Twelve months
2006 Results

galp energia

TABLE OF CONTENTS

Full Year 2006 Results

Adjusted net income reached €468 million, up 10% on 2005

Galp Energia continued to deliver a strong performance in 2006. Both reported and adjusted results exceeded corresponding figures for 2005, despite adverse market conditions, such as lower benchmark margins in international markets and the domestic decrease of natural gas consumption, as a result of unfavourable weather conditions.

2006 Performance in Brief

- Adjusted net income, excluding inventory effects and non recurrent items, reached €468 million, an increase of 10% from 2005;
- Crude production was at the highest level with 2.6 million barrels, up 71% on 2005;
- New record of raw materials processed in the Oporto and Sines refineries at 14.7 million tonnes;
- Natural gas sales of 4.6 bcm strongly impacted by sales in international markets;
- Sale of natural gas transportation and regasification assets to REN with a positive impact of €220 million at net income level;
- Net income of €755 million, corresponding to an EPS of 0.91 euros, up 8% on 2005;
- Adjusted ROCE of 17% in 2006, improving 3 p.p. from 2005;
- Proposal for dividend payment will be decided in the Board meeting to be held on 24 April.

KEY FIGURES

Financial data

Million euros

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
3,196	2,817	(380)	(11.9%)	Sales and services rendered	11,137	12,210	1,072	9.6%
158	99	(58)	(36.9%)	EBITDA	1,192	1,241	49	4.1%
222	230	8	3.7%	EBITDA at replacement cost	879	1,244	366	41.6%
222	**220**	**(1)**	**(0.7%)**	**Adjusted EBITDA[1]**	**877**	**958**	**82**	**9.3%**
19	22	2	11.2%	Operating result	863	949	86	10.0%
84	152	69	82.1%	Operating result at replacement cost	549	953	404	73.5%
117	**148**	**31**	**26.5%**	**Adjusted operating result[1]**	**580**	**667**	**87**	**15.0%**
25	32	6	25.0%	Net income	701	755	54	7.7%
79	108	29	36.8%	Net income at replacement cost	462	724	263	56.9%
99	**94**	**(5)**	**(5.0%)**	**Adjusted net income[1]**	**425**	**468**	**43**	**10.1%**

[1]Adjusted figures exclude inventory effects and other non recurrent items.

Market indicators

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
5.2	1.7	(3.5)	(67.1%)	Rotterdam cracking refining margin[1] (Usd/bbl)	5.3	3.3	(2.0)	(38.2%)
3.3	4.1	0.8	23.5%	Rotterdam hydroskimming + aromatics refining margin[1] (Usd/bbl)	3.3	2.9	(0.5)	(13.8%)
12.4	6.6	(5.7)	(46.3%)	Henry hub natural gas price[2] (Usd/MMbtu)	8.9	6.7	(2.2)	(24.6%)
56.9	59.7	2.8	4.9%	Average brent dated price[3] (Usd/bbl)	54.4	65.1	10.8	19.8%
1.2	1.3	0.1	8.4%	Average exchange rate[4] (Eur/Usd)	1.24	1.26	(0.0)	0.9%
2.5	3.7	1.3 pp	-	Euribor - six month4 (%)	2.23	3.23	1.0 pp	-

[1] Source: Platts. For a complete description of the calculation methodology of Rotterdam margins, see “Definitions”.
[2] Source: Reuters.
[3] Source: Platts.
[4] Source: European Central Bank. Euribor 360.

Operating data

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
3.5	11.6	8.1	n.m.	Average equity production (bbl/day)	4.3	7.2	3.0	70.5%
7.8	5.0	(2.8)	(35.9%)	Galp Energia refining margin (Usd/bbl)	7.2	5.4	(1.9)	(25.7%)
3.6	3.6	(0.1)	(2.0%)	Raw materials processed (million tonnes)	14.3	14.7	0.5	3.4%
2.3	2.2	(0.1)	(6.2%)	Oil products sales to Galp Energia direct clients (million tonnes)	9.4	9.0	(0.4)	(4.1%)
1,090	996	(94)	(8.6%)	Natural gas sales (million m^3)	4,234	4,596	362	8.5%
231	392	161	70%	Power generation[1] (GWh)	1,375	1,561	186	13.5%

[1] Includes unconsolidated companies where Galp Energia has a significant interest.

BASIS OF PRESENTATION

The unaudited consolidated financial statements of Galp Energia, SGPS, S.A. ("Galp Energia" or the "Company") for the twelve months ended on 31 December 2006 and 2005 have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial data contained in the consolidated profit and loss account are presented for the fourth quarter and the twelve months ended on 31 December 2006 and for the fourth quarter and the twelve months ended on 31 December 2005. The financial data in the consolidated balance sheet is presented at 31 December 2005, 30 September 2006 and 31 December 2006.

As a result of the financial statements being prepared in accordance with IFRS, the cost of goods sold and raw materials consumed is valued at FIFO ("*First In First Out*"), which may cause pronounced volatility in results at times when commodity and raw material prices move erratically. A so-called "inventory effect" occurs when gains or losses in inventories impact the Company's performance significantly.

The analysis of results achieved by the company can also be affected by certain non-recurrent events that may conceal the Company's true, underlying performance. Among these, the following can be found: gains or losses in the disposal of assets, asset impairment and environmental or restructuring provisions.

For the purpose of evaluating the true performance of Galp Energia's operations, adjusted operating results and net income exclude both the inventory effect, by using the replacement cost method, and non-recurrent events.

MARKET ENVIRONMENT

Although the dated Brent was at the end of 2006 close to the levels of late 2005, average prices in the year were about 20% higher than in 2005. The rise of the dated Brent started after the first quarter and peaked at the all-time high of US$78.7/bbl, primarily powered by geopolitical tensions, particularly the Israeli-Lebanese conflict and international pressure on Iran.

After August, with tensions easing and United States of America ("US") and European crude inventories rising, the Brent started to decline and fell to close to US$60/bbl at the end of the third quarter.

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

Benchmark refining margins were, in 2006, lower than in 2005 but still above average values of the last few years. The benchmark cracking margin behaved in 2006 similarly to the trend in preceding years, although with lower values than in 2005. In particular, the margin rose with the start of the US driving season which, following the usual pattern, drove gasoline prices higher. After the end of the US driving season in August, the larger inventories of gasoline prompted a fall in the benchmark cracking margin which deteriorated further in the last quarter, and particularly in December, with the rise in crude prices.

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

The lower refining margins in 2006, compared to 2005, are mainly explained by the impact of the Katrina and Rita hurricanes, which affected available refining capacity significantly in 2005.

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

Weather conditions were unusually warm in 2006, which was Portugal's fifth warmest year since 1931. The three-month autumn period, for instance, was the third warmest in the last 76 years, with the highest record of average minimum temperatures. The period between August and November was also considered by the official weather service (*Instituto de Meteorologia*) to have been extremely rainy. These two effects had a significant impact on the demand for energy products such as natural gas, specially for the power generation purposes, with consumption of this product falling 23% in the last quarter of 2006, compared to the same period in 2005, and 4% in an annual basis.

FINANCIAL REVIEW

1. PROFIT AND LOSS ACCOUNT

Million euros

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
3,196	2,817	(380)	(11.9%)	Sales and services rendered	11,137	12,210	1,072	9.6%
(3,033)	(2,733)	(301)	n.m.	Operating expenses	(9,957)	(11,274)	1,316	n.m.
(5)	16	21	n.m.	Other operating revenues (expenses)	12	305	293	n.m.
158	**99**	**(58)**	**(36.9%)**	**EBITDA**	**1,192**	**1,241**	**49**	**4.1%**
(138)	(78)	(60)	n.m.	Depreciation and provisions	(329)	(292)	(38)	n.m.
19	**22**	**2**	**11.2%**	**Operating result**	**863**	**949**	**86**	**10.0%**
17	11	(6)	(37.1%)	Net income from associated companies	51	40	(11)	(20.9%)
(1)	1	1	n.m.	Net income from investments	54	(19)	(73)	n.m.
(16)	0	16	n.m.	Net interests expenses	(75)	(32)	43	n.m.
20	**34**	13	**66.2%**	**Income before tax and minority interests**	**893**	**939**	**45**	**5.1%**
6	(1)	(7)	n.m.	Income tax	(189)	(180)	(9)	n.m.
(1)	(1)	-	n.m.	Minority Interests	(4)	(4)	-	n.m.
25	**32**	**6**	**25.0%**	**Net income**	**701**	**755**	**54**	**7.7%**
25	**32**	**6**	**25.0%**	**Reported net income**	**701**	**755**	**54**	**7.7%**
54	76	23	n.m.	Inventory effect	(239)	(30)	209	n.m.
79	**108**	**29**	**36.8%**	**Net income at replacement cost**	**462**	**724**	**263**	**56.9%**
20	(14)	(34)	n.m.	Non recurrent items	(37)	(257)	(220)	n.m.
99	**94**	**(5)**	**(5.0%)**	**Adjusted net income**	**425**	**468**	**43**	**10.1%**

Twelve months

Net income for the year of €755 million was 8% higher than in 2005 (€701 million). This result was strongly impacted by non-recurrent events of which the most important was the €220 million capital gain on the sale in 2006 of some natural gas transportation, regasification and storage assets (“Natural Gas Regulated Assets” or “Unbundling”) to Rede Eléctrica Nacional (“REN”) and in 2005, results had been influenced by the revaluation of cost of goods sold according to IFRS, which led to a gain of €239 million.

Adjusted for these effects, net income advanced 10% to €468 million, reflecting the increase in sales volumes across all business segments.

Fourth quarter

Net income for the fourth quarter was €32 million, up 25%, on the corresponding quarter of 2005.

Adjusted for both the inventory effect and non-recurrent events, net income slid 5%, or €5 million, to €94 million, reflecting a lower refining margin and falling sales in the Refining & Marketing and Gas & Power segments, which more than offset performance improvements in the Exploration & Production segment, lower depreciation charges and recovering of exchange gains.

Operating results

Million euros

Fourth quarter					Twelve months			
2005	**2006**	**Change**	**% Ch.**		**2005**	**2006**	**Change**	**% Ch.**
(19)	18	37	n.m.	Exploration & Production	18	45	27	148.3%
(31)	(62)	(31)	n.m.	Refining & Marketing	602	368	(234)	(38.9%)
56	71	16	27.8%	Gas & Power	244	547	303	124.2%
14	(6)	(20)	n.m.	Others	(1)	(10)	(9)	n.m.
19	**22**	**2**	**11.2%**	**Operating result**	**863**	**949**	**86**	**10.0%**
19	**22**	**2**	**11.2%**	**Reported operating result**	**863**	**949**	**86**	**10.0%**
64	131	66	103.5%	Inventory effect	(313)	4	317	n.m.
84	**152**	**69**	**82.1%**	**Operating result at replacement cost**	**549**	**953**	**404**	**73.5%**
33	(5)	(38)	n.m.	Non recurrent items	31	(286)	**(317)**	n.m.
117	**148**	**31**	**26.5%**	**Adjusted operating result**	**580**	**667**	**87**	**15.0%**

Twelve months

Operating results improved by 10%, or €86 million, to €949 million. After adjustments for inventory effects and non-recurrent events, the increase was 15%, or €87 million, to €667 million, reflecting higher performances across all business segments.

In the Exploration & Production business segment, the rise in operating results derived from both quantities sold, with production increasing 71% to 2.6 million barrels and higher realized sale price.

In the Refining & Marketing business segment, exports, in particularly gasoline exports to the US, more than compensated the shortfall in the domestic market. Sales amounted to 16.2 million tones, 2% above the 2005 figure. Volumes also reflect the increase in raw materials processed of 3.4% to 14.7 million tones.

The Gas & Power segment sold a record 4.6 bcm, which was 9% ahead of 2005, benefiting from a strong trading activity with better margins.

Fourth quarter

Operating results for the fourth quarter increase by 11%, or €2 million, to €22 million. This reflected the better performance of Exploration & Production business segment, the decrease in depreciation charges and provisions in €60 million, and a negative inventory effect of €131 million, in a quarter when crude prices plummeted.

Adjusted for inventory effects and non-recurrent events, operating results progressed by 27%, or €31 million, to €148 million.

Operating result in Exploration & Production business segment reached €18 million in the fourth quarter of 2006, the same result obtained in the full year of 2005, reflecting the considerable increase in production that occurred in this period.

The result of the Refining & Marketing business segment for the period reflected the double adverse impact of lower volumes sold and lower refining margins in line with international benchmarks.

In the Gas & Power segment, the 9% volume fall was due to the weak demand for gas, in the Power subsegment, as heavy rainfall boosted hydro-powered electricity production. This was also the first full quarter after the sale of the Natural Gas Regulated Assets to REN.

2. ANALYSIS OF PROFIT AND LOSS ACCOUNT ITEMS

Sales and services rendered

Million euros

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
1	65	64	n.m.	Exploration & Production	67	141	74	110.9%
2,894	2,515	(380)	(13.1%)	Refining & Marketing	10,030	10,838	808	8.1%
332	324	(8)	(2.5%)	Gas & Power	1,125	1,396	270	24.0%
41	33	(8)	(19.2%)	Others	101	119	18	18.2%
(72)	(120)	48	n.m.	Consolidation adjustments	(186)	(284)	98	n.m.
3,196	**2,817**	**(380)**	**(11.9%)**		**11,137**	**12,210**	**1,072**	**9.6%**

Twelve months

Sales and services rendered went up by 10%, or €1,072 million on 2005, to €12,210 million. This increase reflected the double effect of higher volumes in all business segments at higher prices, although the latter had a stronger impact in the Exploration & Production business segment.

Fourth quarter

In the last quarter of 2006, sales and services rendered fell by 12%, or €380 million to €2,817 million, in comparison with the same period of 2005. This was the result of lower volumes sold at prices that were lower than those achieved in the last quarter of 2005, in line with international markets.

Other operating revenues

Million euros

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
(5)	**16**	**21**	**n.m.**	**Other operating revenues (expenses)**	**12**	**305**	**293**	**n.m.**
(0)	(3)	(3)	n.m.	Non recurrent items	(2)	(282)	(281)	n.m.
(5)	**12**	**18**	**n.m.**	**Adjusted other oper. revenues (expenses)**	**10**	**23**	**12**	**116.9%**

Other operating revenues soared to €305 million from €12 million in 2005. This steep increase was due to non-recurrent events, particularly the favourable impact of the sale of Natural Gas Regulated Assets to REN in September and the reinstatement of the monobuoy asset that had been previously written off from the company's assets. In 2005, the effect of the indemnities received, for the accident at the Leixões terminal, in July 2004, had been offset by the capital loss arising from the write-off of service stations in both Portugal and Spain.

Excluding non-recurrent events, the most significant change between 2005 and 2006 was the €16 million increase to €23 million in the oil related tax (IRP) payable in Angola as a result of higher revenues generated by the sale of crude oil from Block 14 in Angola. In the fourth quarter, the IRP increased by €10 million compared to the same period in 2005, which is explained by higher production levels in this fourth quarter.

Operating expenses

Million euros

Fourth quarter					Twelve months			
2005	**2006**	**Change**	**% Ch.**		**2005**	**2006**	**Change**	**% Ch.**
2,779	2,475	(304)	(10.9%)	Cost of goods sold	9,162	10,400	1,238	13.5%
172	176	4	2.5%	Supply and services	526	567	42	7.9%
83	82	(1)	(0.9%)	Personnel costs	270	306	37	13.7%
3,033	**2,733**	**(301)**	**(9.9%)**		**9,957**	**11,274**	**1,316**	**13.2%**

Twelve months

Operating expenses rose by 13% or €1,316 million, to €11,274 million. This was primarily due to an increase of 14% in the cost of goods sold, which weighed 92% in total operating expenses. This increase was in line with the behaviour of international oil prices and other raw materials, which trod a rising path in 2006 compared to 2005.

If the cost of goods sold had been valued at replacement cost, cost of goods sold would have been €10,398 million in 2006, up 10% on the €9,474 million in 2005, in line with the increase in total sales and services rendered.

Supplies and services increased by 8%, or €42 million, to €567 million and included €25 million relating to the transportation and regasification costs incurred in the fourth quarter, after the sale of the Natural Gas Regulated Assets to REN. Excluding these costs, which were not incurred in 2005, supplies and services increased by 3%, or €17 million, to €542 million. This change was primarily due to: (i) rents paid for the increase in the number of vessels freighted for the coastal transportation of oil products in the wake of the sale in 2005 of one vessel from the company's fleet; (ii) the increase in insurance costs relating to the update of premiums, (iii) the increase in fees paid to Empresa Gestora de Reservas Estratégicas, EPE ("EGREP"), relating to the build-up of mandatory reserves, (iv) the increase in production costs at Block 14, reflecting the boost in production and (V) the increase in the cost base for the Brazilian exploration activities.

Personnel costs increased by 14%, or €37 million, to €306 million compared to 2005. Excluding restructuring charges, the increase was 8%, or €22 million, to €291 million. This was the result of: (i) a rise in the salary base in line with inflation, (ii) the need to cover variable remunerations that were not fully specialized in 2005 and (iii) the recogntion of costs with pre-retirements plans and mutual agreement personnel reductions to occur in 2007.

Fourth quarter

In the fourth quarter, operating expenses receded 10%, or €301 million, to €2,733 million. The cost of goods sold was €304 million or 11% lower, reflecting the steep fall, after August, in the price of both crude and oil products.

Supplies and services, including the €25 million transportation fee paid to REN after the sale of the Natural Gas Regulated Assets were €176 million. Excluding this effect, this item declined by €21 million or 12%, mainly due to cost accruals in the fourth quarter of 2005, the comparison year.

Personnel costs were, at €82 million, 1% lower than in the fourth quarter of 2005. Excluding (i) the constitution of provisions for restructuring charges, and (ii) the reduction in payroll costs relating to the transfer of 188 employees to REN in the so-called Unbundling process, total personnel costs declined 4% to €76 million.

Employees

	Dec 31, 2005	Sept 30, 2006	Dec 31, 2006	Change vs Dec 31, 2005	Change vs Sept 30, 2006
Exploration & Production	36	54	56	20	2
Refining & Marketing	4,867	4,950	4,790	(77)	(160)
Gas & Power	685	487	491	(194)	4
Corporte & Others	578	553	540	(38)	(13)
Total on site employees	**6,166**	**6,044**	**5,877**	**(289)**	**(167)**
Service stations employees	2,200	2,306	2,245	45	(61)
Total off site employees	**3,966**	**3,738**	**3,632**	**(334)**	**(106)**

Total number of employees as of December 2005 and September 2006 are different from the figures presented previously due to changes in methodology which started including the companies operating in the African continent.

Off site employees, which excludes employees at service stations, declined by 334 in the year, to 3,632 at year end. This decrease included the 188 employees transferred to REN under the sale of Natural Gas Regulated Assets. The other 146 employees leaving the company were mainly from the Refining & Marketing segment, in light of the undergoing restructuring process. The number of employees at service stations rose in net terms by 45 in the year, reflecting the increase by 8 in the number of service stations directly operated by Galp Energia

As from September, the total number of employees fell by 167, mainly at service stations. This reduction reflected the seasonality of the business, where the hiring of temporary staff is a common practice to respond to employees' summer vacations.

Depreciation

Million euros

Fourth quarter					Twelve months			
2005	**2006**	**Change**	**% Ch.**		**2005**	**2006**	**Change**	**% Ch.**
9	9	-	3.9%	Exploration & Production	19	24	5	28.6%
90	52	(38)	(42.2%)	Refining & Marketing	230	194	(35)	(15.3%)
16	7	(9)	(54.7%)	Gas & Power	56	37	(19)	(34.5%)
1	0	(0)	(52.2%)	Others	2	1	(1)	(43.3%)
115	**68**	**(47)**	**(40.6%)**		**307**	**257**	**(50)**	**(16.3%)**
115	**68**	**(47)**	**(40.6%)**	**Depreciations**	**307**	**257**	**(50)**	**(16.3%)**
(21)	1	22	n.m.	Non recurrent items	(21)	6	27	n.m.
94	**70**	**(24)**	**(26.0%)**	**Adjusted depreciations**	**286**	**263**	**(23)**	**(7.9%)**

In 2006, depreciation charges fell by €50 million or 16% to €257 million. Excluding the effect of non-recurrent events such as the sale of the Natural Gas Regulated Assets in 2006 and the impairment of assets of €21 million in 2005, depreciation charges fell by €23 million or 8% to €263 million. The decrease reflected a reduction in the asset base of the Refining & Marketing segment, namely the write-off of service stations in Portugal and Spain, and the aforementioned asset sales in Gas & Power. In Exploration & Production, the increase in depreciation resulted primarily from the production increase linked to the Benguela-Belize-Lobito-

Tomboco ("BBLT") field coming on stream in 2006, which triggered the depreciation of the associated investments.

In the fourth quarter, depreciation charges decreased by €47 million or 41%, compared to the same period of 2005. However, excluding the adjustments for asset impairment in the fourth quarter of 2005 and other non-recurrent events, depreciation decreased by 26%. This reduction had greatest impact on the Refining & Marketing segment, primarily as a result of the Portuguese and Spanish service station write-offs.

Provisions

Million euros

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
3	5	2	66.5%	Exploration & Production	3	10	7	n.m.
19	7	(12)	(64.0%)	Refining & Marketing	17	25	7	42.5%
2	(5)	(7)	n.m.	Gas & Power	2	(3)	(5)	n.m.
(0)	3	4	n.m.	Others	0	3	3	n.m.
23	**9**	**(14)**	**(59.1%)**		**23**	**35**	**12**	**55.1%**
23	**9**	**(14)**	**(59.1%)**	**Provisions**	**23**	**35**	**12**	**55.1%**
(12)	(6)	6	n.m.	Non recurrent items	(12)	(7)	5	n.m.
11	**3**	**(8)**	**(71.5%)**	**Adjusted provisions**	**11**	**28**	**17**	**165.4%**

Provisions increased in the year by €12 million or 55% to €35 million. Excluding non-recurrent events, which included in both years primarily environmental charges and also restructuring provisions in 2005, the change was €17 million. The main increases in adjusted provisions were in the Exploration & Production and Refining & Marketing segments and related to a provision for eventual of additional oil revenue tax payments of €5.8 million in Angola and the increase in provisions for doubtful debtors for €8 million.

In the fourth quarter, provisions fell by €14 million or 59% to €9 million. This decrease was even more pronounced – 72% - if we exclude non-recurrent events, which were mostly related to provisions for environmental charges.

Income from associated companies

The results of associates fell by €11 million or 21% to €40 million, compared to 2005 (€51 million), owing to lower contributions by some associates and consolidation adjustments.

The most significant equity method contribution came from the international gas pipeline companies (EMPL, Metragaz, Gasoducto Al Andalus e Gasoducto Extremadura), which contributed €37 million, and Companhia Logística de Hidrocarburos, S.A ("CLH"), the owner of oil logistics infrastructures in Spain, which delivered €6 million.

In the fourth quarter, the contribution from the gas pipeline companies was €11 million and from CLH €1 million.

Net income from investments

Results from investments fell by €73 million, accounting a loss of €19 million. In 2006 the unbundling process entailed an adverse adjustment of €20 million, while in 2005 the sale of Portgás (the company distributing natural gas in the Oporto area) had contributed a capital gain of €54.4 million.

Net interests expenses

Net interests expenses improved by €43 million to minus €32 million and included non-recurrent income from the lease of optical fibre to Onitelecom – Infocomunicações, S.A. ("ONI") for €15 million. Excluding this effect, financial results improved by €28 million and reflected a €19 million improvement in exchange differences and a decrease in interests paid following a reduction of €369 million in average banking debt and a decrease in interests rates from 4.35% in 2005 to 3.40% in 2006, or considering interests on bank deposits, 4.20% and 2.97% respectively.

In 2006, the company had net exchange gains of €2 million against net exchange losses of €17 million in 2005 in the wake of the dollar appreciation to the euro in 2004, which led to losses in dollar liabilities, primarily bank debt, for an amount of €10 million.

Income tax

Income tax fell by €9 million or 5%, to €180 million despite a €45 million, or 5%, increase in income before tax to €939 million. This reduction reflected a 2 p.p. effective tax rate decrease to 19%. The lower effective rate resulted from the tax treatment given to the gain from the sale of Natural Gas Regulated Assets, which benefited from the update of asset values allowed by the tax law (Art. 44 of the Company Tax Code) as published annually by the Ministry of Finance.

3. CAPITAL EXPENDITURE

Million euros

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
27	45	18	65.1%	Exploration & Production	82	106	24	28.9%
75	35	(40)	(53.0%)	Refining & Marketing	142	131	(11)	(7.9%)
30	30	1	2.5%	Gas & Power	88	112	23	26.3%
0	0	(0)	20.0%	Others	3	1	(2)	(65.0%)
132	**110**	(22)	(16.5%)		**315**	**349**	34	10.8%

Investment figure for the first nine months of 2006, presented in the nine months results report doesn't include the monobuoy restatement in the amount of €39 million as it was not considered a capital expenditure, but is included in the total amount for 2006.

Capital expenditure of €349 million in 2006 represented an increase of 11% compared to 2005.

In the Exploration & Production segment, investment spending in 2006 reached €106 million and was primarily channelled to: (i) oil production in fields BBLT, Kuito e Tombua-Lândana ("TL") and the exploration in other areas of Block 14 in Angola, with the drilling of an exploration well called *Lucapa 1*, (ii) exploration activities in Block 32 with 4 exploration wells, and (iii) exploration activities in Brazil, namely in the onshore blocks, where Galp is the operator, which were acquired in the seventh licensing round, and in Block BM-S-11, on *Bacia de Santos* offshore, where processing and seismic interpretation work was in process. In this last field it was drilled an exploration well designated Tupi.

In 2006, capital expenditure in the Refining & Marketing segment contracted by €11 million, or 8%, to €131 million. Spending targeted primarily (i) the construction of strategic storage facilities company responsability, namely for Diesel, (ii) refining-related projects such as the replacement of pipelines and environmentally motivated actions and (iii) distribution activities encompassing the development of piped LPG, the building and refurbishment of service stations in the Iberian Peninsula and the Distributor Project, which aims at the implementation of a distribution programme with independent resellers based on the presentation of the Galp Energia brand jointly with the resellers' own brands.

Capital expenditure of €112 million in the Gas & Power segment focused primarily on (i) the acquisition of natural gas to be used as cushion gas to fill the underground storage caverns, (ii) the construction of ground facilities linked to the underground storage of natural gas, (iii) the expansion of the middle-pressure distribution network with the construction of around 500 km and the conversion of 38,000 clients to natural gas and (iv) the construction of the cogeneration plant at the Sines refinery.

4. CONSOLIDATED BALANCE SHEET

Million euros (except otherwise noted)

	Dec 31, 2005	Sept 30, 2006	Dec 31, 2006	Change vs Dec 31, 2005	Change vs Sept 30, 2006
Fixed assets	3,086	2,394	2,413	(672)	20
Strategic stock	524	585	453	(72)	(132)
Other assets (liabilities)	(154)	(212)	(144)	10	68
Working capital	121	261	201	80	(60)
	3,577	**3,027**	**2,924**	**(654)**	**(104)**
Short term debt	257	610	583	326	(27)
Long term debt	1,092	531	516	(575)	(14)
Total debt	**1,349**	**1,141**	**1,099**	**(250)**	**(41)**
Cash	158	119	213	55	93
Total net debt	**1,192**	**1,021**	**887**	**(305)**	**(134)**
Total shareholder's equity	**2,386**	**2,006**	**2,037**	**(349)**	**31**
Capital employed	**3,577**	**3,027**	**2,924**	**(654)**	**(104)**
Adjusted EBITDA /net interests (x)	**22.4**	**28.1**	**41.4**	-	-
Debt to equity (%)	**50%**	**51%**	**44%**	-	-
ROACE (%)	**21%**	-	**25%**	-	-
Adjusted ROACE (%)	**14%**	-	**17%**	-	-

Fixed assets increased by €20 million since September 2006 to €2,413 million at year end, or €672 million less than at year end 2005. The reason for this sharp fall was the sale of the Natural Gas Regulated Assets to REN, which had a book value of €731 million.

At the end of December 2006, the value of the strategic stocks fell by €132 million from September 2006, driven by the steep fall, from August, in the price of crude and oil products in international markets.

Net debt at the end of December 2006 was €887 million, down €134 million on the end of September. This was mainly due to the receipt of €62 million from ONI for the lease payment of optical fibre as well as the cash flow generated in the last quarter of the year.

Changes between the end of 2005 and the end of 2006, namely in respect of net debt and equity, refer to events occurring before the end of the third quarter of 2006: (i) receipt of €526 million from REN on account of the price for the Natural Gas Regulated Assets and the subsequent transfer of €470 million worth of debt and €44 million of bank deposits to REN, (ii) payment of the ordinary dividend of €222 million and (iii) payment of an extraordinary dividend of €871 million.

At year end €414 million worth of debt were exposed to floating rate, while circa 3.5% was denominated in US dollars.

The average maturity of Galp Energia's debt was 2.39 years at the end of 2006.

At 31 December 2006, net debt attributable to minority interests was €32 million.

Galp Energia's capital structure can be rated as conservative considering the equity to debt ratio of 44% and an adjusted EBITDA to net interest coverage ratio of 41.4 for 2006.

5. CASH FLOW

Million Euros

Fourth quarter 2005	Fourth quarter 2006		Twelve months 2005	Twelve months 2006
38	22	Operating Result	863	949
92	68	Non cash costs	307	257
(73)	60	Change in working capital	(211)	(80)
57	**150**	**Cash flow from operating activities**	**959**	**1,126**
(77)	(112)	Net capital expenditures and disposals	(364)	398
0	132	Change in strategic stocks holdings	(185)	72
(77)	**20**	**Cash flow from investing activities**	**(549)**	**469**
(16)	13	Financial Investments	(16)	12
(4)	(10)	Interests expenses	(35)	(30)
(57)	(46)	Taxes	(125)	(184)
0	9	Subsidies	58	19
-	29	Dividends paid / received	(159)	(1,049)
201	(31)	Others	179	(58)
125	**(36)**	**Cash flow from financing activities**	**(99)**	**(1,290)**
105	**134**	**Total**	**311**	**305**

Cash flow from operations was €1,126 million in 2006, posting a 17% annual increase and reflecting both the higher activity in 2006 and the lower prices of oil and refined products, which had a positive impact in working capital.

Cash flow from investments was driven by the sale of Natural Gas Regulated Assets to REN for €731 million, and also for the €72 million reduction in strategic stocks, after the fall in oil and crude prices.

Dividends paid in 2006 of €1,093 million were the main factor for cash flow from investing activities reach €1,290 million.

SEGMENT REVIEW

1. EXPLORATION & PRODUCTION

Million euros (except otherwise noted)

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
1	65	64	n.m.	Sales and services rendered	67	141	74	110.9%
(19)	**18**	**37**	**n.m.**	**Operating result**	**18**	**45**	**27**	**148.3%**
-	-	-	-	Non recurrent items	-	-	-	-
(19)	**18**	**37**	**n.m.**	**Adjusted operating result**	**18**	**45**	**27**	**148.2%**
4.4	**14.6**	**10.2**	**n.m.**	**Average working production (bbl/day)**	**5.0**	**9.5**	**4.4**	**88.3%**
3.5	**11.6**	**8.1**	**n.m.**	**Average equity production (bbl/day)**	**4.3**	**7.2**	**3.0**	**70.5%**
0.3	**1.1**	**0.7**	**n.m.**	**Total production (million bbl)**	**1.6**	**2.6**	**1.1**	**70.5%**
0.3	0.2	(0.1)	(44.6%)	Kuito (million bbl)	1.6	0.8	(0.7)	(46.3%)
-	0.9	0.9	-	BBLT (million bbl)	-	1.7	1.7	-
-	0.04	0.04	-	TL (million bbl)	-	0.1	0.1	-
56.9	59.7	2.8	4.9%	Average brent dated price[1] (Usd/bbl)	54.4	65.1	10.8	19.8%
46.4	54.5	8.0	17.3%	Average realized sale price[1] (Usd/bbl)	44.6	61.4	16.7	37.6%
0.9	**2.0**	**1.1**	**n.m.**	**Total sales (million bbl)**	**1.8**	**2.9**	**1.1**	**59.5%**
-	**-**	**-**	**-**	**Net total assets**	**274**	**435**	**160.6**	**58.6%**

[1] Source: Platts
[2] Considers effective sales

Operating results

Twelve months

Operating results amounted to €45 million in 2006, increasing by 148% or €27 million from 2005. Sales and services rendered rose by 111% to €141 million, which resulted from the combined effect of circa 60% higher volumes sold and a 38% higher average selling price for crude.

The volume rise derived from the steep growth in production and an over lifting from the consortium that allowed produced quantities to be raised. Realized sale price benefited not only from the Brent trend in international markets but also from the higher contribution of lighter crude from BBLT and Tombua-Lândana ("TL") field.

The positive impact of higher volumes sold at higher prices was partially offset by: (i) the rise in production costs to €11.5 million in 2006 from 9.7 million in €2005 due to the total production increase (ii) the larger payment of oil revenue tax in Angola, (iii) the increase in non-cash items primarily linked to the higher production volumes following the BBLT field coming into operation and the €9.9 million increase in provisions, mainly to provide for the costs of abandoning Block 1 (€2.2 million) and for the eventual additional payments of oil revenue tax relating to Block 14 (€5.8 million).

Fourth quarter

In the fourth quarter the operating result totalled €18 million, representing an improvement of €37 million, in comparison with the same period of 2005. The operating loss of the last quarter of 2005 had derived from changes in accrual criteria, now based on available production.

The fourth quarter was clearly influenced by the high level of crude production, which was 65% above the level in the third quarter.

Exploration & Production activities

Working production rose 88% in 2006 as a result of two fields coming into operation – BBLT in January and Tombua-Lândana ("TL") in June. BBLT stood for the best part of the increase as TL had only one well under production Lândana Norte which is working in connection with the BBLT field.

The increase in equity production at 70%, was lower to the increase in working production, as a consequence of the lower production share in the Kuito field entailed by the Production Shared Agreement ("PSA") in force, and because of the decline in working production of this field, around 28% when compared to the previous year.

Reserves in 31 December 2006

The proven reserves, corresponding to Galp Energia's entitlements in 31 December 2006, amounted to 35.7 million barrels of crude oil, concentrated in Bloco 14 in Angola. Proven and probable reserves together totalled at the time 50.4 million barrels. Galp Energia's Reserves and contingent resources were assessed by Gaffney, Cline & Associates considering a reference crude price of 65 USD/bbl.

2. REFINING & MARKETING

Million euros (except otherwise noted)

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
2,894	2,515	(380)	(13.1%)	Sales and services rendered	10,030	10,838	808	8.1%
(31)	**(62)**	**(31)**	**s.s.**	**Operating result**	**602**	**368**	(234)	**(38.9%)**
76	138	62	81.1%	Inventory holding effect	(294)	9	303	n.m.
33	13	(20)	(60.2%)	Non recurrent items	31	(18)	(49)	n.m.
78	**89**	**12**	**15.1%**	**Adjusted operating result**	**338**	**358**	**19**	**5.8%**
5.2	1.7	(3.5)	(67.1%)	Rotterdam cracking refining margin1 (Usd/bbl)	5.3	3.3	(2.0)	(38.2%)
3.3	4.1	0.8	23.5%	Rotterdam hydroskimming + aromatics refining margin1 (Usd/bbl)	3.3	2.9	(0.5)	(13.8%)
7.8	5.0	(2.8)	(35.9%)	Galp Energia refining margin (Usd/bbl)	7.2	5.4	(1.9)	(25.7%)
24,850	24,056	(0.1)	(2.0%)	Crude processed (bbl)	97,526	98,502	976	1.0%
3.6	3.6	(0.1)	(2.0%)	Raw material processed (million tonnes)	14.3	14.7	0.5	3.4%
4.0	**4.0**	(0.0)	(0.8%)	**Total refined product sales (million tonnes)**	**15.9**	**16.2**	0.3	1.9%
2.3	**2.2**	(0.1)	(6.2%)	**Sales to Galp Energia clients (million tonnes)**	**9.4**	**9.0**	(0.4)	(4.1%)
1.1	**1.1**	(0.0)	(3.0%)	Wholesale	**4.6**	**4.4**	(0.1)	(3.2%)
0.6	**0.6**	(0.0)	(2.3%)	Retail	**2.6**	**2.5**	(0.1)	(3.0%)
0.1	**0.1**	(0.0)	(7.2%)	LPG	**0.4**	**0.4**	(0.0)	(4.9%)
0.5	**0.4**	(0.1)	(19.0%)	Others	**1.8**	**1.7**	(0.1)	(7.8%)
0.6	**0.8**	**0.1**	**23.0%**	**Exports (million tonnes)**	**2.3**	**3.1**	**0.8**	**34.9%**
-	-	-	-	**Number of service stations**	**1,060**	**1,045**	**(15)**	**(1.4%)**
-	-	-	-	**Number of c-stores**	**183**	**204**	**21**	**11.5%**
-	-	-	-	**Net total assets**	**3,746**	**3,549**	**(197)**	**(5.3%)**

[1] Source: Platts. For a complete description of the calculation methodology of Rotterdam margins, see "Definitions".

Operating results

Twelve months

The operating result of €368 million echo a €234 million, or 39% fall, compared to the (€602 million in 2005. This is explained by the strong inventory effect of €294 million in 2005, as a result of the use of the FIFO method to value the cost of goods sold, in a scenario of steep rises in the price of crude and oil products in international markets.

Excluding inventory effects and non-recurrent events - which included, in 2006, income related to the write down of the provision made for the monobuoy at the Leixões terminal (€39 million) and, in 2005, €21 million in provisions for impaired assets – operating results increased by 6% or €19 million, to €358 million.

In 2006, the company's refining margin declined by $1.9/bbl, or 26%, to $5.4/bbl. However, this effect was offset by (i) improved utilisation rates of the refining assets, (ii) better trading and marketing margins, (iii) a 35% increase in exports, that more than offset the contraction of the Portuguese market and (iv) a reduction in variable costs associated to product's transportation in the amount of €2.4 million, following the lower activity level in the domestic market.

Fourth quarter

The operating loss in the fourth quarter of 2006 amounted to €62 million. This result was strongly influenced by inventory effects for the amount of €138 million, which derived from the steep fall in crude prices after their peak in August.

In adjusted terms, the operating results of €89 million for the fourth quarter were 15% above those of the last quarter of 2005. This resulted from the favourable impact of trading and marketing operations and from lower depreciations and provisions.

Refining & Marketing Activities

Twelve months

The volume of processed raw materials increased by 0.5 million tonnes, or 3%, to 14.7 million tonnes. The Sines refinery was the main contributor with a 0.4 million tonne increase. Sold volumes increased by 2% to 16.2 million tonnes, as a consequence of a larger share of exports, mainly to the US, which made it possible to offset the shortfall in the domestic market. In 2006, the sales going to Galp Energia's direct clients represented 61% of total raw materials processed.

Middle distillates and gasoline represented more than 69% of total production, with shares of 44% and 25%, respectively.

The number of service stations contracted by 15 in the year, and was 1,045 at the end of 2006, following the campaign to increase station's profitability. In that sense, the number of convenience stores was raised from 21 to 204, which confirmed the company's commitment to the non-fuel business.

Sales volumes in the Retail and Wholesale sub-segments fell by 3% compared to 2005, which was in line with the general decline in the domestic market.

Fourth quarter

In the fourth quarter, sales volumes fell by 1% to 4 million tonnes and the refining system processed 3.6 million tonnes, a 2% decrease compared to the same period of 2005. This development was in line with the fall in international demand, particularly for heating oil.

In the fourth quarter, sales volumes for the Wholesale and LPG sub-segments receded, when compared with the same period of 2005. The Retail sub-segment was less affected and contracted by 2%, less than the reduction of 3% in the first nine months of the year.

3. GAS & POWER

Million euros (except otherwise noted)

Fourth quarter					Twelve months			
2005	2006	Change	% Ch.		2005	2006	Change	% Ch.
332	324	(8)	(2.5%)	Sales and services rendered	1,125	1,396	270	24.0%
56	**71**	**16**	27.8%	**Operating result**	**244**	**547**	**303**	**n.m.**
(12)	(8)	5	n.m.	Inventory holding effect	(19)	(5)	14	n.m.
0	(21)	(22)	n.m.	Non recurrent items	1	(276)	(276)	n.m.
44	**42**	**(2)**	**(3.8%)**	**Adjusted operating result**	**225**	**266**	**41**	**18.1%**
1,090	**996**	**(94)**	**(8.6%)**	**NG supply sales volumes (million m3)**	**4,234**	**4,596**	**362**	**8.5%**
521	255	(266)	(51.1%)	Electrical	2,013	1,737	(276)	(13.7%)
383	388	5	1.4%	Industrial	1,446	1,512	65	4.5%
185	191	6	3.5%	Local distribution companies	656	694	38	5.9%
1	162	160	n.m.	Trading	119	654	534	n.m.
134	**132**	**(2)**	**(1.3%)**	**NG distribution sales volumes[1] (million m3)**	**478**	**498**	**20**	**4.1%**
72	75	2	3.1%	Industrial	260	277	16	6.3%
13	13	0	0.9%	Commercial	43	47	3	7.8%
49	45	(4)	(8.4%)	Residential	175	174	(0)	(0.1%)
-	**-**	**-**	**-**	**NG distribution clients[1] (thousands)**	**739**	**790**	**51**	**6.9%**
231	**392**	**161**	**69.8%**	**Power generation[1] (GWh)**	**1,375**	**1,561**	**186**	**13.5%**
-	**-**	**-**	**-**	**Natural gas net fixed assets[2]**	**1,416**	**725**	**(691)**	**(48.8%)**
-	**-**	**-**	**-**	**Net total assets**	**2,030**	**1,802**	**(227)**	**(11.2%)**

[1] Includes unconsolidated companies where Galp Energia has a significant interest
[2] Excludes financial investments

Operating results

Twelve months

The operating result of €547 million included the favourable impact of non-recurrent events, of which the most important was the sale of Natural Gas Regulated Assets to REN and the income from the lease of optical fibre to ONI.

In adjusted terms, operating results increased by €41 million, or 18%, to €266 million. This was driven by a 9% increase in the volume of natural gas (362 million cubic meters of natural gas) as well as the rise in the average selling price of natural gas in line with international benchmarks, namely dated Brent.

Fourth quarter

In the fourth quarter, operating results rose by €16 million, or 28%, to €71 million, compared to the same period of 2005. The main contributor to the increase, in the first full quarter after the sale of the transportation and regasification operations to REN, was a non-recurrent event consisting of the litigation with ONI on a lease contract for optical fibre, which had an impact in operating results.

Excluding inventory effect and non-recurrent events, the operating result fell by 4% to €42 million, reflecting the fall in the volumes of natural gas sold and the new post-unbundling environment.

The main changes in this quarter post-unbundling process were: (i) the increase in supplies and services arising from fees of €25 million payable to REN on account of the transportation and regasification of natural gas, (ii) the €2.1 million reduction in personnel costs relating to the transfer of 188 employees to REN and (iii) the decrease in depreciation charges by €7.6 million following the sale of assets to REN and (iv) less €0.9 million of maintenance and repair costs.

Gas & Power Activities

Twelve months

The volume of natural gas sold was 4,596 million m3, up 362 million m3, or 9%, on 2005. This increase was possible on the back of trading opportunities in the international market, which offset lower demand by the electricity sector in a year of heavy rainfall in Portugal compared to 2005.

In the Industrial sub-segment sales rose by 5% in the wake of larger volumes sold to cogeneration plants.

The volume of natural gas sold by the distribution network grew by 20 million m3 mainly because of the growth of €16 million m3, or 6%, in the industrial sector as a result of the rise in the number of clients. The number of NG's distribution clients rose to 790,000, keeping the growing pace, with 51,000 new clients in 2006.

The use of natural gas in the cogeneration plants where Galp Energia has a stake increased by 8.4% to 173 million m3 and the unit margin rose 11% to €13.3 per MWh compared to 2005.

Fourth quarter

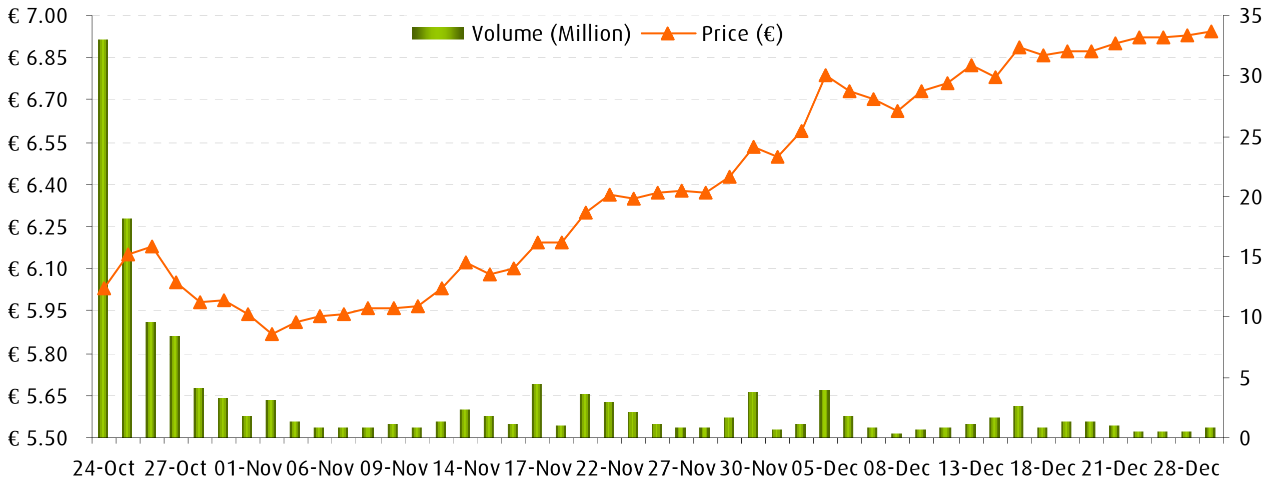
In the fourth quarter of 2006 natural gas supply and distribution sales fell compared to the same period of 2005. While the Electrical sub-segment demand, from Tapada do Outeiro and Termoeléctrica do Ribatejo CCGTs dropped by 51% compared to the same period last year, the Distribution sub-segment declined by 1% as the mild temperatures in October and November had a negative impact on consumption.

The use of natural gas in the cogeneration plants where Galp Energia has a stake was 45 million m3 and the unit margin was €13.3 per MWh. The total production of electrical energy for sale to the network was 151 GWh, at an average tariff of €94.5 per MWh.

GALP ENERGIA SHARE

The initial public offering of Galp Energia shares closed on 23 October 2006. From that date until the last trading day of the year (29 December), the Galp Energia share gained around 19% - from 5.81 euros to 6.94 euros. The share peaked on 21 December at 6.95 euros.

Price movements in the Galp Energia share



Traded volumes were stable since the shares were listed on Euronext Lisbon on 23 October 2006, with a daily average volume - excluding the first week - of around 1.6 million shares. Up to and including 29 December 2006, 139 million shares were traded, corresponding to 17% of Galp Energia's share capital.

At 31 December 2006, Galp Energia had a market capitalisation of €5,755 million.

POST CLOSING EVENTS

New CEO takes office in 2007

On 20 November the board of directors approved unanimously the appointment, from 1 January 2007, of Manuel Ferreira De Oliveira as Chief Executive Officer and Vice-Chairman of the board of directors.

Major holdings

On 21 February, Galp Energia announced that Parpública – Participações Públicas (SGPS), S.A. ("Parpública") had informed that acquired from the Ministry of Finance's *Direcção Geral do Tesouro*, 40,000,000 shares of type A and 1,494,501 shares of type B, representing 5.0% of the share capital of Galp Energia, SGPS, S.A. ("Galp Energia"). After this acquisition, Parpública is the holder of 58,079,514 shares in Galp Energia, representing 7.0% of its share capital and 7.0% of its voting rights.

Refining & Marketing

On 24 January, Galp Energia announced the approval by its board of directors of a capital expenditure programme for its refining units. One major target of this programme is the conversion unit whose aim is to increase, by 2011, diesel oil production by 2.5 million tonnes, and reduce the production of fuel oil. The investment affects the Sines and Oporto refineries and its cost is estimated at €998 million.

In addition to this investment, a decision was made to locate a cogeneration plant in the Oporto refinery following the model of the plant under construction in the Sines refinery.

Exploration & Production

Commercial discovery on Block 32

On 3 January, the consortium exploring Block 32 in the ultra-deep waters off Angola's shore, where Galp Energia has a 5% stake, announced that the sixth exploration well, called *Salsa-1*, had revealed a new oil discovery.

The same consortium announced, on 8 February, two new oil discoveries in the eighth and ninth exploration wells, called *Manjericão-1* and *Caril-1*.

Commercial finding on Block 14

On 26 January, the consortium exploring Block 14 in Angola, where Galp Energia has a stake of 9%, announced a new, significant oil finding, called *Lucapa-1*, in deep waters on Angola's offshore.

Exploration of oil on domestic territory

On 1 February, Galp Energia signed with the Portuguese state three contracts for the concession of oil exploration, development and production rights on national territory.

These three contracts confer exploration rights in three different areas located at sea – called Gamba, Lavagante and Santola – totalling 9,000 km2 off Alentejo's coast. These three blocks comprise water depths between 200 and 3,000 metres.

The consortium that was formed to explore these areas consists of Hardman Resources Ltd (80%), which also is the consortium's operator, Partex Oil and Gas (Holdings) Corporation (10%) and Galp Energia (10%).

Announcement of the potential of Block BM-S 11 in Brazil

On 21 February, Galp Energia disclosed the potential of the discovery announced in October 2006, called *Tupi*, with an area of approximately 800 km2 and located 280 km off the southern coast of Rio de Janeiro state. It is estimated that the volume of oil in place is in a range between 1.7 and 10 billion barrels of equivalent. Rates of recovery for the estimated volumes will depend on available recovery methods as well as the oil and seam types.

HOLDINGS

1. MAJOR HOLDINGS

Company	Country	Business Segment	Equity Share	Consolidation method
Petróleos de Portugal, Petrogal, S.A.	Portugal	R&M	100%	Full
Galp Energia España, S.A.	Spain	R&M	100%	Full
Galp Exploração e Produção Petrolífera, S.A..	Portugal	E&P	100%	Full
CLCM - Companhia Logística da Madeira, S.A.	Portugal	R&M	75%	Full
CLC - Companhia Logística de Combustíveis, S.A.	Portugal	R&M	65%	Proportional
CLH - Compañia Logística de Hidrocarboros, S.A.	Spain	R&M	5%	Equity
GDP, Gás de Portugal, SGPS, S.A.	Portugal	G&P	100%	Full
Transgás, SGPS, SA	Portugal	G&P	100%	Full
Transgás, S.A.	Portugal	G&P	100%	Full
Transgás, Armazenagem, S.A.	Portugal	G&P	100%	Full
Transgás Industria, S.A.	Portugal	G&P	100%	Full
EMPL - Europe MaghrebPipeline, Ltd	Spain	G&P	27%	Equity
Gasoduto Al-Andaluz, S.A.	Spain	G&P	33%	Equity
Gasoduto Extremadura, S.A.	Spain	G&P	49%	Equity
GDP Distribuição, SGPS, S.A.	Portugal	G&P	100%	Full
Lisboagas, SA	Portugal	G&P	100%	Full
Lusitaniagás, S.A.	Portugal	G&P	100%	Full
Setgás, S.A.	Portugal	G&P	45%	Equity
Beiragás, S.A.	Portugal	G&P	59%	Full
Duriensegás, S.A.	Portugal	G&P	100%	Full
Tagusgás, S.A.	Portugal	G&P	41%	Equity
Galp Power, SGPS, SA	Portugal	G&P	100%	Full
Galp Energia, S.A.	Portugal	Others	100%	Full

2. INCOME FROM ASSOCIATED COMPANIES

Million euros

	2005	2006	%
CLH	7.0	6.1	(13.5%)
International Pipelines	37.9	37.0	(2.3%)
Distribution Company Setgás	2.1	2.7	27.3%
Sonangalp	0.0	(1.2)	n.m.
Enacol	0.8	0.8	(0.5%)
Others	(0.3)	0.6	n.m.
Sub total	**47.5**	**46.0**	**(3.1%)**
Consolidation adjustments	4	(5.5)	n.m.
Total	**51.2**	**40.5**	**(20.9%)**

RECONCILIATION OF REPORTED AND ADJUSTED FIGURES

1. ADJUSTED OPERATING RESULT BY BUSINESS SEGMENT

Million euros

Fourth quarter					2006	Twelve months				
Operating result	Inventory effect	Operating result at replacement cost	Non recurrent items	Adjusted operating result		Operating result	Inventory effect	Operating result at replacement cost	Non recurrent items	Adjusted operating result
22	**131**	**152**	**(5)**	**148**	**Operating result**	**949**	**4**	**953**	**(286)**	**667**
18	-	18	-	18	E&P	45	-	45	-	45
(62)	138	76	13	89	R&M	368	9	376	(18)	358
71	(8)	64	(21)	42	G&P	547	(5)	542	(276)	266
(6)	-	(6)	3	(2)	Others	(10)	-	(10)	8	(2)

Million euros

Fourth quarter					2005	Twelve months				
Operating result	Inventory effect	Operating result at replacement cost	Non recurrent items	Adjusted operating result		Operating result	Inventory effect	Operating result at replacement cost	Non recurrent items	Adjusted operating result
19	**64**	**84**	**33**	**117**	**Operating result**	**863**	**(313)**	**549**	**31**	**580**
(19)	-	(19)	-	(19)	E&P	18	-	18	-	18
(31)	76	45	33	78	R&M	602	(294)	308	31	338
56	(12)	44		44	G&P	244	(19)	225	1	225
14	-	14	(0)	14	Others	(1)	-	(1)	(0)	(1)

2. ADJUSTED EBITDA BY BUSINESS SEGMENT

Million euros

Fourth quarter					2006	Twelve months				
EBITDA	Inventory effect	EBITDA at replacement cost	Non recurrent items	Adjusted EBITDA		EBITDA	Inventory effect	EBITDA at replacement cost	Non recurrent items	Adjusted EBITDA
99	**131**	**230**	**(10)**	**220**	**EBITDA**	**1,241**	**4**	**1,244**	**(286)**	**958**
32	-	32	-	32	E&P	79	-	79	-	79
(3)	138	135	5	140	R&M	587	9	595	(36)	560
73	(8)	65	(15)	50	G&P	581	(5)	576	(256)	320
(2)	-	(2)	0	(2)	Others	(6)	-	(6)	5	(1)

Million euros

Fourth quarter					2005	Twelve months				
EBITDA	Inventory effect	EBITDA at replacement cost	Non recurrent items	Adjusted EBITDA		EBITDA	Inventory effect	EBITDA at replacement cost	Non recurrent items	Adjusted EBITDA
158	64	222	(0)	222	EBITDA	1,192	(313)	879	(2)	877
(7)	-	(7)	-	(7)	E&P	40	-	40	-	40
77	76	153	(0)	153	R&M	849	(294)	554	(2)	552
74	(12)	61	0	61	G&P	303	(19)	283		284
14	-	14	(0)	14	Others	1	-	1	(0)	0

3. NON RECURRENT ITEMS

Refining & Marketing

Million Euros

Fourth quarter			Twelve months	
2005	2006		2005	2006
		Exclusion of non recurrent items		
-	4	Sale of strategic stock	(0)	(3)
-	(1)	Services rendered	-	(1)
(6)	-	Indemnities	(11)	(2)
(2)	(5)	Gains / losses on disposal of assets	0	(8)
9	3	Write offs	9	3
-	-	Monobuoy restatement	-	(39)
8	5	Restructuring costs	8	14
4	9	Provisions for environmental charges	4	9
21	(1)	Assets impairments	21	8
33	**13**	**Non recurrent items of operating result**	**31**	**(18)**
-	(1)	Capital gains / losses on disposal of financial investments	(1)	(1)
33	**12**	**Non recurrent items before income taxes**	**30**	**(20)**
(10)	(3)	Income taxes on non recurrent items	(9)	6
23	**9**	**Total non recurrent items**	**21**	**(13)**

Gas & Power

Million Euros

Fourth quarter			Twelve months	
2005	2006		2005	2006
		Exclusion of non recurrent items		
-	(15)	Services rendered	-	(15)
(0)	(1)	Gains / losses on disposal of assets	(0)	(257)
0	-	Write offs	1	0
-	1	Restructuring costs	-	2
-	(6)	Provisions for environmental charges	-	(6)
-	(0)	Others	-	(0)
0	**(21)**	**Non recurrent items of operating result**	**0**	**(276)**
(3)	0	Capital gains / losses on disposal of financial investments	(58)	20
-	(15)	ONI profits	-	(15)
(3)	**(37)**	**Non recurrent items before income taxes**	**(57)**	**(271)**
(0)	10	Income taxes on non recurrent items	(0)	20
(3)	**(27)**	**Total non recurrent items**	**(57)**	**(252)**

Others

Million Euros

Fourth quarter			Twelve months	
2005	**2006**		**2005**	**2006**
		Exclusion of non recurrent items		
(0)	0	Gains / losses on disposal of assets	(0)	5
-	3	Provisions for environmental charges	-	3
(0)	**3**	**Non recurrent items of operating result**	**(0)**	**8**
0	-	Capital gains / losses on disposal of financial investments	0	-
(0)	**3**	**Non recurrent items before income taxes**	**(0)**	**8**
0	(0)	Income taxes on non recurrent items	0	(0)
(0)	**3**	**Total non recurrent items**	**(0)**	**8**

Consolidated

Million Euros

Fourth quarter			Twelve months	
2005	**2006**		**2005**	**2006**
		Exclusion of non recurrent items		
-	4	Sale of strategic stock	(0)	(3)
-	(16)	Services rendered	-	(16)
(6)	-	Indemnities	(11)	(2)
(3)	(6)	Gains / losses on disposal of assets	(0)	(259)
9	3	Write offs	9	3
-	-	Monobuoy restatement	-	(39)
8	6	Restructuring costs	8	16
4	6	Provisions for environmental charges	4	7
21	(1)	Assets impairments	21	8
33	**(5)**	**Non recurrent items of operating result**	**31**	**(286)**
(3)	(1)	Capital gains / losses on disposal of financial investments	(58)	19
-	(15)	ONI profits	-	(15)
30	**(21)**	**Non recurrent items before income taxes**	**(27)**	**(282)**
(10)	7	Income taxes on non recurrent items	(10)	26
20	**(14)**	**Total non recurrent items**	**(37)**	**(257)**

FINANCIAL STATEMENTS

1. CONSOLIDATED INCOME STATEMENT

Million euros

Fourth quarter 2005	Fourth quarter 2006		Twelve months 2005	Twelve months 2006
		Operating income		
3,153	2,767	Sales	10,985	12,046
43	50	Services rendered	152	164
22	34	Other operating income	83	399
3,218	**2,851**	**Total operating income**	**11,221**	**12,609**
		Operating costs		
(2,779)	(2,475)	Inventories consumed and sold	(9,162)	(10,400)
(172)	(176)	Material and services consumed	(526)	(567)
(83)	(82)	Personnel costs	(270)	(306)
(115)	(68)	Amortisation and depreciation cost	(307)	(257)
(23)	(9)	Provision and impairment of receivables	(23)	(35)
(27)	(19)	Other operating costs	(71)	(94)
(3,198)	**(2,829)**	**Total operating costs**	**(10,358)**	**(11,660)**
19	**22**	**Operating profit**	**863**	**949**
(3)	18	Financial income	9	32
(9)	(16)	Financial costs	(62)	(62)
(5)	(1)	Exchange gain (loss)	(17)	2
17	12	Result of participation in associates	105	21
1	0	Income and cost on financial instruments	(4)	(3)
(0)	(0)	Other gains and losses	(1)	(1)
20	**34**	**Profit before taxes**	**893**	**939**
6	(1)	Income tax expense	(189)	(180)
26	**33**	**Profit before minority interest**	**705**	**759**
(1)	(1)	Profit attributable to minority interest	(4)	(4)
25	**32**	**Net profit for the period**	**701**	**755**
0.03	**0.04**	**Earnings per share (in Euros)**	**0.84**	**0.91**

2. CONSOLIDATED BALANCE SHEET

Million euros

	Dec 31, 2005	Sept 30, 2006	Dec 31, 2006
Non current assets			
Tangible fixed assets	2,555	1,850	1,927
Goodwill	20	18	17
Other tangible fixed assets	367	367	325
Investments in associates	85	163	147
Investments in other companies	64	1	1
Other receivables	96	81	107
Deferred tax assets	159	150	145
Other investments	0	1	1
Total non current assets	**3,346**	**2,631**	**2,671**
Current assets	0	0	0
Inventories	1,199	1,278	1,065
Trade receivables	898	974	961
Other receivables	323	374	328
Other investments	10	34	14
Current Income tax recoverable	-	0	0
Cash and cash equivalents	158	119	213
Total current assets	**2,588**	**2,780**	**2,581**
Total assets	**5,934**	**5,411**	**5,253**
EQUITY AND LIABILITIES	0	0	0
Equity	0	0	0
Share capital	829	829	829
Share premium	82	82	82
Translation reserve	(2)	(7)	(10)
Other reserves	85	107	107
Hedging reserves	(3)	(0)	1
Retained earnings	669	255	255
Profit attributable to equity holders of the parent	701	723	755
Equity attributable to equity holders of the parent	**2,361**	**1,988**	**2,018**
Minority interest	25	18	19
Total equity	**2,386**	**2,006**	**2,037**
Liabilities	0	**0**	0
Non current liabilities	0	0	0
Bank loans and overdrafts	782	271	291
Bonds	310	260	226
Other payables	96	93	71
Retirement and other benefit obligations	214	225	242
Deferred tax liabilities	132	151	93
Other financial instruments	5	2	0
Provisions	73	76	83
Total non current liabilities	**1,613**	**1,078**	**1,006**
Current liabilities	0	0	0
Bank loans and overdrafts	257	560	563
Bonds	-	50	20
Trade payables	706	712	685
Other payables	916	932	859
Other financial instruments	2	2	3
Income tax	54	70	81
Total current liabilities	**1,936**	**2,327**	**2,210**
Total liabilities	**3,548**	**3,405**	**3,216**
Total equity and liabilities	**5,934**	**5,411**	**5,253**

ADDITIONAL INFORMATION

Definitions

Replacement Cost	Under this methodology, the cost of goods sold is valued at "replacement cost", that is, the cost of goods at the time the sales occur and independently of inventories held at the beginning or end of periods. "Replacement cost" is not a recognised GAAP measure, is not adopted for purposes of valuing inventories and does not reflect the replacement cost of other assets.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation. Refers to a measurement that we use to measure operating performance. EBITDA represents operating results plus amortisation, depreciation and provisions. EBITDA is presented because we believe that it is frequently used by securities analysts, investors and other interested parties as a measure of a company's operating performance and debt servicing ability given that it assists in comparing a company's performance on a consistent basis without regard to depreciation and amortisation, which can vary significantly depending on accounting methods or non-operating factors (such as the use of historical costs).
Rotterdam cracking margins	Rotterdam Cracking refining margin yield is composed of: -100% Brent Dated, +25,4% PM UL FOB Bg, +7,1% Naphtha FOB Bg, +8,5% Jet CIF Cg, +38% ULSD CIF Cg and 1+4% LSFO FOB Cg. Rotterdam margins include fuel & losses and freights. Freight for rout TD7 of 0.59 Usd/bbl in 2006.
Rotterdam hydroskimming + aromatics refining margin	Rotterdam Hydroskimming + aromatics refining margin is calculated using 70% of Rotterdam Hydroskimming refining margin and 30% of aromatics margins. The yield of Rotterdam Hydroskimming refining margin is composed of: -100% Brent Dated, +15,1% PM UL FOB Bg, +5,1% Naphtha FOB Bg, +9% Jet CIF Cg, +36,5% ULSD CIF Cg and +30,3% LSFO FOB Cg. Aromatics margin yield is -100% PM UL FOB Bg, -12% LSFO CIF NEW, +37% Naphtha FOB Bg, +16,5% PM UL FOB Bg, +6,5% Benzene FOB Bg, +18,5% Toluene FOB Bg, +16,5% Paraxylene FOB Bg and +4,9% Ortoxylene FOB Bg. Rotterdam margins include fuel & losses and freights. Freight for rout TD7 of 0.59 Usd/bbl in 2006.
Proved reserves	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. Proved reserves can be categorised as developed or undeveloped. If deterministic methods are used, the term "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 and may involve an averaging period that is consistent with the purpose of the reserve estimate, appropriate contract obligations, corporate

procedures and government regulations involved in reporting these reserves. 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. In certain cases, proved reserves may be assigned on the basis of well logs and/or core analysis that indicate the subject reservoir is hydrocarbon bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests. 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. In the absence of data on fluid contacts, the lowest known occurrence of hydrocarbons controls the proven limit unless otherwise indicated by definitive geological, engineering or performance 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. Reserves which are to be produced through the application of established improved recovery methods are included in the proven classification when (1) successful testing by a pilot project or favourable response of an installed programme in the same or an analogous reservoir with similar rock and fluid properties provides support for the analysis on which the project was based, and (2) it is reasonably certain that the project will proceed. Reserves to be recovered by improved recovery methods that have yet to be established through commercially successful applications are included in the proven classification only (1) after a favourable production response from the subject reservoir from either (a) a representative pilot or (b) an installed programme where the response provides support for the analysis on which the project is based, and (2) it is reasonably certain the project will proceed.

Probable reserves

Under the definitions approved by the SPE and the WPC, probable reserves are a category of unproved reserves. Unproved reserves are based on geological and/or engineering data similar to that used in estimates of proved reserves and analysis of the data suggest that they are more likely than not to be recoverable. However, technical, contractual, economic or regulatory uncertainties preclude such reserves being classified as proven. Unproved reserves may be estimated by assuming future economic conditions different from those prevailing at the time of the estimate. The effect of possible future improvements in economic conditions and technological developments can be expressed by allocating appropriate quantities of reserves to the probable and possible classifications. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proven plus probable reserves.

In general, probable reserves may include (1) reserves anticipated to be proven by normal step out drilling where subsurface control is inadequate to classify these reserves as proven, (2) reserves in formations that appear to be productive based on well log characteristics but for which core data or definitive tests are lacking and which are not analogous to producing or proved reserves in the area, (3) incremental reserves attributable to infill drilling that could have been classified as proven if closer statutory spacing had been approved at the time of the estimate, (4) reserves attributable to improved recovery methods that have been established by repeated commercially successful applications when (a) a project or pilot is planned but not in operation and (b) rock, fluid, and reservoir characteristics appear favourable for commercial application, (5) reserves in an area of the formation that appears to be separated from the proven area by faulting and the geologic interpretation indicates that the subject area is structurally higher than the proven area, (6) reserves attributable to a future workover, treatment, re treatment, change of equipment or other mechanical procedures, where such procedure has not been proven successful in wells that exhibit similar behaviour in analogous reservoirs, and (7) incremental reserves in proven reservoirs where an alternative interpretation of performance or volumetric data indicates more reserves than can be classified as proven.

Abbreviations

bbl: barrel(s); bbl/d: barrel(s) per day; Bg: Barges; Cg: Cargoes; CIF: Costs, Insurance and Freights; E&P: Exploration and Production; Eur: euro; FOB: Free on Board; G&P: Gas & Power; LSFO: Low sulphur fuel oil; m^3: cubic meters; n.m.: not meaningful; PM UL: Premium unleaded; R&M: Refining & Marketing including petrochemicals; ULSD CIF Cg: Ultra Low sulphur diesel CIF Cargoes; Usd: US dollar.

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