PART III

CONSOLIDATED AND INDIVIDUAL FINANCIAL STATEMENTS 2019

galp

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Part I – Consolidated Financial Statements

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The “Glossary and Abbreviations” used in of this Integrated Report may be found in Part IV of this report – Appendices.

Part I
Consolidated financial statements

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

Consolidated Statement of Financial Position

Galp Energia, SGPS, S.A.

Consolidated Statement of Financial Position as at 31 December 2019 and 31 December 2018

(Amounts stated in million Euros - € m)

Assets	Notes	2019	2018
Non-current assets:			
Tangible assets	5	5,671	5,333
Intangible assets	6	577	547
Goodwill	8	85	85
Right-of-use of assets	7	1,167	-
Investments in associates and joint ventures	9	870	1,295
Deferred tax assets	16	367	369
Other receivables	11	259	238
Other financial assets	12	169	92
Total non-current assets:		9,167	7,960
Current assets:			
Inventories	10	1,055	1,171
Other financial investments	12	174	242
Trade receivables	11	980	1,032
Other receivables	11	935	598
Loans to Sinopec	12	-	176
Cash and cash equivalents	13	1,460	1,508
Total current assets:		4,603	4,726
Total assets:		13,770	12,687

Equity and Liabilities	Notes	2019	2018
Equity:			
Share capital and share premium		911	911
Reserves		1,356	1,843
Retained earnings		2,153	1,832
Total equity attributable to shareholders:		4,420	4,587
Non-controlling interests	23	1,237	1,460
Total equity:		5,657	6,047
Liabilities:			
Non-current liabilities:			
Financial debt	14	2,616	2,686
Lease liabilities	7	1,042	-
Other payables	15	121	126
Post-employment and other employee benefit liabilities	17	332	304
Deferred tax liabilities	16	299	196
Other financial instruments	19	5	37
Provisions	18	819	658
Total non-current liabilities:		5,234	4,006
Current liabilities:			
Financial debt	14	278	559
Lease liabilities	7	182	-
Trade payables	15	852	933
Other payables	15	1,343	958
Other financial instruments	19	84	102
Current income tax payable	16	141	82
Total current liabilities:		2,879	2,634
Total liabilities:		8,113	6,640
Total equity and liabilities:		13,770	12,687

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

Consolidated Income Statement and Consolidated Statement of Comprehensive Income

Galp Energia, SGPS, S.A.

Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the years ended 31 December 2019 and 31 December 2018

(Amounts stated in million Euros - € m)

	Notes	2019	2018
Sales	24	15,962	16,535
Services rendered	24	608	647
Other operating income	24	368	141
Financial income	27	123	18
Earnings from associates and joint ventures	9	121	129
Total revenues and income:		17,182	17,470
Cost of sales	25	(12,592)	(12,763)
Supplies and external services	25	(1,650)	(1,780)
Employee costs	26	(346)	(321)
Amortisation, depreciation and impairment losses on fixed assets	25	(979)	(691)
Provisions and impairment losses on other receivables	25	(6)	(5)
Other operating costs	25	(132)	(134)
Financial expenses	27	(197)	(88)
Total costs and expenses:		(15,903)	(15,782)
Profit before taxes and other contributions:		1,279	1,688
Taxes and SPT	16	(742)	(736)
Energy sector extraordinary contribution	16	(58)	(60)
Consolidated net income for the year		479	892
Income attributable to:			
Galp Energia, SGPS, S.A. Shareholders		389	741
Non-controlling interests	23	90	151
Basic and Diluted Earnings per share (in Euros)		0.47	0.89
Consolidated net income for the year		479	892
Items which will not be recycled in the future through net income:			
Remeasurements	17	(5)	22
Income taxes related to remeasurements	17	7	(3)
Items which may be recycled in the future through net income:			
Currency translation adjustments		11	(104)
Hedging reserves	19	(20)	3
Income taxes related to the above items	16	11	45
Total Comprehensive income for the year, attributable to:		482	854
Galp Energia, SGPS, S.A. Shareholders		392	726
Non-controlling interests		90	128

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

Consolidated Statement of Changes in Equity

Galp Energia, SGPS, S.A.

Consolidated Statement of changes in equity for the years ended 31 December 2019 and 31 December 2018

(Amounts stated in million Euros - € m)

		Share Capital and Share Premium		Reserves						
	Notes	Share Capital	Share Premium	Currency Translation Reserves	Hedging Reserves	Other Reserves	Retained earnings	Sub-Total	Non-controlling interests	Total
As at 1 January 2018		829	82	(151)	4	2,688	889	4,341	1,435	5,776
Consolidated net income for the year		-	-	-	-	-	741	741	151	892
Other gains and losses recognised in equity		-	-	(35)	2	-	18	(15)	(23)	(38)
Comprehensive income for the year		-	-	(35)	2	-	759	726	128	854
Dividends distributed		-	-	-	-	-	(480)	(480)	(41)	(521)
Increase/decrease in capital reserves		-	-	-	-	(664)	664	-	(61)	(61)
Balance as at 31 December 2018		829	82	(186)	6	2,024	1,832	4,587	1,460	6,047
Consolidated net income for the year		-	-	-	-	-	389	389	90	479
Other gains and losses recognised in equity		-	-	17	(16)	-	2	3	-	3
Comprehensive income for the year		-	-	17	(16)	-	391	392	90	482
Dividends distributed	22, 23	-	-	-	-	-	(559)	(559)	(69)	(628)
Increase/decrease in capital reserves		-	-	-	-	(489)	489	-	(244)	(244)
Balance as at 31 December 2019		829	82	(169)	(10)	1,535	2,153	4,420	1,237	5,657

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

Consolidated Statement of Cash Flow

Galp Energia, SGPS, S.A.

Consolidated Statement of Cash Flow for the years ended 31 December 2019 and 31 December 2018

(Amounts stated in million Euros - €m)

	Notes	2019	2018
Operating activities:			
Cash received from customers		18,721	19,450
Payments to suppliers		(11,607)	(12,301)
(Payments) relating to tax on oil products ("ISP")		(2,595)	(2,706)
(Payments) relating to VAT		(1,652)	(1,720)
(Payments) relating to royalties, levies, "PIS", "COFINS" and Others		(189)	(181)
(Payments) relating to payroll		(335)	(328)
Other receipts relating to the operational activity		(96)	(125)
(Payments) of income taxes (income tax, oil income tax, SPT)	16	(503)	(613)
Cash received related to dividends	7	146	118
Cash flow from operating activities (1)		1,890	1,594
Investing activities:			
Cash received from disposals of tangible and intangible assets		51	-
Payments for the acquisition of tangible and intangible assets		(1,111)	(1,110)
Cash received in relation to financial investments		478	332
Payments relating to financial investments		(63)	(90)
Cash received from loans granted		287	71
Payments relating to loans granted		(132)	(74)
Cash received from interests and similar income		35	30
Cash flow used in investing activities (2)		(454)	(841)
Financing activities:			
Cash received from loans obtained	14	1,527	1,500
Payments related to loans obtained	14	(1,910)	(1,244)
Payments from interests and similar costs		(80)	(93)
Payments relating to leasing	7	(99)	-
Payments relating to leasing interests	7	(90)	-
Capital/reserves increase/(reduction) and other equity instruments	23	(244)	21
Dividends paid	22	(623)	(512)
Cash flow used in financing activities (3)		(1,519)	(328)
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		(82)	425
Effects of foreign exchange rate changes in cash and cash equivalents		8	(19)
Cash changes due to changes in the consolidation perimeter		1	2
Cash and cash equivalents at the beginning of the year		1,504	1,096
Cash and cash equivalents at the end of the year	13	1,431	1,504

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

Notes to the consolidated financial statements as at 31 December 2019

Galp Energia SGPS, S.A. (the Company) has its Head Office in Lisbon, Portugal and is a listed entity on Euronext Lisbon.

1. BASIS OF PRESENTATION

The consolidated financial statements of Galp Energia SGPS, S.A. and its subsidiaries (collectively referred to herein as Galp or Galp Group) have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

The consolidated financial statements have been prepared on a historical costs basis, except for derivative financial instruments, financial assets at fair value through comprehensive income and financial assets at fair value through profit or loss.

The significant accounting policies set out below have been applied consistently to the preparation of the consolidated financial statements for the years presented.

The consolidated financial statements are presented in Euros, and all the values are rounded to the nearest million Euros, except where otherwise indicated. Therefore, the subtotals and totals of the tables presented in these consolidated financial statements and accompanying notes may not equal the sum of the amounts presented, due to rounding.

2. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Accounting policies

Galp's accounting policies are, in accordance with their content, described in the respective notes to the consolidated financial statements.

Applying materiality

The consolidated financial statements are the result of the aggregation of a large number of transactions by nature. When they are aggregated, the transactions are presented in classes of similar items. If a line item is not individually material, it is aggregated with other items of a similar nature in the consolidated financial statements, or in the notes thereto. There are substantial disclosure requirements throughout IFRS. Management makes the specific disclosures required by IFRS, unless the information is considered immaterial to the economic decision-making of the users of these financial statements, or is otherwise not applicable.

Principles of consolidation

The consolidated financial statements incorporate the financial statements of the parent company Galp Energia SGPS, S.A. and the entities under its control. Control exists where Galp has effective power over an entity and is exposed to variable returns arising from its involvement with the entity. Where necessary, adjustments are made to bring the financial statements of the subsidiaries in line with the Group's accounting policies. All intragroup transactions, balances, income and expenses are eliminated in full upon consolidation. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition up to the effective date of disposal. Non-controlling interests represent the equity in subsidiaries that is not attributable, directly or indirectly, to Galp's shareholders.

Translation of foreign currencies

Functional currency

Items included in the financial statements of Galp Group entities are measured using the currency of the primary economic environment in which the subsidiary operates (the functional currency). The functional currency and presentation of the parent company is the Euro.

Translation of transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing as at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities, are recognised in the income statement.

Translation of Group companies

Upon consolidation, the assets and liabilities of non-Euro entities are translated into Euros at the year-end rates of exchange, while their statements of income, other comprehensive income and cash flow are translated at the annual average rates. The resulting translation differences are recognised as currency translation differences within other comprehensive income.

The following exchange differences are recognised in other comprehensive income: (i) Foreign subsidiaries' statements of comprehensive income are translated at the historical average of the year-end exchange rates; (ii) Loans granted by shareholders to subsidiaries in currencies other than the parent's functional currency that have no stipulated repayment terms are treated as net hedges on the investments in these foreign subsidiaries. This means that the foreign exchange differences arising from these loans that have not been eliminated upon consolidation are reclassified in the income statement from shareholders' equity to the line item "currency translation reserves".

Key accounting estimates and judgments

Inherent in the application of the accounting policies used for the preparation of these consolidated financial statements is the need for Galp's management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. The actual amounts could differ from the estimates and assumptions used.

Accounting judgments and estimates that could have a significant impact on the results of the group are described in the Notes to the financial statements alongside the significant accounting policies. Those areas requiring the most significant judgment and the use of estimates when preparing these consolidated financial statements are: (i) Accounting for interests in other entities (Note 9 and 30); (ii) Accounting for oil and natural gas, including the estimate of reserves (Note 5); (iii) Recoverability of the carrying value of assets (Note 5,6 and 8); (iv) provisions and contingencies (Note 18); (v) Pensions and other post-employment benefits (Note 17); (vi) Income taxes (Note 16) and (vii) Leases (Note 7). Where an estimate carries a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities within the next financial year, this is specifically stated within the respective note.

3. IMPACT OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 Adoption of IFRS 16 – ‘Leases’

IFRS 16 - ‘Leases’ provides a single lessee accounting model under which all leases with a term of more than 12 months, unless the underlying asset is of low value, are accounted for through the statement of financial position recognition of a right-of-use asset and a lease liability.

A right of use asset is amortised across its economic useful life, and the related financial liability, recognised at its present value discounted at the legal entity’s incremental borrowing rate or the lease agreement’s effective interest rate, bears interest which is then charged through profit and loss. For each lease, the subsequent amortisation of the right-of-use assets and the interest expenses related to the lease liability are recognised in profit or loss over the lease term. IFRS 16 replaces IAS 17 - ‘Leases’, IFRIC 4 - ‘Determining Whether an Arrangement Contains a Lease’, SIC 15 - ‘Operating Leases – Incentives’ and SIC 27 - ‘Evaluating the Substance of Transactions Involving the Legal Form of a Lease’ and is effective for annual periods beginning on or after 1 January 2019. Galp is adopting IFRS 16, effective from 1 January 2019.

Upon initial recognition, Galp recognised right-of-use assets at amounts equal to the lease liabilities, with no restatement of prior-period financial information (modified retrospective approach).

As permitted by the standard, Galp decided as a practical expedient to “grandfather” the previous assessment made under IAS 17. This practical expedient enabled existing agreements outside of the scope of IAS 17 to be excluded from the initial adoption of IFRS 16.

In the consolidated statement of cash flow, operating lease payments were presented within cash flow from operating activities. Under IFRS 16, lease payments are presented within cash flow from financing activities, representing repayments of financial liabilities and the interest due thereon. Lease payments related to assets of low value, lease agreements with terms under 12 months and variable lease payments that are not linked to an index, are not included in financial lease liabilities, and will continue to be presented as cash flow from operating activities.

The discount rates used for lease agreements represent the incremental borrowing rates appropriate to each lease agreement based on factors such as the lessee’s legal entity, leased assets, lease terms and currencies. Currently, the range of this incremental borrowing rate applicable to the majority of the Group’s leases is between 2% p.a. and 9% p.a..

The accounting policy is described on Note 7.

3.2 New Standards approved by the European Union and adopted or to be adopted

The IFRS standards endorsed and published on the Official Journal of the European Union (OJEU) during the year 2019 and enforceable for accounting purposes in subsequent years are presented in the table below:

IFRS/IFRIC Standards	Publication date in OJEU	Accounting application date	Enforcement year	Observations
Amendments to IAS 1 and IAS 8: Definition of Material	29/11/2019	01/01/2020	2020	Applicable but without significant impact
Amendments to References to the Conceptual Framework in the IFRS Standards	29/11/2019	01/01/2020	2020	No predictable impact

The IFRS standards endorsed and published in the OJEU applicable to the year 2019 are presented in the table below:

IFRS/IFRIC Standards	Publication date in OJEU	Accounting application date	Enforcement year	Observations
Amendments to IFRS 9: Prepayment Features with Negative Compensation	26/03/2018	01/01/2019	2019	Without relevant accounting impacts
IFRIC 23 Uncertainty over Income Tax Treatment	23/10/2018	01/01/2019	2019	Without relevant accounting impacts
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	08/02/2019	01/01/2019	2019	Not applicable
Amendments to IAS 19: Plan Amendments, Curtailment or Settlement	13/03/2019	01/01/2019	2019	Without relevant accounting impacts
Annual Improvements to IFRS Standards 2015-2017 Cycle: (i) IAS 23: Borrowing costs; (ii) IAS 12: Income tax; and (iii) IFRS 3: Business combinations and IFRS 11: Joint Arrangements	14/03/2019	01/01/2019	2019	(i) Without any relevant accounting impacts (ii) Without any relevant accounting impacts (iii) With accounting impacts (Note 9).
IFRS 16 Leases	31/10/2017	01/01/2019	2019	With a significant accounting impact (Note 7).

4. SEGMENT INFORMATION

Operating segments

The Group operates across three different operating segments based on the types of products sold and services rendered: (i) Exploration and Production, (ii) Refining and Marketing; and (iii) Gas and Power.

The Exploration and Production segment is Galp's presence in the upstream sector of the oil and gas industry, which involves the management of all activities relating to the exploration, development and production of hydrocarbons, mainly focused on Brazil, Mozambique and Angola.

The Refining and Marketing segment owns two refineries in Portugal, and also includes all activities relating to the retail and wholesale marketing of oil products (including LPG). This segment also comprises all storage and transportation infrastructure for oil products in Portugal and Spain, for both export and import, and for the marketing of its products to the main consumer centres. This retail marketing activity using the Galp brand also covers some specific countries in Africa.

The Gas and Power segment encompasses the areas of procurement, supply, distribution and storage of natural gas, electric and thermal power generation.

Besides the three operating segments above, the Group classified in the category "Others" the holding company Galp Energia, SGPS, S.A., and companies with activities that differ from the Company's core business, including Tagus Re, S.A. and Galp Energia, S.A., a reinsurance company and a provider of shared services at the corporate level, respectively.

The segment reporting is presented on a replacement cost (RC) basis, which is the earnings measure used by the Chief Operating Decision Maker (in this case the Executive Board) to make decisions regarding the allocation of resources and the assessment of performance. Based on the RC method, the current method of measuring cost of sales under IFRS (the weighted average cost method) is replaced by the crude reference price (i.e. Brent-dated) as at the balance sheet date, as though the cost of sales had been measured at the replacement cost of the inventory sold. We have also disclosed in this note a reconciliation between the results under IFRS and those presented in the segment information.

The financial information of the segments identified above, as at 31 December 2019 and 2018, is presented as follows:

Unit: € m

	Consolidated		Exploration and Production		Refining and Marketing		Gas and Power		Others		Consolidation intersegment adjustments	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Sales and services rendered	16,570	17,182	2,475	1,687	12,409	12,780	2,678	2,885	157	142	(1,149)	(312)
Cost of sales	(12,604)	(12,828)	(354)	528	(11,082)	(11,308)	(2,021)	(2,161)	-	-	852	114
of which Variation of Production	(345)	167	(328)	4	(16)	162	-	-	-	-	-	-
Other revenue and expenses	(1,759)	(2,108)	(570)	(775)	(886)	(834)	(468)	(587)	(133)	(115)	298	203
of which Under & Overlifting	169	(33)	169	(33)	-	-	-	-	-	-	-	-
EBITDA at Replacement Cost	2,207	2,245	1,552	1,440	441	637	189	137	24	26	1	5
Amortisation, depreciation and impairment losses on fixed assets	(979)	(691)	(557)	(329)	(398)	(337)	(19)	(21)	(5)	(4)	-	-
Provisions (net)	(8)	9	(1)	17	(7)	(7)	-	-	-	-	-	-
EBIT at Replacement Cost	1,220	1,564	994	1,128	36	293	171	116	18	22	1	5
Earnings from associates and joint ventures	121	129	36	50	(5)	(6)	92	85	(1)	-	-	-
Financial results	(74)	(70)	-	-	-	-	-	-	-	-	-	-
Taxes and SPT at RC	(736)	(735)	-	-	-	-	-	-	-	-	-	-
Energy Sector Extraordinary Contribution	(58)	(60)	-	-	(21)	(24)	(37)	(37)	-	-	-	-
Consolidated net income at Replacement Cost, of which:	473	828	-	-	-	-	-	-	-	-	-	-
Attributable to non-controlling interests	(90)	(151)	-	-	-	-	-	-	-	-	-	-
Attributable to shareholders of Galp Energia SGPS SA	383	676	-	-	-	-	-	-	-	-	-	-
OTHER INFORMATION												
Segment Assets (1)												
Investments in associates and joint ventures (2)	870	1,295	524	918	75	95	272	282	-	-	-	-
Other assets	12,900	11,392	7,485	5,871	4,793	4,568	1,152	1,086	2,486	2,442	(3,016)	(2,575)
Segment Assets	13,770	12,687	8,008	6,789	4,868	4,663	1,423	1,367	2,486	2,442	(3,016)	(2,575)
of which Rights of Use of assets	1,167	-	750	-	414	-	1	-	3	-	-	-
Investments in Tangible and Intangible Assets	1,195	1,159	982	905	197	236	5	8	11	10	-	-

1) Net amount
2) Accounted for based on the equity method of accounting

The detailed information on sales and services rendered, tangible and intangible assets and investments in associates and joint ventures for each geographical region in which Galp operates is as follows:

Unit: € m

	Sales and services rendered [1]		Tangible and intangible assets		Investments in associates and joint ventures	
	2019	2018	2019	2018	2019	2018
	16,570	17,182	6,334	5,965	870	1,295
Africa	673	657	1,168	1,207	53	58
Latin America	1,437	1,439	3,154	2,561	528	928
Europe	14,460	15,086	2,012	2,197	290	309

[1] Net consolidation operation

Commercial and financial transactions between related parties are performed according to the usual market conditions, similarly to the transactions between independent parties.

The reconciliation between the Segment Reporting and the Consolidated Income Statement for the year ended 31 December 2019 and 2018 is as follows:

Unit: €m

	2019	2018
Sales and services rendered	16,570	17,182
Cost of sales under IFRS	(12,592)	(12,763)
Replacement cost adjustments (a)	(12)	(65)
Cost of sales at Replacement Cost	(12,604)	(12,828)
Other revenue and expenses	(1,759)	(2,108)
Depreciation and amortisation	(979)	(691)
Provisions (net)	(8)	(9)
Earnings from associates and joint ventures	121	129
Financial results	(74)	(70)
Profit before taxes and other contributions at Replacement Cost	1,267	1,624
Replacement cost adjustments	12	65
Profit before taxes and other contributions under IFRS	1,279	1,689
Taxes and SPT	(742)	(736)
Replacement cost adjustments on Taxes and SPT	6	1
Energy sector extraordinary contribution	(58)	(60)
Consolidated net income for the year at Replacement Cost	473	828
Replacement Cost (a) +(b)	6	65
Consolidated net income for the year under IFRS	479	892

5. TANGIBLE ASSETS

Accounting policies

Recognition

Tangible assets are stated at cost, less accumulated depreciation and cumulative impairment losses. The acquisition cost includes the purchase amount, plus transport and assembly costs, any decommissioning obligations and financial interest incurred during the construction phase. Tangible work-in-progress assets refer to assets under construction, and are stated at cost less cumulative impairment losses.

Major maintenance and repairs

Expenditure on major maintenance or repairs represents the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was depreciated separately is replaced, and it is probable that the future economic benefits associated with the item will flow to the group, the expenditure is capitalised, and the carrying amount of the replaced asset is derecognised. Inspection costs associated with major maintenance programmes are capitalised and amortised over the period until the next inspection. Overhaul costs for major maintenance programmes, and all other maintenance costs, are expensed as they are incurred.

E&P Tangible Assets

During the exploration phase, where there are only contingent and prospective resources, Galp will recognise as operating costs all expenditure related to exploration (i.e. expenditure related to G&G – Geological & Geophysical - and G&A – General & Administrative). Other exploration phase expenditure, such as for exploratory wells, are capitalised as work-in-progress assets, which are subject to impairment test when triggers are identified. Dry wells are recorded as expenses for the year. At the start of production, if commercial reserves are available, capitalised costs are depreciated based on the current depreciation policy.

Depreciation

E&P Tangible Assets

Oil properties, including related pipelines, mineral rights and future decommissioning costs are depreciated using a units-of-production (UoP) method. The cost of producing wells is amortised over the proven and developed reserves. The UoP rate for the depreciation of common facilities takes into account the expenditure incurred to date, together with the estimated future capital expenditure expected to be incurred in relation to the as-yet undeveloped reserves expected to be processed using these common facilities. Floating platforms (FPSOs) are currently depreciated using the straight-line method based on the lower of the estimated asset’s useful life and the concession period of the field where the platform is deployed.

Depreciation rates for Tangible Assets

The average annual depreciation rates used are as follow:

Depreciation rates	2019	2018
Buildings and other constructions	4.4%	4.3%
Machinery and equipment	11.2%	12.2%
Transport equipment	20.3%	16.1%
Tools and utensils	16.6%	16.1%
Administrative equipment	27.1%	20.3%
Reusable containers	13.2%	12.8%
Other tangible assets	8.1%	7.2%

Impairment

Impairment testing is performed as at the date of the financial statements, as well as whenever a decline in the value of the asset is identified. When performing impairment testing, tangible assets are allocated to the respective cash generating unit (CGU). The recoverable amount of an asset is estimated as part of the CGU to which it belongs, according to the discounted cash flow method. The discount rates are calculated by adjusting the post-tax rate to reflect the specific risk levels of the CGUs.

Refining and marketing impairment tests

Tangible and intangible assets related to the refining and marketing of oil products are assessed by the Group for impairment at the end of each reporting period, considering internal and external sources of information. In its annual impairment testing of the oil marketing segment, the Group considers the service station network of each country as a separate CGU, given: (i) the interdependence of the service stations in terms of sustaining the Company's market share, and therefore its results; and (ii) the provision of loyalty programmes and fleet cards at a national level.

The impairment testing carried out by the Group is based on the estimated recoverable amount of the service station network compared to its net book value at the end of each reporting period. The recoverable amount (value in use) determined by the Group corresponds to the present value of the expected future cash flow, which in turn is determined based on the annual budgets and business plans for the service station network, using a post-tax discount rate adjusted for the specific risks of that segment.

Impairment testing is also performed on the other assets of the refining and marketing segment, including refineries and tangible assets associated with logistics and storage activities. The period of the cash flow projection varies as a function of the CGU's average economic useful life.

Exploration and production impairment tests

Impairment losses on exploration and production assets are recorded when:

- Economically feasible reserves are not found;
- The exploration license expires and is not expected to be renewed;
- An acquired area is relinquished or abandoned; and
- The expected economic future benefit is lower than the investment amount.

Tangible and intangible assets related to the Exploration and production segment are assessed for impairment by the Group periodically (annually, or quarterly where indications of impairment are identified). The selected CGU will be the project or the individual block, depending on the stage of maturity of the respective investment. The assessment for impairment is carried out in accordance with the expected monetary value (EMV model), comparing the carrying amount of the investment with the present value of the expected future cash flow using a post-tax discount rate adjusted for the asset's specific risks, calculated considering the estimates of:

- The probable reserves;
- The investment and future operating costs needed to recover the probable reserves;

- The amount of any contingent resources, adjusted to reflect the probability of geological success;
- The investment and future operating costs required to recover the contingent resources;
- The reference price of a barrel of Brent crude;
- The applicable exchange rates;
- The CGU taxation mechanisms;
- The estimated production level and concession period; and
- The asset retirement obligations.

The EMV model considers in its calculation the PoS (the probability of geological success or the probability of success), which is a conditional statistical probability (Bayesian probability). This probability is used in geological science as part of a probability matrix based on seismic information and other G&G information. This underlying information takes into account the quantity, quality and certainty of the reserves (data controls). The cash flow projection period is equal to the recovery of the reserves and resources during the concession period, up to the limit of the terms of the respective concession agreements, if applicable.

Galp carry out impairment testing at any stage of exploration and production, i.e. in the exploration, development and production stages.

In the exploration phase, the CGU depends on the stage at which the investment is made in each project. For example, at an early investment stage, the CGU will be the country-level entity, given that the investment also includes investments in signature bonuses and any generic research performed in the area. Once an overall area is divided into blocks by the relevant country's authorities, Galp will recognise each block as a CGU, down-levelling the assessment for the purposes of impairment testing. As there are no reserves at this stage, Galp carries out impairment testing of prospective and contingent resources (1C, 2C and 3C) with a very low PoS.

If reserves are discovered, the investment moves into the development stage, having already been subject to impairment testing. During the development phase, the impairment analysis also takes into account the PoS (which is higher than at earlier stages, since there is now an estimate of the commercially viable reserves) and 2P reserves (proven and developed reserves) in order to estimate the prospective resources that will be generated by the block under analysis.

Accounting estimates and judgments

Crude oil and gas reserves

The estimate of crude oil reserves is an integral part of the decision-making process relating to the exploration and development of crude oil assets, as well as the development or implementation of secondary recovery techniques. The volume of proven crude oil reserves is used to calculate the depreciation of the petroleum exploration and production assets, in accordance with the units of production method. The volume of proven reserves and of contingent and prospective resources is used to assess the project's recoverable amount. The estimated proven crude oil reserves are also used to recognise the annual abandonment costs. The estimated proven reserves are subject to judgment, and to future revision based on newly available information, including information relating to the development activities, drilling or production, exchange rates, prices, contract termination dates and development plans. The impact of any changes to the estimates of crude oil reserves are accounted for on a prospective basis. The estimates of oil and natural gas reserves, and any movements occurring during the year, are described in the Supplementary Information to this Report, which is not audited.

Useful lives and residual values of tangible assets

The calculation of the assets' residual values and useful lives, as well as the depreciation method to be applied, are necessary to determine the depreciation and amortisation to be recognised in the consolidated income statement for each period. These parameters are set based on management's judgment, as well as being in line with the practices adopted by peers in the industry. Changes in assets' economically useful lives are accounted for on a prospective basis.

Unit: € m

	Land, natural resources and buildings	Plant and machinery	Other equipment	Assets under construction	Total
As at 31 December 2019					
Acquisition cost	1,231	10,120	493	2,005	13,850
Impairment	(29)	(75)	(4)	(109)	(217)
Accumulated depreciation and depletion	(745)	(6,779)	(438)	-	(7,962)
Net Value	457	3,267	51	1,896	5,671
As at 31 December 2018					
Acquisition cost	1,226	8,775	476	2,318	12,794
Impairment	(31)	(101)	(4)	(96)	(232)
Accumulated depreciation and depletion	(736)	(6,060)	(433)	-	(7,230)
Net Value	458	2,614	39	2,221	5,333

Movements in tangible assets in 2019 and 2018 are as follow:

Unit: € m

	Land, natural resources and buildings	Plant and machinery	Other equipment	Assets under construction	Total
Balance as at 1 January 2018	471	2,585	37	2,100	5,193
Additions	2	43	3	934	981
Depreciation, depletion and impairment	(24)	(619)	(14)	1	(655)
Disposals/Write-offs	(2)	(10)	-	(1)	(13)
Transfers	10	721	14	(745)	-
Currency exchange differences and other adjustments	-	(104)	-	(68)	(172)
Balance as at 31 December 2018	458	2,614	39	2,221	5,333
Balance as at 1 January 2019	458	2,614	39	2,221	5,333
Additions	-	99	2	1,131	1,232
Depreciation, depletion and impairment	(24)	(751)	(18)	(17)	(810)
Disposals/Write-offs	(12)	(8)	-	(8)	(28)
Transfers	30	1,318	28	(1,376)	-
Currency exchange differences and other adjustments	4	(5)	-	(56)	(56)
Balance as at 31 December 2019	457	3,267	51	1,896	5,671

During the year ended 31 December 2019, the Group made investments in the exploration and production segment in relation to projects in Brazil (€862 m, which is impacted by the acquisition of E&P equipment from the joint ventures Tupi BV and Iara BV), Angola (€86 m) and Mozambique (€77 m). In the refining and marketing segment, investments were made in the amount of €201 m, mainly in relation to industrial investments in refineries, terminals and logistic parks, as well as in the retail business. The amounts mentioned above include the capitalisation of financial charges in the amount of €24 m (Note 27).

During the year, the ANP (Brazilian National Agency of Petroleum, Natural Gas and Biofuels) approved the Unitisation Agreements (UA) related with the shared deposits of the Lula, Atapu and Sépia blocks.

For the Lula block, submitted by the consortium BM-S-11, the approval of the UA was effective from April 1, 2019. Following this unitisation process, Galp's participation, through its subsidiary Petrogal Brasil, stood at 9.209% of the area of the Unitised Lula block (BM-S-11 consortium + Transfer of Rights area + Open area).

With regard to the Sépia block, under the BM-S-24 licence, the approval of the UA was effective from September 1, 2019. Following this unitisation process, Galp's participation, through its subsidiary Petrogal Brasil, stood at 2.414% of the area of the Unitised Sépia block (BM-S-24 consortium + Transfer of Rights area).

In the case of the Atapu block, which extends beyond the limits of the BM-S-11A license, the approval of the UA was effective from September 1, 2019. Following this unitisation process, Galp's participation, through its subsidiary Petrogal Brasil, stood at 1.703% of the area of the Unitised Atapu (BM-S-11A consortium + Transfer of Rights area + Open area). It should be noted that the BM-S-11A license also includes two additional accumulations, Berbigão and Sururu, which are also subject to unitisation processes. These UAs were submitted to ANP in 2018 and are yet to be approved by the regulator. Unitisation processes require equalisations between the parties, based on the past capital expenditure incurred by partners for their original interest, and the operational profits resulting from the production received thereunder.

These equalisations lead to reimbursements between partners as per the terms and conditions agreed between themselves. During the year, and regarding Lula's UA, Galp recognised a negative impact of €96 m on its net profit (after non-controlling interests) and a decrease of €132 m in other assets/liabilities (€71 m included in currency exchange differences and other adjustments in the table above), resulting from the adjustment of past revenue and net investments. Additional amounts related to the associate Tupi BV have not yet been recognised, and should lead to a net equalisation payable position of approximately €100 m.

Regarding Sépia, a negative impact on net profit (after non-controlling interests) of €4 m was recognised in the year, and an increase in investments of €17 m (included in currency exchange differences and other adjustments to the table above), which resulted in a net equalisation payable position of approximately €26 m.

For Atapu, the unitisation process is mainly concentrated on the associate Iara BV, the accounting impacts of this unitisation process is dependent on certain legal and regulatory procedures to be carried out by Iara BV. We estimate that the amounts related to this unitisation process will result in a net receivable of c.€165 m. Altogether, the expected Group's net position related to the five unitisation processes is a receivable of c.€100 m.

Exploration and Production assets

Details of assets under construction and net fixed assets for the exploration and the production segment for the year ended 31 December 2019 and 2018, including Tangible and Intangible Assets, are presented in the table below:

Unit: € m

	Africa		Latin America		Total	
	2019	2018	2019	2018	2019	2018
Mineral rights	2	8	10	4	12	12
In exploration	335	323	352	320	687	643
In development	71	354	724	751	796	1,105
Financial interests	43	72	172	161	214	233
Assets under construction	451	757	1,258	1,236	1,709	1,993
Mineral rights	18	18	342	301	360	319
In exploration	38	13	48	22	86	35
In development	546	340	1,488	983	2,034	1,323
Financial interests	42	19	16	17	58	36
Net fixed assets	644	391	1,894	1,323	2,538	1,714
Exploration and Production Assets	1,095	1,147	3,151	2,559	4,247	3,706

Impairment Analysis

Refineries and storage facilities

Impairment testing was carried out for several CGUs, including Refineries and Storage facilities, with no impairment identified.

Service Station Network

As a result of the identification of potential losses, impairment testing and sensitivity analysis were carried out for the service station network in Portugal and Spain. The stress analysis was based on the following fundamental assumptions:

- A negative variation in cash flow by 10%; and
- An increase in the discount rate by 1 p.p..

The service station network in Spain showed a safety margin, and therefore no impairment losses were recorded for the period. Based on the sensitivity analysis using the variations in the fundamental assumptions mentioned above, an impairment loss of €76 m was identified in relation to the service station network in Spain. The future cash flow projections at the CGU level have been discounted using an appropriate discount rate that reflects the business unit's specific risks. The service station network in Portugal has been tested for impairment, with no impairment recorded. For details of the discount rate used for the purposes of impairment testing, see Note 8.

Exploration and production assets

Tangible and intangible assets of the Exploration and Production segment were subject to a year-end analysis of the sensitivity of the carrying value of the main assets to fluctuations in the Brent price.

The forecast Brent prices considered in the impairment testing were as follow: 2020: $65/bbl; and 2021- 2025: $70/bbl.

Based on the impairment testing carried out, the expected future benefits from the assets are higher than the carrying value per CGU for the regions in which Galp operates (Angola, Mozambique and Brazil). The discount rate used in the impairment test reflects the specific risk of the assets related to the E&P Business Unit, calculated on a USD basis. For details of the discount rate used for the impairment testing see Note 8.

The sensitivity analysis carried out to test the impact of the volatility of the Brent price on the value of the main E&P assets, namely a flat $60/bbl Brent price in the projected cash flow, indicated no future potential economical impairment in the geographical areas in which Galp operates.

6. INTANGIBLE ASSETS

Accounting policies

Recognition

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Intangible Assets are identifiable non-monetary intangible assets, which are only recorded if it is probable that they will result in future economic benefits to the Group, these benefits are controlled by the Group and they can be reliably measured.

Intangible assets include costs incurred for the development of information systems, exclusivity bonuses paid to retailers of Galp products, and land rights, which are amortised over the periods of the respective agreements.

Research and development

Research expenses not related to petroleum exploration and production activities are recognised as expenses for the period. 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 commercially exploiting or using it, and it is probable that the asset created will generate future economic benefits.

Exploration & Production

Signature bonuses (i.e. Mineral Rights) are ownership rights to explore underground resources like oil and gas, and are recognised as intangible assets.

See further details of the recognition policies for E&P assets in Note 5.

Amortisation

Intangible assets with finite useful lives are amortised on a straight line basis. The amortisation rates are set in accordance with the terms of the existing contracts, or with the expected use of the intangible assets. Intangible assets recognised in the exploration and production segment, namely signature bonuses, are recorded at their acquisition cost and are amortised on a UoP basis from the date on which production starts.

Impairment

The impairment testing of intangible assets is based on Management's projections, and on the net present value of the estimated future cash flow. The residual values used are based on the expected lives of products, the forecast lifecycle and the cash flow over that period, and on the economically useful lives of the underlying assets.

Accounting estimates and judgments

Useful lives and residual values of intangible assets

The calculation of the assets' residual values and useful lives, as well as the amortisation method to be applied, are essential to determine the amortisation recognised in the consolidated income statement for each period. These parameters are set based on Management's judgment, as well as the practices adopted by peers in the industry.

Impairment of intangible assets

Identifying impairment indicators, estimating the future cash flow and determining the fair value of assets requires a high level of judgment from Management in terms of the identification and evaluation of the different impairment indicators, the expected cash flow, the applicable discount rates, useful lives and residual amounts.

Unit: € m

	Industrial properties and other rights	Intangible assets in progress	Total
As at 31 December 2019			
Acquisition cost	998	58	1,055
Impairments	(22)	(23)	(44)
Accumulated amortisation	(433)	-	(433)
Net Value	542	35	577
As at 31 December 2018			
Acquisition cost	936	59	995
Impairments	(19)	(27)	(46)
Accumulated amortisation	(401)	-	(401)
Net Value	516	31	547

Movements in intangible assets in 2019 and 2018 are as follow:

Unit: € m

	Industrial properties and other rights	Intangible assets in progress	Total
Balance as at 1 January 2018	229	178	407
Additions	3	192	196
Amortisation and impairment	(36)	-	(36)
Write-offs/Disposals	(1)	-	(1)
Transfers	322	(322)	-
Currency exchange differences and other adjustments	1	(17)	(16)
Balance as at 31 December 2018	516	31	547
Balance as at 1 January 2019	516	31	547
Additions	1	73	74
Amortisation and impairment	(36)	-	(36)
Write-offs/Disposals	(1)	-	(1)
Transfers	73	(73)	-
Currency exchange differences and other adjustments	(10)	4	(7)
Balance as at 31 December 2019	542	36	577

Additions to intangible assets occurred essentially in the exploration and production segment in the amount of €52 m in Brazil, €9 m in R&M segment and €9 m in the Others segment, related to the renewal of core software.

7. LEASES

Accounting policies

Recognition

The Group recognises both a right-of-use asset and a lease liability as at the lease commencement date. The right-of-use asset is initially measured at cost, which represents the initial amount of the lease liability, adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred, plus an estimate of the costs required to dismantle and remove the underlying asset or restore the site on which it is located (if applicable), less any lease incentives received. The lease liability is initially measured at the present value of the lease payments that have not yet been paid up to the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot readily be determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The types of lease payments included in the measurement of the lease liability are as follow:

- Fixed payments, including in-kind fixed payments;
- Variable lease payments that are pegged to an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group is reasonably certain to be able to exercise, lease payments over an optional renewal period if the Group is reasonably certain to exercise an extension option, and
- Penalties for the early termination of a lease, unless the Group is reasonably certain not to terminate it early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there are changes in the amounts of future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities in a separate line in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have lease terms of 12 months or less, and leases of low-value assets. The Group recognises the lease payments associated with these leases as expenses on a straight-line basis over the lease term.

Amortisation

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined as those used for the property and equipment items.

Impairment

The right-of-use assets are periodically reduced by the amounts of impairment losses and adjusted to reflect certain remeasurements of the respective lease liabilities.

Accounting estimates and judgments

Useful lives, residual values of intangible assets and discount rates

The calculation of the assets' residual values, the estimation of the useful lives, and the discount rates used are based on the premises of the lease contracts (or for similar assets) and are set based on Management's judgment, as well as the practices of its peers in the industry.

Impairment of Right-of-use Assets

Identifying impairment indicators, estimating future cash flow and determining the fair value of assets requires Management to use significant judgment in terms of the identification and evaluation of the different impairment indicators, the expected cash flow, the applicable discount rates, useful lives and residual amounts.

The details of right-of-use assets are as follow:

Unit: € m

	FPSO's[1]	Buildings	Service stations	Time Charter	Other usage rights	Total
As at 31 December 2019						
Acquisition cost	655	90	154	189	212	1,300
Accumulated amortisation	(48)	(5)	(18)	(43)	(19)	(133)
Net Value	607	85	136	146	194	1,167
As at 1 January 2019	657	83	118	166	208	1,233
Additions	-	6	49	11	4	69
Amortisation	(48)	(5)	(18)	(43)	(18)	(133)
Currency exchange differences and other adjustments	(2)	1	(13)	12	(1)	(3)
Balance as at 31 December 2019	607	85	136	146	194	1,167

[1] Floating, production, storage and offloading unit - floating oil production system, built on a ship structure, with a capacity for oil and natural gas production processing, liquid storage and transfer of oil to tankers.

Lease liabilities are as follow:

Unit: € m

	2019
Maturity analysis – contractual undiscounted cash flow	1,919
Less than one year	190
One to five years	606
More than five years	1,123
Lease liabilities included in the consolidated statement of financial position	1,223
Current	182
Non-current	1,042

The amounts recognised in consolidated profit or loss are as follow:

Unit: € m

	Notes	2019
		446
Interest on lease liabilities	27	90
Expenses related to short term, low value and variable payments of operating leases [1]		356

[1] Includes variable payments and short term leases recognised under the heading Transport of goods.

The amounts recognised in the consolidated statement of cash flow are as follow:

Unit: € m

	2019
Financing activities	189
Payments relating to leases	99
Payments relating to lease interests	90

8. GOODWILL

Recognition

The differences between the investee's acquisition cost and the fair value of the identifiable assets and liabilities of the acquired entities at the acquisition date, if positive, are recorded within goodwill (when they result from goodwill in Group companies) or included in the line item "Investments in associated companies" (when they result from goodwill in associates). The negative differences are recognised immediately in the income statement.

Impairment

The carrying value of Goodwill is allocated to the respective CGU, and the recoverable amount is also estimated for the CGU, using the value in use methodology. The value in use represents the expected future cash flow from the CGU, discounted at an appropriate discount rate that reflects the risks specific to the CGU.

Unit: € m

	2019	2018
	85	85
Galp Comercialização Portugal, S.A. (incorporated in Petrogal)	51	51
Galp Eswatini (PTY) Limited	20	20
Galpgest - Petrogal Estaciones de Servicio, S.L.U.	6	7
Empresa Nacional de Combustíveis - Enacol, S.A.R.L.	4	4
Galp Moçambique, Lda.	4	4

The methods and discount rates used for the valuation models were as follow:

Cash generating unit	Valuation Model	Cash flows	Growth factor	Discount rates	
				2019	2018
Financial Investments (included in operating segments)	DCF (Discounted Cash Flow)	In accordance with the budget for 2020 and the five year strategic plan	Gordon Model with perpetual growth rate of 2%	R&D [6.2%-6.4%] E&P [10.5% USD] G&P [5.6%]	R&D [6.2%-6.4%] E&P [10.5% USD] G&P [5.6%]

According to the defined assumptions, as at 31 December 2019 there were no goodwill impairment losses. A negative variance of 10% in cash flow or an increase in the discount rate by 1 p.p. would not result in an impairment of goodwill as at 31 December 2019.

9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Accounting policies

Joint Arrangements and Associates

Arrangements under which Galp has contractually agreed to share control with another party or parties are deemed to be joint arrangements. These may be joint ventures where the parties have rights to the net assets of the arrangement, or joint operations where the parties have rights to the assets and obligations arising from the liabilities relating to the arrangement. Investments in entities over which Galp has the right to exercise significant influence, but has neither control nor joint control, are classified as associates.

Investments in joint ventures and associates are accounted for using the equity method, under which the investment is initially recognised at cost and subsequently adjusted for Galp's share of post-acquisition net results. The investments are also adjusted for the dividends received and for Galp's share of other comprehensive income.

Where necessary, adjustments are made to the financial statements of joint ventures and associates to bring the accounting policies used into line with those of Galp. Galp recognises its assets and liabilities relating to its interests in joint operations, including its share of any assets held jointly and liabilities incurred jointly with other partners.

Information about joint arrangements and associates can be found in Note 30.

As at 31 December 2019 and of 31 December 2018, the net book values of investments in joint ventures and associates were as follow:

Unit: € m

	2019	2018
	870	1,295
Joint ventures	758	1,220
Associates	112	75

Unit: € m

	As at 1 January 2019	Share capital increase/ decrease	Earnings from JV	Foreign exchange rate differences	Dividends	Others	As at 31 December 2019
Joint Ventures	1,220	(416)	48	26	(60)	(60)	758
Tupi BV	648	(309)	36	16	(23)	-	368
Iara BV	229	(122)	-	8	-	-	114
Galp Gás Natural Distribuição, S.A.	220	-	21	-	(28)	-	213
Belém Bioenergia Brasil, S.A.	51	14	(6)	2	-	(60)	-
Coral FLNG, S.A.	41	-	-	1	-	-	41
Other joint ventures	31	2	(2)	(1)	(9)	-	22

During the year, the joint ventures Tupi BV and Iara BV repaid share premium contributions to their shareholders in the amount of €477 m (€309 m and €169 m, respectively) as a result of a cash surplus from the sale of equipment to the E&P operations in Brazil. Capital increases amounting to €47 m were also made in Iara BV.

During the year, Galp recognised €23 m related to the results of its participation in GGND, of which €8 m is related to the acquisition made by GGND of 58.03% in Tagusgás S.A. and a negative amount of €2 m related to the adjustment to the purchase price by Meet Europe.

In August 2019, Galp signed an agreement to acquire from Petrobrás – Petróleo Brasileiro, S.A. the remaining 50% interest that it held in Belém Bioenergia Brasil, S.A. (BBB) for an amount equivalent to €5 m, becoming the only shareholder of this company. The closing of this transaction occurred on November 2019 after formal approval was received from the Brazilian authorities.

In accordance with accounting rule IFRS 3, the previously held participation in BBB was remeasured at its fair value, and the purchase price allocation was carried out. A negative impact of €1.5 m was recognised in earnings from associates and joint ventures.

Simultaneously with the acquisition of a 50% interest in BBB, Galp, in partnership with Ecotauá, Participações, S.A., constituted a new entity - Tauá Brasil Palma, SA. (Tauá), that is 49.99% owned by BBB. BBB made capital contributions in kind to Tauá using some of BBB's net assets. BBB will have significant influence on Tauá's operational and financial decision-making, and therefore it will be classified as an associate in Galp's consolidated financial statements.

A summary of the financial indicators of the significant joint ventures as at 31 December 2019 is shown below:

Unit: € m

	Tupi BV	Iara BV	Galp Gás Natural Distribuição, S.A.
Total non-current assets	9,324	1,387	1,236
Total current assets	2,822	272	104
Of which cash and cash equivalents	186	71	43
Total assets	12,146	1,659	1,340
Total non-current liabilities	7,262	-	1,054
Of which debt	-	-	675
Total current liabilities	1,147	437	58
Of which debt	-	-	5
Total liabilities	8,410	437	1,113
Total operating income	4,268	10	208
Total operating costs	(3,827)	(9)	(152)
Of which amortisation, depreciation and impairment losses on fixed assets	-	-	(47)
Operating results	8,096	19	360
Net financial results	70	-	(2)
Profit before taxes	511	9	54
Income taxes	(104)	(1)	(12)
Net income for the year	407	8	31

* Provisional financial statement as at the closing date used to apply the equity method, converted at the spot and average exchange rates, respectively, for balance sheet and results indicators.

Unit: € m

	As at 1 January 2019	Share capital increase/ decrease	Earnings from Associates	Foreign exchange rate differences	Dividends	Other movements	As at 31 December 2019
Associates	75	45	74	(4)	(78)	-	112
EMPL - Europe Magreb Pipeline, Ltd	35	-	61	-	(56)	-	40
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda.	13	-	4	(4)	(5)	-	8
Gasoduto Al-Andaluz, S.A.	11	-	5	-	(9)	-	7
Tauá Brasil Palma, S.A.	-	45	-	-	-	-	45
Other associates	16	-	4	-	(8)	-	12

The balance of dividends in the amount of €138 m differs from the balance of cash receipts related to dividends in the amount of €146 m in the Consolidated Statement of Cash Flow, due to amounts pledged but not yet paid, and foreign exchange timing differences between the time of assignment and the time of payment of the dividends.

For comparative information on Joint arrangements and Associates, please refer to the consolidated financial statements for the year ended 31 December 2018.

10. INVENTORIES

Accounting policies

Inventories are stated at the lower of the acquisition cost (in the case of goods and raw and subsidiary materials) or the production cost (in the case of finished and semi-finished products and work in progress) or the inventories net realisable value. The net realisable value corresponds to the normal selling price less costs to complete production and to sell. Whenever the cost exceeds the net realisable value, the difference is recorded in operating costs as part of the cost of sales.

Unit: € m

	2019	2018
	1,055	1,171
Raw, subsidiary and consumable materials	358	439
Crude oil	167	198
Other raw materials	68	59
Raw materials in transit	123	181
Finished and semi-finished products	537	561
Goods	180	222
Write-downs	(20)	(51)

The changes to write-downs were as follow:

Unit: € m

	Notes	Raw, subsidiary and consumable materials	Finished and semi-finished products	Goods	Total
Write-downs at the beginning of the year		24	26	2	51
Net reductions	25	(8)	(25)	1	(32)
Write-downs at the end of the year		16	1	3	20

11. TRADE AND OTHER RECEIVABLES

Accounting policies

Accounts receivable are initially recorded at the transaction value and subsequently measured at amortised cost, less any impairment losses, recognised as impairment losses on accounts receivable. The amortised cost of these assets does not differ from their nominal value or their fair value. Galp undertakes over- and underlifting activities for its share of crude. Under- and overlifting are common industry practices intended to optimise the allocation of transportation costs between partners. Payments and receipts related to over- and underlifting are made at a subsequent date in barrels of crude, as defined by the applicable production sharing agreement (PSA).

Trade and other receivables are derecognised when the contractual rights to the cash flow expire (i.e. they are collected), when they are transferred (e.g. sold) or when they are impaired.

Accounting estimates and judgments

Impairment of accounts receivable

The group applies the IFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. Trade receivables were grouped by business segment for the purposes of the assessment of expected credit losses. The credit risk of the accounts receivable balance is evaluated at each reporting date, taking into consideration the client's credit risk profile. The credit risk analysis is based on the annual default probability, and also takes into account the loss in the event of default. The default probability represents an annual probability of default, reflecting the current and projected information and taking into account macroeconomic factors, whereas the loss in the event of default represents the expected loss when a default occurs.

Accounts receivable are adjusted for management's estimate of the collection risks as at the statement of financial position date, which may differ from the actual impairment to be incurred.

Credit Risk

For Credit Risk purposes, if wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Credit Risk assessment considers the credit quality of the customer, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Wholesale customers' compliance with credit limits is regularly monitored by Management.

Sales to retail customers are required to be settled in cash or using major credit cards, thus mitigating the credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

For further credit risk mitigation measures, guarantees and insurance policies for eventual credit defaults are a standard part of Galp's overall risk policy.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics.

Trade receivables

Unit: € m

	Notes	2019	2018
		980	1,032
Trade receivables		1,143	1,206
Allowance for doubtful amounts		(163)	(173)

Ageing of trade receivables	Exposure to risk	980	1,032
Not yet due	Low	856	867
Overdue up to 180 days	Medium	97	159
Overdue between 181 days and 365 days	High	8	1
Overdue over 365 days	Very High	18	5

Movements in allowance for doubtful trade receivables

Allowance at the beginning of the year		173	178
Increase	25	13	20
Decrease	25	(13)	(5)
Utilisation		(11)	(21)
Other adjustments		1	-
Allowance at the end of the year		163	173

Other receivables

Unit: € m

		2019		2018	
	Notes	Current	Non-current	Current	Non-current
		935	**259**	**598**	**238**
State and other Public Entities		24	28	11	43
Other debtors		623	65	302	34
Non-operated oil blocks		348	-	191	-
Underlifting		190	-	40	-
Other receivables		84	65	71	34
Related Parties		5	-	19	-
Contract Assets		206	68	198	67
Sales and services rendered but not yet invoiced		96	-	138	-
Adjustment to tariff deviation - "pass through"		17	-	16	-
Other accrued income		94	68	45	67
Deferred charges		82	98	74	94
Energy sector extraordinary contribution	16	15	46	24	61
Deferred charges for services		3	21	3	22
Other deferred charges		65	31	47	11
Impairment of other receivables		(6)	-	(6)	-

Deferred charges current includes €29 m regarding CO_2 licenses and non-current includes the amount of €30 m related to post-employment benefits asset (Note 17).

Other non-current receivables included a €30 m judicial deposit regarding a claim between the BM-S-11 consortium and ANP. The ANP agency stated that the oilfields of Lula and Cernambi, which are within BM-S-11, should be unified for SPT purposes, although the consortium stated otherwise; thus the judicial deposit represents the difference between the two criteria under discussion.

12. OTHER FINANCIAL ASSETS

Accounting policies

For accounting policies regarding Other financial assets, please refer to the disclosure in Note 20.

Unit: € m

		2019		2018	
	Notes	Current	Non-current	Current	Non-current
		174	169	418	92
Financial Assets at fair value through profit & loss	19	131	9	200	7
Financial Assets at fair value through comprehensive income		-	3	-	3
Financial Assets not measured at fair value - Loans and Capital subscription		43	135	42	60
Financial Assets not measured at fair value - Loan to Sinopec		-	-	176	-
Others		-	23	-	24

During the first quarter of 2019, Galp Sinopec Brazil Services (GSBV) carried out a share premium reduction in the amount of €813 m, of which €244 m represents Sinopec's share in the share premium reduction (Note 23). Part of this share premium reduction (€176 m) was funded by Sinopec's reimbursement of the entirety of the outstanding loan it had received from GSBV.

Loans and Capital subscription (current) in the amount of €43 m are related to the subscribed and unrealised capital increase made by Winland International Petroleum, S.A.R.L (a Sinopec company) in Petrogal Brasil, S.A., and it has been considered as a financial asset given the term established for this capital increase.

13. CASH AND CASH EQUIVALENTS

Accounting policies

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

For the purposes of the statement of cash flow, cash and cash equivalents also include bank overdrafts recorded as loans and overdrafts in the statement of financial position.

Financial resources consist of cash and cash equivalents, marketable securities with original maturities less than three months and undrawn committed credit facilities expiring after more than one year.

For the periods ending 31 December 2019 and 31 December 2018, the details of cash and cash equivalents were as follow:

Unit: € m

	Notes	2019	2018
		1,431	1,504
Cash in banks		1,460	1,508
Bank overdrafts	14	(29)	(4)

14. DEBT

Accounting policy

Loans are recorded as liabilities at the nominal value received, net of the expenses incurred on the issuance of these loans. Loans are subsequently measured at amortised cost. Financial charges are calculated at the effective interest rate and recorded in the income statement on an accruals basis in accordance with each loan agreement.

Unit: € m

		2019		2018	
	Notes	Current	Non-current	Current	Non-current
		278	2,616	559	2,686
Bank loans		278	795	61	1,042
Origination fees		-	-	(1)	(1)
Loans and commercial paper		249	795	59	1,044
Bank overdrafts	13	29	-	4	-
Bonds and notes		-	1,822	498	1,644
Origination fees		-	(6)	(2)	(6)
Bonds		-	828	-	650
Notes		-	1,000	500	1,000

The average cost of financial debt for the period under review, including charges for credit lines and overdrafts, amounted to 1.84% (2.53% in 2018).

The fair value of these bonds was €1,023 m as at 31 December 2019 and €988 m as at 31 December 2018, measured based on observable market variables, and classified at Level 2 of the Fair Value hierarchy (see fair value hierarchy in Note 20).

Current and non-current loans and bonds, excluding origination fees and bank overdrafts, have the following repayment plan as at 31 December 2019:

Unit: €m

Maturity	Loans		
	Total	Current	Non-current
	2,872	249	2,623
2020	249	249	-
2021	535	-	535
2022	465	-	465
2023	770	-	770
2024 onward	853	-	853

For comparative information, please refer to the consolidated financial statements for the year ended 31 December 2018.

Changes in debt during the period from 31 December 2018 to 31 December 2019 were as follow:

Unit: € m

	Initial balance	Loans obtained	Principal Repayment	Changes in Overdrafts	Foreign exchange rate differences and others	Ending balance
	3,245	1,527	(1,910)	25	6	2,895
Bank Loans:	1,103	1,350	(1,410)	25	4	1,073
Origination fees	(2)	-	-	-	2	(0)
Loans and commercial papers	1,102	1,350	(1,410)	-	1	1,044
Bank overdrafts	4	-	-	25	-	29
Bond and Notes:	2,142	177	(500)	-	3	1,822
Origination fees	(8)	-	-	-	2	(6)
Bonds	650	177	-	-	1	828
Notes	1,500	-	(500)	-	-	1,000

For comparative information please refer to the consolidated financial statements for the year ended 31 December 2018.

During the year the Group issued and repaid €1,350 m under commercial paper programmes.

The bonds obtained during 2019 were as follow:

Issuance	Due amount	Interest rate	Maturity	Reimbursement
	177			
Galp Energia/2019 - USD 100 M due march 2024	89	USD LIBOR 6M + spread	March '24	March '24
Galp Energia/2019 - USD 100 M due 2024	89	USD LIBOR 6M + spread	March '24	March '24

The bond reimbursements during 2019 were as follow:

Unit: €m

Issuance	Due amount	Interest rate	Maturity	Reimbursement
	500			
Galp 4.125% 01.2019	500	Fixed Rate 4.125%	January '19	January '19

15. TRADE PAYABLES AND OTHER LIABILITIES

Accounting policy

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

Unit: € m

	2019		2018	
	Current	Non-current	Current	Non-current
Suppliers	852	-	933	-
Other creditors	1,343	121	958	126
State and other public entities	355	-	348	-
Payable VAT	219	-	219	-
"ISP" - Tax on oil products	100	-	94	-
Other taxes	35		35	
Other payables	477	70	259	74
Tangible and intangible assets suppliers	430	70	154	74
Advances on sales	1	-	7	-
Overlifting	20	-	35	-
Other Creditors	26	-	63	-
Related parties	3	-	8	-
Other accounts payables	41	6	33	5
Accrued costs	461	30	302	30
External supplies and services	295	-	153	-
Holiday, holiday subsidy and corresponding contributions	52	4	51	4
Other accrued costs	115	26	97	27
Contract liabilities	6	-	6	-
Other deferred income	-	15	2	16

The amounts recorded as trade payables mainly relate to purchases of crude oil, natural gas and goods in transit on those dates.

The balance of accrued costs – external supplies and services includes €156 m related to the unitisation process in Brazil (€132 m for Lula, €26 m for Sépia and a receivable of €2 m related with Atapu), see Note 5.

16. TAXES, DEFERRED INCOME TAXES AND ENERGY SECTOR EXTRAORDINARY CONTRIBUTION

Accounting policies

Income tax is calculated based on the taxable results of the companies included in the consolidation in accordance with the applicable tax rules in each geographical area in which Galp operates.

Deferred income taxes arise from temporary differences between the accounting and taxable values of the individual consolidated companies and from the realisable tax loss carried forward. The taxable value of the tax loss carried forward is included in deferred tax assets to the extent that these are expected to be utilised against future taxable income. The deferred income taxes are measured according to the current tax rules and the tax rates substantially enacted up to the end of the reporting period.

The Group pays taxes on its E&P activity, which the company classifies as income taxes, namely:

- Petroleum income tax (IRP) in Angola, as regulated under Law 13/04. The rate applicable to the PSA contracts is 50% on the projects' "profit oil". The IRP calculation is in all respects similar to an income tax. Thus, oil companies subject to IRP are not subject to other income taxes in Angola;

- Special Participation Tax (SPT) in Brazil, as regulated under Decree-Law No 2.705 from Agencia Nacional do Petroleo, Gas Natural e Biocombustiveis (ANP). SPT is a contribution, due on a quarterly basis, calculated by oil and natural gas concessionaires based on the production from each project. The Special Participation is calculated on the determined income, from which operational costs related to the production of hydrocarbons are deducted. The SPT rate varies between 0% and 40% depending on the project's production level.

Accounting estimates and judgments

Galp is subject to income taxes in the locations in which it operates. Significant judgments and estimates are required to determine the worldwide accrual for income taxes, deferred income tax assets and liabilities, and the provision for uncertain tax positions.

Deferred tax assets

Deferred tax assets are recognised only when there is reasonable assurance that future taxable profits will be available against which the temporary differences can be used, or when there are deferred tax liabilities for which reversal is expected within the same period as that in which the deferred tax assets are reversed. Deferred tax assets are evaluated by Management at the end of each period, taking into account expectations of the Group's future performance (i.e. the Budget Plan), and such assets are only recognised if there is a high expectancy of future recovery.

Estimates regarding uncertain tax positions

As part of conducting business globally, tax and transfer pricing disputes with tax authorities may occur. Management's judgment is used to assess the possible outcome of such disputes. The most-probable-outcome method is applied when making provisions for uncertain tax positions, and Galp considers the booked provisions to be adequate. Nevertheless, the actual obligation may differ, and depends on the results of litigation and settlements with the relevant authorities.

As at 31 December 2019, and 31 December 2018, the current income tax payable is as follows:

Unit: € m

	Liabilities	
	2019	2018
	(141)	(82)
State and other public entities	(141)	(82)

The companies of the Galp Gas Natural Distribuição Group (GGND), headquartered in Portugal, in which the Group has an interest equal to or greater than 75%, are taxed in accordance with the Portuguese special regime for the taxation of groups of companies, with the taxable income being determined for Galp Energia, SGPS, S.A. Accordingly, the amount of corporate income tax advance payments made by Galp Energia SGPS, S.A. (which is responsible for the Portuguese Tax Authorities under the special regime for the taxation of groups of companies) on behalf of GGND Group companies, as well as the amounts related to the payment/receipt of Corporate Income Tax are recognised in the current income tax receivable and/or payable. As at 31 December 2019, Galp has an amount of €2 m to be paid to GGND's entities as part of the special regime for the taxation of groups of companies.

The total income tax, IRP and SPT paid during the year 2019 was €503 m.

Taxes for the year ended 31 December 2019 and 2018 were as follow:

Unit: € m

	2019			2018		
	Current tax	Deferred tax	Total	Current tax	Deferred tax	Total
Taxes for the year	615	127	742	578	158	736
Current income tax	102	30	132	88	200	288
"IRP" - Oil Income Tax	22	8	30	18	(2)	16
"SPT" - Special Participation Tax	491	89	580	472	(39)	433

As at 31 December 2019, the extraordinary contributions for the energy sector were as follow:

Unit: € m

	Statement of financial position				Income statement
	Provisions (Note 18)		"CESE II" Deferred Charges (Note 11)		Energy Sector Extraordinary Contribution
	CESE I	CESE II	Current	Non-current	
As at 1 January 2019	(86)	(211)	24	61	-
"CESE I" Increase	(15)	-	-	-	15
"CESE II" Increase	-	(9)	(10)	(15)	34
"Fondo Nacional de Eficiencia Energética (FNEE)"	-	-	-	-	9
31 December 2019	(101)	(220)	15	46	58

The Galp Group operates across various geographies, through locally established legal entities, whose taxable income is calculated based on the legal rates in force in each jurisdiction, varying between 25% in Spain and the Netherlands, 31.5% in Portugal and 34% for companies based in Brazil.

Unit: € m

	2019	2018
Effective tax rate	58.00%	43.60%
Corporate income tax rate of Galp Energia SGPS, S.A	31.50%	31.50%
Application of the equity method	(3.00)%	(2.40)%
"SPT" - Special participation and "IRP" - Tax on Oil Income *	27.90%	19.50%
Other additions and deductions	1.70%	(5.00)%

* The SPT expense recorded through profit or loss is deductible for income tax purpose in Brazil.

During the year ended as at 31 December 2019, the movements in deferred tax assets and liabilities were as follow:

Unit: € m

	As at 1 January 2019	Impact on the income statement	Impact on equity	Foreign exchange rate changes	As at 31 December 2019
Deferred Taxes – Assets	369	(16)	12	2	367
Adjustments to tangible and intangible assets	13	(2)	-	-	10
Retirement benefits and other benefits	87	1	7	-	96
Tax losses carried forward	80	(7)	-	1	73
Regulated revenue	7	1	-	-	8
Temporarily non-deductible provisions	85	23	-	1	110
Potential foreign exchange rate differences in Brazil	24	16	-	1	41
Others	74	(48)	5	-	30
Deferred Taxes – Liabilities	(196)	(112)	7	2	(299)
Adjustments to tangible and intangible assets	(170)	(104)	-	2	(272)
Adjustments to tangible and intangible assets fair value	(7)	1	-	-	(6)
Regulated revenue	(13)	(2)	-	-	(14)
Potential foreign exchange rate differences in Brazil	-	(7)	7	-	-
Others	(6)	-	-	-	(7)

Tax losses for which deferred tax assets were recognised were as follow:

Unit: € m

	Tax losses carried forward	Limit year to use	Deferred Tax
Tax losses carried forward			73
The Netherlands	20	2025	5
Spain	116	No limit	31
Brazil	110	No limit	37

In addition to the €116 m above, there are still €136 m of tax losses carried forward in Spain for which no deferred tax assets has been recognised.

The tax losses carried forward in Brazil and Spain will be recovered through future taxable results that may be expected as a result of oil exploration and oil distribution activity, respectively.

17. RETIREMENT BENEFIT OBLIGATIONS

Accounting policies

Defined-contribution plans

Galp has a defined-contribution plan funded by a pension fund which is managed by independent entities. Galp's contributions to the defined-contribution plan are charged to the statement of income in the relevant year.

Defined-benefit plans

Galp has a defined-benefit plan that provides the following benefits: pension supplements for retirement, disability and surviving orphans; pre-retirement; early retirement; retirement bonuses; and voluntary social insurance.

The payment of pension supplements for old age and disability, as well as survivors' pensions, is funded by a pension fund managed by independent entities.

Recognition of defined benefit plans

The costs for the year for defined benefit plans are determined using the projected unit credit method. This reflects services rendered by employees as at the valuation dates, and is based on actuarial assumptions, primarily regarding the discount rates used to determine the present value of benefits and the projected rates of remuneration growth. The discount rates are based on the market yields of high-rated corporate bonds in the respective country. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income during the period in which they arise. Past service costs are recognised immediately in the income statement. The surplus of a net defined benefit plan (i.e. asset) is only recognised to the extent that Galp is able to derive future economic benefits, such as refunds from the plan, or reductions in future contributions. Where a plan is unfunded, a liability for the retirement benefit obligation is recognised in the statement of financial position. Costs recognised for retirement benefits are included in employee costs. The net obligation recognised in the statement of financial position is reported within non-current liabilities.

Other retirement benefits

Along with the aforementioned plans, Galp provides additional benefits related to healthcare, life insurance and a minimum defined-benefit plan (for disability and survival).

Accounting estimates and judgments

Demographic and financial assumptions used to calculate the retirement benefit liabilities

Accounting for pensions and other post-retirement benefits requires estimates to be made when measuring the group's pension plan surpluses and deficits. These estimates require assumptions to be made regarding uncertain events, including discount rates, inflation and life expectancy.

Post-employment benefits

Unit: € m

	Notes	2019	2018
Assets under the heading of "Other Receivables"	11	30	10
Liability		(332)	(304)
Net responsibilities		(301)	(293)
Obligations, of which:		(568)	(541)
Past service liability covered by the pension fund		(237)	(238)
Other employee benefit liabilities		(331)	(303)
Assets		267	247

Post-employment obligations

Unit: € m

	2019	2018
Past service liability at the end of the current year	568	541
Past service liability at the end of the previous year	541	596
Current service cost	6	6
Interest cost	11	13
Actuarial (gain)/loss	35	(30)
Benefit payments made by the fund	(23)	(23)
Benefit payments made by the company	(34)	(35)
Changes in the benefit plan	2	(1)
Cut back - Early retirement	2	10
Cut back - Pre-retirement	4	10
Cut back - Migration to DC	4	-
Other changes	20	(5)

The average maturity of the liabilities under the defined benefit plans is 10.1 years (in 2018: 9.4 years).

As at 31 December 2019, the breakdown of the expected value of future benefit payments for the next four years is as follows:

Unit: € m

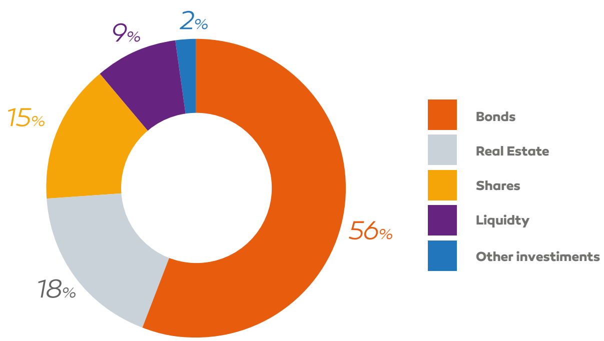
Payment expectation by the Group	Total	Retirement benefits	Other benefits
	102	66	36
2020	30	21	9
2021	27	18	9
2022	24	15	9
2023	20	11	9

Defined-benefit pension Fund

Unit: € m

	Notes	2019	2018
Assets at the end of the current year		267	247
Assets at the end of the previous year		247	271
Net interest	26	5	6
Associates' contribution		-	2
Benefit payments		(23)	(23)
Cut back		4	-
Financial gain/(loss)		33	(8)

Type of assets 2019



The hierarchy of fair value of the assets is mainly Level 1 for Shares and Other Investments, and an even mix of Level 1 and 2 for Bonds and Real Estate. Level 1 includes financial instruments valued based on liquid market quotations, including from Bloomberg. Level 2 includes financial instruments valued based on observable prices in current liquid markets for the same financial instruments supplied by external counterparties, available through Bloomberg.

Unit: € m

	2019	2018
Real return on plan assets (%)	15.48%	(0.70%)
Real return on plan assets	38	(2)

The number of participants and beneficiaries of the Petrogal and Sacor pension plans was 6,295 in December 2019 and 6,255 in December 2018.

Post-employment benefit expenses

Unit: € m

	Notes	2019	2018
Current service cost	26	6	6
Interest cost	27	6	7
Net cost for the year before special events		12	13
Cut back impact - early retirement	26	2	10
Cut back impact - pre-retirement	26	4	10
Other adjustments	26	23	(6)
Net cost for the year of defined-benefit plan expenses		40	27
Defined contribution	26	4	4
Net cost for the year of defined-contribution plan expenses		4	4
Total		44	31

Remeasurements

Unit: € m

	Notes	2019	2018
		2	18
Gains recognised through comprehensive income		(5)	22
(Loss)/Gains from actuarial experience		(7)	30
(Loss)/Gains from changes in actuarial assumptions		(28)	-
Financial (loss)/gain		33	(8)
Other gains/l(osses)		(3)	-
Taxes related to actuarial gains and losses	16	7	(4)

Assumptions

	Retirement benefits		Other benefits	
	2019	2018	2019	2018
Rate of return on assets	1.75%	2.25%	-	-
Technical interest rate	1.75%	2.25%	1.75%	2.25%
Rate of increase in salary costs	1.00%	1.00%	[1,00% - 3,50%]	[1,00% - 3,50%]
Rate of increase in pension costs	[0,00% - 1,40%]	[0,00% - 1,40%]	-	-
Current personnel and pre-retiree 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%EVK80	50% EVK 80
Common age for retirement	66 years, or 65 years if with at least 43 years of discounting to SS at 65	66 years, or 65 years if with at least 43 years of discounting to SS at 65	66 years, or 65 years if with at least 43 years of discounting to SS at 65	66 years, or 65 years if with at least 43 years of discounting to SS at 65
Method	Projected credit unit	Projected credit unit	Projected credit unit	Projected credit unit

Sensitivity Analysis

Sensitivity analysis of the discount rate

Unit: € m

Discount rate 1.75%		-0.25%
Total	568	14
Retirement benefits	331	6
Other benefits	237	8

Sensitivity analysis of the growth rate of health insurance costs

Unit: € m

Growth rate of 3.5%		-1.00%	1.00%
Past Service	189	(27)	30

18. PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES

Accounting policies

Provisions are recorded when, and only when: (1) the Group has a present obligation resulting from a past event; (2) it is probable that an outflow of resources entailing economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of the obligation. Galp calculates its estimate based on an evaluation of the most likely outcome. Disputes for which no reliable estimate can be made are disclosed as contingent liabilities.

Provisions for the abandonment costs of blocks are intended to cover all the costs incurred by the Company at the end of the useful production life of oil fields. Provisions are based on the operator's estimate of the total abandonment costs, which are recognised by Galp on a proportional basis as it builds each production well.

Provisions for legal disputes include ongoing legal disputes namely related to taxation matters. Management makes estimates regarding provisions and contingencies, including the probability of the outcomes of pending and potential future litigation. These are by nature dependent on inherently uncertain future events. When determining the likely outcomes of litigation, Management considers the input of external counsel, as well as past experience.

Although Management believes that the total amounts of provisions for legal proceedings are adequate based on the currently available information, there can be no assurance that there will be no changes in the facts, or that the amounts of any future lawsuits, claims, proceedings or investigations will not be material.

Accounting estimates and judgments

Provisions for lawsuits and other litigations

The estimated final costs of lawsuits, settlements and other litigation can vary based on different interpretations of the rules, opinions and final assessments of the losses. Consequently, any changes in circumstances relating to these types of contingencies could have a significant effect on the recorded amounts of contingencies.

Abandonment provisions

The group has made provisions for the future decommissioning of oil production facilities and pipelines at the end of their economic useful lives. Most of these decommissioning events are years away, and the exact requirements that will have to be met at the time of decommissioning are uncertain. Assumptions are made by Galp and the Operator of the concession in relation to the settlement dates, technology, legal requirements and discount rates. The timing and amounts of any future cash flow are subject to significant uncertainty, and estimates are required to determine the amounts of provisions to be recognised. Nevertheless, the timing and amounts of the settlement of future cash flow have been agreed with the official authorities.

Environmental liabilities (except for CO2 emissions)

Galp makes judgments and estimates to calculate its known obligations relating essentially to the known requirements regarding soil decontamination, based on current information relating to the expected intervention costs and plans. Such costs can vary due to changes in the legislation and regulations, changes in the condition of a specific location, as well as changes in decontamination technologies. Consequently, any changes in the circumstances relating to such provisions, as well as in the legislation and regulations, could significantly affect the provisions for such matters. Environmental liabilities are assessed and reviewed annually.

As at 31 December 2019 and 31 December 2018, the provisions were as follow:

Unit: € m

	December 2019				December 2018
	Decommissioning/ environmental provisions	CESE (I and II)	Other provisions	Total	
At the beginning of the year	315	297	45	658	619
Additional provisions and increases to existing provisions	117	25	33	175	77
Decreases of existing provisions	(7)	-	-	(7)	(39)
Amount used during the year	(4)	-	(1)	(5)	(11)
Regularisation	1	-	(1)	-	-
Adjustments during the year	-	-	-	-	12
At the end of the year	421	322	77	819	658

Increases and decreases in provisions during the year are as follow:

Unit: € m

	Taxes	Provisions	Tangible Assets	Financial (income) and expenses	Energy sector extraordinary contributions	Deferred charges CESE	Results from financial investments	Other	Total
2019	30	7	97	8	49	(24)	2	-	168
Decommissioning/environmental costs	-	7	97	8	-	-	-	(2)	110
CESE I and II	-	-	-	-	49	(24)	-	-	25
Other provisions	30	-	-	-	-	-	2	1	33

For comparative information please refer to the consolidated financial statements for the year ended 31 December 2018

Decommissioning of blocks and environmental costs

The amount of €421 m includes a provision for the abandonment of blocks (€378 m), established to cover the costs to be incurred for asset retirement obligations at the end of the useful lives of those areas (€303 m in Brazil and €75 m in Angola). The remaining €43 m relates to the costs associated with the asset retirement obligations of certain facilities in the refining and marketing segment, due to legal and constructive obligations.

CESE I and II

In the year ending 31 December 2019, the caption of CESE (I and II) - "Energy Sector Extraordinary Contribution I and II" in the amount of €322 m represents the total responsibility as at that date, and corresponds to the contributions for the year 2014 to 2019.

In 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 energy companies that carry net assets in certain activities, from 1 January 2014, are subject to a tax calculated on the balance of the eligible net assets as at that date.

In 2015, the Group was subject to a special tax (Energy Sector Extraordinary Contribution CESE II), pursuant to Law 33/2015 of 27 April and Order No. 157-B/2015 of 28 May. CESE II applies to the value of future sales, based on the four existing long term LNG sourcing contracts which are on a take-or-pay basis. In 2017, pursuant to Order No. 92-A/2017 of 2 March, the economic value of the take-or-pay contracts changed, which was reflected in the increase of the CESE provision.

Following the law and tax regulations, Galp properly accounted for the legal obligation from CESE, although these obligations are currently subject to legal dispute.

Other provisions

The amount of €30 m of other provisions relates to the dispute between ANP and the BM-S-11 consortium, as explained in Note 11.

Contingent liabilities

As at 31 December 2019, the Company and its subsidiaries had additional Corporate Income Tax assessments under dispute amounting to €42 m, for which a provision of €8 m had been recorded as at 31 December 2019.

No provisions were recognised for tax contingencies related to Brazilian withholding tax (IRRF) and other taxes and levies (PIS/COFINS and CIDE) related to rental payments on overseas vessels.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policies

Derivative Financial instruments

The Group may use financial derivatives to hedge the interest rate risk and other market risks, particularly the risk of variations in crude oil prices, finished products and refining margins, as well as the price variation risk of natural gas and electricity, which affects the financial value of the assets and the future cash flow expected from its activities.

The realised gains and losses on commodities (i.e. Brent, electricity and gas) futures and swaps are classified within cost of sales. Changes in the fair value of open positions are recorded in financial income, within income from financial instruments. As futures are exchange-traded, subject to central clearing, gains and losses are continuously recorded within income from financial instruments until the maturity date of the derivative unless designated in cash flow relationships in which case they are recorded in the cash flow hedge reserve.

Realised gains and losses on Forwards and FX Swaps are classified within cost of sales if they are connected to commodities transactions, and are otherwise classified in financial income, under realised FX differences. Changes to the fair values of open positions are recorded in financial income, under unrealised FX differences.

Some physically settled TTF bilateral contracts are accounted for as derivatives because they meet the net settlement criteria and do not met the own use exemption criteria. The fair values of these contracts are presented together as Swaps in the financial statements.

Financial assets and liabilities are offset if Galp has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or to realise the asset and liability simultaneously.

Hedge accounting

Derivative instruments that qualify for hedge accounting are designated in cash flow hedges of commodity price risk associated with highly probable forecast electricity purchases. Derivative instruments used by the Group to hedge the fair value are mainly related to the hedging of commodity prices (natural gas). The indices are the same as those applicable to the contracts signed with customers. Certain derivatives that are entered into for risk management purposes such as those that hedge the overall net position of commodity prices (oil margins) and forecast purchases of gas are not designated in qualifying IFRS 9 hedge relationships and are therefore accounted for as trading derivatives with their changes in fair value recorded immediately in the statement of profit or loss.

Changes in the fair values of derivatives designated in qualifying cash flow hedge relationships are recorded in equity in the cash flow hedge reserve. In a fair value hedge, the derivatives are recorded at their fair value through profit or loss under financial results offsetting changes in the fair value of the designated items that are also recorded in financial results.

Where the derivative instrument no longer meets the criteria for recording as a cashflow hedge, the accumulated fair value differences deferred in equity within hedging reserves are added to the book value of the asset which gave rise to the hedging transaction only if the derivative was mature and is effective. Otherwise, if the hedge is not effective, subsequent revaluations are recognised directly in the income statement. If the hedge is discontinued because the transaction is no longer expected all of the deferred MTM in equity is reclassified to profit or loss. If there is a change in risk management objective but the hedged transaction is still expected to occur, the amount in the cash flow hedge reserve is taken to profit or loss when the previously hedged transaction effects the statement of profit or loss. Hedge accounting is discontinued prospectively.

Hedge accounting is discontinued when all of the derivative instruments mature, are sold, when management changes the risk management strategy or objective, or when the transaction is no longer expected to occur.

Financial derivatives are recorded at fair value, calculated by using generally accepted valuation methods.

Financial assets and liabilities are offset if Galp has a legally enforceable right to offset the recognised amounts, and there is an intention to settle these on a net basis or to realise the asset and liability simultaneously.

For further explanation of the risks and the related risk reduction using hedges, see Note 20.

The financial position of derivative financial instruments as at 31 December 2019 and 2018 is detailed as follows:

Unit: € m

	2019					2018				
	Assets (Note 12)		Liabilities		Equity	Assets (Note 12)		Liabilities		Equity
	Current	Non-current	Current	Non-current		Current	Non-current	Current	Non-current	
	131	9	(84)	(5)	(13)	200	7	(102)	(37)	7
Swaps	68	6	(72)	(4)	(3)	130	1	(83)	(33)	1
Options	19	-	-	-	-	-	-	-	-	-
Commodity futures	19	-	-	-	(10)	50	-	-	-	6
Forwards	25	3	(12)	(1)	-	20	6	(19)	(4)	-

Derivatives are classified as current and non-current in accordance with the expected settlement.

During 2019 and 2018 the Group entered into derivative financial instruments with the objective of hedging the economic exposure mainly related to changes in crude, power and natural gas prices.

The notional prices of the open derivatives and their respective maturities are shown below:

Unit: € m

		December 2019		December 2018	
		Maturity		Maturity	
		Less than 1 year	1 year and more	Less than 1 year	1 year and more
		(391)	(764)	1	(401)
Commodity futures	Purchase	(107)	(41)	(120)	(7)
	Sales	219	97	608	85
Commodity swaps	Purchase	(454)	(121)	(709)	(324)
	Sales	316	61	377	96
Commodity options	Purchase	(147)	(694)	-	-
	Sales	28	-	-	-
Currency forwards and swaps	Purchase	(534)	(125)	(557)	(336)
	Sales	288	59	402	85

Note: notional represents price x quantity

The accounting impact as at 31 December 2019 and 31 December 2018 of the gains and losses on derivative financial instruments is presented in the following table:

Unit: € m

	2019				2018			
	Income statement				Income statement			
	MTM	Realised (Note 25)	MTM + Realised	Equity	MTM	Realised (Note 25)	MTM + Realised	Equity
	59	(53)	6	(20)	13	80	93	1
Commodities	47	(57)	(10)	(20)	11	79	90	1
Swaps	(30)	(15)	(44)	(4)	41	73	115	(1)
Swaps - Fair value hedge	8	-	8	-	(27)	-	(27)	-
Options	19	(25)	(6)	-	-	-	-	-
Futures	50	(17)	33	(16)	(4)	6	2	2
Currency	12	3	16	-	3	1	4	-
Forwards	12	3	16	-	3	1	4	-

The 2019 income statement shows, under the mark-to-market (MTM) heading, a positive amount of €8 m, through the caption of other financial instruments, related to the fair value hedge and in equity, under the heading hedging reserves, the negative amount of €20 m relating to cash-flow hedges. The cash flow hedges reflected in equity, when settled, are reclassified to the hedged item (i.e. the asset) and then to the income for the year, when the asset is sold. The amount of settled hedging instruments regarding cash flow hedges amounts to negative €24 m in 2019 and positive €17 m in 2018, and was recognised with the underlying asset under the heading Cost of sales.

The heading income from financial instruments includes the unrealised value of MTM of commodities derivatives and closed trading operations, as shown in the following table:

Unit: € m

	2019	2018
	81	(28)
Commodity Swaps	(22)	14
Options	19	-
Commodity Futures	50	(4)
Other trading operations	34	(38)

The maturities of derivative liabilities in the statement of financial position are as follow:

Unit: € m

	Less than 1 year	Between 1 and 2 years	2 years and more	Total
2019				
Commodity swaps	72	4	-	76
Foreign exchange forwards	12	1	-	13
2018				
Commodity swaps and options	83	33	-	116
Foreign exchange forwards	19	4	-	23

20. FINANCIAL ASSETS AND LIABILITIES

Accounting policies

Galp classifies financial assets and liabilities into the following categories:

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

b) Financial assets and liabilities carried at amortised cost;

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

Management determines the classification of its financial assets on initial recognition, and re-evaluates it at the end of each reporting period if and only if there is a change in the business model. For financial liabilities such changes in classification are not allowed.

Recognition and measurement

Purchases and sales of investments are recognised as at the trade date. Investments are initially recognised at fair value. Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value disclosures are made separately for each class of financial instruments at the end of the reporting period.

Derecognition of financial assets

Financial Assets are derecognised from the statement of financial position when the rights to receive cash flow from investments have expired or have been transferred, and Galp has transferred substantially all of the risks and rewards of ownership.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income consist mainly of equity investments. When these kinds of financial assets are derecognised, the gain or loss will be kept in equity. Dividends received are recognised in profit or loss.

Financial assets and liabilities at amortised cost

Financial assets and liabilities at amortised cost are non-derivative financial assets which are held solely for payments of principal and interests (SPPI). If collection is expected within one year (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognised initially at fair value. Subsequently they are measured at amortised cost using the effective interest method, less impairment.

Fair value hierarchy

In accordance with the accounting rules, an entity must classify the fair value measurement based on a fair value hierarchy that reflects the meaning of the inputs used for measurement.

The fair value hierarchy has the following levels:

- Level 1 - the fair value of the assets or liabilities is based on active liquid market quotation as at the date of the statement of financial position;
- Level 2 - the fair value of the assets or liabilities is determined through valuation models based on observable market inputs; and
- Level 3 - the fair value of the assets or liabilities is determined through valuation models, whose main inputs are not observable in the market.

Unit: € m

	Notes	2019	2018
Financial assets by category		3,506	3,599
Financial assets at fair value through OCI	12	3	3
Financial assets measured at fair value through profit or loss - Derivatives	12	140	207
Financial assets and liabilities at amortised cost	11	2,352	2,146
- less prepayments, underlifting, guarantees and tax receivables		(448)	(265)
Cash and cash equivalents	13	1,460	1,508

Financial assets at amortised cost comprises trade receivables, other receivables net of impairments and Sinopec loans.

Unit: € m

	Notes	2019	2018
Financial liabilities by category		6,115	4,980
Financial liabilities measured at fair value through profit or loss - Derivatives		89	139
Financial liabilities not measured at fair value	15	6,434	5,261
- less deferred income, overlifting, guarantees and tax payables		(407)	(420)

Financial liabilities at amortised cost are comprised of Trade payables and other payables.

Unit: € m

	2019	2018
Financial assets measured at fair value through profit or loss	140	207
Active market data (Level 1)	19	50
Directly or indirectly observable market data (Level 2)	121	157

Unit: € m

	2019	2018
Financial liabilities measured at fair value through profit or loss	89	139
Directly or indirectly observable market data (Level 2)	89	139

21. FINANCIAL RISK MANAGEMENT

Accounting policy

The Group has systems to identify, measure and control the different risks to which it is exposed to and uses various financial instruments to hedge, in accordance with the corporate guidelines across the Group. The Group verifies hedge effectiveness periodically. The hedge relationship is highly correlated between the hedged item and hedging instrument.

Management has assessed the following key risks:

Type	Exposure to risk
Commodity-price risk	High
Exchange-rate risk	Medium
Interest-rate risk	Low
Liquidity risk	Low
Credit risk	Low

Commodities price risk

Due to the nature of its business, Galp is exposed to the risk of volatility of the international price of crude oil, of its derivatives and of natural gas and electricity. Frequent fluctuations in the prices of crude oil and refined products generate uncertainty and have a significant impact on operating results.

The Group partially controls this risk through the derivatives market for oil and natural gas, to protect the refining margin from adverse market changes.

In respect of the natural gas and electricity activities, the Group partially controls this risk through the establishment of natural gas and electricity purchase and sale contracts with similar indexes, so as to protect the business margin against adverse market changes.

The Group also uses financial derivatives such as Futures and Swaps to hedge this kind of risk (Note 19).

Analysis of commodity price sensitivity

The sensitivity analysis was made for balances relating to financial derivatives on commodities. An immediate 10% devaluation in the following commodities price would impact Galp's income, as outlined in the table below:

Unit: € m

	2019		2018	
	Risk exposure	Impact on Income Statement	Risk exposure	Impact on Income Statement
Derivatives on natural gas commodities[1]	16	(27)	(15)	2
TTF's (natural gas) contracts	(10)	(4)	15	(25)
Derivatives on oil commodities	26	6	56	38
Derivatives on other commodities	4	-	9	-

[1] Excludes the impact of derivatives classified as fair value hedges and cash flow hedges.

Exchange-rate risk

The US Dollar is the currency used for the reference price in the oil and natural gas markets. Since Galp prepares its financial statements in Euros, this factor, among others, exposes its operations to exchange rate risk. Given that the operating margin is most sensitive to fluctuations in the US Dollar, the Company is exposed to fluctuations in exchange rates, which can contribute positively or negatively to income and margins.

Since this is a currency risk associated with other variables, such as the prices of oil and natural gas, the Group takes a cautious approach to hedging risk, as there are natural hedges between the statement of financial position and the cash flow. The level of exposure of the cash flow, and especially of the statement of financial position, is a function of the price levels of oil and natural gas.

As a result of the above, Galp controls its exchange-rate exposure on an integrated basis rather than on each operation exposed to exchange risk, except in some specific cases. The purpose of exchange rate risk management is to limit the uncertainty resulting from variations in exchange rates. As at 31 December 2019, Galp held derivatives such as FX Forwards and Swaps to hedge exchange rate risk (Note 19).

Foreign exchange sensitivity analysis

The sensitivity analysis includes significant balances in foreign currency relating to trade receivables, other receivables, trade payables, other payables, loans, financial derivatives and cash. A 10% devaluation of the Euro against other currencies would impact Galp's income, as outlined in the table below:

Unit: € m

		2019		2018
	Risk exposure	Impact on Income Statement	Risk exposure	Impact on Income Statement
Loans obtained and Finance Lease debt	(989)	57	(150)	15
Marketable securities (included in cash and cash equivalents)	329	17	795	44
Derivatives[1]	45	34	104	49
Trade and Other receivables	101	10	11	1
Trade and Other payables	(126)	(13)	(178)	(18)

[1]Includes derivatives in USD and FX Forwards, taking into account fluctuations in MTM.

Key currencies exchange rate

Unit: € m

		2019		2018
	Average	Year-end	Average	Year-end
EUR/USD	1.12	1.12	1.18	1.15
EUR/BRL	4.41	4.52	4.31	4.44
USD/BRL	3.94	4.02	3.65	3.88
EUR/CHF	1.11	1.09	1.16	1.13

Interest rate risk

The total interest rate position is managed centrally. Interest rate exposure relates mainly to bank loans and interest-bearing bonds. The purpose of managing interest-rate risk is to reduce the volatility of financial costs in the income statement. The policy for interest-rate risk management aims to reduce the exposure to variable rates by fixing the interest rate risk on loans, using a mix of variable and fixed-rate instruments. As at 31 December 2019 Galp did not hold any interest-rate derivatives positions.

Interest rate sensitivity analysis

An analysis of interest rate risk includes variable interest rate loans. A 0.5% increase in the interest rate would impact Galp's financial income as outlined in the table below:

Unit: € m

	2019		2018	
	Exposure risk	Impact on Income Statement	Exposure risk	Impact on Income Statement
Loans obtained	(2,872)	(8)	(3,251)	(8)
Marketable securities	902	-	639	-

Note: Cash and Equivalents in the Statement of Financial Position comprise Marketable Securities

Liquidity risk

Liquidity risk is defined as the impact on the profit and/or cash flow of the business of the Group's ability to obtain the financial resources necessary to meet its operating and investment commitments. Galp finances itself through the cash flow generated by its operations, and maintains a diversified portfolio of loans and bonds. The Group has access to credit lines that are not fully used but that are at its disposal. These lines would cover all loans that are repayable within 12 months. The available short term and medium/ long term credit lines that are not being used amount to € 1.4 bn as at 31 December 2019 and € 1.4 bn on 31 December 2018. Galp has readily available cash equivalents that amount to €1.5 bn as at 31 December 2019 and € 1.5 bn on 31 December 2018. These figures combined amount to € 2.9 bn as at 31 December 2019 and € 2.9 bn on 31 December 2018.

Credit risk

Credit risk results from the potential non-payment by one of the parties of their contractual obligations, thus depending of the risk level of the counterparty. In addition, counterparty credit risk arises on monetary investments and hedging instruments. Credit risk limits are established by Galp and are implemented in the various business segments. The credit risk limits are defined and documented, and the credit limits for certain counterparties are based on their credit ratings, periods of exposure and the monetary amount of the exposure to credit risk. See Note 11 for further risk assessments, specifically regarding Trade receivables and other receivables.

22. CAPITAL STRUCTURE AND FINANCIAL ITEMS

As at 31 December 2019, the Galp Group presents equity in the amount of €5.7 bn, and its management has set a limit of indebtedness at amounts equal to or lower than 2x Net Debt/EBITDA, despite the contracts with financial institutions allowing a ratio between 3.5 and 3.75. The net debt for the year ending 2019 amounted to €1.4 bn, setting this target ratio at 0.7x.

Share capital, distribution to shareholders and earnings per share

Share capital

The share capital of Galp Energia SGPS, S.A. is comprised of 829,250,635 shares, with a nominal value of 1 Euro each and fully subscribed.

Distribution to shareholders

In accordance with a resolution of the General Shareholders' Meeting held on April 12, 2019, Galp Energia, SGPS, S.A.'s shareholders were granted dividends in the amount of €525 m (€0,6325/share) related to the distribution of net income for the year 2018 and retained earnings. An interim dividend of €228 m (€0,275/share) was distributed on September 20, 2018, and the remaining €296 m (€0,3575/share) was paid on 9 May 2019.

In addition, the Board of Directors approved the payment of an interim dividend, in the amount of €262 m fully paid on 10 September 2019, related to the fiscal year 2019.

During the year ending 31 December 2019, dividends amounting to €64 m have been paid by the subsidiaries of the Galp group to non-controlling shareholders.

As a consequence of the above, during the year ending 31 December 2019, the Group has paid dividends amounting to €623 m.

Reserves

Other Reserves – capital increases in Petrogal Brasil, S.A. and Galp Brazil Services, BV

On 28 March 2012, Winland International Petroleum, SARL (WIP), a subsidiary of Tip Top Energy, SARL (Sinopec Group), subscribed and paid a capital increase amounting to $4,797 m in respect of the subsidiaries Petrogal Brasil, S.A. and Galp Sinopec Brazil Services, BV (previously denominated Galp Brazil Services, BV), acquiring 30% of the shares and voting rights of both Galp subsidiaries. As a result of the capital increase, the Galp Group has retained the operational and financial control of the companies, of which it owns 70% of the capital and voting rights, continuing, under IFRS 10, to consolidate their net assets by the full consolidation method. Accordingly, the difference of €2,493 m between the amount paid of the capital increase and the share capital value of the equity as at the date of the transaction was recorded as reserves within shareholders' equity. During the year 2019, €489 m was transferred from this reserve to retained earnings, due to the share premium reduction made by GSBV.

23. Non-controlling interests

As of 31 December 2019, the changes in non-controlling interests during the year and included in equity are as follow:

a) Of the €69 m corresponding to dividends attributed to non-controlling interests, €5 m has not been paid yet.
b) The share capital decrease is related to the Share premium reduction in Galp Sinopec Brazil Services (GSBV) as explained in Note 12.

The table below presents the main indicators in the financial statements of the significant minority interests as at 31 December 2019:

Unit: € m

	Petrogal Brasil, S.A.	Galp Sinopec Brazil Services BV
Total non-current assets	3,982	1,675
Total curent assets	1,191	464
Of which cash and equivalents	379	372
Total assets	5,172	2,139
Total non-current liabilities	2,224	95
Of which debt	-	-
Total current liabilities	864	106
Of which debt	-	-
Total liabilities	3,088	201
Total operating income	1,991	60
Total operating costs	(1,317)	(92)
Of which amortisation, depreciation and impairment losses on fixed assets	(275)	(40)
Operating result	815	93
Net financial results	(135)	-
Profit before taxes	815	93
Taxes	(617)	(11)
Net income for the year	198	82

24. REVENUE AND INCOME

Accounting policies

For the Refining and Marketing and the Gas and Power segments, revenue is recognised when Galp has satisfied a performance obligation by transferring the promised products or services to the customer. The product is transferred when the customer obtains control of the same.

Sales are measured at the fair value of the consideration received or receivable. Sales are recognised net of taxes with the exception of tax on petroleum products, discounts and rebates.

For the Exploration and Production segment, revenue resulting from hydrocarbon production from properties in which Galp has an interest in joint arrangements is recognised on the basis of Galp's working interest (entitlement method). Revenue resulting from the production of oil under production-sharing contracts is recognised for those amounts relating to Galp's cost recovery, and Galp's share of the remaining production.

As mentioned in Note 11, Galp undertakes under- and overlifting activities. Underlifting occurs when the overtaker lifts the barrels from Galp and sells it. When this happens, underlifting income is recognised against an asset (debtor). In similar ways, overlifting occurs when Galp lifts the barrels to which it is not yet entitled. These balances are presented in Other operating income and Other operating costs (Note 25), respectively.

Exchange differences arising from supplier and customer balances are recognised in operating results.

Galp, under the new IFRS 15 accounting principles, had also reviewed the principal vs. agent framework in relation to cost incurred and goods and services provided.

One of the services above mentioned is related to the Natural Gas commercialisation activity, namely due to the electricity and gas tariffs paid to distribution entities and recognised as Costs. Services provided or promised to final customers contains the cost of the tariffs included in the price tag and recognised as operating income. Galp concluded that each contract performance obligation to provide the specified goods or services is the responsibility of the Group, thus controlling the goods or services before delivering them to the final customers. Galp is therefore a Principal rather than an Agent when performing its contract obligations.

Unit: € m

	Notes	2019	2018
		17,182	17,470
Total sales		15,962	16,535
Goods		7,066	7,208
Products		8,886	9,297
Exchange differences		11	31
Services rendered		608	647
Other operating income		368	141
Underlifting income		187	22
Others		181	118
Earnings from associates and joint ventures	9	121	129
Financial income	27	123	18

Services rendered include, among others, the amount of €53 m, related to charges to third party for the use of gas assets related to the E&P activity.

25. COSTS AND EXPENSES

The operating costs for the years ended 31 December 2019 and 2018 were as follow:

Unit: € m

	Notes	2019	2018
Total costs and expenditure:		15,903	15,782
Cost of sales		12,592	12,763
Raw and subsidiary materials		5,538	5,940
Goods		3,867	4,236
Tax on oil products		2,834	2,773
Variation in production		345	(167)
Write downs on inventories	10	(33)	37
Financial derivatives	19	32	(79)
Exchange differences		10	21
External supplies and services		1,650	1,780
Subcontracts - network use		365	450
Transport of goods		318	222
E&P - production costs		187	268
Royalties		196	189
E&P - exploration costs		40	43
Other costs		544	609
Employee costs	26	346	321
Amortisation, depreciation and impairment losses on fixed assets	5/6/7	979	691
Provision and impairment losses on receivables	11/18	6	5
Other costs		132	134
Other taxes		23	23
Costs related to CO_2 emissions		29	12
Overlifting costs		18	55
Other operating costs		63	43
Financial expenses	27	197	88

The caption “Variation in production” includes the negative amount of €200 m related to unitisation processes in Brazil (Note 5).

The heading “subcontracts – network use” refers to charges for the use of: (i) the distribution network (URD); (ii) the transportation network (URT); and (iii) the global system (UGS) as included in the tariffs.

The amount of €158 m of royalties mainly relates to the exploration and production of oil and gas in Brazil. Royalties are calculated taking into account an applicable rate of 10% for the production volumes in proportion to Galp’s share valued at ANP’s reference price.

26. EMPLOYEE COSTS

Accounting policies

Employee costs

Wages, salaries, social security contributions, annual leave and sick leave, bonuses and non-monetary benefits are recognised in the year in which the respective services are rendered by Galp’s employees.

Remuneration of the Board of Directors

In accordance with the current policy, the remuneration of Galp’s Corporate Board members includes all the remuneration due for the positions held in Group companies and all accrued amounts related to the current period.

Unit: € m

	Notes	2019	2018
Employee costs		346	321
Capitalised employee costs		(10)	(7)
Total employee costs for the year		356	328
Statutory board salaries		9	8
Employee salaries		236	221
Social charges		52	51
Retirement benefits - pensions and insurance	17	37	24
Other insurances		8	9
Other costs		13	15
Remuneration of the Board Members		9	8
Galp Energia SGPS Board Members		7	7
Salaries and cash bonuses		6	6
Pension funds contribution		1	1
Subsidiaries' Board Members		2	1
Salaries and cash bonuses		2	1
Year-end number of full-time employees		6,386	6,360

In 2019, retirement benefits- pensions and insurance, include €20 m related to restructuring costs.

27. FINANCIAL INCOME AND EXPENSES

Accounting policies

Financial income and expenses include interest on loans and bonds, leasing and retirement and other benefit plans. Other financial income and expenses from other financial assets or liabilities are not included in this caption.

The financial charges on loans obtained are recorded as financial expenses on an accruals basis. Financial charges arising from general and specific loans obtained to finance investments in fixed assets are assigned to tangible and intangible assets in progress, in proportion to the total expenses incurred on those investments net of investment government grants, until the commencement of its operations. The remainder is recognised under the heading of financial expenses in the income statement for the year. Any interest income from loans directly related to the financing of fixed assets which are in the process of construction is deducted from the financial charges capitalised. Those financial charges included within fixed assets are depreciated over the useful lives of the respective assets.

Unit: € m

	Notes	2019	2018
		(74)	(70)
Financial income		123	18
Interest on bank deposits		35	32
Interest and other income with related companies		2	10
Other financial income		4	3
Results from derivative financial instruments	19	81	(28)
Financial expenses		(197)	(88)
Interest on bank loans, bonds, overdrafts and others		(65)	(78)
Interest on related party loans		-	(5)
Interest capitalised in fixed assets	5	24	49
Interest on lease liabilities	7	(90)	-
Net interest on retirement and other benefits	17	(6)	(7)
Charges relating to loans, bonds and credit lines		(8)	(9)
Exchange gains/(losses)		(10)	(31)
Other financial costs		(41)	(7)

Other financial costs include the amount of €20 m related to the unitization process in Brazil (Note 5).

28. COMMITMENTS

The total contractual obligations and recognised non-current liabilities can be specified as follow (payments due for each period:

Unit: € m

	1-3 years	4-5 years	More than 5 years	Total
Total obligation recognised in the statement of financial position	82	37	183	301
Post-employment benefits	55	19	20	93
Other benefits	27	18	163	208
Total obligation not recognised in the statement of financial position	2,388	1,046	1,359	4,793
Natural gas purchases	3,013	1,242	1,359	5,614
Natural gas sales	(625)	(196)	-	(821)

Natural gas purchases refer to contractual commitments to purchase natural gas under long-term contracts with take-or-pay clauses negotiated and held for its own use. These contracts are normally made for 20-25 years, require a minimum purchase quantity and are subject to price revision mechanisms indexed to international oil/gas quotes. The amounts were calculated based on the natural gas prices on 31 December 2019. The natural gas sales position refers to contractual commitments for the sale of natural gas under medium and long-term contracts with negotiated Take-or-Pay clauses. The amounts were calculated based on the natural gas prices on 31 December 2019.

As part of its ongoing business operations, the Group has entered into agreements where commitments have been given for commercial, regulatory or other operational purposes. As at December 31, 2019 and 2018 obligations subject to collaterals granted are as follow:

Unit: € m

	2019	2018
Guarantees provided	3,871	3,565
Venture Global, LLC	1,780	1,747
Charter Agreement FPSO	1,293	1,269
Coral South FLNG project	299	176
Cercena Investments, S.L.U.	178	-
Petrobras	66	80
Brazilian ANP	27	27
Others related to core activities	227	266

Under the contract established in April 2018, with Venture Global LLC related to the LNG Sales and Purchase Agreement, Galp provided a parent company guarantee in the total amount of the contract (USD 2 bn).

Related to the four charter agreements for FPSOs, Galp provided a parent company guarantee in the amount of USD 1,452 m, in the name of Tupi, BV, which represents Galp's proportion of the BM-S-11 consortium.

Under the financing of the Coral South FLNG project, Galp Energia SGPS S.A. is being providing a parent company guarantee related to the Debt Service Undertaking (DSU) agreement, on the total outstanding amount at each moment in proportion to its participation. This guarantee expires at the time of the Actual Completion Date (estimated for the year 2024) if no obligations are outstanding under the DSU. As of 31 December 2019, Galp's stake in the obligation amounted to €269 m. Also within the scope of this financing, Galp Energia SGPS S.A. provides a guarantee covering 1/9 of the DSU on behalf of ENH Empresa Nacional de Hidrocarbonetos (ENH), one of consortium members of the Coral South FLNG project, which corresponds to Galp's share of the consortium, excluding ENH. As of December 31, 2019, Galp's stake in the responsibility taken on in relation to ENH amounting to €30 m.

The Group has entered into a Power Purchase Agreement with X-Elio (aka Cercena Investments) to supply solar energy to customers for which it has provided a parent company guarantee in the amount of €178 m.

The collateral granted to Petróleo Brasileiro S.A. ("Petrobras") in the amount of €66 m is due to guarantees for gas supply contracts from the development modules of Lula Pilot and Lula NE.

The collateral for crude oil exploration concession agreements has been granted to the Brazilian Agency of Petroleum, Natural Gas and Biofuels ("ANP"), in the amount of €27 m. The collateral has been granted in connection with the Minimum Exploration Programmes where Galp, as a consortium member, is required to perform certain seismic and drilling well activities during the exploration period.

The Galp Group has bank loans that, in some cases, have covenants that can, if triggered by banks, lead to the early repayment of the borrowed amounts. As at 31 December 2019, the Medium/Long term debt amounted to €2.5 bn. Of this amount, the contracts with covenants accounted for €0.9 bn. The existing covenants are essentially designed to ensure compliance with financial ratios that monitor the financial position of the Company, including its ability to service debt. The Total Net Debt to consolidated EBITDA ratio is the most frequently used and as at 31 December 2019 was 0.7x in accordance with the methodology stated in the contracts. The ratio stipulated in the contracts in general is in the range of 3.5 – 3.75 x EBITDA.

29. RELATED PARTY TRANSACTIONS

Accounting policies

A related party is a person or entity that is related to the entity preparing its financial statements, as follows:

(a) A person or a close member of that person's family is related to a reporting entity if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies: (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); (iii) Both entities are joint ventures of the same third party; (iv) One entity is a joint venture of a third entity, and the other entity is an associate of the third entity; (v) The entity is a post-employment defined benefit plan for the benefit of the employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, 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 the key management personnel of the entity (or of a parent of the entity).

The Group has had the following material transactions with related parties:

Unit: € m

		2019		2018	
	Notes	Current	Non-current	Current	Non-current
Assets:		76	135	266	59
Associates		10	32	20	16
Joint ventures		6	103	10	43
Tip Top Energy, S.A.R.L.		-	-	176	-
Winland International Petroleum, S.A.R.L.		43	-	42	-
Other related entities		17	-	18	-

Unit: € m

		2019		2018	
	Notes	Current	Non-current	Current	Non-current
Liabilities:		(76)	-	(100)	-
Associates		(7)	-	(8)	-
Joint Ventures		(63)	-	(76)	-
Tip Top Energy, SARL		-	-	-	-
Winland International Petroleum, S.A.R.L.		(4)	-	(9)	-
Other related entities		(2)	-	(7)	-

Unit: € m

	2019			2018		
	Purchases	Operating cost/income	Financial costs/income	Purchases	Operating cost/income	Financial costs/income
Transactions:	(87)	221		(102)	158	5
Associates	(68)	10	-	(85)	7	-
Joint Ventures	-	(67)	-	-	(74)	-
Tip Top Energy, S.A.R.L.	-	-	-	-	-	9
Winland International Petroleum, S.A.R.L.	-	-	-	-	-	(5)
Other related entities	(19)	279	-	(17)	226	-

30. COMPANIES IN THE GALP GROUP

Judgment is required whenever an entity is acquired or modified in order to give a proper and clear image of the consolidated financial statements. In order to do this, several items are analysed to support the accounting decisions, namely:

- Power over the investee;
- Exposure or rights in relation to the variable results arising through its relationship with the investee; and
- Ability to use its power over the investee to impact the amounts of the results to the investors.

Shareholder agreements are also thoroughly analysed to identify any contract clauses which give substantive power or give only protection rights to the investor. An analysis of the substance rather than the legal form is necessary for proper accounting treatment.

Consolidation perimeter

The Companies consolidated in accordance with the full consolidation method are disclosed below:

Activity: • Exploration & Production • Refining & Marketing • Gas & Power • Others

Company and country	Percentage of shares owned	Activity
Parent company		
Galp Energia, SGPS, S.A., Portugal		Others
Subsidiaries by groups		
Galp Energia, S.A., Portugal	100%	Others
Galp Energia E&P Subgroup		
Galp Energia E&P, BV, The Netherlands	100%	Exploration & Production
Galp Sinopec Brazil Services BV, The Netherlands	70%	Exploration & Production
Galp E&P Brazil BV, The Netherlands	100%	Exploration & Production
Galp Energia Brasil, S.A.; Brazil	100%	Exploration & Production
Petrogal Brasil, BV, The Netherlands	100%	Exploration & Production
Petrogal Brasil, S.A., Brazil	70%	Exploration & Production
Galp Exploração Serviços do Brasil, Lda.	100%	Exploration & Production
Galp East Africa BV, The Netherlands	100%	Exploration & Production
Galp Energia Rovuma BV, The Netherlands	100%	Exploration & Production
Galp Energia Rovuma BV (Mozambique branch), Mozambique	-	Exploration & Production
Galp Exploração e Produção Petrolífera, S.A., Portugal	100%	Exploration & Production
Galp Energia São Tomé e Príncipe Unipessoal, Limitada; São Tomé and Príncipe	100%	Exploration & Production
Galp Energia Overseas BV, The Netherlands	100%	Exploration & Production
Galp Energia Overseas Block 14 BV, The Netherlands	100%	Exploration & Production
Galp Energia Overseas Block 14 BV - Branch in Angola, Angola	-	Exploration & Production
Galp Energia Overseas Block 32 BV, The Netherlands	100%	Exploration & Production
Galp Energia Overseas Block 32 BV - Branch in Angola, Angola	-	Exploration & Production
Galp Energia Overseas Block 33 BV, The Netherlands	100%	Exploration & Production
Galp Energia Overseas Block 33 BV - Branch in Angola, Angola	-	Exploration & Production
Galp Energia Overseas LNG BV, The Netherlands	100%	Exploration & Production
Galp Energia Overseas LNG BV - Branch in Angola; Angola	-	Exploration & Production
Galp Bioenergy BV, The Netherlands	100%	Exploration & Production
Belem Bioenergia Brasil, S.A., Brazil**	100%	Refining & Marketing
Windhoek PEL 23 BV, The Netherlands	100%	Exploration & Production
Windhoek PEL 23 BV (Branch in Namibia); Namibia	-	Exploration & Production
Windhoek PEL 28 BV, The Netherlands	100%	Exploration & Production
Windhoek PEL 28 BV (Branch in Namibia); Namibia	-	Exploration & Production
Galp Trading, S.A., Switzerland	100%	Refining & Marketing

Company and country	Percentage of shares owned	Activity
Tagus Re, S.A.; Luxembourg	100%	•
ISPG - Centro Tecnológico, S.A., Brazil	100%	•
GDP Subgroup		
Galp Gás e Power, SGPS, S.A., Portugal	100%	
Lisboagás Comercialização, S.A., Portugal	100%	•
GDP Gás de Portugal, S.A., Portugal	100%	•
Galp Parques Eólicos de Alcoutim Lda, Portugal *	100%	•
Lusitaniagás Comercialização, S.A., Portugal	100%	•
Setgás Comercialização, S.A., Portugal	100%	•
Carriço Cogeração Sociedade de Geração de Electricidade e Calor, S.A., Portugal	65%	•
Galp Power, S.A., Portugal	100%	•
Agroger - Sociedade de Cogeração do Oeste, S.A., Portugal	100%	•
Galp Gás Natural, S.A., Portugal	100%	•
Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A., Portugal	100%	•
Transgás, S.A., Portugal	100%	•
Petrogal Subgroup		
Petrogal, S.A., Portugal	100%	•
Petrogal, S.A. (Branch in Venezuela); Venezuela	-	•
Petróleos de Portugal – Petrogal, S.A. (Branch in Spain), Spain	-	•
Galp Energia España, S.A., Spain	100%	•
Galpgest - Petrogal Estaciones de Servicio, S.L.U., Spain	100%	•
Galp Açores S.A., Portugal	100%	•
Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A., Portugal	68%	•
Galp Madeira S.A., Portugal	100%	•
CLCM - Companhia Logistica de Combustíveis da Madeira, S.A., Portugal	75%	•
Gasinsular - Combustíveis do Atlântico, S.A., Portugal	100%	•
Sacor Marítima, S.A., Portugal	100%	•
C.L.T. - Companhia Logística de Terminais Marítimos, S.A., Portugal	100%	•
Sempre a Postos - Produtos Alimentares e Utilidades, Lda., Portugal	75%	•
Tanquisado - Terminais Marítimos, S.A., Portugal	100%	•
Galpgeste - Gestão de Áreas de Serviço, S.A., Portugal	100%	•
Galp Energia Portugal Holdings BV, The Netherlands	100%	•
Galp Exploração e Produção (Timor Leste), S.A., Portugal	100%	•
Enerfuel, S.A., Portugal	100%	•
Portcogeração, S.A., Portugal	100%	•
Galp Marketing Internacional, S.A., Portugal	100%	•
Petrogal Guiné-Bissau, Lda., Guinea-Bissau	100%	•
Petromar - Sociedade de Abastecimentos de Combustíveis, Lda., Guinea-Bissau	80%	•

Company and country	Percentage of shares owned	Activity
Petrogás - Importação, Armazenagem e Distribuição de Gás, Lda., Guinea-Bissau	65%	•
C.L.C. Guiné Bissau – Companhia Logística de Combustíveis da Guiné Bissau, Lda., Guinea-Bissua	90%	•
Empresa Nacional de Combustíveis - Enacol, S.A.R.L, Cape Verde*	48%	•
Enamar - Sociedade Transportes Marítimos, Sociedade Unipessoal, S.A., Cape Verde	100%	•
EnacolGest, Lda., Cape Verde	100%	•
Petrogal Moçambique, Lda., Mozambique	100%	•
Galp Moçambique, Lda., Mozambique	100%	•
Galp Moçambique, Lda. (Branch in Malawi), Malawi	-	•
Galp Eswatini (PTY) Limited, Eswatini	100%	•
Petrogal Angola, Lda., Angola	100%	•
GowithFlow, S.A., Portugal	99%	•

*The Group controls Enacol's financial and operational policies and is expected to continue to do so by means of a representative majority of votes at the Board of Directors' meetings.
**During the year, the Group acquired 50% of the remaining shares from Petrobrás.

During the year, the Group company Galp Alentejo, S.A. was liquidated.

Unincorporated joint operations

Joint operations - Oil Consortia

Consortium	Galp's participation interest
Oil Consortium in Brazil	
BM-S-8	20% [1]
BM-S-11	10%
BM-S-11 A	10%
BM-S-24	20%
BT-POT-32	50%
BT-POT-51	50%
BT-SEAL-13	50%
BM-POT-17	20%
BM-POT-16	20%
PEPB-M-783	20%
PEPB-M-839	20%
BAR-300	10%
BAR-342	10%
BAR-344	10%
BAR-388	10%
PN-T-136	50%
PN-T-150	50%
PN-T-166	50%
PN-T-182	50%
POT-M-764	20%
Carcará Norte	20%
C-M-791	20%
Block Uirapuru	14%

[1] Still subject to ANP approval.

Consortium	Galp's participation interest
Oil Consortium in Mozambique	
Área 4	10%
Oil Consortium in Angola	
Block 14	9%
Block 14K	4,5%
Block 32	5%
Block 33	5,33%
Sonagas	10%
Oil Consortium in East-Timor	
Block (E) S06-04	10%
Oil Consortium in Namibia	
PEL82	40%
PEL83	80%
Oil Consortium in Uruguay	
Area 3	20%
Area 4	20%
Oil Consortium in São Tomé and Príncipe	
Block 6	45%
Block 11	20%
Block 12	20%

Incorporated Joint Operations

Activity: • Exploration & Production • Refining & Marketing • Gas &Power • Others

Company and country	Percentage of shares owned	Activity: Exploration & Production	Activity: Refining & Marketing	Activity: Gas & Power
Sigás - Armazenagem de Gás, A.C.E., Portugal	60.00%		•	
Pergás – Armazenamento de Gás, A.C.E., Portugal	51.00%		•	
Multiservicios Galp Barcelona, Spain	50.00%		•	

Joint Ventures

Activity: • Exploration & Production • Refining & Marketing • Gas & Power • Others

Company and country	Percentage of shares owned	Activity: Exploration & Production	Activity: Refining & Marketing	Activity: Gas & Power
Tupi BV, The Netherlands*	10.00%	•		
Iara BV, The Netherlands*	10.00%	•		
Coral FLNG, S.A., Mozambique*	10.00%	•		
Coral South FLNG DMCC, United Arab Emirates*	10.00%	•		
Rovuma LNG Investments (DIFC) Ltd*, Mozambique*	10.00%	•		
C.L.C. - Companhia Logística de Combustíveis, S.A., Portugal*	65.00%		•	
Galp Disa Aviacion, S.A., Spain	50.00%		•	
Asa - Abastecimento e Serviços de Aviação, Lda., Portugal	50.00%		•	
Caiageste - Gestão de Áreas de Serviço, Lda., Portugal	50.00%		•	
Galpek, Lda, Portugal	50.00%		•	
Ventinveste, S.A., Portugal*	51.50%			•
Parque Eólico de Vale Grande, S.A., Portugal*	51.50%			•
Talar Renewable Energy, S.L., Spain	50.00%			•
Galp Gás Natural Distribuição Subgroup				
Galp Gás Natural Distribuição, S.A., Portugal*	77.50%			•
Beiragás - Companhia de Gás das Beiras, S.A., Portugal*	46.19%			•
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A., Portugal*	77.50%			•
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A., Portugal*	77.50%			•
Lisboagás - Sociedade Distribuidora de Gás Natural de Lisboa, S.A., Portugal*	77.50%			•
Lusitaniagás - Companhia de Gás do Centro, S.A., Portugal*	75.32%			•
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A., Portugal*	77.50%			•
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A., Portugal*	77.50%			•
Setgás - Sociedade de Produção e Distribuição de Gás, S.A., Portugal*	77.45%			•
Tagusgás - Empresa de Gás do Vale do Tejo, S.A., Portugal*	77.00%			•
Tagusgás Propano, S.A., Portugal*	77.00%			•

* Galp has joint control over the selected entities even if it holds more or less than 50% of the shares by means of a Shareholder agreement that conveys substantive power to conclude joint control for the joint shareholder or Galp.

Associates

Activity: • Exploration & Production • Refining & Distribution • Gas & Power • Others

Company and country	Percentage of shares owned	Activity
Gasoduto Extremadura, S.A., Spain	49,00%	•
Sodigás-Sociedade Industrial de Gases, S.A.R.L, Cape Verde	47,74%	•
Energin - Sociedade de Produção de Electricidade e Calor, S.A., Portugal	35,00%	•
Gasoduto Al-Andaluz, S.A., Spain	33,04%	•
Geo Alternativa, S.L., Spain	25,00%	•
EMPL - Europe Maghreb Pipeline, Ltd, Spain	22,80%	•
Metragaz, S.A., Marocco	22,64%	•
Aero Serviços, SARL - Sociedade Abastecimento de Serviços Aeroportuários, Guinea-Bissau*	50,00%	•
Tauá Brasil Palma, S.A.	49,99%	•
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda., Angola	49,00%	•
Galp IPG Matola Terminal Lda, Mozambique	45,00%	•
IPG Galp Beira Terminal Lda, Mozambique	45,00%	•
Terparque - Armazenagem de Combustíveis, Lda., Portugal	23,50%	•

31. SUBSEQUENT EVENTS

Accounting policy

Events occurring after the date of the financial statements and which provide indications of conditions that exist after the financial statements date, if material, are disclosed in the notes to the consolidated financial statements.

On 22 January 2020 Galp reached an agreement with the ACS Group for the acquisition of projects for the generation of solar energy in Spain. Assets include solar power plants under operation with an installed capacity of c.900 MW. It also comprises projects under development or in the licensing stage to bring the total installed generating capacity to 2.9 GW by the year 2023.

In early 2020, the outbreak of COVID-19 pandemic and oil price volatility in international markets has increased uncertainty in the world economy short-term outlook. However, as at this date, Group Galp Energia medium and long-term outlook comprised in the impairment tests remain unchanged.

32. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on March 20, 2020. However, they are still subject to approval by the General Meeting of Shareholders, in accordance with the commercial law applicable in Portugal.

Chairman:

Paula Amorim

Vice-chair and Lead Independent Director:

Miguel Athayde Marques

Vice-chair:

Carlos Gomes da Silva

Members:

Filipe Crisóstomo Silva
Thore E. Kristiansen
Carlos Costa Pina
José Carlos da Silva
Sofia Tenreiro
Susana Quintana-Plaza
Marta Amorim
Francisco Rêgo
Carlos Pinto
Luís Todo Bom
Jorge Seabra de Freitas
Rui Paulo Gonçalves
Diogo Tavares
Edmar de Almeida
Cristina Neves Fonseca
Adolfo Mesquita Nunes

Accountant:

Paula de Freitas Gazul

33. EXPLANATION REGARDING TRANSLATION

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

REPORT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR’S REPORT

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(Translation from the original document in the Portuguese language.
In case of doubt, the Portuguese version prevails)

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Galp Energia, SGPS, S.A. (the Group), which comprise the Consolidated Statement of Financial Position as at 31 December 2019 (showing a total of 13,770 million of euros and a total equity of 5,657 million of euros, including a consolidated net profit for the year of 479 million of euros), and 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Galp Energia, SGPS, S.A. as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed 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 guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. We are independent of the entities comprising the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

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 judgment, were of most significance in our audit of the financial statements of the current period. 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.

The key audit matters in the current year audit are the following:

1. Audit of opening balances

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
We were appointed as auditors of Galp Energia SGPS, S.A. (the Group's parent entity) for the first time at the shareholders' meeting held on April 12, 2019. A first-year audit requires an additional set of procedures that are not performed in recurring audits. Several considerations have been taken into account and additional activities have been developed to define an appropriate audit strategy and plan, of which we highlight: ► Understanding of the Group and its activities, including the control environment, in order to carry out a proper risk assessment and define a suitable audit strategy and plan; ► Obtaining audit evidence on opening balances, including the correct application of accounting principles; ► Communication with the previous auditor and prior year working paper review; ► Review and discussion of key audit matters included in the Statutory and Auditors' report of the Consolidated Financial Statements issued by the former auditor. For some specific areas, which we identified as presenting a higher audit risk due to the magnitude of the values, complexity and high associated judgment, additional audit procedures were carried out on the opening balances, namely: ► Processes related to the contracting, recognition and measurement of derivative financial instruments; ► Review of actuarial assumptions considered in the measurement of post-employment benefits;	Our approach included carrying out the following procedures: ► We developed a transition plan that included planning a number of activities to ensure an effective transition from the previous auditor and a proper audit risk assessment. The planned activities included, among others, an initial understanding of the Group and its operations, supported by information about its history, strategy, business risks, information systems architecture, control environment, including internal control, and financial reporting process. ► We assessed the opening balances, as well as the selection and correct application of the accounting policies by reviewing the main supporting material that served as the auditor's audit evidence for the year ended December 31, 2018, at the level of the consolidated financial statements and significant components of the Group, by reviewing the former auditor's working papers; ► We discussed and approved the audit plan together with the Supervisory Board and the Group's executive team, and held regular meetings to present progress on the tasks performed and the main issues identified; ► We held a global audit planning meeting in May 2019 at which members of the Group's executive team presented to the most experienced members of the audit team and key locations, how the Group is organised and its main processes; ► We met with the Management teams, both at a central level and at the main business units and geographies, to obtain a detailed understanding of the Group, including its main processes and internal control. This activity included more than 40 meetings and covered all geographies; ► We assessed the main accounting processes, judgements and policies adopted by the Group, namely in relation to derivative financial instruments, post-employment benefit liabilities and functional currency, reviewing the technical documentation prepared on these matters;

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Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
▸ Discussion with Management on the definition of the functional currency in some of the geographies in which the Group operates, including the review of the supporting documentation; ▸ Review of impairment tests on the main Exploration and Production, Refining and Retail and Distribution assets; ▸ Discussion with Management on the most significant tax issues, including the review of the valuation and supporting documentation prepared by the Group; ▸ General and specific understanding of the entire government management of the information technologies that support the Group, particularly with regard to general controls, access management and change management of the main applications that support operations and financial reporting.	▸ We reviewed the main tax processes in progress, including the review of the Group's assessment of provisions and contingent liabilities disclosed in the 2018 financial statements, as well as an independent assessment of the need to recognize a provision; ▸ We carried out a detailed understanding of the impairment analyses prepared by the Group including the analysis of the assumptions used and the use of information prepared by experts as well as the sensitivity analyses prepared; and ▸ We obtained an understanding of the most significant IT systems supporting the Group's business and carried out the additional procedures necessary to obtain sufficient confidence in the systems, processes and management applications that support the financial reporting for the entire year. We considered the results of our audit, as it progressed, to obtain additional evidence on opening balances.

2. Recoverability of non-current exploration and production assets

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
At December 31, 2019, non-current assets recognized in the consolidated financial statements related to the Exploration & Production operating segment amounted to 4,247 million euros.	Our approach included carrying out the following procedures: ➤ Understanding and assessing the process of defining the Group's Exploration and Production segment's cash-generating units, identifying triggers of impairment or reversal and quantifying proven and probable oil and gas reserves;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
Non-current assets recoverability analysis in the Exploration & Production segment requires management to define a set of estimates and assumptions based on economic and market forecasts, in particular with regard to the projection of future cash flows, growth rates in perpetuity and discount rates. The projections of future cash-flows of the Exploration and Production segment are essentially based on the estimate of proven and probable oil and gas reserves, as well as on associated production profiles and taxes, projections of future crude oil and gas prices, future estimates of operating and capital expenditure and discount rates. The materiality of the amounts involved when compared to the Group's total assets and the degree of judgment associated with the evaluation of the recoverability of the Group's non-current exploration and production assets, which requires management to make complex estimates and assumptions in an environment of constant volatility in oil and natural gas prices, justify the fact that this has been considered a key audit matter. In addition, the assessment of recent oil price developments in international markets as a result of COVID-19 (Corona virus) pandemic and the war on prices, has also been taken into account in long-term future projections.	► Analysis of the impairment tests prepared by the Group, through the assessment of the adequacy of the model used by Management and the respective calculations of future cash-flows through the verification of arithmetic accuracy; ► Reconciliation of each cash-generating unit, of total proven and probable oil and gas reserves at the beginning of the period with the final proven and probable oil and gas reserves and analysis of the main variations in the year (additions, purchases, sales and revision of estimates) through analytical procedures, including discussion with the Exploration and Production business team, regarding the supporting documentation; ► Evaluation of the reserves quantification assessment performed by an independent management expert and assessment of their independence and competence; ► Validation of the reasonability of the assumptions that present the highest sensitivity and judgment in determining the value of use, namely the future prices of crude oil and gas, through comparison with the price projections of external analysts and the prices adopted by other companies in the oil and gas sector; ► Testing of discount rates and inflation rates used in impairment tests through the use of EY specialists in financial models, who assessed the methodology used by management and tested the documentation supporting the calculation; ► Reconciliation of the operating and capital expenditure projections used in the impairment tests with the budgets approved by the operators and with the multi-annual business plan approved by the Board of Directors of Galp Energia SGPS, S.A.; ► Sensitivity analyses in order to determine the level of variations that, individually or as a whole could give rise to impairment losses; and ► For the assets for which impairments were recorded in the past, comparison of current results with the assumptions used in the past and assessed possible reversals of impairment losses.

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Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
	We also verified the appropriateness of the disclosures presented in the note 5 of the Consolidated Financial Statements related to non-current assets of the Exploration & Production operating segment.

3. Recoverability of non-current assets in Spain

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As at December 31, 2019, the amount of non-current assets recognized in the consolidated financial statements related to the distribution of refined products in Spain, considered by Management as a single cash generating unit, amounted to 339 million euros and included 237 million euros of tangible fixed assets, 63 million euros of intangible assets and 39 million euros of deferred tax assets. The materiality of the amounts and the judgement associated with the evaluation of the recoverability of the non-current assets referred to above, which requires management to define complex estimates and assumptions, particularly with regard to calculating the value in use as part of the cash generating unit impairment test and the corresponding recoverability of deferred tax assets in relation to estimates of future tax profits, justify the fact that this has been considered a key audit matter.	Our approach included performing the following procedures with respect to the cash generating unit impairment test related to the distribution of refined products in Spain: ▸ Understanding and assessing the process of defining the cash-generating unit related to the distribution of refined products in Spain; ▸ Assessment of the adequacy of the impairment model used by Management and its embedded calculations, through the verification of arithmetic accuracy; ▸ Validation of the reasonability of the assumptions that present the highest sensitivity in determining value in use, namely the revenues projections, EBITDA margin, discount rate, future prices of commodities and growth rate in perpetuity; ▸ Testing of discount rates and inflation rates used in impairment tests through the use of EY specialists in financial models, who assessed the methodology used by management and tested the documentation supporting the calculation; ▸ Reconciliation of the multi-annual business plan approved by the Board of Directors of Galp Energia SGPS, S.A. with the projections included in the cash generating unit impairment test;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
In the year ended December 31, 2019, no deferred tax assets were derecognised, nor were additional impairment losses identified in non-current assets related to the distribution of refined products in Spain as a result of the impairment tests performed by Management.	► Sensitivity analyses in order to determine the level of variations that, individually or as a whole, could give rise to impairment losses; and ► For assets for which impairment was recorded in the past, comparison of current results with assumptions used in the past and assessed possible reversals of impairment losses. With regard to the recoverability of deferred tax assets, we compared the projection of future tax profits with the cash flow projections mentioned above, verified the arithmetic accuracy of the calculation and evaluated the adequacy of the tax rate considered for this purpose. We also reviewed the appropriateness of the associated disclosures, presented in Notes 5 and 16 of the consolidated financial statements, namely those referring to the estimates and assumptions that present the highest sensitivity in the calculation of value in use and deferred taxes, based on what was stated in the applicable accounting standards and what was considered relevant.

4. Adoption of IFRS 16 - Leases

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
The Group has adopted IFRS 16 - Leases from January 1, 2019. In accordance with the transitional provisions of IFRS 16 - Leases, the Group adopted the modified retrospective method on initial application, having recognized the accumulated effect of the first adoption on the transition date of January 1, 2019. With the adoption of IFRS 16, the Group recognized as liabilities,	Our approach included carrying out the following procedures: ► Understanding and evaluation of the procedures performed by the Group related to the first-time adoption of IFRS 16 - Leases; ► Review of the assumptions defined by Management, used in the evaluation of leases, including the assessment of contracts out of scope;

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
leases previously classified as operating leases under IAS 17 - Leases. These leases are measured at the present value of the remaining lease payments, discounted at an incremental borrowing rate as of January 1, 2019. The corresponding asset ("right of use"), was measured at the amount that equals the lease liabilities, adjusted for any deferrals, accruals or advance payments related to the leases reflected in the consolidated statement of financial position. At December 31, 2019, the right of use and lease liabilities recognized in the consolidated financial statements amounted to 1,167 and 1,223 million euros, respectively, mainly related to FPSO's, buildings, service areas and ships, with different maturities and options to extend or terminate the lease. We have considered this subject as a key audit matter due to the complexity of the calculation associated with lease liabilities and right of use, as well as new processes for data collection and significant management judgment in determining assumptions such as lease term and incremental borrowing rate.	► Testing of discount rates used in the calculation of the present value of liabilities with leases and corresponding assets; ► Obtaining the complete list of lease contracts and testing the completeness of the information used by Management; ► Performing, for a sample of contracts, detailed tests to conclude on the accuracy of the data collected for each lease; and ► Recalculate, for a sample of contracts, the calculation of the right of use. Our audit procedures also included reviewing the disclosures including the impacts of the first-time adoption (note 3 and 7) presented in the consolidated financial statements, in accordance with the applicable standards.

5. Derivative financial instruments

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As disclosed in the Consolidated Financial Statements, the Group uses derivative financial instruments for risk management purposes.	Our approach included carrying out the following procedures: ► Assessment of overall compliance with the principles of IAS 32 Financial Instruments: 'Presentation' and IFRS 9 Financial Instruments: 'Recognition and

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Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As at 31 December 2019, derivative instruments recognised as assets amounts to 140 million euros and as liabilities 89 million euros. Certain derivatives qualify for hedge accounting under IFRS 9 Financial Instruments: 'Recognition and Measurement' while others, even though they are entered and held for risk management purposes do not meet the hedge accounting criteria and are accounted for as trading derivatives with their changes in fair value recorded directly in the income statement. The volume of transactions, the expression of the amounts, the degree of judgment associated with the valuation and the potential magnitude of the impacts arising from trading activity, together with the c complexity of information systems, end user computing spreadsheets and processes that support a significant volume of different types of derivative transactions, justify that this matter has been consider a key audit matter.	Measurement' taking into consideration the use of accounting judgement and including a review of current cash flow hedge and fair value hedge designations; ▸ Performing valuation testing of open positions, including: validating contract terms and key assumptions; confirming the appropriateness of price curves used against external sources and for a sample of derivatives, independently re-calculating the fair value; ▸ Agreeing a sample of open trading positions at the statement of financial position date to trade confirmations, and where possible to counterparty statements or independently obtained confirmations; ▸ Review, reconciliation and verification of system generated reports and end user computing spreadsheets; Review of the adequacy of the financial statement disclosures associated with derivative financial instruments and hedge accounting (note 19); including disclosures relating to fair value and market according to the applicable accounting standards and other factors considered relevant.

Responsibilities of management and the supervisory board for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that presents a true and fair view of the Group´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, including the Corporate Governance Report in accordance with the laws and regulations;

- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Group´s ability to continue as a going concern.

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

Our objectives are 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 skepticism throughout the audit. We also:

- 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;
- 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;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- 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;
- 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;
- obtain sufficient and 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;
- communicate with those charged with governance, including the supervisory body, 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;

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- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the consolidated financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code and verifying that the non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report, including the information related to management, sustainability and governance (hereinafter referred as Integrated report) was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Group, we have not identified any material misstatement.

As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the non-financial statement included in the Integrated report.

On non-financial information set forth in article No. 508-G of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the Group included in its Integrated report the non-financial statement set forth in article No. 508-G of the Portuguese Company Law.

On the Corporate Governance Report

In compliance with paragraph 4 of article No. 451 of the Portuguese Company Law, it is our understanding that the Integrated report, in the information related to corporate governance, includes the information required the Group to provide as per article 245-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of the said article.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

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- We were appointed as auditors of the Galp Energia SGPS, S.A. (Group's parent entity) for the first time in the shareholders' general meeting held on 12 April 2019 for a mandate from 2019 to 2022;
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Entity on 20 March 2020;
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Entity in conducting the audit; and
- We declare that, in addition to the audit, we provided the Entity with the following services as permitted by law and regulations in force:
    - Limited review on the interim financial statements;
    - Comfort letter issuance related with the update of the EUR 5,000,000,000 Euro Medium Term Note Programme by Galp Energia, SGPS, S.A.;
    - Independent reasonable assurance report on financial ratios;
    - Agreed procedures reports on (i) quarterly statements of natural gas purchases; and (ii) annual statements of natural gas purchases, in accordance with the terms of reference approved by ERSE - Entidade Reguladora dos Serviços Energéticos;
    - Agreed Procedures Report on the criteria for calculation and validation of Galp Gás Natural, SA's sales prices to last resort wholesaler distributors - CURG, carried out in accordance with the terms of reference established in the Tariff Regulations (RT) of ERSE - Entidade Reguladora dos Serviços Energéticos; and
    - Agreed procedures reports on the revision of Petrogal S.A.'s refined fuel sales price list.

Lisbon, 20 March 2020

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

Rui Abel Serra Martins - ROC n.º 1119
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Part II Individual financial statements

INDIVIDUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

Statement of financial position

Galp Energia, SGPS, S.A.

Statement of Financial Position as at 31 December 2019 and 31 December 2018

(Amounts stated in thousand Euros – €k)

Assets	Notes	2019	2018
Non-current assets:			
Tangible Assets	4	2	5
Right-of-use of assets	6	100	-
Investments in subsidiaries, associates and joint ventures	9	2,801,167	2,801,167
Deferred tax assets	16	180	180
Other Receivables	11	90	90
Other Financial Assets	12	1,897,850	1,937,850
Total non-current assets:		4,699,389	4,739,292
Current assets:			
Trade receivables	11	1,045	1,044
Other receivables	11	8,091	9,434
Current income tax receivable	16	85,895	50,902
Cash and cash equivalents	13	44,612	8,932
Other Financial Assets	12	173,372	185,589
Total current assets:		313,015	255,901
Total assets:		5,012,405	4,995,193

Equity and Liabilities	Notes	2019	2018
Equity:			
Share capital and share premium	22	911,257	911,257
Reserves	22	193,828	193,828
Retained earnings		669,553	691,345
Total equity:		1,774,637	1,796,429
Liabilities:			
Non-current liabilities:			
Financial debt	14	2,368,729	2,436,426
Lease liabilities	6	59	-
Other payables	15	2,112	2,124
Total non-current liabilities:		2,370,900	2,438,550
Current liabilities:			
Financial debt	14	246,057	553,526
Lease liabilities	6	42	-
Trade payables	15	884	568
Other payables	15	530.130	151.328
Current income tax payable	16	89.755	54.792
Total current liabilities:		866.868	760.214
Total liabilities:		3,237,768	3,198,764
Total equity and liabilities:		5,012,405	4,995,193

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

Income statement and statement of comprehensive income

Galp Energia, SGPS, S.A.

Income Statement and Statement of Comprehensive Income for the years ended 31 December 2019 and 31 December 2018

(Amounts stated in thousand Euros – €k)

	Notes	2019	2018
Services rendered	23	10,198	10,198
Other operating income	23	169	-
Financial income	26	73,636	96,579
Earnings from associates and joint ventures	9	519,579	463,950
Total revenues and income:		603,582	570,727
External supplies and services	24	(3,842)	(3,231)
Employee costs	24 e 25	(9,525)	(8,770)
Amortisation, depreciation and impairment loss on fixed assets	4, 6 e 24	(46)	(4)
Other operating costs	24	(635)	(279)
Financial expenses	26	(45,505)	(66,536)
Total cost and expenses:		(59,552)	(78,820)
Profit before taxes and other contributions:		544,030	491,907
Income tax	16	(7,115)	(7,597)
Net income for the year		536,915	484,310
Basic and diluted earnings (in Euros)		0,65	0,58

	Notes	2019	2018
Net income for the year		536,915	484,310
Items which will not be recycled in the future through net income:			
Remeasurements	17	-	-
Income taxes related to remeasurements	16	-	-
Comprehensive income for the year		536,915	484,310

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

Statement of Changes in Equity

Galp Energia, SGPS, S.A.

Statement of changes in equity for the years ended 31 December 2019 and 31 December 2018

(Amounts stated in thousand Euros – €k)

	Notes	Share Capital	Share premium	Other reserves	Retained Earnings	Net income for the year	Total
Balance as at 1 January 2018		829,251	82,006	193,828	261,966	421,888	1,788,939
Net income for the year		-	-	-	-	484,310	484,310
Comprehensive income for the year					-	484,310	484,310
Dividends distributed / interim dividends		-	-	-	(476,819)		(476,819)
Increase / decrease of Reserves by appropriation of result		-	-	-	421,888	(421,888)	-
Balance as at 31 December 2018		829,251	82,006	193,828	207,035	484,310	1,796,429
Balance as at 1 January 2019		829,251	82,006	193,828	207,035	484,310	1,796,429
Net income for the year		-	-	-	-	536,915	536,915
Comprehensive income for the year		-	-	-	-	536,915	536,915
Dividends distributed / interim dividends	22	-	-	-	(558,708)	-	(558,708)
Increase / decrease of Reserves by appropriation of result		-	-	-	484,310	(484,310)	-
Balance as at 31 December 2019		829,251	82,006	193,828	132,638	536,915	1,774,637

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

Statement of cash flows

Galp Energia, SGPS, S.A.

Statement of Cash Flows for the years ended 31 December 2019 and 31 December 2018

(Amounts stated in thousand Euros – €k)

	Notes	2019	2018
Operating activities:			
Cash receipt from customers		12,388	14,775
Cash paid to suppliers		(6,848)	(5,780)
Cash paid to employees		(4,789)	(4,320)
Income tax received / (paid)		(7,145)	(4,220)
Other (payments) / receipts from operating activities		3,124	9,628
Dividends received	9	519,925	463,660
Cash Flow from operating activities (1)		516,655	473,743
Investing activities:			
Cash receipts related to:			
Interests and similar income		71,676	94,542
Loans granted		167,467	94,034
Cash payments related to:			
Financial investments		-	(156,905)
Loans granted		(110,900)	(127,186)
Cash Flow from investing activities (2)		128,243	(95,515)
Financing activities:			
Cash receipts related to:			
Loans granted		4,731,727	3,742,583
Cash payments related to:			
Loans granted		(4,712,002)	(3,575,923)
Interests on Loans granted		(64,409)	(68,500)
Interests and similar costs		(5,792)	-
Leases	6	(41)	-
Leasing interests	6	(3)	-
Dividend paid	22	(558,708)	(476,819)
Cash Flow from Financing activities (3)		(609,227)	(378,659)
Net change in cash and cash equivalents (4) = (1) + (2) + (3)		35,671	(431)
Effects of foreign exchange rate changes in cash and cash equivalents		972	-
Cash and cash equivalents at the beginning of the year	13	7,893	8,324
Cash and cash equivalents at the end of the year	13	44,535	7,893

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

Notes to the financial statements as at 31 December 2019

1. CORPORATE INFORMATION

Galp Energia, SGPS, S.A. (hereinafter referred to as "Galp" or "the Company"), was incorporated as a government-owned corporation under Decree-Law 137-A/99 of 22 April 1999, under the name Galp – Petróleos e Gás de Portugal, SGPS, S.A., having adopted its present designation of Galp Energia, SGPS, S.A. on 13 September 2000.

The Company's Head Office is in Lisbon and its main purpose is the management of other companies having, as at the date of its incorporation, taken control of the Portuguese state's direct participations in the following companies: Petróleos de Portugal–Petrogal, S.A. (currently designated Petrogal S.A.), GDP – Gás de Portugal, SGPS, S.A. (currently designated Galp Gás and Power, SGPS S.A.) and Transgás–Sociedade Portuguesa de Gás Natural, S.A. ("Transgás, S.A." currently designated Galp Gás Natural, S.A.)

The Company's corporate purpose is to manage shareholdings of other companies in the energy sector, as an indirect way of carrying out economic activities.

During the previous years the Company shareholders positions suffered several changes and the Company shareholder position as at 31 December 2019 is stated in Note 22.

Part of the Company's shares, representing 93% of its share capital, are listed on the Euronext Lisbon stock exchange.

2. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

Basis of presentation

The 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, based on the accounting records of the Company, maintained in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), effective for the year beginning 1 January 2019. These standards include 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 Company's Board of Directors believes that the attached financial statements and the notes to the financial statements ensure an adequate presentation of the financial information.

The attached financial statements are presented in thousands of Euros (units: €k), rounded to the nearest thousand, unless otherwise stated. Therefore, the subtotals and totals of the tables presented in these financial statements and explanatory notes may not be equal to the sum of the amounts presented, due to rounding.

The accounting policies adopted are, according to their content, in the respective note in the notes to the financial statements. General accounting policies or those applicable to several notes are disclosed in this note.

Judgments and estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires estimates 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 expenses 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 these situations; and (ii) the impact of the estimates on the financial situation or operating performance is significant.

The accounting principles and areas which require a greater number of judgment and estimates in the preparation of the financial statements are (i) tangible assets, right-of-use assets and financial investments (Notes 4, 6 and 9), (ii) impairment on receivables (Note 11), (iii) useful lives and residual values of tangible and intangible assets (Note 4), and (iv) deferred tax assets and estimates on uncertain tax positions (Note 16).

General Accounting policies

Translation of transactions and balances

Transactions are recorded in the Company's financial statement in its functional currency, at the exchange rates in force on the dates of the transactions.

Gains and losses resulting from differences between the 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 in the same captions where the revenue and expenses associated with these transactions are reflected, except those related to non-monetary values whose change in fair value is recorded directly in equity.

3. IMPACT OF THE ADOPTION OF NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

3.1 Adoption of new standards in 2019

Adoption of IFRS 16 – 'Leases'

IFRS 16 determines how contract leases maintained by an Entity should be recognised, measured, presented and disclosed. IFRS 16 - 'Leases' provides a single lease accounting model under which all leases with a term of more than 12 months, unless the underlying asset is of low value, are accounted for through the statement of financial position recognition of a right-of-use asset and a lease liability.

A right of use asset is amortised across its economic useful life, and the related financial liability, recognised at its present value discounted at the legal entity's incremental borrowing rate or the lease agreement's effective interest rate, bears interest which is then charged through profit and loss. For each lease, the subsequent amortisation of the right-of-use assets and the interest expenses related to the lease liability are recognised in profit or loss over the lease term. IFRS 16 replaces IAS 17 - 'Leases', IFRIC 4 - 'Determining Whether an Arrangement Contains a Lease', SIC 15 - 'Operating Leases – Incentives' and SIC 27 - 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease' and is effective for annual periods beginning on or after 1 January 2019.

Galp has decided to use a modified version of the retrospective approach, as permitted by the standard. Upon initial recognition, Galp recognised right-of-use assets at amounts equal to the lease liabilities, with no restatement of prior-period financial information.

As permitted by the standard, Galp decided as a practical expedient to “grandfather” the previous assessment made under IAS 17. This practical expedient enabled existing agreements outside of the scope of IAS 17 to be excluded from the initial adoption of IFRS 16.

In the statement of cash flow, lease payments will be presented within cash flow from financing activities, representing repayments of financial liabilities and the interest due thereon. Lease payments related to assets of low value, lease agreements with terms under 12 months and variable lease payments that are not linked to an index, are not included in financial lease liabilities, and will continue to be presented as cash flow from operating activities.

The discount rates used for lease agreements represent the incremental borrowing rates appropriate to each lease agreement based on factors such as the lessee’s legal entity, leased assets, lease terms and currencies.

Currently, the range of this incremental borrowing rate applicable to the Company’s leases is 3.57% p.a..

The accounting policy is described on Note 6.

3.2 New Standards and interpretations endorsed and published by the European Union

The IFRS standards endorsed and published on the Official Journal of the European Union (OJEU) during the year 2019 and enforceable for accounting purposes in subsequent years are presented in the table below:

IAS	Publication date in OJEU	Accounting application date	Enforcement year	Observations
Amendments to IAS 1 and IAS 8: Definition of Materiality	29/11/2019	01/01/2020	2020	Applicable but without significant impact.
Amendments to References to the Conceptual Framework in the IFRS Standards	29/11/2019	01/01/2020	2020	No predictable impact.

The IFRS standards endorsed and published in the OJEU applicable to the year 2019 are presented in the table below:

IAS	Publication date in OJEU	Accounting application date	Enforcement year	Observations
Amendments to IFRS 9: Prepayment Features with Negative Compensation	26/03/2018	01/01/2019	2019	Without relevant accounting impacts.
IFRIC 23 Uncertainty over Income Tax Treatment	23/10/2018	01/01/2019	2019	Without relevant accounting impacts.
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	08/02/2019	01/01/2019	2019	Not applicable.
Amendments to IAS 19: Plan Amendments, Curtailment or Settlement	13/03/2019	01/01/2019	2019	Not applicable.
Annual Improvements to IFRS Standards 2015-2017 Cycle: (i) IAS 23: Borrowing costs; (ii) IAS 12: Income tax; and (iii) IFRS 3: Business combinations and IFRS 11: Joint Arrangements	14/03/2019	01/01/2019	2019	Without relevant accounting impacts.
IFRS 16 Leases	31/10/2017	01/01/2019	2019	With an accounting impact (Note 6).

4. TANGIBLE ASSETS

Accounting policies

Recognition

Tangible assets are stated at cost, less accumulated depreciation and cumulative impairment losses. The acquisition cost includes the purchase amount, plus transport and assembly costs, any decommissioning obligations and financial interest incurred during the construction phase. Tangible work-in-progress assets refer to assets under construction, and are stated at cost less cumulative impairment losses. These assets are depreciated as soon as the investment projects are substantially completed or ready for use.

Major maintenance and repairs

Repairs and maintenance costs of a current nature are recorded as expenses for the year in which they are incurred. Expenditure on major maintenance or repairs related to the replacement of parts of equipment or other tangible assets are recorded as tangible assets, if the replaced component is identified and written off, and depreciated at rates corresponding to the residual useful life of the respective main fixed assets.

Depreciation

Depreciation is calculated on the considered cost (for acquisitions until 1 January 2004) or the acquisition cost, using the straight-line method, applied from the date on which the assets are available to be used as intended by management. It is used among the most appropriate economic rates, those that allow the reintegration of property, plant and equipment during its estimated useful life, taking into account, in cases where this is applicable, the concession period.

The average annual depreciation rates used are as follow:

Depreciation rates	2019	2018
Administrative equipment	12.5%	12.5%

Impairment

Impairment tests are performed at the reporting 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, under the caption amortisation, depreciation and impairment loss on fixed assets.

The recoverable amount is the greater of the net selling price and the value in use. Net selling price 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 (WACC) of the Company.

The period of the estimated cash flows depends on the average useful life of the cash generating unit.

Accounting estimates and judgments

Useful lives and residual values of tangible assets

The calculation of the assets' residual values and useful lives, as well as the depreciation / amortisation method to be applied, are necessary to determine the depreciation and amortisation to be recognised in the Company's income statement for each period. These parameters are set based on management's judgment, being in line with the practices adopted by peers in the industry. Changes in assets' economically useful lives are accounted for on a prospective basis.

Unit: €k

					2019	2018
	Basic Equipment	Transport Equipment	Administrative equipment	Other tangible assets	Total	Total
As at 31 December						
Acquisition cost	34	52	324	1,009	1,419	1,419
Accumulated depreciation	(34)	(52)	(323)	(1,009)	(1,417)	(1,414)
Net amount	-	-	2	-	2	5
Opening Balance	-	-	5	-	5	9
Depreciation and Impairment	-	-	(3)	-	(3)	(4)
Ending Balance	-		2	-	2	5

5. INTANGIBLE ASSETS

Not applicable.

6. RIGHT-OF-USE OF ASSETS AND LEASE LIABILITIES

Accounting policies

Recognition

The Company recognises both a right-of-use asset and a lease liability as at the lease commencement date. The right-of-use asset is initially measured at cost, which represents the initial amount of the lease liability, adjusted for any lease payments made on or before the commencement date, plus any initial direct costs incurred, plus an estimate of the costs required to dismantle and remove the underlying asset or restore the site on which it is located (if applicable), less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that have not yet been paid up to the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot readily be determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. The types of lease payments included in the measurement of the lease liability are as follow:

- Fixed payments, deducted of any incentives received;
- Variable lease payments that are pegged to an index or a rate;
- Amounts expected to be payable under a residual value guarantee;
- The exercise price under a purchase option that the Company is reasonably certain to be able to exercise;
- Payment of penalties for the early termination of a lease, unless the Company is reasonably certain not to terminate it early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there are changes in the amounts of future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or it is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets and lease liabilities in a separate line in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have lease terms of 12 months or less, and leases of low-value assets. The Company recognises the lease payments associated with these leases as expenses on a straight-line basis over the lease term.

Amortisation

The right-of-use asset is subsequently amortised using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined as those used for the property and equipment items.

Impairment

The right-of-use assets are periodically reduced by the amounts of impairment losses and adjusted to reflect certain remeasurements of the respective lease liabilities.

Accounting estimates and judgments

Useful lives, residual values of intangible assets and discount rates

The calculation of the assets' residual values, the estimation of the useful lives, and the discount rates used are based on the premises of the lease contracts (or for similar assets) and are set based on Management's judgment, as well as the practices of its peers in the industry.

Impairment of Right-of-use Assets

Identifying impairment indicators, estimating future cash flow and determining the fair value of assets requires Management to use significant judgment in terms of the identification and evaluation of the different impairment indicators, the expected cash flow, the applicable discount rates, useful lives and residual amounts.

The details of right-of-use assets are as follow:

Unit: €k

	Vehicles	Total
As at 31 December 2019		
Acquisition cost	138	138
Accumulated amortization	(38)	(38)
Net Amount	100	100
Application of IFRS 16 at 1 January 2019	85	85
Additions	64	64
Amortisation	(42)	(42)
Disposals	4	4
Other adjustments	(10)	(10)
Balance as at 31 December 2019	100	100

Lease liabilities are as follow:

Unit: €k

	2019
Maturity analysis – contractual undiscounted cash flow	107
Less than one year	43
One to five years	63
More than five years	-
Lease Liabilities in the statement of financial position	101
Current	42
Non-current	59

The amounts recognised in profit or loss are as follow:

Unit: €k

	2019
	54
Interest on lease liabilities	3
Expenses related to short term, low value and variable payments of operating leases	51

The amounts recognised in the statement of cash flow are as follow:

Unit: €k

	2019
Financing activities	(44)
Payments relating to leases	(41)
Payments relating to leasing interests	(3)

7. GOVERNMENT GRANTS

Not applicable.

8. GOODWILL

Not applicable.

9. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Accounting policies

Investments in subsidiaries and associates are recorded at the acquisition cost net of impairment losses, when applicable.

Dividends received from subsidiaries and associates are recorded in the Income Statement, when assigned. Whenever the recoverable amount determined is less than the carrying value of the financial investment, the Company recognises the respective impairment loss in the same caption.

Investments in subsidiaries, associates, and joint ventures at 31 December 2019 and 2018 are as follows:

	Country	Interest held	
		2019	2018
Subsidiaries			
Galp Energia, S.A.	Portugal	100%	100%
Galp Energia E&P, BV	The Netherlands	100%	100%
Galp Gás & Power, SGPS, S.A.	Portugal	100%	100%
Petrogal, S.A.	Portugal	100%	100%

	Country	Interest held 2019	Interest held 2018
Affiliates			
ISPG - Instituto do Petróleo e do Gás	Portugal	66.67%	66.67%
Adene - Agência para a Energia, S.A.	Portugal	10.98%	10.98%
Omegas-Soc. D'etuded du Gazoduc Maghreb-Europe	Morocco	0.00%	0.00%
OEINERGE - Agência Municipal de Energia e Ambiente	Portugal	1.45%	1.45%
Galp Eswatini (PTY), Ltd	Eswatini	0.01%	0.01%

Unit: €k

	Financial investments			Gain/(losses) related to financial investments		
	Acquisition cost	Impairment	Net Amount	Dividends	Other	Total
Investment in subsidiaries	2,801,167	-	2,801,167	519,579	-	519,579
Subsidiaries:						
Petrogal, S.A.	803,556	-	803,556	61,689	-	61,689
Galp Energia E&P, BV	1,822,692	-	1,822,692	228,567	-	228,567
Galp Gas & Power,SGPS, S.A.	161,765	-	161,765	229,323	-	229,323
Galp Energia, S.A.	13,154	-	13,154	-	-	-

For comparative information please refer to the financial statements for the year ended 31 December 2018.

The difference of €346 k as at 31 December 2019, between the amount of dividends recorded in the income statement and the amount received in the statement of cash flows under the heading of dividends received, relates to exchange differences on the dividends received from the subsidiary Galp Energia E & P, BV and recorded under the heading “Exchange gains/(losses)”.

10. INVENTORIES

Not applicable.

11. TRADE AND OTHER RECEIVABLES

Accounting policies

Accounts receivable are initially recorded at the transaction value and subsequently measured at amortised cost, less any impairment losses, recognised as impairment losses on accounts receivable. The amortised cost of these assets does not differ from their nominal value or their fair value.

Trade and other receivables are derecognised when the contractual rights to the cash flow expire (i.e. they are collected), when they are transferred (e.g. sold) or when they are impaired.

Accounting estimates and judgments

Impairment of accounts receivable

The Company applies the IFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. Trade receivables were grouped by business segment for the purposes of the assessment of expected credit losses. The credit risk of the accounts receivable balance is evaluated at each reporting date, taking into consideration the client's credit risk profile. The credit risk analysis is based on the annual default probability, and also takes into account the loss in the event of default. The default probability represents an annual probability of default, reflecting the current and projected information and taking into account macroeconomic factors, whereas the loss in the event of default represents the expected loss when a default occurs.

Accounts receivable are adjusted for management's estimate of the collection risks as at the statement of financial position date, which may differ from the actual impairment to be incurred.

Credit Risk

For Credit Risk purposes, if wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the Credit Risk assessment considers the credit quality of the customer, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Wholesale customers' compliance with credit limits is regularly monitored by Management.

Sales to retail customers are required to be settled in cash or using major credit cards, thus mitigating the credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

For further credit risk mitigation measures, guarantees and insurance policies for eventual credit defaults are a standard part of Galp's overall risk policy.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics.

Trade receivables

Trade receivables as at 31 December 2019 and 2018 is detailed as follows:

Unit: €k

		Current
	2019	2018
	1,045	1,044
Trade receivables (Note 28)	1,045	1,044
Ageing of trade receivables	1,045	1,044
Not yet due	1,033	1,044
Overdue between 181 days and 365 days	1	-
Overdue over 365 days	11	-

As mentioned in the policies above, trade receivables are grouped into shared credit risk characteristics and days past due. For the Company the credit risk level of accounts receivable is as follow:

Type	Exposure to risk
Not yet due	Low
Overdue up to 180 days	Medium
Overdue between 181 days and 365 days	High
Overdue over 365 days	Very High

Other receivables

As at 31 December 2019 and 2018, Other receivables details are as follows:

Unit: €k

	Notes	2019 Current	2019 Non-current	2018 Current	2018 Non-current
		8,091	90	9,434	90
State and other public entities		46	-	-	-
Other receivables / other debtors		461	90	251	90
Suppliers' debit balances		88	-	-	-
Advances to suppliers		3	-	-	-
Personnel		86	-	111	-
Other		284	90	140	90
Related Parties		1,694	-	2,452	-
Other receivables - related parties	28	1,694	-	2,452	-
Contract assets		3,740	-	6,332	-
Contract assets		3,740	-	6,332	
Deferred charges		2,150	-	399	-
Other Deferred charges		2,150	-	399	-
Impairment of other receivables		-	-	-	-

12. OTHER FINANCIAL ASSETS

As at 31 December 2019 and 2018, other financial assets details are as follows:

Unit: €k

	Note	2019 Current	2019 Non-current	2018 Current	2018 Non-current
		173,372	1,897,850	185,589	1,937,850
Financial Assets at fair value through comprehensive income		-	350	-	350
Financial Assets not measured at fair value - Loans	28	173,372	1,897,500	185,589	1,937,500

13. CASH AND CASH EQUIVALENTS

Accounting policies

The amounts included in cash and cash equivalents correspond to cash values, bank deposits, time deposits and other cash investments with maturities less than three months, and which can be immediately mobilised with a risk of insignificant changes in value. For the purposes of the statement of cash flow, cash and cash equivalents also include bank overdrafts recorded as loans and overdrafts in the statement of financial position. As at 31 December 2019 and 2018, cash and cash equivalents details are as follows:

Unit: €k

	Notes	2019	2018
		44,535	7,893
Cash and cash equivalents		44,612	8,932
Bank overdrafts	14	(77)	(1,039)

14. FINANCIAL DEBT

Accounting policies

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

Financial charges are calculated at the effective interest rate and recorded in the income statement on an accruals basis in accordance with each loan agreement.

Financial charges includes interests and, eventually, commission expenses for structuring loans.

As at 31 December 2019 and 2018, debt details are as follows:

Unit: €k

		2019		2018	
	Notes	Current	Non-current	Current	Non-current
		246,057	2,368,729	553,526	2,436,426
Bank loans		246,057	547,039	55,682	792,150
Origination Fees		-	(325)	(1,028)	(1,194)
Loans and commercial paper		245,980	547,364	55,669	793,344
Bank overdrafts	13	77	-	1,039	-
Bonds and Notes		-	1,821,690	497,844	1,644,276
Origination Fees		-	(6,341)	(2,156)	(5,724)
Bonds and Notes		-	1,828,031	500,000	1,650,000

Current and non-current loans and bonds, excluding origination fees and bank overdrafts, have the following repayment plan as at 31 December 2019:

Unit: €k

Maturity	Loans		
	Total	Current	Non-current
	2,621,375	245,980	2,375,395
2020	245,980	245,980	-
2021	531,308	-	531,308
2022	371,056	-	371,056
2023	770,000		770,000
2024 onward	703,031	-	703,031

Changes in debt during the period ended 31 December 2019 were as follow:

Unit: €k

	Opening balance	Loans obtained	Principal Repayment	Changes in Overdrafts	Foreign exchange rate differences and others	Ending balance
	2,989,952	1,526,600	(1,905,669)	(962)	4,866	2,614,786
Bank Loans:	847,832	1,350,000	(1,405,669)	(962)	1,896	793,096
Origination fees	(2,221)	-	-	-	1,896	(325)
Loans and commercial papers	849,014	1,350,000	(1,405,669)	-	-	793,344
Bank overdrafts	1,039	-	-	(962)	-	77
Bond and Notes:	2,142,120	176,600	(500,000)	-	2,970	1,821,690
Origination fees	(7,880)	-	-	-	1,539	(6,341)
Bonds	650,000	176,600	-	-	1,431	828,031
Notes	1,500,000	-	(500,000)	-	-	1,000,000

The average cost of financial debt for 2019, including charges on bank overdrafts, amounted to 1.77%.

The bonds obtained during 2019 were as follow:

Unit: €k

Issuance	Due amount	Interest rate	Maturity	Reimbursement
	176,600			
GALP ENERGIA/2019 - USD 100 M DUE MARCH 2024	88,300	USD Libor 6M + spread	march '24	march '24
GALP ENERGIA/2019 - USD 100 M DUE 2024	88,300	USD Libor 6M + spread	march '24	march '24

During 2019 the Company simultaneously issued and repaid €1,350,000 k through commercial paper programs.

The bond reimbursements during 2019 were as follows:

Unit: € m

Issuance	Due amount	Interest rate	Maturity	Reimbursement
	500,000			
Galp 4.125% 01.2019	500,000	Fixed rate 4.125%	January '19	January '19

15. TRADE PAYABLES AND OTHER PAYABLES

Accounting policies

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

As at 31 December 2019 and 2018, trade payables and other payables, current and non-current, details are as follows:

Unit: €k

	Notes	2019		2018	
		Current	Non-curent	Current	Non-curent
Trade payables		884	-	568	-
Trade payables - current account		143	-	400	-
Trade payables - pending invoices		386	-	168	-
Trade payables - related parties	28	356	-	-	-
Other payables / other creditors		530,130	2,112	151,328	2,124
State and other public entities		629	-	509	-
VAT Payables		336	-	252	-
Other taxes		293	-	257	-
Other payables / other creditors		143	-	89	-
Trade receivables credit balances		2	-	-	-
Personnel		116	-	53	-
Other		25	-	36	-

Unit: €k

	Notes	2019		2018	
		Current	Non-curent	Current	Non-curent
Related parties		502,934	-	104,446	-
Loans	28	502,932	-	104,446	-
Other payables/Other creditors		2	-	-	-
Accrued costs		26,123	2,112	45,899	2,124
External suppliers and services		13	-	5	-
Remuneration to be paid		1,786	2,112	1,720	2,124
Accrued interest		24,129	-	43,983	-
Other accrued costs		195	-	191	-
Deferred income		301	-	385	-
Other		301	-	385	-

16. INCOME TAX

Accounting policies

The Company and some subsidiaries have been taxed in accordance with the special regime for the taxation of groups of companies (“RETGS”). The Company is subject to Income Tax (“IRC”). Income tax is calculated based on the taxable results of the Company in accordance with the applicable tax rules.

Deferred taxes are calculated based on the liability method and reflect the temporary differences between the amounts of assets and liabilities for accounting purposes and their amounts for tax purposes.

Deferred tax assets and liabilities are calculated and reviewed periodically using the tax rates expected to be in force when the temporary differences revert.

Accounting estimates and judgments

Deferred tax assets

Deferred tax assets are recognised only when there is reasonable assurance that future taxable profits will be available against which the temporary differences can be used, or when there are deferred tax liabilities for which reversal is expected within the same period as that in which the deferred tax assets are reversed. Temporary differences underlying deferred tax assets are reviewed at each reporting 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, except if they result from items recorded directly in equity. In this case the deferred tax is also recorded in equity.

Unit: €k

	Notes	Assets		Liabilities	
		2019	2018	2019	2018
		85,895	50,902	89,755	54,792
Group companies	28	75,021	16,427	63,778	54,792
Current income tax receivable / payable		75,021	16,427	63,778	54,792
State and other public entities		10,874	34,475	25,976	-
Current income tax receivable / payable		10,874	34,475	25,976	-

Taxes for the year ended 31 December 2019 and 2018 were as follow:

Unit: €k

	2019			2018		
	Current tax	Deferred tax	Total	Current tax	Deferred tax	Total
Taxes for the year	7,115	-	7,115	7,597	-	7,597
Current income tax	6,677	-	6,677	7,594	-	7,594
Insufficiency / (excess) of income tax estimated	438	-	438	3	-	3

The effective income tax rate reconciliation as at 31 December 2019 and 2018 is as follows:

Unit: €k

	2019	Rate	Income Tax	2018	Rate	Income Tax
Profit before tax:	544,030	21.00%	114,246	491,907	21.00%	103,300
Adjustments to taxable income:						
Dividends received		(20.06%)	(109,112)		(19.81%)	(97,430)
Insufficiency / (excess) of income tax estimated		0.08%	438		0.00%	3
Autonomous taxation		0.02%	135		0.01%	54
Sur-charge – Regional and State		0.26%	1,397		0.33%	1,633
Other increases and deductions		0.00%	11		0.01%	37
Effective income tax rate and Income tax		1.31%	7,115		1,54%	7,597

The movement of deferred tax assets for the period ended 31 December 2019 was as follows:

Unit: €k

	2018	2019
Deferred tax assets	180	180
Other deferred tax assets	180	180

17. RETIREMENT BENEFIT OBLIGATIONS

Not applicable.

18. PROVISIONS

Not applicable.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Not applicable.

20. FINANCIAL ASSETS AND LIABILITIES

Accounting policies

Galp classifies financial assets and liabilities into the following categories:

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

b) Financial assets and liabilities carried at amortized cost;

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

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

Recognition and measurement

Purchases and sales of financial instruments are recognised as at the trade date. Investments are initially recognised at fair value. Financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss are subsequently carried at fair value. Fair value disclosures are made separately for each class of financial instruments at the end of the reporting period.

Nevertheless, assets at fair value through other comprehensive income are measured at cost as a proxy for their fair value, since they are not quoted on a stock exchange, no recent available information is available to measure its fair value reliably, and the amounts involved are immaterial.

Derecognition of investments

Financial Assets are derecognised from the statement of financial position when the rights to receive cash flow from investments have expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income consist mainly of equity investments. When these kinds of financial assets are derecognised, the gain or loss will be kept in equity. Dividends received are recognised in profit or loss.

Financial assets at amortized cost

Financial assets and liabilities at amortised cost are non-derivative financial assets which are held solely for payments of principal and interests (SPPI). If collection is expected within one year (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognised initially at fair value. Subsequently they are measured at amortised cost using the effective interest rate method, less impairment.

Fair value hierarchy

In accordance with the accounting rules, an entity must classify the fair value measurement based on a fair value hierarchy that reflects the meaning of the inputs used for measurement. The fair value hierarchy has the following levels:

- Level 1 - the fair value of the assets or liabilities is based on active liquid market quotation as at the date of the statement of financial position;
- Level 2 - the fair value of the assets or liabilities is determined through valuation models based on observable market inputs; and
- Level 3 - the fair value of the assets or liabilities is determined through valuation models, whose main inputs are not observable in the market.

Financial assets at amortised cost comprises trade receivables, other receivables net of impairments.

Financial liabilities at amortised cost are comprised of Trade payables, other payables and other payables - related parties.

Financial assets and liabilities as at 31 December 2019 and 2018 are detailed as follows:

Unit: €k

	Notes	2019	2018
Financial assets by category		2,122,862	4,265,933
Financial assets at fair value through other comprehensive income	12	350	350
Financial assets not measured at fair value	11 and 12	2,080,098	4,257,096
- less deferred costs, guarantees and tax receivable		(2,198)	(445)
Cash and cash equivalents	13	44,612	8,932

Unit: €k

	Notes	2019	2018
Financial liabilities by category		3,147,083	3,143,689
Financial liabilities measured at fair value through profit or loss - Derivatives		-	-
Financial liabilities not measured at fair value	6, 14 and 15	3,148,013	3,143,969
- less deferred income, guarantees and tax payables		(930)	(280)

21. FINANCIAL RISK MANAGEMENT

The Company is exposed to several market risks inherent to the Company's activities. Detailed information about these risks and impacts on Galp Group is explained in Note 21 of the notes to the Consolidated financial statements.

22. CAPITAL STRUCTURE

Share Capital

The share capital of Galp Energia is comprised of 829,250,635 shares, with a nominal value of 1 Euro each and fully subscribed. Of these, 771,171,121 (93% of the share capital), are traded in the Euronext Lisbon. The remaining 58,079,514 shares, representing some 7% of the share capital, are indirectly held by the Portuguese State through Parpública – Participações Públicas, SGPS, S.A. (Parpública) and are not available for trade.

At 31 December 2019 the Company has recorded € 82,006 k in equity, referring to share premium. The total of share capital and share premium is € 911,257 k.

The Company's shareholder structure as at 31 December 2019 was as follows:

Shareholders	Nr. of shares	% of capital	% of voting rights
Amorim Energia, BV	276,472,161	33.34%	33.34%
Parpública - Participações Públicas, SGPS, S.A.	62,021,340	7.48%	7.48%
Free-float	490,757,134	59.18%	59.18%
Total	829,250,635	100.00%	100.00%

Other reserves

In accordance with the Company deeds and Commercial Law ("Código das Sociedades Comerciais - CSC"), the Company must transfer a minimum of 5% of its annual net profit to a legal reserve until the reserve reaches 20% of share capital. The legal reserve cannot be distributed to the shareholders but may, in certain circumstances, be used to increase capital or to absorb losses after all the other reserves have been considered.

As at 31 December 2019 and 2018, Other reserves details are as follows:

Unit: €k

	2019	2018
	193,828	193,828
Legal reserves	165,850	165,850
Available reserves	27,977	27,977

On 31 December 2019 and 2018, the legal reserve is fully provided for in accordance with the commercial legislation.

Dividends

In accordance with the resolution of the General Shareholders' Meeting held on 12 April 2019, the shareholders of Galp Energia, SGPS, SA were assigned dividends in the amount of €524,501 k, €484,310 k relating to the distribution of net income for the year 2018 and € 40,191 k related to retained earnings, corresponding to a dividend of €0.63 per share. Of this amount €228,044 k were paid to shareholders in 20 September 2018 and €296,457 k on 9 May 2019.

In addition, the Board of Directors approved the payment of an interim dividend, in the amount of €262,251 k, fully paid on 10 September 2019, related to the fiscal year 2019. Consequently, during the year ended 31 December 2019, the Company paid dividends amounting to €558,708 k.

23. REVENUE AND INCOME

Accounting policies

Revenue is recognised in the income statement when Galp has satisfied a performance obligation by transferring the promised products or services to the customer. The product is transferred when the customer obtains control of the same. Sales are measured at the fair value of the consideration received or receivable. Sales are recognised net of taxes with the exception of tax on petroleum products, discounts and rebates. Cost and income are recorded at the period they occurred, regardless of the date of payment or receipt. Costs and income whose actual value is not known are estimated.

The "Other receivables" and "Other payables" captions include the income and costs from the current period for which the financial receipt or disbursement will only occur in future periods, as well as financial receipts or disbursements that have already occurred, relating to future periods, and that will be charged to the income statement in the respective periods.

Exchange differences arising from supplier and customer balances are recognised in operating results.

Revenue and income for the years ended 31 December 2019 and 2018 were as follows:

Unit: €k

	Notes	2019	2018
		603,582	570,727
Services rendered		10,198	10,198
Other operating income		169	-
Supplementary income		169	-
Other		-	-
Earnings from associates and joint ventures	9	519,579	463,950
Financial income	26	73,636	96,579

24. COSTS AND EXPENSES

The costs and expenses for the years ended 31 December 2019 and 2018 were as follow:

Unit: €k

	Notes	2019	2018
Total costs:		59,552	78,820
External suppliers and services:		3,842	3,231
Other specialised services		2,003	1,880
Travel and accomodation		444	468
Other costs		1,395	883
Employee costs:	25	9,525	8,770
Amortisation, depreciation and impairment losses on fixed assets	4 and 6	46	4
Other costs:		635	279
Other taxes		528	177
Other operating costs		108	102
Financial costs	26	45,505	66,536

25. EMPLOYEE COSTS

Accounting policies

Employee costs

Wages, salaries, social security contributions, annual leave and sick leave, bonuses and non-monetary benefits are recognised in the year in which the respective services are rendered by Galp's employees.

During the year ended at 31 December 2019 and 2018, the employee costs were as follows:

Unit: €k

	Notes	2019	2018
Total employee costs for the year		9,525	8,770
Statutory board salaries		7,185	6,815
Employee salaries		668	647
Social charges - statutory board		1,089	1,026
Social charges - employees		17	-
Other insurance		385	102
Other costs		180	178
Remuneration of the Board Members		7,185	6,815
Salaries		5,239	5,051
Cash bonuses		1,477	1,488
Allowances		469	276
Other charges and adjustments		1,089	1,026

26. FINANCIAL INCOME AND EXPENSES

Accounting policies

Financial income and expenses include interest on external loans, related party loans, leasing and retirement and other benefit plans. Other financial income and expenses from other financial assets or liabilities are not included in this caption.

The financial charges on loans obtained are recorded as financial expenses on an accrual's basis.

Financial charges arising from general and specific loans obtained to finance investments in fixed assets are assigned to tangible and intangible assets in progress, in proportion to the total expenses incurred on those investments net of investment government grants, until the commencement of its operations. The remainder is recognised under the heading of financial expenses in the income statement for the year. Any interest income from loans directly related to the financing of fixed assets which are in the process of construction is deducted from the financial charges capitalised.

Those financial charges included within fixed assets are depreciated over the useful lives of the respective assets.

Unit: €k

	Notes	2019	2018
		28,132	30,043
Financial income		73,636	96,579
Interest on bank deposits		197	2
Interest and other income with related companies	28	73,439	96,577
Financial expenses		(45,505)	(66,536)
Interest on bank loans, overdrafts and others		(39,287)	(63,967)
Interest on related party loans	28	(5,297)	(1,401)
Interest on lease liabilities	6	(3)	-
Exchange gains/(losses)		(113)	(290)
Other financial costs		(805)	(878)

27. Contingent assets and contingent liabilities

Accounting policies

Contingent assets and contingent liabilities arise from unplanned or unexpected events that may cause economic inflows or outflows of the Company. The Company does not reflect these assets and liabilities on the financial statements as they may not become effective. Contingent assets and contingent liabilities are disclosed in the notes to the financial statements.

As part of its ongoing business operations, the Company has entered into agreements where commitments have been given for commercial, regulatory or other operational purposes. As at 31 December 2019 and 2018 obligations subject to collaterals granted are as follow:

Unit: €k

	2019	2018
Total of guarantees provided	3,606,208	3,494,082
Venture Global, LLC	1,780,310	1,747,000
Charter Agreement FPSO	1,293,395	1,269,000
Coral South FLNG project	299,252	176,000
Cercena Investments, S.L.U.	178,259	-
General-Directorate of Taxes/ General-Directorate of the Tresury	35,686	35,686
Oil Insurance Limited	16,646	11,882
REN - Rede Elétrica Nacional	1,650	1,650
Government of the Democratic Republic of East-Timor, São Tomé and Príncipe and Namibia	534	12,565
Portuguese Tax and Customs Authority	473	473
APL - Administração Porto de Lisboa	3	2
In benefit of third parties on behalf of Group companies	-	83,929
Credit substitute guarantees	-	5,895
Related to obtained loans	-	150,000

Under the contract established in April 2018, with Venture Global LLC related to the LNG Sales and Purchase Agreement, Galp provided a guarantee in the total amount of the contract (USD 2 bn).

Related to the four charter agreements for FPSOs, Galp provided a guarantee in the amount of USD 1,293,395 k, in the name of Tupi, BV, which represents Galp's proportion of the BM-S-11 consortium.

Under the financing of the Coral South FLNG project, Galp Energia SGPS S.A. shall provide a guarantee, the Debt Service Undertaking (DSU) agreement, on the total outstanding amount at each moment in proportion to its participation. This guarantee expires at the time of the Actual Completion Date (estimated for the year 2024) if no obligations are outstanding under the DSU. As at 31 December 2019, Galp's stake in the obligation amounted to €269,327 k. Also within the scope of this financing, Galp Energia SGPS S.A. provides a guarantee covering 1/9 of the DSU on behalf of ENH Empresa Nacional de Hidrocarbonetos (ENH), one of consortium members of the Coral South FLNG project, which corresponds to Galp's share of the consortium, excluding ENH. As at December 31, 2019, Galp's stake in the responsibility taken on in relation to ENH amounted to €29,925 k.

The Group has entered into a Power Purchase Agreement with X-Elio (aka Cercena Investments) to provide solar energy to customers for which the Company has provided a comfort letter on behalf of Galp Energia España, in the amount of €178,259 k.

28. RELATED PARTY TRANSACTIONS

Accounting policies

A related party is a person or entity that is related to the entity preparing its financial statements, as follows:

(a) A person or a close member of that person's family is related to a reporting entity if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies: (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others); (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member); (iii) Both entities are joint ventures of the same third party; (iv) One entity is a joint venture of a third entity, and the other entity is an associate of the third entity; (v) The entity is a post-employment defined benefit plan for the benefit of the employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, 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 the key management personnel of the entity (or of a parent of the entity).

The balances and transactions with related parties as at 31 December 2019 are detailed as follows:

Unit: €k

		Current					Non-current
	Total	Trade receivables (Note 11)	Loans granted (Note 12)	Other receivables (Note 11)	Current income tax receivable (Note 16)	Accruals and deferrals	Loans granted (Note 12)
Assets:	2,152,372	1,045	173,372	1,694	75,021	3,740	1,897,500
Group Companies	2,152,741	1,037	173,372	1,680	75,412	3,740	1,897,500
Joint ventures and associates	(370)	8	-	13	(391)	-	-
Other related parties	1	-	-	1	-	-	-

For comparative information, please refer to the financial statements for the year ended 31 December 2018.

Unit: €k

		Current				
	Total	Trade payables (Note 15)	Loans obtained (Note 15)	Other payables (Note 15)	Current income tax payables (Note 16)	Accruals and deferrals
Liabilities:	567,378	356	502,932	-	63,778	312
Group Companies	567,375	356	502,932	-	63,778	309
Other related parties	3	-	-	-	-	3

For comparative information, please refer to the financial statements for the year ended 31 December 2018.

Unit: €k

	Operating expenses	Operating income	Financial expenses (Note 26)	Financial income (Note 26)
Transactions:	(126)	10,360	(5,297)	73,439
Group Companies	232	10,360	(5,297)	73,439
Other related parties	(358)			

For comparative information, please refer to the financial statements for the year ended 31 December 2018.

29. INFORMATION REGARDING ENVIRONMENTAL MATTERS

Not applicable.

30. SUBSEQUENT EVENTS

In early 2020, the outbreak of COVID-19 pandemic and oil price volatility in international markets has increased uncertainty in the world economy short-term outlook. However, as at this date, Group Galp Energia medium and long-term outlook comprised in the impairment tests remain unchanged.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 20 March 2020.

Chairman:

Paula Amorim

Vice-chair and Lead Independent Director:

Miguel Athayde Marques

Vice-chair:

Carlos Gomes da Silva

Members:

Filipe Crisóstomo Silva
Thore E. Kristiansen
Carlos Costa Pina
José Carlos da Silva
Sofia Tenreiro
Susana Quintana-Plaza
Marta Amorim
Francisco Rêgo
Carlos Pinto
Luís Todo Bom
Jorge Seabra de Freitas
Rui Paulo Gonçalves
Diogo Tavares
Edmar de Almeida
Cristina Neves Fonseca
Adolfo Mesquita Nunes

Accountant:

Paula de Freitas Gazul

32. EXPLANATION REGARDING TRANSLATION

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

STATUTORY AUDIT REPORT OF THE INDIVIDUAL FINANCIAL STATEMENTS AND AUDITOR'S REPORT

Building a better working world

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((Translation from the original document in the Portuguese language.

In case of doubt, the Portuguese version prevails)

Statutory and Auditor's Report

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Galp Energia SGPS S.A. (the Entity), which comprise the Statement of financial position as at 31 December 2019 (showing a total of 5,012,405 thousands of euros and a total equity of 1,774,637 thousands of euros, including a net profit for the year of 536,915 thousands of euros), and the Income statement and statement of comprehensive income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Galp Energia SGPS S.A. as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed 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 guidelines as issued by the Institute of Statutory Auditors. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled other ethical requirements in accordance with the Institute of Statutory Auditors´ code of ethics.

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 judgment, were of most significance in our audit of the financial statements of the current period. 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.

The key audit matters in the current year audit are the following:

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1. Recoverability of Financial investments in subsidiaries and associate companies

Description of the most significant assessed risks of material misstatement	Summary of our response to the most significant assessed risks of material misstatement
As at 31 December 2019, Investments in subsidiaries and associates recognized in the individual financial statements of Galp Energia, SGPS., S.A. amounts to 2,801,167 thousand euros. Investments in subsidiaries and associates are recorded at the acquisition cost net of impairment losses, evaluated at the balance sheet date, to detect the existence of indicators of possible impairment losses. If indicators have been identified, the recoverable amount of the asset is determined using a discounted cash flow model. Inputs for the cash flow model are based on past performance and economic and market development expectations for each of the investments, based on cash flow projections, discount rates and growth rates in the perpetuity. In 2019, no impairment triggers were identified for investments in subsidiaries and associated companies, however the Entity carried out impairment tests to the main assets held by its financial investments and no impairment was recognized. The impairment risk of investments in subsidiaries, associates and joint-ventures was considered a Key Audit Mater due to the significance of the carrying amount in the total assets, as well as the complexity and judgment inherent in the model adopted for the impairment assessment, if any.	Our audit procedures included: ► We assess the existence of impairment indicators in the valuation of investments in subsidiaries and associates, namely comparing the shareholders' equity, or the value in use calculated according to the valuation models prepared by management, with the carrying amount; ► We obtained and analyzed impairment tests prepared by management, when applicable, in relation to the most significant assets of the Investments in Subsidiaries and Associates, including the reconciliation with the business plans that were approved by the Board of Directors of Galp Energia SGPS, S.A.; ► We analyzed, with the support of internal experts, the assumptions and methodologies used by management, namely the model used for testing, discount rates and growth rates in perpetuity; ► Validated the arithmetic calculations of the model; and ► We reviewed and analyzed the reasonableness of impairment loss amounts recognized by the Entity in relation to investments in Subsidiaries and Associates. Additionally, we have verified the accuracy of the applicable disclosures (IAS 27 and IAS 36), included in notes 2 and 9 of the financial statements.

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for:

- the preparation of financial statements that presents a true and fair view of the Entity´s financial position, financial performance and cash flows in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, including the Corporate Governance Report in accordance with the laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Entity's ability to continue as a going concern, and disclosing, as applicable, matters related to going concern that may cast significant doubt on the Entity´s ability to continue as a going concern.

The supervisory body is responsible for overseeing the Entity's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are 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:

- 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;
- 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;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- 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;
- 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;
- communicate with those charged with governance, including the supervisory body, 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;
- from the matters communicated with those charged with governance, including the supervisory body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- we also provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the Management Report with the financial statements, and the verifications under nr. 4 and nr. 5 of article 451 of the Commercial Companies Code and verifying that the non-financial statement was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451, nr. 3, paragraph e) of the Commercial Companies Code, it is our opinion that the Management Report, including the information related to management, sustainability and governance (hereinafter referred as Integrated report) was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment over the Entity, we have not identified any material misstatement.

As set forth in paragraph 7 of article No. 451 of the Portuguese Company Law, this opinion is not applicable to the non-financial statement included in the Integrated report.

On non-financial information set forth in article No. 66-B of the Portuguese Company Law

In compliance with paragraph 6 of article No. 451 of the Portuguese Company Law, we hereby inform that the entity included in its Integrated report the non-financial statement set forth in article No. 66-B of the Portuguese Company Law.

On the Corporate Governance Report

In our opinion, the Integrated report includes the information required to the Entity to provide as per article 245-A of the Securities Code, and we have not identified material misstatements on the information provided therein in compliance with paragraphs c), d), f), h), i) and m) of the said article.

On additional items set out in article 10 of the Regulation (EU) nr. 537/2014

Pursuant to article 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed as auditors of the Entity for the first time in the shareholders' general meeting held on 12 April 2019 for a mandate from 2019 to 2022.
- Management has confirmed that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs we maintained professional skepticism and we designed audit procedures to respond to the possibility of material misstatement in the financial statements due to fraud. As a result of our work we have not identified any material misstatement to the financial statements due to fraud;
- We confirm that our audit opinion is consistent with the additional report that we have prepared and delivered to the supervisory body of the Entity on 20 March 2020;
- We declare that we have not provided any prohibited services as described in article 77, nr. 8, of the Statute of the Institute of Statutory Auditors, and we have remained independent of the Entity in conducting the audit; and
- We declare that, in addition to the audit, we provided the Entity with the following services as permitted by law and regulations in force:
    - Limited review on the interim financial statements;
    - Comfort letter issuance related with the update of the EUR 5,000,000,000 Euro Medium Term Note Programme by Galp Energia, SGPS, S.A.; and
    - Independent reasonable assurance report on financial ratios.

Lisbon, 20 March 2020

Ernst & Young Audit & Associados - SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Represented by:

Rui Abel Serra Martins - ROC n.º 1119
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Disclaimer

This report serves as the Annual Integrated Management Report and Accounts in accordance with Portuguese and EU legislation requirements as filed with the Portuguese Securities Market Commission (CMVM) for the year ended December 31, 2019, for Galp Energia, SGPS, S.A. (the "Company") and its subsidiaries (collectively referred as "Galp"). This report presents the Management Report, the Corporate Governance Report, the Consolidated Financial Statements of Galp and the Individual Financial Statements of the Company. This report contains certain forward-looking statements. Forward-looking statements are statements other than in respect of historical facts and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. The words "aim", "ambition", "anticipate", "believe", "continue", "could", "estimate", "expect", "goals", "intends", "may", "objectives", "outlook", "plan", "probably", "risks", "schedule", "seek", "should", "target", "will" and similar terms and expressions usually identify these forward-looking statements. Forward-looking statements may include statements regarding: objectives, goals, strategies, outlook and growth prospects; future plans, events or performance and potential for future growth; liquidity, capital resources and capital expenditures; economic outlook and industry trends; energy demand and supply; developments of Galp's markets; the impact of regulatory initiatives; and the strength of Galp's competitors. The forward-looking statements in this report are based upon various assumptions, many of which are based, in turn, upon further assumptions, including, without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. Although Galp believes that these assumptions were reasonable when made, these assumptions are inherently subject to significant known and unknown risks, uncertainties, contingencies and other important factors, which are difficult or impossible to predict and are beyond its control. Important factors that may lead to significant differences between the actual results and the statements of expectations about future events or results include, without limitation, the Company's business strategy; industry developments; price fluctuations in crude oil, natural gas and power; changes in demand for Galp's products and services; currency fluctuations; economic and financial market conditions; legislative, fiscal and regulatory developments, including regulatory measures addressing climate change; political risks; changes in trading conditions and uncertainty of the results of future projects and operations, plans, objectives, expectations and intentions, among others. Such risks, uncertainties, contingencies and other important factors could cause the actual results of Galp or the industry to differ materially from those results expressed or implied in this report by such forward-looking statements. Also see "Risk factors" in this report for additional risks and further discussion. No assurance is provided that future dividend payment will correspond or exceed previous dividend distributions. All forward-looking statements contained in this report are expressly qualified in their entirety by the cautionary statements contained or referred in this section. Readers should not place undue reliance on forward-looking statements. The information, opinions and forward-looking statements contained in this report speak only as at the date of this report, and are subject to change without notice. Galp and its respective representatives, agents, employees or advisers do not intend to, and expressly disclaim any duty, undertaking or obligation to, make or disseminate any supplement, amendment, update or revision to any of the information, opinions or forward-looking statements contained in this report to reflect any change in events, conditions or circumstances.

ENERGY IN MOTION

PART III

CONSOLIDATED AND INDIVIDUAL FINANCIAL STATEMENTS 2019

galp