galp energia

# EXTENDING SUCCESS

ANNUAL REPORT AND ACCOUNTS

# INTO NEW

GALP ENERGIA

# CHALLENGES

**2010**

GALP ENERGIA

# ANNUAL REPORT AND ACCOUNTS 2010

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.

Galp Energia is an integrated energy operator with diversified activities across the globe in the oil and gas industry. With its refining and marketing activities centred on the Iberian Peninsula, Galp Energia has a strong presence in the resource-rich South Atlantic exploration and production area that covers Brazil's pre-salt Santos basin and the Angolan offshore.

Galp Energia is present in 13 countries: Portugal, Spain, Brazil, Angola, Venezuela, Mozambique, Cape Verde, Guinea-Bissau, Swaziland, Gambia, East Timor, Uruguay and Equatorial Guinea.

## PERFORMANCE INDICATORS IN **2010**

**13,998 M€**

**+17%** **RCA TURNOVER**

2009: 11,960M€

**454 M€**

**+58%** **RCA OPERATING PROFIT**

2009: 287M€

RCA: Replacement cost adjusted

GALP ENERGIA

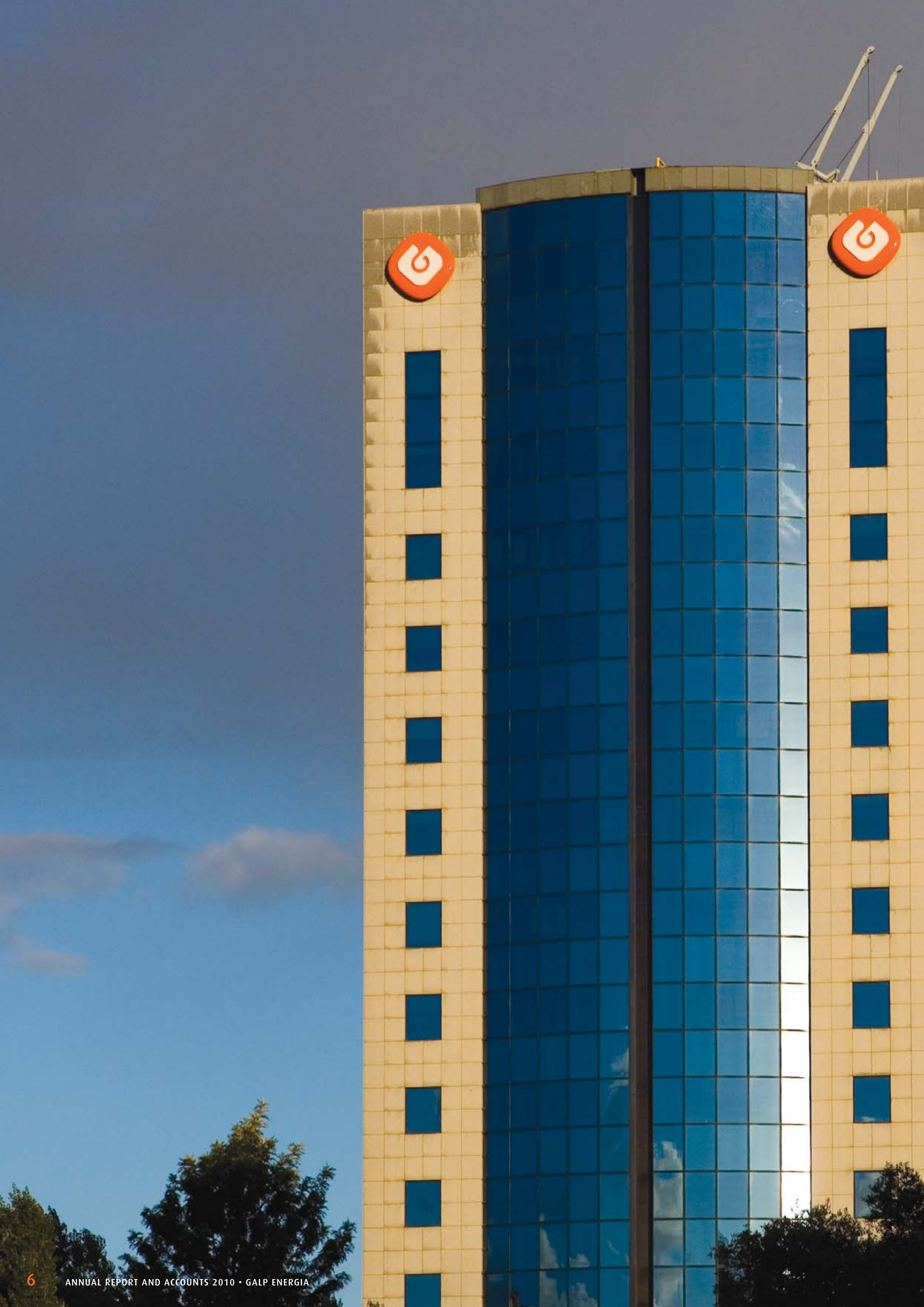
# ANNUAL REPORT & ACCOUNTS 2010

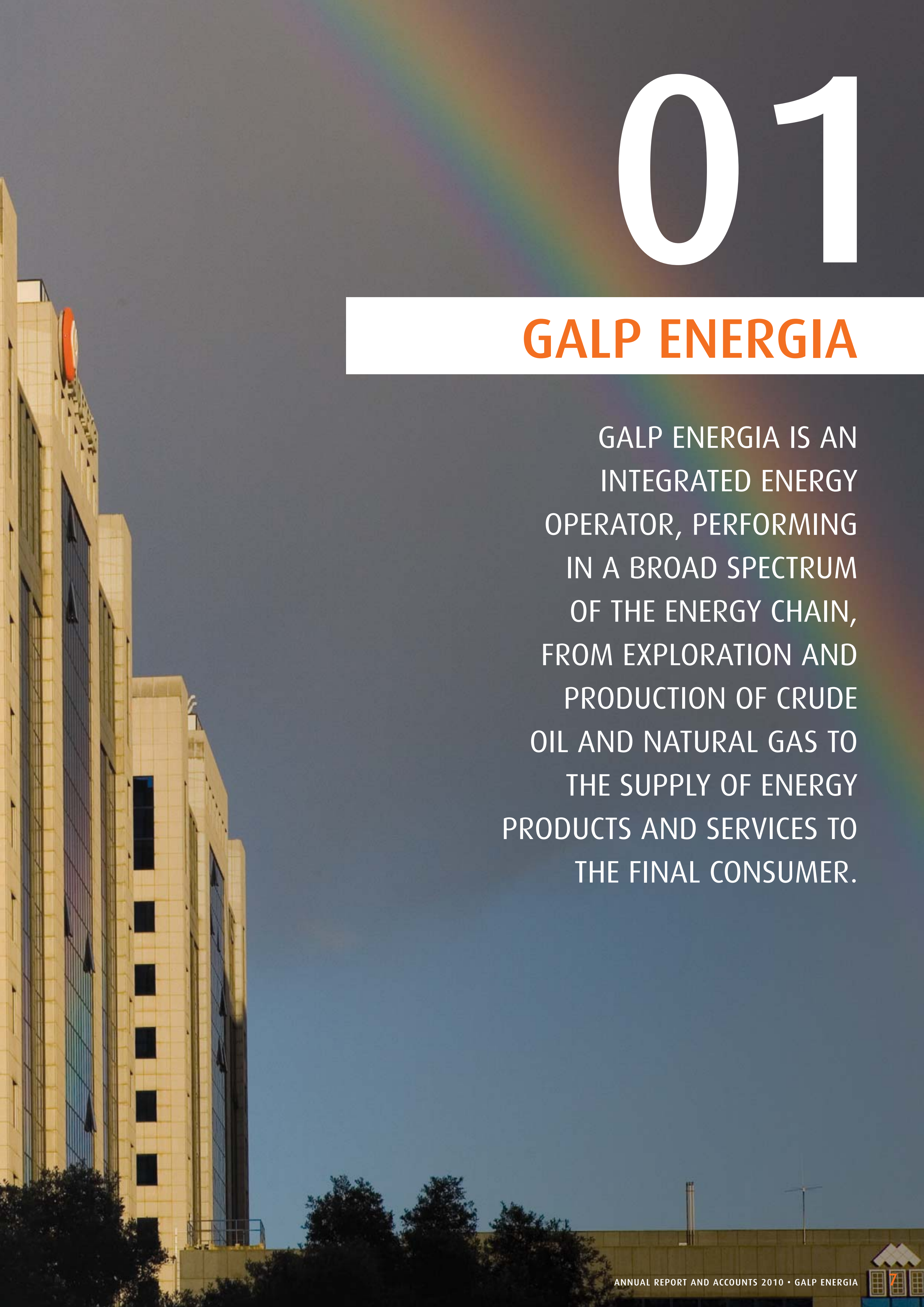


**306 M€**

**+43% RCA NET PROFIT**

2009: 213M€

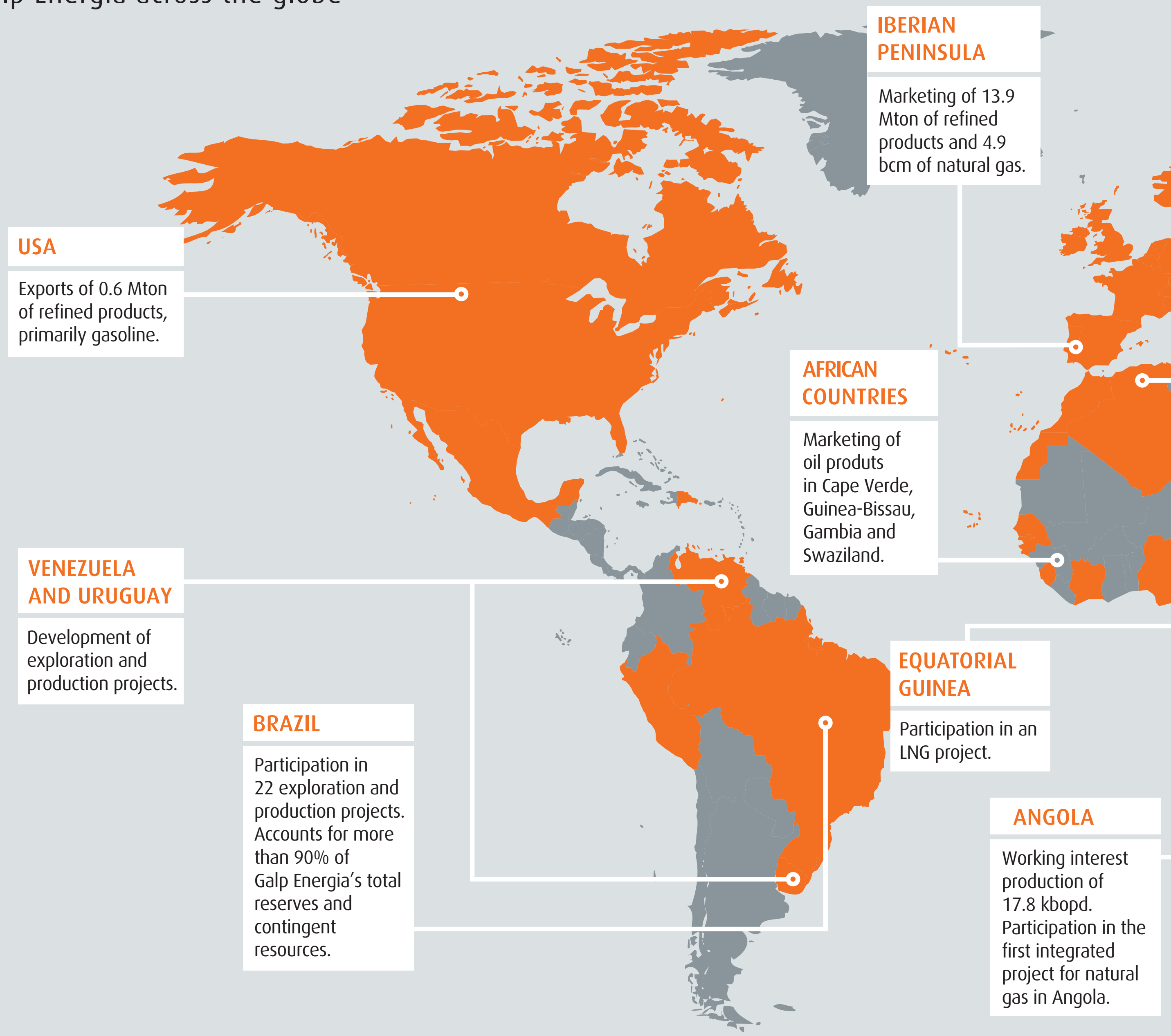




# 01

# GALP ENERGIA

GALP ENERGIA IS AN INTEGRATED ENERGY OPERATOR, PERFORMING IN A BROAD SPECTRUM OF THE ENERGY CHAIN, FROM EXPLORATION AND PRODUCTION OF CRUDE OIL AND NATURAL GAS TO THE SUPPLY OF ENERGY PRODUCTS AND SERVICES TO THE FINAL CONSUMER.




## EXPLORATION & PRODUCTION

**+574 Mboe**

**NET ENTITLEMENT (NE) 3P RESERVES**

Galp Energia has a portfolio of 44 upstream projects in several geographical areas, in which the assets in Angola and Brazil – in the Santos basin's pre-salt layer – feature prominently.

The Declaration of Commerciality for the Tupi/Iracema project in late 2010 was an important milestone in the execution of the Company's strategy that presages accelerated growth as confirmed by the rise of 539 Mboe in 3P NE reserves.

The production of oil is concentrated on Angola's Block 14, where 17.8 thousand barrels are produced daily. However, the start-up of the pilot project in the Tupi field signalled the rise of Brazil as the focus of the Company's oil and natural gas production.

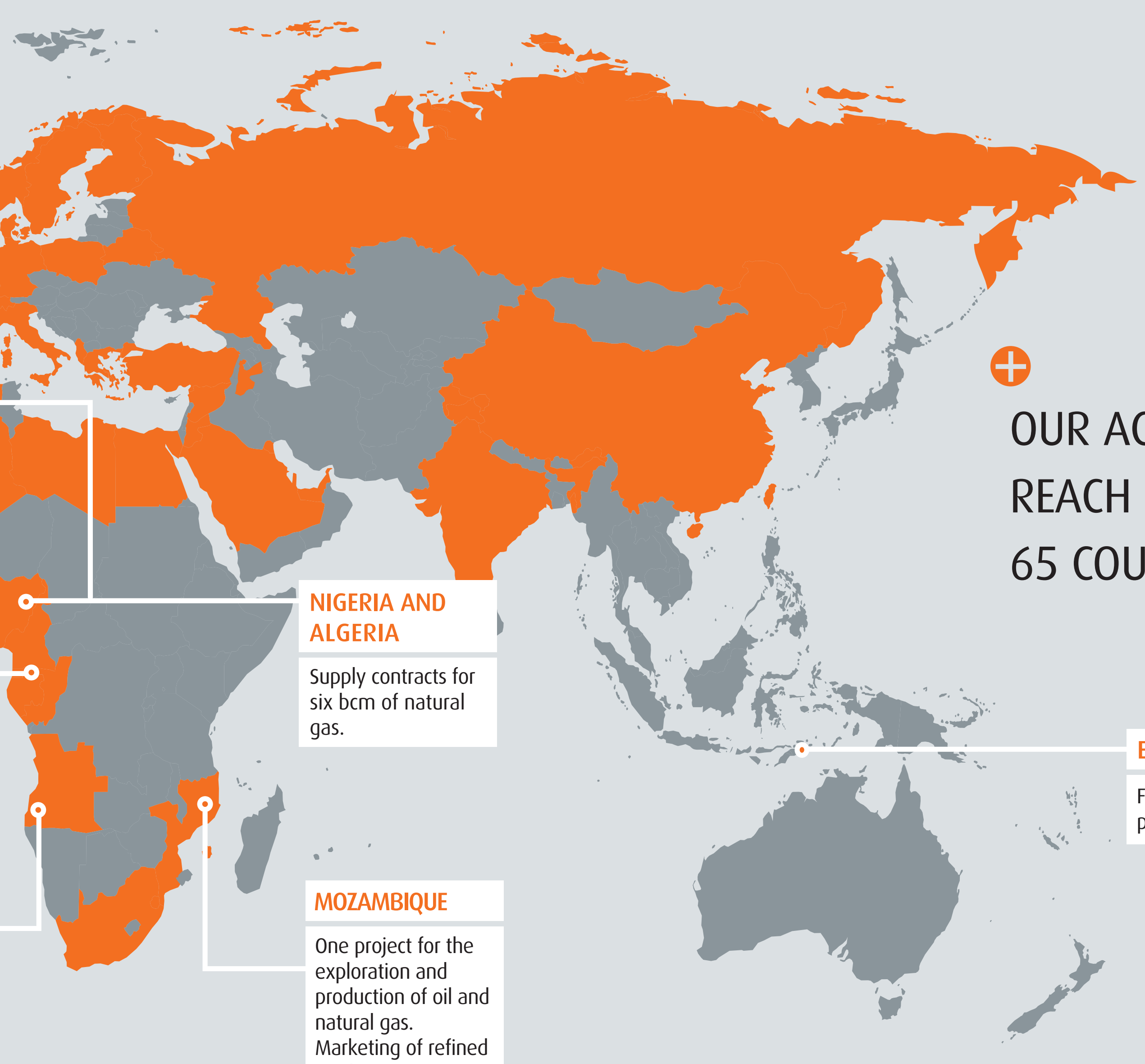
The results of exploration activities in 2010 were highly encouraging and contributed to increase the base of mean unrisked estimate prospective resources to 2,550 Mboe and to the 3C contingent resources of 2,356 Mboe.

## REFINING & MARKETING

**+17.3 Mton**

**REFINED PRODUCTS SOLD**

Galp Energia's integrated refining base, which is located on Portugal's western seaboard, has a throughput capacity of 310 thousand barrels per day. The Company has an ongoing ambitious project designed to convert its two refineries for the triple purpose of maximising diesel production, raising the utilisation of their refining capacity and optimising the processing of heavy crude oil.




OUR ACTIVITIES REACH OUT TO OVER 65 COUNTRIES

## GAS & POWER

# +4.9 bcm

**NATURAL GAS SOLD**

Refined products are primarily marketed in the Iberian Peninsula but also in Africa, with sales to direct clients hitting 11.0 million tonnes in 2010. Exports of 2.8 million tonnes were achieved in 2010 on the back of a stronger position in existing markets and a broader client base.

Important synergies were achieved in 2010 as the former Iberian Agip and Exxon Mobil subsidiaries, acquired in 2008, were fully integrated into the Company.

Galp Energia has secured long-term contracts for the supply of close to 6 billion cubic metres of natural gas – from Algeria, by gas pipeline, and Nigeria by LNG tankers. The natural gas is sold in Portugal and Spain to over 1.3 million customers. In 2010, Galp Energia expanded its activities in Spain by acquiring from Gas Natural Fenosa a portfolio of marketing operations in the Madrid region.

The regulated activity of natural gas distribution in Portugal had an asset base of €1.2 billion.

In 2010, increases in the Company's power operations were driven by the Sines cogeneration plant, with a capacity of 80 MW. This contributed to the 70% increase in sales to the grid and the sale of 1.9 million tonnes of steam to the Sines refinery.

In 2010, construction of the cogeneration plant in the Matosinhos refinery progressed according to plan. Upon completion, Galp Energia's capacity from cogeneration plants will reach 240 MW.

Francisco Murteira Nabo · Chairman of the Board of Directors of Galp Energia.

GALP ENERGIA'S STRATEGY IS AMBITIOUS AND ITS EXECUTION, WITH EVERYONE'S COOPERATION, HAS BEEN WELL SUCCEEDED.

**Dear shareholder,**

After the financial crisis of 2008-9, adverse economic conditions set the tone also for 2010. Despite this unfavourable backdrop, Galp Energia was able to report for 2010 net profit growth of 43% at the after-tax level and of 58% at the operating level, both in replacement cost adjusted terms. This remarkable performance was the result of strategic decisions that were successfully implemented across the business areas.

We took our transformational plan forward and executed the scheduled investments. In particular, our refinery upgrade project, Portugal's largest industrial project that entailed capital spending of 1.4 billion euros, will generate returns to our shareholders from 2011. I would like to emphasise our continued investment in exploration and production and, particularly, the start of production in the Lula field pilot project, which will be decisive for the future increase in Galp Energia's production of oil and natural gas. We also secured the position of second-largest operator in the Iberian market for natural gas, with a share of 15%, following the acquisition from Gas Natural of marketing activities in the Madrid area.

In 2010, Galp Energia was again a role model in social responsibility as we developed a range of initiatives with local communities, both in Portugal and abroad, mainly in Africa.

We have an ambitious strategy and its execution has, with the good cooperation of all parties involved, been a great success. Our goal is to keep growing our upstream activities with the support of our solid energy distribution business in the Iberian Peninsula.

We expect a difficult 2011, economically and socially. Yet I would like to convey a message of confidence and optimism as I count on the good cooperation of everyone for us to meet upcoming challenges with determination and entrepreneurial spirit.

Finally, I would like to thank all stakeholders, especially our shareholders, employees and clients, for the trust they have, once again, extended upon us.

**Francisco Murteira Nabo**
Chairman of the Board
of Directors Galp Energia.

**Dear shareholders,**

**Despite the challenges of an adverse economic climate, in 2010 Galp Energia took several important steps forward as we further developed our strategy for change, following our stock market flotation in October 2006. The year saw us achieve a replacement cost adjusted (RCA) net profit of €306 million (€441 million in IFRS terms). EBITDA was €1,053 million and €854 million on an RCA basis, which represents an increase of 35.6% on the previous year.**

Manuel Ferreira De Oliveira · Galp Energia's CEO.

These results were supported by sales of €14 billion, production of 19,500 barrels per day, processing of 12.3 million tonnes of raw materials through our refineries, marketing of 17.3 million tonnes of oil products, supply and marketing of 4,926 million cubic metres of natural gas, and the production and sale of 1,202 GWh of power. All of these operational indicators evidence significant growth compared with the year before.

I would like to summarise the main results achieved in each of our business segments:

I. Our intensive exploration and appraisal of oil and gas resources boosted our portfolio of prospective resources, (these comprise the resources presented by as yet undrilled prospects), from 1,640 million barrels of oil equivalent (boe) to 2,550 million boe. Our contingent resources (3C), (the resources of drilled prospects), decreased from 3,065 million boe to 2,356 million boe as they were re-classified as reserves. Our reserves (3P) surged from 35 million boe to 574 million boe. These extraordinary results were in large part due to the declaration of commerciality for Brazil's Lula and Cernambi (formerly Tupi and Iracema) fields, and due to the seismic appraisal results of our prospects in Mozambique.

II. In production, the growth in activity came from increased production in Angola's Tômbua-Lândana field and the extended well test by the FPSO Cidade de São Vicente in the Lula field. In addition, the FPSO Cidade de Angra dos Reis, which has a nominal capacity of 100,000 barrels per day, is now in place in the Lula field. The Lula and Cernambi fields were declared commercial on 29 December 2010. This declaration represents another important milestone in the century-long history of our Company.

III. Our refineries at Matosinhos and Sines processed 85 million barrels in 2010, with Matosinhos refinery shut down for 78 days for maintenance works and interconnections to the new units. The 2010 indicators for safety, emissions, reliability and energy use evidence good progress in both refineries. In addition, the ongoing upgrade project proceeded according to both plan and budget.

The refining margins, although showing an improvement in 2009, remained depressed in 2010. However, the spread between fuel oil and middle distillates still validates the economic rationale behind our landmark upgrade project.

IV. Although a depressed Iberian economy did impact our marketing of oil products, we managed to keep our market share while pressing ahead with cost savings and exploiting synergies through the integration of our Spanish acquisitions. At the same time, the rebranding of Iberian convenience stores proceeded at a pace that will allow completion by 2011. In addition, our focus on providing high-quality fuel products and excellent client service continued to provide us with our primary competitive advantages.

Our operations in Africa reached a new threshold with more than 100 service stations and the profitability achieved set the growth in the continent on a self-sustained basis.

IN 2011 GALP ENERGIA'S FIRST TRANSFORMATIONAL CYCLE WILL BE COMPLETED.

V. The Portuguese natural gas sector is now fully open. The Madrileña Gas acquisition has given us access to the Spanish residential market with around 370,000 clients. We are now responsible for supplying natural gas to more than 1.3 million families in addition to our activities in the industrial and electrical segments. We now operate a regulated infrastructure of medium and low-pressure gas pipelines totalling over 11,000 km and we manage the equity stakes in international high-pressure gas pipelines that transport the natural gas we buy from Algeria to Campo Maior.

During 2010, a settlement has been obtained on contract LNG-T3 for the supply of LNG from Nigeria's NLNG. Although the arbitral court decision did not accept all of Galp Energia's well-founded arguments, this settlement can be considered as acceptable for the involved parties.

VI. In 2010, we continued to develop and optimise our information systems to offer our clients a dual proposition of natural gas and electricity. The performance of the Sines cogeneration project exceeded expectations while the Matosinhos cogeneration will be completed by the end of the year. This will strengthen our capacity to sell power to the domestic grid and raise the energy and environmental efficiency of the Matosinhos industrial complex while driving growth of the natural gas market.

Along with these activities, we continued to develop our biofuel projects in Brazil and Mozambique; to promote our offer of efficient energy solutions to our clients; to foster innovation in all our activities – with particular emphasis on our cooperation with the National Scientific System – and to strengthen our commitment to sustainability, safety, health, environment and quality.

In 2011 Galp Energia's first transformational cycle will be completed. After restructuring the Gas & Power business, consolidating and streamlining marketing oil operations in Spain and developing the Tômbua-Lândana production project in Angola's Block 14, we will look to the completion of the refinery upgrade project and the stabilisation of production at the first floating production unit in Brazil's Lula field – Block BM-S-11. We will enter 2012 with a new operational set-up which, just a few years ago, would have seemed impossible to achieve. In 2012, we will begin a new cycle that will feature faster growth of our exploration and production activities, supported by efficient and highly competitive Iberian operations. The Exploration & Production business segment will be Galp Energia's main dimension and will also represent our major growth driver.

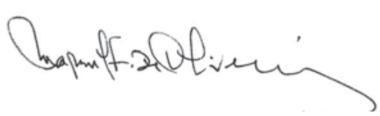
For our Ambition 2020 to materialise, we will have to make sure that our transformational strategy, which was initiated in 2006, offers sustainable success, secure the support of our shareholders and other stakeholders and strengthen the relevance of our employees' skills, thus leading to the long-term success of Galp Energia.

The operational sustainability of our activities is ensured by the quality of our assets. The financial sustainability of our growth has to be achieved by a sound balance sheet. In this regard, 2011 will see us execute the decisions we have made to ensure long-term balance sheet quality. We believe this will be possible without additional effort from shareholders, even in a growth scenario higher than planned.

Shareholder support is fostered by results and the performance of our stock has been key to the support offered us to date. As with everything we do, we must be competitive in the remuneration that we offer to those who invest in Galp Energia. The focus on results, strict cost control, continuous optimisation of business processes and models, ability to report results above market expectations, and transparency and quality in communicating with shareholders will help secure the continued support of our shareholders. In addition, we will continue executing our corporate responsibility policy, being transparent and professional in the relationships with suppliers and service providers and, above all, offer competitive quality and pricing to our clients. This will enable Galp Energia to secure the support of the stakeholders with whom we have relat.

Just a final note on the skills and on the ongoing professional development of our employees. We firmly believe that without able, dedicated and efficient human resources, we will not achieve the goals that are otherwise within our reach. The Galp Energia Academy, which has recently been set up as a platform for providing higher training to senior and middle managers, is central to the consolidation of our success. Results so far have borne out the merits of this initiative; however, without persistence and focus on training quality, our results will not be sustainable. The Academy will be our preferred tool for training and appraising Galp Energia's managers; if we do it consistently well, we will achieve the levels of quality among our people that are required for us to successfully meet with success the challenges that lie ahead.

By way of conclusion, just a word of recognition to all those who have supported me in this challenging stage of Galp Energia's life. My appreciation goes, in particular, to the members of our governing bodies, our shareholders, our suppliers and service providers, all of our work colleagues and the clients who choose us as their preferred supplier.



**Manuel Ferreira De Oliveira**
Galp Energia's CEO.

# 370,000

**CLIENTS OF NATURAL GAS IN SPAIN**

The Madrileña Gas acquisition has given us access to the Spanish residential market.

THE EXPLORATION & PRODUCTION BUSINESS SEGMENT WILL BE GALP ENERGIA´S MAIN DIMENSION AND WILL ALSO REPRESENT OUR MAJOR GROWTH DRIVER.


FPSO Cidade de Angra dos Reis.

# STRATEGY

**Galp Energia is an integrated energy operator whose activities span a broad spectrum of the energy chain. They range from the exploration and production of crude oil and natural gas to the supply of energy products and services to end users, who are primarily in the Iberian Peninsula.**

Galp Energia's strategy aims to consolidate the Company's position in the supply of energy products and services in the Iberian Peninsula and to intensify its upstream activities with a view to creating sustained shareholder value.

Galp Energia's venture into Exploration & Production (E&P) is turning the Company into an important upstream operator, whose major E&P assets are located in Angola and Brazil's pre-salt Santos basin. The Declaration of Commerciality for the Tupi/Iracema field, filed with the Brazilian energy regulator ANP on 29 December 2010, was a key milestone in the execution of Galp Energia's strategy to increase its crude production.

Galp Energia's strategy also aims to capture value in the Refining & Marketing (R&M) and Gas & Power (G&P) business segments. To this end, the Company has undertaken major projects that will extend into 2011, particularly in the refining business segment. Recent acquisitions and projects in the marketing of oil products and the marketing of natural gas have contributed to the integration of the Company's downstream activities and stabilised cash flows in this business.

When completed, from late 2011 the upgrade project in Sines and Matosinhos refineries positively contribute to cash flow generation greater process flexibility will better respond to shifts in demand. This means that 2012 will be a turning point for Galp Energia as the upgrade project comes to fruition and the focus of capital expenditure moves to the development of projects in the pre-salt Santos basin.

There are two interrelated timeframes in which Galp Energia is executing its strategy:

- in the short and medium term, the Company will sustain increased cash flow generation through the rising production of crude oil from the Tupi pilot project and the (Compilant piled tower) in Angola's Tômbua-Lândana field, the completion by late 2011 of the refineries upgrade projects and consolidating its business in marketing oil products in the Iberian Peninsula; this will contribute to funding upstream projects, particularly in Brazil;

- in the medium and long term, the Company's growing involvement in the Santos basin's pre-salt projects will strengthen Galp Energia's position as a producer of crude oil and natural gas, boosting cash flow generation; the development of the Tupi and Iracema projects will be crucial for achieving these goals, and will turn Brazil into the mainstay of the Company's long-term strategy.

In executing its strategy, Galp Energia establishes actions and investments decisions along its three business segments.

Galp Energia is investing in its people to gain sustained competitive advantage over time. It should be highligthted the effort to raise the number and the skill levels of E&P staff due to the paramount importance of this segment to the Company's value creation processes.

In addition, Galp Energia's actions and decision-making are based on sound financial management of which the most notable feature is an unwavering commitment to a solid funding structure that is aligned with responsible financial management.

In pursuing its strategic goals, Galp Energia aims for sustained growth and value creation alongside responsible conduct that minimises environmental damage, raises energy efficiency and enhances prosperity in the communities where the Company operates.

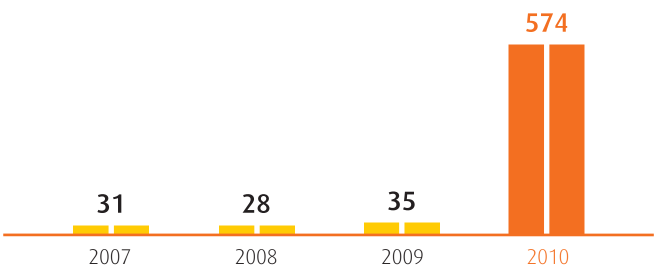
2012 WILL BE THE TURNING POINT FOR GALP ENERGIA.

## Operating indicators

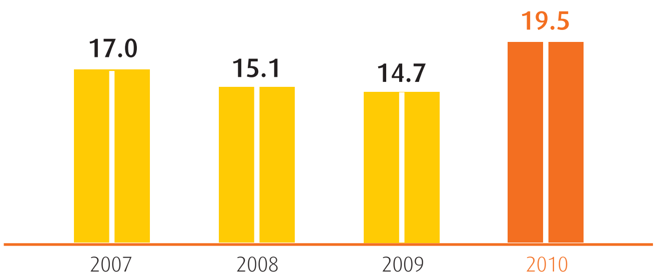
| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| **Exploration & Production** | | | | |
| Net entitlement 3P reserves (Mboe) | 31 | 28 | 35 | 574 |
| 3C contingent resources (Mboe) | 742 | 2,113 | 3,065 | 2,356 |
| Average working interest production (kbopd) | 17.0 | 15.1 | 14.7 | 19.5 |
| Average net entitlement production (kbopd) | 12.5 | 10.0 | 9.7 | 11.8 |
| Average sale price ($/bbl) | 70.0 | 96.9 | 59.8 | 76.7 |
| **Refining & Marketing** | | | | |
| Raw materials processed (Mton) | 13.8 | 13.1 | 11.5 | 12.3 |
| Refined products sales (Mton) | 16.3 | 16.6 | 17.3 | 17.3 |
| Sales to direct clients (Mton) | 9.7 | 10.1 | 11.7 | 11.0 |
| Refining coverage in Iberian Peninsula | 72% | 75% | 95% | 92% |
| **Gas & Power** | | | | |
| Natural gas sales (Mm³) | 5,377 | 5,638 | 4,680 | 4,926 |
| Natural gas distribution network (km) | 9,758 | 10,462 | 11,028 | 11,342 |
| Number of natural gas clients ('000) | 816 | 868 | 915 | 1,327 |
| Sales of electricity to the grid (GWh) | 578 | 478 | 706 | 1,202 |

Note: Refining coverage ratio based on average production of the last three years.
For Angola, figures for 2P reserves were used as these figure for 3P reserves were not available.

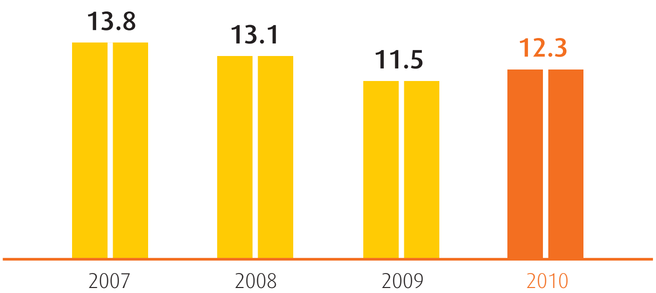
### Net entitlement 3P Reserves (Mboe)
2010: 574



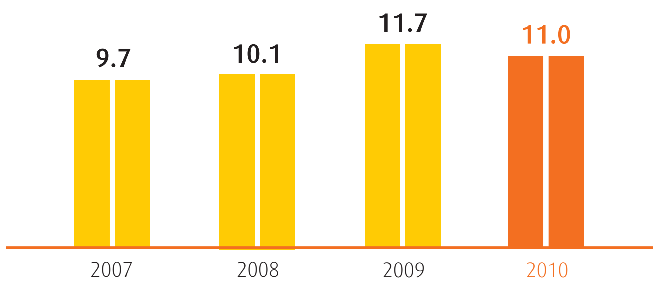

### Average working interest production (kbopd)
2010: 19.5



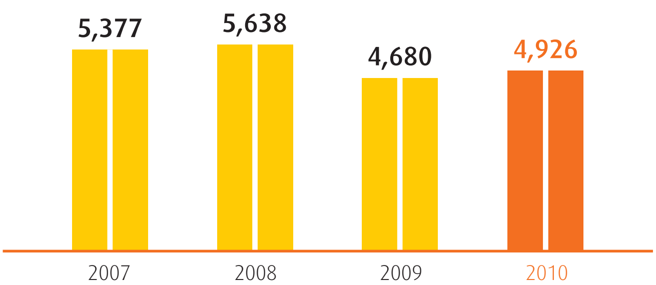

### Raw materials processed (Mton)
2010: 12.3



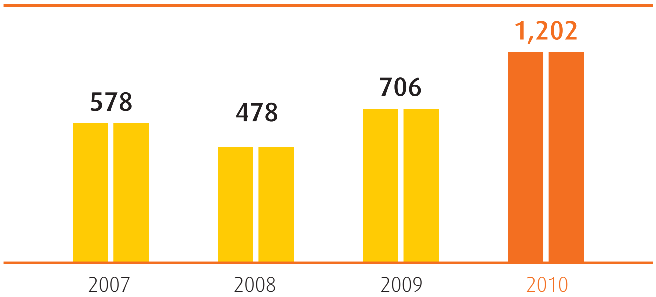

### Sales to direct clients (Mton)
2010: 11.0




### Natural gas sales (Mm³)
2010: 4,926




### Sales of electricity to the grid (GWh)
2010: 1,202

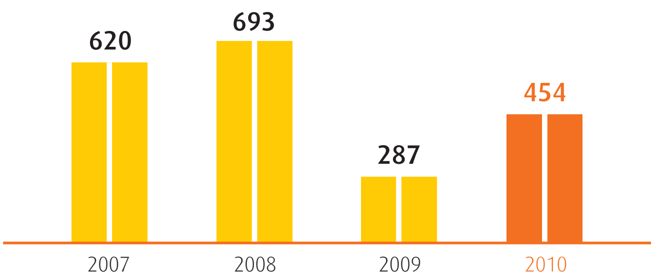


## Financial indicators

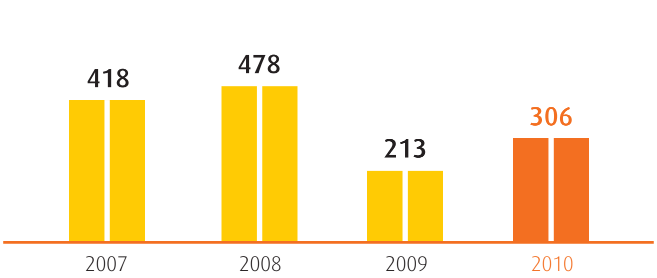
| Million euros (except otherwise noted) | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Turnover RCA | 12,557 | 15,062 | 11,960 | 13,998 |
| EBITDA IFRS | 1,213 | 449 | 830 | 1,053 |
| EBITDA RCA | 891 | 975 | 630 | 854 |
| Operating profit IFRS | 936 | 167 | 459 | 639 |
| Operating profit RCA | 620 | 693 | 287 | 454 |
| Financial results IFRS | (43) | (61) | (76) | (98) |
| Net profit IFRS | 720 | 117 | 347 | 441 |
| Net profit RCA | 418 | 478 | 213 | 306 |
| Free cash flow | 153 | (1,129) | (63) | (914) |
| Capex | 466 | 1,560 | 730 | 1,233 |
| Shareholders' equity | 2,370 | 2,219 | 2,389 | 2,711 |
| Net debt | 734 | 1,864 | 1,927 | 2,840 |
| Net debt to equity | 31% | 84% | 81% | 105% |
| EBITDA margin RCA | 9% | 8% | 7% | 8% |
| ROACE RCA | 17% | 13% | 7% | 8% |
| Earnings per share RC (€/share) | 0.53 | 0.57 | 0.22 | 0.34 |
| Payout ratio | 60% | 56% | 89% | 58% |
| Dividend per share (€/share) | 0.32 | 0.32 | 0.20 | 0.20 |
| Market capitalisation at 31 December | 15,250 | 5,954 | 10,017 | 11,891 |

Note: RCA - Replacement cost adjusted. RC - Replacement cost.

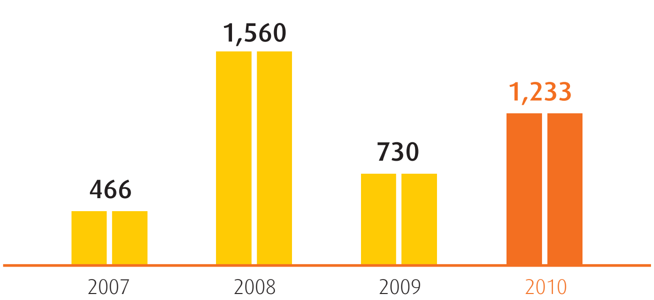
### Operating profit RCA (M€)
**2010: 454**



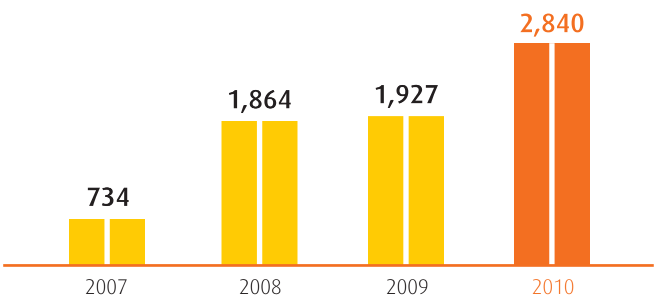

### Net profit RCA (M€)
**2010: 306**



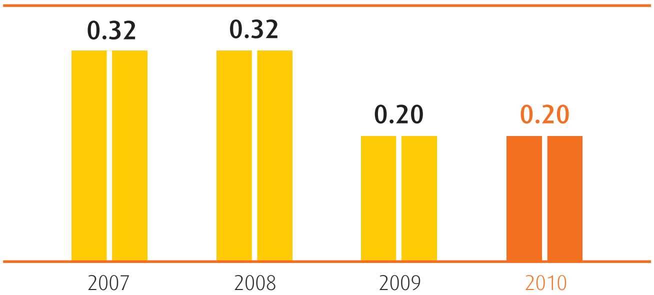

### Capex (M€)
**2010: 1,233**



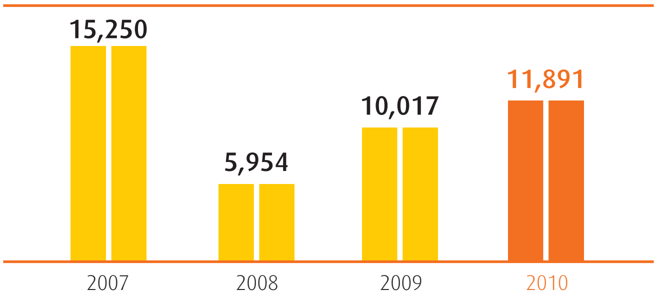

### Net debt (M€)
**2010: 2,840**




### Dividend per share (€/share)
**2010: 0.20**




### Market cap. at 31 Dec (M€)
**2010: 11,891**




Note: Results classed in this report as replacement cost adjusted (RCA) exclude gains and losses as a result of inventory effects as well as non-recurrent items or, in the case of replacement cost (RC) results, the inventory effect only. These results have not been autited. 2009 figures were restated from 2009 consolidated financial statements (see Note 2.23 from consolidated financial statements appendices).

# 02

# ACTIVITIES

IN 2010,
GALP ENERGIA KEPT ITS
FOCUS ON UPSTREAM
ACTIVITIES, AS WELL AS
ON THE EXECUTION OF
THE UPGRADE PROJECT
OF THE REFINERIES, AND
ON THE CONSOLIDATION
OF MARKETING OF OIL
PRODUCTS AND NATURAL
GAS IN THE IBERIAN
PENINSULA.

# MARKET ENVIRONMENT

**In 2010, the oil and gas industry was affected by a number of economic and financial factors which had an impact on the demand for oil products and, as a result, on their prices. Although the oil and gas industry is global, the impact of these factors was spread according to the economic environment in each geographical region.**

THE BUDGET-CONTROL STEPS THAT MEMBER STATES IN THE EUROZONE WERE FORCED TO TAKE RESTRICTED GDP GROWTH TO 2%.

## SOVEREIGN DEBT CRISIS IN THE EUROZONE

**As serious deficit imbalances grew over a number of years, the public debt of certain peripheral Eurozone countries grew rapidly and in the cases of Greece and Ireland reached unsustainable levels.**

As Greece's public-sector expenditure spiralled out of control and the Irish banking sector collapsed under the weight of the domestic property crisis, the European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) had to intervene in both countries. This intervention affected the euro and worsened funding terms in the debt markets for both member states and companies.

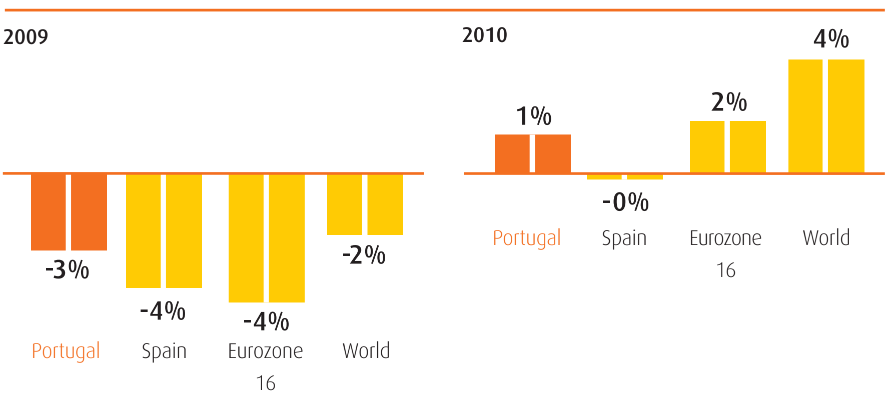
## GROWTH GAP BETWEEN THE EUROZONE AND CHINA AND THE UNITED STATES

**The budget-control steps that member states in the Eurozone were forced to take restricted GDP growth to 2%, which still represented a significant improvement over the 4% negative growth in 2009.**

Significantly higher real growth was achieved in China and the USA, which contributed to the world economy growing by close to 4% in 2010.

Whereas the USA economy grew by 3%, the chinese economy – certain shortly to become the world's largest by output of goods and services – grew by more than 11%, a development that raised energy demand.

GDP growth rate




Sorce: Eurostat and IMF.

## RECOVERING IBERIAN ECONOMIES

**In 2010, both the Portuguese and the Spanish economies recovered from their slowdown in 2009, although the Spanish recovery was not enough to return to growth.**

In real terms, Portuguese GDP (Gross Domestic Product) grew by 1% (after a 3% contraction in 2009) on the back of growing investment and government expenditure.

In Spain, the recovery in private sector investment demand could not prevent a 0.2% contraction in GDP (Gross Domestic Product). This was, however, a clear improvement on the 4% contraction in 2009.

## EXPANDING THE MONETARY BASE IN THE OECD COUNTRIES

**To counter deflationary pressures and to stimulate weak economies across much of the OECD (Organization for Economic Cooperation and Development), monetary authorities pumped liquidity into the system after lowering benchmark interest rates to close to zero.**

Despite these stimuli, inflation rates in the Eurozone (2%), the USA (1%) and Japan (-1%) were below target levels.

## STABLE CRUDE OIL PRICES

**The recovering world economy supported crude oil prices, which traded at between $70 and $95 per barrel in 2010, averaging $80 for barrel.**

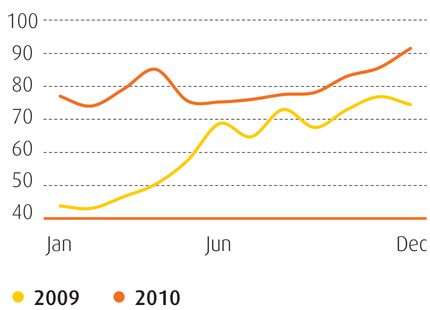
The demand for oil, which also reflected the improvement in economic activity, averaged 86.6 million barrels on a daily basis, or 3% – the equivalent of 2.2 million barrels – up from 2009.

The dated Brent, in particular, was supported by expectations of higher economic activity and a falling US dollar. In addition, OPEC (Organization of Petroleum Exporting Countries) restrictions on the production of heavier crude, particularly in the first half of the year, also supported the dated Brent.

The price spread between light and heavy crude oil averaged $1.3 per barrel in 2010, twice the gap of 2009.

Non-OECD countries, led by China and Russia, contributed most to the rise in demand, accounting for 78% of the global increase. Outside OECD (Organization for Economic Cooperation and Development), the demand for oil rose by 5% compared to 2009. This contrasted with the 1% rise in OECD countries, to which Europe and Japan contributed least to the increase in demand.

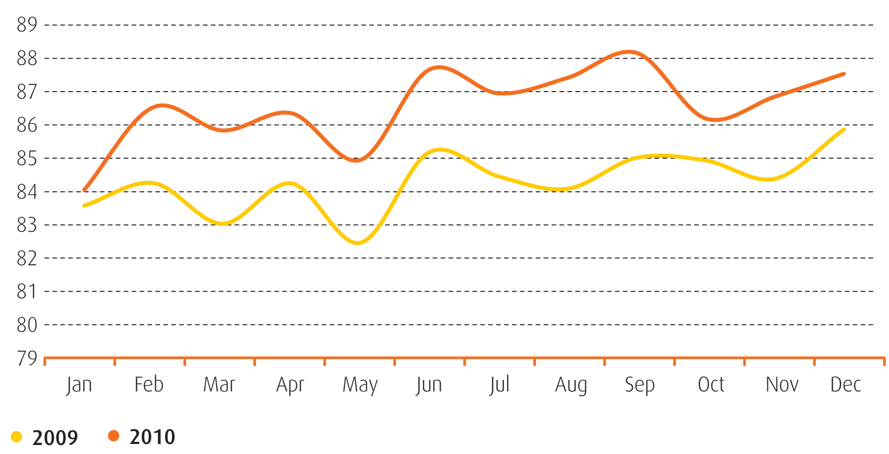
**Dated Brent in 2010 ($/bbl)**




Source: Platts

THE PRICE SPREAD BETWEEN LIGHT AND HEAVY CRUDE OIL AVERAGED $1.3 PER BARREL IN 2010, TWICE THE GAP OF 2009.

**Change in world oil demand (Mbopd)**




Source: IEA

NORTH AMERICA LED THE RECOVERY IN DEMAND FOR GASOLINE.

## STABILISING DEMAND FOR OIL PRODUCTS

**In 2010, overall demand for oil products in the OECD recovered slightly from the contraction in 2009, with growth of 2%, driven by a 3% growth and a slightly rise in the demand for diesel and gasoline respectively.**

These changes reflected increasing demand over 2009, in line with the economic recovery.

North America led the recovery in demand for gasoline on the back of a rebounding economy, while demand in Europe decreased. In Europe, OECD's leading market for diesel, and in North America demand levels for diesel increased by 2% and 4%, respectively. Overall, the recovery was stronger in North America than in Europe.

In the Iberian Peninsula, the market for oil products shrank by 2% to 69 million tonnes as the slowdown in demand carried over from 2009 into 2010. While the Portuguese market for oil products contracted by 3%, in Spain it shrank by 2% due to the economic environment – unemployment affected one out of five job seekers, with an inevitable impact on the consumption of oil products. This contraction in the Iberian Peninsula was mainly due to decreases in demand of 5% for gasoline and 10% for fuel oil, since demand for diesel remained unchanged from a year earlier.

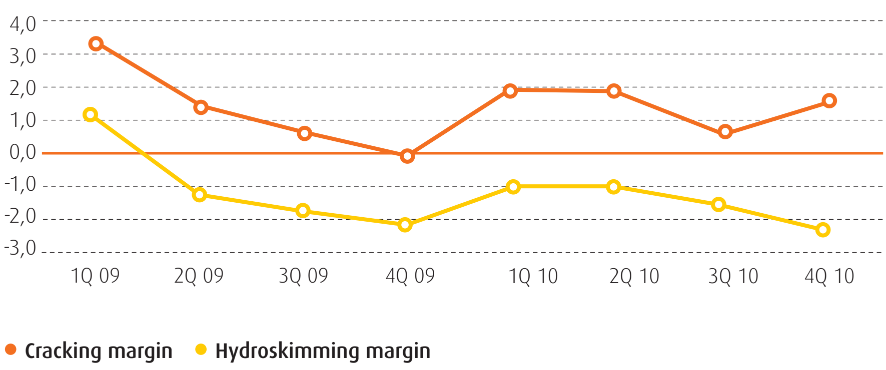
## DIFFERING IBERIAN TRENDS IN NATURAL GAS

**In contrast to oil products, Iberian demand for natural gas remained stable from 2009.**

In Portugal, demand grew by 2% to 4,329 million cubic metres, driven by new specific project launches in the industrial sector that more than offset the contraction in the power sector. This was due to the effect of high rainfall, which favoured hydro rather than gas-fired power generation.

In Spain, the consumption of natural gas remained stable compared with a year earlier. In spite of a 10% rise in the residential and industrial sectors, the 16% decrease in the electrical sector shrank the demand for natural gas to levels similar to those of a year earlier. As in Portugal, the growth in hydro generation impacted negatively on thermal production.

Benchmark margin evolution ($/bbl)




Source: Platts

## RECOVERING REFINING MARGINS

**In 2010, the cracking and hydroskimming margins fared differently from in 2009.**

The cracking margin went up by $0.3 per barrel to an annual average of $1.5 per barrel, whereas the hydroskimming margin fell by $0.4 per barrel to an annual average of $-1.5 per barrel. This improvement over 2009 reflected improved gasoline and diesel crack spreads, which resulted both from rising demand, such as increased imports from China and the discontinued supply that resulted from industrial action in French refineries.

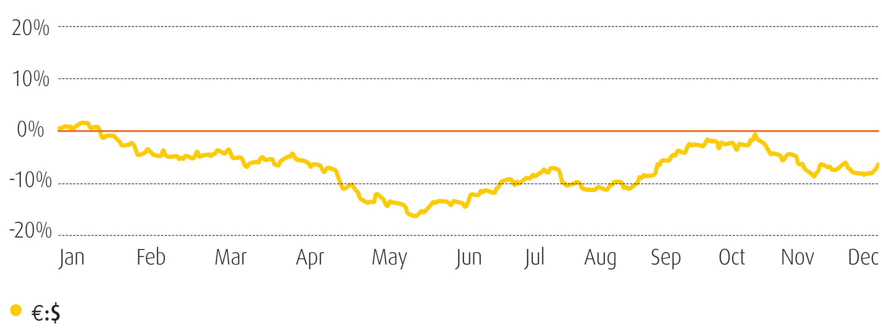
## DEPRECIATION OF THE EURO AGAINST THE US DOLLAR

**In 2010, the average euro/dollar rate of 1.33 comprised a depreciation of 5% from 2009. The low of 1.20 was reached at the end of the first half of the year, while the 1.45 high was reached in early November.**

Although the euro fell in the first half of 2010, the EU's intervention in Greece settled currency markets and stabilised the single currency, which had fallen from 1.51 to 1.20 in just over six months. After the intervention, the euro appreciated in value but became particularly volatile towards the end of the year as the EU hesitated in assisting other Eurozone members. This assistance would eventually materialise with November's intervention in Ireland.

IN 2010, THE EURO DEPRECIATED AGAINST DOLLAR, WITH AN AVERAGE EXCHANGE RATE OF 1.33.

€:$ exchange rate evolution in 2010

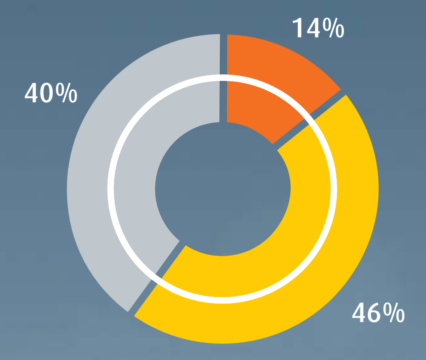



Source: Bloomberg

# EXPLORATION & PRODUCTION

Galp Energia's E&P business segment is at a crucial phase both of the development of its current resource portfolio and its exploration activities, with a direct impact on the resource base. The Company focuses its E&P activity on the Atlantic axis – Angola and Brazil – where the scale of reserves has the potential to support future production growth in both crude and natural gas. The activity in Brazil is the mainstay of the Company's long-term strategy.

### Share of the E&P business segment in Galp Energia's RCA operating profit in 2010




### Main indicators

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Average working interest production (kbopd) | 17 | 15.1 | 14.7 | 19.5 |
| Average net entitlement production (kbopd) | 12.5 | 10 | 9.7 | 11.8 |
| Average sale price ($/bbl) | 70 | 96.9 | 59.8 | 76.7 |
| OPEX ($/bbl) | 5.9 | 9 | 10.5 | 12.1 |
| Amortisation ($/bbl) | 15.8 | 24 | 17.3 | 34.5 |
| EBITDA RCA (M€) | 206 | 208 | 112 | 186 |
| Operating profit RCA (M€) | 150 | 141 | 67 | 61 |
| CAPEX (M€) | 193 | 196 | 193 | 341 |

### MAIN EVENTS OF 2010

- The net entitlement reserves (3P) and the contingent resources (3C) respectively totalled, 574 million and 2,356 million of barrels of oil and natural gas by the end of 2010;
- The completion of the Extended Well Test (EWT) and start of production of the pilot project in the Tupi field, in block BM-S-11, located in the pre-salt of Brazil's Santos basin;
- Declaration of Commerciality, in December 2010, of the Tupi/Iracema area, with the disclosure of a recoverable volume of oil and natural gas of 8.3 billion barrels of oil equivalent;
- The CPT (Compliant Piled Tower) of the Tômbua-Lândana field, located in Angola's Block 14, contributed significantly to the rise of production in the country.

Galp Energia Exploration & Production portfolio


## PORTFOLIO

Galp Energia's E&P portfolio is currently focused on Angola and Brazil, and also includes projects in East Timor, Mozambique, Equatorial Guinea, Portugal, Uruguay and Venezuela. The projects under production are located in Angola's Block 14 and at the Tupi field, in the Block BM-S-11, in Brazil, whose production started in October 2010. The remaining projects in the portfolio are at various stages, mainly in the exploration phase and some in the development phase. In the future, Galp Energia's activities, will focus on the development and the appraisal of the exploration portfolio and the respective resources base of the pre-salt of the Santos basin, (namely blocks BM-S-11, BM-S-24, BM-S-21 and BM-S-8). In 2011, exploration activities will proceed in the remaining projects, including drilling the first wells in East Timor and in Mozambique, as well as drilling the Garoupa-2 well in Angola under the LNG II project for gas exploration and production.

## STRATEGY

**The strategy of the Company's E&P business is to develop current resources so as to increase Galp Energia's future production of crude and natural gas.**

The scale of both projects and resources, mainly in the Brazilian offshore, are the mainstay of the Company's production growth and the primary support for its long-term strategy. The development of existing resources, with several projects set to start production in the next few years, will allow Galp Energia to reach a long-term production level 10 times greater than today.

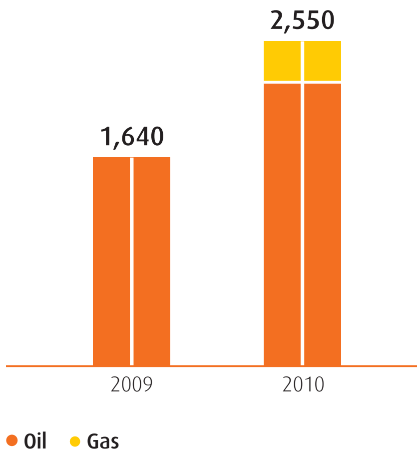
**44**

**GEOGRAPHICALLY DISPERSED PROJECTS**

Currently, Galp Energia has a diversified and high-potential portfolio. With 44 projects, the activities of E&P are currently focused on the development of fields in Brazil and Angola.

## RESERVES AND RESOURCES

### Prospective resources (Mboe)




Note: Reserves and resources (*mean unrisked estimate*)

The oil reserves and resources relating to Galp Energia's E&P portfolio have been independently analysed by DeGolyer and MacNaughton (DeMac).

Following the declaration of commerciality of the Tupi/Iracema area to the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP) on 29 December 2010, the proved, probable and possible reserves (3P) in Brazil reached 554 million barrels of oil and natural gas. This volume of reserves was initially classified as contingent resources, since there was no development plan approved for that area. This coincided with the delivery of the Declaration of Commerciality and the plan of development.

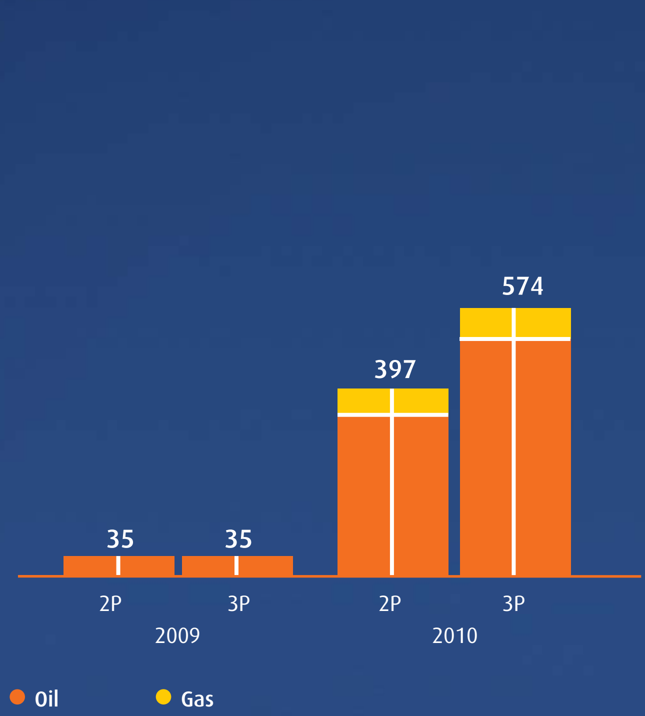
In Angola, the volume of reserves (2P), on a net entitlement basis, decreased from 35 million to 20 million barrels of oil. This decline result from the technical revision of the new data of the reservoirs and the Company's 2010 production, which totalled 3.7 million barrels of oil on a net entitlement basis. The production of the CPT in the Tômbua-Lândana field started in 2009 and strongly contributed to the increase in production in Angola in 2010. To calculate these reserves, a crude reference price of $79.5/bbl was used, equivalent to the 2010 average, as opposed to the 2009 figure of $61.5/bbl.

Throughout 2010, Galp Energia's exploration activity continued to be very intense in the various regions where the Company operates. These activities, including seismic and exploration drilling operations, had an impact on the estimated level of contingent resources (3C) for Angola and Brazil. At the end of 2010 this stood at 2.4 billion barrels of oil and natural gas, a decrease of 0.7 billion compared to 2009. This was due to the incorporation of part of the contingent resources (3C) of the Tupi/Iracema fields into 3P reserves.

The estimate of prospective resources (mean unrisked estimate) at the end of 2010 stood at 2.6 billion barrels of oil and natural gas, against 1.6 billion barrels a year earlier. This increase was due to intense exploration activities in the Santos basin and other projects worldwide, with a clear diversification of Galp Energia's resource base. The diversification of oil and natural gas resources is also significant, with natural gas resources accounting for close to 13% of total prospective resources.

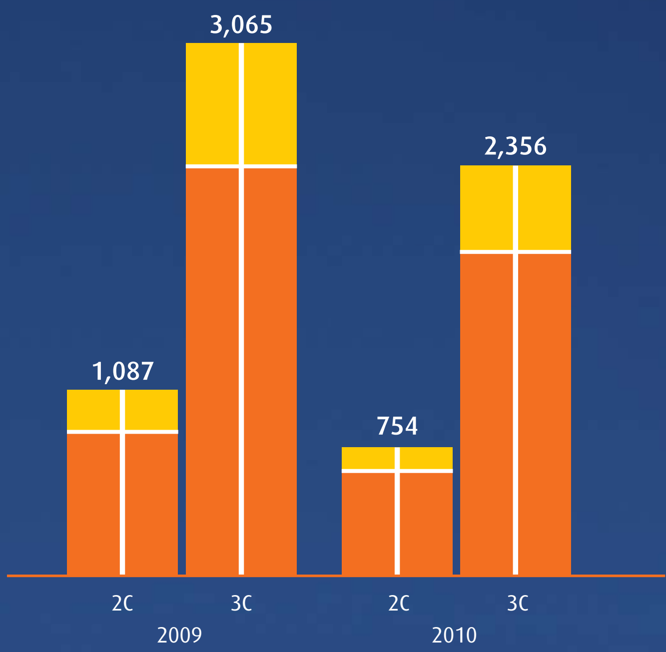
THE INTENSE EXPLORATION WORKS DEVELOPED IN 2010 IMPACTED BOTH CONTINGENT RESOURCES AND THE INCREASE IN PROSPECTIVE RESOURCES.

## Net entitlement reserves (Mboe)




Note: For Angola's reserves, the 2P reserves were used because data on the 3P reserves was not available.

## Working interest contingent resources (Mboe)




**574 million barrels**

of oil equivalent of reserves (3P)

**2,356 million barrels**

of oil equivalent of contingent resources (3C)

**2,550 million barrels**

of oil equivalent of prospective resources (mean unrisked estimate)

GALP ENERGA PARTICIPATES IN 22 HIGH-POTENTIAL PROJECTS OF EXPLORATION & PRODUCTION SPREAD OVER SEVEN SEDIMENTARY BASINS.

## BRAZIL

**Brazil is currently the main pillar of Galp Energia's future growth in oil and natural gas production. It is where exploration activities have been most intensified, mainly in the blocks in the ultra-deep water of the Santos basin.**

In late 2010, Galp Energia participated in 22 projects of E&P, in partnership with Petrobras, spread over seven sedimentary basins. Of these projects, 17 were in deep and ultra-deep water blocks and the remaining in onshore projects. Galp Energia's partners in Brazil include the BG Group, Shell and Petrobras. The latter is involved in all the consortia where Galp Energia is present, in the majority as operator.

### EXPLORATION & PRODUCTION PORTFOLIO

The importance of Brazil to the E&P business segment is directly related to assets currently being developed, under production, and also still undergoing exploration studies. These assets include the blocks in the pre-salt of the Santos basin, which accounted at the end of 2010 for close to 90% of contingent resources and 97% of Galp Energia's 3P reserves.

### MAIN EVENTS IN 2010

- Delivery of the declaration of commerciality and the development plan for the Lula and Cernambi area to ANP;
- Revision of total recoverable volume of the Lula and Cernambi area to 8.3 billion barrels of oil equivalent;
- Start of the production from the pilot project in the Tupi field, in Block BM-S-11 of the pre-salt of the Santos basin;
- Extended well test in the Tupi field with production of 0.6 million barrels in 2010.

### Basins where Galp Energia operates


The work undertaken in this basin, as well as the drilling plans scheduled for 2011, will decrease the uncertainty regarding the quantity of resources and the economic viability of those blocks. Production from Brazil (1,700 barrels per day in 2010) currently has little significance, but the full development of the Lula and Cernambi area in the next few years will make Brazil the main source of Galp Energia's production.

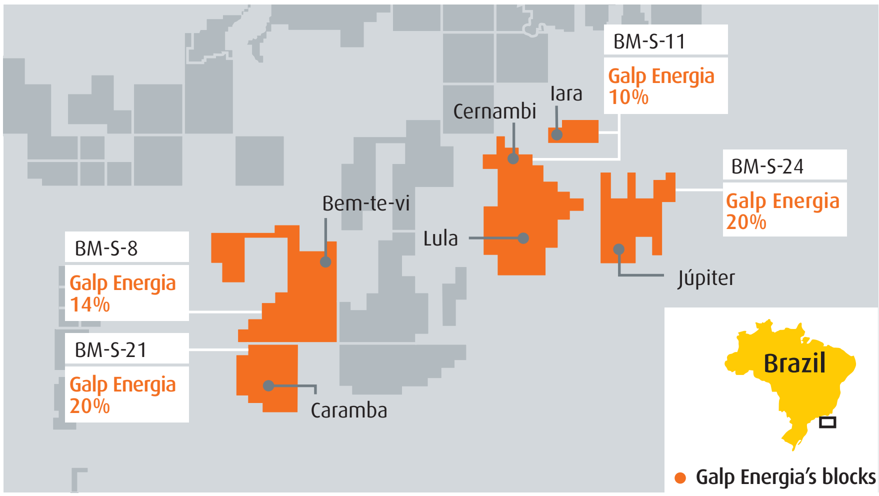
## THE SANTOS BASIN

Galp Energia is present in four blocks in ultra-deep water in the Santos basin off the coast of Brazil, with areas ranging from 2,075 to 5,229 square kilometres and water depths between 1,600 and 2,500 metres.

The exploration of these blocks is focused on the pre-salt – the accumulation of hydrocarbons older than the salt bedrock. Such areas are also called sub-salt, because they are located beneath a layer of salt that is approximately two kilometres thick. Galp Energia is present in six of the ten discoveries in this basin: the Tupi, the Iara and the Iracema in Block BM-S-11; the Júpiter in BM-S-24; the Bem-te-vi in BM-S-8; and the Caramba in BM-S-21.

3D seismic acquisition started in the Tupi area in 2003. The discovery well, Tupi 1, was drilled in 2006, and the drilling of the Tupi Sul well in 2007 confirmed the size of the reservoir. The outcome of the Tupi Sul well formation tests, as well as the geological and seismic information available, confirmed the hydrocarbons potential in the pre-salt; a recoverable volume of 5 to 8 billion barrels of oil and natural gas was estimated in 2007. The Declaration of Commerciality, delivered to ANP on 29 December 2010, revised these volumes upward to 8.3 billion barrels, and marked the area's formal start of development and production. The Declaration of Commerciality renamed the fields to develop: Tupi became the Lula field and Iracema was renamed the Cernambi field.

### Santos sea basin




## CERNAMBI FIELD AND LULA FIELD

All the exploration activity undertaken in the last four years was essential to deliver the Declaration of Commerciality, particularly the outcome of the formation tests and the drillings carried out in 2010. These reaffirmed the presence of high-quality reservoirs and optimism about the recoverable volume in the Tupi evaluation area. At the end of 2010, 10 wells had been drilled in this area.

## MAIN EXPLORATION ACTIVITIES IN 2010

In March 2010, formation tests were completed in the Tupi NE well, which is located in the area of the Tupi evaluation plan, finding very high productivity in the area's pre-salt carbonate reservoirs. In the formation tests performed, flow rates of 5,000 barrels of light oil per day were measured, with a density close to 28° API[1]. The production potential of this well was estimated at close to 30,000 barrels of oil per day, proving the high capacity of light oil

**8.3**

**BILLION RECOVERABLE BARRELS OF OIL AND NATURAL GAS**

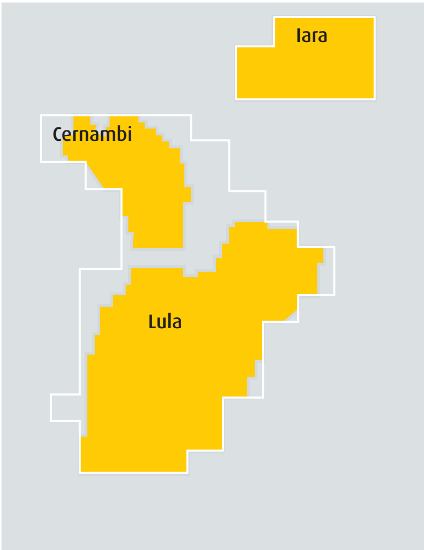
The Declaration of Commerciality delivered to ANP at the end of 2010 marked the formal start of development and production in the area of Lula and Cernambi.

[1] Classification according with the American Petroleum Institute.

IN 2010, GALP ENERGIA CONTINUED ITS INTENSE EXPLORATION PROGRAMME, HAVING THE SIX WELLS DRILLED IN THE TUPI/IRACEMA AREA CONFIRMED THE HIGH POTENTIAL OF THE AREA.

production in the Tupi area, which had been previously found in other wells tested in the locality.

### Block BM-S-11




Drilling was completed in the Tupi OW in April 2010. This was the sixth well to be drilled in the area, and proved the existence of light oil deeper in the pre-salt reservoirs than earlier wells. The Tupi Alto well, drilled in a higher structural position than others in the Tupi area, proved the presence of oil with a density (close to 30° API) that was even lighter than the average density found in the Tupi field's other wells (close to 28°API).

In October, the drilling of the Iracema Norte well, in a lower structural position than the Iracema well, confirmed the depth of the oil/water contact. In the same month, the drilling of the Tupi SW well proved that the accumulation of oil extends to the extreme South of the area of the Tupi evaluation plan and that the thickness of the reservoir with oil reaches close to 128 metres. The results from this well confirmed estimated hydrocarbon volumes in the area. This was very important as it defined, among other variables, the level of the oil/water contact in the prospect, indicating from among various candidates the location of the area's greatest thickness of rock with oil.

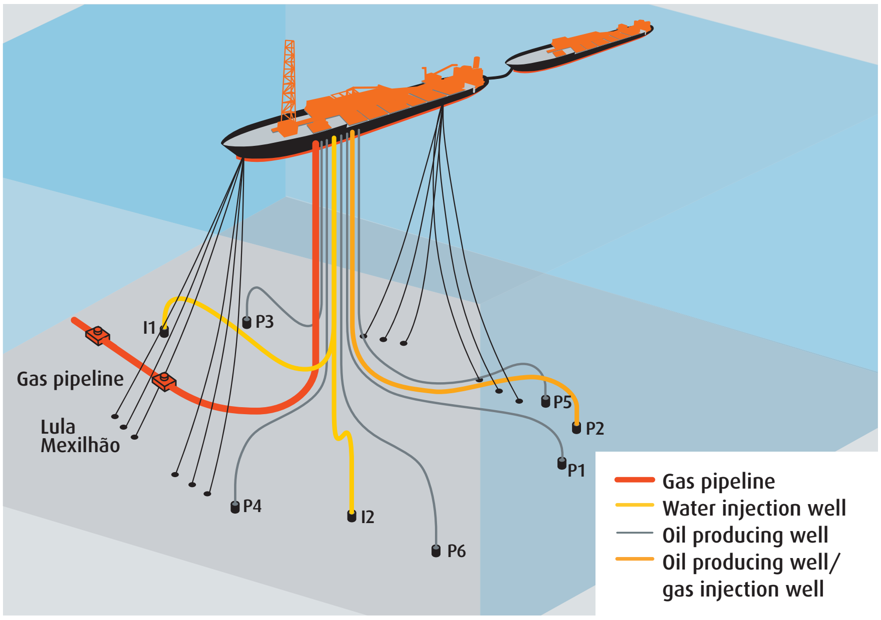
At the end of 2010, the drilling of the Tupi W in the Tupi/Iracema area proved the extensive accumulation of light oil (close to 28° API) up to the extreme west of the Tupi evaluation plan area, confirming a reservoir thickness close to 90 metres.

In 2011, this consortium will continue exploration and development activities in Block BM-S-11. There are plans to drill three appraisal wells in the Tupi/Iracema area, namely the Tupi Nordeste, the Tupi Oeste and the Iracema Alto.

In the Iara area, also in Block BM-S-11, activities in 2010 focused on seismic reprocessing and preparation studies for an EWT. The location of the Iara Horst well where drilling was also defined, started in late 2010. For 2011, there are plans to drill two evaluation wells in this area.

In the Santos basin's Block BM-S-8, seismic reprocessing and the reinterpretation of the Biguá and Carcará prospects were undertaken in 2010. Plans were made to drill two exploration wells in Block BM-S-8 during 2011. In Block BM-S-24, seismic reprocessing and

Pilot project of Lula field




data interpretation were carried out in 2010 and the location of the next well was defined, wich, will be drilled in 2011. In comparison, activities in Block BM-S-21 in 2010 focused on the acquisition of 3D seismic data, following the block's evaluation plan.

## DEVELOPMENT OF THE BM-S-11 BLOCK

**The development plan for the Lula and Cernambi fields, delivered simultaneously with the Declaration of Commerciality, includes the installation of nine FPSO (floating production storage and offloading), of which seven will be installed in the Lula area and two in the Cernambi area.**

The first permanent FPSO, Cidade de Angra dos Reis, with a production capacity of 100,000 barrels of oil per day, is already operational in the Lula field. An additional FPSO, with a production capacity of 120,000 barrels per day, is planned for the Northeast area of the Lula field, with the start of operations scheduled for 2013.

An additional FPSO with capacity of 150,000 barrels of oil per day should start operations in 2014 in the Cernambi field.

In addition, six FPSO hulls were hired for Block BM-S-11 for the Lula and Cernambi fields in November 2010, each one with a production capacity of 150,000 barrels of oil per day. Production is estimated to begin between 2015 and 2017.

The development plan includes the operation of the first three modules, of production under lease, similar to the FPSO Cidade Angra dos Reis.

Taking into account the obtained outcome and the expectation of availability of the production

THROUGHOUT 2010, THE ACTIVITIES OF THE EWT, WHICH STARTED ON 1 MAY 2009, CONTINUED IN THE TUPI FIELD AS PART OF THE TUPI'S AREA'S EVALUATION PLAN.

platforms, the current development plan has a more aggressive profile than the base case initially planned. This means the peak of production is planned to occur in the 2019/2020 period, and the current deadline of development extends to 2037.

Whenever possible, production systems, projects for wells, equipment, materials and services will be standardised, taking into account the requirement to incorporate high local content into the projects.

The development of the Lula/Cernambi area will be executed according to best practice, rigorously complying with regulations applicable to operational and environmental safety planning and taking its size into account. The development will have the following steps:

- carrying out the evaluation plan of the discovery by interpreting seismic data, drilling the extension wells and performing extending well tests in locations where the future production units will be implemented;

- implementing pilot projects to foresee the production, test technologies at a field scale and assess processes for improving recovery, such as the injection of water in carbonates and alternating injections of water and gas;

- projection and installation of production units with the flexibility to accommodate changes to the behaviour of the reservoir throughout the life of the field, and with sufficient robustness and capacity to operate for many years.

The production projects will aim at maximising the recovery of hydrocarbons and reducing emissions, particularly carbon dioxide to the atmosphere.

## THE EXTENDED WELL TEST

Throughout 2010, the activities of the EWT, which started on 1 May 2009, continued in the Tupi field as part of the Tupi area's evaluation plan.

The EWT was conducted in a first phase between May 2009 and October 2010 through FPSO BW Cidade de São Vicente alone, which was anchored about 280 kilometres off the Rio de Janeiro shore. In late October 2010, a second well (Tupi P1) in the EWT started production via a connection to the second FPSO Cidade de Angra dos Reis. Before the delivery of the Declaration of Commerciality for the Tupi evaluation plan, the production of both FPSOs in this period was equivalent to 0.6 million barrels of oil. Production followed the technical and operational restrictions laid down by the regulator of the activity in Brazil, which set a daily limit on the amount of gas burnt related to oil produced during the EWT.

The EWT fulfilled all the goals initially held for it, including the acquisition of additional information on the reservoir. This information is being used to refine concepts for developing production modules to install in the Lula area.

## PILOT PROJECT

In October 2010, the FPSO Cidade de Angra dos Reis, the first definitive system of production installed in the Tupi area, went into operation in the pre-salt of the Santos basin.

Nine wells are planned for the initial stage of the pilot project, which will be individually interconnected to FPSO Cidade de Angra dos Reis through lines and flexible risers. At peak production, six wells producing oil, a gas injector well, a water injector well and a well capable of alternately injecting water and gas will be connected to the FPSO.

The oil produced is transported by ship to onshore terminals. Natural gas is treated, compressed and exported by a 217-kilometre gas pipeline to the Mexilhão platform, which operates in a gas field in shallow waters at the same basin. This gas pipeline was completed during the year; the export of natural gas onshore is being tested via a 137-kilometres pipeline extension to a gas treatment facility. Here, gas will be treated before being distributed to the consumer market. Part of the natural gas will also be used to generate energy on board and, possibly, be reinjected into the reservoir, in the production process, to assess the efficiency of the recovery method through gas injection.

Depending on the performance of the reservoir, necessary measures will be taken to allow this first module of production to last in that location for a 27-year period. Following the outcome of the initial phase results and the technical and economic viability analysis, the interconnection of more wells to maintain the level of FPSO production will be considered from 2013 onwards. If developed, these wells will be part of the complementary development of Lula.

FPSO Cidade de Angra dos Reis.

The pilot project will complement the technical data collected during the EWT with critical information on the reservoir and production, which are essential to conceive the future units that will operate in the pre-salt. Data obtained during the pilot project will lead to the definition of a more suitable strategy for the development of that area, namely streamlining the number of wells, their geometry, the type of stimulation and its location. The project will allow the assessment of: oil recovery via underwater pipelines; the performance of the underwater systems of production collection, including risers; and the performance of the processing unit, mainly systems to separate and inject carbon dioxide. In addition, the pilot project will allow the evaluation of the performance of several methods of supplementary recovery – crucial to increase the recovery factor of reservoirs.

**100,000**

**BARRELS OF OIL PER DAY**

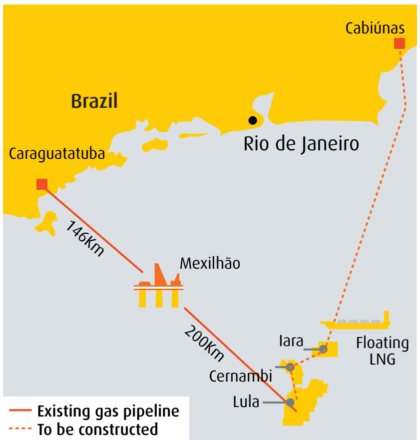
This FPSO has the daily capacity to process 100,000 barrels of oil, five million cubic metres of natural gas and capacity for 100,000 barrels of water injection per day.

## PROJECT FOR LIQUEFYING NATURAL GAS IN THE SANTOS BASIN

Galp Energia is part of the joint venture to study the best option for recovering natural gas in the pre-salt of the Santos basin. Available options include the construction of a unit of liquefaction of floating natural gas (FLNG) and the construction of a second gas pipeline.

GALP ENERGIA MAINTAINS ITS FOCUS ON INNOVATIVE SOLUTIONS, ABLE TO RESPOND TO THE MOST CHALLENGING NEEDS FOR THE DEVELOPMENT OF THE FIELDS IN THE PRE-SALT OF THE SANTOS BASIN.

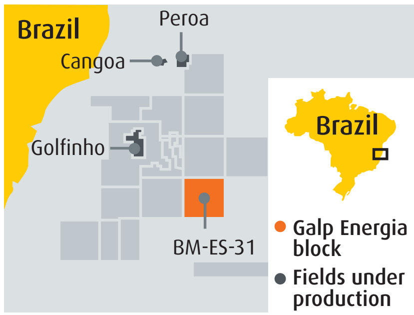
### Pipelines of Santos basin




During 2010, three Front End Engineering and Design (FEED) projects hired for the FLNG were carried out, and the main elements of the economic framework for the unit were defined. The best option will be identified in 2011. If the FLNG project is the winner, the launch of the bid for both the construction and operation of the FLNG unit will be decided. FLNG is planned to end in late 2015, if this is the chosen solution. Galp Energia has a stake of 16.3% in this joint venture.

## OTHER OFFSHORE PROJECTS

### Espírito Santo sea basin




With a 20% stake, Galp Energia is a partner of operator Petrobras in an offshore block located in the Espírito Santo basin. This block has an area of 722 square kilometres and is located at a water depth between 2,000 and 2,200 metres. The first exploration well, Ambrosia, was drilled in 2010. The target reservoirs of this probe revealed they do not possess hydrocarbons, which led to the definitive abandonment of the well. After analysing the potential of the rest of the well, the consortium decided to proceed to a second exploration period and drill an additional exploration well in 2011. Following the request of the consortium, the ANP extended the deadline of the second exploration period until 31 December 2012.

In the Potiguar basin, Galp Energia has a 20% stake in two consortia with interests in five deep-water blocks, all operated by Petrobras. In 2010, a study of electromagnetic data was performed and the seismic interpretation proceeded. The first target to be investigated in the first exploration probe was identified, planned for 2011.

In the Santos basin's shallow waters, where Galp Energia has a 20% stake in three blocks with Petrobras and Q. Galvão, activities in 2010 consisted of 3D seismic data interpretation. One structure was identified – the Enseada prospect, which will be investigated through an exploration well in 2011.

Galp Energia has a stake of 15% in the C-M-593 offshore block in the Campos basin. This block is close to several fields where there were several discoveries. In 2010, the data gathered in the 3D seismic acquisition process conducted in 2009 were analysed, and prospects were identified that will be investigated through the drilling of exploration wells. As a consequence, the consortium will request ANP in March 2011 to move on to the second exploration period, taking on the obligation to drill an exploration well.

In the Pernambuco basin, where Galp Energia has a 20% stake in three blocks in a partnership with Petrobras, activity focused on the 3D seismic programme. The acquisition process lasted from November 2009 to February 2010. The processing of this data should be completed in February 2011 and it will be analysed and interpreted until late 2011, with the aim of investigating the presence of potential structures with capacity to retain hydrocarbons.

## ONSHORE PROJECTS

In onshore projects, Galp Energia is present in three basins, in partnership with Petrobras: Sergipe/Alagoas, Potiguar and Amazonas. Galp Energia is the operator of two of its blocks, in the Sergipe/Alagoas basin, and of nine of the 14 blocks where it has interests in the Potiguar basin. Although the onshore operations are not comparable in scale with those on the Brazilian offshore, Galp Energia sees its stake not only as a way to acquire experience as an operator, but also as a means of increasing the levels of production in Brazil.

In the Potiguar basin, four appraisal wells, made in 2010, confirmed the discoveries of light oil, gas and condensates. Following the evaluation plans, these discoveries received the Declaration of Commerciality, and are now called Andorinha Field, Andorinha Sul Field and Sanhaçu Field.

Throughout 2010, Galp Energia's activities in the Sergipe/Alagoas basin focused on drilling three appraisal wells at the Sati, Ananda and Krishna discoveries and also on an exploration well in a new structure in Block SEAL-T-429. Based on obtained results, the Declaration of Commerciality of the Sati discovery was issued, and is now called the Dó-Ré-Mi Field.

In the Amazonas basin, where Galp Energia has a stake in three blocks, activities in 2010 remained focused on the preparation of 2D and 3D seismic acquisition campaigns, which should be delivered in 2011.

GALP ENERGIA OPERATES 11 ONSHORE BLOCKS IN BRAZIL.

### Onshore stakes at the end of 2010

| Basin | Number of blocks | Number of operated blocks | Galp Energia's stake |
|---|---|---|---|
| **Sergipe/Alagoas** | 2 | 2 | 50% |
| **Potiguar** | 14 | 9 | 50% |
| **Amazonas** | 3 | - | 40% |

Total contingent resources (3C) at the end of 2010: 3 Mboe.

BBLT platform in block 14 in Angola.

## ANGOLA

Galp Energia started its activity in Angola in 1982, in the Safueiro field. The Company currently participates in oil E&P in four offshore blocks – Block 14, Block 14K-A-IMI (Lianzi), Block 32 and Block 33 – and in an integrated project of E&P of offshore gas with Sonagás. Currently, most of Galp Energia's production in Angola comes from its activities in Block 14. In August 2009, the Compliant Piled Tower (CTP) in the Tômbua-Lândana (TL) field, located in Block 14, started production.

### EXPLORATION & PRODUCTION PORTFOLIO

Block 14 is currently the largest contributor to the oil production of Galp Energia. Until the start of production of the extended well test of the first module of Tupi in Brazil during 2009, it was the only asset that the Company had in production. This block, where Galp Energia has produced oil since December 1999, is composed of eight areas of development: Kuito, Benguela-Belize-Lobito-Tomboco (BBLT), Tômbua-Lândana, Negage, Gabela, Malange, Lucapa and Menongue. The first three areas of development correspond to the fields currently under production.

The CPT production in the Tômbua-Lândana field, which started in 2009, has contributed significantly to the increase in production in Block 14, thereby helping to compensate for the natural decline of production in more mature fields.

As well as the fields under production, Galp Energia continued its exploration and development activities at other sites in Block 14 during 2010, including Negage, Gabela, Lucapa, Malange and Menongue. Outside Block 14, Galp Energia's exploration portfolio includes participation in Block 14K-A-IMI (Lianzi) and in Blocks 32 and 33, which continue to be subject to exploratory work. The development of these blocks will support the future growth of production in Angola.

Galp Energia has held a stake since late 2007 in the consortium aiming to develop the first integrated project of natural gas in Angola – the Angola LNG II. Its objectives are to explore, research and certify, and produce reserves of natural gas.

Under the development of the exploration areas in Angola, Galp Energia drafted an exploration and development plan for 2011, including Blocks 14, 32 and 33 and the Sonagás project, in a total of 13 exploration and development wells.

### MAIN EVENTS OF 2010

- **The net entitlement reserves (2P) and the contingent resources (3C) respectively reached 20 and 221 million barrels of oil at the end of 2010;**
- **Working interest production of 6.5 million barrels in 2010;**
- **The CPT at the Tômbua-Lândana field in Angola's Block 14 produced 1.6 million barrels of oil;**
- **Activities continued to allow the development of other areas of Block 14.**

## PRODUCTION

In 2010, Galp Energia had a working interest average production of 17.8 thousand barrels per day, up by 28% over 2009. The CPT of the TL field, which had a working interest production close to 4,400 barrels per day, contributed to this increase.

The BBLT field continued to be the most productive, with 11,5 thousand barrels of oil per day, accounting for 65% of total working interest production of Block 14.

In 2010, average net entitlement production reached 10,1 thousand barrels of oil per day, up 13% relative to 2009. This increase followed the positive trend in working interest production, although it was affected by the downfall of production in the BBLT and the Kuito fields, which was due to the production-sharing agreement (PSA) that characterises concession contracts in Angola.

## DEVELOPMENT

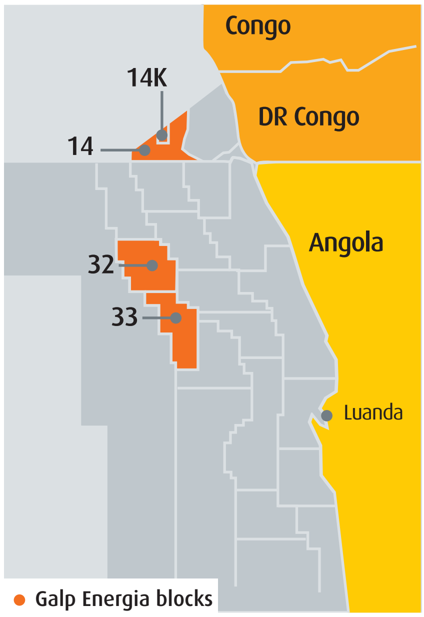
The original development plan of the BBLT field was approved in 2010. In order to set out a complementary development plan for 2011, a 4D seismic acquisition was executed, which will be processed and interpreted in 2011. Work will take place on the drilling probe in the BBLT tower in preparation for the recertification process in 2011.

In 2010, technical and economic viability studies proceeded in the Kuito field to identify the most suitable solution to extend the life of the field. The partners in the block reached a consensus, deciding to maintain production with the same FPSO until 2014, when the viable deadline of operational certification is due.

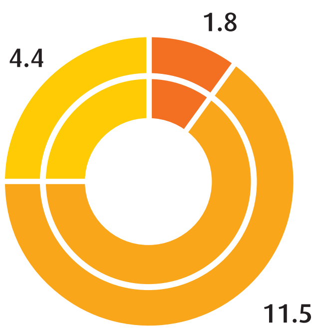
The CPT production pole of the TL field is located some 80 kilometres off the coast, at a water depth of approximately 366 metres. Its development plan includes a production peak of 60,000 barrels of oil per day, which should be achieved in 2011. In 2010, eight production wells and two constant water injectors of the development plan were drilled. Eight additional wells, of which five are injectors and three are producers, are scheduled for drilling in 2011.

Also in Block 14, Galp Energia continued activities to allow the development of the areas that are still not in production. In Lucapa, studies proceeded for the selection of the best development concept for the field. In 2010, an appraisal well, the Lucapa-6, was drilled. Following the integration of data in 2011, this may lead to studies of a FEED from the second quarter of the year.

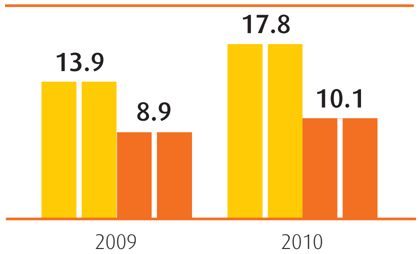
### Oil concessions in Angola




### Working interest production by field in 2010 (kbopd)

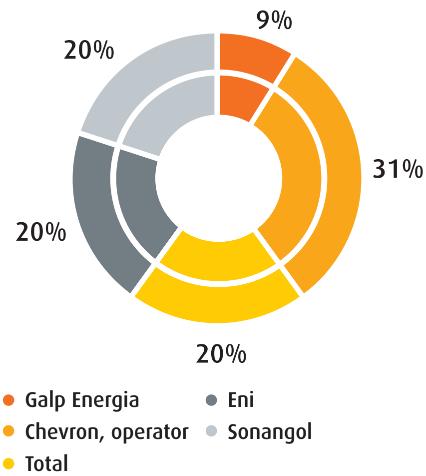



### Production (Kbopd)



THE 28% INCREASE IN WORKING INTEREST PRODUCTION IN ANGOLA IS MAINLY DUE TO THE HIGHER PRODUCTION OF THE BBLT FIELD AND THE LARGER CONTRIBUTION OF THE CPT IN THE TÔMBUA-LÂNDANA FIELD.

### Consortium of Block 14




A Declaration of Commercial Discovery was issued and the development plan of the discovery was presented at Malange, for one of the development areas in Block 14, following the drilling in 2009 and 2010 of the Malange-2 well. Engineering studies (pre-FEED) will start in the second quarter of 2011, as soon as the concession holder's approval is obtained and the areas of development are defined.

Technical appraisal proceeded in 2010 in the Negage and Gabela fields to find an economically viable solution for the development of those discoveries. In this context, the operator of Block 14 filed a request with the concession holder to merge the development area of the Gabela with that of the Tômbua-Lândana. As for the Negage field, Galp Energia awaits clarification on its location in the border between the Republic of Congo and Angola (that is, in a common-interest zone or CIZ).

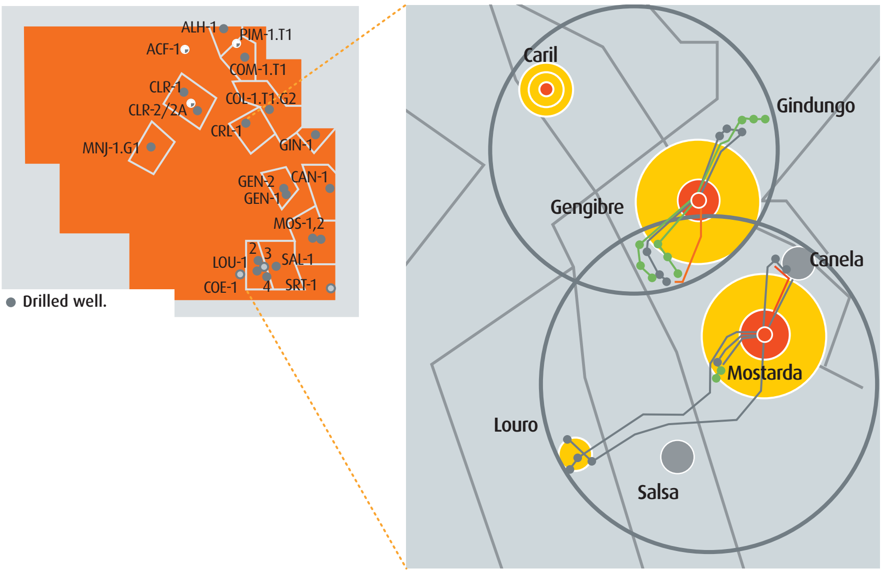
Clarification of the area's contractual framework is expected regarding the discovery in the Menongue well, which is located in the common-interest zone. Seismic reprocessing was performed in 2010 and an evaluation plan of the discovery was prepared. The drilling of a new exploration well in the area and the acquisition of electromagnetic geophysical data are both scheduled for 2011.

In Block 14K-A-IMI, where Galp Energia has a 4.5% stake, the preparation of studies on the development plan for the Lianzi discovery and its execution and procurement project proceeded in 2010. The FEED for the construction project approached completion. The technical option adopted for the development of the project was to connect the discovery with the BBLT platform.

Galp Energia has a 5% share in the consortium for Block 32. In 2010, drilling of the Colorau 2 and 2A wells was completed to determine the extent of the reservoir in the south-eastern region of the development area. These activities arose from the discovery that the Colorau-1 well is an accumulation of geologically complex oil; its scale makes it highly relevant to the consortium exploring Block 32. Throughout 2010, the concession holder approved the provisional coordinates for the block's development area, as well as the split-hub concept for the development of the Kaombo area (previously Hub Center South East). Also in 2010, the study of the possibility to tie back the Alhos and Cominhos discoveries to a production pole in a block next to Block 32 proceeded. The drilling of the Mostarda-3 well and geophysical studies of reservoirs are scheduled for 2011.

In Block 33, where Galp Energia has a 5.33% stake, geological and seismic reprocessing studies were carried out in 2010 to support a seismic acquisition programme planned for 2011. Based on these studies and prospects for the Calulú

## Angola: main development areas




GALP ENERGIA HAS PARTICIPATED SINCE LATE 2007 IN THE CONSORTIUM FOR THE DEVELOPMENT OF THE FIRST INTEGRATED NATURAL GAS PROJECT IN ANGOLA – ANGOLA LNG II.

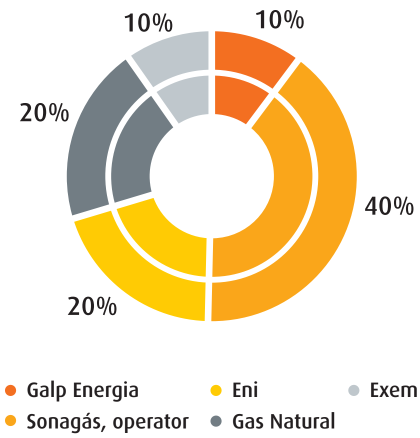
area, approval has been given to drill a new well, the Cal-E2 prospect, in 2011.

### INTEGRATED GAS PROJECT IN ANGOLA

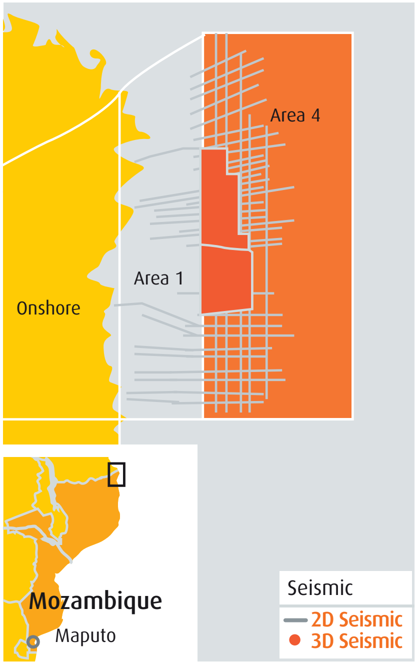
Galp Energia has participated since late 2007 in the consortium for the development of the first integrated natural gas project in Angola – Angola LNG II.

In 2010, three drilling prospects for 2011 and 2012 were matured. Drilling started in Block 2 of the exploration well Garoupa-2, which was still underway at the end of the year.

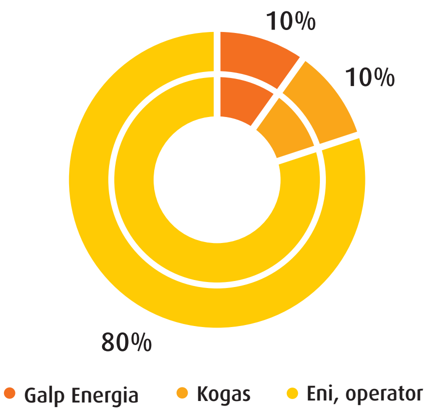
## Consortium for the Angola LNG II project



Rovuma basin




Consortium for the blocks in East Timor




## MOZAMBIQUE

**Galp Energia has a 10% stake in the project to explore area 4 in the Rovuma basin.The exploration period for this area, which is divided up into three phases, is scheduled to expire in February 2015.**

The findings from the seismic interpretation revealed several prospects with a potential above initially forecast. This led to the planning of another 3D seismic campaign of 1,520 square kilometres, which was completed in June 2010. This seismic campaign covers an area north of where one was carried out in 2008. Its goal was to study the prospects, some of which are candidates for exploration wells once sorted by potential and risk. The two first exploration wells are scheduled for drilling in 2011.

The studies that were conducted until now, indicate that this is an area mainly with gas potential.

## EAST TIMOR

**Galp Energia's 10% stake in E&P activities in East Timor dates back to 2007, in Blocks A, B, C, E and H.**

The exploration period is divided into three phases and is expected to end in November 2013. In the first exploration phase, 2D seismic acquisition was carried out and gravimetric and magnetic data were acquired. 3D seismic was acquired and processed. Several geological studies were performed with samples collected from seabed cores as well as 2D and 3D seismic interpretation. Following the analysis of existing data and the assessment of the blocks' potential, it was decided that four blocks would move on to the second exploration period. It was also agreed that Block A should be returned, which took place in November 2010. At the end of 2010, the first exploration well was drilled in Block C. It was concluded in 2011 that this was a dry well. Information gathered will be important for the future drilling programme in the block. Activity planned for 2011 includes the drilling of another exploration well in Block C.

## PORTUGAL

**In 2010, the transfer was completed of the operation of the Alentejo basin blocks from Tullow Oil to Petrobras, which now has a stake of 50% in the basin. Galp Energia increased its stake from 10% to 50%. The consortium of the Peniche basin is composed of the operator Petrobras, with 50%, Galp Energia with a 30% stake, and Partex with 20%.**

The work completed during 2010 included geological and geophysical studies to understand the oil system of the Alentejo basin and to identify and evaluate the potential prospects that may be the target of a 3D seismic acquisition in 2011.

The reprocessing of about 2,000 kilometres of 2D seismic lines, acquired in 2008, of the Camarão and Amêijoa blocks in the Alentejo basin started in 2010 and will continue in 2011. This reprocessing aims to improve the seismic image of this highly complex geological region to enable the evaluation of the potential of these blocks and the leads' maturation.

The 3D localised seismic acquisition process at the Ostra and Mexilhão blocks, located in the Peniche basin, started in early 2010 and was completed in December. The seismic processing of this data will extend beyond the third quarter of 2011, after which it is planned to start interpretation and integration into geological studies.

## URUGUAY

**In 2009, Galp Energia participated in the first round of bidding for offshore licences in Uruguay.**

Areas 3 and 4 of the Punta del Este basin were awarded to the consortium in which Galp Energia is a participant. The Company has a 20% stake in the consortium, jointly with Petrobras (40% and Area 4 operator) and YPF (40% and Area 3 operator).

Activities in 2010 focused on studies and 2D seismic interpretation. The consortium will continue these studies in 2011 to decide the future 3D seismic acquisition.

## EQUATORIAL GUINEA

**Galp Energia has a 5% stake in the potential construction of a second natural gas liquefaction unit in this country, benefiting from some of the existing infrastructure built for the first unit.**

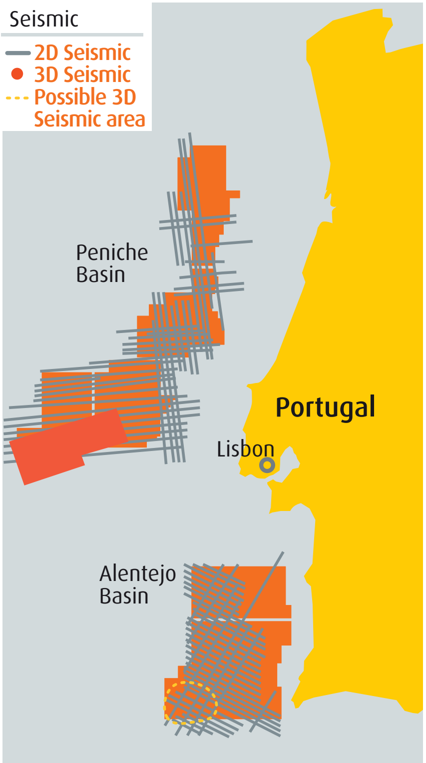
This consortium also includes Sonagas, the national oil company (50%), E.ON Ruhgras (25%), Union Fenosa Gas (5%) and the government of Equatorial Guinea (15%).

In 2010, the quantities of natural gas available for the project were evaluated and the business model was defined. In 2011, activities will focus on the preparation of a study on the project's viability and on signing preliminary agreements for the supply of natural gas.

## VENEZUELA

In 2010, Galp Energia maintained its partnership with Venezuela's state-owned oil company PDVSA. This venture covers a project to certify reserves in Block Boyacá 6, located in the Orinoco oil belt, and LNG projects targeting natural gas from the exploration fields on the Deltana and Mariscal Sucre platforms. The final decision to invest in these projects is scheduled for late 2011.

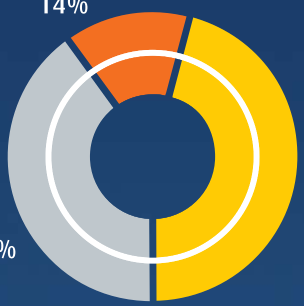
### 2D and 3D Seismic Acquisition - Peniche & Alentejo



# REFINING & MARKETING

The Refining and Marketing (R&M) business segment of Galp Energia involves several components of the oil value chain, from the procurement of crude oil to the sale of refined products to the end client. Galp Energia operates two refineries, one in Sines and the other in Matosinhos, whose refined products are primarily sold into the Company's marketing network, which is mainly located in the Iberian Peninsula and also in Africa.

### Share of the R&M business segment in total RCA operating profit in 2010




- Refining & Marketing
- Gas & Power
- Exploration & Production

### Main indicators

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Crude processed (kbopd) | 252 | 245 | 213 | 232 |
| Galp Energia refining margin ($/bbl) | 5.5 | 4.4 | 1.5 | 2.6 |
| Refined products sales (Iberia) (Mton) | 16.3 | 16.6 | 17.3 | 17.3 |
| Refineries net operating costs (€/bbl) | 1.5 | 1.5 | 1.5 | 1.6 |
| Sales to direct clients (Mton) | 9.7 | 10.1 | 11.7 | 11.0 |
| Number of service stations (Iberia) | 1,038 | 1,509 | 1,451 | 1,436 |
| Throughput per site ('000 m3) | 2.9 | 2.8 | 2.7 | 2.9 |
| Number of convenience stores (Iberia) | 210 | 428 | 467 | 509 |
| EBITDA RCA (M€) | 435 | 540 | 295 | 394 |
| Operating profit RCA (M€) | 261 | 373 | 79 | 201 |
| CAPEX (M€) | 168 | 1,245 | 456 | 800 |

### MAIN EVENTS OF 2010

- Set-up of a new hydrocracker in the Sines refinery and new vacuum and visbreaker units in the Matosinhos refinery;
- Achievement of synergies from the full integration of the former Iberian Agip and ExxonMobil subsidiaries;
- Resumption of normal activity by both refineries following the incident at Sines in 2009.

## STRATEGY

**The strategy of the R&M business segment is to streamline operations in order to attain ever higher levels of profitability and efficiency.**

The ongoing upgrade of the Sines and Matosinhos refineries will bring production into closer alignment with demand in the Iberian market for oil products. This will combine with the integration of the Iberian marketing network, designed to capture synergies from the acquisition of the former ExxonMobil and Agip subsidiaries, to turn this business segment into an increasingly solid and stable cash flow-generator.

## REFINING, SUPPLY AND LOGISTICS

Galp Energia's integrated refining base has a throughput capacity of 310,000 barrels per day – 220,000 barrels per day from the Sines refinery and 90,000 barrels per day from Matosinhos refinery, which are both located on Portugal's western seaboard. In 2010, Galp Energia processed 232,000 barrels in its refineries, 75% of full capacity.

## SUPPLY

**Galp Energia's refining base processes crude oil from 16 countries and produces a broad product range dominated by gasoline and middle distillates.**

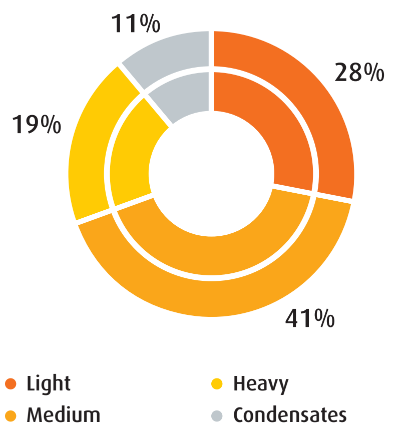
In 2010, Galp Energia acquired 83.9 million barrels of crude oil, of which sweet crude, with a low sulphur content, accounted for 65%. This resulted from the production optimisation model, which calculates the crude oil mix that will maximise the refining margin.

Galp Energia's supply sources remained diverse, led by the African west coast – Angola, Nigeria, Equatorial Guinea and Cameroon – which accounted for 32% of crude imports.

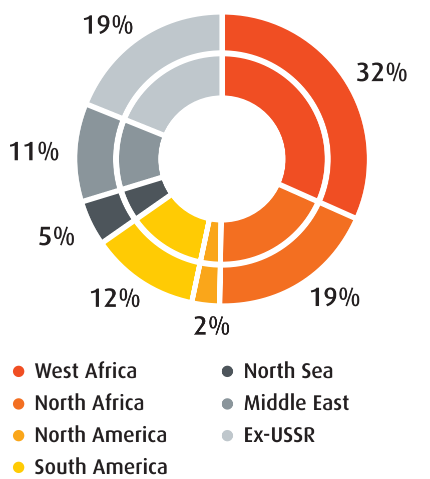
Oil product imports are required to align the production profile with the demand pattern in Galp Energia's markets. Diesel imports were prominent, reaching 218,000 tonnes in 2010.

IN 2010, GALP ENERGIA ACQUIRED 83.9 MILLION BARRELS OF CRUDE OIL.

Types of crude oil processed in 2010




Origin of crude oil in 2010



# 84.7

**MILLION BARRELS PROCESSED**

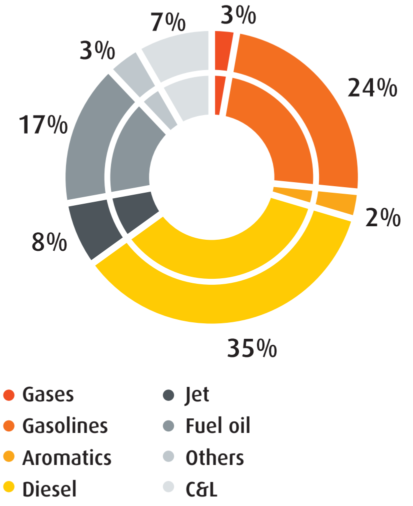
In 2010, the refineries processed 84.7 million barrels. 60% of these were heavy and medium crude, to take advantage of the price spread between heavy and light crude oil.

## REFINING

**In 2010, the refineries resumed normal activity following the incident in the Sines refinery's utilities factory in 2009. The refinery upgrade proceeded according to plan.**

To maintain profitability in low-margin activities, Galp Energia launched a project to reduce fixed costs. Instead of the total refinery shut-downs that took place up to the end of 2010, there will from now on be partial shut-downs, so minimising the number of simultaneously inactive units to optimise maintenance work and reduce costs.

**Production profile in 2010**




The rise in capacity utilisation to 75% in 2010 in comparison with 2009 was mainly due to the six-week halt to production in the first quarter of 2009 following a major incident in the utilities factory at the Sines refinery. In 2010, the scheduled maintenance shut-down of the Matosinhos refinery and the Company's policy of optimising production according to refining margins both had an adverse effect on the utilisation rate in 2010.

In 2010, the refineries processed 84.7 million barrels. 60% of these were heavy and medium crude, to take advantage of the price spread between heavy and light crude oil.

Crude oil accounted for 92% of the 12.3 million tonnes of raw materials the Company processed in 2010. Around one million tonnes of other raw materials, mainly naphtha and heavy diesel, were also processed.

As in previous years, diesel (35%) and gasoline (24%) dominated production.

Own consumption and losses (C&L) fell slightly compared with 2009 to 7.3% of raw materials processed, as the Sines refinery improved its energy efficiency after the cogeneration plant came into operation.

## LOGISTICS

In 2010, Galp Energia revamped the infrastructure of both the Leixões oil terminal and the Sines liquid bulk terminal to match them with the upgraded refineries and improve their safety and reliability levels. At the same time, the Company optimised its logistical assets to ensure their size and location match market requirements. The Company sold its Aveiro park logistics centre for importing and storing fuel during the year.

## MARKETING OF PETROLEUM PRODUCTS

In 2010, the Company sold 17.3 million tonnes of refined products, in line with 2009. Sales to direct clients accounted for 64% of the total.

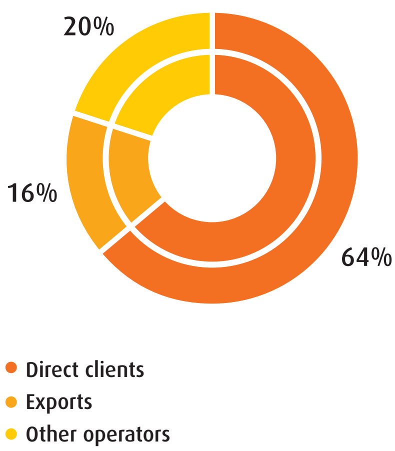
The ratio of refined products to direct client sales in the Iberian Peninsula (based on average refinery production over the last three years) was 92% in 2010.

Exports of refined products rose by 14% over 2009, to 2.8 million tonnes. The most exported products were gasoline (36%) and fuel oil (30%), with respective annual increases of 21% and 30%.

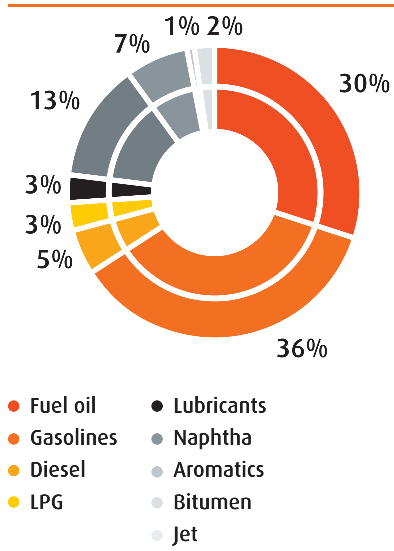
In 2010, Galp Energia strengthened its market position and broadened its client base in over 10 new markets in several continents. As an example, the vigorous demand for RBOB (Reformulated blendstock for oxygenate Blending) and conventional gasoline drove a swift penetration of the Mexican market. Central America, the USA, the Far East and the Persian Gulf are strategic markets where Galp Energia continues to consolidate its position.

Galp Energia Service Station.

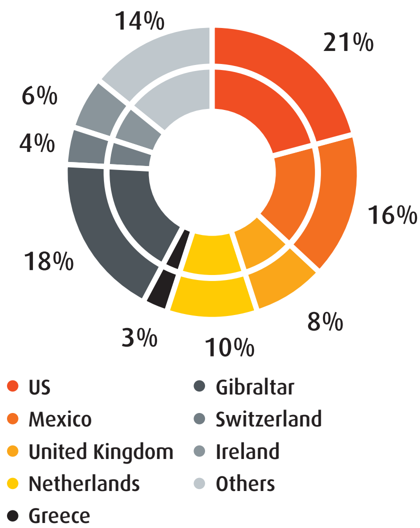
### Sales of refined products by segment in 2010




### Exports by product in 2010

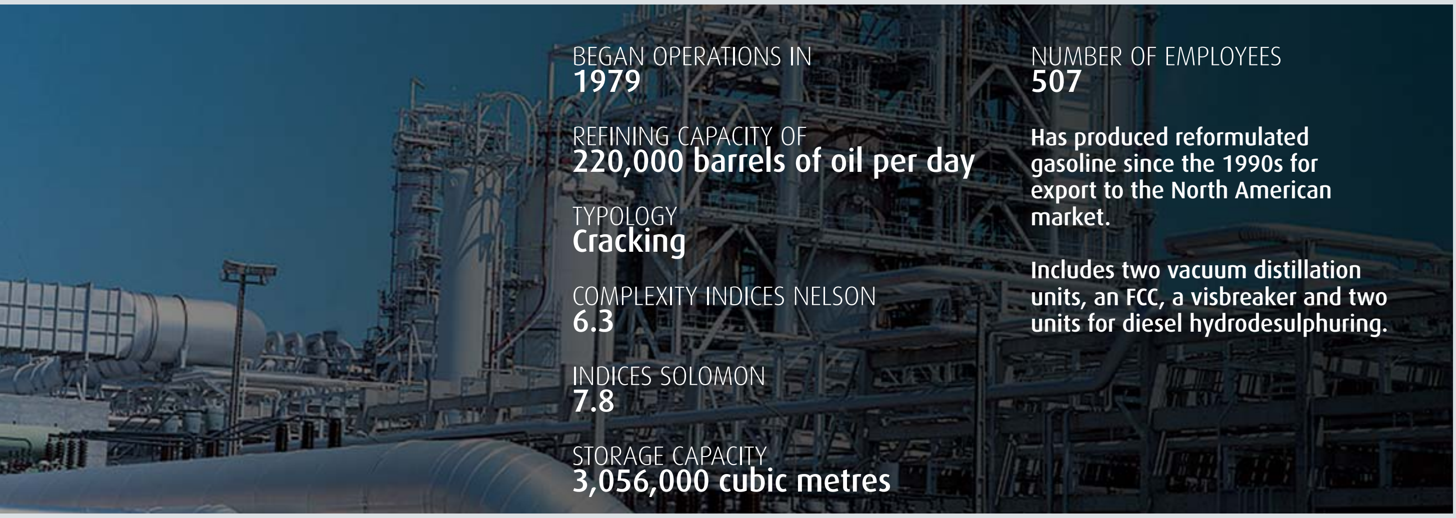



### Exports by country in 2010



## MAIN REFINING ASSETS

### SINES REFINERY



BEGAN OPERATIONS IN
**1979**

REFINING CAPACITY OF
**220,000 barrels of oil per day**

TYPOLOGY
**Cracking**

COMPLEXITY INDICES NELSON
**6.3**

INDICES SOLOMON
**7.8**

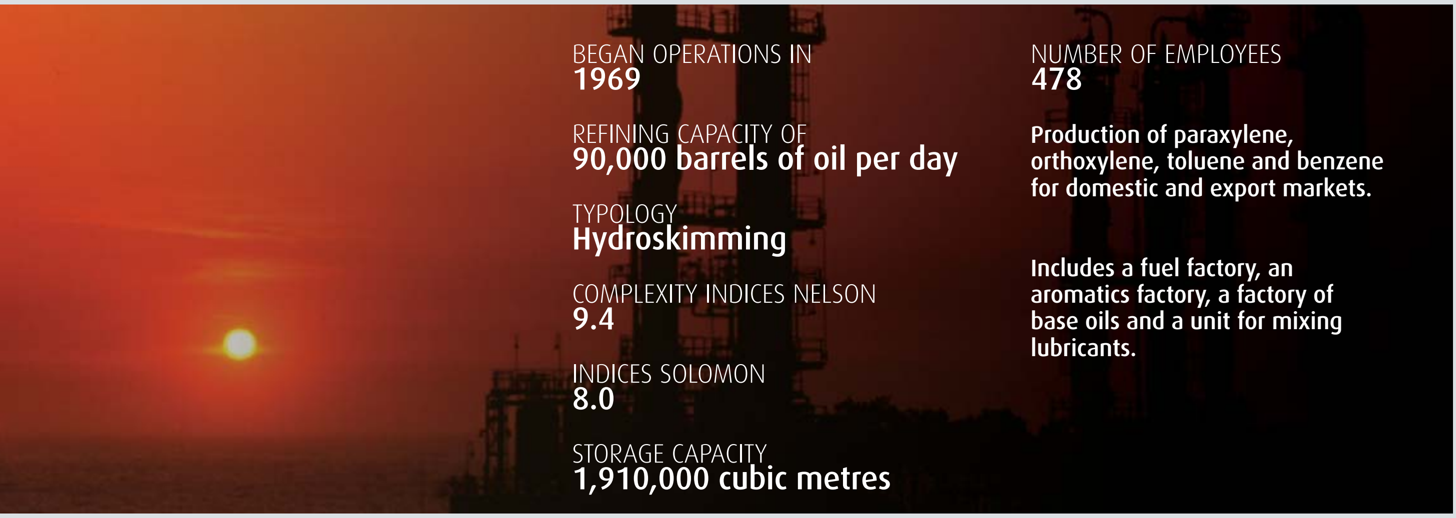
STORAGE CAPACITY
**3,056,000 cubic metres**

NUMBER OF EMPLOYEES
**507**

**Has produced reformulated gasoline since the 1990s for export to the North American market.**

**Includes two vacuum distillation units, an FCC, a visbreaker and two units for diesel hydrodesulphuring.**

### MATOSINHOS REFINERY



BEGAN OPERATIONS IN
**1969**

REFINING CAPACITY OF
**90,000 barrels of oil per day**

TYPOLOGY
**Hydroskimming**

COMPLEXITY INDICES NELSON
**9.4**

INDICES SOLOMON
**8.0**

STORAGE CAPACITY
**1,910,000 cubic metres**

NUMBER OF EMPLOYEES
**478**

**Production of paraxylene, orthoxylene, toluene and benzene for domestic and export markets.**

**Includes a fuel factory, an aromatics factory, a factory of base oils and a unit for mixing lubricants.**

### RAISING REFINERY ENERGY EFFICIENCY

In parallel with the refinery upgrade project, another project is underway designed to improve both refineries' energy efficiency by reducing the units' own consumption. This project includes a range of activities and investments such as process re-engineering, equipment overhaul and the set-up of cogeneration plants at both refineries.

The launch of the cogeneration plant at Matosinhos in 2011 will, in combination with Sines cogeneration plant that has been operational since 2009, improve overall refinery energy performance. The adverse effect of a larger number of refinery units after the upgrade will be offset by the lower cost of thermal energy and reduced sulphur and nitrogen oxide emissions at a local level and $CO_2$(Carbon dioxide) at a national level.

## UPGRADE PROJECT

The project to upgrade the refineries, which started in 2008, aims to optimise refinery capacity utilisation by balancing the profile of production with the needs of the Iberian market. This will mean an increase in diesel production and a decrease in fuel oil production, depending on the crude oil mix.

The project progressed according to plan in 2010: civil works were completed and the most critical equipments were put in place. These included a new hydrocracker unit for the Sines refinery and a vacuum and a visbreaker unit for Matosinhos.

Work during the year was focused on laying out the piping. New storage infrastructure was also completed in Matosinhos and Sines, which will be crucial for handling the increased flow of raw materials once the new refinery units are online. The training schedule for refinery operators began during the year and new operators were hired, a key step in ensuring the success of the upgrade project.

In view of the swift progress so far, completion of the works is expected early in the second quarter of 2011 at the Matosinhos refinery and by the end of the year at Sines.

Upon completion of the project and the start-up of the new refinery units at both refineries, the refining margin is expected to be improved by:

(i) the higher refinery utilisation rate;

(ii) the higher share in processing of medium and heavy crude oil, which is expected to top 70% of total crude processing; and

(iii) the change in the production profile, which will raise diesel production to around 50% of the total.

At the same time, the upgrade project of the Matosinhos refinery will raise nominal distillation capacity by 20,000 barrels of oil per day, due to the increase of fuel factory capacity, increasing Galp Energia's overall refining capacity to 330,000 barrels of oil per day.

When completed, the upgrade project will have cost €1.4 billion – 75% on the Sines refinery and 25% on Matosinhos. €970 million had been spent by the end of 2010, with the remainder to be spent in 2011.

Upon completion of the upgrade project, Galp Energia will have a state of the art, safe and reliable refining base.

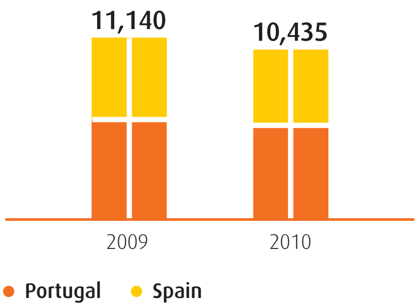
Upgrade works at the Matosinhos refinery.

**330**

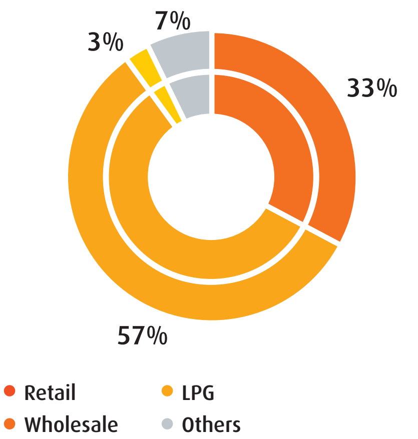
**THOUSAND BARRELS OF OIL PER DAY**

Galp Energia's refining capacity after the upgrade project in Sines and Matosinhos refinery.

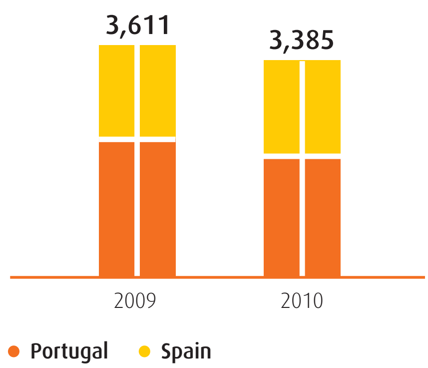
**Total sales in the Iberian Peninsula (Kton)**




**Sales by segment in 2010**




**Retail sales (Kton)**




## MARKETING OF OIL PRODUCTS

**The primary purpose of this activity is to market oil and non-fuel products under the Galp Energia brand in the Iberian Peninsula and selected African markets. To maximise its return on assets, the Company seeks efficiency gains and operations synergies.**

Oil products sold to direct Iberian clients declined by 6% from 2009, to 10.4 million tonnes. This was mainly a result of the overall market contraction that followed the slowdown in economic activity in the Iberian Peninsula.

Galp Energia commands a 14% share of the Iberian market, where Spain now accounts for 44% of sales. The wholesale segment continued to dominate volumes sold.

In 2010, the company achieved the goal of creating synergies through integrating the former Iberian Agip and ExxonMobil subsidiaries acquired in late 2008, which has now resulted in annual cost savings exceeding €35 million. This involved a range of actions, including the reorganisation of Galp Energia's structure in Spain and the overhaul of operational processes, leading to scale economies gains.

### RETAIL

Sales fell by 8% in Portugal and 4% in Spain as the overall Iberian market for oil products contracted. The share of Spanish sales in the Iberian total was 42%, highlighting the geographical diversification of the Galp Energia client base.

In 2010, Galp Energia maintained its leadership of the Portuguese retail fuel market with a 34% share and consolidated its 6% share in Spain. To strengthen its position, the Company upgraded its convenience stores, stepped up its promotional campaigns, broadened its offering of premium products and optimised its pricing structure through differentiated micro-markets.

To raise profitability, operating contracts were renegotiated, the service station layouts were improved and operational efficiency projects carried out.

In 2010, Galp Energia launched a project to upgrade the convenience stores in its network, resulting in the business model review and refurbishment of the stores in 23 company-operated service stations. This project will be completed in 2011, with the upgrade of another 52 stores.

The Company also took action in 2010 to mitigate the effects of a weak fuel market through renewed attention to the non-fuel business. The offer was broadened and diversified, and several campaigns were undertaken to attract clients, which ultimately led a rise in non-fuel sales per litre of fuel sold in Portugal.

In an effort to streamline the network and raise its efficiency, 23 service stations were closed down in Portugal in 2010.

In Spain, by contrast, after the streamlining actions of 2009, the network grew organically by eight service stations.

In 2010, Galp Energia's sales by outlet in Portugal remained above the market average, rising from 2,570 cubic metres in 2009 to 2,957 cubic metres in 2010. In Spain, sales by outlet fell to 2,752 cubic metres; this was due to a distortion of this indicator following a rise by the end of 2010 in the number of outlets that did not trade for a full 12 months.

Galp Energia's operation and ownership of Portuguese service stations remained stable. Dealer-operated (DO) service stations, some of which are owned by Galp Energia, accounted for 85% of the total.

In Spain, the number of dealer-operated service stations increased, accounting by the end of 2010 for 57% of the total, up from 54% in 2009. This was due to efforts by the Company to raise the return on its assets, and to the higher visibility of the Galp Energia brand, which attracted new dealers.

## WHOLESALE

Despite a focused commercial effort, sales to the Portuguese wholesale sector fell by 4% from 2009 as a depressed economy took its toll. In Spain, wholesale sales fell by 2%, on a comparable basis, as the market for fuel contracted.

In Portugal, sales to the marine, aviation and industry sub-segments continued to dominate the Company's wholesale activities, accounting for around 79% of total sales in the wholesale segment.

The aviation market recovered most strongly from 2009, by 14% on the back of rising air traffic in 2010. Galp Energia led projects creating a new fuel-delivery infrastructure at Portuguese airports, designed both to raise safety standards and to optimise airport logistics.

Despite the contraction in sea trade, sales to the marine sub-segment rose 9%, which strengthened its position as the largest wholesale sub-segment.

Sales to industry fell by 3% as industrial activity stagnated in Portugal. This did not prevent Galp Energia from strengthening its leadership of this sub-segment as important contracts were renewed.

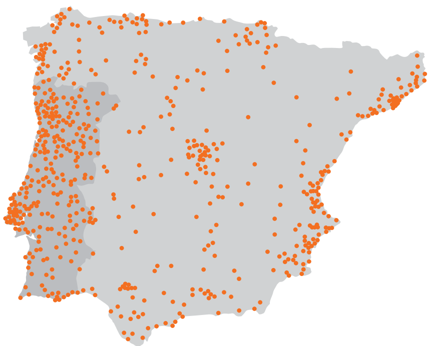
In the contractor sub-segment, innovation development of bitumen products led to a number of new product launches that strengthened Galp Energia's position.

Sales to the lubricant sub-segment rose by 21% as the Company strengthened its client relationships and opened new export markets.

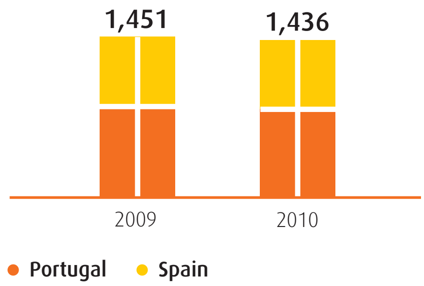
In Spain, Galp Energia strengthened its position as a model operator in fuel for transportation, agriculture, heating and several sectors of industry. However, the weakness of the Spanish economy affected the demand for diesel, gasoline and fuel oil.

Galp Energia's service station.

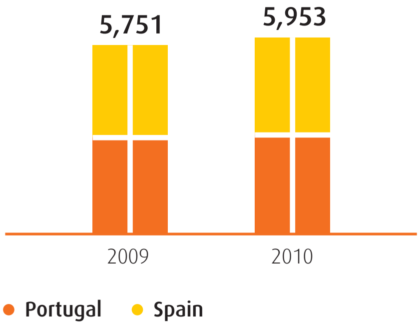
### Galp Energia's service station network in the Iberian Peninsula



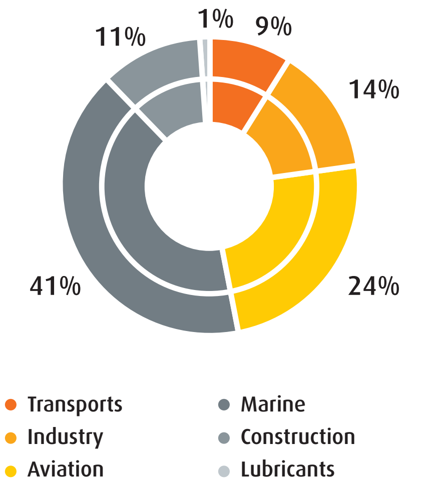
### Number of service stations in the Iberian Peninsula



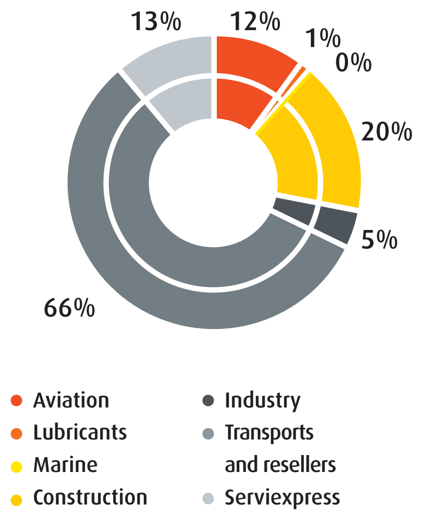
**Sales of the wholesale segment (Kton)**




**Sales by sub-segment in 2010 (Portugal)**




**Sales by sub-segment in 2010 (Spain)**




Despite a contracting market for fuel in Spain, transportation and reseller sales rose by 2% in 2010 over 2009, which consolidated the leading position of this sub-segment in the Company's wholesale segment. Sales of Serviexpress, the brand created for marketing diesel to small industrial users, agriculture and residential clients, were the second-largest despite lower volumes in 2010.

In aviation, Galp Energia's stronger position in Spanish airports led to a sales increase of over 5%.

In the construction sector, the slow-down in public works caused by the Spanish sovereign debt crisis, followed by an austerity programme, prompted a market contraction that affected the Company's sales.

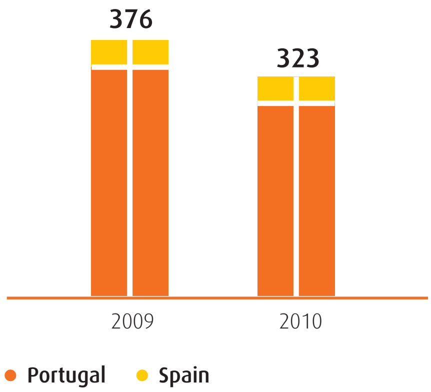
## LIQUEFIED PETROLEUM GAS

In 2010, Galp Energia maintained its competitive position in the Portuguese market for liquefied petroleum gas (LPG) with a portfolio of close to one million clients, mostly in bottled LPG.

However, the market shrank as the natural gas network expanded, as the adverse economic cycle set in and as the prices of butane and propane escalated. To counter this trend of decline, Galp Energia launched in 2010 a number of new products and services for markets with growth potential including new gas device ranges, such as the Hotspot indoor heater.

In the domestic market, sales of bottled LPG, led by the Pluma bottle, maintained their strong

**Sales of the LPG segment (kton)**




position and accounted for 65% of total sales. The number of piped gas customers rose in 2010 to approach the 100,000 milestone.

In Spain, the Company's sales activities continued to focus on bulk LPG, which accounted for 40% of total LPG sales in the country.

## MARKETING IN THE AFRICAN MARKET

In Africa, Galp Energia competes in the retail, wholesale (lubricants, marine and aviation) and LPG segments.

The Company's African business is focused on three development clusters: West Africa, which includes Cape Verde, Gambia and Guinea-Bissau; Southern Africa-Indian coast, which includes Mozambique and Swaziland; and Southern Africa-Atlantic coast, which is centred on Angola.

The Company's strategy for this market involves responding to marketing opportunities in countries with growing economies and on boosting exports of fuel and lubricants from Portugal. At the same time, the creation of development clusters creates synergies between supply, logistics and operations management.

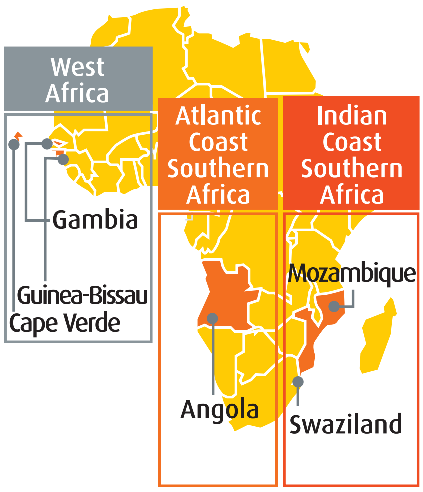
In 2010, the volume of oil products sold in Africa rose by 1% over 2009 to 598,000 tonnes. The largest segment was wholesale, with close to 60% of the total.

Cape Verde and Mozambique contributed the most to the increase in sales, with Cape Verde growing by 25% over 2009. In Angola, new competition had an adverse impact on Galp Energia's sales.

The Company set up five new service stations in 2010, four of which are in Angola.

Galp Energia also entered the LPG business in Swaziland and Gambia.

### Development clusters in Africa




### Sales and assets in the African market in 2010

| Country | Sales (kton) | Annual change (%) | Market share (%) | # of service stations |
|---|---|---|---|---|
| Mozambique | 90 | 6% | 13% | 28 |
| Angola | 208 | (15%) | n.a. | 11 |
| Guinea-Bissau | 24 | 2% | 54% | 9 |
| Cape Verde | 169 | 25% | 65% | 24 |
| Gambia | 27 | (10%) | 38% | 9 |
| Swaziland | 79 | (1%) | 39% | 22 |
| **Total** | **598** | **1%** | | **103** |

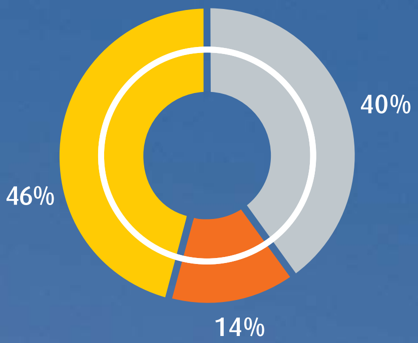
# GAS & POWER

**Galp Energia's G&P business segment includes the Company's power generation activities and the procurement, distribution and marketing of natural gas.**

Galp Energia is active in the procurement and distribution of natural gas, and has a significant market share in the Iberian Peninsula.

In the power sector, the Company aims to position itself in the marketing of power in Portuguese market.

### Share of the G&P business segment in Galp Energia's RCA operating profit in 2010




- Gas & Power
- Exploration & Production
- Refining & Marketing

### Main indicators

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Natural gas sales (Mm³) | 5,377 | 5,638 | 4,680 | 4,926 |
| Number of natural gas clients ('000) | 816 | 868 | 915 | 1,327 |
| Natural gas net fixed assets (M€) | 727 | 755 | 1,036 | 1,045 |
| Installed capacity (MW) | 80 | 160 | 160 | 160 |
| Electrical power generation (GWh) | 594 | 489 | 721 | 1,204 |
| Electricity sold to the grid (GWh) | 578 | 478 | 706 | 1,202 |
| Special regime production sale price (€/MWh) | 89.9 | 105.2 | 94.5 | 90.6 |
| EBITDA RCA (M€) | 254 | 223 | 216 | 262 |
| Operating profit RCA (M€) | 215 | 176 | 135 | 182 |
| CAPEX (M€) | 103 | 116 | 77 | 87 |

### MAIN EVENTS OF 2010

- Integration of the natural gas marketing business the Group acquired in the Madrid region;
- Sales of 4,926 million cubic metres of natural gas;
- 1.3 million customers in the Iberian Peninsula, 0.4 million of which are in the Spanish market;
- First full operating year for the cogeneration plant in the Sines refinery, which generated 661 GWh of power and used 252 million cubic metres of natural gas.

## STRATEGY

Galp Energia aims to achieve a sustainable increase in natural gas sales via its G&P segment on the back of its refining and power assets, particularly the cogeneration plants. The Company's role as a natural gas marketer in the Spanish market is important, since this dimension will allow it to consolidate its position in the overall Iberian market.
Galp Energia aims to optimise margins in this business segment through a joint natural gas and power offering.

## NATURAL GAS

The Portuguese natural gas sector comprises a set of regulated and unregulated activities, ranging from free procurement and mixed, regulated and unregulated marketing through to fully regulated infrastructure.

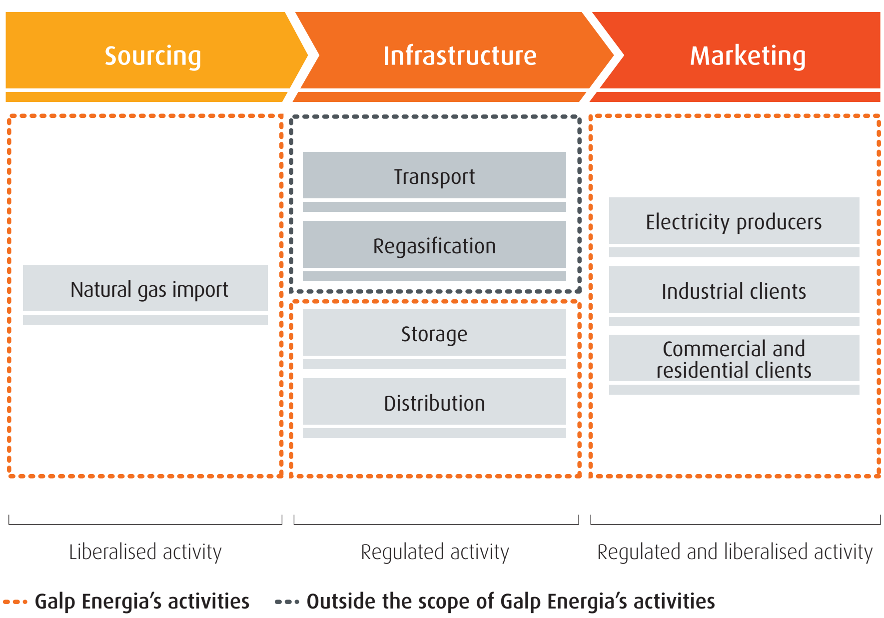
Importing, storing, medium and low-pressure distribution and marketing of natural gas all fall within the scope of Galp Energia's operations. It is not involved in the regasification of liquefied natural gas or the high-pressure transportation of natural gas.

The Iberian market for natural gas shrank in 2010, mainly because of lower demand from power producers. This followed the heavier use of hydro and wind energy, to the detriment of natural gas, due to higher water flows and stronger winds in 2010.

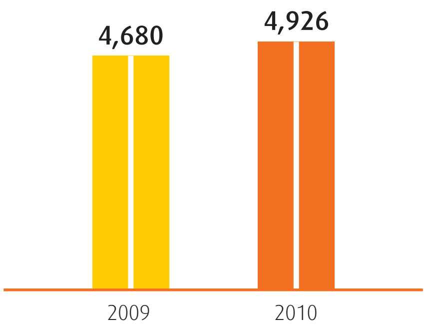
Following the acquisition of Gas Natural's regulated and unregulated marketing activities in the Madrid region, Galp Energia became the second-largest Iberian player in natural gas with a 15% share of the market. The volumes sold by the Company increased as it integrated and consolidated this acquisition for the first time in 2010.

IN 2010, THE NATURAL GAS MARKET CONTRACTED MAINLY DUE TO LOWER CONSUMPTION BY ELECTRICITY PRODUCERS.

**The natural gas sector in Portugal**



## Volumes of natural gas sold ($Mm^3$)



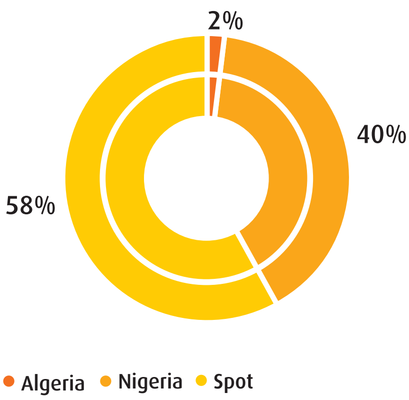

In 2010, Galp Energia sold 4,926 million cubic metres of natural gas, up by 5% from a year earlier. Excluding the contribution of the Spanish acquisition, the volumes of natural gas sold in the Iberian Peninsula have risen on average by 3% each year since 2005.

## PROCUREMENT

In 2010, Galp Energia imported 5 million cubic metres of natural gas, up by 4.5% from 2009. The main supply sources continued to be Algeria and Nigeria. Algeria's Sonatrach supplied 2 billion cubic metres of natural gas, transported to Portugal through the EMPL, Al Andalus and Extremadura pipelines. Nigeria's NLNG supplied 2.9 billion cubic metres of LNG, which were transported to the Sines LNG terminal. To take advantage of favourable pricing conditions, the Company bought 0.1 billion cubic metres of LNG and natural gas in the spot market in 2010.

Although natural gas supply contract terms are for 20 years or more, they may be renegotiated according to each contract's provisions.

## Sourcing of natural gas in 2010




## Equity stakes in international gas pipelines

| Internacional Pipelines | Country | Capacity (bcm/year) | Galp Energia % | Galp Energia's results in 2010 (M€) |
|---|---|---|---|---|
| EMPL | Algeria, Morroco | 12.0 | 27.4% | 43.3 |
| Al Andalus | Spain | 7.8 | 33.0% | 3.1 |
| Extremadura | Spain | 6.1 | 49.0% | 3.9 |

## Contracts for the supply of natural gas and LNG

| Contrats | Country | Contracted quantities ($Mm^3$/year) | Period (years) | Start-up | Next renegotiation |
|---|---|---|---|---|---|
| NLNG I (LNG) | Nigeria | 420 | 20 | 2000 | 3rd quarter 2011 |
| NLNG II (LNG) | Nigeria | 1,000 | 20 | 2003 | 3rd quarter 2011 |
| NLNG + (LNG) | Nigeria | 2,000 | 20 | 2006 | 4th quarter 2012 |
| Sonatrach (natural gas) | Algeria | 2,300 | 23 | 1997 | 1st quarter 2011 |

# REGULATED INFRASTRUCTURE

## DISTRIBUTION

In Portugal, natural gas is distributed by six companies – five of which are Galp Energia subsidiaries. They operate under 40-year concession contracts and through four so-called 'autonomous distribution units', in which Galp Energia also owns equity stakes and which operate under 20-year licences.

In 2010, these Galp Energia subsidiaries distributed 1.5 billion cubic metres of natural gas, up by 9% from 2009. Following capital expenditure of €53 million on market development and renewing the distribution infrastructure, the network expanded by 314 km to bring natural gas to 44,000 new customers.

## STORAGE

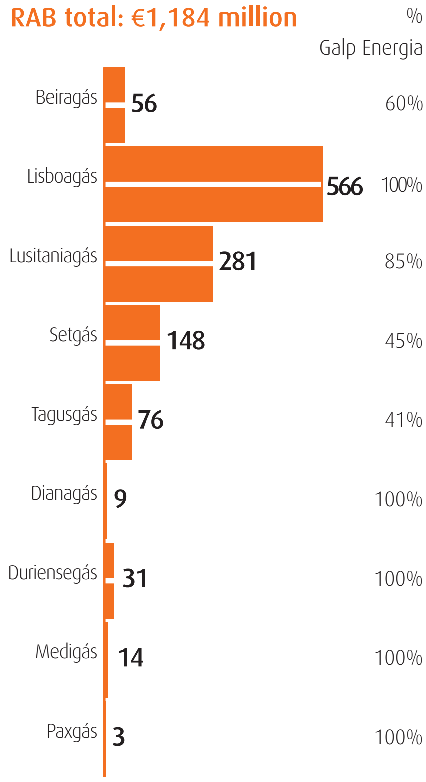
The underground storage of natural gas is a regulated activity whose operation was awarded to Galp Energia for a 40-year period up to 2046.

The regulatory asset base (RAB) is currently valued at €18 million and its current rate of return has been set at 8%.

Galp Energia values having access to storage capacity that ensures the uninterrupted supply of natural gas to customers in an increasingly cross-border (but mainly Iberian) context. Galp Energia has been awarded the largest geographical area in Portugal, with a brief to expand storage activity.

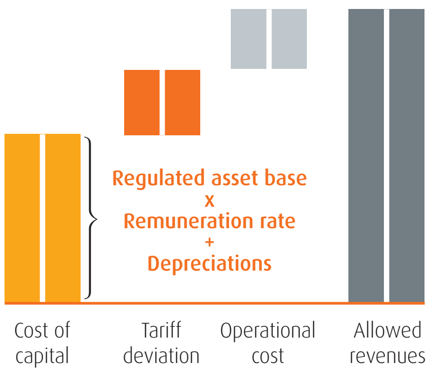
At the end of 2010, a cavity with a storage capacity of around 40 million cubic metres was in operation. Construction of a second cavity continued during 2010.

### Regulatory Asset Base by company at 31 December 2009




Note: The value of the RAB at 31 December 2010 has not been determined yet, and the amount used is for 2009. The RAB value for Tagusgás is for June 2009.

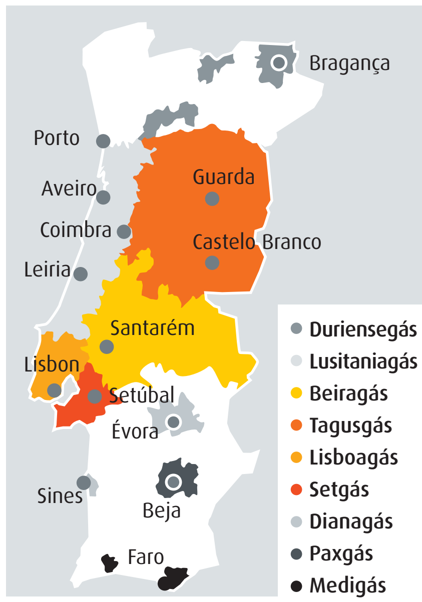
### Calculation of permitted revenues for the regulated activity of natural gas distribution in Portugal




**RETURN ON REGULATED ASSETS**

ERSE, the Portuguese energy market regulator, sets the rules for the level of return allowed from the energy sector's regulated activities. So-called 'permitted revenues' provide the basis for calculating tariffs, equating to the sum of the cost of capital, operating expenses and the tariff gap. The cost of capital is calculated as the product of the regulatory asset base and the rate of return set by ERSE (9% until June 2013) plus depreciation charges. The tariff gap is defined as the difference between estimated permitted revenues and actual revenues for year n-2.

### Natural gas distributors part-owned by Galp Energia



IN 2010, GALP ENERGIA SOLD 4,926 MILLION CUBIC METRES OF NATURAL GAS.

This will have a storage capacity of around 71 million cubic metres, and is scheduled for completion by the end of 2012. In 2010, the Company completed engineering work on two additional cavities, along with the acquisition of materials and equipment. The two cavities, which will have a combined storage capacity of close to 118 million cubic metres, are scheduled to come into operation in 2016 and 2019.

## MARKETING OF NATURAL GAS

Sales to end customers in Portugal and Spain accounted for 83% and 3%, respectively, of the 4,926 million cubic metres of natural gas sold by Galp Energia in the Iberian Peninsula in 2010.

At the end of 2010, Galp Energia had 1.3 million natural gas customers in the Iberian Peninsula, which made the company the second-largest operator in the market.

### PORTUGAL

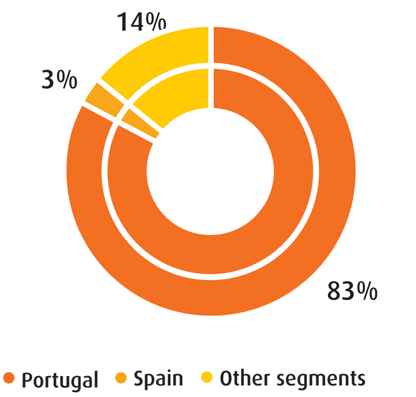
In 2010, Galp Energia sold 4,088 million cubic metres of natural gas to end customers in Portugal, up by 2% or 66 million cubic metres compared with 2009. The combined share of the power and industrial sectors exceeded 90% of this.

Natural gas sales to the power sector rose marginally by 1% in 2010. The 5% increase in the production of power in Portugal was driven by renewable energy, which grew by 25% in the year; hydro power rose by 88% and other renewable energy by 24%. Power generation from other sources was significantly lower: thermal energy contracted by 27%, coal by 45% and natural gas by 11%. Generation by fuel combustion was almost non-existent in 2010.

The industrial sector, where competition is most intense, saw Galp Energia secure a leading role as a natural gas supplier thanks to its ability to offer differentiated and innovative propositions. These include the combined supply of natural gas, electricity and oil products, which raised customer loyalty and created opportunities for a broad range of new technical services.

In this sector, volumes sold fell by 3% from 2009, to 1,762 million cubic metres. Of these, 1,104 million cubic metres were sold into the liberalised market and 658 million cubic metres into the regulated market. The first full operating year of the Sines refinery's cogeneration plant had a favourable impact of 252 million cubic metres on the demand for natural gas. In the industrial segment, the volumes in the liberalized market reached 1,104 million cubic metres, and in the

**Natural gas sold in 2010**



regulated market reached 658 million cubic metres.

In the residential and small business segment, Galp Energia attained market leadership as the first operator to make a proposition to small businesses in the liberalised market. In 2010, volumes sold rose by 33% to 388 million cubic metres, comprising a 9% share of natural gas sales to end customers in Portugal. Regulated sales continued to predominate, accounting for 81% of the segment.

### SPAIN

On 30 April 2010, Galp Energia completed the acquisition from Gas Natural of two natural gas distribution companies in the Madrid region: Madrileña Suministro de Gas SUR and Madrileña Suministro de Gas. This transaction brought in 412,000 new, mostly residential, customers with a total annual consumption of 300 million cubic metres and covering an area around 40 municipalities in the northern Community of Madrid. The Spanish residential market has a highly seasonable pattern as the demand for natural gas for heating rises with cold weather.

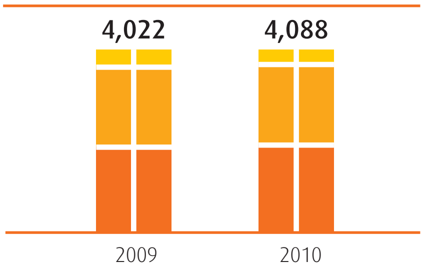
In Spain, volumes sold fell by 6% to 155 million cubic metres as sales to the industrial sector tumbled by 76% to 40 million cubic metres. This resulted from lower industrial activity, which led to excess supply and hampered the growth of new operators. The acquisition in Madrid generated the remaining sales of 115 million cubic metres to the residential segment.

### OTHER SEGMENTS

In 2010, sales to the trading and reseller segments in both Portugal and Spain rose by 190 million cubic metres to 683 million cubic metres. This primarily reflected trading sales of LNG under a contract with Hidrocantábrico.

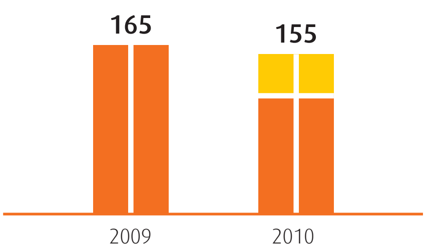
IN 2010, GALP ENERGIA COMPLETED THE ACQUISITION FROM GAS NATURAL OF TWO NATURAL GAS DISTRIBUTION COMPANIES IN THE MADRID REGION.

**Natural gas sold by sector in Portugal (Mm³)**




● Electrical ● Industrial ● Residential and commercial

**Natural gas sold by sector in Spain (Mm³)**




● Industrial ● Residential and commercial

Sines refinery cogeneration plant.

## POWER

The aim of the power business is to develop a competitive energy generation portfolio with cogeneration plants, wind power and a joint offering of electricity and natural gas alongside other energy products.

## COGENERATIONS

The launch of the Sines refinery cogeneration plant in 2009 doubled capacity to 160 megawatts. Alongside the Matosinhos cogeneration plants, which is still under construction, this will result in a total increase in consumption of 500 million cubic metres of natural gas each year, so integrating further the natural gas and power businesses to achieve a key strategic goal for this business segment.

In 2010, the cogeneration operations sold 1,202 GWh of power to the grid, up by 70% from 2009. This was due to the launch of the Sines cogeneration plant, which accounted for 55% of the power sold to the grid.

### SINES REFINERY COGENERATION

The 80MW Sines cogeneration plant had its first full year of operation in 2010 following total capital expenditure of €77 million.

In 2010, the plant used about 252 million cubic metres of natural gas with an availability rate of 100% and supplied the Sines refinery with 1.9 million tonnes of steam. The entire production from the plant's gas turbines was delivered to the public grid.

### MATOSINHOS REFINERY COGENERATION

Galp Energia is also building a cogeneration plant in the Matosinhos refinery, where construction started in March 2009 and proceeded briskly in 2010. The plant, which is scheduled to come into operation by the end of 2011, will be equipped with two gas turbines with a joint production capacity of 80MW.

### CARRIÇO, POWERCER AND ENERGIN

These three cogeneration plants, which are part owned by Galp Energia and have a joint capacity of 80MW, used 162 million cubic metres of natural gas to generate 543 GWh of power in 2010, 99.6% of which was sold to the grid.

The cogeneration plants, including the one at Sines, are Galp Energia's current single source of power generation with priority access to the grid for sale at a regulated tariff. This special regime rewards the reduced costs and superior operating and environmental efficiency of a cogeneration plant compared to alternative power generation systems like a combined-cycle gas turbine (CCGT) plant.

## THE SINES COMBINED-CYCLE PLANT

During 2010 Galp Energia analysed suppliers' engineering, procurement and construction (EPC) proposals for the construction of the combined-cycle plant. After this analysis, and taking current market conditions into account, the Company will decide its approach to the development of the Sines combined-cycle plant in 2011.

## WIND POWER

Galp Energia increased its 34% stake in a wind power project to 49%. This corresponds to 200MW of installed capacity, which is expected to be in place by 2013.

Construction of the 12MW Vale Grande wind farm, which started in the fourth quarter of 2010, is scheduled for completion in 2011.

## MARKETING OF ELECTRICITY

In 2010, Galp Energia continued to sell power to several Group companies as it stepped up efforts to offer single and dual offers (those consisting of electricity and natural gas) to industrial clients.

In 2010, Galp Energia achieved power sales to end customers of 69 GWh, an increase compared to the 4 GWh sales of 2009.

THE COGENERATION PLANT OF THE MATOSINHOS REFINERY IS EXPECTED TO COME INTO OPERATION IN LATE 2011.


galp energia
galp energia

# 03

# FINANCIAL REVIEW

GALP ENERGIA'S RCA NET PROFIT IN 2010 WAS €306 MILLON, €92 MILLION HIGHER THAN IN 2009, MAINLY AS A RESULT OF THE RISE IN THE PRICE OF CRUDE OIL IN INTERNATIONAL MARKETS, THE IMPROVEMENT OF THE REFINING MARGIN AND HIGHER VOLUMES OF NATURAL GAS SOLD.

# EXECUTIVE SUMMARY

**Galp Energia's RCA net profit in 2010 was €306 million, up by 43% from 2009 caused by the improvement of operating performance in the Gas & Power and the Refining & Marketing business segments.**

The rise in the prices of dated Brent and the oil products in international markets and the higher refining margin achieved by Galp Energia had a positive impact on its financial performance in 2010.

The highlights of Galp Energia's financial performance in 2010 were:

- net-entitlement production of crude in 2010 increased by 22% over 2009, to 11.8 thousand barrels per day, thanks to contributions from the Tupi and Tômbua-Lândana CPT projects;
- in 2010, the refining margin was $2.6/bbl, up by $1.2/bbl from 2009, helped by the recovery of the margins in international markets;
- the marketing of oil products continued to contribute consistently to Galp Energia's results; and
- volumes of natural gas sold increased by 5% in comparison to 2009, to 4,926 million cubic metres; 75% of this was on the liberalised market.

DESPITE THE ADVERSE ECONOMIC ENVIRONMENT IN 2010, GALP ENERGIA IMPROVED ITS OPERATING PERFORMANCE IN ALL SEGMENTS.

# INCOME STATEMENT ANALYSIS

## OPERATING PROFIT

The Group's RCA operating profit in 2010 was €454 million, up by 58% over 2009, mostly caused by the increase of the refining margin and the volume of crude processed, as well as the rise of volumes of natural gas sold. The IFRS operating profit was €639 million.

### SALES AND SERVICES RENDERED

In 2010, sales and services rendered amounted to €14,064 million, up by 17% over 2009. This reflects the rise in sales of natural gas and crude production, the higher volume of crude processed and the behaviour of the prices of crude, natural gas and oil products in international markets. Adjusted sales and services rendered stood at €13,998 million.

## Income statement (M€)

| | 2009 | 2010 | Change | % Change |
|---|---|---|---|---|
| Turnover | 12,008 | 14,064 | 2,055 | 17% |
| Operating expenses | (11,283) | (13,132) | 1,849 | 16% |
| Other operating revenues (expenses) | 105 | 122 | 17 | 16% |
| **EBITDA** | **830** | **1,053** | **223** | **27%** |
| D&A and provisions | (371) | (414) | 43 | 12% |
| **Operating profit** | **459** | **639** | **180** | **39%** |
| Net profit from associated companies | 70 | 74 | 4 | 6% |
| Net profit from investments | (1) | 0 | 1 | n.m. |
| Net interest expenses | (76) | (98) | (22) | 29% |
| Profit before tax and minority interests | 451 | 614 | 163 | 36% |
| Income tax | (99) | (166) | 68 | 69% |
| Minority interests | (6) | (6) | (1) | 16% |
| **Net profit** | **347** | **441** | **94** | **27%** |
| | | | | |
| **Net profit** | **347** | **441** | **94** | **27%** |
| Inventory effect | (161) | (156) | 5 | 3% |
| **Net profit RC** | **186** | **285** | **99** | **53%** |
| Non recurrent items | 27 | 21 | (6) | (24%) |
| **Net profit RCA** | **213** | **306** | **92** | **43%** |

### OPERATING COSTS

In 2010, net operating costs amounted to €14 billion, a 16% rise over 2009. This increase is mainly the result of a rise in the cost of goods sold and in depreciations.

The cost of goods sold grew by €1.8 billion to €12 billion, a consequence of increases in the price of crude oil products and natural gas in international markets.

Depreciations totalled €331 million. This was due to the increase in the Exploration and Production business caused by a downward revision of the reserves in Angola.

**€454**

**MILLION**

RCA operating profit rose by 58% in 2010, which was due not only to the increase of crude prices, oil products and natural gas in international markets, but also to Galp Energia's improved operating performance.

## Net operating costs (M€)

| | 2009 | 2010 | Change | % Change |
|---|---|---|---|---|
| **Cash operating costs** | | | | |
| Cost of goods sold | 10,193 | 11,997 | 1,803 | 18% |
| Supply and services | 751 | 781 | 30 | 4% |
| Personnel costs | 339 | 355 | 16 | 5% |
| Other operating (revenues) expenses | 36 | 41 | 5 | 13% |
| **Non cash operating costs** | | | | |
| Depreciation and amortisation | 307 | 331 | 24 | 8% |
| Provisions | 64 | 83 | 20 | 31% |
| **Total** | **11,690** | **13,588** | **1,897** | **16%** |

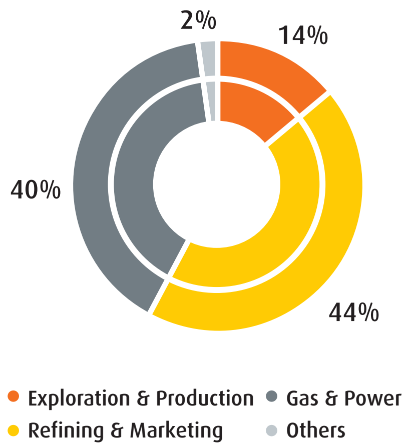
Tômbua-Lândana CPT's.

# RCA OPERATING PROFIT BY BUSINESS SEGMENT

## EXPLORATION & PRODUCTION

RCA operating profit in 2010 dropped to €61 million from 2009's €67 million, mostly because of the increase in depreciations and provisions in Angola. The 22% growth of the net-entitlement production and the 28% growth of the average sales price of production in Angola were not enough to reverse the effect of the increase in non-cash costs.

### RCA operating profit by business segment in 2010




Production costs in Angola totalled €34 million, against €25 million in 2009. On the basis of the net-entitlement production, the unit cost of \$10.5/bbl rose to \$12.1/bbl in 2010. This was a result of the start of operations of Tômbua-Lândana's CPT and an increase in the difference between working interest production and net-entitlement production, which led to a smaller base for spreading costs.

In Angola, depreciations peaked at €96 million, up by €56 million from the previous year, mostly as a result of the capital spending in Tômbua-Lândana's CPT and the rise of the asset depreciation rate in the country caused by the downward revision of the reserves. Based on net-entitlement production, this corresponds to a unit cost of \$34.5/bbl, against \$17.3/bbl in 2009.

In 2010, provisions amounted €29 million, up €24 million from

### Operating profit (M€)

| | 2009 | 2010 | Change | % Change |
|---|---|---|---|---|
| Exploration & Production | 31 | 49 | 17 | 55% |
| Refining & Marketing | 316 | 399 | 83 | 26% |
| Gas & Power | 113 | 189 | 76 | 67% |
| Others | (2) | 2 | 4 | n.m. |
| **Operating profit** | **459** | **639** | **180** | **39%** |
| Inventory effect | (211) | (212) | (1) | 0% |
| **Operating profit RC** | **248** | **427** | **179** | **72%** |
| Non recurrent items | 39 | 27 | (12) | (31%) |
| **Operating profit RCA** | **287** | **454** | **167** | **58%** |
| Exploration & Production | 67 | 61 | (6) | (9%) |
| Refining & Marketing | 79 | 201 | 121 | 153% |
| Gas & Power | 135 | 182 | 47 | 35% |
| Others | 5 | 10 | 5 | 90% |

2009, due to the provisions created for the departure from Block 14. These are recoverable under the cost oil from 2011, and through the oil tax (IRP) payment referring to previous years.

### REFINING & MARKETING

RCA operating profit in 2010 was €201 million, up by €121 million over 2009, which was negatively influenced by the incident in the Sines refinery's utilities unit.

Galp Energia's refining margin was \$2.6/bbl, against \$1.5/bbl in 2009, following increases in refining margins in international markets and the influence of the incident in the utilities unit in the Sines refinery in 2009.

In 2010, the refining operational cash costs were €135 million, against €116 million in 2009, which was equivalent to a unit cost of \$2.1/bbl, in line with 2009.

The time lag in 2010 had a negative effect of €37 million. This was a significant improvement over the negative effect of €56 million in 2009.

The contribution of Spanish market operations to marketing oil products showed an improvement over 2009, due to the positive impact of synergies achieved in the Group's acquisitions of former Iberian subsidiaries of Agip and ExxonMobil.

### GAS AND POWER

RCA operating profit for the 12 months grew by 35% from 2009, to €182 million. The marketing of natural gas and power made a positive contribution and offset the lower profit from the infrastructure business.

RCA operating profit in the marketing of natural gas rose by €44 million to €79 million as:

(i) an optical fibre lease was terminated and revenues were recognised in the second quarter of 2010 rather than over the originally scheduled 20 years; and

(ii) volumes sold into the liberalised market increased by 15%. However, there was a negative effect related to the margin of marketing of natural gas in the 12 months of 2010, which was affected by the higher acquisition costs of natural gas.

The RCA operating profit of the Group's infrastructure business fell by 2% from 2009 to €92 million in 2010. This was caused by the decline in the allowed revenues between the gas years 2008/2009 and 2009/2010. This was because the change in allocation of allowed revenues between the two periods favoured the 12 months of 2009.

**€201**
**MILLION**

In 2010, Refining & Marketing had an RCA operating profit of €201 million, much higher than was achieved in 2009.

THE 43% INCREASE IN NET PROFIT REFLECTED THE RISE IN BOTH OIL PRICE AND CRUDE PRODUCTION, THE IMPROVEMENT IN THE REFINING MARGIN AND PROCESSED CRUDE VOLUME AND THE INCREASE IN THE VOLUME OF NATURAL GAS SOLD.

## RESULTS FROM ASSOCIATES

**In the 12 months of 2010, results from the Group's associated companies grew by 6% from 2009, to €74 million.**

The EMPL, Gasoducto Al Andalus and Gasoducto Extremadura international pipelines contributed €50 million to the results.

## FINANCIAL RESULTS

Financial losses amounted to €98 million, 22% less than in 2009, reflecting a €520 million rise in average debt to €2,852 million in 2010. Both the decrease in 25 basis points of the average cost of debt, to 3.55%, and the refinancing of short-term debt through a bond issue of €300 million in November 2010 had a positive effect.

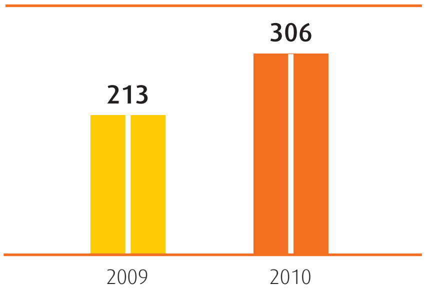
## TAXES

In RCA terms, income tax in 2010 reached €117 million, up by €56 million from 2009, following increases in the Group's results and oil tax paid in Angola (IRP). Oil tax paid in Angola totalled €43 million in 2010, in comparison with €20 million a year earlier. This increase arose from higher production of profit oil under PSA. The effective RCA tax rate was 27% and reflected the increase in 2.5 percentage points to 29% of the marginal company tax in Portugal, which came into effect from June 2010.

## NET PROFIT

In 2010, RCA net profit was €306 million, 43% higher than in 2009, boosted by the rise in oil price, crude production, the improved refining margin and processed crude volume, and the increase in the volume of natural gas sold. IFRS net profit was €441 million, including a favourable inventory effect of €156 million, following the rise in oil price and oil products in international markets.

RCA net profit (M€)




Taxes (M€)

| | 2009 | 2010 | Change | % Change |
|---|---|---|---|---|
| **Income tax IFRS[1]** | **99** | 166 | **68** | **69%** |
| Effective income tax rate | 22% | 27% | 5 p.p. | n.m. |
| Inventory effect | (50) | (55) | 6 | 12% |
| **Income tax RC[1]** | **49** | 111 | **62** | **126%** |
| Non recurrent items | 12 | 6 | (7) | (54%) |
| **Income tax RCA[1]** | **61** | **117** | **56** | **91%** |
| Effective income tax rate | 22% | 27% | 5 p.p. | n.m. |

(1) Includes oil tax (IRP) payable in Angola.


Hydrocraker's reactor in transit to the Sines refinery.

IN 2010, CLOSE TO 50% OF TOTAL CAPITAL SPENDING WAS ALLOCATED TO THE UPGRADE PROJECT OF THE SINES AND MATOSINHOS REFINERIES.

# CAPITAL EXPENDITURE

**Capital expenditure of €1,233 million in 2010 was predominantly allocated to the Refining and Marketing business segment. This absorbed 65% of the total, due to the Group's refinery conversion projects.**

### Capital expenditure (M€)

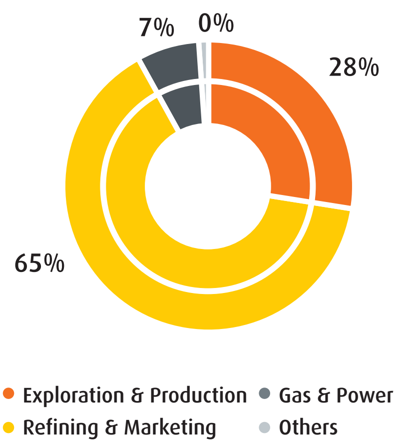
| | 2009 | 2010 | Change | % Change |
|---|---|---|---|---|
| Exploration & Production | 193 | 341 | 148 | 77% |
| Refining & Marketing | 456 | 800 | 344 | 75% |
| Gas & Power | 77 | 87 | 10 | 12% |
| Other | 3 | 5 | 2 | 50% |
| **Total** | **730** | **1,233** | **503** | **69%** |

In the Exploration and Production business segment, capital expenditure was predominantly focused on Brazil, mainly on offshore fields, where the Tupi field accounted for €173 million. Spending in Angola was mainly allocated to development activities in Block 14. This accounted for €93 million, of which €52 million was spent at the BBLT field.

In the Group's Refining and Marketing business segment, spending in 2010 totalled €800 million, of which €630 million was channelled to the refinery conversion projects.

Capital expenditure of €87 million in the Gas and Power business segment centred mainly on the construction of the cogeneration plant at the Matosinhos refinery and the expansion of the natural gas distribution network in Portugal.

### Capital expenditure by business segment in 2010



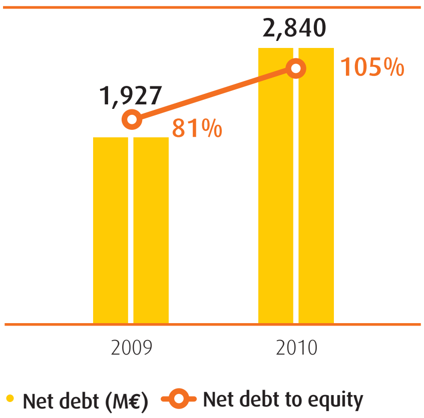
AT THE END OF DECEMBER 2010, THE TANGIBLE ASSETS IN PROGRESS WERE €1,981 MILLION, FOLLOWING THE EXECUTION OF THE TRANSFORMATIONAL PROJECTS.

Employees of Galp Energia.

## CAPITAL STRUCTURE ANALYSIS

**At the end of December 2010, fixed assets of €5,426 million were €1,047 million higher than at the end of 2009. This was due to 2010 spending within both the Refining & Marketing and Exploration & Production business segments. Of the Group's fixed assets, €1,981 million refers to ongoing fixed assets following the execution of the transformational projects that will start generating cash flow from 2011.**

### Net debt evolution




### Consolidated financial situation (M€, unless indicated to the contrary)

| | December 31, 2009 | December 31, 2010 | Change |
|---|---|---|---|
| Fixed assets | 4,379 | 5,426 | 1,047 |
| Tangible assets in progress | 1,015 | 1,981 | 966 |
| Strategic stock | 575 | 792 | 217 |
| Other assets (liabilities) | (333) | (336) | (3) |
| Working capital | (305) | (330) | (25) |
| | | | |
| Short-term debt | 424 | 616 | 193 |
| Long-term debt | 1,747 | 2,412 | 665 |
| **Total debt** | **2,171** | **3,028** | **858** |
| Cash | 244 | 188 | (56) |
| **Total net debt** | **1,927** | **2,840** | **914** |
| **Total shareholder's equity** | **2,389** | **2,711** | **322** |
| **Capital employed** | **4,316** | **5,552** | **1,236** |
| **Net debt to equity** | **81%** | **105%** | **24 p.p.** |

The Group's strategic stock increased by €217 million in 2010, due to the rise in the price of oil products during the year. In 2010, Galp Energia maintained its focus on the management of working capital, which led to a reduction of €25 million when compared with 2009.

Net debt at the end of December 2010 stood at €2,840 million. This was €914 million higher than at the end of December 2009, following capital spending throughout the year. With the increase in debt, the net debt-to-equity ratio reached 105% at the end of 2010. Average debt at the end of 2010 reached €2,852 million, up from €2,332 million in the same period a year earlier, reflecting the trend in the increase in net debt.

At the end of 2010, long-term debt accounted for 80%, in line with the financing structure at the end of 2009.

As part of its efforts to refinance short-term debt into medium and long-term debt, Galp Energia issued a €300 million bond in November 2010. At the end of 2010, 35% of medium and long-term debt was on a fixed-rate basis.

The average life of debt was 3.1 years at the end of December 2010. At the end of 2009, the average life of debt was 3.53 years.

Average debt at the end of 2010 was €2,852 million, higher than the €2,332 million of a year earlier.

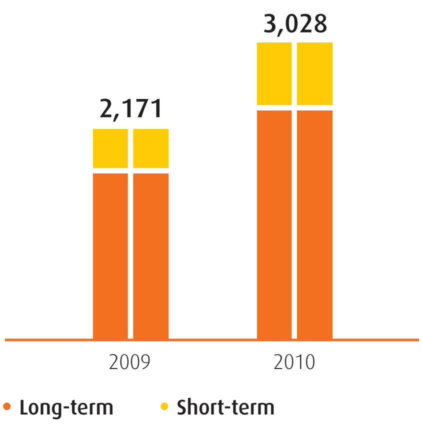
The average cost of debt in 2010 was 3.55%, less by 25 basis points than in 2009. This fall reflects both the decline in benchmark interest rates and Galp Energia's efforts to ensure good financing conditions by maintaining a strong relationship with the banking system.

In 2010, Galp Energia restructured the profile of debt repayment to match the expected profile of cash flow generation. Galp Energia does not plan a high amount of debt repayment up to the end of 2011, since this will still be a period of strong capital expenditure. Debt repayment is therefore targeted to start in 2012.

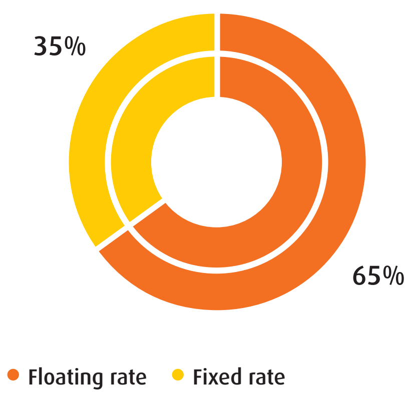
At 31 December 2010, net debt attributable to minority interests amounted to €25 million.

At the end of 2010, Galp Energia had lines of credit worth €1.2 billion, contracted with a group of Portuguese and international banks.

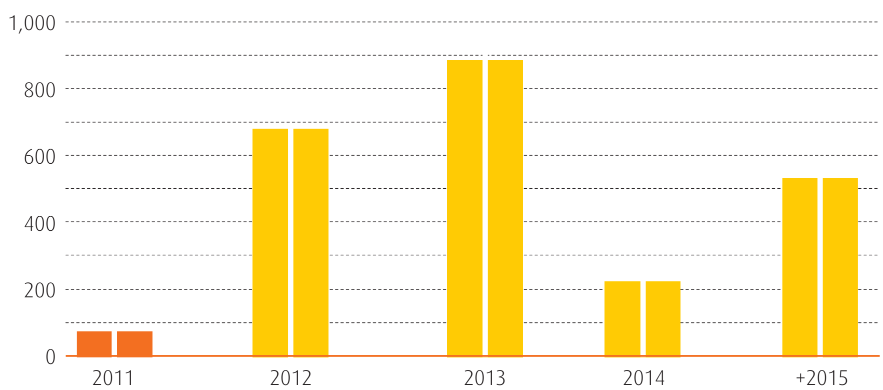
**Debt by term (M€)**




**Debt by type of interest rate in 2010**




**Profile of debt repayment (M€)**

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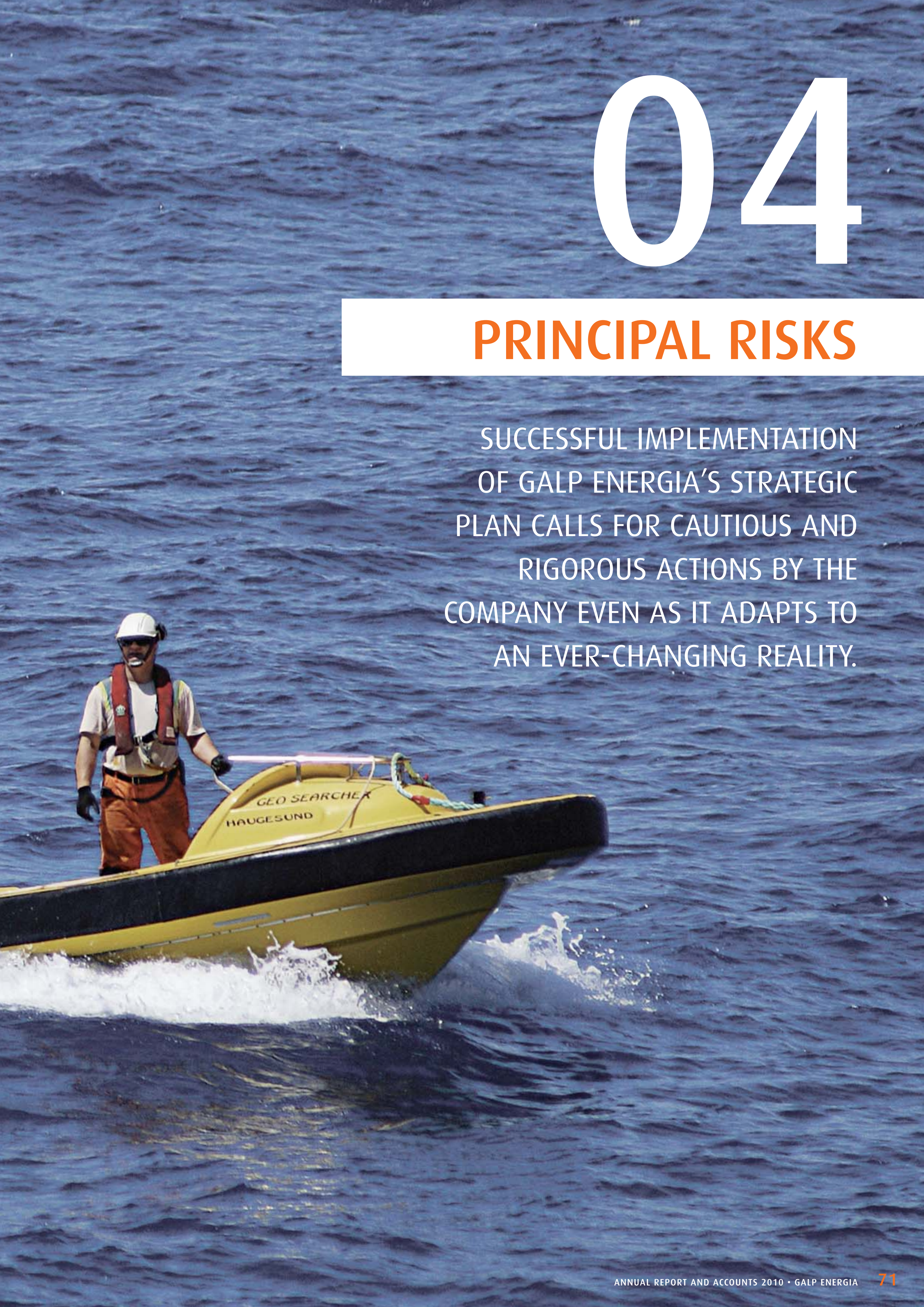
# 04

# PRINCIPAL RISKS

SUCCESSFUL IMPLEMENTATION OF GALP ENERGIA'S STRATEGIC PLAN CALLS FOR CAUTIOUS AND RIGOROUS ACTIONS BY THE COMPANY EVEN AS IT ADAPTS TO AN EVER-CHANGING REALITY.



# RISKS FACED BY GALP ENERGIA

**Galp Energia's operations and earnings are always subject to the risk that competitive, economic, political, legal, regulatory, social, industry, financial or business conditions may change.**

These risks may have a material adverse effect on Galp Energia's results from operations or financial position. Management takes action to mitigate some of these risks when appropriate. The fact that the following risks are emphasised does not rule out the possibility that other risks of equal or greater importance may exist.

WHEN PRICES DECLINE, THE VALUE OF INVENTORIES OF CRUDE OIL AND OIL PRODUCTS FALLS.

## MARKET RISKS

### FLUCTUATIONS IN THE PRICES OF CRUDE OIL, OIL PRODUCTS AND NATURAL GAS

The price of oil, natural gas and oil products is affected by supply and demand. This in turn is influenced by operational issues, natural disasters, weather conditions, political instability or strife, economic conditions or actions taken by major oil-exporting countries. A decline in the price of crude oil or natural gas may have a material adverse effect, as both the ability to extract discovered reserves economically and the prices achieved from production might be impaired. Possible consequences could include planned or active projects becoming financially unfeasible. Rising prices of crude oil or natural gas may also impact the Company negatively as purchase costs rise. Although the prices that Galp Energia charges its customers are always set to reflect market prices, it may not always be possible to adjust them immediately to fully do so, particularly in the regulated natural gas market. Significant price changes that take place in the period between the purchase of crude oil and other raw materials and the sale of refined products could therefore have an unfavourable effect on Galp Energia's results.

### MOVEMENTS IN EXCHANGE RATES

Galp Energia's activities are exposed to risks involved in exchange rates movements, in particular those of the US dollar against the euro. This is because the prices of crude oil, natural gas and most refined products – therefore comprising a significant proportion of Galp Energia's costs and revenues – are either denominated in or pegged to the US dollar, whereas the Company's financial statements are prepared in euros. This means that any depreciation of the US dollar against the euro can impact Galp Energia's results unfavourably, as it would impair the value of the Company's profits in US dollars or values otherwise pegged to the US dollar. In addition, downward movements in the euro against the US dollar can affect the value of inventories or loans.

### COMPETITION

The energy sector is highly competitive across every link in the value chain. Any failure to adequately analyse, understand or respond to the competitive environment could affect Galp Energia's financial position.

## OPERATIONAL RISK

### PROJECT COMPLETION

Galp Energia's successful execution of its strategic plan, its results and its financial strength all depend upon the completion of projects within budget, on time and in accordance with agreed specifications. Such projects are subject to health, safety and environmental hazards, as well as to technical, commercial, legal, economic and contractor risks.

### GROWTH AND ESTIMATION OF RESERVES AND RESOURCES

Galp Energia's future output of oil and natural gas depends on the Company successfully, regularly and economically finding, acquiring and developing new reserves that will replace dwindling reservoirs. There is never an assurance that exploration and development activities will succeed or that, if they do, the size of the discoveries will be sufficient either to replenish current reserves or cover the exploration costs. If it is not successful in developing new reserves, Galp Energia will not meet its production targets and its total proved reserves will decline. This will have a negative effect on the future results of the Company's activities and its financial position.

### DEVELOPMENT OF RESERVES

Once exploration opportunities or new projects have been identified, Galp Energia needs to carry out certain actions before making an investment decision. These actions include marketing, feasibility studies and concept selection and definition. There are several factors during these pre-sanction phases that may expose a project to additional risks and costs. The main regulatory risks at this time are the potential failure to negotiate any required appropriate agreements, with host governments, a lack of knowledge and understanding of the host country's regulatory framework, and the failure to obtain from relevant local authorities the relevant permits, licences or approvals needed to carry out certain operations.

### RELIANCE ON THIRD PARTIES

For a substantial part of its operations, Galp Energia depends on continued access to crude oil, natural gas and other raw materials and supplies at appropriate prices. In particular, the Company is to a large extent dependent on sourcing natural gas from Sonatrach in Algeria and liquefied natural gas from Nigeria LNG. The Company's ability to access current sources of crude oil, natural gas and other raw materials might be interrupted as a result of a range of events. These could include political changes that have structural effects on the sector, limited pipeline capacity and other problems in transporting oil or natural gas from current sources, all of which may increase sourcing costs and have a negative effect on the Company.

### EFFICIENT OPERATIONS

A number of factors might affect the integrity of Galp Energia's assets, including unplanned shutdowns or equipment failure. Failure to have robust systems and processes in place across

PROJECTS MAY FAIL FOR MANY REASONS, FROM COST OVERRUNS TO LEGAL OR TECHNICAL ISSUES.

the Company may adversely impact plant availability, production volumes and, ultimately, cash flow. Failure to ensure asset integrity and best practice in process safety could result in safety or environmental incidents.

### HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

Given the range and complexity of Galp Energia's operations, the Company faces many potential HSE risks, including major incidents in process safety, failure to comply with approved policies, the effects of natural disasters, social unrest, civil war and terrorism, exposure to general operational hazards, personal health and safety, and crime. A major HSE incident could result in injury or loss of life, damage to the environment or the destruction of buildings and other facilities. Depending on their cause and severity, such incidents may affect Galp Energia's reputation, operational performance and financial position. Emissions of greenhouse gases and associated climate change are real, current risks to the Company and to society at large. If Galp Energia is unable to find and implement solutions that prevent $CO_2$ emissions from being made by new and existing projects, new regulatory controls and the widespread criticism of many sectors of society may cause delays and additional costs, consequently affecting Galp Energia's operational performance or financial position.

### PRODUCT QUALITY

Failure to meet product quality standards throughout the value chain may harm people or the environment, potentially causing the Company to lose clients.

### HUMAN RESOURCES

The successful execution of Galp Energia's business strategy relies on the skills and commitment of its employees and management teams. The Company's future success will depend on its ability to attract, keep, motivate and organise highly skilled personnel.

THE SUCCESSFUL EXECUTION OF GALP ENERGIA'S BUSINESS STRATEGY RELIES ON THE SKILLS AND COMMITMENT OF ITS EMPLOYEES.

## COMPLIANCE

### TAXES AND TARIFFS

Galp Energia operates in several countries around the world. All of these have the ability to modify their tax laws in ways that could adversely affect the Company. Galp Energia is subject, among other levies, to corporate taxes, energy taxes, petroleum revenue taxes, customs surtaxes and excise duties, each of which may affect its revenues and earnings. In addition, Galp Energia is exposed to changes in regimes affecting the royalties and taxes that are levied on crude oil and natural gas production. Significant changes in the tax regimes of those countries where the Company operates could have an adverse effect on Galp Energia's operational performance or financial condition.

### POLITICAL, REGULATORY AND ECONOMIC RISKS

Galp Energia's main exploration and production activities take place in non-European countries with developing economies or political and regulatory environments that have been unstable at times.

Galp Energia also sources natural gas from Algeria and Nigeria for its marketing business, and sells its oil products in several African countries. As a result, a proportion of the Company's revenues is, and increasingly will be, derived from or dependent on countries with economic and political risks. These include the possible expropriation and nationalisation of property and increases in taxes or royalties.

Galp Energia believes that it abides by international norms in all those countries where it operates. However, any irregularities that may be either uncovered or alleged may have a material adverse effect on the Company's ability to conduct business or on the value of its shares.

## STAKEHOLDER ENGAGEMENT

A number of stakeholder groups have legitimate interests in the Company's business. These include employees, investors, the media, governments, civil society groups, non-governmental organisations and people living in local communities affected by Galp Energia's operations. The Company's reputation and/or share price could suffer from inappropriate or inadequate communication with stakeholders. This might include the failure to engage with certain groups and the delivery of inconsistent messages to key partners on the objectives and strategy of the business. Other damaging actions might include making an inadequate response to any crisis or serious incident that might occur and a failure to provide adequate explanations if performance targets are not met or the Company's

Galp Energia employees at a playground construction site.

performance is perceived as poor compared with its competitor's.

## CORPORATE RESPONSIBILITY

A failure by Galp Energia to implement its business principles, or the need to conduct any investigations likely to damage it, may influence the Company's reputation or its share price. Each of the following risks may affect the Company's ability to complete projects on time and on budget, thereby damaging its reputation:

(i) a failure to manage environmental damage, social consequences and human rights in investment decisions, pricing policies, project planning and operational management;

(ii) a failure to identify stakeholder and governance expectations; and

(iii) weak internal controls or the ineffectual implementation of anti-corruption policies.

CREDIT RISK LIMITS ARE SET CENTRALLY BY THE COMPANY AND DELEGATED TO EACH BUSINESS UNIT.

## TREASURY, CREDIT AND INSURANCE

### INTEREST RATE AND LIQUIDITY RISK

Galp Energia's interest costs may be affected by volatile interest rates. The Company also faces liquidity risks, including those inherent in the refinancing of loans as they mature, the risk that credit lines might not be available to meet cash requirements and the risk that financial assets cannot be readily converted into cash without impairing value. A failure to manage financial risks may have a material impact on Galp Energia's cash, balance sheet or financial position.

### CREDIT RISK

Galp Energia's credit risk arises from the possibility of a counterparty not meeting its contractual payment obligations. This means that the size of the risk depends on the counterparty's credit record. Counterparty risk also comes with financial investments and hedging instruments. Risk is quantified as the expected loss the Company would sustain were the counterparty to default.

### RETIREMENT PLANS

Galp Energia provides a defined benefit retirement plan for some of its employees, under which additional benefits are paid as a supplement to social security pensions. The amount depends on the individual's length of service and final salary. The most critical risks to pensions accounting usually concern both returns on invested assets and the discount rate used to calculate the current value of future payments.

Pension obligations can put significant pressure on cash flows. In particular, if pension funds are underfunded Galp Energia may be called upon to make additional contributions. This may negatively affect its business, its financial position or the results of its operations.

### INSURANCE

Galp Energia takes out insurance in line with its industry's best practice relating to business risks. Among others, the insured risks include damage to property and equipment, third-party liability, liability for the transportation of crude oil and other goods by sea, pollution and contamination, directors' and officers' third-party liability and workplace accidents. Nevertheless, some major risks inherent in Galp Energia's activities cannot reasonably be insured for a commercially appropriate sum.

Galp Energia employee.

# RISK MANAGEMENT POLICY

**Galp Energia faces exposure to various types of risk. The Company has defined policies and procedures that help it measure, manage and monitor these exposures.**

The purpose of the Company's risk management policy is to support its business units in achieving their goals while monitoring the potential impact of risks on its results. The policy aims first to optimise the protective effects of natural buffers both within and between business units. Next, the Company identifies any residual market risks that may affect expected cash flows or certain balance sheet items. It then reviews them in an integrated manner, taking into account possible correlations between external variables, beyond the control of the Company, that may nonetheless influence the results of its operations. The Company conducts regular risk reappraisals on the main businesses, so ensuring that the risks to which it is actually exposed are indeed those that management perceives. This minimises the risk for potentially negative surprises.

The Board of Directors sets Galp Energia's risk management policy, defining goals and procedures and allocating responsibilities for risk management across the Company. The risk management committee includes two members from the executive committee and several representatives from the corporate finance department, the Refining and Marketing business unit and the department that procures natural gas. The risk management committee

GALP ENERGIA CONDUCTS REGULAR RISK REAPPRAISALS ON THE MAIN BUSINESS.

## Implementation of a risk management programme

**Risk management programme**

**1. Identification**

Quantitative and qualitative measurement of risks.

**2. Management**

Risk mitigation, risk transfer, risk dampening, acceptance of certain levels of risk.

**3. Implementation**

Defines internal mechanisms and assigns responsibilities.

**4. Control**

Sets appropriate control mechanisms to monitor the effectiveness of Galp Energia's risk management programme.

**5. Revaluation**

Assures every moment to what risks the Company is indeed exposed avoiding negative surprises.

The purpose of introducing a risk management programme is to keep the risk linked to certain activities below levels that are acceptable to the Company.

establishes the mechanism for implementing the risk management policy and submits it to the executive committee for approval. Outcomes are evaluated on a monthly basis by the corporate unit that is responsible for all business units. If appropriate, the risk management committee may change the risk management policy within the guidelines set by the Board of Directors, or propose a new strategy at any time.

The policy for managing risks affecting commodity prices is implemented at the business unit level, by monitoring the Company's net global commodity position and balancing its purchase and supply of crude oil commitments. In particular, Galp Energia manages the pricing period to achieve, at the end of each month, the month's average price for dated Brent, regardless of the actual days of the pricing period. The Company pursues this goal by buying or selling crude oil futures each day, based on the difference between the spot price and the average price of dated Brent in each month. As a result, Galp Energia spreads its purchases over each month, based on market prices, without affecting the pattern of physical operations. The Company hedges these prices on the Intercontinental Exchange (ICE) in London. To hedge against movements between the prices of the products the Company exports and those crude oil or oil products it buys, Galp Energia fixes the margin of part of its exports on a monthly basis. Hedging transactions comprise both swaps and futures.

On the natural gas business, due to market liberalisation, the Company uses the over-the-counter (OTC) markets to offer its clients the price structures they request.

The Company's corporate finance and treasury departments manage interest rate, exchange and other financial risks. Galp Energia's total interest rate position, including financial investments and debt, is monitored by the central unit that is responsible for the business units. The exposure to interest rate risk is mainly related to interest-bearing debt on the balance sheet and interest rate derivatives. The purpose of managing interest rate risk is to lower the volatility of interest charges in the income statement. Galp Energia's policy for managing interest rate risk aims to reduce exposure to floating rates by fixing the interest rate on part of the debt, using plain-vanilla derivative instruments such as swaps.

Galp Energia maintains adequate credit lines, available for use when needed, to manage liquidity risk.

### SYSTEM OF INTERNAL CONTROL AND RISK MANAGEMENT

Galp Energia's system of internal control is based on the guidance of the Committee of Sponsoring Organizations (CoSO) of the Tradeway Commission. The main features of the Group's approach are described as follows:

### CONTROL ENVIRONMENT

The Group's internal control environment comprises all the internal standards and procedures for delegating powers of authority, which ensure that adequate scrutiny takes place of management decisions according to their nature and material outcome.

The supervisory board has a remit to supervise the effectiveness of the system of risk management; internal control and internal audit; and the annual assessment of the system's operation and its internal procedures.

### RISK ASSESSMENT

Since inherent risks and the effectiveness of internal controls depend on variables beginning both within and outside the organisation, the process of risk assessment cannot stand still. It is good practice to carry out regular reassessments of the risks to the main businesses, thereby ensuring that the risk profile determined by the executive committee and the response to risks by the business units are aligned.

Generally, assessments of risk analysis and internal control start with the identification and classification of the main risks and an assessment of those control systems that are in place to mitigate them. Residual risks may be measured by assessing the effectiveness of the portfolio of control systems used by the organisation, resulting in the ability to identify any possible deviations from the risk appetite set for each business unit. Finally, each business unit itemises its own exposure to residual risk and commits to a risk response plan designed to mitigate, transfer, avoid or accept residual risk.

The Chairman of the Board of Directors and the members of the Executive Committee receive assessments of each business unit's risk, internal controls and risk response plans adopted.

### MONITORING

The Audit Board supervises the adoption of those principles and policies that identify and monitor the principal financial and operations risks arising from the Group's activities, as well as the measures designed to monitor, control and disclose such risks.

To test the effectiveness of internal controls, the Audit Board conducts operational, compliance and financial audits in parallel with reviews of information systems. The annual audit plan, based on findings that arise from the evaluation of residual risks, is approved by the Chairman of the Board of Directors. The audit reports are approved by the Chairman of the Board of Directors. Nearly 70 audits were carried out in 2010.

AUDIT REPORTS ARE SENT TO THE CHAIRMAN OF THE BOARD OF DIRECTORS AND TO THE MEMBERS OF THE EXECUTIVE COMMITTEE. IN 2010, SOME 70 INTERNAL AUDITS WERE CARRIED OUT ACROSS THE GROUP.

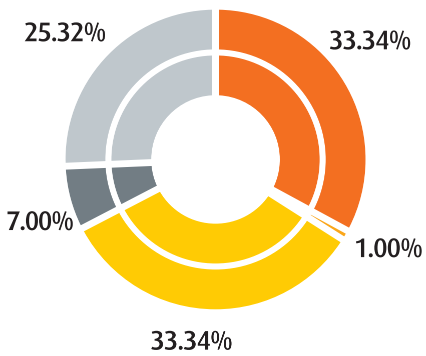

galp


# 05

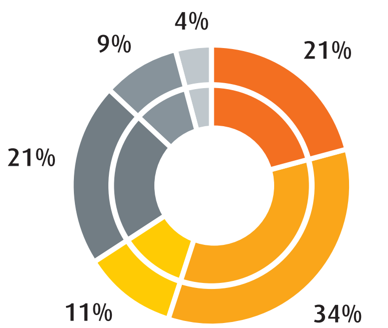
# COMMITMENT TO STAKEHOLDERS

GALP ENERGIA AIMS AT SUSTAINABLE GROWTH BY DEVELOPING AND PROMOTING ACTIVITIES THAT CREATE VALUE FOR SHAREHOLDERS, EMPLOYEES AND THE COMMUNITIES WHERE IT OPERATES.

Shareholder structure at 31 December 2010




Geographical location of institutional investors at the end of 2010




Source: Ipreo

# GOVERNANCE

## SHAREHOLDER STRUCTURE

**In 2010, the Company's shareholder structure remained unchanged, enabling Galp Energia to continue executing its declared strategy.**

Through an agreement whose provisions are briefly described below, Amorim Energia, Eni and Caixa Geral de Depósitos (CGD) agreed to keep their holdings in the Company unchanged up to 31 December 2010.

Amorim Energia has its head office in the Netherlands and its shareholders are Power, Oil & Gas Investments BV (30%), Amorim Investimentos Energéticos SGPS SA (20%), Oil Investments BV (5%) and Esperaza Holding BV (45%). The first three companies are directly or indirectly controlled by Portuguese investor Américo Amorim, and the last one is controlled by Sonangol, EP, Angola's state-owned oil company.

Eni is an Italy-based energy operator, which is listed on the Milan and New York Stock Exchanges. Eni operates in over 75 countries, in Exploration and Production, Refining and Marketing, Gas and Power, Petrochemicals and Engineering, and Construction and Drilling. At 31 December 2010, Eni had a market capitalisation of €65 billion.

CGD is Portugal's largest financial institution and is wholly owned by the Portuguese state.

Parpública manages the Portuguese state's shareholdings in several companies. In September 2010, Parpública issued seven-year bonds with a fixed coupon of 5.25%. These debt instruments are exchangeable into Galp Energia shares and the issue was part of the privatisation of an additional 7% of Galp Energia's share capital.

In late 2010, 25% of the shares were freely traded on the market. The largest part of this free float – close to 80%, or 20% of the shares outstanding – was owned by institutional investors. Private investors owned the remainder, or 5% of the total. This distribution between institutional and private investors has been stable since 2008.

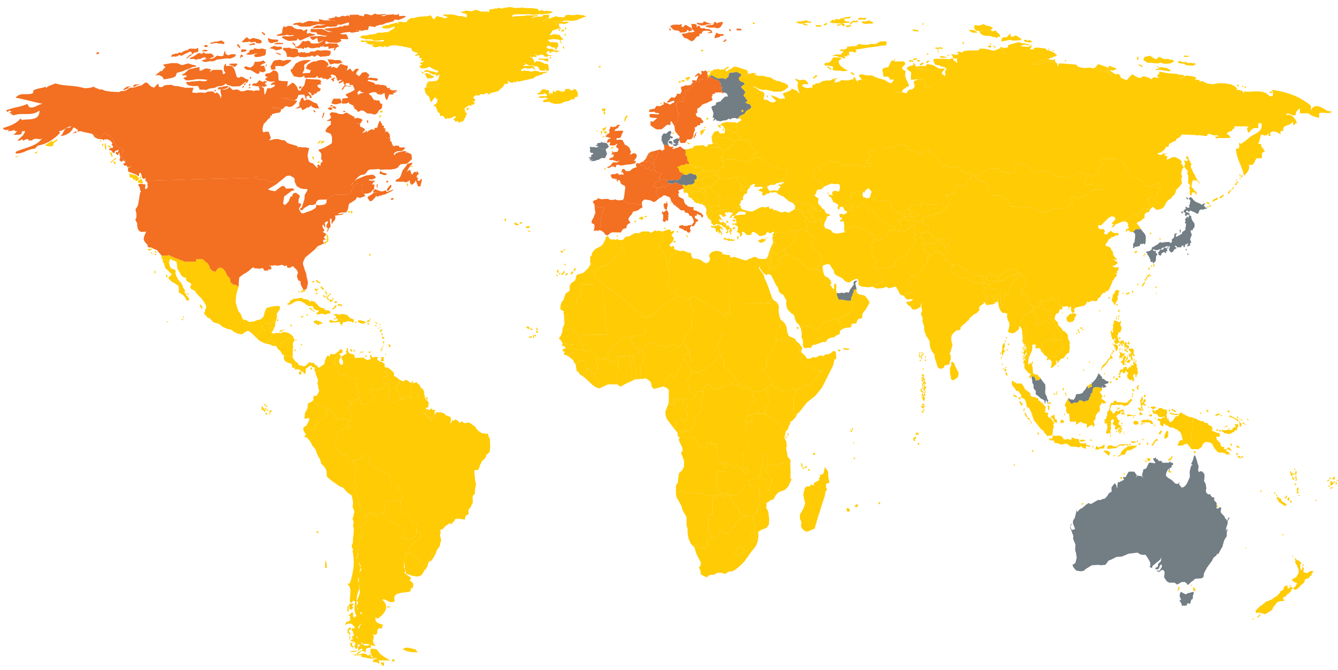
The shareholder base at the end of the year included investors from 26 countries. Galp Energia's visibility in international equity markets was evidenced by the spread of over 80% of the institutional base outside Portugal.

British institutional investors kept their leadership position despite a reduction of their share of this owner category from 37% in 2009 to 34% in 2010. Portuguese and French institutional investors accounted for 19% and 11%, respectively.

## GOVERNANCE MODEL

**Galp Energia's governance model is based on a responsible and transparent relationship between shareholders, the Board of Directors and supervisory bodies.**

## Geographical spread of institutional investors in 2010



- High concentration
- Residual concentration

Trust and effectiveness are enhanced by a clear separation of the powers of the Board of Directors and the Executive Committee. Whereas the former formulates the corporate strategy and monitors its execution, the Executive Committee focuses on operational issues assigned to it by the Board of Directors. These primarily relate to the day-to-day management of the business units and corporate services, although the Executive Committee also has an important role in developing the Company's corporate strategy.

### BOARD OF DIRECTORS

At the end of 2010, Galp Energia's Board of Directors consisted of 17 members, of whom six were Executive Directors and the remainder Non-executive Directors. Of the 11 Non-executive Directors, two, one of them the Chairman, were independent.

According to the shareholder agreement, seven Directors are proposed by Amorim Energia, seven by Eni, and one (the Chairman of the Board of Directors) by CGD. The Chief Executive Officer is jointly proposed by Amorim Energia and Eni, subject to CGD's approval. The 17th Director is jointly proposed by the three shareholders. The list of those Directors jointly proposed by the signatories to the shareholder agreement is submitted to the general meeting for approval.

The Directors' abridged CVs are contained in the corporate governance report, which is published separately.

GALP ENERGIA'S BOARD OF DIRECTORS CONSISTED OF 17 MEMBERS, OF WHOM SIX WERE EXECUTIVE DIRECTORS AND THE REMAINDER NON-EXECUTIVE DIRECTORS.

BEYOND THE FORMULATION OF THE CORPORATE STRATEGY, THE BOARD OF DIRECTORS REMIT IS TO SET UP THE COMPANY'S ORGANISATIONAL STRUCTURE AND BUSINESS PORTFOLIO, AS WELL AS TO APPROVE HIGH-RISK OR HIGH-COST CAPITAL SPENDING AND MONITOR ITS EXECUTION.

Beyond the formulation of corporate strategy, the Board of Directors remit is to set up the Company's organisational structure and business portfolio, as well as to approve high-risk or high-cost capital spending and monitor its execution.

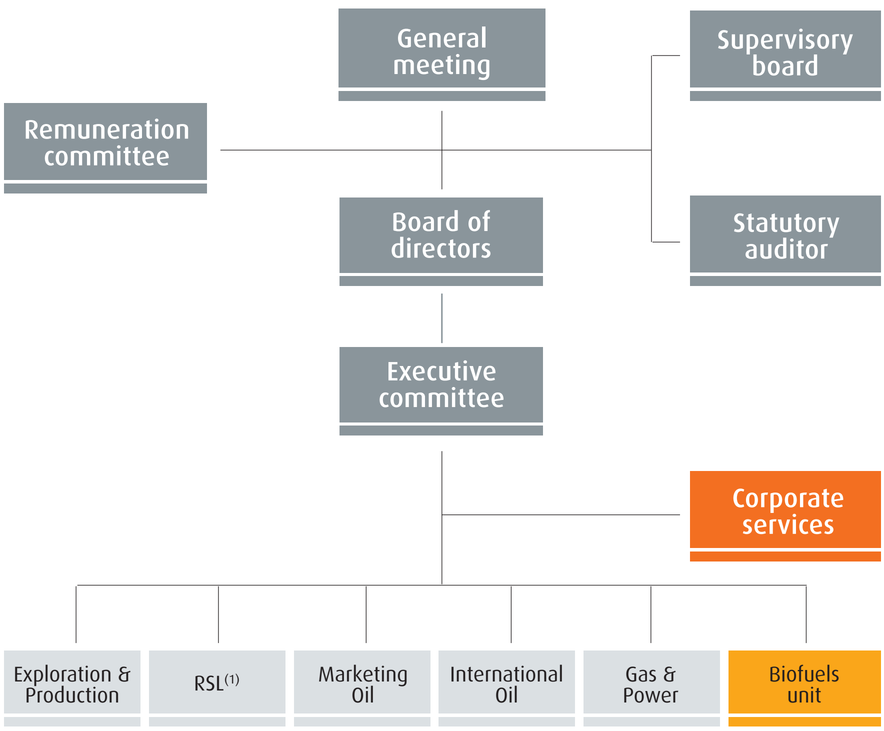
Board resolutions are generally taken by a simple majority, except for certain matters provided for in the shareholder agreement that require a supermajority of two-thirds.
This is described in detail in the corporate governance report at www.galpenergia.com.

In 2010, the Non-executive Directors played an active role in developing Galp Energia's strategy and assessing the executive committee's progress towards the attainment of set goals. Their work also included making sure that robust risk management and control systems are in place.

Eight meetings of the Board of Directors were held in the year, where the Directors were either present or duly represented. Electronic voting was used in three resolutions. In 2010, the Non-executive Directors earned a total of €1.9 million.

In 2010, two Non-executive Directors were appointed to replace two who had resigned. Following Francesco Giunti's resignation, Maria Rita Galli was co-opted onto the Board in March. In December, the Board co-opted Luca Bertelli, following Massimo Mondazzi's resignation.

## Organisational structure




Note: (1) Refining, Supply and Logistics.

## Composition of the Board of Directors

| Name | Position |
|---|---|
| Francisco Luís Murteira Nabo | Chairman, Non-executive Director |
| Manuel Ferreira De Oliveira | Vice-chairman, Chief Executive Officer |
| Manuel Domingos Vicente | Non-executive Director |
| Fernando Manuel dos Santos Gomes | Executive Director |
| José António Marques Gonçalves | Non-executive Director |
| André Freire de Almeida Palmeiro Ribeiro | Executive Director |
| Carlos Nuno Gomes da Silva | Executive Director |
| Rui Paulo da Costa Cunha e Silva Gonçalves | Non-executive Director |
| João Pedro Leitão Pinheiro de Figueiredo Brito | Non-executive Director |
| Luca Bertelli | Non-executive Director |
| Claudio De Marco | Executive Director, Chief Financial Officer |
| Paolo Grossi | Non-executive Director |
| Maria Rita Galli | Non-executive Director |
| Fabrizio Dassogno | Executive Director |
| Giuseppe Ricci | Non-executive Director |
| Luigi Spelli | Non-executive Director |
| Joaquim José Borges Gouveia | Non-executive Director |

### EXECUTIVE COMMITTEE

The Executive Committee, which remains in office until a new Executive Committee has been appointed, consists of six Directors appointed for a three-year period by the Board of Directors. The current term began in 2008 and expired at the end of 2010. The new Executive Committee will be appointed, following the election of the new Board of Directors, which is expected to take place at the 2011 annual general meeting.

The Executive Committee's remit is to manage the Company on a day-to-day basis, in accordance with the strategy formulated by the Board of Directors. In fulfilling its role, which is detailed in the corporate governance report, the Executive Committee manages the business units, allocates resources, seeks synergies and monitors the execution of policies set for several areas of business.

The powers delegated by the Board of Directors require that the Executive Committee should meet regularly. In 2010, it met 45 times.

In 2010, the members of Galp Energia's Executive Committee earned total compensation of €3.5 million, of which €2.8 million was fixed, and €0.7 million consisted of contributions to retirement plans. In 2010 the Executive Committee did not earn variable compensation. The compensation received by each Director is shown in the corporate governance report.

The work of both the Board of Directors and the Executive Committee follows the rules created to formalise the workings of these two governing bodies. These can be seen at www.galpenergia.com.

THE POWERS DELEGATED BY THE BOARD OF DIRECTORS REQUIRE THAT THE EXECUTIVE COMMITTEE SHOULD MEET REGULARLY. IN 2010, IT MET 45 TIMES.

6

## APPOINTED BOARD MEMBERS

The executive committee is composed of six directors appointed by the Board of Directors for a three-year period.

The current term began in 2008 and expired at the end of 2010.

The Executive Committee remains in office until a new executive committee is appointed.

## SUPERVISORY BODIES

The supervisory role is the responsibility of a Statutory Audit Board and a firm of chartered accountants.

The Statutory Audit Board comprises three standing members and a Deputy, all independent and elected by the general meeting in compliance with the rules laid down in the shareholder agreement.

The Audit Board's remit is to: monitor the preparation and disclosure of Galp Energia's financial information; appoint, assess and dismiss, if and when necessary, the independent external auditor; supervise financial audits; and to propose for approval by the general meeting the appointment of a firm of chartered accountants or a single chartered accountant, whose independence, particularly regarding the provision of additional services, it is liable to check. The regulations guiding the activities of the Statutory Audit Board may be seen at www.galpenergia.com.

In 2010, the Statutory Audit Board met eight times. The conclusions of its supervisory actions were reported to the Board of Directors and the general meeting. A summary of these conclusions can be found in the Statutory Audit Board's opinion, which is appended to this report.

In 2010, the members of the Statutory Audit Board received total remuneration of €92.4 thousands.

## REMUNERATION POLICY

Galp Energia's remuneration policy reflects the overriding goal of achieving sustained value creation for shareholders.

The remuneration payable to the members of the Company's governing bodies is set by a Remuneration Committee composed of three shareholders: CGD, which chairs the committee, Amorim Energia and Eni, all elected by the general meeting for a three-year period. In the current term, this is until the end of 2010. Remuneration Committee members may not be members of the Board of Directors or the Statutory Audit Board.

The Executive Directors earn a fixed monthly remuneration and annual variable pay that depends on individual and collective performance. The compensation package payable to Executive Directors is reviewed on an annual basis to make sure that offered terms are competitive in comparison with the terms offered on the market for positions of comparable complexity and responsibility.
The overall remuneration has a predominantly monetary component and a complementary retirement plan in the form of a retirement savings plan. This plan equates to


Galp Energia's head offices in Lisbon.

THE EXECUTIVE DIRECTORS PERFORMANCE IS APPRAISED ANNUALLY ACCORDING TO CRITERIA SET BY THE REMUNERATION COMMITTEE.

25% of the annual remuneration, in accordance with the terms set by the Remuneration Committee.

According to the articles of association, the combined compensation for the Company's Board of Directors may not exceed 0.5% of net profit in the financial year.

The Executive Directors' performance is appraised annually according to criteria set by the remuneration committee. This appraisal is made on an ad hoc basis and is related to the fulfilment of economic, financial and operating goals as well as the performance of Galp Energia shares in comparison with those of a group of peers. The appraisal aims to create a competitive remuneration package and a set of incentives that, subject to their financial sustainability, will enhance the alignment of Executive Director interests with those of the Company and its stakeholders. The variable remuneration element is payable according to the degree of attainment of the goals set for each variable. In 2010 they were not paid any variable remuneration related to the 2009 financial year.

In front from left to right: Carlos Gomes da Silva, Manuel Ferreira De Oliveira, Claudio De Marco. Behinde from left to rigth: Fabrizio Dassogno, Fernando dos Santos Gomes, André Palmeiro Ribeiro.

## Carlos Nuno Gomes da Silva

**RESPONSIBLE FOR THE OIL MARKETING BUSINESS SEGMENT**

- Galp Energia Director since April 2007
- Several directorships since 2002

## Manuel Ferreira De Oliveira

**CHIEF EXECUTIVE OFFICER (CEO)**

- CEO since January 2007 and Galp Energia Director since April 2006
- Over 20 years of international experience in the oil industry

## Claudio De Marco

**CHIEF FINANCIAL OFFICER (CFO)**

- Galp Energia Director since May 2008
- Experience in finance as CFO of Italgas SpA and Snam Rete Gas SpA.

## Fabrizio Dassogno

**RESPONSIBLE FOR THE GAS & POWER BUSINESS SEGMENT**

- Galp Energia Director since May 2008
- Professional experience in Eni's Gas and Power unit

## Fernando dos Santos Gomes

**RESPONSIBLE FOR THE EXPLORATION & PRODUCTION, INTERNATIONAL OIL AND BIOFUELS BUSINESS SEGMENTS**

- Galp Energia Director since May 2005
- Former Portuguese home secretary

## André Palmeiro Ribeiro

**RESPONSIBLE FOR THE REFINING, SUPPLY AND LOGISTICS BUSINESS SEGMENT**

- Galp Energia Director since May 2005
- International experience in investment banking

# INFORMATION TO SHAREHOLDERS

### PARTICIPATION IN THE GENERAL MEETING

In 2010, Galp Energia's annual general meeting (AGM) was attended by 75 shareholders representing 71.980% of the Company's share capital – in 2009, 170 shareholders had attended the meeting. It is Galp Energia's stated policy to encourage the exercise of voting rights. Once again, individual shareholders had the opportunity to expose their views and air their doubts to the Company's Board of Directors.

### EXERCISE OF VOTING RIGHTS

Galp Energia actively promotes the exercise of voting rights, either directly or by proxy. Shareholder participation in general meetings is encouraged by the option of voting by post and the distribution by email and the internet of those items to be submitted for shareholder approval at the meeting.

The corporate governance report contains more detailed information about the multiple ways shareholders can participate in the Company's business affairs.

### DIVIDEND POLICY

Galp Energia announced in 2009 a revision of its dividend policy for 2009-2013. This policy favours capital conservation as a way to enable the execution of transformational projects. The new policy aims to pay €0.20 per share in annual dividend, subject to general meeting approval, and maintain the payment of an interim dividend. In 2010, an interim dividend of €0.06 per share was paid.

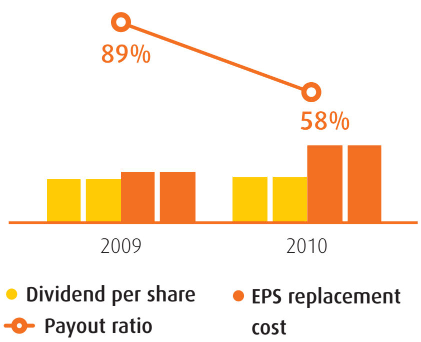
In 2011, the Board of Directors will propose to the 2011 annual general meeting a dividend of €0.20 per share in respect of the financial year of 2010, equating to a dividend yield of 1.39% on the basis of the share price at 31 December 2010. Following approval by the general meeting, the dividend of €0.14 per share for the financial year of 2010 will be paid.

### SHAREHOLDER AGREEMENT

Amorim Energia, CGD and Eni are parties to a shareholder agreement – described in closer detail in the corporate governance report – that governs a number of issues relating to the terms and conditions for the disposal of Galp Energia shares by the parties. These include the obligation to keep their holdings unchanged for a certain period – called the *lock-in period* – ending on 31 December 2010, except for special instances such as change of control, deadlock situations or breach of contract.

From 1 January 2011 onwards, that is, after expiry of the lock-in period, any party may sell its holding in full. In this case, the other parties will have preferential acquisition or, alternatively, tag-along rights in the case of a sale to third parties. If Amorim Energia is the selling party, CGD will have a preference right to acquire all or part of the shares owned by the former or to appoint a third party for that purpose.

**Dividend and earnings per share**




Source: Galp Energia; Note: Earnings per share are calculated on the basis of the replacement cost method.

GALP ENERGIA ACTIVELY PROMOTES THE EXERCISE OF VOTING RIGHTS, EITHER DIRECTLY OR BY PROXY.

In all other selling situations, or if CGD does not exercise its preference right in the case of a sale by Amorim Energia, the shares of the selling party shall be equally distributed to the parties having exercised their preference right, regardless of the size of their stake in Galp Energia. Except in the case of a sale by Eni, the exercise by CGD of its preference rights may not result in the Portuguese state or any other government entity owning more than 33.34% in Galp Energia.

In case of change of control at any of the parties, the others have the right to acquire its holding in equal parts, notwithstanding CGD's preference right.

Other provisions of the shareholder agreement deal with the appointment and dismissal of Directors and members of the Statutory Audit Board, and the need for a supermajority, larger than two-thirds, for certain resolutions such as those relating to the approval of business plans and budgets, strategic capital expenditure and attendant funding, the appointment of senior managers and the issuance of securities, namely debt securities.

The shareholder agreement also provides for the parties to propose to the general meeting the distribution of at least 50% of net profit, provided the net debt to EBITDA multiple does not exceed 3.5 .

## INFORMATION MADE AVAILABLE TO THE MARKET

Galp Energia's policy for communicating with capital markets aims to ensure a steady flow of relevant information that will fairly and simultaneously represent for stakeholders the Company's performance and strategy.

Disclosures are in both Portuguese and English, preferably made before the NYSE Euronext Lisbon opens and after it closes, and they are published in the market regulator CMVM's news service and the Investor channel on the Company's website. Notices are also sent by e-mail to subscribers, regardless of whether they are shareholders or not. Since 2008, Galp Energia also uses an external platform for sending price-sensitive information to main information centres across Europe. This platform gives European Union investors rapid access to this pool of information, on a

### Codes and tickers for the Galp Energia share

| | |
|---|---|
| ISIN | |
| Symbol: GALP (type B) | **PTGAL0AM0009** |
| Portuguese state shares (type A) | **PTGALSAM0003** |
| Portuguese state shares (type B) | **PTGALXAM0006** |
| Sedol | **B1FW751** |
| WKN | **A0LB24** |
| Bloomberg | **GALP PL** |
| Reuters | **GALP.LS** |

non-discriminatory basis and without additional cost.

## SHARE TRADING

Except for the shares held by Parpública and those covered by the shareholder agreement between Amorim Energia, CGD and Eni, Galp Energia's shares are freely traded on the market.

Out of Galp Energia's 829,250,635 shares, 771,171,121 shares are listed for trading on NYSE Euronext Lisbon. The shares that are indirectly held by the Portuguese state through Parpública (40,000,000 A shares and 18,079,514 B shares) are not listed for trading, although they are registered on Eurolist by Euronext Lisbon. At 31 December 2010, Galp Energia did not own any treasury shares.

The Galp Energia share is part of several stock indices: the PSI-20, the Dow Jones STOXX 600, the Dow Jones Europe STOXX Oil & Gas (SXEP), the Euronext 100, the FTSE World Oil & Gas, the MSCI Euro Index and the NYSE Euronext Iberian Index.

## SHARE PERFORMANCE

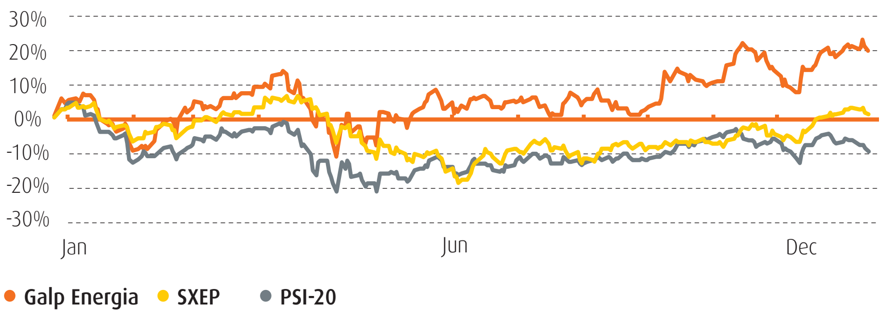
At 31 December 2010, Galp Energia had a market capitalisation of €11,891 million, up by 19% from the €10,017 million a year earlier. This was in contrast to the PSI-20, the benchmark index for the Portuguese equity market, which fell in 2010. The Galp Energia share also outperformed the European index for the Oil and Gas sector, which gained 1% in 2010.

**829,250,635**
**TOTAL SHARES**

Galp Energia's share capital is evidenced by 829,250,635 shares.

Galp Energia has no treasury shares.

### Performance of the Galp Energia share against the SXEP and PSI-20 indices in 2010

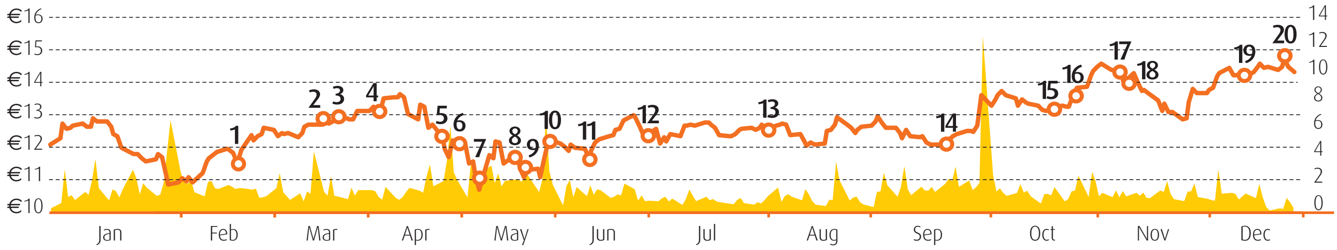



Source: Bloomberg

In 2010, 428 million Galp Energia shares were traded, equivalent to 52% of the Company's share capital or, even more important, two times its free float. This volume is evidence of the liquidity of the share on Euronext Lisbon, which is one of the most heavily traded of the PSI-20.

The average daily traded volume was 1.6 million shares, and the total number of shares traded rose by 3%. The share price peaked for the year at €14.86, on 30 December, and had its lowest level, €10.37, on 5 February.

## Performance of the Galp Energia in 2010



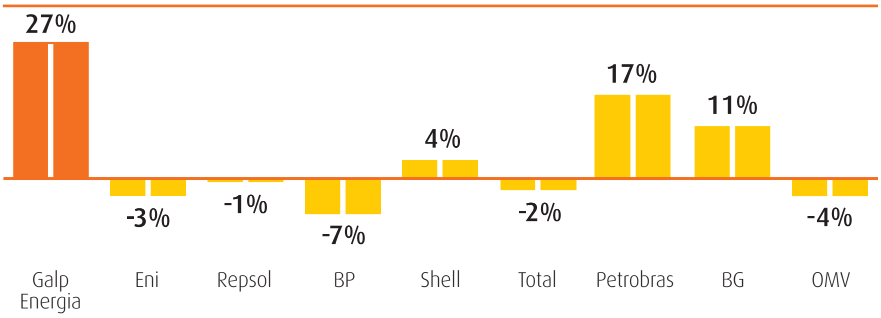

● Share price (€) ● Volume (million shares)

Source: Bloomberg

## Main events in 2010

| | Event | Date |
|---|---|---|
| 1• | Earnings release for the fourth quarter and 12 months of 2009. | 25 February |
| 2• | Well tests in Tupi NE confirm high productivity. | 23 March |
| 3• | Approval of the 2009 annual report and accounts. | 27 March |
| 4• | New well confirms potential for light oil in Tupi. | 07 April |
| 5• | Annual general meeting of shareholders. | 26 April |
| 6• | Acquisition of the marketing activities and distribution assets of Gas Natural in the Madrid region. | 30 April |
| 7• | Earnings release of the first quarter 2010. | 06 May |
| 8• | Ex-dividend date for the payment of the second dividend for financial year 2009. | 17 May |
| 9• | Qualified Shareholding of The Royal Bank of Scotland plc. | 19 May |
| 10• | Qualified Shareholding of The Royal Bank of Scotland plc. | 28 May |
| 11• | General meeting of bondholders. | 08 June |
| 12• | New well confirms the potential for light oil in Tupi. | 26 June |
| 13• | Earnings release for the second quarter and first half of 2010. | 30 July |
| 14• | Ex-dividend date for the payment of the first dividend relating to financial year 2010. | 20 September |
| 15• | Drilling of a new well in south Tupi confirms the potential for and extension of the reservoir. | 22 October |
| 16• | Earnings release for the third quarter and nine months of 2010. | 28 October |
| 17• | Signing of contracts for the construction of eight FPSO hulls for the Brazilian offshore. | 11 November |
| 18• | Bond issue in the amount of €300,000,000. | 12 November |
| 19• | Drilling of new well in the west of Tupi confirms the potential for light oil. | 16 December |
| 20• | Declaration of Commerciality for the areas of Tupi and Iracema. | 29 December |

## Annualised return between 23 October 2006 and 31 December 2010




Source: Bloomberg
Note: Prices are in euros and include dividends paid out by companies.

At the end of 2010, the Galp Energia share had gained 147% relative to the IPO price in October 2006. As shown in the chart, the 27% annualised gain in this period outperformed a group of the Company's peers.

### COVERAGE OF THE SHARE BY ANALYSTS

At the end of 2010, 26 analysts covered the Galp Energia share, one more than a year earlier. In 2010, there were three changes in the list of analysts that issue recommendations on the Company. These were due to: the merger of Cazenove and JP Morgan; the start of coverage by N+1 Equities (with a *Neutral* recommendation and a price target of €16 per share); and the start of coverage by Jefferies International (with a *Buy* recommendation and a price target of €16 per share). The growth of analyst interest shows the heightened visibility of the Galp Energia share on the market in 2010.

At 31 December 2010, the average price target for the 26 analysts was €16.00, with 69% of the analysts recommending to buy the share, 27% recommending to hold and one analyst, or 4%, recommending to sell.

Following the globalisation of Galp Energia's shareholder structure and the increasing number of US investors, Galp Energia will now announce its quarterly results in the morning, before the Portuguese stock market opens for trading, while conference calls with investors and analysts will be held early in the afternoon, Portuguese time.

AT 31 DECEMBER 2010, THE AVERAGE PRICE TARGET FOR THE 26 ANALYSTS WAS €16.00, WITH 69% OF THE ANALYSTS RECOMMENDING TO BUY THE SHARE, 27% RECOMMENDING TO HOLD AND ONE ANALYST, OR 4%, RECOMMENDING TO SELL.

## Financial calendar 2011

| Event | DATE |
|---|---|
| • Trading update for the fourth quarter of 2010 | 28 January |
| • Earnings release for the fourth quarter and 12 months of 2010 | 11 February |
| • Capital Markets Day 2011 | 14 March |
| • Extraordinary general meeting | 28 March |
| • Trading update for the first quarter of 2011 | 15 April |
| • Earnings release for the first quarter of 2011 | 29 April |
| • Annual general meeting | 30 May |
| • Trading update for the second quarter of 2011 | 15 July |
| • Earnings release for the second quarter and first half of 2011 | 29 July |
| • Trading update for the third quarter of 2011 | 14 October |
| • Earnings release for the third quarter and nine months of 2011 | 28 October |

● Already happened ● To happen

Note: All dates are subject to change. The information is released before or after market sessions.


Walk against hunger - Swaziland.

# SOCIAL RESPONSIBILITY

GALP ENERGIA HAS INTENSIFIED ITS SOCIAL, CULTURAL AND SOLIDARITY ACTIVITIES, CONTRIBUTING TO THE SIGNIFICANT IMPROVEMENT OF LOCAL COMMUNITIES' QUALITY OF LIFE.

**Galp Energia has intensified its portfolio of initiatives aimed to help the social, human and educational development of society at large. Among a wide range of projects and activities, the Company strengthened its position on social responsibility by encouraging volunteer work and supporting various community institutions. Galp Energia has also taken steps to improve eco-efficiency, including those to make customers and employees alike more energy-conscious.**

In 2010, Galp Energia continued to support local communities in the countries where it operates, significantly improving their quality of life.

In Brazil, for example, the Company's important social initiatives include community education on agricultural techniques and a memorandum of understanding with a local school for Galp Energia to receive and train interns.

In Mozambique, the Company has undertaken a number of important development projects. These include planting 80 hectares of corn, the local community's staple crop, to help address any food shortages among the rural population. The consortium formed to explore Area 4 in the Rovuma basin, of which Galp Energia is a member, also undertook relevant initiatives. These included implementing a national medical emergency plan and carrying out projects in partnership with Mozambique's Ministry of Mineral Resources and Energy and local authorities to rehabilitate water supply facilities for the local population.

Galp Energia recognises education as a fundamental factor in development, and the various projects it supported during the year included continuous training for Portuguese language teachers in Guinea-Bissau, addressing close to 1,600 teachers and 97,000 students.

## THE GALP ENERGIA FOUNDATION

**The Galp Energia Foundation, created in 2009, aims to promote social responsibility through supporting the community and acting on the principles of integrity, transparency and equity. To this end, the Foundation has been developing environmental, cultural and social projects, mainly in Portugal.**

2010 saw the Company continue several initiatives it started in 2009 and identify new opportunities to promote a closer relationship with society.

Under the support the Company provides to the *Raríssimas* – the Portuguese Association of Mental Disorders and Rare Diseases – in 2010 construction started on the *Casa dos Marcos*, a reference centre for the clinical, social and educational aspects of rare diseases. The centre will provide occupational activities for youths and adults as well as a help line to assist relatives and health technicians.

The Galp Energia Foundation took part in the *100 Mecenas Unidos pela Diabetes* (100 Supporters United Against Diabetes) campaign, driven forward by the Ernesto Roma Foundation and the Portuguese Diabetes Association, which aims to build the Ernesto Roma Diabetes School. Plans for this pioneering school, which will have characteristics and elements that make it unique in the world, were publicly unveiled in July 2010. The school is intended to train health professionals and patients alike, enabling them to deal with diabetes and treatment procedures on a day-to-day basis. It will continue the work developed by the Portuguese Diabetes Association, which provides training to nearly 500 doctors and 500 nurses every year.

Since Galp Energia is a leading energy company, and 2010 was declared the International Year of Biodiversity by the United Nations General Assembly, the Galp Energia Foundation continued its involvement in the M@rbis-NATURA 2000 project – Information System for Marine Biodiversity. This project seeks to rationalise all existing scientific biodiversity information on the waters under Portuguese jurisdiction. The project includes the creation of an integrated information system, databases and a network that will enable institutions to share information. The EMEPC/M@rbis/Selvagens 2010 campaign, which was deployed in June and is believed to be the largest scientific campaign ever undertaken in Portugal, has identified close to 1,000 species.

GALP ENERGIA FOUNDATION AIMS TO ACTIVELY PROMOTE SOCIAL RESPONSIBILITY, ACTING ON THE FIELDS OF ENVIRONMENT, SOCIETY, CULTURE AND ENERGY AND KNOWLEDGE.

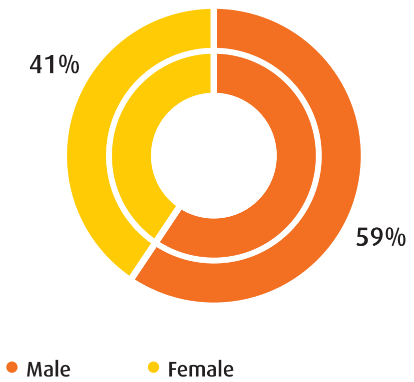
**1,000**

**SPECIES IDENTIFIED IN PORTUGUESE WATERS**

The M@rbis-NATURA 2000 project aims to rationalise all existing scientific marine biodiversity information in Portugal.

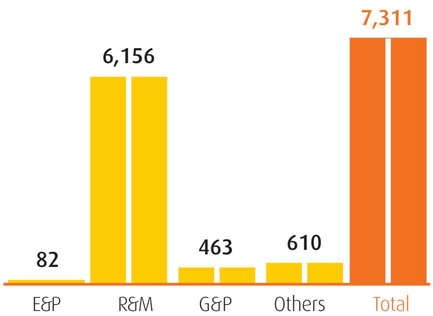
# HUMAN RESOURCES

### Staff by gender in 2010




The distribution of Galp Energia's staff by gender, where men predominate, continued to be stable, compared with a year earlier.

### Staff by business segment in 2010




Galp Energia's overall number of employees fell from 7,493 to 7,311 in 2010, due to the resources optimisation programme, namely in the Refining and Marketing business.

## STRATEGY

**The strategic aim of Galp Energia's human resources (HR) function is to develop and add value to its employees' knowledge and to improve their satisfaction and motivation levels. In this way, it aims to increase the productivity of its people.**

Galp Energia accelerated the development of its employees' potential in 2010, with new training programmes aimed at giving employees the solid technical, management and behavioural skills they need for optimum performance.

## THE GALP ENERGIA ACADEMY

**Galp Energia has made a commitment to several key future projects where success depends on the input of employees who have sound technical, management and behavioural skills. As a result, the Company created the Galp Energia Academy as part of its permanent search for excellence, aiming to further value and develop the Company's human capital.**

The purpose behind the Galp Energia Academy is therefore to reinforce the skills of the Group's people and to train new leaders who can take on new responsibilities within the Company's range of businesses and corporate services. To achieve this, Galp Energia has involved the participation of some of Portugal's best-known academic institutions to raise the quality of learning to as high a level as possible. Current partners include the *Universidade Católica Portuguesa*, the *Universidade do Porto*, the *Universidade de Aveiro*, the *Universidade Técnica de Lisboa*, the *Universidade de Coimbra* and the *Universidade Nova de Lisboa*.

The Galp Energia Academy contributes to the spread of knowledge throughout the Company and helps to underpin the understanding of concepts that are of particular importance within the Galp Energia environment. The Academy encourages the creation of internal networks that contribute to the Company's success by enabling interaction between decision makers at operational and strategic levels.

The training role of the Galp Energia Academy covers various fields of knowledge, chiefly those considered essential to developing our employees' knowledge, including courses or training initiatives especially designed to achieve set goals.

Examples include the Advanced Course in Management, focusing on energy management, and the EngIQ, which is a PhD programme in Refining Engineering, Petrochemistry and Chemistry in a Corporate Environment.

The Advanced Course in Management comprises three levels, and takes employees starting at level one 10 years to complete. It takes learners from a base level through progressively more demanding stages (levels two and three), accompanying employees' self-development and helping to prepare them for roles of increasing responsibility.
This structured programme of medium and long-term training was created and launched in partnership with a range of well-known Portuguese academic institutions, including the Faculty of Economics and Management at the *Universidade Católica Portuguesa* and a consortium composed of the Faculty of Economics at the *Universidade do Porto* and the Management Department of the *Universidade de Aveiro*, which has the special participation of the *Universidade Técnica de Lisboa*.
In 2010, the course accommodated 80 Managers and high-potential employees, and 120 new learners will be admitted in 2011. Galp Energia wants all its Managers to attend the Galp Energia Academy (totalling some 600 people), as well as over 100 high-potential employees. The ultimate goal is that all new staff will attend the course.

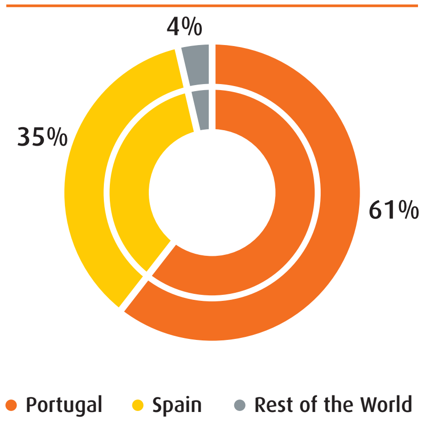
The PhD programme in Refining Engineering, Petrochemistry and Chemistry (the EngIQ), which involves all of Portugal's major schools of chemical engineering, is innovative in both Portuguese and European terms. Over 14 employees participated during its 2010-2011 cycle, bringing the total since the start of the programme to 22. The course was specially designed to meet training needs for a field of knowledge that is home to several national and multinational companies operating in Portugal. These companies have recently formed the Association of Petrochemical, Chemical and Refining Industries (AIPQR in Portuguese).

Two new PhD projects began in 2010 within the auspices of the EngIQ. These were studies designed to:

- characterise the several components that are available for the production of bitumen, and to identify those technological modifications needed to produce bitumen in compliance with new specifications for the Iberian market; and

- assess the quality of industrial effluent from the Sines refinery.

## Geographic spread of the staff in 2010

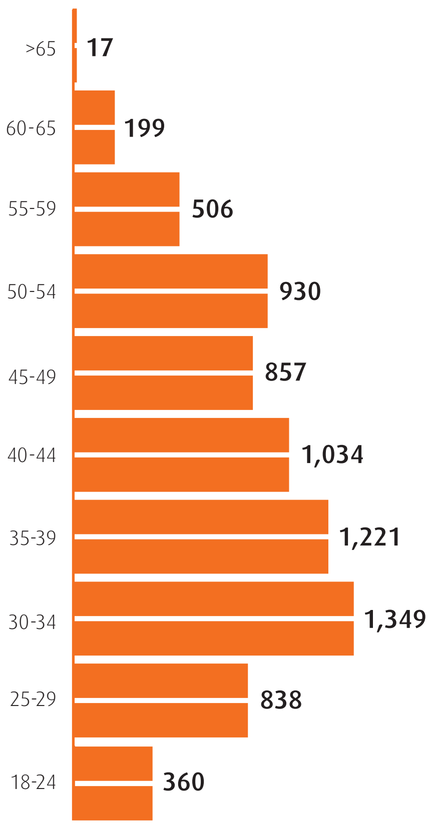



Although Portugal remains the country with the highest number of employees, 61% of the total, the number of employees in Spain is increasingly relevant with the consolidation of Galp Energia's activities in this country. The growth of the Exploration and Production business in Brazil has contributed to the 4% of employees in the rest of the world.

GALP ENERGIA WANTS THE GALP ENERGIA ACADEMY TO BECOME A RECOGNISED AND EFFECTIVE TRAINING AND ASSESSMENT CENTRE.

THE STRONG GROWTH OF THE EXPLORATION AND PRODUCTION BUSINESS SEGMENT REQUIRES THE INCREASE OF THE NUMBER OF QUALIFIED EMPLOYEES IN THIS AREA.

**Staff by age group in 2010**




In 2010, 66% of the employees were under 45 years old. Galp Energia's efforts to capture high-potential employees and to rejuvenate the staff led to an increase in the number of younger employees in the last few years.

## FOCUS ON THE EXPLORATION AND PRODUCTION BUSINESS SEGMENT

**2010 was a year of growth and know-how consolidation in Galp Energia's Exploration and Production business, with an influx of experienced professionals adding to the division's strength.**

To achieve this, Galp Energia carried out external recruitment processes to select personnel for functions deemed critical to this activity. As part of this effort, the recruitment of technical staff in Brazil got underway in order to form a local team capable of responding to the growing challenges in that country, particularly in the pre-salt of the Santos basin. Three employees were recruited in Brazil in 2010, and the selection process for six new employees, who will join the Company in early 2011, was nearly completed. Galp Energia will continue its efforts to strengthen its team in this business segment throughout 2011.

## INTERNSHIP PROGRAMMES

**Galp Energia's HR policies favour both internal recruitment and mobility-oriented processes to provide professional development opportunities for its employees.**

However, the Company also uses external recruitment. This is mainly through its trainees' programme, which has been a source of recruitment of high-potential graduates for 12 years.

Out of the 20 participants in the 2009-2010 trainees' programme, 17 were hired. In the 2010-2011 trainees' programme, 36 graduates were chosen in partnership with leading universities. For the first time, the programme included those Galp Energia companies based in the Azores and Madeira.

Participants are continuously followed and evaluated throughout the programme as they are exposed to various professional situations and experiences. At the end of the programme, the best of them are invited to join Galp Energia.

## TRAINING

With the ongoing upgrade project at the Sines and Matosinhos refineries, including the scheduled outage in the former, specific technical training had a significant weight in the initiatives undertaken in 2010.

Given its sphere of activities, Galp Energia is highly aware of the importance of its safety policy. The Company therefore continued in 2010 to allocate significant resources to safety-oriented training. This covered environment, quality and safety areas as well as professional training for occupational health and safety technicians, not only to ensure the safety of all employees but also to contribute to sustainable development.

At the same time, Company employees continued to receive training in behavioural skills.

The 'Terças Temáticas' programme was resumed in 2010. This consists of professional and social internal conferences that are open to the participation of employees in Lisbon, Matosinhos, Sines, Madeira, Azores and Spain, either by personal attendance or by videoconference.

While the first speakers were mainly Galp Energia employees, external speakers recognised for their areas of expertise also attended the conferences.

### INTEGRA PROGRAMME

The purpose of the INTEGRA programme, which is a medium to long-term investment, is to promote team spirit and two-way communication as a way of helping new refining operators to integrate fully.

In addition to a welcome session for new operators, the programme identifies tutors among the refineries' technical staff, whose main role is to shadow each new operator and assist their integration and their technical and behavioural development.

The programme, which lasts 24 months for each new employee, comprises several one-to-one meetings where tutors can monitor their employees. These meetings are alternated with group sessions, which reinforce essential skills such as communication and teamwork, and encourage participation and involvement in continuous improvement. In this way, INTEGRA helps to develop a dynamic relationship between the employee and the Company.

## EMPLOYEE SATISFACTION

**The results of a survey conducted in late 2009 among 1,351 employees to assess the organisational 'climate' were disclosed and discussed in each department during 2010.**

Participants judged the climate of the Company on seven factors related to their levels of satisfaction and professional motivation: clarity, team commitment, flexibility, reward, responsibility, levels of demand and training. Overall results show that perceptions of the factors assessed is moderately positive.

Following this diagnosis, task-forces made up of people from all units of the organisation were formed. After an open, two-way analysis of the results, proposals for improvement were presented. Once the proposals had been discussed and their most important features identified, the taskforces received guidelines on identifying high-priority proposals for improvement and how to implement them.

**132,000**

**TRAINING HOURS**

In 2010, the Company offered almost 132,000 training hours, which covered more than 3,000 employees.

# HEALTH, SAFETY AND ENVIRONMENT

**Galp Energia's safety goal is to achieve zero accidents, whether personal, material, environmental, operational or on the road.**

At the same time, the Company is committed to achieving a sustainable culture of prevention, based on safety management, occupational health and high-performance environmental protection. Achieving this ensures both a reduction of risk and an excellent reputation.

In 2010, the Company reassessed its Health, Safety and Environment (HSE) policy, having been fully maintained. As part of this, risk analysis, investments and divestments, the shutdown of facilities and the implementation of modifications were all internally regulated on a technical level. At the same time, the Company continued to use proactive tools like preventive environment and safety observations to support its commitment to best HSE practice.

The importance of process safety's importance within Galp Energia's operations led the Company in 2010 to start following process safety indicators as a means of continuously monitoring its performance.

## ACCIDENT RATES

**In 2010, Galp Energia perfected its reporting and occurrence investigation routines as an essential step towards improved performance.**

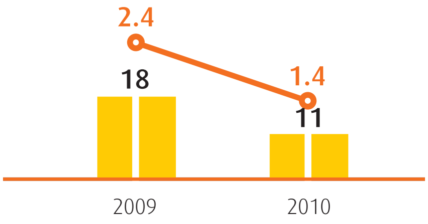
The Company's standard procedures relating to the reporting and investigation of incidents set classification, investigation, analysis, documentation and reporting criteria for critical or systematic accidents, occupational diseases, quasi-accidents and non-compliance incidents. They also define parallel initiatives designed to minimise risks and prevent their exact or similar recurrence.

The projects to convert the Sines and Matosinhos refineries meant that an exceptional number of hours were worked in 2010, thanks to the challenging goals the Company set itself to achieve and report on.

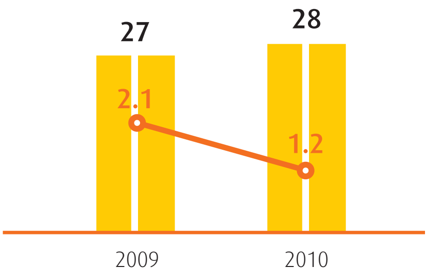
The frequency index (the number of accidents per one million hours worked) covering personal accidents that involve time off among Galp Energia's employees and suppliers but excludes accidents occurring on the way to or from work, continued their downward trend (-42% than in 2009). Thanks to awareness initiatives and the training provided to suppliers, Galp Energia came closer to meeting the CONCAWE standard, the benchmark for the sector, whose frequency index in 2009 was 1.8 (covering own workers and suppliers, marketing and refining).

### Accidents on the Galp Energia universe

**Employees**




**Employees and service providers**




● Work absence
Frequency index (FI)

FI - number of accidents per one million worked hours

In 2010, 578 accidents were reported. These included those involving customers and suppliers when there was material damage or Galp Energia's services were involved, even if they did not occur as part of the Company's regular activities.

The significant improvement in incident-reporting (accidents and quasi accidents) included more diligent recording of incidents, particularly in less serious cases, indicating greater awareness of the importance of reporting every incident.

However, 3 serious accidents resulting in personal injury that involved third parties did take place during the year. These were all duly investigated, and were found to have taken place in conditions that Galp Energia could not control.

In 2010, one fatal accident took place during maintenance works on the Sines refinery. As in other accidents, the resulting investigation and identification of its causes led to recommendations and an action plan designed to prevent its recurrence.

## ASSESSING IMPLEMENTATION OF THE HSE MANAGEMENT AND CULTURE SYSTEM

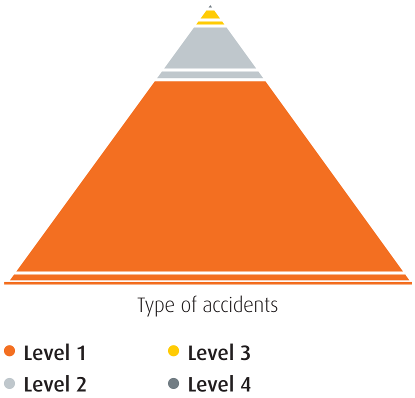
**Galp Energia launched its Safety Programme in 2010 with the aim of implementing an HSE management system, strengthening its culture of prevention and achieving high levels of HSE performance.**

Given the importance of integrating learning to ensure the sustained improvement of the HSE management system, Galp Energia's business and management units undertook their own diagnosis. These self-assessment sessions helped to identify irregularities and define appropriate corrective actions.

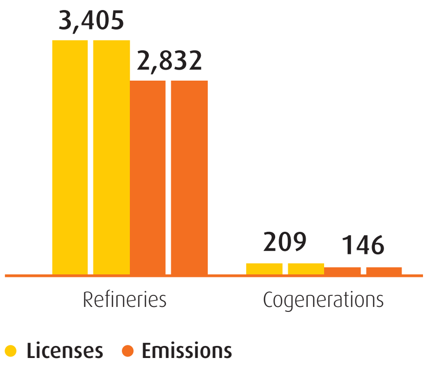
In order to ensure the management system's continuous improvement and effectiveness, the Company implemented a system of internal audits. These constantly assess the evolution of the Company's HSE culture and monitor the implementation of its processes and procedures across all business and management units.

Several crossed audits were also undertaken to help prepare auditors to assess the quality of implementation of the management elements and the evolution of the overall HSE culture in Galp Energia.

**Total accidents**



$CO_2$ emissions in 2010 (Kton)




## GREENHOUSE GAS EMISSIONS

**Once again in 2010, Galp Energia's facilities had a surplus of $CO_2$ emission licences. This meant that Galp Energia's emissions were below the limits defined by the licences awarded. The Company's efforts to reduce its consumption of natural gas and the technical shutdown of Matosinhos refinery contributed to this outcome.**

In line with previous years, Galp Energia made significant efforts in 2010 to improve the reliability of the systems used to measure its $CO_2$ emissions. Galp Energia turned, with this in mind, to companies that specialise in eradicating uncertainty in measurements of its refineries' $CO_2$ emissions since 2008. Galp Energia has since been implementing measures needed to decrease uncertainty levels, not only to comply with the limits defined under the European Union Emission Trading Scheme but also to reduce the risk related to $CO_2$ emissions.

In 2010, too, the Company implemented training initiatives to give employees of its refineries the technical skills needed to remove uncertainty from the measurement chain each year.

# QUALITY

## THE EVOLUTION OF FUEL SPECIFICATIONS

**Galp Energia has placed itself in an advantageous position through working with national and international bodies that govern the specification and development of fuel quality. This has allowed the prevention of risks and the consolidation of strategic scenarios for the Company. In 2010, Galp Energia took part in several technical committees under the Portuguese System of Quality and in various CONCAWE taskforces.**

Regarding fuel for the Portuguese domestic market, Galp Energia followed the draft amendment of fuel specifications by participating in several committees and other entities. It introduced the required changes in its quality guarantee system, so ensuring compliance with the new legal requirements on 1 January 2011, the day they came into force.

In response to revisions to the ISO 8217 Fuel Standard made by the International Standards Organisation, Galp Energia introduced new specifications to the grades of residual distillates and marine fuel oil it markets.

Galp Energia successfully certified the bitumen products it markets under the CE mark. As a result, Galp Energia's production sites have been able to market several bitumen emulsions and paving bitumen within the European economic region since 25 November 2010.

## QUALIFICATIONS

**Galp Energia's laboratories received excellence diplomas in 2010 thanks to their good performance in international laboratory-comparison programmes. In addition, the Company retained its existing certifications, which remain a cornerstone of its quality guarantee system.**

Turning to external recognition for its management systems, Galp Energia's retail business achieved the NP EN ISO 9001 standard. This is the most comprehensive certification in Portugal, covering a range of activities related to the management of the Company's supply positions.

## INTERNAL ENVIRONMENTAL, QUALITY AND SAFETY AUDITS

**Given the importance of recording knowledge for others to share and learn from, the Company's business and management units took responsibility for their own diagnosis.**

A mechanism of internal audits, assessing and monitoring the evolution of the Company's health, safety and environment culture, was also implemented.

Galp Energia's laboratory.

The launch of the audit programme for 2010 aimed to enable annual audits to be carried out of the Company's certified or qualified management systems and of the safety management system in place to prevent serious accidents. During 2010, 52 such audits were conducted altogether, involving 72 internal auditors with 114 participations in all.

IN 2010, GALP ENERGIA TOOK PART IN SEVERAL TECHNICAL COMMITTEES UNDER THE PORTUGUESE SYSTEM OF QUALITY AND IN VARIOUS CONCAWE TASKFORCES.


PHV from Galp Energia and Toyota Caetano living lab.

# INNOVATION

**Galp Energia's research and development culture is tightly focused on integrating new skills and developing new external relationships. In this way, the Company aims to encourage innovation and make the range of products and services it provides stand out, so improving its competitive position and increasing its potential for creating value.**

AS A LEADING ENERGY OPERATOR, GALP ENERGIA HAS IMPLEMENTED MEASURES TO INCREASE BOTH ENERGY EFFICIENCY AND SUSTAINABILITY.

Galp Energia's innovation strategy is based on a number of key factors: differentiation; strengthening ties with its customers and the Portuguese scientific and technological system; and active participation in developing sector policies that support the future development of the energy sector.

Galp Energia is committed to diversifying its range of products and services through a policy of permanent innovation based on the sharing of skills.

## GALP SOLUÇÕES DE ENERGIA

**In 2009, a new unit named Galp Soluções de Energia (Galp Energy Solutions) was created to help the Company's customers optimise their energy consumption, so allowing them to cut costs and reduce $CO_2$ emissions, contributing to global efficiency and energy sustainability.**

In 2010, this unit undertook several projects, including the construction of Galp Energia's first solar plant. This covers an area of 750m$^2$ of panels with an installed capacity of 100kW, and is located next to the premises of one of Galp Energia's customers.

To strengthen its cooperation with the academic world, Galp Energia created the concept of the 'Sustainable Campus'. This enables universities to achieve energy efficiency standards in line with best practice from the best-performing universities. It also encourages them to produce their own energy from renewable sources in a model that will be implemented at the University of Aveiro.

## GALP INNOVATION CHALLENGE: HOTSPOT DESIGN

Hotspot Design – Innovation Challenge by Galp Energia was launched in 2009 with the objective of creating an outdoor gas heater to be marketed both in Portugal and abroad. The contest, which ended in April 2010, received 370 applications from multidisciplinary teams. It was supported by MIT Portugal, the Portuguese Network of Technological Centres, the Portuguese Association of Designers and the Technological Institute of Gas.

## SUSTAINABLE MOBILITY

Galp Energia is part of the Electrical Mobility Programme, promoted by the Portuguese government. This is in line with the Company's reputation as an energy operator with a particular interest in enabling mobility.

In October 2010 Galp Energia also installed the first fast recharging point for electric cars in a European service station.

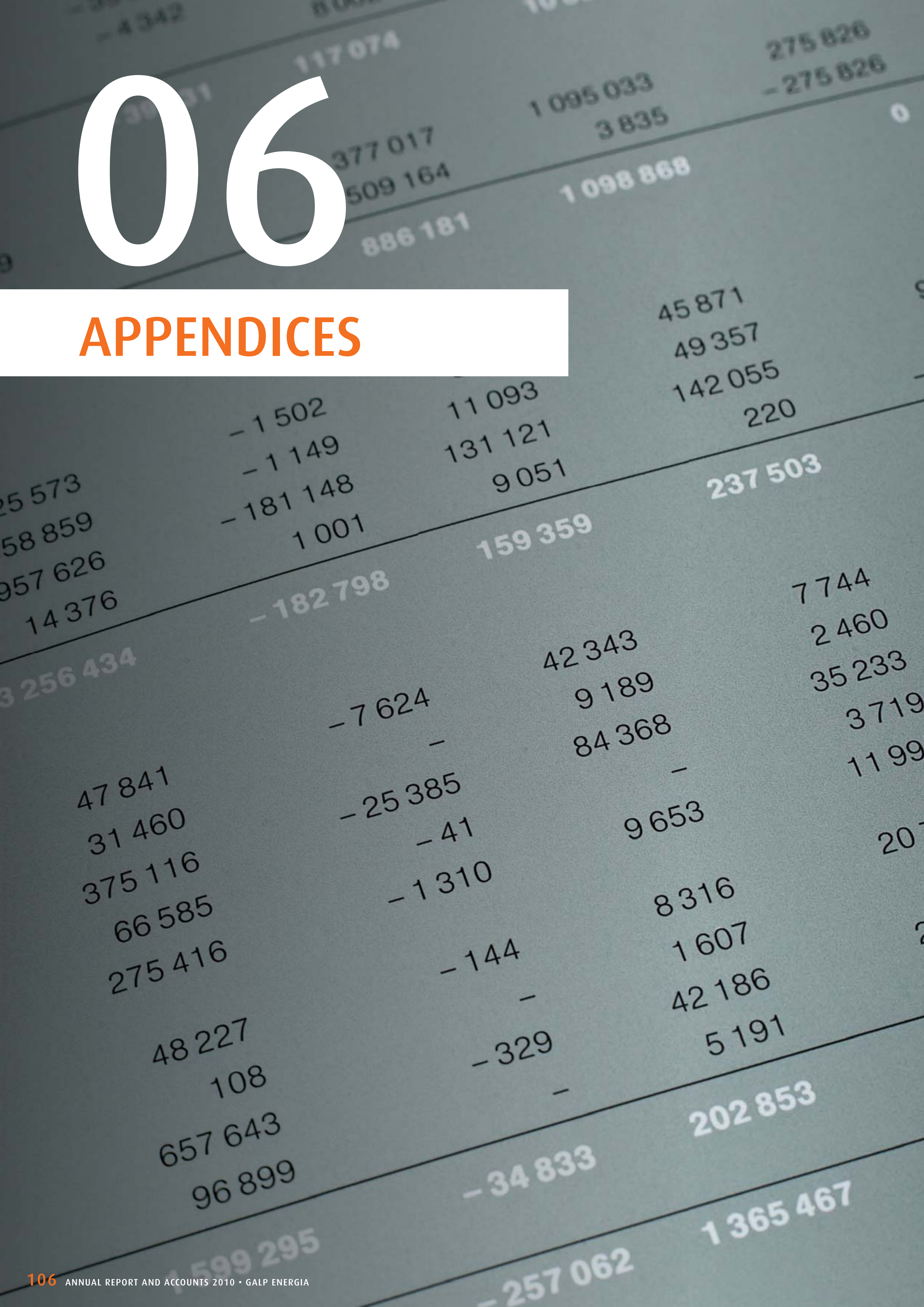
To enable a focus on projects designed for sustainable mobility, particularly those based on new electric propulsion systems and hybrid plug-in vehicles, Galp Energia has concentrated its relationships with automotive companies on adapting its own mobility solutions to the latest technological trends in cars.

To this end, in June 2010 the Company launched a partnership with Toyota Caetano Portugal to create a Living Lab, aimed at the real-world testing of five plug-in hybrid vehicles (PHVs) in Portuguese cities for a period of three years starting in June 2010. This test will assess the performance of the vehicles in urban driving conditions, gathering data on the experience of drivers and passengers alike.

## THE GALP 20-20-20 INITIATIVE

In line with the European Union's 20/20/20 programme, the University Cooperation Galp 20-20-20 programme intends to develop 20 studies every year to identify sustainable energy systems, applicable to Portuguese industry and buildings. These will be conducted at customer premises chosen by Galp Energia, and 53 public and private sector organisations have participated so far. The participating universities are the University of Aveiro and the Instituto Superior Técnico.

GALP ENERGIA IS STRONGLY FOCUSED ON INNOVATIVE PROJECTS DESIGNED TO PROMOTE SUSTAINABLE MOBILITY.



# 06

# APPENDICES

## PROPOSED ALLOCATION OF NET PROFIT

Galp Energia, SGPS, S.A. holds the shares in Galp Energia Group companies.

Galp Energia, SGPS, S.A. closed financial 2010 with a net profit of €355,147 thousand. This result is shown in the separate accounts of Galp Energia, SGPS, S.A., which are presented in accordance with IFRS.

The board of directors proposes that this result be allocated as follows:

| | ('000 €) |
|---|---|
| Dividend distribution (0.20€/share) | 165,850 |
| Retained earnings | 189,297 |
| **Total** | **355,147** |

No amount was allocated to legal reserves as the 20% of share capital required by law have already been reached.

Following a resolution by the board of directors of 27 August 2010, the Company paid on 23 September 2010 a gross interim dividend in respect of financial 2010 of € 0.06 per share.

## ADDITIONAL INFORMATION

### GOVERNING BODIES

The current composition of the governing bodies of Galp Energia, SGPS, S.A. for the 2008-2010 term is the following:

#### Board of directors

**Chairman:**
Francisco Luís Murteira Nabo

**Vice-chairman:**
Manuel Ferreira De Oliveira

**Directors:**
Manuel Domingos Vicente
Fernando Manuel dos Santos Gomes
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
Carlos Nuno Gomes da Silva
Rui Paulo da Costa Cunha e Silva Gonçalves
João Pedro Leitão Pinheiro de Figueiredo Brito
Luca Bertelli(1)
Claudio De Marco
Paolo Grossi
Fabrizio Dassogno
Giuseppe Ricci
Luigi Spelli
Joaquim José Borges Gouveia
Maria Rita Galli(2)

#### Executive committee

**Chairman:**
Manuel Ferreira De Oliveira

**Executive directors:**
Claudio De Marco
Fernando Manuel dos Santos Gomes
André Freire de Almeida Palmeiro Ribeiro
Carlos Nuno Gomes da Silva
Fabrizio Dassogno

#### Supervisory board

**Chairman:**
Daniel Bessa Fernandes Coelho

**Other members:**
José Gomes Honorato Ferreira
José Maria Rego Ribeiro da Cunha

**Deputy:**
Amável Alberto Freixo Calhau

#### Statutory auditors

**Standing:**
P. Matos Silva, Garcia Jr., P. Caiado & Associados, SROC, n.º 44 of OROC, the Portuguese Institute of Chartered Accountants and nº 1054 at CMVM, represented by Pedro João Reis de Matos Silva, ROC n.º 491.

**Deputy:**
António Campos Pires Caiado, ROC n.º 588

#### General meeting board

**Chairman:**
Daniel Proença de Carvalho

**Vice-chairman:**
Victor Manuel Pereira Dias

**Secretary:**
Pedro Antunes de Almeida

#### Company secretary

**Standing:**
Rui Maria Diniz Mayer

**Deputy:**
Maria Helena Claro Goldschmidt

#### Remuneration committee

**Chairman:**
Caixa Geral de Depósitos
represented by António Maldonado Gonelha

**Other members:**
Amorim Energia, B.V.
represented by Américo Amorim
Eni S.p.A.
represented by Maurizio Cicia

Notes:
(1) Co-opted onto the board of directors on 15 December 2010 (in replacement for Massimo Mondazzi), announced to the market on 20 December 2010.
(2) Co-opted onto the board of directors on 22 March 2010 in replacement for Francesco Giunti, announced to the market on 26 March 2010.

## MANDATORY NOTICES AND FILINGS

### SHAREHOLDERS WITH MAJOR DIRECT OR INDIRECT HOLDINGS AT 31 DECEMBER 2010

**According to article 448, paragraph 4 of the CC and article 20 of the Securities Code (SC)**

| Shareholders | Nº shares | % Capital | % Vote |
|---|---|---|---|
| Amorim Energia, B.V. | 276,472,161 | 33.34% | 33.34% |
| Caixa Geral de Depósitos, S.A. | 8,292,510 | 1.00% | 1.00% |
| Eni, S.p.A. | 276,472,161 | 33.34% | 33.34% |
| Parpública - Participações Públicas, (SGPS), S.A. | 58,079,514 | 7.00% | 7.00% |
| Other shareholders | 209,934,289 | 25.32% | 25.32% |
| **Total** | **829,250,635** | **100.00%** | **-** |

### Treasury shares

**According to articles 66 d) and 325-A, paragraph 1, of the CC**

In 2010, Galp Energia did not buy or sell its own shares.

At 31 December 2010, Galp Energia had no treasury shares.

## SHARES HELD AT 31 DECEMBER 2010 BY THE MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD OF GALP ENERGIA, SGPS, S.A.

**According to article 447, paragraph 5, of the CC.**

| | | Acquisition | | | Disposal | | | |
|---|---|---|---|---|---|---|---|---|
| **Members of the board of directors** | **Total number of shares at 31.12.2009** | **Date** | **Nº shares** | **Price (€/share)** | **Date** | **Nº shares** | **Price (€/share)** | **Total number of shares at 31.12.2010** |
| Francisco Luís Murteira Nabo | - | - | - | - | - | - | - | - |
| Manuel Ferreira De Oliveira | 85,640 | - | - | - | - | - | - | 85,640 |
| Manuel Domingos Vicente | - | - | - | - | - | - | - | - |
| Fernando Manuel dos Santos Gomes | 1,900 | - | - | - | - | - | - | 1,900 |
| José António Marques Gonçalves | 45,660 | - | - | - | - | - | - | 45,660 |
| André Freire de Almeida Palmeiro Ribeiro | 950 | - | - | - | - | - | - | 950 |
| Carlos Nuno Gomes da Silva | 2,410 | - | - | - | - | - | - | 2,410 |
| Rui Paulo da Costa Cunha e Silva Gonçalves | - | - | - | - | - | - | - | - |
| João Pedro Leitão Pinheiro de Figueiredo Brito | - | - | - | - | - | - | - | - |
| Luca Bertelli | - | - | - | - | - | - | - | - |
| Claudio De Marco | - | - | - | - | - | - | - | - |
| Paolo Grossi | - | - | - | - | - | - | - | - |
| Maria Rita Galli | - | - | - | - | - | - | - | - |
| Fabrizio Dassogno | - | - | - | - | - | - | - | - |
| Giuseppe Ricci | - | - | - | - | - | - | - | - |
| Luigi Spelli | - | - | - | - | - | - | - | - |
| Joaquim José Borges Gouveia | - | - | - | - | - | - | - | - |
| **Members of the supervisory board** | | | | | | | | |
| Daniel Bessa Fernandes Coelho | - | - | - | - | - | - | - | - |
| José Gomes Honorato Ferreira | - | - | - | - | - | - | - | - |
| José Maria Rego Ribeiro da Cunha | - | - | - | - | - | - | - | - |
| Amável Alberto Freixo Calhau | - | - | - | - | - | - | - | - |
| **Statutory auditor firm** | - | - | - | - | - | - | - | - |
| P. Matos Silva, Garcia Jr., P. Caiado & Associados, SROC | - | - | - | - | - | - | - | - |

### Directors' dealings with the company

**According to articles 66 e) and 397 of the CC**

No authorisations were issued in 2010 to members of Galp Energia's board of directors for entering into business transactions with the Company.

### Directors' roles in other activities

**According to article 398 of the CC**

Except for João Pedro Leitão Pinheiro de Figueiredo Brito until his election as director on 24 May 2005, and renewed on 6 May 2008, on 27 April 2009 and on 26 April 2010, no other director was during financial 2010 a party to an employment contract – temporary or permanent, dependent or independent – with any affiliate of the Company.

By a resolution taken by the general meeting of 6 May 2008, directors were allowed to pursue a business activity in competition with Galp Energia's activity, according to the article 398, third paragraph of the CC, and the definition of these directors' access regime to Galp Energia's sensitive information was approved, in accordance with the paragraph 4 of the article 398 of the CC.

### Financial claims on associates

**According to article 5, paragraph 4, of decree law nº 495/88 of 30 December, as redrafted by decree law nº 318/94 of 24 December**

See note 28 – In the Notes to Galp Energia's separate financial statements.

# CONSOLIDATED ACCOUNTS

## GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

### CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

(Amounts stated in thousands of Euros - tEuros) (Translation of statements of financial position originally issued in Portuguese - Note 37)

| | Notes | December 2010 | December 2009 |
|---|---|---|---|
| **Operating income:** | | | |
| Sales | 5 | 13,747,406 | 11,728,447 |
| Services rendered | 5 | 316,288 | 279,898 |
| Other operating income | 5 | 162,723 | 140,823 (a) |
| **Total operating income** | | **14,226,417** | **12,149,168** (a) |
| **Operating costs:** | | | |
| Cost of sales | 6 | 11,996,630 | 10,193,419 |
| External supplies and services | 6 | 781,052 | 750,878 |
| Employee costs | 6 | 354,805 | 338,860 |
| Amortisation, depreciation and impairment loss on tangible assets | 6 | 331,204 | 307,475 (a) |
| Provision and impairment loss on receivables | 6 | **83,267** | **63,637** |
| **Other operating costs** | 6 | **40,796** | **36,123** |
| Total operating costs | | 13,587,754 | 11,690,392 (a) |
| Operating profit | | 638,663 | 458,776 |
| Financial income | 8 | 27,235 | 12,884 |
| **Financial costs** | 8 | **(113,632)** | **(87,875)** |
| Exchange gain (loss) | | (11,074) | 149 |
| **Share of results of investments in associates and jointly controlled entities** | 4 | **73,834** | **68,800** |
| Income (cost) on financial instruments | 27 | 702 | 13 |
| Other gains (losses) | | **(1,493)** | **(1,354)** |
| **Profit before income tax** | | **614,235** | **451,393** |
| **Income tax** | 9 | **(166,437)** | **(98,597)** |
| **Profit before non-controlling interests** | | **447,798** | **352,796** |
| **Profit attributable to non-controlling interests** | 21 | **(6,423)** | **(5,524)** |
| **Profit attributable to equity holders of the parent** | 10 | **441,375** | **347,272** |
| **Earnings per share (in Euros)** | 10 | **0.53** | **0.42** |

(a) Amounts restated in relation to the approved financial statements for 2009 (see Note 2.23)

The accompanying notes form an integral part of the consolidated income statement for the year ended 31 December 2010.

**THE ACCOUNTANT**

Carlos Alberto Nunes Barata

**THE BOARD OF DIRECTORS**

Francisco Luís Murteira Nabo
Manuel Ferreira De Oliveira
Manuel Domingos Vicente
Fernando Manuel dos Santos Gomes
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
Carlos Nuno Gomes da Silva
Rui Paulo da Costa Cunha e Silva Gonçalves
João Pedro Leitão Pinheiro de Figueiredo Brito
Luca Bertelli
Claudio De Marco
Paolo Grossi
Fabrizio Dassogno
Giuseppe Ricci
Luigi Spelli
Joaquim José Borges Gouveia
Maria Rita Galli

## GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF 31 DECEMBER 2010 AND 2009

(Amounts stated in thousands of Euros - tEuros) (Translation of statements of financial position originally issued in Portuguese - Note 37)

| ASSETS | Notes | December 2010 | December 2009 |
|---|---|---|---|
| **Non-current assets:** | | | |
| Tangible assets | 12 | 3,588,502 | 2,639,588 (a) |
| Goodwill | 11 | 242,842 | 189,293 |
| Intangible assets | 12 | 1,307,873 | 1,318,596 (a) |
| Investments in associates and jointly controlled entities | 4 | 282,969 | 226,985 |
| Investments in other companies | 4 | 2,893 | 2,725 |
| Other receivables | 14 | 111,857 | 98,674 |
| Deferred tax assets | 9 | 216,292 | 209,945 |
| Other investments | 17 | 1,429 | 461 |
| **Total non-current assets:** | | **5,754,657** | **4,686,267** |
| **Current assets:** | | | |
| Inventories | 16 | 1,570,131 | 1,228,833 |
| Trade receivables | 15 | 1,082,063 | 778,384 |
| Other receivables | 14 | 562,179 | 571,695 |
| Other investments | 17 | 5,065 | 1,803 |
| **CURRENT INCOME TAX RECOVERABLE** | 9 | - | **1,807** |
| **CASH AND CASH EQUIVALENTS** | 18 | **188,033** | **243,839** |
| **Total current assets:** | | **3,407,471** | **2,826,361** |
| **Total assets:** | | 9,162,128 | 7,512,628 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity:** | | | |
| Share capital | 19 | 829,251 | 829,251 |
| Share premium | | 82,006 | 82,006 |
| Translation reserve | 20 | **27,918** | **(10,761)** |
| Other reserves | 20 | 193,384 | 193,364 |
| Hedging reserves | | **(3,892)** | **(7,057)** |
| Retained earnings | | **1,158,581** | **977,159** |
| **Interim dividend** | 30 | **(49,755)** | **(49,755)** |
| Consolidated net profit attributable to equity holders of the parent | | 441,375 | 347,272 |
| **Equity attributable to equity holders of the parent:** | | 2,678,868 | 2,361,479 |
| Non-controlling interests | 21 | 32,201 | 27,184 |
| **Total equity:** | | 2,711,069 | 2,388,663 |
| **Liabilities:** | | | |
| **Non-current liabilities:** | | | |
| Bank loans | 22 | 1,412,024 | 1,047,114 |
| Bonds | 22 | 1,000,000 | 700,000 |
| Other payables | 24 | 320,585 | 370,400 (a) |
| Retirement and other benefit liabilities | 23 | 284,744 | 270,759 |
| Deferred tax liabilities | 9 | 84,272 | 56,684 |
| Other financial instruments | 27 | **98** | **9,295** |
| Provisions | 25 | **156,257** | **153,244** |
| **TOTAL NON-CURRENT LIABILITIES:** | | **3,257,980** | **2,607,496** |
| **CURRENT LIABILITIES:** | | | |
| Bank loans and overdrafts | 22 | **616,462** | **422,273** |
| Bonds | 22 | - | **1,369** |
| Trade payables | 26 | **1,489,805** | **1,121,574** |
| Other payables | 24 | **1,034,083** | **971,013** (a) |
| Other financial instruments | 27 | **7,696** | **240** |
| Current income tax payable | 9 | **45,033** | - |
| **TOTAL CURRENT LIABILITIES:** | | **3,193,079** | **2,516,469** |
| **TOTAL LIABILITIES:** | | **6,451,059** | **5,123,965** |
| **TOTAL EQUITY AND LIABILITIES:** | | **9,162,128** | **7,512,628** |

(a) Amounts restated in relation to the approved financial statements for 2009 (see Note 2.23)

The accompanying notes form an integral part of the consolidated statement of financial position as of 31 December 2010.

**THE ACCOUNTANT**
Carlos Alberto Nunes Barata

**THE BOARD OF DIRECTORS**
Francisco Luís Murteira Nabo
Manuel Ferreira De Oliveira
Manuel Domingos Vicente
Fernando Manuel dos Santos Gomes
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
Carlos Nuno Gomes da Silva
Rui Paulo da Costa Cunha e Silva Gonçalves
João Pedro Leitão Pinheiro de Figueiredo Brito
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Paolo Grossi
Fabrizio Dassogno
Giuseppe Ricci
Luigi Spelli
Joaquim José Borges Gouveia
Maria Rita Galli

## GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009 (IAS/IFRS)

(Amounts stated in thousands of Euros - tEuros) (Translation of consolidated income statements originally issued in Portuguese - Note 37)

| | Notes | December 2010 | December 2009 |
|---|---|---|---|
| **Operating activities:** | | | |
| Cash receipts from trade receivables | | 13,879,966 | 12,587,177 |
| Cash paid to trade payables | | (9,373,270) | (8,028,054) |
| Cash paid to employees | | (234,528) | (260,226) |
| Cash (paid)/received relating to tax on petroleum products | | (2,707,359) | (2,879,622) |
| Cash (paid)/received relating to income tax | | (107,849) | (100,640) |
| Contributions to the pension fund | 23 | (6,714) | (6,488) |
| Cash paid to early retired and pre-retired employeers | | (15,158) | (13,772) |
| Cash paid relating to insurance costs of retired employeers | | (10,663) | (9,603) |
| Other (payments)/receipts relating to operating activities | | (705,603) | (546,846) |
| **Net cash provided by operating activities (1)** | | **718,822** | **741,926** |
| **Investing activities:** | | | |
| Cash receipts relating to: | | | |
| Investments | | 3,741 | 39,075 |
| Tangible assets | | 1,318 | 9,671 |
| Intangible assets | | 300 | - |
| Government grants | 13 | 2,078 | 24,039 |
| Interest and similar income | | 903 | 672 |
| Dividends | 4 | 60,024 | 67,726 |
| Loans granted | | 6,214 | 2,068 |
| | | **74,578** | **143,251** |
| Cash payments relating to: | | | |
| Investments | | (98,017) | (3,485) |
| Tangible assets | | (1,281,121) | (674,567) |
| Intangible assets | | (75,714) | (36,039) |
| Loans granted | | (5,088) | (200) |
| | | **(1,459,940)** | **(714,291)** |
| **Net cash used in investing activities (2)** | | **(1,385,362)** | **(571,040)** |
| **Financing activities:** | | | |
| Cash receipts relating to: | | | |
| Loans obtained | | 964,735 | 807,612 |
| Interest and similar income | | 1,483 | 10,382 |
| Discounted notes | | 15,603 | 16,063 |
| | | **981,821** | **834,057** |
| Cash payments relating to: | | | |
| Loans obtained | | (163,745) | (556,781) |
| Interest on loans obtained | | (24,046) | (23,265) |
| Interest and similar costs | | (86,124) | (53,156) |
| Dividends | 30 | (166,967) | (193,596) |
| Repayment of discounted notes | | (6,858) | (6,767) |
| Payment of interest on finance lease contracts | | (94) | (137) |
| Interest on bonds | | (8) | (16,404) |
| | | **(447,842)** | **(850,106)** |
| **Net cash provided by (used in) financing activities (3)** | | **533,979** | **(16,049)** |
| Net decrease in cash and cash equivalents (4) = (1) + (2) + (3) | | (132,561) | 154,837 |
| Effect of foreign exchange rate changes | | 2,650 | 23,122 |
| Cash and cash equivalents at the beginning of the year | 18 | (61,290) | (238,835) |
| Change in consolidation perimeter | | 19,904 | (414) |
| Cash and cash equivalents at the end of the year | 18 | (171,297) | (61,290) |

The accompanying notes form an integral part of the consolidated statement of cash flow for the year ended 31 December 2010.

**THE ACCOUNTANT**

Carlos Alberto Nunes Barata

**THE BOARD OF DIRECTORS**

Francisco Luís Murteira Nabo
Manuel Ferreira De Oliveira
Manuel Domingos Vicente
Fernando Manuel dos Santos Gomes
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
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Giuseppe Ricci
Luigi Spelli
Joaquim José Borges Gouveia
Maria Rita Galli

## GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

(Amounts stated in thousands of Euros - tEuros) (Translation of consolidated statements of comprehensive income originally issued in Portuguese - Note 37)

| | Notes | December 2010 | December 2009 |
|---|---|---|---|
| **Consolidated net profit for the year** | **10** | **441,375** | **347,272** |
| **Other gains and losses recognised in Equity:** | | | |
| Differences arising on translation of foreign currency financial statements (Group companies) | 20 | 31,804 | 17,762 |
| Differences arising on translation of foreign currency financial statements (Associated companies) | 20 | 6,875 | (1,074) |
| Other increases / decreases | | 20 | - |
| | | 38,699 | 16,688 |
| Other increases / decreases in hedging reserves | 27 | 4,189 | (6,428) |
| Other gains and losses recognised in equity from associated companies | 27 | (97) | (774) |
| Income tax related with the components of gains and losses recognised in Equity | | (927) | 1,897 |
| | | 3,165 | (5,305) |
| **Other gains and losses recognised in Equity net of income tax expense** | | **41,864** | **11,383** |
| **Gains and losses recognised in Equity before non-controlling interests:** | | **483,239** | **358,655** |
| Other gains and losses of non-controlling interests | | 6,341 | 2,209 |
| **Consolidated gains and losses recognised in Equity:** | | **489,580** | **360,864** |

The accompanying notes form an integral part of the statement of comprehensive income for the year ended 31 December 2010.

**THE ACCOUNTANT**

Carlos Alberto Nunes Barata

**THE BOARD OF DIRECTORS**

Francisco Luís Murteira Nabo
Manuel Ferreira De Oliveira
Manuel Domingos Vicente
Fernando Manuel dos Santos Gomes
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
Carlos Nuno Gomes da Silva
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João Pedro Leitão Pinheiro de Figueiredo Brito
Luca Bertelli
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Luigi Spelli
Joaquim José Borges Gouveia
Maria Rita Galli

## GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009 (IFRS/IAS)

(Amounts stated in thousands of Euros - tEuros) (Translation of consolidated statements of comprehensive income originally issued in Portuguese - Note 37)

| Changes in the period | Notes | Share capital | Share premium | Translation reserve (Note 20) | Other reserves (Note 20) |
|---|---|---|---|---|---|
| **Balance as of 1 January 2009** | | **829,251** | **82,006** | **(27,449)** | **174,480** |
| Consolidated net profit for the period | 10 | - | - | - | - |
| Other gains and losses recognised in Equity | | - | - | 16,688 | - |
| **Comprehensive income for the period** | | **-** | **-** | **16,688** | **-** |
| Dividends distributed | | - | - | - | - |
| Appropriation of profit to reserves | | - | - | - | 18,884 |
| **Balance as of 31 December 2009** | | **829,251** | **82,006** | **(10,761)** | **193,364** |
| Consolidated net profit for the period | 10 | - | - | - | - |
| Other gains and losses recognised in Equity | | - | - | 38,679 | 20 |
| **Comprehensive income for the period** | | **-** | **-** | **38,680** | **20** |
| Dividends distributed | 30 | - | - | - | - |
| Appropriation of profit to reserves | | - | - | - | - |
| **Balance as of 31 December 2010** | | **829,251** | **82,006** | **27,918** | **193,384** |

The accompanying notes form an integral part of the consolidated statement of cash in equity for the year ended 31 December 2010.

**THE ACCOUNTANT**

Carlos Alberto Nunes Barata

**THE BOARD OF DIRECTORS**

Francisco Luís Murteira Nabo
Manuel Ferreira De Oliveira
Manuel Domingos Vicente
Fernando Manuel dos Santos Gomes
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
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João Pedro Leitão Pinheiro de Figueiredo Brito
Luca Bertelli
Claudio De Marco
Paolo Grossi
Fabrizio Dassogno
Giuseppe Ricci
Luigi Spelli
Joaquim José Borges Gouveia
Maria Rita Galli

| Hedging reserves | Retained earnings | Interim dividend (Note 30) | Consolidated net profit for the year | Sub-Total | Non-controlling interests (Note 21) | Total |
|---|---|---|---|---|---|---|
| **(1,752)** | **1,144,432** | **(124,095)** | 116,971 | **2,193,844** | **24,975** | **2,218,819** |
| - | - | - | 347,272 | 347,272 | - | 347,272 |
| (5,305) | - | - | - | 11,383 | 2,209 | 13,592 |
| **(5,305)** | **-** | **-** | **347,272** | **358,655** | **2,209** | **360,864** |
| - | (265,360) | 74,340 | - | (191,020) | - | (191,020) |
| - | 98,087 | - | (116,971) | - | - | - |
| **(7,057)** | **977,159** | **(49,755)** | **347,272** | **2,361,479** | **27,184** | **2,388,663** |
| - | - | - | 441,375 | 441,375 | - | 441,375 |
| 3,165 | - | - | - | 41,864 | 6,341 | 48,205 |
| **3,165** | **-** | **-** | **441,375** | **483,239** | **6,341** | **489,580** |
| - | (116,095) | (49,755) | - | (165,850) | (1,324) | (167,174) |
| - | 297,517 | 49,755 | (374,272) | - | - | - |
| **(3,892)** | **1,158,581** | **(49,755)** | **441,375** | **2,678,869** | **32,201** | **2,711,069** |

CONTENTS

# GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2010**

(Amounts stated in thousands of Euros - tEuros)
(Translation of notes originally issued in Portuguese – Note 37)

## 1. INTRODUCTION

### a) Parent company
Galp Energia, SGPS, S.A. (hereinafter referred to as Galp or the Company) head Office is in Rua Tomás da Fonseca in Lisbon and its corporate object is to manage equity participations in other companies.

The Company shareholder position as of 31 December 2010 is stated in Note 19.

Part of the Company's shares, representing 25.32% of its capital, are listed in the Euronext Lisbon stock exchange.

### b) The Group
At 31 December 2010 the Galp Group ("the Group") was made up of Galp and its subsidiaries, which include, among others: (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. 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) Galp Energia, S.A. which integrates the corporate support services.

### b1) Crude oil upstream operations
The Exploration and Production business segment ("E&P") is responsible by the presence of Galp Energia in the upstream sector of petroleum industry, which consists of the supervision and performance of all activities relating to the exploration, development and production of hydrocarbons, essentially in Angola, Brazil, Mozambique, Portugal and East Timor.

### b2) Crude oil downstream operations
The Refining and Distribution of Petroleum Products business segment ("R&D") holds the two only refineries existent in Portugal and also includes all activities relating to the retail and wholesale commercialisation of petroleum products (including LPG). The Refining and Distribution segment also controls the majority of petroleum products storage and transportation infrastructure in Portugal, which are strategically located, for both exporting and distribution of the main products to the consumption centres. This retail distribution activity, using Galp brand, also includes Spain, Mozambique, Guinea-Bissau, Gambia and Swaziland through fully owned subsidiaries of the Group and Angola and Cape Verde through joint ventures.

### b3) Natural Gas and Energy generating operations
The Gas and Power business segment covers the areas of Purchasing, Commercialisation, Distribution and storage of Natural Gas and electric and thermic power production.

The operations of the Galp Power Group subsidiaries consist on producing and commercialising electric, thermic power and wind power in Portugal and Spain.

The Power area generates electric energy and thermic power, which supplies power to large industrial customers. Galp Energia presently participates in four cogeneration plants, with a install capability of 160 MW and in wind farms.

The Natural Gas area subdivides in to the areas Purchasing and Commercialisation and Distribution.

The Purchasing and Commercialisation of Natural Gas area supplies Natural Gas to large industrial customers with annual consumptions of more than 2 million m3, power generating companies, and natural gas distribution companies and AGU ("Autonomous Gas Unit"). So as to meet the demand of its customers, Galp Energia has long term purchase contracts with companies in Algeria and Nigeria.

The Natural Gas Distribution area, includes the natural gas distribution companies in which Galp Energia has a significant participation. With the objective of selling natural gas to residential, commercial and industrial customers with annual consumptions of less than 2 million m3. Galp is also a player in Spain of regulated low pressure distribution of natural gas, through subsidiaries, supplying 38 adjacent municipalities of the city of Madrid. This commercialization activity includes the sale of natural gas to final customers, regulated and non-regulated in the area covered by the distribution area above described.

The natural gas subsidiaries of Group Galp that store, distribute and commercialise natural gas in Portugal, operate based on concession contracts entered into with the Portuguese State, which end in 2045 for storage and 2047 for distribution and commercialisation. At the end of these periods 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 at that date, net of depreciation, financial co-participation and grants.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Group to prepare the consolidated financial statements are explained below. During the year ended 31 December 2010 there were changes in the accounting policies in relation to those used to prepare the financial information for the preceding year, which are presented in Note 2.23. No significant prior year material errors were recognised.

### 2.1.Basis 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 2.15), from the accounting records of the companies included in the consolidation (Notes 3 and 4), maintained in accordance with generally accepted accounting principles in the countries of each subsidiary, adjusted in the consolidation process so as to conform with International Financial Reporting Standards as adopted by the European Union, effective for the years beginning 1 January 2010. 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"), adopted by the European Union. These standards and interpretations are hereinafter referred to as IAS/IFRS.

The standards "IAS/IFRS" approved and published in the Official Journal of the European Union ("OJEU") during 2010 applicable to subsequent years are as follows:

Standards and Interpretations applicable to future period's, if applicable:

| Standard | Publication date in OJEU | Date of accounting application | Application period | Comments |
|---|---|---|---|---|
| IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments | July 24, 2010 | after June 30, 2010 | 2011 | No accounting impacts are expected |
| Revised of the standard IAS 24 - Related Party Disclosures | July 20, 2010 | after December 31, 2010 | 2011 | No accounting impacts are expected |
| Amendments to IFRC 14 - prepayments of a minimum funding requirement | July 20, 2010 | after December 31, 2010 | 2011 | No accounting impacts are expected |
| Amendments to IFRS 1 - Limited exemption from comparative IFRS 7 disclousures for fist-time adopters | July 1, 2010 | after June 30, 2010 | 2011 | Not applicable |

The standards "IAS/IFRS" approved and published in the Official Journal of the European Union ("OJEU") applicable to 2010 and to subsequent years are as follows:

Standards and Interpretations adopted, if applicable:

| Standard | Publication date in OJEU | Date of accounting application | Application period | Comments |
|---|---|---|---|---|
| Revision IFRS 1 First-time Adoption of international Financial Reporting Standards | June 24, 2010 | after December 31, 2009 | 2010 | Not applicable |
| Amendments to IFRS 2 Share-based Payment | March 24, 2010 | after December 31, 2009 | 2010 | Not applicable |
| Improvements to International Financial Reporting Standards | March 24, 2010 | after December 31, 2009 | 2010 | No accounting impacts are expected |
| Amendments to IAS 32 Financial Instruments: Presentation | December 24, 2009 | February 1, 2010 | 2010 | No accounting impacts are expected |
| IFRIC 18 Transfers of Assets from Costumers | December 1, 2009 | October 31, 2009 | 2010 | No accounting impacts are expected |
| IFRIC 17 Distributions of Non-cash Assets to Owners | November 27, 2009 | October 31, 2009 | 2010 | No accounting impacts are expected |
| Revision IFRS 1 First-time Adoption of international Financial Reporting Standards | November 26, 2009 | December 31, 2009 | 2010 | Not applicable |
| Amendments to IAS 39 Financial Instruments: Recognition and Measurement | September 16, 2009 | June 30, 2009 | 2010 | No accounting impacts are expected |
| IFRIC 15 Agreements for the Construction of Real Estate | July 23, 2009 | December 31, 2009 | 2010 | No accounting impacts are expected |
| Revision IFRS 3 Business Combinations | June 12, 2009 | June 30, 2009 | 2010 | Impacts expected if new business are combined in the future |
| Amendments to IAS 27 Consolidated and Separate Financial Statements | June 12, 2009 | June 30, 2009 | 2010 | Impacts expected if there are change in control or investments in the future |
| IFRIC 16 Hedges of a Net Investment in a Foreign Operation | June 5, 2009 | June 30, 2009 | 2010 | No accounting impacts are expected |
| IFRIC 12 Service Concession Arrangements | March 26, 2009 | March 29, 2009 | 2010 | Impacts restated in Note 2.23 |

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.

In the preparation and presentation of consolidated financial statements Galp Energia Group complies with the IAS / IFRS and their interpretations SIC / IFRIC adopted by the European Union.

## 2.2. Consolidation methods

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% of 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 statement of financial position and income statement in the caption "Non-controlling interests". The gain and loss applicable to non-controlling interests are allocated to them.

The assets and liabilities of each Group company are recognised at fair value as of the date of acquisition or, as established in IFRS 3, during a period of 12 months after that date. Any excess of cost over the fair value of the net assets and liabilities acquired is recognised as goodwill (Note 2.2.d)). If the difference between cost and fair value of the assets and liabilities acquired is negative, it is recognised as an income for the year.

Non-controlling interests include 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 to the date of disposal.

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 are always consolidated.

### b) Investments in jointly controlled entities

Investments in jointly controlled entities are included in the accompanying consolidated financial statements in accordance with the equity method as from the date joint control is acquired. The jointly controlled entities recognised by the equity method are listed in Note 4. 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 and maintained in the amount of the financial investment in the caption "Investments in associates and jointly controlled entities".

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 results of investments in associates and jointly controlled entities", after confirmation of the fair value attributed.

Recoverable amount of investments in associates and jointly controlled entities are assessed for impairment when there are indications that might suggest the investments may be impaired, as well as annual valuations of goodwill. If any impairment losses are determined they are recognised in the income statement. When impairment losses recognised in preceding years no longer exist, except for goodwill they are reversed.

When the Group's share of accumulated loss in a jointly controlled entity exceeds its book value, the investment is recorded at zero, except when the Group has assumed commitments to the jointly controlled entity, in which case the Group recognises the loss by the amount of the joint liability in the entity.

Unrealised gains and losses on transactions with jointly controlled entities are eliminated in proportion to the Group's interest in the joint controlled entities, by corresponding entry to the investment in that same entity. Unrealised losses are eliminated if the loss doesn't result from the transferred asset being impaired.

The classification of investments in jointly controlled entities is determined based on shareholders 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 holds between 20% to 50%) are recorded in accordance with the equity method.

Investments in associates (companies in which the Group does not have significant influence or control, normally where it holds less than 20%) are recorded at cost, since the companies are not listed in any stock exchange and the fair value cannot be measured with reliability.

The investments in associates are assets available-for-sale in accordance to the classification of the revised IAS 39 and they are classified as non-current assets.

In accordance with the equity method investments are recorded at cost and subsequently, adjusted by the Group's share of the investee's post acquisition changes in net equity (including net result) of the associated company by corresponding entry to the income statement caption "Share of results of investments in 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 and included in the 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 results of investments in associates", after confirmation of the fair value attributed.

Valuations are made of investments in associates when there are facts that might suggest the participation to be impaired, as well as annual valuations of goodwill. If any impairment losses are determined they are recognised in the income statement. When impairment losses recognised in preceding years no longer exist, except for goodwill, they are reversed.

When the Group's share of the accumulated loss on 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 loss by the amount of the joint liability 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, only if the loss doesn't result from the transferred asset being impaired.

The interest in associated companies are presented in Note 4.

### d) Goodwill

The positive differences between the cost of investments in Group companies, jointly controlled entities and associated companies and the fair value of the identifiable assets and liabilities of these companies at the date of acquisition (or during a period of 12 months after that date), are recognised as goodwill (in case it results from goodwill in group companies or jointly controlled entities) (Note 11) or as investments in associates (in the case it results from associated companies). The negative differences, are recognised in the income statement of the year.

The positive differences between the cost of investments in foreign entities and the fair value of the identifiable assets and liabilities at the date of acquisition (or during a period of 12 months after that date), are recognised in their functional currencies and translated to the Group's functional currency (Euros) at the rate of exchange on the end of the reporting period. Exchange rate differences resulting from the translation are recorded in equity in the caption "Translation reserve".

Goodwill on acquisitions prior to the date of transition to IFRS (1 January 2004) was maintained at the amounts recorded in accordance with generally accepted accounting principles in Portugal (deemed cost) as of that date and is subject to impairment tests. The goodwill stopped being amortised as of that date, but is subject to impairment tests at least annually to determine if there are impairment losses.

Any impairment losses are recorded immediately on the statement of financial position as a deduction to the amount of the assets by corresponding charge to the income statement caption "Other gains and losses" and are not subsequently reversed.

If the initial recording of a business combination can only be made provisionally at the end of the period in which the concentration was made because the fair values to be attributed to the identifiable assets, liabilities and contingent liabilities of the acquired entity can only be determined provisionally, the Galp Group records the concentration using the provisional amounts. The amounts determined provisionally are adjusted when the fair values of the assets and liabilities are objectively determined, up to a period of 12 months after the acquisition date. Goodwill or any other gain recognised will be adjusted as from the date of the acquisition by an amount equal to the adjustment of fair value of the identifiable assets, liabilities and contingent liabilities at the date of acquisition, to be recognised or adjusted and the comparative information presented for periods prior to conclusion of the initial recording of the concentration will be presented as if the initial recording had been concluded as of the date of the acquisition. This includes any depreciation, amortisation or other additional profit or loss recognised as a result of concluding the initial recording.

When performing impairment test on goodwill, it's value is added to the respective cash generating unit. Value in use is determined by the present value of the estimated future cash flows of the cash generating unit. The discount rate used reflects Galp Energia Group WACC (Weighted Average Cost of Capital) for the reporting segment and country or the cash generating unit.

**e) Foreign currency financial statements translation**

Entities operating abroad that have organisational and financial autonomy, with functional currency different from the Group reporting currency are recorded 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 end of the reporting period 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 rate differences arising up to 1 January 2004 (date of transition to IFRS) were reversed by corresponding entry to "Retained earnings" (Note 20).

Goodwill and the fair value adjustments resulting from the acquisition of foreign entities are accounted as assets and liabilities of these entities and translated to Euros at the exchange rates in force on the end of the reporting period.

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

Shareholders' loans in a different functional currency from the parent company that do not have defined repayment terms are considered as net investments in the foreign entities. The exchange differences arising are not reversed in the consolidation process, in transposing the balances of shareholders' loans to the company's reporting functional currency, and are reclassified to the shareholders' equity caption "Translation reserve" in the consolidated financial statements.

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

| | At the end of the year | | Average for the year | |
|---|---|---|---|---|
| **Currency** | **2010** | **2009** | **2010** | **2009** |
| Gambian Dalasi | 37.32 | 38.54 | 36.70 | 36.95 |
| Moroccan Dirhams | 11.14 | 11.25 | 11.14 | 11.31 |
| US Dollars | 1.34 | 1.44 | 1.33 | 1.40 |
| Cape Verde Escudos | 110.27 | 110.27 | 110.27 | 110.27 |
| CFA Francs | 655.96 | 655.96 | 655.96 | 655.96 |
| Swaziland Lilangeni | 8.81 | 10.64 | 9.66 | 11.59 |
| Mozambique Meticais | 43.17 | 41.90 | 44.85 | 38.51 |
| Brazilian Reais | 2.22 | 2.51 | 2.33 | 2.76 |

## 2.3. Tangible assets

**General**

Tangible 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, where applicable, in accordance with the legislation in force up to that date, less accumulated depreciation, impairment loss.

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

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

Depreciation of the deemed cost (for acquisitions up to 1 January 2004) or acquisition cost are calculated on a straight-line basis, as from the year the assets are available for operating in accordance with the group management, at the rates considered most appropriate to depreciate the assets during their estimated economic useful life, limited, when applicable, to the concession period.

The average annual depreciation rates used are as follows:

| | Rates |
|---|---|
| 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 assets | 10.00% - 33.33% |

The capital gain/loss resulting from the write-off or disposal of tangible assets are determined by the difference between the sale price and the net book value as of the date of the write-off/disposal. The net book value includes the accumulated impairment losses. The resulting accounting capital gain/loss is register in the consolidated income statements under the caption "Other operation income" or "Other operation cost", respectively.

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

**Oil exploration and production**

The tangible assets related with oil exploration and production, are recorded at acquisition cost and are mainly related with costs incurred in exploration and development of oil fields, plus overheads and financial costs incurred up to the date production starts, are capitalised in tangible assets in progress. When the oil field starts producing, these costs are transferred from tangible assets in progress to the definitive tangible assets captions and depreciated according with the depreciation rate in accordance with the Unit of Production ("UOP") method for the nature of the expenses.

Development expenses are 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 ("UOP").

Exploration expenses are depreciated based on a coefficient calculated by the proportion of the volume of production in each depreciation period in relation to the total proved reserves at the end of the period plus production for the period.

The proved developed reserves and total proved reserves used by the Group to determine the depreciation rate in accordance with the Unit of Production ("UOP") method were determined by a specialised and independent entity.

Exploration expenses relating to fields which are still in the exploration and development phase are classified as tangible assets in progress in the caption "Tangible assets".

All costs incurred in the exploration phase related with unsuccessful oil fields are recognized as costs in the income statement for the year except if the oil well drilled without success is expected to be used as an injector well or can be considered as an evaluation well to future drillings, in which case the expenses are capitalized until the decision to interrupt the exploration and/or development work is acknowledged.

## 2.4. Intangible assets

**General**

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

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

Exploration expenses not related to upstream activities are recognised as costs for the year.

Intangible assets include, costs incurred on information systems development, exclusivity bonuses paid to retailers of Galp products and rights on land utilization costs, which are amortised over the period of the respective contracts (which ranges from ten to twenty years).

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

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

**Oil exploration and production operations**

Intangible assets recognised in oil exploration and production are recorded at acquisition cost and are mainly related with acquiring oil exploration and production licences (signature bonus), and are depreciated on a straight-line basis, as from the date production starts, over the remaining period of the licence.

**Natural Gas operations**

As result of IFRIC 12, Galp Energia, recognizes natural gas assets included in the concession arrangements whose remuneration is defined by ERSE in accordance with the intangible assets model. Consequently, the tangible assets of regulated activities are recognized as intangible assets, in the caption "Service Concession Arrangements", and depreciated in accordance with their economic useful life, namely in accordance with the economic benefits model used by the regulator (ERSE) for effects of establishing the regulated tariffs and consequently the Group regulated revenue (Note 2.23).

The natural gas infrastructures, namely the gas distribution networks, are depreciated over a period of 45 years corresponding to its economic useful life.

The Group capitalizes costs relating to the conversion of natural gas consumptions, which involves adapting the installations. The Group considers that it can control the future economic benefits resulting from this conversion, through the continued sale of gas to its clients (Dec-law 140/2006 of 26th of July). These costs are amortised on a straight-line basis up to the end of the natural gas distribution company's concession period.

The regulated assets are depreciated in according to the underlying economic model of the tariff regulation.

## 2.5. Impairment of non-current assets except goodwill

Impairment tests are performed as of the financial statements date and whenever a decline in the asset value is identified. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised by charge to the income statement caption "Amortisation, depreciation and impairment loss on tangible assets".

The recoverable amount is the greater of the net selling price and the value in use. Net selling price is the amount that would be obtained from selling the asset in a transaction between independent knowledgeable parties, less the costs directly attributable to the sale. Value in use corresponds to the present value of the future cash flows generated by the asset during its estimated economic useful life. The recoverable amount is estimated for the asset or cash generating unit to which it belongs. The discount rate used reflects the weighted average cost of capital (WACC) used by the Galp Energia Group for the reporting segment and country of the asset. The cash generating unit subject to impairment analysis depends on the reporting segment: in the refining and distribution segment the cash generating unit is the service station network in each country; in the exploration segment the cash generating unit is the property (commonly referred as Block); and in the gas & power segment the cash generating unit is the set of assets generating the economic benefits.

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

### Refining and Distribution segment assets

Tangible and intangible assets related with refining and distribution of oil products are assessed by the Group for impairment at the end of each reporting period, considering internal and external sources of information, namely the Portuguese and Spanish markets service station network.

In the annual impairment tests performed to distribution activity of oil products, the Group identified and considered as cash generating unit the service station network of each country. This consideration derives from the fact that the report of the internal management is based on network operations of each country, and operational decisions and investments are made on that basis.

The impairment tests carried out by the Group are based on the estimated recoverable amount of each service station compared to its net book value at the end of each reporting period. The recoverable amount (value in use) determined by the Group corresponds to the present value of the expected future cash flows determined based on annual budgets and business plans for each service station, using the Weighted Average Cost of Capital ("WACC") discount rate of that business segment, according to its specific risk.

The projections period of cash flows are adjusted to the cash generating unit's average useful life.

### Impairment - Oil Exploration and Production segment assets

The Impairment losses on oil exploration and production assets are determined when:

- Economically feasible reserves are not found;
- The licensing period ends and the exploration licence is not expected to be renewed;
- When an acquired area is returned or abandoned;
- When the expected economic future benefits are less than the investment made.

Annually tangible and intangible assets related with oil exploration and production are assessed by the Group for impairment. The selected cash generating unit is the country or block depending on the stage of maturity of the investments.

The assessment for block impairment is made in accordance with the Expected Monetary Value ("EMV model"), comparing the carrying amount of the investments with the present value of the expected future cash flows using the Weighted Average Cost of Capital ( "WACC") discount rate, calculated taking into account the estimates of:

(i) Probable reserves;
(ii) Investment and future operating costs needed to recover the probable reserves;
(iii) Contingent resources, adjusted by a factor of probability of success;
(iv) Investment and future operating costs required to recover the contingent resources;
(v) Reference price of a barrel of Brent;
(vi) Exchange rate Euro / U.S. Dollar;
(vii) Taxation of Block / Country.

The projection period of cash flow is equal to the recovery of reserves and resources and limited to the period of concession contracts, when applicable.

The information contained in paragraphs:
(i) is determined by independent experts for the quantification of the oil reserves estimated;
(ii), (iii), (iv) and (vii) is internally determined by Galp Energia, or, whenever available, through information provided by the operator of each Block, namely the information included in the approved development plans, adjusted to the expectation of the Company and legal information available; and
(v) and (vi) is the one contained in the Galp Energia Group five years budget and constant after that period.

The assessment of country impairment is similar to that described by block, however the estimated cash flows only take into account the information contained in paragraphs (iii) to (vii) above, since probable reserves are not yet determined.

## 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.

### Leases in which the Group is the lessee

Tangible 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 the fair value or the discounted amount of the lease instalments) is recognised in tangible assets, the corresponding liability is recorded and interest included in the lease instalments and depreciation of the fixed assets, calculated as explained in Note 2.3, are 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 "External supplies and services".

The Group does not hold materially relevant operating or finance leases and so the provided disclosures in the notes to the financial statements are not presented.

## 2.7. Inventories

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.

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

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

### a) Raw and subsidiary materials

**Crude oil** – The cost includes the invoice price and transport and insurance costs. The cost of sales is determined on a weighted average basis, applicable to a single family of products, which includes all crude oil types.

**Other raw materials (excluding general materials)** – The cost includes the invoice price and transport and insurance costs. The cost of sales is determined on a weighted average basis, by family of products, determined considering the characteristics of the different materials.

**General materials** – The cost includes the invoice price and transport and insurance costs. The cost of sales is determined on a weighted average 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** – Crude oil produced in the oil exploration and production activity held in inventory at 31 December of each year, corresponds to the Company's share of the total inventory of each development area. Such inventories are measured at their production cost, which includes direct production costs, the depreciation for the year and abandonment provision costs. The cost of sales is determined on a weighted average basis.

**Oil products** – Produced finished and semi-finished products are measured at production cost, which includes the cost of raw and other materials consumption, direct labour costs and production overheads. If acquired to third parties they are measured at cost, which includes the invoiced price and transport and insurance costs. The cost of sales is determined on a weighted average basis applied to families of products determined up considering the characteristics 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 dispatched subject to that tax, which is stated at cost (since its similar to a customs duty). The cost of sales is determined on a weighted average basis.

**Other finished and semi-finished products** – Production costs include raw materials and variable and fixed production costs. The cost of sales is determined on a weighted average basis.

### d) Merchandise

Cost includes the invoice price and transport and insurance costs. The cost of sales is determined on a weighted average basis.

The cost of imported natural gas also includes the costs relating to transport and rights of passage through Moroccan territory incurred up to the Portuguese border.

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

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

### e) Under/Over Lifting

In the case of oil exploration and production activity, when the Company has underlifted oil in relation to its production quota and the amount underlifted has been lend to other joint venture partners an account receivable measured at market price as of the date the loans were granted is recorded in the caption "Other receivables" (Note 14). Whenever the market price at the end of the year is lower than the price considered for valuing the quantities lend it is recognised an impairment loss.

When the Company has overlifted oil in relation to its production quota, an account payable, representing the amount overlifted measured at market price on the date the loan conceded is recorded in the caption "Other payables" (Note 24).

The Company considers that in substance over form the production shared under the Production Sharing Agreement is not subject to price risk since the operation is for use of the contractors and the settlement of the under and overlifting is made through product physical delivery.

## 2.8. Government grants and other grants

Government grants 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 them to be granted.

Government grants for operating costs are recognised in the income statement in proportion of the costs incurred.

Non repayable government grants for tangible and intangible assets (conversions) are recorded as deferred income in the caption "Other payables" and recognised in the consolidated income statement as other operational income, in proportion of the amortisation and depreciation of the granted assets (Note 2.23).

## 2.9. Provisions

Provisions are recorded when, and only when, the Group has a present obligation (legal or constructive) resulting from a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed and adjusted on each balance sheet date so as to reflect the best estimate at that date.

## 2.10. Retirement liability

Some Group companies have assumed the commitment to pay their employees' pension supplements for retirement due to age, disability and pensions to survivors, as well as early retirement and pre-retirement pensions. With exception of early retirement and pre-retirement pensions, these payments are calculated on an incremental basis in accordance with the number of years of the employee. Early retirement and pre-retirement pensions correspond essentially to the employee's wage. When applicable, these commitments also include the payment of Social Security of pre-retired personnel, voluntary social insurance of early retirees and retirement bonuses payable upon normal retirement.

The Group have created autonomous pension funds managed by outside entities ("Fundo de Pensões Petrogal", "Fundo de Pensões Sacor Marítima", "Fundo de Pensão Galp Comercialización Oil España", 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, 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 on the statement of financial position caption "Retirement and other benefit obligations" (Note 23).

In addition, the GDP pension plan does not cover the liability assumed by GDL to reimburse the retirement pension supplements payable by EDP to its retired personnel and pensioners relating to GDL, as well as retirement and survivor supplements payable to retired personnel at the time of creating the Fund. These liabilities are covered by specific provisions included in the balance sheet caption "Retirement and other benefit obligations" (Note 23).

At the end of each reporting period the companies obtain actuarial valuations calculated by a specialised entity 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 liabilities, in order to determine the additional liabilities to be recorded.

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 fund market value, being recognised in the income statement as from the year following the year the deviation is determined, on a straight-line basis in accordance with the expected average number of remaining 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;
- Defined contribution minimum benefit 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.

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 employees of other Group companies to join this 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. (on 17 December 2003 Galp eNova S.A. was merged into Galp Energia, S.A.) as associates of the Fund, allowed their employees to elect between this new defined contribution pension plan and the previous defined benefits plan. In case the new plan is elected the group companies contribute with an annually defined amount to the fund, 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 insurance and defined contribution minimum benefit plan

The Group's costs with respect to healthcare, life insurance and defined contribution minimum benefit plan are recognised over the period the employees entitled to these benefits are in service in the respective companies, the liability being reflected on the statement of financial position caption "Retirement and other benefit obligations" (Note 23). Each year payments to the beneficiaries are recorded as liability reductions.

At the end of each reporting period the companies obtain actuarial valuations calculated by a specialised entity 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 liabilities, in order to determine the additional liabilities 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 separate financial statements of subsidiaries in their functional currencies, at the exchange rates in force on the dates of the transactions.

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

Gains and losses resulting from differences in exchange rates in force on the dates of the transactions and those prevailing at the date of collection, payment or at the end of the reporting period are recorded as income and expenses, respectively, in the consolidated income statement caption "Exchange gain (loss)", except for those relating to non-monetary items, fair value change that are recorded directly in equity.

When the Group intends to reduce its exposure to exchange rate risk it contracts hedging derivative instruments (Note 2.16.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 measured. Sales are recognised at the fair value of the amount received or receivable, net of taxes (except for tax on petroleum products in the distribution of petroleum products segment), discounts and other costs incurred to realise them.

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

The "Other current assets" and "Other current liabilities" captions include the costs and income from the current period and whose financial receipt or disbursement will only occur in future periods, as well as financial receipt or disbursement that have already occurred, relating to future periods and that will be charged to results on the respective periods.

### Natural Gas operations

The sales price of natural gas to electricity producers companies, in the free regime, are established in according to settled commercial agreements.

The regulated tariffs used for invoicing natural gas in the national natural gas system are established by Entidade Reguladora do Sector Energético ("ERSE"), so that they allow the recovery of the estimated regulated revenue for each gas year calculated for each regulated activity. Regulated revenue includes, in addition to operating costs for each activity, the following remuneration: (i) commercialisation activity, remuneration for the purchase and sale of natural gas, which corresponds to the effective cost of natural gas and remuneration of the operating commercialisation costs plus a commercialisation margin; (ii) activities of reception, transport and storage of natural gas, remuneration of 8% of the fixed assets net of depreciation and grants relating to these activities, (iii) activity of distribution of natural gas, remuneration of 9% of the fixed assets net of depreciation and grants relating to these activities. The regulated revenue of the pass-through activities/functions assumes recovery of the costs incurred. Consequently, each activity is compensated for the costs incurred, when applicable, and its remuneration.

As an outcome of the above mentioned, and since they hold the credit risk of retrieving the tariff invoiced to final costumers, commercialization group companies income include the remuneration/recovery of all the previous activities.
Given the regulatory framework and legislation, regulated revenue deviations in each year respect some conditions: reliability of its measurement; financial asset remuneration;

right to recover and transmissibility, among other; that support their recognition as income and asset in the year they are calculated, namely the reliability of its measurement and for the certainty that economic benefits will flow to the Company. The regulated revenue calculation formula for the "Gas Year n", in the first and second regulation periods as published in the Tariff Regulation, include the regulated revenue deviations in the "Gas Year n-1" This rational is also applied to the negative regulated revenue deviations, which are recorded as liabilities and costs.

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

In the wholesale intermediate storage and distribution activity, the Group recognised in accruals and deferrals captions the deviation between the effective invoicing through sales of nature gas regulated tariff and the regulated revenue defined for each Gas Year by ERSE, assigned by the agreed coefficient of seasonality included in the compensation mechanism of natural gas companies – Regulated revenue (Note 14 and 24).

In the wholesale last resort commercialization activity, the Group recognises in accruals and deferrals captions the difference between the effective invoicing through sales of natural gas regulated tariff and the effective cost of natural gas acquired – Energy Tariff Deviation (Note 14).

Since the natural gas regulation system is intended to result in a uniform tariff (applicable to all the country's regions) and considering the various levels of efficiency of the companies in the regulated market, ERSE published the compensation mechanism to be practiced between the companies in the sector, so as to allow approximation of income recovered by application of the regulated tariffs to regulated revenue of these companies. Therefore ERSE in its documents "Tariffs and prices of natural gas" for each Gas Year, identifies the amount of compensation to be transferred (debited) between companies of the national gas system. In order to ensure a practical, objective and transparent procedure for the referred settlement, the companies have agreed the seasonal coefficients to be applied in the issuance of the invoice for the uniform tariff. The seasonality differences between distribution and commercialization activities reflect the difference in payment terms.

The invoicing of the gas distribution and commercialization activity is performed by the company, and the meter reading and collection is performed by the company or by subcontracted external partners.

Sales of gas not invoiced are recorded monthly in the caption "Other receivables" based on estimated amount to be invoiced calculated with historical information or meter reading depending on the client nature, and corrected in the income statement in the period in which they are invoiced (Note 14).

## 2.14. Financial costs on loans obtained

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

Financial costs on loans to finance investments in tangible assets are capitalised in fixed assets in progress in proportion to the total costs incurred on the investments, net of government grants received (Note 2.8), up to the time they start operating (Notes 2.3 and 2.4), the remaining financial costs being recorded in the income statement caption "Financial costs" (Note 8). Any interest income on loans obtained directly to finance tangible assets in construction is deducted from the capitalisable financial costs.

Financial costs included in tangible 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 applicable tax rules in force in the area each Galp Energia Group company head office is located.

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

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

Deferred tax assets are recorded only when there is reasonable expectation of sufficient future taxable income to use them or whenever there are taxable temporary differences that offset the deductible temporary differences in the period they revert. Temporary differences underlying deferred tax assets are reviewed at each 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 9).

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

## 2.16. Financial instruments

Financial assets and liabilities are recognised on the statement of cash flows 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 and loss;
- Available-for-sale investments.

Held-to-maturity investments are classified as non-current investments, unless they mature in less than 12 months from the consolidated statement of financial position date. These investments have a defined maturity date which the Group intends and has the ability to retain up to their maturity. At December 31, 2010 the Group doesn't own held-to-maturity investments.

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

Available-for-sale investments are classified as non-current assets, for the investments in associates.

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 financial statements 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 reliably estimate their fair value, are maintained at cost less any non-reversible impairment losses.

Gains and losses resulting from changes in the fair value of available-for-sale investments are recognised in the equity caption "Fair value reserve" until the investment is sold, redeemed or in some way disposed of, or until the fair value of the investment falls below cost over a long period, at which time the accumulated gain or loss is 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. In the end of each reporting period this amount is stated at its value deducted of impairment losses and recognised in the caption "Impairment of receivables", so that they are reflected to their net realisable value.

Receivables resulting from operational activity 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 their 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 any origination fees incurred relating to project finance.

**e) Trade and other payables**
Payables do not bear interest and are recognised at their nominal value.

**f) Derivatives 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 mainly to interest rate hedging instruments on loans obtained. The coefficients, calculation conventions, interest rate re-fixing dates and interest rate hedging instrument repayment schedules 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 recorded at cost, if any, and subsequently revalued to fair value, calculated by independent external entities using generally accepted valuation methods (such as "Discounted Cash-flows", Black-Scholes model, Binomial and Trinomial models and Monte-Carlo simulations, among others, depending on the type and nature of the derivative financial derivative). 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 identified.

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. 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. These investments 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 flow statement purposes the caption "Cash and cash equivalents" also includes bank overdrafts included on the statement of financial position caption "Bank loans and overdrafts".

## 2.17. $CO_2$ emission licences
$CO_2$ emitted by the Group's industrial 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) it is not estimated that such licences are sold in the event that they are excessive, in which case income would be recognised.

## 2.18. Statement of financial position classification
Assets realisable and liabilities payable in more than one year from the financial statement date are classified as non-current assets and non-current liabilities, respectively.

## 2.19. Subsequent events

Events that occur after the balance sheet date that provide additional information on conditions that existed at the end of the reporting period are recognised in the consolidated financial statements. 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 (Note 35).

## 2.20. Operating Segments

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

Financial information regarding income by business segment identified is provided in Note 7.

## 2.21. 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) tangible and intangible assets and 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 proved crude oil reserves is used to calculate depreciation of the petroleum exploration and production assets in accordance with the "Unit of Production" method, as well as to value impairment of investment in assets relating to that activity. Estimated proved crude oil reserves are also used to recognise annual abandonment costs.

Estimated proved 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 proved 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 proved reserves is treated on a prospective basis, the remaining net book value of the assets being depreciated and the provision for abandonment costs being increased, respectively, based on the expected future production.

The quantity and type of petroleum reserves used for accounting purposes are described in Note 31.

### 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 cash flows. The amount of goodwill is referred in Note 11.

### 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 reviewed annually. The amount of provision for environmental liabilities is referred in Note 25.

### Actuarial and financial assumptions used to calculate retirement benefit liabilities

See Note 23.

## 2.22. 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 difficulty in having the financial resources necessary to cover its commitments.

The Group has an organisation and systems that enable 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.

## 2.23. Changes in accounting policies

The IASB (International Accounting Standard Board), entity conducting the study and systematic review of the IAS / IFRS, in the context of the Memorandum of Understanding (MoU) with the North American Financial Accounting Standards Board (FASB) is carrying out an amendment in standard IAS 20. In this new point of view it is being questioned that the recognition of government investment grants as a deduction to the value of assets can negatively affect the financial statements understanding. In agreement with this point of view and as its accepted by IAS/IFRS, in the year ended December 31, 2010, the Group decided to change its accounting policy of recording government grants, adopting the alternative treatment of IAS 20, registering the grants in the caption "Other payables" and the respective amortization in the caption "Other operational income" in the consolidated income statements. Up to 31 December 2009 Galp Energia recorded government investment grants as a deduction to the value of assets and the respective amortization in the caption "Amortisation, depreciation and impairment" of the consolidated financial statements.

Additionally to the above described, the Group analyzed its operations in accordance with the interpretation of IFRIC 12 – "Service Concession Arrangements", mandatorily applicable for periods beginning 1 January 2010, resulting the understanding that the storage and distribution of natural gas activities are included in the scope of this interpretation since this activities are operated through concession arrangements with the Portuguese state, the assets revert at the end of concession, the prices are regulated and the activity concerns the rendering of public services.

By the specific nature of the regulatory system and concessions the Group considers that should apply the intangible assets model. As so the tangible and intangible assets were reclassified to the intangible asset caption "Service Concession Arrangements", without impact in the estimated useful life of those assets.

As result of the changes in the accounting policies the comparative financial statements were restated.

At 31 December 2009 the impact of these changes on the consolidated statement of financial position and income statements are as follows:

**Consolidated statement of financial position:**

| | Gross acquisition cost 2009 | | | | Accumulated amortization and impairment losses 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross acquisition cost 2009 | Application of IFRIC 12 | Transfer from investment government grants to deferred income | Gross acquisition cost restated | Accumulated amortization and impairment losses 2009 | Application of IFRIC 12 | Transfer from investment government grants to deferred income | Accumulated amortization and impairment losses restated |
| **Tangible assets** | | | | | | | | |
| Land and natural resources | 289,545 | (10,832) | 1,193 | 279,906 | (3,305) | 1,705 | (314) | (1,914) |
| Buildings and other constructions | 855,916 | (8,818) | 7,212 | 854,310 | (519,973) | 2,835 | (3,737) | (520,875) |
| Machinery and equipment | 4,523,961 | (929,245) | 297,125 | 3,891,841 | (3,063,425) | 232,881 | (124,342) | (2,954,886) |
| Transport equipment | 26,377 | (270) | - | 26,107 | (22,262) | 258 | - | (22,004) |
| Tools and utensils | 5,589 | (1,643) | 9 | 3,955 | (4,428) | 973 | (8) | (3,463) |
| Administrative equipment | 156,524 | (5,971) | 778 | 151,331 | (129,045) | 5,528 | (758) | (124,275) |
| Reusable containers | 154,239 | (2) | 12 | 154,249 | (137,676) | 2 | (1) | (137,675) |
| Other tangible assets | 154,888 | (4,959) | 335 | 150,264 | (100,831) | 4,714 | (315) | (96,432) |
| Tangible assets in progress | 1,002,044 | (16,574) | 1,531 | 987,001 | - | - | - | - |
| Advances to suppliers of tangible assets | 2,148 | - | - | 2,148 | - | - | - | - |
| | **7,171,231** | **(978,314)** | **308,195** (a) | **6,501,112** | **(3,980,945)** | **248,896** | **(129,475)** (a) | **(3,861,524)** |
| **Intangible assets** | | | | | | | | |
| Total intangible assets | 4,682 | (1,770) | 1 | 2,913 | (4,325) | 1,715 | (1) | (2,611) |
| Research and development costs | 4,998 | (953) | 8,552 | 12,597 | (4,341) | 186 | (7,933) | (12,088) |
| Industrial property and other rights | 436,027 | (335) | 570 | 436,262 | (191,871) | 167 | (559) | (192,263) |
| Reconversion of consumption to natural gas | 282,459 | (389,530) | 117,524 | 10,453 | (73,188) | 89,876 | (26,692) | (10,004) |
| Goodwill | 42,178 | - | - | 42,178 | (11,752) | - | - | (11,752) |
| Service Concession Arrangements | - | 1,354,328 | - | 1,354,328 | - | (340,840) | - | (340,840) |
| Intangible assets in progress - Service Concession Arrangements | - | 17,418 | - | 17,418 | - | - | - | - |
| Intangible assets in progress | 12,849 | (844) | - | 12,005 | - | - | - | - |
| | **783,193** | **978,314** | **126,647** (a) | **1,888,154** | **(285,477)** | **(248,896)** | **(35,185)** (a) | **(569,558)** |

(a) the amount of tEuros 270,182 was transfered from government investment grants to current and non-current deferred income tEuros 9,695 and tEuros 260,487 respectively (Note 24).

**Consolidated income statement:**

| | December 2009 | Application of IFRIC 12 | Transfer from investment government grants to deferred income | December 2009 restated |
|---|---|---|---|---|
| Amortisation and impairment losses in tangible assets | 263,923 | (22,465) | 7,731 | 249,189 |
| Amortisation and impairment losses in intangible assets | 32,763 | (8,614) | 3,058 | 27,207 |
| Amortisation and impairment losses of Service Concession Arrangements | - | 31,079 | - | 31,079 |
| **Total amortisation and impairment losses (Note 6)** | **296,686** | **-** | **10,789** | **307,475** |
| Operating Income (Note 5) | (130,034) | - | (10,789) | (140,823) |
| | **(130,034)** | **-** | **(10,789)** | **(140,823)** |

## 3. COMPANIES INCLUDED IN THE CONSOLIDATION

The companies included in the consolidation, their head offices, percentage of interest held and their principal activities at 31 December 2010 and 2009 are as follows:

| Company | | Head office | | Percentage interest held | | Main activity |
|---|---|---|---|---|---|---|
| | | City | Country | 2010 | 2009 | |
| **A) Companies of the group** | | | | | | |
| **Parent company:** | | | | | | |
| **Galp Energia, SGPS, S.A.** | | Lisbon | Portugal | - | - | Management of equity participations in other companies as an indirect form of realising business activities. |
| **Subsidiaries:** | | | | | | |
| Galp Energia, S.A. | | Lisbon | Portugal | 100% | 100% | Business management and consultancy services. |
| Galp Energia E&P B.V. | | Amesterdam | The Netherlands | 100% | 100% | Exploration and production of petroleum and natural gas, as well as trading in petroleum, natural gas and petroleum products; management of investments in other companies and financing of businesses and other companies. |
| Next Priority SGPS, S.A. | | Lisbon | Portugal | 100% | 100% | Management of equity participations. |
| SGPAMAG-Sociedade de Granéis Parque Aveiro, Movimentação e Armazenagem de Granéis S.A. | (d) | Lisbon | Portugal | - | - | - |
| **Petrogal sub-group:** | | | | | | |
| Petróleos de Portugal - Petrogal, S.A. | | Lisbon | Portugal | 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. |
| Petróleos de Portugal – Petrogal, SA Sucursal en España | | Madrid | Spain | - | - | Management of participations in other refined products distributor companies in the Iberian peninsula. |
| **Subsidiaries:** | | | | | | |
| Galp Energia España, S.A. and subsidiaries: | | Madrid | Spain | 100% | 100% | Storage, transport, import, export and sale of all petroleum products, chemical products, gas and its derivatives. |
| Galpgest - Petrogal Estaciones de Servicio, S.L.U. | | Madrid | Spain | 100% | 100% | Management and operation of service stations. |
| CLG - Compañia Logística del Gas, S.A. | (c) | Madrid | Spain | - | 100% | Storage and distribution of petroleum products. |
| Petróleos de València, S.A. Sociedad Unipersonal | (c) | Valencia | Spain | - | 100% | Deposit, storage and distribution of petroleum products and chemical products and their derivatives and sub products. |
| Galp Serviexpress, S.L.U. | | Madrid | Spain | 100% | 100% | Deposit, storage and distribution of petroleum products and chemical products and their derivatives and sub products. |
| Madrileña Suministro de Gas 2010, S.L. | (a) | Madrid | Spain | 100% | - | Commercialisation of natural gas, electricity and other energy resources, energetic services and complementary activities. |
| Retail Operating Company, S.L. | (c) | Madrid | Spain | 100% | 100% | Exploration or direct or indirect management of service stations and related or complementary activities, such as workshops, the sale of lubricants, parts and accessories for motor vehicles, restaurants and hotels. |
| Galp Comercializacion Oil España, S.L. | (c) | Madrid | Spain | - | 100% | Storage, transport, import, export and sale of all petroleum products, chemical products, gas and its derivatives |
| Galp Distribuición Oil España, S.A.U. | (c) | Madrid | Spain | 100% | 100% | Storage, transport, import, export and sale of all petroleum products, chemical products, gas and its derivatives. |
| Madrileña Suministro de Gas SUR 2010, S.L. | (a) | Madrid | Spain | 100% | - | Commercialisation of natural gas, electricity and other energy resources, energetic services and complementary activities. |
| Probigalp - Ligantes Betuminosos , S.A. | | Amarante | Portugal | 60% | 60% | Purchase, sale, manufacture, transformation, import and export of bituminous products of additives that transform or modify such products. |
| Soturis - Sociedade Imobiliária e Turística, S.A. | | Lisbon | Portugal | 100% | 100% | Real estate activities, namely the management, purchase, sale and resale of real estate. |
| Sopor - Sociedade Distribuidora de Combustíveis, S.A. | | Lisbon | Portugal | 51% | 51% | Distribution, sale and storage of liquid and gas fuel, lubricants and other petroleum derivatives; service stations and repair workshops, including related businesses, namely restaurants and hotels. |
| Galp Distribuição Portugal, S.A. | (c) | Lisbon | Portugal | - | 100% | All activity directly or indirectly related to the operation and management of service stations, including the exploration of stores and washing facilities in the service stations, as well as import, storage and distribution of petroleum products and derivatives. |
| Sacor Marítima, S.A.and subsidiaries: | | Lisbon | Portugal | 100% | 100% | Marine transport in own and chartered vessels. |
| Gasmar - Transportes Marítimos, Lda. | | Funchal | Portugal | 100% | 100% | Marine transport in own and chartered vessels. |
| Tripul - Sociedade de Gestão de Navios, Lda. | | Lisbon | Portugal | 100% | 100% | Technical management of ships, crews and supply. |
| S.M. Internacional - Transportes Marítimos, Lda. | | Funchal | Portugal | 100% | 100% | Marine transport in own and chartered vessels. |
| Galp Exploração e Produção Petrolifera, Lda. and subsidiaries: | | Funchal | Portugal | 100% | 100% | Petroleum commerce and industry, including prospecting, research and exploration of hydrocarbons. |
| Galp Exploração Serviços Brasil, Lda. | | Recife | Brazil | 100% | 100% | Business management and consultancy services. |

| Company | | Head office City | Head office Country | Percentage interest held 2010 | Percentage interest held 2009 | Main activity |
|---|---|---|---|---|---|---|
| Gite - Galp International Trading Establishment | | Vaduz | Liechtenstein | 24% | 24% | Petroleum commerce and industry, including prospecting, research and exploration of hydrocarbons. |
| Galpbúzi - Agro-Energia, S.A. | | Cidade da Beira | Mozambique | 66,67% | 66,67% | Development of projects and promotion of own or third party agricultural cultivation projects, of oil seeds, their transport and processing in own or third party facilities, for the production of vegetable oils transformable into biodiesel or other fuel that techniques permit, import and export of these vegetable oils thus produced or products extracted from them and the rendering of technical assistance and services within these activities. |
| Moçamgalp Agroenergias de Moçambique, S.A. | | Maputo | Mozambique | 50% | 50% | The exercise of agriculture and related activities, including the transformation of oil seeds into vegetable oil that are raw or semi-finished materials for use in other industries, namely for the manufacture of biodiesel and sale of them nationally or internationally, consequently including their transport, as well as the rendering of any other services and technical assistance in that activity. |
| Galp Serviexpress - Serviços de Distribuição e Comercialização de Produtos Petrolíferos, S.A. | | Lisbon | Portugal | 100% | 100% | Rendering of transport, storage and commercialisation services for liquid and 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 centres 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, S.A. | | Lisbon | Portugal | 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 Terminais Marítimos, S.A. | | Matosinhos | Portugal | 100% | 100% | Operation of marine terminals and related activities. |
| Petrogal Brasil, Lda. | | Recife | Brazil | 100% | 100% | Refining of crude oil and its derivatives, their transport, distribution and commercialisation and research and exploration of petroleum and natural gas. |
| Petrogal Trading Limited | | Dublin | Ireland | 100% | 100% | Crude oil and petroleum product trading . |
| Petrogal Moçambique, Lda. | | Maputo | Mozambique | 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. |
| Petrogal Angola, Lda. | | Luanda | Angola | 100% | 100% | Distribution, storage and commercialisation of liquid and gas fuel, base oils and lubricants and the operation of fuel stations and service stations. |
| Galp Gambia, Limited | | Banjul | Gambia | 100% | 100% | Distribution, transport, storage, commercialisation of liquid and gas fuel, oil and operation of service stations. |
| Galp Moçambique, Lda. | | Maputo | Mozambique | 100% | 100% | Storage, commercialisation and distribution, import, export and transport of petroleum and its derivatives, as well as all types of oil, whether vegetable, animal or mineral. |
| Galp Swaziland (PTY) Limited | | Matsapha | Swaziland | 100% | 100% | Distribution, transport, storage, commercialisation of liquid and gas fuel, oil and operation of service stations. |
| Galp Energia Portugal Holdings B.V. | (c) | Breda | The Netherlands | 100% | 100% | Management of participations in other companies of the energy sector as an indirect form of economic activity. |
| Galp Comercialização Portugal, S.A. and subsidiaries | (c) | Lisbon | Portugal | - | 100% | Exercise of all activities relating to petroleum, its derivatives and its substitutes in all its forms. |
| Galp Gás Propano, S.A. | (c) | Lisbon | Portugal | - | 100% | The exercise of all and any activities related to petroleum, its derivates and substitutes, exercise of commerce and industry of chemical products and their derivatives, the exercise of commerce of representations and consignments, the exercise of any activities relating to tourism. |
| CORS – Companhia de Exploração de Estações de Serviço e Retalho de Serviços Automóvel, Lda. | (c) | Lisbon | Portugal | 100% | 100% | Operation of and/or management of service stations and other activities exercised within them, including the management of personnel of the service stations. |
| Galp Logística Aviação, S.A. | (c) | Lisbon | Portugal | 100% | - | Services rendered related to storage and supply of petroleum products to aircraft. |
| Petrogal Guiné-Bissau Lda. and subsidiaries: | | Bissau | Guinea-Bissau | 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. |
| Petromar - Sociedade de Abastecimentos de Combustíveis, Lda. | | Bissau | Guinea-Bissau | 80% | 80% | Commerce of marine banks. |
| Petrogás - Importação, Armazenagem e Distribuição de Gás, Lda. | | Bissau | Guinea-Bissau | 65% | 65% | Importation, storage and distribution of LPG. |

| Company | | Head office City | Head office Country | Percentage interest held 2010 | Percentage interest held 2009 | Main activity |
|---|---|---|---|---|---|---|
| Galp Açores - Distribuição e Comercialização de Combustíveis e Lubrificantes, S.A. and subsidiaries | | Ponta Delgada | Portugal | 100% | 100% | Distribution, storage, transport and commercialisation of liquid and gas fuel, lubricants and other petroleum derivatives. |
| Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A. | | Ponta Delgada | Portugal | 67,65% | 67,65% | Construction and operation of filling stations and related storage facilities of LPG and other fuel in the Autonomous Region of the Azores. |
| Galp Madeira - Distribuição e Comercialização de Combustíveis e Lubrificantes, S.A. and subsidiaries: | | Funchal | Portugal | 100% | 100% | Distribution, storage, transport and commercialisation of liquid and gas fuel, lubricants and other petroleum derivatives. |
| CLCM - Companhia Logistica de Combustíveis da Madeira, S.A. | | Funchal | Portugal | 75% | 75% | Installation 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% | 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. |
| Tanquisado - Terminais Marítimos, S.A. | | Setúbal | Portugal | 100% | 100% | Development and operation of Marine Terminals |
| Sempre a Postos - Produtos Alimentares e Utilidades, Lda. | | Lisbon | Portugal | 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 vehicle accessory items. |
| Combustiveis Líquidos, Lda. | | Lisbon | Portugal | 99,8% | 99,8% | Sale of fuel, lubricants and vehicle accessories and any other business to which the partners agree and that does not require special authorisation. |
| Blue Flag Navigation - Transportes Marítimos, Lda. | (b) | Funchal | Portugal | - | 100% | Marine transport and commercial operation of ships in its own name, as owner or chartered, or in the name of third parties. |
| Fast Access – Operações e Serviços de Informação e Comércio Electrónico, S.A. | | Lisbon | Portugal | 100% | 100% | 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. | | Luxemburg | Luxemburgo | 100% | 100% | Reinsurance of all products, excluding direct insurance |
| Petrogal Cabo Verde, Lda. | | São Vicente | Cape Verde | 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. |
| Galp Exploração e Produção (Timor Leste), S.A. | | Lisbon | Portugal | 100% | 100% | Commerce and industry of petroleum, including prospecting, research and exploration of hydrocarbons in East Timor. |
| **Sub-Group GDP:** | | | | | | |
| GDP - Gás de Portugal, SGPS, S.A.: | | Lisbon | Portugal | 100% | 100% | Management of equity investments. |
| **Subsidiaries:** | | | | | | |
| GDP Serviços, S.A. | | Lisbon | Portugal | 100% | 100% | Business management services. |
| Beiragás - Companhia de Gás das Beiras, S.A. | | Viseu | Portugal | 59,51% | 59,51% | Operation, construction and maintenance of regional natural gas distribution networks . |
| Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A. | | Bucelas | Portugal | 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% | 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% | Operation, construction and maintenance of regional natural and other gas distribution networks. |
| Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A. | | Bucelas | Portugal | 100% | 100% | Operation, construction and maintenance of regional natural and other gas distribution networks. |
| Lusitaniagás - Companhia de Gás do Centro, S.A. | (a) | Aveiro | Portugal | 85,71% | 85,71% | Operation, construction and maintenance of regional natural and other gas distribution networks. |
| Lusitaniagás Comercialização, S.A. | | Aveiro | Portugal | 100% | 100% | Commercialisation of retail last resort natural gas. |
| Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A. | | Lisbon | Portugal | 100% | 100% | Obtain, store and distribute piped combustible gas. |
| Lisboagás Comercialização, S.A. | | Lisbon | Portugal | 100% | 100% | Commercialisation of retail last resort natural gas. |
| Galp Gás Natural Distribuição SGPS, S.A. | (d) | Lisbon | Portugal | 100% | 100% | Management of equity investments. |
| Galp Gás Natural, S.A. and subsidiaries: | | Lisbon | Portugal | 100% | 100% | Importation of natural gas, storage, distribution through high pressure networks, construction and maintenance of networks. |
| Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A. | | Lisbon | Portugal | 100% | 100% | Storage of natural gas on a public service sub-concession basis, including the construction, maintenance, repair and operation of all the related infrastructure and equipment. |

| Company | | Head office City | Head office Country | Percentage interest held 2010 | Percentage interest held 2009 | Main activity |
|---|---|---|---|---|---|---|
| Transgás, S.A. | | Lisbon | Portugal | 100% | 100% | Wholesale commercialization or last resort of natural gas. |
| **Sub-Group Galp Power:** | | | | | | |
| Galp Power, SGPS, S.A. and subsidiaries: | | Lisbon | Portugal | 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% | Production, in the form of co-generation, and sale of electric and thermic energy. |
| Powercer - Sociedade de Cogeração da Vialonga, S.A. | | Lisbon | Portugal | 70% | 70% | Production, in the form of co-generation, and sale of electric and thermic 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% | 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. |
| Galp Power, S.A. | | Lisbon | Portugal | 100% | 100% | Purchase and sale of energy, as well as the rendering services and realisation of activities directly or indirectly related with energy. |
| Portcogeração, S.A. | | Lisbon | Portugal | 100% | 100% | Production, transport and distribution of electric and thermal energy from co-generating systems and renewal energy. |
| Spower, S.A. | (b) | Lisbon | Portugal | 50% | 100% | Production and commercialisation of electric energy, including the conception, construction and administration of a thermal electric combined cycle plant, as well as the performance of other related activities. |

In the year ended 31 December 2010 the consolidation perimeter was changed as follows in relation to the preceding year:

**a) Acquired companies:**

The Group acquired to Gás Natural Fenosa (Gás Natural) the commercialisation business, which includes natural gas sales to final customers, regulated and not regulated, in Madrid area, and also supply of energy electricity and other value added services. This acquisition was completed in April 30, 2010 as follows:

- Galp Energia España, S.A. acquired 100% stake in Madrileña Suministro de Gas 2010, S.L., for tEuros 46,566, resulting in goodwill, determined provisionally, of tEuros 44,274 (Note 11);

- Petróleos de Portugal - Petrogal, S.A. through Sucursal em España acquired 100% stake in Madrileña Suministro de Gas Sur 2010, S.L., for tEuros 11,641, resulting in Goodwill, determined provisionally, of tEuros 9,275 (Note 11).

### b) Sold and liquidated companies:

- On June 22, 2010 the subsidiary Galp Power, SGPS, S.A. sold a 50% share in Spower, S.A. (formerly known as Galp Central de Ciclo Combinado de Sines, S.A.) to Internacional Power Portugal Holding, SGPS, S.A. resulting in a gain in the amount of tEuros 40 (Note 4.1). With the sale of 50%, Spower, S.A. is now jointly controlled;

- On December 28, 2010 the company Blue Flag Navigation - Transportes Marítimos, Lda., subsidiary of Petróleos de Portugal - Petrogal, S.A., was dissolved. The results generated until the settlement date were included in the consolidated income statements.

### c) Merged companies:

- The subsidiaries CLG - Compañia Logística del Gas, S.A., Petróleos de Valência, S.A. Sociedad Unipersonal and Galp Comercializacion Oil España, S.L. have been incorporated in Galp Energia España, S.A., through an incorporation merger with effect as of 1 January 2010. Consequently, the former subsidiary of Galp Comercializacion Oil España, S.L. (Retail Operating Company, S.L. formerly known as ROC - Retail Operating Company, S.L.), is now owned by Galp Energia España, S.A.;

- On July 29, 2010 Galp Distribuición Oil España, S.A.U., sold 100% share in the subsidiary Galp Distribuição Portugal, S.A. to Petróleos de Portugal - Petrogal, S.A.. To determine the market price and in order to meet the legal requirements, it was requested an independent evaluation that determined the sale price in the amount of tEuros 6,700.

Since this was an operation between two companies of the Group, there was no impact on the consolidated financial statements of Galp Energia Group.

- On October 1, 2010 the subsidiary Galp Distribuição Portugal, S.A., was incorporated, through an incorporation merger with effect as of 1 January 2010, in the subsidiary Petróleos de Portugal - Petrogal, S.A..

- On September 30, 2010, the subsidiary Galp Energia Portugal Holdings B.V. sold a 100% share in the subsidiary Galp Comercialização Portugal, S.A. (and its subsidiaries), to Petróleos de Portugal - Petrogal, S.A.. To determine the market price and in order to meet the legal requirements, it was requested an independent evaluation that determined the sale price in the amount of tEuros 102,568.

Since this was an operation between two companies of the Group, there was no impact on the consolidated financial statements of Galp Energia Group.

On November 29, the subsidiary Galp Comercialização Portugal, S.A., experienced a spinoff process, through the detach of the independent economic unity corresponding to the airport facilities in Lisbon and Faro, to form the new company Galp Logística Aviação, S.A..

Galp Comercialização Portugal, S.A., share capital has not decreased since it was fully paid in specimen through the transfer of that economic unit of airport facilities in Lisbon and Faro at the book value, amounting tEuros 895. The investment in Galp Logística Aviação, S.A., has been given to the shareholder of Galp Comercialização Portugal, S.A. (Petróleos de Portugal - Petrogal, S.A).

- On December 2, 2010, the subsidiaries Galp Comercialização Portugal, S.A. and Galp Gás Propano, S.A., were incorporated, through an incorporation merger with effect on January 1, 2010 in the subsidiary Petróleos de Portugal - Petrogal, S.A.. Consequently, the former subsidiary of Galp Comercialização Portugal, S.A. (CORS – Companhia de Exploração de Estações de Serviço e Retalho de Serviços Automóvel, Lda.), is now owned by Petróleos de Portugal - Petrogal, S.A..

### d) Other changes:

- On August 5, 2010, the subsidiary Petróleos de Portugal - Petrogal, S.A., experienced a spinoff process, through the detach of the independent economic unity corresponding to Parque de Aveiro, to form the company SGPAMAG - Sociedade de Granéis Parque Aveiro, Movimentação e Armazenagem de Granéis, S.A..

  Petróleos de Portugal - Petrogal, S.A., share capital has not decreased, the share capital of SGPAMAG - Sociedade de Granéis Parque Aveiro, Movimentação e Armazenagem de Granéis, S.A. was fully paid in specimen through the transfer of that economic unit of Parque de Aveiro at the book value, tEuros 711. The investment in SGPAMAG - Sociedade de Granéis Parque Aveiro, Movimentação e Armazenagem de Granéis, S.A., has been given to the shareholder of Petróleos de Portugal - Petrogal, S.A (Galp Energia, SGPS, S.A.).

  On August 26, 2010, Galp Energia, SGPS, S.A., sold 100% share in SGPAMAG - Sociedade de Granéis Parque Aveiro, Movimentação e Armazenagem de Granéis, S.A. to CUF Group, generating a gain amounting to tEuros 39 (Note 4.2).

# 4. INVESTMENTS IN ASSOCIATES

## 4.1. Investments in jointly controlled entities

Investments in jointly controlled entities, their head offices and the percentage or interest held as of 31 December 2010 and 2009 are as follows:

| | | Head office | | Percentage interest held | | Book value | | Financial information from jointly controlled companies as of 31 December 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | | City | Country | 2010 | 2009 | 2010 | 2009 | Assets | Liabilities | Income | Result for the year | Main activity |
| Sub-Group Galp Power | | | | | | | | | | | | |
| Ventinveste, S.A. | (a) | Lisbon | Portugal | 34.00% | 34.00% | - | - | 36,063 | (37,048) | 1,401 | (494) | Construction and operation of industrial units for the construction and assembly of wind turbine components and construction and operation of wind farms |
| Ventinveste Eólica, SGPS, S.A. | | Lisbon | Portugal | 34.00% | 34.00% | - | - | 12,400 | (12,892) | 845 | (28) | Management of equity investments in other companies as an indirect form of carrying out economic activities and the construction and operation of wind farms |
| Parque Eólico da Serra do Oeste, S.A. | | Lisbon | Portugal | 34.00% | 34.00% | - | - | 892 | (910) | - | (24) | Construction and operation of wind farms |
| Parque Eólico de Torrinheiras, S.A. | | Lisbon | Portugal | 34.00% | 34.00% | - | - | 45 | (2) | - | (1) | Construction and operation of wind farms |
| Parque Eólico de Vale do Chão, S.A. | | Lisbon | Portugal | 34.00% | 34.00% | - | - | 1,443 | (1,422) | - | (10) | Construction and operation of wind farms |
| Parque Eólico do Cabeço Norte, S.A. | | Lisbon | Portugal | 34.00% | 34.00% | - | - | 237 | (358) | - | (165) | Construction and operation of wind farms |
| Parque Eólico de Vale Grande, S.A. | | Lisbon | Portugal | 34.00% | 34.00% | - | - | 2,917 | (2,871) | - | (8) | Construction and operation of wind farms |
| Parque Eólico do Douro Sul, S.A. | | Lisbon | Portugal | 34.00% | 34.00% | - | - | 5,222 | (5,341) | - | (62) | Construction and operation of wind farms |
| Parque Eólico do Pinhal Oeste, S.A. | | Lisbon | Portugal | 34.00% | 34.00% | - | - | 1,716 | (1,784) | - | (51) | Construction and operation of wind farms |
| Parque Eólico do Planalto, S.A. | | Lisbon | Portugal | 34.00% | 34.00% | - | - | 621 | (619) | - | (15) | Construction and operation of wind farms |
| Spower, S.A. | (a) (f) | Lisbon | Portugal | 50.00% | 100.00% | - | - | 7,470 | (7,547) | 14 | (48) | Production and commercialisation of electric energy, including the conception, construction, and operation of a combined cycle thermal electric plant, as well as the exercise of any other related activities. |
| C.L.C. - Companhia Logística de Combustíveis, S.A. | (b) | Aveiras de Cima | Portugal | 65.00% | 65.00% | 31,713 | 32,194 | 208,137 | (159,347) | 38,646 | 12,761 | Installation and operation of liquid and gas storage facilities, as well as the related transport structures, other industrial, commercial and investigation activities and of services related to those activities |
| Caiageste - Gestão de Áreas de Serviço, Lda. | (c) | Elvas | Portugal | 50.00% | 50.00% | - | - | 151 | (187) | 1,064 | (75) | 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. | (b) | Sines | Portugal | 60.00% | 60.00% | - | - | 18,304 | (18,304) | 7,589 | - | Management e administration of LPG underground storage cave, Tanks and other complementary facilities. |

| Company | | Head office City | Head office Country | Percentage interest held 2010 | Percentage interest held 2009 | Book value 2010 | Book value 2009 | Financial information from jointly controlled companies as of 31 December 2010: Assets | liabilities | Income | Result for the year | Main activity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asa - Abastecimento e Serviços de Aviação, Lda. | (b) | Lisboa | Portugal | 50.00% | 50.00% | 10 | 8 | 381 | (359) | 1.060 | 5 | Aircraft fuel services. |
| Belem Bio Energy B.V. | (d) | Rotterdam | The Netherlands | 50.00% | - | 10 | - | 18 | - | - | - | Manage investments in companies that develop bio fuel projects, including research, production, logistics, marketing grain, raw materials, vegetable oils, bio fuels and co-products as well as companies or business's related with generation and sale of electricity for its own operation. |
| Tupi B.V. | (d) (g) | Rotterdam | The Netherlands | 10.00% | - | 30,036 | - | 314,874 | (14,519) | 502 | (973) | Management, Construction, Purchase, Sale and rental of materials and equipment for exploration, development and production of hydrocarbons, including platforms, ships, FPSOs (floating production, storage, and off-loading), ships to transport crude, supply vessels and other types of vessels. |
| | | | | | | 61,769 | 32,202 | | | | | |
| Less: Provision for joint liabilities (Note 25) | (e) | | | | | (631) | (308) | | | | | |
| | | | | | | 61,138 | 31,894 | | | | | |

(a) Investment held by Galp Power, SGPS, S.A.

(b) Investment held by Petróleos de Portugal - Petrogal, S.A.

(c) Investment held by Galpgeste - Gestão de Áreas de Serviço, S.A.

(d) Investment held by Galp Energia E&P B.V.

(e) On 31 December 2010 and 2009, the provision for the capital of associated companies, reflected the commitment with the Group's associates that presented negative equity.

(f) Galp Power, SGPS, S.A. sold 50% of its investment to the Internacional Power Portugal Holding, SGPS, S.A. sharing the control of Spower, S.A. (formerly known as Galp Central de Ciclo Combinado de Sines, S.A.) (Note 3).

(g) The subsidiary Tupi B.V was formed in 28 June 2010, and its control is shared by Galp Energia, SGPS, S.A. , Petrobras Netherlands B.V. and BG Overseas Holding Ltd, that hold 10%, 65% e 25% of its share capital, respectively.

The changes in the caption “Investments in jointly controlled entities” in the year ended 31 December 2010 were as follows:

| Company | Beginning balance | Increase in participation | Disposal of participation | Gain / Loss | Exchange translation adjustment | Hedging reserves adjustment | Gain / Loss in disposal of participation | Dividends | Transfers / adjustments | Ending balance |
|---|---|---|---|---|---|---|---|---|---|---|
| **Investments** | | | | | | | | | | |
| C.L.C. - Companhia Logística de Combustíveis, S.A. | 32,194 | - | - | 8,294 | - | - | - | (8,775) | - | 31,713 |
| Tupi B.V. | - | 28,821 | - | (97) | 1,312 | - | - | - | - | 30,036 |
| Asa - Abastecimento e Serviços de Aviação, Lda. | 8 | - | - | 2 | - | - | - | - | - | 10 |
| Sigás - Armazenagem de Gás, A.C.E. | - | - | - | - | - | - | - | - | - | - |
| Belem Bio Energy B.V. | - | 10 | - | - | - | - | - | - | - | 10 |
| | **32,202** | **28,831** | **-** | **8,199** | **1,312** | **-** | **-** | **(8,775)** | **-** | **61,769** |
| **Provision for investment in associates (Note 25)** | | | | | | | | | | |
| Ventinveste, S.A. | (288) | - | - | (292) | - | 5 | - | - | - | (575) |
| Spower, S.A. (a) | - | - | (25) | (24) | - | - | 40 | - | (29) | (38) |
| Caiageste - Gestão de Áreas de Serviço, Lda. | (20) | 40 | - | (38) | - | - | - | - | - | (18) |
| | **(308)** | **40** | **(25)** | **(354)** | **-** | **5** | **40** | **-** | **(29)** | **(631)** |
| | **31,894** | **28,871** | **(25)** | **7,845** | **1,312** | **5** | **40** | **(8,775)** | **(29)** | **61,138** |

(a) Galp Power, SGPS, S.A. disposal 50% of the investment to Internacional Power Portugal Holding, SGPS, S.A. as so the control of Spower, S.A. transfer to jointly controlled (former designated as Galp Central de Ciclo Combinado de Sines, S.A.).

## 4.2. Investments in associates

Investments in associates, their head offices and the percentage or interest held as of 31 December 2010 and 2009 are as follows:

| | | Head office | | Percentagem or interest held | | Book value | | Associates financial information as of 31 December 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | | City | Country | 2010 | 2009 | 2010 | 2009 | Assets | Liabilities | Income | Result for the year | Main activity |
| EMPL - Europe Magreb Pipeline, Ltd | (a) | Madrid | Spain | 27.40% | 27.40% | 71,247 | 56,855 | 360,603 | (100,574) | 521 | 158,160 | Construction and operation of the natural gas pipeline between Morocco and Spain |
| Compañia Logística de Hidrocarburos CLH, S.A . | (f) (i) | Madrid | Spain | 5.00% | 5.00% | 56,854 | 57,873 | 1,891,337 | (1,705,920) | 519,710 | 152,253 | Installation and operation of liquid and gas storage facilities and related transport structures |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | (b) (g) | Setúbal | Portugal | 45.00% | 45.00% | 20,143 | 16,246 | 166,580 | (121,789) | 28,765 | 8,718 | Production and distribution of natural and its substitute gases |
| Empresa Nacional de Combustíveis - Enacol, S.A.R.L. | (g) | Mindelo | Cape Verde | 48.29% | 48.29% | 19,312 | 17,502 | 60,198 | (29,267) | 113,171 | 6,089 | Commercialisation of hydrocarbons and related activities |
| Gasoduto Al-Andaluz, S.A. | (a) | Madrid | Spain | 33.04% | 33.04% | 17,600 | 17,473 | 85,128 | (31,859) | 27,301 | 9,476 | Construction and operation of Tarifa–Córdoba gas pipeline. |
| Gasoduto Extremadura, S.A. | (a) | Madrid | Spain | 49.00% | 49.00% | 15,147 | 15,063 | 38,468 | (7,556) | 19,747 | 7,907 | Construction and operation of Córdoba-Campo Maior gas pipeline. |
| Tagusgás - Empresa de Gás do Vale do Tejo, S.A. | (b) | Santarém | Portugal | 41.33% | 41.33% | 6,044 | 4,096 | 82,153 | (67,529) | 22,868 | 4,793 | Production and distribution of Natural Gas and other piped combustible gases |
| Galp Disa Aviacion, S.A. | (f) | Santa Cruz de Tenerife | Spain | 50.00% | 50.00% | 5,143 | 5,054 | 10,413 | (1) | 2,192 | 2,188 | Rendering of aeronautical petroleum refuelling services directly or through companies in that sector. |
| Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda. | (e) | Luanda | Angola | 49.00% | 49.00% | 4,606 | 1,962 | 114,662 | (105,260) | 86,305 | 3,561 | Distribution and Commercialisation of liquid fuel, lubricants and other petroleum derivatives, operation of service stations and automobile assistance and related services. |
| Parque Eólico da Penha da Gardunha, Lda. | (h) | Oeiras | Portugal | 50.00% | - | 1,786 | - | 10,093 | (10,399) | 252 | 8 | Construction and operation of wind farms. |
| Metragaz, S.A. | (a) | Tânger | Morocco | 26.99% | 26.99% | 1,395 | 1,527 | 13,889 | (8,719) | 16,016 | 824 | Construction, maintenance and operation of the Maghreb-Europe gas pipeline. |
| Terparque - Armazenagem de Combustíveis, Lda. | (d) | Angra do Heroísmo | Portugal | 23.50% | 23.50% | 1,055 | 1,028 | 25,701 | (20,714) | 3,648 | (80) | Construction and/or operation of storage facilities for combustibles |
| C.L.C. Guiné Bissau – Companhia Logística de Combustíveis da Guiné Bissau, Lda. | (c) | Bissau | Guinea-Bissau | 45.00% | - | 492 | - | 5,246 | (4,156) | 595 | 147 | Management and operation of the liquid fuel storage facilities and of the Bandim Petroleum Terminal |
| Energin - Sociedade de Produção de Electricidade e Calor, S.A. | (h) | Lisbon | Portugal | 35.00% | 35.00% | 169 | - | 30,575 | (29,946) | 39,049 | 900 | Co-generation and sale of electric and thermic power |
| Gásfomento - Sistemas e Instalações de Gás, S.A. | (b) | Lisbon | Portugal | 20.00% | 20.00% | 144 | 104 | 4,860 | (4,142) | 7,011 | 118 | Activities relating to construction and civil engineering in general, project and construction and maintenance of installations |
| Aero Serviços, SARL - Sociedade Abastecimento de Serviços Aeroportuários | (c) | Bissau | Guinea-Bissau | 50.00% | - | 63 | - | 963 | (836) | - | - | Services rendered related to storage and supply of petroleum products to aircraft. |
| | | | | | | **221,200** | **194,783** | | | | | |
| Less: provision for joint responsibilities (Note 25) (j) | | | | | | **-** | **(176)** | | | | | |
| | | | | | | **221,200** | **194,607** | | | | | |

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

(b) Investment held by GDP - Gás de Portugal, SGPS, S.A.

(c) Investment held by Petrogal Guiné-Bissau, Lda.

(d) Investment held by Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A.

(e) Investment held by Petrogal Angola, Lda.

(f) Investment held by Galp Energia España, S.A.

(g) Investment held by Petróleos de Portugal - Petrogal, S.A.

(h) Investment held by Galp Power, SGPS, S.A.

(i) Although the investment held is only 5%, the Group has a significant influence and so the investment is stated as explained in Note 2.2 c).

(j) On 31 December 2010, the provision for the capital of associates reflected the commitment with the Group's associates that presented negative equity.

The changes in the caption "Investments in associates" in the year ended 31 December 2010 were as follows:

| Company | | Beginning balance | Increase in participation | Gain / Loss | Exchange translation adjustment | Hedging reserves adjustment | Result of previous years | Dividends | Transfers / adjustments | Ending balance |
|---|---|---|---|---|---|---|---|---|---|---|
| **Investments** | | | | | | | | | | |
| EMPL - Europe Magreb Pipeline, Ltd | | 56,855 | - | 43,336 | 5,693 | - | - | (34,637) | - | 71,247 |
| Compañia Logística de Hidrocarburos CLH, S.A . | (a) | 57,873 | 5 | 7,613 | - | - | (546) | (8,091) | - | 56,854 |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | | 16,246 | - | 3,899 | - | - | (2) | - | - | 20,143 |
| Empresa Nacional de Combustíveis - Enacol, S.A.R.L | | 17,502 | - | 2,939 | 60 | - | (194) | (995) | - | 19,312 |
| Gasoduto Al-Andaluz, S.A. | | 17,473 | - | 3,124 | - | - | - | (2,997) | - | 17,600 |
| Gasoduto Extremadura, S.A. | | 15,063 | - | 3,874 | - | - | - | (3,790) | - | 15,147 |
| Tagusgás - Empresa de Gás do Vale do Tejo, S.A. | | 4,096 | - | 1,981 | - | (69) | 36 | - | - | 6,044 |
| Galp Disa Aviacion, S.A. | | 5,054 | - | 1,020 | - | - | - | (931) | - | 5,143 |
| Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda. | | 1,962 | 1,114 | 1,746 | (216) | - | - | - | - | 4,606 |
| Parque Eólico da Penha da Gardunha, Lda. | (b) | - | 1,782 | 4 | - | - | - | - | - | 1,786 |
| Metragaz, S.A. | | 1,527 | - | 222 | 27 | - | - | (381) | - | 1,395 |
| Terparque - Armazenagem de Combustíveis, Lda. | | 1,028 | - | (20) | - | - | 47 | - | - | 1,055 |
| C.L.C. Guiné Bissau – Companhia Logística de Combustíveis da Guiné Bissau, Lda. | | - | - | 68 | - | - | 195 | - | 229 | 492 |
| Energin - Sociedade de Produção de Electricidade e Calor, S.A. | | - | - | 297 | - | - | 48 | - | (176) | 169 |
| Gásfomento - Sistemas e Instalações de Gás, S.A. | | 104 | - | 24 | - | - | 16 | - | - | 144 |
| Aero Serviços, SARL - Sociedade Abastecimento de Serviços Aeroportuários | | - | - | - | - | - | (33) | - | 96 | 63 |
| | | **194,783** | **2,901** | **70,127** | **5,564** | **(69)** | **(433)** | **(51,822)** | **149** | **221,200** |
| **Provision for investment in associates (Note 25)** | | | | | | | | | | |
| Energin - Sociedade de Produção de Electricidade e Calor, S.A. | | (176) | - | - | - | - | - | - | 176 | - |
| | | (176) | - | - | - | - | - | - | 176 | - |
| | | **194,607** | **2,901** | **70,127** | **5,564** | **(69)** | **(433)** | **(51,822)** | **325** | **221,200** |

(a) In accordance with the contract for the purchase of the investment in CLH - Compañia Logistica de Hidrocarboros, S.A., the cost of the investment is revised annually for a period up to 10 years as from the date of the contract, based on the amount of CLH sales. The additional amount paid in 2009 amounted to tEuros 5.

b) The Subsidiary Galp Power, SGPS, S.A. increased 50% the participation in Parque Eólico da Penha da Gardunha, Lda., by the amount of tEuros 1,782. As of the date of purchase, the Company had a negative Equity of tEuros 314, generating an Goodwill of tEuros 1,939.

The consolidated income statement caption "Share of results of associates and jointly controlled entities" for the year ended 31 December 2010 is made up as follows:

| | |
|---|---|
| **Effect of applying the equity method:** | |
| Associates | 70,127 |
| Associates - corrections related to prior years | (433) |
| Jointly controlled entities | 7,845 |
| Group companies - corrections related to prior years | (3,784) |
| **Effect of disposal of shares in group companies and associates:** | |
| Net gains on disposal of 50% in Spower, S.A. | 40 |
| Net gains on disposal of 100% in SGPAMAG-Sociedade de Granéis Parque Aveiro, Movimentação e Armazenagem de Granéis S.A. | 39 |
| | **73,834** |

Dividends received in 2010 amounted to tEuros 60,024. However, tEuros 60,597, corresponding to the amount approved by the respective Shareholders' General Meetings, has been reflected in the caption "Investment in jointly controlled companies" (Note 4.1) and "Investments in associates" (Note 4.2).

The difference of tEuros 573 between the amount approved and received corresponds to:

- an offset of balances in the amount of tEuros 849 that did not generate cash flow;
- dividends received from previous years in the amount of tEuros 600;
- exchange rate gains at the time of payment, which have been reflected in the income statement caption "Exchange gain (loss)" in the amount of tEuros 324.

As mentioned in Note 2.2 d), positive goodwill in associates is included in the caption "Investments in associates", the amount as of 31 December 2010 and 2009 was detailed as follows:

| | 2010 | 2009 |
|---|---|---|
| Compañia Logística de Hidrocarburos CLH, S.A. | 47,545 | 47,545 |
| Empresa Nacional de Combustíveis - Enacol, S.A.R.L | 4,329 | 4,329 |
| Parque Eólico da Penha da Gardunha, Lda. | 1,939 | - |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | 143 | 143 |
| | **53,956** | **52,017** |

## 4.3. Assets held for sale / Investments in other companies

The Group's investments in other companies, the head office of the companies and the percentage of interest held as of 31 December 2010 and 2009 were as follows:

| | | Head office | | Percentage of interest held | | Book value | |
|---|---|---|---|---|---|---|---|
| **Company** | | **City** | **Country** | **2010** | **2009** | **2010** | **2009** |
| Corporación de Reservas Estratégicas de Productos Petrolíferos | (b) | Madrid | Spain | n.d. | n.d. | 1,808 | 1,683 |
| InovCapital - Sociedade de Capital de Risco, S.A. | (a) | Porto | Portugal | 1.82% | 1.82% | 499 | 499 |
| PME Investimentos - Sociedade de Investimento, S.A. | | Lisbon | Portugal | 1.82% | 1.82% | 499 | 499 |
| Agene - Agência para a Energia, S.A. | | Amadora | Portugal | 10.98% | 10.98% | 114 | 114 |
| Omegás - Soc. D'Étude du Gazoduc Magreb Europe | | Tânger | Morocco | 5.00% | 5.00% | 35 | 35 |
| Ressa - Red Española de Servicios, S.A. | | Barcelona | Spain | n.d. | n.d. | 23 | 23 |
| Ambélis - 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% | 15 | 16 |
| Agência de Energia do Porto | | Porto | Portugal | - | - | 13 | 13 |
| Imopetro - Importadora Moçambicana de Petróleos, Lda. | | Maputo | Mozambique | 15.38% | 15.38% | 9 | 10 |
| Cooperativa de Habitação da Petrogal , CRL | | Lisbon | Portugal | 0.07% | 0.07% | 7 | 7 |
| OIL Insurance Limited | (b) | Hamilton | Bermuda | 1.00% | 1.00% | 7 | - |
| Other | (b) | - | - | n.d. | n.d. | 44 | 7 |
| | | | | | | 3,112 | 2,945 |
| **Impairment of other companies** | | | | | | | |
| Ambélis - Agência para a modernização Económica de Lisboa, S.A. | | | | | | (7) | (7) |
| InovCapital - Sociedade de Capital de Risco, S.A. | | | | | | (52) | (52) |
| PME Investimentos - Sociedade de Investimento, S.A. | | | | | | (145) | (145) |
| P.I.M.-Parque Industrial da Matola, SARL | | | | | | (15) | (16) |
| | | | | | | (219) | **(220)** |
| | | | | | | 2,893 | **2, 725** |

(a) Formerly known as PME Capital - Sociedade Portuguesa de Capital de Risco, S.A.
(b) The change in comparison to 2009 results from the reclassification of investments that were previously registered under the caption "other investments".

Other investments are recorded at cost as explained in Note 2.2 paragraph c).The net book value of these investments amount to tEuros 2,893.

## 5. OPERATING INCOME

The Group's operating income for the years ended 31 December 2010 and 2009 is made up as follows:

| Captions | 2010 | 2009 |
|---|---|---|
| **Sales:** | | |
| Merchandise | 5,687,712 | 5,445,449 |
| Products | 8,059,694 | 6,282,998 |
| | **13,747,406** | **11,728,447** |
| Services rendered | 316,288 | 279,898 |
| Other operating income: | | |
| Supplementary income | 84,310 | 48,514 |
| Operating government grants | 18,201 | 10,566 |
| Internally generated assets | 188 | 13,824 |
| Investment government grants | 8,482 | 10,789 (a) |
| Gain on fixed assets | 3,077 | 4,693 |
| Other | 48,465 | 52,437 |
| | **162,723** | **140,823** (a) |
| | **14,226,417** | **12,149,168** (a) |

(a) These amounts were restated considering the changes in accounting classification mentioned in Note 2.23.

Sales of fuel include the Tax on Petroleum Products.

The caption "Sales - products" includes tEuros 25,499 of which (Note 14):

- tEuros 18,823 relating to the adjustment between estimated regulated revenue and the amount of income invoiced relating to the activities of distribution, commercialization and storage (Note 14), regarding the second half of 2009-2010 Gas Year and the first half of 2010-2011 Gas Year;

- tEuros 3,797 relating to the difference between the cost of acquiring natural gas from the Group's suppliers and the sales prices defined by ERSE for the 2009-2010 and 2010-2011 gas year, which are updated quarterly, deducted of the amounts recovered;

- tEuros 2,786 related to the amortization of the regulated revenue adjustment for the 2008-2009 Gas Year;

- tEuros 93 related to the adjustment made by ERSE in the setting of tariff deviations – regulated revenue for the first half of 2008-2009 Gas Year.

As referred in Note 2.13 the total amount to refund was included by ERSE in the regulated revenue to refund in 2010-2011 Gas Year, and so the Company is recognizing in the income statement, in accordance with the seasonality defined to this activity, the reversal of the amount of tariff deviation approved.

The caption "Supplementary income" for the year ended 31 December 2010 includes essentially tEuros 29,998 related with the renegotiation of the ceding contract of optical fiber entered with Onitelecom that culminated with the anticipation of the final term to 31 December 2010 (Note 24).

The caption "Other" for the year ended 31 December 2010 includes essentially the amount of (i) tEuros 14,636 related to the adjustment to the purchase and sale price of gas, (ii) tEuros 13,995 relating to the sale of $CO_2$ emission licenses (Note 34) and (iii) tEuros 2,153 related to the compensation that Petróleos de Portugal – Petrogal, S.A., received from the accident in Sines refinery.

The construction of regulated assets, in the scope of IFRIC 12, is contracted to specialized entities that assume the inherent risks associated with the construction activities. The resulting revenue and costs are of equal amount and immaterial when compared with the total revenue and operating costs, and are detailed as follows::

| | 2010 | 2009 |
|---|---|---|
| Revenue resulting from construction services in the scope of IFRIC 12 | 38,684 | 61,620 |
| Costs resulting from construction services in the scope of IFRIC 12 | 38,684 | 61,620 |
| | **0** | **0** |

## 6. OPERATING COSTS

Operating costs for the years ended 31 December 2010 and 2009 are made up as follows:

| Captions | 2010 | 2009 | |
|---|---|---|---|
| **Cost of sales:** | | | |
| Merchandise | 3,550,149 | 3,174,876 | |
| Raw and subsidiary materials | 5,906,526 | 4,281,172 | |
| Tax on Petroleum Products | 2,725,778 | 3,010,316 | |
| Variation in production | (187,810) | 182,167 | |
| Decrease (increase) in inventories (Note 16) | 4,922 | (451,344) | |
| Financial derivatives | (2,935) | (3,768) | |
| | **11,996,630** | **10,193,419** | |
| **External supplies and services:** | | | |
| Transport of goods | 112,226 | 111,120 | |
| Storage and filling | 80,166 | 80,890 | |
| Rental costs | 83,259 | 74,892 | |
| Maintenance and repairs | 51,087 | 65,875 | |
| Insurance | 29,389 | 33,315 | |
| Publicity | 22,644 | 17,291 | |
| Commission | 20,935 | 23,264 | |
| Subcontracts | 12,207 | 5,777 | |
| Port services and fees | 8,378 | 9,338 | |
| Other specialized services | 239,454 | 205,447 | |
| Other external supplies and services | 62,447 | 73,961 | |
| Other costs | 58,860 | 49,708 | |
| | **781,052** | **750,878** | |
| **Employee costs:** | | | |
| Remuneration of the statutory boards (Note 29) | 5,053 | 4,759 | |
| Remuneration of personnel | 230,709 | 215,603 | |
| Social charges | 52,648 | 52,835 | |
| Retirement benefits - pensions and insurances (Note 23) | 55,503 | 44,388 | |
| Other insurance | 9,116 | 7,730 | |
| Other costs | 1,776 | 13,545 | |
| | **354,805** | **338,860** | |
| **Amortisation, depreciation and impairment:** | | | (a) |
| Amortisation and impairment of tangible assets (Note 12) | 272,819 | 249,189 | (a) |
| Amortisation and impairment of intangible assets (Note 12) | 26,404 | 27,207 | (a) |
| Amortisation and impairment of Service Concession Arrangements (Note 12) | 31,981 | 31,079 | (a) |
| | **331,204** | **307,475** | |
| **Provision and impairment of receivables:** | | | |
| Provisions and reversals (Note 25) | 67,962 | 50,291 | |
| Provision for pensions | - | 11 | |
| Impairment loss on trade receivables (Note 15) | 12,865 | 21,750 | |
| Provisions and reversals to environmental risks (Note 25) | - | (3,659) | |
| Impairment loss (gain) on other receivables (Note 14) | 2,440 | (4,756) | |
| | **83,267** | **63,637** | |
| **Other operating costs:** | | | |
| Other taxes | 12,381 | 12,473 | |
| Loss on tangible assets | 3,774 | 867 | |
| Other operating costs | 24,641 | 22,783 | |
| | **40,796** | **36,123** | (a) |
| | **13,587,754** | **11,690,392** | |

(a) These amounts were restated considering the changes in accounting classification mentioned in Note 2.23.

The increase in the caption "Cost of sales" results from the increase in operational activity occurred during the year ended 31 December 2010.

The variation in the caption "Decrease (increase) in inventories" was due to the reversal of the adjustment made in December 2008 as result of the international prices of oil products that on that date were close or exceeded the book value of inventories on that date.

The amount of tEuros 239,454 in the caption "Other specialised services" includes the amount charged by Ren Gasodutos to Galp Gás Natural for using the national natural gas transport network, which amounted to tEuros 57,108 for the year ended 31 December 2010.

The caption "Other operating costs" includes the amount of tEuros 1,325 relating to donations to Galp Energia Foundation.

## 7. SEGMENT REPORTING

### Business segments

The Group is currently organised in the following four business segments:

- Gas and Power;
- Refining and distribution of Petroleum Products;
- Exploration and Production;
- Other.

For the business segment "Other", the group considered the holding company Galp Energia, SGPS, S.A., and companies with different activities namely Tagus Re, S.A. and Galp Energia, S.A.

Following is financial information on the segments identified previously, as of 31 December 2010 and 31 December 2009:

| | Gas and Power | | Refining and Distribution of Petroleum Products | |
|---|---|---|---|---|
| | 2010 | 2009(*) | 2010 | 2009(*) |
| **Income** | | | | |
| Sales and services rendered | 1,735,734 | 1,375,019 | 12,388,369 | 10,667,613 |
| Inter-segments | 128,120 | 77,086 | 1,123 | 1,140 |
| External | 1,607,614 | 1,297,933 | 12,387,247 | 10,666,473 |
| **EBITDA IAS/IFRS (1)** | **272,754** | **193,958** | **586,383** | **523,795** |
| **Non cash costs** | | | | |
| Amortisation, depreciation and adjustments | (41,195) | (37,033) | (178,796) | (193,151) |
| Provisions (net) | (42,471) | (43,586) | (8,699) | (14,768) |
| **Segment results IAS/IFRS** | **189,088** | **113,339** | **398,888** | **315,876** |
| Results of investments in associates | 55,519 | 48,020 | 18,843 | 20,865 |
| Other financial results | (17,982) | (14,515) | (96,941) | (59,234) |
| Income tax | (61,090) | (34,716) | (53,115) | (53,364) |
| Non Controlling Interest | (3,234) | (3,769) | (3,190) | (1,755) |
| **Consolidated net profit IAS/IFRS** | **162,301** | **108,359** | **264,485** | **222,387** |
| | | | | |
| **As of 31 December 2010 and 2009 (*)** | | | | |
| | | | | |
| **Other information** | | | | |
| **Assets by segment** (2) | | | | |
| Investment (3) | 128,188 | 107,215 | 127,459 | 121,730 |
| Other assets | 1,922,656 | 1,818,289 | 6,032,017 | 4,692,181 |
| **Total consolidated assets** | **2,050,844** | **1,925,504** | **6,159,476** | **4,813,911** |
| **Total consolidated liabilities** | **1,414,709** | **1,403,584** | **5,776,385** | **4,123,533** |
| **Investment in tangible and intangible assets** | **86,955** | **77,332** | **820,199** | **456,136** |

(*) Financial statements approved for the year ended December 31, 2009 restated according to Note 2.1.
(1) EBITDA - Operating results plus amortisation, depreciation, adjustments and provisions.
(2) Net amount.
(3) In accordance with the equity method.

| Exploration and Production | | Other | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|
| **2010** | **2009(*)** | **2010** | **2009** | **2010** | **2009(*)** | **2010** | **2009(*)** |
| | | | | | | | |
| 214,025 | 167,662 | 131,318 | 111,047 | (405,754) | (312,995) | 14,063,692 | 12,008,347 |
| 164,588 | 142,149 | 111,923 | 92,619 | (405,754) | **(312,995)** | - | - |
| 49,437 | 25,513 | 19,395 | 18,428 | | | 14,063,693 | 12,008,347 |
| **186,379** | **112,534** | **6,553** | **(174)** | **1,067** | **(226)** | **1,053,136** | **829,887** |
| | | | | | | | |
| (108,859) | (76,611) | (2,354) | (679) | - | - | (331,204) | (307,474) |
| (28,732) | (4,427) | (3,366) | (855) | - | - | (83,268) | (63,636) |
| **48,788** | **31,496** | **833** | **(1,708)** | **1,067** | **(226)** | **638,664** | **458,776** |
| 65 | - | (593) | (86) | - | - | 73,834 | 68,799 |
| (1,032) | (941) | 18,759 | (1,718) | (1,067) | **226** | (98,263) | (76,182) |
| (45,866) | (10,658) | (6,365) | 141 | - | - | (166,436) | (98,597) |
| - | - | - | - | - | - | (6,424) | (5,524) |
| **1,955** | **19,897** | **12,634** | **(3,371)** | **-** | **-** | **441,375** | **347,272** |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| 30,045 | 306 | 170 | 459 | - | - | 285,862 | 229,710 |
| 1,188,536 | 913,518 | 3,186,413 | 2,005,741 | (3,455,920) | (2,146,811) | 8,873,702 | 7,282,918 |
| **1,218,581** | **913,824** | **3,186,584** | **2,006,200** | **(3,455,920)** | **(2,146,811)** | **9,159,565** | **7,512,628** |
| **171,894** | **200,191** | **2,541,429** | **1,543,468** | **(3,455,921)** | **(2,146,811)** | **6,448,496** | **5,123,965** |
| **341,474** | **193,291** | **4,578** | **3,058** | **-** | **-** | **1,253,206** | **729,817** |

### Inter-segmental sales and services rendered

| Segments | Gas and Power | Refining and Distribution of Petroleum Products | Exploration and Production | Other | Total |
|---|---|---|---|---|---|
| Gas and Power | n.a. | 606 | - | 25,970 | 26,576 |
| Refining and distribution of petroleum products | 128,101 | n.a. | 164,588 | 82,365 | 375,054 |
| Exploration and production | - | 27 | n.a. | 3,588 | 3,615 |
| Other | 18 | 490 | - | n.a. | 508 |
| | **128,119** | **1,123** | **164,588** | **111,923** | **405,753** |

The main inter-segmental transactions of sales and services rendered are primarily related to:

- Gas and Power: natural gas sales to the refining process of Sines and Oporto refineries (refining and distribution of petroleum products), and for the production of electricity (electricity segment);
- Refining and distribution of petroleum products: supply of vehicles of all group companies;
- Exploration and production: sale of crude to the Refining and distribution segment;
- Other: back-office and management services.

In the context of related parties, and similar to what happens between independent companies that engage in transactions, the conditions establishing their commercial and financial relations are governed by market mechanisms.

The assumptions underlying the determination of prices in transactions between Group companies rely on the consideration of the economic realities and characteristics of the situations at hand, meaning, in the comparison of the characteristics of operations or companies that might have impact on the conditions intrinsic to the commercial transactions in analysis. In this context, among others, the goods and services traded, the functions performed by the parties (including the assets used and risks assumed), the contractual terms, the economic situation of the parties as well as their negotiation strategies, are analyzed.

The compensation, in the context of related parties corresponds to what is appropriate, by rule, to the functions performed by each company involved, taking into account the assets used and risks assumed. Thus, to determine such compensation, the activities developed, the risks faced by companies in the value chain of goods/services traded, in accordance to their functional profile, particularly, in what concerns the functions they perform – import, manufacturing, distribution, retail, are identified.

In conclusion, the market prices are determined not only by analysing the functions performed, the assets used and the risks incurred by one entity, but also bearing in mind the contribution of those elements to the company's profitability. This analysis access whether the profitability's indicators of the companies involved, fall within the ranges estimated on the basis of the assessment of a panel of functionally comparable independent companies, thus allowing the prices to be fixed in order to respect the principle of full competition.

### Geographical segments

Income from sales and services rendered and total assets for the years ended 31 December 2010 relate essentially to operations in Portugal and Spain. Exploration and production activities are carried out essentially in Angola and Brazil. The component of activity located in Spain, respects to the distribution and commercialisation of fuel and has the following composition:

| | Income from sales and services rendered | | Total assets | |
|---|---|---|---|---|
| Geographical area | 2010 | 2009 | 2010 | 2009 |
| Spain | 3,794,634 | 1,926,639 | 1,711,885 | 1,490,965 |

## 8. FINANCIAL INCOME AND COSTS

Financial income and financial costs for the years ended 31 December 2010 and 2009 are made up as follows:

| Captions | 2010 | 2009 |
|---|---|---|
| **Financial income:** | | |
| Interest on bank deposits | 3,881 | 3,238 |
| Other financial income | 21,727 | 7,724 |
| Interest and other income - related companies (Note 28) | 1,627 | 1,922 |
| | **27,235** | **12,884** |
| **Financial costs:** | | |
| Interest on bank loans and overdrafts | (94,100) | (75,219) |
| Interest capitalized in fixed assets | 27,067 | 10,940 |
| Other financial costs | (46,264) | (22,312) |
| Interest - other stock holders | (225) | (188) |
| Interest - related companies (Note 28) | (110) | (1,096) |
| | **(113,632)** | **(87,875)** |

During the year ended 31 December 2010, the Group capitalized in tangible assets in progress, the amount of tEuros 27,067 relating to interest on loans to finance capital expenditure on tangible assets during their construction phase, and includes essentially the amount of tEuros 24,992 relating to the conversion of Sines and Oporto refineries project.

The captions "Other financial income" and "Other financial costs" include the amounts of tEuros 17,094 and tEuros 18,523, respectively, regarding the Energy Trading operations, trading future contracts on $CO_2$ and electricity in the ICE Exchange (Ice Futures Europe Exchange) and OMIP Futures. The increase in these operations explains the variation occurred in these captions when compared to the previous year.

## 9. INCOME TAX

Since 31 December 2001 the companies with head offices in continental Portugal in which the Group has an interest greater than 90% have been taxed in accordance with the special regime for the taxation of groups of companies, taxable income being determined in Galp Energia, SGPS, S.A..

From 2010 onwards, the Group companies with head offices in Portugal, present their financial statements in accordance with IAS/IFRS, using this standards to determine the taxable profit/loss.

The impacts on the subsidiaries equity, resulting from the first adoption of the IAS standards that are fiscally relevant, according to the applicable legislation, compete over five years to the determination of taxable profit/loss.

This recognition doesn't impact on income tax calculation, as the subsidiaries already recognized deferred taxes on these GAAP differences.

However, estimated income tax of the Company and its subsidiaries is recorded based on their tax results which, for the year ended 31 December 2010, amounted to income tax payable of tEuros 45,033.

The following matters 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 for ten years up to 2010 and five years after 2001), except when there are carried forward tax losses, tax benefits have been granted or there are claims or appeals in progress where, depending on the circumstances, the period can be extended or suspended.

(ii) During 2001 to 2010, the subsidiary Petrogal, S.A. had several inspections by the tax authorities relating 1997 to 2007, which in accordance with the Company assessment are following its normal course. Paragraphs v) and x) below detail the open inspections.

(iii) During 2009, the tax authorities concluded the inspection to 2005 and 2006 Galp Energia, SGPS, S.A. and subsidiary GDP - Gás de Portugal SGPS, S.A., tax returns which resulted in additional assessments summarized in paragraph ix) below.

(iv) The Group's tax returns for the years 2007 to 2010 are still subject to review. Galp's Board of Directors believes that any corrections arising from inspections by the tax authorities of these tax returns will not have a significant impact on the consolidated financial statements as of 31 December 2010 and 2009.

(v) As mentioned in paragraph ii) 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 and Petrogal's management believes that the basis presented in the appeals are valid. In 2006 the appeal relating to 1998 was denied. As Petrogal does not agree with the denial, it presented a legal appeal against the decision. Consequently, the financial statements as of 31 December 2010 do not include any provision for this contingency.

(vi) As mentioned in paragraph ii) 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 appealed against the additional assessment for the year 2001. Therefore, based on its expectations, Petrogal has recorded a provision of tEuros 7,394 to cover the additional assessments (Note 25).

vii) As mentioned in paragraph ii) above, in 2006 the corporate income tax return for the year 2003 was inspected by the tax authorities, which resulted in an increase in taxable income of tEuros 12,098, which corresponds to an additional assessment communicated to Petrogal of tEuros 5,265, of which tEuros 2,568 was paid in 2008 and recognised in the income statement of the year then ended.

(viii) As mentioned in paragraphs ii) and iii) above, in 2009 Galp Energia, SGPS, S.A. and its subsidiaries Petrogal, S.A. and GDP – Gás de Portugal, SGPS, S.A., 2005 and 2006 income tax returns were inspected by the tax authorities, which resulted in additional assessment of tEuros 23,587 and for which during January 2010 the Company has conceded a bank warranty in the amount of tEuros 27,010. The Company, supported on its legal and tax consultants has contested the assessment, since it does not agree with the fiscal authorities understandment that the sale of part of the investments in associates where the investment of previous years gains was made is a condition for the taxation of the total amount of the gains deferred. At 31 December 2010 the Group financial statements do not include any provision for this contingency.

(ix) Additionally, 2006 and 2007 Petrogal S.A. income tax return inspections in the year ended December 31, 2010, resulted in an additional assessment of tEuros 479 and tEuros 190, respectively. Since the company disagrees the assessment it has partially contested it, and the amounts of tEuros 304 regarding 2006 and tEuros 87 regarding 2007 weren't paid up. Regarding these amounts the company contested or will contest the assessments.

(x) The subsidiary Petrogal, S.A. as result of an inspection process during 2009, had a correction of tEuros 4,577 in VAT. Given the fact that the correction shall comply with a purely formal aspect, the Company believes that the above amount will be not owed, provided that the formalities required, which have already been fulfilled. Consequently, the Company contested the correction. At 31 December 2010 the Group do not include any provision for this contingency.

(xi) Regarding subsidiary Galp Energia España, there are several litigations in dispute with the Spanish tax authorities and that relate essentially to corrections to the Company corporate income taxes for the years from 1990 to 2003 in the amount of tEuros 4,115 (Note 25). The Company recognized a provision for the total amount of these litigations.

(xii) As result of the exploration and oil production operations in Angola, the Group is liable to pay Petroleum Income Tax ( "PIT") determined on the basis of Angolan tax system, as applied to the Group's Production Sharing Agreements. On 31 December 2010, there are still pending payments of the additional assessment of PIT, relating with the corrections for the years 2005 to 2008 that are in discussion phase with the Angolan Ministry of Finance. The company recognized a provision for that effect. As of 31 December 2010, the provision amounts to tEuros 20,561 (Note 25).

(xiii) In accordance with Portuguese current legislation tax losses can be carried forward during a period of 6 years for years ended before 2010 and 4 years for the following periods, after they are incurred for deduction from taxable income arising during that period. There is no time limit for the period in which tax losses can be carried forward in Brazil. Regarding Spanish tax legislation the tax losses can be carried forward during a period of 15 years. The Group has recognised deferred tax assets relating to the tax losses carried forward for subsidiaries in which there is high probability of recovery. At 31 December 2010 the tax losses carried forward amounted to approximately tEuros 211,246 and corresponded essentially to companies with head offices in Spain and Brazil in the amounts of tEuros 143,143 and tEuros 68,103, respectively.

(xiv) In accordance with current tax legislation, gains and losses resulting from 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 are taxed in the year they are attributed, if there is no deduction for dismissal of double taxation.

Income tax for the years ended 31 December 2010 and 2009 are made up as follows:

| Captions | 2010 | 2009 |
|---|---|---|
| Current income tax | 171,766 | 98,204 |
| Excess/insuficiency of income tax for the preceding year | (13,379) | (1,735) |
| Deferred tax | 8,050 | 2,128 |
| | **166,437** | **98,597** |

During the year ended December 31, 2010 the Group recognized the amount of tEuros 13,379 related to the excess estimated income tax of 2009, essentially due to the consideration of the fiscal benefits to investment activities Regime Fiscal ao Investimento (RFAI) and Sistema de Incentivos Fiscais a Investigação e Desenvolvimento Industriais (Sifide), in the 2009 declaration, not included in the estimated income tax. On 2010 income tax estimate those effects were not considered. However, the Group Management believes that the effects of those fiscal benefits will not be significant.

Following is a reconciliation of the income tax for the years ended in 31 December 2010 and 2009 and details of deferred taxes:

| | 2010 | 2009 |
|---|---|---|
| Current income tax: | | |
| **Profit before Income Tax in accordance with IAS:** | **614,235** | **451,393** |
| Adjustment to Portuguese Accounting Standards | - | (72,447) |
| **Restated profit before Income Tax in accordance with Portuguese Accounting Standards** | **614,235** (b) | **378,946** (a) |
| Adjustment for tax effect (accumulated effect) | 28,736 | 13,275 (a) |
| **Taxable profit before Income Tax** | **642,971** | **392,221** |
| **Increase in taxable income** | **131,964** | **177,183** |
| Non tax deductible provisions | 107,818 | 113,238 |
| Non tax deductible social costs | 3,118 | 2,954 |
| Other increases | 15,951 | 57,913 |
| Application of the equity method | 4,591 | 3,078 |
| Adjustmentments in accordance with Portuguese Accounting Standards | 486 (b) | - |
| **Decrease in taxable income** | **(214,260)** | **(210,162)** |
| Decrease/utilisation of provisions taxed in previous years | (100,398) | (62,756) |
| Excess estimated income tax | - | (4,126) |
| Other deductions | (53,737) | (11,232) |
| Application of the equity method | (45,765) | (73,170) |
| Negative amounts for tax purposes | (3,127) | (58,878) |
| Adjustmentments in accordance with Portuguese Accounting Standards | (11,233) (b) | - |
| **Taxable income** | **560,675** | **359,242** |
| Income tax | 165,312 | 92,660 |
| Municipal surcharge | 5,303 | 4,358 |
| Autonomous taxation | 1,151 | 1,186 |
| Estimated current income tax for the year | 171,766 | 98,204 |
| Deferred tax and excess estimate for the year | (5,329) | 393 |
| Income tax | 166,437 | 98,597 |
| Effective tax rate | 27.10% | 21.84% |

(a) This amount corresponds to the sum of the results before income tax for the year in accordance with each local accounting standards of all the companies included in the consolidation perimeter in the year ended 31 December 2009 and is affected by inclusion of the results obtained by the consolidation of income and costs between the group companies.

(b) In the year ended 31 December 2010, the Group companies with head offices in Portugal, presented their financial statements in accordance with IAS/IFRS, using this standards to determine the taxable profit/loss. The Equity impacts in the subsidiaries, resulting from the first adoption of the IAS standards that are fiscally relevant, according to the applicable legislation, are included during a five years period beginning in 2010, in the determination of taxable profit/loss.

In the year ended 31 December 2010 the Group bear the Petroleum Income Tax (“PIT”) paid by its subsidiary Galp Exploração e Produção Petrolífera, S.A. in Angola, in the amount of tEuros 37,837, and includes essentially tEuros 35,278 relating to PIT on sale and lending of crude oil, determined based on the Angolan tax regime applied to Production Sharing Agreements in which the Group participates.

Regarding the amount of PIT on the sale of crude oil, the subsidiary Galp Exploração e Produção Petrolífera, S.A. recognised in its financial statements the amount of tEuros 918 relating to tax resulting from sales made out of borrowings (overliftings) (Note 2.7 e). For the effects of calculating the respective tax effect it is used the tax reference price as of the date of the sale, which corresponds to that used to determine and pay PIT to the Angolan Ministry of Finance.

During 2009, due to fair value allocation to assets and contingent liabilities from Spanish subsidiaries acquired in 2008, was recognized the respective deferred tax liabilities amounting to approximately tEuros 26,600.

**Deferred taxes**

The balance of deferred tax assets and liabilities as of 31 December 2010 and 2009 are made up as follows:

| | Deferred tax 2010 - Assets | | | | |
|---|---|---|---|---|---|
| Captions | Beginning balance | Effect on results | Equity effect | Other adjustments | Ending balance |
| Adjustments to accruals and deferrals | 7,241 | (2,931) | - | 235 | 4,545 |
| Adjustments to tangible and intangible assets | 6,638 | (13,902) | - | 16,962 | 9,698 |
| Adjustments to tangible and intangible assets Fair value | - | - | - | 157 | 157 |
| Adjustments to inventories | 231 | (56) | - | 42 | 217 |
| Overlifting adjustments | 2,806 | (1,888) | - | - | 918 |
| Pension benefits | 68,142 | 9,144 | - | - | 77,286 |
| Double economical taxation | 15,618 | 2,706 | - | - | 18,324 |
| Financial instruments | 2,496 | 13 | (988) | - | 1,521 |
| Tax losses carried forward | 63,616 | 2,773 | - | (141) | 66,248 |
| Non tax deductible provisions | 39,124 | (5,617) | - | - | 33,507 |
| Other | 4,033 | (131) | - | (31) | 3,871 |
| | **209,945** | **(9,889)** | **(988)** | **17,224** | **216,292** |

| | Deferred tax 2010 - Liabilities | | | | |
|---|---|---|---|---|---|
| Captions | Beginning balance | Effect on results | Equity effect | Other adjustments | Ending balance |
| Adjustments to accruals and deferrals | (3) | 22 | - | (22) | (3) |
| Adjustments to tangible and intangible assets | (7,565) | 19,197 | (10,879) | (17,872) | (17,119) |
| Adjustments to tangible and intangible assets Fair value | (17,376) | (3,036) | - | - | (20,412) |
| Adjustments to inventories | 43 | (21) | - | (22) | - |
| Pension benefits | (5,300) | - | - | - | (5,300) |
| Dividends | (19,222) | (16,097) | - | - | (35,319) |
| Financial instruments | (159) | (15) | - | - | (174) |
| Capital gain | (2,261) | 2,261 | - | - | - |
| Accounting revaluations | (4,746) | 431 | - | (286) | (4,601) |
| Other | (95) | (903) | - | (346) | (1,344) |
| | **(56,684)** | **1,839** | **(10,879)** | **(18,548)** | **(84,272)** |

The change in deferred taxes reflected in the equity caption “Hedging reserves” in the amount of tEuros 961 refers to change in deferred taxes of financial derivatives of consolidated companies in the amount of tEuros 988 less deferred taxes relating to non controlling interest in the amount of tEuros 27.

The Equity impact, in the amount of tEuros 10,879 concerns the deferred tax resulting from the reclassification of exchange differences (Note 20).

The Other adjustments reflected in the assets and liabilities deferred tax, in the amount of tEuros 16,962 an tEuros 17,872, respectively, include a reclassification between assets and liabilities deferred tax in the amount of tEuros 17,119.

## 10. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2010 and 2009 are as follows:

| | 2010 | 2009 |
|---|---|---|
| **Net income** | | |
| Net income for purposes of calculating earnings per share (net profit for the year) | 441,375 | 347,272 |
| **Number of shares** | | |
| Weighted average number of shares for purposes of calculation earnings per share (Note 19) | 829,250,635 | 829,250,635 |
| **Basic earnings per share (amounts in Euros):** | **0.53** | **0.42** |

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

## 11. GOODWILL

On 31 December 2010, the difference between the acquisition costs of investments and its equity book value was detailed as follows:

| | | | | Proportion of equity acquired as of the acquisition date | | Goodwill | | | |
|---|---|---|---|---|---|---|---|---|---|
| Subsidiaries | | Year of acquisition | Acquisition cost | % | Amount | 2009 | | Increase | 2010 |
| Galp Energia España, S.A. | | | | | | | | | |
| Galp Comercializacion Oil España, S.L. | (a) | 2008 | 176,920 | 100.00% | 129,471 | 47,449 | | - | 47,449 |
| Petróleos de Valência, S.A. Sociedad Unipersonal | (a) | 2005 | 13,937 | 100.00% | 6,099 | 7,838 | | - | 7,838 |
| | | | | | | **55,287** | | **-** | **55,287** |
| Petróleos de Portugal - Petrogal, S.A. | | | | | | | | | |
| Galp Comercialização Portugal, S.A. | (b) | 2008 | 146,000 | 100.00% | 69,027 | 50,556 | | - | 50,556 |
| | | | | | | 50,556 | | - | 50,556 |
| Galp Distribuición Oil España, S.A.U. | | 2008 | 172,822 | 100.00% | 123,611 | 49,211 | | - | 49,211 |
| Madrileña Suministro de Gas 2010, S.L. | | 2010 | 46,566 | 100.00% | 2,292 | - | (c) | 44,274 | 44,274 |
| Galp Swaziland (PTY) Limited | | 2008 | 18,117 | 100.00% | 651 | 17,466 | | - | 17,466 |
| Madrileña Suministro de Gas SUR 2010, S.L. | | 2010 | 11,641 | 100.00% | 2,366 | - | (c) | 9,275 | 9,275 |
| Galpgest - Petrogal Estaciones de Servicio, S.L.U. | | 2003 | 6,938 | 100.00% | 1,370 | 5,568 | | - | 5,568 |
| Galp Gambia, Limited | | 2008 | 6,447 | 100.00% | 1,693 | 4,754 | | - | 4,754 |
| Galp Moçambique, Lda. | | 2008 | 5,943 | 100.00% | 2,978 | 2,965 | | - | 2,965 |
| Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A. | | 2006 | 3,094 | 25.00% | 1,454 | 1,640 | | - | 1,640 |
| Lusitaniagás - Companhia de Gás do Centro, S.A. | | 2002/3 and 2007/8/9 | 1,440 | 1.543% | 856 | 584 | | - | 584 |
| Probigalp - Ligantes Betuminosos, S.A. | | 2007 | 720 | 10.00% | 190 | 530 | | - | 530 |
| 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 |
| Beiragás - Companhia de Gás das Beiras, S.A. | | 2003/6 and 2007 | 152 | 0.94% | 107 | 51 | | - | 51 |
| | | | | | | **189,293** | | **53,549** | **242,842** |

(a) The subsidiaries Petróleos de Valência, S.A. Sociedad Unipersonal and Galp Comercializacion Oil España, S.L. were merged in the subsidiary Galp Energia España, S.A., through a process of incorporation, in the year ended 31 December 2010 (Nota 3 c)).

(b) The subsidiary Galp Comercialização Portugal, S.A., was merged in the subsidiary Petróleos de Portugal - Petrogal, S.A., through a process of incorporation, in the year ended 31 December 2010 (Nota 3 c)).

(c) Increase due to the acquisition of investments (Nota 3 a))

During the year ended 31 December 2010, goodwill increased by tEuros 53,549 as result of the fair value allocation, which is still in progress, to assets, liabilities and contingent liabilities on Madrileña Suministro de Gas 2010, S.L. and Madrilena Suministro de Gas SUR 2010, S.L. acquisitions.

Consequently and according to IFRS 3 the differences between the acquisition cost of investments in the amount o tEuros 58,207 and the fair value of the assets, liabilities and contingent liabilities acquired may be adjusted for a period of twelve months after the acquisition date.

These investments were acquired on 30 April of 2010 in a deal between Galp Energia and Morgan Stanley Infrastructure with the purpose of acquiring Gás Natural Fenosa (Gás Natural) distribution and commercialization of natural gas businesses in Madrid region, being Galp Enegia Group responsible for the commercialization activity and Morgan Stanley Infrastructure for the distribution activity.

In order to conclude the deal, Gas Natural Fenosa created three companies to operate in the region of Madrid, namely: Madrileña Suministro de Gas 2010, S.L., Madrileña Suministro de Gas SUR 2010, S.L. and Madrileña Red de Gas, being the purpose of the first two, the commercialization of natural gas in the free and regulated market (acquired by Galp Energia Group) and the third, the operating of the natural gas distribution network (acquired by Morgan Stanley Infrastructure).

The distribution business includes distribution of natural gas in low pressure networks regulated activities, which cover thirty-eight municipalities surrounding the city of Madrid.

The commercialization business that was acquired by Galp Energia Group includes selling natural gas to final costumers, supplied in regulated and non-regulated markets in the area covered by the distribution business above mentioned. This business also includes the supply of electricity and other value added services.

The subsidiaries acquired contributed with an operating income of tEuros 99,113 and a net profit of tEuros 3,011 for the year ended on 31 December, 2010.

### Goodwill impairment analysis

When performing impairment tests goodwill is associated to the respective cash generating unit.

Value in use is determined by the present value of the estimated future cash flows of the cash generating unit. The discount rate used reflects Galp Energia Group WACC (Weighted Average Cost of Capital) for the reporting segment and country of each cash generating unit.

| | | Assumptions | | |
|---|---|---|---|---|
| **Cash generating unit** | **Method** | **Cash flow** | **Growing factor** | **Discounted rate** |
| Investments (by business segment) | DCF (Discounted Cash Flow) | Sales volume projected to five years | Gordon growth model with a growing factor for perpetuity of 2%. | WACC between:<br>R&M [7.5%-11.5%]<br>E&P [9.6%-13.4%]<br>G&P [6.2%-9.1%] |

R&M - Refining and distribution of petroleum products
E&P - Exploration and production
G&P - Gas and Power

According to the assumptions defined for the year ended on 31 December 2010 there were no goodwill impairment losses recorded.

## 12. TANGIBLE AND INTANGIBLE ASSETS

### Tangible Assets

| | Land and natural resources | Buildings and other constructions | Machinery and equipment | Transport equipment | Tools and utensils |
|---|---|---|---|---|---|
| **Acquisition cost:** | | | | | |
| **Balance at 1 January** | **282.721** | **872.756** | **3.908.069** | **26.107** | **4.018** |
| Additions | - | 2.438 | 79.681 | 433 | 35 |
| Write-offs/sales | (93) | (6.890) | (40.678) | (1.723) | (39) |
| Adjustments | (299) | 2.300 | 3.967 | 312 | (93) |
| Transfers | 2.128 | (10.030) | 95.329 | 445 | 35 |
| Changes in the consolidation perimeter (Note 3) | - | - | - | - | - |
| **Gross acquisition cost at 31 December** | **284.457** | **860.574** | **4.046.368** | **25.574** | **3.956** |
| **Accumulated impairments at 1 January** | **(2.815)** | **(18.446)** | **(16.228)** | **-** | **(63)** |
| Increase in impairment | (54) | (13) | (603) | - | - |
| Reversal of impairment | - | 2.193 | 1.038 | - | - |
| Utilisation of impairment | - | - | (58) | - | - |
| **Balance of impairments at 31 December** | **(2.869)** | **(16.266)** | **(15.851)** | **-** | **(63)** |
| **Balance at 1 January** | **281.588** | **844.308** | **4.030.517** | **25.574** | **3.893** |
| **Accumulated depreciation and impairment losses:** | | | | | |
| **Balance at 1 January:** | (1.914) | (520.875) | (2.954.886) | (22.004) | (3.463) |
| Depreciation for the year | (8) | (34.682) | (206.074) | (1.348) | (219) |
| Write-offs/sales | 1 | 5.150 | 39.014 | 1.385 | 39 |
| Adjustments | (65) | (48) | 3.898 | (175) | 65 |
| Transfers | 261 | 14.192 | (5.659) | (34) | - |
| Changes in the consolidation perimeter (Note 3) | - | - | - | - | - |
| **Accumulated balance** | **(1.725)** | **(536.263)** | **(3.123.707)** | **(22.176)** | **(3.578)** |
| **Net amount:** | | | | | |
| at 31 December | 279.863 | 308.045 | 906.810 | 3.398 | 315 |

| 2010 | | | | | | 2009 |
|---|---|---|---|---|---|---|
| Administrative equipment | Reusable containers | Other tangible assets | Tangible assets in progress | Advances to supplieis of tangible assets | Total tangible fixed assets | Tangible fixed assets |
| | | | | | | |
| **152.557** | **154.250** | **155.704** | **1.016.847** | **2.148** | **6.575.177** | **6.138.470** |
| 2.533 | 493 | (417) | 1.079.271 | - | 1.164.467 | 592.169 |
| (3.746) | (3.149) | (2.173) | (6.339) | - | (64.830) | (81.252) |
| 2 | (108) | 36 | 31.789 | 21.644 | 59.550 | 28.823 |
| 11.854 | 3.723 | 806 | (109.906) | - | (5.616) | (2.585) |
| - | - | - | (5.673) | - | (5.673) | (100.448) |
| **163.200** | **155.209** | **153.956** | **2.005.989** | **23.792** | **7.723.075** | **6.575.177** |
| **(1.226)** | **(1)** | **(5.440)** | **(29.846)** | **-** | **(74.065)** | **(38.252)** |
| (11) | - | (15) | (12.467) | - | (13.163) | (52.779) |
| 16 | - | 2.948 | - | - | 6.195 | 7.780 |
| - | - | - | 6.925 | - | 6.867 | 9.186 |
| **(1.221)** | **(1)** | **(2.507)** | **(35.388)** | **-** | **(74.166)** | **(74.065)** |
| **161.979** | **155.208** | **151.449** | **1.970.601** | **23.792** | **7.648.909** | **6.501.112** |
| | | | | | | |
| (124.275) | (137.675) | (96.432) | - | - | (3.861.524) | (3.784.921) |
| (10.291) | (5.347) | (9.221) | - | - | (267.190) | (208.606) |
| 3.693 | 3.149 | 3.617 | - | - | 56.048 | 64.542 |
| (105) | 26 | (75) | - | - | 3.521 | 3.864 |
| 51 | - | (73) | - | - | 8.738 | 264 |
| - | - | - | - | - | - | 63.333 |
| **(130.927)** | **(139.847)** | **(102.184)** | **-** | **-** | **(4.060.407)** | **(3.861.524)** |
| | | | | | | |
| 31.052 | 15.361 | 49.265 | 1.970.601 | 23.792 | 3.588.502 | 2.639.588 |

The balances as of 31 December 2009, due to the changes in the following accounting policies (see Note 2.23), were restated:

- Adoption of IFRIC 12 – Public and private infrastructures concessions have been transferred to the caption "Service Concession Arrangements" and "Intangible assets in progress of Service Concession Arrangements", those assets were previously registered in the captions: "Land and natural resources", "Buildings and other constructions", "Machinery and equipment", "Reconversion of consumption to natural gas" and respective assets in progress, essentially assigned to the natural gas concessions arrangements, remaining with the same useful life initially estimated and that is in accordance with the economic benefits model obtained by the Group as a result of the Tariff Regulations defined in the concession arrangements and approved by ERSE;

- Non refundable government investment grants were recognized in the caption "Other payables" and the respective amortization in proportion of the assets amortization and depreciation in the caption "Other operational income" in the consolidated income statements. The carrying amount as of 31 December 2009 was increased in tEuros 270,182, corresponding to acquisition cost and accumulated depreciation of tEuros 434,842 and tEuros 164,660, respectively (Note 2.23).

Tangible assets and depreciations are recorded in accordance with the accounting policies explained in Note 2.3.

Adjustments of tangible assets in the amount of tEuros 59,550 mainly results from the variation in the caption "Advances to suppliers of tangible assets" in the amount of tEuros 21,644 and the revaluation of the Brazilian Real against the Euro and the respective increase in tangible assets of Brazilian subsidiaries in the amount of tEuros 32,069.

The change in the consolidation perimeter results from the tangible assets of the companies referred to in Note 3 as of the acquisition date.

### Intangible Assets

| | Research and development costs | Industrial property and other rights | Goodwill | Reconversion of consumption to natural gas |
|---|---|---|---|---|
| **Acquisition cost:** | | | | |
| **Balance at 1 January:** | **12,602** | **441,520** | **42,414** | **10,453** |
| Additions | 88 | 7,287 | - | - |
| Write-offs/sales | (6) | (2,231) | - | - |
| Adjustments | (4) | 5,671 | 414 | - |
| Transfers | (8,141) | 12,855 | (18,487) | 8,356 |
| Changes in the consolidation perimeter (Note 3) | - | - | - | - |
| **Gross acquisition cost at 31 December** | **4,539** | **465,102** | **24,341** | **18,809** |
| **Accumulated impairments at 1 January** | **(5)** | **(5,258)** | **(236)** | **-** |
| Increase in impairment | - | - | - | - |
| Reversal of impairment | - | 663 | - | - |
| Utilization of impairment | - | (168) | - | - |
| **Balance of impairments at 31 December** | **(5)** | **(4,763)** | **(236)** | **-** |
| **Balance at 31 December** | **4,534** | **460,339** | **24,105** | **18,809** |
| **Accumulated amortisation and impairment losses:** | | | | |
| **Balance at 1 January:** | **(12,088)** | **(192,263)** | **(11,752)** | **(10,004)** |
| Amortisation for the year | (138) | (25,584) | (620) | (704) |
| Write-offs/sales | 6 | 1,682 | - | - |
| Adjustments | 7,928 | 240 | - | (7,924) |
| Transfers | (33) | (1,847) | - | - |
| Changes in the consolidation perimeter (Note 3) | - | - | - | - |
| **Balance at 31 December** | **(4,325)** | **(217,772)** | **(12,372)** | **(18,632)** |
| **Net amount:** | | | | |
| **at 31 December** | **209** | **242,567** | **11,733** | **177** |

| 2010 | | | | | 2009 |
|---|---|---|---|---|---|
| Other intangible assets | Service concession arrangements | Intangible assets in progress | Intangible assets in progress of service concession arrangements | Total intangible assets | Total intangible assets |
| | | | | | |
| **2,913** | **1,354,328** | **12,005** | **17,418** | **1,893,653** | **1,713,184** |
| - | 185 | 16,534 | 38,499 | 62,593 | 143,070 |
| (1,435) | (2,891) | - | (34) | (6,597) | (7,073) |
| (145) | 335 | (214) | (546) | 5,511 | 23,927 |
| (42) | 43,727 | (16,619) | (38,982) | (17,333) | 2,680 |
| - | - | - | - | - | 17,865 |
| **1,291** | **1,395,684** | **11,706** | **16,355** | **1,937,827** | **1,893,653** |
| **-** | **-** | **-** | **-** | **(5,499)** | **(5,457)** |
| - | - | - | - | - | (96) |
| - | - | - | - | 663 | 54 |
| - | - | - | - | (168) | - |
| **-** | **-** | **-** | **-** | **(5,004)** | **(5,499)** |
| **1,291** | **1,395,684** | **11,706** | **16,355** | **1,932,823** | **1,888,154** |
| | | | | | |
| **(2,611)** | **(340,840)** | **-** | **-** | **(569,558)** | **(499,976)** |
| (21) | (31,981) | - | - | (59,048) | (57,713) |
| 1,422 | 1,805 | - | - | 4,915 | 6,071 |
| 154 | 187 | - | - | 585 | (12,095) |
| 31 | 5 | - | - | (1,844) | 604 |
| - | - | - | - | - | (6,449) |
| **(1,025)** | **(370,824)** | **-** | **-** | **(624,950)** | **(569,558)** |
| | | | | | |
| **266** | **1,024,860** | **11,706** | **16,355** | **1,307,873** | **1,318,596** |

Intangible assets and depreciations are recorded in accordance with the accounting policies explained in Note 2.4.

Amortisation and depreciation of fixed assets for 2010 are made up as follows:

| | Tangible assets | Intangible assets |
|---|---|---|
| Amortisation and depreciation for the year | (260,025) | (27,067) |
| Amortisation and depreciation for the year - Service Concession Arrangements | - | (31,981) |
| Increase in impairment | (12,841) | - |
| Decrease in impairment | 5,873 | 663 |
| Fair value adjustments | (5,826) | - |
| **Amortisation and depreciation (Note 6)** | **(272,819)** | **(58,385)** |

**Main occurrences in 2010**

The increase in the tangible and intangible assets captions in the amount of tEuros 1,230,041 includes essentially:

The increase in the tangible and intangible assets captions in the amount of tEuros 735,239 includes essentially:

**(i) Oil Exploration and Production segment**

- tEuros 204,593 relating to exploration and development investments in blocks in Brazil;
- tEuros 95,464 relating to exploration and development investments in Block 14 in Angola;
- tEuros 13,882 relating to exploration and development investments of natural gas in Brazil;
- tEuros 7,296 relating to natural gas exploration investments in Angola;
- tEuros 5,559 relating to oil exploration investments on Portuguese coast;
- tEuros 5,075 relating to exploration investments on Block 32 in Angola;
- tEuros 1,844 relating to exploration investments on Block 4 in Mozambique;
- tEuros 1,453 relating to exploration investments on blocks in East Timor.

In the year ended December 31, 2010 from the total investments in Block 14 in Angola, the amount of tEuros 74,532 was transferred from caption “Tangible assets in progress” to “Machinery and equipment”.

**(ii) Gas and Power segment**

- tEuros 43,190 relating to the natural gas infrastruture construction (networks, among others);
- tEuros 41,370 relating to the construction of cogeneration plants in Oporto e Sines.

**(iii) Oil Refining and Distribution segment**

- tEuros 730,183 relating industrial investments in Oporto and Sines refinery;
- tEuros 39,473 relating wholesale business unit investments in its expansion, IT and improvements in service stations;

During the year ended December 31, 2010 the Group disposed or written-off tangible and intangible assets, as result of the assets records review, which were mostly totally depreciated and include:

**(i) tEuros 2,925 relating to natural gas assets disposal.**
**(ii) tEuros 7,709 relating to written-off assets from “Parque Aveiro”;**
**(iii) tEuros 5,610 relating to the significant maintenance intervention in Oporto refinery.**

At 31 December 2010, the group have recorded impairments in the amount of tEuros 79,170 which include tEuros 31,852 relating with operated and non-operated blocks in Brazil, that were increased in the year ended 31 December 2010 by the amount of tEuros 11,938.

Tangible and intangible assets in progress (including advances on account of tangible and intangible assets less impairment losses) at 31 December 2010 are made up as follows:

| | Assets |
|---|---|
| Conversion projects of the Sines and Oporto refineries | 690,000 |
| Industrial investment relating to the Sines and Oporto refineries | 470,783 |
| Research and exploration of petroleum in Brazil | 439,354 |
| Research and exploration of petroleum in Angola | 192,898 |
| Co-generation plants in Sines and Oporto | 59,550 |
| Renewal and expansion of the network | 47,468 |
| Other research in portuguese coast, Mozambique and East Timor | 28,718 |
| Research of gas in Angola and Equatorial Guinea | 15,149 |
| Research of LNG in Brazil | 13,882 |
| Underground storage of natural gas | 13,342 |
| Construction of a ship | 8,727 |
| Combined cycle co-generation plant - Sines | 5,008 |
| Other projects | 37,575 |
| | **2,022,454** |

## 13. GOVERNMENT GRANTS

Government grants received and receivable as of 31 December 2010 and 2009 are as follows:

| | Amount received | |
|---|---|---|
| **Program** | **2010** | **2009** |
| Desulphurisation of Sines | 39,513 | 39,513 |
| Desulphurisation of Oporto | 35,307 | 35,307 |
| Interreg II | 19,176 | 19,176 |
| Energy Program | 114,919 | 114,919 |
| Algarve Operating Program | 174 | - |
| Economy Operating Program | 223,972 | 223,972 |
| Regional do Centro Operating Program | 1,907 | - |
| Protede | 19,708 | 19,708 |
| Other | 21,569 | 21,569 |
| | **476,245** | **474,164** |
| Amount recognized as income | 212,464 | 203,982 |
| **Grants to recognize (Note 24)** | **263,781** | **270,182** |

In 2010 government grants of tEuros 2,081 were received, relating with incentive programs for expansion of the natural gas network.

## 14. OTHER RECEIVABLES

The non-current and current caption "Other receivables" as of 31 December 2010 and 2009 is made up as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **Captions** | **Current** | **Non-current** | **Current** | **Non-current** |
| State and Other Public Entities: | | | | |
| Value Added Tax - Reimbursement requested | 4,999 | - | 7,586 | - |
| Corporate Income Tax | - | - | 317 | - |
| Others | 1,633 | - | 1,649 | - |
| Advances to suppliers of fixed assets | 54,606 | - | 84,015 | - |
| Underlifting - Block 14 consortium in Angola | 21,318 | - | 9,939 | - |
| ISP - Tax on petroleum products | 20,913 | - | 22,237 | - |
| Receivable from the Block 14 consortium in Angola (excess profit-oil receivable) | 16,701 | - | 1,566 | - |
| Advances to trade suppliers | 11,550 | - | 33,565 | - |
| Other receivables - associated, related and participated companies (Note 28) | 9,408 | 10,274 | 11,822 | 12,237 |
| Grants receivable (Note 13) | 9,030 | - | 1 | - |
| Means of payment | 8,745 | - | 5,910 | - |
| Advances to the operator Petrobrás | 7,851 | - | 2,165 | - |
| Subsoil Rates | 6,595 | - | - | - |
| Spanish Bitumen process | 2,568 | - | 2,568 | - |
| Pension fund payment recovery | 2,406 | - | 2,230 | - |
| Personnel | 2,173 | - | 2,734 | - |
| Contract ceding the rights to use telecommunications infrastructures | 1,252 | - | 287 | - |
| Loans to clients | 581 | 2,073 | 538 | 2,148 |
| Loans to associated, jointly controlled related and participated companies (Note 28) | 132 | 53,675 | 130 | 42,335 |
| Other | 57,809 | 24,538 | 81,543 | 11,115 |
| | **240,270** | **90,560** | **270,802** | **67,835** |
| **Accrued income:** | | | | |
| Adjustment to tariff deviation - Energy tariff - ERSE regulation | 74,274 | - | 69,170 | - |
| Sales and services rendered not yet invoiced | 88,499 | - | 73,735 | - |
| Adjustment to tariff deviation - Regulated revenue - ERSE regulation | 53,446 | - | 34,649 | - |
| Adjustment to tariff deviation - "pass through" - ERSE regulation | 14,090 | - | 4,008 | - |
| Receivable compensation | 10,000 | - | 16,586 | - |
| Accrued management and structure costs | 5,072 | - | 6,221 | - |
| Sale of finished goods to be invoiced by the service stations | 2,492 | - | 9,262 | - |
| Compensation for the uniform tariff | 1,381 | - | 475 | - |
| Commercial discount on purchases | 523 | - | 750 | - |
| Accrued interest | 148 | - | 208 | - |
| Other | 13,671 | - | 24,348 | - |
| | **263,596** | **-** | **239,412** | **-** |
| **Deferred costs:** | | | | |
| Costs relating to service station concession contracts | 39,807 | - | 43,290 | - |
| Interest and other financial costs | 8,988 | - | 8,899 | - |
| Catalyser costs | 3,237 | - | 4,310 | - |
| Prepaid insurance | 387 | - | 344 | - |
| Prepaid rent | 197 | - | 194 | - |
| Retirement benefits (Note 23) | - | 21,297 | - | 30,839 |
| Other deferred costs | 14,595 | - | 10,671 | - |
| | **67,211** | **21,297** | **67,708** | **30,839** |
| | **571,077** | **111,857** | **577,922** | **98,674** |
| **Impairment of other receivables** | **(8,898)** | **-** | **(6,227)** | **-** |
| | **562,179** | **111,857** | **571,695** | **98,674** |

The changes in the caption "Impairment of other receivables" in the year ended 31 December 2010 were as follows:

| Caption | Beginning balance | Increase | Decrease | Utilisation | Adjustments | Ending balance |
|---|---|---|---|---|---|---|
| Other receivables | 6,227 | 2,616 | (176) | (819) | 1,050 | 8,898 |

The increases and decreases in impairment of other receivables in the net amount of tEuros 2,440 was recognised in the caption "Provision for impairment of receivables" (Note 6).

The amount of tEuros 21,318 recognized in the caption "Underlifting – Block 14 consortium in Angola" corresponds to amounts receivable by the Group as result of lifting crude oil barrels below its production quota ("underlifting") and is measured at the lower amount between the market price at the time the underlifting occurred or as of December 31, 2010.

The amount of tEuros 20,913 in the caption "ISP – Tax on petroleum products" refers to the amount receivable from the Customhouse relating to bio-fuels ISP exemption, which are under a tax suspense regime in accordance with Circular 79/2005, of December, 6.

The amount of tEuros 19,682 in the current and non-current caption "Other receivables – associated, related and participated companies" refers to amounts receivable from companies that were not consolidated by the full consolidation method.

The "PSA", applicable to blocks in Angola in which the Group holds an interest, establishes that a percentage of sales value is recovered in fiscal terms on cost-oil, with the remaining amount of barrels, profit oil, liable to immediate payment of PIT, after deducting the barrels that are contractually transferred to the concessionaire (Sonangol). Cost oil is used by partners in the recovery of research, development and production costs in the annual income statement presented to the Angola's Ministry of Finance, therefore whenever costs available for recovery are greater than the cost-oil rate applied during the fiscal year the effective cost-oil rate shall be calculated up to the maximum allowed in the PSA, for compensation of profit-oil rate, resulting in an increase in the net entitlement quantities and a decrease in the quantities transferred to the concessionaire. In 2010 for the above mentioned reason, it was necessary to adjust the cost-oil decreasing the profit-oil amount, thus generating an increase of available for sale barrels in the amount of tEuros 16,701. This amount was calculated based on 2010 fiscal prices.

The caption "Grants receivable" includes the amount of tEuros 8,942 regarding the compensation awarded by the Government of Mozambique, due to the fixing of fuel sales prices that, in accordance with the Memorandum signed between both parties, will be received up to the end of May 2011.

The caption "Means of payment" in the amount of tEuros 8,745 respects to amounts receivable for sales made with Visa/ATM card, which as of December 31, 2010 were pending collection.

The caption "Subsoil rates" in the amount of tEuros 6,595 refers to rates of subsoil occupation already paid to municipalities. In accordance with the distribution of natural gas concession agreement between the Portuguese Government and the Group companies, and with the Cabinet Council Resolution No. 98/2008, dated April 8, the companies have the right to pass on to commercialization entities or to final customers, the full amount of subsoil rates paid to the local authorities participating in the concession area (Note 33).

The caption "Other receivables" non-current includes the amount of tEuros 12,119 receivable from Gestmin, SGPS, S.A., for the purchase of COMG – Comercialização de Gás, S.A in December 3, 2009 and is remunerated at a six month Euribor interest rate added by a spread of 3.12% per year, and is expected to be received on December 3, 2016.

The caption "Accrued income – sales and services rendered not yet invoiced" refers essentially to December natural gas sales to be invoiced in January, from Galp Gás Natural, S.A., Lisboagás Comercialização, S.A. and Transgás, S.A., in the amounts of tEuros 56,452, tEuros 6,886 e tEuros 13,182, respectively.

The amount of tEuros 10,000 in the caption "Accrued income – Receivable compensation" respects to the estimated compensation that will be received as result of the accident occurred in Sines refinery power station in January 2009.

The amount of tEuros 2,492 in the caption "Sale of finished goods to be invoiced by the service stations" relates to sales made until December 31, 2010 through Galp Frota cards, which will only be invoiced in the following months.

Expenses recorded in the caption "Deferred costs - Costs relating to service station concession contracts" are recognized as expenses during the concession period, which ranges between 17 and 32 years.

The caption "Accrued income – Adjustment to tariff deviation – Energy tariff - ERSE regulation" is detailed as follows:

| Caption | 2009 | Variation | 2010 |
|---|---|---|---|
| Commercialization of wholesale natural gas - Energy tariff (CURG) | | | |
| Energy tariff amount to recover | 69,170 | 5,104 | 74,274 |
| Energy tariff amount to return (Note 24) | - | (1,307) | (1,307) |
| | **69,170** | **3,797** | **72,967** |

The caption "Adjustment to tariff deviation – Energy tariff" in the amount of tEuros 74,274 respects to the cumulative difference between the cost of acquiring natural gas from the Group's suppliers and the energy tariffs defined by ERSE, for each Gas Year, applied in customers invoicing, that will be recovered in the revision of next years' tariffs, in accordance with the mechanism set out by ERSE. These amounts are remunerated at a three months Euribor interest rate.

The caption "Accrued income – regulated revenue – ERSE regulation" is detailed as follows:

| Captions | 2009 | Variation | 2010 |
|---|---|---|---|
| Distribution of Natural Gas (ORD) | | | |
| Gas Year 2008-2009 | (11,419) | 4,973 | (6,446) |
| Gas Year 2009-2010 | 18,470 | (4,013) | 14,457 |
| Gas Year 2010-2011 | - | 16,695 | 16,695 |
| Commercialization of retail natural gas (CURR) | | | |
| Gas Year 2008-2009 | 3,263 | (1,332) | 1,931 |
| Gas Year 2009-2010 | 6,383 | 2,527 | 8,910 |
| Gas Year 2010-2011 | - | 2,155 | 2,155 |
| Commercialization of wholesale natural gas (CURG) | | | |
| Gas Year 2008-2009 | 2,638 | (925) | 1,713 |
| Gas Year 2009-2010 | 2,542 | 1,798 | 4,340 |
| Gas Year 2010-2011 | - | (1,001) | (1,001) |
| Natural Gas Storage Activity | | | |
| Gas Year 2008-2009 | (162) | 163 | 1 |
| Gas Year 2009-2010 | (74) | 289 | 215 |
| Gas Year 2010-2011 | - | 373 | 373 |
| Accrued income: | **34,649** | **18,797** | **53,446** |
| Accrued Costs (Note 24) | **(13,008)** | **2,905** | **(10,103)** |
| | **21,641** | **21,702** | **43,343** |

The caption "Adjustment to tariff deviation – regulated revenue" amounting tEuros 53,446 respects to the difference between the estimated regulated revenue published for each regulated activity and the invoiced amount (Note 2.13). These amounts are remunerated at a three months Euribor interest rate.

During the year ended December 31, 2010, occurred the setting of tariff deviation – regulated revenue for the first half of 2008-2009 Gas Year, which amounted to the negative amount of tEuros 5,587. Since the accrual registered was insufficient the amount of tEuros 93 was recognized in the caption "Sales" (Note 5).

As referred in Note 2.13 the total amount to recover was included by ERSE in the regulated revenue to recover in 2010-2011 Gas Year, and so the Group is recognizing in the income statement, in accordance with the seasonality defined to each activity, the reversal of the amount of tariff deviation approved.

The amounts payable or receivable in respect to each Gas Year are presented for each activity by its net amount, depending on its nature in each Gas Year, since it corresponds to ERSE approval method of the adjustments to regulated revenue.

Following is an aging schedule of other receivables as of 31 December 2010 and 2009:

| Aging | Not yet due | Overdue up to 90 days | Overdue up to 180 days | Overdue up to 365 days | Overdue up to 545 days | Overdue up to 730 days | Overdue over 730 days | Total |
|---|---|---|---|---|---|---|---|---|
| 2010 Gross | 647,198 | 10,391 | 1,150 | 6,271 | 4,918 | 4,179 | 8,827 | 682,934 |
| Adjstments | - | (121) | (67) | (390) | (2,567) | (264) | (5,489) | (8,898) |
| | **647,198** | **10,270** | **1,083** | **5,881** | **2,351** | **3,915** | **3,338** | **674,036** |
| 2009 Gross | 665,135 | 2,301 | 1,534 | 2,065 | 1,158 | 228 | 4,175 | 676,596 |
| Adjstments | (406) | (326) | (381) | (882) | (90) | (104) | (4,038) | (6,227) |
| | **664,729** | **1,975** | **1,153** | **1,183** | **1,068** | **124** | **137** | **670,369** |

The Group considers as amounts not yet due, the balance of other receivables not overdue and the captions "Accrued income" and "Deferred costs" amounting to tEuros 352,104 and tEuros 337,968 as of 2010 and 2009, respectively.

Overdue balances not adjusted correspond to receivables for which there are payment agreements or a global or partial expectation of recovery.

Galp Energia held guarantees on accounts receivable, namely bank guarantees and security deposit, amounting to tEuros 83,651 as of December 31, 2010.

## 15. TRADE RECEIVABLES

The caption "Trade receivables" as of 31 December 2010 and 2009 was made up as follows:

| Captions | 2010 | 2009 |
|---|---|---|
| Trade receivables - current accounts | 1,046,552 | 750,850 |
| Trade receivables - doubtful accounts | 126,289 | 112,967 |
| Trade receivables - notes receivable | 13,881 | 12,859 |
| | **1,186,722** | **876,676** |
| Impairment of trade receivables | (104,659) | (98,292) |
| | **1,082,063** | **778,384** |

The changes in the caption "Impairment of trade receivables" as of the year ended on 31 December 2010 were as follows:

| Captions | Openning balance | Increases | Decreases | Utilisation | Adjustments | Changes in perimeter | Ending balance |
|---|---|---|---|---|---|---|---|
| **Impairment of trade receivables** | **98,292** | **19,555** | **(6,690)** | **(9,910)** | **(467)** | **3,879** | **104,659** |

The increase and decrease in the caption "Impairment of trade receivables" in the net amount of tEuros 12,865 was recorded in the caption "Provision and impairment loss on receivables" (Note 6).

Following is an aging schedule of Group trade receivables as of 31 December 2010 and 2009:

| Aging of trade receivables | Not yet due | Overdue up to 90 days | Overdue up to 180 days | Overdue up to 365 days | Overdue up to 545 days | Overdue up to 730 days | Overdue over 730 days | Total |
|---|---|---|---|---|---|---|---|---|
| 2010 Gross | 936,170 | 129,155 | 1,845 | 29,636 | 4,478 | 4,799 | 80,639 | 1,186,722 |
| Adjstments | (6) | (17,780) | (1,677) | (10,220) | (1,896) | (1,926) | (71,154) | (104,659) |
| | **936,164** | **111,375** | **168** | **19,416** | **2,582** | **2,873** | **9,485** | **1,082,063** |
| 2009 Gross | 468,307 | 261,953 | 32,096 | 22,002 | 12,273 | 23,316 | 56,729 | 876,676 |
| Adjstments | - | (51) | (14,161) | (10,685) | (5,044) | (15,937) | (52,414) | (98,292) |
| | **468,307** | **261,902** | **17,935** | **11,317** | **7,229** | **7,379** | **4,315** | **778,384** |

The Group considers as amounts not yet due, the balance of other receivables not overdue. Overdue balances which have not been subject to adjustments correspond to receivables for which there are payment agreements or a global or partial expectation of recovery.

## 16. INVENTORIES

Inventories as of 31 December 2010 and 2009 are made up as follows:

| Captions | 2010 | 2009 |
|---|---|---|
| Raw and subsidiary materials: | | |
| Crude oil | 139,938 | 192,227 |
| Other raw materials | 49,811 | 11,646 |
| Raw material in transit | 273,147 | 115,893 |
| | **462,896** | **319,766** |
| Adjustments to raw and subsidiary materials | (11,104) | (6,506) |
| | **451,792** | **313,260** |
| Finished and semi-finished products: | | |
| Finished products | 339,038 | 252,113 |
| Semi-finished products | 310,640 | 265,130 |
| Finished products in transit | 23,452 | 7,466 |
| | **673,130** | **524,709** |
| Adjustments to finished and semi-finished products | - | - |
| | **673,130** | **524,709** |
| Work in progress | (12) | 264 |
| Merchandise | 447,646 | 392,058 |
| Merchandise in transit | 32 | - |
| | **447,678** | **392,058** |
| Adjustments to merchandise | (2,503) | (1,504) |
| | **445,175** | **390,554** |
| Advances on account of purchases | 46 | 46 |
| | **1,570,131** | **1,228,833** |

Merchandise as of 31 December 2010, in the amount of tEuros 447,646 corresponds essentially to natural gas in pipelines in the amount of tEuros 49,093, inventories of crude oil derivative products of the subsidiaries Galp Energia España, S.A., Galp Distribuición Oil España, S.A.U. and Retail Operating Company, S.L. in the amounts of tEuros 363,948, tEuros 9,949 and tEuros 962 respectively.

As of 31 December 2010 the Group's liability to competitors for strategic reserves, which can only be satisfied by products delivery, amounted to tEuros 170,361 and are reflected in the caption "Advances on account of sales" (Note 24).

In November 2004, under Decree-law 339-D/2001 of December, Petrogal together with Petrogal Trading Limited entered into a contract to purchase, sell and exchange crude oil for finished products for the constitution of strategic reserves with "Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, EPE" ("EGREP"). Under the contract entered into in 2004 the crude oil 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.

On 1 December 2010, it was signed a contract for the purchase and sale of 136,000 cubic meters of "Diesel 10 ppm" with Vitol, S.A.. The product was sold by the Company by the amount of tEuros 65,917 to that entity and was recorded in "Cost of sales" by the amount of tEuros 63,250, resulting from the application of the valuation method for inventories consumption. According to the agreement with Vitol, S.A., it is assured that it makes available the quantities acquired when required by law in order to comply with major force motives, being this product or equivalent also located on Portuguese soil in order to comply with strategic reserves that are an obligation of the Company. Under this agreement the Company has to pay a compensation for the immobilization of diesel in Portugal, receiving as return a compensation for storage on its facilities, in addition the risk/gain from the valuation of inventories is a liability of Vitol, S.A. reason why it was not recognized in the financial statements as of 31 December 2010.

The changes in the caption "Impairment of inventories" in the year ended 31 December 2010 were as follows:

| Captions | Beginning balance | Increases | Decreases | Adjustments | Ending balance |
|---|---|---|---|---|---|
| Impairment of raw and subsidiary materials | 6,506 | 4,578 | (1) | 21 | 11,104 |
| Impairment of merchandise | 1,504 | 410 | (65) | 654 | 2,503 |
| | **8,010** | **4,988** | **(66)** | **675** | **13,607** |

The net increase in impairment, in the amount of tEuros 4,922 was recorded by corresponding entry to the operating cost caption "Cost of sales" in the income statement (Note 6).

## 17. OTHER INVESTMENTS

Current and non-current investments as of 31 December 2010 and 2009 are made up as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Other investments | Current | Non-current | Current | Non-current |
| Financial instruments at fair value through profit and loss (Note 27) | | | | |
| Swaps over Commodities | 1,672 | 727 | 300 | 300 |
| Swaps over interest rate | - | 702 | - | - |
| | **1,672** | **1,429** | **300** | **300** |
| Other financial instruments held for sale | | | | |
| Shares in participated companies | - | - | 7 | 161 |
| | **-** | **-** | **7** | **161** |
| Bank deposits | | | | |
| Term deposits (Note 18) | 3,393 | - | 1,414 | - |
| Demand deposits | - | - | 82 | - |
| | **3,393** | **-** | **1,496** | **-** |
| | **5,065** | **1,429** | **1,803** | **461** |

As of 31 December 2010 and 2009 the financial instruments are recorded at their fair value reported at that dates (Note 27).

## 18. CASH AND CASH EQUIVALENTS

The caption "Cash and cash equivalents" as of 31 December 2010 and 2009 was made up as follows:

| Captions | 2010 | 2009 |
|---|---|---|
| Cash | 6,477 | 8,773 |
| Demand deposits | 115,065 | 114,832 |
| Term deposits | 697 | 7,064 |
| Other negotiable securities | 3,720 | 1,777 |
| Other treasury applications | 62,074 | 111,393 |
| **Cash and cash equivalents in the balance sheet** | **188,033** | **243,839** |
| Other current investments (Note 17) | 3,393 | 1,503 |
| Bank overdrafts (Note 22) | (362,723) | (306,632) |
| **Cash and cash equivalents in the cash flow statement** | **(171,297)** | **(61,290)** |

The caption "Other negotiable securities" includes essentially:

- tEuros 1,313 on commodities futures(Brent);
- tEuros 2,029 on electricity futures;
- tEuros 376 on $CO_2$ futures.

These futures are recorded in this caption due to its high liquidity (Note 27).

The caption "Other treasury applications" includes applications of cash surplus, with maturities less than three months, of the following Group companies:

| | 2010 | 2009 |
|---|---|---|
| Galp Gás Natural, S.A. | 21,402 | 79,706 |
| CLCM - Companhia Logistica de Combustíveis da Madeira, S.A. | 18,450 | 14,200 |
| Petrogal Brasil. Lda. | 10,762 | - |
| Beiragás - Companhia de Gás das Beiras, S.A. | 5,130 | 3,590 |
| Sempre a Postos - Produtos Alimentares e Utilidades, Lda. | 2,000 | 2,000 |
| Galp Exploração Serviços Brasil, Lda. | 1,751 | 791 |
| Sacor Marítima, S.A. | 1,609 | - |
| Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A. | 970 | 100 |
| Petróleos de Portugal - Petrogal, S.A. | - | 9,718 |
| Galp Energia España, S.A. | - | 1,288 |
| | **62,074** | **111,393** |

## 19. SHARE CAPITAL

### Capital structure

The capital structure as of 31 December 2010 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 10) of 1 Euro each, divided into the following categories:

| Type of shares | 2010 | 2009 |
|---|---|---|
| A shares | 40,000,000 | 40,000,000 |
| B shares | 789,250,635 | 789,250,635 |
| **Total number of shares** | **829,250,635** | **829,250,635** |

In accordance with article 4º of Galp Energia, SGPS, S.A.'s by laws, the A shares have the following special rights:

(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.

As a result of the above, the Company's fully subscribed and paid up share capital as of 31 December 2010 was held as follows:

| | Nº of shares | % of capital |
|---|---|---|
| Amorim Energia, B.V. | 276,472,161 | 33.34% |
| Caixa Geral de Depósitos, S.A. | 8,292,510 | 1.00% |
| ENI S.P.A | 276,472,161 | 33.34% |
| Parpública – Participações Públicas, SGPS, S.A. | 58,079,514 | 7.00% |
| Total number of shares | 209,934,289 | 25.32% |
| | **829,250,635** | **100.00%** |

## 20. TRANSLATION RESERVE AND OTHER RESERVES

### Translation reserve

The variation occurred in the year ended 31 December 2010, in the caption translation reserve, in the amount of tEuros 38,679 concerns:

(i) tEuros 9,479 relating to the positive exchange differences resulting from the conversion of the financial statements in foreign currency to Euro;

(ii) tEuros 29,200 relating to exchage differences of the financial allocations of Galp Exploração e Produção Petrolífera, S.A. to Petrogal Brasil, Lda., in Euros and US Dollars, which are not remunerated and for which there is no reimbursement intention, being so similar to share capital ("quasi capital"), thus integrating the net investment in that foreign operational unit in accordance with IAS 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 to absorb losses after all the other reserves have been utilized. In 2010 the caption didn't change since the legal reserves already achieved 20% of share capital.

As of 31 December 2010 and 2009 this captions were made up as follow:

| | 2010 | 2009 |
|---|---|---|
| Legal reserve | 165,850 | 165,850 |
| Free reserves | 27,977 | 27,977 |
| Special reserves | (443) | (463) |
| | **193,384** | **193,364** |

The amount of tEuros 443 in the caption special reserves includes, tEuros 463 relating to a deferred tax correction – reevaluation of equity in the subsidiary Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A. (Note 9) and the negative amount of tEuros 20 relating to a donation reserve in subsidiary Gasinsular – Combustíveis do Atlântico, S.A..

## 21. NON-CONTROLLING INTERESTS

The equity caption "Non-controlling interests" as of 31 December 2010 and 2009 refers to the following subsidiaries:

| | | Balance at December 2009 | Dividends granted (Note 30) | Prior year results | Exchange translation reserves | Hedging reserves | Net result for the year | Balance at December 2010 |
|---|---|---|---|---|---|---|---|---|
| Lusitaniagás - Companhia de Gás do Centro, S.A. | | 14,550 | - | - | - | 25 | 2,482 | 17,057 |
| Beiragás - Companhia de Gás das Beiras, S.A. | | 7,028 | - | - | - | 45 | 1,303 | 8,376 |
| Sopor - Sociedade Distribuidora de Combustíveis, S.A. | | 3,148 | (117) | (43) | - | - | 92 | 3,082 |
| Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A. | | 1,546 | (329) | 6 | - | - | 174 | 1,397 |
| Sempre a Postos - Produtos Alimentares e Utilidades, Lda. | | 1,554 | (671) | - | - | - | 363 | 1,246 |
| Petromar - Sociedade de Abastecimentos de Combustíveis, Lda. | | 770 | (207) | - | - | - | 446 | 1,007 |
| Carriço Cogeração Sociedade de Geração de Electricidade e Calor, S.A. | | 1,103 | - | - | - | - | (496) | 607 |
| Probigalp - Ligantes Betuminosos, S.A. | | 595 | - | (34) | - | - | (223) | 338 |
| Gite - Galp International Trading Establishment | | 36 | - | - | - | - | - | 36 |
| Moçamgalp Agroenergias de Moçambique, S.A. | | 29 | - | - | (1) | - | - | 28 |
| Combustiveis Líquidos, Lda. | | 2 | - | - | - | - | - | 2 |
| Powercer - Sociedade de Cogeração da Vialonga, S.A. | (a) | (20) | - | - | - | 9 | (58) | (69) |
| Petrogás - Importação, Armazenagem e Distribuição de Gás, Lda. | (a) | (263) | - | - | - | - | 8 | (255) |
| Galpbúzi - Agro-Energia, S.A. | (a) | 4 | - | (123) | 5 | - | (148) | (262) |
| CLCM - Companhia Logistica de Combustíveis da Madeira, S.A. | (a) | (2,898) | - | - | - | 29 | 2,480 | (389) |
| | | **27,184** | **(1,324)** | **(194)** | **4** | **108** | **6,423** | **32,201** |

(a) At 31 December 2010 this subsidiary had negative shareholders equity. Consequently, the Group only recognised accumulated losses in proportion to its participation in that subsidiary, as the other shareholders have the capacity and intention to cover the losses, and so the non-controlling interests balance is debtor.

During the year ended 31 December 2010 were granted dividends in the amount of tEuros 1,324 of which tEuros 1,117 were paid.

## 22. LOANS

### Detail of loans

Loans obtained as of 31 December 2010 and 2009 were made up as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Bank loans: | | | | |
| Domestic loans | 220,770 | 739,977 | 80,784 | 556,374 |
| Foreign loans | 21,643 | 672,513 | 26,777 | 491,235 |
| Bank overdrafts (Note 18) | 362,723 | - | 306,632 | - |
| Discounted Notes | 11,324 | - | 7,841 | - |
| | **616,460** | **1,412,490** | **422,034** | **1,047,609** |
| Other loans obtained: | | | | |
| IAPMEI | 2 | 174 | 239 | 16 |
| | **616,462** | **1,412,664** | **422,273** | **1,047,625** |
| Project Finance Fees | - | (640) | - | (511) |
| | **616,462** | **1,412,024** | **422,273** | **1,047,114** |
| Bonds: | | | | |
| Lisboagás, S.A. 1998 issue | - | - | 1,369 | - |
| Galp Energia, SGPS, S.A. 2009 issue | - | 700,000 | - | 700,000 |
| Galp Energia, SGPS, S.A. 2010 issue | - | 300,000 | - | - |
| | **-** | **1,000,000** | **1,369** | **700,000** |
| | **616,462** | **2,412,024** | **423,642** | **1,747,114** |

The non-current loans, excluding project finance fees, as of 31 December 2010 had the following repayment plan:

| | |
|---|---|
| 2012 | 672,989 |
| 2013 | 883,871 |
| 2014 | 223,382 |
| 2015 | 81,245 |
| 2016 | 99,183 |
| 2017 and subsequent years | 451,994 |
| | **2,412,664** |

Domestic and foreign loans as of 31 December 2010 and 2009 are expressed in the following currencies:

| | | 2010 | | 2009 | |
|---|---|---|---|---|---|
| | | **Total amount** | **Amout due (teuros)** | **Total amount** | **Amout due (teuros)** |
| United States Dollars | USD | 3,020 | 678 | 3,176 | 945 |
| Euros | EUR | 1,805,834 | 1,651,287 | 1,284,991 | 1,151,762 |
| Cape Verde francs | CFA | - | - | 229,585 | 93 |
| Lilangeni Suazi | SZL | 472 | 66 | 731 | 69 |
| Meticais | MZM | 121,684 | 2,819 | 96,413 | 2,301 |
| | | | **1,654,903** | | **1,155,170** |

The average interest rates on loans and bank overdrafts, including commissions and other financial costs in 2010 and 2009 were of 3.55% and 3.80%, respectively.

The average fixed interest rate in 2010 and 2009 were of 4.27% and 4.45%, respectively and the average variable interest rates on loans in 2010 and 2009 were of 3.29% and 3,57%, respectively. Fixed interest rate loans represent in 2010 and 2009 about 29% and 33% of the total amount of obtained loans, respectively.

Under the contracts agreed with funders and according to current laws and regulations for competition and practices observed in the market, neither Galp Energia nor its counterparts are authorized to disclose other information regarding the characteristics and contents of financing transactions to which such contracts relate, without prejudice to the freedom conferred to individual signatory players and to the funding amounts.

### Description of the main loans

**Bank loans**

As of 31 December 2010 the Group subscribed for underwritten commercial paper programs of up to tEuros 1,210,000, of which tEuros 650,000 in medium and long term and tEuros 560,000 in short term. Of these amounts the Group had used tEuros 150,000 of short term loans and tEuros 250,000 of medium and long term and since it is the Group's intention to maintain them up to 2012, and their renewal depends only on the Group.

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

Additionally the Group recorded the amount of tEuros 489,977 in internal non-current loans obtained by: Petróleos de Portugal – Petrogal, S.A., Sucursal en España, CLCM – Companhia Logística de Combustíveis da Madeira, S.A., Beiragás – Companhia de Gás das Beiras, S.A., Carriço Cogeração Sociedade de Geração de Electricidade e Calor, S.A. and Powercer - Sociedade de Cogeração da Vialonga, S.A.

The Group obtained a non-current loan of tEuros 58,000 from the European Investment Bank for the exclusive purpose of implementing a project relating to the construction and administration of a cogeneration unit in the Sines refinery. The loan was received in two instalments of tEuros 39,000 and tEuros 19,000, respectively, and it bears interest at a six month Euribor rate added by a variable spread adjusted periodically. During 2010 the company paid back the amount of tEuros 2,391 and tEuros 574 concerning the first and second instalments.

In 2008 the Group contracted an additional non-current loan of tEuros 50,000 from the European Investment Bank for the exclusive purpose of implementing a project relating to the construction and administration of a co-generating plant in the Matosinhos refinery. The loan bears interest at a fixed rate adjusted periodically.

The Group contracted a non-current loan of tEuros 500,000 with European Investment Bank, with the purpose of financing the conversion of Sines and Oporto refineries. The loan was received in two instalments of tEuros 300,000 and tEuros 200,000 each with maturity of sixteen years, including a grace period of three additional years and thirteen of repayment.

The loans from the European Investment Bank, excluding the instalment of tEuros 200,000, are granted by Petrogal, S.A. through warranty contracts.

The remaining loans with European Investment Bank, in the amount of tEuros 285,503 are granted by Banking Syndicates.

Petrogal issued comfort letters in favor of group and associated companies, relating to current credit lines, in the amount of tEuros 525,785.

**Bonds**

**2009 Issue – Galp Energia, SGPS, S.A.**

On 13 May 2009, the company issued bonds totalling tEuros 700,000, for private subscription, to financing its investment plan. The bonds bear interest at a six month Euribor rate added by a variable spread and has reimbursement of 40% in 20 May 2012 and 60% in 20 May 2013.

The issue was guided by Banco Santander Totta, S.A. and Caixa – Banco de Investimento, S.A..

The issue was participated by a group of fourteen banks, national and international: Banco Santander Totta, S.A., Caixa – Banco de Investimento, S.A., Banco Espírito Santo de Investimento, S.A., Banco BPI, S.A., Banco Bilbao Vizcaya Argentaria (Portugal), S.A., BNP Paribas e a Caixa d'Estalvis y Pensiones de Barcelona (la Caixa) acting as Joint Lead Managers. As Co-lead Managers: Caixa Económica Montepio Geral, Banco Millennium BCP Investimento, S.A., BB Securities Ltd. (Banco do Brasil), The Bank of Tokyo-Mitsubishi UFJ, Ltd, Banco Itaú Europa, S.A. – Sucursal Financeira Internacional, Merril Lynch International and Société Générale.

**2010 Issue – Galp Energia, SGPS, S.A.**

On 12 November 2010, the company issued bonds totalling tEuros 300,000, for private subscription, to financing its investment plan. The bonds bear interest at six month Euribor rate added of a variable spread and has reimbursement of 50% in 12 November 2013 and 50% in 12 November 2014.

The issue was participated by a group of six international banks: Citibank International plc, ING Belgium SA/NV – branch in Portugal, Banco Itaú Europa, S.A. – Sucursal Financeira Internacional, Banco Español de Credito S.A. (Banesto), Caixa d'Estalvis i Pensions de Barcelona "la Caixa" and BB Securities Limited.

## 23. RETIREMENT AND OTHER BENEFIT LIABILITIES

As explained in Notes 2.10 and 2.11 some of the group companies assumed liabilities relating to retirement benefits. In 2010, the Group companies contributed with tEuros 6,714 to their Pension Funds to partially cover their liabilities.

As of 31 December 2010 and 2009 the Petrogal Pension Fund, Sacor Marítima Pension Fund and GDP Pension Fund assets were as follows in accordance with the report of the fund management entity:

| | 2010 | 2009 |
|---|---|---|
| Bonds | 215,276 | 224,592 |
| Shares | 63,223 | 60,175 |
| Other investments | 11,434 | 11,258 |
| Real state | 36,245 | 35,226 |
| Liquidity | 9,798 | 8,917 |
| Effect of projection | 113 | (1,808) |
| | **336,089** | **338,360** |

The effect of projection is due to the fact that in the actuarial study it was used an estimate for the valuation of assets which was different from the real valuation of assets as of 31 December 2010 and 2009.

As of 31 December 2010 an 2009, the Group recorded the following amounts relating to Retirement and other benefit liabilities:

| Captions | Assets | Liabilities |
|---|---|---|
| Retirement benefits | | |
| Relating to the Pension Fund | 21,058 | (375) |
| Current personnel | - | (1,040) |
| Retired personnel | - | (4,307) |
| Pre-retirement | - | (36,400) |
| Early retirement | - | (54,174) |
| Retirement bonus | - | (6,884) |
| Voluntary social insurance | 239 | - |
| Other benefits: | | |
| Healthcare | - | (174,958) |
| Life insurance | - | (2,911) |
| Defined contribution plan minimum benefit | - | (3,695) |
| | **21,297** | **(284,744)** |

The caption "Pre-retirement" in the amount of tEuros 36,400 includes: (i) tEuros 61 relating to costs with pre-retirement of Sacor Marítima workers, that will be used up to 2011 and 2013; (ii) tEuros 151 relating to costs with pre-retirement of Tanquisado workers, that will be used up to 2014 and (iii) a reversal of Petrogal provision recorded in 2009 in the amount of tEuros 63.

Additionally, the Group has the amount of tEuros 5,624 regarding agreed early retirement that will only be effective in 2011.

The Employee cost caption "Retirement benefits" in the amount of tEuros 55,503 includes: (i) tEuros 18,196 relating benefits affected to the fund; (ii) tEuros 17,666 relating to other retirement benefits; (iii) tEuros 14,648 relating to other benefits; (iv) tEuros 1,339 relating to the defined contribution plan and (v) tEuros 3,654 relating to pre-retirement and early retirement not included in other benefits.

The assumptions used to calculate the retirement benefits are those considered by the Group and the entity specialised in the actuarial studies as those that best meet the obligations established in the pension plan, and are as follows:

| | Group in Portugal | |
|---|---|---|
| | 2010 | 2009 |
| **Assumptions** | | |
| Asset remuneration rate | 5.25% | 4.80% - 5.10% |
| Technical interest rate | 5.25% | 5.25% |
| Salary increase rate | 3.00% | 3.00% |
| Pension increase rate | 0.00% | 0.00% - 1.50% |
| Current personnel and pre-retirees mortality table | TV 88/90 | TV 88/90 |
| Retired personnel mortality table | TV 88/90 | TV 88/90 |
| Disability table | 50% EVK 80 | EVK 80-50% |
| Common age for retirement | 65 | 65 |
| Method | Projected credit unit | Projected credit unit |
| **Changes in past service liability (PSL)** | | |
| PSL at the end of the previous period | 374,681 | 349,106 |
| Current service cost | 2,635 | 2,714 |
| Interest cost | 18,810 | 20,491 |
| Actuarial (gain) / loss for the year | (11,632) | 39,468 |
| Benefits paid in the year | (25,216) | (25,462) |
| Cut back - Early retirement | 4,224 | (13,119) |
| Cut back - Pre-retirement | (506) | - |
| Pay off effect | - | (443) |
| Other adjustments | (1,891) | 1,926 |
| **PSL at the end of the current period** | **361,105** | **374,681** |
| **Changes in coverage of financial assets (pension fund)** | | |
| Assets at the end of the previous period | 338,360 | 332,866 |
| Expected return | 15,617 | 14,534 |
| Associate's Contribution | 5,645 | 5,007 |
| Benefit payments | (25,197) | (25,384) |
| Financial gains/(losses) | 1,664 | 11,337 |
| **Assets at the end of the current period** | **336,089** | **338,360** |
| **Conciliation of gains and losses** | | |
| (Gains) / losses to be recognized at the beginning of year | 66,855 | 42,571 |
| Amortisation of the current period | (8,755) | (2,592) |
| Actuarial (gain) / loss from experience | (11,632) | 41,039 |
| Financial (gain) / loss | (1,664) | (11,337) |
| Cut back effect - Early retirements | - | (2,826) |
| Other impacts | (288) | - |
| **(Gains) / losses to be recognized in the year-end** | **44,516** | **66,855** |
| **Conciliation to the Statement of Financial Position** | | |
| Total recognized at the beginning of the period - Assets / (Liabilities) | 30,534 | 26,331 |
| Net cost of the period | (18,295) | (9,693) |
| Associate's Contribution | 5,645 | 5,007 |
| Benefits paid directly by the company | 19 | 79 |
| Cut back effect - Early retirements | - | 10,293 |
| Pay off effect | - | 443 |
| Other adjustments effect | 1,597 | (1,926) |
| **Total recognized at period end - Assets / (Liabilities)** | **19,500** | **30,534** |
| **Net cost of the year** | | |
| Current service cost | 2,635 | 2,714 |
| Interest cost | 18,810 | 20,491 |
| Expected return | (15,617) | (16,104) |
| (Gains) / losses from amortisation | 8,755 | 2,592 |
| **Net cost of the period before special events** | **14,583** | **9,693** |
| Cut back impact - Early Retirement | 4,224 | - |
| Cut back impact - Pre-retirement | (506) | - |
| Other adjustments | (6) | - |
| **Net cost of the period** | **18,295** | **9,693** |

The amount of tEuros 19,500 from the consolidated financial statements includes the amount of tEuros 21,058 that is recorded in the asset and the amount of tEuros 375 which is recorded as liabilities.

| | Group in Spain | |
|---|---|---|
| | **2010** | **2009** |
| **Assumptions** | | |
| Asset remuneration rate | 5.25% | 5.50% |
| Technical interest rate | 5.25% | 5.50% |
| Salary increase rate | 3.00% | 3.00% |
| Pension increase rate | 2.00% | 0.00% - 1.50% |
| Current personnel and pre-retirees mortality table | PERMF 2000P | GRMF 95 |
| Retired personnel mortality table | PERMF 2000P | GRMF 95 |
| Common age for retirement | 65 | 65 |
| Method | Projected credit unit | Projected credit unit |
| **Changes in past service liability (PSL)** | | |
| PSL at the end of the previous period | 8,214 | 8,262 |
| Current service cost | 15 | 12 |
| Interest cost | 436 | 490 |
| Actuarial (gain) / loss | 37 | 152 |
| Benefits paid by the fund | (669) | (702) |
| **PSL at the end of the current period** | **8,033** | **8,214** |
| **Changes in the coverage of financial assets (pension fund)** | | |
| Asset value at the end of the previous period | 7,086 | 9,163 |
| Expected return | 393 | 367 |
| Associate's Contribution | 1,069 | 1,481 |
| Benefit payments | (669) | (702) |
| Financial gains/(losses) | (42) | (3,223) |
| **Asset value at the end of the current period** | **7,837** | **7,086** |
| **Conciliation of gains and losses** | | |
| (Gains) / losses to be recognized at the beginning of the period | 2,496 | 1,395 |
| Amortisation of the current period | (180) | (2,274) |
| Actuarial (gain) / loss from experience | 37 | 152 |
| Financial (gain) / loss | 42 | 3,223 |
| **(Gains) / losses to be recognized in the period-end** | **2,395** | **2,496** |
| **"Asset ceiling"** | | |
| Total recognized at the beginning of the period - Assets / (Liabilities) | (1,353) | (2,254) |
| Adjustments to net assets of the plan | 337 | 901 |
| **Total recognized at period end - Assets / (Liabilities)** | **(1,016)** | **(1,353)** |
| **Conciliation to the Statement of Financial Position** | | |
| Total recognized at the beginning of the period - Assets / (Liabilities) | 15 | 42 |
| Net cost of the period | 99 | (1,508) |
| Associate's Contribution | 1,069 | 1,481 |
| Total recognized at period end - Assets / (Liabilities) | 1,183 | 15 |
| **Net cost of the year** | | |
| Current service cost | 15 | 12 |
| Interest cost | 436 | 490 |
| Expected return | (393) | (367) |
| (Gains) / losses from amortisation | 180 | 2,274 |
| **Net cost of the period before special events** | **238** | **2,409** |
| **Changes in the "asset ceiling" effect** | **(337)** | **(901)** |
| **Net cost of the period** | **(99)** | **1, 508** |

| | Group in 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Current Personnel | Retired | Pre- -retirement | Early Retirement | Retirement bonuses | Voluntary social insurance | Flexibility of the age for retirement (DL 9/99) | Total |
| **Assumptions** | | | | | | | | |
| Technical interest rate | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% | |
| Salary increase rate | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | |
| Pension increase rate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | |
| Current personnel and pre-retirees mortality table | TV 88/90 | 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 88/90 | TV 88/90 | TV 88/90 | TV 88/90 | TV 88/90 | TV 88/90 | |
| Disability table | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | |
| Common age for retirement | 65 | 65 | 65 | 65 | 65 | 65 | 65 | |
| Method | Credit unit projected | Credit unit projected | Credit unit projected | Credit unit projected | Credit unit projected | Credit unit projected | Credit unit projected | |
| **Changes in past service liability (PSL)** | | | | | | | | |
| PSL at the end of the previous period | 556 | 5,320 | 30,162 | 42,503 | 6,941 | 352 | 11,075 | 96,909 |
| Current service cost | 50 | - | - | 568 | 232 | - | - | 850 |
| Interest cost | 30 | 261 | 1,385 | 2,116 | 355 | 17 | - | 4,164 |
| Actuarial (gain) / loss for the year | (72) | (192) | 1,970 | 2,302 | (40) | 1,156 | - | 5,124 |
| Benefits paid by the company | - | (685) | (9,084) | (4,664) | (270) | (196) | - | (14,899) |
| Cuts - Early retirement | - | - | - | 6,884 | - | 50 | - | 6,934 |
| Cut back - Early retirement | - | - | 15,847 | - | 120 | - | - | 15,967 |
| Cut back - Pre-retirement | (7) | (1,486) | - | - | - | - | - | (1,493) |
| Pay off effect | - | - | - | - | - | - | (11,075) | (11,075) |
| Opening balance from merger | - | 1,828 | - | - | - | - | - | 1,828 |
| Other Adjustments | 179 | - | 534 | - | - | - | - | 713 |
| **PSL at the end of the current period** | **736** | **5,046** | **40,814** | **49,709** | **7,338** | **1,379** | **-** | **105,022** |
| **Conciliation of gains and losses** | | | | | | | | |
| (Gains) / losses to be recognized at the beginning of year | (234) | 1,061 | 2,593 | (1,088) | 494 | 642 | 1,169 | 4,637 |
| Amortisation of the current period | 13 | (130) | - | (56) | - | (180) | - | (353) |
| Actuarial (gain) / loss from experience | (72) | (192) | 1,970 | 2,302 | (40) | 1,156 | - | 5,124 |
| Cut back effect - spin-off | - | (283) | - | - | - | - | - | (283) |
| Liquidation effect | - | - | - | - | - | - | (1,169) | (1,169) |
| Opening balance effect from merger | - | 283 | - | - | - | - | - | 283 |
| **(Gains) / losses to be recognized in the year-end** | **(293)** | **739** | **4,563** | **1,158** | **454** | **1,618** | **-** | **8,239** |
| **Conciliation to the Statement of Financial Position** | | | | | | | | |
| Total recognized at the beginning of the period - Assets / (Liabilities) | (790) | (4,259) | (27,569) | (43,591) | (6,447) | 290 | (9,906) | (92,272) |
| Net cost of the period | (60) | 812 | (17,232) | (9,624) | (707) | (247) | - | (27,058) |
| Benefits paid directly by the company | - | 685 | 9,084 | 4,664 | 270 | 196 | - | 14,899 |
| Liquidation effect | - | - | - | - | - | - | 9,906 | 9,906 |
| Opening balance effect from merger | - | (1,545) | - | - | - | - | - | (1,545) |
| Other adjustments effect | (179) | - | (534) | - | - | - | - | (713) |
| **Total recognized at period end - Assets / (Liabilities)** | **(1,029)** | **(4,307)** | **(36,251)** | **(48,551)** | **(6,884)** | **239** | **-** | **(96,783)** |
| **Net cost of the year** | | | | | | | | |
| Current service cost | 50 | - | - | 568 | 232 | - | - | 850 |
| Interest cost | 30 | 261 | 1,385 | 2,116 | 355 | 17 | - | 4,164 |
| (Gains) / losses from amortisation | (13) | 130 | - | 56 | - | 180 | - | 353 |
| **Net cost of the period before special events** | **67** | **391** | **1,385** | **2,740** | **587** | **197** | **-** | **5,367** |
| Cut back effect - Early Retirement | - | - | - | 6,884 | - | 50 | - | 6,934 |
| Cut back effect - Pre-retirement | - | - | 15,847 | - | 120 | - | - | 15,967 |
| Cut back effect - spin-off | (7) | (1,203) | - | - | - | - | - | (1,210) |
| Liquidation impact | - | - | - | - | - | - | (9,906) | (9,906) |
| Other adjustments | - | - | 514 | - | - | - | - | 514 |
| **Net cost of the period** | **60** | **(812)** | **17.746** | **9.624** | **707** | **247** | **(9.906)** | **17.666** |

As result of the corridor excess on 31 December 2009, the amount of tEuros 353, corresponding to amortisation for the year 2010, was recognised in the caption "Employee costs" (Note 6).

| | Group in 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Current personnel | Retired | Pre--retirement | Early retirement | Retirement bonuses | Voluntary social insurance | Flexibility of the age for retirement (DL 9/99) | Total |
| **Assumptions** | | | | | | | | |
| Technical interest rate | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% | 5.25% | |
| Salary increase rate | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | |
| Pension increase rate | 0.00% - 1.50% | 0.00% - 1.50% | 0.00% - 1.50% | 0.00% - 1.50% | 0.00% - 1.50% | 0.00% - 1.50% | 0.00% - 1.50% | |
| Current personnel and pre-retirees mortality table | TV 88/90 | 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 88/90 | TV 88/90 | TV 88/90 | TV 88/90 | TV 88/90 | TV 88/90 | |
| Disability table | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | |
| Common age for retirement | 65 | 65 | 65 | 65 | 65 | 65 | 65 | |
| Method | Credit unit projected | Credit unit projected | Credit unit projected | Credit unit projected | Credit unit projected | Credit unit projected | Credit unit projected | |
| **Changes in past service liability (PSL)** | | | | | | | | |
| PSL at the end of the previous period | 534 | 5,520 | 28,760 | 22,436 | 6,149 | 366 | 11,075 | 74,840 |
| Current service cost | 44 | - | - | 141 | 207 | - | - | 392 |
| Interest cost | 33 | 313 | 1,526 | 1,431 | 366 | 20 | - | 3,689 |
| Actuarial (gain) / loss | (55) | 290 | (518) | 110 | 529 | 172 | - | 528 |
| Benefits paid by the company | - | (803) | (8,507) | (3,946) | (310) | (206) | - | (13,772) |
| Cut back - Early retirement | - | - | - | 9,211 | - | - | - | 9,211 |
| Cut back - Pre-retirement | - | - | 8,901 | - | - | - | - | 8,901 |
| Other Adjustments | - | - | - | 13,120 | - | - | - | 13,120 |
| **PSL at the end of the current period** | **556** | **5,320** | **30,162** | **42,503** | **6,941** | **352** | **11,075** | **96,909** |
| **Conciliation of gains and losses** | | | | | | | | |
| (Gains)/losses to be recognized at the beginning of period | (192) | 837 | 3,257 | (4,731) | (35) | 641 | 1,169 | 946 |
| Amortisation of the current period | 13 | (66) | (146) | 707 | - | (171) | - | 337 |
| Actuarial (gain) / loss from experience | (55) | 290 | (518) | 110 | 529 | 172 | - | 528 |
| Other impacts | - | - | - | 2,826 | - | - | - | 2,826 |
| **(Gains) / losses to be recognized in the period-end** | **(234)** | **1,061** | **2,593** | **(1,088)** | **494** | **642** | **1,169** | **4,637** |
| **Conciliation to the Statement of Financial Position** | | | | | | | | |
| Total recognized at the beginning of the period - Assets / (Liabilities) | (726) | (4,683) | (25,503) | (27,167) | (6,184) | 275 | (9,906) | (73,894) |
| Net cost of the period | (64) | (379) | (10,265) | (9,201) | (573) | (191) | - | (20,673) |
| Benefits paid directly by the company | - | 803 | 8,507 | 3,946 | 310 | 206 | - | 13,772 |
| Other adjustments effect | - | - | (308) | (11,169) | - | - | - | (11,477) |
| **Total recognized at period end - Assets / (Liabilities)** | **(790)** | **(4,259)** | **(27,569)** | **(43,591)** | **(6,447)** | **290** | **(9,906)** | **(92,272)** |
| **Net cost of the year** | | | | | | | | |
| Current service cost | 44 | - | - | 141 | 207 | - | - | 392 |
| Interest cost | 33 | 313 | 1,526 | 1,431 | 366 | 20 | - | 3,689 |
| (Gains) / losses from amortisation | (13) | 66 | 146 | (707) | - | 171 | - | (337) |
| **Net cost of the period before special events** | **64** | **379** | **1,672** | **865** | **573** | **191** | **-** | **3,744** |
| Cut back effect - Early Retirement | - | - | - | 8,336 | - | - | - | 8,336 |
| Cut back effect - Pre-retirement | - | - | 8,593 | - | - | - | - | 8,593 |
| **Net cost of the period** | **64** | **379** | **10,265** | **9,201** | **573** | **191** | **-** | **20,673** |

As explained in Note 2.10 on 31 December 2002 the Portuguese Insurance Institute authorised Galp Energia to create a defined contribution Pension Fund, giving the employees the possibility of choosing between the new defined contribution pension plan and the existing defined benefits plan. In 2010 the amount of tEuros 1,339 was recognised in the caption "Employee costs", relating to contributions for the year of the companies associated with the Galp Energia defined contribution Pension Fund, in benefit of their employees, by transfer of that amount to the fund manager.

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% limit 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 2011 |
|---|---|---|---|---|
| **In Portugal** | | | | |
| **Petrogal Group** | | | | |
| Supplement benefit (Fund) | 42,380 | 33,793 | 8,587 | 2,824 |
| Supplement benefit (not covered by the fund) | - | 17 | - | - |
| Pre-retirement | 1,519 | 3,377 | - | - |
| Early Retirement | (1,009) | 3,619 | - | - |
| Retirement bonus | 454 | 734 | - | - |
| Voluntary social insurance | 1,618 | 138 | 1,480 | 481 |
| | **44,962** | **41,678** | **10,067** | **3,305** |
| **GDP Group** | | | | |
| Supplement benefit (Fund) | 2,136 | 2,318 | - | - |
| Supplement benefit (not covered by the fund) | 699 | 509 | 271 | 65 |
| Pre-retirement | 3,044 | 652 | 2,392 | 572 |
| Early Retirement | 2,167 | 1,352 | 815 | 195 |
| | **8,046** | **4,831** | **3,478** | **832** |
| **Other group** | | | | |
| Supplement benefit (not covered by the fund) | (253) | 18 | 235 | 14 |
| Pre-retirement | - | 52 | - | - |
| | **(253)** | **70** | **235** | **14** |
| **In Spain** | | | | |
| **Other groups** | | | | |
| Supplement benefit (Fund) | 2,395 | 803 | 1,592 | 117 |

The Petrogal Group accumulated gains and losses not recognised of relating to benefit plans, exceed the 10% "corridor" limit by the net amount of tEuros 9,989. This amount will be recognised as cost and/or income in future years based on the expected average number of remaining working years of the employees participating in the plans which, at 31 December 2010, was of 3.08 years for Petrogal. Consequently, costs, net of income, in the amount of tEuros 3,305 resulting from amortisation of "corridor" excess, will be recognised in 2011.

The GDP Group accumulated gains and losses not recognised of the, relating to benefit plans, exceed the 10% "corridor" limit by the net amount of tEuros 3,478. This amount will be recognised as cost and/or income in future years based on the expected average number of remaining working years of the employees participating in the plans which at 31 December 2010, was of 4.18 years for Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., and 5.963 years for GDP. Consequently, costs, net of income, in the amount of tEuros 832, resulting from amortisation of "corridor" excess, will be recognised in 2011.

The remaining companies accumulated gains and losses not recognised of the relating to retirement pension supplements (not covered by the Fund) and pre-retirements exceed the 10% "corridor" limits by tEuros 235. This amount will be recognised as cost and/or income in future years based on the expected average number of remaining working years of the employees participating in the plans, which at 31 December 2010, was of 17.10 years for Galp Energia, S.A. Consequently, net income of tEuros 14, resulting from amortisation of the "corridor" excess, will be recognised in 2011.

The Spanish Group accumulated gains and losses not recognised of the companies relating to retirement pension supplements (covered by the Fund) exceed the 10% "corridor" limits by tEuros 1,592. This amount will be recognised as cost and/or income in future years based on the expected average number of remaining working years of the employees participating in the plans, which at 31 December 2010, was of 13.58 years for Galp Energia España, S.A.. Consequently, net income of tEuros 117, resulting from amortisation of the "corridor" excess, will be recognised in 2011.

**Other retirement benefits – Healthcare, life insurance and defined contribution minimum benefit plan (disability and survivor)**

As explained in Note 2.11, at 31 December 2010 the Group had a provision to cover its liability for healthcare, past service life insurance of current personnel the full amount of the liability for the remaining population and minimum benefit defined contribution plan. The present value of past service liability and actuarial assumptions used in the calculation are as follows:

| | Group in 2010 | | | |
|---|---|---|---|---|
| | **Healthcare** | **Life insurance** | **Defined contribution plan minimum benefit** | **Total** |
| **Assumptions** | | | | |
| Technical interest rate | 5.25% | 5.25% | 5.25% | |
| Salary increase rate | 3.00% | 3.00% | 3.00% | |
| Pension increase rate | 0.00% | 0.00% | 0.00% | |
| Current personnel and pre-retirees mortality table | TV 88/90 | TV 88/90 | TV 88/90 | |
| Retired personnel mortality table | TV 88/90 | TV 88/90 | TV 88/90 | |
| Disability table | 50% EVK 80 | 50% EVK 80 | 50% EVK 80 | |
| Common age for retirement | 65 | 65 | 65 | |
| Method | Projected credit unit | Projected credit unit | Projected credit unit | |
| **Changes in past service liability (PSL)** | | | | |
| PSL at the end of the previous period | 194,496 | 3,368 | 2,772 | 200,636 |
| Current service cost | 2,486 | 120 | 447 | 3,053 |
| Interest cost | 9,935 | 172 | 146 | 10,253 |
| Actuarial (gain) / loss | 403 | (115) | (61) | 227 |
| Benefits paid by the company | (10,559) | (193) | (262) | (11,014) |
| Other Adjustments | - | - | 226 | 226 |
| **PSL at the end of the current period** | **196,761** | **3,352** | **3,268** | **203,381** |
| **Conciliation of gains and losses** | | | | |
| (Gains) / losses to be recognized at the beginning of period | 22,425 | 683 | (372) | 22,736 |
| Amortisation of the current period | (1,025) | (127) | 6 | (1,146) |
| Actuarial (gain) / loss from experience | 403 | (115) | (61) | 227 |
| **(Gains) / losses to be recognized in the period-end** | **21,803** | **441** | **(427)** | **21,817** |
| **Conciliation to the Statement of Financial Position** | | | | |
| Total recognized at the beginning of the period - Assets / (Liabilities) | (172,071) | (2,685) | (3,144) | (177,900) |
| Net cost of the period | (13,446) | (419) | (587) | (14,452) |
| Benefits paid directly by the company | 10,559 | 193 | 262 | 11,014 |
| Other adjustments effect | - | - | (226) | (226) |
| **Total recognized at period end - Assets / (Liabilities)** | **(174,958)** | **(2.911)** | **(3,695)** | **(181,564)** |
| **Net cost of the year** | | | | |
| Current service cost | 2,486 | 120 | 447 | 3,053 |
| Interest cost | 9,935 | 172 | 146 | 10,253 |
| (Gains) / losses from amortisation | 1,025 | 127 | (6) | 1,146 |
| **Net cost of the period before special events** | **13,446** | **419** | **587** | **14,452** |
| **Other adjustments** | **-** | **-** | **196** | **196** |
| **Net cost of the period** | **13,446** | **419** | **783** | **14,648** |

| | Group in 2010 | | | |
|---|---|---|---|---|
| | Healthcare | Life insurance | Defined contribution plan minimum benefit | Total |
| **Assumptions** | | | | |
| Technical interest rate | 5.25% | 5.25% | 5.25% | |
| Salary increase rate | 4.00% | 3.00% | 3.00% | |
| Current personnel and pre-retirees mortality table | TV 88/90 | TV 88/90 | TV 88/90 | |
| Retired personnel mortality table | TV 88/90 | TV 88/90 | TV 88/90 | |
| Disability table | EVK 80-50% | EVK 80-50% | EVK 80-50% | |
| Common age for retirement | 65 | 65 | 65 | |
| Method | Projected credit unit | Projected credit unit | Projected credit unit | |
| **Changes in past service liability (PSL)** | | | | |
| PSL at the end of the previous period | 170,910 | 2,828 | 2,288 | 176,026 |
| Current service cost | 1,960 | 98 | 402 | 2,460 |
| Interest cost | 10,118 | 167 | 141 | 10,426 |
| Actuarial (gain) / loss | 20,930 | 456 | (59) | 21,327 |
| Benefits paid by the company | (9,422) | (181) | - | (9,603) |
| **PSL at the end of the current period** | **194,496** | **3,368** | **2,772** | **200,636** |
| **Conciliation of gains and losses** | | | | |
| (Gains) / losses to be recognized at the beginning of period | 1,085 | 241 | (300) | 1,026 |
| Amortisation of the current period | **410** | **(14)** | **7** | **403** |
| Actuarial (gain) / loss from experience | 20,930 | 456 | (79) | 21,307 |
| **(Gains) / losses to be recognized in the period-end** | **22,425** | **683** | **(372)** | **22,736** |
| **Conciliation to the Statement of Financial Position** | | | | |
| Total recognized at the beginning of the period - Assets/ (Liabilities) | (169,825) | (2,587) | (2,588) | (175,000) |
| Net cost of the period | (11,668) | (279) | (568) | (12,515) |
| Benefits paid directly by the company | 9,422 | 181 | - | 9,603 |
| Other adjustments effect | **-** | **-** | **12** | **12** |
| **Total recognized at period end - Assets / (Liabilities)** | **(172,071)** | **(2,685)** | **(3,144)** | **(177,900)** |
| **Net cost of the year** | | | | |
| Current service cost | 1,960 | 98 | 402 | 2,460 |
| Interest cost | 10,118 | 167 | 141 | 10,426 |
| (Gains) / losses from amortisation | (410) | 14 | (7) | (403) |
| **Net cost of the period before special events** | **11,668** | **279** | **536** | **12,483** |
| **Liquidation impact** | **-** | **-** | **32** | **32** |
| **Net cost of the period** | **11,668** | **279** | **568** | **12,515** |

Current service and interest cost in the amount of tEuros 13,306 was recorded by the above mentioned companies in the consolidated income statement caption "Employee costs".

As a result of the "corridor" excess as of 31 December 2009, tEuros 1,146 relating to amortisation of the excess for the year, based on the expected average number of remaining years of each company employees participating in the plans, was recorded in 2010 in "Employee costs".

As explained in Note 2.11, actuarial gains and losses are recorded in the financial statements, only to the extent that they exceed 10% "corridor" limits, and are amortised as from the year following that in which they were determined, as explained below.

The following table summarizes, by benefit plan, the liability included in the "corridor" mechanism, and the limits thereof:

| Benefits | Unrecognised (gain) and loss | "Corridor" interval (10%) | Excess of the "corridor " interval | Amount to be recognised in 2011 |
|---|---|---|---|---|
| **Petrogal Group** | | | | |
| Healthcare | 15,409 | 17,977 | (2,569) | 508 |
| Life insurance | 402 | 277 | 231 | 69 |
| Defined contribution plan minimum benefit | (272) | (18) | 290 | 10 |
| | **15,539** | **18,236** | **(2,048)** | **587** |
| **GDP Group** | | | | |
| Healthcare | 6,278 | 1,631 | 4,647 | 1,112 |
| Life insurance | 82 | 42 | 55 | 14 |
| Defined contribution plan minimum benefit | (103) | 20 | 83 | 5 |
| | **6,257** | **1,693** | **4,785** | **1,131** |
| **Other Groups** | | | | |
| Healthcare | 116 | 68 | - | 3 |
| Life insurance | (43) | 17 | 34 | 1 |
| Defined contribution plan minimum benefit | (52) | 166 | - | - |
| | **21** | **251** | **34** | **4** |
| | **21,817** | **20,180** | **2,771** | **1,722** |

The corridor excess, in the amount of tEuros 2,771, relating to the liability for healthcare, life insurance and minimum benefit defined contribution plan, will be recognised as a cost in future years based on the average expected number of remaining working years of the employees participating in the plans as follows:

| Benefits | Expected average future service time |
|---|---|
| **Healthcare** | |
| Galp Energia, S.A. | 13.73 |
| Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A. | 4.18 |
| Petróleos de Portugal - Petrogal, S.A. | 3.08 |
| Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A. | 19.03 |
| Sacor Marítima, S.A. | 1.00 |
| **Life insurance** | |
| Beiragás - Companhia de Gás das Beiras, S.A. | 22.38 |
| Galp Energia, S.A. | 26.27 |
| Galp Exploração e Produção Petrolifera, S.A. | 29.76 |
| Galp Gás Natural, S.A. | 21.22 |
| Galp Power, SGPS, S.A. | 23.74 |
| GDP - Gás de Portugal, SGPS, S.A. | 6.89 |
| Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A. | 4.18 |
| Lusitaniagás - Companhia de Gás do Centro, S.A. | 23.41 |
| Petróleos de Portugal - Petrogal, S.A. | 3.08 |
| Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A. | 18.06 |
| Sacor Marítima, S.A. | 7.04 |
| **Defined contribution plan minimum benefit** | |
| Galp Energia, S.A. | 27.79 |
| Galp Exploração e Produção Petrolifera, S.A. | 32.87 |
| Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A. | 17.64 |
| Petróleos de Portugal - Petrogal, S.A. | 28.99 |
| Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A. | 22.49 |

Therefore in 2011 costs net of income, in the amount of tEuros 1,722, relating to amortisation of the corridor excess, will be recognised in the caption “Employee costs”.

### Sensitivity analysis

A sensitivity analysis was prepared by the Group in order to measure the impact on liabilities caused by the change in the discount rate. For this purpose an increase of 25 b.p in the discount rate was considered.

| Liabilities | Discount rate 5.25% | Discount rate 5.50% | Variation |
|---|---|---|---|
| **Retirement benefits:** | | | |
| Relating to the pension fund | 361,119 | 351,593 | -2.64% |
| Not relating to the pension fund | 104,965 | 103,651 | -1.25% |
| | **466,084** | **455,244** | |
| **Other benefits:** | | | |
| Healthcare | 196,760 | 190,705 | -3.08% |
| Life insurance | 3,352 | 3,268 | -2.48% |
| Defined contribution plan minimum benefit | 3,269 | 3,119 | -4.60% |
| | **203,381** | **197,092** | |
| | **669,465** | **652,336** | |

From the analysis of the above table, we conclude that the increase of 1 basis point in the discount rate, being all the other assumptions constant results in a decrease of liabilities for past services in approximately:

| Liabilities | Percentage |
|---|---|
| **Retirement benefits:** | |
| Relating to the pension fund | -10.56% |
| Not relating to the pension fund | -5.00% |
| **Other benefits:** | |
| Healthcare | -12.32% |
| Life insurance | -9.92% |
| Defined contribution plan minimum benefit | -18.40% |

### Rate of medical cost trend

The long term rate of medical cost trens considered by Group, based on historical growth of premiums and claims rates, was 4%. The sensitivity analysis made to Petróleos de Portugal – Petrogal, S.A., that represents 93% of Group, reflects that an increase of 1% in growth of premiums rate causes an increase of 14% in liabilities, however a decrease of 1% in growth of premiums rate causes a decrease of 11% in liabilities.

### Health insurance sensitivity analysis

| Captions | 3.00% | 4.00% | 5.00% |
|---|---|---|---|
| Current service cost | 1,987 | 2,231 | 2,527 |
| Interest cost | 8,236 | 9,276 | 10,539 |
| | **10,223** | **11,507** | **13,066** |
| Impact on current service cost and interest cost | (1,285) | - | 1,558 |
| Past service liabilities | 157,890 | 177,616 | 201,616 |
| Impact on past service liabilities | (19,726) | - | 24,001 |

(a) Since these variations represent actuarial gains and losses, their impact in results will occur as described in the respective accounting policy (Note 2.11).

**Historical analysis to gains and losses**

The historical analysis to gains and losses was performed to Petrogal, since they represent 91% of Galp Energia Group:

| Discount rate | 5.25% | 5.25% | 6.10% | 5.45% | 4.60% |
|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| **Liabilities amount (a)** | 329,908 | 339,565 | 311,357 | 328,220 | 343,855 |
| **Value of the Fund (b)** | 304,235 | 308,472 | 302,572 | 333,403 | 339,558 |
| **Actuarial Gains (+) and Losses (-)** | 8,833 | (32,210) | 12,871 | 24,205 | (19,138) |
| Gains (+) and Losses (-) for changes in assumptions | - | (27,009) | 20,337 | 30,430 | (13,665) |
| Actuarial Gains (+) and Losses (-) from experience ( c ) | 8,833 | (5,201) | (7,466) | (6,225) | (5,473) |
| **Financial Gains (+) and Losses (-) (d)** | 1,706 | 11,013 | (26,840) | (7,363) | (502) |
| (c)/(a) | 3% | -2% | -2% | -2% | -2% |
| (d)/(b) | 1% | 4% | -9% | -2% | 0% |
| Real Return on Plan Assets (%) | 4.8% | 8.9% | -2.9% | 3.1% | 4.3% |
| Real Return on Plan Assets | 15,857 | 25,535 | (9,796) | 9,694 | 12,938 |

## 24. OTHER PAYABLES

The non-current and current caption "Other payables" as of 31 December 2010 and 2009 was made up as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| **Captions** | **Current** | **Non-current** | **Current** | **Non-current** |
| State and other public entities: | | | | |
| Value Added Tax payables | 187,397 | - | 131,102 | - |
| Tax on petroleum products | 102,208 | - | 128,073 | - |
| Social Security contributions | 6,779 | - | 5,870 | - |
| Personnel and Corporate Income Tax Withheld | 5,736 | - | 4,710 | - |
| Other taxes | 12,465 | - | 8,622 | - |
| Suppliers - fixed assets | 302,327 | 54,426 | 274,923 | 56,714 |
| Advances on sales (Note 16) | 170,361 | - | 170,126 | - |
| Overlifting - Block 1 and 14 partners | 20,490 | - | 34,301 | - |
| Guarantee deposits and guarantees received | 11,470 | - | 15,164 | - |
| Trade receivables credit balances | 7,747 | - | 3,899 | - |
| Personnel | 7,258 | - | 6,004 | - |
| Other payables - Associated, participated and related companies (Note 28) | 760 | - | 5,756 | - |
| Other payables - Other shareholders | 375 | - | 358 | - |
| Trade receivables advances | 345 | - | 1,206 | - |
| Loans - Other shareholders | - | 5,308 | - | 5,094 |
| Loans - Associated, participated and related companies (Note 28) | - | 2,902 | - | 2,902 |
| Other creditors | 19,121 | 3,402 | 21,876 | 4,006 |
| | **854,839** | **66,038** | **811,990** | **68,716** |
| Accrued costs: | | | | |
| External supplies and services | 37,567 | - | 37,788 | - |
| Adjustment to tariff deviation - Regulated revenue - ERSE regulation ( Note 14 ) | 10,103 | - | 13,008 | - |
| Adjustment to tariff deviation - Energy tariff - ERSE regulation ( Note 14 ) | 1,307 | - | - | - |
| Adjustment to tariff deviation - Other activities - ERSE regulation | 16,618 | - | - | - |
| Vacation pay, vacation subsidy and corresponding personnel costs | 27,205 | - | 26,881 | - |
| Accrued interest | 16,896 | - | 10,463 | - |
| Productivity bonus | 11,852 | - | 55 | - |
| Fast GALP prizes | 5,944 | - | 4,693 | - |
| Discounts, bonuses and volume discounts on sales | 4,994 | - | 5,907 | - |
| Accrued insurance premiums | 924 | - | 1,387 | - |
| Financial costs | 915 | - | 1,116 | - |
| Accrued personnel costs - other | 61 | - | 80 | - |
| Other accrued costs | 7,294 | - | 10,258 | - |
| | **141,680** | **-** | **111,636** | **-** |
| Deferred income: | | | | |
| Investment government grants (Note 13) | 9,925 | 253,856 | 9,695 | 260,487(a) |
| Services rendered | 5,887 | - | 22,803 | - |
| Fibre optics | 2,751 | 595 | 4,263 | 37,849 |
| Other | 19,001 | 96 | 10,626 | 3,348 |
| | **37,564** | **254,547** | **47,387** | **301,684** |
| | **1,034,083** | **320,585** | **971,013** | **370,400** |

(a) This amount was restated taking into account the accounting classification changes mentioned in Note 2.23.

The caption "Advances on sales" includes tEuros 170,361 relating with liabilities for strategic reserves with competitors (Note 16).

The amount of tEuros 20,490 in the caption "Overlifting – Block 1 and 14 partners" corresponds to the Group's liability for excess crude oil lifted regarding its production quota and is measured at market value (Note 2.7 e).

The amount of tEuros 11,470 recorded in the caption "Guarantee deposits and guarantees received" includes tEuros 9,971 relating to Petrogal's liability as of 31 December 2010 for guarantees received on gas bottles ceded, that were recorded at acquisition cost, which corresponds, approximately, to their fair value.

The amount of tEuros 5,311 in the caption "Loans – Other shareholders" corresponds essentially to:

- tEuros 1,053, tEuros 1,053 and tEuros 527 recorded as non-current payable 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., relating to shareholders loans obtained by the subsidiary CLCM - Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda., which bear interest at market rates and do not have defined repayment dates;

- tEuros 1,103 recorded as non-current payable to EDP Cogeração, S.A. relating to shareholders loans obtained by the subsidiary Carriço Cogeração Sociedade de Geração de Electricidade e Calor, S.A., which bear interests at market rates and do not have defined repayment dates;

- The amount of tEuros 272 recorded as non-current payable to Companhia Finerge - Gestão de Projectos Energéticos, S.A. relating to shareholder loans obtained by the subsidiary Powercer - Sociedade de Cogeração da Vialonga, S.A., which bear interests at market rates and do not have defined repayment dates;

- The amount of tEuros 1,301 recorded as non-current payable to Visabeira Telecomunicações, SGPS, S.A., relates to shareholder loans obtained by the subsidiary Beiragás – Companhia de Gás das Beiras, S.A., which bears interest at market rates and do not have defined repayment dates.

The amount of tEuros 5,944 in the accrued costs caption "Fast Galp prizes" corresponds to Petrogal's liability for Fast Galp card points issued but not yet claimed as of 31 December 2010, which are expected to be exchanged for prizes in subsequent years.

Income relating to the cession of rights to use telecommunications infrastructures contract reflected in the "Deferred income – Fibre optics" caption is recognized in the income statement over the period of the contract.
As of 31 December 2010 the deferred income to be recognized in future year amounts to tEuros 3,346. There was a significant change in this caption in comparison with 31 December 2009 since during 2010 Galp Gás Natural and Onitelecom renegotiated the anticipation of this contract to 31 December 2010 (Note 5).

Government investment grants to be recognized as income in future periods over the useful life of assets amount to tEuros 263,781 (Note 2.8).

## 25. PROVISIONS

The changes in provisions in the year ended 31 December 2010 were as follows:

| Captions | Beginning balance | Increases | Decreases | Utilisation | Adjustments | Ending balance |
|---|---|---|---|---|---|---|
| Legal processes | 14,900 | 2,013 | (2,602) | - | (1,548) | 12,763 |
| Investments | 484 | 354 | - | - | (207) | 631 |
| Taxes | 24,822 | 5,606 | - | (4,565) | (1,318) | 24,545 |
| Environment | 4,625 | - | - | (194) | - | 4,431 |
| Other risks and charges | 108,413 | 63,845 | (900) | (44,604) | (12,867) | 113,887 |
| | **153,244** | **71,818** | **(3,502)** | **(49,363)** | **(15,940)** | **156,257** |

The increase in provisions net of decreases was recorded by corresponding entry to the following consolidated income statement captions:

| | |
|---|---|
| Provisions (Note 6) | 67.962 |
| Financial costs | 354 |
| | **68.316** |

### Legal processes

The amount of tEuros 12,763 in the caption "Legal processes" includes essentially tEuros 6,165 relating to liabilities for the payment of taxes for occupation of the subsoil by the Petrogal Group imposed to the Group by Municipal Council of Matosinhos.

### Investments

The provision for investments represents the Group's joint commitment to associates that have negative shareholder's equity (Note 4), as follows:

| | |
|---|---|
| Caiageste - Gestão de Áreas de Serviços, Lda. | 18 |
| Spower, S.A. | 38 |
| Ventinveste, S.A. | 575 |
| | **631** |

### Taxes

The caption provision for taxes in the amount of tEuros 24,545 includes essentially:

(i) tEuros 7,394 to cover the tax contingency relating to additional assessments for taxes of the subsidiary Petrogal for 2001 and 2002 (Note 9);

(ii) tEuros 5,322 to cover tax contingency as an outcome of 2005 and 2006 tax inspection concerning the subsidiaries Galp Energia, SGPS, S.A. and GDP - Gás de Portugal, SGPS, S.A.;

(iii) tEuros 4,115 to cover the tax contingency relating to 1990 to 2003 additional assessments for taxes of the subsidiary Galp Comercializacion Oil España, S.L., that merged into Galp Energia España, S.A. (Note 9);

(iv) tEuros 3,377 to cover the fiscal risk associated with the sale of the investment held in ONI, SGPS, by Galp Energia, SGPS, SA;

(v) tEuros 2,547 regarding 1998 to 2007 real estate tax ("IMI") on natural gas transport activity.

### Environment

The amount of tEuros 4,431 reflected in environment provision is to cover costs of decontaminating Group installations where, due to legal requirements, it has been decided to decontaminate.

### Other risks and charges

As of 31 December 2010, the amount of tEuros 113,887 recorded in provisions for other risks and charges refers essentially to:

(i) tEuros 47,053 concerning the review of purchase and selling prices of natural gas;

(ii) tEuros 35,427 relating to an increase in blocks 1 and 14 abandonment provision. This provision is to cover the total estimated abandonment cost that Galp Exploração will assume at the end of the useful life of those oil fields;

(iii) tEuros 20,561 to cover additional tax assessments relating to the revision of PIT in Angola;

(iv) tEuros 1,150 relating to compensatory interests due to the non acceptance of Leixões Ocean Terminal write-off of as deductible cost in 2002 income tax;

(v) tEuros 1,202 concerning petroleum tax on biofuels;

The increase o tEuros 71,818 in "other provisions" respects essentially to:

(i) tEuros 34,371 concerning the review of purchase and selling prices of natural gas (Note 6);

(ii) tEuros 15,311 to cover additional tax assessments relating 2005 to 2008 PIT revision as well as exchange rate adjustments;

(iii) tEuros 13,421 relating to an increase in blocks 1 and 14 abandonment provision 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 proved developed reserves at the end of that period plus production for the period, as referred in Note 2.3;

(iv) tEuros 5,322 concerning a provision for Portuguese income tax contingencies;

(v) tEuros 650 to cover a process concerning S.C. Farense land.

## 26. TRADE PAYABLES

The trade payables caption as of 31 December 2010 and 2009 was made up as follows:

| Captions | 2010 | 2009 |
|---|---|---|
| Trade payables - current accounts | 737,640 | 414,560 |
| Trade payables - invoices pending | 752,150 | 706,985 |
| Trade payables - Notes payable | 15 | 29 |
| | **1,489,805** | **1,121,574** |

The caption "Trade payables – invoices pending" corresponds essentially to purchases of crude oil raw material, natural gas and goods in transit as of those dates.

## 27. OTHER FINANCIAL INSTRUMENTS

The Group uses financial derivatives to hedge interest rate and market fluctuation risks, namely risks of variation in crude oil prices, finished products and refining margins, as well as risks of variation in natural gas and electricity prices, which affect the amount of assets and future cash flows resulting from its operations.

According to IAS/IFRS, the financial derivatives are designated "Financial assets at fair value through profit and loss". The interest rate financial derivatives, established to cover the risk of interest rate variation, are designated "Cash flow hedge". The interest rate financial derivatives, that are established to cover the risk of fair value variation, or any other risk that affect financial profit / loss are designated "Fair value hedge".

The financial derivates fair value was determined by financial entities, by the application of generally accepted techniques and evaluation models.

In accordance with IFRS 7 an entity must classify the fair value measure, in a hierarchy of fair value that reflects the meaning of the inputs used in measuring. The fair value hierarchy must have the following levels:

- Level 1 - quoted prices (not adjusted) for similar instruments;
- Level 2 - directly observable market inputs other than Level 1 inputs (derivatives price);
- Level 3 - inputs not based on observable market data (not observable).

Financial derivatives fair value (swaps) were determined by financial entities using observable market inputs and used generally accepted techniques and models (Level 2). The futures are traded in the stock exchange and subject to a Clearing House, its price being determined by quoted prices (Level 1).

## Swaps

The Group's derivative financial instruments, as of 31 December 2010, present the following characteristics:

| Type of derivative over Interest rate | Interest Rate | Nominal value | Maturity | Fair value of the derivatives in tEuros |
|---|---|---|---|---|
| **Assets** | **Fair value variation impact in results*** | | | |
| Interest rate Swaps | Pays Euribor 6m | tEur 200,000 | 2013 | 702 |
| | Receives 3.438% | | | |
| | | | | **702** |
| **Liability** | **Cash-flow hedge** | | | |
| Interest rate Swaps | Pays between 3.16% and 6.24% | tEUR 311,739 | 2011 to 2013 | (5,210) |
| | Receives Euribor 6m | | | |
| | | | | **(5,210)** |

* During the year ended December 31, 2010, the group revoked the fair value hedge designation.

| Type of derivative over Commodities | Nature | Nominal value | Maturity | Fair value of the derivatives in tEuros |
|---|---|---|---|---|
| **Assets** | **Fair value variation impact in results** | | | |
| Swaps | Electricity | Buy 43,800 MwH | 2011 | 59 |
| | | | | |
| Swaps | Natural Gas | Buy 946,538 MwH | 2011-2013 | 2,340 |
| | | Sell 838,256 MwH | | |
| | | | | **2,399** |
| **Liability** | **Fair value variation impact in results** | | | |
| Swaps | Natural Gas | Buy 143,200 MwH | 2011 | (2,584) |
| | | Sell 1,185,795 MwH | | |
| | | | | **(2,584)** |
| **Total Assets** | | | | **3,101** |
| Non-current (note17) | | | | 1,429 |
| Current | | | | 1,672 |
| **Total Liabilities** | | | | **(7,794)** |
| Non-current | | | | (98) |
| Current | | | | (7,696) |

## Interest rate Swaps

The Group's derivative financial instruments, classified as financial assets or liabilities at fair value through profit and loss, evolved as follows in 2010 and 2009:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| **Interest rate derivatives** | **Non-current** | **Current** | **Non-current** | **Current** |
| **Fair value at 1 January 2009** | - | - | (3,014) | (12) |
| Purchased during the year | - | - | - | - |
| Payment / (Receipt) of interest during the year | - | - | 2,959 | 12 |
| Receipt / (Payment) of interest reflected in the income statement | - | - | (2,959) | (12) |
| Increase /(decrease) in fair value reflected in the income statement | - | - | 1 | 12 |
| Increase /(decrease) in fair value reflected in equity | - | - | (6,282) | (240) |
| **Fair value at 31 December 2009** | **-** | **-** | **(9,294)** | **(240)** |
| **Fair value at 1 January 2010** | **-** | **-** | **(9,294)** | **(240)** |
| Purchased during the year | - | - | - | - |
| Payment / (Receipt) of interest during the year | (972) | - | 77 | 7,593 |
| Receipt / (Payment) of interest reflected in the income statement | 972 | - | (77) | (7,593) |
| Increase /(decrease) in fair value reflected in the income statement | 702 | - | - | - |
| Increase /(decrease) in fair value reflected in equity | - | - | 9,196 | (4,872) |
| **Fair value at 31 December 2010 (Note 17)** | **702** | **-** | **(98)** | **(5,112)** |

Interest cost and income from interest rate derivatives are reflected in the captions "Financial costs" and "Financial income".

The changes in fair value reflected in Equity, resulting of cash-flow hedge, were as follows:

| Fair value variation in equity | December 2010 | December 2009 |
|---|---|---|
| Fair value variation in subsidiaries | 4,189 | (6,428) |
| Fair value variation in non-controlling interest | 135 | (94) |
| | **4,324** | **(6,522)** |
| Fair value variation due to participation in associates | (97) | (774) |
| | **4,227** | **(7,296)** |

### Commodities Swaps

The accounting effect on cost of sales for the years ended 31 December 2010 and 2009 is as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| **Commodity Swaps** | **Non-current** | **Current** | **Non-current** | **Current** |
| **Fair value at 1 January 2009** | - | 115 | - | (1,491) |
| Purchased during the year | - | - | - | - |
| Sold during the year | - | (288) | - | 1,642 |
| Increase /(decrease) on the sale reflected in the income statement | - | 287 | - | (1,642) |
| Increase /(decrease) in fair value reflected in the income statement | 300 | 186 | - | 1,491 |
| Increase /(decrease) in fair value reflected in equity | - | - | - | - |
| **Fair value at 31 December 2009** | **300** | **300** | **-** | **-** |
| **Fair value at 1 January 2010** | **300** | **300** | **-** | **-** |
| Purchased during the year | - | - | - | - |
| Sold during the year | - | 170 | - | (640) |
| Increase /(decrease) on the sale reflected in the income statement | - | (170) | - | 640 |
| Increase /(decrease) in fair value reflected in the income statement | 427 | 1,372 | - | (2,584) |
| Increase /(decrease) in fair value reflected in equity | - | - | - | - |
| **Fair value at 31 December 2010 (Note 17)** | **727** | **1,672** | **-** | **(2,584)** |

### Financial derivatives – Futures

The Galp Energia Group also trades commodity futures financial instruments. Given their high liquidity, as they are traded on the Stock Exchange, they are classified as financial assets at fair value through profit and loss and included in Cash and cash equivalents. The gain and loss on commodity futures (Brent) are classified in the caption "Cost of sales" and the $CO_2$ and electricity futures are classified in the caption "Financial income and costs". As the futures are traded on the Stock Exchange, subject to a Clearing House, the gain and loss are continuously recorded in the income statement as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| **Commodity futures (Brent)** | **Non-current** | **Current** | **Non-current** | **Current** |
| **Fair value at 1 January 2009** | - | 460 | - | - |
| Purchased during the year | - | 61,733 | - | - |
| Sold during the year | - | (63,961) | - | - |
| Increase /(decrease) on the sale reflected in the income statement | - | 3,146 | - | - |
| **Fair value at 31 December 2009** | **-** | **1,378** | **-** | **-** |
| **Fair value at 1 January 2010** | **-** | **1,378** | **-** | **-** |
| Purchased during the year | - | 53,269 | - | - |
| Sold during the year | - | (56,584) | - | - |
| Increase /(decrease) on the sale reflected in the income statement | - | 3,250 | - | - |
| **Fair value at 31 December 2010 (Note 18)** | **-** | **1,313** | **-** | **-** |

Beside those Futures, the Group trades electricity futures, which are designated "Financial assets at fair value through profit and loss – held for sale". The Futures gains and losses in the negative amount of tEuros 234 are classified as financial results. The gain and losses are registered in the income statement as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| **Electricity derivatives** | **Non-current** | **Current** | **Non-current** | **Current** |
| **Fair value at 1 January 2009** | **-** | **-** | **-** | **-** |
| Purchased during the year | - | - | - | - |
| Sold during the year | - | - | - | - |
| Increase /(decrease) on the sale reflected in the income statement | - | - | - | - |
| **Fair value at 31 December 2009** | **-** | **-** | **-** | **-** |
| **Fair value at 1 January 2010** | **-** | **-** | **-** | **-** |
| Purchased during the year | - | 9,060 | - | - |
| Sold during the year | - | (5,508) | - | - |
| Increase /(decrease) on the sale reflected in the income statement | - | (1,523) | - | - |
| **Fair value at 31 December 2010 (Note 18)** | **-** | **2,029** | **-** | **-** |

At 31 December 2010, the subsidiary Galp Power, S.A., held 500 $CO_2$ Futures with maturity in December 2011. Those Futures represent 500,000 ton/$CO_2$ with value of tEuros 375 recorded as of 31 December 2010 and classified as financial assets at fair value through profit and loss – held for sale. The gains and losses are registered in the caption "Financial income and losses" of the consolidated income statement, as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| **$CO_2$ Futures** | **Non-current** | **Current** | **Non-current** | **Current** |
| **Fair value at 1 January 2009** | **-** | **-** | **-** | **-** |
| Purchased during the year | - | 4,185 | - | - |
| Sold during the year | - | (2,688) | - | - |
| Increase /(decrease) on the sale reflected in the income statement | - | (1,101) | - | - |
| **Fair value at 31 December 2009** | **-** | **396** | **-** | **-** |
| **Fair value at 1 January 2010** | **-** | **396** | **-** | **-** |
| Purchased during the year | - | 1,646 | - | - |
| Sold during the year | - | (1,760) | - | - |
| Increase /(decrease) on the sale reflected in the income statement | - | 94 | - | - |
| **Fair value at 31 December 2010 (Note 18)** | **-** | **376** | **-** | **-** |

## 28. RELATED PARTIES

Balances and transactions with related parties in 2010 and 2009 were as follows:

### Receivables

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Non-Current | | Current | | | |
| | Total of related parties | Granted loans (Note14) | Other receivables (Note14) | Trade receivables | Granted loans (Note14) | Other receivables (Note14) | Accruals and deferrals |
| **Associated companies** | | | | | | | |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | 14,253 | 11,992 | - | 1,575 | - | 651 | 34 |
| Gasoduto Al-Andaluz, S.A. | 10,198 | 9,635 | - | - | - | - | 563 |
| Tagusgás - Empresa de Gás do Vale do Tejo, S.A. | 7,771 | 3,521 | - | 1,953 | - | 1,612 | 686 |
| Energin - Sociedade de Produção de Electricidade e Calor, S.A. | 6,651 | 6,651 | - | - | - | - | - |
| Gasoduto Extremadura, S.A. | 5,702 | 4,833 | - | - | - | - | 869 |
| Parque Eólico da Penha da Gardunha, Lda. | 5,123 | 5,113 | - | - | - | - | 10 |
| EMPL - Europe Magreb Pipeline, Ltd | 3,672 | - | - | (3) | - | 36 | 3,639 |
| Setgás Comercialização, S.A. | 3,552 | - | - | 1,902 | - | 2 | 1,648 |
| Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda. | 2,046 | - | - | 1,918 | - | 94 | 34 |
| Gásfomento - Sistemas e Instalações de Gás, S.A. | 328 | - | - | 323 | - | 2 | 3 |
| Terparque - Armazenagem de Combustíveis, Lda. | 257 | - | - | 256 | - | - | 1 |
| C.L.C. Guiné Bissau – Companhia Logística de Combustíveis da Guiné Bissau, Lda. | 164 | - | - | - | 110 | 54 | - |
| Tagusgás Propano, S.A. | 103 | - | - | 103 | - | - | - |
| Aero Serviços, SARL - Sociedade Abastecimento de Serviços Aeroportuários | 35 | - | - | 13 | 22 | - | - |
| Metragaz, S.A. | 28 | - | - | - | - | - | 28 |
| Compañia Logística de Hidrocarburos CLH, S.A . | 1 | - | - | - | - | 1 | - |
| Empresa Nacional de Combustíveis - Enacol, S.A.R.L | (88) | - | - | 146 | - | (234) | - |
| | **60,145** | **41,745** | **-** | **8,186** | **132** | **2,567** | **7,515** |
| **Jointly controlled entities** | | | | | | | |
| Sigás - Armazenagem de Gás, A.C.E. | 11,405 | - | 10,131 | 119 | - | 1,138 | 17 |
| Ventinveste, S.A. | 8,870 | 8,840 | - | 1 | - | 7 | 22 |
| Spower, S.A. | 4,461 | 3,090 | - | (22) | - | 1,386 | 7 |
| C.L.C. - Companhia Logística de Combustíveis, S.A. | 734 | - | - | 73 | - | 578 | 83 |
| Ventinveste Eólica, SGPS, S.A. | 23 | - | - | 1 | - | 19 | 3 |
| Parque Eólico do Douro Sul, S.A. | 17 | - | - | 15 | - | 1 | 1 |
| Caiageste - Gestão de Áreas de Serviço, Lda. | 14 | - | - | 9 | - | 3 | 2 |
| Parque Eólico do Pinhal Oeste, S.A. | 10 | - | - | 8 | - | 1 | 1 |
| Parque Eólico da Serra do Oeste, S.A. | 8 | - | - | 6 | - | 1 | 1 |
| Parque Eólico do Planalto, S.A. | 5 | - | - | 3 | - | 1 | 1 |
| Parque Eólico de Vale do Chão, S.A. | 4 | - | - | 2 | - | 1 | 1 |
| Parque Eólico de Vale Grande, S.A. | 2 | - | - | 1 | - | 1 | - |
| Parque Eólico do Cabeço Norte, S.A. | 1 | - | - | - | - | 1 | - |
| Parque Eólico de Torrinheiras, S.A. | 1 | - | - | - | - | 1 | - |
| Asa - Abastecimento e Serviços de Aviação, Lda. | 1 | - | - | - | - | 1 | - |
| | **25,556** | **11,930** | **10,131** | **216** | **-** | **3,140** | **139** |
| **Related parties and participated entities** | | | | | | | |
| ENI, S.p.A. | 3,702 | - | - | 74 | - | 3,701 | (73) |
| Agene - Agência para a Energia, S.A. | 92 | - | 90 | 2 | - | - | - |
| Fundação Galp Energia | 63 | - | - | 63 | - | - | - |
| Cooperativa de Habitação da Petrogal , CRL | 53 | - | 53 | - | - | - | - |
| InovCapital - Sociedade de Capital de Risco, S.A. | 2 | - | - | 2 | - | - | - |
| PME Investimentos - Sociedade de Investimento, S.A. | 2 | - | - | 2 | - | - | - |
| SABA - Sociedade Abastecedora de Aeronaves, Lda. | 1 | - | - | 1 | - | - | - |
| | **3,915** | **-** | **143** | **144** | **-** | **3,701** | **(73)** |
| | **89,616** | **53,675** | **10,274** | **8,546** | **132** | **9,408** | **7,581** |

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Non-Current | | Current | | | |
| | Total of related parties | Granted loans (Note14) | Other receivables (Note14) | Trade receivables | Granted loans (Note14) | Other receivables (Note14) | Accruals and deferrals |
| **Associated companies** | | | | | | | |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | 12,174 | 11,571 | - | 295 | - | 259 | 49 |
| Gasoduto Al-Andaluz, S.A. | 10,681 | 9,467 | - | - | - | - | 1,214 |
| Energin - Sociedade de Produção de Electricidade e Calor, S.A. | 10,544 | 7,759 | - | 2,785 | - | - | - |
| Tagusgás - Empresa de Gás do Vale do Tejo, S.A. | 10,201 | 3,281 | - | 1,530 | - | 4,590 | 800 |
| Gasoduto Extremadura, S.A. | 6,498 | 4,749 | - | - | - | - | 1,749 |
| EMPL - Europe Magreb Pipeline, Ltd | 3,347 | - | - | - | - | 89 | 3,258 |
| Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda. | 2,949 | - | - | 1,554 | - | 1,395 | - |
| Setgás Comercialização, S.A. | 2,037 | - | - | 734 | - | 2 | 1, 301 |
| Empresa Nacional de Combustíveis - Enacol, S.A.R.L | 1,349 | - | - | 674 | - | 675 | - |
| Gásfomento - Sistemas e Instalações de Gás, S.A. | 173 | - | - | 171 | - | (1) | 3 |
| MDA - Mobil Disa Aviacioms, S.A. | 170 | - | - | - | - | 170 | - |
| C.L.C. Guiné Bissau – Companhia Logística de Combustíveis da Guiné Bissau, Lda. | 110 | - | - | 2 | 108 | - | - |
| Metragaz, S.A. | 64 | - | - | - | - | 36 | 28 |
| Aero Serviços, SARL - Sociedade Abastecimento de Serviços Aeroportuários | 26 | - | - | - | 22 | 4 | - |
| Brisa Access, S.A. | 7 | - | - | 7 | - | - | - |
| | **60,330** | **36,827** | **-** | **7,752** | **130** | **7,219** | **8,402** |
| **Jointly controlled entities** | | | | | | | |
| Sigás - Armazenagem de Gás, A.C.E. | 12,813 | - | 12,237 | 3 | - | 571 | 2 |
| Ventinveste, S.A. | 5,381 | 5,365 | - | 1 | - | - | 15 |
| C.L.C. - Companhia Logística de Combustíveis, S.A. | 350 | - | - | 63 | - | 283 | 4 |
| Caiageste - Gestão de Áreas de Serviço, Lda. | 63 | - | - | 21 | - | 40 | 2 |
| Parque Eólico do Pinhal Oeste, S.A. | 34 | - | - | 33 | - | - | 1 |
| Ventinveste Eólica, SGPS, S.A. | 16 | - | - | 3 | - | 10 | 3 |
| Parque Eólico do Planalto, S.A. | 14 | - | - | 13 | - | - | 1 |
| Parque Eólico do Douro Sul, S.A. | 11 | - | - | 10 | - | - | 1 |
| Parque Eólico da Serra do Oeste, S.A. | 5 | - | - | 4 | - | - | 1 |
| Parque Eólico de Vale do Chão, S.A. | 3 | - | - | 2 | - | - | 1 |
| Parque Eólico de Vale Grande, S.A. | 1 | - | - | 1 | - | - | - |
| Asa - Abastecimento e Serviços de Aviação, Lda. | 1 | - | - | - | - | 1 | - |
| | **18,692** | **5,365** | **12,237** | **154** | **-** | **905** | **31** |
| **Related parties and participated entities** | | | | | | | |
| ENI, S.p.A. | 3,764 | - | - | 74 | - | 3,690 | - |
| Agene - Agência para a Energia, S.A. | 90 | 90 | - | - | - | - | - |
| Cooperativa de Habitação da Petrogal , CRL | 53 | 53 | - | - | - | - | - |
| Italgás | 8 | - | - | - | - | 8 | - |
| PME Capital - Sociedade Portuguesa de Capital de Risco, S.A. | 1 | - | - | 1 | - | - | - |
| PME Investimentos - Sociedade de Investimento, S.A. | 1 | - | - | 1 | - | - | - |
| | **3,917** | **143** | **-** | **76** | **-** | **3,698** | **-** |
| | **82,939** | **42,335** | **12,237** | **7,982** | **130** | **11,822** | **8,433** |

The current and non-current loans granted as of 31 December to associated, jointly controlled, participated companies and related parties refer essentially to the following loans:

| | Current Assets - Granted loans (Note 14) | Non-current assets - Granted loans (Note 14) | Interest from granted loans (Note 8) |
|---|---|---|---|
| Gasoduto Al-Andaluz, S.A. | - | 9,635 | 167 |
| Gasoduto Extremadura, S.A. | - | 4,833 | 84 |
| **through Galp Gás Natural, S.A.** | **-** | **14,468** | **251** |
| Energin - Sociedade de Produção de Electricidade e Calor, S.A. | - | 6,651 | 191 |
| Spower, S.A. | - | 3,090 | 62 |
| Parque Eólico da Penha da Gardunha, Lda. | - | 5,113 | 158 |
| Ventinveste, S.A. | - | 8,840 | 285 |
| **through Galp Power, SGPS, S.A.** | **-** | **23,694** | **696** |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | - | 9,017 | 330 |
| Tagusgás - Empresa de Gás do Vale do Tejo, S.A. | - | 3,521 | 240 |
| **through GDP - Gás de Portugal, SGPS, S.A.** | **-** | **12,538** | **570** |
| Aero Serviços, SARL - Sociedade Abastecimento de Serviços Aeroportuários | 22 | - | - |
| C.L.C. Guiné Bissau – Companhia Logística de Combustíveis da Guiné Bissau, Lda. | 110 | - | - |
| **through Petrogal Guiné-Bissau, Lda.** | **132** | **-** | **-** |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | - | 2,975 | 110 |
| **through Petróleos de Portugal - Petrogal, S.A.** | **-** | **2,975** | **110** |
| | **132** | **53,675** | **1,627** |

These loans bear interests at market rates and do not have a defined repayment plan.

## Payables

| | 2010 | | | | |
|---|---|---|---|---|---|
| | | Non-Current | Correntes | | |
| | Total of related parties | Loans obtained (Note 24) | Trade payables | Other payables (Note 24) | Accruals and deferrals |
| **Associated companies** | | | | | |
| EMPL - Europe Magreb Pipeline, Ltd | 16,091 | - | 16,091 | - | - |
| Gasoduto Extremadura, S.A. | 1,863 | - | 1,863 | - | - |
| Gasoduto Al-Andaluz, S.A. | 1,823 | - | 1,823 | - | - |
| Tagusgás - Empresa de Gás do Vale do Tejo, S.A. | 1,569 | - | 884 | - | 685 |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | 548 | - | 94 | - | 454 |
| Empresa Nacional de Combustíveis - Enacol, S.A.R.L | 541 | - | 536 | 5 | - |
| Gásfomento - Sistemas e Instalações de Gás, S.A. | 333 | - | 2 | 331 | - |
| Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda. | 105 | - | 1 | 104 | - |
| Energin - Sociedade de Produção de Electricidade e Calor, S.A. | 103 | - | 103 | - | - |
| Terparque - Armazenagem de Combustíveis, Lda. | 54 | - | 54 | - | - |
| Setgás Comercialização, S.A. | 29 | - | 27 | 2 | - |
| | **23,059** | **-** | **21,478** | **442** | **1,139** |
| **Jointly controlled entities** | | | | | |
| C.L.C. - Companhia Logística de Combustíveis, S.A. | 85,976 | - | 85,776 | 195 | 5 |
| Sigás - Armazenagem de Gás, A.C.E. | 477 | - | - | - | 477 |
| Asa - Abastecimento e Serviços de Aviação, Lda. | 54 | - | 54 | - | - |
| Caiageste - Gestão de Áreas de Serviço, Lda. | 2 | - | 2 | - | - |
| | **86,509** | **-** | **85,832** | **195** | **482** |
| **Related parties and participated entities** | | | | | |
| ENI, S.p.A. | 4,451 | 2,902 | 84 | 94 | 1,371 |
| Central-E, S.A. | 24 | - | 24 | - | - |
| Other related companies and subsidiaries | 29 | - | - | 29 | - |
| | 4,504 | 2,902 | 108 | 123 | 1,371 |
| | **114,072** | **2,902** | **107,418** | **760** | **2,992** |

| | 2009 | | | | |
|---|---|---|---|---|---|
| | | Non-Current | Correntes | | |
| | Total of related parties | Loans obtained (Note 24) | Trade payables | Other payables (Note 24) | Accruals and deferrals |
| **Associated companies** | | | | | |
| EMPL - Europe Magreb Pipeline, Ltd | 13,657 | - | 13,657 | - | - |
| Tagusgás - Empresa de Gás do Vale do Tejo, S.A. | 4,484 | - | 1,265 | 2,579 | 640 |
| Compañia Logística de Hidrocarburos CLH, S.A . | 2,297 | - | - | 2,297 | - |
| Gasoduto Extremadura, S.A. | 1,863 | - | 1,863 | - | - |
| Gasoduto Al-Andaluz, S.A. | 1,823 | - | 1,823 | - | - |
| Empresa Nacional de Combustíveis - Enacol, S.A.R.L | 1,282 | - | 927 | 5 | 350 |
| Gásfomento - Sistemas e Instalações de Gás, S.A. | 507 | - | 12 | 495 | - |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | 431 | - | 431 | - | - |
| C.L.C. Guiné Bissau – Companhia Logística de Combustíveis da Guiné Bissau, Lda. | 218 | - | - | 218 | - |
| Setgás Comercialização, S.A. | 59 | - | 56 | - | 3 |
| Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda. | 33 | - | 1 | 32 | - |
| Brisa Access, S.A. | 6 | - | 6 | - | - |
| | **26,660** | **-** | **20,041** | **5,626** | **993** |
| **Jointly controlled entities** | | | | | |
| C.L.C. - Companhia Logística de Combustíveis, S.A. | 90,394 | - | 90,394 | - | - |
| Sigás - Armazenagem de Gás, A.C.E. | 479 | - | 479 | - | - |
| Asa - Abastecimento e Serviços de Aviação, Lda. | 148 | - | 148 | - | - |
| | **91,021** | **-** | **91,021** | **-** | **-** |
| **Related parties and participated entities** | | | | | |
| ENI, S.p.A. | 7,201 | 2,902 | 284 | 103 | 3,912 |
| Central-E, S.A. | 43 | - | 43 | - | - |
| Other related companies and subsidiaries | 27 | - | - | 27 | - |
| | 7,271 | 2,902 | 327 | 130 | 3,912 |
| | **124,952** | **2,902** | **111,389** | **5,756** | **4,905** |

The amount of tEuros 2,902 reflected in the non-current payable to Eni, S.p.A. corresponds to shareholders' loans obtained by the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., which bear interests at market rates and do not have a defined repayment plan.

## Transactions

| | 2010 | | | |
|---|---|---|---|---|
| | Operating costs | Operating income | Financial costs (Note 8) | Financial income (Note 8) |
| **Associated companies** | | | | |
| Setgás Comercialização, S.A. | 229 | (16,439) | - | - |
| Energin - Sociedade de Produção de Electricidade e Calor, S.A. | - | (13,758) | - | (191) |
| Tagusgás - Empresa de Gás do Vale do Tejo, S.A. | 2,987 | (4,710) | - | (240) |
| EMPL - Europe Magreb Pipeline, Ltd | 61,346 | (3,901) | - | - |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | 4,468 | (2,075) | - | (440) |
| Terparque - Armazenagem de Combustíveis, Lda. | 4 | (909) | - | - |
| Metragaz, S.A. | - | (432) | - | - |
| Gásfomento - Sistemas e Instalações de Gás, S.A. | 45 | (318) | - | - |
| Tagusgás Propano, S.A. | - | (207) | - | - |
| Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda. | - | (52) | - | - |
| C.L.C. Guiné Bissau – Companhia Logística de Combustíveis da Guiné Bissau, Lda. | - | (22) | - | - |
| Parque Eólico da Penha da Gardunha, Lda. | 154 | - | - | (158) |
| Gasoduto Al-Andaluz, S.A. | 10,937 | 651 | - | (167) |
| Gasoduto Extremadura, S.A. | 11,179 | 879 | - | (84) |
| Empresa Nacional de Combustíveis - Enacol, S.A.R.L | - | 6,537 | - | - |
| | **91,349** | **(34,756)** | **-** | **(1,280)** |
| **Jointly controlled entities** | | | | |
| Sigás - Armazenagem de Gás, A.C.E. | 4,304 | (3,538) | - | - |
| C.L.C. - Companhia Logística de Combustíveis, S.A. | 20,074 | (1,616) | - | - |
| Spower, S.A. | - | (913) | - | (62) |
| Caiageste - Gestão de Áreas de Serviço, Lda. | 7 | (217) | - | - |
| Parque Eólico do Douro Sul, S.A. | - | (50) | - | - |
| Parque Eólico do Pinhal Oeste, S.A. | - | (28) | - | - |
| Parque Eólico da Serra do Oeste, S.A. | - | (21) | - | - |
| Ventinveste Eólica, SGPS, S.A. | (57) | (20) | - | - |
| Ventinveste, S.A. | - | (14) | - | (285) |
| Parque Eólico do Planalto, S.A. | - | (11) | - | - |
| Parque Eólico de Vale do Chão, S.A. | - | (7) | - | - |
| Parque Eólico de Vale Grande, S.A. | - | (4) | - | - |
| Parque Eólico do Cabeço Norte, S.A. | - | (1) | - | - |
| Parque Eólico de Torrinheiras, S.A. | - | (1) | - | - |
| Asa - Abastecimento e Serviços de Aviação, Lda. | 649 | - | - | - |
| | **24,977** | **(6,441)** | **-** | **(347)** |
| **Related parties and participated entities** | | | | |
| ENI, S.p.a. | 2,281 | (64,406) | 110 | - |
| Fundação Galp Energia | - | (160) | - | - |
| InovCapital - Sociedade de Capital de Risco, S.A. | - | (33) | - | - |
| SABA - Sociedade Abastecedora de Aeronaves, Lda. | - | (16) | - | - |
| PME Investimentos - Sociedade de Investimento, S.A. | - | (15) | - | - |
| Agene - Agência para a Energia, S.A. | - | (13) | - | - |
| Amorim Energia,BV | 586 | - | - | - |
| Central-E, S.A. | 181 | - | - | - |
| | **3,048** | **(64,643)** | **110** | **-** |
| | **119,374** | **(105,840)** | **110** | **(1,627)** |

| | 2009 | | | |
|---|---|---|---|---|
| | Operating costs | Operating income | Financial costs (Note 8) | Financial income (Note 8) |
| **Associated companies** | | | | |
| Energin - Sociedade de Produção de Electricidade e Calor, S.A. | - | (28,293) | - | (370) |
| Setgás Comercialização, S.A. | 208 | (17,699) | - | - |
| Tagusgás - Empresa de Gás do Vale do Tejo, S.A. | 2,818 | (6,244) | - | (326) |
| EMPL - Europe Magreb Pipeline, Ltd | 57,850 | (3,339) | - | - |
| Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda. | - | (3,116) | - | - |
| Setgás - Sociedade de Produção e Distribuição de Gás, S.A. | 4,352 | (1,535) | - | (512) |
| Gasoduto Extremadura, S.A. | 10,932 | (861) | - | (202) |
| Gasoduto Al-Andaluz, S.A. | 10,670 | (559) | - | (331) |
| Metragaz, S.A. | - | (470) | - | - |
| Gásfomento - Sistemas e Instalações de Gás, S.A. | 32 | (278) | - | - |
| Brisa Access, S.A. | 200 | (78) | - | - |
| C.L.C. Guiné Bissau – Companhia Logística de Combustíveis da Guiné Bissau, Lda. | - | (2) | - | - |
| MDA - Mobil Disa Aviacioms, S.A. | - | - | - | (2) |
| Empresa Nacional de Combustíveis - Enacol, S.A.R.L | 5 | 1,126 | - | - |
| | **87,067** | **(61,348)** | **-** | **(1,743)** |
| **Jointly controlled entities** | | | | |
| Sigás - Armazenagem de Gás, A.C.E. | 4,264 | (3,155) | - | - |
| C.L.C. - Companhia Logística de Combustíveis, S.A. | 22,151 | (1,233) | - | - |
| Caiageste - Gestão de Áreas de Serviço, Lda. | 10 | (298) | - | - |
| Parque Eólico do Douro Sul, S.A. | - | (50) | - | - |
| Parque Eólico do Pinhal Oeste, S.A. | - | (28) | - | - |
| Parque Eólico da Serra do Oeste, S.A. | - | (21) | - | - |
| Ventinveste Eólica, SGPS, S.A. | (61) | (17) | - | - |
| Ventinveste, S.A. | - | (14) | - | (179) |
| Parque Eólico do Planalto, S.A. | - | (11) | - | - |
| Parque Eólico de Vale do Chão, S.A. | - | (7) | - | - |
| Parque Eólico de Vale Grande, S.A. | - | (4) | - | - |
| Parque Eólico do Cabeço Norte, S.A. | - | (1) | - | - |
| Parque Eólico de Torrinheiras, S.A. | - | (1) | - | - |
| Asa - Abastecimento e Serviços de Aviação, Lda. | 562 | - | - | - |
| | **26,926** | **(4,840)** | **-** | **(179)** |
| **Related parties and participated entities** | | | | |
| ENI, S.p.A. | 32,404 | (11,556) | 1,096 | - |
| PME Capital - Sociedade Portuguesa de Capital de Risco, S.A. | - | (25) | - | - |
| Agene - Agência para a Energia, S.A. | - | (6) | - | - |
| PME Investimentos - Sociedade de Investimento, S.A. | - | (5) | - | - |
| Central-E, S.A. | 178 | - | - | - |
| | **32,582** | **(11,592)** | **1,096** | **-** |
| | **146,575** | **(77,780)** | **1,096** | **(1,922)** |

The amount of tEuros 105,840 in the caption "Operating income" corresponds essentially to sales and services rendered.

## 29. REMUNERATION OF THE CORPORATE BOARD MEMBERS

The remuneration of Galp Energia corporate board members for the years 2010 and 2009 were detailed as follows:

| | December 2010 | | | | | December 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Salary | Bonuses | Pension Plans | Allowances for rent and travels | Total | Salary | Bonuses | Pension Plans | Allowances for rent and travels | Total |
| **Corporate boards of Galp Energia SGPS** | | | | | | | | | | |
| Executive management | 3,171 | 355 | 917 | 214 | 4,657 | 2,816 | 104 | 707 | 214 | 3,841 |
| Non-executive management | 1,284 | 68 | 69 | 45 | 1,466 | 1,587 | (10) | 282 | 45 | 1,904 |
| Supervisory board | 93 | - | - | - | 93 | 92 | - | - | - | 92 |
| Shareholder's Assembly | 4 | - | - | - | 4 | 3 | - | - | - | 3 |
| | **4,552** | **423** | **986** | **259** | **6,220** | **4,498** | **94** | **989** | **259** | **5,840** |
| **Corporate boards of associate companies** | | | | | | | | | | |
| Executive management | 935 | 30 | - | 62 | 1,027 | 869 | (19) | - | 53 | 903 |
| Shareholder's Assembly | 8 | - | - | - | 8 | 10 | - | - | - | 10 |
| | **943** | **30** | **-** | **62** | **1,035** | **879** | **(19)** | **-** | **53** | **913** |
| | **5,495** | **453** | **986** | **321** | **7,255** | **5,377** | **75** | **989** | **312** | **6,753** |

The amounts of tEuros 7,255 and tEuros 6,753, recorded on 2010 and 2009, respectively, include tEuros 5,053 and tEuros 4,759 recorded as Employee costs (Note 6) and tEuros 2,202 and tEuros 1,994 recorded as external supplies and services.

In accordance with the current policy, remuneration of Galp Energia corporate board members includes all the remuneration due for the positions exercised in Galp Energia Group and the accrued amounts.

The remuneration of the corporate boards members above mentioned is included in the Group government report and it corresponds to the actual cost incurred by the Company in 2010 according to the accrual principles.
The information presented in the Group government report refers to the remuneration of the corporate board members established by the remuneration committee for 2010.

In conformity to IAS 24, key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the entity. According to Galp Energia's interpretation only the members of the Board meet this description.

The information concerning fees charged by the statutory and external auditor is disclosed in the Group government report.

## 30. DIVIDENDS

Dividends out of net profit for 2009 attributed to the Group's shareholders amounted to tEuros 165,850 in accordance with the decision of the Shareholders Meeting of 26 April 2010. Interim dividends of tEuros 49,755 have been paid during the year ended 31 December 2009 and the remaining amount of tEuros 116,095 have been paid in the year ended 31 December 2010.

In addition, in 23 September 2010, the Board of Directors approved an interim dividend of tEuros 49,755 out of profit for 2010.

In 2010 subsidiaries of the Petrogal group, paid dividends in the amount of tEuros 1,117 (Note 21).

Consequently, in the year ended 31 December 2010, the Group paid dividends in the total amount of tEuros 166,967.

## 31. PETROLEUM RESERVES (NOT AUDITED)

The Production and Exploration business results by region for the years 2010 and 2009 were as follows:

### Exploration and Production results

| unit: thousands of Euros | Africa | Brazil | Portugal | East Timor | Total |
|---|---|---|---|---|---|
| **31 December 2010** | | | | | |
| Sales | 184,128 | 30,435 | - | - | 214,563 |
| Cost of sales | 29,360 | 1,165 | - | - | 30,525 |
| Other operating income | 2,011 | (503) | 1,003 | - | 2,511 |
| Other operating costs | (43,123) | (6,100) | (1,742) | (6) | (50,971) |
| Employee costs | (3,940) | (4,919) | (1,390) | - | (10,249) |
| Amortisation and depreciation | (96,200) | (192) | - | - | (96,392) |
| Impairment | (7) | (11,937) | - | (522) | (12,467) |
| Provision | (28,732) | - | - | - | (28,732) |
| **Financial result** | **1,024** | **(1,399)** | **(604)** | **12** | **(967)** |
| **Profit before non controlling interest** | **44,521** | **6,550** | **(2,733)** | **(516)** | **47,821** |
| Income tax | (43,242) | (2,762) | - | 138 | (45,866) |
| **Consolidated net profit** | **1,279** | **3,788** | **(2,733)** | **(378)** | **1,955** |
| **31 de December 2009** | | | | | |
| Sales | 156,336 | 11,327 | - | - | 167,663 |
| Cost of sales | (16,332) | (49) | - | - | (16,381) |
| Other operating income | 1,605 | 157 | 417 | - | 2,179 |
| Other operating costs | (32,677) | 422 | (1,161) | (14) | (33,430) |
| Employee costs | (2,791) | (3,502) | (1,203) | - | (7,496) |
| Amortisation and depreciation | (40,467) | (118) | - | - | (40,585) |
| Impairment | - | (36,027) | - | - | (36,027) |
| Provision | (4,427) | - | - | - | (4,427) |
| **Financial result** | **(877)** | **(20)** | **-** | **(44)** | **(941)** |
| **Profit before non controlling interest** | **60,370** | **(27,810)** | **(1,947)** | **(58)** | **30,555** |
| Income tax | (20,237) | 9,573 | - | 6 | (10,658) |
| **Consolidated net profit** | **40,133** | **(18,237)** | **(1,947)** | **(52)** | **19,897** |

The sales from Brazil during the year 2010 and 2009 were a consequence of long term tests performed by the block operator.

The cumulative investments in Exploration and Production area are displayed in the Group's assets as follows:

### Exploration and production investments

| unit: thousands of Euros | Africa | Brazil | Portugal | East Timor | Total |
|---|---|---|---|---|---|
| **31 December 2010** | | | | | |
| Signature bonus | 17,802 | 27,280 | - | 6,773 | 51,855 |
| Machinery and equipment | 638,099 | 4 | - | - | 638,103 |
| Other tangible assets | 3,323 | 2,265 | - | - | 5,588 |
| Tangible assets in progress | 216,509 | 485,088 | 14,254 | 9,535 | 725,386 |
| **Gross investment** | **875,733** | **514,637** | **14,254** | **16,308** | **1,420,932** |
| Amortisation, depreciation and impairment | (351,488) | (32,593) | - | (522) | (384,603) |
| **Net investment** | **524,245** | **482,044** | **14,254** | **15,786** | **1,036,329** |
| | | | | | |
| **31 December 2009** | | | | | |
| Signature bonus | 17,802 | 24,091 | - | 6,777 | 48,670 |
| Machinery and equipment | 566,122 | 3 | - | - | 566,125 |
| Other tangible assets | 2,349 | 1,030 | - | - | 3,379 |
| Tangible assets in progress | 179,332 | 241,399 | 8,695 | 8,082 | 437,508 |
| **Gross investment** | **765,605** | **266,523** | **8,695** | **14,859** | **1,055,682** |
| Amortisation, depreciation and impairment | (252,894) | (27,316) | - | - | (280,210) |
| **Net investment** | **512,711** | **239,207** | **8,695** | **14,859** | **775,472** |

The assets disclosed in the above schedule are expressed in the Group's functional currency. The companies headed in Africa and Brazil were translated to the functional currency at the year-end exchange rate in conformity with the accounting principle stated in note 2.12.

The total investment and cumulative cost of the Production and Exploration activity by region were as follows:

### Gross cumulative investments

| unit: thousands of Euros | Africa | Brazil | Portugal | East Timor | Total |
|---|---|---|---|---|---|
| **31 December 2010** | | | | | |
| Accumulated amortisation, depreciation, impairment and disposal | 351,488 | 61,498 | - | 522 | 413,508 |
| Signature bonus (net amount) | 17,383 | 26,507 | - | 6,773 | 50,663 |
| Exploration (net amount) | 140,102 | 310,422 | 14,254 | 9,013 | 473,791 |
| Development (net amount) | 366,760 | 145,115 | - | - | 511,875 |
| **Total incurred (gross amount)** | **875,733** | **543,542** | **14,254** | **16,308** | **1,449,837** |
| **31 December 2009** | | | | | |
| Accumulated amortisation, depreciation, impairment and disposal | 252,894 | 54,116 | - | - | 307,010 |
| Signature bonus (net amount) | 17,406 | 23,408 | - | 6,777 | 47,591 |
| Exploration (net amount) | 124,375 | 193,658 | 8,695 | 8,082 | 334,810 |
| Development (net amount) | 370,930 | 22,141 | - | - | 393,071 |
| **Total incurred (gross amount)** | **765,605** | **293,323** | **8,695** | **14,859** | **1,082,482** |

(a) Note: Provisions related to abandomment not included.

The total proved reserves as of 31 December 2010 and 2009 are presented in the schedule below and include the developed and undeveloped reserves used in amortization of tangible assets and recognition of provisions for abandonment costs based in the "UOP" (Unit of Production) method. This reserves were calculated by an independent entity, whose methodology is in accordance with the Petroleum Resources Management System ("PMRS"), approved in March of 2007 by the Society of Petroleum Engineers ("SPE"), the World Petroleum Council, American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers.

The reference price for the assessment of the Company net-entitlement reserves, which corresponds to available reserves in the terms of the Production Sharing Agreements ("PSA") was the average market price of "Brent" for 2010 and 2009 of U.S.Dollars 79.49 and U.S. Dollars 61.5, respectively.

### Petroleum and Gas reserves

| unit: thousands of barrels | Africa | Brazil* | Portugal | East Timor | Total |
|---|---|---|---|---|---|
| **31 December 2010** | | | | | |
| Total previous year proved reserves | 24,492 | - | - | - | 24,492 |
| Reserve variation (not including production) | (7,558) | 112,934 | - | - | 105,376 |
| Year production | (3,413) | - | - | - | (3,413) |
| **Total reserves** | **13,521** | **112,934** | **-** | **-** | **126,455** |
| **31 December 2009** | | | | | |
| Total previous year proved reserves | 19,802 | - | - | - | 19,802 |
| Reserve variation (not including production) | 7,968 | - | - | - | 7,968 |
| Year production | (3,278) | - | - | - | (3,278) |
| **Total reserves** | **24,492** | **-** | **-** | **-** | **24,492** |

* Includes 13,704 Mbbl of gas reserves equivalent.

Changes in the proved petroleum reserves between periods results from production, changes in estimates, new discoveries resulting from investments and changes in petroleum barrel selling price.

Changes of reserves in Africa during 2010 result essentially from changes in the of the petroleum barrel selling price and technical aspects. Changes in Brazil reserves are a consequence of new discoveries in the year-end.

This change in reserves had a direct impact in the amount of depreciation, recorded in accordance with the unit of production method as explained in Note 2.3.

## 32. FINANCIAL RISK MANAGEMENT

### Risk management

Galp Energia is exposed to several types of market risks (price risk, exchange rate risk and interest rate risk) inherent in the petroleum and natural gas industries, which affect the Group's results. The main market risks result from fluctuation of the crude oil price and its derivatives and of the exchange rate.

### Market risks

**a) Commodities price risk**

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

The Company controls and manages this risk through the derivatives market of oil and natural gas, to protect the refining margin and inventories from adverse market changes.

Concerning natural gas market, the Group controls and manages this risk through the establishment of purchase and sale contracts with similar indexes, so as to protect the business margin of adverse market changes.

**b) Exchange rate risk**

The US dollar is the currency used as reference price in the oil and natural gas markets. Since Galp Energia's financial statements have as functional currency, the Euro, this factor, among others, exposes its operations to exchange rate risk. Given that the operating margin is mainly related to US dollars, the Company is exposed to fluctuations in the exchange rates, which can contribute positively or negatively to income and margins.

Since this is a currency risk associated to other variables, such as the price of oil and natural gas, the Company takes a cautious approach to hedging risk, as there are natural hedges between the balance sheet and cash flows. The level of exposure of cash flows is mainly in the balance sheet and results from the prices of oil and natural gas.

Therefore, Galp Energia controls its exchange rate exposure on an integrated basis rather than on each operation exposed to exchange risk. The objective of risk management is to limit the uncertainty resulting from variations in exchange rates. Hedging debits and credits based on market speculation is not allowed. At 31 December 2010 there were no exchange rate risk hedging contracts in force.

**c) Interest rate risk**
The total interest rate position is managed centrally. Interest rate exposure relates mainly to bank loans. The objective of managing interest rate risk is to reduce the volatility of financial costs in the income statement. The interest rate risk management policy is aimed at reducing exposure to variable rates through fixing interest rate risk on loans, using simple derivatives such as swaps.

**d) Sensitivity analysis to market risks resulting from financial instruments, as required by IFRS 7**
The analysis prepared by the Group in conformity with IFRS 7 is intended to illustrate the sensitivity of results before taxes and of equity to potential variations in the price of Brent or natural gas, exchange rates and interest rates of financial instruments, defined in IAS 32, such as financial assets and liabilities and financial derivatives reflected on the balance sheet as of 31 December 2010 and 2009. The financial instruments affected by the above mentioned market risks include Trade receivables, Other receivables, Trade payables, Other payables, Loans, Cash and Financial derivatives. When cash flow hedges are applied, fair value is recorded in the equity caption "Hedging reserves" only if it is shown that the hedge is efficient.

There may be financial instruments subject to more than one market risk, in which case the sensitivity analysis is made of one variable at a time, the others remaining constant, therefore ignoring any correlation between them, which is not common.

Foreign currency investments were not included in the analysis as the Group does not record them at fair value as defined in IAS 39.

Therefore, the sensitivity analysis is an example and does not represent the actual current loss or gain, or other variations in equity.

The following assumptions were considered in the sensitivity analysis of the commodity price:

- Price variation of +/- 1% of the price of the commodity;
- Correlation between market risks was ignored;
- A sensitivity analysis was made for balances relating to financial derivatives over commodities.

The effect of changes in proved petroleum reserves in relation to changes in the price of Brent was not calculated.

The following assumptions were considered in the sensitivity analysis of exchange rates:

- Exchange rate variation of +/-1%;
- The sensitivity analysis includes significant balances in foreign currency with Trade receivables, Other receivables, Trade payables, Other payables, Loans, Financial derivatives and Cash.

The following assumptions were considered in the sensitivity analysis of interest rates:

- Parallel variation of 0.01% in the time structure of interest rates;
- Analysis of interest rate risk includes variable interest rate loans and interest rate financial derivative;
- The income before taxes is affected by the interest rate risk sensitivity analysis, except for interest rate financial derivatives classified as cash flow hedges, in which the sensitivity analysis, if within the required efficiency parameters, affect Equity.

Following is a summary of the sensitivity analysis made of the financial instruments reflected on the statement of financial position:

| Sensitivity analysis | | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|
| | | | Income statement | Equity | Income statement | Equity |
| Variation in the derivatives over commodities underlying price | +1% | tEUR | (53) | - | 142 | - |
| | -1% | | 53 | - | (29) | - |
| x% Depreciation/(appreciation) of Euro | +1% | tEUR | (4,270) | - | (347) | - |
| | -1% | | 4,270 | - | 347 | - |
| Interest rate parallel variation | +0.01% | tEUR | (262) | 16 | (148) | 46 |
| | -0.01% | | 262 | (16) | 148 | (46) |

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

Galp Energia Group finances itself through cash flows generated by its operations and maintains a diversified portfolio of loans. The Group has access to credit amounts not fully used but that are at its disposal. These credits can cover all loans that are repayable in 12 months. The available short and medium and long term not used, amount to 1.5 billion of Euros, and are enough to meet any immediate demand.

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

Impairment of accounts receivable is explained in Notes 14 and 15.

## 33. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

### Contingent assets

(i) 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 contractually established, 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. (currently designated Galp Energia, S.G.P.S., S.A. for purposes of the merger carried out in 2008) and Transgás, S.A. (currently designated Galp 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 sale price would be divided between the parties, as follows:

| tEuros for each 220.000 shares | EDP | Group GDP |
|---|---|---|
| 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 GDP SGPS, S.A., Transgás SGPS, S.A., currently designated GDP Distribuição, S.G.P.S., S.A. for purposes of the merger carried out in 2006), Transgás, S.A. and EDP, S.A. made an amendment to the agreement, under which the deadline for dividing any 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 the parties, which was of tEuros 748,197. Therefore, there will be an upside of tEuros 30,253 payable by EDP, S.A., to be divided equally between GDP SGPS, S.A. (merged into Galp Energia S.G.P.S., S.A. effective as of 1 January 2008) and Transgás SGPS, S.A. (currently called GDP Distribuição S.G.P.S., S.A. as a result of the merger in 2006).

As EDP has not agreed to the GDP Group's expectations, this account receivable has not been recorded.

(ii) It is in progress the arbitration process, favorable to the Group, for the renegotiation of the gas purchase agreement with Nigerian company NLNG,.

### Contingent liabilities

As of 31 December 2010 the Company and its subsidiaries had the following contingent liabilities:

(i) Several municipal councils are demanding payments (liquidations and executions) totalling tEuros 39,389, relating to licences for occupying the public thoroughfare with underground gas pipes (subsoil occupation) by the natural gas distribution and commercialisation concessionaires. As the Group companies do not agree with the municipal councils they have contested the assessments, the majority of the processes being in progress. Guarantees have been provided for these processes.

In the course of negotiating the Concession Contract between the General Directorate of Energy and Geology and the Company, it was agreed, among other matters, that the Concessionaire has the right to reflect, on the entities commercialising gas and on the final consumers, the full amount of the subsoil occupation rates assessed by the local governments in the areas conceded under the previous concession contract but not yet paid or contested legally by the Concessionaire if such payment is considered to be mandatory by the competent authority, after issuance of the sentence, or after express prior consent of the Conceding entity. The subsoil occupation rates paid each year will be reflected on the entities commercialising gas that use the infrastructures or on the final consumers served by them, during the subsequent years, under the conditions to be defined by ERSE. The subsoil occupation rates will also be reflected on each municipality, based on the amount assessed by it;

(ii) Additional Corporate Income Tax assessments totaling tEuros 39,328 for which there are provisions of tEuros 16,831 (Note 9);

(iii) On 31 December 2010 it is still in progress a licensing process for the Sines combined cycle central of natural gas filed by Endesa Generación Portugal, S.A. against the Ministry of Economy and Inovation, occupying Galp Power, SGPS, S.A. the position of counter-interested. Galp Power, SGPS, S.A. appealed this lawsuit. The Company Board of Directors, supported in legal advice of their lawyers, believes that from this process will not result any liability nor is the legitimacy of the investment already incurred;

(iv) Processes relating to additional payments of PIT in Angola totaling tEuros 20,561 (Note 9).

### Other financial commitments

The Group's financial commitments not included in the statement of financial position as of 31 December 2010 are:

- tEuros 304,235, tEuros 6,658, tEuros 774 , tEuros 24,423 and tEuros 7,838 relating to the liability under the Petrogal, Sacor Marítima, Saaga and the GDP Group pension plan, respectively (Note 23);

- tEuros 131,177 related with orders of tangible assets not yet delivered;

- tEuros 62,682 and tEuros 14,301 relating with the liability of the Petrogal and GDP Group pension plans (Note 23), respectively, not reflected in the financial statements as they are within 10% corridor limit (Note 2.10 and 2.11) or because they correspond to corridor excess not yet recognized in the income statement;

- Galp Power, SGPS, S.A., as shareholder of Ventinveste, S.A. has the commitment and responsibility under the contract and other agreements made with DGEG to comply in full and on a timely basis with 1/3 of the obligations of the wind farm project, consisting of the promotion, construction and operation of the Wind Farms;

The contractual obligations are safeguarded by an autonomous, unconditional first demand bank guarantee in the amount of tEuros 25,332 and guarantee given by the shareholders of Galp Power, Martifer and Enersis divided in equal parts, corresponding to approximately 10% of the total Direct Investment, amounting tEuros 50,665. The amount of the guarantee will be reduced each half year based on the contracted investment realised in the preceding half year.

In guarantee of the loan contracted by Carriço Cogeração – Sociedade de Geração de Electricidade e Calor, S.A. the surface rights over a plot of land in the municipality of Pombal, acquired by the Company for a period of 15 years, was mortgaged in favour of BES Investimento and BES, up to a maximum of tEuros 28,237.

Galp Power SGPS, S.A. constituted itself as guarantor and principle payer of a loan of the subsidiary Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A.. The guarantee is limited to 65% which corresponds to the participation in the company, up to a maximum of tEuros 11,700.

- The Galp group has bank loans that in some cases have covenants that can, if they are triggered by banks, lead to early repayment of the amounts borrowed. The existing covenants in Galp Group embody essentially in compliance with financial ratios that monitor the financial position of the Company, including its ability to repay the debt service. In some cases these covenants are related to the change in the shareholders' structure, which according with the Bank evaluation could result in the early repay. The values of these financial ratios as of 2010 do not have effects on the continued validity of the loans.

**Guarantees given**

As of 31 December 2010 the responsibilities with guarantees given amounted to tEuros 148,554 e tUSD 44,778, made up essentially of the following:

- Guarantees of tEuros 59,341 given in benefit of the Tax Administration;

- Guarantees of tEuros 5,289 given in benefit of the Lisbon Tax Court, formerly called Court 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 subsoil occupation rates;

- Guarantees of tEuros 39,481 given in benefit of Municipal Councils, under lawsuits relating to subsoil occupation rates;

- Guarantees of tEuros 5,500 given in benefit of 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.;

- Guarantees of tEuros 3,054 given to Direcção Geral de Geologia e Energia in guarantee of full compliance with the obligations assumed by the Company under the plan to construct the infrastructures relating to operation of the natural gas autonomous local networks in Vila Real, Bragança and Chaves; and allocation of power injection in the network of the electrical system of public service;

- Guarantee of tEuros 5,000 given in benefit of Portuguese State with respect to the obligations and duties resulting from the Concession Contract relating to the public service underground storage of natural gas given by the Portuguese State to Transgás Armazenagem, S.A.;

- Guarantees of tEuros 82 given to the Courts by Caixa Geral de Depósitos due to litigation relating to rights-of-way;

- Guarantees and pledges relating to 27.4% (participation of Galp Gás Natural, S.A.) of the credits granted to EMPL - Europe Maghreb Pipeline, Limited;

- Guarantees of tEuros 2,079 given to Portuguese Road Institute (Instituto de Estradas de Portugal) under line a), article 15 of Decree-Law 13/71 of 23/1 with the objective of obtaining a licence to install natural gas pipelines parallel to, and crossing roads;

- Guarantee in the amount of tEuros 1,734 in benefit of EDP - Energias de Portugal, S.A. with the objective of ensuring the supply of gas to the thermal plants of Santa Maria, S. Miguel, Terceira, Faial, Pico and Flores;

- Guarantee in the amount of tEuros 1,000 in benefit of EDF – Electricity of France, to ensure that the Company can operate in French electricity market;

- Guarantee in the amount of tEuros 3,000 in benefit of EDP – Distribuição de Energia, S.A., to ensure that the company can provide electricity in the Portuguese electricity market;

- As of 31 December 2010, there are guarantees amounting tEuros 96,048 (Reais 212,554,800) given to Brazilian Government, that result from a contractual imposition contained in the Agreement signed between the Brazil Government and the partners of the blocks in Brazil in which the Company participates, where they commit to carry out expenditures on seismic acquisition and drilling during the exploration period. The amount of guarantees relates essentially to the liability of the Company that equals the percentage of participation in the consortium;

- As of 31 December 2010, there are guarantees amounting tEuros 10,114 given to East-Timor Government, that result from a contractual imposition contained in the Agreement signed between the East-Timor Government and the partners of the blocks in East-Timor in which the Company participates, where they commit to carry out expenditures on seismic acquisition and drilling during the exploration period. The amount of guarantees relates essentially to the liability of the Company that equals the percentage of participation in the consortium;

- As of 31 December 2010 there were guarantees given to third parties on account of group and associated companies in the total amount tEuros 14,901;

- As of 31 December 2010 there were also guarantees of tEuros 3,732 in favour of third parties in guarantee of good and full execution of and compliance with the obligations resulting from contracts entered into between the parties;

- As of 31 December 2010 the Group had Standby letter import credits amounting to tUSD 12,900 relating to insurance premiums.

## 34. INFORMATION REGARDING ENVIRONMENTAL MATTERS

The main challenges facing refining operations are the 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 by 243-A/2004 of 31 December and as amended by Decree-Law 230/2005 of 29 December establishes the greenhouse gas emissions trading regime (Diploma CELE), which applies to the industrial activity gas emissions listed on Appendix I thereof, which includes the Galp Energia Group's installations.

Order 2836/2008, which approves the existing list of installations participating in Emissions Trading for the 2008-2012 period and related initial granting of Emission Licences (EL), was published in Diário da República (Journal of the Republic). The Group believes that the quantity of greenhouse gas emission licences granted for the refining and co-generating sectors of the Group for the 2008-2012 period in accordance with the Order are sufficient to cover the needs of the installations currently operating considering the production profiles for the five year period.

In 2010, the Group was informed by the Portuguese environmental agency from the definitive emission licenses to be granted to the facilities of cogeneration of Sines (included in the Refinery of Sines table below), that are distributed until 2012 as follows:

- 2009: 241,635 Ton/$CO_2$ (of which 239.772 t $CO_2$ corresponds to the period of tests and trials);
- 2010: 169,735 Ton/$CO_2$;
- 2011: 44,248 Ton/$CO_2$;
- 2012: 44,248 Ton/$CO_2$.

In 2009, a number of 258,184 Ton/$CO_2$ of estimate licenses from the Sines cogeneration were added to the emissions licenses delivered, under the PNALE II. However in 2010 it was found that the licences actually granted to Sines cogeneration were 241,635 Ton/$CO_2$ so the 2010 delivered licenses were corrected for this differential.

The following tables show the installations operated by the Group and related annual emission licences granted under PNALE II (Plano Nacional de Alocação de Licenças de Emissão) designated EUA's and the emission reduction certificates designated CER's, as well as the quantities of greenhouse effect gas emissions (Ton/CO2) per installation:

**EUA'S**

| Company | Facilities | EUA's Licenses held Ton/$CO_2$ at 01/01/2010 | Licenses held Ton/$CO_2$ assigned | Licenses Ton/$CO_2$ delivered | Licenses Ton/$CO_2$ transferred | Licenses Ton/$CO_2$ sold | Licenses held Ton/$CO_2$ at 31/12/2010 |
|---|---|---|---|---|---|---|---|
| Petrogal | Sines Refinery (a) | 2,155,102 | 2,290,736 | (1,728,219) | (1,050,000) | - | 1,667,619 |
| | Oporto Refinery | 974,285 | 1,098,025 | (887,856) | (415,000) | - | 769,454 |
| | | **3,129,387** | **3,388,761** | **(2,616,075)** | **(1,465,000)** | **-** | **2,437,073** |
| Carriço Cogeração | Cogeneration | 122,057 | 161,539 | (120,987) | (75,000) | - | 87,609 |
| Powercer | Cogeneration | 47,965 | 47,192 | (35,100) | (35,000) | - | 25,057 |
| | | **170,022** | **208,731** | **(156,087)** | **(110,000)** | **-** | **112,666** |
| Galp Power | n.a. | - | - | - | 1,575,000 | (1,575,000) | - |
| | | **3,299,409** | **3,597,492** | **(2,772,162)** | **-** | **(1,575,000)** | **2,549,739** |

(a) The columm of licences assigned includes licences with the cogeneration of Sines, as well as adjustments in 2009.

**CER'S**

| Company | Facilities | CER's certificate held Ton/$CO_2$ at 01/01/2010 | Purchased Ton/$CO_2$ certificates | Delivered Ton/$CO_2$ certificates | Transferred Ton/$CO_2$ certificates | Sold Ton/$CO_2$ certificates | CER's certificates held Ton/$CO_2$ at 31/12/2010 |
|---|---|---|---|---|---|---|---|
| Petrogal | Sines Refinery | - | - | - | 570,000 | - | 570,000 |
| | Oporto Refinery | - | - | - | 285,000 | - | 285,000 |
| | | **-** | **-** | **-** | **855,000** | **-** | **855,000** |
| Carriço Cogeração | Cogeneration | - | - | - | 35,000 | - | 35,000 |
| Powercer | Cogeneration | - | - | - | 10,000 | - | 10,000 |
| | | **-** | **-** | **-** | **45,000** | **-** | **45,000** |
| Galp Power | n.a. | - | 900,000 | - | (900,000) | - | - |
| | | **-** | **900.000** | **-** | **-** | **-** | **900.000** |

**Held certificates and licenses**

| Company | Facilities | EUA's license held Ton/$CO_2$ at 31/12/2010 | CER's held Ton/$CO_2$ at 31/12/2010 | EUA's and CER's held Ton/ $CO_2$ at 31/12/2010 | $CO_2$ emissions up to December 2010 (a) | Excess / (Insufficiency) of licenses and certificates |
|---|---|---|---|---|---|---|
| Petrogal | Sines Refinery | 1,667,619 | 570,000 | 2,237,619 | 2,044,389 | 193,230 |
| | Oporto Refinery | 769,454 | 285,000 | 1,054,454 | 781,425 | 273,029 |
| | | **2,437,073** | **855,000** | **3,292,073** | **2,825,814** | **466,259** |
| Carriço Cogeração | Cogeneration | 87,609 | 35,000 | 122,609 | 112,925 | 9,684 |
| Powercer | Cogeneration | 25,057 | 10,000 | 35,057 | 33,552 | 1,505 |
| | | **112,666** | **45,000** | **157,666** | **146,477** | **11,189** |
| Galp Power | n.a. | - | - | - | - | - |
| | | **2,549,739** | **900,000** | **3,449,739** | **2,972,291** | **477,448** |

(a) $CO_2$ emissions values are proforma and will be subject to environmental audits.

In 2010, the subsidiary Galp Power S.A., acquired 500 Future $CO_2$ with maturity in December 2011 (Note 27). Those $CO_2$ Futures represent 500,000 ton/$CO_2$.

During 2010 some Group companies transferred to Galp Power, S.A. a total of 1,575,000 Ton/$CO_2$ emission licenses of which 675,000 Ton/$CO_2$ were in excess from previous years, without expectation of use (resulting from the Sines refinery stop and from investments that promote energy efficiency and improved environment performance). The remaining licenses sold of 900,000 Ton/$CO_2$ resulted from simultaneous acquisition of CER's in the same quantity. As result of those transactions the net amount of tEuros 13,995 was recorded as operation income (Note 5).

Galp Energia Group has not recognised in its financial statements the potential valuation or devaluation of these licences. Acquired or sold licences will be recorded if acquired/sold.

However, if an insufficiency of licences occurs the appropriate provision will be recorded, if that becomes appropriate. The licences allocated to the Group at 31 December 2010 exceed the volume of gases issued and so no provision was recorded for the year.

## 35. SUBSEQUENT EVENTS

There are no relevant subsequent events between the date of the financial statements and the date of their approval.

## 36. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 25 February 2011.

## 37.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

Carlos Alberto Nunes Barata

## THE BOARD OF DIRECTORS

Francisco Luís Murteira Nabo

Manuel Ferreira De Oliveira

Manuel Domingos Vicente

Fernando Manuel dos Santos Gomes

José António Marques Gonçalves

André Freire de Almeida Palmeiro Ribeiro

Carlos Nuno Gomes da Silva

Rui Paulo da Costa Cunha e Silva Gonçalves

João Pedro Leitão Pinheiro de Figueiredo Brito

Luca Bertelli

Claudio De Marco

Paolo Grossi

Fabrizio Dassogno

Giuseppe Ricci

Luigi Spelli

Joaquim José Borges Gouveia

Maria Rita Galli

# REPORTS AND OPINIONS

## AUDITORS' REPORT

### CONSOLIDATED FINANCIAL STATEMENTS

(Translation of a report originally issued in Portuguese – Note 37)

**Introduction**

1. For the effects of the article 245.º of the Securities Market Code we present our Auditors' Report on the consolidated financial information contained in the consolidated Board of Directors' Report and the consolidated financial statements as of 31 December 2010, of Galp Energia, SGPS, S.A. ("the Company") and subsidiaries ("the Group"), which comprise the Consolidated Statement of Financial Position as of 31 December 2010 (that presents total assets of 9,162,128 thousand Euros and shareholder's equity of 2,711,069 thousand Euros, including a consolidated shareholder's net profit of 441,375 thousand Euros), the Consolidated Statements of Income, Comprehensive Income, Changes in Equity and Cash Flows 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 result and comprehensive income of their operations, changes in equity and cash flows and; (ii) the preparation of historical financial information in accordance with International Financial Reporting Standards as adopted by the European Union that is complete, true, timely, clear, objective and licit, as required by the Securities Market Code; (iii) the adoption of adequate accounting policies and criteria and the maintenance of appropriate of internal control systems and (iv) the disclosure of any significant facts that have influenced their operations and the operations of the companies included in the consolidation, their financial position, their result and comprehensive income.

3. Our responsibility is to examine the financial information contained in the above mentioned documents, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Securities Market Code, and to issue a professional and independent report based on our examination.

**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 is planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation. Our examination also included verifying the consolidation procedures used and 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 disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, assessing the adequacy of the overall presentation of the consolidated financial statements and assessing if, in all material respects, the financial information is complete, true, timely, clear, objective and licit. Our examination also comprised verifying that the consolidated financial information included in the consolidated Board of Directors' Report is consistent with the other 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. and subsidiaries as of 31 December 2010, the consolidated result and comprehensive income of their operations, changes in equity and cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union, consistently applied, except for the matter described in the Note 2.23 to the consolidated financial statements, and the information contained therein is, in terms of the definitions included in the standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

Lisbon, February 25, 2011

Deloitte & Associados, SROC S.A.
Represented by Jorge Carlos Batalha Duarte Catulo

## CERTIFICATION OF CONSOLIDATED ACCOUNTS

### Introduction

1. We have examined the consolidated financial statements of Galp Energia, SGPS, S.A. (the "Company") for the financial year ended on 31 December 2010. These include the consolidated balance sheet at 31 December 2010 (which evidences a total of 9,162,128 thousand euros and shareholders' equity of 2,711,069 thousand euros including consolidated net profit attributable to the Company's shareholders and recognised in the consolidated income statement of 441,375 thousand euros and total minority interests of 32,201 thousand euros), the consolidated statements of income, integral revenue, changes in equity and cash flows for the financial year ended on the aforementioned date, and the relevant notes to the consolidated financial statements. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

### Responsibilities

2. It is the board of directors' responsibility to prepare such separate consolidated financial statements that will represent in a true and appropriate manner the financial position of the consolidated companies, the consolidated results and integral revenue of their operations, the changes in the consolidated equity and their consolidated cash flows, to adopt adequate accounting policies and principles, to maintain an appropriate internal control system and to report any relevant events that may have influenced the activities, financial position or results of the consolidated companies.

3. Our responsibility consists of expressing a professional and independent opinion, based on our examination of the mentioned financial statements.

### Scope

4. Our examination was conducted in accordance with the Portuguese Institute of Statutory Auditors' Technical Standards and Audit Guidelines, which require it to be planned and executed in order to ascertain, to an acceptable safety degree, whether the consolidated financial statements are free of materially relevant distortions. To this end, the examination has included checking, on a sampling basis, the support for the amounts and information disclosed in the financial statements, evaluating the estimates based on judgments and criteria as defined by the board of directors and used in the preparation of the statements, checking the consolidation transactions and the financial statements of the consolidated companies, appraising the adequacy of adopted accounting principles and their uniform application and disclosure, in view of the circumstances, checking the applicability of the principle of continuing operations and evaluating the overall adequacy of the consolidated financial statements' presentation.

5. Our examination has also checked the consistency of the information in the consolidated management report with the other consolidated financial statements, as well as the verifications laid down in article 451, paragraphs 4 and 5, of the Companies Code.

6. We consider that our examination provides an acceptable basis for the expression of our opinion.

### Opinion

7. In our opinion, the aforementioned consolidated financial statements represent in a true and appropriate manner, in all materially relevant aspects, the financial position of Galp Energia, SGPS, S.A. and its subsidiaries at 31 December 2010, the consolidated results and integral revenue of their operations, the changes in consolidated shareholders' equity and their consolidated cash flows in the financial year ended on that date, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, which were consistently applied with the previous year, except for the situations mentioned in the note 2.23 of the Appendix to the consolidated financial statements.

### Reporting on other legal requirements

8. It is also our opinion that the information in the consolidated management report is consistent with the consolidated financial statements of financial 2010 and the corporate governance report includes the required elements pursuant to article 245-A of the Securities Code.

Lisbon, 28 February 2011

P. Matos Silva, Garcia Jr., P. Caiado & Associados
Statutory Auditors
represented by Pedro Matos Silva

## STATEMENT OF COMPLIANCE BY THE BOARD OF DIRECTORS

According to article 245, first paragraph c), of the SC.

The board of directors declares that, to the best of their knowledge, the information mentioned in article 245, first paragraph a), of the SC for the separate and consolidated financial statements (i) was prepared in compliance with the applicable accounting requirements and give a true and fair view of the assets, liabilities, financial position and profit or loss of Galp Energia and the companies included in the consolidation as a whole, (ii) includes a fair review of the development of the business and the performance and position of Galp Energia and the undertakings included in the consolidation taken as a whole and (iii) includes an accurate description of the principal risks faced by Galp Energia's operations.

### Board of directors

**Chairman:**
Dr. Francisco Luís Murteira Nabo

**Vice-chairman:**
Manuel Ferreira De Oliveira

**Directors:**
Manuel Domingos Vicente
Fernando Manuel dos Santos Gomes
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
Carlos Nuno Gomes da Silva
Rui Paulo da Costa Cunha e Silva Gonçalves
João Pedro Leitão Pinheiro de Figueiredo Brito
Luca Bertelli
Claudio De Marco
Paolo Grossi
Fabrizio Dassogno
Giuseppe Ricci
Luigi Spelli
Joaquim José Borges Gouveia
Maria Rita Galli

# SUPERVISORY BOARD'S REPORT AND OPINION

(Translation of a report originally issued in Portuguese)

## CONSOLIDATED FINANCIAL STATEMENTS

Dear shareholders,

For a company such as Galp Energia, SGPS, S.A. that has the most important part of its activities in the Iberian Peninsula, the year 2010 was not easy: the internal market, in both countries, continued very contracted, with a significant impact on the sales of products derived from oil and natural gas; Portugal's sovereign debt crisis caused a tightening of credit conditions, which was very untimely since it was one of the years with a higher capital expenditure effort in the history of the company.

Even in such adverse conditions, Galp Energia presented very satisfactory results: sales of goods and services increased by 17%, EBITDA grew 27%, operating profit went up by 39% and net profit grew 27% (increases of 17%, 36%, 58% and 43%, respectively, if the accounts are expressed in replacement cost adjusted, as the sector uses internationally). The increase in the refining margins (an exogenous factor), the operational improvements obtained in several business areas and the expansion, by acquisition, of the distribution networks of oil and natural gas in Spain mainly contributed to those results.

The area of exploration and production of oil, namely the operation in Brazil, also had a good performance.

In the performance of its duties in 2010, the supervisory board had the opportunity to monitor the Company's workings closely and in detail in all matters of its remit, having cooperated with:

- the chairman of the board of directors, the chairman of the executive committee and director, the executive director responsible for Corporate Finance, Accountancy and Treasury and for Legal Services and Company Secretariat;
- the heads of the Internal Audit, Accountancy and Treasury and the Legal Services and Company Secretariat departments;
- the statutory auditor;
- the external auditors.

All these entities provided complete answers to the questions posed by the supervisory board, namely regarding the manner in which they perform their supervisory and risk control duties as well as the assessment of the sustainability of the company's businesses. The supervisory board is grateful for being able to testify the high standards of professionalism with which all those activities were discharged and the high care of their managers in adopting applicable best international practices.

At the end of the financial year, the supervisory board reviewed in particular the accounting treatment of assets likely to attract discretionary or subjective interventions. The questions asked to the internal departments, the statutory auditor and the external auditors regarding the criteria and principles used in treating these situations on the consolidated balance sheet and the consolidated income statement were all answered to the entire satisfaction of the supervisory board.

Dear shareholders,

Upon being informed by the statutory auditor of the content of the legal certification of consolidated accounts, with which we are in agreement, our opinion is that:

- the consolidated management report for financial 2010 and the accompanying corporate governance report and sustainability report should be approved;
- the consolidated accounts (the balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the statement of integral revenue, the consolidated cash flow statement and the notes appended to the consolidated financial statements) for financial 2010 should be approved;

The supervisory board declares that to the best of its knowledge the information mentioned on the article 245, first paragraph a) of the Portuguese Securities Code for the consolidated financial statements (i) was prepared in compliance with the applicable accounting requirements and gives a true and fair view of the assets, liabilities, financial position and earnings of Galp Energia and the companies included in the consolidation as a whole, (ii) includes a fair review of the development of the business and the performance and position of Galp Energia and the companies included in the consolidation as a whole and (iii) includes a description of the main risks that Galp Energia is exposed to in its operations.

Lastly, the supervisory board wishes to express its gratitude to the board of directors and to the executive committee of Galp Energia, SGPS, S.A., whose cooperation materially simplified, at all times, the activities related to the supervisory board's duties.

Lisbon, 14 March 2011

**Chairman** - Daniel Bessa Fernandes Coelho
**Member** - José Gomes Honorato Ferreira
**Member** - José Maria Rego Ribeiro da Cunha

# GLOSSARY AND ACRONYMS

## GLOSSARY

### API gravity
Gravity expressed in API, defined by the American Petroleum Institute (API) as the following formula: API° = (141.5/g) – 131.5, where g is the density of the crude oil at 60 degrees Fahrenheit (15.6ºC); it is used worldwide to refer to the density of crude oil: the higher the API gravity, the lighter the crude oil.

### Aromatics
A group of unsaturated cyclic hydrocarbons characterised by having at least one benzene ring and known as aromatics for their distinctive sweet odour. Common aromatics include benzene, toluene and xylene.

### Atmospheric distillation
Crude oil distillation at atmospheric pressure. By this process, oil components are separated into fractions such as light gasoline, heavy gasoline, gas oil and heavy products. After receiving adequate treatment, these fractions become the components of finished refined products.

### Barrel of oil (bbl)
A unit volume measurement used for petroleum, based on the volume of one barrel, equal to 0.15891 $m^3$ for a crude oil barrel at 60 degrees Fahrenheit (15.6ºC).

### Base oil
The main component of lubricant blends, obtained from distillates after being subjected to several processes.

### Bitumen
A solid, semi-solid or viscous mixture of hydrocarbons, obtained by primary distillation of crude oil or as a product of residual vacuum distillation. It is waterproof and sticky and is primarily used for paving roads, though it also has industrial uses.

### Brent
A light North Sea crude oil that incorporates, since July 2006, Forties and Oseberg grades. This basket of crudes has an average API of 38.90 API.

### Catalytic reforming or platforming
The conversion of a lighter fraction (such as heavy gasoline), obtained through primary distillation, into a heavier fraction based on aromatics ('reformate') and with higher octane levels.  It therefore constitutes a major blending component for finished gasoline. These reactions are obtained in the presence of a catalyst (platinum) and produce significant quantities of hydrogen. Reformates are also the main feedstock for the petrochemical industry (production of benzene, toluene and xylene).

### $CO_2$
Carbon dioxide, a colourless gas, heavier than air, and one of its natural components. It is produced through natural processes such as the carbon cycle and by the combustion of fossil fuels.

### Cogeneration
A generation technique for combined electricity and heat production. The advantage of cogeneration is the ability to capture the heat produced by the fuel which is lost in traditional electricity generation. This process also allows the same facility to meet the heating (hot water or steam) and electricity needs of both industrial and local authority customers. This system improves the energy efficiency of the generation process and reduces fuel use.

### Combined-Cycle Gas Turbine (CCGT)
An electric power plant that usually integrates a gas turbine and a steam turbine. CCGT has a first-cycle gas turbine that generates electricity through the combustion of gas. The exhaust gases (heat) from this process are converted into steam in a heat-recovery steam generator, which then fuels a second-cycle steam turbine, producing more electricity.

### Commodity
A largely homogeneous product, produced in large quantities by many different producers, where items from different producers are considered interchangeable and of more or less undifferentiated quality. Oil, cereals and metals are examples of commodities.

### Complexity
A key industry measure referring to an oil refinery's ability to process feedstock such as heavier and higher sulphur-content crude oils into value-added products. Generally, the higher the complexity and the more flexible the range of feedstock, the better positioned the refinery is to take advantage of lower-priced crude oils, resulting in incremental gross margin opportunities for the refinery. A refinery's complexity is measured by a 'complexity index' which is separately calculated by different industry organisations, among them energy consultants Solomon Associates and Nelson. A refinery's complexity index is calculated by assigning a complexity factor to each of the refinery's units, based primarily on the level of technology used in the unit's construction and taking as a reference point a primary crude-oil distillation plant that is attributed a complexity factor of 1.0. Each unit's complexity index is calculated by multiplying the unit's complexity factor by the unit's capacity. A refinery's complexity is equal to the weighted average of the complexity indices of all units including the distillation unit. A refinery with a complexity index of 10.0 is considered 10 times more complex than a refinery equipped only with atmospheric distillation for the same amount of throughput.

### Condensates
Liquid hydrocarbons found at the surface which may also, under normal temperatures and atmospheric conditions, be recovered from natural gas reservoirs. Condensates are mainly composed of pentane and other heavier products.

### Contingent resources
These are quantities of petroleum that are estimated on a given date to be potentially recoverable from known accumulations but are not currently considered to be commercially recoverable. This may happen for a variety of reasons, for example: maturity issues (the discovery needs further appraisal in order to firm up the elements of the development plan); technological issues (new technology needs to be developed and tested in order to produce the volumes commercially); or market-driven issues (sales contracts are not yet in place or the infrastructure needs to be developed in order to get the product to market). Volumes that fall into this category cannot be referred to as reserves.

### Conversion
Refers to the several treatments (catalytic or thermal) whose main impact is on the carbon connections. It can be more or less intense depending on the conditions imposed. This process is usually associated with the conversion of fuel oil into lighter and more valuable fractions (gasoil, gasoline and petroleum gases). These processes are increasingly important in a modern refinery.

### Crack spread
The difference between the price of the final oil product and the price of crude oil.

### Cracking
The refining process of breaking down the larger, heavier, lower-value and more complex hydrocarbon molecules into simpler, lighter and higher-value molecules. Cracking is carried out either at high temperatures and pressures (thermal cracking) or with the aid of a catalyst (catalytic cracking), which enables, at the same temperatures, a deeper and more precise conversion of heavier fractions.

### Crude utilisation rate
The ratio of the total amount of crude oil processed through crude oil distillation units compared to the operable capacity of these units.

### Dated Brent
The price for prompt shipments of Brent crude as reported by price agencies. It is the price benchmark for the vast majority of crude oils sold in Europe, Africa and the Middle East and one of the most important benchmarks for spot market prices.

### Desulphuration
A purification process designed to eliminate sulphur oxygen, nitrogen and metals from petroleum-refined products. Desulphuration can be achieved through catalytic or chemical methods.

### Diesel
A blend of hydrocarbons used as a fuel for ignition by compression engines “Diesel cycle”. Its characteristics, such as its behaviour in low temperatures, vary greatly between those regions or countries where it is used.

### Distillates
Any petroleum product produced by the distillation of crude oil.

### Distillation
A method for separating (liquid or solid) substances by evaporation followed by condensation. Distillation may take place under atmospheric pressure or in a vacuum, depending on what products are desired.

### Emissions
The release of gases into the atmosphere. In the context of global climate change, they include potentially climate-changing greenhouse gases such as carbon dioxide released during fuel combustion.

### Fluid Catalytic Cracking (FCC)
A cracking process using a fluid catalytic agent that is continuously regenerated. It is an effective method for increasing the gasoline yield of crude oil.

### Free float
The percentage of the shares in a listed company that are freely traded on the market – ie those not held by strategic investors.

### Fuel oil
A blend of hydrocarbons mainly used for heat production in thermal installations. There are several types of fuel oil with different viscosity levels that limit the uses of each type.

### Gasoline
Fuel for internal combustion engines in automobiles that use the Otto cycle. It must comply with specifications regarding its physical and chemical characteristics, the most important of which is resistance to self-inflammation.

### Generation
The process of producing electric energy by transforming other forms of energy. The amount of energy can be expressed in joules, kilowatt-hours, calories or British thermal units; all these units can be applied to all kinds of energy irrespective of their source.

### Henry Hub
A monthly pricing benchmark for natural gas in the USA. The USA has two separate markets for natural gas (the spot and futures markets). Natural gas futures are traded on the New York Mercantile Exchange (NYMEX). This is the most widely quoted US natural gas price. The NYMEX natural gas contract calls for delivery at a location in North West Louisiana called Henry Hub. However, less than 1% of all futures contracts are ever held to delivery. The NYMEX natural gas contract serves instead as the Henry Hub benchmark for monthly pricing.

### Hydrocracking
A cracking process that uses hydrogen in the presence of a catalyst to convert heavier fractions of hydrocarbons with higher boiling points and less value into lighter and more valuable fractions. The presence of hydrogen allows the fractions to operate more selectively and at lower temperatures, thus yielding higher returns. The products resulting from this process are saturated compounds with significant stability characteristics.

### Jet fuel
Fuel for jet engines used in aviation.

## Liquefied natural gas (LNG)
The liquid that results when natural gas is cooled to approximately –160ºC at atmospheric pressure. LNG's volume is approximately 1/600 of the volume of natural gas, making it more efficient for transportation.

## Liquefied Petroleum Gas (LPG)
A mixture of hydrocarbons that is gaseous under normal temperature and atmospheric conditions but can be liquefied by increasing the pressure or lowering the temperature for transportation and storage. The most common types are propane and butane.

## Lubricants
Products obtained by blending base oils and additives into particular formulations whose form depends on their final utilisation. The proportion of additives in lubricants can reach 40%. Lubricants have three major applications: automotive, industry and marine.

## MTBE
Methyl Tertiary Butyl Ether, an oxygenate component (performance-enhancing fuel additive) used in the production of gasoline.

## Naphtha
A light fraction of refined crude oil between gases and petroleum. It is used as feedstock by the petrochemical industry, as its cracking supplies several products. It can also be used as a component in gasoline (light naphtha) or to produce reformate (heavy naphtha).

## Net entitlement production
The production percentage of the rights for the exploration and production of hydrocarbons in a concession following production-sharing agreements.

## Offshore exploration
Crude oil exploration that takes place at sea. Offshore exploration is carried out in shallow water (less than 1,000 feet), deep water (between 1,000 and 5,000 feet) or ultra-deep water (more than 5,000 feet).

## Onshore exploration
Crude oil exploration that takes place on land.

## Petrochemicals
An intermediate product of oil refining which is used as a feedstock for polymers and various other chemical products.

## Prospective resources
Quantities of petroleum that have, on a certain date, been estimated as potentially recoverable from undiscovered accumulations through future development projects. The estimation of a prospect's quantities is subject to both commercial and technological uncertainties. The quantities classified as prospective resources cannot be classified as contingent resources or reserves.

## Proved reserves (1P)
Under the definitions approved by the SPE and the WPC, proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and government regulations. If deterministic methods are used, the expression 'reasonable certainty' is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The definition of current economic conditions should include relevant historical petroleum prices and associated costs. In general, reserves are considered proven if the commercial producibility of the reservoir is supported by actual production or formation tests. In this context, the term 'proven' refers to the actual quantities of petroleum reserves and not just the productivity of the well or reservoir. The area of the reservoir considered as proven includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) the undrilled portions of the reservoir that can reasonably be judged as commercially productive on the basis of available geological and engineering data. Reserves may be classified as proven if facilities to process and transport those reserves to market are operational at the time of the estimate or there is a reasonable expectation that such facilities will be installed.

## Proved and probable reserves (2P)
2P reserves correspond to the addition of proved (1P) and probable reserves. Under the definitions approved by the SPE and the WPC, probable reserves are a category of unproved reserves. Unproved reserves are based on geological or engineering data similar to those used in estimates of proved reserves but in relation to which technical, contractual, economic or regulatory uncertainties preclude such reserves from being classified as proven. Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, have lower probability of being recovered than the proved reserves, but higher than the possible reserves. If probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the 2P estimate.

## Proved, probable and possible reserves (3P)
3P reserves correspond to the addition of proved, probable and possible reserves. Under the definition approved by the SPE and the WPC, the possible reserves are a category of unproved reserves. Unproved reserves are based on geological or engineering data similar to those used in estimates of proved reserves but in relation to which technical, contractual, economic or regulatory uncertainties preclude such reserves from being classified as proven. The possible reserves have lower probability of being recovered than the probable reserves. If probabilistic methods are used, there should be at least a 10% probability that the quantities actually recovered will equal or exceed the 3P estimate.

## Refinery
An industrial facility used to process crude oil in order to transform it into the products needed by end consumers (fuels, lubricants, bitumen, etc) or feedstock for other industries (such as the petrochemical industry).

## Regasification
Processing LNG to convert it into its natural gaseous state by thermal exchange with water or air.

## Renewable energy
Energy available from natural and permanent sources that can be exploited economically in present conditions or in the near future.

## Replacement cost adjusted results (RCA)

In addition to using the replacement cost method, adjusted profit excludes non-recurrent events such as capital gains or losses on the disposal of assets, impairment or reinstatement of fixed assets and environmental or restructuring charges which may affect the analysis of the company's profit and do not reflect its operational performance.

## Replacement cost results (RC)

As the financial statements have been prepared according to IFRS, the cost of goods sold is valued at weighted average cost (WAC). This may, however, lead to substantial volatility in results when commodities and goods prices fluctuate sharply leading to gains or losses in inventory, which may not reflect operational performance. In this document, we call this impact the inventory effect. According to this method, the cost of goods sold is valued at replacement cost, i.e. at the average cost of the raw materials in the month when the sales were realised and irrespective of the inventories held at the start or the end of the period. The replacement cost method is not accepted by either Portuguese GAAP or IFRS and is therefore not used to value inventories. The method does not reflect the replacement cost of other assets.

## Rotterdam cracking refining margin or Rotterdam benchmark

Also known as Rotterdam benchmark, this is the most commonly used refining margin benchmark in Europe. The refining margins are usually compared with benchmark margins for three major global refining centres. These are the US Gulf Coast (USGC), North West Europe (NWE – Rotterdam) and Singapore. In each case, they are based on a single crude oil appropriate for that region and have optimised product yields based on a generic refinery configuration (cracking, hydrocracking or coking) appropriate for that region. The margins are on a semi-variable basis, which means they are calculated after all variable costs and fixed energy costs have been deducted. The Northwest Europe Refining Margin is determined by using as a reference point the prices achieved by refinery products in the Antwerp-Rotterdam-Amsterdam region.

## Spot market

With respect to commodities such as oil, this is a term used to describe the international trade in one-off cargoes or shipments of commodities such as crude oil in which prices closely follow demand and availability.

## Tank farm

An installation used by trunk and gathering pipeline companies, crude oil producers and terminal operators (except refineries) to store crude and oil products.

## Vacuum distillation

A distillation process that takes place at lower than atmospheric pressure. The residue (heavier fractions) of the atmospheric distillation is subject to vacuum distillation to separate it without causing the residue to decompose by lowering the pressure and consequently its boiling point. It is used, for example, in the production of base oils.

## Wind farm

A group of wind turbines interconnected to a common utility system through a system of transformers, distribution lines and (usually) one substation. Operation, control and maintenance functions are often centralised through a network of computerised monitoring systems, supplemented by visual inspection.

## Wind power

The kinetic energy present in wind motion, which can be converted into mechanical energy for driving pumps, mills and electric power generators.

## Working interest production

The production percentage of the rights for exploration and production of hydrocarbons in a concession before the effect of production-sharing agreements.

## ACRONYMS

**Amorim Energia:** Amorim Energia, B.V.
**AGM:** Annual general meeting
**ANP:** Agência Nacional do Petróleo, Gás Natural e Biocombustível (Brazil's energy regulator)
**API:** American Petroleum Institute
**BAT:** best available techniques
**bbl:** barrel of oil
**BBLT:** Benguela-Belize-Lobito-Tomboco
**bcm:** billion cubic metres
**BG:** Bg Group, plc
**Boe:** Barrel of oil equivalent
**CAPEX:** Capital Expenditure
**CC:** The Portuguese companies code
**CCGT**: combined cycle gas turbine plant
**CEO:** Chief executive officer
**CFO:** Chief financial officer
**CGD:** Caixa Geral de Depósitos, S.A.
**CLH:** Compañía Logística de Hidrocarburos, S.A.
**CMVM:** Comissão do mercado de valores imobiliários (Portuguese securities Market Commission
**CNPE:** Conselho Nacional de Política Energética
**CO:** Company-operated
**CONCAWE:** Conservation of Clean Air and Water in Europe
**CoSO:** Committee of Sponsoring Organizations
**$CO_2$:** Carbon dioxide
**C&L:** Consumptions and losses
**CPT:** Compliant Piled Tower
**DEMAC:** Degolyer and Macnaughton
**DO:** Dealer-operated
**E&P:** Exploration & Production
**EBIT:** Earnings before interest and taxes
**EBITDA:** Earnings before interest, taxes, depreciation and amortisation
**ECB**: European Central Bank
**EIA:** Energy Information Administration
**EMPL**: Europe Magrebe Pipeline
**ENH:** Empresa Nacional de Hidrocarbonetos
**Eni:** Eni, S.p.A.
**EPC:** Engineering, procurement and construction
**EPCM:** Engineering, procurement, construction and management
**EPS:** Earnings per share
**EQS:** Environment, quality and safety
**ERSE:** Entidade Reguladora dos Serviços Energéticos (Portuguese energy regulator)
**EU ETS:** European Union Emissions Trading Scheme
**EWT:** Extended well test
**€ :** euro
**FCC:** Fluid catalytic cracking
**FEED:** Front-end Engineering & Design
**Foundation:** Fundação Galp Energia
**FLNG:** Floating LNG
**FPSO:** Floating, Production, Storage and Offloading unit
**G&P:** Gas & Power
**Galp Energia:** Galp Energia, SGPS, S.A., the Company, the Group
**GDP:** Gross domestic product
**GHG:** Greenhouse gases
**GWh:** Gigawatt per hour
**HSE:** Health, safety and environment
**ICE:** Intercontinental Exchange
**IEA:** International Energy Agency
**IMF:** International Monetary Fund
**IRP:** Oil tax paid in Angola
**kboepd:** thousand barrels of oil equivalent per day
**kbopd:** thousand barrels of oil per day
**kton:** thousand tonnes
**LNG:** Liquefied natural gas
**LPG:** Liquefied petroleum gas
**$m^3$:** cubic metres
**M € :** million euros
**Mbbl:** million barrels
**Mboe:** million barrels of oil equivalent
**Mboepd:** million barrels of oil equivalent per day
**Mbopd:** million barrels of oil per day
**$Mm^3$ :** million cubic metres
**Mton:** million tonnes
**NLNG:** Nigeria LNG
**$Nm^3/h$:** Normal cubic metre per hour
**NYMEX:** New York Mercantile Exchange
**NWE:** North West Europe
**OECD:** Organization for Economic Cooperation and Development
**OPEC:** Organization of Petroleum-Exporting Countries
**OPEX:** Operating expenses
**OTC:** Over-the-Counter
**Petrobras:** Petroleo Brasileiro, S.A.
**PDVSA:** Petróleos de Venezuela, S.A
**PHV:** Plug-in hybrid vehicles
**p.p.:** percentage points
**PSA:** Production-sharing agreement
**R&D:** Research & Development
**R&M**: Refining & Marketing
**RAB:** Regulated asset base
**RBOB:** Reformulated Blendstock for Oxygenate Blending
**RC:** Replacement cost
**RCA:** Replacement cost adjusted
**RSL:** Refining, Supply and Logistics
**SC:** The Portuguese securities code
**Shell:** Royal Dutch Shell, plc
**SPE:** Society of Petroleum Engineers
**SROC:** Firm of statutory auditors
**SXEP:** Index DJ Europe STOXX Oil & Gas
**SW:** South West
**TL:** Tômbua-Lândana
**ton:** tonne
**USA:** United States of America
**Usd:** U.S. dollar
**USSR:** Union Soviet of Socialist Republics
**WAC:** Weighted average cost
**WPC:** World Petroleum Council

**Disclaimer**

This Annual Report & Accounts contains forward-looking statements about the activities and results of Galp Energia as well as some Company plans and objectives. The terms "anticipates", "believes", "estimates", "expects", "predicts", "aims", "plans" and other similar ones aim to identify such forward-looking statements. As a result of their nature, forward-looking statements involve risks and uncertainties as they are associated with events and circumstances that may occur in the future. Real outcomes and developments may as a result of several factors differ significantly from outcomes, either express or implicit, in the statements. These include but are not limited to changes in costs, economic conditions or regulatory framework.

Forward-looking statements only refer to the date when they were made and Galp Energia has no obligation to update them in the light of new data or future developments or otherwise explain the reasons actual outcomes are possibly different.

EDITION

galp energia

REVISION

[S] SINÓPTICA

Stratton Craig

ONOMA

DESIGN AND CONCEPTION

**STRAT**

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