

2005 Corporate Governance Report



 **CEPSA**

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A. OWNERSHIP STRUCTURE

A.1.- Share Capital

At December 31, 2005, the fully issued and paid-up share capital of Compañía Española de Petróleos, S.A. (hereinafter CEPSA) amounted to 267,574,941 euros, divided into 267,574,941 ordinary bearer shares with a par value of one (1) euro each, recorded as book entries. All shares carry equal voting and dividend rights and trade on all four Spanish Stock Exchanges in the Continuous Market.

Date of most recent change	Share capital (€)	Number of shares
June 2, 1999 (*)	267,574,941	267,574,941

(*) - Reduction of the share capital by 451,356.28 euros, for purposes of its re-denomination in this currency, by virtue of the resolution adopted at the Annual Meeting held on April 22, 1999, and notarized on June 2, 1999 through a deed issued by the Notary Public of Madrid, Mr. Ignacio Solís Villa.

CEPSA's Annual General Meeting of Shareholders held on May 31, 2001, authorized and empowered the Board of Directors, subject to legal provisions, to increase the share capital of the Company, once or several times, within a five-year limit, up to a maximum of 133,787,471 euros (50% of the share capital at that date), by new cash contributions, through the issue of new voting or non-voting shares, with or without a share premium. The Board of Directors had not used this authorization at December 31, 2005.

A.2.- Significant Shareholdings

At December 31, 2005, significant direct or indirect shareholdings in the Company were as follows:

Name of shareholder	Number of shares held directly	Number of shares held indirectly	Total number of shares	Total % of share capital
Total, S.A	--	121,153,641	121,153,641	45.28
Banco Santander Central Hispano, S.A. (hereinafter, SCH)	33,043,123	53,307,183	86,350,306	32.27
International Petroleum Investment Company (hereinafter, IPIC)	25,513,560	--	25,513,560	9.54
Unión Fenosa, S.A.	--	13,375,674	13,375,674	4.99

The breakdown of the indirect shareholdings presented in the foregoing table, by their direct corporate owners, is as follows:

Direct owner of shareholding	Number of shares held directly	% of share capital
Elf Aquitaine	92,784,282	34.68
Constance International, Ltd.	6,140,550	2.29
Somaen-Dos, S.L. (through Odival, S.A.)	22,228,809	8.31
Total, S.A.	121,153,641	45.28
Somaen-Dos, S.L. (through Riyal, S.A.)	53,307,183	19.92
SCH	53,307,183	19.92
Somaen-Dos, S.L. (through Lignitos de Meirama, S.A. and Unión Fenosa de Inversiones, S.A.)	13,375,674	4.99
Unión Fenosa, S.A.	13,375,674	4.99

At December 31, 2005, Somaen-Dos, S.L. was the owner of 88,911,666 shares of CEPSA, equivalent to 33.23% of the Company's share capital, which, strictly for purposes of presentation of the two foregoing tables, have been distributed among Total, S.A., SCH and Union Fenosa, S.A. based on their shareholdings in the aforementioned company.

Most significant changes in the Company's shareholding structure during the year:

Shareholder	Date of transaction	Description of transaction
Based on its records, CEPSA is unaware of any significant changes or movements that took place in the Company's shareholding structure in 2005.		

A.3. Members of the Board of Directors who own shares of the Company

Name of Director	Date of first appointment	Date of most recent appointment	Number of shares held directly	Number of shares held indirectly	Total % of share capital
Mr. Carlos Pérez de Brício Olariaga	20.05.1978	27.05.2005	60	--	--
Mr. Jean-Paul Vettier	30.03.2000	27.05.2005	60	--	--
Mr. Vincent Méary	27.04.2000	27.05.2005	60	--	--
Mr. Pierre Klein	28.11.2001	28.11.2001	300	--	--
Mr. Menno Grouvel	24.01.2002	24.01.2002	300	--	--
Mr. Jacques Porez	24.01.2002	24.01.2002	300	--	--
Mr. Jean Privey	30.05.2002	30.05.2002	300	--	--
Ms. Bernadette Spinoy	20.03.2003	20.03.2003	300	--	--
Mr. Dominique de Riberolles	20.03.2003	20.03.2003	100	--	--
Mr. José Manuel Otero Novas	29.03.2005	29.03.2005	500	--	--
Mr. Murtadha M. Al Hashemi	23.09.2005	23.09.2005	60	--	--
Mr. Pedro López Jiménez	24.11.2005	24.11.2005	100	--	--

Total % of share capital held by members of the Board of Directors

Less than 0.001%

Company Directors holding share option rights:

Name of Director	Number of share options held directly	Number of share options held indirectly	Equivalent number of shares	Total % of share capital
No Director has option rights on shares of the Company.	--	--	--	--

A.4.- Family, commercial, contractual or corporate relationships among owners of significant shareholdings, except in cases in which they are immaterial or are the result of routine business

CEPSA is unaware of the existence of relationships of this nature.

A.5.- Commercial, contractual or corporate relationships between owners of significant shareholdings and the Company

Company name	Type of relationship	Description
Total, S.A.	Contractual	CEPSA and TOTAL E&P ALGERIE (a subsidiary of TOTAL) have interests in natural gas exploration activities in Algeria, specifically in the Timimoun Basin (15%/85%, respectively) and Bechar Basin (20%/80%).
Total, S.A.	Corporate	CEPSA and TOTAL have shareholdings of 20% and 12%, respectively, in MEDGAZ, whose purpose is to study, promote, build and operate a gas pipeline between Algeria and Spain.
Total, S.A.	Corporate	CEPSA and TOTAL have stakes in CEPSA GAS COMERCIALIZADORA (35%/35%, respectively), engaged in the commercialization of natural gas.
Total, S.A.	Contractual	Technical assistance agreement between CEPSA E.P. (a subsidiary of CEPSA) and TOTAL in Exploration & Production activities.
Total, S.A.	Contractual	Agreement between TOTAL E&P ILLIZI (a subsidiary of TOTAL) and CEPSA on the management and organization of TOPSA E&P ILLIZI (50%/50%) and for the acquisition by this latter company of assets in Algeria.
Total, S.A.	Commercial	PROAS (a subsidiary of CEPSA) is the licensee for the manufacture and sale of "Styrelf" products in Spain and Portugal.
Total, S. A.	Contractual	CEPSA and TOTAL set up the company GAEL for jointly negotiating the purchase of additives and components needed to produce lubricants.
Total, S.A.	Contractual	CEPSA and TOTAL cooperate on common R&D work in the area of automotive and industrial lubricants through a Common Technical Unit.
Total, S.A.	Commercial	CEPSA Lubricantes manufactures certain products for TOTAL in Algeciras, whereas TOTAL manufactures certain products for CEPSA Lubricantes in Quiva.
Unión Fenosa, S.A.	Corporate	CEPSA and UNION FENOSA GENERACIÓN (a subsidiary of Union Fenosa, S.A.) have 50% stakes each in NUEVA GENERADORA DEL SUR, which operates a 740 MW combined cycle power plant, the steam by-product of which is reused by CEPSA's "Gibraltar" Refinery.
Unión Fenosa, S.A.	Corporate	CEPSA and UNION FENOSA GAS (a subsidiary of Union Fenosa, S.A.) have stakes of 40% and 60%, respectively, in GAS DIRECTO, engaged in natural gas retailing to residential and industrial consumers.
IPIC	Corporate	CEPSA and IPIC have stakes of 50% each in CEPSA MAGHREB, a company involved in marketing energy products in Morocco.
SCH	Corporate	CEPSA and SCH have stakes in TURYOICIO, P.M.S., S.A. (24.75%/49.50% respectively) engaged in establishing, applying, introducing into the market and maintaining schemes aimed at developing, increasing and consolidating customer loyalty.

A.6.- Shareholder Agreements

Parties	% share capital involved	Description
ELF SCH CEPSA		<p>ELF (Société Nationale Elf Aquitaine, S.A.), SCH (Banco Santander Central Hispano, S.A., or where applicable, Banco Central, S.A., Banco Central Hispanoamericano, S.A. and Banco Central Hispano, S.A.) and, in some cases, CEPSA, among others, signed a series of agreements, including Shareholders' Agreements, in relation to CEPSA between 1990 and 1996. These agreements were published, after being reported by TOTAL, on the National Securities Market Commission ("CNMV") website as a Significant Event, n° 44.835, and filed by TOTAL with the Business Registry ("Registro Mercantil") of Madrid on October 7, 2003. The contents of these agreements are quite extensive, and a copy may be accessed either at CEPSA, the CNMV (www.cnmv.es) or the Business Registry of Madrid. At year-end 2005, TOTAL and SCH continue to have a difference of opinion as to the validity of these agreements following the enactment of Law 26/2003 of July 17th, having referred their dispute to the Netherlands Arbitration Institute in The Hague; this circumstance was reported on the CNMV's website as a Significant Event, n° 44.960, on October 14, 2003. On November 21, 2003, an interim ruling was handed down with preventive measures; the verdict on the substance of the matter will be decided by the Court hearing the final arbitration proceedings, which are still underway at year-end 2005. TOTAL and SCH have publicly stated that their differences should not affect CEPSA or its shareholders.</p> <p>CEPSA is unaware of the existence of agreements or concerted actions among its shareholders apart, as the case may be, from those already mentioned above.</p>

A.7. Control of the Company

Name of person or company	Comments
	<p>According to information received by the Company, in enforcement of the provisions of RD 377/1991 of March 15th regarding the notification of significant shareholdings in listed companies, no shareholder directly or indirectly meets the requirements exacted by Article 4 of Securities Market Act 24/1988 of July 28th, nor do any of them meet the conditions set forth under section 1 of Article 42 of the Code of Commerce.</p>

A.8.- Treasury Stock

Neither CEPSA nor any of the companies of the Group directly or indirectly purchased shares of Compañía Española de Petróleos, S.A. in 2005, nor did they own any such securities at year-end.

Information at December 31, 2005:

Number of shares held directly	Number of shares held indirectly	Total % of share capital
None	None	

Significant variations in treasury stock recorded in 2005, pursuant to provisions under Royal Decree 377/1991:

Date	Number of shares held directly	Number of shares held indirectly	Total % of share capital
--	None	None	

Gains or losses obtained from treasury stock transactions in the year	Thousands of euros
No transactions	None

A.9.- Terms and conditions of any authorizations granted by the Annual Meeting to the Board of Directors to undertake acquisitions and/or transfers of treasury stock.

CEPSA's Annual Meeting has not granted any powers to the Board of Directors to buy or transfer shares of the Company.

A.10.- Legal or bylaw restrictions on exercising voting rights, as well as legal restrictions on the acquisition or transfer of holdings in the share capital.

There are no legal or by-law restrictions on voting rights, nor are there any for acquiring or transferring shareholdings in the Company, except as otherwise provided for by law. Nevertheless, Article 23 of the Company's Bylaws states that right of admission to the Annual General Meeting, with the number of votes entitled to each shareholder (one share, one vote) is reserved to those shareholders who can demonstrate ownership of a minimum of sixty (60) shares, at least five (5) days prior to the scheduled date of the Annual General Meeting on first call.

B. CORPORATE GOVERNANCE STRUCTURE

B.1.- Board of Directors

B.1.1.- Maximum and minimum number of Directors pursuant to the Company's Bylaws:

Pursuant to Article 33 of the Company's Bylaws, the Board of Directors shall consist of no less than ten (10) and no more than thirty (30) Directors. At December 31, 2005, the Board of Directors was composed of 19 members.

Maximum number of Directors	30
Minimum number of Directors	10

B.1.2.- Board of Directors

The configuration of the Board of Directors at December 31, 2005 was as follows:

Name of Director	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
Mr. Carlos Pérez de Bricio Olariaga	Chairman & CEO	20.05.1978	27.05.2005	Annual Meeting
Mr. Jean -Paul Vettier	Vice-Chairman	30.03.2000	27.05.2005	Annual Meeting
Mr. Alfredo Sáenz Abad	Vice-Chairman	18.03.2002	18.03.2002	Annual Meeting
HRH D. Carlos de Borbón-Dos Sicilias	Director	29.04.1987	30.05.2002	Annual Meeting
Mr. José Luis Leal Maldonado	Director	31.03.1995	27.05.2005	Annual Meeting
Mr. Mohamed Nasser Al Khaily	Director	18.12.1996	30.05.2002	Annual Meeting
Mr. Juan Rodríguez Inciarte	Director	20.07.1999	28.05.2004	Annual Meeting
Mr. Ernesto G. Mata López	Director	20.07.1999	28.05.2004	Annual Meeting
Mr. Vincent Méary	Director	27.04.2000	27.05.2005	Annual Meeting
Mr. Pierre Klein	Director	28.11.2001	28.11.2001	Annual Meeting
Mr. Menno Grouvel	Director	24.01.2002	24.01.2002	Annual Meeting
Mr. Jacques Porez	Director	24.01.2002	24.01.2002	Annual Meeting
Mr. Fernando de Asúa Álvarez	Director	24.01.2002	24.01.2002	Annual Meeting
Mr. Jean Privey	Director	30.05.2002	30.05.2002	Annual Meeting
Ms. Bernadette Spinoy	Director	20.03.2003	20.03.2003	Annual Meeting
Mr. Dominique de Riberolles	Director	20.03.2003	20.03.2003	Annual Meeting
Mr. José Manuel Otero Novas	Director	29.03.2005	29.03.2005	Annual Meeting
Mr. Murtadha M. Al Hashemi	Director	23.09.2005	23.09.2005	Annual Meeting
Mr. Pedro López Jiménez	Director	24.11.2005	24.11.2005	Annual Meeting

Total number of Directors at December 31, 2005	19
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Directors who voluntarily tendered their resignations in 2005	Date of resignation
Mr. Demetrio Carceller Arce	04.02.2005
Mr. Nasser Ahmed Alsowaidi	21.07.2005
Mr. Antonio Basagoiti García-Tuñón	24.11.2005

During the year, Mr. José Manuel Otero Novas was co-opted onto the Board of Directors and his appointment was ratified at the Annual General Meeting of Shareholders held on May 27, 2005, pursuant to the provisions of Article 35 of the Company's Bylaws. Likewise, Mr. Murtadha M. Al Hashemi and Mr. Pedro López Jiménez were co-opted onto the Board at the meetings of this body held on September 23, 2005 and November 24, 2005, respectively, and their appointments will be submitted for ratification, where applicable, at the next Annual Meeting scheduled for the first half of 2006.

The Annual General Meeting of Shareholders of May 27, 2005 also resolved to re-elect the incumbent Directors, Mr. Carlos Pérez de Bricio Olariaga, Mr. Jean-Paul Vettier, Mr. José Luis Leal Maldonado and Mr. Vincent Yves François Méary, each one for an additional five-year term of office, pursuant to what is set forth in Article 34 of the Company's Bylaws.

B.1.3. Breakdown of the Board of Directors

Executive Directors:

Name of Director	Nominating body	Position in the Company
Mr. Carlos Pérez de Bricio Olariaga	Board of Directors	Chairman & Chief Executive Officer
Mr. Dominique de Riberolles	Board of Directors	Executive Director/Senior Vice-President of Planning, Control & Oil Marketing

Shareholder Representative Non-Executive Directors:

Name of Director	Nominating body	Name of significant shareholder that he or she represents or that nominated him or her
Mr. Jean-Paul Vettier	Board of Directors	Total, S.A.
Mr. Alfredo Sáenz Abad	Board of Directors	Somaen-Dos, S.L.
Mr. José Luis Leal Maldonado	Board of Directors	Somaen-Dos, S.L.
Mr. Mohamed Nasser Al Khaily	Board of Directors	IPIC
Mr. Juan Rodríguez Inciarte	Board of Directors	Somaen-Dos, S.L.
Mr. Ernesto G. Mata López	Board of Directors	Somaen-Dos, S.L.
Mr. Vincent Méary	Board of Directors	Total, S.A.
Mr. Pierre Klein	Board of Directors	Total, S.A.
Mr. Menno Grouvel	Board of Directors	Total, S.A.
Mr. Jacques Porez	Board of Directors	Total, S.A.
Mr. Fernando de Asúa Álvarez	Board of Directors	Somaen-Dos, S.L.
Mr. Jean Privey	Board of Directors	Total, S.A.
Ms. Bernadette Spinoy	Board of Directors	Total, S.A.
Mr. Murtadha M. Al Hashemi	Board of Directors	IPIC
Mr. Pedro López Jiménez	Board of Directors	Somaen-Dos, S.L.

Independent Non-Executive Directors:

Name of Director	Nominating body	Professional background
HRH D. Carlos de Borbón-Dos Sicilias	Board of Directors	Financial expert
Mr. José Manuel Otero Novas	Board of Directors	Legal expert

Classification of Directors:

No changes in the classification of Directors took place in 2005.

B.1.4. State whether the Board configuration resulting from the aforementioned classification of Directors meets what is established in the Rules and Regulations of the Board of Directors.

Article 9 of the Rules and Regulations of the Board of Directors states, inter alia, that: "Executive Directors shall be understood to mean those who have management responsibilities within the Company or Consolidated Group." The Executive Directors mentioned in section B.1.3. meet the criteria of the foregoing paragraph. The classification of the rest of the Directors is pursuant to the criteria established in the CNMV Circular 1/2004 of March 17th.

B.1.5.- Powers delegated to the Chief Executive Officer:

The CEO's delegated powers include those set forth in the Company's Bylaws, as well as other powers delegated by the Board that may be required to govern and represent the Company and to undertake transactions involving ownership, management, negotiation and engagement.

B.1.6.- Members of the Board of Directors that are likewise board members or executives of other Group companies.

Name of Director	Name of subsidiary	Position
Mr. Carlos Pérez de Bricio Olariaga	Intercontinental Química, S.A.	Chairman
	Petroquímica Española, S.A.	Chairman
	Ertisa, S.A.	Chairman
	Petresa Canada, Inc	Chairman
	Interquisa Canada, L.P.	Chairman
	Deten Química, S.A.	Chairman
HRH D. Carlos de Borbón-Dos Sicilias	Petroquímica Española, S.A.	Board member
Mr. Dominique de Riberolles	Petroquímica Española, S.A.	Board member
	Ertisa, S.A.	Board member
	Cepsa Estaciones de Servicio, S.A.	Chairman
	Intercontinental Química, S.A.	Board member
	Petresa Canada, Inc.	Board member
	Interquisa Canada, L.P.	Board member
	Cepsa International, B.V.	Joint administrator
	Deten Química, S.A	Board member
	CEPSA Gas Comercializadora, S.A.	Board member

B.1.7.- Members of the Board of Directors of the Company who are also members of the Boards of Directors of other companies listed on official securities markets in Spain, apart from your own Group, that have been notified to the Company.

Name of Director	Name of listed company	Position
Mr. Carlos Pérez de Bricio Olariaga	Cía. Logística de Hidrocarburos, S.A.	Director
Mr. Alfredo Sáenz Abad	SCH	Second Vice-Chairman & CEO
HRH D. Carlos de Borbón-Dos Sicilias	Inmobiliaria Urbis, S.A.	Director
Mr. Ernesto G. Mata López	Unión Fenosa, S.A.	Director
	Abertis, S.A.	Director
	Parques Reunidos, S.A.	Director
Mr. Fernando de Asúa Álvarez	SCH	First Vice-Chairman
Mr. Dominique de Riberolles	Cía. Logística de Hidrocarburos, S.A.	Director
Mr. Pedro López Jiménez	Unión Fenosa, S.A.	Chairman
	ACS, Actividades de Construcción y Servicios, S.A.	Director
	Lingotes Especiales, S.A.	Director representing Fapindus, S.L.

B.1.8- Directors' compensation.

Article 51 of the Company's Bylaws provides that, after covering the mandatory appropriations to legal reserves – which is provided for at its maximum amount, equivalent to 20% of the share capital – and distributing an initial dividend of no less than four (4) percent, up to five (5) percent of what is left over shall be assigned to By law stipulated fees, attendance fees and other related expenses of the Board.

a) - In CEPSA:

Compensation components	Thousands of euros
Fixed pay	850
Variable pay	439
Attendance fees	331
Bylaw stipulated fees	3,255
Stock options and/or other financial instruments	-
Miscellaneous	22
TOTAL	4,897

Other benefits	Thousands of euros
Advances	-
Loans granted	-
Pension plans and funds: contributions	38
Pension plans and funds: liabilities incurred	-
Life insurance premiums	170
Guarantees	-

b).-For belonging to the Boards of Directors of other companies of the Group:

Compensation components	Thousands of euros
Fixed pay	--
Variable pay	--
Attendance fees	122
Bylaw stipulated fees	160
Stock options and/or other financial instruments	--
Miscellaneous	55
TOTAL	337

Other benefits	Thousands of euros
Advances	--
Loans granted	--
Pension plans and funds: contributions	--
Pension plans and funds: liabilities incurred	--
Life insurance premiums	--
Guarantees	--

c).- Compensation (in thousands of euros) by types of Director:

Types of Directors	From CEPSA	From other Group companies
Executive	2,074	277
Shareholder representative non-executive	2,756	-
Independent non-executive	276	60
Other non-executive	-	-
TOTAL	5,106	337

d).- Out of net income attributable to the parent company:

Total Directors' compensation (thousands of euros)	5,443
Total Directors' compensation/Net income attributable to the parent company (in %)	0.54%

B.1.9.- Executive Officers and Senior Managers that are not also Executive Directors of the Board

Name	Position
Mr. Fernando Maravall Herrero	Senior Vice President of E&P and Corporate Management
Mr. Manuel Abollado del Río	Senior Vice President of Technical Division
Mr. Fernando Iturrieta Gil	Senior Vice President of Petrochemicals
Mr. José Maria Múgica Barreiro	Vice President of Supplies, Trading, Bunker & Aviation
Mr. Juan Rodríguez Fidalgo	Vice President of Human Resources, Legal Affairs & Property Asset Management
Mr. Juan Manuel Ferreras Prieto	Secretary of Executive Management Committee
Mr. José E. Aranguren Escobar	Vice President of Specialties
Mr. Francisco Calderón Pareja	Vice President of Retail/Wholesale Operations
Mr. Ignacio Gómez Martínez	Vice President of Refining & Planning
Mr. Pedro Miró Roig	Vice President of Exploration & Production
Mr. Carlos Alcázar López	Vice President of Institutional Relations

Total compensation (*) of Executive Officers and Senior Managers (in thousands of euros)	3,694
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*Compensation in cash and in kind, contributions to pension plans and insurance premiums

B.1.10.- Guarantee or “golden parachute” clauses for Executive Officers and Senior Managers of the Company or its Group that cover possible dismissals or changes in control.

There are no clauses of this kind in effect in the Company. However, all the executive officers and senior managers are guaranteed that, in the event of dismissal, they will be entitled to the same severance payment system that they would have had in the case of coming under the collective labor agreement.

Number of beneficiaries of the aforementioned clauses	8
Body authorizing these clauses	Board of Directors
Is the Annual Meeting informed of such clauses?	No

B.1.11. Description of process to establish Board members' compensation and, where applicable, relevant Bylaw articles.

Compensation for Board members is established upon proposal by the Nominations and Compensation Committee.

B.1.12.- Members of the Board of Directors of the Company that are likewise members of the Boards of Directors or Senior Managers of companies that have significant shareholdings in the Company.

Name of Director	Name of significant shareholder	Position
Mr. Jean-Paul Vettier	Total, S.A.	Executive Committee member & President of Refining & Marketing
	Somaen-Dos, S.L.	Board member
Mr. Alfredo Sáenz Abad	SCH	Second Vice-Chairman & CEO
	Somaen-Dos, S.L.	Board member
Mr. Mohamed Nasser Al Khaily	IPIC	Managing Director
Mr. Juan Rodríguez Inciarte	SCH	General Manager
	Somaen-Dos, S.L.	Board member
Mr. Ernesto G. Mata López	Unión Fenosa, S.A. (*)	Board member
Mr. Vincent Méary	Total, S.A.	Vice-President - Refining, Marketing & Trading Finance
Mr. Pierre Klein	Total, S.A.	Senior Vice President Administration – Refining & Marketing, General Secretary
	Somaen-Dos, S.L.	Board member
Mr. Menno Grouvel	Total, S.A.	Senior Vice President Continental Europe & Central Asia, Exploration & Production
Mr. Jacques Porez	Total, S.A.	Senior Vice President South and West Europe Division, Refining & Marketing
Mr. Fernando de Asúa Alvarez	SCH	First Vice-Chairman
Mr. Jean Privey	Total, S.A.	President - Africa, Exploration & Production
	Somaen-Dos, S.L.	Board member
Ms. Bernadette Spinoy	Total, S.A.	Vice President Marketing & Sales – Base Chemicals
Mr. Murtadha Al Hashemi	IPIC	Finance Division Manager
Mr. Pedro López Jiménez	Unión Fenosa, S.A. (*)	Chairman of the Board

(*) Unión Fenosa, S.A. has a shareholding in CEPSA's capital through Somaen-Dos, S.L.

B.1.13.- Modifications introduced during the year in the Rules and Regulations of the Board of Directors.

No modifications or amendments were made during the year to the Rules and Regulations of the Board of Directors, which were approved by this body at its meeting held on March 25, 2004.

B.1.14.- Procedures for appointing, re-electing, evaluating and removing Directors..

Pursuant to the Company's Bylaws, Directors are appointed, re-elected, ratified and removed from office by the Annual Meeting. There are no procedures in place for the evaluation of Directors' performance.

Without prejudice to the application of the system of proportional representation set forth in Article 137 of the Revised Text of the Corporations Act, RDL 1564/1989, of December 22nd, significant shareholders nominate Directors, and the Board of Directors is authorized to cover vacancies arising therein by co-opting nominees, and to accept resignations tendered by Directors, in accordance with what is stipulated in applicable legislation and the Company's Bylaws.

B.1.15.- Circumstances under which Directors are required to resign.

Directors must resign from their seats on the Board whenever, at the end of their term, they have not been re-elected by the first Annual Meeting, whether Ordinary or Extraordinary, held immediately thereafter or whenever determined by the Annual Meeting using the powers legally conferred to it by applicable legislation or by the Company's Bylaws. Likewise, pursuant to the provisions of Article 26 of the Rules and Regulations of the Board of Directors, Directors must relinquish their seats to the Board and tender, if this body deems it advisable, the corresponding resignation in the cases set out in the aforementioned article.

B.1.16.- Measures taken to limit the risks involved in having the offices of Chairperson and Chief Executive Officer held by the same person.

The Chairman of the Board of Directors, who likewise holds the office of Chief Executive Officer of the Company, has restrictions on certain powers, such as to create and dissolve subsidiaries, undertake joint ventures, and sign supply contracts, whenever they exceed certain time-periods. Similarly, the Executive Committee, and where applicable, the Board of Directors, must approve the realization of investments, divestments and acquisitions whenever they exceed certain amounts.

B.1.17.- Qualified or enhanced majorities required on the Board of Directors for certain types of decisions.

Description of Resolution	Quorum	Type of majority
According to Article 21 of its Rules and Regulations, the Board of Directors may discuss and pass resolutions on all matters that come under its authority.	Whenever more than half of the Board members are present at a meeting either in person or by proxy.	The resolutions of the Board of Directors shall be adopted by the absolute majority of the Directors attending the meeting. In the event of a tie, the Chairperson shall cast the deciding vote.

B.1.18.- Specific requirements, apart from those required for Directors, for being appointed Chairperson.

There are no specific requirements apart from those required for being appointed Directors.

B.1.19.- Chairperson’s casting vote.

Article 44 of the Company’s Bylaws stipulates that the resolutions of the Board of Directors shall be adopted by an absolute majority and in cases of a tie, the Chairperson shall have the casting vote.

B.1.20.- Age limits for Directors.

No age limits have been established in either the Bylaws or the Rules and Regulations of the Board of Directors.

B.1.21.- Limits to the term of office for Independent Directors.

All Directors, regardless of their classification, are elected for a period of five (5) years, and may be re-elected indefinitely at the end of their term by the Annual Meeting, for similar five-year periods.

B.1.22.- Formal procedures for proxy authorizations and voting at Board meetings.

According to Article 43 of the Company’s Bylaws, all Directors may grant proxy authorizations to other attending Board members to represent them at Board meetings, specifying this in writing for each meeting called. No attending Director may hold more than three (3) proxy authorizations.

B.1.23.- Number of Board Meetings held in the year.

Number of Board meetings	6
Number of Board meetings in the absence of the Chairman	None

Number of Executive Committee meetings	11
Number of Audit Committee Meetings	4
Number of Nominations and Compensation Committee Meetings	3

B.1.24.- State whether the individual and consolidated financial statements that are presented for the approval of the Board are certified beforehand.

The 2005 individual and consolidated Financial Statements were certified by the Chairman and CEO and by the Executive Director and Senior Vice-President of Planning, Control and Oil Marketing. The letter of representation for the independent auditors was also signed by these same persons.

The Executive Committee [members are listed under point B.2.2.] previously reviews and approves the financial statements and subsequently submits them to the Board of Directors, with their comments, where applicable, and the Board is the body that gives final approval. The 2005 financial statements were signed by all of the Board members.

B.1.25.- Established mechanisms, if any, to prevent individual or consolidated financial statements approved by the Board from being presented to the Annual Meeting with a qualified auditors' report.

No mechanisms of this kind have been established.

CEPSA publishes, together with its individual and consolidated financial statements for the year, the letters of opinion from the independent auditors. Taking the last ten years as a reference, the reports issued by the independent auditors contained no limitations of scope, qualifications or reservations whatsoever.

B.1.26. Measures adopted in order to ensure that information disclosed to the securities market is done in an equitable and symmetrical manner

The following measures, among others, have been adopted:

- Submission, within established deadlines, of legally-required documents to the CNMV on quarterly and half-yearly information for CEPSA and its Consolidated Group, pursuant to the provisions of the Finance Ministry Order of January 18, 1991.
- Filing with the CNMV of Significant Events as determined by Articles 82 and 89 of Securities Market Act 24/1988 of July 28th, and CNMV circular letter 14/1998 of December 28th. This information may be accessed through the following websites: www.cnmv.es and www.cepsa.com, "Shareholder Information", link to "Significant Events" which includes those published during the year.
- Information regarding quarterly and half-yearly earnings, financial presentations, stock market data, annual reports and financial analyst reports and opinions can be requested by contacting relaciones.inversores@cepsa.com and accessed through the Company's website at www.cepsa.com.
- The Shareholder Service Office provides free and personalized service to shareholders and investors alike, and may be contacted at the toll-free telephone number: 900.10.12.82 from Monday through Friday or by e-mail: oficina.accionista@cepsa.com or regular postal mail at the following address: Compañía Española de Petróleos, S.A., Avda. del Partenón, 12 (Campo de las Naciones), 28042 Madrid.
- Press releases on activities, investments, results, etc.
- Financial presentations to investors and the news media.

B.1.27.- State whether the Secretary is also a Board Director.

The Secretary of the Board is not a Director.

B.1.28.- Mechanisms established by the Company to safeguard the independence of auditors, financial analysts, investment banks and rating agencies.

Article 47 of the Bylaws grants the following powers and duties to the Audit Committee:

- To handle dealings with independent auditors to receive information on such matters that may jeopardize their independence.

B.1.29. Non-audit services provided to the Company and/or Consolidated Group by independent auditors

The cost of professional services, apart from independent audits, provided by the accounting firm Deloitte, S.L. to the CEPSA Group amounted to 0.4 million euros in 2005 (0.1 million euros for CEPSA), and services rendered by other auditors came to 0.07 million euros. Therefore, the full amount of these non-audit services stood at 0.47 million euros, accounting for 26% of the total amount invoiced by the audit firms to the CEPSA Group.

B.1.30. Number of consecutive years that the current auditing firm has conducted audits of the financial statements of the Company and/or its Group.

The information provided below refers to the fiscal years from 1989 (Act 19/1988 of July 12th on Account Auditing, states in its First Additional Provision that it is mandatory for independent audits to be conducted on the financial statements of companies that, meeting certain requisites - one of which is to be a listed company - begin their fiscal years subsequent to the aforementioned date) up to 2005, inclusive.

	Company	Group
Number of consecutive years	16	16

	Company	Group
Number of years audited by the current auditing firm/Number of years that the Company has been audited (in %)	94.1	94.1

B.1.31.- Significant shareholdings of members of the Board of Directors of the Company in the capital of entities that have the same, similar or complementary type of activity as that of the Company or its Group, and that have been reported to the Company. Likewise, state the positions held or functions performed in such entities:

Name of Director	Company name	% shareholding	Position
Mr. Pedro López Jiménez	Unión Fenosa, S.A.	0.098	Chairman
Mr. Ernesto G. Mata López	Unión Fenosa, S.A.	0.011	Director

B.1.32. State whether a procedure exists for Directors to be provided with outside counsel or expert assistance.

No specific procedures of this kind exist.

B.1.33. State whether a procedure exists for Directors to be provided with the necessary information to prepare the meetings of governing bodies.

Prior to each Board meeting, the members of the Executive Committee receive the balance sheets and statements of income for the Company and its Consolidated Group, accounts management control reports, and, where applicable, other reports on investments and significant matters in connection with the progress of the Company and its Consolidated Group. The members of the Executive Committee present their comments, if any, to the Board of Directors, for the discussion and eventual adoption of resolutions, where applicable, on the matters dealt with. The members of the Board of Directors receive specific documents of a financial nature and in connection with the activities of CEPESA and its Consolidated Group.

B.1.34.- State whether D&O liability insurance exists for Directors and Officers of the Company

The Company has an insurance policy in place that covers civil liability for members of the Board of Directors, Executive Officers, Senior Managers, and Legal Agents, in connection with the performance of their duties.

B.2.- Board Committees.

B.2.1.- Governing Bodies.

Name of body	Number of members	Functions and Duties
Executive Committee	6	To directly adopt executive decisions on all such matters that have been expressly delegated to it by the Board, and furthermore, to deliberate and formulate proposals and motions to the Board on the remaining matters that come under this body's authority.
Audit Committee	3	To report, at the Annual Meeting of Shareholders, on any matters that may properly be brought before such Meeting in connection with its duties and responsibilities; to propose to the Board of Directors, for approval of the Annual Meeting, the appointment of Independent Auditors, their contractual conditions, the scope and extent of their professional duties, where appropriate, the cancellation or renewal of their term; to supervise the internal auditing services of the Company; to oversee the financial information processes and internal control systems of the company; to handle dealings with independent auditors to receive information on such matters that may jeopardize their independence and any other matters related to the process of auditing the financial statements, as well as any other notifications provided for in account auditing legislation and technical auditing standards; to oversee compliance with laws and regulations regarding financial information and ensure that the quarterly financial statements of the parent company CEPSA and the CEPSA Group reported to the Board of Directors are consistent with the communication released to markets; to report to the Board of Directors on the performance and results of their work; and generally speaking, to examine and study any activity or matter that the Board of Directors may determine to be related to the above.
Nominations and Compensation Committee	3	To provide information and formulate proposals and recommendations regarding nominations, re-elections, removals and compensation of members of the Board of Directors, as well as on the general compensation and incentive policies for Board members, Executive Officers and Senior Managers of the Company, and to formulate reports and proposals to the Board on the decisions to be adopted in the event of a conflict of interest.

B.2.2.- Details of Board Committees:

Executive Committee:

Name	Position
Mr. Carlos Pérez de Bricio Olariaga	Chairman
Mr. Jean-Paul Vettier	Vice-Chairman
Mr. Alfredo Sáenz Abad	Vice-Chairman
Mr. Mohamed Nasser Al Khaily	Member
Mr. Pierre Klein	Member
Mr. Menno Grouvel	Member

Audit Committee:

Name	Position
Mr. Mohamed Nasser Al Khaily	Chairman
Mr. Vincent Méary	Member
Mr. Fernando de Asúa Álvarez	Member

Nominations and Compensation Committee:

Name	Position
Mr. Carlos Pérez de Bricio Olariaga	Chairman
Mr. Jean-Paul Vettier	Vice-Chairman
Mr. Alfredo Sáenz Abad	Vice-Chairman

B.2.3.- Brief description of the rules of organization and procedure attributed to each of the Board committees.

The Executive Committee meets periodically, generally once a month, in ordinary meetings, and may meet for special purposes whenever called by the Chairman or at the request of the majority of its members; the Audit Committee meets at least on a quarterly basis to deal with matters coming under its authority; the Nominations and Compensation Committee, on the other hand, does not meet on a regular basis, given that its functions do not require it to do so. In all cases, advance notices are sent to convene the meetings of these Committees, accompanied by their respective agendas, and where applicable, the documents required to discuss certain matters.

B.2.4. Powers assigned to each committee to make recommendations, issue opinions and, where applicable, delegate powers.

Name of Committee	Brief description
Executive Committee	The delegation of powers of the Board of Directors to the Executive Committee comprises all matters that come under the Board's authority, except those that according to laws in force and the Company's Bylaws are non-transferable.
Audit Committee	The powers assigned to this Committee are set out in section B.2.1
Nominations and Compensation Committee	The powers assigned to this Committee are set out in section B.2.1

B.2.5.- Board Committee Rules.

The Audit Committee has an internal charter; the Executive Committee and Nominations and Compensation Committee do not have specific rules, as their procedures and organization are governed by provisions of the Bylaws and the Rules and Regulations of the Board of Directors.

B.2.6.- State the extent to which the Executive Committee can delegate powers and how much independence it has in the performance of its duties for adopting resolutions on the Company's governance and management.

The Executive Committee, in application of provisions under Article 47 of the Company's Bylaws, has executive and decision-making powers on all matters that come under the authority of the Board and that, by law or the Company's Bylaws, are not deemed to be non-transferable.

B.2.7.- State whether the composition of the Executive Committee reflects the proportions of the different types of Directors on the Board.

Yes.

B.2.8 If a Nominations and Compensation Committee exists, state whether all of its members are non-executive directors.

The Nominations and Compensation Committee is made up of three members, the Chairman being the Chairman and CEO of the Company; the other two members are non-executive Directors representing significant shareholders.

C.RELATED-PARTY TRANSACTIONS

C.1.- Transactions between CEPSA and its significant shareholders:

Name of significant shareholder	Name of CEPSA Group company (*)	Type of relationship	Type of transaction	Amount (*)
SCH (**)	CEPSA	Commercial	FX transactions	Purchase of foreign currencies in cash transactions for an exchange value of 1,253.4 million euros. In FX swap transactions (spot purchase + forward sale) associated with short-term financing, the average annual balance of arranged transactions pending maturity came to 66.5 million euros, with an outstanding balance at year-end of 76.6 million euros
			Bank accounts	Average balance in the year totaled 15.5 million euros.
			Loans and credits	Average balance in the year was 166.4 million euros, with a cost of 5.2 million euros. The total amount of credit available at the end of the year came to 164 million euros.
			Guarantees	The average risk for guarantees in 2005 amounted to 140 million euros, with a cost of 0.3 million euros. The risk came to 142.8 million euros at the end of the year, with a risk limit of 175 million euros.
			Banking services	The amount paid, including commissions for the use of cards in the retail network, amounted to 5.1 million euros.
			Interest rate hedging	Payments of 0.6 million euros were made for interest rate hedging on long-term financing. At December 31, 2005, none of these hedging transactions were outstanding.
Total, S.A.	CEPSA	Commercial	Purchases, sundry services and expenses.	Purchases amounting to 557.8 million euros, and sundry services and expenditures of 4.7 million.
			Sales, sundry services and revenues	Sales amounting to 395.2 million euros, and sundry services and revenues of 2.9 million.
Unión Fenosa, S.A.	CEPSA	Commercial	Purchases, sundry services and expenses.	Purchases amounting to 69.6 million euros, and sundry services and expenditures of 33.9 million.
			Sales, sundry services and revenues	Sales amounting to 5.2 million euros, and sundry services and revenues of 0.2 million.

(*).- Data refers to CEPSA Group.

(**).- Data refers to SCH Group.

C.2.- Transactions made by CEPSA and the CEPSA Group with its Directors, Executive Officers and Senior Managers.

Name of Director/Officer	Name of CEPSA Group company	Nature of transaction	Type of transaction	Amount (thousands of euros)
			None	

C.3.- Significant transactions carried out by CEPSA with other companies of the CEPSA Group provided they are not eliminated in the process of consolidation and are not part of the Company's routine business

Name of CEPSA Group Company	Description of transaction	Amount (thousands of euros)
	None	

C.4.- Conflicts of interests that Directors may be involved in, pursuant to Article 127.3 of the Corporations Act.

None.

C.5. Mechanisms established to identify, determine and settle possible conflicts of interests between the Company and/or its Group and its Directors, Executive Officers, Senior Managers or significant shareholders

Article 31 of the Rules and Regulations of the Board of Directors states accordingly that: "Directors who accept any executive position in another company or entity that may pose a conflict of interest should inform the Board of Directors through its Chairperson. The Directors should refrain from participating in debates that involve matters in which they have a personal interest, either directly or indirectly. Personal interest shall also be understood to mean when the matter affects a member of the Director's family or a company controlled by the Director; personal interest shall not be understood to mean instances in which the matter affects the company that is a shareholder of the Company for whom the Director was named or group of companies to which such shareholder may pertain. No Director shall be able to personally undertake commercial operations with the Company, nor may he or she guarantee any operations that are arranged between the Company and third parties. He or she may, however, jointly engage in such operations with the Company vis-à-vis third parties and also take part in company operations. Directors that directly or indirectly engage in professional transactions that may involve a conflict of interest must notify the Board of Directors."

D. RISK CONTROL SYSTEMS

D.1. – Risk policies of the Company and/or its Group.

The general risk policy of the CEPSA Group seeks to optimize the risk/reward tradeoff, responding to the strategy established by the Group's Executive Management. As part of the planning and budget processes, the effects of business risks are assessed and a sensitivity analysis is made for each one, in order to have a complete and comprehensive view of their impact on the Group.

In 2005, CEPSA published its second "Sustainability Report" that contains, among other matters, a broad and detailed description of the actions carried out by the CEPSA Group in social, economic and environmental areas and its contribution to sustainable development throughout the year.

D.2.- Control mechanisms set up to evaluate, mitigate or reduce major risks of the Company and its Group.

The CEPSA Group has established risk control systems that may affect the development of the Company's investments and activities, which are consistent with the Group's risk profile. The key risks encompassed in the "Control system" are as follows:

Asset risks:

The CEPSA Group is insured against risks involving material damages, including machinery failures and the control of crude exploration and production wells; injuries to workers from occupational accidents; loss of profit stemming from material damages; civil liability, both for the companies of the CEPSA Group as well as their employees in performing their jobs and arising from material damages or personal injuries; and loss or damage in the transportation of crude oil, products and equipment.

Customer credit risks:

The CEPSA Group has established a commercial credit and collection management policy, regulated through its "Internal Standards and Procedures" that are periodically updated, which include determining commercial credit limits for each customer; establishing the appropriate collection instruments; laying out procedures to follow in case of defaults; and monitoring and controlling assigned credit limits. Furthermore, computerized risk analysis systems are used to globally manage and automate internal and external data, evaluating them by applying models established for classifying each customer's commercial credit risk and the assignment of their credit limit. Notwithstanding the above, insurance policies have been arranged to cover the risk of customer payment defaults in certain commercial areas.

Financial, exchange and interest rate risk:

Risks deriving from the financial assets of the companies of the Group are analyzed regularly, both on an individual basis and in relation to the estimated cash flows for the different business segments. For exchange risks, the Group has a set of internal procedures and guidelines to follow to hedge these risks, which basically are attributable to fluctuations in the exchange rate between the euro and the US\$ (the currency in which most crude oil and oil and chemical products are priced). As for interest rates, the CEPSA Group has arranged most of its financial debt at a floating rate, as it believes this will entail a lower cost over the long run.

Risk prevention and safety:

The CEPSA Group has a safety management system as stated in its "Risk Prevention Manual" and "Basic Regulations". Likewise, it has established procedures to follow, reflecting industry-wide, generally-accepted best practices, that guarantee the highest possible levels of safety, paying special attention to the elimination of risks at source. The system in place is aimed at ongoing improvement in risk reduction, relying on a number of activities, such as work planning, the analysis and monitoring of remedial actions related to incidents and accidents, internal auditing, routine inspections of facilities and supervision of maintenance and operational work.

Environmental risks:

CEPSA believes preventive measures to counteract the effects of its operations on the environment are essential, and accordingly, all of the Group's major industrial facilities have environmental management systems, certified by an independent accrediting agency. One of CEPSA's key priorities at this time is to certify the rest of the Group's companies as early as feasible.

Likewise, CEPSA considers risk analysis and assessment to be essential tools and a core factor in identifying hazards and evaluating their risks, measuring how likely they are to occur and what their repercussions could be. Efforts are continually made to prevent risks where they may arise, planning the tasks that are needed to achieve optimum safety performance and ongoing improvement in risk-related areas.

Key environmental risks and the general measures adopted to control them are the following:

- Air emissions. – Internal management procedures are applied and measuring stations are used to control emissions and inmissions, whose data are reported to the authorities in real time.
- Water discharges – Procedures are followed to manage these discharges; systems to control wastewater parameters are applied, whose data are provided to the authorities in real time; and measures are implemented to control the receptor medium, both as regards waters and sediments.
- Soils/Groundwater. – All the Group's industrial plants have piezometer networks to monitor the condition of soils and groundwater, in order to avoid contamination risks.
- Crude oil exploration & production. – In its upstream operations in Algeria, CEPSA applies stringent environmental principles, guidelines and strategies to minimize the impact of its activities.

Risks related to crude oil prices and trading operations.

Through its affiliate CEPSA INTERNATIONAL B.V., CEPSA maintains and operates a comprehensive hedging system that insures its activity against exposure to price volatility in crude oil and product markets, and as a result, it establishes the net daily position of oil and product acquisitions and sales in the refining system, in order to decide on the contracts to be arranged in organized futures markets. The long and short positions are determined vis-à-vis the benchmark level defined by the Company's "price-risk target inventories".

This affiliate operates on both organized markets as well as on OTC derivative markets to hedge differences in pricing periods and/or existing price formulas in crude and product operations and shipments and to hedge prices as required by specific business areas of the Group (E&P, Bunker, Aviation, Strategic Customers, etc.).

D.3. Risks arising in the year

The implementation of ongoing improvements in risk control systems is enabling the CEPSA Group to steadily reduce the frequency of accidents, particularly in the area of occupational safety, and noteworthy is that the frequency index (number of lost-workday injuries for each million hours worked) fell from 8.70 at December 31, 2004 to 7.90 at the end of 2005, meaning a year-on-year decline of 9.2%.

No material asset or equity losses occurred during the year. As a member of OIL (Oil Insurance Ltd., a mutual company formed primarily by oil groups, which insures material damages incurred by its policyholders), a small portion of payments for hurricane-related damages to the oil industry in the Gulf of Mexico had to be sustained. On the other hand, doubtful trade debts were not significant within the Company's accounts receivable and the appropriate provisions were made.

D.4.- Committee or other governing body in charge of establishing and supervising control mechanisms.

The Executive Committee, the Chairman of the Board of Directors and Chief Executive Officer, as well as the Executive Management of the different business divisions, supervise and control risks, and adapt, wherever feasible, their profile to prevailing circumstances. In the area of Environmental Affairs, Safety and Quality, CEPSA's PA.S.CAL (Environmental Protection, Safety and Quality) Committee's basic function involves the periodic review of the CEPSA Group's environmental, occupational health and safety and quality management and its associated risks, proposing any needed changes or adjustments.

D.5. Description of the processes of compliance with regulations that affect the Company and/or the Group

The energy sector in which CEPSA conducts its businesses is basically governed by Hydrocarbons Act 34/1998 of October 7th; RDL 15/1999 of October 1st, whereby measures to deregulate the market, implement structural reforms and increase competition in the oil and gas sector were approved; RD 1716/2004 of July 23rd, which regulates the requirement to maintain minimum buffer stocks of petroleum products, the diversification of natural gas supplies, and the Corporation of Strategic Reserves (CORES) of petroleum products; RD 398/1996 of March 1st and subsequent regulations on gasoline and diesel fuel specifications; RDL 6/2000 of June 23rd which, among other measures, limits the maximum shareholding in the capital of Compañía Logística de Hidrocarburos, S.A. (CLH); RDL 5/2004, of August 27th, which regulates the system of greenhouse gas emission trading rights; and RD 1866/2004, of September 6th, which approves Spain's plan to assign emission trading rights for the 2005-2007 period; RD 60/2005, of January 21st, amending RD 1.866/2004, of September 6th; the instrument for ratifying the Kyoto Protocol to the UN Framework Agreement on climate change, of December 11, 1997; Act 1/2005, of March 9th, governing the system for trading greenhouse gas emission rights; RDL 5/2005, of March 11th, on urgent reform measures to promote productivity and improve public contracting, under its title III; RD 1.264/2005, of October 21st, regulating the organization and procedures of the National Registry of emission trading rights; RD 1.315/2005, of November 4th, establishing the bases for systems aimed at monitoring and verifying greenhouse gas emissions in facilities that come under the scope of Act 1/2005.

In environmental matters, CEPSA has included the requisites of applicable legislation in its "Basic Environmental Regulations" and its "Internal Procedures". Noteworthy is that CEPSA has also implemented an environmental management system that has been certified according to ISO 14001 and EMAS standards by independent agencies which in turn are accredited by the Spanish Ministry of Industry, Tourism and Commerce's ENAC (National Accreditation Bureau). As for petrochemicals in the CEPSA Group, the Company has voluntarily adhered to the Responsible Care® scheme, a proactive program put into practice by the worldwide chemical industry to demonstrate the strides made by leading businesses in the areas of health, safety and the environment, through associated codes and regulations.

With regard to occupational risk prevention, CEPSA has a set of "Basic Rules for Industrial and Occupational Risk Prevention" which apart from complying with legislation in this area, also include guiding principles and policies needed to achieve the highest standards of safety in its operations; the "Corporate Management Manual for the Prevention of Industrial and Occupational Risk Prevention"; and other action guidelines that guarantee solid safety performance in the entire productive process, from plant design to product marketing.

E.SHAREHOLDER MEETINGS

E.1.- Quorums to hold the Annual General Meeting of Shareholders pursuant to the Company's Bylaws. Differences vis-à-vis the rules of minimum requirements provided for in the Corporations Act.

Article 28 of the Company's Bylaws, as well as Article 15 and Title V of the Rules and Regulations of Shareholder Meetings, stipulate that the AGM shall have a valid quorum under the following conditions:

- Twenty-five (25) percent of the voting power of the outstanding shares of the Company must be present either in person or represented by proxy to constitute a quorum necessary to conduct the Annual Meeting on first call. On second call, the meeting shall have a valid quorum to transact business regardless of the number of shareholders present or the amount of outstanding voting shares of the Company that they represent.
- In order to be able to lawfully issue debentures, undertake capital increases or decreases, transform, merge or spin off the Company and, generally speaking, make any amendment to the Bylaws, shareholders who hold at least fifty (50) percent of the outstanding voting shares of the Company must be present in person or represented by proxy at the Annual Meeting, while twenty five (25) percent of this voting capital shall suffice for the second call, in order for the Meeting to have a valid quorum to transact business.
- When attended by shareholders representing less than fifty (50) percent of the outstanding shares of capital stock of the Company entitled to vote, the resolutions to which the preceding paragraph refer may only be validly adopted with the affirmative vote of two-thirds of the capital present in person or represented by proxy at the Meeting.

There are no differences vis-à-vis the minimum requirements stipulated in Articles 102 and 103 of the Corporations Act.

E.2.- System to adopt resolutions. Differences vis-à-vis the guidelines provided for in the Corporations Act.

Article 30 of the Company Bylaws and Title V of the Rules and Regulations of Shareholder Meetings stipulate that:

- The resolutions at the Annual Meeting shall be adopted by a voice vote and only by poll when the law or the Company's Bylaws require specific majorities, or whenever the Chairperson on his or her own initiative so decides, or at the express request of any shareholder present in person or by proxy, regardless of the number of shares held. In the event of a poll, and except in cases where the law requires special or qualified majorities, the resolutions shall be understood to have been passed when half of the votes, plus one, representing the capital at the Meeting, present in person or by proxy, are cast in favor.

For comparative purposes, Article 93 of the Corporations Act sets forth that:

- Resolutions shall be adopted by a majority vote.

E.3.- Rights of shareholders with regard to Annual Meetings apart from those established in the Corporations Act.

The Company's Bylaws do not provide for any special shareholder rights apart from those already set forth in the Corporations Act.

E.4.- Measures adopted to encourage shareholder participation at Annual Meetings.

The following measures, among others, have been adopted:

- To provide information on an ongoing basis through the Shareholder Service Office.
- To reply to requests that, in using their legally-recognized rights to information, shareholders make in writing in due time prior to the date of the AGM.

- To distribute, as of the time that the AGM notice is published, the annual report and any other legally-required information at the Company's head offices, its branch offices and in venues specifically arranged for this purpose.
- To provide free parking at the venue of the AGM for shareholders who use their own vehicles.
- To offer a complimentary gift item to shareholders present in person or by proxy at the AGM.

E.5. Measures adopted to guarantee the independence and proper conduct of Annual Meetings.

As proposed by the Board of Directors, the Annual Meeting is presided by the Chairman of the Board, whose actions shall comply with applicable legislation and the provisions of the Company's Bylaws.

Core shareholders with Board representation together owned over 92% of the Company's share capital at December 31, 2005.

E.6.- Amendments introduced during the year in the Rules and Regulations of Shareholder Meetings.

The Annual General Meeting of Shareholders held on May 28, 2004, passed the following resolution, inter alia: "To approve the full text of the Rules and Regulations of Shareholder Meetings of the Company, in fulfillment of what is set forth for these purposes in Article 1 of Act 26/2003 of July 17th on the Transparency of Listed Corporations, as a result of which Articles 111 to 116 inclusive are added to the Securities Market Act 24/1988 of July 28th"; this resolution was passed with 100% of the votes cast in favor by shareholders present in person or represented by proxy at the AGM.

No amendments were introduced in the Rules and Regulations of Shareholder Meetings during the year.

E.7.- Information on attendance at Annual Meetings held in the year.

Date of AGM	% of shareholders present in person	% of shareholders represented by proxy	% distant votes	Total % out of share capital
May 27, 2005	44.60%	37.70%	--	82.30%

E.8.- Resolutions adopted in Annual Meetings held during the year and percentage of votes cast to adopt each resolution.

2005 Annual General Meeting of Shareholders (the only AGM held in the year):

Date and place:

May 27, 2005, on first call, in Madrid, Auditorium "B" of the Municipal Convention Center, Avda. De la Capital de España Madrid, s/nº [Campo de las Naciones], 28042 Madrid.

Attendance:

A total of 2,842 shareholders were present either in person or represented by proxy, owning 220,212,345 shares, equivalent to 82.30% of the share capital.

Resolutions adopted:

Summary of proposals submitted to a vote of shareholders:	Votes in favor	Votes against	Abstentions
To study and approve the Financial Statements and Management Discussion & Analysis for CEPSA and its Consolidated Group, as well as the Proposal for CEPSA's Profit Distribution and the Company's executive management	220,019,923	156,390	36,032
To ratify and re-elect Board Directors	219,978,012	41,911	192,422
To re-elect Deloitte, S.L., for a one-year period, as the independent auditors to examine and review the 2005 financial statements for CEPSA and its Consolidated Group	220,176,313	0	36,032
To delegate powers to the Board of Directors, or the person or persons on the Board that it may so designate, to notarize the resolutions passed at the Annual Meeting by a public deed	220,176,313	0	36,032

E.9. Minimum number of shares needed to attend Annual Meetings.

Article 23 of the Company's Bylaws states that the right of admission to the Annual Meeting shall be granted to all shareholders who can demonstrate ownership of a minimum of sixty (60) shares, at least five (5) days prior to the scheduled date of the Annual Meeting on first call. All shares have the same voting rights (each share is entitled to one vote).

E.10.- Policies pursued by the Company with regard to proxy voting at Annual Meetings.

The admission tickets for the AGM include the items on the Agenda and the voting instructions for each one of them. The Company applies what is provided for in Article 25 of its Bylaws and Article 13 of the Rules and Regulations of Shareholder Meetings, which state that shareholders may appoint other shareholders to represent their shares, and such proxy holders shall be able to cast not only the votes they are entitled to, but also those of the shareholders they are representing. Proxies shall be appointed specifically for each Annual Meeting and must be authorized in writing or by the means of remote communication that comply with the requisites contained in Article 13.

E.11.- State whether the Company is aware of the policies of institutional investors with regard to their involvement or non-involvement in corporate decisions.

CEPSA, whose shares are bearer shares, is unaware of the existence of institutional investors, or the policies, where applicable, that they may adopt on this matter.

E.12.- Address and means of access to corporate governance contents on the Company's website.

The Corporate Governance Report can be obtained either directly at the AGM, by requesting it via postal mail, phone or e-mail from the Shareholder Service Office, located at the head offices, or by logging on to the Company's website at " www.cepsa.com", "information for shareholders", "corporate governance".

F.LEVEL OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

The following corporate governance recommendations are structured according to the model and criteria established by the Special Commission to study a code of ethics for Boards of Directors of companies (Olivencia Commission); these recommendations were subsequently revised and, in some cases, amended by the Special Commission to foster transparency and security in financial markets and listed companies (Aldama Commission), this circumstance indicated where applicable.

At the date of approval of this corporate governance report, the Spanish Securities & Exchange Commission (CNMV) was pending publication of a single document on this matter, for which it has been authorized by virtue of the provisions under Ministerial Order ECO/3722/2003 of December 26th.

Below are the aforementioned recommendations and measures adopted by the company with regard thereto:

Recommendation 1. The Board of Directors should expressly assume a general oversight function as its core mission, exclusively exercising the non-transferable responsibilities that this involves, and establishing a formal list of matters reserved for its sole decision-making.

- Article 6 of the Rules and Regulations of the Board of Directors states that this body has the broadest possible powers to govern and represent the Company. Likewise, it is responsible for carrying out all transactions involving ownership, administration, management and engagement, with the only exceptions being the powers assigned by law or the Company's Bylaws to the Annual Meeting.
- In particular, Article 32 of the Company's Bylaws lists the powers granted to the Board of Directors, specifying those which are non-transferable.

Recommendation 2. The Board should consist of a reasonable number of independent directors, who should be individuals of the highest professional standing with no ties to the Company's executive management or its significant shareholders.

- At 2005 year-end, the Company had 2 independent Directors, out of a total of 19 members, meaning 10% of total Board members. This ratio seems reasonable if we bear in mind that more than 92% of the share capital is directly or indirectly held by 4 shareholders with Board representation.

Recommendation 3. In the Board's composition, non-executive directors should widely outnumber executive directors and the ratio of shareholder representative directors to independent directors should be established by taking into account the existing proportion between the share capital represented by core shareholdings and the rest.

- At the end of 2005, the Company's Board had 17 shareholder representative or independent non-executive directors, accounting for 90% of the total number of Board members, meaning an ample majority vis-à-vis the 2 incumbent executive Directors.
- Likewise, at this same date, there were 17 shareholder representative Directors, accounting for over 92% of the Company's share capital and meaning 90% of the total number of Board members, a proportion which, as mentioned above, is consistent with the distribution of the Company's share capital.

Recommendation 4. The Board of Directors should adjust its size in order to make it function more effectively and encourage greater participation from its members. In principle, the appropriate size would range from five to fifteen members.

- The Company's Bylaws stipulate that the Board of Directors shall have a number of members ranging from a minimum of 10 to a maximum of 30, with 19 being the number of Directors at year-end.
- The "Aldama Commission" does not make any recommendations on the number of Directors, limiting itself to saying, under the section on the Board of Directors, that "there should be a reasonable number to ensure its ability to function effectively".

Recommendation 5. In the event that the Board may choose to have the Chairman simultaneously hold the office of Chief Executive Officer of the Company, it should adopt the necessary safeguards to reduce the risk of concentrating power in one single person.

- The Board of Directors is given the broadest discretionary powers to govern and represent the Company and according to Article 23 of the Company's Bylaws, this includes a considerable number of powers that are non-transferable.
- Likewise, the Executive Committee, and where applicable, the Board of Directors, must previously approve the realization of investments or divestments, whenever they exceed a certain amount, as well as certain transactions and the signing of supply agreements.
- The so-called "Aldama Commission" makes no reference to the separation of offices, based on the fact that "this criteria is (only) justified by the conviction that the choice of one leadership structure or another (dual or unitary) cannot be formulated as a general rule but rather essentially depends on each company's circumstances".

Recommendation 6. The office of Secretary of the Board should be given greater relevance, strengthening this position's independence and stability and underscoring the function of overseeing that the actions of the Board formally and materially comply with the law.

- The Company's Bylaws and the Rules and Regulations of the Board of Directors both provide the office of Secretary of the Board with the necessary independence in order to perform its professional duties, which include assisting the Chairperson in preparing Shareholders Meetings; preparing and attending meetings of the Board of Directors, Executive Committee and Audit Committee, taking particular care to provide Directors with the necessary assistance and information; and devoting special attention to the formal and material legality of the Board's actions and ensuring that its governing rules and procedures are observed and regularly reviewed.

Recommendation 7. The composition of the Executive Committee, if one exists, should reflect the same balance maintained by the Board among the different types of Directors, and relations between both bodies should be based on the principle of transparency, so that the Board is fully aware of the matters dealt with and decisions taken by the Executive Committee.

- The company has an Executive Committee as a sub-committee of the Board of Directors, the members of which, according to the Company's Bylaws, are chosen by the Board itself from among its members, numbering at least 3 and no more than 10. At the end of 2005, this body was composed of 6 members, the Chairman being an Executive Director and the 5 remaining members being shareholder representative directors, who together represent over 92% of the share capital.
- The Chairperson of the Executive Committee, and where appropriate, the remaining members, shall report to the Board of Directors at the meeting held immediately after the Executive Committee meeting, on all matters dealt with and decisions adopted therein. In such cases in which, in the opinion of the Chairperson or at least one-third of the members of the Executive Committee, the importance of the matter so requires, the resolutions adopted by the Committee, regardless of their executive nature, shall be submitted for ratification of the Board.

Recommendation 8. The Board of Directors should set up standing committees, composed entirely of non-executive directors, entrusted with the delegated duties of handling accounting information and oversight (Audit); selecting Directors and Executive Officers (Nominations); establishing and reviewing compensation policies (Compensation); and evaluating the governance system (Compliance).

- The Board of Directors has an Executive Committee, an Audit Committee and a Nominations and Compensation Committee, with the organization, duties, responsibilities and powers provided for in Articles 16 to 18, inclusive, of the Rules and Regulations of the Board of Directors. The configuration of the Executive Committee and Nominations and Compensation Committee is made up of a majority of non-executive directors, while the Audit Committee is exclusively made up of non-executive directors.

Recommendation 9. The necessary measures should be adopted to ensure that Directors are provided in advance with sufficient information, specifically prepared and aimed at planning the meetings of the Board, and the importance or reserved nature of such information shall not be considered grounds for an exemption from this requirement, except under extraordinary circumstances.

- The notices to the Board meetings are sent by the Secretary, at least five (5) days prior to the scheduled date of the meeting, accompanied by an Agenda of matters to be discussed. The Directors are entitled to receive any information that is necessary to perform their duties.

Recommendation 10. In order to ensure that the Board is able to properly perform its duties, its meetings should be held with the frequency needed to fulfill its mission; the Chairperson should encourage all Directors to participate and freely adopt a position on matters; particular care should be taken in drawing up the minutes; and the quality and efficiency of its work should be reviewed at least on a yearly basis.

- Article 40 of the Company's Bylaws stipulates that the Board of Directors shall meet whenever it is in the best interest of the Company, whenever called by the Chairperson or at the request of one-third of the incumbent Directors, and Article 41 adds that notwithstanding the above, the Board shall not allow more than three months' time to elapse without convening. During 2005, the Board met 6 times, all of the meetings having been presided by the Chairman of the Board.

Recommendation 11. The Board's involvement in the selection and re-election of its members should adhere to a formal and transparent procedure, based on a sound and well-reasoned proposal from the Nominations Committee.

- The Nominations and Compensation Committee reports on and formulates the nomination, re-election and removal of members of the Board of Directors, both for the case of co-opting nominees as well as for their proposal to the Annual Meeting, which in turn is the body that authorizes the appointment, removal and determination of the number of Directors of the Company.

Recommendation 12. Companies' rules and regulations should include the obligation of directors to resign whenever circumstances arise that could negatively impact the Board's effectiveness or the company's credibility and reputation.

- Article 26 of the Rules and Regulations of the Board of Directors sets forth that Directors must relinquish their seats to the Board and formalize, if this body deems it advisable, the corresponding resignation in the following cases: In the event that they resign from the executive position(s) by virtue of which they were appointed to the Board; in the event that they are involved in any of the cases of incompatibility or prohibition established in applicable legislation; and in the event that they are convicted for a criminal offense.

Recommendation 13. An age limit should be set for occupying the office of Director, which could be 65 or 70 for executive directors and the Chairman, and somewhat more flexible for the rest of the Board members.

- The Rules and Regulations of the Board of Directors do not set any age limits either for being appointed a Director or for being re-elected to this office.
- The "Aldama Commission" Report, in section 2.3, says, with regard to this recommendation, that: "There are no substantive reasons from the point of view of good governance to warrant a recommendation on this matter".

Recommendation 14. The right of all Directors to gather and obtain the necessary information and counsel to perform their supervisory duties should be formally recognized, establishing the proper channels to exercise this right, including recourse to outside advisors and experts under special circumstances.

According to Article 28 of the Rules and Regulations of the Board of Directors, the Directors have the broadest powers to obtain information on any aspect of the Company or Consolidated Group. Likewise, the Audit Committee is authorized, in order to guarantee the best performance of its functions, to retain the services of outside experts on matters of a certain relevance or complexity.

Recommendation 15. Policies regarding Directors' compensation, the proposal, evaluation and review of which must be entrusted to the Compensation Committee, should be consistent with the criteria of moderation, linkage to the company's performance and detailed and individualized disclosure.

The Company's Bylaws limit Directors' share of Company profits to 5%, after covering the appropriations to legal reserves and distributing an initial dividend to shareholders of no less than 4%.

In 2005, Directors received a total of 5.4 million euros in annual retainers, equivalent to 0.54% of net consolidated income attributed to the parent company.

Recommendation 16. The internal regulations of the Company should specify the obligations arising from Directors' general duties of loyalty and diligence, particularly addressing situations of conflicts of interest, the duty of confidentiality, exploitation of business opportunities and use of corporate assets.

Article 30 of the Rules and Regulations of the Board of Directors regulates and makes ample reference to Directors' obligations, with special emphasis on the duties of active collaboration, safeguarding of the Company's interest, and confidentiality in all matters dealt with by the Board.

Recommendation 17. The Board should promote the adoption of the opportune measures to extend the duties of loyalty to significant shareholders, establishing, in particular, safeguards for transactions between such shareholders and the company.

Significant shareholders of the Company, owning over 92% of the share capital, have Board representation, and therefore, the duties, among others, provided for in Title IX of the Rules and Regulations of the Board of Directors, Articles 30 to 37 inclusive, are applicable to them. These articles govern the obligations of Directors, conflicts of interest, use of corporate assets, non-public information, business opportunities, indirect operations, duty to notify and principles of transparency on transactions carried out between such shareholders and the Company.

Recommendation 18. Measures should be taken aimed at making the mechanism of proxy appointments and voting more transparent and encouraging better communication between the company and its shareholders, and in particular, institutional investors.

Articles 25 to 27 of the Company's Bylaws regulate proxy appointments and proxy voting for Annual Meetings. Likewise, the Rules and Regulations of Shareholder Meetings provide, under Article 13, the detailed procedure to be followed as regards these matters.

Recommendation 19. The Board of Directors, over and above the requirements imposed by prevailing legislation, should be committed to providing markets with timely, accurate and reliable information, especially when it concerns the shareholding structure, substantial changes to the rules of governance, significant related-party transactions or treasury stock operations.

The Company strives to promote an ongoing and open flow of communication with its shareholders and investors, both individual as well as institutional, not only through officially-established channels, but also through its Office of Shareholder Services and press releases on earnings and key activities undertaken.

Recommendation 20. All periodic financial information provided to the market, apart from the annual report, should be prepared in accordance with the same principles and professional practices as those used in preparing the annual statements, and verified by the Audit Committee prior to its disclosure.

In preparing publicly-disclosed financial-economic figures and information, whether obligatory or not, the Company applies the principles, standards of valuation and accounting criteria provided for by law, ensuring uniformity in those used in periods of time with which, where applicable, comparisons are made.

Article 47 of the Company's Bylaws sets forth that the mission of the Audit Committee is to ensure that information that is publicly disclosed to shareholders and markets accurately reflects the Company's net worth, financial position and earnings. Likewise, it states that the Audit Committee's functions include overseeing compliance with all laws and regulations regarding financial information and ascertaining that the quarterly financial statements of the parent company CEPSA and the CEPSA Group reported to the Board of Directors are consistent with the earnings reports released to the market.

Recommendation 21. The Board of Directors and Audit Committee should monitor any situations that may jeopardize the independence of the company's external auditors, and specifically, verify the percentage represented by fees paid for all services out of the auditing firm's total revenues and publicly disclose fees paid for non-audit services.

One of the duties and responsibilities of the Audit Committee is to propose the appointment of independent auditors, and their suspension or renewal, as well as to handle dealings with such auditors to receive information on matters that may jeopardize their independence.

The amount paid by the CEPSA Group to its main accounting firm, Deloitte, S.L., in 2005, for auditing and other professional services, totaled 1.4 million euros; the amount paid for the same items to other auditors by various Group companies amounted to 0.4 million euros. Both amounts are not material in comparison to the turnover generated by these auditors.

Recommendation 22. The Board of Directors should strive to avoid having the financial statements that it formulates be presented to the Annual Meeting with reservations or qualifications in the auditors' report; otherwise, and whenever possible, both the Board and the auditors should provide a clear explanation to shareholders and markets on the nature and extent of their discrepancies.

Taking the last ten years as a reference, none of the reports issued by the independent auditors contained any limitations of scope, qualifications or reservations whatsoever.

G.OTHER INFORMATION OF INTEREST

G.1.- Principles or significant aspects regarding corporate governance practices applied by the Company that have not been addressed in this report.

It is the opinion of the Board of Directors that CEPSA and the CEPSA Group are in compliance with the recommendations that, in matters of corporate governance, are contained in the reports issued by the so-called "Olivencia Commission" and "Aldama Commission".

The Board of Directors of CEPSA, at its meeting of March 30, 2006, approved this Corporate Governance Report, whose contents fulfill the requirements and provisions set forth in Act 26/2003 of July 17th and Ministerial Order ECO/3722/2003 of December 26th.

