Audit Report on Financial Statements
issued by an Independent Auditor

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.U.
Financial Statements and Management Report
for the year ended December 31, 2018

Building a better working world

Ernst & Young, S.L.
C/ Raimundo Fernández Villaverde, 65
28003 Madrid

Tel.: 902 365 456
Fax.: 915 727 300
ey.com

AUDIT REPORT ON 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 Sole Shareholder of COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.U.:

Opinion

We have audited the financial statements of Compañía Española de Petróleos, S.A.U. (the Company), which comprise the balance sheet as at December 31, 2018, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with the applicable regulatory framework for financial information in Spain (identified in Note 2.1 to the accompanying financial statements) and, specifically, the accounting principles and criteria contained therein.

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 financial statements* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those related to independence, that are relevant to our audit of the 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.

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 financial statements of the current period. These risks were addressed in the context of our audit of the 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 investments in Group companies and associates

Description

The Company makes significant estimates when valuing certain economic and finance transactions, such as to determine the recoverability from investments in Group companies and associates. The main criteria and assumptions used for the valuation of these assets are described in note 4.1.g of the accompanying financial statements.

We have determined these estimates and valuations to be a most relevant audit issue since, given the amount of the assets affected, changes in the hypotheses could have a material impact on the Entity´s financial statements.

Our response

Among others, we have performed the following procedures:

- We obtained an understanding and walked through the Company's process to assess recoverability of equity investments in Group companies and associates.
- We carried out procedures, including testing for indicators of impairment and validating the appropriateness of the level at which the testing took place.
- We reviewed, in collaboration with valuation specialists, of the reasonableness of the methodology used by management for preparing the discounted cash flow statements of each company, focusing particularly on the discount rate and long-term growth rate applied.
- Regarding cash flow inputs, we:
  - Confirmed that the key inputs shown in the business plan could be supported by approved strategic plan and that their reasonability was based on current conditions of every company and their projections of potential changes.
- We also verified the mathematical integrity of the impairment models, performed a sensitivity analysis and other additional procedures to assess the completeness of the impairment.
- We reviewed the disclosures included in the accompanying financial statements in accordance with current regulation.

Recoverability of deferred tax assets

Description

As disclosed in Note 14.6 to the financial statements, the Company has deferred tax assets of EUR 419 million at December 31, 2018. The recoverability assessment is based on management's conclusion that it is probable that there will be sufficient future taxable profits against which to offset these deferred tax assets, primarily comprised of timing differences and credits.

This area was important to our audit due to the judgments and estimates involved in evaluating the extent of positive factors such as reversing deferred tax liabilities and expectations of future taxable income and negative factors, such as operating losses in current or prior periods.

Our response

Among others, we have performed the following procedures:

- We obtained an understanding and walked through the Company's process to assess recoverability of deferred tax assets, including management's estimate of Coastal's oil reserves depletion and the future liquidation process of the investment in the Coastal Group as disclosed in Note 14.6
- 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.
- We reviewed of the disclosures included in the accompanying financial statements in accordance with current regulation.

Other information: management report

Other information refers exclusively to the 2018 management report, the preparation of which is the responsibility of the Company's directors and is not an integral part of the financial statements.

Our audit opinion on the financial statements does not cover the management report. Our responsibility for the consolidated management report, in conformity with prevailing audit regulations in Spain, establishes two levels of responsibility:

a. A specific level applicable to non-financial information, which solely requires that we verify whether said information has been included in the management report, or if applicable, that the 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 management report, which requires us to evaluate and report on the consistency of said information in the 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 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 in the above, we have verified that the management report includes a reference that the information 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 of the Cepsa Group to which the company belongs and that the remaining the information contained therein is consistent with that provided in the 2018 financial statements and their content and presentation are in conformity with applicable regulations.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity, financial position and results of the Company, in accordance with the regulatory framework for financial information applicable to the Company in Spain, identified in Note 2.1 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 director's 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 Company'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 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 Company to cease to continue as a going concern.

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

We communicate with the directors of the 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 Company's directors, we determine those that were of most significance in the audit of the 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)

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

February 28, 2019

FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Compañía Española de Petróleos, S.A.U.

For the year ended December 31, 2018

CEPSA

FINANCIAL STATEMENTS

Compañía Española de Petróleos, S.A.U.

For the year ended December 31, 2018

CEPSA

CONTENTS

CEPSA

BALANCE SHEET AS AT DECEMBER 31, 2018

Thousands of euros

Assets	Notes	2018	2017
Non-current assets		*6,107,017*	*4,686,607*
Intangible assets	***Note 5***	***59,401***	***80,117***
Patents		10,498	13,259
Goodwill		279	319
Computer sofware		48,377	46,733
Other intangible assets		247	19,806
Property, plant and equipment	***Note 6***	***2,094,386***	***2,160,734***
Land and buildings		59,509	59,696
Plant and machinery		1,412,939	1,477,789
Property, plant and equipment in the course of construction and advance payments		621,938	623,249
Investments in Group companies and associates	***Note 17***	***3,521,707***	***1,991,659***
Equity instruments	Note 8.3	3,468,507	1,962,924
Loans to third parties	Nota 8.1	53,200	28,735
Non-current financial assets	***Note 8.1***	***12,643***	***16,630***
Equity instruments		1,932	1,932
Loans to third parties		1,819	3,552
Derivatives	Note 9	228	2,873
Other financial assets		8,664	8,273
Deferred tax assets	***Note 14***	***418,880***	***437,467***
Current assets		*3,801,698*	*3,942,865*
Non-current assets held for sale		***308***	-
Inventories	***Note 10***	***1,697,500***	***1,463,626***
Goods for resale		62,593	20,768
Raw materials		688,932	724,321
Finished goods		935,928	709,509
By-products, waste and recovered materials		9,870	8,783
Advances to suppliers		177	245
Trade and other receivables		***1,844,519***	***1,880,300***
Trade receivables for sales and services	Note 8.2	763,488	888,635
Trade receivables, group companies	Notes 8.2 and 17	944,699	871,229
Other debtors	Note 8.2	6,768	10,543
Personnel	Note 8.2	673	670
Current tax assets	Note 14	121,183	102,577
Public entities	Note 14	7,708	6,646
Currents investment in Group Companies and associates	***Notes 8.2 and 17***	***129,084***	***189,376***
Loans to third parties		126,452	148,000
Derivatives	Note 9	562	2,008
Other financial assets		2,070	39,368
Currents financial assets	***Note 8.2***	***14,052***	***24,456***
Loans to third parties		10,113	14,138
Derivatives	Note 9	3,561	7,641
Other financial assets		378	2,677
Currents prepayments and accrued income		***895***	***2,497***
Cash and cash equivalents		***115,340***	***382,610***
Cash		10,071	131,018
Short-term higly-liquid investments		105,269	251,592
Total assets		***9,908,715***	***8,629,472***

The accompanying Notes 1 to 22 are an integral part of this Balance Sheet as at December 31, 2018

CEPSA

Thousands of euros

Shareholder's Equity and Liabilities	Notes	2018	2017
Shareholder's Equity	Note 11	*3,899,508*	*3,242,093*
Shareholder's Equity		***3,892,113***	***3,232,172***
Registered share capital		267,575	267,575
Share premium		338,728	338,728
Reserves			
Legal reserves		53,605	53,605
Other reserves		3,671,402	3,671,402
Retained earnings			
Prior year losses		(1,259,683)	(1,317,436)
Profit (loss) for the year		1,010,464	408,276
Interim dividend		(189,978)	(189,978)
Adjustments for changes in value	***Note 9 and 11***	***(439)***	***1,728***
Hedging transactions		(439)	1,728
Grants, donations or gifts and legacies received	***Note 11***	***7,834***	***8,193***
Grants, donations or gifts and legacies received		7,834	8,193
Non-current liabilities		*3,092,298*	*1,783,473*
Long-term provisions	***Note 12***	***275,212***	***274,805***
Provisions for long-term employee benefits		9,841	9,813
Provisions for environmental actions		16,111	15,954
Provision for restructuring costs		1,833	1,833
Other provisions		247,427	247,205
Long-term debts	***Note 13***	***2,710,935***	***1,389,639***
Bank borrowings		2,680,371	1,342,469
Derivatives	Note 9	4,284	10,251
Other financial liabilities		26,280	36,919
Deferred tax liabilities	***Note 14***	***102,393***	***115,000***
Non-current accruals and deferred income		***3,758***	***4,029***
Current liabilities		*2,916,909*	*3,603,906*
Short-term provisions	***Note 12***	***49,835***	***40,065***
Short-term debts	***Note 13.2***	***339,398***	***523,812***
Bank borrowings		201,671	292,742
Derivatives	Note 9	910	2,029
Other financial liabilities		136,817	229,041
Payable to group companies and associates	***Notes 13.2 and 17***	***624,637***	***1,187,791***
Trade and other payables		***1,900,480***	***1,850,250***
Suppliers	Note 13.2	156,437	193,794
Suppliers, group companies and associates	Notes 13.2 and 17	1,053,427	929,533
Other payables	Note 13.2	506,144	436,080
Personnel	Note 13.2	54,392	53,100
Current tax liabilities	Note 14	724	1,857
Public entities, other	Note 14	128,672	234,932
Advances from customers	Note 13.2	684	954
Current accruals and deferred income		***2,559***	***1,988***
Total shareholder's equity and liabilities		***9,908,715***	***8,629,472***

The accompanying Notes 1 to 22 are an integral part of this Balance Sheet as at December 31, 2018

CEPSA

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

Thousands of euros

	Notes	2018	2017
Continuing Operations			
Revenue	*Note 16*	*19,459,898*	*16,154,453*
Sales		19,125,585	15,822,237
Services		334,313	332,216
Changes in inventories of finished goods and work in progress		*227,907*	*100,146*
Own work capitalised	*Notes 5 and 6*	*23,221*	*25,904*
Procurements	*Note 16*	*(14,614,003)*	*(11,192,160)*
Goods consumed		(1,018,201)	(361,885)
Raw materials and other materials consumed		(13,581,959)	(10,816,797)
Subcontracted work		(13,783)	(13,480)
Impairment of merchandise, raw materials and other supplies		(60)	2
Other operating income		*4,994*	*4,630*
Non-core and other current operating income		4,730	3,558
Income-related grants transferred to profit or loss		264	1,072
Staff costs		*(258,960)*	*(252,614)*
Wages, salaries and similar expenses		(197,683)	(194,183)
Employee benefit costs	Note 16	(60,974)	(58,169)
Provisions		(303)	(262)
Other operating expenses		*(4,018,426)*	*(3,865,776)*
External Services		(1,310,206)	(1,196,645)
Taxes other than income taxes		(2,678,599)	(2,649,579)
Losses, impairment and change in operating allowances		1,066	(2,772)
Other current operating expenses		(30,687)	(16,780)
Amortization/Depreciation	*Notes 5 and 6*	*(309,980)*	*(293,817)*
Allocation of non-financial fixed asset and other grants	*Note 11*	*22,148*	*22,676*
Overprovisions		*2,087*	*20,162*
Impairment and gains or losses on disposals of non-current assets		*1,668*	*(802)*
Impairment and other losses	Notes 5 and 6	-	453
Gains or losses on disposals and other		1,668	(1,255)
Other gains or losses	*Note 16*	*(10,363)*	*(6,953)*
Operating profit /(loss)		*529,791*	*715,849*
Finance Income		*709,154*	*410,639*
From investments in equity instruments	Note 8.3	691,796	388,922
Group companies and associates	Note 17	691,601	388,447
Third parties		195	475
From marketable securities and other financial instruments		17,358	21,717
Group companies and associates	Note 17	15,840	20,762
Third parties		1,518	955
Finance Costs		*(100,233)*	*(64,685)*
On debts to Group companies and associates	Note 17	(14,024)	(10,866)
On debts to third parties		(80,503)	(49,077)
Interest cost relating to provisions	Note 12	(5,706)	(4,742)
Change in fair value of financial instruments		*5,300*	*(48,506)*
Held-for-trading financial assets/liabilities and other		5,300	(48,506)
Exchange losses	*Note 15*	*(17,156)*	*64,418*
Impairment and gains or losses on disposals of financial instruments		*(6,274)*	*(405,468)*
Impairment and other losses	Note 16 y 8.3	(6,179)	(408,747)
Gains or losses on disposals and other		(95)	3,279
Financial profit / (Loss)		*590,791*	*(43,602)*
Profit / (Loss) before tax		*1,120,582*	*672,247*
Income tax (expense)/benefit	Note 14	(4,308)	(149,087)
Other taxes	Note 14	(105,810)	(114,884)
Profit / (Loss) for the year from continuing operations		*1,010,464*	*408,276*
Profit / Loss for the year		*1,010,464*	*408,276*

The accompanying Notes 1 to 22 are an integral part of this Income Statement as at December 31, 2018

CEPSA

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

Thousands of euros

Statement of recognised income and expense	Notes	2018	2017
Profit/Loss per income statement (I)		*1,010,464*	*408,276*
Income and expenses recognised directly in equity			
Net (losses)/gains on cash flow hedges	Note 9	(1,681)	732
Grants, donations or gifts and legacies received	Note 11	21,668	19,433
Tax effect	Note 14	(4,997)	(5,041)
Total income and expenses recognised directly in equity (II)		*14,990*	*15,124*
Transfer to income statement			
Net (losses)/gains on cash flow hedges	Note 9	(1,208)	8,009
Grants, donations or gifts and legacies received	Note 11	(22,148)	(22,676)
Tax effect	Note 14	5,840	3,666
Total transfers to income statement (III)		*(17,516)*	*(11,001)*
Total statement of recognised income and expense (I+II+III)		*1,007,938*	*412,399*

The accompanying Notes 1 to 22 are an integral part of this Statement of Changes in Equity as at December 31, 2018

5

CEPSA

STATEMENT OF TOTAL CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2018

Thousands of euros

	Share Capital	Share Premium	Reserves	Prior year losses	Profit / Loss for the Year	(Interim Dividend)	Cash flow hedge	Grants, Donations or Gifts and Bequests Received	Total
Closing balance 2016	*267,575*	*338,728*	*3,846,885*	*(1,446,570)*	*460,927*	*(189,978)*	*(4,827)*	*10,625*	*3,283,365*
Adjusted balance at 2017	*267,575*	*338,728*	*3,846,885*	*(1,446,570)*	*460,927*	*(189,978)*	*(4,827)*	*10,625*	*3,283,365*
Total recognised income and expense	-	-	-	-	***408,276***	-	***6,555***	***(2,432)***	***412,399***
Transactions with shareholders or owner	-	-	***(121,878)***	-	***(331,793)***	-	-	-	***(453,671)***
Dividends paid (-)	-	-	-	-	(331,793)	-	-	-	(331,793)
Segregation (Note 2.5)	-	-	(121,878)	-	-	-	-	-	(121,878)
Other changes in equity	-	-	-	***129,134***	***(129,134)***	-	-	-	-
Closing balance 2017	*267,575*	*338,728*	*3,725,007*	*(1,317,436)*	*408,276*	*(189,978)*	*1,728*	*8,193*	*3,242,093*
Adjusted balance at 2018	*267,575*	*338,728*	*3,725,007*	*(1,317,436)*	*408,276*	*(189,978)*	*1,728*	*8,193*	*3,242,093*
Total recognised income and expense	-	-	-	-	***1,010,464***	-	***(2,167)***	***(359)***	***1,007,938***
Transactions with shareholders or owner	-	-	-	-	***(350,523)***	-	-	-	***(350,523)***
Dividends paid (-)	-	-	-	-	(350,523)	-	-	-	(350,523)
Other changes in equity	-	-	-	***57,753***	***(57,753)***	-	-	-	-
Closing balance 2018	*267,575*	*338,728*	*3,725,007*	*(1,259,683)*	*1,010,464*	*(189,978)*	*(439)*	*7,834*	*3,899,508*

The accompanying Notes 1 to 22 are an integral part of this Statement of Changes in Equity as at December 31, 2018

CEPSA

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2018

Thousands of euros

	Notes	2018	2017
Cash flow from operating activities		***414,062***	***940,229***
Profit/Loss for the year before tax	***Note 14.4***	***1,120,582***	***672,247***
Adjustment to result		***(61,478)***	***359,879***
Depreciation and amortization charge	Notes 5 and 6	309,980	293,817
Impairment losses		30,805	408,403
Changes in provisions		29,955	25,262
Recognition of grants in P&L	Note 11.6	(22,148)	(22,676)
Gains/Losses on derecognitions and disposals of non-current assets		(1,668)	1,255
Gains/Losses on derecognitions and disposals of financial instruments		-	(3,279)
Finance income		(709,154)	(410,639)
Finance costs		94,527	59,943
Exchange differences	Note 15	213,666	(40,835)
Changes in fair value of financial instruments		(5,300)	48,506
Other income and expenses		(2,141)	122
Operating working capital		***(1,270,054)***	***(275,233)***
Inventories	Note 10	(260,888)	(171,912)
Trade and other receivables		171,305	(270,603)
Other current assets		(343,065)	143,272
Trade and other payables		(185,091)	97,539
Other current liabilities		(652,315)	(73,529)
Other cash flows from operating activities		***625,012***	***183,336***
Interest paid		(91,867)	(61,234)
Dividends received		729,214	327,462
Interest received		5,239	24,257
Income tax paid		(27,510)	(115,598)
Other payments (proceeds)		9,936	8,449
Cash flow from investing activities (II)		***(1,528,964)***	***(406,933)***
Payment for investment		***(1,787,900)***	***(755,836)***
Group companies and associates		(1,461,105)	(445,745)
Intangible assets		(9,731)	(13,368)
Property, plant and equipment		(316,385)	(296,163)
Other financial assets		(679)	(560)
Proceeds from disposals		***258,936***	***348,903***
Group companies and associates		254,944	348,361
Property, plant and equipment		3,975	512
Other financial assets		17	30
Cash flow from financing activities (III)		***848,037***	***(1,284,216)***
Proceeds and payment relating to equity instruments		***19***	***1***
Grants, donations or gifts and legacies received		19	1
Proceeds and payments on issued		***1,198,541***	***(952,424)***
Issued bank borrowing		1,294,062	31,247
Issued Other debts		2,654	2,599
Repaid of bank borrowing		(83,928)	(976,251)
Repaid of other debts		(14,247)	(10,019)
Dividends in return on other equity instruments paid		***(350,523)***	***(331,793)***
Dividends		(350,523)	(331,793)
Effect on exchange rate changes (IV)		***(405)***	***1,060***
Net increase/decrease in cash and cash equivalents		***(267,270)***	***(749,860)***
Cash and cash equivalents at beginning of year		382,610	1,132,470
Cash and cash equivalents at end of year		115,340	382,610

The accompanying Notes 1 to 22 are an integral part of this Statement of Cash Flows as at December 31, 2018

CEPSA

Notes to the Consolidated Financial Statements for the year ended December 31, 2018

Compañía Española de Petróleos, S.A.U. (CEPSA)

1. Company activity

a) Corporate information

Compañía Española de Petróleos, S.A.U. ("CEPSA"), a company existing under the laws of Spain, with its registered office at Torre Cepsa, Paseo de la Castellana 259-A, Madrid, was incorporated for an unlimited period on September 26, 1929, and is entered in the Madrid Mercantile Register, Volume 588 of the Companies book, sheet 35, page M-12,689. Its Tax ID code is A-28003119. Cepsa is a single shareholder company whose only shareholder and direct owner of all the shares is Cepsa Holding LLC. The ultimate parent company of Cepsa Holding LLC, and which exercises effective control over it, is Mubadala Development Company PJSC ("MIC").

The Company engages in all kinds of extraction, industrial, commercial, corporate and promotion activities connected mainly with oil and gas, in both solid and liquid form in Spain and abroad; the production of oil, petrochemical chemical and associated energy products, polymers, fibers and other derivative materials, compound or synthetic; all types of mineral or gas deposits, underground structures, rock, mineral, and geological resources, and on a complementary basis, any other raw materials, substances, products, energy, or waste which are related to, connected with or a substitute for or derive from or complement the above. The Company also carries out the above activities through the incorporation of or ownership of shares in other companies with similar or identical corporate purposes.

The Company is the parent of a group of subsidiaries and is required under current legislation to prepare consolidated financial statements separately. The consolidated financial statements of the CEPSA Group for 2017 were formally drafted by the Board of Directors at its meeting held on March 15, 2018. The consolidated financial statements for 2017 were approved by resolution of the Sole Shareholder at CEPSA's Annual General Meeting held on March 21, 2018 and were filed at the Madrid Mercantile Registry. Additionally, the company-only and consolidated 2018 annual accounts will be formally prepared on February 28, 2019 and it is expected they will be approved without significant changes by the sole shareholder.

b) Regulatory framework

The activities carried out by the Company, 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 Company's operations.

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

Law 8/2015 introduced significant changes in the different activities performed by operators in the oil and gas industry, including drilling, refining and commercialization of petrol products.

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

As far as refining activities are concerned, there are numerous industrial safety and environmental protection regulations, particularly Royal Legislative Decree 1/2016, dated December 16, which published the revised text of the law on the integrated prevention and control of pollution.

CEPSA

CEPSA also operates in the electricity sector, regulated by the Law 24/2013 of December 26. During 2014, a new remuneration system for renewable energies, including electricity cogeneration, was approved, resulting in a major decrease in the profitability of this type of facility. The approval of Royal Decree 900/2015 of October 2015 regulating administrative, technical and economic conditions for the different types of electrical energy supply with self-consumption and production with self-consumption, is also important.

By means of Law 18/2014 of October 15, 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 year basis affecting profits in these business areas.

2. Basis of presentation of the financial statements

2.1 Regulatory financial reporting framework applicable to the Company

The financial statements were prepared by the Directors in accordance with the regulatory financial reporting framework applicable to the Company, which consists of:

a) The Spanish Commercial Code and all other Spanish corporate law.

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007, modified by Royal Decree 1159/2010 and Royal Decree 602/2016 and its sector-specific adaptations.

c) The mandatory rules approved by the Spanish Accounting and Audit Institute (ICAC) in order to implement the Spanish Chart of Accounts and the relevant secondary legislation.

d) All other applicable Spanish accounting legislation.

2.2 Fair presentation

The accompanying financial statements, prepared from the Company's accounting records, are presented in accordance with the regulatory financial reporting framework applicable to the Company and present fairly, in all material respects, its financial position, the results of its operations and cash flows for the related year. These financial statements are presented in thousands of euros unless otherwise stated.

These financial statements, drafted by the Company's Directors, will be submitted for approval by the Sole Shareholder, and it is expected that they will be approved without any changes. The financial statements for 2017 were approved in a resolution adopted by the sole shareholder at the Annual General Meeting held on March 21, 2018.

2.3 Non-mandatory accounting principles applied

No non-mandatory accounting principles were applied. In addition, the Directors formally drafted these financial statements taking into account all the obligatory accounting principles and standards with a significant effect thereon. All obligatory accounting principles were applied.

2.4 Critical measurement issues and estimation of uncertainty

In preparing the accompanying financial statements estimates were made by the Company's Directors in order to measure certain assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

- 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. (See Note 4.1.g)

- The process of estimating reserves [(1)], is a key part of the Company´s decision making-process. The volume of oil and gas reserves, proved and probable (2P) is considered to calculate amortization charges applying the unit of production method. Likewise reserves (2P), together with

contingent resources, are considered in the evaluation of the recoverable amounts of the investments in Exploration and Production assets. The Cepsa Reserves and Contingent Resources Evaluation Procedure follows the guidelines established by the SPE, AAPG, WPC, SPEE and SEG in March 2007, revised in November 2011 and known by the abbreviated term "SPE-PRMS" (Petroleum Resources Management System), which is determined taking into account estimates of the oil and natural gas existing in the place, recovery factors and hypotheses of price forecasts, estimated operating costs and investments, and other factors.

(1) Every two years the negative volumes are audited by independent engineering firms. The estimation of reserves made by these firms in 2018 did not generate significant differences with those registered in CEPSA.

- The useful life of the property, plant and equipment and intangible assets. (Notes 4.1 and 4.2)

- When the fair value of financial assets and financial liabilities recorded in the Balance Sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk (own and counterparty) and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. (Notes 4.5 and 21)

- The inventories valuation. (See Note 4.6).

- The assessment of potential effects of legal claims and contingencies, for which the Company relies on the opinion of its legal counsel, that are based on their best professional judgment and take into account the present situation of the proceedings and the accumulated legal experience regarding the different issues. Since the results of the claims and contingencies may ultimately be determined by the courts, they may be different from those that are initially expected.

- Likewise, regarding tax and legal provisions, the assessment of possible claims and contingencies results is based on the opinions of the Company's legal and tax advisors and takes into account the situation at the time of legal proceedings as well as their accumulated experience.

- Additionally, Cepsa makes judgments and estimates for the recording of costs and the recognition of provisions for environmental restoration and remediation costs which are based on current information regarding costs and expected plans for remediation. Most of the restoration events are many years in the future and the precise requirements that will have to be met when the event occurs are uncertain. Decommissioning technologies and costs are constantly changing, as well as political, environmental, safety and public expectations. (See note 4.10)

- The calculation of income tax and the recognition of deferred tax assets. They are recognized to the extent that it is probable that taxable profit will be available. 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 (See Note 4.8).

Although these estimates were made on the basis of the best information available at 2018 year-end, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively.

2.5 Comparability

When comparing the figures for 2018 with those for 2017, it is necessary to take into account the non-monetary contribution of the operating branch of the Timimoun field to the subsidiary Cepsa Algerie S.L. as a disbursement from the capital increase approved by its shareholders on March 15, 2018. In accordance with Spanish GAAP measurement and recognition criteria, the contributed portion of activity is measured at its overall carrying amount, which is 133,033 thousand euros, which mainly corresponds to the carrying

amount of the property, plant, and equipment from the spin-off, and the short-term debt with the field shareholders (157,493 and 25,580 thousand euros, respectively) (Notes 5, 6 and 13.2).

The capital increase by means of a non-monetary contribution was duly registered in the Mercantile Registry on August 16, 2018. In compliance with the provisions of article 89 of Law 27/2014, dated November 27 on corporate income tax, the transaction availed itself of the special tax regime described in Chapter VII of Title VII therein.

2.6 Grouping of items

For clarity, certain items presented in the balance sheet and income statement are grouped together; nevertheless, in cases where the amounts involved are material, a breakdown is included in the relevant notes to the financial statements.

2.7 Correction of errors

No material errors were detected in the preparation of the accompanying annual accounts and which might lead to the restatement of the amounts included in the 2018 annual accounts.

3. Distribution of results

The proposed distribution of profits for the year ended December 31, 2018 that the Board of Directors will submit to the Sole Shareholder for approval, is as follows:

Outcomes implementataion

	Thousands of euros **2018**
Interim dividend	189,978
Final dividend	176,599
To offset prior year losses	643,887
Total applied	*1,010,464*

The dividends figure includes 189,978 thousand euros already distributed as interim dividends in 2018, recorded under the "Interim dividend" caption in Equity of the balance sheet. This was approved by the Board of Directors' meeting held on September 17, 2018 and the payment was made on October 16, 2018.

The provisional accounting statement prepared according to legal requirements that reflected sufficient liquidity for the distribution is the following:

CEPSA

Thousands of euros

ASSETS	Unauditied position as of 06.30.2018
Non-current assets	*6,231,407*
Intangible assets	75,772
Property, plant and equipment	2,174,646
Investments in Group companies and associates	3,519,752
Non-current financial assets	16,026
Deferred tax assets	445,211
Current assets	*4,339,352*
Assets held for sale	228
Inventories	1,631,374
Trade and other receivables	1,950,331
Current investments in Group companies and associates	134,765
Current financial assets	15,684
Current prepayments and accrued income	7,077
Cash and cash equivalents	599,893
Total assets	***10,570,759***

Thousands of euros

SHAREHOLDERS' EQUITY AND LIABILITIES	Unauditied position as of 06.30.2018
Shareholders' equity	*3,258,615*
Shareholders' equity	***3,241,623***
Capital and reserves	4,331,310
Prior year losses	(1,259,683)
Profit for the year 2017	169,996
Adjustments for value changes	***1,656***
Grants, donations or gifts and bequests received	***15,336***
Non-current liabilities	*3,531,544*
Long-term provisions	272,624
Bank borrowings	3,144,197
Deferred tax liabilities	110,830
Non-current accruals and deferred income	3,893
Current liabilities	*3,780,600*
Short-term provisions	34,822
Bank borrowings	254,877
Payable to Group companies and associates	1,558,110
Trade and other payables	1,930,990
Current accruals and deferred income	1,801
Total shareholders' equity and liabilities	***10,570,759***

CEPSA

4. Accounting policies and measurement bases

The principal accounting policies and measurement bases used by CEPSA in the preparation of its financial statements for 2018, prepared in accordance with the Spanish National Chart of Accounts, are the following:

4.1 Intangible assets

As a general rule, intangible assets are initially measured at acquisition or production cost. They are subsequently measured at cost less any accumulated amortization and any impairment losses. These assets are amortized over their years of useful lives. (Notes 4.1.g y 5)

a) Exploration and production assets

Investments in exploration and production are recognized based on the "successful efforts" criteria. The accounting treatment for the varying incurred expenses follows:

Exploration and evaluation costs

Exploration costs, not including well drilling, are charged to profit and loss as incurred, via capitalization and automatic amortization in the same month. Acquired exploration rights are capitalized, with periodic viability tests performed on the CGUs, and depending on the outcome, and where applicable, the corresponding impairment tests are performed (Note 4.1g) and amortized over the useful lives of the contract maximum. If proven oil reserves are found, their net value is transferred to "Investments" in areas with proven reserves once the development is completed production begins and amortized based on the production unit method.

Well drilling costs (exploratory drills) are capitalized temporarily until analyses deem that proven reserves have been found, in which case they are transferred to the "Investments in areas with proven reserves" heading. Conversely, if the outcome is negative, they are charged to profit and loss. The event which determines the change of an intangible asset into a PP&E asset occurs when governmental authorization is obtained for the commercial exploitation of a field during a specific period.

b) Research and Development expenses

The Company recognizes research expenses in which it incurs during the year to the income statement.

c) Patents, licenses, trademarks and similar

This account reflects amounts paid to buy or use property or the right to use for its different manifestations, including expenses incurred to register that of the Company. These amounts are amortized at the same rates as those used to depreciate the industrial units to which they relate (between 7 and 45 years).

CEPSA owns the registered trademarks and industrial designs with which it performs a portion of its trade transactions which until the previous year were regarded as having an indefinite useful life. These assets are amortized over the period over which they are expected to generate economic benefits for the company. For these purposes, when the useful life cannot be reliably estimated, they must be amortized over a period of 10 years - without prejudice to any specific rules that may exist - which is the period taken by the Company.

d) Goodwill

Goodwill is recognized when triggered by an acquisition for consideration, in the context of a business combination. Goodwill is allocated to each of the cash-generating units expected to benefit from the synergies of the combination, and is depreciated in ten years, unless evidence to the contrary exists. These cash-generating units are tested for impairment at least annually, according to the methodology described below, with any impairment recognized.

Goodwill impairment losses cannot be reversed in future periods.

e) Computer software

CEPSA recognizes computer software at the amount of costs incurred to acquire and develop them; these costs include website development costs. Computer software maintenance costs are recognized with a charge to the income statement for the year in which they are incurred.

Computer software is amortized on a straight-line basis over a maximum of five years.

f) Other intangible assets

Surface rights are amortized in accordance with the agreements executed for this type of operations (between 7 and 45 years).

Additionally, this caption includes licenses, management and flag station contracts, with a useful life of less than 50 years.

Other intangible assets are amortized on a straight-line basis over a maximum of five years.

g) Impairment of goodwill, intangible assets, property, plant and equipment and investments in group companies and associates

At the reporting date or whenever there are circumstances requiring it, CEPSA assesses whether there is any indication of impairment of goodwill, intangible assets, property, plant and equipment and investments in group companies and associates and, where appropriate, estimates the recoverable amount thereof.

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.

For these purposes, assets are grouped in cash generating units (CGU) when, individually taken, they do not generate cash flows separately from others generated from other assets of the CGU. The grouping of the assets in different CGUs implies the making of professional judgments and the consideration, among other parameters, of the business segments and the geographic areas in which the company operates.

- Particularly, provided the special characteristics of Exploration and Production segment assets, each CGU corresponds to each of the different contractual areas commonly known as "blocks"; as an exception, in cases where the cash flows generated by several blocks are interdependent from each other, these blocks are grouped into a single CGU, as is the case of the Algerian CGU.

- Refining and Marketing: it is considered a single CGU due to the interrelation of flows that exists throughout its production process. 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 cash generating unit (CGU) will be calculated in the following way:

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

b) It will not include the carrying amount of any recognized liability, unless the recoverable amount of the CGU cannot be determined without consideration of this liability.

The recoverable amount of each CGU is determined as the higher of fair value less costs to sell, based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

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 strategic plan 2019-2023, approved by the Board of Directors.

These projections cover the following five years, and include a residual value appropriate to each business for which a constant expected growth rate is used that ranges from 0% to 2.5% based on the business under analysis and expected long-term CPI. 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:

a) 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 CEPSA 2019-2023 strategic plan. These estimates are based on estimates made by various international organizations. The quoted Brent crude oil price is used as the basis, and the remaining international prices are calculated with the use of differentials. In particular, prices considered are 65 USD per barrel for 2019, 67 USD per barrel for 2020, 68 USD per barrel for 2021, 70 USD per barrel for 2022 and 71.5 USD per barrel for 2023. Later on prices are increased by a CPI of 2%.

b) 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, weighted by associated risk factors. 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 an independent expert.

c) Operating expenses and capital expenditure

For E&P assets the development plan established for each asset takes into account the investments necessary for production of the estimated reserves and resources. Both investments and operating expenses are estimated according to the actual procurement contracts and our best estimation using, when is applicable, an annual inflation rate, depending on the country where the asset is located.

For the remaining CGUs assets in which there are signs of impairment, the valuation takes into account cash flow projections covering a five-year period plus terminal value, with an annual increase of between 1.9%-2.5%.

For the purpose of calculating the present value of these cash flows, a discount rate 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 (WACCs) used for each CGU in 2018 and 2017:

Business Unit	2018	2017
Exploration and Production	7.5% - 10%	8.0% - 11.0%
Refining and Marketing	7.0% - 8.0%	7.0% - 8.0%
Petrochemicals	7.0% - 10%	7.5% - 11.0%
Gas and Power	6.0% - 6.5%	6.0% - 6.5%

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

- Risk-free rate: normalized bond yield [1]
- Equity risk-premium: 5.0%
- 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 comparable Oil and Gas integrated companies
- Net equity – Debt ratio: sector average

[1] Risk-free rate in USD: US 10Y average real rate + long term inflation forecasts.
Risk-free rate in EUR: US 10Y real rate by averaging + long-term inflation forecasts + Relative Inflation spread 10Y.

These WACC have been calculated considering the local currencies of the cash generating units, except Exploration and Production and Petrochemical Indonesia, which are expressed in USD.

The discount rates (WACCs) used in the countries whose assets or CGUs had signs of impairment in 2018 and 2017 are as follows:

WACCs by asset/CGU	2018	2017
Exploration and Production		
Colombia	8.5%	7.8%-9.0%
Colombia	8.0%	7.8%-9.0%
Thailand	7.5%	9.0%
Malaysia	9.0%	9.5%
Algeria	10.0%	11.0%
Abu Dhabi	7.5%	8.0%

According to the above assumptions, the impairment (reversal) has been recorded. See Notes 5, 6, 8.3 and 16.6.

In the case of those assets or CGUs for which CEPSA performs an impairment test as a result of identifying indications of impairment, the Company analyzes 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, CEPSA 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 Specifically, the most relevant sensitivity analyses performed, for all the CGUs, have been the following:

Sensitivity analysis	Variation	Amount in millions of euros
Increases in WACC	50 p.b.	36
Decrease in the oil price	-10 $/bbl	222
Change in $/€ exchange rate	0.05 €/$	3

Based on the price curves posted by reputed analysts [1], we consider reasonable the estimates made to calculate the recoverable value in the impairment tests performed.

If the recoverable amount of an asset (or cash-generating unit) 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 income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit), 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 (cash-generating unit) in prior years.

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

4.2 Property, plant and equipment

a) Exploration and production assets

Investments in exploration and production are recognized based on the "successful efforts" method. The accounting treatment for the varying incurred expenses follows:

Investments in areas with proven reserves

Investments relating to the acquisition of proven reserves, the development of fields and the construction of production plants, as well as the estimated present value of abandonment costs, are capitalized and depreciated over the estimated life of the field based on the proven and probable and recoverable reserves extracted (unit-of-production method) at the beginning of each year.

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

An impairment test is regularly performed for each CGU. Impairment tests are recognized in the income statement (Note 4.1.g).

b) Other items of property, plant and equipment

Property, plant and equipment are initially recognized at acquisition or production cost, considering the update valuation made according to applicable regulation and are subsequently reduced by the related accumulated depreciation and by any impairment losses recognized, as indicated in notes 4.1.g y 6.

Property, plant and equipment upkeep and maintenance expenses are recognized in the income statement for the year in which they are incurred. However, the costs of improvements leading to increased capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized.

For non-current assets that necessarily take a period of more than twelve months to be ready for their intended use, the capitalized costs include such borrowing costs as might have been incurred before the assets are ready for their intended use and which have been charged by the supplier or relate to loans or other specific-purpose or general-purpose borrowings directly attributable to the acquisition or production of the assets.

In-house work on non-current assets is measured at accumulated external costs plus in-house costs, determined on the basis of in-house materials consumption, direct labor and general manufacturing costs.

Assets acquired before December 31, 1996, are measured at cost, revalued and adjusted, where appropriate, pursuant to applicable legislation.

The Company decided to undertake the revaluation of certain qualifying items of property, plant and equipment on its balance sheet, pursuant to Act 16/2012 of December 27th. The assets involved were buildings and technical installations located in Algeciras and Huelva, whose restated value did not exceed their market value.

CEPSA depreciates its property, plant and equipment using the straight-line method, at annual depreciation rates based on the years of estimated useful life, as follows:

	Depreciation rate
Buildings and other structures	10% - 2%
Plant and machinery	
Machinery, installations and fixtures	100% - 1%
Furniture	25% - 7%
Investments in areas with proven reserves	Production Unit
Means of Transport	25% - 17%
Data processing equipments	50% - 7%
Other intangible assets	10%

4.3 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases (note 7).

Finance leases

In finance leases in which the Company acts as the lessee, the cost of the leased assets is disclosed in the balance sheet, based on the nature of the leased asset, and, simultaneously, a liability for the same amount is recognized. This amount will be the lower of the fair value of the leased asset and the present value, at the inception of the lease, of the agreed minimum lease payments, including the price of the purchase option, when it is reasonably certain that it will be exercised. Contingent lease installments, the cost of

services and taxes payable by the lessor are not included in the calculation. The total finance charges arising under the lease are allocated to the income statement for the year in which they are incurred using the effective interest method. Contingent rent is recognized as an expense for the period in which it is incurred.

Leased assets are depreciated, based on their nature, using similar criteria to those applied to the items of property, plant and equipment that are owned.

Operating leases

On operating leases, in which the Company acts as lessor or lessee, lease income and expenses are charged to the income statement in the year in which they accrue.

Any collection or payment that might be made when arranging an operating lease is treated as a prepaid lease collection or payment which will be allocated to profit or loss over the lease term in accordance with the time over which the benefits of the leased asset are assigned or received.

In addition, and when the Company acts as a lessor, the acquisition cost of a leased asset is classified on the balance sheet in accordance with its nature, increased by directly attributable contract expenses, which are subsequently expensed throughout the life of the lease arrangement following the same criteria used to recognize lease income.

4.4 Asset exchange transactions

"Asset exchange" means the acquisition of property, plant and equipment or intangible assets in exchange for the delivery of other non-monetary assets or a combination of monetary and non-monetary assets.

As a general rule, the asset received in an asset exchange transaction with commercial substance is recognized at the fair value of the asset given up, plus, where appropriate, any monetary consideration paid. The valuation differences that arise on derecognition of the asset given up in the exchange are recognized in the income statement.

Assets received in an exchange have commercial substance when cash flows from the item received are different (risks, calendar and amounts) than from the item provided or when the present value of cash flows after taxes from the activities related to the exchange are modified by the transaction.

Assets received in an exchange that lack commercial substance are recognized at the carrying amount of the asset given up plus, where appropriate, any monetary consideration paid, up to the limit of the fair value of the asset received if this is lower.

4.5 Financial instruments

4.5.1 Financial assets-Classification

The financial assets held by CEPSA are classified in the following categories:

a) Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business, or financial assets which, not having commercial substance, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.

b) Held-for-trading financial assets: for the purpose of being sold in the near term and assets that form part of a portfolio for which there is evidence of a recent actual pattern of short-term profit-taking. This category also includes financial derivatives that are not financial guarantees (e.g. suretyships) and that have not been designated as hedging instruments (note 4.5.4).

c) Equity investments in Group companies, associates and jointly- controlled entities: Group companies are deemed to be those related to the Company as a result of a relationship of control and associates are companies over which the Company exercises significant influence. Significant influence is generally deemed to be exercised over companies which are between 20% and 50% owned. Also in other companies in which the ownership is less than 20% but significant influence is exercised because,

among other factors, the CEPSA Group is present on its Board of Directors and there is a high volume of commercial operations between them. Jointly-controlled entities include companies over which, by virtue of an agreement, the Company exercises joint control with one or more other venturers.

d) Available-for-sale financial assets: these include debt securities and equity instruments of other companies that are not classified in any of the aforementioned categories.

Initial recognition

Financial assets are initially recognized at the fair value of the consideration given, plus any directly attributable transaction costs. In held-for-trading financial assets directly attributable transaction costs are recognized in the income statement.

In the case of equity investments in Group companies where there is control over the subsidiary, the fees paid to legal advisers and other professionals relating to the acquisition of the investment are recognized directly in the income statement.

Subsequent valuation

Loans and receivables are measured at amortized cost net of any impairment losses.

Held-for-trading financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognized in the net profit or loss for the year.

Investments in Group companies and associates and interests in jointly-controlled entities are measured at cost net, where appropriate, of any accumulated impairment losses. These losses are calculated as the difference between the carrying amount of the investments and their recoverable amount. Recoverable amount is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the amount of any unrealized gains existing at the date of measurement (including any goodwill). The main assumptions applied in the valuation of equity instruments and the related sensitivity analyses therefore agree with the contents of Note 4.1.g.

Available-for-sale financial assets are measured at fair value and the gains and losses arising from changes in fair value are recognized in equity until the asset is disposed of or it is determined that it has become (permanently) impaired, at which time the cumulative gains or losses previously recognized in equity are recognized in the net profit or loss for the year. In this regard, impairment is deemed to exist (permanent) if the market value of the asset has fallen by more than 40% or if there has been a prolonged fall in market value over a period of 18 months without the value having recovered.

Whenever there is evidence or at least at each reporting date CEPSA tests financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the appropriate write-down is recognized in the income statement.

As regards the valuation adjustments of trade and other receivables, CEPSA recognizes a write-down when the receivable is over six months past-due or when the Company's Legal Advisory Department takes legal action in order to obtain collection settlement or when the customer is in bankruptcy.

CEPSA derecognizes a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership of the financial asset have been transferred, such as in the case of firm asset sales, factoring of trade receivables in which the Company does not retain any credit or default risk, sales of financial assets with repurchase agreements or securitization of financial assets in which the transferring company does not retain subordinated financing nor grants any other type of guarantee or assumes any other type of risk.

However, CEPSA does not derecognize financial assets, and recognizes a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained, such as in the case of bill discounting and non-recourse factoring, sales of financial assets with repurchase agreements at a fixed price or sales price plus interest and securitization of financial assets in which the transferring company retains subordinated financing or other types of guarantees that substantially cover all expected losses.

4.5.2 Financial liabilities

Financial liabilities include accounts payable by CEPSA that have arisen from the purchase of goods or services in the normal course of the business and those which, not having commercial substance, cannot be classed as derivative financial instruments.

Accounts payable are initially recognized at the fair value of the consideration received, adjusted by the directly attributable transaction costs. These liabilities are subsequently measured at amortized cost.

CEPSA derecognizes financial liabilities when the obligation underlying the liability ceases to exist.

4.5.3 Equity instruments

An equity instrument represents a residual portion in the equity of a company after deducting all its liabilities.

Equity instruments issued by the Company are recorded through net equity at the amount received, net of issuance costs.

4.5.4 Derivative financial instruments and hedge accounting

CEPSA uses financial derivatives to hedge against the risks to which its activities, operations, and projected cash flows are exposed. The main risks derive from exposure to changes in exchange rates, interest rates and commodities prices. Considering these transactions, the company arranges hedge instruments.

For these instruments to qualify for hedge accounting, the Company designates them as hedges from the outset, while also documenting the hedging relationship. In addition, the Company assesses the effectiveness of its hedges from inception to derecognition/discontinuation (and at least at every close). Hedges are deemed effective if it is expected, prospectively, that the changes in fair value or cash flows from the hedged item (attributable to the hedged risk) are almost entirely offset by the changes in the hedging instrument and that, retrospectively, the gains or losses on the hedge have fluctuated within a range of 80% to 125% of gains or losses on the hedged item.

CEPSA accounts for the different types of hedges it uses as follows:

- Fair value hedges: Changes in the value of the hedging instrument and the hedged item, attributable to the covered risk, are recognized in the income statement.
- Cash flow hedges: The effective portion of the gain or loss on the hedging instrument is recognized temporarily in equity, while any ineffective portion is recognized in the income statement in the same period in which the hedged item affects profit or loss, except when the hedge relates to a forecast transaction that entails the recognition of a non-financial asset or liability, in which case the amounts recognized in equity are capitalized as part of the cost of the asset or liability acquired or assumed.
- Net investment of businesses abroad hedge: these hedge transactions are focused on the exchange rate hedge on Investments in group companies and associates and are deemed to be as fair value exchange hedge.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognized in equity is retained in equity until the forecast transaction occurs. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognized immediately in profit or loss.

Throughout the normal course of business, CEPSA enters into crude oil and natural gas sales and purchase contracts. These contracts are held and maintained to meet physical crude oil and gas needs based on period hydrocarbons purchase and sale estimates and are monitored systematically and adjusted based on physical delivery, where applicable. This is why they are called "own use" contracts.

4.6 Inventories

Crude oil, oil derivatives and petrochemical products, acquired as raw materials, are measured at the lower of the Average Unit Cost Method 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. (See Note 10).

Production cost includes those of direct materials and, where applicable, direct labor costs and general manufacturing costs.

Net realizable value is the estimated selling price less the estimated costs of completion and costs to be incurred in marketing, selling and distribution.

The cost of inventories is assigned by using the Average Unit Cost Method.

The Company recognizes the appropriate write-downs as an expense in the income statement when the net realizable value of the inventories is lower than acquisition or production cost.

In the case of refined products, the costs incurred are allocated in proportion to the selling price of the related products (isomargin method), due to the complexity of allocating production costs to each item.

The measurement criteria applied to greenhouse gas emission rights are described as follows:

Greenhouse gas emission allowances

In compliance with European Union regulations on reducing greenhouse gas emissions within the framework of the Kyoto Protocol and hence, other community and Spanish regulations issued as a result, the Company must at least deliver an amount of CO2 emissions rights equivalent to those realized and verified during the year by April 28.

CEPSA's emissions rights for complying with the delivery obligations arising from its greenhouse gas emissions are classified under "Inventories" as indicated in Royal Decree 602/2016, which amended the General Chart of Accounts.

In this regard, the greenhouse gas emission allowances are recognized under "Commercial inventory." They are valued as follows:

a) rights acquired are valued based on acquisition price;
b) rights received freely, in accordance with the emissions trading scheme, are valued at the prevailing market price at the beginning of the corresponding year, assuming an official capital grant applied to results at as expenses arising from the emissions associated to the received rights without consideration paid.

Emissions rights are derecognized at the moment of delivery, when transferred to third parties, or meet the conditions established to consider them expired (Note 20).

Should the emissions rights' market value be inferior to the carrying amount of the recognized rights, their carrying amount will be adjusted to market value.

Depending on whether the rights are acquired or received from the government, either a provision is set aside for the impairment of inventory, or a value adjustment is made. In the latter case (rights received from the Administration), the value of official capital grants is also adjusted with a balancing entry under "Non-financial and other capital grants" on the income statement (Notes 5, 11, and 20).

The commitment to deliver emissions rights for the CO2 emissions during the year are recognized as the greenhouse gas is emitted. These expenses are recognized under "Greenhouse gas emission expenses" under "Other operating expenses" on the income statement, with a balancing entry of "Provisions for greenhouse gas emission rights "under "Non-current provisions" which will be canceled when the corresponding emissions rights have been delivered.

The unit value to be assigned to the emissions is determined taking into account the following amounts:

- Firstly, the carrying amount of the emission rights received for no consideration.
- Based on the Average Unit Cost Method of the rest of inventoried emissions rights.
- Lastly, where necessary, the most up-to-date estimate of the acquisition cost of the remaining allowances.

4.7 Foreign currency transactions

CEPSA's functional currency is the euro. Therefore, transactions in currencies other than the euro are deemed to be "foreign currency transactions" and are recognized by applying the exchange rates prevailing at the transaction date while exchange differences arising at the date of settlement of the transactions are charged or credited, as appropriate, to income.

Monetary assets and liabilities denominated in foreign currencies are recognized at each year-end in euros at the exchange rates then prevailing. Any resulting gains or losses are recognized directly in the income statement in the year in which they arise.

Non-monetary items measured at historical cost are translated at the exchange rate prevailing at the transaction date.

4.8 Income tax

The tax income or expense comprises current tax income or expense and deferred tax income or expense.

The current income tax expense is the amount payable by the Company as a result of income tax assessments for a given year. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards effectively offset in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and available tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled.

Deferred tax liabilities are recognized for all taxable temporary differences, except for those arising from the initial recognition of goodwill or other assets and liabilities in a transaction that is not a business combination and affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax assets, however, are only recognized to the extent that it is considered probable that sufficient future taxable profit will be available against which they can be utilized.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognized directly in equity.

At each accounting close the deferred tax assets recognized are reviewed and appropriate adjustments are made where there are doubts as to their future recoverability. Likewise, at each accounting close the deferred tax assets that have not been recognized in the balance sheets are assessed and are recognized to the extent that their recovery against future taxable profits is probable.

4.9 Revenues and expense recognition

Revenue and expenses are recognized on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, net of discounts and taxes.

The Company recognizes revenues whenever the amount of such revenues can be reliably measured, it is likely that any future economic benefit associated with the item of revenue will flow to the Company and the specific conditions for each of the activities, as detailed below, are met.

Revenue from sales is recognized when the significant risks and rewards of ownership of the goods sold have been transferred to the buyer, and the Company neither continues to manage the goods nor retains effective control over them.

Revenue from the sale of oil is recognized when the significant risks and rewards of ownership have been transferred, which is when the title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism.

Revenue from the production of oil in which the Company has an interest with other producers is recognized based on the working interest and the terms of the relevant production sharing contracts.

Sales and Supplies exclude the value of transactions relating to the exchange of goods of a similar nature carried out 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 recognized as part of the selling price and as an addition to cost under "Revenue" and "Other operating expenses," respectively, in the income statement.

Revenue from services rendered is recognized by referring to the degree of completion of the service at the end of the reporting period, provided the transaction results may be reliably estimated.

Interest income from financial assets is recognized using the effective interest method and dividend income is recognized when the shareholder's right to receive payment has been established. Interest and dividends from financial assets accrued after the acquisition date are recognized as income.

4.10 Provisions and contingencies

When preparing the financial statements the Company's directors make a distinction between:

a) Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits of certain amount and/or timing will be required to settle the obligations.

b) Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Company's control.

The financial statements include all the provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognized in the financial statements, but rather are disclosed, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognized as interest cost on an accrual basis.

The compensation to be received from a third party on settlement of the obligation is recognized as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalized as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognized.

4.11 Termination benefits

Under current legislation, CEPSA is required to pay termination benefits to employees when employment is terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognized as an expense in the year in which the decision to terminate the employment relationship is taken. (Note 12).

4.12 Environmental matters

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

Environmental expenses are also 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 obligations, CEPSA records provisions for environmental actions to remedy the risk of gradual soil pollution, with a charge to "Other operating expenses" in the income statements, calculated based on internal technical estimates and studies. In

addition, CEPSA has taken out insurance policies to cover the third party liability that might arise from sudden accidental pollution and gradual subsequent pollution. (Note 18).

4.13 Pension commitments and similar obligations

CEPSA has the following pension commitments towards employees and their beneficiaries:

Long-term defined contribution benefits

- Commitments covered through Employee Pension Plans: These pension plans entitle participants to receive benefits for retirement, death or disability, as specified in the plans. The plans take the form of hybrid plans and combine defined contribution plans, which cover retirement - whereby the sponsor makes periodic contributions-, and defined benefit plans which cover benefits for death or disability through a temporary annually renewable policy arranged with an insurance company under which the sponsor undertakes to make the contributions corresponding to the pension plans. Accordingly, these contingencies should be considered to be a defined contribution plan. The accrued amount of the contingency assumed by the sponsor is covered each year through the annual contribution, which is recognized under "Staff costs" in the income statement.

- Life insurance: A defined contribution obligation arranged through an insurance policy which establishes the right of the insured parties to receive retirement benefits or, where appropriate, benefits for death or disability. The contributions made by the policyholder are made as a supplement to the pension plan, or because the commitments to employees exceed the maximum contributions to pension plans. The contributions are recognized under "Staff costs" in the income statement.

- Annuity income for retired employees: These are obligations prior to the arrangement of pension plans, which entitle personnel or their beneficiaries to 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 contributions made, through modification of the group insured, variation of said policy commitments or CPI revaluations, are recognized under "Employee benefits expense" on the income statement.

The adjustments arising from commitments are recognized as expenses or income for the year, as appropriate, and their amount is not material.

Long-term defined benefit considerations

- The Company has entered into a commitment with a certain group of employees for the payment of an annuity in the form of monetary consideration arising from the closing of company stores. Actuarial studies are performed annually, based on life expectancy tables (PEMF2000) with a discount rate of 1.5% and salary increases anticipated at 0.25%, and the actuarial gains and losses are recognized as income or expenses, as appropriate. The annual accrual of obligations to employees and the interest cost on the funds are recognized under "Staff costs" and "Finance costs."

- Employees have the right to receive from the company both 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 caption "Long-term provisions – Provisions for long-term employee benefits" on the balance sheet includes the present value of the defined benefit considerations, net of the fair value of the assets considered as "involved assets" and the "cost of rendered services" from not record post-employment considerations, if applicable.

4.14 Grants, donations or gifts and legacies received

The Company accounts for grants, donations or gifts and bequests received from third parties other than the shareholder using the following criteria:

a) Non-refundable grants, donations and gifts, and bequests: These are measured at the fair value of the amount or the asset received, based on whether or not they are monetary grants, and are taken to income in proportion to the period depreciation taken on the assets for which the grants were received or, where appropriate, on disposal of the asset or on the recognition of an impairment loss.

b) Refundable grants: while they are refundable, they are recognized as a liability.

c) Operating grants: They are allocated to income at the time they are granted except if they are used to finance an operating deficit in future years, in which case they will be allocated in those years. But if grants are received to finance specific expenses, they are allocated to income as the related expenses are incurred.

4.15 Joint ventures

a) Jointly controlled assets

CEPSA accounts for its investments in joint ventures by recognizing in its balance sheet the share corresponding to it, in proportion to its ownership interest, of the jointly controlled assets and of the jointly incurred liabilities. In addition, it recognizes in the income statement its share of the income earned and expenses incurred by the joint venture. In addition, the proportional part corresponding to the Company of the related items of the joint venture is included in the statement of changes in equity and cash flow statement.

b) Jointly controlled subsidiaries

Shareholdings in a jointly-controlled company are recorded pursuant to the requirements for Investments in group companies, associates and jointly-controlled entities (Note 4.5).

4.16 Related party transactions

CEPSA performs all its transactions with related parties at market prices. Transfer prices are appropriately supported and accordingly, the Company's directors do not consider that any significant risks that could give rise to material liabilities in the future exist in this connection.

Notwithstanding the above, in mergers, spin-offs or non-cash contributions to a business, the acquired assets making up the business are valued at the amount assigned to such assets, once the transaction has been completed, in the consolidated financial statements of the group or sub-group.

4.17 Current/non-current classification

Current assets are deemed to be those related to the normal operating cycle which in general is considered to be one year, as well as those other assets that mature, are disposed of or are realized in the short term following the balance sheet date, held-for-trading financial assets, except for derivative financial instruments settled at more than twelve months and cash and cash equivalents. Assets that do not meet these requirements are classified as non-current.

Also, current liabilities are those related to the normal operating cycle, held-for-trading financial liabilities, except for derivative financial instruments settled at more than twelve months and, in general, all the obligations that mature or expire in the short term. All other liabilities are classified as non-current.

4.18 Cash flow statement

CEPSA reports the information regarding cash flows from operations using the "indirect method", which implies starting with the "Profit before taxes" on the statement of income, and subsequently adjusting this figure for the effects of non-monetary transactions and accruals for the period, as well as, gains or losses associated with cash flows from investing or financing operations.

CEPSA

5. Intangible assets

The main movements during 2018 and 2017 are as follows:

Thousands of euros

2018	Balance at 01.01.18	Non-Cash Contributions	Additions or charges for the year	Transfers	Retirements or disposals	Balance at 12.31.18
Assets						
Concessions	58	-	-	-	-	58
Patents and licences	49,089	-	285	-	-	49,374
Goodwill	399	-	-	-	-	399
Computer software	148,696	-	17,252	(4,399)	-	161,549
Other intangible assets	590	-	-	-	(19)	571
Investments in areas with unproven reserves	121,061	(12,600)	1,350	-	-	109,811
Total	***319,893***	***(12,600)***	***18,887***	***(4,399)***	***(19)***	***321,762***
Accumulated amortisation and impairment losses						
Concessions	(58)	-	-	-	-	(58)
Patents and licences	(35,830)	-	(3,046)	-	-	(38,876)
Goodwill	(80)	-	(40)	-	-	(120)
Computer software	(101,963)	-	(11,209)	-	-	(113,172)
Other intangible assets	(305)	-	(19)	-	-	(324)
Investments in areas with unproven reserves	(101,540)	12,600	(20,871)	-	-	(109,811)
Total	***(239,776)***	***12,600***	***(35,185)***	-	-	***(262,361)***
Accumulated amortization						
Net intangible assets	*80,117*	-	*(16,298)*	*(4,399)*	*(19)*	*59,401*

Thousands of euros

2017	Balance at 01.01.17	Transfer to inventories	Additions or charges for the year	Transfers	Retirements or disposals	Balance at 12.31.17
Assets						
Concessions	58	-	-	-	-	58
Patents and licences	48,683	-	48	358	-	49,089
Goodwill	9,970	(9,571)	-	-	-	399
Computer software	135,061	(373)	13,599	409	-	148,696
Other intangible assets	100,074	(99,484)	-	-	-	590
Investments in areas with unproven reserves	119,461	-	1,158	442	-	121,061
Total	***413,307***	***(109,428)***	***14,805***	***1,209***	-	***319,893***
Accumulated amortisation and impairment losses						
Concessions	(58)	-	-	-	-	(58)
Patents and licences	(32,777)	-	(3,053)	-	-	(35,830)
Goodwill	(997)	957	(40)	-	-	(80)
Computer software	(92,248)	235	(9,873)	(77)	-	(101,963)
Other intangible assets	(15,552)	15,266	(19)	-	-	(305)
Investments in areas with unproven reserves	(101,098)	-	(442)	-	-	(101,540)
Total	***(242,730)***	**16,458**	***(13,427)***	***(77)***	-	***(239,776)***
Accumulated amortization						
Net intangible assets	*170,577*	*(92,970)*	*1,378*	*1,132*	-	*80,117*

In 2018 and 2017, 9,874 thousand and 6,965 thousand euros, respectively, in respect of staff, finance and other costs relating basically to computer software developed in those years were capitalized as intangible assets with a credit to "In-house work on non-current assets" in the accompanying income statement. The rest of the investment recognized by CEPSA under "Computer software" relates basically to acquisitions made in order to upgrade computer software to the most recent market versions.

In 2018, as a result of the non-monetary contribution described in Note 2.5, the intangible assets associated with the Timimoun field, whose carrying amount was zero, were derecognized.

In 2017 the branch of activity corresponding to the service stations in the Canary Islands was segregated and the intangible assets associated with this branch of activity were derecognized. These mainly

corresponded to "other intangible assets", which basically included service station licenses amounting to 99,484 thousand euros (84,218 thousand euros net of amortization).

The amounts recorded under "Investments in areas with unproven reserves" includes investments in other Algerian deposits.

As at December 31, 2018 and 2017, CEPSA had investments in items of property, plant, and equipment located at the different Algerian exploration camps:

Thousands of euros

2018 Description	Gross carrying amount	Accumulated depreciation	Net carrying amount
Investment in areas with unproven reserves	109,811	(109,811)	-
Total	*109,811*	*(109,811)*	-

Thousands of euros

2017 Description	Gross carrying amount	Accumulated depreciation	Net carrying amount
Investments in areas with unproven reserves	121,061	(101,540)	19,521
Total	*121,061*	*(101,540)*	*19,521*

At 2018 and 2017 year-end CEPSA had the following fully amortized intangible assets still in use:

Thousands of euros

Gross carrying amount	2018	2017
Concessions	58	58
Patents and licences	10,284	10,284
Computer software	92,343	86,051
Investments in areas with unproven reserves	109,811	101,540
Total	*212,496*	*197,933*

At year-end 2018 and 2017, CEPSA's non-current assets were not subject to any guarantees or any other circumstance of a substantive nature affecting them.

At year-end 2018 and 2017, CEPSA had firm intangible asset purchase commitments amounting to 1,824 thousand euros and 1,480 thousand euros, respectively.

CEPSA

6. Property, plant and equipment

The main movements during 2018 and 2017 are as follows:

Thousands of euros

2018	Balance at 01.01.18	Non-Cash contributions	Classified as held for sale	Additions or charges for the year	Transfers	Retirements or disposals	Balance at 12.31.18
Assets							
Land and buildings	61,745	-	(228)	19	71	-	61,607
Plant and machinery	5,001,923	-	(1,115)	-	174,420	(38,315)	5,136,913
Investments in areas with proven reserves	1,353,425	-	-	1,662	43,647	(456,079)	942,655
Furniture	4,755	-	-	-	56	-	4,811
Computer hardware	22,229	-	-	-	3,300	-	25,529
Transport equipment	409	-	-	-	46	(46)	409
Other property, plant and equipment	47,869	-	-	-	2,852	-	50,721
Property, plant and equipment in the course of construction and advance payments	623,249	(157,493)	-	376,175	(219,993)	-	621,938
Total	***7,115,604***	***(157,493)***	***(1,343)***	***377,856***	***4,399***	***(494,440)***	***6,844,583***
Accumulated depreciation and impairment losses		-					
Land and buildings	(1,870)	-	-	(58)	9	-	(1,919)
Plant and machinery	(3,547,728)	-	1,035	(249,159)	3	36,490	(3,759,359)
Investments in areas with proven reserves	(1,289,933)	-	-	(20,810)	-	441,943	(868,800)
Furniture	(2,140)	-	-	(354)	(9)	-	(2,503)
Computer hardware	(14,814)	-	-	(4,390)	-	-	(19,204)
Transport equipment	(399)	-	-	(6)	-	-	(405)
Other property, plant and equipment	(485)	-	-	(18)	(3)	-	(506)
Total	***(4,857,369)***	-	***1,035***	***(274,795)***	-	***478,433***	***(4,652,696)***
Accumulated depreciation		-					
Plant and machinery	(179)	-	-	-	-	-	(179)
Land and buildings	(97,322)	-	-	-	-	-	(97,322)
Total	***(97,501)***	-	-	-	-	-	***(97,501)***
Net items of property, plant and equipment	*2,160,734*	*(157,493)*	*(308)*	*103,061*	*4,399*	*(16,007)*	*2,094,386*

Thousands of euros

2017	Balance at 01.01.17	Segregation	Additions or charges for the year	Transfers	Retirements or disposals	Balance at 12.31.17
Assets						
Land and buildings	64,792	(4,969)	-	2,369	(447)	61,745
Plant and machinery	4,953,324	(21,265)	-	102,837	(32,973)	5,001,923
Investments in areas with proven reserves	1,352,782	-	643	-	-	1,353,425
Furniture	4,687	-	-	68	-	4,755
Computer hardware	18,235	(273)	-	4,267	-	22,229
Transport equipment	428	-	-	78	(97)	409
Other property, plant and equipment	46,945	-	-	924	-	47,869
Property, plant and equipment in the course of construction and advance payments	411,165	(4,391)	328,227	(111,752)	-	623,249
Total	***6,852,358***	***(30,898)***	***328,870***	***(1,209)***	***(33,517)***	***7,115,604***
Accumulated depreciation and impairment losses						
Land and buildings	(1,952)	-	(35)	(94)	211	(1,870)
Plant and machinery	(3,329,796)	7,282	(258,178)	1,458	31,506	(3,547,728)
Investments in areas with proven reserves	(1,271,645)	-	(18,288)	-	-	(1,289,933)
Furniture	(1,783)	-	(352)	(5)	-	(2,140)
Computer hardware	(10,174)	169	(3,527)	(1,282)	-	(14,814)
Transport equipment	(390)	-	(9)	-	-	(399)
Other property, plant and equipment	(484)	-	(1)	-	-	(485)
Total	***(4,616,224)***	***7,451***	***(280,390)***	***77***	***31,717***	***(4,857,369)***
Accumulated depreciation						
Plant and machinery	(179)	-	-	-	-	(179)
Land and buildings	(97,775)	-	-	-	453	(97,322)
Total	***(97,954)***	-	-	-	453	***(97,501)***
Net items of property, plant and equipment	*2,138,180*	*(23,447)*	*48,480*	*(1,132)*	*(1,347)*	*2,160,734*

Own work capitalized is recognized at production cost and includes, where appropriate, staff, financial expenses and other costs incurred during the related construction period; during 2018 and 2017, property,

plant, and equipment amounting to 13,347 thousand and 18,939 thousand euros, respectively, were recognized under "Own work capitalized" on the accompanying income statement according to their nature.

The additions to property, plant, and equipment in 2018 and 2017, amounting to 377,856 thousand and 328,870 thousand euros, respectively, related mainly to investments in the fields in Algeria and to new refinery units aimed at increasing, enhancing and flexibilizing the production processes, and generally speaking, improvements in industrial installations aimed at minimizing the impact on the environment while increasing safety.

In 2018, as a result of the non-monetary contribution described in Note 2.5, the current property, plant and equipment associated with the Timimoun field, with a value of 157,493 thousand euros, were derecognized.

Retirements, disposals or reductions made in 2018 included the sale of certain fixed assets in the RKF field, which had a net value of 14,136 thousand euros, giving rise to a gain of 3,363 thousand euros. In 2017, there were deregistrations due to the segregation of the branch of activity corresponding to the service stations in the Canary Islands. The derecognition in both years of other items of property, plant and equipment is due to their obsolescence.

Set out below is a breakdown of the value of lands and buildings for 2018 and 2017:

	Thousands of euros	
Investment property	**2018**	**2017**
Land	57,195	57,404
Buildings	2,314	2,292
Total	*59,509*	*59,696*

As at December 31, 2018 and 2017, CEPSA had investments in property, plant and equipment located in various prospecting fields in Algeria, as detailed below:

			Thousands of euros
2018			
Description	**Gross carrying amount**	**Accumulated depreciation**	**Net carrying amount**
Investment in areas with proven reserves	942,655	(868,800)	73,855
Furniture	124	(124)	-
Computer hardware	32	(32)	-
Transport equipment	63	(63)	-
Property, plant and equipment in the course of construction and advance payments	11,675	-	11,675
Total	*954,549*	*(869,019)*	*85,530*

			Thousands of euros
2017			
Description	**Gross carrying amount**	**Accumulated depreciation**	**Net carrying amount**
Investment in areas with proven reserves	1,353,425	(1,289,933)	63,492
Furniture	124	(124)	-
Computer hardware	32	(32)	-
Transport equipment	63	(63)	-
Property, plant and equipment in the course of construction and advance payments	186,472	-	186,472
Total	*1,540,116*	*(1,290,152)*	*249,964*

All property, plant and equipment are assigned to operating facilities.

As at December 31, 2018 and 2017, Cepsa had the following fully-depreciated property, plant and equipment still in use:

Thousands of euros

Gross carrying amount	2018	2017
Land and buildings	1,727	1,727
Plant and machinery	2,094,366	2,006,344
Investments in areas with proven reserves	30,485	74,265
Furniture	1,310	1,248
Computer hardware	10,023	7,239
Transport equipment	400	365
Other property, plant and equipment	484	484
Total	*2,138,795*	*2,091,672*

At year-end, CEPSA had no non-current assets subject to guarantees or any other circumstance of a substantive nature that may affect them.

At year-end 2018, CEPSA had grants awarded by the Ministry of Industry, Tourism, and Commerce in the amount of 718 thousand euros (2017: same amount), devoted to technical installations in refineries, as well as grants from the Ministry of Economy totaling 462 thousand euros (2017; 253 thousand euros), and the Ministry of Science and Innovation in the amount of 76 thousand euros (2017: same amount), used for acquiring equipment for Technological Center. There are grants transferred to results based on the corresponding amortization (see Note 11.6).

At year-end 2018 and 2017, CEPSA had firm commitments to purchase items of property, plant, and equipment amounting to 269,964 thousand and 407,150 thousand euros, respectively. The commitments mainly correspond to the following projects:

- at the Gibraltar San Roque refinery: the "Bottom of Barrel" project, consisting in the construction of a new unit for producing additional tons to current metaxilene output, while revamping the alkylation unit to increase daily production capacity from 650 MT to 750 MT;
- revamping of the La Rábida refinery's FCC reactor (replacing the current reactor to increase the conversion index), revamping the Aromax unit to increase efficiency through the substitution of the recycling turbine compressor for an electric one, and reduced lost profit from programmed shutdowns, revamping the hydrocracking unit, whose objective is to extend the catalyst´s cycle from 16 to 30 months, to reach full capacity until the end of the catalyst's cycle, and increasing energy efficiency;
- generally, to improvements in industrial installations to minimize environmental impact, improvements in infrastructures and installations, and investments related to the plan for developing the Algerian exploration fields.

It is CEPSA policy to arrange insurance policies to cover the possible risks to which its property, plant and equipment are subject (note 21).

Pursuant to the applicable legislation (Royal Decree 2,607/1996, of December 20, regulating the standards approved by Royal Decree-Law 7/1996, of June 7, on the Restatement of Balance Sheets), CEPSA updated its property, plant and equipment by 75,705 thousand euros, including the absorbed companies Ertoil, S.A. and Lubrisur S.A. 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. In 2018 and 2017, additional depreciation allowances resulting from the abovementioned restatement of assets, amounted to 120 thousand and 165 thousand euros and disposals of 93 thousand and 683 thousand euros (corresponding to fully depreciated assets eliminated from inventories), respectively. At year-end 2018 and 2017, the increase in value pending depreciation amounted to 4,366 and 4,510 thousand euros, respectively.

In accordance with Law 16/2012 on balance sheet revaluation, as of December 27, CEPSA restated its property, plant, and equipment as at December 31, 2013, in the amount of 128,036 thousand euros. In 2018 and 2017, additional depreciation allowances resulting from the abovementioned restatement of assets, amounted to 8,036 and 9,251 thousand euros, while disposals amounted to 614 thousand euros in

2018 and 350 thousand euros in 2017 (corresponding to fully depreciated assets eliminated from inventories).

CEPSA has been granted administrative concessions by the Spanish Government to use mooring facilities, access and adjacent areas at the port of Algeciras which will revert to the Government in 2022, Santa Cruz de Tenerife in 2027 and Palos de la Frontera between 2018 and 2065. CEPSA management expects all the concessions to be renewed on expiration. The facilities are adequately being maintained and the related cost will have been depreciated in full for accounting purposes during the concession term.

7. Leases

7.1 Operating leases: lessee

Set out below is a breakdown of assets under operating leases and the future amounts payable as at December 31, 2018 and 2017:

Thousands of euros

2018	Building	Plant	Transport equipment	Computer hardware	Total
Lease payments payable					
2019	20,508	3,876	20,586	1,420	46,390
2020	20,188	1,038	9,809	1,195	32,230
2021	20,133	705	6,832	678	28,348
2022	20,113	691	4,873	133	25,810
2023	20,086	670	2,577	1	23,334
Other maturities	55,660	2,228	4,853	-	62,741
Future payments	*156,688*	*9,208*	*49,530*	*3,427*	*218,853*
Contingent rent recognised in income	*(684)*	*362*	-	-	*(322)*

Thousands of euros

2017	Building	Plant	Transport equipment	Computer hardware	Total
Lease payments payable					
2018	25,992	9,690	16,651	2,975	55,308
2019	25,533	5,510	8,961	2,975	42,979
2020	25,699	4,153	7,856	2,975	40,683
2021	25,956	1,590	7,076	2,975	37,597
2022	27,235	1,569	6,854	2,975	38,633
Other maturities	27,508	-	2,870	2,975	33,353
Future payments	*157,923*	*22,512*	*50,268*	*17,850*	*248,553*
Contingent rent recognised in income	*(2,152)*	*1,160*	-	-	*(992)*

7.2 Operating leases: lessor

At 2018 year-end, the Company does not have any leasing agreements in which it acts as a lessor.

8. Financial assets (current and non-current)

8.1 Non-current financial assets

The book value of "non-current financial assets" by category, at 2018 and 2017 year end is as follows: (Equity instruments disclosed in note 8.3 are not included)

Thousands of euros

Classes / Categories	Equity instruments		Derivatives		Credits and other financial assets		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Loans and receivables	-	-	-	-	63,683	40,560	63,683	40,560
Avaliable-for-sale financial assets	1,932	1,932	-	-	-	-	1,932	1,932
Derivatives (Note 9)	-	-	228	2,873	-	-	228	2,873
Total	*1,932*	*1,932*	*228*	*2,873*	*63,683*	*40,560*	*65,843*	*45,365*

During 2018 and 2017, "Loans and receivables" mainly included loans to group companies and associates in the amount of 53,200 thousand euros (2017: 28,735), non-current non-trade receivables used to finance installations, create customer loyalty, and long-term deposits given for office leases in the amount of 3,341 thousand euros (2017: 3,316 thousand euros).

"Available-for-sale financial assets" mainly reflects the fair value of the permanent investments in equity instruments in companies not listed on official stock exchanges that are not investments in group companies and associates.

As at December 31, 2018 and 2017, there were no firm non-current sales commitments to third parties.

There were no changes arising from impairment losses during 2018 and 2017.

The breakdown by maturity of "Non-current financial assets" as at December 31, 2018 and 2017 is as follows:

	Maturing in					
2018	**2020**	**2021**	**2022**	**2023**	**Subsequent years**	**Total**
Loans and receivables	10,576	1,085	43,427	3,787	4,808	63,683
Available-for-sale financial assets	-	-	-	-	1,932	1,932
Derivatives (Note 9)	-	-	-	228	-	228
Total	*10,576*	*1,085*	*43,427*	*4,015*	*6,740*	*65,843*

Thousands of euros

	Maturing in					
2017	**2019**	**2020**	**2021**	**2022**	**Subsequent years**	**Total**
Loans and receivables	8,614	696	649	25,842	4,759	40,560
Available-for-sale financial assets	-	-	-	-	1,932	1,932
Derivados de cobertura	1,050	-	-	-	1,823	2,873
Total	*9,664*	*696*	*649*	*25,842*	*8,514*	*45,365*

CEPSA

8.2 Current financial assets

The book value of the current financial assets, by category, for 2018 and 2017 is as follows:

Thousands of euros

Classes / Categories	Derivatives		Credits and other financial assets		Total	
	2018	2017	2018	2017	2018	2017
Loans and receivables	-	-	1,854,641	1,975,260	1,854,641	1,975,260
Derivatives (Note 9)	4,123	9,649	-	-	4,123	9,649
Total	*4,123*	*9,649*	*1,854,641*	*1,975,260*	*1,858,764*	*1,984,909*

The fair value of these derivative financial instruments was estimated discounting their associated cash flows by applying prevailing interest and exchange rates at the balance sheet date, and including differentials in accordance with the credit risk of each instrument. For some derivative instruments, market value as provided by the pertinent financial entities is used as a complementary reference (note 9).

Variations arising from impairment losses recognized under "Loans and receivables" in 2018 and 2017 were as follows:

Thousands of euros

2018	Impairment as of 01.01.2018	Impairment/ (Reversal) during 2018	Acumulated as of 12.31.2018
Loans and recievables			
Trade recievable for sales and services	40,035	(3,888)	36,147
Loans to third parties	9,967	-	9,967
Loans to Group Companies and associates	-	-	-
Total	*50,002*	*(3,888)*	*46,114*

Thousands of euros

2017	Impairment as of 01.01.2017	Segregation (note 2,5)	Impairment/ (Reversal) during 2017	Acumulated as of 12.31.2017
Loans and recievables				
Trade recievable for sales and services	39,747	(995)	1,283	40,035
Loans to third parties	9,967	-	-	9,967
Loans to Group Companies and associates	11,448	-	(11,448)	-
Total	*61,162*	*(995)*	*(10,165)*	*50,002*

8.3 Equity instruments

The main information relating to Group companies and associates at 2018 and 2017 year end is as follows:

Thousands of euros

2018	Ownership %	Recognized Cost	(Impairment) and Reversal for the year (Note 16.6)	Accumulated impairment	Net investment	Dividends received
ASFALTOS ESPAÑOLES, S.A.	50%	17,869	-	-	17,869	1,000
MOPU HOLDING SINGAPORE	100%	291,246	(6,353)	(108,241)	183,005	-
CEPSA (RHOUDE EL ROUNI) LIMITED	100%	156,033	-	-	156,033	-
CEPSA COLOMBIA, S.A.	100%	471,207	25,011	(217,313)	253,894	53,053
COASTAL ENERGY KBM SDN BHD	70%	81,826	(1,775)	(30,689)	51,137	47,782
CEPSA COMERCIAL PETROLEO, S.A.U.	100%	219,373	-	-	219,373	240,000
CEPSA EP, S.A.U.	100%	16,275	9,504	(6,632)	9,643	-
CEPSA GAS Y ELECTRICIDAD, S.A.U.	100%	55,621	-	-	55,621	9,812
CEPSA INTERNACIONAL B.V.	100%	196,372	-	-	196,372	-
CEPSA MARINE FUELS DMCC	100%	30,323	-	(30,323)	-	-
CEPSA OLEO E GAS DO BRASIL, LTDA	100%	50,432	-	(43,288)	7,144	-
CEPSA PERU, S.A.	100%	160,096	(29,026)	(60,879)	99,217	-
CEPSA PORTUGUESA PETRÓLEOS S.A.	100%	65,957	-	-	65,957	6,420
CEPSA QUIMICA, S.A.	100%	80,192	-	-	80,192	228,760
CEPSA SURINAME, S.L.U.	100%	101,254	10,798	(66,593)	34,661	-
CEPSA SEA, S.L.U.	100%	272,358	(3,810)	(162,592)	109,766	-
CMD AEROPUERTOS CANARIOS, S.L.	60%	12,946	-	-	12,946	-
CEPSA ALGERIE, S.L.	100%	188,112	-	-	188,112	14,085
COASTAL ENERGY MALASIA SDN BHD	100%	17,875	(342)	(8,032)	9,843	-
MEDGAZ S.A.	42%	139,854	-	-	139,854	36,620
NUEVA GENERADORA DEL SUR,S.A.	50%	21,535	-	-	21,535	-
CEPSA E.P. ABU DHABI, S.L.	100%	1,484,719	-	-	1,484,719	-
Other investments	-	84,715	(10,186)	(13,101)	71,614	54,264
Total		*4,216,190*	*(6,179)*	*(747,683)*	*3,468,507*	*691,796*

Thousands of euros

2017	Ownership %	Recognized Cost	(Impairment) and Reversal for the year (Note 16.6)	Accumulated impairment	Net investment	Dividends received
ASFALTOS ESPAÑOLES, S.A.	50%	17,869	-	-	17,869	-
MOPU HOLDING SINGAPORE	100%	283,812	(101,888)	(101,888)	181,924	-
CEPSA (RHOUDE EL ROUNI) LIMITED	100%	148,955	-	-	148,955	-
CEPSA COLOMBIA, S.A.	100%	636,191	(65,990)	(242,324)	393,867	-
COASTAL ENERGY KBM SDN BHD	70%	80,540	(28,914)	(28,914)	51,626	23,373
CEPSA COMERCIAL PETROLEO, S.A.U.	100%	219,373	2,019	-	219,373	143,558
CEPSA EP, S.A.U.	100%	16,275	-	(16,136)	139	-
CEPSA GAS Y ELECTRICIDAD, S.A.U.	100%	55,621	-	-	55,621	-
CEPSA INTERNACIONAL B.V.	100%	187,515	-	-	187,515	-
CEPSA KENYA LIMITED	98%	74,407	(23,343)	(73,596)	811	-
CEPSA MARINE FUELS DMCC	100%	30,323	-	(30,323)	-	-
CEPSA OLEO E GAS DO BRASIL, LTDA	100%	47,276	(16,171)	(43,288)	3,988	-
CEPSA PERU, S.A.	100%	154,639	(1,119)	(31,853)	122,786	-
CEPSA PORTUGUESA PETRÓLEOS S.A.	100%	125,957	-	-	125,957	7,800
CEPSA QUIMICA, S.A.	100%	80,192	-	-	80,192	65,299
CEPSA SURINAME, S.L.U.	100%	101,254	(31,754)	(77,391)	23,863	-
CEPSA SEA, S.L.U.	100%	267,257	(158,782)	(158,782)	108,475	-
CMD AEROPUERTOS CANARIOS, S.L.	60%	12,946	-	-	12,946	5,499
COASTAL ENERGY MALASIA SDN BHD	100%	17,875	(5,704)	(7,690)	10,185	-
MEDGAZ S.A.	42%	148,904	-	-	148,904	38,430
NUEVA GENERADORA DEL SUR,S.A.	50%	21,535	7,046	-	21,535	-
PLASTIFICANTES DE LUTXANA, S.A.	100%	6,258	605	(2,630)	3,628	-
Other investments	-	43,049	3,800	(284)	42,765	104,963
Total		*2,778,023*	*(420,195)*	*(815,099)*	*1,962,924*	*388,922*

As at December 31, 2018, none of the Group companies were listed on a stock exchange. The Company considers that it exercises control or significant influence over the companies in which it controls more than 50% or 20%, respectively, of their share capital, except in the case of the subsidiary Cepsa International, B.V., named Cosmo Abu Dhabi Energy E&P, Co Ltd, in which, despite having only a 12% shareholding, it has one representative on the Board of Directors.

Additionally, it should be noted that in 2018, there were no changes in control.

Main movements in 2018:

- Cepsa Petronuba, S.A.U. was acquired for 60 thousand euros, as well as the remaining ownership interest (to 100%) in Cepsa Panamá, S.A.U. for 146 thousand euros.

- Distribution of share premium by Cepsa Colombia, S.L. amounting to 185,684 thousand euros, by Cepsa Portuguesa Petróleos, S.A. for 60,000 thousand euros and by Medgaz, S.A. amounting to 9,050 thousand euros.

- Creation of the companies Cepsa Treasury, S.L.U., Cepsa Finance, S.L.U and Cepsa E.P. Mexico, S. de R.L. de C.V.

- Capital increase by Cepsa Oleo gas do Brasil LTDA amounting to 3,156 thousand euros and of Cepsa Algerie S.L. by means of a contribution from the branch of activity in Timimoum valued at 133,033 thousand euros. (Note 2.5)

- Owner contributions in Cepsa EP Abu Dhabi, S.L. amounting to 1,368,650 thousand euros, Cepsa Gas Comercializadora S.A. amounting to 13,090 thousand euros, Cepsa Panamá S.A.U. amounting to 21,966 thousand euros and Cepsa Algerie S.L. amounting to 53,820 thousand euros.

- Liquidation of Cepsa Kenya Limited.

- In 2018, CEPSA applied fair value hedge accounting criteria to its equity instruments in group companies and associates, increasing the cost of the investments in: Cepsa Colombia, S.A.; Cepsa International B.V.; Cepsa Rhoude El Rouni Limited; Cepsa Sea, S.L.U.; Coastal Energy KBM SDN, BHD; Mopu Holdings (Singapore) Pte Limited, Cepsa Perú, S.A., Cepsa Algerie S.L. and Cepsa EP Abu Dhabi S.L. by 20,700 thousand euros, 8,858 thousand euros, 7,078 thousand euros, 5,101 thousand euros, 1,285 thousand euros, 7,434 thousand euros, 5,457, 1,192 and 116,066 thousand euros, respectively.

Main movements in 2017:

- Partial spin-off of Cepsa EP, S.A. through the en bloc transfer of the activity assumed from Cepsa E.P. ASIA in favor of Cepsa Sea, S.L.U. at the net value of 686,338 thousand euros.

- Distribution of dividends by Cepsa SEA, S.L. in the amount of 344,996 thousand euros.

- Cepsa Comercial Noroeste S.L.U. was absorbed by Cepsa Comercial Petróleo S.A.U.

- A capital increase in Cepsa Perú, S.A. of 40,523 thousand euros, Cepsa Bioenergía San Roque, S.L. in the amount of 8,000 thousand euros, Cepsa Oleo e Gas Do Brasil, LTDA of 5,973 thousand euros, Cepsa Kenya Limited of 10,292 thousand euros, and Nueva Generadora del Sur, S.A. of 14,490 thousand euros.

- Owner contributions to Cepsa Suriname, S.L. in the amount of 21,400 thousand euros.

- Creation of Cepsa EP Abu Dhabi, S.L.

- Purchase of 70% in Coastal Energy KBM SDN, BHD for 80,943 thousand euros, and purchase of 100% in Mopu Holdings (Singapore) Pte Limited in the amount of 287,355 thousand euros.

- In 2017, CEPSA applied fair value hedge accounting criteria to its equity instruments in group companies and associates, diminishing the cost of the investments in: Cepsa Colombia, S.A.; Cepsa International B.V.; Cepsa Rhoude El Rouni Limited; Cepsa Sea, S.L.U.; Coastal Energy KBM SDN, BHD; Mopu Holdings (Singapore) Pte Limited and Cepsa Perú, S.A. for 58,603 thousand euros, 23,990 thousand euros, 19,140 thousand euros, 74,105 thousand euros, 402 thousand euros, 3,542 thousand euros, and 8,405 thousand euros, respectively.

In 2018 and 2017, CEPSA recognized the necessary impairment losses to adjust the cost of investments in group companies and associates in the financial statements, according to the recoverable amount of the present value of future cash flows from the investment. The cash flows were calculated in accordance with the principles described 4.1.g. The impairments recorded were mainly due to the expected decline in future prices and the updating of the oil and gas reserves estimates for certain assets.

Table I (in the final pages of these explanatory notes) contains a breakdown of companies holding significant direct ownership interests in CEPSA as at December 31, 2018, a breakdown of their equity and information on their activity. A breakdown of the companies in which CEPSA has an indirect shareholding is also included in Table II.

8.4 Joint ventures

Set forth below for 2018 and 2017 is a breakdown of the main joint ventures operated as jointly-controlled ventures and assets in which CEPSA has an ownership interest. The accompanying financial statements include the assets, liabilities, revenues, and expenses in proportion to the Company's percentage of ownership.

Thousands of euros

2018 Joint Venture Holdings	Country	Operator	Line of Business	Ownership %	Joint Venture Assets	Sales in thousands of euros	Income tax
Plant and machinery							
Ourhoud Field	Algeria	Sonatrach	Exploration and production	37.1%	85,530	453,745	(105,810)
Total					*85,530*	*453,745*	*(105,810)*

Thousands of euros

2017 Joint Venture Holdings	Country	Operator	Line of Business	Ownership %	Joint Venture Assets	Sales in thousands of euros	Income tax
Plant and machinery							
Ourhoud Field	Algeria	Sonatrach	Exploration and production	39.8%	99,940	324,332	(114,884)
Timimoun Field	Algeria	Total Exploration & Production Algerie	Exploration and production	11.3%	157,493	-	-
Total					*257,433*	*324,332*	*(114,884)*

Revenue from the Rhourde el Krouf (RKF) (100% owned by CEPSA until October 9, 2018) and Ourhoud oilfields is obtained on a unit basis, thus optimizing the rights generated by the exploitation of the two fields. Sales therefore include revenues from both oilfields.

In 2018, as a result of the non-monetary contribution described in Note 2.5, the assets associated with the Timimoun block were derecognized.

In 2016, an agreement with Sonatrach was signed, strengthening our collaboration with that Company in the long-term projects underway in Algeria. A framework agreement was obtained for signing a concession contract for the operating license for the RKF field for 25 years, and to extend our presence in the Ourhoud field through an extension of the current production distribution contract for a 10-year period commencing December 2019.

During December 2017, RKF's inclusion in the current 406A block contract was extended from May 2016 to the approval of RKF's concession agreement. This extension became effective subsequent to the Council of Ministers signing the approval decree, the last 5th of June 2018.

In January 2018, the parties signed the RKF cession agreement with a 49% investment, which became effective after the approval of the Council of Ministers, and publication in the "JOURNAL OFFICIEL DE LA REPUBLIQUE ALGERIENNE" (JORA) on 10th October 2018.

9. Derivative financial instruments

Pursuant to the risk management policies explained in note 21, CEPSA uses derivative financial instruments to hedge the foreign currency, interest rate and commodity price risks to which future cash flows are exposed.

The types of derivatives normally used are "forward" contracts to hedge foreign currency risk, "swap" contracts to hedge interest rates and futures and "swap contracts" to hedge "commodity" price risk. 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.

The following derivatives were not designated as hedging instruments since they do not meet all the requirements to qualify for hedge accounting, established in the Spanish GAAP. At 2018 and 2017 year-end, the characteristics of CEPSA's derivative financial instruments not assigned to hedge accounting were as follows:

Thousands of euros

2018	Fair value Asset	Fair value Liability	Notional or contractual value
Currency forward (Note 13.2)	-	(910)	96,070
Currency forward Group Companies	-	(275)	43,471
Exchange rate swaps	-	(2,980)	174,672
Product swaps Group Companies (Note 8.2)	562	(222)	11,319
Total	*562*	*(4,387)*	*325,532*

Thousands of euros

2017	Fair value Asset	Fair value Liability	Notional or contractual value
Currency forward (Note 13.2)	-	(2,029)	132,344
Currency forward Group Companies	-	(358)	26,428
Exchange rate swaps	-	(10,251)	166,764
Product swaps Group Companies (Note 8.2)	2,008	(1,530)	56,848
Total	*2,008*	*(14,168)*	*382,384*

The notional or contractual amounts of the contracts settled do not reflect the actual risk assumed by CEPSA, since these amounts only constitute the basis on which the derivative's settlement calculations were made.

The maturity of abovementioned currency forward is January 31, 2019 and the impact recorded through the income statement with changes in fair value amounted to 1,185 thousand euros in 2018 and 2,387 thousand euros in 2017.

The maturity of abovementioned product swaps is October 31, 2019 and the impact recorded through the income statement with changes in fair value amounted to 340 thousand euros in 2018, and 478 thousand euros in 2017.

The maturity of abovementioned exchange rate swaps is July 14, 2021 and the impact recorded through the income statement with changes in fair value amounted to 2,980 thousand euros in 2018 and 10,251 thousand euros in 2017.

At the end of 2018 and 2017, the following foreign currency financial instruments were recognized as fair value hedges:

Thousands of euros

2018	Fair value Asset	Fair value Liability	Notional or contractual value
Currency forward (Note 8.2)	2,720	-	253,275
Total	*2,720*	-	*253,275*

Thousands of euros

2017	Fair value Asset	Fair value Liability	Notional or contractual value
Currency forward	7,641	-	338,906
Total	*7,641*	-	*338,906*

At the end of 2018 and 2017, the following derivative instruments were documented as cash flow hedges:

Thousands of euros

2018	Cash Flow Hedges Asset	Cash Flow Hedges Liability	Notional or contractual value
Interest rate swap (note 8,1)	1,069	(1,304)	335,839
Total	*1,069*	*(1,304)*	*335,839*

Thousands of euros

2017	Cash Flow Hedges Asset	Cash Flow Hedges Liability	Notional or contractual value
Interest rate swap	2,873	-	491,895
Total	*2,873*	-	*491,895*

These instruments cover the interest on loans in USD, for the same notional amount. The fair value of these financial derivative instruments as at December 31 2018, net of their tax effect, leads to an additional equity amount of 439 thousand euros at year-end 2018 under the "Value change adjustments" caption (December 31, 2017: 1,728 thousand euros).

10. Inventories

The breakdown of "Inventories" as at December 31, 2018 and 2017 is as follows:

Inventories

Thousands of euros

	2018	2017
Goods for resale	62,593	20,768
Raw materials	593,992	614,409
Materials and other inventories	94,940	109,912
By-products and recovered materials	9,870	8,783
Refined finished products	935,928	709,509
Advances to suppliers	177	245
Total	*1,697,500*	*1,463,626*

Pursuant to the Directorate-General of Energy Policy and Mining resolution dated March 30, 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, and CORES (Corporation of Strategic Reserves of Oil-based Products) inspects and controls the fulfillment of this obligation. Cepsa management considers that the consolidated Group has been meeting this obligation.

As indicated in Note 4.6, CEPSA uses the Average Unit Cost Method to measure its inventories of raw materials and goods held for resale.

The changes in impairment losses in the "Inventories" caption of the attached balance sheet were as follows:

Thousands of euros

2018	Balance at 01.01.18	Transfers	Additions for the year	Disposal o additions	Balance at 12.31.18
Impairment of merchandise (CO2)	35	-	-	-	35
Impairment of finished goods	619	-	28,515	-	29,134
Total	*654*	-	*28,515*	-	*29,169*

Thousands of euros

2017	Balance at 01.01.17	Transfers	Additions for the year	Disposal o additions	Balance at 12.31.17
Impairment of merchandise (CO2)	37	-	-	(2)	35
Impairment of finished goods	1,249	-	-	(630)	619
Total	*1,286*	-	-	*(632)*	*654*

At the end of 2018, CEPSA had not inventory purchase commitments.

At the end of 2018 and 2017, CEPSA had leased to third parties inventories of 47,960 MT and 28,414 MT, respectively.

11. Equity

11.1 Share capital and Share premium

Share capital amounts to 267,574,941 euros and consists of 535,149,882 book-entry ordinary shares, totally subscribed and paid, with a par value of 0.5 euro each.

In September of this year, the nominal value of the shares was split, going from a nominal value of one euro to 0.5 euro per share.

The sole shareholder and title holder of the entirety of CEPSA shares, representing the 100% of the share capital, is Cepsa Holding LLC. The parent company of Cepsa Holding LLC is Mubadala Development Company PJSC ("MDC"), ultimately controlled by Mubadala Investment Company PJSC ("MIC"), as of december 2018, 31st (See Note 1.a).

The Spanish Companies Act permits the use of the share premium account balance to increase share capital and establishes no specific restrictions as to its use. There were no changes in 2018 or 2017 in the balance in this account, which amounts to 338,728 thousand euros.

11.2 Legal reserve

Under the Spanish Companies Act, 10% of net profit for each year must be transferred to legal reserves until the balance reaches at least 20% of the share capital. Such reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for that purpose.

As at December 31, 2018, CEPSA's legal reserve is fully funded in the amount of 53,605 thousand euros.

11.3 Other reserves

As indicated in note 5, in 2017 the Board of Directors approved the spin-off of the Canary Islands service station business in favor of the subsidiary Cepsa Comercial Petróleo, S.A.U..

As a result, all the assets and the liabilities associated to the business were derecognized, with a net impact recorded as a decrease in reserves under "Other reserves" in the amount of (121,878) thousand euros.

11.4 Revaluation reserve

This reserve in the amount of 212,572 thousand euros, relates to the revaluations made pursuant to the 1979 State Budget Law 1/1979, 1981 State Budget Law 74/1980, Royal Decree-Law 7/1996, of June 7, and Royal Decree- Law 16/ 2012 on asset revaluations.

The entire balance of the aforementioned revaluations relating to State Budget Law 1/1979 and State Budget Law 74/1980, amounting to 15,896 thousand and 16,602 thousand euros, respectively, can be transferred to unrestricted voluntary reserves. The balance shown under "Revaluation reserve, Royal Decree-Law 7/1996," of June 7, which amounts to 58,438 thousand euros, is still subject to the restrictions contained in the legislation under which it was recognized and can be used, free of tax, to eliminate recognized losses and to increase capital.

From January 1, 2007 (i.e. ten years after the date of the balance sheet reflecting the revaluation transactions), the balance of this reserve can be taken to unrestricted reserves, provided that the monetary surplus has been realized. The surplus will be deemed to have been realized in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognized.

As at December 31, 2018, the unrestricted balance of this reserve amounted to 58,438 thousand euros, included in "Other reserves" in the balance sheet. 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.

In accordance with Royal Decree-law 16/2012 the revaluation reserve has a balance of 121,635 thousand euros as at December 31, 2018. Its balance will be unavailable until it is checked and accepted by the Administration. The balance must be verified within three years from the filing date of the special return.

Once verified by the tax authorities, or after three years, the balance may be used to offset losses or to increase capital; 10 years after the 2012 balance restatement, it may be used for unrestricted reserves. However, the reserve may only be directly or indirectly distributed when the revalued assets have been totally depreciated, transferred or derecognized.

11.5 Adjustments for changes in value

The breakdown by nature of the other valuation adjustments in 2018 and 2017 was the following:

Thousands of euros

	2018	2017
Hedging transactions	(585)	2,304
Tax effect of hedging transactions	146	(576)
Total	*(439)*	*1,728*

11.6 Grants, donations or gifts and bequests received

The information on the grants received by the Company in 2018 and 2017, which are part of equity, net of the tax effect, and on the amounts taken to the income statement in this connection is as follows:

2018

Thousands of euros

Agency	Territorial Extension	Balance at 01/01/2018	Increases	Decreases and transfer to income	Balance at 12/31/2018
Grants Received					
Ministry of Tourism and Trade	Central Government	4,443	-	(718)	3,725
Ministry of Economy and Finance	Central Government	999	389	(462)	926
Ministry of Science and Innovation	Central Government	113	-	(76)	37
Ministry of the Environment and Rural and Marine Affairs (Note 20)	Central Government	684	21,279	(20,254)	1,709
Andalusia Autonomous Region	Autonomous Region	4,686	-	(638)	4,048
Total		*10,925*	*21,668*	*(22,148)*	*10,445*

Thousands of euros

Agency	Territorial Extension	Balance at 01/01/2018	Increases	Decreases and transfer to income	Balance at 12/31/2018
Tax effect					
Ministry of Tourism and Trade	Central Government	(1,110)	-	180	(930)
Ministry of Economy and Finance	Central Government	(252)	(97)	116	(233)
Ministry of Science and Innovation	Central Government	(29)	-	19	(10)
Ministry of the Environment and Rural and Marine Affairs (Note 20)	Central Government	(170)	(5,320)	5,064	(426)
Andalusia Autonomous Region	Autonomous Region	(1,171)	-	159	(1,012)
Total		*(2,732)*	*(5,417)*	*5,538*	*(2,611)*
Total grants net of the tax effect		*8,193*	*16,251*	*(16,610)*	*7,834*

2017

Thousands of euros

Agency	Territorial Extension	Balance at 01/01/2017	Increases	Decreases and transfer to income	Balance at 12/31/2017
Grants Received					
Ministry of Tourism and Trade	Central Government	5,161	-	(718)	4,443
Ministry of Economy and Finance	Central Government	1,095	157	(253)	999
Ministry of Science and Innovation	Central Government	193	-	(80)	113
Ministry of the Environment and Rural and Marine Affairs (Note 20)	Central Government	4,303	17,044	(20,663)	684
Andalusia Autonomous Region	Autonomous Region	3,416	2,232	(962)	4,686
Total		*14,168*	*19,433*	*(22,676)*	*10,925*

Thousands of euros

Agency	Territorial Extension	Balance at 01/01/2017	Increases	Decreases and transfer to income	Balance at 12/31/2017
Tax effect					
Ministry of Tourism and Trade	Central Government	(1,290)	-	180	(1,110)
Ministry of Economy and Finance	Central Government	(274)	(41)	63	(252)
Ministry of Science and Innovation	Central Government	(49)	-	20	(29)
Ministry of the Environment and Rural and Marine Affairs (Note 20)	Central Government	(1,076)	(4,260)	5,166	(170)
Andalusia Autonomous Region	Autonomous Region	(854)	(558)	241	(1,171)
Total		*(3,543)*	*(4,859)*	*5,670*	*(2,732)*
Total grants net of the tax effect		*10,625*	*14,574*	*(17,006)*	*8,193*

CEPSA considers that all the requirements to ensure that the grants received are not repayable have been met.

12. Provisions and contingencies

12.1 Provisions

The breakdown of the non-current provisions in the accompanying balance sheets and of the main changes therein in 2018 is as follows:

Thousands of euros

Long-Term provisions	Balance at 01/01/2018	Additions	Revaluation increases	Amounts used	Balance at 12/31/2018
Long-term employee benefit obligations	9,813	1,959	145	(2,076)	9,841
Environmental contingencies (note 18)	15,954	-	218	(61)	16,111
Restructuring provision	1,833	-	-	-	1,833
Other provisions	247,205	17,679	5,343	(22,800)	247,427
Total	*274,805*	*19,638*	*5,706*	*(24,937)*	*275,212*

The breakdown of the current provisions in the accompanying balance sheet and of the main changes in 2018 is as follows:

Thousands of euros

Short-term provisions	Balance at 01/01/2018	Additions	Amounts used	Balance at 12/31/2018
Provision for Greenhouse Gas Emissions (Note 20)	19,956	29,547	(19,777)	29,726
Restructuring provision	20,109	-	-	20,109
Total	*40,065*	*29,547*	*(19,777)*	*49,835*

12.2 Provisions for employee benefit obligations

a) Non-current defined contribution obligations

The amounts recognized by CEPSA in 2018 and 2017 as an expense for defined contribution obligations under "Staff costs" on the income statement are as follows:

		Thousands of euros
	2018	**2017**
Retirement (Pension Plan)	4,321	4,108
Life Insurance	4,146	4,075
Total (Note 16.4)	*8,467*	*8,183*

b) Non-current defined benefit obligations

The net amounts of income and expenses recognized in the income statement and the changes in defined benefit obligations on the liability side of the balance sheet in 2018 and 2017 are as follows:

		Thousands of euros
	Commitments present value	**Balance**
Beginning Balance 2017	*9,800*	*9,800*
Plan contributions	1,924	1,924
Financial cost	145	145
Payments made	(2,056)	(2,056)
Closing Balance 2017	*9,813*	*9,813*
Beginning Balance 2018	*9,813*	*9,813*
Plan contributions	1,959	1,959
Financial cost	145	145
Payments made	(2,076)	(2,076)
Closing Balance 2018	*9,841*	*9,841*

Of this balance, in 2018 3,960 thousand euros corresponded to the commitment arising from the closing of company stores, and 5,881 thousand euros corresponded to the provision recorded to cover future employee loyalty payment commitments (Note 4.13).

The main assumptions used to determine the pension obligations and post-employment benefits under CEPSA's plans are as follows:

		Thousands of euros
Company stores - Loyalty award	**2018**	**2017**
Discount rate	1.5%	1.5%
Expected salary increase rate	0.3%	0.3%
Age of retirement	65	65
Mortality tables	PEMF2000	PEMF2000

12.3 Environmental provisions

CEPSA records a provision for environmental risks and charges, which amounted to 15,954 thousand euros as at December 31, 2017 and had changes during the 2018 year of additions of 218 thousand euros and deregistration of 61 thousand euros. The balance as at December 31, 2018 is 16,111 thousand euros.

The above provision covers expenses incurred by resolving the gradual land contamination, partially covered by insurance policies in force.

12.4 Restructuring provisions

In 2014, there were layoffs at the Company's facilities in Madrid, the Gibraltar-San Roque refinery, and the La Rábida refinery. By the end of 2014, all personnel had been terminated except for the Huelva refinery which was completed in February 2015.

As at December 31, 2018, and December 2017, the respective balances of this provision which corresponded to commitments with public authorities were 20,109 thousand euros and 1,833 thousand euros (current and non-current, respectively).

12.5 Other provisions

The breakdown of the changes in 2018 and the balances at each year end are as follows:

Thousands of euros

	Balance at 01/01/2018	Additions	Revaluation increases	Amounts used	Balance at 12/31/2018
Provision for taxes	116,276	1,253	3,251	-	120,780
Provision for third-party liability	3,722	781	1	(123)	4,381
Provisions for other expenses	127,207	15,645	2,091	(22,677)	122,266
Total	*247,205*	*17,679*	*5,343*	*(22,800)*	*247,427*

The provision for "taxes" reflects the amounts recognized by the Company to cover possible tax contingencies arising from the contested assessments (note 14).

The provisions for "other liabilities" and "other expenses" cover the contingencies arising from CEPSA's ordinary operations and its relationships with third parties, and those arising from contractual matters relating to the limits on the ownership percentages of the Ourhoud field in Algeria held by the shareholders.

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.

In view of the nature of the contingencies covered by these provisions, it is not possible to determine a reasonable schedule for the related payments, if any.

13. Financial liabilities (Non-current and current)

13.1 Non-current financial liabilities

The book value by category of the non-current financial liabilities at 2018 and 2017 is as follows:

Thousands of euros

Classes	Bank borrowings and finance leases		Other financial liabilities		Total	
Categories	2018	2017	2018	2017	2018	2017
Payables	2,680,371	1,342,469	26,280	36,919	2,706,651	1,379,388
Derivatives (Note 9)	-	-	4,284	10,251	4,284	10,251
Total	*2,680,371*	*1,342,469*	*30,564*	*47,170*	*2,710,935*	*1,389,639*

The breakdown, by maturity, of "non-current payables" as at December 31, 2018 and 2017 is as follows:

Thousands of euros

	Maturing in					
2018	**2020**	**2021**	**2022**	**2023**	**Resto**	**Total**
Bank Borrowings	29,274	947,161	299,944	1,056,735	347,257	2,680,371
Derivatives	-	2,980	-	-	1,304	4,284
Other financial liabilities	9,487	7,689	4,299	1,976	2,829	26,280
Total	*38,761*	*957,830*	*304,243*	*1,058,711*	*351,390*	*2,710,935*

Thousands of euros

	Maturing in					
2017	**2019**	**2020**	**2021**	**2022**	**Resto**	**Total**
Bank Borrowings	83,270	341,657	572,339	50,455	294,748	1,342,469
Derivatives	-	-	10,251	-	-	10,251
Other financial liabilities	10,156	9,447	7,574	3,911	5,831	36,919
Total	*93,426*	*351,104*	*590,164*	*54,366*	*300,579*	*1,389,639*

13.2 Current financial liabilities

The carrying amount by category of the current financial liabilities at 2018 and 2017 is as follows:

Thousands of euros

Classes	Bank borrowings and finance leases		Other financial liabilities		Total	
Categories	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Payables	201,671	292,742	2,532,538	3,030,293	2,734,209	3,323,035
Derivatives (Note 9)	-	-	910	2,029	910	2,029
Total	*201,671*	*292,742*	*2,533,448*	*3,032,322*	*2,735,119*	*3,325,064*

The average annual nominal interest rate on the short and long-term loans received in euros was 0.32% in 2018 and 0.29% in 2017. The interest rate on loans in foreign currencies was 2.83% in 2018 and 2.24% in 2017. The overall average annual interest rate on the loans received was 2.38% in 2018 and 1.75% in 2017. The fair value of these financial liabilities coincides basically with their carrying amount as they relate mainly to loans with variable interest rates.

As at December 31, 2018 and 2017, CEPSA had unused credit facilities amounting to more than 2.214.630 thousand and 1,712,150 thousand euros, respectively, with various banks (note 21).

The Company arranged bank borrowings subject to certain covenants, basically linked to consolidated EBITDA [1] and consolidated net debt. As at December 31, 2018, the Company was in compliance with those covenants and thus no early repayment was required.

[1] Earnings before interests, tax, depreciation and amortization (EBITDA) includes operating revenue and expenses for each operating segment or business area and excludes depreciation, amortization and results from assets sold, financial results and results from equity investments.

13.3 Information on the average supplier payment period

In accordance with the stipulations established in the third additional provision of Law 15/2010, of July 5, modified by Law 31/2014, of December 3, and the ICAC Resolution of January 29, 2016, on information concerning average payment periods to suppliers in commercial transactions to be included in the notes to financial statements, the breakdown of payments made and pending, as well as the related ratios, is as follows:

	Days	
	2018	2017
Average supplier payment period	22	23
Ratio of payment made	22	23
Ratio of pending payments	19	16

	Thousands of euros	
	2018	2017
Total payments made	23,505,221	18,918,894
Total pending payments	638,819	712,084

14. Tax matters

14.1 Current tax balances

The breakdown of current tax balances receivable from and payable to tax authorities at 2018 and 2017 year end is as follows:

	Thousands of euros	
	2018	2017
Income tax refundable	105,075	61,498
VAT and IGIC refundable	5,322	6,407
Other	18,494	41,318
Total	*128,891*	*109,223*

	Thousands of euros	
	2018	2017
Income tax payable	724	1,857
VAT and IGIC payable	112,342	204,971
Social Security payable	3,860	3,512
Other	12,470	26,449
Total	*129,396*	*236,789*

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.

CEPSA files consolidated income tax returns as the parent company of tax group number 4/89. The main balances receivable and payable with Group companies are as follows:

	Thousands of euros	
Amounts receivable (payable)	2018	2017
COASTAL ENERGY COMPANY	(1,309)	(765)
CEPSA COLOMBIA, S.A.	(14,643)	-
CEPSA COMERCIAL PETROLEO, S.A.U.	14,180	9,032
CEPSA TRADING, S.A.U.	4,590	2,844
CEPSA DISCO, S.L.	2,100	-
RESSA, S.A.U.	2,133	(879)
CEPSA QUIMICA, S.A.	8,595	7,726
CEPSA GAS Y ELECTRICIDAD, S.A.U.	(1,695)	1,097
Other Companies	(1,730)	(2,234)
Total	*12,221*	*16,821*

On December 3, 2016 Royal Decree-Law 3/2016 was published which adopts tax measures for the consolidation of public finances and introduced relevant changes in corporate income tax. Among others matters, with effect from January 1, 2016, the offset tax loss carryforwards for large companies is 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 1, 2017, losses on the transfer of shares will not be deductible.

CEPSA

14.2 Reconciliation pre-tax profit and taxable profit

The reconciliation of CEPSA's pre-tax profit and taxable profit for Spanish corporate tax purposes for 2018 and 2017 is as follows:

Thousands of euros

2018	Statement of income		Income and expenses recognised directly in equity	Total
Accounting profit for the year (after tax)	1,010,464	-	(2,526)	1,007,938
	Increases	Decreases	Decreases	
Income tax	110,118	-	(843)	109,275
Individual permanent differences	80,090	(784,878)	-	(704,788)
Individual temporary differences				
Arising in the year	25,422	(1,490)	(19,987)	3,945
Arising in prior years	54,944	(92,363)	23,356	(14,063)
Loss carryforwards applied	-	-	-	-
Tax base	*1,281,038*	*(878,731)*	-	*402,307*

Thousands of euros

2017	Income statement		Income and expenses recognised directly in equity	Total
Accounting profit for the year (after tax)	408,276	-	4,123	412,399
	Increases	Decreases	Decreases	
Income tax	263,971	-	1,375	265,346
Individual permanent differences	480,621	(471,794)	-	8,827
Individual temporary differences				
Arising in the year	5,760	(1,670)	(20,165)	(16,075)
Arising in prior years	55,496	(29,273)	14,667	40,890
Loss carryforwards applied	-	(218,645)	-	(218,645)
Tax base	*1,214,124*	*(721,382)*	-	*492,742*

The permanent differences arose mainly as a result of non-deductible expenses and income not computable for tax purposes. The permanent differences recognized in 2018 and 2017 related basically to Corporate Tax paid by the permanent establishment in Algeria not deducted in the total tax due according to the article 31.2 of the Corporate Tax Law 27/2014, provisions, fines, dividends distributed by Group companies,

CEPSA is taxed in Algeria on the income obtained from the exploration and production of petroleum from the "Berkine" Block 406 A oilfield, in the Central-East region of the Algerian Sahara, its permanent establishment. The tax on remuneration for production activities in force in Algeria is deemed to be of the same nature as Spanish Corporate Income Tax. The current tax rate is 38% 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. New legislation, applicable since 2006, was enacted in Algeria, introducing a new Windfall Profits Tax. On this basis, CEPSA estimated the expense to be borne and included in the amount under "Other taxes" in the income statement. Chargeable tax in this connection was 105,810 and 114,884 thousand euros in 2018 and 2017, respectively.

Temporary differences are basically due to accrued expenses and income that will be tax-deductible in subsequent periods. The most significant differences are due mainly to the application of Law 4/2008 which regulates accelerated depreciation with maintenance of employment, application of Royal Decree 13/2010 which regulates accelerated depreciation without maintenance of employment, and application of Law 16/2012 which regulates balance sheets restatements limitations on the amortization/depreciation deductions up to 70%. Additionally it includes temporary differences from losses attributed to permanent

establishments in Algeria. It also includes costs from hedging, portfolio impairment losses which are deductible on the liquidation and the update of supplementary pension commitments.

14.3 Taxes recognized directly in equity

The breakdown of the taxes recognized directly in equity in 2018 and 2017 is as follows:

Thousands of euros

2018	Increases	Decreases	Total
Deferred taxes			
Arising in the year			
Grants	5,417	-	5,417
Arising in prior year			
Grants	-	5,537	(5,537)
Other - cash flow hedge	(722)	-	(722)
Total taxes recognized directly in equity	*4,695*	*5,537*	*(842)*

Thousands of euros

2017	Increases	Decreases	Total
Current tax			
Arising in the year			
Grants	4,858	-	4,858
Arising in prior year			
Grants	-	5,669	(5,669)
Other - cash flow hedge	2,186	-	2,186
Total taxes recognised directly in equity	*7,044*	*5,669*	*1,375*

14.4 Reconciliation between the profit/(loss) for the year and income tax expense (on profit)

The reconciliation between the profit/(loss) for the year and income tax expense (on profit) during 2018 and 2017 is as follows:

Thousands of euros

	2018	2017
Recorded profit (before tax)	1,120,582	672,247
Permanent differences	(704,788)	8,827
Income Tax rate 25%	103,949	170,269
Tax credits applied		
Double taxation	(82,019)	(73,536)
R+D+i and other	(20,241)	(4,773)
Tax expense adjustment	(6,026)	(12,564)
Deferred taxes adjustment	8,645	69,691
Total tax expense / (income)	*4,308*	*149,087*

In calculating the income tax expense for each year, CEPSA took into account the applicable tax credits for dividend double taxation and investments (mainly Algeria), as well as other tax incentives, in accordance with applicable regulations.

Tax adjustments included the deposit corresponding to the difference between the expense recognized for 2017 and 2016 corporate income tax and corresponding to the definitive settlement for these years in the amount of (6,026) and (12,564) thousand euros, respectively.

For 2018 and 2017 the deferred tax adjustment includes, inter alia, the adjustment of deferred tax assets arising from portfolio impairment in the portion relating to foreign subsidiaries whose performance depends on the exchange rate, which gave rise to higher expenses of 8,012 thousand euros and 92,433 thousand

euros, respectively. Deferred tax arising from the settlement of the subsidiary Cepsa Kenya Limited, which gave rise to income of 18,411 thousand euros, and the amount of the requests for rectification of self-settlement of income tax for 2013-2014-2015, amounting to 9,854 thousand euros of income, was recognized in 2017.

14.5 Corporate tax expense breakdown

The breakdown of the corporate tax expense (income) for 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Current tax		
Continuing operations	(7,709)	86,974
Deferred tax		
Continuing operations	12,017	62,113
Total tax expense / (income)	*4,308*	*149,087*

14.6 Recorded deferred tax assets

The breakdown of the deferred tax assets recognized in 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Non-current assets (Depreciation /amortisation and other)	12,262	16,015
Impairment of group companies investment	366,711	376,100
Other provisions	7,731	7,865
Tax loss carryforwards	-	351
Deductions pending application	264	10,916
Other	31,912	26,220
Total deferred tax assets	*418,880*	*437,467*

"Impairment of portfolio and loans" mainly includes the tax credit generated by the impairment of the investment in the Coastal Group companies, as these companies will be liquidated.

As at December 31, 2018, the Company had 264 thousand euros of unused tax loss carryforwards. Based on prevailing legislation, double taxation deductions do not lose validity. Other deductions generally expire after 10 years.

Pursuant to Article 94.1.a, "Tax credits for investments in the Canary Islands", of Law 20/1991, of June 7, "Canary Island Tax Law", the following tax credits were taken:

	Thousands of euros	
	2018	**2017**
Investments new non-current assets	15,597	9,216
Tax credit	3,899	2,304

These investments should remain in service at the Company for either five years, three years in the case of movable property, or the related useful life, whichever is shorter.

These tax credits were recognized in the balance sheets for both years. Based on the best estimate of the Company's future earnings, recovery is considered probable.

14.7 Deferred tax liabilities

The breakdown of the deferred tax assets recognized in 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Investments new non-current assets	94,723	108,270
Tax credit	2,375	895
Grants, donations	2,612	2,732
Other	2,683	3,103
Total deferred tax liabilities	*102,393*	*115,000*

Deferred tax liabilities relating to property, plant, and equipment include the effect of accelerated depreciation in accordance with Law 4/2008, due to the start-up of the assets in question for expansion of the La Rábida refinery. They also include the assets subject to accelerated depreciation as per Royal Decree Law 13/2010.

The eleventh additional provision of the Corporate Tax Law applied to accelerated depreciation with maintenance of employment and reversal of the same was:

	Thousands of euros	
	2018	**2017**
Depreciation for the period	(44,611)	(44,726)

At the end of the reporting period the requirements of the eleventh additional provision were met.

Unrestricted amortization/ depreciation and its reversal not subject to maintenance of employment in 2018 and 2017 amounted to (6,137) thousand and (6,139) thousand euros, respectively.

14.8 Years open to tax inspection and results of previous inspections

Under current legislation, taxes are not deemed definitively settled until the filed tax returns have been reviewed by the tax authorities or until the four-year statute-of-limitations has expired.

There are assessments signed in lack of conformity for different taxes, including corporate income tax for which the CEPSA Group has filed the corresponding appeals before the corresponding courts. The Company had recognized a provision until year-end 2018 for the entire amounts determined by said tax assessments and related late-payment interest (Note 12).

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. CEPSA directors do not expect any additional material liabilities to arise for which provisions have not been recognized as a result of the appeals filed or inspections of the years not statute-barred. Likewise, years 2017 and 2018, remain open for inspection.

The Company files VAT returns as part of the VAT Group number 2800/08.

In the opinion of the Company's directors and its tax advisors, related parties transactions are carried out at arm's length, transfer prices are adequately supported and it is estimated that there is no significant risk of material liabilities arising in the future in this respect.

15. Foreign currency balances and transactions

The breakdown of balances and transactions in foreign currency, mostly in US dollars, valued at the year-end exchange rate and the average exchange rates for the years 2018 and 2017, is as follows:

Thousands of euros

	2018	2017
Trade and other receivables	459,298	430,252
Loans to group companies and third parties	11,825	132,878
Other long and short term financial assets	411,677	700,848
Trade and other payables	973,482	676,080
Long and short term bank borrowings and loans to group companies	2,853,211	1,734,338
Other financial liabilities	47,860	117,176
Sales	6,209,261	4,534,031
Purchases	11,571,334	8,789,183
Services provided	5,287	2,254
Services received	212,739	190,230
Finance income	283,752	127,636
Finance expense	249,741	241,370

The gains (losses) on exchange recognized in the income statement for 2018 and 2017, by class of financial instrument, are as follows:

Thousands of euros

2018	Transactions settled in the year	Balances pending maturity	Total
Financial Assets			
Loans	3,924	(363,065)	(359,141)
Other	171,280	2,275	173,555
Fair value hedge	-	186,845	186,845
Total	*175,204*	*(173,945)*	*1,259*
Financial Liabilities			
Bank debt	191,811	(45,686)	146,125
Debt securities and other liabilities	(2,499)	8,181	5,682
Other	(168,420)	(1,802)	(170,222)
Total	*20,892*	*(39,307)*	*(18,415)*

Thousands of euros

2017	Transactions settled in the year	Balances pending maturity	Total
Financial Assets			
Loans	3,046	(100,366)	(97,320)
Other	(14,934)	(8,123)	(23,057)
Fair value hedge	-	(165,764)	(165,764)
Total	*(11,888)*	*(274,253)*	*(286,141)*
Financial Liabilities			
Bank debt	30,062	181,072	211,134
Debt securities and other liabilities	(2,949)	130,097	127,148
Other	8,140	4,137	12,277
Total	*35,253*	*315,306*	*350,559*

CEPSA

16. Revenue and expenses

16.1 Revenue

The breakdown of CEPSA's revenue in 2018 and 2017 by geographical area and line of business is as follows:

	Thousands of euros	
Activities	**2018**	**2017**
Hydrocarbon derived products	17,193,524	14,269,428
Petrochemical derived products	1,044,407	969,936
Crude oil	346,767	209,982
Gas and power	540,887	372,891
Services Provided	334,313	332,216
Total	*19,459,898*	*16,154,453*

	Thousands of euros	
Products Sales	**2018**	**2017**
Spain	15,932,337	13,761,497
Rest European Union	893,284	694,260
Middle East	60,560	43,732
Africa	1,753,037	1,039,985
Rest of the world	820,680	614,979
Total	*19,459,898*	*16,154,453*

In 2018 and 2017, sales from exchanges arranged by other operators not included in "Revenue" amounted to 1,386,970 thousand and 1,009,715 thousand euros respectively, considered to be exchanges of assets of a similar nature and value.

As at December 31, 2018, there were no repurchase commitments for inventories.

16.2 Procurements

The breakdown of the balances of "Goods consumed" and "Raw materials and other materials consumed" in 2018 and 2017 is as follows:

	Thousands of euros	
	2018	**2017**
Goods consumed		
Purchases	1,058,584	357,343
Changes in inventories	(40,383)	4,542
Total	*1,018,201*	*361,885*
Raw materials and other materials consumed		
Purchases	13,546,531	10,894,066
Changes in inventories	35,428	(77,269)
Total	*13,581,959*	*10,816,797*
Other external expenses		
Other external expenses	*13,783*	*13,480*
Raw materials impairment		
Raw materials impairment	*60*	*(2)*

16.3 Breakdown of purchases by origin

The breakdown, by origin, of the purchases and other external expenses made by CEPSA in 2018 and 2017 is as follows:

2018			Thousands of euros
	National	Intra-Community	Import
Purchases	1,975,952	1,665,079	10,977,867

2017		Thousands of euros
National	Intra-Community	Import
1,936,517	1,010,880	8,317,493

16.4 Employee benefit costs

The breakdown of "Employee benefit costs" in 2018 and 2017 is as follows:

Thousands of euros

Employee benefits	2018	2017
Employer social security costs	38,311	37,721
Pension contributions and provisions to pension allowances (Note 12.2)	8,467	8,183
Other employee benefit costs	14,196	12,265
Total	*60,974*	*58,169*

16.5 Other profit (loss)

The breakdown of "Other profit (loss)" in the income statements for 2018 and 2017 is as follows:

Thousands of euros

	2018		2017	
Other gains/(losses)	Expenses	Income	Expenses	Income
Expenses and compensation for accidents	4,118	20	939	110
Environmental contingencies	80	-	1,646	-
Penalties and fines	244	4	535	-
For litigation and other disputes	1,072	517	1,913	-
Indemnity for loss of profits	-	-	-	-
Exceptional income from definitive allowances	-	187	-	-
Other indemnities	-	35	-	12
Exceptional income and other expenses	5,612	-	2,042	-
Total	*11,126*	*763*	*7,075*	*122*

16.6 Impairment and losses

This heading includes the net provision for impairment of equity instruments amounting to 6,179 thousand euros in 2018. In 2017 there was a net provision of 420,195 thousand euros which included a reversal of impairment of loans to group and associated companies amounting to 11,448 thousand euros (note 8.3).

17. Related party transactions and balances

17.1 Group companies, associates and related party transactions

CEPSA performs its transactions with related parties on an arm's length basis.

Related party transactions are mainly due to the fact that the Company sells its products primarily through its subsidiaries. Most of these purchases involve the supply of crude and products to be used in production processes. Likewise, "Services received" are related to the re-invoicing from Group companies for different services (charges, fees, expenses, technical services, staff, etc.).

Regarding loans to group companies, the average interest rate applied by CEPSA to loans granted to subsidiaries in 2018 and 2017 was similar to the average cost of external financing for the same type of transaction (note 13).

"Loans to subsidiaries", which include long-term investments in Group companies and associates shown in the accompanying balance sheet, correspond to renewable credit facilities which mature in 12 to 36 months.

In 2018 and 2017, CEPSA performed related party transactions in relation to the following items:

Thousands of euros

2018	Parent company	Other Group Companies	Associates and Other	Other related parties
Purchases	-	(13,409,082)	(60,611)	-
Sales	-	9,659,171	60,040	-
Services provided	-	146,536	3,252	1,683
Services received	-	(419,938)	(6,097)	-
Interest paid	-	(14,024)	-	-
Interest collected	-	9,205	6,635	-
Dividends	-	653,954	37,647	-
Other financial income	-	1,529	-	-
Total	-	*(3,372,649)*	*40,866*	*1,683*

Thousands of euros

2017	Parent company	Other Group Companies	Associates and Other
Purchases	-	(10,368,469)	(102,587)
Sales	-	7,604,335	373,964
Services provided	433	133,612	3,226
Services received	(3,765)	(269,906)	(89,025)
Interest paid	-	(10,794)	(72)
Interest collected	-	13,557	7,205
Dividends (note 8.3)	-	349,970	38,477
Other financial income	-	1,826	-
Total	*(3,332)*	*(2,545,869)*	*231,188*

Other related parties include transactions carried out with the group company MDC called MDC General Services Holding in 2018, amounting to 1,683 thousand euros, for the rebilling of miscellaneous services and expenses.

On the other hand, the caption "Other financial results" mainly includes exchange differences for operations with group companies and associates, amounting to 1,447 thousand euros.

17.2 Related party balances

At the end of 2018 and 2017, CEPSA held the following balances with related parties:

Thousands of euros

2018	Parent company	Other group company	Associates and other	Other related parties	Total
Non-current financial assets and investments	-	3,340,376	181,331	-	3,521,707
Equity instruments (Note 8)	-	3,287,176	181,331	-	3,468,507
Loans to third parties	-	53,200	-	-	53,200
Trade receivables	-	925,729	18,970	1,683	946,382
Current financial assests and investments	-	120,627	8,457	-	129,084
Loans to third parties	-	118,995	7,457	-	126,452
Derivatives	-	562	-	-	562
Other financial assets	-	1,070	1,000	-	2,070
Current payables	-	(620,392)	(4,245)	-	(624,637)
Trade payables	-	(1,030,977)	(22,450)	-	(1,053,427)
Total	-	*2,735,363*	*182,063*	*1,683*	*2,919,109*

Thousands of euros

2017	Parent company	Other group company	Associates and other	Total
Non-current financial assets and investments	-	1,793,077	198,582	1,991,659
Equity instruments (Note 8)	-	1,771,472	191,452	1,962,924
Loans to companies	-	21,605	7,130	28,735
Other financial assets	-	-	-	-
Trade receivables	-	819,772	51,457	871,229
Current financial assests and investments	-	187,202	2,174	189,376
Loans to third parties	-	145,826	2,174	148,000
Derivatives	-	2,008	-	2,008
Other financial assets	-	39,368	-	39,368
Current payables	-	(1,169,807)	(17,984)	(1,187,791)
Trade payables	(4,206)	(898,243)	(27,084)	(929,533)
Total	*(4,206)*	*732,001*	*207,145*	*934,940*

The Company distributed dividends to the Sole Shareholder in 2018 amounting to 350,523 thousand euros (2017: 331,793 thousand euros) (note 11).

17.3 Remuneration of directors and senior executives

The breakdown of the remuneration received by the Board of Directors of CEPSA in 2018 and 2017, classified by item, is as follows:

Thousands of euros

	2018	2017
Fixed remuneration	843	778
Variable remuneration	2,116	1,665
Remuneration per by-laws	1,528	1,077
Other items	12	15
Pension funds and plans: contributions (note 4.13)	606	556
Total	*5,105*	*4,091*

As at December 31, 2018 and 2017, the Board of Directors was comprised of 7 members (1 woman and 6 men), as well as a Secretary and Vice Secretary (non-Board members).

CEPSA's directors and officers liability insurance policy was renewed on March 5, 2018 for 12 months, with a total annual net premium of 66 thousand euros for the entire Group.

In 2018 and 2017, the total compensation paid to Senior Executives classified by item (for members of the Management Committee, regardless of the type of relationship to the company) was as follows:

Thousands of euros

	2018	2017
Fixed remuneration	2,743	2,720
Variable remuneration	5,072	4,711
Other items	130	124
Pension funds and plans: contributions (note 4.13)	584	575
Total	*8,529*	*8,130*

Senior Executives receive an annual fixed and variable remuneration package. The latter is calculated as a percentage of the 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 performance of projects pursuant to established criteria relating to price, quality and deadline, and individual performance.

The number of senior executives as at December 31, 2018 and 2017 was 8 in both years, all of whom were men.

The Company has not granted any advances or loans to its Board members or to senior managers.

17.4 Conflict of interests (Directors)

As provided for in the current text of article 229 of the Capital Companies Act, the Company's directors disclosed the following conflicts of interest:

(i) At the Board of Directors meeting on May 11, 2018, Board Members Mr. Abdulmunim Alkindi and Mr. Abdulla Aldhaheri reported that, as Directors of Abu Dhabi National Oil Company (ADNOC), they were in potential conflict with the Company's interest in the joint ADNOC/CEPSA project for a future petrochemical plant in Abu Dhabi, and therefore both were absent from the meeting during the deliberations and voting on this matter. The statements of conflict of interest and their abstention from debate and voting were duly recorded in the minutes of that meeting.

(ii) At the meeting of the Board of Directors on September 17, 2018, the following members of the Board of Directors: Mr. Suhail Al Mazrouei, Mr. Musabbeh Alkaabi, Ms. Alyazia Alkuwaiti, Mr. Abdulmunim Alkindi and Mr. Abdulla Aldhaheri reported that, given their status as proprietary directors, they were involved in potential conflict of interest situations in relation to the purchase and sale of Medgaz, S.A. between CEPSA and Mubadala Investment Company, and consequently, the five directors were absent from the meeting during the deliberations and voting on this matter. The statements of conflict of interest and their abstention from debate and voting were duly recorded in the minutes of that meeting.

Upon their respective resignations on November 13, 2018, the directors Mr. Suhail Al Mazrouei, Mr. Abdulmunim Alkindi and Mr. Abdulla Aldhaheri made it clear that neither they nor any related person were in any other situation of direct or indirect conflict with the interest of the Company up to that date, except for those previously mentioned, and this was duly recorded in the corresponding minutes of the meeting.

The directors who continue to sit on the Board of Directors of CEPSA at the date of preparation of the Financial Statements, Mr. Musabbeh Alkaabi and Ms. Alyazia Alkuwaiti, both notified the aforementioned conflict of interest in letters dated February 11, 2019 addressed to the Secretary of the Board of Directors, stating that neither they nor any related person were involved in any other situation of direct or indirect conflict with the interests of the Company.

As for the remaining members of the Board of Directors, none of them, nor any of their related parties, disclosed any direct or indirect conflicts of interest, pursuant to the Capital Companies Act in force, either at year-end 2018 or at the date of drafting of these Financial Statements

17.5 Group structure

The Company is the parent company of the CEPSA Group. The Company is the parent of the CEPSA Group, which is organized and manages its businesses in the following areas:

- Exploration and Production, which includes oil and gas exploration and production activities.
- Refining and Distribution, which includes supply, refining and distribution, as well as the cogeneration of electrical energy and its distribution and marketing.
- Petrochemical, which includes production, distribution and marketing.

18. Information on the environment

At the end of 2018 and 2017 CEPSA had the following significant items of property, plant and equipment used to minimize the environmental impact and to protect and improve the environment, classified in accordance with their use:

Thousands of euros

2018	Gross carrying amount	Accumulated Depreciation	Net carryng amount
Water	98,070	(75,621)	22,449
Air	305,937	(212,160)	93,777
Waste	2,420	(831)	1,589
Soil/Ground water	5,917	(1,931)	3,986
Other/Noise	7,370	(4,691)	2,679
Total	*419,714*	*(295,234)*	*124,480*

Thousands of euros

2017	Gross carrying amount	Accumulated depreciation	Net carryng amount
Water	98,827	(68,899)	29,928
Air	300,199	(194,739)	105,460
Waste	1,595	(704)	891
Soil/Ground water	5,669	(1,406)	4,263
Other/Noise	8,584	(4,420)	4,164
Total	*414,874*	*(270,168)*	*144,706*

The expenses incurred in 2018 and 2017 (including in-house resources), and expenditure for the purpose of protecting and improving the environment, by use, were as follows:

Thousands of euros

	Expenses		Investments	
	2018	2017	2018	2017
Water	10,259	9,935	156	3,816
Air	24,720	19,633	4,257	1,581
Waste	2,042	3,020	795	9
Soil/Ground water	4,578	4,132	37	117
Other/Noise	1,797	1,617	110	1,066
Total	*43,396*	*38,337*	*5,355*	*6,589*

In accordance with the definition contained in the Spanish Accounting and Audit Institute (ICAC) Resolution which approved the rules for the recognition, measurement and disclosure of environmental matters in financial statements, environmental investments were identified for the purpose of this classification.

In order to achieve sustainable development, CEPSA has programs in place for the ongoing improvement of its production processes, the reduction of wastewater, the elimination of spills and waste management. To this end it has implemented an environmental management system, enabling it to comply with its statutory obligations and to introduce betterments on a rolling basis. The investments relating to the environment reflect the commitment acquired by the Company as a result of environmental aims.

The most significant environmental assets recognized by CEPSA under "Technical installations" are the following: sulfur recovery plants, plants for the treatment of amino acids and acidified water, 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 COV and NOx emissions.

Company management does not expect any contingencies to arise in connection with its actions in this respect. However, it has arranged insurance policies to cover risks that could arise from its activities, except for that of soil pollution, the only contingency not covered in the insurance policies. CEPSA has therefore recognized a provision in this connection totaling 16,111 thousand and 15,954 thousand euros as at December 31, 2018 and 2017 respectively (note 12).

19. Other disclosures

19.1 Employees

The average number of employees as at December 31, 2018 and 2017, by professional category, is as follows:

Categories	2018	2017
Directors	1	1
Senior Management	8	8
Management	49	50
Technical personnel and other managers	1,551	1,510
Specialists/Assistants	1,048	1,070
Total	*2,657*	*2,639*

The headcount as at December 31, 2018, by category and gender, was as follows:

Categories	*Men*	*Women*
Directors	1	-
Senior Management	8	-
Management	42	6
Technical personnel and other managers	1,172	417
Specialists/Assistants	919	143
Total	*2,142*	*566*

The average number of employees as at December 31, 2018 and 2017, with disability greater than or equal to thirty-three percent, by professional category, is as follows:

Categories	2018	2017
Technical personnel and other managers	7	6
Specialists/Assistants	3	6
Total	*10*	*12*

19.2 Fees paid to auditors

As at December 31, 2018 and 2017, the fees charged for auditing the financial statements and other services provided by the Company's auditor or by companies related to the auditor through control, common ownership or management were as follows:

Thousands of euros

2018	Total
Audits of accounts	509
Other verification services	501
Tax advisory services	-
Other services	1,092
Total	*2,102*

Thousands of euros

2017	Total
Audits of accounts	344
Other verification services	-
Tax advisory services	-
Other services	280
Total	*624*

19.3 Off-balance sheet agreements

Guarantee commitments to third parties and other contingent liabilities

As at December 31, 2018 and 2017, CEPSA had provided guarantees to various entities, mainly to secure financing for Group companies in connection with supply contracts. The breakdown of these guarantees is as follows:

	Thousands of euros	
	2018	**2017**
Bank guarantees to public authorities as a result of CEPSA's business activities (1)	227,333	235,982
Guaranted provided by CEPSA to financial institutions		
As a result of financial transactions of Group subsidiaries (2)	743,365	712,676
Other guarantees (3)	237,744	57,207
Total	*1,208,442*	*1,005,865*

As regards 2018:

(1) Includes guarantees provided to public authorities totaling 15,538 thousand euros relating to subsidized loans which were already recognized on the liability side of CEPSA's balance sheet.

(2) These transactions in the amount of 395,074 thousand euros were already recognized on the liability side of the Group's subsidiaries' balance sheets.

(3) The other guarantees include foreign currency guarantees to third parties, and other entities and Stand by amounting to 70,524 thousand euros and letters of credit amounting to 70.333 thousand euros.

CEPSA management does not believe that any unforeseen liabilities potentially arising from the guarantees provided as at December 31, 2018 would have a material effect.

Non-current firm commitments of CEPSA as at December 31, 2018 and 2017 are as follows:

						Thousands of euros	
2018	**2019**	**2,020**	**2,021**	**2,022**	**2,023**	**Rest**	**Total**
Gas Transportation	45,472	46,382	47,309	48,256	49,221	387,460	624,100

						Thousands of euros	
2017	**2,018**	**2,019**	**2,020**	**2,021**	**2,022**	**Rest**	**Total**
Gas Transportation	44,581	45,472	46,382	47,309	48,256	436,680	668,680

The Company has purchase commitments for natural gas with Sonatrach which have been assigned in full to Cepsa Gas Comercializadora, S.A.

20. Greenhouse gas emission allowances

In compliance with the commitments to reduce greenhouse gas emissions assumed by the European Union in May 2002, various EU and national regulations were issued, which led to the approval of the EU Emission Trading System. Phase III is currently underway, covering the years 2013 to 2020 (the second period of the Kyoto Protocol), as set out in Commission Decision 2011/278/EU as well as in Directive 2003/87/EC and Law 1/2005. Allocation for each plant for the period 2013-2020 was calculated in accordance with a detailed set of European Community regulations which determine allocation directly, without discretionary margins. Specifically, the assignment methodology was the one established in European Commission's Decision 2011/278.

The allowances assigned to CEPSA were as follows:

			Thousands of MT	
	2015	**2016**	**2017**	**2018**
Assigned allowance	2,984	2,843	2,789	2,735

The assignment of free rights for each exercise is valued at the market price prevailing at the time of the concession, 6.99€/MT in 2015, 8.04€/MT in 2016, 6.11 €/MT in 2017 and 7.78€/MT in 2018.

At year-end 2018, the market price of emission allowances was 22.66€/MT for EUAs, and 0.25€/MT for CER. At present, CEPSA has not recognized any significant CER rights since it was decided to hedge the maximum percentage allowed by European Union for these rights during the starting years of the compliance period.

The changes in 2017 and 2018, in tons and thousands of euros, were as follows:

Thousands of euros

	Greenhouse gas emission allowances (Thousands of MT)	Inventories	Grants (Note 11)	Provisions for current contingencies (Note 12)
Balance at 12/31/2016	*4,972*	*29,484*	*4,303*	*25,758*
Assignment	2,789	17,044	17,044	-
Prior years assignment	-	-	-	-
Additions/period provisions	532	3,173	-	15,417
Disposals	(4,821)	(28,927)	(20,663)	(21,219)
Unreversed impairment loss	-	-	-	-
CER'S rights	-	(6)	-	-
Balance at 12/31/2017	*3,472*	*20,768*	*684*	*19,956*

Thousands of euros

	Greenhouse gas emission allowances (Thousands of MT)	Inventories	Grants (Note 11)	Provisions for current contingencies (Note 12)
Balance at 12/31/2017	*3,472*	*20,768*	*684*	*19,956*
Assignment	2,735	21,279	21,279	-
Prior years assignment	-	-	-	-
Additions/period provisions	668	9,705	-	29,547
Disposals	(3,403)	(20,809)	(20,254)	(19,777)
CER'S rights	557	(49)	-	-
Balance at 12/31/2018	*4,029*	*30,894*	*1,709*	*29,726*

The value of the CO_2 emission allowances which were freely assigned in accordance with the emissions trading scheme during 2018 was 21,279 thousand euros, equivalent to 2,735 thousand tons. Allowances have also been purchased from Cepsa Gas y Electricidad and Cepsa Química.

Disposals reflected under 2017 movements include compliance deliveries and well as the sale of rights to Cepsa Gas y Electricidad, S.A. and Generación Eléctrica Peninsular, S.A.

CEPSA has a share of 1.373 % in the Spanish Carbon Fund in order to finance a variety of projects that target greenhouse gas emissions reduction and the sustainable development of developing countries. If successful, these projects will generate emission allowances.

The value of the emissions made is recognized under "Other operating expenses" in the accompanying income statement and a "Short-term provision" is recognized as a balancing item for the obligation to deliver to the government the emission rights relating to each of the years. In 2018 and 2017, emissions were estimated to amount to 3,259 thousand MT, valued at 29,726 thousand euros, and to 3,268 thousand MT, valued at 19,956 thousand euros, respectively.

The use of the grant for allowances assigned for no consideration, which is recognized under "Grants, donations or gifts and legacies received" (note 11), is recognized, as the emissions are produced under "Allocation to profit or loss of grants related to non-financial non-current assets and other grants" in the income statement.

In 2018 the estimated emissions were higher than the volume of rights assigned, deficient tons, considering the abovementioned purchase from Cepsa Gas y Electricidad and Cepsa Química, amounted to 502 thousand tons. The Company does not expect that final certification will result in any relevant liabilities with respect to those already considered.

In 2019 the allowances corresponding to the emissions made in 2018 will be delivered to the European Union and the amount corresponding to these rights will be derecognized for accounting purposes from Inventories and Short-term provisions.

Company management does not expect any contingencies to arise in this connection.

21. Risk management policy

21.1 Main risks associated with CEPSA's operations

CEPSA operates 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 therefrom.

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

- Credit risk
- Liquidity risk
- Market risk

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

CEPSA includes a chapter on risk management in its Management´ Report which offers a more detailed explanation of the risks to which it is exposed.

21.2 Risk management framework

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

Credit risk

Credit risk is defined as the possibility of a third party not complying with its obligations under a financial instrument or client contract, leading to a financial loss. The Company 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 balance sheets as at December 31, 2018 and 2017 represents the maximum credit exposure.

CEPSA does not have a significant concentration of credit risk on trade payables, discounting the amounts relating to logistical exchanges. The exposure of the remaining commercial debt is widely distributed among a large number of customers and other counterparties.

The Company has established several internal norms and procedures to minimize the risk of default by trade debtors, using credit verification to qualify customers to trade on credit terms and setting mandatory credit limits for each one. 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.

In order to do so, various creditworthiness models have been designed. Based on these models, the probability of client default on payment can be measured, and the potential loss can be kept under control.

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

- High quality: Preferential clients, clients with high credit ratings and financial capacity, clients who have made advance payments in cash or whose payment terms are secured.
- Medium quality: Clients of an average size who enjoy a good reputation and are economically healthy, but have a history of slow payments.
- Low quality: New customers without any credit history, customers who are repeatedly slow in making payments and whose financial position is weak.

The breakdown of this analysis for 2018 and 2017 is as follows:

2018				Thousands of euros
Credit quality	High quality	Medium quality	Low quality	Total
Trade receivables for sales and services and Other debtor	707,874	19,621	42,761	770,256
Trade receivables, group companies (Note 17)	944,699	-	-	944,699
Personnel	673	-	-	673
Cash and cash equivalents	115,340	-	-	115,340
Total	*1,768,586*	*19,621*	*42,761*	*1,830,968*

2017				Thousands of euros
Credit quality	High quality	Medium quality	Low quality	Total
Trade receivables for sales and services and Other debtor	858,525	6,567	34,086	899,178
Trade receivables, group companies (Note 17)	871,229	-	-	871,229
Personnel	670	-	-	670
Cash and cash equivalents	382,610	-	-	382,610
Total	*2,113,034*	*6,567*	*34,086*	*2,153,687*

Balances receivable are supervised based on their due dates, which helps mitigate exposure to unrecoverable trade receivables. The maturity schedule for unimpaired "Trade and other receivables" for 2018 and 2017 is as follows:

		Thousands of euros
	2018	2017
Not past due	723,799	844,587
0-30 days past due	34,017	35,530
31-90 days past due	9,839	5,886
91-180 days past due	292	6,298
More than 180 days past due	2,982	7,547
Total	*770,929*	*899,848*

Some credit insurance policies have been arranged to cover the risk of default on a portion of the past-due receivables that have not been provisioned. In addition, guarantees have been provided that cover another portion thereof.

In order to mitigate the credit risk arising from cash and financial debt positions, CEPSA works only with highly solvent and prestigious national and international financial institutions. Additionally, the counterparty risk in investments and financial instruments contracts is analyzed.

Liquidity risk

Liquidity risk relates to the capacity of CEPSA to obtain financing at reasonable market prices, as well as cover the required financing needs for performing the activities of its businesses.

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

Thus, CEPSA pursues a conservative financial policy which involves maintaining available cash balances and other liquid financial instruments, as well as committed credit lines yet to be drawn down, sufficient to cover debt maturing within 24 months without the need to obtain new financing in the market or refinance available credit lines.

Its liquidity management policy involves projecting cash flows in main currencies as well as considering the degree of liquid assets necessary to meet them.

The tables below present an analysis of the maturities of the financial liabilities existing as at December 31, 2018:

Thousands of euros

	Payable	0 - 3 months	3 - 12 months	2 years	3 years	4 years	5 years	>5 years	Total
Debts									
Suppliers and Other payables	-	662,581	-	-	-	-	-	-	662,581
Suppliers, group companies and associates	-	1,053,427	-	-	-	-	-	-	1,053,427
Total debts	-	1,716,008	-	-	-	-	-	-	1,716,008
Borrowings									
In Currency US Dollar	-	-	174,958	10,524	928,411	275,361	1,050,902	188,924	2,629,080
In Currency Euro	-	7,920	18,793	18,750	18,750	24,583	5,833	158,333	252,962
Total borrowings	-	7,920	193,751	29,274	947,161	299,944	1,056,735	347,257	2,882,042
Derivative instruments liabilities									
Derivative instruments liabilities	-	916	-	-	2,980	-	-	1,304	5,194
Other liabilities									
Other financial liabilities	-	125,654	11,163	9,487	7,689	4,299	1,976	2,829	163,097
Public entities, payables	-	129,396	-	-	-	-	-	-	129,396
Payable to group companies and associates	-	624,637	-	-	-	-	-	-	624,637
Other payables	-	55,076	-	-	-	-	-	-	55,076
Total other liabilities	-	934,763	11,163	9,487	7,689	4,299	1,976	2,829	972,206
Total liquidity risk	-	*2,659,601*	*204,914*	*38,761*	*957,830*	*304,243*	*1,058,711*	*351,390*	5,575,450

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. Cepsa is exposed to several types of market risks (price risks, exchange rate risks and interest rate risks) which affect the 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 Company monitors its exposure to market risk through ongoing sensitivity analysis. For each of the market risk factors detailed below, a table is displayed with sensitivity of the company's net profit to such factors to which financial instruments are exposed.

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

Financial instruments subject to 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.

a) 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 the foreign exchange rates used by the Company. 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.

The Company's profit and equity are exposed to fluctuations in the exchange rates of the currencies in which it does business. The most significant foreign currency exposure is to the US dollar.

As at December 31, 2018 and 2017, debt in dollars was 2,635,410 euros and 1,363,728 euros (Note 13), representing 91.44% and 83.40% respectively of total gross debt. 99.50% of the debt in dollars is assigned to accounting hedging transactions, chiefly fair value hedges ($3,002 million) (Note 9).

The sensitivity of net income and equity to exchange rate risk, taking into account the hedge accounting prevailing at the reporting date, as a result of the appreciation or depreciation of the euro against the dollar, on the financial instruments held by CEPSA at year end, is illustrated below:

Millions of euros

Effect of fluctuations in the euro against the U.S. dollar	2018		2017	
	+0.05 USD/EUR	-0.05 USD/EUR	+0.05 USD/EUR	+0.05 USD/EUR
Impact on profit or loss after taxes	28.85	(31.36)	9.53	(10.35)

b) Commodity price risk

CEPSA businesses have a certain degree of sensitivity to the changes in and volatility of oil prices, managed through a hedging system, refining margins and energy product sales. In this connection the Company's high degree of vertical integration, which has increased in recent years, is a strategy that, by itself, mitigates the effects of economic cycles and their specific impact on the result.

Fluctuations in crude oil prices also have an effect on product refining and marketing operations, opposite to the effect of the area of Exploration and Production whose scale depends, among other factors, on the speed with which price changes in energy products or base petrochemical products at source is relayed to the international and local finished goods markets.

Exposure to all these prices is constantly monitored, and on certain occasions the Company contracts financial derivatives with a view to reducing its exposure to their volatility. These derivatives thus comprise economic hedging of results though they are not always accounted for as hedges for accounting purposes (Note 9).

In this regard, the impact on the net result of a 10% increase or decrease on the price of crude oil is irrelevant.

c) Interest rate risk

The Company's exposure to interest rate risk relates primarily to its borrowings at floating rates, mainly USD Libor. The Company's policy is to manage its debt portfolio with the aim of minimizing non-current interest costs.

To manage and mitigate this risk, CEPSA obtains financing at a fixed rate or contracts interest rate hedges via financial derivatives when it considers appropriate (Note 9).

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.

The following table shows the sensitivity of the Company's interest expense to reasonably possible changes in interest rates, assuming all other variables remain unchanged.

Millions of euros

Interest rate variations effect	2018	2017
	Income statement	Income statement
+ 50 bps	11.23	3.10
- 50 bps	(10.50)	(1.11)

21.3 Capital management

Maintaining a sound equity structure is one of CEPSA's capital management priorities.

This objective is achieved by controlling the level of borrowing in order to protect against possible changes in economic and industry-based circumstances and to ensure readiness to appropriate financing which enables the Company to take on new profitable business opportunities to act as pillars of growth and contribute significant value.

The trend of indebtedness is determined through the relationship between net CEPSA indebtedness and its Equity, based on the following breakdown for 2018 and 2017:

	Thousands of euros	
	2018	**2017**
Non-current financial liabilities (Note 13)	2,680,371	1,342,469
Current liabilities (Note 13)	201,671	292,742
Gross debt	2,882,042	1,635,211
Cash and cash equivalents	115,340	382,610
Remunerated net debt	*2,766,702*	*1,252,601*
Net equity	*3,899,508*	*3,242,093*
Remunerated net debt / Net equity	*42%*	*39%*

CEPSA analyzes this ratio on a regular basis, using future estimates, as it considers it key to do so in order to establish its investments policies and dividend distribution. Containment on investments, divestitures on non-core assets for the group and cost control reduction of fixed costs has meant a significant reduction in debt.

22. Subsequent events

No events took place subsequent to year end which might represent a modification to the information contained in these notes, or which reflect circumstances which did not exist at year end and would affect the application of the going concern principle.

CEPSA

Table I

Detail of significant direct holdings as at December 31, 2018:

Thousands of euros

Name	Registered Office	Line of Business	Ownership %	Equity: Share Capital Subscribed	Equity: Share Capital Paid	Equity: Reserves + Net Profit/Loss	Net Cost of holding
ASFALTOS ESPAÑOLES, S.A. (ASESA)	C/ Titán, 8 4ª Planta. 28045 Madrid. España	Oil Refining to obtain asphalt products	50%	8,529	8,529	24,072	17,869
ATLAS, S.A. COMBUSTIBLES Y LUBRIFICANTES	C/ Playa Benitez, s/n. 51004 Ceuta. España	Oil and gas trading	100%	3,930	3,930	11,165	4,077
C.M.D. AEROPUERTOS CANARIOS, S.L.	Poligono Industrial Valle de Güimar Manzana XIV, parcelas 17 y 18. 38509 Güimar - Santa Cruz de Tenerife. España	Jet fuel distribution	60%	21,576	21,576	7,790	12,946
CEPSA (RHOURDE EL ROUNI) LIMITED	2nd Floor, Midtown Plaza P.O. Box 448. KY1-1106 Grand Cayman. Cayman Islands (***)	Research and exploration	100%	100,791	100,791	68,658	196,037
CEPSA ALGERIE, S.L.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	27	27	186,134	188,112
CEPSA AVIACIÓN, S.A.	ES. Comb. Aviac. Camino de San Lázaro, s/n Zona ind. Aeropuerto Tenerife Norte Los Rodeos. 38206 San Cristobal de la Laguna - Santa Cruz de Tenerife. España	Oil and gas transport	100%	954	954	24,497	956
CEPSA BIOENERGIA SAN ROQUE, S.L.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	3,003	3,003	8,128	8,003
CEPSA BUSINESS SERVICES, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Corporate services	100%	60	60	3,385	60
CEPSA CHIMIE BECANCOUR, INC.	5250 Boulevard Becancour. G9H 3X3 Becancour. QUEBEC. Canadá	Commercialization of petrochemical products	100%	30,670	30,670	16,186	276
CEPSA COLOMBIA, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	24,109	24,109	63,081	253,895
CEPSA COMERCIAL PETRÓLEO, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Petrol station administration	100%	82,043	82,043	658,320	219,373
CEPSA E. P., S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	7,679	7,679	2,203	9,643
CEPSA E.P. MEXICO S. DE R.L. DE C.V.	Av.Paseo de la reforma, 295 Piso 8 Oficina A. 06500 Cuauhtemoc - Ciudad de Mexico. Mexico	Research and exploration	100%	100 K.Pesos	-	-	54
CEPSA EP ABU DHABI, S.L.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	1	1	1.370.887	1,484,719
CEPSA GAS COMERCIALIZADORA, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Gas distribution	70%	3,060	3,060	11,411	14,161
CEPSA GAS Y ELECTRICIDAD, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Electricity distribution	100%	12,330	12,330	87,263	55,621
CEPSA INTERNATIONAL B.V.	Beurs - World Trade Centre - Office 668 Beursplein 37. 3011 AA Rotterdam. The Netherlands	Oil and gas trading	100%	3,515	3,515	190,109	196,372
CEPSA MARINE FUELS, DMCC	Office 3201 / 32nd floor Platinum Tower Jumeirah Lake Tower. - Dubai. EAU	Commercialization of oil products (outside EAU)	100%	406	406	2,413	-
CEPSA OLEO E GAS DO BRASIL, LTDA.	Rua do Carmo, nº 43 9º andar. - Rio de Janeiro. Brasil	Research and exploration	100%	48,262	48,262	(32,386)	7,144
CEPSA PANAMA, S.A.	PH Albrook Office, 5 floor, Desk 17 Albrook, Ciudad de Panamá. - República del Panamá. -	Supply oil products to vessels	100%	1,227	1,227	22,152	20,873
CEPSA PERU, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	60	60	98,778	99,217
CEPSA PETRONUBA, S.A.U.	Refinería "La Rábida" Polígono Nuevo Puerto.. 21810 Palos de la Frontera. HUELVA. España	Supply oil products to vessels	100%	60	60	550	60
CEPSA PORTUGUESA PETROLEOS, S.A.	Avda. Columbano Bordalo Pinheiro, 108-3º B. 1070-067 Lisboa. Portugal	Oil and gas trading	100%	30,000	30,000	59,718	65,957
CEPSA QUÍMICA, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Production and sale of petrochemicals	100%	60	60	775,078	80,192
CEPSA SEA, S.L.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	19	19	(270,592)	109,766
CEPSA SURINAME, S.L.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	23,706	23,705	7,805	34,661
CEPSA TRADING, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	60	60	(77)	60
CEPSA TREASURY, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	60	60	731	60
CEPSA, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Corporate services	100%	61	61	780	61
COASTAL ENERGY KBM SDN BHD	Level 23, Etiga Twins, 11 Jalan. - Pinangm KL. Malasia	Research and exploration	70%	4,926	4,926	56,145	51,137
COASTAL ENERGY MALASYA SDN BHD	Level 23, Etiga Twins, 11 Jalan. - Pinangm. Malasia	Research and exploration	100%	-	-	1,791	9,843
MEDGAZ, S.A.	Muelle de Poniente, s/n. 04002 Almería. España	Pipeline construction for gas transportation between Algeria and Europe	42%	30,000	30,000	21,546	139,854
MOPU HOLDINGS (SINGAPORE) PTE LTD	6, Temasek Boulevard #38-01 Suntec Tower Four 038986 -. Singapore	Research and exploration	100%	56,345	56,345	35,937	183,005
NUEVA GENERADORA DEL SUR, S.A.	Avda. San Luis, nº 77 Edificio C 4ª planta. 28033 Madrid. España	Power cogeneration	50%	2,290	2,290	82,580	21,535
OLEODUCTOS CANARIOS, S.A. (OLECASA)	Explanada de Tomás Quevedo, s/n. 35008 Las Palmas de Gran Canaria (GRAN CANARIA). España	Environmental Services	20%	108	108	744	22
PETRÓLEOS DE CANARIAS, S.A. (PETROCAN)	Explanada de Tomás Quevedo, s/n. 35008 Las Palmas de Gran Canarias (GRAN CANARIA). España	Bunkering services	100%	120	120	33,885	10,542
PLASTIFICANTES DE LUTXANA, S.A. (P.D.L.)	Paseo de la Castellana, 259 A. 28046 Madrid. España	Production and sale of petrochemicals	100%	3,023	3,023	558	3,628
PROPEL-PRODUTOS DE PETROLEO, L.D.A.	Avda. Columbano Bordalo Pinheiro, 108-3º. 1070-067 LISBOA. Portugal	Supply point management services	7%	224	224	1,127	1,356
SERVICIOS ENERGÉTICOS DE ALTA EFICIENCIA, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Electricity sales	100%	100	100	3,720	2,408
SPANISH INTOPLANE SERVICES, S.L.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	1,000	1,000	4,007	1,300

CEPSA

Table II

Detail of significant indirect holdings as at December 31, 2018:

Thousands of euros

Name	Line of Business	Line of Business	Ownership	Equity: Share Capital Subscribed	Equity: Share Capital Paid	Equity: Reserves + Net Profit
CEC SERVICES (THAILAND) LTD	Unit 1601 - 1604, 388 Exchange Tower, Sukhumvit Rd., Klongtoey, 10110 Bangkok. Tailandia	Research and exploration	Indirect	23	23	665
CEPSA DISCO, S.L.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Petrol station administration	Indirect	12	12	188,549
CEPSA EP ASIA, S.L.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	Indirect	100	100	(200,941)
CEPSA EP ESPAÑA, S.L.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	Indirect	100	100	(286)
CEPSA PERUANA, S.A.C.	Av Ricardo Rivera Navarrete, 501. 27 San Isisdro-Lima. Perú	Research and exploration	Indirect	166,868	166,868	(54,127)
COASTAL ENERGY COMPANY	Cricket Square, Hutchins Drive PO Box 2681. KY1 - 1111 Grand Cayman. Islas Caiman	Research and exploration	Indirect	37	37	(190,343)
CEC INTERNATIONAL LTD	Cricket Square, Hutchins Drive PO Box 2681. KY1 - 1111 Grand Cayman. Islas Caiman	Research and exploration	Indirect	1	1	(204,554)
NUCOASTAL (THAILAND) LIMITED	Unit nº 3901 - 3904, 39th. Floor, Exchange Tower, 388 Sukhumvit Rd. Klongtoey Bangkok Thailand	Research and exploration	Indirect	1,730	1,730	(33,738)
OCEAN 66 LTD	Codan (Mauritius) Limited, Level 3, Tower 1 Nexteracom Tower Cybercity	Research and exploration	Indirect	2	2	11,156
GENERACIÓN ELÉCTRICA PENINSULAR, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Power cogeneration	Indirect	32,000	32,000	56,894
CEPSA CHEMICAL (SHANGHAI), CO., LTD	Nº 159 Pu Gong Rd. Shanghai Chemical Industrial Park Shanghai - China	Production and sale of petrochemicals	Indirect	231,337	231,337	(189,687)
CEPSA ITALIA, S.p.A.	Viale Milanofiori Palazzo A/6. 20090 Assago- MILAN. Italia	Sale of petrochemicals	Indirect	6,000	6,000	5,587
CEPSA QUIMICA CHINA, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Shareholder	Indirect	12,830	12,830	53,055
CEPSA UK, LTD.	Audrey House 16 - 20 Ely Place. EC1N 6SN London. Reino Unido	Production and sale of petrochemicals	Indirect	3,337	3,337	8,208
DETEN QUIMICA, S.A.	Rua Hidrogenio 1744 Complejo Industrial. 42810-010 Camaçari Bahía . Brasil, Brasil	Production and sale of petrochemicals	Indirect	61,333	61,333	62,580
CEDIPSA, CIA. ESPAÑOLA DISTRIBUIDORA DE PETROLEOS, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Sales in service station	Indirect	8,114	8,114	27,901
CEPSA CARD, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Group card management	Indirect	60	60	(204)
RED ESPAÑOLA DE SERVICIOS, S.A.U. (RESSA)	Paseo de la Castellana, 259 A. 28046 Madrid. España	Group card management	Indirect	300	300	35,332
ABU DHABI OIL, CO, LTD (ADOC)	1-1 Shibaura 1 - Chome, Minato - Ku Tokyo Japan	Research and exploration	Indirect	92,987	69,476	641,451
COSMO ABU DHABI ENERGY E&P Co. Ltd	Hamamatsucho BLDG. 1-1 Shibaura 1 - Chome, Minato - Ku Tokyo Japan	Research and exploration	Indirect	28	28	(37,205)
COASTAL ENERGY COMPANY (KHORAT) LTD (Apico)	Cricket Square, Hutchins Drive PO Box 2681. KY1 - 1111 Grand Cayman. Islas Caiman	Research and exploration	Indirect	42,289	42,289	(28,121)
COASTAL ENERGY COMPANY (KHORAT) LTD	Cricket Square, Hutchins Drive PO Box 2681. KY1 - 1111 Grand Cayman. Islas Caiman	Research and exploration	Indirect	46	46	63,506
SINARMAS CEPSA PTE, LTD	108 Pasir Panjang Road - Golden Agri Plaza. 118535 Singapore	Sulphonation and sulfation of LAB and fatty alcohols.	Indirect	46,551	46,551	(9,980)
SIL CHEMICAL, LTD	161 A, Raufu Taylor Close Victoria Island. - Lagos. Nigeria	Production and sale of Lab-Las	Indirect	116	116	86,318
CEPSA GIBRALTAR, LTD.	Europort Building 7 2nd Floor. (P.O. Box 51). - -. Gibraltar	Oil and gas trading	Indirect	71	71	18,157
CEPSA CHIMIE BECANCOUR, INC.	5250 Boulevard Becancour. G9H 3X3 Becancour. QUEBEC. Canadá	Production and sale of petrochemicals	Indirect	30,670	30,670	16,186
SURESA RETAMA, S.L.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Wind generation	Indirect	605	605	12,365

MANAGEMENT REPORT

Compañía Española de Petróleos, S.A.U.

For the year ended December 31, 2018

CEPSA

CONTENTS

1. Company situation

a. Our Group

CEPSA is a multinational energy group with more than 89 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 the additional stability needed to offset adverse effects on any single business area, and allows us to establish synergies amongst different activities, increasing efficiency.

Our technical expertise and adaptability have made us one of the largest Spanish industrial groups in terms of sales volume, and a benchmark group for the sector.

Currently, we are 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 International Petroleum Investment Company PJSC (IPIC).

In 2017, Mubadala Investment Company (the ultimate parent of the Company) instructed International Petroleum Investment Company (100% direct owner of the Company) to transfer its entire ownership in the Company to an entity under common control, Cepsa Holding LLC. Hence, Cepsa Holding LLC is the direct 100% shareholder of the Company as at 31 December 2018.

Our objective is to position ourselves uniquely in the global energy market, establishing presence across 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 choice.

In Cepsa we maintain our commitment to the safety and environment. We are aware of the impact of our activities on the environment and uphold 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 Company we perform our activities in many countries via the following business segments:

Exploration and Production (E&P)

This business area includes all activities related to exploration and production of hydrocarbons. We are present in South America, Africa, the Middle East, Spain, and Southeast Asia, with a production capacity of more than 83,000 barrels of petroleum per day.

In March 2018, Cepsa acquired a 20% interest for 40 years in a concession with two large oil fields in the Abu Dhabi. As a result of this acquisition, our resources have been tripled and our production capacity

increased by 50%. We also operate several oil fields in Algeria, including the second largest in the country. Finally, our presence in Colombia is significant, where we are the fifth largest company in the sector.

We have a diversified E&P activity, with assets onshore and offshore (in deep and shallow waters).

The price of crude oil has a significant impact on exploration and production activities. For the coming years moderate increases are expected in crude oil prices as the markets gradually find some equilibrium, with the oversupply concerns receding.

Rising development costs for exploration projects, mainly due to projects' increasing technical complexity, and the low price of crude oil, has accelerated the search for efficiencies and required us to be very selective when investing in new projects.

In the recent years, CEPSA has adapted to the new environment of volatility in the price of crude oil, optimizing our costs, showing resilience in the face of crude oil prices, progressively reducing our break-even levels below $30/barrel, successfully working on the replacement of reserves and strengthening our position in the key regions where we are active.

Refining

Crude oils are distilled via refining, which involves selecting the most appropriate oil for our refineries and transforming the oil into products for sale in the markets where we operate. The refining activity is integrated in other businesses of the CEPSA, from supplying crude oil to marketing products (Trading, Marketing, Petrochemicals, Gas and Power) with a view to maximizing margins in the value chain.

Our refining activity is centered in Spain with two refineries, amounting to a total crude oil distillation capacity of 23.9 million tons per year, totaling 32% of capacity installed in Spain, and from which we supply to the domestic and export markets.

The refining overcapacity in Europe and the competitiveness of refineries in Russia, the Middle East, and the USA continue to pose the main threat to European refineries. In 2018, the refining margins have registered a decline to more moderate levels when compared with the high margins registered in 2017.

The regulatory framework is becoming a factor of great influence in the industry, where environmental demands and technical specifications of the products are increasingly restrictive, including lower CO_2 emissions and greater presence of biofuels.

The 'Bottom of Barrel' project is being implemented, which, with an estimated budget of 930 million euros, will involve, through the manufacture of intermediate products of greater value, an improvement in our refining margin and the competitiveness of our refineries, consolidating them as among the most efficient in Europe.

Through the Trading unit we carry out the sale of the crude oil we extract together with our surplus refinery products, supplying the refinery with raw materials and intermediate products, managing the price risks in the markets of futures and other derivatives.

As a complement to our operations of refining, we have a combined cycle plant as well as electricity and steam cogeneration plants in the main production centers, fueled by natural gas, and we also supply electricity to industrial clients and consumers in the service sector.

In Cepsa 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 context, we have acquired the rights to develop a wind farm which will be located in the province of Cádiz.

Marketing

In CEPSA 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, 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. Likewise, we supply fuels for ships at the main Spanish ports, where are leaders, and at important locations for international maritime traffic, such as Fujairah and Panama.

We market 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 needs of our clients.

In Spain, the degree of coverage provided by our service station network is slightly greater than in other European countries. Consequently, it is of great operational importance to differentiate these service stations in the market as well as ensure customer loyalty to so as to ensure the network's profitability in a competitive environment.

Petrochemicals

We manufacture and market basic petrochemical products and derivatives, through our investment in group companies. We carry out basic petrochemical activities in the refineries, obtaining raw materials, intermediate products, and finished products. We have plants that carry out derivative petrochemical activity, in Spain, Germany, Canada, Brazil, Nigeria, China and Indonesia. Our manufactured products 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, amongst 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 outside institutes and universities.

c. 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.

CEPSA's governance structure consists of its Sole Shareholder, 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.

With the exception of matters reserved exclusively to the Sole Shareholder, the Board of Directors is the highest administrative and representative body of the Company and is responsible for 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 December 31, 2018 and until the date of issuance of this report, the composition of the Board of Directors was as follow:

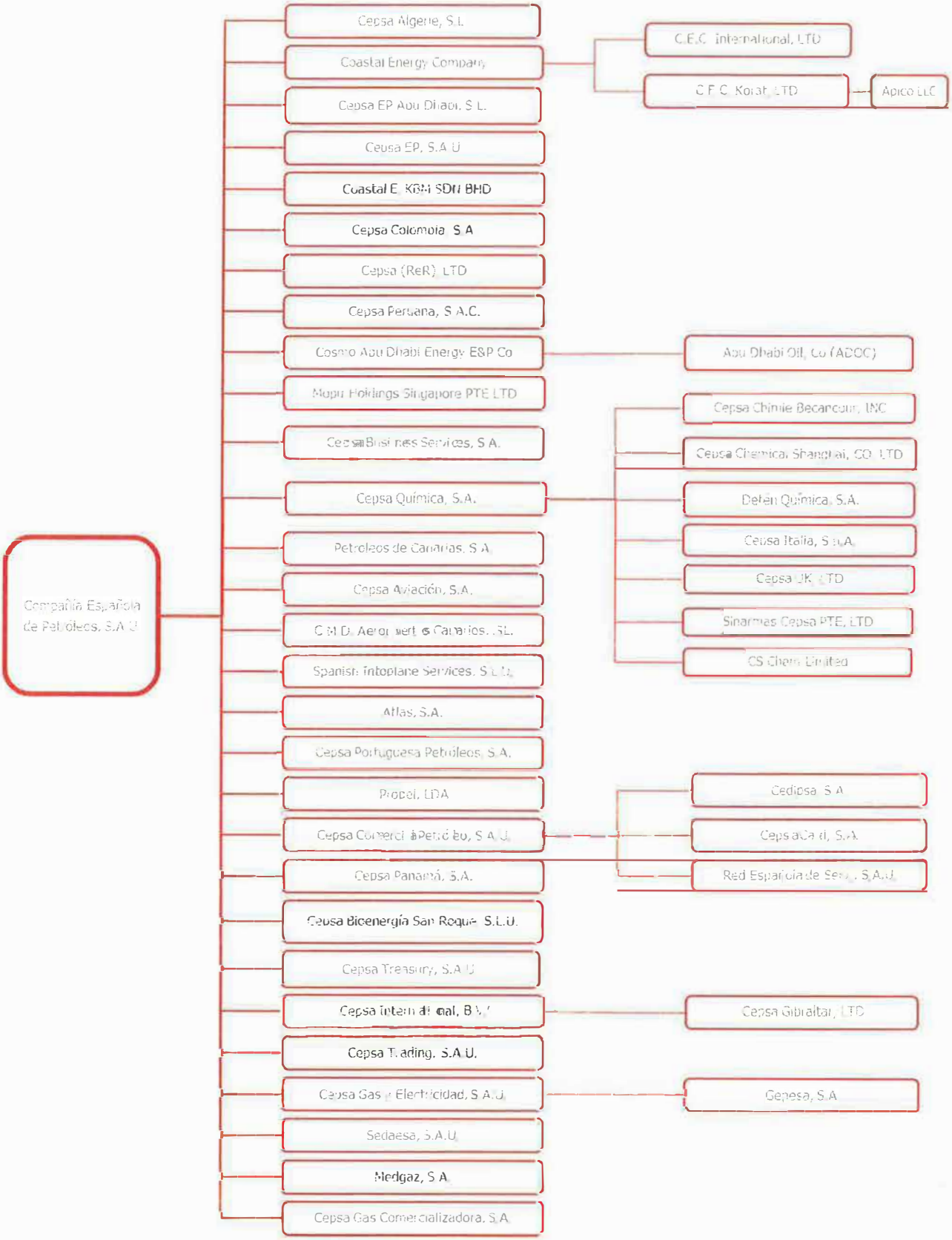
The two Board Committees have the following duties and responsibilities

Audit, Compliance and Ethics Board Committee: provides oversight for matters related to: internal audit, internal control, compliance and risk management; the preparation of financial information and financial reporting and disclosure processes; and the relationship with the external auditor. It also reviews and makes recommendations on key stakeholder policies for Board approval.

Nomination and Compensation Board Committee: reviews, reports and makes recommendations on the general compensation and incentive policies for Board members and Company Executives; and formulates reports and proposals to the Board on the decisions to be adopted in cases of conflicts of interest.

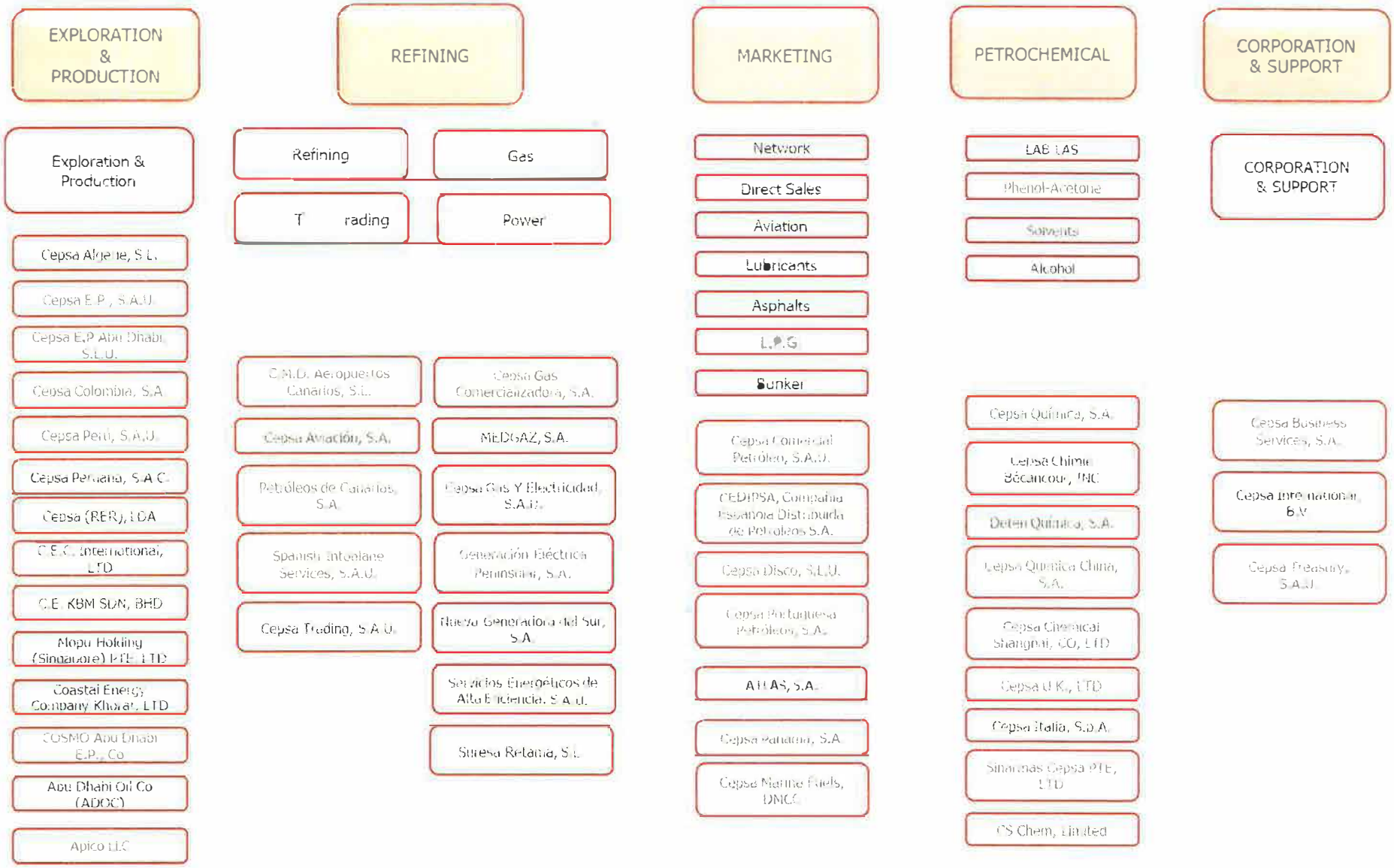
d. Group companies and business lines

The main entities comprising the Cepsa Group are shown below:


Compañía Española de Petróleos, S.A.U.
Cepsa Algerie, S.L.
Coastal Energy Company
Cepsa EP Abu Dhabi, S.L.
Cepsa EP, S.A.U.
Coastal E. KBM SDN BHD
Cepsa Colombia S.A.
Cepsa (ReR) LTD
Cepsa Peruana, S.A.C.
Cosmo Abu Dhabi Energy E&P Co
Mopu Holdings Singapore PTE LTD
Cepsa Business Services, S.A.
Cepsa Química, S.A.
Petroleos de Canarias, S.A.
Cepsa Aviación, S.A.
C.M.D. Aeropuertos Canarios, S.L.
Spanish Intoplane Services, S.L.U.
Atlas, S.A.
Cepsa Portuguesa Petróleos, S.A.
Propel, LDA
Cepsa Comercial Petróleo, S.A.U.
Cepsa Panamá, S.A.
Cepsa Bioenergía San Roque S.L.U.
Cepsa Treasury, S.A.U.
Cepsa International, B.V.
Cepsa Trading, S.A.U.
Cepsa Gas y Electricidad, S.A.U.
Sedaesa, S.A.U.
Medgaz, S.A.
Cepsa Gas Comercializadora, S.A.
C.E.C. International, LTD
C.F.C. Korat, LTD
Apico LLC
Abu Dhabi Oil, Co (ADOC)
Cepsa Chimie Becancour, INC
Cepsa Chemical Shanghai, CO. LTD
Deben Química, S.A.
Cepsa Italia, S.r.l.
Cepsa UK LTD
Sinarmas Cepsa PTE, LTD
CS Chem Limited
Cedipsa, S.A.
Cepsa Card, S.A.
Red Española de Servicios, S.A.U.
Cepsa Gibraltar, LTD
Gepesa, S.A.

And a world map showing where we operate:

Below are the most significant Group companies grouped by business segments:



e. Strategic bases

The Group strategy is based on considering, first, our long-term plan with a 2019-2023 timeline and, second, a strategic outlook up to 2030 (hereinafter, Cepsa 2030).

In the 2019-2023 timeline, we firmly maintain our main objectives and strategic commitments:

- maximizing shareholder returns
- maintaining financial soundness
- achieving sustained long-term growth

Given that external factors condition present and future developments in our activity, we have prioritized objectives which we will achieve by implementing strategic actions in each of the business units.

External factors:

- Crude oil price volatility
- Slow recovery and stabilization of demand for petroleum products
- Refining overcapacity in Europe
- Stricter requirements / Changes in regulations
- Geopolitical situation
- Technological developments

Priority objectives:

1. Replacement of reserves and strengthening of our position in key regions
2. Continuous improvement in efficiency of processes and optimization of our operations
3. Adapting portfolio to include products of higher added value
4. Technological innovation
5. Management regulatory impact
6. Expansion of business to new markets, both domestic and international

Strategic actions:

- Optimization of costs
- Investments adapted to the price environment
- Possible mergers and acquisitions
- Redesigning our product portfolio to manufacture products with greater added value and more demand
- Exploring international opportunities
- Progressive entry to renewable energy market

As for Cepsa 2030, it is rooted in the Group's Mission of providing the energy solutions to meet the demand of consumers, 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 set out 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 shareholder.

Our strategic goals and differential approach are as follows:

- Robustness: being a top integrated and balanced energy player, focused on achieving our targets.
- Growth: relying on our privileged access to high-growth markets in MENA and LATAM, 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 sustainable value creation.
- Agility: we are owned by a sole shareholder, providing agility in executing our strategies and flexibility in adapting to changes in the operating and business environment.

Cepsa 2030 will enable us to create a bigger and stronger Cepsa, with sizeable strategic operations in areas that offer high-growth potential, and to be well-positioned to face a rapidly changing and dynamic energy sector.

f. Responsible business

Mission

We are present across 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 customer satisfaction, adapting the energy solutions to their needs.

Vision

We are an integrated energy company, technically excellent, modern, innovative, and with adaptive capacity. Cepsa is considered as a reference point in the domestic market 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**: Security and well-being for 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 excellence 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:** Cepsa is committed to developing and promoting talent and knowledge, innovating processes, and taking on new challenges, thus reflecting its drive for excellence and an open-minded attitude towards change.

- **Leadership**: The Group strives to defend 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

CEPSA has always maintained a strong commitment to ethical behavior and integrity in all its actions. We follow a Code of Conduct and Ethics, supervised by the Board committee for Audit, Compliance, and Ethics, which is responsible for impelling, monitoring, and controlling compliance with the Group's values, principles, and norms of behavior, as well as analyzing and responding to ethical dilemmas that have arisen and been investigated. Said Code covers a wide regulatory framework and is integrated within the norms and policies for good corporate governance of our organization. Further, it is obligatory for all personnel of the Group to adhere to said Code.

CEPSA has an Ethical Channel and a procedure for investigation, both accessible to the public via the corporate website www.cepsa.com, for purposes of communicating incidences and reporting irregularities with respect to our Code of Conduct and Ethics.

2. Business outlook

a. Macroeconomic environment

The results of the Cepsa's businesses for the period were achieved within an environment in which the key variables affecting it have developed as shown below:

- Global environment
- Price of Brent crude oil
- Supply and demand for petroleum products
- Regulations
- Refining margins
- $/€ exchange rate

Global environment

At the beginning of 2018, the world economy showed a high rate of growth, but during the year it faltered. The international organizations agree that Global growth is entering a period of deceleration and the latest estimates have been revising these projections downward.

The International Monetary Fund, in its January 2019 publication "World Economic Outlook" estimates a 3.7% growth of the world economy in 2018 and projects a 3.5% growth of the world economy in 2019, 0.2 percentage points less than forecast in its October report. This slowdown is partly due to the negative effects of tariff increases in the US and China during the year.

Although economic growth is slowing down in emerging economies and the Eurozone, the positive global environment is maintained, with the world economy continuing to expand. The impact of protectionism

is currently limited, but remains the main risk along with the normalization of the FED and political uncertainty in Europe (tensions in Italy and Brexit).

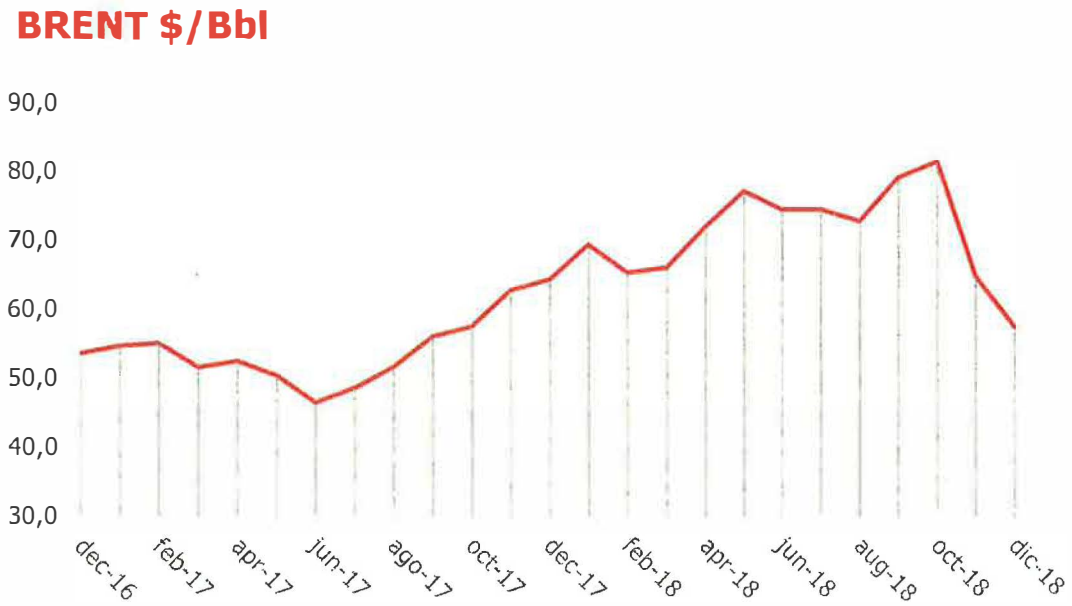
The Spanish economy continued to show considerable momentum in 2018, supported by favorable worldwide economic growth and the persistence of positive financing conditions, with GDP growth of 2.5% in 2018. The Bank of Spain forecasts GDP growth of 2.2% for 2019. These projections are somewhat lower than those reported in the previous quarter due to the slowdown in domestic consumption, uncertainty abroad and the lower impact of the ECB's expansionary monetary policy.

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 oil, Europe's benchmark, has averaged 71.0 $/bbl for 2018, compared to 54.3 $/bbl in 2017. During the first nine months of 2018, the price rose sharply to 86 $/bbl as a result of supply cuts (mainly OPEC Countries and Russia) and looming US sanctions on Iran oil exports coupled with the increase in world oil demand. However, in the last quarter of the year, the increase in the United States production, exemptions to 8 countries by US to continue buying Iran oil along with the fear of a slowdown in the global economy reduced the demand for crude, drove to a significant reduction in the prices, which reached a minimum of 50 $/bbl in the month of December.

Below is the evolution of the Brent prices during the last two years:



Demand

The global economic growth of 2018, which was a continuation of 2017, resulted in higher global demand for crude oil during the year. This growth was especially notable during the first semester, partially slowing down during the second half-year. On one hand, the lower international oil prices and a weaker dollar has enable to sustain this increase in demand, especially in Asia. On the other, the confidence is waning in many developed economies and this may entail a slowdown is anticipated in OECD countries, with the exception of the USA.

Quantitatively, global demand for petroleum during 2018 amounted to an average of 99.2 million barrels per day (hereinafter "MMBD"), compared to 97.9 MMBD in 2017.

Supply

On the supply side there was also an increase of 1.5 million barrels per day, resulting in an average of 99.9 MMBD as compared to 97.4 MMBD for 2017. Production in the USA has shown strong growth which largely offset the productions cuts from Venezuela or Iran.

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 well-trailed changes to the International Maritime Organization's marine fuel regulations due in 2020 are a big challenge for some refineries which will have to adapt their production mix.

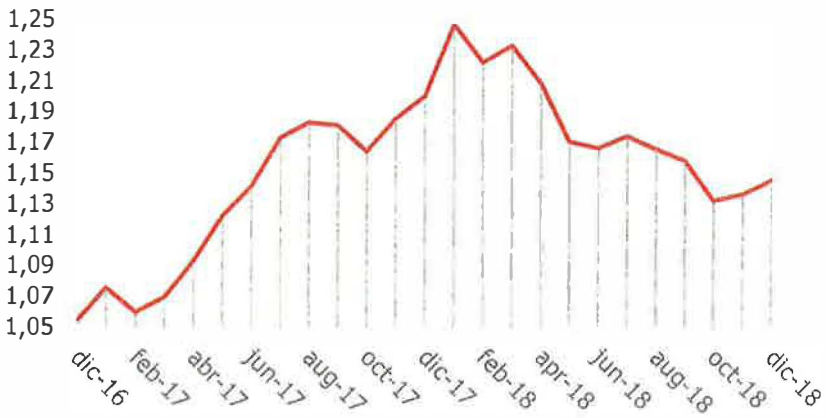
Refining margins

Refining margins during the year reached more moderate values than those exceptionally high in 2017. The main decreases by product have occurred in the light and heavy distillates while the middle distillates had higher margins compared to the previous year.

Exchange rate

The early months of 2018 initially registered an appreciation of the euro against the dollar, reaching an exchange of $1.25 per € in the month of March. From April on, the protectionist measures implemented by the United States government to curb the deficit, together with the political instability in the Eurozone (tensions in Italy and Brexit), have reversed the trend, leading to an exchange rate of $1.1450 per € at the end of the year.

Performance of $/€ exchange rate



b. Significant events for the period

In order to optimize the structure of the group, the following operations have been carried out:

- Contribution by shareholders in Cepsa EP Abu Dhabi, S.L. amounting to 1,368,650 thousand euros, Cepsa Gas Comercializadora S.A. amounting to 13,090 thousand euros, Cepsa Panamá S.A.U. amounting to 21,966 thousand euros and Cepsa Algerie S.L. amounting to 53,820 thousand euros.

- Incorporation of the companies Cepsa Treasury, S.L.U., Cepsa Finance, S.L.U and Cepsa E.P. Mexico, S. de R.L. de C.V.

- Capital increase of Cepsa Oleo gas do Brasil LTDA in the amount of 3,156 thousand euros and of Cepsa Algerie S.L. by means of a contribution from the activity in Timimoum valued at 133,033 thousand euros.

On the other hand, the significant operations carried out during the year 2018 are the following:

- In January 2018, the purchase agreement between Cepsa and Total, partners together with Sonatrach (the Algerian State hydrocarbons company) in the gas sales subsidiary Cepsa Gas Comercializadora (CGC), under which Cepsa acquired the 35% that Total owned in that subsidiary, took place after receiving approval from the competent authorities. After this transaction, Cepsa has increased its stake to 70%, becoming therefore the controlling shareholder, while Sonatrach holds the remaining 30% of the share capital.

- In January 2018, Cepsa, Sonatrach and Alnaft, the National Agency of Algeria for the Valorization of Resources in Hydrocarbons, signed a new concession contract for the exploitation of the Rhoude el Krouf (RKF) deposit, located in the Berkine basin. This new contract, which has a 25 year term, will allow a complete redevelopment of a mature field, after 19 years in operation, with the objective of significantly increasing the production of crude oil and producing liquefied petroleum gas (LPG) for the first time, thanks to the use of cutting-edge hydrocarbon recovery techniques.

- In January 2018 we launched Cepsa Hogar, which provides retail customers an integrated energy offer (which includes electricity, gas and maintenance services, along with fuel discounts in our network of service stations). With Cepsa Hogar, the objective is to become an integral energy supplier.

- In February 2018, Timimoun, our first natural gas field in which Cepsa owns an 11% interest, located in the south-west of Algeria, started production. Timimoun connects with the GR5 gas pipeline, which links the gas fields of southwest Algeria with Hassi R'mel, the largest natural gas field in Algeria and also one of the largest in the world. The field will reach a maximum daily production of 5 million cubic-meter of gas, the equivalent of 28,000 barrels of crude oil per day.

- In February 2018, we signed an offshore concession contract with ADNOC, upon which Cepsa has acquired a 20% interest in the SARB and Umm Lulu concessions in Abu Dhabi. The contract lasts 40 years, triples the Group's crude reserves and will increase production by more than 50 percent. Total investment for the acquisition of the 20% interest amounted to 1,500 million US dollars. In December 2018 the commercialization of crude oil extracted from these fields began.

- In March 2018, the revamping of the chemical plant of Puente Mayorga was approved, a transaction that will improve the plant's market positioning by implementing the best technology available, and which will increase its current production capacity by 50,000 tons. The project will also consolidate our position as world leaders in the manufacture of LAB, especially in west, north and South African markets, which present a high growth potential for the demand for this product. This investment will also reinforce our integrated model by securing 100% of LAB's supply to the three CSChem plants in Nigeria, manufacturers of LABSA. In addition, thanks to the implementation of the new technology, DETAL PLUSTM, the inherent risks of the current technology (HF - hydrofluoric acid) will be eliminated, overall plant efficiency will improve, raising its qualitative parameters, making its environmental behavior more sustainable and reducing its operating costs. This revamping is expected to enter into production during 2020.

- In March 2018, Cepsa was awarded with three exploration blocks in Mexico, in the Tampico-Misantla basin, one of the largest hydrocarbon producing areas in Mexico, where it is explored in shallow waters and with nearby deposits. The participation of Cepsa is 20% in each block, with the remaining percentage being PEMEX Exploration and Production in one of the blocks, and PEMEX Exploration and Production and DEUTSCHE ERDOEL Mexico in the other two.

- In April 2018, the acquisition of the Petronas stake in the Algerian Bir el Msana (BMS) field was completed, increasing our interest from 45% to 75%. The remaining 25% stake belongs to SONATRACH (state-owned hydrocarbons company). BMS is an oilfield located in the northeast of the Algerian desert, in the Berkine basin, where we lead the operation, alongside with SONATRACH, since 2013. It was launched in July 2015, and has seven wells in total: three production wells, three of water injection and one of gas injection. Currently, the field produces around 12,500 barrels per day of oil.

- In May 2018, the Group approved the 'Bottom of the Barrel' project in the Refining segment with an estimated budget of 930 million euros. This strategic project will entail a change in a combination of several key levers such as the change in crude quality supply and the production of higher added-value products and intermediates. It will improve Cepsa's competitiveness and its refining margin, consolidating its refineries among the most efficient in Europe, through greater integration in the refining system. Therefore, this project is expected to have an important impact on the Refining segment long term results, contributing to boost Cepsa's Group results.

- In July 2018 Cepsa teams up with IONITY to install a network of high performance charging points in Spain and Portugal. IONITY will install up to 100 charging points at Cepsa Service Stations located on motorways and highways. Objective is to make long distance electric vehicle journeys possible.

The electricity supplied at these facilities will be 100% renewable. The first charging points will be operational in early 2019.

- The 17 September 2018, Cepsa announced its intention of an Initial Public Offering and starting therefore to be listed in the stock exchange market. However, on 15 October 2018, Cepsa Holding LLC decided to pull out the offer for the sale of shares of Cepsa, and in consequence, delay the process of admission to trading on the Spanish Stocks Exchanges citing the unfavorable market conditions. This decision was communicated to the National Securities Market Commission (CNMV) as a relevant fact.

- In October 2018 Cepsa's Gibraltar San Roque refinery started up its new plant called Sorbex-2 for the production of metaxylene, a raw material in the manufacture of polymers and plastics. Around €70 million has been invested for the implementation of the latest industrial advances made in this production process.

c. Analysis of results

The financial statements for the year ended December 31, 2018 were prepared in accordance with the regulatory framework of financial information applicable to the Company, applying the accounting criteria established in Spanish National Chart of Accounts.

Revenue increased to 19,460 million euros in 2018, with a 3,305 million euros increase over 2017. The above increase was chiefly the result of the increase in the price of crude oil and finished products and the recovery of domestic demand which boosted sales. The rise was partially offset by the depreciation of the dollar vs. the euro, as a significant portion of sales are in the US dollar.

The cost of supplies rose 3,422 million euros and reached 14,614 million euros in accumulated figures for the year.

Profit before tax totaled 1,121 million euros, which is 67% higher than in 2017: discounting income tax expense and similar taxes, after tax profit was 1,010 million euros (2017: 408 million euros).

d. Liquidity and Capital Resources

At December 31, 2018, CEPSA's assets amounted to 9,909 million euros, which represents a 14.8% increase on the previous year.

Of the above figure, non-current assets, including property, plant, and equipment, intangible and financial assets, and deferred tax assets totaled 6,107 million euros at year-end 2018, with an increase of 30.3% compared to the previous year.

Equity totaled 3,900 million euros at year-end 2018 and represents 39% of assets.

In compliance with the third additional provision on "Duty of information" of Law 15/2010, the average payment period to suppliers was 22 days.

3. Risk management model

Risk management is a major focus area at all levels of CEPSA. The Board of Directors, Management, and other stakeholders share the view that poor risk management has the potential to destroy value in

the Company, while good risk management can identify market positioning opportunities and increase shareholder value.

Following the Committee of Sponsoring Organizations of the Treadway Commission (COSO-ERM) and the ISO 31000 standards, Cepsa has developed an Integrated Risk Management System (IRMS) that defines the general framework, principles and procedures that must be followed, in order to effectively identify, monitor, assess, manage and mitigate risks of any nature faced by the Cepsa Group.

The spectrum of risks that the Cepsa Group is exposed to can be broadly grouped into the following four key risk categories:

a. **Strategic risks,** related to general factors such as political, economic, socio-cultural, technological, and environmental risks, as well as those related to the Group's strategic positioning and planning.

b. **Financial and Market Risks** arising from the volatility of commodity prices, credit markets, exchange rates, interest rates and hedging and trading transactions, as well as those related to liquidity and solvency management, credit risk management and counter-party risk.

c. **Operational and Infrastructural Risks** associated with, among others, the business model, natural disasters and the effectiveness and efficiency of operations, including the supply of products, goods and services, transport management, extraction and manufacturing processes, sales and marketing, safety of people and facilities, respect for the environment, human resources and information technology.

d. **Compliance Risks,** related to any Ethical misconduct, violation of or non-compliance with applicable law and regulation, and violation of or non-compliance with the Group's internal policies and procedures.

In this context, in the course of the CEPSA's strategic and budgetary planning process, the effect of the main risks that could have an impact on the businesses was estimated and a sensitivity analysis of the main variables was performed in order to obtain an overall view of their impact.

The following is a description of some of the main risks that may affect CEPSA:

a. Strategical risks

Macroeconomics Risks

Many economies around the world, including many of those in which we operate, have suffered slowdowns and/or recessionary conditions over the last decade. These conditions were amplified by volatile credit and equity markets conditions. While certain of these conditions had been reversed by 2017, there can be no assurance that such conditions will not recur, even in the near-term.

The International Monetary Fund has cut its forecast for world economic growth in 2019 to 3.5% down from its 3.7 % forecast in October and 3.9% expected in July. The IMF identifies several risks emphasizing the global trade tensions as the risk at the top of the list.

The IMF also pointed to some reasons for concern about financial-market stability, including the risk of a messy Brexit as the U.K. struggles to negotiate its divorce from the European Union, Italian fiscal policies and the partial U.S. government shutdown.

Cepsa monitors key global macroeconomic indicators in-depth and incorporate them into Cepsa's decision-making process in order to plan for potential market shocks.

Geopolitical Risks

CEPSA has investments and assets located in, and we source part of our crude oil supply from, countries with emerging or transitioning economies that are generally 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, among which the following are noteworthy: safety, political stability, efficacy of governments, the legal and regulatory environment, tax policy, and macro economy.

Changes to the legal and regulatory framework in response to environmental as well as climate change concerns.

CEPSA is subject to changes in the legal and regulatory framework related to the environment and climate change concerns in the countries in which we operate. Given the continued and increased attention to climate change and the global drive towards low-carbon economies and clean energy-sources, we expect, and are preparing for, additional policy and regulatory changes designed to reduce greenhouse gas ("GHG") emissions, which we believe will primarily impact our Refining and Petrochemicals segments (having current European strict GHG reduction regulation). In addition, while our E&P and Marketing segments have not been materially impacted by GHG-reduction regulations, these segments could be impacted in the future by the implementation of measures driven by the market on a voluntary basis or the imposition of new GHG regulations.

We expect GHG emission costs to increase from current levels beyond 2020 and for regulation targeting reduced GHG emissions to have a wider geographical application than today. There is continuing uncertainty over the detail of anticipated regulatory and policy developments, including the targets, mechanisms and penalties to be employed, the timeline for legislative change, the degree of global cooperation among nations and the homogeneity of the measures to be adopted across different regions.

We are aware that our activities, based on energy supply and petrochemical solutions, are powerfully affected by generation of GHG emissions. That is why we maintain a firm commitment to combat Climate Change.

We strive to reduce greenhouse gas emissions generated by our activities in order to reduce our Carbon Footprint. By establishing an Energy Efficiency Plan in the production business units, in order to reduce energy usage and bring about a reduction in CO2 emissions. Cepsa is working on a carbon strategy and on setting a carbon goal for 2030.

Risk arising from market competition, changes in demand and the emergence of new technologies

Cepsa products compete in commodity-type markets where product differentiation poses a significant challenge and faces strong competition across all of our business areas.

Our principal competitors include other large oil and gas companies, which compete with us in the Marketing segment in Spain and Portugal and across our other segments internationally. We also face competition from new market entrants, such as in our Refining segment, where there is new production capacity in the Middle East, and where increased imports have begun to arrive in the European market from the U.S., India and the Middle East.

Current efficiency improvements, regulatory pressure, and shifts in customer's preferences could cause a change in energy demand.

Moreover, the emergence of one or more disruptive technologies in response to environmental and climate change-awareness among governments and consumers could rapidly accelerate the pace of change, or suddenly alter the direction of change, having a negative impact on our long-term strategy.

The pursuit of excellence in customer service, permanent monitoring of a continuously more dynamic and changing market trends, 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 decline in oil refining margins or the product margins of our other segments would adversely affect our business, financial position and income from operations.

Our refining margins have fluctuated, and will continue to fluctuate, due to numerous factors, including:

- variations in global demand for crude oil and refined products and, to a lesser extent, variations in demand for crude oil and refined products in our domestic market;
- changes in environmental or other regulations, which could require us to make substantial expenditures without necessarily increasing the capacity or operating efficiency of our refineries;
- changes in operating capacity of refineries in our key marketing areas, predominantly in the Iberian market and the rest of Europe;
- changes in the spreads between heavy and light crude oil prices on international markets;
- changes in the supply of refined products, including imports.

Transformation and optimization projects to improve the efficiency and effectiveness of processes and operations at our industrial plants, and strengthen integration and synergies between units are examples of how Cepsa manages refining margin fluctuations.

Oil and Gas Reserves related risks

The successful implementation of our strategy requires us to sustain and grow our long-term oil and natural gas reserves. This, in turn, depends on our ability to find and develop (or acquire) additional proved oil and natural gas reserves and to progress our upstream resources to "proved" reserves in a timely and commercially viable manner.

If we are not able to replace or grow our oil and gas reserves, we may be unable to meet our production targets in line with our strategy and our total proved reserves would decline, any of which would have a material adverse effect on our business, financial position and results of operations.

The Cepsa Group is focused on delivering production growth projects that ensure the long-term sustainability of the Upstream business.

Risks arising from relationships with stakeholders

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 civil society or politics organizations, trade unions, etc.

Should the interests of these groups be in conflict with the activities of Cepsa, and 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 and that 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, that contributes to the generate value for the society and cooperate in its economic, social, and environmental development, integrating ourselves in the environment and developing social projects.

The Cepsa Group has created the Cepsa Foundation in 2016 as an example of commitment to the host communities and locations where CEPSA performs its activity. Likewise, in 2016 Cepsa created Voluntas, a specific corporate volunteer program focused on caring for the environment, fostering employment and education, supporting culture, promoting sport and health and addressing basic needs.

b. Financial and market risks

The Company is exposed to a series of risks of a financial nature as a consequence of the variety of businesses it pursues as well as its presence in a multitude of countries, sectors, and markets.

Below is a description of the main financial risks to which CEPSA is exposed: raw materials (commodities) prices, exchange rates, interest rates, liquidity risk, credit risk and taxation risk.

Commodity price risk

We are an integrated oil and gas company with activities across the value chain, including exploration and production, refining, marketing and petrochemicals. The prices of crude oil, natural gas, oil products and petrochemicals are affected by supply and demand, both globally and regionally, and depend on a variety of factors.

The price fluctuations of these commodities are constantly monitored and, on certain occasions, Cepsa contracts financial derivatives in order to reduce its exposure to the variability of these prices.

Foreign currency risk

The US dollar is the currency used as a reference in markets for crude oil as well as petroleum and petrochemical products, the main markets in which Cepsa operates. Thus, and considering that the euro is used as the presentation currency in the consolidated financial statements, Cepsa is exposed in a large portion of its transactions to 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 point of view, the US dollar is the currency in which a multitude of the commercial transactions are denominated, such as crude oil supply for example.

   CEPSA 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 in a subsidiary.

2. Risk relating to the net value of consolidated equity investments in foreign subsidiaries is mitigated maintaining debt in the currency in which each investment is denominated, applying net investment hedges to said subsidiaries.

Interest rate risk

CEPSA 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 consequence of discount rates applied to assets and liabilities, the profitability of its investments, or the future cost of financial debt.

For purposes of managing and mitigating this risk, CEPSA obtains financing at a fixed rate or contracts interest rate hedges via financial derivatives when deemed appropriate.

At 2018 year end, close to 25.71% of gross financial debt accrued interest at a fixed rate, including interest rate derivatives covering variable rate debt. The remaining 74.29% is referenced to the Libor and Euribor.

Liquidity risk

Liquidity risk relates to the capacity of CEPSA to obtain financing at reasonable market prices, as well as cover the funding needs required to carry on its business.

Thus, CEPSA pursues a conservative financial policy which involves maintaining available cash balances and other liquid financial instruments, as well as committed credit lines yet to be drawn down, sufficient to cover debt maturing within 24 months without the need to obtain new financing in the market or refinance available credit lines.

CEPSA works with leading and highly-reputable national and international financial entities. However, counterparty risk is always analyzed when negotiating investments and arranging financial instruments deals.

Credit risk

CEPSA is exposed to credit risk as a consequence of its counterparties' possible failure to perform contractual obligations, regardless of whether they are suppliers, customers, partners, financial entities, etc.

To manage this risk, CEPSA has IT systems for the integral 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, with a credit limit set for each of them. On certain occasions, whether as a result of accumulation or of not wanting to assume certain risks, CEPSA transfers certain counterparties´ failure risk to third parties by contracting banking guarantees or credit insurance policies.

CEPSA also follows a series of internal standards and procedures which are periodically updated and which regulate the management of credit risk at a global level and for each of its businesses. Among other things, 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, etc.

With respect to credit risk relating to financial investments, financial derivatives, and liquid assets, this risk is more limited than in the case of commercial credit, as the counterparties which CEPSA operates with are mostly financial institutions and insurance companies with a high level of credit solvency. However, CEPSA also assesses the solvency of each of these counterparties, assigning a credit limit to each one of them.

The risk to which CEPSA is exposed does not involve any significant concentration in terms of commercial counterparties, as its sales are distributed amongst a large number of clients. The maximum exposure to risk in connection with commercial counterparties does not exceed 2.5% of all commercial credit.

Tax strategy and management

The energy sector involves a particular tax framework. The existence of specific taxes on profits, production or consumption of products is common in the Upstream and Downstream sectors.

CEPSA tax strategy is mainly aimed at compliance with the applicable tax regulations in its areas of activity and to ensure adequate fulfilment of this principle by all the companies comprising the Group. CEPSA commitment is reflected in the Tax Policy approved by the Board of Directors in 2015.

One of the main principles established therein by the CEPSA is not to utilize 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.

Notwithstanding the above, CEPSA is exposed to changes in the applicable tax regulation as well as to potential different interpretations of said tax regulation from the relevant tax authorities.

c. Operation and infrastructure risks

The main operational risks to which Cepsa is exposed are as follows:

Process safety, personal safety and environmental

The technical complexity of our operations exposes us to a wide range of health, safety and environmental ("HSE") risks. Our operations that are vulnerable to such risks include oil and gas E&P, transport and shipping of hydrocarbons, oil refining, distribution of petroleum products, operation of

electricity generation facilities and the processing of petrochemicals, particularly where such facilities are located in environmentally-sensitive regions or protected areas (such as maritime environments or remote areas with dense vegetation) or in the proximity of densely populated areas.

CEPSA has a safety management system as set out in its "Basic Regulations", integrating safety throughout the different levels of the organization. This management system is based on the international OHSAS 18001:2007 standard, a certification that has been granted to all of Cepsa's industrial facilities. In addition, it has established procedures to be followed which reflect the best practices in the sector, guaranteeing the highest possible levels of safety, paying particular attention to the elimination of risks at source.

The system implemented is aimed at continuous improvement in risk reduction, supported by a series of activities, such as work planning, analysis and monitoring of corrective actions related to incidents and accidents, internal auditing, routine inspections of facilities, and supervision of maintenance and operation work.

Likewise, CEPSA seeks to minimize risks to the environment in operations of its industrial plant, in the Basic Environmental Regulations, and in its positioning and strategies in environmental matters, which, along with other internal regulations, form part of the Environmental Management Systems (EMS) implemented in the production centers and certified by an accredited external entity.

All CEPSA 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 related risks

The operation of many of our business processes depends on the uninterrupted availability of our information technology ("IT") and operational technology ("OT") systems. To maintain competitiveness, we are increasingly reliant on automation, centralized operation and new technologies to manage and monitor our complex production and processing activities. A cyber-attack on any technology system could potentially have serious consequences.

CEPSA has a security organization in place to guarantee the availability, integrity, confidentiality and auditability of the information required to ensure the smooth operation and continuity of the Group's activities at an acceptable cost and risk.

CEPSA has implemented an Information Security Management System based on reducing risks which has been awarded the international ISO 27001 Certificate. The implemented system includes cybersecurity technology and services (protection, disaster-recovery and detection), as well as standards to manage cybersecurity incidents and risks.

Additionally, CEPSA has a cybersecurity awareness program in place which aims to promote a clear and practical vision of cybersecurity based on four fundamental pillars: information, raising awareness, legislation and use of technology.

Physical and environmental effects of climate change

Cepsa may be impacted by the physical and environmental effects of climate change, which are difficult to predict. Possible outcomes include less stable or predictable weather patterns, which could result in

more frequent or severe storms and other weather conditions (such as flooding, drought and hurricanes) that could increase our operating costs and interfere with our business operations, particularly when located in areas that typically experience more severe weather conditions.

In addition, significant climatic changes, including a gradual, steady increase in global temperatures, could affect consumer behavior and global or regional demand for energy products such as propane, butane and natural gas used for residential heating or increase demand for electrical power from air-conditioning units or electric mobility.

We are aware that our activities, based on energy supply and petrochemical solutions, are powerfully affected by generation of GHG emissions. That is why we maintain a firm commitment to combat Climate Change. CEPSA has framed a Carbon Strategy analysis to provide us with a range of tools to improve in this regard through compliance with the strictest regulations and standards, and with the efficiency and sustainability targets that we set ourselves in line with the improvement of our performance, evaluating them to bring them in line with our 2030 strategy.

Major projects management

CEPSA faces challenges in carrying out major projects, particularly in geographically and technically challenging areas. The future growth of our businesses depends on our ability to successfully identify, plan and execute projects in a timely and cost-effective manner.

Exhaustive planning and permanent control of costs and project deadlines are key maxims applied at Cepsa when executing and managing the complexity of the projects it undertakes.

Talent management

Given the speedy pace of change in the oil and gas industry, evolving legal and regulatory requirements, including with respect to climate policy, and the increasing role of technology in the industry, we are increasingly reliant on the availability of a suitably-qualified and experienced workforce. CEPSA is aware that a long-term perspective on the capacity and competence of the workforce is essential.

CEPSA had launched different programs focused on development, training and attracting talent such as the Challenging U program, established recruitment policies and procedures (such as "Success Factors") that guarantee equal opportunities and zero discrimination and improve the employment offer through initiatives carried out by the Company such us Top Employer, certification as Responsible Family Company, Social Advantages and so on.

Insurance and safeguarding of assets

CEPSA is insured against risks involving material damages, including machinery failure and control of crude oil exploration and production wells; loss of profit stemming from material damages; civil liabilities arising for both Cepsa or its employees and directors in connection with material damages or personal injuries either to third parties or to Company personnel as a result of occupational accidents; and loss or damage during transportation of crude oil, other products or equipment.

d. Legal and Compliance risks

Regulatory compliance

Our business activities are subject to laws and regulations in all of the jurisdictions in which we operate, including laws relating to the environment, climate change, health and safety, finance and trade, consumer protection, competition and anti-trust, employment, tax, data protection, hydrocarbon extraction, petrochemical products, public concessions and procurement.

Any violation of or non-compliance with applicable law and regulation could lead to the imposition of substantial fines, sanctions or other measures, based on the findings of any investigation or proceeding of the relevant supervisory or administrative body. Furthermore, in some cases, plaintiffs could seek compensation for any alleged damages arising as a result of any sanctioned conduct.

In order to minimize the impact of any possible violation or non-compliance with the aforementioned laws and applicable regulations, Cepsa has implemented a compliance management system that consists of, various training, awareness-raising and control monitoring activities that mitigate these risks.

Litigation and arbitration

We are currently a party to a number of legal proceedings relating to civil, administrative, environmental, labour and tax claims filed either as a defendant or a plaintiff in the ordinary course of business. These claims involve a wide range of issues and in certain instances substantial amounts have been or may be claimed.

Ethical misconduct

Non-compliance with anti-bribery, anti-corruption and other similar laws could expose us to legal liability and negatively affect our reputation and business, financial position and results of operations.

We have activities in countries that present corruption risks and may have weak legal institutions, lack of control and transparency or a business culture that does not reflect, in all respects, the norms that prevail in Western Europe. In addition, governments play a significant role in the oil and gas sector, through ownership of resources, participation, licensing and local content programs, which leads to a high level of interaction with public officials. Through our international activities, we are subject to anti-corruption and bribery laws in multiple jurisdictions. While we have anti-corruption policies in place, there can be no assurance that such policies will be effective or prevent us from being exposed to violations of anti-corruption or bribery laws.

Our Code of Ethics and Conduct (the "**Code**") sets out the fundamental principles, standards and conduct that, when complied with, enable us to successfully pursue our mission, accomplish our goals and promote our values, by outlining legal and ethical standards that are applicable to our Directors, managers and employees, as well as third parties who work for or on our behalf. However, there can be no assurance that incidents of ethical misconduct or non-compliance with applicable laws and regulations or the Code will not arise, any of which could result in damage to our reputation and repeated compliance failures could call into question the integrity of our operations.

Compliance risks associated with economic and trade sanctions imposed by the United States, the European Union and other jurisdictions.

The United States, the EU and other countries have in the past imposed international trade and economic sanctions on designated countries, companies and individuals.

The terms of legislation and other rules and regulations that establish sanctions regimes are often broad in scope, particularly in the U.S., and given the importance of the U.S. to the international financial markets, the imposition of U.S. sanctions on a country, company or individual can result in companies, as in our case, that do not operate directly in the U.S., being effectively required to cease dealings with such sanctioned country, company or individual to ensure access to the U.S. or international capital or bank debt markets.

From the effective date of the lifting of European sanctions and secondary US sanctions on 16 January 2016 -further the signing of the Joint Comprehensive Plan of Action (JCPOA)-, National Iranian Oil Company (NIOC) was removed from the "Specially Designated Nationals and Blocked Persons" List and became listed on the OFAC page as being a non-SDN (Specially Designated National).

Therefore, CEPSA Group resumed purchasing crude oil from NIOC as of January 16, 2016 and continued such purchases until September 2018.

Each purchase and shipment of crude oil has been carried out in strict accordance with all sanctions regulations that are applicable to the CEPSA Group.

Due to the announcement made on May 8, 2018 of the US withdrawal from the JCPOA and reinstatement of sanctions on Iran, CEPSA Group ceased purchasing crude oil from Iran prior to 4 November 2018, fully complying with the new US sanctions regime.

Non-compliance with sanctions, in general, and U.S. sanctions in particular, could constitute an event of default under our existing financing facilities and other contractual arrangements with our banks and, particularly, with those firms based or operating in the United States.

CEPSA has established a third-party Due Diligence process completed with expert internal and external legal advice that guarantees the analysis of counterparties under a risk-based approach.

4. Information on foreseeable performance of the entity

CEPSA is advancing in its transformation process towards a global integrated energy company, whether directly or through its subsidiaries. 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 assets through continuous optimization programs and updates to adapt production to new regulations. Assess opportunities in renewable energies and increase participation in the natural gas and electricity markets.

- Marketing: consolidate CEPSA'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 business lines, continue global expansion, develop the alcohol chain and diversify the downstream phenol chain;

5. Other relevant information

a. Dividend policy

Our Board of Directors proposes annual dividend payments with a charge to the income statement of the year or unrestricted reserves, subject to approval by our Sole Shareholder at a general meeting. 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; and
- returns generated via dividends paid by comparable companies worldwide.

In general, dividends are subject to withholding at source in Spain when paid to non-resident corporations or to individual non-resident investors. However, there is an Agreement to avoid double taxation, signed by the United Arab Emirates and Spain, by virtue of which dividends paid to our sole shareholder are not subject to tax withholdings.

Note 3 to the annual company only financial statements provides disclosure on the dividends paid during 2018.

b. Treasury shares

Cepsa did not hold any treasury shares at December 31, 2018, nor had it carried out any transactions with treasury shares during said year.

c. Events after the balance sheet date

Events subsequent to the balance sheet date are disclosed in Note 22 to the annual company only financial statements.

d. Research and Development activities

A culture of innovation is one of our defining traits. We use technology and research to generate value, be more competitive, optimize processes, and improve the efficiency and quality of our products.

In the course of 2018 our Technological Research and Development Division worked on various innovative projects, the final objective of which is to open up new opportunities for our businesses and improve processes already in place at our production centers.

Amongst the most significant projects in 2018, the following are the most noteworthy:

- In 2018, the in-detail engineering and procurements activities of "Bottom of Barrel" project began at the Gibraltar San Roque refinery, which will allow us to obtain a greater volume of distillates with higher added value and to increase production flexibility at this facility. In the same plant, the MX-Sorbex II project was launched, which allowed to increase the manufacturing of petrochemicals.

- New upgrade projects have also been initiated in different units of the refineries, to increase their profitability and improve safety.

These projects are mainly carried out at the Cepsa Research Center, which has laboratories, last generation equipment, and pilot plants capable of reproducing the processes we carry out at our production centers, mainly in the areas of refining and chemicals. This has allowed us to create more efficient production processes that respect the environment, as well as develop new fuels and boost high value projects.

e. Non-financial information

In accordance with Article 262.5 of the Consolidated Text of the Spanish Companies Act, in the wording given by Law 11/2018, of December 28, the Company must include in the management report a statement of non-financial information or draw up a separate report with the same content as that provided for in the consolidated financial statements. However, a subsidiary of a group is exempted from the obligation to include in the management report such a statement of non-financial information or to prepare a separate report with the same content, if that company and its subsidiaries, if any, are themselves included in the consolidated management report of another company that is drawn up in accordance with the content set out in that Article.

Therefore, the Company makes use of the aforementioned waiver, since the statement of non-financial information is contained in the separate report for the same year, issued by Compañía Española de Petróleos, S.A.U., which is referred to as the Annual Corporate Responsibility Report, which expressly states that such non-financial information forms part of the consolidated management report of Compañía Española de Petróleos, S.A.U. y Sociedades Dependientes, which has been prepared in accordance with applicable regulations, and which is subject to the same criteria for authorization for issue, approval, filing and disclosure as the consolidated management report. In particular, this separate report, as well as the consolidated financial statements and the consolidated management report of Compañía Española de Petróleos, S.A.U. y Sociedades Dependientes will be filed with the Madrid Commercial Registry.

6. Glossary of terms

In order to improve understanding of the terminology employed, below we define the most common items:

Barrel: Measurement unit for crude oil volumes equivalent to 42 US gallons or 158.9 liters; the amounts of liquid hydrocarbons in barrels are expressed at 60 ° F.

Pool: Wholesale electricity market. On a daily basis, electricity is purchased and sold in this market governed by the operator Omel.

CEPSA

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.U.

Financial Statements and Management Report for the year ended December 31 2018

The Financial Statements (Balance Sheets, Statements of Income, Statements of Changes in Equity, Cash Flow Statements and Financial Statements) and Management Report of Compañía Española de Petróleos, S.A.U. for the year ended December 31, 2018, contained in this document, have been drafted and issued by the Board of Directors of Compañía Española de Petróleos, S.A.U. (CEPSA) at a meeting held on 28 February 2019 and are hereby approved and signed by all the Directors in compliance with Article 253 of the Revised Text of the Spanish Companies Act.

To the best of our knowledge, the Financial Statements, prepared in accordance with generally accepted accounting principles, offer a true and fair view of the financial situation and results of the CEPSA, and the Management Report accompanying the Financial Statements offers a true and fair view of the development and performance of the businesses and financial position of the CEPSA, together with a description of the key risks and uncertainties that it faces.

Madrid, 28 February 2019

Musabbeh Helal Musabbeh Ali Alkaabi
Chairman

Pedro Miró Roig
Vice Chairman and Managing Director

Alyazia Ali Saleh Ahmed Alkuwaiti
Director

Ángel Corcóstegui Guraya
Director

Saeed Mohamed Hamad Fares Almazrouei
Director

Ahmed Saeed Mohamed Alcalily Alameri
Director

Bakheet Saeed Bakheet Salem Alkatheeri
Director

Ignacio Pinilla Rodriguez
Corporate Secretary (Non-Director)

José Aurelio Téllez Menchén
Deputy Corporate Secretary (Non-Director)

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.U.
Financial Statements and Management Report for the year ended December 31 2018

I hereby certify that, to the best of my knowledge and belief, the Financial Statements (balance sheet, income statement, statement of changes in equity, cash flow statement of and notes to the financial statements) of Compañía Española de Petróleos, S.A.U. (CEPSA) for 2018 and drafted and approved by the Board of Directors of Compañía Española de Petróleos, S.A.U. at its meeting held on February 28, 2019, 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 28, 2019

D. Álvaro Badiola Guerra
Chief Finalcial Officer