S.A., Lusitaniagás - Companhia de Gás do Centro, S.A. and Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa. S.A., respectively, to cope with already agreed pre-retirements that will only be effective in 2019.

As of 31 December 2018 and 2017, the Group had recorded in equity the following amounts related to retirement benefits and other benefits:

Unid: €k

Captions	Notes	December 2018	December 2017
		24,061	**24,013**
		29,278	**29,485**
Retirement benefits		**19,148**	**18,747**
Other benefits		**10,130**	**10,738**
Deferred tax		**(5,217)**	**(5,472)**

The amounts presented in the table above differ by € 13k from the amount reflected in equity, mainly due to the effect of the variation of non-controlling interests.

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.

The caption "Employee costs - Retirement benefits" for € 3,263 k includes essentially:

Unit: €k

Captions	December 2018	December 2017
	3,263	**2,436**
Retirement benefits	**1,924**	**2,283**
Other benefits	**1,173**	**1,130**
Defined contribution plan	**402**	**418**
Pre-retirements and early retirements not included in previous items	**(236)**	**(1,595)**

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

	December 2018	December 2017
	603	**619**
Active	178	185
Pre-Retired	32	34
Early Retirements	33	35
Disability Retirements	3	5
Age Retirements	198	199
Pensioners - Widows/Orphans	159	161

During 2018, 1 new case of pre-retirement and 6 new cases of early retirement were noted.

The average maturity of liabilities for the defined benefit plans is 11.8 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	
	2018	2017	2018	2017
Rate of return on assets	2.25%	2.25%	-	-
Discount 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 the Retirement Benefits and Other benefits at 31 December 2018 and 31 December 2017 are as follows:

Unid: €k

	TOTAL		Retirement benefits		Other benefits	
	2018	2017	2018	2017	2018	2017
Changes in past service liability (PSL)						
PSL at the end of the previous year	79,378	81,404	54,551	54,011	24,827	27,393
Current service cost	1,640	1,715	1,015	991	624	724
Interest cost	1,728	1,772	1,180	1,166	547	606
Actuarial (gain) / loss	(1,581)	(928)	(973)	2,153	(608)	(3,081)
Benefit payments made by the Fund	(1,254)	(1,240)	(1,254)	(1,240)	-	-
Benefit payments made by the Company	(3,932)	(3,984)	(3,054)	(3,169)	(878)	(815)
Cut back - Early retirements	226	237	226	237	-	-
Cut back - Pre-retirement	-	400	-	400	-	-
Other adjustments	-	2	1	2	-	-
PSL at the end of the current year	**76,206**	**79,378**	**51,692**	**54,551**	**24,514**	**24,827**
Changes in coverage of financial assets (pension fund)						
Assets at the end of the previous year	22,753	23,337	22,753	23,337	-	-
Net interest	497	511	497	511	-	-
Benefit payments	(1,254)	(1,240)	(1,254)	(1,240)	-	-
Financial gains / (losses)	(1,374)	145	(1,374)	145	-	-
Assets at the end of the current year	**20,622**	**22,753**	**20,622**	**22,753**	**-**	**-**
Reconciliation of gains and losses - through Comprehensive Income						
(Gain) / loss from actuarial experience	1,581	(939)	973	(2,153)	608	1,214
(Gain) / loss by actuarial assumptions change	-	1,867	-	-	-	1,867
Financial (Gain) / loss	(1,374)	145	(1,374)	145	-	-
Other impacts	(207)	(1,073)	401	2,008	(608)	(3,081)
(Gains) / losses to be recognised in the year-end	**-**	**-**	**-**	**-**	**-**	**-**
Reconciliation to the Statement of Financial Position						
(Gains) / losses recognized at the beginning of the year - Asset/(Liability)	(56,625)	(58,067)	(31,798)	(30,674)	(24,827)	(27,393)
Net cost of the year	(3,095)	(3,613)	(1,924)	(2,283)	(1,173)	(1,330)
Benefit payments made directly by the Company	3,933	3,984	3,054	3,169	878	815
Gains / (losses) recognized - through Comprehensive Income	207	1,073	(401)	(2,008)	608	3,081
Other adjustments effects	-	(2)	(1)	(2)	-	-
Total recognised at year end - Assets / (Liabilities)	**(55,580)**	**(56,625)**	**(31,070)**	**(31,798)**	**(24,514)**	**(24,827)**
Net cost of the year						
Current service cost	1,640	1,715	1,015	991	625	724
Interest cost	1,231	1,261	683	655	548	606
Net cost of the year before special events	**2,871**	**2,976**	**1,698**	**1,646**	**1,173**	**1,330**
Cut back impact - Early Retirement	226	237	226	237	-	-
Cut back impact - Pre-retirement	-	400	-	400	-	-
Net cost of the year	**3,097**	**3,613**	**1,924**	**2,283**	**1,173**	**1,330**
Reconciliation of gains and loss recognised- through Comprehensive Income						
Cumulative (Gains) / losses recognized at the beginning of the year	29,485	30,558	18,746	16,738	10,739	13,820
Actuarial (Gains) and Losses from experience	(1,581)	939	(973)	2,153	(608)	(1,214)
(Gains) / losses from change in assumptions	-	(1,867)	-	-	-	(1,867)
Financial (Gains) / losses	1,374	(145)	1,374	(145)	-	-
Cumulative (Gains) / losses recognised at the end of the year	**29,277**	**29,485**	**19,147**	**18,746**	**10,130**	**10,739**

The financial losses resulting from the Funds, amounting to €1,374 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	**23,513**	**22,753**	**(760)**	**31-12-2017**
Estimation adjustment	(760)	-	760	
Benefits payment	(1,323)	(1,254)	69	
Associates contributions	1,241	-	(1,241)	**2018**
Total Movements	**(842)**	**(1,254)**	**(412)**	
Fund return	497	(877)	(1,374)	
Final balance	**23,168**	**20,622**	**(2,546)**	**31-12-2018**

As of 31 December 2018, 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
	21,474	**16,846**	**4,628**
2019	4,997	4,078	919
2020	4,679	3,753	926
2021	4,459	3,531	928
2022	4,217	3,287	930
2023	3,122	2,197	925

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
	76,206	**78,445**	
Retirement benefits	51,692	53,009	2.55%
Other benefits	24,514	25,436	3.76%

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	Salaries increase rate 1.00%	Salaries increase rate 2.00%	Variation
	53,055	**56,554**	
Retirement benefits	51,692	55,056	6,51%
Other benefits	1,363	1,498	9,87%

Health Insurance sensitivity analysis

Unit: €k

Captions	2.50%	3.50%	4.50%
Past Services Liabilities	20,030	23,150	26,997
Impact on past services liabilities	(3,120)	-	3,847
Increase / (Decrease) in Liabilities	(13%)	-	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%
	2018	**2017**	**2016**	**2015**
Liabilities amount (a)	**26,098**	**26,935**	**26,163**	**25,621**
Value of the Fund (b)	**20,622**	**22,753**	**23,337**	**24,340**
Actuarial Gains (+) and Losses (-)	**(558)**	**1,056**	**797**	**(1,582)**
Gains (+) and Losses (-) for changes in assumptions	-	-	840	(820)
Actuarial Gains (+) and Losses (-) from experience (c)	(558)	1,056	(43)	(762)
Financial Gains (+) and Losses (-) (d)	**1,374**	**(145)**	**375**	**(85)**
(c)/(a)	(2.14%)	3.92%	(.16%)	2.97%
(d)/(b)	6.66%	(.64%)	1.61%	(.35%)
Real Return on Plan Assets (%)	(4.25%)	2.88%	0.92%	2.38%
Real Return on Plan Assets	(877)	656	218	541

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 modelled. It has also modelled 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 analysed.

20. Trade and other payables

Accounting policy

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

20.1. Trade payables

As of 31 December 2018 and 31 December 2017 the amounts recorded in the caption "Trade payables" were as follows:

Unit: €k

	December 2018	December 2017
Trade payables	**11,111**	**10,360**
Trade payables - current accounts	8,195	7,094
Trade payables - pending invoices	2,916	3,266

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 2018 and of 31 December 2017 the non-current and current captions "Other payables" were detailed as follows:

Unit: €k

		December 2018		December 2017	
Captions	**Notes**	**Current**	**Non-Current**	**Current**	**Non-Current**
		33,770	**217,400**	**35,765**	**223,661**
State and Other Public Entities:		**6,068**	**-**	**5,960**	**-**
Value Added Tax payables		5,206	-	5,095	-
"ISP" - Tax on oil products		49	-	57	-
Personnel and Corporate Income Tax Withheld		345	-	345	-
Social Security contributions		466	-	461	-
Other taxes		2	-	2	-
Other creditors		**4,209**	**-**	**3,450**	**-**
Tangible and intangible assets suppliers		3,915	-	3,439	-
Trade receivables credit balances		290	-	7	-
Advances on sales		4	-	4	-
Related companies		**123**	**-**	**-**	**-**
Dividens payable	**22**	123	-	-	-
Other accounts payables		**771**	**-**	**1,063**	**-**
Personnel		66	-	34	-
Guarantee deposits and guarantees received		266	-	455	-
Other creditors		439	-	574	-
Accrued costs		**13,496**	**7,413**	**15,764**	**4,947**
External supplies and services		1,543	-	1,564	-
Holiday , holiday subsidy and corresponding contributions		2,582	-	2,578	-
Bonuses to employees		1,724	-	1,943	-
Accrued interest		2,333	-	2,316	-
Accrued insurance premiums		350	-	769	-
Adjustment to tariff deviation - regulated revenue	**14.2**	2,989	7,413	3,940	4,947
Adjustment to tariff deviation - other activities		1,845	-	2,527	-
Accrued personnel costs – others		123	-	125	-
Financial costs and losses		2	-	2	-
Other accrued costs		5	-	-	-
Deferred income		**9,103**	**209,987**	**9,528**	**218,714**
Investment government grants	**13**	8,741	209,987	8,942	218,530
Optical fiber		184	-	404	184
Others		178	-	182	-

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 €218,728 k (Note 13).

Taking into account the consolidated results obtained by the Group, the net result for the year includes an increase of costs in the amount of €1,634 k corresponding to the employee's profit sharing for the year, which is included in the caption Bonuses to employees in the amount of €1,724 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 years ended 31 December 2018 and 2017 were as follows:

Unit: €k

Captions	Initial balance	Increases	Utilisation	Final balance
December 2018	**42,646**	**10,675**	**(5)**	**53,316**
Lawsuits	481	5	(5)	481
CESE I	39,734	10,485	-	50,219
Other risks and charges	2,431	185	-	2,616
Dezembro 2017	**32,086**	**10,560**	**-**	**42,646**
Lawsuits	430	51	-	481
CESE I	29,408	10,326	-	39,734
Other risks and charges	2,248	183	-	2,431

The increase in provisions, net of the decreases, in the year ended 31 December 2018 and 2017 were as follows:

Unit: €k

	Total	Operating Costs Provisions (Note 7)	Energy sector extraordinary contribution (Note 10.1)
December 2018	**10,675**	**190**	**10,485**
Other risks and charges	**190**	190	-
CESE I	**10,485**	-	10,485
December 2017	**10,560**	**234**	**10,326**
Other risks and charges	**234**	234	-
CESE I	**10,326**	-	10,326

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 2018, the item provisions for the tax "Energy Sector Extraordinary Contribution" presents the amount of €50,219 k corresponding to the total responsibility, that the group is challenging. This provision was increased in €10,485 k recognized in income statement in the caption "Energy Sector Extraordinary Contribution "(Note 10).

Other risks and charges

i) As of 31 December 2018 the caption "Provisions – other risks and charges", amounting €2,616 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 €185 k concerns charges received during 2018 performed by the Lisbon Port Administration.

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 the family is related to a reporting entity if: (i) it has joint control or control of the reporting entity; (ii) it 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 2018 and 2017, respectively, were as follows:

Receivables

Unit: €k

	2018			
		Current		
	Total related parties	Trade receivables	Other receivables (Note 14.2)	Accruals and deferrals
	11,665	**5,586**	**306**	**5,773**
Group companies (a)	11,621	5,551	301	5,769
Associates	44	35	5	4

(a) Caption Group Companies includes companies from Galp Group

Unit: €k

	2017			
		Current		
	Total related parties	Trade receivables	Other receivables (Nota14.2)	Accruals and deferrals
	23,055	**3,413**	**410**	**19,232**
Group companies (a)	23,017	3,380	405	19,232
Associated	38	33	5	-

(a) Caption Group Companies includes companies from Galp Group

Payables

Unit: €k

	2018			
		Current		
	Total related parties	Trade payables	Other payables (Note 20.2)	Accruals and deferrals
	4,843	**4,386**	**123**	**334**
Group companies (a)	4,714	4,380	-	334
Associates	6	6	-	-
Other related parties	123	-	123	-

(a) Caption Group Companies includes companies from Galp Group

Unit: €k

	2017		
		Current	
	Total related parties	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 includes companies from Galp Group

Current income tax payable

The current income tax payable includes the amounts calculated through the special group of companies tax regime payable to Galp Energia, SGPS, S.A. and is as follows:

Unit: €k

	Income tax (Note 10.2)
Galp Gás Natural Distribuição. S.A.	(1,654)
Setgás - Sociedade de Distribuição de Gás Natural. S.A.	(1,457)
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa. S.A.	(833)
Duriensegás - Soc. Distrib. de Gás Natural do Douro. S.A.	(390)
Dianagás - Soc. Distrib. de Gás Natural de Évora. S.A.	(175)
Medigás - Soc. Distrib. de Gás Natural do Algarve. S.A.	(149)
Paxgás - Soc. Distrib. de Gás Natural de Beja. S.A.	(12)
Lusitaniagás - Companhia de Gás do Centro. S.A.	756
	(3,914)

Transactions

Unit: €k

	2018		
	Purchases	Operating costs	Operating income
	2,544	**14,266**	**(75,211)**
Group companies (a)	2,544	14,116	(75,816)
Associates	-	32	605
Other related parties	-	118	-

(a) Caption Group Companies includes companies from Galp Group

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 includes companies from Galp Group

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 centralized.

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

		2018					2017				
			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%	620,908	101	19	-	-	630,406	(130)	(22)	-	-
	-0.5%		(28)	(19)	-	-		31	21	-	-
Applications - parallel shift in the interest rate	+0.5%	1,400	-	-	-	-	2,350	7	5	-	-
	-0.5%		-	-	-	-		(3)	(2)	-	-

Liquidity risk

Liquidity risk is defined as the amount by which profit and/or cash flow of the business are affected as a result of the Group's constraint to obtain the financial resources necessary to meet its operating and investment commitments.

GGND Group finances itself through cash flows generated by its operations and maintains a diversified portfolio of loans. 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 2018 and 2017, and are sufficient to meet any immediate demand. In addition to these credits, the Group has approximately 48 million Euros of cash and cash equivalents, as stated in the statement of financial position, as of 31 December 2018, and 17 million Euros as of 31 December 2017, which combined with the credit facilities amounts to 118 million Euros of liquidity as of 31 December 2018 and 87 million as of 31 December 2017.

Credit Risk

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

The GGND Group does not have credit risk concentration in clients (most are domestic and have no credit rating).

Impairment of accounts receivable is explained in Notes 14.1 and 14.2.

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

Responsabilidades contingentes

Contingent liabilities

As of 31 December 2018, the Company and its subsidiaries had the following contingent liabilities:

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.

It should also be mentioned that, during the negotiations of the Concession Agreement between the Portuguese State and the concession companies of the Group, it was agreed, inter alia, that the Concessionaire be granted the right to pass on, for natural gas trading companies and end consumers, the full amount of the underground occupation fees paid by the local authorities that are part of the concession area in force of the previous concession agreement but not yet paid or contested by the Concessionaire, if such payment is considered mandatory by the competent judicial body , after the final judgment has been rendered, or after the prior and express consent of the Grantor. The amounts that will be paid by the Concessionaire in each calendar year, related to subsoil occupancy rates, will be passed on to the commercial entities that use the infrastructure or to the end consumers served by them during the following years, under the terms to be defined by ERSE. This repercussion of subsoil occupancy rates will still be carried out by municipality, based on the amount effectively paid by it.

As the possible levies payable for proceedings up to December 31, 2018 and the respective default interest that would be applied would be reflected in future rates, the Group decided not to recognize any responsibility for ongoing legal proceedings settled by this subject.

As of 31 December 2018, 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)
156,217	4,975	(134,989)	26,203

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

As of 31 December 2018, 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.

It should also be noted that a sentence was issued by the Vila Real Court, confirmed by the Court of Appeal of Guimarães, for the total rejection of the request. As Dourogás Propano, S.A. appealed this judgment to the Supreme Court of Justice, it is now awaited confirmation.

Guarantees granted

As of 31 December 2018, responsibilities with guarantees granted amounted to €13,216 k and included essentially the following:

i) Guarantees, undated, amounting to €7,650 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 Distribuição de Gás Natural, S.A.;

ii) Guarantees of €3,054 k (of which €2,254 k are undated and €800 k issued until 2024) given to 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 councils, in the context of legal proceedings concerning the subsoil occupation rates;

iv) Guarantees provided in the amount of € 647 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

See fair value hierarchy in note 2.

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 available-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 €596,598 k as of 31 December 2018 and €617,760 k as of 31 December 2017, 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. Standards adopted or amended during the year 2018

Adoption of accounting policies IFRS 9 - "Financial Instruments" and IFRS 15 - "Contract Revenue with Customers"

The accounting impacts arising from IFRS 9 and 15 are not currently relevant in the GGND Group, not having altered the form of recognition of the income in the accounts of the distribution entities.

GGND under the new IFRS 15 standard. verified the.framework of principal vs. agent in relation of incurred cost and good and services provided.

One of these verified services is related to the activity of comercialisation of Natural Gas, namely in relation to gas tariffs paid to distributors and recognised as cost. The services provided or promised to final customers contain the cost of the tariffs included in the price established and recognised as operating income. GGND has concluded that each contractual performance obligation to provide the service is responsibility of the Group, in this way controls the goods and services to be provided to customers, before delivering them to final customers. GGND is thus considered to be a Principal and not an Agent when it meets contractual performance obligations.

27.2. New or amended standards to be adopted in 2019

IFRS 16 'Leases

IFRS 16 replaces IAS 17 – Leases and related interpretations, with significant accounting impact in the lessees which are obligated to recognise to all lease contracts of an asset, a leasing liability equivalent to future payments of leasing rents and an asset related to the its right of use.

Exemptions are predicted to such accounting treatment (adopted by the Company) to short-term leases (under 12 months) and assets with value under €5,000 k. The definition of lease contract was also revised, being now based on the right to control the use of the identified asset.

Regarding the transition regime, on 1 January 2019, IFRS 16 can be applied retrospectively or in a simplified retrospective approach. Referring to the transition regime, on 1 January 2019, GGND will apply IFRS 16 using the simplified retrospective approach and therefore will recognise the assets related to the right of use in the same amount as the leasing liabilities without previous years correction.

As requested by the standard, GGND will apply the standard only for contracts initiated (or modified) at or after the beginning date of the standard's application and will apply the practical expedient of the standard to grandfathering according with the previous assessment.

GGND estimates that the impact of IFRS 16 adoption is 15,880 k Euro as at 1 January 2019. This will increase recognized assets and liabilities. The impact will be related to:

- Buildings: €15,415 k;

- Vehicles: €465 k;

Regarding the presentation and recognition of charges in the income statement, these will be modified and the operational lease charges, currently reported under IAS 17 in a linear basis, will be replaced by the depreciation of the recognised right of use and lease interest.

The discount rates to be used in the transition will be the incremental leading rates, as appropriate for each lease, based in factors such as lessee's legal entity, asset category, term and currency.

28. Approval of the financial statements

The consolidated financial statements were approved by the Board of Directors on 10 April 2019.

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.

29. Explanation added for translation

These financial statements are a free translation of the financial statements originally issued in Portuguese in accordance with International Financial Reporting Standards as adopted by the European Union (Note 2.1) some of which may not conform to generally accepted accounting principles in other countries. In the event of discrepancies, the Portuguese language version prevails.

The Board of Directors:

Chairman:

Pedro Carmona de Oliveira Ricardo

Vice-Chairman:

Maria Leonor Galo Pedrosa dos Santos Machado de Baptista Branco

Members:

Gabriel Nuno Charrua de Sousa

Naohiro Hayakawa

José Manuel Rodrigues Vieira

Ana Isabel Simões Dias dos Santos Severino

Maria Marta de Figueiredo Geraldes Bastos

Yoichi Noborisaka

The accountant:

Carlos Alberto Nunes Barata

ANNEX IV – INDIVIDUAL FINANCIAL STATEMENTS

FINANCIAL STATEMENTS 31 DECEMBER 2018

Galp Gás Natural Distribuição, S.A.

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STATEMENT OF FINANCIAL POSITION AS OF 31 DECEMBER 2018 AND 31 DECEMBER 2017

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

ASSETS	Notes	2018	2017
Non-current assets:			
Intangible assets	12	533,321.38	626,915.52
Financial investments in subsidiaries	4	208,419,076.54	163,416,250.29
Financial investments in associates	4	17,807,939.32	17,807,939.32
Other receivables	14	469,406,063.44	540,110,810.22
Deferred tax assets	9	12,976.89	12,048.99
Total non-current assets:		**696,179,377.57**	**721,973,964.34**
Current assets:			
Trade receivables	15	1,223,974.51	1,319,783.04
Other receivables	14	8,969,105.63	3,574,627.69
Cash and cash equivalents	18	38,368,633.69	3,563,683.12
Total current assets:		**48,561,713.83**	**8,458,093.85**
Total assets:		**744,741,091.40**	**730,432,058.19**

EQUITY AND LIABILITIES	Notes	2018	2017
Equity:			
Share capital	19	89,529,141.00	89,529,141.00
Other reserves	20	7,969,106.20	6,695,062.72
Retained earnings – remeasurement		(17,995.49)	(37,461.94)
Retained earnings		37,461.94	603.72
Net result for the year		37,511,244.82	25,480,869.59
Total equity attributable to shareholders:		**135,028,958.47**	**121,668,215.09**
Total equity:		**135,028,958.47**	**121,668,215.09**
Liabilities:			
Non-current liabilities:			
Bonds	22	596,709,185.07	596,000,634.96
Post-employment and other employee benefits	23	57,675.00	53,551.00
Total non-current liabilities:		**596,766,860.07**	**596,054,185.96**
Current liabilities:			
Trade payables	26	1,183,714.14	1,075,260.93
Other payables	24	10,107,292.18	6,883,687.26
Current income tax payable	9	1,654,266.54	4,750,708.95
Total current liabilities:		**12,945,272.86**	**12,709,657.14**
Total liabilities:		**609,712,132.93**	**608,763,843.10**
Total equity and liabilities:		**744,741,091.40**	**730,432,058.19**

The accompanying notes form an integral part of the statement of financial position as of 31 December 2018.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017

GALP Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

	Notes	2018	2017
Operating income:			
Services rendered	5	12,486,731.66	11,583,099.56
Other operating income	5	112,514.75	51,612.74
Total operating income:		**12,599,246.41**	**11,634,712.30**
Operating costs:			
External supplies and services	6	(4,403,636.35)	(3,725,728.72)
Personnel costs	6	(7,629,503.83)	(7,394,082.68)
Amortisation, depreciation and impairment loss on fixed assets	6	(204,599.69)	(51,149.92)
Other operating costs	6	(1,625.35)	(10,663.15)
Total operating costs:		**(12,239,365.22)**	**(11,181,624.47)**
Operating results:		**359,881.19**	**453,087.83**
Financial income	8	25,137,586.70	26,282,000.23
Financial costs	8	(9,250,536.99)	(9,194,153.89)
Exchange gains/(losses)		(14.14)	(4.73)
Results from financial investments – subsidiaries and associates	4	25,602,774.40	12,674,070.58
Result before taxes:		**41,849,691.16**	**30,215,000.02**
Income tax	9	(4,338,446.34)	(4,734,130.43)
Net result for the year		**37,511,244.82**	**25,480,869.59**

The accompanying notes form an integral part of the income statement for the year ended 31 December 2018.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

	Notes	2018	2017
Net result for the year		**37,511,244.82**	**25,480,869.59**
Other comprehensive income for the year which will not be recycled in the future for net result of the year:			
Remeasurement	23	25,118.00	(47,559.00)
Income tax related to remeasurement	9	(5,651.55)	10,700.78
		19,466.45	(36,858.22)
Gains and Losses recognised in Equity net of taxes		37,530,711.27	25,444,011.37
Total comprehensive income for the year		**37,530,711.27**	**25,444,011.37**

The accompanying notes form an integral part of the statement of comprehensive income for the year ended 31 December 2018.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017

GALP Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

Changes in the period	Notes	Share Capital	Other Reserves (Note 20)	Retained Earnings	Net result for the year	Total
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		-	-	(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**
Balance as of 1 January 2018		**89,529,141.00**	**6,695,062.72**	**(36,858.22)**	**25,480,869.59**	**121,668,215.09**
Net result for the year		-	-	-	37,511,244.82	37,511,244.82
Other Gains and Losses recognised in Equity		-	-	19,466.45	-	19,466.45
Comprehensive income for the year		-	-	19,466.45	37,511,244.82	37,530,711.27
Dividends distributed / Interim dividends	30	-	-	(24,169,967.89)	-	(24,169,967.89)
Increase of reserves by appropriation of profit		-	1,274,043.48	24,206,826.11	(25,480,869.59)	-
Balance as of 31 December 2018		**89,529,141.00**	**7,969,106.20**	**19,466.45**	**37,511,244.82**	**135,028,958.47**

The accompanying notes form an integral part of the statement of changes in equity for the year ended 31 December 2018..

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017

Galp Gás Natural Distribuição, S.A.

(Amounts stated in Euro)

	Notes	2018	2017
Operating activities:			
Cash received from customers		15,419,526.34	17,520,914.07
Cash payments to suppliers		(4,312,258.94)	(6,597,770.37)
Payments relating to employees		(6,964,456.32)	(6,964,194.45)
(Payments)/ Receipts of income taxes		(7,418,893.20)	(1,308,279.53)
Contributions to the pension fund	23	(25,165.61)	(17,030.01)
Other (payments)/ Receipts relating to the operational activity		(2,550,863.72)	(3,124,947.75)
Cash flows from operating activities (1)		**(5,852,110.45)**	**(491,307.04)**
Investing activities:			
Receipts from:			
Interests and similar income		25,230,799.55	26,236,086.23
Dividends	4	25,602,774.40	12,674,070.58
Loans obtained		70,800,831.11	10,029,089.08
		121,634,405.06	**48,939,245.89**
Payments relating:			
Financial investments		(45,002,826.25)	(267,319.39)
Tangible assets		(243,460.61)	(438,752.59)
Loans obtained		(5,537,723.14)	(402,624.79)
		(50,784,010.00)	**(1,108,696.77)**
Cash flows from investing activities (2)		**70,850,395.06**	**47,830,549.12**
Financing activities:			
Receipts from:			
Loans obtained		5,751,831.85	1,923,940.58
		5,751,831.85	**1,923,940.58**
Payments relating:			
Loans obtained		(3,306,766.79)	(9,318,760.11)
Interests from loans obtained		(8,468,417.10)	(8,619,102.99)
Dividends distributed	30	(24,169,967.86)	(61,955,632.95)
		(35,945,151.75)	**(79,893,496.05)**
Cash flows from financing activities (3)		**(30,193,319.90)**	**(77,969,555.47)**
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		34,804,964.71	(30,630,313.38)
Effect of exchange rate differences		(14.14)	(4.74)
Cash and cash equivalents at the beginning of the year	18	3,563,683.12	34,194,001.24
Cash and cash equivalents at the end of the year	18	38,368,633.69	3,563,683.12

The accompanying notes form an integral part of the statement of cash flow for the year ended 31 December 2018.

1. INTRODUCTION

Galp Gás Natural Distribuição, S.A. ("Company") has its Head Office in Lisbon and was constituted in 2 December 2009 under the designation Galp Gás Natural Distribuição, S.G.P.S., S.A., with the corporate business of managing other companies' financial investments. At 1 April 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, Rua Tomás da Fonseca, Tower 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 2018 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 2018. 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".

In preparing the accompanying financial statements, estimates were used that affect the reported amounts of assets and liabilities, as well as the reported amounts of income and costs during the reporting period. All estimates and assumptions made by the Board of Directors were made based on the best existing knowledge, at the date of approval of the financial statements, of the events and transactions in progress.

In preparing and presenting the financial statements, the Company declares that it is in compliance, explicitly and unreservedly, with the IAS / IFRS and its SIC / IFRIC interpretations, approved by the European Union.

New or amended standards to be adopted in 2019

IFRS 16 replaces IAS 17 – Leases and related interpretations, with significant accounting impact in the lessees which are obligated to recognise to all lease contracts of an asset, a leasing liability equivalent to future payments of leasing rents and an asset related to the its right of use.

Exemptions are predicted to such accounting treatment (adopted by the Company) to short-term leases (under 12 months) and assets with value under €5,000 k. The definition of lease contract was also revised, being now based on the right to control the use of the identified asset.

Regarding the transition regime, on 1 January 2019, IFRS 16 can be applied retrospectively or in a simplified retrospective approach. Referring to the transition regime, on 1 January 2019, GGND will apply IFRS 16 using the simplified retrospective approach and therefore will recognise the assets related to the right of use in the same amount as the leasing liabilities without previous years correction.

As requested by the standard, GGND will apply the standard only for contracts initiated (or modified) at or after the beginning date of the standard's application and will apply the practical expedient of the standard to grandfathering according with the previous assessment.

The Company estimates that the impact of IFRS 16 adoption is 5,865,410.73 Euro as at 1 January 2019. This will increase recognized assets and liabilities. The impact will be related to:

- Buildings: €5,666,774.15;

- Vehicles: €198,636.58;

Regarding the presentation and recognition of charges in the income statement, these will be modified and the operational lease charges, currently reported under IAS 17 in a linear basis, will be replaced by the depreciation of the recognised right of use and lease interest.

The discount rates to be used in the transition will be the incremental leading rates, as appropriate for each lease, based in factors such as lessee's legal entity, asset category, term and currency.

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, are estimated.

Under the captions "Other current assets" and "Other current liabilities" are recorded expenses and revenues of the current period for 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.

Dividends received from subsidiaries and associates are recorded in profit or loss when attributed in the caption – Results from financial investments - subsidiaries and associates. Whenever the recoverable amount determined is lower than the book value of the financial participation, the Company records its impairment loss in the same line item.

Investments in companies are detailed in Note 4.

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, or changes in the benefits scheme are recorded in equity, under the caption Retained earnings - Remeasurement.

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, or changes in the benefits scheme are recorded in equity, under the caption Retained earnings - Remeasurement.

2.9. Financial Assets and Liabilities

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 follows:

- Financial assets at fair value through comprehensive income

- Financial assets and liabilities at amortised cost

- Financial assets at fair value through profit or loss (derivatives)

Management determines the classification of investments in the initial recognition and reassesses at each statement of financial position date, if, and only if, changes in the business model occur. For financial liabilities, changes in the classification are not permitted.

Recognition and measurement

Investments' acquisitions and disposals are recognised at transaction date. Investments are initially recognised at fair value. Financial assets at fair value through comprehensive income and financial assets at fair value through profit or loss are subsequently updated at fair value. Fair value disclosures are presented separately by class of financial instruments at the end of reporting date.

Derecognition of investments

Financial assets are derecognised in the statement of financial position whenever the rights to receive the investment cash flows have expired or been transferred and Galp has substantially transferred all risks and benefits of ownership.

Financial assets at fair value through comprehensive income

Financial assets at fair value through comprehensive income are comprised of participation interests. When such financial assets are derecognised, the gain or loss is maintained in equity. Dividends received are recognised in the net income.

Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are non derivative financial assets held exclusively for payment of principal and interests (SPPI). If collection is expected within a year (or in the ordinary operational cycle of the business, if more), it is classified as current assets. If not, it is presented as non-current assets.

Receivables are initially recognised at fair value and subsequently measured at amortised cost, deducted of eventual impairment losses, recognised under Impairment losses on receivables. Usually, the amortised cost of such assets do not differ from its nominal value, neither from its fair value.

Trade and other receivables are derecognised when the contractual rights of cash flows are extinguished (meaning, received), when they are transferred (e.g. sold) or when they are provisioned.

Impairment on receivables

The Company applies the simplified approach of IFRS 9 to measure expected credit losses, which uses expected credit losses over useful period, for all receivables. Receivables are grouped by business segments for valuation effects of expected credit losses. Credit risk of receivables is evaluated at each reporting date, considering the clients credit risk profile. The credit risk analysis is based on the probability of annual default and also considering the clients' credit risk profile. The probability of uncollectability represents an annual default probability that reflects the current position and future projections considering macroeconomic factors.

Receivables are adjusted at each reporting period, considering the Management's estimates of credit risk.

Credit Risk

For Credit Risk purposes, if trade and other receivables are classified independently, those classifications are used. Otherwise, if no independent classification is present, risk control evaluates the clients' credit quality, considering its financial position, past experience and other factors. Individual risk limits are defined based on internal or external classifications, according with the established limits. Management regularly monitors the fulfilment of credit limits by the clients.

No significant concentrations of credit risks exist, either by exposure of individual clients, specific sectors of industry and/or regions.

For future mitigations of credit risk, warranties and insurance policies for eventual credit default are standard of Galp global risk policy.

For expected credit loss measurement, client receivables are grouped based on common credit risk features.

In order to measure the expected credit losses, the accounts receivable from customers were grouped based on the common credit risk characteristics.

Gains or losses arising from changes in the fair value of investments measured at fair value through profit or loss are recorded in the income statement for the year.

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

b) Receivables

Receivables are recorded at their nominal 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 after the date of the financial statements that provide additional information on conditions that existed at the date of the financial statements are reflected in the financial statements. Events after the date of the financial statements that provide information on conditions occurring after the date of the financial statements are disclosed in the notes to the financial statements, if significant.

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-ventures

Financial investments hold by the Company as of 31 December 2018 and 2017, were as following:

		Head Office		Percentage of interest held			
		City	Country	2018	2017	Main activity	Book Value
Subsidiary Companies:							
Beiragás - Companhia de Gás das Beiras, S.A.		Viseu	Portugal	59.60%	59.60%	Natural gas distribution and last resort commercialisation	20,293,462.59
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	a)	Lisbon	Portugal	100.00%	100.00%	Natural gas distribution and last resort commercialisation	9,986,859.89
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	b)	Vila Real	Portugal	100.00%	100.00%	Natural gas distribution and last resort commercialisation	25,765,589.44
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.		Lisbon	Portugal	100.00%	100.00%	Natural gas distribution	47,285,389.85
Lusitaniagás - Companhia de Gás do Centro, S.A.	c)	Aveiro	Portugal	96.94%	96.93%	Natural gas distribution	26,386,995.97
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	d)	Lisbon	Portugal	100.00%	100.00%	Natural gas distribution and last resort commercialisation	14,072,656.89
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	e)	Lisbon	Portugal	100.00%	100.00%	Natural gas distribution and last resort commercialisation	4,994,734.43
Setgás-Sociedade de Distribuição de Gás Natural, S.A.		Setubal	Portugal	99.93%	99.93%	Natural gas distribution	59,633,387.48
							208,419,076.54
						Financial investments impairment	
							208,419,076.54

(a) During the year ended 31 December 2018, the Company increased Supplementary Capital in Subsidiary Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A. by 9,000,000.00 Euro.

(b) During the year ended 31 December 2018, the Company increased Supplementary Capital in Subsidiary Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A. by 19,000,000.00 Euro.

(c) During the year ended 31 December 2018, the Company acquired 595 shares of Subsidiary Lusitaniagás, S.A. by 2,826.25 Euro.

(d) During the year ended 31 December 2018, the Company increased Supplementary Capital in Subsidiary Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A. by 13,000,000.00 Euro.

(e) During the year ended 31 December 2018, the Company increased Supplementary Capital in Subsidiary Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A. by 4,000,000.00 Euro.

	Subsidiary's Financial Information				2018		2017	
	Total Assets	**Total Liabilities**	**Equity**	**Net result of the year**	**%**	**Amount**	**%**	**Amount**
Subsidiary Companies:								
Beiragás, S.A.	80,531,194.00	37,036,648.00	43,494,546.00	2,329,602.00	59.60%	25,922,749.42	59.60%	26,301,899.10
Dianagás, S.A.	14,573,609.00	4,173,694.00	10,399,915.00	346,147.00	100.00%	10,399,915.00	100.00%	1,276,703.00
Duriensegás, S.A.	38,261,657.00	12,865,420.00	25,396,237.00	505,423.00	100.00%	25,396,237.00	100.00%	6,331,094.05
Lisboagás GDL , S.A.	553,102,577.00	444,522,720.00	108,579,857.00	7,350,107.00	100.00%	108,579,857.00	100.00%	112,791,339.45
Lusitaniagás, S.A.	298,332,450.00	235,884,489,00	62,447,961.00	4,284,885.00	96.94%	60,532,682.00	96.93%	64,163,477.26
Medigás, S.A.	19,768,284.00	5,465,354.00	14,302,930.00	198,717.00	100.00%	14,302,930.00	100.00%	1,241,052.64
Paxgás, S.A.	6,236,181.00	1,148,301.00	5,087,880.00	27,979.00	100.00%	5,087,880.00	100.00%	1,057,931.04
Setgás, S.A.	168,432,944.00	134,525,557.00	33,907,387.00	2,155,612.00	99.93%	33,884,669.05	99.93%	35,500,767.07
	1,179,238,896.00	875,622,183.00	303,616,713.00	17,198,472.00		284,106,919.47		248,664,263.61

During the years ended 31 December 2018 and 2017, the movements of the caption "Results from financial investments - associates, affiliates and related companies", were as follows:

	2018	**2017**
Dividends:		
Subsidiaries:		
Lusitaniagás - Companhia de Gás do Centro, S.A.	7,849,608.27	-
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	11,363,607.66	4,800,000.00
Beiragás - Companhia de Gás das Beiras, S.A.	1,787,793.00	1,191,862.00
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	226,703.00	266,399.08
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	141,052.64	278,941.69
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	-	112,943.98
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	3,786,591.83	1,299,133.33
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	447,418.00	875,016.52
	25,602,774.40	**8,824,296.60**
Associates and joint ventures:		
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	-	3,849,773.98
	-	**3,849,773.98**
	25,602,774.40	**12,674,070.58**

4.2. Investments in associates

Investments in associates, their head offices and the percentage or interest held as of 31 December 2018 and 2017 are as follows:

Companies	Head Office City	Head Office Country	Percentage of interest held 2018	Percentage of interest held 2017	Book Value
Associates:					
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 2018 Head Office	Equity	Net Result	2018 %	2018 Amount	2017 %	2017 Amount
Tagusgás-Empresa de Gás do Vale do Tejo, S.A.	Santarem	30,261,000.00	1,616,000.00	41.33%	12,506,871.30	41.33%	11,560,230.79
					12,506,871.30		11,560,230.79

5. OPERATING INCOME

The Company's operating income for the years ended 31 December 2018 and 2017 is as follows:

CAPTIONS	2018	2017
Services Rendered:		
Internal Market	12,486,731.66	11,583,099.56
	12,486,731.66	11,583,099.56
Other operating income:		
Other	112,514.75	51,612.74
	112,514.75	51,612.74
	12,599,246.41	11,634,712.30

During the years ended 31 December 2018 and 2017, the Company rendered services to other group companies, amounting to 12,486,731.66 Euro and 11,583,099.56 Euro, respectively (Note 28).

6. OPERATING COSTS

As of 31 December 2018 and 2017, operating costs presents the following detail:

CAPTIONS	2018	2017
External supplies and services		
Other specialised services	2,711,924.97	1,825,052.58
Travel and accommodation	267,576.84	328,957.37
Rental costs	248,108.42	263,970.21
Marketing and Communication	224,432.83	127,704.22
IT Services	207,646.64	243,488.24
Communication	186,356.46	143,588.54
Juridical Services	180,826.52	47,911.42
Other costs	148,294.07	284,656.69
Fuel	121,365.90	117,272.59
Studies and projects	43,812.00	4,171.77
Insurance	34,505.69	41,516.49
Office materials	14,940.70	8,440.58
Representational expenses	4,910.32	-
Maintenance and repairs	3,733.72	8,603.26
Gifts	3,321.48	4,741.50
Legal services	1,618.75	14,813.18
Cleaning, hygiene and comfort	168.76	140.60
Books and technical documentation	86.63	147.50
Tools	5.65	35.74
Surveillance and Security	-	58,749.96
Personnel transportation	-	231.99
Fees	-	201,534.29
	4,403,636.35	**3,725,728.72**
Personnel costs		
Board members salaries (Note 29)	617,175.27	437,558.12
Employee salaries	6,698,342.63	6,663,974.60
Social charges	170,181.66	163,680.91
Retirement benefits - pensions and insurance (Note 23)	45,281.38	16,866.57
Other insurances	24,454.63	31,646.75
Other costs	74,068.26	80,355.73
	7,629,503.83	**7,394,082.68**
Amortisation, depreciation and impairment on fixed assets		
Amortisation of intangible assets (Note 12)	204,599.69	51,149.92
	204,599.69	**51,149.92**
Other operating costs		
Other taxes	1,441.69	8,656.77
Other operating costs	183.66	2,006.38
	1,625.35	**10,663.15**
	12,239,365.22	**11,181,624.47**

7. SEGMENT REPORTING

Not applicable.

8. FINANCIAL INCOME AND COSTS

Financial income and financial costs for the years ended 31 December 2018 and 2017 are as follows:

CAPTIONS	2018	2017
Financial income:		
Interest obtained - related companies (Note 28)	25,137,586.70	26,282,000.23
	25,137,586.70	**26,282,000.23**
Financial costs:		
Interest costs - related companies (Note 28)	-	-
Other interests	(8,250,000.00)	(8,250,103.13)
Net Interests from retirement benefits and other benefits (Note 23)	(1,200.00)	(93.00)
Other financial charges	(999,336.99)	(943,957.76)
	(9,250,536.99)	**(9,194,153.89)**

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 2018 and 31 December 2017 represents an income tax payable to Galp Energia, S.G.P.S., S.A., amounting to 1,654,266.54 Euro and 4,750,708.95 Euro, respectively, and was calculated as follows:

CAPTIONS	2018	2017
Current income tax	4,405,139.54	4,775,218.95
Advanced payments	(2,728,298.00)	-
Tax withholding	(22,575.00)	(24,510.00)
	1,654,266.54	4,750,708.95

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 2015 to 2018 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 2018 and 2017.

Income tax for the year ended 31 December 2018 and 2017 is as follows:

CAPTIONS	2018	2017
Current income tax	4,405,139.54	4,775,218.95
(Excess)/Insufficiency of income tax for the preceding years	(60,113.75)	(40,671.14)
Deferred tax	(6,579.45)	(417.38)
	4,338,446.34	4,734,130.43

Below is a reconciliation of the income tax for the years ended 31 December 2018 and 2017:

	2018	Rate	Income tax	2017	Rate	Income Tax
Result before taxes:	41,849,691.16	21.00%	8,788,435.14	30,215,000.02	21.00%	6,345,150.00
Adjustments to taxable income:						
Received dividends		(12.85)%	(5,376,582.62)		(8.81)%	(2,661,554.82)
(Excess)/Insufficiency of income tax of the preceding year		(0.14)%	(60,113.75)		(0.13)%	(40,671.14)
State Tax		1.48%	618,817.12		2.27%	685,927.16
Municipal Tax		0.58%	244,145.14		0.87%	264,278.15
Autonomous taxation		0.30%	124,145.37		0.41%	125,119.56
Other accruals and deductions		(0.00)%	(400.06)		0.05%	15,881.52
Effective Income tax and tax rate		**10.37%**	**4,338,446.34**		**15.67%**	**4,734,130.43**

Deferred Taxes

As of 31 December 2018 and 2017, the balance of deferred tax assets and liabilities is as follows:

	Assets	
	2018	2017
Retirement benefits	12,976.89	12,048.99
	12,976.89	**12,048.99**

The changes in the caption “Deferred taxes” in the years ended 31 December 2018 and 2017 are justified as follows:

	Assets	
	2018	**2017**
Initial Balance	**12,048.99**	**930.83**
Impact in results:		
Retirement benefits	6,579.45	417.38
	18,628.44	**1,348.21**
Impact in Equity:		
Retirement benefits	(5,651.55)	10,700.78
Ending Balance	**12,976.89**	**12,048.99**

10.EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2018 and 2017 are as follows:

	2018	**2017**
Results:		
Net result for purposes of calculating earnings per share (net result of the period)	37,511,244.82	25,480,869.59
Number of shares		
Weighted average number of shares for purposes of calculation earnings per share (Note 19)	89,529,141	89,529,141
Basic and diluted earnings per share (amounts stated in Euro):	**0.42**	**0.28**

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 2018 and 2017 are as follows:

Intangible assets	**2018**		
	Industrial property and other rights	**Intangible assets in progress**	**Total intangible assets**
Acquisition cost:			
Balance as of 01 January	613 799.07	64 266.37	678 065.44
Additions	-	111 005.55	111 005.55
Transfers	-	-	-
Balance as of 31 December	**613 799.07**	**175 271.92**	**789 070.99**
Accumulated amortisations and impairment losses:			
Balance as of 01 January	(51 149.92)	-	(51 149.92)
Amortisations for the year (Note 6)	(204 599.69)	-	(204 599.69)
Balance as of 31 December	**(255 749.61)**	**-**	**(255 749.61)**
Net Amount:			
As of 31 December	**358 049.46**	**175 271.92**	**533 321.38**

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

13. GOVERNMENT GRANTS

Not applicable.

14. OTHER RECEIVABLES

The non-current and current caption "Other receivables" as of 31 December 2018 and 2017 is detailed as follows:

	2018		2017	
Captions	**Current**	**Non-current**	**Current**	**Non-current**
Other receivables – Related parties (Note 28)	9,642.50	-	9,642.50	-
Loans to associates, joint ventures and other related parties (Note 28)	7,081,910.42	469,401,747.55	1,970,638.92	540,108,664.38
Advances to suppliers	10,000.00	-	10,000.00	-
Personnel	1,224.49	-	136.47	-
Other receivables	-	-	609.47	-
	7,102,777.41	469,401,747.55	1,991,027.36	540,108,664.38
Accrued income:				
Accrued interest (Note 28)	997,550.28	-	1,138,024.41	-
Other accrued income (Note 28)	496,270.57	-	-	-
	1,493,820.85	-	1,138,024.41	-
Deferred costs:				
Prepaid insurance	17,968.05	-	15,887.44	-
Other deferred costs	354,539.32	4,315.89	429,688.48	2,145.84
	372,507.37	4,315.89	445,575.92	2,145.84
	8,969,105.63	469,406,063.44	3,574,627.69	540,110,810.22
Impairment of other receivables	-	-	-	-
	8,969,105.63	469,406,063.44	3,574,627.69	540,110,810.22

15. TRADE RECEIVABLES

As of 31 December 2018 and 2017, this caption includes amounts related to other group companies (Note 28).

	2018	2017
CAPTIONS	**Current**	
Trade receivables – current account (Note 28)	1,223,974.51	1,319,783.04
	1,223,974.51	1,319,783.04

The following is an ageing schedule of trade receivables as of 31 December 2018 and 2017:

Ageing Trade Receivables	Not Overdue	Overdue up to 90 days	Total
2018			
Gross amount	1,221,929.54	2,044.97	1,223,974.51
Impairments	-	-	-
	1,221,929.54	2,044.97	1,223,974.51
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

16. INVENTORIES

Not applicable.

17. OTHER FINANCIAL INVESTMENTS

Not applicable.

18. CASH AND CASH EQUIVALENTS

As of 31 December 2018 and 2017, the caption "Cash and cash equivalents" presented the following detail:

	2018	2017
Cash Deposits	38,368,633.69	3,563,683.12
Cash and cash equivalents in the statement of financial position	**38,368,633.69**	**3,563,683.12**
Cash and cash equivalents in the statement of cash flow	**38,368,633.69**	**3,563,683.12**

19.SHARE CAPITAL

Capital Structure

As of 31 December 2018 and 2017, 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:

2018

Shareholders	No of shares	Participation (%)	Voting rights %
Galp Gás & Power, SGPS, S.A.	69,385,084	77.50%	77.50%
Meet Europe Natural Gas, Lda.	20,144,057	22.50%	22.50%
	89,529,141	100.00%	100.00%

2017

Shareholders	No of shares	Participation (%)	Voting rights %
Galp Gás & Power, SGPS, S.A.	69,385,084	77.50%	77.50%
Meet Europe Natural Gas, Lda.	20,144,057	22.50%	22.50%
	89,529,141	100.00%	100.00%

20.OTHER RESERVES

According to the company's bylaws and the Commercial Companies Code, the company has to transfer to the caption Legal Reserves, included in other reserves, in equity, 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, however, under certain circumstances, it may be used to increase share capital or absorb losses after all other reserves are exhausted.

As of 31 December 2018 and 2017, the caption is detailed as follows:

	2018	2017
Legal reserves	7,969,106.20	6,695,062.72
	7,969,106.20	6,695,062.72

21.NON-CONTROLLING INTERESTS

Not applicable.

22.LOANS

Detail of loans

Loans obtained as of 31 December 2018 and 2017 were as follows:

	Non-Current	
	2018	2017
Bond loans:		
Notes	600.000.000,00	600.000.000,00
	600.000.000,00	600.000.000,00
Origination Fees	(3.290.814,93)	(3.999.365,04)
	596.709.185,07	596.000.634,96
	596.709.185,07	596.000.634,96

Details of main loans

Revolving Credit Facility

As of 31 December 2018, Galp Gás Natural Distribuição, S.A. contracted a Revolving Credit Facility, with a firm underwriting commitment amounting to 50,000 K Euro and maturity over 4 years. The amount is fully available as of 31 December 2018.

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

At 25 August 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 19 September 2016, Galp Gás Natural Distribuição, S.A., issued notes amounting to €600,000 k, which overdue at 19 September 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 to 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 as lock-up event and other as event of default:

Financial Covenants	**2018**
Net Debt / EBITDA	5.44x
Debt Service Coverage Ratio	8.5x

As of 31 December 2018 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 2018 and 2017 the Company registered in liabilities the following amounts relating to liabilities with the minimum benefit of the defined contribution plan (disability and survival):

Captions	2018	2017
Minimum benefit of the defined contribution plan	(57,675.00)	(53,551.00)
Total	**(57,675.00**	**(53,551.00)**

As of 31 December 2018 and 2017 the Company registered in equity the following amounts relating to liabilities with the minimum benefit of the defined contribution plan (disability and survival):

Captions	2018	2017
Minimum benefit of the defined contribution plan	25,118.00	48,338.00
Subtotal	**25,118.00**	**48,338.00**
Deferred tax (Note 9)	(5,651.55)	(175.28)
Total	19,466.45	48,162.72

The current value of liabilities for past services and actuarial assumptions used in their calculation are as follows:

	Minimum benefit of the Defined contribution plan	
	2018	**2017**
Assumptions		
Discount 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	53,551.00	4,137.00
Current service cost	28,042.00	1,762.00
Interest cost	1,200.00	93.00
Actuarial (gain) / loss	(25,118.00)	47,559.00
PSL at the end of the current year	57,675.00	53,551.00
Reconciliation to the Statement of Financial Position		
(Gains) / losses recognized at the beginning of the year - Asset/(Liability)	(53,551.00)	(4,137.00)
Net cost of the year	(29,242.00)	(1,855.00)
Gains / (losses) recognized – through Comprehensive Income	25,118.00	(47,559.00)
Total recognized at year end - Assets / (Liabilities)	(57,675.00)	(53,551.00)
Net cost of the year		
Current service cost	28,042.00	1,762.00
Interest cost	1,200.00	93.00
Net cost of the year	29,242.00	1,855.00
Reconciliation of gains and loss recognized- through Comprehensive Income		
Cumulative (Gains) / losses recognized at the beginning of the year	48,338.00	779.00
(Gains) / losses from actuarial experience	(25,118.00)	47,559.00
Cumulative (Gains) / losses recognized at the end of the year	23,220.00	48,338.00

The amount of 45,281.38 Euro under "Personnel costs" in the income statement (Note 6) is detailed as follows: (i) current service costs in a total amount of 28,042.00 Euro and (ii) 17,239.38 Euro related to defined contribution benefits.

Interest costs, in the amount of 1,200.00 Euro, was recognised by the Company in the income statement, under "Other interests" (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:			
Minimum benefit of the defined contribution plan	57,675.00	58,540.00	1.50%
	57,675.00	58,540.00	
	57,675.00	**58,540.00**	

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

Liabilities	Percentage
Other benefits:	
Minimum benefit of the defined contribution plan	(6.00)%

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

Liabilities	Rate: 1%	Rate: 2%	Variation
Other benefits:			
Minimum benefit of the defined contribution plan	57,675.00	63,704.00	10.45%
	57,675.00	63,704.00	
	57,675.00	**63,704.00**	

24. OTHER PAYABLES

As of 31 December 2018 and 2017 the caption "Other payables" is detailed as following:

	Current	
Caption	**2018**	**2017**
State and other public entities:		
Value Added Tax payable	242,503.12	316,103.49
Income Tax Withheld to third parties	15,851.00	12,141.00
Social Security	22,076.23	18,372.36
Loans - Associates, affiliates and related companies (Note 28)	5,390,968.21	3,306,766.79
Other creditors	1,823.09	121.75
	5,673,221.65	3,653,505.39
Accrued costs:		
External supplies and services	637,020.96	130,637.05
External supplies and services (Note 28)	131,074.74	158,472.63
Accrued interest	2,314,583.33	2,314,583.33
Holiday , holiday subsidy and corresponding contributions	117,464.90	112,491.76
Productivity bonuses (Note 28)	-	450,239.58
Productivity bonuses	822,863.76	43,090.32
Financial costs	1,863.45	1,863.45
Accrued insurance premiums	-	18,803.75
	4,024,871.14	3,230,181.87
Deferred income:		
Others	409,199.39	-
	409,199.39	-
	10,107,292.18	6,883,687.26

25. PROVISIONS

Not applicable.

26. TRADE PAYABLES

As of 31 December 2018 and 2017 the caption "Trade payables" was detailed as follows:

Captions	2018	2017
Trade payables – current accounts	918,636.51	957,507.69
Trade payables – pending invoices	265,077.63	117,753.24
	1,183,714.14	**1,075,260.93**

27. OTHER FINANCIAL INSTRUMENTS – FINANCIAL DERIVATIVES

Not applicable.

28. RELATED PARTIES

Balances and transactions with related parties in 31 December 2018 and 2017 were as follows:

Receivables	2018					
		Non-Current	Current			
Companies	**Total Related Parties**	**Loans Granted (Note 14)**	**Trade Receivables (Note 15)**	**Loans Granted (Note 14)**	**Other Receivables (Note 14)**	**Accruals and Deferrals (Note 14)**
Lisboagás GDL , S.A.	238,717,087.37	237,165,731.63	772,443.89	-	-	778,911.85
Lusitaniagás, S.A.	151,430,314.46	148,626,674.72	143,886.66	2,271,338.47	-	388,414.61
Setgás, S.A.	85,349,344.93	83,609,341.19	108,346.70	1,410,784.22	-	220,872.82
Duriensegás, S.A.	1,406,061.21	-	17,879.82	1,361,720.59	-	26,460.80
Medigás, S.A.	850,118.89	-	12,855.57	823,506.23	-	13,757.09
Dianagás , S.A.	906,491.57	-	40,188.81	844,063.91	-	22,238.85
Tagusgás, S.A.	33,775.00	-	28,700.00	-	5,075.00	-
Paxgás, S.A.	385,298.58	-	4,116.46	370,497.00	-	10,685.12
Beiragás, S.A.	132,603.81	-	95,556.60	-	4,567.50	32,479.71
	479,211,095.82	**469,401,747.54**	**1,223,974.51**	**7,081,910.42**	**9,642.50**	**1,493,820.85**

The amount of 469,401,747.54 Euro under "Loans granted – non-current" corresponds to loans granted to subsidiaries bearing interest at market rates and having no reimbursement date defined. The Board of Directors believes that the amounts will not be reimbursed in the following year and, for that reason, are qualified as non-current.

The amount of 7,081,910.42 Euro under "Loans granted – current" corresponds to loans granted to subsidiaries related to Cash Pooling of the Company with those Group entities.

The amount of 1,493,820.85 Euro under "Accruals and Deferrals – current", refers to interests from loans granted to subsidiaries, which overdue during 2018 and are to be capitalised during 2019 (Note 14).

Receivables	2017					
		Non-Current	Current			
Companies	**Total Related Parties**	**Loans Granted (Note 14)**	**Trade Receivables (Note 15)**	**Loans Granted (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" corresponds to loans granted to subsidiaries bearing interest at market rates and having no reimbursement date defined. The Board of Directors believes that the amounts will not be reimbursed in the following year and, for that reason, are qualified as non-current.

The amount of 1,970,638.92 Euro under "Loans granted – current" corresponds to loans granted to subsidiaries related to Cash Pooling of the Company with those Group entities.

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

Payables	2018				
	Current				
Companies	Total Related Parties	Trade payables	Loans obtained (Note 24)	Income Tax Payable (Note 9)	Accruals and Deferrals (Note 24)
Galp Energia, SGPS, S.A.	1,654,266.54	-	-	1,654,266.54	-
Duriensegás, S.A.	5,095.82	5,095.82	-	-	-
Lisboagás GDL, S.A.	5,677,342.35	286,374.14	5,390,968.21	-	-
Galp Energia, S.A.	390,651.25	382,510.49	-	-	8,140.76
GDP-Gás de Portugal, S.A.	338,114.96	215,180.98	-	-	122,933.98
Petrogal, S.A.	40,458.52	40,458.52	-	-	-
Beiragás, S.A.	8,122.30	8,122.30	-	-	-
Galp Gás Natural, S.A.	16,508.15	16,508.15	-	-	-
Dianagás, S.A.	1,834.79	1,834.79	-	-	-
	8,132,394.68	**956,085.19**	**5,390,968.21**	**1,654,266.54**	**131,074.74**

The amount of 5,390,968.21 Euro under "Loans obtained – current" corresponds to loans obtained from subsidiaries referring to Cash Pooling contracted with those Companies.

Payables	2017				
	Current				
Companies	Total Related Parties	Trade payables	Loans obtained (Note 24)	Income Tax Payable (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" correspond to loans obtained from subsidiaries referring to Cash Pooling contracted 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).

Transactions			**2018**		
Companies	**External Supplies and Services**	**Expenses with assigned personnel**	**Operating Income (Note 5)**	**Income with assigned personnel**	**Financial Results (Note 8)**
Lisboagás GDL, S.A.	-	3,296,739.70	(7,758,753.63)	-	(11,911,568.78)
Lusitaniagás, S.A.	-	862,341.41	(1,431,932.98)	-	(7,133,516.28)
Setgás, S.A.	-	799,521.20	(1,056,138.31)	-	(4,227,017.89)
Duriensegás, S.A.	-	61,848.95	(191,394.25)	-	(811,304.42)
Galp Energia, S.A.	1,259,997.51	231,152.22	-	-	-
Medigás, S.A.	-	-	(132,154.26)	-	(515,271.40)
Dianagás, S.A.	-	12,496.47	(407,882.25)	-	(370,824.72)
Tagusgás , S.A.	-	-	(279,999.96)	60,000.00	-
Beiragás, S.A.	-	91,310.83	(951,336.65)	45,000.00	-
Petrogal, S.A.	187,682.17	267,140.56	-	-	-
Paxgás, S.A.	-	-	(46,139.69)	-	(168,083.21)
GDP-Gás de Portugal, S.A.	832,498.42	-	-	-	-
Galp Gás Natural, S.A.	-	198,684.61	-	-	-
Galp Energia España, S.A.	229.92	-	-	-	-
Galp Açores, S.A.	20.74		-		-
	2,280,428.76	**5,821,235.95**	**(12,255,731.98)**	**105,000.00**	**(25,137,586.70)**

Transactions	2017				
Companies	**External Supplies and Services**	**Expenses with assigned personnel**	**Operating Income (Note 5)**	**Income with assigned personnel**	**Financial Result (Note 8)**
Lisboagás GDL, S.A.	-	3 610 357.93	(7 494 323.59)		(12 153 284.61)
Lusitaniagá, 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	-		-
Dianagás, S.A.	-	24 593.17	(476 159.32)		(496 484.65)
Medigás, S.A.	-	-	(122 741.63)		(690 671.71)
Beiragás , S.A.	-	165 432.40	(871 781.70)	(54 000.00)	-
Tagusgás , S.A.	-	-	(279 999.96)	(60 000.00)	(47 299.13)
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, SGPS, S.A.	476.32	-	-		-
Galp Energia España, S.A.	-	-	-		-
	2 044 892.28	**6 522 273.37**	**(11 622 799.56)**	**(127 315.84)**	**(26 282 000.23)**

29. REMUNERATION OF THE BOARD

The remuneration of the board members of GGND for the years ended 31 December 2018 and 2017 is detailed as follows:

	2018			2017		
	Remuneration	**Other charges and adjustments**	**Total**	**Remuneration**	**Other charges and adjustments**	**Total**
Board members						
Executive management	569,175.15	90,832.86	660,008.01	324,327.61	69,466.30	393,793.91
Non-executive management	30,000.12	7,124.88	37,125.00	32,973.89	-	32,973.89
Audit Committee	18,000.00	3,503.25	21,503.25	10,790.32	-	10,790.32
	617,175.27	**101,460.99**	**718,636.26**	**368,091.82**	**69,466.30**	**437,558.12**

30. DIVIDENDS

In accordance with the deliberation of the General Meeting of Shareholders held on 25 May 2018, the Company distributed dividends to its shareholders Galp Gás & Power, S.G.P.S., S.A. and Meet Europe Natural Gás, Ltd., amounting 18,731,725.04 Euro and 5,438,242.85 Euro, respectively, regarding the net result of 2017.

31. OIL AND GAS RESERVES

Not applicable.

32. FINANCIAL RISK MANAGEMENT

Risk Management

The Company is exposed to several types of risks, market (interest rate risk) liquidity and credit, inherent to its activity, 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 on 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 on 10 April 2019.

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

THE ACCOUNTANT:

Carlos Alberto Nunes Barata

Statutory Audit Report and Auditors' Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the 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, 2018 (which shows total assets of Euro 1,237,529 thousand and total shareholders' equity, including non-controlling interests, of Euro 236,840 thousand including a net profit of Euro 29,491 thousand), the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Galp Gás Natural Distribuição, S.A.as at December 31, 2018, 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.

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Matriculada na CRC sob o NUPC 506 628 752, Capital Social Euros 314.000
Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Key Audit Matters	*Summary of the Audit Approach*
Litigation and tax contingencies *Disclosures related to litigation and tax contingencies are presented in notes 2, 10, 21 and 25 of the Consolidated financial statements.* The dimension and structure of the Group originates an increase in the complexity of the tax recognition in the financial statement of the Group. As a consequence, the Group has several pending tax matters, namely those resulting from tax inspections and litigation in progress, including those related to Energy Sector Extraordinary Contribution - "CESE", recognizing provisions whenever the Group considers that a negative outcome is probable, in accordance with IAS 37. The assessment of the outcome probability is supported by the legal consultants and tax advisors of the Group, as well as by the management judgment in relation to these matters. As at December 31, 2018 the provisions recognized in the consolidated financial statements amounted to Euro 53,316 thousand (2017: Euro 42,646 thousand). The relevance of this matter in our audit is related with the complexity and high level of judgment over the corresponding tax matters, as well as the unpredictability associated with the respective outcome.	The audit procedures performed included: - obtaining the detailed listing of the pending tax contingencies and legal actions, categorized by outcome probability; - understanding tax and legal contingency processes; - obtaining and analyzing the replies to the confirmation letters sent to external lawyers; - inquiry of the Management and of the tax and legal Directors of the Group over the estimates and judgments considered. We also assessed the adequacy of the disclosures presented in the notes to the consolidated financial statements, considering the requirements of the applicable accounting 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 Director's report, has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report 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 first appointed auditors of Galp Gás Natural Distribuição, S.A. in the Shareholders' General Meeting of July 7, 2011, for the period from 2011 to 2013, having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting of April 20, 2015 for the period from 2015 to 2018.

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, 2019.

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 Corporate Governance' 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 assurance services

- Limited review on the interim financial statements;
- Reasonable assurance report on the energy sector regulated accounts; and
- Reasonable assurance report on the information prepared by the Company in relation to Underground Occupancy Rates pass-through to natural gas consumers.

Other non-assurance services

- Agreed upon procedures report on the annual declarations related to physical quantities of last-resort retailers marketers (“Grandezas Físicas dos Comercializadores de Último Recurso Retalhistas (CURR)”); and
- Agreed upon procedures report on the annual declaration related to extraordinary social support to energy consumers (“Apoio Social Extraordinário ao Consumidor de Energia – ASECE”).

April 12, 2019

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 accompanying financial statements of Galp Gás Natural Distribuição, S.A. (the Entity), which comprise the statement of financial position as at December 31, 2018 (which shows total assets of Euro 744,741,091 and total shareholders' equity of Euro 135,028,958 including a net profit of Euro 37,511,245), the income statement, 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 December 31, 2018, 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.

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.

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Key Audit Matter	*Summary of the Audit Approach*
Valuation of financial investments *Disclosures related to financial investments are presented in the notes 2 and 4 of the financial statements.* As at December 31, 2018, Galp Gás Natural Distribuição, SA holds financial investments in subsidiaries and associates in the amount of Euro 226,227,016, which are valued at acquisition cost, deducted of impairment losses, when applicable. These financial investments are subject to impairment testing whenever there are indicators or changes in the underlying circumstances which indicate that the carrying value may not be recoverable. For that purpose, the recoverable amount is determined by the value in use, in accordance with the discounted cash flows method. The relevance of this matter in our audit is related to the significance of the amount and level of judgement involved in the impairment model. The calculation of the recoverable amount requires the use of estimates and assumptions by the management, which depend on economic and market estimates, namely those related to future cash-flows, growth rates for the perpetuity and discount rates used. As a result of the impairment tests performed by the management, no impairment losses were noted on the financial investments held by Galp Gás Natural Distribuição, S.A.	To assure the accurate valuation of the financial investments the following audit procedures were performed: - evaluation of impairment indicators in the financial investments; and - obtaining and analyzing the impairment testing on financial investments, when applicable. The analysis of the impairment testing, based on discounted cash flows models, considers the following procedures: - verifying the mathematical accuracy of the model; - assessing the reasonableness of the future cash flows projections, from the comparison with historical performance; - evaluating the accuracy of the discount rate considered; and - evaluating the estimates and judgments assumed by the management, underlying the relevant assumptions supporting the model. Additionally, we have verified the accuracy of the disclosures presented in note 4 of the financial statements, considering the requirements of the applicable accounting standard.

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

Director's report

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

Corporate governance report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Corporate governance report 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 first appointed auditors of Galp Gás Natural Distribuição, S.A. in the Shareholders' General Meeting of July 7, 2011, for the period from 2011 to 2013, having remained in functions until the current period. Our last appointment was in the Shareholders' General Meeting of April 20, 2015 for the period from 2015 to 2018.

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 Corporate Governance' report of the Entity, 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 and to the entities under control:

Other assurance services

- Limited review on the interim financial statements;
- Reasonable assurance report on the energy sector regulated accounts; and
- Reasonable assurance report on the information prepared by the Company in relation to Underground Occupancy Rates pass-through to natural gas consumers.

Other non-assurance services

- Agreed upon procedures report on the annual declarations related to physical quantities of last-resort retailers marketers ("Grandezas Físicas dos Comercializadores de Último Recurso Retalhistas (CURR)"); and
- Agreed upon procedures report on the annual declaration related to extraordinary social support to energy consumers ("Apoio Social Extraordinário ao Consumidor de Energia – ASECE").

April 12, 2019

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

António Joaquim Brochado Correia, R.O.C.

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 2018 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, 2018.

During the year 2018, 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 2018, 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 for the financial year of 2018 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 2018 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 2018 Management Report, the Individual and Consolidated Financial Statements and the proposal for application of the individual net income for the year 2018, 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, 2019

Chairman
Daniel Bessa

Member
Armindo Marcelino

Member
Pedro Antunes de Almeida

Annual Report of Activities of the Audit Board of Galp Gás Natural Distribuição, S.A. for the year 2018

In accordance with the provisions of subparagraph g) of paragraph 1 of article 420 of the Code of Commercial Companies ("CSC"), the Audit Board of Galp Gás Natural Distribuição, S.A. (GGND) hereby presents the report on the auditing activity that took place in the financial year of 2018.

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 Commercial Company Code, includes a Board of Directors, responsible for the management of the Company, an Audit Board, responsible for monitoring the Company's activity, and an Statutory Auditor - independent of the Audit Board.

The Audit Board 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 Board 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 Board concerning the financial year 2018

In the year 2018, the Audit Board has held 12 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 Board of Directors with Chairman of the Executive Committee, the Administrator responsible for the financial department, employees and head of the Financial and Administrative Management of GGND, with the person responsible for the internal audit function of the Group (chief Audit Executive) with the heads of department of Accounting and Taxation, Legal and Governance Department of Galp Energia, S.A. within the scope of a service agreement in force between this company and GGND and the Statutory Auditor/External Auditor.

Through these meetings, the Audit Board monitored, in particular, the financial situation of the company and the risk management system of the GGND Group, the main litigation processes with possible impact on the financial statements of the Group and the internal audit activities of the GGND Group, through the Chief Audit Executive (CAE), appointed by the Board of Directors of GGND on the recommendation of the Statutory Auditor supported by the Audit Board.

During the year 2018, the Audit Board 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 Board'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 Board through analysis of reports prepared by the Statutory Auditor/External Auditor.

The Audit Board held, during the year 2018, 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 implementation by the Company of measures destined improve internal control in response to recommendations of the Statutory Auditor and of the Chief Audit Executive.

The Audit Board considers that the Company has assigned increasing and enhanced importance to developing and improving systems of risk management, namely through the creation of the GGND Risk Matrix of internal control and internal audit, trough the nomination of the CAE and the definition and execution of its annual audit plan.

The Audit Board conducted, in the year 2018, 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 Board 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 49.2% compared to the audit services provided in 2018 therefore lower than the limit of 70% established in article 4, paragraph 2, of the EU Regulation No. 537/2014 (European Audit Supervision).

As part of its duties of annually assessing the activity of the External Auditor, the Audit Board considers that the External Auditor has provided his services in a satisfactory manner, in accordance with the Audit Plan for the GGND Group in 2018, as submitted to the Audit Board, 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 2019 2021, the Audit Board monitored the process of market consultation initiated in 2017 and organized by the Company with the support of Galp Energia, S.A., namely in the areas of Accounting and Taxation and Purchases & Contracts, under a service contract in force, signed by the two entities.

Taking into consideration the technical and commercial evaluation report of the proposals received, the Audit Board considered the proposals presented by PwC and Deloitte the two most advantageous and recommended the election and appointment of the PwC to, respectively, Statutory Auditor and External Auditor in the triennium 2019-2021 because it was the proposal that received the highest technical evaluation.

Lisbon, April 12, 2019

Chairman
Daniel Bessa

Member
Armindo Marcelino

Member
Pedro Antunes de Almeida

Disclaimer

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