Audit Report on Consolidated Financial Statements
issued by an Independent Auditor

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

Building a better
working world

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

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

To the Sole Shareholder of Compañía Española de Petróleos, S.A.U.:

Opinion

We have audited the consolidated financial statements of Compañía Española de Petróleos, S.A.U. (the parent company) and its subsidiaries (the Group), which comprise the consolidated balance sheet at December 31, 2018, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidation statement of changes in equity, the consolidated statement of cash flows, and the notes thereto for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at December 31, 2018 and of its financial performance and its consolidated cash flows, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

Basis for opinion

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

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

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

Domicilio Social: C/Raimundo Fernández Villaverde, 65. 28003 Madrid -Inscrita en el Registro Mercantil de Madrid, tomo 9.364 general, 8.130 de la sección 3ª del Libro de Sociedades, folio 68, hoja nº 87.690-1, inscripción 1ª, Madrid 9 de Marzo de 1.989. A member firm of Ernst & Young Global Limited.

Most relevant audit issues

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

Impairment assessment of exploration and production assets

Description

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

The assumptions include forecasts of oil prices, costs, discount rates, estimation of oil and gas reserves and overall market and economic conditions. Refer to Notes 3.h and 12 of the consolidated financial statements for details on impairment assessment of oil and gas assets.

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

Our response

Among others, we have performed the following procedures:

- We carried out procedures in all significant assets, including testing for indicators of impairment and validating the appropriateness of the level at which the testing took place.
- We reviewed, in collaboration with our valuation specialists, the reasonableness of the methodology used by management to prepare the discounted cash flows statements.
- For price assumptions, we corroborated future commodity prices to external forecasts; we confirmed prices were used consistently across CEPSA and that pricing differentials were reasonable and appropriate.
- We engaged our internal valuation specialists to test the reasonableness of the discount rates used for the impairment testing.
- Regarding cash flow inputs, we:
  - Confirmed that the key inputs (income, operating expenditures profiles, working capital and capital costs) could be supported by approved strategic plan and that their reasonability was based on current assets conditions and their projections of potential changes.
  - Reconciled reserves volumes and confirmed the life-of-field assumptions of the different assets.

- We also verified the mathematical integrity of the impairment models, performed a sensitivity analysis and other additional procedures to assess the completeness of the impairments.
- We reviewed the disclosures included in the accompanying consolidated financial statements in accordance with current regulation.

The estimation of oil and gas reserves

Description

The estimation of oil and gas reserves and resources has a significant impact on the consolidated financial statements, particularly in impairment testing and depreciation, depletion and amortization ('DD&A') charges (as described in in Notes 3.f; 3.g and 3.h to the consolidated financial statements). This estimation is a significant area of judgment due to the technical uncertainty in assessing quantities and to the complex contractual arrangements in place dictating the group's share of reportable volumes.

These profiles are periodically revised every two years by independent experts. The estimation of reserves performed by the firm in 2018 did not result in significant differences with those registered in the Group.

The impact that these matters have on the assessment of the recoverability of these assets and on the depreciation of these investments is the reason why the situation described was considered to be a relevant issue in our audit.

Our response

Among others, we have performed the following procedures:

- We reviewed the group's process over their internal certification for internal technical and commercial experts who are responsible for reserves and resources estimation.
- We assessed the competence of the group's internal experts to satisfy ourselves that they were appropriately qualified to carry out the volumes estimation.
- We validated that the updated reserves and resources estimates were included appropriately in the group's consideration of impairment and in accounting for DD&A.
- In relation to the verification of the audit reports on reserves, prepared by independent experts specialized in the oil and gas industry, we assessed the findings and conclusions of the independent expert and their competency, capability and objectivity for making the reserve estimates. Likewise, we reviewed the report issued by the independent expert, reconciling the data to the reserves used by CEPSA Group for the purposes of the depreciation and recoverability of the assets.

Recoverability of deferred taxes

Description

As disclosed in Note 25 to the consolidated financial statements, the Group has deferred tax assets of EUR 735 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 unutilized losses or 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 Group's process to assess recoverability of deferred tax assets, including CEPSA 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 25.
- 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 the disclosures included in the accompanying consolidated financial statements in accordance with current regulation.

Other information: consolidated management report

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

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

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

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

Based on the work performed, as described above, we have verified that the information referred to in paragraph a) above is provided in a separate report, "Annual and Corporate Responsibility Report", to which reference is included in the consolidated management report and that the remaining information contained therein is consistent with that provided in the 2018 consolidated financial statements and their content and presentation are in conformity with applicable regulations.

Directors' responsibilities for the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

February 28, 2019

CONSOLIDATED FINANCIAL STATEMENTS AND MANAGEMENT REPORT

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

For the year ended December 31, 2018

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CONSOLIDATED FINANCIAL STATEMENTS

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

For the year ended December 31, 2018

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Compañía Española de Petróleos, S.A.U. and Subsidiaries (Consolidated Group)
Consolidated Balance Sheet
for the years ended December 31, 2018 and 2017

Thousands of euros

Assets	Notes	2018	2017
Non-current assets			
Intangible assets			
Intangible assets and rights		4,257,206	4,216,500
Amortization charge and Impairment losses		(3,615,807)	(3,610,366)
Total intangible assets	Note 8	**641,399**	**606,134**
Consolidated Goodwill	Note 9	91,796	122,708
Property, plant and equipment			
Tangible assets and rights		15,423,801	13,632,411
Amortization charge and Impairment losses		(9,371,183)	(9,287,702)
Total property, plant and equipment	Note 10	**6,052,618**	**4,344,709**
Investments in equity accounted investees	Note 7	466,939	447,132
Non-current financial assets	Note 11	129,476	122,042
Deferred tax assets	Note 25	734,818	761,723
Total non-current assets		***8,117,046***	***6,404,448***
Current assets			
Inventories	Note 13	2,201,546	1,925,666
Trade and other receivables	Note 14	2,337,824	2,179,884
Current income tax assets	Note 25	120,904	75,284
Other current financial assets	Note 11	130,467	205,348
Other current assets		9,362	9,954
Cash and cash equivalents	Note 15	246,878	545,637
Total current assets		***5,046,981***	***4,941,773***
Total assets		***13,164,027***	***11,346,221***

Thousands of euros

Shareholder's Equity and Liabilities	Notes	2018	2017
Equity	Note 16		
Shareholder's equity			
Share capital		267,575	267,575
Share premium		338,728	338,728
Revaluation reserve		90,936	90,936
Retained earnings		3,883,002	3,485,672
Profit attributable to equity holders of the parent		830,064	742,600
Interim dividend		(189,978)	(189,978)
Total Shareholder´s equity		***5,220,327***	***4,735,533***
Adjustments for changes in value			
Translation reserve		745,154	614,039
Cash Flow Hedge Reserve	Note 16 d)	(6,444)	(4,733)
Net Investment Hedge Reserve	Note 16 d)	(522,559)	(429,310)
Total adjustments for changes in value		***216,151***	***179,996***
Total equity attributable to shareholders of the parent		***5,436,478***	***4,915,529***
Non-controlling interest			
Equity and translation reserves attributed to non-controlling interests	Note 16 f)	92,953	94,152
Profit attributable to non-controlling interests		13,011	16,032
Total non-controlling interests		***105,964***	***110,184***
Total equity		***5,542,442***	***5,025,713***
Non-current liabilities			
Bank borrowings	Note 17	2,955,916	1,628,425
Deferred tax liabilities	Note 25	261,924	296,017
Capital grants	Note 18	24,580	30,598
Employee defined benefit liabilities	Note 19	10,693	10,097
Provisions	Note 20	620,288	515,244
Other non-current liabilities	Note 21	171,960	199,965
Total non-current liabilities		***4,045,361***	***2,680,346***
Current liabilities			
Bank borrowings	Note 17	380,434	639,348
Trade and other payables	Note 21	3,161,823	2,973,814
Current income tax liabilities	Note 25	25,177	15,136
Other current liabilities		8,790	11,864
Total current liabilities		***3,576,224***	***3,640,162***
Total equity and liabilities		***13,164,027***	***11,346,221***

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

Compañía Española de Petróleos, S.A.U. and Subsidiaries (Consolidated Group)
Consolidated Statement of Profit or Loss
for the years ended December 31, 2018 and 2017

Thousands of euros

	Notes	2018	2017
Sales of goods and rendering of services		22,078,905	18,211,611
Excise tax on oil and gas charged on sales		2,632,873	2,605,162
Revenue from contracts with customers	***Note 3 r), 22***	***24,711,778***	***20,816,773***
Changes in inventories of finished goods and work in progress		298,331	128,160
In-house work on non-current assets	Notes 8,10	46,970	35,838
Procurements	Note 22	(17,924,057)	(13,840,261)
Other operating income		47,543	54,589
Staff costs	Note 22	(618,674)	(610,898)
Changes in operating allowances	Notes 13,14	(33,735)	(9,890)
Other operating costs:			
Excise tax on oil and gas		(2,639,224)	(2,608,744)
Others costs	Note 22	(2,071,588)	(2,010,944)
Amortization charge	Notes 8,10	(638,178)	(680,453)
Allocation to profit or loss of grants related to non-Finance assets and other grants	Note 22	32,396	30,196
Impairment and gains or losses on disposals of non-current assets	Note 22	7,127	(274,785)
Operating profit		***1,218,689***	***1,029,581***
Share of results of equity accounted investees	Note 7	23,456	47,838
Finance income	Note 24	54,983	144,026
Finance costs	Note 24	(175,026)	(175,639)
Impairment and gains or losses on disposals of Financial instruments	Note 24	8,761	7,732
Consolidated profit before tax		***1,130,863***	***1,053,538***
Income tax	Note 3 g), 25	(287,788)	(294,906)
Consolidated profit for the year from continuing operations		***843,075***	***758,632***
Consolidated profit for the year		***843,075***	***758,632***
Attributable to:			
Equity holder of the Parent		830,064	742,600
Non-controlling interests	Note 16 f)	13,011	16,032

Euros

Earnings (loss) per share:	***Note 26***		
Basic		1.55	2.78
Diluted		1.55	2.78

In September 2018 the nominal value of the shares was split, going from a nominal value of one euro to 0.5 euro per share. (Note 16)

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

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

Consolidated Statement of Comprehensive Income

for the years ended December 31, 2018 and 2017

Thousands of euros

	Notes	2018	2017
Consolidated profit for the year		**843,075**	**758,632**
Items to be reclassified to profit or loss:			
Gains and (losses) arising during the year		**(20,470)**	**(47,391)**
Net (losses) gains on cash flow hedges	Note 29	(22,888)	47,928
Net (losses) gains on Net Investment hedge	Note 29	(173,171)	188,186
Exchange gains (losses) on translation of foreign operations		129,622	(223,065)
Tax effect	Note 25	45,967	(60,440)
Reclassification during the year to statement of profit/loss		**55,132**	**(28,892)**
Cash flow hedges	Note 29	18,398	(38,523)
Net investment hedges		48,826	-
Tax effect	Note 25	(12,092)	9,631
Other comprehensive income/loss for the year net of tax		***34,662***	***(76,283)***
Total consolidated comprehensive income/loss		***877,737***	***682,349***
a) Attributable to equity holders of the Parent		866,219	675,391
b) Attributable to non-controlling interests		11,518	6,958

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

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

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

Consolidated Statements of Changes in Equity
for the years ended December 31, 2018 and 2017

Thousands of euros

	Share Capital	Share premium	Revaluation reserve	Retained Earnings	Translation Reserve	Cash Flow Hedge Reserve	Net Investment Hedge Reserve	Non-controlling Interest	Total
	Equity attributable to equity holders of the parent								
Balance at 01/01/2018	***267,575***	***338,728***	***90,936***	***4,038,294***	***614,039***	***(4,733)***	***(429,310)***	***110,184***	***5,025,713***
- Opening Balance Impact of IFRS9 - Nota 2.b)	-	-	-	5,253	-	-	-	(691)	4,562
Balance at 01/01/2018 after Impact of IFRS 9	***267,575***	***338,728***	***90,936***	***4,043,547***	***614,039***	***(4,733)***	***(429,310)***	***109,493***	***5,030,275***
Consolidated profit or loss for the period	-	-	-	830,064	-	-	-	13,011	843,075
Other comprehensive income for the period	-	-	-	-	131,115	(1,711)	(93,249)	(1,493)	34,662
Total consolidated comprehensive income	-	-	-	**830,064**	**131,115**	**(1,711)**	**(93,249)**	**11,518**	**877,737**
Changes due to transactions with shareholders									
- Dividend paid - Note 16.e)				(160,545)				(31,891)	(192,436)
- Interim dividend for the Finance year - Note 16.e)	-	-	-	(189,978)	-	-	-	(5,389)	(195,367)
Other changes in equity									
- Capital increase/acquisition of non-controlling interest	-	-	-	-	-	-	-	22,233	22,233
Total shareholder transactions	-	-	-	**(350,523)**	-	-	-	**(15,047)**	**(365,570)**
Balance at 12/31/2018	***267,575***	***338,728***	***90,936***	***4,523,088***	***745,154***	***(6,444)***	***(522,559)***	***105,964***	***5,542,442***

Thousands of euros

	Share Capital	Share premium	Revaluation reserve	Retained Earnings	Translation Reserve	Cash Flow Hedge Reserve	Net Investment Hedge Reserve	Non-controlling interest	Total
	Equity attributable to equity holders of the parent								
Balance at 01/01/2017	***267,575***	***338,728***	***90,936***	***3,627,487***	***828,030***	***(10,376)***	***(570,449)***	***111,021***	***4,682,952***
Consolidated profit or loss for the period	-	-	-	742,600	-	-	-	16,032	758,632
Other comprehensive income for the period	-	-	-	-	(213,991)	5,643	141,139	(9,074)	(76,283)
Total consolidated comprehensive income	-	-	-	**742,600**	**(213,991)**	**5,643**	**141,139**	**6,958**	**682,349**
Changes due to transactions with shareholders									
- Dividend paid - Note 16.e)	-	-	-	(141,815)	-	-	-	(6,598)	(148,413)
- Interim dividend for the Finance year - Note 16.e)	-	-	-	(189,978)	-	-	-	(1,197)	(191,175)
	-	-	-	-	-	-	-	-	-
Total shareholder transactions	-	-	-	**(331,793)**	-	-	-	**(7,795)**	**(339,588)**
Balance at 12/31/2017	***267,575***	***338,728***	***90,936***	***4,038,294***	***614,039***	***(4,733)***	***(429,310)***	***110,184***	***5,025,713***

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

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Compañía Española de Petróleos, S.A.U. and Subsidiaries (Consolidated Group)
Consolidated Statement of Cash Flows
for the years ended December 31, 2018 and 2017

Thousands of euros

Cash Flows from operating activities	**Notes**	**2018**	**2017**
Profit before tax from continuing operations		1,130,863	1,053,538
Depreciation and amortisation charge and impairment losses		637,195	955,238
Changes in provisions for contingencies and costs		13,804	7,186
Grants related to assets and other deferred income	Note 18	(32,401)	(30,196)
Impairment and gains or losses on disposals of financial instruments	Notes 13, 19	(8,775)	(8,160)
Change in operating allowances		36,123	9,381
Finance income and costs		105,815	19,456
Share of results of equity accounted investees	Note 7	(23,456)	(47,838)
Other changes		18,399	(38,523)
Cash flows generated from operating activities before changes in operating working capital		***1,877,567***	***1,920,082***
Changes in operating working capital		***(504,132)***	***(650,859)***
Interest paid		(111,229)	(73,463)
Interest received		19,317	38,490
Dividends received	Note 7	70,428	49,843
Income tax paid		(187,985)	(192,496)
Other cash flows used in operating activities		***(209,469)***	***(177,626)***
Total cash flows generated from operating activities		***1,163,966***	***1,091,597***
Cash Flows used in investing activities			
Payments			
Intangible assets		(50,914)	(107,678)
Property, plant and equipment		(1,983,208)	(496,064)
Finance assets			
Associates and other investments	Note 6	(1,834)	(23,030)
Other Finance assets		(29,382)	(68,689)
Acquisition of subsidiary, net of cash acquired	Note 4	(49,865)	(19,491)
Grants received		421	7
Total payments		***(2,114,782)***	***(714,944)***
Collections			
Intangible assets		340	487
Property, plant and equipment		43,371	4,439
Finance assets		57,102	101,609
Total collections		***100,813***	***106,535***
Total cash flows used in investing activities		***(2,013,969)***	***(608,410)***
Cash Flows from financing activities			
Dividends paid			
To equity holders of the Parents	Note 16 e)	(350,523)	(331,793)
To non-controlling interests		(37,280)	(7,795)
Total dividends paid		**(387,803)**	**(339,588)**
Proceeds from borrowings		1,674,763	113,368
Repayment of borrowings		(737,653)	(1,000,035)
Payments of Finance lease liabilities		-	-
Total cash flows from bank borrowings		**937,110**	**(886,667)**
Total cash flows used in financing activities		**549,307**	**(1,226,255)**
Net increase (decrease) in cash and cash equivalents		***(300,696)***	***(743,068)***
Effect of changes in foreign exchange rates		1,937	(11,028)
Cash and cash equivalents at beginning of the period		***545,637***	***1,299,733***
Cash and cash equivalents at the end of the period		***246,878***	***545,637***
Detail of changes of operating working capital			
Inventories		(297,349)	(320,894)
Trade and other receivables		(375,946)	(622,223)
Other current Finance assets		14,621	48,110
Trade and other payables		161,608	59,930
Other changes		(7,066)	184,218
Total changes in operating working capital		***(504,132)***	***(650,859)***

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

CEPSA

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CEPSA

1. Corporate information and regulatory framework

a) Corporate information

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

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.

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

b) Regulatory framework

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

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

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

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

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

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

CEPSA Group also operates in the electricity sector, regulated by Law 24/2013 of December 26th of Electricity sector. 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. 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 should also be noted.

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

2. Basis of presentation and Consolidation principles

a) Statement of compliance.

The accompanying Consolidated Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with all the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB applicable at December 31, 2018 provided that they have been endorsed at that date by the European Union with the exception of those applied in advance, if any.

These Consolidated Financial Statements for 2018, which have been issued by the Board of Directors of Compañía Española de Petróleos, S.A.U. (Cepsa), on February 28, 2019 will be submitted for approval by the sole shareholder, and it is expected that they will be approved without any changes.

The financial statements of CEPSA Group for 2017 were issued by the Board of Directors of Cepsa in Abu Dhabi on March 15, 2018, and approved by the sole shareholder without any change on March, 21, 2018.

The euro is the presentation currency of these Consolidated Financial statements. Figures are rounded to the nearest thousands, except when otherwise indicated.

b) Changes in accounting policies

1) EU-approved standards and interpretations applied for the first time in the period.

The accounting policies used to prepare these Consolidated Financial Statements are the same as those applied in the preparation of the Consolidated Financial Statements for the year ended December 31, 2017, except for the application of the new effective Standards as of January 1, 2018.

IFRS 9 - Financial Instruments: Classification and measurement

The IFRS 9 covers classification and measurement of financial assets and liabilities, hedge accounting, and impairment of financial assets, substituting IAS 39 from January 1, 2018. The Group has applied IFRS 9 prospectively and the impacts according to the previous sections have been the following:

(a) Classification and measurement

Applying the measurement and classification requirements of IFRS 9 did not entail significant impact on the Group´s financial statements.

The financial assets measured at fair value through profit or loss under IAS 39 continue to be measured at fair value under IFRS 9. This category, in practice, is limited to derivatives.

With regard to unlisted equity instruments, the Group applies the option of presenting the corresponding changes in fair value through profit or loss. This change did not have any significant initial impact on the Group financial statements.

With respect to loans and commercial debt, the business model test was performed based on two sub-portfolios as follows:

- Securitization:

  The Company's business model for sub-portfolio of trade receivables subject to securitization involves maintaining it, either for obtaining contractually agreed upon cash flows or from their sale. The corresponding assets are classified as "Financial assets at fair value through other comprehensive income".

  Thus, this sub-portfolio will no longer be measured at amortized cost, under IAS 39, but at fair value against equity, under IFRS 9.

  At December, 31, 2017, this sub-portfolio reflected a balance of 329.4 million euros, whereas its fair value accounted for 329.2 million euros. The negative impact on equity as a result of calculating at fair value has been two hundred thousand euros.

- Other:

  The Company's business model for the remaining loans and commercial debt, which does not form part of the securitization portfolio, is to maintain them in order to obtain contractually agreed upon cash flows. These items will be measured at amortized cost.

(b) Impairment

IFRS 9 requires the Group to recognize expected credit impairment for all its debt securities, loans, and trade receivables, regardless of whether for a twelve-month time horizon or more.

In order to assess its impact, the Group developed a methodology, the general guidelines of which are as follows:

- Trade receivables:

  The Group applies the simplified model for trade receivables, recognizing expected losses for all trade debtors. Calculation of PD (Probability of Default) was carried out based on the historical data available to the Group regarding bad debts (fully impaired) of the last three years, for each of the different time periods established for the age of debt, based on the following groupings:

  - the company that owns the financial asset
  - the business unit to which the debtor belongs
  - the age of the debt

  If appropriate, PD may include an adjustment based on a prospective variable which could be calculated based on the Strategic Plan of the business area and/or macroeconomic variables.

b

- Non-trade receivables:

  The methodology applied to this group of specific financial assets was based on the general three-stage approach established in IFRS 9 (in contrast to the simplified approach applied to trade receivables mentioned above), and considering the default status of the debt. Assigning expected PD for the following 12 months to stage 1, expected PD for the entire life of the asset to stage 2, and a 100% PD to stage 3 considering the debt an incurred loss.

The PD to be assigned to the debt included in stages one and two was obtained using the historical probabilities of non-payment published annually by S&P, and based on the risk of the debtor (high, medium, low).

Based on this methodology, the Group evaluated the impact as at December, 31, 2017, obtaining the following results:

1. Regarding trade receivables (with the exception of the securitization sub-portfolio), the impairment provision has increased from 140 million euros under IAS 39 to 147 million euros under IFRS 9, based on gross trade receivables at amortized cost totaling 1,864.9 million euros.
2. In non-trade receivables, the impairment provision has increased from 27 million euros under IAS 39 to 30 million euros under IFRS 9, based on a gross amount totaling 354 million euros.

(c) Hedge accounting

The Group considers that it is able to continue qualifying all existing hedging relationships, currently designated as effective hedges, as hedges in accordance with IFRS 9. Thus, there is no impact resulting from the initial application of this standard.

(d) Refinancing of financial liabilities

In application of the IASB's 2017 interpretation on the treatment of the refinancing of financial liabilities under IFRS 9, contractual cash flows of refinanced debt must be discounted at the original effective interest rate, revised with the associated commissions, instead of the new rate resulting from the refinancing operation.

The difference obtained will have an impact on the Consolidated Statement of Profit or Loss as an expense or income at the date of the refinancing, although, given the retrospective nature of this interpretation, for those transactions carried out prior to 1 January 2018, the existing difference has been recorded against Reserves.

The impact on the CEPSA Group of this Interpretation involves an initial reserve of approximately 10 million euros (net of tax effect), as well as a reduction in the amount of debt to approximately 13 million euros. This lower debt amount will be reclassified to the Consolidated Statement of Profit or Loss as a higher financial cost in order to record the debt at the original effective interest rate during future periods.

The impact of the application of IFRS 9 on the statement of the balance sheet as at 31 December 2017 is explained in more detail below:

Adjustment IFRS 9

Assets	Dec 31, 2017 As originally presented	IFRS 9 Impact	At Jan 1, 2018
Non-current assets			
Intangible assets	606,134	-	606,134
Consolidated Goodwill	122,708	-	122,708
Property, plant and equipment	4,344,709	-	4,344,709
Investments in associates and joint ventures	447,132	73	447,205
Non-current Finance assets	122,042	647	122,689
Deferred tax assets	761,723	4,868	766,591
Total non-current assets	***6,404,448***	***5,588***	***6,410,036***
Current assets			
Inventories	1,925,666	-	1,925,666
Trade and other receivables	2,179,884	(6,994)	2,172,890
Current income tax assets	75,284	-	75,284
Other current Financial assets	205,348	(3,169)	202,179
Other current assets	9,954	-	9,954
Cash and cash equivalents	545,637	-	545,637
Total current assets	***4,941,773***	***(10,163)***	***4,931,610***
Total assets	***11,346,221***	***(4,575)***	***11,341,646***
Shareholder's Equity and Liabilities			
Equity			
Shareholder's equity	4,735,533	5,464	4,740,997
Adjustments for changes in value	*179,996*	(211)	*179,785*
Non-controlling interest	*110,184*	(691)	*109,493*
Total equity	***5,025,713***	***4,562***	***5,030,275***
Noncurrent liabilities			
Bank borrowings	1,628,425	(12,687)	1,615,738
Deferred tax liabilities	296,017	3,550	299,567
Capital grants	30,598	-	30,598
Provisions	525,341	-	525,341
Other non-current liabilities	199,965	-	199,965
Total non-current liabilities	***2,680,346***	***(9,137)***	***2,671,209***
Current liabilities			
Bank borrowings	639,348	-	639,348
Trade and other payables	2,973,814	-	2,973,814
Current income tax liabilities	15,136	-	15,136
Other current liabilities	11,864	-	11,864
Total current liabilities	***3,640,162***	-	***3,640,162***
Total equity and liabilities	***11,346,221***	***(4,575)***	***11,341,646***

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 was published in May 2014, and modified in 2016, establishes a new five-step model applicable to measurement of revenue arising from contracts with customers. In accordance with IFRS 15, the revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled when providing goods or services to a client.

This new standard derogates all previous standards relating to income recognition. Retroactive application is required, either complete or partial, for the years starting from January 1, 2018 or subsequently, and early application is allowed. The Group has adopted the new standard at the stipulated effective date using the modified total retroactive method with the corresponding accumulated effect at the moment of initial application of this standard. Therefore, the comparative information has not been updated and is presented in accordance with IAS 18.

There has been no impact on the consolidated statement of balance sheet or the Consolidated Statement of Profit or Loss but only a change in the systematic record of certain operations. The evaluation of the impact on the application of IFRS 15 is as follows:

(a) Sale of goods

This standard had no impact on the Group´s results in those contracts with customers in which sales are generally the only contractual obligation. Recognition of revenue is registered when control is transferred to the customer, in general when the goods are delivered.

(b) Services rendered

In general, the Group's products are sold via contracts under INCOTERMS. Based on the specific INCOTERM, the sale and transport of the product is included. The income from the product sale is recognized at the moment control is transferred (as described in section "(a) Sale of goods") and income from the remaining obligations, mainly transportation, are recognized to the extent control of the service is being transferred.

The disclosure requirements prescribed in IFRS 15 are detailed by categories, as defined in the Note of Segments reporting. (Note 6).

Any impairment loss recognized (in accordance with IFRS 9) on any trade receivables or contract assets arising from the contracts of an entity with customers, will be disclosed separately from the impairment losses of other contracts.

2) Standards and interpretations published by the IASB, but not applicable in the period

The Group intends to adopt standards, interpretations and amendments issued by the IASB that are not obligatory in the EU at the date of these Consolidated Financial Statements at the time they come into effect, if applicable. The Group is currently analyzing their impact. Based on the analysis conducted to date, the Group believes that their first-time application will not have a material impact on the Consolidated Financial statements, except IFRS 16.

IFRS 16 – Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees.

This standard will supersede IAS 17 - Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019.

IFRS 16 eliminates the dual accounting model for lessees, which distinguishes between the finance lease contracts recognized on the balance sheet and the operating lease contracts, for which future leases payments are not required to be recognized. Instead, a single model is established, in the balance sheet, similar to the current finance lease model.

Impact of the new definition of a lease

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

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

– The right to obtain substantially all of the economic benefits from the use of an identified asset; and

– The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after January 1, 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

Operating leases

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

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separate the total amount of cash paid into a principal portion and interest (presented within operating activities) in the consolidated cash flow statement.

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

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of 980 million euros. (Note 23)

In the CEPSA Group the -Modified Retroactive Transition Approach- has been chosen. The liability will be valued by the present value of the payments for pending leases, using the incremental type of indebtedness at the date of initial application and the asset will be equal to the liability.

A preliminary assessment indicates that most of these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognize a right-of-use asset of 800 million euros approximately and a corresponding lease liability for the same amount, in respect of all these leases. The impact on profit or loss is to decrease Other expenses by 130 million euros, to increase depreciation by 117 million euros and to increase interest expense by 21 million euros, all of them approximate amounts.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities.

The impact of the changes under IFRS 16 would be to reduce the cash generated by operating activities by CU before changes in working capital and to increase the total net cash flows generated from operating activities by the same amount.

Finance leases

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

On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Group's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Companies have assessed that the impact of this change will not have a significant impact on the amounts recognized in the Group's consolidated financial statements.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts.

The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

Because of this change the Group will reclassify certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit losses will be recognized on the finance lease receivables. The leased assets will be derecognized and finance lease asset receivables recognized. This change in accounting will change the timing of recognition of the related revenue (recognized in finance income).

c) Accounting estimates, assumptions and significant adjustments

The information in these Consolidated Financial Statements is the responsibility of the directors of the parent company, who expressly declare that the entirety of IFRS policies and principles have been applied.

For the preparation of the accompanying Consolidated Financial Statements, in accordance with IFRS, the directors have to use estimates, assumptions and significant judgments that could affect the final results presented in these Consolidated Financial Statements. These basically relate 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 (Note 3.h).

- 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), for which determination it takes into account estimates of the oil and natural gas existing in the place, recovery factors, hypotheses of price forecasts, estimations of operating costs and investments, and other factors.

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

- The record of dismantling provisions associated with its hydrocarbons production activities (Note 20). The dismantling provisions are regularly updated to reflect trends in estimated costs and the discount rates. The complexity of this calculation is both in the initial recognition of the present value of the estimated future costs and in the subsequent adjustments made to represent the passing of time, as well as the changes in estimates due to changes in the assumptions initially used due to technological advances, regulatory changes, economic, political and environmental safety related factors, variations in schedules or in operation conditions, etc.
- The assessment of potential effects of legal claims and contingencies, for which the Group 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, the Group 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.
- The process of valuation of assets and liabilities in business combinations requires, on the part of Group management, the judgments and estimates indicated in Note 4.
- When the fair values 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 judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk (own and counterparty) and volatility (Note 28). Changes in assumptions about these factors could affect the reported fair value of financial instruments (Note 30).
- The useful life of the property, plant and equipment and intangible assets (Note 3.f and 3.g).
- The measurement of provisions for liabilities (Note 3.p).
- The recognition of deferred tax assets. They are recognized to the extent that it is probable that sufficient taxable profit will be available to enable them to be offset. Significant management judgement 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.
- The assessment of the expected losses, according to IFRS 9, incorporate the PD (Probability of Default), an adjustment based on forward looking estimates of the Strategic Plan of the business area and / or macroeconomic variables.

Although these estimates were made on the basis of the best information available at December 31, 2018 on the events analyzed, 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 in accordance with the requirements of IAS 8, recognizing the effects of the change in estimates in the corresponding Consolidated Statement of Profit or Loss.

3. Summary of relevant accounting policies

The main criteria applied in the preparation of the Consolidated Financial statements, are:

a) Basis of consolidation, subsidiaries, associates and joint arrangements

Subsidiaries

All the companies over which Cepsa exercises direct or indirect control were fully consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of a subsidiary begins when the Group obtains control over it and ends when loses that control.

Specifically, the Group controls an investee if, and only if, the Group has:

(a) Power over the investee

(b) Exposure, or rights, to variable returns from its involvement with the investee

(c) The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) The contractual arrangement(s) with the other vote holders of the investee

(b) Rights arising from other contractual arrangements

(c) The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control (Note 3.b).

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in Profit or Loss. Any investment retained is recognized at fair value.

All material balances, transactions, and results between companies accounted for using the full consolidation method have been eliminated on consolidation. In addition, based on the percentage of ownership interest, balances, income, expenses and results from transactions with companies accounted for using the equity method have also been eliminated. All accounting principles and procedures used by Group companies have been standardized. Furthermore, all mandatory accounting principles and policies with a significant effect on these Consolidated Financial Statements have been applied.

The share of the non-controlling interests in the equity and profit of the CEPSA Group's consolidated subsidiaries is presented under "Non-controlling interests" in the Consolidated Balance Sheet, the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Changes in Equity.

Associates

An associate is an entity over which the Group has significant influence. Significant influence is generally deemed to be exercised over companies which are between 20% and 50% owned. In other companies with lower degree of ownership, significant influence is also exercised due, among other factors, to the CEPSA Group being present on the Board of Directors and a high volume of commercial operations between them (Note 7).

Joint Ventures

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Cepsa has both joint operations and joint ventures.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

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

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as "Share in profits of associates and joint ventures" in the Consolidated Statement of Profit or Loss. Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the Consolidated Statement of Profit or Loss.

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

b) Business combinations and Goodwill on consolidation

Business combinations are accounted for using the acquisition method. The acquisition method entails the recognition in the books at the acquisition date of the identifiable assets acquired and liabilities assumed at their fair value on that date, provided that this value can be reliably established.

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

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

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

Any excess of the acquisition cost over the fair value of their net assets (assets acquired less liabilities assumed) at the date of acquisition is included under "Goodwill." Any shortfall in the acquisition cost of the consolidated subsidiaries below the fair value of their net assets is recognized in the Consolidated Statement of Profit or Loss. (Note 9).

The fair value of net assets comprises the fair value of the assets and liabilities that are identifiable and meet the other requirements for their recognition and, lastly, the contingent liabilities which can be reliably measured.

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

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

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquired company is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in Profit or Loss.

When the initial accounting for a business combination is incomplete at the end of the reporting period in which the business combination occurs, paragraph B67 of IFRS 3 requires issuers to disclose that fact and provide the provisional amounts of assets, liabilities, non-controlling interests or items of the consideration paid. Additionally, issuers should disclose the reasons why the business combination accounting is incomplete and the nature and amount of any measurement period adjustments recognized during the reporting period.

c) **Segment reporting**

CEPSA Group has reorganized in 2018 its businesses segments in four business segments: Exploration and Production, Refining, Marketing and Petrochemicals. For these segments, there are responsible managers and information is reported using this structure to the Board of Directors. The results of these segments are regularly reviewed by the highest operating decision-making authority to decide on the resources to be allocated and assess performance (Note 6.a).

The key financial data reported for these segments are as follows:

- EBITDA consists of revenue and expense originated in the activity of each operating segment and excludes amortization, impairment and gains or losses from their assets, as well as financial income or costs and results from investments accounted for by the equity method.
- Adjusted Management Operating Results (Operating Profit/Loss) included in Note 6 on segment reporting has been prepared by using the same basis used for the internal information for their management.

Accordingly, due to the special nature of certain economic events, some income and expense items are classified as "Non-recurring items" and are excluded from the segment results (Note 6.c). These non-recurring items generally relate to transactions that are significant but unusual and to the difference in the value of inventories between average unit cost -used in the financial statements- and replacement cost -used for the management measurement of business operative segments performance, as well as for year-on-year comparison.

Adjusted capital employed is reported in the section on operative segment assets and liabilities. Adjusted capital employed is made up of non-current non-financial assets plus working capital (adjusted to replacement cost) less non-current non-financial liabilities, which is equal to the Group's financial structure (equity plus net borrowings). Net borrowings basically consist of current and non-current borrowings minus cash and cash equivalents.

In the cash flow section of the segments is informed on both operating cash flows from operating activities before change in operating working capital and cash flow from investing activities to present the calculation of free cash flows before change in working capital.

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

d) Non-current assets held for sale and discontinued operations

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

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

Once they have been classified as held for sale, tangible and intangible assets held are not depreciated or amortized.

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

- Represents a separate line of business or geographical area.
- Forms part of an individual and coordinated plan to sell or otherwise dispose of a separate line of business or geographical area of operations; or
- Is a dependent entity acquired exclusively with a view to its subsequent sale.

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

e) Foreign currency transactions and translation of financial statements in foreign currencies

Foreign currency transactions are converted to the functional currency of each business by applying the exchange rates prevailing at the transaction date. Any exchange gains or losses that arise are recognized in the Consolidated Statement of Profit or Loss.

Additionally, monetary items in foreign currency are restated at the functional currency at the year-end rates. Differences with respect to the exchange rates prevailing at the transaction date are also recognized in the Consolidated Statement of Profit or Loss.

The Financial Statements of Group operations which have a functional currency other than the euro, are translated to euros by applying the "year-end exchange rate" method, consisting of translating assets and liabilities at year-end exchange rates, income and expenses at the average weighted exchange rates for the year and equity at the historical exchange rates. The resulting translation differences are recognized in equity under "Translation differences" in the accompanying Consolidated Balance Sheet.

The effect of fluctuations in exchange rates on each item is shown in "Other changes" in the respective tables.

f) Intangible assets

f.1) Exploration and production intangible assets

Investments in exploration and production are recognized using the 'successful efforts' method, whereby the accounting treatment of the various costs incurred is as follows:

Exploration and Evaluation Costs

Exploration costs, prior to well drilling, are charged to profit and loss as incurred, via capitalization and automatic amortization/depreciation in the same month. Acquisitions of exploration rights are capitalized and feasibility analyses and impairment tests, where warranted, are performed periodically for each CGU basis based on the results of exploration (Note 3.h). Exploration rights are amortized since its acquisition over a period not exceeding the term of the contract. In the case of the discovery of proven reserves, the carrying amount is transferred to "Oil and Gas Assets" once the development is over and production begins, using the units of production method of depreciation.

Drilling costs are capitalized temporarily until it is determined whether proven reserves have been discovered, in which case they are transferred to "Oil and Gas Assets" in PP&E. Conversely, if the outcome is negative, they are charged to profit and loss. The event which determines the transfer of an intangible asset to PP&E asset occurs when governmental authorization is obtained for the commercial exploitation of a field during a specific period.

Exploration and production assets acquired through business combination:

Assets incorporated as a result of a business combination are classified under the heading "Possible or contingent reserves" or under the heading "Proven reserves", depending on the development phase in which such an asset is Reserves acquired in abusiness combination are not passed to PP&E and follow the depreciation criterion of their exploration and production asset.

f.2) Other items of intangible assets

Intangible assets are measured at acquisition cost, and are tested for impairment when there are indications of impairment, and at least annually for assets with indefinite useful lives and for assets that are not yet available for use (Note 3.h)

Research and development expenditure is recognized in the Statement of Profit or Loss as incurred, except in the case of development expenses relating to projects which have recognized the technical and commercial feasibility, which are capitalized and amortized over their useful lives.

Manufacturing license rights are amortized at the same rates as those used to depreciate the industrial units to which they relate. Service station surface rights and flagging contracts are amortized over an average of 20 and 5 years, respectively, based on the contracts for transactions of this type, and computer software is amortized over a maximum of five years.

Other intangible assets include the transportation right of the Central Oil Pipeline (OCENSA) of Colombia. In 2018, after the assets making up the CGU if Colombia were reviewed, it was considered that the OCENSA right of use is included in it, since all its activity flows are closely related and it was then amortized by technical production units (TPU), just like the other assets in that CGU, and during the life of the right. Until 2017, this fixed asset was amortized on a straight-line basis over 30 years, the time estimated as the useful life of that right of use, as the legal usage concession period was established in 2046.

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

Amortization of Intangible Assets	Useful lives
Exploration and Evaluation Assets	Successful efforts method
Concessions, Patents / License rights *	Up to 50
Software	Up to 5
Goodwill	Indefinite
Other Intangible Assets **	Up to 48

* Licensing on some petrol stations, *Company Owned Company Operated* (COCO), has a useful live of 45 years.

** Among Other intangible assets, petrol stations flagging contracts and other management contracts are included, with useful lives contained within the indicated range.

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

Allowances received for no consideration under the National Emission Allowance Assignment Plan are measured at the market price prevailing at the beginning of the year to which they relate, with the balancing entry under Grants.

Emission allowances are recognized as non-amortizable intangible assets, and initially measured at acquisition cost, and are derecognized when they are delivered, transferred to third parties or meet the conditions established for their expiry (Note 8).

Pursuant to current legislation, the CEPSA Group must deliver CO_2 emission allowances equal to the volume of emissions made during the year in the first few months of the following year.

If the net realizable value of emission allowances is less than their carrying amount, the value of the allowances owned will be written down to market value. If these allowances are acquired, the appropriate impairment of intangible assets is recognized or, if they are received from public authorities for no consideration, the value of the intangible assets is adjusted against "Release of non-financial fixed and other grants" in the Consolidated Statement of Profit or Loss.

g) Property, plant and equipment

g.1) Exploration and production tangible assets (Oil and Gas assets)

Investments in exploration and production are recognized using the 'successful efforts' method, whereby the accounting treatment of the various costs incurred is as follows:

Exploration and Evaluation Costs are accounted under the Intangible heading (Note 3.f.1)

Oil and Gas Assets in production phase:

Investments relating to the acquisition of proven reserves –excluding those arisen in a business combination-, 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 as 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 Group taking account of the estimates based on the contractual clauses.

Impairment tests are performed periodically for each CGU and any impairment losses are recognized in the Consolidated Statement of Profit or Loss (Note 3.h).

g.2) Other items of property, plant and equipment

Property, plant and equipment is initially recognized at acquisition cost. Cost includes the acquisition cost and staff costs and other items related directly to these assets, as well as financial costs accrued only during the construction period. It also includes the estimated present value of the abandonment costs to be borne by the CEPSA Group, where appropriate.

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

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized as an investment. Periodic maintenance, upkeep and repair expenses are recognized in the Statement of Profit or Loss in the year they are incurred. Retired assets and the related accumulated depreciation are derecognized.

Assets held under finance leases are presented in the Balance Sheet by recognizing an asset and a liability for the same amount, equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments. These assets are recognized based on the nature of the leased asset and are depreciated on the basis of their useful lives. Assets held under finance leases are subject to the same rules with respect to impairment as any other item of property, plant and equipment.

At the reporting date, the Group assesses whether there is any indication of impairment of property, plant and equipment. If such indication exists, the asset is tested for impairment, and where appropriate, the related impairment loss is recognized (Note 3.h).

The Group depreciates its property, plant and equipment, net of their residual value, using the straight-line method, at rates based on the following years of estimated useful life:

Depreciation of property, plant and equipment	Useful lives
Buildings and other structures	33 to 50
Complex and specialized plants	12 to 33
Oil and Gas Assets	Production Units
Machinery, installations, fixtures and furnishing	10 to 15
Other items	4 to 20

h) Impairment of non-current assets

At the reporting date or whenever there are circumstances requiring it with respect to its Consolidated Balance Sheet, the CEPSA Group assesses whether there is any indication of impairment of property, plant and equipment, intangible assets, or investments in associates and joint ventures such as fall in the crude oil price, anticipated losses, reduction of activity or crisis environment in the country, proceeding, and where appropriate, estimates the recoverable amount thereof. Additionally, regardless of whether such an indication exists, the carrying amount of intangible assets with indefinite useful lives and of goodwill is compared with their recoverable amount at least once per year. (Notes 3.a, 3.f and 3.g)

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

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.

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

In order to perform the aforementioned impairment test, the carrying amount of the cash generating unit (CGU) will:

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

b) Not include the carrying amount of any recognized liability, unless the recoverable amount of the CGU cannot be determined without consideration of this liability. Regarding E&P assets, the liabilities for dismantling are aggregated both to the book value and to the value in use of the assets.

The goodwill acquired in a business combination is allocated among the CGUs or CGU groups that benefit from the synergies of the business combination, and an estimate of their recoverable value is performed, within a business segment scope.

However, since the segments (see Note 6) in general are bigger than the CGUs, the segments cash flows are considered, separately, for the impairment tests of the goodwill associated with them.

The recoverable amount of each CGU is determined as the higher of the value in use and the fair value less cost to sell or disposal, which would be obtained from the CGU's assets.

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 2019-2023 strategic plan.

These projections cover the following five years, and include a residual value appropriate to each business for which a constant expected growth rate 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. Due to the increase in the volatility of oil prices during the last year, Cepsa has used a sensitivity analysis to different price curves for its impairment analysis. 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 per barrel for 2023. The quoted Brent crude oil price is used as the basis, and the remaining international prices are calculated with the use of differentials.

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. 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 periodically revised every two years by independent experts.

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, valuation takes into account cash flow projections covering a five-year period plus terminal value, with an annual increase of between 1.9% and 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 used for the analyzed CGU's grouped by each business segment in 2018 and 2017:

WACCs 2018 vs 2017

Business Segment	2018	2017
E&P	7.5% - 10.0%	8.0% - 11.0%
Refining & Marketing	7.0% - 8.0%	7.0% - 8.0%
Petrochemical	7.0% - 11.0%	7.5% - 11.0%
Gas & 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: Average of peer companies for each business segment
- After taxes Cost of Debt after taxes based on a spread of peer Oil and Gas integrated companies
- Net equity–Debt ratio: sector average

(1) Risk-free rate in USD: US 10Y real rate by averaging + 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 for the CGU in the countries where impairment sign existed in 2018 and 2017 are as follows:

WACCs 2018 vs 2017

Asset/CGU	2018	2017
E&P		
Colombia	8.5%	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%
Peru	8.0%	9.0%
Petrochemical		
Brazil	10.0%	9.0%
China	8.5%	8.5%
Indonesia	9.5%	9.0%

As a result of the above process, in 2018 and 2017, the impairments detailed in Note 12 have arisen.

In the case of those assets or CGUs for which the Group performs an impairment test as a result of identifying indications of impairment, the Group 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, the Group performs sensitivity analyses of 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:

	2018			2017		
	Increase in the impairment losses net of tax impact in the Consolidated Financial Statements			Increase in the impairment losses net of tax impact in the Consolidated Financial Statements		
Sensitivity analysis	Variation	%	Amount	Variation	%	Amount
Discount rate increase	50 p.b	5%	1	50 p.b	3%	8
Decrease in price of c	-10$	9%	249	-10$	29%	83
Average exchange ral	0.05 $/€	4%	0,5	0.05 $/€	5%	15

Based on the price curves posted by reputed analysts [(1)] and forward prices of Brent oil, we consider reasonable the one utilized by the company for the calculation of 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 Consolidated Statement of Profit or Loss.

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

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

i) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

From January 1, 2018, the group classifies its financial assets at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss (FVPL).

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement IFRS 9

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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

1 - Financial assets at amortized cost

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

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2 - Financial assets at fair value through OCI (debt instrument)

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

The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling, and

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

The Group´s debt instruments at fair value through OCI includes the sub-portfolio of trade receivables subject to possible securitization (see Note 2.b).

3 - Financial assets at fair value through OCI (equity instrument)

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

Gains and losses on these financial assets are never recycled to profit or loss and are not subject to impairment assessment.

4 - Financial assets at fair value through profit or loss.

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

Financial liabilities

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

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

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

Banks borrowings are the Group´s most significant financial liability. They are initially recognized at their fair value less directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method.

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

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount initially recognized less accumulated amortization.

Impairment of financial assets

From January 1, 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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

(See the impact and the general guidelines of the implementation in 2. b) Changes in accounting policies – IFRS 9 Financial instruments)

Derecognition of financial instruments

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

- The rights to receive cash flows from the asset have expired or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

  (a) the Group has transferred substantially all the risks and rewards of the asset, or

  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The CEPSA Group uses hedging and derivatives financial instruments, including most notably futures and swaps contracts with crude oil and product brokers, to hedge the price risks arising from the monthly purchases and sales of crude oil and oil-based products. The transaction limits and the hedging instruments are approved by Group management and the monitoring process observes the separation of the performance and control functions.

For foreign currency and interest rate risks, the transaction limits and hedging instruments (basically forward currency transactions and interest rate swaps) are also approved by Group management and the monitoring process observes the separation of the performance and control functions.

Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value at the reporting date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives, that are not designated as hedging instruments in hedge relationships as defined by IFRS 9, are taken directly to Profit or Loss, as finance income or finance costs, as appropriate, except in the case of the Trading segment where, due to its activity, financial derivatives transactions are part of its operating result.

In the normal course of its operations the Group has forward sale and purchase contracts for oil and natural gas. These contracts are entered into and maintained to meet the procurement and delivery needs of these commodities in accordance with the periodic estimates for the purchase and sale of hydrocarbons, which are systematically monitored and adjusted through physical delivery. As a result, these contracts are considered for "own use" and therefore outside the scope of IFRS 9.

So far the Group has used the extended use of fair value option for "own use" contracts since this option is not yet permitted according the Spanish GAAP.

As a part of the ordinary activity of the Trading segment, besides the supply of crude oil for the Group's needs, a proprietary trading activity is performed, in which some of the own-use supply contracts which allow trading with third parties are used. The value of purchase commitments that can be used for speculation purposes is not significant, as they are very short term contracts with market price arrangements.

Hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. These hedges are expected to be highly effective in compensating for changes in fair value or in cash flows, and are continuously assessed to determine their efficiency for the years they were designated for.

Beginning January 1, 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Fair value hedges (Note 29)

Hedges for exposures to changes in the fair value of a recognized asset or liability, or unrecognized firm commitment attributable to a particular risk that could affect the Consolidated Statement of Profit or Loss. Changes in value of the hedging instrument and the hedged item attributable to the hedged risk are recognized in Profit or Loss.

Cash flow hedges (Note 29)

The Group uses forward currency contracts and other derivatives such as options to hedge its exposure to foreign currency risk in highly probable transactions. Likewise, to reduce the exposure to interest rate risk on its outstanding variable rate borrowings, the Group uses interest rate swaps.

The effective portion of the gain or loss on the hedging instrument is recognized directly in Other Comprehensive Income, while the ineffective portion is recognized immediately in the Consolidated Statement of Profit or Loss, under financial income or expense.

Amounts recognized as Other Comprehensive Income are transferred to Profit or Loss when the hedged transaction affects Profit or Loss. Both the hedge instrument and the hedged transaction are included under the same heading in the Consolidated Statement of Profit or Loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in Other Comprehensive Income remains separately in equity until the forecast transaction occurs or the firm commitment is met.

Hedges of a net investment (Note 29)

The Group uses both non-derivative liabilities (such as bank borrowing) and derivatives (mainly FX swaps) to hedge the exposure to changes in the EUR/USD rate on investments in the net assets of foreign operations whose functional currency is the USD.

Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in Other Comprehensive Income while any gains or losses relating to the ineffective portion are recognized in the Consolidated Statement of Profit or Loss in the Financial Costs and Income caption.

On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the Consolidated Statement of Profit or Loss.

j) Fair value measurement

The Group measures financial instruments, such as, derivatives, at fair value at each balance sheet date.

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

The Group uses the following hierarchy to measure and disclose the fair value of financial statements by evaluation technique: (Note 30)

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

k) Inventories

Crude oil, oil derivatives and petrochemical products, acquired as raw materials, are measured at the lower of weighted average cost and net realizable value. Replacement parts and supplies and other inventories are measured at the lower of average acquisition or production cost or net realizable value. (Note 13)

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

The Company assesses the net realizable value of the inventories at the end of each year and recognizes the appropriate impairment if this value is lower than the carrying amount. When the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed. Inventory impairment or excess is included in "trade provisions impairment" in the Consolidated Statement of Profit or Loss.

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

l) Cash and cash equivalents

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

Cash equivalents include bank deposits and other investments maturing within three months at the time of the contract (Note 15).

m) Current / Non-current classification

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

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

n) Grants

Grants related to assets are measured at fair value. Non-refundable grants are recognized as deferred income under "Non-current liabilities" in the Consolidated Balance Sheet and are released to income based on the amortization of the investment financed by the grant. Repayable grants are recognized as non-current debt transformable into grants under "Non-current liabilities." Operating grants related to income are released to income when they accrue.

"Capital grants related to greenhouse gas emission allowances" (Note 18) includes allowances received for no consideration, as provided for in the National Emission Allowance Assignment Plan, which are initially measured at the market price prevailing at the beginning of the year to which they relate. Such grants are taken to income as a release of non-financial capital grants:

- Generally, as the costs incurred on the actual emissions accrue (Notes 22 and 18).
- If an impairment loss was recognized on the emission allowances received from the Government, as an adjustment to the initially recognized value (Note 8).

o) Pension commitments and similar obligations

Cepsa and several of its subsidiaries have the following pension commitments towards employees and their beneficiaries:

- Commitments covered by the employee pension plans associated with the CEPSA Group Pensions Fund. 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:

- Defined contribution plans, which cover retirement, whereby the sponsor makes periodic contributions.

- Defined benefit plans which cover benefits for death or disability through an annually renewable policy. The sponsor undertakes to make the contributions corresponding to the Pension Plan to finance the premium covering the above activity risk contingencies.

The accrued amount of the contingency assumed by the sponsor is covered each year through the annual contribution.

- Life insurance (excess policy): A defined contribution obligation arranged through an insurance policy which establishes the right of the insured 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.
- 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 adjustments arising from CPI increases or decreases, which affect only the policies covering obligations tied to annual CPI performance, are recognized as expenses or income for the year, as appropriate, and their amount was not material.

Other non-current employee benefit costs

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

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

p) Provisions

"Provisions" includes liabilities arising from litigation in progress, environmental risks, abandonment costs and other contingencies, which are uncertain as to their amounts or timing.

These provisions are recorded when a present obligation arises as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The provision amount recognized is the present value of the expenditure expected to be required to settle the obligation. Provisions are reviewed at the date of the Consolidated Balance Sheet, based on the information available.

The obligation to deliver emission allowances for the CO_2 emissions produced in the year is recognized as the greenhouse gas emissions are made. These costs are charged to "Other operating expenses" in the Consolidated Statement of Profit or Loss and credited to a short-term provision included under "Trade and other payables", until the date the related emission allowances are delivered (Note 21). The unit value to be assigned to the emissions is determined taking into account the following amounts:

- Firstly, the carrying amount of the emission allowances received for no consideration.

- Secondly, the cost of the other emission allowances capitalized in the Consolidated Balance Sheet.
- Lastly, where necessary, the most up-to-date estimate of the acquisition cost of the remaining allowances.

q) Income tax

Current and deferred income taxes are recognized under "Income tax" in the accompanying Statement of Profit or Loss, except when they arise from economic events that have been directly recognized in Other Comprehensive Income or Equity, respectively.

The current income tax expense is the result of applying the tax rate to the taxable profit (tax loss) for the year, after deducting the tax credits allowable for tax purposes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income.

Deferred tax is accounted for using the liability method based on the balance sheet, under which temporary differences are determined as the difference between the tax bases of assets and liabilities and their carrying amounts. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax assets are only recognized if it is probable that sufficient future taxable profit will be available against which they can be utilized. Deferred tax assets and liabilities are measured based on the tax legislation and the tax rates in force when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

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

Deferred tax assets for deductible temporary differences arising from investments in subsidiaries, associates or jointly-controlled entities are only recognized when it is possible that such temporary differences reverse in the future and the expected tax gain is large enough to cover the temporary difference.

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

r) Revenue and expenses

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.

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

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

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

Variable consideration

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

Significant financing component

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

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

Non-cash consideration

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

Consideration payable to the customer

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

Oil Production

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

"Net revenue" does not include the value of exchanges of strategic stocks arranged with other operators.

In accordance with the legislation applicable to companies operating in the oil and gas industry, the excise tax on oil and gas sales is recorded as part of the selling price and as an addition to cost under "Net revenue" and "Other operating expenses," respectively, in the Consolidated Statement of Profit or Loss.

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

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

s) Leases

The accounting policy described below for leases is based on IAS 17. As of January 1, 2019, this standard will be derogated by IFRS 16 – Leases, the most relevant impacts of which are detailed in note 2.b.2) "Standards and interpretations published by the IASB", but not applicable in the period.

Finance leases

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

When the consolidated companies act as the lessee, the cost of the leased assets is disclosed in the consolidated balance sheets based on the nature of the leased asset, and, simultaneously, a liability for the same amount is recognized (which will be the lower of the fair value of the leased asset and the aggregate present values of the amounts payable to the lessor plus, where applicable, the price of exercising the purchase option). Contingent lease installments, the cost of services and taxes payable by the lessor are not included in the calculation. The total financial cost of the contract is charged to the Statement of Profit or Loss for the year in which it accrues, applying the effective interest method. These assets are depreciated using similar criteria to those applied to property, plant and equipment for own use.

Operating leases

In operating leases operations, the ownership of the leased asset and substantially all the risks and rewards relating to the leased assets are retained by the lessor.

When the consolidated companies act as the lessor, the acquisition cost of the leased asset is disclosed under "Property, plant and equipment," either as "Investment property," or "Other assets assigned under an operating lease." These assets are depreciated using a policy consistent with the lessor's normal depreciation policy for similar items and lease income is recognized in the Consolidated Statement of Profit or Loss on a straight-line basis.

When the consolidated companies act as the lessee, lease costs, including any incentives granted by the lessor, are recognized as an expense in the Consolidated Statement of Profit or Loss on an accrual basis.

t) Environmental disclosures

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

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

With respect to provisions for environmental risks and liabilities, the Group records provisions for environmental actions to remedy the risk of gradual soil pollution, with a charge to "Other operating expenses" in the Consolidated Statement of Profit or Loss, based on in-house estimates and technical studies. In addition, the Group has taken out insurance policies to cover such other environmental damage as might arise, including any resulting third-party liability (Note 27).

u) Cash Flow Statement

In accordance with the options for presentation contained in IAS 7 'Statement of Cash Flows', the Group reports the information regarding cash flows and cash equivalents from operations using the 'indirect method', which implies starting with the 'Profit before taxes' on the Consolidated Statement of Profit or Loss 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.

4. Business Combinations

No significant business combinations took place in 2018. The acquisition of an additional 35%, to the existing 35%, of the stake in Cepsa Gas Comercializadora, which resulted in a business combination achieved in stages, does not have a significant impact on the Consolidated Financial Statements (Note 7).

On June 30, 2017, Cepsa acquired 20 entities that own 23 different petrol stations in the region of Madrid and surrounding areas in what is considered as one of the most relevant gas stations acquisition in the last years.

For the purpose of this business combination, we have considered all 20 entities as different Cash Generating Units as well as a single consolidated Company. The entities were owned by two family groups, Grupo Villanueva and Grupo Paz that agreed to act as a single party in the negotiation period of the Transaction with Cepsa. For the evaluation and measurement of this business combination an independent consultant services were hired. Specifically, Duff & Phelps submitted its report on July 4, 2018. This report ended without any caution or qualifications.

At June 30, 2018, this business combination is completed with the deferred payments included at fair value pending settlement. The Statement of cash flows reflects the payments made at December 2018 and December 2017 under the heading "acquisition of subsidiary, net of cash acquired" for amounts of 49,865 and 19,491, thousand euros respectively, paid all of them in cash.

Pre-deferred tax liabilities goodwill is 7.5 million euros and mainly refers to customer relationships and network performance optimization. The final goodwill is 47 million euros (provisionally accounted for 48 million euros at December 31, 2017), after recognizing the deferred taxes resulting from the measurement of assets at fair value, which occurs during the process of allocating a purchase price.

Identified fair values of assets and liabilities of the acquired company at the acquisition date are the following:

		Thousands of euros	
2017		Registered book value at acquisition	Registered fair value at acquisition
Non current assets		12,500	170,634
PP&E		12,394	25,317
Intangible	Note 8	0	145,211
Non-current Finance assets		2	2
Deferred tax assets		104	104
Current assets		12,565	12,565
Inventories		1,566	1,566
Account receivable		1,720	1,720
Cash and cash equivalent		9,279	9,279
TOTAL ASSETS		***25,065***	***183,199***
Non current liabilities		1,289	40,823
Non current provisions			
Deferred tax liabilites		0	39,534
Consideration for the debt		893	893
Other non-current liabilities		396	396
Current liabilities		7,019	7,019
Account payable		6,590	6,590
Consideration for the debt		429	429
TOTAL LIABILITIES		***8,308***	***47,842***
Total net assets identifiable at fair value		16,757	135,357
Goodwill	Note 9	-	47,023
Consideration transferred		***16,757***	***182,380***

The fair value of Intangible assets was established used a form of the Income Approach known as the Multiperiod Excess Earnings Method ("MEEM"). The MEEM determines the fair value of an asset based on the cash flows that are exclusively generated by the asset in question. It has considered 90% of the value of the asset as the threshold in order to determine the Remaining Useful Life (RUL), obtaining an estimated economic RUL of 25 years, equal to the useful life.

There have not been significant variations with the information disclosed in the 2017 Consolidated Financial Statements.

No contingent liabilities were detected in the Financial Statements at the acquisition date in 2017.

5. Group Information

Table I, which forms part of these notes to the Consolidated Financial Statements, shows the main subsidiaries, jointly controlled entities and associates, directly or indirectly owned, which, together with Cepsa, form the CEPSA Group. The table lists these companies' registered offices and lines of business, together with the most significant economic and financial information for 2018.

The scope of consolidation at December 31, 2018 differs from the scope considered at the end of 2017 due to the following changes:

Company	Full Consolidation	Investments in companies accounted for using the equity method
Byrsa, N.V.	E	
Cepsa Algerie, S.L.	I	
Cepsa EP Abu Dhabi, S.L.U.	I	
Cepsa EP Mexico S de RL de CV	I	
Cepsa Gas Comercializadora, S.A.	I	E
Cepsa Kenya Limited	E	
Cepsa Treasury, S.A.U.	I	

I=Inclusion
E=Exclusion

Note:

The movements in the year reflect derecognitions which correspond to liquidation of Byrsa, N.V. and Cepsa Kenya Limited. Likewise, Cepsa Gas Comercializadora responds to change in the consolidation method, having acquired 35%. The inclusions are due to start of activity in this exercise.

In 2017 the following changes occurred:

Company	Full Consolidation	Investments in companies accounted for using the equity method
Auxiliar del Medio Ambiente Regional, S.L. (AMARCO)		E
Cepsa Comercial Noroeste, S.A.U.	E	
Cepsa Disco, S.L.	I	
Cepsa Sea, S.L.	I	
Coastal Energy (UK) Company, LTD	E	
CS Chemical, Limited		I
Ecología Canaria, S.A. (ECANSA)		E
SIL Chemical, Ltd		I
Suresa Retama, S.L.	I	

I=Inclusion
E=Exclusion

Note:
The movements in the year reflect derecognitions which correspond to takeover merger of Cepsa Comercial Noroeste, S.A.U., in the case of Coastal Energy (UK) Company which has been liquidated and Auxiliar del Medio Ambiente Regional, S.L. and Ecología Canaria, S.A. which have been sold.
Cepsa Disco: this company includes the petrol gas stations acquired in June, 2017.

The breakdown of the effect on equity of the change in consolidation method and of the inclusions in and exclusions from the scope of consolidation is shown in "Other changes" and "Business combinations" in the respective tables disclosing the changes in each item during the year.

The information contained in this note for 2017, is presented only for purposes of comparison with the information for 2018.

6. Segment reporting

a) Business segments reporting

In 2018, CEPSA Group reorganized its businesses segments, based on the high integration level of its Refining, Trading (more than 85% of their operations volume is for the refining activity) and Gas & Power activities (70% of refining consumption of electricity is equivalent to the energy produced by Gas & Power activities), and in order to be aligned with the change in the information used in decision making within the Group. So, the six segments reported until 2017 have been grouped in the following four:

- Exploration and Production, which includes oil and gas exploration and production activities.
- Refining, which includes the activities of supply and refining of crude oil into petroleum products and their exports, production excess sales, trading activities, power and steam generation, activities that are highly involved in the production processes, and distribution and commercialization to industrial customers.
- Marketing, which includes the distribution and commercialization activity of oil and gas products.
- Petrochemical, which includes their production, distribution and marketing.

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

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

Segments have been defined based both on the delimitation of the different income and expense generating activities and on the structure approved by the Board of Directors for the best management of each business. The board of chief officers of every business analyze operational and financial key factors to make the appropriate decisions on resources allocation and on performance measurement. The Group has not grouped segments in the accompanying segment reporting.

The financial data shown below have been obtained in an homogeneous manner with 2017 and using the same methodology and internal reporting structures as those established to provide information to the Management and to measure the profitability of the business segments.

The following breakdown shows information as of 2018 and 2017, December 31, by segments and, in relation with the net profit attributable to the parent company, on both the profit obtained in accordance with the IFRS and the profit adjusted to the management approach:

CEPSA

Thousands of euros

Segments reporting

2018	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Intra-Group Eliminations	Total	CCS Adjustments Non-Recurring Items	Total Consolidated
	Information excluding CCS Adjustments and Non-Recurring Items								
Income/(Losses)									
Revenue									
Revenue from external customers	922,204	5,517,105	15,620,707	2,646,583	5,179	-	24,711,778	-	24,711,778
Intra-group revenue	48,234	8,250,392	47,520	1,107,972	63,427	(9,517,545)	-	-	-
Total Revenue	970,438	13,767,497	15,668,227	3,754,555	68,606	(9,517,545)	24,711,778		24,711,778
Excise tax on oil and gas charged on sales	-	-	(2,632,873)	-	-	-	(2,632,873)	-	(2,632,873)
Revenue without excise tax on oil and gas	970,438	13,767,497	13,035,354	3,754,555	68,606	(9,517,545)	22,078,905		22,078,905
Procurements and changes in inventories of finished goods & work in progress	(31,500)	(16,005,412)	(6,856,856)	(3,097,977)	(659)	8,200,495	(17,791,909)	166,183	(17,625,726)
Changes in operating allowances	2,924	(369)	1,103	(6,271)	(976)	-	(3,589)	(30,146)	(33,735)
Change in provisions for liabilities and charges	(3,147)	1,689	2,999	(522)	-	-	1,019	-	1,019
Gains or losses on disposals of non-recurring assets	(3,842)	18,829	16,050	7,115	-	-	38,152	-	38,152
Other operating income and costs	(300,354)	2,794,199	(5,854,765)	(413,788)	(119,272)	1,317,050	(2,576,930)	(2,038)	(2,578,968)
Result (EBITDA)	634,519	576,433	343,885	243,112	(52,301)	-	1,745,648	133,999	1,879,647
Amortisation charge	(221,249)	(278,103)	(85,947)	(52,694)	(185)	-	(638,178)	-	(638,178)
Impairment of non-current assets	(28,111)	(60)	542	(285)	-	-	(27,914)	(2,499)	(30,413)
Allocation to profit or loss of grants related to non-financial assets and others	7,395	3,075	(4,841)	2,087	(83)	-	7,633	-	7,633
Operating profit (losses)	392,554	301,345	253,639	192,220	(52,569)	-	1,087,189	131,500	1,218,689
Share in profit of companies accounted for using the equity method	15,011	39,247	166	(24,022)	-	-	30,402	(6,946)	23,456
Net financial profit							(118,035)	(2,008)	(120,043)
Impairment and gains or losses on disposals of financial instruments							8,761	-	8,761
Consolidated profit before tax							1,008,317	122,546	1,130,863
Income tax							(242,327)	(45,461)	(287,788)
Consolidated net profit for the period for continuing operations							765,990	77,085	843,075
Consolidated net profit for the period for discontinued operations							-	-	-
Consolidated net profit of the period							765,990	77,085	843,075
Non-controlling interests							(12,277)	(734)	(13,011)
Equity holder of the Parent (*)	231,953	258,480	189,240	110,653	(36,613)	-	753,713	76,351	830,064
Assets and liabilities									
Non-current assets without investments in associates & JV	3,227,690	2,367,302	1,267,276	814,131	15,849	-	7,692,248	(42,141)	7,650,107
Investments in associates and JV companies	207,472	194,762	16,186	48,519	-	-	466,939	-	466,939
Total non-current capital invested	3,435,162	2,562,064	1,283,462	862,650	15,849	-	8,159,187	(42,141)	8,117,046
Capital Employed	3,051,415	3,332,989	930,352	1,182,305	(50,611)	-	8,446,450	185,463	8,631,913
Cash flow statement									
Cash flow from operating activities before change in operating working capital IFRS	638,082	706,328	323,522	249,538	(39,903)	-	1,877,567		
Clean CCS Adjustment	-	(153,474)	(6,369)	(6,340)	-	-	(166,183)		
Cash flow from operating activities before change in operating working capital CCS	638,082	552,854	317,153	243,198	(39,903)		1,711,384		
Other cash flow from operating activities	(59,138)	(89,109)	(44,992)	(36,949)	20,719	-	(209,469)		
Total cash flow from operating activities before change in working capital CCS	578,944	463,745	272,161	206,249	(19,184)		1,501,915		
Total cash flows from investing activities	(1,501,141)	(313,150)	(134,432)	(57,514)	(7,732)		(2,013,969)		
Free cash flow before change in working capital	(922,197)	150,595	137,729	148,735	(26,916)		(512,054)		

(*)

	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Intra-Group Eliminations	Total
CCS Profit attributable to parent company	231,953	258,480	189,240	110,653	(36,613)		753,713
Non-Recurring Items	(13,942)	93,732	3,050	(4,960)	(1,529)		76,351
IFRS Profit attributable to parent company	218,011	352,212	192,290	105,693	(38,142)		830,064

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CEPSA

Thousands of euros

Segments reporting

2017	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Intra-Group Eliminations	Total	CCS Adjustments Non-Recurring Items	Total Consolidated
	Information excluding CCS Adjustments and Non-Recurring Items								
Income/(Losses)									
Revenue									
Revenue from external customers	589,447	4,051,181	13,671,819	2,458,217	46,109	-	20,816,773	-	20,816,773
Intra-group revenue	270,030	6,185,436	20,642	1,027,362	54,790	(7,558,260)	-	-	-
Total Revenue	*859,477*	*10,236,617*	*13,692,461*	*3,485,579*	*100,899*	*(7,558,260)*	*20,816,773*		*20,816,773*
Excise tax on oil and gas charged on sales	-	-	(2,605,162)	-	-	-	(2,605,162)	-	(2,605,162)
Revenue without excise tax on oil and gas	*859,477*	*10,236,617*	*11,087,299*	*3,485,579*	*100,899*	*(7,558,260)*	*18,211,611*		*18,211,611*
Procurements and changes in inventories of finished goods & work in progress	(48,073)	(12,039,726)	(6,161,737)	(2,841,174)	(791)	7,275,338	(13,816,163)	104,062	(13,712,101)
Changes in operating allowances	(1,537)	(952)	(7,211)	(1,008)	-	-	(10,708)	818	(9,890)
Change in provisions for liabilities and charges	(4,616)	(5,886)	(2,390)	183	8,015	-	(4,694)	-	(4,694)
Gains or losses on disposals of non-recurring assets	(523)	188	5,032	(2,156)	-	-	2,541	(475)	2,066
Other operating income and expenses	(307,715)	2,683,880	(4,607,155)	(402,475)	(158,203)	282,922	(2,508,746)	-	(2,508,746)
Result (EBITDA)	*497,013*	*874,121*	*313,838*	*238,949*	*(50,080)*	-	*1,873,841*	*104,405*	*1,978,246*
Amortisation charge	(259,413)	(284,465)	(81,162)	(55,319)	(94)	-	(680,453)	-	(680,453)
Impairment of non-current assets	-	108	280	(296)	-	-	92	(276,943)	(276,851)
Allocation to profit or loss of grants related to non-financial assets and others	7,880	3,444	(3,590)	906	(1)	-	8,639	-	8,639
Operating profit (losses)	*245,480*	*593,208*	*229,366*	*184,240*	*(50,175)*	-	*1,202,119*	*(172,538)*	*1,029,581*
Share in profit of companies accounted for using the equity method	7,169	48,925	1,663	463	-	-	58,220	(10,382)	47,838
Net financial profit							(30,906)	(707)	(31,613)
Impairment and gains or losses on disposals of financial instruments							(2,157)	9,889	7,732
Consolidated profit before tax							*1,227,276*	*(173,738)*	*1,053,538*
Income tax							(328,007)	33,101	(294,906)
Consolidated net profit for the period for continuing operations							*899,269*	*(140,637)*	*758,632*
Consolidated net profit for the period for discontinued operations									
Consolidated net profit of the period							*899,269*	*(140,637)*	*758,632*
Non-controlling interests							(15,388)	(644)	(16,032)
Equiy holder of the Parent (**)	*145,145*	*480,548*	*181,763*	*110,702*	*(34,277)*		*883,881*	*(141,281)*	*742,600*
Assets and liabilities									
Non-current assets without investments in associates and Joint Ventures	1,716,132	2,236,991	1,247,712	775,123	11,434	-	5,987,392	(30,076)	5,957,316
Investments in associates and JV companies	187,800	206,986	16,965	35,381	-	-	447,132	-	447,132
Total non-current capital invested	*1,903,932*	*2,443,977*	*1,264,677*	*810,504*	*11,434*	-	*6,434,524*	*(30,076)*	*6,404,448*
Capital Employed	*1,577,895*	*2,991,169*	*950,291*	*1,210,195*	*(75,791)*	-	*6,653,760*	*94,089*	*6,747,849*
Cash flow statement									
Cash flow from operating activities before change in operating working capital IFRS	522,734	945,061	313,765	257,113	(118,589)	-	1,920,084		
Clean CCS Adjustment	-	(95,819)	11,286	(19,529)	-	-	(104,062)		
Cash flow from operating activities before change in operating working capital CCS	*522,734*	*849,242*	*325,051*	*237,584*	*(118,589)*	-	*1,816,022*		
Other cash flow from operating activities	(129,011)	(43,702)	(45,595)	(50,372)	91,055	-	(177,625)		
Total cash flow from operating activities before change in working capital CCS	*393,723*	*805,540*	*279,456*	*187,212*	*(27,534)*	-	*1,638,397*		
Total cash flows from investing activities	*(158,922)*	*(285,327)*	*(111,789)*	*(37,861)*	*(14,511)*	-	*(608,410)*		
Free cash flow before change in working capital	*234,801*	*520,213*	*167,667*	*149,351*	*(42,045)*	-	*1,029,987*		

(**)

	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Intra-Group Eliminations	Total
Clean CCS Profit attributable to parent company	*145,145*	*480,548*	*181,763*	*110,702*	*(34,277)*		*883,881*
Non-Recurring Items	(216,056)	68,173	(7,284)	13,886	-		(141,281)
IFRS Profit attributable to parent company	*(70,911)*	*548,721*	*174,479*	*124,588*	*(34,277)*		*742,600*

b) Geographical segment reporting:

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

Thousands of euros

	Revenue for sales to external customers		Net Intangible and Tangible Assets		Additions in Intangible and Tangible assets	
	2018	2017	2018	2017	2018	2017
Spain (*)	15,560,829	13,599,648	3,731,141	3,730,826	613,080	513,739
Other EU Countries	3,010,499	3,062,474	80,532	77,674	10,827	7,694
Africa	2,195,542	1,070,564	479,612	152,504	200,023	24,949
America	1,975,092	1,536,162	466,019	448,071	42,188	139,325
Rest of the world	1,969,816	1,547,925	1,936,713	541,768	1,443,936	28,902
Total Consolidated	***24,711,778***	***20,816,773***	***6,694,017***	***4,950,843***	***2,310,054***	***714,609***

(*) In Spain, the data from 2018 and 2017 under "Revenue for sales to external customers" includes Excise tax on oil and gas charged on sales

In Rest of the World it is outstanding the addition of those 1,434 million euros derived from the agreement signed in March 2018 with ADNOC, referred to a 20% stake in Sateh Al Razboot and Umm Lulu oil fields, in Abu Dhabi coastal area, in E&P area.

c) Information on non-recurring items:

The breakdown, by business segment, of the main items composing this heading is as follows:

2018 — Thousands of euros

CCS Adjustments and Non-Recurring Items	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Total
Profit from operations						
Difference in valuation and replacement cost	-	124,958	4,882	6,197	-	136,037
Depreciation and impairment losses on non-current assets	(3,111)	-	612	-	-	(2,499)
IPO (Initial Public Offering) costs	-	-	-	-	(2,038)	(2,038)
Impairment and gains or losses on disposal of assets	-	-	-	-	-	-
Total	***(3,111)***	***124,958***	***5,494***	***6,197***	***(2,038)***	***131,500***
Consolidated Net Profit						
Difference in valuation and replacement cost	-	93,732	2,591	1,986	-	98,309
Non-recurring items by companies accounted for using the equity method	-	-	-	(6,946)	-	(6,946)
Depreciation, impairment and gains or losses on disposal of assets	(1,381)	-	459	-	-	(922)
Impairment of financial instruments	-	-	-	-	-	-
IPO (Initial Public Offering) costs	-	-	-	-	(1,529)	(1,529)
Adjustment to the tax for temporary differences and provisions	(12,561)	-	-	-	-	(12,561)
Total	***(13,942)***	***93,732***	***3,050***	***(4,960)***	***(1,529)***	***76,351***

2017 — Thousands of euros

CCS Adjustments and Non-Recurring Items	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Total
Profit from operations						
Difference in valuation and replacement cost	-	96,449	(11,246)	19,677	-	104,880
Depreciation and impairment losses on non-current assets	(278,640)	-	1,697	-	-	(276,943)
Impairment and gains or losses on disposal of assets	(475)	-	-	-	-	(475)
Total	***(279,115)***	***96,449***	***(9,549)***	***19,677***	-	***(172,538)***
Consolidated Net Profit						
Difference in valuation and replacement cost	-	72,337	(8,451)	15,055	-	78,941
Non-recurring items by companies accounted for using the equity method	2,368	(12,750)	-	-	-	(10,382)
Depreciation, impairment and gains or losses on disposal of assets	(260,731)	-	1,697	-	-	(259,034)
Impairment of financial instruments	-	8,586	(530)	(1,169)	-	6,887
Adjustment to the tax for temporary differences and provisions	42,307	-	-	-	-	42,307
Total	***(216,056)***	***68,173***	***(7,284)***	***13,886***	-	***(141,281)***

As discussed in Note 3.c, non-recurring items include the difference in the value of inventories between the average cost method – used in the Consolidated Financial Statements - and the replacement cost method

– used to measure operating segments –, thus facilitating the analysis of operating segment performance and comparison between years. In the replacement cost method, the cost of sales is determined with reference to average monthly prices rather than the historical value derived from the accounting valuation method. Consequently, the adjustment to replacement cost is determined as the difference between these two methods.

The Group considers 'non-recurring items' to be those atypical revenues or expenses, which are not directly related to the company's main activity and occur infrequently, i.e.:

- Impairment of assets
- Results of disposals of assets (significant amounts)
- Restructuring costs
- Exceptional fiscal expenses or income
- Costs associated with mergers / acquisitions
- Results of discontinued operations

In 2018, it is important to note assets impairments adjustments, the non-recurring fiscal adjustments and exchange differences, which arise in the deferred taxes.

In the case of companies accounted for using the equity method, the adjustments are the same that the above, that is, adjustment to the replacement cost and asset impairment on these companies' results, over the result of these companies.

As a consequence of the reorganization performed in 2018 by the Group in its business segment reporting and for illustrative purposes, reorganized segments Income Statement for the full-years of 2016 is shown below:

CEPSA

Thousands of euros

Segments reporting

2016	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Intra-Group Eliminations	Total	CCS Adjustments Non-Recurring Items	Total Consolidated
	Information excluding CCS Adjustments and Non-Recurring Items								
Income/(Losses)									
Revenue									
Revenue from external customers	533,654	3,691,023	11,539,913	2,148,937	35,023	-	17,948,550	-	17,948,550
Intra-group revenue	306,221	5,350,968	(15,138)	748,552	54,059	(6,444,662)	-	-	-
Total Revenue	***839,875***	***9,041,991***	***11,524,775***	***2,897,489***	***89,082***	***(6,444,662)***	***17,948,550***		***17,948,550***
Excise tax on oil and gas charged on sales	-	-	(2,493,379)	-	-	-	(2,493,379)	-	(2,493,379)
Revenue without excise tax on oil and gas	***839,875***	***9,041,991***	***9,031,396***	***2,897,489***	***89,082***	***(6,444,662)***	***15,455,171***		***15,455,171***
Procurements and changes in inventories of finished goods & work in progress	(82,381)	(10,007,717)	(5,741,718)	(2,289,950)	(741)	6,577,554	(11,544,953)	(172,534)	(11,717,487)
Changes in operating allowances	(9,504)	(2,459)	643	4,579	-	-	(6,741)	340,853	334,112
Change in provisions for liabilities and charges	(11,481)	15,258	7,980	4,968	2,494	-	19,219	-	19,219
Gains or losses on disposals of non-recurring assets	3,813	(4,856)	7,614	(1,627)	-	-	4,944	2,339	7,283
Other operating income and expenses	(296,811)	1,626,949	(3,032,955)	(390,022)	(153,243)	(132,892)	(2,378,974)	-	(2,378,974)
Result (EBITDA)	***443,511***	***669,166***	***272,960***	***225,437***	***(62,408)***	-	***1,548,666***	***170,658***	***1,719,324***
Depreciation and amortisation charge	(332,531)	(249,619)	(82,966)	(50,692)	(4)	-	(715,812)	15,760	(700,052)
Impairment of non-current assets	(6,181)	(35)	(187)	-	-	-	(6,403)	(82,560)	(88,963)
Allocation to profit or loss of grants related to non-financial assets and others	5,911	3,226	(2,282)	1,225	-	-	8,080	-	8,080
Operating profit (losses)	***110,710***	***422,738***	***187,525***	***175,970***	***(62,412)***	-	***834,531***	***103,858***	***938,389***
Share in profits of equity companies	2,661	35,286	(1,313)	(1,857)	-	-	34,777	(93,374)	(58,597)
Net financial profit						-	(59,350)	-	(59,350)
Impairment and gains or losses on disposals of financial instruments						-	(336)	(1,003)	(1,339)
Consolidated profit before tax						-	***809,622***	***9,481***	***819,103***
Income tax						-	(244,905)	42,317	(202,588)
Consolidated net profit for the year for continuing operations						-	***564,717***	***51,798***	***616,515***
Consolidated net profit for the year for discontinued operations									
Consolidated net profit of the year						-	***564,717***	***51,798***	***616,515***
Non-controlling interests						-	(11,356)	(3,327)	(14,683)
Profit attributable to parent company (*)	***11,629***	***341,247***	***137,764***	***110,573***	***(47,852)***	-	***553,361***	***48,471***	***601,832***
Assets and liabilities									
Non-current assets without investments in associates & JV	2,227,377	2,243,351	1,021,178	1,001,928	20,811	-	6,514,645	3,363	6,518,008
Investments in associates and JV companies	207,231	199,019	15,607	6,056	-	-	427,913	-	427,913
Total non-current capital invested	***2,434,608***	***2,442,370***	***1,036,785***	***1,007,984***	***20,811***	-	***6,942,558***	***3,363***	***6,945,921***
Capital Employed	***2,134,321***	***2,770,420***	***633,673***	***1,224,955***	***12,052***	-	***6,775,421***	***16,337***	***6,791,758***
Cash flow statement									
Cash flow from operating activities before change in operating working capital IFRS	433,805	478,860	228,521	205,068	19,308	-	1,365,562		
Clean CCS Adjustment	-	145,118	19,822	7,594	-	-	172,534		
Cash flow from operating activities before change in operating working capital (	***433,805***	***623,978***	***248,343***	***212,662***	***19,308***	-	***1,538,096***		
Other cash flow from operating activities	(89,564)	(41,826)	(56,455)	(45,907)	11,152	-	(222,600)		
Total cash flow from operating activities before change in working capital CCS	***344,241***	***582,152***	***191,888***	***166,755***	***30,460***		***1,315,496***		
Total cash flows from investing activities	***(224,093)***	***122,874***	***(82,541)***	***35,197***	***(4,067)***	-	***(152,630)***		
Total cash flows from investing activities	***120,148***	***705,026***	***109,347***	***201,952***	***26,393***	-	***1,162,866***		

(*)	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Intra-Group Eliminations	Total
Clean CCS Profit attributable to parent company	***11,629***	***341,247***	***137,764***	***110,573***	***(47,852)***	-	***553,361***
Non Recurring Items	(78,809)	144,301	(17,552)	531	-	-	48,471
IFRS Profit attributable to parent company	***(67,180)***	***485,548***	***120,212***	***111,104***	***(47,852)***	-	***601,832***

The breakdown of "Difference in valuation and replacement cost", is as follow:

2018 — Thousands of euros

Difference in valuation and replacement costs	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Total
Profit from operations						
Inventories changes	-	153,474	6,369	6,340	-	166,183
Inventories provision changes	-	(28,516)	(1,487)	(143)	-	(30,146)
Total	-	***124,958***	***4,882***	***6,197***	-	***136,037***

2017

Difference in valuation and replacement costs	Exploration & Production	Refining	Marketing	Petrochemical	Corporation	Total
Profit from operations						
Inventories changes	-	95,819	(11,286)	19,529	-	104,062
Inventories provision changes	-	630	40	148	-	818
Total	-	***96,449***	***(11,246)***	***19,677***	-	***104,880***

7. Investments in associates and joint ventures

"Investments in companies accounted for using the equity method" at the 2018 and 2017 year-end are presented in the table below:

Thousands of euros

Company	2018	2017
Medgaz, S.A.	146,475	155,113
Apico, LLC	62,667	62,998
Abu Dhabi Oil CO, Ltd (ADOC)	152,045	131,407
Cepsa Gas Comercializadora, S.A.	-	4,565
Nueva Generadora del Sur, S.A.	30,987	29,689
CSCHEM Limited	24,426	26,784
Other companies	50,339	36,576
Total investments in associates and joint ventures	***466,939***	***447,132***

The CEPSA Group maintains an indirect share of ADOC of 12.88%, however, this company was incorporated since 2015 as an investment accounted for using the equity method, after proving during the analysis of the main shareholders' agreements that it had a significant influence over ADOC.

CEPSA Group accounts for those investments and gains (losses) in associates and joint ventures using the Equity method. The main joint ventures are Medgaz, Nueva Generadora del Sur, SinarMas Group and Asfaltos Españoles whereas the main associates are ADOC, Apico and CSChem.

Thousands of euros

	Investments in associates and joint ventures		Profit / (loss) by integration	
	12.31.2018	**12.31.2017**	**12.31.2018**	**12.31.2017**
Joint Venture	212,506	205,994	4,018	29,935
Associates	254,433	241,138	19,438	17,903
TOTAL	**466,939**	**447,132**	**23,456**	**47,838**

The breakdown of the changes in 2018 and 2017 in the above-mentioned heading is as follows:

	Notes	2018	2017
			Thousands of euros
Opening balance		**447,132**	**427,913**
Profit after taxes incurred in the year (discontinued operations included)		23,456	47,838
Dividends received during the year / Share Premium Reimbursement		(70,428)	(49,843)
Additions of investments in associates and joint ventures		1,834	47,086
Capital increase through participative loans		53,909	-
Disposals:			
Repayments / Retirements		-	(3,916)
Mergers/Change in consolidation method	Note 4	(4,565)	-
Other changes		15,601	(21,946)
Closing balance		**466,939**	**447,132**

On January 2018, the Group has acquired a new 35% stake of shares of Cepsa Gas Comercializadora, reaching a 70% ownership and changing therefore to full consolidation method.

In 2018, a capital increase took place with participatory loans in SinarMas Cepsa Pte, Ltd, amounting to 53.909 thousand euros.

Among 2017 additions, it is worth highlighting both the acquisition of CSCHEM Ltd for 25,586 thousand euros, leader manufacturer of LABSA in Nigeria, and the capital increase of Nueva Generadora del Sur (NGS) for 14,490 thousand euros and SinarMas Cepsa Pte. Ltd for 7,010 thousand euros.

The CEPSA Group regularly analyses the existence of impairment at its associates and joint ventures by comparing the total carrying amount of the associate or joint venture, including goodwill, to its recoverable amount. If the carrying amount exceeds the recoverable amount, the CEPSA Group recognizes the related impairment with a debit to the Consolidated income statement within the "Share in profit of companies accounted for using the equity method". According to the analysis described, no impairment of any investment accounted for by the equity method in 2018 has been recorded. (Note 12)

In 2017, the impairment recognized for ADOC was reversed in the amount of 2,368 thousand euros, based on the favorable performance of crude oil futures prices.

Disposals represents the sale, in July of 2017, of Ecansa and Amarco, subsidiaries that no longer belong to CEPSA Group.

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

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

	2018	2017
		Thousands of euros
Total Assets	975,338	935,192
Total Liabilities	668,771	698,153
Net Assets	**306,567**	**237,039**
Total Revenues	429,945	516,333
Profit for the year	**165,420**	**139,635**
Share of results of companies accounted for by using the equity method (discontinued operations included)	**23,456**	**47,838**

The breakdown of Goodwill on companies accounted for using the equity method, reported according to the cash generating unit to which it was allocated, for 2018 and 2017 is as follows:

2018	Segments	Balance at 01.01.18	Additions	Other changes	Disposals	Impairment Losses	Balance at 12.31.18
Distribution network companies	Distribution	6,667	-	-	-	-	6,667
Gas companies	Gas and Power	124,779	-	-	-	-	124,779
Petrochemical companies	Petrochemical	18,313	-	(8,643)	-	-	9,670
Exploration and production companies	Exploration & Production	60,139	-	3,963	-	-	64,102
Total		**209,898**	**-**	**(4,680)**	**-**	**-**	**205,218**

Thousands of euros

2017	Segments	Balance at 01.01.17	Additions	Other changes	Disposals	Impairment Losses	Balance at 12.31.17
Direct sales companies	~~Distribution~~	24	-		(24)	-	-
Distribution network companies	Distribution	6,667	-	-	-	-	6,667
Gas companies	Gas and Power	124,779	-	-	-	-	124,779
Petrochemical companies	Petrochemical	-	20,094	(1,781)	-	-	18,313
Exploration and production companies	Exploration & Production	66,510	-	(6,371)	-	-	60,139
Total		**197,980**	**20,094**	**(8,152)**	**(24)**	**-**	**209,898**

On March 2018, the measurement of assets of CSCHEM Limited has finished, which was acquired in 2017. "Other movements" mainly reflects the reevaluation of the initial goodwill.

In 2017, the heading for acquisitions includes the initial measurement of assets acquired of CSCHEM in March 2017.

The summarized financial information for the joint ventures partly owned by CEPSA Group at December 31, 2018 and 2017 is as follows:

Thousands of euros

	Asfaltos Españoles, S.A.		Nueva Generadora del Sur, S.A.		SinarMas Cepsa Pte, LTD		Medgaz		Cepsa Gas Comercializadora	
	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017
Revenue	40,563	39,217	4,675	4,860	112,893	33,008	229,838	222,711		588,521
Expenses	(34,911)	(31,017)	(2,205)	(2,357)	(144,253)	(27,493)	(21,176)	(22,815)		(620,232)
Amortization charge	(5,971)	(5,993)	(1,965)	(1,884)	(15,377)	(7,878)	(53,456)	(53,134)		(288)
Impairment on non-current assets	-	-	-	(22,896)	-	-	-	-		-
Share in profit of companies accounted for using the equity method	-	-	-	-	-	-	-	-		-
Other operating income (expenses)	1,812	1,808	-	59,889	-	-	-	-		(166)
Net foreign exchange gain (loss)	(2)	8	-	-	(780)	-	1	(173)		-
Finance income	3	5	2,000	-	3,637	-	74	(2)		73
Finance costs	(151)	(182)	(62)	(328)	(24,942)	(4,424)	(37,918)	(40,074)		(126)
Gains or losses on disposals of non-current assets	-	(369)	-	198	-	-	(224)	(874)		-
Other gains (losses) on financial instruments	-	-	-	-	-	(4,895)	-	-		-
Profit before tax	**1,343**	**3,477**	**2,443**	**37,482**	**(68,822)**	**(11,682)**	**117,139**	**105,639**		**(32,218)**
Income tax	(315)	(882)	152	(10,267)	(825)	(298)	(29,162)	(27,304)		(1,925)
Profit for the period from continuing operations	**1,028**	**2,595**	**2,595**	**27,215**	**(69,647)**	**(11,980)**	**87,977**	**78,335**		**(34,143)**
Profit for the period from discontinued operations	-	-	-	-	-	-	-	-		-
Net profit for the period	**1,028**	**2,595**	**2,595**	**27,215**	**(69,647)**	**(11,980)**	**87,977**	**78,335**		**(34,143)**
Other comprehensive income/loss	-	-	-	-	-	-	-	-		-
Total comprehensive income	**1,028**	**2,595**	**2,595**	**27,215**	**(69,647)**	**(11,980)**	**87,977**	**78,335**		**(34,143)**
% stakeholding	**50%**	**50%**	**50%**	**50%**	**50%**	**50%**	**42%**	**42%**		**35%**
Consolidation profit	**514**	**1,298**	**1,298**	**13,608**	**(34,824)**	**(5,990)**	**37,030**	**32,971**		**(11,950)**
Dividends	**1,000**	-	-	-	-	-	**36,618**	**38,428**		-

Thousands of euros

	Asfaltos Españoles, S.A.		Nueva Generadora del Sur, S.A.		SinarMas Cepsa Pte, LTD		Medgaz		Cepsa Gas Comercializadora	
	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017	12.31.2018	12.31.2017
Non-current assets	48,595	48,309	4,940	65,314	324,458	320,078	637,192	689,932		927
Current assets	8,955	6,625	65,099	3,230	137,837	120,044	30,689	28,884		115,962
TOTAL ASSETS	**57,550**	**54,934**	**70,039**	**68,544**	**462,295**	**440,122**	**667,881**	**718,816**		**116,889**
Non-current liabilities	2,192	15,891	468	508	256,712	386,784	562,713	599,826		11,851
Current liabilities	22,756	5,789	7,598	8,658	168,098	53,338	53,622	46,922		91,997
TOTAL LIABILITIES	**24,948**	**21,680**	**8,066**	**9,166**	**424,810**	**440,122**	**616,335**	**646,748**		**103,848**
NET ASSETS	**32,602**	**33,254**	**61,973**	**59,378**	**37,485**	-	**51,546**	**72,068**		**13,041**
% stakeholding	**50%**	**50%**	**50%**	**50%**	**50%**	**50%**	**42.09%**	**42.09%**		**35%**
Stake in net assets	**16,301**	**16,627**	**30,987**	**29,689**	**18,743**	-	**21,696**	**30,333**		**4,564**
Goodwill	-	-	-	-	-	-	**124,779**	**124,779**		-
Carrying value of investment	**16,301**	**16,627**	**30,987**	**29,689**	**18,743**	-	**146,475**	**155,112**		**4,564**

In 2018, a dividend from Medgaz has been received for an amount of 36,618 thousand euros, as well as a premium refund for an amount of 9,050 thousand euros.

In 2017, dividends amounting to 38,428 thousand euros were received from Medgaz. In addition, Medgaz also reimbursed a premium in the amount of 2,105 thousand euros.

Table II, which forms an integral part of these Notes to the Consolidated Financial Statements, details the main joint operations and jointly controlled assets, in which the CEPSA Group has an interest. The accompanying Consolidated Financial Statements include the assets, liabilities, expenses and income arising from these investments based on the percentage of ownership in them.

In addition, the summarized financial information for the main associates of the CEPSA Group at December 31, 2018 and 2017, is presented as follows:

Thousands of euros

	Apico		Abu Dhabi Oil CO, Ltd (ADOC)		SIL/CSCHEM		Cepsa Gibraltar	
	12.31.2018	**12.31.2017**	**12.31.2018**	**12.31.2017**	**12.31.2018**	**12.31.2017**	**12.31.2018**	**12.31.2017**
Revenue	34,132	25,294	333,262	382,154	258,875	90,683	200,388	94,710
Expenses	(6,788)	(6,418)	(159,820)	(257,894)	(247,576)	(72,776)	(199,735)	(90,821)
Amortization charge	(8,194)	(4,895)	-	-	(7,701)	(759)	-	-
Impairment on non-current assets	-	-	-	18,385	-	-	-	-
Share in profit of companies accounted for using the equity method	-	-	-	-	-	-	-	-
Other operating income (expenses)	-	-	-	-	294	-	-	-
Net foreign exchange gain (loss)	-	-	-	-	3,580	-	(204)	(397)
Finance income	9	13	-	-	1,906	-	-	-
Finance costs	-	-	(8,819)	(1,152)	(5,640)	(3,012)	(33)	(105)
Gains or losses on disposals of non-current assets	-	-	-	-	-	-	-	-
Other gains (losses) on financial instruments	(653)	(25)	-	-	-	-	-	-
Profit before tax	**18,506**	**13,969**	**164,623**	**141,493**	**3,738**	**14,136**	**416**	**3,387**
Income tax	(11,078)	(9,411)	(69,390)	(81,248)	(761)	(2,269)	(426)	(578)
Profit for the period from continuing operations	**7,428**	**4,558**	**95,233**	**60,245**	**2,977**	**11,867**	**(10)**	**2,809**
Profit for the period from discontinued operations	-	-	-	-	-	-	-	-
Net profit for the period	**7,428**	**4,558**	**95,233**	**60,245**	**2,977**	**11,867**	**(10)**	**2,809**
Other comprehensive income/loss	-	-	-	-	-	-	-	-
Total comprehensive income	**7,428**	**4,558**	**95,233**	**60,245**	**2,977**	**11,867**	**(10)**	**2,809**
% stakeholding	**39%**	**39%**	**12.88%**	**12.88%**	**30%**	**30%**	**50%**	**50%**
Consolidation profit	**2,897**	**1,778**	**12,266**	**7,760**	**893**	**3,560**	**(5)**	**1,405**
Dividends	**7,935**	**8,456**	**1,696**	-	**3,249**	-	**848**	-

Thousands of euros

	Apico		Abu Dhabi Oil CO, Ltd (ADOC)		SIL/CSCHEM		Cepsa Gibraltar	
	12.31.2018	**12.31.2017**	**12.31.2018**	**12.31.2017**	**12.31.2018**	**12.31.2017**	**12.31.2018**	**12.31.2017**
Non-current assets	141,961	141,569	1,524,831	1,369,007	63,461	10,515	13,000	13,583
Current assets	20,988	11,976	285,911	198,504	63,931	65,120	27,634	30,049
TOTAL ASSETS	**162,949**	**153,545**	**1,810,742**	**1,567,511**	**127,392**	**75,635**	**40,634**	**43,632**
Non-current liabilities	3,543	6,374	898,088	874,009	25,448	10,428	-	2,764
Current liabilities	42,554	27,485	97,145	13,464	52,759	36,971	23,646	22,054
TOTAL LIABILITIES	**46,097**	**33,859**	**995,233**	**887,473**	**78,207**	**47,399**	**23,646**	**24,818**
NET ASSETS	**116,852**	**119,686**	**815,509**	**680,038**	**49,185**	**28,236**	**16,988**	**18,814**
% stakeholding	**39%**	**39%**	**12.88%**	**12.88%**	**30%**	**30%**	**50%**	**50%**
Stake in net assets	**45,572**	**46,678**	**105,038**	**87,589**	**14,756**	**8,471**	**8,494**	**9,407**
Goodwill	**17,094**	**16,320**	**47,007**	**43,818**	**9,670**	**18,313**	-	-
Carrying value of investment	**62,667**	**62,998**	**152,045**	**131,407**	**24,426**	**26,784**	**8,494**	**9,407**

In 2018, dividends were received from Apico, LLC and CSCHEM for an amount of 7,935 and 3.249 thousand euros respectively. In 2017, a dividend of 8,456 thousand euros was received from Apico, LLC.

8. Intangible assets

The breakdown of the gross investments in intangible assets, the related accumulated amortization and impairment for 2018 and 2017 is as follows:

Thousands of euros

2018	Balance at 01.01.18	Business Combinations	Additions or Charge for the year	Transfers	Other changes / Translation differences	Retirements or Disposals	Balance at 12.31.18
Assets							
Exploration and evaluation assets	682,980	-	6,540	(23,117)	28,075	(66,709)	627,769
O&G possible or contingent reserves (B.C.)	19,961	-	-	-	946	-	20,907
O&G proven reserves (B.C.)	2,461,081	-	4,508	1	123,473	(104,063)	2,485,000
Concessions, patents and licences	*112,396*	-	928	452	(916)	-	112,860
Computer sofware	253,388	-	35,062	(3,429)	3,443	(106)	288,358
Other intangible assets	686,694	-	60,232	161	16,567	(41,342)	722,312
Total Assets	***4,216,500***	-	***107,270***	***(25,932)***	***171,588***	***(212,220)***	***4,257,206***
Amortisation							
Exploration and evaluation assets	(641,611)	-	(14,195)	12,588	(25,468)	66,709	(601,977)
O&G possible or contingent reserves (B.C.)	(66)	-	-	-	(4)	-	(70)
O&G proven reserves (B.C.)	(874,083)	-	(36,352)	4,443	(49,157)	7,636	(947,513)
Concessions, patents or licences	(66,415)	-	(4,338)	-	(437)	-	(71,190)
Computer sofware	(174,835)	-	(18,894)	(4)	(2,480)	106	(196,107)
Other intangible assets	(185,261)	-	(32,343)	-	(2,181)	1,922	(217,863)
Total Amortisation	***(1,942,271)***	-	***(106,122)***	***17,027***	***(79,727)***	***76,373***	***(2,034,720)***
Impairment (Note 12)							
Exploration and evaluation assets	(18,821)	-	-	-	-	-	(18,821)
O&G possible or contingent reserves (B.C.)	(19,894)	-	-	-	-	-	(19,894)
O&G proven reserves (B.C.)	(1,546,798)	-	(2,726)	69,188	(74,327)	96,429	(1,458,235)
Concessions, patents or licences	(1,418)	-	-	-	(67)	-	(1,485)
Computer sofware	-	-	-	-	-	-	-
Other intangible assets	(81,166)	-	(60)	437	(1,926)	60	(82,655)
Total Impairment (Note 12)	***(1,668,097)***	-	***(2,786)***	***69,625***	***(76,320)***	***96,489***	***(1,581,089)***
Net intangible assets	***606,132***	-	***(1,638)***	***60,720***	***15,541***	***(39,358)***	***641,397***

Thousands of euros

2017	Balance at 01.01.18	Business Combinations	Additions or Charge for the year	Transfers	Other changes / Translation differences	Retirements or Disposals	Balance at 12.31.18
Assets							
Exploration and evaluation assets	910,725	-	53,967	(140,602)	(66,529)	(74,581)	682,980
O&G possible or contingent reserves (B.C.)	19,293	-	-	3,100	(2,432)	-	19,961
O&G proven reserves (B.C.)	2,605,826	-	27,774	307,314	(314,849)	(164,984)	2,461,081
Concessions, patents and licences	*116,236*	-	183	358	(4,381)	-	112,396
Computer sofware	230,436	-	24,538	1,334	(2,914)	(6)	253,388
Other intangible assets	572,547	145,211	45,330	707	(26,535)	(50,566)	686,694
Total Assets	***4,455,063***	***145,211***	***151,792***	***172,211***	***(417,640)***	***(290,137)***	***4,216,500***
Amortisation							
Exploration and evaluation assets	(735,423)	-	(68,517)	21,098	67,489	73,742	(641,611)
O&G possible or contingent reserves (B.C.)	(11,935)	-	-	10,613	1,255	-	(66)
O&G proven reserves (B.C.)	(804,093)	-	(27,330)	(221,994)	116,371	62,963	(874,083)
Concessions, patents or licences	(63,718)	-	(4,231)	-	1,535	-	(66,415)
Computer sofware	(160,679)	-	(15,959)	(18)	1,815	6	(174,835)
Other intangible assets	(175,978)	-	(14,935)	191	4,294	1,167	(185,261)
Total Amortisation	***(1,951,826)***	-	***(130,972)***	***(190,110)***	***192,759***	***137,878***	***(1,942,271)***
Impairment (Note 12)							
Exploration and evaluation assets	-	-	-	(21,711)	2,890	-	(18,821)
O&G possible or contingent reserves (B.C.)	(7,358)	-	-	(15,590)	3,054	-	(19,894)
O&G proven reserves (B.C.)	(1,771,889)	-	-	(96,270)	237,509	83,852	(1,546,798)
Concessions, patents or licences	(1,613)	-	-	-	195	-	(1,418)
Computer sofware	-	-	-	-	-	-	-
Other intangible assets	(96,846)	-	-		10,901	4,779	(81,166)
Total Impairment (Note 12)	***(1,877,706)***	-	-	***(133,571)***	***254,549***	***88,631***	***(1,668,097)***
Net intangible assets	***625,531***	***145,211***	***20,820***	***(151,470)***	***29,668***	***(63,628)***	***606,132***

The Other intangible assets caption includes, among others, the following remarkable assets belonging to specific Group companies:

- Petrol and Gas Stations network location, for a gross amount of 145,211 thousand euros and accumulated depreciation of 4,012 thousand euros;
- Preferential right of use of the Central pipeline of Colombia, for a gross amount of 201,178 thousand euros, but accumulated depreciation and impairment of 138,789 thousand euros;
- Greenhouse gases emission allowances in companies with industrial plants, for a gross amount of 61,657 thousand euros.

The additions to intangible assets amounting to 107,270 and 151,792 thousand euros in 2018 and 2017 respectively, mainly correspond to investments in software, to exploration assets, particularly in 2017, as well as, those classified in the Other intangible assets heading also include the free assignment of CO_2 emission allowances (see Note 18) under the National Emission Allowances Assignment Plans.

Additions also includes 2,827 and 22,434 thousand euros, for 2018 and 2017 respectively, related to capitalized expenses, which were credited to their corresponding captions in the accompanying Consolidated Statement of Profit or Loss.

The "Business Combinations" shows, in 2017, the purchase price of 145,211 thousand euros, within the acquisition of 23 petrol gas stations.

"Other movements" mainly reflects the impact of exchange rate fluctuations with respect to the euro in the foreign subsidiaries.

Disposals of intangible assets in 2018 and 2017 mainly related to exploratory assets, remarkably in Thailand, as well as to the annual deliveries of CO_2 emission allowances, for those used in the respective previous years.

There was not significant intangible impairment indicators for 2018 (see notes 12 and 22). Accumulated impairment at December 31, 2018 and 2017, amounted to 1,581,087 and 1,668,095 thousand euros, respectively. They mainly correspond to Oil and Gas Reserves, both Proved and Possible, acquired through Business Combinations, and to a lesser extent, to the Preferential Right of Use of the Central Oil Pipeline of Colombia, right contributed by Cepsa Colombia, S.A.

Greenhouse gases emission allowances have moved as follows:

	2018		2017	
	Thousands of euros	Thousands of metric tones	Thousands of euros	Thousands of metric tones
Opening balance	**36,992**	**6,611**	**42,264**	**7,592**
Asignments/ acquisitions	63,802	6,109	42,876	8,799
Gains/ Losses and Impairments	(60)	-	-	-
Deliveries/ disposals	(39,112)	(6,532)	(48,148)	(9,780)
Other changes	-	-	-	-
Closing Balance	**61,622**	**6,188**	**36,992**	**6,611**

Emission allowances assigned for no consideration are initially measured at the market price prevailing at the beginning of the year to which they relate. In 2018 the allowances relating to emissions made in 2017 were delivered and the related amount was derecognized from intangible assets and from the short-term provision for contingencies or charges.

At December 31, 2018 and 2017, the Group had intangible asset purchase commitments amounting to 195,341 and 248,770 thousand euros respectively.

At December 31, 2018 and 2017, fully amortized intangible assets still in use totaled 815,096 and 659,277 thousand euros respectively.

Regarding those intangibles with indefinite useful life, their net book value as of December 31, 2018 and as of December 31, 2017 accounts for 25,273 and 24,565 thousand euros respectively.

9. Goodwill on consolidation

The breakdown of "Goodwill on consolidation", disclosed by business unit, in 2018 and 2017 is as follows:

2018 — Thousands of euros

Cash Generating Units	Balance at 01.01.18	Additions	Other changes	Retirements	Impairments	Balance at 12.31.18
CGU Petrochemical LAB/LAS	24,016	-	(2,546)	-	-	21,470
CGU Power	122	-	(3)	-	-	119
CGU Refining & Marketing	71,333	-	(1,126)	-	-	70,207
CGU E&P - Thailand	27,237	-	711	-	(27,948)	0
Total	*122,708*	-	*(2,964)*	-	*(27,948)*	*91,796*

2017

Cash Generating Units	Balance at 01.01.17	Additions	Other changes	Retirements	Impairments	Balance at 12.31.17
CGU Petrochemical LAB/LAS	27,814	-	(3.798)	-	-	24.016
CGU Power	122	-	-	-	-	122
CGU Refining & Marketing	23,412	47,921	-	-	-	71,333
CGU E&P - Thailand	197,884	-	(15,286)	-	(155,361)	27,237
Total	*249,233*	*47,921*	*(19,084)*	-	*(155,361)*	*122,708*

In 2017, additions include 47,921 thousand euros relating to the price purchase allocation process in connection with the acquisition of 23 petrol gas stations, added in 20 companies, which were considered as one single item at the consolidated level. The business combination has been considered completed on June 30, 2018, with the deferred payments included at fair value pending settlement.

Impairment tests are performed for cash-generating units to which goodwill has been allocated, to verify the recoverability of the carrying amount. Because the recoverable amount is lower than the carrying amount, an impairment loss has been recognized as an expense under "Impairment and gains or losses on disposals of non-current assets" in the Profit and Loss Consolidated Statement. Both in 2018 and in 2017, impairments refer to goodwill arising on the Coastal Energy Group business combination. (Note 12)

The recoverable amount of the business units was determined on the basis of their value in use calculated consistent with the assumptions and cash flows included in the Group's strategic plan (Note 3.h).

"Other changes" includes changes in exchange rates on Detén Química, S.A.'s goodwill and Coastal Energy Group's goodwill, as the year-end exchange rate was used (Note 3.a).

Goodwill in consolidation with indefinite useful life has a net book value as of December 31, 2018 and as of December 31, 2017, of 91,796 and 122,708 thousand euros respectively.

10. Property, plant and equipment

The breakdown of the gross investments in Property, Plant and Equipment, accumulated depreciation and impairment for 2018 and 2017 is as follows:

Thousands of euros

2018	Balance at 01.01.18	Business Combinations	Additions or Charge for the year	Transfers	Other changes / Translation differences	Retirements or Disposals	Balance at 12.31.18
Assets							
Land and structures	359,314	-	1,210	5,012	545	(4,373)	361,708
Plant and machinery	8,399,151	-	13,703	204,386	23,038	(94,731)	8,545,547
Oil & Gas Assets	2,501,054	-	172,512	234,571	52,690	(461,251)	2,499,576
Other facilites, furniture	*108,360*	-	64	1,761	2,717	(564)	112,338
Advances and property, plant and equipment under construction	864,050	-	2,015,295	(507,925)	96,536	(32)	2,467,924
Other property, plant and equipment	1,400,482	-	-	78,007	40,272	(82,053)	1,436,707
Total Assets	***13,632,411***	-	***2,202,784***	***15,812***	***215,798***	***(643,004)***	***15,423,800***
Depreciations							
Land and structures	(109,436)	-	(5,152)	893	(657)	1,408	(112,944)
Plant and machinery	(5,560,062)	-	(368,615)	57,460	(8,833)	52,006	(5,828,044)
Oil & Gas Assets	(2,025,924)	-	(106,455)	(62,336)	(30,718)	443,607	(1,781,826)
Other facilites, tools and furniture	(88,649)	-	(5,028)	(10)	(2,153)	559	(95,281)
Other propert, plant and equipment	(435,651)	-	(46,805)	(2,929)	(5,653)	61,558	(429,480)
Total Depreciations	***(8,219,722)***	-	***(532,055)***	***(6,922)***	***(48,014)***	***559,138***	***(8,247,575)***
Impairments							
Land and structures	(1,352)	-	(285)	285	-	-	(1,352)
Plant and machinery	(312,502)	-	(2,371)	(46,006)	(4,798)	33,464	(332,213)
Oil & Gas Assets	(55,196)	-	(439)	(23,890)	(4,915)	15,325	(69,115)
Other facilites, tools and furniture	(317)	-	-	-	-	-	(317)
Other propert, plant and equipment	(698,613)	-	-	-	(33,130)	11,132	(720,611)
Impairments (note 12)	***(1,067,980)***	-	***(3,095)***	***(69,611)***	***(42,843)***	***59,921***	***(1,123,608)***
Net property, plant and equipment	***4,344,709***	-	***1,667,635***	***(60,722)***	***124,941***	***(23,945)***	***6,052,617***

Thousands of euros

2017	Balance at 01.01.17	Business Combinations	Additions or Charge for the year	Transfers	Other changes / Translation differences	Retirements or Disposals	Balance at 12.31.17
Assets							
Land and structures	322,347	23,277	7,603	15,162	(3,360)	(5,715)	359,314
Plant and machinery	8,360,205	985	32,759	235,250	(160,715)	(69,333)	8,399,151
Oil & Gas Assets	2,929,925	-	48,840	(242,245)	(142,744)	(92,722)	2,501,054
Other facilites, furniture	*109,539*	795	671	5,983	(8,374)	(254)	108,360
Advances and property, plant and equipment under construction	602,329	-	466,368	(203,501)	4,679	(5,825)	864,050
Other property, plant and equipment	1,513,496	14	6,576	25,705	(122,187)	(23,122)	1,400,482
Total Assets	***13,837,841***	***25,071***	***562,817***	***(163,646)***	***(432,701)***	***(196,971)***	***13,632,411***
Depreciations							
Land and structures	(112,263)	-	(5,171)	(6,083)	12,315	1,766	(109,436)
Plant and machinery	(5,212,411)	-	(382,198)	(38,271)	26,875	45,943	(5,560,062)
Oil & Gas Assets	(2,250,289)	-	(94,985)	162,999	100,861	55,490	(2,025,924)
Other facilites, tools and furniture	(85,031)	-	(5,891)	(4,681)	6,903	51	(88,649)
Other propert, plant and equipment	(401,951)	-	(61,236)	(3,388)	23,177	7,747	(435,651)
Total Depreciations	***(8,061,945)***	-	***(549,481)***	***110,576***	***170,131***	***110,997***	***(8,219,722)***
Impairments							
Land and structures	(1,648)	-	-	-	-	296	(1,352)
Plant and machinery	(339,814)	-	(2,200)	-	6,122	23,390	(312,502)
Oil & Gas Assets	(325,999)	-	(1,307)	226,169	8,709	37,232	(55,196)
Other facilites, tools and furniture	(317)	-	-	-	-	-	(317)
Other propert, plant and equipment	(656,281)	-	(129,657)	(21,629)	99,546	9,408	(698,613)
Impairments (note 12)	***(1,324,059)***	-	***(133,164)***	***204,540***	***114,377***	***70,326***	***(1,067,980)***
Net property, plant and equipment	***4,451,837***	***25,071***	***(119,828)***	***151,470***	***(148,193)***	***(15,648)***	***4,344,709***

Additions to property, plant and equipment, which amounted to 2,202,784 thousand euros in 2018 and 562,817 thousand euros in 2017, relate most notably to the following items:

- Exploration and Production: investments made for development or to increase activity in various countries (mainly United Arab Emirates and Algeria in 2018; Peru, Colombia and Algeria in 2017) These investments in the segment reached in 2018 an amount of more than 1,600 million euros, being outstanding those 1,434 million euros derived from the agreement signed in March 2018 with ADNOC, referred to a 20% stake in Sateh Al Razboot and Umm Lulu oil fields, in Abu Dhabi coastal area, and for a 40-year concession.
- Refining: investments made to improve industrial facilities, aimed at minimizing environmental impact and increasing efficiency and conversion rate, as well as focused on safety in activity. For 2018 they have amounted to around 390 million euros.
- Distribution: investments to maintain or increase market share and presence in markets such as the service stations one. For 2018 they have amounted to around 100 million euros.
- Petrochemicals: investments for keeping on the functionalities of our plants in Spain, Canada, Brazil or China. For 2018 they have amounted to around 80 million euros.

"Additions" includes capitalized costs relating to the starting-up period of various items of property, plant and equipment which were credited to the accompanying Consolidated Statement of Profit or Loss. They amounted to 44,142 thousand euros and 13,404 thousand euros in 2018 and 2017, respectively. The capitalized financial costs were not significant.

"Business Combinations" reflects in 2017 the purchase price of 25,071 thousand euros, within the acquisition of 23 petrol gas stations.

"Other movements" mainly reflects the impact of exchange rate fluctuations with respect to the euro in some of the foreign subsidiaries.

"Disposals or Retirements" mainly includes, for both years, the disposal of highly depreciated technical facilities as well as of exploration and production oil and gas assets, highly depreciated too.

There was not significant tangible assets impairment for 2018 (see notes 12 and 22). Accumulated impairment at December 31, 2018 and 2107, amounted to 1,123,608 and 1,067,980 thousand euros, respectively. They mainly correspond to Mobile Offshore Platform Units contributed by the subsidiary MOPU Holdings (Singapore) Pte, Ltd., and to a lesser extent, to technical installations and Oil & Gas Assets.

At December 31, 2018 and 2017, the Group had property, plant and equipment purchase commitments amounting to 1,892,105 and 1,489,217 thousand euros respectively, relating mainly to exploration and production investments.

At December 31, 2018 and 2017, no material items of property, plant and equipment had been pledged to secure compliance with obligations relating to the ownership thereof.

At December 31, 2018 and 2017, fully depreciated property, plant and equipment still in use totaled 3,742,511 and 3,449,365 thousand euros respectively. All these assets relate to facilities in operation and are not depreciated as a part of the equipment involved.

The breakdown of the items of property, plant and equipment acquired under finance lease arrangements at December 31, 2018 and 2017, is as follows:

Thousands of euros

	2018			2017		
	Cost	Accumulated Depreciation	Carrying Amount	Cost	Accumulated Depreciation	Carrying Amount
Information System equipment and others	6,149	(5,206)	943	8,792	(5,121)	3,671
Total	*6,149*	*(5,206)*	*943*	*8,792*	*(5.121)*	*3,671*

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

Certain CEPSA Group companies have been granted administrative concessions by the Spanish State to use mooring facilities and access and adjacent areas at the ports of Santa Cruz de Tenerife which will revert to the State in 2030, Algeciras-La Línea in 2022 and Palos de la Frontera from 2018 to 2065. CEPSA Group Management expects that these concessions will be renewed when they expire. It also considers it unnecessary to make a provision for the dismantlement of these investments, as they are maintained properly and their renewal is foreseeable.

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

11. Financial Assets

The breakdown of the financial assets, with the exception of cash and cash equivalent, as of December 31, 2018 and December 31, 2017, classified by nature and by category for valuation purposes, is as follows:

Thousands of euros

2018

Finance assets by type/ category (according IFRS 9)	Financial assets at fair value through profit and loss	Financial assets at amortised cost	Financial assets at fair value through OCI	Hedging derivatives	Total
Equity instruments	14,892	-	-	-	14,892
Loans	-	90,906	-	-	90,906
Derivatives	-	-	-	228	228
Other Finance assets	-	23,450	-	-	23,450
Non current	14,892	114,356	-	228	129,476
Equity instruments	352	-	-	-	352
Loans	-	75,101	-	-	75,101
Derivatives	4,910	-	-	28,587	33,497
Trade receivables	-	1,901,584	328,285	-	2,229,869
Other Finance assets	-	21,517	-	-	21,517
Current	5,262	1,998,202	328,285	28,587	2,360,336
Total	*20,154*	*2,112,558*	*328,285*	*28,815*	*2,489,812*

2017

Finance assets by type/ category (according IAS 39)	Held-for-trading Finance assets	Available-for-sale Finance assets	Loans and receivables	Held-to-maturity investment	Hedging derivatives	Total
Equity instruments	-	8,283	-	-	-	8,283
Loans	-	-	85,421	-	-	85,421
Derivatives	-	-	-	-	2,873	2,873
Other Finance assets	-	-	20,490	4,975	-	25,465
Non current	-	8,283	105,911	4,975	2,873	122,042
Equity instruments	-	1,055	-	-	-	1,055
Loans	-	-	146,752	-	-	146,752
Derivatives	4,634	-	-	-	8,854	13,488
Trade receivables	-	-	2,052,856	-	-	2,052,856
Other Finance assets	-	-	44,053	-	-	44,053
Current	4,634	1,055	2,243,661	-	8,854	2,258,204
Total	*4,634*	*9,338*	*2,349,572*	*4,975*	*11,727*	*2,380,246*

The group has elected to apply the limited exemption in IFRS 9 paragraph 7.2.15 relating to transition for classification and accordingly has not restated comparative periods.

The categories described according to IFRS 9 remains largely the same as it was under IAS 39, as shown on the table above by the comparison of both periods. The only exceptions are the following:

- The "held to maturity" category under IAS 39, already measured at amortized cost, become part of the category "financial assets at amortized cost" according to IFRS 9.

- The "Available for sale" category under IAS 39, which corresponds to equity instrument mostly valued at cost, becomes part of the category "Financial assets through profit and loss" under IFRS 9. This change only applies prospectively from the date of initial application of this standard and has no impact on the Group's consolidated financial reserves at that date.

- The "Financial assets through OCI" category under IFRS 9 comprises the trade receivables subject to possible securitization. These debtors were measured at amortized cost under IAS 39.

The movements and balances in financial assets accounts for 2018 and 2017, excluding trade receivables, are as follows:

Thousands of euros

2018	Balance at 01.01.18	Additions	Transfers	Other charges	Disposals	Balance at 12.31.18
Non-current loans to associates and joint ventures	27,202	13,150	58,537	(42,897)	(392)	55,600
Other non-current loans	74,344	15,063	5,927	332	(52,751)	42,915
Other non-current Finance assets	37,812	7,817	(618)	(1,530)	(3,745)	39,736
Impairment	(17,316)	(592)	-	794	8,339	(8,775)
Total non-current loans and Finance assets	*122,042*	*35,438*	*63,846*	*(43,301)*	*(48,549)*	*129,476*
Current loans to associates and joint ventures	114,225	21,620	(59,927)	(10,708)	(14,454)	50,756
Other current loans	42,493	4,612	2,667	2,757	(15,976)	36,553
Other current Finance assets	58,596	78,456	-	1,243	(82,927)	55,368
Impairment	(9,966)	(302)	-	(3,033)	1,091	(12,210)
Total current loans and Finance assets	*205,348*	*104,386*	*(57,260)*	*(9,741)*	*(112,266)*	*130,467*

2017	Balance at 01.01.17	Additions	Transfers	Other charges	Disposals	Balance at 12.31.17
Non-current loans to associates and joint ventures	182,358	35,192	(122,634)	(599)	(67,115)	27,202
Other non-current loans	77,096	32,539	(3,880)	(4,072)	(27,339)	74,344
Other non-current Finance assets	50,513	1,026	(80)	(2,542)	(11,105)	37,812
Impairment	(13,375)	(8,058)	-	251	3,866	(17,316)
Total non-current loans and Finance assets	*296,592*	*60,699*	*(126,594)*	*(6,962)*	*(101,693)*	*122,042*
Current loans to associates and joint ventures	15,956	3	113,185	(340)	(14,579)	114,225
Other current loans	69,998	11,741	4,399	(138)	(43,507)	42,493
Other current Finance assets	64,004	35,827	-	(1,633)	(39,602)	58,596
Impairment	(22,068)	-	-	-	12,102	(9,966)
Total current loans and Finance assets	*127,890*	*47,571*	*117,584*	*(2,111)*	*(85,586)*	*205,348*

"Loans to associates and joint ventures" include loans to associates as well as the loans granted to jointly controlled entities. CEPSA Group has given a series of loans to SinarMas – Cepsa, a joint venture established for the construction in Indonesia of a new plant for fatty alcohols treatment, within its strategy of diversifying in manufacturing and commercializing surfactants. This financing arrangement, on market terms and conditions, amounts to 92,445 thousand euros in 2018 and 126,871 thousand euros in 2017, and has maturity dates until January 2023.

As a consequence of the losses accumulated by the SinarMas Group in 2017, which exceed the interest held by the CEPSA Group, an impairment loss of the amount of 7,998 thousand euros was recognized. In 2018, the impairment has been completely reversed, once the losses no longer exceed the value of the investment. (Note 12)

In 2017 the impairment in "Loans to associates and joint ventures", linked to the loan granted to NGS was reversed.

There is no evidence of any new impairment referring any other loan.

The breakdown by maturity of the balances of "Loans to associates and joint ventures" and "Other loans" at December 31, 2018 and December 31, 2017 is as follows:

Thousands of euros

					Maturing in:	
2018	**2019**	**2020**	**2021**	**2022**	**2023**	**Over 5 years**	**Total**

2018	2019	2020	2021	2022	2023	Maturing in: Over 5 years	Total
Loans to associates and joint ventures	50,756	-	-	-	48,777	6,823	106,356
Other loans	36,553	21,210	7,473	1,813	282	12,137	79,468
Total	*87,309*	*21,210*	*7,473*	*1,813*	*49,059*	*18,960*	*185,824*

2017	2018	2019	2020	2021	2022	Maturing in: Over 5 years	Total
Loans to associates and joint ventures	114,226	27,201	-	-	-	-	141,427
Other loans	42,494	68,432	798	798	-	4,315	116,837
Total	*156,720*	*95,633*	*798*	*798*	-	*4,315*	*258,264*

The average interest rate applied by Cepsa to loans granted to related parties in 2018 and 2017 was similar to the average cost of external financing for the same type of transaction.

12. Impairment of assets

As indicated in Note 3.h, the CEPSA Group performs an impairment test on its assets and cash-generating units at the closing date of the balance sheet or whenever there are circumstances that indicate this is required. The recoverable amount of the assets is estimated in order to perform the impairment test in accordance with Note 3.h. Based on these impairment tests, the breakdown of the gross impairments recorded is as follows:

Thousands of euros

	2018		2017	
	Charges for the year	Reversal	Charges for the year	Reversal
Intangible assets (Note 8)	2,726	-	0	(5,100)
Property, plant and equipment (Note 10)	3,095	(2,803)	133,164	(6,574)
Goodwill (Note 9)	27,948	-	155,361	-
Investments accounted for using the equity method (Note 7)	-	-	-	(2,368)
Other Finance assets (Note 11)	591	(8,296)	8,058	-
Total	**34,360**	**(11,099)**	**296,583**	**(14,042)**

In 2018, it is important to note that in the case of impaired Coastal Group assets, mainly located in Thailand and Malaysia, the impairment relates to exploratory assets incorporated as a consequence of the business combinations and in Coastal Energy KMD Sdn. Bhd.

In 2017, in the case of impaired Coastal Group assets, mainly located in Thailand and Singapore, the impairment relates to exploratory assets and assets of Mopu Holding (Singapore) Pte. Ltd., incorporated as a consequence of the business combinations.

The impairments recorded are mainly due to the lower foreseen cash flows, except in the case of the reversal in other finance assets in the loans to SinarMas (note 11), once its accumulated losses do not longer exceed the equity investment.

The breakdown of impairments recorded in 2018 and 2017 is as follows:

Thousands of euros

		2018		2017	
By Geographical Area	Segment	Charges for the year	Reversal	Charges for the year	Reversal
Colombia	Exploration&Production	-	-	1,307	(9,214)
Abu Dhabi	Exploration&Production	-	-	-	(2,368)
Thailand	Exploration&Production	27,948	-	155,361	-
Singapore	Exploration&Production	-	-	128,989	-
Malaysia	Exploration&Production	2,726	-	-	-
Others locations		3,686	(11,099)	10,926	(2,460)
Total		**34,360**	**(11,099)**	**296,583**	**(14,042)**

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

13. Inventories

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

	2018	Thousands of euros 2017
Crudes	684,357	604,458
Other raw materials	136,338	131,917
Spare Parts	84,441	97,341
Finished goods	1,325,457	1,034,987
Other supplies	12,851	61,892
Impairment	(41,898)	(4,929)
Total	*2,201,546*	*1,925,666*

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 3.k, Cepsa uses the Average Unit Cost Method to measure inventories of raw materials and goods purchased for resale.

In 2018 and 2017, Cepsa recognized impairments amounting to 36,930 and 69 thousand euros on its inventories of raw materials and finished goods, respectively. These amounts are included in the consolidated statement of profit and loss under "Changes in operating allowances".

14. Trade and other receivables

The breakdown of "Trade and other receivables" in 2018 and 2017 is as follows (Note 28):

	2018			2017		Thousands of euros
	Gross amounts	Allowances for doubtful debts	Net	Gross amounts	Allowances for doubtful debts	Net
Trade receivables for sales and services	2,256,506	(134,597)	2,121,909	2,081,662	(140,330)	1,941,332
Receivable from associates and joint ventures (Note 31)	37,608	-	37,608	61,987	-	61,987
Other debtors	70,352	-	70,352	49,537	-	49,537
Public Administration	107,955	-	107,955	127,029	-	127,029
Total	*2,472,421*	*(134,597)*	*2,337,824*	*2,320,215*	*(140,330)*	*2,179,885*

The Group has entered into various financial asset transfer agreements (non-recourse factoring agreements and securitization transactions) with financial institutions. In the framework of these agreements, the Group transfers receivables denominated in euros and foreign currency to the respective financial institutions.

Debtors that may be involved in securitization or factoring transactions are now measured at fair value in accordance with IFRS 9, instead of at amortized cost in accordance with the repealed IAS 39 (see Note 11)

'Public Administration' mainly includes receivables from tax authorities.

The variation in 'Changes in operating allowances' on the statement of profit and loss only refers to trade receivables as follows:

						Thousands of euros 2018
	Balance at 01.01.18	Adjustments IFRS 9 (*)	Additions	Amounts	Other	Balance at 12.31.18
Allowances for doubtful debts	(140,330)	(6,710)	(7,915)	18,187	2,171	(134,597)
Total	*(140,330)*	*(6,710)*	*(7,915)*	*18,187*	*2,171*	*(134,597)*

					Thousands of euros 2017
	Balance at 01.01.17	Additions	Amounts	Other	Balance at 12.31.17
Allowances for doubtful debts	(147,298)	(17,479)	24,724	(277)	(140,330)
Total	*(147,298)*	*(17,479)*	*24,724*	*(277)*	*(140,330)*

(*) See note 2 IFRS 9 - Financial Instruments: Classification and Measurement

15. Cash and cash equivalents

The breakdown of "Cash and cash equivalents" relating to 2018 and 2017 is shown below:

	2018	Thousands of euros 2017
Cash in hand	8,874	11,776
Time deposits	104,906	70,000
Current accounts	133,098	463,861
Total	*246,878*	*545,637*

This caption includes cash balances, cash equivalents, bank deposits and other investments maturing within three months and which are unrestricted. (Note 3.l)

16. Equity

a) 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 (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.

b) Revaluation reserve

In 1996 Cepsa and several consolidated Group companies revalued their property, plant and equipment pursuant to Royal Decree-Law 7/1996 of June 7, and increased their equity by 58,438 thousand euros and 70,495 thousand euros, respectively. This latter figure was recognized under "Consolidated reserves" on consolidation, which is included in retained earnings.

The revaluation reserve also includes 32,498 thousand euros relating to the revaluations made in 1979 and 1981 pursuant to State Budget Law 1/1979 and State Budget Law 74/1980, which can now be transferred to unrestricted voluntary reserves.

The balance of the "Revaluation reserve, Royal Decree-Law 7/1996" account can be used, free of tax, to eliminate recorded losses and to increase capital. From January 1, 2007 (i.e. ten years after the date of the Consolidated Balance Sheet reflecting the revaluation transactions) the balance of this account can be taken to unrestricted reserves, provided that the monetary gain has been realized. The gain 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.

At December 31, 2018 the entire amount of this reserve is considered unrestricted. If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, it would be subject to tax.

c) Translation differences

The breakdown by company of the balance of "Translation differences" is as follows:

Thousands of euros

Company	2018	2017
Cepsa International, B.V.	18.701	7.903
Deten Quimica, S.A	(22.841)	(12.498)
Cepsa Chemical (Shanghai), CO., LTD	15.377	15.017
Cepsa Perú, S.A.	16.709	8.951
Cepsa Colombia, S.A.	134.134	162.245
Coastal Energy KBM Sdn.Bnd.	416.355	427.013
Cepsa ReR (Rhourde Er Rouni)	26.614	18.199
Cepsa EP Abu Dhabi, S.L.U.	116.131	-
Other companies	23.974	(12.791)
Total	*745.154*	*614.039*

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

d) Valuation adjustments on hedges

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

Thousands of euros

	Net investment hedge		Cash flow hedges		Total
2018	Gross balance	Tax effect	Gross balance	Tax effect	
Opening balance	(572,413)	143,101	(4,429)	(302)	(434,043)
Gains and losses recognised in other comprehensive income	(173,171)	43,305	(22,888)	2,663	(150,091)
Reclassification during the year to profit or loss	48,826	(12,207)	18,398	114	55,131
Closing balance	*(696,758)*	*174,199*	*(8,919)*	*2,475*	*(529,003)*

	Net investment hedge		Cash flow hedges		Total
2017	Gross balance	Tax effect	Gross balance	Tax effect	
Opening balance	(760,598)	190,148	(13,835)	3,460	(580,825)
Gains and losses recognised in other comprehensive income	188,185	(47,047)	47,929	(13,393)	175,674
Reclassification during the year to profit or loss	-	-	(38,523)	9,631	(28,892)
Closing balance	*(572,413)*	*143,101*	*(4,429)*	*(302)*	*(434,043)*

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e) Dividends

At the meeting held on September 17, 2018 an interim dividend payment of 0.71 euros per share (189,978 thousand euros) approved by the Board of Directors, was agreed upon. This distribution was based on the provisional accounting statement for June 30, 2018, relating to Compañía Española de Petróleos, S.A.U. The provisional accounting statement reflects sufficient liquidity for the distribution, prepared in accordance with the stipulations of Article 277 of the Spanish Companies Act. This dividend was exigible the following day.

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

At the meeting held on November 8, 2017, an interim dividend payment of 0.71 euros per share (189,978 thousand euros) approved by the Board of Directors, was agreed upon. This distribution was based on the provisional accounting statement for September 30, 2017, relating to Compañía Española de Petróleos, S.A.U.. The provisional accounting statement reflects sufficient liquidity for the distribution, prepared in accordance with the stipulations of Article 277 of the Spanish Companies Act. This dividend was paid on December,11 2017.

At the meeting held on March 6, 2017, a dividend payment of 0.53 euros per share (141,815 thousand euros) charged to the 2016 results, approved by the sole shareholder, was agreed upon, prepared in accordance with the stipulations of the Spanish Companies Act, approved by Royal Decree Law 1/2010. This dividend was paid the same day.

f) Non-controlling interests

The breakdown of "Non-controlling interests" at December 31, 2018 and 2017 is as follows:

Thousands of euros

			2018			2017
Non-controlling interest	Non-dominant percentage	Equity non-controlling interest	Profit (loss)	Non-dominant percentage	Equity non-controlling interest	Profit (loss)
C.M.D. Aeropuertos Canarios, S.L.	40.00%	6,778	5,445	40.00%	10,834	5,346
Deten Química, S.A.	28.56%	23,728	5,498	28.56%	23,578	4,787
Generación Eléctrica Peninsular, S.A.	30.00%	21,891	4,625	30.00%	21,878	5,631
Cepsa Quimica China & Shanghai	25.00%	14,982	1,279	25.00%	8,288	(6,068)
Coastal Energy Group	30.00%	16,051	2,200	30.00%	28,439	7,422
Cepsa Panamá	-	-	(727)	33.00%	1,135	(1,086)
Cepsa Gas Comercializadora, S.A.	30.00%	9,523	(5,309)	-	-	-
Total		*92,953*	*13,011*		*94,152*	*16,031*

During 2018 Compañía Española de Petróleos, S.A.U. acquired 35% shares in Cepsa Gas Comercializadora making up 70% of its total share capital, which is reflected in the variation in the non-controlling interests in that Company. In 2017 that company was an associated accounted for using the equity method.

During 2018 Cepsa Chemical Shanghai carried out a share capital increase, endorsed by all their shareholders, which have implied increases in non-controlling interests amounting to 13 million euros.

Also during 2018, Compañía Española de Petróleos, S.A.U. acquired 33% shares in Cepsa Panama to complete 100% of its total share capital, which is reflected in the decrease in the non-controlling interests in that Company.

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17. Financial liabilities

Except for Derivative financial liabilities (note 29), all financial liabilities relate to loans and trade receivables, at amortized cost, according to the classification of IFRS 9 and IAS 39.

The breakdown of current and non-current liabilities, for 2018 and 2017, is as follows:

Thousands of euros

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

2017	Current	Non-current	Total
Bank borrowings relating to finance leases	1,450	542	1,992
Other bank borrowings			
Variable rate	618,310	1,242,538	1,860,848
Fixed rate	-	343,533	343,533
Trade payables	2,611,403	189,713	2,801,116
Derivatives	8,031	10,252	18,283
Other Finance liabilities	19,588	41,812	61,400
Total	**3,258,782**	**1,828,390**	**5,087,172**

The breakdown by maturity of all financial liabilities at December 31, 2018 and 2017, is as follows:

Thousands of euros

						Maturing in:	
2018	2019	2020	2021	2022	2023	Remaining	Total
Bank borrowings relating to finance leases	995	246	-	-	-	-	1,241
Other bank borrowings							
Variable rate	361,321	102,007	726,014	214,534	1,091,575	431,936	2,927,387
Fixed rate	-	-	240,175	119,651	-	-	359,826
Trade payables	2,870,175	117,852	45,172	500	500	3,653	3,037,852
Derivatives	33,957	-	2,980	-	-	1,303	38,240
Other Finance liabilities	18,118	12,030	8,346	4,895	2,310	2,197	47,896
Total	**3,284,566**	**232,135**	**1,022,687**	**339,580**	**1,094,385**	**439,089**	**6,412,442**

						Maturing in:	
2017	2018	2019	2020	2021	2022	Remaining	Total
Bank borrowings relating to finance leases	1,450	530	12	-	-	-	1,992
Other bank borrowings							
Variable rate	618,310	108,008	143,848	492,017	84,029	414,636	1,860,848
Fixed rate	-	-	229,300	114,233	-	-	343,533
Trade payables	2,611,403	81,396	46,556	27,213	17,551	16,997	2,801,116
Derivatives	8,031	-	-	10,252	-	-	18,283
Other Finance liabilities	19,588	13,843	10,569	9,778	4,506	3,116	61,400
Total	**3,258,782**	**203,777**	**430,285**	**653,493**	**106,086**	**434,749**	**5,087,172**

The breakdown by currency of the bank borrowings and other financial liabilities at December 31, 2018 and 2017, is as follows:

Thousands of euros

	2018			2017		
	Finance liabilities			Finance liabilities		
	Current	Non-current	Total	Current	Non-current	Total
Euros	50,356	262,238	312,594	115,181	274,030	389,211
Dollars ($ USA)	281,335	2,436,108	2,717,443	363,854	1,103,977	1,467,831
Other foreign currencies	48,743	257,570	306,313	160,313	250,418	410,731
Total bank borrowings and other Finance liabilities	**380,434**	**2,955,916**	**3,336,350**	**639,348**	**1,628,425**	**2,267,773**

The breakdown of the bank borrowings movements for the year 2018 is as follows:

Thousand of euros

	2018	2017
Bank borrowings - Non current - at the beginning of period	1,628,425	2,415,196
Bank borrowings - Current - at the beginning of period	639,348	986,726
Total	***2,267,773***	***3,401,922***
Additions	1,674,763	113,368
Overdrafts movements	(113,771)	(3,403)
Repayments	(623,882)	(996,632)
IFRS 9 impact	(12,687)	-
Foreign exchange fluctuations	144,154	(247,482)
Bank borrowings - Non current - at the end of period	2,955,916	1,628,425
Bank borrowings - Current - at the end of period	380,434	639,348
Total	***3,336,350***	***2,267,773***

The average annual nominal interest rate on the loans in euros was 0.31% in 2018 and 0.28% in 2017, and on the foreign currency loans was 3.02% and 2.57%, mainly in U.S. Dollars and Chinese Yuan. The weighted average cost of the financing received was 2.60% in 2018 and 2.09% in 2017, included the effect of interest rate derivatives.

The Company arranged bank borrowings for which certain covenants, linked to EBITDA (Note 3.c) and net debt (as shown in Note 28, Capital management) were established. At December 31, 2018, the Company met said covenants.

At December 31, 2018 and 2017 the CEPSA Group companies had undrawn credit facilities totaling over 2,433 million euros and 1,848 million euros, respectively. In addition to these amounts available, at those dates there were "Cash and cash equivalents" balances included under "Liquid assets" in the balance sheets, amounting to 246.878 and 545,637 thousand euros in 2018 and 2017 respectively.

18. Capital Grants

The changes in 2018 and 2017 in "Capital Grants" and the related year-end balances are as follows:

Thousands of euros

2018	Balance at 01.01.18	Additions	Other changes	Retirements	Transferred to profit and loss	Balance at 12.31.18
Grants related to assets	18,720	421	4	(5)	(3,411)	15,729
Greenhouse gas emissions allowances	11.878	25,958	75	(75)	(28,985)	8,851
Total	***30,598***	***26,379***	***79***	***(80)***	***(32,396)***	***24,580***

2017	Balance at 01.01.17	Additions	Other changes	Retirements	Transferred to profit and loss	Balance at 12.31.17
Grants related to assets	19,844	12	2,409	-	(3,545)	18,720
Greenhouse gas emissions allowances	17,424	20,642	838	(375)	(26,651)	11,878
Total	***37,268***	***20,654***	***3,247***	***(375)***	***(30,196)***	***30,598***

In 2018 and 2017, grants received mainly relate to those from Regional Governments, most notably from the Andalusian Regional Government, and those received from the Central Government, namely from the Industry Ministry.

Additions to "Greenhouse gas emission allowances" include the market value of the emission allowances assigned for no consideration at the date of assignment. "Transferred to profit and loss" includes the valuation adjustment initially recognized for the amount recorded as an impairment loss on allowances received from the Government and the recognition in income of the value of the allowances assigned for CO_2 emissions made in the year (Note 8).

19. Pension and similar obligations

a) Defined contribution plans

During 2018 and 2017, Cepsa and several of its subsidiaries recognized the following expenses for defined contribution obligations:

Defined contribution plans	2018	2017
	Thousands of euros	
Retirements (pension plan)	10,668	10,896
Life insurance	6,816	6,733
Total (Note 22)	*17,484*	*17,629*

b) Defined benefit obligations

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

Defined benefit	2018	2017
	Thousands of euros	
Balance at January 1	*10,097*	*10,264*
Current service cost	2,598	1,948
Interest cost of benefit	145	145
Effect of reductions or settlements	(2,147)	(2,260)
Balance at December 31	*10,693*	*10,097*

The breakdown by nature of the defined benefit obligations at December 31, 2018 and 2017, is as follows:

Thousands of euros

2018	Balance at 01.01.18	Additions	Finance valuation adjustments	Transfers	Other	Amounts	Balance at 12.31.18
Medal Award	2,597	164	39	-	-	(61)	2,739
Company Store active employees	1,894	-	28	-	-	(3)	1,919
Company Store retired employees	2,224	-	32	-	-	(215)	2,041
La Rábida Fidelity Award	3,099	138	45	-	-	(140)	3,142
Other provisions	283	2,296	-	(82)	20	(1,665)	852
Total	*10,097*	*2,598*	*144*	*(82)*	*20*	*(2,084)*	*10,693*

2017	Balance at 01.01.17	Additions	Finance valuation adjustments	Transfers	Other	Amounts	Balance at 12.31.17
Medal Award	2,500	133	37	-	-	(73)	2,597
Company Store active employees	1,880	-	28	-	1	(15)	1,894
Company Store retired employees	2,400	-	35	-	(2)	(209)	2,224
La Rábida Fidelity Award	3,022	129	45	-	-	(97)	3,099
Other provisions	462	1,685	-	(176)	(26)	(1,662)	283
Total	*10,264*	*1,947*	*145*	*(176)*	*(27)*	*(2,056)*	*10,097*

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

Main assumptions - Company Store	2018	2017
Discount rate	1.50%	1.50%
Expected salary increase rate	0.25%	0.25%
Mortality tables	PEMF2000	PEMF2000

20. Provisions

The breakdown of the movement and the balances at 2018 and 2017, are as follows:

Thousands of euros

2018	Balance at 01.01.18	Additions	Finance valuation adjustments	Transfers	Other	Amounts	Balance at 12.31.18
Provisions for third-party liability	265,050	6,424	3,713	6,454	1,671	(38,493)	244,819
Dismantling provisions	144,154	(3,523)	6,083	-	107,593	(11,184)	243,123
Environmental provisions (Note 27)	21,524	1,430	219	-	(221)	(897)	22,055
Other provisions	84,516	20,134	2,463	(6,454)	11,841	(2,209)	110,291
Total	*515,244*	*24,465*	*12,478*	-	*120,884*	*(52,783)*	*620,288*

2017	Balance at 01.01.17	Additions	Finance valuation adjustments	Transfers	Other	Amounts	Balance at 12.31.17
Provisions for third-party liability	334,758	9,594	3,926	(20,136)	(7,196)	(55,896)	265,050
Dismantling provisions	143,295	422	6,539	-	(2,381)	(3,721)	144,154
Environmental provisions (Note 27)	21,973	1,688	384	220	-	(2,741)	21,524
Other provisions	64,694	27,540	1,678	-	(382)	(9,014)	84,516
Total	*564,720*	*39,244*	*12,527*	*(19,916)*	*(9,959)*	*(71,372)*	*515,244*

"Provisions for third-party liabilities" covers the contingencies arising from the Group companies' ordinary operations that might give rise to actual liabilities in their dealings with third parties. The main items were obligations to third parties relating to contractual undertakings and contingencies relating to lawsuits in progress. This heading includes the provision for the delimitation of the participation percentage of the partners in the Ourhoud field, amounted more than 29 million euros, as well as the provisions recorded to cover possible tax contingencies arising from assessments signed on a contested basis which amounted 140 million euros. (Note 25).

The appeals filed by the Company against the resolutions of the National Commission of Markets and Competition (CNMC) dated January and February 2015, for which Cepsa was fined 10 and 2.5 million euros, are now awaiting the voting and ruling.

"Environmental provisions" includes the Cepsa Group's best estimated of the contractual or legal obligations or commitments to prevent, reduce or repair damage to the environment by charge to professional services or repair and upkeep expenses. It also includes the estimated amounts for environmental action to remedy the risk of gradual soil pollution, the only contingency which is not covered by the contracted insurance.

"Dismantling" includes provisions for the abandonment of crude oil production fields once the recoverable reserves have been extracted. These provisions are updated with financial adjustments and discount rates have been used depending on the geographical area: Thailand 4.38%, Colombia 4.94%, Peru 4.44%, Algeria 5.38%, UEA 4.25% and Spain 4.52%. "Others" includes the incorporation of Cepsa E.P. Abu Dhabi in relation to a 20% stake in Sateh Al Razboot and Umm Lulu oil fields for 40-year concession for and amount of 89 million euros.

Cepsa management considers that the provisions recorded in the consolidated balance sheet cover adequately the risks relating to litigation, arbitration proceedings and other transactions described in this Note and, accordingly, they do not expect any liabilities additional to those already disclosed.

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

The breakdown of the balances of "Other non-current liabilities" and "Trade and other payables" in 2018 and 2017 is as follows:

Thousands of euros

	2018		2017	
	Non-current	Current	Non-current	Current
Trade payables	-	2,323,859	-	2,022,595
Payable to associates and joint ventures (Note 31)	2	36,062	2	83,497
Guarantees/deposits received	5,198	3,595	5,108	4,565
Other non-trade payables	166,760	465,410	194,855	456,912
Public Administration	-	257,691	-	354,380
Provisions	-	75,206	-	51,865
Total	*171,960*	*3,161,823*	*199,965*	*2,973,814*

"Other non-trade payables – non current" includes at December 31, 2017 mainly the future payments due the acquisition of petrol gas stations (Note 4). This caption includes at December 31, 2018 an amount of 45 million euros due the acquisition of petrol gas stations and 96 million in relation to to the entry bonus for the new facility in RKF (Algeria) of the Exploration and Production area.

"Provisions" includes at December 31, 2018 and 2017 an amount of 53,170 thousand euros and 32,320 thousand euros, respectively, relating to the obligation to deliver allowances for the CO2 emissions made, which are lower than the allowances assigned under the National Emission Allowance Assignment Plan. (Notes 3.n and 8).

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

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

	2018	2017
	Days	Days
Average period for payment to suppliers	19	17
Ratio of paid transactions	18	16
Ratio of outstanding payment transactions	31	29
	Thousands of euros	Thousands of euros
Total payments made	24,742,722	17,767,285
Total payments past-due	703,382	543,377

22. Operating income and expenses

The breakdown of operating income and expenses relating to 2018 and 2017 is as follows:

		Thousands of euros
Revenue	**2018**	**2017**
Sales of goods	21,849,432	17,951,786
Services Provided	341,932	363,097
Sales returns and volume discounts	(112,459)	(103,272)
Oil and gas exercise duties	2,632,873	2,605,162
Total	***24,711,778***	***20,816,773***

The income generated by exchanges of strategic stocks with other operators, not included in "Revenue" amounted to 1,386,970 thousand euros in 2018 and 1,009,715 thousand euros in 2017.

		Thousands of euros
Procurements	**2018**	**2017**
Purchases	(17,981,720)	(14,091,695)
Changes in inventories	57,663	251,434
Total	***(17,924,057)***	***(13,840,261)***

		Thousands of euros
Staff costs	**2018**	**2017**
Wages and salaries	(471,596)	(465,562)
Pension contributions and life insurance premiums	(17,484)	(17,629)
Other staff costs	(129,594)	(127,707)
Total	***(618,674)***	***(610,898)***

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

Workforce by professional category	Average headcount 2018	2017
Chief Executive Officer	1	1
Executives	8	8
Executives/ Department Heads	738	714
Other line personnel	3,189	3,081
Skilled employees/ Assistants/ Clerical staff	6,183	6,163
Total	***10,119***	***9,967***

At December 31, 2018 and 2017, the number of employees, by professional category and gender, is as follows:

Workforce by professional category	2018		Headcount at closing date 2017	
	Women	Men	Women	Men
Chief Executive Officer	-	1	-	1
Executives	-	8	-	8
Executives/ Department Heads	164	567	160	565
Other line personnel	1,003	2,252	928	2,149
Skilled employees/ Assistants/ Staff	2,463	3,695	2,420	3,606
Total	***3,630***	***6,523***	***3,508***	***6,329***

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

Labour force by professional category	Average headcount 2018	2017
Executives / Deparment heads	3	1
Other line personal	19	19
Skilled employees / Assistants / Clerical staff	79	84
Total	***101***	***104***

At December 31, 2018 and 2017, the breakdown of "Other operating costs" is as follows:

Other operating costs	Thousands of euros 2018	2017
Outside services received	(1,512,316)	(1,501,776)
Transport and freight	(396,367)	(347,936)
Taxes and other tax income	(72,295)	(73,594)
Environmental costs (Note 27)	(11,761)	(10,586)
Other operating costs	(78,849)	(77,052)
Total	***(2,071,588)***	***(2,010,944)***

The following should be noted in relation to "Other operating costs:"

The fees for financial audit services provided to the various companies making up the CEPSA Group and subsidiaries by the lead auditor and by other entities related to the lead auditor in 2018 and 2017 amounted to 1,601 thousand euros and 1,334 thousand euros, respectively. Of these amounts the share of audits in Spain are 1,238 and 948 thousand euros in 2018 and 2017, respectively. The audit fees charged by other auditors participating in the audit of the various Group companies totaled 103 thousand euros and 92 thousand euros, respectively.

Additionally, the fees for other assurance services provided to the various Group companies by the lead auditor and by other entities related to the lead auditor during 2018 and 2017 amounted to 1,638 thousand euros and 362 thousand euros, respectively, whereas the fees charged for such services by other auditors participating in the audit of the various Group companies totaled 114 thousand euros in 2017 while in 2018 there was no amount registered.

The breakdown of the Audit fees is as follows:

				Thousand of euros
	2018		2017	
Audit Fees	**Lead Auditor**	**Others Auditors**	**Lead Auditor**	**Others Auditors**
Financial Audit Services				
In Spain	1,238	-	948	-
Abroad	363	103	386	92
Other assurance services	525	-	120	114
Others services	1,113	-	242	-
Total	***3,239***	***103***	***1,696***	***206***

The breakdown at December 31, 2018 and 2017 of "Allocation of non-financial non-current assets and other grants" is as follows:

		Thousands of euros
Allocations allowances	**2018**	**2017**
Allocation of Greenhouse Gas allowances (Note 18)	28,985	26,651
Allocation of capital allowances	3,411	3,545
Total	***32,396***	***30,196***

In 2018 and 2017 the breakdown of impairment losses and gains or losses on the disposal of non-current assets recognized is as follows:

		Thousands of euros
Impairment and gain or losses on disposals of non-current assets	**2018**	**2017**
Impairment /reversal of Greenhouse allowances (Note 8)	(60)	2
Impairment of goodwill (Note 9)	(27,948)	(155,361)
Impairment of other non-current assets (Note 12)	(3,018)	(121,491)
Gain or losses on disposals of non-current assets	38,153	2,065
Total	***7,127***	***(274,785)***

In both 2018 and 2017, impairment losses on goodwill corresponded to the value assigned on the Coastal Group business combination.

With respect to the heading for impairment losses on non-current assets in 2017, it is worth noting those relating to investments in exploration-production assets, mainly in Singapore (Notes 12, 10 and 8). Said impairment losses resulted from adjusting the valuations of assets based on the amounts recovered from the investments through the generation of future revenue.

The caption Gains or Losses on disposals of non-current assets includes those assets sales which brought results to the group, being remarkable, in 2018, the sale of a vessel (Teide Spirit), or LPG business assets.

23. Leases

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

Operating leases

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

In 2018 lease expenses under operating lease arrangements totaled 241,031 thousand euros and in 2017 totaled 214,352 thousand euros. Contingent payments recognized in the Consolidated Statement of Profit or Loss are not significant as was the case in 2017.

The future maturities of the nominal amounts payable under operating leases as of December 31, 2018 and 2017 are as follows:

	Thousands of euros
Maturing in:	**2018**
2019	185,558
2020	143,607
2021	116,483
2022	106,514
2023	88,112
2024 and subsequent years	339,372
Total payments	***979,646***

Maturing in:	**2017**
2018	150,336
2019	120,864
2020	112,235
2021	97,437
2022	174,372
2023 and subsequent years	178,218
Total payments	***833,462***

Finance Leases

The main items of property, plant and equipment held under finance leases are computers and other technical installations (Note 10).

The future maturities of the amounts payable under finance leases at December 31, 2018 and 2017 are as follows:

	Thousands of euros
Maturing in	**2018**
2019	995
2020	251
2021	96
2022	40
2023	-
2024 and subsequent years	-
Total future payments	***1,382***
Less interest	(140)
Present value of minimum lease payments	***1,242***

Maturing in	**2017**
2018	1,450
2019	532
2020	34
2021	12
2022	-
2023 and subsequent years	-
Total future payments	***2,028***
Less interest	(36)
Present value of minimum lease payments	***1,992***

24. Financial Income and Expense

Financial income and expense for 2018 and 2017, are as follows:

Finance Income	2018	2017
		Thousands of euros
Finance income	4,163	2,810
Income from equity investments	393	988
Net exchange differences	-	108,538
Other finance income	50,427	31,690
Total	*54,983*	*144,026*

Finance cost	2018	2017
		Thousands of euros
Finance cost	(108,543)	(66,715)
Finance costs from reameasurement of provisions	(12,623)	(12,672)
Net exchange differences	(11,933)	-
Other finance cost	(41,927)	(96,252)
Total	*(175,026)*	*(175,639)*

The breakdown of the finance cost of net borrowings and other finance income and costs for 2018 and 2017, are as follows:

Finance cost of net borrowings	2018	2017
		Thousands of euros
Finance income	4,163	2,810
Finance cost	(108,543)	(66,715)
Total	*(104,380)*	*(63,905)*

Other finance income and costs	2018	2017
Income from equity investments	393	988
Gains (losses) on disposals of available for sale finance instruments	15	93
Gains (losses) on finance instruments measured at fair value (finance derivatives)	(1,218)	(85,145)
Exchange differences	(11,933)	108,538
Income and costs from commisions	(2,173)	(3,130)
Finance costs from reameasurement of provisions	(12,623)	(12,672)
Other finance income and costs	11,876	23,620
Total	*(15,663)*	*32,292*

The financial instruments impairment and their disposals gains or losses for 2018 and 2017, are as follows:

	2018	2017
		Thousands of euros
Reversal finance instruments impairment	8,495	7,569
Finance instruments disposal result	266	163
Total	*8,761*	*7,732*

25. Tax matters

Cepsa and certain Group companies file consolidated income tax returns in Spain. Table I includes a list of the main companies making up the tax group in 2018.

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

On December 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, it laid down, with effect from January 1, 2016, the obligation to reverse, within a maximum period of 5 years, the provisions for impairment of shares that would have been deductible before 2013. The offset tax loss carryforwards for large companies is also restricted to 25% of the previous tax base and limits the application of the internal or international double taxation generated or pending application to 50% of the previous total tax. Additionally, with effect from January 1, 2017, losses on the transfer of shares are not deductible. The amendment of this law has not had a significant impact on the Group.

The breakdown of the income tax expense is as follows:

Thousands of euros

In the consolidated statement of profit and loss	2018	2017
Current tax cost		
Period tax cost	252,016	325,202
Adjustments to the tax cost for the period or prior years	(11,032)	(23,284)
Deferred tax cost		
Related to the creation or reversal of temporary differences	46,804	(7,012)
Variation in temporary differences due to changes in tax rate	-	-
Total tax cost (income) recognised in the Consolidated Statement of Profit or Loss	*287,788*	*294,906*

In the consolidated statement of changes in equity	2018	2017
Deferred tax cost		
Related to the creation or reversal of temporary differences	33,875	(50,809)
Total tax cost recognised in equity	-	-
Total tax cost (income) recognised in Other Comprehensive Income (Equity)	*33,875*	*(50,809)*

The income tax expense is obtained from the accounting profit before taxes as indicated below:

Thousands of euros

	2018	2017
Accounting profit (before taxes)	*1,130,863*	*1,053,538*
25% tax rate	282,716	263,385
Difference due to different tax rates	13,622	21,816
Permanent differences	111,283	149,649
Tax credits due to impairments	-	(36,568)
Tax credits and relief applied	(108,802)	(80,092)
Adjustments to the tax cost for the period or prior years	(11,031)	(23,284)
Changes in temporary differences due to application of different tax rates	-	-
Total income tax cost/ (income)	*287,788*	*294,906*

The tax on remuneration of production activities in force in Algeria is deemed to be of the same nature as Spanish 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. The related tax accrued in 2018 and 2017 amounted to 114,492 and 114,884 thousand euros, respectively, and for both periods, under Algerian law, included the tax accrual of the tax on exceptional profits which increases as crude prices increases, and which came into force in August 2006.

The Coastal Group's activities are carried out in Thailand and are subject to two types of tax rate: the country's general tax rate of 50% and a special production tax (known as Special Remuneration Benefit - SRB) which is calculated separately for each concession held by the company and is determined based on production volumes, crude oil prices, subject to certain adjustments, such as changes in inflation, the wholesale price index, as well as the depth of drilling activities. The rate can range from 0% to 75%, which is calculated based on each year's production and includes deductions for the expenses incurred in the concessions.

The "Difference due to different tax rates" mainly includes the effect of the different tax rates to which Cepsa is subject on income obtained in the exploration and production of crude oil from the Algerian fields and attributed to its permanent establishment as well as the special production tax in Thailand (SRB). Other foreign establishments or subsidiaries have no significant influence on this rate differential.

Permanent differences are mainly due to non-deductible expenses or income not eligible from a tax point of view. Those recognized in 2017 and 2018 mainly correspond to impairment on assets, dividends, corporate income tax settled abroad which was not included in the amount used to calculate deductions to the tax base as per article 31.2 of Law 27/2014, other provision allowances, sanctions, and adjustments relating to consolidation.

The amounts included in adjustments to income tax for the current or prior tax periods, which amounted to 11,031 and 11,035 thousand euros for 2018 and 2017, respectively, include the difference between the expense accounted for in connection with corporate income tax at December 31, 2017 and 2016, and the amount corresponding to the final settlement of said years. In 2017 this same heading includes the amount relating to requests for correction of settlements relating to corporate income tax for the years 2013-2014-2015, amounting to 12,572 thousand euros of income.

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

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

Thousands of euros

Deferred tax assets and liabilities origined from tax contingencies in CEPSA Group	Balance at 01.01.18	Recognised in profit	Recognised in loss	Movements in equity	Translation difference	Transfers	Other changes	Balance at 12.31.18
Deferred tax assets								
Depreciation	65,710	325	(15,096)	-	775	(697)	35	51,052
Impairment	389,325	17,732	(45,683)	17,060	(33)	8	-	378,409
Tax loss carryforwards	65,786	257	(30,134)	-	3,092	-	482	39,483
Losses in permanent establishments	62,210	6,426	(5,089)	-	1,708	-	-	65,255
Hedging	131,787	129	(10)	33,497	-	-	-	165,403
Inventories	1,278	21	(59)	-	(2)	-	-	1,238
Provisions	35,526	9,230	(16,913)	5,277	928	(70)	-	33,978
Others	10,101	109,169	(119,976)	(1)	7	759	(59)	0
Total deferred tax assets	***761,723***	***143,289***	***(232,960)***	***55,833***	***6,475***	***0***	***458***	***734,818***
Deferred tax liabilities								
Depreciation	169,509	4,511	(33,604)		2,431	220	1	143,068
Impairment	3,757	336	-	1,596	-	-	-	5,689
Leasing	17,397	-	(5,808)	-	-	-	109	11,698
Permanent establishments	-	-	-	-	-	-	-	
Hedging	2,595	-	-	(379)	-	-	-	2,216
Inventories	967	3,286	(3,286)	-	-	-	-	967
Provisions	7,791	1,705	(3,137)	-	69	-	-	6,428
Additions for business combinations	39,534	-	(754)	-	-	-	(248)	38,532
Others	54,467	3,959	(10,076)	3,215	2,099	(220)	(118)	53,326
Total deferred tax liabilities	***296,017***	***13,797***	***(56,665)***	***4,432***	***4,599***	-	***(256)***	***261,924***

Thousands of euros

Deferred tax assets and liabilities origined from tax contingencies in CEPSA Group	Balance at 01.01.17	Recognised in profit	Recognised in loss	Movements in equity	Translation difference	Transfers	Other changes	Balance at 12.31.17
Deferred tax assets								
Depreciation	88,635	(320)	(8,545)	-	(3,690)	(10,359)	(11)	65,710
Impairment	338,138	154,755	(104,399)	-	(49)	799	81	389,325
Tax loss carryforwards	101,240	3,864	(49,647)	-	(5,156)	15,393	92	65,786
Losses in permanent establishments	79,856	7,321	(18,444)	-	(6,523)		-	62,210
Hedging	180,836	-	-	(49,049)	-	-	-	131,787
Inventories	1,328	52	(88)	-	(3)	-	(11)	1,278
Provisions	29,906	6,857	(5,932)	-	(2,182)	6,875	2	35,526
Others	74,876	84,396	(100,239)		35	(48,967)	-	10,101
Total deferred tax assets	***894,815***	***256,925***	***(287,294)***	***(49,049)***	***(17,568)***	***(36,259)***	***153***	***761,723***
Deferred tax liabilities								
Depreciation	163,521	7,772	(20,372)	-	(3,311)	21,899	-	169,509
Impairment	3,757	-		-	-	-	-	3,757
Leasing	23,278	1,409	(7,290)	-	-	-	-	17,397
Permanent establishments	-	-	-	-	-	-	-	-
Hedging	(1,433)	-	-	4,028	-	-	-	2,595
Inventories	967	1,178	(1,178)	-	-	-	-	967
Provisions	10,705	-	(1,597)	-	(1,317)	-	-	7,791
Additions for business combinations	-					-	39,533	39,533
Others	81,789	1,422	(18,727)	(2,268)	(7,748)	-	-	54,468
Total deferred tax liabilities	***282,584***	***11,781***	***(49,164)***	***1,760***	***(12,376)***	***21,899***	***39,533***	***296,017***

"Deferred tax assets" caption mainly reflects the net investment hedges in foreign companies, amounting 165 million euros, as well as the tax credit generated in connection with the losses incurred by Coastal Group subsidiaries and recognized by the parent, amounting 366 million euros, given has been decided to liquidate said companies when their reserves are depleted in the coming 3, and also the double taxation relief pending application as a consequence of the legally applicable 50% limit to the tax base.

Tax loss carryforwards pending compensation, amounting to 126,129 thousand euros, are recognized in the consolidated balance sheet as they are considered probably recoverable given the best estimates of future Group results. In 2017, tax loss carryforwards amounted to 189,581 thousand euros.

At December 31, 2018 the Group has deductions pending application of 539 thousand euros and in 2017 the amount was 11,078 thousand euros.

"Deferred Tax Liabilities" include, those relating to accelerated depreciation taken permitted under Additional Provision Eleven introduced in the Spanish Corporate Income Tax Law on accelerated depreciation, maintaining the level of employment established in Article 1.12 of Law 4/2008, of 23 December.

Various tax assessments have been signed in disagreement, including one for corporate income tax for years 2005-2008 and 2009-2012. The CEPSA Group has filed the corresponding appeals before the relevant judicial bodies. The Group has recognized provisions that fulfill the specified requirements to cover the amounts relating to said tax assessments, including late-payment interest up to 2018 year end.

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

In Colombia, years 2015, 2016, 2017 and 2018 remain open to inspection by the Colombian tax authorities. In this sense, Colombian tax authorities are performing a tax audit of the years 2015 and 2016 tax filings. As at the date of this Financial Statements, said tax audits are still in progress. Various tax assessments have been signed in disagreement within this jurisdiction including one for corporate income tax for years 2009 and 2011. Cepsa Colombia has filed the corresponding appeals before the relevant appeal courts.

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

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

Unrecognized deferred tax liabilities

The Group has not recognize deferred tax liabilities in relation to taxable temporary differences associated with investments in subsidiaries, associates and joint ventures for an amount of 186,189 thousand euros and 153,439 thousand euros at year-end 2018 and 2017 respectively.

The Group did not recognize any deferred tax assets arising from tax losses amounting to 67,894 thousand euros in 2018 and 44,233 thousand euros in 2017, given that according to its projected results, recoverability of these assets is not considered probable.

26. Earnings per share

Basic earnings per share are calculated by dividing the net consolidated profit attributable to equity holders of the parent by the number of shares outstanding during the year. The number of outstanding shares amounts to 535,149,882 in 2018 and 267,574,941 in 2017.

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

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	2018	2017
	Thousands of euros	
Consolidated profit (loss) for the year from continuing operations	***843,075***	***758,632***
Non-controlling interests	13,011	16,032
Consolidated profit (loss) attributable to the parent company	***830,064***	***742,600***
Average number of shares outstanding (thousands)	535,150	267,575
Earnings (Loss) per share		
Basic	1.55	2.78
Diluted	1.55	2.78

In September 2018 the nominal value of the shares was split, going from a nominal value of one euro to 0.5 euro per share. (Note 16)

27. Environmental matters

Information on the environmental investments for 2018 and 2017 is as follows:

Thousands of euros

Environmental Investments	Balance at 01.01.18	Additions Charges	Disposals/ Amounts used	Other changes	Balance at 12.31.18
Environmental assets	559,389	5,643	(1,492)	(340)	563,200
Accumulated depreciation environmental assets	(362,449)	(21,044)	1,228	325	(381,940)
Total	***196,940***	***(15,401)***	***(264)***	***(15)***	***181,260***

Environmental Investments	Balance at 01.01.17	Additions Charges	Disposals/ Amounts used	Other changes	Balance at 12.31.17
Environmental assets	604,256	8,077	(1,695)	(51,249)	559,389
Accumulated depreciation environmental assets	(377,074)	(24,784)	1,012	38,397	(362,449)
Total	***227,182***	***(16,707)***	***(683)***	***(12,852)***	***196,940***

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

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

Thousands of euros

Environmental Provisions	2018	2017
Opening Balance	21,524	21,973
Additions/ Charges	1,649	2,072
Disposals/ Amounts used	(897)	(2,741)
Other changes	(221)	220
Closing Balance (Note 20)	***22,055***	***21,524***

"Provision for environmental activities" includes the CEPSA Group's best estimates of the contractual or legal obligations and commitments to prevent reduce or repair damage to the environment by charge to professional services or repairs and upkeep expenses.

"Provisions for environmental contingencies and obligations" includes provisions for environmental action to remedy the risk of gradual soil pollution, the only risk not covered by the insurance policies taken out by the CEPSA Group. The amounts used in the year relate mainly to extraordinary expenses incurred in soil treatment.

Environmental costs	2018	2017
		Thousands of euros
Repair and upkeep costs	108	3,962
Transport costs	37	37
Other services	9,967	4,515
Period provision for environmental activities	1,649	2,072
Closing balance (Note 22)	*11,761*	*10,586*

28. Risk management policy

Main risks associated with the CEPSA Group's operations

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

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

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

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

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

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.

1. Credit risk

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

The carrying amount of financial assets included in the Consolidated Balance Sheets at 31 December 2018 and 2017 represents the maximum credit exposure.

The Group's credit risk on trade receivables is not significantly concentrated as it is spread out among a large number of customers and other counterparties even considering the logistic exchanges of oil products and trading operations that are soundly guaranteed and involve substantial amounts of trade receivables.

The Group also has a series of internal rules and procedures periodically updated which regulate the management of credit risk at a global level and for each business. This regulation deals with, among other aspects, the determination of commercial credit limits, the monitoring and control of the assigned credit limits, the establishment of the most adequate collection instruments, the guarantees to be requested in case of excessive or unacceptable risk, the steps to be taken in case of non-payment to collect past-due balances, etc.

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

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

1) High quality: Preferential customers, customers with high credit ratings and financial capacity, customers who have made advance payments in cash or whose payment terms are secured.

2) Medium quality: Customers of an average size who enjoy a good reputation and are economically healthy, but have a history of slow payments.

3) 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 and other debtors	1,926,308	174,991	90,749	2,192,048
Trade and other receivables with related parties (Note 14)	37,170	438	-	37,608
Public Administrations	228,859	0	-	228,859
Other Finance assets	167,473	92,470	-	259,943
Cash and cash equivalents (Note 15)	243,598	3,280	-	246,878
Total	*2,603,408*	*271,179*	*90,749*	*2,965,336*

2017

Credit quality	High quality	Medium quality	Low quality	Total
Trade receivables and other debtors	1,647,253	288,366	55,250	1,990,869
Trade and other receivables with related parties (Note 14)	61,917	70	-	61,987
Public Administrations	202,312	0	-	202,312
Other Finance assets	315,032	4,126	8,232	327,390
Cash and cash equivalents (Note 15)	540,775	4,862	-	545,637
Total	*2,767,289*	*297,424*	*63,482*	*3,128,195*

Furthermore, receivable balances are monitored on an ageing basis which helps mitigate the exposure to bad debts. The ageing analysis of Trade and other receivables that have not been impaired is as follows:

Thousands of euros

	2018	2017
Debt not past due	2,193,487	1,773,436
Debts 0-30 days past due	82,537	311,886
Debts 31-90 days past due	40,723	77,982
Debts 91-180 days past due	3,806	3,416
Debts more than 180 das past due	17,271	13,164
Total trade and other receivables	*2,337,824*	*2,179,884*

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 credit risk arising from financial debt and cash positions, the banks with which the Group operates are reputable and highly solvent leading Spanish and international institutions. Additionally, the counterparty risk in investments and financial instruments contracts is analyzed.

2. Liquidity risk

Liquidity risk refers to the ability of the CEPSA Group to obtain financing at reasonable market prices, as well as to cover the financial needs required for the proper development of its businesses.

The Group continuously monitors its financial situation, preparing short-term treasury forecasts, as well as making a long-term financial plan included both in the budget and in the strategic plan.

In this sense, the CEPSA Group has a conservative financial policy based on which it maintains amounts available in cash and other equivalent liquid assets, as well as undrawn committed credit lines, sufficient to cover debt maturities for a period of more than 24 months avoiding the need to turn to the markets to obtain new financing or the refinancing of existing lines.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

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

The tables below present an analysis on the maturities of financial liabilities at December 31, 2018 and 2017:

2018									Thousand of euros
	On Demand	**0 - 3 months**	**3 - 12 months**	**2 years**	**3 years**	**4 years**	**5 years**	**> 5 years**	**Total**
Payables									
Trade payables	-	2,571,791	173,185	-	-	-	-	-	2,744,976
Due to related parties	-	30,141	5,921	2	-	-		-	36,064
Total payables	-	*2,601,932*	*179,106*	*2*	-	-	-	-	*2,781,040*
Borrowings									
Borrowings in USD	-	23,158	345,335	102,790	966,487	321,806	1,058,531	195,939	3,014,046
Borrowings in EUR	-	6,424	45,807	32,308	31,446	34,462	14,082	166,797	331,326
Borrowings in Others	-	4,564	56,138	81,501	42,392	37,798	36.406	82.042	340.841
Total Borrowings	-	*34,146*	*447,280*	*216,599*	*1,040,325*	*394,066*	*1,109,019*	*444,778*	*3,686,213*
Liabilities arising from financial derivatives									
Total Liabilities arising from financial derivatives	-	*(5,161)*	*(28,796)*	-	*(2,980)*	-	-	*(1,303)*	*(38,240)*
Other liabilities									
Advances and deposits received	-	-	3,595	5,198	-	-	-	-	8,793
Payables to related parties	-	-	-	-	-	-	-	-	-
Other payables	-	-	-	51,974	44,888	216	216	1,740	99,034
Other liabilities	-	252,573	5,118	74,173	2,889	284	284	1,913	337,234
Total other liabilities	-	*252,573*	*8,713*	*131,345*	*47,777*	*500*	*500*	*3,653*	*445,061*
Total liquidity risk	-	***2,883,490***	***606,303***	***347,946***	***1,085,122***	***394,566***	***1,109,519***	***447,128***	***6,874,074***

2017									Thousand of euros
	On Demand	0 - 3 months	3 - 12 months	2 years	3 years	4 years	5 years	> 5 years	Total
Payables									
Trade payables	-	1,132,264	895,985	-	-	-	-	-	2,028,249
Due to related parties	-	33,042	19,866	-	-	-	-	-	52,908
Total payables	-	*1,165,306*	*915,851*	-	-	-	-	-	*2,081,157*
Borrowings									
Borrowings in USD	-	13,640	351,105	31,595	350,578	564,413	36,576	202,210	1,550,117
Borrowings in EUR	-	2,432	112,769	95,382	28,593	26,806	23,302	108,210	397,494
Borrowings in Others	-	90,136	73,432	42,652	48,058	50,500	48,269	134,153	487,200
Total Borrowings	-	*106,208*	*537,306*	*169,629*	*427,229*	*641,719*	*108,147*	*444,573*	*2,434,811*
Liabilities arising from financial derivatives									
Total Liabilities arising from financial derivatives		*(5,927)*	*(2,103)*	-	-	*(10,251)*	-	-	*(18,281)*
Other liabilities									
Advances and deposits received	-	-	11,931	5,108	-	-	-	-	17,039
Payables to related parties	-	24,882	-	-	-	-	-	-	24,882
Other payables	-	-	-	18,720	-	-	-	-	18,720
Other liabilities	-	362,504	56,930	11,960	284	284	284	-	432,246
Total other liabilities	-	*387,386*	*68,861*	*35,788*	*284*	*284*	*284*	-	*492,887*
Total liquidity risk	-	***1,652,973***	***1,519,915***	***205,417***	***427,513***	***631,752***	***108,431***	***444,573***	***4,990,574***

3. Market risk

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

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

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

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

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 foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense are denominated in a different currency from the Company's functional currency) and the translation of foreign subsidiaries, both in the consolidated result and in its equity net value.

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

At December 31, 2018 and 2017 debt in dollars was 2,717 million euros and 1,468 million euros (Note 17), representing 81% and 65% respectively of total consolidated debt. A percentage of 98% of the debt in dollars is allocated to hedging transactions, mainly to net investment hedges (2,763 million USD) and to a lesser

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extent to fair value hedges (239 million USD) and cash flow hedges (61 million USD) (Note 29 – Financial derivatives and hedge operations).

With respect to the sensitivity of the financial instruments held by the Group to the appreciation or depreciation of the U.S. dollar, the following table shows the impact on net income and equity:

Thousands of euros

Effect of fluctuations in the euro against the dollar	2018		2017	
	Impact on profit or loss after taxes	Impact on equity after taxes	Impact on profit or loss after taxes	Impact on equity after taxes
+ 0.05 USD/EUR	(10,875)	76,338	(9,069)	39,281
- 0.05 USD/EUR	11,868	(83,309)	9,847	(42,699)

b) Commodities price risk

The businesses carried on by the CEPSA Group are exposed to the evolution of certain prices of raw materials quoted in international markets, among others, the prices of oil and natural gas, the prices of petroleum and petrochemical products, the electricity prices in the pool, the price of emission allowances, etc. In this connection the Group'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 Group's consolidated 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.

The exposure to all these prices is constantly monitored, and in certain cases, the Group contracts financial derivatives with the aim of reducing their exposure to their variability. These derivatives are therefore an economic hedge of the Group's results, although they are not always considered hedges for accounting purposes. (Note 29 – Financial derivatives and hedge operations)

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

Thousands of euros

Effect of fluctuations in the crude oil	2018		2017	
	Impact on profit or loss after taxes	Impact on equity after taxes	Impact on profit or loss after taxes	Impact on equity after taxes
+10,0 %	(132)	-	(1,247)	(3,199)
-10.00%	220	-	1,247	3,199

c) Interest rate risk

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

In order to manage and mitigate this risk, the CEPSA Group, when it deems it appropriate, obtains financing at a fixed rate or contracts interest rate derivatives for hedging purposes. (Note 29 – Financial derivatives and hedge operations)

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

The sensitivity analysis excludes all fixed rates financial instruments carried at amortized cost as well as those loans at variable rate which, through transactions with derivatives, results in a similar effect to a fixed rate. Currency and commodity based derivatives have not been included in the sensitivity analysis below as they are not considered to be exposed to interest rate risk.

Thousands of euros

Effect of fluctuations in the interest rate	2018		2017	
	Impact on profit or loss after taxes	Impact on equity after taxes	Impact on profit or loss after taxes	Impact on equity after taxes
+ 50 bps	(9,242)	2,092	(6,668)	4,110
- 50 bps	8,811	(2,136)	5,940	(4,186)

Capital management

Maintaining a sound equity structure has been set as a priority objective of capital management by the CEPSA Group.

This overall objective is implemented by controlling the level of borrowings in order to address any possible changes in economic and industry-based circumstances and, above all, ensures readiness to appropriate financing which enables the Group to take on new profitable business opportunities which may act as new pillars of growth and contribute significant value for the Group.

The changes in the level of borrowings are measured by the ratio of the CEPSA Group's net borrowings to equity. The breakdown is as follows:

Thousands of euros

	2018	2017
Non-current Finance liability (Note 17)	2,955,916	1,628,425
Current Finance liability (Note 17)	380,434	639,348
Gross liability	**3,336,350**	**2,267,773**
Cash and cash equivalents (Note 15)	246,878	545,637
Net debt paid	***3,089,472***	***1,722,136***
Equity	***5,542,441***	***5,025,713***
Net debt paid/ Equity	***35.8%***	***25.5%***

Thousands of euros

	2018	2017
Net debt paid	3,089,472	1,722,136
Equity	5,542,441	5,025,713
Capital employed without discontinuing operations (Note 6)	***8,631,913***	***6,747,849***

The Group performs an analysis of this ratio on a regular basis, with leverage projections as a key to establishing an investment decision-making and dividend policy. The increase in investments this year, highlighting those in the Exploration and Production area, has led to an increase in debt of 1,367 million euros and therefore an increase in the previous ratio of 21%.

29. Financial derivatives and hedge operations

The CEPSA Group uses financial derivatives to hedge against the risks to which its activities, operations and future cash flows are exposed.

In addition, the CEPSA Group recognized other operations with derivative financial instruments in 2018 and 2017 that do not qualify for hedge accounting.

The breakdown of the notional and fair value of the Group's derivatives is as follows:

Thousands of euros

Trading derivatives	2018				2017			
	Derivatives assets (Note 11)		Derivatives liabilities (Note 17)		Derivatives assets (Note 11)		Derivatives liabilities (Note 17)	
	Notional Amount	Fair value	Notional Amount	Fair value	Notional Amount	Fair value	Notional Amount	Fair value
Exchange rate derivatives								
Cross currency swaps	-	-	174,672	(2,980)	-	-	166,764	(10,251)
USD/EUR	-	-	158,414	(951)	-	-	159,468	(2,043)
EUR/USD	-	-	-	-	7,456	95	4,817	(52)
EUR/GBP	4,571	50	-	-	3,934	3	-	-
USD/CNY	-	-	-	-	-	-	3,567	(30)
USD/JYP	7,985	7	-	-	-	-	-	-
Total	*12,556*	*57*	*333,086*	*(3,931)*	*11,390*	*98*	*334,616*	*(12,376)*
Commodity derivatives								
Swaps (crudes and products)	-	-	1,638	(222)	13,075	4,533	15,194	(2,415)
Swaps (electricity)	38,244	4,854	-	-	2,904	2	4,014	(17)
Total	*38,244*	*4,854*	*1,638*	*(222)*	*15,979*	*4,536*	*19,208*	*(2,432)*
Total trading derivatives	*50,800*	*4,911*	*334,724*	*(4,153)*	*27,369*	*4,634*	*353,824*	*(14,808)*

Thousands of euros

Hedging derivatives	2018				2017			
	Derivatives assets (Note 11)		Derivatives liabilities (Note 17)		Derivatives assets (Note 11)		Derivatives liabilities (Note 17)	
	Notional Amount	Fair value	Notional Amount	Fair value	Notional Amount	Fair value	Notional Amount	Fair value
Cash Flow hedges								
Interest rate derivatives								
Interest rate swaps	274,672	1,068	64,167	(1,303)	491,895	2,873	-	-
Exchange rate derivatives								
COP/USD	-	-	20,850	(1,578)	-	-	-	-
Options COP/USD	-	-	28,808	(923)	-	-	-	-
Commodity price derivatives								
Swaps (crude oil)	-	-	-	-	27,457	1,212	67,567	(3,475)
Swaps (natural gas)	19,279	414	5,219	(429)	-	-	-	-
Total	*293,951*	*1,482*	*119,044*	*(4,233)*	*519,352*	*4,085*	*67,567*	*(3,475)*
Net investment hedges								
Exchange rate derivatives								
EUR/USD	96,070	910	-	-	130,368	2,028	-	-
Total	*96,070*	*910*	-	-	*130,368*	*2,028*	-	-
Fair value hedges								
Exchange rate derivatives								
EUR/USD	157,205	1,809	-	-	208,455	5,614	-	-
Commodity price derivatives								
Swaps (natural gas)	227,341	24,613	223,955	(29,854)	-	-	-	-
Total	*384,546*	*26,422*	*223,955*	*(29,854)*	*208,455*	*5,614*	-	-
Total derivatives hedging	*774,567*	*28,814*	*342,999*	*(34,087)*	*858,175*	*11,727*	*67,567*	*(3,475)*

Exchange rate risk.

The types of derivative usually used to mitigate exchange rate risks are forward and swap contracts in accordance with the established risk management policy (Note 28).

Furthermore, in accordance with the Group's established exchange rate risk management policy (Note 28), the CEPSA Group has obtained borrowings denominated in US dollars to finance certain investments in said currency (Note 3.i).

Thus, at December 31, 2018 and 2017, the CEPSA Group had assigned financing for a nominal amount of 2,763 million US dollars and 1,482 million US dollars, respectively, as a hedging instrument for net investments made by the following companies: Cepsa Sea, Cepsa Colombia, Cepsa International, Cepsa Rhoude er Rouni, Cepsa Peruana, Coastal Energy KBM SDN BHD, Mopu Holding Singapore, Cepsa Algerie and Cepsa E.P. Abu Dhabi all of which use the US dollar as their functional currency. In addition, the Group also assigned exchange rate derivatives for a nominal amount of 110 million US dollars in connection with the net investment hedges at 2018 year end and 156 million US dollars at 2017 year end.

No inefficiency in the aforementioned hedges was recognized.

The table below shows the balances and movements, for 2018 and 2017, in connection with these net investment hedges included under "Adjustments for changes in value in hedge operations" in the Consolidated Balance Sheet:

	2018	2017
Opening balance	*(429,309)*	*(570,449)*
Gains or losses recognised directly in equity	(129,869)	141,140
Reclassification during the year to profit or loss	36,619	-
Closing balance	*(522,559)*	*(429,309)*

Thousands of euros

At the same date, the CEPSA Group hedged a nominal amount of 61 million US dollars in 2018 and 48 million US dollars in 2017, recognized as a cash flow hedge, the hedge item being highly probable future collections in foreign currency on finance leases and/or planned sales.

Commodity price risk.

The Group supervises its exposure to market risk via a continuous sensitivity analysis for crude oil and natural gas prices, the prices of petroleum and petrochemical products, the price of pool electricity, the price of emission rights, etc.

With a view to reducing exposure to said risks the Group contracts financial derivatives which constitute an economic hedge for its results, though not in all cases recognized as accounting hedges.

At the end of 2018 the Group maintains fair value hedges on firm commitments of purchases of natural gas due in 2019, 2020 and 2021.

During the year, the hedging positions on 50% of the expected crude oil sales for the first half of 2018 were settled. These hedging operations were open at the end of 2017. (Note 28)

Interest rate risk.

The company policy regarding interest rate risk exposure consists of managing its interest costs using both fixed and variable interest rate borrowings.

The company uses interest rate swaps in which it agrees to exchanges, at certain intervals, the difference between the amounts at fixed rates, variable rates or cross currency swaps. The company exchanges a capital and interest flow in $ USA for another capital and interest flow in EUR at a prefixed exchange rate at the maturity date.

Interest rate swaps are a part of cash flow hedges to cover variable rate embedded debt obligations. Notional value of hedged debts accounts for 339 and 491 million euros in 2018 and 2017 respectively.

The following table summarizes the maturity date of the Group's derivatives based on not-discounted contractual payments:

Thousands of euros

2018	0-3 months	3-12 months	1-3 years	>3 years	Total
Derivatives assets					
Cash flow hedging derivatives	232	1,022	-	228	1,482
Fair value hedging derivatives	6,824	19,598	-	-	26,422
Net investment hedging derivatives	910	-	-	-	910
Derivatives not designated hedge accounting	51	4,860	-	-	4,911
Total	*8,017*	*25,480*	-	*228*	*33,725*
Derivatives liabilities					
Cash flow hedging derivatives	(841)	(2,089)	-	(1,303)	(4,233)
Fair value hedging derivatives	(3,146)	(26,708)	-	-	(29,854)
Net investment hedging derivatives	-	-	-	-	-
Derivatives not designated hedge accounting	(1,173)	-	(2,980)	-	(4,153)
Total	*(5,160)*	*(28,797)*	*(2,980)*	*(1,303)*	*(38,240)*

2017	0-3 months	3-12 months	1-3 years	>3 years	Total
Derivatives assets					
Cash flow hedging derivatives	1,212	583	467	1,823	4,085
Fair value hedging derivatives	5,614	-	-	-	5,614
Net investment hedging derivatives	2,028	-	-	-	2,028
Derivatives not designated hedge accounting	2,323	2,310	-	-	4,633
Total	*11,177*	*2,893*	*467*	*1,823*	*16,360*
Derivatives liabilities					
Cash flow hedging derivatives	(3,475)	-	-	-	(3,475)
Derivatives not designated hedge accounting	(2,453)	(2,103)	-	(10,251)	(14,807)
Total	*(5,928)*	*(2,103)*	-	*(10,251)*	*(18,282)*

30. Fair Value

With respect to a comparison of the carrying amounts and fair value of the Group's financial assets and liabilities, Management considers that in all cases, except for fixed rate loans and the sub-portfolio of trade receivables subject to securitization, fair value is similar to carrying amounts.

For the fair value of the fixed rate loans, the cash flow discount rate is used. The fair value of these loans at the 2018 closing date amounts to 356.8 million euros, while their carrying amount totals 359.8 million euros (Note 14).

At December 31, 2018, the company´s own credit risk is considered insignificant.

According to IFRS 13, the Group uses the following hierarchy for determining the fair value of derivative financial instruments and available for sale portfolio:

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

Thousands of euros

2018	Total	Level 1	Level 2	Level 3
Fair value through profit or loss measurement category				
Derivative Assets				
Interest derivatives	1,069	-	1,069	-
Exchange rate derivative	2,777	-	2,777	-
Commodities derivatives	29,879	-	29,879	-
Total	***33,725***	-	***33,725***	-
Derivative Liabilities				
Interest derivatives	1,303	-	1,303	-
Exchange rate derivatives	6,432	-	6,432	-
Commodities derivatives	30,505	-	30,505	-
Total	***38,240***	-	***38,240***	-
Fair value through other comprehensive income measurement category				
Sub-portfolio of trade receivables subject to securitization	328,285	-	328,285	-
Total	***328,285***	-	***328,285***	-
Assets and liabilities for which fair values are disclosed				
Fixed rate loans	356,786	-	356,786	-
Total	***356,786***	-	***356,786***	-

2017	Total	Level 1	Level 2	Level 3
Fair value through profit or loss measurement category				
Derivative Assets				
Interest derivatives	2,873	-	2,873	-
Exchange rate derivative	7,739	-	7,739	-
Commodities derivatives	5,748	-	5,748	-
Total	***16,360***	-	***16,360***	-
Derivative Liabilities				
Interest derivatives	-	-	-	-
Exchange rate derivatives	(12,375)	-	(12,375)	-
Commodities derivatives	(5,907)	-	(5,907)	-
Total	***(18,282)***	-	***(18,282)***	-
Assets and liabilities for which fair values are disclosed				
Fixed rate loans	343,451	-	343,451	-
Total	***343,451***	-	***343,451***	-

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Interest rate swaps, foreign exchange forward contracts and commodity forward contracts are valued employing the use of market observable inputs such as exchange rates (spot and forward), interest rate curves or forward commodity price curves.

31. Related party transactions

A party is considered to be related to another party when one of the two, or several parties acting together, exercises or has the possibility to exercise control over the other party, directly, indirectly or through shareholder or equity holder agreements, or has a significant influence in the financial and operating policy decisions of the other party. The related parties comprise the sole shareholder, directors and key management personnel of the Group as well as subsidiaries, associates, joint ventures and other related parties. The terms of these operations are approved by the management of each company and are carried out in the terms agreed by the Board of Directors.

Transactions between the Company and its subsidiaries, which are related parties, were eliminated on consolidation and are not disclosed in this note.

Transactions with associates, joint ventures and other related parties

Transactions between the Group and its associates and joint ventures are disclosed below:

				Thousands of euros 12.31.2018
	Associates	Joint Ventures	Others	Total
In the Consolidated Balance Sheet				
Trade and other receivables (Note 14)	29,688	2,283	5,637	37,608
Current and non-current loans	6,454	99,498	5,144	111,096
Trade and other payables (Note 21)	20,728	9,701	5,635	36,064
Total	**56,870**	**111,482**	**16,416**	**184,768**
Consolidated Statement of Profit or Loss				
Revenue	130,364	16,031	7,290	153,685
Other operating income	(518)	347	14	(157)
Procurements	8,026	60,465	365	68,856
Other operating costs	16,266	268	21,494	38,028
Finance income	60	11,678	(1)	11,737
Finance costs	27	-	7	34
Total	**154,225**	**88,789**	**29,169**	**272,183**

				Thousands of euros 12.31.2017
	Associates	Joint Ventures	Others	Total
In the Consolidated Balance Sheet				
Trade and other receivables (Note 14)	26,811	32,353	2,823	61,987
Current and non-current loans	5,251	141,573	1,482	148,306
Trade and other payables (Note 21)	18,447	58,860	6,192	83,499
Total	**50,509**	**232,786**	**10,497**	**293,792**
Consolidated Statement of Profit or Loss				
Revenue	94,658	431,119	5,221	530,998
Other operating income	(483)	322	337	176
Procurements	8,857	231,234	100	240,191
Other operating costs	11,805	103,084	16,097	130,986
Finance income	61	12,592	2	12,655
Finance costs	23	71	242	336
Total	**114,921**	**778,422**	**21,999**	**915,342**

Transactions and balances with these entities basically relate to the Group's ordinary business operations and were carried out on an arm's-length basis.

In addition, "current and non-current loans to joint ventures" includes those granted to "SinarMas" for 92,445 thousand euros in 2018 and 126,871 thousand euros in 2017 (Note 11).

Finally, at the end of 2018, Cepsa maintains guarantees granted to Medgaz (considered a joint venture) amounting to 247,854 thousand euros which secures the loan that this company has with the European Investment Bank. At the 2017 year end the amount involved totaled 262,258 thousand euros.

Transactions with sole shareholder and entities controlled by MIC

Significant transactions performed by the CEPSA Group with its sole shareholder and entities controlled by MIC at December 31, 2018 and 2017, are as follows:

Name of significant shareholder	Cepsa Group Company	Type of relationship	Type of transaction	2018	2017
				Thousands of euros	
Cepsa Holding LLC	CEPSA	Dividends and other distributed profit	Corporate	189,978	-
Mubadala Development Company PJSC	CEPSA	Sales and others services	Commercial	1,683	-
	CEPSA	Purchases, services and sundry costs	Commercial	131	-
	CEPSA EP	Sales and others services	Commercial	259	-
International Petroleum Investment Company PJSC (IPIC)	CEPSA	Dividends and other distributed profit	Corporate	160,545	331,793
	CEPSA	Purchases, services and sundry costs	Commercial	-	3,765
	CEPSA	Sales and others services	Commercial	-	433

Significant transactions performed by the CEPSA Group with other related parties at 31 December 2018 and 2017 are as follows:

Name of significant of other related parties	Cepsa Group Company	Type of relationship	Type of transaction	2018	2017
				Thousands of euros	
Abu Dhabi National Oil Company (ADNOC)	Cepsa EP Abu Dhabi S.L.U.	Acquistion 20 percent of the new concession in Abu Dhabi	Strategic	1,368,653	-

The CEPSA Group did not perform any significant transactions with its Directors and Executives in 2018 and 2017, other than those described in note 32.

32. Remuneration and other benefits Board of Directors and Senior Executives

The remuneration accrued by the Directors of the Consolidated Group in 2018 and 2017 was as follows:

Remuneration	2018	2017
	Thousands of euros	
Wages and Salaries	843	778
Variable remuneration	2,116	1,665
Bylaws-stipulated Director emoulments	1,528	1,077
Other Items	12	15
Pension funds and plans: Contributions and obligations (Defined contribution plans)	606	556
Total	***5,105***	***4,091***

The Liability insurance arranged for Directors and Managers of the CEPSA Group was renewed on March 5, 2017 for 12 months, with a total annual net premium of 66,380 euros for the entire Group. This amount is paid by Cepsa as the policyholder and cannot be broken down by individuals, as apart from covering Board members and Managers, it also covers all those employees who make decisions on behalf of the company.

Directors who do not perform executive functions only receive "Bylaw-stipulated fees", which totaled 1,378 thousand euros in 2018.

Pursuant to Article 229 of the Spanish Companies Act in force, the Directors of the Company made the following conflict of interest disclosures:

(i) At the Board of Directors meeting held on May 11, 2018, the Directors, Mr. Abdulmunim Alkindi and Mr. Abdulla Aldhaheri, both stated that due to their positions as Executive Officers of the Abu Dhabi

National Oil Company (ADNOC), they were involved in a potential conflict of interest with regard to the joint project in progress between ADNOC and CEPSA related to a future petrochemical plant in Abu Dhabi, and therefore, both recused themselves from the deliberations and voting on this matter, which was duly recorded in the minutes of said Board meeting.

(ii) At the Board of Directors meeting held on September 17, 2018, the Directors Mr. Suhail Al Mazrouei, Mr. Musabbeh Alkaabi, Ms. Alyazia Alkuwaiti, Mr. Abdulmunim Alkindi and Mr. Abdulla Aldhaheri declared that, as Proprietary Directors, they were involved in a potential conflict of interest with regard to the MEDGAZ S.A. purchase-sale transaction between MUBADALA INVESTMENT COMPANY and CEPSA, and therefore, all five Board members recused themselves from the deliberations and voting on this matter, which was duly recorded in the minutes of said Board meeting.

With the occasion of their respective resignations tendered on November 13, 2018, the Directors, Mr. Suhail Al Mazrouei, Mr. Abdulmunim Alkindi and Mr. Abdulla Aldhaheri, stated that neither they, nor any of their related parties, were involved in any direct or indirect conflicts with the interests of the Company up until that date, with the exceplevetion of the aforementioned situations, which were duly recorded in the minutes of the relevant Board meeting.

With regard to the incumbent Directors at the date of issuance of the Financial Statements of the Company, Mr. Musabbeh Alkaabi and Ms. Alyazia Alkuwaiti, they both disclosed the aforementioned conflicts of interest in their respective letters dated February 11, 2019 and addressed to the Secretary of the Board of Directors, stating that neither they, nor any of their related parties, were involved in any other direct or indirect conflicts 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 Companies Act in force, either at year-end 2018 or at the date that these Financial Statements were drafted.

At December 31, 2018 and 2017, there were 7 members (6 men and 1 woman) on the Board of Directors, in addition to the Secretary non-board member and Deputy Secretary non-board member.

The total remuneration of Senior Executives (referring to members of the Management Committee, regardless of the type of employment contract they have) who were not simultaneously Executive Directors of the Board, in 2018 and 2017, was as follows:

		Thousands of euros
Remuneration	**2018**	**2017**
Wages and Salaries	2,743	2,720
Variable remuneration	5,072	4,711
Other Items	130	124
Pension funds and plans: Contributions and obligations	584	575
Total	***8,529***	***8,130***

In 2018 and 2017, there were 8 Senior Executives, all of whom were men.

Senior Executives receive an annual fixed and variable remuneration package. Variable remuneration is calculated as a percentage of fixed remuneration, with said percentage being conditional upon the level of achievement of the objectives established for the year. These objectives, which are subject to measurement and control systems, are determined on the basis of the earnings of the Consolidated Group, occupational safety rates, operating aspects of the business, such as the execution of projects pursuant to established criteria relating to price, quality and deadlines, and individual performance.

CEPSA

There are no loans or advances made to any Senior Executives.

33. Guarantee commitments and other contingent liabilities

At December 31, 2018 and 2017, certain Group companies had provided guarantees, mainly for bank transactions and supply contracts, the breakdown is as follows:

Thousands of euros

	2018	2017
Public entities	332,250	295,580
Suppliers/creditors and others	3,106,763	1,341,838
Total	***3,439,013***	***1,637,418***

Guarantees arranged with "Suppliers/creditors and other" relate mainly to guarantees provided by Cepsa to financial institutions for drawdowns against credit facilities granted to Group companies, as well as letters of credits to trade payables, which amounted to 1,193,087 and 441,090 thousand euros in 2018 and 2017, respectively. These amounts were recognized, by maturity, under "Bank borrowings" and "Trade and other payables" on the liability side of the Consolidated Balance Sheet.

At December 31, 2018, the Group had not pledged any financial assets as security for liabilities or contingent liabilities.

The Group has firm commitments for gas transport (ship or pay) with the jointly controlled company Medgaz. In turn, the Group has commitments to purchase natural gas.

At year-end 2018 and 2017 long-term firm commitments are as follows:

Thousands of euros

2018	2019	2020	2021	2022	2023	Subsequent years	Total
Purchase/ service commitments							
Liquid Natural Gas	383,437	386,146	345,664	265,736	265,736	2,125,888	3,772,607
Gas transport	45,472	46,382	47,309	48,256	49,221	387,460	624,100
Total purchase commitments	*428,909*	*432,528*	*392,973*	*313,992*	*314,957*	*2,513,348*	*4,396,707*

2017	2018	2019	2020	2021	2022	Subsequent years	Total
Purchase/ service commitments							
Liquid Natural Gas	302,245	296,933	276,338	264,044	253,890	2,285,008	3,678,458
Gas transport	44,581	45,472	46,382	47,309	48,256	436,680	668,680
Total purchase commitments	*346,826*	*342,405*	*322,720*	*311,353*	*302,146*	*2,721,688*	*4,347,138*

These commitments were quantified using estimates based on Brent Crude forward price curves prevailing at year-end 2017 and 2018.

34. Subsequent events

At the date of issuing of these Consolidated Financial Statements, there have been no more significant subsequent events to be mentioned in this section.

35. Explanation added for translation to English

These Consolidated Financial Statements are prepared on the basis of IFRS as endorsed by the European Union and certain accounting practices applied by the Group that conform with IFRS endorsed by the European Union and may not conform with other generally accepted accounting principles.

TABLE I

List of the main companies making up the consolidated CEPSA Group at December 31, 2018

Thousands of euros

SUBSIDIARIES

Name	Parent Company	Registered Office	Line of Business	Ownership 2018	Ownership 2017	Equity: Share Capital Subscribed	Equity: Share Capital Paid	Equity: Reserves + Net Profit	Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
CEPSA BUSINESS SERVICES, S.A.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Corporate services	100%	100%	60	60	3,385	60	G	Yes
CEPSA, S.A.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Corporate services	100%	100%	61	61	780	61	G	Yes
CEPSA INTERNATIONAL B.V.	Compañía Española de Petróleos, S.A.U.	Beurs - World Trade Centre - Office 668 Beursplein 37. 3011 AA Rotterdam. The Netherlands	Oil and gas trading	100%	100%	3,515	3,515	190,109	196,372	G	No
CEPSA TREASURY, S.A.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	-	60	60	731	60	G	Yes
CEPSA ALGERIE, S.L.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	-	27	27	186,134	188,292	G	Yes
CEC SERVICES (THAILAND) LTD	Mopu Holdings (Singapore) Pte Ltd	Unit 1601 - 1604, 388 Exchange Tower, Sukhumvit Rd., Klongtoey 10110 Bangkok. Tailandia	Research and exploration	100%	100%	23	23	665	171	G	No
CEPSA (RHOURDE EL ROUNI) LIMITED	Compañía Española de Petróleos, S.A.U.	2nd Floor, Midtown Plaza P.O. Box 448. KY1-1106 Grand Cayman. Cayman Islands (***)	Research and exploration	100%	100%	100,791	100,791	68,658	156,033	G	Yes
CEPSA COLOMBIA, S.A.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	24,109	24,109	63,081	254,057	G	Yes
CEPSA E.P., S.A.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	7,679	7,679	2,203	9,643	G	Yes
CEPSA EP ASIA, S.L.U.	Cepsa Sea, S.L.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	100	100	(200,941)	(252,522)	G	Yes
CEPSA EP ESPAÑA, S.L.U.	Cepsa E.P., Sociedad Anónima	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	100	100	(286)	4,596	G	No
CEPSA EP ABU DHABI, S.L.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	-	3	3	1,370,887	1,484,719	G	Yes
CEPSA OLEO E GAS DO BRASIL, LTDA.	Compañía Española de Petróleos, S.A.U.	Rua do Carmo, nº 43 9º andar. - Rio de Janeiro. Brasil	Research and exploration	100%	100%	48,262	48,262	(32,386)	7,144	G	No
CEPSA PERU, S.A.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	60	60	98,778	99,217	G	Yes
CEPSA PERUANA, S.A.C.	Cepsa Perú, S.A.U.	Av Ricardo Rivera Navarrete, 501 27 San Isisdro-Lima. Perú	Research and exploration	100%	100%	166,868	166,868	(54,127)	111,696	G	No
CEPSA SEA, S.L.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	19	19	(270,592)	109,766	G	Yes
CEPSA SURINAME, S.L.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Research and exploration	100%	100%	23,706	23,706	7,805	34,661	G	Yes
COASTAL ENERGY COMPANY	Cepsa EP Asia	Cricket Square, Hutchins Drive PO Box 2681. KY1 - 1111 Grand Cayman. Islas Caiman (***)	Research and exploration	100%	100%	37	37	(190,343)	(200,925)	G	Yes
CEC INTERNATIONAL LTD	Coastal Energy Company	Cricket Square, Hutchins Drive PO Box 2681. KY1 - 1111 Grand Cayman. Islas Caiman (***)	Research and exploration	100%	100%	1	1	(204,554)	(199,149)	G	Yes
COASTAL ENERGY KBM SDN BHD	Compañía Española de Petróleos, S.A.U.	Level 23, Etiga Twins, 11 Jalan. - Pinangm KL. Malasia	Research and exploration	70%	70%	4,926	4,926	56,145	51,137	G	No
COASTAL ENERGY MALASYA SDN BHD	Compañía Española de Petróleos, S.A.U.	Level 23, Etiga Twins, 11 Jalan. - Pinangm. Malasia	Research and exploration	100%	100%	-	-	1,791	9,843	G	No
MOPU HOLDINGS (SINGAPORE) PTE LTD	Compañía Española de Petróleos, S.A.U.	6, Temasek Boulevard #38-01 Suntec Tower Four 038986 - Singapore	Research and exploration	100%	100%	56,345	56,345	35,937	183,005	G	No
NUCOASTAL (THAILAND) LIMITED	Coastal Energy Company	Unit nos 3901 - 3904, 39th. Floor. Exchange Tower, 388 Sukhumvit Rd. Klongtoey. - Bangkok. Tailandia	Research and exploration	100%	100%	1,730	1,730	(33,738)	(5,304)	G	No
OCEAN 66 LTD	Coastal Energy Company	Codan (Mauritius) Limited, Level 3, Tower 1 Nexteracom Tower Cybercity. - Ebene. Rep. Mauricio	Research and exploration	100%	100%	2	2	11,156	8,636	G	No

(*) G = Fully consolidated; E = Equity method Consolidation

(**) Book value in individual accounts

(***) Companies fiscally domiciled in Spain

Thousands of euros

SUBSIDIARIES

Name	Parent Company	Registered Office	Line of Business	Ownership 2018	Ownership 2017	Equity: Share Capital Subscribed	Equity: Share Capital Paid	Equity: Reserves + Net Profit	Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
CEPSA GAS COMERCIALIZADORA, S.A	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Gas distribution	70%	35%	3,060	3,060	11,411	14,161	G	No
CEPSA GAS Y ELECTRICIDAD, S.A.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Electricy distribution	100%	100%	12,330	12,330	87,263	55,621	G	Yes
GENERACIÓN ELÉCTRICA PENINSULAR, S.A.	Cepsa Gas y Electricidad, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Cogeneration	70%	70%	32,000	32,000	56,894	22,400	G	No
SERVICIOS ENERGETICOS DE ALTA EFICIENCIA, S.A.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Electricy sales	100%	100%	100	100	3,720	2,408	G	Yes
SURESA RETAMA, S.L.U.	Cepsa Gas y Electricidad, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Wind generation	100%	100%	605	605	12,365	17,082	G	No
CEPSA CHEMICAL (SHANGHAI), CO., LTD	Cepsa Química China, SA	Nº 159 Pu Gong Rd., Shanghai Chemical Industrial Park. - Shanghai. China	Manufacturing, Commercialization of phenol, acetone and related products	75%	75%	231,337	231,337	(189,687)	65,332	G	No
CEPSA CHIMIE BÉCANCOUR, INC	Cepsa Química, S.A.	5250 Boulevard Becancour. G9H 3X3 Becancour. QUEBEC. Canadá	Commercialization of petrochemical products	100%	100%	30,670	30,670	16,186	15,561	G	No
CEPSA ITALIA, S.p.A.	Cepsa Química, S.A.	Viale Milanofiori Palazzo A/6. 20090 Assago- MILAN. Italia	Commercialization of petrochemical products	100%	100%	6,000	6,000	5,587	9,737	G	No
CEPSA QUIMICA CHINA, S.A.	Cepsa Química, S.A.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Shareholder	75%	75%	12,830	12,830	53,055	48,744	G	Yes
CEPSA QUÍMICA, S.A.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Production and sale of petrochemicals	100%	100%	60	60	775,078	80,192	G	Yes
CEPSA UK, LTD	Cepsa Química, S.A.	Audrey House 16 - 20 Ely Place. EC1N 6SN London. Reino Unido	Commercialization of petrochemicals	100%	100%	3,337	3,337	8,208	10,532	G	No
DETEN QUIMICA, S.A.	Petresa Participaçoes, LTDA	Rua Hidrogenio 1744 Complejo Industrial. 42810-010 Camaçari Bahía. Brasil. Brasil	Production and sale of petrochemicals	71%	71%	61,333	61,333	62,580	152,959	G	No

(*) G = Fully consolidated; E = Equity method Consolidation

(**) Book value in individual accounts

Thousands of euros

SUBSIDIARIES

Name	Parent Company	Registered Office	Line of Business	Ownership 2018	Ownership 2017	Equity: Share Capital Subscribed	Equity: Share Capital Paid	Equity: Reserves + Net Profit	Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
ATLAS, S.A. COMBUSTIBLES Y LUBRIFICANTES	Compañía Española de Petróleos, S.A.U.	C/ Playa Benitez, s/n. 51004 Ceuta. España	Oil and gas trading	100%	100%	3,930	3,930	11,165	4,077	G	Yes
C.M.D. AEROPUERTOS CANARIOS, S.L.	Compañía Española de Petróleos, S.A.U.	Polígono Industrial Valle de Güimar. Manzana XIV, parcelas 17 y 18. 38509 Güimar - Santa Cruz de Tenerife. España	Jet fuel distribution	60%	60%	21,576	21,576	7,790	12,946	G	No
CEDIPSA, CIA. ESPAÑOLA DISTRIBUIDORA DE PETROLEOS, S.A.	Cepsa Comercial Petróleo. S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Sales in service station	100%	100%	8,114	8,114	27,901	10,059	G	Yes
CEPSA AVIACIÓN, S.A.	Compañía Española de Petróleos, S.A.U.	[illegible] Zona ind. Aeropuerto Tenerife Norte Los Rodeos. 38206 [illegible]	Oil and gas transport	100%	100%	954	954	24,497	956	G	Yes
CEPSA BIOENERGIA SAN ROQUE, S.L.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	100%	3,003	3,003	8,128	8,003	G	Yes
CEPSA CARD, S.A.U.	Cepsa Comercial Petróleo. S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Group Cards management	100%	100%	60	60	(204)	60	G	Yes
CEPSA COMERCIAL PETRÓLEO, S.A.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Petrol station administration	100%	100%	82,043	82,043	658,320	219,373	G	Yes
CEPSA DISCO, S.L.U.	Cepsa Comercial Petróleo, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	100%	12	12	188,549	182,379	G	Yes
CEPSA MARINE FUELS, DMCC	Compañía Española de Petróleos, S.A.U.	Office 3201 / 32nd floor Platinum Tower. Juemeirah Lake Tower. - Dubai. EAU	Commercialization of oil products (outside EAU)	100%	100%	406	406	2,413	-	G	No
CEPSA PANAMA. S.A.	Compañía Española de Petróleos, S.A.U.	PH Albrook Office, 5 floor, Desk 17. Albrook, Ciudad de Panamá. - República del Panamá. -	Supply oil products to vessels	100%	67%	1,227	1,227	22,152	20,873	G	No
CEPSA PORTUGUESA PETROLEOS, S.A.	Compañía Española de Petróleos, S.A.U.	Avda. Columbano Bordalo Pinheiro, 108-3º B. 1070-067 Lisboa. Portugal	Oil and gas trading	100%	100%	30,000	30,000	59,718	65,957	G	No
CEPSA TRADING, S.A.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	100%	60	60	(77)	60	G	Yes
PETRÓLEOS DE CANARIAS, S.A. (PETROCAN)	Compañía Española de Petróleos, S.A.U.	Explanada de Tomás Quevedo, s/n. 35008 Las Palmas de Gran Canarias (GRAN CANARIA). España	Bunkering services	100%	100%	120	120	33,885	10,543	G	Yes
PROPEL-PRODUTOS DE PETROLEO, L.D.A.	Cepsa Portuguesa, S.A.	Avda. Columbano Bordalo Pinheiro, 108-3º. 1070-067 LISBOA. Portugal	Supply point management services	93%	93%	224	224	1,127	1,380	G	No
PROPEL-PRODUTOS DE PETROLEO, L.D.A.	Compañía Española de Petróleos, S.A.U.	Avda. Columbano Bordalo Pinheiro, 108-3º. 1070-067 LISBOA. Portugal	Supply point management services	100%	100%	300	300	35,332	39,705	G	No
RED ESPAÑOLA DE SERVICIOS, S.A.U. (RESSA)	Cepsa Comercial Petróleo. S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Group Card management	100%	100%	1,000	1,000	4,007	1,300	G	Yes
SPANISH INTOPLANE SERVICES, S.L.U.	Compañía Española de Petróleos, S.A.U.	Paseo de la Castellana, 259 A. 28046 Madrid. España	Oil and gas trading	100%	100%	1,000	1,000	4,007	1,300	G	Yes

(*) G = Fully Consolidation ; E = Equity method Consolidation

(**) Book value in individual accounts

Thousands of euros

JOINTLY CONTROLLED ENTITIES

Name	Parent Company	Registered Office	Line of Business	Ownership 2018	Ownership 2017	Equity: Share Capital Subscribed	Equity: Share Capital Paid	Equity: Reserves + Net Profit	Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
MEDGAZ, S.A	Compañía Española de Petróleos, S.A.U.	Muelle de Poniente, s/n 04002 Almería. España	Pipeline construction for gas transportation between Algeria and Europe	42%	42%	30,000	30,000	21,546	139,854	E	No
NUEVA GENERADORA DEL SUR, S.A	Compañía Española de Petróleos, S.A.U.	Avda. San Luis, nº 77 Edificio C 4ª planta 28033 Madrid. España	Power cogeneration	50%	50%	2,290	2,290	82,580	21,535	E	No
SINARMAS CEPSA PTE, LTD	Cepsa Química, S.A	108 Pasir Panjang Road - Golden Agri Plaza 118535 Singapore. -	Sulphonation and sulfation of LAB and fatty alcohols.	50%	50%	46,551	46,551	(9,980)	65,213	E	No
ASFALTOS ESPAÑOLES, S.A. (ASESA)	Compañía Española de Petróleos, S.A.U.	C/ Titán, 8 4ª Planta 28045 Madrid. España	Oil Refining to obtain asphalt products	50%	50%	8,529	8,529	24,072	17,869	E	No

(*) G = Fully consolidated; E = Equity method Consolidation

(**) Book value in individual accounts

Thousands of euros

ASSOCIATES

Name	Parent Company	Registered Office	Line of Business	Ownership 2018	Ownership 2017	Equity: Share Capital Subscribed	Equity: Share Capital Paid	Equity: Reserves + Net Profit	Net Cost of Investment (**)	Consolidation Method (*)	Fiscal Group
ABU DHABI OIL, CO, LTD (ADOC)	Cosmo Abu Dhabi Energy E&P Co., Ltd	1-1 Shibaura 1 - Chome, Minato - Ku - Tokyo. Japan	Research and exploration	12.88%	12.88%	92,987	69,476	641,451	598	E	No
COSMO ABU DHABI ENERGY E&P Co. Ltd	Cepsa International, B.V.	Hamamatsucho BLDG., 1-1-1 Shibaura, Minato-Ku - Tokyo. Japan	Research and exploration	20%	20%	28	28	(37,205)	136,985	E	No
COASTAL ENERGY COMPANY (KHORAT) LTD (Apico)	Coastal Energy Company (Khorat), Ltd	Suite 14-08 Empire Tower, 1 South Sathorn Road, Yannawa 10120 Bangkok. Thailand (***)	Research and exploration	39%	39%	42,289	42,289	(28,121)	38,346	E	No
COASTAL ENERGY COMPANY (KHORAT) LTD	Coastal Energy Company	Cricket Square, Hutchins Drive PO Box 2681. KY1 - 1111 Grand Cayman. Islas Caiman (***)	Research and exploration	39%	39%	46	46	63,506	41,621	E	Yes
SIL CHEMICAL, LTD	CS Chemical, Ltd	161 A. Raufu Taylor Close Victoria Island. - Lagos Nigeria	Production and sale of Lab-Las	30%	30%	116	116	86,318	84,882	E	No
CEPSA GIBRALTAR, LTD	Cepsa Internacional, B.V	Europort Building 7 2nd Floor (P.O. Box 51). - - Gibraltar	Oil and gas trading	50%	50%	71	71	18,157	25	E	No

(*) G = Fully consolidated; E = Equity method Consolidation

(**) Book value in individual accounts

(***) Companies fiscally domiciled in Spain

CEPSA

Table Joint Operations (TABLE II)
Main assets and operations under joint control in the consolidated CEPSA Group at December 31, 2018:

Thousands of euros

List of all joint operations	Country	Operator	Nature of activities	% Ownership 2018	% Ownership 2017	Revenue 2018	Revenue 2017	Profit before tax 2018	Profit before tax 2017	Net profit 2018	Net profit 2017	Total Assets 2018	Total Assets 2017	Total Liabilities 2018	Total Liabilities 2017
RKF	Algeria	Cepsa	Exploration and Production	-	100.00%	0	0	0	0	0	0	0	0	0	0
RKF	Algeria	Cepsa Algerie, S.L.	Exploration and Production	49.00%	-	0	0	6,707	0	593	0	129,892	0	115,234	0
Ourhoud	Algeria	Sonatrach	Exploration and Production	37.13%	39.76%	453,584	324,677	259,988	237,537	178,161	138,347	88,037	111,990	0	0
Timimoun	Algeria	Sonatrach / TEPA/ Cepsa	Exploration and Production	-	11.25%	0	0	0	0	0	0	0	157,493	0	0
Timimoun	Algeria	Sonatrach / TEPA/ Cepsa Al	Exploration and Production	11.25%	-	9,036	0	(670)	0	(1,498)	0	186,672	0	209,353	0
Rhourde Rouni II	Algeria	Cepsa	Exploration	100.00%	100.00%	0	0	(694)	(442)	(694)	(442)	0	19,520	0	0
Tiple	Colombia	Cepsa Colombia, S.A.	Exploration and LTT	70.00%	70.00%	519	0	(660)	858	(660)	858	123	75	1,573	819
Garibay	Colombia	Cepsa Colombia, S.A.	Exploration and LTT	50.00%	50.00%	3,399	0	1,149	442	1,149	442	646	125	264	441
Jilguero	Colombia	Cepsa Colombia, S.A.	Exploration and Production	57.86%	57.86%	6,071	8,235	6,993	(1,637)	6,993	(1,637)	580	2,481	2,550	1,679
Puntero (Manatus)	Colombia	Cepsa Colombia, S.A.	Exploration and Production	70.00%	70.00%	3,092	3,109	743	1,268	743	1,268	4,276	3,717	2,917	2,456
Puntero-Onca	Colombia	Cepsa Colombia, S.A.	Exploration and Production	100.00%	100.00%	0	0	(101)	(3,207)	(101)	(3,207)	0	0	0	0
Merecure	Colombia	Cepsa Colombia, S.A.	Exploration	70.00%	70.00%	0	0	(523)	(6,227)	(523)	(6,227)	1,362	9	0	650
El Portón	Colombia	Cepsa Colombia, S.A.	Exploration	50.00%	50.00%	0	0	0	0	0	0	0	0	82	0
Llanos 22	Colombia	Cepsa Colombia, S.A.	Exploration and Production	55.00%	55.00%	24,267	13,449	15,041	8,044	15,041	8,044	3,870	7,340	1,681	1,345
Balay	Colombia	PETROBRAS	Exploration and LTT	30.00%	30.00%	0	0	(304)	251	(304)	251	166	158	1,597	1,164
Cpo 14	Colombia	Meta Petroleum	Exploration	100.00%	37.50%	0	0	(899)	(174)	(899)	(174)	0	0	0	0
Cpo 12	Colombia	Meta Petroleum	Exploration	42.80%	42.80%	0	0	(46)	(100)	(46)	(100)	0	0	0	0
Río Paez (La Cañada Norte)	Colombia	HOCOL	Exploration and Production	16.67%	16.67%	3,517	3,933	796	1,776	796	1,776	4,248	7,489	446	388
San Jacinto	Colombia	HOCOL	Exploration	16.67%	16.67%	0	0	0	0	0	0	0	0	0	0
PPN	Colombia	GRAN TIERRA	Exploration	30.00%	30.00%	0	0	(50)	(34)	(50)	(34)	0	0	0	0
CPE-3	Colombia	Cepsa Colombia, S.A.	Exploration	0.00%	50.00%	0	0	0	0	0	0	0	0	0	0
Caracara	Colombia	Cepsa Colombia, S.A.	Exploration and Production	70.00%	70.00%	160,286	133,865	65,587	37,352	65,587	37,352	150,867	181,309	26,971	30,383
CPR Espinal	Colombia	PETROBRAS	Exploration and Production	16.67%	16.67%	0	0	(5,922)	1,469	(5,922)	1,469	0	0	218	208
Block 127	Peru	Cepsa Peruana S.A.C.	Exploration	80.00%	80.00%	0	0	0	0	0	0	0	0	0	0
Block 114	Peru	Cepsa Peruana S.A.C.	Exploration	60.00%	60.00%	0	0	0	0	0	0	0	0	0	0
Block 131	Peru	Cepsa Peruana S.A.C.	Exploration and Production	100.00%	100.00%	55,964	44,463	20,235	17,867	(9,315)	1,291	111,209	104,299	8,177	5,875
Block 130	Peru	Cepsa Peruana S.A.C.	Exploration	100.00%	100.00%	0	0	0	0	0	0	0	0	0	0
BMS	Algeria	Hess ReR	Exploration and Production	75.00%	45.00%	87,640	43,052	31,178	1,418	26,318	1,063	246,808	182,898	246,808	224,271
Rodaballo	Spain	Repsol	Exploration and Production	15.00%	15.00%	221	714	0	0	0	0	255	212	1,067	882
Casablanca	Spain	Repsol	Exploration and Production	7.40%	7.40%	889	799	0	0	0	0	3,015	2,509	14,774	12,964
Montanazo	Spain	Repsol	Exploration and Production	7.25%	7.25%	689	682	0	0	0	0	(635)	(967)	519	455
Boquerón	Spain	Repsol	Exploration and Production	4.50%	4.50%	437	535	0	0	0	0	(583)	680	97	85
Block CE-M-717	Brazil	Premier Oil	Exploration	50.00%	50.00%	0	0	(1,321)	(3,179)	(991)	(2,385)	13,727	7,125	7,653	7,146
Block CE-M-665	Brazil	Premier Oil	Exploration	50.00%	50.00%	0	0	(233)	(1,072)	(175)	(804)	2,548	7,168	8,652	7,146

CONSOLIDATED MANAGEMENT REPORT

CEPSA GROUP

For the year ended December 31, 2018

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Presentation of non-financial information

In compliance with article 49 of the Commerce Code, in the Annual and Corporate Responsibility Report, which is attached to this Consolidated Management Report, the Statement of Non-financial information for the year 2018 is presented. The Statement of Non-financial information included in the Annual and Corporate Responsibility Report forms an integrating part of the Consolidated Management Report and is subject to the same formulation, approval, deposit and publication criteria as the Consolidated Management Report.

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 represent 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 the Cepsa Group 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 Group we perform our activities in many countries via the following business segments:

Exploration and Production

This business area includes the 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, we acquired a 20% interest for 40 years in a concession with two large oil fields in 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 in 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 price 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 Group, 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 23.5 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 been reduced to more moderate levels in comparison 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 the Cepsa Group we strive to enter new energy markets with high growth potential to complement our integrated model, as in the case of renewable energies. In this context, we have acquired the rights to develop a wind farm which will be located in the province of Cadiz.

Marketing

In the Cepsa Group we pursue commercial oil and gas activities via three sales channels: we boast a wide network of service stations (around 1,800 service centers) in Spain, Portugal, 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 that 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. 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 several universities.

CEPSA

c. Cepsa in figures

Results (million of euros)	2018	2017	Restated 2016
Revenue (excise tax oil and gas excluding)	22,079	18,212	15,455
Adjusted Operating Profit (Losses)	1,087	1,202	835
IFRS Net attributable profit (*)	830	743	602
Adjusted Net attributable profit	754	884	553

Financial data (million of euros)	2018	2017	2016
Share capital	268	268	268
Equity attributable to the Parent Company	5,436	4,916	4,572
Net financial debt	3,089	1,722	2,109
Investments during the year	2,255	888	579
Investments in social actions	5.2	4.5	4.5
Dividends distributed by Cepsa	351	332	332

Markets and business data (million of euros)	2018	2017	2016
Brent crude oil price ($/barrel)	71	54	44
Crude oil output (working interest) (thousand barrels/day)	83	92	97
Craking refining margin ($/barrel)	6	7	6
Hydroskimming refining margin ($/barrel)	1	2	1
Electricity pool price (€/MWh)	57.3	52.2	39.6
Electricity output (GWh)	2,242	2,809	2,140
Natural gas sales (GWh)	30,003	27,972	28,409
Natural gas price (Henry Hub Spot €/MWh)	11.8	9.2	7.6
Exchange rate (€/$)	1.181	1.130	1.107
Three-month Euribor (%)	(0.322)	(0.329)	(0.291)

Non-financial reporting	2018	2017	2016
Number of employees	10,153	9,837	9,823
Female workers (%)	35.8%	35.7%	35.4%
Employees with permanent contract (%)	88.8%	91.0%	92.0%
Hours of training	273,515	208,562	237,728
Number of occupational accidents resulting in Leave (1)	16	25	34
Local contracting (2) (%)	45	50	55
GHG emissions (3) (Scope 1 y 2) (thousands of tCO2Eeq)	7,263	7,241	7,105
Total energy consumed (3) (thousand of GJ)	92,129	93,760	88,760
Water collected volume (3) (thousand of m3)	71,005	53,590	34,223
Volume of waste water (3) (thousand of m3)	62,493	44,905	19,398
Raw materials consumption (3) (thousands of tonnes)	124,602	34,601	27,771
Total waste managed (3) (tonnes)	90,578	64,830	51,461

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d. Corporate governance

Cepsa believes effective and robust corporate governance plays a critical role in ensuring its success in the markets where it operates and the achievement of its strategic objectives, and serves as a springboard for long-term sustainable growth and value creation. The Company's governance framework adheres to the recommendations set out in the new Code of Governance of Listed Companies in Spain, insofar as applicable; the legal and regulatory requirements for corporations; and best international governance standards and practices.

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 four-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:

Mr. Musabbeh Helal Musabbeh Ali Alkaabi
Chairman

Mr. Pedro Miró Roig
Managing Director and Vice-chairman

Ms. Alyazia Ali Saleh Ahmed Alkuwaiti
Director

Mr. Ángel Corcostegui Guraya
Director

Mr. Saeed Mohamed Hamad Fares Almazrouei
Director

Mr. Ahmed Saeed Mohamed Alcalily Alameri
Director

Mr. Bakheet Saeed Bakheet Salem Alkatheeri
Director

Mr. Ignacio Pinilla Rodríguez
Company Secretary

Mr. José Tellez Menchén
Company Vice Secretary

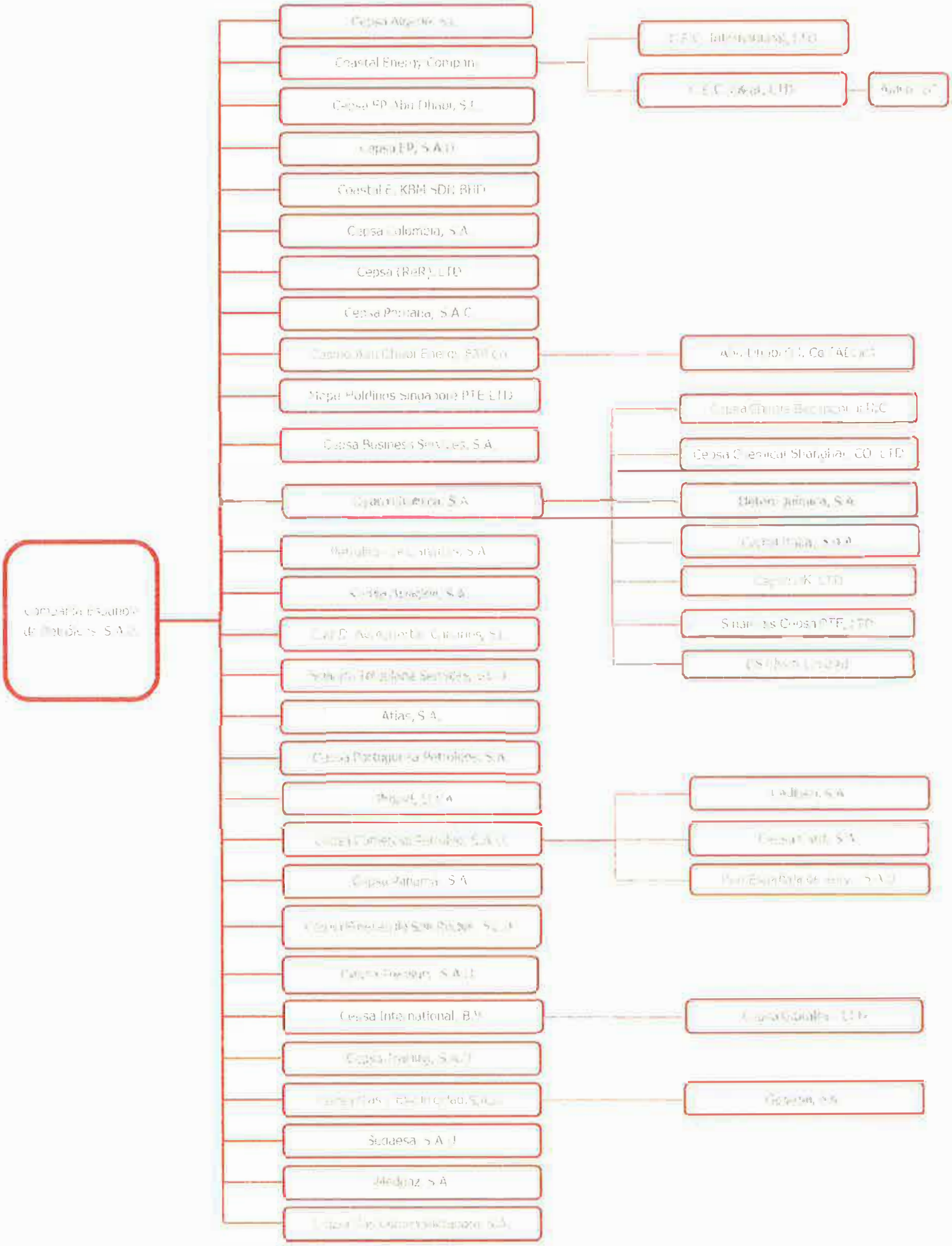
The two Board Committees have the following duties and responsibilities

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.

e. Group companies and business lines

The main entities comprising the Cepsa Group are shown below:



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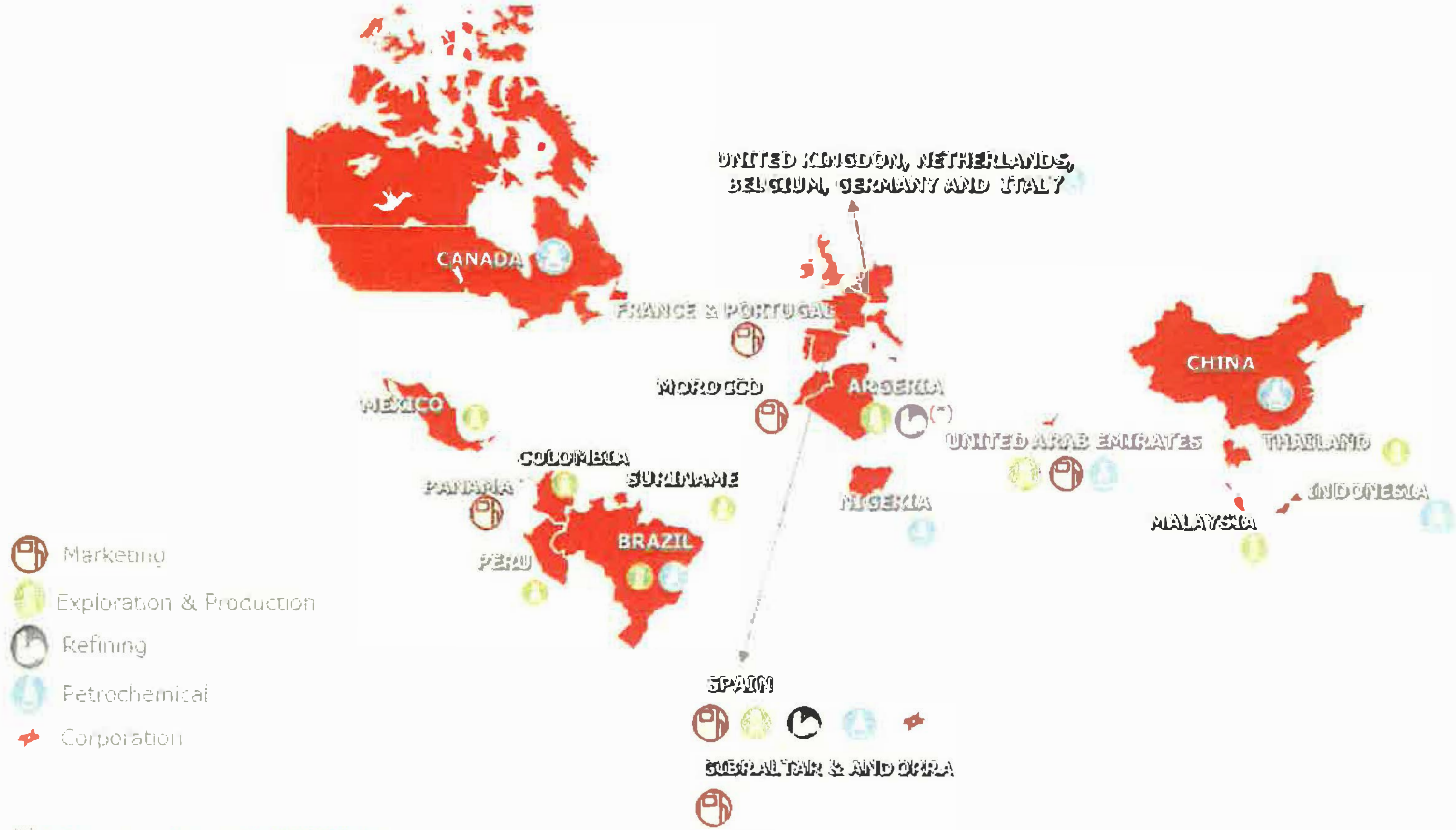
And a world map showing where we operate:



(*) Refining segment: Corresponds to MEDGAZ Pipeline

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

f. 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 that every reality needs, our Vision of being a global energy company of choice, and our Values. Cepsa's 2030 strategy is based on three basic pillars:

1. An exhaustive analysis of the energy outlook until 2030 based on projected demand set out in our Cepsa Energy Outlook 2030 report.

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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 financial results 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.

g. 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 satisfaction of the customer, adapting the energy solutions to their needs.

Vision

We are an integrated energy company, technically excellent, modern, innovative, and with adaptive capacity. The Cepsa Group is considered as a reference group 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

The Cepsa Group 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 persons comprising the Group to follow said Code.

The Cepsa Group 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 Group'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

The International Monetary Fund in its "World Economic Outlook" report of December 2018, projects a 3.5 growth of the world economy for the year 2019 and 3.6% for 2020. The international organizations agree that Global growth is entering a period of deceleration and the latest estimates have been revising these projections downward owning both to the increase in trade tensions and by a certain tightening in global financial conditions.

In the euro area, the more moderate growth phase that has been observed since the beginning of the year continued into the second half of the year due to a loss of momentum in exports to the rest of the world and the effect of various political uncertainties (like the budgetary tensions in Italy or the way in which the exit of the United Kingdom from the European Union will finally take place).

As for the Spanish economy, it has continued to show a strong momentum in 2018, supported by a favorable global outlook and the persistence of favorable financing conditions, with a growth forecast of 2.2% of GDP for 2019 and 1.9% in 2020 according to the Bank of Spain. These projections are somewhat lower than those reported in previous quarters due to a slowdown in both consumption and exports.

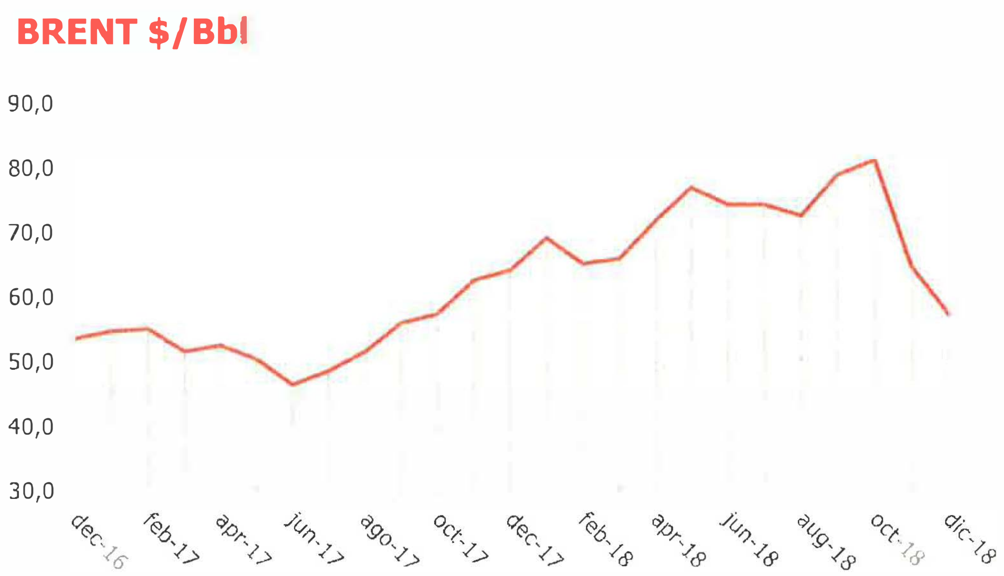
Sectorial environment

Price of crude (Brent)

The price of crude oil has a crucial impact on oil and gas companies, especially affecting exploration and production activities.

The price of Brent crude 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, the exemptions to 8 countries by US to continue buying Iran oil, along with the fear of a slowdown in the global economy may reduce the demand for crude, drove to a significant reduction in the price, 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:



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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

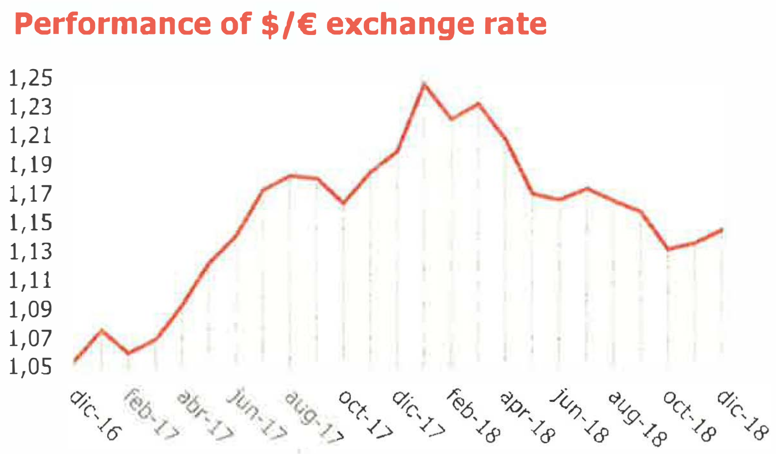
Regulatory issues are becoming an even more influential factor in the oil and gas industry than up until now, mainly in developed countries where environmental demands and technical specifications with respect to products are increasingly restrictive. The well-trailed changes to the International Maritime Organisation'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 $1.145 per € at the end of the year.



b. Significant events for the period

- 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, our third chemical plant in Nigeria started to operate. In 2017, Cepsa Group acquired 30% of CSChem, a leading LABSA production company in Nigeria, which already had two production plants and the third under construction. With the start-up of this new plant, CSChem has a total production capacity of 90,000 tons of LABSA.

- In February 2018, Timimoun, our first 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 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 natural 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 Board 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 until 2020. 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.

- In December 2018 the Abu Dhabi National Oil Company (ADNOC), and its project partner Cepsa, have announced the awarding of the front End Engineering Design (FEED) contract, as both companies move forward with plans to develop a world-scale Linear Alkyl Benzene (LAB) plant in the Ruwais Derivatives Park. When it comes on stream, the plant will produce 225,000 metric tons per annum of Normal Paraffins (NP) and 150,000 of LAB.

c. Analysis of consolidated results

The consolidated financial statements for the year ended December 31, 2018 were prepared applying the criteria established in the International Financial Information Reporting Standards adopted by the European Union (IFRS), which are mandatory for preparation of the financial statements of certain groups of companies as stipulated by prevailing legislation in Spain.

More precise information on the Company's profitability and operational efficiency is provided via the presentation of adjusted results in addition to IFRS, by excluding certain non-recurring transactions which may have been recorded in a specific year and which could distort said results when comparing them with previous years.

The figures reflecting the most relevant items in the results are as follows:

Key Indicators	Millions of euros		
Results	**2018**	**2017**	% variation
Revenue(*)	24,712	20,817	18.7%
EBITDA (IFRS)	1,880	1,978	-5.0%
EBITDA (Adjusted to Clean CCS)	1,746	1,874	-6.8%
NIAT (IFRS) attributable to parent company	830	743	11.7%
NIAT (Adjusted to Clean CCS) attributable to parent company	754	884	-14.7%
Financial and patrimonial position	**2018**	**2017**	% variation
Capital Employed (IFRS)	8,632	6,748	27.9%
Equity attributable to shareholders of the parent	5,436	4,916	10.6%
Net Debt	3,089	1,722	79.4%
	2018	**2017**	% variation
Free Cash Flow	(850)	483	N/A
ROACE (Adjusted to CCS)	12.5%	14.5%	-13.7%

(*) Includes excise tax on oil and gas charged on sales

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Key indicators for results

i) Revenue

	Millions of euros		
Revenue	**2018**	**2017**	% variation
Exploration & Production			
from external customers	922	589	56.5%
Intersegments	48	270	
Refining			
from external customers	5,517	4,051	36.2%
Intersegments	8,250	6,185	
Marketing			
from external customers	12,988	11,067	17.4%
Intersegments	48	21	
Petrochemicals			
from external customers	2,647	2,458	7.7%
Intersegments	1,108	1,027	
Corporation			
from external customers	5	46	-88.8%
Intersegments	64	55	
Total	***31,597***	***25,770***	***22.6%***
Total intersegments [1]	*(9,518)*	*(7,558)*	
Revenue [2]	***22,079***	***18,212***	***21.2%***
Excise tax on oil and gas charged on sales	**2,633**	**2,605**	**1.1%**
Revenue	***24,712***	***20,817***	***18.7%***

[1] Sales eliminated at consolidated scope

[2] *Excise tax on Oil and Gas* deducted

Revenue for the Group increased by 3,867 million euros (+21.2%) over the same period in the prior year, mainly due to the increase in the price of crude oil and products, recovery in domestic demand, which helped increase sales. This increase has been partially offset by the depreciation of the dollar against the euro, as a significant portion of sales generate revenue in US dollars, and by the tighter refining margins.

In the **Exploration and Production** segment, the increase in sales is a consequence of the higher average realized price (67.2 $/b for 2018 compared to 52.6 $/b for 2017) as well as of a slightly larger number of barrels sold (+5%) compared to the previous year (14.2 Mb in 2018 versus 13.5 Mb in 2017)

In the **Refining** segment, revenue also experienced an increase with respect to 2017, driven mainly by the rise in the crude oil prices which resulted in higher prices for energy and petrochemicals derivatives. This increase has been partially offset by lower refining margins and by the depreciation of the dollar against the euro. Refineries' utilization rate stood at roughly the same level as the previous year (91%) and their production rose slightly by 2%.

The level of Trading activity was slightly higher than in the prior year, though in an environment of higher prices, a significant level of exports to Morocco was worth noting.

Electricity sales figures increased due to the higher pool electricity prices (57.3 €/Mwh in 2018 as compared to 52.2 €/Mwh in 2017) despite of a slightly lower than previous year production volume at our cogeneration and combined cycle plant. The Natural gas activity saw slightly increased sales with respect to the prior year (+7%) although margins remained depressed, due to an excess of supply in the market.

In the **Marketing** segment the revenue increase was mainly as a result of the higher sales in Aviation, Bunker, and Asphalts units and due to the rise in international listed prices of oil products, aligned to the evolution of the price of crude oil.

The activity in Aviation Unit was up by10.5% as a consequence of increased sales volume to Airlines and destined to other Operators. The Bunker unit showed higher in sold volume (+9.4%), mainly due to the higher activity in the Spanish ports, particularly during the second half of the year. Revenue in both businesses, which is primarily nominated in dollars, was affected by the depreciation of the dollar throughout the year.

In the **Petrochemicals** segment the increase sales is mainly due to higher sales in the Phenol-Acetone business line, and to an overall increase in prices for petrochemical products which followed the price trends of their raw materials.

ii) EBITDA IFRS and Adjusted EBITDA

Millions of euros

2018	EBITDA (Adjusted)	CCS adjustment	Non-Recurring Items	EBITDA (IFRS)	EBITDA (IFRS) % on Total
Exploration & Production	635	-	-	635	33.8%
Refining	576	125	-	701	37.3%
Marketing	344	5	-	349	18.6%
Petrochemical	243	6	-	249	13.3%
Corporation	(52)	-	(2)	(54)	-2.9%
Total	***1,746***	***136***	***(2)***	***1,880***	***100%***

Millions of euros

2017	EBITDA (Adjusted)	CCS adjustment	Non-Recurring Items	EBITDA (IFRS)	EBITDA (IFRS) % on Total
Exploration & Production	497	-	(1)	496	25.1%
Refining	874	96	-	970	49.0%
Marketing	314	(11)	-	303	15.3%
Petrochemical	239	20	-	259	13.1%
Corporation	(50)	-	-	(50)	-2.5%
Total	***1,874***	***105***	***(1)***	***1,978***	***100%***

The main difference between EBITDA IFRS and adjusted EBITDA relates to the gap between the valuation of inventories owned by the Company at their Replacement Cost (RC), a criteria employed to obtain management information by segments for the Governing Bodies of the Company, and the Average Unit Cost (AUC), a method utilized for the preparation of annual financial statements under international regulations (see Note 6 "Information by segments" to the Consolidated Annual Financial Statements). In 2018 this difference accounted for 136 million euros compared to 105 million euros for 2017.

No other non-recurring item materially affected adjusted EBITDA during 2018 nor 2017.

EBITDA (Adjusted to Clean CCS)	2018	2017	% variation
	Millions of euros		
Exploration & Production	635	497	27.8%
Refining	576	874	-34.1%
Marketing	344	314	9.6%
Petrochemical	243	239	1.7%
Corporation	(52)	(50)	4.0%
Total	***1,746***	***1,874***	***-6.8%***

Consolidated adjusted EBITDA decreased by 6.8% to 1,746 million euros (1,874 million euros in 2017). The price increase experienced in Exploration and Production has been mainly compensated by the narrower refining margins in 2018.

Net finance expense

Net finance expense amounted to -120 million euros, compared to -31.6 million euros for the previous year.

This rise in financial expense was driven by an increase in net debt of 1,367 million euros since December 2017, mainly due to obtaining the concession of the SARB and Umm Lulu oil fields in Abu Dhabi, higher interest rates and the positive exchange difference reported in the previous year.

Companies accounted for using the equity method

The results corresponding to equity method companies amounted to 23.5 million euros for 2018 compared to 47.8 million euros for the previous prior year, mainly due to the negative results of SinarMas, in the Petrochemical area, in this 2018.

iii) IFRS Net Profit and Adjusted Net Profit

Adjusted Net profit amounted to 754 million euros, representing a decrease of 14.8% with respect to 2017 (884 million euros).

This decrease was due to the refining segment, adversely affected by lower margins and the depreciation of the dollar in 2018.

NIAT (Adjusted to Clean CCS) attributable to parent company	2018	2017	% variation
	Millions of euros		
Exploration & Production	232	145	60.0%
Refining	258	481	-46.4%
Marketing	190	182	4.4%
Petrochemical	111	111	0.0%
Corporation	(37)	(34)	7.9%
Total	***754***	***884***	***-14.7%***

2018	NIAT (Adjusted to Clean CCS) attributable to parent company	CCS adjustment	Non-Recurring Items	NIAT (IFRS) attributable to parent company	NIAT (IFRS) % on Total
Exploration & Production	232	-	(14)	218	26.2%
Refining	258	94	-	352	42.4%
Marketing	190	3	-	193	23.2%
Petrochemical	111	2	(7)	106	12.8%
Corporation	(37)	-	(2)	(39)	-4.5%
Total	***754***	***99***	***(23)***	***830***	***100%***

Millions of euros

2017	NIAT (Adjusted to Clean CCS) attributable to parent company	CCS adjustment	Non-Recurring Items	NIAT (IFRS) attributable to parent company	NIAT (IFRS) % on Total
Exploration & Production	145	-	(216)	(71)	-9.6%
Refining	481	71	(3)	549	73.8%
Marketing	182	(9)	-	173	23.3%
Petrochemical	111	17	(1)	127	17.1%
Corporation	(34)	-	-	(34)	-4.6%
Total	***884***	***79***	***(220)***	***743***	***100%***

Millions of euros

Key indicators on the Group's financial position and equity

Capital Employed by the Group amounted to 8,632 million euros at 2018 year end, compared to 6,748 million euros at 2017 year end, representing a 27.9% increase. The breakdown by business segments is as follows:

Millions of euros

Capital Employed IFRS by business segments	Exploration & Production	Refining	Marketing	Petrochemicals	Corporation	Total
Capital Employed at 12/31/2018	3,051	3,605	925	1,103	(52)	**8,632**
Capital Employed at 12/31/2017	1,579	3,216	904	1,126	(77)	**6,748**
Variation	1,472	389	21	(23)	25	**1,884**

Capital and reserves attributed to the parent company at December 31, 2018 amounted to 5,436 million euros, thus financing 63% of capital employed at that date.

Net debt of the group totaled 3,089 million euros at December 31, 2018, 79.4% more than the 1,722 million euros at 2017 year end. The financial leverage ratio result in 1.77 at 2018 year end, compared to 0.92 at 2017 year end. (see section 3.b. Debt structure for the calculation of the financial leverage ratio)

CEPSA

Key indicators. Cash flows

The evolution of the cash flows of the period, which allows to visualize the capacity of our businesses to generate free cash was as follows:

Thousand of Euros

	2018	2017
EBITDA IFRS	**1,879,647**	**1,978,246**
Changes in operating working capital	(504,132)	(650,859)
Interest received	19,317	38,490
Dividends received	70,428	49,843
Other operating cash flows	(301,294)	(324,123)
Change in operating working capital	***1,163,966***	***1,091,597***
Payments for investing activities	(2,114,782)	(714,944)
Charges for divestments	100,813	106,535
Total cash flows used in investing activities	***(2,013,969)***	***(608,410)***
Free cash flow	***(850,003)***	***483,187***

The Group's EBITDA decreased by 5% compared to the previous period, reaching 1,879.6 million euros. This decrease was mainly due to lower margins of refining activity, to depreciation of the dollar against the euro, and partially offset by the increase in the price of crude oil that has had a positive impact on the Exploration and Production business.

Operating cash flow reached 1,164 million euros, more than in the previous year, mainly due to lower consumption of working capital at year end, facilitated by the fall in crude oil and products prices in the month of December.

In terms of **investment cash flows**, note the significant level of investments effort carried out during the year, highlighting the acquisition of 20% of the offshore fields in Abu Dhabi (SARB and Umm Lulu) for a period of 40 years, thanks to the award of a concession signed with ADNOC (Abu Dhabi National Oil Company)

As a result of this level of investments, and despite the increase in operating cash flow, **free cash flow** was negative at 850 million euros as of December 2018, compared to the positive 483 million euros at December 2017.

Key indicators. ROACE

The profitability of the average employed capital of the Group is reflected in the following Adjusted ROACE:

Thousand of Euros

		12.31.2018		12.31.2017	
ROACE CEPSA Group Adjusted CCS =	Adjusted CCS Net Operating Profit (average last 12 months)	845,056	= 12.5%	949,732	= 14.5%
	Average Adjusted Capital Employed (without non-yield investments)	6,769,931		6,568,979	

This ratio by business is shown in the following table:

ROACE Adjusted (CCS)	Exploration & Production	Refining	Marketing	Petrochemical	Total
ROACE CCS at 12/31/2018	16.9%	8.9%	20.6%	11.9%	12.5%
ROACE CCS at 12/31/2017	8.9%	37.4%	22.6%	12.2%	14.5%

(*) ROACE of Corporation segment is non assessable ratio

d. Analysis of operational performance by business

Exploration and Production

The adjusted result after taxes in Exploration and Production business for 2018 was 59.8% higher than in the previous year, amounting to reaching 231.9 million euros, compared to 145.1 million euros for 2017.

This rise in results has been underpinned by the greater sale price (67.2 US $/barrel in 2018 compared to 52.6 US $/barrel in 2017) for the crudes that Cepsa Group produces and commercializes, as a consequence of the increase in the price of Brent crude oil.

The efficiency and cost-saving programs rolled out in recent years have positively contributed to the solid business results as well.

Likewise, investment and amortization in exploratory assets was lower in 2018 when compared to 2017, when there were significant levels of amortizations in Suriname, Malaysia and Colombia.

Working Interest production amounted to 83.4 thousand barrels per day, a decrease of the 9.5% with respect to the prior year, mainly due to the natural and foreseen decline in certain fields.

Sales reached 14.2 million barrels, in comparison to 13.5 in the prior year.

Throughout the year, the Group strengthened its growth in the Exploration and Production area, with a total investment of 1,659 million euros, which has contributed towards reinforcing its integrated business model. It is notable the investment corresponding to the offshore concession contract with ADNOC, through which we have acquired 20% of the new concession of the SARB and Umm Lulu fields in Abu Dhabi. The contract lasts 40 years and our production increases by 50% when the fields are fully ramped up.

Summarizing, the key business indicators have progressed as follows:

Key indicators	2018	2017	2016
Investments for the period (millions of euros)	1,659	170	172
Working interest production (thousands b/d)	83	92	97
Net entitlement production (thousands b/d)	58	65	72

Refining

Adjusted Net Income in the Refining business for 2018 amounted to 258.5 million euros, compared to 480.5 million euros for 2017, down 46.2%, due to the reduction of refining margin and the US dollar depreciation.

Distillation of crude oil has remained at similar levels as those for the same period of the previous year, with an installed capacity utilization rate of 91%. An amount of 160.9 million barrels of crude oil have been distilled and 21.8 million tons of petroleum products have been produced. The basket of distilled crude oils had a differential cost with respect to Brent crude oil of -1.11 US $/barrel and an associated average freight cost of 0.92 $/barrel.

Margins of the refining activity narrowed significantly throughout 2018, due to the fact that the increase of crude oil price was not passed on to product international quotations to the same degrees. Cepsa's refining margin indicator for 2018 stood at 6.1 US$/barrel compared to 7.5 US$/barrel for 2017.

During the year, an ongoing major investment effort was made in the group's refineries, both aimed at improving the conversion and efficiency of the different production units, as well as improving safety and minimizing environmental impacts. Total investment for 2018 amounted to 392 million euros, 29.8% higher than in 2017, being remarkable those corresponding to the project Bottom of Barrel at the Gibraltar-San Roque refinery, which will enable to convert heavy inputs into higher value products, and to the optimization project of the aromatics plant of La Rabida refinery.

Gas sales reached 30,003 Gwh, a 7.3% higher than in the previous year, and electricity production reached 2,242 Gwh, a 20.2% lower than in the previous year.

The Group has 2 refineries, 8 cogeneration plants and a combined cycle plant, and is about to complete the construction of a wind farm in the province of Cadiz.

Summarizing, the key indicators for the business have evolved as follows:

Key indicators	2018	2017	2016
Investments for the period (millions of euros)	392	302	216
Utilisation Rate Refineries	91%	91%	93%
Output (millions of tons)	21.81	21.36	21.64
Refining margin Indicator in Cepsa (USD/b)	6.1	7.5	5.6
Natural Gas Sales (GWh)	30,003	27,972	28,409
Electricity production (GWh)	2,242	2,809	2,140
Average electricity spanish pool price (€/MWh)	57	52	40
Natural Gas price (Henry Hub Spot €/Mwh)	12	9	8
Water vapour sales (thousands of tons)	4,895	4,871	4,660
Trading volumes (millions of barrels)	286	268	265

Marketing

The adjusted result after taxes for Marketing business for 2018 amounts to 189.2 million euros, compared to 181.8 million euros for 2017, which included 46 million euros compensation received for the negative impact on the company's margins of regulation between 2009 and 2012 of the price of the butane bottle.

This business area consists of the sales through the gas stations network, the commercialization of fuels through the direct sales channel and distributors, the marketing of kerosene for the aviation market, the commercialization of fuels through the bunker activity in the main ports of Spain, and outside Spain in Panama and Fujairah and the sale of lubricants, asphalts and liquefied petroleum gases. During 2018, 21.9 million tons were marketed through these channels, which is a figure similar to that of the previous year.

The Group counts on a network of 1,799 service stations as of December 31, 2018, as well as 2 lubricant plants, 5 asphalt plants, 11 liquefied petroleum gas bottling plants, and is present in the main airports and Spanish ports.

Investments in 2018 amounted to 101 million euros, 64.4% lower than the 284 million euros of 2017, when the acquisition of 23 service stations in the provinces of Madrid and Toledo took place. These investments were targeted to the maintenance of facilities and to strengthen our market share in the channels where we operate.

In summary, the key business indicators have progressed as follows:

Key indicators	2018	2017	2016
Bunker sales (millions of tons)	6.2	5.7	5.1
Sales of fuels in other channels and other energy products (millions of tons)	15.7	15.9	15
Number of petrol stations	1,799	1,815	1,788
Investments for the period (millions of euros)	101	284	85

Petrochemicals

The adjusted result after taxes for Petrochemical business for 2018 amounted to 110.7 million euros, a similar figure than in 2017.

In the LAB business, which produces the raw material for biodegradable detergents in which Cepsa is a global leader, the results were slightly higher than in the previous year.

In the Phenol-Acetone business, which produces the raw materials for the production of cutting-edge plastic materials, where Cepsa is number 2 globally, the results were higher by 11% than the previous year, mainly driven by a sales increase (4%) and by the recovery of the Asian market margins.

In the Solvents business, the level of results was slightly below the previous year, as a result of a downward correction in the margins and lower product availability.

Total sales of petrochemical products reached 2.9 million tons, in line with volumes sold in the previous year.

The investments for 2018 amounted to 80 million euros, remarkably including the project to expand production at the Puente Mayorga chemical plant in San Roque (Cadiz), which will increase the plant's production capacity from 200,000 to 250,000 tons of LAB, and will involve the implementation of Detal technology, developed by Cepsa and UOP, to improve its efficiency. The start-up is scheduled to take place in 2020.

Cepsa Group currently has 3 industrial plants in the LAB line located in Spain, Brazil and Canada, 2 for the Phenol-Acetone line (in Spain and China), 1 for the surfactant line (in Germany) and 1 in Indonesia for the manufacture of vegetable oils.

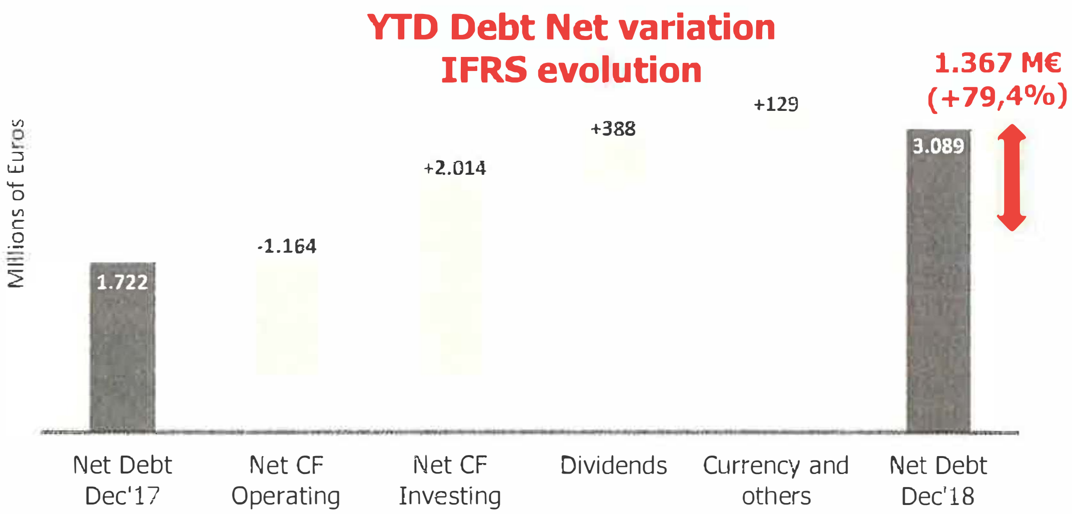
The key indicators for this segment have performed as follows:

Key indicators	2018	2017	2016
Petrochemical products consolidated sales (millions of tons)	2.9	2.9	3.0
Investments for the period (millions of euros)	80	116	86

3. Liquidity and capital resources

a. Leverage

Adjusted net financial debt at December 31, 2018 increased by 1.367 million euros to 3.089 million euros, as compared to 1,722 million euros at December 31, 2017, fundamentally due to the investments in the year in the E&P business.



As a consequence, the Group´s gearing ratio, expressed as the ratio of net debt to net debt plus capital and reserves, amounted to 35.8% at 2018 year end as compared to 25.5% for 2017 year end.

	2018	Thousands of euros 2017
Bank borrowings non-current	2,955,916	1,628,425
Bank borrowings current	380,434	639,348
Cash and cash equivalents	(246,878)	(545,637)
Remunerated Net Debt	*3,089,472*	*1,722,136*
Equity	*5,542,441*	*5,025,713*
Capital Employed IFRS	*8,631,913*	*6,747,849*
Net Debt/(net debt +Equity)	**35.8%**	**25.5%**

b. Debt structure

The debt breakdown by interest type and currency is shown in Notes 17 and 28 to the 2018 and 2017 year end Consolidated Financial Statements.

In accordance with the policy of minimizing financial risks for the Company, currency risk is mitigated by financing international businesses in the local or functional currency, mainly US dollars.

The Group's financing costs, at December 31, 2018, amounted to 2.60% as compared to 2.09% for the same period in the previous year (see Note 17 to the 2018 and 2017 Consolidated Financial Statements)

The Cepsa Group enjoys a sound liquidity position at 2018 year end, totaling 2,680.4 million euros (2,433.5 million euros of undrawn credit facilities plus 246.9 million euros of cash and cash equivalents), equal to Group's debt maturities for the next 24 months.

Cepsa Group actively manages the maturities of its financial debt, which allows the Group to meet its payment obligations, both ordinary and exceptional, as well as to undertake its growth projects.

The distribution of maturities of undrawn credit facilities, is as follows:

Liquidity maturity	Thousands of euros
2019	322
2020	50
2021	1,537
2022	0
from 2023 on	524
Total	***2,433***
Cash and others equivalents	247
Total liquidity adjusted	***2,680***

The information relating to Cepsa debt at 2018 year end is shown in Note 17 to the annual financial statements.

The debt coverage ratio is as follows:

	Thousand of Euros			
	12.31.2018		12.31.2017	
Consolidated Net Debt / Adjusted EBITDA (last 12 months)	3,089,472 / 1,745,648	= 1.77	1,722,136 / 1,873,841	= 0.92

c. Working capital

Working capital at December 31, 2018 is broken down as follows:

	Thousands of euros	
	2018	**2017**
Working capital assets[1]	4,800,103	4,396,136
Working capital liabilities[2]	3,195,790	2,988,950
Working Capital	***1,604,313***	***1,407,186***

[1] Included inventories, trade and other receivables, other current financial assets, and other current assets

[2] Included trade and other payables, other current liabilities without the dividend pending pay

The average payment period for suppliers of the Group during the period has been 19 days, below the legal maximum limit of 60 days established by law 15/2010 of 5 July, which establishes measures on combating late payment in commercial transactions. (Note 21 of the consolidated annual financial statements). The average collection period from clients was 24.8 days.

d. Analysis of contractual obligations and off-balance sheet transactions

The breakdown of the Group's contractual obligations, off-balance sheet transactions, and contingent liabilities is included in Note 33 to the consolidated annual financial statements.

4. Risk management model

Risk management is a major focus area at all levels of the Cepsa Group. 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 Group'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 the Cepsa Group:

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 Group 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 Group 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; and
- 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 Cepsa Group 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 the Group 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, the Group 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 the Cepsa Group operates. Thus, and considering that the euro is used as the presentation currency in the consolidated financial statements, the Group 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. The Group minimizes the impact of exchange rate risk on these transactions by centralizing and managing the net global position of cash flows in US dollars from the different Group companies.

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

3. Finally, certain Group companies obtain cash flows in a currency other than its functional currency. In these situations, the Group minimizes exchange rate risk exposure by obtaining financing in the same currency in which the cash flows are denominated. For these cases, the cash flow hedging relationships are justified and documented.

Interest rate risk

The Cepsa Group is exposed to changes in interest rates that may have an impact on its income statement, affecting interest-related income and expenses as well as certain balance sheet items as a 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, the Cepsa Group 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, Euribor, and official rate of the Popular Bank of China (PBOC).

Liquidity risk

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

Thus, the Cepsa Group pursues a conservative financial policy which involves maintaining available cash balances and other liquid financial instruments, as well as undrawn committed credit lines, sufficient to cover debt maturing within 24 months under credit crunch-squeeze scenarios.

The Cepsa Group 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

The Cepsa Group 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, the Cepsa Group 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, the Group transfers certain counterparty´s failure risk to third parties by contracting banking guarantees or credit insurance policies.

The Group 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 the Group operates with are mostly financial institutions and insurance companies with a high level of credit solvency. However, the Group also assesses the solvency of each of these counterparties, assigning a credit limit to each one of them.

The risk to which the Cepsa Group 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.

The Cepsa Group's 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. The Cepsa Group's commitment is reflected in the Tax Policy approved by the Board of Directors in 2015.

One of the main principles established therein by the Cepsa Group 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, the group 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.

The Cepsa Group 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, the Cepsa Group 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 Group industrial plants in Spain have obtained their corresponding Integrated Environmental Authorizations, which are renewed periodically. These permissions allow us to tighten control over all processes in order to minimize environmental impacts.

Information security 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.

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

The Group 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 Group 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. The Cepsa Group 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. The Cepsa Group is aware that a long-term perspective on the capacity and competence of the workforce is essential.

The Cepsa Group 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

The Cepsa Group 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 January 16, 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.

The CEPSA Group 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.

5. Information on foreseeable performance of the entity

Cepsa is advancing in its transformation process towards a global integrated energy group. Amongst the actions considered for the coming years, the Group envisages investments in various business areas as part of a growth plan to reach its objectives. The key strategic priorities, by Business Unit, are as follows:

- Exploration and Production: expand its portfolio, increasing crude oil reserves in key regions such as North Africa, Latin America, and Abu Dhabi through the development of projects and exploration opportunities in fields located nearby;

- Refining: improve competitiveness and efficiency of the Group assets through continuous optimization programs and updates to adapt production to new regulations. Assess opportunities in renewable energies and increase participation in the natural gas and electricity markets.

- Marketing: consolidate the Group's presence in the natural markets of its key businesses, boosting exploitation of synergies with high added value and searching for growth opportunities in neighboring markets such as Portugal and Morocco;

- Petrochemicals: strengthen the current leadership of Cepsa Group in key business lines, continue global expansion, develop the alcohol chain and diversify the downstream phenol chain;

6. 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;
- 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 16 to the annual consolidated 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 34 to the annual consolidated 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.

- Engineering team has also assigned the Front End Engineering Design (FEED) for the construction of the new Ruwais chemical plant, in partnership with ADNOC, which will allow us to estimate its development cost, as well as the redevelopment of the oil field Rhoude el Krouf, in Algeria.

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.

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7. Alternative Performance Measures and glossary of terms.

The financial information contained in this report contains indicator and measures prepared in accordance with applicable financial information regulations (IFRS-EU) as well as other alternative Performance Measures.

Alternative Performance measure	Unit	Relevance of use	Location
EBITDA	Millions of Euros	Measure of operational profitability deducting the interests, taxes, provisions and amortizations	Key indicators on the Group´s financial results
Current cost of Supplies (CCS)	Millions of Euros	The Current Cost of Supply (CCS) is commonly used in this industry to disclose the Downstream businesses which must work with huge inventories subject to continual price fluctuations.	Key indicators on the Group´s financial results
Non-recurring items	Millions of Euros	It allows the results disclosure excluding those atypical expenses/income not directly related to the activity (non-recurring)	Key indicators on the Group´s financial results
Net debt	Millions of Euros	It measures the Company's level of debt	Key indicator on the Group's financial situation
Capital employed	Millions of Euros	It measures own and external capital invested in the company.	Key indicator on the Group's financial situation
Leverage ratio	%	It measures the Group's indebtedness proportion in relation to its profitability, usually with its operating profitability.	Key indicator on the Group's financial situation
Free cash flow	Millions of Euros	It is used for evaluating the funds available for paying dividends, and debt service payments.	Key indicators. Cash Flows
Net operating profit	Millions of Euros	Used for ROACE´s calculation	Key indicators. Roaces
ROACE	%	Measure used to evaluate the earning capacity of the investments in operation	Key indicators. Roaces
Gearing	%	Measure of the weighing of the external resources in the Group financing.	3.a. Leverage.

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

EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization): It consists of the income and expenses arising from the operations of each business unit, including net provisioning, as well as the results from assets disposals. Its determination does not include the amortization and impairment of its non-current assets, nor the transfer to income of capital grants or, of course, financial or non-operating results.

The EBITDA is a useful financial indicator which determines the operating margin of a company, enabling the business evaluation in relation with its ability to generate funds before taxes. This indicator is highly comparable among businesses and with other Oil & Gas sector companies, since it is not influenced by financial and tax indicators not involving cash outflow.

Current Cost of Supplies (CCS): in the replacement cost method, the cost of sales is determined with reference to average monthly prices rather than the historical value derived from the accounting valuation method. Consequently, the adjustment to replacement cost is determined as the difference between these two methods.

Non-recurring items (Clean): they consist of those atypical revenues or expenses, which are not directly related to the company's main activity and unusually occur, i.e.:

- Impairment of assets
- Results of assets disposals (significant amounts)
- Restructuring costs

- Exceptional fiscal expenses or income
- Costs associated with mergers / acquisitions
- Results of discontinued operations

Net Debt: the indicator used by management to measure the company's level of debt. It is comprised of bank borrowing (current and non-current) less cash and cash equivalents.

Employed capital: made up of non-current assets plus working capital, net of for free capital. Non-current assets include intangibles, Property, plant and equipment, financial and deferred tax assets, with the exception of financing granted within group companies. Working capital includes all current operating assets and liabilities (current assets and liabilities except for financing granted or received within group companies, external current financial debt and liquid assets). For free capital comprises the captions of capital grants, provisions for risks and charges, deferred tax liabilities, and other non-current liabilities of non-financial nature. It is financed with the Equity plus the Net financial Debt, being equal to the sum of both magnitudes. It is useful for determining the efficiency of the use of capital that the company has invested.

Leverage ratio: This figure is calculated by dividing net debt by EBITDA, and in the case of Cepsa utilizing adjusted EBITDA, allowing the Group to determine its capacity to repay external financing within a given number of years (x times). It serves as a metric for comparison with other companies.

Free cash flow: measures the cash flow generation from operating and investment activities, and is used to evaluate the funds available for paying shareholders dividends and debt service.

Net operating profit: It consists on the Net profit after taxes (NIAT) deducted the finance costs (net of taxes). Generally used for ROACE´s calculation.

ROACE (Return on Average Capital Employed): Ratio calculated with the net operating profit Clean CCS (average for the last 12 months) divided by average capital employed (average between its value at the beginning and at the end of the considered period). These values of Capital Employed are both reduced in the amount of not yet profitable investments. It is the key indicator that shows the performance of both the Group and its businesses.

Gearing ratio: Ratio between the following:

- Net financial debt (current and non-current financial debt less cash equivalents)
- Equity (less dividends decideg or planned) + Net financial debt

This ratio shows, over time, the tendency of the Group's debt and, in absolute value, the debt capacity in relation to its own funds.

<u>Non-financial indicators:</u>

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.

Barrel of oil equivalent (boe): A conventional unit to measure the energy liberated by a quantity of fuel in terms of the energy liberated by the combustion of one barrel of oil.

Degree of refinery utilization: Ratio between the total amount of crude oil processed at distillation units and the units maximum processing capacities.

GW: Gigawatts (1,000 million watts) A watt is the unit of electric power used in the International System and corresponds to the difference in potential between one volt and an electric current of one ampere (1 volt-ampere).

MWh: Megawatts/hour is a unit of measurement for energy.

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

Attributed production (net entitlement): The percentage of production in connection with oil and gas exploration and production rights in a concession subsequent to agreements for shared production.

Shared production (working interest): The percentage of production in connection with oil and gas exploration and production rights in a concession before applying contractual conditions in the case of Shared Production Contracts.

Attributed reserves: Estimated quantities of oil and gas, including related substances, assigned to the Cepsa Group, production of which is expected to be economically feasible from a given date through development projects.

Proven reserves (1P reserves): Proven reserves are those amounts of oil which, via analysis of geological and engineering data, can be estimated with reasonable certainty from a given date and are commercially recoverable from known deposits under current economic conditions, methods used in activities, and governmental regulations.

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.U. AND SUBSIDIARIES (CEPSA GROUP)

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

The Consolidated Financial Statements (Consolidated Balance Sheet, Consolidated Statement of Profit or Loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Notes to the Consolidated Financial Statements) and Consolidated Management Report of Compañía Española de Petróleos, S.A.U. and Subsidiaries (CEPSA GROUP), 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 Consolidated Financial Statements, prepared in accordance with generally accepted accounting principles, offer a true and fair view of the financial situation and the results of the CEPSA Group, and the Consolidated Management Report accompanying the Consolidated Financial Statements offers a true and fair view of the development and performance of the businesses and financial position of the CEPSA Group, together with a description of the key risks and uncertainties that it faces.

Madrid, February 28, 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)

CEPSA

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

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

I hereby certify that, to the best of my knowledge and belief, the Consolidated Financial Statements (Consolidated Balance Sheet, Consolidated Statement of Profit or loss, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes to the Consolidated Financial Statements) of Compañía Española de Petróleos, S.A.U. (CEPSA) and its Subsidiaries (Cepsa Group) for the year ended December 31, 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 the Cepsa Group.

Madrid, February 28, 2019

Álvaro Badiola Guerra
Chief Financial Officer