galp energia

TOTAL ENERGY COMPANY

ANNUAL REPORT 2006

Your positive energy.

Paula Barbeitos

This translation of the Portuguese document was made only for the convenience of non-Portuguese speaking shareholders. For all intents and purposes, the Portuguese version shall prevail.

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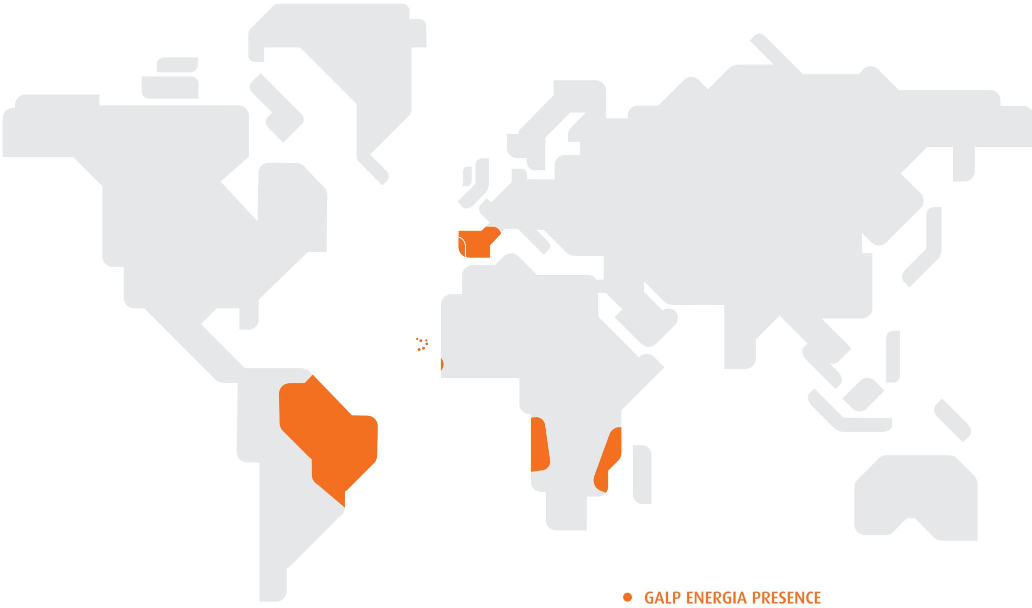
1. SUMMARY OF BUSINESS OPERATIONS

IN 2006 GALP ENERGIA WAS FLOATED
ON THE STOCK MARKET

SUMMARY

Galp Energia is Portugal's leading operator in oil products and natural gas markets. On top of its leadership of the Portuguese market, Galp Energia operates also in Spain, Cape Verde, Mozambique, Guinea-Bissau, Angola and Brazil.



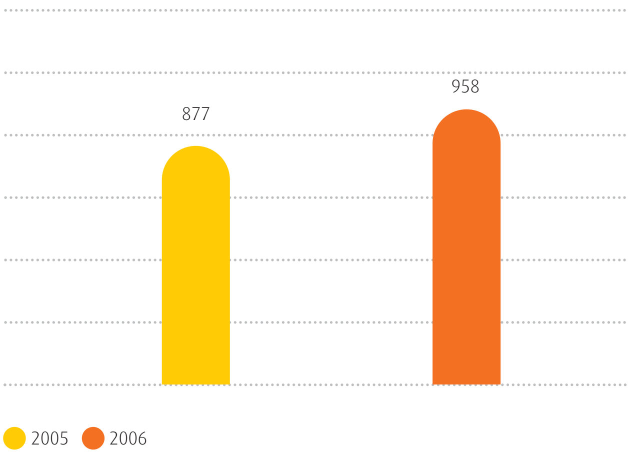
Galp Energia's operations cover primarily three business segments:

	EXPLORATION & PRODUCTION	REFINING & MARKETING	GAS & POWER
Activity	Exploration, appraisal, evaluation, development and production of crude oil and natural gas.	Supply of crude oil and other raw materials, refining and sale of refined products.	Sourcing, commercialization and distribution of natural gas and power generation.
Major assets	• 54 blocks in Brazil; • 6 blocks in Angola; • 3 blocks in Portugal; • Reserves of 50 million barrels.	• Oporto Refinery (90,000 bbl/d); • Sines Refinery (220,000 bbl/d); • 1,045 service stations; • 204 convenience stores.	• Supply of natural gas to Portugal; • Around 790 thousand clients; • 9,014 Km of natural gas distribution network.
2006 key indicators	• Production of 9.5 Kbbl/d	• 14.7 million tonnes of raw materials processed and sale of 16.2 millions tonnes of refined products.	• Natural gas sales of 4.6 billion m^3.

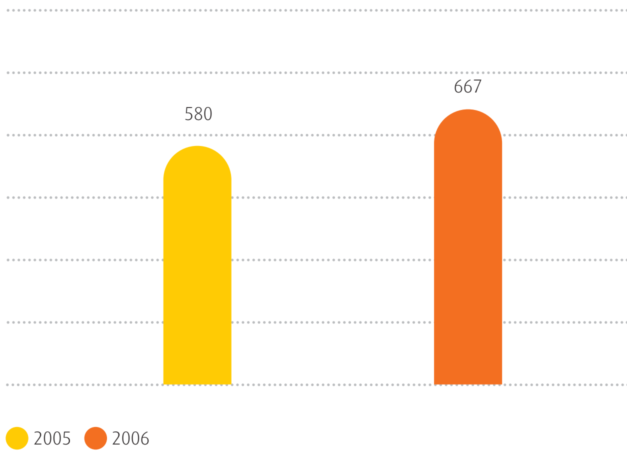
MAIN EVENTS IN 2006

- On 23 October, Galp Energia completed the initial public offering ("IPO") of 23% of its shares, which started trading on that date on Euronext Lisbon;
- Following the implementation of the new legislation for the natural gas sector, the Company sold its transportation, storage and regasification assets to REN – Rede Eléctrica Nacional, S.A. ("REN");
- The consolidation of the shareholder structure provided the required stability for a sustained growth strategy;
- Galp Energia achieved adjusted net income[(1)] of 468 million euros, representing earnings per share of 56 cents, 10% ahead of 2005.

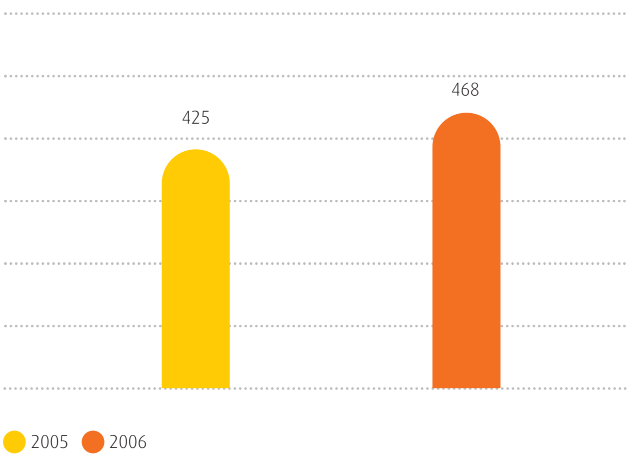
ADJUSTED EBITDA, MILLION €



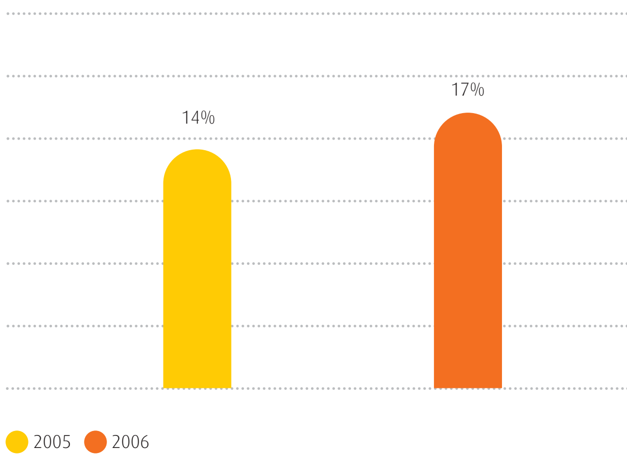
ADJUSTED OPERATING RESULT, MILLION €



ADJUSTED NET INCOME, MILLION €



ADJUSTED ROACE IN %



(1) Adjusted net income excludes inventory effects and other non recurrent items. For a detailed description of the reconciliation between reported and adjusted figures please see Appendix 2.

KEY INDICATORS

FINANCIAL INDICATORS

REPORTED DATA	UNIT	2005	2006
Turnover	Million €	11,137	12,210
EBITDA[1]	Million €	1,192	1,241
Operating result	Million €	863	949
Net income	Million €	701	755
Capital expenditures	Million €	315	349
Cash flow[2]	Million €	963	1,039
ROA[3]	%	15	18
ROE[4]	%	34	34
ROACE[5]	%	21	25
Average capital employed[6]	Million €	3,387	3,192
Net debt	Million €	1,192	887
Net assets	Million €	5,934	5,242
Gearing[7]	%	33	29
Debt to equity[8]	%	50	44

ADJUSTED DATA	UNIT	2005	2006
EBITDA	Thousand €	877	958
EBITDA margin[9]	%	10	10
Operating result	Thousand €	580	667
Net income	Thousand €	425	468
ROACE[10]	%	14	17
ROA[11]	%	10	13

	UNIT	2005	2006
Earnings per share	€/share	0.84	0.91
Adjusted earnings per share	€/share	0.51	0.56
Market capitalization[12]	Million €	-	5,755

OPERATIONAL INDICATORS

COMMERCIAL ACTIVITY	UNIT	2005	2006
Crude oil sales	Million bbl	1.8	2.9
Raw materials processed	Million ton	14.3	14.7
Refined products sales[13]	Million ton	15.9	16.2
Natural gas sales	Billion m^3	4.2	4.6
Power generation	GWh	1,375	1,561

INFRASTRUCTURES	UNIT	2005	2006
Service stations in Iberia	Number	1,060	1,045
Convenience stores in Iberia[14]	Number	183	204
Natural gas network	Km	10,196	9,014

PERSONNEL	UNIT	2005	2006
Total Galp Energia employees	Number	6,166	5,877
Off site Galp Energia employees[15]	Number	3,966	3,632

(1) Operating result + amortizations and depreciations + provisions and receivables accounts impairments.
(2) Net income + amortizations and depreciations + change in provisions
(3) Operating result/Net assets.
(4) Net income/average shareholders' equity.
(5) [Net income - net financial resuts excluding share of profit associates*(1-corporate income tax rate)]/average capital employed.
(6) Shareholders' equity + long term and short term bank debt + shareholders' loans - cash and cash equivalents.
(7) Long term and short term bank debt. + shareholders' loans - cash and cash equivalents/capital employed
(8) Long term and short term bank debt. - cash and cash equivalents/ shareholders' equity
(9) Adjusted EBITDA/turnover excluding excise tax.
(10) [Adjusted net income - (net financial results excluding share of profit from associates*(1-corporate income tax rate))]/average adjusted capital employed.
(11) Adjusted operating results/adjusted net assets.
(12) Number of shares by reference price at period end.
(13) Includes Spain, other operators and exports.
(14) Total Galp Energia convenience stores (with and without Galp Energia brand).
(15) Excludes service stations employees.

Note: See Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

BUSINESS SEGMENT INDICATORS

EXPLORATION & PRODUCTION

	UNIT	2005	2006	%
Turnover	Million €	67	141	111
Operating result	Million €	18	45	148
Adjusted operating result	Million €	18	45	148
Capital expenditures	Million €	82	106	29
Adjusted ROA(1)	%	6.6	10.4	3.8 p.p.
Average realized sale price	Usd/bbl	45	61	34
Average working production	kbbl/day	5.0	9.5	88
Average equity production	kbbl/day	4.3	7.2	67
Total sales	Million bbl	1.8	2.9	60

REFINING & MARKETING

	UNIT	2005	2006	%
Turnover	Million €	10,030	10,838	8
Operating result	Million €	602	368	(39)
Adjusted operating result	Million €	338	358	6
Capital expenditures	Million €	142	131	(8)
Adjusted ROA(1)	%	9.6	10.2	0.6 p.p.
Net fixed assets	Million €	1,247	1,158	(7)
Galp Energia refining margin	Usd/bbl	7.2	5.4	(26)
Raw materials processed	Million ton	14.3	14.7	3
Total refined products sales	Million ton	15.9	16.2	2

GAS & POWER

	UNIT	2005	2006	%
Turnover	Million €	1,125	1,396	24
Operating result	Million €	244	547	124
Adjusted operating result	Million €	225	266	18
Capital expenditures	Million €	88	112	27
Adjusted ROA(1)	%	11.2	17.2	6.0 p.p.
Natural gas sales	Million m^3	4,234	4,596	9
Natural gas clients	Thousands	739	790	7
Power generation	GWh	1,375	1,561	14

(1) Adjusted operating result/total adjusted consolidated assets.
Note: See Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

Galp Energia Head office
Lisbon

2.
MESSAGE OF THE BOARD OF DIRECTORS

IN 2006, A NEW CYCLE STARTED IN THE LIFE OF GALP ENERGIA WITH THE FLOTATION OF THE COMPANY'S SHARES ON THE STOCK MARKET.

THE YEAR WAS ALSO MARKED BY THE CONSOLIDATION OF THE COMPANY'S SHAREHOLDER BASE AND THE SALE TO REN OF THE NATURAL GAS REGULATED ASSETS.

WE ARE ENCOURAGED BY THE EARNINGS ACHIEVED FOR THE YEAR. THESE WOULD NOT HAVE BEEN POSSIBLE WITHOUT THE COMMITMENT OF EVERYONE WORKING AT GALP ENERGIA

MESSAGE OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Francisco Murteira Nabo
Chairman of the Board of Directors
Galp Energia

2006 was a very important year in the life of Galp Energia. Indeed, the initial public offering of 23% of its share capital, previously owned by the Portuguese state, marked the beginning of a new cycle in the Company's life.

I recall the public listing of the Company was one of the three challenges we spelt out in last year's report. The other two were the implementation of a value-oriented strategy and the adjustment of the Company's governance and culture to its new public status.

The success of the IPO and the subsequent performance of the Galp Energia share in the market allow some well-founded optimism. From now on, we face the scrutiny of the equity markets, meaning additional demands on us. However, we face this challenge with justified confidence.

Implementation of our value-based strategy has made significant headway. The Company is pursuing a multi-energy path – oil, gas and electricity – and the business portfolio is under adjustment for a more balanced mix of the three energy sources with a stepped-up involvement in the electricity sector.

This strategy is already delivering. With net income at 755 million euros, Galp Energia's financial performance in 2006 was one of the best ever. Even excluding one-off items and considering earnings at replacement cost, net income was 468 million euros, 10% ahead of 2005, providing clear evidence of the Company's operating and financial strength this report testifies to.

As planned, the process of bringing the corporate structure into line with the formulated strategy proceeded unabated. The purpose is to make the organisation more responsive to the challenges of an increasingly competitive and demanding environment. This was only possible with the cooperation and commitment of the whole management structure. Because this is an ongoing process, it will require the unremitting attention of all those involved.

It is fair to emphasize that these results are a consequence of the commitment and skills of management and staff alike. It is clear to us that the quality of our human resources is a catalyst for further increasing the competitiveness of our Company.

Having been through another successful year has given us renewed confidence and provided us with added stimulus to attain the objectives set by our shareholders.

MESSAGE OF THE CHIEF EXECUTIVE OFFICER

Manuel Ferreira De Oliveira
Vice-chairman of the Board of Directors
Chief Executive Officer
Galp Energia

Galp Energia reported in 2006 adjusted net income of 468 million euros, up 10% on 2005. Net income adopting IFRS was 755 million euros, an increase of 8% compared to 2005. Return on average capital employed was, at 17%, above industry average. Adjusted operating result (EBIT) reached 667 million euros and adjusted operating cash flow was 958 million euros. Total turnover rose by 10% to 12,210 million euros.

These results are encouraging and reflective of our Company's potential. They have been achieved against a background of high oil prices – including an all-time high of 78.7 Usd/bbl for dated Brent – falling refining margins – 25% from peak levels in 2005 – and shrinking domestic markets – oil products by 6% and natural gas by 4%. These negative effects were, however, more than offset by higher crude production, rising exports of oil products, larger volumes of refined crude and increased trading of natural gas.

Three extraordinary events left their imprint on Galp Energia in 2006: the consolidation of the stable shareholder conditions that had been created in late 2005, the unbundling and subsequent sale to REN of the high-pressure gas assets and the initial public offering and subsequent listing on Euronext Lisbon of 23% of the Company's share capital. This triple achievement was only possible with the untiring commitment of all involved. We are, indeed, proud of the results achieved.

In Exploration & Production we reached a daily production of 9.5 thousand barrels a day, well in line with our growth objectives; in Angola, Blocks 14 and 32 continued to yield excellent results; in Brazil, the emphasis was on the commercial find on Block BM-S-11 and in Portugal, Mozambique and Timor efforts continued to start up offshore exploration activities.

In Refining & Marketing, 14.7 million tonnes of raw material were processed with a refining margin close to 5.4 Usd/bbl. Our crude imports from Northern and Western Africa, Latin America and the Middle East represented about 80% of the total. The sea monobuoy located 3.5 kilometers from the Matosinhos refinery came on stream, thus contributing to heightened reliability and profitability. The projects for improved processes at both refineries were laid out and the efforts to optimize operations and logistics were taken forward. Sales of oil products to Galp clients reached 9.0 million tonnes while we took further steps towards improving service quality on the Galp network, de-commoditising our offer to large clients and restructuring our Spanish operations. In the LPG business, our innovation efforts continued, which was absolutely necessary for consolidating our market share and expanding into new and more sophisticated markets.

The (natural) Gas & (electricity and steam) Power business went through an eventful period. The natural gas business was structurally affected by the sale of the high-pressure assets to REN and the introduction of new legislation for the sector. We now face a transition from a concession regime to a new regulated, competitive environment. The natural gas market continued to grow, except for the electrical sector, with total sales rising by 9% to 4.6 bcm (billion cubic metres), which was partly due to increased trading activity. In the Power business, construction started of the cogeneration unit at Sines and the go-ahead for a similar project at Matosinhos was given. Our wind power bid is under evaluation by the Portuguese government and the combined-cycle plant at Sines goes through the environmental approval process.

Total capital expenditure reached 349 million euros. With earnings calculated at replacement cost and excluding non-recurrent items, the Exploration & Production business represented 7% of EBIT (earnings before income and taxes) while Refining & Marketing and Gas & Power had EBIT shares of 53% and 40% of the total, respectively. The trend towards a more balanced business portfolio is thus contributing to less volatile earnings.

Nothing of what has been said would have been possible without the sheer commitment of all those working at Galp Energia. We face an ambitious growth project which is based on a clear strategy and the support of our reference shareholders. We will promote a client-focused service culture and stimulate the innovation and entrepreneurship of our employees. We are keenly aware that a motivated and ambitious staff will always turn Galp Energia into a reference in each market where we operate.

Implementation of our business plan requires focus, stringency and project management abilities and we have the skills and resources to make it happen. In 2007, the relative weight of the Exploration & Production business in the overall portfolio will increase; we will start up our large projects of conversion and cogeneration in our refineries; we will continue to grow in fuel distribution in the Iberian Peninsula; we will complete the transition process for natural gas from a concession-based to a regulated and competitive business; we will proceed with our efforts to enter the electricity sector under such terms that will allow us to compete and grow.

I wish to express to all members of our governing bodies my acknowledgement of their cooperation and to all colleagues and staff I would like to convey my profound gratification for the privilege of leading a Company like Galp Energia.

To our shareholders I would like to express my sincere thanks for the trust and support extended to me. I can only reciprocate by assuring them of my undivided commitment to the goals we have jointly set out to achieve.

GOVERNING BODIES

Governing bodies of Galp Energia, SGPS, S.A. for the 2005-2007 period are the following:

Board of Directors

Chairman:

Francisco Luís Murteira Nabo

Vice-chairmen:

Manuel Ferreira De Oliveira(1)

Giancarlo Rossi

Directors:

José António Marques Gonçalves(2)

André Freire de Almeida Palmeiro Ribeiro

Fernando Manuel dos Santos Gomes

João Pedro Leitão Pinheiro de Figueiredo Brito

Massimo Giuseppe Rivara(3)

Manuel Domingos Vicente(4)

Joaquim Augusto Nunes de Pina Moura

Camillo Gloria

Diogo Mendonça Rodrigues Tavares

Angelo Taraborrelli

Manuel Carlos Costa da Silva

Marco Alverà(3)

Alberto Alves de Oliveira Pinto(5)

Pedro António do Vadre Castelino e Alvim(5)

Alberto Maria Alberti(5)

Executive Committee

Chairman:

Manuel Ferreira De Oliveira

Vice-chairmen:

Giancarlo Rossi

José António Marques Gonçalves

Directors:

André Freire de Almeida Palmeiro Ribeiro

Fernando Manuel dos Santos Gomes

João Pedro Leitão Pinheiro de Figueiredo Brito

Massimo Giuseppe Rivara

Supervisory Board(6)

Chairman:

Daniel Bessa Fernandes Coelho

Members:

José Gomes Honorato Ferreira

José Maria Rego Ribeiro da Cunha

Deputy member:

Amável Alberto Freixo Calhau

Statutory Auditors(7)

Deloitte & Associados, SROC, S.A., with head office at Edifício Atrium Saldanha, Praça Duque de Saldanha, 1 - 6.º - 1050-094 Lisboa, member No. 43 of the Institute of Statutory Auditors and No. 231 of CMVM, represented by Jorge Carlos Batalha Duarte Catulo, member No. 992 of the referred institute;

Deputy:

Carlos Luís Oliveira de Melo Loureiro, member No. 572 of the Institute of Statutory Auditors.

General Meeting Board

Chairman:

Rui Manuel Parente Chancerelle de Machete(8)

Vice-chairman:

Victor Manuel Pereira Dias

Secretary:

Carlos Manuel Baptista Lobo(8)

Company Secretary

Secretary:

Rui Maria Diniz Mayer

Deputy Secretary:

Maria Helena Claro Goldschmidt

Remuneration Committee(9)

Chairman:

Caixa Geral de Depósitos

represented by António Maldonado Gonelha

Members:

ENI, S.p.A.

represented by Giancarlo Cepollaro

Amorim Energia, B.V.

represented by Comendador Américo Amorim

In the meeting of 20 November 2006, the Board of Directors appointed Manuel Ferreira De Oliveira Chief Executive Officer and, as a consequence, Vice-chairman of the Board of Directors as of January 2007, following the resignation of José António Marques Gonçalves and its appointment as Vice-chairman of the Executive Committee. In the same meeting, Giancarlo Rossi was also appointed Vice-chairman of the Executive Committee.

(1) Appointed in the meeting of the Board of Directors of 12 April 2006, in replacement for Rui Manuel Janes Cartaxo.
(2) At 31 December 2006 José António Marques Gonçalves was Vice-chairman of the Board of Directors and Chief Executive Officer.
(3) Appointed in the meeting of the Board of Directors of 31 May 2006, in replacement for Federico Ermoli and Giorgio Puce.
(4) Appointed in the meeting of the Board of Directors of 19 September 2006, in replacement for José Rodrigues Pereira dos Penedos.
(5) Appointed by the General Shareholders Meeting of 6 September 2006.
(6) The members of the Supervisory Board were elected by a unanimous vote of the shareholders on 5 October 2006.
(7) Elected by the General Shareholders Meeting of 6 September 2006.
(8) Elected by a unanimous vote of the shareholders on 5 September 2006, following the resignation tendered by Pedro Rebelo de Sousa and Luís Miguel Pires Costa.
(9) The reshuffle of the Remuneration Committee was approved by the General Shareholders Meeting of 31 August 2006.

Sónia Silva

3.
MAJOR EVENTS

GALP ENERGIA CONSOLIDATED ITS OWNERSHIP STRUCTURE AND SOLD ITS NATURAL GAS REGULATED ASSETS IN COMPLIANCE WITH THE NEW LEGISLATION FOR THE SECTOR

SIGNIFICANT CORPORATE EVENTS IN 2006

1. OWNERSHIP CHANGES

Amorim Energia, B.V. ("Amorim Energia") acquired in January 2006 from EDP Participações, SGPS, S.A. 23,663,875 shares representing 14.268% of the share capital of Galp Energia, SGPS, S.A. ("Galp Energia", the "Company" or the "Group"). Subsequently, Amorim Energia acquired Portgás' equity holding of 72,905 shares in Galp Energia, thereby becoming the owner of 23,736,780 shares representing 14.312% of the Company's share capital.

On 29 March 2006, Amorim Energia sold to Caixa Geral de Depósitos ("CGD") 8,292,510[(3)] shares representing 1% of Galp Energia's share capital.

In the Annual General Meeting of 29 March 2006, in which Amorim Energia participated for the first time, the changes in Galp Energia's ownership structure and the existence of a shareholder agreement (the "Shareholders' Agreement") signed on 29 December 2005 were disclosed to the other shareholders. The current parties to the Shareholders' Agreement are Amorim Energia, ENI S.p.A ("ENI") and CGD, which together own more than two thirds of the Company's share capital.

On 18 September 2006, REN sold its 18.3% equity stake in Galp Energia to Amorim Energia. Upon Galp Energia's listing, Amorim Energia acquired an additional 1.728% of the Company, thereby raising its equity holding in Galp Energia to 33.34%.

2. CHANGE OF THE ARTICLES OF ASSOCIATION AND GOVERNANCE MODEL

During 2006, the shareholders of Galp Energia approved several changes to the articles of association in order to make the above mentioned Shareholders' Agreement effective, particularly in respect of the governing bodies' decision-making powers. The purpose was to create stable governance rules in line with the market's best practice prior to the Company's IPO and in compliance with the new rules of the Companies Act as provided for in Decree Law No. 72-A/2006 of 29 March 2006.

Prior to the IPO, the nominal value of the Company's shares was changed from five euros to one euro through the substitution of five new shares for each old share, with the Company's share capital remaining unchanged.

(3) Number of shares after the 1:5 stock split.

Following the recommendations of the securities market regulator ("CMVM"), and as a preparation for the IPO, the General Shareholder Meeting of 28 September 2006 altered the Company's governance model, whereby the Audit Committee was replaced by a Supervisory Board and a firm of Statutory Auditors, with the latter barred from being a member of the Supervisory Board.

From 1 June 2006, the Company has a new organisational structure with six Business Units: (i) Exploration & Production ("E&P"), (ii) Refining, Supply and Logistics ("RSL"), (iii) Distribution Oil, (iv) International Oil, (v) Natural Gas and (vi) Power.

3. SALE OF THE NATURAL GAS REGULATED ASSETS TO REN – THE UNBUNDLING PROCESS

Upon a proposal by the Board of Directors, the General Shareholder Meeting of 30 June 2006 unanimously approved the unbundling process consisting of the transfer of title to REN of the regulated natural gas assets comprising the high-pressure natural gas transportation network, the natural gas underground storage facilities and the natural gas regasification terminal at Sines (collectively referred to as the "Natural Gas Regulated Assets").

The sale became effective by public deed of 26 September 2006.

4. INITIAL PUBLIC OFFERING OF GALP ENERGIA'S SHARES

In 2006 the following legislation was passed regarding the fourth stage of Galp Energia's reprivatisation:

- Decree Law No. 166/2006 of 14 August 2006, approving the fourth stage of the reprivatisation of Galp Energia, SGPS, S.A.;
- Resolution of the Council of Ministers No. 111/2006 of 12 September 2006 setting the terms for the fourth stage of Galp Energia's privatisation, namely regarding the criteria and mode of determination of the selling prices, the number of shares

to be sold through the several tranches of the public offering and the identification of the financial institutions selected for buying shares in a direct sale;

- Resolution of the Council of Ministers No. 131/2006 of 13 of October setting additional terms for the offering namely those relating to the acquisition of shares by Galp Energia employees, small subscribers and emigrants.

On 23 October 2006, in a special session of Euronext Lisbon, Parpública, SGPS, S.A. ("Parpública"), a holding company wholly owned by the Portuguese state, sold a total of 190,727,646 shares in the following tranches:

- 82,925,000 shares offered to the public, including 58,047,000 shares offered to Galp Energia's employees and other small subscribers at a 5% discount off the final price;
- 107,802,646 shares privately placed with institutional investors.

On 24 October 2006, the offering process was finalised as the company's shares started trading on the Eurolist by Euronext Lisbon.

On 30 October 2006, Galp Energia share became a component of the PSI-20, the Portuguese market's main stock index.

5. CONVERSION PROJECT AND REFINERIES OPTIMIZATION

On 23 January 2007, the Board of Directors approved the conversion project and processes optimization of Sines and Oporto refineries for the purpose of raising diesel production by 2.5 million tonnes and reducing the production of fuel oil. The increase in diesel production is meant to respond to rising demand in the Iberian market and to take advantage of the spread between diesel and fuel oil prices in international markets. These investments will also make it possible to process heavier crude.

6. COGENERATION PROJECTS AT THE SINES AND OPORTO REFINERIES

In August 2006, the project for cogeneration at the Sines refinery started to be executed with the award to CME – Construção e Manutenção Electromecânica, S.A. of a contract for the engineering, procurement and construction ("EPC") of a cogeneration plant with two 41 MW gas turbines and two heat-recycling steam generators with a production capacity of 250 tonnes of steam per hour.

At the end of 2006, a decision was made to invest in a 2x41 MW cogeneration plant at the Oporto refinery for the purpose of covering current and future steam and electric power needs for this industrial complex. The required environmental licences are currently under preparation.

7. THE CCGT PROJECT AND RENEWABLE ENERGY

In 2006, a connection point to the Sines grid was granted to Galp Energia for the construction of a 2x400 MW combined cycle gas turbine plant ("CCGT").

After its Ventinveste consortium came second in Phase A, the Company submitted a reformulated bid for Phase B of the wind power tender launched by the Ecomony Ministry and General Directorate of Geology and Energy ("DGGE") in 2005. The bid is currently under evaluation.

SIGNIFICANT EVENTS IN THE POWER SECTOR IN 2006

1. RESTRUCTURING OF THE POWER SECTOR

The new energy strategy approved by the government in October 2005 (Resolution of the Council of Ministers No. 169/2005 of 24 October 2005) gave rise to the publication, on 15 February 2006, of the following government decrees:

- Decree Law No. 29/2006 that lays down the general principles for the organisation and operation of the national electricity system, Sistema Eléctrico Nacional ("SEN");
- Decree Law No. 30/2006 that lays down the general principles for the organisation and operation of the national natural gas system, Sistema Nacional de Gás Natural ("SNGN");
- Decree Law No. 31/2006 that lays down the general principles for the organisation and operation of the national oil system, Sistema Petrolífero Nacional ("SPN").

These three pieces of legislation have transposed to Portuguese law the principles contained in EU Directives No. 2003/54/CE and 2003/55/CE of 26 June 2003 laying down common rules for the internal electricity and natural gas markets, respectively.

2. NEW LEGAL FRAMEWORK FOR THE NATURAL GAS SECTOR

The principles and the general foundations for the set-up and workings of the SNGN which were approved by government decree, Decree Law No. 30/2006 of 15 February, were further expanded by government Decree Law No. 140/2006 of 26 July 2006 which mandates that each and every activity the natural gas system comprises – the reception, storage and regasification of liquefied natural gas ("LNG") as well as the underground storage, transportation and distribution of natural gas – should require a concession of public service.

In its Resolutions Nos. 105, 106, 107, 108 and 109 of 23 August 2006, the Cabinet approved the following draft agreements:

- Agreement for the concession of public service for the transportation of natural gas over the high-pressure network, to be signed on 26 September 2006 between the Portuguese state and REN Gasodutos, S.A.;
- Agreement for the concession of public service for the reception, storage and regasification at Sines' LNG terminal, to be signed on 26 September 2006 between the Portuguese State and REN Atlântico, Terminal de GNL, S.A.;
- Agreement for the concession of public service for the underground storage of natural gas in three cavities located at Guarda Norte, Carriço, outside Pombal, to be signed on 26 September 2006 between the Portuguese State and REN Armazenagem, S.A.;
- Agreement for the concession of public service for the underground storage of natural gas at Guarda Norte, Carriço, outside Pombal, to be signed on 26 September 2006 between the Portuguese State and Transgás Armazenagem, S.A., relating to the storage cavities the latter currently has or may build in the future;
- Agreement that changed the concession contract in force since 14 October 1993 between the Portuguese state and Transgás - Sociedade Portuguesa de Gás Natural, S.A. This new agreement sets out which activities the company has kept or acquired, directly or indirectly, under concession or licence, as well as the obligations and duties agreed between the state and the company to wind down the concession. Like the other agreements, this agreement was signed on 26 September 2006.

3. REGULATION OF THE NATURAL GAS SECTOR

According to a decision (Ministerial order No.19 624-A/2006 of 11 September 2006) by the energy regulator, Entidade Reguladora dos Serviços Energéticos ("ERSE"), the following regulations for the natural gas sector were approved in 2006:

- Tariff regulation;
- Commercial relationships regulation;
- Network, infrastructure and interconnection access regulation;
- Service quality regulation.

The regulation for infrastructure operation is yet to be approved by ERSE.

Évora Autonomous Gas Unit

4. NEW LEGAL FRAMEWORK FOR THE ELECTRICAL POWER SECTOR

Expanding and specifying the principles contained in Decree Law No. 29/2006 of 15 February establishing SEN's foundations and workings, Decree Law No. 172/2006 of 23 August 2006 set out the new legal regime for the production, transportation, distribution and marketing of electricity as well as the organisation of electricity markets, laying down the procedures for the award of licences for ordinary production and the marketing of electricity. This government decree provided also for a transition regime regarding the application for reception points or licences prior to its coming into force, also establishing the award of the concession for the national grid for electricity transportation and the concessions for the distribution of high, medium and low voltage electricity.

The following activities fall outside the scope of the decree: special-purpose electricity production, cogeneration and renewable energies as well as distribution and marketing situations that are covered by specific legislation, namely in ports, airports, camping parks, railways and similar facilities.

5. BIOFUELS

In 2006, Decree Law No. 62/2006 of 21 March 2006 transposed to the national legal system the EU Directive promoting the use in transportation of biofuels or other renewable fuels.

Sandra Pacheco

4. CORPORATE STRUCTURE AND GOVERNANCE MODEL

CHANGES WERE BROUGHT IN TO GALP ENERGIA'S GOVERNANCE IN ORDER TO ENHANCE THE INTERESTS AND RIGHTS OF ALL SHAREHOLDERS

CORPORATE STRUCTURE AND GOVERNANCE MODEL

Galp Energia endeavours to adopt such governance practices that will create transparent relations with both investors and markets while safeguarding the interests and rights of all shareholders. Consequently, the Company complies with most of CMVM's recommendations on corporate governance.

Since its listing on 23 October 2006, Galp Energia has strengthened its commitment to governance issues, refining its organisation model for better governance and supervision and ensuring total transparency of the decision-making process for all shareholders.

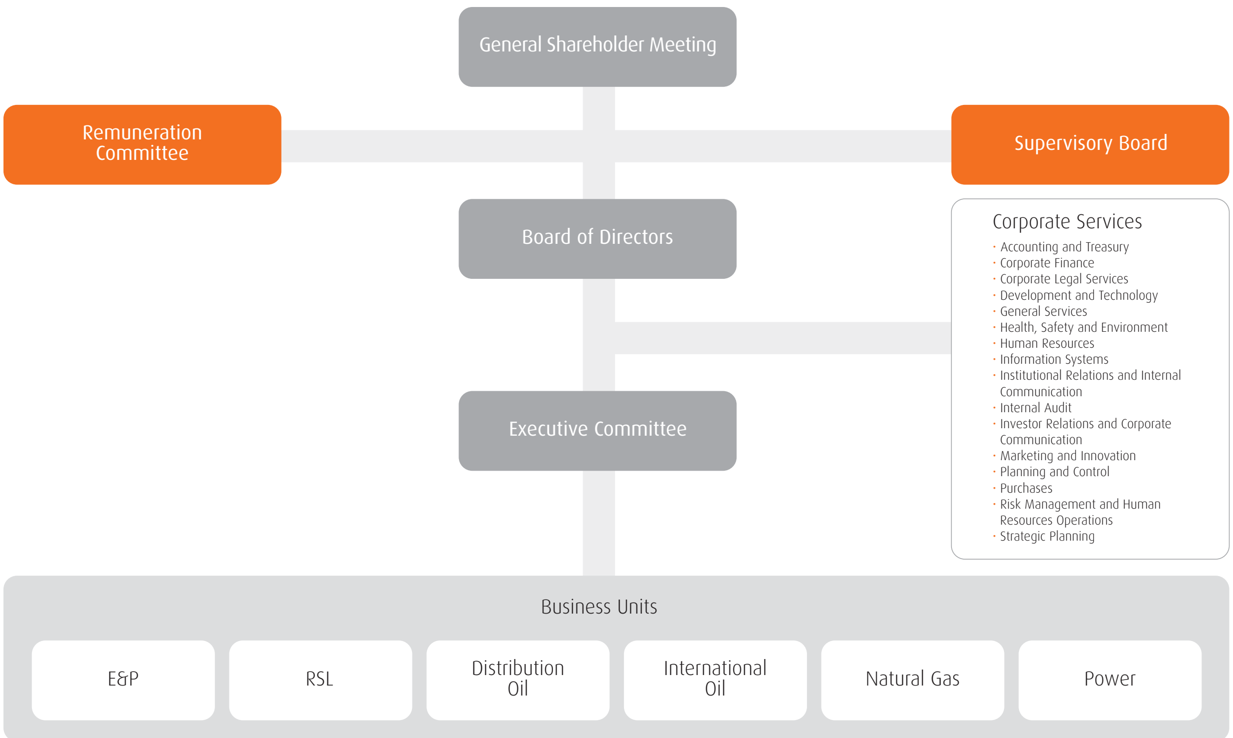
An instance of this posture was the change of the Company's articles of association in order to make them compliant with the recent update of the Companies Code and suited to a Company whose shares are offered for sale to the public.

The Shareholders' Agreement signed between Galp Energia shareholders on 29 December 2005 whose current parties are Amorim Energia, ENI and CGD, covers among other things the composition of the Company's governing bodies and the resolutions of its Board of Directors.

Galp Energia's governance model aims at transparency and effectiveness and focus on the clear separation of powers between the Board of Directors' supervisory powers covering control, strategy and relations between shareholders and other governing bodies, and the Executive Committee's operational brief covering the day-to-day management of corporate affairs. The Company is audited by a Supervisory Board and a firm of Statutory Auditors.

The current management model consists of six Business Units and 17 corporate services, each under the leadership and guidance of an executive director. The model is based on the principles of a flat organisation where flexibility, simplicity, effectiveness and delegation are the norm and whose purpose is to create value through synergies within and between Business Units.

CORPORATE STRUCTURE OF GALP ENERGIA



Galp Energia's financial information is reported both in consolidated terms and, following market best practice, separately for its three business segments: Exploration & Production ("E&P"), Refining & Marketing ("R&M") and Gas & Power ("G&P").

The following table illustrates the correspondence between Business Units and business segments:

MATRIX OF BUSINESS SEGMENTS – BUSINESS UNITS

		BUSINESS UNITS					
		E&P	RSL	Distribution Oil	International Oil	Natural Gas	Power
Business segments	E&P	X					
	R&M		X	X	X		
	G&P					X	X

Galp Energia has adopted a communication policy that aims to provide the market with all relevant information for a well-founded judgement about the operations and results of the Company as well as its growth prospects, profitability and risks.

To this end, Galp Energia follows high standards of transparency and consistency, namely by using the same criteria in preparing the information, or by explaining the reasons why the criteria have changed, in order to ensure that the reported information can be compared across different periods.

As an issuer of securities, Galp Energia is committed to continually appraising governance practice as well as improving communications for the achievement of ever better relations with both investors and markets.

BUSINESS STRUCTURE

Galp Energia, SGPS, S.A.

- **GDP, SGPS (100%)** – Management of equity participations
  - **GDP DISTRIBUIÇÃO, SGPS, S.A. (100%)** – Management of equity participations
    - Galp Gás Natural (100%) – Sourcing and commercialization of natural gas
    - Transgás Armazenagem (100%) – Natural gas underground storage
    - Transgás (100%) – Natural gas last resort supply
    - EMPL (27,4%) – High pressure natural gas transportation
    - Metragaz (26,99%) – High pressure natural gas transportation
    - Gasoducto Al Andaluz (33,04%) – Pipelines exploration and operation
    - Gasoducto Extremadura (49%) – Pipelines exploration and operation
    - Lisboagás (100%) – Natural gas distribution
    - Lusitaniagás (85,038%) – Natural gas distribution
    - Setgás (45,008%) – Natural gas distribution
    - Beiragás (59,04%) – Natural gas distribution
    - Tagusgás (41,27%) – Natural gas distribution
    - Duriensegás (100%) – Natural gas distribution
    - Paxgás (100%) – Natural gas distribution
    - Dianagás (100%) – Natural gas distribution
    - Medigás (100%) – Natural gas distribution
    - Gásfomento (20%) – Installation of natural gas equipments
  - **Driftal (100%)** – Plastic manufacturer
- **Petrogal (100%)** – Refining, supply, distribution and commercialization of oil products
  - PTL (100%) – Crude oil and oil products trading
  - Sacor Marítima (100%) – Marine transportation
    - Sacor Marítima Internacional (100%) – Marine transportation
    - Gasmar (100%) – Marine transportation
    - Tripul (100%) – Technical management of ships, crew and supplies
  - CLT (100%) – Exploration of marine terminals
  - Blue Flag Navegation (100%) – Marine transportation
  - CLC (65%) – Exploration of oil products storage facilities
  - Sigás (60%) – LPG underground storage
  - Eival (100%) – Commercialization of gas fuel
  - ASA (50%) – Aircraft fuel services
  - Probigalp (50%) – Supply and commercialization of bitumen products
  - Galpgeste (100%) – Management and operation of service stations
  - Tanquisado (100%) – Exploration of marine terminals
  - Caiageste (50%) – Management and operation of service stations
  - Sopor (51%) – Distribution and commercialization of oil products
  - Sempre a Postos (75%) – Retail of non fuel products
  - Fast Access (66,66%) – Services rendering related with information systems and electronic commerce
  - Brisa Access (7,5%) – Services rendering related with car vehicles assistance
  - Combustíveis Líquidos (99,8%) – Commercialization of oil roducts
  - Galp Serviexpress (100%) – Distribution and commercialization of oil products
  - Galp Madeira (100%) – Distribution and commercialization of oil products
    - CLCM (75%) – Exploration of oil products storage facilities
    - Gasinsular (100%) – Distribution and commercialization of oil products

Note: After the closing of the 2006 financial year, the corporate structure changed as follows: (i) Número 1, Reparação de Automóveis, Lda. was sold in January 2007, (ii) Transgás, S.A. was renamed Galp Gás Natural, S.A. in February 2007, (iii) Transgás Indústria, S.A. was renamed Transgás, S.A. in February 2007 and (iv) Portcogeração, S.A. was created in March 2007.


Petrogal (100%)
Refining, supply, distribution and commercialization of oil products
Galp Power, SGPS (100%)
Management of equity participations
Galp Energia, S.A. (100%)
Business management and consultancy services
Galp Açores (100%)
Distribution and commercialization of oil products
Saaga (67,65%)
Exploration of oil products storage facilities
Terparque (23,5%)
Exploration of oil products storage facilities
Galp Energia España (100%)
Distribution and commercialization of oil products
Galpgest (100%)
Management and operation of service stations
Compañia Logistica de Gas (100%)
Storage and distribution of oil products
CLH (5%)
Transportation and storage of oil products
Ptroval (100%)
Storage and distribution of oil products
Galp Serviexpress, S.L.U. (100%)
Distribution and commercialization of oil products
Petrogal Guiné-Bissau (100%)
Distribution and commercialization of oil products
CLC Guiné-Bissau (45%)
Exploration of oil products storage facilities
Petrogás Guiné-Bissau (65%)
Import, storage and distribution of LPG
Petromar (80%)
Commercialization of marine bunkers
ASB (50%)
Aircraft fuel services
Petrogal Moçambique (100%)
Distribution and commercialization of oil products
Imopetro (15,38%)
Oil products procurement services
Petrogal Angola (100%)
Distribution and commercialization of oil products
Sonangalp (49%)
Distribution and commercialization of oil products
Fina (0,44%)
Storage and distribution of oil products
Petrogal Cabo Verde (100%)
Distribution and commercialization of oil products
Enacol (32,5%)
Distribution and commercialization of oil products
Galp Exploração (100%)
Prospecting, appraisal, exploration, production and commercialization of hydrocarbons
Gite (24%)
Prospecting, appraisal, exploration, production and commercialization of hydrocarbons
Galp E&P Serviços Brasil (95%)
Business management and consultancy services
Petrogal Brasil (100%)
Prospecting, appraisal, exploration, production and commercialization of hydrocarbons
Soturis (100%)
Real state activities
Tagus RE (100%)
Reinsurance operations
Porten (100%)
Production and commercialization of thermal and electrical power
Energin (35%)
Production and commercialization of thermal and electrical power
Carriço Cogeração (65%)
Production and commercialization of thermal and electrical power
Powercer (70%)
Production and commercialization of thermal and electrical power
Sinecogeração (100%)
Production and commercialization of thermal and electrical power
Ecogen (35%)
Commercialization of electrical production equipments
Portcogeração (100%)
Production and commercialization of thermal and electrical power
Exploration & Production
Refining & Marketing
Gas & Power
Corporate and others

Mário Carriço, Ana Santos Costa and João Paulo Lopes

5.
GALP ENERGIA PERFORMANCE IN 2006

EXPLORATION & PRODUCTION AND GAS & POWER CONFIRMED THEIR GROWTH PATTERN. REFINING & MARKETING WAS STABLE IN SPITE OF ADVERSE MARKET CONDITIONS

5.1. MARKET ENVIRONMENT

At the end of 2006, the dated Brent was close to the levels of one year earlier. However, average prices in the year were about 20% higher than in 2005. The rise in dated Brent started after the first quarter and peaked at an all-time high of 78.7 Usd/bbl, driven by political tensions, particularly the Israeli--Lebanese conflict and international pressure on Iran.

With tensions easing and United States ("US") and European crude inventories rising after August, the Brent fell to close to 60 Usd/bbl at the end of the third quarter.

In the last quarter of the year, with demand falling short of expectations because of above-average temperatures, inventories rose and the Brent came under renewed pressure declining further to 55 Usd/bbl. With OPEC's announcement of new production cuts in mid-November, the Brent picked up to 65 Usd/bbl only to fall back to close to 60 Usd/bbl as a result of continued low demand and consequently high inventories of both crude and refined products.

Benchmark refining margins were in 2006 lower than in 2005 but still above the average for the last few years. The benchmark cracking margin behaved in 2006 similarly to the trend in preceding years, although at levels that were lower than in 2005. The margin rose, in particular, with the rising demand for gasoline at the start of the US driving season, which led to an increase in the spread over the Brent. After the end of the US driving season in August, the higher inventories of gasoline, which were built up in anticipation of a hurricane wave that did not materialise, prompted a fall in the benchmark cracking margin which declined further in the last quarter and particularly in December, with the rise in the price of crude.

The market for middle distillates was, in 2006, less volatile than the gasoline market. However, the effect of higher temperatures in the last months of the year and the consequently lower demand for heating oil prompted a fall in heating oil crack spreads, which came to affect other middle distillates products.

The Katrina and Rita hurricanes in 2005 were the main reason for the gap in cracking margins between 2005 and 2006, as they affected available refining capacity significantly in 2005.

In Portugal, gasoline and diesel markets kept their falling trend and contracted about 3.7% as a result of lower consumer expenditure and historically high oil product prices. However, conditions showed signs of improvement in the last months of the year with the pickup in economic activity. In Spain, gasoline and diesel markets expanded 2.1% in comparison with 2005.

In 2006, weather conditions were substantially different from those observed in earlier years. The year was Portugal's fifth warmest while average minimum temperatures were the highest since 1931. The three-month autumn period was the third warmest in 76 years. The period between August and November was also considered by the official weather service, Instituto de Meteorologia, as extremely rainy. These two effects had a significant impact on the demand for energy products such as natural gas, mostly used for power generation. In the last quarter of 2006, consumption of natural gas fell by 23% compared to the same period in 2005. In annual terms, the decrease was 4%.

5.2. EXPLORATION & PRODUCTION

DAILY PRODUCTION[1] 9.5 KBBL/DAY	2.9 MILLION BARRELS SOLD IN 2006	ROA IMPROVEMENT BY 3.8 P.P TO 10.4%

- Operational performance improved due to a double effect: a 60% increase in sold volumes by 1.1 million barrels and a rise in the average sale price by 16 Usd/bbl;
- Operating result increased 2.5 times, from 18 million to 45 million euros, and represents now 7% of the Galp Energia total;
- New oil discoveries in Angola's Block 32 and in Brazil's Block BM-S-11 and new partnerships for the exploration of new geographical areas.

(1) Working production

The Exploration & Production business segment supervises and executes all operations relating to the exploration, development and production of hydrocarbons. It is also part of its brief to identify, analyse and promote new opportunities and projects.

At the end of 2006, Galp Energia's upstream portfolio consisted of participations in six Angolan blocks, where the current production is located, as well as participations in 54 Brazilian blocks, 30 of which from the seventh bidding round in 2005, in a partnership with Petrobas, the local operator.

From 1 February 2007, this portfolio expanded to 63 blocks after the Portuguese government awarded the concession of three offshore blocks near Alentejo's coast to the consortium where Galp Energia has a 10% stake.

» ANGOLA

In 2006, the working production was 9.5 thousand barrels a day, up 88% on the five thousand daily barrels produced in 2005. The whole production came from Block 14 covering an area of four thousand square kilometers of deep and ultra-deep waters.

				CHANGE	
	UNIT	2005	2006	ABS.	%
Average working production[1]	kbbl/dia	5.0	9.5	4.4	88
Average equity production[2]	kbbl/dia	4.3	7.2	3.0	70
Total equity production					
Kuito	Million bbl	1.6	0.8	(0.7)	(46)
BBLT	Million bbl	-	1.7	1.7	-
TL	Million bbl	-	0.1	0.1	-
Total Block 14	**Million bbl**	**1.6**	**2.6**	**1.1**	**70**

(1) Corresponding to Galp Energia Share.
(2) Production available for sale after deducting concessionary production rights.

Total production available for sale, after the concession holder's production rights, was 2.6 million barrels representing a 1.1 million barrels, or 70%, increase compared to 2005. This increase is explained by two new fields - Benguela-Belize-Lobito-Tomboco ("BBLT") and Tombua-Lândana ("TL") - coming into operation, which more than offset the shortfall at Kuito resulting from lower production rights as provided for in the Production Sharing Agreement ("PSA") and the natural decline of the field.

Phase 1 of the BBLT field started production in January 2006 generating most of the production increase in the year. The TL field's first well started production in June benefiting from its relative proximity to the BBLT platform.

As for new findings in Angola, Block 32 yielded four new, confirmed findings of commercial interest. All findings are located northwest of Luanda, some 170 to 180 kilometers off the coast, in an area that has proved be of high potential and one of the most promising on the Angolan offshore. At the end of the year, two additional exploration wells were in progress.

Abandonment proceeded at Block 1 and is expected to be concluded in 2007. Although the Cabinda Centro block remained in a force majeure situation due to political instability and military action in the zone, field work is expected to start in 2007.

According to an analysis by Gaffney, Cline & Associates, Ltd, Block 14's net entitlement reserves at 31 December 2006, assuming a price scenario of 65 Usd/bbl, were the following:

Proven reserves	35.7 million barrels
Proven + probable reserves	50.4 million barrels

» BRAZIL

In Brazil, Galp Energia has, through a partnership with Petrobras, participations in 54 blocks, of which 44 are onshore and 10 in deep water.

The onshore participations, which were acquired in the sixth and seventh bidding rounds, are operated by Galp Energia and Petrobras, on a 50/50 partnership whereby Galp Energia operates 29 blocks and Petrobras the other 15. The blocks are spread out over the Potiguar, Sergipe-Alagoas and Espírito Santo basins.

Out of the 10 deep-water blocks, five are on the Potiguar basin, one is on the Espírito Santo basin and four are on the Santos basin. Galp Energia has 20% participations in the blocks except for BM-S-8 and BM-S-11, where it has a 14% and 10% participation, respectively. All these blocks are operated by Petrobras.

The outstanding event in 2006 was the TUPI well discovery on Block BM-S-11, located in the deep-water of Santos basin. The discovery is estimated to have an oil-in-place volume of between 1.7 and 10 billion barrels.

On the other blocks, acquisition, processing and seismic interpretation work proceeded and a number of prospects were selected for drilling in 2007.

BBLT Platform

» PORTUGAL

In Portugal, Galp Energia has a 10% participation in the consortium that signed in 2007 a concession agreement with the Portuguese state for the exploration rights on three offshore blocks near Alentejo's coast. The other participants in the consortium are Hardman Resources, Ltd, the operator with 80%, and Partex Oil and Gas Corporation, with 10%.

» BUSINESS SEGMENT PERFORMANCE

EXPLORATION & PRODUCTION

	UNIT	2005	2006	%
Turnover	Million €	67	141	111
Operating result	Million €	18	45	148
Adjusted operating result	Million €	18	45	148
Adjusted ROA[(1)]	%	6.6	10.4	3.8 p.p.
Average realized sale price	Usd/bbl	45	61	34
Average working production	kbbl/day	5.0	9.5	88
Average equity production	kbbl/day	4.3	7.2	67
Total sales	Million bbl	1.8	2.9	60

(1) Adjusted operating result/total adjusted consolidated assets. Note: see Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

In 2006, turnover in the Exploration & Production business segment increased by 111% to 141 million euros. Operating result was 45 million euros, a 148% improvement on the 18 million euros for 2005.

Sales in the segment were achieved at an average price of 61 Usd/bbl, which was 16 Usd/bbl higher than in 2005. Sold volumes attained 2.9 million barrels, up 1.1 million barrels, or 60%, on 2005.

The positive impact of higher volumes sold at higher prices was partially offset by:

- Cost increases resulting from higher volumes, the most important of which in taxes on oil revenues ("IRP"), and the increase in production costs in line with production increases;

- The increase in non-cash items, particularly in depreciation charges relating to the BBLT field's start of operations, the provisions built for the possible event of additional IRP payments in Angola in respect of Block 14 and the provisions for abandonment costs on Blocks 1 and 14.

» OUTLOOK FOR 2007

In 2007, the Exploration & Production business segment will focus its priorities on Angola for the purpose of increasing working production on Block 14, proceeding with construction of the TL field platform and planning development of Block 32, where additional exploration wells will be drilled. In Brazil, the priority is to drill an appraisal well on Block BM-S-11 in order to assess the extent of the TUPI discovery. In addition, Galp Energia will, for the first time, in its capacity as operator, drill exploration wells on the onshore blocks of Potiguar, Sergipe-Alagoas and Espírito Santo.

5.3. REFINING & MARKETING

SALES OF OIL PRODUCTS: 16.2 MILLION TONNES	GALP ENERGIA REFINING MARGIN: 5.4 USD/BBL	OPERATING RESULT (1): 358 MILLION EUROS (+6%)

- 3% increase in raw materials processed to 14.7 million tonnes and 2% increase in oil product sales to 16.2 million tonnes, of which 9 million tonnes to Galp Energia's direct clients;
- Fall of 1.8 Usd/bbl in refining margin, compared to 2005, although the spread to the Rotterdam international benchmark is still positive – 2.2 Usd/bbl;
- ROA unchanged at 10% reflecting the improvement in the operating result and the reduction in non-operating assets.

(1) Adjusted result. See Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

The Refining & Marketing business segment covers refining operations, supply and logistics as well as the retail and wholesale marketing of refined products in the Iberian area. In Portugal, Galp Energia is the sole refiner with a processing capacity of 310 thousand barrels per day split between two refineries, in Sines and Oporto, and the largest marketer of oil products with a network of 1,045 stations and 204 convenience stores.

Sines refinery

» REFINING

Raw materials processed increased by 0.5 million tonnes to 14.7 million tonnes, with the Sines refinery reaching an all-time high when it processed an additional 0.4 million tonnes.

MILLION ton

	2005	2006	%
Raw materials processed	**14.3**	**14.7**	**3**
Refined products	13.1	13.7	4
Imports	2.7	2.4	(12)
Change in inventories	0.1	0.1	27
Available products	**15.9**	**16.2**	**2**
Competitors	4.2	4.1	(3)
Clients	9.4	9.0	(4)
Exports	2.3	3.1	35
Volumes sold	**15.9**	**16.2**	**2**

Middle distillates and gasoline represented 69% of total refined products, being their individual contribution, 44% and 25%, respectively.

One important event affecting refining operations was the start of operations of a monobuoy infrastructure. With this asset coming into operation, increased flexibility was achieved in the handling of crude and the frequency and size of unloading operations by the use of 135 thousand tonnes, 17 metre draught vessels.

The use of the monobuoy asset allowed also a more stable delivery flow, otherwise disrupted by bad weather, thereby reducing demurage costs, providing the Oporto refinery with new crude mix opportunities and generating efficiency gains.

The origin of crude imports shifted during the year with a larger share for Latin America and the Middle East to the detriment of African countries.

	2005	2006	CHANGE
North Africa	28%	21%	(7.0)
Western Africa	25%	19%	(6.3)
Latin America	10%	18%	8.1
Middle East	19%	22%	3.8
Other origins	18%	20%	1.4

In terms of logistics, Companhia Logística de Combustíveis da Madeira, S.A. ("CLCM") achieved a significant breakthrough with its new terminal allowing the supply of fuel by ship to such clients as Empresa de Electricidade da Madeira ("EEM")'s electrical power plant.

New investments in Companhia Logística de Combustíveis, S.A. ("CLC") focused on the increase in storage capacity enabling the Company to fulfil its strategic reserve commitments.

As for the safety of operations, the Sines refinery achieved a new record of accident-free 472 days without a breakdown. This result reflected the prevention policy in force at the refinery and the strict compliance with the Company's safety standards.

In early 2007, a new Master Plan for the refining system in line with the formulated strategy for the segment was approved. This strategic management instrument laid out the design of the Company's refineries for the coming years as well as their future development towards an increased production of diesel.

A major investment set out in the Plan relates to the conversion unit aimed at increasing the production of diesel by 2.5 million tonnes by 2011 and reducing the production of fuel oil by 1 million tonnes, thereby responding to demand trends in the Iberian market, namely the increased penetration of the car park by diesel-driven vehicles. This investment will also allow the Company to benefit from the price gap between diesel and fuel oil in international markets.

The Plan includes also a cogeneration plant at the Oporto refinery, similar to the project started at the Sines refinery in 2006. The purpose of these plants is to cover the steam and electrical power needs of the refining system. At Sines, the permits for the connection to the national grid were obtained in 2006.

» MARKETING

The volume of the Company's marketing operations increased in the year by 2% to 16.2 million tonnes. While the domestic market slumped by 6% - with gasoline falling by 7% and diesel by 3% - exports, mainly to the demanding US gasoline market, increased by 35% to 3.1 million tonnes.

In Spain, priority was given to the profitability of operations and the growth in traded volumes across business lines. In order to achieve this goal, the service station network was streamlined and operating costs reduced. The implementation of SAP as the new IT infrastructure supporting the Spanish operation generated significant gains in process efficiency and the achievement of synergies with the domestic business.

Domestic retail operations were impacted by depressed market conditions. Despite this unfavourable environment, Galp Energia extended its offer of Gforce premium fuels to 86% of the domestic service station network and strengthened its partnerships, in particular the Vice versa campaign with Sonae offering mutual discounts to both companies' clients. At the same time, network costs were trimmed down which led to higher efficiency levels. Besides the extended offer of fuels, there was a higher penetration of new means of payment at service stations, namely Via Verde, Ticket and Pay & Go.

The domestic liquefied petroleum gas ("LPG") business sharpened its focus on innovation and new product launches as a way of creating value. In this context, the new household heater Hotspot, with higher standards of safety, energy efficiency and visual appeal, was launched. In order to make up for the demand shortfall in traditional LPG markets, the business took steps to revitalise non-traditional segments such as the automotive market. The piped propane business showed continued growth and is now one of the main growth areas in LPG.

Service Station on Salvaterra de Magos at A13

In the wholesale area, in particular the transportation business, the Company focused its efforts on de-commoditising its products and services. In the Serviexpress/Partnership business the emphasis was placed on customised distribution with integrated multi-product solutions and the use of the co-branded product concept within a framework of brand sharing with stations complementary to Galp Energia's own network. The Company's presence in the household market was strengthened through the increased offer of heating oil.

In the Specialities business, conditions in the aviation sector remained extremely competitive. The Company continued execution of its expansion plan to cover all domestic airports with a fuel supply system. In this context, the Company started to supply the Santa Maria airport, while licences to operate on João Paulo II airport, also in the Azores Island, were obtained, with the first supply contracts becoming effective in January 2007.

The marine business achieved a new sales record surpassing for the first time the one million tonnes sold. This performance was due to the competitive terms offered to key Southern European ports and the participation in the growing sea trade handled by the main domestic ports. The support of the Company's refineries and the investments in business-specific logistics were instrumental in this good performance.

In the construction business, where demand fell sharply, Galp Energia launched new, customised and environmentally friendly products, particularly the new range of bitumen modified by used-tyre rubber. In the lubricant business, the slump in the domestic market was offset by exports to markets that showed strong growth.

In addition to Spain, the Company's international marketing operations include the sale of liquid fuels, gas and lubricants in the African market, namely Angola, Cape Verde, Mozambique and Guinea-Bissau.

REFINING & MARKETING

	UNIT	2005	2006	%
Turnover	Million €	10,030	10,838	8
Operating result	Million €	602	368	(39)
Adjusted operating result	Million €	338	358	6
Adjusted ROA(1)	%	9.6	10.2	0.6 p.p.
Net fixed assets	Million €	1,247	1,158	(7)
Galp Energia refining margin	Usd/bbl	7.2	5.4	(26)
Raw materials processed	Million ton	14.3	14.7	3
Total refined products sales	Million ton	15.9	16.2	2

(1) Adjusted operating result/total adjusted consolidated assets. Note: see Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

Operating result declined to 368 million euros in 2006, 39% down on 2005. This fall is explained by the strong inventory effect in 2005 as the FIFO method of determining the cost of goods sold impacted the operating result unfavourably in a scenario of sharply rising prices of crude and oil products in international markets.

Excluding both this effect and non-recurrent events, operating result rose by 6% in 2006, from 338 to 358 million euros, primarily due to higher utilisation of the refining system, better results in trading, a 35% increase in exports and reductions in variable costs resulting from lower domestic activity in storage, refill and transportation of goods.

These effects were particularly important in a year with two adverse exogenous effects: the reduction in Galp Energia refining margin by 1.8 Usd/bbl to 5.4 Usd/bbl and the 6% contraction of the domestic market.

» OUTLOOK FOR 2007

The topmost priorities for 2007 in the Refining & Marketing business segment are the start-up of the conversion project and the process improvements in the refineries.

In refining, a turnaround of the Oporto refinery for maintenance has been planned for the third quarter of the year.

In marketing, the focus will be on streamlining the service station network, raising convenience stores profitability and consolidating the Company's leading market position in Portugal.

5.4. GAS & POWER

ALL-TIME HIGH OF NATURAL GAS SALES: 4.6 MILLION m^3	790 THOUSAND CLIENTS OF NATURAL GAS	OPERATING RESULT[1]: 266 MILLION EUROS (+18%)

- The sale of the Natural Gas Regulated Assets had a favourable impact of 220 million euros on net income;
- All-time high of sales to industrial clients of 1.5 million cubic meters and 0.7 million cubic meters sold in trading operations;
- 4% increase to 498 million cubic meters in natural gas volumes sold through the distribution business;
- Increase in power generated to 1,561 GWh.

(1) Adjusted operating result/total adjusted consolidated assets. Note: see Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

The Gas & Power business segment is charged with the sourcing, commercialisation and distribution of natural gas as well as the production of thermal and electric energy for distribution to industrial clients. Its main assets are a 9,014 kilometers network for the distribution of natural gas and a portfolio of approximately 790 thousand clients.

Following the government decisions for the energy sector (Resolution of the Council of Ministers No. 169/2005 of 24 October 2005 and Decree Law No. 140/2006 of 26 July 2006), Galp Energia sold on 26 September 2006 to REN the Natural Gas Regulated Assets.

In order to adapt to a new reality and a new business model, Galp Energia redeployed its natural gas and power businesses by merging the Galp Transgás and Galp Gás business units, excluding LPG business, and the Galp Power business area, which had been operating separately.

New legislation (Decree Law No. 140/2006 of 26 July 2006) set out the terms for Galp Gás Natural's operations, keeping within its brief the long-term supply contracts and awarding the Company a marketing licence to manage the existing contracts for the electricity market.

In parallel, the terms were drawn up for the conduct of last-resort supply operations under tariffs approved by ERSE, the energy regulator, and licences were awarded to Transgás Indústria, S.A., now renamed Transgás, S.A., and other companies to be established by the holders of local distribution concessions.

Following a government decision (Resolution of the Council of Ministers No. 108/2006 of 3 August 2006), the Portuguese State awarded on 26 September 2006 to Galp Energia, through its Transgás Armazenagem, S.A. ("Transgás Armazenagem") subsidiary, a 40-year concession for the underground storage of natural gas at Carriço, Pombal.

» SOURCING AND COMMERCIALISATION OF NATURAL GAS

Sourcing of natural gas continued to rely on two sources: (i) Algeria, with 45% of total supplies, a 17 p.p. decrease compared to 2005, and (ii) Nigeria, which supplied the other 55% through LNG contracts, up from 37% in 2005.

The volume of natural gas sold rose by 9% to 4,596 million cubic meters, helped by trading opportunities in the international market which offset lower demand by the electrical sector in a year when rainfall was considerably higher than in 2005.

In the industrial sub-segment, the higher volume of sales to cogeneration plants boosted volumes by 5% compared to 2005. Sales of natural gas to local distribution companies increased by 6% due to higher demand by industrial sectors supplied by local distribution companies and the increasing number of its clients.

	UNIT	2005	2006	%
Sales volumes	Million m^3	4,234	4,596	9
Electrical	Million m^3	2,013	1,737	(14)
Industrial	Million m^3	1,446	1,512	5
Local distribuition companies	Million m^3	656	694	6
Trading	Million m^3	119	654	n.m.

Sales in the industrial sub-segment exceeded 1.5 million cubic meters, a record all the more noteworthy as it occurred in a year of modest economic growth.

In order to secure the supply of natural gas under the national system (Sistema Nacional de Gás Natural), the underground storage cavern was filled and kept as a regulated asset by Transgás Armazenagem, currently in operation.

» DISTRIBUTION OF NATURAL GAS

On 30 November 2006, the Distribution Unbundling project was launched involving the separation of marketing and distribution operations in compliance with legal and regulatory requirements published by ERSE.

The main purpose of this project is to prepare for the presentation of regulated accounts, standardising both the account plan and accounting procedures, and to bring about the organisational changes made necessary by the new regulatory framework.

In 2006, a new sales information system started to be implemented, which is designed to cover, in the medium term, all local distribution companies and holders of local distribution licences. The purpose of this new tool is to standardise commercial processes using a platform that is based on the current business model but can easily be adapted to the forthcoming challenges posed by the liberalisation of the natural gas market.

Aggregate sales volumes for natural gas distribution reached 498 million cubic meters, 4% up on 2005. The main increases were in industrial (+6%) and commercial (+8%) clients, with the number of clients reaching 790 thousand, a 51 thousand increase from last year. In the residential segment, the number of clients rose by 7% to 770 thousand.

The natural gas distribution infrastructure totalled 9,014 kilometers in 2006 after the construction of a secondary network and connection pipes.

» POWER

Galp Energia participates in three cogeneration plants where the burning of natural gas generates electrical and thermal power that is supplied to large industrial clients. On top of the 80 MW installed capacity, Galp Energia invested in 2006 in the construction of a 2x41 MW cogeneration plant at Sines.

In 2007, the investment in a 2x41 MW cogeneration project at the Oporto refinery was approved.

In the three cogeneration plants under operation – Powercer, Carriço Cogeração and Energin, where Galp Energia participates with 70%, 65% and 35%, respectively – 1,561 GWh of energy were generated, representing an increase of 14% compared to 2005.

In wind power contest, Phase A involving 1,000 to 1,200 MW was awarded to a competitor. Galp Energia is in Phase B of the tender through its subsidiary Ventinvest, where it has a 33.3% equity stake. Phase B involves 500 to 600 MW.

» BUSINESS SEGMENT PERFORMANCE

GAS & POWER

	UNIT	2005	2006	%
Turnover	Million €	1,125	1,396	24
Operating result	Million €	244	547	124
Adjusted operating result	Million €	225	266	18
Adjusted ROA(1)	%	11.2	17.2	6.0 p.p.
Natural gas sales	Million m^3	4,234	4,596	9
Electrical	Million m^3	2,013	1,737	(14)
Industrial	Million m^3	1,446	1,512	5
Local distribution companies	Million m^3	656	694	6
Trading	Million m^3	119	654	n.m.
Natural gas clients	Thousand	739	790	7
Power generation	GWh	1,375	1,561	14

(1) Adjusted operating result/total adjusted consolidated assets.
Note: See Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

Carriço Cogeneration plant

The turnover of the Gas & Power business segment reached 1,396 million euros in 2006. Operating result of 547 million euros includes the positive impact of non-recurrent events, particularly the gain on the sale to REN of the Natural Gas Regulated Assets and the proceeds from the favourable arbitration relating to the optical fibre contract signed in 1999 between Transgás, S.A. and ONI.

Operating result adjusted for non-recurrent items and the inventory effect rose 18% to 266 million euros, which represented 40% of Galp Energia's total. This improvement in operating result was primarily due to:

» The increase in overall sold volumes:

- Supply of natural gas: the 362 million cubic meters rise took sales to a record of 4,596 million cubic meters;
- Distribution of natural gas: despite temperatures that were not favourable to natural gas demand, the rise in the number of connected clients and the increase in demand by the commercial segment contributed to a 4% increment in sales;
- Power: 14% increase to 1,561 GWh in the power generated by the cogeneration plants where Galp Energia has an equity stake; this production volume required 173 million cubic meters of natural gas, 8% more than in 2005;

» Increase in the average sales price of natural gas in line with international benchmarks namely the dated Brent.

These effects were partially offset by cost increases in the post-unbundling period, namely supply and services costs in respect of a 25 million euro fee payable to REN in the fourth quarter for the transportation and storage of natural gas. Depreciation charges fell, however, due to lower asset values.

» OUTLOOK FOR 2007

In 2007, the natural gas market will start its liberalisation with the opening of electricity-producing centres for volumes above Take-or-Pay levels.

The natural gas business will focus its activities on managing the effects of liberalisation and will proceed with the preparation of the distribution unbundling project. In the energy business, the process has been initiated for building Galp Energia's first CCGT plant.

5.5. CAPITAL EXPENDITURE

	UNIT	2005	2006	CHANGE ABS	CHANGE %
Exploration & Production	Million €	82	106	24	29
Refining & Marketing	Million €	142	131	(11)	(8)
Gas & Power	Million €	88	112	23	26
Others	Million €	3	1	(2)	(65)
Total		315	349	34	11

» EXPLORATION & PRODUCTION

Investment in the Exploration & Production business segment reached 106 million euros, a 29% increase compared to 2005, and was primarily channelled to production activities on the BBLT, Kuito and TL fields, and exploration in other areas of Angola's Block 14, where the Lucapa-1 appraisal well was drilled. New investments were also made in exploration activities on Block 32, where four appraisal wells were drilled, and in Brazil, namely on the onshore blocks, where Galp Energia is the operator, and on offshore Block BM-S-11, in the Santos basin, with a new exploration well called Tupi.

Oporto refinery

» REFINING & MARKETING

Investments in the Refining & Marketing business segment declined by 8% to 131 million euros, which included the reinstatement of the monobuoy asset on the Company's balance sheet for a value of 38.9 million euros. Investment spending was otherwise channelled to building strategic storage space, primarily for diesel, replacing pipelines and turning facilities environmentally friendly. In distribution, the investment effort centred on the expansion of piped LPG and the construction and overhaul of service stations in the Iberian Peninsula.

Capital spending on the reseller's project was significant and entailed the implementation of a distribution programme with independent resellers, based on the joint presentation of Galp Energia brand and the resellers' own brands.

» GAS & POWER

Investment in the Gas & Power business segment was 112 million euros and was channelled to the development of natural gas distribution networks, the filling of underground natural gas caverns and development of the cogeneration plant at the Sines refinery.

5.6. CONSOLIDATED FINANCIAL REVIEW

10% INCREASE IN NET INCOME TO 468 MILLION EUROS[1]	15% INCREASE IN OPERATING RESULT [1] TO 667 MILLION EUROS AND EBITDA MARGIN UNCHANGED AT 10%	ROA[1] AND ROACE[1] INCREASE TO 13% AND 17%, RESPECTIVELY

- Improvement in adjusted operating result across all business segments;
- 10% increase in consolidated turnover to 12,210 million euros, with all business segments advancing in turnover terms;
- Reduction in net debt by 305 to 887 million euros contributing to the 6 p.p. decline in the debt-to-equity ratio to 44%.

(1) Adjusted results. See Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

In a year when the most important milestones in the Company's development were the IPO of its shares and the sale of the Natural Gas Regulated Assets to REN, Galp Energia showed its commitment to achieving its short-term priorities:

- Increase in the Angolan working production to 9.5 thousand barrels per day and continued exploration activities in Angola and Brazil leading to new findings on block 32 and BM-S-11;
- Consolidated leadership of the domestic oil market and larger presence in the Spanish market, with a 2% volume increase to 16.2 million tonnes;
- Growing integration of the refining and distribution segments;
- Strong presence in the natural gas market with a record sales volume of 4.6 million cubic meters and a restructuring of the operational set-up in order to respond to new demands from the sector;
- 14% increase in the production of thermal and steam power and favourable position for launching the electricity and renewable energy businesses;
- Increased presence with positive results in International Oil downstream operations.

» RESULTS

Galp Energia's net income grew by 8% in 2006 to a total of 755 million euros when in 2005 reached the 701 million euros. This was particularly important in a year when the Natural gas Regulated Assets were sold to REN had a positive impact of 220 million euros. In 2005, net income was positively impacted by gains arising from the application of the FIFO method to the calculation of the cost of goods sold, which led to a favourable effect of 239 million euros.

Excluding both the inventory effect and non-recurrent items, net income was 468 million euros, 10% ahead of 2005.

	UNIT	2005	2006	CHANGE ABS.	CHANGE %
Net income	Million €	701	755	54	8
Inventory effect	Million €	239	30	(209)	--
Non recurrent items	Million €	37	257	220	--
Adjusted net income	Million €	425	468	43	10

Note: See Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

The improvement in results compared to 2005 shows that the Company, despite operating in markets where exogenous factors influence performance, succeeded in mitigating adverse effects by taking a variety of steps including the increase in the production of crude to 9.5 thousand barrels per day, the 3% increase in raw materials processed to 14.7 million tonnes – made possible by the intensive utilisation of the refining system – and the increase in natural gas sales to 4.6 million cubic meters.

	UNIT	2005	2006	CHANGE
Turnover	Million €	11,137	12,210	10%
Adjusted EBITDA	Million €	877	958	9%
EBITDA margin(1)	%	10	10	n.m.
Adjusted Operating result	Million €	580	667	15%
Exploration & Production	Million €	18	45	148%
Refining & Marketing	Million €	338	358	6%
Gas & Power	Million €	225	266	18%
Others	Million €	(1)	(2)	n.m.

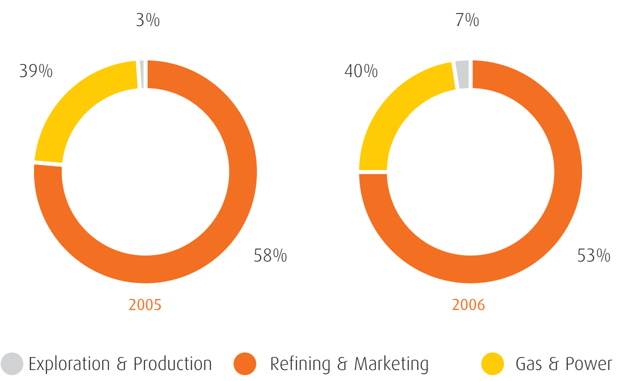
(1) Adjusted EBITDA/turnover excluding excise tax. See Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

	UNIT	2005	2006	CHANGE
Capital expenditures	Million €	315	349	11%
Adjusted ROA	%	10	13	3 p.p.
Adjusted ROACE	%	14	17	3 p.p.
Net Debt	Million €	1,192	887	(26%)
Debt to Equity	%	50	44	(6 p.p.)
Employees	Number	6,166	5,877	(289)

Note: See Appendix 2 for a detailed explanation of the reconciliation of adjusted results.

From 2005 to 2006, the Exploration & Production business segment increased its contribution to the adjusted operating result of the Group from 3% to 7%. Refining & Marketing was the segment that contributed most to the adjusted net income with a 53% share, down from 58% in 2005.

OPERATING RESULT BY SEGMENT



» INCOME STATEMENT REVIEW

REPORTED RESULTS — MILLION €

			CHANGE	
	2005	2006	ABS.	%
Turnover	11,137	12,210	1,072	10
Gross margin	1,975	1.810	(166)	(8)
Supply and services	(526)	(567)	(42)	8
Personnel costs	(270)	(307)	(37)	14
Other operating revenues (expenses)	12	305	293	n.m.
EBITDA	1,192	1,241	49	4
Depreciations and provisions	(329)	(291)	38	(12)
Operating result	863	949	86	10
Financial results	31	(11)	(41)	n.m.
Income before taxes and minority interests	893	939	45	5
Net income	701	755	54	8

ADJUSTED RESULTS				MILLION €
			CHANGE	
	2005	2006	ABS.	%
Gross margin	1,664	1,812	148	9
EBITDA	877	958	81	9
Operating result	580	667	87	15
Net income	425	468	43	10

Supply and services costs increased by 8% to 567 million euros and included 25 million euros relating to transportation and storage costs for the period after the sale of the Natural Gas Regulated Assets. Excluding this item that did not exist in 2005, supply and services costs increased by 17 million euros, or 3%, to 542 million euros. The main increases were in:

- Freight costs incurred by the transportation of oil products after the Company sold one of its ships in 2005;
- Updated insurance premiums;
- Payments to Empresa Gestora de Reservas Estratégicas, E.P.E. (''EGREP''), a Portuguese State owned company, in respect of the mandatory build-up of strategic reserves;
- Structural costs arising from the expanding exploration operations in Brazil;
- The costs of raising the production of crude in Angola's Block 14 to 2.6 million barrels.

These increases in supply and services were partially offset by cost reductions, of which the most prominent example was the transportation of goods as a result of lower domestic sales, particularly in the marketing business.

Personnel costs grew by 14% to 307 million euros. Excluding restructuring charges, the increase was 8%, or 22 million euros, and resulted from salary increases in line with inflation, increases in variable remunerations that were not sufficiently funded in 2005 and cost adjustments to early retirement and severance situations planned for 2007.

Other net operating results increased by 293 million euros from 12 million euros in 2005. This increase was favourably influenced by the sale of the Natural Gas Regulated Assets to REN in September and the reinstatement of the monobuoy asset which had previously been written off from the Company's assets.

Excluding these effects, the most significant change in the year was the increase in IRP payable in Angola from 16 to 23 million euros, as a consequence of the higher revenue generated by oil sales from Block 14.

Depreciation charges declined by 16% to 257 million euros and included adjustments relating to the sale of the Natural Gas Regulated Assets and, in 2005, to asset impairments of 21 million euros. Excluding these effects, the change reflected a reduction in Refining & Marketing assets, namely the write-off of service stations in Portugal and Spain, and Gas & Power's natural gas assets as a result of the sale process mentioned above. In Exploration & Production, the increase in depreciation charges resulted primarily from the production of BBLT field coming on stream in 2006, thereby starting the depreciation process.

Provisions and impairment losses on accounts payable rose by 55% to 35 million euros. Provisions in 2006 included environmental and other charges while in 2005 they consisted mainly of restructuring and environmental charges. Excluding these non-recurrent effects, the increase was 17 million euros reflecting higher provisions in the Exploration & Production and Refining & Marketing business segments, including 5.8 million euros for the eventuality of an additional IRP payment in Angola and 8 million euros for doubtful accounts.

The Company posted a net financial loss of 11 million euros, including results from associates, results of investments and net financial results, compared to net financial income of 31 million euros in 2005 that included the 54.4 million euro gain on the sale of Portgás, the natural gas distributor in the Oporto area. The main changes were:

- Results from associates: decrease of 11 million euros down to 40 million euros due to lower contributions from subsidiaries as well as consolidation adjustments. The most significant contributions according to the equity method came from international pipeline companies (EMPL, Metragaz, Gasoducto Al Andaluz and Gasoducto Extremadura), which contributed with 37 million euros, and Compañia Logistica de Hidrocarburos, S.A. ("CLH"), the holder of the logistical infrastructure for the Spanish oil market, with 6 million euros;

- Results of investments: decrease of 73 million euros to minus 19 million euros. In 2006 the unbundling process had a negative impact of 20 million euros and in 2005 the sale of Portgás, local distribution company for the Oporto area, contributed with a gain of 54.4 million euros;

- Net financial results: increase of 43 million euros to a negative value of 32 million euros including non-recurrent income of 15 million euros relating to the lease of optical fibre to ONI. Excluding this effect, net financial results rose by 28 million euros and reflected improvements of 19 million euros in exchange differences and a decrease in interest expense due to the double effect of lower average bank indebtedness and the reduction in financial costs from 4.35% in 2005 to 3.40% in 2006;

Net exchange differences were favourable by 2 million euros, reversing the negative result of 17 million euros in 2005, when appreciation of the US dollar to the euro, in 2004, led to losses in dollar liabilities, mainly bank debt, of 10 million euros.

» CONSOLIDATED BALANCE SHEET[4]

MILLION €				
			CHANGE	
	2005	2006	ABS.	%
Fixed assets[1]	3,086	2.413	(672)	(22)
Strategic stock[2]	524	453	(72)	(14)
Other assets/liabilities[3]	(162)	(148)	14	(9)
Working capital[4]	129	205	76	59
	3,577	**2,924**	**(654)**	**(18)**
Current debt	257	587	329	128
Non current debt	1,092	513	(579)	(53)
Total debt	**1,349**	**1,099**	**(250)**	**(19)**
Cash and cash equivalents	158	212	55	35
Net debt	**1,192**	**887**	**(305)**	**(26)**
Shareholders' equity	**2,386**	**2,037**	**(349)**	**(15)**
Capital employed[5]	**3,577**	**2,924**	**(654)**	**(18)**

(1) Tangible and intagible assets + goodwill + equity shares in associated and participated companies (net of product for financial investments) and other financial investments.
(2) Strategic stock (Galp Energia and competitors) valued at FIFO.
(3) Post employment responsabilities + non recurrent payable and receivables accounts + deferred taxes.
(4) Current stocks, clients, suppliers, fixed assets suppliers, net state accounts + provisions (excluding provisions for financial investments.
(5) Shareholders' equity + net debt.

Net fixed assets reached 2,413 million euros in 2006, reflecting a reduction of 672 million euros compared to 2005 due to the sale of the Natural Gas Regulated Assets with a book value of 731 million euros.

The strategic stock represents the value of the inventories that Galp Energia is liable to build and keep as safety reserves of oil products. The value of this stock declined by 72 million euros, or 14%, in the year due to the pronounced fall in the price of crude and oil products in international markets after August.

Other assets and liabilities rose by 14 million euros which was explained by the increase in other assets of 42.2 million euros that more than offset the increase in obligations with post-employment benefits of 27.9 million euros.

Working capital requirements rose by 76 million euros which was primarily due to the increase in accounts receivables reflecting increased turnover in spite of a shorter average collection time – 24 days in comparison with 25 days in 2005.

Galp Energia is the preferred funding vehicle of the Group and its net debt at the end of December 2006 was 887 million euros, 305 million euros down on 2005. The proceeds from the sale of Natural Gas Regulated Assets including the receipt of 526.3 million euros, the transfer of 425.2 million euros worth of debt to REN, the receipt of 62 million euros from arbitration of the ONI case and cash flow from operations more than offset dividend payments.

(4) This consolidated balance sheet was prepared for management purposes and is therefore not directly comparable with the consolidated balance sheet that is presented in the consolidated financial statements appended to this report.

» CASH FLOW [5]

MILLION €	2005	2006	CHANGE
Operating result	863	949	86
Non cash costs	307	257	(50)
Change in working capital	(200)	(76)	124
Cash flow from operating activities	**970**	**1,130**	**160**
Net capital expenditures	(378)	398	775
Change in strategic stock	(185)	72	257
Cash flow from investing activities	**(563)**	**469**	**1,032**
Financial investments	75	12	(63)
Interests paid	(35)	(30)	5
Taxes	(118)	(177)	(59)
Subsidies	72	19	(52)
Dividends paid/received	(177)	(1,052)	(875)
Others	87	(67)	(154)
Cash flow from financing activities	**(96)**	**(1,294)**	**(1,199)**
Net cash flow	**311**	**305**	**(7)**

Operating cash flow rose by 160 million euros to a total of 1,130 million euros. This increase reflected both the higher activity level in 2006 and lower working capital requirements.

Cash flow from investing activities was strongly influenced by the sale of the Natural Gas Regulated Assets to REN and the 72 million euro reduction in strategic stocks due to the fall in the prices of crude and oil products.

Net dividends amounted to 1,052 million euros. Dividends paid of 1,093 million euros included ordinary dividends of 222 million euros and the distribution of distributable reserves and retained earnings in the amount of 871 million euros.

(5) This consolidated cash flow statement was prepared for management purposes and is therefore not directly comparable with the consolidated cash flow statement in the consolidated financial statements appended to this report.

Filipe Sequeira

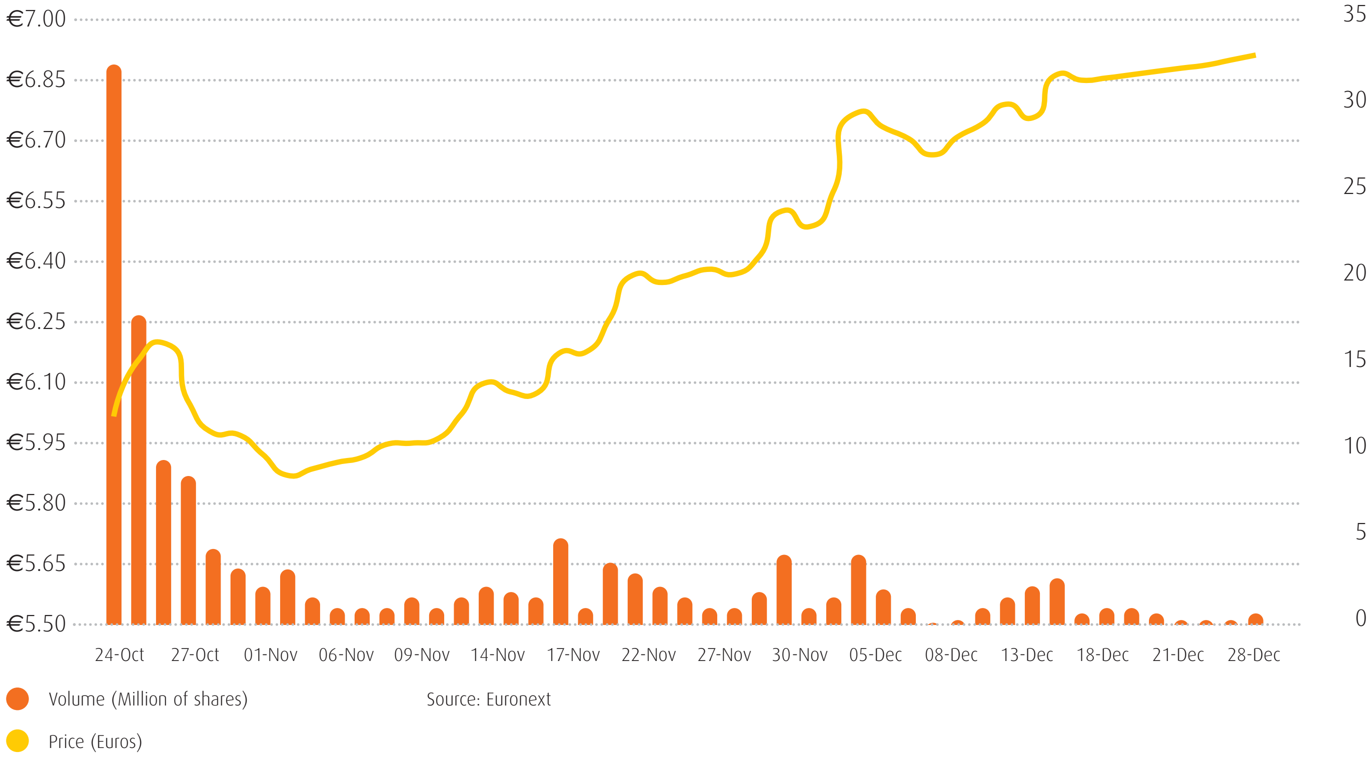
6.
GALP ENERGIA IN THE EQUITY MARKET

IN THE YEAR OF ITS DEBUT ON THE STOCK MARKET,
GALP ENERGIA SHARE GAINED 19%

GALP ENERGIA IN THE EQUITY MARKET

From the day the Company offered its shares to the public for the first time until the last trading day of 2006, the Galp Energia share gained 19%, from 5.81 euros on 23 October to 6.94 euros on 29 December. On 21 December, the shares reached their peak for the year at 6.95 euros.

PERFORMANCE OF GALP ENERGIA SHARE



Source: Euronext

Traded volumes remained stable from the day the shares were listed on Euronext Lisbon, with a daily average volume – excluding the first trading week – of 1.6 million shares. Up to and including 29 December, the last trading day for 2006, 141 million shares were traded, corresponding to approximately 17% of the Company's stock.

At 31 December 2006, Galp Energia had a market capitalisation of 5,755 million euros, up 937 million euros on the value it had on 23 October 2006, the IPO date.

Galp Tower - Parque Expo

» SHAREHOLDER STRUCTURE

Galp Energia shareholder structure was the following at 31 December 2006:

	NUMBER OF SHARES	% OF SHARE CAPITAL	% OF VOTING RIGHTS
ENI Portugal Investment, S.p.A.	276,472,160	33.34	33.34
Amorim Energia	276,472,161	33.34	33.34
Caixa Geral de Depósitos	8,292,510	1.00	1.00
Portuguese State	41,494,501	5.00	5.00
Parpública	16,585,013	2.00	2.00
Iberdrola	33,170,025	4.00	4.00
Banco BPI	17,150,010	2.07	2.07
Caixa Galicia	16,585,012	2.00	2.00
Other shareholders	143,029,243	17.25	17.25
Total	829,250,635	100.00	-

On 2 January 2007, Parpública acquired from the Portuguese Ministry of Finance 40,000,000 A shares and 1,494,501 B shares representing 5.0% of Galp Energia's share capital. After this acquisition, the state holding company became the owner of 58,079,514 shares in Galp Energia representing 7.0% of the capital.

Following the merger, announced on 2 January 2007, of ENI Portugal Investment, S.p.A. with ENI, ENI became Galp Energia's direct shareholder.

Isabel Garcia

7. BUSINESS SUPPORT ACTIVITIES

THE STRENGTH OF THE GALP ENERGIA BRAND COMBINED WITH ITS SAFETY AND SUSTAINABILITY POLICIES AS WELL AS THE EFFORTS OF ITS STAFF WERE DECISIVE FOR THE ACHIEVED FINANCIAL PERFORMANCE

7.1. BRAND AND CUSTOMER RELATIONSHIP MANAGEMENT

In 2006, the Pluma gas bottle was launched achieving a record high recognition level and association with the Galp Energia brand as shown by a poll where 89% of respondents answered they had viewed the advertisement while 87% could link it to the brand. Among the values associated with the brand, innovation reached an all-time high as 57.5% of respondents in a poll considered the brand both 'dynamic' and 'innovative', up 16 p.p. on the average value for 2005.

The development of innovative products brought about the Hotspot, a new household heater launched by the Company in February exclusively in the Portuguese market. Similarly to Pluma, the Hotspot won the International Forum Design's If Product Design Award, one of the most prestigious design awards in the world.

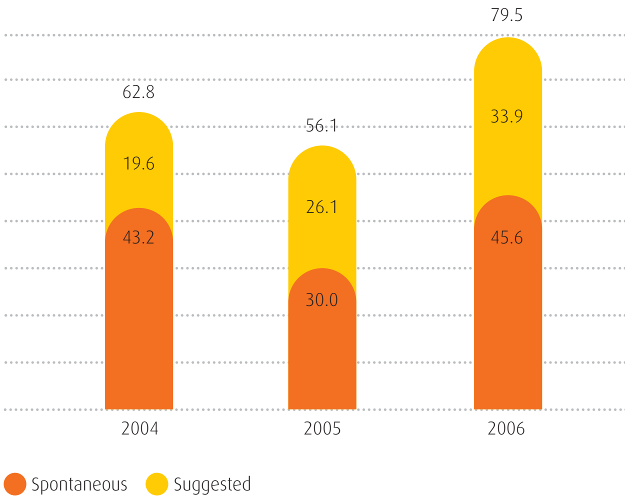
Brand management initiatives included the Galp Energia brand getting closer to clients in a special event – the Company's IPO in October 2006 – when the Company ran the "Entre no negócio da Energia Positiva" invitation, freely translated to "Welcome to the positive energy business".

The listing of Galp Energia was a key moment for the brand as it created an opportunity for additional goodwill by offering people the possibility of belonging to the Company and sharing in its outstanding performance and success.

The Galp Energia brand had in 2006 an awareness rating of 97.7% and it was awarded, with 60% of the vote, the status of trusted brand in the European Trusted Brands survey.

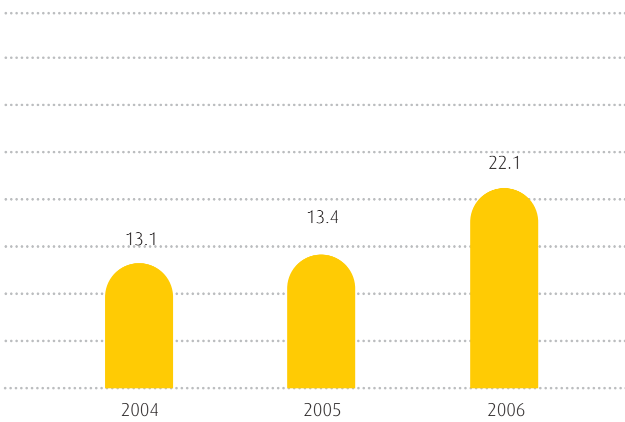
In advertising awareness, the brand reached an all-time high, close to 80%, with a 40% growth in the year.

GALP ENERGIA PUBLICITY AWARNESS (%)



Source: Iniciative Media

GALP ENERGIA SPONSORING RETURN (NUMBER OF TIMES)



Source: Return-Memorandum; Investment: Galp Energia

In commercial sponsoring, the focus was on automotive sports and football and the return on investment was estimated at 22.1 times, calculated as the ratio of the money value of the brand's media exposure to the money investment in the sponsoring event/campaign.

The strategy of focusing efforts on a limited number of sponsoring actions tested for their brand value alignment, media exposure and return level, ensured that return on sponsoring grew by 65% in 2006.

In customer relationship management ("CRM"), Galp Energia implemented a number of initiatives that focused on improving client management capabilities with a view to enhancing client loyalty and, consequently, value creation.

Inclusion of the Company's Contact Centre in the CRM area led to a better fit with the strategy of building customer loyalty. In 2006, the Contact Centre managed more than 876,000 client contacts, with the total number of contacts for the whole Company above the 1.7 million mark.

The search for high service levels in the distribution of natural gas called for initiatives to monitor satisfaction. Since 2003, there are two complementary methods to evaluate client satisfaction at the distributor level: daily surveys by Galp Energia's Contact Centre of all clients – approximately 60,000 a year – establishing a contact with the distributor and annual polls conducted by Universidade Nova de Lisboa, a well-reputed institution that uses advanced techniques to ensure comparability across sectors and countries.

In the fast card loyalty building programme, special attention was given to both operational efficiency and the reduction in programme costs, which resulted in 19% lower costs compared to 2005. In December 2006, 1.3 million active clients – 1.1 million in Portugal and 0.2 million in Spain – had fast cards, a 2% increase on 2005. The fast card was Portugal's leader in loyalty programmes based on personalised data.

7.2. INNOVATION, TECHNOLOGY AND DEVELOPMENT

Galp Energia sees corporate social responsibility ("CSR") as the business sector's contribution to sustainable development, which may only be attained if new concepts and methods are applied by integrated management practices. Good economic and financial performance is possible only if companies consciously commit to social and environmental development.

Galp Energia aims at evidencing its good practices towards sustainable development along the Triple Bottom Line Pyramid of economic, environmental and social performance. Interaction between these three pillars highlights positive aspects and identifies the points that need additional investment for better performance.

TRIPLE BOTTOM LINE PYRAMID

Sustainability adds value to Galp Energia by creating synergies within the Company and with its stakeholders.

» SOCIAL RESPONSIBILITY

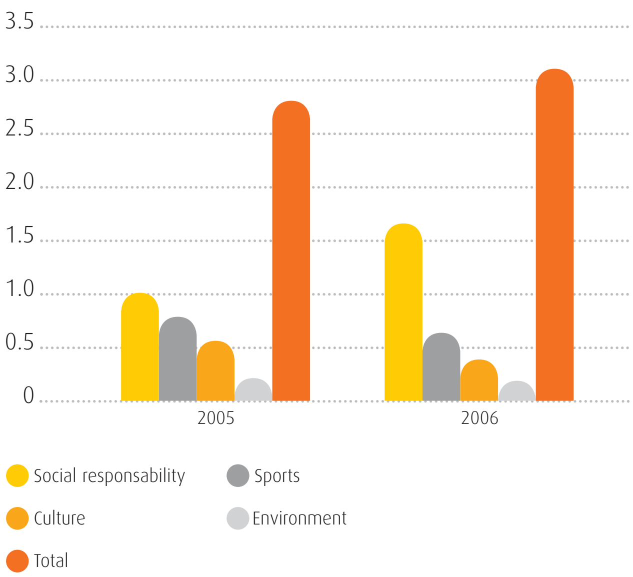
Special emphasis was given to the reflection over and spread of basic concepts and values related to CSR and business ethics through participation in work sessions at Instituto Português de Qualidade's technical committees charged with the preparation of national standards in this area.

In summary, activities designed to promote CSR rest on the following four pillars:

1. Support to education and science;
2. Commitment to environmental preservation;
3. Solidarity actions;
4. Support to culture and sports.

As may be seen in the following graph, financial support to social responsibility activities – namely solidarity actions, support to education and science and staff training and well-being – grew by 6% in 2006. Beyond this overall growth, individual actions tended to focus on social initiatives.

FINANCIAL SUPPORT TO SOCIAL RESPONSABILITY, ENVIRONMENT SPORTS AND CULTURE FOR 2005-2006 MILLION €



» RESEARCH, DEVELOPMENT AND INNOVATION

In 2006, Galp Energia's Innovation System started to be implemented with a view to generating and embedding innovative skills in the Company. The purpose is to create mechanisms that will allow innovation to occur in a systematic way, thereby accelerating processes for the development of new business concepts, new products and new services.

In the long run, the purpose of the Company is to continue the innovation effort on three fronts in order to:

- Provide the client with new solutions and products in line with the social and environmental challenges and responsibilities arising from Galp Energia's footprint in the power sector;
- Use technology to boost efficiency and performance as well as raise the rate of return on assets;
- Identify new businesses that will lead to value creation.

Pluma bottle refilling line - Perafita tank farm

7.3. PERSONNEL

At 31 December 2006, there were 5,877 employees at Galp Energia, or 289 less than one year earlier, which was partly explained by the transfer to REN of the 188 employees of Transgás Atlântico and Transgás, S.A..

NUMBER OF EMPLOYEES

	2005	2006	CHANGE
Exploration & Production	36	56	20
Refining & Marketing	4,867	4,790	(77)
Gas & Power	685	491	(194)
Others	578	540	(38)
Total on site employees	**6,166**	**5,877**	**(289)**
Service station employees	2,200	2,245	45
Total off site employees	**3,966**	**3,632**	**(334)**

NOTE: 2005 figures include changes in the consolidation perimeter (Brazilian and African companies).

Geographically, 75% of the Company's employees were located in Portugal. The average age of employees, excluding those at service stations was 42 and average seniority was 15 years. At the end of 2006, 2,087, or 36% of total on site employees, were female, a 2 p.p. increase compared to 2005.

NUMBER OF EMPLOYEES BY GEOGRAPHICAL AREAS

	2005	2006	CHANGE
Portugal	4,676	4,428	(248)
Spain	1,234	1,188	(46)
Rest of the world	256	261	5
Total	**6,166**	**5,877**	**(289)**

In 2006, the GPS – Gestão de Pessoas para o Sucesso (Managing people for success) project was launched. The purpose of the initiative was the creation of an integrated model for the management of human resources.

The project aims to rationalise the Human Resources Management function by revising and consolidating Galp Energia's policies and practices as well as improving process layout and information systems towards the development of people and the growth of the businesses.

At Galp Energia, knowledge, training and experience are critical factors for the attainment of superior performance that will translate into high levels of customer satisfaction.

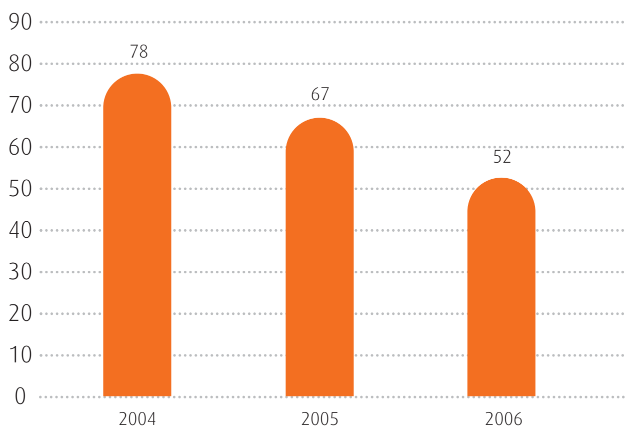
At the end of 2006, a training centre in Lisbon was opened reflecting the Company's commitment to creating the right environment for the development and sharing of knowledge.

7.4. HEALTH, SAFETY AND ENVIRONMENT

Programmes in this area continued in 2006 in the framework for continuous improvement and with the goal of reducing the accident rate in the Company.

The number of accidents resulting in absence fell by 22% and the total number of accidents declined by 15%. This was in line with the downward trend for the last few years with a more pronounced reduction in domestic operations.

ACCIDENTS EVOLUTION



Number of accidents with absence.

Considering the goals for lower road accident rates in the European Union and particularly in Portugal, the Company enforced minimum safety requirements for the use of Company cars while conducting a training programme for defensive driving covering about 500 employees. In line with the trend observed in the last few years, the percentage of road accidents caused by Galp Energia employees fell from 7.8% in 2005 to 6.2% in 2006.

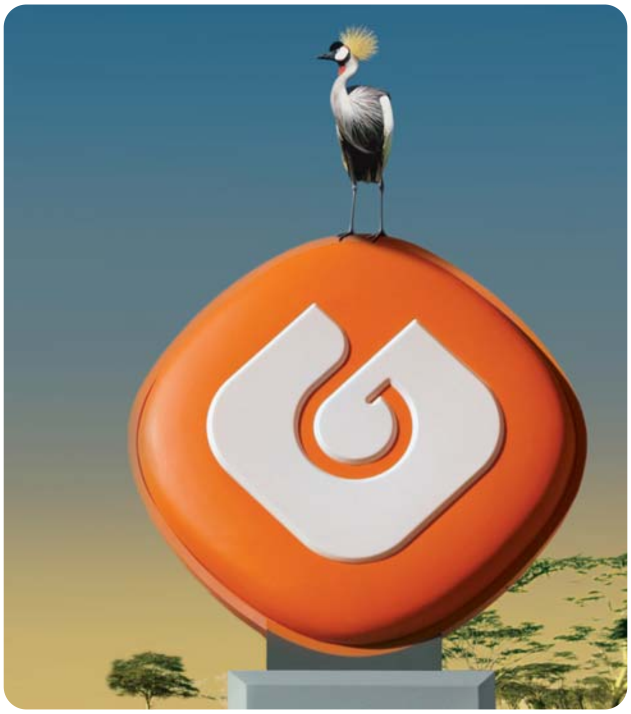
The Company's safety programme was deployed throughout the year with a view to consolidating a culture of accident prevention while raising the standards for safety management. This programme has a four-year span, covers the Company's Iberian operations and aims to convert Galp Energia into a European safety model.

The programme rests on a culture of integration and anticipation and is based on a system of self-sustained management with the following objectives:

- Risk reduction;
- Zero accidents;
- Reputation for excellence;
- Employee skills and attitudes;
- Decrease in accident rates;
- Increase in reliability;
- Productivity gains.

After the first stage of the programme, when the Company's safety management record was evaluated, the implementation stage started in July with the appointment of a team exclusively dedicated to the programme.

In accordance with the ISPS (International Ship and Port facility Security) Code, the necessary steps were taken to keep oil terminals' protection certificates.



Galp Energia commits a large part of its expenditure on environmental, quality and safety/security issues to the alignment of its industrial facilities with the best available practices in production and operations management, preventing and mitigating the impact of its operations on water resources, soils and the atmosphere.

On a yearly basis, action plans are drawn up for each industrial plant with a view to enforcing continuous improvement in processes and technology and operations management. These management guidelines reflect the principles underlying the Company's environmental, quality and safety/security policies.

The main challenges to refining operations in 2007-2008 are the reduction in the emission of greenhouse gases as defined by the Kyoto Protocol, the reduction in the sulphur content of fuels used in the Company's facilities, the increase in energy efficiency and the environmental licensing of its Oporto and Sines refineries.

In 2006, was completed the environmental licensing of PCIP facilities (the refineries), wich the major objective, in the context of the Integrated Control and Prevention of Pollution ("PCIP"), is to guarantee the environment protection as a whole.

In terms of air emissions, process re-engineering at the refineries over the years has led to substantial reductions in emissions, in particular of sulphur dioxide ("SO_2"). These are significantly below emission limit values ("ELVs") currently set for each plant: considering an ELV of 1,700 mg/Nm^3 for SO_2 emissions, the average emission value in 2006 was 1,251 mg/Nm^3 for the Oporto refinery and 1,278 mg/Nm^3 for the Sines refinery.

Compliance with the EU Emissions Trading Directive is of particular importance for the refineries and the cogeneration units.

In 2006, Galp Energia introduced biofuels to the Portuguese market when it launched the FAME (Fatty Acid Methyl Ester) additive to diesel. From June on, all motor diesel distributed from the Oporto and Sines refineries includes 2% to 3% of FAME.

The FAME biodiesel used by Galp Energia is produced in Portugal from vegetal oils and is a renewable energy. In 2006, Galp Energia added 80,000 tonnes of biodiesel to diesel, which is estimated to have contributed to a reduction in CO_2 emissions of approximately 190,000 tonnes.

In 2006, the Company consolidated its strategy regarding certifications, whereby:

» New management systems were certified: Setgás and SAAGA (Safety), Aveiro and Porto Brandão parks (Health, Safety and Environment);

» The following classifications were retained:

- Certifications - Lubricants, Aviation fuels, Base oils, Galp Chemical products, Galp Gas, Supervision of the Sines refinery, Bitumen, Probigalp and SAAGA (Quality); Setgás (Environment and Quality); CLC, Beiragás, Lisboagás, Lusitaniagás and Tagusgás (Health, Safety and Environment); all holders of regional concessions for the distribution of natural gas are already certified;

- Accreditations – Quality systems for the laboratories of the Oporto and Sines refineries and Galp Lubricants.

As a further contribution to the continuous improvement in Galp Energia's performance, new health, safety and environment management systems were developed with a view to obtaining a certification in 2007: Oporto refinery, Sines refinery, lubricant factory (Environment and safety); Boa Nova tank farm (Health, Safety and Environment).

Mário Carriço

8. MANDATORY STATEMENTS AND DISCLOSURES AND PROPOSED APPROPRIATION OF NET INCOME

IN 2006 GALP ENERGIA CONSOLIDATED ITS OWNERSHIP STRUCTURE AND SAW THE ARRIVAL OF NEW SHAREHOLDERS

MANDATORY STATEMENTS AND DISCLOSURES

1. SHAREHOLDERS WITH DIRECT OR INDIRECT QUALIFIED HOLDINGS (Article 448º No. 4 of the Companies Code and Article 20º of the Securities Code)

SHAREHOLDERS	NUMBER OF SHARES	% OF SHARE CAPITAL	% OF VOTING RIGHTS
ENI Portugal Investment, S.p.A.	276,472,160	33.34	33.34
Amorim Energia, B.V.	276,472,161	33.34	33.34
Caixa Geral de Depósitos, S.A.	8,292,510	1.00	1.00
Portuguese State	41,494,501	5.00	5.00
Parpública	16,585,013	2.00	2.00
Iberdrola, S.A.	33,170,025	4.00	4.00
Banco BPI, S.A.	17,150,010	2.07	2.07
CXG Corporación Caixa Galicia, S.A.U.	16,585,012	2.00	2.00
Other shareholders	143,029,243	17.25	17.25
Total	829,250,635	100.00	-

On 2 January 2007, Parpública acquired from the Ministry of Finance 40,000,000 A shares and 1,494,501 B shares representing 5.0% of Galp Energia's share capital. After this acquisition, Parpública held 58,079,514 shares in Galp Energia representing 7.0% of its share capital while the Portuguese State ceased to be, from that date, a direct shareholder in the Company.

Following the merger of ENI Portugal Investment, S.p.A. into ENI, which was announced on 2 January 2007, ENI became the direct shareholder in Galp Energia.

2. TREASURY SHARES (Articles 66º No. 5 alínea d) and 325º-A No. 1 of the Companies Code)

In 2006 Galp Energia did not acquire or disposed any treasury shares.

At 31 December 2006, Galp Energia did not own any treasury shares.

3. DIRECTORS' AND SUPERVISORY BOARD MEMBERS' SHAREHOLDINGS AT 31 DECEMBER 2006 (Article 447º No. 5 of the Companies Code)

	ACQUISITION			DISPOSAL			
DIRECTORS	DATE	NUMBER OF SHARES	VALUE	DATE	NUMBER OF SHARES	VALUE	TOTAL NUMBER OF SHARES AT 31.12.2006
Francisco Luís Murteira Nabo	23.10.2006	1,050	€5.81	26.10.2006	350	€6.16	
	23.10.2006	1,200	€5.52	-	-	-	1,900
Manuel Ferreira De Oliveira	23.10.2006	1,370	€5.81	-	-	-	
	23.10.2006	2,110	€5.52	-	-	-	
	24.10.2006	25,160	€6.00	-	-	-	28,640
Giancarlo Rossi	-	-	-	-	-	-	-
José António Marques Gonçalves	23.10.2006	1,200	€5.52	-	-	-	
	31.10.2006	2,000	€6.14	-	-	-	
	23.10.2006	700	€5.81	-	-	-	3,900
Fernando Manuel dos Santos Gomes	23.10.2006	1,900	€5.81	-	-	-	1,900
André Freire de Almeida Palmeiro Ribeiro	27.10.2006	950	€6.04	-	-	-	950
João Pedro Leitão Pinheiro de Figueiredo Brito	-	-	-	-	-	-	-
Massimo Giuseppe Rivara	23.10.2006	610	€5.52	-	-	-	610
Manuel Domingos Vicente	-	-	-	-	-	-	-
Joaquim Augusto Nunes de Pina Moura	23.10.2006	690	€5.81	06.12.2006	6,000	€6.69	
	23.10.2006	1,200	€5.52	15.12.2006	1,700	€6.82	
	25.10.2006	5,000	€6.24	21.12.2006	340	€6.87	
	26.10.2006	1,000	€6.17	-	-	-	
	31.10.2006	1,000	€6.00	-	-	-	850
Camillo Gloria	-	-	-	-	-	-	-
Diogo Mendonça Rodrigues Tavares	23.10.2006	340	€5.81	-	-	-	
	23.10.2006	600	€5.52	-	-	-	940
Angelo Taraborelli	-	-	-	-	-	-	-
Manuel Carlos Costa da Silva	23.10.2006	16,581	€5.81	15.12.2006	4,264	€6.81	-
	-	-	-	15.12.2006	12,317	€6.82	-
Marco Alverà	-	-	-	-	-	-	-
Alberto Alves de Oliveira Pinto	-	-	-	-	-	-	-
Pedro António do Vadre Castellino e Alvim	-	-	-	-	-	-	-
Alberto Maria Alberti	-	-	-	-	-	-	-
Daniel Bessa Fernandes Coelho	-	-	-	-	-	-	-
José Gomes Honorato Ferreira	-	-	-	-	-	-	-
José Maria Rego Ribeiro da Cunha	-	-	-	-	-	-	-
Amável Alberto Freixo Calhau	-	-	-	-	-	-	-
Deloitte & Associados, SROC, S.A.	-	-	-	-	-	-	-

4. DIRECTORS' TRANSACTIONS WITH THE COMPANY (Articles 66º No. 5, alínea e) and 397º of the Companies Code)

In 2006 the directors of Galp Energia were not authorised to enter into transactions with the Company.

5. DIRECTORS' ROLES ELSEWHERE (Article 398.º of the Companies Code)

Except for João Pedro Leitão Pinheiro de Figueiredo Brito until he was elected a director on 24 May 2005, none of the other directors had in 2006 any temporary or permanent employment in the Company or related companies.

In 2006 the directors did not conduct, on their own or third party account, any activity competing with the Company's own activities.

6. SERVICES RENDERED TO GROUP COMPANIES AND CLAIMS ON SUBSIDIARIES (Article 5.º No. 4 of Decree Law No. 495/88 of 30 of December, re-drafted by Decree Law No. 318/94 of 24 of December)

See Note 16 regarding services rendered to group companies in the Notes to the balance sheet and income statement of the individual accounts.

CLOSING REMARKS

In a year when the preparation and completion of the IPO of Galp Energia's shares in the Company and subsequent listing were a significant milestone, the Board of Directors should like to thank a number of entities for their cooperation and support, which ultimately contributed to the success of the transaction. Among those, we mention:

- CMVM – The Portuguese Securities Market Commission;
- Parpública – Participações Públicas, (SGPS), S.A.;
- Ministry of Economy;
- Ministry of Finance;
- Euronext Lisbon;
- The investment banks that managed the sale.

The Board of Directors also wish to thank Galp Energia's shareholders for their cooperation, commitment and trust while following the Company's operations along the financial year. These acknowledgements are also extended to all entities that cooperated with Galp Energia during the year. Among those, we mention:

- The Directorate-General for Public Revenue and the Inspectorate-General for Taxation;
- General Directorate of Geology and Energy;
- Environment Institute;
- The Statutory Auditor and the External Auditors, with a special reference to Pedro Leandro, representing the Sole Auditor, who stayed with the Company until September 2006;
- The financial institutions that showed their continued support for the Company's projects.

Lastly, a special word of gratitude to our clients, resellers and suppliers for the preference and trust they lent us and to all group employees for their unabated work and commitment.

PROPOSED APPROPRIATION OF NET INCOME

Group equity interests are held by Galp Energia, SGPS, S.A..

Galp Energia, SGPS, S.A. reported net income of 797,549,913.89 euros for financial 2006. These earnings are shown in the individual accounts of Galp Energia, SGPS, S.A., prepared in accordance with Portuguese General Accepted Accounting Principles ("PGAAP").

The Board of Directors proposes that the aforementioned net income be appropriated as follows:

	€
Legal reserve (5%)	39,877,495.69
Dividend distribution (€ 0.304/share)	252,092,193.04
Retained earnings	505,580,255.16
Total	797,549,913.89

Lisbon, 24 of April 2007.

At the meeting held on the 24 of April of 2007, the Board of Directors approved that the dividend distribution will be performed two times per year, as long all the legal requirements are fulfilled.

» THE BOARD OF DIRECTORS

Chairman:

Francisco Luis Murteira Nabo

Vice-chairmen:

Manuel Ferreira De Oliveira
Giancarlo Rossi

Directors:

José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
Fernando Manuel dos Santos Gomes
João Pedro Leitão Pinheiro de Figueiredo Brito
Massimo Giuseppe Rivara
Manuel Domingos Vicente
Joaquim Augusto Nunes de Pina Moura
Camillo Gloria
Diogo Mendonça Rodrigues Tavares
Angelo Taraborrelli
Manuel Carlos Costa da Silva
Marco Alverà
Alberto Alves de Oliveira Pinto
Pedro António do Vadre Castelino e Alvim
Alberto Maria Alberti


João Alves Silva

9. APPENDIXES

APPENDIX 1 – FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS IN THE MANAGEMENT REPORT

Galp Energia's official consolidated financial statements for the financial years 2004 and 2005 have been prepared in accordance with Portuguese GAAP. However, following its application for listing its shares on Eurolist by Euronext Lisbon, the Company adopted International Financial Reporting Standards from 1 January 2006 and prepared the conversion balance sheet in accordance with IFRS 1 First-Time Adoption of International Financial Reporting Standards as of 1 January 2004.

Therefore, the management report for 2006 has been prepared on the basis of the consolidated financial statements according to IFRS and the comparables relating to 2005.

The most significant changes brought about by IAS/IFRS relate to:

- Cost capitalisation, as the IFRS do not allow the capitalisation of some expenses prior to the start of operations or any set-up and research expenditure;
- Cost deferral, namely start-up costs and cost accruals for large repairs in the refineries which, according to IFRS, may not be deferred;
- Deduction of subsidies from asset values;
- Deferral of actuarial gains or losses related to the pension fund, which have been adjusted in the transition process against retained earnings, applying the "corridor" approach set out in IFRS;
- Extraordinary results that according to IAS 1 should have been accounted for in the relevant revenue or cost categories, affecting comparability with margin, EBITDA, operating and financial result;
- Valuation of inventories, as IFRS do not allow the adoption of LIFO (Last In First Out) as inventory valuation method; for this reason, Galp Energia adopted FIFO (First In First Out) as its valuation method; this method has the advantage of valuing outgoing inventories close to market values and the disadvantage of calculating the cost of goods sold at the old prices applicable to the first inventory purchases;
- Financial derivative accounting at fair value.

APPENDIX 2 – RECONCILIATION BETWEEN LEGAL (ACCORDING TO IFRS) AND ADJUSTED FIGURES

The consolidated financial statements of Galp Energia, SGPS, S.A. for 2006 and 2005 have been prepared in accordance with IFRS.

Following a common practice in the industry, Galp Energia uses the management perspective when reviewing its performance. This perspective is based on adjusted results, whose difference from the results according to the legal IFRS perspective is calculated as follows:

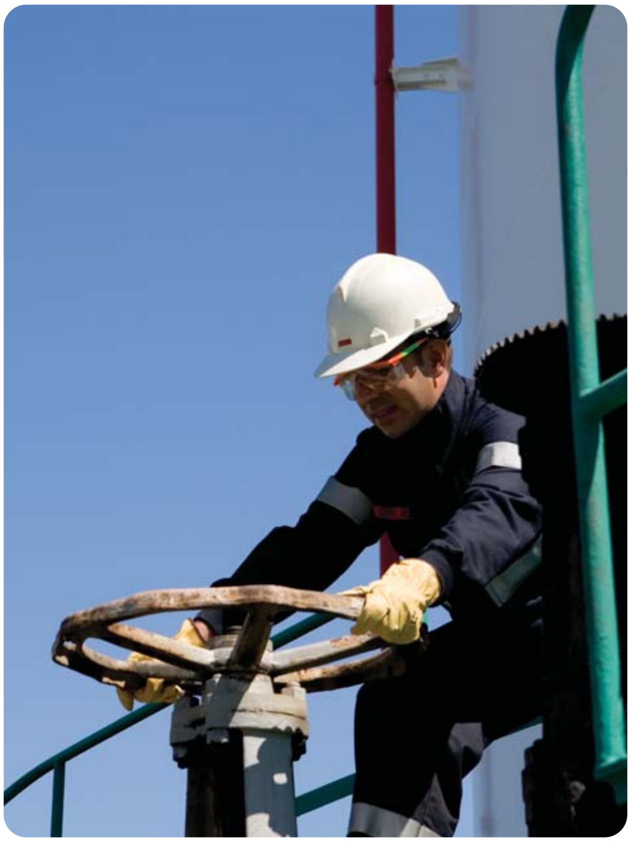
- By using the replacement-cost criterion to value the cost of goods sold; according to this method, the cost of goods sold is calculated at the market value of raw materials at the moment the sales are realised irrespective of the inventories' valuation or its effective cost;

- Adopting this method adjusts results for the fluctuations of crude and oil products prices in international markets and their impact on inventory valuation according to the FIFO method adopted by the Company;

- The replacement-cost criterion is not accepted by accounting standards, either Portuguese GAAP or IFRS; for this reason, it is not adopted for valuing inventories and does not reflect the replacement cost of other assets;

- By excluding non-recurrent items, defined as unusual events that have occurred in the Company's operating cycle and generated a materially relevant impact on results; this definition does not imply that some of these items have not occurred in the past or may not occur in the future.

The tables below present the reconciliation between the two perspectives and the detail of non-recurrent items in 2005 and 2006.



Nuno Fernandes Oliveira
Oporto refinery operator - Products Handling

MILLION €	2005					2006				
	OPERATING RESULT	INVENTORY EFFECT	OPERATING RESULT AT REPLACEMENT COST	NON RECURRENTS ITEMS	ADJUSTED OPERATING RESULT	OPERATING RESULT	INVENTORY EFFECT	OPERATING RESULT AT REPLACEMENT COST	NON RECURRENTS ITEMS	ADJUSTED OPERATING RESULT
Operating result	863	(313)	549	31	580	949	4	953	(286)	667
Exploration & Production	18	-	18	-	18	45	-	45	-	45
Refining & Marketing	602	(294)	308	31	338	368	9	376	(18)	358
Gas & Power	244	(19)	225	1	225	547	(5)	542	(276)	266
Others	(1)	-	(1)	-	(1)	(10)	-	(10)	8	(2)

MILLION €	2005	2006
Non recurrent items		
Sale of strategic stock	(0)	(3)
Services rendered	0	(16)
Indeminities	(11)	(2)
Gains and losses on disposal of assets	(0)	(259)
Assets write offs	9	3
Monobuoy restatement	0	(39)
Restructuring charges	8	16
Provisions for environmental charges	4	7
Assets impairments	21	8
Non recurrent items of operating result	**31**	**(286)**
Capital gains/losses on disposal of financial investments	(58)	19
ONI financial profit	0	(15)
Non recurrent items before income taxes	**(27)**	**(282)**
Income taxes on non recurrent items	(10)	26
Total non recurrent items	**(37)**	**(257)**

The most relevant non-recurrent events in 2006 are related to the gain generated by the sale of the regulated natural gas assets, the reinstatement of the monobuoy and the proceeds resulting from the favourable arbitration of the ONI optical fibre case.

In 2005, emphasis should be placed on the gain obtained by the sale of Portgás and the receipt of damages for the accident that occurred in 2004 on Leixões harbour. With an opposite sign were the impairment losses on service station assets in Portugal and Spain.

Aromatics plant at Oporto refinery

APPENDIX 3
CONSOLIDATED ACCOUNTS

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS BY NATURE FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (IFRS/IAS)

(Amount expressed in thousands of Euros - tEuros)
(Translation of consolidated income statements by nature originally issued in Portuguese - Note 36)

	NOTES	2006	2005
Operating income:			
Sales	6	12,046,037	10,985,392
Services rendered	6	163,682	151,916
Other operating income	6	366,909	83,366
Total operating income:		12,576,628	11,220,674
Operating costs:			
Cost of sales	7	10,400,178	9,162,092
External supplies and services	7	567,132	525,574
Employee costs	7	306,538	269,634
Amortisation and depreciation cost	7	256,639	306,796
Provision and impairment of receivables	7	34,817	22,543
Other operating costs	7	62,110	71,286
Total operating costs:		11,627,414	10,357,925
Operating profit:		949,214	862,749
Financial income	9	32,334	8,956
Financial costs	9	(62,006)	(62,018)
Exchange gain (loss)		2,061	(16,574)
Share of results of associates	4	21,115	105,215
Income (cost) on financial instruments	28	(2,892)	(3,552)
Other gains and losses		(1,163)	(1,384)
Profit before tax:		938,663	893,392
Income tax expense	10	(180,021)	(188,836)
Profit before minority interest:		758,642	704,556
Profit attributable to minority interest		(3,868)	(3,899)
Profit attributable to equityholders of the parent		754,774	700,657
Earnings per share (in Euros)	11	0.91	0.84

The accompanying notes form an integral part of the consolidated income statement for the year ended 31 December 2006.

THE ACCOUNTANT
Dr. Carlos Alberto Nunes Barata

THE BOARD OF DIRECTORS
Dr. Francisco Luís Murteira Nabo
Eng. Manuel Ferreira De Oliveira
Eng. Giancarlo Rossi
Eng. José António Marques Gonçalves
Dr. André Freire de Almeida Palmeiro Ribeiro
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GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2006 AND 2005 (IFRS/IAS)

(Amounts expressed in thousands of Euros - tEuros)
(Translation of balance sheets originally issued in Portuguese - Note 36)

ASSETS	NOTES	2006	2005
Non-current assets:			
Tangible fixed assets	13	1,927,247	2,554,772
Goodwill	12	17,032	20,480
Other intangible fixed assets	13	324,767	367,294
Investments in associates	4	147,362	84,545
Investments in other companies	5	1,017	63,608
Other receivables	15	106,757	96,248
Deferred tax assets	10	145,497	158,924
Other investments	28	1,395	338
Total non-current assets		2,671,074	3,346,209
Current assets:			
Inventories	17	1,065,264	1,199,357
Trade receivables	16	960,279	898,363
Other receivables	15	318,702	322,517
Other investments	18 and 28	14,023	10,191
Cash and cash equivalents	19	212,468	157,635
Total current assets		2,570,736	2,588,063
Total assets:		5.241.810	5.934.272

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EQUITY AND LIABILITIES	NOTES	2006	2005
Equity:			
Share capital	20	829,251	829,251
Share premium		82,006	82,006
Translation reserve		(10,385)	(1,879)
Other reserves	21	107,024	84,926
Hedging reserves		710	(2,905)
Retained earnings		254,757	669,150
Consolidated net profit attributable to equity holders of the parent		754,774	700,657
Equity attributable to equity holders of the parent:		2,018,137	2,361,206
Minority interest	22	18,537	24,645
Total equity:		2,036,674	2,385,851
Liabilities:			
Non-current liabilities:			
Bank loans and overdrafts	23	287,089	781,996
Bonds	23	225,772	309,760
Other payables	25	70,598	96,443
Retirement and other benefit obligations	24	242,180	214,232
Deferred tax liabilities	10	92,927	132,275
Other financial instruments	28	252	5,458
Provisions	26	82,643	72,711
Total non-current liabilities:		1,001,461	1,612,875
Current liabilities:			
Bank loans and overdrafts	23	566,081	257,390
Bonds	23	20,435	-
Trade payables	27	692,379	706,376
Other payables	25	843,454	916,382
Other financial instruments	28	2,927	1,864
Income tax	10	78,399	53,534
Total current liabilities:		2,203,675	1,935,546
Total liabilities:		3,205,136	3,548,421
Total equity and liabilities:		5,241,810	5,934,272

The accompanying notes form an integral part of the consolidated balance sheet as of 31 December 2006.

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (IFRS/IAS)

(Amounts stated in thousands of Euros – tEuros)
(Translation of consolidated income statements by nature originally issued in Portuguese - Note 36)

CHANGES IN THE PERIOD	NOTES	SHARE CAPITAL	SHARE PREMIUM	TRANSLATION RESERVE
Balance at 1 January 2005		829,251	82,006	(5,063)
Appropriation of profit to reserves	21	-	-	-
Dividends distributed	30	-	-	-
Other increases/decreases in hedging reserves	28	-	-	-
Other changes		-	-	-
Adjustments relating to the recognition of deferred taxes on financial derivatives	10	-	-	-
Differences arising on translation of foreign currency financial statements (Group companies)		-	-	(2,654)
Differences arising on translation of foreign currency financial statements (Associated companies)	4	-	-	5,838
Changes in minority interest	22	-	-	-
Total increases/decresases directly in equity		829,251	82,006	(1,879)
Net consolidated profit attributable to the shareholders and minority interest		-	-	-
Balance at 31 December 2005		829,251	82,006	(1,879)
Appropriation of profit to reserves	21	-	-	-
Dividends distributed	30	-	-	-
Other increases/decreases in hedging reserves	28	-	-	-
Other changes		-	-	-
Adjustments relating to the recognition of deferred taxes	10	-	-	-
Differences arising on translation of foreign currency financial statements (Group companies)		-	-	(3,521)
Differences arising on translation of foreign currency financial statements (Associated companies)	4	-	-	(4,985)
Changes in minority interest	22	-	-	-
Total increases/decreases directly in equity		829,251	82,006	(10,385)
Net consolidated profit attributable to the shareholders and minority interest		-	-	-
Balance at 31 December 2006		829,251	82,006	(10,385)

The accompanying notes form an integral part of the consolidated statement of changes in equity for the year ended 31 December 2006.

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OTHER RESERVES (NOTE 21.)	HEDGING RESERVES	RETAINED EARNINGS	NET PROFIT FOR THE YEAR	SUB-TOTAL	MINORITY INTEREST (NOTE 22.)	TOTAL
68,273	**(3,736)**	**397,897**	**453,438**	**1,822,066**	**24,082**	**1,846,145**
16,653	-	436,785	(453,438)	-	-	-
-	-	(165,850)	-	(165,850)	-	(165,850)
-	1,433	-	-	1,433	-	1,433
-	-	318	-	318	-	318
-	(602)	-	-	(602)	-	(602)
-	-	-	-	(2,654)	-	(2,654)
-	-	-	-	5,838	-	5,838
-	-	-	-	-	(3,336)	(3,336)
84,926	**(2,905)**	**669,150**	**-**	**1,660,549**	**20,746**	**1,681,295**
-	-	-	700,657	700,657	3,899	704,556
84,926	**(2,905)**	**669,150**	**700,657**	**2,361,206**	**24,645**	**2,385,851**
22,098	-	678,559	(700,657)	-	-	-
-	-	(1,092,952)	-	(1,092,952)	-	(1,092,952)
-	4,805	-	-	4,805	-	4,805
-	-	-	-	-	-	-
-	(1,190)	-	-	(1,190)	-	(1,190)
-	-	-	-	(3,521)	-	(3,521)
-	-	-	-	(4,985)	-	(4,985)
-	-	-	-	-	(9,976)	(9,976)
107,024	**710**	**254,757**	**-**	**1,263,363**	**14,669**	**1,278,032**
-	-	-	754,774	754,774	3,868	758,642
107,024	**710**	**254,757**	**754,774**	**2,018,137**	**18,537**	**2,036,674**

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005 (IFRS/IAS)

(Amount expressed in thousands of Euros - tEuros)
(Translation of consolidated cash flow statements originally issued in Portuguese - Note 36)

	NOTES	2006	2005
Operating activities:			
Cash receipts from customers		14,069,461	12,761,202
Cash paid to suppliers		(10,247,821)	(9,587,224)
Cash paid to employees		(216,735)	(207,929)
Cash paid/received relating to tax on petroleum products		(2,505,927)	(2,383,255)
Cash generated from operations		**1,098,978**	**582,794**
Cash (paid)/received relating to income tax		(176,783)	(117,942)
Contributions to the pension fund	24	(23,966)	(26,235)
Cash paid to early retired and pre-retired personnel		(12,150)	(12,916)
Cash paid relating to insurance costs of retired personnel		(9,870)	(9,158)
Other (payments)/receipts relating to operating activities		(96,592)	236,502
Cash generated from operations		**(319,361)**	**70,251**
Net cash from operating activities[1]		**779,617**	**653,045**
Investing activities:			
Cash receipts relating to:			
Investments		25,113	85,806
Tangible fixed assets		9,572	3,788
Intangible fixed assets		118	3,304
Investment subsidies	14	19,328	71,691
Interest and similar income		14,572	15,850
Dividends	4	43,591	39,339
Sale of regulated natural gas assets - Unbundling		790,161	-
Loans granted		1,373	7,845
		903,828	**227,623**
Cash payments relating to:			
Investments		(6,315)	(3,835)
Tangible fixed assets		(303,960)	(275,465)
Intangible fixed assets		(37,093)	(55,617)
Loans granted		(301)	(2,714)
		(347,669)	**(337,631)**
Net cash from (used in) investing activities[2]		**556,159**	**(110,008)**

	NOTES	2006	2005
Financing activities:			
Cash receipts relating to:			
Loans obtained		842,501	290,413
Capital increases, supplementary capital contributions and share premium		350	263
Interest and similar income		1,122	2,351
Discounted notes		2,327	18,771
		846,300	311,798
Cash payments relating to:			
Loans obtained		(802,003)	(520,490)
Repayment of loans from EIB under the Unbundling operation	31	(309,255)	-
Interest on loans obtained		(22,582)	(42,802)
Interest and similar costs		(33,026)	(26,700)
Dividends/profit distributions	30	(1,095,131)	(215,938)
Repayment of discounted notes		(5,247)	(18,192)
Payment of interest on finance lease contracts		(134)	(306)
Interest on finance lease contracts		(4)	(4)
Interest on bonds		(3,270)	(9,246)
Coverage of losses		-	(290)
		(2,270,652)	(833,968)
Net cash used in financing activities[3]		(1,424,352)	(522,170)
Net increase in cash and cash equivalents (4) = (1) + (2) + (3)		(88,576)	20,867
Effect of foreign exchange rate changes		(4,236)	4,983
Cash and cash equivalents at the beginning of the year	19	93,634	67,784
Cash and cash equivalents at the end of the year	19	822	93,634

The accompanying notes form an integral part of the consolidated cash flow statement for the year ended 31 December 2006.

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GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2006 (IAS/IFRS)

(Amounts stated in thousands of Euros - tEuros)
(Translation of notes originally issued in Portuguese – Note 36)

1. INTRODUCTION

A) PARENT COMPANY:

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

The Company's head Office is in Lisbon and its corporate object is to manage equity participations in other companies, having, as of the date of its foundation, grouped the State's directly owned participations in the following companies: Petróleos de Portugal – Petrogal, S.A.; GDP – Gás de Portugal, SGPS, S.A. and Transgás – Sociedade Portuguesa de Gás Natural, S.A. ("Transgás, S.A." now called Galp Gás Natural, S.A.).

Over the years the Company has undergone several changes which, together with its position as of 31 December 2006, are explained in Note 20.

Some of the Company's share are listed in the Euronext Lisbon stock exchange.

B) THE GROUP:

At 31 December 2006 the Galp Group ("the Group") was made up of Galp and its subsidiaries, which included: (i) Petróleos de Portugal – Petrogal, S.A. ("Petrogal") and its subsidiaries, which operate upstream and downstream in the crude oil and related derivatives sector; (ii) GDP – Gás de Portugal, SGPS, S.A., which it owns, and its subsidiaries, which operates in the natural gas sector; (iii) Galp Power, SGPS, S.A. and its subsidiaries, which operate in the electricity and renewable energy sector; and (iv) and Galp Energia, S.A. which provides all the corporate support services.

b1) Crude oil upstream and downstream operations

Petrogal is the only company operating in the petroleum refining sector in Portugal and it has majority control over the distribution of refined petroleum products through its Galp brand. Petrogal and its subsidiaries operate in the oil exploration area (upstream), essentially in Angola and Brazil, and in the refining and distribution of petroleum and derivative products area (downstream).

b2) Natural gas operations

The natural gas transport and distribution subsidiaries of the GDP – Gás de Portugal, SGPS, S.A. Group which operate in the acquisition, distribution and commercialisation of natural gas, namely Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., Transgás – Sociedade Portuguesa de Gás Natural, S.A., Lusitaniagás – Companhia de Gás do Centro, S.A. and Beiragás – Companhia de Gás das Beiras, S.A., operate based on concession contracts entered into with the Portuguese State, which end in 2028 (2034 in the case of Beiragás). At the end of this period the assets relating to the concessions will be transferred to the Portuguese State, and the companies will receive an indemnity corresponding to the book value of these assets.

In 2006, in order to realise the separation of the transport / underground storage of natural gas, and the reception, storage, treatment and regasification of liquid natural gas (LNG) established in Decree-law 30/2006 of 15 February, the regulated assets of the natural gas sector were transferred (Unbundling) to REN-Rede Eléctrica Nacional, S.A.. Consequently, the Group's financial statements are affected by the sale of the above mentioned assets and liabilities, which resulted in an increase of tEuros 219,987 in consolidated net profit for the year ended 31 December 2006. Therefore, whenever necessary, reference is made to the "Unbundling process", which is explained in Note 31.

b3) Electricity generating operations

The operations of the Galp Power Group subsidiaries consist of generating and commercialising electric power and thermal electricity.

C) OPERATIONS

The Galp Energia Group's operations consist of the following:

- The exploration and production business ("E&P") is responsible for Galp Energia's upstream operations in the petroleum industry, which consists of the supervision and performance of all the activities relating to the exploration, development and production of hydrocarbons, essentially in Angola and Brazil;

- The Petroleum Product Refining and Distribution business ("Refining and Distribution") has the only two refineries in Portugal and also includes all the activities relating to the retail and wholesale commercialisation of petroleum products (including LNG). The Refining and Distribution segment also controls the majority of the petroleum product storage and transport infrastructures in Portugal, which are strategically located for both exporting and distribution of the main products to the consumption centres;

- The Gas and Power business covers the Purchasing, Commercialisation and Distribution of Natural Gas and generation of electricity.

  » The Purchasing, Commercialisation and Distribution of Natural Gas area supplies Natural Gas to large industrial customers that consume more than 2 million m^3, to electricity generating companies and natural gas distribution companies and UAG's ("natural gas distributors"). So as to satisfy the demand of its customers, Galp Energia has long term purchase contracts with companies in Algeria and Nigeria.

  » The Natural Gas Distribution area, together with the natural gas distribution companies in which Galp Energia has a significant participation, sell natural gas to residential, commercial and industrial customers that consume less than 2 million m^3.

  » The Power area, which currently generates electric power and thermal electricity, supplies large industrial customers. Galp Energia presently has participations in three co-generation plants with an installed capacity of 80 MW.

The accompanying financial statements are presented in the functional currency Euros, as this is the currency used preferentially in the financial environment in which the Company operates.

2. MAIN ACCOUNTING POLICIES

The main accounting policies used by the Group to prepare the consolidated financial statements are explained below. In 2006 there were no changes in accounting policies in relation to those used to prepare the financial statements for the preceding year, which are presented for comparison purposes. In addition there no significant prior year errors recognised.

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

2.1. BASES OF PRESENTATION

Galp Energia's consolidated financial statements were prepared on a going concern basis, at historical cost except for financial derivative instruments which are stated at fair value (Note 2.17), from the accounting records of the companies included in the consolidation (Notes 3 and 4), maintained in accordance with generally accepted accounting principles in Portugal, adjusted in the consolidation process so as to conform to International Financial Reporting Standards as adopted by the European Union, effective for the years beginning on 1 January 2005. These standards include International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC") and respective interpretations – SIC and IFRIC, issued by the International Financial Reporting Interpretation Committee ("IFRIC") and Standing Interpretation Committee ("SIC"). These standards and interpretations are hereinafter referred to as IFRS.

Although the consolidated financial statements as of 31 December 2005, presented to and approved by the Shareholders' General Meeting were prepared in accordance with generally accepted accounting principles in Portugal ("POC"), the Group also prepared, for the first time in 2005, for inclusion in the prospectus for the Public Sales Offering and admission of part of its shares to trading, consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, which include details and descriptions of the transition adjustments as of 1 January 2004 (transition date), having applied the provisions of IFRS 1 – First Time Adoption of International Financial Reporting Standards ("IFRS 1").

2.2. CONSOLIDATION PRINCIPLES

The following consolidation methods were used by the Group:

A) INVESTMENTS IN GROUP COMPANIES

Investments in companies in which the Group holds, directly or indirectly, more than 50% in their voting rights in Shareholders' General Meetings and/or has the power to control their financial and operating policies (the definition of control adopted by the Group) were consolidated in these financial statements in accordance with the full consolidation method. The companies consolidated in accordance with the full consolidation method are shown in Note 3.

Equity and net profit for the year corresponding to third party participation in subsidiaries are reflected separately in the consolidated balance sheet and income statement in the caption minority interest. Where losses applicable to minority shareholders exceed the minority interest in equity of the subsidiary, the Group absorbs such loss and any additional losses, except where the minority shareholders must and are able to cover such losses. If a subsidiary subsequently reports profits, the Group appropriates all the profits until the amount of the minority shareholders' losses absorbed by the Group has been recovered.

The assets and liabilities of each Group company are recognised at fair value as of the date of acquisition. Any excess of cost over the fair value of the net assets and liabilities acquired is recognised as goodwill (Note 2.2.d)). If the difference between cost and fair value of the assets and liabilities acquired is negative, it is recognised as income for the year.

Minority interest includes third party proportion of the fair value of the identifiable assets and liabilities as of the date of acquisition of the subsidiaries.

The results of subsidiaries acquired or sold during the year are included in the income statement from the date of acquisition or till the date of sale.

Whenever necessary, adjustments are made to the financial statements of subsidiaries for them to conform to the Group's accounting policies. Transactions (including unrealised gains and losses on sales between Group companies), balances and dividends distributed between Group companies are eliminated in the consolidation process.

Where the Group has, in substance, control over other special purpose entities, even if it does not have direct participation in their capital, they are consolidated in accordance with the full consolidation method. Where such entities exist, they are included in Note 3.

Investments in Group companies excluded from the consolidation are immaterial and are recorded at cost (Note 5.).

B) PARTICIPATIONS IN JOINTLY CONTROLLED ENTITIES

Participations in jointly controlled companies are included in the accompanying consolidated financial statements in accordance with the proportional consolidation method as from the date joint control is acquired. In accordance with this method, assets, liabilities, income and costs of such companies are included in the accompanying consolidated financial statements, caption by caption, in proportion to the control attributable to the Group. The companies consolidated in accordance with the proportional method are listed in Note 3.

The excess of cost in relation to the fair value of the identifiable assets and liabilities of each jointly controlled entity at the date of acquisition is recognised as goodwill (Note 2.2.d)). If the difference between cost and fair value of the assets and liabilities acquired is negative, it is recognised as income for the year.

Transactions, balances and dividends distributed between Group companies are eliminated in the consolidation process, in proportion to the control attributable to the Group.

The classification of investments in jointly controlled companies is determined based on inter-participant agreements that regulate the joint control.

C) INVESTMENTS IN ASSOCIATES

Investments in associates (companies in which the Group has significant influence but does not have control or joint control through participation in the company's financial and operating decisions, normally where it has a participation of between 20% and 50% in the company's capital) are recorded in accordance with the equity method.

In accordance with the equity method investments are recorded at cost, adjusted by the amount corresponding to the Group's participation in the equity (including net profit) of the associated company by corresponding entry to the income statement caption "Share of profit of associates", as well as by dividends received.

The excess of cost in relation to the fair value of the identifiable assets and liabilities of the associated company at the date of acquisition is recognised as goodwill (Note 2.2.d)) and maintained in the book value of the investment. If the difference between cost and fair value of the assets and liabilities acquired is negative, it is recognised in the income statement caption "Share of profit of associates", after reconfirmation of the fair value attributed.

Valuations are made of investments in associates when there are indications that the participation might be impaired, as well as annual valuations of goodwill, any impairment losses determined are recognised in the income statement. When impairment losses recognised in a preceding year no longer exist, they are reversed. However impairment of goodwill is not reversed.

When the Group's share of the accumulated loss of an associated company exceeds the book value of the participation, the participation is recorded at zero, except where the Group has assumed commitments to the associated company, in which case the Group recognises the full amount of the liability assumed with the associated company.

Unrealised gains and losses on transactions with associated companies are eliminated in proportion to the Group's interest in the associated company, by corresponding entry to the investment in the associate. Unrealised losses are also eliminated, but only up to the point in which the loss does not show that the asset transferred is impaired.

The participations in associated companies are shown in Note 4.

D) GOODWILL

Differences between the cost of investments in Group companies, jointly controlled companies and associated companies and the fair value of the identifiable assets and liabilities of these companies at the date of acquisition, if positive is recognised as goodwill (in the case of goodwill in group companies or jointly controlled companies) (Note 12) or as investments in associates (in the case of associated companies).

Differences between the cost of foreign investments and the fair value of the identifiable assets and liabilities at the date of acquisition are recognised in their functional currencies and translated to the Group's functional currency (Euros) at the rate of exchange on the balance sheet date. Exchange differences resulting from the translation are recorded in equity.

Goodwill on acquisitions after 1 January 2004 (date of transition to IFRS) as well as net goodwill on earlier acquisitions is not amortised, but is subject to impairment tests at least annually to determine if there are impairment losses. Impairment losses are recorded immediately on the balance sheet as deductions from the amount of the assets by corresponding charge to the income statement caption "Other gains and losses" and are not subsequently reversed.

Negative differences between the cost of investments in Group companies, jointly controlled companies and associated companies and the fair value of the assets and liabilities of these companies are recognised as gains on the date of acquisition, after reconfirming the fair value of the identifiable assets and liabilities.

Goodwill on acquisitions before the transition date (1 January 2004)

As permitted by IFRS 1, goodwill on acquisitions prior to the date of transition to IFRS (1 January 2004) has been maintained at the amounts recognised in accordance with generally accepted accounting principles in Portugal (deemed cost) at that date and is subject to impairment tests.

E) TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS

Entities operating abroad that have organisational and financial autonomy are treated as foreign entities.

Assets and liabilities in the financial statements of foreign entities are translated to Euros at the rates of exchange in force on the balance sheet date and income and costs and cash flows in these financial statements are translated to Euros at the average rates of exchange for the year. The resulting exchange differences arising after 1 January 2004 (date of transition to IFRS) are recognised in the equity caption "Translation reserve". Exchange differences arising up to 1 January 2004 (date of transition to IFRS) were reversed by corresponding entry to "Retained earnings".

Goodwill and the fair value adjustments resulting from the acquisition of foreign entities are treated as assets and liabilities of these entities and translated to Euros at the exchange rates in force on the balance sheet date.

When a foreign entity is sold the accumulated exchange difference is transferred from the equity caption "Translation reserve" to the income statement caption "Other gains and losses".

The financial statements of foreign entities included in the accompanying consolidated financial statements were translated to Euros at the following rates of exchange:

RATES IN FORCE AT THE END OF THE YEAR	RATE OF EXCHANGE	
CURRENCY	2006	2005
US Dollars	1.32	1.18
Brazilian Reais	2.81	2.74
Cape Verde Escudos	110.27	110.27
Moroccan Dirhams	11.15	10.95
CFA Francs	655.96	655.96
Mozambique Meticais	34.47	27.97

AVERAGE RATE FOR THE YEAR	RATE OF EXCHANGE	
CURRENCY	2006	2005
US Dollars	1.26	1.24
Brazilian Reais	2.73	3.04
Cape Verde Escudos	110.27	110.27
Moroccan Dirhams	11.05	11.03
CFA Francs	655.96	655.96
Mozambique Meticais	32.64	28.30

2.3. TANGIBLE FIXED ASSETS

Tangible fixed assets acquired up to 1 January 2004 (date of transition to IFRS) are stated, as allowed under an option included in IFRS 1, at deemed cost, which corresponds to cost, revalued in accordance with the legislation in force up to that date, less accumulated depreciation, impairment loss and investment subsidies.

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

Tangible fixed assets in progress include fixed assets in the construction phase and are recorded at cost less investment subsidies and impairment losses. Tangible fixed assets in progress are depreciated as from the time the capital expenditure projects are completed and the assets are ready for use.

Depreciation is provided over the amount considered as cost (for acquisitions up to 1 January 2004) and cost, on a straight-line basis, as from the year in which the assets start operating, at rates considered most financially appropriate to depreciate the assets during their estimated useful lives, limited, where applicable, to the concession period.

The average annual depreciation rates used are as follows:

	RATES
Land and natural resources - public right of free passage	2.20% - 3.13%
Buildings and other constructions	2.00% - 10.00%
Machinery and equipment	2.20% - 12.50%
Transport equipment	16.67% - 25.00%
Tools and utensils	12.50% - 25.00%
Administrative equipment	5.00% - 33.33%
Reusable containers	7.14% - 33.33%
Other tangible fixed assets	10.00% - 33.33%

The natural gas infrastructures, namely the gas distribution networks, are depreciated over a period of 45 years as this is considered to be the period of useful life of these assets.

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

» OIL EXPLORATION AND PRODUCTION

Tangible fixed assets relating to oil exploration and production are recorded at cost, which includes essentially:

i) costs incurred with the exploration and development of the oil fields, plus overheads, less the effect of exchange rates, incurred up to the time production starts, which are recorded in fixed assets in progress. When the oil field starts producing, these costs are transferred from fixed assets in progress to the definitive fixed assets captions and depreciated in accordance with a coefficient calculated based on the proportion of the volume produced in each depreciation period in relation to the proved developed reserves at the end of the period, plus production for the period. Therefore, such costs relating to oil fields which are still in the exploration and development phase are classified as fixed assets in progress;

ii) costs of acquiring oil exploration and production licences (signature bonus), which are depreciated on a straight-line basis, as from the beginning of production, over the remaining period of the licence.

All costs incurred in the exploration phase of unsuccessful oil fields are recognised as costs in the income statement for the year in which discontinuance of the exploration and/or development work becomes known.

Gains and losses on the sale of fixed assets are determined by the difference between the sales price and the net book value at the date of sale or write-off. Net book value includes accumulated impairment losses. The book gains and losses are recognised in the income statement captions "Other operating income" or "Other operating costs".

2.4. INTANGIBLE FIXED ASSETS

Intangible assets are stated at cost less accumulated amortisation, investment subsidies and impairment losses. Intangible assets are only recognised if it is probable that they will result in future financial benefits to the Group, they are controllable and can be reliably measured.

Research costs are recognised as costs for the year.

Development costs 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 start commercialising or using it, and it is probable that the asset created will generate future financial benefits. If the development costs do not fulfil these requirements, they are recorded as costs for the year in which they are incurred.

Intangible assets with finite useful lives are amortised on a straight-line basis as from when they start being used.

The amortisation rates vary in accordance with the period of the existing contracts or expected use of the intangible assets.

The Group capitalises costs relating to the conversion of consumption to natural gas, which involves adapting the installations. The Group believes that it can control the future financial benefits resulting from this conversion, through the continued sale of gas to homes and inclusion of such costs in the prices approved by the General Directorate of Geology and Energy. These costs are amortised on a straight-line annual basis up to the end of the period of the concession of the gas distribution companies.

Intangible assets include, in addition to the cost of conversion of consumption to natural gas, costs incurred on software development, exclusivity bonuses paid to retailers of Galp products and surface rights costs, which are amortised over the period of the respective contracts (which ranges from ten to twenty years).

2.5. IMPAIRMENT OF NON-CURRENT ASSETS EXCEPT GOODWILL

Impairment tests are made as of the balance sheet date and whenever there are indications that an asset or assets have lost value.

Whenever the book value of an asset exceeds its recoverable amount an impairment loss is recognised by charge to the income statement captions impairment loss on tangible or intangible fixed assets.

The recoverable amount is the greater of the net selling price or 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 useful life. The recoverable amount is estimated for the asset or cash generating unit to which it belongs.

Impairment losses recognised in earlier periods are reversed when it is concluded that they no longer exist or have decreased. Such tests are made when there are indications that an impairment recognised in an earlier period has reverted. Reversal of impairment is recognised as a decrease in the income statement caption "Amortisation and depreciation cost". However, impairment losses are only reversed up to the amount at which the asset would be recorded (net of amortisation or depreciation) if the impairment loss had not been recorded in an earlier period.

2.6. LEASING

Lease contracts are classified as:

i) Finance leases if substantially all the risks and benefits of ownership are transferred; and

ii) Operating leases where this does not occur.

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

» LEASING IN WHICH THE GROUP IS THE LESSEE

Fixed assets acquired under finance lease contracts and the corresponding liabilities are recognised in accordance with the financial method. In accordance with this method the cost of the assets (the lower of fair value or the discounted amount of the lease instalments) is recognised in tangible fixed assets, the corresponding liability is recorded and interest included in the lease instalments and depreciation of the fixed assets, calculated as explained in Note 2.3, is recorded as financial cost and amortisation and depreciation cost in the income statement of the year to which they relate, respectively.

In the case of operating leases, the lease instalments are recorded as costs for the year, on a straight-line basis over the period of the contract, in the income statement caption material and services consumed.

2.7. INVENTORIES

Inventories are stated as follows:

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

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

Where cost exceeds net realisable value, the difference is recorded as an operating cost in the caption inventories consumed and sold.

Specifically, the cost of inventories is determined as follows:

A) RAW AND SUBSIDIARY MATERIAL

Crude oil - Cost includes the invoice price and transport and insurance costs and is determined on a FIFO (first in, first out) cost basis, by family of products, which includes all the crude branches.

Other raw materials (excluding general materials) – Cost includes the invoice price and transport and insurance costs and is determined on a FIFO (first in, first out) cost basis, by family of products, determined considering the nature of the materials.

General materials – Cost includes the invoice price and transport and insurance costs and is determined on an average cost basis.

B) PRODUCTS AND WORK IN PROCESS

Production cost includes the cost of materials, external supplies and services and overheads.

C) FINISHED AND SEMI-FINISHED PRODUCTS

Crude oil – corresponds to crude oil produced in the oil exploration and production activity and in inventory at 31 December of each year, corresponding to the Company's quota of the total inventory of each development area. Such inventories are stated at production cost, which includes direct production costs plus depreciation for the year and provision for abandonment costs.

Oil products - Finished and semi-finished products received from production are recorded at production cost, which includes the cost of raw and other materials consumed, direct labour costs and production overheads. Products purchased from third parties are stated at cost, which includes the invoice price and transport and insurance costs, determined on a FIFO basis applied to families of products made up considering the nature of the products.

The Petrogal Group includes, in the caption finished and semi-finished products, the Tax on Oil Products ("Imposto sobre Produtos Petrolíferos – ISP") relating to the introduction to consumption of finished goods shipped subject to that tax, which is stated at cost determined on a FIFO cost basis.

Other finished and semi-finished products – Production cost includes the cost of raw and other materials consumed and fixed and variable production costs, cost being determined on an average cost basis.

D) MERCHANDISE

Cost includes the invoice price and transport and insurance costs, determined on a FIFO cost basis for natural gas and average cost basis for petroleum derivative products and other merchandise.

In the case of Transgás, S.A. cost also includes the costs incurred up to the Portuguese border, relating to transport and rights of passage through Moroccan territory.

As mentioned earlier, the Petrogal Group also includes, in the caption inventories, Tax on Oil Products relating to merchandise already shipped subject to that tax.

As raw and subsidiary materials and merchandise in transit are not available for consumption or sale, they are segregated from the other inventories and recorded at specific cost.

E) UNDER/OVER LIFTING

In the case of the oil exploration and production activity, where the Company has underlifted oil in relation to its production quota and the amount underlifted has been loaned to other joint venture partners, it is stated at market price, recorded in a caption of other receivables (Note 15).

On the other hand, where the Company has overlifted oil in relation to its production quota, the amount overlifted is stated at market price in a caption of other payables (Note 25).

These accounts receivable and payable are adjusted to the respective crude oil market prices at the end of each period.

2.8. GOVERNMENT AND OTHER STATE SUBSIDIES

Government subsidies are recognised at fair value when it is certain that they will be received and that the Group companies will comply with the conditions required for their concession.

Operating subsidies are recognised in the income statement in proportion to the costs incurred.

Non repayable subsidies granted to the Group to finance tangible and intangible fixed assets (reconversions) are recorded as decreases in the amount of the assets and recognised in the income statement as a decrease in the amount of amortisation and depreciation for the year, in proportion to amortisation and depreciation of the subsidised assets.

2.9. PROVISIONS

Provisions are recorded when, and only when, the Group has an obligation (legal or implicit) resulting from a past event in which there probably will be an outflow of resources to resolve it and the amount can be reasonably estimated. Provisions are reviewed and adjusted on each balance sheet date so as to reflect the best estimate at that date. Provisions for restructuring costs are recognised by the Group whenever there is a formal detailed restructuring plan.

2.10. PENSION LIABILITY

Petrogal, Sacor Marítima and some companies of GDP Group (GDP Distribuição, SGPS, S.A., Lisboagás – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. and Driftal – Plastificantes de Portugal, S.A.) have assumed the commitment to pay their employees pension supplements for retirement due to age, disability and pensions to survivors as well as early retirement and pre-retirement pensions. With the exception of early retirement and pre-retirement pensions, these payments are calculated on an increasing basis in accordance with the number of years of employment. Early retirement and pre-retirement pensions correspond basically to the employee's remuneration. When applicable, these commitments also include the payment of Social Security of pre-retired personnel, voluntary social insurance of early retirees and retirement bonuses payable upon normal retirement.

Petrogal, Sacor Marítima and the GDP Group companies have created autonomous pension funds managed by outside entities ("Fundo de Pensões Petrogal", "Fundo de Pensões Sacor Marítima" and "Fundo de Pensões GDP") to cover their liabilities relating to pension supplements for retirement due to age, incapacity and survivor pensions to current employees and retired personnel and, in the case of Petrogal, also to pre-retired and early retired personnel. However, the Petrogal Pension Fund does not cover the liability for early retirement and pre-retirement pensions, Social Security of pre-retired personnel and the payment of voluntary social insurance and retirement bonuses. These liabilities are covered by specific provisions included in the balance sheet caption "Retirement and other benefit obligations".

In addition, the GDP pension plan does not cover the liability assumed by Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. ("GDL") to reimburse the retirement pension supplements payable by EDP to its retired personnel and pensioners relating to that company, as well as retirement and survivor supplements payable to retired personnel at the time of creating the Fund. These liabilities are covered by specific provisions included in the balance sheet caption "Retirement and other benefit obligations".

At the end of each accounting period the companies obtain actuarial valuations calculated in accordance with the Projected Unit Credit Method and compare the amount of their liabilities with the market value of the funds and with the balance of the provisions, in order to determine the additional provisions to be recorded.

The actuarial gains and losses determined in a year for each of the benefits granted, resulting from adjustments to the actuarial assumptions, experience adjustments or adjustments to the scheme of benefits are only recorded if the net accumulated amount of these actuarial gains and losses not recognised (Total Deviation) at the end of the period exceeds in absolute amount the greater of: 10% of the total liability or 10% of the market value of the fund, being recognised in the income as from the year following that which it is determined, on a straight-line basis in accordance with the expected average number of working years of the employees participating in the benefit plan.

The benefit plans identified by the Petrogal Sub-Group for determination of these liabilities are:

- Pension supplements for retirement, disability and surviving orphan;
- Pre-retirement;
- Early retirement;
- Retirement bonus;
- Voluntary social insurance;
- Special flexible retirement age regime under Decree-Law 9/99;
- Minimum benefit of defined contribution plan.

The benefit plans identified by the GDP Sub-Group for determination of these liabilities are:

- Pension supplements for retirement, disability and surviving orphan;
- Pre-retirement;
- Special flexible retirement age regime under Decree-Law 9/99.

On 31 December 2002 the Portuguese Insurance Institute authorised the creation of the Galp Energia defined contribution Pension Fund. The Group allowed some subsidiaries, as associates of the Fund, to let their employees choose between this new defined contribution pension plan and the previous defined benefits plan, paying to the Group, in the case of option for the new plan, an amount defined annually, corresponding to a percentage of the salary of each employee, which is recognised as a cost for that year.

2.11. OTHER RETIREMENT BENEFITS – HEALTHCARE, LIFE ASSURANCE AND MINIMUM BENEFIT OF DEFINED CONTRIBUTION PLAN

The Group's costs with respect to healthcare, life assurance and minimum benefit of defined contribution plan are recognised over the period in which the employees entitled to these benefits are in service in the respective companies, the liability being reflected in the balance sheet caption "Retirement and other benefit obligations" (Note 24). Payments each year to the beneficiaries are recorded as reductions in the provisions.

At the end of each accounting period the Group obtains actuarial valuations of the amount of its liability, calculated in accordance with the Projected Unit Credit method, and compares this with the provisions recorded in order to determine the additional amount to be recorded.

Actuarial gains and losses for the year are recorded as explained in Note 2.10 above.

2.12. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

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

All foreign currency monetary assets and liabilities in the individual financial statements of subsidiaries are translated to the functional currency of each subsidiary using the rates of exchange in force at the balance sheet date of each period. Foreign currency non monetary assets and liabilities recorded at fair value are translated to the functional currency of each subsidiary at the rate of exchange in force on the date that fair value is determined.

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 the balance sheet date are recorded as income and expenses, respectively, in the consolidated income statement caption "Exchange gain (loss)", except for those relating to non monetary items, in which case the change in fair value is recorded directly in equity.

When the Group intends reducing its exposure to exchange rate risk it contracts hedging derivative instruments (Note 2.17.f)).

2.13. INCOME AND ACCRUALS BASIS

Sales income is recognised in the income statement when the risks and benefits of ownership of the assets are transferred to the buyer and the amount of the income can be reasonably quantified. Sales are recognised at the fair value of the amount received or receivable, net of taxes, discounts and other costs incurred to realise them.

The sales price of natural gas is determined by the Government through the General Directorate of Geology and Energy. The selling price of natural gas is fixed quarterly in accordance with a formula established in the concession contract. Except for Lusitaniagás, invoicing and collections relating to the distribution of natural gas are made by the EDP – Electricidade de Portugal Group and GDP Group companies, depending on whether they refer to small or large customers, respectively.

Sales of gas not invoiced are recorded monthly in the caption "Other receivables" based on the estimated amount to be invoiced, and corrected in the period in which the meter reading takes place.

Costs and income are recorded in the period to which they relate, independently of when they are paid or received. Where the actual amounts of costs and income are not known they are estimated.

Costs and income relating to the current period, in which payment and receipt will only occur in future periods, and payments and receipts in the current period relating to costs and income of future periods, and which will be allocated to each of these periods by the amount applicable to each of them are recorded in the current captions "Other assets" and "Other liabilities".

2.14. FINANCIAL COSTS ON LOANS OBTAINED

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

Financial costs on loans to finance investments in fixed assets are capitalised in fixed assets in progress in proportion to the total costs incurred on the investments, net of subsidies received (Note 2.8), up to the time they start operating (Notes 2.3. and 2.4.), being the remaining financial costs recorded in the income statement caption "Financial costs" (Note 9.). Possible interest income relating to loans obtained directly to finance fixed assets in construction is deducted from the capitalisable financial costs.

Financial costs included in tangible fixed assets are depreciated over the period of useful life of the assets.

2.15. INCOME TAX

Income tax is calculated based on the taxable results of the companies included in the consolidation in accordance with the tax rules in force in the area in which each Galp Group head office is located.

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

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

Deferred tax assets are recorded only when there is reasonable expectation of future taxable income to use them or in situations in which there are taxable temporary differences that offset the deductible temporary differences in the period they revert. Temporary differences underlying deferred tax assets are reviewed at each balance sheet date in order to recognise deferred tax assets not recorded previously due to not fulfilling the conditions needed for them to be recorded and/or to reduce the amounts of deferred tax assets recorded based on the current expectation of their future recovery (Note 10.).

Deferred taxes are recorded in the income statement for the year, unless they result from items recorded directly in equity, in which case the deferred tax is also recorded in equity.

2.16. NON-CURRENT ASSETS AVAILABLE FOR SALE

Non-current assets (and groups of assets and liabilities related to them) are classified as available for sale if their book value is expected to be realised through sale and not through their continued use. This condition is considered to exist when the sale is very probable and the asset (and the group of assets and liabilities related to it) is available for immediate sale in its present condition. In addition, actions must be in progress showing that the sale is expected to be realised within a period of 12 months from the date the assets are classified in this caption.

Non-current assets (and the group of assets and liabilities to be sold related to them) classified as available for sale are recorded at the lower of their book value or fair value less costs to sell. These assets are not depreciated.

2.17. FINANCIAL INSTRUMENTS

Financial assets and liabilities are recognised on the balance sheet when the Group becomes a contractual party to the financial instrument.

A) INVESTMENTS

Investments are classified as follows:

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

Held-to-maturity investments are classified as non-current investments unless they mature in less than 12 months from the balance sheet date, investments with a defined maturity date which the Group intends to retain and has the ability to retain up to their maturity being recorded in this caption.

Investments at fair value through profit or loss are classified as current investments. Available-for-sale investments are classified as non-current assets.

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

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

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

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

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

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

B) RECEIVABLES

Receivables are recognised at their nominal value less impairment losses recognised in the caption "Provision for impairment of receivables", so that they are reflected at their net realisable value.

Receivables usually do not bear interest.

C) EQUITY OR LIABILITY CLASSIFICATION

Financial liabilities and equity instruments are classified in accordance with their contractual substance, independently of their legal form.

D) LOANS

Loans are recorded as liabilities at the nominal amount received, net of costs to issue the loans.

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

Financial costs include interest and, where applicable, origination fees on Project Finance loans.

E) TRADE AND OTHER PAYABLES

Payables do not usually bear interest and are recognised at their nominal value.

F) DERIVATIVE INSTRUMENTS

» HEDGE ACCOUNTING

The Group uses derivative instruments in managing its financial risks as a way to hedge such risks. Derivative instruments to hedge financial risks are not used for trading purposes.

Derivative instruments used by the Group to hedge cash flows correspond fundamentally to interest rate hedging instruments on loans obtained. The coefficients, calculation conventions, interest rate re-fixing dates and repayment schedules of interest rate hedging instruments are in all ways identical to the conditions established in the underlying contracted loans, and so they correspond to perfect hedges.

The following criteria are used by the Group to classify derivative instruments as cash flow hedging instruments:

- The hedge is expected to be very effective in offsetting the changes in the cash flow of the risk hedged;
- The hedging effectiveness can be reliably measured;
- There is adequate documentation of the hedge at the beginning of the operation; and
- The hedged transaction is highly probable.

Interest rate hedging instruments are initially recognised at cost, if any, and subsequently revalued to fair value, calculated by independent external entities using generally accepted valuation methods. The changes in fair value of these instruments are recognised in the equity caption "Hedging reserves", being transferred to the income statement when the hedged instrument affects results.

Hedge accounting is discontinued when the derivative instruments mature or are sold. Where the derivative instrument stops qualifying as a hedging instrument, the accumulated fair value differences deferred in the equity caption "Hedging reserves" are transferred to the income statement or added to the book value of the asset which gave rise to the hedging transaction, and subsequent revaluations are recognised directly in the income statement.

A review was made of the Galp Energia Group's existing contracts so as to detect embedded derivatives, namely contractual clauses that could be considered as financial derivatives, no financial derivatives that should be recognised at fair value having been found.

When embedded derivatives exist in other financial instruments or other contracts, they are recognised as separate derivatives in situations in which the risks and characteristics are not intimately related to the contracts and in situations in which the contracts are not reflected at fair value with unrealised gains and losses reflected in the income statement.

In addition, in specific situations the Group also contracts interest rate derivatives to hedge fair value. In such situations the derivatives are recognised at fair value through the income statement. In cases in which the hedged instrument is not measured at fair value (namely loans measured at amortised cost), the effective portion of the hedge is adjusted to the book value of the hedged instrument through the income statement.

» TRADING INSTRUMENTS

The Group uses derivative financial instruments, essentially crude oil and finished product swaps and crude oil options, to hedge refining margin fluctuation risk. Although these instruments are contracted to hedge financial risk in accordance with the Group's risk management policies, they do not comply with the requirements of IAS 39 for hedge accounting, and so changes in their fair value are recognised in the income statement for the period in which they occur. At 31 December 2006 these instruments were recorded at fair value.

G) CASH AND CASH EQUIVALENTS

The amounts included in the caption "Cash and cash equivalents" correspond to cash, bank deposits, term deposits and other treasury applications that mature in less than three months, and that can be realised immediately with insignificant risk of change in their value.

For cash flows statement purposes the caption "Cash and cash equivalents" also includes bank overdrafts included in the balance sheet caption "Bank loans and overdrafts".

2.18. CO_2 EMISSION LICENCES

CO_2 emitted by the Group's plants and the "CO_2 emission licences" attributed to it under the National CO_2 Licence Allotment Plan do not give rise to any financial statement recognition provided that: (i) it is not estimated that there will probably be a need for costs to be incurred by the Group to acquire emission licences in the market, which would be recognised by the recording of a provision or (ii) such licences are not sold in the event that they are excessive, in which case income would be recognised.

2.19. BALANCE SHEET CLASSIFICATION

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

2.20. SUBSEQUENT EVENTS

Events that occur after the balance sheet date that provide additional information on conditions that existed at the balance sheet date are recognised in the consolidated income statement. Events that occur after the balance sheet date that provide information on conditions that exist after the balance sheet date, if material, are disclosed in the notes to the financial statements.

2.21. SEGMENT REPORTING

All the business and geographic segments applicable to the Group are identified in each period.

Information regarding income by business segment identified is provided in Note 8.

2.22. ESTIMATES AND JUDGEMENTS

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

Certain estimates are considered critical if: (i) the nature of the estimates is considered to be significant due to the level of subjectivity and judgement required to record situations in which there is great uncertainty or are very susceptible to changes in the situation and; (ii) the impact of the estimates on the financial situation or operating performance is significant.

The accounting principles and areas that require the greatest number of judgements and estimates in the preparation of financial statements are: (i) proven crude oil reserves relating to petroleum exploration activity; (ii) goodwill impairment tests; (iii) provision for contingencies and environmental liabilities; and (iv) actuarial and financial assumptions used to calculate retirement benefits.

» CRUDE OIL RESERVES

The estimation of crude oil reserves is an integral part of the decision-making process relating to exploration activity assets and the development of crude oil, in addition to supporting the development or implementation of secondary recovery techniques. The volume of proven crude oil reserves is used to calculate depreciation of the petroleum exploration and production assets serving to support the calculation of the "unit of production", as well as to value the impairment of the investments in assets relating to that activity. Estimated proven crude oil reserves are also used to recognise annual abandonment costs.

Galp prepares its crude oil reserve estimates considering the rules established for the Oil and Gas industry, based on technical information supplied by the Operator of the consortiums in which it participates.

Estimated proven reserves are subject to future revision, based on new information available, such as information relating to the development activities, drilling or production, exchange rates, prices, contract termination dates and development plans.

The volume of crude oil produced and cost of the assets are known, while the proven reserves are very likely to be recovered and are based on estimates subject to adjustment. The impact on depreciation and provision for abandonment costs, of changes in the estimated proven reserves is treated on a prospective basis, net book value being depreciated and the provision being increased based on expected future production. In 2006 and 2005 the Group recorded depreciation of tEuros 24,010 and tEuros 18,791, respectively, on fixed assets relating to the exploration and production of crude oil. If the proven reserves are revalued downwards, future net profit could be affected negatively by increased depreciation cost.

» GOODWILL

The Group performs annual impairment tests of goodwill as explained in Note 2.2.d). The recoverable amounts of the cash generating units were determined based on their value in use. In calculating value in use, the Group estimated the expected future cash flows from the cash generating units, as well as an appropriate discount rate to calculate the present value of the flows. Goodwill at 31 December 2006 amounted to tEuros 17,032 (Note 12.).

» PROVISIONS FOR CONTINGENCIES

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

» ENVIRONMENTAL LIABILITIES

Galp makes judgements and estimates to calculate provisions for environmental matters (relating essentially to the known requirements of soil decontamination), based on current information relating to expected intervention costs and plans. Such costs can vary due to changes in the legislation and regulations, change in conditions of a specific location, as well as in decontamination technologies. Consequently, any change in the circumstances relating to such provisions, as well as in the legislation and regulations can significantly affect the provisions for such matters. The provision for environmental matters is revised annually. At 31 December 2006 and 2005 the provision for environmental liabilities amounted to tEuros 11,034 (Note 26.) and tEuros 11,037, respectively.

» ACTUARIAL AND FINANCIAL ASSUMPTIONS USED TO CALCULATE RETIREMENT BENEFIT LIABILITIES

See Note 2.10.

2.23. RISK MANAGEMENT AND HEDGING

The Group's operations lead to the exposure to risks of: (i) market as a result of the volatility of prices of oil, natural gas and its derivatives, exchange rates and interest rates; (ii) credit as a result of its commercial activity; (iii) liquidity as the Group could have difficulties in having the financial resources necessary to cover its commitments.

The Group has an organisation that enables it to identify, measure and control the different risks to which it is exposed and uses several financial instruments to hedge them in accordance with the corporate directives common to the whole Group. The contracting of these instruments is centralised.

The accounting policies explained in this section contain more details of these hedges.

3. COMPANIES INCLUDED IN THE CONSOLIDATION

The accounting policies explained in this section contain more details of these hedges.

PERCENTAGE PARTICIPATION HELD									
	HEAD OFFICE		31.12.2006			31.12.2005			
COMPANY	CITY	COUNTRY	DIRECT	INDIRECT	TOTAL	DIRECT	INDIRECT	TOTAL	PRINCIPAL ACTIVITIES
A) Group Companies									
Parent company:									
Galp Energia, SGPS, S.A.	Lisbon	Portugal	-	-	-	-	-	-	Management of equity participations in other companies as an indirect form of realising business actvities.
Subsidiaries:									
Galp Energia, S.A.[a]	Lisbon	Portugal	100%	-	100%	100%	-	100%	Business management and consultaney services.
Petrogal sub-group									
Petróleos de Portugal - Petrogal, S.A.	Lisbon	Portugal	100%	-	100%	100%	-	100%	Refining of crude oil and derivatives; Transport, distribution and commercialisation of crude oil and derivatives and natural gas; Research and exploration of crude oil and natural gas; and any other industrial, commercial and investigation activities and rendering of services relating to these areas.
Subsidiaries:									
Galp Energia España, S.A. and subsiduaries:[b]	Madrid	Spain	-	100%	100%	-	100%	100%	Refining of crude oil and derivatives; Transport, distribution and commercialisation of crude oil and derivatives and natural gas;
Galpgest - Petrogal Estaciones de Servicio, S.L.U.	Madrid	Spain	-	100%	100%	-	100%	100%	Management and operation of services stations.
Estación de Servicio Alcalá, S.L.	Madrid	Spain	-	b)	b)	-	100%	100%	Operation of service stations.
Gasolinera Gon, S.L.	Huelva	Spain	-	b)	b)	-	100%	100%	Storage, distribution and sale of any type of gasoline, diesel fuel, industrial oil for use in motor vehicles and all service station systems.
CLG - Compañia Logistica del Gas, S.A.	Madrid	Spain	-	100%	100%	-	100%	100%	Storage and distribution of products derived from petroleum.
Petróleos de Valencia, S.A., Sociedad Unipersonal	Valencia	Spain	-	100%	100%	-	100%	100%	Deposit, storage and distribution of petroleum products and chemical products and their derivatives and sub products, in solid, liquid or gas state.
Galp Serviexpress, S.L.U.	Madrid	Spain	-	100%	100%	-	100%	100%	Deposit, storage and distribution of petroleum products and chemical products and their derivatives and sub products, in solid, liquid or gas state.

PERCENTAGE PARTICIPATION HELD									
	HEAD OFFICE		31.12.2006			31.12.2005			
COMPANY	CITY	COUNTRY	DIRECT	INDIRECT	TOTAL	DIRECT	INDIRECT	TOTAL	PRINCIPAL ACTIVITIES
Sacor Marítima, S.A. and subsidiaries:	Lisbon	Portugal	-	100%	100%	-	100%	100%	Marine transport in own or chartered ships.
Gasmar - Transportes Marítimos, Lda.	Funchal	Portugal	-	100%	100%	-	100%	100%	Marine transport in own or chartered ships.
Tripul - Soc. de Gestão de Navios, Lda.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Technical management of ships, crew and supplies.
S.M. Internacional - Transp. Marítimos, Lda.	Funchal	Portugal	-	100%	100%	-	100%	100%	Marine transport in own or chartered ships.
Probigalp - Ligantes Betuminosos, S.A.	Amarante	Portugal	-	50%	50%	-	50%	50%	Purchase, sale, manufacture, transformation import and export of bituminous products of additives that transform or modify such products.
Soturis - Sociedade Imobiliária Turística, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Real estate activities, namely the management purchase, sale and resale estate.
Sopor - Sociedade Distribuidora de Combustíveis, S.A.	Lisbon	Portugal	-	51%	51%	-	51%	51%	Distribution, sale and storage of liquid and gas fuel, lubricants and other petroleum derivatives; service stations and repair workshops, including related business, namely restaurants and hotels.
Eival - Sociedade de Empreendimentos, Investimentos e Armazenagem de Gases, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Wholesale commerce of gas products, lubrificants, thermo domestic products and burning and gas installation material.
Galp Exploração e Produção Petrolífera, Lda. and subsidiary:	Funchal	Portugal	-	100%	100%	-	100%	100%	Petroleum commerce and industry, including prospecting, research and exploration of hydrocarbons.
Gite - Galp International Trading Establishment	Vaduz	Liechtenstein	-	24%	24%	-	24%	24%	Petroleum commerce and industry, including prospecting, research and exploration of hydrocarbons.
Galp Serviexpress - Serv. de Distrib. e Comercialização de Produtos Petrolíferos, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Rendering of transport, storage and commercialisation services for liquid gas fuels, base oils and other petroleum derivatives to individuals, small companies and farmers in the domestic and foreign markets. Direct and indirect operation of fuel distribution centers and supporting activities, namely service stations, workshops, the sale of motor vehicle parts and accessories, restaurants and hotels, as well as any other industrial or commercial activity and the rendering of related services.
Galpgeste - Gestão de Áreas de Serviço, Lda. and subsidiary:	Lisbon	Portugal	-	100%	100%	-	100%	100%	Direct and indirect operation of service stations, fuel stations and related or complementary activities, such as service stations, workshops the sale of lubricants motor vehicle parts and accessories, restaurants and hotels.
C.L.T. - Companhia Logística de Term. Marítimos, Lda.	Matosinhos	Portugal	-	100%	100%	-	100%	100%	Operation of marine terminals and related activities.

PERCENTAGE PARTICIPATION HELD									
	HEAD OFFICE		31.12.2006			31.12.2005			
COMPANY	CITY	COUNTRY	DIRECT	INDIRECT	TOTAL	DIRECT	INDIRECT	TOTAL	PRINCIPAL ACTIVITIES
Petrogal Brasil, Lda.	Recife	Brazil	-	100%	100%	-	100%	100%	Research and exploration of crude oil and natural gas, as well as other commercial, industrial and investigation activities and the rendering of related services and also to participate in other companies of any kind and for any purpose.
Petrogal Trading, Limited	Dublin	Ireland	-	100%	100%	-	100%	100%	Crude oil and petroleum product trading.
Petrogal Moçambique, Lda. and subsidiary:	Maputo	Mozambique	-	100%	100%	-	100%	100%	Distribution, storage and commercialisation of liquid and gas fuel, base oils and lubricants and the operation of fuel stations and service stations and vehicle assistance.
Moçacor - Distribuição de Combustíveis, S.A.	Maputo	Mozambique	-	100%	100%	-	100%	100%	Distribution, storage and commercialisation of liquid and gas fuel, base oils and lubricants and the operation of fuel stations and service stations.
Petrogal Angola, Lda. and subsidiary:	Luanda	Angola	-	100%	100%	-	100%	100%	Production, distribution and commercialisation of liquid and gas fuel, base oils and lubricants as well as the operation fuel stations and service stations
Agran - Agroquímica de Angola, SARL	Luanda	Angola	c)	c)	c)	-	99%	99%	Industry and commerce of pesticides.
Petrogal Guiné-Bissau, Lda. and subsidiaries:	Bissau	Guinea-Bissau	-	100%	100%	-	100%	100%	Distribution, transport, storage and commercialisation of liquid and gas fuel, base oils, lubricants and other petroleum derivatives and the operation of fuel stations and vehicle assistance stations, as well as any other industrial, commercial, and investigation activities and the rendering of services relating to this main object.
Petromar - Sociedade de Abastecimentos de Combustíveis, Lda.	Bissau	Guinea-Bissau	-	80%	80%	-	80%	80%	Commerce of marine banks as well as any other activities relating to oil derivatives.
Petrogás - Importação, Armazenagem e Distribuição de Gás, Lda.	Bissau	Guinea-Bissau	-	65%	65%	-	65%	65%	Importation, storage and distribution of LPG as well as exercising any other activities, preferably related to petroleum derivatives.
Galp Açores - Distrib. e Comercialização de Combustíveis e Lubrificantes, Lda. and subsidiary:	P. Delgada	Portugal	-	100%	100%	-	100%	100%	Distribution, storage and commercialisation of liquid and gas fuel, lubricants and other petroleum derivatives.
Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A.	P. Delgada	Portugal	-	68%	68%	-	68%	68%	Construction and operation of filling stations and related storage facilities of LPG and other fuel in the Autonomous Region of the Azores.

PERCENTAGE PARTICIPATION HELD									
	HEAD OFFICE		31.12.2006			31.12.2005			
COMPANY	CITY	COUNTRY	DIRECT	INDIRECT	TOTAL	DIRECT	INDIRECT	TOTAL	PRINCIPAL ACTIVITIES
Galp Madeira - Distrib. e Comercializ. de Combustíveis e Lubrificantes, Lda. and subsidiaries:	Funchal	Portugal	-	100%	100%	-	100%	100%	Distribution, storage and commercialisation of liquid and gas fuel, lubricants and other petroleum derivatives.
CLCM - Companhia Logística de Combustíveis da Madeira, S.A.	Funchal	Portugal	-	75%	75%	-	75%	75%	Instalation and operation of liquid and gas fuel storage facilities, as well as the respective transport, reception, movement, filling and shipping structures and other industrial, commercial and investigation activities and the rendering of services relating to these activities.
Gasinsular - Combustíveis do Atlântico, S.A.	Funchal	Portugal	-	100%	100%	-	100%	100%	Distribution, storage, transport and commercialisation of liquid and gas fuel, base oils, lubricants and other petroleum derivatives and the direct and indirect operation fuel stations and service stations and complementary activities, namely service stations, vehicle repair and maintenance workshops, the sale of motor vehicle parts and accessories, restaurants and hotels as well as any other industrial commercial and investigating activities and the rendering of services relating to the activities mentioned in its objects.
Galpmed - Mediação de Seguros Sociedade Unipessoal, Lda.	Lisbon	Portugal	d)	d)	d)	-	100%	100%	Insurance brokerage
Tanquisado - Terminais Marítimos, S.A.	Setúbal	Portugal	-	100%	100%	-	100%	100%	Development and operation of Marine Terminals.
Sempre a Postos - Produtos Alimentares e Utilidades, Lda.	Lisbon	Portugal	-	75%	75%	-	75%	75%	Retail sale of food products, domestic utensils, presents and other articles, including newspapers, magazines, records, videos, toys, drinks, tobacco, cosmetics and hygiene, travel and vechile acessory items.
Combustíveis Líquidos, Lda.[e]	Lisbon	Portugal	-	99.8%	99.8%	-	75%	75%	Sale of fuel, lubricants and vehicle acessories and any other business to which the partners agree and that does not require special authorisation.

PERCENTAGE PARTICIPATION HELD									
	HEAD OFFICE		31.12.2006			31.12.2005			
COMPANY	CITY	COUNTRY	DIRECT	INDIRECT	TOTAL	DIRECT	INDIRECT	TOTAL	PRINCIPAL ACTIVITIES
Blue Flag Navigation - Transportes Marítimos, Lda.	Funchal	Portugal	-	100%	100%	-	100%	100%	Marine transport and commercial operation of ships in its own name, as owner or chartered or in the name of third parties.
Galp Investment - Fundo	Lisbon	Portugal	(h)	(h)	(h)	(h)	(h)	(h)	Loan securitisation.
Galp Investment - Fund, PLC	Dublin	Ireland	(i)	(i)	(i)	(i)	(i)	(i)	Loan securitisation.
Fast Access - Operações e Serviços de Informação e Comércio Electrónico, S.A.	Lisbon	Portugal	-	66.66%	66.66%	-	66.66%	66.66%	Realisation of operations and rendering of information services and electronic commerce for mobile users as well as the rendering of on-line commerce management and operating services.
Tagus Re, S.A.	Luxembourg	Luxembourg	-	100%	100%	-	100%	100%	Reinsurance of all products, excluding direct insurance.
Galp Exploração Serviços Brasil, Lda.	Recife	Brazil	-	100%	100%	-	100%	100%	Business management support services.
Petrogal Cabo Verde, Lda.	São Vicente	Cape Verde	-	100%	100%	-	100%	100%	Distribution and sale of liquid and gas fuel, base oils and lubricants as well as the operation of fuel stations and service stations.
GDP sub-group:									
GDP - Gás de Portugal, SGPS, S.A.	Lisbon	Portugal	100%	-	100%	100%	-	100%	Management of equity investments.
Subsidiaries:									
Driftal - Plastificantes de Portugal, S.A.	Lisbon	Portugal	-	100%	100%	100%	-	100%	Commercialisation of phtalic Plastifiers
GDP Distribuição, SGPS, S.A. e subsidiárias:(b)(g)	Lisbon	Portugal	-	100%	100%	100%	-	100%	Management of equity investments.
Beiragás - Companhia de Gás das Beiras, S.A.	Viseu	Portugal	-	59%	59%	-	59%	59%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Gásfomento - Sistemas e Instalações de Gás, S.A.(f)	Lisbon	Portugal	-	20%	20%	-	100%	100%	Conception of combustible gas distribution and utilisation systems, assembly and conversion of equipment and technical assistance to consumers.
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	Bucelas	Portugal	-	100%	100%	-	100%	100%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	Bucelas	Portugal	-	100%	100%	-	100%	100%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	Bucelas	Portugal	-	100%	100%	-	100%	100%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.(g)	Bucelas	Portugal	-	100%	100%	-	75%	75%	Operation, construction and maintenance of regional natural and other gas distribution networks.

PERCENTAGE PARTICIPATION HELD									
	HEAD OFFICE		31.12.2006			31.12.2005			
COMPANY	CITY	COUNTRY	DIRECT	INDIRECT	TOTAL	DIRECT	INDIRECT	TOTAL	PRINCIPAL ACTIVITIES
Lusitaniagás - Companhia de Gás do Centro, S.A.	Aveiro	Portugal	-	85%	85%	-	85%	85%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Lisboagás GDL - Sociedade Distrib. de Gás Natural de Lisboa, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Obtain, store and distribute piped combustible gas.
Transgás, SGPS, S.A. and subsidiaries:(k)	Bucelas	Portugal	b)	b)	b)	100%	-	100%	Management of equity investments.
Transgás, S.A. and subsidiaries(j)	Lisbon	Portugal	-	100%	100%	-	100%	100%	Importation of natural gas, distribution by high pressure network and construction and maintenance.
Gasoduto de Campo Maior - Leiria - Braga, S.A.(j)	Bucelas	Portugal	j)	j)	j)	-	88%	88%	High pressure transport of natural gas between Campo Maior - Leiria - Braga.
Gasoduto Braga - Tuy, S.A.(j)	Bucelas	Portugal	j)	j)	j)	-	51%	51%	High pressure transport of natural gas between Braga - Tuy.
Transgás Atlântico - Soc. Portuguesa de Gás Liquefeito, S.A.(j)	Sines	Portugal	j)	j)	j)	-	100%	100%	Construction, installation and operation the infrastructures and equipment necessary to receive, store, treat and regassify liquid natural gas on a public service sub-concession basis.
Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Storage of natural gas on public service sub-concession basis, including the construction, maintenance, repair and operation of all the related.
Transgás Indústria - Soc. Portuguesa de Fornec. de Gás Natural à Indústria, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Supply of energy to companies.
Galp Power sub-group									
Galp Power, SGPS, S.A. and subsidiaries:	Lisbon	Portugal	100%	-	100%	100%	-	100%	Management of equity investments as an indirect way of exercising business activities.
Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A.	Lisbon	Portugal	-	65%	65%	-	65%	65%	Production, in the form of co-generation, and sale of electric and thermal energy.
Powercer - Sociedade de Cogeração da Vialonga, S.A.	Lisbon	Portugal	-	70%	70%	-	70%	70%	Production, in the form of co-generation, and sale of electric and thermal energy, including the conception, construction, financing and operation of co-generating installations and all the related activities and services.
Sinecogeração - Cogeração da Refinaria de Sines, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Production, transport and distribution of electric and thermal energy produced by co-generating and renewal energy systems, including the conception, construction and operation of systems or installations, as well as the exercise of all related activities and services.

PERCENTAGE PARTICIPATION HELD									
	HEAD OFFICE		31.12.2006			31.12.2005			
COMPANY	CITY	COUNTRY	DIRECT	INDIRECT	TOTAL	DIRECT	INDIRECT	TOTAL	PRINCIPAL ACTIVITIES
Porten - Portugal Energia, S.A. and subsidiary:	Lisbon	Portugal	100%	-	100%	100%	-	100%	Promote, execute and operate, directly or indirectly, electric energy production projects, combined production of electric and thermal energy through a process of co-generation, as well as projects relating to the utilisation of renewable energies and their direct and indirect commercialisation.
B) Jointly controlled companies									
Petrogal sub-group:									
C.L.C. - Companhia Logística de Combustíveis, S.A.	Aveiras de Cima	Portugal	-	65%	65%	-	65%	65%	Installation and operation of liquid and gas storage facilities, as well as related transport structures. Other industrial, commercial and investigation activities and of services related to those activities.
Caiageste - Gestão de Áreas de Serviço, Lda.	Elvas	Portugal	-	50%	50%	-	50%	50%	Management, and operation of service areas in the Caia area, including any activities and services related with such establishments and installations, namely: the supply of fuel and lubricants, the commercialisation of products and articles to convenience stores and supermarkets, the management and operation of restaurants and hotel or similar units, service stations and gift and utility selling points.
Sigás - Armazenagem de Gás, A.C.E.	Sines	Portugal	-	60%	60%	-	60%	60%	The conception and construction of underground LPG storage facilities the complementary surface installations needed to move the products. Management and operation of the underground storage facilities and surface installations and GPL tanks and spheres.
Asa - Abastecimento e Serviços de Aviação, Lda.	Lisbon	Portugal	-	50%	50%	-	50%	50%	Aircraft fuel services.

The companies CLC, Sigás, Caiageste and Asa are consolidated in accordance with the porportional method.

During the year ended 31 December 2006 the consolidation perimeter was changed as follows in relation to the preceding year:

(a) In July 2006 the name of the company Galp Serviços – Serviços e Consultoria de Apoio à Gestão Empresarial, S.A. was changed to Galp Energia, S.A..

(b) The following companies were merged effective as of 1 January 2006: (i) the fully owned subsidiaries Estación de Servicio Alcalá, S.L., and Gasolinera Gon, S.L. into Galp Energia España, S.A. and (ii) the fully owned subsidiary Transgás, SGPS, S.A. into GDP Distribuição, SGPS, S.A..

(c) In 2006 the subsidiary Petrogal Angola, Lda. sold its participation in Agran – Agro-química de Angola, SARL, having realised a gain of tEuros 1,290, which was recognised in the caption "Share of profit of associates" (Note 4.).

(d) In the year ended 31 December 2006 the Petrogal sub-group company Galpmed – Mediação Seguros, Sociedade Unipessoal, Lda. was dissolved.

(e) In December 2006 the subsidiary Petróleos de Portugal – Petrogal, S.A. acquired 24.83% of the capital of Combustíveis Líquidos, Lda., becoming holder of a 99.8% participation in the company.

(f) In the year ended 31 December 2006 the group sold its 80% participation in Gásfomento – Sistemas e Instalações de Gás, S.A. for tEuros 359, at a loss of tEuros 23 (Nota 4), reducing its participation from 100% to 20%. As the sale took place on 21 December 2006 the company was considered in the consolidation perimeter up to that date. After that date it was recorded as an associated company.

(g) In December 2006 the subsidiary GDP Distribuição, SGPS, S.A. acquired 25% of the capital of Duriensegás – Soc. Distribuidora de Gás natural do Douro, S.A. becoming holder of 100% of its capital (Nota 12).

(h) e (i) In 2003 Petrogal entered into an accounts receivable securitisation operation with Galp Investment Fund, PLC ("the Fund") for a maximum amount of tEuros 210,000 (Note 23), which has an expected maturity of 5 years and a legal maturity of 7 years. In order to cover this amount the Fund issued "Note A" bonds totalling tEuros 199,500 and "Note B" bonds totalling tEuros 10,500, which are remunerated at the Euribor rate plus 0.5% and 0.95%, respectively. The transactions are made using another vehicle with head office in Portugal – Galp Investment – Fundo – which purchases the receivables and places them with Galp Investment Fund PLC. As these Funds are vehicles constituted solely for this operation and considering the IAS/IFRS accounting requirements for this type of operation, the assets and liabilities of the Funds, which consist essentially of accounts receivable from Petrogal customers and bonds issued by the Fund, respectively, have been consolidated into the Group's financial statements.

(j) In the year ended 31 December 2006 the Group sold its participation in Transgás Atlântico – Soc. Portuguesa de Gás Liquefeito, S.A. for tEuros 29,974 (Note 31), having incurred a loss of tEuros 1,823 (Note 4). In connection with the sale of part of the assets and liabilities of the company Transgás, S.A., through the spin off of the transport and storage operations, the participations in Gasoduto Campo Maior - Leiria - Braga, S.A. and Gasoduto Braga - Tuy, S.A. were transferred to REN – Rede Eléctrica Nacional, S.A. for the amount of tEuros 16,648 (Note 31), which generated a loss of tEuros 18,210 (Note 4).

Liquidation of the company Galpmed – Mediação Seguros, Sociedade Unipessoal, Lda had the following impact on the income statement:

	2006	2005
Financial income	-	147
Operating costs	-	(167)
Net financial income	67	3
Profit before income tax	67	(17)

Except for C.L.C. - Companhia Logística de Combustíveis, S.A., Sigás - Armazenagem de Gás, A.C.E., Caiageste - Gestão de Áreas de Serviço, Lda. and Asa – Abastecimento e Serviços de Aviação, Lda., which were consolidated using the proportional method as explained in Note 2.2 b), all the companies mentioned above were consolidated using the full integration method based.

(k) In the year ended 31 December 2006 the fully owned subsidiary Transgás SGPS, S.A. was merged into GDP Distribuição SGPS, S.A., effective as of 1 de Janeiro de 2006. Consequently, the former subsidiaries of Transgás SGPS, S.A. (Transgás, S.A.; Gasoduto de Campo Maior - Leiria - Braga, S.A.; Gasoduto Braga - Tuy, S.A.; Transgás Atlântico - Soc. Portuguesa de Gás Liquefeito, S.A.; Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A. and Transgás Indústria - Sociedade Portuguesa de Fornecimento de Gás Natural à Indústria, S.A.) are presented as held by GDP Distribuição SGPS, S.A.

4. INVESTMENTS IN ASSOCIATES

Investments in associated companies, their head offices and the percentage participation owned at 31 December 2006 and 2005 are as follows:

			PERCENTAGE PARTICIPATION HELD					
	HEAD OFFICE		2006			2005		
COMPANY	CITY	COUNTRY	DIRECT	INDIRECT	TOTAL	DIRECT	INDIRECT	TOTAL
Compañia Logistica de Hidrocarburos CLH, S.A.[i][j]	Madrid	Spain	-	5.00%	5.00%	-	5.00%	5.00%
EMPL - Europe Maghreb Pipeline, Ltd.[a]	Madrid	Spain	-	27.40%	27.40%	-	27.40%	27.40%
Gasoducto Al Andaluz, S.A.[a]	Madrid	Spain	-	33.04%	33.04%	-	33.04%	33.04%
Gasoducto Extremadura, S.A.[a]	Madrid	Spain	-	49.00%	49.00%	-	49.00%	49.00%
Setgás - Soc. de Produção e Distrib. de Gás, S.A.[i]	Setúbal	Portugal	-	45.00%	45.00%	-	45.00%	45.00%
Enacol - Empresa Nacional de Combustíveis, S.A.[k]	Mindelo	Cape-Verde	-	32.50%	32.50%	-	32.50%	32.50%
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.[c]	Santarém	Portugal	-	41.27%	41.27%	-	41.27%	41.27%
Metragaz, S.A.[a]	Tânger	Morroco	-	26.99%	26.99%	-	26.99%	26.99%
Terparque - Armazenagem de Combustíveis, Lda.[f]	Angra do Heroísmo	Portugal	-	23.50%	23.50%	-	23.50%	23.50%
Número Um - Reparação de Automóveis, Lda.[k]	Lisbon	Portugal	-	49.00%	49.00%	-	49.00%	49.00%
Brisa Access, S.A.[k]	Cascais	Portugal	-	7.50%	7.50%	-	7.50%	7.50%
Energin - Sociedade de Produção de Electricidade e Calor, S.A.[e][n]	Lisbon	Portugal	-	35.00%	35.00%	-	35.00%	35.00%
Ecogen - Serviços de Energia Descentralizada, S.A.[e][n]	Bucelas	Portugal	-	35.00%	35.00%	-	35.00%	35.00%
Gásfomento - Sistemas e Instalações de Gás, S.A.[d]	Lisbon	Portugal	-	20%	20%	-	100%	100%
Imopetro - Importadora Moçambicana de Petróleos, Lda.[h]	Maputo	Mozambique	-	15.38%	15.38%	-	22.22%	22.22%
Gasfomento Sur Andalucia, S.A.[b][o]	Sevilha	Spain	-	4.47%	4.47%	-	30.00%	30.00%

BOOK VALUE		FINANCIAL INFORMATION ON THE ASSOCIATE				
2006	2005	ASSETS	LIABILITIES	INCOME	RESULT FOR THE YEAR	PRINCIPAL ACTIVITY
61,933	-	1,665,610	1,395,449	490,518	121,430	Installation and operation of liquid and gas storage facilities and related transport structures.
33,418	37,349	517,525	395,563	211,686	115,291	Construction and operation of the natural gas pipeline between Morocco and Spain.
16,286	16,387	106,985	57,691	26,280	6,951	Construction and operation of the natural gas pipeline between Morocco and Spain.
13,570	13,547	48,195	20,502	18,457	6,134	Construction and operation of the Córdoba - Campo Maior gas pipeline.
8,055	5,348	106,952	89,374	35,503	6,008	Production and distribution of Natural Gas and its Substitution Gases.
7,073	6,644	98,425	76,663	58,947	2,356	Commercialisation of hydrocarbonates and related activities.
2,720	1,715	48,990	42,400	12,701	(144)	Production and distribution of Natural Gas and other piped combustible gases.
1,306	1,567	8,286	3,446	14,091	506	Construction, maintenance and operation of the Maghreb-Europe gas pipeline.
1,297	880	14,823	9,277	18	(105)	Construction and/or operation of one or more storage facilities for combustible liquids and liquid petroleum gas and related filling stations.
555	526	3,004	2,250	4,971	(7)	Revision and repair of cars and sale of car parts and accessories.
535	393	13,113	5,979	8,126	1,890	Rendering of any assistance services to motorists and services relating to the supply, installation, start-up and maintenance of electronic systems equipment for use in road infrastructures.
303	-	48,353	47,422	45,585	2,251	Co-generation and sale of electric and thermal power.
265	-	817	60	57	(218)	Rendering of import and export services, commercialisation and supply of low tension electricity generating equipment and rendering of related services.
46	-	1,754	1,523	5,919	(529)	Transport and storage of petroleum products - fundamentally gasoline, diesel oil, and aircraft fuel, on account of its client petroleum operating companies.
-	10	n.d.	n.d.	n.d.	n.d.	Rendering of petroleum supply services.
-	95	580	243	16	(120)	Installation and maintenance of gas, realisation of energy management projects, monitoring services and periodic inspection of gas installations and construction and maintenance of gas networks.

			PERCENTAGE PARTICIPATION HELD					
	HEAD OFFICE		2006			2005		
COMPANY	CITY	COUNTRY	DIRECT	INDIRECT	TOTAL	DIRECT	INDIRECT	TOTAL
Enerfin - Sociedade de Eficiência Energética, S.A.[k][m]	Oporto	Portugal	-	(m)	(m)	-	25.12%	25.12%
TIGS - Engenharia e Manutenção, S.A.[b][o]	Sintra	Portugal	-	9.74%	9.74%	-	48.70%	48.70%
Gásfomento Energia, S.A.[b][n][o]	Sevilha	Spain	-	4.40%	4,40%	-	22.00%	22.00%
Central E, S.A.[n]	Lisbon	Portugal	20.30%	-	20.30%	20.30%	-	20.30%
Sonangalp - Sociedade de Distribuição e Comercialização Combustíveis, Lda.[g][n]	Luanda	Angola	-	49.00%	49.00%	-	49.00%	49.00%
Less: Provision for investments - joint commitment (Note 26.).								

(a) Participation held by Transgás, S.A.
(b) Participation held by Gasfomento – Sistemas e Instalações de Gás, S.A.
(c) Participation held by GDP Distribuição, SGPS, S.A.
(d) In the year ended 31 December 2006 GDP Distribuição, SGPS, S.A. sold 80% of its participation in Gasfomento – Sistemas e Instalações de Gás, S.A., reducing its participation from 100% to 20% (Note 3.).
(e) Participation held by Galp Power, SGPS, S.A.
(f) Participation held by Saaga – Sociedade Açoreana de Armazenagem de Gás, S.A.
(g) Participation held by Petrogal Angola, Lda.
(h) Participation held by Petrogal Moçambique, Lda., considered as an associated company in December 2005 and as a other investments in December 2006 (Note 5.).
(i) Participation held by Galp Energia España, S.A.
(j) Considered as a other investments in December 2005 (Nota 5.) and as an associated company in December 2006.
(k) Participation held by Petróleos de Portugal – Petrogal , S.A.
(l) Participation held by GDP Distribuição, SGPS, S.A. and Petróleos de Portugal – Petrogal , S.A.
(m) The company Enerfin - Sociedade de Eficiência Energética, S.A., a member of the Petrogal sub-group, was dissolved in the year ended 31 December 2006.
(n) The provision for equity investments in associates at 31 December 2006, representing the Group's joint commitment to the associates with negative equity, is made up as follows (Note 26.):

BOOK VALUE		FINANCIAL INFORMATION ON THE ASSOCIATE				
2006	2005	ASSETS	LIABILITIES	INCOME	RESULT FOR THE YEAR	PRINCIPAL ACTIVITY
-	51	116	-	65	56	Activities in the energy efficiency and productivity areas.
-	32	96	38	51	(7)	Rendering of engineering and industrial maintenance services.
-	-	109	70	39	2	Work in the areas of auditing, monitoring, financial viability studies and energy efficiency, development of procedures manuals, technical assistance for installations and equipment and operating tests.
-	-	860	1,374	1,125	(389)	Supply and operation of information and electronic commerce.
-	-	35,805	39,831	n.d.	(2,440)	Distribution and Commercialisation of liquid fuel, lubricants and other petroleum derivatives, operation of service stations and automobile assistance and related services.
147,362	84,545					
(5,332)	(5,330)					
142,030	79,215					

	2006	2005
Central E, S.A.	2,632	2,553
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	-	678
Gásfomento Energia, S.A.	-	10
Ecogen - Serviços de Energia Descentralizada, S.A.	-	276
Sonangalp - Sociedade de Distribuição e Comercialização de Combustíveis, Lda.	2,700	1,813
	5,332	5,330

(o) As a result of the sale referred to in item (d) above, these investments stopped being recognised in accordance with the equity method. The effect of the change in equity is reflected indirectly in the consolidated financial statements by application of the equity method of accounting to the associated company Gásfomento - Sistemas e Instalações de Gás, S.A..

Despite the Group having a participation of only 5% in CLH – Compañia Logistica de Hidrocarburos, S.A., it exercises significant influence over the company as explained in Note 2.2 c) (Note 5.). Therefore in the year ended 31 December 2006 the investment was reclassified to the caption “Investments in associates”.

The changes in the caption “Investments in associates” in the year ended 31 December 2006 were as follows:

Balance at 1 January 2006 without translation reserves	81,731
Translation reserves allocated to the beginning balance	2,814
Hedging reserves included in the beginning balance	-
Balance at 1 January 2006	84,545
Balance of the Provision for joint liabilities at 1 January 2006 (Note 26.)	(5,330)
	79,215
Reclassification of investments:	
Gásfomento - Sistemas e Instalações de Gás, S.A. and subsidiaries	54
Imopetro - Importadora Moçambicana de Petróleos, Lda.	(8)
Compañia Logística de Hidrocarburos CLH, S.A.	62,596
Balance at 1 January 2006	141,857
Effect of applying the equity method to results for the year:	
Positive	47,904
Negative	(1,564)
	46,340
Effect of applying the equity method to other changes in equity of subsidiaries:	
Currency translation adjustments	
Positive	264
Negative	(5,249)
	(4,985)
Adjustments to the hedging reserves:	
Positive	239
Negative	-
	239
Dividends distributed:	
Gasoduto Al Andaluz, S.A.	(2,398)
Gasoduto Extremadura, S.A.	(2,983)
Metragaz, S.A.	(369)
EMPL - Europe Maghreb Pipeline, Ltd.	(30,367)
Enacol - Empresa Nacional de Combustíveis, S.A.	(354)
Compañia Logistica de Hidrocarburos CLH, S.A.	(7,577)
	(44,048)

Supplementary capital contributions made to:	
Ecogen - Serviços de Energia Descentralizada, S.A.	642
Capital increases in:	
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	825
Terparque - Armazenagem de Combustíveis, Lda.	447
Purchase price adjustment:	
Compañia Logistica de Hidrocarburos CLH, S.A.	777
Dissolution of the company refund of supplementary capital contributions:	
Enerfin - Sociedade de Eficiência Energética, S.A.	(64)
Balance at 31 December 2006 without translation reserves	149,294
Translation reserves allocated to the closing balance	(2,171)
Hedging reserves included in the closing balance	239
Balance at 31 December 2006	147,362
Balance of the Provision for joint responsibilities at 31 December 2006 (Note 26.)	(5,332)
	142,030

The consolidated income statement caption "Share of results of associates" for the year ended 31 December 2006 is made up as follows:

Effect of applying the equity method:	46,340
Effect of selling equity investments in group companies:	
Loss on the sale of Gasoduto Campo Maior - Leiria - Braga, S.A. e Gasoduto Braga - Tuy, S.A. (Note 3.)	(18,210)
Loss on the sale of the investment in Transgás Atlântico, S.A. (Note 3.)	(1,823)
Loss on the sale of 80% of the investment in Gásfomento, S.A. (Note 3.)	(23)
Gain on the sale of the investment in Agran, SARL (Note 3.)	1,290
Bonuses granted to the employees of the subsidiary Petrogal, S.A.	(2,800)
Others	(3,659)
	21,115

In accordance with the contract for the purchase of the investment in CLH - Compañia Logistica de Hidrocarburos, S.A., the cost of the investment is subject to revision annually for a period of 10 years as from the date of the contract, based on the amount of sales. The additional amount paid in 2006 was tEuros 777.

Dividends received in 2006 amounted to tEuros 43,591. However, tEuros 44,048, corresponding to the amount approved by the respective Shareholders' General Meetings, has been reflected in the caption "Investments in associates". The difference of tEuros 457 is made up of tEuros 103 corresponding to exchange differences arising up to the time the dividends were paid, which has been reflected in the income statement caption "Exchange gain (loss)" and tEuros 354 corresponding to amount still receivable, which has been reflected in the caption "Other receivables".

As explained in Note 2.2 d) Goodwill in associated companies is included in the caption "Investments in associates", the amount at 31 December 2006 being made up as follows:

Compañia Logistica de Hidrocarburos CLH, S.A.	48,521
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	143
Número Um - Reparação de Automóveis, Lda.	186
	48,850

5. OTHER INVESTMENTS

The Group's other investments, the head office of the companies and the percentage participation owned at 31 December 2006 and 2005 are as follows:

	HEAD OFFICE		PERCENTAGE PARTICIPATION HELD		BOOK VALUE	
COMPANY	CITY	COUNTRY	2006	2005	2006	2005
ONI, SGPS, S.A.[(b)]	Oeiras	Portugal	-	4.10%	-	19,865
Compañia Logistica de Hidrocarburos CLH, S.A.[(c)]	Madrid	Spain	-	5.00%	-	62,594
PME Capital - Sociedade Portuguesa de Capital de Risco, S.A.	Oporto	Portugal	1.82%	1.82%	499	499
PME Investimentos - Sociedade de Investimento, S.A.	Lisbon	Portugal	1.82%	1.82%	499	499
ADENE - Agência para a Energia, S.A.	Amadora	Portugal	10.98%	10.98%	114	114
Omegás - Soc. D'Étude du Gazoduc Magreb Europe	Tânger	Morroco	5.00%	5.00%	35	35
Ambelis - Agência para a modernização económica de Lisboa, S.A.	Lisbon	Portugal	2.00%	2.00%	20	20
Clube Financeiro de Vigo	Vigo	Spain	-	-	19	19
P.I.M. - Parque Industrial da Matola, SARL	Maputo	Mozambique	1.50%	1.50%	19	24
Imopetro - Importadora Moçambicana de Petróleos, Lda.[(d)]	Maputo	Mozambique	15.38%	22.22%	8	-
OEINERGE - Agência Municipal Energia e Ambiente de Oeiras	Oeiras	Portugal	1.45%	1.45%	1	1
Cooperativa de Habitação da Petrogal, CRL	Lisbon	Portugal	0.07%	0.07%	7	7
CCCP - Cooperativa de Consumo de Pessoal da Petrogal, CRL	Lisbon	Potugal	0.07%	0.07%	(a)	(a)
EDEL - Empresa Editorial Electrónica, Lda.	Lisbon	Portugal	2.22%	2.22%	(a)	(a)
					1,221	**83,677**
Impairment of associated companies						
ONI, SGPS, S.A.[(b)]					-	(19,865)
Ambelis - Agência para a modernização económica de Lisboa, S.A.					(7)	(7)
PME Capital - Sociedade Portuguesa de Capital de Risco, S.A.					(52)	(52)
PME Investimentos - Sociedade de Investimento, S.A.					(145)	(145)
					(204)	(20,069)
					1,017	63,608

(a) Participations of less than tEuros 1.
(b) Participation held by Galp Energia, S.A. which was sold to EDP - Energias de Portugal, S.A. in the year ended 31 December 2006 for 1 Euro, which corresponds to the amount of the gain as the investment was fully provided for.
(c) Considered as Other investments in December 2005 and as investments in associates in December 2006 (Note 4) considering the existence of significant influence in accordance with IAS 28.
(d) Considered as Investments in associates in December 2005 and as Other investments in December 2006 (Note 4).

Other investments are recorded at cost due to the impossibility of valuing them at fair value (Note 2.2 paragraph c)). The net book value of these investments amounts to tEuros 1,017.

6. OPERATING INCOME

The Group's operating income for the years ended 31 December 2006 and 2005 is made up as follows:

CAPTIONS	2006	2005
Sales:		
merchandising	4,004,133	4,026,310
products	8,041,904	6,959,082
	12,046,037	10,985,392
Services rendered	163,682	151,916
Other operating income:		
Supplementary income	53,088	33,915
Gain on fixed assets	246,084	4,780
Operating subsidies	5,589	5,471
Others	62,148	39,200
	366,909	83,366
	12,576,628	11,220,674

Sales of fuel include Tax on Petroleum Products (ISP).

Sales by geographic area are shown in Note 8.

The caption "Supplementary income" includes essentially, income relating to operating rates, publicity space rates and automatic washing rates among other rates charged to retailers for using the GALP brand.

The caption "Other operating income - Others" includes tEuros 38,919 relating to recognition of the Leixões Ocean Terminal ("Monobóia") in fixed assets of the subsidiary Petrogal, as a result of the following events:

- In 1996 Petrogal awarded the contract to construct the "Monobóia";
- In 2002 Petrogal recognised as cost, the amount of tEuros 36,129 corresponding to exceptional devaluation of that equipment due to the inadequate location in which it should operate, because of the weather conditions and natural phenomena felt in Leixões;
- Consequently Petrogal and the company responsible for constructing the "Monobóia" started an arbitration process aimed at determining responsibilities and the viability of the "Monobóia", the findings of the process being favourable to Petrogal.
- In 2006 the construction of a new "Monobóia" was successfully completed and so Petrogal recognised the equipment, in the amount of tEuros 38,919, in tangible fixed assets by corresponding entry to the caption "Other operating income".

In addition, in relation to the above process, in 2006 Petrogal was notified by the tax authorities that the request of the exceptional devaluation of that equipment, written off in 2002, be considered as tax deductible had not been accepted and so the company paid an additional tax assessment of tEuros 12,968, which was recognised as income tax for the year 2006 (Note 10). However, a non taxable gain of tEuros 38,919 relating to recognition of the "Monobóia" in the Group's tangible fixed assets was recognised.

The caption gain on fixed assets includes essentially gain of tEuros 237,282 on the process known as Unbundling, resulting from the sale of the regulated fixed assets of the natural gas area (Note 31.).

7. OPERATING COSTS

Operating costs for the years ended 31 December 2006 and 2005 are made up as follows:

CAPTIONS	2006	2005
Cost of sales:		
Merchandise	2,180,840	2,285,841
Raw and subsidiary materials	5,683,292	4,798,149
Tax on Oil Products (Note 17.)	2,351,304	2,290,837
Variation in production (Note 17.)	184,194	(203,185)
Inventory adjustments (Note 17.)	548	(9,550)
	10,400,178	9,162,092
External supplies and services:		
Subcontracts	51,087	13,385
Electricity, water and communications	23,416	22,254
Cleaning and surveillance	8,479	9,253
Fuel	1,781	1,359
Office material	1,509	1,541
Rent	58,500	51,537
Maintenance and repair	56,990	57,475
Publicity	32,257	38,091
Travelling expenses	5,811	8,130
Employee transportation	964	971
Merchandise transportation	71,568	70,673
Insurance	41,966	37,343
IT services	26,680	28,290
Studies and projects	10,739	11,239
Comission	10,189	11,007
Fees and court expenses	3,370	2,665
Legal services	311	1,311
Consultancy services	4,746	3,968
Metering, invoicing and collection services	7,332	6,145
Technical assistance and inspection	5,776	4,776
Storage and filling	29,251	32,220
Port services and taxes	18,790	15,948
Other specialised services	28,732	26,042
Other costs	66,888	69,951
	567,132	525,574

CAPTIONS	2006	2005
Employee costs:		
Remuneration of the statutory boards (Note 29)	5,597	3,886
Remuneration of personnel	191,744	173,903
Social charges	39,248	37,695
Retirement benefits - pensions and insurances (Note 24.)	51,905	39,789
Other insurance	8,705	9,008
Other costs	9,339	5,353
	306,538	269,634
Amortisation, depreciation and impairment:		
Depreciation and impairment of tangible fixed assets (Note 13.)	228,923	272,068
Amortisation and impairment of intangible fixed assets (Note 13.)	27,716	34,728
	256,639	306,796
Provision and impairment of receivables:		
Provisions and reversals (Note 26.)	18,700	14,420
Impairment loss on trade receivables (Note 16.)	16,570	7,618
Impairment loss on other receivables (Note 15.)	(453)	505
	34,817	22,543
Other operating costs:		
Other taxes	8,294	8,662
Loss on fixed assets	3,955	13,865
Other operating costs	49,861	48,759
	62,110	71,286
	11,627,414	10,357,925

The caption "Other operating costs" includes tEuros 22,889 relating to Tax on Petroleum Income (Imposto sobre o Rendimento do Petróleo - IRP) on the sale of crude oil by the subsidiary Galp Exploração e Produção Petrolífera, Lda., based on the Angolan tax regime, applied to the production sharing contracts in which the Group participates.

8. SEGMENT REPORTING

» BUSINESS SEGMENTS

For strategic reasons the Group is currently organised in the following four business segments:

- Gas and Power;
- Refining and Distribution of Petroleum Products;
- Exploration and Production;
- Others.

Following the Unbundling process (Note 1), the Purchasing and Transport of Natural Gas segment was discontinued and the composition of the Others business segment was changed as the holding company GDP – Gás de Portugal, SGPS, S.A. became part of the Gas and Power segment.

Following is presented information on the segments identified previously and at 31 December 2006 and 2005, the Gas and Power segment are divided between the natural gas and electricity areas for greater detail:

	NATURAL GAS		REFINING AND DISTRIBUTION OF PETROLEUM PRODUCTS		EXPLORATION AND PRODUCTION	
	2006	2005	2006	2005	2006	2005
Income						
Sales and services rendered	1,365,509	1,100,685	10,837,818	10,029,800	140,509	66,639
Inter-segment	44,416	34,017	2,452	4,046	136,738	66,582
External	1,321,093	1,066,668	10,835,366	10,025,754	3,771	57
EBITDA (1)	**575,173**	**298,876**	**586,564**	**848,685**	**79,124**	**40,181**
Non cash costs						
Amortisation, depreciation and adjustments	(34,065)	(53,600)	(194,444)	(229,539)	(24,002)	(18,668)
Provisions (net)	2,974	(2,194)	(24,489)	(17,255)	(9,934)	(3,312)
Segment results	**544,082**	**243,082**	**367,631**	**601,891**	**45,188**	**18,201**
Net financial items	13,226	63,194	(21,621)	(26,129)	(630)	2,212
Income tax	(92,433)	(55,380)	(89,263)	(133,835)	310	(53)
Minority interest	(3,375)	(4,863)	263	944	-	-
Net income IFRS/IAS	**461,500**	**246,033**	**257,010**	**442,871**	**44,868**	**20,360**

	NATURAL GAS		REFINING AND DISTRIBUTION OF PETROLEUM PRODUCTS		EXPLORATION AND PRODUCTION	
	2006	2005	2006	2005	2006	2005
OTHER INFORMATION						
Assets by segment (2)						
Investments (3)	73,191	74,550	74,349	73,584	13	1,383
Other assets	1,660,503	1,906,057	3,464,859	3,672,536	434,717	272,762
Total consolidated assets	1,733,694	1,980,607	3,539,208	3,746,120	434,730	274,145
Total consolidated liabilities	739,102	1,228,370	2,393,637	2,334,501	129,812	33,128

(1) Operating results plus amortisation, depreciation, adjustments and provisions
(2) Net amount
(3) In accordance with the equity method.

ELECTRICITY		OTHERS		ELIMINATIONS		CONSOLIDATED	
2006	2005	2006	2005	2006	2005	2006	2005
30,287	24,780	119,470	101,038	(283,874)	(185,634)	12,209,719	11,137,308
-	-	100,268	80,989	(283,874)	(185,634)	-	-
30,287	24,780	19,202	20,049	-	-	12,209,719	11,137,308
5,503	**3,680**	**(5,694)**	**666**	**-**	**-**	**1,240,670**	**1,192,088**
(2,943)	(2,899)	(1,185)	(2,090)	-	-	(256,639)	(306,796)
-	(27)	(3,368)	244	-	-	(34,817)	(22,543)
2,560	**755**	**(10,247)**	**(1,180)**	**-**	**-**	**949,214**	**862,749**
(1,070)	(1,337)	(456)	(7,297)	-	-	(10,551)	30,643
(276)	251	1,641	180	-	-	(180,021)	(188,836)
(756)	(487)	-	507	-	-	(3,868)	(3,899)
458	**(817)**	**(9,062)**	**(7,790)**	**-**	**-**	**754,774**	**700,657**

ELECTRICITY		OTHERS		ELIMINATIONS		CONSOLIDATED	
2006	2005	2006	2005	2006	2005	2006	2005
568	-	258	-	-	(1,362)	148,379	148,155
67,067	48,945	816,123	268,454	(1,349,838)	(382,637)	5,093,431	5,786,117
67,635	**48,945**	**816,381**	**268,454**	**(1,349,838)**	**(383,999)**	**5,241,810**	**5,934,272**
63,394	**47,327**	**1,229,029**	**289,094**	**(1,349,838)**	**(383,999)**	**3,205,136**	**3,548,421**

» GEOGRAPHIC SEGMENTS

Income from sales and services rendered and total assets for the years ended 31 December 2006 and 2005 relate essentially to the operations in Portugal. Exploration and production activity is carried out essentially in Angola. In addition, there are some operations in Spain relating to the distribution and sale of fuel, in which the income from sales and services rendered and total assets for the years ended 31 December 2006 and 2005 are as follows:

GEOGRAPHIC AREA	INCOME FROM SALES AND SERVICES RENDERED		TOTAL ASSETS	
	2006	2005	2006	2005
Spain	2,040,720	2,243,489	694,024	722,668

9. FINANCIAL INCOME AND FINANCIAL COSTS

Financial income and financial costs for the years ended 31 December 2006 and 2005 are made up as follows:

	2006	2005
Financial income:		
Interest on bank deposits	8,390	5,033
Other financial income	20,198	86
Interest - related companies (Note 29.)	3,746	3,837
	32,334	8,956
Financial expenses:		
Interest on bank loans and overdrafts	(35,708)	(41,477)
Interest capitalised in fixed assets	148	1,905
Securitisation of accounts receivable - Financial costs (Note 23.)	(8,020)	(6,353)
Other financial costs	(17,058)	(14,034)
Interest - related companies (Note 29.)	(1,368)	(2,059)
	62,006	62,018

The caption "Other financial income" in the amount of tEuros 20,198 includes essentially:

i) tEuros 10,760 relating to interest on overdue payments received by Transgás, S.A. relating to the Contract Ceding the Rights to Use the Telecommunications Infrastructure entered into with ONITELECOM, S.A. on 1 June 1999 for a period of 20 years, under a favourable resolution of the process judged in the arbitration court (Note 15).

ii) tEuros 3,846 relating to accrued interest for the year ended 31 December 2006 relating to the contract mentioned in the preceding paragraph.

As explained in Note 2.14, the Group's policy is to capitalise in tangible and intangible fixed assets in construction, interest on loans obtained. The percentage of interest capitalised is proportional to the amount of capital expenditure incurred in accordance with the cost of the loans obtained.

In the year ended 31 December 2006 the Group capitalised in fixed assets in progress, the amount of tEuros 148, relating to financial costs incurred on loans to finance capital expenditure incurred on tangible and intangible fixed assets during their construction.

10. INCOME TAX

Since 31 December 2001 the companies with head offices in continental Portugal in which the Group has a participation greater than 90% have been taxed in accordance with the special regime for the taxation of groups of companies, the taxable income is determined in Galp Energia, SGPS, S.A., except for the companies: Beiragás - Companhia de Gás das Beiras, S.A.; Duriensegás – Sociedade de Distribuição de Gás Natural do Douro, S.A.; Lusitaniagás - Companhia de Gás do Centro, S.A.; Galp Exploração e Produção Petrolífera, Lda.; Sacor Marítima, S.A.; S.M. Internacional – Transportes Marítimos, Lda.; Gasmar – Transportes Marítimos, Lda.; TRIPUL – Sociedade de Gestão de Navios, Lda.; CLCM – Companhia Logística de Combustíveis da Madeira, S.A.; CLC – Companhia Logística de Combustíveis, SA; Galp Madeira - Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda.; Galp Açores – Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda.; Saaga – Sociedade Açoreana de Armazenagem de Gás, S.A.; Combustíveis Líquidos, Lda.; Gasinsular – Combustíveis do Atlântico, S.A.; Sempre a Postos - Produtos Alimentares e Utilidades, Lda.; Sopor – Sociedade Distribuidora de Combustíveis, S.A.; Caiageste – Gestão de Áreas de Serviços, Lda.; Probigalp – Ligantes Betuminosos, S.A.; Blue Flag Navigation – Transportes Náuticos, Lda; Fast Access – Operações e Serviços de Comércio Electrónico, S.A.; A.S.A. – Abastecimento e Serviços de Aviação, Lda.; Carriço Cogeração – Sociedade de Geração de Electricidadade e Calor, S.A. and Powercer – Sociedade de Cogeração de Vialonga, S.A..

However, the estimated income tax of the Company and its subsidiaries is recorded based on their tax results which, for the year ended 31 December 2006, amounted to income tax payable of tEuros 78,399.

The following could affect income tax payable in the future:

i) In accordance with current Portuguese legislation, corporate income tax returns are subject to review and correction by the tax authorities for a period of four years (Social Security can be reviewed over a period of 10 years up to 31 December 2000, inclusive and five years as from 2001), except when there are tax losses, tax benefits have been granted or there are claims or appeals in progress where, depending on the circumstances, the period can be extended or suspended. In 2001, the tax authorities reviewed Petrogal's tax returns for the years 1997 to 1999, their proposed corrections to these tax returns being summarised in paragraph ii) below. In addition, in 2004 Petrogal's tax returns for the years 2000 to 2002 were inspected by the tax authorities, their proposed corrections being summarised in paragraph (iii) below. The Group's tax returns for the years 2003 to 2006 are still subject to review. Galp's Board of Directors believes that possible corrections arising from inspections by the tax authorities of these tax returns will not have a significant impact on the financial statements as of 31 December 2006.

ii) As mentioned in paragraph i) above, in 2001 the corporate income tax returns for the years 1997, 1998 and 1999 were inspected by the tax authorities, which resulted in proposed additional assessments of tEuros 68, tEuros 429 and tEuros 3,361, respectively, communicated to Petrogal. As Petrogal does not agree with the proposed additional assessments, it contested those for the years 1998 and 1999 since Petrogal's management believes that the bases presented in the appeals are valid. In 2006 the appeal relating to the year 1998 was denied. As Petrogal, S.A. does not agree with the denial, it presented a legal appeal against the decision. Consequently, the financial statements as of 31 December 2006 do not include any provision for this contingency.

iii) The Group's management believes that any corrections resulting from reviews/inspections by the tax authorities to these tax returns will not have a significant effect on the financial statements as of 31 December 2006.

iv) As mentioned in paragraph i) above, in 2004 the corporate income tax returns for the years 2000, 2001 and 2002 were inspected by the tax authorities, which resulted in additional assessments communicated to Petrogal of tEuros 740, tEuros 10,806 and tEuros 2,479, respectively, of which tEuros 11,865 has been paid. Petrogal has made a legal appeal against the additional assessment for the year 2001. Therefore, based on the accounting principle of prudence, Petrogal has recorded a provision of tEuros 7,394 to cover the additional assessments (Note 26).

v) As a result of the oil research and production operations in Angola, the Group is also subject to the payment of Tax on Income from Petroleum (Imposto sobre o Rendimento do Petróleo - IRP), determined based on the Angolan tax regime, applied to production sharing contracts in which the Group participates. At 31 December 2006 additional assessments of 1,668,042 USD, 3,650,434 USD, 4,500,922 USD and 5,373,961 USD for the years 2002, 2003, 2004 and 2005, respectively, were subject to payment. At 31 December 2006 the Group had a provision for fifty percent of the amounts informed by the Angolan Ministry of Finance, in the amount of tEuros 5,768 (Note 26), as the Group understands that these assessments are under discussion.

vi) In accordance with current legislation tax losses can be carried forward during a period of 6 years after they are incurred for deduction from taxable income arising during that period. The tax losses of the companies with head offices in Spain can be carried forward during a period of 15 years. At 31 December 2006 the tax losses carried forward amounted to approximately tEuros 43,873. The Group has recognised deferred tax assets relating to the tax losses carried forward only for the subsidiaries in which there is a strong probability of their recovery. Therefore the Group recognised a deferred tax asset of only tEuros 11,823, made up as follows:

TAX LOSSES CARRIED FORWARD	AMOUNT	TIME LIMIT FOR DEDUCTION	DEFERRED TAX ASSET
Tax losses incurred in 1997	1,121	2012	-
Tax losses incurred in 2000	12,628	2015	3,789
Tax losses incurred in 2001	3,690	2007	-
Tax losses incurred in 2002	33	2008	-
Tax losses incurred in 2003	62	2009	-
Tax losses incurred in 2003	1,443	2018	433
Tax losses incurred in 2004	30	2010	-
Tax losses incurred in 2004	2,998	2019	900
Tax losses incurred in 2005	13,714	2020	4,245
Tax losses incurred in 2006	8,154	2021	2,456
	43,873		11,823

vii) In accordance with current fiscal legislation, gains and losses resulting from the recognition of the results of subsidiaries and associated companies through application of the equity method are not considered as income or expenses for Corporate Income Tax purposes in the year they are recognised for accounting purposes, dividends being taxed in the year they are attributed. Deferred tax liabilities relating to undistributed profits of the subsidiaries have not been recognised.

Income tax for the years ended 31 December 2006 and 2005 is made up as follows:

	2006	2005
Current tax	196,409	140,057
Insuficiency (excess) estimated tax for prior years	13,613	(8,124)
Deferred tax	(30,001)	56,903
	180,021	188,836

The insufficiency of the estimated tax includes tEuros 12,968 relating to non acceptance, for Corporate Income Tax purposes, of the extraordinary depreciation of the Leixões Ocean Terminal (Note 6). In compensation, the Group did not recognise Corporate Income Tax of tEuros 10,703 on the income recorded resulting from recognition of that fixed asset.

Following is a summary of income tax for the years ended 31 December 2006 and 2005 and details of deferred taxes:

	2006	2005
Profit before Income Tax in accordance with IFRS/IAS:	**938,663**	**893,392**
Adjustment to POC standards	50,490	(334,046)
Restated profit before Income Tax in accordance with POC	**989,153**	**559,346**
Adjustment for tax effect (accumulated effect)[a]	1,398,273	872,664
Taxable profit before Income Tax	**2,387,426**	**1,432,010**
Increase in taxable income	**371,672**	**424,907**
Non tax deductible provisions	131,246	93,480
Non tax deductible social costs	13,585	13,498
Other increases[b]	210,086	283,763
Application of the equity method	16,755	34,166
Decrease in taxable income	**(2,018,284)**	**(1,331,723)**
Decrease in provisions taxed in previous years	(96,805)	(61,614)
Excess estimated income tax	(4,530)	(8,720)
Other deductions[c]	(476,182)	(345,122)
Application of the equity method	(1,432,544)	(911,542)
Negative amounts for tax purposes	(8,223)	(4,725)
Taxable income	**740,814**	**525,194**
Income tax	179,065	128,296
Municipal surcharge	16,682	11,275
Autonomous taxation	662	486
Estimated current income tax for the year	196,409	140,057
Deferred tax and excess estimate for the year	(16,388)	48,779
Income tax	180,021	188,836
Effective tax rate	19.18%	21.14%

(a) This amount corresponds to the sum of the results for the year before income tax in accordance with the Portuguese accounting standards (POC), of all the companies included in the consolidation perimeter in the year ended 31 December 2006.
(b) This amount corresponds essentially to gains of tEuros 171,676.
(c) This amount corresponds essentially to: (i) the result before income tax of the subsidiary Galp Exploração e Produção Petrolífera, Lda. in the amount of tEuros 44,173, which is not subject to income tax as the company is covered by Decree – Law 215/89 of 1 July; (ii) the amount of tEuros 38,918 corresponds to income resulting from recognition of the "Monobóia" which, as explained above, is not subject to income tax and (iii) the amount of tEuros 368,481 relating to accounting gains.

In accordance with article 15 of Decree-Law 35/2005 of 17 February, entities that prepare accounts in accordance with International Accounting Standards must, for tax purposes, maintain organised accounts in accordance with Portuguese Accounting Standards and the legal requirements for their business sectors.

DEFERRED TAX

	DEFERRED TAXES 2006		DEFERRED TAXES 2005	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Accounting revaluations	-	(4,338)	-	(5,898)
Non tax deductible provisions	39,129	-	49,911	-
Tax losses carried forward	11,823	-	9,084	-
Pension benefits	60,855	(5,300)	54,284	(5,500)
Adjustments to accruals and deferrals	7,637	(3,495)	11,801	-
Reinvested capital gain	-	(1,625)	-	(1,876)
LIFO/FIFO adjustments	161	(76,204)	-	(110,263)
Financial instruments	771	(1,543)	1,138	-
Adjustments to tangible and intangible assets	16,728	-	26,237	-
Double financial taxation	7,605	-	4,952	-
Others	788	(422)	1,517	(8,738)
	145,497	(92,927)	158,924	(132,275)

DEFERRED TAX

	DEFERRED TAXES 2006		DEFERRED TAXES 2005	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Beginning balance	158,924	(132,275)	138,062	(53,908)
Effect on results:				
Accounting revaluations	-	1,560	-	1,414
Non tax deductible provisions	(10,782)	-	16,366	-
Tax losses carried forward	2,739	-	3,417	-
Pension benefits	6,602	200	3,778	(439)
Adjustments to accruals and deferrals	(4,164)	(3,495)	(679)	-
Reinvested capital gain	-	251	-	(763)
LIFO/FIFO adjustments	161	34,059	-	(72,236)
Financial instruments	823	(1,543)	(1,737)	997
Adjustments to tangible and intangible assets	(6,650)	-	(2,452)	-
Double financial taxation	2,653	-	4,952	-
Others	(729)	8,316	(2,181)	(7,340)
	(9,347)	39,348	21,464	(78,367)
Effect on equity:				
Financial derivatives	(1,190)	-	(602)	-
Changes in the consolidation perimeter:[(a)]	(2,890)	-	-	-
Ending balance	145,497	(92,927)	158,924	(132,275)

(a) This change in the consolidation perimeter corresponds to the sale of Gasfomento – Sistemas de Instalações de Gás, S.A., Transgás Atlântico – Soc. Portuguesa de Gás Liquefeito, S.A., Gasoduto Campo Maior - Leiria - Braga, S.A. and Gasoduto Braga - Tuy, S.A. under the spin off of the transport and storage operations to REN- Rede Eléctrica Nacional, S.A. (Nota 3 f) e g)).

11. **EARNINGS PER SHARE**

The Shareholders' General Meeting held on 31 May 2006 approved a change in the nominal value of the Company's shares from Euros 5 to Euros 1 each, by the substitution of five new shares for each share held, the amount of total share capital remaining unchanged (Note 20).

Consequently, earnings per share at 31 December 2006 and 2005 are as follows:

	2006	2005(a)
Net income		
Net income for purposes of calculating earnings per share (net profit for the year)	754,774	700,659
Number of shares		
Weighted average number of shares for earnings per shares calculation (Note 20.)	829,250,635	829,250,635
Basic earnings per share (amounts in Euros)	0.91	0.84

a) Earnings per share restated for the number of shares at 31 December 2006.

As there are no situations that give rise to dilution, the diluted earnings per share is the same as the basic earnings per share.

12. **GOODWILL**

The difference between the amounts paid for the acquisition of participations in Group companies and the fair value of the equity acquired at 31 December 2006 is made up as follows:

			PROPORTION OF EQUITY ACQUIRED AS OF THE ACQUISITION DATE		GOODWILL	
SUBSIDIARIES	YEAR OF ACQUISITION	COST	%	AMOUNT	2006	2005
Petróleos de Valencia, S.A.	2005	13,937	100.00%	6,099	7,838	7,838
Galpgest - Petrogal Estaciones de Servicio, S.A.	2003	16,290	100.00%	9,494	6,723	6,795
Transgás - Sociedade Portuguesa de Gás Natural, S.A.	a)	a)	a)	a)	-	5,063
Gasinsular - Combustíveis do Atlântico, S.A.	2005	50	100.00%	(353)	403	403
Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A.	2005	858	67.65%	580	278	278
Lusitaniagás - Companhia Gás do Centro, S.A.	2002 e 2003	365	0.871%	207	99	99
Beiragás - Companhia de Gás das Beiras, S.A.	2003 e 2006	145	0.91%	94	51	4
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	2006	3,094	25.00%	1,454	1,640	-
					17,032	20,480

a) The amount of tEuros 5,063 results from adjustments made (for purposes of preparing and presenting the consolidated financial statements of the Galp Group) in the original consolidated financial statements of Petrogal - Petróleos de Portugal, S.A. and GDP SGPS, S.A., due to recognition of goodwill corresponding to the difference between the cost of these investments and the corresponding shareholders' equity as of the date of acquisition.

This goodwill was recognised in the income statement for 2006 as a result of the sale of part of the assets of Transgás - Sociedade Portuguesa de Gás Natural, S.A. to REN on 26 September 2006.

Goodwill on acquisitions prior to the date of transition to IFRS is recorded as explained in Note 2.2.d).

The changes in goodwill in 2006 and 2005 are as follows:

Balance at 1 January 2005	**11,961**
Increase due to the acquisition of investments:	
Petróleos de Valencia, S.A.	7,838
Gasinsular - Combustíveis do Atlântico, S.A.	403
Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A.	278
	8,519
Balance at 1 January 2006	**20,480**
Write-offs:	
Transgás - Sociedade Portuguesa de Gás Natural, S.A. (Nota 31.)	(5,063)
	(5,063)
Increase due to the acquisition of investments:	
Beiragás - Companhia de Gás das Beiras S.A.	47
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	1,640
	1,687
Adjustment to the price of acquisition of Galpgest - Petrogal Estaciones de Servicio, S.A.	541
Allocation of impairment losses to the net value of the service stations:	
Galpgest - Petrogal Estaciones de Servicio, S.A.	(613)
Balance at 31 December 2006	**17,032**

In the year ended 31 December 2005 goodwill increased by tEuros 8,519 due to the acquisition of the following participations:

- In February 2005 the subsidiary Galp Energia España, S.A., acquired all the share capital of Petróleos de Valência, S.A. Sociedad Unipersonal which receives, stores and distributes petroleum and chemical products and their derivatives and sub-products, for tEuros 13,937 generating goodwill of tEuros 7,838;

- In May 2005 the subsidiary Galp Madeira - Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda., acquired all the share capital of Gasinsular - Combustíveis do Atlântico, S.A., which distributes, stores, transports and sells liquid and gas fuel, lubricants and other petroleum derivatives, for tEuros 50, generating goodwill of tEuros 403;

- In 2005 the subsidiary Galp Açores - Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda., acquired a 12.17% participation in Saaga – Sociedade Açoreana de Armazenagem de Gás, S.A. for tEuros 858, generating goodwill of tEuros 278.

In the year ended 31 December 2006 goodwill increased by tEuros 2,228 due to the acquisition of the following participations:

- In July 2006 GDP Distribuição, SGPS, S.A. acquired 25% of the share capital of Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A. for tEuros 3,094, resulting in goodwill of tEuros 1,640;

- In February 2006 GDP Distribuição, SGPS, S.A. acquired 0.43% of the share capital of Beiragás – Companhia de Gás das Beiras S.A. for tEuros 90, resulting in an increase in goodwill of tEuros 47.

In addition, the Group recognised the final adjustment to the purchase price of the company Galpgest – Petrogal estaciones de Servicio, S.A. in the amount of tEuros 541, in compliance with a clause in the Purchase Contract. As a result of this goodwill an impairment loss of tEuros 613 was recognised based on an impairment assessment of the service stations made in 2006.

13. TANGIBLE AND INTANGIBLE FIXED ASSETS

» TANGIBLE FIXED ASSETS:

	LAND AND NATURAL RESOURCES	BUILDINGS AND OTHER CONSTRUCTIONS	MACHINERY AND EQUIPMENT	TRANSPORT EQUIPMENT	TOOLS AND UTENSILS	ADMINISTRATIVE EQUIPMENT
Cost:						
Balance at 1 January:	267,060	739,295	4,923,016	27,810	5,437	131,512
Additions	658	4,973	91,372	309	209	1,149
Write-offs/sales	(67,986)	(52,375)	(899,271)	(4,807)	(1,246)	(4,696)
Adjustments	-	(1,121)	4,496	(91)	(4)	369
Transfers	5,024	20,266	330,946	61	108	4,540
Changes in the consolidation perimeter	-	(6,799)	(251,813)	(122)	(174)	(843)
Gross cost at 31 December	204,756	704,239	4,195,196	23,160	4,330	132,032
Accumulated impairments at 1 January	(6,707)	(6,308)	(22,133)	(120)	-	(4,181)
Increase in impairment	(388)	(8,397)	(9,819)	-	(23)	(1)
Reversal of impairment	1,987	-	6,942	-	-	95
Utilisation of impairment	-	-	-	-	-	-
Balance of impairments at 31 December	(5,108)	(14,704)	(21,461)	(120)	(23)	(4,087)
Balance of investment subsidies at 1 January	(20,205)	(15,834)	(633,935)	-	(21)	(811)
Increase in investment subsidies	(46)	(90)	(3,967)	-	-	(39)
Decrease in investment subsidies	-	-	7,038	-	-	-
Write-offs/sales	18,968	7,504	258,168	-	-	-
Changes in the consolidation perimeter	-	2,347	89,175	-	13	82
Balance of investment subsidies at 31 December	(1,283)	(6,073)	(283,520)	-	(8)	(769)
Balance at 31 December	198,365	683,462	3,890,215	23,040	4,299	127,176

2006					2005
REUSABLE CONTAINERS	OTHER TANGIBLE ASSETS	TANGIBLE ASSETS IN PROGRESS	ADVANCES ON ACCOUNT OF TANGIBLE ASSETS	TOTAL TANGIBLE FIXED ASSETS	TOTAL TANGIBLE FIXED ASSETS
145,200	99,543	409,447	2,310	6,750,630	6,568,579
1,232	4,464	207,232	927	312,525	337,299
(1,595)	(3,458)	(1,221)	(219)	(1,036,874)	(178,702)
(439)	(524)	9,979	(9)	12,656	(6,909)
5,039	5,373	(342,824)	-	28,533	(7,336)
-	(81)	(7)	-	(259,839)	37,699
149,437	105,316	282,607	3,008	5,804,081	6,750,630
-	(538)	(35,517)	-	(75,504)	(50,095)
-	(431)	(117)	-	(19,176)	(25,409)
-	-	429	-	9,453	-
-	-	-	-	-	-
-	(968)	(35,205)	-	(81,676)	(75,504)
-	(2)	(38,521)	-	(709,329)	(691,145)
-	-	(5,347)	-	(9,489)	(18,184)
-	-	-	-	7,038	-
-	-	30,267	-	314,907	-
-	2	-	-	91,619	-
-	-	(13,601)	-	(305,254)	(709,329)
149,436	104,348	233,801	3,008	5,417,150	5,965,797

» TANGIBLE FIXED ASSETS:

	LAND AND NATURAL RESOURCES	BUILDINGS AND OTHER CONSTRUCTIONS	MACHINERY AND EQUIPMENT	TRANSPORT EQUIPMENT	TOOLS AND UTENSILS	ADMINISTRATIVE EQUIPMENT
Accumulated depreciation:						
Balance at 1 January:	(9,374)	(396,140)	(2,840,882)	(25,077)	(4,738)	(108,683)
Depreciation for the year	(198)	(26,061)	(182,388)	(1,038)	(267)	(7,789)
Write-offs/sales	6,297	18,116	126,271	4,740	1,186	4,308
Adjustments	-	405	6,732	75	1	56
Transfers	-	-	(1,089)	-	-	(197)
Changes in the consolidation perimeter	-	713	32,641	94	105	640
Balance at 31 December	(3,275)	(402,967)	(2,858,715)	(21,206)	(3,713)	(111,665)
Balance of recognised subsidies at 1 January	2,184	5,126	138,314	-	11	760
Increase in investment subsidies	-	247	11,884	-	-	15
Decrease in investment subsidies	-	-	(7,038)	-	-	-
Write-offs/sales	(2,020)	(2,462)	(35,604)	-	-	-
Changes in the consolidation perimeter	-	(190)	(9,671)	-	(4)	(39)
Balance of recognised subsidies at 31 December	164	2,721	97,885	-	7	736
Accumulated balance	(3,111)	(400,246)	(2,760,830)	(21,206)	(3,706)	(110,929)
Net carrying amount:						
at 31 December	195,254	283,216	1,129,385	1,834	593	16,247

2006					2005
REUSABLE CONTAINERS	OTHER TANGIBLE ASSETS	TANGIBLE ASSETS IN PROGRESS	ADVANCES ON ACCOUNT OF TANGIBLE ASSETS	TOTAL TANGIBLE FIXED ASSETS	TOTAL TANGIBLE FIXED ASSETS
(126,616)	(54,575)	-	-	(3,566,085)	(3,343,422)
(6,596)	(7,009)	-	-	(231,346)	(283,706)
1,595	2,862	-	-	165,375	81,303
156	53	-	-	7,478	(1,150)
-	213	-	-	(1,073)	-
-	42	-	-	34,235	(19,110)
(131,461)	(58,414)	-	-	(3,591,416)	(3,566,085)
-	1	-	-	146,396	118,013
-	-	-	-	12,146	28,383
-	-	-	-	(7,038)	-
-	-	-	-	(40,086)	-
-	(1)	-	-	(9,905)	-
-	-	-	-	101,513	146,396
(131,461)	(58,414)	-	-	(3,489,903)	(3,411,025)
17,975	45,934	233,801	3,008	1,927,247	2,554,772

Tangible fixed assets are recorded in accordance with the accounting policies explained in Note 2.3. The depreciation rates used are indicated in the same note.

The non repayable subsidies attributed to the Group to finance tangible and intangible fixed assets (re-conversions) are reflected as deductions from the corresponding assets and recognised in the consolidated income statement as a deduction from depreciation and amortisation for the year, in proportion to depreciation and amortisation of the subsidised assets, as explained in Note 2.8.

» INTANGIBLE FIXED ASSETS:

	INSTALLATION COSTS	RESEARCH AND DEVELOPMENT COSTS	INDUSTRIAL PROPERTY AND OTHER RIGHTS	GOODWILL
Cost:				
Balance at 1 January:	4,550	11,778	250,584	26,314
Additions	-	5	8,860	-
Write-offs/sales	(1,925)	(100)	(11,530)	(94)
Adjustments	125	(14)	(348)	1
Transfers	325	87	10,794	(15,247)
Changes in the consolidation perimeter	-	-	(13,095)	-
Gross cost at 31 December	3,074	11,756	245,265	10,974
Accumulated impairments at 1 January	-	(1)	(9,074)	-
Increase in impairment	-	(4)	-	(713)
Reversal of impairment	-	-	2,478	-
Utilisation of impairment	-	-	-	-
Balance of impairments at 31 December	-	(4)	(6,596)	(713)
Balance of investment subsidies at 1 January	(181)	(8,811)	(570)	-
Increase in investment subsidies	-	-	-	-
Decrease in investment subsidies	-	-	-	-
Write-offs/sales	181	3	-	-
Changes in the consolidation perimeter	-	-	-	-
Balance of investment subsidies at 31 December	-	(8,808)	(570)	-
Balance at 31 December	3,074	2,943	238,099	10,261

2006				2005
RE-CONV. OF CONSUMPTION TO NATURAL GAS	INTANGIBLE ASSETS IN PROGRESS	ADVANCES TO SUPPLIERS OF INTANGIBLE ASSETS	TOTAL INTANGIBLE ASSETS	TOTAL INTANGIBLE ASSETS
254,338	42,428	-	589,992	522,455
410	27,810	-	37,085	58,448
(186)	-	-	(13,835)	(23,956)
(1,186)	130	-	(1,292)	(2,137)
30,008	(54,651)	-	(28,684)	34,365
-	-	-	(13,095)	816
283,384	15,717	-	570,170	589,991
-	-	-	(9,075)	(1,283)
-	-	-	(717)	(7,599)
-	-	-	2,478	-
-	-	-	-	-
-	-	-	(7,313)	(8,882)
(31,323)	-	-	(40,885)	(37,415)
(10,434)	45	-	(10,389)	(3,470)
6,640	-	-	6,640	-
-	-	-	184	-
-	-	-	-	-
(35,116)	45	-	(44,449)	(40,885)
248,268	15,762	-	518,407	540,224

» INTANGIBLE FIXED ASSETS:

	INSTALLATION COSTS	RESEARCH AND DEVELOPMENT COSTS	INDUSTRIAL PROPERTY AND OTHER RIGHTS	GOODWILL
Accumulated amortisation:				
Balance at 1 January:	(3,456)	(7,686)	(111,063)	(10,975)
Amortisation for the year	(501)	(655)	(19,888)	(527)
Write-offs/sales	1,630	58	8,721	94
Adjustments	(667)	16	2,784	-
Transfers	15	(22)	(24)	1,256
Changes in the consolidation perimeter	-	-	4,326	-
Balance at 31 December	(2,979)	(8,289)	(115,144)	(10,152)
Balance of recognised subsidies at 1 January	181	6,591	355	-
Increase in investment subsidies	-	27	57	-
Decrease in investment subsidies	-	-	-	-
Write-offs/sales	(180)	-	-	-
Changes in the consolidation perimeter	-	-	-	-
Balance of recognised subsidies at 31 December	1	6,618	412	-
Accumulated balance	(2,978)	(1,670)	(114,731)	(10,153)
Net carrying amount:				
at 31 December	97	1,273	123,368	108

Intangible fixed assets are recorded in accordance with the accounting policies explained in Note 2.4. The amortisation rates used are indicated in the same note.

» MAIN OCCURRENCES IN 2006:

The increase in the tangible and intangible fixed assets captions in the amount of tEuros 349,610 include essentially:

Oil Exploration and Production segment

- Exploration and development costs in the crude oil exploration activity in Angola Block 14 in the amount of tEuros 61,385 and in Blocks 32 and 33 in the amounts of tEuros 13,354 and tEuros 4, respectively;
- Development costs in the crude oil exploration activity in Brazil in the Espírito Santo, Potiguar, Sergipe/Alagoas and Santos basins in the amount of tEuros 26,347.

Gas and Power segment

- tEuros 74,979 relating to the construction of natural gas infrastructures (networks, branches, lots and other facilities);
- tEuros 23,705 relating to investments in co-participation of shared networks and re-conversion to natural gas;
- tEuros13.441 relating to construction of underground storage infrastructures.

	2006				2005
	RE-CONV. OF CONSUMPTION TO NATURAL GAS	INTANGIBLE ASSETS IN PROGRESS	ADVANCES TO SUPPLIERS OF INTANGIBLE ASSETS	TOTAL INTANGIBLE ASSETS	TOTAL INTANGIBLE ASSETS
	(54,944)	-	-	(188,124)	(164,357)
	(13,249)	-	-	(34,820)	(32,311)
	15	-	-	10,518	19,426
	7	-	-	2,140	(10,304)
	-	-	-	1,225	-
	-	-	-	4,326	(578)
	(68,171)	-	-	(204,735)	(188,124)
	5,443	-	-	12,570	10,012
	5,259	-	-	5,343	2,558
	(6,640)	-	-	(6,640)	-
	-	-	-	(180)	-
	-	-	-	-	-
	4,062	-	-	11,093	12,570
	(64,108)	-	-	(193,640)	(172,930)
	184,159	15,762	-	324,767	367,294

Petroleum Products Refining and Distribution segment

- tEuros 26,054 relating to the retail sector, essencially in the the remodelling of service stations and convenience stores, business expansion and development of the information system;

- The Sines and Oporto refineries incurred capital expenditure totalling tEuros 15,512, of which tEuros 5,676 relates to Conformity projects (to comply with legal requirements, relating to the environment, hygiene and security, product specification, as well as those in anticipation of compliance with future requirements), tEuros 109 relating to the bitumen storage and shipping project, pipeline substitution and the revamping of units in the amounts of tEuros 3,202 and tEuros 437, respectively;

- The LPG (Gas) area incurred capital expenditure of tEuros 10,759 in modernisation of the bottle filling lines, namely adaptation of the network, requalification and acquisition of new bottles for the Sines project;

- tEuros 1,476 relating to additional costs of installing the “Monobóia” (Note 6.).

In 2006 intangible and tangible fixed assets, comprising mostly fully amortised and depreciated items, were written off as a result of updating the fixed assets register of Petrogal.

At 31 December 2006 the following impairment losses totalling tEuros 88,989, relating adjustments to the amount of fixed assets, had been recognised:

i) tEuros 33,325 to cover impairnment losses of Block 33;

ii) tEuros 17,674 to cover impairment losses of service station in the network in Spain;

iii) tEuros 7.253 to cover impairment losses of service stations in Portugal;

iv) tEuros 3,876 to cover impairment losses of the Aveiro installations;

v) tEuros 7,051 to cover impairment losses of the the "Monobóia";

vi) mEuros 256 to cover impairment losses of the land of Soturis;

vii) mEuros 60 to cover impairment losses of the GPL network.

The tangible fixed assets relating to crude oil exploration and corresponding accumulated depreciation at 31 December 2006 are as follows:

» TANGIBLE FIXED ASSETS

	GROSS	ACCUMULATED AMORTISATION DEPRECIATION AND IMPAIRMENT	NET CARRYING AMOUNT
Exploration and development costs relating to areas in production	326,905	(97,315)	229,590
Signature premium for areas in production	993	-	993
Fixed assets in progress	106,388	(33,325)	73,063
	434,286	(130,640)	303,646

Tangible and intangible fixed assets in progress (including advances on account of tangible and intangible assets) at 31 December 2006 are made up as follows:

	GROSS	INVESTMENT SUBSIDIES	NET ASSET
Petroleum research in blocks 32 and 33 in Angola	84,612[a]	-	84,612
Petroleum research and exploration in the Potiguar, Sergipe/Alagoas, Espírito Santo and Santos - Brazil basins	38,460	-	38,460
Renewal and expansion of the network	25,943	-	25,943
Petroleum research and exploration in Block A-IMI & Block 14 - Congo and Angola	21,776	-	21,776
Natural gas underground storage	25,620	(4,224)	21,396
Construction of network infrastructures and re-conversion to natural gas	14,827	(155)	14,672
Co-generation plant in Sines	14,330	-	14,330
Industrial investment relating to the refineries	12,138	-	12,138
Leixões - Replacement of pipelines - Oporto Refinery	7,255	-	7,255
Studies and licences - Oporto Refinery	2,676	-	2,676
"Monobóia" - installation of spare parts	1,007	-	1,007
Inspection and improvement of drains - 2nd Phase - Oporto Refinery	913	-	913
Remodelling of the bitumen warehouse/shipping - Sines Refinery	906	-	906
Oil research on the Portuguese coast	711	-	711
Substitution of pipelines - Oporto Refinery	593	-	593
Studies and licences - Sines Refinery	579	-	579
Scheduling and Blend. + Perform, Manag,	564	-	564
Revamping the Claus units	382	-	382
Construction and reconversion to natural gas - UAG's	1,258	(923)	335
Chemical products filling - Oporto Refinery	228	-	228
Other projects	87	-	87
	254,865	(5,302)	249,563

(a) This amount is net of impairment losses of tEuros 33,325 in Block 33.

14. **SUBSIDIES**

Investment subsidies received and receivable at 31 December 2006 and 2005 are as follows:

PROGRAM	GDP	PETROGAL	OTHERS	2006	2005
Regen					
Amount received	-	-	-	-	79,361
	-	-	-	-	79,361
Energia Program					
Amount received	116,236	-	-	116,236	163,530
Amount receivable	201	-	-	201	-
	116,437	-	-	116,437	163,530
Interreg II					
Amount received	19,275	-	-	19,275	143,069
Amount receivable	-	-	-	-	-
	19,275	-	-	19,275	143,069
Trans-Energy					
Amount received	-	-	-	-	90,490
Amount receivable	-	-	-	-	1,128
	-	-	-	-	91,618
Protede					
Amount received	19,708	-	-	19,708	19,708
	19,708	-	-	19,708	19,708
Operacional Economy Program					
Amount received	194,641	-	300	194,941	232,189
Amount receivable	1,861	-	-	1,861	2,864
	196,502	-	300	196,802	235,053
Desulphurisation of Sines					
Amount received	-	13,203	-	13,203	13,203
Amount receivable	-	26,310	-	26,310	26,310
	-	39,513	-	39,513	39,513
Desulphurisation of Oporto					
Amount received	-	11,797	-	11,797	11,797
Amount receivable	-	23,510	-	23,510	23,510
	-	35,307	-	35,307	35,307
Others					
Amount received	-	11,891	-	11,891	9,592
Amount receivable	-	-	-	-	-
	-	11,891	-	11,891	9,592
Total	351,922	86,711	300	438,933	816,751

In the year ended 31 December 2006 subsidies of tEuros 46,360 were recognised in the income statement (Note 13.). The decrease of tEuros 378,187 in subsidies received results from the Unbundling of the natural gas acquisition and transport operations (Note 31).

In addition, subsidies of tEuros 19,328 were received in 2006.

Subsidies receivable of tEuros 51,882, recorded in the caption "Other receivables", include tEuros 49,820 relating to subsidies receivable from the Portuguese State (Note 15) resulting from the "Shareholders' Agreement between the State and Petrocontrol regarding compensation due to Petrogal" dated 21 December 1998, for capital expenditure incurred relating to desulphurisation of diesel fuel in the Sines and Oporto refineries. The remaining balance of tEuros 2,062 corresponds to incentive programs for the expansion of the natural gas network (Note 15.).

15. **OTHER RECEIVABLES**

The non-current and current captions "Other receivables" at 31 December 2006 and 2005 are made up as follows:

	2006		2005	
CAPTIONS	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
State and Other Public Entities:				
Corporate Income Tax	220	-	-	-
Value Added Tax - Reimbursement requested	15,722	-	12,999	-
Social Security	188	-	6	-
ISP - Tax on petroleum products	102	-	42	-
Others	157	-	131	-
Loans to associated, participated and related companies (Note 29)	-	55,927	-	60,193
Other operations - associated, related and participated companies (Note 29)	1,243	-	647	-
Other debtors - associated, related and participated companies (Note 29)	1,940	807	4,289	-
The Portuguese State (Note 14)	49,820	-	49,820	-
Natural gas trading operations	22,496	-	-	-
EDP - Electricidade de Portugal Group	29	-	25,002	-
Means of payment	9,609	-	11,547	-
Contract ceding the rights to use telecommunications infrastructures	6,602	13,080	7,162	21,485
Advances to suppliers of fixed assets	11,930	-	6,855	-
Loan to Sonangol under the Block 14 production contract	4,531	-	4,856	-
Subsidies receivable (Note 14)	2,062	-	3,992	-
Advances to suppliers	2,892	-	3,304	-
Tax on petroleum products (ISP)	19,241	-	3,236	-
Personnel	2,028	-	3,045	-
Pension fund payment recovery	8,676	-	2,060	-
Debit balances with suppliers	1,260	-	784	-
VAT - Payments settled abroad	1,731	-	-	-
Loans to clients	541	2,819	-	2,890
Captive bank accounts EIB loan	-	3,872	-	-
Others	26,245	830	26,456	1,954
	189,265	77,335	166,233	86,522
Accrued income.				
Sales and services rendered not yet invoiced	58,815	-	84,883	-
Accrued interest	7,833	-	5,629	-
Sale of finished goods by the service stations to be invoiced	3,775	-	4,010	-
Sale of finished goods by the service stations to be invoiced	286	-	1,486	-
Trade discount receivable on purchases made in 2006	1,992	-	1,446	-
Others	10,250	-	1,320	-
	82,951	-	98,774	-

	2006		2005	
CAPTIONS	CURRENT	NON CURRENT	CURRENT	NON CURRENT
Deferred costs:				
Costs relating to service station concession contracts	39,624	-	39,171	-
Retirement benefits (Note 24)	4	28,998	-	9,711
Interest and other financial costs	1,967	33	2,678	15
Catalyser costs	3,063	-	4,615	-
Prepaid rent	341	-	336	-
Prepaid insurance	2	-	5,401	-
Other deferred costs	6,033	390	10,612	-
	51,034	29,421	62,813	9,726
Impairment of other receivables	(4,548)	-	(5,303)	
	318,702	106,757	322,517	96,248

The changes in the caption "Impairment of other receivables" in the year ended 31 December 2006 were as follows:

CAPTIONS	BEGINNING BALANCE	INCREASES	DECREASES	UTILISATION	ADJUSTMENTS	ENDING BALANCE
Other receivables	5,303	718	(1,171)	(64)	(238)	4,548
	5,303	718	(1,171)	(64)	(238)	4,548

The increases and decreases in impairment losses on other receivables in the net amount of tEuros 453 were recognised in the caption "Provision for impairment of receivables" (Note 7.).

At 31 December 2006 Petrogal still had tEuros 49,820 receivable from the Ministry of the Economy under the "Shareholders' Agreement between the State and Petrocontrol regarding compensation due to Petrogal" dated 21 December 1998. This amount is to subsidise capital expenditure incurred relating to desulphurisation of diesel fuel in the Sines and Oporto refineries. The corresponding entry to this receivable is reflected as a deduction from the amount of fixed assets (Note 14). The Group believes that the amount will be received in 2007 as it is included in the State Budget for 2007.

The caption "Means of payment" in the amount of tEuros 9,609 corresponds to amounts receivable for sales by visa/multibanco cards, which at 31 December 2006 were pending collection.

The receivable of tEuros 1,243 relating to "Associated companies – other operations" refers to companies that were not consolidated by the full consolidation method, and includes essentially accounts receivable from Empresa Nacional de Combustíveis – Enacol, S.A.R.L..

The receivable of tEuros 1,940 relating to "Associated companies – other debtors" refers to companies that were not consolidated by the full consolidation method, and includes essentially accounts receivable from Tagusgás – Empresa Gás do Vale do Tejo, S.A..

The amount of tEuros 22,496 corresponds to accounts receivable from the sale of natural gas under a trading operation.

In 2006 the Group received tEuros 17,984 from EDP - Energias de Portugal, S.A. corresponding to the protesting rights of the option to sell 217,655 shares of Oni SGPS, S.A., exercised in 2003 in the amount of tEuros 14,964 plus interest of tEuros 3,020. In addition the Company received tEuros 2,323 relating to interest for the period from 2 August 2003 to 27 September 2006.

The amount of tEuros 19,241 in the caption "Other debtors – ISP" corresponds to the amount receivable from the Customs House relating to the exemption of bio-fuels from ISP, which is under a tax suspense regime in accordance with Circular 79/2005 of 6 December.

The amount of tEuros 6,602 under current assets and tEuros 13,080 under non-current assets results from Contracts Ceding the Rights to Use Telecommunications Infrastructures entered into on 1 July 1999 for a 20 year period, and is being received in successive equal annual instalments of tEuros 5,903 up to 31 July 2009, each instalment being increased by interest at market rates. Income resulting from this contract is recorded in deferred income and recognised in the income statement on a straight-line basis over the period of the contract, which ends on 1 June 2019. In the year ended 31 December 2006 the litigation regarding these contracts was resolved in the arbitration court, the Company having received all amounts legally declared plus interest in the amount of tEuros 10,760 (Note 9). As a result of the resolution of the litigation, in 2006 the Company reversed the provision of tEuros 5,835 recorded in 2004 for interest recognised in earlier years, due to the probability of early termination of the contract currently in force (Note 26). The balance of deferred income at 31 December 2006, to be recognised in future years, amounts to tEuros 62,917 (Note 25).

The loan of tEuros 4,531 to Sonangol results from an agreement made with all the members of the Block 14 Joint Venture. The loan is being repaid by the appropriation, by Galp Exploração, of the part of the Block 14 oil production corresponding to Sonangol.

The amount of tEuros 2,062 reflected in the caption "Subsidies receivable" corresponds to subsidies relating to natural gas network expansion programs (Note 14).

The caption "Other debtors – Pension fund payment recovery", in the amount of tEuros 8,676, corresponds to amounts receivable from BPI Pensões relating to the amount of the pensions processed in December and not yet reimbursed.

The accrued income caption "Sales and services rendered not yet invoiced" refers essentially to invoices for natural gas consumed, to be issued in the following month.

The amount of tEuros 7,833 reflected in the accrued income caption "Accrued interest", includes tEuros 7,285 relating to interest to be invoiced to E3G – Telecomunicações, S.A. for ceding the right to use infrastructures.

The amount of tEuros 3,775 in the caption "Sale of finished goods by the service stations to be invoiced" relates to amounts purchased in 2006 through Galp Frota cards, only invoiced in 2007.

The accrued income and accrued costs regarding commodity swaps relate to hedging transactions carried out in December 2006, for which the financial flows will be realised in January 2007. These operations were realised to smooth the price of Brent on sales transactions from Block 14 in 2006 and, as they are swaps indexed to the monthly price of Brent, they generate real transactions monthly, the cost/income having to be recognised in the month to which the hedge relates.

Deferred costs relating to service station concession contracts are amortised over the period of the concessions, which varies from 20 to 25 years.

16. TRADE RECEIVABLES

The caption "Trade receivables" at 31 December 2006 and 2005 is made up as follows:

CAPTIONS	2006	2005
Clients, current accounts	939,331	877,160
Clients - doubtful acounts	73,503	65,297
Clients - notes receivable	7,410	6,085
	1,020,244	948,542
Impairment of trade receivables	(59,965)	(50,179)
	960,279	898,363

The changes in the caption "Impairment of trade receivables" in 2006 were as follows:

CAPTIONS	BEGINNING BALANCE	INCREASES	DECREASES	UTILISATION	PERIMETER CHANGES	ENDING BALANCE
Impairment of trade receivables	50,179	35,528	(18,958)	(6,418)	(366)	59,965
	50,179	35,528	(18,958)	(6,418)	(366)	59,965

The increase and decrease in the caption "Impairment of trade receivables" in the net amount of tEuros 16,570 was recognised in the caption "Provision and impairment of receivables" (Note 7.).

17. **INVENTORIES**

Inventories at 31 December 2006 and 2005 are made up as follows:

CAPTIONS	2006	2005
Raw, subsidiary and consumable materials:		
Crude oil	194,568	149,691
Other raw materials	32,913	37,793
Raw material in transit	83,662	84,329
	311,143	271,813
Adjustments to raw, subsidiary and consumable materials	(5,372)	(5,018)
	305,771	266,795
Finished and semi-finished products:		
Finished products	345,982	426,311
Semi-finished products	164,420	232,423
Finished products in transit	55	16,527
	510,457	675,261
Adjustments to finished and semi-finished products	(8)	(8)
	510,449	675,253
Work in process	143	328
Merchandise	249,677	253,476
Merchandise in transit	497	-
	250,174	253,476
Adjustments to merchandise	(1,398)	(1,323)
	248,776	252,153
Advances on account of purchases	125	4,828
	1,065,264	1,199,357

Merchandise at 31 December 2006, in the amount of tEuros 250,174, corresponds essentially to natural gas in the pipelines in the amount of tEuros 72,165 and inventories of crude oil derivative products of the subsidiary Galp Energia España, S.A. in the amount of tEuros 160,672.

Inventories on consignment at 31 December 2006 (including Tax on Petroleum Products) consist essentially of finished products and amount to tEuros 17,466.

At 31 December 2006 the Group's responsibility to competitors for strategic reserves, which can only be satisfied by the delivery of products, amounted to tEuros 252,862 and is reflected in the caption "Advances on account of sales" (Note 25).

In November 2004, under Decree-law 339-D/2001 of 28 December, Petrogal and Petrogal Trading Limited entered into a contract to purchase, sell and exchange crude for finished products for the constitution of strategic reserves with

"Entidade Gestora de Reservas Estratégicas de Produtos Petroliferos, EPE" ("EGREP"). Under the contract entered into in 2004 the crude acquired by EGREP, which is not reflected in the financial statements, is stored in a non-segregated form in Petrogal's installations, where it must remain so that EGREP can audit it in terms of quantity and quality, whenever it so wishes. In accordance with the contract, Petrogal must, when so required by EGREP, exchange the crude sold for finished products, receiving in exchange an amount representing the refining margin as of the date of exchange.

Inventories consumed and sold in 2006 are made up as follows:

		MERCHANDISE	RAW, SUBSIDIARY AND CONSUMABLE MATERIALS	FINISHED AND SEMI-FINISHED PRODUCTS	TAX ON PETROLEUM PRODUCTS - ISP	WORK IN PROCESS	TOTAL
Beginning balance	+	250,106	256,260	675,261	18,923	328	1,200,878
Purchases	+	2,091,255	5,605,679	-	2,355,696	-	10,052,630
Production	+	-	-	139,784	-	-	139,784
Adjustments	+/-	100,214	(1,881)	(355)	-	-	97,978
Transfers to fixed assets	+	(15,936)	(3,239)	-	-	-	(19,175)
Ending balance	-	244,714	311,143	492,602	23,315	143	1,071,917
Cost of merchandise sold and materials consumed		2,180,840	5,545,213	138,079	2,351,304	-	10,215,436
Variation in production		-	-	184,009	-	185	184,194
Inventory adjustments		85	463	-	-	-	548
Inventory consumed and sold (note 7.)		2,180,925	5,545,676	322,088	2,351,304	185	10,400,178

The beginning balance of Tax on Petroleum Products – ISP in the amount of tEuros 18,923 was reclassified from the beginning balance of merchandise in the amount of tEuros 3,370 and raw, subsidiary and consumable materials in the amount of tEuros 15,553.

The amount of tEuros 2,355,696 in the caption Tax on Petroleum Products – ISP includes tEuros 1,783,219 corresponding to ISP relating to the introduction to consumption of finished goods already shipped subject to that tax and tEuros 572,477 relating to ISP on merchandise acquired.

The changes in the caption "Impairment of inventories" in the year ended 31 December 2006 were as follows:

CAPTIONS	BEGINNING BALANCE	INCREASES	DECREASES	UTILISATION	PERIMETER CHANGES	ENDING BALANCE
Impairment of raw, subsidiary and consumable material	5,018	687	(224)	-	(109)	5,372
Impairment of finished and semi-finished products	8	7	(7)	-	-	8
Impairment of merchandise	1,323	139	(54)	(1)	(9)	1,398
	6,349	833	(285)	(1)	(118)	6,778

The net increase in impairment, in the amount of tEuros 548, was recorded by corresponding entry to the operating cost caption "Inventories consumed and sold" in the income statement (Note 7).

18. OTHER INVESTMENTS

Other investments at 31 December 2006 and 2005 are made up as follows:

CAPTIONS	2006	2005
Commodities	6,874	2,145
Financial	269	32
Financial instruments (Nota 28.)	7,143	2,177
Shares in other investments	11	12
Other negotiable securities	904	1,223
Term deposits	1,793	6,779
Other treasury applications	4,172	-
Other current investments (Nota 19.)	6,880	8,014
	14,023	10,191

Financial instruments at 31 December 2006 and 2005 are recorded at fair value as of those dates (Note 28).

Other treasury applications amounting to tEuros 4,172 correspond to short term applications of surplus cash of the subsidiary Galp Serviexpress, S.L.U..

19. CASH AND CASH EQUIVALENTS

The caption "Cash and cash equivalents" at 31 December 2006 and 2005 is made up as follows:

CAPTIONS	2006	2005
Cash	6,435	7,167
Demand deposits	83,537	122,158
Term deposits	11,133	28,310
Other treasury applications	111,363	-
Cash and cash equivalents in the balance sheet	212,468	157,635
Other current investments (Note 18.)	6,880	8,014
Bank overdrafts (Nota 23.)	(218,526)	(72,015)
Cash and cash equivalents in the cash flow statement	822	93,634

The caption "Other treasury applications" includes applications of cash surplus of the following Group companies:

Galp Energia, SGPS, S.A.	90,000
CLCM - Companhia Logística de Combustíveis da Madeira, S.A.	8,000
Petrogal Brasil, Lda.	5,751
Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A.	3,000
Galp Exploração Serviços do Brasil, Lda.	2,956
Powercer - Sociedade de Cogeração da Vialonga, S.A.	900
Galp Exploração e Produção Petrolífera, Lda.	756
	111,363

20. CAPITAL

» CAPITAL STRUCTURE

The capital structure at 31 December 2006 was unchanged in relation to the preceding year. The Company's fully subscribed and paid up share capital consists of 829,250,635 shares (Note 11) of 1 Euro each[(a)], divided into the following categories:

TYPE OF SHARES	2006	2005
A Shares	40,000,000	8,000,000
B Shares	789,250,635	157,850,127
Total number of shares	829,250,635	165,850,127
Nominal value of the shares	829,251	829,251

(a) The shareholders' General Meeting held on 31 May 2006 approved a change in the nominal value of the Company's shares from Euros 5 to Euro 1 each, by substituting five new shares for each share previously held, the total amount of capital remaining unchanged (Note 11.).

The A shares have some special rights, namely:

i) Election of the President of the Board of Directors can only be approved by a majority of A share votes;

ii) Any decision aimed at authorising the signing of parity group or subordination contracts, and any decisions which in any way can endanger the safety of the supply of petroleum, gas, electricity or related products, cannot be approved in a first or second calling against a majority of class A votes.

» SHAREHOLDERS

1999

Galp's initial capital, in the amount of 411,383,565 Euros, was fully paid up in kind by transfer of the Portuguese State's participations in Petrogal - Petróleos de Portugal, S.A., Gás de Portugal - GDP, SGPS, S.A. and Transgás, S.A.. In September 1999 a capital increase was carried out by the Portuguese State, the Company's capital being increased to 502,164,785 Euros.

The privatisation process of Petrogal was started under Decree-Law 261-A/)) of 7 July by opening the Company's capital to the remaining shareholders of Petróleos de Portugal – Petrogal, S.A. and Transgás, S.A.. A further capital increase was carried out for this purpose, reserved for those shareholders, paid up essentially in kind through transfer of their participations in these companies.

Therefore at 31 December 1999, a capital increase of 327,085,850 was carried out, which was subscribed for by Petrocontrol, SGPS, S.A. ("Petrocontrol"), EDP – Electricidade de Portugal, S.A. (now called EDP – Energias de Portugal, S.A. ("EDP")), Caixa Geral de Depósitos, S.A., Portgás – Sociedade de Produção e Distribuição de Gás, S.A. and Setgás – Sociedade de Produção e Distribuição de Gás, S.A., the Company's capital becoming 829,250,635 Euros.

2000 to 2002

In July 2000, following agreements signed on 17 July of that year, the companies defined as strategic partners - ENI Portugal Investment, S.p.A. ("ENI") and Iberdrola, S.A. ("Iberdrola") – signed Purchase and Sale of Shares Contracts and Strategic Partnership Agreements, acquiring 11% and 4%, respectively, of Galp's capital. At the same time Petrocontrol sold all its participation in Galp, the ENI Group having acquired a participation of 22.34% and EDP 11%.

2003 to 2005

The third privatisation process of Galp was approved by Decree-Law 124/2003. Following the Decree-Law, REN – Rede Eléctrica Nacional, S.A. ("REN") acquired a participation of 18.3% of the capital of Galp, of which 13.5% was acquired from Caixa Geral de Depósitos and the remaining 4.8% from the Portuguese State. In addition, Parpública - Participações Públicas, SGPS, S.A. acquired 0.75% and 3.48% in 2004 and an additional 8.06% in 2005 of Galp's share capital from the Portuguese State.

2006

In the year ended 31 December 2005 Amorim Energia, B.V. signed a contract to buy Galp Energia, SGPS, S.A.'s shares held by EDP – Energias de Portugal, S.A., representing 14.27% of the capital, that operation also ensuring an option to buy 18.3% of the shares held by REN – Rede Eléctrica Nacional, S.A.. The sale of the shares between these entities was registered at the end of January 2006.

In addition, in January 2006 Amorim Energia, B.V. purchased from Portgás – Sociedade de Produção de Gás, S.A., its 0.04% participation in the Company.

In the year ended 31 December 2006 the Portuguese State transferred to Parpública – Participações Públicas, SGPS, S.A., shares representing a participation of 12.72% in the Company's capital.

On 24 October 2006 the Company placed its capital on the Stock Market, the Portuguese State and Parpública – Participações Públicas, (SGPS), S.A. having sold 173,388,769 ordinary dematerialised nominal class B shares, of which 82,925,000 shares by Public Sale Offering and 90,463,769 shares through direct sale. In addition, a supplementary lot of 17,338,877 shares were sold. This operation represented the sale of approximately 23% of the Company's capital, the Company therefore becoming listed on Euronext Lisbon.

At 31 December 2006 the Company's fully subscribed and paid up share capital was held as follows:

	NUMBER OF SHARES	NOMINAL VALUE	% CAPITAL
ENI, S.p.A	276,472,160	1 Euro	33.34%
Amorim Energia, B.V.	276,472,161	1 Euro	33.34%
Estado Português	41,494,501	1 Euro	5.00%
Iberdrola, S.A.	33,170,025	1 Euro	4.00%
Banco BPI, S.A.	17,150,010	1 Euro	2.07%
CXG Corporación Caixa Galicia, S.A.U.	16,585,013	1 Euro	2.00%
Parpública – Participações Públicas, (SGPS), S.A.	16,585,012	1 Euro	2.00%
Caixa Geral de Depósitos, S.A.	8,292,510	1 Euro	1.00%
Restantes accionistas	143,029,243	1 Euro	17.25%
	829,250,635		100,00%

21. OTHER RESERVES

In accordance with the Commercial Company Code (Código das Sociedades Comerciais) 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 absorb losses after all the other reserves have been used up.

In 2006 this caption increased by tEuros 22,098 resulting from appropriation of the profit for 2005. This amount is less than 5% of the profit for 2005 determined in accordance with IFRS/IAS. This results from the fact that this is a Portuguese legal requirement, the legal reserve therefore being determined based on profit for 2005 in accordance with Portuguese accounting standards (the Official Chart of Accounts - Plano Oficial de Contabilidade - POC), which for 2005 amounted to tEuros 441,959.

At 31 December 2006 and 2005 this caption was made up as follows:

	2006	2005
Legal reserve	79,047	56,949
Other reserves	27,977	27,977
	107,024	84,926

22. MINORITY INTEREST

At 31 December 2006 and 2005 the equity caption “Minority interest” refers to the following subsidiaries:

	2006	2005
Lusitaniagás - Companhia de Gás do Centro, S.A.	9,125	7,602
Beiragás - Companhia de Gás das Beiras, S.A.	4,846	4,135
Sopor - Sociedade Distribuidora de Combustíveis, S.A.	3,068	3,030
Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A.	1,699	1,611
Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A.	976	289
Probigalp - Ligantes Betuminosos, S.A.	951	914
Sempre a Postos - Produtos Alimentares e Utilidades, Lda.	507	405
Powercer - Sociedade de Cogeração da Vialonga, S.A.	233	45
Petromar – Soc. Abastecimentos Petrolíferos, Lda.	164	112
Gite - Galp International Trading Establishment	40	44
Combustíveis Líquidos, Lda.	2	(48)
Duriensegás - Sociedade Distribuidora de Gás Natural do Douro, S.A.(b)	-	966
Gasoduto Braga - Tuy, S.A.(c)	-	3,357
Gasoduto de Campo Maior - Leiria - Braga, S.A.(c)	-	4,565
Petrogal Guiné-Bissau, Lda.	-	(160)
Agran – Agroquímica de Angola, SARL(d)	-	(8)
Fast Access - Operações e Serviços de Informação e Comércio Electrónico, S.A.	(51)	165
Petrogás – Guiné-Bissau Importação, Armazenagem e Distribuição de Gás, Lda.	(260)	(207)
CLCM - Companhia Logística de Combustíveis da Madeira, S.A.(a)	(2,763)	(2,172)
	18,537	24,645

(a) At 31 December 2006 this subsidiary had negative shareholders’ equity. The Board of Directors of the subsidiary made a proposal under which the existing shareholders would make a supplementary capital contribution to the company in proportion to their shareholdings, and shareholders’ loans of tEuros 7,267 would be repaid in full. Consequently, the Group only recognised accumulated losses in proportion to its participation in that subsidiary, and so the minority interest balance is a debit.

(b) In December 2006 GDP Distribuição, SGPS, S.A. acquired the remaining 25% of the capital of Duriensegás – Soc. Distribuidora de Gás natural do Douro, S.A., becoming its sole shareholder (Note 3).

(c) Under the sale of part of the assets and liabilities of Transgás – Sociedade Portuguesa de Gás Natural, S.A., through spin-off of its transport and storage operations, the participations in Gasoduto Campo Maior - Leiria - Braga, S.A. and Gasoduto Braga - Tuy, S.A. were transferred to REN – Rede Eléctrica Nacional, S.A. (Notes 3 and 31).

(d) This participation was sold in 2006.

23. LOANS

» DETAILS OF LOANS

Loans obtained at 31 December 2006 and 2005 are made up as follows:

	2006		2005	
	SHORT TERM	MEDIUM/LONG TERM	SHORT TERM	MEDIUM/LONG TERM
Bank loans:				
Domestic loans	284,574	90,064	99,045	119,178
Foreign loans	59,682	195,721	84,776	644,988
Bank overdrafts (Note 19.)	218,526	-	72,015	-
Discount Notes	1,716	-	-	-
Renewable credit lines	-	-	250	16,000
	564,498	285,785	256,086	780,166
Other loans obtained:				
IAPMEI	1,583	2,149	1,304	2,816
	566,081	287,934	257,390	782,982
Project Finance Fees	-	(845)	-	(986)
	566,081	287,089	257,390	781,996
Bonds:				
GDP, SGPS, S.A., 1997 issue	20,435	-	-	49,880
Lisboagás, S.A., 1998 issue	-	15,772	-	49,880
Galp Investment Fund, 2003 issue	-	210,000	-	210,000
	20,435	225,772	-	309,760
	586,516	512,861	257,390	1,091,756

The non-current loans at 31 December 2006 are repayable as follows:

2008	245,216
2009	37,950
2010	37,299
2011	25,576
2012 and following	167,665
	513,706

At 31 December 2006 and 2005 the loans were in Euros, US Dollars, Meticais and Cape Verde Francs.

The average interest rates on the loans and bank overdrafts in 2006 and 2005 were 3.40% and 4.35%, respectively.

» NATURE OF THE MAIN LOANS

Following is a summary of the main loans included in the above schedules:

Bank loans

The main bank loans at 31 December 2006 are as follows:

COMPANY	AMOUNT	CURRENCY	BEGINNING	END	AMOUNT DUE
Beiragás - Companhia de Gás das Beiras, S.A.	27,000	EUR	27.12.2005	15.12.2020	21,155
Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A.	20,000	EUR	03.04.2003	20.09.2012	13,606
Powercer - Sociedade de Cogeração da Vialonga, S.A.	5,175	EUR	22.11.2004	20.11.2013	4,502
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	80,000	EUR	20.06.2000	15.06.2020	80,000
Lusitaniagás - Companhia de Gás do Centro, S.A.	54,868	EUR	28.10.1995	15.03.2020	42,805
Galp Energia, SGPS, S.A.	92,909	USD	13.02.2002	06.12.2007	23,515
Galp Energia, SGPS, S.A.	39,000	EUR	21.12.2006	15.09.2021	39,000
Galp Energia, SGPS, S.A.	275,000	EUR	28.12.2006	29.01.2007	275,000
Petróleos de Portugal - Petrogal, S.A.	230,000	USD	21.12.1992	15.12.2007	5,083
Petróleos de Portugal - Petrogal, S.A.	10,323	USD	13.12.2002	06.12.2007	2,613
C.L.C. - Companhia Logística de Combustíveis, S.A.	89,783	EUR	02.12.1996	15.09.2008	14,343
C.L.C. - Companhia Logística de Combustíveis, S.A.	64,101	EUR	20.03.1997	15.03.2007	668
C.L.C. - Companhia Logística de Combustíveis, S.A.	10,000	EUR	15.12.2006	15.06.2014	3,049
CLCM - Companhia Logística de Combustíveis da Madeira, S.A.	58,000	EUR	20.07.2005	15.12.2023	56,508
Moçacor - Distribuição de Combustíveis, S.A.	2,320	USD	31.10.2003	31.10.2013	1,529
Petrogal Angola, Lda.	700	USD	31.12.2006	31.12.2011	493
Transgás - Sociedade Portuguesa de Gás Natural, S.A.	80,983	EUR	15.12.1994	15.03.2011	42,873
Probigalp - Ligantes Betuminosos, S.A.	150	EUR	2006	2007	150
Petrogal Moçambique, Lda.	96,485	MZM	2006	2007	2,799
Petromar – Soc. Abastecimentos Petrolíferos, Lda.	229,585	CFA	2006	2007	350
					630,041

In September 2006 the Company subscribed for 4 Commercial Paper Programs totalling tEuros 275,000. The Programs mature in 1 year, are renewable for the same period and are as follows:

AGENT	BANK	AMOUNT
Caixa Banco de Investimento	Caixa Geral de Depósitos	100,000
Banco Santander Negócios	Banco Santander Totta	100,000
Millennium BCP Investimentos	Banco Comercial Português	50,000
Banco Popular Portugal	Banco Popular Portugal	25,000
		275,000

The loans bear interest at the Euribor rate for the period of the issues, on the second business day prior to the subscription date, plus variable spreads defined in the contractual conditions of the commercial paper programs subscribed for by the Company. The interest rates are applied to the amount of each issue and remain unaltered during the period of the issue.

In the year ended 31 December 2006 the Company contracted a medium and long term loan of tEuros 39,000 from the European Investment Bank. The loan is guaranteed by Petrogal, S.A. and serves exclusively to finance the construction and operation of a co-generating plant in the Sines refinery. The loan bears interest at the Euribor six month rate plus a variable spread.

As a result of the process known as Unbundling there was a decrease of tEuros 469,630 in the amount of bank loans (Note 31), of which tEuros 431,255 refers to payment of a loan from the European Investment Bank (E.I.B.).
The loans from the European Investment Bank, in the amount of tEuros 185,105, are guaranteed by Bank Syndicates.

Petrogal has issued comfort letters in favour of group and associated companies, relating to short term credit lines, in the amount of tEuros 639,101.

» BONDS

i) GDP – Gás de Portugal, SGPS, S.A. 1997 Issue

On 25 June 1997 GDP – Gás de Portugal, SGPS, S.A. issued bonds totalling tEuros 49,880, at par, for private subscription, which were fully subscribed for and paid up.

The bonds are redeemable at their nominal value in a single payment at the end of their term, which is ten years.

However, the bonds can be redeemed early, in part or in full, at the issuer's option (call option), in the case of partial early redemption, by decrease in the nominal value of the bonds, on any interest payment date as from the sixth coupon. In such a case, there is a redemption premium over the nominal value redeemed early.

If the Portuguese State ceases to be direct or indirect majority shareholder of GDP and/or if GDP ceases to have a direct or indirect majority participation in its group companies that, as of the date the bonds were issued, have the corporate object of distributing piped gas, the bondholders can demand early redemption of their bonds.

As the Portuguese State stopped being the major shareholder in Galp Energia, SGPS, S.A., the Company published the corresponding announcement on 22 September 2006 and received requests for early redemption of the bonds in the amount of tEuros 29,445 and so the amount of the bonds is now tEuros 20,435.

These bonds bear interest payable half yearly in arrears at a rate indexed to the Euribor 6 month rate plus 7.5 basis points, rounded up to the closest 1/16 of a basis point.

This issue was led by Banco Millennium BCP Investimentos (formerly CISF) Banco Português de Investimento, the placement having been guaranteed by a Syndicate of Banks consisting by the following banks:

BANK	AMOUNT	%
Millennium BCP Investimentos (ex-CISF)	13,592	27,25
Banco Português de Investimento	13,592	27,25
Caixa Banco de Investimento (ex-Banco *Chemical Finance*)	4,988	10,00
Caixa Geral de Depósitos	4,988	10,00
Banco Finantia	3,492	7,00
Deutsche Bank de Investimento	3,492	7,00
Millennium BCP (ex-Mello)	1,995	4,00
Caixa Geral de Depósitos (ex-BNU)	1,247	2,50
Banco Santander de Negócios	1,247	2,50
Banco Bilbao Vizcaya y Argentaria	1,247	2,50
	49,880	100,00

ii) Lisboagás GDL- Sociedade Distribuidora de Gás Natural de Lisboa, S.A. 1998 Issue

On 12 August 1998 Lisboagás, GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. issued bonds totalling tEuros 49,880 at par, for private subscription, which were fully subscribed for and paid up.

The bonds are redeemable at par in five equal annual instalments on the due dates of the 22nd, 24th, 26th, 28th, and 30th coupons.

However, the bonds can be redeemed early, in part or in full, at par, at the issuer's option (call option), as from the due date of the 10th coupon, inclusive and on the respective interest payment dates.

The bondholders can also demand early redemption of the bonds or of the remaining outstanding principal of the bonds, at par, on the due dates of the 20th, 22nd , 24th , 26th and 28th coupons.

If the Portuguese State ceases to be direct or indirect majority shareholder of GDP – Gás de Portugal, SGPS, S.A. or if GDP – Gás de Portugal, SGPS, S.A. GDP ceases to have a direct majority participation in Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., the bondholders can demand early redemption of their bonds.

As the Portuguese State stopped being the major shareholder in Galp Energia, SGPS, S.A., the Company published the corresponding announcement on 22 September 2006 and received requests for early redemption of the bonds in the amount of tEuros 34,107 and so the amount of the bonds is now tEuros 15,772.

Interest is payable half yearly in arrears at a rate corresponding to the Euribor 6 month rate in force on the second to last working day preceding the beginning of each interest period plus 8 basis points.

The Bond issue was underwritten by a Syndicate of Banks composed by the following banks:

BANK	AMOUNT	%
Banco Espírito Santo Investimento	13,517	27.10
Banco Português de Investimento	13,567	27.20
Millennium BCP Investimentos (ex-CISF)	13,567	27.20
Caixa Geral de Depósitos (ex-BNU)	7,482	15.00
BMI	1,247	2.50
Banco Bilbao Vizcaya y Argentaria	500	1.00
	49,880	100.00

iii) Galp Investment Fund 2003 Issue

In 2003 Petrogal, S.A. entered into an accounts receivable securitisation operation with Galp investment Fund, PLC ("the Fund"), in the amount of tEuros 210,000, with an expected maturity term of 5 years and a legal maturity term of 7 years. In order to cover this amount, the Fund issued tEuros 199,500 of "A Notes" and tEuros 10,500 of "B Notes", which bear interest at the Euribor rate plus 50 basis points and 95 basis points, respectively. In 2006 Petrogal incurred financial expenses of tEuros 8,020 with this operation (Note 9).

24. RETIREMENT AND OTHER BENEFIT OBLIGATIONS

As expained in Note 2.10, Petrogal, Sacor Marítima and some companies of the GDP Group (GDP Distribuição, SGPS, S.A., Lisboagás – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. and Driftal – Plastificantes de Portugal, S.A.), transferred their liabilities for the payment of pension supplements to employees retired due to age, disability and pensions to survivors, to autonomous pension funds ("Fundo de Pensões Petrogal", "Fundo de Pensões Sacor Marítima" and "Fundo de Pensões GDP"). In addition, by decision of Petrogal, as from 1997, inclusive, the Petrogal Pension Fund covers the liability for pension supplements to personnel retiring early.

The Petrogal Pension Fund does not cover Petrogal's liability for early retirement and pre-retirement pensions, Social Security of pre-retired personnel, voluntary social insurance of personnel retired early, retirement premiums and other retirement benefits, such as healthcare and life insurance. These liabilities are covered by specific provisions included in the balance sheet caption "Retirement and other benefit obligations". In addition, the GDP Pension Fund does not cover the liability assumed by Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. to reimburse the retirement supplements payable by EDP to its retired personnel and pensioners working for the Company, as well as retirement and survivor supplements of retired personnel as of the date of constitution of the fund. These liabilities are covered by specific provisions included in the balance sheet caption "Retirement and other benefit obligations".

In 2006, as the Company recognises its liability for post retirement benefits in accordance with International Accounting Standard 19, which establishes that the rate used for discounting the liability for post retirement benefits is determined with reference to the market interest rate of high quality bonds as of the balance sheet date, the discounting rate was adjusted from 4.25% to 4.60%. The change in this actuarial assumption resulted in an decrease in the past service liability of the Petrogal Pension Fund and the GDP Group Pension Fund. In addition, the mortality tables used were changed, the TV 88/90 table being adopted for current and pre-retired personnel.

In 2006 Petrogal and the GDP Group companies contributed tEuros 21,834 and tEuros 2,132, respectively, to their respective Pension Funds to partially cover their liabilities.

The minimum liability of Petrogal and the GDP Group at 31 December 2006, calculated in accordance with the method and assumptions required by the Institute of Insurance of Portugal, amounted to tEuros 320,194 and tEuros 26,325, respectively.

At 31 December 2006 the net assets of the Petrogal Pension Fund, Sacor Marítima Pension Fund and GDP Pension Fund were as follows in accordance with a report of the fund management company:

	PETROGAL	SACOR MARÍTIMA	GDP
Bonds:			
Fixed rate Euro Bonds	166,437	3,340	9,002
Variable rate Euro Bonds	38,981	966	1,421
Other non Euro Bonds	5,039	-	1,689
Shares:			
European	46,732	1,350	4,556
Other shares	20,291	891	3,559
Hedge funds	11,303	353	-
Derivatives	-	2	-
Indirect real estate	4,290	177	497
Galp Building (part)	23,300	-	-
Cash	23,185	36	2,736
Total	339,558	7,115	23,460

Evolution of the pension fund assets in 2006 was as follows:

	PETROGAL	SACOR MARÍTIMA	GDP
Beginning balance	327,557	6,951	21,353
Contributions to the fund	21,834	-	2,132
Estimated return on the assets	(501)	341	883
Actuarial gain/(loss)	13,439	-	146
Pensions paid in the year	(22,771)	(177)	(1,056)
Ending balance	339,558	7,115	23,460

At 31 December 2006 and 2005 the Group had the following provisions to cover the liability for pensions and other benefits:

	2006	2005
Retirement benefits		
Petrogal Group		
Pre-retirement	27,793	18,506
Early retirement	22,516	20,201
Retirement bonus	5,622	5,479
Voluntary social insurance	-	126
Flexible retirement age	9,623	9,623
	65,554	53,935
Sacor Marítima Group	94	-
GDP Group		
Current employees	219	-
Pre-retirement	1,955	-
Retired personnel	5,322	6,004
Flexible retirement age	283	309
Relating to the Pension Fund	5,840	5,701
	13,619	12,015
Other Group companies		
Retirement benefits	323	277
Other benefits		
Petrogal Group		
Healthcare	148,662	135,075
Life assurance	1,840	1,439
Defined contribution plan minimum benefit	966	909
	151,468	137,423
GDP Group		
Healthcare	9,596	9,296
Life assurance	190	191
Defined contribution plan minimum benefit	220	203
	10,006	9,690
Other Group companies		
Healthcare	370	313
Life assurance	105	71
Defined contribution plan minimum benefit	641	508
	1,116	892
Balance sheet total	242,180	214,232

The assumptions used to calculate the retirement benefits are those considered by the Petrogal and GDP Groups and the entity specialised in actuarial studies as those that best meet the obligations established in the pension plan, and are as follows:

PETROGAL GROUP	2006	2005
Asset remuneration rate	5.20%	4.25%
Technical interest rate	4.60%	4.25%
Salary increase rate	3.00%	3.00%
Pension increase rate	1.50%	1.50%
Current personnel and pre-retirees mortality table	TV 88/90	TV 88/90
Retired personnel mortality tables	TV 88/90	TV 73/77
Disability table	EVK80-50%	EVK80-50%
Normal retirement age	65	65
Method	Projected unit credit	Projected unit credit
Liability and corresponding coverage:		
i) Liability relating to the pension fund:		
Current personnel	52,637	49,758
Pre-retired personnel	11,164	10,456
Early retired personnel	20,796	19,172
Retired personnel and pensioners	279,260	264,469
	363,857	**343,855**
Coverage relating to the pension fund:		
By the pension fund assets	346,673	327,557
By accruals and deferrals (Nota 15.)	(28,658)	(9,711)
Unrecognised (gain) and loss (Nota 2.10.)	45,842	26,009
	363,857	**343,855**
ii) Liability not relating to the pension fund:		
Pre-retired personnel	31,335	21,162
Early retired personnel	20,267	18,235
Retirement bonus	6,364	6,491
Voluntary social insurance (Note 15.)	440	269
Flexible retirement age (DL 9/99)	10,779	10,778
Total	**69,185**	**56,935**

	2006	2005
Covered by provisions:		
Pre-retired personnel	27,793	18,506
Early retired personnel	22,516	20,201
Retirement bonus	5,622	5,479
Voluntary social insurance (Nota 15.)	(151)	126
Flexible retirement age (DL 9/99)	9,623	9,623
Sub-total	**65,403**	**53,935**
(Gain) and loss not recognised:		
Pre-retired personnel	3,541	2,655
Early retired personnel	(2,248)	(1,967)
Retirement bonus	742	1,012
Voluntary social insurance	591	144
Flexible retirement age (DL 9/99)	1,156	1,156
Sub-total	**3,782**	**3,000**
Total	**69,185**	**56,935**

The Sacor Marítima Group has a pre-retirement liability of tEuros 94 not subject to actuarial valuation but has been included in the liability caption “Retirement and other benefit obligations”.

GDP GROUP	2006	2005
Asset remuneration rate	5.00%	4.25%
Technical interest rate	4.60%	4.25%
Salary increase rate	3.00%	.00%
Current personnel and pre-retirees mortality table	TV 88/90	TV 88/90
Retired personnel mortality tables	TV 88/90	TV 73/77
Disability table	EVK 80-50%	EVK 80-50%
Normal retirement age	65	65
Method	Projected unit credit	Projected unit credit
Liability and corresponding coverage:		
i) Liability relating to the pension fund:		
Current personnel	20,635	22,192
Pre-retired personnel	1,962	804
Retired personnel and pensioners	10,528	9,751
	33,125	**32,747**
Coverage relating to the pension fund:		
By the pension fund assets	23,048	21,353
Retirement benefit liability	5,840	5,924
By accruals and deferrals (Nota 15.)	(189)	(223)
Unrecognised (gain) and loss (Nota 2.10.)	4,426	5,693
	33,125	**32,747**
ii) Liability not relating to the pension fund:		
Current personnel	335	312
Pre-retired personnel	2,027	-
Retired personnel	7,159	6,776
Flexible retirement age (DL 9/99)	296	322
Total	**9,817**	**7,410**
Retirement benefit liability		
Current personnel	219	-
Pre-retired personnel	1,955	-
Retired personnel	5,322	6,004
Flexible retirement age (DL 9/99)	283	309
Sub-total	**7,779**	**6,313**

GDP GROUP	2006	2005
(Gain) and loss not recognised:		
Current personnel	116	-
Pre-retired personnel	72	-
Retired personnel	1,837	1,084
Flexible retirement age (DL 9/99)	13	13
Sub-total	**2,038**	**1,097**
Total	**9,817**	**7,410**

GROUP OTHERS	2006	2005
Technical interest rate	4.60%	4.25%
Salary increase rate	3.00%	3.00%
Current personnel and pre-retirees mortality table	TV 88/90	TV 88/90
Retired personnel mortality table	TV 88/90	TV 73/77
Disability table	EVK 80-50%	EVK 80-50%
Normal retirement age	65	65
Method	Projected unit credit	Projected unit credit
Liability and corresponding coverage:		
i) Liability relating to the pension fund:		
Total liability	**263**	**302**
Coverage:		
Retirement benefit liability	323	277
Unrecognised (gain) and loss (Nota 2.10.)	(60)	25
	263	**302**

The Group has different asset income rates, 5.20% for the Petrogal Group and 5% for the GDP Group. The difference is due to the application profile of the Funds' assets, one adopting a more conservative position, which has resulted in different income rates.

Evolution of the pension liability of the Petrogal, GDP and Other Groups in 2006 was as follows:

PETROGAL GROUP

	RELATING TO THE PENSION FUND	NOT RELATING TO THE PENSION FUND	TOTAL
Total liability at 31 December 2005	343,855	56,935	400,790
Current service cost	2,863	252	3,115
Interest cost	14,462	1,750	16,212
Benefits paid in the year	(22,948)	(12,478)	(35,426)
Pre-retired and early retired personnel starting during the year	-	21,740	21,740
Actuarial (gain)/loss for the year	19,295	986	20,281
Initial liability of Sacor Marítima	6,331	-	6,331
Total liability at 31 December 2006	**363,858**	**69,185**	**433,043**
COSTS OF 2006			
Interest and current service cost	17,325	2,002	19,327
Early retirements in the year	-	5,637	5,637
Pre-retirements in the year	-	11,652	11,652
Expected return on assets	(13,817)	-	(13,817)
Amortisation of the "corridor" excess	-	205	205
Initial liability of Sacor Marítima	(620)	-	(620)
	2,888	**19,496**	**22,384**

GRUPO GDP

	RELATING TO THE PENSION FUND	NOT RELATING TO THE PENSION FUND	TOTAL
Total liability at 31 December 2005	32,747	7,410	40,157
Current service cost	1,104	44	1,148
Interest cost	1,345	321	1,666
Benefits paid in the year	(1,056)	(1,156)	(2,212)
Pre-retired and early retired personnel starting during the year	-	2,224	2,224
Actuarial (gain)/loss for the year	(465)	1,000	535
Changes in the consolidation perimeter	(550)	(26)	(576)
Total liability at 31 December 2006	**33,125**	**9,817**	**42,942**
COSTS OF 2006			
Interest and current service cost	2,449	365	2,814
Pre-retirements in the year	-	1,338	1,338
Expected return on assets	(867)	-	(867)
Amortisation of the "corridor" excess	457	59	516
Changes in the consolidation perimeter	83	-	83
	2,122	**1,762**	**3,884**

OTHER GROUPS

	NOT RELATING TO THE PENSION FUND
Total liability at 31 December 2005	302
Current service cost	34
Interest cost	13
Actuarial (gain)/loss for the year	(86)
Total liability at 31 December 2006	263
COSTS OF 2006	
Interest and current service cost	47
Amortisation of the "corridor" excess	1
	48

The current service cost and interest cost, net of the expected return on fund assets, for 2006, totalling tEuros 7,504, was recorded in the caption “Employee costs” (Note 7).

The increase of tEuros 21,740 in Petrogal’s liability for pre-retirements and early retirements in the year ended 31 December 2006 was recorded by corresponding entry to: (i) transfer of tEuros 4,545 from the provision for restructuring, recognised as a cost in prior years (Note 26); and (ii) employee costs for the year in the amount of tEuros 17,195.

As a result of the “corridor” excess at 31 December 2005, the amount of tEuros 722, corresponding to amortisation for the year 2006, was added to the caption “Employee costs” (Note 7).

On 31 December 2002 the Portuguese Insurance Institute authorised the creation of the Galp Energia defined contribution Pension Fund. In 2003 Galp Energia, SGPS, S.A. created a defined contribution Pension Fund for its employees and allowed the employees of the other Group companies to join the Fund. Petróleos de Portugal – Petrogal, S.A., GDP – Gás de Portugal, SGPS, S.A., Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. and Galp eNova S.A. (this company was merged into Galp Serviços – Serviços de Consultoria de Apoio à Gestão Empresarial, S.A. on 17 December 2003), as associates of the Fund, allowed their employees to choose between this new defined contribution pension plan and the previous defined benefits plan. Therefore, in 2006 the Group recognised, in the caption “Employee costs”, the amount of tEuros 747 relating to the contribution for the year of the companies associated to the Galp Energia defined contribution Pension Fund, in favour of their employees, by transfer of that amount to the fund managing entity.

As explained in Note 2.10, actuarial gains and losses are recognised in the financial statements, only to the extent that they exceed the 10% limits defined for the “corridor”, and are amortised as from the year following that in which they were determined, as explained below.

The following table summarises, by benefit plan, the liability included in the "corridor" mechanism and its maximum interval (10%).

BENEFITS	UNRECOGNISED (GAIN) AND LOSS	"CORRIDOR" INTERVAL (10%)	EXCESS OF THE "CORRIDOR" INTERVAL	AMOUNT TO BE RECOGNISED IN 2007
Petrogal Group				
Retirement supplement (Fund)	45,842	36,403	9,439	2,495
Pre-retirements	3,541	3,133	408	102
Early retirements	(2,248)	2,027	(221)	(56)
Retirement bonus	742	636	106	27
Voluntary social insurence	591	44	547	137
Flexible retirement age (DL 9/99)	1,156	1,078	77	-
	49,624	43,321	10,356	2,705
GDP Group				
Retirement supplement (Fund)	4,426	3,312	1,114	241
Current personnel	116	34	82	8
Retired EDP personnel	1,837	716	1,121	231
Pre-retirements	72	203	(131)	-
Flexible retirement age (DL 9/99)	13	32	(19)	-
	6,464	4,297	2,167	480
Other Groups				
Retirement supplement (Fund)	(60)	26	(34)	(2)

Petrogal's liability for pension supplements exceeds the limits of the 10% "corridor" by the net amount of tEuros 10,356. This amount will be recognised as cost and/or income in future years based on the expected average future period of service of the employees covered by the plans which, at 31 December 2006, was 3.99 years. Consequently, costs, net of income, in the amount of tEuros 2,705 resulting from amortisation of the excess of the "corridor", will be recognised in 2007.

The GDP Group's liability for pension supplements (covered and not covered by the Fund) exceeds the limits of the 10% "corridor" by the net amount of tEuros 2,167. This amount will be recognised as cost and/or income in future years based on the expected average future period of service of the employees covered by the plans, which at 31 December 2006, was 4.84 years for Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., and 10.81 years for GDP Distribuição, SGPS, S.A.. Consequently, costs, net of income, in the amount of tEuros 480, resulting from amortisation of the excess of the "corridor", will be recognised in 2007.

The liability of the remaining companies for retirement pension supplements (covered and not covered by the Fund) exceeds the limits of the 10% "corridor" by tEuros 34. This amount will be recognised as cost and/or income in future years based on the expected average future period of service of the employees covered by the plans, which at 31 December 2006, was 15.09 years. Consequently, costs, net of income, in the amount of tEuros 2, resulting from amortisation of the excess of the "corridor", will be recognised in 2007.

» OTHER RETIREMENT BENEFITS – HEALTHCARE, LIFE ASSURANCE AND DEFINED CONTRIBUTION PLAN MINIMUM BENEFIT (DISABILITY AND SURVIVOR)

In 2003 Galp Energia, SGPS, S.A. created a defined contribution Pension Fund for its employees and allowed the employees of the other Group companies to join the Fund. The GDP Group allowed its employees to request transfer of its liabilities to the Galp Energia defined contribution pension plan. Therefore, in 2006 the amount of tEuros 129 relating to contributions for the year was recorded, relating to amounts paid to the Pension Fund Management Company.

As explained in Note 2.11, at 31 December 2006 the Group companies had provisions to cover their liability for costs to be incurred relating to healthcare, life assurance and defined contribution plan minimum benefit (disability and survivor), which are being recognised over the period in which the employees entitled to these retirement benefits serve companies, the liability being reflected in the balance sheet caption "Provision for life assurance, healthcare and defined contribution minimum benefit. Payments made each year to the beneficiaries are recorded as a decrease in the provision.

As explained in Note 2.11 Petrogal recognises, in provisions for other retirement benefits, the present value of its past service liability for the payment of early retirement and pre-retirement pensions, Social Security of its pre-retired personnel, the payment of voluntary social insurance to early retired personnel and the retirement bonus not covered by the Petrogal Pension Fund. In addition, the GDP Group companies recognise in provisions for other retirement benefits, the liability of Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. to reimburse retirement supplements payable by EDP to its retirees and pensioners related to the Company, as well as retirement and survivor supplements to personnel retired at the time the Fund was created, which are not covered by the GDP Pension Fund.

At the end of each accounting period the Group obtains actuarial valuations of the amount of its liability and compares this with the provisions recorded in order to determine the additional amount to be recorded.

As explained in Note 2.11, at 31 December 2006 the Group had a provision to cover its liability for healthcare, life assurance for past service of its current employees and the total liability for the remaining population as well as for the defined contribution plan minimum benefit. The present value of the past service liability and actuarial assumptions used to calculate it are as follows:

PETROGAL GROUP	HEALTHCARE		LIFE ASSURANCE		DEFINED CONTRIBUTION PLAN MINIMUM BENEFIT	
	2006	2005	2006	2005	2006	2005
Technical interest rate	4.60%	4.25%	4.60%	4.25%	4.60%	4.25%
Cost increase rate	4.00%	4.00%	3.00%	3.00%	3.00%	3.00%
Current and pre-retired employee mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90
Retired personnel mortality table	TV 88/90	TV 73/77	TV 88/90	TV 73/77	TV 88/90	TV 73/77
Disability table	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%
Normal retirement age	65	65	70	70	65	65

PETROGAL GROUP	2006	2005
Method	Projected unit credit	Projected unit credit
Liability and corresponding coverage:		
i) Healthcare		
Total liability:	195,098	198,378
Coverage:		
Liability for retirement benefits and other benefits	148,662	135,075
Gain and loss not recognised (Note 2.11)	46,436	63,302
	195,098	198,377
ii) Life assurance		
Total liability:	2,552	2,283
Coverage:		
Liability for retirement benefits and other benefits	1,840	1,440
Gain and loss not recognised (Note 2.11)	712	843
	2,552	2,283
iii) Defined contribution plan minimum benefit		
Total liability:	756	680
Coverage:		
Liability for retirement benefits and other benefits	966	855
Gain and loss not recognised (Note 2.11)	(210)	(175)
	756	680

GDP GROUP	HEALTHCARE		LIFE ASSURANCE		DEFINED CONTRIBUTION PLAN MINIMUM BENEFIT	
	2006	2005	2006	2005	2006	2005
Technical interest rate	4.60%	4.25%	4.60%	4.25%	4.60%	4.25%
Cost increase rate	4.00%	4.00%	3.00%	3.00%	3.00%	3.00%
Current and pre-retired employee mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90
Retired personnel mortality table	TV 88/90	TV 73/77	TV 88/90	TV 73/77	TV 88/90	TV 73/77
Disability table	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%
Normal retirement age	65	65	70	70	65	65

GDP GROUP	2006	2005
Method	Projected unit credit	Projected unit credit
Liability and corresponding coverage:		
i) Healthcare		
Total liability:	12,365	12,073
Coverage:		
Liability for retirement benefits and other benefits	9,596	9,296
Gain and loss not recognised (Note 2.11)	2,769	2,776
	12,365	12,073
ii) Life assurance		
Total liability:	257	320
Coverage:		
Liability for retirement benefits and other benefits	190	191
Gain and loss not recognised (Note 2.11)	67	129
	257	320
iii) Defined contribution plan minimum benefit		
Total liability:	144	152
Coverage:		
Liability for retirement benefits and other benefits	220	203
Gain and loss not recognised (Note 2.11)	(76)	(51)
	144	152

OTHER GROUPS

	HEALTHCARE		LIFE ASSURANCE		DEFINED CONTRIBUTION PLAN MINIMUM BENEFIT	
	2006	2005	2006	2005	2006	2005
Technical interest rate	4.60%	4.25%	4.60%	4.25%	4.60%	4.25%
Cost increase rate	4.00%	4.00%	3.00%	3.00%	3.00%	3.00%
Current and pre-retired employee mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90
Retired personnel mortality table	TV 88/90	TV 73/77	TV 88/90	TV 73/77	TV 88/90	TV 73/77
Disability table	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%
Normal retirement age	65	65	70	70	65	65

OTHER GROUPS	2006	2005
Method	Projected unit credit	Projected unit credit
Liability and corresponding coverage:		
i) Healthcare		
Total liability:	401	357
Coverage:		
Liability for retirement benefits and other benefits	370	313
Gain and loss not recognised (Note 2.11)	31	44
	401	357
ii) Life assurance		
Total liability:	155	120
Coverage:		
Liability for retirement benefits and other benefits	105	68
Gain and loss not recognised (Note 2.11)	50	52
	155	120
iii) Defined contribution plan minimum benefit		
Total liability:	605	450
Coverage:		
Liability for retirement benefits and other benefits	641	508
Gain and loss not recognised (Note 2.11)	(36)	(58)
	605	450

Evolution in 2006 of the liability and the related costs of Petrogal, the GDP Group companies and other Group companies for healthcare, life assurance and defined contribution plan minimum benefit was as follows:

PETROGAL GROUP

	HEALTHCARE	LIFE ASSURANCE	DEFINED CONTRIBUTION PLAN MINIMUM BENEFIT	TOTAL
Total liability at 31 December 2005	198,377	2,283	680	201,340
Current service cost	3,058	81	87	3,226
Interest cost	8,289	101	29	8,419
Benefits paid in the year	(9,395)	(94)	-	(9,489)
Actuarial (Gain)/Loss for the year	(6,710)	13	(39)	(6,736)
Initial liability of Sacor Marítima	1,478	168	-	1,646
Total liability at 31 December 2006	195,097	2,552	757	198,406
COSTS OF 2006				
Interest cost and current service cost	11,347	182	116	11,645
Amortisation of the "corridor" excess	10,155	144	(5)	10,294
Initial liability of Sacor Marítima	1,478	168	-	1,646
	22,980	494	111	23,585

GDP GROUP

	HEALTHCARE	LIFE ASSURANCE	DEFINED CONTRIBUTION PLAN MINIMUM BENEFIT	TOTAL
Total liability at 31 December 2005	12,073	320	152	12,545
Current service cost	246	26	13	285
Interest cost	489	13	6	508
Benefits paid in the year	(533)	(5)	-	(538)
Actuarial (Gain)/Loss for the year	313	(33)	(28)	252
Change in the consolidation perimeter	(222)	(6)	-	(228)
Liquidations, cuts and transfers	-	(58)	-	(58)
Total liability at 31 December 2006	12,366	257	143	12,766
COSTS OF 2006				
Interest cost and current service cost	735	39	20	793
Amortisation of the “corridor” excess	227	13	(2)	238
Amortisation of change in the assumptions	-	1	-	1
Change in the consolidation perimeter	41	2	-	43
Liquidations, cuts and transfers	-	(40)	-	(40)
	1,003	14	18	1,035

OTHER GROUPS

	HEALTHCARE	LIFE ASSURANCE	DEFINED CONTRIBUTION PLAN MINIMUM BENEFIT	TOTAL
Total liability at 31 December 2005	357	120	450	927
Current service cost	41	28	112	181
Interest cost	15	5	21	41
Actuarial (Gain)/Loss for the year	(12)	1	22	11
Total liability at 31 December 2006	401	154	605	1,160
COSTS OF 2006				
Interest cost and current service cost	56	33	133	222
Amortisation of the “corridor” excess	-	1	(1)	-
	56	34	132	222

Current service and interest cost totalling tEuros 12,660 was recorded by the above companies in the consolidated income statement caption "Employee costs".

As a result of the excess of the "corridor" at 31 December 2005 tEuros 10,532 relating to amortisation of the excess for the year, based on the estimated average future period of service of each company, was recorded in "Employee costs".

As explained in Note 2.11, only the part of the actuarial gains and losses that exceeds the limits defined for the "corridor" is recorded in the financial statements, this being amortised as from the year subsequent to that in which it is determined, as explained below.

BENEFITS	UNRECOGNISED (GAIN) AND LOSS	"CORRIDOR" INTERVAL (10%)	EXCESS OF THE "CORRIDOR" INTERVAL	AMOUNT TO BE RECOGNISED IN 2007
Petrogal Group				
Healthcare	46,436	19,510	27,117	6,796
Life assurance	712	254	478	119
Defined contribution plan minimum benefit	(210)	76	(133)	(6)
	46,938	19,840	27,462	6,909
GDP Group				
Healthcare	2,769	1,237	1,532	318
Life assurance	67	26	41	7
Defined contribution plan minimum benefit	(76)	14	(62)	(4)
	2,760	1,277	1,511	321
Other groups				
Healthcare	31	40	-	-
Life assurance	50	15	35	1
Defined contribution plan minimum benefit	(36)	61	-	-
	45	116	35	1
	49,743	21,233	29,008	7,231

The "corridor" excess, in the amount of tEuros 29,008, relating to the liability for healthcare, life assurance and defined contribution plan minimum benefit, will be recognised as a cost in future years based on the average expected period of service of the employees covered by the plans (Petrogal 3.99; Beiragás 26.76; Galp Energia, S.A. 28.01 for life assurance, 16.62 for health insurance; Galp Power 31.50; GDP Distribuição 16.84; Lusitaniagás 26.68; Petrogal Exploração 28.06; Transgás 23.97 and Sacor Marítima 5.38). Therefore in 2007 costs net of income, in the amount of tEuros 7,231, relating to amortisation of the "corridor" excess, will be recognised in the caption "Employee costs".

25. OTHER PAYABLES

The non-current and current caption "Other payables" at 31 December 2006 and 2005 is made up as follows:

	2006		2005	
CAPTIONS	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
State and Other Public Entities:				
ISP - Tax on petroleum products	177,205	-	172,272	-
Value Added Tax	140,393	-	136,001	-
Other taxes	6,316	-	455	-
Social Security contributions	4,089	-	4,137	-
Personal and Corporate Income Tax Withheld	4,055	-	6,666	-
Others	-	12	-	21
Advances on account of sales (Note 17)	252,862	-	330,595	-
Suppliers of fixed assets	69,129	684	86,469	371
Overlifting - Blocks 1 and 14 partners	26,602	-	-	-
Guarantee depsits and guarantees received	14,460	-	13,777	699
Advances from customers	8,390	-	6,002	-
Creditors on transition accounts	8,181	-	10,372	-
Creditors on connection accounts	5,394	-	6,074	-
Credit balances of clients	1,631	-	1,403	-
Personnel	1,177	-	1,518	-
Other creditors - Associated, participated and related companies (Note 29)	35	-	411	-
Loans - Associated, participated and related companies (Note 29)	84	7,259	36,355	14,779
Other creditors	12,973	4,295	11,023	3,918
	732,976	12,250	823,530	19,788
Accrued costs:				
Vacation pay, vacation subsidy and corresponding personnel costs	25,996	-	25,173	-
External supplies and services	17,818	-	9,289	-
Productivity bonus	15,099	-	11,354	-
Discounts, bonuses and volume discounts on sales	6,819	-	5,747	-
Fast GALP prizes	6,799	-	5,675	-
Accrued personnel costs - others	3,070	-	210	-
Financial costs	2,152	-	2,247	-
Accrued interest	1,296	-	2,973	-
Accrued insurance premiums	-	-	6,550	-
Other accrued costs	14,148	-	8,974	-

	2006		2005	
CAPTIONS	CURRENT	NON-CURRENT	CURRENT	NON-CURRENT
Deferred costs:				
Rights of passage - Fibre optics (Note 15)	4,751	58,166	4,341	67,651
Services rendered	358	-	5,702	-
Others	12,172	182	4,617	9,004
	110,478	58,348	92,853	76,655
	843,454	70,598	916,382	96,443

The amount of tEuros 26,602 in the caption "Overlifting - Blocks 1 and 14 partners" corresponds to the Group's liability for lifting crude in excess of its production quota and is stated at market value (Note 2.7 e)).

The amount of tEuros 14,460 reflected in the caption "Guarantee deposits and guarantees received" includes tEuros 13,643 relating to Petrogal's liability at 31 December 2006 for guarantees received for ceding gas bottles, recorded at cost, which corresponds, approximately, to their fair value.

The amount of tEuros 3,500 reflected in the caption "Creditors on transition accounts" relates to the indemnity agreed in 1988/1989 between EDP- Electricidade de Portugal, S.A. and PGP – Petroquimica e Gás de Portugal (GDP's predecessor), in the event that the Cabo Ruivo land is subsequently sold, which in the meantime was ceded by EDP to PGP. This land, which was sold in prior years, was part of Cabo Ruivo – Sociedade de Gestão de Instalações de Equipamentos, S.A.'s assets, Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. having assumed this liability as a result of its merger with the company Cabo Ruivo effective as of 1 January 2003.

The amount of tEuros 2,419 in the caption "Other creditors" relates to the sale of properties in Bairro da Bobadela, the deeds for which have not yet been signed.

The amounts in the accrued costs caption "Supplies and services" at 31 December 2006 and 2005 correspond to the accrual of several cost for which the Group had not yet received the corresponding invoices at those dates.

The amount of tEuros 6,799 in the accrued costs caption "Fast Galp prizes" corresponds to Petrogal's liability for Fast Galp card points issued but not yet claimed, which are expected to be exchanged for prizes in subsequent years.

The amount of tEuros 12,172 in deferred income includes tEuros 8,237 corresponding to co-participation received from Group clients for the construction of dedicated natural gas connections, which are being recognised as income over the period of the concession.

Income relating to the cession of rights to use telecommunications infrastructures contract reflected in the "Deferred income" caption is recognised in the income statement over the period of the contract. Deferred income at 31 December 2006 to be recognised in future years amounts to tEuros 62,917.

26. **PROVISIONS**

The changes in provisions in the year ended 31 December 2006 were as follows:

CAPTIONS	BEGINNING BALANCE	INCREASES	DECREASES	UTILISATION	TRANSFERS	ENDING BALANCE
Legal processes	20,799	3,596	(2,820)	(516)	530	21,589
Investments	5,330	1,246	(1,526)	-	282	5,332
Taxes	2,948	3,718	-	(33)	3	6,636
Provision for restructuring costs	13,353	-	(328)	(3,776)	(9,249)	-
Provision for other risks and charges	30,281	23,823	(9,545)	(6,469)	10,996	49,086
	72,711	32,383	(14,219)	(10,794)	2,562	82,643

The increase in provisions net of decreases was recorded by corresponding entry to the following consolidated income statement captions:

Provisions and reversals (Nota 7.)	18,700
Other employee costs	554
Share of results of associates	(280)
Others	(810)
	18,164

» LEGAL PROCESSES

The amount of tEuros 21,589 in the caption "Legal processes" includes essentially tEuros 9,870 (Note 32) relating to processes regarding the payment of subsoil occupation rates. The increase of tEuros 306 in the caption corresponds to interest for 2006 on legal processes relating to subsoil occupation rates.

» INVESTMENTS

The provision for investments represents the Group's joint liability to the following associated companies that have negative equity (Note 4):

Central E, S.A.	2,632
Sonangalp - Soc. Distrib. e Com. Combustíveis, Lda.	2,700
	5,332

» TAXES

The caption "Taxes" in the amount of tEuros 6,636 includes essentially: (i) tEuros 3,239 relating to Municipal Contribution, currently Municipal Property Tax, for the years 1998 to 2005 and increase of tEuros 324 in 2006 relating to the transport of natural gas, transferred to REN – Rede Eléctrica Nacional, S.A. in 2006 for which the liability remains with Transgás, S.A.. The amount payable has still not been determined by the authorities; (ii) tEuros 3,377 to cover the tax risk relating to the sale of the participation in ONI, SGPS to Galp Energia, S.A..

The decrease of tEuros 33 in the provision results use of it to pay Municipal Property Tax.

» RESTRUCTURING

The amount of tEuros 9,249 includes a transfer of tEuros 5,430 from the provision for restructuring costs to the liability for retirement and other benefits, corresponding to the liability for pre-retirement costs of employees covered by the Galp Energia Group's reorganisation process and re-dimensioning of personnel (Note 24). The remaining amount of tEuros 3,819, which corresponds to the amount of pre-retirements negotiated in 2006 to be settled in 2007, was transferred to the provision caption “Others”.

The direct utilisation of the provision for restructuring costs, in the amount of tEuros 3,776, includes tEuros 8 and tEuros 3,768 relating to payments by the GDP Group and Petrogal Group, respectively, of employment termination indemnities by mutual agreement.

» OTHERS RISKS AND CHARGES

The increase of tEuros 28,823 in the provision for other risks and charges refers essentially to:

i) tEuros 5,768 relating to a provision for additional assessments of Tax on Petroleum Income (Imposto sobre o Rendimento do Petróleo - IRP) for the years 2002 to 2005 resulting from petroleum research and production in Angola (Note 10 viii));

ii) tEuros 4,375 relating to a provision for penalties under the EU competition rights;

iii) tEuros 2,612 relating to a provision for a claim regarding flushing services of the Leixões Ocean Terminal line;

iv) tEuros 2,241 to increase the provision for the cost of abandoning Block 14 which is estimated by applying, to the total estimated abandonment cost, a coefficient corresponding to the proportion of the volume of production in each amortisation period, to the volume of proven developed reserves at the end of that period plus production for the period;

v) tEuros 1,600 to record a provision for transport insurance of crude and finished products;

vi) tEuros 1,150 relating to a provision for interest relating to the non acceptance of the write off of the Leixões Ocean Terminal as tax deductible;

vii) tEuros 1,150 to increase the provision for costs of abandoning the Block 1 exploration installations. This provision is to cover all the costs to be incurred by the Company at the end of the useful production life of those oil fields;

viii) tEuros 899 to record a provision for decontaminating the Parque de Sacavém soil;

ix) tEuros 180 to record a provision for decontaminating the Lubricant Plant soil.

The decrease of tEuros 9,545 in the caption “Other risks and charges” includes tEuros 5,835 relating to the reversal of the provision for interest recognised up to 2003 on the contract ceding the right to use the telecommunications infrastructure, due to the fact that the legal process in the Arbitration Court was resolved in the year ended 31 December 2006 in favour of the Group (Note 15).

The caption “Provisions for other risks and charges” in the amount of tEuros 40,086 at 31 December 2006 corresponds essentially to the following:

i) tEuros 10,539 to cover soil decontamination costs of some installations occupied by the company, where a decision has already been taken, due to legal obligation;

ii) tEuros 7,394 to cover the effect of adjustments to taxable income subject to Corporate Income Tax (Note 10);

iii) tEuros 7,185 to cover the cost of abandoning the exploration installations in Blocks 1 and 14 in Angola. This provision is to cover the total costs to be incurred by Galp Exploração at the end of the useful production life of those oil fields. The provision for costs of abandoning Block 14 is estimated by applying, to the total estimated abandonment cost, a coefficient corresponding to the proportion of the volume of production in each amortisation period, to the volume of proven developed reserves at the end of that period plus production for the period;

iv) tEuros 5,768 to cover additional IRP tax assessments in Angola (Note 10);

v) tEuros 4,375 to cover penalties under the EU competition rights;

vi) tEuros 3,819 to cover pre-retirements already negotiated, to be paid in 2007;

vii) tEuros 2,612 to cover a claim for flushing services of the Leixões Ocean Terminal;

viii) tEuros 1,600 to cover differences regarding insurance premiums for the transport of crude and finished products;

ix) tEuros 1,150 relating to interest due to the non acceptance of the write off of the Leixões Ocean Terminal as tax deductible cost in 2002;

x) tEuros 495 to cover costs of discharging effluents by the Sines Refinery.

27. TRADE PAYABLES

The trade receivables payables caption at 31 December 2006 and 2005 is made up as follows:

	2006	2005
Suppliers, current accounts	414,935	475,520
Suppliers, invoices pending	277,444	228,850
Suppliers, notes payable	-	2,006
	692,379	706,376

The caption "Suppliers, notes payable" corresponds essentially to purchases of crude oil raw material and merchandise in transit as of those dates.

28. OTHER FINANCIAL INSTRUMENTS – FINANCIAL DERIVATIVES

As explained in Note 2.17, paragraph f), the Group uses financial derivatives to hedge interest rate and refining margin fluctuation risks, namely risks of variation in crude oil prices, finished products and refining margins, which affect the amount of assets and future cash flows resulting from its operations.

In addition, the Group is exposed to market fluctuation risks, namely risks of variation in crude oil prices, finished products and refining margins, which affect the amount of assets and future cash flows resulting from its operations.

The decrease of tEuros 4,797 in the fair value reflected in Assets and Liabilities, and consequently in the fair value of Equity in the year ended 31 December 2006 is due essentially to interest rate financial derivatives hedging cash flows. Therefore the fair value of the efficient portion of the hedge, in the amount of tEuros 4,805 attributable to equity holders, less tEuros 317 attributable to minority shareholders, plus 325 relating to fair value fluctuations of associated companies is reflected in the equity caption "Hedging reserves".

The Group's derivative financial instruments at 31 December were as follows:

	ASSETS		LIABILITIES	
	NON-CURRENT	CURRENT	NON-CURRENT	CURRENT
Fair value at 1 January 2005	**95**	**3,532**	**(9,633)**	**(824)**
Purchased during the year	-	2,234	-	-
Sold during the year	-	1,588	-	-
Increase /(decrease) on the sale reflected in the income statement	-	(1,588)	-	-
Increase /(decrease) in fair value reflected in the income statement	(95)	(3,589)	2,759	(1,040)
Increase /(decrease) in fair value reflected in equity	52	-	1,417	-
Fair value at 31 December 2005	**52**	**2,177**	**(5,457)**	**(1,864)**
Purchased during the year	-	8,237	-	-
Sold during the year	-	(5,439)	-	5,474
Increase/(decrease) on the sale reflected in the income statement	-	5,629	-	(5,474)
Increase/(decrease) in fair value reflected in the income statement	-	(3,364)	1,340	(1,023)
Increase/(decrease) in fair value reflected in equity	1,069	(97)	3,865	(40)
Fair value at 31 December 2006	**1,121**	**7,143**	**(252)**	**(2,927)**

TYPE OF DERIVATIVE OVER INTEREST RATE	INTEREST RATE	NOMINAL VALUE	MATURITY	FAIR VALUE OF THE DERIVATIVES
Assets				
	Cash-flow hedge			
Caps and Collar	Pay between Cap 3.25% and 4% and Floor 1.75%	tEUR 50,000	2008 e 2010	451
	Receive between Euribor 3m and 6m			
Swap with cap with "Knock out"	Pay Euribor 12m with Cap 3.49% with knock-out 5.25%	tEUR 6,906	2010	83
	Receive Euribor 3m			
Interest Rate Swaps	Pay between 3.17% and 3.89%	tEUR 49,125	2008 a 2011	586
	Receive between Euribor 3m and 6m			
	Other financial derivatives			
Interest Rate Swaps	Pay between 3.37% and 3.94%	tEUR 40,000	2008 e 2009	269
	Receive Euribor 3m			
				1,389
Liabilities				
	Cash-flow hedge			
Interest Rate Swaps	Pay between 4.07% and 6.24%	tEUR 29,140	2008 a 2013	(166)
	Receive between Euribor 3m and 6m			
Caps and Collar	Pay between 3.85% and 4%	tEUR 35,000	2007 e 2008	(126)
	Receive between Euribor 3m and 6m			
	Other financial derivatives			
Caps	Pay 4%	tEUR 80,000	2008	(627)
	Receive Euribor 3m			
				(919)

TYPE OF DERIVATIVE OVER COMMODITIES	CARACTERISTICS	MATURITY	FAIR VALUE OF THE DERIVATIVES
Assets			
Options	Refining margin	2007	6,410
Swaps	Refining margin	2007	464
			6,874
Liabilities			
Options	Refining margin	2007	(2,028)
Swaps	Refining margin	2007	(232)
			(2,260)
		Total Assets	**8,264**
		Non current	1,121
		Current	7,143
		Total Liabilities	**(3,179)**
		Non current	(252)
		Current	(2,927)

Fair value was determined by banking entities based on generally accepted models and valuation techniques.

29. BALANCES WITH RELATED ENTITIES

Balances and transactions with related entities in 2006 and 2005 are as follows:

» ASSETS

YEAR 2006 COMPANIES	TOTAL RELATED ENTITIES	MEDIUM AND LONG TERM LOANS (NOTA 15.)	OTHER MEDIUM AND LONG TERM DEBTORS (NOTA 15.)
Associated companies:			
Central E, S.A.	1	-	-
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	13,295	9,296	-
Ecogen - Serviços de Energia Descentralizada, S.A.	2	-	-
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	15,535	13,007	-
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda.	2,112	666	807
CLC Petrogal Guiné-Bissau, Lda.	29	-	-
Brisa Access, S.A.	10	-	-
Número Um - Reparação de Automóveis, Lda.	186	-	-
Enacol - Empresa Nacional de Combustíveis, S.A.	2,111	168	-
Tagusgás - Empresa Gás do Vale do Tejo, S.A.	5,579	2,598	-
Gásfomento - Sistemas e Instalações de Gás, S.A.	218	-	-
Metragaz, S.A.	62	-	-
EMPL - Europe Maghreb Pipeline, Ltd.	3,456	-	-
Gasoducto Al Andaluz, S.A.	18,841	17,700	-
Gasoducto Extremadura, S.A.	14,001	12,349	-
	75,438	55,784	807
Participating companies:			
Agene - Agência para a Energia, S.A.	90	90	-
Cooperativa de Habitação da Petrogal, CRL	53	53	-
PME Investimentos - Sociedade de Investimento, S.A.	2	-	-
	145	143	-
Related companies:			
ENI Portugal Investment, S.p.A.	16.455	-	-
Finerge - Gestão de Projectos Energéticos, S.A.	4	-	-
Italgás	8	-	-
	16,467	-	-
	92,050	55,927	807

ASSETS				
CLIENTS, CURRENT ACCOUNTS	OPERATIONS WITH ASSOCIATED, PARTICIPATED AND RELATED COMPANIES (NOTA 15.)	OTHER DEBTORS (NOTA 15.)	ACCRUED INCOME	DEFERRED COSTS
-	-	1	-	-
1,633	-	197	2,169	-
-	-	-	2	-
2,519	-	-	9	-
634	-	5	-	-
-	-	29	-	-
9	-	1	-	-
162	11	10	3	-
670	1,230	35	8	-
932	-	1,333	716	-
165	-	41	12	-
-	2	-	32	28
-	-	280	3,176	-
-	-	-	1,141	-
-	-	-	1,652	-
6,724	1,243	1,932	8,920	28
-	-	-	-	-
-	-	-	-	-
2	-	-	-	-
2	-	-	-	-
16,455	-	-	-	-
4	-	-	-	-
-	-	8	-	-
16,459	-	8	-	-
23,185	1,243	1,940	8,920	28

ANO 2005			
COMPANIES	TOTAL RELATED ENTITIES	MEDIUM AND LONG TERM LOANS (NOTA 15.)	OTHER MEDIUM AND LONG TERM DEBTORS (NOTA 15.)
Associated companies:			
Brisa Access, S.A.	12	-	-
Central E, S.A.	2	-	-
Cooperativa de Habitação da Petrogal, CRL	-	-	-
Ecogen - Serviços de Energia Descentralizada, S.A.	151	149	-
EMPL - Europe Maghreb Pipeline, Ltd.	7,462	-	-
Enacol - Empresa Nacional de Combustíveis, S.A.	1,156	337	-
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	14,517	12,830	-
Galp Serviexpress, S.L.U.	51	-	-
Gásfomento Energia, S.A.	62	-	-
Gasfomento Sur Andalucia, S.A.	34	-	-
Gasoducto Al Andaluz, S.A.	21,281	20,006	-
Gasoducto Extremadura, S.A.	15,951	14,424	-
Metragaz, S.A.	76	-	-
Número Um - Reparação de Automóveis, Lda.	132	-	-
PME Investimentos - Sociedade de Investimento, S.A.	1	-	-
Qualiwork - Ser. De Gestão Form. Empr., Lda.	6	-	-
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	12,891	9,085	-
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda.	696	744	-
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	4,886	2,475	-
	79,367	**60,050**	**-**
Related companies:			
Ambélis - Agência para a Modernização Económica de Lisboa, S.A.	90	90	-
Cooperativa de Habitação da Petrogal, CRL	53	53	-
Enagás, S.A.	(1,017)	-	-
ENI Portugal Investment, S.p.A.	54	-	-
	(820)	143	-
	78,547	**60,193**	**-**

The medium and long term loans to associated companies correspond essentially to loans granted by subsidiary companies:

- Transgás, S.A. to the Gas Pipelines Al Andaluz and Extremadura in the amounts of tEuros 17,700 and tEuros 12,349, respectively. Interest on the loans for 2006, amounting to tEuros 1,300, of which tEuros 755 relates to the Extremadura Pipeline and tEuros 545 to the Al Andaluz Pipeline were capitalised as investments, in the caption "Loans – associated companies";

- GDP Distribuição, SGPS, S.A. to Setgás - Sociedade de Produção e Distribuição de Gás, S.A. and Tagusgás - Empresa Gás do Vale do Tejo, S.A. in the amounts of tEuros 7,166 and tEuros 2,655 respectively. Interest on the loans for 2006 totalled tEuros 505, of which tEuros 324

ASSETS				
CLIENTS, CURRENT ACCOUNTS	OPERATIONS WITH ASSOCIATED, PARTICIPATED AND RELATED COMPANIES (NOTA 15.)	OTHER DEBTORS (NOTA 15.)	ACCRUED INCOME	DEFERRED COSTS
11	-	1	-	-
1	-	1	-	-
-	-	-	-	-
-	-	-	2	-
(3)	314	3,567	3,619	(35)
488	87	229	15	-
1,678	-	-	9	-
-	-	51	-	-
55	-	7	-	-
1	-	33	-	-
-	-	-	1,275	-
-	-	-	1,527	-
-	-	-	48	28
104	11	10	7	-
1	-	-	-	-
6	-	-	-	-
2,241	-	17	1,559	(11)
(48)	-	-	-	-
1,353	235	373	450	-
5,888	647	4,289	8,511	(18)
-	-	-	-	-
-	-	-	-	-
290	-	-	(1,307)	-
51	-	-	3	-
341	-	-	(1,304)	-
6,229	647	4,289	7,207	(18)

relates to Setgás - Sociedade de Produção e Distribuição de Gás, S.A. and tEuros 181 to Tagusgás - Empresa Gás do Vale do Tejo, S.A. were capitalised as investments, in the caption "Loans – associated companies";

- Petróleos de Portugal - Petrogal, S.A. to Setgás - Sociedade de Produção e Distribuição de Gás, S.A., in the amount of tEuros 2,446. Interest on the loan for 2006 amounted to tEuros 140;

- Galp Power, SGPS, S.A. to Energin - Sociedade de Produção de Electricidade e Calor, S.A. in the amount of tEuros 13,007. Interest on the loan for 2006 amounted to tEuros 542.

These loans bear interest at market rates and do not have defined repayment dates.

» LIABILITIES

YEAR 2006 COMPANIES	TOTAL OF RELATED ENTITIES	MEDIUM AND LONG TERM LOANS (NOTA 25.)	SUPPLIERS, CURRENT ACCOUNTS
Associated companies:			
Central E, S.A.	16	-	16
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	458	-	29
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda.	36	-	1
Brisa Access, S.A.	241	-	241
Número Um - Reparação de Automóveis, Lda.	12	-	12
Enacol - Empresa Nacional de Combustíveis, S.A.	177	-	163
Tagusgás - Empresa Gás do Vale do Tejo, S.A.	2,276	-	1,581
Gásfomento - Sistemas e Instalações de Gás, S.A.	418	-	30
EMPL - Europe Maghreb Pipeline, Ltd.	12,723	-	4,438
Gasoducto Al Andaluz, S.A.	875	-	-
Gasoducto Extremadura, S.A.	889	-	-
	18,121	-	6,511
Related Companies:			
E.E.M. - Empresa de Electricidade da Madeira, S.A.	835	835	-
ENI, S.p.A.	4,370	2,902	186
Finerge - Gestão de Projectos Energéticos, S.A.	444	443	-
Companhia Portuguesa de Produção de Electricidade, S.A.	1,827	1,827	-
AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuição de Energia, S.A.	417	417	-
Procomlog - Combustíveis e Logística, Lda.	835	835	-
Other Shareholder - Grupo Sacor Marítima	65	-	-
	8,793	7,259	186
	26,914	7,259	6,697

LIABILITIES					
SUPPLIERS, INVOICES PENDING	SHORT TERM LOANS (NOTA 25.)	SUPPLIERS OF FIXED ASSETS	OTHER CREDITORS (NOTA 25.)	ACCRUED COSTS	DEFERRED INCOME
-	-	-	-	-	-
5	-	-	-	29	395
-	-	-	35	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	14	-	-	-
-	-	-	-	137	558
27	354	5	-	2	-
8,285	-	-	-	-	-
875	-	-	-	-	-
889	-	-	-	-	-
10,081	354	19	35	168	953
-	-	-	-	-	-
-	-	-	-	1,282	-
-	-	-	-	1	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	65	-	-	-
-	-	65	-	1,283	-
10,081	354	84	35	1,451	953

YEAR 2005 COMPANIES	TOTAL OF RELATED ENTITIES	MEDIUM AND LONG TERM LOANS (NOTA 25.)	SUPPLIERS, CURRENT ACCOUNTS
Associated companies:			
Brisa Access, S.A.	51	-	36
Central E, S.A.	172	-	72
Ecogen - Serviços de Energia Descentralizada, S.A.	1	-	1
EMPL - Europe Maghreb Pipeline, Ltd.	48,795	-	-
Enacol - Empresa Nacional de Combustíveis, S.A.	715	-	360
Gasoducto Al Andaluz, S.A.	915	-	-
Gasoducto Extremadura, S.A.	922	-	-
Número Um - Reparação de Automóveis, Lda.	12	-	12
Qualiwork - Ser. De Gestão Form. Empr., Lda.	14	-	14
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	626	-	171
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda.	1	-	1
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	2,186	-	112
Tigs - Sociedade de Manutenção	8	-	6
Terparque - Armazenagem de Combustíveis, Lda.	522	441	-
	54,940	441	785
Related companies:			
Enagás, S.A.	8,464	6,760	-
ENI, S.p.A.	8,423	3,457	178
Finerge - Gestão de Projectos Energéticos, S.A.	420	420	-
AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuição de Energia, S.A.	396	396	-
E.E.M. - Empresa de Electricidade da Madeira, S.A.	792	792	-
Companhia Portuguesa de Produção de Electricidade, S.A.	1,721	1,721	-
Procomlog - Combustíveis e Logística, Lda.	792	792	-
	21,008	14,338	178
	75,948	14,779	963

The amount of tEuros 2,902 reflected as a long term payable to Eni, S.p.A. corresponds to shareholders' loans obtained by the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., which bear interest at market rates and do not have a defined repayment plan.

The amounts of tEuros, tEuros 835 and mEuros 417 reflected as long term payables to E.E.M. - Empresa de Electricidade da Madeira, S.A., Procomlog - Combustíveis e Logística, Lda. and AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuição de Energia, S.A. correspond to shareholders' loans obtained by the subsidiary Galp Madeira - Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda. which bear interest at market rates and do not have defined repayment dates.

LIABILITIES					
SUPPLIERS, INVOICES PENDING	SHORT TERM LOANS (NOTA 25.)	SUPPLIERS OF FIXED ASSETS	OTHER CREDITORS (NOTA 25.)	ACCRUED COSTS	DEFERRED INCOME
15	-	-	-	-	-
100	-	-	-	-	-
-	-	-	-	-	-
13,956	34,839	-	-	-	-
341	-	-	14	-	-
915	-	-	-	-	-
922	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	23	432
-	-	-	-	-	-
26	-	502	397	215	934
2	-	-	-	-	-
-	81	-	-	-	-
16,277	34,920	502	411	238	1,366
631	1,435	23	-	(385)	-
1,303	-	-	-	3,485	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,934	1,435	23	-	3,100	-
18,211	36,355	525	411	3,338	1,366

The amount of tEuros 1,827 reflected as a long term payable to Companhia Portuguesa de Produção de Electricidade, S.A. corresponds to shareholders' loans obtained by the subsidiary Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A., which bear interest at market rates and do not have defined repayment dates.

The amount of tEuros 443 reflected as a long term payable to Companhia Finerge - Gestão de Projectos Energéticos, S.A. corresponds to shareholders' loans obtained by the subsidiary Powercer - Sociedade de Cogeração da Vialonga, S.A., which bear interest at market rates and do not have defined repayment dates.

» TRANSACTIONS

YEAR 2006			
COMPANIES	TOTAL RELATED ENTITIES	SALES	SERVICES RENDERED
Associated companies:			
Central E, S.A.	(200)	-	-
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	16,666	14,236	1,966
Ecogen - Serviços de Energia Descentralizada, S.A.	21	1	2
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	25,890	25,342	6
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda.	1,131	1,126	-
Brisa Access, S.A.	(414)	-	-
Número Um - Reparação de Automóveis, Lda.	785	388	8
Enacol - Empresa Nacional de Combustíveis, S.A.	2,143	1,216	10
Tagusgás - Empresa Gás do Vale do Tejo, S.A.	7,209	6,633	313
Gásfomento - Sistemas e Instalações de Gás, S.A.	3	-	-
Metragaz, S.A.	390	161	223
EMPL - Europe Maghreb Pipeline, Ltd.	3,805	-	3,318
Gasoducto Al Andaluz, S.A.	1,298	-	543
Gasoducto Extremadura, S.A.	1,338	-	794
	60,065	49,103	7,183
Related companies:			
E.E.M. - Empresa de Electricidade da Madeira, S.A.	(48)	-	-
ENI, S.p.A.	44,998	49,963	-
Finerge - Gestão de Projectos Energéticos, S.A.	(26)	-	-
Companhia Portuguesa de Produção de Electricidade, S.A.	(105)	-	-
AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuição de Energia, S.A.	(24)	-	-
Procomlog - Combustíveis e Logística, Lda.	(48)	-	-
Enagás, S.A.	3,777	-	4,307
	48,524	49,963	4,307
	108,589	99,066	11,490

TRANSACTIONS					
OTHER OPERATING INCOME	EXTERNAL SUPPLIES AND SERVICES	EMPLOYEE COSTS	OTHER OPERATING COSTS	INTEREST COST (NOTA 9.)	INTEREST INCOME (NOTA 9.)
-	(200)	-	-	-	-
49	(89)	40	-	-	464
3	(5)	-	-	-	20
-	-	-	-	-	542
5	-	-	-	-	-
-	(414)	-	-	-	-
400	(11)	-	-	-	-
909	(1)	-	-	-	9
65	(128)	145	-	-	181
3	-	-	-	-	-
6	-	-	-	-	-
-	-	-	-	(744)	-
-	-	-	-	-	755
-	-	-	-	-	544
1,440	(848)	185	-	(744)	2,515
-	-	-	-	(48)	-
-	(4,771)	-	-	(194)	-
-	-	-	-	(26)	-
-	-	-	-	(105)	-
-	-	-	-	(24)	-
-	-	-	-	(48)	-
-	(351)	-	-	(179)	-
-	(5,122)	-	-	(624)	-
1,440	(5,970)	185	-	(1,368)	2,515

YEAR 2005 COMPANIES	TOTAL RELATED ENTITIES	SALES	SERVICES RENDERED
Associated companies:			
Brisa Access, S.A.	(232)	-	-
Central E, S.A.	(230)	-	-
Ecogen - Serviços de Energia Descentralizada, S.A.	13	11	3
EMPL - Europe Maghreb Pipeline, Ltd.	4,927	-	4,256
Enacol - Empresa Nacional de Combustíveis, S.A.	6,665	851	12
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	20,128	20,217	6
Galp Serviexpress, S.L.U.	1,191	-	-
Gásfomento Energia, S.A.	35	-	34
Gasfomento Sur Andalucia, S.A.	1	-	-
Gasoducto Al Andaluz, S.A.	1,269	-	598
Gasoducto Extremadura, S.A.	1,372	-	858
Italgás - Societa Italiana per il Gas, SPA	(37)	-	-
Metragaz, S.A.	362	173	179
Número Um - Reparação de Automóveis, Lda.	666	246	2
Qualiwork - Ser. De Gestão Form. Empr., Lda.	(69)	-	-
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	14,256	11,708	2,084
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda.	(2)	-	-
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	5,269	4,602	319
Tripul - Soc. de Gestão de Navios, Lda.	58	-	-
	55,642	**37,808**	**8,351**
Related companies:			
Enagás, S.A.	5,992	-	6,816
ENI, S.p.A.	549	3,104	4
	6,541	**3,104**	**6,820**
	62,183	**40,912**	**15,171**

TRANSACTIONS					
OTHER OPERATING INCOME	EXTERNAL SUPPLIES AND SERVICES	EMPLOYEE COSTS	OTHER OPERATING COSTS	INTEREST COST (NOTA 9.)	INTEREST INCOME (NOTA 9.)
-	(232)	-	-	-	-
-	(230)	-	-	-	-
3	(9)	-	-	-	5
-	-	-	-	(718)	1,389
5,789	(5)	-	-	-	18
-	-	-	-	(691)	596
1,191	-	-	-	-	-
8	(7)	-	-	-	-
1	-	-	-	-	-
-	-	-	-	-	671
-	-	-	-	-	514
-	-	-	-	(37)	-
10	-	-	-	-	-
440	(22)	-	-	-	-
5	(74)	-	-	-	-
309	(217)	(163)	-	-	535
-	-	-	(2)	-	-
556	(191)	(50)	-	(76)	109
58	-	-	-	-	-
8,370	(987)	(213)	(2)	(1,522)	3,837
-	(467)	-	-	(357)	-
2	(2,381)	-	-	(180)	-
2	(2,848)	-	-	(537)	-
8,372	(3,835)	(213)	(2)	(2,059)	3,837

» REMUNERATION OF THE CORPORATE BOARDS

Remuneration of the Administrators of Galp Energia for the years 2005 and 2006 amounted to tEuros 3,886 and tEuros 5,597, respectively, of which tEuros 3,004 and tEuros 3,962 correspond to basic remuneration, tEuros 411 and tEuros 915 to bonuses, tEuros 296 and tEuros 440 to payments to the defined contribution pension funds and tEuros 175 and 280 to other benefits, respectively (Note 7).

Remuneration of the Administrators of Galp Energia designated by ENI, paid to that shareholder, is included in the caption "External supplies and services and amounted to tEuros 770 and tEuros 1,448, respectively, for the years 2005 and 2006.

In accordance with the current policy, remuneration of the administrators of Galp Energia includes all the remuneration due for the year for positions held in the Galp Energia Group.

30. DIVIDENDS

Dividends out of net profit for 2005 attributed to the Group shareholders amounted to tEuros 222,239 in accordance with a decision of the Shareholders' General Meeting held on 30 June 2006 and were been paid in 2006.

In addition, in accordance with a decision of the Shareholders' General Meeting held on 31 August 2006, distributable reserves and retained earning of tEuros 870,713 were paid.

In 2006 the former subsidiaries Gasoduto Braga - Tuy, S.A. and Gasoduto Campomaior - Leiria - Braga, S.A. paid dividends of tEuros 1,703 to Enagás, S.A.. In addition, in the year ended 31 December 2006 tEuros 476 was paid by Petrogal Group subsidiaries.

Consequently, in the year ended 31 December 2006 the Group paid dividends, distributable reserves and retained earnings of tEuros 1,095,131.

31. SALE OF THE NATURAL GAS TRANSPORTATION OPERATIONS ("UNBUNDLING")

Resolution 169/2005 of 24 October of the Council of Ministers approved the strategy to be used to segregate the natural gas regulated assets (reception, transportation and storage) as well as the procedures for operationalising them to the electricity transport network operator (REN – Rede Eléctrica Nacional, S.A.). The resolution imposes separation of the operators of the Electricity and Natural Gas regulated assets. The main measures of the strategy include revision of Transgás, S.A.'s concession contract, integration into a single company of electricity transmission and natural gas transportion, and separation of the commercialisation and distribution functions, for both electricity and natural gas.

Transgás, S.A.'s public service concession contract signed with the Portuguese State on 14 October 2003 for the importation, transport and supply of natural gas was changed on 26 October 2003 under the electricity and gas structural competition framework defined by resolution of the Council of Ministers.

In the national energy strategy approved on 24 October 2005, the Council of Ministers announced, among others, the following measures to be adopted under the competition framework of the electricity and gas sectors: (i) revision of Transgás' concession contract and spin off of its transport, storage and liquid gas terminal operations; (ii) transfer to a single company of the electricity transmission and natural gas transportation networks and the present storage and liquid gas terminal installations, ensuring legal separation between the operations of these two energy sectors; (iii) separation of the commercialisation from the distribution operations, for both electricity and natural gas.

Decree-Law 30/2006 of 15 February, which transposed to law the strategic line of Resolution 169/2005 of 24 October of the Council of Ministers, defined for the natural gas sector, a coherent legal framework in line with the community legislation and the principal strategic objectives of the Resolution. This framework establishes the organisation and operating principles of the National Natural Gas System, as well as the general rules applicable to LNG reception, storage and re-gasification, underground storage, transport, distribution and commercialisation operations, thus transposing them to the principles of Directive 2003/55/CE of the European Parliament and the Council of 26 June, for the purpose of increasing free market competition.

Current legislation applicable to the regulated reception, storage and re-gasification of LNG in ocean terminals, underground storage, transport, distribution and commercialisation of natural gas, including the respective concessions, as well as the legal natural gas commercialisation regimes, including that of last resort are established in Decree-Law 140/2006 of 26 July. This law also establishes the organisation of the respective markets and creation of a logistics operator for the change in the commercialising entity. The Decree-Law also defines the type of procedures applicable to the concession of licences, the rules relating to the overall technical management of the National Natural Gas System (Sistema Nacional de Gás Natural - "SNGN") and the planning of the national LNG transport, storage and terminal infrastructures network under the responsibility of the National natural gas transport network concessionaire entity.

Because of the importance of the SNGN, the decree-law establishes rules relating to the security and monitoring of supply, as well as the constitution and maintenance of natural gas safety reserves.

Article 65 of Decree-Law 30/2006 of 15 February defines the terms in which the present concession contract relating to the public service natural gas importation, transport and supply in high pressure networks signed between the Portuguese State and Transgás, S.A. on 14 October 1993 was modified, the concession of the underground storage of natural gas being maintained in a fully owned subsidiary of Tansgás, S.A., although altered in conformity with this decree-law.

In order to for the separation of the transport and underground storage of natural gas, and reception, storage and re-gasification of LNG operations established in Decree-Law 30/2006 of 15 February to be carried out, on 26 September a contract was signed between Transgás, S.A., REN – Rede Eléctrica Nacional, S.A. and Transgás – Armazenagem, S.A., relating to the transfer of the regulated assets, known as the Unbundling process (spin off or sale of assets).

The base selling price of the Assets under the Unbundling process is subject to adjustment to fair value based on valuations to be made in the future by independent entities, as established in the Promissory Contract relating to the Transfer of the Regulated Assets. The possible adjustments to the base selling price can be positive or negative, except for the adjustment relating to the base price of the Transport Assets, which can only be a positive adjustment for Transgás, S.A..

The Medium pressure – MP gas pipelines relating to the present concession, as well as the Autonomous Gas Units (Unidades Autónomas de Gás – UAG) which are still their property, are expected to be sold in 2007 to each regional distribution concessionaire or local licensed distributor for the respective area.

In the year ended 31 December 2006 Transgás S.A., in addition to its acquisition and transport of natural gas operations, continued to invest in the construction of Autonomous Gas Units and Industrial Branches.

Transgás S.A. continues to carry out the following activities conceded to it under the concession contract, under the terms of the new contract signed with the Portuguese State:

a) Purchase of natural gas;

b) Sale of natural gas under ordinary supply contracts signed with electricity generating companies;

c) Sale of natural gas on a transitory basis under supply contracts signed with the present regional natural gas distribution concessionaires, the present holders of local distribution licences and large customers;

d) Distribution of natural gas on a transitory basis through medium pressure pipelines and the Autonomous Gas Units which it still owns.

The Unbundling operations carried out in September 2006 had the following impact on the Group's consolidated balance sheet as of 31 December 2006:

» UNBUNDLING OPERATION

(Amounts expressed in thousands of euros - tEuros)

ASSETS	NOTES	INCREASE / (DECREASE)
Non-current assets:		
Tangible fixed assets	31.1	(738,135)
Goodwill (Note 12.)	31.1	(5,063)
Other intangible assets	31.1	(9,308)
Deferred tax assets		(2,912)
Total non-current assets:		**(755,418)**
Current assets:		
Inventories		(2,063)
Trade receivables		(5,472)
Other receivables	31.2	(3,740)
Cash and cash equivalents	31.3	506,019
Total current assets:		**494,744**
Total assets:		**(260,674)**

EQUITY AND LIABILITIES	NOTES	INCREASE / (DECREASE)
Equity:		
Net profit for the period	31.7	219,987
Total equity attributable to equity holders of the parent:		219,987
Minory interest		(7,922)
Total equity:		**212,065**
Liabilities:		
Non-current liabilities:		
Bank loans and overdrafts	31.4	(434,714)
Other payables	31.5	(6,760)
Retirement and other benefit obligations		(7)
Deferred tax liabilities		2,050
Total non-current liabilities:		**(439,431)**
Current liabilities:		
Bank loans and overdrafts	31.4	(34,916)
Trade payables		(839)
Other payables	31.5	(5,510)
Current income tax payable	31.6	7,957
Total current liabilities:		**(33,308)**
Total liabilities:		**(472,739)**
Total equity and liabilities:		**(260,674)**

As shown above, assets and liabilities were spun off, the main ones being:

Note 31. 1 – Tangible and intangible fixed assets

	GROSS	ACCUMULATED DEPRECIATION	NET
Tangible fixed assets			
Land and natural resources	47,118	(4,511)	42,607
Buildings and other constructions	37,018	(9,997)	27,021
Machinery and equipment	762,280	(94,945)	667,335
Transport equipment	607	(569)	38
Tools and utensils	1,330	(1,157)	173
Administrative equipment	4,160	(3,537)	623
Reusable containers	2,084	(1,802)	282
Other tangible fixed assets	71	(22)	49
Fixed assets in progress	7	-	7
	854,675	(116,540)	738,135
Other intangible assets			
Instalation expenses	1,686	(1,581)	105
Research and development expenses	48	(8)	40
Industrial property and other rights	13,083	(3,920)	9,163
	14,817	(5,509)	9,308
Goodwill			
Goodwill - Group companies	6,076	(1,013)	5,063
	6,076	(1,013)	5,063

The amount of tEuros 738,135 in the caption "Tangible fixed assets" corresponds to the natural gas transport, underground storage, reception and storage operations.

Note 31. 2 – Other receivables

	CURRENT
Other debtors	1,158
Accrued income	2,471
State and other public entities	109
Deferred costs	2
	3,740

Note 31. 3 – Cash and cash equivalents

Sale of Transgás S.A.'s assets	788,888
Sale of the investments in Gasoduto Campo Maior - Leiria - Braga, S.A. and Gasoduto Braga - Tuy, S.A. (Note 3)	16,648
Sale of the investment in Trangás Atlântico – Sociedade Portuguesa de Gás Liquefeito, S.A. (Note 3)	29,974
Payment of loan of Transgás Atlântico – Sociedade Portuguesa de Gás Liquefeito, S.A.	(20,300)
Payment of European Investment Bank (E.I.B.) loan	(309,255)
Dividends received from Gasoduto Braga - Tuy, S.A.	646
Dividends received from Campo Maior - Leiria - Braga, S.A.	7,935
Transfer of assets of Gasoduto Campo Maior - Leiria - Braga, S.A.to Ren - Rede Eléctrica Nacional, S.A.	(6,686)
Transfer of assets of Gasoduto Braga - Tuy, S.A to Ren - Rede Eléctrica Nacional, S.A.	(1,253)
Sale of Transgás Atlântico – Sociedade Portuguesa de Gás Liquefeito, S.A.	(578)
	506,019

Note 31. 4 – Bank loans and overdrafts

	CURRENT	NON-CURRENT	TOTAL
Loan from the European Investment Bank (E.I.B.)	34,916	396,339	431,255
Bank loan	-	38,375	38,375
	34,916	434,714	469,630

Note 31. 5 – Other payables

	CURRENT	NON-CURRENT	TOTAL
Suppliers of fixed assets	279	-	279
Accrued costs	2,594	-	2,594
State and other public entities	1,202	-	1,202
Loan of Enagás, S,A,	1,435	6,760	8,195
	5,510	6,760	12,270

Note 31. 6 – Current income tax payable

Tax effect in Transgás, S.A. of the gain in the UNBUNDLING operation	8,546
Transfer of assets of Gasoduto Campo Maior - Leiria - Braga, S.A. To REN - Rede Eléctrica Nacional, S.A.	(1,070)
Transfer of assets of Gasoduto Braga - Tuy, S.A to REN - Rede Eléctrica Nacional, S.A.	(70)
Sale of Transgás Atlântico – Sociedade Portuguesa de Gás Liquefeito, S.A.	551
	7,957

Note 31. 7 – Net profit for the period

Gain on the sale of fixed assets (Note 6)	237,282
Income tax	(10,636)
Loss on the sale of the investment in Trangás Atlântico – Sociedade Portuguesa de Gás Liquefeito, S.A. (Note 4)	(1,823)
Loss on the sale of the investments in Gasoduto Braga - Tuy, S.A and Gasoduto Campo Maior - Leiria - Braga, S.A. (Note 4)	(18,210)
Equity method Trangás Atlântico – Sociedade Portuguesa de Gás Liquefeito, S.A.[a]	5,826
Equity method Gasoduto Braga - Tuy, S.A.[a]	475
Equity method Gasoduto Campo Maior - Leiria - Braga, S.A.[a]	5,994
Other operating income	1,079
	219,987

(a) Effect of applying the equity method up to 31 August 2006.

The amount of the sale of all the assets (Unbundling) was tEuros 835,510 resulting in an impact of tEuros 219,987 on the results of the Company (Note 1).

32. CONTINGENT ASSETS AND LIABILITIES

» CONTINGENT LIABILITIES

At 31 December 2006, the Company and subsidiaries had the following contingent liabilities:

i) At 31 December 2006 the Company had a contingent liability under a court action regarding the re-privatisation process of Driftal - Plastificantes de Portugal, S.A. involving an indemnity request of tEuros 19,952. The Company's Board of Directors, supported by the opinion of its lawyers, believes that the Company will not incur any costs as a result of this process and so no provision has been recorded for this matter. However a bank guarantee of that amount has been given;

ii) The Municipal Council of Lisbon is demanding, from the subsidiary Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 1,891 for 1994/95, tEuros 1,016 for 1996, tEuros 1,044 for 1997, tEuros 1,069 for 1998, tEuros 1,093 for 1999, tEuros 1,145 for 2001, tEuros 1,189 for 2002, tEuros 1,238 for 2003, tEuros 1,288 for 2004, tEuros 1,319 for 2005 and tEuros 1,347 for 2006 relating to licences for occupying the public thoroughfare with underground gas pipes;

iii) The Municipal Council of Vila Franca de Xira is demanding, from Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 104 for 1994/95, tEuros 71 for 2002, tEuros 77 for 2003 and tEuros 216 for 2005 relating to rates for occupying the subsoil in those years;

iv) The Municipal Council of Oeiras is demanding, from Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 23 for 1998 and tEuros 26 for 2001 relating to rates for occupying the subsoil in those years;

v) The Municipal Council of Sintra is demanding, from Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 11 for 1998, tEuros 47 for 1999, tEuros 275 for 2000, tEuros 417 for 2001, tEuros 469 for 2002, tEuros 490 for 2003, tEuros 545 from 2004, tEuros 614 for 2005 and tEuros 665 for 2006, relating to rates for occupying the subsoil in those years;

vi) The Municipal Council of Cascais is demanding, from Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 403 for 2001 and tEuros 524 2006, relating to rates for occupying the subsoil in 2001;

vii) The Municipal Council of Covilhã is demanding, from Beiragás, payment of tEuros 113 under a legal process relating to a "licence to occupy the public thoroughfare" with the existing underground gas pipes;

viii) The Municipal Council of Amadora is demanding payment of tEuros 6,994 relating to rates for occupying the subsoil in 2005.

GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A., based on legal opinions, decided to legally contest in the Tax Court, the payments demanded by the Municipal Councils, the requests for stay of execution having been granted and execution is suspended until the case is judged.

The Board of Directors of GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A. believes that as a result of these processes GDL will only be required to pay a maximum of tEuros 9,870, due to the nature of the process rather than its merit, for which the Company has a provision (Note 26).

The management of Beiragás believes that the above process will not result in any liability for the company.

» CONTINGENT ASSETS

Following the sale in 1999 of 40% of OPTEP, SGPS, S.A.'s share capital, corresponding to 440,000 shares with a nominal value of Euros 5 per share, the base selling price of tEuros 189,544 was established contractually, of which tEuros 74,818 was attributed to the 093X segment and tEuros 114,726 to the E3G/Edinet segment.

The sale by GDP, SGPS, S.A. and Transgás – Sociedade Portuguesa de Gás Natural, S.A. to EDP, S.A. was established with the condition that if OPTEP, SGPS, S.A., 093X or any other entity directly or indirectly controlled or participated in by EDP sells or in any other way disposes of, to a third party, a participation equivalent to 5% of Optimus, that is 450,000 shares with a nominal value of Euros 5 per share, during a period of 3 years as from the date of signature of the agreement (24 June 1999), the difference between the amount of tEuros 74,818 and the sales price would be divided between the parties, as follows:

tEUROS FOR EACH 220,000 SHARES	EDP	GDP GROUP
Between 37,409 and 42,397	0%	100%
Between 42,397 and 52,373	25%	75%
More than 52,373	75%	25%

On 28 September 2000 the parties (GDP, SGPS, S.A., Transgás, SGPS, S.A., Transgás, S.A. and EDP, S.A.) made an amendment to the agreement, under which the deadline for dividing the potential gain on the future sale of Optimus shares was extended to 31 December 2003.

On 22 March 2002 EDP announced the sale of the participation in OPTEP, SGPS, S.A., the company that holds a 25.49% participation in Optimus, to Thorn Finance, S.A.. The sales price was fixed at tEuros 315,000, which means that Thorn Finance valued Optimus at tEuros 1,235,779, which is higher than the value established between EDP, S.A., GDP, SGPS, S.A. and Transgás, S.A., which was tEuros 748,197. Therefore, there will be an upside of tEuros 30,253 for the GDP Group companies, to be paid by EDP, which will be divided equally between GDP, SGPS, S.A. and Transgás, SGPS, S.A..

As EDP has not agreed to the GDP Group's expectations, this account receivable has not been recorded.

» OTHER FINANCIAL COMMITMENTS

The financial commitments of the Group, not included in the balance sheet as of 31 December 2006 are as follows:

- tEuros 7,793 relating to orders of tangible fixed assets not yet delivered;

- tEuros 1,716 relating to notes receivable not yet due, discounted in the banking system;

- tEuros 339,558, tEuros 7,115 and tEuros 23,048 relating to the liability under the Petrogal, Sacor Marítima and GDP Group pension plans, respectively (Note 24);

- tEuros 49,624 and tEuros 46,938 relating to the liability of the Petrogal Group under the pension plans and for healthcare, life assurance and defined contribution plan minimum benefit (Note 24), respectively, not reflected in the financial statements as they are within the 10% "corridor" limit (Notes 2.10 and 2.11) or because they correspond to the "corridor" excess not yet recognised in the income statement;

- tEuros 6,464 and tEuros 2,760 relating to the liability of the GDP Group under the pension plans and for healthcare, life assurance and defined contribution plan minimum benefit (Note 24), respectively, not reflected in the financial statements as they are within the 10% "corridor" limit (Notes 2.10 and 2.11) or because they correspond to the "corridor" excess not yet recognised in the income statement;

- Petrogal has been carrying out an Environmental and Process Reconfiguration of Domestic Refining – Auto-Oil – project under the European Union legislation, in order to comply, on the one hand, with fuel specifications, namely petrol and diesel fuel and, on the other hand, for the environmental performance of its Refineries to comply with the planned legislation. Up to the end of 2006 the total amount spent on this project was approximately tEuros 146,000.

Conscious of its responsibilites to the environment, in September 1998 Petrogal committed itself publicly to to protect the environment by signing a Continuous Improvement of Environmental Performance Protocol with the Ministry of the Economy and Ministry of the Environment. The only items to be implemented under this protocol, which establishes a large number of environmental protection actions – Environmental Action Program – are process changes to be made in the 2007/2008 period for the refineries to comply with the conditions established in legislation (PCIP, GIC's).

In addition in 2006 the Company continued to carry out the requalification program of its service stations for them to comply with the legal requirements and those established in Petrogal's

Continuous Improvement of Environmental Performance Protocol. In 2006 tEuros 771 was invested in fixed assets projects under this program and tEuros 2,000 is expected to be invested in this program in 2007.

Financial commitments assumed by the Company relating to implementation of the natural gas transportation network, not included in the balance sheet as of 31 December 2006, amounted to tEuros 308,362, made up as follows:

		UP TO 2006	2006
NATURE	CONTRACTED AMOUNT	REALISED	TO BE REALIZE
Right-of-way/Expropriations	2,108	1,799	308

» GUARANTEES GIVEN

At 31 December 2006 the guarantees given amounted to tEuros 103,237 and tUSD 145,295 made up essentially of the following:

i) Guarantees of tEuros 96 given to the Courts by Caixa Geral de Depósitos due to litigation relating to rights-of-way;

ii) Guarantee of tEuros 7,751 in favour of the Lisbon Tax Court, formerly called of the 1st Instance – 5th Court – 1st Section, in guarantee of a payment demanded by the Municipal Council of Lisbon, with respect to legal processes relating to occupation rates of the subsoil;

iii) Guarantees of tEuros 15,020 given to Municipal Councils under legal processes relating to occupation of the subsoil;

iv) Guarantees of tEuros 13,573 given to the Portuguese State with respect to the obligations and duties resulting from the Concession Contract to operate the natural gas regional distribution networks of Lisboagás, GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., Lusitaniagás – Companhia de Gás do Centro, S.A. and Beiragás – Companhia de Gás das Beiras, S.A.;

v) Guarantees and pledges relating to 27.4% (participation of Transgás, S.A.) of the following amounts of credit granted to EMPL - Europe Maghreb Pipeline, Limited:

	TYPE	TOTAL LOAN tUSD	TRANSGÁS' PART tUSD
BEI	Bank	370,272	101,455
ICO	Bank	160,000	43,840
		530,272	145,295

At 31 December 2006 there were guarantees totalling tEuros 46,845 given to third parties on account of group and associated companies.

vi) Guarantee of tEuros 19,952 given to the Lisbon Court, 2nd Juristiction, 1st Section under a legal process relating to reprivatsation of Driftal.

33. INFORMATION REGARDING ENVIRONMENTAL MATTERS

The principal challenges facing refining operations are compliance with the objectives of reducing greenhouse gas emissions in the period from 2008 to 2012 defined in the Kyoto Protocol, reducing the proportion of sulphur in fuel consumed in the facilities and increasing energy efficiency.

Decree-Law 233/2004 of 14 December with the text given to it by 243-A/2004 of 31 December and as amended by Decree-Law 230/2005 of 29 December establishes the greenhouse gas emissions commercial regime (Diploma CELE), which applies to the industrial activity gas emissions listed on Appendix I thereof, which includes Galp Energia Group's installations.

The installations covered by Emissions Trading in the three year 2005/ 2008 period are the Sines and Oporto Refineries, both of Petrogal, and the Co-generating installations of the companies Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A and Powercer - Sociedade de Cogeração da Vialonga, S.A. of the Galp Power Group.

Joint Order 686-E/2005 of 13 September 2005 approved the list of existing emission trading participants and allocation of their respective emission licences for the 2005/2008 period.

Therefore annual licences were allocated to the installations of the following companies:

COMPANY	INSTALLATIONS	LICENCES TON/CO_2 ATTRIBUTED
Petrogal	Sines Refinery	2,313,908
	Oporto Refinery	951,969
	Subtotal Petrogal Group	3,265,877
Carriço Cogeração	Co-generation	139,284
Powercer	Co-generation	38,831
	Subtotal Galp Power	178,115
	Total Galp Energia Group	3,443,992

Order 19 649/2006 approved a change in the emission licences to be attributed for the 2005-2007 period, which covers Powercer - Sociedade de Cogeração de Vialonga, S.A., a member of the Galp Power Group. An additional 333 Ton/CO_2 was attributed for the 2005-2007 period.

In 2006 the following quantities of greenhouse gases (Ton/CO_2) were emitted by the above installations:

COMPANY	INSTALLATIONS	GASES EMITTED IN 2006[a]	ACCUMULATED TON/CO_2 LICENCES FOR 2007
Petrogal	Sines Refinery	2,116,194	2,564,098
	Oporto Refinery	902,187	958,619
	Subtotal Petrogal Group	3,018,381	3,552,717
Carriço Cogeração	Co-generation	122,894	166,012
Powercer	Co-generation	42,556	38,520
	Subtotal Galp Power Group	165,450	204,532
	Total Galp Energia Group	3,183,831	3,727,249

(a) These amounts were verified by an entity specialised in enviroment auditing.

The Galp Energia Group has not recognised in its financial statements the possible valuation or devaluation of these licences as it believes that a regulated market to enable the appropriate registration and recognition of such variations does not yet exist.

However, if an insufficiency of licences occurs the appropriate provisions will be recorded, if that becomes appropriate. As shown above, at 31 December 2006 the licences allocated are for less than the volume of gas emitted only in the case Powercers' installations, for a quantity considered to be insignificant for purposes of the financial statements as of that date. The licences allocated to the Group at 31 December 2006 exceed the volume of gases emitted and so no provision was recorded for the year.

34. SUBSEQUENT EVENTS

The main subsequent events occurred after 31 December 2006 are as follows:

» SHAREHOLDER STRUCTURE

In 2007 the Portuguese State sold 40,000,000 A shares and 1,494,501 B shares, representing 5.0% of Galp Energia, SGPS, S.A. 's share capital, to Parpública, SGPS, S.A.. After this acquisition Parpública became holder of 58,079,514 shares of Galp Energia, SGPS, S.A., representing 7% of the voting rights, the Portuguese State ceasing to be a shareholder of the Company as from that date. The A shares have special rights granted to them in accordance with article 4 of Galp Energia, SGPS, S.A.'s articles of association.

As a result of the merger of ENI Portugal Investments, S.p.A into ENI S.p.A, communicated on 2 January 2007, Galp Energia's shareholder became ENI S.p.A.

Consequently the shareholders at 31 December 2006 (Note 20) have not been updated for the effect of the above operation.

» INVESTMENT PLAN

Galp Energia's Board of Directors approved capital expenditure to be incurred in its refining equipment, including the conversion unit, aimed at increasing the production of diesel fuel by 2.5 million tons, decreasing the production fuel oil.

» INVESTMENTS

In January 2007 the Group sold its 49% participation in the associated company Número Um – Reparação Automóvel, Lda. for tEuros 1,500, which had a book value of tEuros 555 at 31 December 2006 (Note 4).

» NATURAL GAS SEGMENT

The last resort natural gas commercialisation licence given to Transgás Industria, S.A. on 1 January 2007 in accordance with the model approved by Ministerial Order 930/2006 of 7 September, transmitted at that date, in accordance with Decree-law 140/2006 of 26 July, to the company's legal sphere, the natural gas supply contracts signed with the regional and local distributors and large clients.

Following the change in Transgás Indústria, S.A.'s operations in compliance with the new legal framework of the natural gas sector and change in the name of Transgás – Sociedade Portuguesa de Gás Natural, S.A. to Galp Gás Natural, S.A., its name was changed to Transgás, S.A. on 23 February 2007.

» PETROLEUM EXPLORATION AND PRODUCTION SEGMENT

The Contract with the Portuguese State to explore hydro-carbonates in 3 offshore blocks off the Alentejo coast was signed on 1 February. The operator of these blocks is the Australian company Hardman Resources with 80%, Galp and Partex each having 10% participations in that consortium.

As the period of research of Block 14 in Angola ends at the end of February, the appropriate Angolan authorities have granted an extension of 6 months for the research wells in progress and evaluation of results to be completed.

Two commercial discoveries in Block 32 were announced following the drilling of the Manjericão e Caril exploration wells.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 24 April 2007. However, they are still subject to approval by the Shareholders' General Meeting under the terms of current Portuguese legislation.

36. EXPLANATION ADDED FOR TRANSLATION

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

THE ACCOUNTANT

Dr. Carlos Alberto Nunes Barata

THE BOARD OF DIRECTORS

Dr. Francisco Luís Murteira Nabo

Eng. Manuel Ferreira De Oliveira

Eng. Giancarlo Rossi

Eng. José António Marques Gonçalves

Dr. André Freire de Almeida Palmeiro Ribeiro

Dr. João Pedro Leitão Pinheiro de Figueiredo Brito

Dr. Fernando Manuel dos Santos Gomes

Eng. Massimo Giuseppe Rivara

Eng. Diogo Mendonça Rodrigues Tavares

Dr. Manuel Carlos Costa da Silva

Eng. Manuel Domingos Vicente

Dr. Angelo Mario Taraborrelli

Eng. Camillo Gloria

Dr. Marco Alverà

Dr. Joaquim Augusto Nunes de Pina Moura

Dr. Alberto Alves de Oliveira Pinto

Dr. Pedro António do Vadre Castelino e Alvim

Eng. Alberto Maria Alberti

37. STATUTORY AUDIT AND AUDITORS' REPORT CONSOLIDATED FINANCIAL STATEMENTS

(Translation of a report originally issued in Portuguese - Note 36)

» INTRODUCTION

1. In compliance with the applicable legislation we hereby present our Statutory Audit and Auditors' Report on the consolidated financial information contained in the Board of Directors' Report and the consolidated financial statements of Galp Energia, SGPS, S.A. ("the Company") for the year ended December 31, 2006, which comprise the consolidated balance sheet that presents a total of 5,241,810,000 Euros and shareholders' equity of 2,036,674,000 Euros, including net profit of 754,774,000 Euros, the consolidated statement of profit and loss by nature, the consolidated statement of cash flow and the statement of changes in shareholders' equity for the year then ended and the corresponding notes.

» RESPONSIBILITIES

2. The Company's Board of Directors is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated results of their operations, their consolidated cash flows and statement of changes in shareholders' equity; (ii) the preparation of historical financial information in accordance with generally accepted accounting principles that is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code; (iii) the adoption of adequate accounting policies and criteria and the maintenance of an appropriate system of internal control; and (iv) the disclosure of any significant facts that have influenced the operations of the companies included in the consolidation, their financial position and results of operations.

3. Our responsibility is to examine the financial information contained in the accounting documents referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our work.

» SCOPE

4. Our examination was performed in accordance with the Auditing Standards ("Normas Técnicas e as Directrizes de Revisão/Auditoria") issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. An examination includes verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the significant estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation. An examination also includes verifying the consolidation procedures, the application of the equity method and that the financial statements of the companies included in the consolidation have been appropriately examined, assessing the adequacy of the accounting policies used, their uniform application and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, verifying the adequacy of the overall presentation of the consolidated financial statements and assessing if, in all material respects, the consolidated financial information is complete, true, timely, clear, objective and licit. An examination also includes verifying that the consolidated financial information included in the consolidated Board of Directors' Report is consistent with the consolidated financial statements. We believe that our examination provides a reasonable basis for expressing our opinion.

» OPINION

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above, present fairly in all material respects, the consolidated financial position of Galp Energia, SGPS, S.A. as of December 31, 2006 and the consolidated results of its operations and its consolidated cash flows for the year then ended, in conformity with the International Financial Reporting Standards as adopted in the European Union and the financial information contained therein is, in terms of the definitions included in the auditing standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

» EMPHASIS

6. As explained in Note 2.1., the consolidated financial statements as of December 31, 2005, approved by the Shareholders' General Meeting, were prepared in accordance with generally accepted accounting principles in Portugal (Portuguese Official Chart of Accounts). However, the accompanying consolidated financial statements as of December 31, 2005, included for comparative purposes, had already been prepared in conformity with the International Financial Reporting Standards ("IFRS") as adopted in the European Union, for inclusion in the Prospectus of the Public Sale Offering and Admission to Negotiation of shares representing part of its share capital ("International Offering Circular") occurred in 2006. The transition adjustments in the preparation of the first consolidated financial statements in conformity with IFRS, were reported as of January 1, 2004 (transition date), having adopted the provisions of IFRS 1 - First time adoption of International Financial Reporting Standards ("IFRS 1"), in quantifying them, which effects are explained in those consolidated financial statements included in the International Offering Circular mentioned above.

Lisbon, April 24, 2007

DELOITTE & ASSOCIADOS, SROC S.A.
Represented by Jorge Carlos Batalha Duarte Catulo

38. SUPERVISORY BOARD'S REPORT AND OPINION CONSOLIDATED ACCOUNTS

To the shareholders,

Galp Energia, SGPS, S.A.'s Supervisory Board was appointed by a unanimous written deliberation of the Company's shareholders dated 5 October 2006.

The Supervisory Board's work was facilitated by its appointment having occurred in connection with the public offering of shares representing 23% of the Company's share capital.

Indeed, the offering and listing prospectus of Galp Energia, SGPS, S.A. is thoroughly informative with regard to:

- The risks of every nature impending on the Company's operations and the manner in which they may affect earnings;

- Governance issues, namely in respect of the manner in which risks are managed and earnings are calculated.

In the performance of its duties, the Board gained detailed knowledge of the Company's workings in all aspects relevant to the Board's role. The following persons and entities gave the Board their full cooperation:

- Chairman of the Board of Directors and Chairman of the Executive Committee, namely regarding their roles in what concerns, respectively, the supervision and administrative monitoring of the Internal Audit department;

- The executive director in charge of Corporate Finance, Accounting and Treasury;

- The persons responsible for the aforementioned departments;

- The external auditor, also performing the duties of Statutory Auditor for Galp Energia SGPS, S.A. and the majority-controlled group companies;

- The external tax advisers

All these persons and entities provided complete answers to the questions asked by the Supervisory Board, namely regarding the manner in which they perform their supervisory and risk control duties and the procedures used.

The Board became aware of the high standards of professionalism applied to the exercise of their duties, their extreme care in adopting applicable international best practice and their readiness to use, whenever necessary, the services of:

- External entities with particular skills such as the control of information systems risks;

- Other internal departments such as the Environment, Quality and Safety department, better placed to provide adequate information namely in what concerns environmental and safety risks.

The Board was delighted to learn about the Executive Committee's resolution, in 2007, regarding the upgrade and addition of staff to the Internal Audit department. As a result of this step, we can expect the department to increase its effectiveness and strengthen its impact on organisational culture.

Prior to the close of the financial year, the Board reviewed in particular the accounting treatment of assets likely to attract discretionary or subjective valuations. The questions asked to the internal departments, the external auditor and the Statutory Auditor regarding the criteria and principles used in treating these situations on the consolidated balance sheet and profit and loss account were answered to the entire satisfaction of the Board. In this respect, the following facts give additional comfort and security:

- The extremely small value of adjustments made to the accounts resulting from the external auditor's work at the end of the year, which had no material effect on the Galp Energia group companies' financial statements at 31 December 2006;

- The detail provided in the notes to the consolidated financial statements, whose explanations were considered, in every case, to be satisfactory.

Ladies and Gentlemen, shareholders,

For the first time, the consolidated financial statements of Galp Energia SGPS, S.A. are presented in accordance with the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS).

Upon being informed by the Statutory Auditors, in their capacity as external auditors, of the content of the statutory certification of accounts and the auditors' own report in respect of the consolidated accounts, with which we are in agreement, our opinion is that:

- The consolidated management report for 2006 and the accompanying corporate governance and sustainability reports should be approved;

- The consolidated accounts (the consolidated balance sheet, the consolidated profit and loss account, the consolidated cash flow statement, the consolidated statement of changes in equity and respective notes) for the 2006 financial year should be approved.

Lastly, the Supervisory Board wishes to express its appreciation to the Board of Directors and the Executive Committee of Galp Energia SGPS, S.A. for their cooperation, that greatly simplified the performance of the Board's duties.

Lisbon, 8 May 2007

Chairman - Daniel Bessa Fernandes Coelho

Member - José Gomes Honorato Ferreira

Member - José Maria Rego Ribeiro da Cunha

» EDITION

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» DESIGN AND CONCEPTION

STRATDESIGN

» PHOTOGRAPHY

Manuel Aguiar and Image Bank

» PHOTOGRAPHIC MODELS

Galp Energia Group employees

galp energia

your positive energy