Galp Energia, SGPS, S.A.
Headquarters: Rua Tomás da Fonseca Torre C, 1600-209
Lisbon Share Capital: 829,250,635 Euros
Registered with the Lisbon Commercial Registry; Legal Entity
No. 504 499 777
(Issuing Entity)

PARPÚBLICA – PARTICIPAÇÕES PÚBLICAS (SGPS), S.A.
Headquarters: Rua Laura Alves, No. 4 – 8th Floor, 1050-138
Lisbon
Share Capital: 2,000,000,000 Euros (paid-in capital of 1,027,151,031 Euros)
Registered with the Lisbon Commercial Registry
Legal Entity No. 502 769 017
(Offering Entity)

PROSPECTUS FOR PUBLIC OFFERING AND LISTING

SHARE REGISTRATION DOCUMENT

PUBLIC OFFERING OF 82,925,000 ORDINARY, REGISTERED, AND BOOK-ENTRY SHARES, WITH A PAR VALUE OF 1 EURO EACH, REPRESENTING 10%
OF THE SHARE CAPITAL OF GALP ENERGIA, SGPS,

S.A., AND

ADMISSION TO TRADING OF A MAXIMUM OF 771,171,121 ORDINARY, REGISTERED, AND
book-entry shares, with a par value of 1 euro each, representing 93% of the share capital of GALP ENERGIA, SGPS, S.A.

This Share Registration Document is an integral part of the Prospectus for the Public Offering and Admission to Trading of shares representing the share capital of Galp Energia, SGPS, S.A., and was prepared in accordance with paragraphs 2 and 3 of Article 135-B of the Portuguese Securities Code, paragraph 3 of Article 5 of Directive 2003/71/EC of the European Parliament and of the Council of November 4, 2003, and Article 4 and Annex I of Commission Regulation (EC) No. 809/2004 of April 29, 2004, as amended by the corrigendum published in the Official Journal No. L215 of June 16, 2004, and approved by the Portuguese Securities Market Commission on October 8, 2006.

The Prospectus for the Public Offering and Listing of shares representing the share capital of Galp Energia, SGPS, S.A. also includes the Summary and the Note on the Shares, which were likewise approved on October 8, 2006, by the Portuguese Securities Market Commission, and which should be read in conjunction with this Share Registration Document.

The documents comprising the Prospectus for the Public Offering and Listing of Shares representing the share capital of Galp Energia, SGPS, S.A. are available, in particular, in electronic form at www.cmvm.pt, www.euronext.com, and www.galpenergia.com.

The Prospectus for the Public Offering and Admission to Trading of the Shares should be read in conjunction with the documents incorporated by reference, which form part of it.

Global Coordinators

October 2006

TABLE OF CONTENTS

	RISK FACTORS	4
	DEFINITIONS	22
	FORWARD-LOOKING STATEMENTS	27
1	RESPONSIBLE PARTIES	30
1.1	Identification	31
1.2	Statement issued by those responsible for the Registration Document for Shares	31
2.	STATUTORY AUDITORS	32
3.	SELECTED FINANCIAL DATA	33
4.	INFORMATION ABOUT THE ISSUER	37
4.1	Background and History of the Issuer	37
4.2	Investments	39
5.	PROCESS FOR THE UNBUNDLING OF REGULATED ACTIVITIES IN THE NATURAL GAS	43
6.	OVERVIEW OF ACTIVITIES	50
6.1.	Sectoral Analysis	50
6.2.	Main Activities and Markets	73
7.	LEGISLATION GOVERNING THE ISSUER'S ACTIVITIES	120
8.	ORGANIZATIONAL STRUCTURE	143
9.	PROPERTY, PLANT, AND EQUIPMENT	150
10.	ANALYSIS OF OPERATIONS AND FINANCIAL POSITION	154
10.1	Background	154
10.2	Significant Factors Affecting Galp's Operating Results Energy	155
10.3	Factors Affecting the Comparability of Historical and Future Results and the Financial Position	158
10.4	Key Components of the Income Statement under IFRS	161
10.5	Comparison between the six-month period ended June 30, 2006, and the six-month period ended June 30, 2005	164
10.6	Comparison between the fiscal year ended December 31, 2005, and the fiscal year ended December 31, 2004	174
10.7	Comparison between the fiscal year ended December 31, 2004, and the fiscal year ended December 31, 2003	183
10.8	Seasonality	191
10.9	Treasury Stock	191
10.10	Environmental and Labor Issues	192
10.11	Major Future Investments	192
10.12	Key Accounting Policies in Accordance with IFRS	192
10.13	Off-Balance-Sheet Items in Accordance with IFRS	194
10.14	Risk Management	195
11.	FINANCIAL RESOURCES	200
11.1.	Background	200
11.2	Historical Analysis of *Cash Flows*	200
11.3	Summary of Commitments Assumed	204
11.4	Loans Obtained	205
11.5	Consolidated Net Financial Debt	207
12.	RESEARCH AND DEVELOPMENT, PATENTS, AND LICENSES	209
13.	TREND INFORMATION	211

14.	EARNINGS FORECASTS OR ESTIMATES	212
15.	MANAGEMENT AND SUPERVISORY BODIES AND SENIOR EXECUTIVES	213
15.1	Information on the members of the management and supervisory bodies of the Issuer	215
15.2	Conflicts of Interest Involving Members of the Management and Supervisory Bodies	226
16.	COMPENSATION AND BENEFITS	226
17.	OPERATION OF GOVERNING BODIES	228
17.1	Expiration Date of the Current Term of Office of the Management and Supervisory Bodies	228
17.2	Employment contracts binding the members of the Issuer's management and supervisory bodies to the Issuer	229
17.3	Information on the Issuer's Audit Committee and Compensation Committee	229
17.4	Statement regarding the Issuer's compliance with the corporate governance regime of corporate governance regime of the country of origin	229
18.	PERSONNEL	232
19.	MAJOR SHAREHOLDERS	235
20.	TRANSACTIONS WITH RELATED THIRD PARTIES	243
21.	FINANCIAL INFORMATION ON ASSETS AND LIABILITIES, THE FINANCIAL POSITION, AND THE ISSUER'S PROFITS AND LOSSES	247
21.1	Financial History	247
21.2	Pro forma financial information	247
21.3	Financial Statements	254
21.4	Period covered by the most recent financial information	255
21.5	Interim and other financial information	255
21.6	Dividend Policy	256
21.7	Litigation and Arbitration Proceedings	256
21.8	Significant Change in the Issuer's Business or Financial Condition	260
22.	ADDITIONAL INFORMATION	261
23.	SIGNIFICANT CONTRACTS	267
24.	THIRD-PARTY INFORMATION, EXPERT OPINIONS, AND STATEMENTS OF POTENTIAL INTERESTS	268
25.	DOCUMENTATION AVAILABLE TO THE PUBLIC	269
26.	INFORMATION ON SHAREHOLDINGS	270
27	DOCUMENTATION INCORPORATED BY REFERENCE	271
	APPENDIX I – GLOSSARY	272
	APPENDIX II – SUMMARY OF DIFFERENCES BETWEEN POC AND IFRS	284
	APPENDIX III – CONSOLIDATED FINANCIAL STATEMENTS	293

RISK FACTORS

Prior to making any investment decision in connection with the Offering, prospective investors should carefully consider both the risk factors set forth below and the risk factors referred to in the Note on the Shares (*see* "Note on the Shares – 'Risk Factors'") and other information and warnings contained in the Prospectus. Prospective investors should also bear in mind that the risks identified in the Prospectus are not the only ones to which Galp Energia is subject; there are other risks and uncertainties—some currently unknown or which Galp Energia does not currently consider significant—that may nevertheless have a negative effect on its business, financial condition, or operating results.

Risks Related to Galp Energia's Operations

A reduction in refining margins would negatively affect operating results and financial position.

Operating results from refining activities depend, to a large extent, on the margin between the prices Galp Energia is able to obtain in the market for its refined products and the prices of crude oil and other raw materials. The cost of acquiring raw materials and the final prices at which Galp Energia sells its refined products depend on various factors beyond Galp Energia's control. Refining margins have fluctuated and are expected to continue to fluctuate due to various factors, including:

- Changes in global demand for crude oil and refined products and, to a lesser extent, changes in demand for crude oil and refined products in the domestic market;
- Changes in environmental or other legislation that may entail substantial costs without necessarily increasing the refineries' operational capacity or efficiency;
- Changes in the operational capacity of refineries in Galp Energia's areas of influence and in the rest of Europe;
- Changes in the price differentials between heavy and light crude oil on international markets; and
- Changes in the supply of refined products, including imports.

Although an increase or decrease in the price of crude oil typically results in a corresponding increase or decrease in the price of most refined products, changes in the prices of these products generally fall far short of the increases or decreases in crude oil prices that drive them. Consequently, a rapid and significant increase in the price of crude oil could have a negative effect on refining margins. In addition, movements in crude oil prices and refining margins may, at times, not be correlated. In the current environment, crude oil prices and margins are at high levels, primarily due to strong demand in the United States, Asia, and the Middle East, as well as stricter specifications for refined products. However, there is no guarantee that these trends will continue in the future. For an analysis of the historical impact of changes in refining margins on operating results, *see* "Analysis of Operations and Financial Condition" *below*.

Changes in the prices of crude oil, natural gas, and refined products may have a negative effect on operating results or the financial position.

Demand for and prices of crude oil, natural gas, and refined products depend on various factors beyond Galp Energia's control, including:

- Global and regional economic and political developments in oil-producing regions, particularly in the Middle East and South America;
- International supply and demand for petroleum products;
- The level of demand for consumer goods;
- Changes in *stocks* of oil, natural gas, and petroleum products;
- Weather conditions and natural disasters (such as Hurricanes Rita and Katrina in 2005 in the United States);
- The price and availability of alternative products;
- Government measures;
- The impact of certain economic and political events;
- The involvement of speculators and *hedge funds*; and
- The ability of international cartels and oil-producing countries to influence production levels and prices.

Historically, there has been significant volatility in international crude oil and natural gas prices. In particular, crude oil price levels and volatility have increased significantly over the past two years, with the average benchmark price per barrel of *Brent Dated* crude rising 20.9%, from US$54.52 in 2005 to US$65.89 in the first half of 2006.

A significant decline in the price of crude oil or natural gas could have a particularly negative effect on Galp Energia's operating results or financial position, particularly in the Exploration and Production segment, by reducing the economic recoverability of discovered reserves and the prices realized from production. Furthermore, lower crude oil prices could also reduce the amount of oil that Galp Energia can produce economically or diminish the economic viability of planned or ongoing oil production projects. Galp Energia also holds *inventories* of crude oil, other raw materials, refined products, and natural gas, the value of which is negatively affected in the event of a decline in market prices.

A rise in crude oil and natural gas prices could also have an adverse effect on Galp Energia's operating results and financial position, as it could significantly increase the costs associated with purchasing crude oil and natural gas. Although the prices at which Galp Energia sells its products to its customers generally reflect market prices for oil and natural gas, these prices may not be adjusted to respond immediately or fully to increases in market prices in markets characterized by greater volatility, particularly prices in the regulated natural gas market. Any significant changes in price levels during the period between the purchase of crude oil and other raw materials and the sale of refined products could, therefore, have a particularly negative effect on Galp Energia's business, financial condition, and operating results.

For an analysis of the historical impact of changes in *crude oil* and natural gas prices on operating results, *see* "Analysis of Operations and Financial Condition" *below* and "Risk Factors—A reduction in refining margins would adversely affect operating results and financial condition" *above*.

The conversion project at the Sines refinery, aimed at increasing diesel production, may not yield the expected results.

Galp Energia plans to invest significant resources to increase diesel production capacity at the Sines refinery in order to better align the profile of its product range with current and projected future demand, as well as to increase the flexibility of its

refining processes. Several factors could significantly delay the completion of the conversion project at the Sines refinery, including problems with the implementation of new technologies, with obtaining the necessary environmental or construction permits, or with equipment deliveries for the required conversion units. If the conversion project at the refinery is not completed by the end of 2010, as planned, or if costs exceed projections or other significant problems arise, or if there is a decline in demand for diesel, this could have a material adverse effect on Galp Energia's business, financial condition, and operating results.

A disruption of operations at the Sines or Porto refineries would reduce their production and have a significant negative impact on the company's business, financial position, and operating results.

The Refining and Distribution of Petroleum Products business segment depends, to a large extent, on the two refineries in Sines and Porto, which are owned by Galp Energia. The occurrence of a major accident, or the shutdown or reduction in activity at one or both refineries, following unforeseen events such as prolonged power outages, workplace accidents, or information technology issues, would subject this business segment to a significant disruption.

As a general rule, refineries undergo scheduled shutdowns ("turnarounds") for maintenance every four years, and this maintenance schedule is expected to continue in the future. The next *turnaround* at the Sines refinery is expected to take place during the first quarter of 2008, and at the Porto refinery, during the second quarter of 2007 (fuel plant—*hydroskimming*—and base oil plant) and the second quarter of 2010 (aromatics plant). Although the most recent *turnaround* at the Sines refinery was offset by increased productivity and did not result in a decrease in average production, it is likely that both *turnarounds* and any unforeseen shutdowns will have a negative effect on Galp Energia's operating results. For more information regarding the *turnarounds* at the Sines and Porto refineries, *see* "Overview of Activities" *below*.

Increases in global refining capacity could have a significant negative effect on the company's business, financial condition, and results.

The gap between global demand for refined products and total refining capacity has narrowed significantly as a result of increased demand for refined products and the closure of numerous refineries over the past twenty years. This refining capacity shortage, which followed the excess capacity of the 1980s and early 1990s, has resulted in higher prices for refined products and increased volatility in refining margins. With the adoption of stricter environmental standards, particularly in the EU and the United States, and given that current refining margins have reached historically high levels, some competitors have decided to implement conversion projects, and others may follow suit, leading to increased competition in refined products. Further increases in global refining capacity relative to demand for refined products could have a particularly negative effect on Galp Energia's business, financial position, and operating results.

The Portuguese natural gas market will be liberalized in the near future, which could have a negative impact on Galp Energia's operations.

In 2007, significant changes to the legal framework governing the natural gas market will take effect, with a view to implementing its liberalization. Liberalization will take effect on January 1, 2007, for electricity producers operating under the standard regime, and on January 1

in 2008 for customers with annual consumption of 1 million m^3 or more, on January 1, 2009, for customers with annual consumption of 10,000 m^3 or more and on January 1, 2010, for all other customers. As of the liberalization date for each category of natural gas customers, they will be able to terminate their current contracts and freely choose their supplier, and that choice may include competitors of their current supplier (except for contracts already entered into with electricity producers under the standard regime, which must be honored until their expiration, with respect to minimum purchase obligations, and with respect to contracts with natural gas distributors, which will remain subject to the purchase of minimum quantities of gas and compliance with the terms of *take-or-pay* contracts—*see* "Legislation Governing the Issuer's Activities" *below*). Under the new legal framework, prices will be negotiated in a liberalized market with eligible customers, except for customers who contract with a supplier of last resort. Prices for these customers will be subject to a tariff set by the regulator.

This liberalization process is likely to result in a decline in earnings in the Natural Gas Procurement and Sales business segment and, potentially, in the Natural Gas Distribution business segment, which could have an adverse effect on Galp Energia's business, financial condition, and operating results. For further information, *see* "Legislation Governing the Issuer's Activities" and "Process of Separation of Regulated Activities in the Natural Gas Sector" *below*. Finally, the liberalization of the natural gas market could result in the loss of certain qualified personnel or assets that are necessary or useful for the remainder of the business (*see* "Process of Separating Regulated Activities in the Natural Gas Sector" *below*).

The new regulations approved by ERSE may have a negative effect on Galp Energia's operations.

On September 11, 2006, the Energy Services Regulatory Authority ("ERSE") approved four regulations: the Commercial Relations Regulation, the Tariff Regulation, the Regulation on Access to Networks, Infrastructure, and Interconnections, and the Service Quality Regulation. These regulations were published in the Official Gazette on September 25, 2006. If the approved wording for the Commercial Relations Regulation and the Tariff Regulation remains unchanged, regulated sales of natural gas will take into account the existence of a commercial margin, defined as the return on fixed assets allocated to the activity, rather than a commercial margin based on a percentage of costs, as had been expected. On the other hand, the placement on the market by Transgás – Sociedade Portuguesa de Gás Natural, S.A. ("Transgás") of surplus quantities—defined as the quantities of natural gas that can be acquired under *take-or-pay* contracts entered into prior to the entry into force of Directive No. 2003/55/EC, of the European Parliament and of the Council of July 26, minus the quantities contracted with the various suppliers of last resort and with power generation facilities holding supply contracts awarded prior to the publication of Decree-Law No. 140/2006 of July 26, will be subject to auctions. These auctions will be organized by Transgás, in consultation with ERSE, and all market participants in the national natural gas system (SNGN) may participate in them. To the extent that not all available quantities are offered in these auctions, they may be offered through bilateral contracts under conditions to be approved by ERSE or through participation in organized markets. In accordance with those regulations, the profits earned by Transgás from the sale of the aforementioned surplus quantities will be shared 50-50 with SNGN consumers through a reduction in sales prices. In certain respects, ERSE's regulations may be interpreted in a way that

result in losses for Galp Energia, particularly with regard to its retail activity in the liberalized market. After thoroughly analyzing this possibility, Galp Energia will adopt the measures deemed most appropriate to ensure that its operations are conducted in full compliance with applicable legal and regulatory standards.

If the regulations proposed by ERSE become applicable to Galp Energia, they are likely to result in a decline in earnings in the Natural Gas Supply and Sales business segment and potentially in the Natural Gas Distribution business segment, which could have an adverse effect on Galp Energia's business, financial condition, and operating results. For further information, *see* "Legislation Governing the Issuer's Activities."

Divestiture of a portion of the natural gas business prior to the Offering.

In compliance with national and EU legal requirements regarding the liberalization of the natural gas market, Galp Energia, on September 26, 2006, spun off its natural gas transmission activities, regasification of liquefied natural gas, and part of its natural gas storage business, and sold part of the assets related to these activities to Rede Eléctrica Nacional, S.A. ("REN"), which is the concessionaire of the National Electricity Transmission Network (*see* "Process of Unbundling Regulated Activities in the Natural Gas Sector" *below)*. REN was one of Galp Energia's shareholders and sold its stake on September 18, 2006, to Amorim Energia, B.V. ("Amorim Energia"), another of Galp Energia's shareholders. Although Galp Energia is confident that it will be able to continue developing its natural gas business, particularly under the contracts entered into with REN or its subsidiaries, there is a significant degree of uncertainty and risk regarding the impact that the Separation of Regulated Activities Process will have on the revenues and costs of its Natural Gas Supply *and Sales* business segment and on the conduct of its day-to-day operations. In particular, the rates currently applicable to the services provided by REN or its subsidiaries are provisional, with the final definitive rate to be established by the regulator, which could negatively affect Galp Energia's cost structure in a manner that it cannot predict in advance. Additionally, the mechanism for the final valuation of assets sold to REN is subject to review based on an appraisal conducted by three experts, following the entry into force of the new regulatory framework, which establishes, in particular, the terms, conditions, and tariffs for third-party access to infrastructure related to Regulated Activities; consequently, Galp Energia may obtain a price for these assets lower than that of the sale already completed, except for transmission assets, for which Galp Energia can only obtain a higher price (*see* "Process of Separation of Regulated Activities in the Natural Gas Sector" *below*). On September 11, 2006, ERSE approved four regulations that constitute the core of the Natural Gas Activities Regulations; they were published in the Diário da República on September 25, 2006 (for further information, *see* "Risk Factors – The Portuguese natural gas market will be liberalized in the near future, which may have a negative effect on Galp Energia's business" *above*). The *pro forma* consolidated financial information presented in this Share Registration Document is based on provisional tariffs and sales prices, and the final determination of these elements may result in changes to the *pro forma* consolidated financial information that could be unfavorable to Galp Energia when compared to the information presented in this Prospectus. Furthermore, under long-term contracts entered into with natural gas suppliers, Galp Energia is obligated to purchase certain minimum quantities of natural gas each year, regardless of whether it needs them (while retaining the right to recover them later—*take-or-pay* contracts); similarly, it is obligated to bear certain costs of

Transportation via international gas pipelines (*ship-or-pay* contracts). It should be noted that Galp Energia may not be able to pass on to its customers its obligations to purchase minimum quantities of natural gas, which, if it were to occur, could have an adverse effect on Galp Energia's business, financial condition, and operating results.

Dependence on third parties for supplies of crude oil and natural gas.

Unlike some competitors, which have significant in-house oil and/or natural gas exploration and production operations, Galp Energia relies, for a substantial portion of its operations, on continued access to crude oil, natural gas, and other raw materials at reasonable prices. In particular, it relies heavily on supplies from Enterprise Nationale Sonatrach ("Sonatrach") in Algeria (for natural gas) and from Nigeria LNG Limited ("NLNG") in Nigeria (for liquefied natural gas, or "LNG"). Galp Energia's access to its current sources of crude oil, natural gas, and other raw materials could be disrupted as a result of, among other things, limited pipeline capacity or other problems transporting sufficient quantities of crude oil and natural gas from current suppliers, or political events leading to structural changes in the sector (including ruptures in oil or gas pipelines, damage to oil tankers, explosions, fires, adverse weather conditions, sabotage, government restrictions, regional hostilities, and other unforeseeable events and acts of God). In particular, Galp Energia purchased approximately 61% of its total natural gas requirements from Sonatrach in 2005, meeting its remaining natural gas needs in the form of LNG from NLNG (37%) and through the *spot* market (2%). The raw material costs incurred by Galp Energia may be affected by potential problems or delays in accessing natural gas and other raw materials, especially if Galp Energia is forced to purchase LNG on the *spot* market, which could pose a challenge given the scarcity of natural gas supply in that market, as this is likely to result in a higher cost than the contracted prices for natural gas and LNG. Although there has not been a significant shortage of raw materials, there is no guarantee that Galp Energia will not experience future disruptions or that it will be able to compensate for any deviations or shortfalls in deliveries. Any problems or delays in accessing the raw materials necessary for Galp Energia's operations could have a particularly negative effect on its business, financial condition, and operating results.

Risks specific to supply contracts, particularly those for natural gas.

A large portion of Galp Energia's purchases of raw materials (in particular, natural gas) are made under long-term contracts with *take-or-pay* obligations. Furthermore, with respect to all the gas pipelines that Galp Energia uses to transport natural gas, *"ship or pay"* obligations have been contracted, under which Galp Energia must pay for a specific minimum annual transportation capacity, regardless of whether that capacity is actually used. Galp Energia entered into these contracts after considering reasonable projections of its future needs; however, significant deviations from projected demand levels could force Galp Energia to make purchases in excess of its needs, which could have an adverse effect on its business, financial condition, or operating results.

Galp Energia is also subject to the risk of contract default by its counterparties. Although the natural gas and liquefied natural gas supply contracts with Sonatrach and NLNG are not scheduled to expire before 2020, Sonatrach, NLNG, or both may be in a position to impose a modification or

renegotiation of the terms of the contracts, as well as to refuse to renew them, either entirely or on terms acceptable to Galp Energia. If Sonatrach or NLNG fails to comply with the supply contracts, or if any of these contracts is modified or not renewed, Galp Energia may be unable to find alternative sources of natural gas on similar terms and in a timely manner, or may be unable to find them at all, which could have an adverse effect on its business, financial condition, and operating results. For further information regarding the contracts with Sonatrach and NLNG, *see* "Overview of Operations" *below*.

Fluctuations in exchange rates may have a particularly negative effect on operating results and financial position.

Galp Energia's operations are exposed to fluctuations in exchange rates, particularly between the U.S. dollar and the euro. The prices of crude oil, natural gas, and refined products—and, consequently, a significant portion of costs—are generally denominated in or indexed to the dollar, while the financial statements are prepared in euros. Consequently, a depreciation of the U.S. dollar against the euro could have a negative effect on net income, as it reduces the value of earnings generated or indexed to the U.S. dollar. Additionally, fluctuations in the euro against the U.S. dollar could have a negative impact on certain balance sheet items, such as inventory and loans. Although Galp Energia seeks to manage its foreign exchange risks in order to minimize the negative impact of exchange rate volatility, there is no guarantee that it will be successful. For more information, *see* "Analysis of Operations and Financial Position" *below*.

New risks and uncertainties associated with activities in the Power business segment.

Galp Energia is developing its activities in the *Power* business segment in a complementary manner and in strategic alignment with its oil and gas activities. Galp Energia may face difficulties in integrating this segment into its current operations, and its development will expose Galp Energia to new risks and factors beyond its control, namely the following:

- Increased production costs, including higher fuel costs;
- The possibility of a reduction in the estimated growth rate for electricity consumption as a result of factors such as economic conditions;
- Risks associated with the operation and maintenance of electricity generation facilities;
- Inability of customers to pay amounts due under electricity purchase agreements;
- Increased price volatility due to market liberalization and changes in *commodity* market practices;
- Excess generation capacity in markets supplied by power plants that Galp Energia owns or may come to own, or in which it holds an equity interest;
- Uncertainty regarding the regulatory conditions applicable to the electricity sector as a result of ongoing liberalization under Portuguese law and in other jurisdictions;
- The emergence of alternative energy sources and supplies resulting from new technologies and the expansion of renewable energy and cogeneration, and
- Failure to obtain any necessary licenses, approvals, or administrative concessions.

The increased competition resulting from the new legal framework could make Galp Energia's entry into the electricity generation business more difficult or less profitable than currently anticipated. In particular, Portugal transposed, through Decree-Law No. 29/2006 of February 15, Directive No. 2003/54/EC of June 26, aimed at creating a

more competitive electricity market. Galp Energia cannot guarantee that it will be successful in managing the development of its *Power* business segment, and failure in this segment could adversely affect its operations, operating results, and financial position.

Competition from other companies in the oil and gas sector across all areas of activity.

With the exception of the Natural Gas Distribution business segment, in which Galp Energia currently holds a monopoly in certain regions of Portugal under government concessions, Galp Energia faces competition in many significant areas of its business. In the Exploration and Production business segment, Galp Energia faces competition with regard to obtaining exploration and development licenses, acquiring oil exploration assets, or acquiring other exploration and production companies or stakes in such companies. The Refining and Distribution of Petroleum Products business segment in the Iberian Peninsula also faces strong competition, especially in Spain, where Galp Energia intends to expand its operations and where the network of gas stations is saturated in certain regions, as well as the presence of well-established competitors with high market shares. Among its competitors are multinational companies or state-owned enterprises in the oil, gas, and *power* sectors with financial resources and experience in international operations that are significantly greater than its own. These companies may be able to pay a higher price than Galp Energia for exploration, production licenses, oil fields, and retail and marketing assets, and may be able to allocate greater resources to evaluating and implementing growth opportunities. Consequently, Galp Energia cannot guarantee that competition will not adversely affect its business, financial condition, or operating results.

Certain business segments rely on a limited number of large customers.

A relatively small number of customers account for a significant percentage of sales in the Petroleum Refining and Distribution and Natural Gas Supply and Sales business segments. Galp Energia cannot guarantee that, in the future, its customers will continue to purchase its products in quantities equivalent to current levels or that they will continue to purchase them at all. The loss of one or more of Galp Energia's largest customers—without being replaced by new customers or without an increase in sales volume with existing customers—would have an adverse effect on its business, financial condition, and operating results.

Major litigation with local governments regarding municipal taxes.

Several subsidiaries of Galp Energia's natural gas distribution network (either controlled by Galp Energia or in which it holds a significant equity interest) are parties to major tax litigation involving various municipalities, which are demanding payment of local fees based on the natural gas distribution network's use of municipal subsoil. The total amount currently in dispute is approximately 21 million euros, which could increase if other municipalities also demand such payments. As of June 30, 2006, a provision of 9.7 million euros had been set aside. Although Galp Energia believes that, in certain cases, it may be entitled to a revision of the respective concession contracts, it cannot guarantee that this will be sufficient to cover the costs associated with the application of the fees. An unfavorable outcome of these disputes for Galp Energia could encourage other municipalities to demand payment of such fees, which would represent a

significant increase in natural gas distribution costs that Galp Energia might not be able to pass on to customers. Thus, unfavorable outcomes in these disputes against certain municipalities could significantly and adversely affect Galp Energia's business, operating results, and financial position. For more detailed information on these disputes, *see* "Legal and Arbitration Proceedings" *below*.

Dependence on concessions, authorizations, and licenses granted by the government.

Part of Galp Energia's operations (primarily the Natural Gas Procurement and Sales business segment and the Natural Gas Distribution business segment) is subject to concessions, authorizations, and licenses. Concession agreements and licenses allow for the conduct of activities over long periods, which entails long-term investments; consequently, they provide for compensation mechanisms designed to ensure the recovery of the investments made. Consequently, the recovery of these investments depends on the definition and stability of these legal and regulatory frameworks in the short, medium, and long term, over which Galp Energia has no control. Similarly, Galp Energia may require additional concessions, authorizations, or licenses from the government to conduct its business, particularly in the *Power* business segment. The stability of the current legal and regulatory framework may be affected by supervening social, political, or economic requirements, which could lead to unforeseen changes in Galp Energia's business plans and even affect the return on long-term investments. Furthermore, concessions may be subject to early termination under certain circumstances. In general, a breach of a concession agreement may result in the termination of the concession and the enforcement of guarantees or security deposits provided by the concessionaire. Natural gas distributors in Portugal—which include companies controlled by or in which Galp Energia holds a stake—operate under concession agreements entered into with the government, which expire in 2035 for Beiragás - Companhia de Gás das Beiras, S.A. ("Beiragás") and Tagusgás – Empresa Gás do Vale do Tejo, S.A. ("Tagusgás"), and in 2028 for the other distributors (Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. ("Lisboagás"), Setgás – Sociedade de Produção e Distribuição de Gás, S.A. ("Setgás"), and Lusitaniagás – Companhia de Gás do Centro, S.A. ("Lusitaniagás") and through 20-year operating licenses, which expire between 2024 and 2026, for the autonomous facilities for the reception, storage, and regasification of liquefied natural gas ("UAG"), although these may be extended by the State. Upon the expiration of the concession agreements, the concession assets will revert to the State in exchange for compensation equal to the net book value of the assets. The termination of any of these concessions or their non-extension upon expiration could have a particularly negative effect on future operating results and financial position. These concession agreements are expected to be amended within one year of the entry into force of Decree-Law No. 140/2006, of July 26 (*see* "Legislation Governing the Issuer's Activities" *below*).

Very strict environmental, quality, and safety standards, which result in compliance costs, may adversely affect Galp Energia's business, financial condition, and results of operations.

Galp Energia's operations are subject to numerous and increasingly stringent environmental laws and regulations related to the protection of health, safety, and the environment, including, for example, those concerning emissions and the treatment and disposal of waste. In addition, Galp Energia must obtain and comply with permits for operations that result in emissions and the discharge of pollutants, as well as for the handling of hazardous substances or the treatment and disposal of waste. Environmental liability may also arise from the acquisition, ownership, or operation of

real estate or activities may give rise to environmental liability. However, Galp Energia is confident that it is complying with current applicable legislation and the relevant permits in all countries where it operates. As environmental laws and regulations become more stringent, the amount and timing of future costs required to maintain substantial compliance may vary significantly from current levels and may have a negative effect on the availability of funds for investments or other purposes. To the extent that compliance costs increase and Galp Energia is unable to pass on future increases to its customers, such increases could have a negative effect on its operating results and financial position.

Concerns regarding climate change and the transposition of Directive 2003/87/EC of October 13 on the EU greenhouse gas emissions trading scheme, as well as the proposal issued by the European Commission in October 2003, for a new framework for the registration, evaluation, authorization, and restriction of chemicals ("REACH"), will be among the most significant environmental issues that could affect operations in the future. Climate change and emissions trading issues are expected to have a direct or indirect impact on all production activities and on the competitiveness of various technologies and fuels. The REACH proposal is also expected to have a direct or indirect impact on oil refining activities. In addition, some of Galp Energia's industrial facilities are subject to controls on pollutant gas emissions and must obtain annual permits to release such emissions. Galp Energia has been granted CO_2 emission permits for the period from 2005 to 2008, which are believed to be sufficient to meet its needs. However, Galp Energia cannot guarantee that the permits obtained will in fact be sufficient, nor that it will obtain sufficient permits for the period after 2008; in such a case, it will have to purchase additional permits at market prices, which could affect its operations and operating results.
Some of the facilities have been and will continue to be subject to decontamination in order to comply with EU regulations and fulfill its responsibility to protect the environment. To this end, as of June 30, 2006, Galp Energia has recorded a provision of 7.1 million euros, specifically for the decontamination of the Porto and Sines refineries, as well as the facilities at Sá Carneiro Airport in Porto. In the future, Galp Energia anticipates incurring additional costs—which cannot be quantified at this time—related to the decontamination of certain assets. It cannot rule out the possibility that contamination currently unknown to it may, once identified, require significant decontamination efforts, which could result in high costs with a negative impact on its operating results and financial position. For more information, *see* "Legislation Governing the Issuer's Activities" *below*.

Some of the licenses for operating service stations have expired.

The licenses required to operate approximately 181 Galp Energia service stations have expired. Galp Energia is negotiating their renewal, but it is not possible to predict how long it will take to obtain them. Although Galp Energia does not anticipate that this will disrupt its operations, the granting or renewal of licenses may be subject to certain conditions that involve additional costs and could have a negative impact on its activities and operating results.

Failure to meet the requirements necessary to obtain subsidies or to repay subsidies already granted.

A portion of past and future investments, particularly in the Natural Gas Procurement and Sales, Natural Gas Distribution, and *Power* business segments, have been, or

are expected to be, partially financed by government subsidies. The granting of subsidies is always contingent upon Galp Energia's compliance with various requirements, which may relate, in particular, to the process it uses to select contractors, the implementation program, and certain environmental, safety, labor, technical, or other specifications regarding the operation or maintenance of a given project. Failure to comply with any of the applicable conditions or criteria may result in the loss of the right to a particular subsidy and, in certain cases, the reimbursement of amounts received. Furthermore, even if Galp Energia has been deemed eligible for a particular project, it may not be able to obtain, once the project is implemented, all or part of the funds from the competent authorities in a timely manner. The refusal, non-payment, or subsequent revocation of a subsidy could have a particularly negative effect on Galp Energia's business, operating results, or financial condition.

Changes in taxes and tariffs applicable to its business.

Galp Energia operates in various countries around the world, and any of these countries could change its tax laws, which could negatively affect Galp Energia's results. In addition, Galp Energia is subject, in particular, to corporate income taxes, energy taxes, taxes on oil revenues, customs surcharges, and consumption taxes, any of which could affect its results. Furthermore, Galp Energia is exposed to changes in tax regimes related to *royalties* and taxes levied on the exploration and production of crude oil and natural gas. Any significant changes in the tax regimes of the countries where it operates or in the level of production *royalties* payable could have a particularly negative effect on its operating results and financial position.

Furthermore, when determining or amending the rates applicable to Galp Energia's activities—in particular, the rate for the sale of natural gas to customers by the supplier of last resort, as well as the rates for the storage and transportation of natural gas and the regasification of liquefied natural gas (*see* "Process for the Separation of Regulated Activities in the Natural Gas Sector" *below*)—ERSE may not take into account all the effects of changes in the purchase price of natural gas and other factors affecting Galp Energia's profitability (for further information, *see* "Risk Factors – The Portuguese natural gas market will be liberalized in the near future, which may have a negative effect on Galp Energia's business" and "Risk Factors – The new regulations approved by ERSE may have a negative effect on Galp Energia's business" *above*). Consequently, any adverse changes to such tariffs—including changes to costs that Galp Energia may incur in its operating expenses under the tariffs applicable to the sale of Galp Energia's products, such as investments, raw material costs, cost-reduction incentives, and efficiency factors—could adversely affect its business, financial condition, or operating results (for further information, *see* "Legislation Governing the Issuer's Business" *below*).

Demand for petroleum products, natural gas, and electricity can be negatively affected by the weather.

Demand for certain petroleum products, electricity, and natural gas is closely linked to weather conditions, especially temperature. Given that a significant portion of natural gas consumption during the winter months is related to electricity and heat generation, and during the summer months to electricity generation, relatively warm winters and relatively cool summers could have a negative impact on Galp Energia's operating results. In general, there is

higher demand during the cold months from October through March and lower demand during the warm months from April through September. The same is true for LNG products, for which demand is higher in the winter than in the summer.
In turn, natural gas operations are sensitive—albeit indirectly—to rainfall levels. Customers operating in the electricity generation sector accounted for 48% of sales in the Natural Gas Supply and Sales business segment in 2005. These customers have lower demand and reduced needs for natural gas when hydropower levels are high, since they are also able to generate electricity from hydroelectric plants at competitive prices. Currently, contracts with these customers include an obligation to purchase and pay for certain minimum quantities of natural gas, regardless of whether those quantities are actually delivered (*take-or-pay* contracts).

Part of the business is exposed to political, regulatory, and economic risks.

Exploration and production activities are carried out in countries outside Europe, with developing economies and political environments or legal systems that have experienced periods of instability. Galp Energia also relies on natural gas from Algeria and Nigeria for its natural gas business and markets its petroleum products in Portuguese-speaking countries. Consequently, a portion of Galp Energia's earnings has, and will increasingly be derived from, or depend on, countries where its operations are exposed to economic and political risks, including the expropriation and nationalization of assets, increases in taxes and *royalties*, the imposition of production limits and restrictions on export or import volumes, mandatory renegotiation of contracts, payment delays, foreign exchange restrictions, civil conflicts, and acts of war and terrorism. In particular, potential legislative changes regarding issues such as the awarding of exploration and production licenses, the imposition of specific drilling and exploration obligations, restrictions on production and exports, price controls, environmental measures, controls over the development and abandonment of exploration fields and facilities, and risks associated with changes in local government regimes and policies could adversely affect the Exploration and Production business segment. Furthermore, in certain countries where Galp Energia operates, it may be difficult to repatriate funds. Although Galp Energia has not experienced disruptions resulting from economic or political instability in the past, any future disruptions could adversely affect its business, financial condition, and operating results.

The business environment in some countries where Galp Energia operates lacks appropriate regulation, and the prevailing business culture does not fully reflect the standards that prevail in Western Europe. Galp Energia is convinced that, in all countries where it operates, it adheres to international standards to the same extent as most other international oil and natural gas companies operating in the same regions. However, any irregularities that are discovered or merely alleged could have an adverse effect on the Company's ability to conduct its operations.

Oil exploration involves numerous risks, including the risk of failing to find commercially viable oil reserves.

Future production depends on the success in finding and developing or acquiring additional proven oil reserves. Galp Energia or the joint ventures in which it participates are conducting exploration activities in Angola and Brazil, in locations where environmental conditions may pose a challenge and costs may be high. The cost of exploring, developing, and operating wells is often uncertain. As a result, costs may exceed estimates, or Galp Energia may have to reduce, delay, or cancel operations to

exploration and development due to various factors, including unexpected drilling conditions, irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with government requirements, and shortages or delays in the availability of drilling rigs and the delivery of equipment. Overall drilling activity or drilling activity in a particular development area may not be successful, as Galp Energia may fail to discover commercially viable reservoirs. For example, in 2004, Galp Energia recorded a provision of 31.9 million euros to reflect the likelihood that a block in Angola did not contain marketable oil reserves. In addition, Galp Energia generally holds a minority or 50% interest in partnerships for oil exploration and production and is therefore not in a position to make unilateral decisions regarding these businesses. Since the interests of Galp Energia and its partners will not always align, disagreements may arise regarding the production of the fields and the associated transportation facilities, which could prevent Galp Energia from realizing the full potential of its stake. Galp Energia cannot guarantee that it will be successful in its exploration and development activities or in acquiring licenses for blocks with proven reserves, or that, if successful, the resulting discoveries or acquisitions will be sufficient to replenish its current reserves or cover exploration costs. If it is unsuccessful, it will not meet its production targets, and its total proven reserves will decline, which will have a negative effect on its future operating results and financial position.

The data regarding oil reserves presented in this Prospectus are mere estimates that may differ significantly from the actual quantities of oil and gas reserves recovered.

The data regarding reserves contained in this Prospectus are mere estimates and should not be regarded as exact quantities. There are numerous uncertainties inherent in estimating proven reserve quantities, future production rates, and timelines for development investments. The reliability of estimates of proven reserves depends on various factors, assumptions, and variables, many of which are beyond Galp Energia's control, including:

- The quality and quantity of available geological, technical, and economic data;
- Whether tax rules and other government regulations, contractual terms, and prices for oil, gas, and other commodities remain unchanged from the date the estimates were made;
- The future production performance of its reserves.

Actual exploration, appraisal, and production results after the date of the estimates could result in a substantial downward revision of those estimates. Any such adjustment could lead to lower future production and higher depreciation and amortization expenses, adversely affecting the company's business, financial condition, operating results, and future prospects. For further details on *proven reserves, see* "Overview of Activities" *below*.

Financing of planned investments.

Galp Energia's operations require significant investments, particularly in its business segments, as well as to meet obligations arising from environmental legislation. Galp Energia plans to finance a substantial portion of these investments with *cash flows* generated by its operating activities. However, if its activities do not generate sufficient funds, Galp Energia may resort to a

higher proportion of external financing to carry out planned investments, including bank loans and the issuance of debt securities or other securities in the capital markets. However, Galp Energia cannot guarantee that it will be able to secure the necessary financing to cover planned investments or that such financing will be on acceptable terms. If it is not possible to obtain the necessary financing, Galp Energia may have to reduce its planned investments, a reduction that could affect Galp Energia's ability to expand its business and negatively impact its financial position or operating results.

The growth strategy, which relies in part on acquisitions, exposes Galp Energia to certain risks.

Galp Energia's growth strategy has been implemented, in part, through acquisitions. The most significant acquisitions in 2004 and 2005 included the acquisition of BP Enértica, S.A. ("BP Enértica") in Spain, the exploration rights for 50 exploration blocks located in Brazil, and the entire share capital of Empresa Petróleos de Valência, S.A., the owner of the Valencia Terminal Storage Facility ("Ptroval"). For a detailed description of recent significant acquisitions, *see* the Analysis of Operations and Financial Condition *below*.

Galp Energia continually seeks opportunities to strengthen its operations in regions where it holds competitive advantages, whether through organic growth or new acquisitions. In general, acquisitions require significant management efforts and financial costs, namely:

- The need to accurately assess the activities, assets, and liabilities of the business or company to be acquired;
- The need to integrate the acquired company's infrastructure, including its information management systems and its risk, asset, and liability management systems;
- Resolving any outstanding legal, regulatory, contractual, or labor issues arising from the acquisition;
- The integration of sales, customer service, and product offerings; and
- The integration of different corporate and management cultures.

There can be no assurance that past and future acquisitions will be successful, that Galp Energia will be able to identify attractive acquisition targets, that the acquired companies will be successfully integrated into the Galp Energia Group, or that the expected cost savings and revenue-generating opportunities will materialize. Similarly, there can be no assurance that existing or future partnerships and collaborations will be successful or that the strategic objectives pursued will actually be achieved. In particular, any commercial or other problems encountered by Galp Energia's partners could adversely affect Galp Energia.

Furthermore, the integration and consolidation of operations, personnel, and information systems resulting from acquisitions require the allocation of management resources that may divert attention from day-to-day activities and disrupt operations. These difficulties may be exacerbated by the need to coordinate geographically separate entities.

If Galp Energia is unsuccessful in implementing its acquisition strategy and if some or all of its existing or future acquisitions, partnerships, or collaborations prove unsuccessful, its business, financial condition, and operating results could be adversely affected.

Operational and/or technological problems may delay or prevent the progress of ongoing and planned projects.

Galp Energia's business growth has been achieved, in part, through organic growth, notably through investments in projects designed to improve its competitive position, such as the refurbishment of facilities and the expansion of its product offering. Operational and technological problems may arise, either with Galp Energia or with its contractual partners, which could delay or prevent the progress of ongoing and planned projects and have a particularly negative effect on Galp Energia's operating results and financial position.

Galp Energia's activities involve significant operational risks, some of which may not be insured or insurable, and could cause substantial disruptions and losses.

The oil, chemical, and natural gas industries involve significant hazards and are subject to risks that are generally related to the exploration, production, and refining of oil. These risks include explosions, fires, equipment failure, and other hazards that can result in personal injury, death, property damage, and environmental damage. At the same time, these activities are subject to uncertainties related to the physical characteristics of oil fields. *Offshore* operations, in particular, are subject to numerous hazards, including platform capsizing, collisions, severe weather, and environmental pollution. Furthermore, the operation of refinery and petrochemical complexes, as well as oil and gas pipeline systems, storage facilities, and loading and unloading operations, exposes Galp Energia to risks inherent in these activities, such as mechanical failures, ruptures, and delays in deliveries or equipment. Although Galp Energia maintains insurance coverage that it considers, in accordance with industry practice and applicable law, adequate for its activities, under certain circumstances the insurance policies held by Galp Energia may not cover—or may not be adequate to adequately cover—the consequences of certain incidents, or coverage may not be available. Furthermore, Galp Energia cannot guarantee that it will be able to maintain adequate insurance coverage in the future at prices it considers reasonable. Any loss that is not fully covered by insurance could have a particularly negative effect on Galp Energia's operating results and financial position.

Trading activities may result in losses.

Galp Energia engages in transactions in the derivatives market and has established procedures designed to limit its exposure to risks related to the transactions it periodically carries out in *commodity* markets related to its business. However, there is no guarantee that it will not incur losses as a result of adverse movements in raw material prices or other factors affecting its positions (*see* "Analysis of Operations and Financial Condition" *below*).

The inability to effectively protect its brands and the occurrence of events that negatively impact their reputation may adversely affect their value.

Galp Energia believes that its brands represent an important asset for its business. For example, Galp Energia has invested significantly in marketing the new high-performance *G-Force* fuels and the new Pluma LPG cylinder. The inability to adequately protect its intellectual property rights associated with the brands used in its business could negatively affect its operations and operating results.

Galp Energia also believes that maintaining the reputation of its brands, as well as the value associated with them, is important to the success of its business. However, there are no guarantees that its business strategy and its execution will achieve this objective. Furthermore, the reputation and value associated with the brands could be negatively affected by events beyond Galp Energia's control, such as environmental disasters or the conduct of third parties (such as the franchise operators of some of the service stations). A substantial erosion of the brands' reputation and their associated value could have a negative effect on the business, financial position, and operating results.

The inability to obtain appropriate licenses for the technology may affect operating results and hinder growth opportunities.

The technology that Galp Energia uses in its operations is subject to industrial property rights owned by third parties that are licensed to Galp Energia. Galp Energia obtained these licenses to use those rights in conjunction with the purchase or lease of the respective equipment (in particular for equipment or processes used in refining activities, including chemical processes), and such licenses have a term equivalent to the useful life of the corresponding asset or the lease. *Royalty* payments related to these licenses were paid in full and on time as of their due dates. However, there are no guarantees that Galp Energia will be able to renew or obtain the necessary new licenses for all the technology required to conduct its business, or to do so on acceptable terms in the future; if this were to occur, its business and operating results could be negatively affected and/or its growth opportunities could be impaired.

Labor disruptions may interfere with and have a negative effect on operations, financial condition, and operating results.

Galp Energia is subject to the risk of labor disputes and adverse relations with employees, which could disrupt its operations and negatively affect its financial position and operating results. A significant number of Galp Energia's employees are represented by unions, and various collective bargaining agreements apply to them. For example, most of Galp Energia's employees at the Porto and Sines refineries are covered by the Collective Bargaining Agreement applicable to the petroleum industry, which took effect on July 29, 1979. This agreement has undergone amendments, the most recent of which took place on October 15, 2005. In April 2006, the leading companies in the petroleum industry reached an agreement with the unions regarding wages and other financial matters. As of the date of this Prospectus, these amendments have not yet been published. Workers in the natural gas distribution sector are covered by the Collective Bargaining Agreement that took effect on May 4, 2005, and whose application was extended through May 3, 2007. However, not all unionized workers are covered by collective bargaining agreements.

Galp Energia or the associations of which it is a member may be unable to successfully renegotiate collective bargaining agreements once they expire. Furthermore, the existence of collective bargaining agreements does not prevent employees from going on strike, which could have a negative effect on Galp's business, financial condition, and operating results. There was a work stoppage resulting from strikes at the Sines facilities for two days in February 2004 and three days in June 2004. Although there have been no other significant issues with unions or in the context of collective bargaining agreements since 2000, Galp Energia cannot guarantee that

labor disputes or adverse relations with employees will arise in the future. For more detailed information, *see* "Personnel" *below*.

Obligations arising from defined-benefit pension plans may result in future losses

As of December 31, 2005, Galp Energia maintained several defined-benefit pension plans, covering approximately 39.6% of its active employees. Under these pension plans, benefits are calculated as a supplement to the social security pension, based on years of service and final salary. The main risks related to pension accounting generally concern the performance of the pension plan's assets, as well as the discount rate used to calculate the present value of future payments. Pension liabilities are likely to place significant pressure on the Company's *cash flows*. In particular, should there be a shortfall in pension fund resources, Galp Energia may be required to make additional contributions to these funds, which could have a negative impact on its business, financial condition, and operating results. For further information, *see* the section on Personnel *below*. As of June 30, 2006, the defined benefit plans were 90% funded as a whole, prior to the 2006 funding.

Defense in ongoing legal and arbitration proceedings may result in additional costs.

Galp Energia is currently a defendant in several legal proceedings involving civil, administrative, environmental, labor, and tax claims. These claims cover a wide range of issues, and the amounts sought are substantial. Galp Energia's consolidated balance sheet includes provisions totaling 20.9 million euros (including a provision of 9.7 million euros for municipal fees for the use of subsoil resources, *see* "Significant Litigation with Local Authorities Regarding Municipal Fees" *above and* "Legal and Arbitration Proceedings" *below*) as of June 30, 2006, for probable and reasonably estimable losses and expenses that Galp Energia may incur in connection with the ongoing legal proceedings. If a significant number of cases were to be unexpectedly decided against Galp Energia, the resulting overall cost could have a negative effect on its business, financial condition, and operating results (*see* "Legal and Arbitration Proceedings" *below*).

Risks Related to Galp Energia's Shareholder Structure

The major shareholders will continue to control the strategic direction and key corporate actions.

Upon completion of the Offer, Galp Energia's current shareholders will hold approximately 77% of the shares if the option to distribute additional shares is exercised in full, or approximately 79% of the shares if the option to distribute additional shares is not exercised (*see* "Major Shareholders" and "Additional Information" *below*).

The current shareholders elected the members of the current Board of Directors for a term ending on December 31, 2007.

Currently, Galp Energia's Board of Directors does not comply with Recommendation No. 6 of CMVM Regulation No. 7/2001, which requires that the non-executive members include a sufficient number of independent members. Following the Offer, the current shareholders will continue to control decisions related to the business, strategic direction, and

with corporate activities, including the ability to influence Galp Energia in transactions involving the acquisition or sale of assets.

The State, directly or indirectly through Parpública, will retain ownership of 40,000,000 Class A shares, which grant it veto rights regarding decisions of particular importance (*see* "Additional Information" *below*).

The shareholders Amorim Energia, ENI Portugal Investment S.p.A. ("ENI"), and Caixa Geral de Depósitos, S.A. ("CGD") are parties to a shareholders' agreement entered into on December 29, 2005, which was amended four times—once on March 28, 2006, two on September 6, 2006, and a final amendment on September 28, 2006 ("Shareholders' Agreement"), which addresses the temporary restriction on the disposal of shares and establishes limitations on their sale to third parties, providing, in particular, for the granting of preemptive rights. The Shareholders' Agreement also establishes rules regarding the composition of the governing bodies of Galp Energia and certain companies controlled by it, as well as the exercise of voting rights, the distribution of profits, and changes in shareholder control, among other provisions (*see* "Management and Supervisory Bodies and Senior Management" and "Major Shareholders" *below*).

DEFINITIONS

Unless otherwise indicated, the terms used in this Share Registration Document have the following meanings:

"Shares"	173,388,769 common shares representing 20.91% of the share capital of Galp Energia, SGPS, The Company Subject to the Offer
"API"	American Petroleum Institute
"Beiragás"	Beiragás – Companhia de Gás das Beiras, S.A.
"Cepsa"	Compañía Española de Petróleos, S.A.
"CLC"	Fuel Logistics Company, S.A.
"CLH"	CLH – Hidrocarbon Logistics Company, S.A.
"CMVM"	The Portuguese Securities Market Commission
"CNE"	National Energy Commission. It is the regulatory body for the energy sector in Spain
"Sec. Code"	The Securities Code, approved by Decree-Law No. 486/99, of November 13, as amended by Decree-Law No. 61/2002, of March 20, by Decree-Law No. 38/2003, of March 8 (corrected by Correction Notice 5-C/2003, of April 30), by Decree-Law No. 107/2003, of June 4, by Decree-Law No. 183/2003, of August 19, by Decree-Law No. 66/2004, of March 24, and by Decree-Law No. 52/2006, of March 15 (amended by Amendment No. 21/2006, of March 30)
"Direct Sales Contract"	International Purchase Agreement a to be entered into between Parpública, Galp Energia, the Global Coordinators, and the other banks comprising the Direct Sale Syndicate
"Global Coordinators"	Caixa – Banco de Investimento, S.A., Banco Espírito Santo de Investimento, S.A., Merrill Lynch International, and Morgan Stanley
"CSC"	The Commercial Companies Code, approved by Decree-Law No. 286/86, of September 2, as amended by Decree-Law No. 184/87, of April 21, by Decree-Law No. 280/87, of July 8, by Decree-Law No. 229-B/88, of July 4, by Decree-Law No. 142-A/91, of April 10, by the

	Decree-Law No. 20/93, of January 26, by Decree-Law No. 261/95, of October 3, by Decree-Law No. 328/95, of December 9, by Decree-Law No. 257/96, of December 31, by Decree-Law No. 343/98, of November 6, by Decree-Law No. 486/99, of November 13, by Decree-Law No. 36/2000, of March 14, by Decree-Law No. 237/2001, of March 30, by Decree-Law No. 162/2002, of July 11, by Decree-Law No. 107/2003, of June 4, by Decree-Law No. 88/2004, of April 20 (corrected by Correction Notice No. 52/2004, of June 17), by Decree-Law No. 19/2005, of January 18, by Decree--Law No. 111/2005, of July 8, by Decree-Law No. 52/2006, of March 15 (corrected by Correction Notice No. 21/2006, of March 31), by Decree-Law No. 76-A/2006, of March 29 (corrected by Correction Notice No. 28-A/2006, of May 26)
"CVM"	The Portuguese Securities Market Authority
"Decree-Law"	Decree-Law No. 166/2006, of August 14, approving the fourth phase of the reprivatization process of Galp Energia, SGPS, S.A.
"DGGE"	Directorate-General for Geology and Energy
"Share Registration Document"	This document, approved by the CMVM on October 8, October 2006, which, together with the Share Note and the Summary, constitutes the Prospectus
"Duriensegás"	Duriensegás – Sociedade Distribuidora de Gás Natural do Douro, S.A.
"EDP"	EDP – Energias de Portugal, S.A.
"EMPL"	EMPL – Europe Maghreb Pipeline, Ltd
"ENI"	ENI Portugal Investment, S.p.A. (Società per Azioni)
"ENI SpA"	ENI S.p.A.
"ERSE"	Regulatory Authority for Energy Services in Portugal
"Euro" or "€"	The currency of the Member States participating in the third stage of the European Economic and Monetary Union
"Eurolist by Euronext Lisbon"	The regulated market operated by Euronext

	Lisbon - Company Management of Regulated Markets, S.A.
"Euronext Lisbon"	Euronext Lisbon – Regulated Markets Management Company, S.A.
"Galp Energia," "Issuer," "Company," or "Enterprise"	Galp Energia, SGPS, S.A., individually or together with its consolidated subsidiaries, as the context may require
"GDP"	GDP – Gás de Portugal, SGPS, S.A.
"Galp Energia Group"	The group of companies consisting of Galp Energia, SGPS, S.A. and its consolidated subsidiaries, unless the context indicates otherwise
"Interbolsa"	Interbolsa - Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.
"Lisboagás"	Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.
"Lusitaniagás"	Lusitaniagás – Central Portugal Gas Company, S.A.
"Prospectus"	The note on the shares, prepared in accordance with paragraphs 2 and 4 of Article 135-B of the Securities Market Code (Cód.VM), dated October 2006, approved by the CMVM on October 8, 2006, and which, together with the Share Registration Document and Summary, constitutes the Prospectus
"Offering Party" or "Parpública"	Parpública – Participações Públicas (SGPS), S.A.
"Offer"	The Public Offering and the Direct Sale
"Public Offering" or "OPV"	The public offering of 82,925,000 shares representing the share capital of Galp Energia, SGPS, S.A., as provided for in Article 3 of the Decree-Law
"OPEC"	Organization of the Petroleum Exporting Countries, founded in 1960 in response to rising global production. The founding members of OPEC were Saudi Arabia, Kuwait, Iran, Iraq, and Venezuela. OPEC currently has 11 members, with the addition of Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), and Nigeria (1971)
"Petrobras"	Petrobras – Petróleo Brasileiro, S.A.

"Petrogal"	Petróleos de Portugal – Petrogal, S.A.
"Portgás"	Portgás – Gas Production and Distribution Company, S.A.
"Prospectus"	The document consisting of this Share Registration Document, the Share Prospectus, and the Summary
"PSA (Production Sharing Agreement)"	Production Sharing Agreements
"RCM1"	Council of Ministers Resolution No. 111/2006, published on September 12, 2006, which established part of the final and specific conditions for the fourth phase of Galp Energia's reprivatization, both with regard to the public offering and with regard to the direct sale
"RCM2"	Resolution of the Council of Ministers approved on October 4, 2006, supplementing the final and specific conditions of the fourth phase of Galp Energia's reprivatization, not yet published
"REN"	REN - National Electricity Grid, S.A.
"SEI"	Independent Electric System
"SEN"	National Electric System
"SEP"	Public Utility Electric System
"Session Special of Regulated Market"	Special session held by Euronext Lisbon to determine the results of the "Setgás" IPO
"Setgás"	Setgás – Sociedade de Produção e Distribuição de Gás, S.A.
"Eligible Companies"	The companies listed in the Annex to the Decree—Law
"SPE"	Society of Petroleum Engineers
"Subsidiaries"	The group of Galp Energia subsidiaries subject to consolidation
"Summary"	The summary which, together with this Share Registration Document and the Note on the Shares, constitutes the Prospectus
"Tagusgás"	Tagusgás – Empresa Gás do Vale do Tejo, S.A. "Galp
Energia Employees"	The persons who, in accordance with the provisions of
Article	

	15 of Law No. 11/90, of April 5, and Article 3(2) of the Decree-Law, are or have been employed by the Eligible Companies for more than three years, excluding those whose employment contract has been terminated as a result of disciplinary proceedings or at their own initiative, in the latter case, provided they have subsequently taken up employment with other companies having the same corporate purpose as any of the Eligible Companies
"Transgás"	Transgás – Sociedade Portuguesa de Gás Natural, S.A.
"EU"	The European Union
"US$" or "$"	U.S. dollar, the official currency of the United States of America
"Direct Sale"	Direct sale of 90,463,769 shares representing the share capital of Galp Energia, SGPS, S.A., as provided for in Article 5 of Decree-Law
"WPC (World Petroleum Council)"	World Petroleum Council. A non- whose objective is to promote the management of the world's oil resources for the benefit of humanity through the organization of international conferences

FORWARD-LOOKING STATEMENTS

All statements contained in this Prospectus, with the exception of those regarding historical facts, constitute forward-looking statements, namely statements regarding the financial condition, revenues, and profitability (including any financial or operational projections or forecasts), business strategy, outlook, plans, and management objectives for Galp Energia's future operations. These statements are often, though not always, identified by the use of words or phrases such as "is likely," "is expected," "is believed," "is forecast," "is anticipated," "is estimated," "is intended," "is planned," "is sought," "may," and "is expected," or other similar expressions. These statements or any other projections contained in this Prospectus involve known and unknown risk factors that could cause a significant difference between Galp Energia's actual results and those implied, expressly or tacitly, by such forward-looking statements, which are based on current beliefs, assumptions, estimates, projections, and expectations. Factors that may have a direct effect on Galp Energia's results include, in particular:

- A decline in margins on refined products;
- Fluctuations in the prices of crude oil, natural gas, and refined products;
- An increase in global refining and conversion capacity;
- Liberalization of the Portuguese natural gas market;
- Difficulties in developing new business opportunities and other operational problems;
- Slowdown in consumption in the Iberian markets for petroleum products and natural gas;
- Problems or delays in accessing crude oil and natural gas;
- Production interruptions at refineries;
- Problems or delays in completing the new conversion project at the Sines refinery, including costs exceeding the budget, or failure to achieve the expected results as a result of the project;
- Results from oil exploration and production activities;
- Increased competition and loss of major customers;
- Failure or difficulty in developing activities in the *Power* business segment;
- Adverse rulings in relevant legal proceedings;
- Fluctuations in exchange rates;
- Losses associated with *trading* and risk management activities;
- Changes in environmental legislation and the inability or failure to comply with such legislation;
- Weather conditions;
- Difficulty in developing operations in emerging markets;
- Potential losses not covered by insurance; and
- Military attacks, terrorist activities, natural disasters, or deliberate sabotage.

These and other factors are discussed in the "Risk Factors" sections of this Share Registration Document and the Prospectus.

It is not possible to assess the impact of each of these factors on Galp Energia's business or the extent to which these factors, or a combination thereof, may result in a significant divergence between Galp Energia's actual results and those expressly or implicitly implied by forward-looking statements. These statements are valid only as of the date they are made, and new factors may arise in the future that are not foreseeable as of the date of this Share Registration Document. Galp Energia assumes no

any obligation or commitment to disclose any updates or revisions to any forward-looking statement contained in the Prospectus, in order to reflect subsequent changes in the factors on which it is based, unless, between the date of approval of the Prospectus and the end of the Offer period, any deficiency in the Prospectus is detected, any new fact occurs, or any prior fact not considered in the Prospectus comes to light that is relevant to the decision-making process of the Offer's recipients, in which case approval from the CMVM will be sought for an addendum or correction to the Prospectus. In light of the foregoing, potential investors should carefully consider the forward-looking statements before making any investment decision in connection with the Offering.

INDUSTRY AND MARKET DATA

This Prospectus contains information regarding markets, including their size, market shares, competitive environment, growth rates, average prices, and other data related to the sector and Galp Energia's business. Such data is derived from the following sources (information available to the public is marked with an asterisk ("*")):

- Asociación Española de Operadores de Gases Licuados del Petróleo ("AOGLP"), specifically the Spanish market for Liquefied Petroleum Gas ("LPG");
- * Spanish Association of Petroleum Products Operators ("AOP"), specifically the Spanish petroleum products market;
- Association des Constructeurs Européens d'Automobiles ("ACEA") – European Motor Vehicle Fleet 2004, January 2006, for the Portuguese automotive market;
- Bloomberg L.P. ("Bloomberg"), in particular the prices of light and heavy crude oils;
- * BP Statistical Review of World Energy, June 2006, specifically the oil market and the natural gas market;
- *Catalist Ltd.* ("Catalist"), specifically the retail market for petroleum products in Portugal;
- * *Comisión Nacional de Energía* ("CNE"), specifically natural gas consumption in Spain;
- * European Commission, specifically macroeconomic data for Portugal;
- European Commission, ECFIN (Economic and Financial Affairs) – Statistical Annex of the European Economy, Spring 2006 ("EC Statistical Annex 2006"), for macroeconomic data on Portugal;
- * *Corporación de Reservas Estratégicas de Productos Petrolíferos* ("CORES"), specifically the Spanish petroleum products market;
- * The European Commission's Statistical Office ("Eurostat"), in particular natural gas prices in Europe in January 2006 and estimates of the European population;
- * Directorate-General for Geology and Energy ("DGGE"), specifically the oil and natural gas market in Portugal;
- *Economist Intelligence Unit,* specifically macroeconomic data;
- *HSB Solomon Associates, LLC* ("Solomon"), Solomon Complexity Index;
- * *National Institute of Statistics* ("INE"), specifically statistical data for Spain;
- *International Energy Agency* ("IEA"), specifically refining margins;
- *Oil and Gas Journal Worldwide Refining Survey,* for the refining industry in general and Iberian refining capacity;
- *PFC Energy,* specifically macroeconomic data for Portugal and Spain, the petroleum products market, and the refining industry;
- *Platts*, a division of *The McGraw-Hill Companies,* specifically oil prices and refining margins;

- * *Red Eléctrica de España* (“REE”), particularly with regard to the Spanish electricity market;
- * REN, specifically the Portuguese electricity market;
- * 2005 Annual Report and Financial Statements of EDP – Energias de Portugal, S.A. (“EDP”), specifically regarding the Portuguese electricity market;
- * 2005 Annual Report and Financial Statements of Portgás – Sociedade de Produção e Distribuição de Gás,
  S.A. (“Portgás”), specifically the Portuguese natural gas distribution market;
- *Roland Berger Data Bank,* specifically global oil production*;*
- *Wood Mackenzie Ltd.* (“Wood Mackenzie”)*,* specifically the Nelson Complexity Index.

Galp Energia analyzes its market shares by comparing its sales—based on internal information—with global market data from independent sources. The information drawn from external sources included in this Share Registration Document was taken from the respective sources as presented. In certain cases, Galp Energia obtains sector and market data from external sources, which it then adjusts in accordance with its internal estimates. The compilation, collection, and reproduction of sector and market data from external sources—including general or sector-specific publications—have not been verified by Galp Energia or the Global Coordinators. Galp Energia cannot guarantee the accuracy or completeness of such data and assumes no liability for its disclosure. Similarly, although Galp Energia relies on the quality of its internal estimates, these have not been verified by independent sources and may not be accurate.

SHARE REGISTRATION DOCUMENT

1. RESPONSIBLE PARTIES

1.1 Identification

The form and content of this Share Registration Document comply with the provisions of the VM CodeVM, Commission Regulation (EC) No. 809/2004 of April 29, 2004—as amended by the corrigendum published in the Official Journal No. L 215 of June 16, 2004—and other applicable legislation.

Pursuant to Articles 149 and 243 of the VM Code, the following are responsible for this Share Registration Document:

(a) The **Issuer**

Galp Energia, SGPS, S.A., with its registered office at Rua Tomás da Fonseca Torre C, 1600-209 Lisbon.

(b) The **members of the Issuer's Board of Directors**

Chairman:	Francisco Luís Murteira Nabo
Vice Chairman:	José António Marques Gonçalves
Vice Chairman:	Giancarlo Rossi
Members:	Manuel Ferreira De Oliveira
	André Freire de Almeida Palmeiro Ribeiro
	Camillo Gloria
	Angelo Taraborrelli
	Marco Alverà
	Massimo Giuseppe Rivara
	Manuel Domingos Vicente*
	Fernando Manuel dos Santos Gomes
	João Pedro Leitão Pinheiro de Figueiredo Brito
	Manuel Carlos Costa da Silva
	Diogo Mendonça Rodrigues Tavares
	Joaquim Augusto Nunes de Pina Moura
	Alberto Maria Alberti*
	Alberto Alves de Oliveira Pinto*
	Pedro António do Vadre Castellino e Alvim*

* An application for registration has already been filed with the competent commercial registry office, but registration is pending.

(c) The **Offeror**

Parpública – Participações Públicas (SGPS), S.A., with its registered office at Rua Laura Alves, No. 4–8º, 1050-138 Lisbon.

(d) The **members of the Offeror's Board of Directors**

Chairman:	João Manuel de Castro Plácido Pires
Member:	António José Gomes da Silva Albuquerque
Member:	Mário Alberto Duarte Donas

(e) **Members of the Issuer's Supervisory Bodies**

Members of the Audit Committee (elected by unanimous written resolution of the shareholders on October 5, 2006; as of the date of this prospectus, the application for registration with the competent commercial registry has not yet been filed):

- Chairman:	Daniel Bessa Fernandes Coelho

- Member: José Gomes Honorato Ferreira
- Member: José Maria Rego Ribeiro da Cunha
- Alternate: Amável Alberto Freixo Calhau.

Deloitte & Associados, SROC, S.A., registered with the Portuguese Institute of Certified Public Accountants under No. 43 and with the CMVM under No. 231, represented by Dr. Jorge Carlos Batalha Duarte Catulo, registered with the Portuguese Institute of Certified Public Accountants under No. 992, in his capacity as the Issuer's current Certified Public Accountant, appointed by resolution of the General Meeting of September 6, 2006.

Pedro Leandro and António Belém, Sociedade de Revisores Oficiais de Contas, S.A., registered with the Portuguese Institute of Certified Public Accountants under No. 96, represented by Pedro Manuel da Silva Leandro, registered with the Portuguese Institute of Certified Public Accountants under No. 392, in his capacity as Sole Auditor of the Issuer for the 2005 fiscal year.

Deloitte & Associados, SROC, S.A., registered with the Portuguese Institute of Certified Public Accountants under No. 43 and with the CMVM under No. 231, represented by António Marques Dias, registered with the Portuguese Institute of Certified Public Accountants under No. 562, in his capacity as Sole Auditor of the Issuer for the fiscal years 2004 and 2003.

(f) **Deloitte & Associados, SROC, S.A.** represented by António Marques Dias, registered with the Portuguese Institute of Statutory Auditors under No. 43 and with the CMVM under No. 231, in its capacity as External Auditor responsible for preparing the audit reports on Galp Energia's consolidated financial statements for the fiscal years 2003, 2004, and 2005. Deloitte & Associados, SROC, S.A. is also responsible for preparing an audit report on the consolidated financial statements for 2004 and 2005 and a simplified review report on the consolidated financial statements as of June 30, 2006, and for the six-month periods ended June 30, 2006, and 2005, all prepared in accordance with IFRS, and for an opinion on agreed-upon procedures regarding the pro forma consolidated financial statements for the 2005 fiscal year and the first half of 2006. Deloitte & Associados, SROC, S.A. is also responsible for preparing the report on the adequacy of working capital.

(g) **Banco Espírito Santo de Investimento, S.A.,** with its registered office at Edifício Quartzo, Rua Alexandre Herculano, No. 38, Lisbon, and **Caixa - Banco de Investimento, S.A.,** with its registered office at Rua Barata Salgueiro, No. 33, Lisbon, acting as financial intermediaries responsible for assisting with the public offering.

(h) **Gonçalves Pereira, Castelo Branco & Associados, RL**, with its registered office at Praça Marquês de Pombal No. 1, 8th Floor, Lisbon, acting as legal counsel to the Issuer and the Offeror, is responsible for preparing and verifying the legal provisions of this Share Registration Document and the tax provisions contained in the "Tax Information" section of the Share Prospectus.

1.2 Statement Issued by Those Responsible for the Share Registration Document

The persons or entities responsible for the information contained in the Prospectus, or in parts thereof, declare that, having taken all reasonable steps to ensure that this is the case, and to the best of their knowledge, the information contained in the Prospectus, or in the parts thereof for which they are responsible, is in accordance with the facts and contains no omissions likely to affect its scope.

2. STATUTORY AUDITORS

Deloitte & Associados, SROC, S.A., registered with the Portuguese Institute of Statutory Auditors under No. 43 and with the CMVM under No. 231, represented by Dr. Jorge Carlos Batalha Duarte Catulo, registered with the Portuguese Institute of Statutory Auditors under No. 992, in his capacity as the Issuer's current Statutory Auditor.

Given that Pedro Leandro e António Belém, Sociedade de Revisores Oficiais de Contas, S.A., represented by Dr. Pedro Manuel da Silva Leandro—which had been elected to serve as the Statutory Auditor by the General Meeting of Shareholders on May 24, 2005— for a three-year term ending concurrently with the term of office of the members of the Board of Directors, to perform the duties of Statutory Auditor—since it is not registered with the CMVM and does not intend to apply for such registration— the General Meeting of September 6, 2006, resolved to elect Deloitte & Associados, SROC, S.A., represented by Dr. Jorge Carlos Batalha Duarte Catulo, to perform those duties. The same firm of statutory auditors serves as the external auditor.

Pedro Leandro e António Belém, Sociedade de Revisores Oficiais de Contas, S.A., registered with the Order of Certified Public Accountants under No. 96, with its headquarters at Praça Francisco Sá Carneiro, No. 12, 1st floor, 1000-160 Lisbon, represented by Pedro Manuel da Silva Leandro, registered with the Portuguese Institute of Certified Public Accountants under No. 392, served as the Issuer's Statutory Auditor during the 2005 fiscal year.

Deloitte & Associados, SROC, S.A., registered with the Portuguese Institute of Certified Public Accountants under No. 43 and with the CMVM under No. 231, with its headquarters at Edifício Atrium Saldanha, Praça Duque de Saldanha, No. 1 – 6th floor, in Lisbon, represented by António Marques Dias, registered with the Portuguese Institute of Statutory Auditors under No. 43, served as the Issuer's Statutory Auditor during the fiscal years 2004 and 2003, in the latter under the name António Dias & Associados, SROC, S.A..

3. SELECTED FINANCIAL DATA

The consolidated financial and operating information presented in this section, relating to the fiscal years ended December 31, 2005, 2004, and 2003, was prepared based on the audited consolidated financial statements of Galp Energia, which are included in another section of this Share Registration Document. The consolidated financial and operating information for the six-month periods ended June 30, 2006, and June 30, 2005, was prepared based on the unaudited consolidated financial statements, which were the subject of a simplified review report, included in another section of this Share Registration Document. The audit reports and the simplified review report were prepared by Deloitte & Associados, SROC, S.A.

Galp Energia's consolidated financial statements are presented in euros (functional currency). The information relating to the fiscal year ended December 31, 2003, was prepared in accordance with the Official Accounting Plan ("POC"). The information relating to the fiscal year ended December 31, 2004, was prepared in accordance with the POC and the International Financial Reporting Standards as adopted by the European Union (*"International Financial Reporting* Standards" or "IFRS") for comparative purposes with the financial statements for the fiscal year ended December 31, 2005. The information relating to the fiscal year ended December 31, 2005, as well as to the six-month period ended June 30, 2006, was prepared in accordance with IFRS. The information relating to the six-month period ended June 30, 2005, was prepared in accordance with IFRS for comparative purposes with the financial statements for the six-month period ended June 30, 2006. The main differences between the Portuguese Accounting Standards (POC) and IFRS, as they apply to Galp Energia, are presented in "Appendix II – Summary of Differences between POC and IFRS" of this Share Registration Document.

On September 26, 2006, Galp Energia sold a portion of its natural gas business as part of the "Process for the Separation of Regulated Natural Gas Activities." Since the financial information subsequent to that date is not directly comparable with the historical financial information presented in this section, unaudited pro forma consolidated financial information is provided, subject to a report on agreed-upon procedures by the external auditor for the fiscal year ended December 31, 2005, and the six-month period ended June 30, 2006. This pro forma consolidated financial information has been prepared in accordance with IFRS. For further information regarding the pro forma consolidated financial information, *see* "Pro Forma Financial Information" *below*.

The analysis of the consolidated financial and operating information presented in this section should be read in conjunction with the other financial information contained in this Prospectus, specifically the "Capitalization and Indebtedness" section in the Note on the Shares and the following sections of this Share Registration Document: "Financial Information on the Issuer's Assets and Liabilities, Financial Position, and Income and Losses," "Analysis of Operations and Financial Position," "Appendix II – Summary of Differences Between POC and IFRS," and the unaudited pro forma consolidated historical financial information and the accompanying memorandum of assumptions.

	30 as of June (unaudited)[1]		31 December (audited)			
	IFRS		IFRS		POC	
	2006	2005	2005	2004	2004	2003
			(in millions of euros, unless otherwise indicated)			
Consolidated Income Statement						
Sales and Services Rendered services	**6,130.4**	**5,015.9**	**11,137.3**	**9,272.6**	**9,258.5**	**7,413.5**
Cost of goods sold	(5,112.1)	(4,006.4)	(9,162.1)	(7,597.9)	(7,733.3)	(6,170.2)
Gross margin [2]	**1,018.2**	**1,009.4**	**1,975.2**	**1,674.7**	**1,525.2**	**1,243.4**
Other operating income and gains operating	24.8	28.8	83.4	79.3	68.2	74.6
Supplies and services from external sources	(255.7)	(247.3)	(525.6)	(468.4)	(437.3)	(391.8)
Personnel expenses	(140.6)	(124.5)	(269.6)	(250.9)	(255.1)	(225.8)
Other costs and losses operating	(23.4)	(22.8)	(71.3)	(75.5)	(69.3)	(51.3)
Provisions	(14.6)	(0.5)	(22.5)	(14.6)	(74.5)	(16.7)
Depreciation	(125.3)	(131.6)	(306.8)	(294.2)	(318.4)	(298.0)
Operating results	**483.4**	**511.5**	**862.7**	**650.4**	**438.8**	**334.5**
Financial Income / (Expenses) - Interest and similar items	(24.7)	(27.7)	(53.0)	(56.5)	(62.9)	(53.2)
Other Income / (Expenses) Financial	(1.1)	(32.0)	(21.5)	(15.6)	7.7	9.5
Gains (losses) on group companies in the group and affiliates	19.5	77.8	105.2	25.3	25.5	22.8
Operating income	**477.0**	**529.6**	**893.4**	**603.6**	**409.0**	**313.6**
Extraordinary income	0.0	0.0	0.0	0.0	40.6	55.5
Earnings before taxes and minority minority interests	**477.0**	**529.6**	**893.4**	**603.6**	**449.6**	**369.1**
Income tax	(121.2)	(112.6)	(188.8)	(145.8)	(111.9)	(118.7)
Minority interests	(2.0)	(2.4)	(3.9)	(4.4)	(4.6)	(3.0)
Net income	**353.8**	**414.5**	**700.7**	**453.4**	**333.1**	**247.4**
Per-Share Data [3]						
Net income per share (€)	0.43	0.50	0.84	0.55	0.40	0.30
Net income per share diluted (€)	0.43	0.50	0.84	0.55	0.40	0.30
Dividend per share (€)	n.a.	n.a.	0.27	0.20	0.20	0.11
Consolidated *Cash Flows*						
Cash flows from operating	380.1	217.5	653.0	866.5	879.8	550.4
Cash flows from investing activities	(102.4)	14.7	(110.0)	(262.7)	(280.8)	(272.5)
Cash flows from Financing	(184.8)	(323.5)	(522.2)	(432.4)	(432.4)	(249.5)
Consolidated Balance Sheet						
Fixed Assets	3,079.0	n.a.	3,090.7	3,081.2	3,989.0	4,011.8
Net Fixed Assets[4]	2,925.5	n.a.	2,942.5	2,943.3	3,785.3	3,788.3
Other non-current assets [5]	252.9	n.a.	255.5	261.1	136.1	138.2
Total Non-Current Assets	3,331.8	n.a.	3,346.2	3,342.3	4,125.1	4,150.0
Marketable securities, bank deposits and cash on hand	275.6	n.a.	157.6	227.3	234.1	190.2
Other current assets	2,660.2	n.a.	2,430.4	1,922.8	1,804.2	1,728.7
Total Current Assets	2,935.8	n.a.	2,588.1	2,150.1	2,038.3	1,918.9
Total Assets	**6,267.6**	n/a	**5,934.3**	**5,492.4**	**6,163.4**	**6,068.9**
Equity (includes minority interests)	2,514.7	n/a	2,385.9	1,846.1	1,914.2	1,675.3
Non-current liabilities [6]	1,550.0	n/a	1,612.9	1,547.9	1,446.3	1,683.8

	30 June (unaudited)[1]		31 December (audited)			
	IFRS		IFRS		POC	
	2006	2005	2005	2004	2004	2003
			(in millions of euros, unless otherwise indicated)			
Current liabilities	2,202.9	n.a.	1,935.5	2,098.3	2,802.9	2,709.8
Total Liabilities	3,753.0	n/a	3,548.4	3,646.2	4,249.2	4,393.6
Total Equity and Liabilities	**6,267.6**	n/a	**5,934.3**	**5,492.4**	**6,163.4**	**6,068.9**
Other Financial Information						
Investments [7]	120.7	117.6	315.3	328.9	343.3	448.1
Average capital employed [8]	n.a.	n.a.	3,438.7	n.a.	3,482.4	3,587.5
Net debt[9]	984.7	n.a.	1,191.5	1,502.7	1,496.7	1,929.6
EBITDA [10]	623.3	643.6	1,192.1	959.2	831.7	649.2
Net Debt / EBITDA	n.a.	n.a.	1.0x	1.6x	1.8x	3.0x
EBITDA / Interest	25.3x	23.2x	22.5x	17.0x	13.2x	12.2x
Net debt / Equity [11]	39.2%	n.a.	49.9%	81.4%	78.2%	115.2%
Return on (ROACE) [12]	n.a.	n.a.	21.9%	n.d.	10.7%	7.7%
Information by Business Segment						
Gross Margin[2]	**1,018.2**	**1,009.4**	**1,975.2**	**1,674.7**	**1,525.2**	**1,243.4**
Exploration and Production	27.7	30.3	62.1	42.4	42.4	38.0
Refining and Distribution	772.2	779.6	1,493.8	1,315.5	1,167.3	983.9
Supply and Sale of Natural Gas	130.8	116.8	255.1	189.6	188.2	122.2
Natural Gas Distribution	74.1	74.8	137.7	124.7	124.7	104.7
Power	4.9	5.2	9.0	4.7	4.7	(0.1)
Other [13]	8.5	2.8	17.6	(2.2)	(2.0)	(5.3)
EBITDA[10]	**623.3**	**643.6**	**1,192.1**	**959.2**	**831.7**	**649.2**
Exploration and Production	16.2	20.7	40.2	25.5	25.5	19.9
Refining and Distribution	444.7	479.6	848.7	726.0	593.9	494.8
Supply and Sale of Natural Gas	111.0	102.1	218.4	146.1	146.9	96.5
Natural Gas Distribution	46.3	49.1	82.2	70.1	73.6	58.8
Power	2.6	3.5	3.7	2.8	2.8	(1.5)
Other[13]	2.4	(11.4)	(1.0)	(11.3)	(11.0)	(19.3)
Operating results	**483.4**	**511.5**	**862.7**	**650.4**	**438.8**	**334.5**
Exploration and Production	3.5	10.4	18.2	(18.9)	(19.3)	7.6
Refining and Distribution	349.9	386.0	601.9	520.4	338.9	262.6
Supply and Sale of Natural Gas	93.8	86.6	186.3	113.0	93.9	63.1
Natural Gas Distribution	32.9	38.7	58.5	50.1	38.9	24.3
Power	1.2	2.0	0.8	0.0	(0.2)	(1.6)
Other [13]	2.1	(12.1)	(2.9)	(14.1)	(13.4)	(21.3)
Operating Information						
Crude oil production (thousands barrels/day)	4.1	3.9	4.3	4.5	4.5	4.9
Refining capacity (thousands of barrels per day)	310	310	310	310	310	310
Processed quantities (millions of metric tons)	6.8	6.3	14.1	13.6	13.6	13.7
Sales of refined products (millions of metric tons)	8.1	7.7	15.2	14.9	14.9	14.2
Gross refining margin ($/barrel) [14]	5.2	6.8	7.3	6.0	6.0	3.7
Number of jobs	1,052	1,085	1,060	1,094	1,094	1,090
Retail Sales Volume (thousands of m^3)	1,533	1,601	3,241	3,262	3,262	3,131
Wholesale Sales Volume (thousands of metric tons)	2,709	2,714	5,502	4,424	4,424	3,780

	30 June (unaudited)[1]		31 December (audited)			
	IFRS		IFRS		POC	
	2006	2005	2005	2004	2004	2003
			(in millions of euros, unless otherwise indicated)			
LPG Sales Volume (thousands of metric tons)	220	212	406	423	423	431
Sales from the Approval and Sale of Natural Gas (millions of m³)	2,223	2,137	4,234	4,015	4,015	3,443
Electric	897	1,031	2,013	1,725	1,725	1,125
Industrial	768	721	1,447	1,292	1,292	1,210
Gas Distributors						
Natural	379	355	656	622	622	561
Trading	179	30	119	376	376	547
Sales for the Natural Gas Distribution (millions of m³) [15]	274	259	478	453 [16]	453 [16]	407 [16]
Residential	10,286	99	175	163	163	144
Commercial	2,623	23	43	42	42	38
Industrial	147	137	260	248	248	225
Customers of natural gas distributors (thousands) [15]	761.8	710.1	738.9	683.2 [17]	683.2 [17]	631.9 [17]
Energy generated (GWh)	770	773	1,375	1,219	1,219	726

n.a. – not applicable
n.d. – not available

(1) Unaudited but subject to a simplified review.
(2) The gross margin as of December 31, 2003, and 2004, as presented in the Annual Reports and Financial Statements (POC), differs from that included in this Share Registration Document due to the reclassification of services rendered, which were taken into account in the calculation of the gross margin.
(3) Adjusted for the change in the par value of the shares (*"stock* split") approved on May 31, 2006 (*see* "Additional Information" *below*).
(4) Net fixed assets include the total net tangible and intangible fixed assets.
(5) Includes deferred tax assets as of December 31, 2004, and 2003.
(6) Includes deferred tax liabilities as of December 31, 2004, and 2003.
(7) Total investment in tangible and intangible fixed assets.
(8) Equity (excluding minority interests) plus net debt at the end of year "n," plus equity (excluding minority interests) plus net debt at the end of year "n-1," all divided by 2.
(9) Short- and long-term bonds and loans, net of marketable securities, bank deposits, and cash.
(10) EBITDA is defined as operating income plus depreciation, amortization, and provisions. EBITDA is not a standard measure and should not be used for comparisons between companies. EBITDA is not a direct measure of liquidity and should be analyzed in conjunction with actual *cash flows* from operating activities and taking into account existing financial obligations. EBITDA may not be indicative of historical operating results, nor is it intended to predict future results (*see* "Financial Information on the Issuer's Assets and Liabilities, Financial Position, and Income and Losses").
(11) Net debt / (Equity plus Minority Interests).
(12) Net income minus [financial income (excluding results from group companies and associates) multiplied by (1 minus the corporate income tax rate)] and divided by the average capital employed for the period.
(13) "Other" primarily includes corporate overhead costs and intragroup eliminations.
(14) For the definition of refining margin, *see* "Overview of Operations – Main Activities and Markets – Refining and Distribution of Petroleum Products" *below*.
(15) Including certain natural gas distributors in which Galp Energia holds a significant stake, even though they are not included in the scope of consolidation.
(16) Excluding volumes from Portgás, which was sold in January 2005 (*see* "Analysis of Operations and Financial Position" *below*).
(17) Excluding Portgás customers, which was sold in January 2005 (*see* "Analysis of Operations and Financial Position" *below*).

4. INFORMATION ABOUT THE ISSUER

4.1 Background and History of the Issuer

The Issuer's corporate name is Galp Energia, SGPS, S.A. Galp Energia is registered with the Lisbon Commercial Registry, is identified as legal entity number 504 499 777, and conducts its business in Portugal; its headquarters are located at Rua Tomás da Fonseca, Torre C, 1600-209, in Lisbon. Galp Energia's telephone number is 21 724 25 00.

Galp Energia was established as a publicly owned corporation under Decree-Law No. 137-A/99 of April 22, under the name "Galp – Petróleos e Gás de Portugal, SGPS, S.A."; on September 13, 2000, it adopted its current name – Galp Energia, SGPS, S.A. At the time of its incorporation, Galp Energia consolidated the State's direct holdings in the following companies: Petróleos de Portugal – Petrogal, S.A. ("Petrogal"), GDP, and Transgás. Galp Energia's initial capital, amounting to 411,383,565 euros, was fully paid in kind through the transfer of the State's equity interests in the aforementioned companies. In September 1999, the State carried out another capital increase, bringing the total to 502,164,785 euros.

Decree-Law No. 261-A/99, of July 7, approved the start of the privatization process for Galp Energia, opening the company's capital to the remaining shareholders of Petrogal and Transgás through a capital increase consisting primarily of contributions in kind and the transfer of shares in those companies, reserved for those shareholders.

Thus, on December 31, 1999, a capital increase in the amount of 327,085,850 euros was completed, subscribed by Petrocontrol, SGPS, S.A. ("Petrocontrol"), EDP - Energias de Portugal, S.A. ("EDP"), CGD, Portgás, and Setgás, bringing the total capital to 829,250,635 euros.

On July 13, 2000, following the agreements entered into on January 17 of that year and the second phase of the privatization process of Galp Energia, approved by Decree-Law No. 21/2000 of March 1, and regulated by Council of Ministers Resolution No. 10-A/2000 of March 16, ENI and Iberdrola, S.A. ("Iberdrola") signed share purchase and sale agreements with the State, acquiring 11% and 4%, respectively, of Galp Energia's share capital. At the same time, Petrocontrol sold its entire stake in Galp Energia, with the ENI group acquiring 22.34% and EDP acquiring 11.0%.

Decree-Law No. 124/2003, of June 20, approved the third phase of Galp Energia's privatization process. Following this decree, REN acquired 18.3% of Galp Energia's share capital, of which 13.5% was acquired from CGD and the remaining 4.8% from the State. Subsequently, Parpública acquired 0.75%, 3.48% in 2004, and, during the 2005 fiscal year, acquired an additional 8.06% stake in Galp Energia's share capital from the State.

In early 2006, there was a further change in Galp Energia's shareholder structure. For information regarding Galp Energia's current shareholder structure, *see* the "Major Shareholders" section *below.*

The following is a summary of the most significant developments in the Issuer's business:

1999

- Galp Energia was established as a vehicle for restructuring Portugal's energy sector in the areas of oil and natural gas.

2000

- Achievement of the first significant results in oil production in Angola. Participation in Brazil's 2nd License Round, resulting in the award—together with Petrobras – Petróleo Brasileiro, S.A. ("Petrobras")—of two 10% interests in blocks located in the deep offshore area of the Santos Basin.

- Work began on site preparation for the construction of the Liquefied Natural Gas Terminal ("LNG Terminal") in Sines.

2001

- Completion of the replacement of city gas with natural gas in Lisbon, and the construction of a propane gas storage cavern in Sines.

2002

- Acquisition of a 5% stake in CLH – Compañia Logística de Hidrocarboros, S.A. ("CLH"), which facilitated the development of a logistics strategy in the Spanish market, enabling the pickup of products at 15 storage facilities throughout Spain.

2003

- Completion of investments in the LNG terminal in Sines and connection of this infrastructure to the national grid via the Sines-Setúbal gas pipeline.

- Completion of the *swap* transaction, a process that involved exchanging 79 service stations in Spain with Compañia Española de Petroleos, S.A., Cepsa Portuguesa S.A., Total España S.A., and Total Portuguesa S.A., in exchange for 78 service stations in Portugal.

2004

- The company strengthened its presence in the Spanish market with the acquisition of BP Enértica, which allowed for the integration of an attractive customer base and a logistics platform that enabled the expansion of the value chain in Spain, bringing the company closer to the end customer.

2005

- On January 31, 2005, Galp Energia, through Petrogal, acquired from Total the entire share capital of Empresa Petróleos de Valência, owner of the Valencia Storage Terminal.

- Sale to EDP of the financial stake and supplies that Galp Energia indirectly held in Portgás, representing a total value of 86.4 million euros.

2006

- Completion of the process to separate regulated activities in the natural gas sector.
- Approval by ERSE of the new regulations for the natural gas sector.

4.2 Investments

Investments

Galp Energia's operations require continuous investment. The following table shows the total investment figures for the periods indicated.

	30 from June		December 31			
	IFRS		IFRS		POC	
	2006	2005	2005	2004	2004	2003
	(in millions of euros, unless otherwise indicated)					
Investments (1)						
Operations and production	41.9	40.3	82.3	70.6	72.4	39.5
Refining and distribution.....	30.2	40.4	142.1	165.2	166.8	205.0
Gas Procurement and Sales	22.9	8.1	17.7	25.9	37.0	124.3
Natural Gas Distribution.....	25.2	28.0	69.9	62.2	62.2	72.1
Power	0.4	0.0	0.7	4.6	4.5	1.7
Other (2)	0.1	0.8	2.7	0.4	0.4	5.5
Total	**120.7**	**117.6**	**315.3**	**328.9**	**343.3**	**448.1**

(1) These figures may differ from the investments presented in the Management Reports included in Galp Energia's Annual Reports and Financial Statements due to different analytical perspectives, since the figures included in those reports are presented from a management perspective.

(2) Includes the investment costs of certain projects that are not directly included in Galp Energia's business segments

In addition to the information presented in the table above, Galp Energia made investments through various equity acquisitions, specifically 17.3 million euros in 2005, 4.5 million euros in 2004, and 17 million euros in 2003. These investments include the acquisition of Gesoil, S.A. (the company responsible for managing the service stations that Galp Energia acquired through a swap with Total in Spain in 2003) for 15 million euros, the acquisition of BP Enértica's equity for 2.2 million euros in 2004, and the acquisition of Petróleos de Valencia, S.A. (a company that owns storage facilities and provides logistics services in Spain) for 13.9 million euros in 2005.

Comparison of the six-month period ended June 30, 2006, with the six-month period ended June 30, 2005 (IFRS)

Total investments increased by 2.6% to 120.7 million euros in the first half of 2006, compared with 117.6 million euros in the same period of the previous year. The Exploration and Production business segment invested 41.9 million euros in the first half of 2006, primarily in exploration and development activities in Block 14 in Angola and in the acquisition of seismic surveys for the blocks awarded in the 6th and 7th rounds in Brazil. The Refining and Marketing segment invested 30.2 million euros in the first half of 2006, primarily focused on marketing activities, notably the acquisition of additional quantities of "Pluma" LPG cylinders and the construction of new gas stations and fueling stations in Portugal and in Spain. The segment of business of

Natural Gas Procurement and Sales invested 22.9 million euros in the first half of 2006, primarily related to the transfer of natural gas inventories to fixed assets, in connection with the filling of the first underground storage cavern (*cushion gas*) and other investments also related to underground storage (surface facilities). The Natural Gas Distribution business segment invested 25.2 million euros in the first half of 2006, primarily in network expansion and conversions to natural gas consumption. The *Power* business segment invested 0.4 million euros in the first half of 2006, primarily directed toward the cogeneration project at the Sines Refinery.

The Exploration and Production business segment invested 40.3 million euros in the first half of 2005, primarily in exploration and development activities in Block 14 in Angola. The Refining and Marketing business segment invested 40.4 million euros in the first half of 2005, primarily in the construction of logistics facilities on the island of Madeira, in replacement and renovation investments at the Sines and Porto refineries, and in the construction and remodeling of gas stations and convenience stores in Portugal and Spain. The Natural Gas Supply and Sales business segment invested 8.1 million euros in the first half of 2005, primarily in the construction of underground storage caverns and several industrial branch lines. The Natural Gas Distribution business segment invested 28.0 million euros in the first half of 2005, primarily in network expansion and conversions to natural gas consumption.

Comparison of the fiscal year ended December 31, 2005, with the fiscal year ended December 31, 2004 (IFRS)

Total investments decreased by 4.1%, from 328.9 million euros in 2004 to 315.3 million euros in 2005. The Exploration and Production business segment invested 82.3 million euros in 2005, primarily in exploration and development activities in Block 14 in Angola. The Refining and Marketing segment invested 142.1 million euros in 2005, primarily in replacement and renovation investments at the Porto and Sines refineries, in opening new service stations in Portugal and Spain, and in the construction of logistics facilities on the island of Madeira. The Natural Gas Procurement and Sales business segment invested 17.7 million euros in 2005, primarily in improvements to underground storage facilities, the high-pressure gas pipeline, and the medium-pressure natural gas supply network. The Natural Gas Distribution business segment invested 69.9 million euros in 2005, primarily in network expansion and conversions to natural gas consumption. The *Power* business segment invested 0.7 million euros in 2005, most of which was allocated to the cogeneration project at the Sines Refinery.

Comparison of the fiscal year ended December 31, 2004, with the fiscal year ended December 31, 2003 (POC)

Total investments fell by 23.4%, from 448.1 million euros in 2003 to 343.3 million euros in 2004. The Exploration and Production segment invested 72.4 million euros in 2004, primarily in exploration and development activities in Block 14 in Angola. The Refining and Marketing segment invested 166.8 million euros in replacement and renovation of the Porto and Sines refineries, in opening new gas stations in Portugal and Spain, in expanding the convenience store network, and in constructing logistics facilities on the island of Madeira. The Natural Gas Procurement and Sales segment invested 37.0 million euros in 2004, primarily in the completion of the LNG terminal, underground storage, and the

expansion of the industrial customer network. The Natural Gas Distribution segment invested 62.2 million euros in 2004, almost exclusively related to network expansion and conversions to natural gas. The *Power* segment invested 4.5 million euros in 2004, primarily in the installation of the Powercer cogeneration plant.

The Exploration and Production segment invested 39.5 million euros in 2003, primarily in exploration and development activities in Block 14 in Angola. The Refining and Marketing segment invested 205.0 million euros in 2003, focusing on rebranding service stations and opening new service stations and convenience stores in Portugal and Spain, as well as on replacement and renovation investments at the Porto and Sines refineries. The Natural Gas Supply and Sales segment invested 124.3 million euros, primarily in the construction of the LNG terminal, the Sines-Setúbal gas pipeline (which connects the LNG terminal to the high-pressure network), and underground storage facilities. The Natural Gas Distribution segment invested 72.1 million euros, primarily in the project to convert consumers to natural gas and in the construction of the distribution network. The *Power* segment invested 1.7 million euros in the construction of the cogeneration plant in Carriço.

Fixed Assets in Progress

The main investments in progress are being financed using *cash flow* generated by Galp Energia's operations. Of the total investment in progress, net of subsidies, as of June 30, 2006, amounting to 294.0 million euros, 169.0 million euros are investments in progress in the Exploration and Production business segment, concentrated primarily in oil exploration and development in Block 14K/A-IMI and Block 14 in Angola (106.6 million euros), as well as 36.9 million euros in oil exploration in Blocks 32 and 33 in Angola and 25.5 million euros in oil and natural gas exploration and production in Brazil. The Refining and Distribution segment accounts for 61.7 million euros of the ongoing investment, of which 26.9 million euros are in Refining activities and 34.8 million euros in Distribution, primarily for the renovation and expansion of the network of gas stations. In the Natural Gas Procurement and Sales segment, there are ongoing investments totaling 12.1 million euros related to underground storage; in the Natural Gas Distribution segment, there are 11.9 million euros in ongoing investments related to networks and retrofits; and in the Power segment, 1.6 million euros are being invested in the cogeneration plant at the Sines refinery. There are also several other ongoing investments totaling 37.8 million euros.

Major Future Investments

Galp Energia's investment plan for the 2006–2010 period calls for total investments of approximately 3,397 million euros, of which 120.7 million euros had already been invested in the first half of the year ending June 30, 2006. Galp Energia plans to invest approximately 769 million euros in Exploration and Production, 1,693 million euros in Refining and Distribution (including the conversion project at the Sines refinery), 51 million euros in the Natural Gas Supply and Sales segment, 299 million euros in Natural Gas Distribution, and 576 million euros in *Power*. Galp Energia expects that investment in the *Power* segment will focus on the construction of two natural gas combined-cycle power plants (CCGT) of 400 MW each, and on wind farm installation projects, both in Portugal. Approximately 23% of the 2006–2010 investment plan is earmarked for the expansion of activities in the Exploration and Production segment, specifically in Angola and Brazil.

Galp Energia's investment plan is not binding and is subject to periodic reviews by the Company's Board of Directors. Accordingly, it is expected that the planned amounts may change in the future and that the amounts actually spent may differ substantially from those projected.

Galp Energia's investment plan will be financed by cash flows generated from the Company's operating activities, by debt, and, if necessary, by equity. Financing should preferably be obtained by Galp Energia, which in turn will finance its subsidiaries, except, for example, in the case of financing such as *project finance* or other structured transactions, which may be carried out at the level of the operating companies.

5. PROCESS FOR THE UNBUNDLING OF REGULATED ACTIVITIES IN THE NATURAL GAS SECTOR

Legal Framework

Directive 2003/55/EC of the European Parliament and of the Council of June 26, 2003 (the "Gas Directive") provides that natural gas markets must be progressively opened up to competition. The Gas Directive mandates the separation of natural gas transmission and distribution activities, as well as the separation of these activities from the natural gas supply business, in order to allow third-party access to gas infrastructure. Under this directive, all non-residential natural gas customers were given the option to freely choose their supplier as of July 1, 2004, and all other customers as of July 1, 2007. However, Member States had the option to postpone the applicability of certain provisions of the Gas Directive through the derogation mechanisms provided for therein. Accordingly, Portugal benefits from a derogation regarding the application of the Gas Directive, which allows Member States considered "emerging markets" in the natural gas sector to postpone the implementation date for certain provisions of that directive. In this context, "emerging markets" are defined as Member States for which the first supply of gas under long-term supply contracts occurred less than 10 years ago. The first supply of natural gas in Portugal took place in 1997; therefore, Portugal was able to postpone the liberalization of the natural gas market until 2007.

Following the entry into force of the Gas Directive, the Portuguese Government outlined the national strategy for the energy sector through Council of Ministers Resolution No. 169/2005, dated October 24. That Council of Ministers Resolution mandated the separation of certain assets, obligations, and associated activities related to the transmission and storage of natural gas and the regasification and storage of liquefied natural gas ("Regulated Activities"), and their transfer to REN, the concessionaire of the national electricity transmission grid.

The Gas Directive was implemented in Portugal through Decree-Law No. 30/2006, of February 15 (Decree-Law 30/2006). Decree-Law 30/2006 establishes the general principles governing the organization and operation of the national natural gas system and mandates the separation of natural gas supply and marketing activities from all regulated activities related to (i) underground natural gas storage, (ii) natural gas transmission,
(iii) storage and regasification of liquefied natural gas, (iv) distribution of natural gas (subject to certain exceptions described below), and (v) supply of last resort. This framework was subsequently elaborated through Decree-Law No. 140/2006, of
July 26 (the "Decree-Law 140/2006"), which establishes, among other things, the terms of concessions and licenses for regulated natural gas activities. Decree-Law 140/2006 further provides that the liberalization of the Portuguese natural gas market will take place on January 1, 2007, for electricity producers operating under the ordinary regime; on January 1, 2008, for customers who consume annual quantities equal to or greater than 1 million m^3 , on January 1, 2009, for customers who consume annual quantities equal to or greater than 10,000 m^{33} , and on January 1, 2010, for all other customers.

Process for the Unbundling of Regulated Activities

Within the legal context referred to above, Transgás, Transgás SGPS, GDP, and REN entered into a preliminary purchase and sale agreement ("Preliminary Agreement") on August 30, 2006,

under which they agreed to transfer the Regulated Activities to REN or to companies controlled by it ("Regulated Activities Separation Process"). The Regulated Activities Separation Process comprises the following transactions:

- ***Transmission Assets.*** Transgás sold to REN the natural gas pipelines and other assets related to the high-pressure natural gas transmission network located in Portugal, including an 88% equity interest in Gasoduto Campo Maior – Leiria – Braga S.A., and a 51% equity interest in Gasoduto Braga-Tuy, S.A. ("Portuguese Gas Pipeline Companies"). This sale also included Transgás's rights and obligations related to the gas pipeline network located in Portugal, under the existing contractual relationships between Transgás, the Spanish company responsible for natural gas transmission in Spain ("Enagás"), and the Portuguese Gas Pipeline Companies, including the rights to reserve natural gas transmission capacity in each of these pipelines. It should be noted that Sociedades Portuguesas de Gasodutos was controlled by Transgás and Enagás, and, in accordance with the contracts entered into at the time of implementation
  As part of the natural gas project in Portugal, transportation capacity rights on each of the gas pipelines were allocated to the respective pipeline companies.
- ***Storage caverns.*** Transgás sold three underground natural gas storage caverns and the related surface facilities located in Pombal to REN. In addition to the aforementioned caverns, Transgás, through Transgás Armazenagem, Sociedade Portuguesa de Armazenagem, S.A. ("Transgás Armazenagem") (a wholly-owned subsidiary), may have to sell to the underground storage concessionaire—which initially held a wholly-owned relationship with REN— other underground natural gas storage caverns that form part of Transgás Armazenagem's concession, once its underground storage expansion capacity has been exhausted, should such caverns be deemed by the energy regulatory authority to be necessary for strengthening safety reserve capacity.
- ***Regasification facilities.*** Transgás SGPS and GDP sold to REN 100% of the share capital of SGNL – Sociedade Portuguesa de Gás Natural Liquefeito, S.A. ("SGNL"), the entity that owns and operates the liquefied natural gas regasification terminal located in Sines;
- ***Debt.*** The debt related to Regulated Activities was transferred to the purchasers of the corresponding assets.

The Separation of Regulated Activities process was formally completed on September 26, 2006, through the following transactions:

a) Execution of a public deed of transfer of business operations between Transgás and REN, whereby Transgás transferred to REN: (i) the high-pressure natural gas transmission network; (ii) three underground natural gas storage caverns, including the associated surface facilities—two of which are already in operation and the third under construction—as well as the rights to use the subsoil for the construction of at least two additional caverns at the same site; (iii) the facilities and equipment necessary for the proper operation of all the infrastructure referred to in the preceding subparagraphs, (iv) the rights, obligations, and responsibilities associated with the aforementioned assets and with the activities of high-pressure natural gas transmission and underground natural gas storage;
b) the execution between Transgás SGPS and GDP (as sellers) and REN (as buyer) of a contract for the purchase and sale of the shares of SGNL, a company that operates the terminal for the reception, storage, and regasification of liquefied natural gas located in Sines and that carries out the activities of receiving, storing, and regasifying liquefied natural gas.

Immediately following the completion of the transactions described above, REN incorporated two new companies, REN – Gasodutos, S.A. ("REN Gasodutos"), and REN – Armazenagem, S.A. ("REN

Armazenagem"), through contributions in kind, which consisted, respectively, of all the assets allocated to natural gas transmission and storage activities previously acquired by REN from Transgás as part of the Separation of Regulated Activities Process.

At the same time, on the same date, September 26, 2006, REN changed the corporate name of SGNL—whose shares it had acquired as part of the Separation of Regulated Activities Process—to REN Atlântico - Terminal de GNL, S.A. ("REN Atlântico").

In connection with the aforementioned transfer of assets, the following concessions were granted and contracts were entered into:

- Granting by the Portuguese government of new concessions for the activities of (i) natural gas transmission through the National Natural Gas Transmission Network to the company REN Gasodutos, (ii) underground storage of natural gas, with one concession awarded to REN Armazenagem and another to Transgás Armazenagem; and (iii) the reception, storage, and regasification of liquefied natural gas at LNG terminals to REN Atlântico;
- The signing between Transgás and the State of a contract amending the current public service concession contract for the import, transmission, and supply of natural gas via the high-pressure network, dated October 14, 1993 ("Amendment Agreement"). The Amendment Agreement, the draft of which was approved by Council of Ministers Resolution No. 109/2006 of August 23, aims to regulate the transition of the contractual framework governing activities related to the natural gas sector, in order to bring it into compliance with the provisions of Decree-Law No. 30/2006 and Decree-Law No. 140/2006. To that end, the Amendment Agreement provides for:

  – the granting, effective January 1, 2007, of a free natural gas sales license to Transgás for all consumers who, in accordance with the market liberalization schedule, are considered eligible customers;

  – the granting, effective January 1, 2007, of a natural gas last-resort sales license to customers with annual consumption equal to or greater than $2{\cdot}000{\cdot}000\,\text{normal}\,m^3$, to a company controlled by Transgás. The term of this license ends on December 31, 2028;

  – settlement of rebalancing based on certain assumptions; and
- The execution of contracts between Transgás and the concessionaires responsible for natural gas transmission via the National Natural Gas Transmission Network, underground natural gas storage, and the reception, storage, and regasification of liquefied natural gas (the companies REN Gasodutos, REN Armazenagem, and REN Atlântico, which are wholly owned by REN), establishing the terms under which the new concessionaires will provide Transgás with the following services: (i) access to high-pressure natural gas transmission infrastructure, (ii) access to natural gas storage infrastructure, and (iii) regasification of liquefied natural gas, pursuant to a tariff agreed upon by the parties. These contracts are transitional in nature until the final tariffs take effect (*see* "Legislation Governing the Issuer's Activities" *below*) and are based on the assumption that Transgás is the exclusive user of the aforementioned gas infrastructure. Accordingly, these contracts provide for their replacement with new contracts that comply with the requirements to be established under the regulatory framework approved on September 11, 2006, by ERSE and published in the Diário da República on September 25, 2006.

On September 26, 2006, REN paid, for Regulated Activities, the provisional amount of 526.3 million euros, calculated as follows:

- **Natural gas transmission assets.** 419.9 million euros, paid to Transgás for the high-pressure natural gas transmission network and related rights and activities, calculated based on an estimated total value of those assets of 738.0 million euros,

less 318.1 million euros in debt (restated as of the date of completion of the transaction) assumed by REN. The amount of 738.0 million euros will be subject to adjustment (only if the adjustment results in a higher amount), specifically based on the tariff to be applied by REN to natural gas transmission services, within the regulatory framework established by ERSE on September 11, 2006 (*see* "Legislation Governing the Issuer's Activities" *below*). Until the final tariffs take effect, Galp Energia will pay the provisional tariff of 0.0205 euros per m^3 for natural gas transmission services, as defined in the memorandum of understanding signed between REN and Galp Energia on April 28, 2006 ("Memorandum of Understanding"), which will be adjusted at the end of the year (*see* "Pro Forma Financial Information" *below*).

- **Underground natural gas storage facilities.** 76.4 million euros paid to Transgás for the natural gas storage facilities, of which 60.5 million euros correspond to the value of the facilities, and 15.9 million euros correspond to the book value of the minimum quantity of natural gas that must be present inside the underground natural gas storage caverns to maintain their operational capacity ("cushion gas"). The aforementioned amount of 76.4 million euros will be subject to adjustment (either upward or downward), depending on the rates to be set within the regulatory framework defined by ERSE, specifically with regard to the rate to be applied by REN to natural gas storage services. Until the final tariffs take effect, Galp Energia will pay the provisional tariff of 9.3 million euros per year, plus 0.0014 euros per m^3, for natural gas storage services
  .
- **Regasification facilities** (SGNL shares). 30.0 million euros, paid to Transgás SGPS and GDP in connection with the sale of SGNL shares, of which 11.6 million corresponds to the value of the shares and 18.3 million euros corresponds to the value of loans from the shareholders (Transgás SGPS and GDP) to SGNL. The amount of 11.6 million euros will be subject to adjustment (either upward or downward), depending on the rates to be set within the regulatory framework defined by ERSE, specifically regarding the rate to be applied by REN to liquefied natural gas regasification services. Until the final tariffs take effect, the purchase and sale agreement establishes a provisional fixed tariff of 29.7 million euros per year, plus 0.0019 euros per $m^3$for regasification services, which is to be paid by Galp Energia.

The sales figures mentioned *above* differ from those used in preparing the pro forma financial statements as of December 31, 2005, and June 30, 2006, due to changes in the amount of net debt and the value of "cushion gas." For more detailed information, *see* "Financial Information on the Issuer's Assets and Liabilities, Financial Position, and Income and Losses—Pro Forma Financial Information—Description of the Process for Separating Regulated Activities and the Sale Price of Regulated Activities" *below*.

The aforementioned price adjustments will be made within the stipulated period of 45 days following the effective date of the regulatory framework, which establishes, in particular, the terms, conditions, and tariffs for third-party access to the infrastructure related to the Regulated Activities. These adjustments will be made based on an appraisal conducted by three experts, two of whom will be appointed by each of the parties, and the third appointed by the first two experts.

As a result of the Separation of Regulated Activities Process, 156 Transgás employees were transferred to REN as part of the aforementioned transfer of business operations. In addition to this transfer of employees, the 32 employees who were on REN Atlântico's (formerly SGNL) payroll prior to the Separation of Regulated Activities Process remain with the company.

The proceeds from the sale of the Regulated Activities were used, as approved at the General Meeting held on August 31, 2006, to pay an extraordinary dividend by Galp Energia, totaling 870.7 million euros, or 1.05 euros per share (*see* "Dividend Policy" *below*).

Activities Carried Out by Transgás Following the Completion of the Separation of Regulated Activities

Following the Separation of Regulated Activities, Transgás will continue to carry out the unregulated activity of natural gas supply and marketing, under the following terms:

- ***Natural gas supply***. Transgás will maintain its contracts for the purchase of natural gas and liquefied natural gas with Sonatrach (in Algeria) and NLNG (in Nigeria);
- ***International gas pipelines***. Transgás will retain its equity interests in the companies EMPL, Metragaz - Société pour la Construction et L'Exploitation Technique du Gazoduc Maghreb-Europe ("Metragaz"), Gasoducto Al-Andaluz, S.A., and Gasoducto de Extremadura, S.A.;
- ***Sale of natural gas.*** Transgás will sell natural gas to all its eligible customers, in accordance with the timeline established by Decree-Law 140/2006 for the liberalization of the natural gas market, under a free-market regime. However, the Regulations recently approved by ERSE and already published in the Official Gazette, which could be interpreted in a way that would result in losses for Galp Energia, impose limitations on the conduct of this activity with respect to the sale of surplus natural gas under *take-or-pay* supply contracts. Consequently, Galp Energia will take the actions it deems appropriate to ensure the proper application of the legal framework; however, it cannot guarantee that its interpretation will prevail (for further information, *see* "Risk Factors" *above*).

Under Decree-Law 140/2006, electricity producers operating under the ordinary regime will remain bound by the contracts entered into with Transgás until their expiration, regardless of market liberalization. However, as of January 2007, these companies will be free to choose their supplier with respect to quantities in addition to those specified in the contracts already in place (i.e., quantities exceeding the *take-or-pay* obligations).

In addition to the unregulated activities mentioned above, Transgás will carry out the following regulated activities through Transgás Armazenagem and Transgás Indústria, Sociedade Portuguesa de Fornecimento de Gás à Indústria, S.A. ("Transgás Indústria"), both of which are wholly owned by Transgás:

- ***Natural gas storage.*** Transgás Armazenagem was awarded a 40-year concession to carry out underground natural gas storage activities, which include, on the one hand, the construction, operation, management, maintenance, and expansion of the relevant infrastructure, as well as the facilities necessary for its operation, and, on the other hand, the receipt, injection, underground storage, withdrawal, treatment, and delivery of natural gas, both for the establishment and maintenance of security reserves and for operational and commercial purposes. This concession includes the underground natural gas storage caverns owned and to be constructed by Transgás Armazenagem in Pombal. Currently, Transgás Armazenagem operates one storage cavern and has a second cavern in the initial construction phase, scheduled for completion by the end of 2009. Transgás Armazenagem holds subsoil use rights for the construction of four additional caverns in the expansion area located in Pombal. The

underground natural gas storage caverns owned by Transgás Armazenagem are to be sold to REN Armazenagem under terms to be agreed upon by both parties, once REN Armazenagem's expansion capacity has been exhausted, should the minister responsible for energy deem them necessary to strengthen safety reserve capacity.

- ***Regulated sale of natural gas.*** On January 1, 2007, Transgás will transfer to Transgás Indústria the existing supply contracts entered into with natural gas distributors and with industrial customers whose annual consumption is equal to or greater than 2 million normal m^3. Transgás Indústria will sell natural gas under a last-resort supply arrangement to provide natural gas to customers with an annual consumption of 2 million m^3 or more (unless they fail to meet certain eligibility requirements), excluding electricity producers operating under the standard regime. Until January 1, 2008, the prices charged by Transgás Indústria for the sale of natural gas will be those set forth in the contracts transferred by Transgás.
  Effective January 1, 2008, the supply of natural gas under the last-resort supply regime will be regulated and subject to a tariff approved by ERSE, pursuant to the regulation approved on September 11, 2006 (for further information, *see* "Risk Factors" *above* and "Legislation Governing the Issuer's Activities" *below*), and customers will be free to terminate their respective contracts and choose another supplier. However, natural gas distributors will be required to honor commitments regarding minimum quantities of natural gas to be purchased under supply contracts previously entered into with Transgás and assumed by Transgás Indústria; they will, however, be free to choose another supplier for quantities in addition to those specified in the contracts already in place (i.e., quantities exceeding the *take-or-pay* obligations).

Unbundling of Natural Gas Assets within the Distribution Network

Natural gas distributors must separate their marketing activities from their distribution activities within one year of the effective date of Decree-Law 140/2006 ("Separation of Distribution Assets"). During the same period, the medium- and low-pressure gas pipelines and the UAGs currently owned by Transgás must be transferred to the natural gas distributors operating in the respective areas.

The separation of marketing and distribution activities will take place as follows:

- Natural gas distribution infrastructure will be owned and operated by natural gas distributors;
- Natural gas distributors with fewer than 100,000 customers (such as Tagusgás, Beiragás, and all UAGs) may carry out both of the aforementioned activities within the same legal entity, requiring only a functional separation, specifically through accounting separation;
- Natural gas distributors with 100,000 customers or more may only engage in the supply activity through independent companies subject to their initial full control.

Following the Separation of Distribution Assets, natural gas distributors with fewer than 100,000 customers—and, in the case of natural gas distributors with 100,000 or more customers, the independent companies established by them under a regime of initial full control—will conduct natural gas sales activities under the following terms:

- Sales under a last-resort sales license for the supply of natural gas to customers who consume less than 2 million m^3 annually, within their respective geographic areas and on an exclusive basis. All customers who consume less than 2 million $m^3$of natural gas annually may purchase natural gas from distribution companies under the last-resort supply regime (unless they fail to meet certain requirements), at a rate set by ERSE pursuant to the Regulation approved on September 11, 2006 (*see* "Risk Factors" *above* and "Legislation Governing the Issuer's Activities" *below*).
- Natural gas sales, in accordance with the timeline established by Decree-Law 140/2006 for the liberalization of the natural gas market, to supply natural gas to all eligible customers under the free market regime.

6. OVERVIEW OF ACTIVITIES

6.1. Sector Analysis: Global

Oil Market

The oil sector is, by nature, a global industry. Crude oil is not consumed directly but is refined to produce fuels (such as gasoline and diesel) and other products used by the chemical industry. According to the *"BP Statistical Review of World Energy"* from June 2006, 36% of global energy needs were met by refined products. The closest competing sources—coal and natural gas—accounted for 28% and 23% of these global needs, respectively, while nuclear and hydroelectric power each accounted for 6%.

Although crude oil is a global *commodity*, the vast majority of the world's reserves are located in the Middle East. This region dominates proven oil reserves, accounting for nearly two-thirds of the estimated 1,201 billion barrels that make up the world's reserves. Saudi Arabia (264 billion barrels), Iran (138 billion barrels), and Iraq (115 billion barrels) are the three countries with the largest proven oil reserves worldwide.

The three largest global oil producers in 2005, including natural gas condensates, were Saudi Arabia (11.0 million barrels per day), Russia (9.6 million barrels per day), and the United States (6.8 million barrels per day). The main consumers of oil are predominantly developed countries, with demand growth driven by developing economies such as India and China. The following table shows proven reserves and crude oil consumption by region.

Proven Reserves and Crude Oil

Consumption Proven Reserves as of December 31, 2005 Total: 1,201 billion barrels (1)		**Crude Oil Consumption in 2005** Total: 82.5 million barrels per day	
Middle East	62%	North America	30%
Europe and Eurasia	12%	Asia-Pacific	29%
Africa	10%	Europe and Eurasia	25%
South and Central America	9%	Middle East	
7% North America	5%	South and Central America	6%
Asia-Pacific	3%	Africa	3%

Source: BP Statistical Review of World Energy, June 2006
(1) The percentages do not add up to 100% due to rounding.

This distribution of proven reserves provides only a rough indication of how the world's crude oil exploration potential is distributed, since, as technology advances, it becomes possible and economically viable to explore and exploit reserves that were previously uncommercial.

Prices for crude oil and refined products are determined based on global supply and demand. However, the policies of the Organization of the Petroleum Exporting Countries ("OPEC") strongly influence crude oil prices. OPEC sets production quotas among its member countries, thereby influencing the global supply of crude oil. OPEC consists of Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela. These 11 countries control 75.2% of the world's proven oil reserves and accounted for 41.7% of global

crude oil in 2005. Weather and other natural phenomena also influence crude oil prices, as demand for heating fuels depends on weather conditions and natural disasters can cause supply disruptions. Geopolitical risk in critical regions, such as the Middle East, and inventory levels in key demand areas can affect the price of crude oil.

Crude oil prices have reached historic highs, with the price of *Brent* crude oil per barrel recently exceeding US$70. The following table shows the quarterly average price of *Brent Dated* and the average daily crude oil production from 2000 through the second quarter of 2006:

Quarterly Average Crude Oil Price

Quarterly Average Price (US$/bbl)	2006	2005	2004	2003	2002	2001	2000
First Quarter	61.8	47.6	32.0	31.5	21.1	25.8	26.9
Second Quarter	69.6	51.6	35.3	26.0	25.1	27.4	26.9
Third Quarter	69.6	61.6	41.5	28.4	26.9	25.3	30.4
Fourth Quarter		56.9	43.9	29.4	26.8	19.4	29.7
Annual		54.5	38.3	28.8	25.0	24.4	28.5
Average Production Volumes (kbbl/day)		81,088	80,198	77,091	74,382	74,736	74,941

Source: Platts.

The oil industry encompasses four distinct segments: (i) exploration and production (also referred to as E&P or *upstream)*, in which new hydrocarbon reserves are sought and extracted; (ii) transportation (also referred to as *midstream)*, in which hydrocarbons are transported from the production source to refineries; (iii) refining, in which crude oil and other raw materials are converted into usable end products; and (iv) distribution and marketing, in which refined products are supplied to end consumers (refining and distribution are also referred to as *downstream*). The largest private groups in the oil sector are involved in all stages of the value chain, while others limit their activities to only a few of these stages.

Exploration and Production of Crude Oil and Natural Gas

Hydrocarbon Exploration

Hydrocarbon exploration begins with conducting geological studies of sedimentary basins to analyze the conditions for hydrocarbon accumulation. Various types of maps are created to locate trapping areas and identify the correct sequence of rock layers in the subsurface, with the aim of studying the basin's maturity and analyzing the potential of the source rock. Whenever possible, samples are taken from rock formations in wells and from areas adjacent to the basins.

Geophysical surveys typically begin with gravity and aeromagnetic studies. More detailed geophysical studies are then conducted using seismic surveys. In this process, the vibration generated at or near the surface propagates into the subsurface, where the waves strike various rock formations and are reflected back, being recorded at the surface by highly sensitive measuring instruments. The data regarding the time required for the round trip of the waves reflected by the various formations and the intensity of these waves are processed to determine

the general characteristics of the subsurface formations and to map their structural configurations.

Geological and geophysical data are processed and interpreted to identify subsurface conditions and factors that may lead to the identification of hydrocarbon accumulations. These data are also used to assess the risk of exploration failure and analyze the economic viability of exploration projects.

When hydrocarbon quantities viable for commercial exploitation are expected to be found, an exploration well is drilled. Reservoirs are typically complex, with the possibility of structural variations. The exploration well provides additional data on the rock strata and their physical properties. When an exploration well reveals the presence of sufficient quantities of hydrocarbons to allow for commercial exploitation of the reservoir, a discovery is declared, and appraisal wells are typically drilled to confirm the results obtained. Tests are also routinely conducted to assess the reservoir's productivity. This phase generally takes between three and five years but may be extended if operations carried out in the early years do not clearly identify the area's potential.

Development and Production

Once a discovery is confirmed, engineers, geologists, and geophysicists work together to study and evaluate the commercial value of each oil field. Once the subsurface conditions are determined, a development plan is drawn up for new wells—called development wells—to ensure proper drainage of the field, along with a specific drilling program for each well. Wells vary greatly in terms of complexity and production capacity. Additionally, infrastructure must be designed to bring the hydrocarbons to the surface, where processing, storage, and transportation take place. The production phase typically lasts about 20 to 30 years and may be extended if commercially viable reserves exist.

Nature of Operations, Investment Decisions, and Evaluation

Before deciding whether to invest in hydrocarbon exploration, the probabilities of success, as well as other investment risk factors, must be assessed to determine whether the area has high oil potential with commercial viability. If a decision is made to invest, an oil concession must be applied for, or exploration rights must be acquired (through a "farm-in" agreement) in an existing oil concession. After a concession area for exploration is awarded, an exploration program is developed. If reserves are found, their discovery is announced, and economic and technical studies are conducted to determine the commercial viability and feasibility of production. If these studies indicate that exploitation is commercially viable, the operator must apply to the relevant regulatory authority for approval of an oil production area, in the form of a proposal to delineate the exploration area, including a declaration of commercial discovery and a development plan that must identify the necessary drilling and infrastructure plans. Typically, approval is contingent upon compliance with all obligations set forth in the concession or license and upon verification of technical and economic assumptions.

An important factor in the exploration and production of hydrocarbons is the amount of reserves held. Reserves represent an estimate of the quantity of hydrocarbons that can be commercially extracted from known deposits under current economic conditions

, using known processes and in accordance with current regulations. Using commonly accepted assumptions, reserves are classified as proven, probable, and contingent resources. *See* Glossary – "Proven Reserves" and "Probable Reserves" *below*.

The most important factor affecting the profitability of E&P businesses is the price of crude oil and natural gas, since these prices are determined by the balance between global supply and demand. E&P operators have no control over the prices of their products and are therefore highly vulnerable to fluctuations in benchmark prices. To mitigate this effect, *hedging* contracts and long-term supply agreements are commonly used to stabilize *cash flows*. Operational efficiency—particularly in terms of controlling operating costs and the cost of capital (related to the costs of exploring for and developing new reserves)—is also a key factor in the profitability of operations.

The Global Oil Refining Sector

Types of Crude Oil

The quality of crude oil is measured in terms of density (light to heavy) and sulfur content (*sweet* to *sour*). Density is classified by *the American Petroleum Institute* ("API"), whose API *gravity* measurement is defined based on the density of the crude oil at a temperature of 15.6 degrees Celsius. The higher the API *gravity*, the lighter the crude oil. Light crude oils typically have an API *gravity* of 33 degrees or higher, while heavy crude oils have an API *gravity* of 29 degrees or lower. Heavy crude oil is generally considered "lower quality" because it contains a higher proportion of heavy hydrocarbons. This means that, during the refining process, distillation yields a greater quantity of lower-value petroleum products such as heavy gas and fuel oil. Light crude is in higher demand, as it produces a greater quantity of light end products and, therefore, a range of higher-value refined products.

A high sulfur content (*sour* crude) is undesirable for processing and is considered a low-quality product. A low sulfur content (*sweet* crude) is preferable, as it requires fewer processing units to reduce the sulfur content and meet fuel quality standards. *Sour* crude is typically defined as crude with a sulfur content greater than 0.5%, while *sweet* crude has a sulfur content less than 0.5%.

The following table shows the API *gravity* and sulfur content of some benchmark crudes:

- *West Texas Intermediate* (WTI), the U.S. benchmark crude, is a light, *sweet* crude with an API *gravity* of approximately 40 degrees and a sulfur content of approximately 0.3%;

- *Brent* crude (*Brent blend*) is a light, *sour* crude from the North Sea with an API gravity of approximately 38 degrees and a sulfur content of approximately 0.4%. Most *Brent* is refined in Northwestern Europe, although significant volumes are also exported to the United States and the Mediterranean region. According to the *International Petroleum Exchange*, *Brent* is used to set the price for two-thirds of international crude oil transactions;

- Russian export crude, which constitutes Russia's benchmark crude ("*Russian Export* Blend"), commonly known as Urals, is a range of various crude oil grades intended for

export and for domestic use in Russia. The *Russian Export Blend* is a medium, *sour* crude with an API *gravity* of approximately 32 degrees and a sulfur content of approximately 1.2%.

Sweet or *sour* crudes such as *Brent* and *WTI* tend to be more expensive than heavier crudes such as the *Russian Export Blend* or the crude produced in many South American countries. The price differential has become more pronounced in recent years. Global supply has increasingly consisted of heavy, *sour* crude, while demand for lighter refined products has risen and demand for heavier refined products has declined in many regions of the world. Without adequate conversion capacity, refineries are forced to purchase lighter, *sweeter*—and thus more expensive and less abundant—crudes to produce the refined products demanded by the market.

Refined Products Light

Distillates

Petroleum gases are the lightest products extracted during the refining process, consisting mainly of methane, ethane, propane, and butane. These products are in a gaseous state at room temperature, and their uses range from heating to serving as intermediates in petrochemical production processes. Petroleum gases can be liquefied under pressure to produce liquefied petroleum gas ("LPG"), which is supplied via pipelines, in tanks, or in cylinders.

Naphtha is a light, easily vaporizable liquid used primarily as a feedstock by the petrochemical industry for the production of ethylene, propylene, butadiene, benzene, toluene, and xylenes. These, in turn, are used in the production of plastics, synthetic fibers, synthetic rubbers, and other products.

Gasoline is a fuel that vaporizes below the boiling point of water. Gasoline is classified based on its octane number, which is an index that describes the fuel's ability to burn evenly and resist knocking when burned in an engine. The various primary components of gasoline are blended to meet different specifications (such as summer or winter gasoline).

Intermediate Distillates

Kerosene and *jet fuel* are liquid fuels used in various engines (such as jet engines) or as a base for manufacturing other products.

Diesel fuel is a liquid fuel used in diesel engines, as home heating oil, or as a base for the manufacture of other products.

Heavy Distillates

Lubricating oil is used in the manufacture of motor oils and other lubricants. It does not vaporize at room temperature.

Heavy gas and fuel oil are used in marine vessels, power plants, commercial buildings, and industrial facilities. Fuel oils are often used in combination with other distilled fuels.

Residual products include solids such as coke and asphalt, which can be used as a base for the manufacture of other products, such as bitumen and paraffins.

The Refining Process

Crude oil contains hundreds of different types of mixed hydrocarbons. Oil refining is the process by which hydrocarbons are separated into a wide variety of intermediate and final products. There are typically four major stages of refining to separate crude oil into usable substances:

- physical separation of the various types of hydrocarbons through distillation;
- purification of intermediate products in pretreatment units;
- chemical processing of lower-value fractions into lighter products; and
- treatment and blending of intermediate products by removing undesirable elements and compounds for incorporation into final products.

Each step in the refining process is designed to maximize the value added to the materials processed therein. The simplest refineries perform only the first function (distillation of crude oil), while more complex refineries also perform the other three functions. The following paragraphs describe the refining process at a typical complex refinery.

Distillation. The atmospheric distillation unit is the first refining unit to process crude oil. In the distillation process, crude oil is fractionated into intermediate products without altering the chemical composition of the molecules. The crude oil is heated and separated by boiling in the distillation units, and recovered in the form of hydrocarbon fractions. The lower-boiling fractions, which include petroleum gases and naphtha, vaporize and exit at the top of the distillation column. The medium-boiling liquids (which include gasoline and kerosene) and distillates such as diesel and heating oil vaporize at higher temperatures and are withdrawn from the middle section of the distillation column. The heavier liquids, which include heavy fuel oil and lubricating oil (also called atmospheric distillation residues), do not vaporize and are removed from the bottom of the atmospheric distillation column.

Another method of separation is vacuum distillation, which can be used to treat residues resulting from the initial crude oil distillation process by further separating the hydrocarbons under low pressure in the vacuum distillation unit. These vacuum residues can be processed and upgraded into light and medium distillates or used in the production of fuel oil and bitumen. The various fractions are then pumped to the next unit in the refinery circuit for further processing and conversion into higher-value-added products.

Purification. Various refining processes are used to purify the distilled products and modify the hydrocarbon molecules to achieve characteristics and properties suitable for their end use. Purification may be necessary to meet final quality specifications or to prevent contamination or catalyst poisoning in other processes. These pretreatment processes can also reduce sulfur and nitrogen content, thereby improving the combustion characteristics of the final product. The most important purification processes include, in particular, the treatment of hydrogen sulfide and carbon monoxide.

Chemical Processing. The next step in the refining process involves chemically converting some of the fractions resulting from the distillation process into other, lighter fractions. There are three different methods for transforming one fraction into another: (i) *cracking*,
(ii) consolidation and (iii) amendment.

Cracking. *Cracking* is the process by which hydrocarbons are broken down, or cracked, into smaller fractions, either through heat (thermal *cracking*) or using catalysts (catalytic *cracking*). In thermal *cracking*, hydrocarbons are subjected to high temperatures—and, in some cases, high pressures—until they separate. There are three common methods of thermal *cracking*: steam cracking, visbreaking, and coking. Steam cracking is the process by which lighter products are fractionated to produce ethylene and benzene, which are then used in the chemical industry. Visbreaking is the process by which vacuum residues are converted into naphtha and diesel at high temperatures without catalysts, yielding low-viscosity fuel as a byproduct. Coking is the process by which vacuum residues undergo intense heat treatment, with coke—a solid substance similar to coal—being released as a byproduct. Catalytic *cracking* uses a catalyst to accelerate the process by which hydrocarbons are fractionated or cracked. Fluid catalytic *cracking* uses a high-temperature fluid catalyst to crack heavy diesel into diesel and gasoline. *Hydrocracking* uses hydrogen and a catalyst at low temperatures and high pressures to crack heavy oil into gasoline and kerosene.

Unification. Unification combines smaller hydrocarbons to form larger ones. The most common unification process is catalytic reforming, which uses a catalyst to convert low-gravity naphtha into aromatics, which are used as feedstock in the petrochemical industry. The reforming process produces significant amounts of hydrogen as a byproduct, which can be used in the *hydrocracking* process.

Modification. In the modification process, the molecular structure of various hydrocarbons is altered to produce the desired hydrocarbons. The main modification process is called alkylation, which is essentially the reverse of *cracking*. In this process, lighter compounds such as naphtha are mixed with catalysts, producing high-octane hydrocarbons that can be used in gasoline blends.

Treatment of Intermediate Products. The final stage of the refining process consists of the treatment of intermediate products, during which impurities such as sulfur, nitrogen, oxygen, water, dissolved metals, and inorganic salts are removed. The most important treatment at this stage is desulfurization, in which the intermediate products are heated in high-pressure hydrotreatment units in the presence of hydrogen and catalysts. After the fractions have been treated, they are cooled and processed to increase the octane rating, reduce vapor pressure, and meet other product specifications. The increase in octane rating is achieved through a catalytic reforming unit that converts low-octane naphtha or gasoline fractions into gasoline grades with a higher octane rating.

Refinery Configuration

The range and quality of refined products produced at a refinery depend on the types of crude oil used as feedstock and the facilities installed at the refinery.

Light, *sweet* crudes yield higher quantities of higher-value refined products, such as gasoline, *jet fuel*, and diesel. Heavier, more *sour* crudes produce larger quantities of lower-value products, such as fuel oils. The configuration of certain refineries, particularly in North America, is typically geared toward the production of light distillates, such as gasoline, while the configuration of refineries in most other regions, such as Europe, is typically geared toward the production of middle distillates, such as diesel and *jet fuel*. On the other hand, there are refineries configured for the production of other specialized products, such as base oils, naphthenes, and bitumens.

Refineries can generally be divided into two main categories: simple *hydroskimming* refineries and complex refineries. Simple *hydroskimming* refineries primarily carry out the distillation process, while complex refineries perform two additional functions: converting the hydrocarbon fractions produced during the distillation of crude oil into other products; and processing intermediate products to obtain higher-value products. Thus, simple refineries produce lower-value petroleum products than complex refineries, given the same range of crude oils.

The configuration of complex refineries is geared toward maximizing both gasoline production (catalytic *cracking*) and intermediate distillate production (*hydrocracking*). In addition, these refineries utilize various secondary processing capabilities to upgrade vacuum residues. Refineries configured to have high conversion and desulfurization capacity are able to achieve higher yields of higher-value refined products, since they process heavier and more *sulfur-rich* crudes than refineries with lower conversion and desulfurization capacity. A refinery's complexity therefore refers to its ability to process feedstock—such as heavier, higher-sulfur crudes—into value-added products. Typically, the greater the complexity, the more flexible the range of crudes the refinery can process, and the better positioned it is to take advantage of lower-cost crudes, which results in an increase in the refinery's gross margins.

The following table provides a summary of the different refining processes, as well as the feedstocks and petroleum products used.

Process	Raw Materials	Main Products	Purpose
Crude Oil Distillation	Crude Oil	LPG, light naphtha, heavy naphtha, kerosene, diesel, and fuel oil	Separation of crude oil into fractions based on their boiling points
Isomerization	Light naphtha	LPG and isomers	Conversion of light naphtha (component with a low octane rating) into isomer (component with a higher octane rating) through the use of a catalyst and hydrogen.
Alkylation	Fractionated C4 components	Alkylate	Conversion of the feedstock into alkylate, a primary component of *premium* gasoline.

Process	Raw Materials	Main Products	Purpose
Regeneration Continuous Catalytic (*Platforming*)	Heavy naphtha	Hydrogen-rich gas, LPG and reformate	Continuous low-sulfur components octane components into high-octane components plus through the presence of a catalyst.
Catalytic *Cracking* Fluidized	Vacuum diesel	LPG, gasoline, diesel, and fuel oil	Processing of vacuum, primarily in LPG and gasoline, but also produces diesel and fuel oil, through the use of a catalyst.
Hydrocracking	Vacuum diesel	LPG, light naphtha, naphtha , kerosene, and diesel fuel.	Processing of vacuum diesel, kerosene, and kerosene and diesel the presence of a catalyst and hydrogen.
Thermal *Cracking* – Viscosity reduction (*visbreaking*)	Vacuum residue	Fuel oil	Viscosity reduction of vacuum residue through subjection to high temperatures without a catalyst.
Thermal *Cracking* – Coking Delayed (*Delayed Coking*)	Vacuum residue	LPG, naphtha, diesel, and petroleum coke	Conversion Maximization to light distillates and medium distillates through more intense form of thermal cracking and coking
Hydrotreatment / Hydrodesulfurization	Naphtha / gasoline / high-sulfur diesel sulfur content	Naphtha / gasoline / diesel with a lower content sulfur content	Reduction of sulfur content and other impurities through the presence of a catalyst and hydrogen.

Characteristics of Refineries

The key criteria for assessing the attractiveness of a given refinery are as follows:

Size. The refining industry is a capital-intensive activity with economies of scale; larger facilities are able to achieve higher margins than those achieved by smaller facilities (for the same configuration). Crude oil typically accounts for 90% to 95% of total refining costs. Since other refining costs are relatively fixed, the goal of refineries is to maximize capacity utilization, maximize the production of higher-value products, minimize raw material costs, and minimize operating costs.

Complexity. A refinery's distillation capacity is determined by its complexity, a technical measure used as an indicator of efficiency and potential profitability. Complexity is generally measured using the Solomon or Nelson complexity indices. Both indices are calculated using a formula that assigns a complexity factor to each major refining process (based on its complexity and cost) and weights the importance of each factor relative to its production throughput. For example, a refinery with a complexity index of 10 is considered ten times more complex than basic crude oil distillation for the same production throughput. On the other hand, while greater complexity indicates the ability to produce higher-value products and achieve higher gross margins, it also increases

. Thus, greater complexity does not necessarily guarantee higher profitability.

Location. The attractiveness of a given location for a refinery is influenced by the ease of access to raw materials and the structure of the local market for refined products, which impacts the price structure. Location also determines the means of transporting raw materials and refined products. Typically, refineries are built in areas where the operator receives higher returns from product prices, after deducting operating and transportation costs. Refineries located in coastal areas tend to have a competitive advantage over refineries located inland, due to the lower transportation costs involved. Similarly, operators of refineries located in areas with high demand enjoy a competitive advantage over other competitors.

Integration. Integration is a measure of the synergies that can be achieved with other sectors relevant to the business, such as power generation and petrochemicals. Refineries can be operated as part of integrated oil companies or as independent firms. The level of integration varies from company to company, ranging from oil groups with large *upstream*, *midstream*, and *downstream* operations, as well as petrochemical and power generation facilities, to smaller operators with *upstream,* refining, and marketing operations on a smaller scale. Many oil refiners, both integrated and independent, distribute their refined products through their own retail and wholesale marketing networks.

Supply and Demand for Petroleum Products

Demand for refined products has grown steadily during the first half of the last century, with oil companies investing in new refining and conversion facilities. However, the 1973 oil crisis reversed the trend of growing demand for petroleum products, and since then, the refining industry has been characterized by overcapacity. The second oil crisis of 1979 and 1980 further exacerbated this phenomenon. During the 1980s and 1990s, several refineries were closed, and only a few new facilities were built. Global refining capacity, however, increased as a result of the modernization, decongestion, and expansion of existing facilities, while subsequent demand grew at a faster rate, which contributed significantly to the reduction of this overcapacity.

Crack spreads—which represent the difference between the price of a barrel of refined product and a barrel of crude oil—have recently increased, primarily due to the shutdown of refining capacity in the United States caused by Hurricanes Katrina and Rita. Market data on futures contracts released by *Platts* in June 2006 indicate that market participants expect the *Rotterdam Crack Spread* to continue rising through 2008.

This market trend reflects a global increase in demand for environmentally “clean” fuels, a shift in demand from gasoline to diesel in Europe, and a structural decline in demand for heavy products such as fuel oil, due to environmental concerns and increased use of natural gas.

The diesel production shortfall is expected to increase in the near future. The following tables show global crude oil production (current and projected) by crude oil type for the years 2000 through 2015 and the historical price differences between Iranian (heavy) crude and Brent (light) crude:

World crude oil production (millions of bbl/day)	2000		2005		2010 (E)		2015 (E)		Annual Annual
Heavy crude	19	27%	23	30%	27	33%	33	38%	3.80%
Intermediate crude oils	24	34%	27	36%	28	35%	30	34%	1.46%
Light crude	27	39%	26	34%	26	32%	24	28%	(0.76%)

Source: Roland Berger Data Bank

Price Differential Between Heavy Crude and light crude	1st quarter 2006	2005	2004	2003	2002
Average price of Iranian crude oil (US$/bbl)	58.98	46.94	34.09	26.20	22.54
Average *Brent* crude price (US$/bbl)	65.89	54.50	38.28	28.86	25.03
Average difference (US$/bbl)	6.91	7.66	4.19	2.66	2.49
Difference (%)	10.5%	14.1%	10.9%	9.3%	10.0%

Source: Bloomberg

Refineries require additional processing or conversion capacity to transform heavy and *sour* crudes into the light products sought by the market. Without this capacity, processing heavy and *sour* crudes produces higher volumes of heavier products and lower volumes of light products.

These trends in product demand and crude oil supply, combined with the lack of conversion capacity in Europe, have created an imbalance between the products sought by European consumers and those produced by European refiners. This imbalance is expected to widen unless there are substantial investments in conversion capacity. Such refining capacity requires substantial capital outlays and takes several years to plan and build.

Refining Margins

An important factor in determining refineries' ability to generate *cash flows* is refining margins, which reflect the difference between the aggregate prices of refined products and the price of crude oil and other raw materials. Refining margins are primarily influenced by the prices of crude oil and refined products.

There are several ways to calculate refining margins, depending on the level of complexity. All of them, however, are based on the price differential between crude oil and a specific basket of refined products. The main difficulty in calculating refining margins is the wide variety of products, which makes direct comparisons between different refineries and regions very difficult.

One of the simplest approaches, commonly known as the 3-2-1 *crack spread*, assumes that three barrels of crude oil yield two barrels of gasoline and one barrel of middle distillates. The ratios used generally reflect the complexity of a given refinery or region, since gasoline and middle distillates together typically account for the majority of a refinery's output; this approach provides a simple and reasonable approximation of refining margins.

An alternative way to calculate refining margins is to use a computer model that incorporates a linear or algorithmic program. The model assumes that refineries use different grades of crude oil as their prices vary, adjusting the range of refined products according to the cost of crude oil and

potential product prices. These models typically allow the user to verify the typical grade of crude oil produced in a region or at a refinery and the current product prices. They then provide a theoretical margin that accounts for transportation costs. The most common models used in the oil industry are the Argus, Platts, and Wood Mackenzie margins.

The configuration of a given refinery significantly affects its refining margins. Refineries with conversion units, such as *hydrocracking* refineries, generally have higher refining margins than less complex refineries that lack conversion capacity. Thus, refineries equipped with *hydrocrackers* or other conversion units are able to extract higher value per barrel than less complex refineries, producing a more attractive range of products. Recently, there has been a trend toward widening *spreads* between complex and simple margins. According to the International Energy Agency (IEA), historical *spreads* between *cracking* and *hydroskimming* margins in Northwest Europe were US$1.84 per barrel in 2003, US$4.11 per barrel in 2004, and US$4.83 per barrel in 2005. Consequently, many players in this industry have been investing in conversion units to increase profitability.

At the regional level, refining margins are primarily influenced by capacity utilization rates. The three main regional refining hubs are the *U*.S. Gulf *Coast*, or "USGC," Northwestern *Europe*, or "NWE" (also referred to as Rotterdam), and Singapore. Refining margins are typically quoted by reference to the *benchmark* margins of these three centers. Refining margins in these regions may differ substantially depending on local conditions, but they remain broadly correlated, given that refining costs are similar worldwide and transportation costs are relatively low.

Overview of the Natural Gas Market

For most of the last century, natural gas was used much less as an energy source than coal and oil, mainly due to the difficulties involved in transporting natural gas. Today, technological advances have made it relatively easy to transport natural gas via pipelines or, in liquid form, by ship, where it is regasified before delivery to end users. Furthermore, natural gas is a relatively clean fossil fuel. Growing public awareness of environmental issues has promoted the use of natural gas as an energy source.

Consequently, the past two decades have seen a rapid increase in natural gas consumption in many regions. About a quarter of the world's energy needs are currently met by natural gas. Countries with low levels of natural gas consumption represent natural growth markets. The following table shows natural gas consumption as a percentage of total primary energy sources and *per capita* consumption in various European countries for 2005:

	% of Primary Energy (2005)	**Per (1,000 m³)**	**Natural Gas Prices January 2006 (€/m³)** (1)
Italy	38.7%	1.4	0.693
Netherlands	37.5%	2.4	0.711
United Kingdom	37.4%	1.6	0.346
Germany	23.9%	1.0	0.671
Belgium and Luxembourg	20.9%	1.5	0.567 (2)
Spain	19.7%	0.8	0.572
Portugal	**11.7%**	**0.4**	**0.610**
Average of the 25 European countries	24.7%	1.0	0.547

Source: BP Statistical Review of World Energy, June 2006, Eurostat, and DGGE.

(1) Natural gas prices for a residential consumer with an average annual consumption of 2,000 m³

(2) The figure shown applies only to Belgium.

The natural gas supplied to most households is traditionally a mixture of gases, consisting of approximately 90% methane (CH_4). The characteristics of this mixture make it ideal for common uses, namely:

- An easily controllable flame with a constant temperature;
- Continuous-flow system requiring no storage at the user's facility;
- "Clean" fuel with relatively low carbon emissions;
- Heat value between 9,000 and 12,000 kcal; and
- Chemically odorless (although by law, odorants must be added when the gas is sold for commercial use, to make leaks more easily detectable).

Approximately 66% of the world's proven natural gas reserves are located in the Middle East and Russia. The combined effect of various physical characteristics and the concentration of reserves has shaped the natural gas business model, which is a blend of the oil and electricity value chains. In the exploration and production phases, the natural gas business model is similar to that of oil, given its extraction methods. In subsequent stages, the natural gas business model more closely resembles that of electricity, due to the methods of transportation and distribution.

Over the past two decades, the emergence of LNG (liquefied natural gas) and GTL (*gas-to-liquids*, or chemical liquefaction) technologies has transformed natural gas from a regional energy source into a global market *commodity*. The development and proliferation of natural gas were previously limited to certain markets, either due to their geographic location or a lack of regional supply sources. However, since then, these markets have developed natural gas infrastructure such as LNG regasification terminals and distribution networks. As a result, producers who previously discarded natural gas as an undesirable byproduct of oil production are now building infrastructure to capture the economic benefits of its use.

Since natural gas is viewed as a global energy source, producers are selling natural gas on a broader geographic scale rather than just within their own region. The ability to transport natural gas over long distances has enabled the development of markets, allowing distributors to now send natural gas to areas where higher returns are available, regardless of geographic location. Since some natural gas-intensive markets, such as the United States and the United Kingdom, have partially depleted their reserves, this trend—along with increased competition for access to natural gas suppliers—is expected to continue in the near future.

Due to the high costs involved in building natural gas transportation and distribution infrastructure, companies in this sector tend to be natural monopolies in the areas where they operate. Since natural gas is an important energy source for many countries, governments tend to regulate companies operating in this industry, particularly by setting price caps on rates charged to residential consumers. Thus, securing reliable sources of natural gas at favorable prices has become one of the key factors in ensuring the profitability of this business.

Traditionally, market participants have secured their natural gas supply needs by entering into long-term contracts with suppliers, investing in reserves of "transportable" natural gas for their distribution markets, and occasionally purchasing volumes of natural gas on the *spot* market.

In Europe, due to the regulated structure of the current natural gas market and the prevalence of long-term supply contracts, the natural gas *spot* and *forward* markets have relatively low liquidity. The two main European natural gas trading hubs are Zeebrugge, in Belgium, and the NBP (*National Balancing Point*) in the United Kingdom. The main natural gas trading hub in the United States is known as the Henry Hub and is used worldwide as a benchmark for pricing. European companies have traditionally indexed their natural gas contracts to a crude oil benchmark price such as *Brent* or WTI, since a significant portion of the largest natural gas consumers (such as certain power producers) have the ability to switch between natural gas and other fuels to take advantage of the cheapest fuel available.

Overview of the Electricity Market

The electricity market is, to a large extent, a national or regional market, due to the infrastructure required for transmission, as well as country-specific regulations. Electricity is typically generated using the following types of technology:

- *Hydropower* – Hydropower generates electricity through the movement of water from natural watercourses (rivers) or "artificial" ones (enhanced by the construction of dams with reservoirs), using turbines that drive a generator to produce electricity;

- *Thermal* – Thermal technology burns fuel, converting the resulting heat into electrical energy. The fuels typically used are refined products, natural gas, and coal. Traditional thermal power plants generate electricity simply through the direct combustion of fuel, a process in which only about 30% of the energy released is actually converted into electricity. Recently, new technologies have emerged that convert part of this wasted energy into electricity by simultaneously using two generation processes, thereby achieving a higher fuel-to-electricity conversion rate than traditional generation processes. The most common technology is CCGT, which uses a first gas turbine cycle to generate electricity by burning natural gas and a second steam turbine cycle to convert the heat generated in this process into additional electricity. Another very common and very similar technology is cogeneration, in which the same power plant is used to produce two types of energy: electricity and thermal energy, which is used for industrial purposes.

- *Nuclear* – Nuclear technology converts the energy generated by controlled nuclear fission in a nuclear reactor into electrical energy.

- *Renewables* – Renewable energy sources are considered the most "environmentally friendly," since they produce little or no CO_2 emissions and draw energy from inexhaustible sources. The most common forms of renewable energy are wind, solar, and biomass; however, other forms of energy are currently being developed.

Electricity demand (and the related energy sources) is traditionally divided into two segments:

- *Base* Load – Base load demand is the constant demand throughout the day. Typically, technologies with low marginal costs (which usually require higher initial investments) are used to meet base load demand, such as nuclear, hydroelectric, and thermal power.

- *Peak* (*peak hours*) – Peak demand is variable, fluctuating according to specific needs at certain times of the day. Thermal power is generally used to meet peak demand, given its faster response time.

The most relevant factors in determining electricity prices at the local level are as follows:

- basic market factors such as supply and demand, including interconnection capacity with other markets;

- prices of raw materials (such as natural gas, oil, and coal), which are typically linked to global energy markets;

- weather conditions, since many technologies (particularly hydropower and other renewables) are strongly dependent on the weather;

- regulatory incentives and taxation, as they influence the profitability of generation facilities and, consequently, the prices that make them viable; and

- set of production technologies, given that different technologies have different cost structures and thus affect price formation in different ways.

The Kyoto Protocol and the creation of the European CO_2 market introduced the cost of CO_2emissions and the allocation of CO_2 allowances by governments as additional factors in determining the cost of electricity. This market-driven approach has reshaped the priorities of energy producers. *See* "Legislation Regulating the Issuer's Activities" *below*.

The Iberian Energy Market

General Considerations

The Iberian Peninsula, comprising Portugal and Spain, lies at the intersection of the Mediterranean Sea and the Atlantic Ocean. Both Portugal and Spain are members of the European Union. The Iberian Peninsula's location between Western Europe and North Africa, as well as its relative proximity to the North and South American subcontinents, are key factors shaping its economic activity. The following table presents the main Iberian economic indicators:

Iberian Macroeconomic Data

Portugal	**2005**	**2004**	**2003**	**2002**	**2001**
Estimated mid-year population (millions)	10.6	10.5	10.4	10.4	10.3
Nominal GDP at current market prices (thousand million euros)	147.2	142.8	137.5	135.4	129.3
Real GDP growth (%)	0.3	1.1	(1.1)	0.8	2.0
Nominal GDP per capita (thousands of euros)	13.9	13.6	13.2	13.1	12.6
Passenger vehicle fleet (per 1,000 inhabitants)	404.0 (1)	393.0	382.0	375.0	362.0
Consumption of refined products (millions of metric tons)	15.3	15.4	15.2	16.2	15.8
Electricity generation (TWh) (2)	35.1	35.0	37.1	36.6	37.7
Natural gas consumption (billion m³)	4.1	3.7	2.9	3.0	2.5
Spain	**2005**	**2004**	**2003**	**2002**	**2001**
Estimated mid-year population (millions)	44.4	43.7	43.0	42.3	41.5
Nominal GDP (billion euros)	904.3	837.3	780.6	729.0	679.8
Real GDP growth (%)	3.4	3.1	3.0	2.7	3.5
Nominal GDP per capita (thousands of euros)	20.8	19.6	18.6	17.6	16.7
Passenger vehicle fleet (per 1,000 inhabitants)	456.0	447.0	435.0	443.1	437.6
Consumption of refined products (millions of metric tons)	78.8	77.6	75.5	73.8	72.7
Electricity generation (TWh) (2)	254.2	243.6	227.6	212.8	206.3
Natural gas consumption (billion m³)	32.3	27.4	23.6	20.8	18.2

Source: PFC Energy, CORES, REE (Spanish system operator), REN (Portuguese system operator), European Commission, DGGE, National Institute of Statistics ("INE"), and BP Statistical Review.

(1) Estimated figures provided by PFC Energy (November 2005—Portugal and August 2005—Spain).
(2) Excluding Portuguese and Spanish island regions.

The Spanish and Portuguese economies are interconnected, and the domestic energy markets of each country are becoming increasingly integrated through energy market legislation aimed at liberalizing the markets. In Spain, this legislation includes Royal Decree-Law 6/2000 of June 23; in Portugal, it includes the 2004 liberalization of retail product prices; and the Iberian Electricity Market (MIBEL) agreement signed between Portugal and Spain in 2004, although it is still being implemented. *See* "Legislation Governing the Issuer's Activities" *below*.

Furthermore, the liberalization of the natural gas market in Portugal is expected to take effect on January 1, 2008, for customers with annual consumption of 1 million m³ or more, on January 1, 2009, for consumers with annual consumption of
10,000 m³, and on January 1, 2010, for all other consumers.

These measures have led companies in the energy sector to implement pan-Iberian strategies, including cross-border investments, asset *swaps*, and acquisitions.

The following table shows primary energy consumption in Portugal and Spain:

Primary Energy Consumption

Portugal 2005 (1)		Spain 2005 (1)	
Total: 23 million metric tons of oil equivalent		Total: 147 million metric tons of oil equivalent	
Oil	67%	Oil	53%
Coal	17%	Natural gas	20%
Natural gas	12%	Coal	15%
Hydroelectric power	5%	Nuclear power	9%
		Hydroelectric power	4%

Source: BP Statistical Review of World Energy, June 2006

(1) The sum of the percentages does not equal 100% due to rounding.

Exploration and Production

The Iberian market is highly dependent on crude oil imports. Portugal has no crude oil production, and Spain produces less than 1% of its domestic needs for this raw material. Neither country is dependent on a single crude oil supplier, as they have highly diversified sources of supply from all regions of the world.

Refining

The largest players in the Iberian refining market are Repsol YPF ("Repsol") and Cepsa in Spain, and Galp Energia in Portugal. BP is also present, operating a refinery in Spain. The following table lists the refineries on the Iberian Peninsula:

Refinery	Owner Country		Capacity (kbbl/day)
Port	Galp Energia	Portugal	90 (1)
Sines	Galp Energia	Portugal	220 (1)
Castellón de la Plana	BP Plc	Spain	105
Cádiz	CEPSA	Spain	240
Huelva	CEPSA	Spain	100
Tenerife	CEPSA	Spain	87
Somorrostro Vizcaya	Repsol (2)	Spain	220
Cartagena, Murcia	Repsol	Spain	100
La Coruña	Repsol	Spain	120
Puertollano, Ciudad Real	Repsol	Spain	140
Tarragona	Repsol	Spain	160
	Total Iberian Refining Capacity:		**1,582**

Source: Oil & Gas Journal, 2005 Worldwide Refining Survey, and Galp Energia (for Porto and Sines only)

(1) Based on Galp Energia's assumptions regarding the types of crude oil used. Actual capacity may vary depending on the type of crude oil processed.

(2) Owned through Petróleos del Norte, S.A. (Petronor), which is 85.98% owned by Repsol.

Many of the Iberian refineries are not optimized to meet the growing demand for middle distillates and the corresponding decline in gasoline consumption in the region. Both Portugal and Spain currently import significant quantities of diesel while exporting gasoline, and many industry observers believe this trend will continue in the near future. The Iberian Peninsula's location allows for imports from Western and Eastern Europe, the Middle East, North and West Africa, and South America, as well as exports to major markets in the Mediterranean and Atlantic Basin regions. In recent years, the United States has accounted for more than 40% of Portugal's export volumes and nearly 20% of Spain's, while the United Kingdom, Russia, and

other countries of the former Soviet Union have been an important source of imports for Portugal and Spain, respectively. The following tables show the import/export balance for petroleum products in the Iberian countries.

Imports and Exports of Petroleum Products (thousand metric tons)

	Portugal (2004)			Spain (2004)	
	Imports	**Exports**		**Imports**	**Exports**
LPG	622	69	GPL	1,095	242
Gasoline	131	804	Gasoline	748	2,588
Jet fuel	54	54	*Jet fuel*	943	166
Diesel	846	70	Diesel	11,830	656
HFO (Heavy Fuel Oil)	642	474	HFO (Heavy Fuel Oil heavy)	3,940	1,431
Other	1,491	504	Other	6,885	2,887
Total	**3,786**	**1,975**	**Total**	**25,441**	**7,970**

Source: PFC Energy (November 2005 – Portugal and August 2005 – Spain)

The following table provides further details on the strong demand for diesel and other intermediate distillates relative to gasoline:

Consumption of Refined Products

Portugal (2004) Total consumption: 14,327 thousand metric tons		Spain (2004) (1) Total consumption: 66,311 thousand metric tons	
Diesel	38%	Diesel	48%
HFO (Heavy fuel oil)	15%	Gasoline	12%
Gasoline	13%	Other products	12%
Naphtha	10%	HFO (Heavy fuel oil)	10%
LPG	7%	*Jet fuel*	7%
Jet fuel	6%	Naphtha	4%
Other products	6%	LPG	4%
Bitumen	4%	Bitumen	3%
Lubricants	1%	Lubricants	1%

Source: PFC Energy (November 2005—Portugal and August 2005—Spain)
(1) The sum of the percentages does not equal 100% due to rounding

Currently, diesel vehicles account for the majority of new cars sold in Europe, including Portugal. This trend, combined with the fact that the transportation sector accounts for two-thirds of total oil consumption in Portugal, is driving the increase in demand for diesel.

Storage and Transportation of Crude Oil and Petroleum Products

The oil and gas pipelines and storage infrastructure on the Iberian Peninsula are primarily controlled by Compañia Logística de Combustibles, S.A. and CLH, the petroleum product logistics companies of Portugal and Spain, respectively. Galp Energia holds a 65% stake in CLC – Companhia Logística de Combustíveis, S.A. ("CLC"), with BP and Repsol YPF among the other shareholders. CLH, historically owned

The stake previously held by the three Spanish refiners is now held by a large number of industry players, including Galp Energia (5%), with Iberian refiners collectively holding approximately 44%. Both Portugal and Spain have adopted oil storage requirements; *see* "Legislation Governing the Issuer's Activities" *below.*

Distribution and Marketing of Petroleum Products

There are two channels for the distribution and marketing of refined products to end customers: (i) direct sales in the wholesale market to large customers, such as industrial customers, resellers, the aviation sector, the maritime sector, and transportation companies; (ii) the sale of fuels to retail customers. Price liberalization and increasing competition have led, in recent years, to greater competitive pressure in Portugal. Market liberalization has also had an impact on wholesale price levels in Portugal, as domestic market participants now compete with foreign players and imported products. Thus, the pricing structure for refined products generally reflects the import reference price for each product. In Europe, the import reference price is based on available quotations for bulk products in the Amsterdam-Rotterdam-Antwerp corridor, adjusted for logistics costs and the associated costs of importing from that region to customers in the relevant country, taking due account of quality differentials between the reference products and those actually traded.

The main factors influencing the profitability of retail operations include the location of retail stations (particularly urban versus rural areas), the geographic coverage of the distribution network, the efficiency of the logistics system, volumes sold per station, and the scope and quality of *non-fuel* offerings. Industry observers generally pay close attention to sales volumes per station and the ratios of *non-fuel* product sales. High sales volumes per gas station, low costs, and the provision of other on-site services are critical factors for the profitability of retail companies. Customer loyalty programs, such as loyalty cards and other service concepts, influence companies' ability to attract and retain customers.

The following table presents the key indicators for the Iberian retail market.

Key Indicators of the Iberian Retail Market

	2005	2004	2003
Number of gas stations			
Portugal (1)	2,833	2,860	2,852
Spain (2)	8,638	8,687	8,593
Average annual volume sold per station (thousands of liters)			
Portugal	2,410	2,430	2,463
Spain	3,467	3,391	3,349
Volume (millions of liters)			
Portugal (3)	6,828	6,949	7,025
Spain (2)	29,948	29,458	28,782

(1) *Source:* Catalist
(2) *Source:* AOP, CORES, DGGE
(3) *Source:* DGGE

In Portugal, the retail market leader in 2005 was Galp Energia, with a market share of 37% and a retail network of 837 stations. In Spain, the market leader is Repsol, with a total of 3,618 stations as of the end of 2005.

In recent years, the number of gas stations has remained relatively stable, mainly due to the high density of the network and the low sales volumes per station in Portugal. However, in Spain, the retail network is relatively dispersed and is still expanding, in contrast to other more mature European markets, where consolidation has been the norm. Although the Iberian market remains less developed than other European markets, sales of *non-fuel* products at gas stations have grown significantly in recent years. Partnerships between oil companies and hypermarket chains have resulted in greater discounts for end consumers.

Among the main distribution channels for petroleum products, retail is typically more capital-intensive. Gas stations built, owned, and operated by a company under its own brand are known as *"company-owned sites*." Stations owned by an independent dealer, who purchases product from an oil company under contract and sells it under that oil company's brand, are known as *"dealer-owned*." *Company-owned* gas stations may be operated by the oil company itself or leased to a dealer. *Company-owned* and *company-operated* stations (owned and operated by the brand) are often abbreviated as "CoCo," while *company-owned* and *dealer-operated* stations (owned by the brand and operated by the dealer) are abbreviated as *"CoDo*," and *dealer-owned* and *dealer-operated* stations (owned and operated by the dealer) as *"DoDo*." In the case of *CoDo* and *DoDo* stations, companies enter into supply contracts with the dealers. In Portugal, the term of contracts with DoDos that include a non-compete obligation—the legal term of which cannot exceed five years—tends to coincide with the duration of that obligation.

The Portuguese Natural Gas Market

Natural gas was introduced in Portugal as an alternative energy source, with the relevant legislation enacted in 1989. The following table lists the companies operating in the various segments of the natural gas supply chain following the Unbundling of Regulated Activities in the Natural Gas Sector.

Supply	Receipt and Storage of LNG	Storage underground ion	Transportat	Supply	Management of system	Distribution	
Transgás	REN	Transgás / REN	REN	Galp	REN	Beiragás (1)	Medigás (1)
Others				Energy		Dianagás (1)	Paxgás (1)
				Others		Dourogás	Portgás
						Duriensegás (1)	Setgás (1)
						Lisboagás (1)	Tagusgás (1)
						Lusitaniagás (1)	

Source: Galp Energia

(1) Distribution companies in which Galp Energia holds a stake.

The Portuguese natural gas market has experienced strong growth in recent years. According to forecasts by BP, the DGGE, and the IEA, natural gas consumption in the Iberian Peninsula is expected to grow at an annual rate of 5.1% between 2005 and 2010, rising from 36.4 billion $m^3$to 46.7 billion m^3. The granting of new CCGT licenses is expected to support the development of this market.

In an effort to boost the development of the European natural gas market, the European Union has implemented legislation that accelerates the full liberalization of the natural gas market. Having signed its first long-term contract for natural gas less than ten years ago, Portugal is classified as an emerging market. This allowed for

liberalization to be brought forward, with the process of opening the market to third-party operators set to begin on January 1, 2007, and all customers having the right to free choice as of January 1, 2010. *See* "Legislation Governing the Issuer's Activities" *below*.

The following table shows the total number of natural gas distribution customers in Portugal.

	2005	2004	2003
Total number of natural gas distribution customers (thousands)	888	819	758

Source: Galp Energia and Portgás's 2005 annual report and financial statements.

Distribution networks in Portugal, which are regulated, are divided into three categories: high pressure, medium pressure, and low pressure. Tariffs for network use will be set by the regulator.

- The high-pressure network is owned by REN, following the Separation of Regulated Activities in the Natural Gas Sector, and is expected to remain a regulated activity. The high-pressure network is typically used to transport larger quantities of natural gas over longer distances.

- The medium-pressure network connects the high- and low-pressure networks. It is the "backbone" that leads to the low-pressure network.

- The low-pressure network is owned by the distributors and connects each individual customer to the medium-pressure network.

Natural gas imports enter the Portuguese market i) via Spain through the international pipelines connecting Tarifa to Córdoba (Al Andalus Pipeline) and Córdoba to Campo Maior (Extremadura Pipeline), or ii) via the Sines LNG regasification terminal. The international pipeline connecting Portugal and Spain transports natural gas contracted from Sonatrach in Algeria, which enters Spain via the Europe-Maghreb pipeline linking the Hrassi R'Mel natural gas fields in Algeria to Spain's natural gas transmission network. The Sines LNG regasification terminal receives LNG carriers primarily sourced from NLNG in Nigeria.

Natural Gas Distribution and Sales

The natural gas distribution and sales market consists primarily of the retail segment and the wholesale segment. The wholesale segment includes large industrial customers. The retail segment includes residential customers and small industrial customers.

Although fewer in number, large industrial customers—particularly electricity producers—are the largest consumers of natural gas. Galp Energia anticipates that electricity generation, especially from CCGTs, could drive growth in the natural gas market in Portugal.

The following table lists the natural gas distributors and their respective distribution areas in Portugal as of the end of 2005:

	Galp Energia's Market Share	Geographic Area	Number of customers	Volumes (millions of m³/year)	Network length (km)
Lusitaniagás	85.0%	Central Coast	134,318	153.5	2,781
Lisboagás	100.0%	Lisbon Metropolitan Area	447,027	211.8	3,414
Setgás	45.0%	Setúbal District	107,854	56.1	1,315
Portgás	0.0% (1)	North Coast	149,196	185.0	2,426
Beiragás	59.5%	Interior Center	21,272	21.1	422
Tagusgás	41.3%	Vale do Tejo	14,041	22.0	486
UAGs	100.0%(3)	(2)	14,389	13.8	344
Total			**888,097**	**663.3**	**11,188**

Source: Galp Energia and Portgás's 2005 annual report and financial statements.

(1) Galp Energia's stake in Portgás was sold to EDP in January 2005.

(2) The autonomous gas units (AGUs) include Duriensegás – Sociedade Distribuidora de Gás Natural do Douro, S.A. ("Duriensegás") (Northern Interior), Paxgás (Beja), Dianagás (Évora), and Medigás (Algarve).

(3) In 2006, Galp Energia acquired 25% of Duriensegás and now owns 100% of that company.

Natural Gas Supply, Storage, and Trading

Annual natural gas consumption in Portugal and the lack of liquidity in European natural gas supply markets have led market participants, including Galp Energia, to enter into long-term contracts with major global natural gas producers in order to ensure a steady supply. The two main sources of natural gas supply are Sonatrach in Algeria and NLNG in Nigeria.

Surplus natural gas, which is not needed to meet domestic consumption needs, is redirected to other countries through LNG transactions to the extent permitted by specific supply contracts. International transactions and natural gas storage ensure that demand is met, that each country maintains its autonomy, and that necessary reserves are preserved.

Contractual natural gas prices are typically linked to oil prices and are either set for a fixed term or calculated based on a longer-term average to mitigate the impact of natural gas price volatility. This stabilization of natural gas costs for end customers and distributors provides a more consistent cost structure.

The Portuguese Electricity Market

The regulations governing the organization and operation of the Portuguese electricity market, as well as the activities of electricity generation, transmission, distribution, and supply, underwent substantial changes following Directive 2003/54/EC of June 26, which was transposed into national law through Decree-Law-Law No. 29/2006 of February 15, whose general principles were subsequently elaborated upon by Decree-Law No. 172/2006 of August 23 (for a detailed description of the contours of the new regime, *see* "Legislation Governing the Issuer's Activities" *below*).

Under the new legislation, which recently entered into force, the previous division into two separate sectors—the Public Service Electricity System ("SEP") and the Independent Electricity System ("SEI")—and the inherent distinction between the regulated market and the parallel, deregulated market have been eliminated. However, the transition to the liberalized market is still pending additional regulations before it can take effect.

Under the SEP, the generation, transmission, and distribution of electricity are carried out as a public service, with the obligation to supply electricity based on appropriate service quality standards and the principle of uniform tariffs throughout the territory. The main market operators under the SEP are:

- Tied Producers, which will maintain an exclusive relationship with the national electricity grid operator—REN—until the early termination agreements set forth in the long-term electricity purchase agreements take effect. The three companies holding tied licenses are EDP – Gestão de Produção de Energia, S.A. ("EDP – Gestão de Produção") (a subsidiary wholly owned by EDP), Tejo Energia, S.A., and Turbogás – Produtora Energética, S.A. ("Turbogás"). These three companies had a combined installed capacity of 8,739 MW at the end of 2005, of which EDP – Gestão de Produção accounted for 7,164 MW (82% of the total). EDP, the Portuguese electricity operator, through EDP – Gestão de Produção, held a 63% market share in the SEP in terms of net generation in 2005. The EDP Group also holds stakes in the other two affiliated power producers, namely 11.1% in Tejo Energia, S.A., which operates the Pego thermal power plant, and 40% in Turbogás, owner of the CCGT plant at Tapada do Outeiro;

- REN, the concessionaire of the national electricity grid, will, once the organized markets begin operating, cease to purchase electricity from the tied power producers, who, in turn, will sell all of their production on the market;

- The tied distributors, which, until the organized market becomes operational, will continue to purchase at least 92% of their electricity needs from REN and supply customers with the electricity they contract for, applying the rates and conditions established by ERSE; and

- Bound customers.

The SEI comprises two segments:

- The Non-Bound Electricity Sector ("SENV"), characterized by free access to generation and sales for participants in the special low-voltage, medium-voltage, high-voltage, and very high-voltage segments, and in which operators may use the existing transmission and distribution infrastructure for the physical transfer of electricity, subject to payment of the applicable tariffs. In 2005, the EDP Group held a 50% market share of the electricity supplied to the SENV.

- Producers under the Special Regime ("PRE"), which includes small hydroelectric plants with a capacity of 10 MW or less, cogeneration, and renewable energy sources. These generating companies supply electricity to the SEP grid under special legislation and are compensated based on the principle of "avoided costs" to the SEP and an environmental premium for the benefits of using cleaner energy sources.

Over the past five years, the breakdown of generation by producer type was as follows:

GWh	Production in SEP+SENV+CHDA [1]		Balance	Special Regime Production		
	Hydroelectric	Thermal	Importer	Hydroelectric	Thermal	Wind
2001	13,394	24,313	239	671	1,645	238
2002	7,261	29,357	1,899	707	1,771	340
2003	14,670	22,394	2,794	1,025	2,188	475
2004	9,216	25,749	6,479	689	2,994	781
2005	4,523	30,621	6,820	395	4,437	1,728

Source: REN's 2005 Annual Report

[1] Alqueva Hydroelectric Power Plant.

Special-regime production increased by 47% in 2005, with wind power generation rising by 121% following the commissioning of several wind farms, thereby increasing the wind power capacity connected to the grid to approximately 900 MW by the end of 2005.

Electricity Consumption in Portugal (GWh)

	2005	2004	2003	2002	2001
SEP Clients	37,419	38,275	38,756	39,645	39,469
SENV Customers	10,528	7,225	4,305	1,019	547
Total electricity consumption in Portugal	47,947	45,500	43,061	40,664	40,015
Change (%)	5.4%	5.7%	5.9%	1.6%	-

Source: REN's 2005 Annual Report

Electricity consumption in Portugal has been growing at a high rate (an average annual growth rate of 4.6% for the period between 2001 and 2005). Despite this increase, Portugal continues to have one of the lowest rates of *per capita* electricity consumption in Europe, which indicates potential for future growth in the Portuguese electricity market.

The structure of the Portuguese electricity system is undergoing changes as a result of a liberalization process that is currently underway. In accordance with EU legislation, Portugal implemented a new regulatory framework for electricity in February 2006. *See* "Legislation Governing the Issuer's Activities" *below*.

Given Portugal's current electricity generation capacity, the *gap* between electricity production and demand is expected to reach 33.9 TWh by 2015, assuming that fuel-oil power plants will be phased out by 2013. This *gap* is expected to be filled primarily through the licensing of CCGTs and wind farms.

6.2. Main Activities and Markets The

Company

Galp Energia, SGPS, S.A. was incorporated on April 22, 1999, under the name GALP – Petróleos e Gás de Portugal, SGPS, S.A., as a result of the restructuring of Portugal's energy sector, to operate in the oil and natural gas sector. Galp Energia brought together Petrogal, the only refining company and the leading distributor of petroleum products in Portugal, and GDP, the company responsible for the import, transportation, and distribution of natural gas in Portugal. Currently, Galp Energia is the country's leading integrated

and natural gas in the country, with a growing presence in Spain and expanding operations in the electricity production and supply sector.

On September 26, 2006, in compliance with national and EU regulations, Galp Energia spun off certain assets, liabilities, and related activities pertaining to natural gas regasification, transmission, and storage by selling them to REN, as approved by Resolution No. 165/2005 of the Council of Ministers, dated October 24, 2005. REN is the concessionaire of the National Electricity Transmission Network and one of the Company's former shareholders. Galp Energia, through Transgás, continues to hold the natural gas supply contracts and is able to carry out the activity of supplying natural gas to large industrial customers and electricity producers in Portugal, natural gas distribution companies, and UAGs (*see* "Process of Separation of Regulated Activities in the Natural Gas Sector" *above*). Galp Energia, through its equity interests in natural gas distribution companies, will continue to carry out natural gas distribution activities.

Since Galp Energia's financial information following the Separation of Regulated Activities is not directly comparable to the historical financial information presented in this Share Registration Document, unaudited consolidated financial information-unaudited consolidated basis, relating to the fiscal year ended December 31, 2005, and the six-month period ended June 30, 2006, simulating the effect of the separation of assets as if it had occurred on December 31, 2005, and June 30, 2006 (with respect to the information contained in the balance sheet), or January 1, 2005, and January 1, 2006, with respect to the income statement.

Thus, in 2005, according to the pro forma financial statements adjusted to simulate the impact of the Separation of Regulated Activities Process, Galp Energia reported pro forma consolidated total sales and services rendered of 11,131 million euros, pro forma consolidated EBITDA of 1,096 million euros, pro forma consolidated net income of 673 million euros, and pro forma consolidated total net fixed assets (excluding financial investments) of 2,207 million euros.

Galp Energia's operations comprise the following businesses:

- The **Exploration and Production** ("E&P") business segment is responsible for Galp Energia's presence in the *upstream* sector of the oil industry, overseeing and carrying out all activities related to the exploration, development, and production of hydrocarbons. The *upstream* portfolio consists of interests in 6 blocks in Angola and 54 blocks in Brazil. In 2005, the Company produced 1.6 million barrels of oil, calculated on a pro rata basis according to its interests in Angola and after deducting the oil delivered to the national concessionaire under the terms of the respective Production Sharing Agreement ("PSA"). Proven reserves as of June 30, 2006—also on a pro-rata basis of the Company's interests in these blocks and after deducting the oil delivered to the national concessionaire under the terms of the respective PSA—totaled 35.6 million barrels, according to the independent report by Gaffney, Cline & Associates, Ltd. (*see* Overview of Activities – Main Activities and Markets – *Upstream* Asset Portfolio *below*). In 2005, the E&P business segment generated 3.7% of pro forma consolidated EBITDA and accounted for 11.2% of Galp Energia's pro forma consolidated net fixed assets.

- The **Petroleum Products Refining and Distribution** business segment ("Refining and Distribution") owns the only two refineries in Portugal, which together processed a total of 14.3 million metric tons of feedstock in 2005, and also includes all retail and wholesale marketing activities for refined products (including LPG). The Refining and Distribution segment also controls most of the infrastructure for the storage and transportation of petroleum products in Portugal, which is strategically located for both the export and distribution of products to major consumption centers. Product sales totaled 15.2 million metric tons in 2005, including sales to Galp Energia's retail and wholesale customers, as well as sales to competitors and exports. As of December 31, 2005, the Company had a retail network of 1,060 stations (837 in Portugal and 223 in Spain), having achieved market shares in Portugal that year of 37% in retail sales volume and 51% in wholesale sales volume. Galp Energia is also the leader in the LPG market in Portugal, with a 44% market share in 2005, and has a growing presence in Spain. In 2005, the Refining and Distribution business segment generated 77.4% of Galp Energia's pro forma consolidated EBITDA and accounted for 56.5% of its pro forma consolidated net fixed assets.

- The **Natural Gas** business area encompasses the Natural Gas Procurement and Sales and Natural Gas Distribution business segments:

  - The Natural Gas Procurement and Sales business segment continues, following the Separation of Regulated Activities, to
    supply natural gas to large industrial customers with annual consumption exceeding 2 million m³, to electricity producers, and to natural gas distributors and UAGs ("natural gas distributors"). Together, these customers accounted for 4.2 billion m³ of natural gas sales in 2005, of which 4.1 billion m^3represent the total consumption of natural gas in Portugal. Galp Energia also maintains long-term supply contracts with companies in Algeria and Nigeria to meet its customers' demand. The Natural Gas Supply and Sales business also has underground natural gas storage capacity. In 2005, the Natural Gas Supply and Sales business segment generated 11.2% of pro forma consolidated EBITDA and accounted for 3.2% of Galp Energia's pro forma consolidated net fixed assets.

  - The Natural Gas Distribution business segment, together with the
    natural gas distribution companies in which Galp Energia holds significant stakes, sold 478 million $m^3$of natural gas in 2005 to approximately 738,900 residential, commercial, and industrial customers with consumption of less than 2 million m³. The natural gas distribution infrastructure, including that of the natural gas distributors in which Galp Energia holds significant stakes, covers a total of 8,761 km (secondary networks). In 2005, the Natural Gas Distribution business segment generated 7.5% of pro forma consolidated EBITDA and accounted for 27.9% of Galp Energia's pro forma consolidated net fixed assets.

- The ***Power*** business segment currently produces electricity and thermal energy, which it supplies to large industrial customers. In 2005, this segment's total energy production was 1,375 GWh. Galp Energia currently holds stakes in three cogeneration plants with a total installed capacity of 80 MW. Galp Energia intends to build two CCGT units of 400 MW each (subject to obtaining the necessary permits), and in 2005, the Company formed a consortium that submitted a bid in response to the tender launched by the Portuguese government for wind power generation in Portugal. In 2005, the *Power* business segment generated 0.3% of Galp Energia's pro forma consolidated EBITDA and accounted for 1.1% of its pro forma consolidated net fixed assets.

The pro forma consolidated figures for EBITDA and Net Fixed Assets referred to in the preceding paragraphs do not total 100% due to certain undifferentiated items.

Strengths

Galp Energia believes that its main competitive advantages are as follows:

Market Leadership in Portugal and a Growing Presence in Spain

Galp Energia has a well-established position in the Iberian Peninsula's energy market, one of the most attractive in Europe, with a rate of growth in energy demand exceeding the European Union average. The Company owns all of Portugal's refining capacity, as well as key assets for the storage and transportation of petroleum products. In 2005, Galp Energia held market shares in the Portuguese market of approximately 51% in the wholesale market for refined products and approximately 37% in the retail fuel market. As of December 31, 2005, the Company, together with the natural gas distributors in which it holds a significant stake, controlled 72% of the Portuguese natural gas distribution market. In Spain, market shares for retail and commercial sales of refined products were 2% and 4%, respectively, in 2005; however, the Company managed to achieve more significant market shares in certain strategic regions, in addition to holding equity stakes in certain transportation and storage infrastructure.

The Company believes that its market position, as well as the economies of scale from which it benefits, enable it to achieve greater efficiency in supply and distribution, building a recognized brand in the Iberian energy market, and thus positioning itself well to supply various forms of energy to industrial and retail consumers across the Iberian Peninsula.

Attractive International E&P Portfolio with Predictable Production Growth

Galp Energia has an attractive portfolio of *upstream* assets that, according to the Company's expectations, is expected to show significant growth. These assets are concentrated in countries with historical ties to Portugal and where there are strong relationships with key local partners. As of June 30, 2006, Galp Energia had proven reserves through its equity interests totaling 35.6 million barrels (according to an independent report by Gaffney, Cline & Associates, Ltd.). Based on the production program in place, Galp Energia's share of production in Angola's Block 14—the only block currently in production—is expected to increase from approximately 9,000 barrels per day, as projected for the end of 2006, to more than 25,000 barrels per day in 2010. In Block 14K/A-IMI, there is

The development plan for the Lianzi field is currently being prepared, and studies are also underway to develop the discoveries already made in Block 32, both in Angola. In addition, the Company also has an attractive portfolio of exploration projects in Brazil and Angola, where it maintains privileged and mutually beneficial relationships with Petrobras. Oil was recently discovered in Block BM-S-11 in the Santos Basin in Brazil. Petrobras is the operator of this block (with a 65% stake), while Galp Energia holds a 10% stake.

High Quality and Integration of the Refining and Petroleum Products Distribution Business

Galp Energia has high-quality, strategically located refining infrastructure that allows for significant flexibility in optimizing the raw materials consumed and the refined products produced, and that generates high margins when compared to Rotterdam *benchmarks*. The Sines refinery is one of the most competitive in Europe and the second largest in the Iberian Peninsula. Galp Energia plans to invest in a new conversion project, integrated into the Sines refinery complex, in order to adapt the range of refined products to existing market demand and thereby achieve higher margins. The Porto refinery is integrated into a petrochemical complex, which allows it to achieve higher margins than other refineries with a similar configuration. The Porto refinery is also integrated with the Sines refinery, which allows for even greater value to be extracted from the refined products of both refineries.

In addition, Galp Energia has been investing significant amounts in modernizing its service stations and developing an innovative range of *non-fuel* products, customer loyalty programs, and brand awareness initiatives. The physical integration of its refining, logistics, and distribution businesses enables Galp Energia to achieve cost efficiencies and increase the profitability of its operations.

Strong Presence in One of the Fastest-Growing Natural Gas Markets

Galp Energia is currently the only wholesale supplier of natural gas in Portugal, holding long-term supply contracts with companies in Algeria and Nigeria. The Company sells natural gas to electricity producers, large industrial customers, and natural gas distributors, and also holds majority stakes in nearly all of these natural gas distributors. Galp Energia intends to leverage these relationships, maintaining its leadership in the supply of natural gas to electricity producers and large industrial customers in order to continue to hold a privileged position in the future liberalized natural gas market (*see* "Legislation Governing the Issuer's Activities – Natural Gas Sector" *below*). Furthermore, Galp Energia's natural gas business is well-positioned to benefit from growing demand in the electricity generation market through increased sales to natural gas-fired power plants. Natural gas sales volume has been increasing at an average annual growth rate of 10.9% since 2003, reaching 4.2 billion m³ in 2005, of which 4.1 billion m³ represented the total consumption of natural gas in Portugal.

Strong Position for the Development of the Electricity and Renewable Energy Businesses

Demand for electricity is expected to grow rapidly in the Iberian Peninsula as a result of increased economic activity, particularly with regard to renewable energy due to the growing preference for cleaner and

sustainable energy sources. There is also growing customer demand for multi-energy offerings. These market trends represent an attractive growth opportunity for Galp Energia, which, as an energy supplier with a strong and well-recognized brand in the market, believes it is well-positioned to leverage its reputation to capture new market share. Galp Energia believes that its planned investments in combined-cycle power plants and wind farms will enable the Company to implement the multi-energy offerings sought by customers.

Track Record of Strong Cash Flow Generation

Galp Energia has generated strong *cash flows* even through varying cycles of raw material prices and refining margins, largely due to its portfolio of integrated, high-quality assets and its ability to achieve operational efficiencies. The strong *cash flow* generation in recent years has enabled the Company to substantially reduce its bank debt while continuing to invest in its operations. Galp Energia believes that this strong ability to generate *cash flows* will continue on a sustainable basis in the future, maintaining the Company's capacity to invest in its operations and to distribute earnings to investors in the form of dividends.

Strategy

Galp Energia's long-term goal is to become a leading multi-energy operator in the Iberian market, with attractive growth prospects and a strong customer focus. To this end, Galp Energia has established six key strategic objectives:

Develop Exploration and Production Operations. Galp Energia plans to invest approximately 769 million euros over the 2006–2010 period to strengthen its exploration and production activities. In Brazil, the potential of certain blocks is currently being evaluated to inform a future decision on participation in the bidding process, in partnership with Petrobras. In the short term, an opportunity may arise to acquire from ENI Società per Azioni ("ENI SpA") rights to blocks recently awarded to that company in Timor-Leste. In Portugal, authorization was recently requested from the government to proceed with deepwater exploration. Galp Energia plans to continue growing production and leverage its existing *know-how* and partnerships with ENI SpA, Petrobras, and the Angolan National Fuel Company, a public enterprise ("Sonangol"), among others.

Optimizing Refining Capacity. Galp Energia intends to adapt its refining assets to market demands by expanding and modernizing the Sines refinery, where it plans to invest in a new conversion project expected to be completed by the end of 2010. Galp Energia aims not only to increase the profitability of its investments by optimizing feedstocks and the range of refined products, but also to improve the integration of the two existing refineries in order to take advantage of their different refining characteristics and achieve an integrated and complementary refining process. An evaluation of two alternatives for the configuration of the new conversion project at the Sines refinery is currently underway; the investment amount is estimated at approximately 1,000 million euros, and the expected increase in the refining margin is about US$3.0 per barrel upon completion of the project.

Strengthening the Retail Business in Portugal. One of Galp Energia's priorities is to strengthen its leading position in the retail distribution of petroleum products in Portugal. The Company intends to achieve this objective by:

- Strengthening existing partnerships in the retail network with leading companies in relevant related businesses, such as the alliance with Sonae, Portugal's largest hypermarket chain, and expanding and improving the range of *non-fuel* products;

- Expanding the portfolio of services offered to customers and fostering customer loyalty, particularly by strengthening existing programs, such as the "Fast Galp" points-accumulation program and the "Galp Frota" fleet card, as well as continuing to invest in brand image and recognition, such as the high-performance G-Force fuels; and

- Promoting innovation and best practices in the business, notably by completing the rollout of "Pluma," an LPG cylinder that is lighter than traditional ones.

Maintaining Leadership in the Liberalized Natural Gas Market. Galp Energia is preparing for the new regulatory framework for natural gas in Portugal, seeking new growth opportunities expected to arise from liberalization, while maintaining its leading position in the market. Galp Energia intends to achieve this objective by:

- Continuing to promote natural gas sales to large industrial customers through value-added offerings and capitalizing on new growth opportunities arising from the increase in electricity generation from natural gas;

- Promoting *cross-selling* initiatives among petroleum products, natural gas, and electricity in the liberalized Portuguese market and increasing sales of these products in international markets; and

- Anticipating and adapting to changes in the natural gas market, particularly changes in the regulatory framework.

Develop the Power Business and Promote Growth in the Electricity Market. Galp Energia aims to become a leading operator in the Portuguese electricity market and actively pursue a *"gas-to-power"* strategy in the context of the liberalization of the Portuguese energy market, consolidating its current position in the natural gas business and leveraging its strong brand image. Galp Energia intends to achieve this objective by:

- Expanding its presence in the power generation sector by building two CCGT plants in Sines with a total capacity of 800 MW;

- Entering the electricity supply market for industrial and residential customers, thereby creating a vertically integrated electricity business that maximizes margins and offers multi-energy commercial proposals to customers;

- Expanding its renewable energy business through the construction and operation of wind farms; and

- Consolidation of Galp Energia's position in the cogeneration market.

Growing in Spain and Other Markets. In addition to maintaining its leading position in Portugal, Galp Energia intends to leverage its strengths and the experience it has gained, as well as its linguistic and cultural ties, to expand its activities and grow

into other geographic markets. Galp Energia plans to develop a global strategy to leverage existing partnerships in order to expand into markets where it has competitive advantages, such as Angola, Brazil, and Spain. Specifically, in Spain, Galp Energia aims to grow its Retail and Corporate businesses based on organic growth opportunities, acquisitions, and the introduction of new *non-fuel* services and products.

Galp Energia's Business Segments

Galp Energia's main activities include the exploration and production of hydrocarbons, oil refining and the distribution of petroleum products, the supply, distribution, and sale of natural gas, and the generation of electricity and thermal energy.

E&P

The following table presents selected financial and operational information regarding the E&P business segment for the periods indicated:

	31 December			
	IFRS		POC	
	2005	2004	2004	2003
	(in millions of euros, unless otherwise indicated)			
Sales and Services Rendered	66.6	42.6	42.6	38.4
EBITDA[1]	40.2	25.5	25.5	19.9
Net Fixed Assets[2]	247.5	192.0	228.1	169.4 [3]
Investments	82.3	70.6	72.4	39.5
ROA[4]	6.7%	(6.3%)	(5.8%)	3.1%
Production (kbbl/day)	4.3	4.5	4.5	4.9
Average selling price (US$/bbl) [5]	44.6	31.1	31.1	24.0
Average production cost (US$/bbl) [6]	6.4	6.1	6.1	5.6

(1) EBITDA is defined as operating income plus depreciation, amortization, and provisions. EBITDA is not a standard measure and should not be used for comparisons between companies. EBITDA is not a direct measure of liquidity and should be analyzed in conjunction with actual cash flows from operating activities and taking into account existing financial obligations. EBITDA may not be indicative of historical operating results, nor is it intended to predict future results (see "Financial Information on the Issuer's Assets and Liabilities, Financial Position, and Income and Losses").

(2) Net Fixed Assets include Net Tangible and Intangible Fixed Assets.

(3) With respect to the official financial statements as of December 31, 2003, and for the purpose of comparing fiscal years, a reclassification of 54.2 million euros was made from the Refining and Distribution segment to the E&P segment, primarily related to Blocks 32 and 33.

(4) Operating Income after Taxes divided by Total Net Assets excluding financial investments.

(5) Based on production from the Kuito field in Block 14, with an average API gravity of 21°

(6) Includes operating costs directly allocated by the operator of each block, but excludes the allocation of depreciation, the abandonment provision, and taxes on oil income in Angola.

Business Overview

The E&P business segment holds Galp Energia's *upstream* assets and is responsible for overseeing and executing all activities related to the exploration, development, and production of hydrocarbons. The E&P business segment also identifies, analyzes, and promotes new opportunities for the development of *upstream* projects. This segment pursues a selective investment policy, focused primarily on acquiring minority stakes in high-potential blocks, preferably in Portuguese-speaking countries such as Angola and Brazil. Business is conducted with

key industry partners, such as ENI SpA, Sonangol, Petrobras, Chevron, Total, Exxon, and Devon.

Analysis of the Exploration and Production Business

In Angola, the government designates a state-owned company as the national concessionaire for hydrocarbon exploration and production rights. The national concessionaire enters into PSAs with private counterparties—whether foreign or domestic—under which it establishes the sharing of costs and investments as well as the allocation of production.

In Brazil, exploration and production rights are granted directly to private companies, selected through competitive public tenders organized by the government or the national concessionaire, for specific areas or "blocks," through the award of concessions, licenses, or participation rights in pre-existing PSAs.

The income generated by private companies from the sale of their share of hydrocarbons produced is subject to income tax. In Brazil, the income tax is the same as that applied to industries in general, whereas in Angola there is a special tax levied on income generated by hydrocarbon sales. Tax provisions are generally structured to allow partners to recoup the amounts invested in exploration, appraisal, and development operations, which are capitalized until production begins.

At the end of the concession, the private companies that are part of the production partnership must carry out a series of operations to ensure that the closure of all wells and the dismantling of all infrastructure are performed in accordance with high technical, safety, and environmental standards.

***Upstream* Asset Portfolio**

Galp Energia's involvement in *upstream* projects dates back to 1982 in Angola and 1999 in Brazil. The *upstream* asset portfolio consists of interests in 6 blocks in Angola and 54 blocks in Brazil.

Proven reserves corresponding to Galp Energia's interests as of June 30, 2006, totaled 35.6 million barrels of crude oil, concentrated in Block 14 in Angola. Total proven and probable reserves as of that date amounted to 41.4 million barrels, and our best estimate of contingent resources was 43.2 million barrels. Galp Energia's reserves and contingent resources were determined by "Gaffney, Cline & Associates, Ltd.," an independent consulting firm for the oil industry, in accordance with the definitions and guidelines issued by the "Society of Petroleum Engineers," the "World Petroleum Council," and the "American Association of Petroleum Geologists," using a deterministic methodology.

Angola

The following table shows Galp Energia's holdings in Angola:

Block	Type	Operator	% Galp Energia	Partners
Block 14	*Deep offshore*	Chevron	9.0%	Chevron (31%), Sonangol (20%), ENI SpA (20%), Total (20%)
Block 1/82	*Offshore*	ENI SpA	10.0%	ENI SpA (50%), Total (25%), Ina Naftaplin (7.5%), Naftagas (7.5%)
Block 14K/A-IMI	*Deep offshore*	Chevron	4.5%	Chevron (31.25%), Total (36.75%), ENI SpA (10%), Sonangol (10%), SNPC (7.5%)
Block 32	*Ultra-deep offshore*	Total	5.0%	Total (30%), Marathon (30%), Sonangol (20%), Exxon (15%)
Block 33	*Ultra-deep offshore*	Exxon	5.0%	Exxon (45%), Sonangol (20%), Total (15%), Falcon Oil (10%), NIR (5%)
Block Cabinda Central	*Onshore*	Devon	20.0%	Devon (30%), Repsol (25%), Sonangol (20%), Gulf Energy Resources (5%)

Block 14

Block 14 in Angola is the only block currently in production. In 2005, Galp Energia's share of production in Block 14 was 1.6 million barrels (4,300 barrels per day). Based on estimates from the Block 14 operator, production at the end of 2006 corresponding to Galp Energia's share will be approximately 9,000 barrels per day, with production expected to reach around 25,000 barrels per day in 2010. These forecasts are based on the operator's estimates, which take into account the block's historical performance, the evolution of production curves, and the impact of future investments to maintain production.

Block 14 consists of five declared development areas: Kuito; Benguela, Belize, Lobito, and Tomboco ("BBLT"); Tombua Landana ("TL"); Negage; and Gabela.

The following table shows the production share corresponding to Galp Energia's interest and the exploration program for Block 14, by development area:

Development Development	2005	2006 (1)	2007 (1)
Kuito.....	4,300 bbl/day 3 development wells	3,600 bbl/day	2,900 bbl/day 1 production well
BBLT	– 10 production wells	5,400 bbl/day 13 production wells	13,100 bbl/day 14 production wells
TL.....	1 appraisal well	1 appraisal well	1 development well 5 exploration wells.
Negage.....	1 appraisal well	–	–
Gabela	–	1 appraisal well	–

(1) Expected values.

Kuito

The discovery of the Kuito field was announced in 1997, and the initial development plan was completed in 1998. The first phase of production began in December 1999. The short timeframe of 30 months from discovery to first oil production is unusual in this industry for a project of Kuito's size. As of August 2006,

Kuito had produced a total of approximately 143.0 million barrels of oil (with an API gravity between 19° and 21° and a sulfur content of 0.7%).

BBLT

The discovery of the first field in the BBLT development area was announced in 1998, with other fields being announced as discoveries in 2000. The BBLT development program began in 2003, and first production was achieved in January 2006. As of August 2006, BBLT had produced approximately 8.4 million barrels of oil (with an API gravity between 24° and 37° and a sulfur content between 0.25 and 0.30).

TL

The discovery of the first field in the TL complex was announced in 1997, with other fields being announced as discoveries in 2001. A commercial discovery was announced in July 2003. The development plan for this field is underway, with the installation of a drilling and production platform expected by the end of 2008 and production set to begin in 2009.

Negage

The discovery of the Negage field was declared in October 2002, and a commercial discovery declaration was submitted to the concessionaire, Sonangol, in February 2004. Technical studies are currently being conducted to establish a development plan for the Negage field.

Gabela

The discovery of the Gabela field was announced in February 2002, and a declaration of commercial discovery was submitted to the concessionaire, Sonangol, in February 2004. Also in early 2004, the concessionaire approved the Gabela development area. An appraisal well is scheduled to be drilled in the second half of 2006 to establish a more accurate estimate of the field's reserves and to obtain additional information to support the ongoing technical studies. The goal is to achieve first oil production in February 2010, which is the deadline set by the production-sharing agreement.

Exploration

Currently, plans call for the drilling of three exploration wells in Block 14 before the end of the exploration period, which concludes in March 2007.

Block 1/82

Production in Block 1/82 ceased in 2002, after producing a total of six million barrels of crude oil. The partnership members agreed to abandon Block 1/82, as the remaining reserves were insufficient for commercial production.

Block 14K/A-IMI

The Lianzi field was discovered in 2004, and this discovery was confirmed by an appraisal well in 2005. Based on the results obtained, a proposal was submitted to the Commission

The Angola-Congo Intergovernmental Agreement delineated a development area covering the entire Block 14K/A-IMI unit in November 2005, and approval for the proposed zone was granted in January 2006. The partners in Block 14K/A-IMI declared the Lianzi field a commercial discovery in May 2006. The conceptual development plan for the Lianzi field is currently being finalized.

Block 32

Block 32 is an ultra-deepwater block, ranging in depth from 1,400 m to 2,500 m. Five exploration wells have been drilled, all of which have revealed the presence of oil. Block 32 is currently in its second exploration phase, which will continue through March 2007. A large area of the block remains to be explored. The exploration program includes ten wells, comprising nine exploration wells and one appraisal well. Studies are currently being conducted to evaluate the discoveries made.

Block 33

Block 33 is an ultra-deepwater block, with depths ranging from 1,800 m to 2,500 m. During the first exploration period, which ended in March 2005, a seismic survey was conducted and two exploration wells were drilled. Only one of the wells was declared commercial (Calulu–1). The concessionaire approved a 5-year extension to evaluate the discovered area. The remaining area of the block will be abandoned.

Cabinda Central Block

Negotiations are underway to lift the suspension of exploration due to *force majeure*, following the easing of political instability affecting the Cabinda area (*onshore*).

Brazil

Galp Energia has been involved in various *onshore* and *offshore* exploration projects in Brazil since 1999. The Brazilian government has awarded oil and gas exploration licenses for various blocks through successive bidding rounds, which began in 1999. Galp Energia participated in four of these bidding rounds (2nd, 3rd, 6th, and 7th), acquiring rights to a total of 54 exploration blocks, always in partnership with Petrobras. This partnership with Petrobras enabled entry into the Brazilian *upstream* market, leveraging Petrobras' extensive knowledge of the areas' potential, its solid technical expertise, and its network of local infrastructure. Galp Energia operates 29 of the 44 *onshore* blocks.

The 54 blocks are grouped into contracts as follows:

Contract	Area (km²)	Operator	% Galp Energia	Partners	Type	End of the Exploration	Round
BT-POT-28	30	Galp Energia	50%	Petrobras (50%)	*Onshore*	2006–2007	6
BT-POT-29	90	Galp Energia	50%	Petrobras (50%)	*Onshore*	2006/2007	6
BT-POT-36	127.6	Galp Energia	50%	Petrobras (50%)	*Onshore*	2006/2007	6
Contract	**Area (km²)**	**Operator**	**% Galp Energia**	**Partners**	**Type**	**End of the Exploration**	**Round**
BT-ES-23	122	Galp Energia	50%	Petrobras (50%)	*Onshore*	2006/2007	6

Contract	Area (km²)	Operator	% Galp Energia	Partners	Type	End of the Exploration	Round
BT-SEAL-13	123.4	Galp Energia	50%	Petrobras (50%)	*Onshore*	2008/2009	7
BT-POT-59	127.6	Galp Energia	50%	Petrobras (50%)	*Onshore*	2008/2009	7
BT-POT-51	132.9	Galp Energia	50%	Petrobras (50%)	*Onshore*	2008/2009	7
BT-POT-47	127.6	Galp Energia	50%	Petrobras (50%)	*Onshore*	2008/2009	7
BT-ES-29	30.4	Galp Energia	50%	Petrobras (50%)	*Onshore*	2008/2009	7
BM-S-8	2,400	Petrobras	10%	Petrobras (50%) Shell (40%)	*Deep offshore*	2006–2008	2
BM-S-11	2,600	Petrobras	10%	Petrobras (65%) BG (25%)	*Deep offshore*	2006–2008	2
BT-ES-24	122	Petrobras	50%	Petrobras (50%)	*Onshore*	2006/2007	6
BT-POT-32	127.6	Petrobras	50%	Petrobras (50%)	*Onshore*	2006–2007	6
BM-S-21	1,037	Petrobras	20%	Petrobras (80%)	*Deep offshore*	2007–2009	3
BM-S-24	1,300	Petrobras	20%	Petrobras (80%)	*Deep offshore*	2007–2009	3
BT-ES-28	91.5	Petrobras	50%	Petrobras (50%)	*Onshore*	2008/2009	7
BT-POT-45	63.8	Petrobras	50%	Petrobras (50%)	*Onshore*	2008/2009	7
BT-POT-56	55.8	Petrobras	50%	Petrobras (50%)	*Onshore*	2008/2009	7
BM-ES-31	722	Petrobras	20%	Petrobras (80%)	*Deep offshore*	2010–2012	7

BM-POT-16	1,534	Petrobras	20%	Petrobras (60%) Encana (20%)	*Deep offshore*	2012–2014	7
BM-POT-17	2,300	Petrobras	20%	Petrobras (80%)	*Deep offshore*	2012–2014	7

All blocks are in the preliminary exploration phase, except for Block BM-S-11 (located in the Santos Basin), where a deep well is currently being drilled. In July 2006, an oil discovery was reported in this block. For all other wells, exploration activities consist of geological studies, geophysical analyses, and interpretation of the results.

New Projects

Galp Energia's efforts to evaluate new exploration and production opportunities are focused on countries with high production potential.

In East Timor, Galp Energia recently participated in a bidding process for *offshore* blocks. Although Galp Energia did not win any of the blocks in question, there is a possibility of acquiring rights to some of these blocks from ENI SpA after the projects begin.

A new round of bidding for oil and natural gas exploration and production licenses is expected to take place in Brazil during 2006. The hydrocarbon potential of the blocks on offer is currently being evaluated to determine whether or not to participate in the bidding process, always in partnership with Petrobras.

The Portuguese *offshore* zone holds deepwater exploration potential that has not yet been adequately investigated. Galp Energia has requested government authorization to explore these waters.

Refining and Distribution

The Refining business encompasses all refining, procurement, and logistics activities. Galp Energia is the only refining company and the largest marketer of petroleum products in Portugal, and one of the largest in the Iberian Peninsula. Galp Energia manages all crude oil imports and a portion of the imports of refined products into Portugal, managing 80% of the storage capacity for crude oil and petroleum products and holding a dominant position in most of Portugal's logistics infrastructure.

The Distribution business includes the retail and wholesale marketing of refined products (including LPG) in the Iberian Peninsula. Galp Energia is the market leader in Portugal, with a growing presence in Spain. In 2005, through its network of 1,060 service stations (837 in Portugal and 223 in Spain), it achieved a retail market share of 37% in Portugal and 9% across the Iberian Peninsula, calculated based on sales volume. In the wholesale market, Galp Energia supplies more than 4,300 industrial and commercial customers with a total of 5.5 million metric tons of refined products, representing a market share of 51% in

Portugal and 11% across the Iberian Peninsula in 2005. The LPG market share in Portugal was 44% that year. The recent decline in LPG sales volume in Portugal, due to the growth in natural gas consumption, was offset by growth in LPG sales volume in Spain.

The following table presents selected financial and operating information regarding the Refining and Distribution business segment for the periods indicated:

	December 31			
	IFRS		POC	
	2005	2004	2004	2003
	(in millions of euros, unless otherwise indicated)			
Sales and Services Rendered	10,029.8	8,394.8	8,380.6	6,668.9
Gross Margin (1)	1,493.8	1,315.5	1,167.3	983.9
EBITDA (2)	848.7	726.0	593.9	494.8
Net Fixed Assets (3)	1,246.9	1,314.1	1,466.4	1,530.5 (5)
Investments	142.1	165.2	166.8	205.0
ROA (4)	12.7%	12.0%	7.8%	5.4%
Refined Products (millions of metric tons)	13.1	12.7	12.7	12.8
Number of stations	1,060	1,094	1,094	1,090
Retail sales (thousand m³)	3,241	3,262	3,262	3,131
Sales to businesses (thousand metric tons)	5,502	4,424	4,424	3,780
LPG sales (thousand metric tons)	406	423	423	431

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), as they include Services Rendered.

(2) EBITDA is defined as operating income plus depreciation, amortization, and provisions. EBITDA is not a standard measure and should not be used for comparisons between companies. EBITDA is not a direct measure of liquidity and should be analyzed in conjunction with actual *cash flows* from operating activities and taking into account existing financial commitments. EBITDA may not be indicative of historical operating results, nor is it intended to predict future results (*see* "Financial Information on the Issuer's Assets and Liabilities, Financial Position, and Income and Losses").

(3) Net Fixed Assets include Net Tangible and Intangible Fixed Assets.

(4) Operating Income After Taxes divided by Total Consolidated Assets, excluding financial investments.

(5) With respect to the official financial statements as of December 31, 2003, and for year-over-year comparison purposes, a reclassification of 54.2 million euros was made from the Refining and Distribution segment to the E&P segment, primarily related to Blocks 32 and 33.

Refining

Overview

The Refining business operates two refineries, one in Sines and the other in Porto, producing a wide range of products, including gasoline, diesel, fuel oil, *jet fuel*, LPG, bitumen, and various petrochemical products. It is also responsible for supplying refined products to the retail, commercial, and LPG sectors, as well as to competitors and foreign customers, and for managing refining and logistics assets.

The procurement and transportation of products are carried out either through the use of the company's own transportation and storage infrastructure or through subsidiary logistics companies. Galp Energia holds a dominant position in the Portuguese market, as it owns the four largest storage terminals in Portugal and accounted for 80% of Portugal's petroleum product storage capacity in 2005.

The safety, reliability, and environmental performance of refining operations are critical to the financial performance of the Refining business. Unplanned outages at refineries generally result in margin losses, increased maintenance costs, and a temporary increase in working capital and related inventory levels. The financial impact *of turnarounds*—due, in particular, to general maintenance work—is mitigated through a careful scheduling process that takes into account product availability, margin conditions, and the availability of resources to carry out the necessary maintenance. In 2003 and 2004, two refinery *turnarounds* were carried out (which typically occur every four years), and two major maintenance and repair projects were completed.

Several projects were planned to increase the refineries' energy efficiency, including the construction of a cogeneration plant at the Sines refinery (*see* "Power Business Segment – New Projects" *below*). Compliance projects were also carried out—that is, investments aimed at operating in accordance with strict environmental standards.

Facilities

Introduction

Galp Energia's two refineries in Portugal account for 100% of Portugal's refining capacity and 20% of Iberian refining capacity, and together they meet 88% of the demand for petroleum products in Portugal. Galp Energia has invested 240 million euros over the past five years in upgrading and improving the efficiency of its refineries (158 million euros in Sines and 82 million euros in Porto). The Sines refinery is a *cracking* refinery, and the Porto refinery is a *hydroskimming* refinery with an aromatics plant, a base oil plant, and a lubricants plant.

The refineries are considered business units and are operated as profit centers. To compare the refineries' performance with international *benchmarks*, it is necessary to eliminate the effect of *inventory* and procurement and *trading* activities. The refining margin results from the difference between the value of finished and intermediate products produced in each period and the value of raw materials and other components processed in the same period. Raw materials and other components (such as crude oil, naphtha, MTBE, reformate, and chemicals) are valued at the average monthly replacement cost, while finished and intermediate products are valued at the average monthly import-export parity price.

The following table presents selected indicators related to Galp Energia's Refining business for the periods indicated:

	December 31 (POC)		
	2005	**2004**	**2003**
Crude Oil Processed (millions of bbl)	96.5	94.8	94.0
Crude oil utilization rate (%)	83%	81%	80%
Galp Crude Price Range (US$/bbl)	53.1	38.3	29.1
Spread over *Brent* (US$/bbl)	(2.1)	(0.7)	(0.4)
Gross refining margin (US$/bbl)	7.3	6.0	3.7

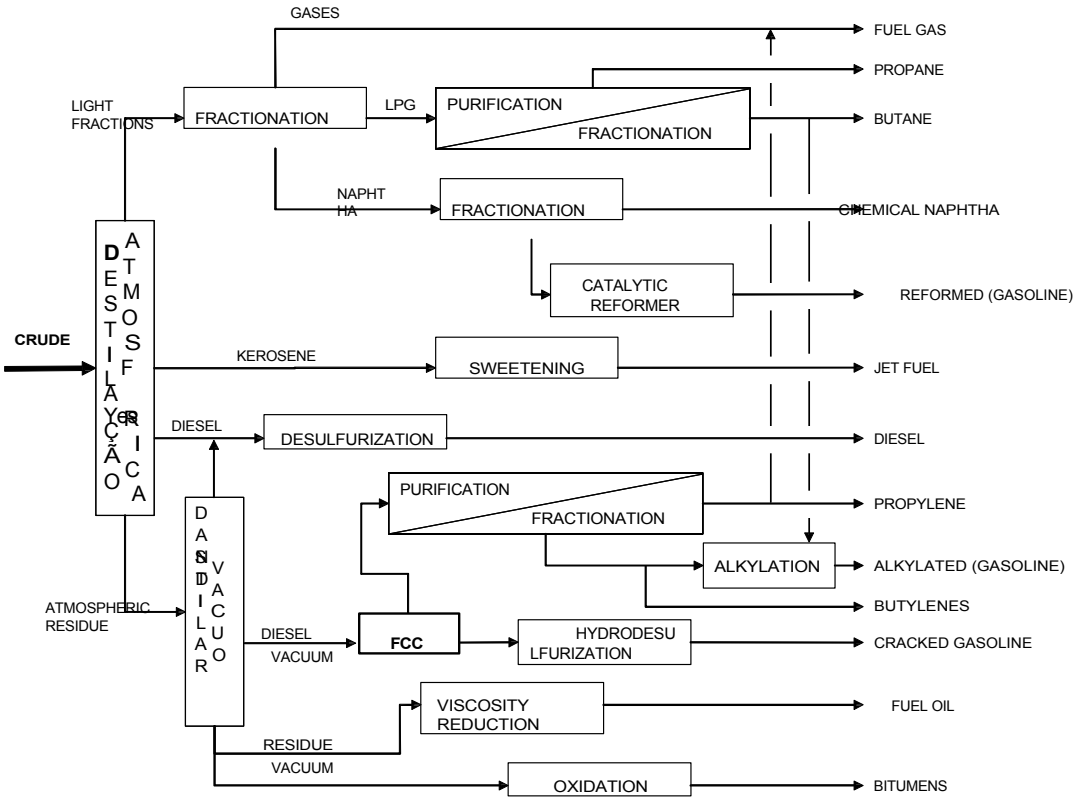
Sines Refinery

Galp Energia operates a *cracking* refinery in Sines, which began operations in 1979. With a current distillation capacity of approximately 10.5 million metric tons per year (220,000 bbl/day), it is Portugal's largest refinery, accounting for approximately 70% of the country's total refining capacity. It is also one of the largest refineries in the Iberian Peninsula. Sines' coastal location and port infrastructure are ideal for both crude oil supply and product exports.

In the refining process at the Sines refinery, crude oil is heated and separated in a distillation column at normal atmospheric pressure (atmospheric distillation). As the temperature rises, the lighter components—such as LPG, naphtha, and gasoline—vaporize first. Heavier components, such as diesel and *jet fuel*, vaporize more slowly and are collected in the middle section of the distillation column. The heavier components undergo a second distillation stage at reduced pressure (vacuum distillation), during which components such as fuel oil and asphalt are separated.

Typically, the distillation process produces more light gases and more heavy residues than the market requires, resulting in a shortage of gasoline and diesel. To address this situation, the Sines refinery has conversion units that include the *fluid catalytic cracker* ("FCC"—catalytic *cracking*, which uses a fluid catalyst to convert heavy diesel into light products, primarily gasoline), the *visbreaker* (reducing the amount of residue produced by lowering viscosity), alkylation (converting gas into gasoline components), and catalytic reforming ("platforming"—for converting heavy naphtha into gasoline). For more information on the refining process, *see* "Sector Analysis—Global Refining Industry."

The following diagram shows the process of refining crude oil into petroleum products at the Sines refinery. This refinery has a production process configuration geared toward gasoline production via the FCC unit, a catalytic conversion unit for heavy distillates, with a Nelson complexity index of 5.3 and a Solomon complexity index of 7.8.



The refining margin is typically compared to the Rotterdam *benchmarks* (a fixed production profile for a standard set of products). These comparisons show that the Sines refinery has benefited from the current market environment. The Sines refinery has posted strong operational performance, with an average crude oil utilization rate of 85% over the past three years and an average reliability rate of 98%.

The following table presents operational and financial information regarding the Sines refinery for the periods indicated:

	December 31 (POC)		
	2005	**2004**	**2003**
Capacity (kbbl/day).....	220	220	220
Crude oil processed (millions of metric tons) [1]	9.5	8.9	9.5
Refined products (millions of metric tons)	9.8	8.7	9.3
Crude oil utilization rate (%)	87%	81%	87%
Gross refining margin (US$/bbl)	8.5	6.4	3.9
Cracking cracking of reference from Rotterdam (US$/bbl) [2]	5.3	3.8	2.8
Average crude oil acquisition cost (US$/bbl)	52.3	38.1	29.0
, and operating costs (€/bbl)	1.3	1.4	1.0
Reliability (%)	97%	99%	99%
Number of Employees	473	473	454

(1) Average conversion factor from barrels to metric tons of 7.23 for 2005.

(2) Source: Platts, based on the following production profile: premium unleaded 25.4%; naphtha 7.1%; jet fuel 8.5%; 50 ppm ULSD 38%; fuel oil (1%) 14%; consumption and losses 7%.

The Sines refinery has modern storage facilities with a capacity of over 3,000,000 m^3 of crude oil, featuring digital *inventory* monitoring, floating tank covers, and vapor recovery units. The refinery's energy needs are met by a combined heat and power plant with an installed capacity of 64 MW. A wastewater treatment system recycles most of the water used in the refinery's production process.

Since 1994, several projects have been carried out at the Sines refinery, including: (i) the retrofit of the diesel desulfurization unit; (ii) the construction of a hydrogen purification unit; (iii) the construction of a steam reformer for the hydrogen production unit; and (iv) the construction of the FCC and gasoline hydrodesulfurization unit. The most recent *turnaround* at Sines was completed in March 2004, at a total cost of 34.1 million euros.

The Sines refinery has the capacity to process both light and heavy crude oils. In 2005, heavy crude accounted for 29% of the crude processed. The average API gravity of the crude processed at the Sines refinery in 2005 was 35.9°, and the sulfur content was 0.915%. Approximately 75% of the refinery's production consists of high-value light products, such as gasoline, middle distillates, and LPG.

The list of products produced by the Sines refinery is shown in the following table:

	2005	2004	2003
Production Profile			
Gases	4%	4%	4%
Gasoline	27%	30%	31%
Medium Distillates	44%	45%	46%
Fuel oil	23%	19%	17%
Other	2%	3%	3%

Sines – New Conversion Project

Galp Energia plans to implement a new conversion project at the Sines refinery with the aim of transforming the heavier fractions of crude oil distillation (such as vacuum residue) into lighter intermediate distillates (such as high-quality diesel). Market trends justify this project due to the growing importance of diesel production over fuel oil production. In particular, this is because refining margins for diesel are higher than those for fuel oil, and also due to the growing demand for diesel in the European market, particularly in the Iberian Peninsula.

An evaluation of two alternative conversion projects, corresponding to two distinct configurations, is currently underway. The first alternative configuration combines a *hydrocracker* with a *coker*, while the second configuration proposes combining the *hydrocracker* with a *residue hydrocracker*. The estimated investment amount is approximately 1,000 million euros, and the expected increase in the refining margin is about US$3.0 per barrel, while the Nelson complexity index will also rise to 11.0.

The two alternative configurations for this conversion project in Sines are based on similar production profiles for the lighter middle distillates. In both cases, the feedstock used to supply the conversion units is vacuum residue,

with both producing LPG, naphtha, diesel, and heavy diesel. The main difference between the configurations under consideration is the type of residue produced by the *coking* process (*green coke*) or by *residue hydrocracking* (1% fuel oil).

In either case, the new conversion project will allow for a significant increase in the amount of heavy crude processed, rising, for example, from the current 25% of heavy crude processed to approximately 46% by 2010.

The residue processing capacity of the new conversion project will be designed to use as feedstock both the atmospheric residue from the Porto refinery and the vacuum residue from the Sines refinery. Thus, although the volume of refined products from the two refineries will not increase significantly, there will be greater flexibility in the type of crude oil used, allowing for the use of larger quantities of heavy crude oils—which are consequently less expensive—while also enabling a better response to the market's diesel fuel needs.

Once the new conversion project is operational, there will be significant transfers of atmospheric residue between the Porto refinery and the Sines refinery, and, at the same time, there will be transfers of intermediate products between the Sines refinery and the Porto refinery: light products (such as naphtha) will be transferred for use as feedstock at the aromatics plant, while heavy products (such as *hydrocracker residue*) will be transferred for use as feedstock at the base oil plant.

The final decision on the configurations to be adopted is expected to be made by October 2006 and will be based on the ongoing feasibility studies. Among other factors, the required investment amount, operating costs, and environmental implications of both alternatives will be analyzed. Depending on the decision made, an increase in diesel production capacity is expected through the reduction or even elimination of fuel oil production.

The following table shows the operational impact of the conversion projects under consideration:

	Fuel Oil	Diesel and Kerosene	Naphtha
Production (millions of metric tons)			
Current	2.6	6.1	1.8
After conversion (2010E)	0.9	7.7	2.5
Production Profile			
Current	19%	44%	13%
After conversion (2010E)	6%	53%	17%

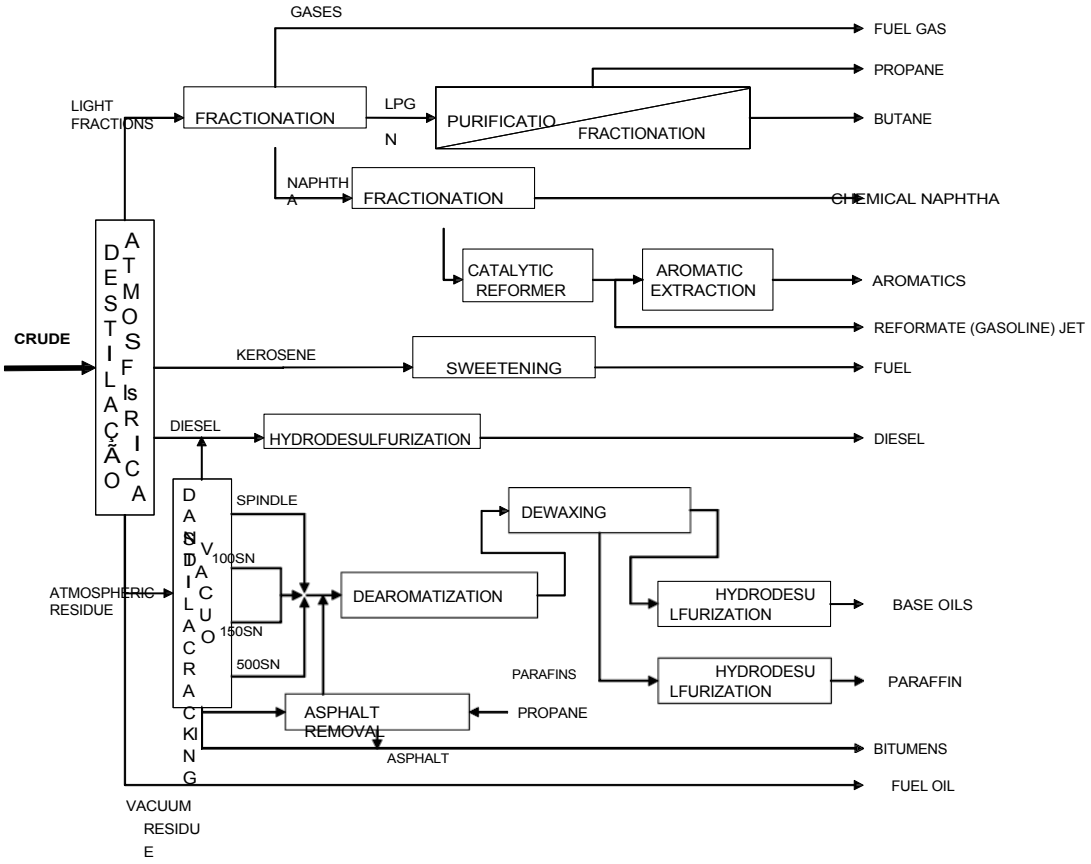
Porto Refinery

The Porto refinery, located on Portugal's northwest coast, began operations in 1969 and currently has an annual distillation capacity of approximately 4.4 million metric tons per year (90,000 bbl/day). The Porto refinery is a *hydroskimming* refinery; the complex also houses an aromatics plant, a base oil plant, and a lubricants plant.

In the refining process at the Porto refinery, crude oil is heated and separated in a distillation column at normal atmospheric pressure (atmospheric distillation). The lighter components, such as LPG, naphtha, and gasoline, are obtained at the top of the distillation column. The heavier components, such as diesel and *jet fuel*, are collected at the

in the middle and at the bottom of the distillation column. This refinery has two *platforming* units, which convert heavy naphtha into gasoline. The aromatics plant uses reformulated gasoline from the refinery to produce chemicals such as paraxylene, orthoxylene, benzene, and toluene. At the base oil plant, after the lighter hydrocarbon fractions have been separated and sent to the refinery, the heavier components undergo a second distillation stage at reduced pressure (vacuum distillation), during which components such as heavy fuel oil or asphalt are separated, yielding heavy distillates used in the production of base oils. Base oils are the raw material for the lubricants plant. For more information on the refining process, *see* "Sector Analysis" *above*.

The following diagram illustrates the process of refining crude oil and other raw materials into refined products at the Porto refinery, which has a Nelson complexity index of 6.9 and a Solomon complexity index of 6.8.



The Porto refinery has demonstrated strong operational performance, with an average reliability of 97% over the past three years, despite some logistical constraints at the Leixões terminal. The following table presents financial and operational information regarding the Porto refinery for the periods indicated:

	December 31 (POC)		
	2005	2004	2003
Capacity (kbbl/day)	90	90	90
Crude oil processed (millions of metric tons) [1]	3.6	3.8	3.1
Refined products (millions of metric tons)	4.3	4.5	4.2
Crude oil utilization rate (%)	75%	79%	65%
Refining margin (US$/bbl)	4.3	5.1	3.1
Hydroskimming refining margin (US$/bbl) [2]	1.7	0.6	1.3
Hydroskimming refining margin + Rotterdam (US$/bbl) [3]	3.3	4.8	3.3
Average crude oil purchase cost (US$/bbl)	55.1	38.8	29.3
, and operating costs (€/bbl)	2.5	1.9	2.0
Reliability (%)	96%	98%	98%
Number of Employees	462	453	479

(1) Average conversion factor from barrels to metric tons of 7.63 for 2005.

(2) Source: Platts, based on the following production profile for *hydroskimming (*70% of *the benchmark*): *premium unleaded* 15.1%; *naphtha* 5.1%; *jet fuel* 9%; ULSD 50 ppm 36.5%; fuel oil (1%) 30.3%; consumption and losses 4%.

(3) Based on the production profile for *hydroskimming* indicated *above,* plus the profiles for the aromatics plant (30% of the reference): naphtha 32.6%; *premium unleaded* 14.5%; benzene 5.7%; toluene 16.3%; paraxylene 14.6%; orthoxylene 4.3%; consumption and losses 12%.

The aromatics plant is located within the Porto complex next to the refinery, occupying 12.5 hectares of the complex's total area of 230 hectares. Storage capacity is 33,000 m^3, and the annual processing capacity for reformed naphtha is 6.4 million barrels, producing approximately 3.2 million barrels of chemicals annually, such as benzene, toluene, paraxylene, orthoxylene, solvents, and heavy aromatics. The remaining (non-aromatic) products are transferred to the refinery. In recent years, approximately 70% of the chemical production from the aromatics plant has been exported to Spain, the Netherlands, and the United Kingdom. Porto also has a base oil production plant, which produces various types of oils and paraffins sold primarily in the Iberian market. The base oils are then transferred to the lubricants plant, where various types of lubricating oils are produced.

Recent investments in Porto include the retrofitting of the diesel desulfurization unit, the construction of a hydrogen treatment unit, the optimization of the base oil plant, and the maximization of LPG recovery, as well as other initiatives aimed at reducing energy consumption. A total of 82 million euros has been invested in the Porto refinery over the past five years. The last *turnaround* took place in 2003, at a total cost of 13.6 million euros.

The Porto refinery has the capacity to process both heavy and light crude oils. In 2005, heavy crude accounted for 5% of the total crude processed; the average API gravity of the crude processed at the Porto refinery in 2005 was 37.5°, and the sulfur content was 0.697%. During 2005, 74% of the refinery's production consisted of high-value light products, including middle distillates, gasoline, petrochemicals, and LPGs, with the remaining production consisting of heavier products, such as fuel oil.

The list of products produced by the Porto refinery is shown in the following table:

	2005	2004	2003
Production Profile			
Gases	3%	3%	2%
Gasoline	24%	22%	26%
Petrochemicals	10%	9%	10%
Middle Distillates	37%	41%	37%
Fuel oil	18%	17%	18%
Other	9%	8%	7%

Procurement and sale of crude oil and petroleum products

Both Portugal and Spain are importers of crude oil and refined products. Like other European countries, Portugal and Spain export gasoline and import middle distillates, especially diesel. The Iberian Peninsula's location allows for imports from Western and Eastern Europe, the Middle East, North and West Africa, and South America, as well as exports to most markets in the Mediterranean and Atlantic basins (European countries and the United States).

In the fiscal year ended December 31, 2005, approximately 7.3 million metric tons (53%) of refined products were sold through Galp Energia's retail and wholesale network, 4.2 million metric tons (30%) were sold to competitors, and 17% were exported. Galp Energia primarily exports gasoline and fuel oil to the European and North American markets.

Galp Energia is responsible for all crude oil imports and the majority of refined product imports into Portugal, as it owns the country's only two refineries.

During 2005, Galp Energia purchased 13.2 million metric tons of crude oil, 52% of which was acquired on the *spot* market and 48% under forward contracts. Transactions conducted through forward contracts are settled at market prices, determined based on the product's loading date. Galp Energia has a diversified group of crude oil suppliers in 13 countries, located in the Mediterranean Basin (28%), West Africa (25%), the Persian Gulf (19%), the Americas (18%), and other regions (10%). The main crude oil suppliers include companies located in Algeria (24%), Nigeria (16%), and Brazil (10%). Refined products are also occasionally bought and sold on international markets whenever it is deemed that more favorable prices can be obtained. In Spain, petroleum products are purchased under *swap* agreements and other types of medium- and long-term contracts.

Galp Energia controls most of Portugal's logistics infrastructure, holding a 65% stake in CLC, the national logistics company that owns the only multiproduct pipeline in Portugal. CLC's other shareholders are BP (20%) and Repsol Portuguesa, S.A. (15%). The CLC pipeline is 147 km long, and the company also has a total storage capacity of 250,000 m³. In 2005, CLC transported 3.3 million metric tons of petroleum products.

Galp Energia has access to transportation and storage infrastructure in Spain, holding a 5% stake in the share capital of CLH, Spain's leading logistics company. CLH has a network of 39 storage facilities (with a capacity of 6.4 million m³) and 3,475 km of pipelines. Most of the storage facilities are

connected to the pipeline network. In 2005, CLH transported 25.0 million metric tons of petroleum products.
In addition, the logistics network is supported by the storage terminal in Valencia (Ptroval), wholly owned by Galp Energia, as well as by a 75% stake in Companhia Logística de Combustíveis da Madeira, S.A. ("CLCM") (which operates the storage tank farm in Madeira) and a 60% stake in Sigás (a propane gas storage facility in Sines).

Galp Energia's extensive logistics system enables the efficient delivery of products and allows for great flexibility in sales and distribution. Galp Energia believes that this logistics platform provides a cost advantage in terms of delivery costs in Portugal compared to competing importers, encouraging them to choose the Company as their preferred supplier.

Galp Energia has made the necessary investments to distribute biodiesel through its network. Biodiesel is a diesel fuel blended with up to 5% agricultural-based products. Agreements have been signed with Portuguese producers to ensure adequate cooperation in determining the appropriate technologies to use and the types of tests to conduct, in order to enable the optimal integration of biofuels into the Company's logistics chain.

Competition

The Spanish and Portuguese economies are interconnected, and their respective national energy markets are becoming increasingly integrated due to the energy market legislation in each country aimed at liberalizing these markets. It is worth noting the reduction of the combined stake held by CLH's major shareholders to a maximum of 45% of the company's share capital in order to increase competition within the Spanish market, and the liberalization of fuel prices in the Portuguese retail sector in early 2004, which led to the implementation of pan-Iberian strategies by the largest energy companies, including cross-border investments, asset *swaps*, and acquisitions.

Although they export petroleum products to Portugal, Spanish competitors purchase most of their requirements for these products in our country through Galp Energia, by entering into supply contracts, thereby reducing transportation costs and obtaining more competitive prices. For the same reason, Galp Energia purchases products in Spain, primarily from local Spanish refineries and through imports via Spanish storage infrastructure. Facilities such as El Musel–Gijón, Galp Energia's terminal in Valencia, and FINSA account for 20% of purchases in Spain. The remaining storage facilities are owned by CLH and account for 79% of the products purchased by Galp Energia. Storage capacity was also contracted at certain CLH terminals, and products were purchased directly from competitors at other CLH facilities.

Petroleum Products Distribution

The Petroleum Products Distribution business ("Distribution") is dedicated to the retail and business-to-business sale of petroleum products (such as gasoline, diesel, heating oil, heavy fuel oils, *jet fuel*, marine fuel, and lubricants) and LPG.

In 2005, the Retail and Wholesale businesses together accounted for approximately 8,117 thousand metric tons of refined products, of which approximately 2,348 thousand metric tons were sold in Spain. Currently, the main

Most of the products sold in Portugal through Galp Energia's Distribution business are refined by the company's Refining business. Outside Portugal, Galp Energia sells products purchased from local refineries, through *swap* agreements with local partners, and through imports.

Retail

General Business Description

Galp Energia is the market leader in Portugal for retail sales of petroleum products. It sells "Galp"-branded fuel through a network of 1,060 service stations on the Iberian Peninsula (837 in Portugal and 223 in Spain). In Portugal, Galp Energia held a 37% market share of the retail fuel market in 2005 (representing a sales volume of 2,527 thousand m^3). In Spain, in 2005, Galp Energia achieved a 2% market share in the retail market (with a total volume of 714,000 m^3).

The increase in sales of *non-fuel* products has been one of the main drivers of growth in the retail business, as evidenced by the expansion of *non-fuel* and convenience retail outlets operated under the "M24" and "Tangerina" brands, as well as car wash and auto repair services. This range of *non-fuel* products is supported by strategic partnerships with Sonae and Midas (auto repair service). As of December 31, 2005, Galp Energia operated a total of 183 M24 and Tangerina stores, of which 124 were in Portugal and 59 in Spain.

In 2000, a *rebranding* process was launched to increase brand awareness. The *rebranding* process involved applying a new Galp *design*—or "visual identity"—to service stations, replacing the previous image. The new "visual identity" was also applied to buildings, the website, company vehicles, offices, loyalty cards, and lubricant packaging.

Competition and Market Trends

Galp Energia is the market leader in the retail distribution of petroleum products in Portugal, with a 37% market share. Repsol holds the dominant position in Spain and is also gaining ground in Portugal following its acquisition of Shell's retail business assets.

Price liberalization in Portugal led to the need to invest in new products in order to satisfy increasingly sophisticated customers, who demand higher levels of service and product quality. Furthermore, to stimulate sales, a partnership was established in 2004 with Sonae, Portugal's largest consumer goods retailer. Under this agreement, customers receive discounts on fuel purchases at certain "Galp" stations for every purchase made at one of Sonae's hypermarkets, and vice versa.

In Spain, entering preferred market regions proved more difficult than expected due to network saturation, as demand is insufficient to justify new stations, even though the average sales volume per station in Spain is 44% higher than in Portugal.

The Spanish regions where Galp Energia operates, as well as its market share in each of them, are shown in the following table:

Market Share in 2005 (Spain)

Region	(%)
Extremadura	6.5
Galicia	5.5
Madrid	4.2
Valencia	3.8
Catalonia	2.9
Andalusia	2.0
Castile-La Mancha	1.8
Castile and León	1.5
Murcia	1.2
Aragon	0.8

Source: CORES

Pricing Regimes

The Portuguese market has been fully liberalized since January 1, 2004. Galp Energia's pricing policy is based on national reference prices for all products, both at service stations in mainland Portugal and in the Madeira Region. Prices are typically reviewed weekly, taking into account changes in international prices.

The Spanish market was fully liberalized on January 1, 1998. In the Spanish market, prices are adjusted according to the prices charged by market leaders in each micro-market and based on differences in taxes imposed by local authorities.

Performance

Fuel Sales

Over the past three years, there has been a reduction in the number of Galp Energia service stations due to efforts to streamline the network in both Portugal and Spain, with the aim of increasing the average efficiency of the network in both markets. As a result, there has been an increase in average sales per station, particularly in Spain, where, following the completion of a *swap* transaction with Total and CEPSA in 2004, Galp Energia is now in a position to apply the model it used to streamline the network in Portugal and Spain to the new stations acquired through that *swap* transaction.

The following table presents financial and operational information regarding the Retail business for the periods indicated:

	December 31 (POC)		
	2005	2004	2003
Number of Locations	1,060	1,094	1,090
Portugal	837	860	857
Spain	223	234	233
Average sales per station (Mlt)	3.1	3.0	2.8
Portugal	3.0	3.0	2.7 (1)
Spain	3.2	3.0	2.8 (1)
Gross unit margin (€/m³)(2)			
Portugal	112.4	107.3	99.7
Spain	121.0	112.2	103.8
Volume (Mlt)			
Portugal	2,527	2,560	2,638
Spain	714	702	493

(1) Adjusted as a result of the *swap* transaction entered into with Total and CEPSA, which was completed in 2004.
(2) Includes *fuel* and *non-fuel* products.

In addition, Galp Energia, through its subsidiaries, is involved in the distribution and marketing of liquid fuels in the African market (with a stable presence in Angola, Cape Verde, Mozambique, and Guinea-Bissau), where it operates 56 service stations.

To increase customer loyalty, several innovative programs were developed. In 2002, the "Fast Galp" points-accumulation program was launched in Spain and relaunched in Portugal. With these cards, customers earn points for every purchase of fuel and *non-fuel* products at service stations and can use those points to obtain discounts at stores, movie theaters, car rental services, and other similar establishments, or, alternatively, redeem them for gifts available at service station stores. "Galp Frota" cards are credit cards designed for business customers with vehicle fleets. "Galp Frota" cards also offer discounts based on volume of fuel purchased.

The number of cardholders in the "Fast Galp" and "Galp Frota" programs for the periods indicated is shown in the following table:

	December 31		
	2005	2004	2004
		(thousands)	
"Fast Galp" Loyalty Cards	1,239	1,156	1,090
"Galp Frota" Cards	339	333	298

Automated payment programs were also developed to speed up customer service, including the "Access" and "Biometric" projects. The "Access" project is managed jointly with Brisa, Portugal's leading highway concessionaire, which created a mobile device that can be used to pay tolls on highways, in parking lots, and at gas stations. The "Biometric" project consists of an innovative payment method that allows customers to make payments and other transactions using a combination of biometric recognition technology and a personal code as forms of identification.

Non-fuel sales

Galp Energia has expanded its *non-fuel* product offerings in recent years, operating 86 M24 stores and 38 Tangerina stores in Portugal as of 2005. The M24 stores are managed by Sempre a Postos, Lda, a joint venture between Galp Energia (75%) and Sonae (25%), Portugal's largest hypermarket chain. M24 stores serve as both convenience stores and small supermarkets, offering a varied selection of food, beverages, *snacks*, grocery items, and other non-food products such as tobacco, newspapers, magazines, and toys.

Tangerina stores are located at gas stations operated by franchisees and generally offer a smaller selection of products compared to those available at M24 stores, including tobacco, beverages, *snacks*, magazines, and newspapers. There are 38 Tangerina stores in Portugal. In Portugal, Galp Energia receives a percentage of sales from Tangerina stores and is responsible for making the entire initial investment.

As of December 31, 2005, Galp Energia operated 30 Tangerina stores and 29 M24 stores in Spain. In Spain, Tangerina and M24 stores are managed directly by Galp Energia.

Galp Energia's service stations also offer other services through partnerships with well-known hotel chains, *fast-food* companies, and automotive service chains, such as Ibis Hotels, McDonald's, Burger King, Pizza Hut, and Midas. Agreements with these companies can take various forms, ranging from the creation of partnerships to the establishment of revenue-based royalties. In-house car wash and *jet wash* services are also available.

The following table shows the number of Tangerina and M24 stores and sales of *non-fuel products* in Portugal and Spain for the periods indicated:

	December 31 (POC)		
	2005	**2004**	**2003**
Number Stores	183	163	105
M24 (1)	115	104	77
Portugal	86	86	73
Spain	29	18	4
Tangerine	68	59	28
Portugal	38	29	19
Spain	30	30	9
Non-fuel sales (€ million) (2)(3)	99.6	87.4	61.0
Portugal (4)	64.0	57.9	52.2
Spain (5)	35.6	29.5	8.8
Non-fuel sales (thousand euros/m²)			
Portugal	5.0	4.7	4.7
Spain	3.7	3.3	2.6

(1) Stores managed by Sempre a Postos, Lda.
(2) Includes sales from M24 stores, car washes, and auto repair shops in Portugal and Spain, as well as sales from Tangerina stores in Spain.
(3) Aggregated figures (include the percentage from business partners).
(4) Galp Energia receives a percentage of sales from Tangerina stores, which is not reflected in this line item.
(5) The Tangerina stores in Spain are managed directly by Galp Energia, except for one store from which it receives a percentage of sales.

Description of Assets

Galp Energia has a multi-pronged strategy regarding the ownership and management of gas stations, classifying them into three categories:

- CoCos (*Company-Owned-Company-Operated*): Gas stations owned and operated by Galp Energia. CoCos are located in major urban areas and along highways and typically have annual sales volumes exceeding 5,000 m³. CoCos offer a wide range of services, such as M24 stores, auto repair shops, car washes, hotels, and fast-food restaurants. CoCos are the stations of choice and are used to promote Galp Energia's new services and products;

- CoDos (*Company-Owned-Dealer-Operated*): Gas stations owned by Galp Energia but operated by dealers. Typically, CoDos have an annual sales volume between 3,000 m³and 5·000 m³and offer a more limited range of non-fuel services. CoDos are generally located in small or medium-sized urban areas;

- DoDos (*Dealer-Owned-Dealer-Operated*): Gas stations owned and operated by dealers. Typically, DoDos have a lower annual sales volume and are generally located in small urban areas and rural areas. The range of *non-fuel* services offered depends on *the DoDo's* owner. DoDos enable the sale of products and the promotion of the "Galp" brand in areas with low sales volumes, offering a limited range of *non-fuel* services without the need for significant investment.

Galp Energia is currently implementing a program to restructure the ownership and operating models of its service stations in order to make its retail operations more profitable.

In Portugal, *CoCo* stations have an average annual sales volume of 6.8 million liters, nearly three times higher than the average for *CoDo* and *DoDo* stations. As the market leader, Galp Energia has in-depth knowledge of the market that allows it to identify the best locations with high potential.

The following table presents a breakdown of Galp Energia's retail network in Portugal and Spain for the periods indicated:

	December 31 (POC)		
	2005	**2004**	**2003**
***CoCo* Stations**			
Number of Stations	221	212	197
Portugal	96	89	79
Spain	125	123	118
Average sales per station (millions of liters)			
Portugal	6.8	6.8	6.3 (1)
Spain	2.8	2.7	2.5 (1)
***CoDo/DoDo* Posts**			
Number of Stations	839	882	893
Portugal	741	771	778
Spain	98	111	115
Average sales per station (millions of liters)			

	December 31 (POC)		
	2005	2004	2003
CoCo Stations			
Portugal	2.5	2.5	2.4 (1)
Spain	3.7	3.4	3.0 (1)

(1) Adjusted based on the *swap* transaction entered into with Total and Cepsa in 2004.

Companies

General Description of the Business

The *wholesale* business is dedicated to the sale of petroleum products, including diesel, gasoline, fuel oil, *jet fuel*, lubricants, and bitumen, directly to more than 4,300 corporate customers (industrial and commercial) in Portugal and Spain.

The following table provides a breakdown of the corporate customer portfolio as of December 31, 2005:

Segment	Number of Customers	
	Portugal	Spain
Transportation	681	66
Resellers	239	536
Construction	184	68
Lubricants	978	186
Industry	734	169
Aviation	117	23
Navy	338	37
Total	**3,271**	**1,085**

In 2005, Galp Energia sold 5.5 million metric tons of petroleum products to business customers, representing an increase of 1 million metric tons compared to 2004. About half of this increase resulted from the acquisition of BP Enértica, now known as Serviexpress S.L.U..

The following table shows sales volumes to business customers for the periods indicated:

	December 31 (POC)		
	2005	2004	2003
Sales Volume (millions of metric tons)	**5,502**	**4,424**	**3,780**
Portugal	3,734	3,336	2,993
Spain	1,768	1,088	787
Gross Margin per Unit (€/metric ton)			
Portugal	32.5	32.5	33.8
Spain	21.5	18.0	24.0

Galp Energia has a large market share market share in Portugal across all product lines products, and a growing presence in Spain. Galp Energia's market share is shown in the following table:

Market Share (2005)	Portugal	Spain
Gasoline	36%	3%
Diesel	44%	8%
Fuel oil	58%	4%
Bitumen	38%	4%
Lubricants	29%	7%
Jets	59%	1%
Bookmakers	80%	n.s.
Total	51%	4%

n.s. – not significant
Source: DGGE (Portugal) and CORES (Spain)

Competition and Market Trends

International oil companies, such as BP, Repsol, CEPSA, ESSO, and Total, along with independent national distributors that supply their own customers, are Galp Energia's main competitors in the wholesale business in Portugal.

In this market, competition is primarily based on price, since the products are *commodities* that require minimal investment. Market leaders benefit from better distribution conditions, driven primarily by higher volumes and a superior logistics platform compared to smaller competitors, and they typically succeed in retaining their customer base. Smaller competitors, however, tend to offer lower prices to capture a larger market share, which leads to a decline in margins.

The margin in the *wholesale* business has been declining in recent years due to the sustained rise in fuel prices, which have not been fully passed on to customers because of the competitive environment. To counter this trend, Galp Energia has focused on building customer loyalty by developing integrated solutions and providing value-added services (such as electronic ordering *("e-ordering")* and volume-based discounts), encouraging customers to establish an exclusive relationship with Galp Energia and thereby reducing the *commodity* nature of this business.

A new distribution plan was also implemented, based on co-branding with Galp Energia's independent retailers, as well as the expansion of the Serviexpress business, under which Galp Energia distributes diesel directly to small commercial and residential customers. This new distribution model seeks to protect and strengthen the company's market leadership position, while also reinforcing commercial relationships with key dealers.

Performance

In Portugal, the business's top priority has been to consolidate its domestic market share and strengthen commercial relationships with Galp Energia's independent dealers through the signing of medium- and long-term contracts. Spain has been the main driver of growth, accounting for nearly 32% of total sales in 2005, compared with 25% in 2004. In 2003, a new business concept began to take shape across the Iberian Peninsula, consisting of the distribution of petroleum products directly to end customers through Serviexpress. In September 2004, BP Enértica—part of BP's wholesale and retail businesses in Spain—was acquired. This acquisition increased the volume of the wholesale business in Spain by 63%, to

1,768 thousand metric tons in 2005, and expanded the customer base by more than 22,200 (1,200 business customers and 21,000 end customers).

At the same time, in 2004, Galp Energia entered the aviation business in Spain, with a presence at four airports. In 2005, *jet fuel* sales volume reached 72,000 metric tons, distributed across 12 airports.

LPG

General Business Overview

In 2005, Galp Energia maintained its market leadership with a 44% LPG market share in Portugal and a growing presence in Spain, with a 1.6% market share. The LPG business has over one million customers in the residential, industrial, services, and automotive gas segments.

LPG is distributed in bulk and in cylinders, and can also be supplied via pipelines. LPG is produced by Galp Energia's refineries and can also be imported through a distribution network and the company's own storage and filling facilities. Piped distribution is carried out through small pipeline networks connected to a tank, generally serving small areas consisting of several buildings. This subsegment consists mainly of residential customers. For larger customers (such as schools, hospitals, and factories), Galp Energia distributes LPG in bulk using tanks or cylinders installed at the customers' facilities. LPG is also sold in cylinders available for purchase at service stations or through independent Galp Energia dealers.

In 2005, the new "Pluma" cylinder, manufactured in Portugal, was launched; it is much lighter and easier to transport than its steel predecessors. Currently, only BP and Galp Energia offer this type of cylinder in Portugal, and the market has responded positively to this new product. The new "Pluma" cylinder is internationally recognized and has already won several awards.

The main entry points for LPG imports into Portugal are Sines, Lisbon, Aveiras, and Porto. About 30% of Galp Energia's LPG sales in Portugal and Spain consist of products purchased from Galp Energia's refineries. The remaining 70% are imports.

Galp Energia has several LPG storage facilities in Portugal, with a total storage capacity of 68,000 metric tons. The most important storage facility is located at Sigás, where Galp Energia holds a 60% stake in partnership with BP (35%) and Repsol (5%). Galp Energia's stake in the Sigás facilities gives it a total storage capacity of 34,800 metric tons, compared to the capacity of the Sines refinery (10,000 metric tons), the Porto refinery (7,500 metric tons), the Aveiras storage facility (9,400 metric tons), and the Perafita storage facility (
6,100 metric tons. Galp Energia has its own LPG filling facilities in Sines and Perafita. In addition, CLC, in which Galp Energia holds a 65% stake, also operates a filling facility that plays a key role in the logistics of the LPG cylinder subsegment.

Competition and Market Trends

The LPG market has been negatively affected by substitute products, such as heating oil, electricity, and, in particular, the increased use of natural gas, both in Portugal and Spain. In Portugal, the introduction of natural gas supply has resulted in a 16.8% decline in the LPG market over the past five years. The impact of

demand for natural gas on LPG sales has, however, already begun to diminish. In Spain, the natural gas market is more mature, so LPG consumption has declined by only 8.9% over the past five years.

Pricing Structures

In Portugal, LPG prices have been fully liberalized since 1990. Galp Energia follows internal guidelines regarding price setting for the bulk, cylinder, and piped subsegments. However, when selling to resellers in the cylinder subsegment, the ability to control the price charged to end consumers is limited. The Spanish LPG market is regulated in the cylinder and piped subsegments, with prices set by regulatory authorities and dependent on international prices. In Spain, companies compete in a liberalized market in the bulk segment.

Performance

The volumes, market share, and unit gross margin for LPG in Portugal and Spain are presented in the following table:

	December 31 (POC)		
	2005	**2004**	**2003**
	(in thousands of metric tons, unless otherwise noted)		
Portugal			
LPG Market	844.8	894.5	921.7
Galp sales volume	369.9	392.4	405.8
Bulk (1)	110.1	120.0	126.0
Bottles	240.8	256.1	263.4
Draught	19.1	16.3	16.5
Galp market share (%) (2)	43.8%	43.9%	44.0%
Gross margin (€/metric ton)	343.8	325.5	315.3
Spain			
LPG Market	2,273.3	2,317.6	2,272.0
Galp sales volume	35.8	31.0	25.1
Bulk (1)	14.0	10.9	8.2
Bottles	20.3	18.9	16.0
Draught	1.6	1.2	1.0
Galp market share (%)	1.6% (3)	1.3% (3)	1.1% (4)
Gross margin (€/metric ton)	159.4	139.4	172.1

(1) Includes auto gas.
(2) Source: DGGE.
(3) Source: AOGLP.
(4) Source: CORES.

Natural Gas

Galp Energia acquires, distributes, and sells natural gas in Portugal through its wholly-owned subsidiary, GDP, which, in turn, operates through its wholly-owned subsidiaries, Transgás and GDP Distribuição, SGPS, SA ("GDPd"). The Natural Gas business area is divided into two segments: Natural Gas Procurement and Sales, and Natural Gas Distribution.

Natural Gas Procurement and Sales

The following table presents selected operating and financial information regarding the Natural Gas Procurement and Sales business for the periods indicated:

	December 31				
	IFRS Pro-forma (1)	IFRS		POC	
	2005	2005	2004	2004	2003
	(in millions of euros, unless otherwise indicated)				
Sales and Services Rendered	950.1	956.5	705.1	705.1	600.0
Gross Margin (2)	219.0	255.1	189.6	188.2	122.2
EBITDA (3)	122.3	218.4	146.1	146.9	96.5
Net Fixed Assets (4)	70.7	806.0	826.2	1,221.1	1,246.1
Investments	5.2	17.7	25.9	37.0	124.3
ROA (5)	10.0%	11.8%	7.3%	4.4%	2.4%
Natural gas volumes (millions of m³)	4,234.0	4,234.0	4,015.0	4,015.0	3,443.0

(1) For more details on the financial information, *see* "Pro Forma Financial Information"

(2) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), as they include Services Rendered.

(3) EBITDA is defined as operating income plus depreciation, amortization, and provisions. EBITDA is not a standard measure and should not be used for comparisons between companies. EBITDA is not a direct measure of liquidity and should be analyzed in conjunction with actual *cash flows* from operating activities and taking into account existing financial obligations. EBITDA may not be indicative of historical operating results, nor is it intended to predict future results (*see* "Financial Information on the Issuer's Assets and Liabilities, Financial Position, and Income and Losses").

(4) Net Fixed Assets include Net Tangible and Intangible Fixed Assets.

(5) Operating Income after Taxes / Total Consolidated Assets excluding Financial Investments.

Business Analysis

Following the transfer of Regulated Activities to REN, the activities of the Natural Gas Procurement and Sales business segment include: (i) the procurement of natural gas, primarily through long-term contracts and, to a lesser extent, through the *spot* market—an activity that will be carried out by Transgás; (ii) the underground storage of natural gas in Pombal, which will be managed by Transgás Armazenagem; (iii) the sale of natural gas to large industrial customers, electricity producers, and natural gas distributors, carried out by Transgás Indústria under the last-resort marketing license; and (iv) as of January 1, 2007, the sale of natural gas to eligible customers by Transgás within the liberalized market (*see* "Legislation Governing the Issuer's Activities" *below*). With the exception of the unaudited pro forma consolidated financial information included in other sections of this Share Registration Document, the financial information provided in this section, particularly under the heading "Performance," is based on historical operating results recorded prior to the Separation of Regulated Activities Process and should be interpreted accordingly (*see* "Separation of Regulated Activities in the Natural Gas Sector" *above*).

In 2005, total natural gas sales volume was 4.2 billion m³, representing a 5% increase over 2004. The main customers for natural gas include power plants, natural gas distribution companies, and large industrial customers with annual consumption exceeding 2 million m³.

Natural Gas Supply

Natural gas supplies in 2005 totaled 4.5 billion m³, representing a 12% increase compared to 2004. Galp Energia's supply strategy aims to meet demand, primarily through long-term contracts and, occasionally, purchases on the *spot* market. In 2005, 61% of natural gas purchases came from Algeria in the form of natural gas, 37% from Nigeria in the form of liquefied natural gas, and the remaining 2% were purchased on the *spot* market in the form of liquefied natural gas.

To meet Portugal's projected natural gas needs, a 23-year natural gas purchase agreement was signed with Sonatrach, a company owned by the Algerian government. This contract took effect, and the first deliveries of natural gas began in January 1997, coinciding with the connection of the Europe-Maghreb gas pipeline to Portugal's transmission and distribution network. In 2005, Galp Energia received 2.7 billion $m^3$of natural gas from Sonatrach via the Europe-Maghreb gas pipeline.

Three 20-year contracts were also signed with NLNG, a Nigerian company, for the purchase of a total of 3.4 billion $m^3$of liquefied natural gas. Deliveries under these contracts began in 2000, 2003, and February 2006, respectively. In the future, the company intends to diversify its supplier base and achieve an equal proportion of liquefied natural gas and natural gas supplies.

The following table shows the breakdown of Galp Energia's supply sources:

		December 31					
		2005		2004		2003	
Country	**Supplier**	**(in millions of m³ except percentages)**					
Algeria (natural gas)	Sonatrach	2,735	61%	2,421	60%	2,449	73%
Nigeria (LNG)		1,667	37%	1,382	34%	872	26%
1996 Contract (1)	NLNG	592	13%	434	11%	434	13%
1998 Contract (2)	NLNG	1,075	24%	949	23%	439	13%
2002 Contract (3)	NLNG	-	0%	-	0%	-	0%
Spot Market (LNG)		103	2%	228	6%	23	1%
Total		**4,505**	**100%**	**4,031**	**100%**	**3,344**	**100%**

(1) Deliveries under this contract began in 2000.
(2) Deliveries under this contract began in 2003.
(3) Supply under this contract began in 2006.

The purchase price of natural gas under long-term purchase agreements is generally calculated using a pricing formula based on the price of alternative fuels, such as crude oil price *benchmarks*, and other factors, including inflation and exchange rates. Typically, the pricing formula for these agreements provides for periodic adjustments based on changes in *the* selected *benchmark*.

Typically, long-term natural gas purchase contracts specify a minimum annual volume to be purchased and a margin of flexibility for each year. These contracts usually include a *"take-or-pay"* obligation, which requires the purchase of the agreed-upon volumes of natural gas regardless of whether there is a need for them. These contracts allow quantities to be carried over from one year to the next, within certain limits, if demand falls below the established annual minimum levels. Galp

Energia seeks to mitigate the risk of this *take-or-pay* commitment by entering into long-term supply contracts with customers in the electricity sector and with natural gas distributors. In addition, long-term commitments to reserve capacity in gas pipelines have been made, typically referred to as *"ship or pay*" clauses. These clauses were included in the contracts entered into with EMPL – Europe Maghreb Pipeline, Ltd ("EMPL"), Gasoduto Extremadura, Gasoduto Al Andalus, Gasoduto Campo Maior – Leiria – Braga S.A., and Gasoduto Braga-Tuy, S.A., and expire on December 31, 2020 (*see* "Risk Factors – Risks Related to Galp Energia's Business – Specific Risks of Supply Contracts, Particularly for the Supply of Natural Gas" *above*).

Sale of Natural Gas

Galp Energia sells natural gas to electricity producers, to natural gas distributors—which supply natural gas to end customers with annual consumption of less than 2 million m^3—and to large industrial customers with annual natural gas consumption exceeding 2 million m^3(*see* "Natural Gas Distribution" *below*). Occasionally, natural gas *trading* operations are also carried out.

In addition, Transgás was granted a license to sell to eligible customers in the liberalized market, effective as of January 1, 2007.

Industrial Market (over 2 million m³/year)

The industrial market comprises sales to high-consumption industrial customers, including cogeneration plants as well as the ceramics, glass, chemical, and textile industries. Cogeneration has been the sector of the industrial market that has experienced the greatest growth in recent years. In 2005, the company supplied approximately 557 million $m^3$of natural gas to the cogeneration sector in Portugal.

In 2005, the percentage of sales (by volume) by sector was as follows:

Sector	% of Sales
Cogeneration	38
Ceramics	21
Glass	12
Chemicals	10
Textiles	5
Food	3
Paper	3
Iron and Steel	3
Other	4

The industrial market is highly diversified and is characterized by the large volume of natural gas supplied per customer under individually negotiated contracts. Major customers in this sector are typically connected directly to industrial branches or to the regional distribution system. In 2005, 1,446 million m^3 were sold to 197 industrial customers in Portugal, representing a 100% share of the industrial natural gas market. This is a highly concentrated market, in which the 20 largest customers account for more than 50% of sales volume.

In the industrial market, natural gas competes with fuel oil, propane and butane gases, diesel, and, more recently, petroleum coke, a solid petroleum product obtained as a byproduct.

Electricity Market

In 2005, sales of natural gas to electricity-generating companies (excluding sales to the cogeneration sector) totaled 2,013 million m^3, accounting for more than 47.5% of the total sales volume in Portugal for the Natural Gas Supply and Sales business segment. The main customers active in electricity generation are Turbogás, for its CCGT plant at Tapada do Outeiro in Gondomar, and EDP, for its CCGT plant at Ribatejo-Carregado ("TER"). These two customers currently have *take-or-pay* clauses of 1.0 billion m^3 and 1.2 billion m^3 through 2022 and 2016, respectively.

In addition, one of the objectives of the national energy policy is to increase the use of natural gas by power plants, which, in Galp Energia's view, will boost sales to the electricity market.

Natural Gas Distributors

In 2005, sales volume to natural gas distributors totaled 656 million m^3, representing 15.5% of the total for the Natural Gas Supply and Sales business segment. Natural gas distributors sell natural gas to residential consumers and small industrial customers, as well as to other companies with annual consumption of less than 2 million m^3 (*see* Natural Gas Distribution *below*).

Pricing Structures

Prices are generally set according to the type of consumer, annual demand, and market conditions for natural gas sales. The pricing structure and contractual obligations will change with the liberalization of the natural gas market, which will begin on January 1, 2007 (*see* "Process of Unbundling Regulated Activities in the Natural Gas Sector" *above* and "Legislation Governing the Issuer's Activities" *below*).

Industrial Market (over 2 million m^3 per year)

Currently, industrial consumers negotiate natural gas supply contracts directly with their suppliers. Prices consist of a fixed component and a variable component. The fixed component represents the cost of reserving capacity, which depends on the contracted capacity and the utilization of that capacity, and is adjusted annually based on changes in the Consumer Price Index (CPI). The variable component reflects the cost of purchasing natural gas, including transportation, storage, and regasification, plus a margin. The variable component is subject to volume discounts for customers with higher consumption and is reviewed annually based on the CPI, quarterly based on the average crude oil prices over the past six months, and monthly based on the Euro/U.S. dollar exchange rate.

Effective January 1, 2007, contracts with industrial customers will be transferred to Transgás Indústria, the holder of the last-resort supplier license (*see* "Process for the Unbundling of Regulated Activities in the Natural Gas Sector" *above*). The terms of these contracts, including provisions regarding prices and minimum quantities, will remain unchanged. As of January 1, 2008, industrial consumers with an annual natural gas consumption exceeding 2 million m^3

will be eligible to freely choose their supplier and terminate their contracts with Galp Energia, regardless of the term specified in their contract. For consumers who remain with Transgás Indústria, prices will be set by applying a new tariff to be established by ERSE based on the regulation of September 11, 2006 (*see* "Process of Unbundling Regulated Activities in the Natural Gas Sector" *above* and "Legislation Governing the Issuer's Activities" *below*).

Electricity Market

The transfer price charged to the Public Electricity System (SEP) consists of a variable component based on the purchase price from Sonatrach and a fixed component calculated to ensure an effective rate of return of 11%. The fixed component is calculated based on a financial model designed specifically for this sector, agreed upon between Transgás and REN and reviewed every four years to adjust for changes in macroeconomic variables (natural gas price, inflation, interest rates, and exchange rates). The variable component consists simply of passing on the cost of natural gas imported from Algeria to Portugal.

The pricing structure for the Non-Bound Electricity System (SENV) is defined on a cost-plus basis. The fixed component is determined to cover all costs associated with transmission and regasification payable in Portugal and is updated annually based on changes in the CPI. The variable component is denominated in U.S. dollars and revised monthly based on the quarterly moving average of *Brent Dated* prices.

Contracts with electricity generation companies will remain with Transgás. As of January 1, 2007, electricity generation companies will remain bound by *take-or-pay* obligations but will be free to contract with other suppliers for any additional quantities of natural gas. Prices will continue to be freely negotiated under Transgás's license to trade on the open market.

Natural Gas Distributors

The current transfer price charged to natural gas distributors (whether or not they are included in Galp Energia's consolidated operations) is also calculated based on a fixed component and a variable component. The fixed component is calculated to cover commercial costs and includes transportation, regasification, storage, and capacity reservation costs. This component, which is defined for each distributor, is set forth in the natural gas supply contract and reviewed annually based on actual price adjustments and the CPI. Every four years, should any significant economic change occur, this fixed component may be adjusted. The variable component is determined by the weighted average cost of each supplier's natural gas volumes at the Portuguese border.

Effective January 1, 2007, all contracts with natural gas distributors will be transferred to Transgás Indústria, under the terms of the last-resort supplier license. The terms of the contracts with natural gas distributors will remain unchanged in 2007. Starting in January 2008, prices will be set based on the new tariff established by ERSE (*see* "Regulation—The Natural Gas Market—Legislation and Regulation" *below*). Natural gas distributors will remain obligated to comply with existing *take-or-pay* clauses but will be free to negotiate additional quantities of natural gas with any supplier, although it is considered unlikely that any distributor controlled by Galp Energia would turn to another supplier.

Performance

The following table presents the breakdown of natural gas sales volumes and unit margins, by market segment, for the periods indicated:

	December 31 (POC)		
	2005	**2004**	**2003**
Sales Volume (millions of m³)	4,234	4,015	3,443
Natural Gas Distributors	656	622	561
Electric	2,013	1,725	1,125
Industrial	1,447	1,292	1,210
Trading	119	376	547
Unit margin (€/1,000 m³) (1)	45.5	40.5	30.7
Network (km)(2)	1,435	1,431	1,405

(1) Includes regasification costs
(2) Network transferred to REN (*see* "Process for the Unbundling of Regulated Activities in the Natural Gas Sector")

Description of Assets

Galp Energia, through Transgás Armazenagem, owns and operates an underground cavern in Pombal with a storage capacity of 35 million m³. In September 2006, construction will begin on another cavern with a storage capacity of 40 million m³, which is expected to begin operations in late 2009. In addition, the Company, also through Transgás Armazenagem, holds subsoil use rights for the construction of four additional caverns in the expansion area located in Pombal. It should be noted, however, that the underground natural gas storage caverns owned by Transgás Armazenagem are to be sold to REN Armazenagem, under terms to be agreed upon by both parties, once REN Armazenagem's expansion capacity has been exhausted, should the minister responsible for energy deem them necessary to strengthen safety reserve capacity.

In addition, Galp Energia holds, through Transgás, minority stakes in three international gas pipelines: the Al Andalus Gas Pipeline, the Extremadura Gas Pipeline, and the Europe-Maghreb Gas Pipeline.

In Spain, two pipeline companies control the transmission capacity between Tarifa and the Portuguese border at Campo Maior: Gasoducto Al Andalus ("Al Andalus"), which owns the pipeline connecting Tarifa to Córdoba, and Gasoducto de Extremadura ("Extremadura"), which owns the pipeline connecting Córdoba to Campo Maior. The Company holds stakes of 33.0% and 49.0%, respectively, in these companies, with the remaining equity held by Enagás, S.A. The Company also holds capacity rights for these gas pipelines, which expire in 2020.

The Europe-Maghreb gas pipeline, which began operations in November 1996, had an initial capacity of 8.5 billion m³per year and currently has a capacity of 12.0 billion m³due to the installation of additional compressor stations in Algeria. The Europe-Maghreb pipeline connects the Hassi R'Mel fields in Algeria to the Enagás transmission network, which, in turn, is connected to the network in Campo Maior via the Spanish pipelines. The pipeline has a total length of 1,105 km, with 520 km in Algeria, 540 km in Morocco, and 45 km of pipeline running underwater through the Strait of Gibraltar.

The company holds a 27.4% stake in EMPL - Europe Maghreb Pipeline, Ltd. ("EMPL") and a 27.0% stake in Metragaz, with the remaining equity held by a subsidiary of Gas Natural SDG S.A. EMPL was responsible for constructing the pipeline and holds the corresponding capacity rights through 2020, from the Moroccan-Algerian border to the Spanish coast at Tarifa. Metragaz is responsible for operating and maintaining the pipeline, receiving fees based on the volume transported. In addition, Metragaz pays *royalties* to the Moroccan government.

Natural Gas Distribution

In 2005, aggregate sales volumes for the Natural Gas Distribution business (including companies in which Galp Energia holds a significant stake) reached 478 million m^3, representing a 6% increase compared to 2004. The residential segment recorded an 8% increase in volumes sold in 2004, and the large-customer segment grew by 5% compared to 2004, despite the slowdown in the Portuguese economy.

The following table provides selected financial and operational information regarding the Natural Gas Distribution business:

	December 31			
	IFRS		POC	
	2005	2004	2004	2003
	(in millions of euros, unless otherwise indicated)			
Sales and Services Rendered	226.1	196.5	196.5	174.1
Gross Margin (1)	137.7	124.7	124.7	104.7
EBITDA (2)	82.2	70.1	73.6	58.8
Net Fixed Assets (3)	615.5	584.8	838.7	813.6
Investments.....	69.9	62.2	62.2	72.1
ROA(4)	6.4%	5.8%	2.9%	1.7%
Natural Gas Volume (millions of m^3) (5)	478	453 (6)	453 (6)	407 (6)
Natural Gas Customers (thousands) (7)	738.9	683.2 (6)	683.2 (6)	631.9 (6)

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), as they include services rendered.

(2) EBITDA is defined as operating income plus depreciation, amortization, and provisions. EBITDA is not a standard measure and should not be used for comparisons between companies. EBITDA is not a direct measure of liquidity and should be analyzed in conjunction with actual *cash flows* from operating activities and taking into account existing financial obligations. EBITDA may not be indicative of historical operating results, nor is it intended to predict future results (*see* "Financial Information on the Issuer's Assets and Liabilities, Financial Position, and Income and Losses").

(3) Net Fixed Assets include Net Tangible and Intangible Fixed Assets.

(4) Operating Income after Taxes / Total Consolidated Assets excluding Financial Investments.

(5) Includes sales from natural gas distributors in which Galp Energia holds a significant stake.

(6) Does not include Portgás, which was sold to EDP in January 2005.

(7) This includes customers of natural gas distributors in which Galp Energia holds a significant stake.

Distribution System

The Portuguese natural gas distribution market is organized into six natural gas distributors, which operate under 35-year concession contracts, and four autonomous gas units (UAGs), which operate under 20-year licenses. Through its wholly-owned subsidiary, GDPd, Galp Energia holds a controlling stake in virtually all natural gas distributors serving the residential, commercial, and

industrial segments with an average annual consumption of less than 2 million m³. In 2005, GDPd, through its stakes in these companies (except for Portgás, which was sold to EDP in January 2005), sold 478 million m³ of natural gas in Portugal to more than 738,900 customers, representing a market share of approximately 72% of the Portuguese market. The six natural gas distributors and UAGs, the regions where they operate, and Galp Energia's equity stake in these companies are listed in the following table:

	Galp Energia's Stake	Location	Number of Customers (2)	Volumes (2) (millions of m³/year)	Network Length (2) (km)
Lusitaniagás	85.0%	Central Coast	134,318	153.5	2,781
Lisboagás	100.0%	Metropolitan area Lisbon	447,027	211.8	3,414
Setgás	45.0%	Setúbal District	107,854	56.1	1,315
Portgás	0.0% (1)	North Coast	149,196	185.0	2,426
Beiragás	59.5%	Interior Center	21,272	21.1	422
Tagusgás	41.3%	Vale do Tejo	14,041	22.0	486
UAGs	100.0% (4)	(3)	14,389	13.8	344
Total			**888,097**	**663.3**	**11,188**

Source: Galp Energia's 2005 Annual Report and Financial Statements and Portgás's 2005 Annual Report and Financial Statements

(1) Galp Energia's stake in Portgás was sold to EDP in January 2005.
(2) Aggregated figures that do not represent the proportional stake in each of the companies.
(3) Duriensegás (Northern Interior), Paxgás (Beja), Dianagás (Évora), and Medigás (Algarve).
(4) Galp Energia acquired 25% of Duriensegás in 2006 and now owns 100% of that company.

Although Galp Energia holds a 45.0% equity stake in Setgás, it maintains significant influence over the company's management due to ENI SpA's indirect 21.9% stake in Setgás's share capital, as together they are the main shareholders. Galp Energia has also maintained significant influence over the management of Tagusgás, in which it holds a 41.3% stake, pursuant to the relevant shareholders' agreement. However, a shareholder of this company recently announced that it had increased its stake in Tagusgás's share capital from 20.4% to 52%, which may impact the influence Galp Energia has over the company's management.

The Natural Gas Procurement and Sales business segment sells to natural gas distributors under long-term contracts. The term of the contracts depends on the respective duration of the concession contracts or distribution licenses of each party and expires upon the expiration of the respective license and/or contract. However, under the terms of the new liberalized regime, which will take effect on January 1, 2008, natural gas distributors will be able to contract for their natural gas needs with other suppliers for any quantities of natural gas in excess of the *take-or-pay* obligations assumed with Galp Energia (*see* "Process of Separation of Regulated Activities in the Natural Gas Sector" *above* and "Supply and Sale of Natural Gas – Pricing Regimes" *above*).

Each natural gas distributor holds an exclusive long-term concession for its respective operating area. The concession contracts were awarded with the aim of developing natural gas distribution in Portugal's major urban areas connected to the high-pressure network. Beiragás and Tagusgás have concession contracts that do not expire until 2035, while the concession contracts of the other natural gas distributors expire in 2028. The UAGs were established in areas where the construction of the high-pressure network was not economically viable. The UAGs are supplied by tanker trucks from the LNG terminal and operate regional distribution networks to serve the residential, commercial, and small industrial customer segments. The UAGs hold

distribution licenses similar to concession contracts, but with a 20-year term, expiring between 2024 and 2026. Both the licenses and the concession contracts establish price levels and the respective adjustment mechanisms.

Galp Energia intends to obtain new licenses for the distribution and sale of natural gas in areas not covered by the geographic areas of the natural gas distributors.

The distribution network consists of medium-pressure gas pipelines operating at a maximum pressure of 20 bar. Most of these pipelines are owned by natural gas distributors, with Transgás currently holding a small portion of them. Natural gas is supplied directly from the medium-pressure distribution system to some of Transgás's industrial customers and to the low-pressure distribution networks of the natural gas distributors and UAGs. These local networks operate at low pressures (4 bar) and supply the residential, commercial, and industrial segments.

One year after July 27, 2006, the effective date of entry into force of Decree-Law No. 140/2006, Transgás will have to transfer to the respective natural gas distributors the portion of the medium-pressure gas pipelines it still owns, as well as the autonomous gas units held directly by Transgás (*see* "Process of Unbundling Regulated Activities in the Natural Gas Sector" *above*).

Markets and Distribution

The following table presents selected operating data for the natural gas distribution business, which includes companies in which Galp Energia does not hold majority stakes (Setgás and Tagusgás) and excludes Portgás for 2003 and 2004:

	December 31 (POC)		
	2005	**2004**	**2003**
Sales volume (millions of m³)	478	453	407
Residential	175	163	144
Commercial	43	42	38
Industrial	260	248	225
Unit Margin (€/m³)	0.314	0.299	0.277
Number of Customers (thousands)	739	683	632
Residential	720	666	615
Commercial	18	16	16
Industrial	1	1	1
Residential Specific Consumption (m³)	252	254	251
Network (km)	8,761	8,037	7,337
Number of customers per km of network	84	86	86
Sales Volume per km of network (thousand m³)	60.8	57.3	55.5

Residential and Commercial Market

The residential market includes sales of natural gas to households with annual consumption of less than 10,000 m³, primarily for home heating, water heating, cooking, and other applications. Commercial customers with annual consumption of less than 50,000 m³ consist mainly of service companies and public sector entities, including schools and hospitals, offices, stores, public buildings, hotels, and restaurants. In the residential market, natural gas competes primarily with electricity and LPG. In the commercial market, natural gas competes with LPG.

Galp Energia has sought to increase the number of residential and commercial customers and the respective sales volumes by attracting new customers and encouraging natural gas consumption in regions already connected to the existing network, as well as by expanding the distribution network to other areas. On the other hand, in regions where it is not economically viable to expand the high-pressure network, Galp Energia plans to install stand-alone gas units, which will be supplied by tanker trucks.

Other initiatives aimed at customers in this segment include seasonal natural gas heating campaigns (discounts and other promotions), a focus on customer satisfaction through systematic surveys to assess service quality, leak detection, energy management services, maintenance contracts for household appliances, personalized billing, and a variety of payment options.

Industrial Market (less than 2 million m³/year)

The industrial market in the Natural Gas Distribution business consists of sales to industrial customers with annual consumption of less than 2 million m³. This sector includes textile industries, hotels, and schools.

Pricing Structures

Current System

Consumer prices are currently determined based on the type of consumer, annual consumption, and supply conditions. Concession agreements and distribution licenses establish the tariff structure and the rules for any changes and updates regarding the sale of natural gas to the residential and commercial sectors with an average annual consumption of less than 10,000 m³. In the industrial sector, prices are set through negotiation between the parties.

As mentioned above, prices for the residential and commercial markets are determined in accordance with the guidelines set forth in each natural gas distributor's concession contract. These contracts define the price level and the corresponding adjustment mechanism. The tariff structure consists of a fixed monthly component, which is adjusted annually based on 100% of the CPI, and a variable component that is adjusted quarterly based on the purchase price of natural gas and annually based on the change in the CPI. Prices for residential and commercial customers vary according to the volumes contracted by customers and the type of gas meter installed.

Prices charged to industrial customers with an average annual consumption of less than 2 million m³ are not regulated. These customers have two tariffs available, both with a variable and a fixed component, designed to reflect the actual cost of natural gas at a given time, in order to protect natural gas distributors from exposure to the risk of gas price fluctuations.

Liberalized Regime

One year after the Second Decree-Law takes effect, new concession contracts and new distribution licenses will be negotiated between the Portuguese government and natural gas distribution companies. Natural gas distribution companies, or their subsidiaries, will be granted last-resort sales licenses, under which they may conduct their sales activities under a

exclusivity in their respective geographic areas. A new tariff will be established in accordance with the tariff and commercial relations regulations approved by ERSE (*see* "Legislation Governing the Issuer's Activities" *below*). In addition, natural gas distributors will be able to sell natural gas in the liberalized market. The license to sell in the liberalized market will be granted to natural gas distributors, or to their subsidiaries, in cases where the natural gas distributors have more than 100,000 customers (*see* "Process for Unbundling Regulated Activities in the Natural Gas Sector" *above*).

Power

Business Analysis

The following table presents selected financial and operational information regarding the *Power* business segment for the periods indicated:

	December 31			
	IFRS		POC	
	2005	2004	2004	2003
	(in millions of euros, unless otherwise indicated)			
Sales and Services Rendered	24.8	14.2	14.2	0.7
Gross Margin (1)	9.0	4.7	4.7	(0.1)
EBITDA (2)	3.7	2.8	2.8	(1.5)
Net Fixed Assets (3)	24.4	26.6	26.9	25.8
Investments.....	0.7	4.6	4.5	1.7
ROA (4)	2.1%	0.7%	0.5%	(2.6%)
Electricity Generation (GWh) (5)	500	388	388	252
Natural Gas Consumption (millions of m³) (5) ..	159	141	141	89

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), as they include services rendered.

(2) EBITDA is defined as operating income plus depreciation, amortization, and provisions. EBITDA is not a standard measure and should not be used for comparisons between companies. EBITDA is not a direct measure of liquidity and should be analyzed in conjunction with actual cash flows from operating activities and taking into account existing financial obligations. EBITDA may not be indicative of historical operating results, nor is it intended to predict future results (see "Financial Information on the Issuer's Assets and Liabilities, Financial Position, and Income and Losses").

(3) Net Fixed Assets include tangible and intangible fixed assets.

(4) Operating Income after Taxes / Total Assets excluding Financial Investments.

(5) Includes ENERGIN's total production, which is consolidated using the equity method.

Currently, the *Power* business segment consists of three cogeneration plants, in which Galp Energia holds stakes (70% in Powercer, 65% in Carriço, and 35% in Energin) through Galp Power, SGPS, S.A. ("Galp Power"). This business segment supplies electricity and thermal energy to large industrial customers, such as Solvay, Renoeste (Quimigal / CUF Group), and Sociedade Central de Cervejas. These three cogeneration plants generate electricity and thermal energy by burning natural gas, making this segment one of the largest customers of the Natural Gas Supply and Sales business segment.

As of the end of 2005, these three cogeneration plants had a total installed electrical capacity of over 80 MW, annual electricity production of approximately 500 GWh, and annual natural gas consumption of approximately 159 million m³.

Energin

This cogeneration plant began operations in March 2002. It is located at the Solvay industrial complex in Póvoa de Santa Iria and features a 42 MW gas turbine and a heat recovery boiler with a maximum capacity of
120 metric tons per hour of steam production. In 2005, it generated 262 GWh of electricity, all of which was sold to the SEP. The steam produced was used by Solvay in its manufacturing process. The plant's natural gas consumption was approximately 89 million m^3. Galp Energia holds a 35% stake in Energin, which it consolidates using the equity method; the remaining 65% is held by EDP.

Carriço

The Carriço cogeneration plant began operations in March 2004. It is located near Transgás's underground storage facilities (caverns) in Pombal. Its largest customer is Renoeste, a salt processing plant. The Carriço plant has a 30 MW gas turbine and a heat recovery boiler with a maximum capacity of 42 MW for hot water production. In 2005, it produced 198 GWh of electricity, which was sold primarily to the SEP. The hot water produced was used by Renoeste in its production process. This plant's natural gas consumption was approximately 52 million m^3. Galp Energia holds a 65% stake in Carriço, with the remaining 35% held by EDP.

Powercer

Powercer's cogeneration plant began operations in September 2004. It is located within the Sociedade Central de Cervejas complex in Vialonga. The plant has a gas turbine with a capacity of 7.2 MW and a heat recovery boiler with a maximum steam production capacity of 30 metric tons per hour. In 2005, it produced 40 GWh of electricity, all of which was sold to SEP. The steam produced was used by Sociedade Central de Cervejas in its production process. This plant's natural gas consumption was approximately 18 million m^3. Galp Energia holds a 70% stake in Powercer, with the remaining 30% held by Finerge.

New *Power* Projects

Galp Energia aims to achieve a leading position in Portugal's electricity market. The company plans to leverage its *expertise* in the natural gas business by constructing two CCGTs in Portugal, each with a capacity of 400 MW, thereby enhancing competitiveness in the electricity sector. The goal is to achieve vertical integration in this business through the development of electricity supply, the consolidation of the cogeneration business, and entry into renewable energy. To support these objectives, the following projects are planned:

CCGT Projects

Galp Energia's investment plan includes the construction of two CCGTs, each with a capacity of 400 MW. Construction of the first CCGT generating unit is scheduled to begin in 2007 and is expected to be completed by the end of 2009. Construction of the second CCGT generating unit is currently scheduled to begin in 2008 and be completed in 2010. Galp

Energia received a favorable response from the DGGE on September 20, 2006, regarding its request to connect the two CCGTs to the Sines grid. The total investment projected for this project exceeds 400 million euros.

Cogeneration Plants

Sines Refinery

Construction of a cogeneration plant in Sines is scheduled to begin in 2006, with operations expected to start in 2008. This cogeneration plant is designed to have two gas turbines with a capacity of 2x41 MW and two heat-recovery steam generators with a maximum steam production capacity of 250 metric tons per hour.

This cogeneration plant is designed to produce, under normal conditions, more than 600 GWh of electricity annually, which will be sold primarily to the SEP, and the steam produced will be used by the Sines refinery in its production process. Natural gas consumption is expected to total 250 million m^3per year. The company holds a 100% stake in this project and anticipates an investment of approximately 73 million euros between 2006 and 2008.

Iberol and Portucel

Proposals were submitted to two industrial companies, Iberol (a producer of bioethanol and fats) and Portucel (a paper manufacturer), for the construction of cogeneration plants at their facilities. Galp Energia is currently in exclusive negotiations with Iberol, and a final decision is expected during 2006. This cogeneration plant is expected to be located at Iberol's industrial complex in Alhandra and is expected to have a capacity of 7.2 MW, with an annual natural gas consumption of 15 million m^3. Depending on the outcome of the ongoing negotiations, construction is expected to begin before the end of 2006 and is projected to take approximately one year. Galp Energia holds a 70% stake in the Alhandra project, with the remaining 30% held by CME - Construção e Manutenção Electromecânica, S.A. ("CME").

Portucel is currently holding a bidding process for the construction of a new cogeneration plant at its factory in Setúbal. Galp Energia has begun discussions with Portucel regarding the proposal and is currently awaiting a decision. Construction on this project is scheduled to begin in 2007 and is expected to take approximately two years to complete. This cogeneration plant is designed to have an installed capacity of 80 MW, enabling an annual production of 550 GWh and a natural gas consumption of 140 million m^3per year. Should Galp Energia win the bid, it is expected to hold an approximate 65% stake in this plant.

Wind Power Project

In July 2005, the Portuguese government launched a public tender for the allocation of wind power interconnection capacity for the sale of electricity through the national grid, divided into two main phases: 800 MW to 1,000 MW (Phase A) and 400 MW to 500 MW (Phase B) (the "Tender"). Galp Energia led one of the consortia ("Ventinveste") that submitted a bid. This consortium consists of five companies, with Galp Energia holding a 34% stake. The other members of the consortium are Martifer (30%), a leading Portuguese company in the steel structures sector; Enersis (33%), a Portuguese renewable energy company; Repower Systems ("Repower") (1%), one of the

world's leading wind turbine manufacturers, and Efacec (2%), a Portuguese manufacturer of electrical components.

The proposal submitted by Ventiveste covered both phases of the tender and includes the creation of an industrial hub for the production and assembly of most of the mechanical and electrical components of the wind turbines, not only for the wind farms in question but also for export. If Ventiveste's bid is successful, Martifer, Repower, and Efacec will be responsible for building the industrial hub. Ventiveste has budgeted investments of approximately 920 million euros for Phase A and 500 million euros for Phase B of the wind power project. The consortium aims to reach an installed wind power capacity of 800 MW by 2010.

Meanwhile, on August 30, 2006, the "Novas Energias Ibéricas" consortium filed a motion for preliminary injunctions with the Lisbon Administrative and Tax Court requesting (i) its provisional admission to the negotiation phase of the tender, (ii) an order directing the Tender Jury to refrain from awarding the contract, and (iii) the suspension of the Tender Committee's decision to evaluate and rank the proposals submitted by the bidders, through the approval of the "Final Report on the Evaluation of Proposals in Phase A," and the selection of bidders for the negotiation phase, adopted on August 4, 2006, and all subsequent acts and decisions that implement that decision.

On September 4, 2006, the State declared that the public interest (in particular, compliance with the Kyoto targets, as well as financial losses to the State) is not compatible with the suspension of the effect of the acts and decisions of the Tender Jury that are being challenged by the "Novas Energias Ibéricas" consortium, thereby seeking to prevent the possibility that the eventual granting of such preliminary injunctions might lead to the suspension of the tender process.

On October 4, 2006, the DGGE forwarded the Request from the Competition Jury, the Evaluation Report on the Phase A Proposals, and the Minutes approving it and ordering a preliminary hearing for interested parties. This report ranks the bidder Eólicas de Portugal in first place and the bidder Ventinveste in second place. The preliminary hearing period will last ten business days, during which interested parties must submit their comments, after which the Tender Jury will either amend or ratify this decision.

Galp Energia views the wind power project as an opportunity to enter the renewable energy production market, taking immediate advantage of the possibility of selling the electricity produced at a subsidized rate during the first 15 years of operation.

Electricity Supply

In the future, Galp Energia intends to significantly expand its activities in the *Power* business segment. The Company will seek to drive growth in the electricity business by leveraging its own generation capacity through CCGT projects, benefiting from the attractive margins in the generation business.

On the other hand, electricity sales are expected to be conducted through bilateral contracts with electricity producers until Galp Energia's generation projects become operational. Additionally, Galp Energia believes there are opportunities to capture new market share with the liberalization of the electricity market and the transition of some eligible customers to the open market system.

Galp Energia has a loyal customer base and believes it can increase the average sales volume per customer by developing multi-service offerings. The company's objective is to significantly expand its presence in the electricity market while simultaneously maintaining and strengthening its presence in the natural gas market. Once the CCGTs become operational, the company plans to enter into supply contracts with end consumers in order to protect production margins and thereby control integrated margins while maximizing the utilization of production capacity.

7. LEGISLATION GOVERNING THE ISSUER'S ACTIVITIES

Galp Energia's operations are subject to specific regulatory frameworks approved by the competent authorities in the jurisdictions where it operates. For example, facilities for exploration and production, refining, storage, and retail sales of petroleum products, as well as natural gas and electricity facilities, are governed by an increasingly extensive and demanding body of environmental legislation; the raw materials used for these purposes and most of Galp Energia's products are classified as chemicals, and their handling and storage are subject to special controls; the transportation fleet is also subject to technical approvals and certification requirements.

The main legal frameworks applicable to Galp Energia's activities are described in this section.

ENVIRONMENTAL REGULATIONS

Galp Energia is subject to various environmental regulations of the European Union and the countries in which it operates, which have been increasing in scope, becoming progressively more demanding, and subject to stricter enforcement by the respective authorities.

This section addresses the environmental regulatory framework most relevant to Galp Energia's activities, including EU directives and the legislation of Member States. It should be noted that, in certain cases, some of the EU regulations referred to have not yet been fully transposed by Member States.

Directive on Integrated Pollution Prevention and Control

In accordance with Council Directive 96/61/EC of September 24, 1996, concerning integrated pollution prevention and control ("IPPC Directive"), as amended by Directives 2003/35/EC of the European Parliament and of the Council, of May 26, 2003, and 2003/87/EC of the European Parliament and of the Council of October 13, 2003, and by Regulation (EC) No. 1882/2003 of the European Parliament and of the Council of September 29, 2003, each Member State must adopt a unified environmental permitting system for emissions to air, soil, and water, with a view to minimizing pollution resulting from certain activities. To this end, Member States must adopt regulations and establish control mechanisms to ensure that industrial facilities comply with certain principles, including the use of the best available techniques for pollution prevention and control, the prohibition of significant pollution, the prevention of accidents and the limitation of their consequences, the responsible management of waste generated, the efficient use of energy, the minimization of pollution, and the rehabilitation of facilities and the site after operations cease. The IPPC Directive stipulates that all new facilities must hold emissions permits and that existing facilities must obtain them by October 30, 2007.

Portugal transposed the IPPC Directive through Decree-Law No. 194/2000, of August 21, subsequently amended by Decree-Law No. 130/2005, of August 16, which requires companies operating in certain industrial sectors to obtain an "environmental permit" for their facilities. The permit sets forth the pollution control requirements that the permit holder must comply with, including pollutant emission limits, waste management measures, measures for efficient energy use, and mechanisms for the prevention and

remedy accidents. The environmental permit must be obtained prior to the commencement of operations in the case of new combustion facilities with a thermal capacity exceeding 50 MW; facilities already in operation that meet these criteria as of the effective date of this legislation must obtain such a permit by October 30, 2007.

Under the terms of the aforementioned law, only refineries and some cogeneration plants are required to obtain an environmental permit. Galp Energia already holds the environmental licenses for the Energin and Carriço cogeneration plants and applied for licenses for the Sines and Porto refineries in May 2006, expecting to obtain them by October 30, 2007. Powercer is not required to obtain this license since its thermal capacity is less than 50 MW, the threshold established for the requirement to hold an environmental license.

Emissions Trading

The "Rio Convention" (United Nations Framework Convention on Climate Change, 1992) and the Conference of the Parties to the Rio Convention provide the framework for EU and national climate policies. Following on from this, the 1997 Kyoto Protocol, concluded by the EU and ratified by the Member States in 2002, which entered into force on February 16, 2005, established more specific targets for pollutant emissions. The burden-sharing agreement, adopted by the EU pursuant to the aforementioned Protocol, sets an overall cap on each Member State's national emissions.

Within the framework of the aforementioned limits, Directive 2003/87/EC of the European Parliament and of the Council of October 13, 2003, and Directive 2004/101/EC of the European Parliament and of the Council of October 27 ("Emissions Directives") established a system for trading greenhouse gas emission allowances. Under these Directives, the types of installations referred to therein are to be allocated allowances permitting the emission of a certain volume of greenhouse gases. These allowances are freely tradable, with the aim of creating a market for emission allowances. The total number of allowances to be issued in the EU is fixed and is intended to decrease steadily, with the aim of reducing greenhouse gas emissions in compliance with the Kyoto Protocol, as the prices of allowances will tend to exceed the costs of installing the equipment necessary to reduce greenhouse gas emissions.

In compliance with these directives, each Member State has established limits on greenhouse gas emissions, while also imposing limits on the volume of emissions permitted for operators of the installations listed in the annex to the aforementioned directive. In Portugal, Council of Ministers Resolution No. 53/2005, dated March 3, approved the national plan for the allocation of emission allowances, establishing the rules governing their allocation and the maximum amount of permitted emissions for the period 2005 to 2007. According to this plan, the number of allowances allocated to each sector of activity is calculated based on the average emissions recorded between 2000 and 2003. Pursuant to Decree-Law No. 233/2004, of December 14, as of January 1, 2005, operators of certain facilities—including Galp Energia's refineries and some cogeneration plants—must hold greenhouse gas emission permits issued by the Institute of the Environment.

To this end, and pursuant to Joint Order No. 686-E/2006, the Government allocated to Galp Energia, free of charge, a sufficient number of emission permits for all facilities subject to the regime described *above*, which proved sufficient to meet its needs; therefore, it was not necessary to acquire any additional permits. Currently, Galp Energia does not anticipate that it will need to apply for any additional allowances by the end of the

2005–2007 period. However, there is no guarantee that the acquisition of additional allowances will not be necessary in the future, which could lead to an increase in operating costs (*see* "Risk Factors" *above*). Galp Energia does not intend to acquire additional allowances for the purpose of reselling them on the market.

Fuel Quality Regulations

Directive 98/70/EC of the European Parliament and of the Council of October 13, 1998, on the quality of petroleum-based fuels and diesel, as amended by Directive 2003/17/EC of the European Parliament and of the Council of March 3 ("Motor Fuels Directive"), introduces certain specifications aimed at substantially reducing pollution from motor vehicles. Under the Motor Fuels Directive, each Member State must ensure that, as of January 1, 2009, all unleaded gasoline marketed within its territory complies with certain specifications regarding octane ratings, methanol, ethanol, and sulfur content. In addition, Member States must also ensure that sulfur-free gasoline and diesel (with a sulfur content of less than 10 ppm) are available on their respective markets as of January 1, 2005.

The Motor Fuels Directive was transposed into Portuguese law by Decree-Law No. 235/2004, of December 16, without any noteworthy further developments. All refineries owned by Galp Energia comply with the requirements arising from *the* aforementioned legal provisions, including those regarding the reduction of sulfur levels. In fact, Galp Energia is preparing to comply with the most stringent specifications resulting from the Motor Fuels Directive and Portuguese law, as these become enforceable. In Spain, this directive was transposed by Royal Decree No. 1700/2003, of December 15.

In addition, Directive 2003/30/EC of the European Parliament and of the Council of May 8 promotes the use of biofuels and other renewable fuels in transportation in each Member State. Under the terms of this Directive, each Member State must establish mechanisms to promote the placing on the market of minimum quotas of biofuels and other renewable fuels in accordance with predefined national targets. The reference value for these targets was 2% of all petroleum and diesel fuels through December 31, 2005, and is 5.75% through December 31, 2010. This Directive was transposed into Portuguese law by Decree-Law No. 62/2006, of March 21, without any noteworthy developments. However, the national targets, to be defined by a joint order of the ministers responsible for finance, the environment, the economy, agriculture, and transportation, have not yet been set. In Spain, this directive was transposed by the aforementioned Royal Decree No. 1700/2003, of December 15.

Regulation of Chemical Registrations

In October 2003, the European Commission initiated a procedure aimed at adopting a new regulatory framework for chemicals, entitled "Registration, Evaluation, and Authorization of Chemicals" (REACH). The proposal aims to establish a new chemical management system under which companies that produce or import more than one metric ton of a given chemical substance per year will be required to register that substance in a central information system, providing information regarding its properties and safe handling. This proposal is currently under discussion and debate,

particularly with regard to the anticipated impact of the costs associated with its implementation (*see* "Risk Factors" *above*).

Regulations Concerning Safety Criteria for Oil Tankers

In the wake of the environmental disasters resulting from the shipwrecks of oil tankers off the Atlantic coast of Europe in 2000 and 2002, the EU adopted various legislative measures aimed at reducing the risk of accidental oil pollution in European waters, including specifications regarding the safety of oil tankers and operational standards. In particular, Regulation (EC) No. 417/2002 of the European Parliament and of the Council of February 18, 2002, and Regulation (EC) No. 1726/2003 of the European Parliament and of the Council of July 22, 2003, stipulate that oil tankers of 5,000 metric tons deadweight or more operating under the flag of a Member State must be double-hulled. Although this requirement applies to both new and existing ships, the regulations set different deadlines for implementing the necessary modifications, depending on the age of the ship in question. Galp Energia owns, through Sacor – Marítima, S.A., four oil tankers, one of which meets the aforementioned requirements, another is not subject to those requirements, and the remaining two will no longer be used by Galp Energia in 2008.

Furthermore, pursuant to Directive 2002/59/EC of the European Parliament and of the Council of June 27 and Decree-Law No. 180/2004 of July 27, operators, agents, and masters of ships with a gross tonnage of 300 metric tons or more that arrive at or depart from a Portuguese port must meet certain requirements, namely: to be equipped with an automatic identification system and a voyage data recorder, to comply with notification obligations and certification requirements when transporting dangerous goods, and to submit to the intervention and investigative powers of the coastal authorities.

OIL SECTOR

Galp Energia is subject to the regulations applicable to the oil industry in Portugal, Spain, Angola, Brazil, and the other countries where it operates.

Portugal

The Portuguese oil sector encompasses the production, refining, storage, transportation, distribution, and marketing of crude oil and petroleum products.

Exploration and Production

Pursuant to Decree-Law No. 141/90, of May 2, hydrocarbons found in their natural state within the national territory, including those in the seabed under Portuguese sovereignty, form part of the public domain of the State. However, any entity, whether domestic or foreign, may apply for prospecting, exploration, and evaluation licenses.

The prospecting license, issued by the DGGE after authorization by the competent minister for a period determined on a case-by-case basis, grants its holder a non-exclusive right to conduct oil exploration in the respective area using various methods, such as magnetic and gravimetric surveys, geochemical and seismic methods, and measurements. However, these licenses do not cover the possibility of drilling.

The exploration license, also issued by the DGGE following approval by the competent minister, is valid for a period of three years, may be renewed three times, and is granted for a minimum of four and a maximum of eight blocks. The holder of this license has the exclusive right to conduct exploration for the discovery of oil, including drilling, in accordance with a plan previously approved by the DGGE. If hydrocarbons are discovered, the holder of said license has the right to apply for an appraisal license or, if they deem the hydrocarbon reservoir to be of commercial interest, to immediately enter into an exploration concession contract.

The appraisal license is valid for a period not exceeding three years (for *onshore* and *offshore* operations up to 200 meters in depth) or five years (in all other cases). This license grants its holder the right to conduct oil exploration and production tests in accordance with a plan previously approved by the DGGE, which must be carried out at the anticipated location of the oil field.

Oil production within the national territory is reserved for legal entities and is contingent upon the execution of a concession contract with the State, the terms of which are established by Decree-Law, pursuant to the provisions of Decree-Law No. 261-A/91, of July 25.

Holders of an appraisal or exploration license (if hydrocarbons have been discovered) are entitled to enter into an exploration concession contract, under which they will be granted, for a maximum period of 25 years, the exclusive right to explore the concession area, to carry out all necessary work in accordance with a pre-established plan, and to produce oil from the discovered reservoirs. This concession agreement entails various rights and obligations for the concessionaire, including, among other things, the requirement that the DGGE approve the production plan prior to its commencement and the concessionaire's right to refine oil and liquefy gas, subject to the requirement to obtain the necessary licenses in advance.

Concessionaires or licensees must pay a rent for the area under exploration, appraisal, or production, as well as certain fees. It should be noted that licenses and concessions may be revoked in the event of abandonment of operations, failure to carry out the planned work, or failure to comply with other contractual obligations. Exploration and appraisal licenses may also be revoked at any time upon payment of reasonable compensation.

Refining, Storage, Transportation, Distribution, and Marketing

The new Decree-Law No. 31/2006, of February 15, establishes a competitive framework, granting all marketers the right to access and use storage, transportation, and distribution facilities in Portugal. Under this framework, end consumers have the right to freely choose their supplier, and it is prohibited to require end customers to pay any fee for switching suppliers.

Refining, storage, transportation, and distribution activities are not subject to specific licensing requirements, except for environmental permits and authorizations relating to facilities and equipment. On the other hand, the import and export of crude oil and petroleum products from the European Union is not subject to any specific regulations. Engaging in the marketing of petroleum products requires prior licensing and obligates the marketer to ensure continuous supply and the public disclosure of prices, as well as to provide all information required by the regulatory authorities.

Galp Energia holds all the necessary licenses to carry out refining activities and market fuels in Portugal.

In addition, Galp Energia is currently engaged in the import and storage of crude oil, as well as the storage and marketing of petroleum products.

Prior to the entry into force of the aforementioned Decree-Law No. 31/2006, these activities were regulated by Law No. 1947 of February 12, 1937, implemented by Regulation No. 29034 of October 1, 1938, under which Galp Energia applied for and obtained the necessary licenses (issued by the Minister of Economy or the Directorate-General for Energy, as applicable) to carry out these activities. Thus, Galp Energia holds storage licenses for the facilities in Faro, Sines (within the Sines refinery), Porto Brandão, Mitrena (Setúbal), Aveiras, Aveiro, Real (Matosinhos), Boa Nova (within the Porto refinery), Horta, and Flores. Galp Energia also has a properly licensed LPG facility in Perafita and a storage facility, currently inactive, in Rosairinho. Galp Energia also operates two refineries—in Porto and Sines—which are properly licensed under this regime and pursuant to legislation specifically approved for this purpose.

The marketing and storage of petroleum products (gasoline, LPG, *jet fuel*, etc.) are still (until supplementary legislation to Decree-Law No. 31/2006 enters into force) regulated by Decree-Law No. 267/2002, of November 26, and are subject to the requirement to obtain specific licenses. The DGGE issues licenses for the storage of strategic petroleum products located in ports. Under its provisions, the Regional Energy Directorate is responsible for licensing certain larger storage facilities and gas stations located on national or regional roads, while municipal councils are responsible for licensing gas stations on municipal roads. It was under this law that Galp Energia or companies operating with Galp Energia obtained licenses for their fuel stations. Currently, Galp Energia's fuel stations are licensed; however, 181 fuel stations have expired licenses and require renewal (*see* "Risk Factors" *above*).

Strategic Reserves

EU regulations require ensuring a minimum level of security in the supply of petroleum. This legislation mandates the maintenance of minimum reserves of crude oil and petroleum products (intermediate and finished) and specifies the measures that must be taken in the event of a petroleum supply crisis. The current reserve system is governed by Directive 68/414/EEC of November 20, 1968, which mandates a level equivalent to at least 65 days of consumption. This level was increased in 1972 by Council Directive 72/425/EEC of December 19, 1972, to 90 days' consumption. It should be noted, however, that Member States have some flexibility in organizing their reserve systems.

Directive 68/414/EEC of December 20, 1968, which provides for the establishment of minimum levels of oil reserves for each of the main categories of petroleum products (intermediate and finished products), as amended by Council Directive 98/93/EC of December 14, 1998, to increase the efficiency, transparency, and fairness of stockholding agreements, governs the current strategic stockholding system. The Directive requires each Member State to ensure that the quantities held in reserve are available and accessible at all times, and that the costs associated with maintaining those quantities are set forth in transparent agreements that allow each Member State to make this information available to third parties. Under its terms,

Member States are encouraged to establish a company responsible for holding all or part of the legally required reserves, which may be held in the form of crude oil, petroleum products, or finished products. Member States may also, under certain circumstances, maintain reserves on the territory of other Member States; however, they are required to be able to monitor them and to establish a system of penalties to ensure the effective implementation of the Directive.

In Portugal, pursuant to Decree-Law No. 10/2001 of January 23, as amended by Law No. 17/2001 of July 3, Decree-Law No. 339-D/2001 of December 28, and Decree-Law No. 71/2004 of March 25, entities that place petroleum products on the domestic market must establish and maintain strategic reserves with a minimum total volume corresponding to 90 days' worth of the total quantities of petroleum products placed on the domestic market in the previous year, the preceding 12 months, or the
preceding 30 days, in the case of liquefied petroleum gas. These companies are required to ensure the maintenance and management of two-thirds of the strategic reserves, with the remainder being the responsibility of the public enterprise specifically created for this purpose, the Strategic Reserves Management Company, EPE ("EGREP"). These reserves may be held in the form of crude oil, semi-finished products, or finished products. However, the reserve for specific petroleum products—such as gasoline, *jet fuel*, diesel, lighting fuel, and fuel oil—must correspond to at least 90 days' worth of consumption for each of these specific products. Reserves may be held directly by the entity legally required to do so, using its own products and in its own storage facilities, or through contracts with third parties, using products and storage facilities owned by such entities. These reserves may even be established and maintained within the territory of another Member State, subject, however, to the prior conclusion of intergovernmental agreements. The use of these reserves is subject to authorization by the Minister of Economy and Innovation.

Galp Energia complies with all legal requirements regarding the establishment and maintenance of strategic reserves.

Spain

Spain has enacted various laws aimed at liberalizing its oil industry. Law No. 34/1998, of October 7, as amended and implemented through various royal decrees and ministerial orders, is intended to establish a unified regulatory framework applicable to the vertically integrated oil industry. This industry includes the exploration and exploitation of oil fields, the refining, transportation, storage, and distribution of crude oil and its derivatives, as well as the acquisition, production, transportation, distribution, and sale of combustible gases via oil or gas pipelines. This law abolished foreign trade quotas on petroleum products.

Wholesale and Retail Sales of Refined Products

The refining of crude oil and the transportation, storage, distribution, and sale of petroleum products (including LPG) are deregulated activities, provided that the construction and operation of the facilities where such activities are carried out are subject to prior government authorization. The prices of petroleum products are also deregulated, with the exception of LPG, whose price is, in most cases, subject to a price cap.

The construction and operation of refining facilities, as well as the construction and operation of means of transporting petroleum products and storage facilities that

provide services to wholesale distributors are also subject to prior authorization. The granting of such authorizations depends on compliance with the relevant technical and safety requirements, environmental protection conditions, and other requirements imposed by the competent local authorities.

Wholesale distributors not owned by refining companies or by companies majority-controlled by refining companies are subject to prior government authorization. Authorizations are granted only to entities that meet the legal requirements, possess the technical and financial resources necessary to carry out these activities, and guarantee minimum safety reserves.

The retail distribution business is deregulated; however, the construction and operation of the facilities necessary for carrying out such activities are subject to government licensing. It should also be noted that the restriction on increasing the number of gas stations—which applied to wholesale petroleum product distributors with a distribution network exceeding 30% of the existing gas stations in Spain, as provided for in Royal Decree No. 6/2000—has not been in effect since June 25, 2005. Consequently, the market leader in Spain, Repsol YPF, can now increase the number of its service stations.

Transportation and Storage Facilities

Third parties may freely access transportation and storage facilities, such as CLH's facilities, under agreed terms, in an objective, transparent, and non-discriminatory manner. The Spanish Government may, at its discretion, establish mechanisms for access to the mainland and to those territories of Spain where there are no alternative transportation and storage facilities or where existing facilities are insufficient. As of the date of this *Prospectus*, the Spanish Government has not exercised such discretionary power.

According to Royal Decree No. 6/2000, of June 23, no person may own, directly or indirectly, more than 25% of CLH's share capital. Furthermore, the aggregate of direct or indirect interests resulting from ownership of a stake in CLH may not exceed 45% of CLH's share capital. Voting rights attached to share capital exceeding 25% of CLH's share capital are suspended.

LPG

LPG wholesale distributors must obtain an operating license, which will be granted only to entities that (i) meet the legal requirements and possess the technical and financial resources to carry out such activities, (ii) ensure certain safety reserves, (iii) have cylinder storage and filling facilities that comply with the relevant technical and safety requirements, and (iv) provide technical assistance to end consumers and retail distributors.

The sale of bulk LPG also requires a license, which is contingent upon the applicant meeting the necessary legal, technical, and financial requirements and ensuring that its storage facilities comply with the relevant technical and safety conditions. However, entities wishing to supply bulk LPG to vehicles through retail petroleum product distribution facilities do not require a license.

Retailers of bottled LPG are also not required to hold a license, although the storage and retail facilities where such activities take place must comply with certain technical and safety standards. These retail distributors are, however, required to provide technical assistance to their customers; they may, however, provide such services on their own behalf or through a wholesale distributor.

Law No. 34/1998, of October 7, prohibits exclusive supply agreements for bottled LPG between operators and retail distributors, except in the case of agreements between operators and agents who are part of the respective distribution network and who guarantee home delivery of bottled LPG.

It should be noted that, to the extent that competitive conditions in the distribution of bottled or piped LPG are deemed inadequate, the Spanish Government may establish maximum prices for sales to the public, using a formula set forth in the regulations. It should be noted that:
- since 1998, prices for bulk LPG or LPG sold in cylinders weighing less than eight kilograms have been liberalized.
- Since November 1993, prices for bottled LPG in containers with a capacity of 8 kg or more have been subject to a price control system.
- The supply of piped LPG to end consumers and of bulk LPG to distribution companies is subject to maximum prices set by the Spanish Government, pursuant to the Ministerial Circular of November 5, 1993 (maximum prices are set monthly, based on a formula that takes into account the costs of raw materials, transport costs on international markets recorded in the previous month, and margins).

Strategic Reserves

Law No. 34/1998, of October 7, provides for the right of all consumers to be supplied with petroleum products within the national territory, subject to certain conditions. That law was subsequently implemented in 2004 through Royal Decree No. 1716/2004.

Under the terms of this law, and in compliance with the EU requirements described *above* (*see* "Portugal" *above*), operators authorized to act as wholesale distributors of petroleum products must maintain, at all times, a safety stock equivalent to 90 days of their annual sales volume on the domestic market (excluding sales to other wholesale distributors). The same obligation applies to (i) retail distributors, with respect to their annual sales volume on the domestic market, excluding quantities supplied by wholesale distributors; and (ii) fuel consumers, with respect to their annual consumption, excluding quantities supplied by wholesale or retail distributors.

LPG wholesale distributors must maintain reserves equivalent to 20 days of their annual sales volume in the domestic market (excluding sales to other wholesale distributors). The same obligation applies to (i) retail LPG distributors and sellers of bottled LPG based on their sales volume in the domestic LPG market not supplied by wholesale distributors, and (ii) LPG consumers based on their annual consumption, excluding quantities supplied by wholesale or retail distributors.

The *Corporación de Reservas Estratégicas* (CORES), a company controlled by the Spanish government, is specifically responsible for the creation, maintenance, and management of reserves

strategic reserves and the control of safety reserves of petroleum products, including LPG. In the event of a shortage in the supply of petroleum products, the Council of Ministers may adopt measures to address the shortage of oil production , specifically by subjecting the minimum safety reserves, including strategic reserves, to an intervention regime under the direct control of CORES.

Brazil

Oil activities in Brazil became a federal monopoly in 1953 through Law 2004, which established Petróleo Brasileiro S.A. ("Petrobrás"), the state-owned enterprise responsible for economic activities in the Brazilian oil sector. The monopoly granted to Petrobrás by the Brazilian Constitution includes the exploration and production of oil, natural gas, and other liquid hydrocarbons; the refining of domestic and foreign oil; imports and exports; and transportation by sea and via gas or oil pipelines. In 1995, a constitutional reform introduced the possibility for all these activities to be carried out by either public or private companies. Law No. 9478, dated August 6, 1997, implemented the market liberalization triggered by the constitutional amendment and established a regulatory agency for the oil sector, the National Agency for Petroleum, Natural Gas, and Biofuels ("ANP").

Galp Energia's operations in Brazil are limited to exploration and production. Galp Energia participates in various partnerships, together with Petrobras and other partners, for the exploration and production of oil, holding the necessary authorizations for this purpose and meeting all other applicable requirements.

In Brazil, oil and natural gas exploration, development, and production activities are authorized under a concession contract. Certain areas where oil deposits are expected to exist—selected by the ANP—may be awarded through public bidding processes, which are launched periodically. To date, seven bidding processes have taken place, and an eighth is scheduled to take place by the end of 2006. Although the specific terms of the concession agreements vary across the different tenders, they have always included two distinct phases: the exploration and evaluation phase, during which the concessionaire conducts studies to determine the commercial value of the area to be awarded; and the production phase, which occurs only if the concessionaire determines that commercially viable oil reserves do, in fact, exist (*see* "Sector Analysis" *above*). If the area to be concessioned does not advance to the second phase, its management reverts to the ANP. The deadlines for each phase of the bidding process are set forth in the respective concession agreements.

Under Brazilian law, all mineral resources, including those found underground, are the property of the Federal Government; therefore, the concessionaire acquires ownership only of the hydrocarbons once they have been extracted from the ground. In addition to applicable taxes and fees, the Brazilian Government is entitled to a share of the profits generated by the oil and natural gas produced by the concessionaire. The terms of this participation must be expressly described in the tender announcement and in the concession contract and must include, at a minimum, industrial property rights and royalties relating to the area under exploration or production. Additionally, some concession contracts provide for a signature bonus or an additional share in the event that the concession proves to be particularly profitable.

The import and export of crude oil may be carried out upon simple authorization by the ANP, which must be granted if a given project meets certain legal requirements regarding the identification of the interested party and the party demonstrates the necessary technical and financial capacity.

Since activities involving hydrocarbons are potentially polluting, all companies operating in this sector must first obtain environmental permits, which require compliance with the conditions imposed by federal, state, and municipal authorities, as applicable.

Angola

In Angola, oil exploration and production are regulated by Law No. 10/04 of November 12, without prejudice to the continued validity, under the terms of the previous legislation, of acts and contracts already in existence as of the date this law entered into force. Activities related to prospecting, exploration, and evaluation of hydrocarbon reserves require a license issued by the competent minister, which is valid for a period of three years and may be extended in exceptional cases. All rights to explore and produce oil are granted to the national concessionaire—the Sociedade Nacional de Combustíveis de Angola, a public enterprise. However, private companies may enter into partnership agreements with the national concessionaire and benefit from a production-sharing arrangement. The conclusion of such a partnership agreement must, in most cases, be preceded by a public tender. In exceptional cases, if the national concessionaire does not intend to explore a particular area, a concession may be directly awarded to another company. The Minister of Petroleum may also authorize the installation of oil pipelines or storage facilities within a concession area. Currently, Galp Energia participates in five partnerships with Sonangol and other companies and believes it holds all necessary authorizations and licenses.

NATURAL GAS SECTOR

European Union Regulations

The European Parliament and the Council of Ministers adopted the new Gas Directive 2003/55/EC of June 26, 2003 ("Gas Directive"). The Gas Directive entered into force in August 2003, setting July 1, 2004, as the deadline for transposition. This directive requires the separation of distribution networks from transmission networks and from supply activities; provides for the establishment of a regulator in each Member State with well-defined functions and the obligation to publish access tariffs for the various networks; strengthens public service obligations; and introduces measures to enhance security of supply.

The main provisions set forth in the Gas Directive are as follows:

- *General rules for the organization of* the *sector*. Member States must ensure, taking into account their institutional organization and in accordance with the principle of subsidiarity, that activities related to natural gas comply with the principles of the Gas Directive with a view to achieving a competitive, secure, and environmentally sustainable natural gas market. In particular, Member States must impose public service obligations on companies that, in the general economic interest, operate in this sector; these obligations must be clearly defined, transparent, non-discriminatory, and verifiable, and must guarantee fair access for EU natural gas companies to domestic consumers. Member States must also take appropriate measures to protect end consumers. Member States must also ensure that eligible consumers have the effective possibility to switch suppliers. However, considering that the

Since long-term contracts will continue to constitute an important part of Member States' gas supply, they should be maintained as an option available to natural gas supply companies, provided that they do not undermine the objectives set out in the Gas Directive and are compatible with the EC Treaty, including competition rules.

- *Transmission, storage, LNG, distribution*, *and supply*. Operators of natural gas transmission, distribution, or storage networks must be legally separate from companies that produce or market natural gas; however, they need not be financially separate from the operators of the various networks (i.e., they may be owned by the companies that own the infrastructure). In order to ensure efficient and non-discriminatory access to the relevant networks, transmission and distribution systems must be operated by entities that are legally separate from suppliers.

- *Organization of System Access*. Third-party access to transmission and distribution networks and natural gas storage facilities must be ensured without any discrimination, through the payment of published tariffs applicable to all eligible customers, including suppliers, and applied objectively and without discrimination among users.

- *Storage*. For the organization of access to storage facilities, including gas storage in pipelines (*linepack*), Member States shall choose one or both of the following access procedures: (i) negotiated access (with the relevant storage operator or natural gas suppliers), with the parties being required to negotiate in good faith and to publish their main commercial terms for the use of storage, *linepack*, or other ancillary services; or (ii) in the case of regulated access, Member States shall grant access rights subject to the payment of tariffs or other terms and obligations for the use of such facilities. The right of access for eligible customers may include the possibility of entering into supply contracts with competing natural gas companies other than the system operator or a company within the same group.

- *Access to the gas pipeline network*. Member States shall ensure that suppliers have access to the gas pipeline network, in accordance with the objectives of fair and open access, enabling a competitive natural gas market and preventing any abuse of a dominant position.

- *Eligibility.* Member States shall ensure that eligible consumers are:
(a) as of July 1, 2004, all non-residential consumers; and (b) as of July 1, 2007, all consumers. Contracts for the supply of an eligible consumer in the system of another Member State shall not be prohibited where the customer is eligible in both systems involved.

- *Accounting separation*. Natural gas companies, regardless of their ownership structure or legal form, must have their annual financial statements audited and published. These companies must also, with regard to their internal accounting, maintain separate accounts for their transmission, distribution, LNG, and storage activities, under the same conditions that would be required if they were separate companies, in order to prevent discrimination, cross-subsidization, and distortion of competition.

- *Derogations for emerging markets*. Member States considered to be emerging markets in the natural gas sector that, due to the implementation of the Gas Directive, face substantial difficulties may derogate from certain provisions of the Gas Directive, including those concerning the unbundling of transmission and distribution system operators, third-party access to both transmission and distribution networks

, and provisions related to market opening and reciprocity. This derogation automatically expires when the Member State is no longer considered an emerging market.

- *Expiration of the Derogation*. According to Article 28 of the Gas Directive, when the derogation referred to in the preceding paragraphs expires, the definition of eligible consumers must result in the opening of the market to at least 33% of total annual gas consumption in the national market; after two years, all non-residential consumers, and after three years, all consumers must be eligible.

Portuguese Legislation and Regulations on Natural Gas

The principles of the aforementioned EU directive were implemented in Portugal through Decree-Law No. 30/2006, of February 15. Prior to the adoption of this Decree-Law, all activities related to the import, storage, transportation, and regasification of natural gas or liquefied natural gas in Portugal were subject to a single concession granted to Transgás, a company of the Galp Energia Group. Local and regional distribution was carried out by distribution companies, which acted as concessionaires for local and regional distribution and, in some cases, as entities licensed to operate local distribution networks. Natural gas consumers with annual consumption of less than 2 million m^3were supplied by local and regional distribution companies, while consumers with annual consumption of 2 million m^3 or more were supplied directly by Transgás. Prices were not regulated and were set according to free-market principles and based on individual contracts, subject only to non-discriminatory rules.

Following the publication of the Gas Directive, the Portuguese Government defined its national strategy for the energy sector, which was approved by a Council of Ministers resolution dated October 24, 2005. This resolution mandated the process of separating regulated activities in the gas sector and selling them to REN.

The first long-term commercial supply contract was signed in 1997, and Portugal was considered an emerging market for the purposes of the aforementioned EU Directive. The Portuguese government decided to implement the Directive on January 1, 2007. As of that date, electricity producers under the standard regime will have the right to freely choose their natural gas supplier, without prejudice to the need to honor contracts already entered into until their expiration. As of January 1, 2008, customers who consume more than 1 million m^3per year will be able to choose their supplier and terminate existing contracts with Transgás. Natural gas distributors must comply with the minimum quantities set forth in the *take-or-pay* contracts with Transgás-Indústria in its capacity as the supplier of last resort; however, they are free to purchase additional quantities from other suppliers as of January 1, 2009. This right is granted to customers who consume more than 10,^{000} m^3per year as well as to all customers as of January 1, 2010. The new rates apply to the entire regulated market as of January 1, 2008.

As of January 1, 2008, natural gas distributors must allow all natural gas suppliers access to their networks, subject to payment of tariffs set by ERSE. Regional distribution concessions and local distribution licenses will be amended during 2007, without exceeding the maximum legal deadline of one year following the entry into force of Decree-Law No. 140/2006 of July 26. Distributors will be granted last-resort supplier licenses to supply natural gas in certain areas to consumers with an annual consumption of less than 2 million

m^3 (with some exceptions). The tariff for the sale of natural gas by suppliers of last resort is set by ERSE and will take effect on January 1, 2008. Until then, the applicable regime will continue to be that established by the concessions and licenses granted to local distribution companies. In addition to selling natural gas as suppliers of last resort, local distribution companies may also sell natural gas to eligible customers in the free market (*see* "Unbundling of Natural Gas Assets" *above*).

On September 11, 2006, four regulations governing the natural gas sector were approved by ERSE and published in the Diário da República on September 25, 2006: Regulation on Commercial Relations, Tariff Regulation, Regulation on Access to Networks, Infrastructure, and Interconnections, and Regulation on Service Quality (for more information, *see* "Risk Factors" *above*). The Regulation on Infrastructure Operations has yet to be approved.

The Commercial Relations Regulation defines (i) the parties involved in commercial relations; (ii) the mechanisms for compensation for tariff uniformity; (iii) the rules regarding network connections, metering, meter reading, and data provision; (iv) the selection of suppliers; (v) the terms and conditions for contracting and the operation of organized natural gas markets; (vi) the commercial relationship with natural gas customers; and
(vii) administrative safeguards and dispute resolution.
Under these terms, the commercial relationship between entities operating in the SNGN and their respective customers must comply with the following principles: a) Guarantee of natural gas supply in a manner appropriate to consumer needs; b) Equal treatment and equal opportunities; c) Non-discrimination; d) Transparency and objectivity of the rules and decisions regarding the commercial relationship; e) Impartiality in decision-making; and f) The right to information and the protection of the confidentiality of commercial information deemed sensitive. The aforementioned regulation provides for four types of customers: (i) residential customers; (ii) non-residential customers with annual consumption of 10,000 m^3 or less; (iii) non-residential customers with annual consumption exceeding 10,000 m^3 and less than 2 million m^3 ; and, finally, (iv) customers with annual consumption of 2 million m^3 or more, referred to as large customers. That regulation also distinguishes between wholesale suppliers of last resort and retail suppliers of last resort (the latter ensuring the supply of natural gas to all consumers with annual consumption of less than 2 million m^3), and establishes the role of the SNGN supplier (defined as the entity holding long-term, *take-or-pay* contracts entered into prior to the entry into force of Directive 2003/55/EC of the European Parliament and of the Council of June 26, as defined in Decree-Law No. 140/2006 of June 26) (see "Risk Factors" *above*) and provides for the existence of independent suppliers, whose relationship with SNGN infrastructure operators is governed by the provisions of the Regulation on Access to Networks, Infrastructure, and Interconnections and by infrastructure usage contracts. Independent suppliers may procure natural gas through trading on organized markets, bilateral contracts, and contracts with entities outside the SNGN, and must submit to ERSE the reference price schedule they intend to apply, as well as the prices actually charged in previous months.
In turn, pursuant to the aforementioned regulation, infrastructure operators are subject to the following principles: a) safeguarding the public interest, including maintaining security of supply; b) equal treatment, equal opportunities, and non-discrimination; c) independence in the conduct of activities and transparency in decision-making, notably through information and audit mechanisms, and codes of conduct must be established.
The regulation in question also requires the accounting separation of the activities of the various infrastructure operators.

This regulation further provides that the procurement of natural gas shall take place through the conclusion of supply contracts with natural gas suppliers, with the customer having the right to switch natural gas suppliers up to four times per year at no charge (even if the customer still has outstanding balances, provided such balances are contested judicially or extrajudicially before the competent authorities). This regulation also establishes various elements that must be included in the natural gas supply contract; the prices for natural gas supplied by unregulated suppliers to customers are freely agreed upon by the parties but must include a portion corresponding to the network access tariff.

The Tariff Regulation establishes the criteria and methods for setting natural gas tariffs and prices to be applied by the entities covered by it, the regulated rates and their structure, the process for calculating and determining rates, the allowed returns, the procedures to be followed for setting, amending, and publishing rates, as well as the obligations of SNGN entities, particularly with regard to disclosure.
This regulation also establishes several general principles that should guide the setting of rates, notably: (i) the absence of cross-subsidization between activities and among customers, by aligning rates with costs and adopting the additive rate principle; the transmission of appropriate economic signals to promote the efficient use of the SNGN's networks and other infrastructure; (ii) protection of customers against tariff increases, while ensuring the economic and financial equilibrium of regulated activities under conditions of efficient management; (iii) creation of incentives for the efficient performance of regulated activities. Allowed revenues are calculated based on the operating costs allocated to each activity, plus depreciation of fixed assets and a return on net assets (tangible and intangible, net of amortization and subsidies), which must be revalued at the start of the new concessions (2008).
Under the terms of this regulation, entities engaged in regulated activities must submit regulated accounts to ERSE for approval. The setting of rates is subject to the opinion of the Competition Authority and the Tariff Council. Rates are established for a transitional period, corresponding to the first regulatory period, which may be extended by order of ERSE for successive one-year periods, up to a maximum of three years, based on the need to allow for rate convergence. The regulatory period is three years; tariffs are set once a year and adjusted quarterly (except for low-voltage customers) and may, in exceptional cases, be subject to an early review by decision of ERSE.

The Regulation on Access to Networks, Infrastructure, and Interconnections establishes, according to objective, transparent, and non-discriminatory criteria, the technical and commercial conditions under which access to the networks comprising it is granted. In particular, this regulation sets forth the conditions under which access to these networks is granted or restricted, the restrictions that infrastructure operators may impose regarding access to them, as well as the conditions for their use.
Among the principles established by this regulation, the following stand out: safeguarding the public interest, including maintaining security of supply, and ensuring the supply of natural gas in a manner appropriate to customers' needs.
That regulation also provides for infrastructure usage contracts (for LNG terminals, underground natural gas storage facilities, transmission networks, and distribution networks), regulating certain aspects of their framework and stipulating that their general terms and conditions shall be approved by ERSE.
Among other aspects, that regulation also governs the allocation of infrastructure capacity, allocating the volume of natural gas to each market participant, and establishing auctions as the mechanism for allocating capacity in the event of system congestion.

The Service Quality Regulation aims to establish the technical and commercial service quality standards that services provided within the SNGN must comply with. It provides for a system of service quality standards (based on common and individual quality indicators) and a compensation system in the event of non-compliance with those indicators. Under these regulations, ERSE is responsible for assessing customer satisfaction levels; the regulations also establish various obligations regarding reporting, audits, and the submission of a service quality report by the transmission system operator.

Natural gas suppliers must maintain strategic reserves. The amount of these reserves is determined by the Minister of Economy and Innovation and may not be less than 20 days (15 days for electricity producers) of average natural gas consumption over the previous twelve months. The details of this calculation are not yet known.

ELECTRICITY SECTOR

EU Legislation

Directive 96/92/EC of the European Parliament and the Council of Ministers of the EU, dated December 19, 1996, concerning common rules for the internal market in electricity, also known as *the "Access* Directive," was established with the aim of promoting an open and competitive European electricity market. This Directive was repealed in early March 2001, and Directive 2003/54/EC of the European Parliament and of the Council, dated June 26, was adopted; it entered into force in August 2003, and the deadline for its transposition expired on July 1, 2004. The objectives and impact of this new Directive will be analyzed below.

This directive imposes several obligations on Member States, namely:

Public Service Obligations and Consumer Protection

Member States shall ensure that electricity companies operate in accordance with the principles of Directive 2003/54/EC, with a view to achieving a competitive, secure, and environmentally sustainable electricity market, and shall not discriminate against these companies with regard to their rights and obligations. Member States may require distribution companies to connect consumers to their networks, in accordance with the Directive, and ensure consumers' right to effectively switch suppliers.

Planning for New Generation Capacity

Member States shall establish competitive bidding procedures for the allocation of new electricity generation capacity, ensuring objective criteria of transparency and non-discrimination. To this end, Member States shall establish precise rules and criteria for the bidding process, which must be made public. In the event that authorization to construct new electricity generation facilities is denied, the interested parties must be duly informed of the reasons for such denial and must have access to means of appealing that decision.

Tenders for New Generation Capacity

Member States shall promote the emergence of new generation entities or the adoption of measures that promote the efficient use of energy by launching

tenders or equivalent procedures that comply with the same principles (including transparency, non-discrimination, and public disclosure of the criteria). Tender documents must be made available to any interested company established in any Member State and must contain a detailed description of the contract specifications and the procedures to be followed by all bidders, including an exhaustive list of the criteria for selecting bidders and the incentives.

Member States must also designate an independent body responsible for organizing, monitoring, and overseeing the tender procedures.

Operation of the Transmission Network

Member States must ensure that the grid has the capacity to meet reasonable energy transmission demands in the long term, in order to guarantee security of supply. The transmission system operator will, in this context, be responsible for ensuring a safe, reliable, and efficient electricity grid and the availability of all necessary ancillary services.

When the transmission system operator is part of a vertically integrated company, it must be independent, at least in legal terms (with regard to its legal form, organization, and decision-making process), from activities unrelated to energy transmission. However, financial independence is not required; that is, a vertically integrated company may own the transmission network assets, provided that certain independence criteria are met.

Operation of the Distribution Network

Member States shall require companies that own or are responsible for distribution networks to designate, for a period of time (to be determined by the Member State), one or more distribution system operators. The distribution system operator must maintain a safe, reliable, and efficient distribution network in its service area, while respecting the environment and refraining from any discrimination between users or classes of users that would benefit the companies with which it is affiliated.

In cases where the distribution system operator is part of a vertically integrated company, it must be independent, at least in legal terms (with respect to its legal form, organization, and decision-making process), from activities unrelated to energy distribution; however, ownership unbundling is not required (i.e., it is not necessary to separate ownership of the distribution network assets from the vertically integrated company). In order to ensure the independence of the distribution system operator, various specific requirements must be met. These requirements do not, however, apply to integrated electricity companies serving fewer than 100,000 customers or operating small, isolated networks.

Separation and Transparency of Accounts

Member States or the authorities designated by them, including regulatory authorities, shall have access to the accounts of electricity companies. Electricity companies, regardless of their ownership model or legal form, shall prepare, have audited, and publish their annual accounts in accordance with the rules of national law applicable to the annual accounts of limited liability companies.

To this end, electric utility companies must maintain separate accounts for transmission and distribution activities, under the same conditions that would apply if those activities were carried out by independent companies, in order to prevent discrimination, cross-subsidization, and distortion of competition. As of January 1, 2007, they must keep separate accounts for activities involving the supply of eligible customers and those involving the supply of non-eligible customers.

Organization of Network Access

Member States shall ensure third-party access to transmission and distribution networks for all eligible customers based on published tariffs applied objectively without any discrimination among network users. Accordingly, the operator of a transmission or distribution network may refuse access only if it lacks the necessary capacity, and must, however, provide adequate justification for such a refusal.

Member States shall ensure the eligibility (i.e., the ability to freely contract with other suppliers) of the following customers: (i) as of July 1, 2004, all non-residential customers; and (ii) as of July 1, 2007, all customers. In order to avoid imbalances in the opening of the electricity market among Member States, an electricity supply contract concluded with an eligible customer from another Member State's grid may not be prohibited if the customer is considered eligible in both grids.

Member States must also designate one or more competent bodies responsible for regulating the sector. These bodies must be fully independent of the interests of the electricity sector and are responsible for ensuring non-discrimination, effective competition, and the efficient functioning of the market; they have the authority to require, if necessary, transmission and distribution system operators to amend terms, conditions, tariffs, rules, mechanisms, and methodologies. They may also act as the competent authority for dispute resolution and must have the authority to hear and decide on complaints filed by third parties against transmission and distribution system operators.

Member States shall also establish appropriate and effective mechanisms for regulation, supervision, and transparency to prevent abuses of a dominant position. In the event of a sudden crisis in the energy market, a Member State may temporarily adopt the necessary safeguard measures, provided that such measures cause as little disruption as possible to the functioning of the internal market. If Member States demonstrate that there are significant problems concerning the operation of their small isolated networks, they may apply derogations from the requirements of the Directive in question, in particular with regard to transmission, distribution, unbundling and transparency of accounts, and the organization of network access.

As previously mentioned, the deadline for transposing Directive 2003/54/EC was set for July 1, 2004; however, Member States may postpone the implementation of the unbundling of suppliers from distribution system operators until July 1, 2007.

Portuguese Legislation and Regulation Concerning the Electricity Sector

Authorities

Responsibilities for regulating the electricity sector in Portugal are generally shared by the following authorities:

- The DGGE has primary responsibility for planning and developing the National Electricity System ("SEN"), including approving the issuance, modification, and revocation of production and distribution licenses and preparing, every two years, expansion plans for the public electricity sector in conjunction with REN, for submission to the Minister of Economy and Innovation for approval. The DGGE is also responsible for approving the regulations applicable to transmission and distribution networks and to service quality.

- ERSE, as the regulatory authority, has regulatory powers and objectives clearly defined by law, which include the approval of the main regulations governing the conduct of business, including those concerning tariffs, commercial relations among entities in the electricity sector, and access to the national transmission grid.

- The Competition Authority enforces competition law, particularly with regard to restrictive practices and mergers.

New Regulatory Framework

Decree-Law No. 29/2006, of February 15, transposed the aforementioned Directive 2003/54/EC into Portuguese law and established a new legal framework for the electricity sector, with a view to promoting the liberalization of the electricity market.

Under the previous regime, producers, high-voltage grid operators, and distributors, within the scope of the SEP, were subject to a long-term regulated regime or to concession contracts with the grid operator, and were specifically subject to regulated prices and conditions. However, some producers—specifically those designated under the new legislation as being under a "special regime" (as described *below*)—operated within a separate system (the Independent Electricity System—SEI) that was partially subject to free-market rules, paying tariffs for the use of the national transmission grid and supplying energy to the SEP grids under certain special conditions.

The new legal framework entered into force on February 3, 2006, although many rules necessary for its implementation have not yet been approved. Thus, certain aspects of the previous regime continue to apply until the regulations under the current law are approved. Under the new regime, the structure of the electricity sector is based on an integrated national system—the SEN—which encompasses four main activities: generation, transmission, distribution, and retail sales. These four activities are subject to different rules regarding market access and regulatory oversight, as follows:

- Production is fully liberalized and may be carried out, under either the ordinary or special regime, by any duly licensed operator.

- Transmission is carried out through the operation of the national transmission grid, which is covered by a single concession held on an exclusive basis and under a public service regime in accordance with the concession terms established by Decree-Law 172/2006 of August 23; the award of this concession is subject to a public tender, without prejudice to the continuation of REN's current concession, subject to the adjustments required by the new concession terms. The concession will have a term of 50 years from the date

the respective contract is signed and may be extended if the public interest so warrants.

- High- and medium-voltage distribution (voltage greater than 1 kV) is also operated under a single exclusive concession as a public service, to be awarded through a public tender for a period of 35 years, whereas low-voltage distribution (voltage equal to or less than 1 kV) continues to be operated through exclusive municipal concessions under a public service regime, to be awarded for periods of 20 years.

- Electricity sales are also liberalized and subject to the same licensing regime established for electricity generation. Operators may freely sell electricity, with access to transmission and distribution networks contingent upon the payment of regulated tariffs.

Within this framework, transmission, distribution, and public service activities remain subject to concessions. Suppliers providing a universal service are also subject to the public service concession regime.

In order to complete the implementation of the EU Directive, Portugal will have to adopt a new legal framework for the remaining regulated areas. On June 8, 2006, the Council of Ministers approved legislation on this matter, which is expected to enter into force shortly.

Special Regimes

Certain forms of electricity generation are subject to special regulations, namely generation using endogenous and renewable resources or combined heat and power technologies. These forms of energy generation are governed by specific decree-laws and guarantee their producers the right to feed such energy into the SEP grid (through so-called “feed-in points”). This right is granted as an incentive to promote the development of renewable and environmentally friendly energy sources; the rates set for this electricity are generally higher than those for electricity generated by conventional means, in order to offset the high costs associated with producing more environmentally friendly energy. In addition, electricity generation under the special regime benefits from other incentives, such as government subsidies or financial assistance for the construction of infrastructure.

Cogeneration. Electricity production through cogeneration is regulated by Decree-Law No. 538/99, of December 13, as amended by Decree-Law No. 313/2001, of December 10. The regime applicable to cogeneration has not been substantially altered by the new legal framework. Authorization from the Minister of Economy and Innovation is required for facilities with a capacity of 1 MW or more, and their operation requires a license from the Regional Directorate of the Ministry of Economy. A connection to a reception point must also be requested in order to establish a connection to the SEP grid.

Cogeneration plants are designed to supply thermal and electrical energy to a nearby community of industrial consumers. However, the electricity produced by cogeneration may be sold in its entirety to the SEP or to the main customers of the thermal energy produced by the cogeneration plant. In addition, shareholders holding at least 10% of the cogeneration plant’s share capital, or the entity consuming at least 40% of the thermal energy produced by the cogeneration plant, may consume electricity via a direct line

(without entering the SEP). Galp Energia currently operates three cogeneration plants (Energin, Carriço, and Powercer), for which it has obtained the licenses required by law.

Wind Power Generation: Electricity generation is regulated by Decree-Law No. 189/88, of May 27, as amended by Decree-Laws No. 168/99, of May 11, 339-C/2001, of December 29, and 33-A/2005, of February 16. The operation of wind power plants requires the allocation of connection points to the national electricity transmission grid, which may only be granted through a public tender. The decision to launch a public tender is made by the Minister of Economy and Innovation and may be based on national or EU energy policy or on the need to optimize the reception capacity of the SEP. The tender will be based on tender specifications to be approved by the Ministry of Economy and Innovation, upon proposal by the Director-General for Energy, which define the conditions under which connection points for wind power plants will be allocated.

Currently, Galp Energia does not operate any wind power generation facilities. However, it is participating in a bidding process for the allocation of wind power grid connection capacity (*see "Main Activities and* Markets" *above*).

MIBEL

Between 1998 and 2004, Spain and Portugal entered into several agreements aimed at unifying the electricity market in the Iberian Peninsula, collectively referred to as MIBEL.

MIBEL aims to enable the full integration of the two electricity markets, based on the principles of transparency, free competition, objectivity, liquidity, self-financing, and market organization. The primary objective of developing a single, truly common market is to be achieved by granting equal rights and obligations to the various operators, establishing a uniform tariff structure, and creating a single Iberian operator responsible for market management.

Although the MIBEL program does not call for replacing the national electricity regulatory authorities with a single common regulator, it is anticipated that a realistic coordination program between the two national authorities will be implemented through the promotion of memoranda of understanding and through the existing Council of Regulators. This Council of Regulators is composed of members from ERSE (Portugal), the CMVM, the *Comisión Nacional del Mercado de Valores,* and the CNE (Spain).

Operation of the Transmission and Distribution Network

REN is the transmission system operator in Portugal, following a concession awarded in 1995. REN is responsible for the overall technical management of the electricity grid and must operate in accordance with public service obligations (such as ensuring the continuous, regular, and efficient operation of the service), while also assuming the obligation to build grid infrastructure in accordance with the terms of the concession. In particular, the scope of the concession includes: (i) receiving electricity for delivery to medium- and high-voltage distributors and to consumers connected to the National Transmission Grid ("RNT") and to extra-high-voltage grids to which the RNT is connected; (ii) transmitting electricity to entities connected to the SEP; and (iii) the overall management of the SEP. REN's concession was granted for 50 years for the entire mainland territory and may be extended for reasons of public interest.

This concession will remain under REN's ownership, subject to the terms of the concession agreement, which will be amended as required by the new rules applicable to the sector and by the concession terms approved by Decree-Law 172/2006 of August 23.

Electricity distribution operates under an exclusive public service concession system for the operation of the National High- and Medium-Voltage Distribution Network (RND) and the low-voltage (LV) networks. Concessions are granted by the State, and the respective contracts are signed by the Minister of Economy and Innovation, who has the authority to act on behalf of the State, with the exception of concessions for low-voltage networks, which are awarded by municipalities and entered into by the respective municipal councils following a public tender. Distribution system operators have various public service obligations, namely: ensuring the safe operation and maintenance of distribution networks; managing electricity flows within their network; ensuring the distribution capacity of their network (including security of supply); ensuring the planning, construction, and management of the network and facilities; allowing third parties access to the network and ensuring non-discrimination among the various network users; providing users with the information necessary to access the network; and safeguarding the confidentiality of confidential information.

Transmission and distribution system operators may not generate or sell electricity and must also allow free access to all suppliers.

Organization of Grid Access

Suppliers (entities that purchase electricity for resale to end customers or other parties, through contracts or unregulated participation in organized markets) have the right to freely access the grid, provided they have applied for the appropriate license. Suppliers may have access to different grids (the National Transmission Grid and other distribution grids) upon payment of a tariff set by ERSE.

8. ORGANIZATIONAL STRUCTURE

Galp Energia operates in the oil and natural gas sector. The Company has brought together Petrogal, the sole refiner and leading distributor of petroleum products in Portugal, and GDP, the company responsible for the import, transportation, and distribution of natural gas in Portugal. Currently, Galp Energia is the country's leading integrated petroleum and natural gas company, with a growing presence in Spain and a developing business in the electricity production and supply sector.

The following table contains information regarding the companies consolidated using the full consolidation method (1), their respective registered offices, and the percentage of equity interest held by Galp Energia as of December 31, 2005:

Company Name	Headquarters	Direct	Indirect	Total	Business Activity
Galp Energia, S.A., formerly known as Galp Serviços – Business Management Consulting Services, S.A.	Lisbon	100.0%	-	100.0%	Other
Porten – Portugal Energia, S.A.[1]	Lisbon	100.0%	-	100.0%	Power
Ao Sol – Renewable Energy, Lda.[(2)]	Porto Alto	-	-	-	Others
Petrogal Subgroup:					
Petróleos de Portugal – Petrogal, S.A.	Lisbon	100.0%	-	100.0%	Oil
Subsidiaries					
Galp Energia España, S.A. and its subsidiaries:	Madrid	-	100.0%	100.0%	Oil
Galpgest – Petrogal Gas Stations, S.A.	Madrid	-	100.0%	100.0%	Oil
Alacalá Gas Station, S.L. [3]	Madrid	-	100.0%	100.0%	Oil
Gasolinera Gon, S.L. [2]	Huelva	-	100.0%	100.0%	Oil
Galpfer – Lubricant Distribution, S.L.	Vigo	-	-	-	Oil
CLG – Gas Logistics Company, S.A.	Madrid	-	100.0%	100.0%	Oil
Petróleos de Valencia, S.A. Single-Member Company	Valencia	-	100.0%	100.0%	Oil
Galp Serviexpress, S.L.U.	Madrid	-	100.0%	100.0%	Oil

1 During 2006, this company's registered office was moved from Bucelas to Lisbon.

2 Disposed of in 2005.

3 Merged into Galp Energia España in 2006.

Company Name	Headquarters	Direct	Indirect	Total	Business Activity
Sacor Marítima, S.A. and subsidiaries:	Lisbon	-	100.0%	100.0%	Oil
Gasmar – Transportes Marítimos, Lda.	Funchal	-	100.0%	100.0%	Oil
Tripul – Ship Management Company, Lda.	Lisbon	-	100.0%	100.0%	Oil
S.M. International-Transp. Marítimos, Lda.	Funchal	-	100.0%	100.0%	Oil
Probigalp – Bituminous Binders, S.A.	Amarante	-	50.0%	50.0%	Oil
Soturis – Real Estate and Tourism Company, S.A.	Lisbon	-	100.0%	100.0%	Others
SOPOR – Distribution Company Fuel Company, Inc.	Lisbon	-	51.0%	51.0%	Oil
Eival – Corporation Gas Projects, Investments, and Storage, S.A.	Lisbon	-	100.0%	100.0%	Oil
Galp Exploration and Production Petrolífera, Lda. and subsidiary:	Funchal	-	100.0%	100.0%	Oil
Gite – Galp International Trading Establishment	Liechtenstein	-	24.0%	24.0%	Oil
Galp Serviexpress – Petroleum Products Distribution and Marketing Services, S.A.	Lisbon	-	100.0%	100.0%	Oil
Galpgeste – Service Area Management, Lda.	Lisbon	-	100.0%	100.0%	Oil
C.L.T. – Companhia Logística de Term. Marítimos, Lda.	Matosinhos	-	100.0%	100.0%	Oil
Petrogal Brasil, Lda.	Recife	-	100.0%	100.0%	Oil
Petrogal Trading Limited	Dublin	-	100.0%	100.0%	Oil
Petrogal Mozambique, Lda. and subsidiary:	Maputo	-	100.0%	100.0%	Oil
Moçacor – Fuel Distribution, S.A.	Maputo	-	100.0%	100.0%	Oil
Galp Azores – Fuel Distribution and Sales and Lubricants, Lda. and subsidiary:	Ponta Delgada	-	100.0%	100.0%	Oil
Saaga – Azorean Gas Storage Company, S.A.	Ponta Delgada	-	67.7%	67.7%	Oil

Company Name	Headquarters	Direct	Indirect	Total	Activity
Galp Madeira – Distribution and Marketing of Fuels and Lubricants, Lda. and subsidiaries:	Funchal	-	100.0%	100.0%	Oil
CLCM – Madeira Fuel Logistics Company, S.A.	Funchal	-	75.0%	75.0%	Oil
Gasinsular – Combustíveis do Atlântico, S.A.	Funchal	-	100.0%	100.0%	Oil
Galpmed – Insurance Brokerage, Single-Member Limited Liability Company	Lisbon	-	100.0%	100.0%	Others
Tanquisado – Maritime Terminals, S.A.	Setúbal	-	100.0%	100.0%	Oil
TLG – Transportes Líquidos e Gasosos, Lda [4]	Lisbon	-	-	-	Oil
Always Ready – Food and Household Goods, Lda.	Lisbon	-	75.0%	75.0%	Oil
Liquid Fuels, Lda.	Lisbon	-	75.0%	75.0%	Oil
Blue Flag Navigation – Maritime Transport, Lda.	Funchal	-	100.0%	100.0%	Oil
Galp Investment – Galp	Lisbon	(a)	(a)	(a)	Other
Investment Fund, PLC	Dublin	(a)	(a)	(a)	Others
Fast Access – Information and E-Commerce Operations and Services, S.A.	Lisbon	-	66.66%	66.66%	Others
Tagus Re, S.A.	Luxembourg	-	100.0%	100.0%	Others
Petrogal Angola, Lda. and subsidiary:	Luanda	-	100.0%	100.0%	Oil
Agran – Agroquímica de Angola	Luanda	-	99%	99%	Oil
Petrogal Guinea-Bissau, Lda. and subsidiaries:	Bissau	-	100.0%	100.0%	Oil
Petromar – Fuel Supply Company, Lda. Petrogás – Import, Storage, and Gas Distribution, Lda	Bissau	-	80.0%	80.0%	Oil
Asa – Aviation Supply and Services, Lda.	Bissau	-	65.0%	65.0%	Oil
	Lisbon	-	50.0%	50.0%	Oil

[4] Merged with Petrogal in 2005.

Corporate Name	Headquarters	Direct	Indirect	Total	Business Activity
Galp Exploração Serviços Brasil, Lda.	Recife	-	100.0%	100.0%	Others
Petrogal Cabo Verde, Lda.	São Vicente	-	100.0%	100.0%	Oil
GDP Subgroup:					
GDP – Gás de Portugal, SGPS, S.A.	Lisbon	100.0%	-	100.0%	Gas
Subsidiaries:					
Driftal – Plastificantes de Portugal, S.A.	Lisbon	-	100.0%	100.0%	Others
GDP Distribuição, SGPS, S.A. and subsidiaries:	Lisbon	-	100.0%	100.0%	Gas
Beiragás – Companhia de Gás das Beiras, S.A.[5]	Viseu	-	59.04%	59.04%	Gas
Gásfomento – Gas Systems and Installations, S.A.[6]	Lisbon	-	100.0%	100.0%	Gas
Dianagás – Natural Gas Natural Gas Distribution Company of Évora, S.A.	Bucelas	-	100.0%	100.0%	Gas
Paxgás – Natural Gas Natural Gas Distribution Company of Beja, S.A.	Bucelas	-	100.0%	100.0%	Gas
Medigás – Natural Gas Natural Gas Distribution Company of the Algarve, S.A.	Bucelas	-	100.0%	100.0%	Gas
Duriensegás – Company Douro Natural Gas Distribution Company, S.A.[7]	Bucelas	-	75.0%	75.0%	Gas
Lusitaniagás – Gas Company of Gás do Centro, S.A.	Aveiro	-	85.04%	85.04%	Gas
Lisboagás GDL – Sociedade Natural Gas Distribution Company of Lisboa, S.A.	Lisbon	-	100.0%	100.0%	Gas
Transgás, SGPS, S.A. and subsidiaries:	Bucelas	-	100.0%	100.0%	Gas
Natgás - Companhia Portuguesa de Gás Natural, SA[8]	Setúbal	-	-	-	Gas

[5] An additional 0.46% stake in the share capital was acquired in 2006.
[6] In the process of being sold.
[7] The entire share capital was acquired in 2006.
[8] Dissolved in 2005.

Company Name	Headquarters Business Activity		Direct	Indirect	Total
Transgás – Sociedade Portuguesa de Gás Natural, S.A. and subsidiaries:	Bucelas	-	100.0%	100.0%	Gas
Campo Maior Gas Pipeline – Leiria – Braga, S.A.	Bucelas	-	88.0%	88.0%	Gas
Braga–Tuy Gas Pipeline, S.A.	Bucelas	-	51.0%	51.0%	Gas
Transgás Atlântico – Sociedade Portuguesa de Gás Liquefeito, S.A.	Sines	-	100.0%	100.0%	Gas
Transgás Armazenagem – Portuguese Natural Gas Storage Company, S.A.	Bucelas	-	100.0%	100.0%	Gas
Transgás Indústria – Portuguese Society for the Supply of Natural Gas to Industry, S.A.	Bucelas	-	100.0%	100.0%	Gas
Galp Power Subgroup:					
Galp Power, SGPS, S.A. and subsidiaries:	Bucelas	100.0%	-	100.0%	Power
Carriço Cogeneration - Electricity and Heat Generation Company, S.A.	Bucelas	-	65.0%	65.0%	Power
Powercer – Vialonga Cogeneration Company, S.A.	Bucelas	-	70.0%	70.0%	Power
Cogeneration – Cogeneration at the Sines Refinery, S.A.	Lisbon	-	100.0%	100.0%	Power
Água Solar, SA [9]	Bucelas	-	-	-	Others

(a) During the 2003 fiscal year, Petrogal entered into a credit securitization transaction with Galp Investment Fund, PLC. Transactions involving this credit securitization are carried out through another entity headquartered in Portugal—Galp Investment—Fundo—which acquires the receivables and places them with Galp Investment Fund PLC.

(1) Investments in companies in which Galp Energia holds, directly or indirectly, more than 50% of the voting rights at the General Shareholders' Meeting and/or has the power to control their financial and operating policies have been included using the full consolidation method.

The following table contains information regarding the companies consolidated using the proportional method (2), their registered offices, and the percentage of share capital held by Galp Energia as of December 31, 2005:

[9] Dissolved in 2005.

Company Name	Registered Office	Direct	Indirect	Total	Business Activity
CLC – Companhia Logística de Combustíveis, S.A.	Aveiras	-	65.0%	65.0%	Oil
Caiageste – Service Area Management, Lda.	Elvas	-	50.0%	50.0%	Oil
Sigás – Gas Storage, ACE	Sines	-	60.0%	60.0%	Oil

(2) Equity interests in jointly controlled entities have been accounted for using the proportional consolidation method, effective from the date on which joint control was obtained.

The following table contains information regarding the associates included in the consolidation using the equity method (3), their registered offices, and the percentage of equity interest held by Galp Energia as of December 31, 2005:

Company Name	Headquarters	Direct	Indirect	Total	Business
EMPL – Europe Maghreb Pipeline, Ltd	Madrid	-	27.4%	27.4%	Gas
Gasoduto Al-Andaluz, S.A.	Madrid	-	33.0%	33.0%	Gas
Gasoduto Extremadura, S.A.	Madrid	-	49.0%	49.0%	Gas
Setgás – Gas Production and Distribution Company, S.A.	Setúbal	-	45.0%	45.0%	Gas
Company National of Fuel Company – Enacol, S.A.R.L.	Mindelo (Cape Green)	-	32.5%	32.5%	Oil
Tagusgás – Empresa Gás do Vale do Tejo, S.A.	Santarém	-	41.3%	41.3%	Gas
Metragaz - Company for the Construction and Technical Operation of the Maghreb Gas Pipeline Europe	Morocco	-	27.0%	27.0%	Gas
Terparque - Storage de Combustíveis, Lda	Angra do Heroísmo	-	23.5%	23.5%	Oil
Brisa Access, S.A.	Cascais	-	7.5%	7.5%	Oil
Number One – Repair of Automobile, Lda	Lisbon	-	49.0%	49.0%	Oil
Gasfomento Sur Andalucia, S.A. [10]	Seville	-	30.0%	30.0%	Gas
Enerfin – Sociedade de Eficiência Energética, S.A.[11]	Porto	-	25.12%	25.12%	Others

[10] In the process of being divested.

[11] Dissolved in 2006.

TIGS – Engineering and Maintenance, S.A.	Sintra	-	48.7%	48.7%	Others
Imopetro	Mozambique	-	22.22%	22.22%	Oil
Portgás – Gas Production and Distribution Company, S.A. [12]	Matosinhos	-	-	-	Gas
Gasfomento Energia, S.A. [13]	Seville	-	22.0%	22.0%	Gas
Ecogen – Decentralized Energy Decentralized, S.A.	Bucelas	-	35.0%	35.0%	Power
Central E, S.A.	Lisbon	-	20.3%	20.3%	Others
Energin – Production Company Electricidade e Calor, S.A.	Lisbon	-	35.0%	35.0%	Power
Sonangalp – Sociedade Distribuição e Comercialização de Fuel Distribution and Marketing Company, Lda.	Luanda	-	49.0%	49.0%	Oil
CLH – Compañia Logística de Hidrocarboros, S.A. [(a)]	Madrid	-	5.0%	5.0%	Oil

(3) Equity investments in companies over which the group exercises significant influence but does not have control or joint control through participation in the company's financial and operational decisions (typically when it holds between 20% and 50% of a company's share capital) are accounted for using the equity method.

(a) An equity investment in which Galp Energia exercises significant influence, despite holding only a 5% stake.

[12] Divested in January 2005.

[13] In the process of being sold.

9. PROPERTY, PLANT, AND EQUIPMENT

Galp Energia owns various properties, most of which are located in Portugal, including gas stations, refineries, manufacturing plants, and storage and transportation facilities. Galp Energia also holds interests in crude oil exploration blocks located in Angola and Brazil. Exploration and production rights are generally based on the granting of concessions for a specific period of time. Upon expiration of the concession, the exploration and production assets associated with a given asset revert to the granting government.

Galp Energia owns two refineries:

Location	Site Area (ha.)
• Porto, Portugal	230
• Sines, Portugal	300

The Porto Refinery is located on more than 350 parcels of land, most of which are owned by Galp Energia and are registered. However, a plot of approximately 51,000 m^2on which one of the units of the Galp Energia refinery complex is located is still owned by the Municipality of Matosinhos, even though Galp Energia has occupied and freely used this plot since 1967. Galp Energia is in negotiations with the Matosinhos City Council to regularize ownership of this parcel of land, as well as other parcels that belong to it but on which municipal roads were built without Galp Energia receiving any compensation. In addition, Galp Energia occupies 18 parcels of land under various promissory agreements or expropriation proceedings that were never finalized; consequently, these parcels have not been registered in Galp Energia's name. Although Galp Energia considers itself the rightful occupier of these parcels, it cannot guarantee that it will obtain all the necessary conditions to register them in its name. Furthermore, a significant number of parcels were acquired through expropriation proceedings, under which the land must continue to be used for its current purposes. Consequently, the former owners may have a legitimate claim to the property should Galp Energia change the activity carried out on that land.

The land on which the Sines Refinery is located is occupied under surface rights that will expire in 2013, subject, however, to two option rights, under which Galp Energia has the option to extend the terms of the surface rights for two additional successive periods of 20 years each. For a description of Galp Energia's refining facilities, see "Main Activities and Markets - Refining and Distribution - Refining - Facilities."

Galp Energia owns five floors of its corporate headquarters. The remaining ten floors are owned by the Petrogal Pension Fund and are leased to Petrogal under a contract that expires in December 2008, with Petrogal having a purchase option upon the contract's expiration.

As of December 31, 2005, Galp Energia's network of service stations comprised 1,060 stations, of which 837 were located in Portugal and 223 in Spain. Of the network of 1,060 stations,
280 were owned by Galp Energia, 665 were operated under leases or limited-term surface rights ("Cocos" and "CoDos"), and the remainder were owned by retailers ("DoDos"). Of the *CoCos* and *CoDos* stations, 59 were occupied

under leases, surface rights, concessions, and licenses whose terms expire before 2008.

The amount related to rent for real estate, facilities, and equipment represents 9.6% of external supplies and services in 2005, totaling 50.3 million euros. Included in this amount are 14.6 million euros in service area rents, 6.4 million euros in vehicle leases and long-term leases (ALD), and 29.3 million euros in rents for land, buildings, equipment, operating fees, charters, and other items.

Galp Energia owns, holds the administrative concession for, or holds surface rights to various storage facilities for crude oil and petroleum products in Portugal. Galp Energia's largest storage facilities in Portugal are located in Sines, Porto, Porto Brandão, and Setúbal. Galp Energia also holds the administrative concession for the storage terminal in Valencia, Spain. Galp Energia holds 75% of the shares representing the share capital of Companhia Logística de Combustíveis de Madeira, S.A., which manages a petroleum products storage facility in Madeira, and 60% of the shares representing the share capital of Sigás – Armazenagem de Gás, A.C.E., which manages an LPG storage facility in Sines. Galp Energia also holds 65% of the shares representing the share capital of CLC, the owner of the only multiproduct pipeline in Portugal (*see* the Refining and Distribution business segment in the "Overview of Activities" section *above*).

Galp Energia owns four vessels—one of which is currently in the process of being sold—and leases three others, all of which are used to transport petroleum products and crude oil.

In the Natural Gas Supply and Sales business segment, Galp Energia, through Transgás Armazenagem, owns two natural gas storage caverns, one of which is still under construction, both located in Pombal. Galp Energia also holds, through Transgás Armazenagem, subsoil use rights for the construction of four additional storage caverns in the expansion area, also located in Pombal. However, the underground natural gas storage caverns owned by Transgás Armazenagem are to be sold to REN Armazenagem, under terms to be agreed upon by both parties, once REN Armazenagem's expansion capacity has been exhausted, should the minister responsible for energy deem them necessary to strengthen safety reserve capacity.

Galp Energia, through Transgás, holds the following equity interests: 27.4% of the share capital of EMPL – Europe Maghreb Pipeline, Ltd., which manages and holds the capacity rights for the natural gas pipeline connecting the Hassi R'Mel gas fields in Algeria to the natural gas transmission network in Spain; 27.0% of the share capital of Metragaz, which is responsible for the operation and maintenance of the pipeline; 33.0% of the share capital of Gasoducto Al-Andalus, S.A., which owns the pipeline connecting Tarifa to Córdoba in Spain; and 49.0% of the share capital of Gasoducto Extremadura, S.A., which owns the gas pipeline connecting Córdoba to Campo Maior (*see* the Natural Gas Supply and Sales segment in the "Overview of Activities" section *above*).

Galp Energia also owns the medium-pressure natural gas distribution network through its natural gas distributors and Transgás. The infrastructure comprising the medium-pressure natural gas distribution network, as well as the autonomous LNG reception, storage, and regasification facilities ("UAG") currently owned by Transgás, will be transferred to the natural gas distributors within one year, following the entry into force of Decree-Law No. 140/2006, as part of the process of separating

in the natural gas sector (*see* "Process of Unbundling Regulated Activities in the Natural Gas Sector" *above*).

In the *Power* business segment, Galp Energia holds a 70% stake in Powercer – Sociedade de Cogeração de Vialonga, S.A., located in Vialonga; a 65% stake in Carriço Cogeração – Sociedade de Geração de Electricidade e Calor, S.A., located near Pombal; and a 35% minority stake in Energin – Sociedade de Produção de Electricidade e Calor, S.A., located in Póvoa de Santa Iria (*see* the *Power* segment in the "Overview of Activities" section).

Some of the properties owned by Galp Energia are and will be subject to decontamination processes in order to meet the requirements of EU regulations and comply with Galp Energia's internal principles for environmental preservation. As of December 31, 2005, Galp Energia had a provision of 7.3 million euros on its balance sheet, specifically for the decontamination of the Porto and Sines refineries, as well as Galp Energia's facilities at Francisco Sá Carneiro Airport in Porto.

Following an environmental study conducted in 1998, Galp Energia internally classified a petroleum products storage facility near Lisbon—which has been inactive since 1997—as contaminated. With regard to this property, there is no government decision regarding its decontamination, and Galp Energia does not intend to carry out any decontamination work until its future use has been determined. On July 31, 2004, a fire broke out at the Leixões maritime terminal, to which the Porto refinery is connected via Galp Energia's pipelines. Although internationally recommended safety procedures were followed, residual amounts of naphtha and water remained in the pipeline, which, following a leak during the removal of one of the pipeline sections, caused the fire to break out. The fire affected only the Leixões terminal and did not impact the Galp Energia refinery complex, which is located 1,800 meters from that terminal. The fire at the Leixões maritime terminal had negative repercussions on Galp Energia's reputation.

Following the fire and in conjunction with the government's investigation—which recommended improvements to the safety plans for the Porto refinery—Galp Energia conducted an assessment of the safety management systems at the refinery and the terminal. As a result of these measures, Galp Energia implemented improvements to its safety systems, including those recommended in the government's investigation report as well as others initiated on its own.

Galp Energia is unable to accurately predict the amount of additional investments or operating costs that will be incurred in the future to prevent, control, reduce, or eliminate environmental damage, as well as to comply with environmental legislation. Although these types of costs may be significant, Galp Energia does not anticipate that they will have a major impact on its liquidity or financial position.

Refining operations are subject to compliance with various international conventions, EU directives, and national legislation. In 2005, Galp Energia prepared its refineries in Sines and Porto to obtain the necessary environmental permits required under Council Directive 1996/61/EC of September 24 on integrated pollution prevention and control, which was transposed into Portuguese law through Decree-Law No. 194/2000 of August 21, prior to the established deadline (October 2007).

Galp Energia complies with Directive 2003/87/EC of the European Parliament and of the Council of October 13 establishing a scheme for greenhouse gas emission allowances

the greenhouse gas emissions trading scheme, transposed into Portuguese law by Decree-Law No. 233/2004, of December 14, as currently in force, which regulates the trading of CO_2 emission allowances. Galp Energia's industrial facilities, which are covered by the emissions trading scheme, comply with the emission targets.

10. ANALYSIS OF OPERATIONS AND FINANCIAL POSITION

10.1 Background

This section should be read in conjunction with the consolidated financial statements, the related notes, and other financial information contained in this Share Registration Document. Galp Energia's audited consolidated financial statements for the fiscal year ended December 31, 2003, were prepared in accordance with the Official Accounting Plan ("POC"). Galp Energia's audited consolidated financial statements for the fiscal year ended December 31, 2004, were prepared in accordance with the POC and in accordance with International Financial Reporting Standards ("IFRS") – IFRS"), for comparative purposes with Galp Energia's audited consolidated financial statements for the fiscal year ended December 31, 2005. Galp Energia's audited consolidated financial statements for the fiscal year ended December 31, 2005, were initially prepared in accordance with the POC and approved at the General Meeting. The audited consolidated financial statements for the fiscal year ended December 31, 2005, and the unaudited consolidated financial statements, which were the subject of a simplified review report for the six-month period ended June 30, 2006, were prepared in accordance with IFRS. The information relating to the six-month period ended June 30, 2005, was prepared in accordance with IFRS for comparative purposes with the financial statements for the six-month period ended June 30, 2006. The main differences between the Portuguese Accounting Standards (POC) and IFRS, as they apply to Galp Energia, are presented in "Appendix II – Summary of Differences between POC and IFRS" of this Share Registration Document.

Galp Energia is an integrated and diversified company operating in the energy sector, whose activities in Portugal and Spain focus on the refining and distribution of petroleum products and the supply and distribution of natural gas. It is also engaged in oil exploration and production in Angola and Brazil. In 2005, the Company sold 15.2 million metric tons of refined products, 4,234 million cubic meters of natural gas and 1.8 million barrels of crude oil.

Galp Energia's operations are divided into four business areas, which are reflected in the preparation and presentation of the Company's financial results:

- Exploration and Production (E&P)
- Refining and Distribution of Petroleum Products (Refining and Distribution)
- Natural Gas
  - Natural Gas Procurement and Sales
  - Natural Gas Distribution
- Power.

For a description of the Company's business segments, *see* the section "Overview of Activities – Galp Energia's Business Segments" *above*. The Natural Gas business segment includes the activities of Natural Gas Procurement and Sales and Natural Gas Distribution. In this section, these activities are presented separately, since the historical financial information was prepared separately for each of these segments.

During the periods covered in this "Analysis of Operations and Financial Position," the Natural Gas Procurement and Sales business included certain regasification, transmission, and storage assets that were sold on September 26, 2006, as described in greater detail in the section "Process of Separating Regulated Activities

in the Natural Gas Sector" *above*. Consequently, the financial and operating information for those periods is not directly comparable to the financial and operating information for the current period and for future periods. *See* the section "Pro Forma Financial Information" *above* for the presentation of the Company's pro forma results for the fiscal year ended December 31, 2005, and the six-month period ended June 30, 2006, which seeks to simulate the impact that the aforementioned separation of regulated activities would have had had it occurred on December 31, 2005, and June 30, 2006, with respect to the Balance Sheet, or on January 1, 2005, and January 1, 2006, with respect to the Income Statement, respectively.

10.2 Significant Factors Affecting Galp Energia's Operating Results

Refining Margins

Galp Energia's operating results depend on refining margins, which typically reflect the difference between the prices of the refined products sold and the price of crude oil and other raw materials purchased. Operating results in the Refining and Marketing segment are directly related to refining margins, which depend primarily on global demand for refined products and on the prices of crude oil and refined products (which are discussed in the next section). However, refining margins have historically been volatile and, in certain periods, may not track increases or decreases in crude oil prices. After refining margins in 2002 reached historic lows—due primarily to weak gasoline demand and high *inventory* levels in the U.S.—refining margins recovered in 2003 and 2004 and remained at high levels throughout 2005. This improvement was due, in part, to strong demand for refined products in the U.S. and China and stricter product specifications.

Other factors that influence refining margins include fluctuations in the price and availability of logistics services for transporting raw materials (which are often directly reflected in the cost of raw materials) and refined products (the effect of which increases with greater transport distances), as well as changes in refinery costs (primarily energy costs).

Refining margins in recent years have benefited from favorable trends in the relationship between feedstock supply costs and refined product prices. These trends include high *crack spreads* between diesel and fuel oil, the "dieselization" of the European market, the decline in gasoline's market share in the U.S., and the greater availability of heavier crudes at lower prices compared to lighter crudes.

The Company's ability to increase or maintain refining margins depends heavily on its ability to maximize the use of lower-cost feedstocks and optimize its production profile by focusing on *a mix* of higher-value products with greater market demand, given that production is increasingly market-driven.

Crude Oil and Natural Gas Prices

Changes in international benchmark prices for crude oil, crude oil derivatives, and natural gas have a significant impact on Galp Energia's revenues. The average benchmark price for *Brent Dated* per barrel was US$65.89 in the first half of 2006,

US$54.52 in 2005, US$38.27 in 2004, and US$28.83 in 2003. Global oil prices are affected, in particular, by international supply and demand, by political events around the world—especially in the Middle East—by the outcome of OPEC meetings, and by major conflicts or other events in oil-producing regions. Higher crude oil prices have a beneficial effect on the Company's operating results, since the Exploration and Production segment benefits from higher prices obtained for production, and the distribution and marketing activities have been able to pass on the increase in crude oil prices to the end customer. However, if crude oil prices rise significantly, it may not be possible to maintain refining and/or marketing margins. A decline in crude oil prices has a negative effect on the operating results of the Exploration and Production segment, as it reduces the economic viability of recovering discovered reserves and lowers the prices obtained from production. Although an increase or decrease in the price of crude oil generally results in a corresponding increase or decrease in the price of most refined products, changes in the price of refined products are typically time-lagged, occurring after changes in the price of crude oil. Thus, a rapid and significant increase or decrease in crude oil market prices could negatively affect refining and/or marketing margins.

The volatility of crude oil and its derivatives also affects the Natural Gas business segment, as it is common industry practice to index natural gas supply contracts to crude oil benchmarks or a basket of crude oils. An increase in the price of natural gas may have an adverse effect on the Company's operating results, since it will not always be possible to pass on the full increase in the price of natural gas to customers. Additionally, natural gas prices are the main determinant of costs in the *Power* business segment (*see* "Analysis of Operations and Financial Position—Risk Management" *below*).

Exchange Rates

Fluctuations in exchange rates, particularly the USD/EUR exchange rate, could have a significant impact on refining and natural gas margins, and consequently on the Company's operating results. Trading prices for crude oil, natural gas, and most refined products are generally quoted or indexed to the U.S. dollar, while Galp Energia's financial statements are prepared in euros, and a substantial portion of its operating costs is also denominated in euros. Consequently, a depreciation of the U.S. dollar against the euro may result in lower earnings, since the depreciation of the U.S. dollar reduces sales more than it reduces costs. For a description of the Company's risk management policy regarding exposure to foreign exchange risk (*see* "Analysis of Operations and Financial Position—Risk Management" *below*).

Valuation of Inventories

Currently, Galp Energia uses the "First In, First Out" ("FIFO") method to value inventory issuances, which affects both inventory valuation and gross margin. The Company's financial statements, which were prepared in accordance with POC, use the "Last-In, First-Out" ("LIFO") method, a method not accepted by IFRS. (*See* "Factors Affecting the Comparability of Historical and Future Operating Results and Financial Conditions—Inventory Valuation" *below*).

Legal Framework

Galp Energia's Natural Gas Procurement and Sales business segment was previously a regulated activity. Following the publication and entry into force in 2003 of the EU Natural Gas Directive, the Portuguese government classified certain transmission, storage, and regasification assets as regulated assets and established the process for the separation of these assets (*see* "Process for the Separation of Regulated Activities in the Natural Gas Sector" *above*). The Natural Gas Distribution business segment will also undergo an asset separation process in 2007, under which the natural gas distributors controlled by Galp Energia, or in which it holds significant stakes, will be required to allow third-party access to their networks (*see* "Process for the Separation of Regulated Activities in the Natural Gas Sector" *above*).

The legal framework may have a significant impact on the Natural Gas business area, as this market will be liberalized in the near future, which could result in Galp Energia's current customers switching to other natural gas suppliers, leading to a loss of market share in both the Natural Gas Supply and Sales business segment and the Natural Gas Distribution business segment. These changes in the legal framework and other future regulatory decisions may have a significant impact on the Company's results.

Market Trends

More Stringent Specifications for Refined Products and the "Dieselization" of the European Market

Legislation and regulations have been implemented in several European countries, including Portugal and Spain, that require or provide incentives for the production of gasoline and diesel with a sulfur content equal to or lower than the EU's minimum specifications. The effect of these measures is an increase in market demand for, among other products, low-sulfur diesel. The growth in commercial vehicle traffic and the increasing trend toward switching from gasoline-powered cars to diesel-powered cars in Western Europe (partly due to tax incentives granted in Portugal and other countries) have also contributed to the growth in demand for diesel. The recent increase in demand for low-sulfur diesel has been accompanied by a decline in demand for heating oil in Portugal, due to the shift toward electricity or natural gas as the preferred source of residential heating—a trend that is expected to continue. The European trends mentioned above have resulted in high *crack spreads* between diesel and fuel oil. These changes require an adjustment to the Company's refined products mix, which justifies the investment in the conversion project at the Sines refinery (see "Overview of Activities—Main Activities and Markets" *above*).

Increase in Natural Gas Volume in Portugal

Demand for natural gas in Portugal increased in 2004 and 2005, mainly due to the increase in installed electricity generation capacity, changes in weather conditions, the expansion of the natural gas pipeline network, and the replacement of LPG and fuel oil with natural gas. According to figures published by the DGGE, demand for natural gas rose from 2,925.3 million m^3 in 2003 to 3,662.7 million m^3 in 2004 and 4,097.3 million m^3 in 2005. During the same period, demand for LPG decreased from 921.7 thousand metric tons in 2003 to 844.8 thousand metric tons in 2005.

10.3 Factors Affecting the Comparability of Historical and Future Results and the Financial Position

The comparability of future results and financial statements for the six-month period ended June 30, 2006, and for the fiscal years ended December 31, 2005, 2004, and 2003 is affected by the following events:

Acquisitions and Divestitures

Galp Energia seeks to expand and develop its businesses, both through organic growth and through acquisitions. Since the Company's growth strategy focuses on profitability, it has disposed of—and will continue to dispose of—certain non-strategic assets in order to refocus and optimize its operations. In addition, under EU regulations and other national legislation, the Company was required to divest a portion of its natural gas business in 2006. Ongoing acquisitions and divestitures affect Galp Energia's results due to the consolidation of acquired operations and the deconsolidation of divested operations.

The most significant sale was the divestiture of part of the assets in the Natural Gas Procurement and Sales business segment. On September 26, 2006, Galp Energia sold its Regulated Activities to REN, the operator of Portugal's electricity transmission grid, as described in the section "Process of Separation of Regulated Activities in the Natural Gas Sector." For a pro forma presentation of the financial results for the fiscal year ended December 31, 2005, and the six-month period ended June 30, 2006, see "Pro Forma Financial Information" which seeks to simulate the impact that this asset separation transaction would have had had it occurred on December 31, 2005, and June 30, 2006 (with respect to the Balance Sheet) or on January 1, 2005, and January 1, 2006 (with respect to the Income Statement), respectively.

The Company also carried out the following acquisitions and disposals during the period under review and up to the date of this Share Registration Document:

- acquisition of Ptroval, which owns storage facilities at port terminals in Valencia, Spain, and provides the logistics and infrastructure to support the expansion of the Company's wholesale and retail sales on the east coast of Spain, for a total price of 13.9 million euros (2005);
- sale of the 46.6% stake in Portgás, the local natural gas distribution company in Porto and northern Portugal, for a total price of 86.4 million euros (2005);
- acquisition of BP Enértica (now Galp ServiExpress), a wholesaler of refined products in Spain, for a total price of 32.1 million euros (2004), which consisted of 2.2 million euros for the equity and the remainder for the acquisition of the company's *inventory*;
- an exchange with Total and Cepsa of 79 service stations located in Spain for 78 service stations located in Portugal, which resulted in a net payment of 8.5 million euros (between 2003 and 2004); and
- the acquisition of Gesoil, S.A. ("Gesoil"), the company responsible for managing the service stations resulting from the exchange with Total, for a total price of 15 million euros (2003).

As a result of the aforementioned acquisitions and divestitures, as well as the expansion of operations and the optimization of the refined products offering, the historical results for the years referred to in this Share Registration Document cannot be directly compared with one another or with future periods.

Transition to IFRS

Galp Energia's official consolidated financial statements for the fiscal years 2003, 2004, and 2005 were prepared in accordance with POC. In light of the application for admission to trading of the Shares on Eurolist by Euronext Lisbon, and assuming such admission is granted, the Company is required to adopt IFRS as of January 1, 2006. Accordingly, the consolidated financial statements for the six-month period ended June 30, 2006, were prepared in accordance with IFRS. Consolidated financial statements for the fiscal year ended December 31, 2005, were also prepared in accordance with IFRS. Accordingly, the Company designated January 1, 2004, as the transition date and applied IFRS 1—*"First-time* Adoption"—as of that date. Additionally, the financial statements for the fiscal year ended December 31, 2004, and for the six-month period ended June 30, 2005, were prepared in accordance with IFRS and included for comparative purposes with the financial statements for the fiscal year ended December 31, 2005, and for the six-month period ended June 30, 2006, respectively.

The following table illustrates the effect of adopting IFRS on certain consolidated financial data as of December 31, 2004, and December 31, 2005.

	December 31, 2005			**December 31, 2004 IFRS**		
		POC	**Change**	**IFRS**	**POC**	**Change**
	(in millions of euros, unless otherwise indicated)					
Gross margin.	1,975.2	1,694.7(1)	16.6%	1,674.7	1,525.2(1)	9.8%
Amortization and Depreciation	(306.8)	(337.3)	(9.0%)	(294.2)	(318.4)	(7.6%)
Operating income.....	862.7	529.4	63.0%	650.4	438.8	48.2%
Financial Results	30.6	(30.9)	199.1%	(46.8)	(29.8)	(57.3%)
Net income	700.7	442.0	58.5%	453.4	333.1	36.1%
Inventory	1,199.4	766.3	56.5%	833.2	676.7	23.1%
Net debt	1,191.5	1,187.8	0.3%	1,502.7	1,496.7	0.4%
Equity (including minority interests)	2,385.9	2,211.8	7.9%	1,846.1	1,914.2	(3.6%)

(1) These figures differ from those presented in the 2004 and 2005 Annual Reports and Financial Statements (POC), as they include the provision of services.

The preparation of the consolidated financial statements in accordance with IFRS resulted in changes to the preparation and presentation of the Company's financial information. The consolidated financial statements under IFRS present different classifications between the POC and IFRS, notably the disclosure of supplementary information required under the latter. In addition, there are changes in the valuation of certain assets and liabilities. The most significant changes in the consolidated financial statements resulting from the transition to IFRS are as follows:

Valuation of Inventories

Galp Energia holds inventories of crude oil, other raw materials, and refined products, in accordance with Portuguese law and industry best practices. As a result, the Company is exposed to fluctuations in the prices of oil, other raw materials, and refined products with respect to the inventories it holds. Under IFRS, it is not permitted to use the "Last-In-First-Out" ("LIFO") method for valuing inventory disposals, which was previously used under POC. The "LIFO" method is based on the assumption that the most recently acquired inventory is the first to be sold, used, or transferred. Under IFRS, the "First-In-First-Out" ("FIFO") method is currently used for

valuation of inventory outflows. Under the “FIFO” method, inventory is sold, used, or transferred in the order in which it was acquired. Therefore, the cost of the inventory acquired first is allocated to the revenue received first.

In a context of rising crude oil prices (as has occurred over the past two years), the use of the FIFO method leads to an increase in the value of inventory, since lower-priced inventory is consumed and replaced by higher-priced inventory. Rising prices generally increase the gross margin, since the cost of inventory taken into account is lower compared to the average market prices in effect during that period. Similarly, during a period of falling crude oil prices, using the FIFO method results in a decrease in the value of inventory, since higher-priced inventory is consumed and replaced by lower-priced inventory. This reduction in inventory value leads to a decrease in gross margin, since the inventory costs recognized are higher compared to the average market prices in effect during the period under review.

For internal performance analysis, excluding inventory gains and losses, Galp Energia uses the *Replacement Cost* methodology (a common industry practice). Under this methodology, the cost of goods sold is valued at *Replacement Cost*, i.e., at the cost of raw materials at the time of sale, regardless of inventory held at the beginning or end of the periods. *Replacement Cost* is not a criterion accepted by accounting standards (POC and IFRS); consequently, it is not adopted for the purpose of valuing inventory and does not reflect the replacement cost of other assets. The following table presents the impact on results, prepared in accordance with IFRS, if the Company had used *Replacement Cost* instead of FIFO to value the cost of goods sold.

	June 30		December 31	
	2006	**2005**	**2005**	**2004**
	(in millions of euros, unless otherwise indicated)			
Change in Operating Results	(200.5)	(208.9)	(313.5)	(133.9)
Refining and Distribution	(209.3)	(208.5)	(294.2)	(132.5)
Natural Gas Procurement and Sales	8.8	(0.4)	(19.3)	(1.4)
Change in Net Income	(179.1)	(165.3)	(238.9)	(107.1)

Extraordinary Items

In accordance with POC, the income statement by nature includes extraordinary items to record gains and losses related to infrequent or unusual events and transactions, as well as gains and losses related to donations, uncollectible debts, inventory (losses, breakages, or surpluses), under- or overestimation of income tax, increases in depreciation and amortization (of a non-recurring nature), and reductions in provisions for other risks and charges, restructuring of operations, disposal of tangible and intangible fixed assets and investments, discontinued operations, and fines and penalties. In accordance with IAS No. 1, paragraph 85, these gains and losses must be recorded under their respective categories in the income statement. As such, they may affect the comparability between past and future periods for items such as gross margin, EBITDA, operating income, financial income, and income before taxes.

Capitalization of Costs

Unlike under POC, under IFRS the capitalization of certain expenses—particularly those of an intangible nature—is not permitted, even though such capitalization would be accepted under POC. Examples include installation and research expenses (with the exception of activities related to the E&P business segment). The capitalization of certain expenses into tangible fixed assets is also not permitted, such as expenses incurred prior to the commencement of operational activities.

Grants

Under IFRS, grants are recognized when there is a reasonable expectation that they will be received, and only on the condition that the respective grant conditions are met. Non-repayable grants awarded to the Company to finance tangible and intangible fixed assets are recorded by deducting the grant amount from the asset's carrying amount. Under POC, grants are recorded as deferred revenue and recognized in the income statement under the "extraordinary income" line item, in the same proportion as the depreciation or amortization of the assets to which the grants relate.

10.4 Key Components of the Income Statement under IFRS

The following is a brief description of the line items in the income statement prepared in accordance with IFRS.

Sales and Services Rendered

The main components of sales and services rendered for each of Galp Energia's business segments are as follows:

- *Exploration and Production*: Revenues depend on the quantities of crude oil sold and the benchmark crude oil prices. Galp Energia holds interests in 6 blocks in Angola and 54 blocks in Brazil. As a percentage of total sales and services rendered (excluding the tax on petroleum products—"ISP"), Exploration and Production accounted for 0.8% in 2005 and 0.4% in the first half of 2006.

- *Refining and Distribution*: Revenue is generated from the sale of gasoline, diesel, and other refined products in Portugal and Spain to end consumers through the Company's own network of gas stations, to wholesale and LPG customers, to competing companies, and through exports. Revenue is also generated from other sources, such as storage and logistics services provided to competitors, transportation services provided to competitors, transportation services billed by logistics companies owned by the Company, and sales of non-fuel products at service stations. Sales from the Refining and Distribution business segment include the ISP; this has no impact on the gross margin, since the ISP is also included in the cost of goods sold. As a percentage of total sales and services rendered (excluding ISP), Refining and Distribution accounted for 87.5% in 2005 and 86.1% in the first half of 2006.

- *Natural Gas*: The Natural Gas Supply and Sales business supplies natural gas to large commercial and industrial customers with annual consumption exceeding 2 million m^3, electricity producers, natural gas distributors, and UAGs. The

Natural Gas Distribution business sells natural gas to the residential sector and to small commercial and industrial customers with annual consumption of less than 2 million m^3 in Portugal.

- *Natural Gas Supply and Sales*: Prior to the Unbundling of Regulated Activities, Galp Energia's natural gas supply business was regulated under a 35-year concession agreement entered into between the State and Transgás, effective as of 1993. This concession agreement was amended on September 26, 2006, and although the same contracts with customers remain in place and all supply contracts remain unchanged, some contracts may be freely terminated following market liberalization. In addition, as part of the Separation of Regulated Activities Process, the gas pipelines and other assets related to the high-pressure network were sold to REN. Nevertheless, revenue from transmission, regasification, and storage tariffs will continue to be recognized, since the costs incurred with REN will be included in the prices charged to customers (*see* "Process of Separation of Regulated Activities in the Natural Gas Sector" *above*). As a percentage of total sales and services rendered (excluding ISP), Natural Gas Procurement and Sales accounted for 10.8% in 2005 and 11.8% in the first half of 2006.

- *Natural Gas Distribution*: Revenue from this business segment comes from the sale of natural gas to residential, commercial, and industrial customers with consumption of less than 2 million m^3. As a percentage of total sales and services rendered (excluding ISP), Natural Gas Distribution accounted for 2.6% in 2005 and 2.7% in the first half of 2006.

- *Power*: The Company generates revenue from the supply of thermal and electrical energy—produced at the cogeneration plants in which it holds an interest—to its industrial customers and the SEP. As a percentage of total sales and services rendered (excluding ISP), the *Power* business segment accounted for 0.3% in 2005 and 0.3% in the first half of 2006.

Cost of Goods Sold

The main components of the cost of goods sold for each of Galp Energia's business segments are as follows:

- *Exploration and Production:* The cost of goods sold resulting from in-house production in the Exploration and Production business segment is related solely to changes in production. The main costs that contribute to the cost of production are accounted for in proportion to Galp Energia's stake in the consortium, such as External Supplies and Services, Depreciation, and Provisions. However, there are situations in which the products sold exceed the quantities in stock as a result of borrowings from business partners (overlifting). These borrowings are included in the cost of goods sold and valued at market price. The percentage of the cost of goods sold for the Exploration and Production business segment in the consolidated total was 0.05% in 2005 and 0.1% in the first half of 2006.

- *Refining and Marketing:* Galp Energia purchases crude oil, raw materials, and refined products on the international market. The cost of goods sold for the Refining and Distribution business segment includes ISP levied on refined products as well as transportation costs. As a percentage of total consolidated cost of goods sold, Refining and Distribution accounted for 93.2% in 2005 and 91.3% in the first half of 2006.

- *Natural Gas:* In the Natural Gas Procurement and Sales business, the Company purchases natural gas primarily from Sonatrach in Algeria and from NLNG in Nigeria. The cost of goods

sold includes the cost of transportation to the Portuguese border. As a percentage of total consolidated cost of goods sold, Natural Gas Procurement and Sales accounted for 7.7% in 2005 and 8.9% in the first half of 2006. In the Natural Gas Distribution business, natural gas is purchased from the Natural Gas Procurement and Sales business. As a percentage of total consolidated cost of goods sold, Natural Gas Distribution accounted for 1.0% in 2005 and 1.2% in the first half of 2006.

- *Power:* Purchases of natural gas are related to the thermal and electrical power generation activities of the cogeneration plants in which Galp Energia holds an interest. As a percentage of total consolidated cost of goods sold, the *Power* business segment accounted for 0.2% in 2005 and 0.2% in the first half of 2006.

Gross Margin

Gross margin reflects the difference between sales and services rendered and the cost of goods sold.

Other Operating Income

Galp Energia also recognizes revenue from a variety of other sources, such as fees received from retailers for the operation of the Company's service stations, operating subsidies, compensation, and capital gains from the sale of assets.

Operating costs

Operating costs include:

External supplies and services: These include non-personnel costs, specifically costs related to information technology, advertising, services provided by external entities, rent payments, repair and maintenance work (primarily at refineries, the logistics network, and the natural gas distribution pipeline network), storage, transportation, accounting, and legal costs.

Personnel costs: These include all personnel-related costs, primarily wages, salaries, social security, and post-employment benefits.

Other operating costs: These consist mainly of fees paid to regulatory agencies, taxes on exploration and production activities, donations, local taxes, and capital losses on the disposal of assets.

Amortization and Depreciation: These relate to the depreciation of tangible and intangible fixed assets with a limited useful life.

Provisions: This item represents the change in operating provisions, such as those related to accounts receivable from customers, inventory, and pending legal proceedings.

Financial Expenses – Interest and Similar Items: These consist of interest on loans obtained and the change in financial provisions.

Financial income—interest and similar items. These consist of interest earned on loans granted and income from financial investments.

Favorable (unfavorable) foreign exchange differences. These reflect realized and unrealized foreign exchange gains and losses on accounts payable, accounts receivable, loans, and cash balances.

Gains (losses) in group companies and associates. This line item reflects Galp Energia's share of the results—including gains and losses on disposals—of companies in which it holds non-controlling interests, consolidated using the equity method.

Income tax. The amounts of tax provisions are based on the calculation of pre-tax income, in accordance with the tax regulations in effect in Portugal and in the other countries where the Company operates, adjusted for deferred taxes.

Minority interests. These amounts reflect the minority interests held by third parties in the subsidiaries that Galp Energia consolidates but does not fully control, and which reduce the Company's share of these companies' results.

10.5 Comparison between the six-month period ended June 30, 2006, and the six-month period ended June 30, 2005

The financial statements for the six-month period ended June 30, 2006, were prepared in accordance with IFRS, which differ from POC in important respects. In addition, for comparative purposes, the income statement for the six-month period ended June 30, 2005, was prepared in accordance with IFRS and included in the financial statements for the six-month period ended June 30, 2006. Consequently, the results for the periods ended June 30, 2006, and June 30, 2005, are not comparable with the results for other periods, which were prepared in accordance with POC (*see* Appendix II—Summary of Differences between POC and IFRS *below*).

Analysis of Results

In the first half of 2006, operating results decreased by 28.1 million euros, from 511.5 million euros to 483.4 million euros compared to the first half of 2005. Net income for the first half of 2006 was 353.8 million euros, representing a 14.7% decline (-60.8 million euros) compared to the first half of 2005, when it was 414.5 million euros.

The results for the first half of 2005 were positively impacted by the capital gain of 54.5 million euros recognized on the sale of Portgás, while those for the first half of 2006 were negatively impacted by a 14.1 million euro increase in bad debt provisions and provisions for tax-related contingencies in Angola. Excluding these effects, operating income for the first half of 2006 would amount to 491.1 million euros, and operating income for the first half of 2005 to 475.1 million euros.

These results were achieved against an external backdrop characterized by a roughly 32% increase in crude oil prices compared to the same period of the previous year—which had a favorable impact on the Exploration & Production business—and by international refining margins lower than those of the previous year, which had an unfavorable impact on the

refining business. This decline in the refining margin was mitigated by an overall increase in sales volumes of refined products (+5.2%) and natural gas (+4.0%).

For an analysis of the impact on results of using the *Replacement Cost* method instead of FIFO to measure the cost of goods sold, *see* "Factors Affecting the Comparability of Historical and Future Results and the Financial Position."

The following table presents the consolidated interim results for the six-month periods ended June 30, 2006, and 2005, prepared in accordance with IFRS.

	June 30	Change from 2006	
		2005	%
	(in millions of euros, unless otherwise indicated)		
Sales and services rendered	6,130.4	5,015.9	22.2%
Cost of goods sold	(5,112.1)	(4,006.4)	27.6%
Gross margin	**1,018.2**	**1,009.4**	**0.9%**
Other operating income	24.8	28.8	(14.1)%
Operating expenses:			
Purchases and external services	(255.7)	(247.3)	3.4%
Personnel costs	(140.6)	(124.5)	12.9%
Other operating costs	(23.4)	(22.8)	2.8%
Depreciation and amortization.....	(125.3)	(131.6)	(4.8)%
Provisions and impairment of accounts receivable	(14.6)	(0.5)	-
Total operating expenses	**(559.7)**	**(526.8)**	**6.2%**
Operating income	**483.4**	**511.5**	**(5.5)%**
Financial expenses – interest and similar items.....	(31.6)	(33.3)	(5.2)%
Financial income – interest and similar items	6.9	5.6	23.6%
Favorable exchange rate differences (unfavorable)	4.2	(23.4)	-
Gains (losses) in group companies and associates	19.5	77.8	(75.0)%
Income from Financial Instruments .	(4.8)	(7.9)	(38.8)%
Other income (expenses)	(0.5)	(0.7)	(26.2)%
Current income	**477.0**	**529.6**	**(9.9)%**
Income tax	(121.2)	(112.6)	7.7%
Earnings before minority interests minority interests.....	**355.8**	**417.0**	**(14.7)%**
minority interests	(2.0)	(2.4)	(16.5)%
Net income.....	**353.8**	**414.5**	**(14.7)%**

Galp Energia Results

Sales and Services Rendered

Sales and services rendered increased by 1,114.5 million euros, or 22.2%, from 5,015.9 million euros in the first half of 2005 to 6,130.4 million euros in the first half of 2006. This change was primarily due to an increase of

941.2 million euros in sales from the Refining and Distribution segment. The increase in the volume of natural gas sales, accompanied by a rise in the average price of natural gas, also contributed to this increase in sales and services rendered. Sales and services rendered, excluding ISP, totaled 4,970.4 million euros in the first half of 2006 and 3,863.8 million euros in the first half of 2005.

Cost of Goods Sold

The cost of goods sold increased by 1,105.7 million euros, a rise that exceeded that of revenue—i.e., 27.6 percent—from 4,006.4 million euros in the first half of 2005 to 5,112.1 million euros in the first half of 2006. This change was primarily due to a 948.6 million euro increase in the cost of goods sold in the Refining and Marketing segment, mainly attributable to a rise (+32.5%) in the price of crude oil.

Gross margin

Gross margin increased by 8.8 million euros, or 0.9%, from 1,009.4 million euros in the first half of 2005 to 1,018.2 million euros in the first half of 2006. This slight change in the gross margin was due, on the one hand, to the strong performance of the Natural Gas Procurement and Sales segment, with an increase in the unit margin (+8.3%), and, on the other hand, to the increase in the volume of crude oil processed. However, this increase in the volume of crude oil processed was not sufficient to offset the decline in unit refining margins, which fell by 22.8% in the first half of 2006 compared to the same period of the previous year.

Other Operating Income

Other operating income fell by 4.1 million euros, from 28.8 million euros in the first half of 2005 to 24.8 million euros in the first half of 2006, primarily due to the receipt, in the first half of 2005, of insurance settlements related to the accident at the Port of Leixões that occurred in July 2004, in the amount of 4.5 million euros.

Operating costs

Operating costs increased by 32.9 million euros, or 6.2%, from 526.8 million euros in the first half of 2005 to 559.7 million euros in the first half of 2006. Compared to the first half of 2005, purchases of goods and services rose by 8.4 million euros, corresponding to a 3.4% increase, primarily due to the adjustment of insurance premiums and logistics costs related to the chartering of vessels for coastal transport, as well as rent paid for the new logistics facilities on the island of Madeira.

Personnel costs increased by 12.9% (16.0 million euros), resulting from the overall increase in the total payroll in line with inflation, the rise in variable compensation costs

, the acquisition of Gás Insular at the end of 2005 (a fuel company located on the island of Madeira), and a change in the scope of consolidation for certain subsidiaries, which are now fully consolidated.

Expenses related to depreciation, provisions, adjustments, and reversals totaled 139.9 million euros in the first half of 2006, up 5.9% (7.8 million euros) from the first half of 2005. This change is due to a 14.1 million euro increase in provisions, driven by adjustments for impairment of accounts receivable and provisions for other risks and charges, notably a 3.9 million euro provision related to the possibility of an additional payment of Petroleum Income Tax (IRP) in Angola.

Depreciation and amortization decreased by 6.3 million euros in the first half of 2006 to 125.3 million euros; the first half of 2005 was influenced by the recognition of impairment costs related to Block 33 and gas stations.

Operating Results

As a result of the above, operating income decreased by 28.1 million euros, from 511.5 million euros in the first half of 2005 to 483.4 million euros in the first half of 2006. As a percentage of sales, excluding ISP, they decreased from 13.2% in the first half of 2005 to 9.7% in the first half of 2006.

Financial costs – interest and similar expenses

Financial costs decreased from 33.3 million euros in the first half of 2005 to 31.6 million euros in the first half of 2006, a reduction of 1.7 million euros, or 5.2%, attributable to the reduction in bank debt.

Financial income – interest and similar items

Financial income increased by 1.3 million euros, rising from 5.6 million euros in the first half of 2005 to 6.9 million euros in the first half of 2006, due to greater investment of funds generated by operations.

Gains (losses) from group companies and affiliates

Gains from group companies and affiliates totaled 77.8 million euros in the first half of 2005 and 19.5 million euros in the first half of 2006. These results included, in the first half of 2005, the capital gain from the sale of the natural gas distribution concessionaire Portgás, in the amount of 54.5 million euros.

Favorable (unfavorable) foreign exchange differences

In the first half of 2006, foreign exchange gains and losses totaled 4.2 million euros and showed a reversal trend compared to the losses of 23.4 million euros recorded in the first half of 2005. In the first half of 2006, the dollar depreciated, resulting in foreign exchange gains related to dollar-denominated liabilities.

Income Tax

Operating income decreased by 52.6 million euros (-9.9%), from 529.6 million euros in the first half of 2005 to 477.0 million euros in the first half of 2006. However, income tax increased by 7.7%, rising from 112.6 million euros in the first half of 2005 to 121.2 million euros in the corresponding period of 2006. This inverse trend between operating income and income taxes is primarily related to the tax treatment of the capital gain from the sale of Portgás in the first half of 2005, as that accounting gain is not subject to taxation under current legislation.

Net income

Consolidated net income for the first half of 2006 was 353.8 million euros, representing a decline of 14.7% (60.8 million euros) compared to the first half of 2005, when it was 414.5 million euros. As a percentage of sales, excluding ISP, net income decreased from 10.9% in the first half of 2005 to 7.2% in the first half of 2006.

Operating Results by Business Segment

Summary

The following table presents, by business segment, the gross margins and operating income for the six-month periods ended June 30, 2006, and 2005:

	June 30	Change 2006	2005
		%	
	(in millions of euros, unless otherwise indicated)		
Gross margin:			
Exploration and Production	27.7	30.3	(8.5)%
Refining and Distribution	772.2	779.6	(0.9)%
Natural Gas Procurement and Sales	130.8	116.8	12.0%
Natural Gas Distribution	74.1	74.8	(1.0)%
Power	4.9	5.2	(5.0)%
Other[1]	8.5	2.8	210.3%
Total	**1,018.2**	**1,009.4**	**0.9%**

[1] Consists of *corporate overhead* (structural costs) and the elimination of intersegment balances.

	June 30	Change from 2006	
		2005	%
	(in millions of euros, unless otherwise indicated)		
Operating Results:			
Exploration and Production	3.5	10.4	(66.1)%
Refining and Distribution	349.9	386.0	(9.4)%
Natural Gas Procurement and Sales	93.8	86.6	8.4%
Natural Gas Distribution	32.9	38.7	(15.0)%
Power	1.2	2.0	(41.4)%
Other[1]	2.1	(12.1)	-
Total	**483.4**	**511.5**	**(5.5)%**

[1] Consists of *corporate overhead* (structural costs) and elimination of intersegment balances.

Exploration and Production

The following table presents the operating results of the Exploration and Production segment for the six-month periods ended June 30, 2006, and 2005:

	June 30	Change 2006	2005
			%
	(in millions of euros, unless otherwise indicated)		
Sales and services rendered	22.3	30.7	(27.3)%
Cost of goods sold	5.3	(0.5)	-
Gross margin	**27.7**	**30.3**	**(8.5)%**
Other operating income	0.5	0.0	-
External supplies and services	(7.1)	(5.0)	41.4%
Personnel costs	(1.5)	(0.6)	151.1%
Other operating costs	(3.3)	(4.0)	(15.9)%
Depreciation and amortization	(8.3)	(10.0)	(16.8)%
Provisions	(4.4)	(0.3)	-
Operating income	**3.5**	**10.4**	**(66.1)%**

Gross margin

Gross margin decreased by 2.6 million euros (8.5%), from 30.3 million euros in the first half of 2005 to 27.7 million euros in the first half of 2006. The decrease in gross margin is related to the 54% decline in quantities available for sale as a result of the mechanism regulating prices and quantities. This situation was, however, mitigated by the increase in the average selling price per barrel, which stood at 64.3 USD/bbl, representing an increase of 21.5 USD/bbl (+50%) compared to sales in the first half of 2005 (42.8 USD/bbl).

Operating Results

The Exploration & Production segment posted operating results of 3.5 million euros in the first half of 2006. This result represents a decline of 66.1% (6.9 million euros) compared to the first half of 2005.

This decline resulted from a reduction in gross margin of 2.6 million euros (8.5%) and an increase in external supplies and services of 2.1 million euros (41.4%), due primarily to higher production costs and an increase in specialized work related to expanded operations in Brazil and associated consulting services.

Provisions for the first half of 2006 totaled 4.4 million euros, primarily due to the recognition of a provision in the amount of 3.9 million euros related to the establishment of provisions for potential additional IRP payments in Angola regarding Block 14. As a percentage of sales and services rendered, operating income was 15.8% in the first half of 2006 and 33.8% in the first half of 2005.

Refining and Marketing

The following table presents the operating results of the Refining and Distribution segment for the six-month periods ended June 30, 2006, and 2005:

	June 30	Change	2006	2005
			%	
	(in millions of euros, unless otherwise noted)			
Sales and services rendered.....	5,441.4	4,500.1	20.9%	
Cost of goods sold.....	(4,669.2)	(3,720.6)	25.5%	
Gross margin.....	**772.2**	**779.6**	**(0.9)%**	
Other operating income	20.4	32.1	(36.4)%	
External supplies and services	(228.2)	(215.1)	6.1%	
Personnel costs.....	(103.3)	(103.2)	0.1%	
Other operating costs	(16.3)	(13.8)	18.2%	
Depreciation and amortization	(86.3)	(93.8)	(8.0)%	
Provisions	(8.5)	0.2	-	
Operating income	**349.9**	**386.0**	**(9.4)%**	

Gross margin

The gross margin decreased by 7.4 million euros (0.9%), from 779.6 million Euros in first half of 2005 to 772.2 million euros in the first half of 2006. This decline in gross margin was primarily due to the drop in international refining margins caused by a mismatch between the increase in crude oil prices (32.5%) and the prices of finished products. Refinery reliability levels were higher

those of the first half of the previous year, managing to offset part of the effect of the decline in refining margins (22.8%) with an increase in processed volumes (7.8%).

A 48% increase in volumes sold in foreign markets and a 17% increase in fuel sales to gas stations also helped offset the impact of the decline in refining margins.

Margins in the Petroleum Products Distribution business showed a trend toward stagnation due to the fact that the increase in raw material prices was not fully passed on to final prices. Additionally, demand for petroleum products in Portugal declined compared to the previous year.

Operating Results

Operating results generated by the Refining and Distribution business segment totaled 349.9 million euros in the first half of 2006. This result represents a decrease of 36.1 million euros compared to the first half of 2005 (9.4%) and is primarily due to a slight reduction in the gross margin, accompanied by a decrease in other operating income and an increase in provisions.

Other operating income fell by 11.7 million euros due to the receipt, in the first half of 2005, of compensation totaling 4.5 million euros related to the accident that occurred at the Leixões Terminal in July 2004.

Purchases of goods and services from external suppliers totaled 228.2 million euros, representing an increase of 13.1 million euros (6.1%), due primarily to a 3.0 million euro increase in industrial multi-risk insurance premiums and to higher variable costs—particularly logistics costs—related to the increase in quantities processed and exported. Provisions increased by 8.7 million euros, related to adjustments for doubtful accounts receivable and provisions for risks and charges. As a percentage of sales and services rendered, excluding ISP, operating income decreased from 10.0% in the first half of 2005 to 7.0% in the first half of 2006.

Natural Gas Procurement and Sales

The following table presents the operating results of the Natural Gas Supply and Sales segment for the six-month periods ended June 30, 2006, and 2005:

	June 30	Change	2006	2005
			%	
	(in millions of euros, unless otherwise indicated)			
Sales and services rendered.....	587.9	437.8	34.3%	
Cost of goods sold.....	(457.1)	(321.0)	42.4%	
Gross margin.....	**130.8**	**116.8**	**12.0%**	
Other operating income	1.0	1.8	(45.7)%	
External supplies and services	(13.4)	(10.0)	34.3%	
Personnel costs.....	(6.2)	(5.9)	4.8%	
Other operating costs	(1.2)	(0.7)	78.2%	
Depreciation and amortization	(16.7)	(15.1)	10.2%	
Provisions	(0.5)	(0.4)	36.3%	
Operating income	**93.8**	**86.6**	**8.4%**	

Gross margin

The gross margin was 130.8 million euros, exceeding the previous year's figure by 14.0 million euros due to a 4.1% increase in sales volume (86.6 million $m^3$of natural gas) and an improvement in unit margins, which rose from 0.044 euros/m^{33} in the first half of 2005 to 0.048 euros/m^3 in the first half of 2006 (8.3%). The trend in international crude oil prices—to which the price of natural gas is linked—and the time lag in sales prices allowed for a recovery in unit margins.

Operating Results

The Natural Gas Procurement and Sales segment posted operating results of 93.8 million euros in the first half of 2006. This result exceeded the corresponding period of 2005 by 7.3 million euros (8.4%) and was driven by an increase in gross margin, partially offset by higher costs for supplies and external services, which, in the first half of 2006, an increase of 3.4 million euros (34.3%), due primarily to higher maintenance and repair costs and updates to insurance premiums. Depreciation and amortization increased by 1.5 million euros (10.2%) because, for the first time, the investment in underground storage is being amortized, following the commissioning of one of the caverns. As a percentage of sales and services rendered, operating income decreased from 19.8% in the first half of 2005 to 16.0% in the first half of 2006.

Natural Gas Distribution

The following table presents the operating results of the Natural Gas Distribution segment for the six-month periods ended June 30, 2006, and 2005:

	June 30 2006	Change 2005	
			%
	(in millions of euros, unless otherwise indicated)		
Sales and services rendered.....	135.9	119.4	13.8%
Cost of goods sold.....	(61.8)	(44.6)	38.5%
Gross margin.....	**74.1**	**74.8**	**(1.0)%**
Other operating income	3.8	2.7	40.1%
External supplies and services	(18.5)	(18.0)	2.9%
Personnel costs.....	(12.5)	(9.5)	31.1%
Other operating costs	(0.7)	(1.0)	(27.7)%
Depreciation and amortization	(12.2)	(10.5)	16.4%
Provisions	(1.2)	0.0	-
Operating income	**32.9**	**38.7**	**(15.0)%**

Gross margin

Gross profit decreased by 0.7 million euros (-1.0%), from 74.8 million euros in the first half of 2005 to 74.1 million euros in the first half of 2006. Sales volumes totaled 229.7 million m^3 of natural gas, representing a 5% increase (11.1 million m^3), with the main changes occurring in the commercial and industrial segments. This increase in volumes is largely due to the rise in the number of customers, which rose from 596,100 in the first half of 2005 to 634,500 in the first half of 2006 (6.4%). The increase in volumes was offset by a decline in the unit margin, which fell from 0.322 $euros/m^3$ in the first half of 2005 to 0.316 $euros/m^3$ in the first half of 2006. This reduction was primarily due to a decrease in the unit margin for the industrial segment (-9%), which was implemented to anticipate the impact of the liberalization of the natural gas sector.

Operating Results

The Natural Gas Distribution segment posted operating results of 32.9 million euros in the first half of 2006, down 15.0% from the previous year.

The increase in personnel costs in the Natural Gas Distribution segment by 3.0 million euros (31.1%) was primarily due to an increase in variable compensation costs. As a percentage of sales and services rendered, operating results decreased from 32.4% in the first half of 2005 to 24.2% in the first half of 2006.

Power

The following table presents the operating results of the *Power* segment for the six-month periods ended June 30, 2006, and 2005:

	June 30	Change from 2006	
		2005	%
	(in millions of euros, unless otherwise indicated)		
Sales and services rendered.....	14.9	13.1	13.7%
Cost of goods sold.....	(9.9)	(7.9)	26.1%
Gross margin.....	**4.9**	**5.2**	**(5.0)%**
Other operating income	0.5	0.2	89.6%
External supplies and services	(2.1)	(1.6)	31.3%
Personnel costs.....	(0.7)	(0.2)	185.0%
Other operating costs	(0.0)	(0.2)	(86.5)%
Depreciation and amortization	(1.5)	(1.5)	0.1%
Provisions	-	(0.0)	-
Operating income	**1.2**	**2.0**	**(41.4)%**

Sales and Services Rendered

Sales and services rendered increased by 1.8 million euros, or 13.7%, from 13.1 million euros in the first half of 2005 to 14.9 million in the first half of 2006. This increase reflects a rise in the unit selling price of energy, which was, however, partially offset by a 1.6% decrease in energy production, due primarily to the shutdown of the Carriço Power Plant in the first half of 2006 caused by a turbine malfunction.

Cost of Goods Sold

The cost of goods sold increased by 2.0 million euros, or 26.1%, from 7.9 million euros in the first half of 2005 to 9.9 million euros in the first half of 2006. This increase is related to a 25.8% rise in the price of natural gas.

Operating Results

Operating income for the Power business segment totaled 1.2 million euros in the first half of 2006, representing a decrease of 0.8 million euros (41.4%), compared to the first half of 2005, due primarily to a €0.3 million decrease in gross margin, a €0.5 million increase in external supplies and services, and a €0.4 million increase in personnel costs.

10.6 Comparison between the fiscal year ended December 31, 2005, and the fiscal year ended December 31, 2004

The financial statements for the fiscal year ended December 31, 2005, were prepared in accordance with IFRS, which differ from POC in significant respects. In addition, for comparative purposes, the financial statements for the fiscal year ended December 31, 2004, were prepared in accordance with IFRS and included in the 2005 financial statements. Consequently, the financial statements for the fiscal years ended December 31, 2005, and 2004 are not comparable

with the results for other periods, which were prepared in accordance with POC (*see* Appendix II — "Summary of Differences between POC and IFRS" *below*).

Analysis of Results

In 2005, operating income increased by 212.3 million euros, or 32.6%, compared with 2004, to 862.7 million euros. Net income increased by 247.3 million euros, or 54.5%, compared with 2004, to 700.7 million euros. Galp Energia's results benefited from *the* strong *performance* of the Refining and Marketing and Natural Gas Procurement and Sales segments, driven by higher refining margins and increased natural gas prices and volumes. Total operating costs increased by only 8.4% in 2005 compared to 2004 due to a cost-control program, which contributed to greater operational efficiency. In addition, 2005 results were positively influenced by a capital gain of 54.5 million euros from the sale of Portgás.

For an analysis of the impact on results of using the *Replacement Cost* method instead of FIFO to value the cost of goods sold, *see* "Factors Affecting the Comparability of Historical and Future Results and the Financial Position."

The following table presents the consolidated results for the fiscal years ended December 31, 2005, and 2004, prepared in accordance with IFRS.

	December 31	Change from 2005	
		2004	%
	(in millions of euros, unless otherwise indicated)		
Sales and services rendered	11,137.3	9,272.6	20.1%
Cost of goods sold	(9,162.1)	(7,597.9)	20.6%
Gross Margin	**1,975.2**	**1,674.7**	**17.9%**
Other operating income	83.4	79.3	5.2%
Operating expenses:			
Purchases and external services	(525.6)	(468.4)	12.2%
Personnel costs	(269.6)	(250.9)	7.5%
Other operating costs	(71.3)	(75.5)	(5.6%)
Depreciation and amortization	(306.8)	(294.2)	4.3%
Provisions	(22.5)	(14.6)	54.7%
Total operating expenses	**(1,195.8)**	**(1,103.6)**	**8.4%**
Operating income	**862.7**	**650.4**	**32.6%**
Financial expenses – interest and similar items	(62.0)	(67.7)	(8.4%)
Financial income – interest and similar items	9.0	11.2	(20.2%)
Favorable (unfavorable) foreign exchange differences	(16.6)	7.7	-
Gains (losses) in group companies and affiliates	105.2	25.3	-
Income from Financial Instruments	(3.6)	(22.8)	(84.2%)
Other income (expenses)	(1.4)	(0.5)	-
Current income	**893.4**	**603.6**	**48.0%**
Income tax	(188.8)	(145.8)	29.5%
Earnings before minority interests	**704.6**	**457.8**	**53.9%**
Minority interests	(3.9)	(4.4)	(10.5%)
Net Income	**700.7**	**453.4**	**54.5%**

Galp Energia's Results in Accordance with IFRS

Sales and services rendered

Sales and services rendered increased by 1,864.7 million euros, or 20.1%, from 9,272.6 million euros in 2004 to 11,137.3 million euros in 2005. This change was largely due to a 1,635.0 million euro increase in sales in the Refining and Distribution segment, resulting primarily from higher prices for refined products and, to a lesser extent, from growth in sales volume. This increase in sales and services rendered is also attributable, to a lesser extent, to the rise in average natural gas sales prices and to growth in natural gas sales volume, particularly in the electricity and industrial markets. Sales and services rendered, excluding ISP, totaled 6,959.2 million euros in 2004 and 8,854.2 million euros in 2005.

Cost of Goods Sold

The cost of goods sold increased by 1,564.2 million euros in line with revenue, i.e., 20.6%, from 7,597.9 million euros in 2004 to 9,162.1 million euros in 2005. This change was primarily due to a 1,456.8 million euro increase in the cost of goods sold and materials consumed in the Refining and Marketing segment, mainly attributable to a 38.6% rise in average crude oil purchase prices.

Gross margin

Gross profit increased by 300.5 million euros, or 17.9%, from 1,674.7 million euros in 2004 to 1,975.2 million euros in 2005. This change in gross margin was primarily due to a 22.0% increase in refining margins and a 21.5% increase in the unit margin for natural gas.

Other Operating Revenues

Other Operating Revenues increased by 4.1 million euros, or 5.2%, from 79.3 million euros in 2004 to 83.4 million euros in 2005, mainly due to higher fees received from retailers for the operation of the Company's gas stations, operating subsidies, compensation related to the Leixões terminal accident received in 2005, and capital gains from asset disposals.

Operating Costs

Operating costs increased by 92.2 million euros, or 8.4%, from 1,103.6 million euros in 2004 to 1,195.8 million euros in 2005. This change was primarily due to a 57.2 million euro increase in costs for Supplies and External Services, mainly resulting from higher costs related to changes in international prices for crude oil and certain petroleum products, which serve as a benchmark index. In addition, in 2005 a program was implemented to facilitate the storage of strategic reserves, under which EGREP, a public company, provides storage and related services for a portion of the strategic reserves of all market participants, in exchange for a fee for the service provided (*see* "Legislation Governing the Issuer's Activities" *above* for an overview of mandatory strategic reserves under Portuguese law). This program increased storage costs by 9.6 million euros due to payments made to EGREP, with a corresponding reduction in capital employed

due to the transfer of part of Galp Energia's strategic reserves to this company. Also as a result of this program—since Galp Energia provides part of the storage capacity to EGREP—there was an increase in the storage fees received. Personnel costs increased by 18.7 million euros due to an 8.7 million euro rise in post-employment benefits—related to higher health insurance premiums—and an increase in the workforce associated with the Company's operations on the island of Madeira. Personnel costs were also affected by the growth in activity in Spain. The "Other Operating Expenses" category, on the other hand, decreased by 4.2 million euros, or 5.6%, due to a reduction in *hedging* costs resulting from a decrease in related transactions (*see* "Analysis of Operations and Financial Position—Risk Management" *below*).

Operating Results

As a result of the above, operating income increased by 212.3 million euros,
i.e., 32.6%, from 650.4 million euros in 2004 to 862.7 million euros in 2005. As a percentage of sales, excluding ISP, they increased from 9.3% in 2004 to 9.7% in 2005.

Financial costs – interest and similar expenses

Financial costs decreased by 5.7 million euros, from 67.7 million euros in 2004 to 62.0 million euros in 2005. This reduction was mainly due to a decrease in debt of 380.8 million, or 22%, from 1,729.9 million euros as of December 31, 2004, to 1,349.1 million euros as of December 31, 2005. The effect of this reduction was partially offset by an increase in the average cost of debt (which includes commission payments and other charges) from 2.6% in 2004 to 2.8% in 2005.

Financial income – interest and similar items

Financial income decreased by 2.2 million euros, from 11.2 million euros in 2004 to 9.0 million euros in 2005. This decrease was primarily due to a reduction of 69.7 million euros, or 30.7%, in cash and cash equivalents, from 227.3 million euros as of December 31, 2004, to 157.6 million euros as of December 31, 2005.

Favorable (unfavorable) foreign exchange differences

Net foreign exchange differences decreased by 24.3 million euros, shifting from a gain of 7.7 million euros in 2004 to a loss of 16.6 million euros in 2005. This loss was primarily due to the 13.4% appreciation of the U.S. dollar against the euro, which increased payments in euros to suppliers and other creditors, as well as those related to bank loans. The negative effect of this appreciation was partially offset by an increase in gains on customer accounts.

Gains (losses) on group companies and associates

This item increased by 79.9 million euros, from 25.3 million euros in 2004 to 105.2 million euros in 2005. This change was primarily due to a capital gain of 54.5 million euros resulting from the sale of the 46.6% stake in Portgás and to the increase in earnings appropriated through the application of the equity method to Galp Energia's minority interests in EMPL and CLH.

Income Tax

Income tax increased by 43.0 million euros, or 29.5%, from 145.8 million euros in 2004 to 188.8 million euros in 2005. This change was due to the increase in taxable income. The effective tax rate decreased from 24.2% in 2004 to 21.1% in 2005, due to the impact of deferred taxes.

Net Income

Net income increased by 247.3 million euros, or 54.5%, from 453.4 million euros in 2004 to 700.7 million in 2005. As a percentage of sales and services rendered, excluding ISP, net income increased from 6.5% in 2004 to 7.9% in 2005.

Operating Results by Business Segment

Summary

The following tables present, by business segment, the gross margin and operating results for the fiscal years ended December 31, 2005, and 2004:

	December 31	Change	2005 2004 %
	(in millions of euros, unless otherwise indicated)		
Gross margin:			
Exploration and Production	62.1	42.4	46.6%
Refining and Distribution	1,493.8	1,315.5	13.5%
Natural Gas Procurement and Sales	255.1	189.6	34.5%
Natural Gas Distribution	137.7	124.7	10.4%
Power	9.0	4.7	92.5%
Other (1)	17.6	(2.2)	-
Total	**1,975.2**	**1,674.7**	**17.9%**

(1) Consists of *corporate overhead* (structural costs) and inter-segment eliminations.

	December 31	Change	2005 2004 %
	(in millions of euros, unless otherwise indicated)		
Operating Results:			
Exploration and Production	18.2	(18.9)	196.1%
Refining and Distribution	601.9	520.4	15.7%
Natural Gas Procurement and Sales	186.3	113.0	64.8%
Natural Gas Distribution	58.5	50.1	16.8%
Power	0.8	(0.04)	-
Other (1)	(2.9)	(14.1)	(79.4%)
Total	**862.7**	**650.4**	**32.6%**

(1) Consists of *corporate overhead* (structural costs) and intersegment eliminations.

Exploration and Production

The following table presents the results of the Exploration and Production business segment for the fiscal years ended December 31, 2005, and 2004:

	December 31	Change	2005 2004
			%
	(in millions of euros, unless otherwise indicated)		
Sales and services rendered	66.6	42.6	56.5%
Cost of goods sold	(4.6)	(0.2)	-
Gross Margin	**62.1**	**42.4**	**46.6%**
Other operating income	0.4	0.08	-
External supplies and services	(15.0)	(10.9)	37.7%
Personnel costs	(0.6)	(0.3)	-
Other operating costs	(6.7)	(5.7)	17.9%
Depreciation and amortization	(18.7)	(44.0)	(57.6%)
Provisions.....	(3.3)	(0.4)	-
's Operating Results	**18.2**	**(18.9)**	**-**

Gross margin

Gross profit increased by 19.7 million euros, or 46.6%, from 42.4 million euros in 2004 to 62.1 million euros in 2005. This change was primarily due to a 46.0% increase in the average selling price per barrel, from US$31.1 in 2004 to US$44.6 in 2005, and a 7% increase in the volume of crude oil sold to 1.8 million barrels in 2005. The increase in the average selling price per barrel in 2005 was in line with the 44.9% increase in the average benchmark prices per barrel of *Brent Dated* crude for the same period. The increase in sales volume was primarily due to the recovery in the processing efficiency rate of *the Floating, Production, Storage*, *and Offloading* (FPSO) vessel in Block 14 in Angola—which had faced technical difficulties in 2004—from 88% that year to 96% in 2005.

Operating Results

Operating results increased by 37.1 million euros, from a loss of 18.9 million euros in 2004 to a profit of 18.2 million euros in 2005. This change resulted primarily from the 31.9 million euro impairment provision related to Block 33 in Angola, recorded in 2004, and from the increase in the average selling price per barrel and sales volumes in 2005. This effect was partially offset by increases in 2005 in depreciation and amortization (excluding the impact of the 31.9 million euro impairment charge) due to higher production volumes, as well as in External Supplies and Services related to production and operating costs in Angola, taxes levied in Angola, and an increase in other operating costs related to operations in Brazil. As a percentage of sales and services rendered, operating results stood at 27.3% in 2005, up from a negative 44.5% in 2004.

Refining and Distribution

The following table presents the results of the Refining and Distribution segment for the fiscal years ended December 31, 2005, and 2004:

	December 31		Change
	2005	2004	%
	(in millions of euros, unless otherwise indicated)		
Sales and services rendered	10,029.8	8,394.8	19.5%
Cost of goods sold	(8,536.0)	(7,079.2)	20.6%
Gross margin	**1,493.8**	**1,315.5**	**13.5%**
Other operating income	91.5	90.8	0.8%
External supplies and services	(471.3)	(419.2)	12.4%
Personnel costs	(220.9)	(200.2)	10.3%
Other operating costs	(44.5)	(61.0)	(27.1%)
Depreciation and amortization	(229.5)	(194.1)	18.3%
Provisions	(17.3)	(11.5)	49.6%
Operating income	**601.9**	**520.4**	**15.7%**

Gross margin

Gross profit increased by 178.3 million euros, or 13.5%, from 1,315.5 million euros in 2004 to 1,493.8 million euros in 2005, primarily as a result of:

- A 22.0% increase in refining margins, from $6.0 per barrel in 2004 to $7.3 per barrel in 2005, due to higher selling prices resulting from increased demand for refined products in the U.S. and China and supply disruptions in the U.S. caused by Hurricanes Katrina and Rita, which significantly reduced U.S. refining capacity;

- A 2.0% increase in the volume of petroleum products sold, from 14.9 million metric tons in 2004 to 15.2 million metric tons in 2005, primarily due to a 19.5% increase in wholesale sales in Spain (excluding the contribution from BP Enertica, which was acquired on September 30, 2004); and
- The increase in fuel supply operations at fuel stations due to the growth in maritime industry activities.

Operating Results

Operating results increased by 81.4 million euros, or 15.7%, from 520.4 million euros in 2004 to 601.9 million in 2005. This change resulted primarily from an increase in gross margin, a decrease in other operating costs due to reduced *hedging* activities, and a reduction in losses resulting from the disposal of assets in 2004, following efforts to optimize the efficiency of capital employed. This effect was partially offset by increases in certain variable costs, such as supplies and services related to transportation, storage, and logistics due to higher activity levels, and by higher personnel costs related to post-employment benefits. The acquisition of Ptroval in Spain and the investment in storage on the island of Madeira also had an impact on the cost base related to rents paid for the use of onshore terminals and ports. As a percentage of sales excluding ISP, operating results decreased from 7.5% in 2004 to 6.8% in 2005.

Natural Gas Procurement and Sales

The following table presents the results of the Natural Gas Procurement and Sales business segment for the fiscal years ended December 31, 2005, and 2004:

	December 31,	Change	2005 2004
			%
	(in millions of euros, unless otherwise indicated)		
Sales and services rendered	956.5	705.1	35.6%
Cost of goods sold.....	(701.5)	(515.5)	36.1%
Gross margin	**255.1**	**189.6**	**34.5%**
Other operating income	5.3	4.1	28.2%
External supplies and services	(26.6)	(29.2)	(9.0%)
Personnel costs	(13.1)	(14.9)	(11.6%)
Other operating costs	(2.3)	(3.6)	(36.7%)
Depreciation and amortization.....	(31.2)	(31.0)	0.9%
Provisions	(0.8)	(2.1)	(60.0%)
Operating income	**186.3**	**113.0**	**64.8%**

Gross margin

Gross profit increased by 65.5 million euros, or 34.5%, from 189.6 million euros in 2004 to 255.1 million euros in 2005. This change resulted in part from a 22% increase in the average unit margin for natural gas, from 0.041 $^{euros/m^3}$in 2004 to 0.050 $^{euros/m^3}$in 2005. In addition, the growth in sales volumes—primarily due to the 16.7% increase, to 2.0 bcm, in demand for natural gas for electricity generation—also had a favorable impact on gross margin. This increase in demand for natural gas for electricity generation was due to lower precipitation levels and also to the additional natural gas-fired power generation capacity installed in Portugal. The 11.9% increase, to 1.4 bcm, in the volume of natural gas consumed by large industrial customers (primarily glass and ceramics manufacturers) also had a significant impact.

Operating Results

Operating income increased by 73.3 million euros, or 64.8%, from 113.0 million euros in 2004 to 186.3 million euros in 2005. This change in operating income was primarily due to higher unit margins on natural gas, lower personnel costs, and, to a lesser extent, lower unit costs such as maintenance, technical support, and customer service. The reduction in customer provisions also had a positive effect. As a percentage of sales and services rendered, operating income increased from 16.0% in 2004 to 19.5% in 2005.

Natural Gas Distribution

The following table presents the results of the Natural Gas Distribution business segment for the fiscal years ended December 31, 2005, and 2004:

	December 31	Change	2005 2004
			%
	(in millions of euros, unless otherwise indicated)		
	otherwise indicated)		
Sales and services rendered	226.1	196.5	15.0%
Cost of goods sold	(88.3)	(71.8)	23.0%
Gross Margin	**137.7**	**124.7**	**10.4%**
Other operating income	7.2	6.7	7.2%
External supplies and services	(38.6)	(35.9)	7.7%
Personnel costs	(22.3)	(23.3)	(4.3%)
Other operating costs	(1.8)	(2.1)	(17.2%)
Depreciation and amortization	(22.5)	(19.9)	13.1%
Provisions	(1.2)	(0.1)	-
Operating income	**58.5**	**50.1**	**16.8%**

Gross margin

Gross profit increased by 13.0 million euros, or 10.4%, from 124.7 million euros in 2004 to 137.7 million euros in 2005. This change was primarily due to a 5.9% increase in the unit margin, from 0.305 euros/m^3 in 2004 to 0.323 euros/m^3 in 2005. The higher unit margins resulted from a 10.6% increase in average natural gas distribution rates in 2005. In addition, the increase in gross margin resulted from a 4.7% growth in natural gas sales volume, from 382.3 million m^3 in 2004 to 400.1 million m^3 in 2005. This increase in volume is largely attributable to a 7.2% increase in the number of customers, from approximately 575,800 as of December 31, 2004, to 617,000 as of December 31, 2005.

Operating Results

Operating income increased by 8.4 million, or 16.8%, from 50.1 million euros in 2004 to 58.5 million in 2005, due to the increase in gross margin. This effect was partially offset by higher depreciation and amortization related to customer conversions to natural gas, increased provisions for accounts receivable from customers, and higher variable costs associated with certain key business processes, such as inspections and meter readings, billing, and collections. As a percentage of sales and services rendered, operating income increased from 25.5% in 2004 to 25.9% in 2005.

Power

The following table presents the results of the *Power* segment for the fiscal years ended December 31, 2005, and 2004:

	December 31	Change	2005	2004
			%	
	(in millions of euros, unless otherwise indicated) otherwise noted)			
Sales and services rendered	24.8	14.2	74.0%	
Cost of goods sold	(15.8)	(9.6)	65.0%	
Gross Margin	**9.0**	**4.7**	**92.5%**	
Other operating income	0.4	1.2	(64.7%)	
External supplies and services	(5.1)	(2.9)	78.0%	
Personnel costs	(0.3)	(0.2)	40.5%	
Other operating costs	(0.4)	(0.04)	-	
Depreciation and amortization	(2.9)	(2.9)	(0.6%)	
Provisions.....	(0.03)	0.07	-	
Operating results	**0.8**	**(0.04)**	**-**	

Sales and Services Rendered

Sales and services rendered increased by 10.6 million euros, or 74.0%, from 14.2 million euros in 2004 to 24.8 million euros in 2005. This change was primarily due to a 57.6% increase in electricity generation, to 238 GWh.

Cost of Goods Sold

The cost of goods sold increased by 6.2 million euros, or 65.0%, from 9.6 million euros in 2004 to 15.8 million euros in 2005. This change resulted primarily from a 52% increase in natural gas consumption, to 70 million m^3in 2005, and an average 9% increase in natural gas prices.

Operating Results

Operating results increased by 0.84 million, from a negative 0.04 million euros in 2004 to a positive 0.8 million euros in 2005. As a percentage of sales and services rendered, operating results were negative 0.3% in 2004 and 3.0% in 2005.

10.7 Comparison between the fiscal year ended December 31, 2004, and the fiscal year ended December 31, 2003

The financial statements for the fiscal years ended December 31, 2004, and 2003 were prepared in accordance with POC, which differs from IFRS in certain material respects. Consequently, the financial statements for the fiscal years ended December 31, 2004, and 2003 are not comparable to the results for other periods, which were prepared in accordance with IFRS (*see* Appendix II—"Summary of Differences Between POC and IFRS" *below*).

Analysis of Results

In 2004, operating results increased by 104.3 million euros, or 31.2%, compared to 2003, to 438.8 million euros. Net income increased by 85.7 million euros, or 34.6%, compared to 2003, to 333.1 million euros. This positive *performance* was primarily due to higher refining margins in 2004 and an increase in the volume of natural gas sold. Total operating costs rose by 17.4%

from 2003 to 2004, primarily due to provisions related to oil exploration wells and signature bonuses for Block 33 in Angola.

The following table presents Galp Energia's consolidated results for the fiscal years ended December 31, 2004, and 2003, prepared in accordance with POC.

	December 31	Change 2004 2003	
			%
	(in millions of euros, unless otherwise indicated)		
Sales and services rendered	9,258.5	7,413.5	24.9%
Cost of goods sold	(7,733.3)	(6,170.2)	25.3%
Gross margin (1)	**1,525.2**	**1,243.4**	**22.7%**
Other operating income	68.2	74.6	(8.6%)
Operating expenses:			
Supplies and external services	(437.3)	(391.8)	11.6%
Personnel costs	(255.1)	(225.8)	13.0%
Other operating costs	(69.3)	(51.3)	35.2%
Depreciation and amortization	(318.4)	(298.0)	6.9%
Provisions	(74.5)	(16.7)	-
Total operating expenses	**(1,154.6)**	**(983.6)**	**17.4%**
, operating income	**438.8**	**334.5**	**31.2%**
Favorable (unfavorable) exchange rate differences	8.0	9.6	(16.8%)
Financial expenses – interest and similar items	(72.7)	(71.0)	2.4%
Financial income – interest and similar items	9.8	17.8	(45.4%)
Gains (losses) on group companies and associates	25.5	22.8	11.6%
Other income (expenses)	(0.3)	(0.1)	-
Current income	**409.0**	**313.6**	**30.4%**
Extraordinary income	40.6	55.5	(26.9%)
Earnings before taxes and minority interests	**449.6**	**369.1**	**21.8%**
Income tax	(111.9)	(118.7)	(5.7%)
Minority interests	(4.6)	(3.0)	54.4%
Net Income	**333.1**	**247.4**	**34.6%**

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), as they include services rendered.

Galp Energia's Results in Accordance with POC

Sales and Services Rendered

Sales and services rendered increased by 1,845 million euros, or 24.9%, from 7,413.5 million euros in 2003 to 9,258.5 million euros in 2004. This change was primarily due to a 1,711.7 million euro increase in sales from the Refining and Distribution business segment, mainly driven by higher prices for refined products. The increase was also due, to a lesser extent, to growth in the volume of natural gas sales. Sales and services rendered, excluding ISP, totaled 5,314.9 million euros in 2003 and 6,945.2 million euros in 2004.

Cost of Goods Sold

The cost of goods sold increased by 1,563.1 million euros in line with revenue, i.e., 25.3%, from 6,170.2 million euros in 2003 to 7,733.3 million euros in 2004. This change was primarily due to a 1,528.2 million euro increase

in the cost of goods sold in the Refining and Marketing segment, driven primarily by a 31.7% increase in average crude oil purchase prices. This increase is in line with the 32.7% rise in average *Brent Dated* crude oil reference prices for that period.

Gross Margin

Gross margin increased by 281.8 million euros, or 22.7%, from 1,243.4 million euros in 2003 to 1,525.2 million euros in 2004. This change in gross margin was primarily due to higher refining margins in 2004 and higher natural gas sales prices and volumes in 2004.

Other Operating Revenues

Other Operating Revenues decreased by 6.4 million euros, i.e., 8.6%, from 74.6 million euros in 2003 to 68.2 million euros in 2004, resulting mainly from the decrease in fees received from resellers in connection with the operation of the Company's service stations, operating subsidies, and the reduction in capital gains from asset disposals compared to 2003.

Operating costs

Operating costs increased by 171.0 million euros, or 17.4%, from 983.6 million euros in 2003 to 1,154.6 million euros in 2004. This change was primarily due to a 57.8 million euro increase in provisions, mainly related to the impairment provision for Block 33 in Angola, and to the increase in costs for External Supplies and Services and Personnel Costs associated with the expansion of marketing activities in Spain, achieved through organic growth and acquisitions, such as that of BP Enértica.

Operating Results

Operating income increased by 104.3 million euros, or 31.2%, from 334.5 million euros in 2003 to 438.8 million euros in 2004. As a percentage of sales and services rendered, excluding ISP, it stood at 6.3% in both 2004 and 2003.

Financial Costs – Interest and Similar Expenses

Financial costs increased by 1.7 million euros, from 71.0 million euros in 2003 to 72.7 million euros in 2004. This increase was primarily due to a rise in other financial costs, including bank fees for guarantees, structured transactions, and other banking services. This increase was partially offset by a decrease in interest paid due to the reduction in gross debt from 2,119.8 million euros in 2003 to 1,730.7 million euros in 2004.

Financial income – interest and similar items

Financial income decreased by 8.0 million euros, from 17.8 million euros in 2003 to 9.8 million euros in 2004. This decrease was primarily due to 3.2 million euros in interest related to fees owed for the use of Galp Energia's infrastructure, which were recognized in 2003 but were no longer recognized in 2004, and to the recognition of

3.0 million euros in interest on the put option for the shares of ONI, SGPS, S.A. ("ONI"), sold to EDP, also in 2003.

Favorable (unfavorable) exchange rate differences

Net foreign exchange differences decreased by 1.6 million euros, from 9.6 million euros in 2003 to 8.0 million euros in 2004. This decrease was mainly due to the 7.8% depreciation of the U.S. dollar against the euro in 2004, compared with a 20.4% depreciation in 2003.

Gains (losses) on group companies and associates

This item increased by 2.7 million euros, rising from 22.8 million euros in 2003 to 25.5 million in 2004.

Extraordinary income

Extraordinary income decreased by 14.9 million euros, from 55.5 million euros in 2003 to 40.6 million euros in 2004. This decrease is partly related to the capital gain, recognized in 2003, resulting from the fuel station *swap* transaction with Cepsa and Total.

Income tax

Income tax decreased by 6.8 million euros, from 118.7 million euros in 2003 to 111.9 million euros in 2004, primarily due to the recognition of deferred taxes. The effective tax rate fell from 32.2% in 2003 to 24.9% in 2004, due to the effect of deferred taxes.

Net Income

Net income increased by 85.7 million euros, or 34.6%, from 247.4 million euros in 2003 to 333.1 million euros in 2004. As a percentage of sales and services rendered, excluding ISP, net income increased from 4.7% in 2003 to 4.8% in 2004.

Operating Results by Business Segment

Summary

The following tables present, by business segment, the gross margin and operating results for the fiscal years ended December 31, 2004, and 2003:

	December 31	Change	2004	2003
		%		
	(in millions of euros, unless otherwise indicated) otherwise indicated)			
Gross margin[1] :				
Exploration and Production	42.4	38.0	11.4%	
Refining and Distribution	1,167.3	983.9	18.6%	
Natural Gas Procurement and Sales	188.2	122.2	54.0%	
Natural Gas Distribution	124.7	104.7	19.1%	
Power	4.7	(0.1)	-	
Other [2]	(2.0)	(5.3)	61.6%	
Total	**1,525.2**	**1,243.4**	**22.7%**	

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), as they include services rendered.

(2) This consists of *corporate overhead* (structural costs) and inter-segment eliminations.

	December 31	Change	2004	2003
		%		
	(in millions of euros, unless otherwise indicated) otherwise indicated)			
Operating Results:				
Exploration and Production	(19.3)	7.6	-	
Refining and Marketing	338.9	262.6	29.1%	
Natural Gas Procurement and Sales .	93.9	63.1	49.0%	
Natural Gas Distribution	38.9	24.3	60.1%	
Power	(0.2)	(1.6)	89.8%	
Other [1]	(13.4)	(21.3)	37.3%	
Total	**438.8**	**334.5**	**31.2%**	

(1) Consists of *corporate overhead* (structural costs) and inter-segment eliminations.

Exploration and Production

The following table presents the results of the Exploration and Production segment for the fiscal years ended December 31, 2004, and 2003:

	December 31	Change	2004	2003
		%		
	(in millions of euros, unless otherwise indicated) (otherwise)			
Sales and services rendered	42.6	38.4	10.9%	
Cost of goods sold	(0.2)	(0.4)	(40.7%)	
Gross margin [1]	**42.4**	**38.0**	**11.4%**	
Other operating income	0.03	0.03	-	
External supplies and services	(11.0)	(11.0)	(0.2%)	
Personnel costs	(0.2)	(0.3)	(34.6%)	
Other operating costs	(5.7)	(6.8)	(16.5%)	
Depreciation and amortization	(12.5)	(11.8)	6.2%	
Provisions	(32.3)	(0.5)	-	
Operating income	**(19.3)**	**7.6**	**-**	

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), since the gross margin includes services rendered.

Gross margin

Gross profit increased by 4.4 million euros, or 11.4%, from 38.0 million euros in 2003 to 42.4 million euros in 2004. This change was primarily due to a 19% increase in the average selling price per barrel, from US$24.0 in 2003 to US$31.1 in 2004, partially offset by an 8% decline in sales volume to 1.7 million barrels in 2004. The increase in the average selling price per barrel in 2004 was in line with the average 32.7% increase per barrel in the *Brent Dated* crude oil benchmark price for the same period. The decline in sales was due to technical difficulties at the Kuito field in Angola related to the FPSO, which led to an 8.1% reduction in the volume of crude oil produced.

Operating Results

Operating results decreased by 26.9 million euros, from 7.6 million euros in 2003 to a loss of 19.3 million euros in 2004. This decline in operating results was primarily due to a provision of 31.9 million euros set aside to address the possibility that the block might not be economically viable and to cover the investment related to Galp Energia's stake in Block 33 in Angola, which the operator believes lacks the conditions for commercial development.

Refining and Marketing

The following table presents the results of the Refining and Marketing segment for the fiscal years ended December 31, 2004, and 2003:

	December 31	Change	2004	2003
		%		
	(in millions of euros, unless otherwise indicated) (otherwise)			
Sales and services rendered	8,380.6	6,668.9	25.7%	
Cost of goods sold	(7,213.3)	(5,685.1)	26.9%	
Gross Margin[1]	**1,167.3**	**983.9**	**18.6%**	
Other operating income	77.7	73.3	6.0%	
External supplies and services	(387.5)	(346.2)	11.9%	
Personnel costs	(203.9)	(176.7)	15.4%	
Other operating costs	(59.6)	(39.6)	50.7%	
Depreciation and amortization	(220.2)	(218.8)	0.6%	
Provisions	(34.8)	(13.3)	16.7%-	
Operating income	**338.9**	**262.6**	**29.1%**	

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), since the gross margin includes services rendered.

Gross margin

The gross margin increased by 183.4 million euros, or 18.6%, from 983.9 million euros in 2003 to 1,167.3 million euros in 2004, primarily as a result of:

- a 62.1% increase in refining margins from $3.7 per barrel in 2003 to $6.0 per barrel in 2004, due primarily to increased demand for refined products in the U.S. and China and to global supply constraints. These constraints were attributable both to new regulations regarding low

sulfur content for diesel and gasoline in Europe as well as to the temporary but sharp decline in refining capacity in the U.S. due to Hurricane Ivan;

- a 4.9% increase in the volume of petroleum products sold, from 14.2 million metric tons in 2003 to 14.9 million metric tons in 2004. This increase was mainly due to a 9.7% rise in exports to the U.S., to 0.8 million metric tons in 2004, and a 38.2% increase in wholesale sales in Spain, resulting from the acquisition of BP Enértica in September 2004; and
- a 4.1% increase in the volume of fuel sold at Galp Energia service stations, to 3.3 billion liters, resulting from an increase in the average sales volume per company-owned service station from 2.9 million liters in 2003 to 3.0 million liters in 2004.

Operating Results

Operating results increased by 76.3 million euros, or 29.1%, from 262.6 million euros in 2003 to 338.9 million euros in 2004. This change was primarily due to an increase in gross margin, partially offset by increases in both Personnel Expenses and External Supplies and Services resulting from the acquisition of BP Enertica and the growth stemming from acquisitions and the expansion of the service station network. The conversion of some service stations in Spain from dealer-operated stations to company-operated stations also contributed to the growth in Personnel Costs and Purchases of Supplies and External Services. Investments made at the Sines refinery in connection with the scheduled shutdown, which amounted to 17.1 million euros in 2004, also contributed to the increase in external supplies and services in 2004. As a percentage of sales and services rendered, excluding ISP, operating margins stood at 4.9% in both 2004 and 2003.

Natural Gas Procurement and Sales

The following table presents the results of the Natural Gas Procurement and Sales segment for the fiscal years ended December 31, 2004, and 2003:

	December 31	Change	2004	2003
		%		
	(in millions of euros, unless otherwise indicated)			
Sales and services rendered	705.1	600.0	17.5%	
Cost of goods sold	(516.9)	(477.8)	8.2%	
Gross margin[1]	**188.2**	**122.2**	**54.0%**	
Other operating income	4.1	9.2	(55.2%)	
External supplies and services	(27.1)	(19.8)	36.9%	
Personnel costs	(15.1)	(14.1)	6.8%	
Other operating costs	(3.2)	(1.0)	-	
Depreciation	(46.6)	(32.8)	42.1%	
Provisions	(6.3)	(0.7)	-	
Operating income	**93.9**	**63.1**	**49.0%**	

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), since the gross margin includes services rendered.

Gross margin

Gross profit increased by 66.0 million euros, or 54%, from 122.2 million euros in 2003 to 188.2 million euros in 2004. This change was primarily due to a 31.7% increase in the average unit margin for natural gas, from 0.031 euros/m³in 2003 to 0.040 euros/m³in 2004. In addition, the volume of natural gas sold increased by 16.6%, from 3.4 bcm in 2003 to 4.0 bcm in 2004. This growth was primarily due to a 53.6% increase in demand for electricity generation, to 1.7 bcm, driven by unusually low precipitation levels in 2004.

Operating Results

Operating income increased by 30.8 million euros, or 49.0%, from 63.1 million euros in 2003 to 93.9 million euros in 2004. In 2004, the LNG terminal began operations, resulting in a general increase in the cost base, such as External Supplies and Services and Depreciation. This increase, however, did not lead to a decline in operating efficiency, as operating results, as a percentage of sales and services rendered, rose from 10.5% in 2003 to 13.3% in 2004.

Natural Gas Distribution

The following table presents the results of the Natural Gas Distribution business segment for the fiscal years ended December 31, 2004, and 2003:

	December 31	Change	2004	2003
		%		
	(in millions of euros, unless otherwise indicated)			
Sales and services rendered	196.5	174.1	12.9%	
Cost of goods sold	(71.8)	(69.4)	3.5%	
Gross Margin(1)	**124.7**	**104.7**	**19.1%**	
Other operating income	8.6	9.4	(8.4%)	
External supplies and services	(34.8)	(31.8)	9.5%	
Personnel costs	(23.7)	(22.4)	5.8%	
Other operating costs	(1.3)	(1.1)	11.3%	
Depreciation and amortization	(33.7)	(31.9)	5.8%	
Provisions	(1.0)	(2.7)	(62.5%)	
Operating income	**38.9**	**24.3**	**60.1%**	

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), since the gross margin includes services rendered.

Gross margin

Gross profit increased by 20 million euros, or 19.1%, from 104.7 million euros in 2003 to 124.7 million euros in 2004. This change was mainly due to an 8.2% increase in the unit margin from 0.282 euros/m³in 2003 to 0.305 euros/m³in 2004. The higher unit margins resulted in part from a 2.4% increase in average natural gas distribution rates in 2004. The increase in gross margin was also due to a 9.9% increase in natural gas sales volume, from 348 million m³in 2003 to 382.3 million m³in 2004. This increase in volume is

This was largely due to a 7.8% increase in the number of customers, from approximately 533,900 as of December 31, 2003, to approximately 575,800 as of December 31, 2004.

Operating Results

Operating results increased by 14.6 million euros, or 60.1%, from 24.3 million in 2003 to 38.9 million in 2004. This increase in operating results was primarily due to a 2.8% reduction in unit costs (Purchases and External Services and Personnel Costs per m^3 of natural gas sold) as a result of cost-reduction initiatives, such as the optimization of metering processes and customer complaint management. As a percentage of sales and services rendered, operating income was 13.9% in 2003 and 19.8% in 2004.

Power

The following table presents the results of the *Power* business segment for the fiscal years ended December 31, 2004, and 2003:

	December 31	Change	2004	2003
		%		
	(in millions of euros, unless otherwise indicated)			
Sales and services rendered	14.2	0.7	-	
Cost of goods sold	(9.5)	(0.8)	-	
Gross margin[1]	**4.7**	**(0.1)**	-	
Other operating income	1.8	2.7	(33.9%)	
Supplies and external services	(3.4)	(3.4)	0.6%	
Personnel costs	(0.2)	(0.5)	(60.6%)	
Other operating costs	(0.04)	(0.2)	(72.5%)	
Depreciation and amortization	(3.0)	(0.1)	-	
Provisions	(0)	(0)	-	
Operating income	**(0.2)**	**(1.6)**	**87.5%**	

(1) These figures differ from those presented in the 2003 and 2004 Annual Reports and Financial Statements (POC), since the gross margin includes services rendered.

Sales and Services Rendered

Sales increased by 13.5 million euros, from 0.7 million euros in 2003 to 14.2 million euros in 2004. This increase was due to the commissioning of two cogeneration plants in 2004.

Cost of Goods Sold

The cost of goods sold increased by 8.7 million euros, from 0.8 million euros in 2003 to 9.5 million euros in 2004. This increase was due to the start of operations at two cogeneration plants in 2004, which produced 151 GWh of electricity that year.

Operating Results

Operating results improved by 1.4 million euros, from a loss of 1.6 million euros in 2003 to a loss of 0.2 million euros in 2004.

10.8 Seasonality

Demand for refined petroleum products and natural gas in the Iberian Peninsula is subject to limited seasonal effects due to the mild temperatures throughout the year. Although these seasonal patterns affect Galp Energia's revenues in the individual business segments, the effect on consolidated operating results is minimal.

10.9 Treasury Stock

As of the date of this Prospectus, Galp Energia does not hold any treasury stock.

10.10 Environmental and Labor Issues

For a detailed description of environmental issues, particularly those affecting Galp Energia's properties and those related to the environmental legislation governing its operations, *see* "Property, Plant, and Equipment" *above* and "Legislation Governing the Issuer's Operations—Environmental Regulation" *above*. During 2005, Galp Energia made investments in this area totaling 12.5 million euros and recorded 7.6 million euros in provisions as of December 31, 2005. Expenses related to compliance with legislation are included in the costs associated with Galp Energia's business operations. However, in addition to costs associated with the environment, quality, and safety, Galp Energia may also incur costs related to corrective actions in the various operations in which it is involved; specifically, upon the expiration of a concession, Galp Energia must ensure that the closure of the wells, as well as their infrastructure, complies with technical and environmental requirements. For a detailed description of labor matters, *see* "Personnel" *below*.

10.11 Major Future Investments

For a description of the main future investments, *see* "Information on the Issuer – Investments" *below*.

10.12 Principal Accounting Policies in accordance with IFRS

Tangible and Intangible Fixed Assets

Tangible Fixed Assets

Acquired tangible fixed assets are recorded at acquisition cost, less accumulated depreciation, any accumulated impairment losses, and government grants. Acquisition cost includes the invoice price, transportation and installation costs, as well as interest on bank loans incurred during the construction period.

Fixed assets under construction are recorded at acquisition cost, net of government grants and any impairment losses. Depreciation of tangible fixed assets is calculated on a straight-line basis from the year the assets begin to be used until the end of their useful lives, taking into account, where applicable, the limits imposed by the concession period. All natural gas infrastructure is depreciated over a period of 45 years, which represents the useful life of the gas pipelines. Repair and maintenance *costs* are recognized as expenses in the year to which they relate. Repairs involving the replacement of parts of equipment or other fixed assets are capitalized as tangible fixed assets and depreciated over the remaining useful life of the

corresponding fixed asset after the replacement component has been written off (*see* Appendix II—"Differences between POC and IFRS" *below*).

Intangible Assets

Intangible assets are recorded at acquisition cost less accumulated amortization, any accumulated impairment losses, and government grants. An intangible asset is recognized if it is probable that it will provide future economic benefits to the Company and if the cost of the asset can be quantified. Costs related to natural gas transmission rights and the conversion of consumption to natural gas—including the renovation, replacement, and adaptation of facilities and combustion equipment—are recorded as intangible assets. These costs are amortized over the period from the start of operations to the end of the natural gas distributors' concession period. The Company capitalized the costs associated with the renovation, replacement, and adaptation of facilities and combustion equipment for natural gas because it will derive a future economic benefit through the maintenance of sales to customers and the inclusion of these costs in the calculation of tariffs approved by ERSE, since these costs are defined as assets allocated to the concession under Decree-Law No. 140/2006. These costs are amortized over the period from the start of operations to the end of the natural gas distributors' concession period.

Inventories

See "Factors Affecting the Comparability of Historical and Future Operating Results and Financial Condition—Transition to International Financial Reporting Standards—Valuation of Inventories" *above* for an explanation of the inventory valuation policy.

Estimates and Judgments

The preparation of financial statements in accordance with generally accepted accounting principles in Portugal and in accordance with IFRS requires the use of estimates regarding the accounting treatment of the value of assets and liabilities, the disclosure of contingent assets and liabilities at the end of each year, and the revenue and expenses recognized in each year. Actual results may differ depending on the estimates made. Certain estimates are considered critical if their nature is deemed significant due to the degree of subjectivity and judgment required to record situations for which there is considerable uncertainty or that are subject to change, or if the impact of the estimates on the financial position or operating performance is significant. The accounting principles and areas that require the greatest number of judgments and estimates in the preparation of the financial statements are (i) proven crude oil reserves related to oil exploration activities, (ii) *goodwill* impairment tests, (iii) provisions for contingencies, (iv) environmental liabilities, and (v) retirement benefit obligations.

Crude Oil Reserves

The estimation of crude oil reserves is an integral part of the decision-making process regarding the exploration of oil assets and the development and implementation of secondary recovery techniques. The volume of proven and developed crude oil reserves is used to calculate the depreciation of exploration and production assets, as well as to assess the impairment of investments in assets related to that activity. Estimates of proven crude oil reserves are also used to recognize annual costs of

abandonment. Estimates of crude oil reserves are prepared in accordance with the rules established for the oil and gas industry, based on technical information provided by the operator of the consortium in which Galp Energia participates. Estimates of proven reserves are subject to subsequent revision based on new information that becomes available, such as information regarding the progress of drilling or production activities, exchange rates, prices, contract terms, and development plans. Proven reserves are generally recoverable and based on estimates subject to adjustments. Changes in estimates of proven and developed reserves impact amortization, since assets are amortized based on expected future production.

Goodwill

Goodwill impairment tests are performed annually. The recoverable amounts of cash-generating units, such as service stations, are determined based on their fair value. In calculating fair value, future *cash flows* from the cash-generating units are estimated, and the weighted-average cost of capital appropriate for the business segment is used to calculate the present value of the cash flows.

Provisions for Contingencies

The final cost of legal proceedings, settlements, and other disputes may vary due to estimates based on different interpretations of legal provisions, opinions, and the final assessment of losses. Consequently, any change in circumstances related to these types of contingencies could have a significant effect on the amount of provisions for contingencies recorded.

Environmental Liability

Judgments and estimates are made to calculate provisions for environmental matters, particularly those related to known soil remediation requirements, based on available information regarding remediation costs and action plans. Such costs may vary due to changes in laws and regulations, changes in the conditions at a specific site, as well as changes in remediation technologies. Consequently, any change in circumstances related to such provisions, as well as at the legislative and regulatory level, may significantly affect the provisions recorded for such events.

Retirement Benefit Liabilities

Estimates of retirement benefit liabilities depend on a set of assumptions, including the expected rate of return on pension fund assets, the technical interest rate, the rate of increase in salaries and pensions, and mortality and disability rates, variations in which may have a significant impact on the financial statements (*see* “Off-Balance-Sheet Items in accordance with IFRS - Post-Employment Benefit Plans” *below*).

10.13 Off-Balance-Sheet Items in Accordance with IFRS Post-

Employment Benefit Plans

The post-employment benefit plans offered by some companies in the Galp Energia Group include (i) supplemental retirement, disability, and survivor pensions (pensions paid to the family in the event of an employee’s death), (ii) early retirement and

pre-retirement pensions, and (iii) health and life insurance. The Company contributes to pension funds to cover supplementary retirement, disability, and survivor pensions, while provisions are established for the other benefits.

These post-employment benefits are accounted for in accordance with IAS 19, which allows companies to defer the recognition of accumulated actuarial gains or losses. These actuarial gains and losses are not recognized if they fall within a "corridor" calculated as 10% of the greater of: (i) the market value of the assets and (ii) the present value of the liabilities. Any excess gains and losses that fall outside these limits must be recognized over the expected average future service period of the participating employees.

In 2005, Galp Energia had the following significant off-balance-sheet items related to post-employment benefits:

Pension Fund Assets: 327.6 million euros related to liabilities funded by the Petrogal Pension Fund; 6.9 million euros related to liabilities funded by the Sacor Marítima Pension Fund; and 21.4 million euros related to liabilities funded by the GDP Pension Fund.

Actuarial Gains and Losses: 35.8 million euros related to pension plan liabilities and 66.8 million euros related to health and life insurance, which are not reflected on the balance sheet, because they either fall within the 10% limit of the corridor or correspond to amounts that fall outside the corridor limits—amounts not yet recognized in the income statement but that will be recognized over the average service period of participating employees.

Guarantees

As of June 30, 2006, Galp Energia had the following material off-balance-sheet items related to bank guarantees granted in favor of third parties:

- 20.0 million euros in favor of the Lisbon Court (2nd Chamber of the 1st Section) for legal proceedings related to a payment demanded by a third party concerning Driftal, S.A. (*see* "Legal and Arbitration Proceedings" *below*);

- 13.6 million euros in favor of the State with respect to the obligations and duties arising from the concession agreement to operate the natural gas distribution network;

- 11.1 million euros in favor of the State with respect to the obligations and duties arising from the concession contracts for the import, transport, and export of natural gas;
- 7.8 million euros to the Lisbon Administrative and Tax Court in connection with a payment demanded by the Municipality of Lisbon for legal proceedings related to subsoil taxes;

- 6.5 million euros in favor of various municipalities in connection with the payment of municipal fees for the use of municipal subsoil for the natural gas network; and

- US$162.0 million in favor of EMPL, which owns the Europe-Maghreb *pipeline,* related to 27.4% (corresponding to Transgás's stake in EMPL) of the loans granted to EMPL.

10.14 Risk Management

Galp Energia is exposed to various types of market risk inherent to the oil and natural gas industry, namely *commodity* prices, refining margins, exchange rates, interest rates, and counterparty risk. Galp Energia has established policies and procedures to measure, control, and manage its risk exposure. The objective of the risk management program is to help the business segments achieve their objectives by monitoring the impact on their results. The risk management program seeks to optimize the natural hedges existing within each business segment and across the different business segments. Thus, Galp Energia identifies the residual market risk that could affect its projected *cash flows* and balance sheet, analyzing them on an integrated basis while taking into account the correlation between the various exogenous variables over which it has no control and that impact its operating results.

Galp Energia's risk management policy is established by the Board of Directors. This policy sets out objectives and procedures, as well as the allocation of responsibilities for risk management within the Company. The Risk Management Committee includes two members of the Executive Committee, two representatives from the Corporate Finance Department, one representative from the Refining and Distribution business segment, and one representative from the Natural Gas Procurement and Sales business segment. The Risk Management Committee establishes the mechanisms through which the risk management policy is implemented, and these mechanisms are submitted to Galp Energia's Executive Committee for approval. Results are reviewed monthly by the Risk Management Committee, which is responsible for the integrated management of the Galp Energia Group. The Risk Management Committee may amend the risk management policy within the guidelines established by the Board of Directors or, if appropriate, propose a new strategy at any time. Product risk management is implemented at the level of each business segment. Exposure to interest rate risk, foreign exchange risk, and other financial risks is managed at the corporate level. In addition, Galp Energia has separate policies regarding treasury, insurance, environment, health and safety, and information technology risk management.

Market Risks

Refining Margin Risk

The refining margin is a key component of refining operations' results. Consequently, fluctuations in international refining margins pose a significant risk. To ensure a minimum margin per barrel, Galp Energia consistently hedges its refining margin using derivatives. The refining margin subject to this policy is the refining margin on products sold to other operators in the Portuguese market. Galp Energia assumes the risk associated with the refining margins on products it sells through its own distribution network. The amount subject to hedging is calculated annually, taking into account the sales budget and refinery production. In accordance with the approved management policy, Galp Energia may hedge up to 20% of its total refining margin using derivative instruments, such as *put options* for the sale of refining margins in *over-the-counter* ("OTC") markets. The current policy does not allow for the fixing of the refining margin through the setting of prices for refined products, crude oil, or other

raw materials. This policy allows the Company to be more flexible, taking advantage of the potential for rising refining margins.

The risk management policy in place allows for hedging for up to one year on a continuous basis, with hedging permitted up to 100% for the current quarter, and 75%, 50%, and 25% for the following quarters, respectively. These transactions target the components of the refining margin that are exposed to fluctuations in international market prices. The Risk Management Committee regularly reviews hedging activities and the risk management policy. This policy has been in effect since 2003.

The following table presents the approximate impact that movements in foreign exchange and price exposure would have had on the refining margin for 2005, based on management's assumptions regarding market and operating conditions, excluding hedging transactions.

Positive or Negative Variations for 2005

	Approximate Impact (in millions of euros)
10 percent change in the Euro/US$ exchange rate	+/- 54
US$1.00 per barrel in the refining margin	+/- 85[1]
Ten points in the Aframax Worldscale freight rate for crude oil	± 5[2]

(1) Assuming a processing capacity of 98 million barrels per year and 8% of crude oil used for internal consumption ("consumption and losses").

(2) Considering the 2005 Aframax Worldscale freight rate of 158.

Commodity Price Risk

Due to the nature of its business, Galp Energia is exposed to the risk of volatility in international crude oil and natural gas prices. It is common industry practice to index crude oil and natural gas purchase and sale contracts to crude oil benchmark prices. Constant fluctuations in the prices of crude oil and refined products create uncertainty and have a significant impact on operating results.

All of the crude oil processed at Galp Energia's refineries is imported. The Company manages and mitigates product price risk by monitoring the *commodities* market and balancing its purchase and supply obligations. In particular, it manages the pricing period so as to achieve, at the end of each month, the average *Brent Dated* price for that same month, regardless of the actual number of days in the pricing period. Galp Energia aims to achieve this objective through the daily purchase and/or sale of crude oil futures based on the difference between the current price and the average *Brent Dated* price for each month. Consequently, purchases are effectively spread out over the month based on market prices, without any change to the pattern of physical purchases. Galp Energia carries out this price hedging through transactions on the Intercontinental Exchange (ICE) in London.

Galp Energia's crude oil production is concentrated in Angola. Galp Energia uses the method described above to smooth the pricing period for crude oil sold through OTC markets. This arrangement results in price smoothing over a maximum period of one year.

Inventory Risk

From a risk management perspective, most inventory remains relatively constant over time and consists of the minimum level of inventory that Galp

Energia is required to maintain under Portuguese laws and regulations, in addition to the minimum level of supplies without which the operation of its refineries could not be guaranteed. These inventories pose a risk to the income statement and balance sheet, since Galp Energia applies the "FIFO" ("first in, first out") method under IFRS to measure the cost of goods sold. However, due to the relatively constant level of these inventories, there is no significant *cash flow* risk. Galp Energia's policy is not to hedge inventory risk, since this is not a *cash flow* risk but rather a balance sheet risk, and it will only impact *cash flows* when the inventory is sold.

Foreign Exchange Risk

The U.S. dollar is the currency used as the benchmark in the oil and natural gas markets. Since Galp Energia reports its financial statements in euros, this factor, among others, exposes its operations to foreign exchange risk. Since the operating margin is primarily linked to the U.S. dollar, the Company is exposed to exchange rate fluctuations, which may result in a positive or negative impact on revenues and margins.

As this is a currency risk associated with other variables, such as oil and natural gas prices, the Company takes a conservative approach to hedging this risk, given that there are natural hedges between the balance sheet and *cash flows.* The level of exposure of *cash flows*—and especially of the balance sheet—depends on oil and natural gas price levels. To minimize this impact, Galp Energia holds debt on its balance sheet that is issued or denominated in U.S. dollars.

In light of the above, Galp Energia manages its foreign exchange exposure in an integrated manner rather than on a transaction-by-transaction basis for each operation in which it is exposed to foreign exchange risks. The objective of foreign exchange risk management is to limit the uncertainty arising from exchange rate fluctuations. Hedging of receivables and payables based on market speculation is not permitted. As of June 30, 2006, there were no foreign exchange hedging contracts in effect.

Foreign exchange risk management in the oil business is carried out as described above. In the natural gas business segment, foreign exchange risk is managed by adjusting the USD/Euro exchange rate on invoices paid to suppliers, with the aim of achieving the same USD/Euro exchange rate that is applied to invoices sent to customers. This strategy has been used on a regular basis since 2000. The remaining businesses have very limited exposure to foreign exchange risk.

Interest Rate Risk

The total interest rate position is managed centrally. Interest rate exposure relates primarily to interest-bearing bank debt and interest rate derivatives. The objective of interest rate risk management is to reduce the volatility of financial costs in the income statement. The interest rate risk management policy aims to reduce exposure to variable rates by fixing a portion of the debt using simple derivative instruments, such as *swaps* and *caps*. As of June 30, 2006, 290.3 million euros of medium- and long-term debt (including repayments classified as short-term) was fixed at an average rate of 3.3%.

Debt is typically issued at a variable rate. Galp Energia prefers this option, as its business is closely tied to global economic growth. During periods of low economic growth, Galp Energia is naturally exposed to

lower interest rates. The Company has taken advantage of periods of low interest rates to increase the proportion of hedged debt. As of June 30, 2006, a 0.5% increase in the interest rate would result in an annual increase in interest expense of 3.9 million euros, based on total medium- and long-term debt (including repayments classified as short-term) of 838.9 million euros issued at a variable rate (including *CAPs* that are not currently exercised).

Counterparty Risk

Credit risk arises from the potential failure of one party to meet its contractual payment obligation; therefore, the level of risk depends on the counterparty's financial credibility. In addition, counterparty risk arises in connection with monetary investments and hedging instruments. The level of risk is measured based on the expected loss in the event of default by the counterparty. Credit risk limits are set at the Galp Energia level and implemented across the various business segments. Credit risk position limits are defined and documented, and credit limits for specific counterparties are based on their credit *rating*, the term of the exposure, and the monetary amount of the credit risk exposure.

11. FINANCIAL RESOURCES

11.1 Overview

Galp Energia's liquidity needs are primarily related to the purchase of crude oil, natural gas, and other raw materials; investment activities; debt service; and working capital requirements. The Company's main sources of liquidity are cash and cash equivalents on the balance sheet, cash generated from operations, long-term debt, short-term bank credit lines, divestment of working capital, and the short-term use of consumption taxes collected from customers. Galp Energia operates in an environment in which liquidity and capital resources are affected by changes in the prices of crude oil, refined products, and natural gas, as well as by a range of other risk factors, including currency risks and regulatory risks.

The main components of working capital are inventory and, to a lesser extent, accounts receivable and accounts payable. Inventory consists of crude oil, raw materials, refined products, and natural gas, held in accordance with regulatory requirements and for operational reasons. Accounts receivable consist primarily of outstanding payments resulting from sales of crude oil, refined products, and natural gas. Accounts payable consist primarily of outstanding payments under supply contracts for crude oil, natural gas, and other raw materials.

Galp Energia believes that the available financing resulting from the aforementioned sources of liquidity will be sufficient to meet working capital and debt service requirements for the next 12 months. This opinion was supported by an unqualified opinion issued by Deloitte & Associados, SROC, S.A. However, it is not possible to guarantee that circumstances—currently unknown or beyond the Company's control—will not arise that could lead to a shortfall in available liquidity sources.

The financing of Galp Energia's operations—whether short-term, medium-term, or long-term—is centralized at the Galp Energia level, which acts as the preferred financing vehicle for its subsidiaries, in order to achieve cost reductions, increased bargaining power, transparency in the financing of operations, and strengthening of the Galp Energia brand in the financial markets. There may be exceptions to this policy, such as *project finance* arrangements that must be carried out at the level of the operating subsidiaries.

11.2 Historical Analysis of *Cash Flows*

The following table presents the consolidated *cash flows* for the periods indicated. The consolidated cash flow statements for the fiscal years ended December 31, 2004, and 2003 were prepared in accordance with POC and, for the purposes of this Share Registration Document, presented in accordance with IAS 7. The consolidated cash flow statements for the fiscal year ended December 31, 2005, and for the six-month period ended June 30, 2006, were prepared in accordance with IFRS. Additionally, the consolidated cash flow statements for the fiscal year ended December 31, 2004, and for the six-month period ended June 30, 2005, were prepared in accordance with IFRS and included for comparative purposes with the financial statements for the fiscal year ended December 31, 2005, and for the six-month period ended June 30, 2006. The Portuguese Accounting Standards (POC) differ from IFRS in significant respects. The main differences, relevant to Galp Energia, are those presented in Appendix II—"Summary of

Differences between the POC and IFRS" in this Share Registration Document. Positive amounts relate to cash inflows, and negative amounts relate to cash outflows.

	June 30		December 31			
	IFRS 2006	IFRS 2005	IFRS 2005	IFRS 2004	POC 2004	POC 2003
			(in millions of	euros)		
Operating activities:						
Revenues from:						
Receipts from Customers	6,404.5	5,871.3	12,761.2	8,726.9	8,726.9	7,065.6
Payments to Suppliers ..... Payments	(4,534.6)	(4,251.6)	(9,587.2)	(5,163.5)	(5,163.5)	(4,007.1)
to Employees ..... Tax Receipts /	(102.9)	(95.5)	(207.9)	(198.2)	(198.2)	(209.1)
(Payments) on petroleum products						
	(1,238.5)	(1,172.9)	(2,383.3)	(2,254.6)	(2,254.6)	(1,288.7)
Payments related to:	**528.4**	**351.3**	**582.8**	**1,110.6**	**1,110.6**	**1,560.6**
(Payments) / Receipts of income tax ..... Contributions to pension	(56.0)	(48.0)	(117.9)	(112.1)	(112.1)	(16.1)
....						
Payments to early retirees and pre-retirees.. Payments for	-	-	(26.2)	(20.6)	(20.6)	(26.6)
insurance costs related to retirees ..... (Other payments) /	(6.0)	(6.5)	(12.9)	(15.1)	(15.1)	(17.4)
receipts related to operating activities	(4.9)	(4.8)	(9.2)	(0.6)	(0.6)	(1.2)
Cash from operating activities	(81.5)	(74.5)	236.5	(95.7)	(82.5)	(948.9)
	(148.4)	**(133.9)**	**70.3**	**(244.1)**	**(230.8)**	**(1,010.2)**
Investing activities:	**380.1**	**217.5**	**653.0**	**866.5**	**879.8**	**550.4**
Proceeds from:						
Financial investments	0.04	80.4	85.8	8.4	8.4	17.3
Tangible fixed assets	7.5	3.2	3.8	2.2	2.2	73.7
Intangible assets	0.1	-	3.3	1.9	1.9	1.1
Investment grants	5.9	57.5	71.7	78.5	78.5	122.8
Interest and similar income	9.2	8.7	15.9	2.7	2.7	23.4
Dividends	15.1	6.4	39.3	37.2	37.2	27.5
Loans granted	2.2	7.6	7.8	1.9	1.9	1.0
	40.2	**163.7**	**227.6**	**132.7**	**132.7**	**266.8**
Payments related to:						
Financial investments	(0.9)	(0.5)	(3.8)	(6.8)	(6.8)	(36.5)
Tangible fixed assets	(118.9)	(125.6)	(275.5)	(330.8)	(348.3)	(411.6)
Intangible assets	(19.6)	(18.7)	(55.6)	(57.5)	(58.1)	(86.5)
Loans granted	(3.1)	(4.2)	(2.7)	(0.3)	(0.3)	(4.8)
	(142.5)	**(149.0)**	**(337.6)**	**(395.4)**	**(413.5)**	**(539.3)**
Cash Flows from operating from						
.....	**(102.4)**	**14.7**	**(110.0)**	**(262.7)**	**(280.8)**	**(272.5)**
Financing activities:						
Proceeds from:						
Loans obtained ..... Capital increase, additional installments and premiums from	155.1	134.8	290.4	1,045.4	1,045.4	1,827.3
.....	0.4	0.3	0.3	-	-	0.5

	June 30		December 31			
	IFRS 2006	IFRS 2005	IFRS 2005	IFRS 2004	POC 2004	POC 2003
			(in millions of euros)			
Interest and similar income	0.7	0.8	2.4	1.2	1.2	0.8
Discounted bills.....	3.0	17.9	18.8	13.5	13.5	12.1
	159.2	**153.6**	**(311.8)**	**1,060.1**	**1,060.1**	**1,840.7**
Payments related to:						
Loans obtained	(298.8)	(206.4)	(520.5)	(1,364.7)	(1,364.7)	(1,952.3)
Interest on loans received	(23.3)	(22.6)	(42.8)	(31.3)	(31.3)	(35.6)
Interest and similar expenses	(9.4)	(12.8)	(26.7)	(21.9)	(21.9)	(30.0)
Dividends / distribution of earnings	(2.1)	(213.9)	(215.9)	(46.9)	(46.9)	(44.7)
Purchase of treasury stock	-	-	-	(0.006)	(0.006)	-
Reimbursement of discounted bills	(5.3)	(16.8)	(18.2)	(13.3)	(13.3)	(10.8)
Depreciation and interest on	(0.06)	(0.07)	(0.3)	(0.4)	(0.4)	(3.3)
Interest on bond bondholders.....	(5.1)	(4.6)	(9.2)	(14.0)	(14.0)	(12.5)
Interest on equity securities	-	-	(0.3)	-	-	(0.8)
	(344.1)	**(477.1)**	**(834.0)**	**(1,492.5)**	**(1,492.5)**	**(2,090.1)**
Cash Flows from operating from financing.....	**(184.8)**	**(323.5)**	**(522.2)**	**(432.4)**	**(432.4)**	**(249.5)**

Cash Flows from Operating Activities

Comparison between the six-month period ended June 30, 2006, and the six-month period ended June 30, 2005

Operating activities generated cash of 380.1 million euros as of June 30, 2006, compared to 217.5 million euros as of June 30, 2005. This 74.8% increase was primarily due to higher net customer receipts, net of payments to suppliers and the ISP, which is in line with the increase in sales and services rendered.

Comparison of the fiscal years ended December 31, 2005, and December 31, 2004

Operating activities generated cash of 653.0 million euros in 2005, compared to 866.5 million euros in 2004. This 24.6% decrease was primarily due to the receipt of 94.1 million euros from EGREP in connection with the sale of part of Galp Energia's strategic reserves in 2004, and to a 128.7 million euro increase in ISP payments in 2005, as there was an increase in refined products shipped that year—and consequently subject to ISP payments—compared to 2004.

Comparison between the fiscal years ended December 31, 2004, and December 31, 2003

Operating activities generated cash flows of 879.8 million euros in 2004, compared with 550.4 million euros in 2003. This 59.8% increase was primarily due to higher customer receipts, lower payments related to operating activities, and the receipt of 94.1 million euros from EGREP as part of the sale of a portion of the strategic reserves, which were only partially offset by an increase in payments to suppliers. In addition, ISP payments decreased

in 2004 compared to 2003, due to the lower volume of products shipped and, consequently, subject to ISP payments in 2004.

Cash Flows from Investing Activities

Comparison between the six-month period ended June 30, 2006, and the six-month period ended June 30, 2005

Funds used in investing activities as of June 30, 2006, totaled 102.4 million euros, compared with funds provided as of June 30, 2005, in the amount of 14.7 million euros. This change is primarily attributable to the 86.4 million euros from the sale of Portgás in January 2005 (corresponding to the net proceeds received of 85.0 million euros) and to the 51.6 million euro decrease in investment subsidies received from 2005 to 2006.

Comparison between the fiscal years ended December 31, 2005, and December 31, 2004

Funds invested in capital expenditures in 2005 totaled 110.0 million euros, compared with 262.7 million euros in 2004. Cash inflows increased by 71.5%, from 132.7 million euros in 2004 to 227.6 million euros in 2005. This increase is primarily related to the 85.0 million euros from the sale of Portgás in January 2005. Investment-related payments decreased by 14.6%, from 395.4 million euros in 2004 to 337.6 million euros in 2005. These investments in 2005 and 2004 were related to the construction of the natural gas distribution network, the development of Block 14 in Angola in the Exploration and Production business segment, and the establishment of logistics facilities and service stations in the Refining and Distribution business segment. However, the decrease in investment-related payments in 2005 is partly due to costs associated with major projects in the Refining and Distribution and Natural Gas Supply and Sales segments, as some projects were completed or nearing completion in 2004.

Comparison of the fiscal years ended December 31, 2004, and December 31, 2003

Funds allocated to investment activities in 2004 totaled 280.8 million euros, compared with 272.5 million euros in 2003. Payments related to investment activities decreased by 23.3%, from 539.3 million euros in 2003 to 413.5 million euros in 2004. This decrease primarily reflects a reduction in investments in 2004. Investments in 2003 corresponded to higher initial costs related to the network, expansion, and conversion to natural gas consumption in the Natural Gas Distribution business segment, and to final costs associated with the completion of the LNG terminal and the Sines–Setúbal pipeline in the Natural Gas Supply and Sales segment. On the other hand, proceeds from investment activities in 2004 decreased by 50.3%, from 266.8 million euros in 2003 to 132.7 million euros in 2004. This decrease was primarily due to proceeds received in 2003 from the sale of certain assets, including the *swap* transaction involving gas stations, as well as a reduction in subsidies received in 2004, which were partially offset by an increase in dividends from associated companies in 2004.

Cash Flows from Financing Activities

Comparison between the six-month period ended June 30, 2006, and the six-month period ended June 30, 2005

Cash flow from financing activities as of June 30, 2006, resulted in a net outflow of 184.8 million euros, compared with a net outflow of 323.5 million euros as of June 30, 2005. This reduction was primarily due to the fact that no dividends were paid in the first half of 2006 for the 2005 fiscal year (they were paid in July), whereas in the first half of 2005, dividends for the 2004 fiscal year were paid, totaling 165.9 million euros, and part of the dividends for the 2003 fiscal year, totaling 48.1 million euros.

Comparison between the fiscal years ended December 31, 2005, and December 31, 2004

Cash flows from financing activities in 2005 resulted in a net outflow of 522.2 million euros, compared with a net outflow of 432.4 million euros in 2004. The main factors contributing to the outflow of funds in 2005 were debt repayment, dividend payments, and interest payments. Dividends paid in 2005 included 48.1 million euros of dividends approved in 2004 and 165.9 million euros of dividends approved in 2005.

Comparison of the fiscal years ended December 31, 2004, and December 31, 2003

Cash flows from financing activities in 2004 resulted in a net outflow of 432.4 million euros, compared with a net outflow of 249.5 million euros in 2003. This significant increase reflects higher debt repayment in 2004 due to the increase in cash generated by operating activities in 2004.

11.3 Summary of Contractual Commitments

The following table presents the contractual commitments entered into by Galp Energia. This information is based solely on contractual commitments in effect as of June 30, 2006, and does not include any additional contractual commitments anticipated in the future.

		Maturity					
	Total	**2006**	**2007**	**2008**	**2009**	**2010**	**After 2010**
				(in millions of euros)			
Long-term debt [1]	**1,141.5**	55.9[3]	154.1[3]	284.7	77.7	79.0	490.1
Long-term debt on a pro-form[2]	**656.9**	40.9[3]	110.3[3]	244.8	37.5	38.5	184.9
E&P Commitments [4]	**122.1**	62.2	33.4	6.5	13.0	7.0	-
Crude oil purchases [5]	**1,413.8**	1,413.8	-	-	-	-	-
Natural gas purchases [6]	**19,925.6**	444.1	1,103.9	1,104.8	1,104.8	1,088.8	15,079.1
Natural gas transportation [7] ..	**12,907.2**	445.1	890.2	890.2	890.2	890.2	8,901.5
Total liabilities	**35,510.2**	**2,421.1**	**2,181.6**	**2,286.2**	**2,085.7**	**2,065.0**	**24,470.7**

(1) Prior to the "Separation of Regulated Activities Process."

(2) Reflects the effect of the transfer of Regulated Activities as of June 30, 2006, under which 484.8 million euros of debt would be transferred to REN.

(3) Includes the portion of long-term debt classified as short-term.

(4) Reflects commitments made for the development of E&P activities.

(5) This reflects commitments to purchase crude oil under *take-or-pay* contracts, totaling 6 million metric tons. These contracts typically have a term of 1 year and specify a minimum quantity of crude oil that must be purchased, as well as price adjustment mechanisms linked to international crude oil reference prices. These commitments were calculated based on the prices observed in 2005.

(6) This reflects commitments to purchase natural gas under *take-or-pay* supply contracts, totaling 93.5 bcm. These contracts typically have a term of 20 years and establish a minimum quantity of natural gas that must be purchased, as well as price adjustment mechanisms linked to international natural gas reference prices. These commitments were calculated based on the prices observed in 2005.

(7) This reflects commitments made to purchase natural gas transmission capacity under *ship-or-pay* contracts with pipeline operators, totaling 60.6 bcm through 2020.

11.4 Borrowings

The following table describes the consolidated gross financial debt as of June 30, 2006, and its maturity profile. This presentation is based solely on the debt outstanding as of that date and does not include additional debt anticipated in the future.

		Maturity					
	Total	**2006**	**2007**	**2008**	**2009**	**2010**	**After 2010**
				(in millions of euros)			
Short-term debt:							
Bonds	**49.9**	-	49.9	-	-	-	-
Bank loans.....	**215.6**	174.9	40.7	-	-	-	-
Other loans	**1.3**	0.7	0.6	-	-	-	-
Total of debt to short term	**266.7**	175.5	91.2	-	-	-	-
D Long-term liabilities: Bonds	**259.9**	-	-	210.0	10.0	10.0	29.9
Bank loans.....	**732.4**	-	62.2	73.4	67.6	69.0	460.2
Other loans	**2.2**	-	0.7	1.3	0.1	0.1	-
Total long-term debt	**994.5**(1)	-	**62.9**	**284.7**	**77.7**	**79.0**	**490.1**
Total debt (2) **.....**	**1,261.2**	**175.5**	**154.1**	**284.7**	**77.7**	**79.0**	**490.1**

(1) This amount differs from the figure presented in the Balance Sheet because it does not include the deduction for arrangement fees related to "project finance" loans, which are being recognized over the life of the loans, in the amount of 0.9 million euros.

(2) Before the "Regulated Activities Separation Process." Following the transfer of Regulated Activities, which took place on September 26, 2006, 469.6 million euros in debt was transferred to REN. This amount corresponds to 484.8 million euros as of June 30.

A more detailed explanation of the most significant loans is provided below.

Bank Loans

As of June 30, 2006, 60% of the Company's medium- and long-term bank loans were loans granted by the European Investment Bank (EIB), guaranteed by various banking syndicates.

Approximately 98% of the medium- and long-term debt is denominated in euros. As of June 30, 2006, total medium- and long-term debt denominated in U.S. dollars amounted to $67.2 million, of which $41.1 million is classified as short-term.

Most medium- and long-term loans bear interest at a variable rate indexed to Euribor (for credit lines denominated in euros) or Libor (for credit lines denominated in U.S. dollars), plus a margin ranging from 0.3% to 1.75%. Medium- and long-term credit facilities bearing interest at a fixed rate as of June 30, 2006, had a total outstanding balance of 183.0 million euros (of which 34.8 million euros are classified as short-term) and bear interest at an average rate of 4.88%.

In terms of short-term bank credit lines, Galp Energia has a total amount of approximately 1 billion euros (with *committed* lines accounting for about 50% of the total), at a variable interest rate indexed to Euribor plus an average margin of 0.4%.

All of the Company's medium- and long-term credit lines contain the usual clauses regarding the sale of assets, restrictions on encumbrance of assets, corporate reorganization, *negative pledges*, and other contractual provisions. Some of these loans also include covenants to maintain financial ratios and restrictions on the distribution of dividends.

Bonds GDP 1997 Bonds

On June 25, 1997, GDP—now part of the Galp Energia group—issued 49.9 million euros in floating-rate bonds maturing on June 25, 2007. Interest on these bonds is paid semiannually in arrears at a rate equal to the six-month Euribor plus 0.075%. The issuer may redeem the bonds on any interest payment date upon payment of a premium of 0.025%. If the State ceases to hold (directly or indirectly) 51% of the issuer's shares or the issuer ceases to control certain natural gas distribution companies, the issuer must inform the bondholders, through a specific publication, that they may request, within 10 days, that the issuer proceed with the early redemption of these bonds. The State ceased to be the majority shareholder of Galp Energia in January 2006, after EDP (which is indirectly owned by the Portuguese State through Parpública, holding 20.49%, and Caixa Geral de Depósitos, S.A., holding 4.95%) sold its stake to Amorim Energia. The company published the announcement on September 22, 2006, and as of the date of this Share Registration Document, it had received requests to repurchase these bonds totaling 14.4 million euros.

Lisboagás 1998 Bonds

On August 12, 1998, GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A., issued 49.9 million euros in floating-rate bonds. Interest on these bonds is paid semiannually in arrears at a rate equal to the six-month Euribor plus 0.08%. These bonds mature in five equal installments between 2009 and 2013, inclusive. These bonds may be redeemed by the issuer on any interest payment date at their face value, and bondholders may request that the issuer repurchase them on interest payment dates beginning in 2008. If the State ceases to hold (directly or indirectly) 51% of the shares of

GDP or if GDP ceases to control the issuing entity, the entity must inform the bondholders, through a specific publication, that they may request the issuing entity, within 10 days, to proceed with the early redemption of these bonds. As mentioned above, the State ceased to be the majority shareholder of Galp Energia in January 2006, after EDP sold its stake to Amorim Energia. The company published the announcement on September 22, 2006, and as of the date of this Share Registration Document, it had received requests for the repurchase of these bonds totaling 26.6 million euros.

Galp Investment Fund Bonds (2003)

In 2003, Galp Energia completed a receivables securitization program totaling 210 million euros with *Galp Investment Fund Plc*. The program consists of a tranche of 199.5 million euros bearing interest at Euribor plus 0.50%, and a tranche of 10.5 million euros bearing interest at Euribor plus 0.95%. The expected maturity of this program is five years, and the statutory maturity is seven years.

11.5 Consolidated Net Financial Debt

Net debt is defined as financial liabilities (including bonds, loans, and other liabilities) less cash and cash equivalents. Galp Energia has been significantly reducing its net debt level since 2003. As of December 31, 2003, financial debt stood at 1,929.6 million euros (POC), compared with 1,502.7 million euros as of December 31, 2004 (IFRS), 1,191.5 million euros as of December 31, 2005 (IFRS), and 984.7 million euros as of June 30, 2006 (IFRS); consequently, the net debt-to-equity ratio decreased from 115.2% in 2003 to 49.9% in 2005. The following table presents the Company's consolidated net debt, in accordance with IFRS, as of June 30, 2006:

	Net Debt	Pro Forma Net Debt
	June 30, 2006 (in millions of euros)	
Cash and cash equivalents	(275.6)	(761.4)[2]
Bank loans	215.6	181.5[3]
Bond loans	49.9	49.9
Other loans	1.3	1.3
Net Short-Term Debt	**(8.8)**	**(528.8)**
Bank loans [1]	731.5	280.7[4]
Bond loans	259.9	259.9
Other loans	2.2	2.2
Medium- and Long-Term Debt	**993.5**	**542.8**
Net Debt	**984.7**	**14.0**

(1) Medium- and long-term bank loans are net of arrangement fees related to "project finance" loans, which are being recognized over the life of the loans, in the amount of 0.9 million euros.

(2) The adjustment reflects an increase in cash of 514.3 million euros resulting from the value of the assets sold to REN as part of the Separation of Regulated Activities Process, consisting of 413.5 million euros (transmission assets net of debt), 60.5 million euros (storage assets), 11.6 million euros (SGNL shares), 18.3 million euros (shareholder loans to SGNL), 15.4 million euros (cushion gas), and 2.7 million euros (other), partially offset by a decrease of 7.8

millions of euros in the first half of 2006 from available funds in the SNGL and in the national gas pipelines that are no longer part of the group, as well as a reduction in cash resulting from the additional payment for transportation and regasification services provided by REN, in the amount of 28.5 million euros.

(3) The adjustment reflects a reduction in short-term loans in the amount of 34.1 million euros (a portion of the long-term loan classified as short-term).

(4) The adjustment reflects a decrease in medium- and long-term loans of 299.3 million euros related to Transgás and 151.5 million euros related to SGNL.

As of June 30, 2006, consolidated net debt amounted to 984.7 million euros. The following transactions

occurred after that date:

- In July 2006, 222.2 million euros in dividends relating to the 2005 fiscal year were paid; as of June 30, 2006, these dividends were recorded on the balance sheet under "Other current accounts payable";
- On September 26, 2006, REN paid 526.3 million euros for the Regulated Activities, resulting in the transfer of 469.6 million euros in debt to REN;
- At the General Meeting held on August 31, 2006, it was resolved, subject to the sale of the Regulated Activities, to distribute an extraordinary dividend in the amount of 870.7 million euros. This extraordinary dividend was paid on September 29, 2006.

Taking these transactions into account, consolidated net debt would amount to 1,081.7 million euros.

12. RESEARCH AND DEVELOPMENT, PATENTS, AND LICENSES

For Galp Energia, technological innovation is a key differentiator in its services and products, including improvements in the environmental performance of its fuels. For example, Galp Energia recently launched “Gforce Diesel” and “Gforce Gasoline,” which are next-generation diesel and gasoline fuels that improve engine performance, as well as a lighter LPG cylinder called Pluma. Galp Energia introduced an online ordering service for its business customers to strengthen its relationship with them; this was among the first “SAP” Internet sales solutions for oil companies worldwide. It also introduced new payment methods for its retail business, such as *BioPay*, *Pay and Go*, and *Pay Card*.

Galp Energia has focused its innovation efforts primarily on redesigning the processes at its refineries, adaptingthem to new product quality requirements, aligning them with the best available techniques, and ensuring their compliance with Council Directive 96/61/EC of September 24, 1976, concerning integrated pollution prevention and control.

Galp Energia introduced low-sulfur diesel and gasoline to the Portuguese market, ahead of the mandatory 2009 deadline set by Directive 2003/17/EC of the European Parliament and of the Council of March 3, 2003, amending Directive 98/70/EC on the quality of gasoline and diesel fuel. Galp Energia has been reducing the sulfur content in its fuels, both in diesel—where the sulfur content was reduced from 350 parts per million (ppm) to 50 ppm—and in 10 95 unleaded gasoline, where the sulfur content was reduced from 150 ppm to 50 ppm, as well as in 10 98 unleaded gasoline, where the sulfur content was reduced from 150 ppm to 10 ppm. In this way, Galp Energia is contributing to national air quality goals by helping to reduce atmospheric emissions from the transportation sector.

Galp Energia’s refineries have also reduced sulfur dioxide (SO_2) emissions by drastically lowering the sulfur content of the fuels they use. Galp Energia complies with the emission limits established by Directive 2001/81/EC of the European Parliament and of the Council of October 23, 2001, on the setting of national emission ceilings for certain atmospheric pollutants, with regard to emissions from its refineries.

Since 2002, Galp Energia has focused its innovation, research, and development activities on creating value through greater customer satisfaction and the improvement of internal processes. From 2002 to 2005, Galp Energia spent 20.0 million euros on innovation, research, and development projects, of which 7.0 million euros were incurred in 2005.

Galp Energia has registered certain intellectual property rights in Portugal and the EU that are important to its business. In particular, the intellectual property rights related to the processes and components of the “Gforce Diesel” and “Gforce Gasoline” fuels, the LPG cylinder known as Pluma, and the “SAP” Internet sales solution for the aforementioned oil companies are wholly and exclusively owned by Galp Energia.

The technology that Galp Energia uses in its operations is owned by third parties. This technology is obtained through licenses, the acquisition of which is related to the purchase or lease of the respective equipment (namely, equipment or processes used

in refining activities, including chemical processes) and are valid for a term equivalent to the useful life of the respective asset or until the end of the lease. *Royalty* payments related to these licenses were paid in full by their due dates.

13. INFORMATION ON TRENDS

With regard to the most significant recent trends observed between the end of the last fiscal year and the date of this Share Registration Document, please refer to the unaudited consolidated financial information for the six-month period ended June 30, 2006, prepared in accordance with IFRS (*see* "Pro Forma Financial Information" *below*).

As described in the section "Process of Separation of Regulated Activities in the Natural Gas Sector" *above*, Galp Energia sold a portion of its natural gas business on September 26, 2006. Since the financial information subsequent to that date is not directly comparable with the historical financial information presented in this Share Registration Document, unaudited pro forma consolidated financial information is provided, but subject to the external auditor's opinion on agreed-upon procedures, for the fiscal year ended December 31, 2005, and for the six-month period ended June 30, 2006, in "Pro Forma Financial Information" *below*. The financial information was prepared on the assumption that the Separation of Regulated Activities would have taken place on January 1, 2005, for the pro forma financial statements for the 2005 fiscal year, and on January 1, 2006, for the pro forma financial statements for the first half of 2006.

14. PROFIT FORECASTS OR ESTIMATES

No forecasts or estimates of earnings are included in this Share Registration Document.

15. MANAGEMENT AND SUPERVISORY BODIES AND SENIOR EXECUTIVES

Overview

Galp Energia's management and supervisory structure consists of a Board of Directors, a Supervisory Board, and a Statutory Auditor or a Firm of Statutory Auditors. The Board of Directors has the authority to manage and represent the company. Pursuant to the law and the bylaws, the management of Galp Energia's various business segments is the responsibility of an Executive Committee. Supervisory duties are the responsibility of the Supervisory Board and the Statutory Auditor or Firm of Statutory Auditors.

The Board of Directors consists of eleven to twenty-one members elected by the General Meeting, which also appoints its chairman. The chairman of the Board of Directors is elected by a two-thirds majority of the votes cast and also by a majority of the votes attached to Class A shares. Members of the Board of Directors are elected for a renewable term of three calendar years, with the calendar year of appointment counting as a full year. Nevertheless, members of the Board of Directors remain in office after the end of their term, with all inherent responsibilities, until the General Meeting elects new members.

Under the terms of the Shareholders' Agreement, the Board of Directors will have fifteen members, five of whom will serve on the Executive Committee. CGD will have the right to appoint one director, who will always serve as Chairman of the Board of Directors and must be the same person as the director appointed by the State (in its capacity as holder of Category A shares). Amorim Energia will have the right to appoint six directors. ENI will have the right to appoint six directors. Amorim Energia, ENI, and CGD will jointly appoint one director: in the event of a disagreement, that director will be appointed by a majority vote of those three entities, which must always include a favorable vote from CGD.

Once the OPV is completed, if a director is appointed pursuant to Article 392 of the CSC, that director shall replace the director jointly appointed by Amorim Energia, ENI, and CGD, without prejudice to their obligation to vote in concert in the election of that director.

The parties may agree to increase the number of members of the Board of Directors to nineteen; in that case, ENI shall have the right to appoint one director and Amorim Energia shall have the right to appoint one director; the remaining two directors must be independent and shall be appointed by ENI and Amorim Energia.

The Board of Directors must meet at least quarterly; nine meetings were held in 2005 and 11 meetings in 2006 (through September 14, 2006). For the Board of Directors to hold a valid meeting, a majority of its members must be present.

Resolutions of the Board of Directors are generally adopted by a simple majority of the votes cast, except for certain matters that require a majority of more than two-thirds of the votes, as defined in the bylaws as follows: approval of strategic investments and their financing; approval of annual budgets and business plans, as well as the introduction of amendments thereto or the adoption of resolutions not provided for therein, resulting in an increase of 20% in a specific item of such documents or 10% of the annual budget; approval of transactions with any entities related to shareholders that exceed 20 million euros; appointment of senior management of Galp Energia and the companies

directly controlled; issuance of bonds or other securities within the scope of the Board of Directors' authority; amendments to the articles of incorporation of companies controlled by Galp Energia (wording set forth in the Articles of Incorporation).

There are also certain resolutions that require approval by more than two-thirds of the directors, necessarily including the favorable vote of the Chairman of the Board of Directors, namely the following: approval of strategic divestitures by Galp Energia or the companies it directly controls; participation in businesses not included in Galp Energia's core activities[14], specifically through the acquisition of equity interests in companies outside those activities; selection of strategic partners within the scope of Galp Energia's core activities; approval and modification of Galp Energia's strategic guidelines and strategic plan, as well as those of its respective business areas; definition of the basic management and organizational structure, including the delegation of powers by the Board of Directors to the Executive Committee or to one or more managing directors (including the areas of responsibility of the members of the Executive Committee); definition of the limits of management autonomy for companies controlled by Galp Energia; demerger, merger, and dissolution of any companies directly controlled by Galp Energia; the execution, by companies directly controlled by Galp Energia, of equal-status or subordinate group agreements; distribution of dividends by companies directly controlled by Galp Energia; matters related to the special rights of Class A shares (as set forth in the Bylaws).

Under the terms of the Shareholders' Agreement, the following matters must be approved by a majority of more than two-thirds of the members of the Board of Directors:

(a) approval of strategic investments and their financing;
(b) approval of annual budgets and business plans, as well as any amendments thereto or resolutions not contained in such documents, that exceed 20% of a specific budget line item or 10% of the annual budget;
(c) transactions with entities related to any shareholders whose value exceeds 20 million euros;
(d) appointment of the top management of Galp Energia and the companies directly controlled by Galp Energia;
(e) the issuance of bonds or other securities that fall within the Board of Directors' authority;
(f) amendments to the articles of incorporation of companies controlled by Galp Energia.

Under the terms of the same agreement, the matters listed below must be approved by a majority of more than two-thirds of the members of the Board of Directors, which must include, at a minimum, the affirmative vote of one member of the Board of Directors nominated by each party to the Shareholders' Agreement individually:

(a) approval of strategic divestitures by Galp Energia and the companies controlled by Galp Energia;
(b) participation in businesses not included in Galp Energia's core activities (core activities being defined as the exploration and production, refining, transportation, trading, and distribution of oil and gas, and power generation), specifically through the acquisition of equity interests in companies outside this scope;

[14] Core activities are defined as the exploration and production, refining, transportation, trading, and distribution of crude oil and its derivatives, natural gas, and the production and sale of electricity.

(c) selection of strategic partners within the scope of Galp Energia's core activities;
(d) approval and amendments to the strategic guidelines and strategic plan of Galp Energia and its respective business areas;
(e) defining the basic organizational structure and delegating powers by the Board of Directors to the Executive Committee or to one or more managing directors (including the areas of responsibility of the members of the Executive Committee);
(f) defining the limits of managerial autonomy for companies controlled by Galp Energia;
(g) demerger, merger, and dissolution of any of the companies controlled by Galp Energia;
(h) the execution by companies controlled by Galp Energia of joint venture or subordination agreements;
(i) distribution of dividends by companies controlled by Galp Energia;
(j) matters related to the special rights of Class A shares, as referred to in Article 4, paragraph 3(b) of Galp Energia's bylaws.

For the purposes of the subparagraphs in the two preceding paragraphs, the Shareholders' Agreement limits the companies controlled by Galp Energia to the following[15] :
Galp Exploração e Produção, S.A., Petrogal, S.A., Transgas, SGPS, Transgas S.A., Transgas Atlântico (since sold to REN), GDP, SGPS, GDPD, SGPS, Galp Energia España, Galp Power, SGPS, Lisboagas, S.A., Lusitaniagas, S.A., Petrogal Brasil, Petrogal Angola, Petrogal Moçambique, and Petrogal Guiné-Bissau.

Under the terms of the same agreement, in the event of a lack of *a* constitutive *quorum* or *a* deliberative *quorum* regarding the matters indicated above, and if the parties fail to reach an agreement within 30 days, a deadlock shall be deemed to have occurred for the purposes of the Shareholders' Agreement, and the matter in question shall be submitted for review by experts appointed by the parties.

Following the Public Tender Offer (OPV), if the party that has taken a position differing from the experts' decision wishes to dispose of its stake in Galp Energia, it must first offer to sell the shares it holds to the other parties to the Shareholders' Agreement and may only proceed to sell such shares on a regulated market if the other parties do not wish to acquire them.

The Board of Directors is responsible for deciding on matters considered to be of extreme importance from a commercial and corporate standpoint, such as defining the commercial strategy and business models, defining the organizational and corporate structure, and defining the profile of the business portfolio; the identification of synergies among departments; the approval of high-risk or high-cost investments; the definition of value-creation objectives for each activity; and the monitoring of the implementation of key activities.

The Supervisory Board consists of three standing members and one alternate member, elected by resolution of the General Meeting.

The Fiscal Council is responsible for proposing to the General Meeting the appointment of the Statutory Auditor or the Firm of Statutory Auditors, for appointing or dismissing the Company's external auditors, and for continuously monitoring the activities of Galp Energia and its subsidiaries.

[15] The bylaws do not include this limitation.

The Statutory Auditor or the Firm of Statutory Auditors is responsible for conducting all examinations and verifications necessary for the audit and legal certification of the Company's financial statements, as well as for exercising the other powers and authority provided for by law.

15.1 Information on the Members of the Issuer's Management and Supervisory Bodies

Board of Directors

Currently, the Board of Directors consists of the following 18 members:

Name	Position	Age	Year of Appointment	Final year of term in term	Remarks
Francisco Luís Murteira Nabo	President	67	2005	2007	-
José Marques Gonçalves	Vice-Chairman	55	2005	2007	Executive
Giancarlo Rossi	Vice Chairman	63	2000	2007	Executive
President—Manuel Ferreira De Oliveira, Fernando	Director	57	2006	2007	Executive
Gomes, João	Administrator	60	2005	2007	Executive
Pedro de Figueiredo Brito	Administrator	41	2005	2007	Executive
André Palmeiro Ribeiro	Administrator	32	2005	2007	Executive
Massimo Giuseppe Rivara	Administrator	60	2006	2007	Executive
Camillo Gloria	Administrator	53	2000	2007	-
Ângelo Taraborrelli	Administrator	58	2003	2007	-
Marco Alverà	Administrator	31	2006	2007	-
Manuel Domingos Vicente	Administrator	50	2006	2007	-
Manuel Carlos Costa da Silva	Administrator	54	2006	2007	-
Diogo Mendonça	Administrator	60	2006	2007	-
Rodrigues Tavares	Administrator	54	2004	2007	-
Joaquim de Pina Moura	Administrator	51	2006	2007	-
Alberto Alberti	Administrator	74	2006	2007	-
Alberto Oliveira Pinto	Administrator	71	2006	2007	-
Pedro António Alvim					

Francisco Luís Murteira Nabo has been Chairman of the Board of Directors of GALP Energia since May 24, 2005. He is a Trustee of the Oriente Foundation and, in that capacity, a non-executive director of several companies controlled by the Foundation. He is a member of the National Council of the Aga Khan Foundation Portugal, a non-executive director of Holdomnis – Gestão e Investimentos, S.A., of Templo – Gestão e Investimentos, S.A., and of Seng Heng Bank in Macau. He served as Secretary of State for Transportation, Minister of Social Infrastructure, and Chairman of the Board of Directors and of the

Executive Committee of Portugal Telecom, SGPS, S.A. He holds a bachelor's degree in Economics from the Higher Institute of Economic and Financial Sciences of Lisbon, a Master of Business Administration from AESE – School of Business Management, and is also President of the Portuguese Order of Economists.

José António Marques Gonçalves has served as Vice Chairman of the Board of Directors and Chairman of the Executive Committee of Galp Energia S.A. since May 24, 2005; he is also Chairman of the Board of Directors of Galp Exploração e Produção Petrolífera, Lda., Petrogal, GDP, Galp Power, and Galp Energia, S.A.. Before joining Galp Energia, he held executive positions at General Motors in Switzerland, where he helped define the company's expansion plan for Central Europe and Asia. He served for seven years in an executive management role at Vauxhall Motors in the United Kingdom. He served as Managing Director of General Motors Poland from 1996 to 2000, leading the major expansion project in that country. In 2001 and 2002, he was Managing Director of General Motors in Mexico, and from 2002 to 2004, he served as Chairman and General Manager of General Motors Portugal. He returned to England at the end of 2004 to serve as Executive Director of Vauxhall Motors. Marques Gonçalves holds a degree in Mechanical Engineering from the Instituto Superior Técnico and is a graduate of Harvard Business School and the General Motors Institute, both located in the United States; he has also taken several management courses in England, the U.S., and Japan.

Manuel Ferreira De Oliveira has been a member of the Executive Committee and Chief Operating Officer of Galp Energia since April 2006, and serves as Chief Executive Officer (CEO) of Galp Exploração e Produção Petrolífera, Lda., Petrogal, GDP, Galp Power, and Galp Energia, S.A. Before joining Galp Energia, he served as Chairman of the Board of Directors and CEO of Unicer – Bebidas de Portugal, SGPS, S.A. from 2000 to 2006; Chairman of the Board of Directors and CEO of Petrogal from 1995 to 2000; and from 1980 to 1995, he held executive positions at Lagoven, S.A. (a subsidiary of Petróleos de Venezuela, S.A. – PDVSA, formerly Creole Petroleum Corporation, a subsidiary of Exxon), in the areas of Production, Refining, International Trade, and Corporate Planning, including roles as CEO and/or member of the Board of Directors at BP Bitor Energy (London), Nynäs Petroleum (Stockholm), Ruhr Oil (Düsseldorf), and PDV Serviços (The Hague). Among other non-executive roles he holds, he is currently Chairman of the Advisory Board of EGP – the School of Management at the University of Porto. Ferreira De Oliveira holds a bachelor's degree in Electrical Engineering from the Faculty of Engineering at the University of Porto, a Master of Science (MSc) in Energy from the University of Manchester, a Ph.D. in Energy from the same university, and was awarded the title of Associate Professor by the University of Porto, where, in 1979, he became a Full Professor; his management training took place primarily through programs at IMD in Switzerland and at Harvard and Wharton Business Schools in the United States.

Giancarlo Rossi has served as Vice Chairman of the Board of Directors, a member of the Executive Committee, and *Chief Financial Officer* of Galp Energia since July 2000. Giancarlo Rossi is a member of the Executive Committee of the Galp Energia Group's main companies in his capacity as *Chief Financial Officer* and also serves as Chairman of ENI Portugal Investment, SpA. He joined the ENI Group in 1970 and, until 1979, held various positions in the Supply department of the Refining & Marketing Division, most recently serving as Director of Supply International Affiliates. In 1979, he was appointed Corporate Head of Planning and Control for the ENI Group. In the Refining & Marketing Division, between 1986 and 1993, he held various senior positions, including COO of Ecofuel; in 1993, he was appointed General Manager for Foreign Subsidiaries; and in 1996, Director of Planning and Special Projects. Giancarlo Rossi holds a bachelor's degree in Chemical Engineering from "La Sapienza" University in Rome.

André Freire de Almeida Palmeiro Ribeiro has been a member of the Executive Committee since May 2005 and has been in charge of Galp Energia's *Power* business segment since May

2006. Before joining Galp Energia, he held management positions at Credit Suisse First Boston in London, including Director (2003–2005) and Vice President (2000–2002) of the Fixed Income Division. André Ribeiro holds a bachelor's degree in Business Administration and Management from the Catholic University of Lisbon.

Fernando Manuel dos Santos Gomes has been a member of the Executive Committee and head of Galp Energia's Exploration and Production business segment since May 2005. Before joining Galp Energia, he served as Chairman of the Board of Directors of Empresa Metro do Porto, S.A. (1993–1999), he served as a State Councilor, Mayor of Vila do Conde, Mayor of Porto, and Member of the European Parliament, where he chaired the Committee on Social Affairs and Employment and the Delegation for Relations with ASEAN Countries; he was also Vice-President of the Committee of the Regions of the European Union, Secretary of State, and Minister of Internal Administration. Fernando Gomes holds a degree in Economics and is a visiting full professor at Lusíada University in Porto.

João Pedro Leitão Pinheiro de Figueiredo Brito has been a member of the Executive Committee of Galp Energia since May 2005. João Pedro Brito has held various senior positions in Galp Energia's Refining and Distribution business segment, notably as Director of Galp Energia's Direct Customers Commercial Division and Director of the LPG Subunit. João Pedro Brito holds a degree in Economics from the Higher Institute of Economics at the Technical University of Lisbon, with a specialization in International and Financial Economics.

Massimo Giuseppe Rivara served as a non-executive member of Galp Energia's Board of Directors from May 31, 2006, to June 30, 2006, and has been an executive member of that body since June 30, 2006; since that date, he has been responsible for Galp Energia's Natural Gas business segment. Before joining Galp Energia, he served as Senior Vice President of ENI SpA's Gas & Power Division and was responsible for the development, trading, and sales of natural gas to large consumers in Italy and abroad (August 2004 – April 2006) and was responsible for Natural Gas Marketing and Sales for the Italian market (March 1995 – July 2004). Massimo Rivara holds a bachelor's degree in Chemical Engineering.

Camillo Gloria has been a member of the Board of Directors of Galp Energia since 2000 and served on the Executive Committee from December 2004 to June 2006. He is also a member of the Board of Directors of ENI UK, a director of ENI Gas & Power Trading, and a member of the Executive Committee of Union Fenosa Gás, a position he has held since September 1999. Previously, he held management positions at Fiorentina Gás and Italgás. He holds a degree in Mechanical Engineering from the Polytechnic University of Turin and has completed the INSEAD executive program.

Angelo Taraborelli has been a member of the Board of Directors of Galp Energia since March 2003 and is also *Chief Operating Officer* of ENI SpA in the Refining and Marketing business segment. From 2003 to 2004, he was appointed Deputy COO of ENI SpA's Refining and Marketing Division for Marketing Operations, following the merger of AgipPetroli with ENI SpA, and from 2002 to 2003, he served as CEO of AgipPetroli SpA's Market Activities. Ângelo Taraborelli holds a law degree.

Marco Alverà has been a member of the Board of Directors of Galp Energia since May 2006 and serves as Vice President of the Procurement and Portfolio Development division within ENI SpA's Gas & Power Business Segment. Prior to assuming these roles, he served as Assistant to the CEO of ENI SpA for Special Projects from 2005 to 2006, CFO of Wind Telecommunicazioni SpA from 2004 to 2005, Director of Corporate Strategy at ENEL SpA, from 2002 to 2004, and founder and Chairman of the Board of Directors of NETESI, SpA, from 2000 to 2002. Marco Alverà holds a Bachelor's degree in Mathematics, Economics, and Latin from

Sevenoaks School, Kent, and holds *a Bachelor of Science* in Philosophy and Economics from the London School of Economics and Political Science.

Manuel Domingos Vicente has been a member of the Board of Directors of Galp Energia since 2006 and has also served as Chairman of the Board of Directors of Sonangol since 1999, as well as of UNITEL, S.A.R.L. (Angolan Mobile Telecommunications Company) and Sonils – Sonangol Integrated Logistic Services, Lda. He also serves as a member of the Board of Directors of BAI – Banco Africano de Investimentos and the Carlyle Group, among others. Prior to assuming these roles, he served as Deputy General Manager of Sonangol (between 1991 and 1999) and Head of the Technical Office at the Angolan Ministry of Energy and Petroleum (between 1987 and 1991). Manuel Domingos Vicente holds a bachelor's degree in Electrical Engineering from the University of Angola. His training in management and the oil industry took place primarily through programs offered by OGCI—*Oil & Gas Consultants International* in London.

Manuel Carlos Costa da Silva has been a member of the Board of Directors of Galp Energia since February 2006. He is also a member of the Board of Directors of Amorim Energia and a member of the Board of Directors of Amorim – Investimentos Energéticos, SGPS, S.A.. Most recently, he served as chairman and CEO of ICEP—Institute of Enterprises for Foreign Markets, chairman and CEO of IAPMEI—Institute for Support to Small and Medium-Sized Enterprises, and chairman of the General Council of the Social Security Guarantee Fund. He also served as a director of the CTC – Footwear Technology Center (1978–2004) and as a member of the Executive Committee of the CEC – European Footwear Confederation. He was appointed chairman of the International Specialized Commission of the AEP (Association of Portuguese Entrepreneurs). Manuel Carlos holds a bachelor's degree in Economics from the Faculty of Economics at the University of Porto (1977), with additional qualifications in the fields of International Management, Information and Accounting Systems, and Management Control.

Diogo Mendonça Rodrigues Tavares has been a member of the Board of Directors of Galp Energia since February 2006 and serves as an advisor to the Chairman of Amorim Holding. Before joining Galp Energia, he held other management positions at shipping companies, as well as at IPE, the former holding company for state-owned enterprises. He served as executive vice president at ICEP—the Institute of Companies for the Foreign Market—and at ITP—the Portuguese Tourism Institute. Diogo Tavares holds a degree in Mechanical Engineering.

Joaquim Augusto Nunes de Pina Moura has been a member of the Board of Directors of Galp Energia since December 2004. Pina Moura is currently the CEO of Iberdrola Portugal and a member of Iberdrola's Executive Committee. He is a professor of Public Economics, Economic Policy, and Portuguese and European Economics at the Instituto Superior de Gestão. He served in two Portuguese constitutional governments, holding the positions of Deputy Secretary of State to the Prime Minister, Minister of Economy and Finance, and Minister of Finance (October 1999–July 2001). Pina Moura holds a bachelor's degree in Economics and a postgraduate degree in Monetary and Financial Economics.

Alberto Maria Alberti has been a member of the Board of Directors of Galp Energia since September 2006. He holds a degree in Chemical Engineering and is an executive at ENI S.p.A., where he has held various positions of responsibility within the Refining and Marketing Division. He is currently Deputy Chief Operating Officer of the industrial operations division.

Alberto Alves de Oliveira Pinto has been a member of the Board of Directors of Galp Energia since September 2006. He holds a bachelor's degree in Economics and Finance and has held management positions at various financial and industrial institutions. He served as Chairman of the Board of Directors of Banco Nacional Ultramarino, Deputy Governor of the Bank of Portugal, and

Chairman of the Board of Directors of Caixa Geral de Depósitos and Banco Nacional de Crédito Imobiliário. He currently serves as a non-executive director of Banco Espírito Santo.

Pedro António do Vadre Castellino e Alvim has been a member of the Board of Directors of Galp Energia since September 2006. A law graduate, he began his professional career in 1960 as Head of Services at Sacor's Research Office. Between 1965 and 1976, he worked for the Borges & Irmão Group, serving as General Manager at Banco de Crédito Comercial e Industrial in Mozambique and as an executive member of the Board of Directors of Angol. Between 1976 and 1985, he worked for Technip in Rome, where he promoted and coordinated various projects in Portugal, Africa, and Latin America. He also collaborated with Italimpianti, part of the IRI Group, for which he served as representative in Portugal. Until 1998, he also worked with Italgás and served as a member of the Boards of Directors of Lusitaniagás and Setgás. He also served as a director at Italagro, Parmalat Portugal, and the Tivoli Group, and participated in the negotiations that led the FIAT Group to acquire a controlling stake in and management control of Soares da Costa Construções, S.A.

The members of the Board of Directors of Galp Energia may be contacted at the company's headquarters, located at Rua Tomás da Fonseca, Torre C, 1600-209 Lisbon, Portugal.

There are no family relationships among the members of the Board of Directors, among the members of the Supervisory Board, between the members of the Supervisory Board and the members of the Board of Directors, or between the members of the Supervisory Board and the Board of Directors and the representative of the independent auditor.

The following table lists the positions held by members of the Board of Directors on administrative, management, or supervisory bodies over the past five years:

Name	Roles
Francisco Luís Murteira Nabo	Chairman of the Board of Directors of Galp Energia, SGPS, S.A. Chairman of the Board of Directors of PT – Portugal Telecom, SGPS, S.A. Chairman of the Board of Directors of PT Comunicações, S.A. Chairman of the Board of Directors of PT Multimédia, S.A. Chairman of the Board of Directors of PT Móveis; Chairman of the Board of Directors of TMN; Non-executive Director of BES – Banco Espírito Santo, S.A. Chairman of the Board of Directors of Lusomundo SGPS, S.A. Non-executive director of BPG – Banco Português de Gestão, S.A. Non-Executive Director of Holdomnis – Gestão e Investimentos, S.A. Non-executive director of STDP – Sociedade Transnacional de Desenvolvimento de Participações, SGPS, S.A. Non-executive director of Oriente SGPS, S.A. Non-executive director of Sagres – Companhia de

	Insurance, S.A. Non-executive director of Templo – Sociedade Financeira, S.A. Non-executive director of Seng Heng Bank Director of the Portugal-Africa Foundation
José Marques Gonçalves	Vice Chair of the Board of Directors and Executive Director of Galp Energia, SGPS, S.A. Executive Director of Vauxhall Motors – Ellesmere Port – United Kingdom President of General Motors Portugal – Lisbon
Manuel Ferreira De Oliveira	Executive Director of Galp Energia, SGPS, S.A. Chairman of the Board of Directors and CEO of UNICER – Bebidas de Portugal, SGPS, S.A. Chairman of the Board of Directors and CEO of all 16 first-tier subsidiaries of the Unicer Group Director of Change Partners, S.A. Member of the General Council of AEP – Portuguese Business Association Vice Chair of the Forum for Competitiveness Member of the Executive Board of BCSD – Portugal Member of the General Council of the Portuguese Institute of *Corporate Governance* Chairman of the General Council of EGP – School of Management at the University of Porto Member of the Executive Committee of the Catholic University – Porto President of APCV – Portuguese Association of Beer Producers Vice President of BOE – *The Brewers of Europe* Vice President of Casa da Música, S.A.
Giancarlo Rossi	Vice Chair of the Board of Directors and Executive Director of Galp Energia, SGPS, S.A. Chair of the Board of Directors of ENI Portugal Investment, SpA
Fernando Gomes	Executive Director of Galp Energia, SGPS, S.A.
João Pedro de Figueiredo Brito	Executive Director of Galp Energia, SGPS, S.A. André
Palmeiro Ribeiro	Executive Director of Galp Energia, SGPS, S.A. Executive Director of Portucale, SGFTC, S.A.
Massimo Giuseppe Rivara	Executive Director of Galp Energia, SGPS, S.A. Director of Siciliana Gas Director of Fiorentina Gas Director of Napoletana Gas Director of ENI G&P Trading B.V. Director of ENI Gas Trading Europe B.V. Director of Tigaz

	Director of GVS Director of ENI UK
Camillo Gloria	Non-executive director of Galp Energia SGPS, S.A. Member of the Supervisory Board of GVS (Germany) Director of UFG Director of Tigaz Director of ENI UK Chairman of the Board of Directors of ENI Gas & Power Trading
Angelo Taraborrelli	Non-executive director of Galp Energia, SGPS, S.A. Director of ENI *Corporate University*
Marco Alverá	Non-executive director of Galp Energia, SGPS, S.A. Director of Wind Telecomunicazioni S.p.A. Chairman of the Board of Directors of NETESI, SpA.
Manuel Domingos Vicente	Non-Executive Director of Galp Energia, SGPS, S.A. Chairman of the Board of Directors of Sonangol Chairman of the Board of Directors of Sonangol Asia Chairman of the Board of Directors of Sonangol USA Chairman of the Board of Directors of Unitel Chairman of the Board of Directors of Sonils Vice Chairman of FESA Member of the Board of Directors of BAI – Banco Africano Investimento Member of the Board of Directors of Grinaker-LTA, Ltd Member of the Board of Directors of Carlyle
Manuel Carlos Costa Silva	Non-Executive Director of Galp Energia SGPS, S.A. Non-Executive Director of Amorim Energia B.V. Non-Executive Director of Amorim – Investimentos Energéticos, SGPS, S.A. President of ICEP; President of IPMAEI
Diogo Mendonça Rodrigues Tavares	Non-Executive Director of Galp Energia, SGPS, S.A. Vice President of ICEP Vice President of IAPMEI Vice President of ITP Director of IPE – Capital Chairman of Urbimeta
Joaquim Pina Moura	Non-executive director of Galp Energia, SGPS, S.A. Chairman of the Board of Directors of Iberdrola Portugal

Alberto Alberti	Non-executive director of Galp Energia, SGPS, S.A. Director of EniTecnologie S.p.A. Director of Agip Deutschland AG Vice President and Director of Raffineria di Milazzo Società Consortile per Azioni Director of EniPower S.p.A. Director of Polimeri Europa S.p.A. Director of Eni Trading B.V.
Alberto Oliveira Pinto	Non-executive director of Galp Energia, SGPS, S.A. Chairman of the Board of Directors of Banco Nacional de Crédito Non-Executive Director of Banco Espírito Santo
Pedro António Alvim	Non-executive director of Galp Energia, SGPS, S.A. Vice Chair of the General of Setgás - Gas Distribution Company, S.A. Director General of SACIMOP - Sales and Distribution of Equipment and Products for the Civil Construction, Public Works, and Cement Industries, S.A. Managing Partner of Italverna - Sociedade Mediadora de Seguros, Lda.

The executive members of the Board of Directors also serve on the management bodies of Galp Energia's main subsidiaries.

Executive Committee

The Executive Committee may consist of three to seven directors, including its Chair (CEO of Galp Energia), appointed by the Board of Directors for a term of up to three years, which coincides with that of the members of the Board of Directors. The Executive Committee has a quorum if a majority of its members are present. As a general rule, resolutions of the Executive Committee are adopted by a majority vote of the directors present. The Chair of the Board of Directors is regularly informed of the matters discussed and the decisions made by the Executive Committee and, in turn, informs the Board of Directors of the decisions made by the Executive Committee. All members of the Executive Committee must serve on the Board of Directors.

Under the terms of the Shareholders' Agreement, Amorim Energia and ENI will jointly appoint the CEO of Galp Energia, subject to the favorable opinion of CGD, which shall not be refused on unreasonable grounds.

The Executive Committee shall have the following composition: its Chairman shall be the CEO, and Amorim Energia and ENI shall each appoint two directors separately.

The Executive Committee must meet at least twice a month; 43 meetings were held during 2005, and 33 meetings were held during 2006 (through September 21, 2006). Each member of the Executive Committee is responsible for a specific business segment, and the Executive Committee is responsible for overseeing all business segments. The members of the Executive Committee work full-time for the

companies of the Galp Group, holding management positions in those companies, without receiving any additional compensation.

The Executive Committee is the body responsible for the day-to-day management of Galp Energia and the Group, in accordance with strategic guidelines defined by the Board of Directors. Under the powers delegated to it by the Board of Directors, in accordance with the bylaws, the Executive Committee sets value creation objectives, oversees the performance of the various business segments, promotes synergies among the segments, allocates key resources, manages human resources, defines the brand strategy, monitors the achievement of established objectives, and establishes group policies.

The Executive Committee currently consists of the following seven members:

Name	**Position**
José António Marques Gonçalves	Chairman of the Executive Committee - CEO. Responsible for strategic planning(1) , human (1) , corporate communications, procurement, environmental affairs, quality, and safety.
Manuel Ferreira De Oliveira	*Chief Operating Officer* of Galp Group Energy and *Chief Executive Officer* of Galp Oil Exploration and Production, Lda., Petrogal, GDP, Galp Power, and Galp Energia, S.A. Responsible for procurement and refining, strategic planning(1) , human resources(1) , *marketing* and innovation, information systems, organization, and general services
Giancarlo Rossi	*Chief Financial Officer*. Responsible for: corporate finance and investor relations, planning and control, accounting and treasury, and risk management
Fernando Manuel dos Santos Gomes	Responsible for the business segment exploration and production, international oil markets, institutional relations, and sustainable development
João Pedro Leitão Pinheiro de Figueiredo Brito	Head of the petroleum products distribution business unit
André Freire de Almeida Palmeiro Ribeiro	Head of the *Power* Business Segment and of Legal Services and Corporate Secretariat
Massimo Giuseppe Rivara	Head of the Natural Gas Division

(1) Shared responsibility.

Audit Committee

The Audit Committee consists of three standing members and one alternate member, who may not be members of the Board of Directors and are subject to the incompatibilities set forth in the CSC. Under applicable law, at least one member of the Audit Committee must hold a college degree appropriate for the performance of their duties and have knowledge of auditing or accounting, and a majority of its members must be independent (*see* the section “Statement regarding the

"the Issuer's compliance with the corporate governance regime of its country of origin" (*see below*). The members of the Audit Committee are elected by the General Meeting. The Audit Committee must meet at least once every quarter and report to the Board of Directors and the General Meeting on the verification and oversight activities it has carried out.

The Shareholders' Agreement also provides that Galp Energia shall have a Fiscal Council, composed of three members, and a Certified Public Accountant or a firm of Certified Public Accountants. ENI, Amorim Energia, and CGD shall jointly propose one member, as well as the respective alternate, who must be certified public accountants and independent. Amorim Energia shall have the right to propose one member, who must be independent. ENI shall have the right to propose one member, who must be independent. CGD shall have the right to designate which of the two members proposed by Amorim Energia and ENI will serve as Chair of the Audit Committee.

The powers of the Audit Committee include, in particular, proposing to the General Meeting the appointment of the Statutory Auditor or the Auditing Firm, appointing or dismissing the external auditors, overseeing the process of preparing and disclosing financial information, overseeing the audit of the company's financial statements, and ensuring the independence of the statutory auditor, particularly with regard to the provision of additional services. Pursuant to the aforementioned Shareholders' Agreement, the Supervisory Board must ensure the appointment of an external auditor independent of Galp Energia, selected from among the most reputable international audit firms, which, without prejudice to the powers of the Supervisory Board and the Statutory Auditor, shall audit Galp Energia's annual financial statements and other accounting documents.

On October 5, 2006, the shareholders, who hold all of the shares representing Galp Energia's share capital, unanimously resolved in writing to elect the members of the Supervisory Board for the current 2005–2007 term, with the following composition:
- Chairman: Daniel Bessa Fernandes Coelho
- Member: José Gomes Honorato Ferreira
- Member: José Maria Rego Ribeiro da Cunha
- Alternate Member: Amável Alberto Freixo Calhau.

All members of the Supervisory Board meet the independence requirements set forth in the Portuguese Commercial Code (CSC). Professor Daniel Bessa Fernandes Coelho and Dr. José Maria Rego Ribeiro da Cunha meet the requirements set forth in Article 414(4) of the CSC.

Since June 2000, ***Daniel Bessa Fernandes Coelho*** has served as Chairman of the Board of the Porto School of Management (an organizational unit of the University of Porto whose mission is to provide graduate-level education and advanced continuing education in management). He also serves as a Director of FINIBANCO, a non-executive Director of Efacec Capital, Chairman of the Advisory Board of IGFCSS—the Institute for the Management of Social Security Capitalization Funds—and Chairman of the Supervisory Board of SPGM—Investment Company. He has been a self-employed economist since 1983. He holds a Bachelor's degree in Economics (University of Porto, 1970) and a Ph.D. in Economics (Technical University of Lisbon, 1986).

José Honorato Ferreira is a Board Member of the Luso-Spanish Foundation. He also served as Director of the Euro Office at the Mundial-Confiança Group (Banco Totta & Açores, Banco Pinto & Sotto Mayor, Crédito Predial Português, and Companhia de Seguros Mundial-Confiança), the body responsible for the transition plan to the euro, from September 1997 to October 2001; advisor to the Chairman of the Board of Directors of Banco Totta & Açores in November

1995, and served as an advisor to the Prime Minister from November 1985 to October 1991 (10th and 11th Constitutional Governments), in the area of economics; he served as Chief of Staff to the Prime Minister from October 1991 to October 1995 (12th Constitutional Government), among other roles. He holds a bachelor's degree in economics from the Higher Institute of Economic and Financial Sciences at the Technical University of Lisbon.

José Maria Rego Ribeiro da Cunha has been a Managing Partner at the firm "Amável Calhau, Ribeiro da Cunha e Associados – Society of Certified Public Accountants" since 1981. He was an auditor at the international firm "Arthur Andersen & Co" between 1975 and 1977 and an audit manager at the firm of certified public accountants "António Almeida e Augusto Martins Moreira" between 1977 and 1981. In 1981, he passed the exam to become a certified public accountant, becoming member/partner No. 497 of the Order of Certified Public Accountants. He holds a bachelor's degree in Finance from the Higher Institute of Economic and Financial Sciences.

Amável Alberto Freixo Calhau has been a Certified Public Accountant and managing partner of "Amável Calhau, Ribeiro da Cunha e Associados – Certified Public Accountants Firm" since 1981. He worked as an accountant and auditor at an auditing firm between 1970 and 1979 and as a Certified Public Accountant in private practice in 1980.

Certified Public Accountant and External Auditor

Given that Pedro Leandro e António Belém, Sociedade de Revisores Oficiais de Contas, S.A., represented by Dr. Pedro Manuel da Silva Leandro—which had been elected to serve as the Statutory Auditor by the general meeting of shareholders on May 24, 2005— for a three-year term ending concurrently with the term of office of the members of the Board of Directors, to perform the duties of Statutory Auditor—since it is not registered with the CMVM and does not intend to apply for such registration— the General Meeting of September 6, 2006, resolved to elect Deloitte & Associados, SROC, S.A., represented by Dr. Jorge Carlos Batalha Duarte Catulo, to perform those duties. The same firm of statutory auditors serves as the external auditor.

Supplementary Information

As of the date of this Share Registration Document, none of the members of the Board of Directors, including the members of the Executive Committee, nor the Statutory Auditor, has, within the last five years: (i) been convicted of any offense related to fraudulent conduct; (ii) held any executive position as a senior officer or member of the management or supervisory body of any company that has been or is currently undergoing bankruptcy, insolvency, or liquidation proceedings; (iii) been subject to any formal charges and/or sanctions by legal or regulatory authorities (including professional bodies), nor been legally barred from serving as a member of a company's board of directors, management, or supervisory body, or from managing or directing the activities of any company.

15.2 Conflicts of Interest of Members of the Management and Supervisory Bodies

There are no potential conflicts of interest involving members of the Board of Directors, the Supervisory Board, or the Independent Auditor with respect to Galp Energia and their private interests and/or other obligations.

16. COMPENSATION AND BENEFITS

The compensation of the members of the corporate bodies is set by a Compensation Committee, composed of representatives of three shareholders, elected by the General Meeting for a term of three years, ending on December 31 of the third year. As is the case with members of the Board of Directors and the Supervisory Board, members of the Remuneration Committee remain in office after the end of their term, with all inherent responsibilities, until new members are elected by the General Meeting. The position of member of the Board of Directors or the Supervisory Board is incompatible with that of a member of the Remuneration Committee.

Among the current members of the Compensation Committee, appointed by the General Meeting on September 6, 2006, for the term ending on December 31, 2007, are a representative of Amorim Energia, Américo Amorim; a representative of ENI, Giancarlo Cepollaro; and a representative of Caixa Geral de Depósitos, S.A., Maldonado Gonelha.

Under the terms of the bylaws, the compensation of members of the Board of Directors may include a percentage of the profits for the fiscal year, up to an overall limit of 0.5%.

In the first half of 2006, and in 2005 and 2004, the total compensation—including vehicle allowances and insurance premiums—for the non-executive directors of Galp Energia and its subsidiaries was 10,158 euros, 50,069 euros, and 77,992 euros, respectively. In the first half of 2006, the total compensation of the executive directors of Galp Energia and its subsidiaries was 2,609,315 euros, of which 1,770,003 euros corresponded to base pay, 599,703 euros to bonuses, 145,696 euros to pension fund contributions, and 93,913 euros to other benefits. Galp Energia also covers car lease payments totaling 46,222 euros and health insurance premiums totaling 4,634 euros. In 2005, the total compensation for the executive directors of Galp Energia and its subsidiaries was 3,862,239 euros, of which 2,980,774 euros corresponded to base pay, 410,913 euros to bonuses,
295,563 euros in contributions to pension funds and 174,989 euros in other benefits. In addition, Galp Energia covers annual car lease payments totaling 69,277 euros and annual health insurance premiums totaling 10,896 euros. In 2004, the total compensation for the executive directors of Galp Energia and its subsidiaries was 3,645,055 euros, of which 2,927,980 euros corresponded to base pay, 528,687 euros to bonuses, 23,490 euros to pension fund contributions, and 164,898 euros to other benefits. In 2004, Galp Energia covered annual vehicle lease payments totaling 86,130 euros and annual health insurance premiums totaling 13,012 euros. Members of the Executive Committee are entitled to pensions, including disability pensions.

Under the policy currently in effect, the compensation of Galp Energia's directors includes all compensation due for holding positions in companies of the Galp Energia Group.

The total compensation of the Statutory Auditor for the year 2005 was 62,000 euros.

17. OPERATION OF THE GOVERNING BODIES

17.1 Date of end of term in current of governing bodies of administration and oversight

Regarding the end date of the current term of office of the management and supervisory bodies, as well as the period during which they perform their current duties, *see* "Information on the members of the Issuer's management and supervisory bodies" *above*.

At the Board of Directors meeting held on August 31, 2006, José Marques Gonçalves, Engineer, announced that, in light of the profound change in the shareholder structure resulting from the completion of the Offer, he had decided, in accordance with best corporate governance practices, to tender his resignations from the positions of Vice Chairman of the Board of Directors and Chairman of the Executive Committee to the Board of Directors, effective upon completion of the Offer, thereby contributing to the clarification of the leadership structure to be implemented at that stage. The members appointed by ENI and Amorim Energia expressed their appreciation for the work carried out by José Marques Gonçalves and immediately stated their intention—as is their right under the Shareholders' Agreement—to present a proposal for the leadership of the Executive Committee.

At the Board of Directors meeting held on September 19, 2006, the Chairman of the Board of Directors informed the Board that the Shareholders holding the State's positions in the Company's share capital considered that there were no valid reasons to alter the provisions of the Shareholders' Agreement regarding the appointment and term of office of the Chairman of the Executive Committee. The directors appointed by Amorim Energia and ENI stated that their positions, following the willingness expressed by José Marques Gonçalves, are based on full respect for the Shareholders' Agreement.

All directors agreed that any issues arising from the willingness expressed by José Marques Gonçalves, Engineer, will be addressed in accordance with the Shareholders' Agreement.

For further information regarding the appointment and term of office of the members of the management bodies, *see* "Management and Supervisory Bodies and Senior Management" *above* (pages 213 through 215, 223, and 225 *above*) and "Major Shareholders" *below*, which include the relevant provisions of the Shareholders' Agreement (pages 236 through 242 *below*).

17.2 Employment contracts binding the members of the management and supervisory bodies to the Issuer

With the exception of director João Pedro Figueiredo de Brito, who is bound to Petrogal by an individual employment contract—which is currently suspended— Galp Energia or its subsidiaries have not entered into any employment contracts or other agreements with the members of their Board of Directors, Supervisory Board, or with the Statutory Auditor that would result in the payment of any amounts or the granting of any benefits after the expiration of their respective terms of office.

17.3 Information on the Issuer's Supervisory Board and Compensation Committee

Audit Committee
For general information on the Audit Committee and its responsibilities, *see* "Information on the members of the Issuer's management and oversight bodies" *above*.

Compensation Committee
For general information on the Compensation Committee, *see* "Compensation and Benefits" *above*.

17.4 Statement regarding the Issuer's compliance with the corporate governance regime of its country of origin

The structure and corporate governance of the company are governed by the Commercial Companies Code, CMVM Regulation No. 7/2001, and the CMVM Recommendations.

Galp Energia adopts a governance model under which the management and oversight of the company are the responsibility of a Board of Directors, a Supervisory Board, and a Statutory Auditor, all of whom must be elected by the General Meeting.
All members of the Supervisory Board are subject to the conflict-of-interest rules set forth in Article 414-A of the Commercial Companies Code (CSC). In the case of companies issuing shares admitted to trading on a regulated market, the CSC stipulates that the majority of the members of the Supervisory Board must be independent; those are considered independent who do not (i) have ties to any specific interest groups within the company nor (ii) find themselves in any circumstances likely to affect their impartiality in analysis or decision-making, particularly by virtue of:

a) Holding, or acting on behalf of or for the account of holders of, a qualifying holding equal to or greater than 2% of the company's share capital;
b) Having been reelected for more than two terms, whether consecutively or intermittently.

The CSC further stipulates that one of the independent members must hold a college degree appropriate to the performance of their duties and possess knowledge of auditing or accounting.

Pursuant to CMVM Regulation No. 7/2001, companies issuing shares admitted to trading on a regulated market—which is not currently the case for Galp Energia—must publish, in a chapter of the annual management report or as an annex thereto, a report on corporate governance. This report must indicate whether the company adopts the CMVM's recommendations on corporate governance or, if not, explain the reasons for non-adoption (*"comply or explain* rule"). The recommendations regarding corporate governance are, in essence, as follows:

1- Companies must establish an investor relations office;
2- The active exercise of voting rights must not be restricted, in particular by imposing a period exceeding five business days for the deposit or blocking of shares for the purpose of participating in general meetings;
3- Companies must establish an internal control system;
4- Measures aimed at preventing the success of tender offers must respect the interests of the company and its shareholders;
5- Members of the corporate governing bodies must provide effective oversight of the company's management;
5A- The board of directors must have a sufficient number of non-executive members responsible for monitoring and evaluating management;

6- The non-executive members must include a sufficient number of independent members;

7- The board of directors must establish internal oversight committees;

8- The compensation of members of the board of directors must be structured in a manner that aligns their interests with those of the company, and must be disclosed annually on an individual basis;

8A- The compensation policy for members of the corporate bodies must be submitted annually to the shareholders;

9- The members of the Compensation Committee must be independent;

10- Share grant plans or stock option plans for directors and employees must be submitted to the General Meeting for approval;

10A – An internal system for reporting irregularities must be adopted;

11- Institutional investors must take into account their responsibilities regarding the exercise of rights attached to the securities they hold or whose management has been entrusted to them.

Thus, for the purposes of verifying compliance with the CMVM's Recommendations on Corporate Governance, it is important to consider the independence criteria set forth in Regulation No. 7/2001 with respect to members of the Board of Directors. Under this regulation, directors are not considered independent if they (i) are associated with groups that have a specific interest in the company or (ii) find themselves in circumstances that could influence their analysis or decision. In particular, members of the Board of Directors are not considered independent with respect to a given company, specifically in the following situations:

a) When they serve on the Board of Directors of a company that exercises control over that company, pursuant to the provisions of the VM Code;

b) When they are shareholders, hold management positions, have a contractual relationship, or act on behalf of or for the account of holders of a qualifying interest equal to or greater than 10% of the company's share capital or voting rights, or of an identical percentage in a company that exercises control over the company in question, pursuant to the provisions of the Securities Market Code, or in a competing company;

c) When they receive any compensation, even if suspended, from the company or from other companies that are under its control or part of the same group, except for compensation for the performance of management duties;

e) When they have a significant commercial relationship with the company or with a company in a controlling or group relationship, either directly or through an intermediary;

f) When they are spouses, relatives, or in-laws in the direct line up to and including the third degree of the persons referred to in the preceding subparagraphs.

In addition to verifying the circumstances set forth above, the Board of Directors must assess, with a reasoned opinion, the independence of its members in light of other specific circumstances.

The same regulation also provides that issuing companies must inform the CMVM of any existing share allocation or stock option plans intended for their employees and members of the board of directors. Issuing companies must also maintain a *website* that allows investors to access certain information regarding the company, including, *among other things*, the articles of incorporation, the identities of the members of the corporate bodies and the market relations representative, the financial statements for the last two years, the

half-yearly calendar of corporate events, and the proposals submitted to the General Meeting of Shareholders.

As for members of the Board of Directors, they are, in turn, subject to the obligation to disclose certain transactions they have carried out involving securities issued by the company, under the terms defined in Article 248-B of the Securities Code and further elaborated in Article 3 of Regulation No. 7/2001.

Although Galp Energia's shares are not listed on a regulated market, Galp Energia has been publishing corporate governance reports since 2001. However, Galp Energia is not subject to the *"comply or explain"* rule, and not all of the CMVM's recommendations are applicable to its specific case, as is the case with those described in paragraphs 1, 4, 10, and 11. Nevertheless, Galp Energia has already established an investor relations office and complies with most of the applicable recommendations, except those regarding a sufficient number of independent non-executive directors, the individual disclosure of compensation for members of the Board of Directors, shareholder approval of a compensation policy, the creation of internal oversight committees with authority to assess corporate structure and governance, and the adoption of an internal system for reporting irregularities.

Following the admission to trading of the shares issued by Galp Energia, and to the extent decided by its shareholders, the Company will adopt the recommendations regarding the sufficient number of independent non-executive directors, shareholder approval of a compensation policy, the creation of internal oversight committees with authority to assess corporate structure and governance, as well as the adoption of an internal system for reporting irregularities, while also considering the recommendation regarding the individual disclosure of the compensation of members of the board of directors.

Galp Energia's bylaws do not contain any provisions designed to prevent the success of tender offers. Regarding the effects of the shareholders' agreement on tender offers, *see* "Major Shareholders" *below*.

18. PERSONNEL

General Information

As of December 31, 2005, Galp Energia's workforce comprised 5,909 employees, representing a 1.8% increase compared to the previous year, primarily as a result of the opening of new service stations in Spain, the conversion of *CoDo* service stations to *CoCo*, and the acquisition of Gás Insular on the island of Madeira. The 7.7% increase recorded between 2003 and 2004 was mainly due to the service station swap deal with Total and Cepsa.

The following table shows the breakdown of the workforce as of December 31 of each year, by position and business segment.

	2005	2004	2003
Executive Committee	7	7	7
Senior Staff and Senior Management	202	194	143
Senior Employees			
Other Employees	5,700	5,605	5,240
Total	**5,909**	**5,806**	**5,390**
Exploration and Production	12	11	8
Refining and Distribution (1)	4,644	4,471	4,060
Natural Gas Procurement and Sales	202	201	203
Natural Gas Distribution (2)	470	523	533
Power	13	20	20
Other	568	580	566
Total	**5,909**	**5,806**	**5,390**

(1) Includes service station workers, numbering 1,908, 2,171, and 2,207, respectively.

(2) This includes all employees of distribution companies in which Galp Energia holds a stake of more than 50%.

As a result of the transfer of Regulated Activities to REN, following the Separation of Regulated Activities Process, 156 employees were transferred from Transgás to REN in 2006 as part of the business transfer agreement entered into between Transgás and REN.

In addition to the aforementioned transfer of 156 employees, the 32 employees who were on REN Atlântico's (formerly SGNL) payroll prior to the Separation of Regulated Activities Process remain with the company.

As of December 31, 2005, Galp Energia had 647 employees on fixed-term contracts. Galp Energia's employees are predominantly located in Portugal and Spain.

Relations with Unions and Employee Committees

Galp Energia maintains good relations with employees and labor unions. Over the past five years, there have been no significant labor disputes resulting in work stoppages in Portugal or other regions, except for a two-day strike in February 2004, primarily related to compensation issues, and a three-day strike in June 2004, mainly related to compensation issues and the suspension of career plans, both at the Sines refinery.

A significant percentage of Galp Energia's employees (including those working in Spain) are covered by collective bargaining agreements that establish work schedules, compensation, and other working conditions. As a rule, these agreements are valid for one year and are typically renegotiated annually.

Petrogal and Lisboagás have employee committees. Aside from these two companies, neither Galp Energia nor any of its other subsidiaries has employee committees.

As of December 31, 2005, Galp Energia had recorded 9.7 million euros under the "provisions for restructuring" account, with the aim of supporting the streamlining of structures and the introduction of improvements to Galp Energia's work processes. In this context, proposals for termination of employment by mutual agreement and/or early retirement agreements were presented to a limited group of employees. This group consists of employees who, as a result of the restructuring of the area to which they are assigned, performed duties that could be eliminated without the need for replacement or that could be handled internally without additional human resources.

Pensions and Other Benefits

Galp Energia has defined-benefit and defined-contribution plans ("Pension Plans"), which provide for the payment of retirement, disability, and survivor pension benefits. The payment of these benefits under the Pension Plans is funded by pension funds. These plans are not offered at all of Galp Energia's subsidiaries.

The benefits provided under the defined-benefit plans are based on the number of years of service and the employee's final salary. In 2005, the total cost of the Pension Plans amounted to 10.6 million euros. Under the defined-contribution plan, the company contributes 3% of the pensionable salary and matches the employee's contributions to the plan up to an additional 1%. In 2005, the total cost of the defined-contribution plan was 2.2 million euros.

Galp Energia aims to maintain the funding level of the funds financing the defined-benefit plans within a range of 90% to 100%. As of June 30, 2006, the defined-benefit plans were 90% funded overall, prior to the 2006 funding contribution.

In addition to these benefits, Galp Energia provides early retirement pensions, pre-retirement benefits, and other retirement-related benefits (notably as a result of restructuring processes), which are not funded by pension funds. In 2005, the total costs associated with these benefits amounted to 8.6 million euros.

Galp Energia also offers other post-retirement benefits, such as health and life insurance, the total cost of which amounted to 19.0 million euros in 2005.

As of December 31, 2005, total liabilities for post-employment benefits amounted to 662.4 million euros. Of this amount, 355.9 million euros were covered by the pension fund's assets, 214.2 million euros were covered by provisions, 9.7 million euros were deferred costs, and 102.7 million euros corresponded to unrecognized actuarial gains and losses. Of the latter, 53.1 million euros fall within the corridor, while the remaining 49.6 million euros will be recognized based on the expected average future service life for each plan.

Shareholdings and Stock Options

As of June 30, 2006, no member of the Board of Directors, the Executive Committee, or senior management held shares or bonds of Galp Energia or any group company.

Galp Energia does not have any system for granting shares or stock options in Galp Energia to the persons referred to in the preceding paragraph, nor does it have any form of employee stock ownership program for Galp Energia employees.
However, Galp Energia employees may purchase shares on preferential terms, within the reserve legally set aside for them, as part of the reprivatization process of Galp Energia.

19. MAJOR SHAREHOLDERS

Galp Energia's issued capital is 829,250,635 euros, represented by 829,250,635 shares, each with a par value of €1.

The main shareholders of Galp Energia are: ENI, a subsidiary of ENI SpA; Amorim Energia; the Portuguese government, directly and indirectly through Parpública; and Iberdrola.

The following table contains information regarding Galp Energia's shareholder structure, identifying the percentages of share capital and voting rights corresponding to each shareholder as of the date of this Prospectus and following the Offering, should the option to distribute the supplemental lot be exercised in full.

Shareholders	As of the date of this Prospectus	After the Offering[1]
ENI	33.340%	33.340%
Amorim Energia	31.612%	31.612%
Parpública	25.000%	2.000%
State	5.004%	5.004%
Iberdrola	4.000%	4.000%
CGD	1.000%	1,000%
Setgás	0.044%	0.044%
Free Float	0%	23.000%
	100.000%	**100.000%**

(1) Assuming the sale of all Shares and full exercise of the option to distribute the supplemental block of shares.

As of the date of this prospectus, the Portuguese government holds 40,000,000 Class A shares (shares with special rights) and 1,494,501 Class B shares (common shares), while Parpública holds an additional 207,312,659 shares. The Portuguese State directly holds 5.0% of the share capital and, additionally, 25.0% through Parpública.

Class A shares confer the following special rights:

- The election of the Chairman of the Board of Directors may only be approved by a majority of the votes attached to Class A shares;
- Any resolutions aimed at authorizing the execution of joint venture or subordination agreements, as well as any resolutions that could in any way jeopardize the security of the country's supply of oil, gas, and electricity, or products derived therefrom, may not be approved against a majority of the votes attached to Class A shares.

For more information on Class A shares, *see* the "Additional Information" section *below.*

ENI is a company belonging to the ENI SpA group, an international group operating in more than 70 countries. ENI SpA's main areas of activity are: Exploration and Production, Gas and Power, and Refining and Distribution of Petroleum Products. In the first half of 2006, ENI SpA reported net income of 5.6 billion euros.

Amorim Energia is a company headquartered in the Netherlands whose main shareholders are Esperanza Holding, B.V. (45%), Power, Oil & Gas Investments, B.V. (30%), Amorim Investimentos Energéticos, SGPS, S.A. (20%), and Oil Investments B.V. (5%).

Parpública is the Portuguese government's holding company responsible for managing its stakes in various companies.

Iberdrola was founded in 1901 and is currently part of the Iberdrola Group, headquartered in Bilbao, operating in the electricity sector. In the first half of 2006, Iberdrola reported net income of 817.8 million euros.

CGD is a credit institution wholly owned by the government and serves as the holding company for a financial group that includes Caixa – Banco de Investimento. In the first half of 2006, the net assets of Caixa Geral de Depósitos, S.A. totaled 89.3 billion euros.

Setgás, founded in 1990, is the concessionaire for natural gas distribution in southern Portugal. Galp Energia holds a 45% stake in Setgás.

Shareholders' Agreement

The Shareholders' Agreement was entered into on December 29, 2005, between Amorim Energia, ENI, and REN. On March 28, 2006, a first amendment to the Shareholders' Agreement (*Deed of Adherence and Amendment to the Shareholders Agreement*) was executed, pursuant to which CGD became a party to the Shareholders' Agreement. On September 6, 2006, two new amendments to the Shareholders' Agreement were executed (*Second Amendment to the Shareholders' Agreement* and *Third Amendment to the Shareholders' Agreement*). On September 28, 2006, a fourth amendment to the Shareholders' Agreement was executed (*Fourth Amendment to the Shareholders' Agreement*).

The current parties to the Shareholders' Agreement are Amorim Energia, ENI, and CGD. REN was an original party to the Shareholders' Agreement but sold its entire stake in Galp Energia—consisting of 151,752,865 shares—to Amorim Energia on September 18, 2006. The price paid to REN corresponds to the price paid by Amorim Energia to EDP Participações, SGPS, S.A., adjusted for the 3-month Euribor rate; this price was set on December 7, 2005, based on a valuation of Galp Energia at approximately 5,050 million euros, as disclosed to the market at that time.

The parties' stakes in Galp Energia, as of the date of *the Summary Disclosure of the Shareholders' Agreement regarding Galp Energia, SGPS, S.A.,* published at www.cmvm.pt:
- ENI – 276,472,160 shares, corresponding to 33.34% of Galp Energia's share capital and voting rights;
- Amorim Energia – 262,144,255 shares, representing 31.612% of Galp Energia's share capital and voting rights;
- CGD – 8,292,510 shares, representing 1% of Galp Energia's share capital and voting rights.

The Shareholders' Agreement governs the following matters:

Temporary Lock-up of Shares

The parties are required to retain their stake in Galp Energia until December 31, 2010 (*"Lock-in period"*), without prejudice to the possibility of disposing of their stake in the following cases:

(a) deadlock situations—under the terms set forth *below*;
(b) change in shareholder control—as set forth *below*; and
(c) breach of the Shareholders' Agreement—as set forth *below*.

Each party undertakes, during the *Lock-in Period*, not to increase its stake in Galp Energia beyond 33.34%, except in the situations referred to *above*.

In such cases, if the transferring party is Amorim Energia, CGD holds a right that allows it, with priority over the other parties, to purchase the stake in question or to appoint a third party who meets the requirements set forth in "CGD's Preemptive Rights" *below*.

Sale of Shares

As of January 1, 2011 (i.e., after the *lock-in period* has expired), the parties may only dispose of their entire equity interest as a block. The other parties shall have,

alternatively, have a right of first refusal or a "tag-along" right in the event of a sale to third parties, and only a right of first refusal in the event of a sale to other parties to the Shareholders' Agreement.

If the selling party is Amorim Energia, CGD holds the right to acquire, on a preferential basis, all or part of Amorim Energia's shares, with priority over the right of first refusal of the other parties, or, alternatively, to appoint a third party for that purpose (who must comply with the requirements set forth in "CGD's Rights of First Refusal" *below*).

In all other sales, or if CGD does not exercise the aforementioned right, the shares of the transferring party will be distributed equally among the parties exercising their right of first refusal, regardless of the stake each holds in Galp Energia.

CGD's Preemptive Rights

In situations where Amorim Energia intends to or is required to sell shares of Galp Energia during the term of the Shareholders' Agreement, CGD shall have the right to acquire such shares on a preferential basis or to appoint a third party for that purpose; the other parties may exercise their respective right of first refusal or right of acquisition only if, and to the extent that, CGD does not exercise its right of first refusal or does not appoint a third party for that purpose.

The third party to be nominated by CGD must meet all of the following requirements:

(a) not be in a controlling or group relationship with (i) CGD, (ii) public sector entities of the State, (iii) wholly publicly owned corporations, and (iv) state-owned business entities;
(b) not be a company operating in the energy sector;
(c) adhere to the Shareholders' Agreement, assuming the rights and obligations of the transferring party.

Except in the case of a sale by ENI, CGD's exercise of preemptive rights under the Shareholders' Agreement may not result in the State or entities in a controlling or group relationship with the State holding shares representing more than 33.34% of Galp Energia's share capital.

Composition of the Corporate Bodies

Presiding Board of the General Meeting and Secretary of Galp Energia

The members of the Presiding Board of the General Meeting and the Secretary of Galp Energia shall be elected or appointed, as the case may be, by mutual agreement of the parties, from among independent professionals with the qualifications and experience necessary to perform their duties.

Composition of the Board of Directors and the Executive Committee

Current term (January 1, 2005 – December 31, 2007):

The parties reiterated their intention to retain the current members of Galp Energia's Board of Directors until the end of their current term of office, subject to the following circumstances:

(a) replacement of one or more directors by the party that appointed them;
(b) if one of the parties ceases to be a shareholder of Galp Energia, in which case it must obtain the resignation of the members it appointed;
(c) just cause for removal, or

(d) resignation by the director.

Subsequent Terms of Office

The Board of Directors will have fifteen members, five of whom will serve on the Executive Committee. CGD will have the right to appoint one director, who will always serve as Chairman of the Board of Directors and must be the same person as the director appointed by the State (in its capacity as holder of Category A shares). Amorim Energia will have the right to appoint six directors. ENI will have the right to appoint six directors. Amorim Energia, ENI, and CGD will jointly appoint one director: in the event of a disagreement, that director will be appointed by a majority vote of those three entities, which must always include a favorable vote from CGD. Amorim Energia and ENI will jointly appoint one director, subject to CGD's approval—which may not be refused on unreasonable grounds—who will serve as CEO. The Executive Committee shall be composed as follows: its Chair will be the CEO, and Amorim Energia and ENI will each separately appoint two directors.

Once the OPV is completed, if a director is appointed pursuant to Article 392 of the CSC, that director shall replace the director jointly nominated by Amorim Energia, ENI, and CGD, without prejudice to the parties' obligation to vote in concert in the election of that director. The parties may agree to increase the number of members of the Board of Directors to nineteen, in which case ENI shall have the right to appoint one director and Amorim Energia shall have the right to appoint one director. The remaining two directors must be independent and shall be appointed by ENI and Amorim Energia.

Audit and Oversight

The Shareholders' Agreement provides that Galp Energia shall have a Supervisory Board, composed of three members, and a certified public accountant or a firm of certified public accountants. ENI, Amorim Energia, and CGD shall jointly propose one member, as well as the respective alternate, who must be certified public accountants and independent. Amorim Energia will have the right to propose one member, who must be independent. ENI will have the right to propose one member, who must be independent. CGD will have the right to designate which of the two members proposed by Amorim Energia and ENI will serve as Chair of the Audit Committee.

The certified public accountant or firm of certified public accountants shall be proposed to the General Meeting by the Audit Committee.

The Audit Committee shall ensure the appointment of an external auditor for Galp Energia who is independent of the company and selected from among the most reputable international auditing firms; such auditor, without prejudice to the powers of the Audit Committee and the statutory auditor, shall review Galp Energia's annual financial statements and other accounting documents.

Removal from Office

The parties have agreed that a member of a corporate body who has been appointed by one of the parties may be removed by that party, which shall be responsible for the costs associated with such removal. In cases where a member of a corporate body has been jointly appointed by the parties, the parties may agree to his or her removal and shall be responsible for the costs associated with such removal.

Resolutions of the Board of Directors

See "Management and Supervisory Bodies and Senior Management" *above*.

Composition of the Board of Directors of Companies Controlled by Galp Energia

The parties have agreed that the members of the Board of Directors of Petrogal, GDP, and Galp Power shall be the same as the members of the Executive Committee of Galp Energia, and that the Chairman of the Executive Committee of Galp Energia shall serve as the Chairman of the Board of Directors of those companies.

Resolutions of the General Meeting

The parties undertake to submit proposals and to vote in a concerted and unanimous manner on the following matters which, pursuant to Article 12(5) of Galp Energia's bylaws, require a two-thirds majority:

(a) matters that are subject to the special rights attached to Class A shares;
(b) approval and amendment of the strategic guidelines and strategic plan of Galp Energia and its respective business areas;
(c) decisions regarding the appropriation of net income for the fiscal year or the distribution of assets to shareholders;
(d) the issuance of securities that do not fall within the Board of Directors' authority;
(e) proposals for strategic partnerships submitted by the Board of Directors to the General Meeting of Galp Energia;
(f) approval of Galp Energia's individual and consolidated annual financial statements;
(g) demerger, merger, and dissolution of Galp Energia.

Deadlock Situations

In the event of a lack of *a* constitutive *quorum* or *a* deliberative *quorum* regarding the matters referred to in "Resolutions of the Board of Directors" and "Resolutions of the General Meeting" *above*, and if the parties fail to reach an agreement within 30 days, a deadlock shall be deemed to have occurred for the purposes of the Shareholders' Agreement, and the matter in question shall be submitted for review by experts appointed by the parties.

Following the Public Tender Offer (OPV), if the party that has taken a position differing from the experts' decision wishes to dispose of its stake in Galp Energia, it must first offer to sell the shares it holds to the other parties to the Shareholders' Agreement and may only proceed to sell such shares on a regulated market if the other parties do not wish to acquire them.

Sale of Regulated Assets[16]

The parties and REN have agreed that the sale price to REN of the regulated assets (i.e., the high-pressure natural gas transmission network ("Network"), three caverns at the Carriço underground natural gas storage facility, and the Sines liquefied natural gas terminal

[16] Wording contained in *the Summary Disclosure of the Shareholders' Agreement relating to Galp Energia, SGPS, S.A.*, published at www.cmvm.pt.

("Cave/Terminal"), together with the rights and obligations inherent in the ownership and operation of these assets ("Regulated Assets"), shall correspond to their fair market value ("Fair Value"), which shall be determined based on the arithmetic mean of three appraisals conducted by leading investment banks. If any of these valuations differs by more than 20% (twenty percent) from that average, that valuation will not be considered, and the arithmetic mean will be calculated based on the other two valuations (*see* "Process for the Separation of Regulated Activities in the Natural Gas Sector" *above*).

Network Price

Since the regulatory framework establishing, in particular, the terms and conditions for third-party access to the Regulated Assets and the respective remuneration for regulated activities ("Regulatory Framework") has not yet been defined the Parties have agreed on a preliminary purchase price for the Network in the net amount of 405 million euros ("Preliminary Net Price/Network"), calculated based on a total gross value of 738 million euros and net debt allocated to that Network of 333 million euros.

The Preliminary Net Price/Network will be adjusted as follows:

(a) if, after the Regulatory Framework enters into force, the Fair Value of the Grid exceeds 738 million euros, REN will pay Galp Energia an amount equal to the difference between the Fair Value of the Grid and 738 million euros;

(b) If the net debt attributable to the Grid as of the date of transfer of the Regulated Assets to REN is less than 333 million euros, REN will pay Galp Energia an amount equal to the difference between those amounts; conversely, if the net debt is greater than that amount, Galp Energia will then be required to pay REN an amount equal to the calculated difference.

Price of the Storage Facility/Terminal

The parties have agreed that the price of the Cave/Terminal will be determined by the parties based on its *net asset value* and allocated *net debt*.

Distribution of Earnings

The parties will propose an annual distribution of at least 50% of Galp Energia's net income, provided that a net debt-to-EBITDA ratio of no more than 3.5 is maintained for the current year and the following year, as set forth in the applicable annual budget.

The proceeds from the sale of regulated assets, as defined in "Sale of Regulated Assets" *above*, may be distributed to shareholders provided that the above ratio is met.

Change in Shareholder Control

In the event of a change in shareholder control of one of the parties ("Affected Party") during the term of the Shareholders' Agreement ("Change of **Control"**), the other parties have the right to acquire the Affected Party's equity interest in equal proportions, without prejudice to CGD's right of first refusal described in "CGD's Rights of First Refusal" *above*.

For the purposes of the Shareholders' Agreement, a Change of Control constitutes any situation in which, through one or more acts or contracts, and regardless of their form or legal title:

(a) one or more entities, acting alone or jointly with one or more other entities, come to, directly or indirectly: (i) hold more than half of the share capital or voting rights in the share capital of the Affected Party, or (ii) hold the right to appoint or remove the majority of the members of the Affected Party's board of directors;

(b) one or more entities acquire the ability to impose or veto strategic decisions of the Affected Party;

(c) a merger, the execution of a subordination agreement or a joint venture agreement, or any other event of a similar nature occurs with respect to the Affected Party; or

(d) all or at least two-thirds (2/3) of the Affected Party's assets are transferred (by any means) to one or more entities.

The provisions of the preceding paragraphs do not apply (i) to situations in which the Change of Control results from a transaction carried out exclusively with one or more parties to the Shareholders' Agreement, (ii) in the case of CGD, when the Change of Control results from transactions carried out between public-sector entities of the State or wholly publicly owned corporations, and (iii) in the event of intestate succession of Américo Amorim or any member of his family.

As of the date of this Prospectus, the entities that control the parties are as follows:

- Amorim Energia—indirectly controlled by the Américo Amorim Family, comprising exclusively any of the following individuals: Américo Ferreira de Amorim, Maria Fernanda de Oliveira Ramos Amorim, Paula Fernanda Ramos Amorim, Marta Cláudia Ramos Amorim Barrocas de Oliveira, and Luísa Alexandra Ramos Amorim.
- ENI - Eni S.p.A.;
- CGD - the State.

Assignment of Rights and/or Obligations and Third-Party Participation

None of the parties may assign its rights and/or obligations arising from the Shareholders' Agreement without the prior written consent of the other parties and without the assignee's prior, unreserved acceptance of the assignment and its respective terms.

In the event of a total or partial transfer of a party's shares to a third party, the transferring party undertakes to obtain the transferee's prior, full, and unconditional acceptance of the provisions of the Shareholders' Agreement.

Duties of Cooperation and Non-Competition

The parties have agreed to grant Galp Energia, if it so chooses, certain rights regarding ENI's cooperation with and non-competition against Galp Energia in the business areas of exploration and production, refining and marketing, and natural gas with respect to the Portuguese and Spanish markets, which may involve coordination regarding certain activities and/or their rationalization through transactions always valued at market prices.

Breach

In the event of a definitive breach of the Shareholders' Agreement by either party (the "Defaulting Party"), each party not in breach shall have the right, at its option, to (i) acquire the equity interest held by the Defaulting Party in Galp Energia or (ii) receive a monetary amount as compensation, and must, for this purpose, notify the other parties of its choice within 30 days.

General Strategic Objectives and Guidelines

The parties have agreed on Galp Energia's general strategic objectives and guidelines and shall act with a view to implementing such general strategic objectives and guidelines.

Validity

The Shareholders' Agreement was entered into on December 29, 2005, between Amorim Energia, ENI, and REN, with CGD having acceded to it on March 28, 2006. The Shareholders' Agreement entered into force on March 29, 2006, and shall remain in force for a period of eight years.

Pursuant to Article 20(1)(c) of the VM Code, the voting rights corresponding to the shares held by each party to the Shareholders' Agreement are reciprocally attributed to the other parties. Consequently, and in accordance with the law, Galp Energia is considered to be jointly controlled by the shareholders who are parties to the Shareholders' Agreement.

To ensure independence between the shareholders and Galp Energia and to help guarantee that any control the shareholders may have over the latter is not exercised abusively, fundamental measures have been implemented, such as full transparency in mutual relations and strict compliance with legal and regulatory standards, particularly those relating to transactions with related parties and the prevention of conflicts of interest.

20. TRANSACTIONS WITH RELATED THIRD PARTIES

In the normal course of Galp Energia's business, transactions are conducted with various entities, including companies in which Galp Energia's shareholders hold interests. These transactions are conducted in accordance with the normal customs and practices of Galp Energia's business. For further information, see Note 29 of the Notes to the 2005 IFRS Financial Statements (*see* "Financial Information on the Issuer's Assets and Liabilities, Financial Position, and Income and Losses—Financial Statements").

The following is a summary description of certain contracts and transactions entered into with related third parties.

ENI SpA – Agip

Galp Energia has entered into several agreements with Agip, an entity controlled by its shareholder ENI SpA, under which Galp Energia sells and purchases certain petroleum products from Agip in Portugal and Spain.

In addition, certain companies within the ENI Group (AgipPetroli S.p.A., SNAM S.p.A., and Italgas, S.p.A.) have agreed to provide specialized personnel in exchange for Galp Energia's payment of the associated personnel expenses (including the costs of any members of Galp Energia's Board of Directors who have been elected as representatives of these companies).

Amorim Energia

Sonangol holds 100% of the share capital of Esperanza Holding B.V., a company that, in turn, holds 45% of the share capital of Amorim Energia, one of Galp Energia's current shareholders.

Sonangol is, by law, the exclusive concessionaire of hydrocarbon exploration and production rights in Angola. In exercising the rights granted to it under the various concessions awarded by the Angolan government, Sonangol enters into production-sharing agreements with other companies for the purpose of conducting exploration and production operations. Under these agreements, Sonangol, as the concessionaire, and the companies that contract with it and join together to form a consortium for the sharing of any production that may be obtained. The Galp Energia Group holds interests in several contracts of this type, as described in other sections of this prospectus (*see* "Main Activities and Markets" and "Legislation Governing the Issuer's Activities" *above*).

Furthermore, the Galp Energia Group and Sonangol are shareholders of Sonangalp – Sociedade Distribuição e Comercialização de Combustíveis, Lda. ("Sonangalp") and SOPOR – Sociedade Distribuidora de Combustíveis, S.A. ("Sopor"), companies engaged in the distribution of fuels and lubricants in Angola and Portugal, respectively. Sopor is supplied with products by Petrogal, and Sonangalp by Sonangol, under the terms of supply contracts drawn up in accordance with standard industry practices. Petrogal is also a supplier to Sonangol of base oils for the formulation of lubricants, as well as certain finished lubricants, under the terms of a contract entered into for this purpose, the terms of which are likewise consistent with standard industry practices.

State

Under the terms of a shareholders' agreement entered into between the State and Petrocontrol, the State agreed to pay 75 million euros to the subsidiary Petrogal in order to, *among other things,* support the implementation of a desulfurization project to comply with the specifications of the "Portuguese Auto-Oil Program." Under the terms of this agreement, payments were to be made in installments due by December 31, 2003. As of the date of this Share Registration Document, the State has paid only 25 million euros in accordance with this agreement; however, it has already confirmed that it will pay the remaining 50 million euros.

Galp Energia also supplies gasoline, diesel, and other fuels to various military units of the Portuguese Army.

CGD

Caixa - Banco de Investimento, S.A., a subsidiary of the shareholder CGD, is acting as Global Coordinator for this Offering.

CGD also provides Galp Energia with various banking services and is a party to financing agreements entered into with companies of the Galp Energia Group, specifically in connection with this Offering, as well as:

- *Group credit lines*: CGD has established two group credit lines, one in favor of Galp Energia, Petrogal, and various subsidiaries of Petrogal, up to a maximum aggregate limit of 300 million euros, and another in favor of GDP and various subsidiaries of GDP, up to a maximum aggregate limit of 100 million euros;
- *Credit lines*: CGD has established two credit lines, one in favor of the subsidiary Petrogal Trading Limited, for a maximum amount of 100 million euros, and the other in favor of Setgás, for a maximum amount of 3.3 million euros;
- *Syndicated Guarantees*: CGD partially guaranteed the outstanding loans granted by the European Investment Bank to its subsidiaries Petrogal (22.9% of the total guaranteed loan), CLC (33.3%), and Lisboagás GDL (25%);
- *Project Finance*: CGD granted Tagusgás a loan in the form of *project finance* totaling 36.25 million euros, of which 31 million euros constitute medium- and long-term debt. As of June 30, 2006, the outstanding balance of the medium- and long-term debt amounted to 23.5 million euros;
- *Interest Rate Hedging*: Caixa - Banco de Investimento (a subsidiary of CGD and Global Coordinator for this Offering) is a counterparty to certain interest rate *swaps* entered into by Tagusgás with a *notional* amount of 25 million euros as of June 30, 2006;
- *Pension Fund*: CGD Pensões (a subsidiary of CGD) is the manager of Galp Energia's Defined Contribution Pension Fund, to which Galp Energia, Petrogal, and Lisboagás GDL make contributions;
- *Commercial Paper*: Galp Energia issued commercial paper arranged by CGD in September 2005 in the amount of 100 million euros.

Setgás

Galp Energia, through Transgás, supplies high-pressure natural gas to its shareholder Setgás, the concessionaire responsible for natural gas distribution in southern Portugal, under the terms of a contract signed in April 1994. Galp Energia provides certain management and management support services to Setgás.

REN

REN was a shareholder of Galp Energia until September 18, 2006. As part of the Separation of Regulated Activities, Galp Energia entered into various contracts with REN or its subsidiaries, including a purchase and sale agreement for the transfer of all natural gas, Regulated Activities, and contracts, under which REN or its subsidiaries provide transportation, regasification, and storage services to Galp Energia (*see* "Process of Unbundling Regulated Activities in the Natural Gas Sector" *above*).

On December 7, 1994, Galp Energia and REN entered into a natural gas consumption management agreement aimed at defining the rights, obligations, and procedures to be established between REN and Transgás, with a view to supplying natural gas to the thermal power plants designated by REN. This agreement has been in effect since December 7, 1994, and remains in force for a period of 25 years following the date of the start of commercial operation of the CCGT at

Tapada do Outeiro. Under this agreement, Transgás has entered into individual gas supply contracts with the respective thermal power plants.

Galp Energia also maintains the following operations with its former shareholders, EDP and Portgás.

EDP

EDP Participações, SGPS, S.A. was a shareholder of Galp Energia until January 2006.

Galp Energia, through its subsidiary Lisboagás, also maintains a contract with a company in the EDP group for the provision of customer service, meter reading, billing, and collection services for Lisboagás customers. This contract was signed on May 8, 1992, and replaced by another, on December 10, 2003, with the same purpose and a term of 3 years, which was subsequently terminated by Lisboagás, effective June 1, 2006, due to the creation of a new commercial management system; the parties agreed to extend the contract on a monthly basis from that date until the completion of the process of migrating customer data from the EDP system to the Lisboagás system, at which point the contractual relationship between the parties will cease, which is expected to occur in December 2006.

Galp Energia and EDP also maintain standard commercial contracts for the reciprocal supply of energy products between subsidiaries, subject to normal market rules.

Portgás

Portgás was a shareholder of Galp Energia until January 2005.

Galp Energia, through Transgás, continues to supply high-pressure natural gas to Portgás, the natural gas distribution concessionaire in northern Portugal.

21. FINANCIAL INFORMATION ON THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION, AND PROFITS AND LOSSES

21.1 Financial History

Galp Energia's consolidated financial statements for the six-month periods ended June 30, 2006, including consolidated statements of income and cash flows with comparative figures for the six-month period ended June 30, 2005, prepared in accordance with IFRS, and the related notes and simplified audit report, as included in "Interim and Other Financial Information."

Galp Energia's consolidated financial statements for the fiscal years ended December 31, 2005, with comparative figures for the fiscal year ended December 31, 2004, prepared in accordance with IFRS, and the related notes and audit report, as set forth in "Consolidated Financial Statements."

Galp Energia's consolidated financial statements for the fiscal year ended December 31, 2004, with comparative figures for the fiscal year ended December 31, 2003, prepared in accordance with POC, and the related notes and audit report, as set forth in "Consolidated Financial Statements."

Galp Energia's pro forma consolidated financial statements for the six-month period ended June 30, 2006, prepared in accordance with IFRS, and the related memorandum of assumptions and the external auditor's report on agreed-upon procedures, as set forth in "Interim and Other Financial Information."

Galp Energia's pro forma consolidated financial statements for the fiscal year ended December 31, 2005, prepared in accordance with IFRS, and the related memorandum of assumptions and the external auditor's opinion on agreed-upon procedures, as set forth in "Interim and Other Financial Information."

The consolidated financial statements of Galp Energia for the fiscal year ended
December 31, 2003, and Galp Energia's consolidated financial statements for the fiscal year ended December 31, 2005, prepared in accordance with POC, are incorporated by reference and form part of this Prospectus (*see* "Documentation Incorporated by Reference" *below*).

21.2 *Pro forma* financial information

As previously mentioned in the section "Process of Separation of Regulated Activities in the Natural Gas Sector," Galp Energia sold a portion of its natural gas business on September 26, 2006. Since the financial information subsequent to that date is not directly comparable with the historical financial information presented in this Share Registration Document, pro forma consolidated financial information is provided for the fiscal year ended December 31, 2005, and for the six-month period ended June 30, 2006, prepared in accordance with IFRS, unaudited, and on which the external auditor has issued an opinion based on agreed-upon procedures. For more detailed information on the pro forma financial statements, *see* "Interim and Other Financial Information" *below*. The financial information was prepared on the assumption that the Separation of Regulated Activities would have taken place on January 1, 2005, for the pro forma financial statements for the 2005 fiscal year, and on January 1, 2006, for the pro forma financial statements for the first half of 2006. The pro forma adjustments are based on

information contained in the Preliminary Agreement and on assumptions that Galp Energia considers reasonable. Specifically, the adjustments made are based on estimates of the prices of the assets and liabilities to be spun off in the Separation of Regulated Activities process, since the final price will be determined based on an appraisal conducted by external experts and will not be available prior to the date of this Share Registration Document. It was also decided to use the transmission tariff set forth in the Memorandum of Understanding, on the assumption that, should any adjustments be necessary due to a variation in the annual volume, these should be made at the end of 2006, after the volumes actually transmitted have been determined. Had the transmission tariff set forth in the Letter of Intent signed on August 30, 2006, been used, the impact, net of tax, would have been an additional 2.6 million euros in costs. It is expected that the final price resulting from the valuation will have a different impact than that produced by the pro forma adjustments made and the pro forma information included in this Share Registration Document. The unaudited consolidated financial information is provided for informational purposes only and is not intended to present Galp Energia's results and financial position if the Separation Process of Regulated Activities in the Natural Gas Sector had, in fact, taken place on that date; nor does it project operating results or the financial position as of a future date, nor does it take into account the new tariff regulation established by ERSE (*see* "Process of Separation of Regulated Activities in the Natural Gas Sector" *above*).

The unaudited consolidated financial information should be read in conjunction with the "Capitalization and Indebtedness" section in the Prospectus, and the sections of this Share Registration Document titled "Financial Information Regarding the Issuer's Assets and Liabilities, Financial Position, and Income and Losses," "Analysis of Operations and Financial Position," "Appendix II – Summary of Differences Between POC and IFRS," and the historical or pro forma consolidated financial information, both audited and unaudited, and the related notes included in other parts of the Share Registration Document.

	June 30, 2006			December 31, 2005		
	Historical	Adjustments Pro Forma	Pro-Form	Historical	Adjustments Pro forma	Pro forma
	(in millions of euros, unless otherwise indicated)					
Consolidated Income Statement						
Sales and services rendered services	**6,130.4**	**(3.3) (a)**	**6,127.1**	**11,137.3**	**(6.4) (a)**	**11,130.9**
Cost of goods sold	(5,112.1	(16.8) (a)	(5,129.0)	(9,162.1)	(29.7) (a)	(9,191.8)
Gross margin	**1,018.2**	**(20.1)(a)**	**998.1**	**1,975.2**	**(36.1) (a)**	**1,939.1**
Other income and operating gains	24.8	(0.09) (a)	24.7	83.4	0.3 (a)	83.6
Supplies and services from external sources	(255.7)	(40.1) (a)	(295.8)	(525.6)	(70.8) (a)	(596.4)
Personnel costs	(140.6)	5.1 (a)	(135.5)	(269.6)	8.4 (a)	(261.2)
Other costs and losses operating	(23.4)	0.1 (a)	(23.3)	(71.3)	2.1 (a)	(69.2)
Provisions	(14.6)	0.2 (a)	(14.4)	(22.5)	0.4 (a)	(22.2)
Depreciation and amortization	(125.3)	14.4 (a)	(110.9)	(306.8)	27.4 (a)	(279.4)
Operating						
Operating	**483.4**	**(40.6)(a)**	**442.7**	**862.7**	**(68.3) (a)**	**794.4**

	June 30, 2006			December 31, 2005		
	Pro forma	Adjustments Pro forma	Pro-Form	History	Adjustments Pro forma	Pro forma
	(in millions of euros, unless otherwise indicated)					
Financial income / (expenses)	(6.3)	14.5 (b)	8.1	30.6	25.1 (b)	55.7
Current Results	**477.0**	**(26.1)**	**450.9**	**893.4**	**(43.3)**	**850.1**
Earnings before taxes and minority minority interests	**477.0**	**(26.1)**	**450.9**	**893.4**	**(43.3)**	**850.1**
Income tax income	(121.2)	6.9 (c)	(114.4)	(188.8)	13.5 (c)	(175.3)
Minority interests	(2.0)	0.9 (d)	(1.1)	(3.9)	1.8 (d)	(2.1)
Net income	**353.8**	**(18.4)**	**335.4**	**700.7**	**(27.9)**	**672.7**
Key Performance Indicators [1]						
Net income per share €	0.43	(0.02)	0.40	0.84	(0.03)	0.81
Net income per share	0.43	(0.02)	0.40	0.84	(0.03)	0.81
Dividends per share €	n.a.	n.a.	n.a.	0.27	n.a.	0.27
Cash Flow Consolidated						
Cash flows from operating activities	380.1	(56.9) (e)	323.2	653.0	(103.3) (e)	549.7
Cash flows from	(102.4)	0.1 (f)	(102.3)	(110.0)	515.8 (f)	405.8
Cash flows from financing activities	(184.8)	20.4 (g)	(164.5)	(522.2)	50.4 (g)	(471.8)
Consolidated Balance Sheet						
Fixed Assets	3,079.0	(734.0)(h)	2,344.9	3,090.7	(735.3) (h)	2,355.4
Fixed Assets Net[2]	2,925.5	734.0	2,191.4	2,942.5	(735.3)	2,207.2
Other non-current assets current	252.9	(5.3) (h)	247.6	255.5	(2.4) (h)	253.1
Total non-current assets current	3,331.8	(739.3)	2,592.6	3,346.2	(737.7)	2,608.5
Marketable securities, bank deposits, and cash equivalents	275.6	485.8 (i)	761.4	157.6	460.4 (i)	618.1
Other current assets	2,660.2	(2.3) (j)	2,657.9	2,430.4	(30.5) (j)	2,399.9
Total current assets	2,935.8	483.6	3,419.4	2,588.1	429.9	3,017.9
Total Assets	**6,267.6**	**(255.7)**	**6,011.9**	**5,934.3**	**(307.8)**	**5,626.4**
Equity (includes minority interests)	2,514.7	209.8 (k)	2,724.4	2,385.9	184.9 (k)	2,570.8
Non-current liabilities	1,550.0	(460.1) (l)	1,089.9	1,612.9	(478.1) (l)	1,134.8
Current liabilities	2,202.9	(5.4) (m)	2,197.5	1,935.5	(14.7) (m)	1,920.8
Total Liabilities	3,753.0	(465.5)	3,287.5	3,548.4	(492.8)	3,055.6
Total Equity and Liabilities	**6,267.6**	**(255.7)**	**6,011.9**	**5,934.3**	**(307.8)**	**5,626.4**

	June 30, 2006			December 31, 2005		
		Adjustments Pro forma			Adjustments Pro forma	
	Pro forma		Pro-Form	Historical		Pro forma
	(in millions of euros, unless otherwise indicated)					
Other Information Financial						
Investments[3]	**120.7**	**(21.8)**	**98.9**	315.3	(12.4)	302.9
Average capital employed [4]	**n.a**	**-**	**n.a**	3,438.7	n.a.[9]	n.a.[9]
Net Debt[5]	**984.7**	**(970.7)**	**14.0**	1,191.5	(955.0)	236.5
EBITDA[6]	**623.3**	**(55.2)**	**568.1**	1,192.1	(96.1)	1,096.0
Net Debt/EBITDA	**n.a**	n.a.	**n.a**	1.0x	n.a.	0.2x
EBITDA/Interest[7]	**24.2x**	n.a.	**36.3x**	16.0x	n.a.	19.9x
Net Debt/Equity [8]	**39.2%**	n.a.	**0.5%**	49.9%	n.a.	9.2%
Return on Return on average (ROACE) [9]	n.a.	n.a.	n.a.	21.9%	n.a. [10]	n.d. [10]
Gross margin	**1,018.2**	**(20.1)**	**998.1**	**1,975.2**	**(36.1)**	**1,939.1**
Operations and production	27.7	0.0	27.7	62.1	0.0	62.1
Refining and distribution	772.2	0.0	772.2	1,493.8	0.0	1,493.8
Procurement and sale of natural gas	130.8	(20.1)	110.7	255.1	(36.1)	219.0
Natural gas distribution	74.1	0.0	74.1	137.7	0.0	137.7
Power	4.9	0.0	4.9	9.0	0.0	9.0
Others[11]	8.5	0.0	8.5	17.6	0.0	17.6
EBITDA	**623.3**	**(55.2)**	**568.1**	**1,192.1**	**(96.1)**	**1,096.0**
Exploration and production	16.2	0.0	16.2	40.2	0.0	40.2
Refining and distribution	444.7	0.0	444.7	848.7	0.0	848.7
Procurement and sale of natural gas	111.0	(55.2)	55.9	218.4	(96.1)	122.3
Natural gas distribution	46.3	0.0	46.3	82.2	0.0	82.2
Power	2.6	0.0	2.6	3.7	0.0	3.7
Others[11]	2.4	0.0	2.4	(1.0)	0.0	(1.0)
Operating operating income	**483.4**	**(40.6)**	**442.7**	**862.7**	**(68.3)**	**794.4**
Operations and production	3.5	0.0	3.5	18.2	0.0	18.2
Refining and distribution	349.9	0.0	349.9	601.9	0.0	601.9
Procurement and sale of natural gas	93.8	(40.6)	53.2	186.3	(68.3)	117.9
Natural gas distribution	32.9	0.0	32.9	58.5	0.0	58.5
Power	1.2	0.0	1.2	0.8	0.0	0.8
Others[11]	2.1	0.0	2.1	(2.9)	0.0	(2.9)

n.a. – not available

(1) Adjusted for the change in the par value of the shares approved at the General Meeting of May 31, 2006.
(2) Net Fixed Assets include the total net tangible and intangible fixed assets.
(3) Total investment in tangible and intangible fixed assets.
(4) Equity (excluding minority interests) plus net debt for year n plus equity (excluding minority interests) plus net debt for year n-1, divided by two.

(5) Short- and long-term bank loans and obligations, net of marketable securities, bank deposits, and cash and cash equivalents.
(6) EBITDA is defined as operating income plus depreciation, amortization, and provisions. EBITDA is not a standard measure and should not be used for comparisons between companies. EBITDA is not a direct measure of liquidity and should be analyzed in conjunction with actual *cash flows* from operating activities and taking into account existing financial commitments. *See* "Presentation of Financial Data and Other Information."
(7) Interest and other associated financial costs were included in the calculation of this ratio.
(8) Net debt / (Equity plus Minority Interests).
(9) Net income minus [financial income excluding the results of group companies and associates multiplied by (1 minus the corporate income tax rate)] divided by the average capital employed for the period.
(10) Information not available, as no pro forma financial statements under IFRS were prepared for 2004 and the first half of 2005.
(11) "Other" consists primarily of corporate overhead costs and intragroup eliminations.

Description of the Process for the Spin-off of Regulated Activities and the Sale Price of the Regulated Activities

Pursuant to the Letter of Intent executed on August 30, 2006, Transgás, GDP, and REN agreed to sell the Regulated Activities to REN. This transaction was effectively completed on September 26, 2006. The amount paid by REN for the Regulated Activities is subject to an adjustment based on an assessment by external experts, which is contingent upon the approval of the tariffs set forth in the new regulatory framework adopted by ERSE. This adjustment is expected to occur following the publication of the new regulatory framework. For a detailed description of the transaction, *see* "Process for the Separation of Regulated Activities in the Natural Gas Sector."

The sale of the Regulated Activities in accordance with the terms of the Letter of Intent included:

- **Natural gas transmission assets.** 405.0 million euros, paid to Transgás for the high-pressure natural gas transmission network and related rights and activities, calculated based on an estimated total value of such assets of 738.0 million euros, less 333.0 million euros in debt (adjusted as of the date of completion of the transaction) assumed by REN. The amount of 738.0 million euros will be subject to adjustment (only if the adjustment results in a higher value), specifically based on the tariff to be applied by REN to natural gas transmission services, within the regulatory framework established by ERSE on September 11, 2006 (*see* "Legislation Governing the Issuer's Activities" *below*). Until the final tariffs take effect, Galp Energia will pay the provisional tariff of 0.0205 euros per $m^3$for natural gas transmission services, as defined in the Memorandum of Understanding.
- **Underground natural gas storage facilities.** 75.9 million euros paid to Transgás for the natural gas storage facilities, of which 60.5 million euros correspond to the value of the facilities, and 15.4 million euros correspond to the book value as of May 31, 2006, of the minimum quantity of natural gas that must be present inside the underground natural gas storage caverns to maintain their operational capacity ("cushion gas"). The aforementioned amount of 75.9 million euros will be subject to adjustment (either upward or downward), depending on the rates to be established within the regulatory framework defined by ERSE, specifically with regard to the rate to be applied by REN to natural gas storage services. Until the final tariffs take effect, Galp Energia will pay the provisional tariff of 9.3 million euros per year, plus 0.0014 euros per m^3, for
  natural gas storage services.
- **Regasification facilities** (SGNL shares). 30.0 million euros, paid to Transgás SGPS and GDP in connection with the sale of SGNL shares, of which 11.6 million corresponds to the value of the shares and 18.3 million euros corresponds to the value of loans from the shareholders (Transgás SGPS and GDP) to SGNL. The amount of 11.6 million

euros will be subject to adjustment (either upward or downward), depending on the tariffs to be established within the regulatory framework defined by ERSE, specifically regarding the tariff to be applied by REN to liquefied natural gas regasification services. Until the final tariffs take effect, the purchase and sale agreement establishes a provisional fixed tariff of 29.7 million euros per year, plus 0.0019 euros per $m^3$for regasification services, which is to be paid by Galp Energia.

Notes to the Pro Forma Consolidated Financial Statements as of December 31, 2005, and June 30, 2006 (regarding the information presented in parentheses):

(a) Operating Results. The adjustment mainly reflects:
- A reduction of 6.4 million euros in 2005 (3.3 million euros) in sales and services rendered resulting from maintenance work billed to the Portuguese gas pipelines;
- An increase of 29.7 million euros (16.8 million euros) in the cost of goods sold, resulting primarily from fees paid to REN for regasification services;
- An increase of 70.8 million euros (40.1 million euros) in external supplies and services, which includes the costs of natural gas transmission services provided by REN, calculated at an estimated unit cost of €0.$^{0205/m^3}$, totaling 84.0 million euros (47.0 million euros, which also includes natural gas storage services provided by REN, calculated based on a unit rate of €0.$^{0014/m^3}$, plus an annual fixed fee of 9.3 million euros), partially offset by a reduction in other external supplies and services;
- a reduction of 8.4 million euros (5.1 million euros) in personnel costs associated with the transfer of 188 employees to REN;
- a decrease of 2.1 million euros (0.1 million euros) in other operating costs and losses related to the reduction in activities carried out by Transgás; and
- a decrease of 27.4 million euros (14.4 million euros) in depreciation and amortization related to the assets transferred to REN.

The transmission and regasification tariffs used to calculate the pro forma operating results are provisional and will be adjusted in accordance with the tariffs adopted by the regulator (*see* "Process of Separation of Regulated Activities in the Natural Gas Sector" *above*).

(b) Financial Results. The adjustment in 2005 reflects a reduction of 19.3 million euros in interest (9.8 million euros), due to the transfer to REN of Transgás and SGNL's bank loans totaling 494.6 million euros (484.8 million euros) and an increase of 5.7 million euros (4.4 million euros) in income from associates, reflecting additional revenue from the subsidiary SGNL that was not recognized during the year.

(c) Income tax. The adjustment reflects the tax effect of the Separation of Regulated Activities using an estimated rate of 27.5%.

(d) Minority Interests. The adjustment reflects the elimination of minority interests in the Gas Pipelines, as a result of the transfer of the shares in these companies.

(e) Cash flow from operating activities. The adjustment reflects (i) a decrease of 125.1 million euros (69.3 million euros) in customer receipts, including a decrease of 9.7 million euros (4.9 million euros) related to transmission tariffs charged by Portuguese gas pipelines, (ii) an increase of 77.0 million euros (39.2 million euros) in payments related to the new tariff of

transportation, as well as the new storage rate for the first half of 2006, (iii) an increase of 14.9 million euros (8.5 million euros) in payments related to income tax on transferred activities and realized capital gains (iv) a decrease of 69.4 million euros (36.4 million euros) in payments to suppliers related to the companies being sold (SGNL and the Portuguese gas pipelines), (v) a decrease of 36.1 million euros (18.8 million euros) in payments for external supplies and services provided by Transgás and a decrease of 8.0 million euros (5.0 million euros) in salaries for employees transferred to REN.

(f) Cash flows from investing activities. The adjustment in 2005 reflects an increase of 30 million euros related to the sale of SGNL, an increase of 405.0 million euros from the sale of the high-pressure gas pipeline network and the equity interest in Portuguese gas pipelines, an increase of 61.0 million euros related to the sale of natural gas storage facilities, and an increase of 15.4 million euros related to the sale of *"cushion gas*." As of June 30, 2006, it was determined that the "Cash and cash equivalents at the beginning of the period" balance in the Galp Energia Group's consolidated financial statements included the proceeds received from REN related to the sale of Transgás, S.A. assets, in the amount of 492.2 million euros and 38.5 million euros related to the sale of the SGNL stake and the receipt of dividends from the Portuguese gas pipelines, as it was considered that this cash inflow had already been reflected in the pro forma cash flow statement for December 2005.

(g) Cash flows from financing activities. The adjustment relates to an increase of 14.8 million euros (2.2 million euros) due to the cancellation of the loan that SGNL granted to GDP when these companies were consolidated, an increase of 8.9 million euros related to the cancellation of amortization on loans made by Transgás and Enagás to the Portuguese gas pipelines, a reduction of 9.8 million euros (10.3 million euros) due to the cancellation of dividend payments from the Portuguese gas pipelines, and a decrease of 16.9 million euros in interest payments on medium- and long-term loans that were transferred to REN.

(h) Fixed assets and other non-current assets. The adjustments reflect the book value of the assets sold by Transgás, including 570.7 million euros (575.0 million euros) for transmission assets and storage facilities, 149.9 million euros (144.5 million euros) for SGNL's assets, and a reduction of 14.8 million euros (14.5 million euros) in intangible assets related to rights of way for Portuguese gas pipelines and the write-off of Galp Energia's *goodwill* related to its stake in Transgás. Noncurrent assets were adjusted to reflect a decrease of 2.4 million euros (5.3 million euros) in deferred taxes.

(i) Marketable securities, bank deposits, and cash and cash equivalents. The adjustments reflect a decrease of 7.8 million euros in the first half of 2006 in cash and cash equivalents held by SNGL and in the Portuguese gas pipelines that are no longer part of the group, and an increase of 513.8 million euros (514.3 million euros) resulting from the receipt of proceeds from the sale of the transferred assets, comprising (i) 405.0 million euros (413.5 million euros) representing the value of the transmission assets net of debt, (ii) 60.5 million euros (same amount as of June 30, 2006) for storage facilities, (iii) 11.6 million euros (same amount as of June 30, 2006) relating to SGNL shares, (iv) 18.3 million euros (same amount as of June 30, 2006) for the shareholder loan to SGNL, and (v) 15.4 million euros (same amount as of June 30, 2006) related to *cushion gas* and an increase of 3.1 million euros (2.7 million euros) in other items. In addition, there was a decrease in cash of 53.4 million euros

(28.5 million euros) due to additional payments related primarily to the transmission and regasification services provided by REN to Transgás.

(j) Other current assets. The adjustment reflects a decrease of 19.7 million euros (2.4 million euros) in inventory, primarily related to the sale of *"cushion gas*," and a decrease of 10.8 million euros (an increase of 0.1 million euros) in other accounts receivable.

(k) Shareholders' Equity. The adjustment reflects an increase of 220.8 million euros (235.3 million euros) in retained earnings (resulting from a gain of 158.3 million euros (156.3 million euros), primarily related to transferred assets net of grants received, 91.1 million euros (96.2 million euros) from the recognition of deferred revenue related to an advance payment made by Portuguese gas pipeline companies for the use of Transgás's gas pipelines and other additions related to transportation and storage activities, a tax impact of 23.0 million euros (16.8 million euros) due to capital gains recognized in the asset separation transaction, and a cost of 5.6 million euros (0.4 million euros) related to IFRS adjustments), partially offset by a reduction in net income of 27.9 million euros (18.4 million euros) due to the simulation of the new business, and a reduction of 7.9 million euros (7.1 million euros) in minority interests.

(l) Non-current liabilities. The adjustments reflect a decrease of 469.6 million euros (450.8 million euros) in bank loans, of which 309.2 million euros were from Transgás (299.3 million euros), 151.5 million euros from SNGL (same amount in the first half of 2006), and 8.9 million euros from the Braga-Tuy gas pipeline (0.0), a decrease of 6.8 million euros (6.6 million euros) in other payables related to SGNL, a decrease of 2.8 million euros (2.5 million euros) in provisions (primarily related to property taxes on assets sold to REN), and a decrease of 1.1 million euros in deferred taxes.

(m) Current liabilities. The adjustment reflects a decrease of 25.0 million euros (34.1 million euros) in bank loans (the portion of the medium- to long-term loan classified as current), partially offset by an increase of 3.4 million euros (7.2 million euros) in accounts payable (notably to REN), an increase of 1.4 million euros (17.0 million euros) in other creditors, and a net increase of 5.5 million euros (4.4 million euros) in taxes payable, of which 28.6 million euros (17.4 million euros) relate to capital gains taxes, partially offset by a decrease of 23.1 million euros (12.9 million euros) in income taxes due to the simulation of the new business activity.

21.3 Financial Statements

Consolidated Financial Statements as of December 31, 2005, and December 31, 2004, prepared for comparative purposes in accordance with IFRS – Appendix A

Income Statements by Nature Balance Sheet
Statement of Changes in Equity Cash Flow Statements
Notes to the Financial Statements Auditor's
Report

Consolidated Financial Statements as of December 31, 2004, and December 31, 2003, prepared in accordance with POC – Appendix B

Income Statements by Nature

Income Statements by Function Balance Sheet
Cash Flow Statements Notes to the Financial
Statements Auditor's Report
Statutory Audit Report

21.4 Period covered by the most recent financial information

The most recent fiscal year for which audited financial information is available was the fiscal year ended December 31, 2005.
After the date to which the most recent audited financial statements refer, Galp Energia published unaudited consolidated interim financial information, which was subject to a review report, for the six-month period ended June 30, 2006, which is reproduced in "Interim and Other Financial Information."

21.5 Interim Financial Information and Other Information

Consolidated Financial Statements as of June 30, 2006, and for the six-month periods ended June 30, 2006, and June 30, 2005, prepared in accordance with IFRS – Appendix C

Statement of Income Balance Sheet
Statements of *Cash* Flows Statements of Changes in
Equity Notes to the Financial Statements
Simplified Review Report

Financial Statements Consolidated Pro Forma as of 30 as of June as of 2006, prepared in accordance with IFRS – Appendix D

Income Statement by Nature Balance Sheet
Cash Flow Statements Appendix – Segment
Financial Report Memorandum of
Assumptions
Independent Auditor's Report

Pro Forma Consolidated Financial Statements as of December 31, 2005, prepared in accordance with IFRS – Appendix E

Statement of Income by Nature Balance Sheet
Cash Flow Statements Appendix – Segment
Financial Report Memorandum of
Assumptions
Independent Auditor's Report

21.6 Dividend Policy

Galp Energia's shareholders are entitled to dividends in proportion to their ownership interest in the company's capital stock. *See* "Additional Information" *below* for a description of shareholders' rights regarding the distribution of dividends.

The dividend distribution policy takes into account a number of factors that affect Galp Energia's ability to pay dividends, including market conditions, investment plans, and the Company's financial position.

Under the terms of the Shareholders' Agreement, the parties thereto will propose the annual distribution of at least 50% of Galp Energia's net income, provided that a net debt-to-EBITDA ratio of no more than 3.5 is maintained for the current year and the following year, as set forth in the applicable annual budget (*see* "Major Shareholders" *above*).

The dividends distributed by Galp Energia in recent years are shown in the following table, which takes into account the number of shares resulting from the change in the par value of the shares approved at the General Meeting of May 31, 2006.

	2005	2004	2003
Dividend per share (€)	0.27	0.20	0.11

The shares subject to the Offer entitle the holder to any future dividends, including dividends for the year ended December 31, 2006.

Under the Commercial Companies Code, dividends are distributed based on the Company's Individual Financial Statements, which may be prepared in accordance with POC or IFRS and may differ significantly from the Consolidated Financial Statements presented in this Share Registration Document. During the period from 2003 to 2005, Galp Energia distributed dividends based on the Individual Financial Statements prepared in accordance with POC.

Dividends paid may be subject to withholding tax, as described in the "Tax Information" section of the "Note on the Shares."

In connection with the sale of the Regulated Activities, Galp Energia's General Meeting held on August 31, 2006, resolved to distribute a special dividend, contingent upon the sale of the Regulated Activities, in the total amount of 870.7 million euros (1.05 euros per share). Given that the sale of the Regulated Activities took place on September 26, 2006, this special dividend was paid on September 29, 2006.

21.7 Legal and Arbitration Proceedings

The following is a list of the most significant legal disputes, selected based on the following criteria: cases involving amounts of 20.0 million euros or more, and disputes with material implications for Galp Energia's business operations.

Municipal taxes

Some of the companies in the Galp Energia Group are natural gas distributors, whose operations depend on the installation of gas pipelines on public land, subject to the payment of a fee to the respective municipalities. The amount of each fee, when considered individually, is not, in and of itself, very significant. However, the total amount of fees owed for the use of these assets reaches a fairly significant figure.

There are disputes regarding the application of these fees, as some natural gas distributors have argued that they are exempt from paying them under their respective concession agreements—both with respect to the specific amounts set by the municipalities and with respect to the classification of the fees as a tax, which would require a prior formal procedure not within the municipalities' jurisdiction. Accordingly, Galp Energia has contested the assessments relating to unduly applied fees. The total amount currently in dispute is approximately 21 million euros; the balance sheet as of June 30, 2006, includes a provision for this purpose in the amount of 9.7 million euros. Case law on this matter has not been unanimous and has, at times, yielded contradictory decisions.

The most significant dispute concerns Lisboagás, relating to the municipalities of Lisbon and Sintra, though it could potentially affect all concessionaires. As of the date of this Prospectus, Galp Energia is not aware of any final and binding decision whose content is contrary to the interests of Lisboagás, Beiragás, Setgás, Lusitaniagás, or Tagusgás. With regard to the dispute between Galp Energia and the municipality of Matosinhos, the issue centers on an increase in the amount of the respective municipal fee, which Galp Energia contests on the grounds that it constitutes a tax. In connection with this dispute, Galp Energia filed an appeal with the Constitutional Court; however, its appeal did not produce the desired results. The dispute is now proceeding through the administrative courts.

European Commission

On August 24, 2006, Galp Energia, Petrogal, and Galp Energia España, S.A.U. (which, for this purpose, are considered a single company) were notified by the European Commission of the initiation of proceedings and of the charges brought against various companies, including Galp Energia, Petrogal, and Galp Energia España S.A.U., regarding a case under Article 81 of the Treaty establishing the European Community (Case COMP/F/38.710 – Bitumen Spain).

The statement of objections states that the European Commission concluded that the companies participated in a single and continuous violation of Article 81 of the Treaty establishing the European Community on Spanish territory (excluding the Canary Islands), concerning the Spanish bitumen market. Among the various agreements and concerted practices involved in this case, the European Commission considered the following to be relevant for the purposes of the violation of Article 81 of the Treaty establishing the European Community: the establishment of market quotas and, based on those quotas, the allocation of sales volumes and customers to each participant; the monitoring of the implementation of the market- and customer-sharing agreements through the exchange of information on sales volumes; the establishment of a compensation mechanism to correct deviations from the market- and customer-sharing agreements; and the agreement on changes to bitumen prices and the timing of when new prices take effect.

The European Commission intends to impose a fine on each company. The amount of the fine should be sufficiently deterrent and take into account, among other factors, the gravity and duration of the violation.

Galp Energia intends to submit to the European Commission, by November 3, 2006, its defense against the allegations, specifically addressing whether Galp Energia's actions in this matter can, in fact, support the European Commission's conclusion that Galp Energia participated in a violation of Article 81 of the Treaty establishing the European Community, and presenting facts and evidence to support its defense.

EDP

Galp Energia held 217,055 shares in ONI, representing 0.0542% of that company's share capital, and EDP granted Galp Energia a put option at a price of 15.0 million euros. As a result of this stake, Galp Energia participated in ONI's various capital increases, bringing its stake to 4.15% by 2003. On the agreed date, Galp Energia exercised its put option, considering that it applied exclusively to the initial holding of 217,055 shares. EDP stated that it considered the put option to apply to the entire holding held as of that date. Recently, Galp Energia and EDP reached an agreement to limit the scope of the put option to the 217,055 shares, and Galp Energia exercised its option right and issued promissory notes in the amount of 20.3 million euros, including 5.3 million euros in interest, paid on September 27, 2006. The remaining ONI shares held by Galp Energia are currently the subject of negotiations aimed at their disposal as part of EDP's planned sale of its stake in ONI.

Under the same agreement, the subsidiaries GDP and Transgás sold their stakes in Optimus Telecomunicações, S.A. ("Optimus") to EDP for 189.5 million euros. In March 2002, EDP sold 35.49% of Optimus to Thorn Finance, S.A. ("Thorn Finance"). Pursuant to an "earn-out" clause contained in the agreement entered into between EDP and Galp Energia, and considering that the asset valuation used in the sale to Thorn Finance was higher than the valuation agreed upon in that agreement, Galp Energia has claimed an additional payment of 30.3 million euros from EDP; this matter is currently under discussion with a view to either reaching an amicable settlement or submitting it to arbitration.

Onitelecom

Transgás and Onitelecom – Infocomunicações, S.A. ("Onitelecom"), a company operating in the telecommunications sector, entered into a contract in 1999 for the transfer of the right to use a set of Transgás's optical fibers by Onitelecom, for a period of 20 years and for a total price of approximately 90.0 million euros. In August 2006, Onitelecom was ordered, by a final and binding arbitration award, to pay Transgás five installments of the purchase price due between 2002 and 2006 and still unpaid, as well as the remaining three installments due from 2007 to 2009, all of which are subject to interest calculated from 1999 on each installment at a rate of 5% per year and, in the case of overdue installments, subject to late payment interest calculated at the statutory rate applicable to commercial interest. The arbitral award also decided to adjust the amount of the installments due from 2005 to 2009—each representing 7.5% of the total contract price—reducing them to 90% of the original amount.

Galp – Gabinete de Urbanismo, Arquitectura e Engenharia, Lda

This civil action was filed by Galp – Gabinete de Urbanismo, Arquitectura e Engenharia, Lda. with the aim of preventing Galp Energia from using the name "Galp" in its corporate name, since the former has held a registration for the name "Galp" since 1976 and therefore considers itself the holder of an exclusive right to its use. A ruling by the Lisbon Commercial Court in this dispute is pending. With a view to resolving the dispute out of court, the legal proceedings were suspended for three months in June 2006. Should an agreement not be reached (which has not occurred as of the date of this Share Registration Document), the legal proceedings will automatically continue as scheduled.

Given that the name "Galp" has been part of Galp Energia's name since its incorporation in 1999, and has been used as a trademark by its subsidiary Petrogal and

its subsidiaries since 1976, Galp Energia considers it unlikely that the use of the name “Galp” as a trademark could now be restricted.

Companhia Petroquímica do Barreiro, Lda.

Decree-Law No. 44/2000, of March 20, approved, pursuant to Law No. 11/90 of April 5, the process of reprivatization of the entire share capital of Driftal - Plastificantes de Portugal, S.A. (“Driftal”), wholly owned by GDP. In accordance with Council of Ministers Resolution No. 112/2000, following the opening of the aforementioned bidding process, CPB - Companhia Petroquímica do Barreiro, Lda. (“CPB”) submitted a bid as the sole bidder, and its proposal was accepted. Driftal’s production activities took place at the manufacturing facility located within the Lisboagás town gas plant complex. This proximity allowed it to purchase electricity from the plant’s power generation unit, as well as to benefit from the services already available on the premises. In May 2001, the Lisboagás town gas plant ceased operations. CPB failed to fulfill its obligation to pay the purchase price, alleging that there had been material changes in the information provided during the bidding phase; it subsequently filed a complaint with the Reprivatization Commission, but was unsuccessful. In January 2001, Companhia Petroquímica do Barreiro, Lda. filed a lawsuit—which is currently pending—seeking a declaration of its right to acquire the share capital of Driftal - Plastificantes de Portugal, S.A. and payment of compensation for lost profits in the amount of 20.0 million euros. Galp Energia issued a guarantee in the amount of 20.0 million euros in favor of the court regarding the claim filed by CPB in connection with the aforementioned legal proceedings.

Visser & Smit Hanab BV

On November 4, 2003, the International Court of Arbitration of the International Chamber of Commerce ordered Visser & Smit Hanab BV to rebuild part of the Leixões terminal, located near the Porto refinery, and to pay Petrogal approximately 1.3 million euros in compensation for the delay in completing the reconstruction work. Following this decision, Petrogal initiated new arbitration proceedings seeking compensation for the additional costs incurred as a result of the unperformed work. The total amount sought by Petrogal in this action is approximately 21.4 million euros.

MASA

Galp Energia was informed that MASA— , Mantenimientos y Montages Industriales, S.A. (“MASA”), the company responsible for the engineering, procurement, and construction of the fuel storage facility at Galp Energia’s maritime terminal in the Autonomous Region of Madeira—has initiated arbitration proceedings against the subsidiary CLCM —Companhia Logística de Combustíveis da Madeira, S.A.—for alleged additional costs incurred in connection with the construction of this fuel storage facility. The arbitration proceeding is currently underway at the ICC under case no. 14392/AVH, with MASA’s claim amounting to 23.4 million euros. CLCM has contested MASA’s claim and filed a counterclaim in the amount of 4.4 million euros.

Portuguese Roads Institute (“IEP”)

Petrogal filed a lawsuit, together with the operator of a gas station, against the IEP for 48.8 million euros, seeking reimbursement from the IEP for the costs of the investment made in a gas station,

made at the IEP's request, as well as compensation for lost profits resulting from the IEP's authorization to build a highway near the road where the gas station was located, which led to a reduction in traffic on that road and, consequently, to a decrease in the gas station's profitability.

21.8 Significant Change in the Issuer's Business or Financial Situation

Except as indicated in the Prospectus, specifically in the chapter on the Process of Unbundling Regulated Activities in the Natural Gas Sector (*see* "Process of Unbundling Regulated Activities in the Natural Gas Sector" *above)*, since the date of the most recent unaudited interim financial information as of June 30, 2006, there has been no significant change with a negative impact on the financial or commercial position and future prospects of the Galp Energia Group.

22. ADDITIONAL INFORMATION

Galp Energia was incorporated on April 22, 1999, under the name Galp – Petróleos e Gás de Portugal, SGPS, S.A., and has its headquarters at Rua Tomás da Fonseca Torre C, 1600-209 Lisbon, Portugal (*see* "Information on the Issuer" *above*).

Galp Energia's corporate purpose is to manage equity interests in other companies in the energy sector, as an indirect means of conducting economic activities.

The following is a summary of Galp Energia's articles of incorporation, including the amendments approved at the General Meetings held on May 31, 2006, and September 6, 2006.

Share Capital

General Information

Galp Energia's fully paid-in share capital amounts to 829,250,635 euros and is represented by 829,250,635 book-entry, registered shares with a par value of €1 each, following the stock split approved at the General Meeting held on May 31, 2006. The share capital consists of 40,000,000 Class A shares (shares with special rights) and 789,250,635 Class B shares (common shares). Ownership of Class A shares is reserved for public entities, as defined in Article 1(2)(e) of Law No. 71/88 of May 24. The State currently holds all Class A shares, which may be converted into Class B shares at the request of the respective holder. The conversion takes place automatically without the need for approval by any corporate body. The special rights attached to Class A shares remain unchanged up to a minimum threshold of 2,500 Class A shares.

Class A shares confer the following special rights:

- The election of the chairman of the Board of Directors may only be approved by a majority of the votes attached to Class A shares;
- Any resolutions aimed at authorizing the execution of joint venture or subsidiary agreements, as well as any resolutions that could in any way jeopardize the security of the country's supply of oil, gas, and electricity, or products derived therefrom, may not be approved against a majority of the votes attached to Class A shares.

Galp Energia's share capital has not been subject to any changes in the past three years.

As of the date of this Prospectus, Galp Energia has not issued any securities convertible into shares.

Transfer

Pursuant to the Securities Code, the transfer of book-entry shares is effected by registering such shares in the purchaser's account.
Galp Energia's articles of incorporation do not impose any restrictions on the transfer of shares.
Their transferability is, however, subject to the restrictions set forth in the Decree-Law in the case of shares acquired under the reserves for Galp Energia employees, small subscribers, and emigrants (*see* Note on the Shares – "Conditions, statistics, projected timeline, and terms of acquisition").

Changes in Shareholder Structure Over the Past Three Years

Over the past three years, the following transfers of Galp Energia shares have taken place:

- October 2006: sale by the State to Parpública (12.7%);
- September 2006: Sale of REN to Amorim Energia (18.3%);
- March 2006: sale by Amorim to CGD of 1% of the capital prior to the *stock* split;
- January 2006: sale by EDP to Amorim Energia of 14.268% of the capital prior to the *stock* split;
- December 2005: sale by the State to Parpública (8.063%);
- August 2004: transfer by the State to Parpública (4.23%); and
- December 2003: transfer by the State and CGD to REN (18.3%).

Treasury Stock

Subject to the restrictions set forth in the Commercial Companies Code, any company may acquire its own shares. As a general rule, the resolution regarding the acquisition of treasury shares must be adopted by the General Meeting. Subject to the exceptions established by law, Galp Energia may not hold more than 10% of its share capital in treasury shares.
As of the date of this Prospectus, Galp Energia does not hold any treasury stock.

Description of the Rights Attached to the Shares

In accordance with the Commercial Companies Code and the bylaws, Galp Energia's shares confer the following rights:

Right to dividends

The General Meeting, upon a proposal by the Board of Directors, shall decide, by a two-thirds majority of the issued voting rights, on the distribution, amount, and payment date of dividends. Under applicable law, unless otherwise provided by a contractual clause or a resolution adopted by a three-quarters majority of the votes corresponding to the share capital, at least half of the distributable profit for the fiscal year must be distributed to shareholders. Article 21(1) of Galp Energia's bylaws expressly waives this limitation. The payment of dividends is subject, in particular, to the following restrictions:

- Dividend payments may not be made unless at least 5% of the annual profits have first been allocated to the mandatory legal reserve and, if necessary, to the replenishment of that reserve, until the reserve represents 20% of the par value of the share capital;
- The payment of dividends is prohibited whenever the company's net worth, as reflected in the financial statements prepared and approved in accordance with the law, is less than the sum of the share capital and the reserves that the law or the articles of incorporation do not permit to be distributed to shareholders, or would become less than this sum as a result of the distribution;
- The payment of dividends is prohibited whenever the profit for the fiscal year is necessary to cover losses or to establish or replenish reserves required by law or the articles of incorporation, or whenever there remain outstanding expenses related to incorporation,

research and development (unless the amount of unrestricted reserves and retained earnings is at least equal to that of such unamortized expenses);

- Interim dividend payments may be made once a year, during the second half of the year, provided that, among other conditions, the following are met:
  - The Board of Directors, with the consent of the Audit Committee, resolves on the advance payment;
  - Such a resolution shall be preceded by an interim financial statement, certified by the statutory auditor, confirming that there are sufficient funds available to pay dividends; and
  - The amounts to be allocated as an advance payment do not exceed 50% of the amounts that would be distributable under the law.

A shareholder's claim to their share of profits becomes due 30 days after the date of the resolution to distribute profits, subject to the exceptions set forth in the Commercial Code.

Pursuant to Decree-Law No. 187/70, of April 30, unclaimed dividends are deemed forfeited to the State when, within a period of five years, the holders or owners of the respective shares have not collected or attempted to collect such income, or have not otherwise legitimately and unequivocally asserted their right to it.

For more information, *see* the "Dividend Policy" section *above*.

Shareholders' Meetings and Voting Rights

All shareholders with voting rights may participate in the General Meeting. Each 100 shares entitles the holder to one vote; shareholders holding fewer than 100 shares may join forces with other shareholders, subject to the limitations set forth in the Decree-Law regarding shares acquired by Galp Energia employees, small subscribers, and emigrants (*see* Note on the Shares – "Terms of the Offering").

For the purposes of participating in General Shareholders' Meetings, shareholders are considered to be those who hold shares registered in their name up to five days prior to the date of the respective meeting.

Shareholders that are legal entities may be represented at shareholders' meetings by any person, and such designation may be made by any written means.
Shareholders who are natural persons may only be represented by a member of the Board of Directors, their spouse, their lineal relatives, or other shareholders; such designation may be made in any written form.
Except in the case of the State, shareholders who wish to be represented must, no later than five days before the meeting and in accordance with the law, submit the instruments of representation to the company and, in the case of legal entities, also indicate who will represent them; The Chair of the meeting may, however, authorize shareholders who have not complied with the deadline specified in this paragraph to participate in the General Meeting, if it is determined that this will not interfere with the proceedings of the meeting.

Shareholders may vote by mail by sending, in a timely manner, a letter bearing a signature identical to that on their identity card, addressed to the chair of the General Meeting.

Without prejudice to the provisions of the bylaws or Portuguese law, the General Meeting decides by a majority of the votes cast, with abstentions not counted. Resolutions regarding the following matters require a two-thirds majority of the votes cast:

- Matters arising from the scope of the special rights inherent to Class A shares;
- Approval of new strategic guidelines;
- Allocation of net income for the fiscal year or distribution of assets to shareholders;
- Issuance of securities that does not fall within the scope of authority of the Board of Directors;
- Proposals for strategic partnerships submitted by the Board of Directors for approval by the company's General Meeting;
- Approval of the company's individual and consolidated annual financial statements; and
- Demerger, merger, or dissolution of the company.

Holders of Class A and Class B shares vote as a group, and their votes are not counted separately, except for matters requiring the affirmative vote of Class A shareholders, as described above in "Additional Information – Share Capital." For these matters, in addition to the two-thirds majority described above, approval by a majority of Class A shares is required.

Subscription Rights

In capital increases through cash contributions, shareholders as of the date of the resolution to increase capital may subscribe to the new shares on a preferential basis relative to non-shareholders. The preemptive subscription right must be exercised within the period set for that purpose in an announcement or letter sent by the company; such period may not be less than 15 days in the case of an announcement or 21 days in the case of a letter sent to shareholders.

The General Meeting that approves the capital increase may, by a separate resolution, limit or eliminate the preemptive subscription right, provided that such limitation or elimination is justified by the company's best interests, such as the need to ensure the subscription of shares by a strategic partner. The resolution to limit or eliminate the preemptive subscription right must be approved by the same majority required for the resolution on the capital increase, that is, two-thirds of the issued voting rights.

Right to Receive the Remaining Assets Resulting from Liquidation

In the event of liquidation, after the claims of creditors have been satisfied, the remaining assets shall be allocated, first and foremost, to the reimbursement of the amount of capital actually paid in, such amount corresponding to each shareholder's share of the capital. If, after full reimbursement has been made, a balance remains, it shall be distributed among the shareholders in the proportion applicable to the distribution of profits.

Minority Rights

The Commercial Companies Code and the articles of incorporation grant certain specific rights to minority shareholders, namely the following:

- A shareholder of a publicly traded company who, individually or together with other shareholders, holds at least 10% of the share capital and who voted against the election of the members of the Board of Directors has the right to appoint a member of the Board of Directors;

- Shareholders holding at least 10% of the share capital may (i) petition the court, within 30 days from the date of a General Meeting at which members of the Audit Committee were elected, to appoint another member and a substitute, provided that such shareholders voted against the winning slate of candidates and had their vote recorded in the minutes; (ii) petition the court for the removal for just cause of a director, provided that a General Meeting has not yet been convened for that purpose; and
  (iii) request written information from the Board of Directors regarding corporate matters;
- Shareholders who hold 5% of a company's share capital have the right to (i) call a General Meeting and include items on the agenda; and (ii) file a claim for damages against the directors on behalf of the company for damages caused to the company; they may also do so in their own name to seek compensation for damages caused to them;
- A shareholder holding at least 1% of the company's share capital has the right to access general corporate information, provided they cite a justified reason, and may consult, among other things, certain management reports and financial statements, notices of meetings, minutes, and attendance lists of shareholders' meetings, as well as the total compensation of members of the corporate bodies.
- Regardless of the size of their stake, minority shareholders have the right to (i) request a judicial investigation for breach of their right to information, for the use of insider information for personal gain, or for undue delay in the submission of the annual report and financial statements; (ii) obtain accurate and comprehensive information during a General Shareholders' Meeting, so as to enable them to make an informed decision when exercising their voting rights;
  (iii) subscribe, in a stock offering paid for in cash, and in the absence of any of the exceptions described above, to a number of shares proportional to those already held; (iv) request, at the General Meeting of Shareholders, the invalidation of a resolution of the Board of Directors; and (v) request the annulment of any corporate resolution adopted in violation of the law or the bylaws.

Board of Directors, Supervisory Board, Executive Committee, Compensation Committee, and Statutory Auditor

For a description of the election, composition, and functioning of the Board of Directors, the Audit Committee, the Executive Committee, the Compensation Committee, and the Independent Auditor, *see* the sections "Management and Supervisory Bodies and Senior Management" and "Compensation and Benefits" *above*.

Certain Restrictions on the Acquisition of Shares in Publicly Traded Companies

As of the date of this Share Registration Document, Galp Energia is not classified as a publicly traded company under the terms of Article 13 of the Securities Code, and is expected to become one following the Offer.

Pursuant to Article 16 of the Securities Code, any person who reaches or exceeds, directly or indirectly in accordance with the provisions of Article 20 of the Securities Code (see the following paragraph), a stake of 2%, 5%, 10%, 20%, one-third, one-half, two-thirds, and 90% of the voting rights corresponding to the share capital of a publicly traded company issuing shares admitted to trading on a regulated market, and any person who reduces their holding to a level below any of those thresholds, must notify the CMVM, the market operator, and the issuing company within three days of the occurrence of the event that gave rise to the acquisition or reduction of the holding. Such notification must include, in particular, the identification of the entire chain of entities to which the qualifying holding is attributable, in accordance with the provisions of Article 20 of the Securities Code.

Pursuant to Article 20 of the Securities Market Code, in calculating qualifying holdings, the following voting rights are taken into account, in addition to those inherent in the shares owned or held in trust by the participant: a) those held by third parties in their own name but on behalf of the participant; b) those held by a company that is in a controlling or group relationship with the participant; c) held by voting rights holders with whom the participant has entered into an agreement for the exercise of such rights, unless, under the same agreement, the participant is bound to follow the instructions of a third party; d) held, if the participant is a company, by the members of its management and supervisory bodies; e) that the participant may acquire pursuant to an agreement entered into with the respective holders; f) pertaining to shares pledged as collateral to the participant or administered or deposited with the participant, if the voting rights have been assigned to the participant or if the participant has been granted discretionary powers to exercise such rights; g) attributable to any of the persons referred to in any of the preceding subparagraphs by applying, with the necessary adaptations, a criterion set forth in any of the other subparagraphs.

Pursuant to Article 187 of the Securities Code, any person whose stake in a publicly traded company exceeds, either directly or pursuant to Article 20(1) of the Securities Code,VM, one-third or one-half of the voting rights corresponding to the share capital, is required to launch a mandatory tender offer for all shares and other securities issued by that company that confer the right to subscribe to or acquire such shares.
The consideration for a mandatory tender offer may not be less than the higher of the following amounts: (a) the highest price paid by the offeror or by any person who, in relation to the offeror, is in any of the situations provided for in Article 20(1) of the VM Codefor the acquisition of securities of the same class during the six months immediately preceding the date of publication of the preliminary notice of the offer; b) the weighted average price of such securities as determined on a regulated market during the same period. If the consideration cannot be determined using the criteria referred to in the preceding paragraph, or if the CMVM deems that the consideration—whether in cash or in securities—proposed by the offeror is not duly justified or is not equitable, because it is insufficient or excessive, the minimum consideration shall be set at the offeror's expense by an independent auditor appointed by the CMVM. If the consideration consists of securities, the offeror must propose an alternative in cash of equivalent value.

On September 7, 2006, the Council of Ministers approved the draft Decree-Law transposing into national law Directive 2004/25/EC of the European Parliament and of the Council of April 21, 2004, on takeover bids. This legislative act amends the Securities Code in the section relating to tender offers, specifically the rules regarding the calculation of voting rights, the equitable consideration for the offer, the revision of offers, competing offers, and the disclosure requirements pertaining to the offer. This legislative act will only enter into force after it is promulgated by the President of the Republic and published in the Official Gazette.

23. SIGNIFICANT CONTRACTS

In the two years preceding the publication of this Share Registration Document, only contracts relating to the Separation of Regulated Activities Process (*see* "Separation of Regulated Activities Process in the Natural Gas Sector" *above*) may be considered significant.

24. THIRD-PARTY INFORMATION, EXPERT OPINIONS, AND DECLARATIONS OF POTENTIAL INTERESTS

Galp Energia confirms that the information obtained from third parties and included in this Share Registration Document has been accurately reproduced and that, to the best of its knowledge and to the extent it can verify based on documents published by the third parties in question, no facts have been omitted whose omission could render the information less accurate or misleading.

25. DOCUMENTATION AVAILABLE TO THE PUBLIC

During the Offer period, hard copies of the following documents will be made available at Galp Energia's headquarters:

- The Articles of Incorporation of Galp Energia;
- The unaudited pro forma consolidated financial statements, subject to a report on agreed-upon procedures by the external auditor, for the fiscal year ended December 31, 2005, and the six-month period ended June 30, 2006;
- The Galp Energia Group's audited consolidated financial statements for the fiscal years ended December 31, 2005, and December 31, 2004, prepared in accordance with IFRS and accompanied by the respective audit report;
- The audited consolidated financial statements of the Galp Energia Group for the fiscal years ended December 31, 2004, and 2003, prepared in accordance with POC, accompanied by the respective audit reports;
- A copy of the Prospectus;
- Any future prospectuses, information memoranda, and addenda, including the Share Registration Document and any other documents incorporated therein or therein by reference.

These documents are also available on Galp Energia's *website* at www.galpenergia.com.

26. INFORMATION ON SHAREHOLDINGS

With regard to information concerning companies in which Galp Energia holds an equity interest that could have a significant effect on the valuation of its own assets and liabilities, financial position, or profit and loss, please refer to the “Organizational Structure” section of this Share Registration Document.

27. DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference and form part of this Share Registration Document and the Prospectus. The information contained in the documents incorporated by reference, other than the information described below, should be considered purely for informational purposes:

- 2003 Annual Report and Financial Statements, POC (Consolidated Balance Sheets, pages 104 and 105; Consolidated Income Statement, pages 106 and 107; Notes to the Consolidated Financial Statements, pages 112 and following; Statutory Audit Report, page 186; Auditor's Report, page 217).

- 2005 Annual Report and Financial Statements, POC (Consolidated Balance Sheets, pages 86 and 87; Consolidated Income Statement, pages 88 and 89; Notes to the Consolidated Financial Statements, pages 94 and following; Statutory Audit Report, page 193; Auditor's Report, page 195).

Copies of the documents incorporated by reference in this Prospectus may be obtained at Galp Energia's headquarters and on *the websites* of Galp Energia (www.galpenergia.com) and the CMVM (www.cmvm.pt).

APPENDIX I: GLOSSARY

The following definitions are not intended to explain technical concepts but are provided solely to facilitate understanding of the terms used in the Share Registration Document.

"Aframax Worldscale freight rate"	indicator of the market for maritime charters Quoted on *the Worldscale at the "Baltic* Exchange" in London for deliveries between Sullom Voe and Rotterdam, transported by tankers with a cargo capacity exceeding 80,000 metric tons.
*"*Alkylation"	A synthesis process in which, through the recombination of an olefin and an isoparaffin, under the action of a catalyst, an "alkylate" (iC_7 to iC_9) is formed from C_3 and C_4 hydrocarbons, with an octane number close to 100, which gives it great value as a component of motor gasoline.
"API gravity"	Density expressed in API degrees, as defined by the *"American Petroleum Institute*," using the formula: $API^{o} = (141.5/g) - 131.5$ where *g* is the density of the crude oil at 60°F (15.6°C). It is used internationally to indicate the density of crude oil; the higher the API density, the lighter the crude oil.
"Aromatics"	A group of unsaturated cyclic hydrocarbons characterized by having at least one benzene ring; they are known as aromatics due to their distinctive sweet aroma. The most common aromatics include benzene, toluene, and xylene.
"Barrel of oil (bbl)"	A unit of volume used in the oil industry, based on the volume of a barrel and equal to 0.15891 m^3 - for a barrel of crude oil at 60°F (15.6°C).
"bcm"	Billion (thousand million) cubic meters, a *standard* unit of measurement used for natural gas.
"Bitumen"	A mixture of solid, semisolid, or viscous hydrocarbons obtained through the primary distillation of crude oil or by vacuum distillation of the residue from atmospheric distillation. It has adhesive and insulating properties and is primarily used in road paving, though it can also be used for industrial purposes.
"Biofuels"	Fuels produced from biomass, such as fuel alcohol or bioethanol.
"Biodiesel"	Fuel diesel that contains components

	derived from raw materials such as vegetable oils and animal fat.
"Brent"	Light crude oil from the North Sea with an API *gravity* of approximately 38° and a sulfur content of 0.4%.
"Brent Dated"	The price of *Brent* shipments as announced by pricing agencies. It is the benchmark price 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.
"CCGT"	A natural gas combined-cycle power plant (*Combined Cycle Gas Turbine*) typically consists of two turbines, one powered by natural gas and the other by steam. CCGTs combine a natural gas turbine generator, which generates electricity through the combustion of natural gas; the exhaust gases (heat) produced by this process are then used to feed a boiler via a heat recovery system, and the resulting steam is subsequently utilized by a steam turbine generator to produce additional electricity.
"CO_2"	Carbon dioxide, a colorless gas heavier than air, of which it is a natural component. It is produced by certain natural processes, such as the carbon cycle, and by the complete combustion of carbon contained in fossil fuels.
"Cogeneration"	Technology for the combined production of electricity and heat. The advantage of cogeneration is its ability to capture the heat produced by burning fuel, whereas in conventional electricity generation this heat is lost. This process also allows a single facility to meet the heat (hot water or steam) and electricity needs of both industrial customers and local authorities (district heating). This system improves the energy efficiency of the generation process and reduces fuel consumption.
"Commodities"	A *commodity* can be defined as a globally homogeneous product, produced on a large scale by many different producers, in which the items from each producer are considered substitutes of the same quality. Some examples of *commodities* are oil, grains, and metals.
"Complexity"	A relative measure used in the refining industry that seeks to quantify a refinery's capacity to process crude oil and other feedstocks, such as

	converting heavier crude oil with a higher sulfur content into value-added products. Typically, the higher the complexity and the more flexible the use of different types of feedstocks, the better positioned the refinery is to take advantage of using different types of crude oil that are most cost-effective at any given time, thereby capitalizing on opportunities to increase gross margins. A refinery's complexity is measured by a "complexity index," which is calculated separately by various industry organizations, such as the energy sector 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 using a primary crude oil distillation facility—which is assigned a complexity factor of 1.0—as a benchmark. The complexity index for each unit is calculated by multiplying the unit's complexity factor by the unit's capacity. A refinery's complexity is equivalent to the weighted average of the complexity indices of each of its units, including the distillation unit. A refinery with a complexity index of 10.0 is considered ten times more "complex" than a refinery equipped only with atmospheric crude oil distillation, for the same quantity of processed product.
"Condensates"	Hydrocarbons that exist in a gaseous state when stored in their reservoirs but become liquids at the surface under normal pressure and temperature conditions. These are primarily pentane and other heavier products.
"Conversion"	A set of various treatments (catalytic or thermal) in which the main reaction occurs on carbon bonds; the extent of this reaction can vary depending on the conditions applied. This process is typically associated with the conversion of fuel oil into lighter fractions (diesel, gasoline, and gases), which are more valuable in terms of their use. In a modern refinery, these processes have been gaining increasing importance.
"Coke"	A solid residue with a high carbon content resulting from the thermal decomposition of petroleum refining residues.

"Crack spreads"	The difference between the price of a finished product and the price of crude oil.
"Cracking"	transformation by rupture of molecules of long-chain hydrocarbons with the aim of producing shorter-chain molecules, thereby increasing the proportion of lighter, more volatile products. A distinction is made between thermal cracking and catalytic cracking. Thermal cracking is carried out solely by the action of heat and pressure. Catalytic cracking uses catalysts that allow, at the same temperature, a more thorough and selective transformation of fractions that may be heavier.
"Desulfurization"	A purification process that involves removing sulfur and, simultaneously, nitrogen, oxygen, and metals present in the semi-finished products obtained from crude oil. Desulfurization can be carried out using catalytic or chemical processes.
"Distillation"	A method of separating substances (liquids or solids) by vaporization followed by condensation. Distillation can be carried out at atmospheric pressure or under vacuum, depending on the final products required.
"Atmospheric Distillation"	distillation of crude oil carried out at atmospheric pressure resulting in petroleum fractions (light gasoline, heavy gasoline, diesel, and heavy products, for example). These fractions, after appropriate treatment, constitute the components of the finished products.
"Vacuum Distillation"	distillation, which is carried out in a column for fractionation at a pressure lower than atmospheric pressure. It is the residue (heaviest fraction) obtained by atmospheric distillation that is subjected to vacuum distillation. Reducing the pressure lowers the boiling point of the heavy fractions and allows them to be separated from the residue at a temperature that does not risk decomposing them. It is used, for example, at the beginning of the base oil manufacturing process.
"Distillates"	Any type of product produced through the distillation of crude oil.
"Surface rights"	right to build or maintain, in perpetuity or temporarily, to construct a structure on another person's land, or to grow or maintain crops on it. The surface right may pertain to the construction or maintenance of a structure beneath another person's land.

“Greenhouse Effect”	An effect whereby ambient infrared radiation is trapped within an enclosed space. The greenhouse effect, produced, among other things, by atmospheric carbon dioxide, may result in the warming of the Earth’s surface.
“Emissions”	The release of gases into the atmosphere. In the context of global climate change, these include gases capable of altering the climate, such as greenhouse gases (for example, the release of carbon dioxide during fuel combustion).
“Wind Energy”	Kinetic energy present in the movement of air (wind) that can be converted into mechanical energy to drive pumps, windmills, and electric power generators.
“Renewable Energy”	Energy available from permanent and natural energy conversion processes that can be economically harnessed under current conditions or in the foreseeable future.
“Offshore Exploration”	Oil exploration that takes place on the high seas, far from the coastline.
“Onshore Exploration”	Oil exploration that takes place on land.
“Flu*id Catalytic Cracking* (FCC)”	A cracking process in which the catalyst is fluidized and continuously regenerated, making it an effective method for increasing the yield of gasoline from crude oil.
“Free float”	The percentage of shares representing the capital stock of a publicly traded company that is held by the public—that is, whose ownership is not concentrated among a limited number of investors.
“Fuel oil”	A mixture of hydrocarbons used for heat production in thermal power plants. There are various types of fuel oil, each characterized by different viscosities that determine their specific applications.
“Liquefied Petroleum Gas (LPG)”	$C_3$and C_4hydrocarbons and their mixtures. They are gaseous under normal temperature and pressure conditions and become liquid when pressure is increased or temperature is lowered, allowing for transportation and storage. The most common are propane and butane.
“Liquefied Natural Gas (LNG)”	Natural gas is liquefied to facilitate transportation by cooling it to temperatures below –160°C at atmospheric pressure. The volume of LNG is approximately 1/600th of the volume of

	natural gas.
“Diesel”	A mixture of liquid hydrocarbons intended for use in compression-ignition engines (Diesel cycle). Its characteristics, such as behavior at low temperatures, vary greatly depending on the countries or regions where it is used.
“Gasoline”	Gasoline for automobiles equipped with engines that use the “Otto cycle.” It must meet precise specifications regarding physical and chemical characteristics, the most important of which is resistance to spontaneous ignition.
“Generation”	The process of producing electrical energy through the conversion of other forms of energy. Energy can be expressed in joules, kilowatt-hours, calories, or British thermal units, and all of these units can be applied to any type of energy, regardless of its source.
“Gigawatt-hour (GWh)”	One thousand megawatt-hours.
“Hedge funds”	Private venture capital funds, typically characterized by unconventional investment strategies—such as buying and “shorting” assets like stocks—and sometimes also linked to investments in the oil industry.
“Henry Hub”	The monthly benchmark price for natural gas in the United States. The United States has different markets—*spot* markets and futures markets—for natural gas. Natural gas futures are traded on the New York Mercantile Exchange (NYMEX). This is the most widely quoted price for natural gas in the United States. The NYMEX natural gas contract requires delivery at a location in northwestern Louisiana known as *the Henry Hub*. However, less than 1% of all futures contracts are held to maturity. The natural gas contract traded on the NYMEX serves as a benchmark for monthly price setting; this benchmark is known as *the “Henry Hub*.”
“Hydrocracking”	A *cracking* process carried out in the presence of hydrogen and under the action of catalysts that converts high-boiling-point, low-value petroleum fractions into higher-value light fractions. Hydrogen allows the process to operate at lower temperatures and with greater selectivity, thereby yielding higher yields. The reaction products are saturated compounds— , or —which lhes confers characteristics of

important stability features.

"Indices of Solomon by Solomon and Nelson"	Solomon Associates, an industry organization, conducted the first comparative performance analysis of fuel refineries in 1980. The study, originally conducted for the U.S., was expanded to Europe in 1982 and to Canada and the Asia-Pacific region in 1983. The study's objective was to analyze all factors affecting commercial success, including feedstock selection, product *mix*, plant utilization rates, key operating parameters, and all components of operating costs. Each refining process is then classified within a reference set to examine its competitive position among similar process categories. Although widely used in the industry, the Solomon study is confidential and is made available only to refineries participating in its annual compilation. In 1973, W. L. Nelson published his attempt to correlate refinery performance levels with different capacities and processing techniques. He developed a process complexity factor related solely to investment levels in the units. By assigning a complexity level of 1.0 to the basic crude oil distillation process, he could then assign higher or lower complexity levels to other refining processes—such as *coking*—based on their investment costs compared to those of the crude oil distillation unit. His approach assumes that labor utilization levels, maintenance costs, energy consumption, and essentially all elements of refinery performance can be related to investment levels.
"Octane number"	A conventional scale used to characterize, in numerical terms, the anti-knock properties of gasoline for Otto-cycle internal combustion engines. The higher the number, the better the fuel's anti-knock characteristics.
"Isomerization"	The conversion of straight-chain or slightly branched paraffinic hydrocarbons into highly branched paraffinic hydrocarbons. This reaction occurs in the presence of a catalyst and hydrogen. Its main application is the production of a light fraction with a high octane rating, which is very important in the composition of gasoline.
"Jet fuel"	Fuels for jet engines and aviation gasoline

aviation gasoline.

"Joule (J)"	A unit of work or energy; 1 joule is the work done, or the energy required, by a force of 1 newton when the point of application moves 1 meter in the direction of the force.
"Lubricants"	Products obtained by blending one or more base oils and additives according to specific formulations, depending on their intended use. The percentage of additives in lubricating oils can reach 40%. Lubricating oils have three main applications: automotive, industrial, and marine.
"Rotterdam Refining Margin" or "Rotterdam Benchmark"	The most widely used refining margin as a benchmark in Europe. Refining margins are typically compared to the benchmark margins of the world's three main refining centers: the U.S. Gulf Coast (USCG), Northwestern Europe (NWE—Rotterdam), and Singapore. In each of these cases, they are based on a single type of crude oil appropriate for that region and an optimized product mix based on a generic refinery configuration, again appropriate for that region. The margins are established on a semi-variable basis, that is, margins net of all variable costs and fixed energy costs. The refining margin for Northwest Europe is determined by using, as a benchmark, the prices achieved for refined products in the Antwerp–Rotterdam–Amsterdam region.
"Megawatt (MW)"	One thousand kilowatts.
"Megawatt-hour (MWh)"	One thousand kilowatt-hours.
"*Spot* market"	With regard to commodities such as oil, a term used to describe international trade in single shipments of goods, such as crude oil, whose prices closely track their respective demand and availability.
"MTBE"	Tertiary methyl butyl ether, an oxygenate (which improves fuel performance), used in gasoline production.
"Naphtha"	A petroleum fraction that lies between gases and crude oil; in addition to being one of the raw materials for the petrochemical industry—where its "cracking" yields a wide variety of products—it can also be used as a component of motor gasoline (light naphtha) or, in the case of heavy naphtha, as a raw material for the

	retired production.
“Base oil”	The main component of lubricant blends, obtained from distillates after they have undergone various processing steps.
“Storage facility”	l facility used by companies that operate major pipelines and gathering pipelines, crude oil producers, and terminal operators (excluding refineries) for the storage of crude oil and petroleum products.
“Wind farm”	A group of wind turbines for electricity generation interconnected to a common grid system via a network of transformers, distribution lines, and, typically, a substation. Operation, control, and maintenance functions are usually centralized through a network of computer systems monitoring monitoring systems, supplemented by visual inspection.
“Petrochemicals”	An intermediate product of crude oil refining that is used as a raw material for polymers and other chemical products.
“Kilowatt (KW)”	One thousand watts.
“Kilowatt-hour (kWh)”	A unit of energy, defined as 1 kW of power applied for 1 hour, equivalent to 3.6 $\times 10^{6}$ joules. In practice, the energy consumed in a given process is expressed in terms of the power per unit of time—typically per hour—required to complete that process.
“Kerosene”	Fuel used to power jet engines, for example in aviation, or for lighting and heating. It contains additives that provide the safety characteristics necessary for its use.
“Refinery”	A facility where a series of industrial processes are carried out to transform crude oil into products tailored to consumer needs (fuels, lubricants, bitumen, etc.) or into raw materials for other industries, known as “second-generation” industries (e.g., the petrochemical industry).
“Catalytic ” or “Platforming”	The conversion of a light fraction of crude oil (e.g., heavy gasoline), obtained by primary distillation, into a heavier fraction based on aromatic hydrocarbons (reformed gas), characterized by a high octane rating and constituting one of the main components of gasoline for

	engines. The reactions occur in the presence of a platinum-based catalyst and, collectively, release hydrogen. Reformate is also the main feedstock for basic petrochemicals (production of benzene, toluene, and xylenes).
“Regasification”	The process of converting liquefied natural gas to a gaseous state through heat exchange with water or atmospheric air.
“Contingent resources”	These are defined as the quantities of oil estimated, as of a given date, to be potentially recoverable from known reservoirs but which are not yet commercially recoverable. This may be due to various reasons, such as those related to project maturity (the discovery requires further evaluation to support the development plan), technology (new technology must be developed and tested to enable commercial exploitation of the quantities), or market conditions (sales contracts are not yet in place or infrastructure must be installed to deliver the product to customers). The quantities falling into this category cannot be considered reserves.
“Proven Reserves (P90)”	According to the definitions approved by the SPE and the WPC, proven reserves are the quantities of oil that, based on an analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable as of a specific date from known reservoirs under current economic conditions, operating methods, and government regulations. If a deterministic methodology is used, the term “reasonable certainty” is intended to express a high degree of confidence that the quantities will be recovered. If a probabilistic methodology is used, there must be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. The definition of current economic conditions must include relevant historical oil prices and associated costs and may involve a period for calculating averages that is consistent with the purpose of the reserve calculation, appropriate contractual obligations, corporate procedures, and government regulations involved in the accounting for these reserves. Typically, reserves are considered proven if the production capacity of the reservoir is supported by current production or formation tests. In this

context, the term “proven” refers to the actual quantities of oil reserves and not merely to the productivity of the well or reservoir. In certain cases, proven reserves may be estimated based on well logs and/or core analysis indicating that the reservoir in question contains hydrocarbons and is analogous to reservoirs in the same area that are in production or have demonstrated the ability to produce during formation tests.

The area of the reservoir considered proven includes (1) the area delineated by drilling and defined by fluid contacts, if applicable, and (2) the undrilled portions of the reservoir that can reasonably be considered commercially producible based on available geological and engineering data. In the absence of data on fluid contacts, the lowest known hydrocarbon discovery determines the proven boundary unless otherwise indicated by definitive geological, engineering, or performance data. Reserves may be classified as proven if the facilities for processing and transporting those reserves to market are operational at the time of the estimate, or if there is a reasonable expectation that such facilities will be established. Reserves intended to be produced using the best existing recovery methods are included in the proved category when (1) successful pilot project tests, or favorable results from a program conducted at the same field or at an analogous field with similar properties (rocks and fluids), support the analysis on which the project was based, and (2) it is reasonably certain that the project will proceed. Reserves to be recovered using the best recovery methods yet to be developed, through commercially successful applications, are included in the proven category only (1) following a favorable production result from the relevant reservoir from (a) a representative pilot project or (b) an installed program in which the results support the analysis on which the project is based, and (2) when it is reasonably certain that the project will proceed.

“Probable Reserves (P50)”

According to the definitions approved by the SPE and the WPC, probable reserves are a category of unproven reserves. Unproven reserves are based on geological and/or engineering data similar to that used in the calculations of proven reserves, but for which technical, contractual, economic, or regulatory

prevent these reserves from being classified as proven. Unproven reserves may be estimated assuming future economic conditions different from those prevailing at the time of the calculation. The effect of possible future improvements in economic conditions and technological developments may be expressed by allocating appropriate quantities of reserves to the probable and possible categories.

Probable reserves are unproven reserves that, based on an analysis of geological and engineering data, are more likely to be recovered than not. In this context, when a probabilistic methodology is used, there must be at least a 50% probability that the quantities actually recovered will be equal to or greater than the sum of the calculated proven reserves plus the probable reserves. Typically, probable reserves may include (1) reserves that are expected to become proven through routine drilling, but for which subsurface control is inadequate to classify these reserves as proven, (2) reserves in formations that appear to be productive, based on well log characteristics, but for which definitive data or tests are not yet available and which are not analogous to producing or proven reserves in the area, (3) incremental reserves attributable to infill drilling, which could have been classified as proven if a tighter statutory spacing had been approved, at the time of the estimate, (4) reserves attributable according to the best established recovery methods through the repetition of commercially successful applications when (a) a pilot project is planned but not yet in operation and (b) the characteristics of the rock, fluids, and reservoir appear favorable for commercial application,

(5) reserves in an area of the formation that appears to be separated from the proven zone by faults, and the interpretation of geological data indicates that the area in question is structurally superior to the proven area; (6) reserves attributable to future enhancement work, treatment, re-treatment, equipment modifications, or other mechanical processes, where such processes have not been successfully demonstrated in wells with similar behavior in analogous reservoirs, and (7) incremental reserves in proven reservoirs where an alternative interpretation of performance or volumetric data indicates more reserves than those that can be classified as proven.

"Russian Export Blend"	A medium-grade, high-sulfur crude oil used as a benchmark in the Russian crude oil market and commonly referred to as "Urals."
"Ship or pay"	A capacity reservation obligation, typically used in contracts for the transportation of natural gas via pipelines, that requires a party to pay for the use of that capacity, regardless of whether natural gas is actually transported.
"Take or pay"	An obligation, typically used in natural gas supply contracts, that requires a party to purchase agreed-upon quantities, regardless of whether delivery actually takes place.
"Crude oil utilization rate"	The ratio of the total quantity of crude oil processed in crude distillation units relative to the maximum operating capacity of those units.
"Terawatt-hour (TWh)"	One thousand gigawatt-hours.
"Viscosity reduction"	A process consisting of mild *cracking* of residue or heavy gas oils from distillation, with the aim of reducing their viscosity by breaking down the heaviest molecules. It is carried out in the absence of catalysts.
"Watt (W)"	Unit of power. A watt is the power of an energy system in which 1 joule of energy is transferred uniformly over 1 second.
"West Texas Intermediate (WTI)"	It is a premium-grade crude oil that serves as the benchmark in the U.S. market. It has a relatively high natural yield of naphtha and primary distillate gasoline.

APPENDIX II: SUMMARY OF DIFFERENCES BETWEEN POC AND IFRS

The main differences between POC and International Accounting Standards / International Financial Reporting Standards ("IAS/IFRS") are as follows:

Balance Sheet Presentation

IAS/IFRS

A company may present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of the balance sheet or present them in order of liquidity.

Galp Energia has chosen to present its balance sheet by distinguishing between current and non-current items.

POC

In accordance with POC, the presentation of the balance sheet is based on a distinction similar to that between current and non-current items, except for accruals and deferrals, which are presented separately at the end of the balance sheet.

Presentation of the Income Statement

IAS/IFRS

According to IAS 1, the income statement may be presented by nature or by function; if the latter is chosen, an explanatory note must be provided regarding certain costs by nature, namely depreciation and personnel costs.

Galp Energia has chosen to present its income statement by nature of expense.

POC

Both income statements must be presented: income statements by nature and by function.

Accounting for 'Comprehensive Income'

IAS/IFRS

In accordance with IAS 1, the statement of changes in equity must be presented; while a final total for "comprehensive income" is permitted, it is not required. Comprehensive income consists of the sum of net income for the period and gains and losses that are recognized directly in equity rather than in net income.

POC

Comprehensive Income relates solely to foreign currency translation adjustments and is disclosed in the note on changes in equity in the notes to the financial statements.

Extraordinary Items

IAS/IFRS

Prohibited.

POC

In the statement of income by nature, the definition of extraordinary items covers activities that do not relate to the Company's current/operating activities. According to the POC, in the income statement by nature, extraordinary results include not only gains and losses corresponding to infrequent or unusual events and transactions but also the following types of gains and losses, classified as operating activities under IAS/IFRS: donations, uncollectible debts, gains and losses on inventory (claims, breakages, or surpluses), under- or overestimation of income tax, increases in depreciation and amortization (of a non-recurring nature), reductions in provisions for risks and charges, restructuring of operations, disposal of tangible and intangible fixed assets and investments, discontinued operations, fines, and penalties.

Classification of Interest Received and Paid in the Statement of Cash Flows

IAS/IFRS

They may be classified as operating, investing, or financing activities.

POC

They may be classified as investing or financing activities.

Change in Accounting Policy

IAS/IFRS

A change in an accounting policy shall be applied retrospectively unless the amount of any resulting adjustment relating to prior periods cannot be reasonably determined. The adjustment resulting from such retrospective application shall be included in the opening balance of retained earnings, and all comparative information shall be restated unless it is impracticable to do so.

POC

Adjustments resulting from a change in accounting policy are generally recognized in the income statement under the corresponding operating line item and/or in retained earnings. Restatement of comparative financial statements is not permitted, but information regarding the impacts of these changes is typically included in the notes.

Disclosure of Earnings Per Share

IAS/IFRS

The company must present basic and diluted earnings per share in the income statement for each class of common stock that has different rights to participate in the net income for the period. Basic and diluted earnings per share must be presented for all periods disclosed. Dilution is a reduction in earnings per share or an increase in loss per share, based on the assumption that convertible instruments are converted, that options or *warrants* are exercised, or that common shares are issued when specific conditions are met.

POC
Disclosure of earnings per share is required only in the income statement by function, and limited guidance is provided for its calculation.

Presentation of Cost of Goods Sold in the Income Statement

IAS/IFRS
Recorded in cost of sales.

POC
Raw materials, auxiliary materials, and merchandise are classified under cost of goods sold and materials consumed. Finished goods and work-in-progress are classified under change in production.

Accounting for Investments in Subsidiaries in the Parent Company's Individual Financial Statements

IAS/IFRS
Either the cost method or in accordance with IAS 39. The equity method is not permitted. The Company uses the cost method.

POC
Accounting at acquisition cost or in accordance with the equity method is required; the Company adopts the equity method. When the parent company uses acquisition cost, an impairment test of the investment must be performed.

Presentation of Minority Interests

IAS/IFRS
In equity.

POC
Outside of equity, between liabilities and equity.

Valuation Criteria for Inventories

IAS/IFRS
The LIFO (last-in, first-out) method is prohibited.

POC
The LIFO method is permitted.
Since the LIFO method is prohibited under IAS/IFRS but permitted under POC, Galp adjusts its financial statements to the FIFO (first-in, first-out) method.

Tangible fixed assets

IAS/IFRS

Either the cost model or the revaluation model may be used. The revalued amount is the fair value as of the revaluation date less subsequent accumulated depreciation and impairment losses. Revaluations must be reviewed periodically.

In accordance with IAS/IFRS, the cost of an item of tangible fixed assets must be recognized as an asset if, and only if:

- it is probable that future economic benefits associated with the item will flow to the entity; and
- the cost of the item can be measured reliably.

Under IAS, administrative and other general costs, start-up costs, and pre-operating costs are not a component of the cost of a fixed asset.
The company uses the acquisition cost model and performs impairment tests periodically.

POC

Valuation at historical acquisition cost or revalued amount, with revaluation typically performed in accordance with specific legislation using statutory monetary depreciation rates. Revaluations may also be performed based on the asset's fair value. Revaluations must be reviewed periodically. Tangible fixed assets acquired on or before December 31, 1997, are recorded at acquisition cost revalued in accordance with applicable legal provisions. Tangible fixed assets acquired after that date are recorded at acquisition cost.

Costs of Major Inspections and Overhauls

IAS/IFRS

Generally recognized as an integral part of an asset's cost if the asset is segmented by components and the oldest replaced parts are written off; otherwise, they must be recognized as an expense in the income statement.

POC

Initially recorded in an accruals and deferrals account and charged to the income statement over the period between two major inspections, or capitalized if classified as assets.

Calculation of Impairment Loss

IAS/IFRS

It is based on the recoverable amount (the higher of the asset's value in use and its net selling price). Under IAS 36, the following factors must be reflected in the calculation of the asset's value in use:

(a) an estimate of the future cash flows that Galp expects to derive from the asset;
(b) expectations regarding possible changes in the amount or timing of those future cash flows;
(c) the time value of money, represented by the current risk-free market interest rate;
(d) the cost of bearing the uncertainty inherent in the asset; and

(e) other factors, such as a lack of liquidity, which market participants would take into account when pricing the future cash flows that the Company expects to receive from the asset.

POC
The asset shall be carried at the lower of cost and net realizable value.

Measurement of the Residual Value of an Asset

IAS/IFRS
Under IAS 16—Property, Plant, and Equipment, the residual value is not presumed to be zero. The residual value corresponds to the net present value of the sale, if the asset has already reached the age and condition expected at the end of its useful life.

POC
Depreciation should equal the difference between the acquisition cost and the respective accumulated depreciation.

Subsequent Reversal of an Impairment Loss

IAS/IFRS
Required if certain criteria are met. Reversal of impairment losses on *goodwill* is not permitted.

POC
Impairment losses under POC have been treated as extraordinary amortization, which may be reversed if the circumstances that gave rise to them no longer exist

Development Costs

IAS/IFRS
Capitalized, provided certain criteria are met.

POC
Capitalized and have a broader definition than under IFRS (e.g., *marketing* and promotional expenses are capitalized when related to the launch of new products).

Intangible Assets

IAS/IFRS
According to IAS 38, an intangible asset is recognized as such provided that it is: identifiable, controlled by the Company as a result of past events, and likely to generate future economic benefits. IAS 38 does not permit internally generated trademarks, newspaper or magazine mastheads, publication titles, and customer lists to be capitalized. In addition, it specifies that the following expenses must be recognized as an expense in the income statement:

- Start-up and pre-operating costs;
- Training costs;

- Advertising costs;
- Relocation costs; and
- General studies.

POC

In accordance with generally accepted accounting principles in Portugal, start-up costs (including pre-operating costs) are generally capitalized and amortized over a period of 5 years.
Expenses related to training, advertising, and promotional activities, as well as the transfer or partial or total reorganization of a business, are not specifically addressed in Portuguese accounting standards but are generally capitalized.

Goodwill Positive

Goodwill

IAS/IFRS

It is not amortized. Impairment tests must be performed annually.

POC

Amortized over a maximum period of 5 years, unless a longer period can be justified, which may not exceed 20 years.

Negative Goodwill

IAS/IFRS

It is immediately recognized as income for the period.

POC

Recorded under deferred income and recognized in the income statement over a period not exceeding 5 years, using the straight-line method.

Tax Rate for Measuring Deferred Tax Assets and Liabilities

IAS/IFRS

Use the tax rate published or “substantially published” by law.

POC

Use the tax rate published by law.

Classification of Deferred Tax Assets and Liabilities

IAS/IFRS

They are not classified as current.

POC

Deferred tax assets and liabilities must be presented on the balance sheet in a separate sub-item under the heading “Accruals and Deferrals.”

Government Grants for Tangible and Intangible Assets

IAS/IFRS

Government investment grants must be presented on the balance sheet as deferred income or as a reduction in the asset's acquisition cost, and must be recognized in the income statement over the useful life of the assets, in proportion to their respective depreciation, and as a deduction from the respective depreciation expense.

In its IFRS financial statements, Galp Energia recorded government grants as a reduction in the asset's acquisition cost and recognizes the amount of the grants in the income statement over the useful lives of the assets, in proportion to their respective depreciation, and as a deduction from the related depreciation expense.

POC

Non-repayable government grants awarded to finance tangible and intangible assets are recorded as deferred income and recognized as extraordinary income in the same period in which the depreciation of the assets they are financing is recognized.

Financial Instruments – Cash Flow Hedging

IAS/IFRS

If a company has a cash flow hedge instrument related to a recognized asset or liability or a probable future transaction, changes in the hedging instrument are recognized directly in equity until such time as those future cash flows occur.

The cash flow hedge instruments that Galp Energia uses to hedge its exposure to changes in the interest rates on its loans are initially recognized at cost and subsequently adjusted to their corresponding fair value. Changes in the fair value of these cash flow hedging instruments are recorded in equity and subsequently recognized in the income statement when the corresponding hedged asset or liability is also recognized in the income statement.

POC

Financial instruments are not measured at fair value; the amount recognized depends on their nature. Only their fair value is disclosed in the Notes to the Financial Statements.

Exclusions from Consolidation

IAS/IFRS

The consolidated financial statements must include all subsidiaries. There are no exceptions for "temporary control" or "a subsidiary operating under severe and long-term restrictions on the transfer of funds." However, if, at the time of acquisition, a subsidiary meets the criteria for classification as held for sale under IFRS 5, it is accounted for in accordance with that standard.

POC

A company may be excluded from consolidation when:

- It is not material to the consolidated financial statements;
- There are severe and long-term restrictions that substantially impair the parent company's ability to exercise its rights over the subsidiary's net assets or its management; and
- The subsidiary is held for the purpose of its subsequent disposal.

APPENDIX III: CONSOLIDATED FINANCIAL STATEMENTS

APPENDIX A: CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005, AND DECEMBER 31, 2004, PREPARED OR RESTATED IN ACCORDANCE WITH IFRS

Galp Energia, SGPS, SA and subsidiaries

CONSOLIDATED STATEMENTS OF INCOME BY NATURE FOR THE FISCAL YEARS ENDED DECEMBER 31, 2005 AND 2004 (IFRS/IAS)

(Amounts expressed in thousands of euros - mEuros)

	Note	2005	2004
Operating income:			
Revenue from sales	6	10,985,392	9,127,470
Revenue from services rendered	6	151,916	145,151
Other operating income	6	83,366	79,266
Total operating income:		**11,220,674**	**9,351,887**
Operating expenses:			
Inventory consumed and sold	7	9,162,092	7,597,904
Materials and services consumed	7	525,574	468,377
Personnel expenses	7	269,634	250,897
Amortization and Depreciation Expenses	7	306,796	294,238
Provisions and impairment of accounts receivable	7	22,543	14,570
Other operating expenses	7	71,286	75,487
Total operating expenses:		**10,357,925**	**8,701,473**
Operating income:		**862,749**	**650,414**
Financial income	9	8,956	11,220
Financial expenses	9	(62,018)	(67,736)
Foreign exchange gains (losses)		(16,574)	7,686
Income from equity investments in associates	4	105,215	25,319
Income from financial instruments	28	(3,552)	(22,835)
Other gains and losses	3	(1,384)	(486)
Pre-tax income:		**893,392**	**603,582**
Income tax	10	(188,836)	(145,786)
Income before minority interests:		**704,556**	**457,796**
Income attributable to minority interests		(3,899)	(4,358)
Net income for the year		**700,657**	**453,438**
Earnings per share (in Euros)	11	**4.22**	**2.73**

The accompanying notes are an integral part of the consolidated income statement by nature for the fiscal year ended December 31, 2005

Galp Energia, SGPS, SA and subsidiaries

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2005 AND 2004 (IFRS/IAS)

(Amounts expressed in thousands of euros - mEuros)

ASSETS	Notes	2005	2004
Non-current assets:			
Property, plant, and equipment	13	2,554,772	2,601,932
Goodwill	12	20,480	11,961
Other Intangible Fixed Assets	13	367,294	329,410
Equity investments in associates	4	84,545	77,622
Equity interests in subsidiaries	5	63,608	60,277
Other accounts receivable	15	96,248	122,796
Deferred tax assets	10	158,924	138,062
Other financial investments	28	338	233
Total non-current assets:		**3,346,209**	**3,342,293**
Current assets:			
Inventories	17	1,199,357	833,242
Accounts receivable	16	898,363	681,170
Other accounts receivable	15	322,517	389,078
Other financial investments	18 and 28	10,191	19,339
Cash and cash equivalents	19	157,635	227,259
Total current assets:		**2,588,063**	**2,150,088**
Total assets:		**5,934,272**	**5,492,381**

The accompanying notes are an integral part of the consolidated balance sheet as of December 31, 2005

Galp Energia, SGPS, SA and subsidiaries

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2005 AND 2004 (IFRS/IAS)

(Amounts expressed in thousands of euros - mEuros)

EQUITY AND LIABILITIES	Notes	2005	2004
Equity:			
Par value	20	829,251	829,251
Share premium		82,006	82,006
Currency translation reserves		(1,879)	(5,063)
Other reserves	21	84,926	68,273
Hedging reserves		(2,905)	(3,736)
Accumulated earnings		669,150	397,897
Net income for the period		700,657	453,438
Total equity attributable to shareholders:		2,361,206	1,822,066
Minority interests	22	24,645	24,082
Total equity:		**2,385,851**	**1,846,148**
Liabilities:			
Non-current liabilities:			
Bank loans and overdrafts	23	781,996	788,174
Bond loans	23	309,760	309,760
Other accounts payable	25	96,443	104,629
Liabilities for retirement and other benefits benefits	24	214,232	211,211
Deferred tax liabilities	10	132,275	53,908
Other financial instruments	28	5,458	9,633
Provisions	26	72,711	70,577
Total non-current liabilities:		**1,612,875**	**1,547,892**
Current liabilities:			
Bank loans and overdrafts	23	257,390	632,010
Accounts payable	27	706,376	495,041
Other accounts payable	25	916,382	922,866
Other financial instruments	28	1,864	824
Current income tax payable	10	53,534	47,600
Total current liabilities:		**1,935,546**	**2,098,341**
Total Liabilities:		**3,548,421**	**3,646,233**
Total equity and liabilities:		**5,934,272**	**5,492,381**

The accompanying notes are an integral part of the consolidated balance sheet as of December 31, 2005

GALP ENERGIA, S.G.P.S., S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004 (IFRS/IAS)

(Amounts expressed in thousands of Euros - mEuros)

Transactions for the Period	Notes	Share Capital	Share premium	Conversion reserves	Other reserves (Note 21)	Hedging reserves	Retained earnings	Net income for the period	Subtotal	Minority Minority interests	Total
Balance as of January 1, 2004 (POC)		829,251	82,006	51,557	55,900	-	385,003	247,446	1,651,163	24,176	**1,675,339**
Adjustments made upon conversion to IFRS/IAS	34	-	-	(51,557)	-	(1,269)	(130,109)	-	(182,935)	(2,555)	(185,490)
Balance as of January 1, 2004 (Restated)		829,251	82,006	-	55,900	(1,269)	254,894	247,446	1,468,228	21,621	**1,489,849**
Increases in reserves from allocation of net income	21	-	-	-	12,373	-	235,073	(247,446)	-	-	-
Dividend Distribution		-	-	-	-	-	(93,000)	-	(93,000)	-	(93,000)
Other increases/decreases in hedging reserves	28	-	-	-	-	(3,623)	-	-	(3,623)	-	(3,623)
Other changes		-	-	-	-	-	930	-	930	-	930
Adjustments for recognition of deferred taxes on financial derivatives	10	-	-	-	-	1,156	-	-	1,156	-	1,156
Translation differences on balance sheets denominated in foreign currencies (Group companies)		-	-	(2,039)	-	-	-	-	(2,039)	-	(2,039)
Translation differences on balance sheets denominated in foreign currencies (Associated companies	4	-	-	(3,024)	-	-	-	-	(3,024)	-	(3,024)
Changes in minority interests		-	-	-	-	-	-	-	-	(1,897)	(1,897)
Total direct increases/decreases in equity		829,251	82,006	(5,063)	68,273	(3,736)	397,897	-	1,368,628	19,724	1,388,352
Net income for the period attributable to shareholders and minority interests		-	-	-	-	-	-	453,438	453,438	4,358	457,796
Balance as of December 31, 2004 (POC)		829,251	82,006	47,681	68,273	-	527,076	333,064	1,887,351	26,880	**1,914,231**
Adjustments made upon conversion to IFRS/IAS	34	-	-	(52,744)	-	(3,736)	(129,179)	120,374	(65,285)	(2,798)	(68,083)
Balance as of December 31, 2004 (Restated)		829,251	82,006	(5,063)	68,273	(3,736)	397,897	453,438	1,822,066	24,082	**1,846,148**
Increases in reserves from allocation of net income	21	-	-	-	16,653	-	436,785	(453,438)	-	-	-
Dividend Distribution	30	-	-	-	-	-	(165,850)	-	(165,850)	-	(165,850)
Other increases/decreases in hedging reserves	28	-	-	-	-	1,433	-	-	1,433	-	1,433
Other variations		-	-	-	-	-	318	-	318	-	318
Adjustments for Deferred Tax Recognition	10	-	-	-	-	(602)	-	-	(602)	-	(602)
Translation differences on balance sheets denominated in foreign currencies (Group companies)		-	-	(2,654)	-	-	-	-	(2,654)	-	(2,654)
Translation differences on balance sheets denominated in foreign currencies (Associated companies	4	-	-	5,838	-	-	-	-	5,838	-	5,838
Changes in minority interests	22	-	-	-	-	-	-	-	-	(3,336)	(3,336)
Total direct increases/decreases in equity		829,251	82,006	(1,879)	84,926	(2,905)	669,150	-	1,660,549	20,746	1,681,295
Net income for the period		-	-	-	-	-	-	700,657	700,657	3,899	704,556
Balance as of December 31, 2005		829,251	82,006	(1,879)	84,926	(2,905)	669,150	700,657	2,361,206	24,645	**2,385,851**

The accompanying notes are an integral part of the statement of changes in equity for the fiscal year ended December 31, 2005.

GALP ENERGIA, SGPS, S.A. and Subsidiaries

CONSOLIDATED CASH FLOW STATEMENTS IAS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(Amounts expressed in thousands of Euros)

	Notes	2005	2004
Operating activities:			
Receipts from customers		12,761,202	8,726,852
Payments to suppliers		(9,587,224)	(5,163,525)
Payments to employees		(207,929)	(198,167)
Payments/Receipts of Tax on Petroleum Products		(2,383,255)	(2,254,607)
Cash flows from operating activities		**582,794**	**1,110,553**
(Payment)/receipt of income tax		(117,942)	(112,074)
Contributions to the pension fund	24	(26,235)	(20,595)
Payments to early retirees and those in early retirement		(12,916)	(15,084)
Payments for insurance expenses related to retirees		(9,158)	(576)
Other (payments)/receipts related to operating activities		236,502	(95,682)
Cash flows from operating activities		**70,251**	**(244,011)**
Cash flows from operating activities (1)		**653,045**	**866,542**
Investing activities:			
Proceeds from: Financial investments			
		85,806	8,359
Tangible fixed assets		3,788	2,227
Intangible assets		3,304	1,914
Investment grants	14	71,691	78,486
Interest and similar income		15,850	2,680
Dividends	4	39,339	37,196
Loans granted		7,845	1,874
		227,623	**132,736**
Payments related to:			
Financial investments		(3,835)	(6,848)
Tangible fixed assets		(275,465)	(330,756)
Intangible assets		(55,617)	(57,489)
Loans granted		(2,714)	(313)
		(337,631)	**(395,406)**
Cash flows from investing activities (2)		**(110,008)**	**(262,670)**
Financing activities:			
Proceeds from:			
Loans received		290,413	1,045,366
Capital increases, additional installments, and issue premiums		263	-
Interest and similar income		2,351	1,208
Discounted bills		18,771	13,541
		311,798	**1,060,115**
Payments related to:			
Loans received		(520,490)	(1,364,659)
Interest on loans received		(42,802)	(31,312)
Interest and similar expenses		(26,700)	(21,855)
Dividends/distribution of earnings		(215,938)	(46,941)
Purchase of treasury stock (shares)		-	(6)
Repayment of discounted bills		(18,192)	(13,325)
Depreciation and interest on finance leases		(306)	(423)
Interest on finance leases		(4)	(6)
Interest on bond loans		(9,246)	(13,979)
Coverage of losses		(290)	-
		(833,968)	**(1,492,506)**
Cash flows from financing activities (3)		**(522,170)**	**(432,391)**
Change in cash and cash equivalents (4) = (1) + (2) + (3)		20,867	171,481
Effect of foreign exchange differences		4,983	(5,179)
Cash and cash equivalents at the beginning of the period	19	67,784	(98,534)
Cash and cash equivalents at the end of the period	19	93,634	67,768

The accompanying notes are an integral part of the consolidated statement of cash flows for the fiscal year ended December 31, 2005.

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IAS/IFRS AS OF DECEMBER 31, 2005

(Amounts expressed in thousands of Euros – mEuros)

1. INTRODUCTORY NOTE

Galp Energia, SGPS, S.A. (hereinafter referred to as Galp or the Company) was incorporated as a publicly owned corporation under Decree-Law No. 137-A/99 of April 22, 1999, under the name "Galp – Petróleos e Gás de Portugal, SGPS, S.A.", and adopted its current name—Galp Energia, SGPS, S.A.—on September 13, 2000.

Its headquarters are in Lisbon, and its corporate purpose is the management of equity interests in other companies. At the time of its incorporation, it consolidated the State's direct holdings in the following companies: Petróleos de Portugal – Petrogal, S.A.; GDP–Gás de Portugal, SGPS, S.A., and Transgás–Sociedade Portuguesa de Gás Natural, S.A..

Galp's initial capital, amounting to 411,383,565 euros, was fully paid in kind through the transfer of the State's equity interests in the aforementioned companies. In September 1999, the State carried out another capital increase, bringing the total to 502,164,785 euros.

Decree-Law No. 261-A/99, dated July 7, initiated the privatization process of Galp by opening the company's capital to the remaining shareholders of Petróleos de Portugal – Petrogal, S.A. and Transgás – Sociedade Portuguesa de Gás Natural, S.A. To this end, a new capital increase was carried out, reserved essentially for them in kind, through the transfer of their shares in the aforementioned companies.

Thus, on December 31, 1999, a capital increase of 327,085,850 euros was completed, subscribed by Petrocontrol, SGPS, S.A. ("Petrocontrol"), EDP – Electricidade de Portugal, S.A. (currently named EDP – Energias de Portugal, S.A. ("EDP")), Caixa Geral de Depósitos, S.A., Portgás – Sociedade de Produção e Distribuição de Gás, S.A., and Setgás – Sociedade de Produção e Distribuição de Gás, S.A., bringing the total share capital to 829,250,635 euros.

On July 13, 2000, following the agreements entered into on January 17 of that same year, the companies designated as strategic partners—ENI Portugal Investment, S.p.A. ("ENI") and Iberdrola, S.A. ("Iberdrola")—signed Share Purchase Agreements and Strategic Partnership Agreements with the Portuguese government, acquiring 11% and 4%, respectively, of Galp's share capital. At the same time, Petrocontrol sold its entire stake in Galp, with the ENI group acquiring 22.34% and EDP acquiring 11%.

Decree-Law No. 124/2003 of June 20 approved the third phase of Galp's privatization process. Pursuant to this decree, REN – Rede Eléctrica Nacional, S.A. ("REN") acquired 18.3% of Galp's share capital, of which 13.5% was acquired from Caixa Geral de Depósitos and the remaining 4.8% from the Portuguese State. Additionally, Parpública -

Participações Públicas (SGPS), S.A. acquired 0.75%, 3.48% in 2004, and during the 2005 fiscal year acquired an additional 8.06% stake in Galp's share capital from the Portuguese State.

Galp's shareholder structure following these transactions is described in Note 20. At the beginning of 2006, there was a further change in Galp's shareholder structure, which is described in Note 20.

As of December 31, 2005, the Galp Group ("Group") consisted of Galp and its subsidiaries, which include Petróleos de Portugal – Petrogal, S.A. ("Petrogal") and its subsidiaries, GDP – Gás de Portugal, SGPS, S.A. and its subsidiaries, Galp Power, SGPS, S.A. and its subsidiaries, Porten – Portugal Energia, S.A., and Galp Serviços – Serviços e Consultoria de Apoio à Gestão Empresarial, S.A..

Petrogal is the only company operating in the oil refining sector in Portugal and holds a majority stake in the distribution of refined petroleum products under the GALP brand.

The subsidiaries engaged in the transportation and distribution of natural gas, namely Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., Transgás – Sociedade Portuguesa de Gás Natural, S.A., Lusitaniagás – Companhia de Gás do Centro, S.A., and Beiragás – Companhia de Gás das Beiras, S.A., operate under concession agreements entered into with the Portuguese government, which expire in 2028 (or 2034 in the case of Beiragás). At the end of this term, the assets subject to the concessions will be transferred to the Portuguese State, and the companies will be compensated in an amount corresponding to the net book value of those assets.

Council of Ministers Resolution No. 169/2005, dated October 24, approved the national energy strategy, aimed, among other things, at separating the regulated assets of the natural gas sector (receipt, transmission, and storage) and integrating them into the company that operates the electricity transmission grid.

The main measures under this strategy include the revision of the concession agreement with Transgás – Sociedade Portuguesa de Gás Natural, S.A., the integration of the electricity and natural gas transmission networks into a single company, and the separation of the marketing activity from the distribution activity, for both electricity and natural gas (Note 31).

The accompanying Financial Statements are presented in euros (functional currency), as this is the currency primarily used in the economic environment in which the Company operates.

2. MAIN ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in preparing the consolidated financial statements are those listed below. These policies have been consistently applied to the comparative years.

2.1 Basis of Presentation

The consolidated financial statements of the Galp Energia Group were prepared on a going-concern basis and using the historical cost method, except for derivative financial instruments, which are recorded at fair value (Note 2.17),

based on the books and accounting records of the companies included in the consolidation (Notes 3 and 4), maintained in accordance with generally accepted accounting principles in Portugal, and adjusted during the consolidation process so that the consolidated financial statements comply with International Financial Reporting Standards, as adopted by the European Union, effective for fiscal years beginning on January 1, 2005. The following are to be understood as forming part of those standards: both the International Financial Reporting Standards ("IFRS" – International Financial Accounting Standards) issued by the International Accounting Standards Board ("IASB"), and the International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC"), as well as the respective interpretations—SIC and IFRIC—issued by the International Financial Reporting Interpretations Committee ("IFRIC") and the Standing Interpretations Committee ("SIC"). Hereinafter, the set of those standards and interpretations will be generically referred to as "IFRS."

Although the consolidated financial statements as of December 31, 2005, which were presented and approved by the General Shareholders' Meeting, were prepared in accordance with generally accepted accounting principles in Portugal ("POC"), the Group is also presenting, for the first time in 2005, consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), having complied with the provisions set forth in IFRS 1—First-time Adoption of International Financial Reporting Standards ("IFRS 1") in the preparation of the accompanying consolidated financial statements. Under this accounting provision, the consolidated balance sheet and the consolidated statements of income, cash flows, and changes in equity as of December 31, 2004—presented for comparative purposes—were adjusted to comply with IFRS. The adjustments made during the transition process were back-adjusted to January 1, 2004 (the transition date), and the effects of adopting IFRS are described in Note 34. That note also presents the effects of the conversion to IFRS on equity and net income for 2005, since the financial statements submitted for approval by the General Shareholders' Meeting were prepared in accordance with POC.

In preparing the accompanying financial statements, estimates were used that affect the reported amounts of assets and liabilities, as well as the reported amounts of revenue and expenses during the reporting period. All estimates and assumptions made by the Board of Directors were, however, based on the best available knowledge, as of the date of approval of the financial statements, of ongoing events and transactions.

2.2 Consolidation Principles

The consolidation methods adopted by the Group are as follows:

a) *Equity Interests in Group Companies*

Financial investments in companies in which the Group holds, directly or indirectly, more than 50% of the voting rights at the General Shareholders' Meeting and/or has the power to control their financial and operating policies (the Group's definition of control) have been included in these consolidated financial statements using the full consolidation method. The companies consolidated using the full consolidation method are detailed in Note 3.

Equity and net income attributable to non-controlling interests in the subsidiaries are presented separately on the consolidated balance sheet and in the

consolidated statement of comprehensive income, respectively under the heading “minority interests.” When losses attributable to minority interests exceed the minority interest in the subsidiary’s equity, the Group absorbs that excess and any additional losses, except when the minority interests have the obligation and are able to cover those losses. If the subsidiary subsequently reports profits, the Group appropriates all profits until the minority’s share of the losses absorbed by the Group has been recovered.

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

Minority interests include the proportion of third parties’ share in the fair value of identifiable assets and liabilities as of the acquisition date of the subsidiaries.

The results of subsidiaries acquired or sold during the fiscal year are included in the income statements from the date of their acquisition or up to the date of their sale.

Whenever necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those used by the Group. Transactions (including any gains or losses arising from disposals between Group companies), balances, and dividends distributed among Group companies are eliminated in the consolidation process.

In situations where the Group effectively controls other entities established for a specific purpose, even if it does not hold direct equity interests in those entities, they are consolidated using the full consolidation method. Entities in such situations, when any exist, are included in Note 3.

Financial investments in Group companies excluded from consolidation are immaterial and are presented at acquisition cost (Note 5).

b) Investments in Jointly Controlled Entities

Financial investments in jointly controlled entities have been included in the accompanying consolidated financial statements using the proportional consolidation method, effective from the date on which joint control is acquired. Under this method, the assets, liabilities, revenues, and expenses of these entities have been incorporated into the accompanying consolidated financial statements, line by line, in proportion to the Group’s share of control. The entities consolidated using the proportional consolidation method are detailed in Note 3.

The excess of the acquisition cost over the fair value of the identifiable assets and liabilities of each jointly controlled entity as of the acquisition date is recognized as “goodwill” (Note 2.2.d)). If the difference between the acquisition cost and the fair value of the net assets and liabilities acquired is negative, it is recognized as income for the period.

Intercompany transactions, balances, and dividends distributed among companies are eliminated in the consolidation process in proportion to the Group’s attributable control.

The classification of financial investments in jointly controlled entities is determined based on shareholders' agreements governing joint control.

c) Investments in Associates

Investments in associates (entities over which the Group exercises significant influence but does not hold either control or joint control through participation in the entity's financial and operational decisions, typically when it holds between 20% and 50% of the entity's equity) are accounted for using the equity method.

Under the equity method, investments are recorded at their acquisition cost, adjusted by the amount corresponding to the Group's share of changes in the associates' equity (including net income), with a corresponding entry for gains or losses for the period under the income statement line item for investments in associates, as well as dividends received.

The excess of the acquisition cost over the fair value of the associate's identifiable assets and liabilities as of the acquisition date is recognized as goodwill (Note 2.2(d)) and included in the carrying amount of the investment in associates. If the difference between the acquisition cost and the fair value of the net assets and liabilities acquired is negative, it is recognized as income for the period under the income statement line item for financial investments in associates, following reconfirmation of the assigned fair value.

Investments in associates are tested for impairment when there are indications that the investment may be impaired, and an annual assessment of the value of goodwill is performed; any impairment losses found to exist are recorded as an expense. When impairment losses recognized in prior periods no longer exist, they are reversed. However, existing impairment losses on goodwill will not be reversed.

When the Group's share of the associate's accumulated losses exceeds the carrying amount of the investment, the investment is reported at zero, except when the Group has assumed commitments with the associate; in such cases, the Group recognizes a loss equal to the amount of the joint and several liability assumed with respect to the associate.

Unrealized gains and losses on transactions with associates are eliminated in proportion to the Group's interest in the associate, with a corresponding entry against the investment in that associate. Unrealized losses are similarly eliminated, but only to the extent that the loss does not indicate that the transferred asset is impaired.

Investments in associates are detailed in Note 4.

d) Goodwill

The differences between the acquisition cost of equity investments in Group companies, jointly controlled entities, and associates and the fair value of the identifiable assets and liabilities of those entities as of the date of acquisition, if positive, are recorded under the heading "Goodwill" (in the case of goodwill related to Group companies or jointly controlled entities) (Note 12) or included under the heading "Investments in Associates" (in the case of associates).

The differences between the acquisition cost of investments in foreign entities and the fair value of those entities' identifiable assets and liabilities as of the acquisition date are recorded in the entities' functional currency and converted to the Group's reporting currency (euros) at the exchange rate in effect on the balance sheet date. The exchange differences arising from this conversion are recorded under the "translation reserves" line item in equity.

Goodwill arising from acquisitions after January 1, 2004 (the date of transition to IFRS), as well as the net amount of goodwill arising from acquisitions prior to that date, is not amortized but is tested for impairment at least annually to determine whether any losses have occurred. Any impairment loss is immediately recognized on the balance sheet as a reduction in the asset's carrying amount and in the income statement under "other gains and losses," and is not subsequently reversed.

Differences between the acquisition cost of equity investments in Group companies, jointly controlled entities, and associates and the fair value of those entities' assets and liabilities as of the acquisition date are recognized as a gain on the acquisition date, if negative, following reconfirmation of the fair value of the identifiable assets and liabilities.

Goodwill arising from acquisitions prior to the transition date (January 1, 2004)

Goodwill arising from acquisitions prior to the date of transition to IFRS (January 1, 2004) was carried forward at the amounts reported in accordance with generally accepted accounting principles in Portugal ("deemed cost") as of that date and was subject to impairment testing in accordance with IFRS 1.

e) Conversion of Financial Statements Expressed in Foreign Currency

Entities operating abroad that have organizational, economic, and financial autonomy are treated as foreign entities.

The assets and liabilities in the financial statements of foreign entities are converted to euros using the exchange rates in effect on the balance sheet date, and the costs, revenues, and cash flows in those financial statements are converted to euros using the average exchange rate for the fiscal year. The resulting foreign exchange difference, arising after January 1, 2004 (the date of transition to IFRS), is recorded in equity under the heading "Translation Reserves." Foreign exchange differences arising up to
January 1, 2004 (the date of transition to IFRS) were reversed and charged to Retained Earnings.

Goodwill and fair value adjustments resulting from the acquisition of foreign entities are treated as assets and liabilities of that entity and translated into euros at the exchange rate in effect on the balance sheet date.

Whenever a foreign entity is disposed of, the accumulated foreign exchange difference is transferred from the "conversion reserves" line item in equity to the "other gains or losses" line item in the income statement.

The financial statements of foreign entities, included in the accompanying consolidated financial statements, were converted to euros using the following exchange rates:

-Rate in effect at year-end:

Currency	Exchange Rate 2005	2004
United States Dollars	1.18	1.36
Brazilian reais	2.74	3.61
Cape Verde Escudos	110.27	110.27
Moroccan dirhams	10.95	11.20
CFA francs	655.96	655.96
Mozambican Meticais	27,972.20	25,356.46

-Average for the fiscal year:

Currency	Exchange Rate 2005	2004
U.S. Dollars	1.24	1.24
Brazilian reais	3.04	3.66
Cape Verdean escudos	110.27	110.27
Moroccan dirhams	11.03	11.03
CFA francs	655.96	655.96
Mozambican Meticais	28,298.31	27,247.60

2.3 Tangible fixed assets

Tangible fixed assets acquired on or before January 1, 2004 (the date of transition to IFRS) are recorded in accordance with the option provided for in IFRS 1, at their "deemed cost," which corresponds to the acquisition cost, revalued where applicable, in accordance with the legal provisions in effect up to that date, less accumulated depreciation, impairment losses, and investment subsidies.

Tangible fixed assets acquired after that date are recorded at acquisition cost, net of accumulated depreciation, impairment losses, and investment subsidies. Acquisition cost includes the invoice price, transportation and installation expenses, and financial charges incurred during the construction period.

Tangible fixed assets in progress reflect fixed assets still under construction; they are recorded at acquisition cost, net of investment grants received and any impairment losses, and are depreciated once the investment projects are completed or ready for use.

Depreciation is calculated on the basis of the deemed cost (for acquisitions made on or before January 1, 2004) and the acquisition cost, using the straight-line method, applied annually starting from the fiscal year in which the assets become operational, using the most appropriate economic rates that allow for the recovery of the fixed assets, over their estimated useful lives, taking into account, where applicable, the concession period.

The average annual depreciation rates used can be summarized as follows:

	Rates		
Land and natural resources – easements	2.20%	-	3.13%
Buildings and other structures	2.00%	-	10.00%
Basic equipment	2.20%	-	12.50%
Transportation equipment	16.67%	-	25.00%
Tools and utensils	12.50%	-	25.00%
Office equipment	5.00%	-	33.33%
Tare weights and containers	7.14%	-	33.33%
Other tangible fixed assets	10.00%	-	33.33%

Infrastructure related to natural gas, specifically gas transmission networks (gas pipelines), is being depreciated over a 45-year period, as this is considered to represent the economic useful life of those assets.

Expenses related to routine and multi-year repairs and maintenance are recorded as expenses in the fiscal year in which they are incurred. Major repairs involving the replacement of parts of equipment or other tangible fixed assets are recorded as tangible fixed assets, provided that the replaced component is identified and written off, and are depreciated at rates corresponding to the remaining useful life of the respective main fixed assets.

Oil Exploration and Production Activities

Tangible fixed assets related to oil exploration and production activities are recorded at acquisition cost and consist primarily of:

(i) costs incurred in the exploration and development of the exploration area ("field"), plus overhead and financial costs, net of the effect of exchange rates, incurred up to the date production begins, which are capitalized as assets under construction. When the field begins production, these costs are transferred from assets under construction to fixed assets and are amortized according to a rate calculated as the ratio of the production volume recorded in each amortization period to the volume of proved developed reserves at the end of that period, plus the production for that period. Thus, costs of this nature incurred for fields that are still in the exploration and development phase are classified as assets under construction;

(ii) costs associated with the acquisition of the oil exploration and production license (signing bonus), which are amortized on a straight-line basis over the remaining term of the license after production begins;

All costs incurred during the exploration phase of unsuccessful oil fields are recognized as expenses in the income statement for the fiscal year in which it becomes known that exploration and/or development work will not continue;

Gains or losses resulting from the disposal or write-off of tangible fixed assets are determined by the difference between the sale price and the net book value as of the date of disposal or write-off. The net book value includes accumulated impairment losses. The resulting accounting gains and losses are recorded in the income statement

under the line items under other operating operating or other operating operating expenses, respectively.

2.4 Intangible Fixed Assets

Intangible fixed assets are stated at acquisition cost, net of accumulated amortization, investment grants, and impairment losses. Intangible fixed assets are recognized only if it is probable that future economic benefits will flow to the Group from them and if such benefits can be reliably controlled and measured.

Research expenses are recognized as an expense for the period.

Development expenses are recognized as intangible fixed assets only if the Group demonstrates the technical and economic capacity, as well as the commitment, to complete such development and begin its commercialization or use for its own purposes, and also demonstrates the likelihood that the asset created will generate future economic benefits. If the expenses do not meet these requirements, development expenses are recognized as an expense in the period in which they are incurred.

Intangible fixed assets with a finite useful life are amortized on a straight-line basis after they are put into use.

Amortization rates vary according to the terms of existing contracts or the expected useful life of the intangible fixed asset.

The Group capitalizes expenses related to the conversion of fuel sources to natural gas that involve the adaptation of facilities. The Group considers that it is able to control the future economic benefits of these conversions through the continued sale of gas to households and by including these benefits in the price approved by the Directorate-General for Geology and Energy. These expenses are being amortized in equal annual installments until the end of the concession period granted to gas distribution companies.

Intangible assets include, in addition to the conversions of consumption to natural gas, expenses incurred for IT development projects, exclusivity fees paid to resellers of Galp products, and charges related to surface rights, which are amortized over the term of the respective contracts (which ranges from ten to twenty years).

2.5 Impairment of non-current assets, excluding goodwill

Impairment tests are performed as of the balance sheet date and whenever an impairment of the asset or assets in question is identified.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized and recorded in the income statement under the heading “Impairment losses on tangible or intangible fixed assets.”

The recoverable amount is the higher of the net selling price and the value in use. The net selling price is the amount that would be obtained from the disposal of the asset in a transaction between knowledgeable, independent parties, less costs directly attributable to the disposal. Value in use is determined by discounting the estimated future cash flows of the asset over its estimated useful life. The recoverable amount is estimated for the asset or the cash-generating unit to which it belongs.

A reversal of impairment losses recognized in prior periods is recorded when it is concluded that the recognized impairment losses no longer exist or have decreased. This analysis is performed whenever there are indications that the previously recognized impairment loss has been reversed. The reversal of impairment losses is recognized in the income statement as Other operating income. However, the reversal of an impairment loss is limited to the amount that would have been recognized (net of amortization or depreciation) had the impairment loss not been recorded in prior periods.

2.6 Leases

Lease agreements are classified as:

i. finance leases if substantially all the risks and rewards incidental to ownership are transferred, and

ii. operating leases in situations where this is not the case.

The classification of leases as finance or operating leases is based on substance over form rather than the legal form of the contract.

Leases in which the Group acts as the lessee

Fixed assets acquired under finance leases, as well as the corresponding liabilities, are accounted for using the finance method. Under this method, the cost of the asset (the lower of fair value and the present value of the lease payments) is recorded under tangible fixed assets, the corresponding liability is recorded under liabilities, and the interest included in the lease payments and the depreciation of the asset—calculated as described in Note 2.3—are recorded under “Financial Expenses” and “Depreciation and Amortization Expenses,” respectively, in the income statement for the fiscal year to which they relate.

For leases classified as operating leases, lease payments are recognized as expenses for the fiscal year under the “Materials and Services Consumed” line item in the income statement on a straight-line basis over the term of the lease agreement.

2.7 Inventories

Inventories are valued in accordance with the following criteria:

Inventories (merchandise, raw and auxiliary materials, finished and intermediate products, and work in progress) are recorded at the lower of acquisition cost (in the case of merchandise, raw, and auxiliary materials) or production cost (in the case of finished and intermediate products and work in progress) and net realizable value.

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

Differences between the cost and the net realizable value of inventories—where the latter is lower than the cost—are recognized as operating expenses under the line item “Inventories consumed and sold.”

Specifically, the cost of inventories is determined according to the following criteria:

a) Raw Materials and Auxiliary Materials

Crude oil – The acquisition cost includes the invoice price, transportation and insurance expenses, using the FIFO (first-in, first-out) method to account for inventory withdrawals, applied to a single product family, which includes all subcategories.

Other raw materials (excluding general materials) – The acquisition cost includes the invoice price, transportation costs, and insurance, using the FIFO method to allocate costs to product families, which are defined based on the characteristics of the various materials.

General materials – The cost of acquisition, which includes the invoice price, transportation costs, and insurance, uses the weighted average cost method to account for issuances.

b) Products and Work in Progress

The cost of production includes materials, external supplies and services, and overhead expenses.

c) Finished and intermediate products

Petroleum products – Inflows of finished and intermediate products are valued based on production cost, which consists of the consumption of raw and other materials, direct labor costs, and manufacturing overheads. In the case of products purchased from third parties, these are valued at acquisition cost, which includes the invoice price, transportation and insurance expenses, using the FIFO method applied to product families—established based on their characteristics—as the method for costing outflows.

The Petrogal Group includes in the “Finished and Intermediate Products” line item the Tax on Petroleum Products (ISP) related to the release for consumption of finished products already shipped that are subject to that tax, which is valued at acquisition cost, using the FIFO method to account for outflows.

Other finished and intermediate products – The cost of production includes raw materials, variable manufacturing costs, and fixed manufacturing costs, using the weighted average cost method to allocate costs to sales.

d) Merchandise

The cost of goods sold includes the invoice price, transportation and insurance expenses, using the FIFO method for natural gas and the weighted average cost for petroleum products and other goods as the method for costing sales.

In the case of Transgás – Sociedade Portuguesa de Gás Natural, S.A., the cost of acquisition also includes, for the purposes of its determination, expenses incurred up to the Portuguese border, namely transportation and transit fees through Moroccan territory.

As previously mentioned, the Petrogal Group also includes the ISP in the inventory line item for goods already shipped that are subject to that tax.

Raw materials, work-in-progress, and goods in transit, as they are not available for consumption or sale, are segregated from other inventory and are valued at their specific acquisition cost.

2.8 Government Grants or Grants from Other Public Entities

Government grants are recognized at their fair value when there is certainty that they will be received and that the Group's companies will comply with the conditions required for their award.

Operating subsidies are recognized in the income statement in proportion to the expenses incurred.

Non-repayable grants awarded to the Group to finance tangible and intangible fixed assets (retrofitting) are recorded as assets, as a deduction from the respective assets, and recognized in the consolidated income statement as a deduction from depreciation for the period, in proportion to the respective depreciation of the subsidized assets.

2.9 Provisions

Provisions are recognized 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 will be required to settle that obligation, and the amount of the obligation can be reasonably estimated. Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate as of that date. The Group recognizes provisions for restructuring costs whenever there is a formal and detailed restructuring plan.

2.10 Pension Liabilities

Petrogal, Sacor Marítima, and several companies in the GDP Group (GDP Distribuição, SGPS, S.A., Lisboagás – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., Driftal – Plastificantes de Portugal, S.A., and Gasfomento – Sistemas e Instalações de Gás, S.A.) have committed to providing their employees with cash benefits in the form of supplements to old-age and disability retirement pensions, as well as survivor's pensions, early retirement pensions, and pre-retirement pensions (the early retirement provision was assumed only by Petrogal). These benefits, with the exception of early retirement and pre-retirement pensions, consist of a percentage that increases with the employee's years of service. Early retirement and pre-retirement pensions essentially correspond to the employee's salary. These commitments include, where applicable, Social Security payments for pre-retirees, voluntary social insurance for early retirees, and the retirement bonus to be awarded on the date of retirement.

To cover these liabilities, Petrogal, Sacor Marítima, and the companies of the GDP Group established separate pension funds managed by external entities ("Petrogal Pension Fund," "Sacor Marítima Pension Fund," and "GDP Pension Fund") to finance the liabilities for old-age and disability pension supplements and survivor pensions for active and retired employees and, in the case of Petrogal,

also for those who have taken early retirement and those in pre-retirement. However, the Petrogal Pension Fund does not cover liabilities related to early retirement pensions, pre-retirement benefits, Social Security for pre-retirees, and the payment of voluntary social insurance and retirement premiums. These liabilities are covered by specific provisions, included on the balance sheet under the heading “Liabilities for retirement benefits and other benefits.”

In addition, the GDP Pension Fund does not cover the liabilities assumed by Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. to reimburse the retirement supplements payable by EDP to its retirees and pensioners affiliated with the Company, as well as the retirement and survivor supplements for retirees existing as of the Fund’s establishment. These liabilities are covered by specific provisions, included in the balance sheet under the heading “Liabilities for retirement benefits and other benefits.”

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

Effective January 1, 2004, actuarial gains and losses calculated during a fiscal year, and for each benefit plan in effect, resulting from adjustments to actuarial assumptions, experience adjustments, or changes to the benefit plan, are recognized only if the cumulative net amount of these unrecognized actuarial gains and losses (Total Deviation) at the end of the period exceeds, in absolute value, the greater of: 10% of total liabilities or 10% of the market value of the fund; this amount is recognized in income starting in the subsequent fiscal year in which it is determined, on a straight-line basis, in accordance with the expected average number of years of service of the employees participating in that benefit plan.

The benefit plans identified by the Petrogal Subgroup for the calculation of these liabilities are:

- Supplementary retirement, disability, and orphan’s pensions;
- Early retirement;
- Early retirement;
- Retirement bonuses;
- Voluntary social insurance;
- Special scheme for flexible retirement age under Decree-Law 9/99;
- Minimum benefit under the defined-contribution plan.

The benefit plans identified by the GDP Subgroup for the purpose of calculating these liabilities are:

- Supplementary retirement, disability, and orphan’s pensions;
- Special scheme for flexible retirement age under Decree-Law 9/99.

On December 31, 2002, the Portuguese Insurance Institute (“ISP”) authorized the establishment of the Galp Energia Defined-Contribution Pension Fund. The Group allowed certain subsidiaries, as members of this Fund, to offer their employees the option to choose between this new defined-contribution plan and the existing defined-benefit plan; if employees opted for the new plan, the Group paid a

an amount set annually, corresponding to a percentage of each employee's salary, which is recognized as an expense for that fiscal year.

2.11 Other retirement benefits—health care, life insurance, and the minimum benefit under the defined-contribution plan

The costs incurred by the Group for the provision of health care, life insurance, and the minimum benefit under the defined-contribution plan are recognized as expenses during the period in which the employees receiving these retirement benefits render services to their respective companies; these liabilities are reflected on the balance sheet under the heading "Liabilities for retirement benefits and other benefits." Payments made to beneficiaries during each fiscal year are recorded as a reduction in this account.

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

Effective January 1, 2004, the accounting procedure began to incorporate the "corridor" mechanism described in section 2.10. above.

2.12 Balances and Transactions Expressed in Foreign Currency

Transactions are recorded in the subsidiaries' individual financial statements in their respective functional currencies, using the exchange rates in effect on the transaction date.

All monetary assets and liabilities denominated in foreign currency in the subsidiaries' individual financial statements are translated into each subsidiary's functional currency using the exchange rates in effect as of the balance sheet date for each period. Non-monetary assets and liabilities denominated in foreign currency and recorded at fair value are converted to the functional currency of each subsidiary using the exchange rate in effect on the date the fair value was determined.

Exchange differences, both favorable and unfavorable, arising from differences between the exchange rates in effect on the dates of transactions and those in effect on the dates of collections, payments, or the balance sheet date, are recognized as revenue and/or expenses in the consolidated statement of income for the fiscal year under the heading "Foreign Exchange Gains/Losses," except for those relating to non-monetary items whose change in fair value is recognized directly in equity.

When the Group seeks to reduce its exposure to foreign exchange risk, it enters into hedging derivative financial instruments (Note 2.17.f)).

2.13 Revenue and Accrual Basis

Revenue from sales is recognized in the income statement when the risks and rewards of ownership of the assets are transferred to the buyer and the amount of the corresponding revenue can be reasonably measured. Sales are recognized net of taxes, discounts, and other costs associated with their completion, at the fair value of the amount received or receivable.

The selling price of natural gas is set by the Government through price-setting by the Directorate-General for Geology and Energy. The selling price of natural gas is set

quarterly, in accordance with the formula set forth in the concession agreements. With the exception of Lusitaniagás, meter readings, billing, and related collections pertaining to gas distribution activities are handled by companies of the EDP Group—Electricidade de Portugal—and by companies of the GDP Group, depending on whether the customers are small or large, respectively.

Unbilled gas sales are recorded monthly under "other accounts receivable" based on expected billing and recognized in income in the period in which billing occurs.

Expenses and revenues are recognized in the period to which they relate, regardless of the date of payment or receipt. Expenses and revenues for which the actual amount is unknown are estimated.

The "Other Current Assets" and "Other Current Liabilities" accounts include costs and revenues attributable to the current period but for which expenses and revenues will only occur in future periods, as well as expenses and revenues that have already occurred but relate to future periods and will be allocated to the income statements of each of those periods in the amounts corresponding to them.

2.14 Financial Expenses on Borrowings

Interest expense on borrowings is generally recognized as a financial expense in accordance with the accrual principle.

Financial expenses resulting from loans taken out to finance investments in fixed assets are capitalized as fixed assets in progress, in proportion to the total expenses incurred on those investments, net of investment grants received (Note 2.8), until such assets become operational (Notes 2.3 and 2.4), with the remainder recognized under "financial expenses" in the income statement for the fiscal year (Note 9). Any interest income earned on loans directly related to the financing of fixed assets under construction is deducted from the capitalizable financial expenses.

Financial expenses included in tangible fixed assets are amortized over the useful lives of the respective assets.

2.15 Income Tax

Income tax is calculated based on the taxable income of the companies included in the consolidation in accordance with the applicable tax rules in effect at the location of the headquarters of each Galp Energia Group company.

Deferred taxes are calculated using the balance sheet liability method and reflect the temporary differences between the amounts of assets and liabilities for accounting purposes and their respective amounts for tax purposes.

Deferred tax assets and liabilities are calculated and reviewed annually using the tax rates expected to be in effect by the time the temporary differences reverse.

Deferred tax assets are recognized only when there is a reasonable expectation of sufficient future taxable income to utilize them, or in situations where

there are taxable temporary differences that offset deductible temporary differences in the period of their reversal. At each balance sheet date, the temporary differences underlying deferred tax assets are reassessed in order to recognize deferred tax assets not previously recorded because they did not meet the conditions for recognition and/or to reduce the amount of deferred taxes recorded based on the current expectation of their future recovery (Note 10).

Deferred taxes are recognized in the income statement for the fiscal year, except when they result from items recognized directly in equity, in which case the deferred tax is also recognized under the same line item.

2.16 Noncurrent assets held for sale

Noncurrent assets (and the group of assets and liabilities to be disposed of in connection with them) are classified as held for sale if it is expected that their carrying amount will be recovered through a sale rather than through continued use. This condition is considered met only when the sale is highly probable and the asset (and the group of assets and liabilities to be disposed of related to it) is available for immediate sale under current conditions. Additionally, steps must be underway that allow for the conclusion that the sale is expected to occur within 12 months after the date of classification under this heading.

Noncurrent assets (and the related set of assets and liabilities to be disposed of) classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell. However, these assets are not depreciated.

2.17 Financial Instruments

Financial assets and liabilities are recognized on the Balance Sheet when the Group becomes a party to the respective financial instrument.

a) Investments

Investments are classified as follows:

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

Held-to-maturity investments are classified as non-current investments, unless their maturity is less than 12 months from the balance sheet date; this category includes investments with a fixed maturity that the Group intends and is able to hold until that date.

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

All purchases and sales of these investments are recognized on the date the respective purchase and sale agreements are signed, regardless of the date of financial settlement.

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

After initial recognition, investments measured at fair value through profit or loss and available-for-sale investments are revalued at their fair values based on their market value as of the balance sheet date, without any deduction for transaction costs that may arise until their sale. In cases where investments consist of equity instruments not listed on regulated markets, and for which it is not possible to reliably estimate their fair value, they are carried at their acquisition cost less any impairment losses.

Gains or losses arising from a change in the fair value of available-for-sale investments are recognized in equity, under the fair value reserve, until the investment is sold, received, or otherwise disposed of, or until the fair value of the investment falls below its acquisition cost, at which time the accumulated gain or loss is recognized in the income statement.

Gains or losses arising from a change in the fair value of investments measured at fair value through profit or loss are recognized in the income statement for the fiscal year.

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

b) Accounts Receivable

Third-party receivables are recorded at their face value less any impairment losses, recognized under the heading “Impairment Losses on Accounts Receivable,” so that they reflect their net realizable value.

Third-party receivables generally do not bear interest.

c) Classification as Equity or Liabilities

Financial liabilities and equity instruments are classified according to their contractual substance, regardless of their legal form.

d) Loans

Loans are recorded as liabilities at their face value received, net of issuance costs.

Interest expense is calculated using the effective interest rate and recognized in the income statement on an accrual basis.

Financial expenses include interest and, where applicable, fees related to the structuring of loans under “Project Finance” (“Origination fees”).

e) Accounts payable to suppliers and other liabilities to third parties

Accounts payable do not usually accrue interest and are recorded at their face value.

f) Derivative instruments
Hedge accounting

The Group uses derivative instruments to manage its financial risks as a means of hedging those risks; derivative instruments are not used to hedge financial risks for trading purposes.

The derivative instruments used by the Group, defined as cash flow hedging instruments, primarily relate to interest rate hedges for loans obtained. The indices, calculation conventions, interest rate reset dates, and repayment schedules for the interest rate hedging instruments are identical in every respect to the terms established for the underlying loans, and therefore constitute perfect hedging relationships.

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

- The hedge is expected to be highly effective in offsetting changes in cash flows attributable to the hedged risk;
- The effectiveness of the hedge can be reliably measured;
- There is adequate documentation regarding the transaction to be hedged at the inception of the hedge; and
- The transaction being hedged is highly probable.

Interest rate hedging instruments are initially recorded at cost, if any, and subsequently revalued at fair value, calculated by external and independent entities using valuation methods based on generally accepted principles. Changes in the fair value of these instruments are recognized in equity under the heading “hedging reserves” and are transferred to income in the same period in which the hedged instrument affects income.

Hedge accounting for derivative instruments is discontinued when the instrument matures or is sold. In situations where the derivative instrument no longer qualifies as a hedging instrument, the accumulated fair value differences deferred in equity under the “hedging reserves” account are transferred to income for the period, or added to the carrying amount of the asset to which the hedged transactions relate, and subsequent revaluations are recorded directly in the income statement accounts.

An analysis of the Galp Energia Group’s existing contracts was conducted to identify embedded derivatives—that is, contractual clauses that could be construed as financial derivatives. The joint analysis conducted by external consultants and the Group did not identify any financial derivatives that would be measured at fair value.
When embedded derivatives exist within other financial instruments or other contracts, they are treated as separately recognized derivatives in situations where the risks and characteristics are not closely related to the contracts and in situations where the contracts are not presented at fair value with unrealized gains or losses recognized in the income statement.

In addition, the Group also enters into interest rate derivatives in specific situations for fair value hedging purposes. In these situations, the derivatives are recognized at fair value through the income statement. In situations where the hedged item is not measured at fair value (namely,

loans that are measured at amortized cost), the effective portion of the hedge is recognized in the carrying amount of the hedged instrument through the income statement.

Trading Instruments

The Group uses derivative financial instruments to hedge against the risk of fluctuations in the refining margin, primarily swaps on crude oil and finished products and options on crude oil. Although these financial instruments are entered into for the purpose of economic hedging in accordance with the Group's risk management policies, because they do not meet all the requirements of IAS 39 regarding qualification for hedge accounting, changes in their fair value are recognized in the income statement for the period in which they occur. As of December 31, 2005, these investments are recorded at fair value.

g) Cash and cash equivalents

The amounts included under the heading "Cash and cash equivalents" correspond to cash on hand, bank deposits, time deposits, and other short-term investments maturing in less than three months, which can be immediately liquidated with an insignificant risk of a change in value.

For the purposes of the statement of cash flows, the "cash and cash equivalents" category also includes bank overdrafts included in the "loans and bank overdrafts" category on the balance sheet.

2.18 CO2 Emission Allowances

CO2 emissions from the Group's industrial facilities and the "CO2 allowances" allocated to it under the National CO2 Allowance Allocation Plan do not give rise to any recognition on the balance sheet, provided that: (i) it is not considered likely that the Group will incur costs to acquire emission allowances on the market—in which case a provision is recognized—or (ii) such allowances are not sold in the event of a surplus—in which case revenue is recognized.

2.19 Balance Sheet Classification

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

2.20 Subsequent events

Events occurring after the balance sheet date that provide additional information about conditions that existed as of the balance sheet date are reflected in the consolidated financial statements. Events occurring after the balance sheet date that provide information about conditions arising after the balance sheet date are disclosed in the notes to the consolidated financial statements, if material.

2.21 Segment Information

In each period, all business segments and geographic segments applicable to the Group are identified.

Information regarding revenue by identified business segment is included in Note 8.

2.22 Estimates and Judgments

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates that affect the amounts of assets and liabilities reported, the presentation of contingent assets and liabilities at the end of each fiscal year, as well as the revenue and expenses recognized during each fiscal year. Actual results may differ from these estimates.

Certain estimates are considered critical if: (i) the nature of the estimates is considered significant due to the levels of subjectivity and judgment required to account for situations involving a high degree of uncertainty or due to the high likelihood of variation in such situations; and (ii) the impact of the estimates on the financial position or operating performance is significant.

The accounting principles and areas that require the greatest amount of judgment and estimation in the preparation of the financial statements are: (i) proven crude oil reserves related to oil exploration activities; (ii) goodwill impairment testing;
(iii) provisions for contingencies and environmental liabilities; (iv) actuarial and financial assumptions used to calculate pension obligations.

Crude Oil Reserves

Estimates of crude oil reserves are an integral part of the decision-making process regarding crude oil exploration and development assets, and they also support the development or implementation of secondary recovery techniques. The volume of proven crude oil reserves is used to calculate the depreciation of assets allocated to crude oil exploration and production activities, serving as a basis for calculating “unit of production” as well as for assessing impairment of investments in assets associated with these activities. The estimate of proven crude oil reserves is also used for the annual recognition of abandonment costs.

Galp prepares its estimates of crude oil reserves in accordance with the rules established for the oil and gas industry, based on technical information provided by the operator of the consortia in which it participates.

The estimate of proven reserves is subject to future revisions based on new information that becomes available, for example, regarding development, drilling, or production activities; exchange rates; prices; contract expiration dates; or development plans.

The volumes of crude oil produced and the cost of the assets are known, while proven reserves have a high probability of recovery and are based on estimates subject to certain adjustments. The impact on depreciation of changes in estimated proven reserves is accounted for on a prospective basis, by depreciating the remaining net book value of the assets based on expected future production. In 2005 and 2004, the Group recorded depreciation of fixed assets associated with crude oil exploration and production activities in the amounts of 18,791 mEuros and 12,100 mEuros, respectively. In the event of a downward revision of proven reserves, net income could be negatively affected in the future by higher depreciation expenses.

Goodwill

The Group performs annual impairment tests on goodwill, as indicated in Note 2.2(d). The recoverable amounts of the cash-generating units were determined based on value in use. To calculate value in use, the Group estimated the future cash flows expected to be generated by the cash-generating units, as well as the appropriate discount rate to calculate the present value of these cash flows. The amount of goodwill as of December 31, 2005, was 20,480 thousand euros (Note 12).

Provisions for Contingencies

The final cost of legal proceedings, settlements, and other disputes may vary due to estimates based on different interpretations of standards, opinions, and final assessments of the amount of losses. Consequently, any change in the circumstances related to this type of contingency could have a significant effect on the amount of the provision for contingencies recorded.

Environmental liabilities

Galp makes judgments and estimates to calculate provisions for environmental matters (primarily for known obligations related to soil remediation), which are based on current information regarding expected costs and remediation plans. These costs may vary due to changes in legislation and regulations, changes in site-specific conditions, as well as variations in remediation technologies. Consequently, any change in the circumstances affecting these types of provisions, as well as in standards and regulations, could result in a significant effect on the provisions for these matters. The provision for environmental matters is reviewed annually. In
As of December 31, 2005, and 2004, the amount of provisions set aside to cover environmental liabilities totaled 11,037 mEuros (Note 26) and 9,754 mEuros, respectively.

Actuarial and financial assumptions used to calculate pension liabilities

See Note 2.10.

2.23 Risk management and related hedging

The Group's activities expose it to the following risks: (i) market risk, resulting from the volatility of oil and natural gas prices and their derivatives, exchange rates, and interest rates; (ii) credit risk, resulting from commercial activity; (iii) liquidity risks, to the extent that the Group could encounter difficulties in obtaining the financial resources necessary to meet its commitments.

The Group has an organizational structure and systems in place to identify, measure, and control the various risks to which it is exposed and uses various financial instruments for hedging purposes, in accordance with corporate guidelines common to the entire Group. The contracting of these instruments is centralized.

A more detailed description of these hedging arrangements is provided in the accounting policies set forth in this chapter.

3. COMPANIES INCLUDED IN THE CONSOLIDATION

The companies included in the consolidation, their registered offices, ownership percentages, and main activities as of December 31, 2005, and 2004 are as follows:

	Registered Office		Percentage of Equity Held Dec. 31, 2005			Dec. 31, 2004			Principal
COMPANY	City	Country	Direct	Indirect	Total	Direct	Indirect	Total	Activity
A) Group Companies									
Parent Company:									
Galp Energia, SGPS, S.A.	Lisbon	Portugal	-	-	-	-	-	-	Management of equity interests in other companies in the energy sector, such as in indirect form fiscal year of economic activities
Subsidiaries:									
Galp Serviços - Business Management Support Services and Consulting, S.A.	Lisbon,	Portugal	100%	-	100%	100%	-	100%	Provision of services and consulting to support business management
Porten Subgroup:									
Porten - Portugal Energia, S.A. and subsidiary:	Bucelas	Portugal	100%	-	100%	100%	-	100%	To promote, execute, and operate, directly or indirectly, projects for the production of electricity and combined heat and power through cogeneration, as well as projects related to the use of renewable energy, and to market such energy directly or indirectly
Ao Sol - Energias Renováveis, Lda	Porto Alto	Portugal	(a)	(a)	(a)	-	100%	100%	Manufacture, installation, and marketing of equipment for the supply of renewable energy.
Petrogal Subgroup:									
Petróleos de Portugal - Petrogal, S.A.	Lisbon,	Portugal	100%	-	100%	100%	-	100%	Refining of crude oil and its derivatives; transportation, distribution, and marketing of crude oil, its derivatives, and natural gas; exploration and production of crude oil and natural gas; and any other industrial, commercial, research, or service activities related to those mentioned in the preceding subparagraphs
Subsidiaries:									
Galp Energia España, S.A. and subsidiaries:	Madrid,	Spain	-	100%	100%	-	100%	100%	Procurement, distribution, and sale of petroleum products, chemical products, and all related items
						-	100%	100%	Management and operation of gas stations
Galpgest - Petrogal Estaciones de Servicio, S.L.U.	Madrid,	Spain	-	100%	100%	-	100%	100%	Operation of gas stations
Alcalá Gas Station, S.L.	Madrid,	Spain	-	100%	100%	-	100%	100%	Storage, distribution, marketing, and sale of all types of gasoline, diesel fuel, industrial oils for use in motor vehicles, and all service station systems
Gasolinera Gon, S.L.	Huelva,	Spain	-	100%	100%				
Galpfer - Lubricant Distribution, S.L.	Vigo,	Spain	(b)	(b)	(b)	-	51%	51%	Storage, warehousing, and distribution of petroleum products and chemicals, their derivatives and byproducts, whether in solid, liquid, or gaseous form
						-	100%	100%	Storage and distribution of petroleum products
CLG - Gas Logistics Company, S.A.	Madrid,	Spain	-	100%	100%	-	100%	100%	Storage and distribution of petroleum products and chemicals, their derivatives and by-products, whether in solid, liquid, or gaseous form
Serviexpress Distribuición, S.A.	Valencia,	Spain	(c)	(c)	(c)				
Petróleos de Valencia, S.A. Single-Member Company (d)	Valencia,	Spain	-	100%	100%	-	-	-	Storage and distribution of petroleum products and chemicals, their derivatives and by-products, whether in solid, liquid, or gaseous form
Galp Serviexpress, S.L.U. (c)	Madrid,	Spain	-	100%	100%	-	100%	100%	Storage and distribution of petroleum products and chemicals, their derivatives and by-products, whether in solid, liquid, or gaseous form
						-	100%	100%	Maritime transportation using owned or chartered vessels
Sacor Marítima, S.A. and subsidiaries:	Lisbon,	Portugal	-	100%	100%	-	100%	100%	Maritime transport using owned or chartered vessels
Gasmar - Transportes Marítimos, Lda.	Funchal,	Portugal	-	100%	100%				
Tripul - Ship Management Company, Lda.	Lisbon,	Portugal	-	100%	100%	-	100%	100%	Technical management of ships, crews, and supplies
S.M. Internacional-Transp. Marítimos, Lda.	Funchal,	Portugal	-	100%	100%	-	100%	100%	Maritime transport using owned or chartered vessels
Probigalp - Bituminous Binders, S.A.	Amarante	Portugal	-	50%	50%	-	50%	50%	Purchase, sale, manufacture, processing, import, and export of bituminous products and additives that transform or modify such bituminous products
Soturis - Real Estate and Tourism Company, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Real estate activities, specifically the management, purchase, sale, and resale of real estate
Sopor - Sociedade Distribuidora de Combustíveis, S.A.	Lisbon	Portugal	-	51%	51%	-	51%	51%	Distribution, sale, and storage of liquid and gaseous fuels, lubricants, and other petroleum products; operation of gas stations, service stations, and repair shops, including businesses related to these activities, such as restaurants and hotels

COMPANY	Headquarter City	Country	Percentage of equity held December 31, 2004 Direct	Indirect	Total	December 31, 2005 Direct	Indirect	Total	Main Activity
Galp Serviexpress - Petroleum Products Distribution and Marketing Services, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Provision of services for the transportation, storage, and sale of liquid and gaseous fuels, base oils, and other petroleum products to individuals, small businesses, and farmers in both domestic and international markets. The direct or indirect operation of fuel distribution centers and ancillary activities, including gas stations, auto repair shops, the sale of parts and accessories for motor vehicles, food service, and hospitality, as well as any other industrial, commercial, and service activities related to the company's corporate purpose
Galpgeste - Gestão de Áreas de Serviço, Lda. and its subsidiary:	Lisbon,	Portugal	-	100%	100%	-	100%	100%	Direct or indirect operation or management of service areas and fuel stations, as well as related or complementary activities, such as service stations and repair shops, the sale of lubricants, parts, and accessories for motor vehicles, and food and lodging services
C.L.T. - Maritime Terminal Logistics Company, Lda.	Matosinhos,	Portugal	-	100%	100%	-	100%	100%	Operation of maritime terminals and related activities
Petrogal Brasil, Lda.	Recife	Brazil	-	100%	100%	-	100%	100%	Exploration and production of crude oil and natural gas, as well as any other commercial, industrial, research, and service activities related to those activities; the company may also hold interests in other companies, regardless of their nature and purpose
Petrogal Trading Limited	Dublin,	Ireland	-	100%	100%	-	100%	100%	Development of trading activities in crude oil and petroleum products
Petrogal Mozambique, Lda. and subsidiary:	Maputo, Mozambique		-	100%	100%	-	100%	100%	Distribution, transportation, storage, and sale of liquid and gaseous fuels, base oils, and lubricants, and operation of gas stations and service stations for automotive services
Moçacor - Fuel Distribution, S.A.	Maputo, Mozambique		-	100%	100%	-	100%	100%	Distribution, transportation, storage, and sale of liquid and gaseous fuels, base oils, and lubricants, and operation of gas stations and service stations
Petrogal Angola, Lda and subsidiary: (o)	Luanda,	Angola	-	100%	100%	-	100%	100%	Production, distribution, and sale of liquid and gaseous fuels, base oils, and lubricants, as well as the operation of gas stations and service stations.
Agran - Agroquímica de Angola, SARL (o)	Luanda,	Angola	-	99%	99%	-	99%	99%	Exploitation of the pesticide industry and trade
Petrogal Guinea-Bissau, Lda and subsidiaries: (o)		Guinea-Bissau	-	100%	100%	-	100%	100%	Distribution, transportation, storage, and sale of liquid and gaseous fuels, base oils, lubricants, and other petroleum products; operation of gas stations and automotive service stations; and any other industrial, commercial, research, or service activities related to this primary purpose.
Petromar - Fuel Supply Company, Lda (o)	Bissau,	Guinea-Bissau	-	80%	80%	-	80%	80%	Maritime fuel retail, with the option to engage in any other activities related to petroleum products on a secondary basis.
Petrogás - Import, Storage, and Distribution of Gas, Lda (o)	Bissau,	Guinea-Bissau	-	65%	65%	-	65%	65%	Import, storage, and distribution of LPG, with the option to engage in any other activities, preferably related to petroleum products.
Galp Açores - Distrib. e Comercialização de Combustíveis e Lubrificantes, Lda. and subsidiary:	onta Delgad	Portugal	-	100%	100%	-	100%	100%	Distribution, storage, transportation, and sale of liquid and gaseous fuels, lubricants, and other petroleum products
Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A. (p)	Ponta Delgada,	Portugal	-	68%	68%	-	55.83%	56%	Construction and/or operation of filling stations and associated storage facilities for LPG and other fuels in the Autonomous Region of the Azores
Galp Madeira - Distribution and Marketing of Fuels and Lubricants, Lda. and subsidiaries:	Funchal,	Portugal	-	100%	100%	-	100%	100%	Distribution, storage, transportation, and sale of liquid and gaseous fuels, lubricants, and other petroleum products of petroleum

COMPANY	Headquarters City	Country	Percentage of equity held December 31, 2005 Direct	Indirect	Total	Dec. 31, 2004 Direct	Indirect	Total	Main Activity
CLCM - Madeira Fuel Logistics Company, S.A. (e)	Funchal	Portugal	-	75%	75%	-	85%	85%	Installation and operation of liquid and gaseous fuel storage facilities, as well as the related transportation, reception, handling, filling, and shipping infrastructure; and other industrial, commercial, research, or service activities related to those activities
Gasinsular - Combustíveis do Atlântico, S.A. (f)	Funchal,	Portugal	-	100%	100%	-	-	-	The company's primary purpose is the distribution, storage, transportation, and sale of liquid and gaseous fuels, base oils and lubricants, and other petroleum derivatives, as well as the direct or indirect operation of fueling stations and service areas and complementary activities, including gas stations and automotive repair and maintenance shops, the sale of parts and accessories for motor vehicles, restaurants and hotels, as well as any other industrial, commercial, research, or service activities related to the activities mentioned in its purpose.
						-	100%	100%	Insurance brokerage
						-	100%	100%	Development and Operation of Maritime Terminals
Galpmed - Insurance Brokerage, Single-Member Limited Liability Company	Lisbon,	Portugal	-	100%	100%	-	100%	100%	Transportation of liquid and gaseous petroleum products
Tanquisado - Maritime Terminals, S.A.	Setúbal,	Portugal	-	100%	100%	-	75%	75%	Retail sale of food products, household goods, gifts, and miscellaneous items, including newspapers, magazines, records, videos, toys, beverages, tobacco, cosmetics, hygiene products, travel goods, and automotive accessories
TLG - Transportes Líquidos e Gasosos, Lda	Lisbon,	Portugal (g)	(g)	(g)	Sempre a				
Postos - Food and Household Goods, Lda.	Lisbon,	Portugal	-	75%	75%				
Combustíveis Líquidos, Lda.	Lisbon,	Portugal	-	75%	75%	-	75%	75%	Trade in fuels, lubricants, and automotive accessories; may engage in any other line of business agreed upon by the partners that does not require special authorization
Blue Flag Navigation - Maritime Transport, Lda.	Funchal,	Portugal	-	100%	100%	-	100%	100%	The Company's purpose is to engage in maritime transport and the commercial operation of vessels in its own name, as owner or charterer, or on behalf of others, as an operator
Galp Investment - Fund	Lisbon,	Portugal (h)		(h)	(h)	(h)	(h)	(h)	Securitization of receivables
Galp Investment Fund, PLC	Dublin,	Ireland	(i)	(i)	(i)	(i)	(i)	(i)	Securitization of receivables
Fast Access – Operations, Information Services, and E-Commerce, S.A. (j)	Lisbon,	Portugal	-	66.66%	66.66%	-	33.33%	33.33%	Conducting operations and providing information and e-commerce services for mobile users, as well as providing management and operational services for online commerce
Tagus Re, S.A.	Luxembourg	Luxembourg	-	100%	100%	-	100%	100%	Reinsurance operations in all lines of business, excluding direct insurance operations
Asa - Aviation Supply and Services, Lda. (o)	Lisbon,	Portugal	-	50%	50%		50%	50%	Provision of aviation fuel supply services
Galp Exploração Serviços Brasil, Lda (n)	Recife	Brazil	-	100%	100%	-	-	-	Provision of business management support services
Petrogal Cabo Verde, Lda. (the)	São Vicente,	Cape Verde	-	100%	100%		100%	100%	Distribution and sale of liquid and gaseous fuels, base oils, and lubricants, as well as the operation of fueling stations and service stations.

COMPANY	Headquarters City	Country	Percentage of equity held December 31, 2005 Direct	Indirect	Total	Dec. 31, 2004 Direct	Indirect	Total	Parent Company Activity
GDP Subgroup:									
GDP - Gás de Portugal, SGPS, S.A.:	Lisbon	Portugal	100%	-	100%	100%	-	100%	Management of Equity Interests
Subsidiaries:									
Driftal - Plastificantes de Portugal, S.A.	Lisbon	Portugal	-	100%	100%	100%	-	100%	Sales of phthalic plasticizers
GDP Distribuição, SGPS, S.A. and subsidiaries:	Lisbon	Portugal	-	100%	100%	100%	-	100%	Management of Equity Interests
Beiragás - Companhia de Gás das Beiras, S.A.	Viseu	Portugal	-	59%	59%	-	59%	59%	Operation, construction, and maintenance of regional natural gas distribution networks
Gásfomento - Gas Systems and Installations, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Design of fuel gas distribution and usage systems, installation and conversion of equipment, and technical assistance to consumers
Dianagás - Évora Natural Gas Distribution Company, S.A.	Bucelas	Portugal	-	100%	100%	-	100%	100%	Operation, construction, and maintenance of regional distribution networks for natural gas and other gases
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	Bucelas	Portugal	-	100%	100%	-	100%	100%	Operation, construction, and maintenance of regional distribution networks for natural gas and other gases
Medigás - Algarve Natural Gas Distribution Company, S.A.	Bucelas	Portugal	-	100%	100%	-	100%	100%	Operation, construction, and maintenance of regional distribution networks for natural gas and other gases
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	Bucelas	Portugal	-	75%	75%	-	75%	75%	Operation, construction, and maintenance of regional distribution networks for natural gas and other gases
Lusitaniagás - Companhia de Gás do Centro, S.A.	Aveiro	Portugal	-	85%	85%	-	85%	85%	Operation, construction, and maintenance of regional distribution networks for natural gas and other gases
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	Lisbon	Portugal	-	100%	100%	-	100%	100%	Production, storage, and distribution of piped fuel gas
Transgás, SGPS, S.A. and subsidiaries:	Bucelas	Portugal	100%	-	100%	100%	-	100%	Management of Equity Interests
Natgás - Companhia Portuguesa de Gás Natural, S.A.	Setúbal	Portugal	(I)	(I)	(I)	-	90%	90%	Operation, under a public service contract, of the liquefied natural gas terminal and the natural gas pipeline
Transgás - Portuguese Natural Gas Company, S.A. and subsidiaries:	Bucelas	Portugal	-	100%	100%	-	100%	100%	Importation of natural gas, storage, distribution via a high-pressure network, and construction and maintenance of networks
Campo Maior–Leiria–Braga Gas Pipeline, S.A.	Bucelas	Portugal	-	88%	88%	-	88%	88%	High-pressure natural gas transmission between Campo Maior, Leiria, and Braga
Braga–Tuy Gas Pipeline, S.A.	Bucelas	Portugal	-	51%	51%	-	51%	51%	High-pressure natural gas transmission between Braga and Tuy
Transgás Atlântico - Portuguese Liquefied Natural Gas Company, S.A.	Sines	Portugal	-	100%	100%	-	100%	100%	Construction, installation, and operation of the infrastructure and equipment necessary for the reception, storage, processing, and regasification of liquefied natural gas under a public service subconcession
Transgás Armazenagem - Portuguese Natural Gas Storage Company, S.A.	Bucelas	Portugal	-	100%	100%	-	100%	100%	Storage of natural gas under a public service subconcession, including the construction, maintenance, repair, and operation of all related infrastructure and equipment.
Transgás Industria - Portuguese Natural Gas Supply Company for Industry, S.A.	Bucelas	Portugal	-	100%	100%	-	100%	100%	Supply of energy to businesses.
Galp Power Subgroup:									
Galp Power, SGPS, S.A. and subsidiaries:	Bucelas	Portugal	100%	-	100%	100%	-	100%	Management of equity interests as an indirect means of conducting economic activity
Carriço Cogeneration - Electricity and Heat Generation Company, S.A.	Bucelas	Portugal	-	65%	65%	-	65%	65%	Production through cogeneration and the sale of electrical and thermal energy
Powercer - Vialonga Cogeneration Company, S.A.	Bucelas	Portugal	-	70%	70%	-	70%	70%	The Company's purpose is the production through cogeneration and the sale of electrical and thermal energy, including the design, construction, financing, and operation of cogeneration facilities, as well as the performance of all related activities and the provision of related services
Sinecogeração - Sines Refinery Cogeneration, S.A.	Pampilhosa	Portugal	-	100%	100%	-	100%	100%	The Company's purpose is the production, transmission, and distribution of electrical and thermal energy from cogeneration systems and renewable energy sources, including the design, construction, and operation of systems or facilities, as well as the performance of all related activities and the provision of related services

B) Jointly controlled companies

Petrogal Subgroup:									
C.L.C. - Companhia Logística de Combustíveis, S.A.	Aveiras de Cima	Portugal	-	65%	65%	-	65%	65%	Installation and operation of liquid and gaseous fuel storage facilities, as well as the related transportation infrastructure. Other industrial, commercial, research, or service activities related to those operations.
Caiageste - Gestão de Áreas de Serviço, Lda.	Elvas	Portugal	-	50%	50%	-	50%	50%	Management and operation of two service areas located in the Caia area, including the performance of any activities and the provision of any services related to such establishments or facilities, namely: the supply of fuels and lubricants; the sale of products and items in the convenience store and supermarket sectors; the management and operation of restaurants and other hospitality-related or similar establishments; gas stations; and retail outlets for souvenirs and sundries.
Sigás - Gas Storage, A.C.E.	Sines,	Portugal	-	60%	60%	-	60%	60%	Design and construction of an underground LPG storage cavern, along with the necessary surface facilities for product handling. Management and operational management of the cavern, including surface facilities, tanks, and LPG spheres

During the fiscal year ended December 31, 2005, the scope of consolidation changed from the previous fiscal year as follows:

(a) As of December 31, 2005, 100% of the equity interest in Ao Sol – Energias Renováveis, Lda. was sold for 520 million euros, resulting in a capital loss of 135 million euros.

b) During the 2005 fiscal year, the subsidiary Galp Energia España, S.A., sold its stake in Galpfer – Distribuição de Lubrificantes, S.L., which did not result in any capital gain or loss.

c) and g) In the fiscal year ended December 31, 2005, the following were consolidated through a merger by incorporation, effective January 1, 2005: (i) the subsidiary Serviexpress Distribuicion S.A., wholly owned by the group, into Galp Serviexpress, S.L.U., (ii) and TLG – Transportes Líquidos e Gasosos, Lda., wholly owned by the group, into Petróleos de Portugal – Petrogal, S.A.

(d) In January 2005, the subsidiary Galp Energia España, S.A., acquired 100% of the capital of Petróleos de Valencia, S.A. This is a single-member company engaged in the storage, warehousing, and distribution of petroleum products and chemicals, as well as their derivatives and by-products, for a total of 13,937 thousand euros, generating goodwill of 7,838 thousand euros, which is included under the "Goodwill" line item (Note 12).

(e) During the fiscal year ended December 31, 2005, the group sold 10% of its equity interest in CLCM - Companhia Logística de Combustíveis da Madeira, S.A., for 75 million euros, thereby reducing its stake from 85% to 75%.

(f) In May 2005, Galp Madeira - Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda., acquired the entire equity of Gasinsular - Combustíveis do Atlântico, S.A., whose main activity is the distribution, storage, transportation, and sale of liquid and gaseous fuels, base oils, lubricants, and other petroleum derivatives, for 50 million euros, generating goodwill of 403 million euros included under the Goodwill heading (Note 12).

h) and i) During the 2003 fiscal year, Petrogal entered into a securitization transaction for accounts receivable with Galp Investment Fund, PLC ("Fund") for a maximum amount of mEuros 210,000 (Note 23), which has an expected maturity of 5 years and a statutory maturity of 7 years. To cover this amount, the Fund issued 199,500 mEuros of "Notes A" and 10,500 mEuros of "Notes B," which bear interest at the Euribor rate plus 0.5% and 0.95%, respectively. The transactions are carried out through another vehicle headquartered in Portugal—Galp Investment—Fundo—which purchases the receivables and places them with Galp Investment Fund PLC. Since these Funds are structured as vehicles established solely for this transaction and in accordance with IAS/IFRS accounting provisions regarding this type of transaction, the Funds' assets and liabilities—which consist primarily of accounts receivable from Petrogal's customers and the bonds issued by the Fund, respectively—are consolidated in the Group's financial statements.

(j) In December 2005, the subsidiary Petróleos de Portugal – Petrogal, S.A. acquired 33.33% of the capital stock of Fast Access – Operações e Serviços de Informação e Comércio Electrónico, S.A., thereby holding 66.66% of the capital stock of this subsidiary, which was subsequently included in the scope of consolidation.

l) and m) During the fiscal year ended December 31, 2005, the following companies were dissolved: (i) Água Solar – Serviços de Energia Solar, S.A., of the Galp Power, SGPS subgroup, and (ii) Natgás-Companhia Portuguesa de Gás Natural S.A., of the Transgás SGPS, S.A. subgroup.

n) On January 5, 2005, the company Galp Exploração Serviços do Brasil, Lda was incorporated, with its registered office in the city of Recife, Brazil. The Group holds 100% of its share capital and still needs to pay in the capital of this subsidiary in the amount of 128 million euros, which is recorded under the heading "Other Creditors."

o) Group companies excluded from consolidation as of December 2004 because they were immaterial.

p) During the 2005 fiscal year, a 12.17% stake in Saaga – Sociedade Açoreana de Armazenagem de Gás, S.A. was acquired for 858 million euros, generating goodwill of 278 million euros (Note 12).

In December 2005, the GDP Group acquired the remaining 10% of its equity interest in Natgás from the Portuguese government for mEuros 381, resulting in goodwill of mEuros 306 (Note 12). Natgás was liquidated that same month by decision of management as part of the GDP Group's reorganization, and a loss equal to the amount of the goodwill was recognized under the "Other gains and losses" line item in the income statement.

The impact of the liquidation on the consolidated income statement was as follows:

	2005	2004
Operating income	-	-
Operating Expenses	-	(1)
Financial results	(28)	13
Income before taxes:	(28)	12

The amount of 28 mEuros resulting from the liquidation of Natgás was reflected in the "Other Financial Gains and Losses" line item of the income statement.

The liquidation of Água Solar – Serviços de Energia Solar, S.A. had the following impact on the income statement:

	2005	2004
Operating income	-	-
Operating Expenses	-	(7)
Financial Results	(9)	(1)
Income before taxes:	(9)	(8)

With the exception of C.L.C. - Companhia Logística de Combustíveis, S.A., a Sigás subsidiary - Armazenagem de Gás, A.C.E., and Caiageste - Gestão de Áreas de Serviço, Lda., which were included using the proportional method as indicated in Note 2.2(b), all other companies mentioned above were included in the consolidation using the full consolidation method. However, as of December 2004, the equity interests held in Petrogal Angola, Lda, Petrogal Guiné-Bissau, Lda, Agran –

Agroquímica de Angola, SARL, Petrogás – Import, Storage, and Distribution of Gas, Lda., Petromar – Fuel Supply Company, Lda., Petrogal Cabo Verde, Lda., and Asa – Aviation Supply and Services, Lda.

4. FINANCIAL INTERESTS IN ASSOCIATED COMPANIES

The financial interests in associated companies, their registered offices, percentage of ownership, and their activities as of December 31, 2005, and 2004 are as follows:

	Registered Office	Percentage of Capital Held						Balance Sheet Value		Financial Information of the Associate				
		2005			2004									
COMPANY	City Country	Direct	Indirect	Total	Direct	Indirect	Total	2005	2004	Assets	Liabilities	Revenue	Result Fiscal Year	Principal activity
EMPL - Europe Magreb Pipeline, Ltd (d)	Madrid, Spain	-	27.40%	27.40%	-	27.40%	27.40%	37,349	28,030	692,090	555,780	215,126	115,121	Construction and operation of natural gas pipelines between Morocco and Spain.
Al-Andaluz Gas Pipeline, S.A. (d)	Madrid, Spain	-	33.04%	33.04%	-	33.04%	33.04%	16,387	16,429	114,573	64,976	26,930	8,064	Construction and operation of the Tarifa–Córdoba natural gas pipeline.
Extremadura Gas Pipeline, S.A. (d)	Madrid, Spain	-	49.00%	49.00%	-	49.00%	49.00%	13,547	12,447	52,018	24,371	19,324	6,765	Construction and operation of the Córdoba–Campo Maior natural gas pipeline.
Setgás - Gas Production and Distribution Company, S.A. (c)	Setúbal, Portugal	-	45.00%	45.00%	-	45.00%	45.00%	5,207	3,082	106,024	94,454	32,188	4,720	Production and distribution of natural gas and its by-product gases Substitutes
National Fuel Company - Enacol, S.A.R.L (a)	Mindelo, Cape Verde	-	32.50%	32.50%	-	32.50%	32.50%	6,644	5,592	41,159	20,718	38,243	2,249	Hydrocarbon sales and related activities
Tagusgás - Empresa de Gás do Vale do Tejo, S.A. (i)	Santarém, Portugal	-	41.27%	41.27%	-	41.27%	41.27%	1,715	1,604	43,363	39,208	10,173	267	Production and distribution of natural gas and other piped fuels.
Metragaz, S.A. (d)	Tangier, Morocco	-	26.99%	26.99%	-	26.99%	26.99%	1,567	1,399	9,175	3,371	1,361	1,373	Construction, maintenance, and operation of the Maghreb-Europe gas pipeline.
Terparque - Fuel Storage, Lda (j)	Angra do Heroism Portugal	-	23.50%	23.50%	-	23.50%	23.50%	880	881	3,823	72	28	4	Construction and/or operation of one or more storage facilities storage facilities, for both liquid fuels and liquefied petroleum gases, and their respective filling stations
Brisa Access, S.A. (a)	Cascais, Portugal	-	7.50%	7.50%	-	7.50%	7.50%	393	181	10,490	5,245	21,269	2,677	The provision of any assistance and support services to motorists, the provision of services for the supply, installation, commissioning, and maintenance of electronic equipment and systems for use in road infrastructure, and the
Número Um - Reparação de Automóveis, Lda. (a)	Lisbon Portugal	-	49.00%	49.00%	-	49.00%	49.00%	340	300	2,032	1,322	12,263	120	Maintenance and repair of automobiles and the sale of parts and auto accessories.
Gasfomento Sur Andalucia, S.A. (b)	Seville, Spain	-	30.00%	30.00%	-	40.00%	40.00%	95	20	624	302	195	(137)	Gas installation and maintenance, implementation of energy management projects, supervision and periodic inspection services for gas installations, and construction and maintenance of gas networks.
Enerfin - Energy Efficiency Company, S.A. (a)	Porto Portugal	-	25.12%	25.12%	-	25.12%	25.12%	51	142	563	-	156	143	Conducting activities in the field of energy efficiency and productivity.
TIGS - Engineering and Maintenance, S.A. (b)	Sintra Portugal	-	48.70%	48.70%	-	48.70%	48.70%	32	29	151	85	159	5	Provision of services in the fields of engineering and industrial maintenance.
Imopetro (k)	Maputo, Mozambique	-	22.22%	22.22%	-	22.22%	22.22%	10	10	n/a	n/a	n/a	n/a	Provision of petroleum supply services
Portgás - Gas Production and Distribution Company, S.A. (g)	Matosinhos, Portugal	-	-	-	12.62%	34.01%	46.63%	-	5,528	-	-	-	-	Production and Distribution of Natural Gas and Other Piped Gases piped fuels.
Gasfomento Energia, S.A. (b) (h)	Seville, Spain	-	22.00%	22.00%	-	22.00%	22.00%	-	10	66	108	-	(79)	Miscellaneous work related to audits, inspections, economic feasibility and energy efficiency studies, preparation of procedure manuals, technical assistance for facilities and equipment, and operational testing.
Ecogen - Decentralized Energy Services, S.A. (f) (h)	Bucelas, Portugal	-	35.00%	35.00%	-	35.00%	35.00%	-	-	365	1,154	17	(225)	Provision of import and export services, sales and supply of low-voltage electrical power generation equipment, as well as the provision of related services
Central E, S.A. (h)	Lisbon Portugal	20.30%	-	20.30%	-	20.30%	20.30%	-	-	1,018	1,143	1,037	(2,774)	Provision of information and e-commerce services e-commerce
Energin - Electricity and Heat Production Company, S.A. (f) (h)	Lisbon Portugal	-	35.00%	35.00%	-	35.00%	35.00%	-	-	58,057	41,149	24,043	1,146	Production through cogeneration and sale of electricity and heat

COMPANY	Headquarters City	Country	Percentage of Capital Held 2005 Direct	2005 Indirect	2005 Total	2004 Direct	2004 Indirect	2004 Total	Balance sheet total 2005	Balance sheet total 2004	Financial information for the associate Assets	Liabilities	Revenue	Result Fiscal Year	Main Activity
Número Um - Auto Repair, Lda.	Lisbon	Portugal	-	49.00%	49.00%	-	49.00%	49.00%	186	186	2,167	1,343	4,251	(114)	Auto repair and related activities
Setgás - Gas Production and Distribution Company, S.A.	Setúbal	Portugal	-	45.00%	45.00%	-	45.00%	45.00%	141	141	163,008	142,555	33,996	4,090	Operation, construction, and maintenance of regional natural gas distribution networks
Sonangalp - Fuel Distribution and Marketing Company, Lda (e)	Luanda	Angola	-	49.00%	49.00%	-	49.00%	49.00%	-	-	35,655	38,898	29,321	(90)	Distribution and sale of liquid fuels, lubricants, and other petroleum products; and operation of gas stations, service stations, auto repair shops, and other related businesses
Fast Access - Information and E-Commerce Operations and Services, S.A. (a) (m)	Oeiras	Portugal	-	(m)	(m)	-	33.33%	33.33%	-	26	2,226	1,730	1,457	(147)	Conducting operations and providing services related to information and e-commerce for mobile users, as well as the provision of services for the management and operation of online commerce
Petrogal Cabo Verde, Lda	(m)	(m)	-	(m)	(m)	-	(m)	(m)	-	49	n/a	n/a	n.a	n/a	(c)
Petrogal Guinea-Bissau and subsidiaries:	(m)	(m)	-	(m)	(m)	-	(m)	(m)	-	1,234	n/a	n/a	n/a	n/a	(c)
Petrogal Angola and subsidiaries:	(m)	(m)	-	(m)	(m)	-	(m)	(m)	-	295	n.a	n/a	n.a	n/a	(c)
Asa - Aviation Supply and Services, Lda.	(m)	(m)	-	(m)	(m)	-	(m)	(m)	-	7	n/a	n/a	n.a	n/a	(c)
										84,544	77,622				
less: Provision for joint liabilities (Note 26)										(5,330)	(4,290)				
										79,214	73,332				

(a) Equity interests held by Petróleos de Portugal – Petrogal, S.A.
(b) Equity Interests Held by Gasfomento – Sistemas e Instalações de Gás, S.A.
(c) Stake held by GDP Distribuição, SGPS, S.A. and Petróleos de Portugal – Petrogal, S.A.
(d) Stake held by Transgás – Sociedade Portuguesa de Gás Natural, S.A.
(e) Stake held by Petrogal Angola, Lda.
(f) Interest held by Galp Power, SGPS, S.A.
(g) The stake held by GDP Distribuição, S.A. and GDP, SGPS, S.A. was sold during the fiscal year ended December 31, 2005
(h) As of December 31, 2005, the allowance for equity interests in associates, representing the Group's joint and several liability to associates that reported equity as follows (Note 26): negative equity, is detailed

	2005	2004
Central E, S.A.	2,553	1,990
Energin - Electricity and Heat Production Company, S.A.	678	1,022
Gasfomento Energia, S.A.	10	-
Ecogen - Decentralized Energy Services, S.A.	276	214
Fast Access - Information and Operations Services and E-Commerce, Inc.	-	1,064
Sonangalp - Distribution and Marketing Company for Fuel Distribution and Marketing, Lda	1,813	-
	5,330	4,290

(i) Stake held by GDP Distribuição, SGPS, S.A.
(j) Stake held by Saaga – Sociedade Açoreana de Armazenagem de Gás, S.A.
(k) Interest held by Petrogal Moçambique, Lda.
(m) Companies excluded from consolidation in December 2004 and included in December 2005 (Note 3).

The changes in the line item "Investments in Associates" for the fiscal year ended December 31, 2005, were as follows:

Balance as of January 1, 2005, excluding translation reserves	80,646
Currency translation reserves allocated to the beginning balance	(3,024)
Balance as of January 1, 2005	77,622
Change in the scope of consolidation	(1,689)
Balance as of January 1, 2005	75,933
Effect of applying the equity method to the results for the fiscal year:	
Positive	42,226
Negative	(73)
	42,153
Effect of applying the equity method on other changes in the subsidiaries' equity:	
Foreign currency translation adjustments	
Positive	5,845
Negative	(7)
	5,838
Dividends distributed:	
Gasoduto Al-Andaluz, S.A.	(2,707)
Extremadura Gas Pipeline, S.A.	(2,215)
Metragaz, S.A.	(234)
EMPL - Europe Maghreb Pipeline, Ltd.	(28,038)
National Fuel Company - Enacol, S.A.R.L.	(709)
	(33,903)
Reimbursement of the portion of the ancillary payment made by Petróleos de Portugal - Petrogal, S.A. to Enerfin - Energy Efficiency Company, S.A.	(126)
Capital increase in Gasfomento Sur Andalucia, S.A.	87
Sale of the equity interest in Portgás - Sociedade de Produção e Distribuição de Gás, S.A.	(5,528)
Other transactions	91
Balance as of December 31, 2005	84,545
Currency translation reserves allocated to the ending balance	(2,814)
Balance as of December 31, 2005, excluding translation reserves	81,731

Acquisitions during fiscal year 2005 correspond to a capital increase of 87 million euros related to the equity interest held by Gásfomento – Sistemas e Instalações de Gás, S.A. in its associate Gasfomento Sur Andalucia, S.A. However, the investment in the associate Gasfomento Sur Andalucia, S.A. decreased by 10% compared to the previous year, because Gasfomento, Sistemas e Instalações de Gás, S.A. participated in the capital increase in a proportion lower than its percentage of ownership.

In fiscal year 2005, GDP – Gás de Portugal, SGPS, S.A. and GDP Distribuição, SGPS, S.A. sold their holdings in Portgás – Sociedade de Produção e Distribuição de Gás, S.A., which had been reported under the heading "Financial Interests in Associates" in the amount of 5,528 million euros, for a total amount of 86,400 mEuros (including the repayment of advances and capitalized interest in the amount of 26,347 mEuros, which was subsequently adjusted for repayments of interest and advances in the amount of

1,426 mEuros), thereby generating a capital gain of 54,525 mEuros, which was recognized under the line item for income from investments in associated companies in the income statement.

Of the total dividends received in 2005 amounting to 39,339 mEuros, 33,903 mEuros and 5,436 mEuros relate to associated companies and subsidiaries (Note 5), respectively.

5. FINANCIAL INTERESTS IN SUBSIDIARIES

The equity investments in subsidiaries, their registered offices, and the percentage of equity held as of December 31, 2005, and December 31, 2004, are as follows:

	Registered Office		Percentage of Equity Held		Book Value	
COMPANY	City	Country	2005	2004	2005	2004
ONI SGPS, S.A.	Oeiras	Portugal	4.10%	4.10%	19,865	19,865
CLH - Hydrocarbon Logistics Company	Madrid	Spain	5.00%	5.00%	62,594	59,260
PME Capital - Portuguese Venture Capital Company, S.A.	Porto	Portugal	1.82%	1.82%	499	499
PME Investimentos - Investment Company, S.A.	Lisbon	Portugal	1.82%	1.82%	499	499
Agene - Energy Agency, S.A.	Amadora	Portugal	10.98%	10.98%	114	114
Omegás - Maghreb-Europe Gas Pipeline Study Society	Tangier	Morocco	5.00%	5.00%	35	35
Ambélis - Agency for the Economic Modernization of Lisbon, S.A.	Lisbon	Portugal	2.00%	2.00%	20	20
Vigo Financial Club	Vigo	Spain	-	-	19	19
OEINERGE - Oeiras Municipal Energy and Environment Agency	Oeiras	Portugal	1.45%	1.45%	1	1
CCCP - Petrogal Employee Consumer Cooperative, CRL	Lisbon	Portugal	0.07%	0.07%	7	7
Other					24	27
					83,677	80,346
Impairments of Investee Companies						
ONI SGPS, S.A.					(19,865)	(19,865)
Ambélis - Agency for the Economic Modernization of Lisbon, S.A.					(7)	(7)
PME Capital - Portuguese Venture Capital Company, S.A.					(52)	(52)
PME Investimentos - Investment Company, S.A.					(145)	(145)
					(20,069)	(20,069)
					63,608	60,277

Investments in subsidiaries were recorded at acquisition cost, with the exception of the investment in CLH – Compañia Logistica de Hidrocarburos, which, although the Group holds only 5% of the capital, is subject to significant influence and is valued as described in Note 2.2(c)).

The changes in the "Investments in Subsidiaries" account during the fiscal year ended December 31, 2005, were as follows:

Opening balance as of January 1, 2005	60,277
Effect of applying the equity method to the results for the fiscal year:	
Positive	7,781
Dividends distributed:	
CLH - Hydrocarbon Logistics Company	(5,436)
CLH - Compañia Logistica de Hidrocarburos Sets Purchase Price	986
Closing balance as of December 31, 2005	63,608

The amount of 5,436 thousand euros in distributed dividends was received in full during fiscal year 2005 (Note 4).

Pursuant to the purchase agreement entered into for the acquisition of the equity interest held in CLH - Compañia Logistica de Hidrocarboros, S.A., the cost of the investment is reviewed annually, up to 5 years from the contract date, based on actual sales. The amount paid during the fiscal year in addition to the purchase cost totals 986 mEuros.

6. OPERATING INCOME

The following is a breakdown of the Group's operating income for the fiscal years ended December 31, 2005, and December 31, 2004:

ITEMS	2005	2004
Revenue from sales:		
of merchandise	4,026,310	3,221,471
from products	6,959,082	5,905,999
	10,985,392	9,127,470
Revenue from services rendered	151,916	145,151
Other operating income: Supplementary revenue	33,915	38,091
Gains on Fixed Assets	4,780	5,037
Operating subsidies	5,471	1,560
Other	39,200	34,578
	83,366	79,266
	11,220,674	9,351,887

Fuel sales include the Petroleum Products Tax (ISP). The geographic breakdown of sales is presented in Note 8.

The "Supplementary Revenue" line item primarily includes revenue from operating fees, advertising space fees, and automatic car wash fees, among others, charged to retailers for the use of the GALP brand.

7. OPERATING EXPENSES

The results for the fiscal years ended December 31, 2005, and 2004 were affected by the following operating expense items:

ITEMS	2005	2004
Inventories consumed and sold:		
Merchandise	2,285,841	1,844,022
Raw materials and supplies	4,798,149	3,528,726
Petroleum tax	2,290,837	2,313,446
Change in production	(203,185)	(99,669)
Impairments	(9,550)	11,379
	9,162,092	**7,597,904**
Materials and services consumed:		
Subcontracts	13,385	8,484
Electricity, Water, and Communications	22,254	21,233
Cleaning and security	9,253	7,600
Fuel	1,359	556
Office supplies	1,541	1,398
Rent and leases	51,537	43,556
Maintenance and repairs	57,475	67,525
Advertising	38,091	31,121
Travel and Lodging	8,130	7,653
Staff transportation	971	934
Freight transport	70,673	61,594
Insurance	37,343	30,203
IT Services	28,290	24,561
Studies and projects	11,239	9,381
Commissions	11,007	9,700
Fees and litigation	2,665	4,607
Legal services	1,311	1,026
Consulting services	3,968	3,277
Meter reading, billing, and collection services	6,145	5,463
Technical assistance and inspection services	4,776	3,617
Storage and filling	32,220	27,790
Port services and fees	15,948	12,953
Other specialized services	26,042	22,527
Other expenses	69,951	61,618
	525,574	**468,377**
Personnel expenses:		
Compensation for corporate officers	3,886	3,699
Employee compensation	173,903	168,919
Social security contributions	37,695	34,926
Retirement benefits—pensions and insurance (Note 24)	39,789	31,079
Other insurance	9,008	7,168
Other expenses	5,353	5,106
	269,634	**250,897**
Amortization and Depreciation Expenses:		
Amortization of tangible fixed assets (Note 13)	272,068	270,044
Amortization of intangible fixed assets (Note 13)	34,728	24,194
	306,796	**294,238**
Provisions and Impairment of Accounts Receivable		
Provisions (Note 26)	12,058	11,145
Impairment losses on accounts receivable from customers (Note 16)	7,618	5,103
Impairment losses on other receivables (Note 15)	505	(1,678)
	20,181	**14,570**
Other operating expenses		
Other taxes	8,662	7,546
Other operating costs	64,986	67,941
	73,648	**75,487**

8. INFORMATION BY SEGMENT

Business Segments

For strategic reasons, the group is currently organized into four business segments, comprising the following business units:

- Natural Gas Supply and Transmission;
- Natural Gas Distribution;
- Refining and Distribution of Petroleum Products
- Exploration and Production
- Other

With regard to the "Other" business segment, the group included the holding company GDP – Gás de Portugal, SGPS, S.A. and a plasticizers business, Driftal - Plastificantes de Portugal, S.A.

The following financial information relates to the segments identified above, as of December 31, 2005, and 2004:

	Natural Gas Procurement and Transportation		Natural Gas Distribution		Refining and Distribution of Petroleum Products		Exploration and Production		Electricity		Other		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Gross Margin	**255,063**	**189,616**	**137,721**	**124,699**	**1,493,767**	**1,315,534**	**62,080**	**42,352**	**8,984**	**4,668**	**100,372**			**80,385**	**(82,771)**	**(82,535)**	**1,975,216**	**1,674,717**
Sales and Services Rendered	956,516	705,144	226,066	196,523	10,029,801	8,394,753	66,638	42,575	24,780	14,241	101,038			81,536	(267,531)	(162,151)	11,137,308	9,272,621
Inter-segment	115,904	77,889	10	13	4,046	5,144	66,582		-	-	-	80,989	79,106	(267,531)	(162,151)		-	-
External	840,612	627,255	226,056	196,510	10,025,754	8,389,609			57	42,575	24,780	14,241		20,049	2,431	-	-	11,137,308	9,272,621
CMVMC	(701,453)	(515,528)	(88,345)	(71,824)	(8,536,033)	(7,079,219)	(4,558)			(223)	(15,796)	(9,573)		(666)	(1,151)	184,760	79,615	(9,162,092)	(7,597,904)
Inter-segment	-	-	(84,163)	(66,022)		(84,819)	(3,321)		-		-	(15,778)	(9,573)	-	(699)	184,760	79,615		-	-
External	(701,453)	(515,528)	(4,182)	(5,802)	(8,451,215)	(7,075,897)	(4,558)			(223)	(18)		-	(666)	(452)	-		-	(9,162,092)	(7,597,904)
Yield Spread	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recipes	**5,305**	**4,137**	**7,191**	**6,709**	**91,526**	**90,842**	**395**	**79**	**429**	**1,213**		**54,415**	**13,641**	**(75,894)**	**(37,357)**		**83,366**	**79,266**
Inter-segment	2,920	2,721	3,119	2,882	18,419	19,730	-	-	-	-	-	51,436	12,024	(75,894)	(37,357)		-	(0)
External	2,385	1,416	4,072	3,827	73,107	71,113	395	79	429	1,213		2,978	1,617	-	-		83,366	79,266
Variable Costs	-	-	**(31,215)**	**(28,100)**	**(310,499)**	**(270,458)**	**(16,442)**	**(14,963)**	-	-		**(12,752)**	-	**11,422**	**11,412**		**(359,486)**	**(302,109)**
Intersegment	-	-	(11,422)	(11,412)	-	-	-	-	-	-	-	-	-	11,422	11,412		-	-
External	-	-	(19,793)	(16,688)	(310,499)	(270,458)	(16,442)	(14,963)	-	-	-	(12,752)	-	-	-		(359,486)	(302,109)
Fixed Costs	**(42,012)**	**(47,685)**	**(31,464)**	**(33,199)**		**(426,109)**	**(409,901)**	**(5,852)**	**(1,960)**	**(5,732)**	**(3,083)**	**(143,082)**	**(105,305)**		**147,243**	**108,480**	**(507,008)**	**(492,652)**
Operating Expenses	**(28,866)**	**(32,815)**	**(9,184)**	**(9,909)**		**(205,256)**	**(209,692)**	**(5,291)**	**(1,638)**	**(5,470)**	**(2,896)**	**(130,550)**		**(90,760)**	**147,243**	**105,954**	**(237,374)**	**(241,755)**
Intersegment External	(11,984)	(12,388)	(470)	(268)		(97,929)	(64,416)	(904)	(440)	(1,048)	(822)		(34,908)	(27,620)	147,243	105,954	-	-
Personnel Expenses	(16,882)	(20,427)	(8,714)	(9,641)		(107,327)	(145,276)	(4,387)	(1,198)	(4,422)	(2,074)		(95,642)	(63,139)	-	-	(237,374)	(241,755)
	(13,146)	**(14,870)**	**(22,280)**	**(23,290)**		**(220,853)**	**(200,209)**	**(560)**	**(322)**	**(263)**	**(187)**		**(12,532)**	**(14,545)**	**-**	**2,526**	**(269,634)**	**(250,897)**
EBITDA	**218,356**	**146,068**	**82,233**	**70,109**		**848,685**	**726,018**	**40,181**	**25,508**	**3,680**	**2,798**			**(1,047)**	**(11,279)**		**-**	**- 1,192,088**	**959,222**
Non-Disbursable Expenses	**(32,072)**	**(33,038)**	**(23,715)**	**(20,023)**	**(246,794)**	**(205,633)**	**(21,980)**	**(44,453)**	**(2,926)**	**(2,843)**				**(1,852)**	**(2,818)**		**-**	**- (329,339)**	**(308,808)**
Amortization and Depreciation	(31,239)	(30,954)	(22,486)	(19,885)	(229,539)	(194,096)	(18,668)	(44,020)	(2,899)	(2,917)				(1,965)	(2,366)		-	- (306,796)	(294,238)
Provisions and Impairments on Accounts Receivable	(833)	(2,084)	(1,229)		(138)	(17,255)	(11,537)	(3,312)		(433)	(27)	74		113	(452)		-	- (22,543)	(14,570)
Other Expenses	-	-	-	-	-	-	-	-	-	-	-	-		-	-		-	-	-	-
Segment Results	**186,284**	**113,030**	**58,518**	**50,086**		**601,891**	**520,385**	**18,201**	**(18,945)**		**755**	**(45)**	**(2,899)**	**(14,097)**		**-**	**-**	**862,749**	**650,414**
Unallocated Company Revenues																				
Company Expenses Not Allocated																				
Operating Results	**186,284**	**113,030**	**58,518**	**50,086**		**601,891**	**520,385**	**18,201**	**(18,945)**		**756**	**(45)**	**(2,899)**	**(14,097)**		**-**	**-**	**862,749**	**650,414**
Financial Results	16,847	3,415	27,751	(9,943)		(26,129)	(35,655)	2,212	284	(1,337)	(1,972)		11,300	(2,959)		-	-	30,643	(46,832)
Income before extraordinary items, taxes, and minority interests	**203,131**	**116,445**	**86,269**	**40,143**		**575,761**	**484,730**	**20,412**	**(18,661)**		**(581)**	**(2,017)**	**8,399**	**(17,056)**		**-**	**-**	**893,392**	**603,582**
Income Tax	(42,663)	(24,072)	(12,741)	(9,737)		(133,835)	(116,819)	(53)	(16)	251	373		205	4,484		-	-	(188,836)	(145,786)
Minority Interests	(1,793)	(1,782)	(3,070)	(2,411)		944	(624)	-	-	(487)	69		506	390		-	-	(3,899)	(4,358)
NET INCOME FOR THE YEAR	**158,675**	**90,591**	**70,458**	**27,995**		**442,871**	**367,287**	**20,360**	**(18,677)**	**(817)**	**(1,575)**			**9,110**	**(12,182)**		**-**	**-**	**700,657**	**453,438**

OTHER INFORMATION																
Segment Assets (1)																
Current Assets	350,567	306,663	72,994	74,326	2,266,992	1,902,346	25,024	108,358	11,458	10,743	258,927	350,458	-397,899	-602,806	2,588,063	2,150,088
Fixed assets (2)	805,993	826,173	615,479	584,798	1,246,908	1,314,093	247,480	191,977	24,430	26,622	2,256	4,254	0	-4,614	2,942,546	2,943,303
Financial Investments—Equity Interests (3)	68,849	58,305	5,666	7,948	73,584	70,153	1,383	338	-	-	122,769	1,155	-124,098	0	148,153	137,899
Other Non-Current Assets	64,096	82,318	23,504	42,201	158,636	136,630	258	151	13,057	13,004	14,928	11,982	-18,968	-25,195	255,510	261,091
Company Assets Not Allocated																
Total Consolidated Assets	**1,289,505**	**1,273,459**	**717,643**	**709,273**	**3,746,120**	**3,423,222**	**274,145**	**300,824**	**48,945**	**50,369**	**398,880**	**367,849**	**-540,965**	**-632,615**	**5,934,272**	**5,492,381**
Segment Liabilities																
Current liabilities	192,408	126,251	183,925	363,641	1,668,873	1,681,675	27,490	87,486	7,208	9,093	245,750	349,808	-390,108	-519,613	1,935,546	2,098,341
Provisions	9,181	8,963	11,515	10,491	48,842	48,473	0	0	955	1,235	29,995	1,978	-27,777	-563	72,711	70,577
Other Non-Current Liabilities	595,390	635,133	343,072	214,489	616,786	520,586	5,638	3,332	39,164	42,178	63,194	174,036	-123,080	-112,439	1,540,164	1,477,315
Company Liabilities Not Allocated																
	796,979	**770,347**	**538,512**	**588,621**	**2,334,501**	**2,250,734**	**33,128**	**90,818**	**47,327**	**52,506**	**338,939**	**525,822**	**-540,965**	**-632,615**	**3,548,421**	**3,646,233**

(1) Net amount.
(2) In Tangible and Intangible Fixed Assets.
(3) Using the equity method.
(4) During the fiscal year.

Geographic segments

Revenue from sales and services rendered and total assets for the fiscal years ended December 31, 2005, and 2004 relate primarily to operations in Portugal. Exploration and production activities are primarily conducted in Angola. In addition, there is a portion of the business located in Spain, relating to the distribution and sale of fuels, for which revenue from sales and services rendered and total assets for the fiscal years ended December 31, 2005, and 2004 are as follows:

Geographic Area	Revenue from sales and Revenue from services		Total assets	
	2005	2004	2005	2004
Spain	2,243,489	1,762,309	722,668	552,684

9. FINANCIAL INCOME AND EXPENSES

The breakdown of the amounts reported for financial income and expenses for the fiscal years ended December 31, 2005, and 2004 is as follows:

	2005	2004
Financial income:		
Interest on bank deposits	5,033	3,404
Other financial income	86	2,660
Interest earned from related companies (Note 29)	3,837	5,156
	8,956	11,220
Financial expenses		
Interest on loans and bank overdrafts	(41,477)	(46,312)
Capitalized interest on fixed assets	1,905	1,844
Securitization	(6,353)	(6,190)
Other financial costs	(14,034)	(16,573)
Interest incurred related to related companies (Note 29)	(2,059)	(505)
	(62,018)	(67,736)

In accordance with Note 2.14, the Group's policy is to capitalize interest incurred on borrowings in tangible and intangible fixed assets under construction. The percentage of interest incurred that is capitalized is proportional to the amount of the investment made, in accordance with the guidelines set forth in the regulations governing borrowing costs.

During the fiscal year ended December 31, 2005, the Group capitalized the amount of 1,905 million euros under the heading "Fixed Assets in Progress," related to financial expenses incurred on loans to finance investments in tangible and intangible fixed assets during their construction period.

10. INCOME TAX

As of December 31, 2001, the Group's companies headquartered in mainland Portugal began to be taxed under the special corporate group taxation regime, with the taxable income calculated at Galp Energia, SGPS, S.A., with the exception of the following companies: Beiragás - Companhia de Gás das Beiras, S.A.; Duriensegás – Sociedade de Distribuição de Gás Natural do Douro, S.A.; Lusitaniagás - Companhia de Gás do Centro, S.A.; Gasoduto de Campo Maior - Leiria - Braga, S.A.; Gasoduto Braga - Tuy, S.A.; Galp Exploração e Produção Petrolífera, Lda.; Sacor Marítima, S.A.; S.M. Internacional – Transportes Marítimos, LDA.; Gasmar – Transportes Marítimos, LDA.; TRIPUL – Ship Management Company, LDA.; CLCM – Madeira Fuel Logistics Company, S.A.; CLC – Fuel Logistics Company, S.A.; Galp Madeira - Distribution and Marketing of Fuels and Lubricants, Lda.; Galp Azores – Fuel and Lubricant Distribution and Sales, Lda.; SAAGA – Azorean Gas Storage Company, S.A.; Liquid Fuels, Lda.; Gasinsular – Atlantic Fuels, S.A.; Sempre a Postos – Food and Household Goods, Lda.; Sopor – Fuel Distribution Company, S.A.; Caiageste – Service Area Management, Lda; Probigalp – Bituminous Binders, S.A.; Blue Flag Navigation – Marine Transport, Lda; FastAcess – E-Commerce Operations and Services, S.A.; A.S.A. – Aviation Supply and Services, Lda; Carriço Cogeração – Electricity and Heat Generation Company, S.A.; Powercer – Vialonga Cogeneration Company, S.A.
However, the estimated income tax for the Company and its subsidiaries is recorded based on their taxable income, which for the fiscal year ended December 31, 2005, represents a tax liability of 53,534 thousand euros.

The following circumstances may affect future income tax liabilities:

i) Under current law, tax returns are subject to review and correction by the tax authorities for a period of four years (ten years for Social Security through 2000, inclusive, and five years from 2001 onward), except when tax losses have been incurred, tax benefits have been granted, or audits, claims, or appeals are pending; in such cases, depending on the circumstances, the time limits are extended or suspended. During the 2001 fiscal year, an audit was conducted by the tax authorities at Petrogal's request; the proposed adjustments are summarized in point ii) below. Additionally, during the 2004 fiscal year, Petrogal's tax returns for the fiscal years 2000 through 2002 were subject to an audit by the tax authorities, whose proposed adjustments are summarized in point iii) below. The tax returns of the Group's companies for the fiscal years 2002 through 2005 may still be subject to review. Galp's management believes that the adjustments resulting from reviews or audits by the tax authorities of those tax returns will not have a material effect on the consolidated financial statements as of December 31, 2005.

ii) As mentioned in point i) above, during the 2001 fiscal year, the tax authorities conducted an audit of Petrogal's corporate income tax returns for the 1997, 1998, and 1999 fiscal years, which resulted in proposed adjustments to the taxable income reported by Petrogal in the amounts of 68 mEuros, mEuros 429, and mEuros 3,361, respectively. As Petrogal did not agree with these adjustments, it filed administrative appeals for the 1998 and 1999 fiscal years, contesting the corrections imposed by the tax authorities; Petrogal's management is convinced that the grounds presented in those appeals are valid. Consequently, the financial statements as of December 31, 2005, do not include any provision to cover these contingencies.

iii) The Group's management believes that the adjustments resulting from reviews/audits by the tax authorities of those tax returns will not have a material effect on the financial statements as of December 31, 2005.

iv) As mentioned in point i) above, during the 2004 fiscal year, the tax authorities conducted an audit of the corporate income tax returns for the 2000, 2001, and 2002 fiscal years, which resulted in proposed adjustments to the taxable base reported by Petrogal in the amounts of 740, 10,806, and 2,479, respectively, and which to date have resulted in additional corporate income tax assessments totaling 11,865 (of which 8,371 was assessed in January 2006), all of which have been paid in full. However, to date, Petrogal continues to await the issuance of other assessments related to the aforementioned corrections. Accordingly, and in accordance with the principle of prudence, Petrogal has established a provision to cover these assessments in the amount of 3,677 mEuros (Note 26). Additionally, during the 2005 fiscal year, Petrogal recognized an increase in costs of 1,261 mEuros related to compensatory interest. As Petrogal partially disagrees with the tax assessments to which it was subject, it will file administrative appeals regarding them.

v) Under current legislation, tax losses may be carried forward for a period of six years following their occurrence and may be deducted from taxable income generated during that period. With regard to the tax losses of Group companies headquartered in Spain, the carryforward period for tax losses is 10 fiscal years.
As of December 31, 2005, carryforward tax losses amounted to approximately 42,064 thousand euros. The Group decided to recognize deferred tax assets for carryforward tax losses only for those subsidiaries where there is a reasonable expectation of recovery. Accordingly, the Group recognized only 9,084 thousand euros in deferred tax assets.

Tax Losses	Amount	Expiration Year for use	Recorded Asset ID
Generated in fiscal year 1997	1,121	2007	392
Generated in fiscal year 2000	11,906	2006	55
Generated in fiscal year 2000	12,628	2010	4,420
Generated during fiscal year 2001	3,954	2007	-
Generated in fiscal year 2002	59	2008	-
Generated in fiscal year 2003	62	2009	-
Generated in fiscal year 2003	1,422	2013	498
Generated in fiscal year 2004	286	2010	-
Generated in fiscal year 2004	2,575	2014	302
Generated in fiscal year 2005	8,051	2015	3,417
	42,064		**9,084**

vi) Under current tax legislation, gains and losses resulting from the consolidation of the results of group companies and associates using the equity method are not considered income or expenses, respectively, for corporate income tax purposes in the fiscal year in which they are recognized for accounting purposes; dividends are taxed in the fiscal year in which they are distributed. No deferred tax liabilities related to undistributed earnings of subsidiaries were recorded.

Income taxes recognized for the 12-month periods ended December 31, 2005, and 2004 are detailed as follows:

	2005	2004
Current Tax	140,057	121,503
Excess of prior year tax estimate	(8,124)	(6,529)
Deferred Tax	56,903	30,812
	188,836	145,786

The following table presents the reconciliation of current income tax for the years ended December 31, 2005, and December 31, 2004, and a breakdown of deferred taxes:

	2005	2004
Income Before Taxes in accordance with IFRS/IAS:	893,392	603,582
Adjustment to POC standards	(334,046)	(160,515)
Pre-Tax Income in accordance with POC standards (Restated)	559,346	443,067
Adjustment for tax purposes (cumulative effect)	872,664	650,008
Income for tax purposes before taxes	1,432,010	1,093,075
Additions to taxable income		
Provisions not recognized for tax purposes	93,480	95,075
Depreciation not recognized for tax purposes	7,386	6,721
Non-deductible social benefit contributions	13,498	18,780
Increases in Equity	34,166	20,136
Other Increases	276,377	40,942
Additions to taxable income		
Reduction in Taxable Provisions	(61,614)	(62,266)
Excess tax estimate	(8,720)	(6,655)
Decreases in Equity	(911,542)	(674,735)
Other deductions	(345,122)	(49,481)
Deduction of tax losses (negative results for tax purposes)	(4,725)	(2,885)
Taxable Income	525,194	478,707
Corporate Income Tax Settled	128,296	111,037
Surcharge	11,275	9,703
Autonomous taxes	486	763
Estimated current tax for the fiscal year	140,057	121,503
Deferred tax and excess of estimate for the fiscal year	48,779	24,283
Income tax	188,836	145,786
Effective tax rate	21.14%	24.15%

Pursuant to Article 15 of Decree-Law No. 35/2005 of February 17, for tax purposes, specifically for the calculation of taxable income, entities that prepare their financial statements in accordance with International Financial Reporting Standards are required to maintain their accounting records in accordance with Portuguese accounting standards and other applicable legal provisions for their respective sector of activity.

Deferred Tax

	Deferred Taxes 2005		Deferred taxes 2004						
			Assets				Liabilities		
	Assets	Liabilities	POC	AJE	Reexp	IFRS/IAS restatement	POC	AJE	Reexp	IFRS/IAS
Accounting revaluations	-	5,898	-	-		-	7,312	-		7,312
Provisions not recognized for tax purposes	49,911	-	32,459	1,086		33,545	-	-		-
Tax loss carryforwards	9,084	-	5,385	282		5,667	-	-		-
Pension benefits	54,284	5,500	50,506	-		50,506	5,061	-		5,061
Adjustments to accruals and deferrals	11,801	-	8,108	4,372		12,480	-	-		-
Reinvested capital gains	-	1,876	-	-		-	1,113	-		1,113
LIFO/FIFO Adjustments	-	110,263	-	-		-	-	38,027		38,027
Financial instruments	1,138	-	-	2,875		2,875	-	997		997
Adjustments to tangible and intangible assets	26,237	-	3,529	25,160		28,689	-	-		-
Economic double taxation	4,952	-	-	-		-	-	-		-
Other	1,517	8,738	3,373	927		4,300	1,398	-		1,398
	158,924	**132,275**	**103,360**	**34,702**		**138,062**	**14,884**	**39,024**		**53,908**

	Deferred Taxes 2005		Deferred Taxes 2004	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Opening Balance	**138,062**	**53,908**	**131,522**	**17,712**
Effect on income:				
Accounting revaluations	-	(1,414)	-	(1,726)
Provisions not recognized for tax purposes	16,366	-	13,126	-
Tax loss carryforwards	3,417	-	(335)	-
Pension benefits	3,778	439	-	-
Adjustments to accruals and deferrals	(679)	-	-	385
Reinvested capital gains	-	763	-	(190)
LIFO/FIFO adjustments	-	72,236	-	38,800
Financial instruments	(1,737)	(997)	-	(636)
Adjustments to tangible and intangible assets	(2,453)	-	(4,979)	-
Economic double taxation	4,952	-	-	-
Other	(2,182)	7,340	(2,428)	(437)
	21,463	**78,367**	**5,384**	**36,196**
Effect on Equity:				
Financial derivatives	(602)	-	1,156	-
Other	-	-	-	-
Closing Balance	**158,923**	**132,275**	**138,062**	**53,908**

11. EARNINGS PER SHARE

Earnings per share as of December 31, 2005, and 2004 were as follows:

EARNINGS PER SHARE	**2005**	**2004**
Earnings		
Figures used to calculate earnings per share (net income for the fiscal year)	700,657	453,438
Number of shares		
Weighted-average number of shares for the purpose of calculating net earnings per share (Note 20)	165,850,127	165,850,127
Basic earnings per share (amounts in euros):	4.22	2.73

Since there are no circumstances giving rise to dilution, diluted net income per share is equal to basic net income per share.

12. GOODWILL

The difference between the amounts paid for the acquisition of equity interests and the fair value of the acquired companies' equity was, as of December 31, 2005, as follows:

			Proportion of equity Acquired as of the acquisition date		Consolidation Differences	
Subsidiaries	Year of Acquisition	Cost of Acquisition	%	Amount	2005	2004
Petroleos de Valencia, S.A.	2005	13,937	100.00%	6,099	7,838	-
Galpgest - Petrogal Estaciones de Servicio, S.A.	2003	16,290	100.00%	9,494	6,795	6,795
Transgás-Sociedade Portuguesa de Gás Natural, S.A.	a)	a)	a)	a)	5,063	5,063
Gasinsular - Combustíveis do Atlântico, S.A.	2005	50	100.00%	(353)	403	-
Saaga - Azorean Gas Storage Company, S.A.	2005	858	67.65%	580	278	-
Lusitaniagás-Companhia Gás do Centro, S.A.	2002 and 2003	365	0.871%	207	99	99
Beiragás-Companhia de gás das Beiras S.A.	2003	55	0.48%	51	4	4
Ao Sol - Renewable Energy, Lda (b)	2000	115	100.00%	11	-	-
Agua Solar-Serviços de Energia Solar, S.A. (b)	2001	45	90.00%	24	-	-
					20,480	11,961

a) This amount results from adjustments made (for the purposes of preparing and presenting the Galp Group's consolidated financial statements) to the original consolidated financial statements of Petrogal - Petróleos de Portugal, S.A. and GDP S.G.P.S., S.A., through the recognition of the consolidation difference as an asset, corresponding to the difference between the acquisition cost of this investment and its equity at the date of acquisition.

b) These consolidation differences were recognized in full in 2005 as a result of the sale of Ao Sol, S.A. and the dissolution of Água Solar – Serviços de Energia Solar, S.A. (Note 3).

Goodwill arising from acquisitions prior to the date of transition to IFRS is recorded as described in Note 2.2. d).

Changes in goodwill during 2005 and 2004 are presented as follows:

	Goodwill
Balance as of January 1, 2004	12,131
Write-offs	(1,606)
Increase due to acquisition of subsidiary	1,436
Balance as of January 1, 2005	11,961
Increase due to acquisition of subsidiary	8,519
Balance as of December 31, 2005	20,480

During the fiscal year ended December 31, 2005, there was an increase in recorded goodwill of 8,519 thousand euros, resulting from the acquisition of the following equity investments:

In February 2005, the subsidiary Galp Energia España, S.A., acquired 100% of the capital of Petróleos de Valencia, S.A. A single-member company engaged in the storage, warehousing, and distribution of petroleum products and chemicals, as well as their derivatives and by-products, for a total of 13,937 million euros, generating goodwill in the amount of 7,838 million euros.

The subsidiary Galp Madeira - Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda., acquired 100% of the capital of Gasinsular - Combustíveis do Atlântico, S.A. in May 2005, a company whose main activity is the distribution, storage, transportation, and sale of liquid and gaseous fuels, base oils, lubricants

and other petroleum products, for 50 million euros, generating goodwill of 403 million euros.

The subsidiary Galp Açores - Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda., acquired during the 2005 fiscal year a 12.17% stake in Saaga – Sociedade Açoreana de Armazenagem de Gás, S.A. for 858 million euros, generating goodwill of 278 million euros.

During 2005, the Group acquired the remaining 10% of its financial interest in Natgás from the Portuguese government, resulting in goodwill of 306 million euros, which was written off during the fiscal year upon the liquidation of the company (Note 3).

13. TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible fixed assets:

	Tangible Fixed Assets										
	Land and resources natural	Buildings and other	Equipment, Tools, and Supplies				Tare and	tangible assets in	Other	Advances for assets	Total assets
	resources	buildings	Basic transportation equipment		tools	Administrative	Containers	Tangible assets	Course	tangibles	Tangible fixed assets
Acquisition cost:											
Balance as of January 1, 2004 POC	**260,478**	**674,549**	**4,531,024**	**32,526**	**4,988**	**114,141**	**148,833**	**96,168**	**695,196**	**6,221**	**6,564,124**
IFRS/IAS Adjustments (Note 33)	(20,717)	(13,557)	(656,818)	(789)	(10)	(4,975)	(12,261)	(1,653)	(123,968)	-	(834,748)
Balance as of January 1, 2004 (restated)	**239,761**	**660,992**	**3,874,206**	**31,737**	**4,978**	**109,166**	**136,572**	**94,515**	**571,228**	**6,221**	**5,729,376**
Additions	184	5,606	25,627	1,238	240	1,995	1,908	4,984	257,259	2,533	301,574
Write-offs/disposals	(2,029)	(21,317)	(51,068)	(3,360)	(205)	(3,845)	(5,831)	(21,093)	(1,382)	-	(110,130)
Adjustments and transfers	3,690	23,596	417,301	1,722	(69)	9,358	7,561	1,202	(469,288)	(4,483)	(9,410)
Increase/(decrease) in investment grants	(67)	(2,398)	(116,705)	-	(13)	(83)	-	(2)	68,028	-	(51,240)
Impairment loss	-	1,376	(2,352)	-	-	-	-	-	(31,853)	-	(32,829)
Balance as of January 1, 2005 POC	**262,325**	**680,929**	**4,915,688**	**32,297**	**4,960**	**121,639**	**159,996**	**81,132**	**471,835**	**4,271**	**6,735,072**
IFRS/IAS Adjustments (Note 33)	(20,786)	(13,074)	(768,679)	(960)	(29)	(5,048)	(19,786)	(1,526)	(77,843)	-	**(907,731)**
Balance as of January 1, 2005	**241,539**	**667,855**	**4,147,009**	**31,337**	**4,931**	**116,591**	**140,210**	**79,606**	**393,992**	**4,271**	**5,827,341**
Increase/(decrease) due to changes in the scope of consolidation	-	20,725	11,249	1,442	162	2,820	223	528	550	-	37,699
Additions	983	6,671	17,613	672	385	1,720	472	3,000	226,533	79,250	337,299
Write-offs/disposals	(970)	(18,399)	(64,671)	(5,823)	(179)	(2,011)	(1,831)	(2,199)	(2,213)	(80,406)	(178,702)
Adjustments and transfers	2,102	46,895	178,353	183	118	11,581	6,126	18,606	(277,406)	(805)	(14,247)
Impairments	(3,267)	(6,281)	(11,022)	(120)	-	(4,181)	-	(538)	-	-	(25,409)
Increase/(decrease) in investment grants	(238)	487	(12,388)	-	-	1	-	-	(6,046)	-	(18,184)
Balance as of December 31, 2005, before impairment losses	*246,847*	*724,234*	*4,291,976*	*27,811*	*5,417*	*130,702*	*145,200*	*99,541*	*367,263*	*2,310*	*6,041,301*
Deduction for accumulated impairment losses	*(6,698)*	*(6,281)*	*(25,833)*	*(120)*	-	*(4,181)*	-	*(538)*	*(31,853)*	-	*(75,504)*
Balance as of December 31, 2005	**240,149**	**717,953**	**4,266,143**	**27,691**	**5,417**	**126,521**	**145,200**	**99,003**	**335,410**	**2,310**	**5,965,797**
Accumulated depreciation and impairment losses:											
Balance as of January 1, 2004 POC	**6,394**	**357,015**	**2,599,510**	**26,567**	**4,524**	**95,545**	**126,454**	**66,527**	**-**	**-**	**3,282,536**
IFRS/IAS Adjustments (Note 33)	(1,225)	(3,348)	(182,266)	(585)	(9)	(3,849)	(6,966)	(1,376)	-	-	(199,624)
Balance as of January 1, 2004 (restated)	**5,169**	**353,667**	**2,417,244**	**25,982**	**4,515**	**91,696**	**119,488**	**65,151**	**-**	**-**	**3,082,912**
Depreciation of assets	*1,113*	*24,022*	*195,065*	*3,828*	*224*	*10,243*	*7,289*	*5,230*	*-*	*-*	*247,014*
Increase/(decrease) in investment grants	-	(100)	(9,630)	-	(2)	(67)	-	-	-	-	*(9,799)*
Depreciation for the fiscal year	1,113	23,922	185,435	3,828	222	10,176	7,289	5,230	-	-	237,215
Write-offs/disposals	-	(15,437)	(47,935)	(2,930)	(203)	(3,746)	(5,824)	(20,966)	-	-	(97,041)
Adjustments	-	3,377	(1,605)	285	(27)	282	486	(475)	-	-	2,323
Impairment loss	-	-	-	-	-	-	-	-	-	-	-
Balance as of January 1, 2005 POC	**7,937**	**366,750**	**2,752,470**	**27,801**	**4,523**	**102,763**	**131,028**	**50,139**		**-**	**3,443,411**
IFRS/IAS Adjustments (Note 33)	(1,655)	(1,221)	(199,331)	(636)	(16)	(4,355)	(9,589)	(1,199)	-	-	(218,002)
Balance as of January 1, 2005	**6,282**	**365,529**	**2,553,139**	**27,165**	**4,507**	**98,408**	**121,439**	**48,940**	**-**	**-**	**3,225,409**
Increase/(decrease) due to changes in the scope of consolidation	-	8,724	6,195	1,377	109	2,353	157	195	-	-	19,110
Depreciation of assets	*1,579*	*28,878*	*227,039*	*2,191*	*283*	*10,003*	*6,888*	*6,845*	-	-	*283,706*
Increase/(decrease) in investment grants	(424)	(527)	(27,394)	-	(2)	(31)	(5)	-	-	-	*(28,383)*
Depreciation for the fiscal year	*1,155*	*28,351*	*199,645*	*2,191*	*281*	*9,972*	*6,883*	*6,845*	-	-	255,323
Write-offs/disposals	-	(9,561)	(60,812)	(5,476)	(169)	(2,016)	(1,825)	(1,444)	-	-	(81,303)
Adjustments	(242)	2,446	(2,459)	(87)	(1)	1,166	(38)	365	-	-	1,150
Impairment loss	(5)	(3,141)	(3,140)	(93)	-	(1,959)	-	(326)	-	-	(8,664)
Decrease due to the sale of a subsidiary	-	-	-	-	-	-	-	-	-	-	-
Reclassification of assets as held for sale	-	-	-	-	-	-	-	-	-	-	-
Balance as of December 31, 2005, before impairment losses	*7,195*	*395,489*	*2,695,708*	*25,170*	*4,727*	*109,883*	*126,616*	*54,901*	-	-	*3,419,689*
Deduction for accumulated impairment losses	*(5)*	*(3,141)*	*(3,140)*	*(93)*	-	*(1,959)*	-	*(326)*	-	-	*(8,664)*
Balance as of December 31, 2005	**7,190**	**392,348**	**2,692,568**	**25,077**	**4,727**	**107,924**	**126,616**	**54,575**	**-**	**-**	**3,411,025**
Net amount:											
as of December 31, 2005	232,959	325,605	1,573,575	2,614	690	18,597	18,584	44,428	335,410	2,310	2,554,772
as of December 31, 2004	235,257	302,326	1,593,870	4,172	424	18,183	18,771	30,666	393,992	4,271	2,601,932

Tangible fixed assets are recorded in accordance with the accounting policy set forth in Note 2.3. The depreciation rates currently being applied are set forth in that note.

Non-repayable grants awarded to the Group to finance tangible and intangible assets (retrofitting) are recorded as assets, as a deduction from the respective assets, and recognized in the consolidated statement of income as a deduction from depreciation and amortization for the period, in proportion to the respective depreciation and amortization of the subsidized assets, as explained in Note 2.8.

Intangible fixed assets:

Cus	Expenses Research and installation development	Intangible fixed assets: Property industrial and other rights	Goodwill	Reclassification of consumption for gas Natural	Assets Intangible assets current	Advances to suppliers of assets intangible	Total assets intangible
acquisition cost:							
Balance as of January 1, 2004 POC	**49,753**	**8,309**	**233,321**	**25,429**	**267,312**	**37,706**	**184**	**622,014**
IFRS/IAS Adjustments (Note 33)	(45,415)	1,474	122,699	(116)	(80,008)	(8,419)	-	(9,785)
Balance as of January 1, 2004, before impairment losses	*4,338*	*9,783*	*358,828*	*25,313*	*187,304*	*29,287*	*184*	*615,037*
Deduction for accumulated impairment losses	-	-	*(2,808)*	-	-	-	-	*(2,808)*
Balance as of January 1, 2004 (restated)	**4,338**	**9,783**	**356,020**	**25,313**	**187,304**	**29,287**	**184**	**612,229**
Additions	514	244	2,360	5,877	307	33,961	100	43,363
Write-offs/disposals	(31)	(107)	(13,525)	(37)	-	(45)	-	(13,745)
Adjustments and transfers	21	(9,075)	(129,348)	-	34,465	(39,956)	-	(143,893)
Increase/(decrease) in investment grants	-	477	-	-	(16,445)	244	-	(15,724)
Impairment Loss	-	-	1,525	-	-	-	-	1,525
Balance as of January 1, 2005 POC	**37,447**	**7,771**	**230,002**	**30,323**	**294,847**	**29,934**	**284**	**630,608**
IFRS/IAS Adjustments (Note 33)	(32,605)	(6,449)	(12,970)	830	(89,216)	(6,443)	-	(146,853)
Balance as of January 1, 2005	**4,842**	**1,322**	**217,032**	**31,153**	**205,631**	**23,491**	**284**	**483,755**
Increase/(decrease) due to changes in the scope of consolidation	825	27	148	-	-	-	(184)	816
Additions	121	511	8,482	1,019	-	48,315	-	58,448
Write-offs/disposals	(1,524)	(438)	(16,744)	(5,250)	-	-	-	(23,956)
Adjustments and transfers	104	1,114	39,813	(609)	20,855	(29,047)	-	32,230
Increase/(decrease) in investment grants	-	429	-	-	(3,568)	(331)	-	(3,470)
Impairment loss	-	(1)	(7,598)	-	-	-	-	(7,599)
Increase due to acquisition of a subsidiary	-	-	-	-	-	-	-	-
Decrease due to the liquidation of a subsidiary	-	-	-	-	-	-	-	-
Reclassified from assets held for sale	-	-	-	-	-	-	-	-
Balance as of December 31, 2005 (gross)	4,368	2,965	250,014	26,313	222,918	42,428	100	549,106
Deduction of accumulated impairment losses	-	(1)	(8,881)	-	-	-	-	(8,882)
Balance as of December 31, 2005	**4,368**	**2,964**	**241,133**	**26,313**	**222,918**	**42,428**	**100**	**540,224**
Depreciation:								
Balance as of January 1, 2004 POC	**29,999**	**6,987**	**91,845**	**10,332**	**39,082**	**-**	**-**	**178,245**
IFRS/IAS Adjustments (Note 33)	(27,529)	(1,070)	31,826	(1,351)	(10,972)	-	-	(9,096)
Balance as of January 1, 2004 (restated)	**2,470**	**5,917**	**123,671**	**8,981**	**28,110**	**-**	**-**	**169,149**
Depreciation of assets	766	1,258	16,980	769	9,703	-	-	29,476
Increase/(decrease) in investment grants	-	(8)	-	-	(3,749)	-	-	(3,757)
Depreciation for the fiscal year	766	1,250	16,980	769	5,954	-	-	25,719
Write-offs/disposals	(32)	(105)	(9,774)	(254)	-	-	-	(10,165)
Adjustments	(160)	(6,673)	(35,507)	4,351	7,631	-	-	(30,358)
Impairment losses	-	-	-	-	-	-	-	-
Balance as of January 1, 2005 POC	**22,521**	**5,986**	**101,027**	**14,204**	**51,943**	**-**	**-**	**195,681**
IFRS/IAS Adjustments (Note 33)	(19,477)	(5,597)	(5,657)	(357)	(10,248)	-	-	(41,336)
Balance as of January 1, 2005	**3,044**	**389**	**95,370**	**13,847**	**41,695**	**-**	**-**	**154,345**
Increase/(decrease) due to changes in the scope of consolidation	464	22	92	-	-	-	-	578
Depreciation of assets	728	1,959	19,397	171	10,056	-	-	32,311
Increase/(decrease) in investment grants	-	(503)	-	-	(2,055)	-	-	(2,558)
Depreciation for the fiscal year	728	1,456	19,397	171	8,001	-	-	29,753
Write-offs/disposals	(679)	(23)	(16,358)	(2,366)	-	-	-	(19,426)
Adjustments	(282)	(751)	12,209	(678)	(194)	-	-	10,304
Impairment loss	-	-	(2,624)	-	-	-	-	(2,624)
Balance as of December 31, 2005	**3,275**	**1,093**	**108,086**	**10,974**	**49,502**	**-**	**-**	**172,930**
Net amount:								
as of December 31, 2005	1,093	1,871	133,047	15,339	173,416	42,428	100	367,294
as of December 31, 2004	1,798	933	121,662	17,306	163,936	23,491	284	329,410

Intangible fixed assets are recorded in accordance with the accounting policy set forth in Note 2.4. The respective amortization rates currently in effect are defined in the same note.

Main changes during 2005:

The increases for the year in the tangible and intangible fixed assets accounts, totaling 429,175 mEuros, consist primarily of:

- Operating and development costs related to crude oil exploration in Angola in Block 14, amounting to 66,122 thousand euros, and in Blocks 32 and 33, amounting to 8,902 thousand euros and 299 thousand euros, respectively;

- 55,659 mEuros related to the construction of natural gas infrastructure (networks, service lines, lots, and other infrastructure);

- 35,921 mEuros related to the Retail Business Unit, primarily for the remodeling of gas stations and convenience stores, business expansion, and the development of the information system;

- The Sines and Porto refineries made total investments amounting to 31,816 mEuros, of which 9,891 mEuros relate to compliance projects, 7,239 mEuros related to the bitumen storage and shipping project, 2,443 mEuros related to pipeline replacement, and 2,308 mEuros related to plant revamping;

- 25,959 mEuros related to investments in shared network contributions and the conversion of consumption to natural gas;

- The LPG (Gas) Unit made investments totaling 13,560 mEuros in the modernization of cylinder filling operations, specifically for network adaptation, refurbishment, and the acquisition of new cylinders as part of the Sines facility project;

- Construction of the Fuel Logistics Center and the storage and port infrastructure in Madeira, totaling 12,342 mEuros;

- 6,881 mEuros related to the construction of underground storage infrastructure.

During the 2005 fiscal year, the Madeira Fuel Logistics Center began operations; consequently, the amount of 56,485 mEuros was transferred from tangible assets in progress to fixed assets, as shown in the “Transfers and Adjustments” column.

During the 2005 fiscal year, tangible and intangible assets were written off; most of these were fully depreciated as a result of the asset register update carried out by Petrogal during this fiscal year.

As of December 31, 2005, impairment charges totaling 73,098 mEuros had been recognized in relation to adjustments to the value of fixed assets, specifically pertaining to:
i) 31,853 mEuros to cover the impairment of Block 33;
ii) 19,637 thousand euros to cover the impairment of gas stations in the Spanish network;
iii) 8,895 mEuros to cover the impairment of refueling stations in Portugal;
iv) 3,988 thousand euros to address the impairment of the Aveiro facility;
v) 3,585 mEuros to cover the impairment of the Sacavém fleet;
vi) 1,626 mEuros to cover the discontinuation of the Paycard software;
vii) 60 mEuros to cover the impairment of the LPG networks.

As of December 31, 2005, the tangible assets allocated to crude oil exploration activities and their respective accumulated depreciation are as follows:

Assets Tangible Fixed Assets	Amounts gross	Depreciation Accumulated	Adjustments	Amounts Net
Operating and development costs related to areas already in production	144,118	(75,600)	-	68,518
Signing bonuses for areas already in production	993	(229)	-	764
Fixed assets in progress	210,725	-	(33,321)	177,404
	355,836	(75,829)	(33,321)	246,686

The breakdown of tangible and intangible fixed assets in progress (including advances for tangible and intangible fixed assets, net of subsidies) as of December 31, 2005, is as follows:

	Gross assets	Grantfor investment	Net assets
Block A-IMI & Block 14 - Congo and Angola	144,419		144,419
Underground natural gas storage	83,651	(37,143)	46,508
Oil exploration in Blocks 32 and 33 in Angola (includes signing bonus)	34,454		34,454
Construction of industrial access roads, UAGs	24,548	(7,207)	17,341
Renovation and Expansion of the Gas Station Network	18,612		18,612
Oil and natural gas exploration and production in Brazil	16,630		16,630
Industrial investments in refineries	15,463		15,463
Construction of network infrastructure and natural gas conversions	14,333	-	14,333
Construction of natural gas networks and conversions in the municipality of Sintra	5,985	-	5,985
Construction of natural gas networks and conversions in the municipality of Cascais	5,944	-	5,944
Leixões - Piping at the Porto Refinery	4,565		4,565
Construction of natural gas networks and retrofits in the municipality of Oeiras	3,795	-	3,795
Monobóia—Installation and spare parts	3,389		3,389
Studies and Permits - Porto Refinery	2,336		2,336
Construction of natural gas networks and conversions in the municipality of Lisbon	1,981	-	1,981
Construction of natural gas networks and conversions in the municipality of Amadora	1,948	-	1,948
Construction of natural gas networks and retrofits in the municipality of Loures	1,548	-	1,548
Co-funding for Shared Networks and Conversion to Natural Gas	1,470	-	1,470
Construction of natural gas networks and conversions in the municipality of Odivelas	1,323	-	1,323
Utilities—10 kV electrical grid—Sines Refinery	1,266		1,266
Construction of natural gas networks and conversions in the municipality of Vila Franca de Xira	1,241	-	1,241
Wind Farm in Sines	1,233		1,233
Other Projects	34,464		34,464
	424,598	(44,350)	380,248

14. SUBSIDIES

As of December 31, 2005, and 2004, the amounts received and receivable from grants were as follows:

Program	GDP	PETROGAL	OTHERS	2005	2004
Regen					
Amount Received	79,361	-	-	79,361	79,361
	79,361	-	-	79,361	79,361
Energy Program					
Amount Received	163,530	-	-	163,530	163,126
	163,530	-	-	163,530	163,126
Interreg II					
Amount received	143,069	-	-	143,069	129,091
Receivables	-	-	-	-	13,999
	143,069	-	-	143,069	143,090
Trans-Energy					
Amount received	90,490	-	-	90,490	90,439
Receivables	1,128	-	-	1,128	3,969
	91,618	-	-	91,618	94,408
Protede					
Amount received	19,708	-	-	19,708	19,708
	19,708	-	-	19,708	19,708
Operational Program for the Economy					
Amount received	231,889	-	300	232,189	202,871
Receivables	2,864	-	-	2,864	11,363
	234,753	-	300	235,053	214,234
Sines Desulfurization					
Amount received	-	13,203	-	13,203	-
To be received	-	26,310	-	26,310	39,513
	-	39,513	-	39,513	39,513
Port Desulfurization					
Amount received	-	11,797	-	11,797	-
Receivables	-	23,510	-	23,510	35,307
	-	35,307	-	35,307	35,307
Other					
Amount received	-	9,592	-	9,592	6,652
	-	9,592	-	9,592	6,652
Total	**732,039**	**84,412**	**300**	**816,751**	**795,399**

These grants, intended for investment, are being recognized in income, as explained in Note 2.8, in accordance with the useful lives of the respective tangible and intangible assets; in fiscal year 2005, the amount of mEuros 30,941 was recognized (Note 13).

In addition, grants totaling 71,691 mEuros were received in fiscal year 2005.

Of the mEuros 53,812 in subsidies receivable, which is recorded under “Other Accounts Receivable,” mEuros 49,820 relates to subsidies receivable from the Portuguese government (Note 15), resulting from the “Shareholders’ Agreement between the State and Petrocontrol regarding compensation to be paid to Petrogal” dated December 21, 1998, for investments related to the desulfurization of diesel at the Sines and Porto refineries. The remaining amount of 3,992 million euros relates to incentive programs for the expansion of the natural gas network (Note 15).

15. OTHER ACCOUNTS RECEIVABLE

The “Other Non-Current and Current Accounts Receivable” line item was broken down as follows as of December 31, 2005, and 2004:

CATEGORIES	2005 Current	2005 Non-current	2004 Current	2004 Non-current
State and other public entities:				
VAT - Refunds requested	12,999	-	12,173	-
Social Security	6	-	-	-
ISP	42	-	-	-
Other	131	-	102	-
Loans to Group companies (Note 29)	-	-	-	3,183
Loans to associated companies (Note 29)	-	60,050	-	88,250
Loans to subsidiaries (Note 29)	-	53	-	53
Associates—other debtors (Note 29)	4,289	-	3,715	-
Related companies - other debtors (Note 29)	8	-	832	-
Loans to Related Companies (Note 29)	-	90	-	-
Other loans	798	-	4,368	699
Portuguese State (Note 14)	49,820	-	74,820	-
Advances to suppliers	3,304	-	2,413	-
Advances to suppliers of fixed assets	6,855	-	5,030	-
Subsidies receivable (Note 14)	3,992	-	29,360	-
EDP Group - Electricidade de Portugal	25,002	-	20,542	-
Agreement for the Assignment of Rights to Use Telecommunications Infrastructure	7,162	21,485	7,162	28,647
Loan to Sonangol under the Block 14 production contract	4,856	-	4,227	-
Staff	3,045	-	4,367	-
Accounts payable to suppliers	784	-	4,316	-
Security deposits and guarantees	277	-	341	458
Means of payment	11,547	-	8,527	-
Pension Fund Recovery Disbursement	2,060	-	1,191	-
Spanish Tax Agency	675	-	-	-
Petrobras Consortium	1,847	-	-	-
Azores Regional Supply Fund	1,220	-	912	-
Judi Services	998	-	999	-
Public Agencies	715	-	435	-
Equity subscribers	244	-	-	-
Loans to customers	-	2,890	-	2,344
Cross-promotion of Galp points with Sonae	-	-	2,357	-
A.C. Cymbron—Delivery for the purchase of shares	-	-	858	-
Tax on petroleum products	3,236	-	-	-
Other	20,321	1,954	28,926	911
	166,233	86,522	217,973	124,545
Accrued revenue:				
Sales and services rendered but not yet invoiced	84,883	-	59,123	-
Interest receivable	5,629	-	7,793	-
Sales of finished products to be invoiced through the gas station network	4,010	-	3,951	-
Crude oil from Block 14 sold but not invoiced	-	-	2,956	-
Block 14 Crude Oil Swap	1,486	-	-	-
Rebate to be received on purchases made in 2004	1,446	-	1,299	-
Other increases in revenue	1,320	-	3,535	-
	98,774	-	78,657	-
Deferred costs:				
Expenses related to service area concession contracts	39,171	-	57,068	-
Retirement benefits (Note 24)	-	9,711	-	-
Interest and other financial expenses	2,678	15	3,725	81
Catalyst costs	4,615	-	3,846	-
Charges related to prepaid rent	336	-	1,592	-
Personnel costs	-		656	-
Multi-year costs—equipment maintenance	-	-	806	-
Prepaid insurance	5,401	-	18,502	-
Other deferred costs	10,612	-	9,767	-
	62,813	9,726	95,962	81
Impairment of other accounts receivable	(5,303)	-	(3,514)	(1,830)
	322,517	96,248	389,078	122,796

The following table shows the changes in the allowance for doubtful accounts receivable during the fiscal year ended December 31, 2005 (Note 7):

Accounts	Opening balance	Increases	Decreases	Utilization	Changes in scope	Ending balance
Other accounts receivable	5,344	986	(481)	(139)	(407)	5,303
	5,344	986	(481)	(139)	(407)	5,303

Under the "Shareholders' Agreement between the State and Petrocontrol regarding compensation to be paid to Petrogal" dated December 21, 1998, as of December 31, 2005, Petrogal is still entitled to receive 49,820 mEuros from the Ministry of Economy. This amount is intended to subsidize Petrogal's investments in the Porto and Sines refineries related to diesel desulfurization. The counterpart to this receivable was recorded as a deduction from the value of fixed assets (Note 14).

The receivable from EDP, in the amount of 25,002 mEuros, includes 17,984 mEuros corresponding to the exercise of the put option right for 217,055 shares of Oni SGPS, S.A., during fiscal year 2003, in the amount of 14,964 mEuros plus 3,020 mEuros in interest. This receivable also includes the amount of
7,018 relating to the net balance of receivables pertaining to electricity bill collections made by the GDP Group on behalf of EDP and gas bill collections made by EDP on behalf of the GDP Group.

The "Cash and Cash Equivalents" line item, in the amount of 11,547 million euros, relates to amounts receivable from sales made via Visa/ATM cards, which as of December 31, 2005, were pending receipt.

The amount of 4,289 million euros recorded under assets related to associated companies refers to companies that were not consolidated using the full consolidation method, consisting primarily of accounts receivable from EMPL - Europe Maghreb Pipeline, Ltd.

The amount related to the contracts for the Assignment of Rights to Use Telecommunications Infrastructure, entered into on July 1, 1999, for a period of 20 years, is being received in equal, successive annual installments of 7,162 mEuros each through July 31, 2009, with each installment bearing interest at market rates. The revenue arising from this contract for the assignment of usage rights is deferred under the "Other Accounts Payable" line item on the balance sheet and is recognized in income on a straight-line basis over the term of the contracts, which end on June 1, 2019. During the fiscal year ended December 31, 2005, revenue in the amount of 497 mEuros was recognized (of which 149 mEuros relates to interest). During this fiscal year and the previous one, the subsidiary Transgás – Sociedade Portuguesa de Gás Natural, S.A. did not recognize any revenue, and a provision in the amount of mEuros 5,835 was established (Note 26) relating to interest recognized as revenue in prior years. The balance of deferred revenue as of December 31, 2005, to be recognized in future fiscal years, is 71,992 mEuros (Note 25).

The loan to Sonangol in the amount of 4,856 thousand euros corresponds to the contractual agreement established among all the entities comprising the Block 14 "Joint Venture." This loan is being repaid through Galp Exploração's appropriation of a portion of the oil production in Block 14 corresponding to Sonangol.

The amount of mEuros 3,992 recorded under the heading "Subsidies Receivable" refers to subsidies received in connection with incentive programs for the expansion of the natural gas network (Note 14).

The “Other Debtors – Pension Fund – Recovery of Disbursements” account, in the amount of 2,060 million euros, relates to amounts receivable from BPI Pensões for pension payments processed in December and not yet reimbursed.

The amount of 1,847 mEuros relating to the Petrobrás Consortium pertains to the share of expenses borne by this entity in the Blocks where Petrogal Brasil is the operator.

The amount of 1,220 million euros, relating to the account receivable from the Azores Regional Supply Fund, corresponds to compensation receivable by Galp Açores under agreements established with that entity for the sale of fuels at a specific price set by the Autonomous Government of that region.

The line item “Accrued Revenue—Sales Not Yet Invoiced” refers primarily to invoices for natural gas consumption to be issued to customers in the following month.

Of the 5,629 mEuros recorded under the “Accrued Revenue—Interest Receivable” line item, 5,439 mEuros corresponds to interest on the assignment of infrastructure usage rights to be charged to E3G-Telecomunicações S.A.

The “Accrued Revenue—Sales of Finished Products to Be Invoiced at the Service Station Network” line item, in the amount of 4,010 million euros, relates to purchases made during the 2005 fiscal year using the Galp Frota card and invoiced only in 2006.

The amounts shown under “Accrued Revenue” and “Accrued Expenses” related to commodity swaps are intended to cover transactions carried out in December 2005, but for which the cash flow occurred only in January 2006. These transactions were carried out with the intention of “smoothing” the price of Brent for sales transactions involving Block 14 during the 2006 fiscal year; since these are swaps indexed to the monthly price of Brent, they generate actual monthly cash flows, necessitating the recognition of the cost or revenue in the month to which the hedging transaction pertains.

Expenses recorded as deferred costs related to service area lease agreements are recognized as an expense over the respective concession period, which ranges from 20 to 25 years.

16. CUSTOMERS

The “Customers” account, for the fiscal years ended December 31, 2005, and 2004, was broken down as follows:

ACCOUNTS	2005	2004
Current account customers	877,160	660,661
Doubtful accounts receivable	65,297	75,782
Accounts Receivable - Notes Receivable	6,085	4,011
	948,542	740,454
Bad debt provisions	(50,179)	(59,284)
	898,363	681,170

The following table shows the changes that occurred during 2005 in the allowance for bad debts on accounts receivable from customers:

Items	Balance Opening	Increases	Decreases	Usage	Adjustments Scope	Balance at end
Impairment of accounts receivable	59,284	13,520	(5,902)	(22,595)	5,872	50,179
	59,284	13,520	(5,902)	(22,595)	5,872	50,179

The increase and decrease in the allowance for doubtful accounts receivable from customers, in the net amount of 7,618 thousand euros, was recognized in the "Provisions and Allowances for Doubtful Accounts Receivable" line item (Note 7).

17. INVENTORIES

The inventory account was broken down as follows for the years ended December 31, 2005, and 2004:

	2005	2004
Raw materials, auxiliary materials, and supplies:	149,691	130,795
Crude oil	37,793	27,693
Other raw materials	84,329	86,420
Raw materials in transit	271,813	244,908
	(5,018)	(11,330)
Decrease in the value of raw materials, subsidiary materials, and consumables	266,795	233,578
Finished and intermediate products:	426,311	318,404
Finished products	232,423	139,324
Intermediate products	16,527	721
Finished goods in transit	675,261	458,449
	(8)	(3,124)
Write-down of finished and intermediate goods	675,253	455,325
Products and work in progress	328	45
	253,476	144,967
Merchandise	(1,323)	(676)
Write-down of inventory value	252,153	144,291
Advance payment for purchases	4,828	3
	1,199,357	833,242

As of December 31, 2005, the "Merchandise" account, in the amount of 253,476 mEuros, corresponds primarily to natural gas in the pipeline and to inventory held by the subsidiary Galp Energia España, S.A.

As of December 31, 2005, the amounts related to consignment inventory (including ISP), consisting primarily of finished goods, totaled 28,996 mEuros.

As of December 31, 2005, the Group's obligations to competitors for strategic reserves—which can only be fulfilled through the delivery of products—

amounted to 330,595 mEuros and are recorded under the heading “advances on sales” (Note 25).

In November 2004, Petrogal, together with Petrogal Trading Limited, entered into a contract for the purchase, sale, and exchange of crude oil for refined products to establish strategic reserves with the Entity for the Management of Strategic Reserves of Petroleum Products, EPE (EGREP), pursuant to the provisions of Decree - Law No. 339-D/2001, of December.

Under the agreement entered into in 2004, the crude oil acquired by EGREP—which is not recorded in the financial statements—is stored at Petrogal’s facilities on a non-segregated basis and must remain in storage so that EGREP may audit it, at any time it deems appropriate, in terms of both quantity and quality. Under the terms of the aforementioned contract, Petrogal is obligated to exchange the crude oil sold for finished products when EGREP so requires, receiving in exchange an amount representing the refining margin as of the date of the exchange.

The following table provides a breakdown of the “inventories consumed and sold” line item for the 2005 fiscal year:

	Merchandise	Raw materials, by-products, and intermediate	Finished products and intermediate	Products and work in progress in progress	Total
Opening balance	144,967	244,908	458,449	45	848,369
Purchases	2,953,595	6,384,055	-	-	9,337,650
Production	-	-	417,311	-	417,311
Adjustments	(27,908)	-	-	283	(27,625)
Ending balance	253,476	271,813	675,261	328	1,200,878
Cost of goods sold and materials consumed	2,817,178	6,357,150	200,499	-	9,374,827
Change in production	-	-	(203,185)	-	(203,185)
Inventory Impairment	(237)	(6,197)	(3,116)	-	(9,550)
Inventories consumed and sold (Note 7)	2,816,941	6,350,953	(5,802)	-	9,162,092

The changes in the inventory impairment accounts for the period ended December 31, 2005, were as follows:

	Opening balance				Change in	Closing balance
Accounts		Increases	Decreases	Uses	Scope	
Impairments of raw materials, subsidiaries, and consumables	11,330	4,800	(10,997)	(173)	58	5,018
Impairment of finished goods and work-in-progress	3,124	2,327	(5,443)	-	-	8
Inventory write-downs	676	6	(243)	(3)	887	1,323
	15,130	7,133	(16,683)	(176)	945	6,349

The amount of impairment write-downs, net of increases in the amount of m Euros 9,550 was recorded as a contra-entry to the "Operating Expenses—Inventories Consumed and Sold" line item in the income statement (Note 7).

18. OTHER FINANCIAL INVESTMENTS

As of December 31, 2005, and 2004, the "Other Financial Investments" line item was broken down as follows:

	2005	2004
Financial instruments	2,177	3,532
Time deposits	8,014	15,807
	10,191	19,339

The closing balance for 2005 and 2004 includes the fair value of financial derivatives classified as current in the amounts of 2,177 mEuros and 3,532 mEuros, respectively (Note 28).

19. CASH AND CASH EQUIVALENTS

For the fiscal years ended December 31, 2005, and 2004, the "Cash and Cash Equivalents" line item was composed as follows:

ACCOUNT HEADINGS	2005	2004
Cash	7,167	16,245
Demand deposits	122,158	149,960
Time deposits	28,310	61,054
Cash and cash equivalents on the balance sheet	157,635	227,259
Other current investments	8,014	15,806
Bank overdrafts (Note 23)	(72,015)	(175,297)
Cash and cash equivalents in the statement of cash flows	93,634	67,768

The time deposits category includes various investments of cash surpluses from various Group companies, namely Gasoduto de Campo Maior-Leiria-Braga, S.A., Galpgeste – Gestão de áreas de serviço, Lda., and C.L.C. – Companhia Logística de Combustíveis, S.A., Gasoduto Braga-Tuy, S.A., Powercer – Sociedade de Cogeração da Vialonga, S.A., 6,620 mEuros, 2,800 mEuros, 1,950 mEuros, 1,000 mEuros, and 1,000 mEuros, respectively.

In the statement of cash flows, the balance of cash and cash equivalents at the beginning of the period shows a difference of mEuros 16 compared to the balance as of December 31, 2004, resulting from the inclusion in the scope of consolidation of Gasinsular - Combustíveis do Atlântico, S.A., Fast Access – Operações e Serviços de Informação e Comércio Electrónico, S.A., and others (Note 3).

20. SHARE CAPITAL

The structure of the share capital did not undergo any changes during the fiscal year ended December 31, 2005, for the year 2004. The share capital, which is fully subscribed and paid in, consists of 165,850,127 shares with a par value of 5 euros per share, and is subdivided into the following classes of shares:

TYPE OF SHARES	2005	2004
Class A Shares	8,000,000	8,000,000
Class B Shares	157,850,127	157,850,127
Total number of shares	165,850,127	165,850,127
Par value of shares	829,251	829,251

Class A shares carry certain special rights, namely:

(i) To approve the election of three, four, or five members of the Board of Directors, depending on whether the Board has, respectively, a total of eleven, thirteen, or more members;

(ii) The right to veto certain resolutions, even if they are approved by a majority of the votes cast.

As of December 31, 2005, the Company's capital was fully subscribed and paid in and was held by the following entities:

Eni Portugal Investment, S.p.a.	33.34%
Portuguese State	17.72%
REN - Rede Eléctrica Nacional, S.A.	18.30%
EDP - Energias de Portugal, S.A.	14.27%
Parpública - Participações Públicas, SGPS, S.A.	12.29%
Iberdrola, S.A.	4.00%
Portgás - Gas Production and Distribution Company, S.A.	0.04%
Setgás - Gas Production and Distribution Company, S.A.	0.04%
	100.00%

During the fiscal year ended December 31, 2005, the shareholder Parpública – Participações Públicas (SGPS), S.A., acquired 13,373,134 shares of Galp Energia from the State, bringing its total holdings to 20,388,309 shares, representing 12.29% of the share capital (Introductory Note).

During the fiscal year ended December 31, 2005, Amorim Energia B.V. entered into an agreement to purchase shares of Galp Energia, SGPS, S.A., held by EDP – Energias de Portugal, S.A., representing 14.27% of the share capital, and secured in the same transaction a call option for 18.3% of the share capital held by REN – Rede Eléctrica Nacional, S.A. (Note 33).

In addition, in January 2006, Amorim Energia B.V. acquired from Portgás – Sociedade de Produção de Gás, S.A., its 0.04% stake in the Company's share capital (Note 33).

Consequently, the ownership structure as of December 31, 2005, has not been adjusted to reflect the effects of the transactions described above, since the sale of the shares between the aforementioned entities was not recorded until the end of January 2006.

21. OTHER RESERVES

In accordance with national legislation, specifically the Commercial Companies Code, the Group is required to transfer to the "legal reserves" account—included under "other reserves" in shareholders' equity—at least 5% of the net income for each fiscal year until such reserves reach 20% of the share capital. The legal reserve may not be distributed to shareholders; however, under certain circumstances, it may be used for capital increases or to offset losses after all other reserves have been exhausted.

In 2005, this line item showed a positive change of 16,653 mEuros, resulting from the appropriation of 2004 net income. We note that this amount is less than 5% of the 2004 net income, calculated in accordance with IFRS/IAS. This situation arises because it is a national legal requirement; consequently, the legal reserve must be calculated based on the net income for fiscal year 2004 in accordance with national regulations (Official Accounting Plan), which for that year was mEuros 333,064 (Note 34).

This line item can be broken down as follows for December 2005 and 2004:

	2005	2004
Legal reserves	56,949	40,296
Unrestricted reserves	27,977	27,977
	84,926	68,273

22. MINORITY INTERESTS

As of December 31, 2005 and 2004, the breakdown of minority interests included in shareholders' equity relates to the following subsidiaries:

	2005	2004
Lusitaniagás - Companhia de Gás do Centro, S.A.	7,602	5,612
Campo Maior–Leiria–Braga Gas Pipeline, S.A.	4,565	4,434
Beiragás - Companhia de Gás das Beiras, S.A.	4,135	3,660
Braga–Tuy Gas Pipeline, S.A.	3,357	3,387
Sopor - Fuel Distribution Company, S.A.	3,030	3,080
Saaga - Azorean Gas Storage Company, S.A.	1,611	2,168
Duriensegás - Douro Natural Gas Distribution Company, S.A.	966	698
Probigalp - Bituminous Binders, S.A.	914	877
Sempre a Postos - Food and Household Goods, Lda.	405	383
Carriço Cogeneration Electricity and Heat Generation Company, S.A.	289	(150)
Fast Access – Information and E-Commerce Operations and Services, S.A.	165	-
Petromar - Fuel Supply Company, Lda	112	-
Powercer - Vialonga Cogeneration Company, S.A.	45	(47)
Gite - Galp International Trading Establishment	44	38
Água Solar, S.A.	-	(1)
Galp Energia España, S.A.	-	45
Natgás - Portuguese Natural Gas Company, S.A.	-	80
Agran - Agroquímica de Angola, SARL	(8)	-
Combustiveis Líquidos, Lda.	(48)	(52)
Petrogal Guinea-Bissau, Lda	(160)	
Petrogás - Gas Import, Storage, and Distribution, Lda	(207)	-
CLCM - Madeira Fuel Logistics Company, S.A. (a)	(2,172)	(130)
	24,645	24,082

(a) As of December 31, 2005, this subsidiary had negative equity. The Board of Directors of this subsidiary proposed that additional capital contributions be made, along with the repayment of advances totaling 6,800 mEuros, to be carried out by all shareholders in proportion to their shareholdings. Consequently, the Group recognized the accumulated losses only in proportion to its ownership interest in that subsidiary, which is why minority interests show a debit balance.

23. LOANS

Breakdown of Loans

As of December 31, 2005, and 2004, borrowings were as follows:

	2005		2004	
	Current	Non-current	Current	Non-Current
Bank loans:				
Internal loans	99,045	118,192	192,447	65,646
External loans	84,776	644,988	254,362	718,450
Bank overdrafts (Note 19)	72,015	-	175,297	-
Revolving credit lines	250	16,000	8,600	-
	256,086	779,180	630,706	784,096
Other loans obtained:				
IAPMEI	1,304	2,816	1,304	4,078
	1,304	2,816	1,304	4,078
	257,390	781,996	632,010	788,174
Bond issues:				
1997 Issue - GDP, SGPS, S.A.	-	49,880	-	49,880
1998 Issue - Lisboagás, S.A.	-	49,880	-	49,880
2003 Issue - Galp Investment Fund	-	210,000	-	210,000
	-	309,760	-	309,760
	257,390	1,091,756	632,010	1,097,934

As of December 31, 2005, non-current loans had the following projected repayment schedule:

2007	162,120
2008	285,324
2009	78,242
2010	79,599
2011 and subsequent years	487,457
	1,092,742

As of December 31, 2005, and 2004, all loans were denominated in euros, U.S. dollars, and meticais.

The average interest rates on loans and bank overdrafts incurred by the company in 2005 and 2004 were 2.66% and 2.5%, respectively.

Description of Major Loans

The following is a brief description of the main loans included in the line items presented in the tables above:

Bank loans

The main bank loans as of December 31, 2005, can be characterized as follows:

BANK	Company	Total Amount	Currency	Start Date	Term	Amount Owed
B. EUROPEAN INVESTMENT	Petrogal	230,000	USD	Dec. 20, 1992	Dec. 15, 2007	11,349
SANTANDER/CPP	Petrogal / Galp Energia	85,000	USD	Dec. 13, 2002	Dec. 6, 2007	5,834
IAPMEI	Petrogal	6,310	Euros	Dec. 31, 2002	Dec. 30, 2008	3,786
SANTANDER	Galp Energia	21,861	USD	June 14, 2004	Dec. 6, 2007	12,354
Banking Union	CLC	64,101	Euros		March 15, 2007	6,051
EIB	CLC	86,911	Euros		Sept. 15, 2008	20,827
Banking Union	CLCM	58,000	Euros	July 20, 2005	Dec. 15, 2023	58,000
B. EUROPEAN INVESTMENT.	Lisboagás	80,000	Euros	June 20, 2000	June 15, 20	80,000
B. EUROPEAN INVESTMENT	Lusitaniagás	54,868	Euros	Oct. 28, 1995	March 15, 2000	47,074
BES	Beiragás	27,000	Euros	Dec. 27, 2005	Dec. 15, 20	16,000
BES/INV	Transgás Atlântico	29,475	Euros	Nov. 13, 2000	Dec 15, 25	29,475
B. EUROPEAN INVESTMENT.	Transgás Atlântico	122,000	Euros	Nov. 13, 2000	Dec. 15, 2025	122,000
B. EUROPEAN INVESTMENT	Transgás S.A.	434,905	Euros	Dec. 15, 1994	Sept. 15, 2016	386,595
CAIXA B. INVEST. (IAPMEI)	Transgás S.A.	130	Euros	May 15, 2000	May 15, 2007	36
SANTANDER-NASSAU	Braga-Tuy Gas Pipeline	8,900	Euros	March 31, 2002	Apr 30, 2007	8,900
		1,309,461				808,281

Bond issues

i) 1997 Issue – GDP – Gás de Portugal, SGPS, S.A.

On June 25, 1997, GDP – Gás de Portugal, SGPS, S.A. issued bonds in the amount of 49,880 mEuros, at par, for private placement, which were fully subscribed and paid in full.

The loan will be repaid at par value in a single lump sum at the end of the ten-year term of the issue.

However, the issuer may redeem the loan early, in whole or in part, at its discretion (Call Option). In the case of partial redemption, this will be done by reducing the face value on any interest payment date starting with the 6th coupon. In this case, a redemption premium will be paid on the face value redeemed early.

If the Portuguese State ceases to hold, directly or indirectly, a majority of GDP's share capital, and/or if GDP ceases to hold, directly or indirectly, any controlling interest that it holds, as of the date of the loan's issuance, in the share capital of the companies within its Group whose corporate purpose is the distribution of piped gas, bondholders may demand early redemption of the bonds.

This bond issue accrues interest semiannually in arrears at a rate indexed to the "6-month Euribor" rate, plus 0.075%, rounded to the nearest 1/16 of a percentage point or the next higher value.

This issuance was led by Banco Millenium BCP Investimentos (formerly CISF) and Banco Português de Investimento, and its placement was underwritten by a banking syndicate comprising the following banking institutions:

Financial Institutions	Amount	%
Millennium BCP Investimentos (formerly CISF)	13,592	27.25
Portuguese Investment Bank	13,592	27.25
Caixa Banco de Investimento (formerly Banco Chemical Finance)	4,988	10.00
Caixa Geral de Depósitos	4,988	10.00
Banco Finantia	3,492	7.00
Deutsche Investment Bank	3,492	7.00
Millennium BCP (formerly Mello)	1,995	4.00
Caixa Geral de Depósitos (formerly BNU)	1,247	2.50
Banco Santander de Negócios	1,247	2.50
Banco Bilbao Vizcaya y Argentaria	1,247	2.50
	49,880	100.00

ii) 1998 Issue – Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.

On August 12, 1998, Lisboagás GDL—Sociedade Distribuidora de Gás Natural de Lisboa, S.A. issued bonds in the amount of 49,880 mEuros, at par, for private placement, which were fully subscribed and paid in full.

The loan will be repaid at par in five equal annual installments on the maturity dates of the 22nd, 24th, 26th, 28th, and 30th coupons.

However, early redemption at par of part or all of the outstanding principal may be made at the issuer's option (Call Option), starting on or after the maturity date of the 10th coupon and on the respective interest payment dates.

Bondholders may also demand early redemption of the loan or the remaining principal balance, at par, on the maturity dates of the 20th, 22nd, 24th, 26th, and 28th coupons.

If the Portuguese State ceases to hold, directly or indirectly, a majority of the share capital of GDP – Gás de Portugal, SGPS, S.A., or if GDP – Gás de Portugal, SGPS, S.A. ceases to hold a direct majority stake in the share capital of Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., bondholders may demand early repayment of this loan.

Interest will be paid semiannually in arrears, based on a rate corresponding to the "6-month Euribor" rate in effect on the second-to-last business day prior to the start of each interest period, plus 0.08%.

The underwriting of the issue was provided by a banking syndicate composed of the following financial institutions:

Financial Institutions	Amount	%
Banco Espírito Santo Investimento	13,517	27.10
Portuguese Investment Bank	13,567	27.20
Millennium BCP (formerly CISF)	13,567	27.20
Caixa Geral de Depósitos (formerly BNU)	7,482	15.00
BMI	1,247	2.50
Banco Bilbao Vizcaya y Argentaria	500	1.00
	49,880	100.00

iii) 2003 Issuance - Galp Investment Fund

During 2003, Petrogal entered into a securitization transaction involving accounts receivable with Galp Investment Fund, PLC, in the amount of 210,000 mEuros, which has an expected maturity of 5 years and a legal maturity of 7 years. To finance this amount, the Fund issued 199,500 mEuros of "Notes A" and 10,500 mEuros of "Notes B," which bear interest at Euribor plus 0.5% and 0.95%, respectively. As a result of this transaction, Petrogal incurred financial costs of mEuros 6,097 for the current fiscal year (Note 9).

24. LIABILITIES RELATED TO PENSION BENEFITS AND OTHER BENEFITS

As mentioned in Note 2.10, Petrogal, Sacor Marítima, and certain companies of the GDP Group (GDP Distribuição, SGPS, S.A.; Lisboagás – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.; Driftal – Plastificantes de Portugal, S.A.; and Gásfomento – Sistemas e Instalações de Gás, S.A.) transferred their liabilities for the payment of supplementary retirement benefits for old age, disability, and survivor benefits to the autonomous pension funds "Petrogal Pension Fund," "Sacor Marítima Pension Fund," and "GDP Pension Fund." Additionally, by decision of Petrogal, as of 1997, the Petrogal Pension Fund began covering the liabilities for the payment of retirement supplements to early retirees.

The Petrogal Pension Fund does not cover Petrogal's liabilities related to the payment of early retirement pensions, pre-retirement benefits, Social Security for pre-retirees, voluntary social insurance for early retirees, retirement bonuses, and other retirement benefits such as health care and life insurance. These liabilities are covered by provisions specifically created for this purpose (Note 26), included in the balance sheet under the heading "Liabilities for retirement benefits." Additionally, the GDP Pension Fund does not cover the liabilities assumed by

Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. to reimburse the retirement supplements payable by EDP to its retirees and pensioners affiliated with the Company, as well as the retirement and survivor supplements for retirees existing as of the Fund's establishment. These liabilities are covered by specific provisions, included in the balance sheet under the heading "Retirement benefit liabilities" (Note 26).

During the 2005 fiscal year, in order to comply with the requirements of International Accounting Standard No. 19—which stipulates that the rate used to discount post-employment benefit obligations must be determined with reference to market yields on high-quality corporate bonds as of the balance sheet date—the discount rate was updated from 4.75% to 4.25%. The change in this actuarial assumption resulted in an increase of approximately 4.96% in the liabilities for past service under the Petrogal Pension Plan and 7.63% under the GDP Group Pension Plan. In addition, the mortality tables were also updated, and the TV 88/90 table is now used for active employees and pre-retirees.

During the fiscal year ended December 31, 2005, Petrogal and the companies of the GDP Group made contributions to their respective pension funds in the amounts of 23,770 mEuros and 2,465 mEuros, respectively, to partially cover their liabilities.

The minimum value of Petrogal's and the GDP Group's liabilities as of December 31, 2005, calculated in accordance with the method and assumptions required by the Portuguese Insurance Institute, amounts to mEuros 317,773 and mEuros 24,041, respectively.

As of December 31, 2005, the assets of the Petrogal Pension Fund, the Sacor Marítima Pension Fund, and the GDP Pension Fund were composed as follows, according to the report submitted by the management company:

	Petrogal	Sacor Marítima	GDP
Bonds:			
Fixed-rate euro bonds	157,325	3,332	8,571
Euro floating-rate bonds	38,528	754	1,035
Other non-euro debt securities	9,416	-	550
Shares:			
European	37,140	1,341	3,103
Other stocks	13,863	885	3,242
Hedge Funds	5,500	273	-
Derivatives	-	4	-
Indirect real estate	5,653	241	1,352
Galp Building (part)	22,300	-	-
Cash	37,832	121	3,500
Total	**327,557**	**6,951**	**21,353**

The changes in the net assets of the Pension Funds during fiscal year 2005 were as follows:

	Petrogal	Sacor Marítima	GDP
Opening Balance	300,479	6,366	18,467
Allocations to the fund	23,770	-	2,465
Actual return on assets	13,699	715	1,515
Actuarial gains / (losses)	10,298	-	-
Pensions paid during the fiscal year	(20,689)	(130)	(1,094)
Ending Balance	**327,557**	**6,951**	**21,353**

As of December 31, 2005, and 2004, Sacor Marítima's liabilities for pension supplements payable to retirees and active employees amounted to
6,331 and 6,011 mEuros, respectively. The difference between the amount of these liabilities and the value of the fund is not reflected in the financial statements.

The assumptions used to calculate post-employment benefits are those considered by the Petrogal and GDP Groups and by the entity specializing in actuarial studies to best satisfy the commitments established in the pension plan, and are as follows:

		Petrogal	
		2005	2004
Return on Assets		4.25%	4.75%
Technical interest rate		4.25%	4.75%
Wage growth rate		3.00%	3.00%
Pension growth rate		1.50%	1.50%
Mortality table for active and pre-retired employees		TV 88/90	TV 73/77
Mortality table for retirees		TV 73/77	TV 73/77
Disability table		EVK80-50%	EVK80-50%
Normal Retirement Age		65	65
Method		Credit unit Projected	Projected credit unit
Liabilities and respective coverage:			
i) Liabilities allocated to the pension fund:			
Assets		49,758	37,320
Pre-retirees		10,456	9,602
Early retirees		19,172	22,120
Retirees and pensioners		264,469	249,288
		343,855	**318,330**
Assets allocated to the pension fund:			
From the pension fund's assets		327,557	300,479
From provisions		-	5,607
From additions and deferrals (Note 15)		(9,711)	-
Change in assumptions		-	5,649
Unrecognized (gains) and losses (Note 2.10)		26,009	6,595
		343,855	**318,330**
ii) Liabilities not allocated to the pension fund:			
Including early retirees		21,162	23,770
With early retirements		18,235	19,501
With retirement bonus		6,491	5,573
With voluntary social security		269	572
With flexible retirement age (Decree-Law 9/99)		10,778	9,840
	Total	**56,935**	**59,256**
Coverage by provisions (Note 26):			
Pre-retirement		18,506	21,692
Early retirement		20,201	20,157
Retirement bonus		5,479	5,053
Voluntary social insurance		126	510
Flexibility in retirement age (Decree-Law 9/99)		9,623	8,467
	Subtotal	**53,935**	**55,879**
Change in assumptions:			
Pre-retirement		-	924
Early retirements		-	219
Retirement bonus		-	250
Voluntary Social Security		-	(19)
Flexibility in the Retirement Age (Decree-Law 9/99)		-	168
	Subtotal	**-**	**1,542**
Unrecognized (gains) and losses:			
Pre-pension plans		2,655	1,154
Early retirements		(1,967)	(874)
Retirement bonus		1,012	271
Voluntary social insurance		144	84
Flexibility in the Retirement Age (Decree-Law 9/99)		1,156	1,200
	Subtotal	**3,000**	**1,835**
	Total	**56,935**	**59,256**

		GDP	
		2005	2004
Return on assets		4.25%	4.75%
Technical interest rate		4.25%	4.75%
Wage growth rate		3.00%	3.00%
Mortality table—active and pre-retirees		TV 88/90	TV 73/77
Mortality table—retirees		TV 73/77	TV 73/77
Disability table		EVK 80–50%	EVK 80–
50% Normal retirement age		65	65
Method		Credit Projected Credit	Projected Projected Credit Unit
Responsibilities and their respective scopes:			
i) Liabilities allocated to the pension fund:			
Assets		22,192	17,594
Pre-retirees		804	1,078
Retirees and pensioners		9,751	9,419
		32,747	**28,091**
Assets allocated to the pension fund:			
From the pension fund's assets		21,353	18,467
Through provisions (Note 26)		5,701	6,016
Change in assumptions		-	873
Unrecognized (gains) and losses (Note 2.10)		5,693	2,736
		32,747	**28,092**
ii) Liabilities not allocated to the pension fund:			
With assets		312	218
With retirees		6,776	6,921
With flexible retirement age (Decree-Law 9/99)		322	288
	Total	**7,410**	**7,427**
Coverage by provisions (Note 26):			
With assets		-	87
For retirees		6,004	6,495
Flexibility in retirement age (Decree-Law 9/99)		309	267
	Subtotal	**6,313**	**6,849**
Change in assumptions:			
Including retirees		-	1
Flexibilization of the retirement age (Decree-Law 9/99)		-	(3)
	Subtotal	**-**	**(2)**
Unrecognized gains and losses:			
With assets		-	131
With retirees		1,084	425
Flexibility in the retirement age (Decree-Law 9/99)		13	24
	Subtotal	**1,097**	**580**
	Total	**7,410**	**7,427**

	Other	
	2005	2004
Return on assets	4.25%	4.75%
Technical interest rate	4.25%	4.75%
Wage growth rate	3.00%	3.00%
Mortality table—active and pre-retirees	TV 88/90	TV 73/77
Mortality table—retirees	TV 73/77	TV 73/77
Disability table	EVK 80–50%	EVK 80–
50% Normal retirement age	65	65
Method	Credit Projected Credit	Projected Projected Credit Unit
Liabilities and respective coverage:		
i) Liabilities not allocated to the pension fund:		
Total liabilities:	**302**	**249**
Coverage:		
Through provisions	277	238
Changes in assumptions and methodology (Note 2.10)	-	(3)
Unrecognized gains and losses (Note 2.10))	25	14
	302	**249**

The changes in Petrogal's and GDP's pension liabilities for fiscal year 2005 were as follows:

	Petrogal		
	Allocated to pension Pension	Not allocated to the pension	Total
Total liabilities as of December 31, 2004	318,330	59,256	377,586
Cost of current services	1,955	680	2,635
Interest Expense	14,547	2,539	17,086
Benefits Paid During the Fiscal Year	(20,689)	(13,338)	(34,027)
Pre-retirement and early retirement plans initiated during the year	-	6,578	6,578
Actuarial (gains) / losses for the year	29,712	1,220	30,932
Total liabilities as of December 31, 2005	**343,855**	**56,936**	**400,790**
COSTS FOR THE YEAR 2005			
Interest expense and expense for current services	16,502	3,219	19,721
Amortization of changes in assumptions	5,649	1,542	7,191
Early retirements initiated during the year	-	3,356	3,356
Expected return on assets	(13,699)	-	(13,699)
Amortization of excess corridor	-	55	55
	8,452	**8,172**	**16,624**

	GDP		
	Allocated to the pension fund	Not allocated to the pension fund	Total
Total liabilities as of December 31, 2004	28,091	7,427	35,518
Cost of current services	965	56	1,021
Interest Expense	1,308	331	1,639
Benefits Paid During the Fiscal Year	(1,094)	(929)	(2,023)
Actuarial (Gains) / Losses for the fiscal year	3,477	525	4,002
Total liabilities as of December 31, 2005	**32,747**	**7,410**	**40,157**
COSTS FOR 2005			
Interest expense and current service costs	2,273	387	2,660
Amortization of changes in assumptions	873	(2)	871
Expected return on assets	(850)	-	(850)
Amortization of excess corridor	(145)	8	(137)
Settlements, Cuts, and Transfers	-	4	4
	2,151	**397**	**2,548**

	Other Funds Not Allocated to the pension fund
Total liabilities as of December 31, 2004	249
Current service cost	31
Interest Expense	11
Actuarial (Gains) / Losses for the year	11
Total liabilities as of December 31, 2005	**302**
COSTS FOR 2005	
Interest expense and current service costs	43
Amortization of changes in assumptions	(3)
Amortization of excess corridor	1
	41

The cost of current services and the interest cost, net of the expected return on assets, totaling 7,875 mEuros, was recorded under personnel expenses.

At Petrogal, the increase in liabilities related to early retirement and early retirement plans initiated during the fiscal year ended December 31, 2005, in the amount of 6,578 million euros, was offset by: (i) the transfer of mEuros 3,222 from the restructuring provision already recognized as an expense in prior fiscal years (Note 26) and (ii) the personnel expenses line item in the amount of mEuros 3,356.

As a result of the excess in the corridor calculated as of December 31, 2004, an amount of 55 million euros was recorded as a deduction from the personnel expenses line item, corresponding to the amortization for fiscal year 2005.

On December 31, 2002, the ISP authorized the establishment of Galp Energia's defined-contribution pension fund. During the 2003 fiscal year, Galp Energia, SGPS, S.A., established 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 December 17, 2003, Galp Serviços – Serviços de Consultoria de Apoio à Gestão Empresarial, S.A. merged with this company), as associates of this Fund, gave their employees the option to choose between this new defined-contribution pension plan and the existing defined-benefit plan.
Consequently, during the 2005 fiscal year, an expense of 650 mEuros was recognized under the "Personnel Expenses" line item, relating to the annual contributions made by the associated companies of the Galp Energia Defined Contribution Pension Fund on behalf of their employees, in exchange for a transfer to the fund's management company.

As mentioned in Note 2.10, actuarial gains and losses are recognized in the financial statements only to the extent that they exceed the limits defined in the 10% "corridor," and are amortized beginning in the fiscal year following the year in which they are determined, as described below.

The following table provides a breakdown, by benefit plan, of the liabilities included in the "corridor" mechanism and its maximum range (10%).

Benefits	Unrecognized gains and losses	"Corridor" Range (10%)	Excess over the corridor range	Amount to be recognized in 2006
Petrogal Group				
Renovation Supplement (Fund)	26,009	34,385	-	-
Pre-Retirement	2,655	2,116	539	126
Early retirements	(1,967)	1,823	(144)	(33)
Retirement bonus	1,012	649	363	85
Voluntary Social Security	144	27	117	27
Flexibility in the Retirement Age (Decree-Law 9/99)	1,156	1,078	78	18
	29,009	40,078	953	223
GDP Group				
Pension Supplement (Fund)	5,693	3,275	2,418	463
EDP Retirees	1,084	709	375	59
Flexibility in the retirement age (Decree-Law 9/99)	13	30	-	-
	6,790	4,015	2,793	522
Other Group				
Pension Supplement (Fund)	25	30	-	-
	25	30	-	-
	35,824	44,123	3,746	745

At Petrogal, the liabilities for all vested retirement benefits exceed the maximum 10% "corridor" by a net amount of 953 million euros. These amounts will be recognized as expenses and/or income in future fiscal years based on the expected average future service life of the employees covered by these plans, which as of December 31, 2005, was 4.28 years. Accordingly, in fiscal year 2006, the amount of 223 million euros resulting from the amortization of the excess over the corridor will be recognized as an expense, net of income.

In the GDP Group, liabilities for retirement benefits (both funded and unfunded) exceed the maximum 10% "corridor" by a net amount of 2,793 million euros. These amounts will be recognized as expenses in future fiscal years

based on the expected average future service life of the employees covered by these plans, which is 5.12 years for Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.; 24.08 years for Gásfomento – Sistemas e Instalações de Gás, S.A.; and 11.74 years for GDP Distribuição, SGPS, S.A.. Consequently, in fiscal year 2006, the amount of 522 mEuros, resulting from the amortization of the excess of the "corridor," will be recorded as an expense, net of income.

In the remaining companies, liabilities related to pension supplements (both covered and not covered by the fund) do not exceed the maximum "corridor" range of 10%. Consequently, no amounts resulting from the amortization of the excess "corridor" will be recorded in fiscal year 2006.

Other retirement benefits—health care, life insurance, and minimum benefits under the defined-contribution plan (disability and survivor benefits)

During the 2003 fiscal year, Galp Energia, SGPS, S.A. established a defined-contribution pension fund for its employees and allowed employees from other Group companies to join this fund. The GDP Group allowed its employees to request the transfer of their pension liabilities to Galp Energia's defined-contribution pension plan. Consequently, during the 2005 fiscal year, a cost of mEuros 73 was recorded under the "personnel expenses" line item, relating to the year's contributions, with a corresponding credit to the Fund's Management Company.

As mentioned in Note 2.11, as of December 31, 2005, Group companies have recorded a liability to cover their obligations related to the costs to be borne by the Group for the provision of health care, life insurance, and minimum benefits under the defined-contribution plan (disability and survivor benefits), These are recognized as expenses during the period in which the employees receiving these retirement benefits render services to their respective companies; these liabilities are reflected on the balance sheet under the heading "Provisions for life insurance, health care, and minimum defined-contribution benefits." Payments made to beneficiaries during each fiscal year are recorded as a reduction in this provision.

As mentioned in Note 2.11, Petrogal reports under the "Provisions for Other Retirement Benefits" line items the present value of its liabilities for past service related to the payment of early retirement pensions, pre-retirement benefits, Social Security for pre-retirees, voluntary social insurance payments to early retirees, and retirement bonuses not covered by the Petrogal Pension Fund. In addition, the companies of the GDP Group report under the provisions for other retirement benefits the liabilities assumed by Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.—to reimburse the retirement supplements payable by EDP to its retirees and pensioners affiliated with the Company, as well as the retirement and survivor supplements for retirees existing as of the Fund's establishment, which are not covered by the GDP Pension Fund.

At the end of each accounting period, the Group obtains actuarial studies and compares the amount of its liabilities with the balance of the provisions set aside, in order to determine the amount of additional provisions to be recorded.

As mentioned in Note 2.11, as of December 31, 2005, the Group had recorded a provision to cover its liabilities for health care, life insurance for past service of active employees, and total liabilities for the remaining population, as well as

the minimum benefit under the defined-contribution plan. The present value of the liabilities for past service and the actuarial assumptions used in their calculation are as follows:

	Petrogal					
	Health care		Life insurance		Minimum benefit under the defined contribution plan	
	2005	2004	2005	2004	2005	2004
Technical interest rate	4.25%	4.75%	4.25%	4.75%	4.25%	N/A
Cost growth rate	4.00%	4.00%	3.00%	4.00%	3.00%	N/A
Mortality table for active and pre-retired employees	TV 88/90	TV 73/77	TV 88/90	TV 73/77	TV 88/90	N/A
Mortality Table for Retirees	TV 73/77	TV 73/77	TV 73/77	TV 73/77	TV 73/77	N/A
Disability Table	EVK 80–50%	EVK 80–50%	EVK 80–50%	EVK 80–50%	EVK 80–50%	N/A
Normal retirement age	65	65	65	65	65	

N/A - not applicable; began only in 2005.

		Petrogal	
		2005	2004
Method		Unit Credit Projected	Unit of Credit Projected
Responsibilities and respective coverage:			
i) Health care			
Total liabilities:		198,378	173,970
	Total	**198,378**	**173,970**
Coverage:			
Liabilities for retirement benefits and other benefits		135,075	125,981
Changes in assumptions and methodology (Note 2.11)		-	903
Unrecognized gains and losses (Note 2.11)		63,302	47,086
	Total	**198,377**	**173,970**
ii) Life insurance			
Total liabilities:		2,283	1,912
	Total	**2,283**	**1,912**
Coverage:			
Liabilities for retirement benefits and other benefits		1,439	1,289
Changes in assumptions and methodology (Note 2.11)		-	(14)
Unrecognized gains and losses (Note 2.11)		844	637
	Total	**2,283**	**1,912**
iii) Minimum benefit under the defined-contribution plan			
Total liabilities:		680	-
	Total	**680**	**-**
Coverage:			
Liabilities for retirement benefits and other benefits		855	-
Changes in assumptions and methodology (Note 2.11)		-	-
Unrecognized gains and losses (Note 2.11)		(175)	-
	Total	**680**	**-**

	GDP					
	Health care		Life insurance		Minimum benefit under a defined-contribution plan	
	2005	2004	2005	2004	2005	2004
Technical interest rate	4.25%	4.75%	4.25%	4.75%	4.25%	N/A
Cost growth rate	4.00%	4.00%	3.00%	3.00%	3.00%	N/A
Mortality table for active and pre-retired employees	TV 88/90	TV 73/77	TV 88/90	TV 73/77	TV 88/90	N/A
Mortality Table for Retirees	TV 73/77	TV 73/77	TV 73/77	TV 73/77	TV 73/77	N/A
Disability Table	EVK 80–50%	EVK 80–50%	EVK 80–50%	EVK 80–50%	EVK 80–50%	N/A
Normal retirement age	65	65	70	70	65	

		GDP	
		2005	2004
Method		Unit of Credit Projected	Unit of Credit Projected
Responsibilities and respective coverage:			
i) Health care			
Total liabilities:		12,073	11,587
	Total	**12,073**	**11,587**
Coverage:			
Liabilities for retirement benefits and other benefits		9,296	8,979
Changes in assumptions and methodology (Note 2.11)		-	(278)
Unrealized gains and losses (Note 2.11)		2,777	2,886
		12,073	**11,587**
ii) Life insurance			
Total liabilities:		320	217
	Total	**320**	**217**
Coverage:			
Liabilities for retirement benefits and other benefits		191	127
Changes in assumptions and methodology (Note 2.11)		-	46
Unrecognized gains and losses (Note 2.11)		129	44
		320	**217**
iii) Minimum benefit under the defined-contribution plan			
Total liabilities:		152	-
	Total	**152**	**-**
Coverage:			
Liabilities for retirement benefits and other benefits		203	-
Changes in Assumptions and Methodology (Note 2.11)		-	-
Unrealized gains and losses (Note 2.11)		(51)	-
	Total	**152**	**-**

	Other					
	Healthcare		Life insurance		Minimum benefit under a defined-contribution plan	
	2005	2004	2005	2004	2005	2004
Technical interest rate	4.25%	4.75%	4.25%	4.75%	4.25%	N/A
Cost growth rate	4.00%	4.00%	3.00%	3.00%	3.00%	N/A
Mortality table for active and pre-retired employees	TV 88/90	TV 73/77	TV 88/90	TV 73/77	TV 88/90	N/A
Mortality Table for Retirees	TV 73/77	TV 73/77	TV 73/77	TV 73/77	TV 73/77	N/A
Disability Table	EVK 80–50%	EVK 80–50%	EVK 80–50%	EVK 80–50%	EVK 80-50%	N/A
Normal retirement age	65	65	70	70	65	

		Other	
		2005	**2004**
Method		Unit of Credit Projected	Unit of Credit Projected
Responsibilities and respective coverage:			
i) Health care			
Total liabilities:		357	368
	Total	**357**	**368**
Coverage:			
Liabilities for retirement benefits and other benefits		313	228
Changes in assumptions and methodology (Note 2.11)		-	33
Unrecognized gains and losses (Note 2.11)		44	107
		357	**368**
ii) Life insurance			
Total liabilities:		120	68
	Total	**120**	**68**
Coverage:			
Liabilities for retirement benefits and other benefits		68	37
Changes in assumptions and methodology (Note 2.11)		-	5
Unrecognized gains and losses (Note 2.11)		52	26
		120	**68**
iii) Minimum benefit under the defined-contribution plan			
Total liabilities:		450	-
	Total	**450**	**-**
Coverage:			
Liabilities for retirement benefits and other benefits		508	-
Changes in assumptions and methodology (Note 2.11)		-	-
Unrecognized gains and losses (Note 2.11)		(58)	-
	Total	**450**	**-**

The changes in the liabilities of Petrogal, the GDP Group companies, and other Group companies related to health care, life insurance, and defined contribution plan benefits, as well as the related costs recognized in fiscal year 2005, were as follows:

	Petrogal			
	Health care	Life Insurance	Minimum benefit Defined-Contribution	Total
Total liabilities as of December 31, 2004	173,970	1,912	-	175,882
Cost of current services	2,170	59	820	3,049
Interest expense	8,048	88	35	8,171
Benefits paid during the fiscal year	(8,653)	(82)	-	(8,735)
Actuarial (gains) / losses for the fiscal year	22,842	306	(175)	22,973
Total liabilities as of December 31, 2005	**198,377**	**2,283**	**680**	**201,340**
COSTS FOR 2005				
Interest expense and cost of current services	10,218	147	855	11,220
Amortization of the excess in the corridor	6,627	100	-	6,727
Amortization of changes in assumptions	903	(15)	-	888
	17,748	**232**	**855**	**18,835**

	GDP			
	Health care	Life insurance	Minimum benefit defined contribution	Total
Total liabilities as of December 31, 2004	11,587	216	-	11,803
Cost of current services	199	22	194	415
Interest expense	532	10	9	551
Benefits paid during the fiscal year	(506)	(2)	-	(508)
Actuarial (gains) / losses for the fiscal year	261	74	(51)	284
Total liabilities as of December 31, 2005	**12,073**	**320**	**152**	**12,545**
COSTS FOR 2005				
Interest Expense and Expense for Current Services	731	32	203	966
Amortization of the excess in the corridor	371	5	-	376
Amortization of changes in assumptions	(278)	45	-	(233)
	824	**82**	**203**	**1,109**

	Other			
	Health care	Life insurance	Minimum defined-contribution benefit	Total
Total liabilities as of December 31, 2004	368	68	-	436
Cost of current services	37	23	490	550
Interest expense	17	3	19	39
Benefits paid during the fiscal year	(5)	-	-	(5)
Actuarial (gains) / losses for the fiscal year	(59)	26	(58)	(91)
Total liabilities as of December 31, 2005	**358**	**120**	**451**	**929**
COSTS FOR 2005				
Interest expense and cost of current services	54	27	508	589
Amortization of the excess in the corridor	4	1	-	5
Amortization of changes in assumptions	33	7	-	40
	91	**35**	**508**	**634**

The cost of current services and interest expense, totaling 12,774 million euros, were recorded by the aforementioned companies in the consolidated income statement under the heading "Personnel Expenses."

The increase in liabilities in the amount of mEuros 4,549 and the decrease in liabilities in the amount of mEuros 1,743, resulting from the update of financial and demographic assumptions in 2001, were recognized in the financial statements as mentioned in Note 2.11. In fiscal year 2005, amounts of mEuros 988 and mEuros 293 were recognized under "Personnel Expenses" as an increase and a decrease, respectively, due to the partial amortization of these amounts.

As a result of the excess within the "corridor" calculated as of December 31, 2004, the amount of mEuros 7,108 was recorded during 2005 as a cost under the "personnel expenses" line item, reflecting the amortization of that excess based on the expected average future service life of each company.

As mentioned in Note 2.11, actuarial gains and losses are recognized in the financial statements only to the extent that they exceed the limits defined in the "corridor," and are amortized beginning in the subsequent fiscal year in which they are calculated, as described below.

The following table provides a breakdown, by benefit plan, of the liabilities included in the "corridor" mechanism and their respective ranges.

Benefits	Unrecognized gains and losses	"Corridor" Range (10%)	Amount in excess of the corridor range	Amount to be recognized in 2006
Petrogal Group				
Healthcare	63,302	19,838	43,464	10,155
Life insurance	843	228	615	144
Minimum benefit under the defined-contribution plan	(175)	68	107	5
	63,970	20,134	44,186	10,304
GDP Group				
Healthcare	2,777	1,207	1,570	230
Life insurance	129	32	97	13
Minimum benefit under the defined-contribution plan	(51)	15	(36)	(2)
	2,855	1,254	1,631	241
Other Group				
Healthcare	44	36	8	-
Life Insurance	52	12	40	1
Minimum benefit under the defined-contribution plan	(58)	45	(13)	(1)
	38	93	35	-
	66,863	21,481	45,852	10,545

The calculated plan surpluses, totaling 45,852 mEuros related to healthcare, life insurance, and the minimum benefit under the defined-contribution plan, will be recognized as expenses in future fiscal years based on the expected average future service of the employees covered by these plans (Petrogal 4.28; Gásfomento 24.08; Lisboagás 5.12; Beiragás 26.80; Galp Energia 26.94 for life insurance, 21.68 for health insurance; Galp Power 25.96; Galp Serviços 29.98; GDP Distribuição 14.53; Lusitâniagas 27.65; Petrogal Exploração 32.44; Transgás 22.48; and Transgás Atlântico 30.98). Accordingly, the amount of 10,545 mEuros, resulting from the amortization of the excess "corridor," will be recognized as an expense, net of revenue, under the heading of personnel expenses during the 2006 fiscal year.

25. OTHER ACCOUNTS PAYABLE

As of December 31, 2005, and 2004, the "other accounts payable" category (non-current and current) can be broken down as follows:

	2005		2004	
SECTIONS	Current	Non-current	Current	Non-current
State and other public entities:				
ISP - Tax on Petroleum Products	172,272	-	170,525	-
VAT Payable	136,001	-	134,166	-
Personal Income Tax withheld from third parties	6,666	-	4,142	-
Social Security	4,137	-	3,915	-
Other taxes	455	-	-	-
Other	-	21	-	-
Advances on sales (Note 17)	330,595	-	276,512	-
Shareholders - Affiliated companies (Note 29)	34,920	441	157	2,100
Shareholders - Related Companies (Note 29)	1,435	14,338	49,603	17,899
Other creditors - related companies (Note 29)	411	-	-	-
Suppliers of fixed assets	86,469	371	93,268	2,631
Security deposits and guarantees received	13,777	699	13,313	-
Creditors—transitional accounts	10,372	-	7,221	-
Accounts Payable - Linking Accounts	6,074	-	1,857	-
Advances from Customers	6,002	-	3,851	-
Personnel	1,518	-	4,203	-
Customer credit balances	1,403	-	20,223	-
Service Areas	185	-	885	-
Consultants	59	-	109	-
Unions	26	-	26	-
Other creditors	10,753	3,918	32,246	4,159
	823,530	19,788	816,222	26,789
Additional costs:				
Vacation pay, vacation allowance, and related charges	25,173	-	25,393	-
Financial Costs and Losses	2,247	-	2,297	-
Purchases of goods and services	9,289	-	8,120	-
Fastgalp promotional items	5,675	-	1,238	
Insurance Claims Pending Settlement	543	-	193	-
Productivity Bonuses	11,354	-	17,565	-
Increase in personnel costs—other	210	-	52	-
Galp Fleet Commissions	10	-	13	-
Sales-Related Discounts, Bonuses, and Rebates	5,747	-	3,129	-
Interest Payable	2,973	-	3,884	-
Insurance premiums payable	6,550	-	19,920	
Other increases in costs	8,421	-	7,277	-
Deferred revenue:				
Fiber optics (Note 15)	4,341	67,651	-	72,340
Services Rendered	5,702	-	315	-
Other	4,617	9,004	17,248	5,500
	92,852	76,655	106,644	77,840
	916,382	96,443	922,866	104,629

The amount of mEuros 13,777, recorded under the heading deposits for security deposits and guarantees received, includes

11,964 thousand euros relating to Petrogal's liability as of December 31, 2005, for security deposits received for the lease of gas cylinders, which were recorded at their acquisition cost, which approximates their fair value.

The amount of 3,500 mEuros, included under the heading "Creditors—Transitional Accounts," relates to the compensation agreed upon in 1988–89 between EDP and PGP - Petroquímica e Gás de Portugal (the predecessor of GDP), in the event that the sale of the Cabo Ruivo land—which had since been transferred by EDP to PGP—were to take place at a later date. These properties, sold in prior fiscal years, were part of the assets of Cabo Ruivo – Sociedade de Gestão de Instalação de Equipamentos, S.A., and Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. assuming this liability due to the merger by incorporation with Cabo Ruivo that took place in fiscal year 2003, effective January 1, 2003.

The "Other Creditors" account includes 5,013 mEuros relating to the sale price of the units in the Bairro da Bobadela neighborhood, for which the deeds have not yet been executed.

The amounts recorded as of December 31, 2005, and 2004, under "accrued costs" in the "supplies and external services" account, correspond to the accrual in those fiscal years of various costs for which, as of December 31, 2005, and 2004, the Group had not yet received the respective invoices.

The amount of 5,675 mEuros recorded under "Accrued Expenses" relates to Petrogal's liabilities arising from points issued but not redeemed through 2005, pertaining to the Fast Galp Card, which are expected to be exchanged for rewards in subsequent fiscal years.

The amount of 13,622 mEuros under the "deferred revenue" line item includes the amount of 9,467, which corresponds to customer contributions received by the Group for the construction of dedicated natural gas lines and is being recognized as revenue over the term of the concession.

26. PROVISIONS

The movement in the provisions account during the period ended December 31, 2005, was as follows:

Items	Balance Opening	Increases	Decreases	Usage	Transfers	Other		Balance Final
Legal proceedings	21,019	923	(835)	(308)	-	-		20,799
Financial investments (Note 4)	4,290	680	(344)	(1,066)	-	1,770		5,330
Taxes	2,954	426	-	(432)	-	-		2,948
Other risks and charges	29,652	10,709	(4,523)	(5,557)	-	-		30,281
Provision for restructuring	12,662	8,068	(4,155)	-	(3,222)	-		13,353
	70,577	20,806	(9,857)	(7,363)	(3,222)	1,770		72,711

The total increase in other provisions, amounting to 10,709 mEuros, relates primarily to:

i) 2,500 mEuros for the establishment of a provision for soil decontamination at the Sines refinery;

ii) 1,000 mEuros for the establishment of a provision for compensation to a company in the sector;

iii) 1,330 mEuros for the increase in the provision for estimated losses on payment instruments in the Spanish network;

iv) 1,081 mEuros: increase in the provision for decommissioning costs of production facilities in Block 1. This provision is intended to cover all costs to be borne by the Company at the end of the production life of that oil field;

v) 726 mEuros relating to the increase in the provision for decommissioning costs for Block 14, which is estimated by applying to the estimate of total decommissioning costs the coefficient calculated as the ratio of the production volume recorded in each amortization period to the volume of developed proven reserves at the end of that period, plus the production for that period;

vi) 735 million euros corresponds to the estimated provision for the removal of service stations;

vii) 450 mEuros corresponds to the costs arising from solid waste from the Sines refinery;

viii) 100 mEuros for the establishment of a provision for soil decontamination at Sá Carneiro Airport.

The amount of 20,799 mEuros recorded as of December 31, 2005, under the heading "ongoing legal proceedings," consists primarily of 9,566 mEuros (Note 32) relating to liabilities for the settlement of subsoil occupation fees. The increase in the "Provisions for Legal Proceedings" account includes 301 mEuros in late-payment interest for 2005, arising from legal proceedings related to subsoil occupancy fees.

The amount of mEuros 3,222 relates to the transfer of the restructuring provision to the "Liabilities for retirement benefits and other benefits" line item, corresponding to liabilities for the payment of early retirement benefits to active employees covered by the Galp Energia Group's reorganization process and workforce downsizing. (Note 24)

The amount of 13,353 mEuros recorded under the "Provision for Restructuring" line item is part of the Group's ongoing effort to improve its operating cost performance and maintain its competitiveness. This process, which began in previous years, involves not only a reduction in short-term operating costs but also the optimization of organizational structures, improvements to systems, processes, and practices, and the rationalization of operating assets. As of December 31, 2005, this restructuring plan had been approved and duly defined by the Boards of Directors of the respective Group companies.

The amount of 4,155 mEuros in direct drawdowns from the restructuring provision includes 249 mEuros and 3,906 mEuros related to severance payments for employment contracts terminated by mutual agreement, made by the GDP Group and the Petrogal Group, respectively.

The provision for financial investments, representing the Group's joint and several liability toward associates with negative equity, is detailed as follows (Note 4):

Central E, S.A.	2,553
Sonangalp - Soc. Distrib. e Com. Combustíveis, Lda.	1,813
Energin - Electricity and Heat Production Company, S.A.	678
Ecogen - Decentralized Energy Services, S.A.	276
Gasfomento Energia, S.A.	10
	5,330

The "Provision for Taxes" line item, in the amount of 2,948 mEuros, relates to the Local Tax (now known as the Municipal Property Tax, "IMI") for the fiscal years 1998 through 2004, plus a 2005 adjustment in the amount of 426 mEuros. The amount of IMI payable has not yet been determined by the competent authorities. The reduction of 106 million euros in this provision relates to the use of the direct method for IMI payments.

As of December 31, 2005, the balance of the "Provisions—Other Provisions for Miscellaneous Risks and Expenses" account, in the amount of 30,281 mEuros, relates primarily to:

i) 7,300 mEuros to cover costs associated with soil decontamination at certain facilities occupied by the company where a decision to decontaminate has already been made due to legal requirements;
ii) 5,835 thousand euros relating to the provision established for interest recognized as revenue through 2003 under the contract for the assignment of rights to

telecommunications infrastructure, to address the possibility of termination of the current contract (Note 15);

iii) 5,632 mEuros to cover the costs of decommissioning the production facilities located in Blocks 1 and 14. This provision is intended to cover all costs to be borne by Galp Exploração at the end of the production life of those oil fields. The provision for decommissioning costs for Block 14 is estimated by applying to the estimate of total decommissioning costs the coefficient calculated as the ratio of the production volume recorded in each amortization period to the volume of proved reserves developed at the end of that period, plus the production for the period;

iv) 3,737 thousand euros to cover effluent discharge costs from the Sines Refinery (Note 35);

v) ,367 thousand euros to cover adjustments to the corporate income tax (CIT) base (Note 10);

vi) 1,344 euros relating to a provision set aside to cover estimated losses on payment instruments in the Spanish network;

vii) 1,000 mEuros: provision set aside to cover compensation payable to a company in the sector.

27. SUPPLIERS

As of December 31, 2005, and 2004, the "Suppliers" account was broken down as follows:

ACCOUNT HEADINGS	2005	2004
Trade payables	475,520	376,882
Suppliers - invoices pending receipt and verification	228,850	117,743
Suppliers - notes payable	2,006	416
	706,376	495,041

28. OTHER FINANCIAL INSTRUMENTS – FINANCIAL DERIVATIVES

As mentioned in Note 2.17(f), it is the Group's policy to use financial derivatives to hedge interest rate risks and refining margin fluctuation risks, specifically risks related to changes in the prices of crude oil, finished products, and refining margins, which affect the financial value of the Group's assets and the expected future cash flows from its operations.

In addition, the Group is exposed to market fluctuation risks, specifically risks related to changes in the prices of crude oil, finished products, and refining margins, which affect the financial value of its assets and the expected future cash flows from its operations.

The decrease in fair value reflected in Assets and Liabilities—and consequently in the change in fair value in Equity for the fiscal year ended December 31, 2005, in the amount of 1,468 million euros—relates primarily to interest rate derivatives used for cash flow hedging. As such, the fair value of the effective hedging portion of these derivatives is reflected in the "Hedging Reserves" line item within equity attributable to shareholders in the amount of 1,433 million euros, net of the respective minority interests in the amount of 35 million euros.

The amount related to the change in fair value reflected in shareholders' equity for the fiscal year ended December 31, 2004, totaled 3,713 million euros, of which 3,623 million euros represented a negative change in fair value attributable to shareholders and 90 million euros to minority interests.

The derivative financial instruments held in the portfolio as of December 31 have the following characteristics:

	Assets	Liabilities
Fair value as of January 1, 2004	**3,064**	**1,953**
Acquisitions during the year	8,190	-
Disposals during the year	10,250	-
Increase/(decrease) on sale reflected in income	(10,250)	-
Increase/(decrease) in fair value recognized in income	(7,724)	4,694
Increase/(decrease) in fair value recognized in equity	97	3,810
Fair value as of December 31, 2004	**3,627**	**10,457**
Acquisitions during the year	2,234	-
Disposals during the year	1,588	-
Increase/(decrease) on sale reflected in income	(1,588)	-
Increase/(decrease) in fair value recognized in income	(3,684)	(1,719)
Increase/(decrease) in fair value recognized in equity	52	(1,416)
Fair value as of December 31, 2005	**2,229**	**7,322**

Of the 10,457 mEuros in fair value liabilities as of December 31, 2004, 9,633 mEuros are classified as non-current liabilities and 824 mEuros as current liabilities.

Of the 3,627 mEuros in fair value assets as of December 31, 2004, 95 mEuros are classified as non-current assets and 3,532 mEuros as current assets (Note 18).

Of the 7,322 mEuros in fair value liabilities as of December 31, 2005, mEuros 5,458 are classified as non-current liabilities, and 1,864 mEuros are classified as current liabilities.

Of the mEuros 2,229 in fair value assets as of December 31, 2005, mEuros 53 are classified as non-current assets and mEuros 2,177 as current assets (Note 18).

Type of Interest Rate Derivative	Interest Rate	Notional Amount	Maturity	Fair value of derivatives in mEuros
Asset				
	Cash Flow Hedge			
Collar	Pays a cap between 3.25% and 3.51% and a floor of 1.75% Receives 6-month Euribor	20,000 mEUR	2010	52
Swap with a cap and a "knock-out" clause	Pays 12-month Euribor with a 3.49% cap and a 5.25% knock-out Receives 3-month Euribor	14,964 mEUR	2010	1
	Fair Value Hedge			
Interest Rate Swaps	Pays 12-month Euribor, Receives 4.77% Receives 4.77%	5,611 mEUR	2006	31
				84
Liabilities				
	Cash Flow Hedge			
Interest Rate Swaps	Pays between 3.37% and 6.24% Receives between 3-month Euribor and 6-month Euribor	76,194 mEUR	2008–2013	(2,414)
	Receives between 3-month Euribor and 6-month Euribor			
Caps and Collars	Pays a cap between 3.25% and 4% and a floor between 1.75% and 2.5% to 2010	145,000 mEUR	2007	(1,733)
		Receives between 3-month and 6-month Euribor		
	Other Financial Derivatives			
Interest Rate Swap	Pays between 5.13% and 5.14% receives 6-month USD LIBOR	100,000 mUSD	2011	(1,311)
				(5,458)

Type of commodity derivative commodities	Characteristics	Maturity	Fair value of derivatives in mEuros
Asset			
Options	Refining Margin	2006	404
Swaps	Buy Brent Sell Brent	2006 and 2007	1,741
			2,145
Liabilities			
Swaps	Buy Brent Sell Brent	2006 and 2007	(1,864)
			(1,864)
		Statement of Assets	2,229
		Total Liabilities	7,322

Their fair value was determined by banking institutions based on generally accepted valuation models and techniques.

29. BALANCES WITH RELATED PARTIES

The balances and transactions with related parties for fiscal years 2005 and 2004, respectively, can be summarized as follows:

Receivables

YEAR 2005	Assets								
Companies	Customers - current account	Loans Medium- and long-term - associated companies (Note 15)	Loans from Medium- and long-term - related companies (Note 15)	Loans from Medium- and long-term - investee companies (Note 15)	Other Accounts receivable - associated companies (Note 15)	Accrued revenue (Note 15)	Deferred expenses (Note 15)	Other Transactions	Group companies
Associated companies:									
Brisa Access, S.A.	11	-	-	-	1	-	-	-	12
Central E, S.A.	1	-	-	53	1	-	-	-	55
Petrogal Housing Cooperative, CRL Ecogen -	-	-	-	-	-	-	-	-	-
Decentralized Energy Services, S.A. EMPL -	-	149	-	-	-	2	-	-	151
Europe Maghreb Pipeline, Ltd	(3)	-	-	-	3,567	3,619	(35)	314	7,462
National Fuel Company - Enacol, S.A.R.L. (a) Energin - Electricity	488	337	-	-	229	15	-	87	1,156
and Heat Production Company, S.A. Galp Serviexpress, S.L.U.	1,678	12,830	-	-	-	9	-	-	14,517
Gasfomento Energia, S.A.	-	-	-	-	51	-	-	-	51
Gasfomento Sur Andalucia, S.A.	55	-	-	-	7	-	-	-	62
Al-Andaluz Gas Pipeline, S.A.	1	-	-	-	33	-	-	-	34
Extremadura Gas Pipeline, S.A.	-	20,006	-	-	-	1,275	-	-	21,281
Metragaz, S.A.	-	14,424	-	-	-	1,527	-	-	15,951
Número Um - Auto Repair, Lda. (a) PME	-	-	-	-	-	48	28	-	76
Investimentos - Investment Company, S.A.	104	-	-	-	10	7	-	11	132
Qualiwork - Business Management Services, Lda.	1	-	-	-	-	-	-	-	1
Setgás - Gas Production and Distribution Company, S.A.	6	-	-	-	-	-	-	-	6
Sonangalp - Fuel Distribution and Marketing Company, Lda. Tagusgás - Tagus	2,241	9,085	-	-	17	1,559	(11)	-	12,891
Valley Gas Company, S.A.	(48)	744	-	-	-	-	-	-	696
	1,353	2,475	-	-	373	450	-	235	4,886
	5,888	60,050	-	53	4,289	8,511	(18)	647	79,420
Related companies:									
Ambélis - Agency for the Economic Modernization of Lisbon, S.A. Enagás, S.A.	-	-	90	-	-	-	-	-	90
ENI Portugal Investment, S.p.a.	290	-	-	-	-	(1,307)	-	-	(1,017)
Italgás - Societa Italiana per il Gas, SPA	51	-	-	-	-	3	-	-	54
	-	-	-	-		-	-	-	-
	341	-	90	-	-	(1,304)	-	-	(873)
	6,229	60,050	90	53	4,289	7,207	(18)	647	78,547

Loans to associated companies relate to financing loans granted to the Al Andaluz and Extremadura gas pipelines in the amounts of 20,006 mEuros and 14,424 mEuros, respectively. These loans bear interest at the normal market rate and have no defined repayment term. Interest on the aforementioned loans for fiscal year 2005 totaled 1,185 million euros, of which 514 million euros related to the Extremadura Gas Pipeline and 671 million euros related to the Al-Andaluz Gas Pipeline were capitalized under the “Loans to Affiliated Companies” line item as financial investments.

FISCAL YEAR 2004	Assets							
Companies	Customers - current account	Loans from Medium- and long-term loans— subsidiaries (Note 15)	Loans from Medium- and long-term - associated companies (Note 15)	Loans Medium- and long-term - subsidiaries (Note 15)	Other debtors— Associated and Related Companies (Note 15)	Accrued revenue (Note 15)	Deferred costs (Note 15)	Group companies
Associated companies:								
Brisa Access, S.A.	-	-	-	-	17	-	-	17
CCCP - Petrogal Employee Consumer Cooperative, CRL	-	-	-	53	-	-	-	53
Central E, S.A.	-	-	-	-	1	-	-	1
ASA - Aviation Supply and Services, Lda	-	-	-	-	-	5	-	-
Ecogen - Decentralized Energy Services, S.A.	28	-	144	-	16	2	-	190
EMPL - Europe Maghreb Pipeline, Ltd	(3)	-	-	-	-	2,829	35	2,861
National Fuel Company - Enacol, S.A.R.L.	(10)	-	505	-	121	23	-	639
Energin - Electricity and Heat Production Company, S.A.	1,349	-	12,663	-	-	-	-	14,012
Fast Access - Information and E-Commerce Operations and Services, S.A.	6	-	1,183	-	73	3	-	1,265
Gasfomento Energia, S.A.	44	-	-	-	7	-	-	51
Gasfomento Sur Andalucia, S.A.	2	-	-	-	24	-	-	26
Al-Andaluz Gas Pipeline, S.A.	-	-	22,439	-	-	677	-	23,116
Gasoduto Extremadura, S.A.	-	-	17,534	-	-	669	-	18,203
Metragaz, S.A.	-	-	-	-	90	-	28	118
Number One - Auto Repair, LLC	17	-	-	-	3	3	-	23
Petrogal Angola, Lda	4	1,500	-	-	4	4	-	1,512
Petrogal Guiné, Lda	(703)	1,683	-	-	374	3	-	1,357
Petromar - Fuel Supply Company, Lda	251	-	-	-	143	776	-	1,170
Setgás - Gas Production and Distribution Company, S.A.	2,228	-	8,652	-	15	1,084	12	11,991
Sonangalp - Fuel Distribution and Marketing Company, Lda	48	-	644	-	-	-	-	692
Portgás - Gas Production and Distribution Company, S.A.	3,617	-	23,638	-	1,577	3,211	-	-
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	1,999	-	848	-	1,242	426	-	4,515
Tripul - Ship Management Company, Lda.	-	-	-	-	9	-	-	9
	8,877	3,183	88,250	53	3,716	9,715	75	81,821
Related companies:								
Enagás, S.A.	1,268	-	-	-	547	6	-	1,821
Finerge - Energy Project Management, S.A.	3	-	-	-	277	-	-	280
Oni	-	-	-	-	-	7,494	-	
Italgás - Società Italiana per il Gas, S.p.A.	-	-	-	-	7	-	-	7
	1,271	-	-	-	831	7,500	-	2,108
	10,148	3,183	88,250	53	4,547	17,215	75	83,929

Liabilities

Fiscal Year 2005	Liabilities								
Companies	Suppliers - checking account	Suppliers - Invoices Received and Under Review	Short-term shareholders —associates and related companies (Note 25)	Other creditors— related companies (Note 25)	Medium- and long-term shareholders —associates and related companies (Note 25)	Suppliers of fixed assets	Accrued costs (Note 25)	Deferred revenue (Note 25)	Group companies
Group companies:									
Brisa Access, S.A.	36	15	-	-	-	-	-	-	51
Central E, S.A.	72	100	-	-	-	-	-	-	172
Ecogen - Decentralized Energy Services, S.A.	1	-	-	-	-	-	-	-	1
EMPL - Europe Maghreb Pipeline, Ltd	-	13,956	34,839	-	-	-	-	-	48,795
National Fuel Company - Enacol, S.A.R.L.	360	341	-	14	-	-	-	-	715
Gasfomento Energia, S.A.	-	-	-	-	-	-	-	-	-
Gasfomento Sur Andalucia, S.A.	-	-	-	-	-	-	-	-	-
Al-Andaluz Gas Pipeline, S.A.	-	915	-	-	-	-	-	-	915
Gasoduto Extremadura, S.A.	-	922	-	-	-	-	-	-	922
Number One - Auto Repair, LLC	12	-	-	-	-	-	-	-	12
Qualiwork - Enterprise Training Management Series, Lda	14	-	-	-	-	-	-	-	14
Setgás - Gas Production and Distribution Company, S.A.	171	-	-	-	-	-	23	432	626
Sonangalp - Distribution and Marketing Company for	1	-	-	-	-	-	-	-	1
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	112	26	-	397	-	502	215	934	2,186
Tigs - Maintenance Company	6	2	-	-	-	-	-	-	8
Terparque - Fuel Storage, Lda.	-	-	81	-	441	-	-	-	522
	785	16,277	34,920	411	441	502	238	1,366	54,940
Related companies:									
Enagás, S.A.	-	631	1,435	-	6,760	23	(385)	-	8,464
ENI Portugal Investment, S.p.a.	178	1,303	-	-	3,457	-	3,485	-	8,423
Finerge - Energy Project Management, S.A.	-	-	-	-	420	-	-	-	420
AIE - Atlantic Island Electricity (Madeira) Generation, Transmission, and	-	-	-	-	396	-	-	-	396
E.E.M. - Madeira Electricity Company, S.A.	-	-	-	-	792	-	-	-	792
Portuguese Electricity Production Company, S.A.	-	-	-	-	1,721	-	-	-	1,721
Procomlog - Fuels and Logistics, Lda	-	-	-	-	792	-	-	-	792
	178	1,934	1,435	-	14,338	23	3,100	-	21,008
	963	18,211	36,355	411	14,779	525	3,338	1,366	75,948

The amount of 34,839 mEuros recorded under the heading “Short-term payables to shareholders” to EMPL – Europe Maghreb Pipelin, Ltd. relates to a loan obtained by the subsidiary Petrogal Limited, which bears interest at market rates.

The amount payable to Enagás, S.A., totaling 8,195 million euros (6,760 million euros in the medium and long term and 1,435 million euros in the short term), relates to advances obtained by the subsidiaries Gasoduto Braga - Tuy, S.A. and Gasoduto de Campo Maior - Leiria - Braga, S.A., in the amounts of mEuros 2,160 and mEuros 6,035, respectively, which bear interest at market rates; the amount of mEuros 1,435, corresponding to repayments to be made in fiscal year 2006, is classified as short-term.

The amount of mEuros 3,457 recorded as medium- and long-term payables to Eni, S.p.A. relates to advances obtained by the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., which bear interest at market rates and have no defined repayment term.

FISCAL YEAR 2004	Liabilities								
Companies	Suppliers - current account	Suppliers - invoices pending receipt and verification	Short-term shareholders - associated and related companies (Note 25)	Medium- and long-term shareholders— associates and related companies (Note 25)	Other creditors (Note 25)	Fixed Asset Suppliers	Accrued Costs (Note 25)	Deferred revenue (Note 25)	Group companies
Associated companies:									
Ao Sol - Energias Renováveis, Lda.	-		-	-	4	-	-	-	4
Asa - Aviation Supply and Services, Lda.	9	-	-	-	-	-	-	-	9
Central E, S.A.	27 -	(100)	-	-	-	-	-	-	(73)
CLC - Fuel Logistics Company, Inc.	23,076	-	-	-	-	-		-	23,076
Vigo Financial Club	-	-	19	-	-	-	-	-	19
Portuguese Electricity Production Company, S.A.	-	-	-	1,660	-		-	-	1,660
Petrogal Housing Cooperative, CRL	-	-	7	-	-	-	-	-	7
Ecogen - Decentralized Energy Services, S.A.	-	-	-	-	1	-	-	-	1
EMPL - Europe Maghreb Pipeline, Ltd	3,377	2,089	-	-	-	-	-	-	5,466
National Fuel Company - Enacol, S.A.R.L.	2	(322)	-	-	-	-	-	-	-320
Fast Access - Information and E-Commerce Operations and Services,	110	-	22	-	79	55	-	-	266
Gasfomento Energia, S.A.	-	-	-	-	7	-	-	-	7
Gasfomento Sur Andalucia, S.A.	-	-	-	-	24	-	-	-	24
Al-Andaluz Gas Pipeline, S.A.	-	856	-	-	-	-	-	-	856
Gasoduto Extremadura, S.A.	-	870	-	-	-	-	-	-	870
Number One - Auto Repair, LLC	1	2	-	-	-	-	-	-	3
Petrogal Angola, Lda.	11	-	-	-	777	-	22	-	810
Petrogal Guinea-Bissau, Lda	(60)	32	-	-	-	-	-	-	-28
Petromar – Soc. Abastecimentos Petrolíferos, Lda	60	(32)	-	-	-	-	-	-	28
Petrogal Express Service	4	-	-	-	-	-	-	-	4
Setgás - Gas Production and Distribution Company, S.A.	(182)	-	41	-	-	-	24	472	355
Sigás - Gas Storage, A.C.E.	165	-	-	-	-	-	-	-	165
Tagusgás - Vale do Tejo Gas Company, S.A.	119	95	-	-	-	3,102	10	1,019	4,345
Portgás - Gas Production and Distribution Company, S.A.	548	488	-	-	-	2,073	-	4,014	7,123
PETRAS	-	-	1	-	-	-	-	-	1
PIM	-	-	26	-	-	-	-	-	26
PME Capital - Portuguese Venture Capital Company, S.A.	-	-	41	-	-	-	-	-	41
Terparque - Fuel Storage, Lda.	-	-	-	440	441	-	-	-	881
	27,267	3,978	157	2,100	1,333	5,230	56	5,505	45,626
Related companies:									
EDP	-	-	13,269	-	-	-	-	-	13,269
Finerge - Energy Project Management, S.A.	-	-	-	397	-	-	-	-	397
Enagás, S.A.	1	631	1,596	9,116	-	23	36	-	11,403
EEM - Madeira Electric Company	-	-	-	4,928	-	-	-	-	4,928
Iberodrola	-	-	3,720	-	-	-	-	-	3,720
Oni	-	2	-	-	-	-	-	-	2
Other	-	-	-	3,458	-	-	-	-	3,458
ENI Portugal Investment, S.p.a.	37	-	31,018	-	-	-	796	-	31,851
	38	633	49,603	17,899	-	23	,832	-	69,028
	27,305	4,611	49,760	19,999	1,333	5,253	888	5,505	114,654

Transactions

YEAR 2005	Transactions							
Companies	Materials and services consumed	Interest Expenses Personnel	Interest incurred (Note 9)	Other expenses	Income from Sales	Income from Services rendered	Other Operating income	Interest earned (Note 9)
Group companies:								
Brisa Access, S.A.	232	-	-	-	-	-	-	-
Central E, S.A.	230	-	-	-	-	-	-	-
Ecogen - Decentralized Energy Services, S.A.	9	-	-	-	11	3	3	5
EMPL - Europe Maghreb Pipeline, Ltd	-	-	718	-	-	4,256	-	1,389
National Fuel Company - Enacol, S.A.R.L.	5	-	-	-	851	12	5,789	18
Energin - Electricity and Heat Production Company, S.A.	-	-	691	-	20,217	6	-	596
Galp Serviexpress, S.L.U.	-	-	-	-	-	-	1,191	-
Gasfomento Energia, S.A.	7	-	-	-	-	34	8	
Gasfomento Sur Andalucia, S.A.	-	-	-	-	-	-	1	-
Al-Andaluz Gas Pipeline, S.A.	-	-	-	-	-	598	-	671
Gasoduto Extremadura, S.A.	-	-	-	-	-	858	-	514
Italgás - Societa Italiana per il Gas, SPA	-	-	37	-	-	-	-	-
Metragaz, S.A.	-	-	-	-	173	179	10	-
Number One - Auto Repair, LLC	22	-	-	-	246	2	440	-
Qualiwork - Enterprise Training Management Series, Lda	74	-	-	-	-	-	5	-
Setgás - Gas Production and Distribution Company, S.A.	217	163	-	-	11,708	2,084	309	535
Sonangalp - Fuel Distribution and Marketing Company, Lda	-	-	-	2	-	-	-	-
Tagusgás - Vale do Tejo Gas Company, S.A.	191	50	76	-	4,602	319	556	109
Tripul - Ship Management Company, Lda.	-	-	-	-	-	-	58	-
	987	213	1,522	2	37,808	8,351	8,370	3,837
Related companies:								
Enagás, S.A.	467	-	357	-	-	6,816	-	-
Finerge - Energy Project Management, S.A.	-	-	-	-	-	-	-	-
EDP - Cogeneration	-	-	-	-	-	-	-	-
ENI Portugal Investment, S.p.a.	2,381	-	180	-	3,104	4	2	-
	2,848	-	537	-	3,104	6,820	2	-
	3,835	213	2,059	2	40,912	15,171	8,372	3,837

YEAR 2004	Transactions							
Companies	Materials and Services consumed	Expenses Related to Personnel	Interest incurred (Note 9)	Other expenses	Income from Sales	Income from Services rendered	Interest earned (Note 9)	Other Revenue
Associated companies:								
Brisa Access, S.A.	-	-	-	-	-	-	3	-
Central E, S.A.	167	-	-	-	-	-	-	-
Ecogen - Decentralized Energy Services, S.A.	17	-	-	-	26	3	5	17
EMPL - Europe Maghreb Pipeline, Ltd	-	-	-	162	-	3,090	1,358	-
National Fuel Company - Enacol, S.A.R.L.	465	-	-	42	553	8	4	4,907
Enerfin - Energy Efficiency Company, Inc.	-	-	-	-	-	-	-	-
Energin Azóia	-	-	-	-	15,171	6	606	-
Fast Access - Information and E-Commerce Operations and Services,	302	-	-	-	-	83	41	33
Gasfomento Energia, S.A.	-	-	-	-	-	39	1	10
Gasfomento Sur Andalucia, S.A.	-	-	-	-	-	-	751	1
Gasoduto Al-Andaluz, S.A.	-	-	-	-	-	677	-	-
Gasoduto Extremadura, S.A.	-	-	-	-	-	669	602	-
Metragaz, S.A.	-	-	-	-	144	175	-	10
Number One - Auto Repair, LLC	23	-	-	-	130	-	-	161
Qualiwork - Enterprise Training Management Series, Lda	3	-	-	-	-	-	-	-
Setgás - Gas Production and Distribution Company, S.A.	242	190	-	-	9,312	1,795	426	389
Sonangalp - Fuel Distribution and Marketing Company, Lda	-	-	-	110	-	-	-	-
Tagusgás - Vale do Tejo Gas Company, S.A.	133	38	-	-	3,075	300	110	435
Portgás - Gas Production and Distribution Company, S.A.	616	-	-	-	-	-	1,249	-
TIGS - Engineering and Maintenance Company	-	-	-	-	-	-	-	-
	1,968	228	-	314	28,411	6,845	5,156	5,963
Related companies:								
ENI Portugal Investment, S.p.a.	832	72	15	-	3,874	-	-	-
Finerge - Energy Project Management, S.A.	-	-	-	-	-	-	-	-
EDP - Cogeneration	-	-	-	-	-	-	-	-
Oni	-	-	-	-	-	-	-	-
ENI Portugal Investment, S.p.a.	-	-	-	-	-	-	-	-
Italgás - Societa Italiana per il Gas, SPA	-	-	164	-	-	-	-	-
Enagás, S.A.	462	-	326	-	-	6,499		-
	1,294	72	505	-	3,874	6,499	-	-
	3,262	300	505	314	32,285	13,344	5,156	5,963

30. DIVIDENDS

Dividends from the 2004 net income allocated to the Group's shareholders amounted to mEuros 165,850, in accordance with the resolution of the General Meeting held on May 24, 2005, and were paid in 2005.

With regard to dividends based on the 2005 net income, the Board of Directors proposes that dividends totaling mEuros 222,239 be paid. These dividends are subject to shareholder approval at the General Meeting and have not been included as a liability in the accompanying Financial Statements.

31. SEPARATION OF REGULATED ASSETS IN THE NATURAL GAS SECTOR

Council of Ministers Resolution No. 169/2005, dated October 24, approved the national energy strategy, with the aim, among other things, of separating the regulated assets of the natural gas sector (receipt, transmission, and storage) and implementing their merger with the company operating the electricity transmission network.

In the national energy strategy, the Council of Ministers recommends, among other measures to be adopted within the structural framework for competition in the electricity and gas sectors, the following:

i. a revision of the concession agreement with Transgás – Sociedade Portuguesa de Gás Natural, S.A., specifically the sale of part of this company's assets and liabilities through the spin-off of its transmission and storage activities, as well as the sale of Transgás Atlântico, S.A., the operator of the liquefied natural gas terminal, and the

consequent revision of the subconcession agreement between Transgás, S.A. and Transgás Atlântico, S.A.;

ii. the integration, into a single company, of the electricity and natural gas transmission networks, the existing storage facilities, and the liquefied natural gas terminal, ensuring the legal separation between the activities of these two energy sectors; and

iii. the separation of the marketing activity from the distribution activity, for both electricity and natural gas.

The sale of this business segment is expected to take place during 2006; however, the specific assets and liabilities to be transferred, as well as the price and terms of the sale, have not yet been agreed upon.

Given that the discontinuation process may undergo significant changes, it was not considered appropriate to classify the assets as available-for-sale assets in accordance with IFRS 5.

32. CONTINGENT ASSETS AND LIABILITIES

Contingent Liabilities

As of December 31, 2005, the Company and its subsidiaries had the following contingent liabilities:

i. As of December 31, 2003, the Company had a contingent liability related to an ongoing legal proceeding concerning the reprivatization of Driftal, involving a claim for damages of 19,952 mEuros. The Company's Board of Directors, supported by legal counsel's opinion, believes that this proceeding will not result in any liability for the Company; therefore, no provision has been established for this purpose. However, a bank guarantee for that amount has been provided as of this date (Note 26).

ii. The Lisbon City Council is demanding payments from GDL in the amount of 1,891 thousand euros for 1994/95,
1,016 from 1996, mEuros 1,044 from 1997, mEuros 1,069 from 1998, mEuros 1,093 from 1999, 1,145 mEuros in 2001, 1,189 mEuros in 2002, 1,238 mEuros in 2003, 1,288 mEuros in 2004, and 1,319 mEuros in 2005, relating to the "public right-of-way permit" for existing underground gas pipelines.

iii. The Vila Franca de Xira City Council is demanding payments from GDL of 104 mEuros for 1994/95, 70 mEuros for 2002, 77 mEuros for 2003, and 216 mEuros for 2005, relating to subsoil occupancy fees for the respective years.

iv. The Oeiras City Council is demanding that GDL pay 23 million euros from 1998 and 26 million euros from 2001, relating to subsoil occupancy fees for those years.

v. The Sintra City Council is demanding payments from GDL in the amount of 11 million euros for 1998, 553 million euros for 1999, 276 million euros for 2000, 417 million euros for 2001, 469 million euros for 2002,
490 in 2003, 545 million euros in 2004, and 607 million euros in 2005, relating to the subsoil occupancy fees for those respective years.

vi. The Cascais City Council is demanding payment from GDL of 403 million euros, relating to the 2001 subsoil occupancy fee.

vii. The Covilhã City Council is demanding that Beiragás pay 113 million euros in connection with an ongoing legal proceeding regarding the "public right-of-way occupancy permit" for existing underground gas pipelines.

Based on legal opinions, GDL decided to challenge the payments demanded by the municipal governments in court before the Administrative Tax Court; the requests for a stay of execution were granted, and enforcement remains suspended until a final and binding decision is rendered.

GDL's Board of Directors considers that, as a result of these proceedings, GDL will incur expenses of no more than 9,566 thousand euros, for which provisions have been made (Note 26).

Beiragás's management believes that the aforementioned proceeding will not result in any liabilities for the Company.

Contingent Assets

Following the sale, during the 1999 fiscal year, of 40% of the share capital of OPTEP SGPS, S.A., represented by 440,000 shares with a par value of 5 euros per share, the base sale price was contractually set at 189,544 mEuros, with 74,818 mEuros allocated to the 093X segment and 114,726 mEuros to the E3G/Edinet segment.

The sale by GDP, SGPS, S.A. and Transgás, S.A. to EDP, S.A. was subject to the condition that, should OPTEP SGPS, S.A. to 093X or any entity directly or indirectly controlled by or in which EDP holds an interest were to sell or otherwise dispose of to third parties a stake equivalent to 5% of Optimus—that is, 450,000 shares with a par value of 5 euros each—within three years from the signing of the agreement (June 24, 1999), the difference between the amount of 74,818 mEuros and the proceeds from such disposal would be allocated among the parties as follows:

mEuros per each 220,000 shares	EDP	GDP Group
Between 37,409 and 42,397	0%	100%
Between 42,397 and 52,373	25%	75%
More than 52,373	75%	25%

This agreement was amended on September 28, 2000, by the parties: GDP SGPS, S.A., Transgás SGPS, S.A., Transgás, S.A., and EDP, S.A., extending the deadline for the distribution of any additional capital gains from the future sale of Optimus shares was extended to December 31, 2003.

On March 22, 2002, EDP announced the sale of its stake in OPTEP SGPS, S.A.—a company that holds 25.49% of the capital of Optimus, S.A.—to Thorn Finance, S.A. The sale price was set at 315,000 mEuros, which means that Thorn Finance valued Optimus at 1,235,779 mEuros—therefore, above the value agreed upon between EDP, S.A., GDP SGPS, S.A., and Transgás, S.A., which was 748,197 mEuros. Consequently, there will be an "upside"

for the GDP Group companies, to be paid by EDP, S.A. in the amount of 30,253 mEuros, to be divided equally among GDP, SGPS, S.A. and Transgás, SGPS, S.A..

Since EDP did not agree to these expectations of the GDP Group, this account receivable was not recorded in the books.

Other Financial Commitments

The financial commitments assumed by the Group related to the acquisition or construction of tangible assets not included on the balance sheet as of December 31, 2005, are as follows:

Description	Contract Amount	Amount completed as of 12/31/2005	Outstanding as of 12/31/2005
Construction and Equipment for Industrial Branches	2,194	1,293	901
UAGs	7	-	7
Easements / Expropriations	2,945	1,962	983
Construction of Facilities - Underground Storage	89,540	83,651	5,889
	94,686	86,906	7,780

The amount of 7,780 mEuros relates to contractual obligations to suppliers, specifically in connection with the construction and installation of gas pipelines and other infrastructure and equipment necessary for the implementation of the natural gas transmission network of Transgás, SGPS, S.A.

The financial commitments assumed by the Petrogal Subgroup and not included in the balance sheet as of December 31, 2005, are:

- 5,415 thousand euros related to unfilled orders for tangible fixed assets;
- 4,661 mEuros related to discounted notes receivable in the banking system that have not yet matured;
- 327,557 mEuros and 6,331 mEuros in liabilities covered by the Petrogal and Sacor Marítima Pension Funds, respectively;
- mEuros 29,009 and mEuros 63,970 in liabilities related to the pension plan and to health care, life insurance, and the minimum defined-contribution benefit (Note 24), respectively, not recorded in the financial statements because they fall within the 10% “corridor” (Notes 2.10 and 2.11) or because they correspond to an excess of the corridor not yet recognized in the income statement.
- Under EU legislation, Petrogal has been developing an Environmental and Procedural Reconfiguration Project for the National Refining System—Auto Oil—with the aim of, on the one hand, complying with fuel specifications, particularly for gasoline and diesel, and, on the other hand, bringing the refineries’ environmental performance into line with the applicable legislation. As of this date, the amount required for the changes already implemented and those to be implemented is estimated at 250,000 mEuros, with the final amount depending on the implementation of certain specifications still under discussion at the European level. By the end of 2005, approximately 146,000 mEuros had been spent on this project, and it is estimated that, subject to the considerations mentioned above, an additional 104,000 mEuros will be spent by the time of its completion (in 2009).

Guarantees Provided

As of December 31, 2005, liabilities arising from guarantees provided totaled 309,941 mEuros and 192,500 mUSD, the most significant of which are:

i. Guarantees provided in the amount of 262,968 thousand euros in favor of the European Investment Bank in connection with loans granted by that entity.

ii. Guarantees provided to the Portuguese government in the amounts of 10,734 mEuros and 329 mEuros by a banking syndicate led by Caixa Geral de Depósitos for the execution of the concession contract for the public service of importing, transporting, and supplying natural gas.

iii. Guarantees totaling 7,751 million euros provided to the Lisbon Tax Court of First Instance—5th Division—1st Section, intended to serve as security for the payment demanded by the Lisbon City Council in connection with legal proceedings regarding basement occupancy fees.

iv. Guarantees totaling 6,522 million euros provided to municipal governments in connection with legal proceedings

v. Guarantees totaling 13,572 million euros provided to the Portuguese State for the obligations and duties arising from the Concession Agreement for the operation of the regional natural gas 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.

vi. Guarantees regarding 27.4% (Transgás S.A.'s financial interest) of the following loans granted to EMPL - Europe Maghreb Pipeline, Limited:

	Type	Credit Totals mUSD	Transgás Share mUSD
EIB	Bank	450,000	124,000
ICO	Guarantee	200,000	54,800
Banco Santander	Guarantee	50,000	13,700
		700,000	192,500

33. SUBSEQUENT EVENTS

During the fiscal year ended December 31, 2005, Amorim Energia B.V. entered into an agreement to purchase shares of Galp Energia, SGPS, S.A. held by EDP-Energias Portugal S.A., representing 14.27% of the share capital, and in the same transaction secured a call option for 18.3% of the share capital held by REN - Rede Eléctrica Nacional, S.A. (Note 20)

Additionally, in January 2006, Amorim Energia B.V. acquired from Portgás – Sociedade de Produção de Gás S.A. its stake in the Company's share capital, representing 0.04% (Note 20)

Consequently, the equity holders (Note 20) as of December 31, 2005, have not been adjusted for the effects of the transactions mentioned above, since the sale of the shares between the entities mentioned above was not recorded until the end of January 2006.

The Company acquired, through a tender offer, the following blocks of shares during fiscal year 2006:

Block		Month of Acquisition	Participating companies and ownership percentages
POT-T-239	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-240	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-255	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-256	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-354	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-440	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-447	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-484	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-650	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-651	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-696	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-697	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
ES-T-227	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
SEAL-T-412	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
SEAL-T-419	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
SEAL-T-429	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
SEAL-T-456	(i)	Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
ES-T-107		Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
ES-T-108		Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
ES-T-125		Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
ES-M-592		Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-225		Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-241		Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-605		Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-606		Jan-06	Petróleo Brasileiro S.A. - Petrobras (50%) and Petrogal Brasil Ltda. (50%)
POT-T-663		Jan-06	Petróleo Brasileiro S.A. - Petrobras (60%), Petrogal Brasil Ltda. (20%), and Encana Brasil Ltda. (20%)
POT-T-665		Jan-06	Petróleo Brasileiro S.A. - Petrobras (80%) and Petrogal Brasil Ltda. (20%)
POT-T-760		Jan-06	Petróleo Brasileiro S.A. - Petrobras (60%), Petrogal Brasil Ltda. (20%), and Encana Brasil Ltda. (20%)
POT-T-853		Jan-06	Petróleo Brasileiro S.A. - Petrobras (80%) and Petrogal Brasil Ltda. (20%)
POT-T-855		Jan-06	Petróleo Brasileiro S.A. - Petrobras (80%) and Petrogal Brasil Ltda. (20%)

(i) Blocks in which the Company is the operator

The fee for the right to use these blocks was paid in January 2006, and the start of exploration will depend on the decision of the consortium members' management.

34. FIRST APPLICATION OF INTERNATIONAL INTERNATIONAL FINANCIAL FINANCIAL REPORTING (IFRS)

The Group adopted the International Financial Reporting Standards ("IFRS") effective January 1, 2005, applying "IFRS 1—First-time Adoption of International Financial Reporting Standards" for this purpose, with January 1, 2004, serving as the transition date for the presentation of these financial statements.

The effect on equity as of December 31, 2003, of converting the financial statements prepared in accordance with the POC (Official Accounting Plan) to statements expressed in accordance with IFRS is detailed as follows:

Consolidated Shareholders' Equity - POC	**1,651,163**
Adjustments to IAS/IFRS:	
Intangible fixed assets	(34,815)
Tangible fixed assets	(93,571)
Investments in associates	(12,083)
Inventories	17,926
Accruals, deferrals, and other adjustments	(9,525)
Deferred actuarial gains and losses	(98,367)
Financial derivatives	(5,952)
Deferred taxes	34,462
Consolidation of the reinsurer	16,435
Minority interests	2,555
Consolidated Equity - IAS/IFRS	**1,468,228**
Impact on Equity	**(182,935)**

The adjustments presented relate primarily to:

1 – Intangible Fixed Assets

Adjustment to start-up, advertising, and research expenses (except for oil extraction activities), among others, capitalized in POC, totaling 34,815 thousand euros;

2 – Tangible Fixed Assets

The adjustments to the Tangible Fixed Assets account are due, among other things, to Work Performed for the Company Itself, Repairs, and capitalized pre-operating expenses, which do not comply with IAS No. 16. The total amount of the adjustment is 93,571 thousand euros.

3 – Investments in Associates

In addition to the adjustments to Group companies, adjustments were made to associates and subsidiaries totaling 12,083 thousand euros, of a nature similar to those described in this Note.

4 – Inventories

The valuation method adopted by the Group for most of its companies regarding the issuance of merchandise, raw materials, and finished goods is LIFO. Since this method is not accepted under IAS No. 2, as revised in December 2003, Galp Energia decided to apply FIFO for the valuation of such issuances. The amount of the adjustments made totals 17,926 thousand euros, net of adjustments to the respective provisions.

5 – Accruals, Deferrals, and Other Adjustments

The net adjustments totaling mEuros 9,525 are primarily due to start-up expenses and capitalized costs for major repairs, which, according to IAS No. 16 and No. 37, are not eligible for deferral.

6 – Deferred actuarial gains and losses

The deferred actuarial gains and losses relating to the Pension Fund, which were within the "corridor" range as of the transition date (January 1, 2004), in some Group companies, in the amount of 98,367 m€, were adjusted during the transition process against retained earnings. Consequently, all cumulative actuarial gains and losses existing as of the transition date were recognized, and the "corridor" approach provided for in IAS 19 was also initiated on that date – Employee Benefits.

7 – Financial derivatives

IAS 32 and IAS 39 require that all financial derivatives be accounted for at fair value.
Financial transactions intended to hedge business risks were recorded at the fair value of the open positions as of the date of the financial report. The amount of the adjustment totaled 5,952 thousand euros.

8 – Deferred Taxes

As a result of the adjustments identified above, deferred taxes were calculated in the amount of 34,462 million euros.

9 – Consolidation of Companies Engaged in Non-Core Activities

In accordance with IAS No. 27, companies engaged in activities other than the "core business" are now consolidated. Following the procedure set forth in IFRS No. 4, the equalization reserves that had been established were reversed and recognized in an equity account. The amount of the adjustments totaled 16,435 million euros.

10 – Minority interests

The adjustments made affect the carrying amount of minority interests, resulting in an adjustment to equity in the amount of 2,555 mEuros.

In addition, the reconciliation between equity under the POC (Official Accounting Plan) and under IFRS as of December 31, 2004, as well as the reconciliation between the respective results for the fiscal year ended on that date, is as follows:

The following presents the reconciliation of equity and the comparative financial statements (POC vs. IAS/IFRS) as of December 31, 2004:

Consolidated Shareholders' Equity - POC	**1,887,351**
Adjustments to IAS/IFRS:	
Depreciation of fixed assets and amortization of intangible assets	(124,810)
Investments in associates	(7,861)
Inventories	156,527
Accruals, deferrals, and other adjustments	(6,651)
Deferred actuarial gains and losses	(85,482)
Financial derivatives	(11,917)
Deferred taxes	(4,324)
Consolidation of the reinsurer	16,435
Minority interests	2,798
Consolidated Equity - IAS/IFRS	**1,822,066**
Impact on Equity	**(65,285)**

	12/31/2004	POC Reinsurer Adjustment		12/31/2004 Restated under IFRS/IAS
ASSETS				
Non-current assets:				
Property, plant, and equipment	3,260,396	(658,464)	-	2,601,932
Goodwill	10,640	1,321	-	11,961
Other intangible fixed assets	434,926	(105,516)	-	329,410
Equity investments in associates	91,830	(11,932)	(2,276)	77,622
Equity investments in subsidiaries	61,545	(1,268)	-	60,277
Other accounts receivable	122,049	(9,861)	10,608	122,796
Deferred tax assets	103,361	34,701	-	138,062
Other financial investments	130	96	7	233
Total non-current assets:	**4,084,877**	**(750,923)**	**8,339**	**3,342,293**
Current assets:				
Inventories	676,715	156,527	-	833,242
Customers	664,752	16,418	-	681,170
Other accounts receivable	462,251	(97,648)	24,475	389,078
Other financial investments	19,182	157	-	19,339
Cash and cash equivalents	214,746	2,745	9,768	227,259
Total current assets:	**2,037,646**	**78,199**	**34,243**	**2,150,088**
Total assets:	**6,122,523**	**(672,724)**	**42,582**	**5,492,381**
EQUITY AND LIABILITIES				
Equity:				
Par value	829,251	-	-	829,251
Share premium	82,006	-	-	82,006
Translation reserves	47,681	(52,744)	-	(5,063)
Other reserves	68,273	-	-	68,273
Adjustments to the value of financial assets	-	(3,736)	-	(3,736)
Accumulated earnings	527,076	(145,614)	16,435	397,897
Net income for the period	333,064	120,374	-	453,438
Total equity attributable to shareholders:	1,887,351	(81,720)	16,435	1,822,066
Minority interests	26,880	(2,798)	-	24,082
Total equity:	**1,914,231**	**(84,518)**	**16,435**	**1,846,148**
Liabilities:				
Non-current liabilities:				
Bank loans and overdrafts	788,380	(206)	-	788,174
Bondholder loans	309,760	-	-	309,760
Other accounts payable	24,854	79,775	-	104,629
Liabilities for retirement, health, and life benefits	184,415	26,796	-	211,211
Deferred tax liabilities	14,884	39,024	-	53,908
Other financial instruments	-	9,633	-	9,633
Provisions	92,396	(21,819)	-	70,577
Total noncurrent liabilities:	**1,414,689**	**133,203**	**-**	**1,547,892**
Current liabilities:				
Bank loans and overdrafts	632,606	(596)	-	632,010
Accounts Payable	493,954	1,087	-	495,041
Other accounts payable	1,619,443	(722,724)	26,147	922,866
Other financial instruments	-	824	-	824
Current income tax payable	47,600	-	-	47,600
Total current liabilities:	**2,793,603**	**(721,409)**	**26,147**	**2,098,341**
Total liabilities:	**4,208,292**	**(588,206)**	**26,147**	**3,646,233**
Total equity and liabilities:	**6,122,523**	**(672,724)**	**42,582**	**5,492,381**

	12/31/2004	Adjustments—POC	Reinsurer	12/31/2004 Restated under IFRS/IAS
Operating income:				
Revenue from sales	9,127,266	204	-	9,127,470
Revenue from services rendered	131,272	74	13,805	145,151
Other operating income	64,870	(2,532)	16,928	79,266
Total operating income:	**9,323,408**	**(2,254)**	**30,733**	**9,351,887**
Operating expenses:				
Inventory consumed and sold	7,737,143	(139,239)	-	7,597,904
Materials and services consumed	437,258	18,858	12,261	468,377
Personnel expenses	263,782	(12,885)	-	250,897
Amortization and Depreciation Expenses	314,463	(20,225)	-	294,238
Provisions and impairment of accounts receivable	17,744	(3,174)	-	14,570
Other operating expenses	59,811	(3,011)	18,687	75,487
Total operating expenses:	**8,830,201**	**(159,676)**	**30,948**	**8,701,473**
Operating income:	**493,207**	**157,422**	**(215)**	**650,414**
Financial income	9,896	1,053	271	11,220
Financial expenses	(67,960)	280	(56)	(67,736)
Foreign exchange gains (losses)	8,019	(333)	-	7,686
Income from equity investments in associates	20,884	4,435	-	25,319
Income from financial instruments	(20,493)	(2,342)	-	(22,835)
Other gains and losses	(486)	-	-	(486)
Income before taxes:	**443,067**	**160,515**	**-**	**603,582**
Income tax	(105,377)	(40,409)	-	(145,786)
Income before minority interests:	**337,690**	**120,106**	**-**	**457,796**
Income attributable to minority interests	(4,626)	268	-	(4,358)
Net income for the year	**333,064**	**120,374**	**-**	**453,438**

The scope of consolidation under POC differs from that under IAS with respect to the consolidation of the Group's reinsurance company, resulting in an allocation of operating income and expenses.

The adoption of the FIFO method for inventory write-offs instead of LIFO, in accordance with IAS 2, impacts the Group's net income by 138,601 thousand euros, with the largest impact resulting from the adoption of IFRS.

The adjustments related to depreciation and amortization of fixed assets result from, and are attributable to, the lower depreciation and amortization recorded in IAS financial statements compared to POC, resulting from the adjustments made on the transition date, with a corresponding entry in retained earnings. Consequently, the difference observed in the "Depreciation of Tangible and Intangible Fixed Assets" line item in 2004, compared to the "Tangible and Intangible Fixed Assets" line items in 2003, is due to the depreciation of assets excluded under IAS (in accordance with those standards) but still recognized under POC.

The following is a reconciliation of shareholders' equity and the comparative financial statements (POC vs. IAS/IFRS) as of December 31, 2005:

Consolidated Shareholders' Equity - POC	**2,184,014**
Adjustments to IAS/IFRS:	
Depreciation of fixed assets and amortization of intangible assets	(107,824)
Investments in associates	7,691
Inventories	423,834
Accruals, deferrals, and other adjustments	4,840
Deferred actuarial gains and losses	(70,429)
Financial derivatives	(4,561)
Deferred taxes	(79,487)
Consolidation of the reinsurer	-
Minority interests	3,128
Consolidated Equity - IAS/IFRS	**2,361,206**
Impact on Equity	**177,192**

ASSETS	12/31/2005 Adjustment	POC	December 31, 2005 Restated in accordance with IFRS/IAS
Non-current assets:			
Property, plant, and equipment	3,199,866	(645,094)	2,554,772
Goodwill	62,287	(41,807)	20,480
Other intangible fixed assets	442,958	(75,664)	367,294
Equity investments in associates	92,867	(8,322)	84,545
Equity interests in subsidiaries	15,852	47,756	63,608
Other accounts receivable	88,296	7,952	96,248
Deferred tax assets	117,807	41,117	158,924
Other financial investments	-	338	338
Total non-current assets:	**4,019,933**	**(673,724)**	**3,346,209**
Current assets:			
Inventories	766,265	433,092	1,199,357
Accounts receivable	898,585	(222)	898,363
Other accounts receivable	451,378	(128,861)	322,517
Other financial investments	16,467	(6,276)	10,191
Cash and cash equivalents	146,324	11,311	157,635
Total current assets:	**2,279,019**	**309,044**	**2,588,063**
Total assets:	**6,298,952**	**(364,680)**	**5,934,272**
EQUITY AND LIABILITIES			
Equity:			
Par value	829,251	-	829,251
Share premium	82,006	-	82,006
Translation reserves	68,235	(70,114)	(1,879)
Other reserves	84,926	-	84,926
Adjustments to the value of financial assets	-	(2,905)	(2,905)
Retained earnings	677,637	(8,487)	669,150
Net income for the period	441,959	258,698	700,657
Total equity attributable to shareholders:	2,184,014	177,192	2,361,206
Minority interests	27,773	(3,128)	24,645
Total equity:	**2,211,787**	**174,064**	**2,385,851**
Liabilities:			
Non-current liabilities:			
Bank loans and overdrafts	782,984	(988)	781,996
Bond loans	309,760	-	309,760
Other accounts payable	18,286	78,157	96,443
Liabilities for retirement, health, and life benefits	199,021	15,211	214,232
Deferred tax liabilities	13,308	118,967	132,275
Other financial instruments	-	5,458	5,458
Provisions	107,359	(34,648)	72,711
Total non-current liabilities:	**1,430,718**	**182,157**	**1,612,875**
Current liabilities:			
Bank loans and overdrafts	257,390	-	257,390
Accounts payable	706,580	(204)	706,376
Other accounts payable	1,640,837	(724,455)	916,382
Other financial instruments	-	1,864	1,864
Current income tax payable	51,640	1,894	53,534
Total current liabilities:	**2,656,447**	**(720,901)**	**1,935,546**
Total liabilities:	**4,087,165**	**(538,744)**	**3,548,421**
Total equity and liabilities:	**6,298,952**	**(364,680)**	**5,934,272**

	12/31/2005 POC	Adjustments	12/31/2005 Restated under IFRS/IAS
Operating income:			
Revenue from sales	10,977,195	8,197	10,985,392
Revenue from services rendered	149,688	2,228	151,916
Other operating income	91,317	(7,951)	83,366
Total operating income:	**11,218,200**	**2,474**	**11,220,674**
Operating expenses:			
Inventory consumed and sold	9,429,399	(267,307)	9,162,092
Materials and services consumed	524,312	1,262	525,574
Personnel expenses	284,687	(15,053)	269,634
Amortization and Depreciation Expenses	320,553	(13,757)	306,796
Provisions and impairment of accounts receivable	21,763	780	22,543
Other operating expenses	85,692	(14,406)	71,286
Total operating expenses:	**10,666,406**	**(308,481)**	**10,357,925**
Operating income:	**551,794**	**310,955**	**862,749**
Financial income	9,757	(801)	8,956
Financial expenses	(63,004)	986	(62,018)
Foreign exchange gains (losses)	(19,802)	3,228	(16,574)
Income from investments in associates	91,497	13,718	105,215
Income from financial instruments	(9,475)	5,923	(3,552)
Other gains and losses	(1,421)	37	(1,384)
Income before taxes:	**559,346**	**334,046**	**893,392**
Income tax	(114,275)	(74,561)	(188,836)
Income before minority interests:	**445,071**	**259,485**	**704,556**
Income attributable to minority interests	(3,112)	(787)	(3,899)
Net income for the year	**441,959**	**258,697**	**700,657**

The adoption of the FIFO method for inventory write-offs instead of LIFO, in accordance with IAS 2, impacts the Group's net income by 267,307 thousand euros, with the largest impact resulting from the adoption of IFRS.

35. INFORMATION ON ENVIRONMENTAL MATTERS

The main challenges facing the Refining business include meeting the greenhouse gas emission reduction targets for the period from 2008 to 2012, as defined by the Kyoto Protocol; reducing the sulfur content of the fuels used at the facilities; and increasing energy efficiency.

Decree-Law No. 233/2004, of December 14, as amended by Decree-Law No. 243-A/2004 of December 31, and further amended by Decree-Law No. 230/2005 of December 29, establishes the greenhouse gas emissions trading scheme (CELE Regulation), and applies to emissions from the industrial activities listed in Annex I thereof, which include facilities belonging to the Galp Energia Group.

The facilities covered by the Emissions Trading Scheme during the first three-year period from 2005 to 2008 are the Sines Refinery and the Porto Refinery—both belonging to Petrogal—and the cogeneration facilities belonging to the companies Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A. and Powercer - Sociedade de Cogeração da Vialonga, S.A., part of the Galp Power group.

By Joint Order 686-E/2005 of September 13, 2005, the list of existing facilities participating in emissions trading and the respective initial allocation of emission allowances for the 2005–2008 period were approved.

Accordingly, the following allowances were allocated annually to the facilities of the following companies:

Company	Facilities	Permits Tons of CO_2 Allocated
Petrogal	Sines Refinery	2,313,908
	Porto Refinery	951,969
	Petrogal Group Subtotal	3,265,877
Carriço Cogeneration	Cogeneration	139,284
Powercer	Cogeneration	38,498
	Galp Power Group Subtotal	177,782
	Total Galp Energia Group	3,443,659

In 2005, the following amounts of greenhouse gases (metric tons of CO2 equivalent) were emitted by the facilities mentioned above:

Company	Facilities	Emissions during 2005	Permits (metric tons of CO_2) in portfolio
Petrogal	Sines Refinery	2,063,718	2,313,908
	Porto Refinery	945,319	951,969
	Petrogal Group Subtotal	3,009,037	3,265,877
Powercer	Cogeneration	38,809	38,498
Carriço Cogeneration	Cogeneration	112,556	139,284
	Subtotal Galp Power Group	151,365	177,782
	Total Galp Energia Group	3,160,402	3,443,659

Note: Pro forma figures for CO2 emissions, subject to environmental audits

The Galp Energia Group has chosen not to reflect in its financial statements the recognition of any appreciation or depreciation of these licenses, as it is understood that there is not yet a regulated market that would allow for the appropriate recognition of such changes.

However, should a shortage of permits occur, appropriate provisions will be established if deemed necessary. As indicated above, as of December 31, 2005, only in the case of Powercer's facilities were the allocated permits found to be less than the volume of gases emitted, by an amount considered immaterial and unlikely to have an effect on the financial statements as of that date. As of December 31, 2005, the allowances allocated to the Group exceeded the volume of greenhouse gases emitted; consequently, no provisions were recorded during the fiscal year.

During the previous fiscal year, Petrogal was notified of the assessment of fees provided for in the General Effluent Regulation of São André (RGESA), relating to effluent discharges from the Sines Refinery, in the amount of 1,263 mEuros. In addition, Petrogal was notified of the assessment of increased fees regarding discharges that the same Regulation considers "prohibited," in the amount of approximately 25,000 mEuros. Petrogal's Board of Directors, supported by technical and legal opinions, disagrees with the criteria for classifying these discharges, as well as their legality, on the grounds that the regulations governing them are unconstitutional. Accordingly, a legal challenge is currently underway regarding that assessment and the resulting costs; a provision in the amount of 3,737 mEuros was established during 2004 (Note 26), which remains recognized as of the balance sheet date—an amount the company considers to remain adequate in light of the regulations in effect prior to the RGESA.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by management and authorized for issuance on April 4, 2006; however, they are still subject to approval by the General Shareholders' Meeting in accordance with the commercial legislation in force in Portugal.

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of euros – mEuros)

Introduction

1. We have audited the accompanying consolidated financial statements of Galp Energia, SGPS, S.A. ("Company") and its subsidiaries ("Group"), which comprise the consolidated balance sheets as of December 31, 2005, and December 31, 2004, showing total assets of 5,934,272 mEuros and 5,492.381 million euros, respectively, and shareholders' equity of 2,385,851 million euros and
1,846,148 million euros, respectively, including net income of 700,657 million euros and 453,438 million euros, respectively; the consolidated statements of income by nature, cash flows, and changes in equity for the fiscal years ended on those dates; and the corresponding Notes.

Responsibilities

2. It is the responsibility of the Board of Directors to prepare financial statements that present a true and fair view of the financial position of the Company and of all the companies included in the consolidation, the consolidated results of their operations, their cash flows, and changes in their equity, as well as to adopt appropriate accounting policies and criteria and to maintain an appropriate internal control system. Our responsibility is to express a professional and independent opinion based on our audit of those consolidated financial statements.

Scope

3. The audit we conducted was performed in accordance with the Technical Standards and Auditing Guidelines of the Portuguese Institute of Certified Public Accountants, which require that the audit be planned and performed with the objective of obtaining reasonable assurance that the consolidated financial statements are free from material misstatements. This examination included verifying, on a sample basis, the supporting documentation for the amounts and information disclosed in the consolidated financial statements and evaluating the estimates—based on judgments and criteria established by the Board of Directors—used in their preparation. This examination also included verifying the consolidation procedures, the application of the equity method, and whether the financial statements of the companies included in the consolidation were properly examined; assessing whether the accounting policies adopted are appropriate, whether they were applied consistently, and whether they were disclosed appropriately, taking into account the circumstances; verification of the applicability of the going-concern principle, and an assessment of whether the presentation of the consolidated financial statements is, on the whole, appropriate. We believe that the audit we conducted provides a reasonable basis for expressing our opinion.

Opinion

4. In our opinion, the financial statements referred to in paragraph 1 above present, in all material respects, a true and fair view of the consolidated financial position of Galp Energia, SGPS, S.A. and its subsidiaries as of December 31, 2005, and December 31, 2004, as well as the consolidated results of their operations and their consolidated cash flows for the years ended on those dates, in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis

5. As disclosed in Note 2.1 of the Notes to these financial statements, although the consolidated financial statements as of December 31, 2005, and December 31, 2004, approved by the General Meeting of Shareholders, were prepared in accordance with generally accepted accounting principles in Portugal ("POC"), the Board of Directors of Galp Energia, SGPS, S.A. has now prepared, for inclusion in the Prospectus for the Public Offering and Admission to Trading of shares representing a portion of the Company's share capital, new consolidated financial statements for those fiscal years, in accordance with International Financial Reporting Standards as adopted by the European Union ("IAS/IFRS"), having complied with the provisions set forth in IFRS 1 – First-time Adoption of International Financial Reporting Standards—in quantifying the transition adjustments, which were reported as of January 1, 2004, the transition date applicable to companies with securities admitted to trading on a regulated market as of December 31, 2005. The effects of adopting IAS/IFRS on shareholders' equity and net income resulting from the adjustments made during the transition process are described in Note 34.

Lisbon, June 30, 2006

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DELOITTE & ASSOCIADOS, SROC S.A.
Represented by António Marques Dias

APPENDIX B: CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2004, AND DECEMBER 31, 2003, PREPARED IN ACCORDANCE WITH POC

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME BY NATURE FOR THE YEARS ENDED DECEMBER 31, 2004, AND 2003

(Amounts expressed in thousands of Euros)

COSTS AND LOSSES	NOTES	2004		2003	
Cost of goods sold and materials consumed:					
Merchandise		2,245,876		1,469,238	
Raw and auxiliary materials		5,469,952	7,715,828	4,770,659	6,239,897
External supplies and services			437,258		391,805
Personnel costs:					
Compensation		174,326		154,718	
Social security contributions:					
Pensions		34,767		27,630	
Other		45,980	255,073	43,404	225,752
Depreciation and amortization of tangible and intangible fixed assets	27	318,414		297,969	
Provisions	46	74,497	392,911	16,712	314,681
Taxes		7,520		10,264	
Other operating costs and losses		61,822	69,342	41,012	51,276
(A)			**8,870,412**		**7,223,411**
Losses in group companies and affiliates	44	8,279		7,822	
Amortization and provisions for financial investments and placements	44	153		179	
Interest and similar expenses:					
Related to group companies and affiliates	44	672		455	
Other	44	138,858	147,962	178,971	187,427
(C)			**9,018,374**		**7,410,838**
Extraordinary costs and losses	45		30,388		32,202
(E)			**9,048,762**		**7,443,040**
Income Tax for the Fiscal Year	51		111,916		118,659
Minority interests			4,625		2,995
(G)			**9,165,303**		**7,564,694**
Consolidated net income for the fiscal year			333,064		247,446
			9,498,367		**7,812,140**

The accompanying notes are an integral part of the consolidated statement of income by nature for the fiscal year ended December 31, 2004

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS BY NATURE FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of Euros)

REVENUES AND GAINS	NOTES	2004		2003	
Sales of products and merchandise:					
Merchandise	36	3,221,625		2,266,818	
Products	36	5,905,622		5,014,340	
Services Rendered	36	131,272	9,258,519	132,390	7,413,548
Change in production			(17,519)		69,735
Work performed for the company itself			9,524		23,106
Supplementary revenue		39,840		31,831	
Operating subsidies		1,560		2	
Other operating income and gains		17,295	58,695	19,699	51,532
(B)			**9,309,219**		**7,557,921**
Gains on group companies and affiliates	44	33,738		30,632	
Income from marketable securities and other financial investments					
Other	44	156		63	
Other interest and similar income:					
Related to group companies and affiliates	44	3,791		4,272	
Other	44	80,496	118,181	131,548	166,515
(D)			**9,427,400**		**7,724,436**
Extraordinary income and gains	45		70,967		87,704
(F)			**9,498,367**		**7,812,140**
Operating results:		(B) – (A)	438,807		334,510
Financial results:		(D-B)-(C-A)	(29,781)		(20,912)
Operating income:		(D) - (C)	409,026		313,598
Income before taxes and minority interest:		(F) - (E)	449,605		369,100
Consolidated net income for the year:		(F) - (G)	333,064		247,446

The accompanying notes are an integral part of the consolidated statement of income by nature for the fiscal year ended December 31, 2004

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS BY FUNCTION

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of Euros)

	Notes	2004	2003
1. Sales and services rendered	36	9,258,519	7,413,548
2. Cost of sales and services rendered		(8,334,704)	(6,592,563)
Gross profit		**923,815**	**820,985**
3. Other operating income and gains		122,009	104,848
4. Distribution costs		(358,930)	(353,044)
5. Administrative expenses		(42,379)	(42,433)
6. Other operating costs and losses		(166,143)	(147,097)
Operating income		**478,372**	**383,259**
7. Net financing costs		(54,075)	(39,502)
8. Gains (losses) in subsidiaries and affiliates	44	25,459	22,810
9. Gains (losses) on other investments		(151)	2,533
Current income		**449,605**	**369,100**
10. Income tax on current earnings	51	(111,916)	(118,659)
Current income after taxes		**337,689**	**250,441**
11 . Extraordinary income		-	-
12 . Tax on extraordinary income		-	-
13 . Minority interests		(4,625)	(2,995)
Consolidated net income		**333,064**	**247,446**
Earnings per share (165,850,127 shares)		**2.01 EUR**	**1.49 EUR**

The accompanying notes are an integral part of the consolidated income statement by function for the fiscal year ended December 31, 2004

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of euros)

Assets	Notes	2004 Gross Assets	2004 Depreciation and Provision	2004 Net assets	2003 Net assets
FIXED ASSETS:					
Intangible assets:					
Start-up expenses	25 and 27	37,447	(22,521)	14,926	19,754
Research and development expenses	25 and 27	7,771	(5,986)	1,785	1,322
Industrial property and other rights	25 and 27	230,002	(100,420)	129,582	141,477
Conversion of consumption to natural gas	25 and 27	294,847	(51,943)	242,904	228,230
Leasehold Interests	25 and 27	30,323	(14,204)	16,119	15,097
Consolidation differences	10 and 27	69,202	(11,139)	58,063	62,903
Assets under construction	27	29,934	-	29,934	37,706
Advances for intangible assets	27	284	-	284	184
		699,810	(206,213)	493,597	506,673
Tangible fixed assets:					
Land and natural resources	27	262,325	(7,937)	254,388	254,084
Buildings and other structures	27	680,929	(366,750)	314,179	317,534
Basic equipment	27	4,915,688	(2,752,470)	2,163,218	1,931,514
Transportation equipment	27	32,297	(27,801)	4,496	5,959
Tools and equipment	27	4,960	(4,523)	437	464
Office equipment	27	121,639	(102,763)	18,876	18,596
Tare and containers	27	159,996	(131,028)	28,968	22,379
Other tangible fixed assets	27	81,132	(50,139)	30,993	29,641
Assets under construction	27	471,835	-	471,835	695,196
Advance Payments for Tangible Fixed Assets	27	4,271	-	4,271	6,221
		6,735,072	(3,443,411)	3,291,661	3,281,588
Financial investments:					
Equity interests in group companies	2	4,083	-	4,083	9,437
Loans to group companies	2	3,183	(1,830)	1,353	1,179
Equity interests in associated companies	3	87,599	-	87,599	93,951
Loans to affiliated companies	3	88,250	-	88,250	96,443
Securities and other financial investments	27	52,634	(30,292)	22,342	21,944
Other loans granted	27	143	-	143	593
		235,892	(32,122)	203,770	223,547
MEDIUM- AND LONG-TERM RECEIVABLES:					
Third-party payables—Medium- and long-term:					
Trade receivables—current account		161	-	161	165
Customers - Accounts Receivable		311	-	311	555
Other debtors	52	32,303	-	32,303	39,191
		32,775	-	32,775	39,911
CURRENT ASSETS:					
Inventories:					
Raw materials, auxiliary materials, and supplies	50	203,486	(6,733)	196,753	217,416
Products and work in progress	50	45	-	45	140
Finished and intermediate products	50	347,445	(1,311)	346,134	431,914
Merchandise	50	134,196	(416)	133,780	69,423
Advances for purchases	50	3	-	3	477
		685,175	(8,460)	676,715	719,370
Third-Party Liabilities - Short-Term:					
Customers, checking account		644,249	(960)	643,289	524,839
Accounts receivable - notes receivable		3,700	-	3,700	2,963
Doubtful accounts receivable		75,698	(58,405)	17,293	7,608
Group companies	2	2,631	-	2,631	2,111
Member companies	3	2,124	-	2,124	3,318
Investee Companies and Participating Companies		-	-	-	13
Advances to suppliers		2,394	-	2,394	3,016
Advances to suppliers of fixed assets		5,030	-	5,030	6,186
State and other public entities	51	12,699	-	12,699	31,993
Other debtors	52	186,882	(3,514)	183,368	197,552
		935,407	(62,879)	872,528	779,599
Marketable securities:					
Other cash equivalents	60	19,347	-	19,347	11,252
		19,347	-	19,347	11,252
Bank deposits and cash on hand:					
Bank deposits	60	198,501	-	198,501	171,397
Cash	60	16,245	-	16,245	7,566
		214,746	-	214,746	178,963
ACCRUALS AND DEFERRALS:					
Accrued revenue	53	75,921	-	75,921	54,940
Deferred costs	53	282,354	-	282,354	273,094
		358,275	-	358,275	328,034
Total amortization			(3,649,624)		
Total provisions			(103,461)		
Total assets		9,916,499	(3,753,085)	6,163,414	6,068,937

The accompanying notes are an integral part of the consolidated balance sheet as of December 31, 2004

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of Euros)

Shareholders' equity, minority interests, and liabilities	Notes	2004	2003
EQUITY:			
Capital	55 and 56	829,251	829,251
Share Issue Premiums	55	82,006	82,006
Consolidation differences	10 and 55	81,254	81,254
Adjustments to equity interests in subsidiaries and affiliates Reserves:	10 and 55	(33,573)	(29,697)
Legal reserves	55	40,296	27,923
Other reserves	55	27,977	27,977
Retained earnings	55	527,076	385,003
Consolidated net income for the year	55	333,064	247,446
Total Equity		1,887,351	1,651,163
Minority interests	54	26,880	24,176
PROVISIONS FOR RISKS AND CHARGES:			
Provisions for pensions	46	77,964	83,962
Provisions for life insurance and health care	46	106,452	100,988
Provisions for taxes	46	2,954	6,753
Other provisions for risks and charges	46	119,156	82,493
		306,526	274,196
DEBTS TO THIRD PARTIES - Medium and long term:			
Bond loans	34	309,760	309,760
Debts to credit institutions	34	784,304	1,057,085
Investee companies and participating companies	27	19,999	14,778
Other loans obtained	34	4,078	5,382
Accounts payable, notes payable		1,862	-
Fixed-asset suppliers, checking account	47	701	1,733
Other creditors	52	4,154	3,571
		1,124,858	1,392,309
DEBTS TO THIRD PARTIES - Short-term:			
Bond loans	34	-	149,639
Debts to credit institutions	34	631,302	556,782
Advances on sales	50	276,512	220,767
Accounts payable, current account		377,152	257,161
Suppliers—invoices pending receipt and verification		114,525	121,634
Suppliers, notes payable		416	51
Group companies	2	10,000	10,035
Affiliated companies		-	28,276
Affiliated and participating companies	27	49,760	4,133
Advances from customers		3,851	2,269
Fixed asset suppliers, checking account		83,477	103,021
Fixed asset suppliers—invoices pending receipt and verification		9,576	17,656
Government and other public entities	51	361,255	358,733
Other loans obtained	34	1,304	41,166
Other creditors	52	60,642	50,956
		1,979,772	1,922,279
ACCRUALS AND DEFERRALS:			
Accrued expenses	53	93,633	108,219
Deferred revenue	53	744,394	696,595
		838,027	804,814
Total equity, minority interests, and liabilities		6,163,414	6,068,937

The accompanying notes are an integral part of the consolidated balance sheet as of December 31, 2004

GALP ENERGIA, SGPS, S.A. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(Amounts expressed in thousands of Euros)

	Notes	2004	2003
Operating activities:			
Receipts from customers		8,726,852	7,065,566
Payments to suppliers		(5,163,525)	(4,007,131)
Payments to employees		(198,167)	(209,089)
(Payments) receipts from petroleum product taxes		(2,254,607)	(1,288,726)
Cash flows from operating activities		**1,110,553**	**1,560,620**
(Payment)/receipt of income tax		(112,074)	(16,135)
Pension fund contributions	21	(20,595)	(26,579)
Payments to early retirees and those in early retirement		(15,084)	(17,390)
Payments for insurance expenses related to retirees		(576)	(1,249)
Other (payments)/receipts related to operating activities		(68,595)	(948,763)
Cash flows generated before extraordinary items		**893,629**	**550,504**
Receipts related to extraordinary items		770	1,613
Payments related to extraordinary items		(14,648)	(1,711)
		(13,878)	**(98)**
Cash flows from operating activities (1)		**879,751**	**550,406**
Investing activities:			
Proceeds from:			
Financial investments		8,359	17,333
Tangible fixed assets		2,227	73,731
Intangible assets		1,914	1,055
Investment grants	49	78,486	122,824
Interest and similar income		2,680	23,421
Dividends	3 and 27	37,196	27,458
Loans granted		1,874	1,002
		132,736	**266,824**
Payments related to:			
Financial investments		(6,848)	(36,464)
Tangible fixed assets		(348,284)	(411,574)
Intangible assets		(58,101)	(86,486)
Loans granted		(313)	(4,783)
		(413,546)	**(539,307)**
Cash flows from investing activities (2)		**(280,810)**	**(272,483)**
Financing activities:			
Proceeds from:			
Loans received		1,045,366	1,827,294
Capital increases, additional installments, and issue premiums		-	472
Interest and similar income		1,208	758
Discounted bills		13,541	12,128
		1,060,115	**1,840,652**
Payments related to:			
Loans received		(1,364,659)	(1,952,343)
Interest on loans received		(31,312)	(35,637)
Interest and similar expenses		(21,855)	(29,967)
Dividends/distribution of earnings	27	(46,941)	(44,748)
Purchase of treasury stock (shares)		(6)	-
Repayment of discounted bills		(13,325)	(10,807)
Depreciation and interest on finance leases		(423)	(3,284)
Interest on finance leases		(6)	
Interest on bond loans		(13,979)	(12,487)
Interest on equity securities		-	(841)
		(1,492,506)	**(2,090,114)**
Cash flows from financing activities (3)		**(432,391)**	**(249,462)**
Change in cash and cash equivalents (4) = (1) + (2) + (3)		166,550	28,461
Effect of foreign exchange differences		(5,179)	4,748
Cash and cash equivalents at the beginning of the period	30	(103,336)	(138,334)
Cash and cash equivalents at the end of the period	30	58,035	(105,125)

The accompanying notes are an integral part of the consolidated statement of cash flows for the fiscal year ended December 31, 2004

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2004

(Amounts expressed in thousands of euros - mEuros)

INTRODUCTORY NOTE

Galp Energia, SGPS, S.A. (hereinafter referred to as Galp or the Company) was incorporated as a publicly owned corporation under Decree-Law No. 137-A/99 of April 22, 1999, under the name "Galp – Petróleos e Gás de Portugal, SGPS, S.A.", and adopted its current name—Galp Energia, SGPS, S.A.—on September 13, 2000.

Its headquarters are in Lisbon, and its corporate purpose is the management of equity interests in other companies. At the time of its incorporation, it consolidated the State's direct holdings in the following companies: Petróleos de Portugal – Petrogal, S.A.; GDP–Gás de Portugal, SGPS, S.A., and Transgás–Sociedade Portuguesa de Gás Natural, S.A..

Galp's initial capital, in the amount of 411,383,565 euros, was fully paid in kind through the transfer of the State's equity interests in the aforementioned companies. In September 1999, the State carried out another capital increase, bringing the total to 502,164,785 euros.

Decree-Law No. 261-A/99, dated July 7, initiated the privatization process of Galp by opening the company's capital to the remaining shareholders of Petróleos de Portugal – Petrogal, S.A. and Transgás – Sociedade Portuguesa de Gás Natural, S.A. To this end, a new capital increase was carried out, reserved essentially for them in kind, through the transfer of their shares in the aforementioned companies.

Thus, on December 31, 1999, a capital increase in the amount of 327,085,850 euros was completed, subscribed by Petrocontrol, SGPS, S.A. ("Petrocontrol"), EDP – Electricidade de Portugal, S.A. (currently named EDP – Energias de Portugal, S.A. ("EDP")), Caixa Geral de Depósitos, S.A., Portgás – Sociedade de Produção e Distribuição de Gás, S.A., and Setgás – Sociedade de Produção e Distribuição de Gás, S.A., bringing the total to 829,250,635 euros.

On July 13, 2000, following the agreements entered into on January 17 of that same year, the companies designated as strategic partners—ENI Portugal Investment, S.p.A. ("ENI") and Iberdrola, S.A. ("Iberdrola")—signed Share Purchase Agreements and Strategic Partnership Agreements with the Portuguese government, acquiring 11% and 4%, respectively, of Galp's share capital. At the same time, Petrocontrol sold its entire stake in Galp, with the ENI group acquiring 22.34% and EDP acquiring 11%.

Decree-Law No. 124/2003 of June 20 approved the third phase of Galp's privatization process. Pursuant to this decree, REN – Rede Eléctrica Nacional, S.A. ("REN") acquired 18.3% of Galp's share capital, of which 13.5% was acquired from Caixa Geral de Depósitos and the remaining 4.8% from the Portuguese State. In addition, Parpública - Participações Públicas (SGPS), S.A. acquired 0.75% of Galp's share capital from the Portuguese State.

During the 2004 fiscal year, Parpública - Participações Públicas (SGPS), S.A. acquired an additional 3.48% stake in Galp's share capital from the Portuguese State. Galp's shareholder structure following these transactions is described in (Note 57).

As of December 31, 2004, the Galp Group ("Group") consists of Galp and its subsidiaries, which include Petróleos de Portugal – Petrogal, S.A. ("Petrogal") and its subsidiaries, GDP – Gás de Portugal, SGPS, S.A. and its subsidiaries, Galp Power, SGPS, S.A. and its subsidiaries, Porten – Portugal Energia, S.A. and its subsidiary, and Galp Serviços – Serviços e Consultoria de Apoio à Gestão Empresarial, S.A..

Petrogal is the only company operating in the oil refining sector in Portugal and holds a majority stake in the distribution of refined petroleum products under the GALP brand.

The subsidiaries engaged in the transportation and distribution of natural gas—namely Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., Transgás – Sociedade Portuguesa de Gás Natural, S.A., Lusitaniagás – Companhia de Gás do Centro, S.A., and Beiragás – Companhia de Gás das Beiras, S.A., operate under concession agreements entered into with the Portuguese government, which expire in 2028 (or 2034 in the case of Beiragás). Upon expiration of this term, the assets assigned to the concessions will be transferred to the Portuguese State, and the companies will be compensated in an amount corresponding to the net book value of those assets.

The following notes follow the sequential numbering defined in the Official Accounting Plan (POC) for the presentation of consolidated financial statements. Notes whose numbers are omitted from this appendix are not applicable to the Group or are not relevant to the understanding of the accompanying consolidated financial statements.

1. COMPANIES INCLUDED IN THE CONSOLIDATION

The companies included in the consolidation, their registered offices, and the percentage of equity held as of December 31, 2004, are as follows:

Company name	Headquarters	Percentage of equity held by Galp Energia in group companies Direct	Indirect	Total
Parent Company:				
Galp Energia, SGPS, S.A.	Lisbon	-	-	-
Subsidiary:				
Galp Serviços - Business Management Support Services and Consulting, S.A.	Lisbon	100.00%	-	100.00%
Petrogal Subgroup:				
Petróleos de Portugal - Petrogal, S.A.	Lisbon	100.00%	-	100.00%
Subsidiaries:				
Galp Energia España, S.A. and subsidiaries:	Madrid	-	100.00%	100.00%
Galpgest - Petrogal Estaciones de Servicio, S.A.	Madrid	-	100.00%	100.00%
Alcalá Gas Station, S.L.	Madrid	-	100.00%	100.00%
Gasolinera Gon, S.L.	Huelva	-	100.00%	100.00%
Galpfer - Lubricant Distribution, S.L.	Vigo	-	51.00%	51.00%
CLG - Gas Logistics Company, S.A.	Madrid	-	100.00%	100.00%
Serviexpress Distribucion, S.A.	Valencia	-	100.00%	100.00%
Galp Serviexpress, S.L.U.	Madrid	-	100.00%	100.00%
Sacor Marítima, S.A. and subsidiaries:	Lisbon	-	100.00%	100.00%
Gasmar - Transportes Marítimos, Lda.	Funchal	-	100.00%	100.00%
Tripul - Ship Management Company, Lda.	Lisbon	-	100.00%	100.00%
S.M. Internacional-Maritime Transport, Lda.	Funchal	-	100.00%	100.00%
Probigalp - Bituminous Binders, S.A.	Amarante	-	50.00%	50.00%
Soturis - Real Estate and Tourism Company, Inc.	Lisbon	-	100.00%	100.00%
Sopor - Fuel Distribution Company, S.A.	Lisbon	-	51.00%	51.00%
Eival - Gas Development, Investment, and Storage Company, S.A.	Lisbon	-	100.00%	100.00%
Galp Oil Exploration and Production, Lda. and subsidiary:	Funchal	-	100.00%	100.00%
Gite - Galp International Trading Establishment	Liechtenstein	-	24.00%	24.00%
Galp Serviexpress - Petroleum Products Distribution and Marketing Services, S.A.	Lisbon	-	100.00%	100.00%
Galpgeste- Gestão de Áreas de Serviço, Lda. and subsidiary:	Lisbon	-	100.00%	100.00%
Caiageste - Service Area Management, Lda.	Elvas	-	50.00%	50.00%
C.L.C. - Fuel Logistics Company, S.A.	Aveiras de Cima	-	65.00%	65.00%
C.L.T. - Maritime Terminal Logistics Company, Lda.	Matosinhos	-	100.00%	100.00%
Petrogal Brasil, Lda.	Recife	-	100.00%	100.00%
Petrogal Trading Limited	Dublin	-	100.00%	100.00%
Petrogal Mozambique, Lda. and subsidiary:	Maputo	-	100.00%	100.00%
Moçacor - Fuel Distribution, S.A.	Maputo	-	100.00%	100.00%
Galp Açores - Distribution and Marketing of Fuels and Lubricants, Lda. and its subsidiary:	Ponta Delgada	-	100.00%	100.00%
Saaga - Azorean Gas Storage Company, S.A.	Ponta Delgada	-	55.83%	55.83%
Galp Madeira - Fuel and Lubricant Distribution and Sales, Lda. and subsidiary:	Funchal	-	100.00%	100.00%
CLCM - Madeira Fuel Logistics Company, S.A.	Funchal	-	85.00%	85.00%
Galpmed - Insurance Brokerage, Single-Member Limited Liability Company	Lisbon	-	100.00%	100.00%
Tanquisado - Maritime Terminals, S.A.	Setúbal	-	100.00%	100.00%
TLG - Transportes Líquidos e Gasosos, Lda.	Lisbon	-	100.00%	100.00%
Sigás - Gas Storage, A.C.E.	Sines	-	60.00%	60.00%
Sempre a Postos - Food and Household Goods, Lda.	Lisbon	-	75.00%	75.00%
Combustiveis Líquidos, Lda.	Lisbon	-	75.00%	75.00%
Blue Flag Navigation - Maritime Transport, Lda.	Funchal	-	100.00%	100.00%
Galp Investment - Fund	Lisbon	(a)	(a)	(a)
Galp Investment Fund, PLC	Dublin	(a)	(a)	(a)

Corporate Name	Headquarters	Percentage of equity held by Galp Energia in group companies Direct	Indirect	Total
GDP Subgroup:				
GDP - Gás de Portugal, SGPS, S.A.	Lisbon	100.00%	-	100.00%
Subsidiaries:				
Driftal - Plastificantes de Portugal, S.A.	Lisbon	-	100.00%	100.00%
GDP Distribuição, SGPS, S.A. and subsidiaries:	Lisbon	-	100.00%	100.00%
Beiragás - Companhia de Gás das Beiras, S.A.	Viseu	-	59.04%	59.04%
Gásfomento - Gas Systems and Installations, S.A.	Lisbon	-	100.00%	100.00%
Dianagás - Évora Natural Gas Distribution Company, S.A.	Bucelas	-	100.00%	100.00%
Paxgás - Beja Natural Gas Distribution Company, S.A.	Bucelas	-	100.00%	100.00%
Medigás - Algarve Natural Gas Distribution Company, S.A.	Bucelas	-	100.00%	100.00%
Duriensegás - Douro Natural Gas Distribution Company, S.A.	Bucelas	-	75.00%	75.00%
Lusitaniagás - Central Portugal Gas Company, S.A.	Aveiro	-	85.04%	85.04%
Lisboagás GDL - Lisbon Natural Gas Distribution Company, S.A.	Lisbon	-	100.00%	100.00%
Transgás, SGPS, S.A. and subsidiaries:	Bucelas	-	100.00%	100.00%
Natgás - Portuguese Natural Gas Company, S.A.	Setúbal	-	90.00%	90.00%
Transgás - Portuguese Natural Gas Company, S.A. and subsidiaries:	Bucelas	-	100.00%	100.00%
Campo Maior–Leiria–Braga Gas Pipeline, S.A.	Bucelas	-	88.00%	88.00%
Braga–Tuy Gas Pipeline, S.A.	Bucelas	-	51.00%	51.00%
Transgás Atlântico - Portuguese Liquefied Gas Company, S.A.	Sines	-	100.00%	100.00%
Transgás Armazenagem - Portuguese Natural Gas Storage Company, S.A.	Bucelas	-	100.00%	100.00%
Transgás Industria - Portuguese Society for the Supply of Natural Gas to Industry, S.A.	Bucelas	-	100.00%	100.00%
Galp Power Subgroup:				
Galp Power, SGPS, S.A. and subsidiaries:	Bucelas	100.00%	-	100.00%
Carriço Cogeração Sociedade de Geração de Electricidade e Calor, S.A.	Bucelas	-	65.00%	65.00%
Powercer - Vialonga Cogeneration Company, S.A.	Bucelas	-	70.00%	70.00%
Pampilhosa Power - Wind Power Generation, S.A.	Pampilhosa	-	100.00%	100.00%
Água Solar, S.A.	Bucelas	-	95.00%	95.00%
Porten Subgroup:				
Porten - Portugal Energia, S.A. and its subsidiary:	Bucelas	100.00%	-	100.00%
Ao Sol - Energias Renováveis, Lda.	Porto Alto	-	100.00%	100.00%

(a) During the 2003 fiscal year, Petrogal entered into a securitization transaction involving accounts receivable with Galp Investment Fund, PLC ("Fund") for a maximum amount of mEuros 210,000 (Note 34), which has an expected maturity of 5 years and a statutory maturity of 7 years. To cover this amount, the Fund issued 199,500 mEuros of "Notes A" and 10,500 mEuros of "Notes B," which bear interest at the Euribor rate plus 0.5% and 0.95%, respectively. The transactions are carried out through another vehicle headquartered in Portugal—Galp Investment—Fundo—which purchases the receivables and places them with Galp Investment Fund PLC. Given that these Funds are structured as vehicles established solely for this transaction and in accordance with IAS/IFRS accounting provisions regarding this type of transaction, the assets and liabilities of the Funds consist primarily of accounts receivable from Petrogal's customers and the bonds issued by the Fund, respectively. These Funds were consolidated in the Group's financial statements.

During the fiscal year ended December 31, 2004, the scope of consolidation changed from the previous fiscal year as follows:

(i) The subsidiary Petróleos de Portugal – Petrogal, S.A. acquired: (i) in April 2004, Galp Serviexpress – Serviços de Distribuição e Comercialização de Produtos Petrolíferos, S.A., which provides services related to the transportation, storage, and marketing of petroleum products; and (ii) in December 2004, 100% of the equity of Blue Flag Navigation – Transportes Marítimos, Lda., which is engaged in maritime transport and the commercial operation of vessels on its own behalf, as owner or charterer, or on behalf of third parties, as an operator.

(ii) The subsidiary Galp Energia España, S.A., acquired: (i) the remaining 50% of the equity of C.L.G. - Compañía Logística del Gas, S.A., and (ii) in September 2004, BP Enertica, which subsequently changed its corporate name to Galp Serviexpress, S.L.U.

(iii) Petrogal Moçambique, Lda. and its subsidiary Moçacor – Distribuição de Combustíveis, S.A. were included in the scope of consolidation; in fiscal year 2003, they had been excluded from the scope of consolidation due to restrictions on the Company's–Parent Company to exercise its rights over the assets (Article 4, paragraph 3, subparagraph a) of Decree-Law No. 238/91).

(iv) The subsidiary Galp Power, SGPS, S.A. subscribed to 100% of the share capital of Pampilhosa Power – Produção de Energia Eólica, S.A., which was incorporated on February 27, 2004, and whose business consists of the production, transmission, and distribution of electricity from wind power systems, including the design, construction, and operation of wind power systems or facilities, as well as the performance of all related activities and the provision of related services.

During the fiscal year ended December 31, 2004, the wholly-owned subsidiary Galpgest – Petrogal Estaciones de Servicio, S.A. was merged into Gesoil, S.A. through a merger by incorporation, effective January 1, 2004. As a result of this transaction, the acquiring company adopted the corporate name of the acquired company.

With the exception of C.L.C. - Companhia Logística de Combustíveis, S.A., Sigás - Armazenagem de Gás, A.C.E., and Caiageste - Gestão de Áreas de Serviço, Lda., which were included using the proportional method as indicated in Note 5, all other companies mentioned above were included in the consolidation using the full consolidation method, based on the provisions of subparagraph d) of paragraph 1 of Article 1 of Decree-Law No. 238/91, of July 2 (appointment of the majority of corporate bodies in the case of GITE) and, in all other cases, based on Article 1(1)(a) of Decree-Law No. 238/91, of July 2 (majority of voting rights).

2. COMPANIES EXCLUDED FROM THE CONSOLIDATION

The companies excluded from consolidation (reported under the heading "Equity Interests in Group Companies"), their registered offices, the percentage of equity held, and the respective book value as of December 31, 2004, and 2003 are as follows:

Group companies	Share capital	Headquarters	% of Equity	Net	Total assets	Total Liabilities	Capital	Net Income	Book Value and Equity 2004	Book Value and Equity 2003
Petrogal Angola, Lda. and subsidiaries	Luanda	100%	(a) and (e)	3,553	3,239	314	(502)	314	712
Petrogal Mozambique, Lda. and subsidiary	Maputo	100%	(f)	(f)	(f)	(f)	(f)	-	6,218
Petrogal Guinea-Bissau, Lda. and subsidiaries	Guinea-Bissau	100%	(a) and (e)	4,152	2,713	1,439	(960)	1,439	178
Petrogal Cabo Verde, Lda.	São Vicente	100%	(c)	(d)	(d)	(d)	(d)	50	50
Tagus Re, S.A.	Luxembourg	100%	(b)	44,859	42,583	2,276	-	2,276	2,276
Asa - Aviation Supply and Services, Lda.	Lisbon	50%	(c)	133	125	8	1	4	3
								4,083	9,437

(a) Companies excluded from consolidation due to restrictions on the Parent Company's ability to exercise its rights over their equity (Article 4, paragraph 3, subparagraph a) of Decree-Law No. 238/91). As of December 31, 2004, these investments are accounted for using the equity method.

(b) A company excluded from consolidation because its business activities are so different that they are incompatible with the presentation of a true and fair view of the financial position of the companies included in the consolidation (Article 4(4) of Decree-Law No. 238/91).

(c) Companies excluded from consolidation because they are immaterial to the presentation of a true and fair view of the financial position and results of operations of the

Group (Article 4(1) of Decree-Law No. 238/91). As of December 31, 2004, these investments are accounted for using the equity method.

(d) Information not available.

(e) Interim financial statements.

(f) The company was included in the consolidation using the full consolidation method as of the 2004 fiscal year (Note 1).

The changes in the "Financial investments—equity interests in group companies" account during the fiscal year ended December 31, 2004, were as follows:

Opening Balance	9,437
Effect of applying the equity method to the results for the fiscal year (Note 44):	
- Positive	51
- Negative	(1,703)
Effect of applying the equity method on other changes in the subsidiaries' equity (Note 55):	
- Foreign currency translation adjustments:	
- Positive	1,377
- Other changes in equity:	
- Positive	404
Coverage of losses at Petrogal Guiné-Bissau, Lda.	735
Investment in Petrogal Moçambique, Lda., included in the scope of consolidation using the full consolidation method as of December 31, 2004	(6,218)
Ending Balance	4,083

As of December 31, 2004, and 2003, the group companies had the following accounts receivable (in the form of loans, advances, and other accounts receivable) from group companies excluded from consolidation:

	2004	2003
Loans to group companies:		
Petrogal Guiné-Bissau, Lda.	1,683	1,778
Petrogal Angola, Lda.	1,500	1,317
	3,183	3,095
Allowances for accounts receivable (Note 46)	(1,830)	(1,916)
	1,353	1,179
Accounts receivable from group companies:		
Petrogal Guinea-Bissau, Lda.	1,121	71
Agran, S.A.R.L. (a)	803	700
Petrogal Angola, Lda.	645	1,151
Petrogás Guinea-Bissau, Lda. (c)	34	31
Petromar - Sociedade de Abastecimentos Petrolíferos, Lda. (c)	23	19
Petrogal Cabo Verde, Lda.	4	4
Asa-Aviation Supply and Services, Lda.	1	1
Petrogal Mozambique, Lda. (d)	-	116
Moçacor - Fuel Distribution, S.A. (b) (d)	-	18
	2,631	2,111

(a) Subsidiary of Petrogal Angola, Lda.
(b) Subsidiary of Petrogal Mozambique, Lda.
(c) Subsidiary of Petrogal Guinea-Bissau, Lda.
(d) These companies were no longer excluded from consolidation in fiscal year 2004 (Note 1).

Loans to group companies as of December 31, 2004, totaling 3,183 million euros, have no defined repayment schedule and bear no interest.

The amount payable to group companies recorded under current liabilities, in the amount of 10,000 thousand euros, relates to the amount payable to Tagus, RE, S.A. for the acquisition of a 10.71% equity interest in Galp Energia España, S.A.

3. ASSOCIATES INCLUDED IN THE CONSOLIDATION USING THE EQUITY METHOD

The Group's associates and subsidiaries, their respective headquarters, and the percentage of equity held as of December 31, 2004, included in the consolidation using the equity method, are as follows:

		Percentage of equity held by Galp Energia in Group companies			Book value	
Company name	Headquarters	Direct	Indirect	Total	2004	2003
Enerfin - Sociedade de Eficiência Energética, S.A. (a)	Porto	-	25.12%	25.12%	142	-
National Fuel Company - Enacol, S.A.R.L. (a)	Mindelo (Cape Verde)	-	32.50%	32.50%	5,592	5,593
Número Um - Auto Repair, Lda. (a)	Lisbon	-	49.00%	49.00%	300	296
Brisa Access, S.A. (a)	Cascais	-	7.50%	7.50%	181	-
Setgás - Gas Production and Distribution Company, S.A. (c)	Setúbal	-	45.00%	45.00%	7,364	5,919
Portgás - Gas Production and Distribution Company, S.A. (g)	Matosinhos	-	46.63%	46.63%	12,091	8,311
Tagusgás - Empresa Gás do Vale do Tejo, S.A. (i)	Santarém	-	41.27%	41.27%	2,673	1,225
Gasfomento Sur Andalucia, S.A. (b)	Seville	-	40.00%	40.00%	20	-
Gasfomento Energia, S.A. (b)	Seville		22.00%	22.00%	10	13
Al-Andaluz Gas Pipeline, S.A. (d)	Madrid	-	33.04%	33.04%	16,429	15,955
Gasoduto Extremadura, S.A. (d)	Madrid	-	49.00%	49.00%	12,447	12,195
Metragaz, S.A. (d)	Morocco	-	26.99%	26.99%	1,399	1,348
EMPL - Europe Maghreb Pipeline, Ltd. (d)	Madrid	-	27.40%	27.40%	28,031	42,215
Ecogen - Decentralized Energy Services, S.A. (f) (h)	Bucelas	-	35.00%	35.00%	-	-
Central E, S.A. (h)	Lisbon	-	20.30%	20.30%	-	-
Fast Access - Information and E-Commerce Operations and Services, S.A. (a) (h)	Oeiras	-	33.33%	33.33%	-	-
Energin - Electricity and Heat Production Company, S.A. (f) (h)	Lisbon	-	35.00%	35.00%	-	-
Terparque - Fuel Storage, Lda. (j)	Angra do Heroísmo	-	23.50%	23.50%	881	881
Sonangalp - Fuel Distribution and Marketing Company, Lda. (e)	Luanda	-	49.00%	49.00%	-	-
TIGS - Engineering and Maintenance, S.A. (k)	Sintra	-	48.70%	48.70%	29	-
CLH - Compañia Logistica de Hidrocarboros, S.A. (m)	Madrid	-	5.00%	5.00%	-	-
Imopetro (l)	Mozambique	-	22.22%	22.22%	10	-
					87,599	93,951
less: provision for equity interests in group companies (Note 46)					(4,192)	(3,955)
					83,407	89,996

(a) Equity interests held by Petróleos de Portugal – Petrogal, S.A.

(b) Equity interests held by Gasfomento – Sistemas e Instalações de Gás, S.A.

(c) Stake held by GDP Distribuição, SGPS, S.A. and by Petróleos de Portugal – Petrogal, S.A.

(d) Stake held by Transgás – Sociedade Portuguesa de Gás Natural, S.A.

(e) Stake held by Petrogal Angola, Lda.

(f) Stake held by Galp Power, SGPS, S.A.

(g) Stakes held by GDP Distribuição, SGPS, S.A. and GDP, SGPS, S.A.

(h) As of December 31, 2004, a provision was established for other risks and charges - equity interests in companies with negative equity, as follows (Note 46):

Central E, S.A.	1,976
Energin - Electricity and Heat Production Company, Inc.	1,028
Fast Access, S.A.	976
Ecogen - Decentralized Energy Services, S.A.	212
	4,192

(i) Stake held by GDP Distribuição, SGPS, S.A.

(j) Stake held by Saaga – Sociedade Açoreana de Armazenagem de Gás, S.A.

(k) Company acquired in 2004 by Gasfomento – Sistemas e Instalações de Gás, S.A.
(l) Stake held by Petrogal Moçambique, Lda.
(m) Interest held by Galp Energia España, S.A. This interest is recorded under the heading "Securities and other financial investments."

The equity interests in these associated companies were included in the consolidation using the equity method, in accordance with the provisions of paragraph 13.6 of the accounting consolidation standards established by Decree-Law No. 238/91, of July 2.

By decision of the Arbitration Tribunal on September 8, 2004, the subsidiary Petrogal was released from the obligation to pay 623 mEuros owed to Adamastor Capital, SGPS, S.A. in connection with the initial acquisition cost of its equity interest in Brisa Access, S.A. (Note 45). Consequently, the acquisition cost was adjusted to reflect this situation. Additionally, on December 15, 2004, Brisa Access, S.A. was merged into Brisa Electrónica Rodoviária, S.A. (BER) with retroactive effect as of January 1, 2004, and Petrogal's equity interest became 7.5% of the share capital of Brisa Access Electrónica Rodoviária, S.A.

During the 2005 fiscal year, the Group sold its equity interest in Portgás – Sociedade de Produção e Distribuição de Gás, S.A., for 86,400 mEuros (including the repayment of advances and capitalized interest totaling 26,347 mEuros), thereby generating a capital gain of 47,962 mEuros.

The changes in the "Equity Interests in Associates" account for the fiscal year ended December 31, 2004, were as follows:

Opening balance	93,951
Effect of applying the equity method to the results for the fiscal year:	
Positive	28,058
Negative	(404)
	27,654
Effect of applying the equity method related to other changes in the subsidiaries' equity (Note 55):	
- foreign currency translation adjustments	(3,205)
	(3,205)
Dividends distributed:	
Gasoduto Al-Andaluz, S.A.	(2,533)
Extremadura Gas Pipeline, S.A.	(2,209)
Metragaz, S.A.	(170)
EMPL - Europe Maghreb Pipeline, Ltd.	(27,925)
	(32,837)
Additional contributions made by Petróleos de Portugal - Petrogal, S.A. to Brisa Access, S.A.	750
Reversal of Brisa Access, S.A.'s provision for risks and charges due to the supplementary payments made (Note 46)	(615)
Acquisition of 48.7% of TIGS - Engenharia e Manutenção S.A.	24
Capital increase at Gasfomento Sur Andalucia, S.A.	24
Reversal of the provision for other risks and charges (Note 46)	(6)
Capital Increase at Tagusgás - Empresas de Gás do Vale do Tejo, S.A.	1,669
Acquisition of Imopetro	10
Other	180
	87,599

Of the total dividends distributed, amounting to 32,837 mEuros, the following were paid during fiscal year 2004 the amount of 32,796 mEuros.

As of December 31, 2004, and 2003, the Group had the following accounts receivable from associated companies:

	2004	2003
Loans to associated companies:		
Portgás - Sociedade de Produção e Distribuição de Gás, S.A.	23,638	25,125
Al-Andalus Gas Pipeline, S.A.	22,439	26,004
Extremadura Gas Pipeline, S.A.	17,534	20,973
Energin - Electricity and Heat Production Company, S.A.	12,663	12,505
Setgás - Gas Production and Distribution Company, S.A.	8,652	8,242
Fast Access - Information and E-Commerce Operations and Services, S.A.	1,183	1,183
Tagusgás - Empresa Gás do Vale do Tejo, S.A.	848	790
Sonangalp - Fuel Distribution and Marketing Company, Lda.	644	800
National Fuel Company - Enacol, S.A.R.L.	505	674
Ecogen - Decentralized Energy Services, S.A.	144	102
Enerfin - Energy Efficiency Company, S.A.	-	45
	88,250	96,443
Accounts receivable from affiliated companies:		
Tagusgás - Empresa Gás do Vale do Tejo, S.A.	1,688	3,139
EMPL - Europe Maghreb Pipeline, Ltd.	314	-
National Fuel Company - Enacol, S.A.R.L.	72	111
Gasfomento Energia, S.A.	25	5
Gasfomento Sur, S.A.	11	11
Número Um - Auto Repair, Lda.	10	8
Fast Access - Information and E-Commerce Operations and Services, Inc.	4	41
Ecogen - Decentralized Energy Services, S.A.	-	2
Portgás - Gas Production and Distribution Company, S.A.	-	1
	2,124	3,318

Loans to associated companies do not have a defined repayment schedule and bear interest at market rates.

The amount of 1,688 mEuros receivable from Tagusgás – Empresa Gás do Vale do Tejo, S.A. includes 1,452 mEuros related to a short-term loan granted by the subsidiary GDP Distribuição, SGPS, S.A., which bears interest at market rates.

5. COMPANIES CONSOLIDATED USING THE PROPORTIONAL METHOD

The companies consolidated using the proportional method, their respective headquarters, the grounds on which Management bases its decision to use this consolidation method, and the percentage of equity held are as follows:

Company Name	Headquarters	Percentage of equity held by Galp in group companies		
		Direct	Indirect	Total
CLC - Companhia Logística de Combustíveis, SA (a)	Aveiras	-	65.00%	65.00%
Caiageste - Service Area Management, Lda (b)	Elvas	-	50.00%	50.00%
Sigás - Gas Storage, ACE (c)	Sines	-	60.00%	60.00%

(a) Given that in 1996 the current shareholders signed a joint management agreement for this subsidiary, which limits the majority shareholder's actions, the subsidiary was included in the consolidation using the proportional consolidation method, as it is considered that this

company constitutes a jointly controlled entity (Section 4.3 of Accounting Guideline No. 24—Joint Ventures).

(b) Indirect interest held by Galpgeste - Gestão de Áreas de Serviço, Lda. Given that this is a joint investment, with no one shareholder having a controlling interest over the other, this company was included in the consolidation using the proportional consolidation method, as it is considered a jointly controlled entity (Section 4.3 of Accounting Guideline No. 24—Joint Ventures).

(c) Since this company is a jointly controlled entity, it was included in the consolidation using the proportional consolidation method (Section 4.3 of Accounting Guideline No. 24—Joint Ventures).

7. AVERAGE NUMBER OF EMPLOYEES

The average number of employees of the Group's companies, included in the scope of consolidation using the full and proportional methods, during the fiscal years 2004 and 2003, was 5,644 and 5,443, respectively, totaling 5,806 as of December 31, 2004.

10. CONSOLIDATION DIFFERENCES AND EQUITY ADJUSTMENTS

i) Consolidation differences included in shareholders' equity

The balance of this item resulted primarily from the recognition, in 1999, of deferred taxes related to Group companies. As of December 31, 2004, and 2003, the balance of this item was composed as follows:

	Consolidation differences	
	2004	2003
Investments:		
Petróleos de Portugal - Petrogal, S.A. and its subsidiaries	62,056	62,056
GDP, SGPS, S.A. and its subsidiaries	19,198	19,198
	81,254	81,254

ii) Equity adjustments included in shareholders' equity

As of December 31, 2004, the debit balance of this account, in the amount of 33,573 thousand euros, includes the accumulated balances of adjustments resulting from the conversion to euros of the financial statements of subsidiaries and associates denominated in foreign currency, as well as other changes in the equity of those same subsidiaries and associates.

The changes in the balances of this item between December 31, 2004, are explained in Note 55.

iii) Consolidation differences included in intangible assets

The balance of this item comprises consolidation differences arising from acquisitions of equity interests made after January 1, 1991, or as of the date of Galp's first consolidation, as follows:

Subsidiaries	Year of Acquisition	Cost of Acquisition	Proportion of equity acquired as of the acquisition date		Consolidation Consolidation
			%	Amount	
Number One - Auto Repair, Lda.	2002	374	49.00%	64	310
Brisa Access, S.A.	2002	4,988	7.50%	73	4,915
CLH - Compañía Logística de Hidrocarburos S.A.	2002	61,818	5.00%	12,407	49,411
Combustiveis Líquidos, Lda.	2003	337	75.00%	(70)	407
Galpgest - Petrogal Estaciones de Servicio, S.A.	2003	16,109	100.00%	9,314	6,795
Moçacor - Fuel Distribution, S.A.	2001	884	100.00%	55	829
Beiragás-Companhia de gás das Beiras S.A.	2003	55	0.48%	51	4
Lusitaniagás-Companhia Gás do Centro, S.A.	2002 and 2003	365	0.871%	207	158
Transgás-Sociedade Portuguesa de Gás Natural, S.A.	a)	a)	a)	a)	6,076
Agua Solar-Solar Energy Services, S.A.	2001	45	90.00%	24	21
Ao Sol - Renewable Energy, Lda	2000	115	100.00%	11	104
Setgás - Gas Production and Distribution Company, S.A.	a)	a)	a)	a)	172
					69,202
Less: accumulated depreciation					(11,139)
					58,063

a) This amount results from adjustments made (for the purposes of preparing and presenting the Galp Group's consolidated financial statements) to Petrogal's original consolidated financial statements - Petróleos de Portugal, S.A. and GDP S.G.P.S., S.A., arising from the recognition of the consolidation difference as an asset, corresponding to the difference between the acquisition cost of this investment and its equity at the date of acquisition. This consolidation difference is being amortized over a 30-year period (through 2028), which corresponds to the concession period of these subsidiaries operating in the natural gas sector.

These goodwill amounts are amortized over a five-year period, except in the case of Group companies and associates that are subject to concession contracts, in which case amortization is calculated on a straight-line basis until the end of the concession period, which ends in 2028, and in the case of CLH —Compañía Logística de Hidrocarburos, S.A.—and Galpgest – Petrogal Estaciones de Servicio, S.A., whose consolidation differences are being amortized over the expected useful lives of the assets used in their operations, namely 20 and 11 years, respectively.

iv) Consolidation differences included in deferred income

Subsidiary	Year of acquisition	Cost of acquisition	Proportion of equity Acquired as of the acquisition date		Consolidation differences Consolidation
			%	Amount	
Galp Serviexpress, S.L.U.	2004	2,163	100.00%	9,797	7,634
					7,634
Revenue recognized in income					-
Total (Note 53)					7,634

These consolidation differences are amortized over a five-year period, beginning in fiscal year 2005.

15. CONSISTENCY IN THE APPLICATION OF VALUATION CRITERIA

The main valuation criteria used by the Group were consistent across the companies included in the consolidation and are described in Note 23.

18. ACCOUNTING CRITERIA FOR FINANCIAL INVESTMENTS

Galp adopts the following accounting policy for recognizing, in its individual financial statements, financial investments in Group companies and associates:

- Financial investments in Group companies and associates are accounted for using the equity method, with the investments initially recognized at acquisition cost, which is adjusted upward or downward by the difference between that cost and the Group's proportionate share of the equity of those companies, as of the date of first application of the equity method or the acquisition date, whichever is later.

- Of these differences, those relating to the first application of the equity method were recorded in equity under the heading "consolidation differences" (Notes 10 and 55), and those relating to the acquisition were recorded under intangible assets under the heading "consolidation differences" when positive, and as deferred income when negative; they are amortized over an average period of 5 years, with the exception of those relating to CLH - Compañía Logística de Hidrocarburos, S.A., Galpgest – Petrogal Estaciones de Servicio, S.A., and those relating to companies covered by concession contracts (Note 10).

- Under the equity method, equity investments are adjusted annually by the amount corresponding to the share of net income of group companies and associates, with a corresponding entry in profit or loss for the year (Note 44). In addition, dividends received from these companies are recorded as a decrease in the carrying amount of the equity investments.

- As mentioned in Note 23(q), the cumulative effect of foreign currency translation adjustments for subsidiaries whose financial statements are expressed in a foreign currency is recorded in the equity line item "Adjustments to equity interests" (Notes 10 and 55).

- Financial investments representing equity interests in other companies (holdings of less than 20%) are recorded at the lower of cost or estimated realizable value, with the exception of the holdings in CLH- Compañía Logística de Hidrocarburos, S.A. and Brisa Access, S.A., over which the Group exercises significant influence; these are accounted for using the equity method.

- Loans granted to group companies and associates are recorded at their face value or estimated realizable value, whichever is lower.

- Estimated losses on the disposal and/or recovery of financial investments are recorded under the heading "Provision for Financial Investments" (Note 46).

Galp's subsidiaries have, since 1992 and 1993, adopted the accounting policy of recording financial investments in subsidiaries and associates in their respective individual financial statements using the equity method, in accordance with Accounting Guideline No. 9.

21. FINANCIAL COMMITMENTS ASSUMED AND NOT INCLUDED IN THE CONSOLIDATED BALANCE SHEET

Pension Fund

As mentioned in Note 23.i), Petrogal, Sacor Marítima, and certain companies of the GDP Group (GDP Distribuição, SGPS, S.A.; Lisboagás – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.; Driftal – Plastificantes de Portugal, S.A., and Gásfomento – Sistemas e Instalações de Gás, S.A.) transferred their obligations regarding the

payment of supplemental retirement pensions for old age, disability, and survivor benefits. Additionally, by decision of Petrogal, as of 1997, the Petrogal Pension Fund began covering the liabilities for the payment of supplemental retirement benefits to early retirees.

The Petrogal Pension Fund does not cover Petrogal's liabilities related to the payment of early retirement pensions, pre-retirement benefits, Social Security for pre-retirees, voluntary social insurance for early retirees, retirement bonuses, and other retirement benefits such as health care and life insurance. These liabilities are covered by provisions specifically established for this purpose (Note 46). In addition, the GDP Pension Fund does not cover the liabilities assumed by Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. to reimburse the retirement supplements payable by EDP to its retirees and pensioners affiliated with the Company, as well as the retirement and survivor supplements for retirees existing as of the Fund's establishment. These liabilities are covered by specific provisions, included in the balance sheet under the heading "provisions for pensions" (Note 46).

During the 2004 fiscal year, because the company accounts for its post-employment benefit obligations in accordance with International Accounting Standard No. 19, and in order to comply with the requirements of that standard—which stipulates that the rate used to discount post-employment benefit obligations must be determined with reference to market yields on high-quality corporate bonds as of the balance sheet date—the discount rate was updated from 5.25% to 4.75%. This change in the actuarial assumption resulted in an increase of approximately 4.7% in the liabilities for past service under the Petrogal Pension Plan and 6.5% under the GDP Group Pension Plan.

During the fiscal year ended December 31, 2004, Petrogal and the companies of the GDP Group made contributions to their respective pension funds in the amounts of
18,427 and 2,168, respectively, to partially cover their liabilities.

The minimum amount of Petrogal's and the GDP Group's liabilities as of December 31, 2004, calculated in accordance with the method and assumptions required by the Portuguese Insurance Institute, amounted to mEuros 275,152 and mEuros 22,767, respectively.

As of December 31, 2004, the assets of the Petrogal Pension Fund, the Sacor Marítima Pension Fund, and the GDP Pension Fund were composed as follows, according to the report submitted by the management company:

	Petrogal	Sacor Marítima	GDP
Bonds:	**153,247**	**3,644**	**9,801**
Euro-denominated fixed-rate bonds	100,436	3,007	7,891
Euro floating-rate bonds	44,858	637	1,435
Other non-euro bonds	7,953	-	475
Stocks:	**77,781**	**2,112**	**4,542**
European	53,870	1,282	3,048
Other shares	23,911	830	1,494
Hedge Funds	7,895	159	-
Indirect Real Estate	8,952	373	1,325
Galp Building (Part)	22,300	-	-
Cash	30,304	78	2,799

Total	**300,479**	**6,366**	**18,467**

The changes in the net assets of the Pension Funds during fiscal year 2004 were as follows:

	Petrogal	**Sacor Marítima**	**GDP**
Opening balance	286,138	6,152	16,341
Contributions to the fund	18,427	-	2,168
Actual return on assets	15,826	327	1,048
Pensions paid during the fiscal year Transfer (Galp contribution Energia defined-benefit plan)	(19,912)	(113)	(1,086)
	-	-	(4)
Ending balance	**300,479**	**6,366**	**18,467**

As of December 31, 2004, and 2003, Sacor Marítima's liabilities for pension supplements payable to retirees and active employees amounted to
6,011 and 5,692 mEuros, respectively. The difference between the amount of these liabilities and the value of the fund is not reflected in the financial statements.

The assumptions used to calculate post-employment benefits are those considered by the Petrogal and GDP Groups and by the entity specializing in actuarial studies to best satisfy the commitments established in the pension plan, and are as follows:

	Petrogal	
	2004	**2003**
Technical interest rate	4.75%	5.25%
Return on assets	4.75%	5.25%
Wage growth rate	3.00%	3.00%
Pension growth rate	1.50%	1.50%
Mortality table	TV 73/77	TV 73/77
Disability table	EVK80-50%	EVK80-50%
Normal Retirement Age	65	65
Method	Credit Unit Projected	Credit Unit Projected

Responsibilities and corresponding coverage:

i) Responsibilities assigned to the pension fund			
Assets		37,320	28,785
Pre-retirees		9,602	11,304
Early retirees		22,120	24,850
Retirees and pensioners		249,288	247,382
	Total	**318,330**	**312,321**
Assets allocated to the pension fund:			
From the assets of the Petrogal pension fund		300,479	286,138
From additions and deferrals (Note 53)		(59,024)	(59,024)
Changes in assumptions and methodology		5,649	11,298
Unrecognized (gains) and losses		71,226	73,909
	Total	**318,330**	**312,321**

ii) Liabilities not allocated to the pension fund:

Including early retirees		23,770	28,571
With early retirements		19,501	20,643
With retirement bonus		5,573	5,247
With voluntary social security		572	1,021
With flexible retirement age of retirement (DL 9/99)		9,840	7,815
	Total	**59,256**	**63,296**

Coverage by provisions (Note 46):			
Pre-retirement		25,667	31,009
Early retirement		25,134	25,991
Retirement bonus		5,883	5,662
Voluntary social insurance		412	961
Flexibility in retirement age (Decree-Law 9/99)		8,481	7,492
	Subtotal	**65,577**	**71,115**
Changes in assumptions and methodology:			
Pre-retirement		924	1,848
Early retirements		219	437
Retirement bonus		250	500
Voluntary Social Security		(19)	(39)
Flexibility in the retirement age (Decree-Law 9/99)		168	337
	Subtotal	**1,542**	**3,083**
Unrecognized (Gains) and Losses:			
Pre-pension		(2,822)	(4,286)
Early retirements		(5,851)	(5,785)
Retirement bonus		(560)	(915)
Voluntary social insurance		180	99
Flexibility in Retirement Age (Decree-Law 9/99)		1,190	(15)
	Subtotal	**(7,863)**	**(10,902)**
	Total	**59,256**	**63,296**

	GDP	
	2004	**2003**
Return on Assets	4.75%	5.25%
Technical interest rate	4.75%	5.25%
Wage growth rate	3.00%	3.00%
Mortality table	TV 73/77	TV 73/77
Disability table	EVK80-50%	EVK80-50%
Normal Retirement Age	65	65
Method	Credit Unit Projected	Credit Unit Projected

Liabilities and respective coverage:

i) Liabilities allocated to the pension fund:

Assets		17,594	13,796
Pre-retirees		1,078	1,415
Pensioners		9,419	8,949
	Total	**28,091**	**24,160**
Assets allocated to the pension fund: From			
the pension fund's assets		18,467	16,341
Through provisions (Note 46)		5,325	5,379
From additions and deferrals (Note 53)		(73)	(65)
Change in assumptions		872	1,741
Unrecognized (gains) and losses (Note 23 i))		3,500	764
	Total	**28,091**	**24,160**

ii) Liabilities not allocated to the pension fund:

With assets		218	81
With retirees		6,921	6,977
Flexibility in retirement age (Decree-Law 9/99)		288	249
	Total	**7,427**	**7,307**
Coverage by provisions (Note 46):			
With assets		87	72
For retirees		6,495	6,996
Flexibility in retirement age (Decree-Law 9/99)		267	242
	Subtotal	**6,849**	**7,310**
Change in assumptions:			
With assets		(1)	-
With retirees		2	1
Flexibility in the retirement age (Decree-Law 9/99)		(3)	(5)
	Subtotal	**(2)**	**(4)**
Unrecognized gains and losses (Note 23(i)):			
With assets		131	12
Retirees		425	(22)
Flexibility in the Retirement Age (Decree-Law 9/99)		24	11
	Subtotal	**580**	**1**
	Total	**7,427**	**7,307**

The changes in Petrogal's and GDP's pension liabilities for fiscal year 2004 were as follows:

	Petrogal		
	Allocated to the Pension Fund	**Not allocated to the Pension Fund**	**Total**
Total liabilities as of December 31, 2003	312,321	63,296	375,617
Cost of current services	1,511	579	2,090
Interest expense	15,861	2,991	18,852
Benefits paid during the fiscal year	(19,912)	(15,660)	(35,572)
Pre-retirement and early retirement plans initiated during the year	-	6,214	6,214
Actuarial losses/(gains) for the year	8,549	1,836	10,385
Total liabilities as of December 31, 2004	**318,330**	**59,256**	**377,586**
COSTS FOR 2004			
Interest expense and operating expenses	17,372	3,570	20,942
Early retirements initiated during the year	-	4,208	4,208
Corridor mechanism	9,278	(1,204)	8,074
Amortization of changes in assumptions	5,649	1,542	7,191
Expected return on assets	(13,871)	-	(13,871)
	18,428	**8,116**	**26,544**

	GDP		
	Allocations to the Pension Fund	**Not allocated to the Pension Fund**	**Total**
Total liabilities as of December 31, 2003	24,140	7,307	31,447
Cost of current services	800	30	830
Interest expense	1,255	360	1,615
Benefits paid during the fiscal year	(1,086)	(845)	(1,931)
Actuarial (gains) / losses for the fiscal year	2,982	575	3,557
Total liabilities as of December 31, 2004	**28,091**	**7,427**	**35,518**
COSTS FOR 2004			
Interest expense and cost of current services	2,055	390	2,445
Amortization of changes in assumptions	873	(2)	871
Expected return on assets	(801)	-	(801)
	2,127	**388**	**2,515**

The cost of current services and interest expense for fiscal year 2004, net of the expected return on assets, totaling 8,715 million euros, was recorded by the aforementioned companies under the heading “Personnel Expenses.”

At Petrogal, the increase in liabilities related to pre-retirement and early retirement plans initiated during the fiscal year ended December 31, 2004, in the amount of 6,214 million euros, was offset by: (i) the transfer of 2,006 million euros from the restructuring provision already recognized as an expense in prior fiscal years (Note 46); (ii) the recognition of personnel expenses for the fiscal year in the amount of 4,208 million euros.

Actuarial gains and losses resulting from the increase/decrease in pension liabilities, arising from the updating of financial and demographic assumptions as of January 1, 2001, in the amounts of 42,230 million euros and 162 million euros, respectively, were recorded as liabilities under the respective provision accounts - unrecognized past service cost, offset by provisions for pensions – liabilities, and is being recognized as an expense in extraordinary income over a five-year period. In fiscal year 2004, the Group recognized expenses and income under the extraordinary expenses and income accounts related to the amortization of those amounts, in the amounts of mEuros 8,085 and mEuros 24, respectively (Note 45).

As a result of the excess in the corridor calculated as of December 31, 2003, the amount of mEuros 8,074 was recorded under personnel expenses, corresponding to the amortization for the 2004 fiscal year.

On December 31, 2002, the ISP authorized the establishment of Galp Energia’s defined-contribution pension fund. During the 2003 fiscal year, Galp Energia, SGPS, S.A., established 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 December 17, 2003, Galp Serviços – Serviços de Consultoria de Apoio à Gestão Empresarial,
S.A. absorbed this company through a merger), as associates of this Fund, gave their employees the option to choose between this new defined-contribution pension plan and the existing defined-benefit plan. Consequently, during 2004, a cost of mEuros 587 was recorded under the “Personnel Expenses” line item, relating to the annual contributions made by the member companies of the Galp Energia Defined Contribution Pension Fund on behalf of their employees, in exchange for a transfer to the fund’s management company.

As mentioned in Note 23.i), actuarial gains and losses are recognized in the financial statements only to the extent that they exceed the limits defined within the 10% “corridor,” and are amortized beginning in the fiscal year following their calculation, as described below.

The following table provides a breakdown, by benefit plan, of the liabilities included in the "corridor" mechanism and its maximum range (10%).

Benefits	Unrecognized (Gains) and Losses	"Corridor" Range (10%)	Excess over the corridor range	Amount to be recognized in 2005
Petrogal Group				
Pension supplement (Fund)	71,226	31,833	39,393	8,793
Pre-retirement benefits	(2,822)	2,377	(445)	(99)
Early retirements	(5,851)	1,950	(3,900)	(871)
Retirement bonus	(560)	557	(2)	(1)
Voluntary Social Security	180	57	123	27
Flexibility in the Retirement Age (Decree-Law 9/99)	1,190	984	206	46
GDP Group				
Retirement Supplement (Fund) Retirement	3,500	2,809	762	30
Supplement (not covered by the Fund)	456	714	110	8
Flexibility Age Retirement (DL 9/99)	24	29	-	-

At Petrogal, the liabilities for all vested retirement benefits exceed the maximum 10% "corridor," amounting to a net total of 35,375 thousand euros. These amounts will be recognized as expenses and/or income in future fiscal years based on the expected average future service of the employees covered by these plans, which as of December 31, 2004, was 4.48 years. Accordingly, in fiscal year 2005, the amount of 7,895 million euros resulting from the amortization of the excess over the corridor will be recognized as expenses, net of income.

In the GDP Group, liabilities for retirement benefits (both funded and unfunded) exceed the maximum 10% "corridor" by a net amount of mEuros 652. These amounts will be recognized as expenses in future fiscal years

based on the expected average future service life of the employees covered by these plans, which is 5.32 years for Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., 25.12 years for Gásfomento – Sistemas e Instalações de Gás, S.A., 1 year for Driftal – Plastificantes de Portugal, S.A., and 12.53 years for GDP Distribuição, SGPS, S.A. Accordingly, in fiscal year 2005, the amount of 38 million euros, resulting from the amortization of the excess "corridor," will be recorded as an expense, net of income.

Other

The financial commitments assumed by the Petrogal Group and not included in the balance sheet as of December 31, 2004, are:

- 3,119 mEuros related to unfilled orders for tangible fixed assets;
- 4,571 mEuros related to discounted notes receivable in the banking system that have not yet matured;
- 300,479 thousand euros in liabilities covered by the Petrogal Pension Fund;
- 63,363 thousand euros and 76,118 thousand euros in liabilities related to the pension, health care, and life insurance plan (Note 46), respectively, not recorded in the financial statements because they fall within the 10% "corridor" limits (Notes 23.i) and 23.j)) or because they correspond to an excess of the corridor not yet recognized in the income statement.
- Investments related to oil research and development activities in Angola and Brazil, the amount of which has not yet been quantified.

Under EU legislation, Petrogal has been developing an Environmental and Procedural Reconfiguration Project for the National Refining System—Auto Oil—with the aim of, on the one hand, complying with fuel specifications, particularly for gasoline and diesel, and, on the other hand, bringing the refineries' environmental performance into line with the applicable legislation. The amount required for the changes already implemented and those to be implemented is estimated at 250,000 mEuros, with the final figure depending on the definition of certain European specifications expected by 2008/9. By the end of 2004, approximately 142,000 mEuros had already been spent on this project, and it is estimated that an additional 108,000 mEuros will be spent by its completion (in 2009), of which 470 mEuros have already been committed.
Aware of its responsibilities toward the environment, Petrogal decided in September 1998 to make a public commitment to environmental protection by signing a Protocol for Continuous Improvement of Environmental Performance with the Ministry of Economy and the Ministry of the Environment.
The purpose of this protocol was to establish a broad set of environmental protection measures—the Environmental Action Program—that would enable the company to pursue its Environmental Policy and Strategic Objectives.
During the 1999–2004 period, 173 actions under the 1999–2007 Program were carried out, leaving less than 7% of actions to be completed by the end of 2007. Taking into account actions that are ongoing or currently being implemented, the implementation rate is over 95%, with the remaining 5% corresponding to actions dependent on the implementation strategy for legal instruments in the 2007–2008 period (PCIP, GICs); planning for their execution remains in place, and the respective investments are budgeted
The implementation of the 173 initiatives resulted in costs for the Company totaling mEuros 60,464. Projects eligible for capitalization as fixed assets in 2004 totaled mEuros 10,813.
The program of initiatives throughout this period was continually reviewed and adjusted in accordance with strategic changes within the company, procedural changes at the facilities—particularly at the refineries—and the recommendations of the studies that

were carried out. Thus, of the total 228 planned actions, 40 were canceled or suspended; notably, these included those related to the operation of the Rosairinho Gas Park, which was decommissioned in 2000, while the remainder were canceled due to procedural changes at the facilities or in their operations.
To meet the objectives set forth in the aforementioned Protocol, 15 actions remain to be carried out, with a total estimated cost of 64,273 mEuros; this amount may vary depending on the procedural options adopted at the refineries, which are currently under review."
The financial commitments assumed by the GDP Group and not included in the balance sheet as of December 31, 2004, are:

- 18,467 mEuros in liabilities covered by the GDP Pension Fund;
- 4,080 thousand euros and 4,650 thousand euros in liabilities related to the pension, health care, and life insurance plans, (Note 46), respectively, either because they fall within the 10% "corridor" limits (Notes 23 i) and 23 j)) or because they represent excess amounts beyond the "corridor" not yet recognized in the income statement;
- mEuros 17,231 relating to contractual liabilities to suppliers, specifically in connection with the construction of the underground storage facility, gas pipelines, and other infrastructure and equipment necessary for the implementation of the natural gas transmission network of Transgás – Sociedade Portuguesa de Gás Natural, S.A., the details of which are as follows:

Description	Contract Amount	Completed	Outstanding
Construction and Installation – Underground Storage	88,060	76,770	11,290
Viana do Castelo Branch Line	4,707	3,825	882
Easements / Expropriations	2,854	163	2,692
Construction and equipment for industrial spurs	2,224	420	1,803
UAGs	994	431	564
	98,839	81,609	17,231

In addition, there are financial derivative contracts intended to hedge business risk exposure, specifically commodities and foreign exchange risks at the Petrogal Group level and interest rate risks at the GDP Group level. However, the Group follows the historical cost principle, which is why it did not measure and account for these derivatives at fair value.

22. GUARANTEES PROVIDED

As of December 31, 2004, the GDP Group's liabilities arising from guarantees provided totaled 649,555 thousand euros and 192,500 thousand U.S. dollars, the most significant of which are:

- Guarantees provided in the amount of 612,127 thousand euros in favor of the European Investment Bank in connection with loans granted by that entity.

- Guarantees provided to the Portuguese government in the amounts of 10,734 thousand euros and 329 thousand euros by a banking syndicate led by Caixa Geral de Depósitos for the execution of the concession contract for the public service of importing, transporting, and supplying natural gas.

- Guarantees totaling 7,751 mEuros provided to the Lisbon Tax Court of First Instance—5th Division—1st Section, intended to serve as security for the payment demanded

by the Lisbon City Council in the context of legal proceedings relating to underground space occupancy fees (Note 59).

- Guarantees totaling 18,360 mEuros provided to the Portuguese State for the obligations and duties arising from the Concession Agreement for the operation of the regional natural gas 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 regarding 27.4% (Transgás's financial stake—Sociedade Portuguesa de Gás Natural, S.A.) of the following credits granted to EMPL—Europe Maghreb Pipeline, Ltd.:

	Type	Total Loans USD	Transgás Section USD
EIB	Bank	450,000	124,000
ICO	Guarantee	200,000	54,800
Banco Santander	Guarantee	50,000	13,700
		700,000	192,500

As of December 31, 2004, guarantees provided by Petrogal totaled mEuros 33,037, primarily to third parties on behalf of group companies and associates, and bank guarantees totaled mEuros 35,353. In addition, the Company issued letters of comfort to third parties on behalf of group companies and associates in the amount of 426,468 thousand euros.

Due to the investment made by C.L.C. – Companhia Logística de Combustíveis, S.A. was made primarily through "project finance," the banking consortium financing it had assumed liabilities through a bank guarantee provided to the European Investment Bank in the amount of 42,052 thousand euros, of which 42,017 thousand euros corresponded to the principal, and the remaining 35 million euros to interest due and unpaid.

Galp Energia, SGPS, S.A. has a bank guarantee in effect with Banco Comercial Português in the amount of 2,394 million euros.

As collateral for a loan taken out by Carriço Cogeração – Sociedade de Geração de Electricidade e Calor, S.A., a mortgage was established in favor of BES Investimento and BES, encumbering the surface rights to a parcel of land in the municipality of Pombal, acquired by the company for a period of 15 years, up to a maximum amount of 28,237 thousand euros.

23. PRESENTATION BASIS AND MAIN VALUATION CRITERIA USED

Basis of Presentation

The accompanying consolidated financial statements were prepared on a going-concern basis, based on the books and accounting records of the companies

included in the consolidation (Note 1), maintained in accordance with generally accepted accounting principles in Portugal.

Consolidation Principles

With the exception of the subsidiaries mentioned in Note 5, which were consolidated using the proportional method, the subsidiaries referred to in Note 1 were consolidated using the full consolidation method. Significant intercompany transactions and balances were eliminated during the consolidation process. The amount corresponding to third-party interests in the subsidiaries is presented under liabilities in the “Minority Interests” line item. Consolidation differences were treated as indicated in Note 10.

Principal Valuation Criteria

The main valuation criteria used in preparing the financial statements were as follows:

a) Intangible Assets

Intangible assets include, under the various headings of start-up costs, research and development expenses, industrial property and other rights, conversion of utilities to natural gas, goodwill, and consolidation differences, essentially:

- Expenses incurred for IT development studies and projects, organizational expenses, institutional advertising campaigns for the launch of natural gas, start-up expenses (particularly for refineries), and restructuring and reorganization expenses (Note 25), which are amortized on a straight-line basis over a period ranging from three to six years;

- Exclusivity premiums paid to resellers of GALP products and charges related to surface rights and concessions, which are amortized on a straight-line basis over the term of the respective contracts (which ranges from ten to twenty years);

- Consolidation differences relating to the difference between the acquisition cost of equity investments and the equivalent book value of the acquired companies, which are amortized on a straight-line basis over a five-year period, except in the case of Group companies and associates that are subject to concession contracts, in which case the amortization period corresponds to the term of the concession, which ends in 2028, in the case of CLH - Compañía Logística de Hidrocarburos S.A. and Galpgest – Petrogal Estaciones de Servicio, S.A., which are being amortized over the expected useful lives of the assets used in their operations, namely 20 and 11 years, respectively;

- Expenses related to gas transmission rights and the conversion of consumption to natural gas, pertaining to initiatives to increase natural gas market penetration, specifically sales and marketing activities that involve the renovation, modification, or adaptation of combustion facilities and equipment. These expenses are being amortized over the period from the start of operations until the end of the concession term, which corresponds to the expected useful life;

- Expenses related to service station goodwill are amortized over a 20-year period, except in the case of leased service stations or surface rights, which are amortized over the term of the respective contract (Note 25). The remaining goodwill is amortized over a period ranging from three to six years.

b) Property, Plant, and Equipment

Tangible fixed assets acquired through December 31, 1996, are recorded at acquisition cost, revalued in accordance with legal provisions (Note 41). Tangible fixed assets acquired after those dates and the tangible fixed assets of Lusitaniagás – Companhia de Gás do Centro, S.A. are recorded at acquisition or construction cost. The acquisition/construction cost includes the invoice price, transportation and installation expenses, financing costs, and exchange rate differences on bank loans

incurred during the construction period, and the indirect costs attributable to them during the construction period (subparagraph n) below).

Depreciation is calculated, based on the cost or revalued amount, using the straight-line method, applied annually starting from the fiscal year in which the assets are put into service, selecting from among the rates permitted by current tax legislation those that allow for the full recovery of the fixed assets over their estimated useful lives, taking into account, where applicable, the concession period.

The average annual depreciation rates used can be summarized as follows:

	Rates		
Land and natural resources – easements	2.20%	-	3.13%
Buildings and other structures	2.00%	-	10.00%
Basic equipment	2.20%	-	12.50%
Transportation equipment	16.67%	-	25.00%
Tools and utensils	12.50%	-	25.00%
Office equipment	5.00%	-	33.33%
Tare weights and containers	7.14%	-	33.33%
Other tangible fixed assets	10.00%	-	33.33%

Natural gas infrastructure is being depreciated by Transgás – Sociedade Portuguesa de Gás Natural, S.A. and other natural gas distributors over a period of 45 years.

In the fiscal years 1998 through 2002, Transgás – Sociedade Portuguesa de Gás Natural, S.A. and Lusitaniagás – Companhia de Gás do Centro, S.A. (the latter until 2000) applied rates corresponding to 50% of the maximum rates determined by the expected useful life of the basic equipment assigned to the gas pipeline, due to the fact that it was being used below its normal capacity.

Expenses related to routine repairs and maintenance are recorded as costs in the fiscal year in which they are incurred. Repairs involving the replacement of equipment parts or other fixed assets are recorded as tangible fixed assets and depreciated at rates corresponding to the residual useful life of the respective fixed assets.

Expenses related to multi-year, recurring repairs and maintenance—primarily related to refineries—are recognized on an accrual basis over the period between two repairs, with the portion corresponding to each fiscal year recorded in the respective income statement against the “accrued costs” account (Note 53).

Oil Exploration and Production Activities

Tangible fixed assets related to oil exploration and production activities are recorded at acquisition cost and consist primarily of:

(iii) costs incurred in the exploration and development of the exploration area (“field”), plus overhead and financing costs incurred up to the date production begins, which are capitalized as assets under construction. When the field begins production, these costs are transferred from assets under construction to fixed assets as of that date and are depreciated according to a rate calculated as the ratio of the production volume recorded in each depreciation period to the volume of proved developed reserves at the end of that period, plus the production for the period. Thus, costs of this nature incurred for fields that are still in the exploration and development phase are classified as assets under construction;

(iv) costs associated with acquiring the oil exploration and production license (signing bonus), which are amortized on a straight-line basis over the remaining term of the license after production begins;

(v) all costs incurred during the exploration phase of unsuccessful oil fields are

recognized as expenses in the income statement for the fiscal year in which it becomes known that exploration and/or development work will not continue.

c) Finance Leases

Fixed assets acquired under finance lease agreements, as well as the corresponding liabilities, are accounted for using the financial method. Under this method, the cost of the asset is recorded under tangible fixed assets, the corresponding liability is recorded under liabilities, and the interest—included in the lease payments—and the depreciation of the asset, calculated as described in Note 23(b), are recorded as expenses in the income statement for the fiscal year to which they relate.

d) Financial Investments

The Group follows the accounting policy of recording its financial investments in associates as indicated in Note 18.

e) Inventories

Inventories are valued in accordance with the following criteria:

i) Raw materials and auxiliary materials

Crude oil—at acquisition cost, using the LIFO (last-in, first-out) method, applied to a single product family, which includes all branches, as the method for costing outflows. The acquisition cost includes the invoice price, transportation costs, and insurance.

Other raw materials (excluding general materials)—at acquisition cost using the LIFO method, applied to product families established based on the characteristics of the various materials, as the method for costing outflows. The acquisition cost includes the invoice price, transportation costs, and insurance.

General materials – are valued at acquisition cost, which includes the invoice price, transportation costs, and insurance, using the weighted average cost method for the issuance of materials.

ii) Inventories and work in progress

These are valued at production cost, including materials, supplies, external services, and overhead expenses.

iii) Finished and intermediate products

Petroleum products – Incoming finished and intermediate products are valued based on production cost, which consists of the consumption of raw materials and other materials, direct labor costs, and manufacturing overhead. In the case of products purchased from third parties, these are valued at acquisition cost, which includes the invoice price, transportation and insurance expenses, using the LIFO method applied to product families—grouped according to their characteristics—as the method for costing outflows.

The Petrogal Group includes in the "Finished and Intermediate Products" line item the Tax on Petroleum Products (ISP) related to the release for consumption of finished products already shipped that are subject to that tax, which is valued at acquisition cost using the FIFO (first-in, first-out) method for costing outflows.

Other finished and intermediate products are valued at production cost, including raw materials, variable manufacturing costs, and fixed manufacturing costs, using the weighted average cost method to allocate costs to sales.

iv) Merchandise

Merchandise is valued at acquisition cost, which includes the invoice price, transportation and insurance expenses, using the LIFO method for natural gas and the weighted average cost method for petroleum products and other merchandise as the method for costing outflows.

In the case of Transgás – Sociedade Portuguesa de Gás Natural, S.A., the cost of acquisition also includes, for the purposes of its determination, the expenses incurred up to the Portuguese border, namely transportation and transit fees through Moroccan territory.

The Petrogal Group also includes the ISP in the inventory line item for goods already shipped that are subject to that tax.

Raw materials, components, and goods in transit, as they are not available for consumption or sale, are segregated from the rest of the inventory and are valued at their specific acquisition cost.

The differences between the carrying amount of inventory as of December 31, 2004, as mentioned above, and the respective estimated realizable or market value, whichever is lower, were recognized in the consolidated statement of income for the fiscal year and are recorded under the provision for inventory write-downs (Note 46).

f) Marketable securities

Marketable securities are recorded at the lower of acquisition cost or market value.

g) Accrual Basis

The Group records its revenues and expenses in accordance with the accrual basis of accounting, whereby revenues and expenses are recognized as they are incurred, regardless of when they are received or paid. Differences between amounts received and paid and the corresponding revenues and expenses incurred are recorded under the "Accruals and Deferrals" account (Note 53).

h) Grants awarded to finance tangible and intangible assets

Grants awarded to the Group, on a non-repayable basis, to finance tangible and intangible fixed assets (conversions to natural gas) are recorded as liabilities, under deferred income, in the "Accruals and Deferrals" account, and recognized in the consolidated statement of income in proportion to the respective depreciation and amortization of the subsidized fixed assets.

i) Pension Plan

Petrogal, Sacor Marítima, and several companies in the GDP Group (GDP Distribuição, SGPS, S.A., Lisboagás – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., Driftal – Plastificantes de Portugal, S.A., and Gasfomento – Sistemas e Instalações de Gás, S.A.) have committed to providing their employees with cash benefits in the form of supplements to old-age and disability retirement pensions, as well as survivor's pensions, early retirement pensions, and pre-retirement pensions (the early retirement provision was assumed only by Petrogal). These benefits, with the exception of early retirement and pre-retirement pensions, consist of a percentage that increases with the employee's years of service. Early retirement and pre-retirement pensions essentially correspond to the employee's salary. Included in these commitments are where applicable, Social Security payments for pre-retirees, voluntary social insurance for early retirees, and the retirement bonus to be awarded on the date of retirement.

To cover these liabilities, Petrogal, Sacor Marítima, and the companies of the GDP Group established separate pension funds managed by external entities ("Petrogal Pension Fund," "Sacor Marítima Pension Fund," and "GDP Pension Fund") to finance liabilities for old-age and disability pension supplements and survivor pensions for active and retired employees and, in the case of Petrogal, also for early retirees and pre-retirees (Note 21). However, the Petrogal Pension Fund does not cover liabilities related to early retirement pensions, pre-retirement benefits, Social Security for pre-retirees, and the payment of voluntary social insurance and retirement premiums. These liabilities are covered by specific provisions, included in the balance sheet under the heading "provisions for pensions" (Notes 21 and 46).

In addition, the GDP Pension Fund does not cover the liabilities assumed by Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. to reimburse the retirement supplements payable by EDP to its retirees and pensioners affiliated with the Company, as well as the retirement and survivor supplements for retirees existing as of the Fund's establishment. These liabilities are covered by specific provisions, included in the balance sheet under the heading "provisions for pensions" (Notes 21 and 46).

At the end of each accounting period, the companies mentioned above obtain actuarial studies and compare the amount of their liabilities with the market value of the fund and with the balance of the provisions set aside, in order to determine the amount of additional provisions to be recorded.

Through December 31, 2000, the difference between the liabilities and the market value of the pension fund and specific provisions resulting from current service cost, interest cost, and actuarial gains and losses was recognized as gains or losses in the income statement for the respective fiscal year.

Effective January 1, 2001, actuarial gains and losses calculated for a fiscal year, and for each benefit plan in effect, resulting from adjustments to actuarial assumptions, experience adjustments, or changes to the benefit plan, are recognized only if the cumulative net amount of these unrecognized actuarial gains and losses

(Total Deviation) at the end of the period exceeds, in absolute value, the greater of: 10% of total liabilities or 10% of the market value of the fund; this amount is recognized in income starting in the subsequent fiscal year in which it is determined, on a straight-line basis, in accordance with the expected average number of years of service of the employees participating in that benefit plan. This accounting policy is in accordance with International Accounting Standard No. 19.

The benefit plans identified by Petrogal for the calculation of these liabilities are:

- Supplementary retirement, disability, and orphan pensions;
- Early retirement;
- Early retirement;
- Retirement bonuses;
- Voluntary social insurance;
- Special scheme for flexible retirement age under Decree-Law 9/99.

The benefit plans identified by the GDP Group for the purpose of calculating these liabilities are:

- Supplementary retirement, disability, and orphan's pensions;
- Special scheme for flexible retirement age under Decree-Law 9/99.

In turn, the actuarial gains and losses resulting from increases or decreases in pension liabilities, arising from the updating of financial and demographic assumptions (Note 21) as of January 1, 2001, amounting to 42,230 mEuros and 162 mEuros, respectively, were recorded on the liability side under the headings "provisions for pensions—liabilities" and "provisions for pensions—unrecognized past service cost." This balance is recognized in income under the line item "extraordinary expenses and extraordinary income" over a five-year period, on a straight-line basis, beginning in fiscal year 2001.

On December 31, 2002, the ISP authorized the establishment of Galp Energia's defined-contribution pension fund. The Group allowed employees of certain subsidiaries—as members of this Fund—to choose between this new defined-contribution plan and the existing defined-benefit plan. In these cases, the Group pays an amount determined annually, corresponding to a percentage of each employee's salary, which is recognized as an expense for that fiscal year.

j) Other retirement benefits—health care and life insurance

The costs incurred by the Group for the provision of health care and life insurance are recognized as expenses during the period in which the employees receiving these retirement benefits render services to their respective companies; these liabilities are reflected on the balance sheet under the heading "Provisions for life insurance and health care" (Note 46). Payments made to beneficiaries during each fiscal year are recorded as a reduction in this provision.

At the end of each accounting period, the Group obtains actuarial studies and compares the amount of its liabilities with the balance of the provisions set aside, in order to determine the amount of additional provisions to be recorded (Note 46).

Through December 31, 2000, the difference between the liabilities and the amount of specific provisions, resulting from current service cost, interest cost, and actuarial gains and losses, was recognized in income for the respective fiscal year. As of January 1, 2001, the procedure adopted is identical to that described in paragraph 23.i) above.

Actuarial gains and losses resulting from increases or decreases in liabilities, arising from the updating of financial and demographic assumptions as of January 1, 2001, were recorded as liabilities under the headings "Provisions for life insurance and health care" — liabilities, with a corresponding entry in the "Provisions for life insurance and health care—unrecognized past service cost" account. This balance is recognized in income under the "Extraordinary expenses" line item over a five-year period, beginning in fiscal year 2001.

k) Balances and Transactions Expressed in Foreign Currency

All assets and liabilities denominated in foreign currency were converted to euros using the exchange rates in effect on the balance sheet dates, with the exception of foreign currency balances hedged by forward currency purchase contracts, which were converted at the contracted exchange rates.

Exchange rate gains and losses arising from differences between the exchange rates in effect on the dates of the transactions and those in effect on the dates of collection, payment, or the balance sheet date are recognized as revenue and expenses, respectively, in the consolidated income statement for the fiscal year.

For forward exchange contracts, Petrogal defers the exchange rate differences calculated between the spot exchange rate at the beginning of the contract and the contracted rate over the term of the contract, recognizing the corresponding portion in the consolidated income statement for the fiscal year.

l) Tax on Petroleum Products ("ISP") included in sales and cost of sales

Following an interpretation by the Accounting Standards Board regarding Accounting Guideline No. 22, as of January 1, 1999, Petrogal Group companies began including the Tax on Petroleum Products ("ISP") in cost of sales, as it is now considered a cost of purchasing the products subject to this tax.

m) Sales of natural gas

The selling price of natural gas is determined by the government through price-setting by the Directorate-General for Geology and Energy. The selling price of natural gas is set quarterly, in accordance with the formula set forth in the concession agreement. With the exception of Lusitaniagás, meter readings, billing, and related collections pertaining to gas distribution are handled by companies within the EDP – Energias de Portugal Group and by companies within the Galp Group, depending on whether the customers are small or large, respectively.

Gas sales are recorded monthly under accrued revenue based on expected billing and recognized in income in the period in which the meter reading is taken.

n) Financial Expenses

Financial expenses resulting from loans taken out to finance investments in fixed assets are allocated to fixed assets under construction in proportion to the total costs incurred on those investments, net of investment subsidies received, until such assets become operational (Note 28), with the remainder recognized as expenses in the consolidated income statement for the fiscal year (Note 44).
Financial expenses included in tangible fixed assets are amortized over the useful lives of the respective assets.

o) Capitalization of Start-up Costs

The companies of the GDP Group, as they are in the phase of constructing natural gas infrastructure and launching that product, capitalized start-up costs until the infrastructure began operations. These costs are recorded, depending on the company, under the headings of fixed assets and deferred costs.

p) Deferred taxes

Deferred taxes relate to temporary differences between the amounts of assets and liabilities for accounting purposes and the amounts for tax purposes.
Deferred tax assets and liabilities are calculated and assessed annually using the tax rates expected to be in effect on the date the temporary differences reverse.

Deferred tax assets are recognized only when there is a reasonable expectation of sufficient future taxable income against which to utilize them. At each balance sheet date, the temporary differences underlying deferred tax assets are reassessed in order to recognize deferred tax assets not previously recorded because they did not meet the criteria for recognition and/or to reduce the amount of deferred taxes recorded based on the current expectation of their future recovery (Note 51).

q) I conversion of financial statements expressed in foreign currency foreign

Exchange differences arising from the conversion to euros of the financial statements of subsidiaries, expressed in foreign currency, were included in equity under the heading "Adjustments to equity interests in subsidiaries and associates." The conversion of those financial statements is performed using the following exchange rates:

i) the exchange rate in effect as of the balance sheet date to convert all assets and liabilities;
ii) the average exchange rate for the fiscal year to translate the items in the income statement; and
iii) the historical exchange rate to convert the remaining equity items.

24. EXCHANGE RATES USED FOR CONVERSION TO EUROS

The financial statements of Galp International Trading Establishment, Petrogal Trading Limited, EMPL - Europe Maghreb Pipeline, Ltd., Petrogal Angola (expressed in U.S. dollars) and its subsidiary (expressed in kwanzas), Petrogal Brasil (expressed in reais), Enacol, S.A.R.L. (expressed in Cape Verdean escudos), Metragaz, S.A. (expressed in Moroccan dirhams), Petrogal Guinea-Bissau and its subsidiaries (expressed in CFA francs), and Petrogal Mozambique and its subsidiary (expressed in meticais)

were converted to euros using the following exchange rates:

-Effective at year-end:

	Exchange Rate	
Currency	**2004**	**2003**
U.S. Dollars	1.36	1.26
Brazilian Reais	3.61	3.66
Cape Verde Escudos	110.27	110.27
Moroccan dirhams	11.20	11.07
CFA francs	655.96	655.96
Mozambican Meticais	25,356.46	29,455.70

-Average for the fiscal year:

	Exchange Rate	
Currency	**2004**	**2003**
U.S. Dollars	1.24	1.13
Brazilian Reais	3.66	3.47
Cape Verde Escudos	110.27	110.27
Moroccan dirhams	11.03	10.84
CFA francs	655.96	655.96
Mozambican Meticais	27,247.60	26,608.38

25. SETUP COSTS, RESEARCH AND DEVELOPMENT COSTS, INDUSTRIAL PROPERTY AND OTHER RIGHTS, COSTS OF CONVERTING UTILITIES TO NATURAL GAS, AND LEASE PAYMENTS

The Group has been recording the following types of costs under these headings, which as of December 31, 2004, had the following balances:

	Amount Gross	Accumulated Accumulated	Net Net
Start-up expenses:			
Capital formation and increase expenses	1,591	(679)	912
Reorganization studies	885	(885)	-
Prototypes and branding for new stations	18	(6)	12
Economic studies on the launch and development of natural gas	21,318	(14,427)	6,891
Studies and projects	8,061	(2,331)	5,730
Institutional advertising campaigns for the launch of natural gas	614	(224)	390
Management information system	2,335	(2,189)	146
Security system	2,180	(1,362)	818
Other	445	(418)	27
	37,447	(22,521)	14,926
Research and development expenses: Program development	1,179	(148)	1,031
Integrated management services	2	(2)	-
Institutional promotion and marketing expenses for the launch of natural gas	3,495	(3,478)	17
Energy studies	881	(881)	-
Specialized natural gas conversion projects	1,127	(565)	562
Other	1,087	(912)	175
	7,771	(5,986)	1,785
Industrial property and other rights:			
Surface rights and concessions	107,489	(38,047)	69,442
Exclusivity bonuses paid to GALP product resellers	55,142	(32,229)	22,913
Technology usage licenses	15,320	(11,417)	3,903
Rights and licensing	48	(48)	-
Assignment of Rights - Gas Supply Contracts	276	(50)	226
Patents	2	(2)	-
Licenses	123	(76)	47
Contractual sales rights	4,102	(1,164)	2,938
Easements	33,900	(7,359)	26,541
Program development	4,184	(2,531)	1,653
Other products and licensing	9,416	(7,497)	1,919
	230,002	(100,420)	129,582
Conversion to natural gas: Marketing and communications	303	(24)	279
Conversion of Household Appliances to Natural Gas	61,042	(9,398)	51,644
Conversion of natural gas consumption—industrial	4,537	(665)	3,872
Conversion of consumption to natural gas for the tertiary sector	1,201	(169)	1,032
Conversion of consumption to natural gas	218,309	(36,808)	181,501
Conversion of the Carregado power plant	9,045	(4,845)	4,200
Information systems	3	(3)	-
Other	407	(31)	376
	294,847	(51,943)	242,904
Leasehold interests:			
Service station leasehold interests	25,193	(11,504)	13,689
Other	5,130	(2,700)	2,430
	30,323	(14,204)	16,119
	600,390	(195,074)	405,316

Service station leasehold rights totaling 13,689 thousand euros, net of accumulated amortization, relate primarily to the leasehold rights of the intangible assets of the service stations acquired by the subsidiary Galp Energia España, S.A. during the

2003 fiscal year, which are depreciated over a 20-year period, except in the case of leased gas stations or surface rights, which are depreciated over the term of the respective contract.

27. CHANGES IN FIXED ASSETS

i) Intangible and Tangible Fixed Assets

During the 2004 fiscal year, the changes in the intangible and tangible fixed assets accounts, as well as in the respective accumulated amortization, were as follows:

	Gross Assets				
	Opening Balance	Additions	Disposals/ Write-offs	Transfers and adjustments	Balance Balance
Intangible assets:					
Start-up expenses	49,753	707	(13,257)	244	37,447
Research and development expenses	8,309	298	(816)	(20)	7,771
Industrial property and other rights	233,321	2,612	(13,411)	7,480	230,002
Conversion of consumption to natural gas	267,312	307	-	27,228	294,847
Leasehold Interests	25,429	5,048	(154)	-	30,323
Consolidation differences (Note 10)	69,487	2,311	(2,552)	(44)	69,202
Fixed assets in progress	37,706	39,912	-	(47,684)	29,934
Advances for intangible assets	184	100	-	-	284
	691,501	51,295	(30,190)	(12,796)	699,810
Tangible fixed assets:					
Land and natural resources	260,478	181	(2,033)	3,699	262,325
Buildings and other structures	674,549	6,054	(23,775)	24,101	680,929
Basic equipment	4,531,024	28,337	(72,620)	428,947	4,915,688
Transportation equipment	32,526	1,202	(3,435)	2,004	32,297
Tools and equipment	4,988	240	(206)	(62)	4,960
Office equipment	114,141	2,063	(4,024)	9,459	121,639
Tare and containers	148,833	1,908	(5,831)	15,086	159,996
Other tangible fixed assets	96,168	4,974	(21,370)	1,360	81,132
Fixed assets in progress	695,196	261,627	(259)	(484,729)	471,835
Advances for tangible fixed assets	6,221	2,533	(1,777)	(2,706)	4,271
	6,564,124	309,119	(135,330)	(2,841)	6,735,072
	7,255,625	360,414	(165,520)	(15,637)	7,434,882

	Accumulated amortization				
	Opening Balance	Increases	Disposals/ Write-downs	Transfers and adjustments	Balance Balance
Intangible assets:					
Start-up expenses	29,999	5,970	(13,413)	(35)	22,521
Research and development expenses	6,987	(100)	(814)	(87)	5,986
Industrial property and other rights	91,845	18,804	(9,792)	(437)	100,420
Conversion of consumption to natural gas	39,082	12,867	-	(6)	51,943
Goodwill	10,332	3,729	(145)	288	14,204
Consolidation differences (Note 10)	6,584	5,071	(516)	-	11,139
	184,829	46,341	(24,680)	(277)	206,213
Tangible fixed assets:					
Land and natural resources	6,394	1,543	-	-	7,937
Buildings and other structures	357,015	26,093	(17,715)	1,357	366,750
Basic equipment	2,599,510	222,599	(68,766)	(873)	2,752,470
Transportation equipment	26,567	4,195	(2,927)	(34)	27,801
Tools and equipment	4,524	232	(204)	(29)	4,523
Office equipment	95,545	10,940	(3,910)	188	102,763
Tare and containers	126,454	10,399	(5,825)	-	131,028
Other tangible fixed assets	66,527	5,326	(21,263)	(451)	50,139
	3,282,536	281,327	(120,610)	158	3,443,411
	3,467,365	327,668	(145,290)	(119)	3,649,624

The increases recorded in the intangible and tangible fixed assets categories, totaling 360,414 mEuros, relate primarily to:

- 17,131 thousand euros in opening balances from companies that were included in the scope of consolidation during 2004 (Note 1):

  (i) 8,722 mEuros relating to the Galp Energia España Group;
  (ii) 5,783 thousand euros relating to Petrogal Moçambique, Lda.;
  (iii) 2,626 thousand euros relating to Moçacor – Distribuição Combustíveis, S.A.;

- 37,671 thousand euros relating to the Retail Business Unit, primarily for the remodeling of gas stations, convenience stores, and the Paycard project.

- The Sines and Porto refineries made total investments amounting to mEuros 17,072 and 10,862 million euros, respectively, of which 5,333 million euros were allocated to pipeline replacement.

- The LPG (Gas) Unit spent mEuros 23,221, primarily on modernizing bottle filling operations—specifically to adapt distribution networks, refurbish and acquire new bottles, and develop the Sines facility.

- Construction of the Fuel Logistics Center and the storage and port infrastructure in Madeira, totaling 22,304 mEuros.

- Operating and development costs for crude oil exploration activities in Angola in Block 14, totaling 51,859 mEuros, and in Blocks 32 and 33, totaling 6,087 mEuros.

- 64,977 thousand euros related to the construction of natural gas infrastructure (networks, branch lines, lots, underground storage, and other infrastructure).

- 26,261 mEuros related to investments in shared networks and the conversion of consumption to natural gas.

- 7,473 mEuros related to the construction of the Liquefied Natural Gas Terminal in Sines.

- 3,752 mEuros for the construction of the cogeneration plant at the facilities of “SCC - Sociedade Central de Cervejas, S.A.,” located in Vialonga.

During the 2004 fiscal year, the Sines Liquefied Natural Gas Terminal began operations; consequently, the amount of mEuros 263,519 was transferred from assets under construction to fixed assets, as shown in the “Transfers and Adjustments” column.

The balance of the “Transfers and Adjustments” column in the statement of changes in gross assets, amounting to mEuros 15,637, includes mEuros 9,788, which corresponds to: (i) reversals of excess cost allocations related to networks in the amount of mEuros 816; (ii) assets reclassified to the current-period expense accounts in the amount of 860 million euros and (iii) credit notes related to co-payments received for shared networks in the amount of 8,112 e-euros.

During the 2004 fiscal year, intangible and tangible assets—most of which were fully depreciated—were written off as a result of the update to the fixed assets register carried out by Petrogal during this fiscal year.

The difference between the total increase in accumulated depreciation and the depreciation expense recorded in the consolidated statement of income, amounting to 9,254 million euros, results from the amortization of consolidation differences recorded in financial expenses, amounting to 4,569 million euros (Note 44) and from the opening balances of the companies that were included in the scope of consolidation this fiscal year using the line-by-line method (Note 1), in the amount of mEuros 4,685.

As of December 31, 2004, the fixed assets allocated to crude oil exploration activities and their accumulated depreciation are as follows:

	Amounts Gross	Depreciation Accumulated	Amounts Net
Tangible fixed assets:			
Exploration and development costs related to areas already in production	140,788	(55,680)	85,108
Signing bonuses for areas already in production	993	(191)	802
Fixed assets in progress	144,840	-	144,840
	286,621	(55,871)	230,750

Exploration and development costs and signature bonuses related to areas already in production are classified under the heading “Basic Equipment.”

As of December 31, 2004, the Galp Group held tangible and intangible fixed assets located on third-party property, held by third parties, and subject to reversion, the most significant of which are detailed as follows:

	Tangible Fixed Assets (Gross amounts)	Intangible Assets (Gross amounts)
Built on someone else's property	2,151,609	79,055
Held by third parties	567,191	110,118
Fixed assets abroad	223,342	8
Propane/LPG installations and networks	189,925	-
Reversible in favor of third parties (equipment located at refueling stations)	175,710	60,469
Natural gas distribution network	172,127	-
Primary network	33,839	-
Natural gas meters	23,761	-
Propane/LPG meters	18,791	-
Easements	5,049	-
	3,561,344	249,650

The breakdown of tangible and intangible assets under construction (including advances) as of December 31, 2004, by project is as follows:

Block A-IMI & Block 14 - Congo and Angola	81,512
Underground natural gas storage (Note 21)	76,770
Oil exploration in Blocks 32 and 33 in Angola (includes signing bonus)	60,253
Construction of port and storage infrastructure—Madeira	49,366
Renovation and expansion of the gas station network	45,247
Construction of industrial service lines, UAGs (natural gas)	25,208
Other natural gas network infrastructure construction projects	17,865
Pipeline replacement—Porto Refinery	17,053
Industrial investments allocated to refineries	15,825
Rebranding of the Gas Station Network	13,474
Construction of natural gas networks and conversions in the municipality of Cascais	5,820
Construction of natural gas networks and conversions in the municipality of Sintra	5,588
Utilities—10 kV electrical grid—Sines Refinery	5,225
Construction of natural gas networks and conversions in the municipality of Oeiras	4,864
Replacement and retrofitting of LPG cylinders	3,586
Utilities—water network—Sines Refinery	3,026
Construction of natural gas networks and retrofits in the municipality of Lisbon	2,737
Studies and permits - Porto Refinery	2,614
Pipe Replacement (Leixões) - Porto Refinery	2,123
Propane gas storage tanks and customer facilities	1,673
Construction of natural gas networks and conversions in the municipality of Odivelas	1,500
Construction of natural gas networks and conversions in the municipality of Amadora	1,488
FC-E 11 Steam Superheater Substation—Sines Refinery	1,476
Construction of natural gas networks and retrofits in the municipality of Vila Franca de Xira	1,393
Co-funding for shared networks and natural gas conversion costs	1,358
Construction of natural gas networks and conversions in the municipality of Loures	1,289
Upgrading of the drainage network—Phase 2—Sines Refinery	1,242
Utilities—Amines Regeneration Unit—Sines Refinery	1,139
Conversion of Crude Oil Tanks to Diesel Fuel - Porto Refinery	1,096
Safety and Environmental Program for Gas Stations and Major Customers	1,080
Hydrogen Purification Unit - Sines Refinery	1,052
Sado River Pier Bridge Renovation Project	1,039
Construction of natural gas networks and conversions in the municipality of Azambuja	883
CC-H1 to CC-V1 Transfer Line—Sines Refinery	797
Desulfurization of diesel and gasoline - Sines Refinery	717
HV Revamping - Sines Refinery	690
Construction of natural gas networks and conversions in the municipality of Torres Vedras	690
Studies and permitting - Sines Refinery	574
Wind Farm in Sines	518
Other projects	46,474
	506,324

During the fiscal year ended December 31, 2004, Petrogal recorded a provision in the amount of 31,853 thousand euros, corresponding to the total costs incurred (including signature bonuses) in Block 33 in Angola, due to the poor prospects for a future commercial discovery, as indicated by studies conducted in 2004.

ii) Financial Investments

Securities and Other Financial Investments

Securities and other financial investments, as of December 31, 2004, and 2003, were composed as follows:

	2004		2003	
Securities and other financial investments:	**% of ownership**	**Amount**	**% ownership**	**Amount**
Marketable securities and real estate investments (a)		18,297		18,271
ONI SGPS, S.A. (c)	4.10%	19,865	4.10%	19,865
CLH - Compañia Logística de Hidrocarburos, S.A. (b)	5.00%	13,252	5.00%	12,504
PME Capital - Portuguese Venture Capital Company, S.A.	1.82%	499	1.82%	499
PME Investimentos - Investment Company, S.A.	1.82%	499	1.82%	499
Agene - Energy Agency, S.A.	10.98%	114	10.98%	114
Omegás	5.00%	35	5.00%	35
Ambelis - Agency for the Economic Modernization of Lisbon, S.A.	2.00%	20	2.00%	20
Vigo Financial Club	-	19	-	19
Petrogal Employee Consumer Cooperative, CRL	0.07%	6	0.07%	6
OEINERGE - Oeiras Municipal Energy and Environment Agency	1.45%	1	-	-
Harii, SGPS, S.A. (d)	5.63%	-	5.63%	249
Others		27		2
		52,634		52,083
Accumulated amortization		(10,223)		(10,070)
Provisions for other financial investments (Note 46)		(20,069)		(20,069)
		22,342		21,944

(a) Real estate acquired primarily in prior years and not used in the Group's core business.

(b) Financial investment accounted for using the equity method.

(c) As of December 31, 2004, the Group had recorded a provision for other risks and charges in the amount of 19,865 thousand euros (Note 46) related to this financial investment.

(d) During the 2004 fiscal year, the Company sold this investment.

The movement in the "Securities and Other Financial Investments" account during the fiscal year ended December 31, 2004, was as follows:

Opening Balance	52,083
Effect of applying the equity method to the results for the fiscal year (Note 44):	
Positive	5,148
Dividends distributed:	
CLH - Compañia Logistica de Hidrocarburos, S.A.	(4,399)
Sale of Harii, SGPS, S.A.	(249)
Other	51,
	52,634

As of December 31, 2004, the Group had the following accounts receivable from subsidiaries and participating interests:

Loans granted:	
Petrogal Housing Cooperative	53
Agene - Energy Agency, S.A.	90
	143

As of December 31, 2004, the Group had the following accounts payable related to subsidiaries and participating interests:

	Current	Medium and long term
Enagás, S.A.	1,596	9,116
E.E.M. - Madeira Electricity Company, S.A. (b)	-	4,928
ENI Portugal Investment, S.p.A.	31,018	3,458
Portuguese Electricity Production Company, S.A.	-	1,660
Terparque - Fuel Storage, Lda. (a)	-	440
Finerge - Energy Project Management, S.A. (c)	-	397
EDP - Energias de Portugal, S.A.	13,269	-
Iberdrola, S.A.	3,720	-
Portgás - Gas Production and Distribution Company, S.A.	41	-
Setgás - Gas Production and Distribution Company, S.A.	41	-
Others	75	-
	49,760	19,999

(a) Subsidiary of Saaga - Sociedade Açoreana de Armazenagem de Gás, S.A.
(b) Shareholder of CLCM - Madeira Fuel Logistics Company, S.A.
(c) Shareholder of Powercer - Sociedade de Cogeração da Vialonga, S.A.

The amount recorded under current liabilities payable to subsidiaries and shareholders, totaling 49,760 mEuros, includes 48,077 mEuros in dividends declared by the Company for fiscal year 2003, net of payments made during fiscal year 2004, as follows:

	Allocated (Note 55)	Dividends Paid	Payable
Portuguese State	23,970	(23,970)	-
ENI Portugal Investment, S.p.a.	31,006	-	31,006
Parpública - Participações Públicas, SGPS, S.A.	17,019	(17,019)	-
EDP – Energias de Portugal, S.A.	13,269	-	13,269
REN - National Electricity Grid, S.A.	3,934	(3,934)	-
Iberdrola, S.A.	3,720	-	3,720
Portgás - Gas Production and Distribution Company, S.A.	41	-	41
Setgás - Gas Production and Distribution Company, S.A.	41	-	41
	93,000	(44,923)	48,077

In addition, during the 2004 fiscal year, dividends totaling 1,356 mEuros and 662 mEuros were paid to shareholders outside the group by subsidiaries of GDP, SGPS, S.A. and Petróleos de Portugal – Petrogal, S.A., respectively.

The amount payable to Enagás, S.A., totaling 10,712 million euros, relates to advances obtained by the subsidiaries Gasoduto Braga - Tuy, S.A. and Gasoduto de Campo Maior - Leiria - Braga, S.A., in the amounts of 4,057 mEuros and 6,655 mEuros, respectively, which accrue interest at market rates; the amount of 1,596 mEuros, corresponding to repayments to be made in fiscal year 2005, is classified as short-term.

The amount of mEuros 3,458 recorded as medium- and long-term liabilities payable to ENI Portugal Investment, S.p.A. relates to advances obtained by the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., which bear interest at market rates and have no defined repayment term. The amount recorded as a short-term liability consists of 12 million euros relating to interest accrued during the month of December 2004.

The Shareholder Structure of Lusitaniagás - Companhia de Gás do Centro, S.A. underwent a change during the fiscal year ended December 31, 2004, resulting from the transfer of the equity interest held by Italgás, S.p.A. to ENI Portugal Investment, S.p.A. on November 30, 2004. With the transfer of the shares, the receivables held by Italgás, S.p.A. relating to capital contributed as advances in the amount of 3,458 mEuros were also transferred to ENI Portugal Investment, S.p.A.

The amount of 4,928 million euros recorded as a medium- and long-term payable to E.E.M. – Empresa de Electricidade da Madeira, S.A., relates to advances granted by the latter to the associate CLCM – Companhia Logística de Combustíveis da Madeira, S.A., for which no repayment term has been defined.

The amount payable, in the medium and long term, to Companhia Portuguesa de Produção de Electricidade, S.A., totaling 1,660 million euros, relates to advances obtained by the subsidiary Carriço Cogeração - Sociedade de Geração de Electricidade e Calor, S.A., which accrue interest at market rates.

28. CAPITALIZED FINANCING COSTS

During the fiscal year ended December 31, 2004, the Group capitalized financial expenses totaling 1,883 million euros (Note 44) under the heading “Fixed Assets in Progress,” incurred on loans to finance fixed assets during their construction period.

33. DEBTS TO THIRD PARTIES DUE IN MORE THAN FIVE YEARS

As of December 31, 2004, liabilities to third parties due in more than five years totaled 39,904 mEuros and 473,711 mEuros, recorded under the headings “bond loans” and “long-term bank loans,” respectively (Note 34).

34. LOANS

As of December 31, 2004, and 2003, the breakdown of borrowings was as follows:

	2004		2003	
	Short-term	Medium - and long-term	Short term and	Medium long term
Bank loans:				
Internal loans	192,489	65,854	135,194	285,228
External loans	254,155	718,450	123,175	771,857
Bank overdrafts (Note 60)	176,058	-	295,340	-
Revolving credit lines	8,600	-	3,073	-
	631,302	784,304	556,782	1,057,085
Other loans obtained:				
Commercial Paper	-	-	39,904	-
IAPMEI	1,304	4,078	1,262	5,382
	1,304	4,078	41,166	5,382
Bond loans:				
1994 Issue - Petrogal, S.A.	-	-	149,639	-
1997 Issue - GDP, SGPS, S.A.	-	49,880	-	49,880
1998 Issue - Lisboagás, S.A.	-	49,880	-	49,880
2003 Issue - Galp Investment Fund	-	210,000	-	210,000
	-	309,760	149,639	309,760
	632,606	1,098,142	747,587	1,372,227

As of December 31, 2004, bank loans and bonds classified as medium- and long-term have the following scheduled repayment plan:

2006	75,036
2007	157,039
2008	281,098
2009	71,354
2010 and thereafter (Note 33)	513,615
	1,098,142

Bank loans

Financial expenses related to interest on loans past due and unpaid as of December 31, 2004, are recorded on the balance sheet under the heading “Accrued expenses” (Note 53).

Foreign bank loans denominated in foreign currency as of December 31, 2004, were denominated in the following currencies (in thousands):

	2004		2003	
	Short-term	Medium and long-term	Short-term	Medium and long term
U.S. Dollars	104,847	82,210	20,436	33,824
Mozambican meticais	-	40,550,212	-	-

Bond loans

i) 1994 Issue - Petrogal, S.A.

On November 2, 1994, Petrogal issued bonds in the amount of 30,000,000 thousand escudos, redenominated to 149,639 thousand euros, on November 2, 2000, intended for private placement, as approved by the General Meeting of November 10, 1993, which were fully subscribed and paid in full.

On November 2, 2004, in accordance with the terms of the issue, the bonds were finally redeemed in the amount of 149,639 mEuros.

ii) 1997 Issue – GDP – Gás de Portugal, SGPS, S.A.

On June 25, 1997, GDP – Gás de Portugal, SGPS, S.A. issued bonds in the amount of 49,880 million euros, at par, intended for private placement, which were fully subscribed and paid in full.

The loan will be repaid at par value in a single lump sum at the end of the ten-year term.

However, the issuer may redeem the loan early, in whole or in part, at its discretion (Call Option). In the case of partial redemption, this will be done by reducing the face value on any interest payment date starting with the 6th coupon. In this case, a redemption premium will be paid on the face value redeemed early.

Should the Portuguese State cease to hold, directly or indirectly, a majority of GDP's share capital, and/or should GDP cease to hold, directly or indirectly, any controlling interest that it holds, as of the date of the bond issuance, in the share capital of the companies within its Group whose corporate purpose is the distribution of piped gas, bondholders may demand early redemption of the bonds.

Interest on this loan is payable semiannually in arrears at a rate indexed to the "6-month Euribor" rate, plus 0.075%, rounded to the nearest 1/16 of a percentage point or the next higher value.

This issuance was led by Banco Millennium BCP Investimentos (formerly CISF) and Banco Português de Investimento, and its placement was underwritten by a banking syndicate consisting of the following banking institutions:

Financial Institutions	Amount	%
Millennium BCP Investimentos (formerly CISF)	13,592	27.25
Portuguese Investment Bank	13,592	27.25
Chemical Finance Bank	4,988	10.00
General Deposit Bank	4,988	10.00
Banco Finantia	3,492	7.00
Deutsche Investment Bank	3,492	7.00
Millennium BCP (formerly Mello)	1,995	4.00
Caixa Geral de Depósitos (formerly BNU)	1,247	2.50
Banco Santander de Negócios	1,247	2.50
Banco Bilbao Vizcaya	1,247	2.50
	49,880	100.00

iii) 1998 Issue – Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.

On August 12, 1998, Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A. issued bonds in the amount of 49,880 mEuros, at par, for private placement, which were fully subscribed and paid in full.

The loan will be repaid at par in five equal annual installments on the maturity dates of the 22nd, 24th, 26th, 28th, and 30th coupons.

However, early repayment at par of part or all of the outstanding principal may be made at the issuer's option (Call Option), starting on the maturity date of the

10th coupon, inclusive, and on the respective interest payment dates.

Bondholders may also demand early repayment of the loan or the remaining principal balance, at par, on the maturity dates of the 20th, 22nd, 24th, 26th, and 28th coupons.

Should the Portuguese State cease to hold, directly or indirectly, a majority of the share capital of GDP – Gás de Portugal, SGPS, S.A., or should GDP – Gás de Portugal, SGPS, S.A. cease to hold a direct majority stake in the capital of Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.—bondholders may demand early repayment of this loan.

Interest will be paid semiannually in arrears, based on a rate corresponding to the "6-month Euribor" rate in effect on the second-to-last business day prior to the start of each interest period, plus 0.08%.

The underwriting of the issue was provided by a banking syndicate composed of the following financial institutions:

Financial Institutions	Amount	%
Banco Espírito Santo Investimento	13,517	27.10
Portuguese Investment Bank	13,567	27.20
Millennium BCP (formerly CISF)	13,567	27.20
Caixa Geral de Depósitos (formerly BNU)	7,482	15.00
BMI	1,247	2.50
Banco Bilbao Vizcaya	500	1.00
	49,880	100.00

iv) 2003 Issuance - Galp Investment Fund

During 2003, Petrogal entered into a securitization transaction involving accounts receivable with Galp Investment Fund, PLC, in the amount of 210,000 mEuros, which has an expected maturity of 5 years and a legal maturity of 7 years. To finance this amount, the Fund issued mEuros 199,500 in "Notes A" and mEuros 10,500 in "Notes B," which bear interest at Euribor plus 0.5% and 0.95%, respectively. As a result of this transaction, Petrogal incurred financial costs of mEuros 6,190 for the current fiscal year (Note 44).

36. SALES AND SERVICES RENDERED BY ACTIVITY AND GEOGRAPHIC MARKETS

Sales and services rendered during the 2004 and 2003 fiscal years were distributed as follows:

	2004	2003
Sales:		
Domestic market	6,315,320	5,531,114
Foreign market	2,811,927	1,750,044
	9,127,247	7,281,158
Services Provided:		
Domestic Market	117,139	121,758
Foreign market	14,133	10,632
	131,272	132,390

Fuel sales include the Petroleum Products Tax (ISP).

The results by segment for fiscal year 2004 are presented in the appendix.

38. INCOME TAX

Information regarding income tax for the fiscal year is provided in Note 51.

39. REMUNERATION OF MEMBERS OF THE CORPORATE BODIES

Remuneration paid in fiscal years 2004 and 2003 to the corporate bodies of the Group's companies amounted to 3,698 mEuros and 3,763 mEuros, respectively.

41. REVALUATIONS OF TANGIBLE FIXED ASSETS

The companies included in the consolidation carried out revaluations of their tangible fixed assets in prior years in accordance with applicable legislation, namely:

- Decree-Law 126/77, of April 2;
- Decree-Law 430/78, of September 27;
- Decree-Law 219/82, of June 2;
- Decree-Law 399-G/84, of December 28;
- Decree-Law 118-B/86, of May 27;
- Decree-Law No. 111/88, of April 2;
- Decree-Law No. 49/91, dated January 25;
- Decree-Law No. 264/92, of November 24;
- Decree-Law No. 264/92, of February 14, pursuant to Decree-Law No. 132/95, of June 6;
- Decree-Law No. 31/98, dated February 11

In 1995, the GDP Group conducted two independent appraisals of the Company's fixed assets for the purpose of their revaluation pursuant to Decree-Law No. 22/92, of February 14, which had tax implications applicable to the underlying Decree-Law.

44. CONSOLIDATED STATEMENT OF FINANCIAL RESULTS

The consolidated financial results for 2004 and 2003 are as follows:

	2004	2003
Costs and losses:		
Interest expense—group companies and associates	672	455
Interest expense—other interest	50,963	51,838
Losses in group companies and associates	8,279	7,822
Amortization of acquisition differences on equity interests (Note 27)	4,569	4,112
Dividends on equity securities	-	517
Depreciation of real estate investments (Note 27)	153	179
Unfavorable foreign exchange differences	66,015	107,854
Cash discounts granted	986	743
Other financial costs and losses	16,325	13,907
	147,962	187,427
Financial results	**(29,781)**	**(20,912)**
	118,181	166,515
Revenue and gains:		
Interest earned—group companies and associates	3,791	4,272
Interest earned—other	2,962	2,441
Gains on group companies and affiliates	33,738	30,632
Real estate income	121	63
Income from marketable securities and other financial investments	156	188
Favorable exchange rate differences	74,035	117,492
Cash discounts received	510	415
Other financial income and gains	2,868	11,012
	118,181	166,515

The amount of 50,963 mEuros in interest expense—other interest—is deducted from the amount of 1,883 mEuros relating to interest capitalized during the fiscal year ended December 31, 2004 (Note 28) and also includes costs related to the securitization of accounts receivable in the amount of 6,190 mEuros (Note 34) and late-payment interest for 2004 related to the provision for legal proceedings concerning basement occupancy fees in the amount of 302 mEuros (Note 46).

The line item "Other financial costs and losses" in the amount of mEuros 16,325 includes the amount of:
(i) mEuros 4,810 and mEuros 1,473 relating to bank guarantee fees for the subsidiaries Transgás - Sociedade Portuguesa de Gás Natural, S.A. and Transgás Atlântico - Sociedade Portuguesa de Gás Natural Liquefeito, S.A., respectively and
(ii) 4,971 mEuros related to banking service fees.

The amount of mEuros 2,868 recorded under "Other Financial Income and Gains" includes mEuros 1,358 relating to rebills issued by the subsidiary Transgás – Sociedade Portuguesa de Gás Natural, S.A. to the associate EMPL – Europe Maghreb Pipeline, Ltd., arising from guarantee commission costs incurred on its behalf, and mEuros 395 relating to the discounting of a receivable from the sale of land (Note 52).

Gains and losses on group companies and associates in 2004 and 2003 are broken down as follows:

	2004	2003
Losses:		
Petróleos de Portugal - Petrogal, S.A.	3,657	1,182
GDP - Gás de Portugal, SGPS, S.A. (a)	1,046	-
Petrogal Guinea-Bissau, Lda. (b)	960	-
Petrogal Angola, Lda. (a) (b)	743	36
Central E, S.A. (b) (c)	576	591
Fast Access - Operations and Information Services, E-Commerce, S.A. (b) (c)	348	503
Energin - Electricity and Heat Production Company, S.A. (b) (c)	309	1,100
Tagusgás - Tagus Valley Gas Company, S.A. (b)	221	439
EMPL - Europe Maghreb Pipeline, Ltd. (a)	170	-
CLC - Companhia Logística de Combustíveis, S.A. (a)	129	-
Ecogen - Decentralized Energy Services, S.A. (b) (c)	107	68
Numero Um - Auto Repair, Lda. (a)	10	23
Gasfomento Energia, S.A. (b)	3	30
Galp Energia España, S.A.	-	3,044
Brisa Access, S.A.	-	548
Portgás - Gas Production and Distribution Company, S.A.	-	220
Dianagás - Évora Natural Gas Distribution Company, S.A.	-	26
Lusitaniagás - Central Gas Company, S.A.	-	6
Enerfin - Energy Efficiency Company, Inc.	-	5
Água Solar - Solar Energy Services, Inc.	-	1
	8,279	7,822

	2004	2003
Earnings:		
EMPL - Europe Maghreb Pipeline, Ltd. (b)	16,921	16,372
CLH - Compañía Logística de Hidrocarburos, S.A. (b)	5,148	4,197
Portgás - Gas Production and Distribution Company, S.A. (b)	3,780	2,298
Al-Andalus Gas Pipeline, S.A. (b)	3,008	2,815
Extremadura Gas Pipeline, S.A. (b)	2,461	2,455
Setgás - Gas Production and Distribution Company, S.A. (b)	1,444	384
Galp Power, SGPS, S.A. (a)	363	-
Metragaz, S.A. (b)	234	176
Enerfin - Energy Efficiency Company, S.A. (b)	146	-
Fast Access - E-Commerce Operations and Information Services, S.A. (a)	114	-
Petrogal Guinea-Bissau, Lda. (a)	51	33
Brisa Access, S.A. (b)	46	-
Numero Um - Auto Repair, Lda.(b)	14	-
TIGS - Engineering and Maintenance, S.A. (b)	5	-
Gasfomento Sur Andalucia, S.A. (b)	2	-
Saaga - Azorean Gas Storage Company, S.A. (a)	1	-
Petrogal Mozambique, Lda.	-	911
National Fuel Company - Enacol, SARL	-	609
Driftal - Plastificantes de Portugal, S.A.	-	225
Tagus Re, S.A.	-	149
Galpmed - Insurance Brokerage, Single-Member LLC	-	3
Ecogen - Decentralized Energy Services, S.A.	-	2
ASA - Aviation Supply and Services, Lda.	-	1
Others	-	2
	33,738	30,632

(a) The gains and losses related to these companies result from the Company's recognition, during the fiscal year ended December 31, 2004, of the differences between the estimated and final appropriated earnings for fiscal year 2003.

(b) The gains and losses related to these companies correspond to the consolidation of the financial results for the fiscal year using the equity method, as well as the effects resulting from the Group's consolidation of other changes in the equity of these subsidiaries and associates.

(c) These subsidiaries have negative equity, and the amount of mEuros 1,340, which has been recognized against the line item "Provisions for other risks and charges" (Notes 3 and 46):

Central E, S.A.	576
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	309
Fast Access - Operations and Information Services for E-Commerce, S.A.	348
Ecogen - Decentralized Energy Services, S.A.	107
	1,340

Of the 3,657 mEuros recorded under the heading "Losses in Group Companies – Petróleos de Portugal-Petrogal, S.A.," 2,026 mEuros correspond to bonuses awarded to employees as a result of the appropriation of earnings for fiscal year 2003.

Total losses in group companies and associates amounting to mEuros 8,279 were recorded against: (i) mEuros 1,703 under the line item "Equity interests in group companies" (Note 2); (ii) mEuros 404 under the line item "Equity interests in associates" (Note 3); (iii) mEuros 1,340 from the "Provisions for other risks and charges—equity interests" line item (Note 46); and (iv) mEuros 4,832 offset by other line items.

Total gains on group companies and associates, amounting to 33,738 mEuros, were recorded against: (i) 51 mEuros from the line item "Equity interests in group companies" (Note 2); (ii) 28,058 mEuros from the line item "Equity interests in associates" (Note 3); 481 mEuros from the "Provisions for other risks and charges—equity interests" line item (Note 46); and (iv) 5,148 mEuros offset against the "Securities and other financial investments" line item (Note 27).

45. CONSOLIDATED STATEMENT OF EXTRAORDINARY INCOME

Consolidated extraordinary income for 2004 and 2003 is composed as follows:

	2004	2003
Expenses and losses:		
Donations	1,836	1,267
Bad debts	170	590
Inventory losses	126	208
Losses on fixed assets	7,750	13,216
Fines and penalties	4,244	336
Increases in depreciation and provisions	149	730
Adjustments relating to prior years	1,299	3,870
Restructuring Reserve	-	476
Retirement benefits	9,028	9,830
Other extraordinary costs and losses	5,786	1,679
	30,388	32,202
Extraordinary income and expenses	40,579	55,502
	70,967	87,704
Revenue and gains:		
Tax refunds	94	160
Debt recovery	2	2
Gains on inventory	19	81
Gains on fixed assets	3,893	31,300
Proceeds from contractual penalties	50	105
Reductions in amortization and provisions	24,620	21,551
Adjustments relating to prior years	1,384	4,834
Amortization of investment grants (Note 49)	32,563	24,082
Retirement benefits	319	630
Other income and extraordinary gains	8,023	4,959
	70,967	87,704

The “Costs and Losses—Retirement Benefits” line item, in the amount of 9,028 mEuros, includes the amortization related to the increase in liabilities resulting from the updating of assumptions used in the actuarial studies reported as of January 1, 2001, of which 8,085 mEuros relates to pension plans (Note 21) and mEuros 943 relating to health care and life insurance (Note 46).

The “Other Extraordinary Costs and Losses” line item for the fiscal year ended 2004 primarily includes: (i) mEuros 3,143 related to the accident that occurred in July 2004 at the Leixões Terminal and (ii) mEuros 246 related to the recognition during the fiscal year of capitalized costs associated with pre-operational expenses.

The “Income and Gains—Retirement Benefits” line item, in the amount of mEuros 319, includes the amortization of changes in assumptions regarding pension plans, in the amount of mEuros 24 (Note 21), and the amortization related to changes in assumptions regarding healthcare and life insurance liabilities, in the amount of mEuros 295 (Note 46).

The “Other Extraordinary Income and Gains” line item, in the amount of mEuros 8,023, consists primarily of: (i) mEuros 6,541 related to an overestimation of taxes and (ii) mEuros 623 related to the settlement regarding the debt payable to Adamastor Capital, SGPS, S.A. (Note 3). This overestimation includes mEuros 2,192 related to the change in depreciation rates for assets allocated to the concession. Similarly, deferred tax assets were reduced by that amount in fiscal year 2004 (Note 51).

The amount of 24,620 mEuros recorded under the heading “Reduction in Depreciation and Provisions” as of December 31, 2004, includes 24,360 mEuros related to a reduction in provisions (Note 46).

46. CHANGES IN PROVISIONS

During the fiscal year ended December 31, 2004, the movement in provisions established by the Group was as follows:

	Opening Opening	Increases	Decrease	Transfers and Adjustments	Balance Balance
Allowances for Doubtful Accounts:					
Doubtful accounts receivable	54,636	11,748	(7,019)	-	59,365
Other debtors (Note 52)	5,106	139	(1,731)	-	3,514
	59,742	11,887	(8,750)	-	62,879
Provisions for Risks and Expenses - Retirement Benefits					
Provisions for pensions (Note 21):					
Including early retirements	25,991	4,586	(5,443)	-	25,134
Including pre-retirees	31,009	1,890	(9,238)	2,006	25,667
Covered by the pension fund	5,379	2,127	(2,168)	(13)	5,325
Pensions - retirement benefits	7,154	377	(848)	25	6,708
Special scheme for flexible retirement age	7,806	1,037	(8)	-	8,835
With retirement benefits	5,662	625	(404)	-	5,883
With voluntary social security	961	46	(595)	-	412
	83,962	10,688	(18,704)	2,018	77,964
Other retirement benefits:					
Health Care	99,942	13,791	(8,436)	-	105,297
Life insurance	1,046	210	(101)	-	1,155
	100,988	14,001	(8,537)	-	106,452
Other provisions for risks and charges:					
Ongoing legal proceedings	19,427	2,028	(30)	131	21,556
Provisions for taxes	6,753	743	(4,542)	-	2,954
Equity (Notes 3 and 44)	3,955	1,340	(1,103)	-	4,192
Restructuring	22,899	-	(8,231)	(2,006)	12,662
Miscellaneous risks and charges	36,212	58,428	(13,783)	(111)	80,746
	89,246	62,539	(27,689)	(1,986)	122,110
Provisions for inventory write-downs (Note 50):					
Raw materials, auxiliary materials, and supplies	2,699	4,565	(519)	(12)	6,733
Finished products, intermediate products, and merchandise	1,446	893	(1,028)	-	1,311
Merchandise	1,007	125	(718)	2	416
	5,152	5,583	(2,265)	(10)	8,460
Provisions for financial investments:					
Loans to group companies (Note 2)	1,916	-	(86)	-	1,830
Other financial investments (Note 27)	20,069	-	-	-	20,069
	21,985	-	(86)	-	21,899
	361,075	104,698	(66,031)	22	399,764

Creation/increase in provisions:

The "Increases" column, in the amount of 104,698 mEuros, includes 3,064 mEuros in opening balances from companies that were brought into the scope of consolidation during 2004 (Note 1):

(i) 2,442 mEuros relating to the Galp Energia Spain Group;

(ii) 232 mEuros relating to Petrogal Moçambique, Lda;

(iii) 390 mEuros relating to Moçacor – Distribuição Combustíveis, S.A.

Accordingly, the provisions/increases totaling 101,634 mEuros were recorded as follows:

i) 74,497 thousand euros, related to provisions for doubtful accounts receivable, other risks and charges, and inventory write-downs, was recorded under the "Provisions" line item in the consolidated statement of income;

ii) 15,661 mEuros was recorded under the "Personnel Expenses" line item in the consolidated income statement;

iii) 9,834 mEuros was recorded under the heading "Extraordinary Expenses and Losses," of which 9,028 mEuros was recorded under "Extraordinary Expenses and Losses – Pension Benefits" (Note 45);

iv) mEuros 1,642, offset against the "Financial Expenses and Losses" line item, of which mEuros 302 (Note 44) was recorded under "Interest Expense—Other," and relates to late-payment interest for 2004 on the provision for legal proceedings regarding subsoil occupancy fees, and mEuros 1,340 (Note 44) to cover the negative equity of subsidiaries and associates.

The total increase in provisions for other risks and charges—miscellaneous risks and charges—in the amount of 58,428 mEuros relates primarily to:

ix) mEuros 31,853 for the establishment of a provision for Block 33 in Angola, due to information indicating the unfeasibility of future operations at this block (Note 27);

x) 5,835 thousand euros for the establishment of a provision for interest recognized as revenue through 2003 under the contract for the assignment of rights to use telecommunications infrastructure, to address the possibility of the current contract being terminated (Note 52);

xi) 4,603 thousand euros for impairment losses on assets at service stations in Spain;

xii) mEuros 3,737 corresponds to costs arising from the discharge of effluents from the Sines Refinery;

xiii) 3,677 thousand euros for the establishment of a provision for adjustments to the corporate income tax base (Note 51);

xiv) 2,998 thousand euros corresponds to the expected capital loss on the sale of the Sacavém facility;

xv) 1,532 mEuros for the creation of a provision for the write-off of assets at service stations;

xvi) 1,465 mEuros for the creation of a provision for the write-off of construction at service stations;

xvii) 601,000 euros for the establishment of a provision for the decommissioning of urban service stations in accordance with Decree-Law No. 246/92;

xviii) 188 million euros corresponding to the expected capital loss on the sale of fuel stations to take place in 2005;

xix) 173 million euros corresponds to a provision for liabilities related to "futures" (financial derivatives);

xx) mEuros 150 for the establishment of a provision for the decontamination of service station sites;

Transfers:

The amount of mEuros 2,006 corresponds to the transfer from the restructuring provision to the early retirement provision, corresponding to liabilities related to the payment of early retirement benefits to active employees covered by the Galp Energia Group's reorganization process and workforce downsizing (Note 21).

Reduction in provisions:

The reduction in provisions in the amount of 66,031 thousand euros is composed as follows:

Account	Use by direct method	Reduction
Provisions for doubtful accounts	(2,425)	(6,325)
Provisions for retirement benefits	(26,922)	(319)
Provisions for restructuring	(7,930)	(301)
Other provisions for risks and charges	(3,220)	(16,238)
Provisions for inventory write-downs	(374)	(1,891)
Provisions for financial investments	-	(86)
	(40,871)	(25,160)

The amount of 25,160 mEuros, relating to the reduction in provisions, was offset by: (i) the line item for extraordinary income—reduction in provisions in the amount of 24,360 mEuros (Note 45); (ii) the extraordinary income line item—retirement benefits in the amount of 319 mEuros (Note 45); and (iii) the financial income line item—gains from group companies, in the amount of 481 mEuros (Note 44).

The amount of direct write-offs from the allowance for doubtful accounts includes 2,115 mEuros related to the write-off of debts subject to legal action.

The drawdowns from provisions for retirement benefits, totaling 26,922 million euros, relate primarily to benefits paid and contributions made to the Pension Fund, in the amounts of 16,505 million euros and 2,168 million euros, respectively (Note 21), to which are added amounts of mEuros 7,785, mEuros 453, and mEuros 5 relating to the Petrogal Group, the GDP Group, and other companies, respectively, for benefits paid for liabilities not allocated to the Pension Fund, namely health care and life insurance.

The reduction in provisions for retirement benefits, in the amount of 319 million euros (Note 46), relates to the amortization of the value of changes in assumptions (Note 23 j)).

The amount of 7,930 mEuros in direct drawings from the restructuring provision includes 1,565 mEuros and 6,365 mEuros in severance payments for employment contracts terminated by mutual agreement, made by the GDP Group and the Petrogal Group, respectively.

Of the amount of direct drawdowns from the provision for other risks and charges, mEuros 816 relates to the write-off of assets at Parque do Rosarinho, and mEuros 410 relates to the Cristal case.

The decrease of 16,238 mEuros in other provisions for risks and charges includes:
(i) 423,000 euros relating to the provision for the Matinha Gasometer, corresponding to the

of this asset recorded under the heading "Tangible Fixed Assets—Basic Equipment" and was established to adjust the asset's net book value to its estimated market value; (ii) mEuros 4,183 relating to the provision for taxes, and (iii) mEuros 6 relating to the reduction in the provision for equity interests in associated companies (Note 3).

Provisions for other risks and charges:

As of December 31, 2004, the balance of the "Provisions for miscellaneous risks and charges" account, in the amount of mEuros 80,746, relates primarily to:

i) mEuros 31,853 to cover the write-off of assets related to Block 33 (Note 27);

ii) 15,106 mEuros to cover potential losses on the disposal of fueling stations, of of which mEuros 13,685 relates to Galp Energia España, S.A. and subsidiaries;

iii) 7,456 thousand euros to cover estimated losses on the disposal of assets through their continued use;

iv) mEuros 6,017 to cover costs associated with soil remediation at certain facilities occupied by Petrogal where a decision to remediate has already been made due to legal requirements;

v) 5,835 thousand euros relating to the provision established for interest recognized as revenue through 2003 under the agreement for the assignment of rights to use telecommunications infrastructure, to address the possibility of termination of the current agreement (Note 52);

vi) 3,737 mEuros to cover costs related to effluent discharges from the Sines Refinery;

vii) mEuros 3,677 to cover adjustments to the taxable base for corporate income tax (Note 51);

viii) 3,314 thousand euros to cover the costs of decommissioning the production facilities located in Blocks 1 and 14. This provision is intended to cover all costs to be borne by Galp Exploração at the end of the production life of those oil fields. The provision for decommissioning costs for Block 14 is estimated by applying to the estimate of total decommissioning costs the coefficient calculated as the ratio of the production volume recorded in each amortization period to the volume of proved reserves developed at the end of that period, plus the production for that period;

ix) 1,160 mEuros for costs related to the renovation or decommissioning of gas stations resulting from the implementation of Decree-Laws No. 246/92 and No. 302/95;

Provisions for ongoing legal proceedings:

The amount of 21,556 mEuros, relating to provisions for ongoing legal proceedings, includes the amount of 9,265 mEuros relating to proceedings concerning subsoil occupation fees (Note 59).

Provisions for restructuring:

The amount of 12,662 mEuros recorded under the provision for restructuring reflects the Group's ongoing efforts to improve its performance and presentation of operating costs and to maintain its competitiveness in the face of adverse market conditions. This process, which began in previous years, involves not only a reduction in short-term operating costs but also the optimization of organizational structures, improvements to systems, processes, and practices, and the rationalization of operating assets. As of December 31, 2004, this restructuring plan has been

approved and duly defined by the Boards of Directors of the respective Group companies.

Provisions for other financial investments:

The amount of 20,069 mEuros recorded under the heading "Provision for other financial investments" includes 19,865 mEuros of the provision related to the Group's equity interest in ONI, SGPS, S.A. (Note 27).

Provisions for retirement benefits:

As mentioned in Note 21, Petrogal reports under the pension provisions line items the present value of its liabilities for past service related to the payment of early retirement pensions, pre-retirement benefits, Social Security for pre-retirees, voluntary social insurance payments to early retirees, and retirement bonuses not covered by the Petrogal Pension Fund. In addition, the companies of the GDP Group report under the pension provisions line items the liabilities assumed by Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.—to reimburse the retirement supplements payable by EDP to its retirees and pensioners affiliated with the Company, as well as the retirement and survivor supplements for retirees existing as of the Fund's establishment, which are not covered by the GDP Pension Fund.

The amount of these actuarial liabilities was determined based on actuarial studies prepared by a specialized firm, using the assumptions and method indicated in Note 21.

As mentioned in Note 23.j), as of December 31, 2004, the Group has recorded a provision to cover its healthcare and life insurance liabilities for past services of active employees and the total liabilities for the remaining population. The present value of the liabilities for past services and the actuarial assumptions used in their calculation are as follows:

	Petrogal	
	2004	**2003**
Salary growth rate	3.00%	3.00%
Technical interest rate	4.75%	5.25%
Health care cost growth rate	4.00%	4.00%
Mortality Table	TV 73/77	TV 73/77
Disability table	EVK 80–50%	EVK 80–50%
Normal Retirement Age	65	65
Method	Projected Credit Unit	Projected Credit Unit

Responsibilities and respective coverage:

i) Health care

Total liabilities:

Assets		40,418	24,513
Pre-retirees		14,978	10,918
Retirees		119,074	91,405
	Total	**173,970**	**126,836**

Coverages:

From provisions	97,886	92,653
Changes in assumptions and methodology (Note 23 j))	903	1,807
(Gains) and losses not recognized (Note 23 j))	75,181	32,376
Total	**173,970**	**126,836**

ii) Life insurance

Total liabilities:

Assets		1,112	557
Pre-retirees		396	329
Retirees		404	374
	Total	**1,912**	**1,260**

Coverages:

From provisions	990	941
Changes in assumptions and methodology (Note 23 j))	(15)	(29)
Unrecognized (gains) and losses (Note 23 j))	937	348
Total	**1,912**	**1,260**

	GDP	
	2004	**2003**
Wage growth rate	3.00%	3.00%
Technical interest rate	4.75%	5.25%
Health care cost growth rate	4.00%	4.00%
Mortality Table	TV 73/77	TV 73/77
Disability table	EVK 80–50%	EVK 80–50%
Normal Retirement Age	65	65
Method	Credit Unit Projected	Credit Unit Projected

Responsibilities and respective coverage:

i) Health care

Total Responsibilities:	Total	**11,587**	**8,538**
Coverage:			
From provisions		7,259	7,186
Changes in assumptions and methodology (Note 23 j))		(278)	(556)
Unrecognized (gains) and losses (Note 23 j))		4,606	1,908
	Total	**11,587**	**8,538**

ii) Life insurance

Total liabilities:	Total	**217**	**134**
Coverage:			
From provisions		127	83
Changes in assumptions and methodology (Note 23 j))		46	66
Unrecognized (gains) and losses (Note 23 j))		44	(15)
	Total	**217**	**134**

	Other	
	2004	**2003**
Wage growth rate	3.00%	3.00%
Technical interest rate	4.75%	5.25%
Health care cost growth rate	4.00%	4.00%
Mortality table	TV 73/77	TV 73/77
Disability table	EVK 80–50%	EVK 80–50%
Normal Retirement Age	65	65
Method	Unit of Projected Credit	Projected Projected Credit

Liabilities and respective coverage:

i) Retirement benefits

Total liabilities:	Total	**254**	**192**
Coverage:			
From provisions		213	172
Changes in assumptions and methodology (Note 23 j))		(3)	(6)
Unrecognized (gains) and losses (Note 23 j))		44	26
	Total	**254**	**192**

ii) Health care Total liabilities:

	Total	**368**	**233**

Coverage:

From provisions		152	104
Change in assumptions and methodology (Note 23 j))		33	49
Unrecognized (gains) and losses (Note 23 j))		183	80
	Total	**368**	**233**

iii) Life insurance

Total

Total:	Total	**68**	**28**
Coverage:			
From provisions		38	21
Changes in Assumptions and Methodology (Note 23 j))		6	8
Unrecognized (gains) and losses (Note 23 j))		24	(1)
	Total	**68**	**28**

The changes in the liabilities of Petrogal, the GDP Group companies, and other Group companies related to health care and life insurance for the 2004 fiscal year were as follows:

	Petrogal		
	Health care	**Life insurance**	**Total**
Total liabilities as of December 31, 2003	126,836	1,260	128,096
Cost of current services	1,272	35	1,307
Interest expense	6,477	64	6,541
Benefits paid during the fiscal year	(7,701)	(84)	(7,785)
Actuarial (gains) / losses for the fiscal year	47,086	637	47,723
Total liabilities as of December 31 of 2004	**173,970**	**1,912**	**175,882**
COSTS FOR THE YEAR 2004			
Interest expense and expense for current services	7,749	99	7,848
Corridor mechanism	4,281	48	4,329
Amortization of changes in assumptions	904	(14)	890
	12,934	**133**	**13,067**

Actuarial losses for the fiscal year related to health care in the amount of mEuros 47,086 result from: (i) an adjustment of the technical interest rate from 5.25% to 4.75%, the effect of which amounted to mEuros 10,465, and (ii) changes in the population and other actuarial assumptions, the effect of which amounted to mEuros 36,621, notably due to the actual cost of premiums compared to the estimated cost.

	GDP		
	Healthcare	**Life insurance**	**Total**
Total liabilities as of December 31, 2003	8,538	134	8,672
Cost of current services	178	18	196
Interest expense	436	8	444
Benefits paid during the fiscal year	(451)	(2)	(453)
Actuarial (gains) / losses for the fiscal year	2,886	59	2,945
Total liabilities as of December 31 of 2004	**11,587**	**217**	**11,804**
COSTS FOR THE YEAR 2004			
Interest expense and expense for current services	614	26	640
Mechanism of the corridor	190	-	190
Amortization of changes in assumptions	(278)	20	(258)

526	**46**	**572**

	Other			
	Pension benefits	**Health care**	**Life Life**	**Total**
Total liabilities as of December 31, 2003	192	233	28	453
Cost of current services	22	24	11	57
Interest expense	11	12	2	25
Benefits paid during the fiscal year	-	(5)	-	(5)
Actuarial (gains) / losses for the fiscal year	19	104	27	150
Total liabilities as of December 31 2004 from	254	**368**	**68**	**690**
COSTS FOR 2004				
Interest expense and cost of current services	33	36	13	82
Amortization of changes in assumptions	5	16	3	24
Corridor mechanism	3	3	-	6
	41	**55**	**16**	**112**

The cost of current services and interest expense, totaling 8,570 million euros, was recorded by the aforementioned companies in the consolidated income statement under the heading “Personnel Expenses.”
The increase in liabilities in the amount of 4,549 million euros and the decrease in liabilities in the amount of 1,743 million euros, resulting from the update of financial and demographic assumptions in 2001, were recognized in the financial statements as mentioned in note 23(j). In fiscal year 2004, amounts of mEuros 943 and mEuros 295, respectively (Note 45), were recognized under extraordinary expenses and income due to the partial amortization of these amounts.
As mentioned in item 23(j), actuarial gains and losses are recognized in the financial statements only to the extent that they exceed the limits defined in the “corridor,” and are amortized beginning in the subsequent fiscal year in which they are calculated, as described below.
As a result of the excess over the “corridor” calculated as of December 31, 2004, the amount of mEuros 4,525 was recorded as an expense under the “personnel expenses” line item for its amortization in this fiscal year.

The following table provides a breakdown, by benefit plan, of the liabilities included in the “corridor” mechanism and their respective ranges.

Benefits	Unrecognized (Gains) and Losses	"Corridor" Range (10%)	Excess over the corridor range	Amount to be recognized in 2005
Petrogal Group				
Healthcare	75,181	17,397	57,784	12,898
Life Insurance	937	191	746	167
GDP Group				
Healthcare	4,606	1,159	3,447	699
Life Insurance	44	22	33	6
Other				
Health care	183	37	146	8
Life Insurance	24	7	17	1
Retirement Benefits	44	25	19	1

The calculated actuarial surpluses, totaling 62,192 mEuros related to healthcare, life insurance, and retirement benefits, will be recognized as expenses in future fiscal years based on the expected average future service of the employees covered by these plans (Petrogal 4.48; Driftal 1; Gásfomento 25.12; Lisboagás 5.32; Beiragás 26.47; Galp Energia 26.46 for life insurance, 18.5 for health insurance, and 17.69 for retirement benefits of former employees of GDP, SGPS, S.A.; Galp Power 33.13; Galp Serviços 28.48 and 13.95 for retirement benefits for former Galp E-Nova employees; GDP Distribuição 16.08; Lusitâniagás 28.17; Petrogal Exploração 26.51; Transgás 22.74 and Transgás Atlântico 29.83). Accordingly, the amount of 13,780 mEuros, resulting from the amortization of the excess "corridor," will be recorded as an expense, net of revenue.

47. FINANCE LEASES

As indicated in Note 23.c), the Group accounts for finance leases using the finance lease method. As of December 31, 2004, the Group had liabilities, as lessee, related to future lease payments totaling mEuros 1,947, of which mEuros 701 are due in the medium and long term.

49. INVESTMENT SUBSIDIES

As of December 31, 2004, and 2003, the breakdown of investment grants received and receivable was as follows:

Program	GDP Group	PETROGAL Group	OTHERS	2004	2003
Regen					
Amount Received	79,361	-	-	79,361	79,361
Energy Program					
Amount Received	173,835	-	-	173,835	170,611
Receivables	2,074	-	-	2,074	1,098
	175,909	-	-	175,909	171,709
Interreg II					
Amount received	129,091	-	-	129,091	129,091
Receivables	13,999	-	-	13,999	13,999
	143,090	-	-	143,090	143,090
Trans-Energy					
Amount received	90,439	-	-	90,439	64,721
Receivables	3,969	-	-	3,969	-
	94,408	-	-	94,408	64,721
Protede					
Amount received	19,708	-	-	19,708	19,708
	19,708	-	-	19,708	19,708
Operational Program for the Economy					
Amount received	191,767	-	300	192,067	142,541
Receivables	9,318	-	-	9,318	18,859
	201,085	-	300	201,385	161,400
Sines Desulfurization					
Outstanding	-	39,513	-	39,513	39,513
	-	39,513	-	39,513	39,513
Port Desulfurization					
To be received	-	35,307	-	35,307	35,307
	-	35,307	-	35,307	35,307
Other					
Amount received	-	6,363	289	6,652	6,634
	-	6,363	289	6,652	6,634
Total	**713,561**	**81,183**	**589**	**795,333**	**721,443**

These subsidies are recognized in income, in accordance with the useful lives of the respective fixed assets; in fiscal year 2004, an amount of mEuros 32,563 was recognized (Note 45), of which mEuros 8,431 (Note 53) relates to the desulfurization projects at the Sines and Porto refineries.

Of the mEuros 104,180 in subsidies receivable, which is recorded under “Other receivables,” mEuros 74,820 relates to subsidies receivable from the Portuguese government for the desulfurization of the Sines and Porto refineries, and mEuros 29,360
relates to subsidies receivable under the Energy Program, Interreg II, and the Operational Program for the Economy (Note 52).

50. RAW MATERIALS, AUXILIARY MATERIALS, AND CONSUMABLES; FINISHED AND INTERMEDIATE PRODUCTS; AND MERCHANDISE

As of December 31, 2004, and 2003, these items consisted of the following:

	2004	2003
Raw materials, auxiliary materials, and supplies:		
Crude oil	91,835	151,264
Other raw materials	25,231	25,356
Raw materials in transit	86,420	43,495
	203,486	220,115
less: allowance for inventory depreciation (Note 46)	(6,733)	(2,699)
	196,753	217,416
Finished and intermediate products:		
Finished products	237,190	336,638
Intermediate products	109,534	96,159
Finished goods in transit	721	563
	347,445	433,360
less: provision for inventory depreciation (Note 46)	(1,311)	(1,446)
	346,134	431,914
Products and work in progress	45	140
Goods	134,196	70,430
Provision for inventory depreciation (Note 46)	(416)	(1,007)
	133,780	69,423
Advances on purchases	3	477
	676,715	719,370

As of December 31, 2004, the "Merchandise" account, in the amount of 134,196 mEuros, consists primarily of natural gas in the pipeline and inventory held by the subsidiary Galp Energia España, S.A.

As of December 31, 2004, the amounts related to consignment inventory (including ISP) totaled 29,022 mEuros.

As of December 31, 2004, the Group's obligations to competitors for strategic reserves—which can only be settled through the delivery of products—amounted to mEuros 276,512 and are recorded under the heading "advances on sales."

In November 2004, Petrogal, together with Petrogal Trading Limited, entered into a contract for the purchase, sale, and exchange of crude oil for finished products to establish strategic reserves with the Entity for the Management of Strategic Reserves of Petroleum Products, EPE ("EGREP"), pursuant to the provisions of Decree-Law No. 339-D/2001, of December 28.

Under this agreement, on November 30, 2004, Petrogal sold 460,000 metric tons of crude oil to EGREP for 94,111 thousand euros.

The crude oil purchased by EGREP is stored at Petrogal's facilities in a non-segregated manner and must remain stored in such a way that EGREP may audit it, at any time it deems appropriate, with respect to the quantities and quality of the crude oil.

Under the terms of the aforementioned contract, Petrogal agrees to exchange the crude oil sold for finished products when EGREP so requires, receiving in exchange an amount representing

of the refining margin as of the date of the exchange.

51. GOVERNMENT AND OTHER PUBLIC ENTITIES

As of December 31, 2004, and 2003, the balances with these entities were as follows:

	Accounts Receivable		Creditor Balances	
	2004	2003	2004	2003
Value-Added Tax	12,099	30,124	134,085	113,224
ISP - Tax on Petroleum Products	-	-	170,525	148,586
IRS/IRC - Withholding Taxes from Third Parties	-	-	4,147	4,527
Social Security Contributions	-	-	3,918	3,726
Corporate Income Tax	456	1,733	48,514	88,199
Other	144	136	66	471
	12,699	31,993	361,255	358,733

The amount of ISP—Tax on Petroleum Products—payable refers primarily to the amount of this tax on products shipped during the month of December.
Income tax for fiscal year 2004 included in the consolidated statement of income is composed as follows:

	Estimated Tax	Taxes deferred	Total
Petrogal Group	86,648	(7,843)	78,805
GDP Group	35,603	774	36,377
Other group companies	(3,169)	(97)	(3,266)
Total	119,082	(7,166)	111,916

Galp Energia and some of its subsidiaries, as of December 31, 2001, began to be taxed under the special corporate group taxation regime ("RETGS"), with taxable income calculated at Galp. However, the estimated income taxes of Galp and its subsidiaries are recorded based on their taxable income.

The following situations may affect future income taxes payable:

i) Under current law, tax returns are subject to review and correction by the tax authorities for a period of four years (ten years for social security through 2000, inclusive, and five years from 2001 onward), except when tax losses have been incurred, tax benefits have been granted, or audits, claims, or appeals are pending; in such cases, depending on the circumstances, the time limits are extended or suspended. During the 2001 fiscal year, the tax authorities conducted an audit of Petrogal's tax returns for the fiscal years 1997 through 1999; the proposed corrections to Petrogal's tax returns are summarized in point ii) below. Additionally, during the 2004 fiscal year, Petrogal's tax returns for the fiscal years 2000 through 2002 were subject to an audit by the tax authorities, and the proposed corrections are summarized in point iii) below. The tax returns of the Group's companies for the fiscal years 2001 through 2004 may still be subject to review. Galp's management believes that the adjustments resulting from reviews or audits by the tax authorities of those tax returns will not have a material effect on the consolidated financial statements as of December 31, 2004.

ii) As mentioned in point (i) above, during the 2001 fiscal year, the tax authorities conducted an audit of Petrogal's corporate income tax returns for the 1997, 1998, and 1999 fiscal years, which resulted in proposed adjustments to the taxable income reported by Petrogal in the amounts of 68 mEuros, mEuros 429, and mEuros 3,361, respectively. As Petrogal did not agree with these adjustments, it filed administrative appeals for the 1998 and 1999 fiscal years, contesting the corrections imposed by the tax authorities; Petrogal's management is convinced that the grounds presented in those appeals are valid and that Petrogal is in the right. Consequently, the financial statements as of December 31, 2004, do not include any provision to cover these contingencies.

iii) As mentioned in point i) above, during the 2004 fiscal year, the tax authorities conducted an audit of Petrogal's corporate income tax returns for the 2000, 2001, and 2002 fiscal years, which resulted in proposed adjustments to the taxable income reported by Petrogal in the amounts of 740, 10,806 mEuros, and 2,479 mEuros, respectively, and which to date have resulted in additional corporate income tax assessments totaling 3,494 mEuros, which have been paid in full. However, to date, Petrogal is still awaiting the issuance of further assessments related to the aforementioned adjustments. Accordingly, and in accordance with the principle of prudence, Petrogal has established a provision to cover these assessments in the amount of 3,677 mEuros (Note 46). As Petrogal partially disagrees with the assessments to which it was subject, it will file administrative appeals regarding them.

iv) As a result of the disallowance, for purposes of determining the taxable base for Corporate Income Tax (IRC), of a portion (40%) of the depreciation resulting from revaluations performed by Petrogal, the taxable income for 2004 and future fiscal years will be increased by 5,441 mEuros and 19,272 mEuros, respectively. However, the resulting tax effect has already been accounted for through the recognition of deferred taxes, as mentioned in point vii) below.

v) During the fiscal year ended December 31, 2004, Petrogal made a contribution to the Pension Fund in the amount of 18,427 mEuros. In accordance with current tax legislation, when the amount of the contribution made to the pension fund—whether reflected in the income statement for the fiscal year or through a negative change in equity, added to other social benefit contributions—complies, in that fiscal year, with the limits and conditions of the Corporate Income Tax Code, no adjustment to taxable income is required.

For the fiscal year ended December 31, 2004, Petrogal included, for purposes of the limits and conditions of the Corporate Income Tax Code, the amount of 12,778 mEuros corresponding to the portion of the aforementioned allocation that was recognized as an expense for the 2004 fiscal year, resulting in an increase in taxable income of 15,977 mEuros.

Historically, for the purposes of the limits and conditions set forth in the Corporate Income Tax Code, Petrogal has consistently reported an adjusted excess over taxable income; therefore, the amounts set aside in prior fiscal years, when recognized as expenses, will be partially adjusted against taxable income, according to Petrogal's projections. This situation gives rise to a temporary difference that warrants the recognition of a deferred tax liability. In accordance with recommended principles of prudence, Petrogal has recognized deferred taxes as described in point vii) below.

vi) Under current tax legislation, gains and losses resulting from the consolidation of results of equity-method investees are not

These are treated as revenue or expenses, respectively, for corporate income tax (IRC) purposes in the fiscal year in which they are recognized for accounting purposes, with dividends being taxed in the fiscal year in which they are distributed. In accordance with Accounting Guideline No. 28, no deferred tax liabilities related to undistributed earnings of subsidiaries were recorded.

vii) The corporate income tax (IRC) recorded as an expense for the fiscal year ended December 31, 2004, has been adjusted to reflect the effect of recognizing deferred taxes, in accordance with Accounting Guideline No. 28. As of December 31, 2004, there were temporary differences that gave rise to deferred tax assets and liabilities recorded by the Group as follows:

	GDP Group	Group Petrogal	Others	Total
Deferred tax assets:				
Relating to prior fiscal years:				
Provisions/cost estimates established in prior fiscal years but not recognized as a tax-deductible expense in those fiscal years	7,666	79,927	(45)	87,548
For tax losses carried forward from prior fiscal years	797	6,462	(1)	7,258,
Due to a change in the depreciation rates for natural gas transmission rights	3,529	-	-	3,529 Other
	-	234	(2)	232
Subtotal (a)	11,992	86,623	(48)	98,567
For the fiscal year:				
For provisions/cost estimates established during the fiscal year, net of uses and reductions of provisions in fiscal year 2004	1,150	4,605	27	5,782
Due to changes in depreciation rates—use during the year	(2,257)	-	-	(2,257)
From carryforward tax losses, net of utilization during the year	83	(1,956)	-	(1,873)
Other	-	3,070	71	3,141
	(1,024)	5,719	98	4,793
Total deferred tax assets (Note 53)	10,968	92,342	50	103,360
Deferred tax liabilities:				
Relating to prior fiscal years:				
From revaluation of tangible fixed assets	2,141	6,898	-	9,039
From capital gains realized in prior fiscal years and not taxed	1,143	-	-	1,143
From the deferral, in accordance with the "corridor" mechanism, of the 2002 allocation not recognized in income	-	5,500	-	5,500
Other	-	1,575	-	1,575
Subtotal	3,284	13,973	-	17,257
For the fiscal year:				
Due to the increased responsibilities related to the pension fund	-	(439)	-	(439)
Due to depreciation during the fiscal year of revalued tangible fixed assets	-	(1,507)	-	(1,507)
From the disposal, write-off, and depreciation during the fiscal year of revalued tangible fixed assets	(220)	-	-	(220)
From capital gains on the disposal of tangible fixed assets	(30)	-	-	(30)
Other	-	(178)	1	(177)
	(250)	(2,124)	1	(2,373)
Total deferred tax liabilities (Note 53)	3,034	11,849	1	14,884

(a) The differences between the 2003 year-end balance (Note 53) and the beginning balance of deferred tax assets for the Petrogal Group relate to adjustments made by the Company's subsidiaries to deferred taxes for the 2003 fiscal year.

The utilization of deferred tax assets, in the amount of 2,257 million euros, relates primarily to the change in depreciation rates for assets allocated to the concession, in the amount of 2,192 million euros (Note 45).

52. OTHER RECEIVABLES AND PAYABLES

As of December 31, 2004, and 2003, these items were composed as follows:

	2004		2003	
	Short-term	Medium and Long-term	Short-term	Medium and Long-term
Other debtors:				
Portuguese Government (Note 49)	74,820	-	74,820	-
Grants receivable (Note 49)	29,360	-	33,956	-
EDP Group - Energias de Portugal, S.A.	20,542	-	21,109	-
Group companies and affiliates	8,831	-	7,323	-
Agreement for the Assignment of Rights to Use Telecommunications Infrastructure	7,162	28,647	7,326	35,809
Means of payment	8,527	-	7,468	-
Loan to Sonangol under the Block 14 production contract	4,227	-	4,546	-
Personnel	4,075	66	4,231	105
Accounts payable to suppliers	4,316	-	608	-
Cross-promotion of Galp points with Sonae	2,357	-	-	-
Pension fund recovery disbursement	1,191	-	-	-
Judi Services	999	-	998	-
Azores Regional Supply Fund	912	-	967	-
A.C.Cymbron, Lda. - Transfer for the purchase of shares	858	-	-	-
Public entities	435	-	396	-
Security deposits and bonds	341	458	1,233	-
Loans to customers	-	2,344	-	-
Casa Pia Atlético Clube	-	-	1,111	-
EDS Portugal	-	-	129	-
Spanish Tax Agency	-	-	23	-
Proceeds from the sale of land	-	-	16,800	-
Other	17,929	788	19,614	3,277
	186,882	32,303	202,658	39,191
Allowance for Doubtful Accounts (Note 46)	(3,514)	-	(5,106)	-
	183,368	32,303	197,552	39,191
Other Creditors:				
Advances against strategic reserves	15,000	-	-	-
Security deposits and guarantees received	13,116	1,989	12,561	1,389
Customer credit balances	6,822	-	4,059	-
Personnel	4,170	-	920	-
Compensation due to EDP	3,500	-	3,500	-
Acquisitions of shares in Sacor Maritima, S.A.	408	-	422	-
Withheld guarantees	211	-	518	-
Creditors for unpaid subscriptions	196	-	332	-
Adamastor Capital	-	-	3,117	-
Group Companies and Affiliates	-	-	359	-
Representative Office in Luanda	-	-	254	-
Other	17,219	2,165	24,914	2,182
	60,642	4,154	50,956	3,571

Under the "Shareholders' Agreement between the State and Petrocontrol regarding compensation to be paid to Petrogal" dated December 21, 1998, as of December 31, 2004, Petrogal is still entitled to receive 74,820 mEuros from the Ministry of Economy. On November 19, 2003, a letter was received from the Portuguese government stating that, of the aforementioned amount, mEuros 25,000 would be received in 2004—which did not occur until early 2005—and that the remainder, for which payment terms are still subject to renegotiation, would be used to offset future dividends. This amount is intended to subsidize investments made by Petrogal in the Porto and Sines refineries related to diesel desulfurization. The counterpart to this account receivable was recorded under deferred income—subsidies for investments in fixed assets (Note 53).

The amount of 29,360 mEuros recorded under the heading “Subsidies Receivable” refers to subsidies received in connection with incentive programs for the expansion of the natural gas network.
The receivable from EDP, in the amount of 20,542 mEuros, includes 17,984 mEuros corresponding to the exercise of the put option right for 217,055 shares of Oni SGPS, S.A., during fiscal year 2003, in the amount of 14,964 million euros, plus 3,020 million euros in interest. This receivable also includes the amount of
2,558 relating to the net balance of receivables pertaining to electricity collections made by the GDP Group on behalf of EDP and gas collections made by EDP on behalf of the GDP Group.

The amount of 8,831 million euros recorded under assets related to group companies and associates refers to companies that were not consolidated using the full consolidation method, consisting primarily of accounts receivable from Tagusgás – Empresa de Gás do Vale do Tejo, S.A. and Portgás – Sociedade de Produção e Distribuição de Gás, S.A., in the amounts of 4,336 mEuros and 3,650 mEuros, respectively.

The amount recorded as an asset relating to the contracts for the Assignment of Rights to Use Telecommunications Infrastructure, entered into on July 1, 1999, for a period of 20 years, is being received in equal, successive annual installments of 7,162 thousand euros each through July 31, 2009, with each installment bearing interest at market rates. The revenue arising from this contract for the assignment of usage rights is deferred under the “Deferred Revenue” account and is recognized in income on a straight-line basis over the term of the contracts, which end on June 1, 2019. During the fiscal year ended December 31, 2004, revenue in the amount of 604 million euros was recognized (of which 182 million euros relates to interest). During this fiscal year, the subsidiary Transgás – Sociedade Portuguesa de Gás Natural,
The Company did not recognize revenue and established a provision for other risks and charges in the amount of 5,835 mEuros (Note 46) related to interest recognized as revenue in prior years. The balance of deferred revenue as of December 31, 2004, to be recognized in future fiscal years, is 72,340 thousand euros (Note 53).

The “Cash and Cash Equivalents” line item in the amount of 8,527 thousand euros relates to amounts receivable from sales made via Visa/ATM cards, which as of December 31, 2004, were pending receipt.

The loan to Sonangol in the amount of 4,227 million euros is based on the contractual agreement established among all the entities comprising the Block 14 “Joint Venture.” This loan is being repaid through Galp Exploração’s appropriation of a portion of the oil production in Block 14 corresponding to Sonangol.

The “Other Debtors – Galp/Sonae Cross-Promotion of Points” line item, in the amount of 2,357 million euros, relates to amounts receivable from Sonae for supplies made by customers using credits granted by that entity.

The “Other Receivables – Pension Fund – Recovery of Disbursements” line item, in the amount of 1,191 million euros, relates to amounts receivable from BPI Pensões for pension payments processed in December that have not yet been reimbursed.

The account receivable from the Azores Regional Supply Fund corresponds to compensation receivable by Galp Açores under agreements established with that entity for the sale of fuels at a specific price set by the Autonomous Government of that region.

The amount of 858 mEuros receivable from A.C. Cymbron, Lda. relates to an advance made by the subsidiary Galp Açores – Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda., in fiscal year 2004, to that entity for the acquisition of 22,697 shares of SAAGA – Sociedade Açoreana de Armazenagem de Gás, S.A., corresponding to 11.82% of its capital.

The "Other Debtors" line item for 2003, relating to the amount receivable from the sale of land in the amount of 16,800 mEuros, pertains to the final installment due from the sale of the aforementioned land, which was received on April 9, 2004. As of December 31, 2002, Cabo Ruivo - Sociedade de Gestão de Instalação de Equipamentos, S.A. revalued this medium- and long-term receivable, recording 1,525 million euros in the "Financial Costs and Losses" line item for that fiscal year, with a corresponding entry in the "Deferred Income" line item. In fiscal year 2004, the amount of 395 million euros (Note 44) associated with that revaluation was recognized under the "Financial Income and Gains" line item.

The amount of 15,000 mEuros relates to an advance payment made by Repsol on account of strategic reserves to be debited in 2005.

The amount of mEuros 13,116, recorded on the liabilities side under the heading "Security deposits and guarantees received," includes mEuros 11,542 relating to Petrogal's liability as of December 31, 2004, for security deposits received for the lease of gas cylinders.

The "Other Creditors—Security Deposits and Guarantees Received" account includes a medium- and long-term amount of 1,989 mEuros, which comprises 1,426 mEuros relating to security deposits received by the subsidiary Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.—from customers for the sale of bottled gas. The Board of Directors believes that this amount will not be reimbursed during the 2005 fiscal year; therefore, it is classified as medium- and long-term.

The amount of 3,500 mEuros, recorded under "Other Creditors," relates to the compensation agreed upon in 1988–89 between EDP and PGP - Petroquímica e Gás de Portugal (the predecessor of GDP), in the event that the sale of the Cabo Ruivo land—which EDP had since transferred to PGP—were to take place at a later date. These properties, sold in prior fiscal years, were part of the assets of Cabo Ruivo – Sociedade de Gestão de Instalação de Equipamentos, S.A., and Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. assuming this responsibility due to the merger by incorporation with Cabo Ruivo that took place in fiscal year 2003, effective January 1, 2003.

The account for payables related to unpaid subscriptions, in the amount of 196 million euros, corresponds, as of December 31, 2004, to the equity interest in Petrogal Angola that was subscribed by Petrogal but not yet paid up.

53. ACCRUALS AND DEFERRALS

As of December 31, 2004, and 2003, the balances of these accounts were as follows:

	2004	2003
Accrued revenue:		
Estimated gas sales realized but not billed	53,872	32,178
Services rendered and supplementary revenue to be billed	4,561	6,568
Interest receivable	7,668	9,387
Sales of finished products to be invoiced through the gas station network	3,951	75
Crude oil from Block 14 sold but not invoiced	2,956	3,756
Rebate to be received on purchases made in 2004	1,299	1,643
Other increases in revenue	1,614	1,333
	75,921	54,940
Deferred costs:		
Deferred tax assets (Note 51)	103,360	98,275
Expenses related to service area concession agreements	62,599	56,056
Retirement benefits (Note 21)	59,097	59,089
Capitalized costs related to pre-production expenses (Note 23)	37,792	35,450
Interest, unfavorable exchange rate differences, and other financial expenses	4,612	4,050
Catalyst costs	3,846	930
Paper market premiums paid in advance	3,314	5,880
Expenses Related to Rent Paid in Advance	1,592	1,305
Personnel costs	1,066	45
Multi-year costs—equipment maintenance	806	1,341
Prepaid insurance	635	563
Other deferred costs	3,635	10,110
	282,354	273,094

	2004	2003
Accrued expenses:		
Vacation pay, vacation allowance, and related payroll expenses	25,364	21,408
Personnel costs—productivity bonus	17,565	16,677
Deferred tax liabilities (Note 51)	14,884	17,257
Purchases of goods and services	8,319	11,295
Major repairs—Porto refinery	5,523	2,494
Major repairs - Sines refinery	4,740	18,711
Accrued and unpaid interest	3,970	3,786
Discounts, bonuses, and rebates related to sales	3,129	3,482
Financial costs and losses	2,297	988
Liabilities related to gifts under the Fast Galp card program	1,238	1,486
Estimated Oil Income Tax - Block 14	361	514
Purchasing and sales expenses	183	1,872
Insurance Payables	153	465
Compensation payable	52	164
Galp Fleet Commissions	13	57
Other additional costs	5,842	7,563
	93,633	108,219
Deferred revenue:		
Grants for investment in fixed assets	653,719	612,587
Fiber-optic capacity lease (Note 52)	72,340	72,689
Payments received from customers	8,779	9,294
Acquisition differences on equity interests (Note 10)	7,634	-
Prepaid services	315	458
Other deferred revenue	1,607	1,567
	744,394	696,595

The line item “Accrued revenue—sales not yet invoiced” refers primarily to natural gas consumption invoices to be issued to customers in the following month.

Of the 7,668 mEuros recorded under the “Accrued Revenue—Interest Receivable” line item, 7,494 mEuros corresponds to interest on the assignment of infrastructure usage rights to be charged to E3G-Telecomunicações S.A.

The “Accrued Revenue” line item—sales of finished products to be invoiced at the network of gas stations, in the amount of 3,951 mEuros—relates to purchases made during the 2004 fiscal year using the Galp Frota card and invoiced only in 2005.

The amount of 2,956 mEuros recorded under the “Deferred Revenue” line item relates to a crude oil shipment made in 2004 from Block 14 in Angola and invoiced only in 2005. Since the shipment was recognized as revenue for fiscal year 2004, the related petroleum income tax (“IRP”) liability was also allocated to that fiscal year under the “accrued expenses” account, in the amount of 361 million euros.

Expenses recorded under deferred costs related to service area concession contracts are recognized as costs over the respective concession period, which ranges from 20 to 25 years.

Of the 37,792 mEuros recorded under the “Deferred Costs—Capitalized Pre-Production Costs” line item, mEuros 9,280 relates to expenses incurred by the subsidiary Petrogal Brasil in oil exploration and production activities, which are currently in the pre-operational phase, and mEuros 28,512 relates to the GDP Group companies, which capitalized setup costs until the start of operations (Note 23).

The amount of mEuros 4,612 recorded under the heading “Deferred costs—interest, unfavorable exchange rate differences, and other financial expenses” includes mEuros 1,515 in initial costs related to the securitization of accounts receivable carried out during fiscal year 2003, which are recognized in the income statement over the term of the transaction.

The amount of 3,314 mEuros recorded under the heading “Deferred Costs—Paper Market Premiums Paid in Advance” refers to commodity option premiums paid in 2004 but intended to cover transactions in 2005.

The amounts recorded as of December 31, 2004, and 2003, under “Accrued Expenses” in the “Purchases and External Services” account, correspond to the allocation in those fiscal years of various costs for which the Group had not yet received the respective invoices as of December 31, 2004, and 2003.

As mentioned in Note 23.b), Petrogal records expenses related to repairs and maintenance that are multi-year in nature and recurring on an accrual basis over the period between two repairs, with the portion corresponding to each fiscal year recorded in the respective income statement as a credit to the “Accrued Costs” account. Accordingly, during the fiscal years ended December 31, 2004, and 2003, Petrogal recognized, as an expense in the income statement for the respective fiscal year, amounts of 9,280 mEuros and 12,685 mEuros, respectively, relating to those estimated costs for major repairs at the Sines and Porto refineries.

The amount of 1,238 mEuros recorded under the "Accrued Costs" line item relates to Petrogal's liabilities arising from points issued but not redeemed as of 2004, pertaining to the Fast Galp Card, which are expected to be exchanged for rewards in subsequent fiscal years.

As mentioned in Note 52, in 1998 Petrogal recorded mEuros 74,820 in subsidies receivable from the Portuguese government, relating to investments made for the desulfurization of diesel at the Sines (which began operations in 1997) and Porto (which began operations in 1998). Consequently, in 2004, Petrogal recognized revenue in the amount of 8,431 million euros (Note 49), relating to the fuel hydrodesulfurization projects at those refineries, bringing the balance of deferred revenue—subsidies for investment in fixed assets—as of December 31, 2004, to mEuros 34,667.

The amount of mEuros 8,779 recorded under the deferred revenue account corresponds to customer contributions received by the Group for the construction of dedicated natural gas branch lines and is being recognized as revenue over the term of the concession.

54. MINORITY INTERESTS

As of December 31, 2004, and 2003, the breakdown of Liabilities minority minority included in the relates to the following subsidiary companies:

	2004	2003
Lusitaniagás - Companhia de Gás do Centro, S.A.	6,937	5,202
Beiragás - Companhia de Gás das Beiras, S.A.	4,523	4,219
Campo Maior–Leiria–Braga Gas Pipeline, S.A.	4,435	4,232
Braga–Tuy Gas Pipeline, S.A.	3,392	3,169
Sopor - Fuel Distribution Company, S.A.	3,080	3,168
Saaga - Azorean Gas Storage Company, S.A.	2,377	2,219
Duriensegás - Douro Natural Gas Distribution Company, S.A.	696	557
Probigalp - Bituminous Binders, S.A.	877	841
Sempre a Postos - Food and Household Goods, Lda.	418	261
Natgás—Portuguese Natural Gas Company, S.A.	80	79
CLCM - Madeira Fuel Logistics Company, S.A.	75	75
Galpfer - Lubricant Distribution, S.L.	45	132
GITE - Galp International Trading Establishment	38	41
Powercer - Vialonga Cogeneration Company, S.A.	12	15
Água Solar, S.A.	(1)	(1)
Carriço Cogeneration Electricity and Heat Generation Company, S.A.	(52)	13
Combustiveis Líquidos, Lda.	(52)	(46)
	26,880	24,176

55. CHANGES IN EQUITY ACCOUNTS

The changes in equity accounts during fiscal year 2004 were as follows:

	Opening Balance	Increases	Decreases	Distribution of Earnings	Balance Balance
Capital	829,251	-	-	-	829,251
Share premium	82,006	-	-	-	82,006
Consolidation adjustments (Note 10)	81,254	-	-	-	81,254
Adjustments to equity interests in subsidiaries and affiliates	(29,697)	2,933	(6,809)	-	(33,573)
Legal reserves	27,923	-	-	12,373	40,296
Other reserves	27,977	-	-	-	27,977
Retained earnings	385,003	-	-	142,073	527,076
Consolidated net income for the fiscal year	247,446	333,064	-	(247,446)	333,064
	1,651,163	335,997	(6,809)	(93,000)	1,887,351

Pursuant to a resolution of the General Meeting dated December 31, 2004, the appropriation of earnings for the fiscal year ended December 31, 2003, was as follows:

Distribution of earnings to shareholders (Note 27)	93,000
Legal reserves	12,373
Retained earnings	142,073
Consolidated net income for the fiscal year	247,446

Legal reserves: In accordance with current legislation, the Company is required to transfer to the legal reserves account at least 5% of the net income for each fiscal year until such reserves reach 20% of the share capital. The legal reserve and the bond issue premium may not be distributed to shareholders; however, under certain circumstances, they may be used for capital increases or to offset losses after all other reserves have been exhausted.

Adjustments to equity interests in subsidiaries and associates: The opening balance of this account and the changes that occurred during fiscal year 2004 essentially correspond to the year-over-year change in the accumulated balances of foreign currency translation adjustments in the financial statements of subsidiaries that are denominated in foreign currency, and were as follows:

Adjustments to equity interests in subsidiaries and affiliates: Foreign exchange differences:		
Petrogal Mozambique, Lda.	1,119	
Petrogal Guinea-Bissau, Lda.	1,377	a)
Petrogal Trading Limited	(3,464)	
Petrogal Brazil, Lda.	33	
EMPL, LTD.	(3,192)	b)
Metragaz, S.A.	(13)	b)
	(4,140)	
Other changes in equity:		
Subsidiaries of Galp Exploração e Produção Petrolífera, Lda.	99	a)
Subsidiaries of Galp Exploração e Produção Petrolífera, Lda.	(140)	
Petrogal Angola, Lda.	305	a)
	264	

a) Group companies excluded from consolidation (Note 2)
b) Associated companies (Note 3)

56. COMPOSITION OF SHARE CAPITAL

As of December 31, 2004, the Company's capital consisted of 165,850,127 shares with a par value of five euros each, of which 8,000,000 were Class A shares and the remaining 157,850,127 were Class B shares. Class A shares carry certain special rights, namely:

(i) To approve the election of three, four, or five members of the Board of Directors, depending on whether the Board has, respectively, a total of eleven, thirteen, or more members;

(ii) The right to veto certain resolutions, even if they are approved by a majority of the votes to which it is entitled.

57. SHAREHOLDERS

As of December 31, 2004, the Company's capital was fully subscribed and paid in and was held by the following entities:

Eni Portugal Investment, S.p.a.	33.34%
Portuguese State	25.78%
REN - Rede Eléctrica Nacional, S.A.	18.30%
EDP - Energias de Portugal, S.A.	14.27%
Parpública - Participações Públicas, SGPS, S.A.	4.23%
Iberdrola, S.A.	4.00%
Portgás - Gas Production and Distribution Company, S.A.	0.04%
Setgás - Gas Production and Distribution Company, S.A.	0.04%
	100.00%

58. OIL RESERVES

As of December 31, 2004, the proven and developed crude oil reserves allocated to oil exploration activities are located in Angola and amount, for the Group's share, to 13,024 thousand barrels.

During the fiscal year ended December 31, 2004, the Group's share of production was 1,655 thousand barrels.

59. CONTINGENT LIABILITIES

As of December 31, 2004, the Group had the following contingent liabilities:

i) As of December 31, 2003, the Group had a contingent liability related to an ongoing legal proceeding concerning the reprivatization of Driftal - Plastificantes de Portugal, S.A., involving a claim for damages of 19,952 mEuros. The Board of Directors of this subsidiary, supported by legal counsel's opinion, believes that this litigation will not result in any liability for the Group; therefore, no provision has been set aside for this purpose.

ii) The Lisbon City Council is demanding payments from the subsidiary Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. in the amounts of 1,891 thousand euros for 1994/95, 1,016 thousand euros for 1996, 1,044 thousand euros for 1997, 1,069 mEuros for 1998, 1,093 mEuros for 1999, 1,145 euros in 2001, 1,189 euros in 2002, 1,238 euros in 2003, and 1,288 euros in

2004, relating to the "public right-of-way permit" for existing underground gas pipelines.

iii) The Vila Franca de Xira City Council is demanding payment from the subsidiary Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. of 104 mEuros, relating to fees resulting from construction work carried out in 1994/95.

iv) The Oeiras City Council is demanding payment from the subsidiary Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. of 23 million euros, relating to the subsoil occupancy fee for the year 1998, and 26 million euros for 2001.

v) The Sintra City Council is demanding payment from the subsidiary Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. of mEuros 11 for 1998, mEuros 505 for 1999, mEuros 276 for 2000, 417 million euros in 2001, 469 million euros in 2002, 490 million euros in 2003, and 545 million euros in 2004, for subsoil occupation.

Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., based on legal opinions, decided to challenge the payments demanded by the municipalities in court before the Tax Court; the requests for suspension of enforcement were granted, and enforcement remains suspended until a final and binding decision is rendered.

The Company's Board of Directors considers that, as a result of these proceedings, Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. will incur costs only up to a maximum amount of 9,265 thousand euros (Note 46).

60. DETAILS OF CASH AND CASH EQUIVALENTS

As of December 31, 2004, and 2003, the breakdown of cash and cash equivalents was as follows:

	2004	2003
Cash	16,245	7,566
Demand deposits	147,644	158,765
Time deposits	50,857	12,632
Marketable securities	6,492	382
Other cash investments	12,855	10,870
	234,093	190,215
Bank overdrafts (Note 34)	(176,058)	(295,340)
Total cash and cash equivalents	58,035	(105,125)

The balance of cash and cash equivalents at the beginning of the period shows a difference of 1,789 mEuros compared to the balance as of December 31, 2003, resulting from the inclusion of Petrogal Moçambique, Lda. and its subsidiary, as well as CLG – Compañia Logística del Gas,
S.A. (Note 1).

Other cash investments primarily relate to an investment of the Petrogal Group's cash surpluses in the amount of 4,405 mEuros maturing on January 3, 2005, and a short-term investment by the GDP Group in the amount of 8,000 mEuros, which earns interest at market rates.

61. CONTINGENT ASSETS

Following the sale, during the 1999 fiscal year, of 40% of the share capital of OPTEP SGPS, S.A., represented by 440,000 shares with a par value per share of 5

euros, the base sale price was contractually set at 189,544 mEuros, with an value of mEuros 74,818 allocated to the segment of the 093X and an value of 114,726 mEuros to the E3G/Edinet segment.

The sale entered into by GDP, SGPS, S.A. and Transgás – Sociedade Portuguesa de Gás Natural, S.A. to EDP was subject to the condition that, should OPTEP SGPS, S.A. to 093X or any entity directly or indirectly controlled by or in which EDP holds an interest were to sell or otherwise dispose of to third parties a stake equivalent to 5% of Optimus—that is, 450,000 shares with a par value of 5 euros each—within three years of the signing of the agreement (June 24, 1999), the difference between the amount of 74,818 mEuros and the proceeds from such disposal would be apportioned among the parties as follows:

mEuros for every 220,000 shares	EDP	GDP Group
Between 37,409 and 42,397	0%	100%
Between 42,397 and 52,373	25%	75%
More than 52,373	75%	25%

This agreement was amended on September 28, 2000, by the parties: GDP SGPS, S.A., Transgás, SGPS, S.A., Transgás - Sociedade Portuguesa de Gás Natural, S.A., and EDP, extending the deadline for distributing any capital gains realized from the future sale of Optimus shares until December 31, 2003.

On March 22, 2002, EDP announced the sale of its stake in OPTEP SGPS, S.A.—a company that holds 25.49% of Optimus's capital—to Thorn Finance, S.A. The sale price was set at 315,000 mEuros, which means that Thorn Finance valued Optimus at 1,235,779 million euros—therefore, above the value agreed upon between EDP, GDP SGPS, S.A., and Transgás - Sociedade Portuguesa de Gás Natural, S.A., which was 748,197 million euros. Consequently, there will be an "upside" for the GDP Group companies, to be paid by EDP, in the amount of 30,253 mEuros, to be divided equally between GDP SGPS, S.A. and Transgás, SGPS, S.A.

Since EDP did not agree to these expectations of the GDP Group, this account receivable was not recorded in the books.

62. INFORMATION ON ENVIRONMENTAL MATTERS

The main challenges facing the Refining business are meeting the greenhouse gas emission reduction targets for the period between 2008 and 2012, as defined by the Kyoto Protocol; reducing the sulfur content of the fuels used at the facilities; and increasing energy efficiency.

Accordingly, and in order to meet these objectives as well as the targets set by the European Union to ensure that greenhouse gas emissions do not exceed established quotas, the Company continued its Climate Change Project, which consists of three phases.

The objectives of Phase 1 have already been achieved and involved compiling the CO_2 inventory for 1999–2003 and defining the strategy for negotiating CO_2 allowances for the 2005–2007 period with the authorities.

The main objective of the second phase—the negotiation phase—was to secure the allocation of sufficient emission allowances for the operation of the facilities without jeopardizing their profitability.

The third phase—adaptation of internal processes—is currently underway and aims to prepare the Group for a new reality in which CO2 becomes an asset of the Group.

As of December 31, 2004, the Group had not recorded any environmental contingent liabilities, as management believes there are no obligations that could have a material effect on the Group's financial statements as of December 31, 2004.

During the 2004 fiscal year, Petrogal was notified of the assessment of fees under the General Effluent Regulation of São André (RGESA), relating to effluent discharges from the Sines Refinery, in the amount of 1,263 million euros. In addition, Petrogal was notified of the assessment of increased fees regarding discharges that the same Regulation considers "prohibited," in the amount of approximately 25,000 mEuros. Petrogal's Board of Directors, supported by technical and legal opinions, disagrees with the criteria for classifying these discharges, as well as with their legality, as it considers the regulations governing them to be unconstitutional. Accordingly, it has challenged the aforementioned assessment and the underlying costs in court and has recorded provisions in the amount of 3,677 thousand euros (Note 46), an amount it considers appropriate in light of the regulations in effect prior to the RGESA.

63. SUBSEQUENT EVENTS

During the period from January 1, 2005, to the date of issuance of these consolidated financial statements, no materially significant facts or events occurred that should be reported in this note.

GALP ENERGIA, SGPS, S.A. and Subsidiaries

FINANCIAL REPORT (CONSOLIDATED) BY SEGMENT

For the fiscal years ended December 31, 2004, and 2003

(Amounts expressed in thousands of Euros)

	Natural Gas Supply and Transportation		Natural Gas Distribution		Refining and Distribution of Petroleum Products		Exploration and Production		Other		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Gross Margin	**175,741**	**105,217**	**115,316**	**86,320**	**1,058,044**	**886,792**	**42,352**	**38,012**	**4,620**	**162**	**(2,172)**	**(5,507)**	**1,393,900**	**1,110,996**
Sales	692,680	582,979	187,135	155,736	8,271,374	6,571,859	42,575	38,388	15,270	2,284	(81,787)	(70,088)	9,127,247	7,281,158
Inter-segment	77,803	66,292	-	-	3,945	3,728	-	-	39	68	(81,787)	(70,088)	-	-
External	614,877	516,687	187,135	155,736	8,267,429	6,568,131	42,575	38,388	15,231	2,216	-	-	9,127,247	7,281,158
CMVMC	(516,939)	(477,762)	(71,714)	(68,785)	(7,196,140)	(5,755,944)	-	-	(10,650)	(1,987)	79,615	64,581	(7,715,828)	(6,239,897)
Inter-segment	-	-	(66,022)	(64,581)	(3,321)	-	-	-	(10,272)	-	79,615	64,581	-	-
External	(516,939)	(477,762)	(5,692)	(4,204)	(7,192,819)	(5,755,944)	-	-	(378)	(1,987)	-	-	(7,715,828)	(6,239,897)
Production	-	-	(105)	(631)	(17,191)	70,877	(223)	(376)	-	(135)	-	-	(17,519)	69,735
Revenue	**16,603**	**26,242**	**18,019**	**27,824**	**186,929**	**170,378**	**26**	**34**	**95,634**	**81,419**	**(117,720)**	**(98,869)**	**199,491**	**207,028**
Inter-segment	2,806	1,684	2,895	4,427	20,928	20,533	-	101	91,091	72,124	(117,720)	(98,869)	-	-
External	13,797	24,558	15,124	23,397	166,001	149,845	26	(67)	4,543	9,295	-	-	199,491	207,028
Variable Costs	**-**	**-**	**(28,217)**	**(27,132)**	**(270,458)**	**(170,006)**	**(14,963)**	**(16,137)**	**(1,893)**	**(31,770)**	**11,412**	**696**	**(304,120)**	**(244,349**
Inter-segment	-	-	(11,412)	(696)	-	-	-	-	-	-	11,412	696	-	-
External	-	-	(16,805)	(26,436)	(270,458)	(170,006)	(14,963)	(16,137)	(1,893)	(31,770)	-	-	(304,120)	(244,349
Fixed Costs	**(45,430)**	**(34,929)**	**(31,556)**	**(28,190)**	**(380,570)**	**(392,433)**	**(1,946)**	**(2,013)**	**(106,530)**	**(70,597)**	**108,480**	**103,680**	**(457,552)**	**(424,484**
Operating Expenses	**(30,364)**	**(20,828)**	**(7,811)**	**(5,746)**	**(176,690)**	**(215,767)**	**(1,723)**	**(1,673)**	**(91,846)**	**(58,397)**	**105,954**	**103,680**	**(202,480)**	**(198,732**
Inter-segment	(12,388)	(1,622)	(268)	(18,037)	(64,416)	(57,346)	(440)	(494)	(28,442)	(26,181)	105,954	103,680	-	-
External	(17,976)	(19,206)	(7,543)	12,291	(112,274)	(158,422)	(1,283)	(1,179)	(63,403)	(32,216)	-	-	(202,480)	(198,732
Personnel Expenses	**(15,066)**	**(14,101)**	**(23,745)**	**(22,444)**	**(203,880)**	**(176,666)**	**(223)**	**(341)**	**(14,684)**	**(12,200)**	**2,526**	**-**	**(255,073)**	**(225,752**
Non-Disbursable Expenses	**(52,965)**	**(33,476)**	**(34,701)**	**(34,552)**	**(255,065)**	**(232,188)**	**(44,612)**	**(12,297)**	**(5,368)**	**(2,168)**	**-**	**-**	**(392,911)**	**(314,681**
Depreciation and Amortization	(46,632)	(32,824)	(33,696)	(31,872)	(220,219)	(218,843)	(12,526)	(11,793)	(5,341)	(2,637)	-	-	(318,414)	(297,969
Provisions	(6,333)	(652)	(1,005)	(2,680)	(34,846)	(13,345)	(32,086)	(504)	(27)	469	-	-	(74,497)	(16,712
Segment Results	**93,949**	**63,054**	**38,861**	**24,270**	**338,879**	**262,542**	**(19,343)**	**7,598**	**(13,537)**	**(22,954)**	**(0)**	**-**	**438,807**	**334,510**
Unallocated Company Revenues														
Company Expenses Not Allocated														
Operating Results	**93,949**	**63,054**	**38,861**	**24,270**	**338,879**	**262,542**	**(19,343)**	**7,598**	**(13,537)**	**(22,954)**	**(0)**	**-**	**438,807**	**334,510**
Financial Expenses	(32,117)	(24,381)	(15,914)	(19,038)	(85,583)	(135,594)	(4,860)	(5,190)	(9,489)	(3,224)	-	-	(147,962)	(187,427)
Financial Income	31,334	31,993	5,820	5,510	66,840	114,233	5,731	5,979	8,456	8,800	-	-	118,181	166,515
Earnings before extraordinary items, taxes, and minority interest	**93,166**	**70,666**	**28,767**	**10,742**	**320,136**	**241,181**	**(18,472)**	**8,387**	**(14,570)**	**(17,378)**	**(0)**	**-**	**409,026**	**313,598**
Extraordinary Results	19,363	7,299	12,133	6,549	8,437	42,752	26	9	620	(1,107)	-	-	40,579	55,502
Income Tax	(24,665)	(26,788)	(11,859)	(8,406)	(78,802)	(88,296)	(3)	(13)	3,413	4,844	-	-	(111,916)	(118,659)
Minority Interests	(47,998)	(27,505)	(2,600)	(1,166)	(733)	(658)	-	-	46,705	26,334	-	-	(4,625)	(2,995)
CONSOLIDATED NET INCOME FOR THE FISCAL YEAR	**39,866**	**23,672**	**26,441**	**7,719**	**249,038**	**194,979**	**(18,449)**	**8,383**	**36,168**	**12,693**	**(0)**	**-**	**333,064**	**247,446**
OTHER INFORMATION														
Segment Assets (1)														
Current Assets	336,951	232,676	91,486	120,080	1,857,519	1,665,622	108,361	73,138	268,438	383,618	(521,144)	(457,915)	2,141,611	2,017,219
Fixed assets (2)	1,221,100	1,246,142	838,703	813,571	1,466,395	1,584,700	228,066	115,195	30,994	28,653	-	-	3,785,258	3,788,261
Financial Investments (3)	98,278	118,690	41,477	36,875	43,477	47,852	670	585	19,868	19,565	-	-	203,770	223,547
Average long-term assets	26,424	33,029	2,174	3,253	3,748	3,628	-	-	428	-	-	-	32,775	39,911
Total Consolidated Assets	**1,682,753**	**1,630,537**	**973,840**	**973,779**	**3,371,139**	**3,301,802**	**337,097**	**188,898**	**319,728**	**431,836**	**(521,144)**	**(457,915)**	**6,163,414**	**6,068,937**
Segment Liabilities														
Current liabilities	585,300	595,300	606,889	605,676	1,701,271	1,664,082	87,489	13,315	357,994	306,550	(521,144)	(457,915)	2,817,799	2,727,208
Average long-term liabilities	557,928	580,888	183,687	212,747	267,643	330,161	18	30	115,582	268,368	-	-	1,124,858	1,392,194
Provisions	9,007	7,315	29,908	31,104	229,301	230,699	35,167	3,107	3,143	1,971	-	-	306,526	274,196
Total Consolidated Liabilities	**1,152,235**	**1,183,503**	**820,484**	**849,727**	**2,198,214**	**2,224,942**	**122,674**	**16,452**	**476,719**	**576,889**	**(521,144)**	**(457,915)**	**4,249,183**	**4,393,598**
Expenditures on Fixed Assets (4)														

(1) Net amount.
(2) In Tangible and Intangible Fixed Assets.
(3) Using the Equity Method.
(4) During the fiscal year.

AUDIT REPORT ON CONSOLIDATED
FINANCIAL STATEMENTS

Introduction

1. We have audited the accompanying consolidated financial statements of Galp Energia, SGPS, S.A. ("Company") and its subsidiaries ("Group"), which comprise the consolidated balance sheet as of December 31, 2004, showing total assets of 6,163,414,000 euros and shareholders' equity of 1,887,351,000 euros, including net income of 333,064,000 euros, the consolidated statements of income by nature and by function, and the consolidated statement of cash flows for the fiscal year ended on that date, as well as the corresponding Notes.

Responsibilities

2. It is the responsibility of the Company's Board of Directors to prepare consolidated financial statements that present a true and fair view of the financial position of the group of companies included in the consolidation, the consolidated results of their operations, and their consolidated cash flows, as well as to adopt appropriate accounting policies and criteria and to maintain appropriate internal control systems. Our responsibility is to express a professional and independent opinion based on our examination of those financial statements.

Scope

3. The audit we conducted was performed in accordance with the Technical Standards and Auditing Guidelines of the Portuguese Institute of Certified Public Accountants, which require that the audit be planned and performed with the objective of obtaining reasonable assurance that the consolidated financial statements are free from material misstatements. This audit included verifying, on a sample basis, the supporting documentation for the amounts and information disclosed in the financial statements and evaluating the estimates—based on judgments and criteria established by the Board of Directors—used in their preparation. This examination also included verifying the consolidation procedures and ensuring that the financial statements of the companies included in the consolidation were properly examined; assessing whether the accounting policies adopted are appropriate, whether they were applied consistently, and whether they were disclosed appropriately, taking into account the circumstances; verifying the applicability of the going-concern principle, and assessing whether the presentation of the consolidated financial statements is, on the whole, appropriate. We believe that the audit we conducted provides a reasonable basis for expressing our opinion.

Opinion

4. 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 its subsidiaries as of December 31, 2004, as well as the consolidated results of their operations and their consolidated cash flows for the year then ended, in accordance with accounting principles generally accepted in Portugal.

Lisbon, April 28, 2005

DELOITTE & ASSOCIADOS, SROC S.A.
Represented by António Marques Dias

LEGAL AUDIT OF THE FINANCIAL STATEMENTS
CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. We have examined the accompanying consolidated financial statements of Galp Energia, SGPS, S.A. ("Company") and its subsidiaries ("Group"), which comprise the consolidated balance sheet as of December 31, 2004, showing total assets of 6,163,414,000 Euros and shareholders' equity of 1,887,351,000 euros, including net income of 333,064,000 euros, the consolidated statements of income by nature and by function, and the consolidated statement of cash flows for the fiscal year ended on that date, as well as the corresponding Notes.

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ending on that date, in accordance with accounting principles generally accepted in Portugal.

Lisbon, April 28, 2005

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DELOITTE & ASSOCIADOS, SROC S.A.
Represented by António Marques Dias

APPENDIX C: CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2006, AND JUNE 30, 2005, PREPARED OR RESTATED IN ACCORDANCE WITH IFRS

GALP ENERGIA S.G.P.S., S.A. AND SUBSIDIARIES CONSOLIDATED

STATEMENTS OF INCOME BY NATURE
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2006 AND 2005

(Amounts expressed in thousands of Euros)

	Notes	2006	2005
Operating income:			
Sales Revenue	4	6,041,722	4,942,407
Revenue from services rendered	4	88,659	73,443
Other operating income	4	24,766	28,839
Total operating income:		**6,155,147**	**5,044,689**
Operating expenses:			
Inventory consumed and sold	5	5,112,133	4,006,447
Materials and services consumed	5	255,687	247,319
Personnel expenses	5	140,590	124,544
Amortization and Depreciation Expenses	5	125,324	131,614
Provisions and impairment of accounts receivable	5	14,616	498
Other operating expenses	5	23,444	22,808
Total operating expenses:		**5,671,794**	**4,533,230**
Operating income:		**483,353**	**511,459**
Financial income	7	6,931	5,606
Financial expenses	7	(31,605)	(33,325)
Foreign exchange gains (losses)		4,231	(23,425)
Results Related to Equity Interests in Associates	8	19,459	77,827
Income from financial instruments	21	(4,819)	(7,873)
Other gains and losses		(521)	(706)
Income before taxes:		**477,029**	**529,563**
Income tax		(121,242)	(112,598)
Income before minority interests:		**355,787**	**416,965**
Income attributable to minority interests		(2,031)	(2,433)
Net income for the year		**353,756**	**414,532**
Earnings per share (in euros)	9	**0.43**	**0.50**

The accompanying notes are an integral part of the consolidated income statement by nature for the six-month period ended June 30, 2006.

GALP ENERGIA S.G.P.S., S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2006, AND DECEMBER 31, 2005

(Amounts expressed in thousands of euros)

ASSETS	Notes	2006	2005
Non-current assets:			
Property, plant, and equipment	10	2,526,176	2,554,772
Goodwill		20,526	20,480
Other intangible fixed assets	10	378,751	367,294
Equity investments in associates		89,564	84,545
Equity interests in subsidiaries		63,973	63,608
Other accounts receivable	12	87,937	96,248
Deferred tax assets		161,803	158,924
Other financial investments		3,115	338
Total non-current assets:		**3,331,845**	**3,346,209**
Current assets:			
Inventories	14	1,276,589	1,199,357
Accounts receivable	13	952,502	898,363
Other accounts receivable	12	404,786	322,517
Other financial investments	15	26,151	10,191
Current income tax receivable		157	-
Cash and its equivalents	16	275,596	157,635
Total current assets:		**2,935,781**	**2,588,063**
Total assets:		**6,267,626**	**5,934,272**

EQUITY AND LIABILITIES	Notes	2006	2005
Equity:			
Paid-in capital	17	829,251	829,251
Share premium		82,006	82,006
Translation reserves		(8,032)	(1,879)
Other reserves		107,024	84,926
Hedging reserves		(248)	(2,905)
Accumulated earnings		1,125,470	669,150
Net income for the period		353,756	700,657
Total equity attributable to shareholders:		2,489,227	2,361,206
Minority interests		25,437	24,645
Total equity:		**2,514,664**	**2,385,851**
Liabilities:			
Non-current liabilities:			
Bank loans and overdrafts	18	733,655	781,996
Bond loans	18	259,880	309,760
Other accounts payable	19	95,088	96,443
Liabilities for retirement benefits and other benefits		223,536	214,232
Deferred tax liabilities		161,046	132,275
Other Financial Instruments	21	1,522	5,458
Provisions	20	75,312	72,711
Total non-current liabilities:		**1,550,039**	**1,612,875**
Current liabilities:			
Bank loans and overdrafts	18	216,864	257,390
Bond loans	18	49,880	-
Accounts Payable		708,032	706,376
Other accounts payable	19	1,115,881	916,382
Other financial instruments	21	20,330	1,864
Current income tax payable		91,936	53,534
Total current liabilities:		**2,202,923**	**1,935,546**
Total liabilities:		**3,752,962**	**3,548,421**
Total equity and liabilities:		**6,267,626**	**5,934,272**

The accompanying notes are an integral part of the consolidated balance sheet as of June 30, 2006.

GALP ENERGIA, S.G.P.S., S.A. and SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2006, AND 2005

(Amounts expressed in thousands of euros)

	Notes	2006	2005
Operating activities:			
Receipts from customers		6,404,461	5,871,332
Payments to suppliers		(4,534,587)	(4,251,585)
Payments to employees		(102,922)	(95,530)
Payments/Receipts of tax on petroleum products		(1,238,505)	(1,172,893)
Cash flows from operating activities		**528,447**	**351,324**
(Payment)/receipt of income tax		(55,986)	(48,041)
Contributions to the pension fund		-	-
Payments to early retirees and those in early retirement		(5,992)	(6,547)
Payments for insurance expenses related to retirees		(4,896)	(4,784)
Other (payments)/receipts related to operating activities		(81,494)	(74,481)
Cash flows from operating activities		**(148,368)**	**(133,853)**
Cash flows from operating activities (1)		**380,079**	**217,471**
Investing activities:			
Proceeds from:			
Financial investments	8	35	80,391
Tangible fixed assets		7,531	3,196
Intangible assets		134	-
Investment grants	11	5,930	57,529
Interest and similar income		9,192	8,671
Dividends		15,141	6,364
Loans granted		2,215	7,575
		40,178	**163,726**
Payments related to:			
Financial investments		(897)	(524)
Tangible fixed assets		(118,946)	(125,608)
Intangible assets		(19,593)	(18,668)
Loans granted		(3,111)	(4,210)
		(142,547)	**(149,010)**
Cash Flows from Investing Activities (2)		**(102,369)**	**14,716**
Financing activities:			
Proceeds from:			
Loans received		155,110	134,769
Capital increases, additional installments, and issue premiums		350	263
Interest and similar income		707	751
Discounted bills		3,045	17,863
		159,212	**153,646**
Payments related to:			
Loans obtained		(298,758)	(206,376)
Interest on loans received		(23,300)	(22,619)
Interest and similar expenses		(9,401)	(12,786)
Dividends/distribution of earnings		(2,075)	(213,928)
Repayment of discounted bills		(5,328)	(16,768)
Depreciation and interest on finance leases		(61)	(67)
Interest on bond loans		(5,132)	(4,566)
		(344,055)	**(477,110)**
Cash Flows from Financing Activities (3)		**(184,843)**	**(323,464)**
Change in cash and cash equivalents (4) = (1) + (2) + (3)		92,867	(91,277)
Effect of foreign exchange differences		(3,651)	4,515
Cash and cash equivalents at the beginning of the period	16	93,634	68,798
Cash and cash equivalents at the end of the period	16	182,850	(17,964)

The accompanying notes are an integral part of the consolidated statement of cash flows for the six-month period ended June 30, 2006.

GALP ENERGIA, S.G.P.S., S.A. and SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2006 AND 2005

(Amounts expressed in thousands of Euros)

Transactions for the Period	Notes	Share Capital	Share premium	Conversion reserves	Other reserves	Hedging reserves	Retained earnings	Net income for the period	Subtotal	Minority Minority interests	Total
Balance as of December 31, 2004		829,251	82,006	(5,063)	68,273	(3,736)	397,897	453,438	1,822,066	24,082	**1,846,148**
Increases in reserves from allocation of net income		-	-	-	16,653	-	436,785	(453,438)	-	-	-
Dividend Distribution		-	-	-	-	-	(165,850)	-	(165,850)	-	(165,850)
Other increases/decreases in hedging reserves		-	-	-	-	(1,823)	-	-	(1,823)	-	(1,823)
Other changes		-	-	-	-	-	49	-	49	-	49
Adjustments for the recognition of deferred taxes on financial derivatives		-	-	-	-	307	-	-	307	-	307
Translation differences on balance sheets denominated in foreign currencies (Group Companies)		-	-	1,082	-	-	-	-	1,082	-	1,082
Translation differences on balance sheets denominated in foreign currencies (Associated Companies)		-	-	4,438	-	-	-	-	4,438	-	4,438
Changes in minority interests		-	-	-	-	-	-	-	-	(2,765)	(2,765)
Total direct increases/decreases in equity		-	-	5,520	16,653	(1,516)	270,984	(453,438)	(161,797)	(2,765)	(164,562)
Net income for the period attributable to shareholders and minority interests		-	-	-	-	-	-	414,532	414,532	2,433	416,965
Balance as of June 30, 2005		829,251	82,006	457	84,926	(5,252)	668,881	414,532	2,074,801	23,750	2,098,551
Balance as of December 31, 2005		829,251	82,006	(1,879)	84,926	(2,905)	669,150	700,657	2,361,206	24,645	**2,385,851**
Increases in reserves from allocation of net income		-	-	-	22,098	-	678,559	(700,657)	-	-	-
Dividend Distribution	17 and 20	-	-	-	-	-	(222,239)	-	(222,239)	-	(222,239)
Other increases/decreases in hedging reserves		-	-	-	-	3,459	-	-	3,459	-	3,459
Other variations		-	-	-	-	-	-	-	-	-	-
Adjustments for deferred tax recognition		-	-	-	-	(802)	-	-	(802)	-	(802)
Translation differences on balance sheets denominated in foreign currencies (Group Companies)		-	-	(2,999)	-	-	-	-	(2,999)	-	(2,999)
Translation differences on balance sheets denominated in foreign currencies (Associated Companies)		-	-	(3,154)	-	-	-	-	(3,154)	-	(3,154)
Changes in minority interests		-	-	-	-	-	-	-	-	(1,239)	(1,239)
Total direct increases/decreases in equity		-	-	(6,153)	22,098	2,657	456,320	(700,657)	(225,735)	(1,239)	(226,974)
Net income for the period attributable to shareholders and minority interests		-	-	-	-	-	-	353,756	353,756	2,031	355,787
Balance as of June 30, 2006		829,251	82,006	(8,032)	107,024	(248)	1,125,470	353,756	2,489,227	25,437	2,514,664

The accompanying notes are an integral part of the statement of changes in equity for the six-month period ended June 30, 2006.

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2006

(Amounts expressed in thousands of euros – mEuros)

1. INTRODUCTORY NOTE

Galp Energia, SGPS, S.A. (hereinafter referred to as Galp or the Company) was incorporated as a publicly owned corporation under Decree-Law No. 137-A/99 of April 22, 1999, under the name "Galp – Petróleos e Gás de Portugal, SGPS, S.A.", and adopted its current name—Galp Energia, SGPS, S.A.—on September 13, 2000.

Its headquarters are in Lisbon, and its corporate purpose is the management of equity interests in other companies. At the time of its incorporation, it consolidated the State's direct holdings in the following companies: Petróleos de Portugal – Petrogal, S.A.; GDP–Gás de Portugal, SGPS, S.A., and Transgás–Sociedade Portuguesa de Gás Natural, S.A..

The Group's business consists primarily of operations in the refining sector in Portugal, the distribution of petroleum products, and the transportation, distribution, and sale of natural gas.

2. MAIN ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared on a going-concern basis and using historical cost or deemed cost in accordance with IFRS No. 1, except for financial instruments that are recorded at fair value, based on the accounting records of the companies included in the consolidation, which are maintained in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, effective for fiscal years beginning on or after January 1, 2005.

The Company's Board of Directors believes that the accompanying consolidated financial statements and the notes thereto provide an appropriate presentation of the consolidated interim financial information prepared in accordance with IAS 34—Interim Financial Reporting. Accordingly, in preparing the accompanying financial statements, estimates were used that affect the reported amounts of assets and liabilities, as well as the reported amounts of revenue and expenses during the reporting period. All estimates and assumptions made by the Board of Directors were, however, based on the best available knowledge, as of the date of approval of the financial statements, regarding ongoing events and transactions.

For further clarification regarding the accounting policies followed in the preparation of the interim consolidated financial statements and other information, please refer to the Company's consolidated financial statements as of December 31, 2005, and the related notes.

3. COMPANIES INCLUDED IN THE CONSOLIDATION

The only change in the companies included in the consolidation compared to December 31, 2005, was the Group's acquisition of an additional 0.433% of the capital of Beiragás - Companhia de Gás

das Beiras, S.A., for 90 million euros, resulting in goodwill of 47 million euros, thereby increasing the Group's stake in that company to 59.475%.

4. OPERATING INCOME

The following table provides a breakdown of the Group's operating income for the six-month periods ended June 30, 2006, and 2005:

ITEMS	June 2006	June 2005
Revenue from sales:		
of merchandise	2,055,614	1,923,713
from products	3,986,108	3,018,694
	6,041,722	4,942,407
Revenue from services rendered	88,659	73,443
Other operating income: Supplementary revenue	5,793	9,047
Gains on Fixed Assets	3,652	681
Operating Subsidies	2,833	36
Other	12,488	19,075
	24,766	28,839
	6,155,147	5,044,689

Fuel sales include the Petroleum Products Tax (ISP).

The "Supplementary Revenue" line item primarily includes revenue from operating fees, advertising space fees, and automatic car wash fees, among others, charged to retailers for the use of the GALP brand.

5. OPERATING EXPENSES

The results for the six-month periods ended June 30, 2006, and 2005 were affected by the following operating expense items:

SECTIONS	June 2006	June 2005
Inventory consumed and sold:		
Merchandise	1,083,286	1,062,593
Raw materials and supplies	2,885,737	1,803,556
Petroleum tax	1,160,026	1,152,063
Change in production	(23,353)	(6,513)
Inventory reductions	6,437	(5,252)
	5,112,133	**4,006,447**
Materials and services consumed:		
Freight transportation	36,666	37,642
Rents and leases	30,888	23,614
Maintenance and repairs	25,406	25,462
Insurance	22,174	12,467
Storage and Filling	15,892	15,807
Advertising	15,775	14,391
IT services	11,955	11,887
Other specialized services	11,660	10,696
Electricity, water, and communications	10,074	9,869
Subcontracts	5,365	6,788
Use of terminals and pipelines	5,138	4,359
Other expenses	64,694	74,337
	255,687	**247,319**
Personnel expenses:		
Compensation for corporate officers	2,609	2,185
Employee compensation	94,031	80,027
Social security contributions	18,875	17,640
Retirement benefits—pensions and insurance	19,646	20,531
Other insurance	3,732	3,359
Other expenses	1,697	802
	140,590	**124,544**
Amortization and Depreciation Expenses:		
Amortization of tangible fixed assets	111,594	118,462
Amortization of intangible fixed assets	13,730	13,152
	125,324	**131,614**
Provisions and impairment of accounts receivable		
Provisions	5,801	(4,693)
Impairment losses on accounts receivable from customers (Note 12)	9,509	5,191
Impairment losses on other accounts receivable	(694)	-
	14,616	**498**
Other operating expenses	**23,444**	**22,808**
	5,671,794	**4,533,230**

6. INFORMATION BY SEGMENT

Business Segments

For strategic reasons, the group is currently organized into four business segments, comprising the following business units:

- Natural Gas Supply and Transmission;
- Natural Gas Distribution;
- Refining and Distribution of Petroleum Products
- Exploration and Production
- Other

With regard to the "other" business segment, the group included the holding companies Galp Energia, S.G.P.S., S.A., and GDP – Gás de Portugal, SGPS, S.A., as well as companies engaged in distinct activities, namely Driftal - Plastificantes de Portugal, S.A., Tagus Re, S.A., Galp Energia, S.A. (formerly known as Galp Serviços, S.A.) and Porten, Portugal Energia, S.A.

The following financial information relates to the segments identified above, as of June 30, 2006, and 2005, regarding operating results and the
June 30, 2006, and December 31, 2005, regarding the balance sheet:

	Natural Gas Supply and Transmission		Natural Gas Distribution		Refining and Distribution of Petroleum Products		Exploration and Production		Electricity		Other		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Gross Margin	**130,835**	**116,807**	**74,090**	**74,829**	**772,165**	**779,559**	**27,671**	**30,250**	**4,947**	**5,206**	**54,654**	**40,883**	**(46,114)**	**(38,131)**	**1,018,248**	**1,009,403**
Sales and Services	587,942	437,773	135,850	119,420	5,441,379	4,500,138	22,324	30,702	14,873	13,077	54,960	41,394	(126,947)	(126,654)	6,130,381	5,015,850
Inter-segment	79,383	56,501	-	3	1,883	3,663	-	30,645	-	-	45,681	35,842	(126,947)	(126,654)	-	-
External	508,559	381,272	135,850	119,417	5,439,496	4,496,475	22,324	57	14,873	13,077	9,279	5,552	-		6,130,381	5,015,850
CMVMC	(457,107)	(320,966)	(61,760)	(44,591)	(4,669,214)	(3,720,579)	5,347	(452)	(9,926)	(7,871)	(306)	(511)	80,833	88,523	(5,112,133)	(4,006,447)
Inter-segment	-	-	(59,426)	(41,932)	(11,489)	(38,728)	-	-	(9,918)	(7,863)	-	-	80,833	88,523	-	-
External	(457,107)	(320,966)	(2,334)	(2,659)	(4,657,725)	(3,681,851)	5,347	(452)	(8)	(8)	(306)	(511)	-	-	(5,112,133)	(4,006,447)
Revenue	**1,004**	**1,850**	**3,844**	**2,743**	**20,415**	**32,103**	**458**	**-**	**451**	**238**	**5,093**	**5,617**	**(6,499)**	**(13,712)**	**24,766**	**28,839**
Inter-segment	125	924	649	1,380	1,601	8,408	-	-	28	38	4,096	2,962	(6,499)	(13,712)	-	-
External	879	926	3,195	1,363	18,814	23,695	458	-	423	200	997	2,655	-	-	24,766	28,839
Variable Costs	**-**	**-**	**(6,445)**	**(7,836)**	**(156,977)**	**(147,759)**	**-**	**-**	**-**	**-**	**(128)**	**-**	**1,247**	**-**	**(162,303)**	**(155,595)**
Inter-segment	-	-	(1,247)	-	-	-	-	-	-	-	-	-	1,247	-	-	-
External	-	-	(5,198)	(7,836)	(156,977)	(147,759)	-	-	-	-	(128)	-	-	-	(162,303)	(155,595)
Fixed Costs	**(20,792)**	**(16,563)**	**(25,229)**	**(20,616)**	**(190,858)**	**(184,303)**	**(11,954)**	**(9,578)**	**(2,780)**	**(1,976)**	**(57,171)**	**(57,883)**	**51,366**	**51,842**	**(257,418)**	**(239,077)**
Operating Expenses	**(14,585)**	**(10,638)**	**(12,713)**	**(11,069)**	**(87,553)**	**(81,150)**	**(10,410)**	**(8,963)**	**(2,090)**	**(1,734)**	**(39,798)**	**(50,736)**	**50,321**	**49,758**	**(116,828)**	**(114,532)**
Inter-segment	(1,794)	(3,211)	(2,459)	(4,189)	(35,558)	(31,064)	(1,310)	(486)	(759)	(302)	(8,441)	(10,506)	50,321	49,758	-	-
External	(12,791)	(7,427)	(10,254)	(6,880)	(51,995)	(50,086)	(9,100)	(8,477)	(1,331)	(1,432)	(31,357)	(40,230)	-	-	(116,828)	(114,532)
Personnel Expenses	**(6,207)**	**(5,925)**	**(12,516)**	**(9,547)**	**(103,305)**	**(103,153)**	**(1,544)**	**(615)**	**(690)**	**(242)**	**(17,373)**	**(7,147)**	**1,045**	**2,085**	**(140,590)**	**(124,544)**
EBITDA	**111,047**	**102,094**	**46,260**	**49,120**	**444,745**	**479,600**	**16,175**	**20,672**	**2,618**	**3,468**	**2,448**	**(11,383)**	**-**	**-**	**623,293**	**643,571**
Non-Disbursable Expenses	**(17,219)**	**(15,534)**	**(13,383)**	**(10,451)**	**(94,849)**	**(93,601)**	**(12,651)**	**(10,286)**	**(1,452)**	**(1,477)**	**(384)**	**(760)**	**(2)**	**(3)**	**(139,940)**	**(132,112)**
Depreciation and Amortization	(16,689)	(15,145)	(12,167)	(10,451)	(86,342)	(93,839)	(8,280)	(9,951)	(1,452)	(1,450)	(392)	(775)	(2)	(3)	(125,324)	(131,614)
Adjustments and Provisions (net)	(530)	(389)	(1,216)	-	(8,507)	238	(4,371)	(335)	-	(27)	8	15	-	-	(14,616)	(498)
Segment Results	**93,828**	**86,560**	**32,877**	**38,669**	**349,896**	**385,999**	**3,524**	**10,386**	**1,166**	**1,991**	**2,064**	**(12,143)**	**(2)**	**(3)**	**483,353**	**511,459**
Operating Results	**93,828**	**86,560**	**32,877**	**38,669**	**349,896**	**385,999**	**3,524**	**10,386**	**1,166**	**1,991**	**2,064**	**(12,143)**	**(2)**	**(3)**	**483,353**	**511,459**
Financial Results	9,933	8,277	(7,474)	34,530	(11,671)	(26,892)	740	1,644	(398)	(271)	2,545	812	1	4	(6,324)	18,104
Income before taxes and minority interests	**103,761**	**94,837**	**25,403**	**73,199**	**338,225**	**359,107**	**4,264**	**12,030**	**768**	**1,720**	**4,609**	**(11,331)**	**(1)**	**1**	**477,029**	**529,563**
Income Tax	(25,355)	(21,968)	(6,835)	(10,123)	(87,639)	(91,177)	(363)	(280)	(133)	(324)	(917)	11,273	-	1	(121,242)	(112,598)
Minority Interests	(907)	(890)	(1,399)	(1,587)	682	517	-	6	(407)	(467)	-	(10)	-	(2)	(2,031)	(2,433)
NET INCOME FOR THE YEAR	**77,499**	**71,979**	**17,169**	**61,489**	**251,268**	**268,447**	**3,901**	**11,756**	**228**	**929**	**3,692**	**(68)**	**(1)**	**-**	**353,756**	**414,532**

As of June 30, 2006, and December 31, 2005

	Natural Gas Supply and Transportation		Natural Gas Distribution		Refining and Distribution of Petroleum Products		Exploration and Production		Electricity		Other		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
OTHER INFORMATION																
Segment Assets (1)																
Current Assets	457,148	350,567	72,139	72,994	2,613,035	2,266,992	63,857	25,024	13,083	11,458	702,717	258,927	(986,198)	-397,899	2,935,781	2,588,063
Fixed assets (2)	807,618	805,993	625,409	615,479	1,136,385	1,246,908	331,557	247,480	23,395	24,430	5,646	2,256	(4,557)	0	2,925,453	2,942,546
Financial Investments (3)	71,622	68,849	7,017	5,666	74,603	73,584	2	1,383	-	0	293	122,769	-	-124,098	153,537	148,153
Other Non-Current Assets	61,103	64,096	26,729	23,504	141,692	158,636	389	258	13,090	13,057	157,267	14,928	(147,415)	-18,968	252,855	255,510
Total Consolidated Assets	**1,397,491**	**1,289,505**	**731,294**	**717,643**	**3,965,715**	**3,746,120**	**395,805**	**274,145**	**49,568**	**48,945**	**865,923**	**398,880**	**(1,138,170)**	**(540,965)**	**6,267,626**	**5,934,272**
Segment Liabilities																
Current Liabilities	335,258	192,408	175,935	183,925	1,816,257	1,668,873	77,140	27,490	6,496	7,208	731,583	245,750	(939,746)	-390,108	2,202,923	1,935,546
Provisions	9,375	9,181	10,743	11,515	42,613	48,842	9,648	0	685	955	2,247	29,995	1	-27,777	75,312	72,711
Other Non-Current Liabilities	570,570	595,390	345,153	343,072	620,250	616,786	26,676	5,638	39,850	39,164	70,716	63,194	(198,488)	-123,080	1,474,727	1,540,164
Total Consolidated Liabilities	**915,203**	**796,979**	**531,831**	**538,512**	**2,479,120**	**2,334,501**	**113,464**	**33,128**	**47,031**	**47,327**	**804,546**	**338,939**	**(1,138,233)**	**(540,965)**	**3,752,962**	**3,548,421**

(1) Net amount.
(2) In Tangible and Intangible Fixed Assets.
(3) Under the Equity Method.

7. FINANCIAL INCOME AND EXPENSES

The breakdown of the amounts recorded for financial income and expenses for the six-month periods ended June 30, 2006, and 2005 is as follows:

	June 2006	June 2005
Financial income:		
Interest on bank deposits	4,257	2,523
Other financial income	1,441	1,799
Interest earned from related companies	1,233	1,284
	6,931	5,606
Financial expenses		
Interest on loans and bank overdrafts	(19,695)	(21,009)
Capitalized interest	-	73
Securitization	(3,659)	(3,107)
Other financial costs	(8,081)	(9,204)
Interest Expense Related to Affiliated Companies	(170)	(78)
	(31,605)	(33,325)

8. RESULTS RELATED TO FINANCIAL INTERESTS IN ASSOCIATED COMPANIES

The change in this item relates primarily to the capital gain realized on the sale of the 46.63% equity interest in Portgás – Sociedade de Produção e Distribuição de Gás, S.A. during the six-month period ended June 30, 2005, in the amount of 54,525 million euros. The amount of 79.068 mEuros, out of a total of 86.400 mEuros, corresponding to the sale proceeds from this investment, was recorded in the consolidated statement of cash flows for the six-month period ended June 30, 2005, under the heading “Investing activities—proceeds from financial investments.”

9. EARNINGS PER SHARE

At the General Meeting held on May 31, 2006, a resolution was approved to change the par value of the shares representing the Company’s share capital from 5 euros to 1 euro, by replacing each existing share with five new shares, while maintaining the Company’s share capital at the same level (Note 17).

Consequently, earnings per share as of June 30, 2006, and 2005 were as follows:

	JUNE 2006	JUNE 2005 a)	JUNE 2005
Earnings			
Earnings used to calculate net earnings per share (net income for the year)	353,756	414,532	414,532
Number of shares			
Weighted-average number of shares for the purpose of calculating net income per share (Note 17)	829,250,635	829,250,635	165,850,127
Basic earnings per share (amounts in euros):	0.43	0.50	2.50

a) Earnings per share restated for the new number of shares as of June 2006.

Since there are no circumstances giving rise to dilution, diluted net earnings per share are equal to basic net earnings per share.

10. TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible assets:	June 2006			December 2005		
	Gross assets	Accumulated depreciation Accumulated	Net assets	Gross assets	Accumulated Accumulated	Net assets
Land and natural resources	244,013	(13,118)	230,895	240,149	(7,190)	232,959
Buildings and Other Structures	723,516	(407,704)	315,812	716,577	(390,972)	325,605
Basic equipment	4,444,795	(2,796,604)	1,648,191	4,272,805	(2,699,229)	1,573,575
Transportation equipment	25,258	(23,063)	2,195	27,691	(25,077)	2,613
Tools and equipment	5,491	(4,811)	680	5,417	(4,726)	690
Office equipment	126,931	(110,857)	16,074	126,520	(107,922)	18,598
Tare weights and containers	145,471	(128,130)	17,341	145,200	(126,616)	18,584
Other tangible fixed assets	101,899	(57,179)	44,720	99,003	(54,574)	44,429
Tangible assets in progress	248,415	-	248,415	335,409	-	335,409
Advances for tangible assets	1,855	-	1,855	2,310	-	2,310
	6,067,642	(3,541,466)	2,526,176	5,971,081	(3,416,306)	2,554,772
Intangible assets:						
	Gross assets	Accumulated amortization Accumulated	Net assets	Gross assets	Depreciation accumulated	Net assets
Research and development expenses	2,929	(1,365)	1,564	2,964	(1,093)	1,871
Intellectual property and other rights	252,483	(118,333)	134,150	245,501	(111,361)	134,140
Conversion of consumption to natural gas	243,320	(61,252)	182,068	222,918	(49,502)	173,416
Leasehold Interests	26,284	(10,926)	15,358	26,312	(10,974)	15,338
Intangible assets in progress	45,611	-	45,611	42,428	-	42,428
Advances for intangible assets	-	-	-	101	-	101
	570,627	(191,876)	378,751	540,224	(172,930)	367,294

Tangible and intangible fixed assets are recorded in accordance with the accounting policy established by the Group, which is described in the Notes to the financial statements as of December 31, 2005.

Non-repayable grants awarded to the Group to finance tangible and intangible assets (primarily conversions to natural gas) are recorded as assets, as a deduction from the respective assets, and recognized in the consolidated statement of income as a deduction from depreciation and amortization for the period, in proportion to the respective depreciation and amortization of the subsidized assets.

Key developments during the first half of 2006:

With regard to the GDP subgroup (procurement, transmission, distribution, and sale of natural gas), the main changes during the half-year in the tangible and intangible fixed assets accounts were as follows:

- An increase of 11,806 mEuros at Lisboa GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., of which 8,816 mEuros relate to networks, service lines, and meters, and the remaining 2,990 mEuros to gas network infrastructure.

- An increase of mEuros 7,295 related to the construction of the TGC–1S, TGC–4, and TGC–2 caverns located in Carriço, intended for natural gas storage;

- Transfer from the "Inventories" account to tangible fixed assets in the amount of 15,408 mEuros, relating to "Cushion Gas" necessary to maintain the pressure in the underground caverns located in Carriço, intended for the strategic storage of natural gas.

With regard to the Petrogal subgroup (exploration, production, refining, and distribution of petroleum products), the main changes during the half-year in the tangible and intangible fixed assets accounts were as follows:

- Increases totaling 5,059 million euros, at Galp Energia Spain, relating primarily to the purchase of gas cylinders in the amount of 1,223 million euros, propane gas installations at customer sites, and investments in the network of fuel stations in the amounts of 1,000 million euros and 1,442 million euros, respectively;

- Operating and development costs for crude oil exploration activities in Angola's Block 32 and Congo's Block 14-A-MI, totaling 2,586 mEuros and 22,030 mEuros, respectively;

- 5,119 mEuros, relating primarily to the modernization of service station equipment and convenience stores, business expansion, and the development of the information system;

- 4,064 mEuros related to investments in the Sines and Porto refineries;

- 5,366 mEuros related to the modernization of the gas cylinder filling line, specifically for the adaptation of networks and the acquisition of new cylinders.

During the first half of 2006, tangible and intangible assets were written off in net amounts of mEuros 383 and mEuros 7, respectively; most of these assets were fully depreciated as a result of the update to the fixed asset register.

The breakdown of tangible and intangible fixed assets in progress as of June 30, 2006, is as follows:

	Assets	Grants	Assets net of subsidies
Oil exploration in Block A-IMI & Block 14—Congo and Angola	106,598	-	106,598
Oil exploration in Blocks 32 and 33 in Angola (includes signature bonus)	36,917	-	36,917
Renovation and Expansion of the Gas Station Network	32,654	-	32,654
Oil and natural gas exploration and production in Brazil	25,461	-	25,461
Underground natural gas storage	20,757	8,695	12,062
Industrial investments in refineries	10,750	-	10,750
Construction of network infrastructure and natural gas conversions	6,584	41	6,543
Leixões - Piping at the Porto Refinery	5,224	-	5,224
Construction of natural gas networks and retrofits in the municipality of Lisbon	3,924	-	3,924
Single Buoy - Installation and Replacement Parts	3,889	-	3,889
Studies and Permits - Porto and Sines Refineries	2,973	-	2,973
Construction of infrastructure for strategic storage	2,781	-	2,781
Propane Gas Facilities	2,182	-	2,182
Cogeneration Plant at the Sines Refinery	1,614	-	1,614
Operational Terminal for E.M.	1,481	185	1,296
Construction of natural gas networks and conversions in the municipality of Oeiras	1,436	-	1,436
Other projects	37,769	47	37,722
	302,994	8,968	294,026

The amount of 36,917 mEuros related to oil exploration in Blocks 32 and 33 in Angola has been deducted from the amount of 31,702 mEuros related to the estimated impairment for Block 33, as it is not economically viable.

11. SUBSIDIES

As of June 30, 2006, and December 31, 2005, the amounts received and receivable from subsidies were as follows:

Program	GDP	PETROGAL	OTHERS	JUNE 2006	DECEMBER 2005
Regen					
Amount Received	79,361	-	-	79,361	79,361
Receivables	-	-	-	-	-
	79,361	-	-	79,361	79,361
Energy Program					
Amount Received	163,530	-	-	163,530	163,530
Receivables	-	-	-	-	-
	163,530	-	-	163,530	163,530
Interreg II					
Amount received	143,068	-	-	143,068	143,068
Receivables	-	-	-	-	-
	143,068	-	-	143,068	143,068
Trans-Energy					
Amount received	90,491	-	-	90,491	90,491
Receivables	2,062	-	-	2,062	1,128
	92,553	-	-	92,553	91,619
Protede					
Amount received	19,708	-	-	19,708	19,708
	19,708	-	-	19,708	19,708
Operational Program for the Economy					
Amount received	235,520	-	300	235,820	232,189
Receivables	4,266	-	-	4,266	2,865
	239,786	-	300	240,086	235,054
Sines Desulfurization					
Amount received	-	13,203	-	13,203	13,203
Outstanding	-	26,310	-	26,310	26,310
	-	39,513	-	39,513	39,513
Port Desulfurization					
Amount received	-	11,797	-	11,797	11,797
Receivables	-	23,510	-	23,510	23,510
	-	35,307	-	35,307	35,307
Other					
Amount received	-	11,891	-	11,891	9,592
Receivables	-	-	-	-	-
	-	11,891	-	11,891	9,592
Total	**738,006**	**86,711**	**300**	**825,018**	**816,752**

In addition, investment subsidies totaling 5,930 mEuros were received in the first half of 2006.

Of the 56,150 mEuros in subsidies receivable, which is recorded under “Other Accounts Receivable,” mEuros 49,820 relates to subsidies receivable from the Portuguese government for investments made in the desulfurization units at the Sines and Porto refineries, and mEuros 6,330 relates to incentive programs for the expansion of the natural gas network (Note 12).

12. OTHER ACCOUNTS RECEIVABLE

The "Other Non-Current and Current Accounts Receivable" line item was broken down as follows as of June 30, 2006, and December 31, 2005:

ACCOUNTS	JUNE 2006		DECEMBER 2005	
	Current	Non-current	Current	Non-current
Other receivables				
State and other public entities	9,337	74	13,178	-
Loans to affiliated companies	602	59,526	-	60,050
Loans to affiliated companies	2,105	-	4,289	-
Portuguese State (Note 11)	49,820	-	49,820	-
Accounts Payable	41,596	-	784	-
EDP Group - Electricidade de Portugal	22,498	-	25,002	-
Advances to suppliers of fixed assets	12,309	-	6,855	-
Agreement for the assignment of rights to use telecommunications infrastructure	7,162	14,323	7,162	8
Tax on petroleum products	7,592	-	3,236	-
Advances to suppliers	6,367	-	3,304	-
Subsidies receivable (Note 11)	6,329	-	3,992	-
Loan to Sonangol under the Block 14 production contract	4,856	-	4,856	-
Means of payment	4,715	-	11,547	-
Petrobras Consortium	2,885	-	1,847	-
Azores Regional Supply Fund	2,523	-	1,220	-
Other	34,208	5,684	29,141	4,987
	214,904	79,607	166,233	86,522
Accrued revenue:				
Sales and services rendered but not yet invoiced	101,536	-	84,883	-
Interest receivable	7,456	-	5,629	-
Sales of finished products to be invoiced through the gas station network	4,558	-	4,010	-
Other increases in revenue	4,775	-	4,252	
-				
	118,325	-	98,774	-
Deferred costs:				
Expenses related to service area concession contracts	38,006	-	39,171	-
Retirement benefits	-	8,276	-	9,711
Prepaid insurance	12,211	-	5,401	-
Costs of catalytic converters	4,995	-	4,615	-
Interest and other financial expenses	2,253	-	2,678	15
Other deferred costs	18,397	54	10,948	-
	75,862	8,330	62,813	9,726
Impairment of other accounts receivable	(4,306)	-	(5,303)	-
	404,786	87,937	322,517	96,248

Under the "Shareholders' Agreement between the State and Petrocontrol regarding compensation to be paid to Petrogal" dated December 21, 1998, as of June 30, 2006, Petrogal is still entitled to receive 49,820 mEuros from the Ministry of Economy. This amount is intended to subsidize the investments made by Petrogal in the Porto and Sines refineries related to diesel desulfurization. The counterpart to this receivable was recorded as a deduction from the value of fixed assets. The Board of Directors of Petrogal – Petróleos de Portugal, S.A. believes that this amount will be received within 12 months, which is why it is classified under "other current receivables."

The receivable from EDP, in the amount of 22,498 mEuros, includes 17,984 mEuros corresponding to the exercise of the put option right for 217,055 shares of Oni SGPS, S.A., during fiscal year 2003, in the amount of 14,964 million euros, plus 3,020 million euros in interest. This receivable also includes the amount of
4,514 relating to the net balance of receivables pertaining to electricity bill collections made by the GDP Group on behalf of EDP and gas bill collections made by EDP on behalf of the GDP Group.

The “Cash and Cash Equivalents” line item, in the amount of 4,715 million euros, relates to amounts receivable from sales made via Visa/Multibanco cards, which as of June 30, 2006, were pending receipt.

The amount recorded as an asset related to the contracts for the Assignment of Rights to Use Telecommunications Infrastructure, entered into on July 1, 1999, for a period of 20 years, is being received in equal, successive annual installments of 7,162 mEuros each through July 31, 2009, with each installment bearing interest at market rates. The revenue arising from this contract for the assignment of usage rights is deferred under the "Deferred Revenue" account and is recognized in income on a straight-line basis over the term of the contracts, which end on June 30, 2019. During the fiscal year ended June 30, 2006, revenue in the amount of 236 million euros was recognized (of which 61 million euros relates to interest). During this fiscal year and the previous one, the subsidiary Transgás – Sociedade Portuguesa de Gás Natural, S.A. did not recognize any revenue related to these contracts, and there is a provision in the amount of mEuros 5,835 (Note 20) relating to interest recognized as revenue in prior years. The balance of deferred revenue, as of June 30, 2006, to be recognized in future fiscal years is 71,817 thousand euros (Note 19). However, on July 28, the Arbitral Tribunal's Award was received, which settled the dispute between Onitelecom and Transgás regarding the case related to the Contract for the Assignment and Right to Use Telecommunications Infrastructuretelecommunications infrastructure entered into between the parties. The Court was requested to issue clarifications regarding the operative part of the ruling in order to quantify the resulting consequences for Transgás, specifically with regard to determining the amounts receivable from Onitelecom.

The loan to Sonangol in the amount of 4,856 mEuros is based on the contractual agreement established among all the entities comprising the Block 14 "Joint Venture." This loan is being repaid through Galp Exploração's appropriation of Sonangol's share of oil production in Block 14.

The amount of 6,328 mEuros recorded under the heading "Subsidies receivable" refers to subsidies received from incentive programs for the expansion of the natural gas network.

The "Other Debtors – Pension Fund – Recovery of Disbursements" account, in the amount of 1,720 million euros, relates to amounts receivable from BPI Pensões for pension payments processed in June and not yet reimbursed.

The amount of 2,885 mEuros related to the Petrobrás Consortium pertains to the company's share of this entity's expenses in the blocks where Petrogal Brasil is the operator.

The account receivable from the Azores Regional Supply Fund, in the amount of mEuros
2,523 corresponds to compensation receivable by Galp Açores under agreements established with that entity for the sale of fuels at a specific price set by the Autonomous Government of that region.
Of the mEuros 41,596 in the "Accounts Payable" category, mEuros
38,093 relates to an advance payment from Transgás – Sociedade Portuguesa de Gás Natural, S.A. to the supplier Nigeria LNG – Limited for natural gas purchases to be made in the second half of 2006.

The "Accrued Revenue—Sales Not Yet Invoiced" account refers primarily to invoices for natural gas consumption to be issued to customers in the following month.

Of the 7,456 mEuros recorded under the "Accrued Revenue—Interest Receivable" line item, 5,439 mEuros corresponds to interest on the assignment of infrastructure usage rights to be charged to E3G-Telecomunicações S.A.

The “Other Income” line item—sales of finished products to be billed at the network of gas stations, in the amount of 4,558 mEuros—relates to purchases made in the first half of 2006 using the Galp Frota card and billed only in the second half of 2006.

The “Other Additional Revenue” line item includes revenue from commodity swaps, which are intended to hedge transactions carried out in June 2006 and December 2005, but for which cash flows occurred only in July 2006 and January 2006. These transactions were carried out with the intention of “smoothing” the price of Brent for the sale transactions of Block 14 during the 2006 fiscal year; since these are swaps indexed to the monthly price of Brent, they generate actual monthly cash flows, necessitating the recognition of the cost or revenue in the month to which the hedging transaction pertains.

Expenses recorded under deferred costs related to service area lease agreements in the amount of 38,006 thousand euros are recognized as an expense over the respective concession period, which ranges from 20 to 25 years.

13. CUSTOMERS

The “Customers” account, as of June 30, 2006, and December 31, 2005, was broken down as follows:

ACCOUNT HEADINGS	June 2006	December 2005
Current account customers	933,810	877,160
Doubtful accounts receivable	69,326	65,297
Customers—Notes Receivable	6,218	6,085
	1,009,354	948,542
Bad debt provisions	(56,852)	(50,179)
	952,502	898,363

The following table shows the changes that occurred during the first half of 2006 in the “Impairment of Accounts Receivable from Customers” account:

Items	Balance Opening	Increases	Decreases	Usage	Balance Ending
Impairment of accounts receivable	50,179	14,827	(5,318)	(2,836)	56,852
	50,179	14,827	(5,318)	(2,836)	56,852

The net increase and decrease in the allowance for doubtful accounts receivable from customers, amounting to mEuros 9,509, was recognized in the allowance for doubtful accounts receivable (Note 5).

14. INVENTORIES

The inventory account was broken down as follows for the fiscal years ended June 30, 2006, and December 31, 2005:

ACCOUNT HEADINGS	June 2006	December 2005
Raw materials, auxiliary materials, and supplies:		
Crude oil	137,473	149,691
Other raw materials	58,542	37,793
Raw materials in transit	129,306	84,329
	325,321	271,813
Adjustments to raw materials, subsidiaries, and supplies	(9,398)	(5,018)
	315,923	266,795
Intermediate and finished goods:		
Finished products	460,535	410,758
ISP - Tax on Petroleum Products	19,080	15,553
Intermediate Products	203,239	232,423
Finished goods in transit	930	16,527
	683,784	675,261
Adjustments to finished and intermediate products	(23)	(8)
	683,761	675,253
Products and work in progress	403	328
Adjustments to products and work in progress	(2)	-
	401	328
Inventories	270,652	250,106
ISP - Tax on Petroleum Products	6,534	3,370
	277,186	253,476
Inventory adjustments	(837)	(1,323)
	276,349	252,153
Advances on purchases	155	4,828
	1,276,589	1,199,357

As of June 30, 2006, the “Merchandise” account, in the amount of 270,652 mEuros, corresponds primarily to natural gas in the pipeline and to inventory held by the subsidiary Galp Energia España, S.A., which includes strategic reserves held by other companies in the sector, in the amount of 43,822 mEuros.

As of June 30, 2006, the Group’s obligations to competitors for strategic reserves in Portugal—which can only be settled through the delivery of products—amounted to mEuros 314,668 and are recorded under the heading “advances on sales” (Note 19).

In November 2004, Petrogal, together with Petrogal Trading Limited, entered into a contract for the purchase, sale, and exchange of crude oil for refined products to establish strategic reserves with the Entity for the Management of Strategic Reserves of Petroleum Products, EPE (EGREP), pursuant to the provisions of Decree - Law No. 339-D/2001, of December. Under this agreement entered into in 2004, the crude oil acquired by EGREP—which is not recorded in the Group’s financial statements—is stored at Petrogal’s facilities on a non-segregated basis and must remain stored in such a way that EGREP may audit it, whenever it deems appropriate, in terms of both quantity and quality. Under the terms of the aforementioned contract, Petrogal is obligated to exchange the crude oil sold for finished products when EGREP so requires, receiving in exchange an amount representing the refining margin as of the date of the exchange.

15. OTHER FINANCIAL INVESTMENTS

As of June 30, 2006, and December 31, 2005, current financial investments were broken down as follows: The line item other investments

ITEMS	JUNE 2006	DECEMBER 2005
Financial instruments (Note 21)	14,851	2,177
Financial investments—maturity of more than 3 months and less than 12 months	11,300	8,014
	26,151	10,191

16. CASH AND CASH EQUIVALENTS

As of June 30, 2006, and December 31, 2005, the "Cash and Cash Equivalents" line item was broken down as follows:

ACCOUNTS	JUNE 2006	DECEMBER 2005
Cash	12,806	7,167
Demand deposits	143,188	122,158
Time deposits	13,657	19,411
Financial investments with a maturity of less than 3 months	105,945	8,899
Cash and cash equivalents on the balance sheet	275,596	157,635
Financial investments—maturity of more than 3 months and less than 12 months (Note 15)	11,300	8,014
Bank overdrafts (Note 18)	(104,046)	(72,015)
Cash and cash equivalents in the statement of cash flows	182,850	93,634

17. SHARE CAPITAL

The structure of the share capital underwent the following change during the six-month period ended June 30, 2006, compared to December 31, 2005:

- At the General Meeting held on May 31, 2006, a resolution was approved to change the par value of the shares representing Galp Energia's share capital from 5 euros (five euros) to 1 euro (one euro), by replacing each existing share with five new shares, while maintaining the company's share capital at the same level (Note 9);

- The share capital, fully subscribed and paid-in, is now represented by 829,250,635 shares (Note 9) with a par value of 1 euro per share, and is subdivided into the following categories of shares:

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

- In January 2006, Amorim Energia B.V. acquired shares of Galp Energia, SGPS, S.A. held by EDP – Energias de Portugal, S.A., representing 14.27% of the share capital, and by Portgás – Sociedade de Produção de Gás, S.A., representing 0.04%, with a subsequent sale to Caixa Geral de Depósitos, S.A. of shares corresponding to 1% of the share capital.

- The sale of the shares between the aforementioned entities was not recorded until the end of January 2006.

As a result of the situations described above, the Company's capital as of June 30, 2006, was fully subscribed and paid in and was held by the following entities:

	No. of Shares	Par Value	% of Capital
Eni Portugal Investment, S.p.a.	276,472,162	1 Euro	33.34%
REN - National Electricity Grid, S.A.	151,752,866	1 Euro	18.30%
Portuguese State	146,943,213	1 Euro	17.72%
Amorim Energia, B.V.	110,373,260	1 Euro	13.31%
Parpública - Participações Públicas, SGPS, S.A.	101,914,903	1 Euro	12.29%
Iberdrola, S.A.	33,170,025	1 Euro	4.00%
Caixa Geral de Depósitos, S.A.	8,292,506	1 Euro	1.00%
Setgás - Gas Production and Distribution Company, S.A.	331,700	1 Euro	0.04%
	829,250,635		100.00%

18. LOANS

Breakdown of Loans

As of June 30, 2006, and December 31, 2005, the loans obtained are detailed as follows:

	June 2006		December 2005	
	Current	Non-current	Current	Non-Current
Bank loans:				
Internal loans	64,702	143,335	99,045	118,192
External loans	46,812	588,135	84,776	644,988
Bank overdrafts (Note 16)	104,046	-	72,015	-
Revolving credit lines	-	-	250	16,000
	215,560	731,470	256,086	779,180
Other loans obtained:				
IAPMEI	1,304	2,185	1,304	2,816
	1,304	2,185	1,304	2,816
	216,864	733,655	257,390	781,996
Bond issues:				
1997 Issue - GDP, SGPS, S.A.	49,880	-	-	49,880
1998 Issue - Lisboagás, S.A.	-	49,880	-	49,880
2003 Issue - Galp Investment Fund	-	210,000	-	210,000
	49,880	259,880	-	309,760
	266,744	993,535	257,390	1,091,756

Non-current loans as of June 30, 2006 had the following scheduled repayment plan:

2007	62,904
2008	284,715
2009	77,691
2010	79,048
2011 and beyond	489,177
	993,535

As of June 30, 2006, and December 31, 2005, all loans were denominated in euros, U.S. dollars, and meticais.

Description of the Main Loans

The following is a brief description of the main loans included in the line items presented in the tables above:

Bank loans

The main bank loans as of June 30, 2006, can be characterized as follows:

Company	Total Amount Currency	Start Date	Term	Amount Owed
Beiragás - Companhia de Gás das Beiras, S.A.	27,000 EUR	December 27, 2005	December 15, 2020	18,670
Carriço Cogeneration Electricity and Heat Generation Company, S.A.	20,000 EUR	March 31, 2003	September 20, 2012	15,593
Powercer - Vialonga Cogeneration Company, S.A.	5,175 EUR	November 22, 2004	November 20, 2013	4,968
Lisboagás GDL - Lisbon Natural Gas Distribution Company, S.A.	80,000 EUR	June 20, 2000	June 15, 2020	80,000
Lusitaniagás - Central Portugal Gas Company, S.A.	54,868 EUR	October 28, 1995	March 15, 2020	45,515
Galp Energia, SGPS, S.A.	85,000 USD	December 13, 2002	December 6, 2007	36,541
Petróleos de Portugal - Petrogal, S.A.	230,000 USD	December 21, 1992	December 15, 2007	5,266
Petróleos de Portugal - Petrogal, S.A.	85,000 USD	December 13, 2002	December 6, 2007	1,353
Petróleos de Portugal - Petrogal, S.A.	6,310 EUR	December 31, 2002	December 30, 2008	1,893
C.L.C. - Fuel Logistics Company, S.A.	89,784 EUR	December 2, 1996	September 15, 2008	20,945
C.L.C. - Fuel Logistics Company, S.A.	10,000 EUR	June 28, 2006	June 14, 2014	1,820
CLCM - Madeira Fuel Logistics Company, S.A.	58,000 EUR	July 20, 2005	December 15, 2023	55,000
Moçacor - Fuel Distribution, S.A.	2,320 USD	October 31, 2003	October 31, 2013	1,687
Transgás - Portuguese Natural Gas Company, S.A.	434,905 EUR	December 15, 1994	September 15, 2016	371,879
SGNL – Portuguese Liquefied Natural Gas Company, S.A.	122,000 EUR	November 13, 2000	December 15, 2025	122,000
SGNL – Portuguese Liquefied Natural Gas Company, S.A.	29,475 EUR	November 13, 2000	December 15, 2025	29,475
				812,605

Bond issues

i) 1997 Issue – GDP – Gás de Portugal, SGPS, S.A.

On June 25, 1997, GDP – Gás de Portugal, SGPS, S.A. issued bonds in the amount of 49,880 mEuros, at par, for private placement, which were fully subscribed and redeemed in the first half of 2007.

The loan will be repaid at par value in a single lump sum at the end of the term.

However, the issuer may redeem the loan early, in whole or in part, at its discretion (Call Option). In the case of partial redemption, this will be done by reducing the face value on any interest payment date starting with the 6th coupon. In this case, a redemption premium will be paid on the face value redeemed early.

If the Portuguese State ceases to hold, directly or indirectly, a majority of GDP's share capital, and/or if GDP ceases to hold, directly or indirectly, any controlling interest that it holds, as of the date of the loan's issuance, in the share capital of the companies within its Group whose corporate purpose is the distribution of piped gas, bondholders may demand early redemption of the bonds.

This bond issue accrues interest semiannually in arrears at a rate indexed to the "6-month Euribor" rate, plus 0.075%, rounded to the nearest 1/16 of a percentage point or the next higher value.

This issuance was led by Banco Millennium BCP Investimentos (formerly CISF) and Banco Português de Investimento, and its placement was underwritten by a banking syndicate comprising the following banking institutions:

Financial Institutions	Amount	%
Millennium BCP Investimentos (formerly CISF)	13,592	27.25
Portuguese Investment Bank	13,592	27.25
Caixa Investment Bank (formerly Banco Chemical Finance)	4,988	10.00
Caixa Geral de Depósitos	4,988	10.00
Finantia Bank	3,492	7.00
Deutsche Investment Bank	3,492	7.00
Millennium BCP (formerly Mello)	1,995	4.00
Caixa Geral de Depósitos (formerly BNU)	1,247	2.50
Banco Santander de Negócios	1,247	2.50
Banco Bilbao Vizcaya y Argentaria	1,247	2.50
	49,880	100.00

ii) 1998 Issue – Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A.

On August 12, 1998, Lisboagás GDL—Sociedade Distribuidora de Gás Natural de Lisboa, S.A. issued bonds in the amount of 49,880 mEuros, at par, for private placement, which were fully subscribed and paid in full.

The loan will be repaid at par in five equal annual installments on the maturity dates of the 22nd, 24th, 26th, 28th, and 30th coupons.

However, early redemption at par of part or all of the outstanding principal may be made, at the issuer's option (Call Option), starting on or after the maturity date of the 10th coupon and on the respective interest payment dates.

Bondholders may also demand early redemption of the loan or the remaining principal balance, at par, on the maturity dates of the 20th, 22nd, 24th, 26th, and 28th coupons.

Should the Portuguese State cease to hold, directly or indirectly, a majority of the share capital of GDP – Gás de Portugal, SGPS, S.A., or should GDP – Gás de Portugal, SGPS, S.A. cease to hold a direct majority stake in the capital of Lisboagás GDL – Sociedade Distribuidora

de Gás Natural de Lisboa, S.A.—bondholders may demand early repayment of this loan.

Interest will be paid semiannually in arrears, based on a rate corresponding to the “6-month Euribor” rate in effect on the second-to-last business day prior to the start of each interest period, plus 0.08%.

The underwriting of the issue was provided by a banking syndicate composed of the following financial institutions:

Financial Institutions	Amount	%
Banco Espírito Santo Investimento	13,517	27.10
Portuguese Investment Bank	13,567	27.20
Millennium BCP (formerly CISF)	13,567	27.20
Caixa Geral de Depósitos (formerly BNU)	7,482	15.00
BMI	1,247	2.50
Banco Bilbao Vizcaya y Argentaria	500	1.00
	49,880	100.00

iii) 2003 Issuance - Galp Investment Fund

During 2003, Petrogal entered into a securitization transaction involving accounts receivable with Galp Investment Fund, PLC, in the amount of 210,000 mEuros, which has an expected maturity of 5 years and a legal maturity of 7 years. To finance this amount, the Fund issued 199,500 mEuros of "Notes A" and 10,500 mEuros of "Notes B," which bear interest at Euribor plus 0.5% and 0.95%, respectively. As a result of this transaction, Petrogal incurred financial costs of mEuros 3,659 for the current fiscal year.

19. OTHER ACCOUNTS PAYABLE

The "Other Non-Current and Current Accounts Payable" line item was broken down as follows as of June 30, 2006, and December 31, 2005:

	June 2006		December 2005	
ACCOUNTS	**Current**	**Non-current**	**Current**	**Non-current**
Other creditors:				
State and other public entities:				
ISP - Tax on Petroleum Products	173,144	-	172,272	-
VAT Payable	175,128	-	136,001	-
Other	18,133	21	11,258	21
Advances on sales (Note 14)	314,668	-	330,595	-
Shareholders - (Note 22)	222,239	-	34,920	441
Shareholders - Related Companies	1,572	14,201	1,435	14,338
Suppliers of fixed assets	51,619	415	86,469	371
Security deposits and guarantees received	14,093	726	13,777	699
Other creditors	45,872	3,467	36,803	3,918
	1,016,468	18,830	823,530	19,788
Additional costs:				
Vacation pay, vacation allowance, and related charges	18,933	-	25,173	-
Supplies and external services	27,088	-	9,289	-
Fastgalp promotional items	6,113	-	5,675	-
Productivity Bonuses	5,606	-	11,354	-
Sales-Related Discounts, Bonuses, and Rebates	5,003	-	5,747	-
Insurance Premiums Payable	5,574	-	6,550	-
Other increases in costs	12,328	-	14,403	-
	80,645	-	78,191	-
Deferred revenue:				
Fiber optics (Note 18)	4,341	67,476	4,341	67,651
Services Rendered	9,470	-	5,702	-
Other	4,957	8,782	4,617	9,004
	18,768	76,258	14,661	76,655
	1,115,881	95,088	916,382	96,443

The "Shareholders – Associated Companies" account, in the amount of 222,239 mEuros (Note 20), relates to dividends distributed to shareholders but not yet paid. The dividends correspond to the allocation of net income for fiscal year 2005, as resolved in the minutes of the General Meeting held on June 30, 2006.

The amount of 6,113 mEuros recorded under the "Accrued Expenses" account relates to Petrogal's liabilities arising from points issued and not redeemed in 2006, pertaining to the Fast Galp card, which are expected to be exchanged for rewards in subsequent fiscal years.

The amount of 14,093 thousand euros recorded under the heading "Security deposits and guarantees received"

includ

es

mEuros 13,353 relating to Petrogal's liability during the first half of 2006 for security deposits received for the lease of gas cylinders, which were recorded at their acquisition cost, which approximates their fair value.

20. PROVISIONS

As of June 30, 2006, and December 31, 2005, the "Provisions" account was broken down as follows:

Items	June 2006	December 2005
Other risks and charges	36,411	30,281
Legal proceedings	20,930	20,799
Restructuring	9,652	13,353
Financial investments	5,176	5,330
Taxes	3,143	2,948
Total Provisions	75,312	72,711

As of June 30, 2006, the balance of the "Provisions—Other Provisions for Miscellaneous Risks and Expenses" account, in the amount of 36,411 mEuros, relates primarily to:

i) mEuros 7,123 to cover costs associated with the decommissioning of sites at certain facilities occupied by the company where the decision to decommission has already been made due to legal requirements;
ii) 6,132 thousand euros to cover adjustments to the taxable base for corporate income tax (IRC);
iii) 5,835 thousand euros relating to the provision established for interest recognized as revenue through 2006 under the contract for the assignment of rights to use telecommunications infrastructure (Note 12);
iv) 5,457 thousand euros to cover the costs of decommissioning the operating facilities located in Blocks 1 and 14. This provision is intended to cover all costs to be borne by Galp Exploração at the end of the production life of those oil fields. The provision for decommissioning costs for Block 14 is estimated by applying to the estimate of total decommissioning costs the coefficient calculated as the ratio of the production volume recorded in each amortization period to the volume of proven reserves developed at the end of that period, plus the production for that period;
(ivi) 3,895 mEuros to cover the additional settlement of the Petroleum Income Tax ("IRP") in Angola associated with oil exploration and production activities;
vi) 3,737 thousand euros to cover costs related to effluent discharges from the Sines Refinery (Note 25);
vii) 982,000 euros relating to a provision established to cover estimated losses on payment instruments in the Spanish network:
viii) 735,000 euros relating to the estimated provision for the removal of gas stations;

The amount of mEuros 20,930 recorded as of June 30, 2006, under the heading "ongoing legal proceedings," consists primarily of mEuros 9,693 (Note 24) relating to liabilities for the settlement of subsoil occupancy fees.

The amount of 9,652 mEuros recorded under the "provision for restructuring" heading is part of the Group's ongoing effort to improve its performance in managing operating costs and maintain its competitiveness. This process, which began in previous years, involves not only a reduction in short-term operating costs but also the optimization of organizational structures, improvements to systems, processes, and practices, and the rationalization of operating assets. As of June 30, 2006, this restructuring plan had been approved and duly defined by the Boards of Directors of the respective Group companies.

The “Provision for Taxes” line item, in the amount of 3,143 mEuros, relates to the Local Tax (formerly known as the Municipal Property Tax, “IMI”) for the fiscal years 1998 through 2005 and the first half of 2006, the amount of which has not yet been determined by the competent authorities.

The allowance for financial investments as of June 30, 2006, represents the Group’s joint and several liability to its affiliates that had negative equity and is broken down as follows:

Central E, S.A.	2,582
Sonangalp - Soc. Distrib. E Com. Combustíveis, Lda.	1,899
Energin - Electricity and Heat Production Company, S.A.	371
Ecogen - Decentralized Energy Services, S.A.	314
Gasfomento Energia, S.A.	10
	5,176

21. OTHER FINANCIAL INSTRUMENTS – FINANCIAL DERIVATIVES

It is the Group’s policy to use financial derivatives to hedge interest rate risks and refining margin fluctuation risks, specifically risks related to changes in the prices of crude oil, finished products, and refining margins, which affect the financial value of assets and the expected future cash flows from its operations.

In addition, the Group is exposed to market fluctuation risks, namely risks related to changes in the prices of crude oil, finished products, and refining margins, which affect the financial value of its assets and the expected future cash flows from its operations.

The decrease in fair value reflected in Assets and Liabilities—and, consequently, the change in fair value in Shareholders’ Equity for the six-month period ended June 30, 2006, in the amount of 3,434 million euros—relates primarily to interest rate derivatives used for cash flow hedging. As such, the fair value of the effective hedging portion of these derivatives is reflected in the “Hedging Reserves” line item within equity attributable to shareholders in the amount of 3,459 million euros, net of the respective minority interests in the amount of 25 million euros.

	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Fair value as of January 1, 2005	**95**	**3,532**	**9,633**	**824**
Acquisitions during the year	-	2,234	-	-
Disposals during the year	-	1,588	-	-
Increase/(decrease) in sales reflected in income	-	(1,588)	-	-
Increase/(decrease) in fair value recognized in income	(95)	(3,589)	(2,759)	1,040
Increase/(decrease) in fair value recognized in equity	52	-	(1,416)	-
Fair value as of December 31, 2005	**52**	**2,177**	**5,458**	**1,864**
Acquisitions during the year	-	4,723	-	-
Disposals during the year	-	(4,384)	-	(2,213)
Increase/(decrease) in sales reflected in earnings	-	4,384	-	2,213
Increase/(decrease) in fair value recognized in income	1,883	8,048	(1,313)	18,466
Increase/(decrease) in fair value recognized in equity	908	(97)	(2,623)	-
Fair value as of June 30, 2006	**2,843**	**14,851**	**1,522**	**20,330**

The derivative financial instruments held in the portfolio as of June 30, 2006, have the following characteristics:

Type of Interest Rate Derivative	Interest Rate	Face Value	Maturity	Fair value of derivatives in mEuros
Assets				
	Cash Flow Hedge			
Collar	Pays a cap of 3.25% and a floor of 1.75%; Receives 6-month Euribor	20,000 mEUR	2010	367
Cap Swap with "Knock-out"	Pays 12-month Euribor with a cap of 3.49% and a knock-out level of 5.25%; receives 3-month Euribor	7,482 mEUR	2010	46
Interest Rate Swaps	Pays between 3.17% and 3.50%; Receives between 3-month and 6-month Euribor	64,738 mEuro	2008–2011	549
	Fair Value Hedging			
Interest Rate Swaps	Pay 12-month Euribor Receive 4.77%	5,611 mEUR	2006	-
	Other Financial Derivatives			
Interest Rate Swaps	Pays between 5.12% and 5.14% Receives 6-month USD LIBOR	100,000 mUSD	2011	1,881
				2,843
Liabilities				
	Cash Flow Hedges			
Interest Rate Swaps	Pays between 3.89% and 6.24% Receives between 3-month and 6-month Euribor	53,938 mEUR	2008 to 2013	496
Caps and Collars	Cap between 3.25% and 4% and Floor of 2.5%	145,000 mEUR	2007 and 2008	1,026
				1,522

Type of Commodity Derivative	Characteristics	Maturity	Fair value of derivatives in million euros
Assets			
Options	Refining margin	2006	1,976
Swaps	Purchase/sale of refined products		9
Swaps	Buy Brent Sell Brent	2006	12,866
			14,851
Liabilities			
Options	Refining margin	2006	1,119
Swaps	Purchase/sale of refined products	2006	1,178
Swaps	Buy Brent Sell Brent	2006	18,033
			20,330
		Total Assets	**17,694**
		Non-current	2,843
		Current	14,851
		Total Liabilities	**21,852**
		Non-current	1,522
		Current	20,330

Their fair value was determined by banks based on generally accepted valuation models and techniques.

22. DIVIDENDS

Dividends from the 2005 net income allocated to the Group's shareholders amounted to 222,239 thousand euros (Note 19), in accordance with the resolution of the General Meeting dated June 30, 2006. These dividends were paid in July 2006.

23. BALANCES WITH RELATED PARTIES

The compensation of Galp Energia's directors for 2005 and the first half of 2006 was 3,886 mEuros and 2,609 mEuros, respectively, of which 3,004 mEuros and 1,770 mEuros correspond to base compensation, 411 mEuros and 599 mEuros to bonuses/awards, 296 mEuros and 146 mEuros to pension fund contributions under a defined-contribution plan, and 175 mEuros and 94 mEuros to other benefits, respectively.

The compensation of Galp Energia's directors appointed by ENI and paid to this shareholder is included in "Materials and Services Consumed" and amounts to mEuros 770 and mEuros 385 for 2005 and the first half of 2006, respectively.

Under the policy currently in effect, the compensation of Galp Energia's directors includes all compensation due for holding positions in Galp Energia Group companies.

24. OIL RESERVES

According to information provided by the Operator, the proven and developed crude oil reserves in the Kuito and BBLT development areas of Block 14 in Angola, excluding the effect of the production share allocated to Sonangol, E.P. (National Concessionaire), allocated to the Company's oil exploration and production activities, amounted to 7.0 million barrels as of December 31, 2005. Total proven reserves as of that date amounted to 38.1 million barrels. As of June 30, 2006, the proven and developed reserves allocated to the Company's oil operations totaled 37.0 million barrels. The difference compared to December 31, 2005, stems from an increase of 31.1 million barrels in proven and developed reserves associated with the BBLT development area, and a decrease of 1.1 million barrels due to production during the first half of 2006.

25. SEPARATION OF REGULATED ASSETS IN THE NATURAL GAS SECTOR

Council of Ministers Resolution No. 169/2005, dated October 24, approved the national energy strategy, with the aim, among other things, of separating the regulated assets of the natural gas sector (receipt, transmission, and storage) and implementing their merger with the company operating the electricity transmission grid. This resolution mandates the separation of operators of regulated assets in the electricity and natural gas systems.

In the national energy strategy, the Council of Ministers recommends, among other measures to be adopted within the structural framework for competition in the electricity and gas sectors, the following:

iv. the revision of the concession agreement with Transgás – Sociedade Portuguesa de Gás Natural, S.A., specifically the sale of part of this company's assets and liabilities through the spin-off of its transmission and storage activities, as well as the sale of SGNL – Sociedade Portuguesa de Gás Natural Liquefeito, S.A. (formerly known as Transgás Atlântico, S.A.), operator of the liquefied natural gas terminal, and the consequent revision of the subconcession agreement between Transgás, S.A. and SGNL;

v. the integration, into a single company, of the electricity and natural gas transmission networks, the existing storage facilities, and the liquefied natural gas terminal, ensuring the legal separation between the activities of these two energy sectors; and

vi. the separation of the marketing activity from the distribution activity, for both electricity and natural gas.

As part of this process, a Promise Agreement regarding the Transfer of Regulated Assets was entered into between Transgás – Sociedade Portuguesa de Gás Natural, S.A., Transgás SGPS, S.A., GDP SGPS, S.A., and REN – Rede Eléctrica Nacional,
S.A. ("REN") entered into a Letter of Intent regarding the Transfer of Regulated Assets.

The Agreement of Intent outlines the set of assets and liabilities identified by Transgás that will be transferred to REN, including assets associated with the transmission network (including fiber optics), part of the assets associated with underground storage, financial interests in the two national gas pipelines (Gasoduto Braga-Tuy, S.A. and Gasoduto Campo Maior-Leiria-Braga, S.A.), the advances granted by the shareholder Transgás to these entities, as well as part of the bank debt associated with the spun-off assets, and describes the sale of SGNL - Sociedade Portuguesa de Gás Natural Liquefeito, S.A..

The total sale price of the transaction is approximately 511,000 mEuros, subject to adjustment to the fair market value of the regulated assets based on future appraisals to be conducted by independent entities.

The sale of these regulated assets is expected to take place during 2006; however, neither the date nor the final sale price has been determined.

Given that the discontinuation process may still undergo significant changes, it was not considered appropriate to classify the assets as available-for-sale assets in accordance with IFRS 5.

26. CONTINGENT ASSETS AND LIABILITIES

Contingent Liabilities

As of June 30, 2006, the Company and its subsidiaries had the following contingent liabilities:

i) As of June 30, 2006, the Company had a contingent liability related to an ongoing legal proceeding concerning the reprivatization of Driftal, involving a claim for damages of 19,952 thousand euros. The Company's Board of Directors, supported by legal counsel's opinion, believes that this proceeding will not result in any liability for the Company; therefore, no provision has been set aside for this purpose, although a bank guarantee for that amount has been provided as of this date;

ii) The Lisbon City Council is demanding payments from GDL in the amount of 1,891 mEuros for 1994/95, 1,016 mEuros for 1996, 1,044 mEuros for 1997, 1,069 mEuros for 1998, 1,093 mEuros from 1999, 1,145 mEuros from 2001, 1,189 mEuros from 2002, 1,238 mEuros from 2003, , 1,288 , 2004 , and , 1,319 , 2005, , and , 1,347 , 2006, relating to the "public right-of-way permit" for existing underground gas pipelines.

iii) The Vila Franca de Xira City Council is demanding payments from GDL of 104 mEuros for 1994/95, 70 mEuros for 2002, 77 mEuros for 2003, and 216 mEuros for 2005, relating to subsoil occupancy fees for the respective years.

iv) The Oeiras City Council is demanding that GDL pay 23 million euros from 1998 and 26 million euros from 2001, relating to subsoil occupancy fees for those years.

v) The Sintra City Council is demanding payments from GDL in the amount of 11 million euros for 1998, 48 million euros for 1999, 276 million euros for 2000, 417 million euros for 2001, 469 million euros for 2002,
490 in 2003, 545 million euros in 2004, 607 million euros in 2005, and 657 million euros in 2006, relating to the subsoil occupancy fees for the respective years.

vi) The Cascais City Council is demanding payment from GDL of 403 million euros, relating to the 2001 underground space occupancy fee.

vii) The Amadora City Council is demanding that GDL pay 150 million euros for the 2003 subsoil occupancy fee.

GDL, based on legal opinions, decided to challenge the payments demanded by the municipal governments in court before the Administrative Tax Court, and the

requests for a stay of execution were granted, and enforcement remains suspended until a final decision is rendered.

GDL's Board of Directors considers that, as a result of these proceedings, GDL will incur expenses of no more than 9,693 mEuros, for which provisions have been made.

viii) The Covilhã City Council is demanding that Beiragás pay 113 mEuros in connection with an ongoing legal proceeding regarding a "public right-of-way permit" for underground gas pipelines.

Beiragás's management believes that the aforementioned case will not result in any liability for the Company.

ix) The Barreiro City Council is demanding payment from Setgás of 124 million euros from 1997, 136 million euros from 2000, 136 million euros from 2001, 136 million euros from 2002, 152 from 2004, 152 mEuros from 2005, and 156 mEuros from 2006, relating to the assessment of fees for the use of underground space for the respective years of use.

x) The Seixal City Council is demanding payments from Setgás of mEuros 881 for 2004 and mEuros 881 for 2005, relating to the assessment of fees for the use of subsoil in those respective years.

Setgás management believes that, as a result of these proceedings, the company will not incur any liability.

Galp Energia was recently informed by MASA – Manterimientos y Montages Industriales, S.A., the company responsible for the construction of a new storage facility for petroleum and its derivatives at one of Galp Energia's maritime terminals, that it intends to initiate arbitration proceedings against the subsidiary Companhia Logística de Combustíveis da Madeira, S.A. and against Petrogal, S.A., for alleged additional costs resulting from changes made during the construction of the storage facility. According to information available as of this date, the amount claimed will be approximately 25,300 mEuros. The Boards of Directors of Galp Energia and those subsidiaries believe that the resolution of the situation described above will not have a significant effect on the financial statements as of June 30, 2006, which is why no provision has been recorded for this purpose.

Contingent Assets

Following the sale, during the 1999 fiscal year, of 40% of the share capital of OPTEP SGPS, S.A., represented by 440,000 shares with a par value of 5 euros per share, the base sale price was contractually set at 189,544 mEuros, with 74,818 mEuros allocated to the 093X segment and 114,726 mEuros to the E3G/Edinet segment.

The sale by GDP, SGPS, S.A. and Transgás, S.A. to EDP, S.A. was subject to the condition that, should OPTEP SGPS, S.A. to 093X or any entity directly or indirectly controlled by or in which EDP holds an interest were to sell or otherwise dispose of to third parties a stake equivalent to 5% of Optimus—that is, 450,000 shares with a par value of 5 euros each—within three years from the signing of the agreement (June 24, 1999), the difference between the amount of 74,818 mEuros and the proceeds from such disposal would be allocated among the parties as follows:

mEuros by each 220,000 shares	EDP	GDP Group
Between 37,409 and 42,397	0%	100%
Between 42,397 and 52,373	25%	75%
More than 52,373	75%	25%

This agreement was amended on September 28, 2000, by the parties: GDP SGPS, S.A., Transgás SGPS, S.A., Transgás, S.A., and EDP, S.A., extending the deadline for the distribution of any additional capital gains realized from the future sale of Optimus shares was extended to December 31, 2003.

On March 22, 2002, EDP announced the sale of its stake in OPTEP SGPS, S.A.—a company that holds 25.49% of the capital of Optimus, S.A.—to Thorn Finance, S.A. The sale price was set at 315,000 mEuros, which means that Thorn Finance valued Optimus at 1,235,779 mEuros—therefore, above the value agreed upon between EDP, S.A., GDP SGPS, S.A., and Transgás, S.A., which was 748,197 mEuros. Consequently, there will be an "upside" for the companies of the GDP Group, to be paid by EDP, S.A. in the amount of 30,253 mEuros, to be divided equally among GDP, SGPS, S.A. and Transgás, SGPS, S.A..

Since EDP did not agree to these expectations of the GDP Group, this account receivable was not recorded in the books.

Other Financial Commitments

The financial commitments assumed by the GDP Subgroup and not included in the balance sheet as of June 30, 2006, are as follows:

Financial commitments related to the acquisition or construction of tangible assets are as follows:

Description	Contract Amount contract	Through June 2006 Completed	June 06 by to be completed
Construction and Equipment for Industrial Branches	3,314	1,833	1,481
Easements / Expropriations	2,945	2,467	478
Construction of Facilities - Underground Storage	90,540	89,865	675
	96,799	94,165	2,634

The amount of 2,634 mEuros relates to contractual obligations to suppliers, specifically in connection with the construction and installation of gas pipelines and other infrastructure and equipment necessary for the implementation of the natural gas transmission network of Transgás, SGPS, S.A.

- 20,824 mEuros in liabilities covered by the GDP pension fund;

- 6,965 mEuros and 1,948 mEuros in liabilities related to the pension plan, health care, life insurance, and minimum defined-contribution benefits, respectively, as they fall within the "corridor" limits or correspond to "corridor" excesses not yet recognized in the income statement.

The financial commitments assumed by the Petrogal Subgroup and not included in the balance sheet as of June 30, 2006, are:

- 23,281 thousand euros related to unfilled orders for tangible fixed assets;
- 2,379 thousand euros related to notes receivable discounted through the banking system and not yet due;
- 315,682 thousand euros in liabilities covered by the Petrogal Pension Fund;
- 37,539 thousand euros and 45,944 thousand euros in liabilities related to the pension plan, health care, life insurance, and minimum defined-contribution benefits, respectively, not recorded in the financial statements because they fall within the 10% "corridor" limits or because they represent excess amounts beyond the corridor not yet recognized in the income statement.

Guarantees Provided

As of June 30, 2006, liabilities arising from guarantees provided totaled mEuros 38,908 and mUSD 175,747, of which the most significant are:

vii. Guarantees provided to the Portuguese government in the amounts of mEuros 10,734 and mEuros 329 by a banking syndicate led by Caixa Geral de Depósitos for the execution of the concession contract for the public service of importing, transporting, and supplying natural gas.

viii. Guarantees totaling mEuros 7,751 provided in favor of the Lisbon Tax Court of First Instance—5th Division—1st Section, intended to serve as security for the payment demanded by the Lisbon City Council in the context of legal proceedings regarding underground parking occupancy fees.

ix. Guarantees totaling 6,522 million euros provided to municipal governments in connection with legal proceedings

x. Guarantees totaling 13,572 million euros provided to the Portuguese State for the obligations and duties arising from the Concession Agreement for the operation of the regional natural gas 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.

xi. Guarantees for the following loans granted to EMPL - Europe Maghreb Pipeline, Limited:

	Type	Total credits mUSD	Transgás' Share mUSD
EIB	Banking	366,128	112,727
ICO	Guarantee	180,000	49,320
		546,128	**162,047**

27. INFORMATION ON ENVIRONMENTAL ISSUES

In the Refining segment, the main challenges include meeting the greenhouse gas emission reduction targets for the period

2008 and 2012, as defined by the Kyoto Protocol; reducing the sulfur content of fuels used at the facilities; and increasing energy efficiency.

Decree-Law No. 233/2004, of December 14, as amended by Decree-Law No. 243-A/2004 of December 31, and further amended by Decree-Law No. 230/2005 of December 29, establishes the greenhouse gas emissions trading scheme (CELE Act), and applies to emissions from the industrial activities listed in its Annex I, which includes the Galp Energia Group's facilities.

The facilities covered by the Emissions Trading Scheme during the first three-year period from 2005 to 2008 are the Sines Refinery and the Porto Refinery—both belonging to Petrogal—and the cogeneration facilities belonging to the companies Carriço Cogeração – Sociedade de Geração de Electricidade e Calor, S.A. and Powercer – Sociedade de Cogeração da Vialonga, S.A., part of the Galp Power group.

By Joint Order 686-E/2005 of September 13, 2005, the list of existing facilities participating in emissions trading and the respective initial allocation of emission allowances for the 2005–2008 period were approved.

Accordingly, the following annual allowances were allocated to the facilities of the Galp Energia group companies:

Company	Facilities	Allowances (metric tons of CO_2) Allocated
Petrogal	Sines Refinery	2,313,908
	Porto Refinery	951,969
	Petrogal Group Subtotal	3,265,877
Carriço Cogeneration	Cogeneration	139,284
Powercer	Cogeneration	38,498
	Galp Power Group Subtotal	177,782
	Total Galp Energia Group	3,443,659

In the first half of 2006, the following amounts of greenhouse gases (metric tons $_{of\ CO_2}$) were emitted by the facilities mentioned above:

Company	Facilities	Emissions during the first half of the year 2006	Annual forecast of Gas Emissions 2006	Permits Tons of CO2 at Portfolio
Petrogal	Sines Refinery	1,039,177	2,080,000	2,564,099
	Porto Refinery	442,890	917,890	958,625
	Petrogal Group Subtotal	1,482,067	2,997,890	3,522,724
Carriço Cogeneration	Cogeneration	61,336	139,284	165,912
Powercer	Cogeneration	21,867	39,789	38,187
	Galp Power Group Subtotal	83,203	179,073	204,099
	Total Galp Energia Group	1,565,270	3,176,963	3,726,823

Note: Pro forma figures for CO2 emissions, subject to environmental audits.

The Galp Energia Group has chosen not to reflect in its financial statements the recognition of any appreciation or depreciation of these licenses, as it is understood that there is not yet a regulated market that would allow for the appropriate recognition of such changes.

However, should a shortage of permits occur, appropriate provisions will be established if this proves to be the most appropriate course of action. As indicated above, as of June 30, 2006, only in the case of Powercer's facilities were the permits on hand below the annual projected gas emissions. However, the amount involved is considered immaterial and would not have a material effect on the financial statements as of that date. As of June 30, 2006, the allowances allocated to the Group exceeded the volume of emissions already emitted and expected to be emitted during the remainder of the year. Consequently, no provisions were recorded in the first half of 2006.

During 2004, Petrogal was notified of the assessment of fees provided for in the General Effluent Regulation of São André (RGESA), relating to effluent discharges from the Sines Refinery, in the amount of 1,263 mEuros. In addition, Petrogal was notified of the assessment of increased fees regarding discharges that the same Regulation considers "prohibited," in the amount of approximately 25,000 mEuros. Petrogal's Board of Directors, supported by technical and legal opinions, disagrees with the criteria for classifying these discharges, as well as their legality, on the grounds that the regulations governing them are unconstitutional. Accordingly, a legal challenge is currently underway regarding that assessment and the resulting costs; a provision in the amount of 3,737 thousand euros (Note 20), which remains recognized as of June 30, 2006, and is considered adequate in light of the regulations in effect prior to the RGESA.

28. SUBSEQUENT EVENTS

During the month of August 2006, performance tests were conducted at the new Galp-Leça Ocean Terminal (TOGL) – Monobóia, through the execution of "performance tests," thereby completing a project that began in 1998, which had encountered several technical problems during the testing phase, leading to its decommissioning in fiscal year 2002, and which prompted the filing of several lawsuits against the builder, culminating in a decision by the arbitration courts to construct a new Monobóia.

Upon completion of this project and following its acceptance, Petrogal will recognize this asset in its financial statements in the second half of 2006.

SIMPLIFIED REVIEW REPORT ON THE CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS

(Amounts expressed in thousands of euros – mEuros)

Introduction

1. We have performed a simplified review of the consolidated semiannual financial statements of Galp Energia, SGPS, S.A. ("Company") and its subsidiaries ("Group"), which comprise the consolidated balance sheet as of June 30, 2006, showing total assets of 6,267,626 mEuros and shareholders' equity of 2,514.664 million euros, including net income attributable to the Company's shareholders of 353,756 million euros; the consolidated statements of income by nature, changes in equity, and cash flows for the half-year ended on that date and for the half-year ended

   June 30, 2005, which show net income of 414,532 million euros, and the corresponding Notes.

Responsibilities

2. It is the responsibility of the Company's Board of Directors: (i) to prepare interim consolidated financial statements that present a true and fair view of the financial position of all the companies included in the consolidation and the consolidated results of their operations, changes in equity, and consolidated cash flows; (ii) ensuring that the historical financial information is prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IAS/IFRS); (iii) adopting appropriate accounting policies and criteria; and (iv) maintaining an appropriate internal control system. Our responsibility is to issue a report with a moderate assurance, based on our simplified review of those consolidated financial statements.

Scope

3. The review we conducted was performed in accordance with the Technical Standards and Review/Audit Guidelines of the Portuguese Institute of Certified Public Accountants applicable to simplified reviews, which require that this review be planned and performed with the objective of obtaining moderate assurance that the consolidated financial statements are free from materially misstatements. Our work consisted primarily of inquiries of management of the Company and its subsidiaries and analytical review procedures designed to assess: the reliability of the assertions contained in the financial information; the appropriateness of the accounting policies adopted, taking into account the circumstances and the consistency of their application; the applicability, or lack thereof, of the going-concern principle; and the presentation of the financial information. A simplified review therefore provides less assurance than an audit, and consequently, we are not in a position to express an audit opinion.

Opinion

4. Based on the work performed, which was carried out with a view to obtaining a moderate level of assurance, nothing has come to our attention that leads us to conclude that the consolidated financial statements referred to in paragraph 1 above are not free from material misstatements that affect their compliance with International Financial Reporting Standards as adopted by the European Union (Note 2).

Lisbon, September 4, 2006

DELOITTE & ASSOCIADOS, SROC S.A.
Represented by Jorge Carlos Batalha Duarte Catulo

APPENDIX D: PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS AS OF JUNE 30, 2006, PREPARED OR RESTATED IN ACCORDANCE WITH IFRS

CONSOLIDATED INCOME STATEMENT - IAS/IFRS - PRO FORMA FINANCIAL STATEMENTS AS OF JUNE 30, 2006

(Amounts expressed in thousands of euros)

Operating revenue:	CONSOLIDATED	SALE OF ASSETS	EXIT RESULTS AND NEW ACTIVITY	UNBUNDLING
Sales	6,041,722	5	0	6,041,727
Services rendered	88,659	1,552	-4,866	85,345
Other operating income	24,766	-24	-62	24,680
	6,155,147	1,533	-4,928	6,151,752
Operating expenses				
Cost of sales	-5,112,133	-16,840	0	-5,128,973
Third-party services	-255,687	-8,718	-31,418	-295,823
Personnel costs	-140,590	842	4,235	-135,513
Amortization and Depreciation	-125,324	4,726	9,661	-110,937
Provisions and impairment of accounts receivable	-14,616	0	181	-14,435
Other operating expenses	-23,444	20	93	-23,331
	-5,671,794	-19,970	-17,248	-5,709,012
Operating results	483,353	-18,437	-22,176	442,740
Financial Income	6,931	1,244	-883	7,292
Financial Expenses	-31,605	3,860	5,902	-21,843
Foreign Exchange Gains (Losses)	4,231	0	0	4,231
Income from Associates	19,459	8,804	-4,454	23,809
Income from Financial Instruments	-4,819	0	0	-4,819
Other Gains and Losses	-521	0	0	-521
Income Before Taxes	477,029	-4,529	-21,611	450,889
Income tax for the fiscal year	-121,242	3,621	3,260	-114,361
Minority Interests	-2,031	908	0	-1,123
Consolidated net income for the fiscal year	353,756	0	-18,351	335,405

CONSOLIDATED BALANCE SHEET - IAS/IFRS - PRO FORMA FINANCIAL STATEMENTS

JUNE 30, 2006

(Amounts expressed in thousands of euros)

ASSETS	CONSOLIDATED	SALE OF ASSETS	PROFITS TO BE DISTRIBUTED AND NEW BUSINESS	UNBUNDLING
NON-CURRENT ASSETS:				
Tangible fixed assets	2,526,176	-729,150	9,661	1,806,687
Goodwill	20,526	-5,063	0	15,463
Other intangible fixed assets	378,751	-9,492	0	369,259
Equity investments in associates	89,564	4,454	-4,454	89,564
Equity interests in subsidiaries	63,973	0	0	63,973
Other accounts receivable	87,937	0	0	87,937
Deferred tax assets	161,803	-5,250	0	156,553
Other Financial Investments	3,115	0	0	3,115
Total non-current assets	3,331,845	-744,501	5,207	2,592,551
CURRENT ASSETS:				
Inventories	1,276,589	-2,380	0	1,274,209
Customers	952,502	29	0	952,531
Other accounts receivable	404,786	-3,584	0	401,202
Other Financial Investments	26,151	0	0	26,151
Income tax receivable	157	3,674	0	3,831
Cash and cash equivalents	275,596	514,312	-28,479	761,429
Total current assets	2,935,781	512,051	-28,479	3,419,353
Total assets	6,267,626	-232,450	-23,272	6,011,904
EQUITY, MINORITY INTERESTS, AND LIABILITIES				
EQUITY:				
Share capital	829,251	0	0	829,251
Share premium	82,006	0	0	82,006
Currency translation reserves	-8,032	0	0	-8,032
Reserves	107,024	0	0	107,024
Hedging reserves	-248	0	0	-248
Accumulated earnings	1,125,470	235,262	0	1,360,732
Consolidated net income for the fiscal year	353,756	0	-18,351	335,405
Equity attributable to shareholders	2,489,227	235,262	-18,351	2,706,138
Minority Interests	25,437	-7,127	0	18,310
Total Equity	2,514,664	228,135	-18,351	2,724,448
LIABILITIES:				
NON-CURRENT LIABILITIES:				
Bank loans and overdrafts	733,655	-450,754	0	282,901
Bondholder loans	259,880	0	0	259,880
Other accounts payable	95,088	-6,624	0	88,464
Liabilities for retirement benefits and other benefits	223,536	-8	0	223,528
Deferred tax liabilities	161,046	-34	0	161,012
Other Financial Instruments	1,522	0	0	1,522
Provisions	75,312	-2,523	-181	72,608
Total non-current liabilities	1,550,039	-459,943	-181	1,089,915
CURRENT LIABILITIES:				
Bank loans and overdrafts	216,864	-34,075	0	182,789
Bond loans	49,880	0	0	49,880
Suppliers	708,032	-545	7,769	715,256
Other accounts payable	1,115,881	16,603	429	1,132,913
Other financial instruments	20,330	0	0	20,330
Current income tax payable	91,936	17,375	-12,938	96,373
Total current liabilities	2,202,923	-642	-4,740	2,197,541
Total liabilities, equity, and minority interests	6,267,626	-232,450	-23,272	6,011,904

GALP ENERGIA, SGPS, S.A. and Subsidiaries

PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS (IAS/IFRS) FOR THE 6-MONTH PERIOD ENDED JUNE 30, 2006

(Amounts expressed in thousands of Euros)

	CONSOLIDATED TRANSFERRED AND		SALE OF ASSETS	PROFITS TO BE NEW ACTIVITY	UNBUNDLING
Operating activities:					
Customer Receivables	6,404,461		(64,427)	(4,866)	6,335,168
Payments to suppliers	(4,534,587)		36,372	(23,219)	(4,521,434)
Payments to employees	(102,922)		725	4,235	(97,962)
Payments/Receipts of product taxes	(1,238,505)		-	-	(1,238,505)
Cash flows from operating activities	**528,447**		**(27,330)**	**(23,850)**	**477,267**
(Payment)/receipt of income tax	(55,986)		1,173	(9,678)	(64,491)
Pension fund contributions	-		-	-	-
Payments to early retirees and pre-retirees	(5,992)		-	-	(5,992)
Payments for insurance expenses related to retirees	(4,896)		-	-	(4,896)
Other (payments)/receipts related to operations	(81,494)		2,802	31	(78,661)
Cash flows from operating activities	**(148,368)**		**3,975**	**(9,647)**	**(154,040)**
Cash flows from operating activities (1)	**380,079**		**(23,355)**	**(33,497)**	**323,227**
Investing activities:					
Proceeds from:					
Financial investments	35		-	-	35
Tangible fixed assets	7,531		-	-	7,531
Intangible assets	134		-	-	134
Investment grants	5,930		-	-	5,930
Interest and Similar Income	9,192		(161)	-	9,031
Dividends	15,141		-	-	15,141
Loans granted	2,215		-	-	2,215
	40,178		**(161)**	**0**	**40,017**
Payments related to:					
Financial investments	(897)		-	-	(897)
Tangible fixed assets	(118,946)		240	-	(118,706)
Intangible assets	(19,593)		-	-	(19,593)
Loans granted	(3,111)		-	-	(3,111)
Dividends	-		-	-	-
	(142,547)		**240**	**0**	**(142,307)**
Cash flows from investing activities (2)	**(102,369)**		**79**	**0**	**(102,290)**
Financing activities:					
Proceeds from:					
Loans received	155,110		33,600	-	188,710
Capital increases, additional contributions, and other Sale of treasury shares (quotas)	350		-	-	350
	-		-	-	-
Interest and similar income	707		(13)	(883)	(189)
Grants and donations	-		-	-	-
Loss coverage	-		-	-	-
Discounted bills	3,045		-	-	3,045
	159,212		**33,587**	**(883)**	**191,916**
Payments related to:					
Loans received	(298,758)		(23,747)	-	(322,505)
Interest on loans received	(23,300)		3,801	5,902	(13,597)
Interest and similar expenses	(9,401)		13	-	(9,388)
Dividends/distribution of earnings	(2,075)		1,703	-	(372)
Repayment of discounted bills	(5,328)		-	-	(5,328)
Amortization and interest on finance leases	(61)		-	-	(61)
Interest on bond loans	(5,132)		-	-	(5,132)
	(344,055)		**(18,230)**	**5,902**	**(356,383)**
Cash flows from financing activities (3)	**(184,843)**		**15,357**	**5,019**	**(164,467)**
Change in cash and cash equivalents (4) = (1) + (2) +	92,867		(7,919)	(28,478)	56,470
Effect of foreign exchange differences	(3,651)		-	-	(3,651)
Cash and cash equivalents at the beginning of the period	624,373	a)	(8,507)	-	615,866
Cash and cash equivalents at the end of the period	705,008		(7,845)	(28,478)	668,685

a) The balance of "Cash and cash equivalents at the beginning of the period" in the Galp Energia Group's consolidated financial statements includes the proceeds received from REN related to the sale of Transgás, S.A. assets, in the amount of 492.184 mEur, as it is considered that this cash inflow was already reflected in the Pro Forma Statement of Cash Flows as of December 31, 2005. The same consideration was applied to the proceeds received from REN relating to the sale of the stake in S.G.N.L., S.A., in the amount of 29,974 mEur, and to the dividends received from Gasoduto Braga-Tuy, S.A. and Gasoduto Campo-Maior-Leiria-Braga, S.A., in the amount of 8,581 mEur. Conversely, no balances related to this disposal of assets in their respective categories were reflected in the pro forma adjustments under the "unbundling" process

GALP ENERGIA

FINANCIAL REPORT BY SEGMENT - IAS/IFRS - PRO FORMA FINANCIAL STATEMENTS

As of June 30, 2006

In 10^3 Euros

	Natural Gas Supply	Natural Gas Distribution	Refining and Distribution of Petroleum Products	Exploration and Production	Electricity	Other	Eliminations	Consolidated
	2006	2006	2006	2006	2006	2006	2006	2006
Gross Margin	**110,686**	**74,090**	**772,165**	**27,671**	**4,947**	**54,654**	**-46,114**	**998,099**
Sales and Services Rendered	584,633	135,850	5,441,379	22,324	14,873	54,960	-126,947	6,127,072
Inter-segment	79,383	0	1,883	0	0	45,681	-126,947	0
External	505,250	135,850	5,439,496	22,324	14,873	9,279	(	6,127,072
CMMC	-473,947	-61,760	-4,669,214	5,347	-9,926	-306	80,833	-5,128,973
Inter-segment	0	-59,426	-11,489	0	-9,918	0	80,833	0
External	-473,947	-2,334	-4,657,725	5,347	-8	-306	(	-5,128,973
Revenue	**918**	**3,844**	**20,415**	**458**	**451**	**5,093**	**-6,495**	**24,680**
Inter-segment	125	649	1,601	0	28	4,096	-6,495	0
External	793	3,195	18,814	458	423	997	(	24,680
Variable Costs	**0**	**-6,445**	**-156,977**	**0**	**0**	**-128**	**1,247**	**-162,303**
Intersegment	0	-1,247	0	0	0	0	1,247	0
External	0	-5,198	-156,977	0	0	-128	(	-162,303
Fixed Costs	**-55,739**	**-25,229**	**-190,858**	**-11,954**	**-2,780**	**-57,171**	**51,367**	**-292,364**
Operating Expenses	**-54,609**	**-12,713**	**-87,553**	**-10,410**	**-2,090**	**-39,798**	**50,322**	**-156,851**
Intersegment	-1,795	-2,459	-35,558	-1,310	-759	-8,441	50,322	0
External	-52,814	-10,254	-51,995	-9,100	-1,331	-31,357	(	-156,851
Personnel Expenses	**-1,130**	**-12,516**	**-103,305**	**-1,544**	**-690**	**-17,373**	**1,045**	**-135,513**
EBITDA	**55,865**	**46,260**	**444,745**	**16,175**	**2,618**	**2,448**	**-**	**568,112**
Non-Disbursable Expenses	**-2,651**	**-13,383**	**-94,849**	**-12,651**	**-1,452**	**-384**	**-2**	**-125,372**
Amortization and Depreciation	-2,302	-12,167	-86,342	-8,280	-1,452	-392	-2	-110,937
Provisions and Impairments of Accounts Receivable	-349	-1,216	-8,507	-4,371	0	8	(	-14,435
Other Expenses	0	0	0	0	0	0	(	0
Segment Results	**53,214**	**32,877**	**349,896**	**3,524**	**1,166**	**2,064**	**-1**	**442,740**
Unallocated Company Income	**0**	**0**	**0**	**0**	**0**	**0**	**(**	**0**
Unallocated Company Expenses	**0**	**0**	**0**	**0**	**0**	**0**	**(**	**0**
Operating Results	**53,214**	**32,877**	**349,896**	**3,524**	**1,166**	**2,064**	**-1**	**442,740**
Financial Results	24,406	-7,474	-11,671	740	-398	2,545	-	8,149
Income from discontinued operations	**0**	**0**	**0**	**0**	**0**	**0**	**(**	**0**
Earnings before items, taxes, and minority interests	**77,620**	**25,403**	**338,225**	**4,264**	**768**	**4,609**	**0**	**450,889**
Income Tax	-18,474	-6,835	-87,639	-363	-133	-917	0	-114,361
Minority Interests	0	-1,399	682	0	-407	1	0	-1,123
NET INCOME FOR THE YEAR	**59,146**	**17,169**	**251,268**	**3,901**	**228**	**3,693**	**0**	**335,405**
OTHER INFORMATION								
Segment Assets (1)								
Current Assets	902,625	72,139	2,613,035	63,857	13,083	703,881	-949,267	3,419,353
Fixed assets (2)	73,574	625,409	1,136,385	331,557	23,395	5,646	-4,557	2,191,409
Financial Investments—Equity Interests (3)	71,622	7,017	74,603	2	0	293	0	153,537
Other Non-Current Assets	55,853	26,729	141,692	389	13,090	157,267	-147,415	247,605
Company Assets Not Allocated	0	0	0	0	0	0	0	0
Total Consolidated Assets	**1,103,674**	**731,294**	**3,965,715**	**395,805**	**49,568**	**867,087**	**-1,101,239**	**6,011,904**
Segment Liabilities								
Current liabilities	292,889	175,935	1,816,257	77,140	6,496	731,583	-902,759	2,197,541
Provisions	6,671	10,743	42,613	9,648	685	2,247	1	72,608
Other Non-Current Liabilities	111,318	345,153	620,250	26,676	39,850	70,716	-196,656	1,017,307
Company Liabilities Not Allocated	0	0	0	0	0	0	0	0
	410,878	**531,831**	**2,479,120**	**113,464**	**47,031**	**804,546**	**-1,099,414**	**3,287,456**

(1) Net amount.
(2) In Tangible and Intangible Fixed Assets.
(3) Under the equity method.
(4) During the fiscal year.

Memorandum of Assumptions for the Preparation of the Pro Forma Financial Statements as of June 30, 2006

Based on Council of Ministers Resolution No. 169/2005, dated October 24, which approved the National Energy Strategy, the Council of Ministers of Portugal decided to separate the Regulated Assets and implement their merger with the electricity transmission system operator, which will also be responsible for operating the regulated assets. This Resolution mandates the legal separation of the operators of regulated assets from the electricity and natural gas systems.

Pursuant to these provisions, a revision of the concession agreement entered into between the Portuguese State and Transgás – Sociedade Portuguesa de Gás Natural, S.A. ("Transgás"), in order to spin off the public service activities of transmission, storage, and regasification of liquefied natural gas, the performance of which will be assigned, through the execution of public service concession contracts, to REN – Rede Eléctrica Nacional, S.A. (or its subsidiary(ies)), while the concession for the marketing of natural gas will remain within Transgás's legal framework, through a reduction in the scope of the concession agreement currently in force with Transgás.

As part of this process, a Promise Agreement regarding the Transfer of Regulated Assets was entered into between Transgás – Sociedade Portuguesa de Gás Natural, S.A., Transgás SGPS, S.A., GDP SGPS, S.A., and REN – Rede Eléctrica Nacional,
S.A. ("REN") entered into a Letter of Intent regarding the Transfer of Regulated Assets.

The pro forma consolidated financial statements were prepared based on the Galp Energia Group's consolidated financial statements under IAS/IFRS, in accordance with IAS 34—Interim Financial Reporting, as of June 30, 2006.

Accordingly, to reflect the aforementioned transaction, the consolidated pro forma financial statements (including the balance sheet, income statement, cash flow statement, and segment reporting) of Galp Energia following the unbundling of Transgás, as of June 30, 2006, were prepared, in accordance with the following assumptions, which were consistent with those used in the preparation of the pro forma financial statements reported as of December 31, 2005:

1. Identification of the companies excluded from consolidation as a result of the unbundling: Transgás Atlântico, S.A., Gasoduto Braga - Tuy, S.A., Gasoduto Campo Maior-Leiria-Braga, S.A.;

2. Identification of the intra-group balances and transactions of these companies with the remaining Group companies, with a view to reversing the eliminations previously made (since these companies are being removed from the scope of consolidation);

3. Sale of Transgás Atlântico (currently named SGNL—Sociedade Portuguesa de Gás Natural Liquefeito, S.A. ("SGNL")), for a base price of 29,974 mEuros (corresponding to the value of SGNL's equity, prepared in accordance with generally accepted accounting principles in Portugal, as of December 31, 2005—11,644 thousand euros, plus the advances granted by the shareholders on that date—18,330 thousand euros), as provided for in subparagraph (c) of paragraph 1 of Article 5 of the Promise Agreement regarding the Transfer of Regulated Assets. This base price will be adjusted as described in section 4.3.5 below;

3.1 Calculation of the capital loss inherent in the sale of SGNL, which amounted to mEuros 4,244 in the financial statements prepared in accordance with generally accepted accounting principles in Portugal ("POC") and a capital loss of mEuros 347 under IAS;

3.2 There is no tax liability arising from unrealized capital gains at Transgás, SGPS, S.A. related to SGNL from the 1999 fiscal year, since such amount was included and settled in the tax return filed on May 31, 2006, for the 2005 fiscal year;

3.3 The base sale price of SGNL was recorded under Cash and Cash Equivalents;

4. Based on the identification of the assets and liabilities to be spun off from Transgás that are related to transmission and storage activities, a new balance sheet was prepared (which will represent the "new Transgás" within the Galp Energia Group):

4.1 Caretaker of a set of assets and liabilities identified by Transgás (Appendices 1 and 5 of the Letter of Intent regarding the Transfer of Regulated Assets) that will be transferred to REN, including assets associated with the transmission network (including fiber optics), part of the assets associated with underground storage, the equity interests in the two national gas pipelines (Gasoduto Braga - Tuy, S.A. and Gasoduto Campo Maior-Leiria-Braga, S.A.), the advances granted by the shareholder Transgás to these entities, as well as the portion of the bank debt associated with the spun-off assets. With regard to the assets and liabilities related to fiber optics (with the exception of amounts recorded as fixed assets), since a contract for the Assignment of the Right to Use Telecommunications Infrastructure was entered into between REN and Transgás, no assets or liabilities associated with the contract entered into with Onitelecom – Infocomunicações, S.A. were spun off. Transgás has also already taken steps with the competent authorities to obtain authorization for the transfer of ownership of the subsidies allocated to it and associated with the assets transferred to REN;

4.2 Write-off of another set of assets and liabilities recorded on the balance sheet as of June 30, 2006, and associated with the activities to be spun off, including inventory—2,380 thousand euros, accounts receivable – 5,043 mEuros, deferred revenue related to rights granted for national gas pipelines – 89,067 mEuros, other accounts payable – 18,604 mEuros, provisions – 2,704 mEuros, and corresponding deferred taxes associated therewith – 2,354 mEuros;

4.3 Calculation of the base sale price of the assets and liabilities to be paid by REN, as defined in subparagraphs (a) and (b) of paragraph 1 of Clause 5 of the Promise Agreement regarding the Transfer of Regulated Assets (recorded as cash and cash equivalents):

4.3.1 Grid: 738,000 mEuros.

4.3.2 Underground Natural Gas Storage Facilities: 60,522 thousand euros.

4.3.3 Book value of *"cushion* gas" as of May 31, 2006: 15,408 thousand euros.

4.3.4 The amount of debt is deducted from these figures; in accordance with the agreement entered into between the parties, this debt is set at mEuros 333,000. The balance sheet balance as of June 30, 2006, amounts to 324,453 mEuros, and a repayment was made during the first half of 2006, which generated an additional cash inflow of 8,547 mEuros.

4.3.5 In accordance with Clause 6 of the Promise Agreement regarding the Transfer of Regulated Assets, these base prices will be adjusted to the fair market value of the regulated assets, based on future appraisals to be conducted by independent entities.

4.4 Calculation of the tax payable resulting from this transaction, in the amount of 16,728 mEuros;

4.5 The transaction described generated a gain of 243,353 mEuros for Transgás (as of June 2006), which was recorded directly in equity under the line item "Retained Earnings."

5. In addition, Transgás's results for the first half of 2006 were also adjusted. The costs and revenues generated during the six-month period ended June 30, 2006, as well as the corresponding tax effect associated with them, were eliminated; these were related to transportation and storage activities, specifically, external supplies and services (15,630 mEuros), personnel costs (4,235 mEuros), depreciation of transferred assets (9,661 mEuros), financial costs of the spun-off loans (5,902 mEuros), revenue derived from the provision of services related to the national gas pipelines (4,866 mEuros), and revenue generated by the equity method accounting for those same gas pipelines during the first half of 2006 (4,454 million euros). A new tariff payable to REN was included in external supplies and services (47,048 mEuros—corresponding to a unit cost of 0.0205 Euros/m^3(n) for transmission and a unit cost of 0.0014 Euros/m^3(n) for storage, plus 429 mEuros related to fiber optics). It is therefore assumed that this tariff excludes the regasification tariff and includes the costs previously borne by Transgás with ERSE. This adjustment resulted in a decrease in net income of mEuros 18,351, which was recorded on the balance sheet against a decrease in cash and cash equivalents—mEuros 28,479, an increase in tangible fixed assets and financial investments—mEuros 5,207, and an increase in accounts payable – 7,770 mEuros (an average payment term to REN of 30 days was assumed), a decrease in provisions – 181 mEuros, an increase in accrued expenses – 429 mEuros, and a decrease in income taxes payable – 12,938 mEuros;

6. At the Galp Energia level, the goodwill related to Transgás—which arose when the Group acquired this subsidiary and was related to the business to be spun off—was also written off, in a net amount of 5,063 mEuros;

7. The unbundling transaction has the following effects on the Galp Energia Group's consolidated balance sheet as of June 30, 2006, prepared in accordance with IAS/IFRS under IAS 34—Interim Financial Reporting: (i) an increase in shareholders' equity of mEuros 209,784; (ii) a decrease in assets of 255,722 mEuros; and (iii) a decrease in liabilities of 465,506 mEuros.

8. In general, the same methodology was used in preparing the pro forma financial statements for December 2005, and the sale prices defined in the Transfer Agreement regarding the Regulated Assets signed by both parties were maintained. With regard to the assets and liabilities to be transferred, the changes in their net values resulted from operations in the first half of 2006, specifically loan repayments and asset depreciation; consequently, the gains or losses calculated as of this date differ from those disclosed in the pro forma financial statements as of December 31, 2005.

EXTERNAL AUDITOR'S OPINION

(Amounts expressed in thousands of euros – mEuros)

Introduction

1. For inclusion in the prospectus for the public offering and listing of shares representing a portion of the share capital of Galp Energia, SGPS, S.A. ("Galp Energia"), we were asked to issue an opinion based on the work we performed, to the extent and depth indicated in paragraph 4 below, regarding the preparation of a pro forma consolidated balance sheet as of June 30, 2006, which shows total assets of 6,011.904 million euros and shareholders' equity of 2,724,448 million euros, including net income of 335,405 million euros, and pro forma consolidated statements of income by nature and cash flows for the six-month period ended on that date (collectively referred to as the "pro," which do not include the respective accompanying notes), intended to simulate Galp Energia's consolidated financial position as of June 30, 2006, and the consolidated results of its operations and cash flows for the six-month period ended on that date, had the transfer of the regulated natural gas assets and activities taken place on January 1, 2006, and based on the assumptions set forth in paragraph 2 below.

Basis of Preparation and Management's Responsibility

2. The pro forma consolidated financial statements referred to in paragraph 1 above, prepared to comply with the provisions of Regulation (EC) No. 809/2004 of the Commission of the European Communities, dated April 29, 2004, result from the incorporation into Galp Energia's consolidated financial statements as of June 30, 2006—prepared in accordance with International Financial Reporting Standards as adopted by the European Union—of a series of adjustments relating to the simulation of the effects retroactive to January 1, 2006, of the Promise Agreement regarding the Transfer of Regulated Assets, entered into on August 30, 2006, between Transgás – Sociedade Portuguesa de Gás Natural, S.A. ("Transgás"), Transgás, SGPS, S.A., and GDP, SGPS, S.A. (companies whose capital is directly or indirectly wholly owned by Galp Energia) and REN – Rede Eléctrica Nacional, S.A. ("REN"), as well as the Memorandum of Assumptions defined by the Board of Directors of Galp Energia, which include the following main assumptions:

   a) Sale by Transgás, at a base price of 738,000 mEuros, of the transmission assets, which consist of the gas pipelines and other assets related to the high-pressure natural gas transmission network located in Portugal, including the 88% equity interest in Gasoduto Campo Maior – Leiria – Braga, S.A., and the 51% equity interest in Gasoduto Braga-Tuy, S.A.;

   b) Sale by Transgás SGPS, S.A. and GDP SGPS, S.A., for a base price of 29,974 million euros, of the entire share capital of SGNL – Sociedade Portuguesa de Gás Natural Liquefeito, S.A. ("SGNL") (formerly known as Transgás Atlântico – Sociedade Portuguesa de Gás Natural Liquefeito, S.A.), currently the owner and operator of the Sines liquefied natural gas regasification terminal;

   c) Sale by Transgás, for a base price of 75,930 million euros, of three underground natural gas storage caverns and the associated surface facilities located in Pombal;

d) Sale of the bank debt, for a price of 333,000 mEuros, related to the Regulated Assets to the purchasers of the respective assets;

e) Transfer of 188 employees, of whom 156 are on Transgás's payroll and 32 on SGNL's payroll;

f) Adoption of a temporary tariff to be applied to the transmission of natural gas and the overall technical management of the National Natural Gas System, in the amount of 0.0205 euros/m³, established based on the memorandum of understanding signed on April 28, 2006, between Galp Energia and REN, which differs from the tariff set forth in Annex 3 to the aforementioned Promissory Agreement regarding the Transfer of Regulated Assets, which specifies that it is to take effect as of January 1, 2006. Had the transmission tariff set forth in that promise agreement been used, the costs for the six-month period ended June 30, 2006, net of the tax effect, would have increased by approximately 2,600 mEuros;

g) Adoption of a temporary tariff to be applied by the liquefied natural gas regasification services, in the amount of 0.0019 euros/m³ plus a fixed monthly fee of 2,475,026 euros, established based on the Contract for the Provision of LNG Reception, Processing, and Regasification of LNG, currently in force, entered into between Transgás and SGNL on November 13, 2000, and amended on July 23, 2002;

h) Adoption of a temporary rate to be applied for access to underground natural gas storage, in the amount of 0.0014 euros/m³ plus an annual fixed fee of 9,277,157 euros, defined based on Annex 2 to the aforementioned Letter of Intent regarding the Transfer of Regulated Assets.

The base sale prices of the assets referred to in the preceding paragraphs will be adjusted to their respective fair value, based on future appraisals to be conducted by independent entities in accordance with the provisions of the aforementioned Promise Agreement regarding the Transfer of Regulated Assets. Any adjustments to the base sale prices referred to above may be positive or negative, with the exception of the adjustment relating to the base sale price of the transmission assets, which may only reflect a positive adjustment for Galp Energia.

The tariffs to be established after the new regulatory framework approved by ERSE—the Energy Services Regulatory Authority ("ERSE")—enters into force may differ from those referred to in subparagraphs (f), (g), and (h) above.

3. It is the responsibility of Galp Energia's Board of Directors to prepare the pro forma financial statements referred to in paragraph 1 above, as well as to define and quantify the adjustments and the accounting criteria adopted therein, as referred to in paragraph 2 above. Our responsibility is to issue a professional and independent opinion based on our work, the scope of which is described in paragraph 4 below.

Scope

4. Our review of the preparation of Galp Energia's pro forma consolidated financial statements as of June 30, 2006, referred to in paragraph 1 above, consisted of applying the following procedures:

a) We verified that Galp Energia's pro forma consolidated financial statements as of June 30, 2006, were based on Galp Energia's consolidated financial statements as of June 30, 2006, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which we subjected to a simplified review and on which we issued an opinion set forth in our simplified review report dated September 4, 2006;

b) We have verified that the adjustments identified and quantified by Galp Energia were made based on the Promise Agreement regarding the Transfer of Regulated Assets, referred to in paragraph 2 above, with the exception of the adjustment referred to in subparagraph (f) of that paragraph, which was made based on the memorandum of understanding entered into on April 28, 2006, between Galp Energia and REN, and on the Memorandum of Assumptions established by the Board of Directors of Galp Energia;

c) We have verified that, in preparing the adjustments mentioned in the preceding subparagraph, accounting principles consistent with those followed by Galp Energia, SGPS, S.A. in preparing its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union were applied;

d) We performed arithmetic tests on the inclusion of the aforementioned adjustments in the pro forma consolidated financial statements.

Opinion

5. Based on the work performed, to the extent and depth indicated in paragraph 4 above, we are of the opinion that the preparation of the pro forma consolidated financial statements of Galp Energia, SGPS, S.A. as of June 30, 2006, was carried out: (i) appropriately in accordance with the basis indicated in paragraph 2 above; and (ii) consistently with the accounting policies adopted by Galp Energia, SGPS, S.A. in the preparation of its financial statements as of June 30, 2006, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

6. These pro forma consolidated financial statements, because they relate to a hypothetical situation, do not represent Galp Energia's actual consolidated financial position, nor the consolidated results of its operations and cash flows as of June 30, 2006, nor what would have resulted had the final amounts of the asset transfer been known and the tariffs to be approved by ERSE been used, as referred to in paragraph 2 above.

Lisbon, September 4, 2006

DELOITTE & ASSOCIADOS, SROC S.A.
Represented by Jorge Carlos Batalha Duarte Catulo

APPENDIX E: PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005, PREPARED IN ACCORDANCE WITH IFRS

CONSOLIDATED INCOME STATEMENT - IAS/IFRS - PRO FORMA FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2005

(Amounts expressed in euros)

Operating income:	CONSOLIDATED EXCLUDED	SALE OF ASSETS	RESULTS TO BE AND NEW ACTIVITIES	UNBUNDLING
Sales	10,985,392	16	0	10,985,408
Services Rendered	151,916	3,177	-9,639	145,454
Change in value of investment properties	0	0	0	0
Other operating income	83,366	274	-13	83,627
	11,220,674	3,467	-9,652	11,214,489
Operating expenses				
Cost of sales	-9,162,092	-29,661	0	-9,191,753
Third-party services	-525,574	-18,028	-52,773	-596,375
Personnel costs	-269,634	1,133	7,338	-261,162
Amortization and Depreciation	-306,796	9,334	18,039	-279,423
Provisions and impairment of accounts receivable	-22,543	0	367	-22,176
Other operating expenses	-71,286	345	1,752	-69,189
	-10,357,925	-36,877	-25,276	-10,420,078
Operating results	862,749	-33,410	-34,929	794,411
Financial results	-74,530	10,477	8,839	-55,214
Income from associated companies	51,223	14,780	-9,034	56,969
Income from investments	53,950	0	0	53,950
Income from discontinued operations	0	0	0	0
			0	
Pre-tax income	893,392	-8,153	-35,123	850,116
Income tax for the fiscal year	-188,836	6,360	7,175	-175,301
Minority Interests	-3,899	1,793	0	-2,106
Consolidated net income for the fiscal year	700,657	0	-27,948	672,709

CONSOLIDATED BALANCE SHEET - IAS/IFRS - PRO FORMA FINANCIAL STATEMENTS

DECEMBER 31, 2005

(Amounts expressed in thousands of euros)

ASSETS	CONSOLIDATED	SALE OF ASSETS	PROFITS TO BE DISTRIBUTED AND NEW BUSINESS	UNBUNDLING
NON-CURRENT ASSETS:				
Tangible fixed assets	2,554,772	-738,618	18,039	1,834,193
Goodwill	20,480	-5,063	0	15,417
Other intangible fixed assets	367,294	-9,669	0	357,625
Investment properties	0	0	0	0
Equity interests in affiliates	84,545	9,034	-9,034	84,545
Equity interests in subsidiaries	63,608	0	0	63,608
Available-for-sale assets	0	0	0	0
Other accounts receivable	96,248	0	0	96,248
Deferred tax assets	158,924	-2,405	0	156,519
Other Financial Investments	338	0	0	338
Total non-current assets	3,346,209	-746,722	9,006	2,608,493
CURRENT ASSETS:				
Inventories	1,199,357	-19,718	0	1,179,639
Customers	898,363	-255	0	898,108
Other accounts receivable	322,517	-5,015	0	317,502
Available-for-sale assets	0	0	0	0
Other Financial Investments	10,191	-7,620	0	2,571
Income tax receivable	0	2,063	0	2,063
Cash and cash equivalents	157,635	513,848	-53,426	618,058
Total current assets	2,588,063	483,304	-53,426	3,017,941
Total assets	5,934,272	-263,418	-44,420	5,626,434
EQUITY, MINORITY INTERESTS, AND LIABILITIES				
EQUITY:				
Share capital	829,251	0	0	829,251
Treasury shares (stocks) - Par value	0	0	0	0
Treasury shares (units) - Discounts and Premiums	0	0	0	0
Supplementary payments	0	0	0	0
Share issue premiums	82,006	0	0	82,006
Currency translation reserves	-1,879	0	0	-1,879
Reserves	84,926	0	0	84,926
Hedging reserves	-2,905	0	0	-2,905
Accumulated net income	669,150	220,820	0	889,970
Consolidated net income for the fiscal year	700,657	0	-27,948	672,709
Equity attributable to shareholders	2,361,206	220,820	-27,948	2,554,078
Minority Interests	24,645	-7,922	0	16,723
Total Equity	2,385,851	212,898	-27,948	2,570,801
LIABILITIES:				
NON-CURRENT LIABILITIES:				
Bank loans and overdrafts	781,996	-469,642	0	312,354
Bondholder loans	309,760	0	0	309,760
Other accounts payable	96,443	-6,760	0	89,683
Liabilities for retirement benefits and other benefits	214,232	-7	0	214,225
Liabilities from finance leases	0	0	0	0
Deferred tax liabilities	132,275	1,107	0	133,382
Other Financial Instruments	5,458	0	0	5,458
Provisions	72,711	-2,400	-367	69,944
Total non-current liabilities	1,612,875	-477,702	-367	1,134,806
CURRENT LIABILITIES:				
Bank loans and overdrafts	257,390	-24,964	0	232,426
Bond loans	0	0	0	0
Suppliers	706,376	-3,575	7,002	709,803
Other Accounts Payable	916,382	1,353	0	917,735
Liabilities for retirement, health, and life benefits	0	0	0	0
Liabilities from finance leases	0	0	0	0
Other financial instruments	1,864	0	0	1,864
Current income tax payable	53,534	28,571	-23,106	58,999
Provisions	0	0	0	0
Total current liabilities	1,935,546	1,385	-16,104	1,920,827
Total liabilities, equity, and minority interests	5,934,272	-263,417	-44,420	5,626,434

GALP ENERGIA, SGPS, S.A. and Subsidiaries

PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS (IAS/IFRS)

FOR THE YEAR ENDED DECEMBER 31, 2005

(Amounts expressed in thousands of Euros)

	CONSOLIDATED	SALE OF ASSETS	RESULTSAEXITE NEW ACTIVITY	UNBUNDLING
Operating activities:				
Customer Receivables	12,761,202	(115,490)	(9,652)	12,636,060
Payments to suppliers	(9,587,224)	69,448	(44,020)	(9,561,796)
Payments to employees	(207,929)	729	7,338	(199,862)
Payments/Receipts of Tax on Petroleum Products	(2,383,255)	-	-	(2,383,255)
Cash flows from operating activities	**582,794**	**(45,313)**	**(46,334)**	**491,147**
(Payment)/receipt of income tax	(117,942)	1,077	(15,931)	(132,796)
Pension fund contributions	(26,235)	-	-	(26,235)
Payments to early retirees and those in early retirement	(12,916)	-	-	(12,916)
Payments for insurance expenses related to retirees	(9,158)	-	-	(9,158)
Other (payments)/receipts related to operating activities	236,502	3,148	-	239,650
Cash flows from operating activities	**70,251**	**4,225**	**(15,931)**	**58,545**
Cash flows from operating activities (1)	**653,045**	**(41,088)**	**(62,265)**	**549,692**
Investing activities:				
Proceeds from:				
Financial investments	85,806	62,202	-	148,008
Tangible fixed assets	3,788	406,491	-	410,279
Intangible assets	3,304	-	-	3,304
Investment grants	71,691	(52)	-	71,639
Interest and similar income	15,850	(172)	-	15,678
Dividends	39,339	-	-	39,339
Loans granted	7,845	46,042	-	53,887
	227,623	**514,511**	**0**	**742,134**
Payments related to:				
Financial investments	(3,835)	-	-	(3,835)
Tangible fixed assets	(275,465)	1,261	-	(274,204)
Intangible assets	(55,617)	-	-	(55,617)
Loans granted	(2,714)	-	-	(2,714)
	(337,631)	**1,261**	**0**	**(336,370)**
Cash flows from investing activities (2)	**(110,008)**	**515,772**	**0**	**405,764**
Financing activities:				0
Proceeds from:				0
Loans received	290,413	19,351	-	309,764
Capital increases, additional contributions, and subscription premiums	263	-	-	263
Interest and similar income	2,351	2,237	-	4,588
Discounted bills	18,771	-	-	18,771
	311,798	**21,588**	**0**	**333,386**
Payments related to:				
Loans received	(520,490)	4,162	-	(516,328)
Interest on loans received	(42,802)	6,361	8,839	(27,602)
Interest and similar expenses	(26,700)	(380)	-	(27,080)
Dividends/distribution of earnings	(215,938)	9,801	-	(206,137)
Repayment of discounted bills	(18,192)	-	-	(18,192)
Amortization and interest on finance leases	(306)	-	-	(306)
Interest on finance leases	(4)	-	-	(4)
Interest on bond loans	(9,246)	-	-	(9,246)
Loss coverage	(290)	-	-	(290)
	(833,968)	**19,944**	**8,839**	**(805,185)**
Cash flows from financing activities (3)	**(522,170)**	**41,532**	**8,839**	**(471,799)**
Change in cash and cash equivalents (4) = (1) + (2) + (3)	20,867	516,216	(53,426)	483,657
Effect of Exchange Rate Differences	4,983	-	-	4,983
Cash and cash equivalents at the beginning of the period	67,784	(9,987)	-	57,797
Cash and cash equivalents at the end of the period	93,634	506,229	(53,426)	546,437

GALP ENERGIA

FINANCIAL REPORT BY SEGMENT - IAS/IFRS - PRO FORMA FINANCIAL STATEMENTS

As of December 31, 2005

In 10^3 Euros

	Natural Gas Supply	Natural Gas Distribution	Refining and Distribution of Petroleum Products	Exploration and Production	Electricity	Other	Eliminations	Consolidated
	2005	2005	2005	2005	2005	2005	2005	2005
Gross Margin	**218,956**	**137,721**	**1,493,767**	**62,080**	**8,984**	**100,372**	**-82,771**	**1,939,109**
Sales and Services Provided	950,070	226,066	10,029,801	66,638	24,780	101,038	-267,531	11,130,862
Inter-segment	115,904	10	4,046	66,582	0	80,989	-267,531	0
External	834,166	226,056	10,025,754	57	24,780	20,049	0	11,130,862
CMMC	-731,114	-88,345	-8,536,033	-4,558	-15,796	-666	184,760	-9,191,753
Inter-segment	0	-84,163	-84,819	0	-15,778	0	184,760	0
External	-731,114	-4,182	-8,451,215	-4,558	-18	-666	0	-9,191,753
Revenue	**5,566**	**7,191**	**91,526**	**395**	**429**	**54,415**	**-75,894**	**83,627**
Inter-segment	2,920	3,119	18,419	0	0	51,436	-75,894	0
External	2,646	4,072	73,107	395	429	2,978	0	83,626
Variable Costs	**0**	**-31,215**	**-310,499**	**-16,442**	**0**	**-12,752**	**11,422**	**-359,486**
Intersegment	0	-11,422	0	0	0	0	11,422	0
External	0	-19,793	-310,499	-16,442	0	-12,752	0	-359,486
Fixed Costs	**-102,244**	**-31,464**	**-426,109**	**-5,852**	**-5,732**	**-143,082**	**147,243**	**-567,240**
Operating Expenses	**-97,570**	**-9,184**	**-205,256**	**-5,291**	**-5,470**	**-130,550**	**147,243**	**-306,078**
Inter-segment	-11,984	-470	-97,929	-904	-1,048	-34,908	147,243	0
External	-85,586	-8,714	-107,327	-4,387	-4,422	-95,642	0	-306,078
Personnel Expenses	**-4,674**	**-22,280**	**-220,853**	**-560**	**-263**	**-12,532**	**0**	**-261,162**
EBITDA	**122,277**	**82,233**	**848,685**	**40,181**	**3,680**	**-1,047**	**0**	**1,096,010**
Non-Disbursable Expenses	**-4,331**	**-23,715**	**-246,794**	**-21,980**	**-2,927**	**-1,852**	**0**	**-301,599**
Amortization and Depreciation	-3,865	-22,486	-229,539	-18,668	-2,899	-1,965	0	-279,423
Provisions and Impairments on Accounts Receivable	-466	-1,229	-17,255	-3,312	-27	113	0	-22,176
Other Expenses	0	0	0	0	0	0	0	0
Segment Results	**117,946**	**58,518**	**601,891**	**18,201**	**754**	**-2,899**	**0**	**794,411**
Company's Unallocated Income	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Unallocated Company Expenses	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Operating Results	**117,946**	**58,518**	**601,891**	**18,201**	**754**	**-2,899**	**0**	**794,411**
Financial Results	41,909	27,751	-26,129	2,212	-1,337	11,300	0	55,705
Income from discontinued operations	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Earnings before items, taxes, and minority interest	**159,855**	**86,269**	**575,762**	**20,412**	**-583**	**8,400**	**0**	**850,116**
Income Tax	-29,128	-12,741	-133,835	-53	251	205	0	-175,301
Minority Interests	0	-3,070	944	0	-487	506	0	-2,106
NET INCOME FOR THE YEAR	**130,727**	**70,458**	**442,871**	**20,360**	**-818**	**9,111**	**0**	**672,709**
OTHER INFORMATION								
Segment Assets (1)								
Current Assets	754,118	72,994	2,266,992	25,024	11,458	260,091	-372,736	3,017,941
Fixed assets (2)	70,682	615,479	1,246,908	247,480	24,430	2,256	0	2,207,234
Financial Investments—Equity Interests (3)	68,849	5,666	73,584	1,383	0	122,770	-124,098	148,153
Other Non-Current Assets	59,852	23,504	158,636	258	13,057	14,928	-17,130	253,105
Company Assets Not Allocated	0	0	0	0	0	0	0	
Total Consolidated Assets	**953,502**	**717,644**	**3,746,120**	**274,145**	**48,945**	**400,044**	**-513,965**	**5,626,434**
Segment Liabilities								
Current liabilities	152,527	183,925	1,668,873	27,490	7,208	245,752	-364,946	1,920,827
Provisions	6,414	11,515	48,842	0	955	29,995	-27,777	69,944
Other Non-Current Liabilities	119,978	343,072	616,786	5,638	39,164	63,303	-123,080	1,064,862
Company Liabilities Not Allocated	0	0	0	0	0	0	0	
	278,919	**538,512**	**2,334,501**	**33,128**	**47,327**	**339,050**	**-515,803**	**3,055,633**

(1) Net amount.

(2) In Tangible and Intangible Fixed Assets.

(3) Under the equity method.

(4) During the fiscal year.

MEMORANDUM OF ASSUMPTIONS FOR THE PREPARATION OF PRO FORMA FINANCIAL STATEMENTS

Based on Council of Ministers Resolution No. 169/2005, dated October 24, which approved the National Energy Strategy, the Council of Ministers of Portugal decided to separate the Regulated Assets and implement their merger with the electricity transmission system operator, which will also be responsible for operating the regulated assets. This Resolution mandates the legal separation of the operators of regulated assets from the electricity and natural gas systems.

Pursuant to these provisions, a revision of the concession agreement entered into between the Portuguese State and Transgás – Sociedade Portuguesa de Gás Natural, S.A. ("Transgás"), in order to spin off the public service activities of transmission, storage, and regasification of liquefied natural gas, the performance of which will be assigned, through the execution of public service concession contracts, to REN – Rede Eléctrica Nacional, S.A. (or its subsidiary(ies)), while the concession for the marketing of natural gas will remain within Transgás's legal framework, through a reduction in the scope of the concession agreement currently in force with Transgás.

As part of this process, a Promise Agreement regarding the Transfer of Regulated Assets was entered into between Transgás – Sociedade Portuguesa de Gás Natural, S.A., Transgás SGPS, S.A., GDP SGPS, S.A., and REN – Rede Eléctrica Nacional,
S.A. ("REN") entered into a Letter of Intent regarding the Transfer of Regulated Assets.

The pro forma consolidated financial statements were prepared based on the Galp Energia Group's consolidated financial statements in accordance with IAS/IFRS as of December 31, 2005.

Accordingly, to reflect the aforementioned transaction, the consolidated pro forma financial statements (including the balance sheet, income statement, cash flow statement, and segment reporting) of Galp Energia following the unbundling of Transgás, as of December 31, 2005, were prepared based on the following assumptions:

9. Identification of the companies excluded from consolidation as a result of the unbundling: Transgás Atlântico, S.A., Gasoduto Braga - Tuy, S.A., Gasoduto Campo Maior-Leiria-Braga, S.A.;

10. Identification of the intra-group balances and transactions between these companies and the remaining Group companies, with a view to reversing the eliminations previously made (since these companies are no longer included in the scope of consolidation);

11. Sale of Transgás Atlântico (currently named SGNL—Sociedade Portuguesa de Gás Natural Liquefeito, S.A. ("SGNL")), for a base price of 29,974 mEuros (corresponding to the value of SGNL's equity, prepared in accordance with generally accepted accounting principles in Portugal, as of December 31, 2005—11,644 mEuros plus the contributions made by the shareholders on that date—18,330 mEuros), as provided for in subparagraph (c) of paragraph 1 of Article 5 of the Promise Agreement regarding the Transfer of Regulated Assets. This base price will be adjusted as described in section 4.3.5 below;

    3.4 Calculation of the capital gain arising from the sale of SGNL, which was zero in the financial statements prepared in accordance with generally accepted accounting principles in Portugal ("POC") and mEuros 4,003 under IAS;

3.5 Calculation of the deferred tax liability under IAS in the amount of mEuros 1,101 associated with the capital gain mentioned in the previous point.

3.6 Calculation of the tax payable resulting from this transaction, which amounts to mEuros 4.108.

3.7 The base sale price of SGNL was recorded under Cash and Cash Equivalents;

12. Based on the identification of the assets and liabilities to be spun off from Transgás that are related to transmission and storage activities, a new balance sheet was prepared (which will represent the "new Transgás" within the Galp Energia Group):

4.6 Caretaking of a set of assets and liabilities identified by Transgás (Annexes 1 and 5 of the Letter of Intent regarding the Transfer of Regulated Assets) that will be transferred to REN, including assets associated with the transmission network (including fiber optics), part of the assets associated with underground storage, the equity interests in the two national gas pipelines (Gasoduto Braga - Tuy, S.A. and Gasoduto Campo Maior-Leiria-Braga, S.A.), the advances granted by the shareholder Transgás to these entities, as well as the portion of the bank debt associated with the spun-off assets. With regard to the assets and liabilities related to fiber optics (with the exception of amounts recorded as fixed assets), since an arbitration proceeding is currently underway involving the contract entered into between Transgás and Onitelecom – Infocomunicações, S.A., no assets or liabilities associated with that contract were spun off. Transgás has also already taken steps with the competent authorities to obtain authorization for the transfer of ownership of the subsidies allocated to it and associated with the assets transferred to REN;

4.7 Write-off of another set of assets and liabilities recorded on the balance sheet as of December 31, 2005, and associated with the activities to be spun off, including inventory - 19,718 mEuros (specifically relating to natural gas held in underground storage—"cushion gas"), accounts receivable – 2,231 thousand euros, deferred revenue related to rights granted for national gas pipelines – 91,060 thousand euros, other accounts payable – 22,345 thousand euros, provisions – 2,766 thousand euros, and corresponding deferred taxes – 461 thousand euros;

4.8 Calculation of the base sale price of the assets and liabilities to be paid by REN, as defined in subparagraphs (a) and (b) of paragraph 1 of Clause 5 of the Promise Agreement regarding the Transfer of Regulated Assets (recorded as cash and cash equivalents):

4.8.1 Grid: 738,000 mEuros
4.8.2 Underground Natural Gas Storage Facilities: 60,522 mEuros
4.8.3 Book value of *"cushion* gas" as of May 31, 2006: 15,408 thousand euros
4.8.4 From these amounts, the value of the debt is deducted, which, according to the balance sheet balances as of December 31, 2005,

amounts to 334,231 mEuros (according to the contract entered into between the parties, it is set at 333,000 mEuros, resulting in a difference of 1,231 mEuros, which we have recorded on the balance sheet)

4.8.5 In accordance with Clause 6 of the Promise Agreement regarding the Transfer of Regulated Assets, these base prices will be adjusted to the fair market value of the regulated assets, based on future valuations to be performed by independent entities. However, since the Regulatory Model is not yet known, no work has been carried out in this regard.

4.9 Calculation of the tax payable resulting from this transaction, in the amount of 22,989 mEuros;

4.10 The transaction described generated a gain of mEuros 231,400 (as of December 2005), which was recorded directly in equity under the heading "Retained Earnings."

13. In addition, Transgás's results for 2005 were also adjusted. The costs and revenues generated during the year, as well as the corresponding tax effect associated with them, were eliminated; these were related to transportation and storage activities, specifically external supplies and services (31,249 thousand euros), personnel costs (7,338 thousand euros), depreciation of transferred assets (18,039 thousand euros), financial costs of the spun-off loans (8,839 thousand euros), revenue derived from the provision of services for the national gas pipelines (9,639 thousand euros), and revenue generated by the equity method accounting for those same gas pipelines during the year (9,034 thousand euros). The new tariff payable to REN (84,023 mEuros—corresponding to a unit cost of 0.0205 Euros/m^3(n)) was included in external supplies and services. It is assumed that this tariff excludes the regasification tariff and includes the costs previously borne by Transgás with ERSE. The pro forma results for 2005 have not been adjusted for any effects related to the Storage Access Agreement to be entered into between Transgás and REN, as provided for in Annex 2 of the Letter of Intent regarding the Transfer of Regulated Assets. This adjustment resulted in a decrease in net income of mEuros 27,948, which was recorded on the balance sheet against a decrease in cash and cash equivalents—mEuros 53,425, an increase in property, plant, and equipment and financial investments—mEuros 9,005, and an increase in accounts payable – 7,001 thousand euros (an average payment term to REN of 30 days was assumed), a decrease in provisions – 367 thousand euros, and a decrease in income taxes payable – 23,106 thousand euros;

14. At the Galp Energia level, the goodwill related to Transgás—which arose when the Group acquired this subsidiary and was related to the spun-off business—was also written off, in the net amount of mEuros 5,063;

15. The unbundling transaction has the following effects on the Galp Energia Group's consolidated balance sheet as of December 31, 2005, prepared in accordance with IAS:
(i) an increase in shareholders' equity of mEuros 184,950, (ii) a decrease in assets of mEuros 307,838, and (iii) a decrease in liabilities of mEuros 492,788.

EXTERNAL AUDITOR'S REPORT

(Amounts expressed in thousands of euros – mEuros)

Introduction

1. For the purposes of inclusion in the prospectus for the public offering and listing of shares representing a portion of the share capital of Galp Energia, SGPS, S.A. ("Galp Energia"), we were asked to issue an opinion based on the work we performed, with the scope and depth indicated in paragraph 4 below, regarding the preparation of a pro forma consolidated balance sheet as of December 31, 2005, which shows total assets of
5,626,434 million euros and shareholders' equity of 2,570,801 million euros, including net income of 672,709 million euros, and pro forma consolidated statements of income by nature and cash flows for the fiscal year ended on that date (collectively referred to as "pro," which do not include the respective accompanying notes), intended to simulate Galp Energia's consolidated financial position as of December 31, 2005, and the consolidated results of its operations and cash flows for the fiscal year ended on that date, had the transfer of the regulated natural gas assets and activities taken place on January 1, 2005, and based on the assumptions set forth in paragraph 2 below.

Basis of Preparation and Management's Responsibility

7. The pro forma consolidated financial statements referred to in paragraph 1 above, prepared to comply with the provisions of Regulation (EC) No. 809/2004 of the Commission of the European Communities, dated April 29, 2004, result from the incorporation into Galp Energia's consolidated financial statements as of December 31, 2005—prepared in accordance with International Financial Reporting Standards as adopted by the European Union—of a series of adjustments relating to the simulation of the effects retroactive to January 1, 2005, of the Promise Agreement regarding the Transfer of Regulated Assets, entered into on August 30, 2006, between Transgás – Sociedade Portuguesa de Gás Natural, S.A. ("Transgás"), Transgás, SGPS, S.A., and GDP, SGPS, S.A. (companies whose capital is directly or indirectly wholly owned by Galp Energia) and REN – Rede Eléctrica Nacional, S.A. ("REN"), as well as the Memorandum of Assumptions defined by the Board of Directors of Galp Energia, which include the following main assumptions:

   i) Sale by Transgás, for a base price of 738,000 mEuros, of its transmission assets, which consist of gas pipelines and other assets related to the high-pressure natural gas transmission network located in Portugal, including an 88% equity interest in Gasoduto Campo Maior – Leiria – Braga, S.A., and the 51% equity interest in Gasoduto Braga-Tuy, S.A.;

   j) Sale by Transgás SGPS, S.A. and GDP SGPS, S.A., for a base price of 29,974 million euros, of the entire share capital of SGNL – Sociedade Portuguesa de Gás Natural Liquefeito, S.A. ("SGNL") (formerly known as Transgás Atlântico – Sociedade Portuguesa de Gás Natural Liquefeito, S.A.), currently the owner and operator of the Sines liquefied natural gas regasification terminal;

   k) Sale by Transgás, for a base price of 75,930 million euros, of three underground natural gas storage caverns and the associated surface facilities located in Pombal;

l) Sale of the bank debt, for a price of 333,000 mEuros, related to the Regulated Assets to the purchasers of the respective assets;

m) Transfer of 188 employees, of whom 156 are on Transgás's payroll and 32 on SGNL's payroll;

n) Adoption of a temporary tariff to be applied to the transmission of natural gas and the overall technical management of the National Natural Gas System, in the amount of 0.0205 euros/m³, defined based on the memorandum of understanding signed on April 28, 2006, between Galp Energia and REN, which differs from the tariff set forth in Annex 3 to the aforementioned Promissory Agreement regarding the Transfer of Regulated Assets, which specifies that it is to take effect on January 1, 2006;

o) Adoption of a temporary tariff to be applied by liquefied natural gas regasification services, in the amount of 0.0019 euros/m³ plus a fixed monthly fee of 2,201,213 euros, established based on the Contract for the Provision of LNG Reception, Processing, and Regasification of LNG, currently in force, entered into between Transgás and SGNL on November 13, 2000, and amended on July 23, 2002;

p) Adoption of a temporary tariff to be applied for access to underground natural gas storage, in the amount of 0.0014 euros/m³ plus an annual fixed charge of 9,277,157 euros, defined based on Annex 2 to the aforementioned Letter of Intent regarding the Transfer of Regulated Assets.

The base sale prices of the assets referred to in the preceding paragraphs will be adjusted to their respective fair value, based on future appraisals to be conducted by independent entities in accordance with the provisions of the aforementioned Promise Agreement regarding the Transfer of Regulated Assets. Any adjustments to the base sale prices referred to above may be positive or negative, with the exception of the adjustment relating to the base sale price of the transmission assets, which may only reflect a positive adjustment for Galp Energia.

The tariffs to be established after the new regulatory framework approved by ERSE—the Energy Services Regulatory Authority ("ERSE")—enters into force may differ from those referred to in subparagraphs (f), (g), and (h) above.

8. It is the responsibility of Galp Energia's Board of Directors to prepare the pro forma financial statements referred to in paragraph 1 above, as well as to define and quantify the adjustments and the accounting criteria adopted therein, as referred to in paragraph 2 above. Our responsibility is to issue a professional and independent opinion based on our work, the scope of which is described in paragraph 4 below.

Scope

9. Our review of the preparation of Galp Energia's consolidated pro forma financial statements as of December 31, 2005, referred to in paragraph 1 above, consisted of applying the following procedures:

e) We verified that Galp Energia's pro forma consolidated financial statements as of December 31, 2005, were based on Galp Energia's consolidated financial statements as of December 31, 2005, prepared in accordance with the

International Financial Reporting Standards as adopted by the European Union, which we examined and on which we expressed an opinion in our audit report dated June 30, 2006;

f) We have verified that the adjustments identified and quantified by Galp Energia were made based on the Promise Agreement regarding the Transfer of Regulated Assets, mentioned in paragraph 2 above, with the exception of the adjustment mentioned in subparagraph (f) of that paragraph, which was made based on the memorandum of understanding entered into on April 28, 2006, between Galp Energia and REN, and on the Memorandum of Assumptions established by the Board of Directors of Galp Energia;

g) We have verified that, in preparing the adjustments mentioned in the preceding subparagraph, accounting principles consistent with those followed by Galp Energia, SGPS, S.A. in preparing its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union were applied;

h) We performed arithmetic tests on the inclusion of the aforementioned adjustments in the pro forma consolidated financial statements.

Opinion

10. Based on the work performed, to the extent and depth indicated in paragraph 4 above, we are of the opinion that the preparation of the pro forma consolidated financial statements of Galp Energia, SGPS, S.A. as of December 31, 2005, was carried out: (i) appropriately in accordance with the basis indicated in paragraph 2 above; and (ii) consistently with the accounting policies adopted by Galp Energia, SGPS, S.A. in the preparation of its financial statements as of December 31, 2005, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

11. These pro forma consolidated financial statements, because they relate to a hypothetical situation, do not represent Galp Energia's actual consolidated financial position, nor its consolidated results of operations and cash flows as of December 31, 2005, nor what the results would have been had the final figures for the transfer of assets been known and had the rates to be approved by ERSE been used, as referred to in paragraph 2 above.

Lisbon, September 4, 2006

DELOITTE & ASSOCIADOS, SROC S.A.
Represented by Jorge Carlos Batalha Duarte Catulo