2007 THE START OF A LONGER RUN

galp energia

ANNUAL REPORT & ACCOUNTS GALP ENERGIA '07

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

ANNUAL REPORT & ACCOUNTS GALP ENERGIA '07

01 GALP ENERGIA AT A GLANCE

To create value for clients, employees and shareholders, operating in energy markets with ambition, innovation and competitiveness, fostering the respect for ethical and sustainability principles. That's Galp Energia mission.

2007 THE START OF A LONGER RUN

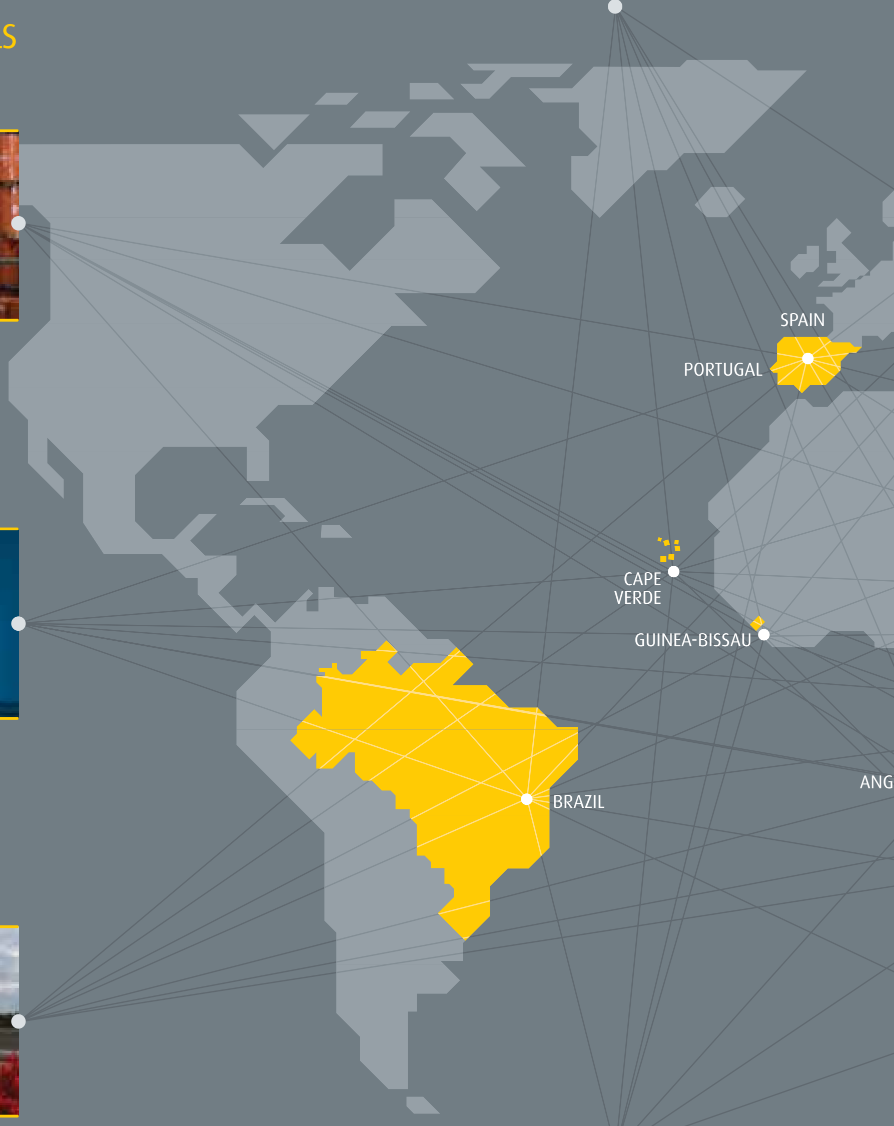
PORTUGUESE BASED COMPANY WITH A LEADING POSITION IN THE DOMESTIC MARKETS FOR OIL PRODUCTS AND NATURAL GAS AND A STRONG UPSTREAM PRESENCE IN EXPLORATION AND PRODUCTION, PRIMARILY IN ANGOLA AND BRAZIL. GALP ENERGIA ALSO HAS OIL MARKETING ACTIVITIES IN SPAIN AND IN THE AFRICAN CONTINENT, NAMELY IN CAPE VERDE, GUINEA-BISSAU, MOZAMBIQUE AND ANGOLA.

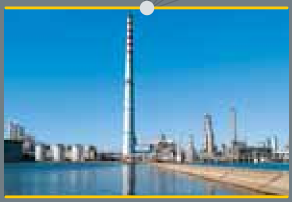
777 MILLION EUROS
Net income in 2007

773 MILLION BARRELS
Oil Reserves and contigent resources of Galp Energia

17 kbopd
Daily oil production of Galp Energia

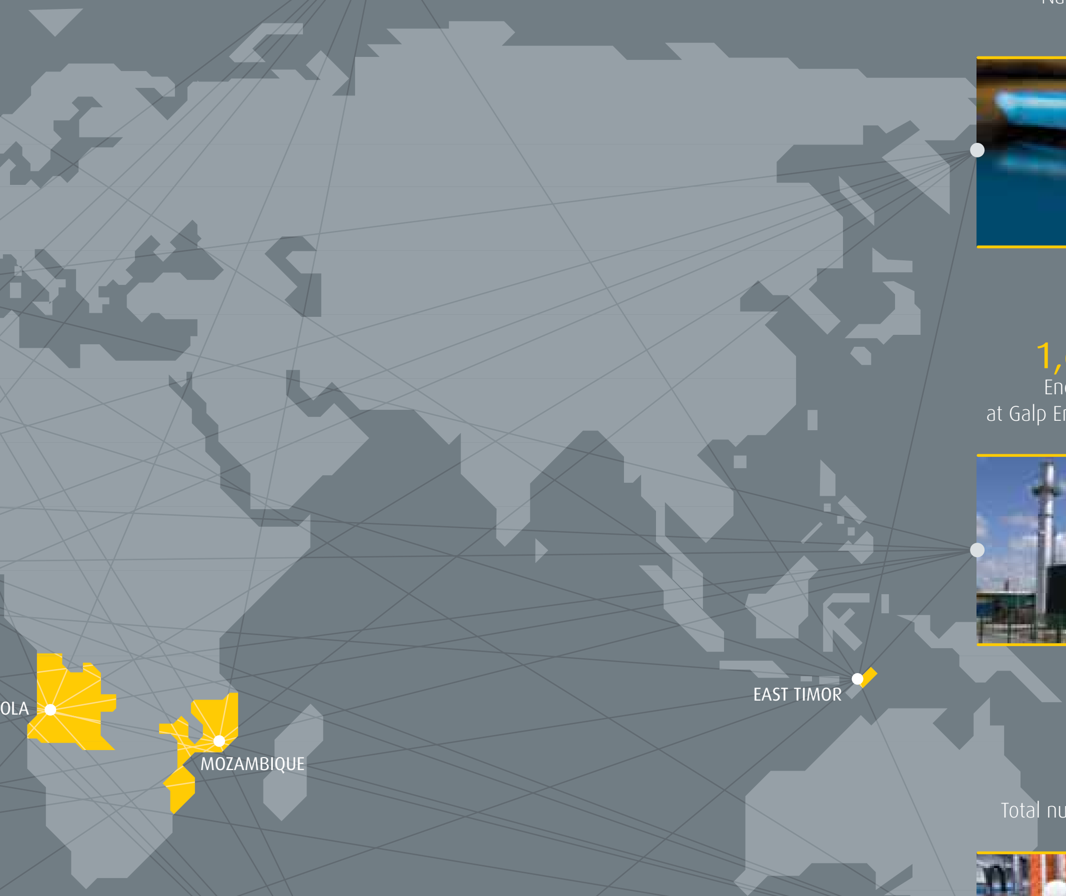
1,038
Galp Energia's service stations



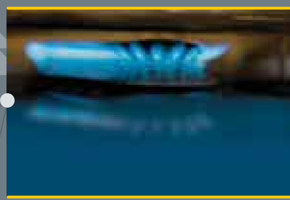


252 kbopd
Crude processed at Galp Energia's refineries in 2007

165%
Share price performance in 2007



835 THOUSAND
Natural gas clients
in Portugal



1,610 GWh
Energy generated
at Galp Energia's cogenerations

5,798
Total number of employees

120 MILLION
Annual transactions
at Galp Energia's
service stations

02 STATEMENT BY THE BOARD OF DIRECTORS

During 2007 we debated and evaluated several scenarios for our future. Changing Galp Energia in an integrated energy company is the ambition we want to share with our shareholders.

2007
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STATEMENT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

2007 was a defining year for Galp Energia. It was the first full year the company was listed, which brought it under the equity market's demanding scrutiny, but it was also the year when the company took its first steps towards execution of its strategic plan.

From its flotation in October 2006 through the end of 2007, Galp Energia's market capitalisation surged by 217%. This gain reflects the market's recognition of Galp Energia's true dimension, its solid and ambitious strategy and its employees' ability and determination.

On top of its solid and clearly defined long-term strategy, Galp Energia showed in 2007 that it has the human and physical capabilities required to identify and capture the right opportunities at the right time. It was the case in exploration and production, where Galp Energia's presence in high-potential exploration blocks came to fruition. An instance of this was the announcement of the Tupi well discovery – one of the largest discoveries in the history of the oil industry – by the consortium exploring Brazil's Block BM-S-11 where Galp Energia has a share.

As evidence of its responsibility for seeking sustainable environmental, social and economic alternatives, Galp Energia rolled out in 2007 two important projects in the renewable energy field: the wind project and the production of hydrogenated biodiesel, second generation technology.

Galp Energia crowned a successful 2007 with a historic profit of 777 million euros. This happened in an adverse business environment and after the spin-off to REN of the regulated natural gas operations, i.e. the high-pressure transportation network, the underground storage facilities and the liquefied natural gas terminal at Sines.

I am pleased to emphasise that the 2007 results were achieved thanks to the commitment and skills of management and employees alike. The capabilities they evidenced let us safely anticipate that the company will, with its human capital, find the required strength to overcome the challenges in the years ahead and consistently create shareholder value, thus demonstrating it is up to the trust earned from its owners.

Francisco Murteira Nabo

Chairman of the Board of Directors
Galp Energia

STATEMENT BY THE CHIEF EXECUTIVE OFFICER

Dear shareholder,

Galp Energia closed fiscal 2007 with sales of 12.7 billion euros, EBITDA of 1,288 million euros, operating profit of 1,011 million euros and net profit of 777 million euros. Net income at replacement cost and after adjustment for non-recurrent events reached 418 million euros, up 1.4% from 2006 in euro terms and up 10.7% in dollar terms.

This superior performance in comparison with Galp Energia's European peers has been achieved on the back of a sharp focus on each business unit's results, the quality of service offered to clients, streamlined operations and strict cost control.

In the Exploration & Production business unit we added to our exploration portfolio 21 new projects located in Angola (1), Mozambique (1), East Timor (5), Portugal (7) and Brazil (7), thereby raising to 38 the number of projects in which we are involved. In production, we reached 17 thousand barrels a day from the Kuito, BBLT (Benguela, Belize, Lobito, Tomboco) and Tombua-Lândana fields. Construction of a platform for the Tombua-Lândana field is under way and completion is scheduled for mid-2009.

2007 will go down in our company's history as the year when we participated in the first discoveries on Brazil's Santos basin, a sedimentary basin located in deep water below 2,000 metres and with reservoirs at depths below 5,000 metres.

We participate in four projects (BM-S-8, BM-S-11, BM-S-21 and BM-S-24) and announced during the year discoveries in Tupi Sul (which succeeded Tupi-1) on BM-S-11 and Caramba on BM-S-21. In 2008 we completed drilling of the Júpiter well on block BM-S-24.

These are discoveries that have changed both the profile and ambition of Galp Energia. At the end of 2007 we had 773 million barrels of proven, probable and contingent reserves, certified by an independent auditor, on blocks 14, 14-K and 32 in Angola and the Tupi reservoir on block BM-S-11 alone. The projects we are currently pursuing on the Santos basin will take us in the medium term, according to our best estimates, to 2 billion barrels in reserves.

In the Refining & Marketing of Oil Products business unit, we started the conversion project of the Sines and Matosinhos refineries, continued to streamline refining and logistic operations and executed a competitive and diversified procurement policy. In clearly adverse markets for oil products, we kept our market share in retail and grew in wholesale as total sales to Galp clients reached the historic mark of 9.4 million tonnes. I would like to emphasize in particular the good performance of our Spanish operation, our sales of premium products and the trading levels at our convenience stores. Equally relevant was the purchase from Eni of AGIP's operations in Spain and Portugal, a transaction that will, upon completion, largely contribute to strengthening and rationalizing our presence in Spain.

The Gas & Power business unit had, once again, a relevant contribution to our results as its EBITDA grew by 11%; this growth originated in all natural gas segments, with sales reaching 5.4 billion cubic metres. During the year we completed the legal restructuring of the natural gas companies as the unbundling process neared completion. We moved the cogeneration projects forward at the Sines and Matosinhos refineries, participated in a consortium for the construction of eight wind farms with a capacity of 480 MW and we finalized environmental licensing of 2x 400 MW combined-cycle plant at Sines.

What I have just summarized evidences the pace of our activities in 2007. The reported results bear evidence of the quality with which we have achieved it. The stellar performance of our stock is the ultimate evidence that our shareholders support our work.

Throughout 2007 we debated and evaluated several scenarios for the future of Galp Energia. We have labeled the result of this work the New Ambition for our company: we want to develop a resource portfolio that will support production of 150,000 barrels a day, we want to invest in our refining system in order to secure its long-term competitiveness, we want to grow our marketing activities in order to place a volume close to our refining capacity with Galp clients, we want to keep pace with growth in the natural gas market, secure a competitive and diversified procurement and participate in natural gas liquefaction projects, we want to develop an electric power generation portfolio based on natural gas conversion and renewable energy. In doing all this, from a long-term perspective, we can double the value of our company... and this is the Ambition we want to share with all our shareholders.

Nothing of what I have just mentioned is possible without the commitment, professionalism and competence of all those who work at Galp Energia. We want to do everything for all this to become reality by selecting the best, by providing an environment of continuous learning and training and by creating motivating and competitive incentives.

Our social responsibility policies, our sustainability goals, our safety, health and environment practices and the strengthening of the Galp brand are fundamental pillars on which we want to build our Ambition.

I owe my sincere thanks to all staff for everything they do for our company. I thank all governing bodies and all shareholders for the support and encouragement I have always been offered.

Finally, I address a word of appreciation and gratitude to the excellent executive team who have followed me over the mandate expiring in this financial year.

Manuel Ferreira De Oliveira

Chief Executive Officer
Galp Energia

03 COMPANY STRATEGY

Our strategy is ambitious.
Turn Galp Energia into an integrated energy company operating across the whole oil & gas value chain.

2007 THE START OF A LONGER RUN

GALP ENERGIA IS AT A UNIQUE MOMENT IN ITS HISTORY AS IT IMPLEMENTS AN AMBITIOUS STRATEGY THAT WILL TURN IT INTO AN INTEGRATED ENERGY COMPANY OPERATING ACROSS THE WHOLE VALUE CHAIN

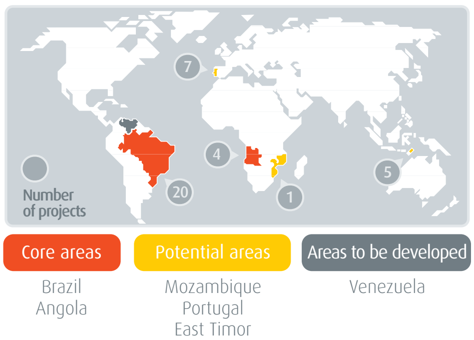
The Galp Energia ambition is to grow in every segment where it operates and to increasingly integrate its businesses, thereby capturing the immense opportunities offered by its asset portfolio.

The quality of this portfolio, coupled with the knowledge of its staff and its track record in converting opportunities and acquiring strategic assets in a sharply competitive environment, provides ample evidence of its prominent position vis-à-vis its peers.

In Venezuela, a country with large proven oil reserves, Galp Energia is reviewing, in partnership with PDVSA, the local state-owned oil company, the development of joint projects in oil exploration and production. An instance of this is the appraisal and certification of reserves in the Orinoco Belt.

The smaller size in connection with an efficient decision making process compared to the IOCs allows Galp Energia to leverage on its Portuguese standard-bearer status to capture opportunities with strong value-accretive potential and controlled political and geological risks.

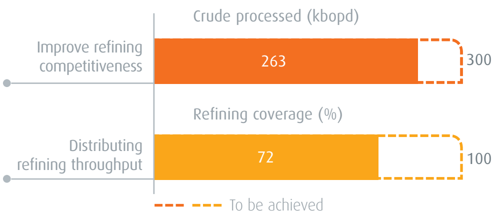
EXPLORATION & PRODUCTION



Galp Energia aims to achieve a sustained production level of 150 kboepd, equivalent to half of its future refining requirements. To this end, the company is expanding its diversified portfolio of exploration and production assets.

As conversion cycles for upstream activities are typically very long, the continued search for new opportunities is a crucial factor to ensure long-term growth. Therefore, Galp Energia added in 2007 20 new projects (i.e. 20 blocks) to its portfolio and secured its presence in high-potential offshore basins in Portugal, Mozambique and East Timor.

REFINING & MARKETING



In this segment, the Galp Energia ambition is focused on extracting more value from its assets, namely its two refineries and high-profile Iberian network for marketing oil products.

Galp Energia is currently retooling and expanding its two refineries, a project that will boost the yield of middle distillates and raising processed crude volumes, allowing heavier crudes to be processed and the weight of fuel oil to be reduced. Considering current market conditions, these changes will most likely have a strong impact on gross refining margins.

Strategic target of achieving a sustained production level of 150 kboepd

New exploration and production projects in Portugal, Mozambique, East Timor and Venezuela

With the acquisition of Eni's distribution network in Spain, Galp Energia is expected to double the size of its Spanish operations

Biofuels are a natural extension of Galp Energia's core business

Galp Energia's overriding goals for marketing oil products are to increase returns on the retail network by raising efficiency and broadening its premium and non-fuel product offering and also to bring the volume of marketed oil products into line with the planned refining capacity.

Recently, Galp Energia agreed to buy from Eni the Italian operator's Iberian retail business. With this acquisition, Galp Energia is expected to double the size of its Spanish operations and achieve significant economies of scale by combining its existing and acquired petroleum products distribution networks.

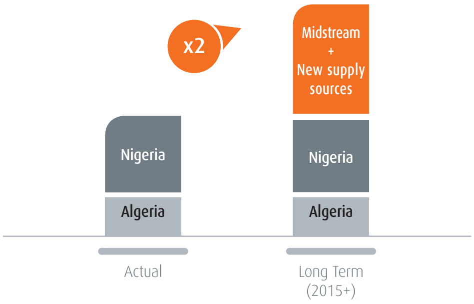
This acquisition has, however, not signalled the end of expansion as Galp Energia will review any growth opportunities which may arise through acquisition of other retail networks, provided these opportunities add to shareholder value.

Following the government pledge that Portugal will incorporate 10% of biofuels into road fuels by 2010 and considering that biofuels are a natural extension of Galp Energia's core business, the company aims to produce and supply the European market with biodiesel from hydrogenated oil as well as sign contracts for the medium- and long-term procurement of vegetable oil as a way of managing the largest risk to this business, namely the access to raw material sources at competitive prices.

GAS & POWER

As the incumbent of the Portuguese market for natural gas, Galp Energia is focused on achieving a smooth transition to the new domestic regulatory environment which is expected to lead to a liberalised market, thus conserving business value on the new context.

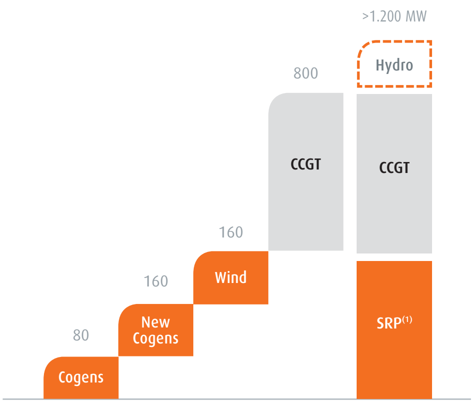
Natural gas supply base



Galp Energia's presence in the Iberian market, which is considered to be a market of great potential, will – on the back of the experience and know-how it has accumulated over the last ten years – give it an edge to benefit from any increase in the demand for natural gas. To achieve this, the company will need to source additional supply on top of the current 6 bcm per year.

The company's ambition to secure additional supplies is likely to lead it into LNG midstream activities, a market with excellent growth prospects worldwide. In this context, Galp Energia is currently reviewing a range of opportunities including the DCLNG project in Venezuela and Angola LNG II.

Power generation portfolio



[1] Special regime production

The focus on Power as a way of extracting additional margin – the gas-to-power spread – from the company's contracts for the supply of natural gas has led to a combined project portfolio of CCGTs, cogeneration plants and wind farms with an overall capacity in excess of 1,000 MW. These projects will boost demand for natural gas and increase efficiency in supply management.

The Galp Energia generation portfolio, where natural gas has a prominent role, may eventually be complemented by hydropower plants for which the Portuguese government has invited bids. In this way, the company would achieve a more balanced generation portfolio featuring the best available techniques – CCGTs, wind and hydro power, on environmental and economical terms.

Completion of these investments in electric power generation from renewable sources, both wind and hydro, coupled with investments in biofuels will, on top of their economic rationale, allow the company to assemble a portfolio of activities that will mitigate exposure to CO_2 risk.

Marketing oil products in Africa allows Galp Energia to keep a window open on future opportunities as markets grow. The company's African presence will also bolster partnerships in biofuels as well as in exploration and production projects.

Galp Energia is currently building a solid base that will support its ambitious and demanding strategy. Aided by sound risk management to mitigate the risk, implementation of this strategy will transform the company into an integrated energy operator with a relevant presence across the whole value chain.

Secure additional supplies of natural gas is likely to include projects in Venezuela and Angola

Power portfolio with an overall capacity in excess of 1,000 MW

04 OPERATING AND FINANCIAL REVIEW

Strong track record on results delivery will support the strategy for the future.

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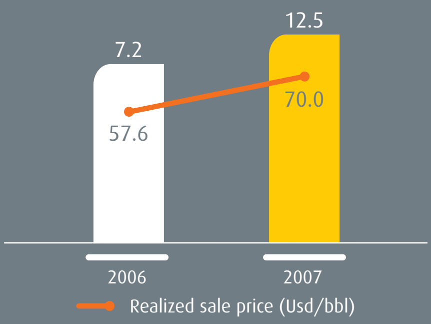
BUSINESS SEGMENTS

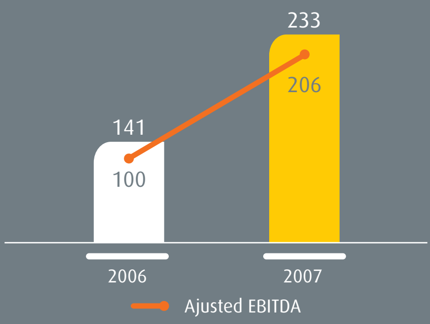
EXPLORATION & PRODUCTION

Net entitlement average production (kbopd)



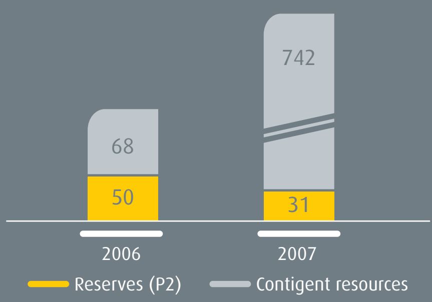
Doubled net entitlement production has resulted from growing production in Angola

Turnover and adjusted replacement cost EBITDA (M€)



Increased net entitlement production and higher sales prices had a favourable impact on turnover and EBITDA

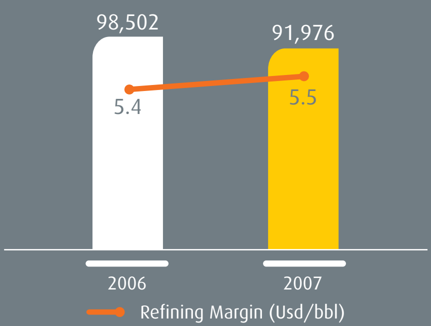
Galp Energia's reserves (P2) and resources (Mbbl)



Exploration activities have led to strong growth in contingent resources

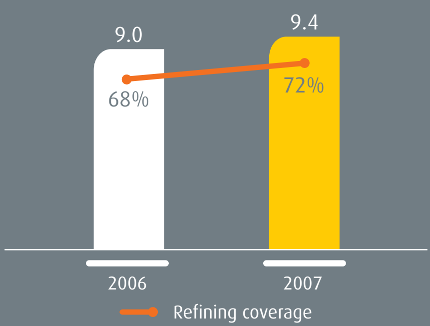
REFINING & MARKETING

Crude processed (kbbl)



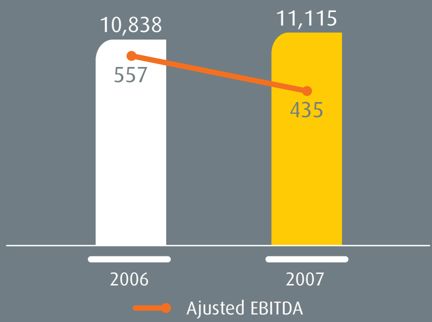
The volume of processed crude fell as the Sines and Porto refineries stopped for maintenance

Sales to direct clients (Mton)



Increased sales to direct clients on the back of higher activity in Spain improved the marketing-to-refining cover ratio

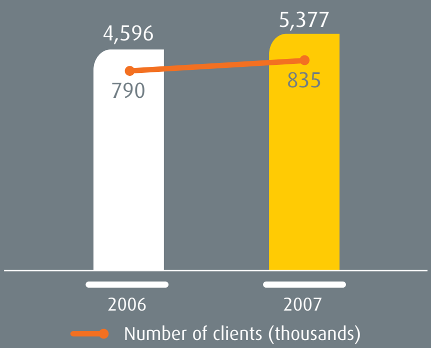
Turnover and adjusted replacement cost EBITDA (M€)



Shortfall in EBITDA was due to the impact of a depreciating dollar on refining margins and lower volumes of processed crude

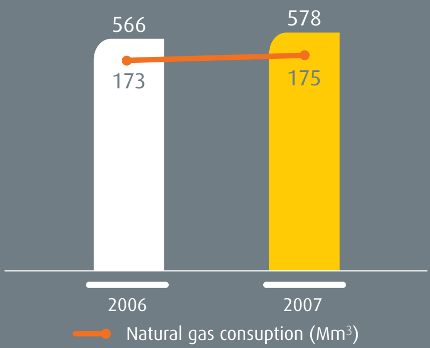
GAS & POWER

Sales of natural gas (Mm^3)



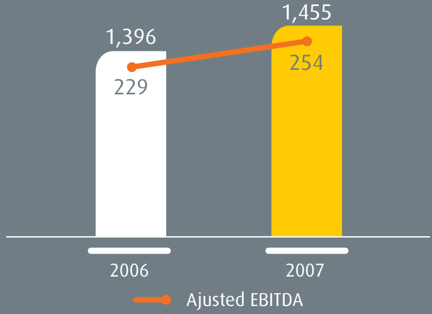
Sales of natural gas were favoured by low hydro levels in the Iberian Peninsula, which boosted the demand for natural gas for the production of electricity

Electricity sold to the grid (GWh)



The demand for natural gas by Galp Energia's own cogeneration plants currently accounts for 10% of demand by the Portuguese industrial sector

Turnover and adjusted replacement cost EBITDA (M€)



Stable turnover and higher EBITDA, on a comparable basis, following increased sales of natural gas

GROUP

FINANCIAL INDICATORS

Million Euros

	2004	2005	2006	2006P[1]	2007
Turnover	9,273	11,134	12,090	12,090	12,557
Cost of goods sold	7,598	9,471	10,318	10,345	10,819
Supply and services	468	525	550	621	630
Personnel costs	251	268	291	284	276
EBITDA - IFRS	959	1.192	1.260	928	1,288
EBITDA replacement cost adjusted	825	877	977	886	891
Of which:					
Exploration & Production	26	40	100	100	206
Refining & Marketing	594	552	557	557	435
Gas & Power	218	284	320	229	254
Depreciations and provisions	309	296	291	270	271
Operating result - IFRS	650	863	968	643	1,011
Operating result replacement cost adjusted	517	580	686	616	620
Of which:					
Exploration & Production	(19)	18	66	66	150
Refining & Marketing	388	338	356	356	261
Gas & Power	162	225	266	196	215
Financial results	(72)	(75)	(43)	-	(45)
Results from associated companies	25	51	40	40	60
Taxes	146	198	177	-	269
Net income - IFRS	453	701	755	479	777
Net income replacement cost adjusted	346	425	468	413	418

CAPEX AND CAPITAL STRUCTURE

Million Euros

	2004	2005	2006	2007
Capex	329	315	349	466
Of which:				
Exploration & Production	71	82	106	193
Refining & Marketing	165	142	131	168
Gas & Power	93	88	112	103
Net assets	5,492	5,934	5,242	5,750
Shareholder's equity	1,846	2,386	2,037	2,426
Net debt	1,503	1,192	887	734
Average capital employed	n.a.	3,387	3,192	2,971

RATIOS

	2004	2005	2006	2006P[1]	2007
EBITDA replacement cost adjusted margin	12%	10%	10%	9%	9%
EPS - IFRS (€/share)	0.547	0.845	0.910	0.578	0.937
EPS replacement cost adjusted (€/share)	0.418	0.513	0.564	0.498	0.505
Debt to equity	81%	50%	44%	-	30%
ROACE replacement cost adjusted	n.a.	14%	17%	-	17%

GALP ENERGIA SHARE

	2004	2005	2006	2007
Price as of 31 Dec (€)	-	-	6.94	18.39
Market capitalization as of 31 Dec (M€)	-	-	5,755	15,250

[1]Excludes unbundling effect (capital gain and net costs)

Apart from the figures indicated with IFRS, figures presented exclude inventory effects and other non recurrent events and are not subject to auditing. 2004 figures are only adjusted by inventory effect.

05 ACTIVITIES

We are on the most distant places
of the world discovering
and producing energy to our clients
where ever they need it.

2007
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5.1 **EXPLORATION & PRODUCTION**

"Galp Energia's exploration and production operations span across all continents, mainly Africa and South America.

With a recognised history of successful partnerships with IOCs such as Eni, Chevron, Total, and NOCs such as Petrobras, PDVSA and Sonangol, Galp Energia has benefited from its position as Portugal's standard-bearer to strengthen relations with Portuguese-speaking countries.

Its flexible structure and smaller size when compared with the IOCs' help Galp Energia in a faster way to seize geopolitical opportunities as they arise on the international scene and manage political and geological risk in a balanced manner.

Galp Energia participates in exploration, development and production projects that use cutting-edge technology, particularly in deep and ultra-deep water.

The company's portfolio in this segment consists primarily of exploration and development assets providing a basis for predominantly organic growth".

Fernando Gomes

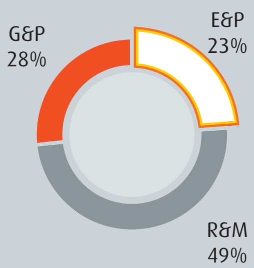
Executive Director
Exploration & Production

	2004	2005	2006	2007
Working average production (kbopd)	5.1	5.0	9.5	17.0
Net entitlement average production (kbopd)	4.5	4.3	7.2	12.5
Average sale price (Usd/bbl)	31.1	44.6	57.6	70.0
Opex (Usd/bbl)	6.1	6.4	4.2	4.4
EBITDA replacement cost adjusted (million Eur)	26	40	100	206
Operating result replacement cost adjusted (million Eur)	(18.9)	18	66	150
Capex (million Eur)	71	82	106	193

THE TUPI DISCOVERIES ON BLOCK BM-S-11 IN BRAZIL'S SANTOS BASIN HAVE TRANSFORMED GALP ENERGIA'S BUSINESS PROFILE

The average annual increase of 49% since 2004 testifies to sustained production growth achieved by Galp Energia

Relative weight of the E&P business segment in terms of EBITDA replacement cost adjusted in 2007



MAJOR EVENTS IN 2007

- Confirmation of important discoveries on Block BM-S-11 (Tupi) and Block BM-S-21 (Caramba) in Brazil's Santos basin offshore;
- New discoveries on Blocks 14 and 32 in Angola;
- Acquisition of a further seven blocks in Brazil's ninth licensing round;
- Agreement with the Portuguese state for the exploration of oil off the Alentejo coast and the Lusitaniana basin in a total of seven blocks;
- Agreement with Eni for the exploration of five blocks in East Timor and one block in Mozambique.

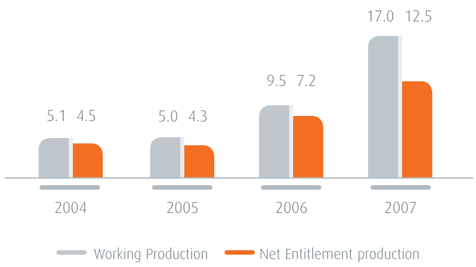
OPERATIONAL PERFORMANCE

ANGOLA

PRODUCTION

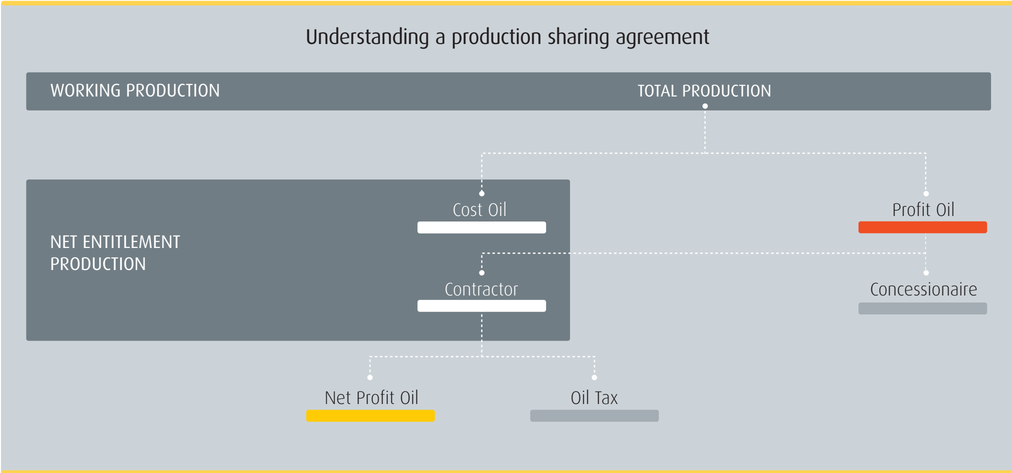
Galp Energia's current output of crude oil comes entirely from Block 14 in the Angolan offshore. With three fields under operation, this block had a working production of 17.04 kbopd in 2007, largely above the level of 9.47 kbopd in 2006. The average annual increase of 49% since 2004 testifies to sustained production growth achieved by Galp Energia. The largest single contributor to the increase in production in 2007 was BBLT, with a working production of 13.77 kbopd or 81% of the total. Net entitlement production rose 73% compared to 2006.

Production in Angola (kbopd)



On the BBLT field, retooled facilities led to processed volumes of light oil above the initially installed nominal capacity. Operational difficulties emerged, however, towards the end of the year due partly to delays in the probing campaign which led to a lower number of development wells under operation and partly to restrictions on well completion. These setbacks led to lower production compared to the levels achieved earlier in the year, a situation that is likely to last into the first half of 2008.

In order to identify the best solution for developing the Kuito field after expiry of the FPSO lease agreement in 2009, a review has been initiated on how the project should be managed after 2009. In 2007 a development well was drilled on the Kuito field with a view to boosting recovery rates.



Cost Oil
Fraction of production that is allocated to recovering the contractor's costs, between 50% - 65%.

Profit Oil
Shared between the contractor and the Concessionaire at the terms agreed in the contract. Varies from 10% to 70%, depending on current IRR.

Galp Energia's shares in Angolan blocks

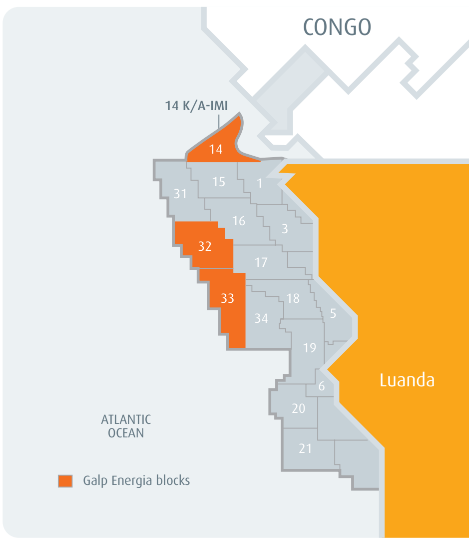
Block	Galp Share	Operator
Block 14	9.0%	Chevron
Block 32	5.0%	Total
Block 14 K/A - IMI	4.5%	Chevron
Block 33	5.0%	Total

The consortium exploring Block 14 focused its development activities on the BBLT field, where nine development wells were drilled. The Tomboco and Benguela reservoirs had their first oil and BBLT's intermediate oil started to be transferred to Kuito's FPSO.

The EPCI stage, planned into TL's development project and involving the simultaneous manufacture of structures and equipment in various parts of the world, proceeded as scheduled. Three pre-development wells were drilled on the TL field and at the end of July the injection of water started into the Landana-Norte well, the only one currently in production.

In addition to its development production activities, Galp Energia continues to actively explore other areas on Block 14. In 2007 the company drilled two new exploration wells, the Lucapa and the Malange, which revealed two new significant oil discoveries. The applications for denominating the development areas have been filed with the Angolan authorities and appraisal of the discoveries will proceed in 2008.

E&P Portfolio in Angola



Two significant oil discoveries on Block 14 in Angola

On the Negage project, the feasibility studies for tie-back to an adjacent block proceeded, although it was concluded that the best development option should instead be an autonomous one providing for staggered development under an FPSO.

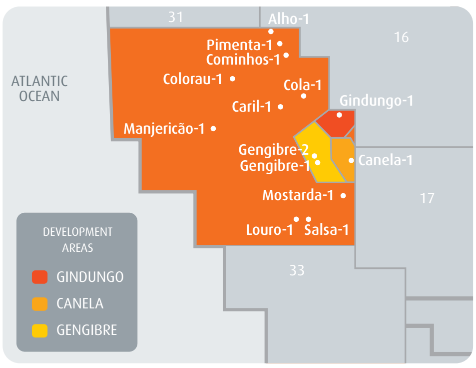
The Gabela project advanced on the basis of the information collected by the Gabela-2A well, which was drilled at the end of 2006, and feasibility studies proceeded.

Block 14 in Angola

Although the exploratory period agreed with the Angolan authorities for Block 32 expired at 31 March 2007, the consortium exploring this block applied for and obtained an additional exploration period of two years which led to exploration activities proceeding throughout 2007. Seven new explanation wells were drilled which eventually revealed five new promising oil discoveries and allowed the evaluation of two previous discoveries. In addition, technical feasibility studies of earlier discoveries by the consortium where Galp Energia participates progressed and the Louro discovery was integrated into the future development cluster.

Five new oil discoveries in seven new appraisal wells on Block 32

Block 32 in Angola



On the unexplored area of this block, the long-offset seismic profiling proceeded.

Galp Energia is also part of a consortium that explores Block 14K/A – IMI. Scheduled work proceeded according to a CDP submitted to the ISC, which included the execution of pre-development well KX-4, making it possible to appraise the potential of reservoirs that are contiguous to the Landana Oeste area, located on Block 14. The project's tax architecture, which was agreed between the parties, was submitted to the ISC for approval. This project is expected to be developed in 2008, benefiting from its proximity to Block 14 through a connection to the infrastructure of either the BBLT or the Kuito fields, a decision that has not been made yet. In the meantime, two wells have been drilled for future production.

On Block 1/82, removal of the production structure and the piping lines on the sea bed continued.

On the Cabinda Centro block, where Galp Energia had a 20% share for which it paid no signing bonus, Devon, the operator of the block, announced that has ceased its operations in Angola. Following this announcement, Sonangol, in its capacity as concession holder, cancelled the PSA and the block was included in the next bidding round, to take place in 2009.

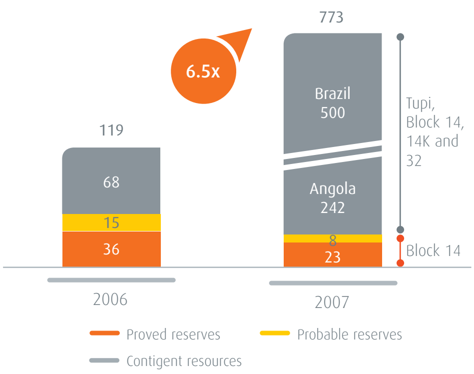
BRAZIL

BRAZILIAN OFFSHORE

On the offshore blocks operated by Petrobras, the Tupi Sul - located on Block BM-S-11 in the Santos basin and the first well to appraise the Tupi-1 well discovery in 2006 – started to be drilled in May for a cost of over 83 million euros. The Tupi Sul lies approximately 10 km away from Tupi-1 and was completed in July 2007. The first appraisals reported by Petrobras point to recoverable volumes of five to eight billion barrels of oil. Following this discovery, preliminary studies towards a fast-track development project in two stages were initiated. The first stage is planned to consist of a long-term test using an FPSO for a period of six to twelve months, when daily production is likely to reach 20,000 barrels. The second stage, which is a pilot test, will have four production wells for a period of two years with daily production between 80,000 and 100,000 barrels. After this test, development will be staggered and use a large-scale FPSO, i.e. with close to ten wells, which may eventually reach a production of 200 kbopd. Full development of the field will entail multiple stages – between five and ten – using several FPSOs, with production expected to reach 1,000 kbopd. The mentioned production levels are based on preliminary estimates by Petrobras, the block operator. More reliable production levels for these tests can only be ascertained by more detailed studies

On the other blocks in the Santos basin two exploration wells were drilled – BM-S-21 (*Caramba*) and BM-S-24 (*Júpiter*) – the last one in 2008, which proved the existence of hydrocarbon reservoirs. Appraisal of Júpiter, a discovery that may cover a similar area to Tupi's according to Petrobras' announcement in January – is planned for 2008. The difference is that this discovery was mainly of gas and condensate.

Reserves and contingent resources (million bbl)

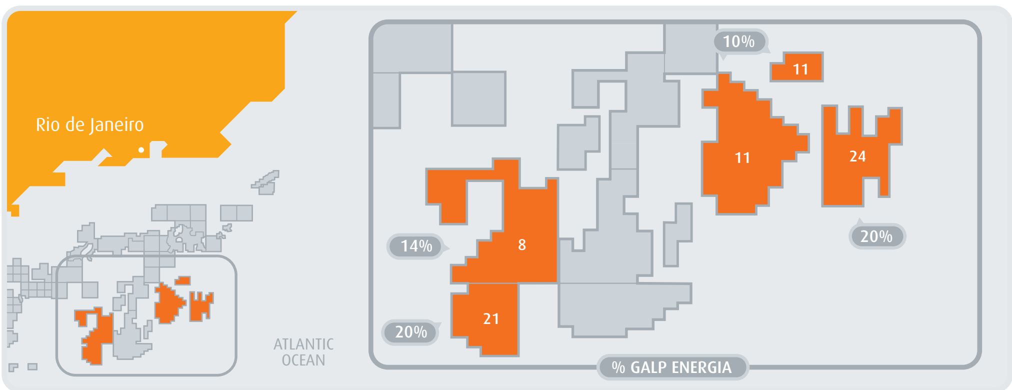


According to Degolver & Macnaughtor report.

The first appraisals reported by Petrobras point to recoverable volumes of five to eight billion barrels of oil

On the remaining offshore blocks, five in Potiguar Basin and one in the Espírito Santo Basin the seismic interpretation and prospect identification works proceed

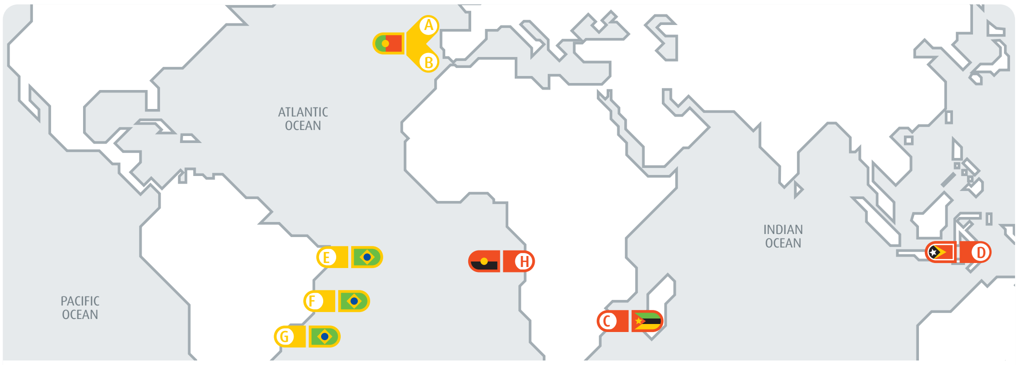
Santos Basin in Brazil



BRAZILIAN ONSHORE

In the Brazilian onshore, Galp Energia is in the Espírito Santo, Potiguar and Sergipe/Alagoas basins. Although these operations are not comparable in dimension to those in the Brazilian offshore, Galp Energia sees its participation in these ventures as a way of gaining experience as operator in a controlled-risk environment. In these three basins, Galp Energia has shares in 41 blocks, 26 of which it has the role of operator. In 2007 an accelerated probing programme was started, whereby 12 wells were drilled on the blocks operated by Galp Energia, five of which resulted in a notice of discovery, implying a success rate of 42%. On the blocks operated by Petrobras, four exploration well were drilled one of which resulted in a discovery. These discoveries will be appraised in 2008.

EXPANSION AREAS



Royalties PSA

	A	B	C	D
	Lusitaniana Basin	Alentejo Basin		
Area	12,159 Km²	9,099 Km²	17,000 Km²	12,183 Km²
Water depths	200 m - 3,000 m	200 m - 3,000 m	até 2,600 m	0 m - 2,000 m
% Galp Energia	30%	10%	10%	10%
Operator	Petrobras	Tullow Oil	Eni	Eni
N.º Blocks	4	3	1	5

	E	F	G	H
	Pernambuco Basin	Campos Basin	Santos Basin	Natural gas exploration and production activities Angola LNG II
Area	1,713 Km²	85 Km²	519 Km²	
Water depths	1,000-2,000 m	até 400 m	até 400 m	
% Galp Energia	20%	15%	20%	10%
Operator	Petrobras	Petrobras	Petrobras	Sonangás
N.º Blocks	3	1	3	

Acquisition of seven blocks in the ninth bidding round in Brazil

Galp Energia looks actively for projects that will secure the long-term procurement of oil and natural gas needed to supply its Portuguese and Spanish markets and attain its ambitious medium- and long-term goal of achieving sustained production of 150 kboepd. This was the reason behind Galp Energia's acquisition in 2007 of shares in the twenty blocks shown on the map, seven of which were acquired in the ninth bidding round launched by the Brazilian government.

In 2007, Galp Energia also entered the natural gas sector in Angola through its participation in a consortium designed to conduct appraisal and exploration activities in the Angola LNG II project. In addition to Galp Energia, Eni, Sonangas, Repsol, Gas Natural and Exem are also part of the consortium.

Galp Energia is also reviewing a project portfolio that includes the exploration and production of oil and natural gas in Libya and Venezuela. With PDVSA, the company has signed an agreement for joint exploration and production activities. Among the projects under review there is Galp Energia's participation in the Magna Reserva project, which aims to quantify as well as certify oil reserves in the Orinoco Oil Belt, and the DCLNG project, whose aim is to develop gas in the Venezuelan offshore.

5.2 **REFINING, SUPPLY & LOGISTICS**

"Galp Energia has a modern refining system in the Iberian Peninsula, which is connected to an efficient logistics network supplying mainland Portugal from north to south as well the Azores and Madeira islands. With a combined daily capacity of 310 thousand barrels, the Sines and Porto refineries processed in 2007 crude oil from over ten countries to obtain a broad product range where gasoline and middle distillates predominate.

The refineries' products find a market not only in Portugal but also abroad, particularly in the United States.

Following closely its clients' changing needs, Galp Energia is confident the decision made in 2006 to change its refining operation in order to boost its conversion capacity will be instrumental in enhancing its competitiveness in the medium and long term".

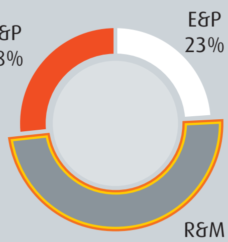
Marques Gonçalves

Executive Director
Refining, Supply & Logistics

	2004	2005	2006	2007
Crude processed (kbopd)	259	267	270	252
Galp Energia refining margin (Usd/bbl)	6.0	7.2	5.4	5.5
Refined product sales (M ton)	15.1	15.9	16.2	16.0
Refineries net operating costs (Eur/bbl)	1.1	1.2	0.8	1.5
EBITDA replacement cost adjusted R&M (million Eur)	594	552	557	435
Operating result replacement cost adjusted R&M (million Eur)	388	338	356	261
Capex R&M (million Eur)	165	142	131	168
Exchange rate (Eur/Usd)	1.24	1.24	1.26	1.37

THE APPROPRIATE DECISIONS HAVE BEEN MADE TOWARDS EXTRACTING MORE VALUE FROM ASSETS EMPLOYED IN THESE ACTIVITIES

Relative weight of the R&M business in terms of EBITDA replacement cost adjusted in 2007



MAJOR EVENTS IN 2007

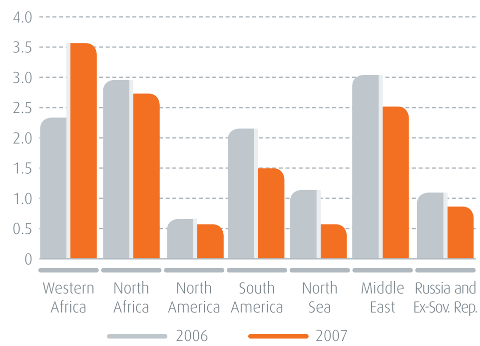
- Approval of the conversion project, selection of the entities that will license key equipment and completion of all basic engineering;
- Definition of the company's biofuel strategy;
- Award by the Port of Sines of the concession for Galp Energia to exploit the port's liquid bulk terminal.

OPERATING PERFORMANCE

13.8 million tonnes of raw material processed at Galp Energia's refineries

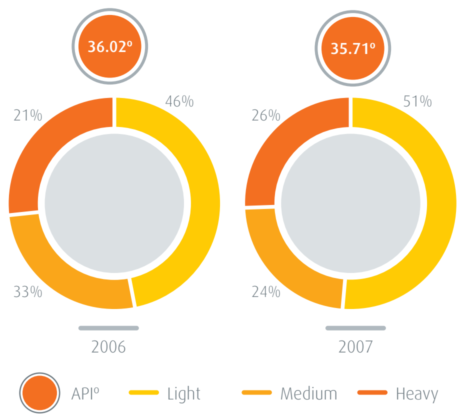
Galp Energia's refineries are strategically located on the Portuguese coast, which means they can receive crude oil from virtually all over the world, providing the company with a broad supplier base. In 2007 crude oil was imported primarily from Western and Northern Africa and the Middle East, three regions that accounted for a combined 72% of the total. Out of the 14 countries that supplied crude to Galp Energia in 2007, Libya was the most important one with 15% of the total, evidencing the company's low dependence on a single supplier.

Sources of crude (Mton)



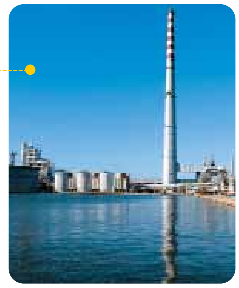
In 2007, 13.8 million tonnes of raw materials – of which 89% was crude oil – were processed at the Galp Energia refineries. The overall 6% decrease compared to 2006 was due to the stops for maintenance at both refineries – Sines and Porto. The stops are seen by the company as a prerequisite for refineries' reliable operations.

Grades of crude processed



MAIN ASSETS

SINES REFINERY



• Came into operation in 1979 • Refining capacity: 220 kbopd • Type: Cracking • One of Europe's most modern refineries • Includes two vacuum distillation units, one FCC plant, one visbreaker and two diesel hydro desulphuration units • Produces reformulated gasoline to export to the North American market since the nineties • Nelson Complexity Index of 5.3 and Solomon Complexity Index of 7.6 • Storage capacity: 3,031 thousand cubic metres • Number of staff: 458 • General maintenance scheduled for September/October 2008

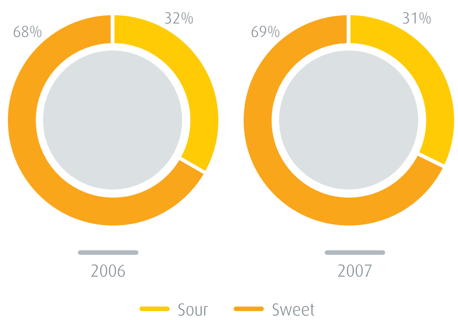
PORTO REFINERY

• Came into operation in 1969 • Refining capacity: 90 kbopd • Type: Hydroskimming • Includes a fuel plant, an aromatics plant, a base oil plant and a lubricant-blending unit • Production of paraxylene, ortoxylene, toluene and benzene for the domestic and export markets • Nelson Complexity Index of 6.9 and Solomon Complexity Index of 7.9 • Storage capacity: 1,986 thousand cubic metres • Number of staff: 471 • General maintenance scheduled for 2012

The grades of processed crude were optimised according to the capacity of each refinery unit and target production profiles. Galp Energia can process crude which is heavier than Brent, which means its crude basket price was 4% lower than the price of Brent. Although the mix of processed crude went through some change between light, medium and heavy grades, API gravity was virtually unchanged at 35.7º, compared to Brent's approximate 38.9º.

Given the current desulphuring capacity, sweet crude is the most used.

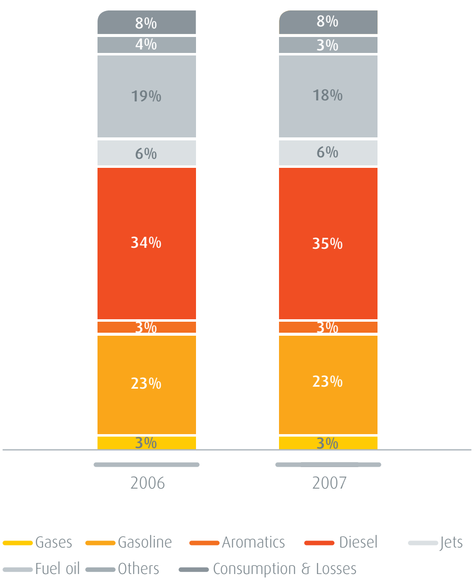
Shares of sweet and sour crude



Middle distillates and gasoline represent 63% of the total

Middle distillates and gasoline continue to be the most important refined products, with 40% and 23% of the total, respectively.

Production yield



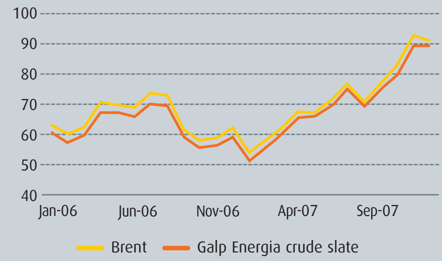
Consumption & losses with an approximate weight of 8%, in combination with high crude prices, led to higher energy costs, impairing refining margins.

Total sales of 16.0 million tonnes of refined products

Total sales of 16.0 million tonnes were broken down into 59% to direct clients, 15% for export and the remainder to other operators. Domestic sales of oil products benefit from the location premium, the difference between CIF and FOB prices not captured by export sales, benefiting Galp Energia on the sales to the Iberian market.

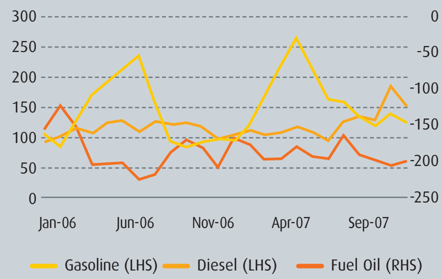
MARKET ANALYSIS

Crude price (Usd/bbl)



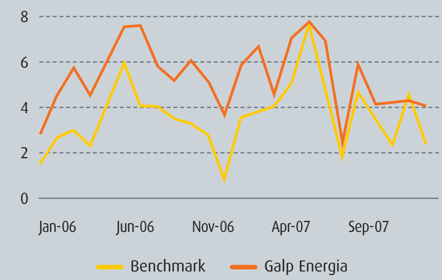
Galp Energia's crude basket its at a discount to the Brent.

Crack spreads (Usd/ton)



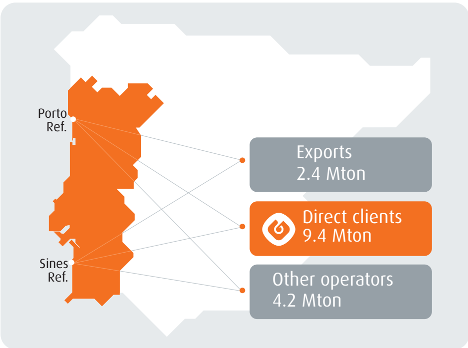
The dynamics for various oil products differs.

Refining margins (Usd/bbl)

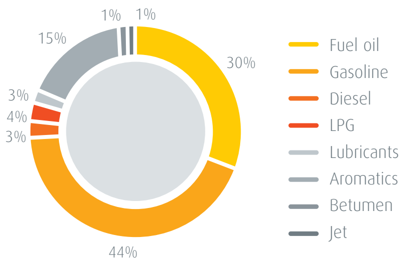


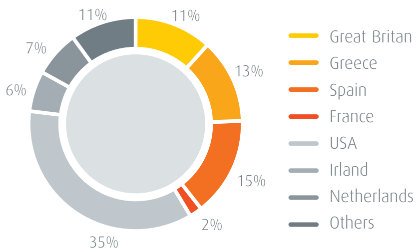
Galp Energia's refining margin follows benchmark evolution.

Sales of refined products



Exports profile in 2007





9.4 million tonnes in sales to direct clients

The 4% increase to 9.4 million tonnes in sales to direct clients, coupled with lower refining volumes, led to a 24% decline in exports. This did not hinder, however, that 2007 was, in volume terms, the second best exporting year ever after 1999.

Gasoline and fuel oil continued to be the most important products, with 44% and 30% of the total, respectively. The United States is the main export market, especially for gasoline.

The Porto refining operation includes a unit for the production of aromatics, which represented 3% of Galp Energia's total production in 2007. Sales of aromatics reached 530 thousand tonnes, of which 188 thousand went to the Iberian market and 341 thousand to exports. Products for the Iberian market include mainly solvents, paraffin and sulphur for the manufacturing industry, which is Galp Energia's natural market. Export products are mainly bound for Europe and consist primarily of sulphur, solvents and paraxilene, mostly for the petrochemical industry.

PROGRAMMED MAINTENANCE

The United States is the main export market

The refineries' general stops occur every four years and their main purpose is the maintenance of equipment which otherwise is not possible when the refinery is operating. High efficiency and reliability hinges on these stops, which means they are very important for a company like Galp Energia.

In October and November, the Porto refinery had its maintenance turnaround, a complex one that involved all the units including the fuel, base oil, utilities and aromatics plants. The main objectives for this stop were to lengthen equipment lifecycles, to restore efficiency levels, to overhaul machinery and to prepare for linkages with other projects. The total cost of the stop was 35 million euros.

The maintenance turnaround at the Sines refinery is scheduled for the end of September 2008. During the stop, several units will be restructured. This will particularly include the catalytic cracking, which will be the subject of a comprehensive overhaul, and a new reactor which will increase the efficiency of this unit.

MORE ROBUST LOGISTICS

Galp Energia won the tender for the concession to operate the country's largest liquid bulk terminal

Galp Energia's logistical platform can presently supply not only the entire domestic territory including the Madeira and Azores islands but also a significant part of the Spanish territory through a terminal in Valencia and an equity holding in CLH, a Spanish logistic operator. Galp Energia also has swap arrangements with Spanish operators with a presence in the Portuguese market, whereby oil products are swapped between the companies in order to raise supply efficiency.

In 2007 Galp Energia won the tender for the concession to operate the country's largest liquid bulk terminal, located at the port of Sines. This infrastructure has a critical role in the operation of the refinery as most products are shipped from the port that also receives the crude to be processed in the refinery. This transaction is subject to the approval of the relevant authorities.

Galp Energia also operates the Leixões terminal which supports the Porto refinery, particularly through a monobuoy that was in full use in 2007. This piece of equipment that allows ships of up to 130,000 dwt to be loaded and unloaded off the coast brought flexibility gains to both sources and volumes of handled crude. In particular, the number of chartered vessels could be reduced as reception capacity increased, which curbed the risk of supply disruptions and demurrage costs.

OUTLOOK

MAKING THE REFINING OPERATION MORE COMPETITIVE

One of Galp Energia's main objectives is to improve the competitiveness of its refining operation. To this end, the company approved a capital budgeting plan designed to optimise and integrate the two refineries while extracting more value from its assets.

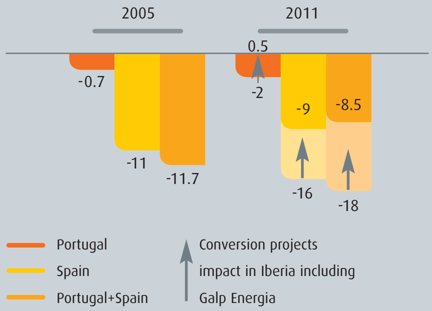
This plan features prominently a conversion project whose purpose is to raise diesel production by 2.5 million tonnes in 2012 as production of fuel oil is reduced by approximately one million tonnes. The increase in diesel production will allow the company to meet recent trends in the Iberian market, where the demand for diesel has been growing, and to benefit from the spread between diesel and fuel oil prices in international markets. In addition, conversion project will make it possible to process heavier crude which is currently available at lower prices on international commodity markets. This change also implies an adjustment to the market for crude where the supply of lighter grades tends to decline over the medium and long term.

On the basis of their favourable impact on complexity and, consequently, on refining margins, the planned changes to the refining operation will extract more value to shareholders from existing assets.

In 2007 a tender was completed for the acquisition of licences for the new units. The basic design started to be done and the licensing entities concluded all basic engineering. At Sines, licences were selected for the VGO hydrocracker and the steam reformer and at Porto, licensing included the vacuum and visbreaker.

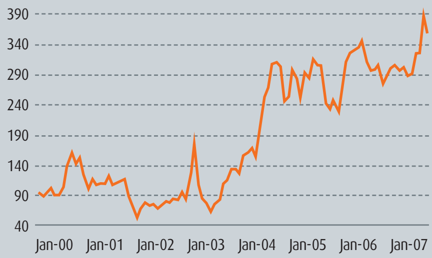
RATIONALE BEHIND THE CONVERSION PROJECT

Diesel deficit on the Iberian Peninsula (million tonnes)



Source: Purvin & Getz

Spread between diesel and fuel oil prices (Usd/ton)



Source: Platts

The conversion project aims to increase diesel production and decrease fuel oil

In June and July bids were invited for the selection of the main contractors to develop the detailed engineering and early procurement of critical equipment. The chosen companies were Técnicas Reunidas, S.A. for Sines and Fluor Ltd. for Porto, which both started their work in September.

Técnicas Reunidas, S.A. and Fluor Ltd. where the companies chosen to develop the conversion project in Sines and Porto respectively

CURBING ENERGY USE

The construction of two natural gas cogeneration plants on the refineries will have an important contribution to the reduction of consumption & losses

Alongside the conversion project, another project is in progress for raising energy efficiency at the refineries by reducing consumption & losses level, which weigh heavily on refinery operating costs, particularly with the price of crude hovering around the 80-100 Usd/bbl range.

In parallel, and implying an important contribution to the reduction of consumption & losses, two natural gas cogeneration plants with a capacity of 82 MW each are under construction at the Sines and Porto refineries. These plants are planned to replace the present fuel oil boilers, which will boost reliability in the supply of energy to the refineries. In addition, the plants will contribute to reducing domestic emissions of CO_2, SO_2 and NO_x and local emissions of SO_2. The cogeneration at Sines will come into operation in the fourth quarter of 2008, with its connection facilitated by the refinery general stop.

PURSUING THE BIOFUEL PATH

Hidrogenated biodiesel has a clear competitive advantage over FAME

After the Portuguese government's call for the incorporation of 10% of biofuels by 2010, bringing forward the 2020 European Union goal, Galp Energia set out to produce hydrogenated biodiesel, an activity judged to fit into its core business.

If we look at both value chains, the similarities are obvious despite differences in the procurement of raw materials and logistics. Indeed, vegetable oils are accessed through bilateral agreements where commercial risk is shared while transportation and storage have to be adapted to the specificity of the raw material. Galp Energia sees biofuels as an improvement on present road fuels and has chosen to develop integrated actions across the whole value chain, from transformation of the vegetable oil to distribution of the biofuel.

Among currently available biofuels, Galp Energia opted for the production of hidrogenated biodiesel which has a clear competitive advantage over first-generation biodiesel or FAME whose incorporation into the final diesel product is, for technical reasons, limited to just 5%, which is insufficient to attain the goal set by the government.

Despite its focus on the production of hydrogenated biodiesel, Galp Energia has since 2006 incorporated about 3.2% of FAME biodiesel volumes into diesel sold in the domestic market. Independent domestic producers have been the source of this biodiesel.

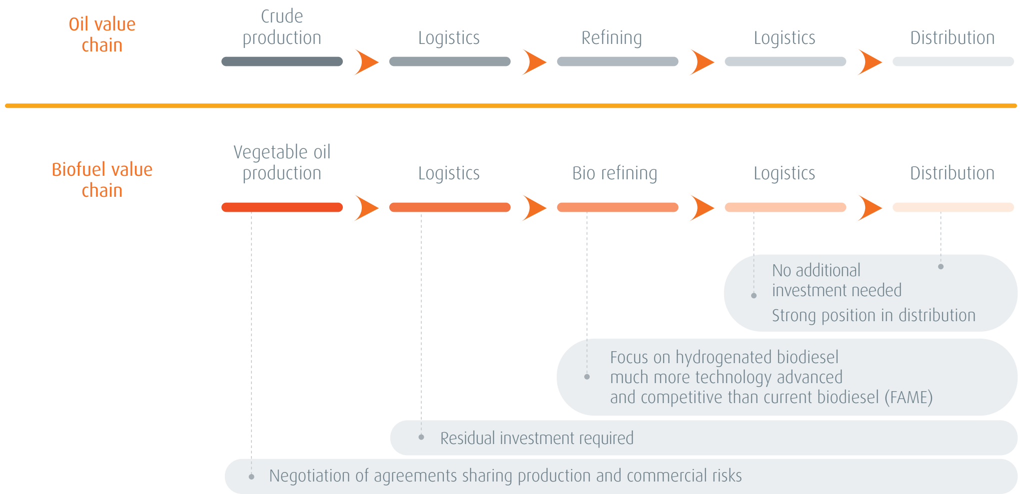
Hydrogenated biodiesel not only presents advantages over FAME. As a higher-quality product that sets no limits to incorporation because of its full compatibility with mineral diesel, hidrogenated biodiesel may be integrated in the current logistical chain with the further advantage of reducing emissions of CO_2, NO_x and sulphur, thereby contributing to the widespread use of environmentally friendly fuels.

To this end, Galp Energia aims to set up production units for biodiesel using innovative Ecofining technology that is based on catalytic hydrogenation and isomerisation of vegetable oils.

Nonetheless, the success of this strategy critically depends on competitive and sustainable procurement conditions, knowing that the market for these raw materials is far less liquid than the market for oil. To this end, Galp Energia aims to promote farming projects on uncultivated land and to give priority to non-food crops such as jatropha and castor oil plant, which do not compete with the food chain, and to soils of lower farming potential. An invariable precondition, though, is that environmentally and socially certified raw materials are used.

In the light of this strategy, Galp Energia signed in July a memorandum of understanding with Petrobras with a view to covering at least 50% of its vegetable oil needs through the annual production in Brazil of 600,000 tonnes and the production, marketing and distribution of biodiesel in the domestic and European markets.

Biofuels, a natural extension of the Galp Energia business



Agreements in Brazil and Mozambique to satisfy future vegetable oils needs

In 2007 an agreement was signed with Mozambique's Companhia do Búzi for the development of farming activities such as growing oilseeds on a 40 thousand hectare area, plus an additional area in agriculture extension regime, for transformation into vegetable oil to be mostly exported to Portugal for subsequent processing at Galp Energia's refineries. A partnership has also been recently agreed with Visabeira resulting in the set-up of Moçamgalp, a company whose purpose is to grow jatropha on a 50,000-hectare tract of land, also with agriculture regime extension, for the production of vegetable oil. These two projects will allow reaching a vegetable oil production target above 200 thousand tonnes per year.

These commitments derive not only from Galp Energia's environmental responsibility but also from its stated purpose of environmentally certifying vegetable oils produced, thereby achieving positive energy and carbon outcomes.

Technical Characteristics Vs. Mineral Diesel

	FAME	HYDROGENATED BIODIESEL	COMMENTS
Heating power	(12%)	+1%	Better combustion
Cetane number	+35%	+100%	and performance
CO_2 emissions	(60%)	(75%)	Lower emissions
Sulphur	(90%)	(90%)	
NO_2 emissions	+10%	(10%)	
Oxidation Stability	Marginal	Good	Higher utilization range
Cold filter plugging point	Between -5ºC e 15ºC	Between -5ºC e -30ºC	
Density	+5%	(8%)	Better diesel blend

5.3 MARKETING OF OIL PRODUCTS

"The Marketing of Oil Products division sells in Portugal and Spain most of the products refined by Galp Energia. With a network of over 1,000 service stations and 210 convenience stores, Galp Energia is the market leader in Portugal and has an increasing presence in Spain where it capitalizes on high brand awareness.

In addition to the retail business, Galp Energia also has a relevant position in wholesale where it offers a broad range of products to the manufacturing, construction and transport sectors. In this business, LPG sales also play an important role.

As it looks forward to increasingly integrated refining and marketing activities, Galp Energia sees its expansion in Spain as an obvious option. Indeed, the Spanish market is growing faster than its Portuguese counterpart on top of offering geographical diversification. Galp Energia's purchase of AGIP's Spanish network is an important step in that direction".

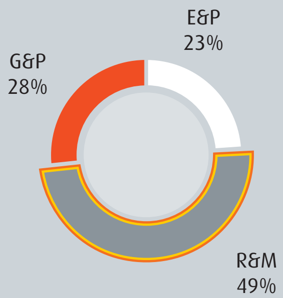
João Pedro Brito

Executive Director
Marketing of Oil Products

	2004	2005	2006	2007
Sales to direct clients (M ton)	8.5	9.4	9.0	9.4
Service stations (#)	1,094	1,060	1,045	1,038
Throughput per site (thousand m^3)	3.1	3.0	3.1	3.1
Convenience stores (#)	149	178	201	210
EBITDA replacement cost adjusted R&M (million Eur)	594	552	557	435
Operaing result replacement cost adjusted R&M (million Eur)	388	338	356	261
Capex R&M (million Eur)	165	142	131	168

GALP ENERGIA HAS BEEN INCREASINGLY INTEGRATING ITS REFINING AND MARKETING ACTIVITIES AND THE MARKETING-TO-REFINING COVER RATIO IS 72%

Relative weight of the R&M business segment in terms of EBITDA replacement cost adjusted in 2007



MAJOR EVENTS IN 2007

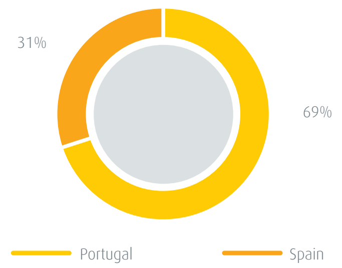
- The purchase of AGIP's Portuguese and Spanish network is agreed;
- GForce 95, another premium gasoline, is launched;
- A programme is launched to restructure the non-fuel business and create *Tangerina* as a single label;
- A new computerised platform is implemented to support service station management.

OPERATING PERFORMANCE

AN INCREASINGLY INTEGRATED BUSINESS

Pursuing one of its top strategic priorities, Galp Energia raised in 2007 the ratio by which its marketing business covers its refining activities. Using average production of the last three years as a yardstick, the cover ratio rose from 68% in 2006 to 72% in 2007. This improvement was achieved by rising sales in the Iberian market – to the detriment of exports – which raised the share of higher-value business.

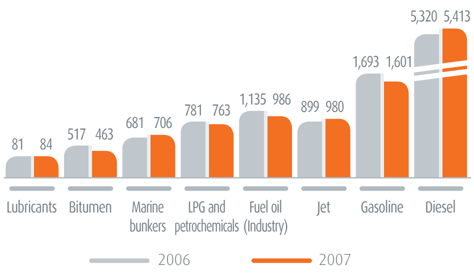
Country share of Iberian sales in 2007



In the Iberian Peninsula, Galp Energia's sales grew 4% to 9.4 million tonnes. Spain, where sales progressed 11%, achieved 31% of the total, which provided evidence that the expansion into Spain is yielding good results.

In Portugal, the company could counter a shrinking market and report a 1% sales increase. Despite an overall decline of 1% in the Portuguese market for oil products, sales of jet fuel, marine bunkers and diesel went up.

Market for oil products in Portugal
(thousand tonnes)



Source: General Division of Energy and Geology

In Spain sales of refined products represent 31% of the total

In Portugal, the company could counter a shrinking market and report a 1% sales increase

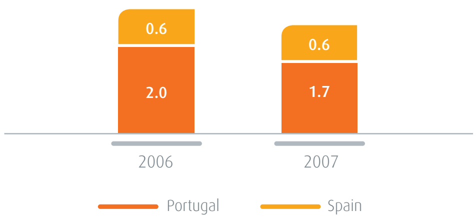
In Portugal, Galp Energia's average sales by service station are clearly above the market average which is reflective of Galp Energia's higher efficiency compared to the competition

On the other hand, lower gasoline sales resulted from the gradual substitution of gasoline for diesel, a feature of the market for oil products in recent years. Evidence of this trend is the 64% share of diesel-powered cars in total registrations in Portugal.

AN INCREASINGLY EFFICIENT RETAIL NETWORK

Galp Energia managed to keep its 37% share of the Portuguese retail market, thus defending its leadership position despite falling sales and rising competition. In Spain, sales declined slightly as the network was streamlined.

Sales volume (M ton)

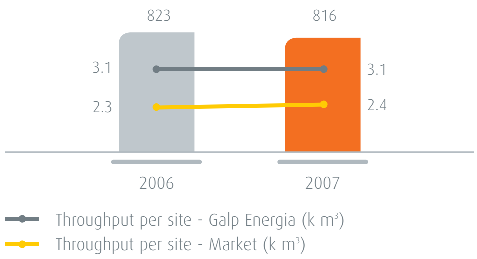


Galp Energia aims to reach in two years a penetration rate of 15%

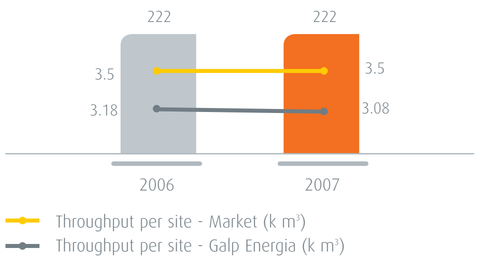
Average sales by service station, among other indicators, measure the efficiency of a retail network. In Portugal, Galp Energia's average sales by service station are clearly above the market average – 3,100 m³ against 2,400 m³ for the market – which is reflective of Galp Energia's higher efficiency compared to the competition. In Spain, average sales by service station were slightly below the market as the effects of a streamlined network were yet to be felt.

Galp Energia is implementing a performing computer system to help manage its service stations. This modern platform makes it possible not only to change prices at service stations remotely but also to follow sales progress at each service station in real time.

Number of service stations in Portugal



Number of service stations in Spain



FOCUS ON PREMIUM PRODUCTS

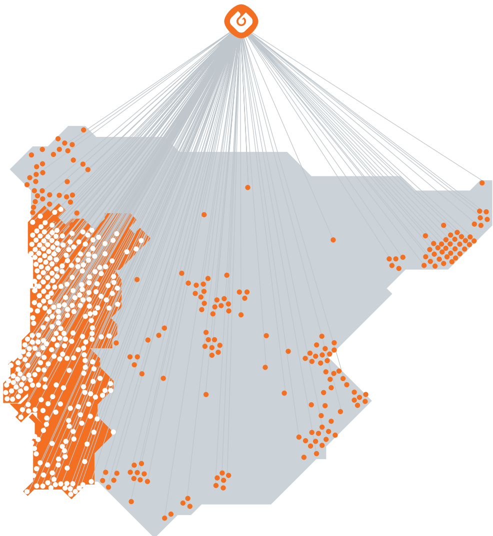
Galp Energia's objective for the premium segment is to introduce a premium version for each base product in an innovative penetration strategy that is unique in the domestic market.

In 2007 several products were launched and one of them was the Gforce 95 gasoline. Rising demand for 95-octane gasoline was an opportunity for Galp Energia to launch the first 95-octane premium gasoline, which once again evidenced the company's ability to innovate.

Sales of premium products in Portugal grew 15% in 2007, which led to an upgrade of the mix of oil products marketed in the country.

Galp Energia aims to reach in two years a penetration rate of 15% for its Gforce 95 gasoline in the domestic market. Achieving this objective will bring the company closer to the European average and more than double its current 7% rate.

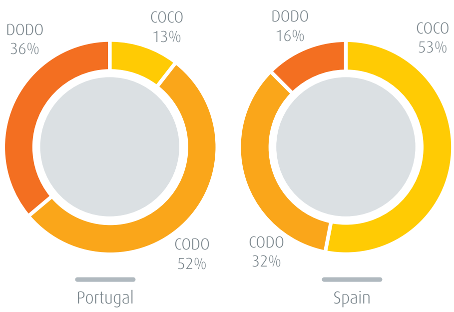
Service stations in Portugal and Spain



OPERATION MODELS

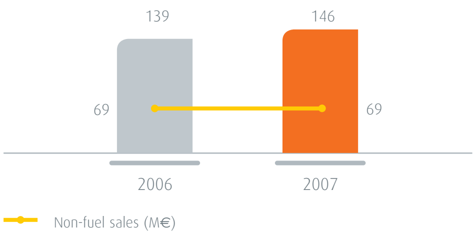
The model for operating Galp Energia's service stations has not changed significantly in recent years. In Portugal, 52% of the network is managed according to CODO model, meaning that the service station is the company's property but is operated by the reseller. In Spain COCO service stations owned and operated by the company account for 53% of the network.

Operation model at Iberian service stations (2007)



FOCUS ON THE NON-FUEL BUSINESS

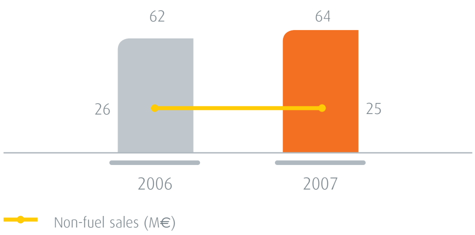
Convenience stores in Portugal



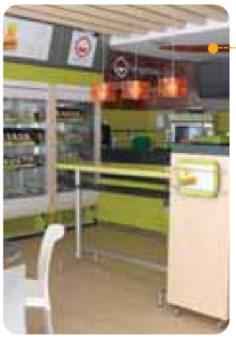
Because it helps to extract more value from existing assets, the non-fuel business is an obvious option to boost service-station profitability. Therefore, Galp Energia is pursuing its policy to expand its store network which currently has 210 outlets. In 2007 Iberian non-fuel sales were stable.

Non-fuel business is an obvious option to boost service-station profitability

Convenience stores in Spain



Up to the end of 2007, Galp Energia's Portuguese store network was basically divided into two labels: M24 and Tangerina, where the former was the result of a joint venture with Sonae in which Galp Energia owns 75%. M24 stores are simultaneously convenience stores and small supermarkets offering a broad range of products and are preferably located at company-operated service stations. Tangerina stores have a narrower product offering and are operated by Galp Energia resellers.



With a view to creating a single label and concept, Galp Energia launched a project designed to group under the Tangerina brand both eponymous and M24 stores. The possibility has also been envisaged for the label and concept to be extended to small reseller stores, thereby expanding the network of stores managed under the same brand.

The main goal of this repositioning is to focus on impulse shopping while upgrading the products on offer and reducing the offered ranges by 50%, with a concentration on higher-priced products.

At the same time, a unique cafeteria concept was created – the *Tangerina Caffé*.

A STRONG BRAND

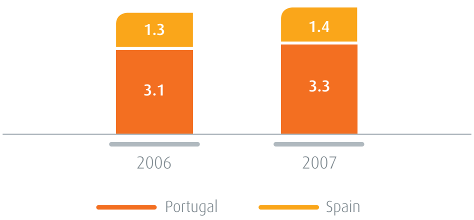
The Galp Energia brand is a strategic company asset in so far as it has supported growth of the business and will support implementation of the company's strategy in the future. Growth in the Spanish market for oil products has, for one, been decisively supported by the brand. Galp Energia is today one of the Portuguese brands with the highest recognition in Spain, according to a survey by the Portuguese-Spanish Chamber of Commerce.

In 2007 Galp Energia was awarded once again the status of Superbrand and Trusted Brand in Portugal. The brand's differentiation and relevance for the company's clients has thus been recognised.

In 2007 Galp Energia was awarded once again the status of Superbrand

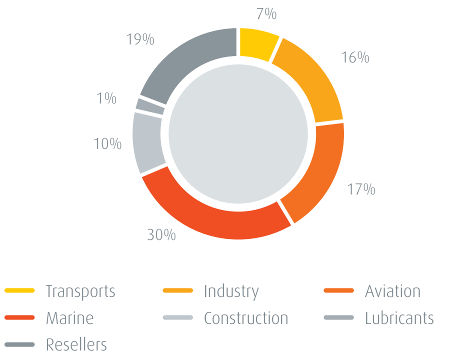
THE WHOLESALE BUSINESS

Sales volumes (M ton)



In the wholesale business, Galp Energia kept its leadership position in Portugal with a market share of 52%.

Sales by segment in 2007 (Portugal)

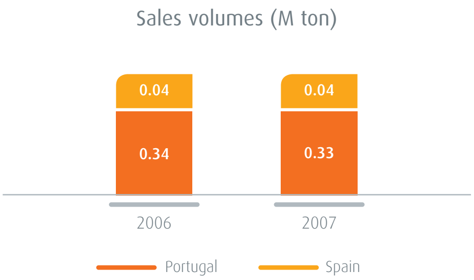


In the domestic market the rise in tourism supported growth in the aviation and marine segments. In tandem with the expansion of marine transportation trade in general and at Portuguese ports in particular, Galp Energia's position in the marine market was consolidated. The company's drive to sell low-sulphur fuel for ships bound for controlled sulphur emission zones was decisive in achieving that result. In lubricants Galp Energia also consolidated its position and raised its market share. This was achieved by reorganising distribution channels and exploiting new sales and logistical approaches that proved to be successful. In the bitumen business, a project was developed to facilitate transportation of this product in bags, making it possible to reach out to far-flung markets in developing countries.

In Spain, sales rose under the thrust of the aviation segment, itself driven by the operations in the airport on the Canaries coming into operation.

LPG – A MATURE MARKET

The main feature of the LPG market in 2007 was its maturity. Despite the growth in natural gas, sales of LPG in Portugal and Galp Energia's market share stabilised, the latter at close to 44%. By segment, bottled LPG is still the most significant one with around 65% of the total. The company also focused on expanding piped LPG which led to higher profitability for the business.



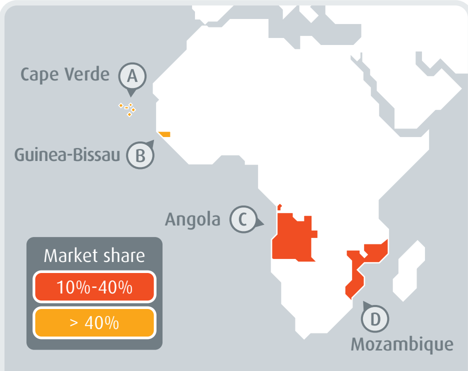
NEW PRODUCTS AND CAMPAIGNS

With a view to countering the decline in the market for LPG and creating new demand through new value-added products and services for clients, Galp Energia promoted the development of new LPG-driven products: the Cookspot barbecue and the Hotspot heater, both for outdoor use.

MARKETING OF OIL PRODUCTS IN AFRICA

Galp Energia also markets oil products in Africa, namely in Angola, Cape Verde, Guinea-Bissau and Mozambique, where economic growth in recent years has been high, particularly in Angola where GDP grew by 35% in 2007. This internationalisation strategy capitalized on the good African relations Galp Energia maintains in Exploration and Production activities and is likely to open the door to future partnerships in biofuels.

In 2007 international sales grew significantly in all areas, with a total of 369 thousand m³ being sold across Retail, Wholesale, LPG and Lubricants. The contribution to profit kept the favourable trend of recent years.



	Sales	Service Stations	Storage Facilities	Turnover
A	142 thousand m³	24	4	74 M€
B	20 thousand m³	8	2	15 M€
C	138 thousand m³	9	-	45 M€
D	68 thousand m³	21	1	36 M€
Global performance				
	369 thousand m³	**62**	**7**	**170 M€**

In 2007 international sales grew significantly in all areas

Hotspot Silver

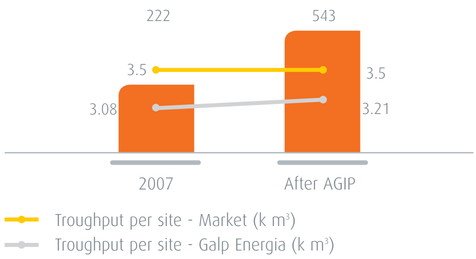
Hotspot Style

OUTLOOK

ACQUISITION OF AGIP'S NETWORK IN SPAIN AND PORTUGAL

Agreement with Eni to buy its AGIP network for marketing oil products in Portugal and Spain

Service stations in Spain

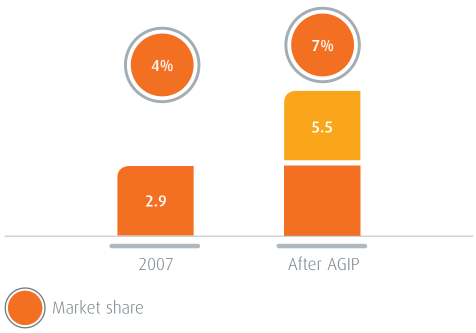


Source: Cores

In January 2008 Galp Energia agreed to buy from Eni its AGIP network for marketing oil products in Portugal and Spain. This transaction will raise the company's presence in Spain significantly.

The marketing-to-refining cover ratio should reach 91%

Sales volumes in Spain (M ton)



Source: Cores 2005

After completion of this transaction, which is scheduled for the first half of 2008, Galp Energia will manage over 500 service stations in Spain and achieve sales in excess of five million tonnes a year, that is, double the current volume and 7% of the Spanish market. This acquisition will be crucial for diversifying the business, with Spain delivering 46% of the sales in the Iberian Peninsula.

At the same time, this acquisition will give Galp Energia the opportunity to spread fixed costs for both overhead and logistics in Spain, thereby capturing synergies between the two networks.

Another immediate result of this acquisition will be the increased integration of marketing and refining activities. The marketing-to-refining cover ratio should reach 91% measured on the basis of the average production of refined products in the last three years.

5.4 **NATURAL GAS**

	2004	2005	2006	2007
Natural gas sales (million m^3)	4,014	4,234	4,596	5,377
Number of clients (thousands)	683	739	790	835
Natural gas fixed assets (million Eur)	1,411	1,416	725	727
EBITDA replacement cost adjusted G&P (million Eur)	218	284	229	254
Operating result replacement cost adjusted G&P (million Eur)	162	225	196	215
Capex G&P (million Eur)	93	88	112	103

EBITDA and operating result on a proforma basis in 2006. Exclude unbundling effect (capital gain and net costs)

"Galp Energia is proud to have been the prime force behind the introduction of natural gas in Portugal ten years ago. The company led the various stages for the development of this sector in the country, including the construction of high- and low-pressure infrastructure and the creation of a domestic market for natural gas.

Having signed contracts to purchase 6 billion cubic metres of natural gas a year from Algeria and Nigeria, Galp Energia supplies the whole mainland territory where it sold 4.2 billion cubic metres in 2007.

Liberalisation of the market for natural gas will pose stimulating challenges to Galp Energia. Much in the same way as it has positioned itself as the leading fuel supplier in a competitive market, Galp Energia anticipates a similar success in the free market for natural gas.

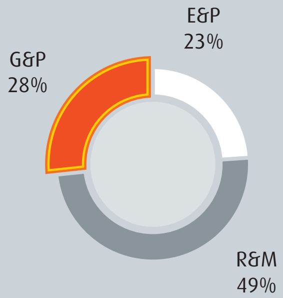
In a market where vigorous growth is expected, and given Galp Energia's purpose to operate on an Iberian scale, it will be crucial to secure access to new supply sources, a process currently under way".

Enrico Grigesi

Executive Director
Natural gas

GALP ENERGIA'S ENTRY INTO THE SPANISH INDUSTRIAL MARKET FOR NATURAL GAS, A MARKET 10 TIMES LARGER THAN ITS PORTUGUESE COUNTERPART

Relative weight of the G&P business segment in terms of EBITDA replacement cost adjusted in 2007



MAJOR EVENTS IN 2007

- Arrangements to prepare the natural gas business for the upcoming liberalisation;
- Start of regulated operations for natural gas companies;
- Award of licence to trade natural gas in Spain.

OPERATING PERFORMANCE

Build-up of the Nigerian contract for LNG ended in 2007

Sales of natural gas reach an all-time high of 5.4 bcm

Purchases of 5.4 billion cubic metres of natural gas in 2007 – 17% up from 2006 reflecting higher activity in the sector. Build-up of the Nigerian contract for LNG ended in 2007 which brought more flexibility to procurement management. Natural gas purchased from Sonatrach was transported from Algeria to Portugal by the EMPL pipeline and the Al-Andaluz and Extremadura pipelines in Spain.

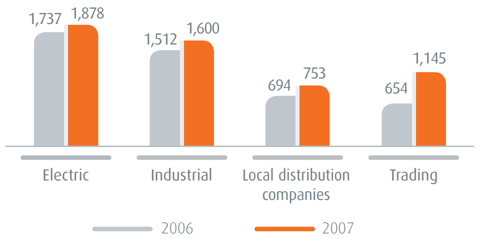
Sales of natural gas in Portugal went up by 7% in 2007, which confirmed the growing trend of this market following the still recent introduction of this energy source in Portugal in comparison with other European markets. Trading grew by 75% on the back of favourable conditions, particularly in Spain, where low hydro levels in the final months of the year induced demand for natural gas to produce electricity. This effect was also felt in Portugal where demand by the electrical sector rose by 8%.

In the industrial sub-segment sales rose 6% compared with 2006 and achieved a new annual record of 1.6 billion m^3 as ten new industrial clients were connected.

Sales to natural gas distributors reached 753 million m^3.

Sales of natural gas to distributors where Galp Energia has an equity stake reached 530 million m^3, with the household and industrial sub-segments growing at 8% and 6%, respectively, thereby confirming the market's growth potential.

Sales volumes (million m^3)



MAIN ASSETS

AGREEMENTS FOR PROCUREMENT OF NATURAL GAS

• Quantity: 6 bcm/year • Suppliers: Sonatrach from Algeria for natural gas and NLNG from Nigeria for liquefied natural gas (LNG) • Term: 2020/2026 • Option to take delivery anywhere in the Iberian Peninsula

INTERNATIONAL GAS PIPELINES

• Equity holdings in EMPL and the Spanish Al-Andaluz and Extremadura gas pipelines • Capacity: 3.7 billion cubic metres/year • Stable source of dividends: 37 million euros in 2007

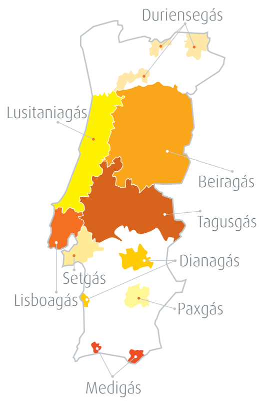
STORAGE

• Capacity: 40 million m^3 in operation, 45 million m^3 under construction and 110 million m^3 of potential development • RAB at 30 June 2007: 17 million euros • Return: 8% on regulated assets

MARKETING

• Equity holdings in five regional and four local natural gas distributors • Number of clients: 835 thousand • Length of distribution network: 9,758 km • Sales of natural gas: 530 million m^3

Galp Energia distribution companies



The number of clients grew by 45 thousand during the year to a total of 835 thousand. In 2007, Galp Energia continued its campaign to convert clients to natural gas, whereby 45 thousand new conversions were achieved.

The natural gas distribution network is now 9,758 km long, of which 933 km were built in 2007 for an approximate cost of 52 million euros.

Transgás Armazenagem, the new company for storage of natural gas, started operations in 2007 with a cavern in operation and the preparatory work and tests ahead of construction of the second cavern were completed in the year. Start-up of the cavern, which will have a potential of 45 million m^3 of natural gas, is scheduled for 2011.

A NEW BUSINESS MODEL

TEN YEARS OF NATURAL GAS IN PORTUGAL

Galp Energia celebrated in 2007 the 10th anniversary of the introduction of natural gas in Portugal.

Natural gas was introduced in Portugal with a view to making available a competitive, convenient and ecological source of energy while diversifying the country's energy resources and curbing the reliance on oil.

Galp Energia led this national project and participated in all stages of its development, both the construction of high- and low-pressure infrastructure and the creation from scratch of a market for natural gas in Portugal.

Galp Energia celebrated in 2007 the 10th anniversary of the introduction of natural gas in Portugal

ORGANISATION OF THE NATURAL GAS MARKET

THE MARKET BEFORE RECENT CHANGES

UP TO FEBRUARY 2006, THE PORTUGUESE MARKET FOR NATURAL GAS WAS DIVIDED INTO TWO BROAD AREAS. THE FIRST ONE CONSISTED OF THE ACTIVITIES COMPRISING THE IMPORT, STORAGE, TRANSPORTATION OF NATURAL GAS AND REGASIFICATION OF LIQUEFIED NATURAL GAS, WHICH WERE THE SUBJECT OF A CONCESSION AWARDED TO TRANSGÁS S.A., A GALP ENERGIA AFFILIATE.

The second area consisted of local and regional distribution activities conducted under a concession or licence to local and regional distributors where – except for Portgás – Galp Energia held significant equity stakes. Consumers buying less than 2 million m^3 a year were supplied by regional distributors or "concession holders" and local distributors or "licence holders" while clients buying more than 2 million m^3 a year were directly supplied by Trangás. For large clients, buying more than 50,000 m^3 a year, prices were not regulated and were set according to a free-market logic, in competition with other energy products, on the basis of individual contracts. For clients buying less than 50,000 m^3 a year, the pricing formula and the updates driven by inflation and natural gas price rises were governed by the concession agreements.

THE CHANGES INTRODUCED BY THE NEW LEGISLATION

IN FEBRUARY 2006 A GOVERNMENT DECREE (DECRETO-LEI Nº 30/2006 OF 15 FEBRUARY) ADAPTED TO PORTUGUESE LAW THE EU DIRECTIVE ON LIBERALISED NATURAL GAS MARKETS.

The new decree enshrined market liberalisation by granting free access to third parties on equal terms while separating marketing activities from management activities and infrastructure. The EU directive provides for the set-up of a regulatory authority in each member state – ERSE in the Portuguese case – and the mandatory publication of rates for accessing each network. According to the new legislation, meanwhile complemented by a new decree (Decreto-Lei nº140/2006 of 26 July), natural gas distributors with more than 100,000 clients must legally separate its distribution and marketing activities, whereas the other companies will only have to separate the two activities in their accounting. The new legislation also mandates the creation of suppliers of last resort selling natural gas at regulated rates and free distributors whose sales price is set according to free-market logic. For both activities a licence awarded by the Portuguese Government is required. The new legislation has also set the timetable for liberalisation which is expected to occur by 2010.

Calendar for the liberalization of the natural gas sector in Portugal

2007	2008	2009	2010
CCGT's (> ToP)	> 1 Mm^3/y	> 10 Km^3/y	Others

IMPACT OF THE CHANGES ON GALP ENERGIA

In 2006, Galp Energia spun off its activities of natural gas transportation, regasification of liquefied natural gas and part of the activities for the storage of natural gas by selling to REN part of the assets it owned in those businesses.

After selling its regulated assets, Galp Energia continued to operate its non-regulated procurement of natural gas through its existing supply contracts and equity holdings in international gas pipelines.

Galp Energia was also been awarded a concession to operate the underground storage of natural gas for 40 years.

After the sale of its assets to REN, Galp Energia continued to market natural gas, through suppliers of last resort and the free commercialization company.

In anticipation of a liberalised sector and the ensuing challenges and changes, Galp Energia made every effort in order to prepare for the new business environment.

This preparation cut across the organisation, entailed legal and organisational changes such as the creation of free trader Galp Gás Natural, S.A., former Transgás SPGN, S.A. and covered such areas as the brand and the relationship with clients through the launch of Galp Energia Gás Natural, a unique, strong brand close to its clients. The overriding purpose of these actions was to unify the brand by bringing together all scattered brands for the company's natural gas related businesses.

New natural gas brand

gás natural
galp energia

In the industrial sub-segment, Transgás S.A., previously called Transgás Indústria, S.A. and to which all clients of that sub-segment were transferred, was awarded the status of wholesaler of last resort.

The liberalized supply from 2008 onwards to clients buying more than one million m^3 a year will bring about new challenges for which the company prepared in 2007 through the development of policies for operating in a free market by offering new solutions to its clients.

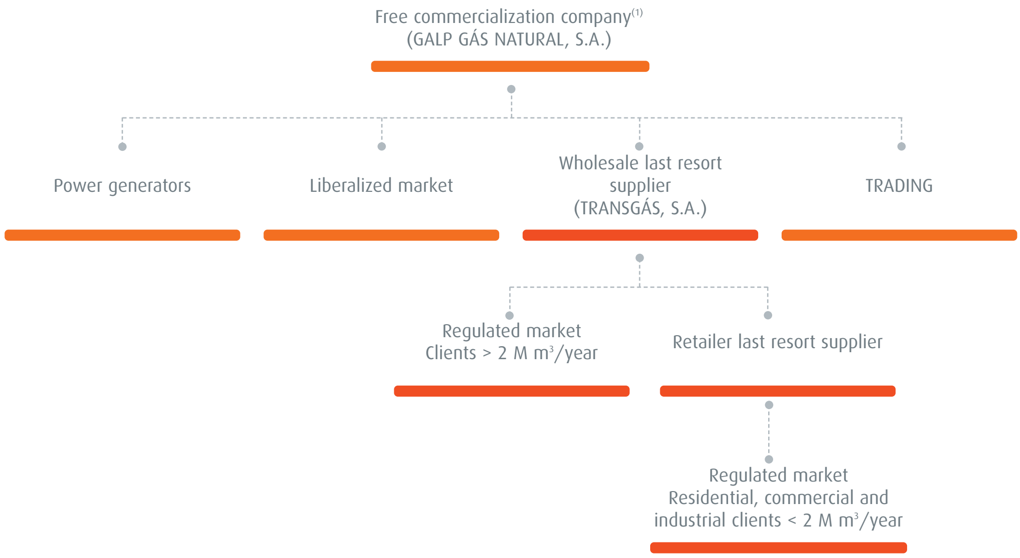
The unbundling process in natural gas distribution proceeded with the legal separation of distribution and last-resort marketing activities for companies with more than 100,000 clients, i.e. Lisboagás, Lusitaniagás and Setgás, where the accounting of regulated activities was separated and processes were restructured in order to comply with the new regulations for the sector.

Galp Energia was also been awarded a concession to operate the underground storage of natural gas for 40 years

Launch of Galp Energia Gás Natural, a unique, strong brand close to its clients

Negotiation of the concession contracts of the natural gas distribution companies is scheduled to be completed in first half 2008

Galp Energia's natural gas commercialization model



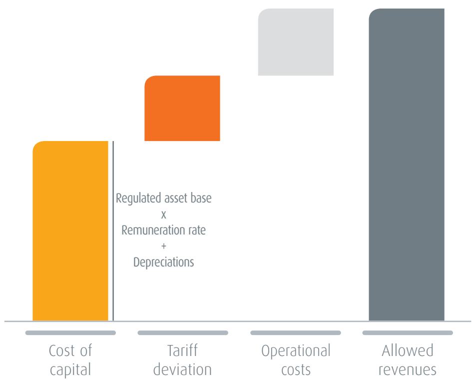
(1) Supply of natural gas (Contracts with Algeria and Nigeria) plus natural gas sale to the liberalized market.

Negotiation of the concession contracts between distributors and the Portuguese state have also started. In the past, these contracts conferred exclusive rights for the distribution and marketing of natural gas in each geographical area. In order to implement the new regulatory framework for the natural gas sector, natural gas distributors will be awarded concessions for distribution and infrastructure management as well as licences for exclusive last-resort marketing whereas sales in the open market will only require a licence. This renegotiation process is scheduled to be completed in early 2008.

REGULATORY SCHEME

All regulated activities are remunerated according to the model defined by ERSE, which defines permitted revenues and serves as the basis for calculating rates. Permitted revenues are a function of the rate of return on the regulated asset adjusted for depreciation, tariff deviations and costs allowed by the regulator. In 2007 a rate of return of 8% was set for storage activities while publication of the rates applicable to distribution and last-resort marketing is scheduled for the first half of 2008.

Regulation scheme



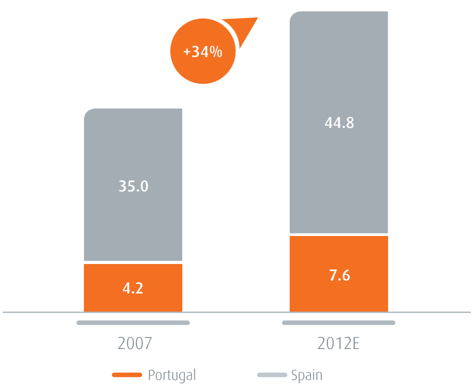
OUTLOOK

AN INCREASINGLY INTEGRATED GAS & POWER PORTFOLIO

Galp Energia has presently agreements for the supply of 6 billion cubic metres of natural gas. In order to cover the Portuguese market's future needs and, at least, keep its current market share of 13% in the Iberian Peninsula, Galp Energia will always be looking for new supply sources as this is considered to be a critical success factor.

Galp Energia's ambition of secure other sources of supply will be supported by the entrance in LNG midstream projects. In this context, the company is studying some opportunities with the project DCLNG in Venezuela and LNG II in Angola.

Natural gas market in the Iberian Peninsula



Galp Energia's growth in the natural gas market rests on two pillars: the increased number of generation projects which will induce the own use of natural gas while accelerating integration of the two businesses and the closeness to the Spanish market, which has strong growth potential and is ten times larger, in terms of industrial market, than the Portuguese market. Further, the move to Spain is a natural step in Galp Energia's strategy for geographic expansion.

Galp Energia's projects for two cogeneration plants with a capacity of 82 MW each and an 800 MW combined-cycle plant at Sines should induce demand for natural gas of close to 1.2 bcm a year or 38% of the current market for natural gas in Portugal. This consumption will stabilise Galp Energia's sales of natural gas and raise efficiency in the management of its own procurement contracts.

The geographical expansion of natural gas sales started to be prepared in 2007 with the award to Galp Energia of a licence to market natural gas in Spain, thereby opening the way to a highly profitable market.

The first contracts to supply industrial clients in Spain were negotiated in late 2007 for a volume exceeding 60 million m^3 a year.

Looking for new supply sources is considered to be a critical success factor

Projects portfolio should induce demand for natural gas of close to 1.2 bcm

5.5 **POWER**

"The strong growth that is expected in the demand for electricity in the Iberian Peninsula and the newly-opened energy generation market in Portugal warrant Galp Energia's focus on the Power business.

The company's presence in natural gas makes its development of the Power business a natural choice that will create more flexibility and synergies between the two sectors.

In parallel, clients look increasingly for more integrated energy offerings. These market trends create attractive growth opportunities which Galp Energia – on the back of its experience as a power supplier, its valuable brand and its solid customer base – cannot waste.

Galp Energia's presence in the Power business is centred on three cogeneration plants with 80 MW in installed capacity. The great challenge, however, is to develop a competitive power portfolio with a capacity of 1,200 MW by 2010. This will include cogeneration plants, wind farms and combined-cycle plants as the company continues its search for opportunities to develop new projects in Portugal, namely in hydropower".

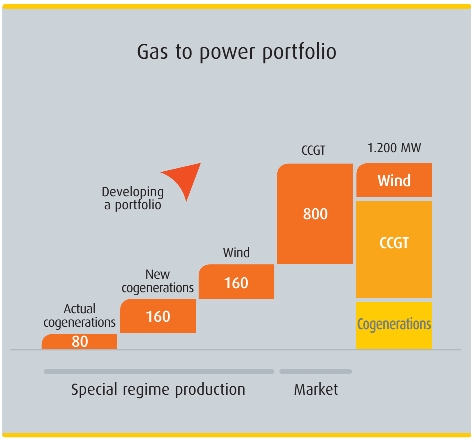
André Ribeiro

Executive Director
Power

	2004	2005	2006	2007
Installed capacity (MW)	80	80	80	80
Energy produced (GWh)	1,348	1,359	1,561	1,610
Sales of electricity to the grid (GWh)	364	500	566	578
Special regime producer sale price (€/MWh)	72.7	80.7	91.4	89.9
Natural gas consumption (million m^3)	129	159	173	175
EBITDA replacement cost adjusted G&P (million Eur)	218	284	229	254
Operating result replacement cost adjusted G&P (million Eur)	162	225	196	215
Capex G&P (million Eur)	93	88	112	103

EBITDA and operating result on a proforma basis in 2006. Exclude unbundling effect (capital gain and net costs).

IN 2007 GALP ENERGIA CAPTURED OPPORTUNITIES THAT LED TO EXPANSION OF ITS POWER PORTFOLIO



The plants, which will be located at the company's refinery sites, attracted capital spending of 22 million euros in 2007. The major goals for this Power area are to bring these plants into operation, on time and on budget, which will raise energy efficiency at the refineries, reduce thermal power costs and curb emissions of sulphur and nitrogen oxides, among other pollutants, in the framework for the LCP Directive. In parallel, these two plants will induce demand for 660 million m^3 of natural gas, thereby contributing to integration of the two businesses – natural gas and power.

Construction of two cogeneration plants will induce demand for 660 million m^3 of natural gas

PRODUCTION UNDER SPECIAL REGIME

COGENERATION

Galp Energia's current presence in the power business consists of its equity holdings in three cogeneration plants - Carriço, Powercer and Energin – for a total capacity of 80 MW. In 2007 these plants produced 1,610 GWh and used 175 million m^3 of natural gas. At this stage, they are Galp Energia's sole source of electric power generation under special regime, i.e. with priority access to the network and sold at a regulated rate. This rate is calculated so as to cover the costs avoided by not investing in alternative technologies, operating and maintenance costs, fuel costs and the environmental opportunity cost. As a reference, considering a price of 50 Usd/bbl for the Brent, the rate would be 65.69 €/MWh.

Right now, Galp Energia is developing two cogeneration plants – Sinecogeração and Portecogeração – with a capacity of 82 MW each.

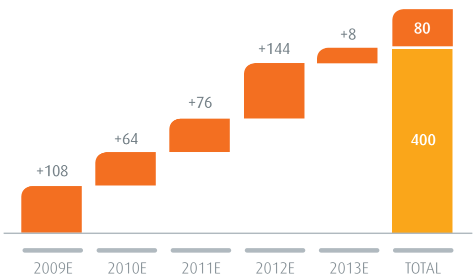
FIRST STEPS IN THE SEARCH FOR RENEWABLE ENERGY

In September 2007, the Ventinveste consortium, led by Galp Energia with a share of 34%, won Phase B of the public tender to award reception points for wind power. The awarded power – 400 MW – can be raised to 480 MW in case a further 20% of equipment is installed, an option offered by the law.

The eight wind farms in the project are scheduled to come on stream by 2013.

Ventinveste consortium, led by Galp Energia won Phase B of the public tender to award reception points for wind power

Installed capacity projection (MW)



End of the year figures

In 2007, Galp Energia obtained the production licence to Sines's CCGT

The sale of electricity from wind farms goes under a special regime that – like the one applicable to cogeneration plants – consists of guaranteed sales volumes and regulated rates in the first fifteen years of the project or until production of 33 GWh per MW is reached. This rate, which basically covers the same costs as the cogeneration rate except for the fuel, is close to 73.6 €/MWh and is inflation-adjusted after the farms start to operate.

Integration between gas and power business allows extracting an additional margin

The regulated, guaranteed-return operation of wind farms is also a key tool for Galp Energia's active management of the CO_2 risk after 2012 as it offers an emission-free way of generating electric power.

ENTRY INTO THE ELECTRICITY SECTOR

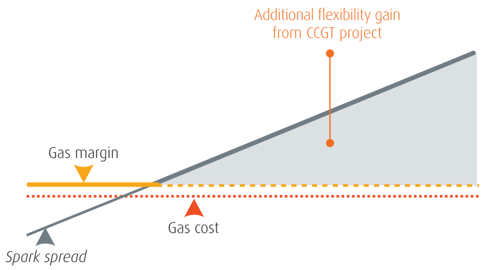
DIVERSIFICATION OF POWER SOURCES

A MORE INTEGRATED GAS & POWER PORTFOLIO

In September 2007, Galp Energia obtained a licence to set up at Sines a CCGT with installed capacity of 800 MW, thus taking an important step towards the production of electricity on market terms.

By investing in this plant, Galp Energia aims not only to enter a high-growth market but also to achieve synergies with its natural gas business. The company's integration of its Gas and Power businesses provides the opportunity to benefit from its natural gas procurement contracts and, at the same time, to arbitrage between natural gas and electricity trading spreads – in what basically equates to an embedded call option – thereby raising efficiency in the management of its natural gas procurement portfolio.

Call option profile of integrated Gas & Power business



Galp Energia is preparing the launch in early 2008 of an international public tender for construction of the combined-cycle plant, which is scheduled to come into operation by 2010.

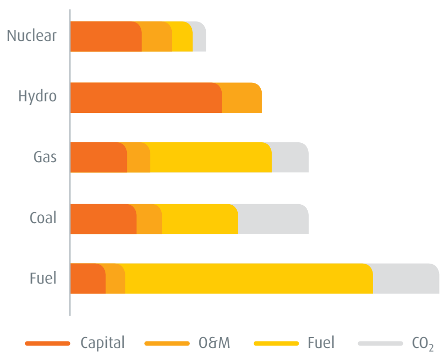
HYDROPOWER, A NATURAL OPTION

Following the Portuguese government's launch in 2007 of a national dam plan, Galp Energia set out to add hydropower capacity to its electricity generation portfolio, thereby complementing its thermal capacity with generation from a renewable source under ordinary regime.

The tenders to be launched in 2008 under the plan aim to build ten new dams with a total capacity of 1,000 MW. Galp Energia is determined to take a relevant position in these projects.

In case Galp Energia enters the hydropower sector, its power mix will be less exposed to CO_2 emissions and it will gain access to a competitive-cost technology with much lower marginal cost when compared with thermal power.

Indicative cost structure by generation type (MWh)



By offering storage capacity, hydropower will also lower Galp Energia's exposure to market risk by giving the company the opportunity to benefit from price differentials between peak and off-peak hours.

This power source will also provide a natural hedge against the risk posed by thermal capacity compared with the weight of hydropower in the domestic electrical system, thus improving Galp Energia's competitiveness in relation to the incumbent's power mix.

In addition to hedging the overall Power business, hydropower is also a way of mitigating the negative correlation between hydro levels and the use of natural gas for electric power generation.

Hydropower production will reduce Galp Energias's exposure to CO_2 emissions

LICENSED TRADER

Following the award in 2007 of a licence to trade electricity in Portugal, in the liberalized market, Galp Energia was formally entitled to start operations.

Galp Energia aims to enter the wholesale electricity market in 2008. To this end, it participated in the beginning of the year in an auction of virtual capacity for electricity production and delivery to the electrical pool or sale through bilateral agreements.

Award in 2007 of a licence to trade electricity in Portugal

06
THE CORPORATION

Client focus, teamwork,
result-oriented entrepreneurship
and integrity and transparency.
Some of the values that define
Galp Energia corporation.

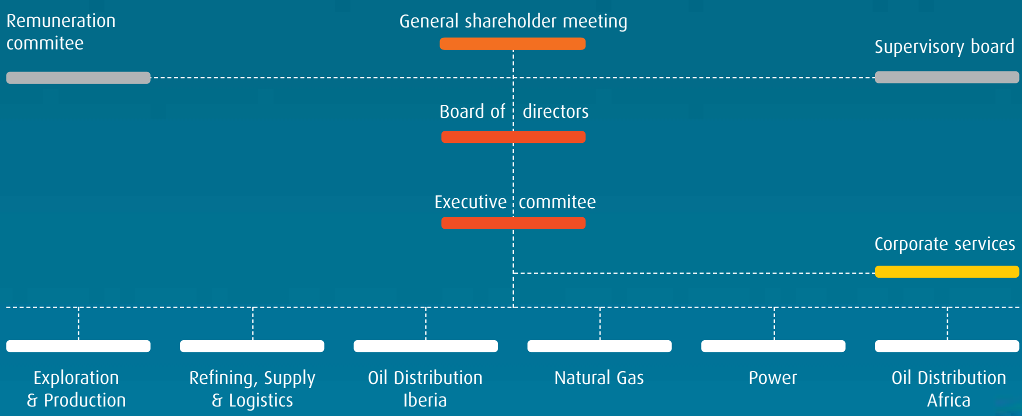
2007
THE START
OF A LONGER RUN

6.1 GOVERNANCE

GALP ENERGIA BELIEVES IN CLEAR AND EFFECTIVE GOVERNANCE AS A PRECONDITION FOR SUCCESS

Corporate governance at Galp Energia means transparent and consistent relationships with investors and the market. Therefore, the company's governance structure has been designed to further the interests and rights of all its shareholders, institutional or private, in an equitable way.

6.1.1 CORPORATE GOVERNANCE STRUCTURE



COMPOSITION OF THE EXECUTIVE COMMITTEE

Manuel Ferreira De Oliveira	Francesco Antonietti	José António Marques Gonçalves	João Pedro L. P. de Figueiredo Brito	Fernando Manuel dos Santos Gomes	Enrico Grigesi[1]	André Freire de Almeida Palmeiro Ribeiro
CHIEF EXECUTIVE OFFICER	CHIEF FINANCIAL OFFICER	EXECUTIVE DIRECTOR, REFINING, SUPPLY & LOGISTICS	EXECUTIVE DIRECTOR, OIL DISTRIBUTION IBERIA	EXECUTIVE DIRECTOR, EXPLORATION & PRODUCTION AND OIL DISTRIBUTION AFRICA	EXECUTIVE DIRECTOR, NATURAL GAS	EXECUTIVE DIRECTOR, POWER
Executive director since April 2006 and Chief Executive Officer since January 2007 Over 20 years' international experience, particularly in the oil industry	Executive director since September 2007 International executive experience at Eni	Executive director since May 2005 Over 20 years' international experience	Executive director since May 2005 Over 20 years' experience in the oil industry	Executive director since May 2005 Former Home Secretary	Executive director since January 2008 Professional experience in Gas & Power	Executive director since May 2005 International investment banking experience

(1) Appointed at the board of directors meeting held on 20 December 2007, in replacement of Massimo Rivara.

Corporate governance at Galp Energia aims transparent and efficiency

The current management model consists of six business units and 15 corporate services under the leadership and guidance of each one of the Executive Directors and based on the principles of horizontality, flexibility, simplicity, efficiency and delegation of responsibilities. This model aims to create shareholder value and achieve synergies within each business unit and between them. The corporate services' remit is to support the business units and avoid the duplication of tasks.

The company is supervised by a supervisory board and a firm of statutory auditors. Whereas the former supervises the preparation and disclosure of financial information and related audit and assesses the independence of the chartered accountants, namely in respect of the provision of additional services, the latter undertakes all actions required for auditing and certifying the accounts.

The remuneration committee is composed of representatives of shareholders Amorim Energia, CGD and Eni and its role is to formulate the remuneration policy to be applied to all governing body members.

Global remuneration (M€)

Board of Directors	0.3 [1]
Executive Committee	3.6
Supervisory Board	0.1

1) Excludes executive committee's remuneration.

The first general shareholder meeting of Galp Energia as a public company was held in 2007. This event carried new challenges and increased responsibilities as small shareholders had, for the first time, the opportunity to engage with the board of directors, presenting doubts and sharing thoughts. Held on 28 May 2007 at the Lisbon Congress Centre and broadly advertised by the regulator's website, Galp Energia's own Investor website and the media, the general meeting attracted fifty shareholders – attending personally or duly represented – who accounted for 82.136% of the company's share capital. The four voted items – including approval of the company's management report and accounts for 2006, recommended allocation of 2006 net profit and a vote of confidence in the board of directors and the supervisory body for their performance in the 2006 financial year – were unanimously approved.

SHAREHOLDER AGREEMENT

The agreement between Galp Energia's reference shareholders, Amorim Energia, CGD and Eni, lists the subjects requiring a two-thirds majority in board resolutions. These subjects include approval of strategic investments, the business plan and transactions with shareholders.

The composition of both the board of directors and the executive committee, for the periods starting in 2008 and after, is governed by the agreement. The board shell have fifteen directors, five of whom shall be members of the executive committee. CGD has the right to appoint a director who will at all times be the chairman of the board. Amorim Energia and Eni shall be entitled to appointing six directors each. The three entities shall also jointly appoint an independent director. The Chief Executive Officer shall be jointly appointed by Amorim Energia and Eni, subject to CGD's approval.

The shareholder agreement is described in detail in the company's Corporate Governance Report.

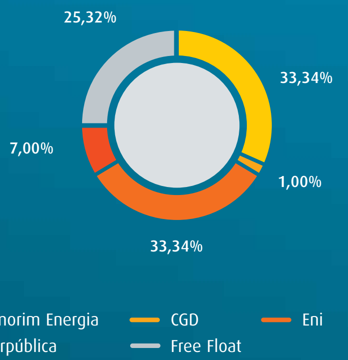
The first general shareholder meeting of Galp Energia as a public company attracted more than fifty shareholders

6.2 **GALP ENERGIA SHARE**

IN 2007 THE MARKET RECOGNISED THE VALUE OF NEWLY-LISTED GALP ENERGIA WHICH GAINED 165% IN THE YEAR, THE LARGEST ADVANCE IN THE DOW JONES EUROPE STOXX OIL & GAS INDEX

6.2.1. SHAREHOLDER STRUCTURE

GALP ENERGIA'S SHAREHOLDER STRUCTURE AT 31 DECEMBER 2007



Source: Galp Energia
Note: Banco BPI's major holding changed at 31 January 2008 to 3,995% and Iberdrola sold its entire holding on 30 January 2008.

At the end of 2007 Galp Energia's free float reached 25.32%. The company's shareholder base remained stable in 2007. Banco BPI, S.A. strengthened its position from 2.07% at the end of 2006 to 5.09% at the end of 2007 and Caixa Galicia reduced its holding to less than 2%.

After the end of 2007, Banco BPI reduced to 3.995% and Iberdrola sold its entire 3.83% holding.

At the end of 2007, Galp Energia had close to 43 thousand private and institutional shareholders, 67% less than at the date of its initial public offering (IPO) on 23 October 2006.

THE LARGEST SHAREHOLDERS

Amorim Energia is based in the Netherlands and its 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%). Portuguese investor Américo Amorim controls, directly or indirectly, 55% in Amorim Energia and the other 45% are owned by Esperanza Holding B.V., controlled by Sonangol E.V., Angola's state-owned oil company.

Caixa Geral de Depósitos, S.A. is a financial institution wholly-owned by the Portuguese state. At the end of 2007, CGD had net assets of 105 billion euros.

Eni is the leading Italian-based oil and gas company floated in Milan and New York stock exchange and its operations in Exploration & Production, Gas & Power, Refining & Marketing of Oil Products, Petrochemicals and Engineering, Construction and Drilling cover more than 70 countries. Eni produces 1.7 million bopd of oil and achieved in 2007 a net income of 10 billion euros. Eni's ticker on Bloomberg is ENI IM and its equity market value at 31 December 2007 was 100.3 billion euros.

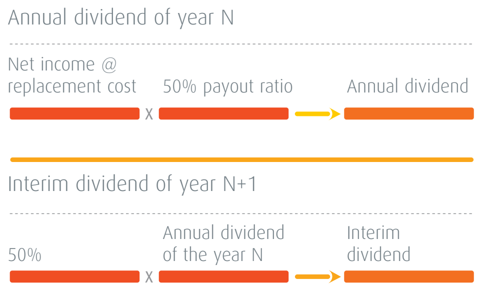
Parpública is the holding vehicle for the Portuguese state's equity stakes in several companies.

SHAREHOLDER AGREEMENT

At 29 December 2005, Galp Energia's reference shareholders – Amorim Energia, the Portuguese state through CGD and Eni – signed a side agreement whereby they committed to keeping their holdings in Galp Energia unchanged for a lock-in period until 31 December 2010. After this date, each party may only sell its holding in whole and the other parties will have pre-emption rights to acquiring the shares on sale. The shareholder agreement expires at the end of 2013.

DIVIDEND POLICY

Dividend policy



In 2007 Galp Energia unequivocally spelt out its dividend policy. The company set the payout ratio at 50% of net income calculated according to the replacement cost method and became one of the first Portuguese companies to opt for half-yearly dividend payments. The half-yearly interim dividend payment will be equal to 50% of the previous annual dividend.

Accordingly, the board of directors will recommend to the annual general meeting scheduled for 6 May 2008 that a dividend of 0.32 €/share, 5% above last year dividend, be paid on account of 2007. On the basis of the share price at 31 December 2007 the recommended dividend payment will equate to a dividend yield of 2%.

Dividend proposal of 0.32 €/share, 5% above 2006 dividend

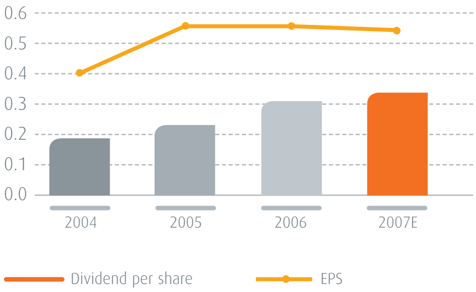
Amorim Energia, B.V.

Caixa Geral de Depositos

Eni

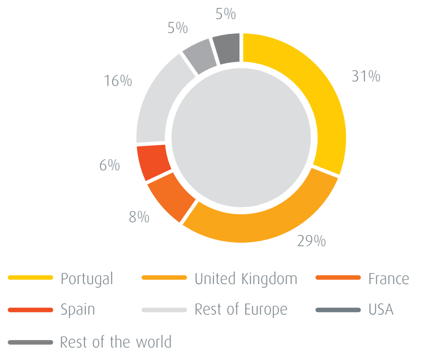
PARPÚBLICA
PARTICIPAÇÕES PÚBLICAS (SGPS) S.A.

Dividends and earnings per share
(€/share)



Source: Galp Energia
Note: Earnings per share on a replacement cost basis, except for 2006 where net profit is adjusted for the unbundling effect.

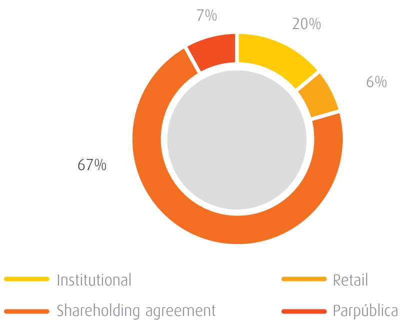
Geographic spread of institutional investors



Source: Thomson Financial

SHAREHOLDER PROFILE

Type of investor



Source: Thomson Financial

Institutional investors represent 20% of the share capital

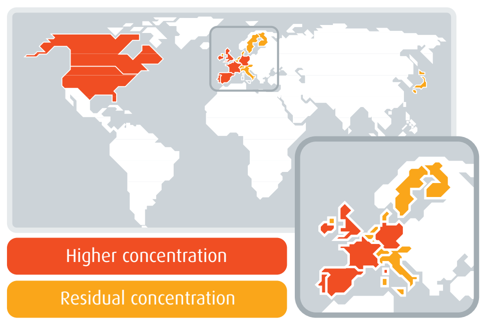
After the sale of Iberdrola United Kingdom became the largest international holder of institutional shares

Galp Energia's shareholder base is divided into four different groups. The signatories to the shareholder agreement – Amorim Energia, CGD and Eni, – are the largest group with 67% of the shares. Institutional investors, whose weight increased by almost 6 percentage points between 2006 and 2007, now account for 20%. The rise in the holdings of this group came on the back of the sales by small shareholders and employees when they were allowed to sell, from 22 January 2007 onwards, the shares acquired in the IPO. The weight of retail shareholders went down by 6 percentage points in 2007 to 6% at the end of the year.

Portugal is still the country with the largest number of institutional investors in Galp Energia. Notwithstanding, the number of investors from countries such as France, Spain, the United Kingdom and the United States has been gradually increasing compared with 2006. Overall, these countries represent about 50% of the institutional investor base after the weight of Iberian investors went down from 89% to 37% in 2007. The shift of investors abroad reflects the heightened visibility of Galp Energia on international markets.

The block of shares sold by Iberdrola, approximately 3.83%, at the end of January 2008 was placed with institutional investors, primarily from the UK. This changed the investor base considerably as the United Kingdom became the largest international holder of institutional shares.

Geographic spread of institutional investors



Source: Thomson Financial

FACT SHEET FOR THE GALP ENERGIA SHARE

STOCK EXCHANGE

Euronext Lisbon

EQUITY INDICES

The Galp Energia share is part of leading stock indices: Eurolist by Euronext Lisbon's PSI-20, Dow Jones STOXX 600, Dow Jones Europe STOXX Oil & Gas, Euronext 100, FTSE World Oil & Gas.

Only ISIN-coded PTGAL0AM0009 and PTGAL2AM0015 shares are listed for trading on Eurolist by Euronext Lisbon. On 4 February 2008 these shares were merged for trading under one single code – ISIN PTGAL0AM0009. Consequently, the GALPK security was retired from trading. The shares that are indirectly owned by the Portuguese state through Parpública are not listed for trading but simply registered with Eurolist by Euronext Lisbon.

SECURITIES CODES

ISIN	Symbol: Galp (type B)	PTGAL0AM0009
	Symbol: GalpK (type B)	PTGAL2AM0015
	State's share (type A)	PTGALSAM0003
	State's share (type B)	PTGALXAM0006
Sedol		B1FW751
WKN		A0LB24

TICKERS

Reuters – GALP.LS; Bloomberg – GALP PL

NUMBER OF SHARES

Galp Energia's share capital consists of 829,250,635 shares.

MARKET CAPITALISATION

At 31 December 2007 Galp Energia had a market value of €15.2 billion that compared with €5.8 billion at 31 December 2006.

ANALYSTS

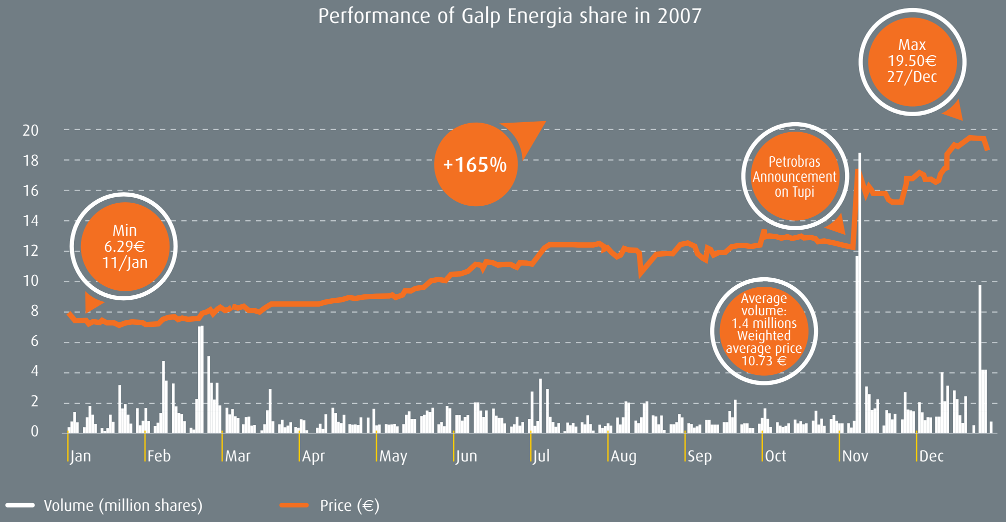
Galp Energia was at the end of 2007 followed by 11 financial institutions which issued in 2007 over eighty research notes on the company. Out of these 11 institutions, 7 started to cover the company in 2007.

COMPANY	ANALYST	PRICE TARGET[1]	DATE	RECOMENDATION[1]
Banif Investment Bank	Gabriela Ramos	€ 15.70	09-11-2007	Buy
BPI	Enrique Soldevilla	€ 14.20	15-11-2007	Hold
Caixa BI	Carlos Jesus	€ 14.60	14-11-2007	Accumulate
Credit Suisse	Will Forbes	€ 18.00	14-12-2007	Outperform
Espírito Santo Research	Pedro Morais	€ 15.00	12-11-2007	Neutral
Lisbon Brokers	Sara Amaral	€ 17.00	18-12-2007	Hold
Merrill Lynch	Hootan Yazhari	€ 17.50	18-12-2007	Buy
Millennium BCP Investimento	Pedro Mendes	€ 14.50	14-11-2007	Neutral
Morgan Stanley	Andrew Bowman	€ 18.00	03-12-2007	Overweight
Santander	Pedro Balcão Reis	€ 14.20	09-11-2007	Buy
UBS	Anish Kapadia	€ 18.00	21-12-2007	Neutral

[1] Target prices and recommendations up to 31 December 2007

SHARE PERFORMANCE

Performance of Galp Energia share in 2007



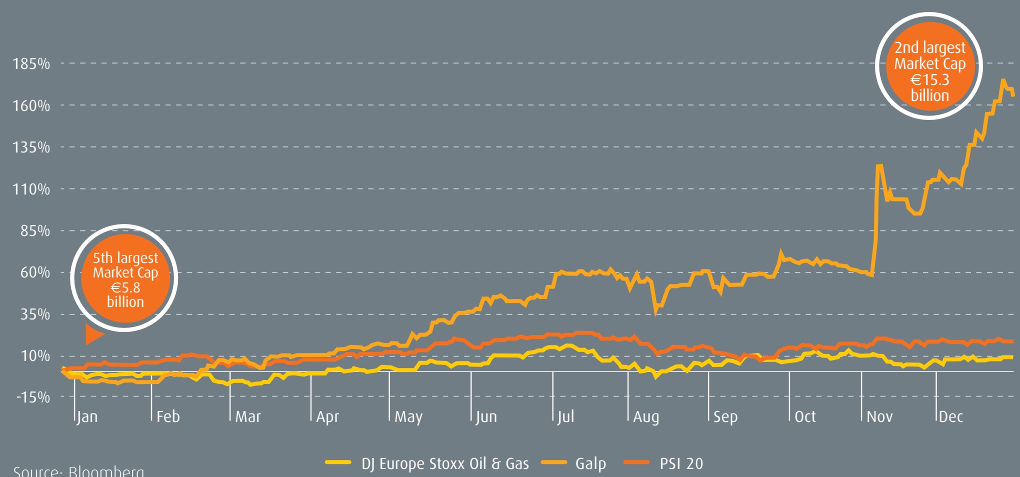
Source: Bloomberg

Total shareholder return including paid dividends from the IPO up to 31 December 2007 was 243%.

In 2007 over 365 million shares were traded – i.e. the equivalent of 44% of Galp Energia's share capital and 2.1 times its free float – which confirmed the Galp Energia share's high liquidity on Euronext Lisbon.

Relative to the Dow Jones Europe STOXX Oil & Gas index – which itself gained 7% – Galp Energia had a superior performance.

Comparison with DJ Europe STOXX Oil & Gas index and Portuguese PSI-20 Index in 2007



Source: Bloomberg

In comparison with the PSI-20, the Portuguese stock market's benchmark, which gained 16% in 2007, Galp Energia had a distinctly favourable performance. In terms of market capitalisation, Galp Energia was the fifth-ranking company at the start of 2007, with €5.8 billion, while at the end of the year it was the PSI-20's second-largest company.

INVESTOR DAY

Galp Energia's first Investor Day was held on 22 October 2007, one year after the company's debut on Euronext Lisbon following its Initial Public Offering.

The event brought together over sixty domestic and international investors and analysts and provided a good opportunity for the company's top management to come closer to the equity markets.

The event featured a number of presentations by the company's executive directors who provided detailed information about their respective business areas and main objectives.

The presentations made on Investor Day are available on http://investor.relations.galpenergia.com/galpir

FINANCIAL CALENDAR 2008

Following best practice and with a view to maintaining a transparent relationship with capital markets, Galp Energia published at the end of 2007 a financial calendar containing the dates for the planned quarterly earnings announcements and the annual general meeting 2008.

Forth quarter and full year 2007 results release	5 March 2008
Annual Report 2007 approval	1 April 2008
General Shareholder Meeting	6 May 2008
First quarter 2008 results release	14 May 2008
Second quarter and first half 2008 results release	6 August 2008
Annual Report first half 2008 approval	28 August 2008
Third quarter and nine months 2008 results release	12 November 2008
Forth quarter and full year 2008 results release	4 March 2009

Already completed

6.3 **HUMAN CAPITAL**

COMPETENCE, MOTIVATION AND DEDICATION ARE THE KEY INGREDIENTS FOR THE COMPANY'S SUCCESS.

5,798 REASONS TO BELIEVE THAT GALP ENERGIA IS PREPARED TO FACE NEW CHALLENGES

MANAGING PEOPLE FOR SUCCESS

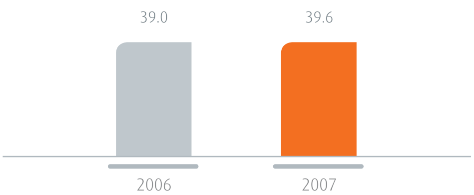
Preparing and developing its human capital to meet the challenges of its strategic plan is a top priority for Galp Energia. To this end, the company developed in 2007 the diagnosis and conceptualisation stages of project *GPS – Gestão de Pessoas para o Sucesso* ("Managing People for Success") whose purpose is to build a model for managing the company's human resources in an integrated way, by developing people while driving business growth. Under this project, all policies, instruments and processes for managing human resources were reviewed in order to achieve a modern, flexible and consolidated structure, in line with best industry practice. In particular, attention was given to competence development, mobility programming, performance evaluation and remuneration management.

A NEW GENERATION

The company's hiring process was reviewed for the purpose of strengthening its relationship with universities and prompting business units to hire young, high-potential managers.

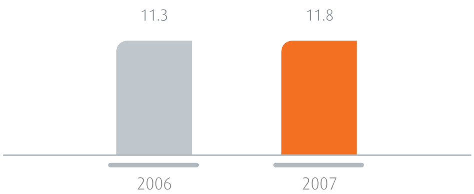
Galp Energia's trainee programme was pursued whereby the best students from renowned universities completed a demanding and selective one-year internship leading to the subsequent hiring of those evidencing the best ability to contribute effectively to the company's development.

Company wide average age (years)



The focus on hiring younger professionals will be instrumental in providing Galp Energia, and in particular such areas as Exploration & Production, with higher-skilled employees. Another effect will be lower average age and seniority.

Company wide average seniority (years)



In 2007 a model for managing the company's human resources in an integrated way was built

In 2007, close to 37% of Galp Energia's staff were women. If we only consider middle and senior management the percentage rises to 40%.

PERFORMANCE MANAGEMENT SYSTEMS

Performance evaluation is a key factor not only to ensure a demanding output level but also to foster a promotion and reward culture based on personal and team merit judged on objective grounds. In 2007 changes were introduced to the company's performance management scheme to the extent that achievement of objectives and acquisition of competences were separated. Achievement of objectives focused on individual delivery of results on the basis of management contracts underwritten by top management, with objectives set and disaggregated down the hierarchy. Acquisition of competences focused on continuous individual development, primarily oriented towards the alignment of profiles with jobs.

Close to 37% of Galp Energia's staff are women

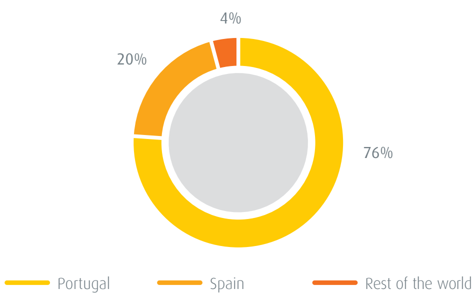
Appraisal according to the 360º method was introduced during the year and covered the whole top management layer. The method consists of the evaluation of each manager by their immediate superior, their peers and subordinates in addition to a self-evaluation.

GEOGRAPHIC MOBILITY

4% of Galp Energia's staff work outside the Iberian Peninsula

Galp Energia's business has become increasingly global, largely following the development of its exploration and production operations on several spots around the globe, namely in Angola, Mozambique, Brazil, Venezuela, East Timor and Portugal. In order to meet the challenges posed by this geographical spread, expatriate and secondment policies have been redefined with a view to stimulating mobility. Presently, 4% of Galp Energia's staff work outside the Iberian Peninsula.

Geographical spread at 31 december 2007



TRAINING IS A KEY FACTOR

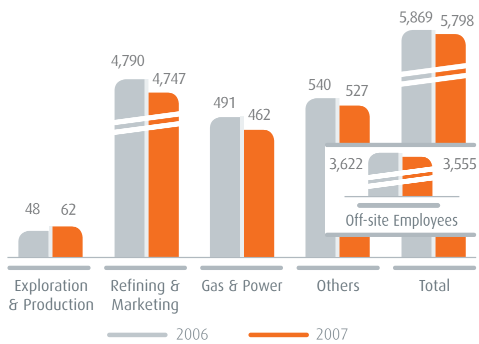
Considering that a skilled staff base is the only way to meet the challenges it faces, Galp Energia concentrated efforts on a variety of training programmes adapted to its employees' development requirements. In 2007, the programmes scheduled over 140,000 training hours, included close to 3,700 staff and covered such disparate subjects as negotiation skills for sales teams and internal auditing skills for staff appointed to monitor progress in environment, quality and safety.

In 2007 close to 3,700 employees had training hours

In 2007 the company launched project *Terças Temáticas* (Theme Tuesdays), an occasion to share knowledge and experiences by means of conferences on different subjects of socio-professional relevance led either by company managers or external speakers. The conferences attracted over 2,000 participants.

STAFF BY BUSINESS SEGMENT

Staff by business segment



At the end of 2007, Galp Energia had 71 fewer employees than at the start of the year, which was the result of reductions across virtually all business segments. The only segment that countered this trend was Exploration & Production whose human resource base, on the back of the year's events, was strengthened.

6.4 CORPORATE RESPONSIBILITY

PROACTIVITY AND THE ABILITY TO ANTICIPATE THE INVESTMENT EFFORT NEEDED TO MEET GROWING ENVIRONMENTAL, SOCIAL AND SAFETY DEMANDS ARE INCREASINGLY BECOMING CRITICAL FACTORS IN THE CREATION OF VALUE FOR ALL STAKEHOLDERS

HEALTH, SAFETY AND ENVIRONMENTAL

At Galp Energia, as has been the case with its EU and global peers, sustainability concerns have led to growing integration of environmental and safety goals with company strategy.

STRATEGIC VISION OF SAFETY, HEALTH AND THE ENVIRONMENT AT GALP ENERGIA

ACCORDING TO OUR SOCIAL RESPONSIBILITY COMMITMENTS, OUR GOAL IS TO REACH ZERO ACCIDENTS, WHETHER PERSONAL, PHYSICAL, ENVIRONMENTAL, OPERATIONAL OR ON THE ROAD.

Our purpose is to develop a sustainable prevention culture based on high-performance safety management, occupational health and environmental protection that will lead to fewer risks and a reputation for excellence.

On this path to excellence, Galp Energia will continually monitor its performance.

BY THE END OF 2010

Galp Energia will be a European benchmark for safety, occupational health and environmental protection in the oil sector:

- The whole organisation will have in a systematic way integrated safety, occupational health and environmental protection in its day-to-day operations;
- Our safety, occupational health and environmental protection indicators will be the sector’s highest in Europe.

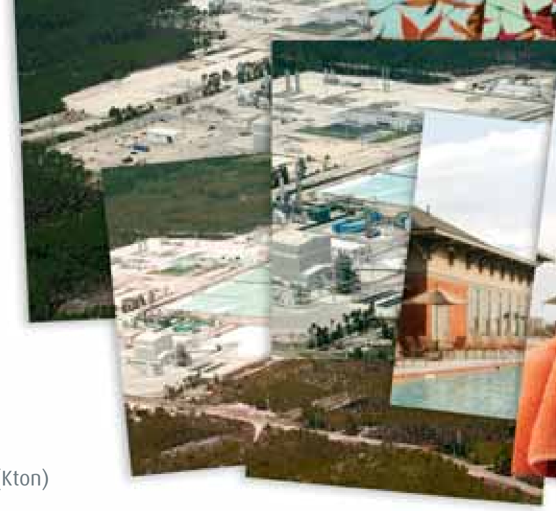
All entities and the public in general will be able to witness the progress and improvements that will have been achieved.

POLICY FOR HEALTH, SAFETY AND ENVIRONMENT

Our goal is to reach zero accidents

Galp Energia devotes considerable resources to environmental protection and safety. In so doing, the company strives to endow its plants with the best available techniques and operating processes with a view to raising safety standards and averting or mitigating impacts on water, air and soils.

Management of Galp Energia’s assets reflects the principles underlying its policy for safety, health and the environment. The capital budgeting process is designed to implement the company’s short and long-term strategy as well as its objectives for continuous improvement in safety through lower accident rates, minimisation of environmental impact and, consequently, lower pollution.



Galp Energia considers that protecting the environment in order to safeguard the safety and health of its employees, clients and the community at large are essential sustainability values. Therefore, the company is aware of its responsibility in managing the impact of its activities, products and services on the communities where it operates.

Technologically, Galp Energia's industrial plants apply the standards that make them compliant with the requirements of safety, energy efficiency and product quality.

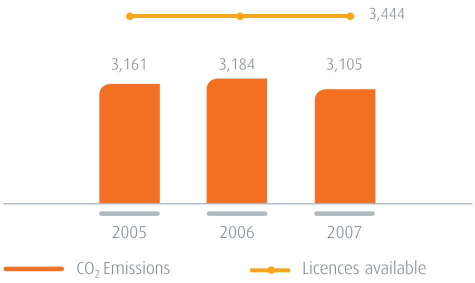
In 2007, environmental licensing of the refineries in accordance with the Integrated Pollution Prevention and Control Directive was completed. Its main objective was to ensure overall protection of the environment and the final licences are expected to be issued in 2008.

CLIMATE CHANGE

Internationally, the European Union showed leadership in the process of curbing emissions GHG, particularly carbon dioxide (CO_2), as it contemplated a number of decisions leading to compliance with emission reduction goals for 2008-2012.

In alignment with EU goals, Galp Energia's main objective in this area is to reduce GHG emissions by its industrial plants. The company is aware of the importance of the transport sector in domestic GHG emissions and seeks, therefore, to influence emissions by the sector by launching fuels with lower carbon content.

CO_2 emissions by Galp Energia (Kton)



Although they are 3.7% lower than in the previous period, the GHG emission licences allocated to Galp Energia's refining and cogeneration plants for 2008-2012 are sufficient considering the production profiling scheduled for this period.

In view of Galp Energia's future investments in the refining and electrical sectors, the company's new plants will be subject to the mechanisms currently defined by law regarding access to the amounts earmarked for new plants.

Galp Energia's planned conversion of its refineries aims to upsize and retool its production structure, with the installation of a hydrocracker and other new equipment. Diesel to be produced by this unit will have a higher content of hydrogen, above what is the case for conventional diesel, which will reduce emissions of air pollutants in road transport. Upon completion of this project, Galp Energia's product portfolio will have lower carbon input, which will lead to an estimated reduction of 60 thousand tonnes of CO_2 per year in the use of diesel, gasoline, LPG and fuel oil in the industrial and transport sectors. Overall, the emission level of this range of products will decline by close to 0.9%, which testifies to the environmental importance of the project.

In 2005-2007, Galp Energia met the CO_2 emission quotas it was allocated under the National Plan for the Allocation of Emission Licences

In parallel with the conversion project, the installation of two cogeneration plants at the refineries will have favourable effects on the environment. This project will result in the reduction of CO_2, SO_2 and NO_x emissions nationally and SO_2 locally as the plants' new boilers will use natural gas instead of fuel oil. At national level, CO_2 emissions are expected to fall by close to one million tonnes a year.

THE GALP ENERGIA SAFETY PROGRAMME

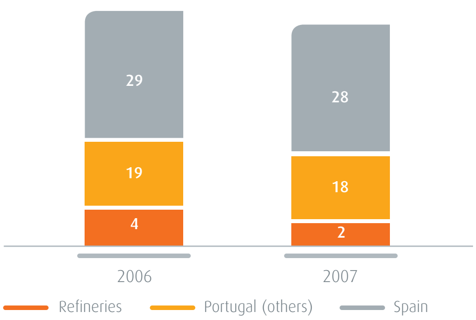
Galp Energia Safety Programme focus is to strengthen the company's uncompromising commitment to the safety of its staff

Like its peers, Galp Energia usually operates in risk environments. Consequently, the company feels responsible for taking such steps and actions required to avert or minimise existing risks with a view to safeguarding people, property and the environment, thereby enhancing its own sustainability.

Alignment of all employees' behaviour and attitudes with industry best practice across all activities is a precondition for Galp Energia's sustainability and is at the origin of the Galp Energia Safety Programme whose focus is the development of a safety culture with both employees and business partners to strengthen the company's uncompromising commitment to the safety of its staff.

In 2007 certifications and accreditations existing in 2006 were renewed

Accident rates
(number of accidents with sick leave)



Approval of a set of critical procedures for Health, Safety and Environment as well as the training of over 2,000 employees were important milestones in 2007 for development of the programme, the reduction of accidents and the overall search for excellence.

QUALITY

QUALITY POLICY

As a benchmark energy operator, Galp Energia is aware of its corporate responsibility as well as the need to contribute, in conjunction with other entities, to the development of society.

To this end, the company has had a new Quality Policy since May 2007 which elaborates on its commitment to continuous improvement, performing processes, products and services and the priority allocated to these aspects in consolidating the prestige of the Galp brand.

AT THE FOREFRONT OF NEW SOLUTIONS

In quality matters Galp Energia kept its focus on continuous improvement, whether by constantly raising product performance, as with the launch of its new Gforce 95 gasoline, or by searching for new technical solutions, namely in biofuels.

QUALITY IMPLEMENTATION

In order to ensure compliance with the regulations and enhance performance in HSE matters, Galp Energia executed in 2007 a broad programme of internal audits for the continuous evaluation of systems, process and activities performance.

Galp Energia consolidated its strategy of obtaining qualifications when the certifications and accreditations existing in 2006 were renewed.

SOCIAL RESPONSIBILITY

Galp Energia's sense of social responsibility as well as its values have oriented the company's actions across the areas where it operates.

In 2007 two major projects were pursued that played an important role in Galp Energia's strategy for social responsibility: the creation of a national platform against obesity and the company's support to Forum ECO.

NATIONAL PLATFORM AGAINST OBESITY

The platform against obesity was created by an agreement with the Health Minister towards the set-up of effective intervention mechanisms to promote both a correct diet and healthy physical activity. The purpose is to fight this disease, considered by the World Health Organisation (WHO) as the global epidemic of the 21st century.

This platform will be broadly advertised under the *Movimento Energia Positiva* (Positive Energy Movement) label. The main planned actions include awareness campaigns at schools using a student's kit with several pieces of equipment to stimulate physical exercise, the set-up of street teams to make the public aware of the disease and the creation of a menu at Galp Energia's service stations called *A Sugestão Positiva do Dia* (Positive Suggestion of the Day) which will make available recommendations for a healthy and varied meal.

FÓRUM ECO

In 2007 Galp Energia joined Fórum ECO, a community initiative in defence of the Portuguese forest by fighting fires among other actions.

This support is part of Galp Energia's social responsibility programme and aims to spread knowledge about the national campaign to fight forest fires. This will be done by lending window and door space at convenience stores and handing out leaflets at service stations.

OTHER PROJECTS

BERLENGA – A Laboratory of Sustainability. Creation of a sustainable island in energy terms with equipment to manage and store energy produced from renewable sources, produce drinking water and treat waste water and solid waste.

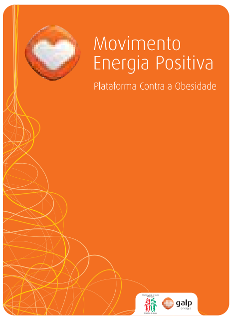
Support to Comunidade Vida e Paz, an association that hands out food and other basic necessities, by supplying fuel for the distribution vans.

Parque de Serralves, by contributing financially but also organising the *Viver com Energia* (Live with Energy) programme which aims to promote environmental awareness and the rational use of energy.

Solidarity with AMI (the medical aid NGO) by selectively collecting disposed-of computer equipment, with the proceeds going to the organisation.

Fundação Casa da Musica, Galp Energia supports the educational programme of this foundation, promoting the artistic training as an essential contribution for citizenship and social integration.

Road safety campaign at schools, by supporting actions to make children aware of safety issues and, in conjunction with ETG - Empresa de Transportes, promote defensive road behaviour at schools in the Gondomar, Valongo, Porto, Maia, Penafiel, Paredes, Matosinhos and Vila Nova de Gaia municipality.



National Platform against obesity

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07
APPENDICES

7.1 ADDITIONAL INFORMATION

GOVERNING BODIES

The composition of the governing bodies of Galp Energia, SGPS, S.A., elected for 2005-2007, is the following:

BOARD OF DIRECTORS(1)

Chairman:
Francisco Luís Murteira Nabo

Vice-chairmen:
Manuel Ferreira De Oliveira
Francesco Antonietti(2)

Other directors:
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
Fernando Manuel dos Santos Gomes
João Pedro Leitão Pinheiro de Figueiredo Brito
Enrico Grigesi(3)
Manuel Domingos Vicente
Camillo Gloria
Diogo Mendonça Rodrigues Tavares
Angelo Fanelli(4)
Carlos Nuno Gomes da Silva(5)
Marco Alverà
Alberto Alves de Oliveira Pinto
Pedro António do Vadre Castelino e Alvim
Alberto Maria Alberti

EXECUTIVE COMMITTEE

Chairman:
Manuel Ferreira De Oliveira

Vice-chairmen:
Francesco Antonietti
José António Marques Gonçalves

Other executive directors:
André Freire de Almeida Palmeiro Ribeiro
Fernando Manuel dos Santos Gomes
João Pedro Leitão Pinheiro de Figueiredo Brito
Enrico Grigesi

SUPERVISORY BOARD

Chairman:
Daniel Bessa Fernandes Coelho

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

Deputy member:
Amável Alberto Freixo Calhau

STATUTORY AUDITORS

Standing:
Deloitte & Associados, SROC S.A., with head office at Edifício Atrium Saldanha, Praça Duque de Saldanha, 1 – 6.º – 1050-094 Lisboa, registered with number 43 at the Institute of Chartered Accountants in Portugal and at CMVM, the Portiuguese securities markets regulator) with nr 231, represented by Jorge Carlos Batalha Duarte Catulo, chartered accountant nr 992;

Deputy:
Carlos Luís Oliveira de Melo Loureiro, chartered accountant nr 572

GENERAL MEETING BOARD(6)

Chairman:
Rui Manuel Parente Chancerelle de Machete

Vice-chairman:
Victor Manuel Pereira Dias

COMPANY SECRETARY

Standing:
Rui Maria Diniz Mayer

Deputy:
Maria Helena Claro Goldschmidt

REMUNERATION COMMITTEE

Chairman:
Caixa Geral de Depósitos
Represented by António Maldonado Gonelha

Other members:
Amorim Energia, B.V.
Represented by Américo Amorim
Eni S.p.A.
Represented by Giancarlo Cepollaro

(1) On February 25 2008, Joaquim Augusto Nunes de Pina Moura has resigned to his position of member of the board of directors, effective 31 March 2008.
(2) Appointed at the meeting of the board of directors dated 19 September 2007, in replacement for Giancarlo Rossi.
(3) Appointed at the meeting of the board of directors dated 20 December 2007, effective from 1 January 2008, in replacement for Massimo Rivara.
(4) Appointed at the meeting of the board of directors dated 19 September 2007, in replacement for Angelo Taraborrelli.
(5) Appointed at the meeting of the board of directors dated 24 April 2007, in replacement for Manuel Carlos Costa da Silva.
(6) Carlos Manuel Baptista Lobo has resigned to his position of secretary of the general meeting committee on 1 February 2008.

PROPOSED APPROPRIATION OF NET INCOME

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

Galp Energia, SGPS, S.A. reported net income of 560,842,229 euros for financial 2007. These earnings are shown in the individual accounts of Galp Energia, SGPS, S.A., prepared in accordance with Portuguese General Accepted Accounting Principles.

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

	€
Legal reserve (5%)	28,042,111
Dividend distribution (0.32 €/share)	265,360,203
Retained earnings	267,439,915
Total	560,842,229

Based on the decision of the board of directors, from 17 October 2007 the company paid on 7 November 2007 a gross interim dividend related with 2007 in the amount of 0.152 €/share.

THE BOARD OF DIRECTORS

Chairman
Francisco Luís Murteira Nabo

Vice-Chairmen:
Manuel Ferreira De Oliveira
Francesco Antonietti

Directors
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
Fernando Manuel dos Santos Gomes
João Pedro Leitão Pinheiro de Figueiredo Brito
Enrico Grigesi
Manuel Domingos Vicente
Camillo Gloria
Diogo Mendonça Rodrigues Tavares
Angelo Fanelli
Carlos Nuno Gomes da Silva
Marco Alverà
Alberto Alves de Oliveira Pinto
Pedro António do Vadre Castelino e Alvim
Alberto Maria Alberti

MANDATORY NOTICES AND FILINGS

SHAREOWNERS WITH MAJOR DIRECT OR INDIRECT HOLDINGS AT 31/12/2007

(Article 448, paragraph 4 of the Companies Code and Article 20 of the Securities Code)

SHAREHOLDERS	No. SHARES	% CAPITAL	% VOTING RIGHTS
Amorim Energia, B.V.	276,472,161	33.34%	33.34%
Banco BPI, S.A.	42,220,051	5.09%	5.09%
Caixa Geral de Depósitos, S.A.	8,292,510	1.00%	1.00%
Eni, S.p.A.	276,472,160	33.34%	33.34%
Iberdrola, S.A.	33,170,025	4.00%	4.00%
Parpública - Participações Públicas, (SGPS), S.A.	58,079,514	7.00%	7.00%
Other Shareholders	134,544,214	16.23%	16.23%
Total	829,250,635	100.00%	-

Following a number of transactions on the stock exchange, Banco BPI, S.A. gave notice to Galp Energia that, at 31 January 2008, it was the beneficial owner of a 3.995% stake in the company. On 30 January 2008 Iberdrola sold its entire holding in Galp Energia, of 3.83%.

TREASURY SHARES

Articles 66 d) and 325-A, paragraph 1 of the Companies Code

In 2007 Galp Energia did not buy or sell its own shares.

At 31 2007, Galp Energia had no treasury shares.

SHARES HELD AT 31 DECEMBER 2007 BY MEMBERS OF THE EXECUTIVE AND SUPERVISORY BODIES OF GALP ENERGIA, SGPS, S.A.

According to Article 447, paragraph 5 of the Companies Code

		AQUISITION			DISPOSAL			
BOARD MEMBERS	TOTAL OF SHARES 31.12.2006	DATE	NUMBER OF SHARES	VALUE	DATE	NUMBER OF SHARES	VALUE	TOTAL OF SHARES 31.12.2007
Francisco Luís Murteira Nabo	1,900	08.02.2007	3,825	6.60	12.02.2007	3,825	6.75	
					01.03.2007	1,900	7.01	-
Manuel Ferreira De Oliveira		04.01.2007	735	6.81	-	-	-	
		04.01.2007	747	6.70	-	-	-	
		02.02.2007	780	6.40	-	-	-	
		02.03.2007	690	7.25	-	-	-	
		05.03.2007	715	7.10	-	-	-	
		11.04.2007	665	7.52	-	-	-	
		02.05.2007	626	7.99	-	-	-	
		01.06.2007	540	9.28	-	-	-	
		02.07.2007	1,013	9.87				
		02.07.2007	1,000	9.97				
		02.08.2007	926	10.80				
		03.09.2007	910	11.03				
		01.10.2007	921	10.86				
		06.11.2007	911	10.97				
	28,640	03.12.2007	656	15.23	-	-	-	40,475
Francesco Antonietti	-	23.07.2007	1,000	11.05	-	-	-	1,000
José António Marques Gonçalves	3,900	-	-	-	-	-	-	3,900
Fernando Manuel dos Santos Gomes	1,900	-	-	-	-	-	-	1,900
André Freire de Almeida Palmeiro Ribeiro	950	-	-	-	-	-	-	950
João Pedro Leitão Pinheiro de Figueiredo Brito	-	-	-	-	-	-	-	-
Enrico Grigesi	-	-	-	-	-	-	-	-
Manuel Domingos Vicente	-	-	-	-	-	-	-	-
Camillo Gloria	-	-	-	-	-	-	-	-
Diogo Mendonça Rodrigues Tavares	940	-	-	-	-	-	-	940
Angelo Fanelli	-	-	-	-	-	-	-	-
Carlos Nuno Gomes da Silva	2,410	-	-	-	-	-	-	2,410
Marco Alverá	-	-	-	-	-	-	-	-
Alberto Alves de Oliveira Pinto	-	07.02.2007	15,000	6.41	-	-	-	15,000
Pedro António do Vadre Castelino e Alvim	-	-	-	-	-	-	-	-
Alberto Maria Alberti	-	-	-	-	-	-	-	-
MEMBERS OF THE SUPERVISORY BOARD								
Daniel Bessa Fernandes Coelho	-	-	-	-	-	-	-	-
José Gomes Honorato Ferreira	-	-	-	-	-	-	-	-
José Maria Rego Ribeiro da Cunha	-	-	-	-	-	-	-	-
Amável Alberto Freixo Calhau	-	-	-	-	-	-	-	-
STATUTORY AUDITORS								
Deloitte & Associados, SROC, S.A.	-	-	-	-	-	-	-	-

DIRECTORS’ TRANSACTIONS WITH THE COMPANY

Articles 66 e) and 397 of the Companies Code

In 2007 no consent was given to any transactions between the company and its directors.

DIRECTORS’ HOLDING OF OTHER OFFICE

Article 398 of the Companies Code

Except for João Pedro Leitão Pinheiro de Figueiredo Brito until his election as director on 24 May 2005, no other director was in 2007 a party to an employment agreement – temporary or permanent, dependent or independent – with any affiliate of the company.

In 2007 no one of the directors, in its own or any other person’s name, pursued any business activity in competition with any activity of the company.

SERVICES PROVIDED TO AFFILIATES AND FINANCIAL CLAIMS ON ASSOCIATES

Article 5, paragraph 4 of Decreto-Lei n.º 495/88 of 30 December, as redrafted by Decreto-Lei n.º 318/94 of 24 December

See Note 16 – Services provided to affiliates, in the Notes to the Individual Financial Statements.

7.2 CONSOLIDATED ACCOUNTS

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS BY NATURE FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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

	Notes	December 2007	December 2006 restated[(a)]
Operating income:			
Sales	6	12,433,024	12,046,037
Services rendered	6	127,089	146,701
Other operating income	6	101,071	361,394
Total operating income		12,661,184	12,554,132
Operating costs:			
Cost of sales	7	10,429,950	10,405,054
External supplies and services	7	630,197	550,151
Employee costs	7	281,206	306,538
Amortisation, depreciation and impairment loss of fixed assets	7	256,850	256,639
Provision and impairment loss of receivables	7	20,805	34,817
Other operating costs	7	31,337	32,769
Total operating costs		11,650,345	11,585,968
Operating profit		1,010,839	968,164
Financial income	9	16,646	32,334
Financial costs	9	(50,314)	(62,006)
Exchange gain (loss)		(8,866)	2,061
Share of results of associates	4	81,170	21,115
Income (cost) on financial instruments	28	645	1,047
Other gains and losses		(932)	(1,163)
Profit before tax		1,049,188	961,552
Income tax expense	10	(267,993)	(202,910)
Profit before minority interest		781,195	758,642
Profit attributable to minority interest		(4,568)	(3,868)
Profit attributable to equityholders of the parent	**11**	**776,627**	**754,774**
Earnings per share (in Euros)	11	0.94	0.91

(a) Amounts restated in relation to the approved financial statements for 2006 (see Note 2.24).
The accompanying notes form an integral part of the consolidated income statement for the year ended 31 December 2007

The Accountant
Carlos Alberto Nunes Barata

The Board of Directors
Francisco Luís Murteira Nabo
Manuel Ferreira De Oliveira
Francesco Antonietti
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
João Pedro Leitão Pinheiro de Figueiredo Brito
Fernando Manuel dos Santos Gomes
Manuel Domingos Vicente
Enrico Grigesi
Camilo Glória
Angelo Fanelli
Diogo Mendonça Rodrigues Tavares
Carlos Nuno Gomes da Silva
Marco Alverá
Alberto Alves de Oliveira Pinto
Pedro António do Vadre Castelino e Alvim
Alberto Maria Alberti

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER 2007 AND 2006

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

Assets	Notes	December 2007	December 2006
Non-current assets:			
Tangible fixed assets	13	2,107,736	1,927,247
Goodwill	12	17,222	17,032
Other intangible fixed assets	13	309,502	324,767
Investments in associates	4	148,755	147,362
Investments in other companies	5	1,047	1,017
Other receivables	15	89,149	106,757
Deferred tax assets	10	131,891	145,497
Other investments	18	1,475	1,395
Total non-current assets		2,806,777	2,671,074
Current assets:			
Inventories	17	1,422,064	1,065,264
Trade receivables	16	1,077,059	960,279
Other receivables	15	330,049	318,702
Other investments	18	6,156	14,023
Current income tax recoverable	10	382	-
Cash and cash equivalents	19	107,176	212,468
Total current assets		2,942,886	2,570,736
Total assets:		5,749,663	5,241,810

EQUITY AND LIABILITIES	Notes	December 2007	December 2006
Equity:			
Share capital	20	829,251	829,251
Share premium		82,006	82,006
Translation reserve		(22,818)	(10,385)
Other reserves	21	146,438	107,024
Hedging reserves		1,307	710
Retained earnings		717,562	254,757
Interim dividend	30	(126,046)	-
Consolidated net profit attributable to equityholders of the parent		776,627	754,774
Equity attributable to equity holders of the parent		2,404,327	2,018,137
Minority interest	22	21,988	18,537
Total equity		2,426,315	2,036,674
Liabilities:			
Non-current liabilities:			
Bank loans	23	279,712	287,089
Bonds	23	225,772	225,772
Other payables	25	61,757	70,598
Retirement and other benefit obligations	24	253,552	242,180
Deferred tax liabilities	10	147,593	92,927
Other financial instruments	28	5	252
Provisions	26	82,571	82,643
Total non-current liabilities		1,050,962	1,001,461
Current liabilities:			
Bank loans and overdrafts	23	335,767	566,081
Bonds	23	-	20,435
Trade payables	27	955,553	692,379
Other payables	25	981,066	843,454
Other financial instruments	28	-	2,927
Income tax	10	-	78,399
Total current liabilities		2,272,386	2,203,675
Total liabilities		3,323,348	3,205,136
Total equity and liabilities		**5,749,663**	**5,241,810**

The accompanying notes form an integral part of the balance sheet as of 31 December 2007

The Accountant
Carlos Alberto Nunes Barata

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GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006 (IAS/IFRS)

(Amounts stated in thousands of tEuros)
(Translation of balance sheets originally issued in Portuguese - Note 37)

	Notes	December 2007	December 2006
Operating activities:			
Cash receipts from customers		11,970,796	14,069,461
Cash paid to suppliers		(7,766,243)	(10,247,821)
Cash paid to employees		(177,493)	(216,735)
Cash paid/received relating to tax on petroleum products		(2,560,429)	(2,505,927)
Cash (paid)/received relating to income tax		(280,074)	(176,783)
Contributions to the pension fund	24	(8,771)	(23,966)
Cash paid to early retired and pre-retired personnel	24	(14,710)	(12,150)
Cash paid relating to insurance costs of retired personnel	24	(10,453)	(9,870)
Other (payments)/receipts relating to operating activities		(300,688)	(96,592)
Net cash from operating activities (1)		851,935	779,617
Investing activities:			
Cash receipts relating to:			
Investments		14,118	25,113
Tangible fixed assets		1,140	9,572
Intangible fixed assets		1,213	118
Investment subsidies	14	62,988	19,328
Interest and similar income		5,118	14,572
Dividends	4	55,756	43,591
Sale of regulated natural gas assets - Unbundling	31	24,026	790,161
Loans granted		195	1,373
		164,554	903,828
Cash payments relating to:			
Investments		(10,815)	(6,315)
Tangible fixed assets		(386,227)	(303,960)
Intangible fixed assets		(39,459)	(37,093)
Loans granted		(34)	(301)
		(436,535)	(347,669)
Net cash from / (used in) investing activities (2)		(271,981)	556,159
Financing activities:			
Cash receipts relating to:			
Loans obtained		2,287,680	842,501
Capital increases, supplementary capital contributions and share premium		-	350
Interest and similar income		2,794	1,122
Discounted notes		7,532	2,327
		2,298,006	846,300
Cash payments relating to:			
Loans obtained		(2,451,749)	(802,003)
Repayment of loans from EIB under the Unbundling operation	31	-	(309,255)
Interest on loans obtained		(14,739)	(22,582)
Interest and similar costs		(32,639)	(33,026)
Dividends/profit distributions	30	(379,028)	(1,095,131)
Repayment of discounted notes		(7,956)	(5,247)
Payment of interest on finance lease contracts		(103)	(134)
Interest on finance lease contracts		(4)	(4)
Interest on bonds		(1,110)	(3,270)
		(2,887,328)	(2,270,652)
Net cash used in financing activities (2)		(589,322)	(1,424,352)
Net decrease in cash and cash equivalents (4) = (1) + (2) + (3)		(9,368)	(88,576)
Effect of foreign exchange rate changes		(8,364)	(4,236)
Cash and cash equivalents at the beginning of the year	19	822	93,634
Cash and cash equivalents at the end of the year	19	(16,910)	822

The accompanying notes form an integral part of of thre consolidated cash flow statement for the year ended 31 December 2007

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GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006 (IFRS/IAS)

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

Changes in the period	Notes	Share capital	Share premium	Translation reserve	Other reserves (Note 21)
Balance at 1 January 2006		829,251	82,006	(1,879)	84,926
Appropriation of profit to reserves		-	-	-	22,098
Dividends distributed		-	-	-	-
Other increases / decreases in hedging reserves	28	-	-	-	-
Other changes		-	-	-	-
Adjustments relating to the recognition of deferred taxes on financial derivatives	10	-	-	-	-
Differences arising on translation of foreign currency financial statements (Group companies)		-	-	(3,521)	-
Differences arising on translation of foreign currency financial statements (Associated companies)		-	-	(4,985)	-
Changes in minority interest		-	-	-	-
Total increases / decreases directly in equity		-	-	(8,506)	22,098
Net consolidated profit attributable to the shareholders and minority interest		-	-	-	-
Balance at 31 December 2006		829,251	82,006	(10,385)	107,024
Appropriation of profit to reserves	21	-	-	-	39,877
Dividends/interim dividends paid	30	-	-	-	-
Other increases / decreases in hedging reserves	28	-	-	-	-
Other changes	10 and 21	-	-	-	(463)
Adjustments relating to the recognition of deferred taxes	10	-	-	-	-
Differences arising on translation of foreign currency financial statements (Group companies)		-	-	(7,399)	-
Differences arising on translation of foreign currency financial statements (Associated companies)	4	-	-	(5,034)	-
Changes in minority interest		-	-	-	-
Total increases / decreases directly in equity		-	-	(12,433)	39,414
Net consolidated profit attributable to the shareholders and minority interest		-	-	-	-
Balance at 31 December 2007		829,251	82,006	(22,818)	146,438

The accompanying notes form an integral part of the consolidated statement of changes in equity for the year ended 31 December 2007.

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Hedging reserves	Retained earnings	Interim dividends	Net profit for the year	Sub-Total	Minority interest (Note 22)	Total
(2,905)	669,150	-	700,657	2,361,206	24,645	2,385,851
-	678,559	-	(700,657)	-	-	-
-	(1,092,952)	-	-	(1,092,952)	-	(1,092,952)
4,805	-	-	-	4,805	-	4,805
-	-	-	-	-	-	-
(1,190)	-	-	-	(1,190)	-	(1,190)
-	-	-	-	(3,521)	-	(3,521)
-	-	-	-	(4,985)	-	(4,985)
-	-	-	-	-	(9,976)	(9,976)
3,615	(414,393)	-	(700,657)	(1,097,843)	(9,976)	(1,107,819)
-	-	-	754,774	754,774	3,868	758,642
710	254,757	-	754,774	2,018,137	18,537	2,036,674
-	714,897	-	(754,774)	-	-	-
-	(252,092)	(126,046)	-	(378,138)	-	(378,138)
781	-	-	-	781	-	781
-	-	-	-	(463)	-	(463)
(184)	-	-	-	(184)	-	(184)
-	-	-	-	(7,399)	-	(7,399)
-	-	-	-	(5,034)	-	(5,034)
-	-	-	-	-	(1,117)	(1,117)
597	462,805	(126,046)	(754,774)	(390,437)	(1,117)	(391,554)
-	-	-	776,627	776,627	4,568	781,195
1,307	717,562	(126,046)	776,627	2,404,327	21,988	2,426,315

GALP ENERGIA, SGPS, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2007 (IAS/IFRS)
(Translation of notes originally issued in Portuguese – Note 37)

1. INTRODUCTION

A) PARENT COMPANY:

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

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

Over the years the Company shareholder structure has undergone several changes, its position as of 31 December 2007, is stated in Note 20.

Some of the Company's shares are listed on the Euronext Lisbon stock exchange.

B) THE GROUP:

At 31 December 2007 the Galp group ("the Group") was made up of Galp and its subsidiaries, which include: (i) Petróleos de Portugal – Petrogal, S.A. ("Petrogal") and its subsidiaries, which operate upstream and downstream in the crude oil and related derivatives sector; (ii) GDP – Gás de Portugal, SGPS, S.A. and its subsidiaries, which operates in the natural gas sector; (iii) Galp Power, SGPS, S.A. and its subsidiaries, which operate in the electricity and renewable energy sector; and (iv) and Galp Energia, S.A. which provides all the corporate support services.

b1) Crude oil upstream and downstream operations

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

b2) Natural gas operations

The natural gas subsidiaries of the GDP – Gás de Portugal, SGPS, S.A. group which operate in the acquisition, distribution and commercialisation of natural gas, namely Galp Gás Natural, S.A., 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., operate based on concession contracts entered into with the Portuguese State, which end in 2028 (2034 in the case of Beiragás). At the end of this period the assets relating to the concessions will be transferred to the Portuguese State, the companies receiving an indemnity corresponding to the book value of these assets. As a result of the legislation published, referred to below, regarding the restructuring of the energy markets, negotiations are in progress to reformulate the current concession contracts of the natural gas distribution companies (Note 33).

Resolution of the Council of Ministers 169/2005 of 24 October, which approved the national energy strategy, established as one of the guidelines, the liberalisation and promotion of competition in the energy markets, through change in the respective structures.

Decree-Law 30/2006 of 15 February, while including the strategic line of the Resolution of the Council of Ministers 169/2005 of 24 October within the national plan, defined a legal framework for the natural gas sector which is coherent and in line with community legislation and the main strategic objectives approved by that Resolution. This framework establishes the organisation and operating principles of the National Natural Gas System, as well as the general rules applicable to the reception, storage and re-gasification of LNG, underground storage, transport, distribution and commercialisation, thus transposing the principles of European Parliament and the Council Directive 2003/55/CE of 26 June, with the objective of establishing a more competitive free market. Organisation of the National Natural Gas System is based fundamentally on exploitation of the public natural gas network, made up of the National Transport Network, Storage and Terminal Installations and by the National Natural Gas Distribution Network. These infrastructures are exploited through public service concessions or, in the case of local autonomous distribution networks, through public service licences. In addition, the conditions to be established in complementary legislation will permit private distribution of natural gas through licences granted for that purpose.

The natural gas commercialisation activity is free, being however, subject to the granting of licences by the competent administrative entity, which defines clearly the rights and duties within the perspective of operating transparency. In carrying out their activities, traders can purchase and sell natural gas freely, having the right of access to LNG storage and terminal installations and transport and distribution networks through the payment of a regulated fare. The free commercialisation of natural gas is subject to a transitory regime establishing a gradual opening up of the market, considering the emerging market statute and the associated derogation.

Under the terms of the above mentioned Decree-Law, the activities relating to the public natural gas network, last resort commercialisation of natural gas and logistic operation of change in supplier are subject to regulation. Without prejudice to other administrative entities, Entidade Reguladora dos Serviços Energéticos – ERSE (Energy Services Regulating Entity) is responsible for regulating the sector.

In order to implement the separation of the natural gas distribution and commercialisation activities, contracts relating to the transfer of regulated assets were signed between the regional distributors and Galp Gás Natural, S.A.. In addition, commercialisation companies were founded (Note 3) in the regions where the number of clients exceeds 125 thousand, in order to separate the commercialisation activity from the distribution activity.

b3) Energy generating operations

The operations of the Galp Power group subsidiaries consist of generating and commercialising electric and thermic power.

C) OPERATIONS

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

- The exploration and production business segment ("E&P") is responsible for Galp Energia's upstream operations in the petroleum industry, which consists of the supervision and performance of all the activities relating to the exploration, development and production of hydrocarbons, essentially in Angola and Brazil.
- The Petroleum Product Refining and Distribution business segment ("Refining and Distribution") tolds the only two refineries in Portugal and also includes all the activities relating to the retail and wholesale commercialisation of petroleum products (including LPG). The Refining and Distribution segment also controls the majority of the petroleum product storage and transport infrastructures in Portugal, which are strategically located for both exporting and distribution of the main products to the consumption centres. This retail distribution activity, using the Galp brand, also includes Spain, Mozambique and Guinea Bissau through fully owned subsidiaries of the Group and Angola and Cape Verde through joint ventures.
- The Gas and Power business segment covers the areas of Purchasing, Commercialisation and Distribution of Natural Gas and power generation.
- The Purchasing and Commercialisation of Natural Gas area supplies Natural Gas to large industrial customers with annual consumptions of more than 2 million m3, power generating companies, and natural gas distribution companies and UAG's ("natural gas distributors"). So as to meet the demand of its customers, Galp Energia also has long term purchase contracts with companies in Algeria and Nigeria.
- The Natural Gas Distribution area, together with the natural gas distribution companies in which Galp Energia has a significant participation, sell natural gas to residential, commercial and industrial customers with annual consumptions of less than 2 million m3;
- The Power area, which currently generates electric and thermic power supplies power to large industrial customers. Galp Energia presently has participations in three co-generation plants with an installed capacity of 80 MW.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Group to prepare the consolidated financial statements are explained below. In 2007 there were changes in the accounting policies in relation to those used to prepare the financial information for the preceding year, which are presented in Note 2.24. In addition no significant prior year errors were recognised.

2.1 BASIS OF PRESENTATION

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

At 31 December 2007 IFRS 8 – "Operating Segments" had already been issued and published in the Official Journal of the European Union ("OJEU"), and as it is applicable to financial years starting on or after 1 January 2009, the Galp Energia group decided not to adopt it early. No impact is expected with the adoption of the new standard. Also, at 31 December 2007 the interpretations IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" and IFRIC 10 "Interim Financial Reporting and Impairment" had already been issued and published in the OJEU, being applicable to financial years starting on or after 1 March 2007 and 1 November 2007, respectively. Interpretation IFRIC 11 does not apply to the Galp Energia group and IFRIC 10 refers to interim periods with no impact on their implementation.

IFRS 7 – "Financial Instruments: Disclosures", with mandatory application in financial years starting on or after 1 January 2007, and corresponding amendments to IAS 1 – "Presentation of financial statements" were applied for the first time in 2007. Application of these standards resulted in an increase in the information disclosed in Note 32 regarding the Group's financial instruments.

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

2.2 BASIS OF CONSOLIDATION

The following consolidation methods were used by the Group:

A) INVESTMENTS IN GROUP COMPANIES

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

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

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

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

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

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

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

Investments in Group companies are always consolidated.

B) PARTICIPATIONS IN JOINTLY CONTROLLED ENTITIES

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

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

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

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

C) INVESTMENTS IN ASSOCIATES

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

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

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

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

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

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

The participations in associated companies are shown in Note 4.

D) GOODWILL

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

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

Goodwill on acquisitions prior to the date of transition to IFRS (1 January 2004) is recognized at the amounts recorded in accordance with generally accepted accounting principles in Portugal (deemed cost) as of that date and is subject to impairment tests in accordance with IFRS1.

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

E) FOREIGN CURRENCY FINANCIAL STATEMENTS TRANSLATION

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

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

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

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

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

	At the end of the year		Average for the year	
CURRENCY	2007	2006	2007	2006
US Dollars	1.47	1.32	1.37	1.26
Brazillian Reais	2.60	2.81	2.66	2.73
Cape Verde Escudos	110.27	110.27	110.27	110.27
Morrocon Dirhams	11.35	11.15	11.22	11.05
CFA Francs	655.96	655.96	655.96	655.96
Mozambique Meticais	36.28	34.47	35.67	32.64

2.3. TANGIBLE FIXED ASSETS

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

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

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

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

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

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

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

OIL EXPLORATION AND PRODUCTION

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

(i) costs incurred with the exploration and development of the oil fields, plus overheads and financial costs incurred up to the time production starts, which are capitalised in fixed assets in progress. When the oil field starts producing, these costs are transferred from fixed assets in progress to the definitive fixed assets captions and depreciated.

The proved developed reserves and total proved reserves used by the Group to determine the depreciation rate in accordance with the Unit of Production Method ("UOP") were determined by a specialised entity, except for the proven reserves used to calculate the depreciation rate of the development costs of the "Kuito" oil field, where the Group adjusted them as it believes that it is the best estimate as of 31 December 2007. The adjustment made by the Group results essentially from the fact that the proved developed reserves of the "Kuito" oil field determined by the specialised entity consider that production will terminate in 2009 (termination of the FPSO lease) whereas the Group believes that production will continue until 2017. The Operator of that oil field - Cabinda Gulf Oil Company, is in the phase of making a financial assessment of the best option in this respect.

Development costs are depreciated in accordance with a coefficient calculated based on the proportion of the volume produced in each depreciation period in relation to the proved developed reserves at the end of the period, plus production for the period. Such costs relating to oil fields which are still in the exploration and development phase are classified as fixed assets in progress;

Exploration costs are depreciated based on a coefficient calculated by the proportion of the volume of production in each depreciation period in relation to the total proved reserves at the end of the period, plus production for the period. The change in relation to 2006, in which proved developed reserves were used is based on the Group's understanding that exploration costs incurred involve the whole geographic area of the field, independently of the location of the reserves and so amortisation of such costs based on the proved developed reserves would anticipate depreciation of exploration costs, which would also contribute to the discovery of reserves not yet developed. If the Group had depreciated exploration costs on the same basis as for 2006, depreciation for 2007 would have increased by 4,000 tEuros.

Exploration costs relating to fields which are still in the exploration and development phase are classified as fixed assets in progress;

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

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

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

2.4. INTANGIBLE FIXED ASSETS

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

Exploration costs not related to upstream activities are recognised as costs for the year.

Development costs are only recognised as intangible assets if the Group has the technical and financial ability to develop the asset, decides to complete the development and starts commercialising or using it, and it is probable that the asset created will generate future economic benefits. If the development costs do not fulfil these requirements, they are recorded as costs for the year in which they are incurred.

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

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

The Group capitalises costs relating to the conversion of consumption to natural gas, which involves adapting the installations. The Group believes that it can control the future financial benefits resulting from this conversion, through the continued sale of gas to it's clients and inclusion of such costs in the prices approved by the General Directorate of Geology and Energy (Dec-law 140/2006 of 26 July). These costs are amortised on a straight-line annual basis up to the end of the period of the concession of the gas distribution companies.

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

2.5. IMPAIRMENT OF NON-CURRENT ASSETS EXCEPT GOODWILL

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

Whenever the book value of an asset exceeds its recoverable amount an impairment loss is recognised by charge to the income statement caption "Amortisation, depreciation and impairment loss of fixed assets".

The recoverable amount is the greater of the net selling price or the value in use. Net selling price is the amount that would be obtained from selling the asset in a transaction between independent knowledgeable parties, less the costs directly attributable to the sale. Value in use corresponds to the present value of the future cash flows generated by the asset during its estimated economic useful lives. The recoverable amount is estimated for the asset or cash generating unit to which it belongs. The rate used to discount cash flows reflects the weighted average cost of capital (WACC) used by the Group for the business segment and country to which the asset belongs.

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

OIL EXPLORATION AND PRODUCTION

Impairment losses on oil exploration and production assets are determined when:

- Economically viable reserves are not found;
- The licensing period lapses and the exploration licence is not expected to be renewed;
- When an acquired area is returned or abandoned;
- When the expected economic future benefits are less than the investment made.

2.6. LEASING

Lease contracts are classified as:

i. Finance leases if substantially all the risks and benefits of ownership are transferred, and

ii. Operating leases where this does not occur.

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

LEASING IN WHICH THE GROUP IS THE LESSEE

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

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

2.7. INVENTORIES

Inventories are stated as follows:

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

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

Where cost exceeds net realisable value, the difference is recorded in the operating cost caption "Cost of sales".

Specifically, the cost of inventories is determined as follows:

A) RAW AND SUBSIDIARY MATERIAL

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

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

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

B) PRODUCTS AND WORK IN PROCESS

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

C) FINISHED AND SEMI-FINISHED PRODUCTS

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

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

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

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

D) MERCHANDISE

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

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

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

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

E) UNDER/OVER LIFTING

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

When the Company has overlifted oil in relation to its production quota, the amount overlifted is stated at market price in the caption "Other payables" (Note 25).

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

2.8. GOVERNMENT GRANTS AND OTHER GRANTS

Government grants are recognised at fair value when it is certain that they will be received and that the Group companies will comply with the conditions required for them to be granted.

Government grants for operating costs are recognised in the income statement in proportion to the costs incurred.

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

2.9. PROVISIONS

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

2.10. PENSION LIABILITY

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

Petrogal, Sacor Marítima and the GDP group companies have created autonomous pension funds managed by outside entities ("Fundo de Pensões Petrogal", "Fundo de Pensões Sacor Marítima" and "Fundo de Pensões GDP") to cover their liabilities relating to pension supplements for retirement due to age, incapacity and survivor pensions to current employees and retired personnel and, in the case of Petrogal, also to pre-retired and early retired personnel. However, the Petrogal Pension Fund does not cover the liability for early retirement and pre-retirement pensions, Social Security of pre-retired personnel and the payment of voluntary social insurance and retirement bonuses. These liabilities are covered by specific provisions included in the balance sheet caption "Retirement and other benefit obligations" (Note 24).

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

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

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

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

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

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

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

On 31 December 2002 the Portuguese Insurance Institute authorised the creation of the Galp Energia defined contribution Pension Fund. In 2003 Galp Energia, SGPS, S.A. created a defined contribution Pension Fund for its employees and allowed employees of other Group companies to join this fund. Petróleos de Portugal – Petrogal, S.A., GDP – Gás de Portugal, SGPS, S.A., Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. and Galp eNova S.A. (on 17 December 2003 Galp eNova S.A. was merged into Galp Energia, S.A.) as associates of the Fund, to let their employees choose between this new defined contribution pension plan and the previous defined benefits plan. In the case of options for the new plan the Group companies contribute to the fund, an amount defined annually, corresponding to a percentage of the salary of each employee, which is recognised as a cost for that year.

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

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

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

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

2.12. FOREIGN CURRENCY BALANCES AND TRANSACTIONS

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

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

Gains and losses resulting from differences between the exchange rates in force on the dates of the transactions and those prevailing at the date of collection, payment or the balance sheet date are recorded as income and expenses, respectively, in the consolidated income statement caption "Exchange gain (loss)", except for those relating to non-monetary items, in which case the change in fair value is recorded directly in equity.

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

2.13. INCOME AND ACCRUALS BASIS

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

The sales price of natural gas is determined by the Government through the General Directorate of Geology and Energy. The selling price of natural gas is fixed quarterly in accordance with a formula established in the concession contract. Meter reading, invoicing and collections relating to the distribution of natural gas are made by the companies themselves or, in the case of meter reading and collections, through external partners.

Sales of gas not invoiced are recorded monthly in the caption "Other receivables" based on the estimated amount to be invoiced, and corrected in the income statement in the period in which the invoicing is carried out (Note 15).

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

Costs and income attributable to the current period where the payments and receipts will only occur in future periods and payments and receipts which have already occurred but relate to future periods and will be allocated to the income statement in each of these periods by the amounts that correspond to them, are recorded in the captions "Other current assets" and "Other current liabilities"

2.14. FINANCIAL COSTS ON LOANS OBTAINED

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

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

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

2.15. INCOME TAX

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

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

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

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

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

2.16. NON-CURRENT ASSETS AVAILABLE FOR SALE

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

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

2.17. FINANCIAL INSTRUMENTS

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

A) INVESTMENTS

Investments are classified as follows:

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

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

Investments at fair value through profit or loss are classified as current investments.

Available-for-sale investments are classified as non-current assets.

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

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

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

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

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

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

B) RECEIVABLES

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

Receivables usually do not bear interest.

C) EQUITY OR LIABILITY CLASSIFICATION

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

D) LOANS

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

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

Financial costs include interest and any origination fees incurred relating to project finance.

E) TRADE AND OTHER PAYABLES

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

F) DERIVATIVE INSTRUMENTS

Hedge accounting

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

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

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

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

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

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

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

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

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

Trading instruments

The Group uses derivative financial instruments, essentially crude oil and finished product swaps and options and crude oil options, to hedge refining margin fluctuation risk. Although these instruments are contracted to hedge financial risk in accordance with the Group's risk management policies, they do not comply with the requirements of IAS 39 for hedge accounting, and so changes in their fair value are recognised in the income statement for the period in which they occur. At 31 December 2007 these investments were recorded at fair value.

G) CASH AND CASH EQUIVALENTS

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

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

2.18. CO_2 EMISSION LICENCES

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

2.19. BALANCE SHEET CLASSIFICATION

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

2.20. SUBSEQUENT EVENTS

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

2.21. SEGMENT REPOSTING

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

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

2.22. ESTIMATES AND JUDGEMENTS

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

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

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

CRUDE OIL RESERVES

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

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

The volume of crude oil produced and cost of the assets are known, while the proved reserves are very likely to be recovered and are based on estimates subject to adjustment. The impact on depreciation and provision for abandonment costs, of changes in the estimated proved reserves is treated on a prospective basis, the remaining net book value of the assets being depreciated and the provision for abandonment costs being increased, respectively, based on the expected future production. In 2007 and 2006, the Group recorded depreciation of tEuros 53,352 and tEuros 24,010, respectively, of fixed assets relating to the exploration and production of crude oil. If the proved reserves are revalued downwards, future net profit could be affected negatively by increased depreciation cost.

GOODWILL

The Group performs annual impairment tests of goodwill as explained in Note 2.2.d). The recoverable amounts of the cash generating units were determined based on their value in use. In calculating value in use, the Group estimated the expected future cash flows from the cash generating units, as well as an appropriate discount rate to calculate the present value of the flows. Goodwill at 31 December 2007 amounted to tEuros 17,222 (Note 12).

PROVISIONS FOR CONTINGENCIES

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

ENVIRONMENTAL LIABILITIES

Galp makes judgements and estimates to calculate provisions for environmental matters (relating essentially to the known requirements of soil decontamination), based on current information relating to expected intervention costs and plans. Such costs can vary due to changes in the legislation and regulations, change in conditions of a specific location, as well as in decontamination technologies. Consequently, any change in the circumstances relating to such provisions, as well as in the legislation and regulations can significantly affect the provisions for such matters. The provision for environmental matters is reviewed annually. At 31 December 2007 and 2006 the provision for environmental liabilities amounted to tEuros 9,008 (Note 26) and tEuros 11,034, respectively.

Actuarial and financial assumptions used to calculate retirement benefit liabilities

See Note 2.10

2.23. RISK MANAGEMENT AND HEDGING

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

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

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

2.24. CHANGES IN ACCOUNTING POLICIES

In the year ended 31 December 2007 the Galp Energia group decided to change its accounting policies regarding classification of the following costs and income in the income statement, having restated the information for the year ended 31 December 2006 presented for comparative purposes:

(i) Financial derivatives on commodities. The result of financial derivatives on commodities, namely swaps and options over refining margin, were recorded in 2006 in the income statement caption "Income (cost) on financial instruments". The Group decided that it would be more appropriate to classify these costs in the caption "Cost of Sales" as the financial derivatives on commodities are used to hedge the refining margin fluctuation risk. Despite this classification, the Group continues to record these financial derivatives as "Macrohedging", as established in IAS 39.

(ii) Tax on petroleum income. As the tax on petroleum income incurred by the subsidiary Galp Exploração in Angola corresponds to tax on income more than a specific tax on the sale of products, it started being classified in the caption "Income tax", while in 2006 it was classified in the caption "Other operating costs".

(iii) Insurance policies issued and paid in the Galp Energia group. The cost and income of some insurance policies issued and paid, not directly related to the subsidiary TagusRE's reinsurance activity, were classified in the consolidated income statement captions "External supplies and services" and "Services rendered". The Group believes that the directly related insurance policies issued and paid should be reflected net, thus avoiding increasing costs and income in the consolidated income statement by the same amount.

In accordance with the Group, the changes in accounting policies improve the interpretation of the financial statements by its users.

The impact of these changes on the consolidated income statement is as follows:

CAPTION	2006 restated	Financial derivates on commodities	Tax on petroleum income	Insurance policies	2006
Services rendered (note 6)	146,701	-	-	(16,981)	163,682
Other operating income (note 6)	361,394	(5,515)	-	-	366,909
Cost of sales (note 7)	10,405,054	4,876	-	-	10,400,178
External supplies and services (note 7)	550,151	-	-	(16,981)	567,132
Other operating costs (note 7)	32,769	(6,452)	(22,889)	-	62,110
Income tax expense (note 10)	202,910	-	22,889	-	180,021
Income (cost) on financial instruments (note 28)	1,047	3,939	-	-	(2,892)

3. COMPANIES INCLUDED IN THE CONSOLIDATION

The companies included in the consolidation their head offices, percentage or interest held and their principal activities at 31 December 2007 and 2006 are as follows:

COMPANY	Head office		Percentage of interest held		Main activity
	City	Country	2007	2006	
A) Companies of the group					
Parent company:					
Galp Energia, SGPS, S.A.	Lisbon	Portugal	-	-	Management of equity participations in other companies as an indirect form of realising business activities.
Subsidiaries:					
Galp Energia, S.A.	Lisbon	Portugal	100%	100%	Business management and consultancy services.
Petrogal sub-group:					
Petróleos de Portugal - Petrogal, S.A.	Lisbon	Portugal	100%	100%	Refining of crude oil and derivatives; Transport, distribution and commercialisation of crude oil and derivatives and natural gas; Research and exploration of crude oil and natural gas; and any other industrial, commercial and investigation activities and rendering of services relating to these areas.
Subsidiaries:					
Galp Energia España, S.A. and subsidiaries:	Madrid	Spain	100%	100%	Obtaining, representation and commercialisation of petroleum products, chemical products and all related matters.
Galpgest - Petrogal Estaciones de Servicio, S.L.U.	Madrid	Spain	100%	100%	Management and operation of service stations.
CLG - Compañia Logística del Gas, S.A.	Madrid	Spain	100%	100%	Storage and distribution of petroleum products.
Petróleos de Valência, S.A. Sociedad Unipersonal	Valencia	Spain	100%	100%	Deposit, storage and distribution of petroleum products and chemical products and their derivatives and subproducts.
Galp Serviexpress, S.L.U.	Madrid	Spain	100%	100%	Deposit, storage and distribution of petroleum products and chemical products and their derivatives and subproducts.
Sacor Marítima, S.A. and subsidiaries:	Lisbon	Portugal	100%	100%	Marine transport in own and chartered vessels.
Gasmar - Transportes Marítimos, Lda.	Funchal	Portugal	100%	100%	Marine transport in own and chartered vessels.
Tripul - Soc. de Gestão de Navios, Lda.	Lisbon	Portugal	100%	100%	Technical management of ships, crews and supply.
S.M. Internacional-Transp. Marítimos, Lda.	Funchal	Portugal	100%	100%	Marine transport in own and chartered vessels.
Probigalp - Ligantes Betuminosos , S.A.(a)	Amarante	Portugal	60%	50%	Purchase, sale, manufacture, transformation, import and export of bituminous products of additives that transform or modify such products.
Soturis - Sociedade Imobiliária e Turística, S.A.	Lisbon	Portugal	100%	100%	Real estate activities, namely the management, purchase, sale and resale of real estate
Sopor - Sociedade Distribuidora de Combustíveis, S.A.	Lisbon	Portugal	51%	51%	Distribution, sale and storage of liquid and gas fuel, lubricants and other petroleum derivatives; service stations and repair workshops, including related businesses, namely restaurants and hotels.
Eival - Sociedade de Empreendimentos, Investimentos e Armazenagem de Gases, S.A.	Lisbon	Portugal	100%	100%	Wholesale commerce of gas products, lubricants, thermo domestic products and burning and gas installation material.
Galp Exploração e Produção Petrolifera, Lda. and subsidiaries:	Funchal	Portugal	100%	100%	Petroleum commerce and industry, including prospecting, research and exploration of hydrocarbons.
Galp Exploração Serviços Brasil, Lda.	Recife	Brazil	100%	100%	Business management and consultancy services.
Gite - Galp International Trading Establishment	Vaduz	Liechtenstein	24%	24%	Petroleum commerce and industry, including prospecting, research and exploration of hydrocarbons.
Galp Serviexpress - Serv. de Distrib. e Comercialização de Produtos Petrolíferos, S.A.	Lisbon	Portugal	100%	100%	Rendering of transport, storage and commercialisation services for liquid and gas fuels, base oils and other petroleum derivatives to individuals, small companies and farmers in the domestic and foreign markets. Direct and indirect operation of fuel distribution centres and supporting activities, namely service stations, workshops, the sale of motor vehicle parts and accessories, restaurants and hotels, as well as any other industrial or commercial activity and the rendering of related services.
Galpgeste- Gestão de Áreas de Serviço, Lda. and subsidiaries:	Lisbon	Portugal	100%	100%	Direct and indirect operation of service stations, fuel stations and related or complementary activities, such as service stations, workshops, the sale of lubricants motor vehicle parts and accessories, restaurants and hotels.
C.L.T. - Companhia Logística de Term. Marítimos, Lda.	Matosinhos	Portugal	100%	100%	Operation of marine terminals and related activities.
Petrogal Brasil, Lda.	Recife	Brazil	100%	100%	Research and exploration of crude oil and natural gas, as well as other commercial, industrial and investigation activities and the rendering of related services and also to participate in other companies of any kind and for any purpose.
Petrogal Trading Limited	Dublin	Ireland	100%	100%	Crude oil and petroleum product trading.
Petrogal Moçambique, Lda. and subsidiaries:	Maputo	Mozambique	100%	100%	Distribution, storage and commercialisation of liquid and gas fuel, base oils and lubricants and the operation of fuel stations and service stations and vehicle assistance.
Petrogal Angola, Lda.	Luanda	Angola	100%	100%	Distribution, storage and commercialisation of liquid and gas fuel, base oils and lubricants and the operation of fuel stations and service stations.

COMPANY	Head office City	Head office Country	Percentage of interest held 2007	Percentage of interest held 2006	Main activity
Petrogal Guiné-Bissau, Lda. and subsidiaries:	Bissau	Guinea-Bissau	100%	100%	Distribution, transport, storage and commercialisation of liquid and gas fuel, base oils, lubricants and other petroleum derivatives and the operation of fuel stations and vehicle assistance stations.
Petromar - Sociedade de Abastecimentos de Combustíveis, Lda.	Bissau	Guinea-Bissau	80%	80%	Commerce of marine banks.
Petrogás - Importação, Armazenagem e Distribuição de Gás, Lda.	Bissau	Guinea-Bissau	65%	65%	Importation, storage and distribution of LPG.
Galp Açores - Distrib. e Comercialização de Combustíveis e Lubrificantes, S.A. and subsidiaries:	Ponta Delgada	Portugal	100%	100%	Distribution, storage, transport and commercialisation of liquid and gas fuel, lubricants and other petroleum derivatives.
Saaga - Sociedade Açoreana de Armazenagem. de Gás, S.A.	Ponta Delgada	Portugal	67.65%	67.65%	Construction and operation of filling stations and related storage facilities of LPG and other fuel in the Autonomous Region of the Azores.
Galp Madeira - Distrib. e Comercializ. de Combustíveis e Lubrificantes, Lda. and subsidiaries:	Funchal	Portugal	100%	100%	Distribution, storage, transport and commercialisation of liquid and gas fuel, lubricants and other petroleum derivatives.
CLCM - Companhia Logistica de Combustíveis da Madeira, S.A.	Funchal	Portugal	75%	75%	Installation and operation of liquid and gas fuel storage facilities, as well as the respective transport, reception, movement, filling and shipping structures and other industrial, commercial and investigation activities and the rendering of services relating to these activities.
Gasinsular - Combustíveis do Atlântico, S.A.	Funchal	Portugal	100%	100%	Distribution, storage, transport and commercialisation of liquid and gas fuel, base oils, lubricants and other petroleum derivatives and the direct and indirect operation fuel stations and service stations and complementary activities, namely service stations, vehicle repair and maintenance workshops, the sale of motor vehicle parts and accessories, restaurants and hotels, as well as any other industrial commercial and investigating activities and the rendering of services relating to the activities mentioned in its objects.
Tanquisado - Terminais Marítimos, S.A.	Setúbal	Portugal	100%	100%	Development and operation of Marine Terminals.
Sempre a Postos - Produtos Alimentares e Utilidades, Lda.	Lisbon	Portugal	75%	75%	Retail sale of food products, domestic utensils, presents and other articles, including newspapers, magazines, records, videos, toys, drinks, tobacco, cosmetics and hygiene, travel and vehicle accessory items.
Combustiveis Líquidos, Lda.	Lisbon	Portugal	99.8%	99.8%	Sale of fuel, lubricants and vehicle accessories and any other business to which the partners agree and that does not require special authorisation.
Blue Flag Navigation - Transportes Marítimos, Lda.	Funchal	Portugal	100%	100%	Marine transport and commercial operation of ships in its own name, as owner or chartered, or in the name of third parties.
Galp Investment - Fundo	Lisbon	Portugal	(b)	(b)	Loan securitisation.
Galp Investment Fund, PLC	Dublin	Ireland	(c)	(c)	Loan securitisation.
Fast Access – Operações e Serviços de Informação e Comércio Electrónico, S.A. (d)	Lisbon	Portugal	100%	66,66%	Realisation of operations and rendering of information services and electronic commerce for mobile users as well as the rendering of on-line commerce management and operating services.
Tagus Re, S.A.	Luxemburg	Luxemburg	100%	100%	Reinsurance of all products, excluding direct insurance.
Galp Exploração Serviços Brasil, Lda.	Recife	Brazil	100%	100%	Business management support services.
Petrogal Cabo Verde, Lda.	St. Vicent	Cape Verde	100%	100%	Distribution and sale of liquid and gas fuel, base oils and lubricants as well as the operation of fuel stations and service stations.
Galp Exploração e Produção (Timor Leste), S.A. (e)	Lisbon	Portugal	100%	-	Commerce and industry of petroleum, including prospecting, research and exploration of hydrocarbons in East Timor.
GDP sub-group:					
GDP - Gás de Portugal, SGPS, S.A.:	Lisbon	Portugal	100%	100%	Management of equity investments.
Subsidiaries:					
Driftal - Plastificantes de Portugal, S.A.	Lisbon	Portugal	100%	100%	Commercialisation of phtalic Plastifiers.
GDP Distribuição, SGPS, S.A. and subsidiaries:	Lisbon	Portugal	100%	100%	Management of equity investments.
GDP Serviços, S.A. (f)	Lisbon	Portugal	100%	-	Business management services.
Beiragás - Companhia de Gás das Beiras, S.A.(g)	Viseu	Portugal	59.51%	59.48%	Operation, construction and maintenance of regional natural gas distribution networks.
Dianagás - Soc. Distrib. de Gás Natural de Évora, S.A.	Bucelas	Portugal	100%	100%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Paxgás - Soc. Distrib. de Gás Natural de Beja, S.A.	Bucelas	Portugal	100%	100%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Medigás - Soc. Distrib. de Gás Natural do Algarve, S.A.	Bucelas	Portugal	100%	100%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	Bucelas	Portugal	100%	100%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Lusitaniagás - Companhia de Gás do Centro, S.A. (h)	Aveiro	Portugal	85.19%	85.04%	Operation, construction and maintenance of regional natural and other gas distribution networks.
Lusitaniagás Comercialização, S.A. (i)	Aveiro	Portugal	100%	--	Commercialisation of retail last resort natural gas.
Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A.	Lisbon	Portugal	100%	100%	Obtain, store and distribute piped combustible gas.
Lisboagás Comercialização, S.A. (j)	Lisbon	Portugal	100%	--	Commercialisation of retail last resort natural gas.
Galp Gás Natural, S.A. and subsidiaries:	Lisbon	Portugal	100%	100%	Importation of natural gas, storage, distribution through high pressure networks, construction and maintenance of networks.
Transgás Armazenagem - Soc. Portuguesa de Armazenagem de Gás Natural, S.A.	Lisbon	Portugal	100%	100%	Storage of natural gas on a public service sub-concession basis, including the construction, maintenance, repair and operation of all the related infrastructure and equipment.
Transgás, S.A.	Lisbon	Portugal	100%	100%	Supply of energy to companies and purchase and sale of natural gas.
Galp Power sub-group:					
Galp Power, SGPS, S.A. and subsidiaries:	Lisbon	Portugal	100%	100%	Management of equity investments as an indirect way of exercising business activities.
Carriço Cogeração Sociedade de Geração de Electricidade e Calor, S.A.	Lisbon	Portugal	65%	65%	Production, in the form of co-generation, and sale of electric and thermal energy.
Powercer - Sociedade de Cogeração da Vialonga, S.A.	Lisbon	Portugal	70%	70%	Production, in the form of co-generation, and sale of electric and thermal energy, including the conception, construction, financing and operation of co-generating installations and all the related activities and services.
Sinecogeração - Cogeração da Refinaria de Sines, S.A.	Lisbon	Portugal	100%	100%	Production, transport and distribution of electric and thermal energy produced by co-generating and renewal energy systems, including the conception, construction and operation of systems or installations.
Galp Power, S.A. (l)	Lisbon	Portugal	100%	100%	Purchase and sale of energy, as well as the rendering services and realisation of activities directly or indirectly related with energy.
Portcogeração, S.A. (m)	Lisbon	Portugal	100%	-	Production, transport and distribution of electric and thermal energy from co-generating systems and renewal energy.

COMPANY	Head office City	Head office Country	Percentage of interest held 2007	Percentage of interest held 2006	Main activity
Galp Power sub-group:					
Ventinveste, S.A. and subsidiaries: (n)	Lisbon	Portugal	34%	-	Construction and operation of industrial units for the constructruction and assembly of wind turbine components and construction and operation of wind farms.
Ventinveste Eólica, SGPS, S.A.	Lisbon	Portugal	34%	-	Management of equity investments in other companies as an indirect form of carrying out economic activities and the construction and operation of wind farms.
Parque Eólico da Serra do Oeste, S.A.	Lisbon	Portugal	34%	-	Construction and operation of wind farms.
Parque Eólico de Torrinheiras, S.A.	Lisbon	Portugal	34%	-	Construction and operation of wind farms.
Parque Eólico de Vale do Chao, S.A.	Lisbon	Portugal	34%	-	Construction and operation of wind farms.
Parque Eólico do Cabeco Norte, S.A.	Lisbon	Portugal	34%	-	Construction and operation of wind farms.
Parque Eólico de Vale Grande, S.A.	Lisbon	Portugal	34%	-	Construction and operation of wind farms.
Parque Eólico do Douro Sul, S.A.	Lisbon	Portugal	34%	-	Construction and operation of wind farms.
Parque Eólico do Pinhal Oeste, S.A.	Lisbon	Portugal	34%	-	Construction and operation of wind farms.
Parque Eólico do Planalto, S.A.	Lisbon	Portugal	34%	-	Construction and operation of wind farms.
Petrogal sub-group:					
C.L.C. - Companhia Logística de Combustíveis, S.A.	Aveiras de Cima	Portugal	65%	65%	Installation and operation of liquid and gas storage facilities, as well as the related transport structures,other industrial, commercial and investigation activities and of services related to those activities.
Caiageste - Gestão de Áreas de Serviço, Lda.	Elvas	Portugal	50%	50%	Management, and operation of service areas in the Caia area, including any activities and services related with such establishments and installations, namely: the supply of fuel and lubricants, the commercialisation of products and articles to convenience stores and supermarkets, the management and operation of restaurants and hotel or similar units, service stations and gift and utility selling points.
Sigás - Armazenagem de Gás, A.C.E.	Sines	Portugal	60%	60%	The conception and construction of underground LPG storage facilities the complementary surface installations needed to move the products. Management and operation of the underground storage facilities and surface installations and GPL tanks and spheres.
Asa - Abastecimento e Serviços de Aviação, Lda.	Lisbon	Portugal	50%	50%	Aircraft fuel services.

In the year ended 31 December 2007 the consolidation perimeter was changed as follows in relation to the preceding year:

(a) Acquisition by the Group of 10% of the share capital of Probigalp – Ligantes Betuminosos, S.A. for tEuros 720, resulting in goodwill of tEuros 530, increasing the Group's participation to 60%.

(b) and (c) in "2003 Petrogal entered into an accounts receivable securitisation operation with Galp Investment Fund, PLC ("the Fund") for a maximum amount of tEuros 210,000 (Note 23), which has an expected maturity of 5 years and a legal maturity of 7 years. The transactions are carried out using another vehicle with head office in Portugal – Galp Investment – Fundo – which purchases the receivables and places them with Galp Investment Fund PLC. As these Funds are vehicles constituted solely for this operation and considering the IAS/IFRS accounting requirements for this type of operation, the assets and liabilities of the Funds, which consist essentially of accounts receivable from Petrogal customers and bonds issued by the Fund, respectively, have been consolidated into the Group's financial statements.

(d) The subsidiary Petrogal, S.A. acquired 33.33% of the capital of Fast Access – Operações e Serviços de Informação e Comércio Electrónico, S.A., becoming the sole shareholder of that subsidiary.

(e) The subsidiary Petrogal, S.A. subscribed for all the share capital of Galp Exploração e Produção Timor Leste, S.A., which was founded on 29 May 2007.

(f) The subsidiary GDP Distribuição, SGPS, S.A. subscribed for all the share capital of GDP Serviços, S.A., which was founded on 19 November 2007.

(g) Acquisition by the Group of a further 0.03% of the share capital of Beiragás - Companhia de Gás das Beiras, S.A., for tEuros 7, increasing the Group's participation to 59.51%,

(h) Acquisition by the Group of a further 0.16% of the share capital of Lusitaniagás - Companhia de Gás do Centro, S.A., for tEuros 230, resulting in goodwill of tEuros 118 and increasing the Group's participation to 85.19%.

(i) The subsidiary Lusitaniagas – Companhia Gás do Centro, S.A. subscribed for 100% of the capital of Lusitaniagás Comercialização, S.A. which was founded on 24 July 2007.

(j) The subsidiary Lisboagás GDL, Sociedade Distribuidora de Gás Natural de Lisboa S.A. subscribed for 100% of the capital of Lisboagás Comercialização, S.A. which was founded on 24 July 2007.

(l) Porten, S.A., a subsidiary of Galp Energia, SGPS, S.A. changed its name to Galp Power, S.A., and changed its corporate objects, becoming a subsidiary of Galp Power, SGPS S.A., with retroactive effect to 23 May 2007.

(m) The subsidiary Galp Power, SGPS, S.A. subscribed for 100% of the capital of Portcogeração, S.A., which was founded on 19 March 2007.

(n) The subsidiary Galp Power, SGPS, S.A. subscribed for 34% of the capital of Ventinveste, S.A., which was founded on 22 August 2007.

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

The companies included in the consolidation in accordance with the proportional consolidation method at 31 December 2007 had the following impacts (corresponding to the amounts appropriated) on the consolidated financial statements:

COMPANY	Impacts of proportional consolidation: Assets	Liabilities	Income	Costs	Result for the year
C.L.C. - Companhia Logística de Combustíveis, S.A.	97,211	(80,316)	13,015	(19,258)	(6,243)
Caiageste - Gestão de Áreas de Serviço, Lda.	154	(75)	684	(495)	189
Sigás - Armazenagem de Gás, A.C.E.	16,100	181	2,437	(2,962)	(525)
Asa - Abastecimento e Serviços de Aviação, Lda.	98	(114)	165	(397)	(232)
Ventinveste, S.A. (a)	314	(299)	13	77	90
	113,877	**(80,623)**	**16,314**	**(23,035)**	**(6,721)**

(a) The amounts represent the consolidated amounts of the Ventinveste Group, including exclusively all the subsidiaries of the wind generating business.

4. INVESTMENTS IN ASSOCIATES

Investments in associated companies, their head offices and the percentage or interest held in them at 31 December 2007 and 2006 are as follows:

	Head office		Percentage or interest held		Book value		Financial information on the associate	
COMPANY	City	Country	2007	2006	2007	2006	Assets	Liabilities
Compañia Logística de Hidrocarburos CLH, S.A. (f) (j)	Madrid	Spain	5.00%	5.00%	60,425	61,933	1,813,198	1,453,482
EMPL - Europe Magreb Pipeline, Ltd. (a)	Madrid	Spain	27.40%	27.40%	30,259	33,418	394,517	284,082
Gasoduto Al-Andaluz, S.A. (a)	Madrid	Spain	33.04%	33.04%	16,793	16,286	100,130	49,305
Gasoduto Extremadura, S.A. (a)	Madrid	Spain	49.00%	49.00%	14,303	13,570	45,351	16,162
Setgás - Sociedade de Produção e Distribuição de Gás, S.A. (h)	Setúbal	Portugal	45.00%	45.00%	10,242	8,055	117,123	93,713
Empresa Nacional de Combustíveis - Enacol, SARL (g)	Mindelo	Cape-Verde	33.21%	32.50%	7,918	7,073	52,994	29,155
Tagusgás - Empresa de Gás do Vale do Tejo, S.A. (b)	Santarém	Portugal	41.31%	41.27%	3,745	2,720	54,534	45,468
Metragaz, S.A. (a)	Tânger	Morroco	26.99%	26.99%	1,413	1,306	11,024	5,788
Terparque - Armazenagem de Combustíveis, Lda. (d)	Angra do Heroismo	Portugal	23.50%	23.50%	1,238	1,297	25,290	20,025
Número Um - Reparação de Automóveis, Lda. (g) (i)	Lisbon	Portugal	-	49.00%	-	555	-	-
Brisa Access, S.A. (g)	Cascais	Portugal	7.50%	7.50%	570	535	13,045	5,447
Energin - Sociedade de Produção de Electricidade e Calor, S.A. (c)	Lisboa	Portugal	35.00%	35.00%	1,669	303	40,726	35,874
Ecogen - Serviços de Energia Descentralizada, S.A. (c)	Bucelas	Portugal	35.00%	35.00%	112	265	323	4
Gásfomento - Sistemas e Instalações de Gás, S.A. (b)	Lisbon	Portugal	20.00%	20.00%	68	46	2,624	2,286
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda. (e) (l)	Luanda	Angola	49.00%	49.00%	-	-	n.a.	n.a.
					148,755	147,362		
less: Provision for investments - joint commitment (Note 26)					(2,006)	(5,332)		
					146,749	142,030		

(a) Participation held by Galp Gás Natural, S.A.
(b) Participation held by GDP Distribuição, SGPS, S.A.
(c) Participation held by Galp Power, SGPS, S.A.
(d) Participation held by Saaga – Sociedade Açoreana de Armazenagem de Gás, S.A.
(e) Participation held by Petrogal Angola, Lda.
(f) Participation held by Galp Energia España, S.A.
(g) Participation held by Petróleos de Portugal – Petrogal , S.A.
(h) Participation held by GDP Distribuição, SGPS, S.A. and Petróleos de Portugal – Petrogal , S.A.
(i) Participation sold on 29 January 2007, resulting in a gain of tEuros 945.
(j) Although the Group's participation is only of 5%, it has significant influence and so the participation is stated as explained in Note 2.2 c) .
(l) The provision for equity investments in associates at 31 December 2007, representing the Group's joint liability to associates with negative equity, is detailed in Note 26.

	2007	2006
Central E, S.A.	-	2,632
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda.	2,006	2,700
	2,006	**5,332**

The changes in the caption "Investments in associates" in the year ended 31 December 2007 were as follows:

COMPANY	Beginning balance	Increase in investment (a)	Sale of interest in investment
Investments			
Compañia Logística de Hidrocarburos CLH, S.A.	61.933	7.973	
EMPL - Europe Magreb Pipeline, Ltd.	33.418	-	
Gasoduto Al-Andaluz, S.A.	16.286	-	
Gasoduto Extremadura, S.A.	13.570	-	
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	8.055	-	
Empresa Nacional de Combustíveis - Enacol, SARL	7.073	161	
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	2.720	624	
Metragaz, S.A.	1.306	-	
Terparque - Armazenagem de Combustíveis, Lda.	1.297	-	
Número Um - Reparação de Automóveis, Lda.	555	-	(555)
Brisa Access, S.A.	535	-	
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	303	-	
Ecogen - Serviços de Energia Descentralizada, S.A.	265	-	
Gásfomento - Sistemas e Instalações de Gás, S.A.	46	-	
	147.362	8.758	(555)
Provision for equity investments in asoociates			
Centra-E, S.A.	(2.632)	-	2.632
Sonangalp - Sociedade Distribuição e Comercialização de Combustíveis, Lda.	(2.700)	-	
	(5.332)	-	2.632
	142.030	**8.758**	**2.077**

(a) Includes increases in participations, purchase price adjustments and supplementary capital contributions
(b) The amount of tEuros 146 refers to the change in fair value of financial derivatives in the amount of tEuros 200 (Note 28), less deferred tax of tEuros 53

Financial information on the associate		
Income	Result for the year	Main Activity
520,380	162,005	Installation and operation of liquid and gas storage facilities and related transport stuctures.
197,575	113,447	Construction and operation of the natural gas pipeline between Morocco and Spain.
27,495	7,791	Construction and operation of Tarifa–Córdoba gas pipeline.
19,375	7,017	Construction and operation of Córdoba-Campo Maior gas pipeline.
39,370	5,832	Production and distribution of natural and its substitute gases.
65,911	2,865	Commercialisation of hydrocarbonates and related activities.
14,763	621	Production and distribution of Natural Gas and other piped combustible gases.
16,048	982	Construction, maintenance and operation of the Maghreb-Europe gas pipeline.
6	(281)	Construction and/or operation of storage facilities for combustibles
-	-	Revision and repair of cars and sale of car parts and accessories.
10,749	874	Rendering of any assistance services to motorists.
38,659	3,808	Co-generation and sale of electric and thermal power.
53	(412)	Rendering of import and export services, commercialisation and supply of electric energy producing equipment.
5,536	103	Activities relating to construction and civil engineering in general, project and construction and maintenance of installations.
n.a.	2,330	Distribution and Commercialisation of liquid fuel, lubricants and other petroleum derivatives, operation of service stations and automobile assistance and related services.

Gain/loss	Exchange translation adjustment	Hedging reserves adjustment (b)	Prior year results	Dividends	Ending balance
11.603	-	-	-	(21.084)	60.425
31.083	(5.033)	-	-	(29.209)	30.259
2.574	-	-	-	(2.067)	16.793
3.438	-	-	-	(2.705)	14.303
2.187	-	-	-	-	10.242
1.205	-	-	-	(521)	7.918
254	-	147	-	-	3.745
265	(23)	-	-	(135)	1.413
(59)	-	-	-	-	1.238
-	-	-	-	-	-
35	-	-	-	-	570
1.366	-	-	-	-	1.669
(153)	-	-	-	-	112
22	-	-	-	-	68
53.820	**(5.056)**	**147**	**-**	**(55.721)**	**148.755**
-	-	-	-	-	-
1.189	22	-	(517)	-	(2.006)
1.189	**22**	**-**	**(517)**	**-**	**(2.006)**
55.009	**(5.034)**	**147**	**(517)**	**(55.721)**	**146.749**

In accordance with the contract for the purchase of the investment in CLH - Compañia Logistica de Hidrocarboros, S.A., the cost of the investment is revised annually for a period up to 10 years as from the date of the contract, based on the amount of sales. The additional amount paid in 2007 amounted to tEuros 7,973.

The consolidated income statement caption "Share of results of associates" for the year ended 31 December 2007 is made up as follows:

Effect of applying the equity method:	
Associated companies	55,009
Prior year adjustments in group companies	5,036
Effect of selling interest investments in group companies:	
Gain on sale of the investment in Número Um - Reparação de Automóveis, Lda.	945
Adjustment of the sales price of the participation in Transgás Atlântico, S.A.	20,820
Others	(640)
	81,170

In 2007, REN – Rede Eléctrica Nacional, S.A. paid the amount relating to adjustment of the sales price of Natural Gas Regulated Assets established in the purchase and sale contract entered into on 30 August 2006. The amount of tEuros 20,820, relating to adjustment of the amount of the participation held in Transgás Atlântico, S.A., was recognised by corresponding entry to the caption "Share of results of associates" (Note 31).

Dividends received in 2007 amounted to tEuros 55,756. However, tEuros 55,721, corresponding to the amount approved by the respective Shareholders' General Meetings, has been reflected in the caption "Investments in associates". The difference of tEuros 35 corresponds to exchange gain at the time of payment, which has been reflected in the income statement caption "Exchange gain (loss)".

As explained in Note 2.2 d), Goodwill in associated companies is included in the caption "Investments in associates", the amount at 31 December 2007 being made up as follows:

Compañia Logística de Hidocarburos CLH, S.A.	50,940
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	172
	51,112

5. OTHER INVESTMENTS

The Group's other investments, the head office of the companies and the percentage or interest held at 31 December 2007 and 2006 are as follows:

	Head Office		Percentage of interest held		Book Value	
COMPANY	City	Country	2007	2006	2007	2006
PME Capital - Sociedade Portuguesa de Capital de Risco, S.A.	Porto	Portugal	1.82%	1.82%	499	499
PME Investimentos - Sociedade de Investimento, S.A.	Lisbon	Portugal	1.82%	1.82%	499	499
Agene - Agência para a Energia, S.A.	Amadora	Portugal	10.98%	10.98%	114	114
Omegás - Soc. D'Étude du Gazoduc Magreb Europe	Tânger	Morroco	5.00%	5.00%	35	35
Ambélis - Agência para a Modernização Económica de Lisboa, S.A.	Lisbon	Portugal	2.00%	2.00%	20	20
Clube Financeiro de Vigo	Vigo	Spain	-	-	19	19
P.I.M.-Parque Industrial da Matola, SARL	Maputo	Mozambique	1.50%	1.50%	18	19
Imopetro - Importadora Moçambicana de Petróleos, Lda.	Maputo	Mozambique	15.38%	15.38%	7	8
OEINERGE - Agência Municipal Energia e Ambiente de Oeiras	Oeiras	Portugal	1.45%	1.45%	1	1
Cooperativa de Habitação da Petrogal da Petrogal , CRL	Lisbon	Portugal	0.07%	0.07%	7	7
Agência de Energia do Porto	Porto	Portugal	-	-	13	-
Ventinveste Industrial, SGPS, S.A. (a)	Oliveira de Frades	Portugal	34.00%	0.00%	17	-
Central-E, S.A.	Lisboa	Portugal	0.70%	-	2	-
CCCP - Cooperativa de Consumo de Pessoal da Petrogal, CRL	Lisboa	Portugal	0.07%	0.07%	(b)	(b)
EDEL - Empresa Editorial Electrónica, Lda.	Lisboa	Portugal	2.22%	2.22%	(b)	(b)
					1,251	1,221
Impairment of associate companies						
Ambélis - Agência para a modernização Económica de Lisboa, S.A.					(7)	(7)
PME Capital - Sociedade Portuguesa de Capital de Risco, S.A.					(52)	(52)
PME Investimentos - Sociedade de Investimento, S.A.					(145)	(145)
					(204)	(204)
					1,047	**1,017**

(a) Participation valued at cost, because the Group doesn't held control or significant effluence in the Entity.
(b) Participations amounts less than tEuros 1

Other investments are recorded at cost due to the impossibility of valuing them at fair value (Note 2.2 paragraph c)).The net book value of these investments amounts to tEuros 1,047.

6. OPERATING INCOME

The Group's operating income for the years ended 31 December 2007 and 2006 is made up as follows:

CAPTION	2007	2006
Sales:		
merchandising	4,326,473	4,004,133
products	8,106,551	8,041,904
	12,433,024	12,046,037
Services rendered	127,089	146,701(a)
Other operating income:		
Supplementary income	60,236	53,088
Gain on fixed assets	11,680	246,084
Operating grants	5,169	5,589
Others	23,986	56,633
	101,071	361,394(a)
	12,661,184	12,554,132

(a) This amount was restated considering the changes in accounting classification referred to in Note 2.24.

Sales of fuel include the Tax on Petroleum Products.

Sales by geographic area are shown in Note 8.

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

Services rendered decreased due to the fact that in 2006 this caption included tEuros 14,981 relating to the inclusion of income from 2004 to 2006 relating to the Cession of Telecommunications Rights Contract entered into with ONITELECOM, S.A., following the results of the arbitration process which the Group had with that company.

The decrease in the caption "Gain on fixed assets" in the year ended 31 December 2007 is due to the fact that in the year ended 31 December 2006 the caption included a gain of tEuros 237,282 resulting from the sale of fixed assets relating to the "Unbundling " process (Note 31). The amount of tEuros 11,680 for the year ended 31 December 2007 includes tEuros 2,515 relating to an adjustment of the price of the part of the "Unbundling" operation corresponding to the transport network (Note 31).

7. OPERATING COSTS

Operating costs for the years ended 31 December 2007 and 2006 are made up as follows:

CAPTION	2007	2006
Cost of sales:		
Merchandise	2,486,525	2,180,840
Raw and subsidiary materials	5,553,159	5,683,292
Tax on Oil Products	2,505,526	2,351,304
Variation in production	(122,867)	184,194
Decrease in inventories (Note 17)	5,186	548
Financial derivates	2,421	4,876(a)
	10,429,950	10,405,054
External services and supplies:		
Subcontracts	15,502	26,194
Rental costs	45,179	37,175
Maintenance and repairs	55,213	56,990
Publicity	23,994	32,257
Transport of goods	95,939	92,894
Insurance	22,052	24,984
Commission	11,918	10,189
Storage and filling	50,655	42,562
Port services and fees	21,547	18,790
Other specialized services	197,427	120,705
Other external supplies and services	47,246	45,330
Other costs	43,525	42,081(a)
	630,197	550,151
Employee costs:		
Remuneration of the statutory boards (Note 29)	5,526	5,597
Remuneration of personnel	185,765	191,744
Social charges	38,530	39,248
Retirement benefits - pensions ans insurances (Note 24)	39,948	51,905
Other insurance	8,666	8,705
Other costs	2,771	9,339
	281,206	306,538
Amortization, depreciation and impairment:		
Depreciation and impairment of tangible fixed assets (Note 13)	225,588	228,923
Amortization and impairment of intangible fixed assets (Note 13)	31,262	27,716
	256,850	256,639
Provision and impairment of receivables:		
Provisions and reversals (Note 26)	11,057	18,700
Impairment loss on trade receivables (Note 16)	9,143	16,570
Impairment loss on other receivables (Note 15)	605	(453)
	20,805	34,817
Other operating costs:		
Other taxes	8,646	8,294
Loss on fixed assets	7,283	3,955
Other operating costs	15,408	20,520(a)
	31,337	32,769
	11,650,345	11,585,968

(a) These amounts were restated considering the changes in accounting classification mentioned in Note 2.24.

The caption "Other specialised services" in the amount of tEuros 197,427 increased significantly in relation to the year ended 31 December 2006 due to the transport of natural gas, which up to 30 September 2006, date of the "Unbundling", was carried out by the natural gas networks owed by Galp Gás Natural, started being charged by REN under the "Unbundling" operation.

8. SEGMENT INFORMATION

BUSINESS SEGMENTS

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

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

Following is information on the segments identified previously at 31 December 2007 and 2006, the Gas and Power segment being divided, for greater detail, between the natural gas and electricity areas:

	Natural Gas		Refining and distribution of petroleum products		Exploration and production	
	2007	2006 Restated (a)	2007	2006 Restated (a)	2007	2006 Restated (a)
Income						
Sales and services rendered	1,424,897	1,365,509	11,115,421	10,837,818	232,539	140,509
Inter-segments	42,623	44,416	3,374	2,452	200,354	136,738
External	1,382,274	1,321,093	11,112,047	10,835,366	32,185	3,771
EBITDA (1)	**252,908**	**575,173**	**831,712**	**584,350**	**204,929**	**100,288**
Non cash costs						
Amortization, depreciation and adjustments	(30,086)	(34,065)	(167,666)	(194,444)	(54,912)	(24,002)
Provisions (net)	(9,294)	(2,974)	(7,757)	(24,489)	(3,976)	(9,934)
Segments results	**213,528**	**544,082**	**656,289**	**365,417**	**146,041**	**66,352**
Net financial items	62,626	13,226	(26,789)	(19,407)	7,663	1,096
Income tax	(56,261)	(92,433)	(147,748)	(89,263)	(66,580)	(22,580)
Minority interest	(3,036)	(3,375)	(661)	263	-	-
Net income IFRS/IAS	**216,857**	**461,500**	**481,094**	**257,010**	**87,124**	**44,868**
	At 31 December 2007 and 2006					
Other informations						
Assets by segment (2)						
Investment (3)	73,916	73,191	73,958	74,349	-	13
Other assets	1,319,525	1,660,503	3,981,963	3,464,859	569,675	434,717
Total consolidated assets	**1,393,441**	**1,733,694**	**4,055,921**	**3,539,208**	**569,675**	**434,730**
Total consolidated liabilities	**608,142**	**739,102**	**2,675,512**	**2,393,637**	**185,947**	**129,812**

(1) Operating results plus amortization, depreciation, adjustments and provisions.
(2) Net amount
(3) In accordance with the equity method.
(a) Amounts restated in relation to the approved financial statements for 2006 (see note 2.24).

GEOGRAPHICAL SEGMENTS

Income from sales and services rendered and total assets for the years ended 31 December 2007 and 2006 relate essentially to operations in Portugal. Exploration and production are carried out essentially in Angola. In addition, there are some operations relating to the distribution and sale of fuel in Spain, in which the income from sales and services rendered and total assets for the years ended 31 December 2007 and 2006 are as follows:

	Income from sales and services rendered		Total assets	
GEOGRAPHICAL AREA	2007	2006	2007	2006
Spain	2,263,334	2,040,720	800,498	694,024

Power 2007	Power 2006 Restated (a)	Others 2007	Others 2006 Restated (a)	Elimination 2007	Elimination 2006 Restated (a)	Consolidated 2007	Consolidated 2006 Restated (a)
30,259	30,287	103,846	102,489	(346,849)	(283,874)	12,560,113	12,192,738
2	-	100,496	100,268	(346,849)	(283,874)		
30,257	30,287	3,350	2,221	-	-	12,560,113	12,192,738
2,652	5,503	**(4,236)**	(5,694)	**529**	-	**1,288,494**	1,259,620
(2,999)	(2,943)	(1,187)	(1,185)	-	-	(256,850)	(256,639)
222	-	-	(3,368)	-	-	(20,805)	(34,817)
(125)	2,560	**(5,423)**	(10,247)	**529**	-	**1,010,839**	968,164
(1,104)	(1,070)	(3,521)	(457)	(529)	-	33,349	(6,612)
757	(276)	1,839	1,642	-	-	(267,993)	(202,910)
(871)	(756)	-	-	-	-	(4,568)	(3,868)
(1,343)	458	**(7,105)**	(9,062)	**-**	-	**776,627**	754,774
			At 31 December 2007 and 2006				
1,789	568	130	258	-	-	149,802	148,379
93,004	67,067	451,944	816,123	(816,250)	(1,349,838)	5,599,861	5,093,431
94,802	**67,635**	**452,074**	**816,381**	**(816,250)**	**(1,349,838)**	**5,749,663**	**5,241,810**
91,634	**63,394**	**578,363**	**1,229,029**	**(816,250)**	**(1,349,838)**	**3,323,348**	**3,205,136**

9. FINANCIAL INCOME AND COSTS

Financial income and financial costs for the years ended 31 December 2007 and 2006 are made up as follows:

	2007	2006
Financial income:		
Interest on bank deposits	8,201	8,390
Other financial income	4,625	20,198
Interest and other income - related companies (Note 29)	3,820	3,746
	16,646	**32,334**
Financial costs:		
Interest on bank loans and overdrafts	(26,837)	(35,708)
Interest capitalised in fixed assets	976	148
Securitisation of accounts receivable - Financial costs (Note 23)	(10,614)	(8,020)
Other finacial costs	(13,341)	(17,058)
Interest - related companies (Note 29)	(498)	(1,368)
	(50,314)	**(62,006)**

The decrease in the caption "Other financial income" is due essentially to the fact that in 2006 the Group recognised the amount of tEuros 10,760 relating to interest on overdue payments received from Galp Gás Natural, S.A. under the Cession of the Rights to Use the Telecommunications Structure Contract entered into with ONITELECOM, S.A. on 1 June 1999 for a period of 20 years, as a result of the favourable resolution of a process judged in the arbitration court, and tEuros 3,846 relating to interest due in the same year.

As explained in Note 2.14, the Group has the policy of capitalising in tangible and intangible fixed assets in construction, interest on loans obtained. The percentage of interest capitalised is proportional to the amount of capital expenditure incurred in accordance with the provisions of IAS 23 – Borrowing Costs.

In the year ended 31 December 2007 the Group capitalised in fixed assets in progress, the amount of tEuros 976 relating to financial costs incurred on loans to finance capital expenditure incurred on fixed assets during their construction.

10. INCOME TAX

Since 31 December 2001 the companies with head offices in continental Portugal in which the Group has a participation greater than 90% have been taxed in accordance with the special regime for the taxation of groups of companies, taxable income being determined in Galp Energia, SGPS, S.A..

However, estimated income tax of the Company and its subsidiaries is recorded based on their tax results which, for the year ended 31 December 2007, amounted to income tax recoverable of tEuros 382.

The following could affect income tax payable in the future:

i) In accordance with current Portuguese legislation, corporate income tax returns are subject to review and correction by the tax authorities for a period of four years (Social Security can be reviewed for a period of 10 years up to 31 December 2000, inclusive and five years as from 2001), except when there are tax losses, tax benefits have been granted or there are claims or appeals in progress where, depending on the circumstances, the period can be extended or suspended. In 2001 the tax authorities reviewed Petrogal's tax returns, their proposed corrections being summarised in paragraph ii) below. In addition, in 2004 Petrogal's tax returns for the years 2000 to 2002 were inspected by the tax authorities, their proposed corrections being summarised in paragraph (iii) below. In 2006 Petrogal's tax return for the year 2003 was inspected by the tax authorities, their proposed corrections being summarised in paragraph iv) below. The Group's tax returns for the years 2004 to 2007 are still subject to review. Galp's Board of Directors believes that any corrections arising from inspections by the tax authorities of these tax returns will not have a significant impact on the consolidated financial statements as of 31 December 2007.

ii) As mentioned in paragraph i) above, in 2001 the corporate income tax returns for the years 1997, 1998 and 1999 were inspected by the tax authorities, which resulted in proposed additional assessments of tEuros 68, tEuros 429 and tEuros 3,361, respectively, communicated to Petrogal. As Petrogal does not agree with the proposed additional assessments, it contested those for the years 1998 and 1999 and Petrogal's management believes that the basis presented in the appeals are valid. In 2006 the appeal relating to the year 1998 was denied. As Petrogal does not agree with the denial, it presented a legal appeal against the decision. Consequently, the financial statements as of 31 December 2007 do not include any provision for this contingency.

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

iv) As mentioned in paragraph i) above, in 2006 the corporate income tax return for the year 2003 was inspected by the tax authorities, which resulted in an increase in taxable income of tEuros 12,098, which corresponds to an additional assessment communicated to Petrogal of tEuros 5,265, of which tEuros 2,568 has been paid.

v) As a result of the oil research and production operations in Angola, the Group is also subject to the payment of Tax on Income from Petroleum (Imposto sobre o Rendimento do Petróleo - IRP), determined based on the Angolan tax regime, applied to production sharing contracts in which the Group participates. At 31 December 2007 additional assessments of 1,668,042 USD, 3,650,434 USD, 4,500,922 USD, 5,373,961 USD and 7,949,024 USD for the years 2002, 2003, 2004, 2005 and 2006 respectively, were subject to payment. At 31 December 2007 the Group had a provision for fifty percent of the amounts informed by the Angolan Ministry of Finance for the years 2002 to 2005, in the amount of tEuros 5,160 (Note 26). Since additional assessments are under discussion, and an extraordinary tax audit process requested by the partners of the PSA of Block 14 is in process, and the results of which will be known in 2008, the Group's Management estimates that the amount notified for the years 2002 to 2006 will decrease, and that there are strong indications that the provision already recorded will be sufficient to cover any amounts payable after conclusion of the work currently in progress.

vi) In accordance with current legislation tax losses can be carried forward during a period of 6 years after they are incurred for deduction from taxable income arising during that period. The tax losses of the companies with head offices in Spain can be carried forward during a period of 15 years. At 31 December 2007 the tax losses carried forward amounted to approximately tEuros 15,172, relating entirely to the companies with head office in Spain. The Group has recognised deferred tax assets relating to the tax losses carried forward only for the subsidiaries in which there is a strong probability of their recovery.

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

Income tax for the years ended 31 December 2007 and 2006 is made up as follows:

	2007	2006
Current income tax	202,379	219,298
Excess/insuficient of income tax for the preceding	(1,591)	13,614
Deferred tax	67,205	(30,002)
	267,993	**202,910** (a)

(a) The comparative amounts are restated (Note 2.24)

Following is a summary of income tax for the years ended 31 December 2007 and 2006 and details of deferred taxes:

	2007	2006
Profit before Income Tax in accordance with IFRS/IAS:	1,049,188	961,552
Adjustment to Portuguese Accounting Standards	(278,738)	50,490
Restated profit before Income Tax in accordance with Portuguese Accounting Standards	770,450	1,012,042
Adjustment for tax effect (accumulated effect) (a)	1,170,297	1,398,273
Taxable profit before Income Tax	1,940,747	2,410,315
Increase in taxable income	271,162	371,672
Non tax deductible provisions	111,912	131,246
Non tax deductible social costs	7,283	13,585
Other increases	126,520	210,086
Application of the equity method	25,447	16,755
Decrease in taxable income	(1,490,690)	(2,018,284)
Decrease/utilisation of provisions taxed in previous years	(100,589)	(96,805)
Excess estimated income tax	(2,596)	(4,530)
Other deductions	(180,717)	(476,182)
Application of the equity method	(1,195,743)	(1,432,544)
Negative amounts for tax purposes	(16,068)	(8,223)
Loss of companies outside the tax consolidation perimeter	5,023	-
Taxable income	721,219	763,703
Income tax	194,901	201,954
Municipal surcharge	6,833	16,682
Autonomous taxation	645	662
Estimated current income tax for the year	202,379	219,298
Deferred tax and excess estimate for the year	65,614	(16,388)
Income tax	267,993	202,910
Effective tax rate	25.54%	21.10%

(a) This amount corresponds to the sum of the results for the year before income tax in accordance with the Portuguese accounting standards (POC), of all the companies included in the consolidation perimeter in the years ended 31 December 2007 and 2006 and is affected by inclusion of the results obtained by the consolidation of income and costs between the Group companies

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

In the year ended 31 December 2007 the Company opted to consider in the caption "Income tax", Tax on Petroleum Income paid by its subsidiary Galp Exploração e Produção Petrolífera, S.A. in Angola, in the amount of tEuros 64,534, which includes essentially tEuros 47,875 relating to Tax on Petroleum Income on sales and crude oil loaned, calculated based on the Angolan tax regime applied to Shared Production Contracts in which the Group participates and tEuros 16,643 relating to the matter described below. The Tax on Petroleum Income for the year ended 31 December 2006 amounted to tEuros 22,889 (Note 2.24).

The Production Share Agreement in which the Group participates in Angola establish that a percentage of the amount of sales is recovered in tax terms in the petroleum for the recovery of costs ("cost-oil"), the remaining quantity in barrels, relating to profit-oil, being subject to the immediate payment of Tax on Petroleum Income after excluding the barrels contractually shared with the concessionaire (Sonangol). Cost-oil is used by the partners to recover costs of exploration, development and production in the annual income returns presented to the Ministry of Finance of Angola, so that whenever the costs available for recovery are less than the amount of cost-oil, the difference is transferred to profit–oil, resulting in an adjustment to the quantities to be shared with the concessionaire and an increase in Tax on Petroleum Income payable. In 2007 it was necessary to adjust cost-oil for the above reason, increasing the amount of profit-oil, which resulted in additional Tax on Petroleum Income of tEuros 16,643, which was recognised as tax cost by corresponding entry to estimated income tax and the additional amount of quantities to be shared with the concessionaire, in the amount of tEuros 21,670, was recognised a decrease in the amount of sales, by corresponding entry to other accounts payable.

DEFERRED TAX

	Deferred tax 2007		Deferred tax 2006	
	Assets	Liabilities	Assets	Liabilities
Accounting revaluations	-	(5,197)	-	(4,338)
Non tax deductible provisions	23,212	-	39,129	-
Tax losses carried forward	5,510	-	11,823	-
Pension benefits	64,647	(5,300)	60,855	(5,300)
Adjustments to accruals and deferrals	5,945	(2,673)	7,637	(3,495)
Reinvested capital gain	-	(1,442)	-	(1,625)
LIFO/FIFO adjustaments	4	(132,070)	161	(76,204)
Financial instruments	3	(378)	771	(1,543)
Adjustments to tangible and intangible assets	18,248	-	16,728	-
Double financial taxation	12,843	-	7,605	-
Others	1,479	(533)	788	(422)
	131,891	**(147,593)**	**145,497**	**(92,927)**

	Deferred tax 2007		Deferred tax 2006	
	Assets	Liabilities	Assets	Liabilities
Beginning balance	145,497	(92,927)	158,924	(132,275)
Effect on results:				
Accounting revaluations	-	(396)	-	1,560
Non tax deductible provisions	(15,497)	-	(10,782)	-
Tax losses carried forward	(6,313)	-	2,739	-
Pension benefits	3,792	-	6,602	200
Adjustments to accruals and deferrals	(1,692)	822	(4,164)	(3,495)
Reinvested capital gain	-	183	-	251
LIFO/FIFO adjustments	(157)	(55,866)	161	34,059
Financial instruments	(693)	1,274	823	(1,543)
Adjustments to tangible and intangible assets	1,520	-	(6,650)	-
Double financial taxation	5,238	-	2,653	-
Others	691	(111)	(729)	8,316
	(13,111)	(54,094)	(9,347)	39,348
Effect on equity:				
Financial derivatives	(75)	(109)	(1,190)	-
Other reserves (Note 21)	-	(463)	-	-
Changes in the consolidation perimeter:	-	-	(2,890)	-
Other adjustments:	(420)	-	-	-
Ending balance	**131,891**	**(147,593)**	**145,497**	**(92,927)**

11. EARNINGS PER SHARE

Earnings per share for the years ended 31 December 2007 and 2006 are as follows:

	2007	2006
Net income		
Net income for purposes of calculating earnings per share (net profit for the year)	776,627	754,774
Number of shares		
Weighted average number of shares for earnings per shares calculation (Note 20)	829,250,635	829,250,635
Basic earnings per share (amounts in Euros)	**0.94**	**0.91**

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

12. GOODWILL

The difference between the amounts paid for the acquisition of participations in Group companies and the fair value of the equity acquired at 31 December 2007 is made up as follows:

			Proportion of equity acquired as of the acquisition date		Goodwill	
SUBSIDIARIES	Year of acquisition	Cost	%	Amount	2007	2006
Petroleos de Valencia, S.A.	2005	13,937	100.00%	6,099	7,838	7,838
Galpgest - Petrogal Estaciones de Servicio, S.A.	2003	16,290	100.00%	9,494	6,265	6,723
Gasinsular - Combustíveis do Atlântico, S.A.	2005	50	100.00%	(353)	403	403
Saaga - Sociedade Acoreana de Armazenagem. de Gás, S.A.	2005	858	67.65%	580	278	278
Lusitaniagás - Companhia de Gás do Centro, S.A.	2002/3 e 2007	595	1.028%	319	217	99
Beiragás - Companhia de Gás das Beiras S.A.	2003/6 e 2007	152	0.94%	107	51	51
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A.	2006	3,094	25.00%	1,454	1,640	1,640
Probigalp - Ligantes Betuminosos, S.A.	2007	720	10.00%	190	530	-
					17,222	**17,032**

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

The changes in goodwill in 2007 and 2006 are as follows:

Balance at 1 January 2006	20,480
Write-offs:	
Transgás-Sociedade Portuguesa de Gás Natural, S.A.	(5,063)
	(5,063)
Increase due to the acquisition of investments:	
Beiragás - Companhia de Gás das Beiras S.A. (acquisition 0.43%)	47
Duriensegás - Soc. Distrib. de Gás Natural do Douro, S.A. (acquisition 25%)	1,640
	1,687
Adjustment to the cost of acquiring Galpgest - Petrogal Estaciones de Servicio, S.A.	541
Allocation of impairment losses to the net value of the service stations:	
Galpgest - Petrogal Estaciones de Servicio, S.A.	(613)
Balance at 31 December 2006	17,032
Increase due to the acquisition of investments (Note 3):	
Probigalp - Ligantes Betuminosos, S.A. (acquisition 10%)	530
Lusitaniagás - Companhia de Gás do Centro, S.A. (acquisition 0.16%)	118
Beiragás - Companhia de Gás das Beiras, S.A. (aquisição 0.03%)	-
Fast Access - Operações Serv. Informação e Comércio Electrónico, S.A. (acquisition 33.33%)	-
	648
Allocation of impairment losses to the net value of the service stations:	
Adjustment to the cost of acquiring Galpgest - Petrogal Estaciones de Servicio, S.A.	(458)
Balance at 31 December 2007	17,222

The Group recognised the final adjustment to the purchase price of the company Galpgest – Petrogal estaciones de Servicio, S.A. in the amount of tEuros 541, in compliance with a clause in the Purchase Contract. As a result of this goodwill an impairment loss of tEuros 458 was recognised based on an impairment assessment of the service stations made in 2007.

13. TANGIBLE AND INTANGIBLE FIXED ASSETS

TANGIBLE FIXED ASSETS:

					2007
	Land and natural resources	Buildings and other constructions	Machinery and equipment	Transport equipment	Tools and utensils
Cost:					
Balance at 1 January:	204,756	704,239	4,195,196	23,160	4,330
Additions	53	1,865	5,440	336	140
Write-offs/sales	(4,678)	(20,711)	(137,724)	(1,381)	(251)
Adjustments	-	1,960	2,667	(33)	8
Transfers	204	20,731	149,399	943	160
Changes in the consolidation perimeter	-	-	-	-	-
Cost at 31 December	200,335	708,084	4,214,978	23,025	4,387
Accumulated impairments at 1 January	(5,108)	(14,704)	(21,461)	(120)	(23)
Increase in impairment	(2,661)	(7,678)	(4,458)	(4)	(64)
Reversal of impairment	3,473	6,066	2,984	54	14
Utilisation of impairment	-	-	-	-	-
Balance of impairments at 31 December	(4,296)	(16,316)	(22,935)	(70)	(73)
Balance of investment subsidies at 1 January	(1,283)	(6,073)	(283,520)	-	(8)
Increase in investment subsidies	-	(178)	(9,270)	-	-
Decrease in investment subsidies	-	-	(325)	-	-
Write-offs/sales	1,161	520	10,316	-	-
Changes in the consolidation perimeter	-	-	-	-	-
Balance of investment subsidies at 31 December	(122)	(5,731)	(282,799)	-	(8)
Balance at 31 December	**195,917**	**686,037**	**3,909,244**	**22,955**	**4,306**
Accumulated depreciation and impairment losses:					
Balance at 1 January:	(3,275)	(402,967)	(2,858,715)	(21,206)	(3,713)
Depreciation for the year	(200)	(25,586)	(178,397)	(995)	(215)
Write-offs/sales	260	10,909	90,180	1,381	203
Adjustments	-	(1,932)	(1,478)	22	(1)
Transfers	-	(16)	(10)	-	-
Changes in the consolidation perimeter	-	-	-	-	-
Balance at 31 December	(3,215)	(419,592)	(2,948,420)	(20,798)	(3,726)
Balance of recognised subsidies at 1 January	164	2,721	97,885	-	7
Increase in investment subsidies	-	75	5,888	-	-
Decrease in investment subsidies	-	-	-	-	-
Write-offs/sales	(162)	(134)	(1,731)	-	-
Changes in the consolidation perimeter	-	-	-	-	-
Balance of recognised subsidies at 31 December	2	2,662	102,042	-	7
Accumulated balance	**(3,213)**	**(416,930)**	**(2,846,378)**	**(20,798)**	**(3,719)**
Net:					
at 31 December	**192,704**	**269,107**	**1,062,866**	**2,157**	**587**

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

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

As a result of the transfer of fixed assets to the gas distributing companies "Unbundling", grants were written off in the companies of origin and included in the distributor companies at the net amount of the grants.

Administrative equipment	Reusable containers	Other tangible assets	Tangible assets in progress	Advances on account of tangible assets	2007 Total tangible fixed assets	2006 Total tangible fixed assets
132,032	149,437	105,316	282,607	3,008	5,804,081	6,750,630
1,269	601	2,884	416,117	3,197	431,902	312,525
(7,548)	(767)	(2,720)	(3,827)	(8)	(179,615)	(1,036,874)
(5)	(264)	(13)	(8,132)	-	(3,812)	9,106
5,178	5,224	2,966	(183,454)	-	1,351	28,533
-	-	-	-	-	-	(259,839)
130,926	154,231	108,433	503,311	6,197	6,053,907	5,804 081
(4,087)	-	(968)	(35,205)	-	(81,676)	(75,504)
(1,207)	(1)	(2,555)	(2,716)	-	(21,344)	(19,176)
754	-	966	-	-	14,311	13,003
-	-	-	35,088	-	35,088	-
(4 540)	(1)	(2,557)	(2,833)	-	(53,621)	(81,676)
(769)	-	-	(13,601)	-	(305,254)	(709,329)
-	-	-	(9)	-	(9,457)	(9,489)
-	-	-	2,893	-	2,568	7,038
-	-	-	8,161	-	20,158	314,907
-	-	-	-	-	-	91,619
(769)	-	-	(2,556)	-	(291,985)	(305,254)
125,617	**154,230**	**105,876**	**497,922**	**6,197**	**5,708,301**	**5,417,150**
(111,665)	(131,461)	(58,414)	-	-	(3,591,416)	(3,566,085)
(7,811)	(5,520)	(5,813)	-	-	(224,537)	(231,346)
7,511	766	2,057	-	-	113,267	165,375
22	53	15	-	-	(3,299)	7,478
2	-	(24)	-	-	(48)	(1,073)
-	-	-	-	-	-	34,235
(111,941)	(136,162)	(62,179)	-	-	(3,706,033)	(3,591,416)
736	-	-	-	-	101,513	146,396
19	-	-	-	-	5,982	12,146
-	-	-	-	-	-	(7,038)
-	-	-	-	-	(2,027)	(40,086)
-	-	-	-	-	-	(9,905)
755	-	-	-	-	105,468	101,513
(111,186)	**(136,162)**	**(62,179)**	-	-	**(3,600,565)**	**(3,489,903)**
14,431	**18,068**	**43,697**	**497,922**	**6,197**	**2,107,736**	**1,927,247**

INTANGIBLE FIXED ASSETS:

	2007		
	Instalation costs	Research and development costs	Industrial property and other rights
Cost:			
Balance at 1 January:	3,074	11,756	245,265
Additions	14	35	1,435
Write-offs/sales	(32)	(1,215)	(30,443)
Adjustments	(29)	(59)	7,790
Transfers	-	32	9,599
Change in the consolidation perimeter	-	-	-
Gross cost at 31 December	3,027	10,549	233,646
Accumulated impairments at 1 January	-	(4)	(6,596)
Increase in impairment	-	(5)	(4,229)
Reversal of Impairment	-	4	3,534
Utilization of impairment	-	-	-
Balance of impairment at 31 December	-	(5)	(7,291)
Balance of investment subsidies at 1 January	-	(8,808)	(570)
Increase in investment subsidies	-	-	-
Decrease in investment subsidies	-	-	-
Write-offs/sales	-	764	-
Changes in the consolidation perimeter	-	-	-
Balance of investment subsidies at 31 December	-	(8,044)	(570)
Balance at 31 December	**3,027**	**2,500**	**225,785**
Accumulated amortization and impaiment losses:			
Balance at 1 January	(2,979)	(8,289)	(115,144)
Amortization of the year	(42)	(866)	(17,477)
Write-offs/sales	32	611	13,110
Adjustments	30	157	(2,282)
Transfers	-	-	-
Changes in the consolidation perimeter	-	-	-
Balance at 31 December	(2,959)	(8,387)	(121,793)
Balance of recognized subsidies at 1 January	1	6,618	412
Increase in investment subsidies	-	-	-
Decrease in investment subsidies	-	7	-
Write-offs/sales	-	(38)	-
Changes in the consolidation perimeter	-	-	-
Balance of recognised subsidies at 31 December	1	6,587	412
Accumulated balance	**(2,958)**	**(1,800)**	**(121,381)**
Net:			
at 31 December	**69**	**700**	**104,404**

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

Amortisation, depreciation and impairment of fixed assets for the year are made up as follows:

	Tangible fixed assets	Intangible fixed assets
Amortization and depreciation for the year	(224,537)	(32,344)
Increase in investment subsidies	5,982	1,301
Increase in impairment	(21,344)	(4,470)
Decrease in impairment	14,311	4,251
Amortization and depreciation (Note7)	**(225,588)**	**(31,262)**

MAIN OCCURRENCES IN 2007

The increase in the tangible and intangible fixed assets captions in the amount of tEuros 465,635 includes essentially:

i) Oil Exploration and Production segment

- tEuros 125,170 relating to research and development costs in Block 14 in Angola;
- tEuros 20,609 relating to research and development costs in Block 32 in Angola;
- tEuros 41,059 relating to research and development costs in blocks operated and not operated in Brazil;
- tEuros 6,264 relating ro research costs in blocks in East Timor.

ii) Gas and Power segment

- tEuros 47,324 relating to the construction of natural gas infraestructures (networks, branches, lots and other facilities);
- tEuros 23,734 relating to investments in co-participation of shared networks and re-conversion to natural gas;
- tEuros 23,332 relating to the start of activities regarding the conception and construction of the Sines Co-generating Facilities.

iii) Petroleum Products Refining and Distribution segment

- tEuros 21,579 relating to the retail Business Sector, essentially in the the remodelling of service stations and convenience stores, business expansion and development of the information systems;
- tEuros 82,911 relating to the Sines and Porto refineries, of which tEuros 25,085 relates to Conformity projects (to comply with legal requirements, relating to the environment, hygiene and security, product specification, as well as those in anticipation of compliance with future requirements) and tEuros 32,783 relating to the shut-down of the Porto Refinery for its major repair, substitution of pipes and revamping, in the amounts of in the amounts of tEuros 2,912 and tEuros 4,825, respectively;
- tEuros 11,675 relating to the LPG (Gas) Unit in modernisation of the bottle filling lines, namely adaptation of the network, requalification and acquisition of new bottles for the Sines project;

				2007	2006
Goodwill	Re-conv. of consumption to natural gas	Intangible assets in progress	Advances to suppliers of intangible assets	Total intangible assets	Total intangible assets
10,974	283,384	15,717	-	570,170	589,991
-	(224)	32,266	207	33,733	37,085
(1)	(208)	(444)	-	(32,343)	(13,835)
-	(209)	(584)	-	6,909	(1,292)
393	21,368	(32,625)	-	(1,233)	(28,684)
-	-	-	-	-	(13,095)
11,366	304,111	14,330	207	577,236	570,170
(713)	-	-	-	(7,313)	(9,075)
(236)	-	-	-	(4,470)	(717)
713	-	-	-	4,251	2,479
-	-	-	-	-	-
(236)	-	-	-	(7,532)	(7,313)
-	(35,116)	45	-	(44,449)	(40,885)
-	(3,885)	-	-	(3,885)	(10,389)
-	62	-	-	62	6,641
-	-	-	-	764	184
-	-	-	-	-	-
-	(38,939)	45	-	(47,508)	(44,449)
11,130	**265,172**	**14,375**	**207**	**522,196**	**518,408**
(10,152)	(68,171)	-	-	(204,735)	(188,124)
(615)	(13,344)	-	-	(32,344)	(34,820)
1	208	-	-	13,962	10,518
(2)	1	-	-	(2,096)	2,140
-	28	-	-	28	1,225
-	-	-	-	-	4,326
(10,768)	(81,278)	-	-	(225,185)	(204,735)
-	4 062	-	-	11,093	12,570
-	1 301	-	-	1,301	5,344
-	128	-	-	135	(6,640)
-	-	-	-	(38)	(180)
-	-	-	-	-	-
-	5 491	-	-	12,491	11,094
(10,768)	**(75,787)**	**-**	**-**	**(212,694)**	**(193,641)**
362	**189,385**	**14,375**	**207**	**309,502**	**324,767**

In 2007 intangible and tangible fixed assets, comprising mostly fully amortised and depreciated items, were sold off as a result of updating the fixed assets register during the year and include:

i) tEuros 5,675 relating to the sale of the 11th and 14th floors and 30 garage spaces in Tower C of the "Torres de Lisboa";
ii) tEuros 1,517 relating to the sale of the 2nd floor Front of Av. Infante D. Henrique number 328;
iii) tEuros 1,207 relating to sale of the Store at Av. da República 54 - 54 C;
iv) tEuros 3,250 relating to sale of the PL natural gas control room;
v) tEuros 1,582 relating to sale of the PL natural gas industrial warehouse building;
vi) tEuros 1,786 relating to sale of the Sacavém social district.

At 31 December 2007 the following impairment losses, totalling tEuros 61,153, relating to adjustments to the amount of fixed assets, had been recognised:

i) tEuros 23,579 to cover impairment losses of service stations in Portugal and Spain;
ii) tEuros 3,876 to cover impairment losses of the Aveiro installations;
iii) tEuros 5,655 to cover impairment losses of the the monobuoy;
iv) tEuros 2,231 to cover impairment losses of Block 32.

In 2007 Blocks 32 and 33 were sold by the subsidiary Petrogal, S.A., to Galp Exploração, the impairment loss of tEuros 33,325 in Block 33 being included in the gross amount of the asset.

The tangible fixed assets relating to crude oil exploration and corresponding accumulated depreciation at 31 December 2007 are as follows:

	Gross	Accumulated amortisation depreciation and impairment	Net
Tangible fixed assets			
Exploration and development costs relating to areas in production	314,205	(150,260)	(163,945)
Fixed assets in progress	310,578	-	310,578
	624,783	**(150,260)**	**474,523**

Tangible and intangible fixed assets in progress (including advances on account of tangible and intangible assets) at 31 December 2007 are made up as follows:

	Gross	Investment grants	Net asset
Oil research and development in Blocks 14 and 14K	159,900	-	159,900
Oil research and development in Brazil	78,993	-	78,993
Oil research in Block 32 in Angola	66,728	-	66,728
Renewal and expansion of the network	52,988	(879)	52,109
Co-generation plants in Sines and Porto	38,707	-	38,707
Industrial investment relating to the refineries	21,945	-	21,945
Oil research on the Portuguese coast, Mozambique and Timor	7,600	-	7,600
Substitution of pipes - Leixões	9,579	-	9,579
Underground storage of natural gas	6,869	(1,549)	5,320
Conversion projects of the Sines and Porto refineries	6,289	-	6,289
Combine cycle co-generation plant - Sines	5,776	-	5,776
Construction of a ship	4,359	-	4,359
Others projects	61,479	(83)	61,396
	521,212	**(2,511)**	**518,701**

14. GOVERNMENT GRANTS

Government grants received and receivable at 31 December 2007 and 2006 are as follows:

	Amount received		Amount receivable	
PROGRAM	2007	2006	2007	2006
"Programa Energia"	115,753	116,236	-	201
"Interreg II"	19,176	19,275	-	-
"Protede"	19,708	19,708	-	-
"Programa Operacional Economica"	204,296	194,941	227	1,861
Desulphurisation of Sines	39,513	13,203	-	26,310
Desulphurisation of Porto	35,307	11,797	-	23,510
Others	12,342	11,891	-	-
Total	**446,095**	**387,051**	**227**	**51,882**

These grants for investment are recognised in the income statement in accordance with the estimated period of useful life of the respective tangible and intangible fixed assets, as explained in Note 2.9. In the year ended 31 December 2007, the amount of tEuros 5,353 was recognised in the 31 December 2007 (Note 13).

In addition, grants of tEuros 62,988 were received in 2007, of which tEuros 49,820 relates to grants received from the Portuguese State (Note 15) resulting from the "Shareholders' Agreement between the State and Petrocontrol regarding compensation due to Petrogal" dated 21 December 1998, for capital expenditure incurred relating to desulphurisation of diesel fuel in the Sines and Porto refineries.

The amount of tEuros 227 reflected in the caption "Other receivables" corresponds to incentive programs for the expansion of the natural gas network (Note 15).

15. OTHER RECEIVABLES

The non-current and current captions “Other receivables” at 31 December 2007 and 2006 are made up as follows:

CAPTIONS	2007 Current	2007 Non-current	2006 Current	2006 Non-current
State and Other Public Entities:				
Corporate Income Tax	133	-	220	-
Value Added Tax - Reimbursement requested	9,730	-	15,722	-
Others	924	53	447	-
ISP - Tax on petroleum products	17,699	-	19,241	-
Contract ceding the rights to use telecommunications infrastructures	13,089	539	6,602	13,080
Advances to suppliers of fixed assets	12,665	-	11,930	-
Means of payment	9,763	-	9,609	-
Other receivables - associated, related and participated companies (Note 29)	5,073	722	3,183	807
Advances to the operator Petrobrás	3,149	-	-	-
Advances to suppliers	2,848	-	2,892	-
Pension fund payment recovery	1,887	-	8,676	-
Personnel	1,862	-	2,028	-
Loans to clients	614	2,447	541	2,819
Subsidies receivable (Note 14)	227	-	2,062	-
Loans to associated, participated and related companies (Note 29)	-	48,457	-	55,927
The Portuguese State (Note 14)	-	-	49,820	-
Natural gas trading operations	-	-	22,496	-
Loan to Sonangol under the Block 14 production contract	-	-	4,531	-
Captive bank accounts EIB loan	-	3,615	-	3,872
Others	46,645	1,024	29,265	830
	126,308	56,857	189,265	77,335
Accrued income:				
Sales and services rendered not yet invoiced	131,120	-	58,815	-
Crude oil swap Block 14	8,685	-	286	-
Accrued interest	5,531	-	7,833	-
Sale of finished goods by the service stations to be invoiced	4,532	-	3,775	-
Trade discount receivable on purchases	1,084	-	1,992	-
Others	7,305	-	10,250	-
	158,257	-	82,951	-
Deferred costs:				
Costs relating to service station concession contracts	35,137	-	39,624	-
Catalyser costs	3,198	-	3,063	-
Interest and other financial costs	1,095	41	1,967	33
Prepaid insurance	411	-	2	-
Prepaid rent	207	-	341	-
Retirement benefits (Note 24)	-	32,110	4	28,998
Other deferred costs	9,929	141	6,033	390
	49,977	32,292	51,034	29,421
	334,542	89,149	323,250	106,757
Impairment of other receivables	(4,493)	-	(4,548)	-
	330,049	89,149	318,702	106,757

The changes in the caption “Impairment of other receivables” in the year ended 31 December 2007 were as follows:

CAPTIONS	Beginning balance	Increases	Decreases	Utilisation	Adjustments	Ending balance
Other receivables	4,548	1,135	(530)	(786)	126	4,493
	4,548	1,135	(530)	(786)	126	4,493

The increases and decreases in impairment losses on other receivables in the net amount of tEuros 605 were recognised in the caption “Provision for impairment of receivables” (Note 7).

The amount of tEuros 17,699 in the caption “Other debtors – ISP” corresponds to the amount receivable from the Customs House relating to the exemption of bio-fuels from ISP, which is under a tax suspense regime in accordance with Circular 79/2005 of 6 December.

The amounts of tEuros 13,089 under current assets and tEuros 539 under non-current assets result from Contracts Ceding the Rights to Use Telecommunications Infrastructures entered into on 1 July 1999 for a 20 year period, and are being received in successive equal annual instalments of tEuros 5,860 up to 31 July 2009, each installment being increased by interest at market rates. Income resulting from the contract is deferred in the liability caption “Other payables” and recognised in the income statement on a straight-line basis over the period of the contract, which ends on 1 June 2019.

The caption “Means of payment” in the amount of tEuros 9,763 corresponds to amounts receivable for sales by visa/multibanco cards, which at 31 December 2007 were pending collection.

The receivable of tEuros 5,073 in the asset caption “Associated companies – other debtors” refers to companies that were not consolidated by the full consolidation method.

The caption “Other debtors – Pension fund payment recovery”, in the amount of tEuros 1,887, corresponds to amounts receivable from BPI Pensões relating to the amount of the pensions processed in December and not yet reimbursed.

In the year ended 31 December 2007 Petrogal received tEuros 49,820 from the Ministry of the Economy under the “Shareholders’ Agreement between the State and Petrocontrol regarding compensation due to Petrogal” dated 21 December 1998. This amount is to subsidise capital expenditure incurred relating to desulphurisation of diesel fuel in the Sines and Porto refineries. The corresponding entry to this receivable is reflected as a deduction from the amount of fixed assets (Note 14).

The other receivables caption “Others” includes tEuros 11,781 receivable from the company Portgás – Soc. Distribuição e Produção de Gás, S.A. due to dissolution of the network sharing contract entered into between Galp Gás Natural, S.A. and that company.

The accrued income caption “Sales and services rendered not yet invoiced” refers essentially to natural gas consumed, for which the corresponding invoices are issued in the following month by Galp Gás Natural, S.A., and Transgás, S.A. in the amounts of tEuros 93,935 and tEuros 8,196, respectively.

The amount of tEuros 8,685 in the accrued income caption "Crude oil swap Block 14" relates to hedging transactions carried out in December 2007, for which the financial flows will be realised in January 2008. These operations were realised to smooth the price of Brent on sales transactions from Block 14 in 2007 and, as they are swaps indexed to the monthly price of Brent, they generate real transactions monthly, the cost/income having to be recognised in the month to which the hedge relates.

The amount of tEuros 5,531 reflected in the accrued income caption "Accrued interest", includes tEuros 4,956 relating to interest to be invoiced to E3G – Telecomunicações, S.A. for ceding the right to use infrastructures.

The amount of tEuros 4,532 in the caption "Sale of finished goods by the service stations to be invoiced" relates to amounts purchased in 2007 through Galp Frota cards, only invoiced in 2008.

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

Following is an aging schedule of other receivables as of 31 December 2007 and 2006:

	Not yet due	Overdue up to 90 days	Overdue up to 180 days	Overdue up to 365 days	Overdue up to 545 days	Overdue up to 730 days	Overdue more than 730 days	Total
Aging of other receivables								
2007 Gross	400,703	12,754	277	2,161	1,399	664	5,733	423,691
Ajustments	-	-	(13)	(140)	(150)	(286)	(3,904)	(4,493)
	400,703	**12,754**	**264**	**2,021**	**1,249**	**378**	**1,829**	**419,198**
2006 Gross	415,085	2,452	3,405	660	783	495	7,127	430,007
Ajustments	-	-	(414)	(91)	(133)	(63)	(3,847)	(4,548)
	415,085	**2,452**	**2,991**	**569**	**650**	**432**	**3,280**	**425,459**

The Group considers as amounts not yet due, the balance of other receivables which are not yet overdue. Overdue balances which have not been subject to adjustments correspond to receivables for which there are payment agreements or which are expected to be collected.

16. TRADE RECEIVABLES

The caption "Trade receivables" at 31 December 2007 and 2006 is made up as follows:

CAPTIONS	2007	2006
Clients, current accounts	1,061,513	939,331
Clients - doubtful accounts	78,226	73,503
Clients - notes receivable	4,568	7,410
	1,144,307	1,020,244
Impairment of trade receivables	(67,248)	(59,965)
	1,077,059	960,279

The changes in the caption "Impairment of trade receivables" in 2007 were as follows:

CAPTIONS	Beginning balance	Increase	Decreases	Utilisation	Perimeter adjustments	Ending balance
Impairment of trade receivables	59,965	24,336	(15,193)	(2,922)	1,062	67,248
	59,965	**24,336**	**(15,193)**	**(2,922)**	**1,062**	**67,248**

The increase and decrease in the caption "Impairment of trade receivables" in the net amount of tEuros 9,143 was recognised in the caption "Provision and impairment of receivables" (Note 7).

Following is an aging schedule of trade receivables as of 31 December 2007 and 2006:

	Not yet due	Overdue up to 90 days	Overdue up to 180 days	Overdue up to 365 days	Overdue up to 545 days	Overdue up to 730 days	Overdue more than 730 days	Total
Aging of trade receivables								
2007 Gross	848,788	193,847	19,173	15,536	6,853	13,806	46,304	1,144,307
Ajustments	-	-	(4)	(6,665)	(3,850)	(10,898)	(45,831)	(67,248)
	848,788	**193,847**	**19,169**	**8,871**	**3,003**	**2,908**	**473**	**1,077,059**
2006 Gross	739,464	132,906	65,435	21,855	5,750	3,451	51,383	1,020,244
Ajustments	-	-	-	(7,091)	(3,600)	(2,908)	(46,366)	(59,965)
	739,464	**132,906**	**65,435**	**14,764**	**2,150**	**543**	**5,017**	**960,279**

The Group considers as amounts not yet due, the balance of other receivables which are not overdue. Overdue balances which have not been subject to adjustments correspond to receivables for which there are payment agreements or which are expected to be collected.

17. INVENTORIES

Inventories at 31 December 2007 and 2006 are made up as follows:

CAPTIONS	2007	2006
Raw, subsidiary and consumable materials:		
Crude oil	262,884	194,568
Other raw materials	44,529	32,913
Raw material in transit	180,673	83,662
	488,086	311,143
Adjustments to raw, subsidiary and consumable materials	(10,063)	(5,372)
	478,023	305,771
Finished and semi-finished products:		
Finished products	376,498	345,982
Semi-finished products	255,778	164,420
Finished products in transit	15,423	55
	647,699	510,457
Adjustments to finished and semi-finished products	(7)	(8)
	647,692	510,449
Work in process	365	143
Merchandise	297,926	249,677
Merchandise in transit	48	497
	297,974	250,174
Adjustments to merchandise	(2,039)	(1,398)
	295,935	248,776
Advances on account of purchases	49	125
	1,422,064	**1,065,264**

Merchandise at 31 December 2007, in the amount of tEuros 297,926 corresponds essentially to inventories of crude oil derivative products of the subsidiary Galp Energia España, S.A. in the amount of tEuros 235,752.

At 31 December 2007 the Group's responsibility to competitors for strategic reserves, which can only be satisfied by delivery of the products, amounted to tEuros 302,375 and is reflected in the caption "Advances on account of sales" (Note 25).

In November 2004, under Decree-law 339-D/2001 of 28 December, Petrogal together with Petrogal Trading Limited entered into a contract to purchase, sell and exchange crude for finished products for the constitution of strategic reserves with "Entidade Gestora de Reservas Estratégicas de Produtos Petrolíferos, EPE" ("EGREP"). Under the contract entered into in 2004 the crude acquired by EGREP, which is not reflected in the financial statements, is stored in a non-segregated form in Petrogal's installations, where it must remain so that EGREP can audit it in terms of quantity and quality, whenever it so wishes. In accordance with the contract, Petrogal must, when so required by EGREP, exchange the crude sold for finished products, receiving in exchange an amount representing the refining margin as of the date of exchange.

The changes in the caption "Impairment of inventories" in the year ended 31 December 2007 were as follows:

CAPTIONS	Beginning balance	Increases	Decreases	Utilisation	Change in perimeter	Ending balance
Impairment of raw, subsidiary and consumable material	5,372	4,573	(30)	-	148	10,063
Impairment of finished and semi-finished products	8	-	(1)	-	-	7
Impairment of merchandise	1,398	644	-	(1)	(2)	2,039
	6,778	**5,217**	**(31)**	**(1)**	**146**	**12,109**

The net increase in impairment, in the amount of tEuros 5,186 was recorded by corresponding entry to the operating cost caption "Inventories consumed and sold" in the income statement (Note 7).

18. OTHER INVESTMENTS

Other investments at 31 December 2007 and 2006 are made up as follows:

CAPTIONS	2007	2006
Derivates over commodities	-	-
Derivates over interest rates	1,216	1,121
Financial instruments (Note 28)	1,216	1,121
Other securities and investments	259	274
Other current investments	259	274
	1,475	**1,,395**

Financial instruments at 31 December 2007 and 2006 are recorded at fair value as of those dates (Note 28).

Other current investments at 31 December 2007 and 2006 are made up as follows:

CAPTIONS	2007	2006
Derivates over commodities (Note 28)	99	6,874
Derivates over interest rates (Note 28)	591	269
Financial instruments	690	7,143
Shares in participated companies	11	11
Other negotiable securities	2,628	904
Term deposits	2,260	1,793
Demand deposits	567	-
Other treasury applications	-	4,172
Other current investments (Note 19)	5,466	6,880
	6,156	**14,023**

The decrease in 2007 is due essentially to the closure of financial derivatives over commodities due to their natural maturity in 2007. The Group's financial derivatives at 31 December 2007 are described in Note 28.

19. CASH AND CASH EQUIVALENTS

The caption "Cash and cash equivalents" at 31 December 2007 and 2006 is made up as follows:

CAPTIONS	2007	2006
Cash	3,301	6,435
Demand deposits	78,651	83,537
Term deposits	2,713	11,133
Other negotiable securities	4,063	-
Other treasury applications	18,448	111,363
Cash and cash equivalents in the balance sheet	107,176	212,468
Other current investments (Note 18)	5,466	6,880
Bank overdrafts (Note 23)	(129,552)	(218,526)
Cash and cash equivalents in the cash flow statement	**(16,910)**	**822**

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

Galp Serviexpress, S.L.U.	3,148
Petrogal Brasil, Lda.	2,996
Galp Exploração Serviços Brasil, Lda.	2,704
Carriço Cogeração Sociedade de Geração de Electricidade e Calor, S.A.	1,200
Powercer - Sociedade de Cogeração da Vialonga, S.A.	600
Petróleos de Valência, S.A. Sociedad Unipersonal	900
CLCM - Companhia Logistica de Combustiveis da Madeira, S.A.	6,900
	18,448

20. SHARE CAPITAL

CAPITAL STRUCTURE

The capital structure at 31 December 2007 was unchanged in relation to the preceding year. The Company's fully subscribed and paid up share capital consists of 829,250,635 shares (Note 11) of 1 Euro each, divided into the following categories:

CLASS OF SHARES	December 2007	December 2006
A Shares	40,000,000	40,000,000
B Shares	789,250,635	789,250,635
Total number of shares	**829,250,635**	**829,250,635**
Nominal value of the shares	829,251	829,251

In accordance with article 4 of Galp Energia, SGPS, S.A.'s by laws, the A shares have the following special rights:

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

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

SHAREHOLDER STRUCTURE

In January 2007 the State sold to Parpública SGPS, S.A., 40,000,000 A shares and 1,494,501 B shares, representing 5.0% of Galp Energia, SGPS,S.A.'s capital. After this acquisition Parpública become holder of 58,079,514 shares of Galp Energia SGPS,S.A., representing 7% of the voting rights, the Portugueses ceasing as from that date to be a direct shareholder of the Company.

As a result of transactions carried out on the Stock Exchange from 29 August to 3 September 2007, the qualified participation attributed indirectly to Banco BPI, S.A., calculated in terms of voting rights in accordance with article 20 of the Securities Market Code, was increased to 5.09%.

In several transactions carried out on the Euronext Lisbon regulated market up to 4 October, Caixa Galicia sold 8,700,000 shares of Galp Energia SGPS,S.A., after which it ceased having a qualified participation in Galp Energia.

The Company's fully subscribed and paid up share capital at 31 December 2007 was held as follows:

	Number of shares	Nominal value	% Capital
Amorim Energia, B.V.	276,472,161	1 Euro	33.34%
Banco BPI, S.A.	42,220,051	1 Euro	5.09%
Caixa Geral de Depósitos, S.A.	8,292,510	1 Euro	1.00%
Eni S.p.A.	276,472,160	1 Euro	33.34%
Iberdrola, S.A.	33,170,025	1 Euro	4.00%
Parpública - Participações Públicas, (SGPS), S.A.	58,079,514	1 Euro	7.00%
Other Shareholders	134,544,214	1 Euro	16.23%
	829,250,635		**100.00%**

CAPITAL MANAGEMENT

Galp Energia, SGPS, S.A. complies with the requirements of Portuguese legislation contained in the Commercial Company Code.

21. OTHER RESERVES

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

At 31 December 2007 and 2006 this caption was made up as follow:

	2007	2006
Legal reserves	118,924	79,047
Free reserves	27,977	27,977
Special reserves	(463)	-
	146,438	107,024

The legal reserve increased tEuros 39,877 in 2007 due to appropriation of the profit for the year ended 31 December 2006. This amount is less than 5% of the profit for 2006 in accordance with IAS/IFRS due to the fact that in accordance with Portuguese legislation the legal reserve is determined based on profit for 2006 determined in accordance with Portuguese accounting standards (Official Chart of Accounts - Plano Oficial de Contabilidade (POC)), which amounted to tEuros 797,550.

The amount of tEuros 463 in the caption "Special reserve" corresponds to a correction of deferred tax – revaluations, in the equity of the subsidiary Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A., (Note 10).

22. MINORITY INTEREST

The equity caption "Minority interest" at 31 December 2007 and 2006 refers to the following subsidiaries:

	2007	2006
Lusitaniagás - Companhia de Gás do Centro, S.A. (a)	11,285	9,125
Beiragás - Companhia de Gás das Beiras, S.A. (b)	5,608	4,846
Sopor - Sociedade Distribuidora de Combustíveis, S.A.	3,090	3,068
Saaga - Sociedade Açoreana de Armazenagem. de Gás, S.A.	1,823	1,699
Carriço Cogeração Sociedade de Geração de Electricidade e Calor, S.A.	1,224	976
Probigalp - Ligantes Betuminosos , S.A. (c)	667	951
Sempre a Postos - Produtos Alimentares e Utilidades, Lda.	944	507
Powercer - Sociedade de Cogeração da Vialonga, S.A.	203	233
Petromar – Soc. Abastecimentos Petrolíferos, Lda.	351	164
Gite - Galp International Trading Establishment	35	40
Combustiveis Líquidos, Lda.	2	2
Fast Access - Operações e Serviços de Informação e Comércio Electrónico, S.A. (d)	-	(51)
Petrogás – Guiné-Bissau Importação, Armazenagem e Distribuição de Gás, Lda.	(301)	(260)
CLCM - Companhia Logistica de Combustíveis da Madeira, S.A. (e)	(2,943)	(2,763)
	21,988	**18,537**

(a) Acquisition by the Group of an additional 0.161% of the capital of Lusitaniagás - Companhia de Gás do Centro, S.A., the Group's participation being increased to 85.19%.

(b) Acquisition by the Group of an additional 0.03% of the capital of Beiragás - Companhia de Gás das Beiras, S.A., the Group's participation being increased to 59.51%.

(c) The subsidiary Petrogal, S.A. acquired 10% of the capital of Probigalp – Ligantes Betuminosos, S.A., the Group's participation being increased to 60%.

(d) The subsidiary Petrogal, S.A. acquired 33.33% of the capital of Fast Access – Operações e Serviços de Informação e Comercio Electrónico, S.A., becoming the sole shareholder of the company.

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

23. LOANS

Loans obtained at 31 December 2007 and 2006 are made up as follows:

	December 2007		December 2006	
	Current	Non-current	Current	Non-current
Bank loans:				
Domestic loans	171,418	93,311	284,574	90,064
Foreign	27,915	186,866	59,682	195,721
Bank overdrafts (Note 19)	129,552	-	218,526	-
Discounted Notes	1,294	-	1,716	-
Renewable credit lines	4,000	-	-	-
	334,179	**280,177**	564,498	285,785
Other loans obtained:				
IAPMEI	1,588	536	1,583	2,149
	335,767	**280,713**	566,081	287,934
Project Finance Fees	-	(1,001)	-	(845)
	335,767	**279,712**	566,081	287,089
Bonds:				
GDP, SGPS, S.A. 1997 issue	-	-	20,435	-
Lisboagás, S.A. 1998 issue	-	15,772	-	15,772
Galp Investment Fund, 2003 issue	-	210,000	-	210,000
	-	**225,772**	20,435	225,772
	335,767	**505,484**	586,516	512,861

The non-current loans, excluding project finance fees, at 31 December 2007 are repayable as follows:

2009	38,359
2010	248,593
2011	27,626
2012	21,585
2013 and subsequent years	170,322
	506,485

Domestic and foreign loans at 31 December 2007 and 2006 are made up as follows:

		December 2007		December 2006	
CURRENCY		Total amount	Amount in currency (tEuros)	Total amount	Amount in currency (tEuros)
United States dollars	USD	3,020	1,469	336,252	33,233
Meticais	MZM	-	-	96,485	2,799
Cape Verde francs	CFA	229,585	269	229,585	350
Euros	EUR	647,459	477,772	804,060	593,659
			479,510		**630,041**

The average interest rates on the loans and bank overdrafts in 2007 and 2006 were 4.63% and 3.40%, respectively.

NATURE OF THE MAIN LOANS

Bank loans

Of the 4 commercial paper programs subscribed for in September 2006 in the amount of tEuros 275,000, the Group has maintained 3 contracts with one year maturities, renewable for one year periods, made up as follows:

Agent	Paying bank	Amount
Caixa Geral de Investimento	Caixa Geral de Depósitos	100,000
Banco Santander Negócios	Banco Santander Totta	100,000
Banco Popular Portugal	Banco Popular Portugal	25,000
		225,000

At 31 December 2007 the Group subscribed for commercial paper in the amount of tEuros 165,000, included in the caption "Bank loans and overdrafts".

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

In the year ended 31 December 2007 the Company contracted the second instalment, in the amount of tEuros 19,000, of a medium and long term loan from the European Investment Bank for the exclusive purpose of implementing a project relating to the construction and operation of a co-generating installation in the Sines refinery, totalling tEuros 58,000 at 31 December 2007. The loan bears interest at the Euribor six month rate plus a variable spread.

The loan from the European Investment Bank in the amount of tEuros 155,043 is guaranteed by Banking Syndicates.

Petrogal has issued comfort letters in favour of Group and associated companies, relating to short term credit lines, in the amount of tEuros 655,638.

BONDS

i) GDP – Gás de Portugal, SGPS, S.A. 1997 Issue

On 25 June 1997 GDP – Gás de Portugal, SGPS, S.A. issued bonds totalling tEuros 49,880, at par, for private subscription, which were fully subscribed for and paid up. This issue has been repaid in full.

The bonds were repaid at their nominal value, tEuros 29,445 being repaid in 2006 and the remaining balance in the first half of 2007.

These bonds bore interest payable half yearly in arrears at a rate indexed to the Euribor 6 month rate plus 7.5 basis points, rounded up to the closest 1/16 of a basis point.

ii) Lisboagás GDL- Sociedade Distribuidora de Gás Natural de Lisboa, S.A. 1998 Issue

On 12 August 1998 Lisboagás, GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A. issued bonds totalling tEuros 49,880 at par, for private subscription, which were fully subscribed for and paid up.

The bonds are redeemable at par in five equal annual instalments on the due dates of the 22nd, 24th, 26th, 28th, and 30th coupons.

However, the bonds can be redeemed early, in part or in full, at par, at the issuer's option (call option), as from the due date of the 10th coupon, inclusive and on the respective interest payment dates.

The bondholders can also demand early redemption of the bonds or of the remaining outstanding principal of the bonds, at par, on the due dates of the 20th, 22nd, 24th, 26th and 28th coupons.

If the Portuguese State ceases to be direct or indirect majority shareholder of GDP – Gás de Portugal, SGPS, S.A. or if GDP – Gás de Portugal, SGPS, S.A. GDP ceases to have a direct majority participation in Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., the bondholders can demand early redemption of their bonds.

As the Portuguese State stopped being the major shareholder in Galp Energia S.G.P.S, S.A., the Company published the corresponding announcement on 22 September 2006 and received requests for early redemption of the bonds in the amount of tEuros 34,107 and so the amount of the bonds is now tEuros 15,772.

Interest is payable half yearly in arrears at a rate corresponding to the Euribor 6 month rate in force on the second to last working day preceding the beginning of each interest period plus 8 basis points.

The Bond issue was underwritten by a Syndicate of Banks composed by the following banks:

BANK	Amount	%
Banco Espirito Santo Investimento	13,517	27.10
Banco Português de Investimento	13,567	27.20
Millennium BCP (ex-CISF)	13,567	27.20
Caixa Geral de Depósitos (ex-BNU)	7,482	15.00
BMI	1,247	2.50
Banco Bilbao Vizcaya y Argentaria	500	1.00
	49,880	**100.00**

iii) Galp Investment Fund 2003 Issue

In 2003 Petrogal, S.A. entered into an accounts receivable securitisation operation with Galp investment Fund, PLC ("the Fund"), in the amount of tEuros 210,000, with an expected maturity term of 5 years and a legal maturity term of 7 years. In order to cover this amount, the Fund issued tEuros 199,500 of "A Notes" and tEuros 10,500 of "B Notes", which bear interest at the Euribor rate plus 50 basis points and 95 basis points, respectively. In 2007 Petrogal incurred financial expenses of tEuros 10,614 with this operation (Note 9).

24. RETIREMENT AND OTHER BENEFIT OBLIGATIONS

As explained in Notes 2.10 and 2.11 some Group companies assumed liabilities relating to retirement benefits. As the Group recognises its post employment benefits in accordance with IAS 19, which establishes that the rate to be used for discounting post employment benefits must be determined based on market interest rates for high quality company bonds, in 2007 the rate of discount was changed from 4.6% to 5.45%. This change in actuarial assumptions resulted in an actuarial gain through decrease in the past service liability of the Petrogal Pension Plan and GDP Pension Plan.

In 2007 Petrogal and the GDP group companies contributed tEuros 6,800 and tEuros 1,971, respectively, to their Pension Funds to partially cover their liabilities.

The minimum liability of Petrogal and the GDP group at 31 December 2007, calculated in accordance with the method and assumptions required by the Institute of Insurance of Portugal, amounted to tEuros 321,556 and tEuros 27,391, respectively.

At 31 December 2007 and 2006 the net assets of the Petrogal Pension Fund, Sacor Marítima Pension Fund and GDP Pension Fund were as follows in accordance with a report of the fund management company:

	2007	2006
Bonds:		
Fixed rate Euro Bonds	194,442	178,779
Variable rate Euro Bonds	24,499	41,368
Other non Euro Bonds	9,241	6,728
Shares:		
European	58,522	52,638
Other Shares	21,732	24,741
Hedge Funds	14,835	11,656
Derivatives	2	2
Indirect real estate	4,976	4,964
Galp Building (part)	32,300	23,300
Cash	4,799	25,957
Others	102	-
Total	**365,449**	**370,133**

Evolution of the pension fund assets in 2007 and 2006 was as follows:

	2007	2006
Beginning balance	369,719	355,861
Contributions to the fund	8,771	23,966
Estimated return on the assets	18,504	723
Acturial gain/(loss)	(8,052)	13,585
Pensions paid in the year	(23,919)	(24,004)
Change in the perimeter	-	(412)
Ending balance	**365,023**	**369,719**

The composition of the Group's Pension Fund assets in the amount of tEuros 365,449 is different from the final balance of the evolution of the Pension Fund assets which totals tEuros 365,023 due to the fact that at 31 December 2007 the company Gasfomento – Sistemas e Instalações de Gás, S.A. belonged to the GDP group Pension Fund and it is not included in the consolidation perimeter (Note 3).

At 31 December 2007 and 2006 the Group had the following provisions to cover the liability for pensions and other benefits:

	2007	2006
Retirement benefits		
Current personnel	639	543
Early retirement	24,303	22,516
Pre-retirement	30,139	29,842
Retired personnel	5,034	5,322
Retrement bonus	5,943	5,622
Flexible reteirement age	9,906	9,906
Relating to the Pension Fund	5,518	5,840
	81,482	79,590
Other benefits		
Healthcare	167,557	158,628
Life assurance	2,384	2,135
Defined contribution plan minimum benefit	2,129	1,827
	172,070	162,590
	253,552	242,180

The assumptions used to calculate the retirement benefits are those considered by the Petrogal and GDP groups and the entity specialised in actuarial studies as those that best meet the obligations established in the pension plan, and are as follows:

	Group	
	2007	2006
Asset remuneration rate	5.20% - 5.60%	5.00% - 5.20%
Technical interest rate	5.45%	4.60%
Salary increase rate	3.00%	3.00%
Pension increase rate	1.50%	1.50%
Current personnel and pre-retirees mortality table	TV 88/90	TV 88/90
Retired personnel mortality table	TV 88/90	TV 88/90
Disability table	EVK80-50%	EVK80-50%
Normal retirement age	65	65
Method	Projected credit unit	Projected credit unit
Liability and corresponding coverage:		
i) Liability relating to the pension fund:		
Current personnel	65,750	73,272
Pre-retired personnel	12,563	13,124
Early retired personnel	17,727	20,796
Retired personnel and pensioners	269,520	289,788
Total	365,560	396,980
Coverage relating to the pension fund:		
By the pension fund assets	365,023	369,719
Provision for retirement benefit liability	5,518	5,840
By accruals and deferrals (Note 15)	(31,855)	(28,847)
Unrecognised (gain) and loss (Note 2.10)	26,874	50,268
Total	365,560	396,980
ii) Liability not relating to the pension fund:		
Current personnel	592	598
Pre-retired personnel	33,713	33,362
Early retired personnel	20,602	20,267
Retirement bonus	6,165	6,364
Retired personnel	6,151	7,159
Voluntary social insurance	396	440
Flexible retirement age (DL 9/99)	11,075	11,075
Total	78,694	79,265
Covered by provisions:		
Current personnel	639	542
Pre-retired personnel	30,058	29,748
Early retired personnel	24,303	22,516
Retirement bonus	5,943	5,622
Retired personnel	5,034	5,322
Voluntary social insurance (Note 15)	(255)	(151)
Flexible retirement age (DL 9/99)	9,906	9,906
Sub-Total	75,628	73,505
(Gain) and loss not recognised:		
Current personnel	(47)	56
Pre-retired personnel	3,655	3,613
Early retired personnel	(3,701)	(2,248)
Retirement bonus	222	742
Retired personnel	1,117	1,837
Voluntary social insurance	651	591
Flexible retirement age (DL 9/99)	1,169	1,169
Sub-Total	3,066	5,760
Total	78,694	79,265

The Group asset's returns rates as a deviation between 5.20% and 5.60% for the Petrogal group and 5.50% for the GDP group. The difference is due to the profile of the Funds' assets, depending on the positioning of their portfolios, which has resulted in different return rates.

Evolution of the Group's pension liability in 2007 was as follows:

	Relating to the pension fund	Not relating to the pension fund	Group Total
Total liability at 31 December 2006	396,982	79,265	476,247
Current service cost	3,507	301	3,808
Interest cost	17,700	2,846	20,546
Benefits paid in the year	(23,920)	(14,710)	(38,630)
Pre-retired and early retired personnel starting during the year	-	13,242	13,242
Actuarial (gain) / loss for the year	(28,709)	(2,250)	(30,959)
Total liability at 31 December 2007	**365,560**	**78,694**	**444,254**
Cost for 2007			
Interest and current service cost	21,207	3,147	24,354
Pre-retirements and early retirements in the year	-	9,418	9,418
Expected return on assets	(18,504)	-	(18,504)
Amortisation of the corridor excess	2,736	447	3,183
	5,439	**13,012**	**18,451**

The current service cost and interest cost, net of the expected return on fund assets, totalling tEuros 5,850, was recorded in the caption "Employee costs" (Note 7).

The increase of tEuros 13,054 in the Group's liability for pre-retirements and early retirements in the year ended 31 December 2007 was recorded by corresponding entry to: (i) transfer of tEuros 3,636 from the provision for other risks and charges, recognised as a cost in prior years (Note 26); and (ii) employee costs for the year in the amount of tEuros 9,418.

The actuarial (Gain)/Loss for the year amounted to tEuros 30,959 and is made up as follows:

- (Gain)/Loss due to change in the discount rate from 4.60% to 5.45% – tEuros (37,639);
- Actuarial experience (Gain)/Loss – tEuros 6,680.

As a result of the "corridor" excess at 31 December 2006, the amount of tEuros 3,183, corresponding to amortisation for the year 2007, was recognised in the caption "Employee costs" (Note 7).

As explained in Note 2.10 on 31 December 2002 the Portuguese Insurance Institute authorised Galp Energia to create a defined contribution Pension Fund, giving the employees the possibility of opting between the new defined contribution pension plan and the existing defined benefits plan. In 2007 the amount of tEuros 870 was recognised in the caption "Employee costs", relating to contributions for the year of the companies associated with the Galp Energia defined contribution Pension Fund, in benefit of their employees, by transfer of that amount to the fund managing entity.

As explained in Note 2.10, actuarial gains and losses are recognised in the financial statements, only to the extent that they exceed the 10% limits defined for the "corridor", and are amortised as from the year following that in which they were determined, as explained below.

The following table summarises, by benefit plan, the liability included in the ""corridor"" mechanism and its maximum interval (10%).

BENEFITS	Unrecognised (gain) and loss	"Corridor" interval (10%)	"Excess" of the corridor interval	Amount to be recognised 2008
Petrogal Group				
Retirement supplement (Fund)	25,987	34,037	-	-
Pre-retirements	3,580	3,200	380	101
Early retirements	(3,701)	2,060	(1,641)	(438)
Retirement bonus	222	616	-	-
Voluntary social insurance	651	40	611	163
Flexible retirement age (DL 9/99)	1,156	1,078	78	-
	27,895	**41,031**	**(572)**	**(174)**
GDP Group				
Retirement supplement (Fund)	887	3,086	-	-
Retirement supplement (not covered by the Fund)	1,167	648	519	110
Pre-retirements	75	171	-	-
Flexible retirement age (DL 9/99)	13	30	-	-
	2,142	**3,935**	**519**	**110**
Other Groups				
Retirement supplement (Fund)	(97)	26	(71)	(5)

The accumulated gains and losses not recognised of the Petrogal group, relating to the liability for pre-retirements, early retirements, voluntary social insurance and flexible retirement age (Dl 9/99) exceed the 10% "corridor" limit by the net amount of tEuros 572. This amount will be recognised as cost and/or income in future years based on the expected average future period of service of the employees covered by the plans which, at 31 December 2007, was 3.75 years. Consequently, costs, net of income, in the amount of tEuros 174 resulting from amortisation of the excess of the "corridor", will be recognised in 2008.

The accumulated gains and losses not recognised of the GDP group, relating to the liability for retirement supplements (not covered by the Fund) exceeds the limits of the 10% "corridor" by the net amount of tEuros 519. This amount will be recognised as cost and/or income in future years based on the expected average future period of service of the employees covered by the plans, which at 31 December 2007, was 4.64 years for Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., and 9.88 years for GDP Distribuição, SGPS, S.A.. Consequently, costs, net of income, in the amount of tEuros 110, resulting from amortisation of the excess of the "corridor", will be recognised in 2008.

The accumulated gains and losses not recognised of the remaining companies relating to retirement pension supplements (covered by the Fund) exceeds the limits of the 10% "corridor" by tEuros 71. This amount will be recognised as cost and/or income in future years based on the expected average future period of service of the employees covered by the plans, which at 31 December 2007, was 14.40 years for Galp Energia, S.A.. Consequently, net income of tEuros 5, resulting from amortisation of the excess of the "corridor", will be recognised in 2008.

Other retirement benefits – Healthcare, life insurance and defined contribution minimum benefit plan (disability and survivor)

As explained in Note 2.11, at 31 December 2007 the Group had a provision to cover its liability for healthcare, past service life insurance of current personnel and the full amount of the liability for the remaining personnel and for the defined contribution plan minimum benefit. The present value of past service liability and actuarial assumptions used in the calculation are as follows:

	Healthcare		Life insurance		Defined contribution plan minimum benefit	
	2007	2006	2007	2006	2007	2006
Technical interest rate	5.45%	4.60%	5.45%	4.60%	5.45%	4.60%
Cost increase rate	4.00%	4.00%	3.00%	3.00%	3.00%	3.00%
Current and pre-retired employee mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90
Retired personnel mortality table	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90	TV 88/90
Disability table	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%	EVK80-50%
Normal retirement age	65	65	65	65	65	65

METHOD	2007 Projected credit unit	2006 Projected credit unit
Liability and corresponding coverage:		
i) Healthcare		
Total liability:	188,014	207,864
Coverage:		
Liability for retirement benefits and other benefits	167,557	158,628
(Gain) and loss not recognised (Note 2.11)	20,457	49,236
	188,014	207,864
ii) Life insurance		
Total liability:	2,951	2,964
Coverage:		
Liability for retirement benefits and other benefits	2,384	2,135
(Gain) and loss not recognised (Note 2.11)	567	829
	2,951	2,964
iii) Defined contribution plan minimum benefit		
Total liability:	2,060	1,505
Coverage:		
Liability for retirement benefits and other benefits	2,129	1,827
(Gain) and loss not recognised (Note 2.11)	(69)	(322)
	2,060	**1,505**

Evolution of the liability and the related costs of Petrogal, the GDP group companies and other Group companies for healthcare, life insurance and defined contribution plan minimum benefit in 2007 was as follows:

	Healthcare	Life insurance	Defined contribution minimum benefit plan	Group Total
Total liability at 31 December 2006	207,864	2,964	1,505	212,333
Current service cost	2,847	122	243	3,212
Interest cost	9,329	132	69	9,530
Benefits paid in the year	(10,321)	(132)	-	(10,453)
Actuarial (Gain) / Loss for the year	(21,699)	(135)	243	(21,591)
Settlements, cuts and transfers	(6)	-	-	(6)
Total liability at 31 December 2007	188,014	2,951	2,060	193,025
Costs for 2007				
Interest cost and current service cost	12,176	254	312	12,742
Amortisation of the corridor excess	7,081	127	(10)	7,198
Settlements, cuts and transfers	(6)	-	-	(6)
	19,251	**381**	**302**	**19,934**

Current service and interest cost totalling tEuros 12,742 was recorded by the above companies in the consolidated income statement caption "Employee costs".

As a result of the excess of the "corridor" at 31 December 2006 tEuros 7,198 relating to amortisation of the excess for the year, based on the estimated average future period of service of each company, was recorded in "Employee costs".

The actuarial (Gain)/Loss for the year amounted to tEuros 21,699 and is made up as follows:

- (Gain)/Loss due to change in the discount rate from 4.60% to 5.45% – tEuros (26,166);
- Actuarial experience (Gain)/Loss – tEuros 3,853

As explained in Note 2.11, actuarial gains and losses are recognised in the financial statements, only to the extent that they exceed the 10% limits defined for the "corridor", and are amortised as from the year following that in which they were determined, as explained below.

The following table shows, by benefit plan, the liability included in the "corridor" mechanism, and the limits thereof:

BENEFITS	Unrecognised (gain) and loss	"Corridor" interval (10%)	"Excess" of the corridor interval	Amount to be recognised in 2008
Petrogal Group				
Healthcare	19,927	17,698	2,568	643
Life insurance	505	253	279	74
Defined contribution plan minimum benefit	(68)	104	-	-
	20,364	18,055	2,847	717
GDP Group				
Healthcare	505	1,059	21	21
Life insurance	90	31	64	14
Defined contribution plan minimum benefit	(45)	19	(26)	(2)
	550	1,109	59	33
Other groups				
Healthcare	25	45	-	-
Life insurance	(28)	11	(17)	(1)
Defined contribution plan minimum benefit	44	83	-	-
	41	139	(17)	(1)
	20,955	19,303	2,889	749

The "corridor" excess, in the amount of tEuros 2,889, relating to the liability for healthcare, life insurance and defined contribution plan minimum benefit, will be recognised as a cost in future years based on the average expected period of service of the employees covered by the plans (Petrogal 3.75; Lisboagás 4.64; Beiragás 25.16; Galp Energia, S.A. 27.69 for life asurance, 16.97 for health insurance; Galp Power 24.10; GDP Distribuição 9.20; Lusitaniagás 26.00; Galp Exploração 27.09; Galp Gás Natural 23.50 and Sacor Marítima 4.91). Therefore in 2008 costs net of income, in the amount of tEuros 749, relating to amortisation of the "corridor" excess, will be recognised in the caption "Employee costs".

25. OTHER PAYABLES

The non-current and current caption "Other payables" at 31 December 2007 and 2006 is made up as follows:

CAPTION	2007 Current	2007 Non-current	2006 Current	2006 Non-current
State and Other Public Entities:				
ISP - Tax on petroleum products	179,874	-	177,205	-
Value Added Tax	175,316	-	140,393	-
Other taxes	6,125	13	6,316	12
Social Security contributions	4,677	-	4,089	-
Personal and Corporate Income Tax Withheld	4,383	-	4,055	-
Loans - Associated, participated and related companies (Note 29)	-	7,670	84	7,259
Other creditors - Associated, participated and related companies (Note 29)	228	-	35	-
Advances on account of sales (Note 17)	302,375	-	252,862	-
Suppliers of fixed assets	115,680	683	69,129	684
Overlifting - Blocks 1 and 14 partners	49,247	-	26,602	-
Guarantee deposits and guarantees received	15,141	-	14,460	-
Personnel	2,495	-	8,390	-
Credit balances of clients	1,416	-	1,631	-
Advances from customers	756	-	1,177	-
Other creditors	16,826	2,915	26,548	4.295
	874,539	11,281	732,976	12,250
Accrued costs:				
Vacation pay, vacation subsidy and corresponding personnel costs	25,636	-	25,996	-
External supplies and services	24,151	-	17,818	-
Productivity bonus	16,766	-	15,099	-
Discounts, bonuses and volume discounts on sales	8,704	-	6,819	-
Fast GALP prizes	5,312	-	6,799	-
Accrued personnel costs- others	308	-	3,070	-
Financial costs	1,794	-	2,152	-
Accrued interest	1,717	-	1,296	-
Accrued insurance premiums	1,930	-	-	-
Other accrued costs	3,526	-	14,148	-
	89,844	-	93,197	-
Deferred costs:				
Rights of passage - Fibre optics	4,263	47,167	4,751	58,166
Services rendered	6,236	-	358	-
Others	6,184	3,309	12,172	182
	16,683	50,476	17,281	58,348
	981,066	61,757	843,454	70,598

The amount of tEuros 49,247 in the caption "Overlifting - Blocks 1 and 14 partners" corresponds to the Group's liability for lifting crude in excess of its production quota and is stated at market value (Note 2.7 e)).

The amount of tEuros 15,141 reflected in the caption "Guarantee deposits and guarantees received" includes tEuros 13,228 relating to Petrogal's liability at 31 December 2007 for guarantees received for ceding gas bottles, recorded at cost, which corresponds, approximately, to their fair value.

The amount of tEuros 5,312 in the accrued costs caption "Fast Galp prizes" corresponds to Petrogal's liability for Fast Galp card points issued but not yet claimed, which are expected to be exchanged for prizes in subsequent years.

Income relating to the cession of rights to use telecommunications infrastructures contract reflected in the "Deferred income" caption is recognised in the income statement over the period of the contract. Deferred income at 31 December 2007 to be recognised in future year's amounts to tEuros 51,430.

The amount of tEuros 6,236 in the deferred income caption – services rendered refers essentially to insurance to be invoiced by Tagus RE.

26. PROVISIONS

The changes in provisions in the year ended 31 December 2007 were as follows:

CAPTIONS	Beginning balance	Increases	Decreases	Utilisation	Transfers adjustments	Ending balance
Legal processes	21,589	1,573	(12,502)	(302)	(1)	10,357
Investments	5,332	-	-	(2,632)	(694)	2,006
Taxes	6,636	37	(128)	(20)	7,782	14,307
Enviroment	-	-	(298)	(1,728)	11,034	9,008
Other risks and charges	49,086	24,882	(2,944)	(1,633)	(22,498)	46,893
	82,643	**26,492**	**(15,872)**	**(6,315)**	**(4,377)**	**82,571**

The increase in provisions net of decreases was recorded by corresponding entry to the following consolidated income statement captions:

Provisions and reversals (Note 7)	11,057
Other employee costs	940
Others	(1,377)
	10,620

Legal processes

The amount of tEuros 10,357 in the caption "Legal processes" includes tEuros 4,397 with respect to liabilities for the payment of taxes for occupation of the subsoil by the Petrogal group relating to differences between the Group and the Municipal Council of Matosinhos.

The decrease of tEuros 12,502 in the caption "Legal processes" includes tEuros 10,156 relating to liabilities for the payment of taxes for occupation of the subsoil by the Petrogal group, which was reversed because the Group believes that if it is responsible for the payment of the taxes, this amount will be reflected the gas tariffs invoiced to the clients of the companies subject to the taxes (Note 33).

Investments

The provision for investments represents the Group's joint liability to the following associated companies that have negative equity (Note 4):

Sonangalp - Soc. Distrib. e Com. Combustíveis, Lda.	2,006
	2,006

The decrease of tEuros 2,632 in this caption corresponds to Galp Energia's liability for the accumulated losses of its subsidiary Central E, S.A., of that amount (Note 4). The capital increase in that company was paid up solely by the majority shareholder EDP Imobiliária e Participações, S.A., Galp Energia's participation being reduced from 20% to 0.7%. A capital decrease of the full amount necessary to cover the accumulated losses was carried out simultaneously, eliminating the liability which the Company had.

Taxes

The caption "Taxes" in the amount of tEuros 14,307 includes essentially: (i) tEuros 3,253 relating to Municipal Contribution, currently Municipal Property Tax, for the years 1998 to 2006 and increase of tEuros 34 in 2007 relating to the transport of natural gas, transferred to REN – Rede Eléctrica Nacional, S.A. in 2006 for which the liability remains with Galp Gás Natural, S.A.. The amount payable has still not been determined by the authorities; (ii) tEuros 3,377 to cover the tax risk relating to the sale of the participation in ONI, SGPS to Galp Energia, S.A.; and (iii) tEuros 7,394 to cover a tax contingency relating to an additional assessment of the subsidiary Petrogal for the years 2001 and 2002 (Note 10).

Environment

The amount of tEuros 9,008 reflected in the caption "Environment" is to cover costs of decontaminating some installations occupied by the company where it has been decided to decontaminate due to legal requirements. At 31 December 2006 this provision was included in the caption "Provision for other risks and charges".

Other risks and charges

The increase of tEuros 24,882 in the provision for other risks and charges refers essentially to:

i) tEuros 14,000 relating to a provision to cover a difference between Galp Gás Natural, S.A. and Nigeria Liquified Natural Gas Limited ("NLNG") as the latter has submitted to arbitration the interpretation and application of certain provisions in two Liquified Natural Gas Supply Contracts. Galp Gás Natural contests the positions assumed by NLNG in the process, as it considers that they are unfounded. The Arbitration Court is expected to make its decision in 2008.

ii) tEuros 3,313 relating to a provision to cover a claim made by EDP under the security reserves;

iii) tEuros 3,976 to increase the provision for the cost of abandoning Block 14 which is estimated by applying, to the total estimated abandonment cost, a coefficient corresponding to the proportion of the volume of production in each amortisation period, to the volume of proved developed reserves at the end of that period plus production for the period, in compliance with the change in accounting policy explained in Note 2.3;

iv) tEuros 2,188 relating to a provision to cover penalties under the EU competition rights.

The caption "Provisions for other risks and charges" in the amount of tEuros 46,893 at 31 December 2007 corresponds essentially to the following:

i) tEuros 14,000 to cover a difference between Galp Gás Natural, S.A. and Nigeria Liquified Natural Gas Limited ("NLNG");

ii) tEuros 10,510 to cover the cost of abandoning the exploration installations in Blocks 1 and 14 in Angola. This provision is to cover the total costs to be incurred by Galp Exploração at the end of the useful production life of those oil fields;

iii) tEuros 6,210 to cover penalties under the EU competition rights;

iv) tEuros 5,160 to cover additional IRP tax assessments in Angola (Note 10);

v) tEuros 3,313 to cover a claim made by EDP under the security reserves;

vi) tEuros 2,612 to cover a claim for flushing services of the Leixões Ocean Terminal;

vii) tEuros 1,150 relating to interest due to the non acceptance of the write off of the Leixões Ocean Terminal as tax deductible cost in 2002;

viii) tEuros 940 to cover pre-retirement already negotiated and to take place in 2008.

27. TRADE PAYABLES

The trade payables caption at 31 December 2007 and 2006 is made up as follows:

	2007	2006
Supliers - current accounts	713,749	414,935
Supliers - invoices pending	241,680	277,444
Supliers - notes payable	124	-
	955,553	**692,379**

The caption "Suppliers – invoices pending" corresponds essentially to purchases of crude oil raw material, natural gas and goods in transit as of those dates.

28. OTHER FINANCIAL INSTRUMENTS

The Group uses financial derivatives to hedge interest rate and refining margin fluctuation risks, namely risks of variation in crude oil prices, finished products and refining margins, which affect the amount of assets and future cash flows resulting from its operations.

In addition, the Group is exposed to market fluctuation risks, namely risks of variation in crude oil prices, finished products and refining margins, which affect the amount of assets and expected future cash flows resulting from its operations.

The increase of tEuros 686 in fair value reflected in Assets and Liabilities and, consequently, in the fair value of Equity in the year ended 31 December 2007 refers essentially to interest rate financial derivatives hedging cash flows. Therefore the fair value of the efficient portion of the hedge is reflected in the equity caption attributable to equity holders of the parent "Hedging reserves", in the amount of tEuros 781, less tEuros 105 attributable to minority shareholders, plus 200 relating to fair value fluctuations of associated companies.

The changes in fair value reflected in Equity for the year ended 31 December 2006 amounted to tEuros 4,797, tEuros 4,805 of the fair value being attributable to equity holders of the parent, less tEuros 317 relating to Minority interest, plus tEuros 325 relating to change in fair value of associated companies.

The Group's derivative financial instruments evolved as follows in 2007 and 2006:

INTEREST RATE DERIVATES	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Fair value at 1 January 2006	52	32	(5,457)	-
Purchased during the year	-	-	-	-
Sold during the year	51	-	1,662	79
Increase/(decrease) on the sale reflected in the income statement	(51)	-	(1,662)	(79)
Increase/(decrease) in fair value reflected in the income statement	-	334	1,340	(627)
Increase/(decrease) in fair value reflected in equity	1,069	(97)	3,865	(40)
Fair value at 31 December 2006	**1,121**	**269**	**(252)**	**(667)**
Purchased during the year	-	-	-	-
Sold during the year	(272)	16	153	39
Increase/(decrease) on the sale reflected in the income statement	272	(16)	(153)	(39)
Increase/(decrease) in fair value reflected in the income statement	-	(19)	37	627
Increase/(decrease) in fair value reflected in equity	95	341	210	40
Fair value at 31 December 2007 (Note 18)	**1,216**	**591**	**(5)**	**-**

Interest cost and income on interest rate derivatives are reflected in the captions "Financial costs" and "Financial income" as the Galp Energia group considers that the gain and loss fluctuations of certain financial derivatives contracted to hedge refining margin should be classified as an integral part of Gross Margin (in the caption "Cost of sales") the previous accounting policy of recording them as financial items was changed (Note 2.24). The Galp Energia group believes that this change in accounting policy reflects better the accounting nature of these financial derivatives. Although these financial derivatives have been reclassified to Cost of Sales, they continue to be recorded as Macrohedging as established in IAS 39.

The accounting effect on Cost of Sales for the years ended 31 December 2007 and 2006 is as follows:

COMMODITIES DERIVATES	Assets		Liabilities	
	Non-current	Current	Non-current	Current
Fair value at 1 January 2006	-	2,145	-	(1,864)
Purchased during the year	-	8,237	-	-
Sold during the year	-	(5,439)	-	5,474
Increase/(decrease) on the sale reflected in the income statement	-	5,629	-	(5,474)
Increase/(decrease) in fair value reflected in the income statement	-	(3,698)	-	(396)
Increase/(decrease) in fair value reflected in equity	-	-	-	-
Fair value at 31 December 2006	**-**	**6,874**	**-**	**(2,260)**
Purchased during the year	-	3,550	-	-
Sold during the year	-	(5,549)	-	(5,021)
Increase/(decrease) on the sale reflected in the income statement	-	199	-	5,021
Increase/(decrease) in fair value reflected in the income statement	-	(4,975)	-	2,260
Increase/(decrease) in fair value reflected in equity	-	-	-	-
Fair value at 31 December 2007 (Note 18)	**-**	**99**	**-**	**-**

The Galp Energia group also trades financial instruments known as Commodity Futures. Given their great liquidity, as they are traded on the Stock Exchange, they are classified as Cash. The gain and loss on Commodity Futures were also reclassified to Cost of sales. As the futures are traded on the Stock Exchange, subject to the Clearing House, the gain and loss is recognised continuously in the Income Statement as follows:

COMMODITIES FUTURES	Assets Non-current	Assets Current	Liabilities Non-current	Liabilities Current
Fair value at 1 January 2006	-	1,223	-	-
Purchased during the year	-	35,974	-	-
Sold during the year	-	(35,357)	-	-
Increase/(decrease) on the sale reflected in the income statement	-	(936)	-	-
Justo valor em 31 de Dezembro de 2006	-	904	-	-
Purchased during the year	-	25,745	-	-
Sold during the year	-	(20,785)	-	-
Increase/(decrease) on the sale reflected in the income statement	-	(4,926)	-	-
Fair value at 31 December 2007	-	938	-	-

The Group's derivative financial instruments at 31 December 2007 were as follows:

Type of derivative over interest rate	Interest Rate	Nominal value	Maturity	Fair value of the derivatives in tEuros
Asset				
	Cash-flow hedge			
Collar	Paid in Euribor 6m between min 1.75% and max 3.25% (over Euribor 6m)	tEur 14,220	2010	378
Caps	Paid between Euribor 3m and 6m up to max 3.25% and 4% (over Euribor 3m and 6m)	tEur 49,740	2008 e 2010	262
Swap with Cap with "Knock out"	Paid Euribor 12m up to max 3.49% with knock-out 5.25% (over Euribor 12m set-in-arrears)	tEur 6,331	2010	86
Swaps	Paid between 3.17% and 4.07% Receive Euribor 3m and 6m	tEur 70,042	2008 a 2011	831
	Other financial derivatives			
Swaps	Pay between 3.37 and 3.94% Receive Euribor 3 m	tEur 30,000	2008 e 2009	219
Caps	Pay Euribor 3m up to max 4% (over Euribor 3m)	tEur 80,000	2008	31
				1,807
Liability				
	Cash-flow hedge			
Swaps	Pay Euribor 3m up to max 4,49%	tEur 3,188	2013	(5)
	Receive Euribor 3m			(5)

Commodities derivatives	Nature	Maturity	Fair value of the derivatives in tEuros
Assets			
Swaps	Over Natural Gas Price	2008	99
			99
Total Assets			1,906
Non-current			1,,216
Current (Note 18)			690
Total Liabilities			(5)
Non-current			(5)
Current			-

Fair value was determined by banking entities based on generally accepted models and valuation techniques.

29. BALANCES WITH RELATED PARTIES

Balances and transactions with related parties in 2007 and 2006 are as follows:

RECEIVABLES

						2007
		Non-current		Current		
	Total of related parties	Loans granted (Note 15)	Other receivables (Note 15)	Trade receivables	Other receivables (Nota 15)	Other debtors and accruals and deferrals
Associated and participating companies:						
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	12,464	9,976	-	2,479	-	9
EMPL - Europe Maghreb Pipeline, Ltd.	3,056	-	-	-	196	2,860
Gasoduto Al-Andaluz, S.A.	15,354	14,769	-	-	-	585
Gasoduto Extremadura, S.A.	10,701	9,841	-	-	-	860
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	16,096	10,283	-	1,935	2,145	1,733
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	7,156	2,849	-	2,085	1,589	633
Empresa Nacional de Combustiveis - Enacol, SARL	1,235	-	-	368	867	-
Sonangalp - Soc. Distribuição e Comercialização Combustíveis, Lda.	1,341	596	722	614	5	-
Outras empresas associadas e participadas	118	-	-	16	210	(108)
	67,521	**48,314**	**722**	**7,497**	**5,012**	**6,572**
Related companies						
Eni Portugal Investment, S.p.A.	7,097	-	-	1	19	7,077
E.E.M. - Empresa de Electricidade da Madeira, S.A.	5,230	-	-	5,212	-	18
Enagás, S.A.	(1,060)	-	-	6	-	(1,066)
AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuição de Energia, S.A.	339	-	-	339	-	-
Other related companies	(150)	143	-	5	42	(340)
	11,456	**143**	**-**	**5,563**	**61**	**5,689**
	78,977	**48,457**	**722**	**13,060**	**5,073**	**12,261**

						2006
		Non-current		Current		
	Total of related parties	Loans granted (Note 15)	Other receivables (Note 15)	Trade receivables	Other receivables (Nota 15)	Other debtors and accruals and deferrals
Associated and participating companies:						
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	15,535	13,007	-	2,519	-	9
EMPL - Europe Maghreb Pipeline, Ltd.	3,456	-	-	-	280	3,176
Gasoduto Al-Andaluz, S.A.	18,841	17,700	-	-	-	1,141
Gasoduto Extremadura, S.A.	14,001	12,349	-	-	-	1,652
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	13,295	9,296	-	1,633	197	2,169
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	5,579	2,598	-	932	1,333	716
Empresa Nacional de Combustiveis - Enacol, SARL	2,111	168	-	670	1,265	8
Sonangalp - Soc. Distribuição e Comercialização Combustíveis, Lda.	2,112	666	807	634	5	-
Outras empresas associadas e participadas	653	143	-	338	95	77
	75,583	55,927	807	6,726	3,175	8,948
Related companies						
Eni, S.p.A.	16,455	-	-	16,455	-	-
E.E.M. - Empresa de Electricidade da Madeira, S.A.	-	-	-	-	-	-
Enagás, S.A.	8	-	-	-	8	-
AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuição de Energia, S.A.	-	-	-	-	-	-
Other related companies	4	-	-	4	-	-
	16,467	-	-	16,459	8	-
	92,050	**55,927**	**807**	**23,185**	**3,183**	**8,948**

The medium and long term loans to associated companies at 31 December 2007 correspond essentially to loans granted by subsidiary companies:

- Galp Gás Natural, S.A., to Gasodutos Al Andaluz e Extremadura in the amounts of tEuros 14,769 and tEuros 9,841, respectively. Interest on the loans for 2007, amounting to tEuros 1,504, of which tEuros 618 relating to the Extremadura Pipeline and tEuros 886 relating to the Al-Andaluz Pipeline were capitalised in this caption.
- GDP Distribuição, SGPS, S.A., to Setgás - Sociedade de Produção e Distribuição de Gás, S.A. and Tagusgás - Empresa Gás do Vale do Tejo, S.A. in the amounts of tEuros 7,685 and tEuros 2,849, respectively. Interest on these loans for 2007 amounted to tEuros 714, of which tEuros 520 relating to Setgás - Sociedade de Produção e Distribuição de Gás, S.A. and tEuros 194 relating to Tagusgás - Empresa Gás do Vale do Tejo, S.A., were capitalised in this caption.
- Petróleos de Portugal - Petrogal, S.A., to Setgás - Sociedade de Produção e Distribuição de Gás, S.A., in the amount of tEuros 2,598. Interest on these loans for 2007 amounted to tEuros 177.
- Galp Power , SGPS, S.A. to Energin - Sociedade de Produção de Electricidade e Calor, S.A. in the amount of tEuros 9,976. Interest on these loans for 2007 amounted to tEuros 521.

These loans bear interest at market rates and do not have defined repayment dates.

PAYABLES

					2007
		Non-current			Current
	Total of related parties	Loans obtained (Note 25)	Trade payables	Loans obtained (Note 25)	Accruals and deferrals
Associated companies					
EMPL - Europe Maghreb Pipeline, Ltd.	12,666	-	12,666	-	-
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	691	853	1,706	-	(1,868)
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	262	-	239	-	23
Gasoduto Al-Andaluz, S.A.	889	-	889	-	-
Gasoduto Extremadura, S.A.	909	-	909	-	-
Empresa Nacional de Combustiveis - Enacol, SARL	963	-	937	26	-
Outras empresas associadas e participadas	(42)	-	(73)	-	31
	16,338	**853**	**17,273**	**26**	**(1,814)**
Related companies					
Eni, S.p.A.	4,331	2,903	246	-	1,182
EDP - Cogeração	1,253	1,253	-	-	-
Enagás, S.A.	(1,505)	-	(631)	-	(874)
E.E.M. - Empresa de Electricidade da Madeira, S.A.	889	886	-	-	3
Procomlog - Combustiveis e Logistica, Lda.	890	887	-	-	3
AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuição de Energia, S.A.	449	445	-	-	4
Finerge - Gestão de Projectos Energéticos, S.A.	445	443	-	-	2
Other related companies	202	-	-	202	-
	6,954	**6,817**	**(385)**	**202**	**320**
	23,292	**7,670**	**16,888**	**228**	**(1,494)**

					2006
		Non-current			Current
	Total of related parties	Loans obtained (Note 25)	Trade payables	Loans obtained (Note 25)	Accruals and deferrals
Associated companies					
EMPL - Europe Maghreb Pipeline, Ltd.	12,723	-	12,723	-	-
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	2,276	-	1,581	-	695
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	458	-	34	-	424
Gasoduto Al-Andaluz, S.A.	875	-	875	-	-
Gasoduto Extremadura, S.A.	889	-	889	-	-
Empresa Nacional de Combustiveis - Enacol, SARL	177	-	163	14	-
Outras empresas associadas e participadas	723	-	327	5	391
	18,121	**-**	**16,592**	**19**	**1,510**
Related companies					
Eni, S.p.A.	4,370	2,902	186	-	1,282
EDP - Cogeração	1,827	1,827	-	-	-
Enagás, S.A.	-	-	-	-	-
E.E.M. - Empresa de Electricidade da Madeira, S.A.	835	835	-	-	-
Procomlog - Combustiveis e Logistica, Lda.	835	835	-	-	-
AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuição de Energia, S.A.	417	417	-	-	-
Finerge - Gestão de Projectos Energéticos, S.A.	444	443	-	-	1
Other related companies	65	-	-	65	-
	8,793	**7,259**	**186**	**65**	**1,283**
	26,914	**7,259**	**16,778**	**84**	**2,793**

The amount of tEuros 2,902 reflected as a long term payable to Eni, S.p.A. corresponds to shareholders' loans obtained by the subsidiary Lusitaniagás - Companhia de Gás do Centro, S.A., which bear interest at market rates and do not have a defined repayment plan.

The amounts of tEuros, tEuros 886, tEuros 887 and tEuros 445 reflected as long term payables to E.E.M. - Empresa de Electricidade da Madeira, S.A., Procomlog- Combustíveis e Logística, Lda and AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuição de Energia, S.A. correspond to shareholders' loans obtained by the subsidiary CLCM - Distribuição e Comercialização de Combustíveis e Lubrificantes, Lda. which bear interest at market rates and do not have defined repayment dates.

The amount of tEuros 1,253 reflected as a long term payable to EDP Cogeração, S.A. corresponds to a shareholders' loan obtained by the subsidiary Carriço Cogeração Sociedade de Geração de Electricidade e Calor, S.A. which bears interest at market rates and does not have a defined repayment date.

The amount of tEuros 443 reflected as a long term payable to Companhia Finerge - Gestão de Projectos Energéticos, S.A. corresponds to a shareholders' loan obtained by the subsidiary Powercer - Sociedade de Cogeração da Vialonga, S.A. which bears interest at market rates and does not have a defined repayment date.

TRANSACTIONS

	2007				2006			
	Operating income	Operating costs	Financial costs (Note 9)	Financial income (Note 9)	Operating income	Operating costs	Financial costs (Note 9)	Financial income (Note 9)
Associated companies								
Central-E, S.A.	-	-	-	-	-	(200)	-	-
Setgás - Sociedade de Produção e Distribuição de Gás, S.A.	16,559	(94)	-	697	16,251	(49)	-	464
Tagusgás - Empresa de Gás do Vale do Tejo, S.A.	7,611	(176)	-	194	7,011	17	-	181
Gasfomento - Sistemas e Instalações de Gás, S.A. e associadas	-	22	-	-	3	-	-	-
Ecogen - Serviços de Energia Descentralizada, S.A.	6	-	-	-	6	(5)	-	20
Energin - Sociedade de Produção de Electricidade e Calor, S.A.	25,075	-	-	521	25,348	-	-	542
Terparque - Armazenagem de Combustíveis, Lda.	6	(11)	-	-				
Sonangalp - Soc. Distribuição e Comercialização Combustíveis, Lda.	1,752	-	-	-	1,131	-	-	-
Brisa Access, S.A.	-	(205)	-	-		(414)	-	-
Número Um - Reparação Automóveis, Lda.					796	(11)	-	-
Empresa Nacional de Combustíveis - Enacol, SARL	(1,816)	-	-	-	2,135	(1)	-	9
Gasoduto Al-Andaluz, S.A.	(556)	-	-	886	543	-	-	755
Gasoduto Extremadura, S.A.	(792)	-	-	618	794	-	-	544
EMPL - Europe Maghreb Pipeline, Ltd.	3,094	-	-	904	3,318	-	(744)	-
Metragaz, S.A.	414	-	-	-	390	-	-	-
	51,353	**(464)**	**-**	**3,820**	57,726	(663)	(744)	2,515
Related companies								
Eni, S.p.a.	117,268	(1,966)	(210)	-	49,963	(4,771)	(194)	-
E.E.M. - Empresa de Electricidade da Madeira, S.A.	29,711	-	(64)	-	-		(48)	-
Finerge - Gestão de Projectos Energéticos, S.A.	-	-	(33)	-	-	-	(26)	-
Companhia Portuguesa de Produção de Electricidade, S.A.	-	-	-	-	-	-	(105)	-
EDP - Cogeração	-	-	(97)	-	-	-	-	-
AIE - Atlantic Island Electricity (Madeira) Produção, Transporte e Distribuiçãode Energia, S.A.	6,841	(2)	(31)	-	-	-	(24)	-
Procomlog- Combustíveis e Logística, Lda.	-	-	(63)	-	-	-	(48)	-
Enagás, S.A.	2,792	-	-	-	4,307	(351)	(179)	-
	156,612	**(1,968)**	**(498)**	**-**	54,270	(5,122)	(624)	-
	207,965	**(2,432)**	**(498)**	**3,820**	**111,996**	**(5,785)**	**(1,368)**	**2,515**

The amount of tEuros 207,965 in the caption “Operating income” corresponds essentially to sales and services rendered.

The amount of tEuros 117,268 in the caption “Operating income” relating to Eni, S.p.A., refers essentially to sales of natural gas.

REMUNERATION OF THE MEMBERS OF THE CORPORATE BOARDS

Remuneration of the Administrators of Galp Energia for the years 2006 and 2007 amounted to tEuros 5,597 and tEuros 5,526, respectively, of which tEuros 3,962 and tEuros 3,562 correspond to basic remuneration, tEuros 915 and tEuros 1,255 to bonuses, tEuros 440 and tEuros 501 to payments to the defined contribution pension funds and tEuros 280 and 208 to other benefits, respectively (Note 7).

Remuneration of the Administrators of Galp Energia designated by the shareholders Eni, S.p..A., Amorim Energia, B.V. and Iberdrola S.A. are included in the caption “External supplies and services and amounted to tEuros 1,448 and tEuros 1,711, respectively, for the years 2006 and 2007.

In accordance with the current policy, remuneration of the administrators of Galp Energia includes all the remuneration due for the year for positions held in the Galp Energia group.

30. DIVIDENDS

Dividends out of net profit for 2006 attributed to the Group’s shareholders amounted to tEuros 252,092 in accordance with a decision of the Shareholders’ General Meeting held on 28 May 2007 and were been paid in 2007.

In addition, in accordance with a decision of the Shareholders’ General Meeting held on 19 September and 04 October 2007, an extraordinary dividend of tEuros 126,046 was paid.

In 2007 dividends of tEuros 890 were paid, of which tEuros 315 relates to the subsidiaries of the Petrogal group and tEuros 575 relates to the subsidiaries of the Galp Power group.

Consequently, in the year ended 31 December 2007 the Group paid dividends of tEuros 379,028.

31. UNBUNDLING

On 6 July 2007 REN – Rede Eléctrica Nacional, SA (“REN”) sent Galp a letter containing three cheques totalling tEuros 24,026, of which tEuros 23,335 was to pay for the adjustment of the Unbundling price, the amount of tEuros 2,515 relating to the selling price of the Regulated Natural Gas Assets and tEuros 20,820 relating to the cost of the participation in Transgás Atlântico, S.A., mentioned in Note 4, under the promissory purchase and sale contract entered into on 30 August 2006, and tEuros 691 relating to interest established in accordance with paragraphs 9 to 11, clause 6 of the promissory contract, following valuations presented in June 2007 by financial entities contracted for the purpose.

Galp Energia replied in letters dated 26 June 2007 and 16 July 2007, expressing its disagreement with the valuations. As a joint negotiation was taking place in the first half of 2007 to agree the price and the remaining matters, the amount received was not considered as certain and so was not recognised.

In the second half of 2007 the matters in dispute were separated in the negotiation process with REN. As the Board of Directors believes that the amount of the price adjustment received is certain, considering the change mentioned, the amount not being expected to change, it was recognised in the income statement.

In addition, a series of matters relating to the unbundling process, but unrelated to the above mentioned price adjustments, are still under negotiation. These matters include, among others, retroactive application of the tariff, net liability of REN Gasodutos to Galp, employee remuneration and bonuses, tax matters, adjustment of several assets, adjustment of grants.

32. FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT

Galp Energia is exposed to several types of market risk (price risk, exchange rate and interest rate risk) inherent in the petroleum and natural gas industries, which affect the Group's results. The main market risks result from fluctuation of the price of crude oil and derivatives and exchange rate.

MARKET RISK

a) Commodity price risk

Because of the nature of its business, Galp Energia is exposed to the risk of volatility of the international price of crude oil and derivatives and natural gas. The constant change in the price of crude oil and refined products generates uncertainty and has a significant impact on operating results.
The Company controls and manages risk through the oil derivatives market, to protect the refining margin and inventories from adverse market changes.

The Group controls and manages risk in the natural gas market through the establishment of purchase and sale contracts with similar indexing, so as to protect the business margin from adverse market changes.

b) Exchange rate risk

The US dollar is the currency used for the reference price in the oil and natural gas markets. As Galp Energia's accounts are maintained in Euros, this factor, among others, exposes the operations to exchange risk. Given that the operating margin is related mainly to US dollars, the Company is exposed to fluctuations in the rates of exchange, which can contribute positively or negatively to income and margins.

As this is a currency risk relating to other variables, such as the price of oil and natural gas, the Company takes a cautious approach to hedging risk, as there are natural hedges between the balance sheet and cash flows. The level of exposure of cash flow and especially of the balance sheet is based on the price levels of oil and natural gas.

Therefore, Galp Energia controls its exchange exposure on an integrated basis rather than on each operation exposed to exchange risk. The objective of risk management is limit the uncertainty resulting from variations in exchange rates. Hedging debits and credits based on market speculation is not permitted. At 31 December 2007 there were no exchange hedging contracts in force.

c) Interest rate risk

The total interest rate position is managed centrally. Interest rate exposure relates mainly to interest bearing bank indebtedness. The objective of managing interest rate risk is to reduce the volatility of financial costs on the income statement. The interest rate risk management policy is aimed at reducing exposure to variable rates through fixing interest rate risk on indebtedness, using simple derivatives such as swaps, caps and floors.

d) Sensitivity analysis to market risks resulting from financial instruments, as required by IFRS 7

The analysis prepared by the Group in conformity with IFRS 7 is intended to illustrate the sensitivity of results before taxes, and equity to potential variations of the price of brent, exchange rates and interest rates of financial instruments, defined in IAS 32, such as financial assets and liabilities and financial derivatives reflected on the balance sheet as of 31 December 2007 and 2006. The financial instruments affected by the above mentioned market risks include Trade receivables, Other receivables, Trade payables, Other payables, Under and Overlifting, Loans, Cash and Financial derivatives. When cash flow hedges are applied, fair value is recorded in the equity caption "Hedging reserves" only if it is shown that the hedge is efficient.

There may be financial instruments subject to more than one market risk, in which case the sensitivity analysis is made of one variable at a time, the others remaining constant, therefore ignoring any correlation between them, which is not usually found.

Foreign currency investments were not included in the analysis as the Group does not record them at fair value as defined in IAS 39.

Therefore, the sensitivity analysis serves as an example and does not represent the actual loss or gain, or other variations in equity.

The following assumptions were considered in the sensitivity analysis of brent:

- Price variation of +/- 1 USD/BBL;
- Correlation between market risks was ignored;
- A sensitivity analysis was made for Under and Overlifting balances;

The following assumptions were considered in the sensitivity analysis of exchange rates:

- Exchange rate variation of +/-10%;
- The sensitivity analysis includes significant foreign currency balances in Trade receivables, Other receivables, Trade payables, Other payables, Loans, Financial derivatives, Under and Overlifting and Cash.

The following assumptions were considered in the sensitivity analysis of interest rates:

- Parallel dislocation of 0.5% in the time structure of interest rates;
- The analysis of interest rate risk includes variable interest rate loans and interest rate financial derivatives;
- The result before taxes is affected by the interest rate risk sensitivity analysis, except for interest rate financial derivatives classified as cash flow hedges, in which the sensitivity analysis, if within the required efficiency parameters, affects Equity.

Following is a summary of the sensitivity analysis made of the financial instruments reflected on the balance sheet:

SENSITIVITY ANALYSIS

		2007		2006	
		Income statement	Equity	Income statement	Equity
+/- 1 USD/BBL variation of "Brent"	tEUR	-/+ 325		-/+ 516	
+/- 10% variation in USD/EUR	tEUR	-/+ 12,353		-/+ 5,157	
+/- 0.5% parallel deslocation of the interest rate	tEUR	-2,115/+2,393	+611/-506	n.a.	n.a.

Note: USD/BBL - US dollar/Barrel of "Brent"
n.a. - Insufficient financial information available to make a reliable retrospective analysis.

LIQUIDITY RISK

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

Galp Energia group's main source of liquidity is its operations.

In addition, the Group endeavours to reduce liquidity risk by maintaining a diversified loan portfolio. The Group has access to credit (credit lines) which it has not fully used but are available. The credit lines can cover all the loans that mature in 12 months, as well as any negative cash flows, after investment activities. The unused short and medium and long term credit lines amounted to more than tEuros 1,300,000 at 31 December 2007 and to more than tEuros 1,053,000 at 31 December 2006.

CREDIT RISK

Credit risk results from potential non-compliance by third parties with contractual obligations to pay and so the risk level depends on the financial credibility of the counterparty. In addition, counterparty credit risk exists on monetary investments and hedging instruments. Credit risk limits are established by Galp Energia and are implemented in the various business segments. The credit risk position limits are defined and documented and credit limits for certain counterparties are based on their credit ratings, period of exposure and monetary amount of the exposure to credit risk.

33. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

CONTINGENT LIABILITIES

At 31 December 2007 the Company and subsidiaries had the following contingent liabilities:

i) At 31 December 2006 the Company had a contingent liability under a court action regarding the re-privatisation process of Driftal - Plastificantes de Portugal, S.A. involving an indemnity request of tEuros 19,952. The Company's Board of Directors, supported by the opinion of its lawyers, believes that the Company will not incur any costs as a result of this process and so no provision has been recorded for this matter. However a bank guarantee of that amount has been given.

ii) The Municipal Council of Lisbon is demanding, from the subsidiary Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 1,891 for 1994/95, tEuros 1,016 for 1996, tEuros 1,044 for 1997, tEuros 1,069 for 1998, tEuros 1,093 for 1999, tEuros 1,145 for 2001, tEuros 1,189 for 2002, tEuros 1,238 for 2003, tEuros 1,288 for 2004, tEuros 1,319 for 2005, tEuros 1,347 for 2006 and tEuros 1,387 for 2007 relating to licences for occupying the public thoroughfare with underground gas pipes.

iii) The Municipal Council of Vila Franca de Xira is demanding, from Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 104 for 1994/95, tEuros 71 for 2002, tEuros 77 for 2003 and tEuros 216 for 2004 and tEuros 240 for 2005 relating to rates for occupying the subsoil in those years.

iv) The Municipal Council of Oeiras is demanding, from Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 23 for 1998, tEuros 26 for 2001 and tEuros 33 for 2007 relating to rates for occupying the subsoil in those years.

v) The Municipal Council of Amadora is demanding payments of tEuros 6,996 relating to rates for occupying the subsoil in 2006;

vi) The Municipal Council of Sintra is demanding, from Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 11 for 1998, tEuros 47 for 1999, tEuros 275 for 2000, tEuros 417 for 2001, tEuros 469 for 2002, tEuros 478 for 2003, tEuros 545 from 2004, tEuros 614 for 2005, tEuros 665 for 2006 and tEuros 752 for 2007, relating to rates for occupying the subsoil in those years.

vii) The Municipal Council of Cascais is demanding, from Lisboagás GDL – Sociedade Distribuidora de Gás Natural de Lisboa, S.A., payment of tEuros 403 for 2001 and tEuros 526 for 2006, relating to rates for occupying the subsoil in those years.

viii) The Municipal Council of Mafra is demanding payment of tEuros 449 for establishing a LPG deposit in 2005.

Lisboagás GDL - Sociedade Distribuidora de Gás Natural de Lisboa, S.A., based on legal opinions, decided to legally contest in the Tax Court, the payments demanded by the Municipal Councils, the requests for stay of execution having been granted and execution is suspended until the case is judged.

In the course of negotiating the Concession Contract between the General Directorate of Energy and Geology and the Company, it was agreed, among other matters, that the Concessionaire has the right to reflect, on the entities commercialising gas and on the final consumers, the full amount of the subsoil occupation rates assessed by the local governments in the areas conceded under the previous concession contract but not yet paid or contested legally by the Concessionaire if such payment is considered to be mandatory by the competent authority, after issuance of the sentence, or after express prior consent of the Conceding entity. The subsoil occupation rates paid each year will be reflected on the entities commercialising gas that use the infrastructures or on the final consumers served by them, during the subsequent years, under the conditions to be defined by ERSE. The subsoil occupation rates will also be reflected on each municipality, based on the amount assessed by it.

As any rates payable under the processes up to 31 December 2007 and related late payment interest which may be applied will be reflected in future price of natural gas sold, the Company decided to reverse the provisions recorded in the past for such processes, and not recalculate any liability for the legal processes in progress assessed by the related municipalities with respect to this matter. Therefore, the Company decided to reverse the provision previously recorded (Note 26).

ix) The Municipal Council of Covilhã is demanding, from Beiragás- Companhia de Gás das Beiras, S.A., payment of tEuros 113 under a legal process relating to a "licence to occupy the public thoroughfare" with the existing underground gas pipes.
The management of Beiragás believes that the above process will not result in any liability for the company.

x) The Municipal Council of Mealhada is demanding, from Lusitaniagás o pagamento payment of tEuros 8 for 2006 and tEuros 214 for 2007, relating to rates for occupying the subsoil in those years.

The management of Lusitaniagás believes that the above process will not result in any liability for the company.

xi) A claim by Nigeria Liquified Natural Gas Limited ("NLNG") that is under arbitration (Note 26).

CONTINGENT ASSETS

Following the sale in 1999 of 40% of OPTEP SGPS, S.A.'s share capital, corresponding to 440,000 shares with a nominal value of Euros 5 per share, the base selling price of tEuros 189,544 was established contractually, of which tEuros 74,818 was attributed to the 093X segment and tEuros 114,726 to the E3G/Edinet segment.

The sale by GDP, SGPS, S.A. and Galp Gás Natural, S.A.. (formerly Transgás, S.A.) to EDP, S.A. was established with the condition that if OPTEP SGPS, S.A., 093X or any other entity directly or indirectly controlled or participated in by EDP sells or in any other way disposes of, to a third party, a participation equivalent to 5% of Optimus, that is 450,000 shares with a nominal value of Euros 5 per share, during a period of 3 years as from the date of signature of the agreement (24 June 1999), the difference between the amount of tEuros 74,818 and the sales price would be divided between the parties, as follows:

	EDP	GDP Group
tEuros per each 220,000 shares		
Between 37.409 and 42.397	0%	100%
Between 42.397 and 52.373	25%	75%
More than 52.373	75%	25%

On 28 September 2000 the parties (GDP SGPS, S.A., Transgás SGPS, S.A., GDP Distribuição SGPS, S.A. (which incorporated Transgás SGPS, S.A. in 2006) and EDP, S.A.) made an amendment to the agreement, under which the deadline for dividing the potential gain on the future sale of Optimus shares was extended to 31 December 2003.

On 22 March 2002 EDP announced the sale of the participation in OPTEP SGPS, S.A., the company that holds a 25.49% participation in Optimus, to Thorn Finance, S.A.. The sales price was fixed at tEuros 315,000, which means that Thorn Finance valued Optimus at tEuros 1,235,779, which is higher than the value established between EDP, S.A., GDP SGPS, S.A. and Transgás, S.A., which was tEuros 748,197. Therefore, there will be an upside of tEuros 30,253 payable by EDP, S.A., to be divided equally between GDP SGPS, S.A. and Transgás SGPS, S.A..

As EDP has not agreed to the GDP group's expectations, this account receivable has not been recorded.

OTHER FINANCIAL COMMITMENTS

The Group's financial commitments not included in the balance sheet as of 31 December 2007 are as follows:

- tEuros 5,061 relating to orders of tangible fixed assets not yet delivered ;
- tEuros 1,292 relating to notes receivable not yet due, discounted in the banking system;
- tEuros 333,403, tEuros 6,966 and tEuros 24,654 relating to the liability under the Petrogal, Sacor Marítima and GDP group pension plans, respectively (Note 24);
- tEuros 55,057 and tEuros 33,229 relating to the liability of the Petrogal group under pension plans and for healthcare, life insurance and defined contribution plan minimum benefit (Note 24), respectively, not reflected in the financial statements as they are within the 10% "corridor" limit (Notes 2.10 and 2.11) or because they correspond to the "corridor" excess not yet recognised in the income statement;
- tEuros 2,142 and tEuros 549 relating to the liability of the GDP group under pension plans and for healthcare, life insurance and defined contribution plan minimum benefit (Note 24), respectively, not reflected in the financial statements as they are within the 10% "corridor" limit (Notes 2.10 and 2.11) or because they correspond to the "corridor" excess not yet recognised in the income statement;
- In 2007 1st generation biodiesel (FAME), which is obtained by transesterification of vegetable oils, continued to be used as a component of motor vehicle diesel fuel.
Considering that as from January 2010 it will be mandatory to incorporate 5.75% (v/v) of biodiesel in diesel fuel and bearing in mind that FAME has some physical-chemical

properties that impair its ability to be used as a component of diesel fuel, Galpenergia started a biodiesel production facility project to produce 2nd generation biodiesel (greendiesel), acquiring an Ecofining process licence from UOP/ENI, which includes a combined hydrogenation and isomerisation treatment that enables biodiesel with excellent physico-chemical qualities to be produced.
The project in progress aims at producing 300,000 t/a of greendiesel and should be completed in 2010.

- Conscious of its responsibilities to the environment, in September 1998 Petrogal committed itself publicly to protect the environment by signing a Continuous Improvement of Environmental Performance Protocol with the Ministry of the Economy and Ministry of the Environment. The only items to be implemented under this protocol, which establishes a large number of environmental protection actions – Environmental Action Program – are process changes to be made in the 2007/2008 period for the refineries to comply with the conditions established in legislation (PCIP, GIC's). Approximately tEuros 14,670 has been spent on these actions up to the end of 2007 and it is estimated that tEuros 47,062 will be spent to complete the program.
- In addition in 2007 the Company continued to carry out the re-qualification program of its network of service stations for it to comply with the legal requirements and those established in Petrogal's Continuous Improvement of Environmental Performance Protocol. In 2007 tEuros 449 was invested in fixed assets projects under this program and tEuros 2,753 is expected to be invested in the program in 2008.
- On 18 September 2007 a contract was signed between Ventinveste, S.A. and Direcção Geral de Energia e Geologia (DGEG). The contract has the objective providing the capacity to inject power into the Public Service Electric System Network and identify the Reception Points relating to electric energy produced by wind farms:

  The contract establishes the following specific obligations, at an estimated cost of tEuros 619,776 excluding discount of the remuneration of the electric energy produced by the wind farms:

a) construction and operation of wind farms, corresponding to tEuros 460,000;
b) allow a discount on the remuneration of the electric energy produced by the wind farms;
c) implement an industrial project, corresponding to of tEuros 27,150;
d) make an indirect industrial investment of tEuros 39,206;
e) create 692 direct jobs in the Industrial Project, corresponding to tEuros 16,733;
f) create 635 jobs as a result of the indirect industrial investment, corresponding to tEuros 15,354;
g) provide functions that contribute to the technical management of the system, corresponding to tEuros 19,500;
h) contribute tEuros 41.833 to the creation of an Innovation Incentive Fund.

The contractual obligations are safeguarded by an autonomous, unconditional first demand bank guarantee in the amount of tEuros 25,332 and guarantee given by the shareholders of Galp Power, Martifer and Enersis divided in equal parts, corresponding to approximately 10% of the total Direct Investment, i.e., tEuros 50,665. The amount of the guarantee will be reduced each half year based on the contracted investment realised in the preceding half year.

In guarantee of compliance with the specific obligations relating to the industrial project, the amount covered by the bank guarantee can never be less than tEuros 902, as from the start of operations up to the latest of the following dates: (i) end of the 9 year term as from the date of the Industrial project starts operating; or (ii) date on which the ratio Exports/Sales reaches 60% regarding production at any time, in which the bank guarantee will be reduced to an amount corresponding to multiplication of the number of years remaining to complete the minimum term of 17 years of useful life of the Industrial project by tEuros 113, the maximum amount guaranteed being progressively reduced each year by tEuros 113 up to the end of the 17 year period.

The full amount of the assets and liabilities of this contract have not been recognised since at 31 December 2007 all these Investments and obligations had not been implemented.

Galp Power, SGPS, S.A., as shareholder of Ventinveste, S.A. has the commitment and responsibility under the contract and other agreements made with DGEG to comply in full and on a timely basis with 1/3 of the obligations of the wind farm project, consisting of the promotion, construction and operation of the Wind Farms.

GUARANTEES GIVEN

At 31 December 2007 the guarantees given amounted to tEuros 126,252 and tUSD 111,789 made up essentially of the following:

i) Guarantees of tEuros 93 given to the Courts by Caixa Geral de Depósitos due to litigation relating to rights-of-way.
ii) Guarantee of tEuros 7,751 in favour of the Lisbon Tax Court, formerly called Court of the 1st Instance – 5th Court – 1st Section, in guarantee of a payment demanded by the Municipal Council of Lisbon, with respect to legal processes relating to occupation rates of the subsoil.
iii) Guarantees of tEuros 23,585 given to Municipal Councils under legal processes relating to occupation of the subsoil.
iv) Guarantees of tEuros 13,573 given to the Portuguese State with respect to the obligations and duties resulting from the Concession Contract to operate the natural gas regional distribution networks of Lisboagás, GDL – Sociedade Distribuidora de Gás Natural de Lisboa S.A., Lusitaniagás – Companhia de Gás do Centro, S.A. and Beiragás – Companhia de Gás das Beiras, S.A.,
v) Guarantees of tEuros 5,000 given to the Portuguese State with respect to the obligations and duties resulting from the Concession Contract relating to the public service underground storage of natural gas given by the Portuguese State to Transgás Armazenagem, S.A..
vi) Guarantees of tEuros 12,379 given in favour of the Tax Administration.
vii) Guarantees and pledges relating to 27.4% (participation of Galp Gás Natural, S.A.) of the following amounts of credit granted to EMPL - Europe Maghreb Pipeline, Limited:

	Type	Total loan tUSD	Galp Gás Natural's part tUSD
BEI	Bank	234,509	78,909
ICO	Bank	120,000	32,880
		354,509	**111,789**

At 31 December 2007 there were guarantees totalling tEuros 43,141 given to third parties on account of Group and associated companies.

viii) Guarantee of tEuros 19,952 given to the Lisbon Court, 2nd Jurisdiction, 1st Section under a legal process relating to re-privatisation of Driftal.

34. INFORMATION REGARDING ENVIRONMENTAL MATTERS

The main challenges facing refining operations are compliance with the objectives of reducing greenhouse gas emissions in the period from 2008 to 2012 defined in the Kyoto Protocol, reducing the proportion of sulphur in fuel consumed in the facilities and increasing energy efficiency.

Decree-Law 233/2004 of 14 December with the text given to it by 243-A/2004 of 31 December and as amended by Decree-Law 230/2005 of 29 December establishes the greenhouse gas emissions commercial regime (Diploma CELE), which applies to the industrial activity gas emissions listed on Appendix I thereof, which includes Galp Energia group's installations.
The installations covered by Emissions Trading in the three year 2005/2007 period are the Sines and Porto Refineries, both of Petrogal, and the Co-generating installations of the companies Carriço Cogeração -Sociedade de Geração de Electricidade e Calor, S.A and Powercer - Sociedade de Cogeração da Vialonga, S.A. of the Galp Power group.

Joint Order 686-E/2005 of 13 September 2005 approved the list of existing emission trading participants and allocation of their respective emission licences for the 2005/2007 period.

Therefore annual licences were allocated to the installations of the following companies, which emitted the following quantities of greenhouse gases (Ton/CO2) in 2007:

Company	Installation	Licences Ton/CO_2 attributed	Gases emitted in 2007(a)	Accumulated Ton/CO_2 licences on hand
Petrogal	Sines Refinery	2,313,908	2,065,557	2,761,813
	Porto Refinery	951,969	842,896	1,008,408
	Subtotal Petrogal Group	**3,265,877**	**2,908,453**	**3,770,221**
Carriço Cogeração	Co-generation	139,284	125,526	182,302
Powercer	Co-generation	38,831	41,084	35,128
	Subtotal Galp Power Group	**178,115**	**166,610**	**217,430**
	Total Galp Energia Group	**3,443,992**	**3,075,063**	**3,987,651**

a) Pro-forma amounty of CO_2 Gases emitted, subject to environmental audit

Order 19 649/2006 approved a change in the emission licences to be attributed for the 2005-2007 period, which covers Powercer - Sociedade de Cogeração de Vialonga, S.A., a member of the Galp Power group. An additional 333 Ton/CO2 was attributed for the 2005-2007 period.

The Galp Energia group has not recognised in its financial statements the possible valuation or devaluation of these licences. If it acquires or sells licences it will record them.
However, if an insufficiency of licences occurs the appropriate provisions will be recorded, if that becomes appropriate. As shown above, at 31 December 2007 the licences allocated are for less than the volume of gas emitted only in the case Powercers' installations, for a quantity considered to be insignificant for purposes of the financial statements. The licences allocated to the Group at 31 December 2007 exceed the volume of gases emitted and so no provision was recorded for the year.

35. SUBSEQUENT EVENTS

The main subsequent events that occurred after 31 December 2007 are as follows:

SHAREHOLDER STRUCTURE

In 2008 Iberdrola sold its shares in Galp Energia to qualified institutional investors through an out-of-the-market operation carried out through private placing by Merrill Lynch International. The operation involved the sale of 31,772,282 shares of Galp Energia, representing 3.8314% of its capital, Iberdrola ceasing to have a qualified participation in Galp Energia.

After several operations carried out on the Stock Exchange, Banco BPI, S.A.'s indirect participation, calculated in terms of voting rights in accordance with article 20 of the Stock Market Code, was 3.995%.

CO_2

Order nº2836/2008, which approves the list of existing installations that participate in Emission Trading for the 2008-2012 year period and related initial granting of Emission Licences ("EL"), was published in the Diário da República (Official Government Gazette). The Group considers that the quantity of greenhouse effect gases granted to the refining and co-generating sectors operated by the Group for the 2008-2012 period in accordance with the Order are sufficient to cover the needs of the installations currently operating, considering the production profiles for the five year period.

The following table shows the installations currently operated by the Group and the respective Emission licences granted under PNALE II (Plano Nacional de Alocação de Licenças de Emissão):

Sector	Installation	EL (tCO_2/year)
Energy/Refining	Sines Refinery	2,137,550
	Porto Refinery	1,098,025
Energy/Refining	Powercer	47,192
	Carriço Cogeração	161,539
		3,444,306

EXPLORATION AND OIL PRODUCTION SEGMENT

In February 2008 Signature Bonuses were signed corresponding to tEuros 9,843 relating to blocks CM-593, SM-1162, SM-1163, SM-1227, PEPB–M-783, PEPB–M- 837, PEPB- M-839 acquired in the 9th round realised by Agência Nacional de Petróleos in November 2007. Galp Energia participates in these blocks not as an operator.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 1 April 2008. However, they are still subject to approval by the Shareholders' General Meeting under the terms of current Portuguese legislation.

37. EXPLANATION ADDED FOR TRANSLATION

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

THE ACCOUNTANT
Carlos Alberto Nunes Barata

THE BOARD OF DIRECTORS
Francisco Luis Murteira Nabo
Manuel Ferreira De Oliveira
Franceso Antonietti
José António Marques Gonçalves
André Freire de Almeida Palmeiro Ribeiro
Fernando Manuel dos Santos Gomes
João Pedro Leitão Pinheiro de Figueiredo Brito
Enrico Grigesi
Manuel Domingos Vicente
Camillo Gloria
Diogo Mendonça Rodrigues Tavares
Angelo Fanelli
Carlos Nuno Gomes da Silva
Marco Alverà
Alberto Alves de Oliveira Pinto
Pedro António do Vadre Castelino e Alvim
Alberto Maria Alberti

STATUTORY AUDITORS' REPORT AND AUDITORS' REPORT CONSOLIDATED FINANCIAL STATEMENTS

(Translation of a report originally issued in Portuguese – Note 37)

INTRODUCTION

1. In compliance with the applicable legislation we present our Statutory Auditors' Report and Auditors' Report on the consolidated financial information contained in the consolidated Board of Directors' Report and the consolidated financial statements of Galp Energia, SGPS, S.A. ("the Company") and subsidiaries ("the Group") for the year ended December 31, 2007, which comprise the consolidated balance sheet that presents a total of 5,749,663,000 Euros and shareholder's equity of 2,426,315,000 Euros, including consolidated net profit of 776,627,000 Euros, the consolidated income statement by nature, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended and the corresponding notes.

RESPONSIBILITIES

2. The Company's Board of Directors is responsible for: (i) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included in the consolidation, the consolidated results of their operations, their consolidated cash flows and their consolidated statement of changes in equity; (ii) the preparation of historical financial information in accordance with International Financial Reporting Standards as adopted by the European Union (IAS/ IFRS) which is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code; (iii) the adoption of adequate accounting policies and criteria and the maintenance of appropriate systems of internal control and (iv) the disclosure of any significant facts that have influenced the operations of the companies included in the consolidation, their financial position and results of operations.
3. Our responsibility is to examine the financial information contained in the documents of account referred to above, including verifying that, in all material respects, the information is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue a professional and independent report based on our work.

SCOPE

4. Our examination was performed in accordance with the Auditing Standards ("Normas Técnicas e as Directrizes de Revisão/Auditoria") issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"), which require that the examination be planned and performed with the objective of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our examination included verifying, on a sample basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the estimates, based on judgments and criteria defined by the Board of Directors, used in their preparation. Our examination also included verifying the consolidation procedures used and application of the equity method, and that the financial statements of the companies included in the consolidation have been appropriately examined, assessing the adequacy of the accounting policies used, their uniform application and their disclosure, taking into consideration the circumstances, verifying the applicability of the going concern concept, assessing the adequacy of the overall presentation of the consolidated financial statements and assessing if, in all material respects, the financial information is complete, true, timely, clear, objective and licit. Our examination also included verifying that the consolidated financial information included in the consolidated Board of Directors' Report is consistent with the other consolidated financial statements. We believe that our examination provides a reasonable basis for expressing our opinion.

OPINION

5. In our opinion, the consolidated financial statements referred to in paragraph 1 above, present fairly in all material respects, the consolidated financial position of Galp Energia, SGPS, S.A. and subsidiaries as of 31 December 2007, the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity with International Financial Reporting Standards as adopted by the European Union and the information contained therein is, in terms of the definitions included in the auditing standards referred to in paragraph 4 above, complete, true, timely, clear, objective and licit.

Lisbon, 1 April 2008

DELOITTE & ASSOCIADOS, SROC S.A.
Represented by Jorge Carlos Batalha Duarte Catulo

SUPERVISORY BOARD'S REPORT AND OPINION - CONSOLIDATED ACCOUNTS

Dear shareholders,

In the performance of its duties in 2007, the supervisory board had the opportunity to closely follow the company's progress in all respects relevant to its remit. In this work, the supervisory board relied on the cooperation of:

- the chairman of the board of directors and the chairman of the executive committee, namely regarding the Internal Audit corporate unit for which they are the ultimately responsible and administratively responsible persons, respectively;
- the executive director responsible for Corporate Finance, Accounting and Treasury;
- the officials responsible for managing the mentioned corporate services;
- the external auditors, who also are the statutory auditors of Galp Energia SGPS, S.A. and all the companies where it has majority control.

All these persons and entities provided complete answers to the questions posed by the supervisory board, namely regarding the manner in which they perform their supervisory and risk control duties and the procedures used.

The supervisory board gained insight into the high standards of professionalism with which the mentioned persons and entities discharged their duties, their extreme care in adopting applicable international best practice and using, as required, the services of either qualified external parties or other internal departments in a better position to give an opinion on the matters under review.

In 2007, the Internal Audit department had its human resource base considerably strengthened in both quantitative and qualitative terms, with improved effectiveness as a result.
Upon close of the financial year, the supervisory board reviewed in particular the accounting treatment of assets likely to attract discretionary or subjective valuation. The questions asked to the internal departments, the external auditors and the statutory auditors regarding the criteria and principles used in treating these situations on the consolidated balance sheet and profit and loss account were all answered to the entire satisfaction of the supervisory board. In this respect and as an additional source of comfort and security, the following should be emphasised:

- the conservative approach to accounting for expenses incurred in oil exploration and production;
- the conservative approach to making, at year end, provisions and adjustments to accounts as well as evaluating contingencies;
- the detail provided in the notes to the consolidated financial statements whose explanations were considered, in all instances, to be satisfactory.

Dear shareholders,

Upon being informed by the firm of statutory auditors, in their capacity as external auditors, of the content of the statutory certification of accounts and the auditors' own report in respect of the consolidated accounts, with which we are in agreement, our opinion is that:

- the consolidated management report for 2007 and the accompanying corporate governance and sustainability reports should be approved;
- the consolidated accounts (the consolidated balance sheet, the consolidated profit and loss account by nature, the consolidated cash flow statement, the consolidated statement of changes in equity and the respective notes) for the 2007 financial year should be approved.

Lastly, the supervisory board wishes to express its gratitude to the board of directors and the executive committee of Galp Energia SGPS, S.A. whose cooperation materially simplified at all times the performance of the supervisory board's duties.

Lisbon, 10 April 2008

Chairman - Daniel Bessa Fernandes Coelho

Member - José Gomes Honorato Ferreira

Member - José Maria Rego Ribeiro da Cunha

7.3 GLOSSARY AND ACRONYMS

GLOSSARY

ADJUSTED INCOME
In addition to using the replacement cost method, adjusted profit excludes non recurrent events such as capital gains or losses on the disposal of assets, impairment or reinstatement of fixed assets and environmental or restructuring charges which may affect the analysis of the company's profit and do not reflect its operational performance.

API GRAVITY
Defined by the American Petroleum Institute as
API° = (141.5/g) – 131.5
Where g is the density of the crude oil at 60 degrees Fahrenheit (15.6°C). It is used worldwide to refer to the density of crude oil. The higher the API gravity, the lighter the crude oil.

AROMATICS
A group of unsaturated cyclic hydrocarbons characterised by having at least one benzene ring and known as aromatics for their distinctive sweet odour. Common aromatics include benzene, toluene and xylene.

ATMOSPHERIC DISTILLATION
Crude oil distillation at atmospheric pressure. By this process, oil components are separated into fractions such as light gasoline, heavy gasoline, gasoil and heavy products. After receiving adequate treatment, these fractions become the components of finished refined products.

BARREL OF OIL
A unit volume measurement used for petroleum, based on the volume of one barrel, equal to 0.15891 m3 for a crude oil barrel at 60 degrees Fahrenheit (15.6°C).

BASE OIL
The main component of lubricant blends, obtained from distillates after being subjected to several processes.

BIODIESEL
Diesel fuel that contains components derived from raw materials such as vegetable oils and animal fat.

BIOFUEL
Any fuel that is derived from biomass, such as alcohol and bioethanol.

BITUMEN
Solid, semi-solid or viscous mixture of hydrocarbons, obtained by primary distillation of crude oil or as a product of residual vacuum distillation. It is waterproof and sticky and is primarily used for paving roads, though it also has industrial uses.

BRENT
A light North Sea crude oil, that since July 2006 incorporates also Forties and Oseberg grades. This basket of crudes has an average API of 38.9° API.

CATALYTIC REFORMING OR PLATFORMING
The conversion of a lighter fraction (such as heavy gasoline), obtained through primary distillation, into a heavier fraction based on aromatics (reformate) and with higher octane level, thus constituting a major blending component for finished gasoline. These reactions are obtained in the presence of a catalyst (platinum) and produce significant quantities of hydrogen. Reformates are also the main feedstock for the petrochemical industry (production of benzene, toluene and xylene).

CO2
Carbon dioxide, a colourless gas, heavier than air, from which it is one of its natural components. It is produced through natural processes such as the carbon cycle and by the combustion of fossil fuels.

COGENERATION
Generation technique for combined electricity and heat production. The advantage of cogeneration is the ability to capture the heat produced by the fuel whereas in classical electricity generation this heat is lost. This process also allows the same facility to meet the heating (hot water or steam) and electricity needs of both industrial and local authority customers. This system improves the energy efficiency of the generation process and reduces fuel use.

COKE
Solid residue with high carbon content resulting from the thermal decomposition of refined petroleum residues.

COMBINED CYCLE GAS TURBINE ("CCGT")
Electric power plant that usually integrates a gas turbine and a steam turbine. CCGTs have a first-cycle gas turbine that generates electricity through the combustion of gas. The exhaustion gases (heat) out of this process are converted into steam in a heat recovery steam generator, which then fuels a second-cycle steam turbine, producing more electricity.

COMMODITY
Largely homogeneous product, produced in large quantities by many different producers, with the items from each different producer being considered substitutes, more or less of undifferentiated quality. Some examples of commodities are oil, cereals and metals.

COMPLEXITY
A key industry measure referring to an oil refinery's ability to process feedstock such as heavier and higher sulphur content crude oils into value-added products. Generally, the higher the complexity and the more flexible the range of feedstock, the better positioned the refinery is to take advantage of lower-priced crude oils, resulting in incremental gross margin opportunities for the refinery.
A refinery's complexity is measured by a "complexity index" which is separately calculated by different industry organisations, among them energy consultants Solomon Associates and Nelson. A refinery's complexity index is calculated by assigning a complexity factor to each of the refinery's units, based primarily on the level of technology used in the unit's construction and taking as a reference point a primary crude-oil distillation plant that is attributed a complexity factor of 1.0. Each unit's complexity index is calculated by multiplying the unit's complexity factor by the unit's capacity. A refinery's complexity is equal to the weighted average of the complexity indices of all units including the distillation unit. A refinery with a complexity index of 10.0 is considered ten times more complex than a refinery equipped only with atmospheric distillation for the same amount of throughput.

CONDENSATES
Liquid hydrocarbons found at the surface and, under normal conditions of temperature and atmospheric pressure, recovered from natural gas reservoirs. Condensates are mainly composed of pentane and other heavier products.

CONTINGENT RESOURCES
Quantities of petroleum that are estimated on a given date to be potentially recoverable from known accumulations but are not currently considered to be commercially recoverable. This may happen for a variety of possible reasons, for example due to maturity issues (the discovery needs further appraisal in order to firm up the elements of the development plan), technological issues (new technology needs to be developed and tested in order to produce the volumes commercially) or market-driven issues (sales contracts are not yet in place or the infrastructure needs to be developed in order to get the product to market). Volumes that fall into this category cannot be referred to as reserves.

CONVERSION
Refers to the several treatments (catalytic or thermal) whose main impact is on the carbon connections. It can be more or less intense depending on the conditions imposed. This process is usually associated with the conversion of fuel oil into lighter and more valuable fractions (gasoil, gasoline and petroleum gases). In a modern refinery, these processes are increasingly significant.

CRACK SPREAD
Difference between the price of the final product and the price of crude oil.

CRACKING
The refining process of breaking down the larger, heavier, lower-value and more complex hydrocarbon molecules into simpler, lighter and higher-value molecules. Cracking is carried out either at high temperatures and pressures (thermal cracking) or with the aid of a catalyst (catalytic cracking) which enables, for the same temperatures, a deeper and more selective conversion of heavier fractions.

CRUDE UTILISATION RATE
Ratio of the total amount of crude oil processed through crude oil distillation units to the operable capacity of these units.

DATED BRENT
The price for prompt shipments of Brent crude as reported by price agencies. It is the price benchmark for the vast majority crude oils sold in Europe, Africa and the Middle East and one of the most important benchmarks for spot market prices

DESULPHURATION
A purification process designed to eliminate sulphur and, at the same time, oxygen, nitrogen and metals from petroleum-refined products. Desulphuration can be made through catalytic or chemical methods.

DIESEL
Blend of hydrocarbons used as a fuel for ignition by compression engines ("Diesel cycle"). Its characteristics, such as its behaviour in low temperatures, vary a lot between regions or countries where it is used.

DISTILLATES
Any petroleum product produced by distillation of crude oil.

DISTILLATION
Method for separating (liquid or solid) substances by evaporation followed by condensation. Distillation may be at atmospheric pressure or in vacuum, depending on the desired products.

EMISSIONS
Releases of gases into the atmosphere. In the context of global climate change, they include potentially climate-changing greenhouse gases, e.g. the release of carbon dioxide during fuel combustion.

FATTY ACID METHYL ESTER ("FAME")
First generation biodiesel obtained by transesterification.

FLUID CATALYTIC CRACKING ("FCC")
Cracking process using a fluid catalytic agent that is continuously regenerated. It is an effective method to increase the gasoline yield from crude oil.

FOOT
Imperial unit for measuring length which is equivalent to 30.48 cm in the metric system.

FREE FLOAT
Percentage of the shares in a listed company which is freely traded on the market, i.e. which is not held by strategic investors.

FUEL OIL
Blend of hydrocarbons mainly used for heat production in thermal installations. There are several types of fuel oil with different viscosity levels that limit each type's uses.

GASOLINE
Fuel for internal combustion engines in automobiles that use the "Otto cycle". It must comply with specifications regarding its physical and chemical characteristics, the most important of which is resistance to self-inflammation.

GENERATION
The process of producing electric energy by transforming other forms of energy. The amount of energy can be expressed in joules, kilowatthours, calories or British thermal units, and all these units can be applied to all kinds of energy irrespective of their source.

GREENHOUSE EFFECT
The result of trapping radiant infrared energy in a closed space. The greenhouse effect produced by carbon dioxide in the atmosphere has the possible consequence of keeping the earth's surface warmer than it would otherwise be.

HEDGE FUNDS
Investment portfolios managed by means of advanced or risk strategies – i.e. the short sale of assets or the use of derivative instruments – with a view to achieving superior returns typically for a restricted number of professional investors. These portfolios are usually composed of financial assets that may include equities linked to oil development.

HENRY HUB
A monthly pricing benchmark for natural gas in the United States. The United States has distinct markets for natural gas (spot and futures markets). Natural gas futures are traded on the New York Mercantile Exchange (NYMEX). This is the most widely quoted US natural gas price. The NYMEX natural gas contract calls for delivery at a location in Northwest Louisiana called Henry Hub. However, less than 1% of all futures contracts are ever held to delivery. The NYMEX natural gas contract serves instead as a benchmark for monthly pricing. This benchmark is referred to as "Henry Hub".

HYDROCRACKING
A cracking process that uses hydrogen in the presence of a catalyst to convert heavier fractions of hydrocarbons that have higher ebullition levels and are less valuable into lighter and more valuable fractions. The presence of hydrogen allows the fractions to operate more selectively and at lower temperatures, thus yielding higher returns. The products resulting from this process are saturated compounds with significant stability characteristics.

ISOMERISATION
Transformation, in the presence of a catalyst and hydrogen, of straight-chain paraphynic hydrocarbons into branched-chain hydrocarbons. Its main purpose is to obtain a light fraction with high octane index, an important blending component for gasoline.

JET FUEL
Fuel for jet engines used in aviation.

KEROSENE
A petroleum product used as a fuel in aviation (jet engines) or as a heating or lighting fuel. It contains additives in order to achieve the necessary safety conditions for its use.

LIQUEFIED NATURAL GAS ("LNG")
Liquid that results when natural is cooled to approximately –160ºC at atmospheric pressure. LNG's volume is approximately 1/600 of the volume of natural gas, making it more efficient for transportation.

LIQUEFIED PETROLEUM GAS ("LPG")
A mixture of C3 and C4 hydrocarbons that is gaseous in normal temperature and atmospheric pressure conditions but can be liquefied by increasing the pressure or lowering the temperature, enabling it to be transported and stored. The most common types are propane and butane.

LUBRICANTS

Products obtained by blending base oils and additives following specific formulations depending on their final utilisation. The percentage of additives in lubricants can reach 40%. Lubricants have three major applications: automobiles, industry and marine.

MTBE

Methyl tertiary butyl ether, an oxygenate component (performance-enhancing fuel additive) used in the production of gasoline.

NAPHTA

A light fraction of refined crude oil between gases and petroleum. It is used as feedstock by the petrochemical industry as its cracking supplies several products and it can also be used as a component for gasoline (light naphta) or to produce reformate (heavy naphta).

NET ENTITLEMENT PRODUCTION

Production percentage of the rights for exploration and production of hydrocarbons in a concession after the effect of production-sharing agreements.

NET INCOME AT REPLACEMENT COST

As the financial statements have been prepared according to IFRS, the cost of goods sold is valued at FIFO. This may, however, lead to substantial volatility in results when commodities and goods prices fluctuate sharply leading to gains or losses in inventory which may not reflect operational performance. In this document, we call this impact the inventory effect. According to this method, the cost of goods sold is valued at replacement cost, i.e. at the average cost of the raw materials in the month when the sales were realised and irrespective of the inventories held at the start or the end of the period. The replacement cost method is not accepted by either Portuguese GAAP or IFRS and is therefore not used to value inventories. The method does not reflect the replacement cost of other assets.

OCTANE INDEX

Conventional scale used to characterise in figures the fuel's ability to resist detonation when burned in an internal combustion engine using the Otto cycle. The higher the figure, the higher the fuel's ability to resist detonation.

OFFSHORE EXPLORATION

Crude oil exploration that takes place on the sea. Offshore exploration is said to be conducted on shallow water, deep water or ultra-deep water depending on depth: less than 1,000 feet, between 1,000 and 5,000 feet and more than 5,000 feet, respectively.

ONSHORE EXPLORATION

Crude oil exploration that takes place on land.

PETROCHEMICALS

An intermediate product of oil refining which is used as a feedstock for polymers and various other chemical products.

PROBABLE RESERVES ("P50")

Under the definitions approved by the SPE and the WPC, probable reserves are a category of unproved reserves. Unproved reserves are based on geological or engineering data similar to that used in estimates of proved reserves but in relation to which technical, contractual, economic or regulatory uncertainties preclude such reserves from being classified as proven.

PROVED RESERVES ("P90")

Under the definitions approved by the SPE and the WPC, proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods and government regulations. If deterministic methods are used, the expression "reasonable certainty" is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. Establishment of current economic conditions should include relevant historical petroleum prices and associated costs. In general, reserves are considered proven if the commercial producibility of the reservoir is supported by actual production or formation tests. In this context, the term "proven" refers to the actual quantities of petroleum reserves and not just the productivity of the well or reservoir. The area of the reservoir considered as proven includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) the undrilled portions of the reservoir that can reasonably be judged as commercially productive on the basis of available geological and engineering data. Reserves may be classified as proven if facilities to process and transport those reserves to market are operational at the time of the estimate or there is a reasonable expectation that such facilities will be installed.

REFINERY

An industrial facility used to process crude oil in order to transform it into the products needed by end consumers (fuels, lubricants, bitumen, etc.) or feedstock for other industries (such as the petrochemical industry).

REGASIFICATION

Processing LNG in order to convert it into its natural gaseous state by thermal exchange with water or air.

RENEWABLE ENERGY

Energy available from natural and permanent sources that can be exploited economically in present conditions or in the near future.

ROTTERDAM CRACKING REFINING MARGIN

Also known as Rotterdam benchmark, it is the most commonly used refining margin benchmark in Europe. The refining margins are usually compared with benchmark margins for three major global refining centres. These are the US Gulf Coast (USGC), North West Europe (NWE – Rotterdam) and Singapore. In each case they are based on a single crude oil appropriate for that region and have optimised product yields based on a generic refinery configuration (cracking, hydrocracking or coking) appropriate for that region. The margins are on a semi-variable basis which means they are calculated after all variable costs and fixed energy costs have been deducted. The Northwest Europe Refining Margin is determined by using as a reference point the prices achieved by refinery products in the Antwerp-Rotterdam-Amsterdam region.

SPOT MARKET

With respect to commodities such as oil, a term used to describe the international trade in one-off cargoes or shipments of commodities such as crude oil in which prices closely follow demand and availability.

TAKE OR PAY

An obligation usually contained in gas contracts which commits one party to purchase agreed quantities of gas whether delivery effectively occurs or not.

TANK FARM

An installation used by trunk and gathering pipeline companies, crude oil producers and terminal operators (except refineries) to store crude oil and oil products.

VACUUM DISTILLATION

Distillation process at a lower pressure than atmospheric pressure. The residue (heavier fractions) of the atmospheric distillation is subject to vacuum distillation in order to separate it without decomposing the residue by lowering the pressure and consequently its ebullition levels. It is used, for example, in the production of base oils.

WIND FARM

A group of wind turbines interconnected to a common utility system through a system of transformers, distribution lines and (usually) one substation. Operation, control and maintenance functions are often centralised through a network of computerised monitoring systems, supplemented by visual inspection.

WIND POWER

Kinetic energy present in wind motion which can be converted into mechanical energy for driving pumps, mills and electric power generators.

WORKING-INTEREST PRODUCTION

Production percentage of the rights for exploration and production of hydrocarbons in a concession before the effect of production-sharing agreements.

ACRONYMS

Amorim Energia: Amorim Energia, B.V.
bbl: barrel of oil
BBLT: Benguela, Belize, Lobito and Tomboco
bcm: billion cubic metres
boepd: barrels of oil equivalent per day
bopd: barrels of oil per day
CDP: Conceptual Development Plan
CGD: Caixa Geral de Depósitos, S.A.
CIF: Costs, Insurance and Freights
COCO: Company Owned Company Operated
CODO: Company Owned Dealer Operated
DWT: Deadweight tonnage
E&P: Exploration & Production
EMPL: Europe Magreb Pipeline
Eni: Eni, S.p.A.
EPCI: Engineering, Procurement, Construction and Installation
EPS: Earning per share
ERSE: Entidade Reguladora dos Serviços Energéticos (Energy Regulator)
€: euro
FOB: Free on Board
FPSO: Floating, Production, Storage and Offloading
G&P: Gas & Power
GHG: Greenhouse gases
HSE: Health, Security and Environment
IOC's: International Oil Companies
ISC: Interstate Committee
kbopd: thousand barrels of oil per day
kboepd: thousand barrels of oil equivalent per day
LCP: Large Combustion Plants
Mbbl: Million of barrels
Mbopd: million of barrels of oil per day
m3: cubic metre
M€: million euros
M ton: million tonnes
NOC's: National Oil Companies
O&M: Operation & Maintenance
OPEX: Operational costs
PSA: Production Sharing Agreement
R&M: Refining & Marketing
REN: Rede Eléctrica Nacional, S.A.
SPE: Society of Petroleum Engineers
TL: Tombua-Lândana
ton: tonne
Usd: Currency unit of the United States of America
WPC: World Petroleum Council

DISCLAIMER

This Annual Report & Accounts contains forward-looking statements about the results of Galp Energia's operations as well as some company plans and objectives about those results. The terms "anticipates", "believes", "estimates", "expects", "predicts", "aims", "plans" and other similar ones aim to identify such forward-looking statements. As a result of their nature, forward-looking statements involve risks and uncertainties as they are associated with events and circumstances that may occur in the future. Real outcomes and developments may as a result of several factors differ significantly from outcomes, either express or implicit, in the statements. These include but are not limited to changes in costs, economic conditions or regulatory framework.

Forward-looking statements only refer to the date when they were made and Galp Energia has no obligation to update them in the light of new data or future developments or otherwise explain the reasons actual outcomes are possibly different.

EDITION

galp energia

TRANSLATION

[S]
SINÓPTICA

DESIGN AND CONCEPTION

STRATDESIGN

PHOTOGRAPHY

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