“REPORT FROM THE BOARD OF DIRECTORS OF COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A. ON THE PARTIAL TAKEOVER BID LAUNCHED BY BANCO SANTANDER CENTRAL HISPANO, S.A.

The Board of Directors of COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A. (hereinafter CEPSA), at its meeting on October 30, 2003, and in compliance with Article 20.1 of Royal Decree 1197/1991 of July 26th, approved the following report on the partial Takeover Bid (hereinafter “Bid”) made by BANCO SANTANDER CENTRAL HISPANO, S.A. (hereinafter SCH), section 2 of which includes the opinion of the Board of Directors as an executive body, passed by a majority of ten votes in favor and eight abstentions (Messrs. Vettier, Méary, Klein, Grouvel, Porez, Privey, Ms. Spinoy and Mr. Carceller). The remaining sections of the Report, pursuant to the above Ruling, contain certain opinions and information involving individual members of the Board of Directors.

1. KEY TERMS AND CONDITIONS OF THE BID

As explained in the Bid Prospectus, the main terms and conditions of the Bid are as follows:

- The Bid is targeted at acquiring a maximum of 42,811,991 shares of CEPSA, representing 16% of its share capital. Given that the offer is partial, an eventual pro rata allocation would mean applying the rules and procedures set forth in Article 29 of Royal Decree 1197/1991 of July 26th, which states that each acceptance will be awarded an equal number of shares which is the result of dividing 25% of the entire offer among the number of acceptances, awarding the rest proportionally to the number of securities contained in each acceptance.

- The Bid is structured as a purchase offer, to be paid in cash. SCH offers CEPSA’s shareholders who tender their shares in this Bid the price of twenty-eight euros (€28) per CEPSA share. This price is not affected by the payment of an interim dividend for 2003 of 0.42 euros per share, made on October 25, 2003.

- The Bid is not conditional on the acquisition of a minimum number of CEPSA shares or any other condition.

- The acceptance period for the Offer shall be one month starting from the date of publication of the first of the notices of the Bid, pursuant to Article 18 of Royal Decree 1197/1991 of July 26th, whereby the tender period shall expire on Monday, November 24, 2003.

2. OPINION OF THE BOARD OF DIRECTORS ON THE TAKEOVER BID LAUNCHED BY SCH.

CEPSA has appointed Lehman Brothers as its independent financial advisor on this Bid. The conclusion of their fairness opinion is that, after applying the valuation methods they deemed necessary or appropriate for this matter, the price offered per share (€28) is considered fair, from a financial point of view, for the shareholders of the Company who wish to tender their securities in the Offer. The Board of Directors shares this opinion and believes that the Offer represents a good opportunity to divest these shares for those shareholders who have been considering the possibility of selling them in the near or medium term.

CEPSA's Board of Directors would like to draw attention to the fact that the Bid is partial. Taking into account that the amount of free-float shares is more than 16% of the capital targeted by the Bid, it may so happen that the number of shares tendered in the Bid exceeds this percentage, in which case the rules of pro rata allocation would apply, and as a result, many shareholders who want to sell their shares would be prevented from selling their entire lot.

Likewise, the Board of Directors wishes to highlight that, as a possible outcome of this Bid, the number of free-float shares of CEPSA could be reduced to such levels as to affect their liquidity. This circumstance is addressed in section 4.1.3 of the Bid Prospectus.

Despite the fact that the tender offer launched by SCH was unsolicited and that SCH did not inform CEPSA's Board of Directors prior to its filing, the Board would like to make it known that it is committed to the future stability and development of CEPSA and that it is confident that the situation created between the two core shareholders, whose long-standing and close cooperation has led to the Company's profitable growth and favorable prospects for the future, can soon be overcome.

3. <u>OPINIONS OF THE MEMBERS OF THE BOARD OF DIRECTORS</u>

Mr. Alfredo Sáenz, on his own behalf and that of the Directors, Mr. Juan Rodríguez Inciarte, Mr. Fernando de Asúa Álvarez and Mr. Antonio Basagoiti García-Tuñón, stated that:

"The Bid is targeted at acquiring a maximum of 42,811,991 CEPSA shares, accounting for 16% of the company's share capital, and the cash price offered by Banco Santander is 28 euros per share. As we have already said, the Bid is based on Banco Santander's interest in CEPSA and does not entail a hostile action against CEPSA or any of its shareholders.

The Directors whose opinion is hereby expressed consider that the Bid is highly favorable and therefore, we recommend the Company's shareholders to tender their shares, based on the following reasons:

1. – Banco Santander is offering 28 euros per share. This price is an all-time record high in absolute terms for the share and includes a premium of over 17% on the closing price of the shares on the day before the Bid was launched.

   The Directors who endorse this statement therefore believe that this Bid provides an excellent opportunity for CEPSA's shareholders who have no intention of maintaining a significant shareholding in the company.

2. – The Bid is not subject to any type of conditions, which removes the uncertainties that customarily accompany Bids subject to minimum levels of acceptance or the fulfillment of other conditions.

3. – As regards the future of the company, Banco Santander has said that, to whatever degree is within its control, it intends to have CEPSA continue carrying out, by and large, its activity and managing its businesses as was the case until now. On the other hand, Banco Santander does not plan to propose any acquisitions or disposals of assets and liabilities of CEPSA, of the companies of its Group or any of its business lines or segments that are not addressed in CEPSA's business plan or any other strategic plans.

In short, we are of the opinion that the Offer is very attractive for CEPSA's shareholders and excellent for the company itself. Therefore, as Directors of CEPSA's Board, we recommend that shareholders sell their shares in this Bid."

Mr. Jean-Paul Vettier stated:

"In fulfillment of the provisions of Article 20.1 of Royal Decree 1197/1991, of July 26th, governing Takeover Bids and Tender Offers, I feel it is my duty, as a member of CEPSA's Board of Directors and on behalf of the other six Directors elected by the Annual General Meeting at TOTAL's proposal (Ms. Bernadette Spinoy and Messrs. Pierre Klein, Jean Privey, Vincent Méary, Menno Grouvel and Jacques Porez), to express our personal opinion of this Bid.

1. – TOTAL holds a largely different view from that of the Bidder, who filed the Offer on the day following the unilateral declaration whereby Banco Santander claimed that the agreements signed with TOTAL, which have made it possible for CEPSA to grow over the past thirteen years, were invalidated.

   Today, I am speaking as CEPSA's Vice Chairman and Board member and on behalf of the other six Directors elected by CEPSA's Annual Meeting, at TOTAL's proposal.

   In this context, both I, as well as the six Directors just mentioned, have decided to abstain from the opinion issued by the Board of Directors regarding this Bid.

2. – The Bid launched by Banco Santander must be considered as "unsolicited" to the degree that the Board of Directors was not informed prior to its filing. Additionally, Banco Santander and CEPSA's Board did not hold any discussions regarding Banco Santander's intentions towards the company subsequently. Therefore these intentions can only be assessed on the basis of the information contained in the Bid Prospectus.

3. – Banco Santander is offering 28 euros for each CEPSA share up to a maximum of 42,811,991 shares, representing 16% of CEPSA's share capital. The fact that the offer is partial means that:

   a. The maximum number of CEPSA shares that Banco Santander is willing to acquire is considerably lower than CEPSA's share capital;

b. If the Bid is accepted by shareholders owning more than 16% of the share capital, the rules of pro rata allocation would apply, meaning that some shareholders would not be able to sell all of their shares; and

c. The shareholders tendering their shares in the Bid but who are not able to sell off all of their shares will suffer the consequences of a substantial reduction in the liquidity of CEPSA's shares following settlement of the Bid.

4. – The Bid Prospectus does not describe, with sufficient clarity or coherence, what Banco Santander's intentions and long-term strategy are with regard to CEPSA, on the one hand, and what value Banco Santander's increased shareholding provides both to the Company and its shareholders, on the other:

   a. According to the Prospectus "in absence of these agreements (with TOTAL and Unión Fenosa), Banco Santander considers it advisable to increase its stake in CEPSA" although "it does not rule out, however" (…) a "possible divestment in CEPSA".

   b. Again, according to the Prospectus, "the increase in its investment in CEPSA will allow Banco Santander to more actively take part in its management" and especially, "to strengthen its protection and supervision so that CEPSA's industrial relations are developed in all its facets in the best interest of the company and of all its shareholders." In fact, CEPSA and its shareholders have underscored on numerous occasions (i) the quality of the rapport among the three core shareholders (which have allowed the decisions regarding CEPSA's future to have always been made unanimously) and (ii) the advantages related to the exchange of technical expertise and the involvement of TOTAL in the company's development. The Prospectus does not describe, on the other hand, how Banco Santander, whose main business has little to do with that of CEPSA, will influence its management; and

   c. Potentially contradicting the foregoing statements, the Prospectus furthermore says that "Banco Santander, to the extent that is within its control, intends to have CEPSA continue carrying out, by and large, its activity and managing its businesses as it has done until now."

5. – The Bid Prospectus does not deal with certain matters that are of vital importance for CEPSA and its shareholders; specifically, it does not mention the impact, if any, on the cooperation between TOTAL and CEPSA (in effect since the 1990 Protocol) and therefore, on CEPSA itself and its shareholders, from the interpretation by Banco Santander of Act 26/2003 of June 17th and its subsequent unilateral statement on the supposed invalidity of the shareholders' agreements.

6. – None of the Directors who state this personal opinion have any intention of tendering the CEPSA shares they own.

A request was made to record this personal opinion in the Minutes of the Board meeting and include it in the Report on the Bid that the Board of Directors is required, by law, to draft and publish.

This personal opinion was provided to the Secretary of the Board and a copy was given to each of the Directors present at the meeting.

Thank you for your attention."

The Chairman, on behalf of the Directors who have expressly granted him their proxies, Mr. Mohamed Al Khaily and Mr. Nasser Ahmed Alsowaidi, said that both gentlemen conveyed their opinion that the offer is appropriate based on: reasonable prospects for CEPSA's businesses; the fact that the offered price entails a 17.25% premium on the closing price of CEPSA's shares on September 25, 2003; and that it does not substantially alter CEPSA's shareholding structure. Nevertheless, both Directors expressed their concern that, although this offer is partial, in the event that the Bid achieves 16% of CEPSA's share capital, the volume of securities trading on the stock exchange may be reduced to such levels that make their listing on the Continuous Market unfeasible.

The Chairman continued to say that both Directors believed that it would be advisable, in the best interest of CEPSA, to eliminate the tensions caused by this unsolicited bid between the shareholders TOTAL and SCH, thanks to whose collaboration the Company has achieved its current targets.

The Board Director, H.R.H. D. Carlos de Borbón Dos Sicilias, Infante de España, stated:

"That he believes that the Bid is positive from the point of view of the shareholders and on the other hand, he agrees with the opinion expressed by the representatives of International Petroleum Investment Company regarding the desire to see the core shareholders, TOTAL and SCH, overcome their current differences in the best interest of the future stability of the Company".

The Director, Mr. Demetrio Carceller, stated:

"1º. – This shareholder represents a family that has been linked to this Company for three generations, from its very beginning, having watched, throughout its history, over its actions, and the protection and defense of the interests of the Company, its employees and its shareholders.

2º. – Therefore, I oppose any preventive measure that may jeopardize the interests of minority shareholders and the Company. I urge Banco Santander and TOTAL to resolve their differences without causing detriment to the minority shareholders or the Company.

3ª. – The opinion of this Director is that each shareholder should act on behalf of his or her interests, always honoring those of the Company.

4º. – Based on what has been said, I do not feel that it is advisable to take any decision on this Bid until the deadline for its acceptance, or the contrary, by the shareholders."

The Director, Mr. Ernesto Mata, stated:

"I would like to express my most vehement rejection of the preventive measures that, as we have been apprised of at this Board meeting, TOTAL seeks to obtain from arbitrators in Holland. I agree with those who have said that such measures would seriously harm the minority shareholders of this company, as they would completely block the market and prevent any possibility of a competing or future Takeover Bid, as well as purely and simply hand over the full control of this Company to TOTAL without the required Takeover Bid.

As concerns Unión Fenosa specifically, these preventive measures would mean direct and particularly serious damage. I plan to put the matter immediately in the hands of our legal advisors and I reserve the right to carry out any actions that may be necessary to defend the interests of our Company. UNIÓN FENOSA is not taking sides in the dispute between SCH and TOTAL; however, it will not tolerate that its rights be jeopardized. I am confident that the National Securities & Exchange Commission will take the opportune measures and in the meantime, I ask that the representatives of TOTAL on this Board, in the best interest of CEPSA and its minority shareholders, reconsider these unacceptable appeals for preventive measures. I also ask that my opinion be placed on record in the minutes and in the report that this Board will publicly disclose on this Takeover Bid launched by SCH."

Likewise, and in response to the remarks made by Messrs. Carceller and Mata, Mr. Vettier said that this case has indeed been brought before International Arbitration in order to seek preventive measures to protect TOTAL's interests.

The Director, Mr. Dominique de Riberolles, stated:

"As an Executive Officer of CEPSA for six years, I was elected to the Board of Directors at the Chairman's request and with the agreement of all the shareholders of Somaen Dos.

Considering the consequences of the possible dissolution of Somaen Dos, I have informed CEPSA's Chairman that I might find it necessary to offer him my resignation from the Board.

Today, with regard to the Bid, as an Executive Director, I agree with the positive consensus seemingly expressed by the members, considering that Banco Santander has manifested in its Prospectus, or better yet, in its conduct until now as a shareholder, a commitment that, in my opinion, is sufficiently firm towards CEPSA's strategy and respect towards the professionalism of the current management."

4. NON-EXISTENCE OF AGREEMENTS BETWEEN THE COMPANY AND THE BIDDER

No agreement whatsoever existed between the Company and SCH regarding this Bid for CEPSA's shares made by SCH, either prior to or after the launching of the Bid.

5. AGREEMENTS BETWEEN SCH AND MEMBERS OF CEPSA'S BOARD OF DIRECTORS

There are no agreements whatsoever regarding the Takeover Bid on CEPSA's shares either between the bidder, SCH, and members of CEPSA's Board of Directors or the entities that some of them represent on the Board.

6. INTENTION OF MEMBERS OF CEPSA'S BOARD OF DIRECTORS WHO OWN CEPSA SHARES TO TENDER SUCH SHARES IN THE BID.

The Board Director Mr. Jean-Paul Vettier, took the floor to say that neither he, nor the rest of the Directors representing TOTAL, who are CEPSA shareholders, will tender their shares in the Bid.

The Board Director Mr. Mohamed Nasser Al Khaily, stated, on behalf of International Petroleum Investment Company (IPIC), that it would not tender its shares in the Bid.

The Board Directors Messrs. Antonio Basagoiti García-Tuñón, Fernando de Asúa Alvarez, Juan Rodriguez Inciarte and Carlos Pérez de Bricio stated that they will tender the CEPSA shares they own in this Bid. The Directors, H.R.H. D. Carlos de Borbón Dos Sicilias, Infante de España and Mr. Demetrio Carceller stated that have not yet taken a decision on their shareholding in CEPSA.

The Directors Messrs. Al Khaily, Alsowaidi, Leal and Mata have stated that they do not own shares of CEPSA. Mr. Mata added that, in representation of UNIÓN FENOSA, his company's intention is to sell its stake in CEPSA as soon as possible.

The Board Director, Mr. De Riberolles, said that he would not tender his shares in the Bid.

The Board of Directors likewise resolved to provide this report to the National Securities & Exchange Commission (CNMV), in order for it to be included in the file and records of the Takeover Bid, as well as to CEPSA's trade union representatives. Once this report has been delivered to these aforementioned entities, it shall be published in the Trade Bulletins of the Stock Exchanges where CEPSA's shares are listed, and at least in two major newspapers, one published nationwide and the other widely circulated in Madrid, the city in which CEPSA's head offices are registered.

For all the aforementioned purposes, the Board of Directors delegates the necessary powers to the Secretary of the Board of Directors."

October 30, 2003

Secretary to the Board of Directors

Translation of Report from the Board of Directors of CEPSA on the Takeover Bid made by Banco Santander. In the event of a discrepancy, the Spanish-language version shall prevail.