Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A. and Subsidiaries
Consolidated Financial Statements and
Consolidated Management Report
for the year ended
December 31, 2019

Building a better working world

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AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS ISSUED BY AN INDEPENDENT AUDITOR

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails

To the Shareholders of COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.:

Opinion

We have audited the consolidated financial statements of COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A. (the parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2019, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidation statement of changes in equity, the consolidated statement of cash flows, and the notes thereto for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at December 31, 2019 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those regulations are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Most relevant audit issues

Most relevant audit issues are those matters that, in our professional judgment, were the most significant assessed risks of material misstatements in our audit of the consolidated financial statements of the current period. These risks were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these risks.

Impairment assessment of exploration and production assets

Description

The Group owns interests in exploration and production assets mainly in Algeria, South East Asia, South America and Abu Dhabi. At least once a year, management performs an annual impairment test on these assets (which are classified as intangible assets, property, plant and equipment, and investments in associates and joint ventures). This assessment of the recoverability of the aforementioned assets requires management to make assumptions in order to prepare the underlying cash flow projections.

The assumptions include forecasts of oil prices, costs, discount rates, estimation of oil and gas reserves and overall market and economic conditions. Refer to Note 13 of the consolidated financial statements for details on impairment assessment of oil and gas assets.

We have determined these estimates and valuations to be a relevant audit matter since, given the amount of the assets affected, changes in the hypotheses could have a material impact on the Group's consolidated financial statements.

Our response

Among others, we have performed the following procedures:

- We understood the process adopted by the Group for assessing the recoverability of such assets and reviewed the design and operating effectiveness of the key controls.
- We reviewed, in collaboration with our valuation specialists, the reasonableness of the methodology used by management to prepare the discounted cash flows calculations.
- For price assumptions, we corroborated future commodity prices to external forecasts; we confirmed prices were used consistently across CEPSA and that pricing differentials were reasonable and appropriate.
- We engaged our internal valuation specialists to test the reasonableness of the discount rates used for the impairment testing.
- Regarding cash flow inputs, we:
  - Confirmed that the key inputs (income, operating expenditures profiles, working capital and capital costs) could be supported by approved strategic plan and that their reasonability was based on current assets conditions and their projections of potential changes.
  - Verified that the assumptions development by the management to estimate the recoverable amount of these assets are consistent with the assumptions used for the estimation of the oi and gas reserves.
- We also verified the mathematical integrity of the impairment models, performed a sensitivity analysis and other additional procedures to assess the completeness of the impairments.

- We reviewed the disclosures included in the accompanying consolidated financial statements in accordance with accounting standards.

The estimation of oil and gas reserves

Description

The estimation of oil and gas reserves and resources has a significant impact on the consolidated financial statements, particularly in impairment testing and in depreciation, depletion and amortization ('DD&A') charges (as described in in Notes 4.4 and 13 to the consolidated financial statements). This estimation is a significant area of judgment due to the technical uncertainty in assessing quantities and to the complex contractual arrangements in place dictating the group's share of reportable volumes.

Our response

Among others, we have performed the following procedures:

- We understood the process adopted by the Group to estimate the oil and gas reserves and reviewed the design and operating effectiveness of the key controls.
- We assessed the competence of the group's internal experts to satisfy ourselves that they were appropriately qualified to carry out the volumes estimation.
- We reviewed the reasonability of the main changes in reserves with regard to the last year and reconciliated actual production with expected production.
- We analysed the key field development assumptions, such as productions profiles, investments, operating costs and costs for decommissioning, as well as these assumptions supporting the estimations of the oil and gas reserves.
- We validated the consistency of the estimated reserves volume with the volumes used for the impairment test analysis and for the depreciation calculation.

Recoverability of deferred tax assets (investment in Coastal Group)

Description

As disclosed in Note 26 to the consolidated financial statements, the Group has deferred tax assets related to losses incurred by "Coastal" Group subsidiaries of EUR 373 million at December 31, 2019. The recoverability assessment is based on the liquidation of these companies and on management's conclusion that it is probable that there will be sufficient future taxable profits against which to offset these deferred tax assets.

We have determined this estimate and valuation to be a relevant audit matter since, given the amount of the asset, changes in the hypotheses could have a material impact on the Group's consolidated financial statements.

Our response

Among others, we have performed the following procedures:

- We obtained an understanding and walked through the Group's process to assess recoverability of deferred tax assets, including controls over the data and assumptions used in the analysis, and evaluated the design and operating effectiveness of the key controls.
- We reviewed the CEPSA management's estimate of Coastal's oil reserves depletion and the future liquidation process of the investment in the Coastal Group.

- We evaluated underlying data and assumptions used by management in determining the expected future tax losses in Coastal group companies and our tax specialists assisted us in verifying tax regulation and the computations of deferred tax assets.
- For the tax plan of CEPSA Fiscal Group in Spain, we considered whether or not the plan was reasonable and in line with the current tax law, including satisfying ourselves that sufficient profit would be available in the appropriated periods.
- We reviewed the disclosures included in the accompanying consolidated financial statements in accordance with current regulation.

Other information: consolidated management report

Other information refers exclusively to the 2019 consolidated management report, the preparation of which is the responsibility of the parent Company's directors and is not an integral part of the financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

a. A specific level applicable to consolidated non-financial information, which solely requires that we verify whether said information has been included in the consolidated management report, or if applicable, that the consolidated management report includes the corresponding reference to the separate report on non-financial information as required by regulations, and if not, disclose this fact.

b. A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on knowledge of the Company obtained during the audit, excluding information not obtained from evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report that fact.

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in a separate report, "Annual and Corporate Responsibility Report", to which reference is included in the consolidated management report and that the remaining information contained therein is consistent with that provided in the 2019 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Directors' responsibilities for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the parent company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with prevailing audit regulations in Spain, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors of the parent company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the significant risks communicated with the parent company's directors, we determine those that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the most significant assessed risks.

We describe those risks in our auditor's report unless law or regulation precludes public disclosure about the matter.

ERNST & YOUNG, S.L.
(Registered in the Official Register of Auditors under No. S0530)

(signed in the original version)

Francisco Rahola Carral
(Registered in the Official Register of Auditors under No. 20597)

February 28, 2020

CONSOLIDATED FINANCIAL STATEMENTS

Compañía Española de Petróleos, S.A. and Subsidiaries
(Consolidated Group)

for the year ended December 31st, 2019

Contents

Consolidated Balance Sheet

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)
Consolidated Balance Sheet for the years ended December 31st, 2019 and 2018

			Thousands of euros
Assets	**Notes**	**2019**	**2018**
Non current assets			
Intangible assets, net	Note 8	653,399	641,399
Consolidated goodwill, net	Note 9	107,678	91,796
Property, plant and equipment, net	Note 10	6,138,581	6,052,618
Right of use, net	Note 11	737,381	-
Investments in equity accounted investees	Note 7	268,608	466,939
Non-current financial assets	Note 12	172,866	129,476
Deferred tax assets	Note 26	799,358	734,818
Total non-current assets		***8,877,871***	***8,117,046***
Current assets			
Inventories	Note 14	2,162,706	2,201,546
Trade and other receivables	Note 15	2,118,617	2,337,824
Current income tax assets		55,624	120,904
Other current financial assets	Note 12	87,095	130,467
Other current assets		12,002	9,362
Cash and cash equivalents	Note 16	561,160	246,878
Assets held for sale and discontinued operations	Note 5	98,499	-
Total current assets		***5,095,703***	***5,046,981***
Total assets		***13,973,574***	***13,164,027***

(The accompanying Notes 1 to 35 are an integral part of this Consolidated Balance Sheet)

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Consolidated Balance Sheet for the years ended December 31st, 2019 and 2018

Shareholder's Equity and Liabilities	Notes	2019	2018 (*)
		Thousands of euros	
Equity			
Share capital	Note 17.1	267,575	267,575
Share premium	Note 17.1	338,728	338,728
Revaluation reserve	Note 17.2	90,936	90,936
Retained earnings		3,687,701	3,883,002
Profit attributable to equity holders of the parent		820,023	830,064
Interim dividend	Note 17.4	(216,415)	(189,978)
Adjustments for changes in value	Note 17.3	211,995	216,151
Total equity attributable to shareholders of the parent		**5,200,543**	**5,436,478**
Non-controlling interest	Note 17.5	100,412	105,964
Total equity		***5,300,955***	***5,542,442***
Non-current liabilities			
Deferred tax liabilities	Note 2.2 and 26	623,627	481,172
Capital grants	Note 19	21,204	24,580
Employee defined benefit liabilities	Note 20.2	10,508	10,693
Provisions	Note 21	352,620	401,040
Non-current financial liabilities	Note 18	3,799,728	2,955,916
Other non-current liabilities	Note 18 and 22	127,063	171,960
Total non-current liabilities		***4,934,750***	***4,045,361***
Current liabilities			
Trade and other payables	Note 22	3,427,658	3,161,823
Current income tax liabilities and other liabilities		25,428	33,967
Bank borrowings	Note 18	267,955	380,434
Liabilities held for sale and discontinued operations	Note 5	16,828	-
Total current liabilities		***3,737,869***	***3,576,224***
Total equity and liabilities		***13,973,574***	***13,164,027***

(*) The year 2018 has been restated to apply retrospectively the cumulative effect of initially applying the IFRIC 23 from 1 January 2018.
See Notes 2.2, 21 and 26.

(The accompanying Notes 1 to 35 are an integral part of this Consolidated Balance Sheet)

Consolidated Income Statement

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)
Consolidated Income Statement
for the years ended December 31st, 2019 and 2018

Thousand of euros

	Notes	2019	2018 (*)
Sales of goods and rendering of services		21,157,559	22,078,905
Excise tax on oil and gas charged on sales		2,699,828	2,632,873
Revenue from contracts with customers	Note 23	***23,857,387***	***24,711,778***
Changes in inventories of finished goods and work in progress		(150,716)	298,331
In-house work on non-current assets	Notes 8 and 10	35,241	46,970
Procurements	Note 23	(16,615,091)	(17,924,057)
Other operating income		61,606	47,543
Staff costs	Note 23	(641,993)	(618,674)
Changes in operating allowances		18,176	(33,735)
Other operating costs:			
Excise tax on oil and gas		(2,704,141)	(2,639,224)
Other operating costs	Notes 2.2 and 23	(1,959,925)	(2,054,929)
Amortization charge		(830,115)	(638,178)
Allocation to profit or loss of grants related to non-Finance assets and other grants	Note 19 and 23	84,577	32,396
Impairment and gains or losses on disposals of non-current assets	Note 23	(88,245)	7,127
Operating Profit		***1,066,761***	***1,235,348***
Share of results of equity accounted investees	Note 7	(23,242)	23,456
Finance income	Note 25	60,365	54,983
Finance costs	Note 25	(174,297)	(175,026)
Impairment and gains or losses on disposals of Financial instruments	Note 25	407,049	8,761
Consolidated profit before tax		***1,336,636***	***1,147,522***
Income tax	Note 2.2 and 26	(503,015)	(304,447)
Consolidated profit for the year from continuing operations		***833,621***	***843,075***
Consolidated profit for the year		***833,621***	***843,075***
Attributable to:			
Equity holder of the Parent		820,023	830,064
Non-controlling interests	Note 17.5	13,598	13,011
Earnings (loss) per share:			
Basic	Note 27	1'53	1'55
Diluted		1'53	1'55

(*) The year 2018 has been restated to apply retrospectively the cumulative effect of initially applying the IFRIC 23 from 1 January 2018. See Notes 2.2, 21 and 26.

(The accompanying Notes 1 to 35 are an integral part of this Consolidated Income Statement)

Consolidated Statement of Comprehensive Income

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)
Consolidated Statement of Comprehensive Income
for the years ended December 31st, 2019 and 2018

	Notes	2019	2018
		Thousands of euros	
Consolidated profit for the year		**833,621**	**843,075**
Items to be reclassified to profit or loss:			
Gains and (losses) arising during the year		**(28,705)**	**(20,470)**
Net changes in cost of hedging	Note 17.3.B	(19,262)	-
Net (losses) gains on cash flow hedges	Note 17.3.B	(5,365)	(22,888)
Net (losses) gains on Net Investment hedge	Note 17.3.B	(50,427)	(173,171)
Exchange gains (losses) on translation of foreign operations		27,583	129,622
Tax effect	Note 26	18,766	45,967
Reclassification during the year to statement of profit/loss		**24,893**	**55,132**
Net (losses) gains on cash flow hedges	Note 17.3.B	2,195	18,398
Net (losses) gains on Net Investment hedge	Note 17.3.B	31,326	48,826
Tax effect	Note 26	(8,628)	(12,092)
Other comprehensive income/loss for the year net of tax		***(3,812)***	***34,662***
Total consolidated comprehensive income/loss		***829,809***	***877,737***
a) Attributable to equity holders of the Parent		815,867	866,219
b) Attributable to non-controlling interests		13,942	11,518

(The accompanying Notes 1 to 35 are an integral part of this Consolidated Statement of Comprehensive Income)

IAS 1 requires separate disclosure of items which will be reclassified in consolidated income statement from those which will not, so, it should be noted that in all the above cases the items are eligible for reclassification in the consolidated income statement.

Consolidated Statement of Changes in Equity

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)
Consolidated Statements of Changes in Equity
for the years ended December 31st, 2019 and 2018

Thousands of euros

	Equity attributable to equity holders of the parent								
	Share Capital	**Share premium**	**Revaluation reserve**	**Retained earnings**	**Profit attributable to equity holders of the parent**	**Interim dividend**	**Adjustments for changes in value**	**Non-controlling interest**	**Total**
Balance at 01/01/2019	***267,575***	***338,728***	***90,936***	***3,883,002***	***830,064***	***(189,978)***	***216,151***	***105,964***	***5,542,442***
Consolidated profit or loss for the period	**-**	**-**	**-**	**640,086**	**(830,064)**	**189,978**	**-**	**-**	**-**
Consolidated profit or loss for the period	-	-	-	-	820,023	-	-	13,598	833,621
Other comprehensive income for the period	-	-	-	-	-	-	(4,156)	344	(3,812)
Total consolidated comprehensive income	**-**	**-**	**-**	**-**	**820,023**	**-**	**(4,156)**	**13,942**	**829,809**
Changes due to transactions with shareholders									
- Dividend paid	-	-	-	(865,176)	-	-	-	(19,257)	(884,433)
- Interim dividend for the Finance year - (Note 17.4)	-	-	-	-	-	(216,415)	-	(4,857)	(221,272)
Other changes in equity									
- Capital increase/acquisition of non-controlling interest	-	-	-	29,789	-	-	-	4,620	34,409
Total shareholder transactions	**-**	**-**	**-**	**(835,387)**	**-**	**(216,415)**	**-**	**(19,494)**	**(1,071,296)**
Balance at 12/31/2019	***267,575***	***338,728***	***90,936***	***3,687,701***	***820,023***	***(216,415)***	***211,995***	***100,412***	***5,300,955***

Thousands of euros

	Equity attributable to equity holders of the parent								
	Share Capital	**Share premium**	**Revaluation reserve**	**Retained earnings**	**Profit attributable to equity holders of the parent**	**Interim dividend**	**Adjustments for changes in value**	**Non-controlling interest**	**Total**
Balance at 01/01/2018 before Impact of IFRS 9	***267,575***	***338,728***	***90,936***	***3,485,672***	***742,600***	***(189,978)***	***179,996***	***110,184***	***5,025,713***
- Opening Balance Impact of IFRS9 - Nota 2.b)	-	-	-	5,253	-	-	-	(691)	4,562
Balance at 01/01/2018 after Impact of IFRS 9	***267,575***	***338,728***	***90,936***	***3,490,925***	***742,600***	***(189,978)***	***179,996***	***109,493***	***5,030,275***
Consolidated profit or loss for the period	**-**	**-**	**-**	**552,622**	**(742,600)**	**189,978**	**-**	**-**	**-**
Consolidated profit or loss for the period	-	-	-	-	830,064	-	-	13,011	843,075
Other comprehensive income for the period	-	-	-	-	-	-	36,155	(1,493)	34,662
Total consolidated comprehensive income	**-**	**-**	**-**	**-**	**830,064**	**-**	**36,155**	**11,518**	**877,737**
Changes due to transactions with shareholders									
Dividend paid	-	-	-	(160,545)	-	-	-	(31,891)	(192,436)
Interim dividend for the Finance year	-	-	-	-	-	(189,978)	-	(5,389)	(195,367)
Other changes in equity									
- Capital increase/acquisition of non-controlling interest	-	-	-	-	-	-	-	22,233	22,233
Total shareholder transactions	**-**	**-**	**-**	**(160,545)**	**-**	**(189,978)**	**-**	**(15,047)**	**(365,570)**
Balance at 12/31/2018	***267,575***	***338,728***	***90,936***	***3,883,002***	***830,064***	***(189,978)***	***216,151***	***105,964***	***5,542,442***

(The accompanying Notes 1 to 35 are an integral part of this Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)
Consolidated Statement of Cash Flows
for the years ended December 31st, 2019 and 2018

		Thousands of euros
Cash Flows from operating activities	**2019**	**2018**
Profit before tax from continuing operations	**1,336,636**	**1,147,522**
Depreciation and amortisation charge and impairment losses	922,095	637,195
Changes in provisions for contingencies and costs	41,339	(2,855)
Grants related to assets and other deferred income	(84,568)	(32,401)
Impairment and gains or losses on disposals of financial instruments	(409,976)	(8,775)
Change in operating allowances	(18,151)	36,123
Finance income and costs	123,412	105,815
Share of results of equity accounted investees	26,799	(23,456)
Other changes	2,943	18,399
Cash flows generated from operating activities before changes in operating working capital	**1,940,529**	**1,877,567**
Changes in operating working capital	**396,090**	**(504,132)**
Dividends received	79,251	70,428
Income tax paid	(336,973)	(187,985)
Other cash flows used in operating activities	**(257,722)**	**(117,557)**
Total cash flows generated from operating activities	***2,078,897***	***1,255,878***
Cash Flows used in investing activities		
Payments		
Intangible assets	(40,488)	(50,914)
Property, plant and equipment	(853,705)	(1,983,208)
Finance assets		
Associates and other investments	(4,082)	(1,834)
Other Finance assets	(12,158)	(29,382)
Acquisition of subsidiary, net of cash acquired	(91,595)	(49,865)
Grants received	-	421
Total payments	**(1,002,028)**	**(2,114,782)**
Collections		
Intangible assets	-	340
Property, plant and equipment	19,705	43,371
Finance assets	55,710	57,102
Total collections	**75,415**	**100,813**
Total cash flows used in investing activities	***(926,613)***	***(2,013,969)***
Cash Flows from financing activities		
Dividends paid		
To equity holders of the Parents	(531,591)	(350,523)
To non-controlling interests	(19,218)	(37,280)
Total dividends paid	**(550,809)**	**(387,803)**
Proceeds from borrowings	1,810,418	1,674,763
Repayment of borrowings	(1,858,399)	(737,653)
Net change in Hedging instruments allocated to debt	-	-
Interest paid	(102,009)	(91,912)
IFRS16 Debt payments	(142,719)	-
Total cash flows from bank borrowings	**(292,709)**	**845,198**
Total cash flows from financing activities	***(843,518)***	***457,395***
Net increase (decrease) in cash and cash equivalents	***308,766***	***(300,696)***
Effect of changes in foreign exchange rates	2,133	1,937
Effect of exchange rate changes	3,383	-
Cash and cash equivalents at beginning of the period	***246,878***	***545,637***
Cash and cash equivalents at the end of the period	***561,160***	***246,878***
Detail of changes of operating working capital		
Inventories	65,279	(297,349)
Trade and other receivables	207,552	(375,946)
Other current Finance assets	(4,478)	14,621
Trade and other payables	117,761	161,608
Other changes	9,976	(7,066)
Total changes in operating working capital	***396,090***	***(504,132)***

(The accompanying Notes 1 to 35 are an integral part of this Consolidated Statement of Cash Flow)

Index of notes to the Consolidated Financial Statements

Notes to the Financial Statements for the year ended December 31st, 2019
Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

1. Corporate information and regulatory framework

A) Corporate information

Compañía Española de Petróleos, S.A. (hereinafter "CEPSA" or "the Company") was incorporated on September 26, 1929, for an indefinite period of time, with registered address at Paseo de la Castellana, 259 A, Madrid (Spain). It is entered in the Madrid Mercantile Register, Volume 588 of the Companies Book, Sheet 35, Page M-12689, and its Tax Identification Number is A-28003119.

At the beginning of 2019, CEPSA's sole and direct shareholder of all shares, which represents 100% of its share capital, was "CEPSA Holding LLC", a company incorporated in the UAE, and ultimately controlled by Mubadala Investment Company, PJSC ("MIC").

On October 15th, 2019, the company Cepsa Holding, LLC transferred 198,005,457 shares of Compañía Española de Petróleos, S.A. (CEPSA), representing 37% of the Company's share capital, to the entity Matador Bidco, S.À.R.L., a company incorporated in Luxemburg, and ultimately controlled by The Carlyle Group, Inc.. As of the closing date of the financial year, Cepsa Holding, LLC holds shares representing the remaining 63% of the Company's share capital.

As a result of the above and, on the above date, CEPSA lost its status as a Sole Proprietorship by virtue of a public document of declaration of loss of sole proprietorship, number 2,186 of the record of the Notary Public of Madrid, Mr. Federico Garayalde Niño.

CEPSA and its investees (hereinafter "the CEPSA Group") form an integrated business Group which operates in the hydrocarbons industry in Spain and abroad, engaging in business activities related to the exploration and extraction of crude oil and natural gas, the production of petrochemical and energy products, asphalts and lubricants, and their distribution and marketing, gas distribution and electricity generation, as well as trading activities.

B) Regulatory framework

The activities carried out by the Group, in Spain or abroad, are subject to numerous legal, regulatory, safety and environmental protection regulations. Any changes that may arise in applicable legislation can affect the framework in which these activities are carried out and therefore the results generated by the Group's operations.

The hydrocarbons sector, in which the CEPSA Group operates, is basically regulated by Law 34/1998 of October 7 on the Oil and Gas Sector, amended by Law 11/2013 of July 26th and Law 8/2015 of May 21st which regulates certain measures to support entrepreneurship and stimulate growth and tax and non-tax measures related to exploration, research and development of hydrocarbons.

Regarding oil product retailing, Law 11/2013 introduced certain limits on the agreements on exclusive supply arrangements for petroleum products between wholesale operators and retailers, which have obliged the Group's supply companies to adapt a significant part of the contracts in its network in order to incorporate these limitations.

Law 8/2015 introduced significant changes in the activities performed by operators in the hydrocarbons industry, including drilling, refining, commercialization of petrol products, liquid petroleum gas ("LPG") and natural gas.

The changes made by Law 8/2015, in the fuels and combustibles industry, established certain limits on the growth of wholesale operators depending on their market share and established the possibility of retail operators supplying each other.

Regarding natural gas, Law 8/2015 established an organized natural gas wholesale market, to be managed by the Market Operator (Mibgas).

CEPSA Group also operates in the electricity sector, regulated by Law 24/2013 of December 26th of Electricity sector. In mid 2014, a new remuneration system for renewable energies, including electricity cogeneration, was approved resulting in a major decrease in the return of this type of facility. Also important is Royal Decree 244/201 of April 2019, regulating administrative, technical and economic conditions for self-consumption of electrical energy.

By means of Law 18/2014 of October 15th, a National Energy Efficiency Fund was created in Spain. Wholesale operators of oil products or liquefied petroleum gases and natural gas and electricity supply companies must contribute to this Fund on a yearly basis, affecting profits in these business areas.

2. Basis of presentation

2.1. Statement of compliance

The accompanying Consolidated Financial Statements have been prepared based on the accounting records of Compañía Española de Petróleos, S.A. and its subsidiaries, and in accordance with all International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with all the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB applicable at December 31st, 2019 provided that they have been adopted at that date by the European Union with the exception of those applied in advance, if any.

The Consolidated Financial Statements for 2019 have been prepared by the Board of Directors of Compañía Española de Petróleos, S.A. on February 27th, 2020, and will be submitted to the General Shareholders' Meeting for approval. The Board of Directors considers that they will be approved without any change.

The 2018 Financial Statements of CEPSA and the CEPSA Group were prepared by the Board of Directors of Compañía Española de Petróleos, S.A. on February 28th, 2019, and approved by the then sole shareholder, Cepsa Holding, LLC in Abu Dhabi without any change on March 4th, 2019.

Reporting currency

The Consolidated Financial Statements are presented in Euros, which is the functional currency of the parent company and the reporting currency of the Consolidated Financial Statements. Figures are rounded to the nearest thousands, except when otherwise indicated.

Classification of debts and credits

In the accompanying Consolidated Balance Sheet, debts or loans falling due within twelve months are classified as current while those due to be settled within more than twelve months are classified as non-current.

There are loans falling due within twelve months but whose long-term refinancing is assured at the Company's discretion through existing long-term credit facilities. Such loans are classified as non-current liabilities.

Statement of cash flows

In accordance with the options for presentation contained in *IAS 7 Statement of Cash Flows*, the Group reports the information regarding cash flows and cash equivalents from operations using the *indirect method*, which implies starting with the PROFIT BEFORE TAXES on the Consolidated Income Statement and subsequently adjusting this figure for the effects of non-monetary transactions and accruals for the period, as well as items on the Consolidated Income Statement relating to cash flows from investing or financing operations.

In addition, the amount of interest payments related to the Group's financing has been included in 2019 within the Financial Cash Flows. For comparison, the amount of such payments in 2018, which had been recognized as Operating Cash Flows, has been reclassified to Financing.

2.2. Changes in accounting policies

The accounting policies used to prepare these Consolidated Financial Statements are the same as those applied in the preparation of the Consolidated Financial Statements for the year ended December 31st, 2018, except for the application of the new effective standards as of January 1st, 2019, which have the following impacts:

I. Impact of the initial application of IFRS 16 - Leases

The CEPSA Group has applied IFRS 16 since January 1st, 2019, without restating comparative information from previous periods, with the exception of the opening information for the 2019 financial year.

In the CEPSA Group, the *Modified Retrospective Transition Approach* has been chosen. Liabilities have been valued at the present value of the outstanding leases payments at January 1st, 2019, using the incremental borrowing rate at the date of initial application; assets are recognized at an amount equal to liabilities.

The CEPSA Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before January 1st, 2019.

In addition, the Group has also applied the definition of lease in IFRS 16 to all leases entered into or modified on or after January 1st, 2019.

IFRS 16 incorporates some new or modified requirements in relation to lease accounting. It introduces significant changes in lessee accounting, eliminating the distinction between operating and financial leases, and requiring the recognition of an ASSET FOR RIGHTS OF USE and a LEASE LIABILITY at the beginning of a lease, except for short-term leases and low-value assets (see **note 24** for the scope of leases excluded from application of IFRS 16). The details of these new requirements and the impact of the adoption of IFRS 16 on the consolidated financial statements of the CEPSA Group are described in **note 11**.

With regard to the treatment of the former financial leasing contracts, the main differences between IFRS 16 and IAS 17 are the valuation of residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognizes as part of its LEASE LIABILITY only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.

II. Publication of IFRIC 23 consultation - Uncertainty over Income Tax Treatments

The Group has adopted the IFRIC 23 consultation for the first time this year. IFRIC 23 establishes how to determine the tax position[1] when there is uncertainty about the treatments that will ultimately be applied to income tax by the tax authority. The Interpretation requires that at the Group:

- determine whether to consider each tax position separately or in conjunction with other tax positions with which it is related; and
- assess whether the tax authority is likely to accept the uncertain tax treatment used, or proposed for use, by an entity in its tax return:
  - if in the affirmative, the Group shall determine its tax position in conformity with the tax treatment used or intended to be used in its income tax returns.
  - if not, the Group shall record the effect of the uncertainty in determining its tax position using the most likely amount method or expected value method.

The CEPSA Group has opted for the retroactive application of this standard as of January 1st, 2018. It has proceeded to reclassify the balances reported in the Consolidated Balance Sheet for the end of the 2018 financial year relating to uncertain tax treatments under the headings of DEFERRED TAX ASSETS and DEFERRED TAX LIABILITIES.

Similarly, in the tables for the development of these headings (see **note 26**), the cumulative amounts relating to uncertain tax treatments have been reclassified as at January 1st, 2018, and the variations produced in the years 2018 and 2019 have been recognized in the appropriate tables of changes.

[1] ***Tax position*** *is the set of factors related to income tax that have an impact on accounting: taxable profit (loss), tax bases, outstanding tax losses, outstanding tax credits, and tax rate.*

Adjustments IFRIC 23

Thousands of euros

Liabilities	Balance as of Dec 31st 2017	Impact IFRIC 23	Balance as of Jan 1st, 2018 after IFRIC 23
Non current liabilities			
Bank borrowings	1,628,425	-	**1,628,425**
Deferred tax liabilities	296,017	196,594	**492,611**
Grants related to assets	30,598	-	**30,598**
Provisions	525,341	(196,594)	**328,747**
Other non current liabilities	199,965	-	**199,965**
Total non current liabilities	**2,680,346**	**-**	**2,680,346**

Consolidated Statement of Profit or Loss	Year 2018	Impact IFRIC 23	Year 2018 after IFRIC 23
Operating Profit	1,029,581	21,147	**1,050,728**
Finance profit	23,957	-	**23,957**
Consolidated profit before tax	**1,053,538**	**21,147**	**1,074,685**
Income tax	(294,906)	(21,147)	**(316,053)**
Consolidated profit for the year	**758,632**	**-**	**758,632**

III. Amendment of IAS 28 - Long-term Interests in Associates and Joint Ventures

The Group has adopted the amendments of IAS 28 for the first time this year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in associates or joint ventures to which the *equity method* does not apply. These include long-term interests that, in substance, are part of the entity's net investment in an associate or joint venture. The Group applied IFRS 9 to such long-term interests prior to the implementation of IAS 28. In the application of IFRS 9, the Group does not take into account any adjustment of those required by IAS 28 to the carrying amount of long-term interests (for example, adjustments to the value of long-term interests arising from the allocation of equity losses, or impairment assessments in accordance with IAS 28).

Their adoption has not had a material impact on the explanations or amounts reported in these financial statements.

IV. Amendment of IAS 19 - Amendment, reduction or liquidation of the employee benefit plan

This amendment has no effect on the Group because the employee benefit plans are defined contribution.

V. Amendment of IFRS 9 - Prepayment Features with Negative Compensation

The Group has adopted the IFRS 9 amendments for the first time this year. Amendments to IFRS 9 clarify that for the purpose of assessing whether the characteristics of an advance cancelation meet the condition of *principal and interest payments only* (PIPO), the party exercising the option may pay or receive reasonable compensation for the prepayment regardless of the reason for that prepayment. In other words, financial assets with prepaid negative offset characteristics do not automatically breach PIPO.

Their adoption has not had a material impact on the explanations or amounts reported in these financial statements.

VI. Annual Improvements to IFRS – 2015-2017 Cycle

The Group has adopted the amendments included in the Annual Improvements to the IFRS Standards – 2015-2017 Cycle for the first time this year. The Group shall take these amendments into account when the circumstances which are addressed in the respective standard occur.

Annual Improvements include amendments to four Standards:

IAS 12 Income Taxes

The amendments clarify that the Group should recognize the income tax consequences of dividends in the Consolidated Income Statement, Other Comprehensive Income or Equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IAS 3 Business Combinations

The amendments specify that when the Group obtains control of a business that is a Joint Operation, the Group applies the requirements established for a business combination achieved in stages, including remeasuring its *previously held interest* (PHI) in the Joint Operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the Joint Operation.

IFRS 11 Joint arrangements

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the Group does not remeasure its PHI in the joint operation.

The adoption of this set of improvements to IFRS has not had a material impact on the explanations or amounts reported in these financial statements.

3. Accounting estimates, assumptions and significant adjustments

The information in these Consolidated Financial Statements is the responsibility of the Directors of the parent company, who expressly declare that all principles, policies and criteria included in the International Financial Reporting Standards applicable in the European Union (IFRS-EU) have been applied.

In the preparation of the Consolidated Financial Statements, according to the IFRS-EU standards, relevant estimates, assumptions and judgments by the Management are required which could significantly affect the valuation of registered assets and liabilities, the presentation of contingent assets and liabilities, as well as the revenue and expenditure recognized in the financial year and presented in these Consolidated Financial Statements.

These relevant estimates, assumptions and judgments are based on historical experience and other factors that are considered reasonable at the date of preparation of the financial statements. They are continuously reviewed by the Management and could therefore be reviewed in the future if circumstances change or as a result of new information. Such a change would be made, in accordance with IAS 8, on a forward-looking basis, recognizing the effects of the change in estimate on the Consolidated Income Statement.

The following summary provides additional information about the key relevant estimates, assumptions and judgments that have been used in the preparation of the Consolidated Financial Statements and accompanying notes. These should be read in conjunction with the sections of the notes mentioned in that summary.

Estimate of hydrocarbon reserves

The estimation of reserves is a key process for the decision-making of the Company and in the application of the *successful efforts method* used by the Group to account for its Exploration and Production activities.

The volume of oil and gas reserves proved and probable (2P) is considered to calculate amortization charges applying the *unit of production method*. Likewise, 2P reserves, together with contingent resources, are considered in the evaluation of the recoverable amounts of the investments in Exploration and Production assets.

The CEPSA Contingent Resources and Reserves Evaluation Procedure follows the guidelines established by the SPE (Society of Petroleum Engineers), AAPG (American Association of Petroleum Geologists), WPC (World Petroleum Council), SPEE (Society of Petroleum Evaluation Engineers) and SEG (Society of Exploration Geologists) in March 2007, which was revised in November 2011, and is known by the abbreviation “SPE-PRMS” (Society of Petroleum Engineers - Petroleum Resources Management System). To determine the reserves, the procedure takes into account, among other factors: estimates of oil and natural gas in place, recovery factors, assumptions of price forecasts and estimates of costs and investments.

Reserves are certified annually by Group’s internal experts, independent to Exploration and Production business. Additionally, every two years, the registered volumes are audited by independent engineering firms. The reserve estimate made by these firms in 2018 did not generate significant differences with those recorded in the Group. In the financial year 2019, it is not necessary to carry out the review of reserves referred to above.

The *successful efforts method* and property, plant and equiplent, and intangible assets in Exploration and Production projects is presented in **note 4.4**.

Impairment of assets

As part of the determination of the recoverable value of impairment assets (IAS 36), estimates, assumptions and judgments relate mainly to variations in crude oil prices, reduction in activity, anticipated losses or crisis situations in the geographical areas where the Group operates. The estimates and assumptions used by the Management are determined internally by specialized departments, based on available information on economic conditions and analysis by independent experts. The discount rate is reviewed annually.

The grouping of the assets in different cash-generating units[2] (CGUs) implies the making of professional judgments and the consideration, among other parameters, of the business segments and the geographic areas in which the Group operates.

Determining the recoverable amount in order to calculate impairment losses on certain assets: Intangible Assets, Property, Plant and Equipment and Investments in associates and joint ventures

The impairment of assets and the method applied are described in **note 13**.

Obligations resulting from the decommissioning of assets

Obligations for decommissioning of assets used for the production of hydrocarbons are recognized in the period in which such an obligation is expressed on the basis of a reasonable estimate. The estimates are based on the information available in terms of costs and work program.

The dismantling provisions are regularly updated to reflect trends in estimated costs and the discount rates. This calculation is complex due to both the initial recognition of the present value of the estimated future costs and the subsequent adjustments made to represent the passing of time, changes in estimates due to changes in the assumptions initially used due to technological advances, regulatory changes, economic, political and environmental safety related factors, variations in schedules or in operation conditions, etc. The discount rate is revised each year.

The method applied in the calculation of obligations and their recognition in the Consolidated Income Statement are described in **notes 10** and **21**.

Income tax

Deferred tax assets are recognized to the extent that it is probable that there will be future profits subject to tax sufficient to offset them. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies, as well as the offset period.

In the application of IFRS interpretation 23, the Management applies its best judgment in assessing uncertainty about the *tax position* with regard to:

- Assessing the amount of the effect of uncertainty on the treatment of income tax individually for each case or jointly if they are correlated;
- Determining the degree of probability that the tax authority will accept the company's tax position, in order to apply the relevant calculation method that best predicts the resolution of uncertainty.

Also, with respect to tax provisions, the assessment of possible results of claims and contingencies is based on the valuations of the Group's legal and tax counsel and take account of the situation at the moment, as well as their overall professional experience. Since the outcome may ultimately be decided by courts, they may be different from the estimates.

The calculation processes and criteria used are described in **Note 26**.

Provisions and contingent liabilities

The assessment of potential effects of legal claims and contingencies other than those mentioned above, for which the Group relies on the valuation of its legal counsel, that are based on their best professional judgment and take into account the present situation of the proceedings and their overall legal experience regarding the different issues. Since the outcome may ultimately be decided by courts, they may be different from the estimates.

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[2] In accordance with IAS 36, a cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Similarly, judgments and estimates are made to record costs and establish provisions for write-offs and environmental repair using current information on expected repair costs and plans. Most write-off events do not occur in the near future, and the precise requirements that must be met when the event occurs are uncertain. Political, environmental, safety and public expectations are constantly changing.

This section also includes actions arising from environmental compliance in terms of reducing and eliminating greenhouse gases.

These criteria are outlined in **note 21**.

Other matters subject to estimates, assumptions and judgments

Other matters that are subject to estimates, assumptions and judgments are summarized below:

- When the fair values of financial assets and financial liabilities recorded in the Balance Sheet cannot be measured using quoted prices in active markets, this value is measured using alternative valuation techniques including the *discounted cash flows* model. The data used in these models are taken from observable markets where possible. When it is not possible, certain value judgments are needed to establish fair values. Judgments include considerations of inputs such as liquidity risk, credit risk (own and counterparty) and volatility (see **note 29**). Changes in assumptions about these factors could affect the reported fair value of financial instruments (see **note 30**).
- The measurement process for assets and liabilities in Business Combinations requires judgments and estimates by Group management, as indicated in **note 4.2**.
- Useful lives of tangible and intangible assets (see **notes 8 and 10**).
- The assessment of the expected losses, according to IFRS 9, adjusted to the Probability of Default (PD), an adjustment based on forward looking estimates of the Strategic Plan of the business area and/or macroeconomic variables.
- Concerning IFRS 16, assumptions applied in the transition of the standard are as follows:
  - Maturity date of contracts has been assumed to be what includes expected renewals.
  - Those contracts expected to finish in 2019 and not renewed have been excluded.
  - Whenever the contract is nominated in a foreign currency, conversion of figures to reporting currency (euro) has been made using conversion rates as of January 1st, 2019. Regarding AED currency, the reference has been USD.

Judgments in the case of transactions not addressed in rules or interpretations issued

Furthermore, when the accounting treatment of a particular transaction is not addressed in a published rule or interpretation, the Management uses its judgment to define and apply accounting policies that provide information consistent with the general concepts of IFRS: faithful representation, relevance, and materiality.

4. Summary of general accounting policies

4.1. Consolidation Principles

Consolidated financial statements include the financial statements of the Company and the Company's controlled entities (its subsidiaries) prepared as of December 31 of each year.

The entities directly controlled[3] by the parent company (Compañía Española de Petróleos, S.A.), or indirectly through a directly controlled entity, are consolidated by global integration.

Investments in *joint ventures* are consolidated through the *equity method* (see **note 7**). The Group accounts for joint operations recognizing their stake in assets, liabilities, incomes and expenditures.

[3] *According to IFRS, there is control when the Company:*

• has power over the investee;

• is exposed, or has rights, to variable returns from its involvement with the investee; and

• has the ability to use its power over the investee to affect the amount of returns it receives.

Investments in associated entities, in which the Group has significant influence, are accounted for using the *equity method*. The situation of significant influence is understood to be:

- on a general basis, in companies where the stake is between 20 and 50 per cent, and
- in companies where, although the interest is less than 20%, this influence is understood to exist due to various factors, such as, among others, the CEPSA Group being represented on the Board of Directors, or a high volume of transactions, which denotes an operational influence.

All intra-group balances, transactions and revenues are eliminated.

4.2. Business combinations and Goodwill on consolidation

Business combinations are accounted for using the *acquisition method*. This method entails the recognition in the books at the acquisition date of the identifiable assets acquired and liabilities assumed at their fair value on that date, provided that this value can be reliably established (see explanation in **note 5**).

The Group recognizes a goodwill on the date of purchase for the excess of:

- the consideration transferred (fair value of the assets delivered, of the equity instruments issued and the liabilities incurred or assumed at the date of exchange and of any additional consideration that depends on future events, whenever it is likely and can be reliably measured), the amount of the non-controlling interest and, in business combinations achieved in stages, the fair value at the date of acquisition of the investment previously held in the acquired company;
- on the fair value at the date of acquisition of the net identifiable assets of the acquired entity.

If this difference is negative, it is accounted for as an income in the Consolidated Income Statement (see **note 9**).

The non-controlling interest is recognized at the proportional value in the net assets of the acquired company or at its fair value.

When business combination is deemed incomplete at the end of the reporting period, IFRS 3 requires issuers to disclose that fact and provide the provisional amounts of assets, liabilities, non-controlling interests as well as the items of the consideration paid. Additionally, issuers should disclose the reasons why the business combination accounting is incomplete and the nature and amount of any measurement period adjustments recognized during the reporting period.

In accordance with IFRS 3 and IAS 36, goodwill is not amortized. On the other hand, it is subject to an impairment test at least once a year (more often if there are signs of loss of value).

4.3. Foreign currency translation

Transactions in a currency other than the functional currency of a Group company are converted to the functional currency corresponding to the exchange rates in force at the time of the transaction. Profit or loss due to exchange differences arising between the time of accounting and the time of collection or payment are taken to profit or loss.

Additionally, monetary items in currencies present on the Consolidated Balance Sheet at year end are restated in the functional currency at the year-end rates. Differences with respect to the exchange rates prevailing at the transaction date are also recognized in profit or loss.

The financial statements of the Group's companies with a functional currency other than the euro have been converted to euros using the year-end *exchange rate method*. Specifically:

- assets and liabilities are converted at the year-end exchange rate,
- income and expenditure, at the weighted average exchange rate for the financial year,
- the historical exchange rate for equity is maintained.

Translation differences which arise, if any, are recognized under the heading OTHER COMPREHENSIVE INCOME in profit and loss, and are accumulated under VALUE CHANGE ADJUSTMENTS in the EQUITY chapter of the accompanying Consolidated Balance Sheet.

The effect of fluctuations in exchange rates on each item is shown in tables of changes for the financial year in **notes 7** to **28**, under OTHER CHANGES.

4.4. Non-current assets in exploration and production

Investments in exploration and production of hydrocarbons are recognized based on the *successful efforts method*. The accounting treatment for incurred expenditure is as follows:

A) Reserves acquisition costs through a business combination.

Assets incorporated as a result of a business combination are classified under the Possible or contingent reserves or as Proven reserves under Intangible assets, depending on the development phase of such an asset.

The acquisition cost of such acquired assets will remain in Intangible assets throughout their useful life, even if they relate to, or later become, proven reserves.

This acquisition cost will be amortized according to criteria shared with other categories of assets in exploration and production, in line with their corresponding PPE asset in exploration and production:

- If the project results in the discovery of proven reserves, the *production unit method* will be used to determine the annual allocation to profit or loss, in a process coordinated with the rest of the project's assets, whose incurred costs will be included in Oil & Gas Assets under property, plant and equipment.
- If the project does not lead to the discovery of reserves, the accumulated cost will be fully amortized by debiting to profit or loss in the year in which it occurs.

However, expenditures incurred in a business combination subsequent to the acquisition thereof are not accounted for here, but in the following notes.

B) Acquisition costs of reserves directly by the Group.

Expenditure made on projects initiated by the Group, or on projects acquired through a business combination following the acquisition of an interest, consists of:

1. The costs of acquiring exploration permits are capitalized under the Exploration and production assets heading of intangible assets.
    a. They are amortized from the date of purchase throughout the life of the exploration contract
    b. In the event of a discovery of proven reserves, amortization is stopped and, in due course[4], the net value of these investments will be transferred to the Oil & Gas Assets heading of property, plant and equipment.
2. Geology and geophysics costs, and other costs, prior to well drilling, are charged to profit and loss as incurred, via capitalization and automatic amortization in the same month.
3. Exploration well drilling costs are temporarily capitalized in Exploration and production assets under Intangible assets until it is assessed if they have been used to discover reserves that justify their commercial development.
    a. If no reserves have been found, the drilling costs initially capitalized are amortized and reported in the Consolidated Statement of Income.
    b. If they have successfully led to discovering proven reserves, the accumulated cost will be transferred[5] to the Oil & Gas Assets heading of property, plant and equipment.
4. Exploration costs other than the above are recorded directly in the Consolidated Income Statement when they are incurred.

At the same time, and for each cash-generating unit (CGU), feasibility analyses are carried out on the basis of the results of the exploration and, where appropriate, the corresponding impairment tests (see **note 13**) that could affect the net capitalized value of amortizations are prepared.

C) Development costs

Expenditure made in project development activities initiated by the Group, or in projects acquired through a business combination after acquisition of an interest, consist of:

1. Development costs incurred to extract proven reserves (productive wells, dry development wells, oil and gas extraction and treatment facilities, recovery improvement systems, platforms, etc.) are capitalized at the acquisition cost under the Oil & Gas Assets heading of property, plant and equipment.
2. Field abandonment and decommissioning costs are calculated individually for each field and recorded under Oil & Gas Assets at the current estimated value.

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[4] The event which determines the transfer of an intangible asset to PP&E asset occurs when governmental authorization is obtained that allows first the development, and later the commercial exploitation, of a field during a specific period.

Development investments capitalized in accordance with criteria 1 and 2 above, together with the amounts referred to in paragraph B above received from intangible assets at the date of trade, are depreciated according to the following rules:

a. Investments in the acquisition of reserves transferred from intangible assets and investments in common facilities are depreciated over the estimated commercial life of the field, based on the reserves extracted during the financial year with respect to the reserves estimated as proven and probable as recoverable at the beginning of each year (*unit-of-production method*).

b. Costs incurred in exploratory drilling for the development of the reserves are depreciated over the estimated commercial life of the field, based on the reserves extracted during the year with respect to the reserves estimated as proven and probable developed as recoverable at the beginning of each year.

c. With respect to joint production contracts, this calculation is based on the proportion of production of the financial year and reserves assigned to the Group taking account of the estimates based on the contractual clauses.

D) IMPAIRMENT

An impairment test is periodically performed for each and every category of these assets. During the exploration phase (paragraphs A and B), feasibility analyses are carried out on the basis of exploratory results and, where necessary, appropriate evidence of impairment, which could affect the net capitalized value of amortizations in intangible assets.

Likewise, during the development and operation phase, regular impairment tests are performed.

In all cases, the assets are grouped into CGUs and the criteria set out in **note 13** are followed. Impairment losses are recognized in the Consolidated Income Statement.

4.5. Fair value measurement

A) FINANCIAL INSTRUMENTS

The Group measures financial instruments such as derivatives at *fair value* at each reporting date of Financial Statements.

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the transfer date. The fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability takes place either:

- On the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability transaction

The principal or the most advantageous market must be accessible by the Group.

B) NON-FINANCIAL ASSETS

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits and reflects the asset´s highest and best use or its sale to another market participant that would use the asset in its highest and best use.

For the calculation of fair value, the Group uses appropriate valuation techniques according to circumstances and based on available information, maximizing the use of relevant observable variables and minimizing the use of non-observable variables.

To determine and disclose the fair value of financial instruments by valuation method, the Group uses the following hierarchy (see **note 31**):

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Other techniques in which all variables with a significant effect in accounted-for fair value are directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

4.6. Other published standards to be applied in the future

The following standards and interpretations published by the IASB and the IFRS IC are not yet effective as of December 31st, 2019:

- IFRS 17 - Insurance Contracts
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 3 - Definition of a Business
- Amendments to IAS 1 and IAS 8 - Definition of materiality
- Conceptual Framework - Amendments to References to the Conceptual Framework in IFRS

The CEPSA Group has not undertaken early application of any of these rules in preparing these consolidated financial statements.

5. Business Combinations

ACCOUNTING POLICIES

Business combinations are accounted for using the acquisition method*.*

Acquisition cost consists of the fair value of the delivered assets, of the issued equity instruments and of the incurred liabilities assumed at the exchange date, as well as of any additional consideration that may depend on future events (provided that it is probable and can be reliably measured). Acquisition-related costs are expensed as they are incurred.

The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

*If there are differences between the acquisition cost and the amount of any non-controlling interest in the acquired entity, the policy described in **note 9**, related to goodwill, applies.*

If a business combination is achieved in stages, the accounting value for which the previous stake in the acquired company is listed in the Group is reassessed at the fair value at the date of the last acquisition and any resulting profit or loss with respect to the previous accounting value, if it exists, is recognized in profit or loss. The amounts arising from the interest in the acquired company prior to the date of last acquisition which have previously been recognized in OTHER COMPREHENSIVE INCOME shall be reclassified to consolidated profit or loss, where it would correspond in the event that this interest was sold.

5.1. Main variations

The variations in the scope of consolidation of the 2019 and 2018 financial years are:

Variation in consolidation perimeter

Year 2019	Global	Equity method	Year 2018	Global	Equity method
Apico, LLC		E	Byrsa, N.V.	E	
Atlas Nord Hydrocabures (ANH), S.A.S.		I	Cepsa Algerie, S.L.	I	
Cepsa Disco, S.L.U.	E		Cepsa EP Abu Dhabi, S.L.U.	I	
Cepsa EP Asia, S.L.U.	E		Cepsa EP Mexico S de RL de CV	I	
Cepsa EP, S.A.U.	E		Cepsa Gas Comercializadora, S.A.	I	E
Cepsa Finance, S.A.U.	I		Cepsa Kenya Limited	E	
Cepsa Panamá, S.A.	E		Cepsa Treasury, S.A.U.	I	
Cepsa SEA, S.L.U.	E		-		
Cepsa Trading Asia Pte, LTD	I				
Detisa Comercial Petróleo, SA de CV	I				
ERS. Spain, S.A.	E				
Europea de Petróleos, S.L.	I/E				
Medgaz, S.A.		E			
Servicar Campo de la Naciones, S.A. (SERVICAR)	E				
Suministros y Áreas de Servicio Ploc, S.A. (SUARSESA)	I/E				
Wingas, Distribuidora de Gas Natural, S.A.U.	E				

I=Inclusion
E=Exclusion

Changes in 2019 include:

- Removals from the scope of consolidation relate to the sale of Ápico LLC and Cepsa Panama, S.A.; the rest are mergers.
- The removal from the scope of consolidation due to the transfer of Medgaz, S.A. is noteworthy (see **note 5.2**)
- The additions of Cepsa Finance, S.A.U., Cepsa Trading Asia Pte, Ltd and Detisa Comercial Petróleo, S.A. de C.V. are due to the start of activity in this year.
- Lastly, the companies Suministros y Áreas de Servicio Ploc, S.A. and Europea de Petróleos, S.L. were acquired during the year (March 1 and April 5, 2019, respectively) and absorbed by the acquiring company (Cepsa Comercial Petroleo, S.A.U.) on September 30, 2019.

Among the changes in 2018, removals from the scope of consolidation relate to the liquidation of Byrsa, N.V. and Cepsa Kenya Limited. Likewise, Cepsa Gas Comercializadora, S.A. related to a change in the method of consolidation, owing to the acquisition of 35%. Additions were due to the start of activity in this year.

In 2018, the acquisition of 35% (in addition to the existing 35%) of the stake in Cepsa Gas Comercializadora, S.A. resulted in a business combination achieved in stages and had a significant impact on the year's consolidated financial statements.

Table I, which forms part of this Report, details the main subsidiaries, jointly controlled companies and associates, directly or indirectly involved, which, together with CEPSA, are members of the Consolidated Group. The registered office and activity of these companies are indicated, as well as the most significant economic and financial data corresponding to the 2019 financial year.

The breakdown of the effect on equity of the change in consolidation method and of the inclusions in and exclusions from the scope of consolidation is shown in OTHER CHANGES and BUSINESS COMBINATIONS captions in the respective tables disclosing the changes of the financial year shown in **notes 7** to **28**, in each item during the year.

The information contained in this note for 2018 is presented only for purposes of comparison with the information for 2019.

5.2. Divestments

ACCOUNTING PRINCIPLES

Following IFRS 5, assets and liabilities belonging to the consolidated group and assets and liabilities of subsidiaries held for sale are presented separately in the Consolidated Balance Sheet. Depreciation of assets is interrupted from the date of reclassification.

*Assets held for sale. The entity measures **non-current assets** (or disposal groups) classified as **held for sale**, at the lower of carrying amount and fair value less costs to sell. Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction and not continued use, or of a distribution to the owners, instead of through their continued use.*

This condition is considered to be fulfilled when the sale is highly probable, and the asset is available for immediate sale in its present condition. The sale should presumably be completed within one year of the asset's classification as held for sale.

*A **discontinued operation** is a component that has been sold or otherwise disposed of or has been classified as held for sale, and*

- Represents a separate line of business or geographical area.

- Forms part of an individual and coordinated plan to sell or otherwise dispose of a separate line of business or geographical area of operations; or

- Is a subsidiary entity acquired exclusively with a view to its subsequent sale.

In the Consolidated Income Statement for the reporting period and prior-year comparison, the results of discontinued operations are reported separately from those of continuing operations.

A) DIVESTMENTS EXECUTED

In 2019, the following companies were sold:

- Apico, LLC, by agreement signed on July 31st, 2019 and completed on September 11, 2019 (see **note 7),**
- Cepsa Panamá, S.A., completed on December 13, 2019.

In addition, on October 13th, 2019, the then sole shareholder of CEPSA, Cepsa Holding, LLC decided to proceed with the distribution of a dividend in kind consisting of the shares of Medgaz, S.A. to the sole shareholder, charged to voluntary reserves (see **notes 7** and **17.4**).

B) ONGOING DIVESTMENTS – ASSETS HELD FOR SALE

At the meeting of the Board of Directors on September 26th, 2019, the sale of the Group's stake in the company Decal Panama, S.A. was approved.

At the meeting of the Board of Directors on November 6th, 2019, the sale of the Group's stake in the company Cepsa Peruana, S.A.C. was approved.

Both transactions are pending and, consequently, the assets and liabilities contributed by these companies to the Group have been withdrawn from their headings by nature in the Consolidated Balance Sheet and transferred to ASSETS HELD FOR SALE and LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE, respectively.

Held for sale companies - Assets and Liabilities Thousands of euros

Assets	Notes	Total	Liabilities		Total
Intangible assets	Note 8	15,121	Account payables		3,912
Property, plant and equipment	Note 10	60,508	Deferred tax liabilities	Note 26	3,923
Rights of use		389	Provisions for third-party liability	Note 21	8,606
Deferred tax assets	Note 26	11,899	Other liabilities		387
Account receivabes		8,243			
Liquid assets		1,495			
Other assets		844			
Total assets		**98,499**	**Total liabilities**		**16,828**

6. Segment reporting

In 2018, the CEPSA Group reorganized its businesses into four business segments: Exploration and Production, Refining, Marketing and Petrochemicals. For these segments, there are responsible managers and information is reported to the Board of Directors separately using this structure. The results of these segments are regularly reviewed by the highest operating decision-making authority to decide on the resources to be allocated and assess their performance.

The key financial data reported for each operating segment are as follows:

***Result (EBITDA[5])** comprises the revenues and expenses derived from the ordinary operations of the segment. Not included: Amortization, impairment and the result of disposal of its assets, as well as financial profits, derivatives of shares consolidated by the equity method and income taxes.*

***(Adjusted) Operating profit/loss** has been prepared by using the same basis used for the internal information for the management of the businesses.*

Accordingly, due to the special nature of certain economic events, some income and expense items are classified as Non-recurring items *and are excluded from the segment results (see **note 6.3**). These non-recurring items generally relate to transactions that are unusual, but significant, and to the difference in the value of inventories between average unit cost—used in the financial statements—and replacement cost—used to measure business operations, thus facilitating analysis of the performance of business segments, as well as for year-on-year comparison.*

***Adjusted capital employed** is reported in the section on business segment assets and liabilities. Adjusted Capital Employed is made up of NON-CURRENT NON-FINANCIAL ASSETS plus WORKING CAPITAL (adjusted to replacement cost) less non-current non-financial liabilities. The figure is equivalent to EQUITY (adjusted at replacement cost) plus NET FINANCIAL DEBT. Net Borrowings basically consist of current and non-current borrowings minus cash and cash equivalents.*

The CASH FLOW section of the segments has information on both operating cash flows from operating activities before change in operating working capital and CASH FLOW from investing activities to present the calculation of free cash flows before changes in working capital.

The information disclosed in relation to the geographical segments in which the Group carries on its activity was prepared based on the location of the assets, while information on income was prepared based on the location of clients.

6.1. Business segments reporting:

The CEPSA Group organizes its business segments into four groups:

- Exploration and Production, which includes oil and gas exploration and production activities.
- Refining, which includes the supply and refining activities of crude oil products and their export, sale of manufacturing surpluses, trading activities (more than 85% of the volume of operations is for refining activity), generation of electrical energy (70% of electricity refining consumption is equivalent to the energy produced by Gas & Power activities) and steam, activities that play a very important role in production processes, and marketing to industrial customers.

[5] *Earnings Before Interest, Taxes, Depreciation and Amortization.*

- Marketing, which includes the distribution and commercialization activity of oil and gas products.
- Petrochemicals, which includes production, distribution and marketing of petrochemals products and derivatives.

Lastly, the figures for corporate functions carried out by the parent company are reported under the Corporation caption, which is not a business segment.

The selling prices between these reporting business segments are valued at market prices, and income, expenses, assets and liabilities have been determined before the eliminations on consolidation, except for the internal eliminations of each business segment.

The segments have been defined on the basis of the delimitation of different activities that generate income and expenses, and also on the basis of the structure approved by the Board of Directors for the best management of each business. The management team (Management Committees for each segment) analyzes the main operational and financial magnitudes for decision-making on resource allocation and performance assessment of the Group. The Group has not performed segment groupings for the presentation of the information.

The following breakdown shows information as of December 31st, 2019 and 2018, by segments and, in relation with the net profit attributable to the parent company, on both the profit obtained in accordance with IFRS and the profit adjusted to the management approach (next 2 pages):

Segments reporting

2019	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Intra-Group Eliminations	Total	CCS Adjustments Non-Recurring Items	Total Consolidated
	Information excluding CCS Adjustments and Non-Recurring Items								
Income/(Losses)									
Revenue									
Revenue from external customers	1,249,180	4,978,282	15,219,133	2,406,805	3,987	-	23,857,387	-	23,857,387
Intra-group revenue	(28,133)	7,426,924	212,685	1,070,376	63,893	(8,745,745)	-	-	-
Total Revenue	***1,221,047***	***12,405,206***	***15,431,818***	***3,477,181***	***67,880***	***(8,745,745)***	***23,857,387***		***23,857,387***
Excise tax on oil and gas charged on sales	-	(1,144)	(2,698,684)	-	-	-	(2,699,828)	-	(2,699,828)
Revenue without excise tax on oil and gas	***1,221,047***	***12,404,062***	***12,733,134***	***3,477,181***	***67,880***	***(8,745,745)***	***21,157,559***		***21,157,559***
Procurements and changes in inventories of finished goods & work in progress	(145,301)	(14,911,053)	(6,867,499)	(2,835,816)	(946)	8,084,801	(16,675,814)	(89,994)	(16,765,808)
Changes in operating allowances	(696)	(4,823)	(3,798)	2,673	619	-	(6,025)	24,201	18,176
Change in provisions for liabilities and charges	2,267	560	4,524	1,448	-	-	8,799	-	8,799
Gains or losses on disposals of non-recurring assets	727	7,165	(125)	(4,494)	7	-	3,280	-	3,280
Other operating income and costs	(114,752)	2,937,458	(5,403,221)	(394,545)	(115,672)	660,944	(2,429,788)	11,790	(2,417,998)
Result (EBITDA)	***963,292***	***433,369***	***463,015***	***246,447***	***(48,112)***	***-***	***2,058,011***	***(54,003)***	***2,004,008***
Amortisation charge	(256,455)	(356,083)	(133,851)	(83,221)	(505)	-	(830,115)	-	(830,115)
Impairment of non-current assets	(2,568)	(348)	540	8,805	-	-	6,429	(97,954)	(91,525)
Allocation to profit or loss of grants related to non-financial assets and others	(1,575)	30,606	(25,533)	(9,498)	(9,607)	-	(15,607)	-	(15,607)
Adjusted operating profit (losses)	***702,694***	***107,544***	***304,171***	***162,533***	***(58,224)***	***-***	***1,218,718***	***(151,957)***	***1,066,761***
Share in profit of companies accounted for using the equity method	15,322	28,047	393	(6,078)	-	-	37,684	(60,926)	(23,242)
Net financial profit							(113,932)	-	(113,932)
Impairment and gains or losses on disposals of financial instruments							906	406,143	407,049
Consolidated profit before tax							***1,143,376***	***193,260***	***1,336,636***
Income tax							(515,048)	12,033	(503,015)
Consolidated net profit for the period for continuing operations							***628,328***	***205,293***	***833,621***
Consolidated net profit for the period for discontinued operations							-	-	-
Consolidated net profit of the period							***628,328***	***205,293***	***833,621***
Non-controlling interests							(18,001)	4,403	(13,598)
Equity holder of the Parent (*)	***193,676***	***123,970***	***220,987***	***106,867***	***(35,173)***	***-***	***610,327***	***209,696***	***820,023***
Assets and liabilities									
Non-current assets without investments in associates & JV	3,098,777	2,858,035	1,677,603	940,093	58,564	-	8,633,072	(23,809)	8,609,263
Investments in associates and JV companies	89,399	31,058	20,440	127,711	-	-	268,608	-	268,608
Total non-current capital invested	***3,188,176***	***2,889,093***	***1,698,043***	***1,067,804***	***58,564***	***-***	***8,901,680***	***(23,809)***	***8,877,871***
Capital Employed	***2,554,812***	***3,432,967***	***1,253,605***	***1,381,901***	***52,371***	***-***	***8,675,656***	***131,822***	***8,807,478***
Cash flow statement									
Cash flow from operating activities before change in operating working capital IFRS	943,754	368,880	438,545	234,996	(45,646)	-	1,940,529		
Clean CCS Adjustment	-	60,577	21,578	7,839	-	-	89,994		
Cash flow from operating activities before change in operating working capital CCS	***943,754***	***429,457***	***460,123***	***242,835***	***(45,646)***		***2,030,523***		
Other cash flow from operating activities	(238,912)	74,938	(73,729)	(30,022)	10,003	-	(257,722)		
Total cash flow from operating activities before change in working capital CCS	***704,842***	***504,395***	***386,394***	***212,813***	***(35,643)***		***1,772,801***		
Total cash flows from investing activities	***(142,007)***	***(484,918)***	***(170,280)***	***(88,708)***	***(40,771)***		***(926,684)***		
Free cash flow before change in working capital	***562,835***	***19,477***	***216,114***	***124,105***	***(76,414)***		***846,117***		

(*)							
CCS Profit attributable to parent company	***193,676***	***123,970***	***220,987***	***106,867***	***(35,173)***		***610,327***
Non-Recurring Items	(156,504)	394,224	(20,621)	(16,246)	8,843		209,696
IFRS Profit attributable to parent company	***37,172***	***518,194***	***200,366***	***90,621***	***(26,330)***		***820,023***

Thousands of euros

Segments reporting	Information excluding CCS Adjustments and Non-Recurring Items								
2018	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Intra-Group Eliminations	Total	CCS Adjustments Non-Recurring Items	Total Consolidated
Income/(Losses)									
Revenue									
Revenue from external customers	922,204	5,517,105	15,620,707	2,646,583	5,179	-	24,711,778	-	24,711,778
Intra-group revenue	48,234	8,250,392	47,520	1,107,972	63,427	(9,517,545)	-	-	-
Total Revenue	***970,438***	***13,767,497***	***15,668,227***	***3,754,555***	***68,606***	***(9,517,545)***	***24,711,778***		***24,711,778***
Excise tax on oil and gas charged on sales	-	-	(2,632,873)	-	-	-	(2,632,873)	-	(2,632,873)
Revenue without excise tax on oil and gas	***970,438***	***13,767,497***	***13,035,354***	***3,754,555***	***68,606***	***(9,517,545)***	***22,078,905***		***22,078,905***
Procurements and changes in inventories of finished goods & work in progress	(31,500)	(16,005,412)	(6,856,856)	(3,097,977)	(659)	8,200,495	(17,791,909)	166,183	(17,625,726)
Changes in operating allowances	2,924	(369)	1,103	(6,271)	(976)	-	(3,589)	(30,146)	(33,735)
Change in provisions for liabilities and charges	11,571	2,878	3,315	(86)	-	-	17,678	-	17,678
Gains or losses on disposals of non-recurring assets	(3,842)	18,829	16,050	7,115	-	-	38,152	-	38,152
Other operating income and expenses	(300,354)	2,794,199	(5,854,765)	(413,788)	(119,272)	1,317,050	(2,576,930)	(2,038)	(2,578,968)
Result (EBITDA)	***649,237***	***577,622***	***344,201***	***243,548***	***(52,301)***	***-***	***1,762,307***	***133,999***	***1,896,306***
Amortisation charge	(221,249)	(278,103)	(85,947)	(52,694)	(185)	-	(638,178)	-	(638,178)
Impairment of non-current assets	(28,111)	(60)	542	(285)	-	-	(27,914)	(2,499)	(30,413)
Allocation to profit or loss of grants related to non-financial assets and others	7,395	3,075	(4,841)	2,087	(83)	-	7,633	-	7,633
Adjusted operating profit (losses)	***407,272***	***302,534***	***253,955***	***192,656***	***(52,569)***	***-***	***1,103,848***	***131,500***	***1,235,348***
Share in profit of companies accounted for using the equity method	15,011	39,247	166	(24,022)	-	-	30,402	(6,946)	23,456
Net financial profit	-	-	-	-	-	-	(118,035)	(2,008)	(120,043)
Impairment and gains or losses on disposals of financial instruments	-	-	-	-	-	-	8,761	-	8,761
Consolidated profit before tax							***1,024,976***	***122,546***	***1,147,522***
Income tax	-	-	-	-	-	-	(258,986)	(45,461)	(304,447)
Consolidated net profit for the period for continuing operations							***765,990***	***77,085***	***843,075***
Consolidated net profit for the period for discontinued operations									
Consolidated net profit of the period							***765,990***	***77,085***	***843,075***
Non-controlling interests	-	-	-	-	-	-	(12,277)	(734)	(13,011)
Equiy holder of the Parent (*)	***231,953***	***258,480***	***189,240***	***110,653***	***(36,613)***		***753,713***	***76,351***	***830,064***
Assets and liabilities	-	-	-	-	-	-	-	-	-
Non-current assets without investments in associates and Joint Ventures	3,227,690	2,367,302	1,267,276	814,131	15,849	-	7,692,248	(42,141)	7,650,107
Investments in associates and JV companies	207,472	194,762	16,186	48,519	-	-	466,939	-	466,939
Total non-current capital invested	***3,435,162***	***2,562,064***	***1,283,462***	***862,650***	***15,849***	***-***	***8,159,187***	***(42,141)***	***8,117,046***
Capital Employed	***3,051,415***	***3,332,989***	***930,352***	***1,182,305***	***(50,611)***	***-***	***8,446,450***	***185,463***	***8,631,913***
Cash flow statement									
Cash flow from operating activities before change in operating working capital IFRS	638,082	706,328	323,522	249,538	(39,903)	-	1,877,567		
Clean CCS Adjustment	-	(153,474)	(6,369)	(6,340)	-	-	(166,183)		
Cash flow from operating activities before change in operating working capital CCS	***638,082***	***552,854***	***317,153***	***243,198***	***(39,903)***	***-***	***1,711,384***		
Other cash flow from operating activities	(59,138)	(89,109)	(44,992)	(36,949)	20,719	-	(209,469)		
Total cash flow from operating activities before change in working capital CCS	***578,944***	***463,745***	***272,161***	***206,249***	***(19,184)***	***-***	***1,501,915***		
Total cash flows from investing activities	***(1,501,141)***	***(313,150)***	***(134,432)***	***(57,514)***	***(7,732)***	***-***	***(2,013,969)***		
Free cash flow before change in working capital	***(922,197)***	***150,595***	***137,729***	***148,735***	***(26,916)***	***-***	***(512,054)***		

(*)

Clean CCS Profit attributable to parent company	***231,953***	***258,480***	***189,240***	***110,653***	***(36,613)***	***753,713***
Non-Recurring Items	(13,942)	93,732	3,050	(4,960)	(1,529)	76,351
IFRS Profit attributable to parent company	***218,011***	***352,212***	***192,290***	***105,693***	***(38,142)***	***830,064***

6.2. Geographical segment reporting:

The breakdown, by geographical area, of revenue, net property, plant and equipment, net intangible assets and investments is as follows:

Geographic segments reporting

Thousands of euros

	Incomes from sales to third parties		Intangible and PPE assets		Additions in intangibles and PPE	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Spain (*)	15,540,159	15,560,829	4,031,616	3,731,141	745,304	613,080
Rest of European Union	3,109,696	3,010,499	87,992	80,532	10,305	10,827
Africa	1,723,564	2,195,542	433,660	479,612	100,897	200,023
America	1,598,164	1,975,092	291,048	466,019	28,773	42,188
Rest of the world	1,885,804	1,969,816	1,947,664	1,936,713	160,966	1,443,936
Total consolidated	**23,857,387**	**24,711,778**	**6,791,980**	**6,694,017**	**1,046,245**	**2,310,054**

(*) In Spain, 2019 and 2018 figures in the capiton "incomes from sales to third parties" includes excises.

6.3. Information on non-recurring items:

A breakdown by business segment can be seen below that explains the difference between the IFRS profit and the adjusted profit:

Non-recurring items

Thousands of euros

Year 2019	**Exploration and production**	**Refining**	**Marketing**	**Petrochem-ical**	**Corporation**	**Total**
On Adjusted operating profit (losses)						
Difference in valuation and replacement cost	-	(37,278)	(20,074)	(8,441)	-	**(65,793)**
Depreciation and impairment losses on non-current assets	(89,149)	-	-	(8,805)	-	**(97,954)**
Reversal cost ot colletive dismisal and others	-	-	-	-	11,790	**11,790**
Total	**(89,149)**	**(37,278)**	**(20,074)**	**(17,246)**	**11,790**	**(151,957)**
Consolidated net profit						
Difference in valuation and replacement cost	-	(27,370)	(16,619)	(5,157)	-	**(49,146)**
Non-recurring items by companies accounted for useng the equity method	(67,889)	11,448	-	(4,485)	-	**(60,926)**
Depreciation, impairment and gains/losses on disposal of assets	(89,149)	-	-	(6,604)	-	**(95,753)**
Impairment on financial instruments	-	410,146	(4,002)	-	-	**406,144**
Reversal cost ot colletive dismisal and others	-	-	-	-	8,843	**8,843**
Adjustment to th tax for temporary differences and provisions	534	-	-	-	-	**534**
Total	**(156,504)**	**394,224**	**(20,621)**	**(16,246)**	**8,843**	**209,696**

Year 2018	**Exploration and production**	**Refining**	**Marketing**	**Petrochem-ical**	**Corporation**	**Total**
On Adjusted operating profit (losses)						
Difference in valuation and replacement cost	-	124,958	4,882	6,197	-	**136,037**
Depreciation and impairment losses on non-current assets	(3,111)	-	612	-	-	**(2,499)**
IPO (Initial Public Offering) costs	-	-	-	-	(2,038)	**(2,038)**
Total	**(3,111)**	**124,958**	**5,494**	**6,197**	**(2,038)**	**131,500**
Consolidated net profit						
Difference in valuation and replacement cost	-	93,732	2,591	1,986	-	**98,309**
Non-recurring items by companies accounted for useng the equity method	-	-	-	(6,946)	-	**(6,946)**
Depreciation, impairment and gains/losses on disposal of assets	(1,381)	-	459	-	-	**(922)**
Impairment on financial instruments	-	-	-	-	-	**-**
IPO (Initial Public Offering) costs	-	-	-	-	(1,529)	**(1,529)**
Adjustment to th tax for temporary differences and provisions	(12,561)	-	-	-	-	**(12,561)**
Total	**(13,942)**	**93,732**	**3,050**	**(4,960)**	**(1,529)**	**76,351**

Non-recurring items include the difference in the value of inventories between the *average cost method*— used in the Consolidated Financial Statements—and the *replacement cost method* –used to measure operating segments.

Replacement cost makes it easy to analyze the performance of the business segments and to make comparisons between years. In the replacement cost method, the cost of sales is determined with reference to average monthly prices rather than the historical value derived from the accounting valuation method. Consequently, the adjustment to replacement cost is determined as the difference between these two methods.

The Group considers non-recurring items to be those atypical revenues or expenses that are not directly related to the company's main activity and which are unusual. In general, these non-recurring items are:

- Impairment of assets.
- Results of assets disposals (significant amounts).

- Restructuring costs.
- Exceptional fiscal expenses or income.
- Costs associated with mergers / acquisitions.
- Profit/loss from discontinued operations.

In 2019, the following non-recurring changes should be highlighted:

- Impairment of EUR 156 million (see **note 13**).
- Gains on the transfer of Medgaz, S.A. shares as payment in kind to the shareholder Cepsa Holding, LLC for EUR 410 million (see **note 25**)

In the case of companies accounted for using the equity method, the adjustments are the same as above, i.e., adjustment to the replacement cost and asset impairment on these companies' results.

The breakdown of DIFFERENCE IN VALUATION AND REPLACEMENT COST, is as follows:

Difference in valuation and replacement cost

Year 2019	Refining	Marketing	Petro-chemical	Total
On Result (EBITDA)				
Changes in inventory	(60,577)	(21,578)	(7,839)	**(89,994)**
Changes in inventory impairment	23,299	1,504	(602)	**24,201**
Total	**(37,278)**	**(20,074)**	**(8,441)**	**(65,793)**

Year 2018	Refining	Marketing	Petro-chemical	Total
Profit from operations				
Changes in inventory	153,474	6,369	6,340	**166,183**
Changes in inventory impairment	(28,516)	(1,487)	(143)	**(30,146)**
Total	**124,958**	**4,882**	**6,197**	**136,037**

7. Investments in associates and joint ventures

ACCOUNTING POLICIES

A) ASSOCIATES

*An associate is a company over which the Group has significant influence (see **note 4.1**).*

Investments in an associate are accounted for using the equity method*, which is described below within the policies applicable to joint ventures.*

B) JOINT ARRANGEMENTS

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor within the arrangement, rather than the legal structure of the joint arrangement. CEPSA has equity interests in both modalities. A fundamental feature of joint arrangements is the existence of two or more parties exercising joint control.

***Joint control** is the contractually agreed sharing of control of an arrangement, which exists only when decisions about significant activities require the unanimous consent of the parties sharing control.*

*A **joint operation** is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. These parties are called joint operators. The Group works in these types of joint arrangements, particularly in the area of exploration and production.*

In relation to its interests in joint operations, the Group recognizes its:

- *Assets, including its share of any assets held jointly;*
- *Its liabilities, including its share of any liabilities incurred jointly;*
- *Revenue from the sale of its share of the output arising from the joint operation;*
- *Its share of the revenue from the sale of the output by the joint operation; and*
- *Its expenses, including its share of any expenses incurred jointly.*

In addition, in the consolidation process, balances, revenues, expenses and results for operations with companies consolidated by this procedure have been eliminated, depending on the stake held.

*A **joint venture** is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.*

The Group's investments in its associate and joint venture are accounted for using the equity method*. Under the equity method, an investment in a joint venture (and in an associate) is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of the net assets of the joint venture (of the associate) since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.*

After applying the equity method*, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as SHARE IN PROFITS OF ASSOCIATES AND JOINT VENTURES in the Income Statement.*

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the Consolidated Income Statement.

All subsidiaries, associates and jointly controlled entities within the CEPSA Group have a December 31th closing date.

INVESTMENTS IN COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD at the 2019 and 2018 year-end are presented in the table below:

Thousands of euros

Investments in associated and joint ventures

	Book value		Profit / (loss) by integration	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Medgaz, S.A.	**-**	146,475	**25,837**	37,030
Apico, LLC	**-**	62,667	**-**	2,897
Abu Dhabi Oil CO, Ltd (ADOC)	**96,469**	152,045	**(52,791)**	12,266
Nueva Generadora del Sur, S.A.	**13,095**	30,987	**12,143**	12,143
CSCHEM Limited	**23,293**	24,426	**3,418**	893
Sinarmas Cepsa Group	**100,594**	18,743	**(16,215)**	(34,824)
Other companies	**35,157**	31,596	**(21,471)**	(6,949)
Total	***268,608***	***466,939***	***(49,079)***	***23,456***
Where:				
Joint ventures	***137,460***	***212,506***	***(3,306)***	***4,018***
Associated	***131,148***	***254,433***	***(45,773)***	***19,438***

The investments in joint ventures mainly relate to Nueva Generadora del Sur, S.A., SinarMas Cepsa and subsidiary companies (– joint venture consisting of CEPSA Group and SinarMas Group, hereinafter "SinarMas Cepsa") and Asfaltos Españoles, S.A.. In 2018, the investment in Medgaz, S.A. was also included, and removed in 2019 (see details below).

The investments in associates are made by Abu Dhabi Oil Co. Ltd (ADOC), Cepsa Gibraltar, S.A. and CSChem Ltd. In 2018, the investment in Apico, LLC was also included, and removed in 2019.

The breakdown of the changes in 2019 and 2018 in the above-mentioned heading is as follows:

Variation in investments accounted for in equity method

Thousands of euros

	2019	2018
Opening balance at the beginning of the year	***466,939***	***447,132***
Profit after taxes incurred in the year (discontinued operations included)	**(23,242)**	23,456
Dividends received during the year	**(61,407)**	(61,378)
Share Premium Reimbursement	**(17,845)**	(9,050)
Additions of investments in associates and joint ventures	**6,680**	1,834
Capital increase through participative loans	**98,625**	53,909
Disposals:		
Companies clasified as held for sale	**-**	-
Retirements	**(198,778)**	-
Mergers/Change in consolidation method	**(4,164)**	(4,565)
Other changes	**1,800**	15,601
Closing balance for the year	***268,608***	***466,939***

During the 2019 financial year, there was a divestment in Medgaz, S.A. transferred to the shareholder Cepsa Holding, LLC as a dividend in kind (see **notes 5.2 and 17.4**) and the sale of the interest in Apico, LLC (see **note 5.2**). These RETIREMENTS amount to a reduction under INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD of EUR 139,901 and 58,877 thousand, respectively.

In 2019, a capital increase took place with participatory loans in SinarMas Cepsa, Pte Ltd amounting to EUR 98,625 thousand (EUR 53,909 thousand in 2018) modifying the consolidation method to global integration.

In 2018, the Group acquired 35% of the shares of Cepsa Gas Comercializadora, S.A., reaching a 70% interest and changing therefore to the full consolidation method.

OTHER CHANGES mainly includes the translation differences for foreign companies, mostly relating to US dollars and Japanese Yen, which arise from the closing rates of two periods.

The principal financial aggregates, by percentage share, relating to Companies accounted for using the equity method are summarized below:

Main figures

Thousands of euros

Investments accounted for in equity method	2019	2018
Total Assets	612,538	975,338
Total current and non current liabilities	311,285	668,771
Net assets	***301,253***	***306,567***
Total revenues	339,681	429,945
Profit for the year	***(77,659)***	***165,420***
Share of results of companies accounted for by using the equity method(discontinued operations included)	***(23,242)***	***23,456***

7.1. Goodwill

The breakdown of Goodwill on companies accounted for using the equity method, reported according to the cash generating unit and business units to which it was allocated, for 2019 and 2018, is as follows:

Thousands of euros

Goodwill in companies accounted for using the "equity method"

Year 2019	Segments	Balance at 01/01/2019	Others movs.	Sales & disposals	Impair-ments	Balance at 12/31/2019
Distribution network companies	Distribution	6,667	-	-	-	6,667
Gas companies	Refining	124,779	-	(124,779)	-	-
Petrochemical companies	Petrochemical	9,670	(1,041)	-	-	8,629
Exploration and production companies	Exploration & Production	64,102	1,480	(17,094)	(48,488)	-
Total Goodwill		**205,218**	**439**	**(141,873)**	**(48,488)**	**15,296**

Year 2018	Segments	Balance at 01/01/2018	Others movs.	Sales & disposals	Impair-ments	Balance at 12/31/2018
Distribution network companies	Distribution	6,667	-	-	-	6,667
Gas companies	Refining	124,779	-	-	-	124,779
Petrochemical companies	Petrochemical	18,313	(8,643)	-	-	9,670
Exploration and production companies	Exploration & Production	60,139	3,963	-	-	64,102
Total Goodwill		**209,898**	**(4,680)**	**-**	**-**	**205,218**

In 2019, the goodwill accounted for within INVESTMENTS IN ASSOCIATE AND JOINT VENTURES by the companies Medgaz, S.A. (amounting to EUR 124,779 thousand) and Apico, LLC (EUR 17,094 thousand) has been deregistered, as a result of the aforementioned divestments. These amounts are part of the overall reduction under this heading, mentioned above, of EUR 198,778 thousand.

The CEPSA Group periodically tests for impairment as described in Accounting Policies at the beginning of this note. In 2019, the impairment calculated on the interest in Abu Dhabi Oil Co. Ltd has been recognized (see **note 13.2**), amounting to EUR 48,488 thousand; no impairment was recognized in 2018.

In March 2018, the valuation of assets acquired from CSCHEM Limited, which was acquired in 2017, was completed. The revaluation of the initial goodwill is included under other changes.

7.2. Details of interests.

The summarized financial information for the joint ventures partly owned by CEPSA at December 31st, 2019 and 2018 is as follows:

Summarized financial information of main joint ventures, at 100%

	Asfaltos Españoles, S.A.		Nueva Generadora del Sur, S.A.		SinarMas Cepsa Pte, LTD		Medgaz, S.A.	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Revenue	38,910	40,563	5,681	4,675	170,346	112,893		229,838
Expenses	(31,591)	(34,911)	(2,149)	(2,205)	(171,236)	(144,253)		(21,176)
Amortization charge	(6,806)	(5,971)	(2,141)	(1,965)	(15,827)	(15,377)		(53,456)
Impairment on non-current assets	-	-	22,896	-	-	-		-
Share in profit of companies accounted for using the equity method	-	-	-	-	-	-		-
Other operating income (expenses)	2,000	1,812	13	-	737	-		-
Net foreign exchange gain (loss)	(2)	(2)	-	-	-	(780)		1
Finance income	10	3	1	2,000	1,117	3,637		74
Finance costs	(117)	(151)	(4)	(62)	(16,635)	(24,942)		(37,918)
Gains or losses on disposals of non-current assets	-	-	-	-	-	-		(224)
Other gains (losses) on financial instruments	-	-	-	-	-	-		-
Profit before tax	**2,404**	**1,343**	**24,297**	**2,443**	**(31,498)**	**(68,822)**		**117,139**
Income tax	(505)	(315)	(11)	152	(931)	(825)		(29,162)
Profit for the period from continuing operations	**1,899**	**1,028**	**24,286**	**2,595**	**(32,429)**	**(69,647)**		**87,977**
Profit for the period from discontinued operations	-	-	-	-	-	-		-
Net profit for the period	**1,899**	**1,028**	**24,286**	**2,595**	**(32,429)**	**(69,647)**		**87,977**
Other comprehensive income/loss	-	-	-	-	-	-		-
Total comprehensive income	**1,899**	**1,028**	**24,286**	**2,595**	**(32,429)**	**(69,647)**		**87,977**
% stakeholding	50'00%	50'00%	50'00%	50'00%	50'00%	50'00%		42'09%
Consolidation profit	**950**	**514**	**12,143**	**1,298**	**(16,215)**	**(34,824)**		**37,030**
Dividends	**-**	**1,000**	**12,191**	**-**	**-**	**-**	**32,410**	**36,618**

	Asfaltos Españoles, S.A.		Nueva Generadora del Sur, S.A.		SinarMas Cepsa Pte, LTD		Medgaz, S.A.	
	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018	12/31/2019	12/31/2018
Non-current assets	50,832	48,595	25,658	4,940	326,113	324,458		637,192
Current assets	7,562	8,955	3,990	65,099	108,549	137,837		30,689
TOTAL ASSETS	**58,394**	**57,550**	**29,648**	**70,039**	**434,662**	**462,295**		**667,881**
	-							
Non-current liabilities	14,104	2,192	423	468	135,925	256,712		562,713
Current liabilities	9,790	22,756	3,035	7,598	97,550	168,098		53,622
TOTAL LIABILITIES	**23,894**	**24,948**	**3,458**	**8,066**	**233,475**	**424,810**		**616,335**
	-							
NET ASSETS	**34,500**	**32,602**	**26,190**	**61,973**	**201,187**	**37,485**		**51,546**
% stakeholding	50'00%	50'00%	50'00%	50'00%	50'00%	50'00%		42'09%
Stake in net assets	**17,250**	**16,301**	**13,095**	**30,987**	**100,594**	**18,743**		**21,696**
Goodwill	**-**	**-**	**-**	**-**	**-**	**-**		**124,779**
Carrying value of investment	**17,250**	**16,301**	**13,095**	**30,987**	**100,594**	**18,743**		**146,475**

In 2019, dividends of EUR 44,602 thousand (EUR 37,618 thousand in 2018) were received. In 2018, in addition, there was a premium return of EUR 9,050 thousand.

Table II, which forms part of these notes to the consolidated financial statements, details the joint arrangements in the form of joint ventures and jointly controlled assets in which the CEPSA Group holds an interest. The accompanying Consolidated Financial Statements include the assets, liabilities, expenses and income arising from these investments based on the percentage of ownership in them.

In addition, the summarized financial information for the main associates of the CEPSA Group at December 31st, 2019 and 2018, is presented as follows:

Thousands of euros

Summarized financial information of main associated, at 100%

	Apico		Abu Dhabi Oil CO, Ltd (ADOC)		SIL/CSCHEM		Cepsa Gibraltar	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**	**12/31/2019**	**12/31/2018**	**12/31/2019**	**12/31/2018**
Revenue		34,132	**371,310**	333,262	**194,784**	258,875	**230,262**	200,388
Expenses		(6,788)	**(147,534)**	(159,820)	**(173,524)**	(247,576)	**(228,664)**	(199,735)
Amortization charge		(8,194)	-	-	**(6,771)**	(7,701)	-	-
Impairment on non-current assets		-	**(150,627)**	-	-	-	-	-
Share in profit of companies accounted for using the equity method		-	**(376,460)**	-	-	-	-	-
Other operating income (expenses)		-	-	-	**537**	294	-	-
Net foreign exchange gain (loss)		-	-	-	-	3,580	**(163)**	(204)
Finance income		9	-	-	**460**	1,906	-	-
Finance costs		-	**(8,196)**	(8,819)	**(4,013)**	(5,640)	**(6)**	(33)
Gains or losses on disposals of non-current assets		-	-	-	-	-	-	-
Other gains (losses) on financial instruments		(653)	-	-	-	-	-	-
Profit before tax		**18,506**	**(311,507)**	**164,623**	**11,473**	**3,738**	**1,429**	**416**
Income tax		(11,078)	**(98,356)**	(69,390)	**(79)**	(761)	**(275)**	(426)
Profit for the period from continuing operations		**7,428**	**(409,863)**	**95,233**	**11,394**	**2,977**	**1,154**	**(10)**
Profit for the period from discontinued operations		-	-	-	-	-	-	-
Net profit for the period		**7,428**	**(409,863)**	**95,233**	**11,394**	**2,977**	**1,154**	**(10)**
Other comprehensive income/loss		-	-	-	-	-	-	-
Total comprehensive income		**7,428**	**(409,863)**	**95,233**	**11,394**	**2,977**	**1,154**	**(10)**
% stakeholding		39'00%	-	12'88%	-	30'00%	**100%**	50'00%
Consolidation profit		**2,897**	**(52,790)**	**12,266**	**3,418**	**893**	**577**	**(5)**
Dividends	**3,790**	**7,935**	**7,357**	**1,696**	**1,931**	**3,249**	**570**	**848**

	Apico		Abu Dhabi Oil CO, Ltd (ADOC)		SIL/CSCHEM		Cepsa Gibraltar	
	12/31/2019	**12/31/2018**	**12/31/2019**	**12/31/2018**	**12/31/2019**	**12/31/2018**	**12/31/2019**	**12/31/2018**
Non-current assets		141,961	**1,449,259**	1,524,831	**51,686**	63,461	**13,289**	13,000
Current assets		20,988	328,611	285,911	61,401	63,931	35,878	27,634
TOTAL ASSETS		**162,949**	**1,777,870**	**1,810,742**	**113,087**	**127,392**	**49,167**	**40,634**
Non-current liabilities		3,543	884,861	898,088	25,370	25,448	-	-
Current liabilities		42,554	144,024	97,145	38,838	52,759	31,294	23,646
TOTAL LIABILITIES		**46,097**	**1,028,885**	**995,233**	**64,208**	**78,207**	**31,294**	**23,646**
NET ASSETS		**116,852**	**748,985**	**815,509**	**48,879**	**49,185**	**17,873**	**16,988**
% stakeholding		39'00%	12'88%	12'88%	30'00%	30'00%	50'00%	50'00%
Stake in net assets		**45,572**	**96,469**	**105,038**	**14,664**	**14,756**	**8,937**	**8,494**
Goodwill		**17,094**	**-**	**47,007**	**8,630**	**9,670**	**-**	**-**
Carrying value of investment		**62,667**	**96,469**	**152,045**	**23,293**	**24,426**	**8,937**	**8,494**

The CEPSA Group holds an indirect stake in ADOC of 12.88%; however, this company has been incorporated as an investment accounted for by the *equity method*, given that the Group exerts a significant influence on it as shown in the agreements between the principal shareholders.

In 2019, dividends were received from associates totalling EUR 16,805 thousand (EUR 13,728 thousand in 2018).

8. Intangible assets

ACCOUNTING POLICIES

A) EXPLORATION AND PRODUCTION ASSETS

*See **note 4.4.***

B) OTHER INTANGIBLE ASSETS

Intangible assets of an indefinite life that have been acquired individually are recognized at cost minus accumulated amortization and accumulated impairment losses. Depreciation is recognized on a straight-line basis over the estimated useful life shown in the table below. The estimated useful life and amortization method are reviewed at the end of each accounting period, and the effect of any change in estimates will be counted on a forward-looking basis.

Intangible assets of an indefinite life that have been acquired individually are recognized at cost minus accumulated impairment losses.

RESEARCH AND DEVELOPMENT COSTS are charged to profit or loss as incurred. However, development costs for projects whose technical and economic viability has been established are capitalized retroactively when their viability has been determined; once they have been implemented, they are depreciated according to their useful life.

MANUFACTURING LICENSE RIGHTS are amortized at the same rates as those used to depreciate the industrial units to which they relate.

Service station SURFACE RIGHTS and FLAGGING CONTRACTS are amortized over an average of 20 and five years, respectively, based on the contracts for transactions of this type.

Investments in COMPUTER APPLICATIONS over a maximum period of five years.

Other intangible assets include the transportation right of the Central Oil Pipeline (OCENSA) of Colombia. In 2018, following the review of the assets of the Colombia CGU, it was considered that OCENSA's right of use is included in it, since all its activity flows are closely related. Consequently, the investment is to be amortized by technical production units (TPUs), as well as the other assets of the CGUs, and during the life of the right.

The useful lives the Group takes into account to amortize intangible assets are as follows:

Amortization of other intangible assets	***Years of useful life***
Concessions, patents and license rights (*)	*Up to 50*
Computer applications	*Up to 5*
Goodwill	*Indefinite*
Other Intangible Assets (**)	*Up to 48*

** Licenses on some Company Owned Company Operated (COCO) gas stations, have a useful life of 45 years.*

*** Among OTHER INTANGIBLE ASSETS, gas stations flagging contracts and other management contracts are included, with useful lives contained within the indicated range.*

C) EMISSION ALLOWANCES

In compliance with the commitments to reduce greenhouse gas emissions assumed by the European Union in May 2002—the Kyoto Protocol—various EU and national regulations were issued, which led to the approval in Spain, through Royal Decree 1722/2012 of December 28th, of the National Emission Allowance Assignment Plan, which is in force for 2013-2020.

*Allowances received for no consideration under the National Emission Allowance Assignment Plan are measured at the market price prevailing at the beginning of the year to which they relate and recognized as an INTANGIBLE ASSET; with the balancing entry under GRANTS (see **note 19**).*

Emission allowances acquired from third parties are also recorded as an INTANGIBLE NON-AMORTIZABLE ASSET; their initial recognition is at acquisition price.

All emission allowances are canceled when they are delivered, are transferred to third parties or fulfill the conditions set for their expiration.

At the end of the accounting period, if the net realizable value of emission allowances is less than their carrying amount, they are written down to market value. In the case of rights acquired on an onerous basis, the appropriate impairment of the asset's value would be provided; ff they are rights received from the Board of Directors free of charge, in addition to the previous correction, the value of the Capital Grants would be adjusted to the same amount, with the balancing entry in NON-FINANCIAL AND OTHER CAPITAL GRANTS of the Consolidated Income Statement.

D) IMPAIRMENT.

*As indicated above, all items in this section of intangible assets are tested for impairment where there are indications. In particular, they are reviewed annually for indefinite life assets and those that are not yet available for use, regardless of the presence of such indications (**note 13**).*

The breakdown of the gross investments in intangible assets, the related accumulated amortization and impairment for 2019 and 2018 is as follows:

Thousands of euros

Intangible assets

Year 2019	**Notes**	**Balance at 01/01/2019**	**Additions or Charge for the year**	**Transfers**	**Other changes**	**Retirements or Disposals**	**Balance at 12/31/2019**
Assets							
Exploration and evaluation assets		627,769	7,609	(103,091)	9,959	(17,875)	**524,371**
O&G possible or contingent reserves (B.C.)		20,907	-	-	402	-	**21,309**
O&G proven reserves (B.C.)		2,485,000	-	(29,652)	55,984	-	**2,511,332**
Total O&G assets		*3,133,676*	*7,609*	*(132,743)*	*66,345*	*(17,875)*	***3,057,012***
Concesions, patents and licences		112,860	308	(931)	272	(255)	**112,254**
Computer software		288,358	32,036	27	1,852	(1,114)	**321,159**
Other intangible assets		722,312	135,514	2,570	3,640	(62,783)	**801,253**
Total Assets		**4,257,206**	**175,467**	**(131,077)**	**72,109**	**(82,027)**	**4,291,678**
Amortisation							
Exploration and evaluation assets		(601,977)	(10,413)	103,534	(7,697)	17,382	**(499,171)**
O&G possible or contingent reserves (B.C.)		(70)	-	-	(1)	-	**(71)**
O&G proven reserves (B.C.)		(947,513)	(17,696)	15,597	(27,660)	-	**(977,272)**
Total O&G assets		*(1,549,560)*	*(28,109)*	*119,131*	*(35,358)*	*17,382*	***(1,476,514)***
Concesions, patents and licences		(71,190)	(3,764)	115	(199)	303	**(74,735)**
Computer software		(196,107)	(23,633)	824	(85)	84	**(218,917)**
Other intangible assets		(217,863)	(30,878)	-	(995)	5,300	**(244,436)**
Total Amortisation		**(2,034,720)**	**(86,384)**	**120,070**	**(36,637)**	**23,069**	**(2,014,602)**
Impairments							
Exploration and evaluation assets		(18,821)	-	-	-	-	**(18,821)**
O&G possible or contingent reserves (B.C.)		(19,894)	-	-	-	-	**(19,894)**
O&G proven reserves (B.C.)		(1,458,234)	-	-	(28,781)	-	**(1,487,015)**
Total O&G assets		*(1,496,949)*	-	-	*(28,781)*	-	***(1,525,730)***
Concesions, patents and licences		(1,485)	-	-	(29)	-	**(1,514)**
Other intangible assets		(82,655)	(11,959)	-	(1,819)	-	**(96,433)**
Total Impairments	Note 13.2	**(1,581,089)**	**(11,959)**	**-**	**(30,629)**	**-**	**(1,623,677)**
Total O&G assets		*87,167*	*(20,500)*	*(13,612)*	*2,206*	*(493)*	***54,768***
Total other intangible		*554,230*	*97,624*	*2,605*	*2,637*	*(58,465)*	***598,631***
Intangible assets, net		**641,397**	**77,124**	**(11,007)**	**4,843**	**(58,958)**	**653,399**

(B.C. = Business combinations)

Thousands of euros

Intangible assets

Year 2018	**Notes**	**Balance at 01/01/2018**	**Additions or Charge for the year**	**Transfers**	**Other changes**	**Retirements or Disposals**	**Balance at 12/31/2018**
Assets							
Exploration and evaluation assets		682,980	6,540	(23,117)	28,075	(66,709)	**627,769**
O&G possible or contingent reserves (B.C.)		19,961	-	-	946	-	**20,907**
O&G proven reserves (B.C.)		2,461,081	4,508	1	123,473	(104,063)	**2,485,000**
Total O&G assets		*3,164,022*	*11,048*	*(23,116)*	*152,494*	*(170,772)*	***3,133,676***
Concesions, patents and licences		112,396	928	452	(916)	-	**112,860**
Computer sofware		253,388	35,062	(3,429)	3,443	(106)	**288,358**
Other intangible assets		686,694	60,232	161	16,567	(41,342)	**722,312**
Total Assets		**4,216,500**	**107,270**	**(25,932)**	**171,588**	**(212,220)**	**4,257,206**
Amortisation							
Exploration and evaluation assets		(641,611)	(14,195)	12,588	(25,468)	66,709	**(601,977)**
O&G possible or contingent reserves (B.C.)		(66)	-	-	(4)	-	**(70)**
O&G proven reserves (B.C.)		(874,083)	(36,352)	4,443	(49,157)	7,636	**(947,513)**
Total O&G assets		*(1,515,760)*	*(50,547)*	*17,031*	*(74,629)*	*74,345*	***(1,549,560)***
Concesions, patents and licences		(66,415)	(4,338)	-	(437)	-	**(71,190)**
Computer sofware		(174,835)	(18,894)	(4)	(2,480)	106	**(196,107)**
Other intangible assets		(185,261)	(32,343)	-	(2,181)	1,922	**(217,863)**
Total Amortisation		**(1,942,271)**	**(106,122)**	**17,027**	**(79,727)**	**76,373**	**(2,034,720)**
Impairments							
Exploration and evaluation assets		(18,821)	-	-	-	-	**(18,821)**
O&G possible or contingent reserves (B.C.)		(19,894)	-	-	-	-	**(19,894)**
O&G proven reserves (B.C.)		(1,546,798)	(2,726)	69,188	(74,327)	96,429	**(1,458,234)**
Total O&G assets		*(1,585,513)*	*(2,726)*	*69,188*	*(74,327)*	*96,429*	***(1,496,949)***
Concesions, patents and licences		(1,418)	-	-	(67)	-	**(1,485)**
Other intangible assets		(81,166)	(60)	437	(1,926)	60	**(82,655)**
Total Impairments	Note 13.2	**(1,668,097)**	**(2,786)**	**69,625**	**(76,320)**	**96,489**	**(1,581,089)**
Total O&G assets		*62,749*	*(42,225)*	*63,103*	*3,538*	*2*	**87,167**
Total other intangible		*543,383*	*40,587*	*(2,383)*	*12,003*	*(39,360)*	**554,230**
Intangible assets, net		**606,132**	**(1,638)**	**60,720**	**15,541**	**(39,358)**	**641,397**

(B.C. = Business combinations)

OTHER INTANGIBLE ASSETS includes, among others, the following particularly significant assets belonging to specific Group companies:

- Payments made by the subsidiary Cepsa Comercial Petróleo, SAU to the (distributor owner, distributor operator) DODO service stations for trademark representation, for a gross value of EUR 217,414 thousand, although its accumulated depreciation is EUR 107,637 thousand;
- Strategic positioning of service stations for a gross amount of EUR 145,211 thousand and accumulated depreciation of EUR 8,684 thousand;
- Preferential right of use of the Central pipeline of Colombia, for a gross amount of EUR 205,046 thousand and accumulated depreciation and impairment of EUR 169,868 thousand;
- Greenhouse gas emissions allowances in companies with industrial plants, for a gross amount of EUR 139,510 thousand and accumulated impairment of EUR 383 thousand.

The ADDITIONS of intangible assets recognized in the 2019 and 2018 financial years, amounting to EUR 175,467 thousand and EUR 107,270 thousand, respectively, corresponded mainly to investment in computer applications, as well as those classified under OTHER INTANGIBLE ASSETS, notably to the free allocation (see **note 19**) of CO2 emission allowances within the National Allocation Plans.

ADDITIONS also included for 2019 and 2018 respectively, EUR 2,121 and 2,827 thousand related to capitalized expenses which were credited to their corresponding headings in the accompanying Consolidated Income Statement.

TRANSFERS includes EUR 15,121 thousand concerning assets belonging to companies held for sale (see **note 5.2**), and EUR 4,113 thousand received from PPE (see **note 10**).

OTHER CHANGES mainly reflects the impact of exchange rate fluctuations with respect to the euro in some of the foreign subsidiaries.

RETIREMENT OR DISPOSALS mainly relate to divestments relating to exploratory assets, mainly in Brazil in 2019 and Thailand in 2018, and also to the annual return of CO2 emission allowances for those consumed in the respective previous fiscal years (see below).

Impairment

In 2019, further impairment was recognized for an amount of EUR 11,959 thousand corresponding to the preferential right of use of the central oil pipeline of Colombia, a right provided by Cepsa Colombia, S.A. During 2018, there were no significant signs of impairment in intangible assets (see **notes 13** and **23**).

Accumulated impairment losses on December 31st, 2019 and 2018 amounted to EUR 1,623,677 and 1,581,089 thousand, respectively. They mainly relate to Oil and Gas Reserves, both *proven* and *possible* reserves, acquired through business combinations and to a lesser extent, to the preferential right of use of the Central Oil Pipeline of Colombia, which is a right contributed by Cepsa Colombia, S.A.

Greenhouse gas emission allowances

Greenhouse gas emission allowances have been moved in the following detail:

Greenhouse gas emissions allowances		2019		2018	
	Notes	Thousand of euros	Thousand of metric tons	Thousand of euros	Thousand of metric tons
Opening balance		**61,622**	**6,188**	**36,992**	**6,611**
Asignments / acquisitions		**134,970**	**5,478**	63,802	6,109
Gains / Losses and Impairments	Note 23	**(349)**	**-**	(60)	-
Deliveries / disposals		**(57,116)**	**(6,300)**	(39,112)	(6,532)
Closing balance		**139,127**	**5,366**	**61,622**	**6,188**

The cost of allowances in 2019 increased by 136% from the previous year.

Pursuant to current legislation, the CEPSA Group must deliver CO2 emission allowances equal to the volume of emissions made during the year in the first few months of the following year.

Other disclosures

At December 31st, 2019 and 2018, the Group had intangible asset purchase commitments amounting to EUR 121,900 and 195,341 thousand euros respectively.

At December 31st, 2019 and 2018, fully amortized intangible assets still in use totalled EUR 675,392 and 815,096 thousand euros respectively.

As of December 31st, 2019 and 2018, intangible assets of an indefinite useful life had a net value of EUR 23,748 and 25,273 thousand respectively.

9. Consolidated goodwill

ACCOUNTING POLICIES

*See **note 4.2** regarding the recognition and calculation of the goodwill arising in business combinations.*

The fair value of net assets comprises the fair value of the assets and liabilities that are identifiable and meet the other requirements for them to be recognized and, lastly, the contingent liabilities which can be reliably measured based on the information available upon valuation.

In accordance with IFRS 3 and IAS 36, goodwill is not amortized, but is regularly tested for impairment at least once a year or more frequently if there is any indication of impairment.

Goodwill is deemed to be an asset of the acquired company. Consequently, goodwill in foreign currency pertaining to the Group companies' resident abroad with a functional currency other than the euro is translated to euros at the exchange rates prevailing at the date of the Consolidated Balance Sheet, and any resulting variations are recognized as translation differences.

The breakdown of CONSOLIDATED GOODWILL, disclosed by business unit, in 2019 and 2018 is as follows:

Consolidated goodwill

Thousand of euros

Year 2019

Cash Generating Units	Balance at 01/01/2019	Additions	Others	Impair-ments	Balance at 12/31/2019
CGU Petrochemical LAB/LAS	21,470	-	(337)	-	**21,133**
CGU Power	119	-	-	-	**119**
CGU Refining & Marketing	70,207	11,462	4,757	-	**86,426**
Total	**91,796**	**11,462**	**4,420**	**-**	**107,678**

Year 2018

Cash Generating Units	Balance at 01/01/2018	Additions	Others	Impair-ments	Balance at 12/31/2018
CGU Petrochemical LAB/LAS	24,016	-	(2,546)	-	21,470
CGU Power	122	-	(3)	-	119
CGU Refining & Marketing	71,333	-	(1,126)	-	70,207
CGE E&P - Thailand	27,237	-	711	(27,948)	-
Total	**122,708**	**-**	**(2,964)**	**(27,948)**	**91,796**

Goodwill recognized in 2019 relates to the companies Suministros y Áreas de Servicio Ploc, S.A. and Europea de Petróleos, S.L., which were acquired during the year (March 1st and April 5th, 2019, respectively) (see **Note 5.1**).

Impairment tests are performed for cash-generating units to which goodwill has been allocated, to verify the recoverability of the carrying amount. When the recoverable amount is deemed to be lower than the carrying amount, an impairment loss has been recognized as an expense under IMPAIRMENT AND GAINS OR LOSSES ON DISPOSALS OF NON-CURRENT ASSETS in the Consolidated Statement of Profit and Loss.

No impairment was recorded in 2019. In 2018, impairment relates to goodwill that emerged in the Coastal Group business combination.

The recoverable amount of the business units was determined on the basis of their value in use calculated consistent with the assumptions and cash flows included in the Group's strategic plan.

The column OTHER CHANGES includes changes in exchange rates on Deten Química, S.A.'s goodwill and Coastal Group's goodwill, as the year-end exchange rate was used. (See **note 4.3**).

10. Property, plant and equipment

ACCOUNTING POLICIES

A) EXPLORATION AND PRODUCTION ASSETS

*See **note 4.4**.*

B) OTHER ITEMS OF PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is initially recognized at acquisition cost. This cost includes the purchase price and transaction costs. When it comes to the acquisition, construction or production of qualified assets (which are assets that require a substantial period of use), other directly attributable costs such as personnel costs, financial expenses and other items incurred until the time the assets are substantially ready for use or sale, are added to their cost.

*The estimated present value of the abandonment costs to be borne by the CEPSA Group is also recognized, where appropriate (see **note 21**).*

Assets acquired before December 31st, 2003, were revalued, where appropriate, pursuant to applicable legislation.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized as a larger investment and are part of the acquisition cost when incurred. On the other hand, repair, conservation and maintenance costs are charged to profit or loss as incurred.

Removed assets and items and the related acquisition cost and accumulated depreciation are derecognized.

*As at the reporting date of the Consolidated Balance Sheet, it is assessed whether there are fixed assets not included in a CGU that show signs of impairment. If such indication exists, the asset is tested for impairment, and where appropriate, the related impairment loss is recognized. (See **note 13**).*

The Group depreciates its property, plant and equipment, net of their residual value, using the straight-line method, i.e., *by equitably distributing assets' costs among the years of estimated useful life.*

Depreciation of other property, plant and equipment	***Years of useful life***
Buildings and other structures	*33 to 50*
Complex and specialized plants	*12 to 33*
Machinery, other installations, fixtures and furnishings	*10 to 15*
Other items	*4 to 20*

The breakdown of the gross investments in Property, Plant and Equipment (PP&E), accumulated depreciation and impairment for 2019 and 2018 is as follows:

Thousands of euros

Property, plant and equipment

Year 2019	**Notes**	**Balance at 01/01/2019**	**Additions or Charge for the year**	**Transfers**	**Other changes**	**Retirements or Disposals**	**Balance at 12/31/2019**
Assets							
Land and structures		361,708	-	99,456	8,863	(4,549)	**465,478**
Plant and machinery		8,545,547	3,771	324,450	16,745	(95,509)	**8,795,004**
Oil & Gas Assets		2,499,576	162,650	1,446,774	47,478	(43,856)	**4,112,622**
Other facilites, furniture		112,338	2	3,262	1,399	(1,260)	**115,741**
Advances and property, plant and equipment under construction		2,467,924	691,082	(2,037,869)	37,549	(11,987)	**1,146,699**
Other property, plant and equipment		1,436,708	13,273	18,211	6,529	(55,751)	**1,418,970**
Total Assets		**15,423,801**	**870,778**	**(145,716)**	**118,563**	**(212,912)**	**16,054,514**
Depreciations							
Land and structures		(112,944)	(7,451)	(20,916)	(1,650)	3,053	**(139,908)**
Plant and machinery		(5,828,044)	(392,676)	(962)	(37,484)	83,996	**(6,175,170)**
Oil & Gas Assets		(1,781,826)	(170,555)	81,211	(15,984)	-	**(1,887,154)**
Other facilites, furniture		(95,281)	(4,724)	(2,168)	(1,040)	1,162	**(102,051)**
Other property, plant and equipment		(429,480)	(40,892)	(2,102)	(2,428)	38,670	**(436,232)**
Total depreciations		**(8,247,575)**	**(616,298)**	**55,063**	**(58,586)**	**126,881**	**(8,740,515)**
Impairments							
Land and structures		(1,352)	-	-	-	-	**(1,352)**
Plant and machinery		(332,213)	-	-	(4,348)	-	**(336,561)**
Oil & Gas Assets		(69,115)	-	-	16,602	-	**(52,513)**
Other facilites, furniture		(317)	-	-	-	-	**(317)**
Other property, plant and equipment		(720,611)	(75,735)	21,809	(10,138)	-	**(784,675)**
Total Impairments	Note 13.2	**(1,123,608)**	**(75,735)**	**21,809**	**2,116**	**-**	**(1,175,418)**
Property, plant and equipment, net		**6,052,618**	**178,745**	**(68,844)**	**62,093**	**(86,031)**	**6,138,581**

Thousands of euros

Property, plant and equipment

Year 2018	Notes	Balance at 01/01/2019	Additions or Charge for the year	Transfers	Other changes	Retirements or Disposals	Balance at 12/31/2018
Assets							
Land and structures		359,314	1,210	5,012	545	(4,373)	**361,708**
Plant and machinery		8,399,151	13,703	204,386	23,038	(94,731)	**8,545,547**
Oil & Gas Assets		2,501,054	172,512	234,571	52,690	(461,251)	**2,499,576**
Other facilites, furniture		108,360	64	1,761	2,717	(564)	**112,338**
Advances and property, plant and equipment under construction		864,050	2,015,295	(507,925)	96,536	(32)	**2,467,924**
Other property, plant and equipment		1,400,482	-	78,007	40,272	(82,053)	**1,436,708**
Total Assets		**13,632,411**	**2,202,784**	**15,812**	**215,798**	**(643,004)**	**15,423,801**
Depreciations							
Land and structures		(109,436)	(5,152)	893	(657)	1,408	**(112,944)**
Plant and machinery		(5,560,062)	(368,615)	57,460	(8,833)	52,006	**(5,828,044)**
Oil & Gas Assets		(2,025,924)	(106,455)	(62,336)	(30,718)	443,607	**(1,781,826)**
Other facilites, furniture		(88,649)	(5,028)	(10)	(2,153)	559	**(95,281)**
Other property, plant and equipment		(435,651)	(46,805)	(2,929)	(5,653)	61,558	**(429,480)**
Total depreciations		**(8,219,722)**	**(532,055)**	**(6,922)**	**(48,014)**	**559,138**	**(8,247,575)**
Impairments							
Land and structures		(1,352)	(285)	285	-	-	**(1,352)**
Plant and machinery		(312,502)	(2,371)	(46,006)	(4,798)	33,464	**(332,213)**
Oil & Gas Assets		(55,196)	(439)	(23,890)	(4,915)	15,325	**(69,115)**
Other facilites, furniture		(317)	-	-	-	-	**(317)**
Other property, plant and equipment		(698,613)	-	-	(33,130)	11,132	**(720,611)**
Total Impairments	Note 13.2	**(1,067,980)**	**(3,095)**	**(69,611)**	**(42,843)**	**59,921**	**(1,123,608)**
Property, plant and equipment, net		**4,344,709**	**1,667,634**	**(60,721)**	**124,941**	**(23,945)**	**6,052,618**

The additions of new assets in 2019 and 2018 amount to EUR 870,778 and 2,202,784 thousand euros, respectively, and are recorded in ADDITIONS OR CHARGE FOR THE YEAR. The following should be noted:

- In the Exploration and Production segment, investments to develop or increase activity, notably in the United Arab Emirates, where EUR 140 million have been invested in 2019 in the Sateh Al Razboot and Umm Lulu fields in the Abu Dhabi coastal area, and the figure of EUR 1,434 million was invested in 2018, derived from the agreement signed in March of that year with ADNOC, for a 20% stake in the aforementioned fields for 40 years of concession. To a lesser extent, additions in Algeria and Colombia are worth mentioning, with EUR 25 million and EUR 14 million respectively in 2019.
- Refining: investments made to improve industrial facilities, aimed at minimizing environmental impact and increasing efficiency and conversion rate, as well as focused on safety in activity. The additions to the San Roque Refinery, located in the Bay of Algeciras, have exceeded EUR 250 and 160 million in 2019 and 2018, respectively, as well as those carried out in the La Rábida Refinery, which have exceeded EUR 160 million and 180 million in 2019 and 2018, respectively.
- In the Distribution segment, investments to maintain or improve the market share and presence in the markets, like the service stations market, for over EUR 85 and 70 million in 2019 and 2018, respectively.
- In the Petrochemical segment, investments to maintain the functionalities of our plants, most notably those located in Spain, for over EUR 101 and 81 million in 2019 and 2018, respectively.

ADDITIONS also includes capitalized expenses relating to the start-up period of various items of property, plant and equipment which were credited to the accompanying Consolidated Income Statement. They amount to EUR 33,120 and 44,142 thousand in 2019 and 2018, respectively. Capitalized financial expenditures are not significant.

TRANSFERS includes EUR 60,508 thousand concerning assets belonging to companies held for sale (see **nota 5.2**), and EUR 4,113 thousand moved to intangible assets (see **nota 8**).

OTHER CHANGES mainly reflects the impact of exchange rate fluctuations with respect to the Euro of companies with a different functional currency.

RETIREMENTS AND DISPOSALS in 2019 relates to disposals of technical installations (catalytic converters at the end of their useful life, mainly) and that of a tanker for the transport of product.

During 2019, additional impairment was recognized, notably that of *Mobile Offshore Platform Units (MOPUs)*, contributed to the Group by the subsidiary MOPU Holdings (Singapore) Pte, Ltd. for an amount of EUR 53,853 thousand and EUR 21,802 thousand related to Peru CGU; in 2018, there was no significant impairment of property, plant & equipment (see **notes 13** and **23**). Accumulated impairment losses on December 31st, 2019 and 2018 amounted to EUR 1,175,417 and 1,123,608 thousand, respectively. They relate mainly to the above MOPUs and, to a lesser extent, to Oil & Gas technical installations and assets.

Other disclosures

At December 31st, 2019 and 2018, the Group had property, plant and equipment purchase commitments amounting to EUR 1,563,566 and 1,892,105 thousand respectively, relating mainly to exploration and production investments.

At December 31st, 2019 and 2018, no material items of property, plant and equipment had been pledged to secure compliance with obligations relating to the ownership thereof.

At December 31st, 2019 and 2018 fully depreciated property, plant & equipment still in use totalled EUR 4,015,298 and 3,742,511 thousand respectively. All these assets refer to facilities in operation and are not depreciated as part of the equipment involved.

In 1996 certain consolidated Group companies revalued their property, plant and equipment pursuant to Royal Decree-Law 7/1996 of June 7, increasing the carrying amount of these assets by EUR 117,350 thousand. This increase in value is being depreciated (the depreciation charge is a tax-deductible expense) with a charge to profit in 1997 and subsequent years based on the years of residual useful lives of the revalued assets.

Certain CEPSA Group companies have been granted administrative concessions by the Spanish State to use mooring facilities and access and adjacent areas at the ports of Santa Cruz de Tenerife which will revert to the State in 2027, Algeciras-La Línea—which will revert in 2022—and Palos de la Frontera—which will revert from 2022 to 2065. CEPSA Group Management expects that these concessions will be renewed when they expire. It also considers it unnecessary to make a provision for the decommissioning of these investments, as they are properly maintained, and their renewal is foreseeable.

The Group has taken out insurance policies to cover the possible risks to which its property, plant and equipment are subject to and the claims that might be filed against it for carrying on its business activities. These policies are considered to sufficiently cover the related risks.

11. Rights of use

ACCOUNTING POLICIES

This year, the CEPSA Group has applied IFRS 16 (approved by IASB in January 2016) and is effective for financial years beginning January 1st, 2019.

IFRS 16 incorporates some new or modified requirements in relation to lease accounting. It introduces significant changes in lessee accounting, eliminating the distinction between operating and financial leases. The Group understands that a lease provides control over the use of the leased asset, and is therefore classified as operating when the lessee obtains at least 80% of the economic benefits from the use of the asset.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer.

*The Group values whether a contract is or contains a lease at the beginning of the contract. The Group recognizes a RIGHT OF USE and the corresponding LEASE DEBT for all lease agreements in which it is a lessee, except for the excluded leases (with respect to debt recognition and the excluded leases, see **note 24**, in Accounting Policies).*

Where the Group incurs an obligation to bear the costs of decommissioning and withdrawing the leased asset, restoring the location where the leased asset is located or restoring the underlying asset to the condition required by the provisions of the lease, a provision under IAS 37 must be recognized and quantified. To the extent that these costs are related to an asset for rights of use, these costs are included in the cost of acquisition of the asset for rights of use, unless such costs are incurred to produce inventories.

Rights-of-use assets depreciate over the lease life or the useful life of the underlying asset, whichever is shortest. If a lease transfers ownership of the underlying asset or the cost of the rights-of-use asset reflects that the Group expects to exercise the purchase option, the corresponding rights-of-use asset depreciates over the useful life of the underlying asset. Depreciation begins at the start date of the lease.

Rights-of-use assets are presented on a separate line in the Consolidated Balance Sheet.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

*In the initial application of IFRS 16, for all leases (except those of low value or short-term contracts – see **note 24**), the Group:*

- Recognizes RIGHT-OF-USE ASSETS and LEASE LIABILITIES in the consolidated balance sheet, initially measured at the present value of the future lease payments;

- Recognizes depreciation of RIGHT-OF-USE ASSETS and interest on LEASE LIABILITIES in the Consolidated Income Statement.

- Separately reports the total amount of cash paid into a principal portion and interest (both presented within financing activities) in the Consolidated Cash Flow Statement.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.

On initial application the Group has presented equipment previously included in property, plant and equipment within the line item for RIGHT-OF-USE ASSETS and the lease liability, previously presented within borrowing, has been presented in a separate line for lease liabilities.

This change did not have any significant initial impact on the Group's financial statements.

Impairment

The Group applies IAS 36 to determine whether a right-of-use asset is impairing in value and accounts for any impairment loss identified as described in ***note 13****.*

Impact on Consolidated Cash Flow Statement.

Under IFRS 16, lessors must present:

• short-term lease payments, low-value lease payments, and variable lease payments not included in the debt valuation for leases as part of operational activities;

• payments for the fraction of interest on a lease debt as either operational activities or as financing activities, as permitted under IAS 7 (the Group has chosen to include interest payments as part of financing activities); and

• payments for the principal of the debt for leases, as part of the financing activities.

FIRST IMPLEMENTATION

In the CEPSA Group, the Modified Retrospective Transition Approach *has been chosen. The liability has been valued by the present value of the pending payments at January 1st, 2019 on pending leases, using the incremental borrowing rate at the date of initial application; and the asset has been recognized at an amount equal to the liability.*

The CEPSA Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract in force at January 1st, 2019 is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before January 1st, 2019.

The initial recognition of Rights of use and changes throughout 2019 is shown in the following table:

Thousands of euros

Rights of use **Year 2019**	**Balance at 01/01/2019**	**Additions or Charge for the year**	**Transfers**	**Other changes**	**Retirements or Disposals**	**Balance At 12/31/2019**
Assets						
Land and structures	497,234	58,793	-	-	(45,231)	**510,796**
Plant and machinery	177,089	8,652	50	-	(4,940)	**180,851**
Other facilites, furniture	9	-	-	-	-	**9**
Other property, plant and equipment	166,612	(409)	(50)	3,124	(146)	**169,131**
Total Assets	**840,944**	**67,036**	**-**	**3,124**	**(50,317)**	**860,787**
Depreciations						
Land and structures	-	(69,399)	(26)	3,497	5	**(65,923)**
Plant and machinery	-	(33,298)	-	219	14	**(33,065)**
Other facilites, furniture	-	(2)	-	-	-	**(2)**
Other property, plant and equipment	-	(24,733)	26	257	34	**(24,416)**
Total depreciations	**-**	**(127,432)**	**-**	**3,973**	**53**	**(123,406)**
Total rights of use	**840,944**	**(60,396)**	**-**	**7,097**	**(50,264)**	**737,381**

The breakdown of the initial recognition of IFRS 16 as of January 1st, 2019 is as follows:

Leases liability reconciliation

Thousands of euros

	Year 2019
Operating lease obligations at 31 December 2018	979,646
Discounted using the lessee's incremental borrowing rate at the date of initial application	(95,869)
Short term leases recognised on a straight line basis as at 31 December 2018	(37,353)
Low-value leases recognised on a straight line basis as expense	(6,298)
Other movements	819
Total	**840,945**
Minimum lease payment (notional amount) on finance lease liabilities at 31 December 2018 (B)	1,241
Total lease liability recognized as at 1 January 2019	**842,186**

The initial recognition of use rights for operating leases in force on January 1st, 2019 amounts to EUR 840,944 thousand and entails the recognition of LEASE LIABILITIES for the same amount.

The following table shows the impact on the Consolidated Income Statement of the implementation of IFRS 16 in 2019:

Thousands of euros

Impact on results of first application of IFRS 16

	Year 2019
Amortisation right of use	127,431
Other operating costs	21,321
Interest expenses	(143,726)
Exchange differences	253
Increase / (decrease) in the Net Profit for the Year	**5,279**

The Group manages taxation of right-of-use assets and lease liabilities in a manner consistent with the accounting treatment.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. As a result, the net cash flow for operating activities in 2019 increased by EUR 143 million (See the Consolidated Cash Flow Statement - (financing)), relating to lease payments, and the net cash used in financing activities increased by the same amount.

The adoption of IFRS 16 has not had an impact on net cash flows.

The impact of the application of IFRS 16 on earnings from basic and diluted shares is shown in **note 27**.

12. Financial Assets

ACCOUNTING POLICIES

The Group applies IFRS 9 in the recognition of these assets.

At initial recognition, the group measures financial assets at their fair value plus, in the case of a financial asset not at fair value through profit or loss*, transaction costs that are directly attributable to the acquisition of the financial asset. On the other hand, the transaction costs of the financial assets accounted for at* fair value through profit or loss *are taken to profit or loss.*

Subsequent measurement depends on the group's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset. For purposes of subsequent measurement, financial assets are classified in four categories:

I. Financial assets at amortized cost

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- financial assets are maintained within a business model whose objective is to maintain financial assets to obtain contractual cash flows, and

- the contractual conditions of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss.

II. Financial assets at fair value through other comprehensive income, OCI (debt instrument)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

The financial asset is held within a business model with the objective of both obtaining contractual cash flows and for sale, and

- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

The Group's debt instruments recognized at fair value through ORG includes the sub-portfolio of trade receivables subject to possible securitization.

III. Financial assets at fair value through other comprehensive income (OCI) (equity instrument)

The Group can choose to classify irrevocably its equity investments as equity investments designated at fair value through OCI. The classification is determined on an instrument-by instrument basis. The Group has chosen not to classify any equity investment under this category.

In this model, gains and losses on these financial assets are never recycled to profit or loss and are not subject to impairment assessment.

IV. Financial assets at fair value through profit or loss.

Assets that do not meet the criteria of the previous categories are measured at FVPL.

IMPAIRMENT OF FINANCIAL ASSETS

The group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the assets.

DERECOGNITIONS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated Balance Sheet) when:

- *The rights to receive cash flows from the asset have expired or*
- *The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and also:*
- *the Group has transferred substantially all the risks and rewards of the asset, or*
- *the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.*

If the group does not transfer or substantially retain all risks and benefits of the property and continues to have control of the transferred asset, the Group recognizes the interest retained in the asset and an associated liability for the amounts it may be obliged to pay.

If the Group substantially retains all the risks and benefits of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes collateral indebtedness for the income received.

By derecognizing a financial asset valued at amortized cost, the difference between the carrying amount of the asset and the amount of the collection received and due to receive is recognized in profit or loss. Additionally, by derecognizing an investment in a debt instrument classified as financial assets at fair value with other comprehensive income, the profit or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. On the contrary, by derecognizing an investment in a capital instrument that the Group has chosen at the beginning to measure at fair value with other comprehensive income, the profit or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but transferred to reserves.

The breakdown of the financial assets, with the exception of cash and cash equivalent, as of December 31st, 2019 and 2018, classified by nature and by category for valuation purposes, is as follows:

Thousand of euros

Finance assets by type/ category

Year 2019	Notes	Financial assets valued at FVTPL	Amortised cost	FVTOCI	Hedging derivatives	Total
Equity instruments		3,089	-	-	-	**3,089**
Loans		-	55,884	-	-	**55,884**
Derivatives		-	-	-	89,255	**89,255**
Other Finance assets		-	24,638	-	-	**24,638**
Non current		**3,089**	**80,522**	**-**	**89,255**	**172,866**
Equity instruments		3,030	-	-	-	**3,030**
Loans		-	29,589	-	-	**29,589**
Derivatives		9,408	-	-	30,549	**39,957**
Other Finance assets		-	14,519	-	-	**14,519**
Subtotal		12,438	44,108	-	30,549	**87,095**
Trade receivables	Note 15	-	1,748,033	263,884	-	**2,011,917**
Current		**12,438**	**1,792,141**	**263,884**	**30,549**	**2,099,012**
Total		**15,527**	**1,872,663**	**263,884**	**119,804**	**2,271,878**

Year 2018	Notes	Financial assets valued at FVTPL	Amortised cost	FVTOCI	Hedging derivatives	Total
Equity instruments		14,892	-	-	-	**14,892**
Loans		-	90,906	-	-	**90,906**
Derivatives		-	-	-	228	**228**
Other Finance assets		-	23,450	-	-	**23,450**
Non current		**14,892**	**114,356**	**-**	**228**	**129,476**
Equity instruments		352	-	-	-	**352**
Loans		-	75,101	-	-	**75,101**
Derivatives		4,910	-	-	28,587	**33,497**
Other Finance assets		-	21,517	-	-	**21,517**
Subtotal		5,262	96,618	-	28,587	**130,467**
Trade receivables	Note 15	-	1,901,584	328,285	-	**2,229,869**
Current		**5,262**	**1,998,202**	**328,285**	**28,587**	**2,360,336**
Total		**20,154**	**2,112,558**	**328,285**	**28,815**	**2,489,812**

Note: FVTPL Financial assets at fair value through profit and loss
FVTOCI Financial assets at fair value through OCI

The movements and balances in financial assets accounts for 2019 and 2018, excluding trade receivables, are as follows:

Financial Assets - Variations

Thousands of euros

Year 2019	Balance at 01/01/19	Additions	Transfers	Other charges	Disposals	Balance at 12/31/2019
Non-current loans to associates and joint ventures	55,600	-	(773)	(47,800)	-	**7,027**
Other non-current loans	42,915	2,969	(395)	35,356	(25,266)	**55,579**
Other non-current finance assets	39,736	91,844	(225)	(11,442)	(2,125)	**117,788**
Impairment	(8,775)	(10)	-	269	988	**(7,528)**
Total non-current loans and Finance assets	**129,476**	**94,803**	**(1,393)**	**(23,617)**	**(26,403)**	**172,866**
Current loans to associates and joint ventures	50,756	9,021	773	(46,832)	(8,043)	**5,675**
Other current loans	36,553	9,787	395	-	(11,323)	**35,412**
Other current finance assets	55,368	15,197	13	215	(13,286)	**57,507**
Impairment	(12,210)	(148)	-	(24)	883	**(11,499)**
Total current loans and Finance assets	**130,467**	**33,857**	**1,181**	**(46,641)**	**(31,769)**	**87,095**

Year 2018	Balance at 01/01/19	Additions	Transfers	Other charges	Disposals	Balance at 12/31/2018
Non-current loans to associates and joint ventures	27,202	13,150	58,537	(42,897)	(392)	**55,600**
Other non-current loans	74,344	15,063	5,927	332	(52,751)	**42,915**
Other current finance assets	37,812	7,817	(618)	(1,530)	(3,745)	**39,736**
Impairment	(17,316)	(592)	-	794	8,339	**(8,775)**
Total non-current loans and Finance assets	**122,042**	**35,438**	**63,846**	**(43,301)**	**(48,549)**	**129,476**
Current loans to associates and joint ventures	114,225	21,620	(59,927)	(10,708)	(14,454)	**50,756**
Other current loans	42,493	4,612	2,667	2,757	(15,976)	**36,553**
Other current finance assets	58,596	78,456	-	1,243	(82,927)	**55,368**
Impairment	(9,966)	(302)	-	(3,033)	1,091	**(12,210)**
Total current loans and Finance assets	**205,348**	**104,386**	**(57,260)**	**(9,741)**	**(112,266)**	**130,467**

(NON-)CURRENT LOANS TO ASSOCIATES AND JOINT VENTURES include loans to associates as well as the loans granted to jointly controlled entities. CEPSA Group has granted a series of loans to the SinarMas Cepsa Group for the construction in Indonesia of a new plant for fatty alcohols treatment, within its strategy of diversifying in manufacturing and marketing surfactants. This financing arrangement, on market terms and conditions in its area of activity, amounts to EUR 5,207 thousand in 2019, and EUR 92,445 thousand in 2018 and matures in January 2023. In 2019, loans for EUR 98,625 thousand were converted into share capital (see **note 7**).

The amount under ADDITIONS in the line OTHER NON-CURRENT FINANCE ASSETS mainly includes derivatives concerning the hedges arranged by Cepsa Gas Comercializadora, S.A. to reduce its exposure in sales and purchases of natural gas.

The impairment recognized in 2017 by SinarMas Cepsa of EUR 7,998 thousand, as a result of the accumulated losses, was reversed in its entirety in 2018, given that the losses of that group no longer exceed the value of the investment at that date (**note 13**).

There is no new evidence of any impairment in the other loans in 2019.

The breakdown by maturity of the balances of LOANS TO ASSOCIATES AND JOINT VENTURES and OTHER LOANS at December 31st, 2019 and 2018 is as follows:

Maturity of finance assets — Thousands of euros

Year 2019

	2020	2021	2022	2023	2024	Over 5 years	Total
Loans to associates and joint ventures	5,675	-	-	-	-	7,027	**12,702**
Other loans	35,412	48,930	497	412	95	5,644	**90,990**
Total	**41,087**	**48,930**	**497**	**412**	**95**	**12,671**	**103,692**

Year 2018

	2019	2020	2021	2022	2023	Over 5 years	Total
Loans to associates and joint ventures	50,756	-	-	-	48,777	6,823	**106,356**
Other loans	36,553	21,210	7,473	1,813	282	12,137	**79,468**
Total	**87,309**	**21,210**	**7,473**	**1,813**	**49,059**	**18,960**	**185,824**

The average interest rate applied by CEPSA to loans granted to related parties in 2019 and 2018 was similar to the average cost of external financing for the same type of transaction.

13. Impairment of assets

ACCOUNTING POLICIES

The CEPSA Group assesses at the closing date, or whenever it is necessary in light of the circumstances, whether there are signs of impairment value losses in assets recognized in the Balance Sheet, and especially in certain property, plant & equipment, intangible assets, or investments in associates and joint ventures, due to circumstances such as a fall in crude oil prices, expected losses, reduction of activity or crisis situations in the country, proceeding, where appropriate, to estimate the recoverable amount of the same.

*In addition, and regardless of the existence of any indication, for intangible assets of indefinite useful life, a comparison is made at least once a year between those not available for use and goodwill in terms their carrying amount as against their recoverable amount (see **notes 4.4**, **8** and **9**).*

The recoverable amount is the fair value of the net asset of transfer or disposal costs, or the value in use, whichever is greater.

When the asset does not generate cash flows that are independent of those of other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. In accordance with IAS 36, a cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Business segments and determining the CGUs.

• Petrochemicals: each CGU corresponds to one of the industrial plants.

• E & P: each CGU corresponds to one of the different contractual areas commonly known as "blocks"; as an exception, in cases where the cash flows generated by several blocks are interdependent with each other, these blocks are grouped into a single CGU, as is the case of the Algerian or Colombian CGU.

• Refining and Marketing: it is considered a single CGU due to the interrelation of flows that exists throughout its production process. However, within the refining segment, only in the area of gas and electricity each plant corresponds to a CGU since they have an individual remuneration by the Spanish Government.

In order to perform the aforementioned impairment test, the carrying amount of the CGU will:

a. Include the carrying amount of only those assets that can be attributed directly, or allocated on a reasonable and consistent basis, to the CGU and assets that will generate the future cash inflows used in determining the CGU's value in use;

b. Not include the carrying amount of any recognized liability, unless the recoverable amount of the UGE cannot be determined without consideration of this liability.

c. As regards E&P assets, the liabilities for decommissioning are aggregated both to the carrying amount and to the value in use of the assets.

The goodwill acquired in a business combination is distributed among each of the CGU or groups of CGUs that benefit from the synergies of the business combination. An estimate of the CGU's recoverable value is made with the limit of the business segment.

*Nevertheless and considering that segments (see **note 6**) are broader than the above mentioned CGU, for the impairment tests of goodwill associated with said segments, their cash flow is considered separately.*

The recoverable value of each CGU is determined to be the higher of:

- *the value in use, and*
- *fair value minus transfer or disposal costs otherwise to be obtained from assets associated with the CGU.*

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted, using assumptions which are consistent with the CEPSA Group's 2020-2024 strategic plan.

These projections cover the following five years, and include a residual value appropriate to each business for which a constant expected growth rate (above the flows of the fifth year) is used that ranges from 0% and 2.5%, based on the expected long-term CPI and specific for each business under analysis. For the purpose of calculating residual values, the only investment considered is maintenance capital expenditure and any investment needed for renovation purposes in order to maintain the asset's or CGU's productive capacity.

Valuations of Exploration & Production assets (Upstream) use cash flow projections for a period that covers the economically productive lives of the oil and gas fields, limited by the contractual expiration of the operating permits, agreements or contracts. The general principles applied to determine the variables that most affect the cash flows of this business line are described below:

Oil and gas sales prices

Estimated crude oil prices used to project cash flows of each of the assets are similar to those used in the Group's 2020-2024 strategic plan. These estimates are based on estimates made by various international organizations. Due to the increased volatility of crude prices over the past year, CEPSA has used a sensitivity analysis of different price curves for its impairment analysis. In particular, the prices assumed in the Strategic Plan are USD 60 per barrel for each year of the period 2020-2024. Later on prices are increased by a CPI of 1.5%. The quoted Brent crude oil price is used as the base price, and the remaining international prices are calculated with the use of differentials.

Reserves and production schedules

For each asset a long-term development plan is established with an annual production schedule. This production schedule takes probable reserves into account as well as the best estimate for contingent resources. The estimates for reserves and resources are made in accordance with the guidelines established by the Petroleum Resource Management System of the Society of Petroleum Engineers (PRMS-SPE). These profiles are revised every two years by independent experts.

Operating expenses and capital expenditure. (OPEX and Capex)

For the Exploration and Production assets, the development plan established for each asset takes into account the investments necessary for production of the estimated reserves and resources. For both capital expenditure and operating expenses, according to current purchasing contracts and our best estimate, the inflation rate used, when applicable, depends on the country where the asset is located.

Reversal of impairment losses

The impairment losses recognized in previous years can be reversed to the original value of the asset, except those recognized for the goodwill, which cannot be reversed.

13.1. Discount rates

For the purpose of calculating the present value of these cash flows, an after-tax discount rate (weighted average cost of capital, WACC) is used that reflects the weighted average cost of capital employed, adjusted according to the country and business risk corresponding to each asset or CGU. Below are the discount rates used for the analysed CGU's grouped by each business segment in 2019 and 2018:

Discount rates used in impairment analysis - Segmented

	2019	2018
E&P	7.0% - 9.5%	7.5% - 10.0%
Refining & Marketing	6.0% - 7.5%	7.0% - 8.0%
Petrochemical	7.5% - 12.0%	7.0% - 11.0%
Gas & Power	5.5% - 5.5%	6.0% - 6.5%

The parameters taken into account for the composition of the aforementioned discount rates were:

- Risk-free rate: normalized bond yield [6]
- Risk premium for investment in equity (equity risk premium): 5.5%
- Country risk-premium of the location of the asset
- Beta: based on comparable companies for each business segment
- After taxes Cost of Debt plus Spread based on peer Oil and Gas integrated companies
- Equity – Debt ratio: average value of peer companies in the business segment.

These discount rates have been calculated considering local currencies of the CGUs except for E&P and Petrochemical Indonesia that are in USD.

The after-tax discount rates (WACCs) used for the CGU in the countries where impairment signs existed in 2019 and 2018 are as follows:

Discount rates used in impairment analysis - CGU breakdown

	2019	2018
E&P		
Colombia	8'0%	8'5%
Thailand	7'0%	7'5%
Malaysia	8'0%	9'0%
Algeria	9'5%	10'0%
Abu-Dhabi	7'5%	7'5%
Peru	7'5%	8'0%
Petrochemical		
Brazil	9'5%	10'0%
China	8'0%	8'5%
Indonesia	9'0%	10'0%

As a result of the above process, in 2019 and 2018, the impairments detailed in this note have arisen.

In the case of those assets or CGUs for which the Group performs an impairment test as a result of identifying indications of impairment, the Group analyses whether reasonably foreseeable changes in the key assumptions used to determine their recoverable amounts would have a material impact on the financial statements. In the case of those assets or CGUs for which the recoverable amount exceeds the unit's carrying amount by a significant margin, it is assumed that these 'reasonably foreseeable changes' would not have a material impact. In the case of those assets or CGUs for which the margin is below this threshold, the Group performs sensitivity analyses in order to quantify changes in the recoverable amounts of these assets or CGUs as a result of changes in key assumptions deemed reasonably foreseeable.

In specific terms, the most relevant sensitivity analyses performed for all the CGUs were as follows:

Impairment tests - sentitivity analysis

	Increase in the impairment losses net of tax impact in the Consolidated Financial Statements					
	2019			2018		
	Variation	%	Amount	Variation	%	Amount
Discount rate increase	50 p.b	6%	111	50 p.b	5'0%	1
Decrease in price of crude oil	-6$	9%	72	-10$	9'0%	249
Average exchange rate decrease $ vs €	0,05 $/€	4%	55	0,05 $/€	4'0%	0,5

Based on the price curves posted by reputable analysts[7], and forward prices of Brent oil, the Group considers the one utilized by the company to be reasonable for calculating the recoverable value in the impairment tests performed.

[6] *Risk-free rate in USD: Average UST 10Y rate + long-term inflation forecasts in the US.*

Risk-free rate in EUR: Average UST 10Y rate + long-term inflation forecasts in the US + long-term inflation forecasts between the US and the eurozone.

[7] *Analysts considered are Wood Mackenzie, JP Morgan, Barclays, Societé Generale, Citi, IHS, Morgan Stanley and the US Energy Information Administration.*

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, its value is reduced to its recoverable amount and an impairment loss is recognized as an expense, under IMPAIRMENT AND GAINS OR LOSSES ON DISPOSALS OF NON-CURRENT ASSETS in the accompanying Consolidated Income Statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU), is increased up to the revised estimate of its recoverable amount, except for goodwill, recognizing an income item, in such a way that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized for the asset (or CGU) in prior years. The impairment previously recognized on the goodwill is not reversed.

13.2. Recognition of the impairment calculated in the accounting period

The CEPSA Group performs an impairment test on its assets and cash-generating units at the closing date of the balance sheet or whenever there are circumstances that indicate this is required. The recoverable amount of the assets is estimated in order to perform the aforementioned impairment test as described above. Based on these impairment tests, the breakdown of the gross impairments recorded is as follows:

Thousand of euros

Impairment of Non current assets		2019		2018	
	Notes	Charges for the year	Reversal	Charges for the year	Reversal
Intangible assets	Note 8	11,959	-	2,786	-
Property, plan and equipment	Note 10	75,735	-	3,095	(2,803)
Goodwill	Note 9 and 23	-	-	27,948	-
Investmentes in companies accounted for using the "equity method"	Note 7	67,889	-	-	-
Other financial assets	Note 12	158	(1,871)	591	(8,296)
Total		**155,741**	**(1,871)**	**34,420**	**(11,099)**

The main impairment allowances in 2019 were:

- For the Colombia CGU, related to the OCENSA pipeline, EUR 11,959 thousand (see **note 8**)
- For MOPU platforms in the Exploration and Production business in Singapore, EUR 53,853 thousand (see **note 10**) in PPE.
- For the Peru CGU for various exploration and production projects and cancelled activities, EUR 21,802 thousand (see **note 10**), in PPE.
- For the stake in ADOC, accounted for using the equity method, EUR 67,889 thousand (see **note 7**). This amount splits into EUR 48,488 thousand associated to goodwill arising from this interest, and the remaining EUR 19,401 thousand to associate's property, plant & equipment.

In 2018, in the case of impaired Coastal Group assets, mainly located in Thailand and Malaysia, the impairment relates to exploratory assets as a result of the business combinations and in Coastal Energy KMD Sdn Bhd.

The impairment recorded is mainly due to the lower-than-forecast cash flows, except in the case of the reversal of the impairment of the financial assets over the loans granted to SinarMas Cepsa (see **note 12**), given that the accumulated losses no longer exceed the CEPSA Group's share.

The breakdown of impairments recorded in 2019 and 2018 is as follows:

Thousands of euros

Impairment of Non current assets		2019		2018	
	Segment	Charges for the year	Reversal	Charges for the year	Reversal
Colombia	Exploration and Production	11,959	-	-	-
Peru	Exploration and Production	21,882	-	-	-
Abu Dhabi	Exploration and Production	67,889	-	-	-
Thailand	Exploration and Production	-	-	27,948	-
Singapur	Exploration and Production	53,853	-	-	-
Malaysia	Exploration and Production	-	-	2,726	-
Others		158	(1,871)	3,686	(11,099)
Total		**155,741**	**(1,871)**	**34,360**	**(11,099)**

The recoverable value of all assets has been obtained through the value in use.

14. Inventory

ACCOUNTING POLICIES

Crude oil, oil derivatives and petrochemical products, acquired as raw materials, are measured at the lower of weighted average cost *and net realizable value. Replacement parts and supplies and other inventories are measured at the lower of average acquisition or production cost or net realizable value.*

The cost of production includes those of direct materials and, where applicable, direct labour costs and general manufacturing costs and the fraction of the depreciation of the non-current asset items used in the production process.

The Group assesses the net realizable value of the inventories at the end of each year and recognizes the appropriate impairment if this value is lower than the carrying amount. When circumstances that previously caused the valuation adjustment no longer exist or when there is clear evidence of an increase in net realizable value due to a change in economic circumstances, the impairment adjustment is reversed. Inventory impairment or excess that is reversed is included in TRADE PROVISIONS IMPAIRMENT in the Consolidated Income Statement.

*Costs are allocated to refined products in proportion to the selling price thereof (*isomargin method*) due to the complexity of assigning production costs to each product.*

The breakdown of INVENTORIES at December 31st, 2019 and 2018 is as follows:

Thousand of euros

Inventories

	2019	2018
Crudes	**718,958**	684,357
Other raw materials	**126,763**	136,338
Finished goods	**1,236,206**	1,325,457
Other supplies	**10,124**	12,851
Spare Parts	**85,354**	84,441
Impairment	**(14,699)**	(41,898)
Total	***2,162,706***	***2,201,546***

Pursuant to the Directorate-General of Energy Policy and Mining resolution dated March 30th, 2009, CEPSA and other Group companies which act as operators are required to maintain minimum oil product safety stocks equivalent to 50 days of sales of the preceding 12 months in the domestic market, excluding sales to other wholesalers. The inspection and control of these stocks and sales is carried out by the Corporation of Strategic Reserves of Petroleum Products (CORES). CEPSA management considers that the consolidated Group has been meeting this obligation.

In 2019 and 2018, impairments were recorded amounting to EUR 26,997 thousand (reversal) and EUR 36,930 thousand (allowance) on its inventories of raw materials and finished goods, respectively. These amounts are included in the Consolidated Income Statement under CHANGES IN OPERATING ALLOWANCES.

15. Trade and other receivables

The breakdown of TRADE AND OTHER RECEIVABLES in 2019 and 2018 is as follows (see **note 29**):

Thousand of euros

Trade and other receivables

	Notes	2019 Gross amounts	2019 Allowances for doubtful debts	2019 Net
Trade receivables for sales and services		2,030,723	(135,837)	**1,894,886**
Receivable from associates and joint ventures		51,502	-	**51,502**
Other debtors		65,529	-	**65,529**
Subtotal Trade receivables	Note 12	2,147,754	(135,837)	**2,011,917**
Public Administration		106,700	-	**106,700**
Total		***2,254,454***	***(135,837)***	***2,118,617***

	Notes	2018 Gross amounts	2018 Allowances for doubtful debts	2018 Net
Trade receivables for sales and services		2,256,506	(134,597)	2,121,909
Receivable from associates and joint ventures (Note 31)		37,608	-	37,608
Other debtors		70,352	-	70,352
Subtotal Trade receivables	Note 12	2,364,466	(134,597)	2,229,869
Public Administration		107,955	-	107,955
Total		***2,472,421***	***(134,597)***	***2,337,824***

The Group has entered into various financial asset transfer agreements (factoring agreements and securitization transactions, both without recourse) with financial institutions. In the framework of these agreements, the Group transfers receivables denominated in euros and foreign currency to the respective financial institutions. Debtors that may be involved in securitization or factoring transactions are now valued at fair value in accordance with IFRS 9 (see **note 12**).

PUBLIC ADMINISTRATION mainly includes receivables from tax authorities.

CHANGES IN OPERATING ALLOWANCES on the income statement only refers to trade receivables as follows:

Thousands of euros

Allowances for doubtful debts

	2019	2018
Balance at the beginning of the year	**(134,597)**	**(140,330)**
Adjustments IFRS 9	-	(6,710)
Additions	**(20,555)**	(7,915)
Amounts	**22,032**	18,187
Other	**(2,717)**	2,171
Closing balance for the year	***(135,837)***	***(134,597)***

16. Cash and cash equivalents

ACCOUNTING POLICIES

This heading includes cash and cash equivalents and other liquid assets.

Cash equivalents include bank deposits and other investments maturing within three months at the time of the contract.

The breakdown of CASH AND CASH EQUIVALENTS relating to 2019 and 2018 is shown below:

Thousands of euros

Cash and cash equivalent

	Notes	2019	2018
Cash in hand		**14,744**	8,874
Time deposits		**380,060**	104,906
Current accounts		**166,356**	133,098
Total	Note 29	**561,160**	**246,878**

17. Equity

17.1. Share capital and share premium

SHARE CAPITAL amounts to EUR 267,574,941 and consists of 535,149,882 ordinary shares, totally subscribed and paid, with a par value of EUR 0.50 each (see **note 27**).

In September 2018, the nominal value of the shares was split, going from a nominal value of one euro to EUR 0.50 per share (see **note 27**).

As of December 31st, 2019, the shareholders and direct holders of CEPSA's shares are (see **note 1.A**):

- CEPSA Holding, LLC, ultimately controlled by Mubadala Investment Company, PJSC, holds shares representing 63% of the share capital.
- Matador Bidco, S.À.R.L., ultimately controlled by The Carlyle Group, Inc., holds shares representing 37% of the share capital.

At the date of authorization for issue, these percentages have changed (see **note 35** on events subsequent to the reporting date).

The Corporate Enterprises Act expressly permits the use of the SHARE PREMIUM account balance to increase share capital and does not establish any specific restrictions as to its use. During 2019 and 2018, the balance of this account which amounted to EUR 338,728 thousand, did not undergo any changes.

17.2. Revaluation reserve

In 1996, CEPSA revalued its property, plant and equipment pursuant to Royal Decree-Law 7/1996 of June 7, and increased its equity by EUR 58,438 thousand. This amount is included under REVALUATION RESERVE, in EQUITY of the Consolidated Balance Sheet.

Similarly, several companies of the Consolidated Group carried out this revaluation for EUR 70,495 thousand. This latter figure was recognized under CONSOLIDATED RESERVES on consolidation, which is included in RETAINED EARNINGS.

The REVALUATION RESERVE also includes EUR 32,498 thousand relating to the revaluations made in 1979 and 1981 pursuant to State Budget Laws 1/1979 and 74/1980, respectively, which can now be transferred to unrestricted voluntary reserves.

The balance of the "Revaluation Reserve, Royal Decree-Law 7/1996" account can be used, free of tax, to eliminate recognized losses and to increase capital. From January 1st, 2007 (i.e. ten years after the date of the balance sheet reflecting the revaluation transactions), the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realized. The surplus will be deemed to have been realized with regard to the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognized. At December 31st, 2019 the entire amount of this reserve is considered unrestricted.

If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

17.3. Adjustments for changes in value

The breakdown by nature of the VALUATION ADJUSTMENTS is as follows:

Thousands of euros

Adjustments for changes in value	Notes	2019	2018
Foreign currency translation differences	Note 17.3.A	772,394	745,154
Net investment hedge	Note 17.3.B	(536,885)	(522,559)
Cost of hedging	Note 17.3.B	(14,446)	-
Cash flow hedge	Note 17.3.B	(9,068)	(6,444)
Total		**211,995**	**216,151**

A) TRANSLATION DIFFERENCES

The breakdown by company of the balance of TRANSLATION DIFFERENCES is as follows:

Thousands of euros

Translation reserve	2019	2018
Company		
Cepsa International, B.V.	23,283	18,701
Deten Quimica, S.A.	(24,568)	(22,841)
Cepsa Chemical (Shanghai), CO., LTD	15,739	15,377
Cepsa Perú, S.A.	18,989	16,709
Cepsa Colombia, S.A.	121,716	134,134
Coastal Energy KBM Sdn.Bnd.	414,586	416,355
Cepsa ReR (Rhourde Er Rouni)	30,284	26,614
Cepsa EP Abu Dhabi, S.L.U.	144,609	116,131
Other companies	27,756	23,974
Total	**772,394**	**745,154**

The change in the balance under this heading from 2018 was basically due to the fluctuation in the year-end exchange rates of the US dollar between the start and the end of the year.

B) HEDGING RESERVES

The Group recognizes a number of hedges under its risk management policy, which are broken down as follows with respect to the relevant valuation adjustments:

Thousands of euros

Hedge reserves	Cost of hedging			Net investment hedge			Cash flow hedges		
Year 2019	Gross balance	Tax effect	Total	Gross balance	Tax effect	Total	Gross balance	Tax effect	Total
Opening balance	-	-	-	(696,758)	174,199	(522,559)	(8,919)	2,475	(6,444)
Gains and losses recognised in OCI	(19,262)	4,816	(14,446)	(50,427)	12,607	(37,820)	(5,365)	1,343	(4,022)
Reclassification during the year to profit or loss	-	-	-	31,326	(7,832)	23,494	2,195	(797)	1,398
Closing balance	(19,262)	4,816	(14,446)	(715,859)	178,974	(536,885)	(12,089)	3,021	(9,068)

Hedge reserves	Cost of hedging			Net investment hedge			Cash flow hedges		
Year 2018	Gross balance	Tax effect	Total	Gross balance	Tax effect	Total	Gross balance	Tax effect	Total
Opening balance	-	-	-	(572,413)	143,101	(429,312)	(4,429)	(302)	(4,731)
Gains and losses recognised in OCI	-	-	-	(173,171)	43,305	(129,866)	(22,888)	2,663	(20,225)
Reclassification during the year to profit or loss	-	-	-	48,826	(12,207)	36,619	18,398	114	18,512
Closing balance	-	-	-	(696,758)	174,199	(522,559)	(8,919)	2,475	(6,444)

17.4. Dividends

ACCOUNTING POLICIES

The Group accounts for in-kind dividends at the fair value of the transferred asset. In the event there is a difference between the amount of the dividend and the mentioned fair value, this is charged to earnings.

Approved in 2019

On March 4th, 2019, the then Sole Shareholder of CEPSA, Cepsa Holding, LLC, decided to approve the distribution of a supplementary dividend from the 2018 earnings for an overall amount of EUR 176,599 thousand at EUR 0.33 per share. The above dividend was supplementary to another 2018 interim dividend, for an overall amount of EUR 189,978 thousand paid the previous year.

On September 26th, 2019, all of the members of the CEPSA Board of Directors unanimously agreed to (i) distribute a dividend from the profits from 2019 for the gross amount of EUR 216,415 thousand, equivalent to EUR 0.4044 per share, in favor of the Single Shareholder, Cepsa Holding, LLC and (ii) formulate the CEPSA Accounting Statement for the period ended August 31st, 2019, showing that there was sufficient liquidity to distribute the proposed dividend, in accordance with article 277 of the Consolidated Text of the current Corporate Enterprises Act.

On October 13th, 2019, CEPSA's then sole shareholder, Cepsa Holding, LLC, (see **note 7**), decided to proceed with the distribution of an in-kind dividend composed of the shares of Medgaz, S.A. representing 42.09% of the share capital held by CEPSA in the share capital of Medgaz, S.A. to the sole shareholder, charged to voluntary reserves. The value assigned to the shares of Medgaz, S.A. was EUR 550,000 thousand and, consequently, voluntary reserves were distributed as an in-kind dividend amounting to EUR 550,000 thousand. On that date, the sole shareholder also decided to distribute a cash dividend in the amount of EUR 38,577 thousand, charged to voluntary reserves.

On December 19th, 2019, CEPSA's General Shareholders' Meeting decided to approve the distribution of a dividend from free-disposal reserves for an overall amount of EUR 100,000 thousand at EUR 0.1869 per share.

Approved in 2018

At the meeting held on September 17th, 2018 an interim dividend payment of EUR 0.71 per share (EUR 189,978 thousand) approved by the Board of Directors, was agreed upon. This distribution was based on the provisional accounting statement for June 30, 2018, relating to CEPSA noting that there was sufficient liquidity for it to be paid, as provided for under article 277 of the Consolidated Text of the Spanish Companies Act in force. This dividend was payable the following day.

At the meeting held on March 21st, 2018, a dividend payment of 0.60 euros per share (160,545 thousand euros) charged to the 2017 results, approved by the sole shareholder, was agreed upon, prepared in accordance with the Consolidated Text of the Corporate Enterprises Act, and approved by Royal Decree Law 1/2010. This dividend was payable the same day.

17.5. Non-controlling interests

The breakdown of NON-CONTROLLING INTERESTS at December 31st, 2019 and 2018 is as follows:

Thousands of euros

Non controlling interests	2019			2018		
	Non-dominant percentage	Equity non-controlling interest	Profit (loss)	Non-dominant percentage	Equity non-controlling interest	Profit (loss)
Company						
C.M.D. Aeropuertos Canarios, S.L.	**40'00%**	**6,953**	**4,736**	40'00%	6,778	5,445
Deten Química, S.A.	**28'56%**	**27,699**	**4,956**	28'56%	23,728	5,498
Generación Eléctrica Peninsular, S.A.	**30'00%**	**21,896**	**3,485**	30'00%	21,891	4,625
Cepsa Quimica China & Shanghai	**25'00%**	**16,208**	**(1,097)**	25'00%	14,982	1,279
Coastal Energy KBM Sdn. Bhd.	**30'00%**	**5,237**	**3,854**	30'00%	16,051	2,200
Cepsa Panamá	**-**	**-**	**-**	-	-	(727)
Cepsa Gas Comercializadora, S.A	**30'00%**	**8,821**	**(2,336)**	30'00%	9,523	(5,309)
Total		**86,814**	**13,598**		**92,953**	**13,011**

For 2019, the reduction in EQUITY NON-CONTROLLING INTEREST belonging to Coastal Energy, KBM Sdn. Bhd. relates to a dividend distribution by the company Coastal Energy KBP Sdn. Bhd. for the years 2016 to 2018.

During 2018, CEPSA acquired 35% of the shares in Cepsa Gas Comercializadora, S.A. increasing the total stake to 70%, which is reflected in the change in the non-controlling interests in that Company.

During the 2018 fiscal year, Cepsa Química (Shanghai), Co. Ltd. carried out a share capital increase, endorsed by all their shareholders, which have implied increases in non-controlling interests amounting to EUR 13 million.

Also during 2018, CEPSA acquired 33% shares in Cepsa Panamá, S.A. to complete 100% of its total share capital, which is reflected in the total decrease in the non-controlling interests in that company.

18. Financial liabilities

ACCOUNTING POLICIES

In its initial recognition, financial liabilities are classified as financial liabilities at fair value through profit or loss*, loans, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.*

All financial liabilities are recognized initially at fair value and, in the case of bank borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans, including bank overdrafts, and derivative financial instruments

Banks borrowings are the Group's most significant financial liability. Upon initial recognition, its value is reviewed at amortized cost using the effective interest rate method.

Accounting policies for Derivatives and hedging instruments are disclosed below under Derivative financial instruments and hedge accounting.

Except for derivative financial liabilities (see **note 30**), all financial liabilities relate to loans and trade receivables, at amortized cost, according to the classification of IFRS 9.

The breakdown of current and non-current liabilities for 2019 and 2018 is as follows:

Thousand of euros

Financial liabilities and payables

Year 2019	Notes	Current	Non-current	Total
Bank borrowings relating to finance leases	Note 24	118,840	641,686	**760,526**
Other bank borrowings				
Variable rate		131,743	2,517,822	**2,649,565**
Fixed rate		-	121,951	**121,951**
Bonus, obligations and similar issuances		3,137	496,714	**499,851**
Other Finance liabilities		14,235	21,555	**35,790**
Subtotal financial liabilities		**267,955**	**3,799,728**	**4,067,683**
Derivatives	Note 22 and 30	44,171	50,821	**94,992**
Trade payables	Note 22	3,115,136	76,242	**3,191,378**
Total		**3,427,262**	**3,926,791**	**7,354,053**

Year 2018	Notes	Current	Non-current	Total
Bank borrowings relating to finance leases	Note 24	995	246	**1,241**
Other bank borrowings				
Variable rate		361,321	2,566,066	**2,927,387**
Fixed rate		-	359,826	**359,826**
Other Finance liabilities		18,118	29,778	**47,896**
Subtotal financial liabilities		**380,434**	**2,955,916**	**3,336,350**
Derivatives	Note 22 and 30	33,957	4,283	**38,240**
Trade payables	Note 22	2,870,175	167,677	**3,037,852**
Total		**3,284,566**	**3,127,876**	**6,412,442**

In May 2019, the CEPSA Group issued bonds for EUR 500,000 thousand maturing in 2025. The bonds, rated as investment grade by the three major international rating agencies Moody's, S&P and Fitch, will yield an annual coupon of 1% (see **note 35**).

The transaction is part of the debt issuance program for up to EUR 3,000 million approved by the Central Bank of Ireland at the end of April. The bonds issued under this program are listed on the Irish Stock Exchange.

The breakdown by maturity of all financial liabilities at December 31st, 2019 and 2018, is as follows:

Thousand of euros

Financial liabilities - Maturities

Year 2019	2020	2021	2022	2023	2024	Others	Total
Bank borrowings relating to finance leases	118,840	101,567	92,794	77,495	76,837	292,993	**760,526**
Other bank borrowings							
Variable rate	131,743	63,876	74,907	88,645	1,650,397	639,997	**2,649,565**
Fixed rate	-	-	-	-	121,951	-	**121,951**
Bonus, obligations and similar issuances	3,137	-	-	-	-	496,714	**499,851**
Other Finance liabilities	14,235	9,950	5,540	2,786	1,570	1,709	**35,790**
Subtotal financial liabilities	**267,955**	**175,393**	**173,241**	**168,926**	**1,850,755**	**1,431,413**	**4,067,683**
Trade payables	3,115,136	72,304	526	526	526	2,360	**3,191,378**
Derivatives	44,171	1,111	-	974	30,536	18,200	**94,992**
Total	**3,427,262**	**248,808**	**173,767**	**170,426**	**1,881,817**	**1,451,973**	**7,354,053**

Year 2018	2019	2020	2,021	2022	2023	Others	Total
Bank borrowings relating to finance leases	995	246	-	-	-	-	**1,241**
Other bank borrowings							
Variable rate	361,321	102,007	726,014	214,534	1,091,575	431,936	**2,927,387**
Fixed rate	-	-	240,175	119,651	-	-	**359,826**
Other Finance liabilities	18,118	12,030	8,346	4,895	2,310	2,197	**47,896**
Subtotal financial liabilities	**380,434**	**114,283**	**974,535**	**339,080**	**1,093,885**	**434,133**	**3,336,350**
Trade payables	2,870,175	117,852	45,172	500	500	3,653	**3,037,852**
Derivatives	33,957	-	2,980	-	-	1,303	**38,240**
Total	**3,284,566**	**232,135**	**1,022,687**	**339,580**	**1,094,385**	**439,089**	**6,412,442**

The breakdown by currency [8] of the bank borrowings and other financial liabilities at December 31st, 2019 and 2018, is as follows:

Thousand of euros

Financial liabilities - Currencies

	2019			2018		
	Current	Non-current	Total	Current	Non-current	Total
Euros	116,562	2,279,266	2,395,828	50,356	262,238	312,594
Dollars ($ USA)	34,909	1,281,792	1,316,701	281,335	2,436,108	2,717,443
Other foreign currencies	116,484	238,670	355,154	48,743	257,570	306,313
Total financial liabilities	**267,955**	**3,799,728**	**4,067,683**	**380,434**	**2,955,916**	**3,336,350**

The breakdown of the bank borrowing movements for the third quarter is as follows:

Thousand of euros

Gross borrowing - Movements

	2019	2018
Bank borrowings - Non current - at the beginning of period	2,955,916	1,628,425
Bank borrowings - Current - at the beginning of period	380,434	639,348
Total	**3,336,350**	**2,267,773**
Additions	1,310,567	1,674,763
Bonds issuance	499,851	-
Overdrafts movements	(764,538)	(113,771)
Repayments	(1,093,861)	(623,882)
IFRS 9 impact	-	(12,687)
Foreign exchange fluctuations	18,788	144,154
IFRS 16 impact - Leasing	760,526	-
Bank borrowings - Non current - at the end of period	3,799,728	2,955,916
Bank borrowings - Current - at the end of period	267,955	380,434
Total at year closing	**4,067,683**	**3,336,350**

The average annual nominal interest rate on the loans in euros was 0.36% and 0.31% in 2019 and 2018 respectively, and on foreign currency debts of 3.31% and 3.02%, mainly in US dollars and Chinese yuan. The weighted average cost of the financing received was 2.85% in 2019 and 2.60% in 2018, including the effect of interest rate derivatives.

The Group has taken out various credits and loans with financial institutions, in some of which a financial ratio (covenant) is established, basically linked to EBITDA [9] and consolidated net debt. At December 31st, 2019, the Company was fully in compliance with the covenant and thus no early repayment of the loans and credits is required.

At December 31st, 2019 and 2018, the CEPSA Group companies had undrawn credit facilities totaling over EUR 2,538 million and EUR 2,433 million, respectively. In addition to these amounts available, at those dates there were CASH and CASH EQUIVALENT balances included under LIQUID ASSETS in the consolidated balance sheets, amounting to EUR 561,160 and 246,878 thousand in 2019 and 2018, respectively.

19. Capital Grants

ACCOUNTING POLICIES

Grants related to assets are measured at fair value. Non-refundable grants are recognized as deferred income under NON-CURRENT LIABILITIES in the Consolidated Balance Sheet and are released to income based on the amortization of the investment financed by the grant. Repayable grants are recognized as non-current debt transformable into grants under OTHER NON-CURRENT LIABILITIES. Operating subsidies are paid on the basis of results as their accrual occurs.

CAPITAL GRANTS RELATED TO GREENHOUSE GAS EMISSION ALLOWANCES includes allowances received for no consideration, as provided for in the National Emission Allowance Assignment Plan, which are initially measured at the market price prevailing at the beginning of the year to which they relate. Such grants are taken to income as a release of NON-FINANCIAL CAPITAL GRANTS:

- *Generally, as the costs incurred on the actual emissions accrue (see **note 23**).*
- *If an impairment loss was recognized on the emission allowances received from the Government, as an adjustment to the initially recognized value (see **note 8**).*

[8] *There are some Cross Currency Swaps over EUR 1,275 million that exchange into USD such debts, consequently, USD and EUR volumes in the years 2019 and 2018 are alike, regarding currency and interest rate risks, after removing the effect of IFRS 16 linked debts.*

[9] *Financing contracts contain a specific definition of EBITDA and the elements that form it. This definition differs from that presented in these Financial Statements, which eminently relates to accounting and business management.*

The changes in 2019 and 2018 and the balances, classified by items, at year end are as follows:

Thousand of euros

Capital grants

Year 2019	Notes	Balance at 01/01/2019	Additions	Other changes	Retirements	Transferred to profit and loss	Balance at 12/31/2019
Grants related to assets		15,729	641	-	-	(3,199)	**13,171**
Greenhouse gas emissions allowances	Note 23	8,851	80,560	-	-	(81,378)	**8,033**
Total		**24,580**	**81,201**	**-**	**-**	**(84,577)**	**21,204**

Year 2018	Notes	Balance at 01/01/2018	Additions	Other changes	Retirements	Transferred to profit and loss	Balance at 12/31/2018
Grants related to assets		18,720	421	4	(5)	(3,411)	**15,729**
Greenhouse gas emissions allowances	Note 23	11,878	25,958	75	(75)	(28,985)	**8,851**
Total		**30,598**	**26,379**	**79**	**(80)**	**(32,396)**	**24,580**

In 2019 and 2018, grants received mainly relate to those from Regional Governments, most notably from the Andalusian Regional Government, and those received from the Central Government, namely from the Industry Ministry.

Additions to "Greenhouse gas emission allowances" include the market value of the emission allowances assigned for no consideration at the date of assignment. "Transferred to profit and loss" includes the valuation adjustment initially recognized for the amount recorded as an impairment loss on allowances received from the Government and the recognition in income of the value of the allowances assigned for CO2 emissions made in the year (see **note 8**)

20. Pension and similar obligations

20.1. Defined contribution plans

ACCOUNTING POLICIES

CEPSA and several of its subsidiaries have the following pension commitments with employees and their beneficiaries:

- *Commitments covered by the occupational Pension Plan under the CEPSA GROUP PENSIONS FUND. These pension plans establish the participants' right to receive retirement or, if applicable, death or invalidity benefits in accordance with their plan specifications.*

The plans take the form of hybrid plans:

- *Defined contribution plans, which cover retirement, whereby the sponsor makes periodic contributions.*
- *Defined benefit plans which cover benefits for death or disability through an annually renewable policy taken out with an insurance company. The sponsor undertakes to make the contributions corresponding to the Pension Plan to finance the premium covering the above activity risk contingencies.*

The accrued amount of the risk assumed by the sponsor is covered every year by the annual contribution.

- *Life insurance (excess policy): It sets out the contributions to be made by the Company taking out the insurance, as a complement to the Pension Plan, or because the commitment assumed toward the personnel exceeds the maximum limits on contributions to pension plans. This insurance guarantees retirement contingencies or, where appropriate, death and disability under defined contribution schemes.*
- *Life annuities for retired employees. These are obligations prior to the arrangement of pension plans, which entitle personnel or their beneficiaries to receive supplementary social security pension benefits in the event of retirement, death or permanent disability. This commitment has been externalized in full through the related insurance policies.*

The adjustments arising from CPI increases or decreases, which affect only the policies covering obligations tied to annual CPI performance, are recognized as expenses or income for the year, as appropriate, and their amount was not material.

During 2019 and 2018, CEPSA and several of its subsidiaries recognized the following expenses for defined contribution obligations:

Thousand of euros

Defined contribution plans	Notes	2019	2018
Retirements (pension plan)		**10,635**	10,668
Life insurance		**7,223**	6,816
Total	Note 23	**17,858**	**17,484**

20.2. Defined benefit obligations

ACCOUNTING POLICIES

The Group has entered into a commitment with a certain group of employees for the payment of an annuity arising from the closing of company stores. Actuarial studies are performed annually and the actuarial gains and losses are recognized as appropriate.

Group employees have the right to receive from the company medals for seniority and values awards. In the La Rábida refinery, workers have the right to receive amounts / remuneration in kind for length of service. On an annual basis, an actuarial study is performed, recognizing the actuarial gains and losses as expenses or income, as applicable.

The net amounts of expenses and revenues recognized in the Consolidated Income Statement and the variation in defined benefit obligations on the liability side of the Balance Sheet are as follows:

Thousand of euros

Defined benefit obligations	2019	2018
Balance at January 1	**10,693**	**10,097**
Current service cost	**1,944**	2,598
Interest cost of benefit	**144**	144
Others	**(61)**	(62)
Effect of reductions or settlements	**(2,212)**	(2,084)
Balance at December 31	**10,508**	**10,693**

The breakdown by nature of the defined benefit obligations at December 31st, 2019 and 2018, is as follows:

Defined benefit obligations - Breakdown

Thousand of euros

Year 2019	Balance at 01/01/2019	Additions	Interest cost	Transfers	Other	Benefits paid	Balance at 12/31/2019
Medal Award	2,739	125	38	-	-	(84)	**2,818**
Company Store active employees	1,919	-	32	-	-	(12)	**1,939**
Company Store retired employees	2,041	-	29	-	-	(217)	**1,853**
La Rábida Fidelity Award	3,142	147	45	-	-	(268)	**3,066**
Other provisions	852	1,672	-	-	(61)	(1,631)	**832**
Total non current	**10,693**	**1,944**	**144**	**-**	**(61)**	**(2,212)**	**10,508**

Year 2018	Balance at 01/01/2018	Additions	Interest cost	Transfers	Other	Benefits paid	Balance at 12/31/2018
Medal Award	2,597	164	39	-	-	(61)	**2,739**
Company Store active employees	1,894	-	28	-	-	(3)	**1,919**
Company Store retired employees	2,224	-	32	-	-	(215)	**2,041**
La Rábida Fidelity Award	3,099	138	45	-	-	(140)	**3,142**
Other provisions	283	2,296	-	(82)	20	(1,665)	**852**
Total non current	**10,097**	**2,598**	**144**	**(82)**	**20**	**(2,084)**	**10,693**

The main assumptions used to determine the pension obligations and post-employment benefits under the plans of CEPSA and several of its subsidiaries are as follows:

Main assumptions - Company Store	2019	2018
Discount rate	**1'500%**	1'500%
Expected salary increase rate	**0'250%**	0'250%
Mortality tables	**PEMF2000**	PEMF2000

21. Provisions

ACCOUNTING POLICIES

PROVISIONS consist of liabilities arising from ongoing litigation, environmental risks, abandonment costs and other risks to which there is uncertainty about their amount or maturity.

These provisions are recorded when:

- *there is a current obligation arising from a past event, and it is considered probable that its settlement will result in an outflow of resources incorporating economic benefits, and*
- *the amount of the corresponding liability can be reliably estimated.*

The amount by which they are recognized is the present value of the expenditure expected to be necessary to cancel the obligation. It is periodically revised on the basis of information available at the date of preparation of each Consolidated Balance Sheet.

Provisions for CO_2 emissions

*See **Note 8**.*

The obligation to hand over emission rights for the CO2 emissions of the financial year is recognized as and when the greenhouse gas emissions are produced. These costs are charged to OTHER OPERATING EXPENSES in the Consolidated Income Statement and credited to a short-term provision included under TRADE AND OTHER PAYABLES, until the date the related emission allowances are delivered. The unit value to be assigned to emissions is determined by reference to:

- *Firstly, the carrying amount of the emission allowances received for no consideration.*
- *Secondly, the cost of the other emission allowances capitalized in the Consolidated Balance Sheet.*
- *Then, if necessary, the latest estimate of how much it would cost to acquire the remainder of the rights.*

Details of the changes and the balances in 2019 and 2018, are as follows:

Thousand of euros

Provisions for third-party liability

Year 2019	Notes	Balance at 01/01/2019	Additions	Interest cost	Other changes	Utilization	Unused provisions	Balance at 12/31/2019
Provisions for third-party liability		111,644	16,811	152	(16,754)	(23,826)	(21,337)	**66,690**
Dismantling provisions		243,123	835	7,665	(7,113)	(1)	(1,656)	**242,853**
Environmental provisions	Note 28	22,055	1,053	101	-	(1,091)	-	**22,118**
Other provisions		24,218	4,579	227	(227)	(5,451)	(2,387)	**20,959**
Total		**401,040**	**23,278**	**8,145**	**(24,094)**	**(30,369)**	**(25,380)**	**352,620**

Year 2018	Notes	Balance at 01/01/2018(*)	Additions	Interest cost	Other changes	Utilization	Unused provisions	Balance at 12/31/2018
Provisions for third-party liability		135,660	6,424	101	7,952	(26,031)	(12,462)	**111,644**
Dismantling provisions		144,154	(3,523)	6,083	107,593	-	(11,184)	**243,123**
Environmental provisions	Note 28	21,524	1,430	219	(221)	(654)	(243)	**22,055**
Other provisions		17,312	3,475	262	5,378	(90)	(2,119)	**24,218**
Total		**318,650**	**7,806**	**6,665**	**120,702**	**(26,775)**	**(26,008)**	**401,040**

(*) Year 2018 figures have been reformulate when applying IFRIC 23 (see note 2.2)

PROVISIONS FOR THIRD-PARTY LIABILITIES covers the contingencies arising from the Group companies' ordinary operations that might give rise to actual liabilities in their dealings with third parties. The main items were obligations to third parties relating to contractual undertakings and contingencies relating ongoing tax inspection proceedings others than Income Tax.

Under TRANSFERS, the amount of provisions belonging to companies maintained for held (EUR 8,606 thousand) has been removed (see **note 5.2**).

At the close of 2019, this section mainly includes:

- Dates are still to be set for voting and handing down rulings in the company's appeals against the decision of the National Commission for Markets and Competition ("CNMC"), dated January and February, 2015, under which CEPSA was fined EUR 10 and 2.5 million.

DISMANTLING PROVISIONS includes provisions for the abandonment of crude oil production fields once the recoverable reserves have been extracted. These provisions are updated with financial adjustments and discount rates have been used depending on the geographical area:

- Thailand 3.73%,
- Colombia 4.20%,
- Peru 3.48%,
- Algeria 5.75%,
- United Arab Emirates 4.00%, and
- Spain 3.65%.

Other changes in 2018 includes the incorporation of Cepsa E.P. Abu Dhabi for a 20% stake in the Sateh Al Razboot and Umm Lulu fields for a 40-year concession, amounting EUR 89 million.

The ENVIRONMENTAL PROVISIONS includes the CEPSA Group's best estimates of the contractual or legal obligations and commitments to prevent, reduce or repair damage to the environment charged to professional services or repairs and upkeep expenses. It also includes the estimated amounts for environmental action to remedy the risk of gradual soil pollution, the only contingency which is not covered by the contracted insurance.

The heading OTHER PROVISIONS recognizes, inter alia, quantities provided for to deal with possible legal or contractual contingencies.

CEPSA's management considers that the provisions recognized in the accompanying balance sheet adequately cover the risks relating to litigation, arbitration proceedings and other transactions described in this note and therefore do not expect that any additional liabilities will arise.

22. Other non-current liabilities and Trade and other payables

The breakdown of the balances of OTHER NON-CURRENT LIABILITIES and TRADE AND OTHER PAYABLES in 2019 and 2018 is as follows:

Thousand of euros

Trade and other payables

	Notes	2019 Non-current	2019 Current	2018 Non-current	2018 Current
Trade payables		-	2,478,817	-	2,323,859
Payable to associates and joint ventures		3,178	68,765	2	36,062
Guarantees/deposits received		4,313	4,176	5,198	3,595
Other non-trade payables		68,751	429,926	162,476	431,453
Provisions		-	133,452	-	75,206
Subtotal "Trade Payables"	Note 18	76,242	3,115,136	167,676	2,870,175
Liabilities from derivatives	Note 18	50,821	44,171	4,284	33,957
Public Administration		-	268,351	-	257,691
Closing balance for the year		*127,063*	*3,427,658*	*171,960*	*3,161,823*

OTHER NON-TRADE NON-CURRENT PAYABLES at December 31st, 2019 list primarily suppliers of property plant and equipment.

The valuation of cross-currency swaps taken out in the year is included under liabilities from derivatives as at December 31st, 2019. There are no such operations in 2018.

This caption includes at December 31st, 2018, an amount of EUR 45 million due the acquisition of gas stations and 96 million in relation to the entry bonus for the new facility in RKF (Algeria) of the Exploration and production area.

PROVISIONS includes at December 31st, 2019 and 2018 an amount of EUR 129,352 and 53,170 thousand, respectively, relating to the obligation to deliver allowances for the CO2 emissions made, which are lower than the allowances assigned under the National Emission Allowance Assignment Plan.

Information on average supplier payment periods. Additional Provision Three. "Disclosure requirements" under Law 15/2010, of July 5.

The breakdown of the required information for the Spanish companies within the CEPSA Group:

Information on average supplier payment periods

	2019 Days	2018 Days
Average period for payment to suppliers	24	19
Ratio of paid transactions	23	18
Ratio of outstanding payment transactions	46	31
	Thousand of euros	Thousand of euros
Total payments made	23,097,636	24,742,722
Total payments past-due	973,706	703,382

23. Operating income and expenses

ACCOUNTING POLICIES

Income and expenses are imputed on the basis of the accrual criterion.

The Group recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15: Identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation at a point in time or over time.

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer.

VARIABLE CONSIDERATION

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and is restricted until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur *when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for the sale of goods provide customers with a right of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.*

SIGNIFICANT FINANCING COMPONENT

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at the start of the contract, that the period between the transfer of the promised good or service to the customer and the customer pays for that good or service will be one year or less.

The Group also receives long-term advances from customers for the sale of goods. In order to take into account the significant financing component in this case, the transaction price of such contracts is discounted using the rate that would be manifested in a separate financing transaction between the Group and its customers at the start of the contract.

NON-MONETARY CONSIDERATION

The Group applies the requirements of IFRS 13 Fair value measurement *in measuring the fair value of the non-cash consideration. If the fair value cannot be reasonably estimated, the non-cash consideration is measured indirectly by reference to the stand-alone selling price. The fair value of such non-cash consideration received from the customer is included in the transaction price and measured when the Group obtains control of the goods or services.*

CONSIDERATION PAYABLE TO THE CUSTOMER

The consideration payable to a customer is accounted for as a reduction of the transaction price. Consideration payable to a customer includes cash amounts that CEPSA pays or is expected to pay to a customer. (for example: customer award credits or loyalty programs)

OIL PRODUCTION

Crude production revenues are recognized:

- *on the basis of the Group's* working interest*, when the Group holds a stake with other producers; and*
- *according to the contractual conditions in contracts for the distribution of production.*

OTHER CIRCUMSTANCES

REVENUE does not include the value of exchanges of strategic stocks arranged with other operators.

In accordance with the legislation applicable to companies operating in the oil and gas industry, the excise tax on oil and gas sales is recorded as part of the selling price and as an addition to cost under REVENUE and OTHER OPERATING EXPENSES, respectively, in the Consolidated Income Statement.

Revenues from services rendered are recognized considering the degree of progress in completing the service at the balance sheet date, provided that the transaction results may be reliably estimated.

The breakdown of operating income and expenses relating to 2019 and 2018 is as follows:

Thousand of euros

Revenue	**2019**	**2018**
Sales of goods	**20,924,128**	21,849,432
Services Provided	**348,632**	341,932
Sales returns and volume discounts	**(115,201)**	(112,459)
Oil and gas exercise duties	**2,699,828**	2,632,873
Total	***23,857,387***	***24,711,778***

The income generated by exchanges of strategic stocks with other operators, not included in REVENUE amounted to EUR 1,328,698 thousand in 2019 and EUR 1,386,970 thousand in 2018.

Thousand of euros

Procurements	**2019**	**2018**
Purchases	**16,787,895**	17,981,720
Changes in inventories	**(172,804)**	(57,663)
Total	***16,615,091***	***17,924,057***

Thousand of euros

Staff costs	**Notes**	**2019**	**2018**
Wages and salaries		**485,400**	471,596
Pension contributions and life insurance premiums	Note 20.1	**17,858**	17,484
Other staff costs		**138,735**	129,594
Total		**641,993**	**618,674**

The average number of employees in 2019 and 2018, by category and regardless of the employment relationship, was as follows:

Workforce by professional category

	Average headcount 2019	2018
Board members	1	1
Executives	8	8
Executives/ Department Heads	737	738
Other line personnel	3,288	3,189
Skilled employees/ Assistants/ Clerical staff	6,328	6,183
Total	**10,362**	**10,119**

At December 31st, 2019 and 2018, the number of employees, by professional category and gender, is as follows:

Workforce at closing by professional category and sex

Headcount at closing date

	2019			2018		
	Women	Men	Total	Women	Men	Total
Board members	-	1	1	-	1	1
Executives	-	8	8	-	8	8
Executives/ Department Heads	171	574	745	164	567	731
Other line personnel	1,028	2,282	3,310	1,003	2,252	3,255
Skilled employees/ Assistants/ Clerical staff	2,523	3,598	6,121	2,463	3,695	6,158
Total	**3,722**	**6,463**	**10,185**	**3,630**	**6,523**	**10,153**

The average number of employees at December 31st, 2019 and 2018, with disability greater than or equal to thirty-three percent, by professional category, is as follows:

Workforce by professional category - Disabled staff

	Headcount at closing date 2019	2018
Executives / Deparment heads	4	3
Other line personal	22	19
Skilled employees / Assistants / Clerical staff	94	79
Total	**120**	**101**

At December 31st, 2019 and 2018, the breakdown of OTHER OPERATING COSTS is as follows:

Other costs

Thousand of euros

	Notes	2019	2018
Third party services received		1,341,543	1,512,316
Transport and freight		373,590	396,367
Taxes and other tax income		74,396	72,295
Environmental costs	Note 28	33,577	11,761
Other operating costs		136,819	62,190
Total		***1,959,925***	***2,054,929***

In addition, under OTHER OPERATING EXPENSES, the following information must be provided concerning audit and similar services:

Thousand of euros

Audit fees	2019 Lead Auditor	2019 Others Auditors	2018 Lead Auditor	2018 Others Auditors
Financial Audit Services				
In Spain	1,163	-	1,238	-
Abroad	434	116	363	103
Other assurance services	82	-	525	-
Others services	235	-	1,113	-
Total	***1,914***	***116***	***3,239***	***103***

The breakdown at December 31st, 2019 and 2018 of NON-FINANCIAL CAPITAL GRANTS AND OTHERS is as follows:

Allocation of capital grants

Thousand of euros

	Notes	2019	2018
Allocation of Greenhouse Gas allowances		81,378	28,985
Allocation of capital allowances		3,199	3,411
Total	Note 19	**84,577**	**32,396**

In 2019 and 2018, the breakdown of impairment losses and gains or losses on the disposal of non-current assets recognized is as follows:

Impairment and gain or losses on disposals of non-current assets

Thousand of euros

	Notes	2019	2018
Impairment /reversal of Greenhouse allowances	Note 8	(349)	(60)
Impairment of goodwill	Note 9	-	(27,948)
Impairment of other non-current assets	Note 13	(87,694)	(3,018)
Gain or (losses) on disposals of non-current assets		(202)	38,153
Total		***(88,245)***	***7,127***

In 2019, IMPAIRMENT OF OTHER NON-CURRENT ASSETS relates to intangible assets in Colombia linked to OCENSA pipeline and fixed assets on MOPU platforms in Singapore (see **Note 13**).

In 2018, IMPAIRMENT LOSSES ON GOODWILL relate to the value assigned to the Coastal Group business combination.

The heading gains/(losses) on disposal of fixed assets includes derecognition of fixed assets that contributed income to the group, notably in 2019, the sale of the tanker Toledo and, in 2018, the sale of a tanker (Teide Spirit), and the sale of assets of the LPG business.

24. Leases

ACCOUNTING POLICIES

*Effective as of January 1st, 2019, IFRS 16 introduced a new procedure for the accounting of operating lease contracts, equivalent to the existing procedure for financial lease contracts. See **note 11** for the financial impact of the first application of the standard.*

The Group assesses whether a contract is or contains a lease at the beginning of the contract. The Group recognizes a right of use and the corresponding lease debt for all lease agreements in which it is a lessee, except for the excluded contracts that are listed below.

Lease debt is initially calculated at the present value of lease pending payments as of January 1st, 2019, discounted at the incremental borrowing rate at the date of initial application.

Lease payments included in the lease debt calculation include:

- Fixed lease Payments, less any lease incentives to be received;

- Variable lease payments that depend on an index or rate, initially calculated using the index or rate at the start date;

- The amount expected from the residual value guarantees to be paid by the lessee;

- The exercise price of the purchase options, if the lessee has reasonable certainty of exercising the options; and

- Payments of penalties for terminating the lease, if the conditions of the contract reflect the exercising of a termination option.

Lease liability is subsequently revised by increasing the balance to reflect the financial cost on the debt (using the effective interest method*), and reducing the balance to reflect the lease payments made.*

The Group separates the total amount of the payments for the principal of the lease and interest, and presents both within financing activities in the consolidated cash flow statement.

Operating lease contracts excluded from this treatment

Due to materiality or practical effects, the following types of contracts are excluded from the treatment set out in this note:

- short-term leases (defined as leases for a duration equal to or less than 12 months), and

- low value leases.

For these leases, the Group recognizes lease payments as a linear-operating expense throughout the life of the contract, unless an alternative form of sharing is more representative of the temporary pattern in which the economic benefits of leased assets are consumed. Therefore, there is no debt for future payments.

The Group acquired the use of certain assets through finance and operating leases.

The future maturities of the nominal amounts payable under leases as of December 31st, 2019 and 2018 are as follows:

Thousand of euros

Lease contracts - Maturities

Year 2019	Operating Outside IFRS 16	Operating Under IFRS 16	Financial	Total
2020	33,148	143,568	1,242	**177,958**
2021	11,331	118,598	1,145	**131,074**
2022	9,371	105,243	1,117	**115,731**
2023	8,512	88,372	1,126	**98,010**
2024	8,078	75,535	807	**84,420**
2025 and beyond	19,834	326,777	17	**346,628**
Total future payments	**90,274**	**858,093**	**5,454**	**953,821**
Less Interest	-	(103,021)	-	**(103,021)**
Present value of minimum payments	**90,274**	**755,072**	**5,454**	**850,800**
Less planned current payments	-	-	-	-
Non current liabilities of leasing contracts	**90,274**	**755,072**	**5,454**	**850,800**

Year 2018	Operating	Financial	Total
2019	185,558	995	**186,553**
2020	143,607	251	**143,858**
2021	116,483	96	**116,579**
2022	106,514	40	**106,554**
2023	88,112	-	**88,112**
2024 and beyond	339,372	-	**339,372**
Total future payments	**979,646**	**1,382**	**981,028**
Less Interest		(141)	**(141)**
Present value of minimum payments		**1,241**	**980,887**
Less planned current payments		(246)	**(246)**
Non current liabilities of leasing contracts		**995**	**980,641**

A) Operating leases

The most significant operating leases relate to the rental of buildings, plant, tankers for the transport of crude oil and oil products and service stations leased from third parties.

In 2019, lease payments under operating lease arrangements totalled EUR 142,719 thousand (EUR 241,031 thousand in 2018). Contingent payments recognized in the Consolidated Income Statement are not significant, as was the case in 2018.

B) Finance Leases

The main items of Property, plant and equipment held under finance leases are computers for information processes and other technical installations (see **note 10**).

25. Financial Income and Expense

ACCOUNTING POLICIES

Interest income and expenses are accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable.

Financial income and expense for 2019 and 2018 are as follows:

Thousand of euros

Finance income	2019	2018
Interest income on loans	**6,555**	4,163
Income from equity investments	**511**	393
Other finance income	**53,299**	50,427
Total	**60,365**	**54,983**

Finance cost	2019	2018
Interest on borrowings	**127,572**	108,543
Finance costs from reameasurement	**(7,584)**	12,623
Net exchange differences	**11,259**	11,933
Other finance cost	**43,050**	41,927
Total	**174,297**	**175,026**

The breakdown of the FINANCE COST OF NET BORROWINGS and other finance income and costs for 2019 and 2018, are as follows:

Thousand of euros

Finance cost of net borrowings	**2019**	**2018**
Finance income	6,555	4,163
Finance cost	(127,572)	(108,543)
Total	**(121,017)**	**(104,380)**

Other finance income and costs	**2019**	**2018**
Income from equity investments	511	393
Gains (losses) on disposals of available for sale finance instruments	-	15
Gains (losses) on financial instruments measured at fair value (financial derivatives)	(5,847)	(1,218)
Exchange differences	(11,259)	(11,933)
Income and costs from commisions	(4,789)	(2,173)
Finance costs from reameasurement	7,584	(12,623)
Other finance income and costs	20,885	11,876
Total	**7,085**	**(15,663)**

The financial instruments impairment and their disposals gains or losses for 2019 and 2018, are as follows:

Thousand of euros

Impairment and gains on disposal of Finance instruments	**2019**	**2018**
Reversal finance instruments impairment	(2,576)	8,495
Finance instruments disposal result	409,625	266
Total	**407,049**	**8,761**

GAINS/(LOSSES) ON THE DISPOSAL OF FINANCIAL INSTRUMENTS includes gains from the transferring of shares of Medgaz, S.A. for the purpose of the delivery of these as an in kind dividend to the shareholder Cepsa Holding LLC (see **note 17.4**).

26. Tax matters

ACCOUNTING POLICIES

Current and deferred income taxes are recognized under INCOME TAX in the accompanying Consolidated Income Statement, except when they arise from economic events that have been directly recognized in OTHER COMPREHENSIVE INCOME or EQUITY.

The current income tax expense is the result of applying the tax rate to the taxable profit for the year, after deducting the allowable tax credits. The current income tax charge is calculated on the basis of the Group's interpretation of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income, considering the Group's tax position, *and including the* uncertain tax treatments *(following IFRIC 23).*

Deferred tax is accounted for using the liability method based on the balance sheet*, under which temporary differences are determined as the difference between the tax bases of assets and liabilities and their carrying amounts. However, deferred taxes are not accounted for:*

- if they arise from the initial recognition of the goodwill; or

- if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

In addition, deferred tax assets are only recognized if it is probable that sufficient future taxable profit will be available against which they can be utilized.

Deferred tax assets and liabilities are measured based on the tax legislation and the tax rates in force when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Assets of outstanding tax losses carryforward are also recognized when it is considered that, according to the best estimate of the Group's future results, these assets are likely to be recovered.

The Group reassesses unrecognized deferred tax assets and unrecognized tax loss and tax credit carryforwards at each balance sheet date, and recognizes those for which it is probable that future taxable profit will be available against which they can be utilized. Recognized deferred tax assets and recognized and tax credit are re-assessed and their amount is reduced to the extent it is no longer probable that future taxable profit will be available for their recovery.

Deferred tax liabilities for taxable temporary differences relating to investments in subsidiaries, associates and joint ventures are recognized with the exception of those deferred tax liabilities where the Group is not able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future within the period allowed by law. Generally, the Group is not able to control the reversal of temporary differences for associates. The temporary difference is recognized only when there is an agreement through which the Group has the capacity to control reversal.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax assets and liabilities derive from the tax on gains which relate to the same taxation authority, and apply to the same entity or taxpayer, or different entities or taxpayers, which intend to settle the current tax assets and liabilities on a net basis.

CEPSA and certain Group companies file consolidated income tax returns in Spain. Table I of the Annex includes a list of the main companies making up the Tax Group in 2019.

Since 2010, in Spain CEPSA Group has adhered to the Code of Good Tax Practices drawn up by the Large Companies Forum jointly with the Spanish tax authorities.

On December 3rd, 2016 Royal Decree-Law 3/2016 was published, adopting tax measures for the consolidation of public finances and introduced relevant changes in corporate income tax. Among others matters, it laid down, with effect from January 1st, 2016, the obligation to reverse, within a maximum period of 5 years, the provisions for impairment of shares that would have been deductible before 2013. The offset tax loss carry forwards for large companies is also restricted to 25% of the previous tax base and limits the application of the internal or international double taxation generated or pending application to 50% of the previous total tax. Additionally, with effect from January 1st, 2017, losses on the transfer of shares are not deductible. The amendment of this law has not had a significant impact on the Group.

The breakdown of INCOME TAX EXPENSE is as follows:

Income tax

Thousand of euros

In the consolidated statement of profit and loss	2019	2018(*)
Current tax cost		
Period tax cost	431,897	252,016
Adjustments to the tax cost for the period or prior years	(31,964)	(11,032)
Deferred tax cost		
Related to the creation or reversal of temporary differences	103,082	63,463
Total tax cost (income) recognised in the Consolidated Statement of Profit or Loss	**503,015**	**304,447**
In the consolidated statement of changes in equity	**2019**	**2018(*)**
Deferred tax cost		
Related to the creation or reversal of temporary differences	10,138	33,875
Total tax cost (income) recognised in Other Comprehensive Income (Equity)	**10,138**	**33,875**

(*) Year 2018 figures have been reformulate when applying IFRIC 23 (see note 2.2)

The income tax expense is obtained from the ACCOUNTING PROFIT BEFORE TAXES as indicated below:

Reconciliation of accounting profit and income tax

Thousands of euros

	2019	2018(*)
Accounting profit (before taxes)	**1,336,636**	**1,147,522**
25% tax rate	334,159	286,880
Difference due to different tax rates	205,965	13,622
Permanent differences	194,924	123,778
Tax credits and relief applied	(200,069)	(108,802)
Adjustments to the tax cost for the period or prior years	(31,964)	(11,031)
Total income tax cost/ (income)	**503,015**	**304,447**

(*) Year 2018 figures have been reformulate when applying IFRIC 23 (see note 2.2)

The DIFFERENCE DUE TO DIFFERENT TAX RATES mainly includes the effect of the different tax rates to which CEPSA is subject on INCOME OBTAINED IN THE EXPLORATION AND PRODUCTION OF CRUDE OIL FROM THE ALGERIAN FIELDS and attributed to its permanent establishment as well as the SPECIAL REMUNERATION BENEFIT (SRB) in Thailand and to the corporate tax on hydrocarbon operations in Abu Dhabi. Other foreign establishments or subsidiaries have no significant influence on this rate differential.

With regard to Algeria, several taxes apply:

- The TAX ON REMUNERATION FOR PRODUCTION ACTIVITIES which the group deems to be of the same nature as Spanish Corporate Income Tax. The tax applies on the gross annual remuneration in barrels of Saharan Blend crude oil, withheld and settled through the Algerian state-owned company Sonatrach, in the name and on behalf of CEPSA.
- In addition, and under Algerian law, the WINDFALL TAX (effective August 2006) applies, whose tax is linked to the price of crude oil.
- The TAX ON PETROLEUM INCOME (TRP), and
- The SUPPLEMENTARY INCOME TAX (ICR) whose tax rate is based on the profits earned.

The combined accrued share of both taxes for 2019 and 2018 amounts to EUR 186,143 and 114,492 thousand respectively.

The activity of the Coastal Group is carried out mainly in Thailand, where it is subject to two types of taxes:

- the PETROLEUM INCOME TAX (PIT), and
- the SPECIAL REMUNERATION BENEFIT (SRB), which is calculated separately for each concession the company holds. This tax is determined on the basis of production volumes and crude prices, and is subject to certain adjustments, such

as changes in the consumer price index, the wholesale price index and the depth of exploration. The tax is calculated based on each year's production and includes deductions for the expenses incurred in the concessions.

The combined share of the two taxes for 2019 and 2018 amounts to EUR 40,778 and 17,367 thousand, respectively.

In Abu Dhabi, oil exploration and operations is subject to income tax, and windfall tax.

The share of these taxes for 2019 amounts to EUR 150,984 thousand.

PERMANENT DIFFERENCES are mainly due to non-deductible expenses or income not eligible from a tax point of view. Those recognized in 2019 and 2018 mainly correspond to impairment on assets, dividends, and corporate income tax settled abroad which was not included in the amount used to calculate deductions to the tax base as per article 31.2 of Law 27/2014, other provision allowances, sanctions, and adjustments relating to consolidation.

The amounts included in ADJUSTMENTS TO INCOME TAX FOR THE CURRENT OR PRIOR YEARS, which amounted to EUR 31,964 and 11,031 thousand for 2019 and 2018, respectively, include the difference between the expense accounted for in connection with corporate income tax at December 31st, 2017 and 2016, and the amount corresponding to the final assessment of said years. In 2019, income was recognized on income tax in connection with the adjustment related to inspections initiated by the tax authority in the years 2005-2008 as a result of a partially favourable decision of Spain's high court, where such amounts had been provisioned.

In calculating the income tax expense for each year, the Group takes into account the applicable tax credits for dividend double taxation, certain activities and other tax incentives, in accordance with the rules applicable in each period.

Below are the balances for deferred tax assets and liabilities, broken down by origin:

Thousand of euros

Deferred tax assets and liabilities originated from tax contingencies in CEPSA Group

Year 2019	Balance at 01/01/2019	Additions	Interest cost	Derecog-nitions	Movements in equity	Translation difference	Transfers (note 5.2)	Other changes	Balance at 12/31/2019
Deferred tax assets									
Depreciation	51,052	464	-	(9,844)	-	235	-	-	**41,907**
Impairment	378,409	6,732	-	(2,607)	-	(7)	-	-	**382,527**
Tax loss carryforwards	39,483	-	-	(26,249)	-	755	(11,859)	-	**2,130**
Tax deductions pending application	-	150,535	-	(33,405)	-	-	-	540	**117,670**
Losses in permanent establishments	65,255	477	-	(31,619)	-	647	-	(994)	**33,766**
Hedging	165,403	132	-	(190)	13,812	(1)	-	-	**179,156**
Inventories	1,238	1,690	-	-	-	-	-	-	**2,928**
Provisions	33,978	11,339	-	(16,682)	(19)	295	(39)	441	**29,313**
Uncertain tax treatments	-	-	6,856	-	-	-	-	-	**6,856**
Others	-	2,995	-	120	-	(1)	(1)	(8)	**3,105**
Total deferred tax assets	**734,818**	**174,364**	**(120,476)**	**6,856**	**13,793**	**1,923**	**(11,899)**	**(21)**	**799,358**
Deferred tax liabilities									
Depreciation	143,068	171,768	-	(17,251)	-	721	(3,923)	-	**294,383**
Impairment	5,689	-	-	(1,607)	-	-	-	-	**4,082**
Leasing	11,698	-	-	(4,092)	-	-	-	-	**7,606**
Hedging	2,216	6,341	-	-	2,239	-	-	-	**10,796**
Inventories	967	-	-	-	-	-	-	-	**967**
Provisions	6,428	986	-	(655)	-	61	-	-	**6,820**
Addittions for business combinations	38,532	-	-	-	-	-	-	-	**38,532**
Uncertain tax treatments	219,248	29,849	(15,873)	(13,414)	-	81	-	-	**219,891**
Others	53,326	548	-	(15,502)	-	755	-	1,423	**40,550**
Total deferred tax liabilities	**481,172**	**209,492**	**(52,521)**	**(15,873)**	**2,239**	**1,618**	**(3,923)**	**1,423**	**623,627**
Net deferred taxes	**253,646**	**(35,128)**	**(67,955)**	**22,729**	**11,554**	**305**	**(7,976)**	**(1,444)**	**175,731**

CEPSA

Thousand of euros

Deferred tax assets and liabilities originated from tax contingencies in CEPSA Group

Year 2018	Balance at 01/01/2018	Additions	Interest cost	Derecog-nitions	Movements in equity	Translation difference	Transfers	Other changes	Balance at 12/31/2018 (*)
Deferred tax assets									
Depreciation	65,710	325	-	(15,096)	-	775	(697)	35	**51,052**
Impairment	389,325	17,732	-	(45,683)	17,060	(33)	8	-	**378,409**
Tax loss carryforwards	65,786	257	-	(30,134)	-	3,092	-	482	**39,483**
Losses in permanent establishments	62,210	6,426	-	(5,089)	-	1,708	-	-	**65,255**
Hedging	131,787	129	-	(10)	33,497	-	-	-	**165,403**
Inventories	1,278	21	-	(59)	-	(2)	-	-	**1,238**
Provisions	35,526	9,230	-	(16,913)	5,277	928	(70)	-	**33,978**
Others	10,101	109,169	-	(119,976)	(1)	7	759	(59)	**-**
Total deferred tax assets	**761,723**	**143,289**	**-**	**(232,960)**	**55,833**	**6,475**	**-**	**458**	**734,818**
Deferred tax liabilities									
Depreciation	169,509	4,511	-	(33,604)	-	2,431	220	1	**143,068**
Impairment	3,757	336	-	-	1,596	-	-	-	**5,689**
Leasing	17,397	-	-	(5,808)	-	-	-	109	**11,698**
Hedging	2,595	-	-	-	(379)	-	-	-	**2,216**
Inventories	967	3,286	-	(3,286)	-	-	-	-	**967**
Provisions	7,791	1,705	-	(3,137)	-	69	-	-	**6,428**
Addittions for business combinations	39,534	-	-	(754)	-	-	-	(248)	**38,532**
Uncertain tax treatments	196,594	16,659	5,813	-	-	307	-	(125)	**219,248**
Others	54,467	3,959	-	(10,076)	3,215	2,099	(220)	(118)	**53,326**
Total deferred tax liabilities	**492,611**	**30,456**	**5,813**	**(56,665)**	**4,432**	**4,906**	**-**	**(381)**	**481,172**
Net deferred taxes	**269,112**	**112,833**	**(5,813)**	**(176,295)**	**51,401**	**1,569**	**-**	**839**	**253,646**

(*) Year 2018 figures have been reformulate when applying IFRIC 23 (see note 2.2)

The heading DEFERRED TAX ASSETS essentially recognizes:

- Net investment hedges in foreign companies, amounting to EUR 179 million,
- The tax credit generated by the losses of the subsidiaries of the Coastal Group recognized in the parent company, amounting to EUR 373 million,
- Double-taxation deductions pending application as a result of the 50% limit of the legally applicable tax payable,
- Unused tax loss carry forwards in the amount of EUR 6,677 thousand at 2019 year-end (EUR 126,129 thousand in 2018).
- At December 31st, 2019 the Group had deductions pending application of EUR 117,670 thousand and in 2018 the amount was EUR 539 thousand.

DEFERRED TAX LIABILITIES are recognized in the balance sheet, mainly:

- Those relating to accelerated depreciation taken permitted under Additional Provision Eleven introduced in the Spanish Corporate Income Tax Law on accelerated depreciation, maintaining the level of employment established in Article 1.12 of Law 4/2008, of December 23.
- The balance as at December 31 of liabilities for uncertain tax treatments amounts to EUR 219,891 thousand, mainly due to non-compliant tax records and tax interest on arrears.

Under the ordinary course of business, the Group's operations are subject to review by the tax authorities of the different countries in which it has a presence, arising, on occasion, interpretative differences from the existing regulation. The interpretative position of the Group is based on the opinion of the internal experts, as well as, where appropriate, of the external experts in each of the matters and jurisdictions affected, in order to make the best estimate of the probability and amount of the issues.

Accordingly, various tax assessments in Spain have been signed in disagreement, including one for corporate income tax for years 2005-2008 and 2009-2012. The CEPSA Group has filed the corresponding appeals before the relevant judicial bodies. The Group has recognized provisions that fulfil the specified requirements of probability of outcome to cover the amounts relating to said tax assessments up to 2019 year end.

The tax inspections for the years 2013-2016, relating to Corporate Income Tax, VAT, Personal Income Tax Withholdings, and Non-Resident Income Tax for the Cepsa Tax Group were initiated in July 2018. Furthermore, the financial years 2017 to 2019 remain open to inspection.

In Colombia, the years 2016, 2017, 2018 and 2019 remain open to inspection by the Colombian tax authorities. In December 2019, the Colombian authorities closed the income tax inspection for the financial year 2015 and took the corresponding tax reassessment that the company signed in disagreement. The amount of the inspection is EUR 89 million, plus interest on arrears calculated based on an interest rate of 30% since 2016. This tax reassessment arise due to an interpretative discrepancy with the National Directorate of Taxes and Customs (*Dirección de Impuestos y Aduanas Nacionales*) DIAN regarding the regulations applicable to the branches, which could result in a double taxation for the branch office in Colombia, and other additional issues such as the tax deductibility of the cost of production of royalties paid to the National Hydrocarbons Agency.

The Company, supported by the judgment of renowned external consultants hired for the analysis of this matter, considers that the possibility of obtaining a favourable resolution to the Group in judicial proceedings is very high, although the tax procedure has some uncertainties arisen from the likely extension of litigation time (between 7 and 8 years) throughout the different judicial instances. For this reason, the risk has been described as not likely and no provision has been made for this in the 2019 financial statements.

There are also several additional closed tax records in previous financial years, for a lower amount, including one for income tax for the years 2009 and 2011, which were signed in non-compliance. Cepsa Colombia has filed the relevant appeals with the Court of Appeal and no unfavourable declaration is expected. Likewise, the 2016 and subsequent years remain subject to tax re-assessment by Colombian Tax Authorities.

Concerning Thailand and Algeria, the 2014 and subsequent years remain subject to tax review, while in Abu Dhabi only years 2018 and 2019 remain pending of review.

CEPSA management does not expect any additional material liabilities for which provisions have not been recognized to arise for the parent company or for the other consolidated Group companies as a result of the appeals filed or of inspections of the years open to inspection.

In the opinion of the Company's Directors and its tax advisors, related party transactions are carried out at market value, transfer prices are adequately supported, and it is estimated that there are no significant risks of major liabilities arising in future in this respect.

Unrecognized deferred tax assets and liabilities

The Group has not recognized deferred tax liabilities in relation to taxable temporary differences associated with investments in subsidiaries, associates and joint ventures for an amount of EUR 193,099 thousand at year-end 2019, compared to EUR 186,189 thousand at year-end 2018.

The Group did not recognize any deferred tax assets arising from tax losses amounting to EUR 65,676 thousand in 2019 and EUR 67,894 thousand in 2018, given that according to its projected results, recovery of these assets is not considered possible.

Finally, concerning the abovementioned tax re-assessment in Colombia, it is noted that, jointly to the amount and interest, tax authorities could impose a penalty up to 220%. However, the contingent liability has not been accounted for because the possibility of obtaining an unfavourable resolution to the Group is deemed remote.

27. Earnings per share

ACCOUNTING POLICIES

Basic earnings per share are calculated by dividing the net consolidated profit attributable to equity holders of the parent by the average number of shares outstanding during the year.

There are no other equity instruments giving rise to diluted earnings per share differing from basic earnings per share.

The number of outstanding shares amounts to 535,149,882 in 2019 and 2018 (see **note 17**).

Thousand of euros

Profit per share	2019	2018
Consolidated profit for the year from continuing operations	**833,621**	**843,075**
Non controlling interests	**13,598**	13,011
Profit attributable to equity holders of the Parent	**820,023**	**830,064**
Average number of shares outstanding (thousands)	**535,150**	535,150
Profit per share:		
Basic	**1'53**	1'55
Diluted	**1'53**	1'55

The basic earnings per share figure shown in the table results from the application of IFRS 16 for the financial year 2019, yielding a reduction of EUR 0.01 per share compared to the previous accounting criterion.

28. Environmental matters

ACCOUNTING POLICIES

Environmental investments are defined as investments included in the Group's assets for use in its business on a lasting basis which are mainly for the purpose of minimizing the environmental impact and protecting and improving the environment, including the reduction or elimination of pollution in the future caused by the operations performed by Group companies.

Environmental expenses are deemed to be those incurred to prevent, reduce or repair damage to the environment, i.e. the natural surroundings, as well as those relating to environmental commitments.

With respect to provisions for environmental risks and liabilities, the Group records provisions for environmental actions to remedy the risk of gradual soil pollution, with a charge to OTHER OPERATING EXPENSES in the Consolidated Income Statement, based on in-house estimates and technical studies. The Group has also taken out insurance policies covering other damage to the environment that might arise, including such civil liability as might derive from such damage.

Information corresponding to changes in the environmental investments for 2019 and 2018 is as follows:

Thousand of euros

Environmental investments

	Balance at 01/01/2019	Addictions (charges)	Disposals/ amounts used	Other movements	Balance at 12/31/2019
Environmental assets	563,200	6,588	(1,310)	102,092	**670,570**
Accumulated depreciation environmental assets	(381,940)	(26,894)	879	1,135	**(406,820)**
Total	***181,260***	***(20,306)***	***(431)***	***103,227***	***263,750***

	Balance at 01/01/2018	Addictions (charges)	Disposals/ amounts used	Other movements	Balance at 12/31/2018
Environmental assets	559,389	5,643	(1,492)	(340)	563,200
Accumulated depreciation environmental assets	(362,449)	(21,044)	1,228	325	(381,940)
Total	***196,940***	***(15,401)***	***(264)***	***(15)***	***181,260***

With a view to contributing to Sustainable Development the CEPSA Group has established programs for the ongoing improvement of its production processes, the reduction of waste water effluents, the elimination of effluent spills and its management of solid waste. To achieve this goal, an Environmental Management System has been implemented and is kept updated, ensuring compliance with applicable legal obligations and the aforementioned commitment to ongoing improvement. CEPSA's environmental investments reflect the commitments it has acquired through its environmental targets.

The most significant environmental assets are the sulfur recovery plants, the amino acids and acidified water treatment plants, waste water treatment plants (chemical and biological) and technical improvements to production plant equipment in order to achieve enhanced energy efficiency and the reduction of CO_2 and NO_x emissions.

Thousand of euros

Environmental provisions

	2019	2018
Opening balance for the year	**22,055**	**21,524**
Additions/ Charges	**1,154**	1,649
Disposals/ Amounts used	**(1,091)**	(897)
Other changes	**-**	(221)
Closing balance for the year	***22,118***	***22,055***

The PROVISION FOR ENVIRONMENTAL ACTIVITIES includes the CEPSA Group's best estimates of the contractual or legal obligations and commitments to prevent, reduce or repair damage to the environment by charge to professional services or repairs and upkeep expenses.

PROVISIONS FOR ENVIRONMENTAL CONTINGENCIES AND OBLIGATIONS includes provisions for environmental action to remedy the risk of gradual soil pollution, the only risk not covered by the insurance policies taken out by the CEPSA Group. The amounts used in the year relate mainly to extraordinary expenses incurred in soil treatment.

Thousand of euros

Environmental costs

	Notes	2019	2018
Repair and upkeep costs		**5,080**	108
Transport costs		**10,125**	37
Other services		**17,218**	9,967
Period provision for environmental activities	Note 21	**1,154**	1,649
Closing balance		***33,577***	***11,761***

29. Risk management policy

29.1. Main risks associated with the CEPSA Group's operations

The CEPSA Group carries on its activities in environments characterized by a number of external factors, changes in which could affect the manner in which operations are performed and the results obtained from them.

Specifically the Group is exposed to the following risks deriving from the use of financial instruments:

1. Credit risk
2. Liquidity risk
3. Market risk

This note sets out information on the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Additional quantitative disclosures are included below.

The Group includes a chapter on risk management in its DIRECTORS' REPORT, which offers a more detailed explanation of the risks to which it is exposed.

29.2. Risk management model

The Board of Directors, through the Audit Committee, the Risks Committee and other specific committees, together with the Directors of the respective divisions, supervises and monitors risks on a regular basis, adapting the risk profile to prevailing circumstances, where appropriate.

A) CREDIT RISK

Credit risk is defined as the possibility of a third party not complying with its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The carrying amount of financial assets included in the Consolidated Balance Sheets at December 31st, 2019 and 2018 represents the maximum credit exposure.

The Group does not have a significant concentration of credit risk on commercial debts as it is widely distributed among a large number of clients and other counterparts. A significant part of these balances come from the logistics exchanges of petroleum products and trading operations, which are solidly guaranteed and represent very important amounts.

The Group also has a number of internal procedures, which control credit risk management, both globally as well as for each of its different businesses. Amongst other matters, these standards determine credit limits, monitoring and controlling said limits, establishing the most appropriate collection instruments, the guarantees to be requested in case risk is excessive or cannot be assumed, the actions to be taken in the case of non-payment for collection of past due amounts.

In order to do so various credits quality measuring models have been designed. Based on this system, the probability of customer default on payment can be measured, and the expected commercial loss can be kept under control.

These are the parameters relating to customer solvency and payment habits included in the system for credit quality analysis:

- High quality: Preferred customers, customers with excellent credit category and financial capacity, customers with cash in advance or secured payment terms.
- Medium quality: Medium-sized customers with a good reputation and financially solvent but with a record of slow payments.
- Low quality: New clients without any credit history, clients who are repeatedly slow in making payments and whose financial position is weak.

The breakdown of this analysis for the years 2019 and 2018, is as follows:

Thousand of euros

Credit quality

Year 2019	Notes	High quality	Medium quality	Low quality	Total
Trade receivables and other debtors	Note 15	1,688,511	182,425	89,479	**1,960,415**
Trade and other receivables with related parties	Note 15	51,446	55	-	**51,501**
Public Administrations	Note 15	106,700	-	-	**106,700**
Other Finance assets	Note 12	238,402	21,559	-	**259,961**
Cash and cash equivalents	Note 16	550,663	10,497	-	**561,160**
Total		**2,635,722**	**214,536**	**89,479**	**2,939,737**

Year 2018	Notes	High quality	Medium quality	Low quality	Total
Trade receivables and other debtors	Note 15	1,926,308	174,991	90,749	**2,192,048**
Trade and other receivables with related parties	Note 15	37,170	438	-	**37,608**
Public Administrations	Note 15	228,859	-	-	**228,859**
Other Finance assets	Note 12	167,473	92,470	-	**259,943**
Cash and cash equivalents	Note 16	243,598	3,280	-	**246,878**
Total		**2,603,408**	**271,179**	**90,749**	**2,965,336**

Balances receivable are supervised based on their due dates, which helps mitigate exposure to unrecoverable trade receivables. The aging analysis of Trade and other receivables that have not been impaired is as follows:

Thousand of euros

Non-impaired receivables

	2019	2018
Debt not past due	**2,009,382**	2,183,487
Debts 0-30 days past due	**77,829**	82,537
Debts 31-90 days past due	**21,351**	40,723
Debts 91-180 days past due	**3,258**	3,806
Debts more than 180 das past due	**6,797**	17,271
Total trade and other receivables	**2,118,617**	**2,327,824**

With respect to non-provisioned overdue debt, the default risk is covered through credit insurance policies and guarantees.

In order to mitigate credit risk arising from treasury and financial debt positions, the Group analyzes counterparty risk in the contracting of investments and financial instruments. In addition, the Group works with financial institutions of recognized prestige at the national and international levels, and therefore with a high degree of solvency.

B) Liquidity risk

Liquidity risk refers to the ability of CEPSA Group to obtain financing to cover the financing needs for its ongoing activities, at reasonable market prices, as well as the provisions o funds required for the proper carrying of business.

The Group monitors its risk of a shortage of funds using a liquidity planning tool. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of credit lines, bank loans, debt issuances, and other available sources of financing. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

CEPSA Group pursues a conservative financial policy, which involves maintaining available cash balances and other liquid financial instruments, as well as undrawn committed credit lines, sufficient to cover at least debt maturities of a period over 24 months with no need to obtain new financing or refinance any available credit lines.

In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet them.

The tables below present an analysis on the maturities of financial liabilities at December 31st, 2019 and 2018. These figures are before derivatives, where a very significant portion of the debt in euros is covered by exchange risk against the US dollar through cross currency swaps:

Financial liabitilites maturity

Thousand of euros

Year 2019	0-3 months	3-12 months	2 years	3 years	4 years	5 years	>5 years	Total
Payables								
Account payables	2,628,145	250,093	-	-	-	-	-	**2,878,238**
Related parties	66,438	95	-	-	-	-	-	**66,533**
Total receivables	2,694,583	250,188	-	-	-	-	-	**2,944,771**
Borrowing								
Nominated in USD	8,572	38,256	58,919	61,914	74,626	833,977	228,997	**1,305,261**
Nominated in EUR	5,088	35,001	26,569	29,028	27,040	873,273	913,322	**1,909,321**
Other currencies	22,687	95,653	39,906	38,388	36,888	81,738	818	**316,078**
Total borrowings	36,347	168,910	125,394	129,330	138,554	1,788,988	1,143,137	**3,530,660**
Bank borrowings relating to finance leases								
Nominated in USD	-	21,260	24,168	18,753	18,563	18,558	51,572	**152,874**
Nominated in EUR	41,453	62,401	81,656	78,574	61,455	60,651	243,640	**629,830**
Other currencies	134	9,176	9,529	7,798	8,099	8,184	37,924	**80,844**
Total Bank Borrowings relating for finance leases	41,587	92,837	115,353	105,125	88,117	87,393	333,136	**863,548**
Financial derivatives liabilities	(23,195)	(51,354)	(32,364)	(31,019)	(28,246)	(48,167)	(13,923)	**(228,268)**
Other liabilities								
Prepayments and deposits	1,143	3,033	3,286	284	284	284	176	**8,490**
Other payables	-	-	53,020	242	242	242	1,773	**55,519**
Other liabilities	255,507	12,844	25,208	2,606	-	-	412	**296,577**
Total other liabilities	256,650	15,877	81,514	3,132	526	526	2,361	**360,586**
Total liquidity risk	**3,005,972**	**476,458**	**289,897**	**206,568**	**198,951**	**1,828,740**	**1,464,711**	**7,471,297**

Year 2018	0-3 months	3-12 months	2 years	3 years	4 years	5 years	>5 years	Total
Payables								
Account payables	2,571,791	173,185	-	-	-	-	-	2,744,976
Related parties	30,141	5,921	2	-	-	-	-	36,064
Total receivables	2,601,932	179,106	2	-	-	-	-	2,781,040
Borrowing								
Nominated in USD	23,158	345,335	102,790	966,487	321,806	1,058,531	195,939	3,014,046
Nominated in EUR	6,424	45,807	32,308	31,446	34,462	14,082	166,797	331,326
Other currencies	4,564	56,138	81,501	42,392	37,798	36,406	82,042	340,841
Total borrowings	34,146	447,280	216,599	1,040,325	394,066	1,109,019	444,778	3,686,213
Financial derivatives liabilities	(5,161)	(28,796)	-	(2,980)	-	-	(1,303)	(38,240)
Other liabilities								
Prepayments and deposits	-	3,595	5,198	-	-	-	-	8,793
Other payables	-	-	51,974	44,888	216	216	1,740	99,034
Other liabilities	252,573	5,118	74,173	2,889	284	284	1,913	337,234
Total other liabilities	252,573	8,713	131,345	47,777	500	500	3,653	445,061
Total liquidity risk	**2,883,490**	**606,303**	**347,946**	**1,085,122**	**394,566**	**1,109,519**	**447,128**	**6,874,074**

C) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group is exposed to several types of market risk (price risk raw materials, exchange rate risk and interest rate risk) which may affect the Group's financial results. The main market risks inherent to the oil sector result from fluctuations in crude oil prices, derivative prices, the refining margin and the exchange rate.

The Group monitors its exposure to market risk through ongoing sensitivity analyses. For each of the market risk factors detailed below, there is a table describing the sensitivity of Group profit and equity to the main risks to which its financial instruments are exposed.

The estimates made reflect the impact of favourable and adverse changes. The impact on profit and/or equity is estimated on the basis of the financial instruments held by the Group at each year end.

Financial instruments affected by market risk include financial assets at fair value through profit or loss, available-for-sale financial assets, derivative financial instruments, short-term deposits, borrowings and certain other financial instruments.

I. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates in which the company operates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the translation of foreign subsidiaries, both in the consolidated result and in their value of equity.

The Group's profit and equity are exposed to fluctuations in the exchange rates of the currencies in which it does business. The Group's most significant foreign currency exposure is to the US dollar and to a lesser extent to the Chinese Yuan and the Brazilian Real.

At December 31st, 2019 and 2018, debt in dollars was EUR 2,592 million and 2,717 million (see **note 18**), representing 78% and 81%, respectively, of total consolidated debt. About 49% of the debt in dollars is allocated to hedging transactions, mainly to net investment hedges (USD 995 million), to fair value hedges (USD 249 million) and, to a lesser extent, to cash flow hedges (USD 25 million) (see **note 30**).

With regard to the sensitivity of the Group's financial instruments held for an appreciation or depreciation of the dollar, the following table shows the impact on the post-tax result and equity.

Thousands of euros

Effect of fluctuations in the euro against the dollar	2019 Impact on profit or loss after taxes	2019 Impact on equity after taxes	2018 Impact on profit or loss after taxes	2018 Impact on equity after taxes
+ 0,05 USD/EUR	(4,926)	81,569	(10,875)	76,338
- 0,05 USD/EUR	5,376	(89,168)	11,868	(83,309)

II. Commodities price risk

The businesses operated by CEPSA Group are exposed to the prices of certain raw materials listed on international markets, such as the price of crude oil and natural gas, prices of refined petroleum and petrochemical products, the price of the electricity pool, and the price of emission allowances. The high degree of vertical integration of the Group, increased in recent years, allows minimizing the short-term effects of economic cycles and their impact on the consolidated outcome of the Group.

Variations in the price of crude oil also affect refining and sales operations, which is the contrary to the impact on the exploration and production area, the size of which depends on the speed with which raw material price changes are passed on the international and local finished product markets.

Exposure to all these prices is constantly monitored, and on certain occasions the Group uses financial derivatives to reduce its exposure to the volatility of the prices. As such, these derivatives comprise economic hedging for the Group's results, although they are not always accounted for as hedges for accounting purposes (see **note 30**).

Considering only these financial instruments held by the Group, the following table shows the sensitivity in the post-tax result and equity to the effect of a 10% increase or decrease in crude oil prices:

Thousands of euros

Effect of fluctuations in the crude oil	2019 Impact on profit or loss after taxes	2019 Impact on equity after taxes	2018 Impact on profit or loss after taxes	2018 Impact on equity after taxes
+ 0,05 USD/EUR	(1,156)	-	(132)	-
- 0,05 USD/EUR	1,296	-	220	-

III. Interest rate risk

The Company's exposure to interest rate risk relates primarily to the Company's borrowings at floating rates, mainly linked to LIBOR. The Company's policy is to manage its debt portfolio with the aim of minimizing long-term interest costs.

For the purposes of managing and mitigating this risk, CEPSA Group obtains financing at a fixed rate or arranges interest rate hedges via financial derivatives when appropriate (see **note 30**).

The following table shows the sensitivity of the Company's net income and equity to reasonably possible changes in interest rates, assuming all other variables remain unchanged.

The sensitivity analysis excludes all fixed income financial instruments carried at amortized cost as well as loans with variable rates which, through transactions with derivatives, result in a similar effect to a fixed rate. Currency and commodity based derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

Thousands of euros

Effect of fluctuations in the interest rate	2019 Impact on profit or loss after taxes	2019 Impact on equity after taxes	2018 Impact on profit or loss after taxes	2018 Impact on equity after taxes
+ 0,05 USD/EUR	(5,849)	38,124	(9,242)	2,092
- 0,05 USD/EUR	5,324	(26,140)	8,811	(2,136)

D) CAPITAL MANAGEMENT

Maintaining a sound equity structure has been set as a priority objective of capital management by the CEPSA Group.

This overall objective is implemented by controlling the level of borrowings in order to address any possible changes in economic and industry-based circumstances and, above all, ensures readiness to appropriate financing which enables the Group to take on new profitable business opportunities which may act as new pillars of growth and contribute significant value for the Group.

The changes in the level of borrowings are measured by the ratio of CEPSA Group's net borrowings and its sources of financing (equity plus net borrowings) or the generation of funds by the business (EBITDA), as follows:

Thousands of euros

Ratio of Cepsa Group Debt to Equity (gearing)

	Notes	2019 adjusted (*)	2019	2018 (**)
Non-current Finance liability		3,039,202	3,799,728	2,955,916
Current Finance liability		267,955	267,955	380,434
Gross liability	Note 18	3,307,157	4,067,683	3,336,350
Cash and cash equivalents	Note 16	(561,160)	(561,160)	(246,878)
Net debt		*2,745,997*	*3,506,523*	*3,089,472*
Equity		*5,300,955*	*5,300,955*	*5,542,442*
Net debt / (Equity + Net Debt)		*34'12%*	*39'81%*	*35'79%*

(*) Adjunsted not including debts from leases according to IFRS 16 (**) In 2018 it does not include financial debt for operating leases.

Net debt to EBITDA ratio

Thousand of euros

	Notes	2019 adjusted (*)	2019	2018 (**)
Net debt		*2,745,997*	*3,506,523*	*3,089,472*
EBITDA (adjusted CCS)	Note 6.1	2,058,011	2,058,011	1,762,307
IFRS 16 adjustments (reversal)				
Leasing payments		(142,719)	-	-
Adjusted EBITDA (included IFRS 16)		*1,915,292*	*2,058,011*	*1,762,307*
Net debt / (Equity + Net Debt)		*1'43*	*1'70*	*1'75*

The Group performs an analysis of this ratio on a regular basis, with leverage projections as a key to establishing an investment decision-making and dividend policy. On the other hand, these metrics are not related to the covenant applicable to certain financial debt operations (see **note 18**), whose definition of EBITDA is different and regulated in the corresponding financing contract.

30. Financial derivatives and hedge operations

ACCOUNTING POLICIES

I. Initial recognition and subsequent measurement

The CEPSA Group uses hedging and derivatives financial instruments, including most notably futures and swaps *contracts with crude oil and product brokers, to hedge the price risks arising from the monthly purchases and sales of crude oil and oil-based products. The transaction limits and the hedging instruments are approved by Group management and the monitoring process observes the separation of the performance and control functions.*

For foreign currency and interest rate risks, the transaction limits and hedging instruments (basically forward currency transactions and interest rate swaps) are also approved by Group management and the monitoring process observes the separation of the performance and control functions.

Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at the reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Profits or losses arising from changes in the fair value and settlement of those derivatives not designated as an accounting hedge as defined in IFRS 9 are directly attributed to profit or loss and are shown in the Consolidated Statement of Income as financial income or expenses, as the case may be. Exceptionally, in the Trading segment and because of its activity, financial derivative trading is part of its operating income.

In the normal course of its operations the Group has forward sale and purchase contracts for oil and natural gas. These contracts are entered into and maintained to meet the procurement and delivery needs of these commodities in accordance with the periodic estimates for the purchase and sale of hydrocarbons. The contracts are monitored systematically and are adjusted as appropriate by physical delivery. As a result, these contracts are considered for own use *and therefore outside the scope of IFRS 9.*

So far the Group has used the extended use of fair value option for "own use" contracts since this option is not yet permitted according to Spanish GAAP.

As a part of the ordinary activity of the Trading segment, besides the supply of crude oil for the Group's needs, proprietary trading activity is performed, in which some of the own-use supply contracts which allow trading with third parties are used. The value of purchase commitments that can be used for speculation purposes is not significant, as they are very short-term contracts with market price arrangements.

II. Hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- *There is an "economic relationship" between the hedged item and the hedging instrument.*
- *The effect of credit risk does not "dominate the value changes" that result from that economic relationship.*
- *The hedge ratio in relation to hedge is the same as that resulting from the amount of the item hedged that the entity actually hedges, and the amount of the hedge instrument that the entity actually uses to hedge that amount of the item hedged.*

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Fair value hedges

Hedges for exposures to changes in the fair value of a recognized asset or liability, or unrecognized firm commitment attributable to a particular risk that could affect the Consolidated Income Statement. Changes in value of the hedging instrument and the hedged item attributable to the hedged risk are recognized in Profit or Loss.

Cash flow hedges

The Group uses forward currency contracts and other derivatives such as options to hedge its exposure to foreign currency risk in highly probable transactions. Likewise, to reduce the exposure to interest rate risk on its outstanding variable rate borrowings, the Group uses interest rate swaps.

The effective portion of the gain or loss on the hedging instrument is recognized directly in OTHER COMPREHENSIVE INCOME, while the ineffective portion is recognized immediately in the Consolidated Income Statement, under FINANCIAL INCOME OR EXPENSE.

Amounts recognized as OTHER COMPREHENSIVE INCOME are transferred to Consolidated Profit or Loss when the hedged transaction affects profit or loss. Both the hedge instrument and the hedged transaction are included under the same heading in the Consolidated Income Statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in OTHER COMPREHENSIVE INCOME remains separately in EQUITY until the forecast transaction occurs or the firm commitment is met.

Net investment hedges

The Group uses both non-derivative liabilities (such as bank borrowing) and financial derivatives (mainly currency swaps*) to hedge the exposure to changes in the EUR/USD rate of investments in the net assets of foreign operations whose functional currency is the USD.*

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in OTHER COMPREHENSIVE INCOME while any gains or losses relating to the ineffective portion are recognized in the Consolidated Income Statement in FINANCIAL COSTS AND INCOME.

On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in EQUITY is transferred to the Consolidated Income Statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at either the best estimate of the expenditure required to settle the present obligation at the reporting date or the amount initially recognized less accumulated amortization, whichever is higher.

The breakdown of the notional and fair value of the Group's derivatives is as follows:

Trading derivatives

Thousands of euros

	Year 2019				Year 2018			
	Derivatives assets (Note 12)		Derivatives liability (Note 18)		Derivatives assets (Note 12)		Derivatives liability (Note 18)	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
Foreing exchange derivatives								
Cross currency swaps	-	-	-	-	-	-	174,672	(2,980)
Forwards								
Buy USD / sell EUR	265,423	1,485	535,701	(5,528)	-	-	158,414	(951)
Buy EUR / sale GBP	-	-	3,759	(148)	4,571	50	-	-
Buy USD / sell JYP	-	-	-	-	7,985	7	-	-
Collar buy USD / sell CNY	-	-	3,479	(294)	-	-	-	-
Total	265,423	1,485	542,939	(5,970)	12,556	57	333,086	(3,931)
Commodities price derivatives								
Swaps (oil and products)	418	13	1,062	(97)	-	-	1,638	(222)
Swaps (electricity)	77,684	7,910	123,816	(4,931)	38,244	4,854	-	-
Total	78,102	7,923	124,878	(5,028)	38,244	4,854	1,638	(222)
Total trading derivatives	**343,525**	**9,408**	**667,817**	**(10,998)**	**50,800**	**4,911**	**334,724**	**(4,153)**

Hedging derivatives

Thousands of euros

	Year 2019				Year 2018			
	Derivatives assets (Note 12)		Derivatives liability (Note 18)		Derivatives assets (Note 12)		Derivatives liability (Note 18)	
	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value
Cash flow hedges								
Interest rate derivatives								
Interest rate swaps	414,490	5,644	626,113	(9,828)	274,672	1,068	64,167	(1,303)
Cross currency swaps (interest tranch) (*)	75,000	967	475,000	(3,402)	-	-	-	-
Foreign currency derivatives								
Buy COP / sell USD	-	-	-	-	-	-	20,850	(1,578)
Options on COP / USD	-	-	-	-	-	-	28,808	(923)
Derivatives on commodities prices								
Swaps (hedge of refining margin)	-	-	12,949	(118)	-	-	-	-
Swaps (natural gas)	8,078	327	4,918	(807)	19,279	414	5,219	(429)
Total	497,568	6,938	1,118,980	(14,155)	293,951	1,482	119,044	(4,233)
Net investment hedge								
Foreign currency derivatives								
Cross currency swaps	-	-	1,283,583	(36,481)	-	-	-	-
Forwards buy EUR / sell USD	138,864	1,816	258,145	(1,343)	96,070	910	-	-
Total	138,864	1,816	1,541,728	(37,824)	96,070	910	-	-
Cost of hedging								
Foreign currency derivatives								
Buy USD / sell EUR	152,216	2,079	22,254	(416)	157,205	1,809	-	-
Derivatives on commodities prices								
Swaps (natural gas)	595,712	108,971	313,282	(31,599)	227,341	24,613	223,955	(29,854)
Total	747,928	111,050	335,536	(32,015)	384,546	26,422	223,955	(29,854)
Total hedging derivatives	**1,384,360**	**119,804**	**2,996,244**	**(83,994)**	**774,567**	**28,814**	**342,999**	**(34,087)**

(*) Concerning hedge accounting, several sintetic derivatives have been disaggregated from CCS, and included part of them as a hedge of Net Investment Hedges, and the rest as a hedge of Cash Flow Hedge (interest hedging component only).

30.1. Foreign currency risk

The types of derivative usually used to mitigate exchange rate risks are forward and swap contracts in accordance with the established risk management policy (see **note 29**).

Furthermore, in accordance with the Group's established exchange rate risk management policy (see **note 29**), the CEPSA Group has obtained borrowings in US dollars to finance certain investments in said currency.

Thus, at December 31st, 2019 and 2018, the CEPSA Group had assigned financing for a nominal amount of USD 995 million and 2,763 million, respectively, as a hedging instrument for net investments made by the following companies: Cepsa Colombia, S.A., Cepsa International, B.V., Cepsa (Rhourde el Rouni), Ltd, Cepsa Peruana, S.A.C., Coastal Energy KBM SDN BHD, Mopu Holdings (Singapore), Pte. Ltd., Cepsa Algerie, S.L., SinarMas Cepsa, Pte. Ltd, Coastal Energy Company and Cepsa E.P. Abu Dhabi, S.L.U. all with the functional currency of US dollars. In addition, the Group also assigned exchange rate derivatives for a nominal amount of USD 1,998 million in connection with the net investment hedges at 2019 year-end and USD 110 million at 2018 year-end.

There are some CCS worth of EUR 1,275 millions that transmute such EUR debt into USD debt.

No inefficiency in the aforementioned hedges was recognized.

The table below shows the balances and movements for this hedge of net investment included in the heading of net equity of the balance: ADJUSTMENTS FOR CHANGES IN VALUE IN HEDGE OPERATIONS corresponding to the 2019 and 2018 financial years.

Valuation adjustments in hedges - Movements

Thousands of euros

		2019	2018
Opening balance		**(522,559)**	**(429,312)**
Gains or losses recognised directly in equity		(37,820)	(129,866)
Reclassification during the year to profit or loss		23,494	36,619
Closing balance	Note 17.3	**(536,885)**	**(522,559)**

At the same date, the CEPSA Group hedged a nominal amount of USD 22 million in 2019 and 61 million in 2018, recognized as a cash flow hedge, the hedge item being highly probable future collections in foreign currency on finance leases and/or planned sales of assets.

30.2. Commodities price risk

SIGNIFICANT ESTIMATES, ASSUMPTIONS AND JUDGMENTS

The Group supervises its exposure to market risk via a continuous sensitivity analysis for crude oil and natural gas prices, the prices of petroleum and petrochemical products, the price of pool electricity, the price of emission allowances, etc.

With a view to reducing exposure to said risks the Group contracts financial derivatives which constitute an economic hedge for its results, though not in all cases recognized as accounting hedges.

At the end of 2019, the Group holds hedges on the price of natural gas for purchase commitments due in 2020 and 2021.

30.3. Interest rate price risk.

The company policy regarding interest rate risk exposure consists of managing its interest costs using both fixed and variable interest rate borrowings.

The company uses *interest rate swaps* in which it agrees to exchanges, at certain intervals, the difference between the amounts at fixed rates, variable rates or cross currency swaps (CCSs). The company exchanges a capital and interest flow in USD for another capital and interest flow in EUR at a prefixed exchange rate at the maturity date.

Interest rate swaps are currently a part of cash flow hedges to cover variable rate underlying debt obligations. The nominal debt covered by these swaps is EUR 1,591 and EUR 339 million in 2019 and 2018, respectively.

The following table summarizes the maturity date of the Group's derivatives based on discounted contractual payments:

Derivatives - Maturities

Thousand of euros

Year 2019	0-3 months	3-12 months	1-3 years	>3 years	Total
Derivatives assets					
Cash flow hedging derivatives	2	256	360	6,320	**6,938**
Fair value hedging derivatives	11,871	16,604	82,575	-	**111,050**
Net investment hedging derivatives	1,816	-	-	-	**1,816**
Derivatives not designated hedge accounting	6,250	3,158	-	-	**9,408**
Total	**19,939**	**20,018**	**82,935**	**6,320**	**129,212**
Derivatives liabilities					
Cash flow hedging derivatives	(13)	(640)	(272)	(13,230)	**(14,155)**
Fair value hedging derivatives	(4,572)	(26,604)	(839)	-	**(32,015)**
Net investment hedging derivatives	(1,344)	-	-	(36,480)	**(37,824)**
Derivatives not designated hedge accounting	(6,543)	(4,455)	-	-	**(10,998)**
Total	**(12,472)**	**(31,699)**	**(1,111)**	**(49,710)**	**(94,992)**

Year 2018	0-3 months	3-12 months	1-3 years	>3 years	Total
Derivatives assets					
Cash flow hedging derivatives	232	1,022	-	228	**1,482**
Fair value hedging derivatives	6,824	19,598	-	-	**26,422**
Net investment hedging derivatives	910	-	-	-	**910**
Derivatives not designated hedge accounting	51	4,860	-	-	**4,911**
Total	**8,017**	**25,480**	**-**	**228**	**33,725**
Derivatives liabilities					
Cash flow hedging derivatives	(841)	(2,089)	-	(1,303)	**(4,233)**
Fair value hedging derivatives	(3,146)	(26,708)	-	-	**(29,854)**
Net investment hedging derivatives	-	-	-	-	**-**
Derivatives not designated hedge accounting	(1,173)	-	(2,980)	-	**(4,153)**
Total	**(5,160)**	**(28,797)**	**(2,980)**	**(1,303)**	**(38,240)**

31. Fair value

ACCOUNTING POLICIES

According to IFRS 13, the Group uses the following hierarchy for determining the fair value of derivative financial instruments and available for sale portfolio:

- *Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.*
- *Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.*
- *Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.*

Interest rate swaps, forward foreign exchange contracts, and term commodity contracts are valued using valuation techniques that use market observables such as exchange rates (cash and term), interest rate curves or term commodity price curves.

With respect to a comparison of the carrying amounts and fair value of the Group's financial assets and liabilities, Management considers that in all cases, except for fixed rate loans and the sub-portfolio of trade receivables subject to securitization, fair value is similar to carrying amounts.

For the fair value of the fixed rate loans, the cash flow discount rate is used. The fair value of these loans at the 2019 closing date amounts to EUR 122.8 million, while their carrying amount totals EUR 122 million. (See **note 15**).

At December 31st, 2019, the company's own credit risk is considered insignificant.

Fair value of financial instruments

Thousand of euros

	2019				2018			
	Total	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Fair value through profit or loss measurement category								
Available for sale assets	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Derivative Assets								
Interest rates derivatives	6,611	-	6,611	-	1,069	-	1,069	-
Exchange rate derivative	5,381	-	5,381	-	2,777	-	2,777	-
Commodities derivatives	117,220	-	117,220	-	29,879	-	29,879	-
Total	**129,212**	**-**	**129,212**	**-**	**33,725**	**-**	**33,725**	**-**
Derivative Liabilities								
Interest derivatives	13,230	-	13,230	-	1,303	-	1,303	-
Exchange rate derivatives	44,209	-	44,209	-	6,432	-	6,432	-
Commodities derivatives	37,553	-	37,553	-	30,505	-	30,505	-
Total	**94,992**	**-**	**94,992**	**-**	**38,240**	**-**	**38,240**	**-**
Fair value through other comprehensive income measurement category								
Sub-portfolio of trade receivables subject to securitization	263,884	-	263,884	-	-	-	-	-
Total	**263,884**	**-**	**263,884**	**-**	**-**	**-**	**-**	**-**
Assets and liabilities for which fair values are disclosed								
Fixed rate loans	122,834	-	122,834	-	356,786	-	356,786	-
Total	**122,834**	**-**	**122,834**	**-**	**356,786**	**-**	**356,786**	**-**

The Group has derivative financial instruments with various counterparties, mainly financial institutions with investment grade credit ratings.

32. Related party transactions

ACCOUNTING POLICIES

A party is considered to be related to another party when one of the two, or several parties acting together, exercises or has the possibility to exercise control over the other party, directly, indirectly or through shareholder or equity holder agreements, or has a significant influence in the financial and operating policy decisions of the other party. The related parties comprise the sole shareholder, directors and key management personnel of the Group as well as subsidiaries, associates, joint ventures and other related parties. The terms of these operations are approved by the management of each company and are carried out in the terms agreed by the Board of Directors.

Transactions between the Company and its subsidiaries, which are related parties, were eliminated on consolidation and are not disclosed in this note.

32.1. Transactions with associates, joint ventures and other related parties

Transactions between the Group and its associates and joint ventures are disclosed below:

Transactions with associates and joint ventures and other related parties — Thousand of euros

Year 2019	Notes	Associates	Joint Ventures	Others	Total
In the Consolidated Balance Sheet					
Trade and other receivables	Note 15	56,854	362	(5,714)	**51,502**
Current and non-current loans		7,484	5,157	5,107	**17,748**
Trade and other payables		54,283	5,795	11,865	**71,943**
Total		**118,621**	**11,314**	**11,258**	**141,193**
Consolidated Statement of Profit or Loss					
Revenue		111,640	12,155	67,453	**191,248**
Other operating income		(432)	248	29	**(155)**
Procurements		8,232	13,676	271,435	**293,343**
Other operating costs		13,006	2,814	16,614	**32,434**
Finance income		69	5,824	1	**5,894**
Finance costs		11	-	-	**11**
Total		**132,526**	**34,717**	**355,532**	**522,775**

Year 2018	Notes	Associates	Joint Ventures	Others	Total
In the Consolidated Balance Sheet					
Trade and other receivables	Note 15	29,688	2,283	5,637	**37,608**
Current and non-current loans		6,454	99,498	5,144	**111,096**
Trade and other payables		20,728	9,701	5,635	**36,064**
Total		**56,870**	**111,482**	**16,416**	**184,768**
Consolidated Statement of Profit or Loss					
Revenue		130,364	16,031	9,232	**155,627**
Other operating income		(518)	347	14	**(157)**
Procurements		8,026	60,465	496	**68,987**
Other operating costs		16,266	268	21,494	**38,028**
Finance income		60	11,678	(1)	**11,737**
Finance costs		27	-	7	**34**
Total		**154,225**	**88,789**	**31,242**	**274,256**

Transactions and balances with these entities basically relate to the Group's ordinary business operations and were carried out on an arm's-length basis.

In addition, CURRENT AND NON-CURRENT LOANS TO JOINT VENTURES includes those granted to SinarMas Cepsa for EUR 5,207 thousand in 2019 and EUR 92,445 thousand in 2018, respectively (see **note 12**). In 2019 credits amounting to EUR 98,625 thousand were used for the subscription of new social capital.

32.2. Transactions with shareholders

The relevant operations carried out by the CEPSA Group with its shareholders and the companies controlled by them have been:

Thousand of euros

Name of significant shareholder	Cepsa Group Company	Type of transaction	Type of relationship	2019	2018
Cepsa Holding LLC	CEPSA	Corporate	Dividends and other distributed profit	**494,591**	189,978
Cepsa Holding LLC	CEPSA	Corporate	Dividend in kind (Shares on Medgaz, S.A.)	**550,000**	-
Matador Bidco Sàrl	CEPSA	Corporate	Dividends and other distributed profit	**37,000**	-
Mubadala Investment Company PJSC	CEPSA	Trade	Procurements, services and other expenses	**75**	-
The Carlyle Group, Inc	CEPSA	Trade	Sales and other services provided	**335**	-
International Petroleum Investment Company PJSC (IPIC)	CEPSA	Corporate	Dividends and other distributed profit	**-**	160,545

33. Remuneration and other benefits for the Board of Directors and Senior Executives

The remuneration accrued by the directors of the Consolidated Group in 2019 and 2018 was as follows:

Remuneration to Board of Directors - Concept	2019	2018
		Thousand of euros
Wages and Salaries	890	843
Variable remuneration	7,124	2,116
Bylaws-stipulated Director emoulments	761	1,528
Other Items	112	12
Pension funds and plans: Contributions and obligations (Defined contribution plans)	467	606
Total	**9,354**	**5,105**

The Liability insurance arranged for Directors and Managers of the CEPSA Group was renewed on October 15, 2019 for 12 months, with a total annual net premium of EUR 122,000 for the entire Group. This amount is paid by CEPSA as the policyholder and cannot be broken down by individuals, as apart from covering Board members and Managers, it also covers all those employees who make decisions on behalf of the company.

Directors who do not perform executive functions only receive BYLAW-STIPULATED FEES, which totalled EUR 611 thousand euros in 2019.

In accordance with the provisions of the current text of article 229 of the Spanish Companies Act, the Company's directors have disclosed the following conflicts of interest:

In the resolutions of the Board of Directors dated June 17, 2019 and October 10, 2019, the Directors, Mr. Musabbeh Helal Musabbeh Ali Alkaabi, Ms. Alyazia Ali Saleh Ahmed Alkuwaiti, Mr. Bakheet Saeed Bakheet Salem Alkatheeri, Mr. Saeed Mohamed Hamad Fares Almazrouei and Mr. Ahmed Saeed Mohamed Alcalily declared that, as Executives of the Mubadala Group and Proprietary Directors on CEPSA's Board, they were involved in potential conflicts of interest in relation to the MEDGAZ S.A. transaction between MUBADALA and CEPSA approved by said Board resolutions.

In consideration of their fiduciary duties, they all recused themselves and abstained from voting on the aforementioned transaction, as duly reflected in the Minutes.

Upon their respective resignations as Directors on October 15, 2019, neither Mr. Pedro Miró Roig nor Mr. Ahmed Saeed Mohamed Alcalily have declared that they, nor any of their related parties, were involved in any direct or indirect conflicts with the interests of the Company, with the exception of the aforementioned conflict of interest declared by Mr. Alcalily, which was duly recorded in the minutes of the resolutions.

Due to the change in the composition of the Board of Directors, which took place on October 15, 2019, both at the Shareholders' Meeting held on that date and subsequently, at the Board of Directors meeting held on November 6, 2019, the incumbent Directors at the date of drafting these Financial Statements made certain conflict of interest disclosures with regard to their management positions and directorships in other companies operating in the same oil and gas space as CEPSA. The same directors, by means of their respective letters dated February 13, 2020 (except the letters of Mr. Marwan Naim Nijmeh which are dated February 20, 2020), and addressed to the Secretary of the Board of Directors, confirmed such potential conflicts of interest in connection with the positions and offices held in oil and gas companies, as follows:

Mr. Musabbeh Helal Musabbeh Ali Alkaabi

Mr. Al Kaabi currently serves as Chief Executive Officer of Oil and Petrochemicals at Mubadala Investment Company PJSC, a company active in the oil and gas space, and holds the following offices in other entities which operate in the same oil & gas space as CEPSA: (i) Chairman of Mubadala Petroleum; (ii) Chairman and Director of Nova Chemicals; and Director of (iii) Dolphin Energy Ltd; (iv) Borealis AG and (v) Cosmo Energy Holdings Co., Ltd.

Mr. Martialis Quirinus Henricus van Poecke

Mr. Van Poecke is currently Managing Director for Carlyle International Energy Partners (CIEP), an investment fund affiliated with The Carlyle Group and active in the oil and gas space, and serves as Director of the following Carlyle portfolio entities in the energy sector: (i) Andes Colombia Holding Limited; (ii) Assala Energy Holdings Ltd; (iii) Assala Energy UK Limited; (iv) Hedging Committee (Assala); (v) Black Sea Holding Company SRL; (vi) BSOG Holding Activity SRL; (vii) COG Energy Ltd.; (viii) Discover Exploration B.V.; (ix) Discover Exploration Ltd.; (x) Mazarine Energy B.V.; (xi) Neptune Energy Group Ltd.; and (xii) Varo Energy B.V. Furthermore, he is a major shareholder and President of the Supervisory Board of ONE-Dyas B.V.

Mr. Philippe François Marie-Joseph Boisseau

Mr. Boisseau currently holds directorships in the following entities which operate in the same oil & gas space as CEPSA: (i) Assala Energy; (ii) Enermech; (iii) Regalwood Global Energy Ltd.; and (iv) I-Pulse Inc.

Mr. James Robert Maguire

Mr. Maguire is currently Managing Director for Carlyle International Energy Partners (CIEP), an investment fund affiliated with The Carlyle Group and active in the oil and gas space, and serves as Director of the following Carlyle portfolio entities: (i) Assala Energy Holdings Ltd.; (ii) Assala Energy UK Limited; (iii) Black Sea Holding Company SRL; (iv) COG Energy Ltd; (v) EnerMech Group Ltd.; (vi) Mazarine Energy B.V.; (vii) Neptune Energy Group Limited; and (viii) Regalwood Global Energy Ltd.

Mr. Joost Bart Maria Dröge

Mr. Dröge is currently Managing Director for Carlyle International Energy Partners (CIEP), an investment fund affiliated with The Carlyle Group and active in the oil and gas space, and serves as Director of the following Carlyle portfolio entities: (i) YoBizz AG; (ii) YoBizz Unternehmungsberatungen GmbH; (iii) Lexo Energy Mauritius Ltd.; (iv) AtlasInvest Downstream; and (v) Topaz Holding AG.

Ms. Alyazia Ali Saleh Ahmed Alkuwaiti

Ms. Alkuwaiti is currently Executive Director, Upstream and Integrated, at Mubadala Investment Company PJSC, a company active in the oil and gas space, and also holds the following offices in entities which operate in the same oil & gas space as CEPSA: (i) Supervisory Board Deputy Chairwoman of OMV Aktiengesellschaft; and (ii) Director of Mubadala Petroleum.

Mr. Bakheet Saeed Bakheet Salem Alkatheeri

Mr. Alkatheeri is currently Chief Executive Officer and Director of Mubadala Petroleum, a subsidiary of Mubadala Investment Company PJSC, a company active in the oil and gas space, and holds the following offices in other entities which operate in the same oil & gas space as CEPSA: (i) Chairman of the Project Review Committee of Dolphin Energy Ltd.; and (ii) Director of Oil Search Ltd.

Mr. Marwan Naim Nijmeh

Mr. Nijmeh is currently Deputy Chief Legal Officer, Petroleum and Petrochemicals, at Mubadala Investment Company PJSC, and a Director of Mubadala Petroleum, both companies active in the same oil and gas space as CEPSA.

Mr. Saeed Mohamed Hamad Fares Almazrouei

Mr. Almazrouei is currently Group Deputy Chief Financial Officer and Executive Director of M&A at Mubadala Investment Company PJSC, and serves as Director of Masdar, both companies active in the same oil and gas space as CEPSA.

Mr. Angel Corcóstegui Guraya

Mr. Corcóstegui confirmed, by means of a letter dated February 13, 2020 and addressed to the Secretary of the Board of Directors, that at year-end 2019 and up to the date of drafting of these Financial Statements, neither he, nor any of his related parties, were involved in any direct or indirect conflicts with the interests of the Company.

Apart from the above, at the date of drafting of these Financial Statements, no other direct or indirect conflicts with the interests of the Company were disclosed.

At December 31st, 2019, there were 10 members (nine men and one woman) on the Board of Directors, in addition to the Secretary non-board member and Deputy Secretary non-board member.

The total remuneration of Senior Executives (referring to members of the Management Committee, regardless of the type of employment contract they have) who were not simultaneously Executive Directors of the Board, in 2019 and 2018, was as follows:

Thousand of euros

Remuneration to Top Management - Concept	2019	2018
Wages and Salaries	2,953	2,743
Variable remuneration	6,661	5,072
Other Items	132	130
Pension funds and plans: Contributions and obligations (Defined contribution plans)	648	584
Total	**10,394**	**8,529**

In 2019 and 2018, there were eight Senior Executives, all of whom were men.

Senior executives receive an annual fixed and variable remuneration payment. Variable remuneration is calculated as a percentage of fixed remuneration, with said percentage being conditional upon the level of achievement of the objectives established for the year. These objectives, which are subject to measurement and control systems, are determined on the basis of the earnings of the Consolidated Group, occupational safety rates, operating aspects of the business, such as the execution of projects pursuant to established criteria relating to price, quality and deadlines, and individual performance. The 2019 variable remuneration includes extraordinary incentives derived from CEPSA's share sale operations.

The Company has not granted any advances or loans to its Board members or to senior managers.

34. Guarantee commitments and other contingent liabilities

At December 31st, 2019 and 2018, certain Group companies had provided guarantees, mainly for bank transactions and supply contracts, the breakdown is as follows:

Thousand of euros

Guarantees to third parties	2019	2018
Public entities	372,694	332,250
Suppliers/creditors and others	3,424,247	3,106,763
Total	**3,796,941**	**3,439,013**

Guarantees arranged with SUPPLIERS/CREDITORS AND OTHER relate mainly to guarantees provided by CEPSA to financial institutions for drawdowns against credit facilities granted to Group companies, as well as letters of credits to trade payables, which in 2019 and 2018 amounted to EUR 1,619,588 thousand and EUR 1,193,087 thousand, respectively. These amounts were recognized, by maturity, under BANK BORROWINGS and TRADE AND OTHER PAYABLES on the liability side of the Consolidated Balance Sheet.

At December 31st, 2019, the Group had not pledged any financial assets as security for liabilities or contingent liabilities.

The Group maintains firm commitments for the transport of gas (*ship or pay*) with the company Medgaz, S.A. which was part of the CEPSA Group until its delivery to the Mubadala Group in October 2019 (see **note 5.2**). In the same line of business, the Group maintains commitments to purchase natural gas through Cepsa Gas Comercializadora, S.A.

At year-end 2019 and 2018 long-term firm commitments are as follows:

Thousand of euros

Long term commitments in procurements

Year 2019	2020	2021	2022	2023	2024	Others	Total
Natural Gas and Liquified Natural Gas	385,646	398,461	374,009	309,216	311,523	1,923,545	3,702,400
Gas transport fees	46,382	47,309	48,256	49,221	50,205	337,255	578,628
Total	**432,028**	**445,770**	**422,265**	**358,437**	**361,728**	**2,260,800**	**4,281,028**

Year 2018	2019	2020	2,021	2022	2023	Others	Total
Liquid Natural Gas	383,437	386,146	345,664	265,736	265,736	2,125,888	3,772,607
Gas transport fees	45,472	46,382	47,309	48,256	49,221	387,460	624,100
Total	**428,909**	**432,528**	**392,973**	**313,992**	**314,957**	**2,513,348**	**4,396,707**

These commitments were quantified using estimates based on Brent Crude forward price curves prevailing at year-end 2019 and 2018, which is the main reference to these contracts.

35. Events after the reporting period

On January 29th, 2020, Cepsa Holding, LLC, a company ultimately controlled by Mubadala Investment Company, PJSC, transferred to Matador Bidco, S.À.R.L., a company ultimately controlled by The Carlyle Group, Inc., an additional 1.5% of the share capital of Compañía Española de Petróleos, S.A. (CEPSA). Consequently, Cepsa Holding, LLC holds shares representing 61.5% of the company's share capital and Matador Bidco, S.À.R.L. holds shares representing the other 38.5%.

In February 2020, the CEPSA Group issued bonds for EUR 500,000 thousand maturing in 2028. The bonds, classified as investment grade by the three main international rating agencies - Moody's, S&P and Fitch - earn a 0.75% annual coupon.

At the date of issuing of these Consolidated Financial Statements, there have been no more significant subsequent events to be mentioned in this section.

Table I

Thousands of euros

SUBSIDIARIES

Name	Parent Company	Registered Office	Line of Business	Ownership 2019	Ownership 2018	Equity: Share Capital Subscribed	Equity: Share Capital Paid	Reserves + Net Profit	Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
CEPSA BUSINESS SERVICES, S.A.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Corporate services	100%	100%	60	60	885	60	G	Yes
CEPSA FINANCE, S.A.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Other business management consulting activities	100%	-	100	100	3	100	G	Yes
CEPSA INTERNATIONAL B.V.	Compañía Española de Petróleos, S.A.	Beurs - World Trade Centre - Office 668 Beursplein 37. 3011 AA Rótterdam. The Netherlands	Oil and gas trading	100%	100%	3,515	3,515	199,927	162,741	G	No
CEPSA TREASURY, S.A.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Financial services	100%	100%	60	60	4,088	60	G	Yes
CEPSA, S.A.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Corporate services	100%	100%	61	61	1,208	61	G	Yes
TEIDE RE, S.A.	Cepsa International, B.V.	74, Rue de Merl. L - 2146 Luxemburgo. Luxemburgo	Reinsurance Operations	100%	-	2,725	2,725	35,904	2,725	G	No
CEC SERVICES (THAILAND) LTD	Mopu Holdings (Singapore) Pte Ltd	Unit 1601 - 1604, 388 Exchange Tower, Sukhumvit Rd., Klongtoey. 10110 Bangkok. Tailandia	Research and exploration	100%	100%	23	23	1,036	171	G	No
CEC INTERNATIONAL LTD	Coastal Energy Company	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	45	45	(222,901)	(190,138)	G	Yes
CEPSA (RHOURDE EL ROUNI) LIMITED	Compañía Española de Petróleos, S.A.	2nd Floor, Midtown Plaza P.O. Box 448. KY1-1106 Grand Cayman. Cayman Islands (***)	Research and exploration	100%	100%	100,791	100,791	98,798	159,039	G	Yes
CEPSA ALGERIE, S.L.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	27	27	212,453	216,134	G	Yes
CEPSA COLOMBIA, S.A.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	24,109	24,109	33,270	197,176	G	Yes
CEPSA E.P. MEXICO S. DE R.L. DE C.V.	Compañía Española de Petróleos, S.A.	Av.Paseo de la reforma, 295 Piso 8 Oficina A. 06500 Cuauhtemoc - Ciudad de Mexico. Mexico	Research and exploration	100%	-	4,908	4,908	(2,840)	2,622	G	No
CEPSA EP ABU DHABI, S.L.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	3	3	1,405,097	1,513,624	G	Yes
CEPSA EP ESPAÑA, S.L.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	100	100	4,444	4,720	G	No
CEPSA OLEO E GAS DO BRASIL, LTDA.	Compañía Española de Petróleos, S.A.	Rua do Carmo, nº 43 9º andar. - Rio de Janeiro. Brasil	Research and exploration	100%	100%	50,122	50,122	(33,561)	5,204	G	No
CEPSA PERU, S.A.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	60	60	76,972	93,337	G	Yes
CEPSA SURINAME, S.L.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	23,706	23,706	7,650	34,661	G	Yes
COASTAL ENERGY COMPANY, S.L.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	37	37	(265,293)	49,706	G	Yes
COASTAL ENERGY COMPANY (KHORAT) S.L.U.	Coastal Energy Company	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	46	46	(14,054)	(24,583)	G	Yes
COASTAL ENERGY KBM SDN BHD	Compañía Española de Petróleos, S.A.	Level 23, Etiga Twins, 11 Jalan. - Pinangm KL. Malasia	Research and exploration	70%	70%	4,926	4,926	24,857	21,286	G	No
COASTAL ENERGY MALASYA SDN BHD	Compañía Española de Petróleos, S.A.	Level 23, Etiga Twins, 11 Jalan. - Pinangm. Malasia	Research and exploration	100%	100%	22,596	22,596	(20,937)	-	G	No
MOPU HOLDINGS (SINGAPORE) PTE LTD	Compañía Española de Petróleos, S.A.	6, Temasek Boulevard #38-01 Suntec Tower Four. 038986 -. Singapore	Research and exploration	100%	100%	56,345	56,345	(9,316)	154,305	G	No
NUCOASTAL (THAILAND) LIMITED	Coastal Energy Company, S.L.U.	Unit nos 3901 - 3904, 39th. Floor, Exchange Tower, 388 Sukhumvit Rd. Klongtoey. - Bangkok. Tailandia	Research and exploration	100%	100%	1,730	1,730	(33,710)	(5,304)	G	No

(*) G = Fully consolidated; E = Equity method Consolidation

(**) Book value in individual accounts

(***) Companies fiscally domiciled in Spain

Thousands of euros

SUBSIDIARIES

Name	Parent Company	Registered Office	Line of Business	Ownership 2019	Ownership 2018	Equity: Share Capital Subscribed	Equity: Share Capital Paid	Reserves + Net Profit	Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
CEPSA GAS COMERCIALIZADORA, S.A.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Gas distribution	70%	70%	3,060	3,060	18,161	24,941	G	No
CEPSA GAS Y ELECTRICIDAD, S.A.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Electricy distribution	100%	100%	12,330	12,330	79,021	130,621	G	Yes
GENERACIÓN ELÉCTRICA PENINSULAR, S.A.	Cepsa Gas y Electricidad, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Cogeneration	70%	70%	32,000	32,000	53,111	22,400	G	No
SERVICIOS ENERGETICOS DE ALTA EFICIENCIA, S.A.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Electricy sales	100%	100%	100	100	3,070	5,408	G	Yes
SURESA RETAMA, S.L.U.	Cepsa Gas y Electricidad, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Wind generation	100%	100%	605	605	12,261	17,082	G	Yes
CEPSA CHEMICAL (SHANGHAI), CO., LTD	Cepsa Química China, SA	Nº 159 Pu Gong Rd., Shanghai Chemical Industrial Park. - Shanghai. China	Manufacturing, Commercialization of phenol, acetone and related products	75%	75%	231,337	231,337	(194,117)	65,831	G	No
CEPSA CHIMIE BÉCANCOUR, INC.	Cepsa Química, S.A.	5250 Boulevard Becancour. G9H 3X3 Becancour. QUEBEC. Canadá	Commercialization of petrochemical products	100%	100%	30,670	30,670	21,144	15,561	G	No
CEPSA ITALIA, S.p.A.	Cepsa Química, S.A.	Viale Milanofiori Palazzo A/6. 20090 Assago- MILAN. Italia	Commercialization of petrochemical products	100%	100%	6,000	6,000	6,406	9,737	G	No
CEPSA QUÍMICA CHINA, S.A.	Cepsa Química, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Shareholder	75%	75%	12,830	12,830	53,598	48,744	G	Yes
CEPSA QUÍMICA, S.A.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Production and sale of petrochemicals	100%	100%	60	60	664,230	553,617	G	Yes
CEPSA UK, LTD.	Cepsa Química, S.A.	Audrey House 16 - 20 Ely Place. EC1N 6SN London. Reino Unido	Commercialization of petrochemicals	100%	100%	3,337	3,337	8,900	10,532	G	No
DETEN QUIMICA, S.A.	Petresa Participaçoes, LTDA	Rua Hidrogenio 1744 Complejo Industrial. 42810-010 Camaçari Bahía . Brasil. Brasil	Production and sale of petrochemicals	71%	71%	61,333	61,333	76,639	152,959	G	No

(*) G = Fully consolidated; E = Equity method Consolidation

(**) Book value in individual accounts

Thousands of euros

SUBSIDIARIES

Name	Parent Company	Registered Office	Line of Business	Ownership		Equity			Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
				2019	2018	Share Capital Subscribed	Share Capital Paid	Reserves + Net Profit			
ATLAS, S.A. COMBUSTIBLES Y LUBRIFICANTES	Compañía Española de Petróleos, S.A.	C/ Playa Benitez, s/n. 51004 Ceuta. España	Oil and gas trading	100%	100%	3,930	3,930	3,621	4,077	G	Yes
C.M.D. AEROPUERTOS CANARIOS, S.L.	Compañía Española de Petróleos, S.A.	Polígono Industrial Valle de Güimar Manzana XIV, parcelas 17 y 18. 38509 Güimar - Santa Cruz de Tenerife. España	Jet fuel distribution	60%	60%	21,576	21,576	6,453	12,946	G	No
CEDIPSA, CIA. ESPAÑOLA DISTRIBUIDORA DE PETROLEOS, S.A.	Cepsa Comercial Petróleo. S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Sales in service station	100%	100%	8,114	8,114	19,378	10,059	G	Yes
CEPSA AVIACIÓN, S.A.	Compañía Española de Petróleos, S.A.	ES. Comb. Aviac. Camino de San Lazaro, s/n Zona ind. Aeropuerto Tenerife Norte Los Rodeos. 38206 San Cristobal de la Laguna - Santa Cruz de	Oil and gas transport	100%	100%	954	954	21,770	18,956	G	Yes
CEPSA BIOENERGIA SAN ROQUE, S.L.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	100%	3,003	3,003	15,360	8,003	G	Yes
CEPSA CARD, S.A.U.	Cepsa Comercial Petróleo. S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Group Cards management	100%	100%	60	60	(966)	60	G	Yes
CEPSA COMERCIAL PETRÓLEO, S.A.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Petrol station administration	100%	100%	82,043	82,043	726,605	687,546	G	Yes
CEPSA MARINE FUELS, DMCC	Compañía Española de Petróleos, S.A.	Office 3201 / 32nd floor Platinum Tower Juemeirah Lake Tower. - Dubai. EAU	Commercialization of oil products (outside EAU)	100%	100%	406	406	1,257	-	G	No
CEPSA PORTUGUESA DE PETROLEOS, S.A.	Compañía Española de Petróleos, S.A.	Avda. Columbano Bordalo Pinheiro, 108-3º B. 1070-067 Lisboa. Portugal	Oil and gas trading	100%	100%	30,000	30,000	37,423	65,957	G	No
CEPSA TRADING ASIA, PTE LTD	Compañía Española de Petróleos, S.A.	6 Temasek Boulevard 38-01 Suntec Tower Four. 038986 -. Singapore	Oil and gas trading	100%	-	-	-	1,034	-	G	No
CEPSA TRADING, S.A.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	100%	60	60	(771)	60	G	Yes
DETISA COMERCIAL PETRÓLEO, S.A. DE C.V.	Cepsa Comercial Petróleo, S.A.U.	Campo Florido 76, Ciudad de Mexico. 56200 Tulantongo	Petrol station administration	100%	-	3,880	3,880	(741)	3,880	G	No
PETRÓLEOS DE CANARIAS, S.A. (PETROCAN)	Compañía Española de Petróleos, S.A.	Explanada de Tomás Quevedo, s/n. 35008 Las Palmas de Gran Canarias (GRAN CANARIA). España	Bunkering services	100%	100%	120	120	33,512	33,781	G	Yes
PROPEL-PRODUTOS DE PETROLEO, L.D.A.	Compañía Española de Petróleos, S.A.	Avda. Columbano Bordalo Pinheiro, 108-3º. 1070-067 LISBOA. Portugal	Supply point management services	93%	7%	224	224	1,129	1,380	G	No
PROPEL-PRODUTOS DE PETROLEO, L.D.A.	Cepsa Portuguesa de Petróleos, S.A.	Avda. Columbano Bordalo Pinheiro, 108-3º. 1070-067 LISBOA. Portugal	Supply point management services	7%	93%	224	224	1,129	1,380	G	No
RED ESPAÑOLA DE SERVICIOS, S.A.U. (RESSA)	Cepsa Comercial Petróleo. S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Group Card management	100%	100%	300	300	35,645	39,705	G	Yes
SPANISH INTOPLANE SERVICES, S.L.U.	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	100%	1,000	1,000	1,440	1,300	G	Yes

(*) G = Fully Consolidation ; E = Equity method Consolidation

(**) Book value in individual accounts

Thousands of euros

JOINTLY CONTROLLED ENTITIES

Name	Parent Company	Registered Office	Line of Business	Ownership		Equity			Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
				2019	2018	Share Capital Subscribed	Share Capital Paid	Reserves + Net Profit			
ASFALTOS ESPAÑOLES, S.A. (ASESA)	Compañía Española de Petróleos, S.A.	Paseo de la Castellana, 141 – planta 19 28046. Madrid (España)	Oil Refining to obtain asphalt products	50%	50%	8,529	8,529	25,970	17,869	E	No
ATLAS NORD HYDROCARBURES, S.A.S. (ANH)	Cepsa Comercial Petróleo, S.A.U.	4 Rue Blida - Casablanca	Petrol station administration	50%	-	13,073	3,023	(366)	6,537	E	No
NUEVA GENERADORA DEL SUR, S.A.	Compañía Española de Petróleos, S.A.	Avda. San Luis, nº 77 Edificio C 4ª planta. 28033 Madrid. España	Power cogeneration	50%	50%	2,290	2,290	23,899	3,691	E	No
SINARMAS CEPSA PTE, LTD	Cepsa Química, S.A.	108 Pasir Panjang Road - Golden Agri Plaza. 118535 Singapore. -	Sulphonation and sulfation of LAB and fatty alcohols.	50%	50%	330,201	330,201	(129,381)	113,845	E	No

(*) G = Fully consolidated; E = Equity method Consolidation

(**) Book value in individual accounts

Thousands of euros

ASSOCIATES

Name	Parent Company	Registered Office	Line of Business	Ownership		Equity			Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
				2019	2018	Share Capital Subscribed	Share Capital Paid	Reserves + Net Profit			
ABU DHABI OIL, CO, LTD (ADOC)	Cosmo Abu Dhabi Energy E&P Co., Ltd	1-1 Shibaura 1 - Chome, Minato - Ku. - Tokyo. Japan	Research and exploration	13%	13%	92,987	92,987	550,926	71,446	E	No
COSMO ABU DHABI ENERGY E&P Co. Ltd	Cepsa International, B.V.	Hamamatsucho BLDG., 1-1-1 Shibaura, Minato-Ku. - Tokyo. Japan	Research and exploration	20%	20%	-	28	28	136,985	E	No
CEPSA GIBRALTAR, LTD.	Cepsa Internacional, B.V.	Europort Building 7 2nd Floor. (P.O. Box 51). - -. Gibraltar	Oil and gas trading	50%	50%	71	71	18,169	25	E	No
CS CHEM LIMITED	Cepsa Química, S.A.	Audrey House 16-20 Ely Place. EC1N 6SN London. United Kingdon	Shareholder	30%	30%	1	1	88,961	25,465	E	No
SIL CHEMICALS, LTD	CS Chemical, Ltd	161 A, Raufu Taylor Close Victoria Island. - Lagos. Nigeria	Production and sale of Lab-Las	30%	30%	116	116	89,662	84,882	E	No

(*) G = Fully consolidated; E = Equity method Consolidation

(**) Book value in individual accounts

Table II

Detail of main transactions and assets under joint control in Cepsa Group, as of December 31st, 2019, concerning Exploration and Production assets.

Thousands of euros

				% Ownership		Revenue		Profit before tax		Net profit		Total Assets		Total Liabilities	
List of all joint operations	**Country**	**Operator**	**Nature of activities**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
RKF	Algeria	Groupement RKF (Sonatrach / Cepsa Algerie, S.L.)	Exploration and Production	49'00%	49'00%	119,689	0	67,295	6,707	6,346	593	146,027	129,892	156,198	115,234
Ourhoud	Algeria	Sonatrach - Organisation Ourhoud	Exploration and Production	37'13%	37'13%	285,981	453,584	233,693	259,988	140,673	178,161	75,433	88,037	7,109	0
Timimoun	Algeria	Sonatrach / TEPA/ Cepsa Algerie, S.L.	Exploration and Production	11'25%	11'25%	24,224	9,036	(5,688)	(670)	(8,169)	(1,498)	174,460	186,672	8,701	209,353
Tiple	Colombia	Cepsa Colombia, S.A.	Exploration and LTT	70'00%	70'00%	0	519	6,423	(660)	0	(660)	129	123	1,321	1,573
Garibay	Colombia	Cepsa Colombia, S.A.	Exploration and LTT	50'00%	50'00%	2,279	3,399	589	1,149	2,279	1,149	1,172	646	348	264
Jilguero	Colombia	Cepsa Colombia, S.A.	Exploration and Production	57'86%	57'86%	4,252	6,071	(5,889)	6,993	4,252	6,993	133	580	2,615	2,550
Puntero (Manatus)	Colombia	Cepsa Colombia, S.A.	Exploration and Production	70'00%	70'00%	2,804	3,092	(2,073)	743	2,804	743	2,642	4,276	3,900	2,917
Merecure	Colombia	Cepsa Colombia, S.A.	Exploration	35'00%	70'00%	0	0	(268)	(523)	0	(523)	(119)	1,362	393	0
El Portón	Colombia	Cepsa Colombia, S.A.	Exploration	50'00%	50'00%	0	0	0	0	0	0	0	0	0	82
Llanos 22	Colombia	Cepsa Colombia, S.A.	Exploration and Production	55'00%	55'00%	18,165	24,267	9,787	15,041	18,165	15,041	2,678	3,870	1,757	1,681
Balay	Colombia	PETROBRAS	Exploration and LTT	30'00%	30'00%	1,710	0	(2)	(304)	1,710	(304)	172	166	1,534	1,597
Cpo 12	Colombia	Meta Petroleum	Exploration	42'80%	42'80%	0	0	9	(46)	0	(46)	0	0	0	0
Río Paez (La Cañada Norte)	Colombia	HOCOL	Exploration and Production	16'67%	16'67%	3,490	3,517	1,945	796	3,490	796	3,091	4,248	597	446
San Jacinto	Colombia	HOCOL	Exploration	16'67%	16'67%	0	0	0	0	0	0	0	0	0	0
PPN	Colombia	GRAN TIERRA	Exploration	30'00%	30'00%	0	0	(12)	(50)	0	(50)	0	0	0	0
Caracara	Colombia	Cepsa Colombia, S.A.	Exploration and Production	70'00%	70'00%	154,431	160,286	55,088	65,587	154,431	65,587	121,907	150,867	29,882	26,971
CPR Espinal	Colombia	PETROBRAS	Exploration and Production	16'67%	16'67%	0	0	(179)	(5,922)	0	(5,922)	0	0	0	218
BMS	Algeria	Hess ReR	Exploration and Production	75'00%	75'00%	94,605	87,640	30,302	31,178	30,140	26,318	250,617	246,808	250,617	246,808
Rodaballo	Spain	Repsol	Exploration and Production	15'00%	15'00%	0	221	0	0	0	0	0	255	1,601	1,067
Casablanca	Spain	Repsol	Exploration and Production	7'40%	7'40%	525	889	0	0	0	0	1,978	3,015	11,709	14,774
Montanazo	Spain	Repsol	Exploration and Production	7'25%	7'25%	159	689	0	0	0	0	(536)	(635)	768	519
Boquerón	Spain	Repsol	Exploration and Production	4'50%	4'50%	171	437	0	0	0	0	444	(583)	116	97
Block CE-M-717	Brazil	Premier Oil	Exploration	50'00%	50'00%	0	0	(1,567)	(1,321)	(1,175)	(991)	15,992	13,727	15,992	7,653
Block CE-M-665	Brazil	Premier Oil	Exploration	0'00%	50'00%	0	0	0	(233)	0	(175)	0	2,548	0	8,652

CONSOLIDATED MANAGEMENT REPORT

CEPSA GROUP

For the year ended December 31st, 2019

Content

Presentation of Non-Financial Information

In compliance with Article 49 of the Spanish Code of Commerce, the Annual Corporate Responsibility Report, which is attached to this Directors' Report, presents the non-financial information statement for the 2019 financial year. This report has been prepared in accordance with the Global Reporting Initiative (GRI) standards and following the framework of the International Integrated Reporting Council (IIRC). The non-financial information statement included in the Annual Corporate Responsibility Report is an integral part of the Directors' Report and has been submitted to the same approval, deposit and publication criteria as the Consolidated Directors' Report.

1. Company situation

a. Our Group

CEPSA is a multinational energy group with more than 90 years of experience in the sector. We operate the entire value chain for oil and gas, from exploration and production to distribution and marketing of the final products.

This integrated business model provides us with more stability to compensate possible adverse effects on any business areas, and allows us to establish synergies amongst different activities, increasing efficiency.

Thanks to our technical excellence and ability to adapt, we are currently one of the largest Spanish industrial groups in terms of sales volume and are a benchmark group for the sector.

We are currently present in more than twenty countries and working on further expanding our activities internationally. As a dynamic group with an innovative spirit and a great capacity to adapt to new and evolving scenarios in the industry, in 2011, we initiated a deep cultural and strategic change together with the International Petroleum Investment Company, PJSC (IPIC).

In 2017, Mubadala Investment Company, PJSC (MIC), instructed International Petroleum Investment Company, PJSC to transfer its stake in the Company to the entity Cepsa Holding, LLC, ultimately controlled by Mubadala Investment Company, PJSC ("MIC").

As a result, since 2018, the sole and direct owner of all of the shares of CEPSA was "CEPSA Holding LLC."

On October 15, 2019, the company Cepsa Holding, LLC transferred 198,005,457 shares of Compañía Española de Petróleos, S.A. (CEPSA), representing 37% of the Company's share capital to Matador Bidco, S.À.R.L., a company ultimately controlled by The Carlyle Group, Inc. As of the closing date of the financial year, Cepsa Holding, LLC holds shares representing the remaining 63% of the Company's share capital.

As a result of the above and, on the above date, CEPSA lost its status as a Sole Proprietorship by virtue of a public document of declaration of loss of sole proprietorship, number 2186 of the record of the Notary Public of Madrid, Mr. Federico Garayalde Niño.

As of December 31, 2019, the partners and direct holders of CEPSA's shares are:

- CEPSA Holding, LLC, ultimately controlled by Mubadala Investment Company, PJSC, holds shares representing 63% of the share capital.
- Matador Bidco, S.À.R.L., ultimately controlled by The Carlyle Group, Inc., holds shares representing 37% of the share capital. At the date of issuing see Note 35 of the Consolidated Financial Statements.

Our objective is to occupy an important position in the global energy market being present throughout all phases of the oil and gas value chain while remaining true to our mission of supplying the energy that each situation may require and vision to be a global energy company of preference.

At CEPSA we maintain our commitment to health, safety and the environment. We are aware of the impact of our activities on the environment and defend the compatibility of development and conservation of the environment, supporting the sustainability and optimization of our activities with the minimum possible impact on the natural environment.

b. Business model

As an integrated energy Group, we operate in a large number of countries through the following business segments:

Exploration and Production

This business area includes all necessary activities related to exploring for and producing hydrocarbons. We are present in South and Central America, Spain, North Africa, the Middle East, and Southeast Asia, with a production capacity of over 92,000 barrels of oil per day.

With the acquisition in March 2018 of a 20% stake, for a 40-year concession, in two large fields in the Abu Dhabi area, we have managed to triple our net 2P reserves and increase our production capacity by over 40,000 bopd net once development is completed. We also operate several oil fields in Algeria, including the second largest in the country.

Our activities are diversified as we hold onshore, offshore, and deep offshore assets.

By the very nature of the business, exploration and production are activities sensitive to the price of crude oil. Its change over time is unexpected and depends on various factors, not just the influence of supply and demand.

At CEPSA, we have adapted to an environment of crude price volatility in recent years, optimizing our costs, seeking efficiency and being very selective in investing in new projects. As a result, we have created a portfolio that is resilient to the price of crude oil, progressively reducing our break-even levels below $30/barrel, working successfully on the replacement of reserves and strengthening our position in the key regions in which we are present.

Refining

Crude oils are distilled via the refining activity, selecting the most appropriate for our refineries, transforming them into products for sale in the markets where we operate. The refining activity is integrated in other businesses of the CEPSA Group, from supplying crude oil to marketing products (Trading, Marketing, Petrochemicals, Gas and Power) to maximize margins in the value chain.

Our refining activity is centered in Spain, where we have two refineries, amounting to a total crude oil distillation capacity of 23.6 million tons per year, totaling 36% of installed capacity in Spain. From these refineries, we serve the national market and the export market.

Overcapacity of refining in Europe and the competitiveness of refineries in Russia, the Middle East, and the United States continue to represent the main threat to European refineries. In 2019, refining margins have dropped significantly compared to those of 2018, mainly due to high supply costs resulting from appreciation in high sulfur crude. This is due to their reduced availability because of production cuts by OPEC, reduced production in Venezuela and the departure of Iranian crude from the market. It has also been a year in which light distillates (gasoline and naphtha) have marked a bearish trend with respect to the previous year.

The regulatory framework is becoming a critical factor in the industry, where environmental demands and technical specifications of the products are increasingly restrictive, including lower authorized CO_2 emissions and greater presence of biofuels.

Through the Trading unit, we manage sales for our crude oil exploitation and the surplus products of our refineries. We also supply the oil refining and marketing areas, raw materials and intermediate products, managing the price risks of futures and derivative markets.

As a complement to our refining operations, we have a combined cycle plant as well as seven electricity and steam cogeneration plants in the main production centers, fueled by natural gas, a wind farm and we also supply gas and electricity to industrial clients and consumers in the service sector.

In the CEPSA Group, we strive to enter new energy markets with high growth potential to complement our integrated model, as in the case of renewable energies. In this sense, our first wind farm located in the province of Cadiz began production in 2019. It has 11 generators and an installed power of 29MW. With the start of production of the wind farm, the emission of 32 kt/year of greenhouse gas emissions (CO_2) is avoided.

Marketing

In the CEPSA Group, we pursue commercial oil and gas activities via three sales channels: we boast a wide network of service stations (around 1,800 service centers) in Spain, Portugal, Mexico, Morocco, Andorra, and Gibraltar, our own direct sales channels, and an extensive domestic and international network of agents and distributors. Employing these three channels, we market automotive and jet fuels, asphalt tars, lubricants, and liquefied petroleum gases, as well as a wide range of petrochemical products. We also supply fuels to ships in the main Spanish ports, where we are leaders.

We commercialize our innovative quality products and services in numerous countries. We are positioned in the market as a company which supplies products and services adapted to the realities of our clients.

In Spain, the degree of coverage provided by the service station network is slightly greater than in remaining European countries. Consequently, it is of great operational importance to differentiate these service stations in the market as well as ensure customer loyalty to guarantee network profitability in a competitive environment.

Petrochemicals

We manufacture and market base and derived chemicals. We carry out basic petrochemical activities in the refineries, obtaining raw materials, intermediate products, and finished products. For the derived petrochemical activity we have plants distributed in Spain, Germany, Canada, Brazil, Nigeria, China and Indonesia. The manufactured goods have a multitude of applications as raw materials, for the production of detergents, as well as the manufacture of resins, electronic components, insecticides, synthetic fibers, and pharmaceutical products, among others. We are global leaders in the LAB business line and second in the Phenol-Acetone line.

Since technology is a key competitive factor in the chemical industry and one of the most important differentiating elements, the Chemicals unit of the CEPSA group works with the Research Center of the Company in the development of new manufacturing and optimization processes, in collaboration with official bodies, such as the Spanish National Research Council (Consejo Superior de Investigaciones Científicas in Spanish - "CSIC"), as well as with external centers and universities.

c. CEPSA in figures

Results (million of euros)	2019	2018	2017
Revenue (excise tax oil and gas excluding)	21,158	22,079	18,212
EBITDA IFRS (*)	2,004	1,896	1,978
IFRS Net attributable profit (*)	820	830	743
Adjusted Net attributable profit	610	754	884

Financial data (million of euros)	2019	2018	2017
Share capital	268	268	268
Equity attributable to the Parent Company	5,201	5,436	4,916
Net financial debt(1)	3,507	3,089	1,722
Investments during the year	776	2,255	888
Investments in social actions	4.9	5.2	4.5
Dividends paid	1,082	351	332

Markets and business data (million of euros)	2019	2018	2017
Brent crude oil price ($/barrel)	64.3	71.0	54.3
Crude oil output (working interest) (thousand barrels/day)	92.5	83.1	92.0
Crude oil sales (barrels/day)	76.5	58.4	65.0
Crude oil distilled (barrels/day)	20.8	14.2	13.5
Product sales (Million of tonnes)	156.9	160.9	154.7
Refining margin indicator VAR ($/barrel)	4.3	6.5	6.8
Electricity output (GWh)	3,587	2,242	2,809
Natural gas sales (GWh)	33,176	30,003	27,972
Exchange rate (€/$)	1.123	1.181	1.130

Non-financial reporting	2019	2018	2017
Number of employees	10,185	10,153	9,837
Female workers (%)	36.5%	35.8%	35.7%

* International Financial Reporting Standars

(1) 2019 figures include IFRS 16 first implementation impact (761 millions of euros)

d. Corporate Governance

CEPSA believes effective and robust corporate governance plays a critical role in ensuring its success in the markets where it operates and the achievement of its strategic objectives, and serves as a springboard for long-term sustainable growth and value creation. The Company's governance framework adheres to the recommendations set out in the new Code of Governance of Listed Companies in Spain, insofar as applicable; the legal and regulatory requirements for corporations; and best international governance standards and practices.

The main bodies of the governance structure are the General Shareholders' Meeting, the Board of Directors and two standing Board Committees: the Audit, Compliance and Ethics Board Committee and the Nomination and Compensation Board Committee, both of which are advisory and non-executive bodies, with powers to review, inform and recommend within their scope of authority and responsibilities.

Except in matters reserved for the competence of the General Shareholders' Meeting, the Board of Directors is the highest-ranking administrative and representative body of the Company. Their competencies include overseeing and monitoring business and management performance; approving the plans, policies, targets and strategies of the Company, including the corporate risk management and control policy and tax strategy, and ensuring their execution and implementation.

The members of Cepsa's Board of Directors, appointed for six-year terms, collectively bring their high professional caliber, diverse and distinguished backgrounds, and extensive business expertise in industry, finance and energy.

At Tuesday, December 31, 2019 and until the date of issuance of this report, the composition of the Board of Directors was as follow:

Mr. Musabbeh Alkaabi
Chairman

Mr. Marcel van Poecke
Vice-chairman

Mr. Philippe Boisseau
Chief Executive Officer

Ms. Alyazia Alkuwaiti
Member

Mr. Saeed Almazrouei
Member

Mr. Bakheet Alkatheeri
Member

Mr. Marwan Naim Nijmeh
Member

Ángel Corcóstegui Guraya
Member

Mr. Bob Maguire
Member

Mr. Joost Dröge
Member

Ignacio Pinilla Rodríguez
Company Secretary

Mr. José Téllez Menchén
Vice-Secretary (Non-Director)

The two Board Committees have the following duties and responsibilities:

Audit, Compliance and Ethics Board Committee: oversight the process of preparing and presenting the required financial information and submitting recommendations or proposals to the Board of Directors aimed at safeguarding its integrity, as well as for overseeing the effectiveness of internal control, internal audit and risk management systems, including the risks associated with the processing of financial information. To assist it with the performance of its duties, the ACE Committee relies on three operating committees: the

Audit Operating Committee, the Compliance and Ethics Operating Committee and the Risk Control Operating Committee, along with the collaboration of the Internal Audit, Compliance and Corporate Risk Department.

Nomination and Compensation Board Committee: analyzes, reports and proposes the compensation policy for Cepsa's Board members and Executives, and formulates proposals to the Board on the decisions to be adopted in cases of conflicts of interest.

e. Internal Control System over Financial Reporting

Roles and responsibilities

The responsibility model of the internal control over financial reporting system (hereinafter, ICFS) of Compañía Española de Petróleos, S.A. and subsidiaries (hereinafter, "Cepsa or Group") is based on the following governing bodies and functions that develop, maintain and oversee the process of preparing the Group's financial information:

Board of Directors: The Board is responsible for determining the Company's tax strategy, risk management and control policy, including tax risk and the oversight of internal reporting and control systems, and is ultimately responsible for ensuring an internal control environment that favors the generation of reliable, complete and timely financial information. It has delegated to the Audit, Compliance and Ethics Board Committee (hereinafter, the ACE Committee) the oversight of the internal information and control systems.

The Audit, Compliance and Ethics Committee: As indicated in the "Corporate Governance" section, among the functions of the Committee is responsible for overseeing the effectiveness of the Internal Control System.

The Audit Operating Committee is responsible for overseeing the process of preparing and presenting economic and financial information and the correct application of accounting criteria, as well as overseeing the internal control over financial reporting system, among other things. This Committee is made up of the Chief Financial Officer (CFO), the Chief Operating Officer (COO), the General Counsel and the Director of Internal Audit, Compliance and Corporate Risk, who acts as chairman, while the head of internal audit acts as secretary.

Responsibility for the design and review of the organizational structure at the senior management level is entrusted directly to the Board of Directors, through the Nominations and Compensation Committee, which must ensure that there is an adequate segregation of duties and that adequate coordination mechanisms are established between the different areas. The senior managers, together with the Human Resources Department, carry out the deployment in their respective areas. The organizational structure is available on the intranet for the information of all employees.

All the businesses and functional areas are relevant for internal control over financial reporting (ICFR), with the Economic-Financial area playing a key role, being responsible for the preparation, maintenance and updating of the various procedures that cover its own operations, in which the tasks it performs are identified, as well as the persons in charge of their execution.

Cepsa has an internal control over financial reporting (ICFR) assessment model and the Internal Audit, Compliance and Corporate Risks Department is responsible for evaluating its effectiveness on an annual basis. The internal audit function is carried out in accordance with international standards for the professional practice of Internal Audit, and has the Quality Certificate granted by the International Institute of Internal Auditors.

Policies and Procedures

Code of Conduct and Ethics

Cepsa has a Code of Conduct and Ethics (hereinafter, "the Code") approved by its Board of Directors in 2017, which is periodically reviewed and updated. The Code is completed with compliance policies also approved by the Board of Directors.

The Code is applicable to all directors and employees of Cepsa and of those subsidiaries over which Cepsa has management control, regardless of their professional relationship or type of employment contract.

Cepsa's values serve as the foundation for employees' conduct in the decision-making process and in the development of the operations carried out in all the countries where Cepsa operates, always under the principles of transparency, integrity, honesty, respect and equality and always in accordance with the law and the Code of Conduct and Ethics.

This is expressly stated in the guidelines for conduct in the Code and in the compliance policies that develop it:

- Cepsa undertakes to be transparent in its operations, complying with regulations in force applicable to its activity in each country and territory where it operates.
- Employees have the obligation to:
  - Record in Cepsa's books the business and financial operations in a timely and accurate manner and always complying with international financial reporting standards.
  - Properly oversee the activities under their responsibility and not evade controls.
  - Maintain the control system Cepsa has implemented to guarantee compliance with internal regulations and standards, as well as to provide reasonable assurance on the financial and non-financial information on which to base internal and external decisions.
- Express rejection of fraud, corruption and bribery. Cepsa, S.A. has been certified by ISO37001 since 2018.

The Code, and the policies that support and supplement it, are available on Cepsa's intranet and website. Likewise, training programs are periodically established to ensure that employees are aware of them.

Complaint channel

A confidential reporting channel is available to communicate or report any conduct that may involve the commission of any irregularity or any act contrary to the law or the rules of conduct of the Code of Ethics and Conduct, as well as to ask questions about any matter related to regulatory compliance. In order to submit a complaint through this channel it is not necessary for the complainant to identify himself or herself. Cepsa firmly upholds its commitment not to retaliate against any employee who, in good faith, makes a complaint.
The processing of such inquiries and notifications is the responsibility of the Ethics and Compliance Office, which will respond to the notifications and periodically prepare a report to be submitted to the ACE Committee.

Accounting standards related to the ICFR

The Accounting and Financial Reporting Department, which reports to the Economic and Financial Department, is responsible for keeping accounting policies up-to-date and transmitting them to the staff involved in preparing the financial information.

To this end, the "Accounting Policies Manual" has been prepared, which serves as a reference for setting the guidelines and actions in the field of accounting records, as it includes the accounting policies that must be followed to make the accounting allocations and to prepare the Individual and Consolidated Financial Statements and Annual Accounts in order to guarantee a true and fair view of the equity, financial situation, results of operations, changes in equity and cash flows. The updates, if any, that are carried out periodically, are made available to the employees to whom they apply through. The aforementioned Manual and its updates are mandatory for all Cepsa companies in their reporting for the preparation of the consolidated financial information.

Likewise, the Accounting and Financial Reporting Department maintains a smooth and effective communication flow with the people in charge of accounting for the Group's main operations. The preparation, review and approval of the financial information with standardized formats is established by the Accounting and Financial Reporting Department.

The regulations are disseminated via the Intranet and are available to all employees.

Training

The personnel directly or indirectly involved in the preparation and review of financial information, as well as in the assessment of the ICFR by the Economic-Financial Department and the Internal Audit, Compliance and Corporate Risk Department, receive periodic training on accounting standards, auditing, internal control and risk management in accordance with their responsibilities. It should also be noted that various conferences, seminars and forums in the accounting, tax and internal audit fields should also be noted.

Internal Control System for Financial Reporting

The control structure of the ICFR takes as a reference the components of the COSO Model (Committee of Sponsoring Organizations of the Treadway Commission) contained in the Internal Control-Integrated Framework report (2013). Likewise, the guidelines established in the report "Internal Control over Financial Reporting in Listed Companies" prepared by the Working Group on Internal Control over Financial Reporting (WGIC) of the CNMV (2010) are taken into consideration for the information to be transferred to the markets.
The process of identifying and evaluating the risks involved is carried out in accordance with the provisions of the Internal Control Manual following the COSO methodology. The Internal Audit, Compliance and Corporate Risk Department analyses, at least annually, the processes in which the financial information is generated in order to identify the possible risks of error, in relation to attributes such as validity, integrity, valuation, cut-off presentation and recording.
In this regard, the model configures a series of critical control objectives, the achievement of which, without exception, must make it possible to ensure reliability and transparency in the process of preparing financial information. This achievement is intrinsically linked to the "Control Activities" being efficient in all their terms throughout their execution in each of the processes. The defined control structure is determined on the basis of three categories of controls:
General Controls- These are the pillars on which the ICFR is based. They are cross-departmental controls, with a direct effect on the organizational and process structure. At the end of the 2019 financial year, the number of general controls within the scope of the ICFR was 44.

Process controls - These are controls over the operating processes that are integrated into each of the main cycles and sub-cycles that make up the ICFR processes, ensuring the reliability and transparency of the financial information. At the close of the 2019 financial year, the number of key process controls within the scope of the ICFR was 250.

General controls over information systems - Information systems are configured to support the processes of preparing, processing and extracting financial information. Accordingly, Cepsa has an information security policy and is ISO27001 certified. In addition, the general computer controls (hereinafter "GCC") provide a control framework aimed at providing a reasonable level of security over the information systems that support financial reporting, guaranteeing, as much as possible, the confidentiality, availability and integrity of the information. At the end of the year, there were 25 GCCs.

Likewise, the information systems control objectives, the need to implement an adequate segregation of functions is established, an indispensable requirement in the effective and efficient operation of an IFRS, while it is vitally important to be able to ensure a perfect distinction between who executes the actions associated with the processing of financial information, and who has to review and/or approve them.

Supervision model of the internal control over financial reporting system

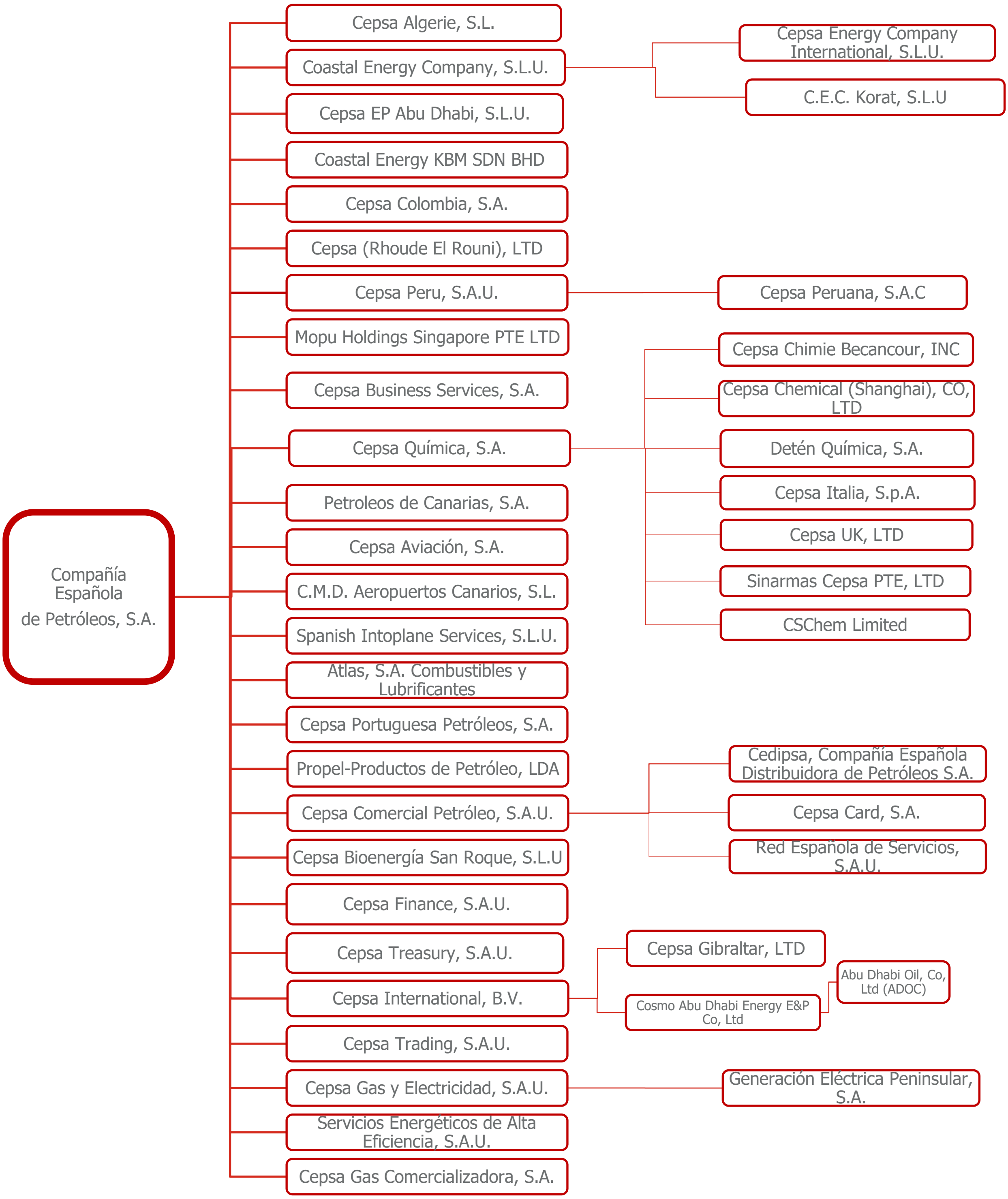
The oversight of the model is accomplished through the following actions:

- Reviewing the design of the controls allows confirmation of the validity and validity of the description of the controls by those responsible for them, allowing the necessary updates to be identified.
- Carrying out the assessment of the effectiveness of existing controls. Their scope and periodicity depend on the importance of the associated risk and the effectiveness demonstrated by the controls.
- Certification of the ICFR by each process owner; certification of the ICFR, by the financial and business managers, of the individual Annual Accounts; and finally, Certification, by the Chief Financial Officer (CFO) and Chief Executive Officer (CEO), of the Consolidated Annual Accounts.
- Effective oversight by the ACE Committee, in relation to the ultimate control over the ICFR model, delegated by the Board of Directors, and implemented through the functions of the Internal Audit, Compliance and Corporate Risks Department.
- Report on the weaknesses and deficiencies identified, creating corrective actions to solve them, establishing the mechanisms for their follow-up and assigning the necessary resources for their fulfillment.

Additionally, the External Auditor issues an independent assessment on the effectiveness of the internal control over financial reporting (ICFR) system. The External Auditor participates in the meetings of the ACE Committee to explain aspects of the audit reports and the work performed by the audit team, including those tasks performed to ensure the effectiveness of internal control over financial reporting. The external auditor is required to inform the ACE Committee on any significant deficiencies and material weaknesses identified in internal control. To this end, the External Auditor has access at all times to Management and to the Chairman of the ACE Committee.

f. **Group companies and business lines**

The main entities comprising the CEPSA Group are shown below:



And a world map showing where we operate:

As well as the grouping of the most relevant Group companies by business segments:

EXPLORATION & PRODUCTION

Exploration & Production

- Cepsa Algerie, S.L.
- Cepsa E.P Abu Dhabi, S.L.U.
- Cepsa Colombia, S.A.
- Cepsa Perú, S.A.U.
- Cepsa Peruana, S.A.C.
- Cepsa (Rhourde El Rouni) Limited
- Cepsa Energy Company International, S.L.U.
- Coastal Energy KBM SDN, BHD
- Mopu Holdings (Singapore) PTE, LTD
- Coastal Energy Company Khorat, LTD
- Cosmo Abu Dhabi Energy Exploration & Production CO., LTD
- Abu Dhabi Oil Co. Ltd. (ADOC)

REFINING

Refining

Trading

Gas

Power

- C.M.D. Aeropuertos Canarios, S.L.
- Cepsa Aviación, S.A.
- Petróleos de Canarias, S.A.
- Spanish Intoplane Services, S.L.U.
- Cepsa Trading, S.A.U.
- Cepsa Gas Comercializadora, S.A.
- Cepsa Gas y Electricidad, S.A.U.
- Generación Eléctrica Peninsular, S.A.
- Nueva Generadora del Sur, S.A.
- Servicios Energéticos de Alta Eficiencia, S.A.U.
- Suresa Retama, S.L.U.

MARKETING

Network

Direct Sales

Aviation

Lubricants

Asphalts

L.P.G.

Búnker

- Cepsa Comercial Petróleo, S.A.U.
- Cedipsa, Compañía Española Distribuidora de Petróleos S.A.
- Cepsa Portuguesa Petróleos, S.A.
- Atlas, S.A. Combustibles y Lubrificantes
- Cepsa Marine Fuels, DMCC

PETROCHEMICAL

LAB-LAS

Phenol-Acetone

Solvents

Alcohol

- Cepsa Química, S.A.
- Cepsa Chimie Bécancour, INC
- Detén Química, S.A.
- Cepsa Química China, S.A.
- Cepsa Chemical (Shanghai), Co, LTD
- Cepsa U.K., LTD
- Cepsa Italia, S.p.A.
- Sinarmas Cepsa PTE, LTD
- CSChem, Limited

CORPORATION & SUPPORT

Corporation & Support

- Cepsa Business Services, S.A.
- Cepsa International, B.V.
- Cepsa Treasury, S.A.U.
- Cepsa Finance, S.A.U.

g. Strategic bases

The Group strategy is based on and driven by the 2020-2024 long-term business plan and "Cepsa 2030", a strategic roadmap for the year 2030.

We will maintain our main objectives and strategic commitments firmly for the 2020-2024 period:

- maximizing profitability for the shareholder
- maintaining financial soundness
- achieving sustained long-term growth

External factors condition the present and future development of our activity. That is why we set a priority objective for ourselves that we will achieve with the implementation of strategic actions in each business unit.

External factors:

- Volatility of crude oil prices.
- Slow recovery and stabilization of demand for petroleum products
- Refining overcapacity in Europe
- More requirements / changes in regulations
- Geopolitical situation
- Technological developments

Priority objectives:

- Replacement of reserves and strengthening of our position in key regions
- Continuous improvement in efficiency of processes and optimization of our operations
- Adapting the portfolio to include products of higher added value.
- Technological innovation
- Management regulatory impact
- Expansion of business to new markets, both domestic and international

Strategic actions:

- Optimization of costs.
- Investments adapted to the price environment.
- Possible merger and acquisition transactions
- Redesigning our product portfolio to manufacture products with greater added value and more demand
- Exploring international opportunities
- Progressive entry to the market for renewable energies.

As for Cepsa 2030, it is rooted in the Group's Mission of providing the energy that every reality needs, our Vision of being a global energy company of choice, and our Values. Cepsa's 2030 strategy is based on three basic pillars:

1. An exhaustive analysis of the energy outlook until 2030 based on projected demand included in our "Cepsa Energy Outlook 2030" report.

2. Our strengths and ability to continue developing new capacities required by our industry in the future.
3. The vision of our shareholders.

The strategic goals set and our differential approach are the following:

- Robustness: being a top integrated and balanced energy player, focused on achieving our targets.
- Growth: thanks to our privileged access to high-growth markets in MENA (Middle East and North Africa) and LATAM (Latin America), we are uniquely positioned to capture value from new energy trends.
- Leadership: we strive to be a top quartile performer in terms of operational excellence in each of our businesses.
- Maximize value: through delivering solid economic and financial results and sustainable value creation.
- Agility: we are an agile Company in executing our strategies and flexible in a constantly changing industrial context.

h. Responsible business

Mission

We are present in all stages of the value chain for the oil and gas industry, involving more than 10,100 professionals and presence in four continents.

Our process for continuous improvement leads us to search for new objectives and challenges constantly, maintaining a firm commitment to the maximum satisfaction of the client, adapting the energy provided to their needs.

Vision

We are an integral energy company, technically excellent, modern, innovative, and with adaptive capacity. The CEPSA Group was consolidated as a reference group at a domestic level and our objective is to attain an important position in the global energy markets. This vision is realized applying the fundamental values associated with our brand:

- **Security**: The security and well-being of people is one of our priorities for both employees and clients, preventing and minimizing risks at our installations and in the environment in which we operate. We aim for excellency as well as spreading the value of security beyond the working environment.

- **Sustainability**: The Company is committed to maximum respect for protection of the environment and communities in the areas where we are present.

- **Continuous improvement**: Developing and promoting talent and knowledge. Innovating processes, assuming new challenges, and striving for excellence, thus showing an open attitude toward change.

- **Leadership:** The Group defends its interests audaciously and ambitiously, but also in an honest and wholesome manner, showing commitment to excellence and continuous collective learning.

- **Solidarity**: Since we are a team with global interests, we maintain a positive attitude while working and thereby manage to create value through the collaboration of our professionals amongst themselves and with our clients and suppliers.

Code of Ethics

Additionally, as indicated in the point related to the Internal Control System over financial information, the Cepsa Group has a Code of Conduct and Ethics, being mandatory for all the people that make up the company.

2. Business outlook

a. Macroeconomic environment

The results of CEPSA Group's businesses for the reported periods are highly correlated to certain macro factors, which are as follows:

- Global environment
- Price of Brent crude oil
- Supply and demand for petroleum products
- Regulations
- Refining margins
- $/€ exchange rate

Global environment

The International Monetary Fund in its January 2020 report "World Economic Outlook" estimates the growth of the world economy in 2019 at 2.9% and forecasts growth for 2020 at 3.3%, with these figures being a downward revision since its last publication in October. These downward revisions could be enhanced by risks such as various geopolitical tensions, highlighting recent tensions between the US and Iran, as well as the worsening of US relations and its trading partners. On the other hand, there has also been favorable news, such as the lower risk of a no-deal Brexit or positive news about trade negotiations between the US and China.

In the eurozone, the economy is estimated to grow 1.2% in 2019, although this will rise to 1.3% in 2020 due to expected improvements in external demand. Economies like Germany have seen their growth projections decline for 2020.

With regard to Spain, the International Monetary Fund has revised 2020 projections downward by 0.2% with respect to the third quarter of the year, projecting an economic growth of 1.6% for 2020, 0.4% less than in 2019. This slowdown in economic growth is mainly due to decreased domestic demand and exports in 2019. The Bank of Spain expects GDP to stand at 2% in 2019—four tenths lower than in 2018—but grow at a rate above the eurozone average, although this rate will slow in subsequent years (estimated growth of 1.7% in 2020).

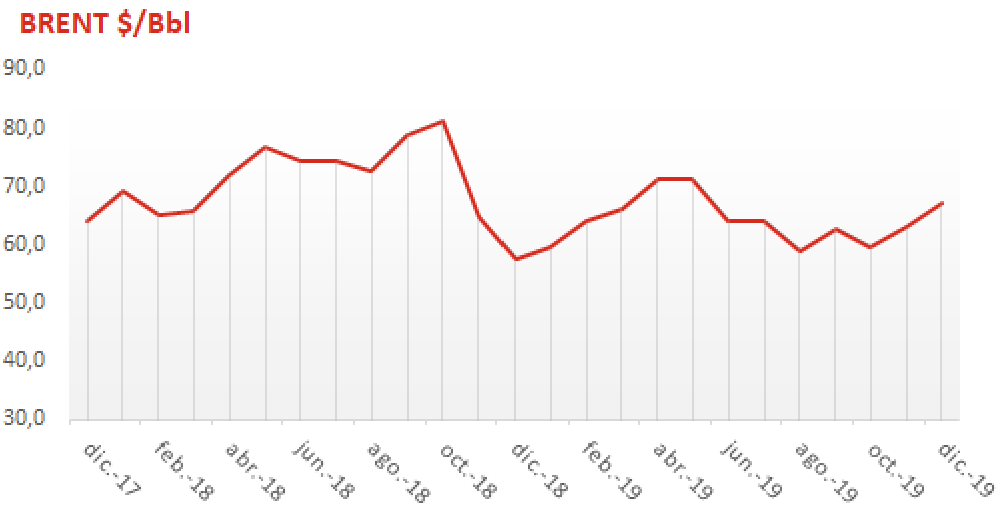
Sector environment

Price of crude (Brent)

The price of crude oil has a crucial impact on oil and gas companies, especially affecting exploration and production activities.

The price of Brent crude, a quality reference in Europe, has moved by a narrow margin during the year, reaching an average of $64.3/bbl in 2019, compared to $71.0/bbl in 2018. Despite the rally in April, mainly due to supply cuts, oil prices have fallen as a result of higher production in the United States and moderate growth in the global economy. In response to this fall in prices, OPEC and Russia agreed to extend the production cuts until March 2020. Thus, at the end of 2019, the price of crude oil has reached a price of over $65/bbl.

The changes in Brent prices over the last two years can be seen below:



Demand

The economic growth experienced by the world economy during the 2015-2018 period, accompanied by a low-price scenario, accelerated global growth in crude demand. However, slowing economic growth has caused growth in global demand in 2019 to decline and it will continue to slow down in the medium term, according to OPEC forecasts. In addition, the entry into force in January 2020 of the new IMO regulation that limits the amount of sulfur contained in the fuel of ships may also have implications for demand.

Quantitatively, global demand for petroleum during 2019 (according to OPEC) amounted to an average of 99.9 million barrels per day (hereinafter "MMBD"), compared to 99.2 MMBD in 2018.

Supply

In 2019, global crude supply declined slightly from 2018. Among other reasons, this decline in supply was due to Venezuela and Iran continuing to lose production amid geopolitical tensions in the Middle East, mainly due to the attack in September on oil installations in Saudi Arabia, which prevented the production of 5.7 million barrels a day for several days (equivalent to 5% of global production). On the other hand, the United States continued to increase its production.

Regulations

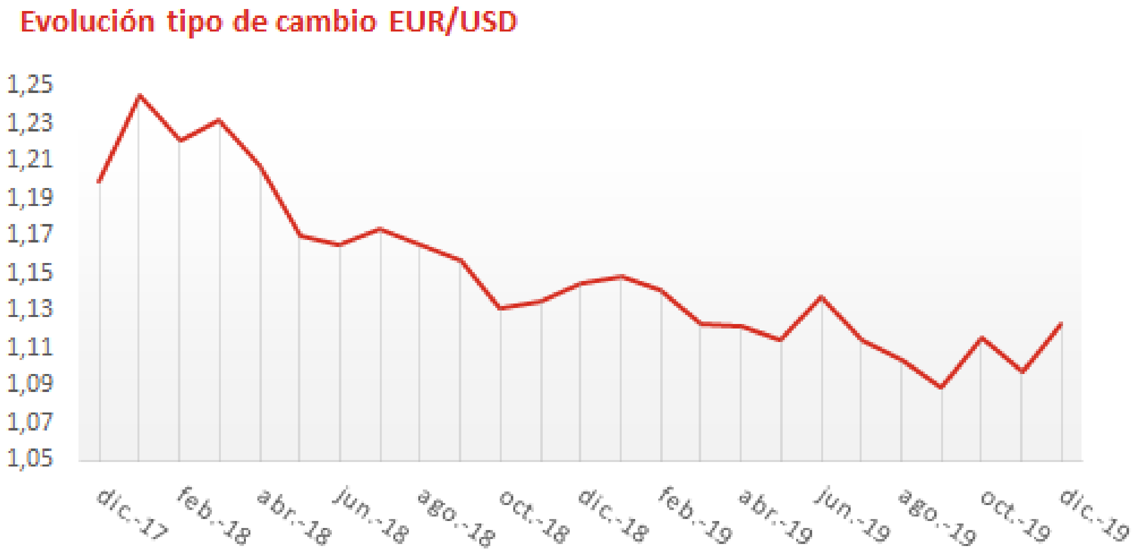
Regulatory issues are becoming an even more influential factor in the oil and gas industry than up until now, mainly in developed countries where environmental demands and technical specifications with respect to products are increasingly restrictive. The planned changes in the marine fuel regulations of the International Maritime Organization to be implemented in 2020 are a major challenge for some refineries that will have to adapt their production mix.

Refining margins

In 2019, the reduction in the refining margin compared to 2018 has intensified, with a significant incidence of crude spreads (premiums and freight) that have had an upward trend, accompanied by a decline in medium and heavy distillates, partially offset by higher prices of fuel.

Exchange rate

During 2019, the euro/dollar exchange rate has not shown very much volatility. After reaching lows in September 2019, it has recovered to reach $1.12/€ by year-end.



b. Significant events for the period

- At the beginning of 2019, Cepsa signed a new agreement with Masdar, Abu Dhabi's Future Energy Company, with the aim of growing both companies' renewables portfolios, focusing on wind and photovoltaic solar technologies, in Spain and Portugal, where Cepsa plans to develop a capacity of 500-600 MW over the next five years. Accordingly, the joint venture Cepsa Masdar Renovables was incorporated, with each party holding a 50% stake.

- At the beginning of 2019, we started the oil production phase at our sites at Sarb & Umm Lulu in Abu Dhabi, two of the 20 largest developing sites in the world. From that moment the oil is commercialized on a regular basis. The permanent surface installations of the Umm Lulu field are still under construction, which are expected to be completed in the coming months.

- A number of key investment projects were undertaken in 2019 in the Refining segment, noteworthy being: the Aromax Revamp Phase II, aimed at increasing the feed flow rate and establishing the appropriate conditions for extending the minimum lifecycle of the catalyst; the Sphere Project at the La Rábida Refinery, providing greater storage capacity and new loading facilities for the spheres and delivering more operational flexibility to the business; and the Hydrocracker Revamp, enhancing the efficiency and lifecycle of the Hydrocracking Unit catalyst.

- In April, Cepsa earned the "investment grade" rating from the three leading international credit rating agencies. In addition, in May, Cepsa successfully completed its first bond issue worth 500 million euros

- In April 2019, Mubadala and The Carlyle Group reached agreement on the acquisition of a significant holding in Cepsa. Under this agreement, Carlyle acquired a holding of 37% in Cepsa, while Mubadala remains the majority shareholder. The transaction is based on a valuation of the company of $12 billion, and was completed October 15, 2019.

- As part of the previous transaction, Cepsa distributed its 42% stake of Medgaz, S.A. to Mubadala as a dividend in kind. Commercial operations have not been affected, as Cepsa maintains the annual transport right of 1.6bcm (billions of cubic meters of gas), 20% of the gas pipeline's capacity.

- In June, Cepsa and Redexis reached an agreement to create the largest network of vehicular natural gas (VNG) refueling stations in Spain in a bid to broaden the supply of energy solutions and champion sustainable mobility.

- In July 2019, the creation of the RKF Group between Sonatrach and Cepsa Algerie took place for the development and exploitation of the Rhourde el Krouf (RKF) site, which will allow a complete redevelopment of a mature field, after 19 years in operation. The objective is to significantly increase crude oil production and produce liquefied petroleum gas (LPG) for the first time. Throughout the year, the FEED (Front-end engineering design) has been carried out and the drilling campaign preparation work that will take place from 2020 has been completed.

- In the third quarter of 2019, Cepsa started Trading operations in Singapore to increase its activity in Asia. The company is widening the scope of its Trading business with a new site in the largest financial hub in Asia, which it will use to access new markets and customers.

- Through Cepsa, IONITY opened its first ultra-fast recharge point in Spain. The facility, one of the fastest in Spain, is located in Pallejà (Barcelona) and has four recharge points with a capacity of up to 350 kW each. CEPSA supplies 100% renewable energy to these recharge points.

- In 2019, Cepsa has undertaken a project to begin equipping its Service Stations with solar panels in order to be self-sufficient in terms of electricity. In a pilot phase of the program, three service stations have been chosen, located in Marbella (Málaga), Arganda del Rey (Madrid) and Tenerife.

- Since the third quarter of 2019, Cepsa has marketed marine fuels and lubricants adapted to the IMO 2020 standard. To do so, the company has developed several high-quality products, designed at our Research Center and manufactured in our refineries.

c. Analysis of consolidated results

The consolidated financial statements for the period ending on Tuesday, December 31, 2019 were prepared applying the criteria established in the International Financial Reporting Standards adopted by the European Union (IFRS), mandatory for the preparation of the financial statements of certain groups of companies as stipulated by prevailing legislation in Spain.

With the presentation of Adjusted Results in addition to IFRS, more precise information is provided about the company's profitability and its operational efficiency, without taking into account certain non-recurring transactions which may have been recorded in a specific year and which could distort said results when comparing with previous years.

The figures reflecting the most relevant items in the results are as follows:

Key Indicators	Millions of euros		
Results	**2019**	**2018**	% variation
Revenue(*)	23,857	24,712	(3.5%)
EBITDA (IFRS)	2,004	1,896	5.7%
EBITDA (Adjusted to Clean CCS)	2,058	1,762	16.8%
NIAT (IFRS) attributable to parent company	820	830	(1.2%)
NIAT (Adjusted to Clean CCS) attributable to parent company	610	754	(19.0%)
Financial and patrimonial position	**2019**	**2018**	% variation
Capital Employed (IFRS)	8,807	8,632	2.0%
Equity attributable to shareholders of the parent	5,201	5,436	(4.3%)
Net Debt	3,507	3,089	13.5%
	2019	**2018**	% variation
Free Cash Flow	1,152	(758)	N/A
ROACE (Adjusted to CCS)	8.9%	12.5%	(28.7%)

(*) Includes excise tax on oil and gas charged on sales

Key indicators on the Group´s profit and loss

i) ***Revenue***

Revenue	2019	2018	% variation
	Millions of euros		
Exploration & Production			
from external customers	1,249	922	35.5%
Intersegments	(28)	48	
Refining			
from external customers	4,978	5,517	(9.8%)
Intersegments	7,427	8,250	
Marketing			
from external customers	12,519	12,988	(3.6%)
Intersegments	213	48	
Petrochemicals			
from external customers	2,407	2,647	(9.1%)
Intersegments	1,070	1,108	
Corporation			
from external customers	4	5	(20.0%)
Intersegments	64	64	
Total	***29,903***	***31,597***	***(5.4%)***
Total intersegments[1]	***(8,745)***	***(9,518)***	
Revenue[2]	***21,158***	***22,079***	***(4.2%)***
Excise tax on oil and gas charged on sales	**2,700**	**2,633**	**2.5%**
Revenue	***23,857***	***24,712***	***(3.5%)***

[1] Sales eliminated at consolidated scope
[2] *Excise tax on Oil and Gas* deducted

The Group's turnover (excluding excise taxes) has reached EUR 21,158 million, 4% lower than the same period in the previous year. This decline has been mainly due to the fall in the price of crude oil and finished products as well as a slowdown in domestic demand. In addition, the dollar has depreciated during the year against the euro (a significant part of sales are referenced to the dollar), and has been equally impacted by lower refining margins.

In the **Exploration and Production** area, the increase in turnover is mainly due to higher crude sales (20.8 million barrels in 2019 vs 14.1 million barrels in 2018). This increase is associated with the start of production of the Sarb and Umm Lulu fields in Abu Dhabi. This increase in sales has been partially offset by a lower average selling price ($64.0/b in 2019 versus $67.2/b in 2018).

In the **Refining** area, turnover from external sales has fallen 10% compared to 2018. This has been due on the one hand to a 4% drop in production, as well as to a drop in sales from 21.8 Mt in 2018 to 21.5 Mt in 2019. Trading activity was slightly lower than in the previous year. In Electricity, production has increased, although electricity pool prices have been lower (€47.7/Mwh in 2019 compared to €57.3/Mwh in 2018). On the other hand, in the marketing of natural gas, sales increased from the previous year (+11%), and the margins were lower due to oversupply in the market.

In the **Marketing** area, the decrease has been due to lower sales in the channel of Direct Sales, and has been offset by higher Asphalt sales. However, despite decreased sales in the Marketing segment, the increased margins and cost containment have led to better results. The Bunker unit's turnover has fallen 15%, due to lower activity in international ports.

In the **Petrochemicals** area, sales to external customers have been 9% lower than in 2018, due to the global oversupply and consequent narrowing in international margins of some petrochemical products.

ii) IFRS EBITDA and Adjusted EBITDA

EBITDA (Adjusted to Clean CCS)	2019	2018	% variation
	Millions of euros		
Exploration & Production	963	649	48.3%
Refining	433	578	(25.0%)
Marketing	463	344	34.6%
Petrochemical	246	243	1.4%
Corporation	(48)	(52)	(7.5%)
Total	***2,058***	***1,763***	***16.8%***

Millions of euros

2019	EBITDA (Adjusted)	CCS adjustment	Non-Recurring Items	EBITDA (IFRS)	EBITDA (IFRS) % on Total
Exploration & Production	963	-	-	963	48.1%
Refining	433	(37)	-	396	19.8%
Marketing	463	(20)	-	443	22.1%
Petrochemical	246	(9)	-	238	11.9%
Corporation	(48)	-	12	(36)	(1.8%)
Total	***2,058***	***(66)***	***12***	***2,004***	***100.0%***

Millions of euros

2018	EBITDA (Adjusted)	CCS adjustment	Non-Recurring Items	EBITDA (IFRS)	EBITDA (IFRS) % on Total
Exploration & Production	649	-	-	649	32.4%
Refining	578	125	-	703	35.1%
Marketing	344	5	-	349	17.4%
Petrochemical	243	6	-	249	12.4%
Corporation	(52)	-	(2)	(54)	(2.7%)
Total	***1,763***	***136***	***(2)***	***1,897***	***100.0%***

The main difference between IFRS EBITDA and Adjusted EBITDA has to do with the difference between the Group inventories measured at their Replacement Cost (Current Cost of Supplies), which is a criteria employed in the sector to prepare segment disclosures and management information for the Board of Directors, and at their Unit Average Cost (UAC), which is a method used to prepare Annual Financial Statements under international regulations (see Note 6 "Information by segments" to the Consolidated Financial Statements). In 2019, this difference was 66 million euros and in 2018, it was 136 million euros.

The contribution of the other non-recurrent elements at the adjusted EBITDA level has not been significant in 2019 or 2018.

Consolidated adjusted EBITDA increased 17.9% to 2,058 million euros (1,762 million euros in 2018). This increase has been due to the good performance of the Exploration and Production business, mainly due to the start of operations of the SARB and Umm Lulu fields, as well as the Marketing business for the best results of the network of service stations, from the bioenergy business and the increase in sales volumes and margins in the asphalt business.

Financial income

The Group's net financial income amounted to -88.1 million euros, compared to -120.0 million euros in the previous year.

The finance cost of net borrowings reached 121 million euros, compared to 104 million euros in the previous year. This increase has been due, on the one hand, to the extension of maturities and new lines (including a bond issuance) which in general has led to a slight increase in costs and, on the other, to the financial costs associated with the entry into force of IFRS 16.

The line of "Other Financial Income From Operations" presents a positive result of 32.9 million euros, compared to the 15.6 million euros of loss of the previous year. This positive result is mainly due to dividends worth 26 million euros from Medgaz which is no longer part of the scope of consolidation.

Companies accounted for using the equity method

The results for companies accounted for using the equity method reached a loss of 49.1 million euros compared to the profit of 23.5 million euros as of September of the prior year. This loss is mainly due to the impairment in the Goodwill of the company Abu Dhabi Oil Co., Ltd (ADOC).

iii) IFRS Net Profit and Adjusted Net Profit

Lastly, Adjusted Net Income amounts to 610.3 million euros, 18.9% lower than in 2018 (753.7 million euros).

This decrease has been mainly due to the Refining sector, which was negatively affected by lower margins in 2019.

	Millions of euros		
NIAT (Adjusted to Clean CCS) attributable to parent company	**2019**	**2018**	% variation
Exploration & Production	194	232	(16.5%)
Refining	124	258	(52.0%)
Marketing	221	189	16.8%
Petrochemical	107	111	(3.4%)
Corporation	(35)	(37)	(3.8%)
Total	***610***	***754***	***(18.9%)***

Millions of euros

2019	**NIAT (Adjusted to Clean CCS) attributable to parent company**	**CCS adjustment**	**Non-Recurring Items**	**NIAT (IFRS) attributable to parent company**	**NIAT (IFRS) % on Total**
Exploration & Production	194	-	(157)	37	4.5%
Refining	124	(27)	422	519	63.2%
Marketing	221	(17)	(4)	200	24.4%
Petrochemical	107	(5)	(11)	91	11.1%
Corporation	(35)	-	9	(26)	(3.1%)
Total	***610***	***(49)***	***259***	***820***	***100.0%***

Millions of euros

2018	**NIAT (Adjusted to Clean CCS) attributable to parent company**	**CCS adjustment**	**Non-Recurring Items**	**NIAT (IFRS) attributable to parent company**	**NIAT (IFRS) % on Total**
Exploration & Production	232	-	(14)	218	26.2%
Refining	258	94	-	352	42.4%
Marketing	189	3	-	192	23.2%
Petrochemical	111	2	(7)	106	12.7%
Corporation	(37)	-	(2)	(38)	(4.6%)
Total	***754***	***99***	***(23)***	***830***	***100.0%***

The adjusted post-tax result of the **Exploration and Production** business in 2019 has decreased 16.5% from the previous year, totaling 194 million euros compared to 232 million euros in 2018.

This drop in revenue has been mainly due to lower results in Colombia because of lower sales prices and higher depreciations and taxes, as well as the still limited contribution from SARB and Umm Lulu (since these fields have not yet reached their "plateau" of production) as a result of the high depreciation and high taxes and royalties in Abu Dhabi.

The adjusted post-tax result of the **Refining** business during 2019 was 124 million euros, compared to 258 million euros in 2018, 51.9% lower, mainly due to lower refining margins, as well as higher supply costs due to higher premiums for high sulfur crude.

The adjusted post-tax result of the **Marketing** business in 2019 was 221 million euros, greater than the 190 million euros in 2018 mainly due to the strong performance in the network of service stations, the bioenergy business and the increase in sales volumes and margins in the asphalt business.

The adjusted net result of the **Petrochemicals** business in 2019 was 107 million euros, a figure similar to 2018.

In the LAB line—the raw material for biodegradable detergents in which Cepsa is the leader at the Global level—the results have been 10% higher than in the previous period.

In the Phenol-Acetone line—raw materials for the production of state-of-the-art plastics, where Cepsa is number 2 globally—the results have dropped 57% compared to those of the previous year, mainly due to lower Phenol sales and declining Acetone margins.

In the Solvents line, the results are in line with those of the previous year.

Key indicators on the Group's financial situation and equity

The **Group's Capital Employed** stood at the end of 2019 at 8,807 million euros, compared with 8,632 million euros at the end of 2019, in line with 2018. The breakdown by business segments is as follows:

Millions of euros

Capital Employed IFRS by business segments	Exploration & Production	Refining	Marketing	Petrochemicals	Corporation	Total
Capital Employed at 12/31/2019	2,553	3,668	1,236	1,297	52	**8,807**
Capital Employed at 12/31/2018	3,051	3,605	925	1,103	(52)	**8,632**
Variation	(498)	63	311	194	104	**175**

Capital and reserves attributed to the parent at December 31, 2019 amounted to 5,201 million euros, thus financing 59% of capital employed at that date.

Net debt of the Group has reached 3,507 million euros at December 31, 2019, compared to 3,089 million euros at December 31, 2018, due to first IFRS 16 implementation impact (€761M). In this way, the leverage ratio is as follows:

Thousands of Euros

		12.31.2019		12.31.2018	
Consolidated Net Debt		3,506,523		3,089,472	
	=		= 1.70		= 1.75
Adjusted EBITDA (last 12 months)		2,058,011		1,762,307	

Key indicators. Cash flows

Below we present the cash flows for the period, showing the capacity of our business to generate free cash flow in 2019 and 2018:

Thousand of Euros

	2019	2018
EBITDA IFRS	**2,004,008**	**1,896,306**
Changes in operating working capital	396,090	(504,132)
Dividends received	79,251	70,428
Other operating cash flows	(400,452)	(206,724)
Change in operating working capital	***2,078,897***	***1,255,878***
Payments for investing activities	(1,002,028)	(2,114,782)
Charges for divestments	75,415	100,813
Total cash flows used in investing activities	***(926,613)***	***(2,013,969)***
Free cash flow (excluding financial costs)	***1,152,284***	***(758,091)***
Dividends paid	(550,809)	(387,803)
Financial debt	(292,709)	845,198
Total cash flows from bank borrowings	***(843,518)***	***457,395***
Cash generated in the period	***308,766***	***(300,696)***

The Group's **EBITDA** increased 7% with respect to the prior period, reaching 2,004 million euros. This increase has been due to the good performance of the Exploration and Production business, mainly due to the start of operations of the SARB and Umm Lulu fields, as well as the Marketing business for the best results of the network of service stations, from the bioenergy business and the increase in sales volumes and margins in the asphalt business and IFRS 16 impact (144 million euros).

The **operating cash flow** amounted to 2,079 million euros, higher than the previous year mainly due to the positive variation in working capital at the end of the year and the start of production in the Abu Dhabi fields.

Investment cash-flow has declined considerably due to lower payments for investments with respect to 2018, when a 20% stake in two offshore fields in Abu Dhabi (SARB and Umm Lulu) was acquired for a period of 40 years, thanks to the awarding of a concession signed with ADNOC (Abu Dhabi National Oil Company).

As a result of the increase in operating cash flow and lower investments, **free cash flow before the cost of the debt and before dividends** was a profit of 1,152 million euros as at December 31, 2019, compared to a loss of 758 million as at December 31, 2018.

Key indicators. ROACES

The return on the Group's average capital employed is shown in the following adjusted ROACE:

Thousands of Euros

			12.31.2019		12.31.2018	
ROACE CEPSA Group Adjusted CCS	=	Adjusted Net Operating Profit After Taxes (average last 12 months) / Average Adjusted Capital Employed (without non-yield investments)	= 720,905 / 8,138,665	= 8.9%	845,056 / 6,769,931	= 12.5%

This ratio by business is shown in the following table:

ROACE Adjusted (CCS)	Exploration & Production	Refining	Marketing	Petrochemical	Total
ROACE CCS at 12/31/2018	11.5%	4.6%	18.1%	9.5%	8.9%
ROACE CCS at 12/31/2017	16.9%	8.9%	20.6%	11.9%	12.5%

(*) ROACE of Corporation segment is non an assessable ratio

d. Analysis of operational performance by business

Exploration and Production

The results of the area have been positively impacted by the efficiency and cost reduction programs launched in recent years.

In 2019, investment in Exploration and Production has been reduced to 212 million euros compared to 2018, after the significant investment in that year when 20% of the new SARB and Umm Lulu fields concession was acquired in Abu Dhabi. The contract is for 40 years.

Production has been 92.6 thousand b/d, 11% higher than in 2018, mainly due to the start of production at the fields in Abu Dhabi.

Similarly, sales have reached 20.8 million barrels, compared to 14.2 in the previous year, which is 46.6% higher.

By way of summary, the key business indicators have progressed as follows:

Key indicators	2019	2018	2017
Working interest production (thousands b/d)	92.6	83.4	92.0
Net entitlement production (thousands b/d)	76.5	58.4	65.0
Crude Oil Sales (millions of barrels)	20.8	14.2	13.5
Average realised crude price in $/b	64.0	67.2	52.6
Investments for the period (millions of euros)	212	1,659	170

Refining

In 2019, distillation of crude oil has remained at similar levels as those for the same period of the previous year, with an installed capacity utilization rate of 89%. This lower degree of use has been mainly due to the scheduled stoppage at the Gibraltar-San Roque refinery carried out to increase the capacity and conversion of the plant. An amount of 156.9 million barrels of crude oil have been distilled and 21.5 million tons of petroleum products have been produced. The distilled crude basket in the year had a differential in cost with respect to Brent reference crude of $0.28/b and an associated average freight cost of $1.03/b.

The margins of refining activity have undergone a significant decrease in 2019, impacted by the cracks of light and medium distillates in the Mediterranean. In this regard, Cepsa's refining margin indicator stands at 4.3 $/barrel in 2019 compared to 6.1 $/barrel in 2018.

During the year, further ongoing major investment effort have been made in the group's refineries, both aimed at improving the conversion and efficiency of the different production units, as well as improving safety and minimizing environmental impacts. The total investment in 2019 amounted to 469 million euros, 19% higher than in 2018: particularly important are those corresponding to the 'Bottom of the Barrel' project in the Gibraltar - San Roque Refinery, which will give it the ability to convert heavy inputs into higher value products, and to the optimization projects of the Phase II Aromatics Plant, and the optimization project of the hydrocracker catalyst of the La Rábida Refinery. A number of efficiency projects have also been completed under the CROP program.

Gas sales increased to 33,176 Gwh, 10.6% higher than the previous year, and electricity production to 3,587 Gwh, 60% higher than the previous year.

The Group has 2 refineries, 7 cogeneration plants and a combined cycle plant, and a wind farm in the province of Cadiz.

To summarize, the key indicators for the business have evolved as follows:

Key indicators	2019	2018	2017
Refining input (distillation) in Mb	156.9	160.9	154.7
Utilisation Rate Refineries	89%	91%	91%
Output (millions of tons)	21.49	21.81	21.36
Refining margin Indicator in Cepsa (USD/b)	4.3	6.1	7.5
Natural Gas Sales (GWh)	33,176	30,003	27,972
Electricity production (GWh)	3,587	2,242	2,809
Trading volumes (millions of barrels)	269	286	268
Investments for the period (millions of euros)	469	392	302

Marketing

This business area includes the sales through the network of service stations, the marketing of fuels through wholesale channels, the marketing of biofuels, the marketing of kerosene for the aviation market, the sale of fuels through the bunker activity, and the sale of lubricants, asphalts and liquefied petroleum gases (LPG). During the first nine-month of 2019, 20.7 million tons were marketed through these channels, a figure that is 6% lower than the same period of the previous year.

The Group operates a network of 1,806 service stations as of Tuesday, December 31, 2019, as well as 2 lubricant plants, 5 asphalt plants, 11 liquefied petroleum gas bottling plants, and is present in the main airports and Spanish ports.

Investments in 2019, which included the acquisition of several service stations, amounted to 107 million euros, in line with 2018. In addition, investments have been made for the maintenance of facilities and to strengthen the market share in the channels in which we are present.

By way of summary, the key business indicators have progressed as follows:

Key indicators	2019	2018	2017
Bunker sales (millions of tons)	5.3	6.2	5.7
Sales of fuels in other channels and other energy products (millions of tons)	15.4	15.7	16
Number of petrol stations	1,806	1,799	1,815
Investments for the period (millions of euros)	107	101	284

Petrochemicals

Total sales of petrochemical products reached 2.9 million tons, in line with volumes sold in the previous year.

The investments of the year amounted to 109 million euros, including the revamping project of the LAB plant in Puente Mayorga (Huelva).

CEPSA Group currently has 3 industrial plants in the LAB line located in Spain, Brazil and Canada, 2 for the Phenol-Acetone line (in Spain and China), one for the surfactant line (in Germany) and another in Indonesia for the manufacture of vegetable-based alcohols.

The key indicators for this segment have performed as follows:

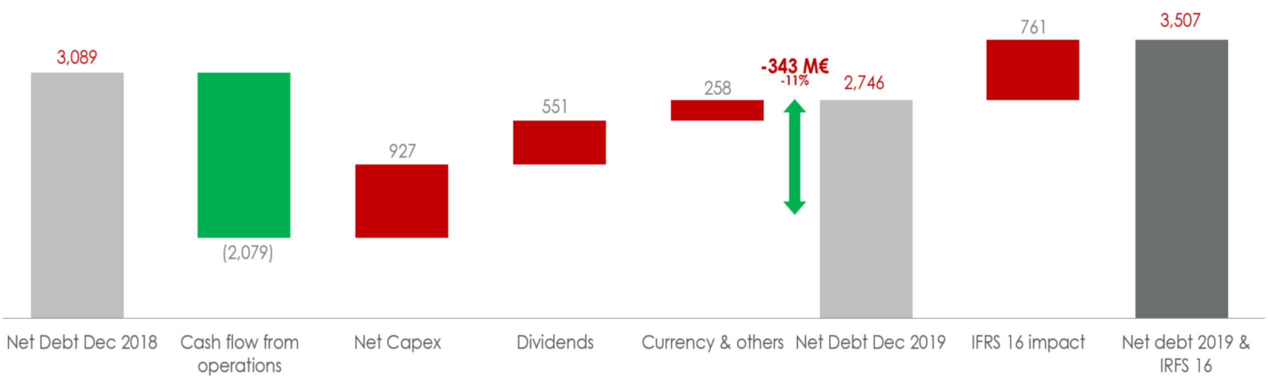
Key indicators	2019	2018	2017
Petrochemical products consolidated sales (millions of tons)	2.9	2.9	2.9
Investments for the period (millions of euros)	109	80	116

3. Liquidity and capital resources

a. Leverage

Adjusted net financial debt at December 31, 2019 decreased 11% to 2,746 million euros (including IFRS 16 impact, it is 3,507 million euros), compared to 3,089 million euros at December 31, 2018, mainly due to the cash generated during the exercise.

Net debt evolution Dec 2018 – Dec 2019



The Group's gearing ratio (including IFRS 16 impact), expressed as the ratio of net debt to debt plus own capital (capital employed), amounts to 39.8% at the end of the 2019 fiscal year compared to 35.8% at the 2018 year-end. This increase is consequence of IFRS 16 impact.

	2019	2018
	Thousands of euros	
Bank borrowings non-current	3,799,728	2,955,916
Bank borrowings current	267,955	380,434
Cash and cash equivalents	(561,160)	(246,878)
Net debt paid	***3,506,523***	***3,089,472***
Equity	***5,300,955***	***5,542,442***
Capital Employed IFRS	***8,807,478***	***8,631,914***
Net Debt/(net debt +Equity)	**39.8%**	**35.8%**
IFRS 16 impact in net debt	***760,526***	-
Net debt paid excluding IFRS 16	***2,745,997***	-
Capital Employed IFRS excluding IFRS 16	***8,046,952***	-
Net Debt/(net debt +Equity) excluding IFRS 16 impact	**34.1%**	**n/a**

b. Debt structure

The structure of the debt by interest rate and currency can be seen in Notes 18 and 30 of the Consolidated Financial Statements.

In accordance with the policy of minimizing the Company's financial risks, currency risk is mitigated by financing international businesses in their local or functional currency, mainly US dollars.

The Group's financing costs on December 31, 2019 amounted to 2.85% as compared to 2.60% for the same period in the previous year (see Note 18 to the Financial Statements).

CEPSA Group enjoys a sound position in terms of liquidity in December 2019, totaling 3,099 million euros (2,538 million euros of undrawn credit facilities plus 561 million euros of cash and cash equivalents), allowing it to handle the Group's debt maturities for the next 24 months.

CEPSA Group actively manages the maturities of its financial debt, which allows the Group to meet its ordinary and exceptional payment obligations, and also to undertake its growth projects.

The distribution by maturities of available balances is shown in the following table:

Liquidity maturity	Millions of euros
2020	487
2021	4
2022	5
2023	4
from 2023 on	2,039
Total	***2,538***
Cash and others equivalents	561
Total liquidity adjusted	***3,099***

Information on Cepsa's debt at the end of 2019 is shown in Note 18 of the Financial Statements.

c. Working capital

The breakdown of the working capital at December 31 is as follows:

	Thousands of euros	
	2019	**2018**
Working capital assets[1]	4,436,044	4,800,103
Working capital liabilities[2]	3,453,086	3,195,790
Working Capital	***982,958***	***1,604,313***

[1] Included inventories, trade and other receivables, other current financial assets, and other current assets

[2] Included trade and other payables, other current liabilities without the dividend pending pay

In the Group, the average payment period to suppliers during the year has been 24 days, below the legal limit of 60 days established by Law 15/2010 of July 5, in which measures to counter late payments in sales transactions are established. (Note 22 of the Consolidated Financial Statements).

d. Analysis of contractual obligations and off-balance sheet operations

The details of Cepsa's contractual obligations, off-balance-sheet operations and contingent liabilities are included in Note 34 of the Consolidated Financial Statements.

4. Risk management model

Risk Management is a major concern for the CEPSA Group at all levels. The Board of Directors, Management and other stakeholders share the view that poor risk management could destroy the Company's value, while good risk management can detect market positioning opportunities and increase shareholder value.

Following the Committee of Sponsoring Organizations of the Treaty Commission (COSO-ERM) and ISO 31000, Cepsa has developed an Integrated Risk Management System that defines the overall framework, principles and procedures to be followed, in order to identify, monitor, evaluate, efficiently manage and mitigate the risks of any nature facing the CEPSA Group.

The spectrum of risks to which the CEPSA Group is exposed can be broadly classified into the following four key risk categories:

a. **Strategic risks,** relating to general factors such as political, economic, socio-cultural, technological and environmental, as well as those related to the Group's strategic positioning and planning.
b. **Financial and Market Risks**, arising from volatility of prices for basic raw materials or commodities, from exchange rates, from interest rates, and from hedging and trading transactions, as well as those related to the management of liquidity and solvency, credit and counterparty risks.
c. **Operations and Infrastructures Risks,** associated with the efficacy and efficiency of operations, amongst which the most noteworthy are the supply of products, goods and services, transmission management, extraction and manufacturing-related processes, sales and marketing, the safety of personnel and installations, the respect for the environment, the human resources and information technologies.

d. **Regulatory and Compliance Risks**, relating to any lack of Ethical conduct, violation or failure to comply with applicable laws or regulations and violation or failure to comply with the Group's internal procedures and policies.

CEPSA Group's strategic and budgetary planning process has estimated the effect of potential risks on its businesses and performed a sensitivity analysis on the main variables, with the purpose of obtaining an integral vision of the impact.

A description of the main risks affecting CEPSA Group in its operations is as follows:

a. Strategic risk

Macroeconomic Risks

Many economies in the world, including many of those in which we operate, have experienced a slowdown and/or recession conditions over the last decade. These conditions were increased by the volatility of markets, credit and investment. The International Monetary Fund projects that world growth, estimated at 2.9% in 2019, will rise to 3.3% in 2020 and 3.4% in 2021; that is, a downward revision of 0.1 percentage points for 2019 and 2020 and 0.2 for 2021 compared with the figures presented in the October edition of World Economic Outlook. The IMF also notes that rising geopolitical tensions, particularly between the US and Iran, could disrupt the global oil supply, damage the attitude, and weaken already faltering corporate investment. This, coupled with the deepening of social unrest in many countries, could upset these forecasts by decreasing growth below projected levels.

Cepsa closely monitors key global macroeconomic indicators and incorporates them into its main decision-making process to anticipate potential market shocks.

Geopolitical Risks

The CEPSA Group has investments and assets, and is partially supplied with crude oil, in countries of emerging or transition economies that are usually subject to political and economic instability, legal uncertainty and security threats.

With the objective of managing this risk proactively, Cepsa monitors all countries in which it operates, following the performance of some key indicators defined for a series of categories of identified risk sources, amongst which is worth highlighting: safety, political stability, efficacy of governments, legal and regulatory environment, tax policy, and macro economy.

Changes in the regulatory framework in response to environmental threats and climate change

The CEPSA Group is subject to changes in the regulatory framework resulting from environmental and climate change threats in the countries in which we operate. Given the continued and growing attention to climate change and the global shift of economies away from coal and toward clean energy sources, we look forward to and are preparing for additional policy and regulatory changes designed to reduce greenhouse gas ("GHG") emissions, which we believe primarily affect our Refining and Petrochemicals segments (which are already subject to strict GHG emission reduction regulations). Additionally, while our Exploration and Production and marketing segments have not been affected by GHG emission reduction regulations, they could be impacted in the future by the implementation of market-induced voluntary measures or by new mandatory regulations.

We expect GHG emission costs to increase beyond 2020 and regulations to reduce GHG emissions to a greater geographical area than they are today. Uncertainty remains regarding the development of policies and regulations, including the objectives, mechanisms and sanctions to be established within the time frame of legislative change, the degree of global cooperation between nations and the homogeneity of measures to be taken in different geographical regions.

We are aware that our activities, consisting of energy supply and petrochemical solutions, are strongly affected by GHG emissions. That is why we are firmly committed to combating climate change.

We strive to reduce the GHG emissions generated by our activities to reduce our carbon footprint. We have established an Energy Efficiency Plan in production business units where the objective is to reduce energy use by achieving a reduction in GHG emissions. Cepsa is working on a carbon strategy and setting a target for 2030.

Risk of market competition, changes in demand and emergence of new technologies

Cepsa's products compete in markets where product differentiation is a major challenge and they face strong competition in all areas of business.

Our main competitors are other large oil and gas companies that compete with us in the marketing segment in Spain and Portugal and our other businesses internationally. We must also address new players in the markets, such as in our Refining segment where there is new production capacity in the Middle East, and higher imports that are reaching the European market from the United States, India and Middle East.

Improvements in the current efficiency, regulatory pressure and changes in consumer preferences could cause changes in energy demand.

Moreover, the arrival of one or more disruptive technologies in response to environmental awareness and climate change between governments and consumers could rapidly accelerate the pace of change or suddenly alter the direction of change, negatively impacting our long-term strategy.

The pursuit of excellence in customer service, permanent monitoring of trends in an ever more dynamic and changing market, or continuous improvement as one of the Group's main values, are some of the levers Cepsa uses to deal with these risks.

Refining margin risk

A contraction in the margins of crude refining or the products of the other business segments would adversely affect our activities, financial situation and results.

Our refining margins have fluctuated, and will continue to fluctuate, due to numerous factors such as:

- Variations in the global demand for crude and refined products and, to a lesser extent, variations in the demand for them in our domestic market
- Changes in environmental regulations and others, which may force us to incur significant expenses without necessarily increasing the capacity or efficiency of our refineries
- Changes in operating capacity in refineries for our key marketing areas, predominantly in the Iberian market and also in the rest of Europe
- Changes in price differences in international markets between heavy and light crude

- Changes in the supply of refined products, including imports

The modification and optimization projects to improve the efficiency and effectiveness of the processes and operations that take place in our industrial plants, as well as to strengthen integration and synergies between units, are examples of how Cepsa manages variations in the refining margin.

Risks related to crude and gas reserves

The successful implementation of our strategy requires us to be able to maintain and increase our oil and natural gas reserves over the long term. This, in part, depends on our ability to find and develop, or acquire, proven reserves of crude oil and natural gas, and evolve our resources to proven reserves in the appropriate time frames and in a commercially viable way.

If we are unable to increase our crude and gas reserves, we may not achieve the production targets planned in our strategy and our total volume of proven reserves would be reduced. Any of these circumstances would have an adverse effect on our activities, financial statements and results.

The CEPSA Group is focused on achieving production growth projects that can ensure the long-term sustainability of the upstream business.

Risks arising from relationships with interest groups

Cepsa operates in multiple environments in which there are diverse interest groups, mainly local communities of the areas which may be affected by the Group's activities, as well as organizations of civil society, politics, trade unions, etc.

If the interests of these groups conflicts with the activities of Cepsa, and if communication with said groups does not lead to the necessary agreements, the Group may be affected by the opposing opinions and actions with respect to its activities, which may damage its image and reputation, affecting business opportunities in the area or country.

Maintaining responsible and transparent relationships with the communities where Cepsa is present is an essential and integral part of our activities and operations. It allows us to generate value for society and cooperate in its economic, social, and environmental development, integrating ourselves in the environment and developing social projects.

b. Financial and market risks

CEPSA Group is exposed to a series of risks of a financial nature due to the variety of businesses it carries out as well as its presence in a multitude of countries, sectors, and markets.

Below there is a description of the main financial risks to which the Group is exposed: raw materials (commodities) prices, exchange rates, interest rates, liquidity risk, credit risk and tax risk.

Commodity price risk

We are an integrated oil and gas company that carries out all activities of the value chain, including exploration and production, refining, marketing and petrochemicals. Prices of crude oil, natural gas and petrochemicals are affected by supply and demand, both globally and regionally, and also depend on a variety of factors.

The price fluctuations of these raw materials are constantly recorded and, on certain occasions, the Group hires financial derivatives with the aim of reducing its exposure to these price variations.

Foreign currency risk

The US dollar is the currency used as a reference in the crude oil as well as petroleum and petrochemical product markets, which are the main markets where the CEPSA Group operates. As such, and considering that the euro is used as the presentation currency in the consolidated financial statements, the Group is exposed to the changes in the euro/US dollar exchange rate.

The different sources of exchange rate risk, as well as the actions taken to mitigate them, can be summarized as follows:

1. From an operational standpoint, the US dollar is the currency in which a multitude of the commercial transactions are denominated, such as crude oil supply for example.
   The Group minimizes the impact of exchange rate risk on these transactions by centralizing and managing the net global position of cash flows in US dollars from the different Group companies.

2. The risk related to the net value of consolidated equity investments in foreign subsidiaries is mitigated by maintaining financial debt in the currency in which each investment is denominated, applying net investment hedges to these subsidiaries.

3. Finally, certain Group companies obtain cash flows in a currency different from its functional currency. In these situations, the Group minimizes exchange rate risk exposure by obtaining financing in the same currency as the one in which the cash flows are denominated. For these cases, cash flow hedging relationships are justified and documented.

Interest rate risk

CEPSA Group is exposed to changes in interest rates that may have an impact on its income statement, affecting interest-related income and expenses as well as certain balance sheet items as a result of discount rates applied to assets and liabilities, the profitability of its investments, or the future cost of financial debt.

For the purposes of managing and mitigating this risk, CEPSA Group obtains financing at a fixed rate or contracts interest rate hedges via financial derivatives when appropriate.

At 2019 year end, close to 62% of gross financial debt accrued interest at a fixed rate, including interest rate derivatives covering variable rate debt. The remaining 38% is pegged to the Libor and Euribor for debt in USD and EUR, respectively, while debt in CNY (Renminbi) is pegged to LPR (Loan Prime Rate) and PBOC (the official rate of the Central Bank of China).

Liquidity risk

Liquidity risk refers to the ability of the CEPSA Group to return at any time all debt due in 24 months without the need to refinance any of it with its lenders.

In this regard, the CEPSA Group has a conservative financial policy whereby it maintains amounts available in cash and other liquid instruments, as well as undrawn credit facilities.

The CEPSA Group works with leading financial institutions with a high national and international reputation, but counterparty risks are always analyzed when negotiating investments and contracting financial instruments.

Credit risk

CEPSA Group is exposed to credit risk through its transactions with numerous counterparties, and the possible breach by these counterparties of their contractual obligations, irrespectively of whether they are suppliers, customers, partners, financial entities, etc.

To manage this risk, CEPSA Group has IT systems for the complete and automated treatment of both external and internal data. With this information and via application of scoring models and the assessment of risk analysts, counterparties are classified based on credit risk, establishing a credit limit for each one of them. On certain occasions, whether as a result of accumulation of risk with a certain counterparty, or due to unwillingness to assume certain risks, the Group transfers credit risk to third parties by arranging banking guarantees or credit insurance policies.

The Group also has a series of internal rules and procedures periodically updated which regulate the management of credit risk at a global level and for each business. This regulation deals with, among other aspects, the determination of commercial credit limits, the monitoring and control of the assigned credit limits, the establishment of the most adequate collection instruments, the guarantees to be requested in case of excessive or unacceptable risk, the steps to be taken in case of non-payment to collect past-due balances, etc.

With respect to credit risk related to financial investments, financial derivatives and liquid assets, this risk is less relevant than the one related to commercial credit, as the counterparties that the Group operates with are mostly highly solvent financial entities and insurance companies. However, the Group also assesses the credit risk of each of these counterparties, assigning a credit limit to each one of them.

CEPSA Group does not have substantial concentrations of credit risk in commercial counterparties, as its sales are distributed amongst a large number of clients.

Tax strategy and management

The energy sector is subject to a specific tax framework. The existence of specific taxes on profits, production or consumption of products is common in the Upstream and Downstream sectors.

CEPSA Group's tax strategy is mainly aimed at compliance with the applicable tax regulations in its areas of activity and to ensure an adequate fulfillment of this principle by all the companies comprising the Group. CEPSA Group's commitment is reflected in the Tax Policy approved by the Board of Directors in 2015.

One of the main principles established therein by the Group is not to use companies registered in tax havens unless their presence in said territories is a result of valid economic motives or because they were directly or indirectly acquired as a consequence of the acquisition of a group of companies.

Without prejudice to the foregoing, the Group is exposed to changes in the applicable tax regulation, as well as to different interpretations thereof by the relevant Tax Authorities.

c. Transaction and infrastructure risks

The main operational risks to which Cepsa is exposed are as follows:

Process, personnel and environmental safety

The technical complexity of our operations exposes us to a wide range of health, safety and environmental (HSE) risks. Our operations vulnerable to this type of risk are the exploration and production of crude oil and gas, the transportation of hydrocarbons, the refining of crude oil, the distribution of petroleum products, the installation of electricity generation and the processing of petrochemicals, particularly when such facilities are located in environmentally sensitive regions or protected areas (such as the marine environment or remote areas of dense vegetation) or in the vicinity of heavily populated areas.

The CEPSA Group has a security management system established in its Bylaws that covers security at all different levels of the organization. This management system is based on the international OHSAS 18001:2007 standard, a certification that has been given to all of Cepsa's industrial facilities. It has also established procedures to follow that reflect the best practices of the sector, guaranteeing the highest levels of safety and paying particular attention to risks at the origin.

The implemented system is aimed at continuous improvement in risk reduction, supported by a number of activities, such as work planning, analysis and monitoring of corrective actions related to incidents and accidents, internal audits, routine site inspections and supervision of maintenance and operational work.

Similarly, the CEPSA Group operates its plants in an effort to minimize risks to the environment, which is reflected in its Health, Safety, Environment and Quality policy, in basic environmental standards and in its environmental positioning and strategy, all of which, together with other internal regulations, is part of the environmental management systems implemented in the production centers and certified by an accredited external entity.

All CEPSA Group industrial plants in Spain have obtained their corresponding integrated environmental authorizations, which are renewed periodically. These permissions allow us to tighten control over all processes in order to minimize environmental impacts.

Information Security Risks

The operation of many of our business processes depends on the uninterrupted availability of our information technology (IT) and operational technologies (OT) systems. To maintain competitiveness, we are increasingly confident in the automation, centralized operation and new technologies to manage and monitor our complex processing and production activities. A cyber attack on a technology system could lead to serious consequences.

CEPSA Group has a security organization in place to guarantee the availability, integrity, confidentiality and auditability of the information required to ensure the smooth operation and progress of the Group’s activities at an acceptable cost and risk.

The Group has implemented an information security management system based on reducing risks, for which it has been awarded the ISO 27001 certificate. The system implemented includes cybersecurity technology (protection, recovery and stopping of disasters), as well as standards for managing cybersecurity interests and risks.

In addition, the CEPSA Group has a cybersecurity awareness-raising program that aims to promote a clear and practical vision of computer security based on four fundamental pillars: information, awareness-raising, legislation and the use of technology.

Physical risks associated to climate change

Cepsa can be impacted by the physical and environmental effects of climate change, which are difficult to predict. Some possible impacts could be: less stable or predictable weather patterns that could lead to more frequent or intense storms and other climatic conditions (floods, droughts or hurricanes), which could increase our operating costs and interfere with the operations of our businesses, particularly in locations that typically experience harsher weather conditions.

In addition, important climate changes, such as a gradual and sustained increase in temperatures, could affect consumer behavior and regional or global demand for energy products, such as propane, butane and natural gas used for domestic heating or to increase the demand for electrical energy for air conditioning or electric mobility devices.

We are aware that our activities based on energy supply and petrochemical solutions, are strongly affected by GHG emissions. That is why we are firmly committed to combating climate change. The CEPSA Group has framed the analysis of the carbon strategy that provides a range of tools to improve in this regard by complying with the highest standards and regulations, as well as, the efficiency and sustainability goals we set, which are aligned with improving our performance, assessing them in ways that are aligned with our strategy.

Management of Large Projects

Cepsa faces the challenge of developing new projects, particularly in areas that present a geographical and technological challenge. The future growth of our businesses depends on our ability to identify, plan and execute our projects successfully and efficiently in terms of time and cost.

Comprehensive planning and ongoing monitoring of project costs and deadlines are the principles applied at Cepsa when implementing and managing the complexity of projects it addresses.

Talent Management

At Cepsa, we recruit the best employees to fulfill the needs of our areas and business units. We have internal and external selection processes to identify them, and promote employee mobility to meet our human capital needs.

"Talent Call" is our model for attracting and retaining young talent which aims to ensure that the company's medium- and long-term recruitment needs are covered.

We have a homogeneous and global process for welcoming new colleagues that guarantees that all staff members can integrate from the moment that they join the company.

We are committed to our employees' development, which is based on a rigorous assessment of their performance, potential and individual capabilities that allows us to objectively evaluate their contribution, and to offer them development programs tailored to their needs, enabling them to maximize their contribution to the company.

In 2019 we rolled out the technology-based Talent Mobility project, which aims to change the traditional dynamics of mobility processes, thereby improving employee experience, reducing execution times and ensuring that managers have the best possible team.

Securing and safeguarding assets

The CEPSA Group insures itself against risks including material damage such as machinery failure, control of oil exploration and production wells, loss of profits from any material damage; third-party liability arising from both Cepsa and its employees and directors relating to material or personal injury to third parties or company personnel as a result of accidents at work; and loss or damage during transportation of crude oil, other products or equipment.

d. Regulatory and compliance risks

Regulatory compliance

Our business activities are subject to laws and regulations in all jurisdictions in which we operate, including environmental, climate change, health and safety, finance and market, consumer protection, competition and anti-trust, employment, taxes, data protection, hydrocarbon extraction, petrochemicals, public concessions and procurement.

Any violation or failure to comply with applicable regulation or legislation could lead to the imposition of significant fines, penalties or other measures, based on findings of investigations or procedures of the appropriate supervisor or administrative body. Moreover, in some cases the claimants may demand compensation for damages resulting from sanctioned conduct.

In order to minimize the impact of any possible violation or breach of the above laws or regulations, Cepsa has implemented a compliance management system that entails various types of training, increased awareness and monitoring of activities in order to mitigate such risks.

Litigation and arbitration

We are currently engaged in a series of legal proceedings concerning civil, administrative, environmental, labor and fiscal claims, both as a defendant and as a claimant, due to the ordinary course of our activities. These claims cover a wide range of issues and may sometimes involve significant amounts being claimed or that may be claimed.

Unethical conduct

Failure to comply with anti-bribery, anti-corruption, or similar laws could expose us to legal liability and adversely affect our reputation or our business, financial statement, and results.

We have activities in countries that present risks of corruption and that may have weak legal institutions, lack of control and transparency or a business culture that does not reflect the normal standards prevailing in Western Europe as a whole. In addition, governments play an important role in the crude and gas sector, through ownership of local resources, participation, licensing and content programs, which implies a high level of interaction with public actors. For our international activities, we are subject to anti-corruption and anti-bribery laws in many jurisdictions. While we have ongoing anti-corruption policies, we do not have the complete assurance that they will be effective or protect us from being exposed to violating anti-corruption or anti-bribery laws.

Our Code of Ethics and Conduct (the "**Code**") spells out the fundamental principles, norms and behaviors that, by fulfilling them, enable us to successfully pursue our mission, achieve our objectives and promote our values, by indicating the legal and ethical standards applicable to our directors, executives and employees, as well as third parties who work for us or on our behalf. However, there is no full assurance that there will not be any episodes of ethical misconduct or failure to comply with the applicable regulations and legislation, or our Code. Any of them can damage our reputation and repeated non-compliance could lead to a problem with the integrity of our operations.

Compliance risks associated with the economic and trade sanctions imposed by the United States, the European Union or other jurisdictions

The United States, European Union and certain other countries have imposed economic and international trade sanctions on certain countries, companies and individuals.

The terms of legislation and other regulations establishing the sanctions regime are broad in scope, particularly in the United States, and given the importance of the United States to international financial markets, the imposition by that country of sanctions on any nation, Company or individual may lead other companies, such as ours, to not be able to operate directly in the United States, requiring us to cease agreements with the sanctioned country, company or individual if we want to continue to have access to the capital or to the US or international debt markets.

Failure to comply with sanctions in general, and with those of the United States in particular, could result in a failure in our sources of financing or other contractual arrangements with banks, especially those with entities based or operating in the United States.

The CEPSA Group has established a Due Diligence process with third parties based on the Counterparty Knowledge Policy approved by the Board of Directors. These analyses are carried out centrally by the Ethics and Compliance Office and external advice is available based on the levels of risk identified in the counterparties and operations analyzed.

5. Information on foreseeable performance of the entity

CEPSA is advancing in its transformation process towards a global integrated energy group. Among the actions planned for coming years, the Company has included investments in various business areas as part of a growth path to reach the objectives it has set. The strategic priorities, by Business Unit, are as follows:

- Exploration and Production: expand its portfolio, increasing crude oil reserves in key regions such as North Africa, Latin America, and Abu Dhabi through the development of projects and exploration opportunities in fields located nearby.

- Refining: improve competitiveness and efficiency of the Group assets through continuous optimization programs and updates to adapt production to new regulations. Gas and Electricity: assess opportunities in renewable energies and increase participation in the natural gas and electricity market.
- Marketing: consolidate the Group's presence in the natural markets of its key businesses, boosting exploitation of synergies with high added value and searching for growth opportunities in neighboring markets such as Portugal and Morocco;

- Petrochemicals: strengthen the current leadership of CEPSA in key businesses, continue global expansion, develop the alcohol chain, and diversify the downstream phenol chain.

6. Other relevant information

a. Dividend policy

In December 2019, the Board of Directors approved the Group's new dividend policy.

Said policy establishes that dividends will be subject to approval at the General Shareholders' Meeting and compliant with applicable regulations. The dividend that the Board of Directors may recommend or approve with respect to a particular financial year or period will be subject to the factors described below as well as any other factors which the Board of Directors considers relevant:

- cash and debt levels, return on capital, and reserves
- expected financial performance
- investment plans
- returns generated via dividends paid by comparable companies worldwide, and
- restrictions on dividend payments which may be imposed by our financing agreements, and the impact on the ratios associated with the financing agreement.
- The company's "credit rating" must be protected and maintained by ensuring that its debt ratios are compliant.

In general, dividends will be distributed twice a year, with one interim dividend being distributed in the fourth quarter of the current year, and a final dividend payable in the second quarter of the following year, subject to approval at the General Shareholders' Meeting.

The dividends paid in 2019 are reported in note 17 of the Consolidated Financial Statements.

b. Treasury shares

CEPSA did not hold any treasury shares at December 31, 2019, nor had it carried out any transactions with treasury shares during said year.

c. Events after the balance sheet date

Events subsequent to the year-end are disclosed in Note 35 to the Consolidated Financial Statements.

d. Research and Development Activities

A culture of innovation is one of our defining features. We use technology and research to generate value, become more competitive, optimise processes and improve the efficiency and quality of our products. To progress in a sustainable way over time is our priority.

Through the development of engineering projects we improve our production processes, having completed in 2019 the construction and implementation engineering of a total of seven projects in orden to increase the production capacity, the conversion to higher value products, and the energy efficiency of the following units:

- At La Rábida refinery (Huelva), we have increased the bencene production capcity at the Aromax unit, as well as the production of hydrogen and the production capacity of the Hydrocracker unit, making it the largest Hydrocracking unit in Europe.
- At Gibraltar-San Roque refinery (Cadiz), we have made a substantial improvement in the gasoline production capacity of the Alkylation unit. We have also increased the propylene production capacity in the FCC unit and the production of the ISOMAX unit.

These will enable us to have refineries with the latest production technologies available on the market, and to make our processes more efficient and sustainable.

We have also completed the start-up of our first wind farm in Jerez de la Frontera (Cadiz), which is, with and investment of 39 million euros, our first step in the generation of renewable electricity.

During 2019, the IPA (International Project Analysis), an international entity, has analysed in detail the Project Execution methodology applied in our company by comparing it with the ones used by the best international project execution companies. As a result of this analysis, we have drawn up and improvement plan which will be implemented in 2020.

Aditionally, we have a Research Centre that in 2019 carried out numerous projects, the development of which would not be possible without the cooperation initiatives we establish with very diverse partners, among which we would highlight:

- Strategic alliances with experts in technology and catalyst manufacturing such as the UOP, Haldor-Topsoe, BASF or INNOSPEC.
- Joint R&D initiatives with corporations such as SINOPEC, GRACE DAVISON and Zeolyst.
- Collaboration with universities and other entities such as Universidad Complutense de Madrid, Politécnica de Valencia, the Catalan Institute of Nanoscience and Nanotechnology, the Institute of Chemical Technology and Universidad de Alcalá de Henares.

The Research Centre also executes several projects, in association with partners, in which we have external funding at national level, such as the Centre for Industrial Technological Development; the Technological Corporation of Andalusia; the Ministry of Science, Innovation and Universities; and at international level with the Horizon 2020 (European Union Framework Programme for Research and Innovation). Also, the Innovation and Development unit has several lines of work in which it is initiating partnerships with start-ups for the development of innovative projects with high added value for Cepsa, such as Visolis, Ultraclean and Cellicon.

7. Alternative performance measures and glossary of terms

The financial information contained in this report contains indicator and measures prepared in accordance with applicable financial information regulations (IFRS-EU) as well as other alternative Performance Measures.

Alternative Performance measure	Unit	Relevance of use	Location
EBITDA	Millions of Euros	Measure of operational profitability deducting the interests, taxes, provisions and amortizations	Key indicators on the Group´s financial results
Current cost of Supplies (CCS)	Millions of Euros	The Current Cost of Supply (CCS) is commonly used in this industry to disclose the Downstream businesses which must work with huge inventories subject to continual price fluctuations.	Key indicators on the Group´s financial results
Non-recurring items	Millions of Euros	It allows the results disclosure excluding those atypical expenses/income not directly related to the activity (non-recurring)	Key indicators on the Group´s financial results
Net debt	Millions of Euros	It measures the Company's level of debt	Key indicator on the Group's financial situation
Capital employed	Millions of Euros	It measures own and external capital invested in the company.	Key indicator on the Group's financial situation
Leverage ratio	%	It measures the Group's indebtedness proportion in relation to its profitability, usually with its operating profitability.	Key indicator on the Group's financial situation
Free cash flow	Millions of Euros	It is used for evaluating the funds available for paying dividends, and debt service payments.	Key indicators. Cash Flows
Net operating profit	Millions of Euros	Used for ROACE´s calculation	Key indicators. Roaces
ROACE	%	Measure used to evaluate the earning capacity of the investments in operation	Key indicators. Roaces
Gearing	%	Measure of the weighing of the external resources in the Group financing.	3.a. Leverage.

To better understand the report, we have defined these measures below:

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). It consists of the income and expenses arising from the operations of each business unit, including provisioning net of reversals, as well as the results from assets disposals. It does not include the amortization and impairment of its non-current assets, nor the transfer to income of capital grants or financial or non-operating results.

The EBITDA is a useful financial indicator which determines the operating margin of a company, enabling the business evaluation in relation with its ability to generate funds before taxes. This indicator is highly comparable among businesses and with other Oil & Gas sector companies, since it is not influenced by financial and tax indicators not involving cash outflow.

Current Cost of Supplies (CCS): In the replacement cost method, the cost of sales is determined with reference to average monthly prices rather than the historical value derived from the accounting valuation method. Consequently, the adjustment to replacement cost is determined as the difference between these two methods.

Non-recurrent (or Clean) elements: atypical revenues or expenses, which are not directly related to the company's main activity and unusually occur. For example:

- Impairment of assets
- Results of assets disposals (significant amounts)
- Restructuring costs
- Exceptional fiscal expenses or income
- Costs associated with mergers / acquisitions
- Results of discontinued operations

Net debt: is the indicator used by management to measure the company's level of debt. It is comprised of bank borrowings (current and non-current) less cash and cash equivalents.

Employed capital: made up of non-current assets plus working capital, net of for free capital. Non-current assets include intangibles, Property, plant and equipment, financial and deferred tax assets, with the exception of financing granted within group companies. Working capital includes all current operating assets and liabilities (current assets and liabilities except for financing granted or received within group companies, external current financial debt and liquid assets). For free capital comprises the captions of capital grants, provisions for risks and charges, deferred tax liabilities, and other non-current liabilities of non-financial nature. It is useful for determining the efficiency of the use of capital that the company has invested.

Leverage ratio: This figure is calculated by dividing net debt by EBITDA, and in the case of CEPSA utilizing adjusted EBITDA, allowing the Group to determine its capacity to repay external financing within a given number of years (x times). It serves as a metric for comparison with other companies.

Free cash flow: measures the cash flow generation from operating and investment activities, and is used to evaluate the funds available for paying shareholders dividends and debt service.

Net operating profit: It consists of the Net profit after taxes (NIAT) having deducted the finance costs (net of taxes). Generally used for ROACE’s calculation.

ROACE: RETURN ON AVERAGE CAPITAL EMPLOYED. Ratio calculated with the net operating profit Clean CCS (average for the last 12 months) divided by average capital employed (average between its value at the beginning and at the end of the considered period). These values of Capital Employed are both reduced in the amount of not yet profitable investments. It is the key indicator that shows the performance of both the Group and its businesses.

Gearing ratio: Ratio between the following:

- Net financial debt (current and non-current financial debt less cash equivalents)
- Capital and reserves (less dividends agreed or planned) + net financial debt.

The change in this ratio over time indicates the trend of the Group's Debt and in absolute value, the capacity of Debt in relation to its own funds.

Non-financial indicators

Barrel: Unit of measure of crude volume equivalent to 42 US gallons or 158.9 liters. The quantities of liquid hydrocarbons in barrels are expressed at 60°F.

Barrel of oil equivalent (boe): A conventional unit to measure the energy liberated by a quantity of fuel in terms of the energy released by the combustion of one barrel of oil.

Degree of refinery utilization: Relates the total amount of crude oil processed at distillation units in terms of their maximum processing capacities.

GW: Gigawatts (1,000 million watts). A Watt is the unit of electric power used in the International System and corresponds to the difference in potential between one volt and an electric current of one ampere (1 volt-ampere).

MWh: Megawatts-hour. Unit of measurement of energy. MWh.

Pool: Wholesale electricity market. On a daily basis, electricity is purchased and sold in this market governed by the operator Omel.

Net Entitlement Production: The percentage of production of the rights for the exploration and production of hydrocarbons in a concession following shared production agreements.

Working Interest: A company's equity interest in a project before reduction for royalties or production share owed to others under the applicable fiscal terms.

Attributed reserves: Estimated quantities of oil and gas, including related substances, assigned to the company, production of which is expected to be economically feasible from a given date through development projects.

Proven reserves (1P reserves)
Proven Reserves are those quantities of Petroleum, which, by analysis of geoscience and engineering data, can be estimated with Reasonable Certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined technical and commercial conditions.

Probable reserves (2P reserves)
Probable Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proven Reserves, but more certain to be recovered than Possible Reserves.

Compañía Española de Petróleos, S.A. and Subsidiaries (Cepsa Group)

Consolidated Financial Statements and Consolidated Directors' Report – 2019 Financial Year

The Consolidated Financial Statements – Balance Sheets, Income Statements, Statements of Changes in Equity, Statement of Comprehensive Income recognized in Equity, Cash Flow Statements and Report), along with the Consolidated Directors' Report of Compañía Española de Petróleos, S.A. and Subsidiaries (CEPSA Group), for the 2019 financial year, contained in this document, have been issued by the Board of Directors of Compañía Española de Petróleos, S.A. (CEPSA) at a meeting on February 27, 2020 and are approved and hereby signed by all the Directors in compliance with article 253 of the Consolidated Text of the Capital Companies Act.

To the best of our knowledge, the Consolidated Financial Statements prepared in accordance with generally accepted accounting principles gives a true and fair view of the equity, financial position and results of the Company, and the supplementary Directors' Report of the Consolidated Financial Statement contains a true and fair analysis of CEPSA Group's progress, business results and position, together with a description of the main risks and uncertainties it faces.

Madrid, February 27, 2020

Mr. Musabbeh Helal Musabbeh Ali Alkaabi
Chairman

D. Martialis Quirinus Henricus van Poecke
Vice Chairman

D. Philippe Francois Marie Joseph Boisseau
CEO

Dª. Alyazia Ali Saleh Ahmed Alkuwaiti
Member

D. Saeed Mohamed Hamad Fares Almazrouei
Member

D. Marwan Naim Nijmeh
Member

D. Bakheet Saeed Bakheet Salem Alkatheeri
Member

D. Ángel Corcóstegui Guraya
Member

D. James Robert Maguire
Member

D. Joost Bart Maria Dröge
Member

D. Ignacio Pinilla Rodriguez
Secretary (Non-Director)

D. José Aurelio Tellez Menchén
Deputy Company Secretary (non-board member)

Compañía Española de Petróleos, S.A. and Subsidiaries (Cepsa Group)

Consolidated Financial Statements and Consolidated Directors’ Report – 2019 Financial Year

I hereby certify that, to the best of my knowledge and belief, The Consolidated Financial Statements – Balance Sheets, Income Statements, Statements of Changes in Equity, Statement of Comprehensive Income recognized in Equity, Cash Flow Statements and Report), along with the Consolidated Directors’ Report of Compañía Española de Petróleos, S.A. and Subsidiaries (CEPSA Group) for 2019 and drafted and approved by the Board of Directors of Compañía Española de Petróleos, S.A. at its meeting held on February 27, 2020, were prepared in accordance with generally applicable accounting standards and present a true and fair view of the assets and liabilities, financial position and results of Cepsa.

Madrid, February 27, 2020

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Alvaro Badiola Guerra
Chief Financial Officer