2005 Annual Report

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Letter from the Chairman

TO OUR SHAREHOLDERS:

I am particularly pleased and proud to report that in 2005, CEPSA delivered the strongest earnings performance in the corporation's history.

For the first time ever, net income topped 1,000 million euros, surging 48% from 2004's figures.

Allow me first to briefly review the operating environment in which CEPSA conducted its activities, and also explain our earnings and other highlights in greater detail, in addition to some items that I believe are of interest.

One of the key factors influencing our sector is the price of European benchmark Brent Blend, which averaged over $54/barrel in 2005, 42% more than the year before. This increase was largely driven by robust global demand for crude oil, particularly in the burgeoning economies of India and China, as well as supply constraints resulting from severe hurricane-related disruptions and outages in upstream and downstream facilities in the Gulf of Mexico.

Firm demand, compounded by reduced potential production capacity in some geographical areas and limited spare capacity and refinery downtime, prompted refining margins to remain resiliently high during the year and boosted our crude oil sales. However, the jump in commodity prices adversely affected our petrochemicals segment, which was hindered by the elevated cost of raw materials.

As for the euro vs. the US dollar, the average exchange rate for the year was $1.24, practically the same as in 2004.

New International Financial Reporting Standards. Inventory Valuation Method

Before commenting on our earnings and financial performance, I would just like to point out that 2005 is the first year for which CEPSA along with other European companies are required to present their consolidated financial statements in compliance with international accounting standards approved by the European Commission. The consolidated financial figures provided for 2004 and 2005 were obtained by applying new International Financial Reporting Standards (IFRS), which entail a considerable change for oil companies, given that one of the new criteria is in connection with the method for valuing inventory, al large portion of which are kept as minimum safety stocks required by governments and international agencies in order to deal with any possible supply disruptions or crises. Whereas until now, the LIFO (Last In, First Out) method of inventory valuation was used, IFRS mandates the use of the Average Cost method.

Earnings & Capital Expenditures

CEPSA managed to achieve unprecedented earnings levels across the board. Consolidated operating income stood at 1,528 million euros, while pre-tax income totaled 1,518 million euros, rising 46% and 43%, respectively, from the year before.

And as I mentioned above, net income amounted to 1,010 million euros, with Earnings per Share (EPS) at 3.78 euros, up 48% from 2004.

On the strength of these results, we continued to pursue a far-reaching capital spending program, allocating 551 million euros to meet the objectives defined by the Company's strategy and implement a development plan that basically involves the following projects, initiatives and targeted actions:

- In Exploration & Production, to continue upstream investments in our core producing assets in Algeria, as well as exploratory work in regions with potential oil and gas reserves, such as Colombia, Egypt and other areas.

- In Refining, to deploy new equipment, units and technologies aimed at strengthening our operational capacity, as well as boosting the productivity of our facilities and enhancing energy efficiency while minimizing harmful emissions.

- In Marketing, to expand and upgrade our commercial network, particularly our retail sites, and improve and broaden our marine fuel delivery capabilities at ports both at home and abroad, specifically in areas with considerable international traffic such as the Canary Islands, the Strait of Gibraltar and the Panama Canal.

- In Petrochemicals, to build a new phenol plant, slated to begin production towards the end of 2006.

In executing all of these projects, we endeavor to adhere to the highest standards of operational safety, health and environmental protection.

Share Value

CEPSA's shares performed favorably in 2005, ending the year at 38.65 euros, up 30.13% from a year earlier.

Letter from the Chairman

This positive trend in the Company's share price continued into the early months of 2006.

Dividend

Based on the Company's strong performance and earnings figures, the Board of Directors has decided to submit a proposal to the Annual General Meeting of Shareholders to approve a dividend distribution of 1.25 euros per share, up 25% from the dividend paid out in 2004. This proposed dividend is equivalent to a pay-out ratio of 40.3% of CEPSA's consolidated earnings, after deducting the effect of non-recurring items, in connection with the difference in valuing inventory by the average cost method versus the LIFO method.

Our Businesses

All of our business segments posted solid earnings in the year. In Exploration & Production of oil and gas, Operating Income rose 19% from 2004's figures.

As regards Refining, an area where our facilities achieved consistently high utilization rates – surpassing national and global averages – along with Basic Chemicals, Transportation and Marketing, Operating Income climbed 52%.

Lastly, in our other two major business divisions, Gas & Power and Petrochemical Intermediates, Operating Income exceeded the previous year's figures in both cases.

Rather than go into further detail, a comprehensive and in-depth analysis of these results can be found in the corresponding sections of this Annual Report.

Our Future and Our Commitment

I would like to take this opportunity to give you an overview of what our future plans are and hope that, once again, we can rely on your trust and support to accomplish our goals.

As I mentioned on other occasions, one of the Company's main priorities is to create wealth and value: above all for you, our shareholders, who are the true backbone of this project called CEPSA and without whom we would never have been able to advance as far, and achieve as much, as we have until now.

But our Company is likewise mindful of the fact that society at large should also benefit from the wealth we generate and not only through our contributions by means of local and federal tax revenues, but through something much more meaningful and that has a more lasting impact on the welfare of our citizens: the creation of jobs. I am pleased to say that at the end of last year, CEPSA's workforce numbered 10,783 employees, 249 more than in 2004. And this growth has become a mainstay of our Company, where year after year and thanks to the start-up of new plants and the expansion of our commercial activities, we have been fortunate enough to be able to offer new and steady positions for skilled workers. In fact, over the last 10 years, we have sustained this trend in growing our exceptional team of people, adding, on average, one new employee every two days.

I am firmly convinced that creating employment is an area that all of us – our shareholders, those who work in CEPSA and society as a whole - should consider one of our greatest accomplishments.

Our strategy for the next five years is focused on building and driving this growth; offering more jobs and better products that meet stringent quality standards; deploying innovative and industry-leading technologies and equipment, upgrading our existing facilities and keeping abreast of trends in the marketplace, positioning ourselves to capitalize on any business opportunities that may arise and that are consistent with our aims.

We strive to achieve these goals while not losing sight of one of the most important challenges of our time: managing our operations safely, reliably and in a socially and environmentally-responsible manner, and ensuring that in the conduct of our businesses, we, as a corporate citizen, observe the highest standards of ethics and integrity, throughout the communities where we operate and in a way that brings benefits to all sides, industry and neighbors alike.

In order to successfully meet our targets, we plan on implementing a large-scale capital spending program, assigning more than 3,750 million euros over the next five years, which we are confident will contribute towards enhancing CEPSA's long-term value and growth.

Allow me to underscore that all of our achievements, and those that I am sure we will deliver in the years to come, would not be possible without the dedicated efforts and commitment of our workforce and the loyalty and encouragement of our shareholders.

I would like to end this letter by expressing my deepest gratitude and appreciation for your continued support, my unswerving trust and confidence in the future of our Company and my pride and satisfaction at being able to report the record-setting earnings figures we attained, as well as our plans and aspirations for the years ahead.

Carlos Pérez de Bricio Olariaga
Chairman & Chief Executive Officer

March 2006

Key Figures (*)

Results (millions of euros)	2005	2004	2003	2002	2001
Net Sales	18,370	14,113	13,199	11,459	11,664
Net Sales (1)	16,188	11,945	11,056	9,407	9,713
Operating income	1,528	1,048	913	471	583
Consolidated income before taxes	1,518	1,058	946	575	584
Consolidated attributable net income	1,010	684	612	461	435
Consolidated attributable net income (**)	831	628	612	461	435
Dividend declared by CEPSA (2)	334	268	254	185	161
Return on average equity (ROAE) (%)	25.6	20.2	22.6	19.3	20.6
Return on capital employed (ROCE) (%)	18.5	15.1	15.1	12.9	13.5
Financial Data (millions of euros)					
Share capital	268	268	268	268	268
Shareholders' equity (3)	4,310	3,598	2,899	2,518	2,263
Capital employed	5,054	4,637	4,206	4,049	3,655
Capital & exploration expenditures	551	539	485	709	932
Financial Data per Share (in euros)					
Net income	3.78	2.56	2.29	1.72	1.62
Cash dividend	1.25	1.00	0.95	0.69	0.60
Pay-out ratio (%) (**)	40	42	42	40	37
Stock Market Data					
Average price per share (euros)	37.43	28.37	25.67	16.58	11.80
Year-end price per share (euros)	38.65	29.70	27.50	17.39	12.49
Year-end market capitalization (millions of euros)	10,342	7,947	7,358	4,653	3,342
Dividend yield (%)	3.34	3.52	3.70	4.16	5.09
P/E ratio (on average share price for the year)	9.91	11.10	11.22	9.63	7.28
Operating Data (millions of tons/year)					
Refining capacity	22.2	22.2	22.2	22.0	22.0
Treated crude oil	21.5	20.9	21.1	20.5	19.8
Product sales (4)	29.8	29.0	27.9	25.8	25.3

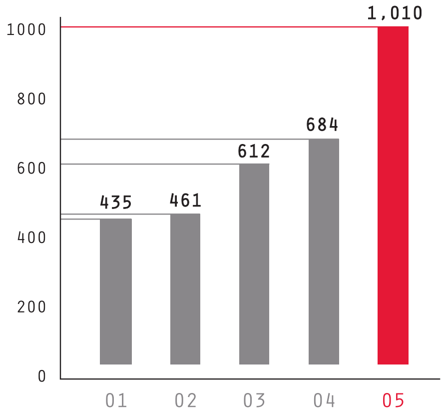
(*) Unless otherwise mentioned, the foregoing figures for 2005 and 2004, as well as those appearing in the Activities Report, were determined by applying new International Financial Reporting Standards (IFRS). Figures for 2003, 2002 and 2001 were obtained using Spanish GAAP effective during those years.

(**) Not including the impact on earnings from valuing inventory using the average cost method vs. LIFO.

(1) Not including excise taxes on oil & gas.
(2) For comparative purposes, 2005's figures include the dividend proposal to be submitted for approval of the Annual General Meeting of Shareholders.
(3) Before final dividend payment for the year.
(4) Not including crude oil sales.

Net Income

Millions of euros

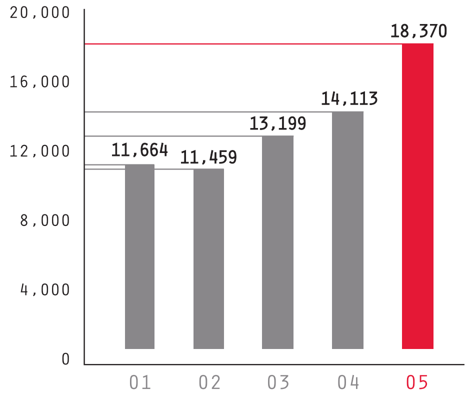


Dividend

Euros per share

Net Sales

Millions of euros



Board of Directors (1)(2)

Honorary Chairman
MR. ALFONSO ESCÁMEZ LÓPEZ

Chairman & Chief Executive Officer
MR. CARLOS PÉREZ DE BRICIO (*) (***)

Vice-Chairmen
MR. JEAN-PAUL VETTIER (*) (***)
MR. ALFREDO SÁENZ (*) (***)

Board Members
HRH D. CARLOS DE BORBÓN-DOS SICILIAS, INFANTE OF SPAIN
MR. JOSÉ LUIS LEAL
MR. MOHAMED N. AL KHAILY (*)(**)
MR. JUAN RODRÍGUEZ INCIARTE
MR. ERNESTO MATA
MR. VINCENT MÉARY (**)
MR. PIERRE KLEIN (*)
MR. MENNO GROUVEL (*)
MR. JACQUES POREZ
MR. FERNANDO DE ASÚA (**)
MR. JEAN PRIVEY
MS. BERNADETTE SPINOY
MR. DOMINIQUE DE RIBEROLLES
MR. JOSÉ MANUEL OTERO
MR. MURTADHA M. AL HASHEMI
MR. PEDRO LÓPEZ JIMÉNEZ

Secretary of the Board of Directors, Executive Committee and Audit Committee
MR. FERNANDO MARAVALL

Vice-Secretary of the Board of Directors, Executive Committee and Audit Committee
MR. ALFONSO ESCÁMEZ

(*) Executive Committee member
(**) Audit Committee member
(***) Nominations and Compensation Committee member

1) Configuration of the Board of Directors at March 30, 2006, the date on which the 2005 Financial Statements, Management Discussion & Analysis and Proposal for Profit Distribution of Compañía Española de Petróleos, S.A. (CEPSA) were approved.

2) During the year, Mr. Demetrio Carceller, Mr. Nasser Alsowaidi and Mr. Antonio Basagoiti voluntarily tendered their resignations as Directors, and the following new members were co-opted onto the Board to replace the outgoing Directors: Mr. José Manuel Otero (whose appointment was ratified pursuant to the provisions of Article 35 of the Company's Bylaws, at the AGM held on May 27, 2005), Mr. Murtadha Al Hashemi and Mr. Pedro López Jiménez.

Executive Management Committee (1)(2)







1 Chairman & Chief Executive Officer
MR. CARLOS PÉREZ DE BRICIO

2 Executive Director and Senior Vice-President Corporate Planning, Control & Oil Marketing
MR. DOMINIQUE DE RIBEROLLES

3 Senior Vice President - Exploration & Production, Natural Gas & Corporate Management
MR. FERNANDO MARAVALL

4 Senior Vice President - Corporate Technical Division
MR. IGNACIO GÓMEZ

5 Senior Vice President - Petrochemicals
MR. FERNANDO ITURRIETA

6 Senior Vice President - Human Resources, Legal Affairs & Property Asset Management
MR. JUAN RODRÍGUEZ FIDALGO

7 Vice President – Supply, Trading, Bunker and Aviation
MR. JOSÉ MARÍA MÚGICA

Secretary of the Executive Management Committee
MR. JUAN MANUEL FERRERAS

SENIOR ADVISORS

Vice President – Specialties
MR. JOSÉ E. ARANGUREN

Vice President – Retail/Wholesale Operations
MR. FRANCISCO CALDERÓN

Vice President – Exploration & Production
MR. PEDRO MIRÓ

Vice President – Institutional Relations
MR. CARLOS ALCÁZAR

(1) Configuration of the Executive Management Committee at March 30, 2006.

(2) Mr. Manuel Abollado retired from his position as Senior Vice President of the Technical Division and Mr. José María Marín Quemada voluntarily tendered his resignation as an Advisor to the Executive Management Committee and was replaced in this position, as well as in his capacity as Vice President of the Institutional Relations Division, by Mr. Carlos Alcázar.

Summary of CEPSA Group Activities

- EXPLORATION & PRODUCTION
- TRADING, REFINING, MARKETING AND BASIC CHEMICALS
- GAS & POWER
- PETROCHEMICAL INTERMEDIATES
- CORPORATE AREA
- CEPSA AND THE STOCK MARKET

Exploration & Production

INTERNATIONAL UPSTREAM

ALGERIA

BLOCK 406A

CEPSA's core upstream asset base is located in Block 406A of the Algerian Sahara Desert, which measures 1,640 square kilometers and includes all of the RKF field and part of the OURHOUD field.

Total recoverable reserves at the start of its development and for the duration of the license period stood at 595 million barrels of crude oil, 402 million barrels of which were pending lifting at the end of 2005. Out of these reserves, CEPSA's entitlement, based on its equity interest and pursuant to the terms and conditions of the production-sharing contract (PSC) governing its operations, comes to roughly 138 million barrels, calculated on the basis of benchmark Brent crude oil prices effective at the end of the year.

The appraisal of the aforementioned reserves is part of a process, subject to ongoing review, that does not in any way include recoverable reserves beyond the operating license period. Under a PSC, the estimate of CEPSA's entitlement, applying the established contractual and economic conditions, is the amount that existed when the estimate was calculated, and may vary as a result of the effect that the prevailing crude oil price has on cost-recovery mechanisms stipulated in the contract. Thus, alternatively assuming a steady Brent crude oil price of $40 per barrel, recoverable reserves attributable to CEPSA would total 168 million barrels.

RKF FIELD

This field, containing total recoverable reserves at the start of its development of roughly 117 million barrels, came on stream in 1996, with CEPSA holding a 100% working interest.

RKF yielded 7.3 million barrels of crude oil in 2005, practically the same as the year before, having therefore maintained plateau production for 8 years. Aggregate output since the field began producing totals approximately 63 million barrels.

Throughout the year, work continued towards developing the Plan to upgrade the field, with two new wells drilled to sustain production levels, in addition to a seismic survey covering the entire perimeter of the field and whose results are in the process of being interpreted, thereby enabling a reappraisal of its reserves and helping advance the future development of the field.

The aforementioned Plan envisages the enlargement of surface facilities, with engineering and construction bids under review. The purpose of this expansion is to raise gas injection capacity in order to maintain adequate internal pressure levels and as a result, extend plateau production.

Exploration & Production

During the year, the first phase of the new living base was completed, with a capacity to accommodate the staff assigned to the production plant, to which support modules will be added, with state-of-the-art field control and management facilities, as well as general services.

Capital & exploratory expenditures in 2005 amounted to 15.7 million euros, mainly targeted at drilling wells, conducting seismic acquisition, building the new base, enhancing safety and ensuring environmentally-sound operations.

OURHOUD FIELD

This field, one of the most significant discoveries in terms of its size, is 25 kilometers long and 6 kilometers wide, with the productive reservoir interval located in the Upper Triassic (TAGI) formation, at a depth spanning 2,800 to 3,100 meters, with a recorded net hydrocarbon pay of between 30 and 60 meters. Ourhoud straddles three licenses: Block 406A and the adjacent Blocks 404 and 405, assigned to other companies.

From the start of its development, total recoverable reserves were estimated to amount to around 842 million barrels of crude oil during the license period, 478 million of which belonged to Block 406A.

Ourhoud is both developed and operated as a unitized field by a consortium made up of the licensees of the aforementioned blocks, with CEPSA's total working interest coming to 39.75%.

The field started producing at full capacity in 2003, with output totaling 81.7 million barrels in 2005, equivalent to 17% of Algeria's aggregate production. In order to maintain pressure, 1,192 million cubic meters of gas and 15.2 million cubic meters of water were injected in the year. Ourhoud's total cumulative production comes to 228 million barrels of high-quality crude oil.

The field's current facilities include wells, a pipeline grid and a central crude oil processing area, as well as systems for re-injecting the associated gas and treated water to enhance oil recovery.

At year-end 2005, a total of 32 crude producing wells, 23 water injection wells, 3 gas injection wells and 1 dual water/gas injection well were in operation. Of these, 9 new wells were drilled in the year, 6 of which were crude production wells, 2 water injection and 1 water production. CEPSA's capital expenditures amounted to 34 million euros.

TIMIMOUN BLOCK

CEPSA, in a joint operation with TOTAL (15% and 85% interests, respectively), conducts E&P activities in Blocks 325A and 329 of the Algerian Sahara.

The two exploratory wells called Iraharen-4 and 5, drilled in 2004, confirmed the existence of a natural gas field. In the Iraharen-5 well, more than 2,000 meters deep, production tests were undertaken, the results of which yielded over 17.5 million cubic feet of dry gas per day.

In 2005, a 3D seismic survey was performed to have a more accurate appraisal of the Block's potential and determine the ideal locations for the exploratory and delineation wells planned for 2006. CEPSA's capital spending in this block came to 3.4 million euros.

BÉCHAR BLOCK

In November 2004, news was officially published that SONATRACH had awarded the CEPSA/TOTAL consortium (20% and 80% stakes, respectively) Blocks 309b1, 310b1, 311b1 and 319b1 in the Béchar Basin.

The exploration permit was granted for a period of two years and may be extended into a production contract. In 2005, work on this Block involved the performance of a 3D seismic survey and the interpretation of 2D and 3D seismic and geological information to evaluate the field's potential. Results of this analysis will be available in 2006.

COLOMBIA

CEPSA's operations in this country are mainly focused on the Upper Magdalena River Valley, in the so-called "Espinal", "San Jacinto", "Río Paez" and "Achira" Blocks.

In the "Espinal" Block (CEPSA, 16%; ECOPETROL, 50%; and the operator PETROBRAS, 34%), several small production fields are being operated, which yielded 1.8 million barrels in 2005, with CEPSA's net entitlement coming to 236,000 barrels. In order to halt its declining production, work was conducted aimed at upgrading the wells and processing facilities, and planning the drilling of 3 new development wells in 2006. Recoverable reserves at the end of 2005 were estimated to amount to 10.2 million barrels, approximately 1.5 million of which belong to CEPSA.

In the remaining "San Jacinto", "Rio Paez" (CEPSA, 33.3%; HOCOL, 66.7%, acting as operator) and "Achira" (CEPSA, 23.3%; ECOPETROL, 30%; and the operator, HOCOL, 46.7%) Blocks, exploratory work is underway by the various consortiums. In 2005, 2D and 3D seismic surveys were undertaken and the information gathered was reprocessed and interpreted in order to determine the potential

Exploration & Production

existence of hydrocarbons and decide on the location of wells to be drilled in 2006. Capital expenditures in the year totaled 3 million euros.

EGYPT

CEPSA continued with its activities in Egypt with the target of upgrading and diversifying its international upstream portfolio. One exploratory well, yielding negative results, was drilled in the South Bahrein Block located in shallow waters of the Gulf of Suez. CEPSA's stake in this project, in a consortium headed by the Italian oil company ENI, comes to 20%, although it is currently in the process of selling its interest.

As regards the license awarded for the North Bahrein Block in Egypt's Western Desert (CEPSA, 25%; ENI, 75%), in 2005, efforts were focused on developing the work program and planning the seismic survey to be conducted in 2006. On the other hand, studies were performed with a view to CEPSA's participation in further bid-rounds organized by the Egyptian General Petroleum Corporation (EGPC) on blocks located in the Western Desert. Capital spending in the year amounted to 2 million euros.

DOMESTIC UPSTREAM

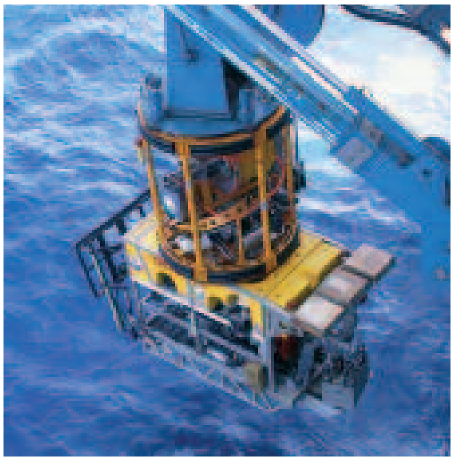
CEPSA E.P., a wholly-owned subsidiary of CEPSA that manages and develops oil and gas exploration and production projects in Spain, primarily focused its activities on the off-shore Mediterranean "Casablanca", "Rodaballo" and "Boquerón" fields, located near the coast of Tarragona. Aggregate output in 2005 totaled 1.1 million barrels of crude oil, with the Company's entitlement, based on its equity interest, coming to 89,000 barrels.

This affiliate was awarded two permits, through the Department of Industry of the Catalonian regional government, to conduct oil and gas exploration in the Catalonian Pyrenees (East and West "Vallfogona").

EXPLORATION & PRODUCTION (millions of euros)

	2005	2004
Net crude oil sales (millions of barrels)	9.6	11.4
Capital & exploration expenditures	76	58
Operating Income	357	301

MEDGAZ Project



MEDGAZ is a consortium of leading Spanish and foreign energy companies engaged in the development of a new sub-sea natural gas pipeline linking Algeria directly to Europe via Spain, with CEPSA being one of the project's founding partners and core shareholders (20%). Activities in 2005 involved conducting surveys and delineating the pipeline route, in conjunction with environmental authorities, having determined that the Perdigal Beach, located south of the Almeria airport, is the ideal landfall site and entry point on the Spanish coast.

In order to accomplish the above, it was necessary to expand the technical studies and marine surveys and adapt the administrative projects to the definitive pipeline route. Work performed will enable shortening the timespan needed to obtain authorization for the pipeline, usually hinging on the duration of the Environmental Impact Statement (EIS).

One major milestone in the project's unfolding was that on June 24, 2005, Spain's Cabinet resolved to change the classification of the "MEDGAZ Project" in the "Planning and Development of Gas Transportation Networks" from Category "C" to Priority "A" status in its revision of the "2005-2011 Energy Plan". The Government likewise requested that all the necessary authorizations and awards for the required accessory facilities be granted in order to ensure its integration into the Spanish gas grid.

The aforementioned resolution, which paves the way for the gas pipeline to come on-stream in early 2009, with a volume of at least 8 BCM/yr (billion cubic meters per year), marks the beginning of the Ministry of Industry, Tourism and Trade's administrative processing of the project. In January 2006, information and documents on the project were released as part of a public consultation process to give interested parties an opportunity to review and comment on the data provided. At the same time, a call for tender was organized to solicit bids for the project's major contracts, in keeping with procedures in effect in the European Union.

An additional highlight of the project was that in December, ENAGAS – the Spanish gas transmission system operator (TSO) – was entrusted with the development and execution of the onshore Almería-Albacete pipeline that MEDGAZ had been managing until then, and took over all the associated costs incurred up to that time.

Thanks to its classification as a project of priority interest in Trans-European Networks by the European Parliament, MEDGAZ received 2 million euros in EU funding, covering 50% of the cost of subsidizable studies according to EU regulations.

Moreover, a new Hydrocarbons Law was adopted by the Algerian Government on April 28, 2005 (Act nº05-07) and officially published on July 19, 2005, the aim of which is to establish a competitive and liberalized market for upstream, midstream and downstream activities, providing MEDGAZ with a conducive legal framework for advancing the project.

Trading, Refining, Marketing and Basic Chemicals

SUPPLY AND TRADING

In 2005, a total of 21.5 million tons of crude oil (155.7 million barrels) were unloaded at CEPSA's refineries in 2005, 900,000 tons, or 4.2%, more than the previous year's volume.

As regards crude oil sourcing, consistent with the target of diversifying supply sources, 39.6% came from countries in West Africa, 32.6% from the Middle East, 12.7% from Venezuela/Mexico, 9.9% from Russia/Kazakhstan, 5% from Northern Africa and the rest from European countries.

Additionally, CEPSA acquired nearly 7 million tons of oil and chemical products, primarily gas oils, fuel oils and kerosene - up 100,000 tons, or 2%, from the year before - to meet the needs of its expanding customer base.

The sizeable expenditures that CEPSA has been allocating towards upgrading its refineries enabled the Company, as in previous years, to achieve better crude purchasing formulas and positive spreads vis-à-vis European benchmark Brent Blend prices, which led to a higher value added from refining activities.

REFINING

CEPSA conducts its core refining operations at its 3 wholly-owned refineries in Spain: Tenerife, located in Santa Cruz de Tenerife; "Gibraltar" in San Roque (Cádiz); and "La Rábida" in Palos de la Frontera (Huelva), with nameplate distillation capacities of 4.5, 12 and 5 million tons of crude oil per year, respectively. Furthermore, CEPSA has a 50% interest in the share capital of Asfaltos Españoles, S.A. "ASESA", which owns a refinery in Tarragona, primarily engaged in the production of asphalt, with a nominal capacity of 1.4 million tons per year. All together, total installed capacity, including the stake in ASESA, amounts to 22.2 million tons per year, accounting for over one-third of Spanish refining capacity.

These refineries are managed using a plant-wide optimization model, which on the one hand strives to maximize synergies from transfers between the refineries of intermediate feedstock and products, and on the other, to achieve a high level of integration between refining and petrochemical operations.

CEPSA's refinery throughput totaled 21.5 million tons in 2005, not only a record figure for the Company, but 0.6 million, or 3%, higher than the year before. Compared to 2004, all of the refineries increased their crude oil distillation: the "Gibraltar" Refinery processed 11.9 million tons of crude oil; "La Rábida", 4.8 million tons; Tenerife, 4.2 million tons; and 700,000 tons corresponding to CEPSA's stake in the ASESA Refinery. Out of the entire amount of crude oil treated in Spain in 2005, CEPSA accounted for 35.4%, 2 points higher than installed nameplate capacity.

The median utilization rate of CEPSA's refining capacity, within a sustained trend of operating at nearly full capacity, was 97%, higher than the 94% recorded the year before.

Throughout the year, legally-required maintenance turnarounds were completed, as well as scheduled shutdowns to inspect production plants. This downtime was used not only to perform overhauls, but also to deploy new equipment to enhance operational capacity, reduce energy consumption and slash CO_2 emissions, with the assignment-emission balance being favorable for the Company's refining activity as a whole.

The installation of gasoline desulfurizing units in the "Gibraltar" and "La Rábida" Refineries, along with capacity expansions undertaken for diesel fuels in 2004 in the two aforementioned refineries, in addition to the one at Tenerife, enabled CEPSA to treat crude slates with a higher sulfur content, and also led to a smooth transition, begun in November 2004, towards full compliance with new specifications for cleaner-burning motor fuels, effective in 2005, placing sulfur limits at 50 ppm in gasoline and diesel, and the ability to manufacture and distribute, through CLH, these same fuels with an ultra-low content of 10 ppm, ahead of new mandates that will enter into effect on January 1, 2009.

Capital expenditures made in recent years led to the commissioning and start-up of a variety of new units, noteworthy being the following: at the "Gibraltar" Refinery, the naphtha hydrotreater, the Selective Hydrogenation Unit (SHU), the retrofitting of the R-56 Platformer, the completion of the interconnecting lines with NUEVA GENERADORA DEL SUR, the engineering of the new metaxylene plant, phthalic and slops tanks, the collection of closed drainages and the expansion of the pipeline´s feedstock; in the "La Rábida" Refinery, the installation of a distributed control system in the petrochemical plant and the first phase of the replacement of the crude sealine, in the segment that passes through the estuary channel; and in the Tenerife Refinery, the start-up of the electrical frequency converters, providing an alternative supply to the one from the outside grid, and the modification of the LPG recovery and amine plant.

Construction was also underway in 2005 on the following units: at the "La Rábida" Refinery, the Light Naphtha Reformer (LNR), which encompasses the Aromax® and Morphilane units, and a 100 ton-per-hour steam boiler; and in Tenerife, the revamping of the crude exchanger train in the Crude Atmospheric Distillation Unit (CADU-2) and the pre-heating of the furnaces in the hydrodesulfurizing units. Likewise, considerable progress was made on the construction of a tank for benzene concentrate and the retrofitting of the debenzenizer, these latter two in connection with the project to supply feedstock for the aforementioned Aromax® facility located in "La Rábida".

Also in the year, CEPSA and ABENGOA BIOENERGÍA reached an agreement to build a 200,000 tpa biodiesel production facility on property belonging to the "Gibraltar" Refinery. The manufacturing process involves using raw vegetable oils and the resulting biodiesel is then blended at a 5% level with regular automotive diesel, which will be sold by CEPSA's retail network. Biodiesel has a number of benefits, chief among which is that it reduces greenhouse gas emissions as well as other

Trading, Refining, Marketing and Basic Chemicals

environmental pollutants. The construction of this plant responds to CEPSA's interest in adhering to EU and Spanish Government recommendations on promoting the use of vegetable-based biofuels as a cleaner alternative energy source.

Additionally, the study undertaken by the consulting firm Linnhoff-March-KBC to improve energy efficiency at the three refineries was finalized, which as a result of its phased implementation over the next few years, will enable CEPSA to gradually reduce consumption and associated emissions by roughly 8%. Furthermore, the Company continued to harness increasingly greater financial benefits from KBC's PIP (Profit Improvement Program) aimed at optimizing yield and process performance and improving refinery margins, as well as from the MIP (Maintenance Improvement Program) project.

The combination of technical upgrades, new facilities using industry-leading technologies and capital stewardship have all led to consistently high levels of refinery utilization and productivity enhancements, which along with better price spreads vis-à-vis benchmark crude oil, placed the average value added from refining in 2005 at 37.67 euros/ton, up 25% from the year before.

DISTRIBUTION & MARKETING

CEPSA sold a total of 26.4 million tons of petroleum products in 2005, 800,000 tons, or over 3%, higher than the year before.

The operating environment was chiefly marked by a surge in international energy product prices, consistent with the jump in crude oil prices. On the other hand, unit marketing margins remained more or less in line with the previous year, in a climate of burgeoning competition, in which CEPSA continued to expand and upgrade its retail network and managed to sustain its motor fuel market share at levels similar to the year before.

Highlights of this segment's performance and the products manufactured and sold by the CEPSA Group are provided in the following sections.

RETAIL/WHOLESALE OPERATIONS

Throughout the year, the wholly-owned affiliate CEPSA ESTACIONES DE SERVICIO continued to focus on leveraging its retail presence on the domestic market and consolidating its position as a leader in customer service, particularly as regards loyalty schemes for private motorists.

As part of this strategy, CEPSA carried on improving the underlying structure of its retail business by optimizing its network, selectively investing in larger stations and relentlessly concentrating on non-fuels income growth and cost efficiencies. At year-end 2005, the Company had 1,726 retail sites operating in Spain, Portugal and Morocco.

Additionally, through the "Internal Customer Ombudsman", new projects were commissioned in order to better understand consumers' concerns and perceptions and support their needs, and also use these as indicators of customer satisfaction and sources of product and quality innovation, benchmarking and best practices in this business division.

On the wholesale side, efforts were made to maintain a stable and competitive presence and market share, with management focusing on providing premium customer service and pursuing a policy aimed at securing the loyalty of clientele.

During the year, CEPSA launched a new high-performance innovative range of motor fuels under the name "OPTIMA" ("Óptima" diesel and "Óptima" unleaded 98 gasoline), which enhance fuel efficiency by 5%, lengthen engine life and are more environmentally-friendly, in compliance with EU regulations mandating sharply lower sulfur levels in motor fuels.

Noteworthy in the year was the installation of the first pump in La Junquera (Girona) dispensing "AdBlue", a reagent to be used in new generation Selective Catalytic Reduction (SCR) systems on diesel-powered heavy commercial vehicles compliant with European "Euro 4" and "Euro 5" legislation on the reduction of harmful Nitrous Oxide (NOx) emissions and particles.

In the non-fuel sales segment, CEPSA maintained its leadership position, with nearly 800 stores run by the wholly-owned affiliate PROMIMER. Further growth in the DEPASO format was driven by a new brand and image design and a management approach evolving towards the concept of a "Service Store", versus the traditional "Convenience Store". It is also in the process of developing a second store format called MINISTOP as well as opening stores located in urban areas outside service stations, known as "CITY-SHOPS", designed to appeal to a growing and more diversified customer base.

In order to broaden its commercial offerings and reward loyal customers, the following schemes were in effect at year-end:

- "CEPSA PORQUE TU VUELVES" VISA card, entitling cardholders to a 5% discount on motor fuels and other purchases at CEPSA's Service Stations and a 1% discount at over 18 million participating entities around the world.

- Its other flagship loyalty scheme, the "RACE PORQUE TU VUELVES" card, combining the perks and benefits of roadside assistance and other RACE motor vehicle products with those included in CEPSA's "PORQUE TÚ VUELVES" program.

- And CEPSA's agreement with SPANAIR, which enables customers of both companies to link their "PORQUE TU VUELVES" and "SPANAIR PLUS" cards and accumulate more redeemable points than before.

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In recognition of its marketing accomplishments in loyalty schemes in the industrial-residential segment, CEPSA was awarded 4 distinguished prizes: in heating oil, the silver "Imán" (direct marketing), the bronze "EFI" (marketing efficiency) and the silver "Concentra" (Broadcasters Association), and in AGRO CLUB, the bronze "Imán" (invitation to managers to the Expovicaman Agricultural and Livestock Fair).

Regarding payment tools for fleet drivers, in addition to its TRANS CLUB card, CEPSA continued being a pacesetter with its CEPSA STAR card, deploying the latest securitization and technological innovations and allowing users to make electronic payments on toll roads. Despite a tougher and more competitive operating environment, the Company continued to expand the number of CEPSA cardholders.

In the area of sporting event sponsorships, CEPSA's team, led by its driver, Antonio Albacete, won the number one spot in the FIA European Truck Racing Championship, as well as in the Spanish Truck Racing Championship for the sixth straight year in a row. CEPSA also continued its sponsorship of the Epsilon Euskadi team in motor racing, taking part in the "Renault World Series"; the team managed to take the lead in this event, and its driver, Robert Kubica, won first place in the overall drivers' classification.

As regards Quality, 6 companies in the CEPSA Group have obtained "Qualicert" certification for recognized outstanding service quality in Direct Sales, and in environmental protection initiatives, the pilot test was successfully completed on the "El Ciervo" service area, in Pina de Ebro (Zaragoza), where an artificial wetland for purifying waste waters was built, with plans to extend this project to other service stations.

BUNKER FUELS

CEPSA develops the logistical activities – product reception, storage and delivery – for its bunkering business through the affiliates PETROCAN and ATLAS, which continued to demonstrate the highest standards of quality in their operations.

In 2005, CEPSA sold 6.3 million tons of bunker fuels in 2005, 7.1% more than the previous year, in an operating environment marked by an upward trend in prices and low product availability on account of strong world trade movements driven by rapidly growing Asian economies. On the strength of this performance, CEPSA once again consolidated its position as the leading bunker fuel supplier in the Spanish market, and gained considerable ground in Panama, following five years of activity.

In order to capitalize on growth opportunities in the global marine fuel supply business, in November 2005, CEPSA decided to spin off its international bunkering activities from its corporate Bunker Division, creating a wholly-owned subsidiary called CEPSA MARINE FUELS (CMF), which officially began operating on January 1, 2006.

AVIATION FUELS

CEPSA conducts its aircraft refueling or "into-plane" business through three subsidiaries: CMD and CEPSA AVIACIÓN, in the Canary Islands, and the recently-created Spanish Intoplane Services (SIS), a 50/50 joint venture between CEPSA and SHELL, on the Spanish Mainland and Balearic Islands. Some highlights of the year include the start-up of SIS's activities in the second half of 2005 at the Málaga, Seville and Alicante airports and the commencement in April of Jet A-1 fuel deliveries at the Faro Airport by the Portuguese affiliate CEPSA PORTUGUESA.

In 2005, sales to civil and military aviation, as well as on foreign markets, amounted to approximately 2.7 million tons, climbing 6% from the previous year, likewise evidencing growth in the number of supply operations, which came to over 300,000, up 17% from 2004's levels.

ASPHALT

CEPSA produces asphalt at its Tenerife and "La Rábida" refineries, as well as in ASESA's refinery in Tarragona, with a total nominal capacity of 1 million tons per year. Sales are made through the wholly-owned subsidiary PROAS, a company which distributes these products from the refineries and 7 proprietary terminals, where asphalt derivatives and other special products for the construction sector are likewise manufactured.

In 2005, PROAS acquired over 1.1 million tons of this product, 10% more than the year before. 67% of sales were made on the domestic market, where demand has slowed down, especially in the public works sector, and the rest on export markets.

Capital expenditures in 2005, amounting to over 0.7 million euros, were primarily assigned towards upgrading the Gijón terminal and refurbishing port facilities. Other notable developments in the year include the closure of the Seville terminal; major improvements in operational cost optimization; and a sharp increase in exports to North and West Africa.

A major achievement in the year was the ISO 14001 certification awarded to PROAS for its Environmental Protection Management System at its Motril terminal, and the implementation of a quality system pursuant to the ISO 9011:2000 standard in all of its centers.

Trading, Refining, Marketing and Basic Chemicals

LUBRICANTS

The CEPSA Group has two base stock and paraffin manufacturing plants, one located at the "La Rábida" Refinery in Huelva and the other in the "Campo de Gibraltar", specifically in LUBRISUR (65% CEPSA-owned), which also has a blending and bottling facility where finished lubricants are produced and bottled.

During the year, CEPSA's "La Rábida" Refinery yielded 111,000 tons of base stocks and 19,000 tons of paraffin wax, while the LUBRISUR facility produced 197,000 and 23,000 tons of these products, respectively. Therefore, combined output exceeded 273,000 tons, in line with last year's levels.

Retailing activity is carried out by the 100% affiliate CEPSA LUBRICANTES and LUBRISUR, as well as through ATLÁNTICO, LUBRITURIA, LUBRINER, and PETROJAÉN, companies in which CEPSA LUBRICANTES holds a full or majority stake.

Aggregate sales of lubricants, base stocks, paraffin wax, greases and other related products amounted to 286,000 tons.

CEPSA LUBRICANTES, a leader on the Spanish Peninsula and Balearic Islands market, distributes its products under the brand names CEPSA and ERTOIL, with over 57% earmarked for the domestic market, where a variety of other automotive products and accessories for both passenger vehicle and fleet drivers are sold.

Capital spending in the year, amounting to nearly 5 million euros, was essentially assigned towards developing the area's strategic plan, which included deploying innovative, leading-edge technologies, enhancing productivity in industrial operations and boosting marketing performance.

In 2005, AENOR, the company that audits the CEPSA Group's quality system, renewed CEPSA LUBRICANTES' certification for compliance with international ISO 9001:2000 standards, obtained in 2002, as well as certification for fulfillment of ISO/TS 16949, which includes the requirements of ISO 9001 as well as industry-specific standards for the automotive supply chain. Noteworthy also was that the Company carried out the necessary formalities and measures to adapt the quality certification awarded by the Spanish Defense Ministry to new PECAL/AQAP 2120 specifications.

LIQUEFIED PETROLEUM GASES

CEPSA markets the Group's liquefied petroleum gases through its wholly-owned subsidiary CEPSA GAS LICUADO, which, following 6 years of operations, owns 12 storage and decanting facilities nationwide; 9 of these sites bottle the 12.5 kg. butane canisters, 11 and 35 kg propane containers and the 12 kg. automotive LPG containers.

In addition to the start-up of bottling activity at the Zuera (Zaragoza) plant, other achievements in 2005 include work on expanding existing bottling infrastructures to optimize operations, and capital spending plans aimed at improving quality and safety performance in all activities of the Company, which was awarded ISO 9001:2000 quality assurance certification and OHSAS 18001:1999 certification for occupational health and safety management.

Bottled propane and butane are now sold in the autonomous communities of Andalusia, Murcia, Valencia, Galicia, Madrid, Aragón, Navarre, Cantabria, Castille-La Mancha, Extremadura and Asturias, as well as in some regions of Castille-León, achieving a domestic market share of 15%.

Butane and propane canisters are delivered either door-to-door through a network of more than 100 distributors, or can be bought directly in more than 1,500 outlets, over half of which belong to CEPSA's service station network.

CEPSA GAS LICUADO's customer base for bottled propane and butane numbers 1.8 million. The Company also supplies bulk propane to over 6,500 individual installations and piped propane to another 1,800 centralized facilities, connected to more than 40,000 residential customers. In 2005, nearly 314,000 tons of propane and butane were retailed, with sales and operating revenues exceeding 210 million euros, up 9% year-on-year.

CEPSA IN PORTUGAL

CEPSA operates in Portugal through its 100% affiliate CEPSA PORTUGUESA, engaged in the distribution and marketing of motor fuels, asphalt, lubricants, bunker fuel, propane and aviation products in the Portuguese market. This subsidiary sold more than 1 million tons in 2005.

By the end of the year, CEPSA's Portuguese retail network numbered 156 service stations, 3 of which began operating in 2005. Motor fuel sales amounted to more than 700,000 cubic meters, attaining a market share of over 8%. In other products, sales totaled 121,000 tons of fuel oils, over 200,000 tons of bitumen, nearly 42,000 tons of bunker fuel and an overall figure of 10,000 tons of lubricants and bulk propane combined.

Expenditures in 2005 stood at 5.5 million euros, approximately 4 million of which were assigned towards expanding the retail network.

Trading, Refining, Marketing and Basic Chemicals

CEPSA IN MOROCCO

CEPSA continued to pursue its sales activities in Morocco through PETROSUD, primarily in the fishing sector and mainly at the Port of Agadir.

During the year, over 26,000 cubic meters of fishing diesel were sold, especially for the deep-sea fishing sector, climbing 29% from the previous year. Marine lube sales totaled 180 tons.

Apart from these activities, CEPSA supplied Moroccan operators with nearly 300,000 tons of gasoline, diesel fuels, kerosene and liquefied petroleum gases in 2005.

BASIC CHEMICALS

CEPSA produced more than 1.2 million tons of basic chemical components (primarily propylene, cyclohexane, solvents, and BTX - benzene, toluene and xylene) at its "Gibraltar" and "La Rábida" refineries.

Sales, which encompass a range of over 70 products, topped last year's figure, despite downtime in production units from scheduled maintenance turnarounds and an operating environment plagued by price volatility in both raw materials and intermediates. Out of all products sold, nearly 600,000 tons were allocated to CEPSA's petrochemical affiliates, over 300,000 tons to the domestic market and more than 500,000 tons were sold abroad.

CEPSA ITALIA and CEPSA U.K., wholly-owned subsidiaries operating in Italy and the United Kingdom, together sold over 131,000 tons of basic chemical products in these countries.

REFINING, MARKETING & BASIC CHEMICALS (millions of euros)

	2005	2004
Oil and basic chemical product sales (millions of tons)	26	26
Capital expenditures in the year	368	442
Operating income	958	631

Gas & Power

NATURAL GAS

The Group's strategy in the natural gas segment is pursued through ventures such as MEDGAZ, the consortium undertaking the development, construction and operation of an ultra-deepwater gas pipeline between Algeria and Europe (see Exploration & Production), CEPSA GAS COMERCIALIZADORA, GAS DIRECTO and NUEVA GENERADORA DEL SUR, the highlights of which are explained in the corresponding sections below.

A major milestone in the year was the signature of a sale-purchase agreement between CEPSA and SONATRACH for the supply of 1.6 BCM of natural gas per year through the MEDGAZ pipeline, effective as of 2009 and for a 20-year period.

CEPSA GAS COMERCIALIZADORA

CGC, a company whose shareholders include CEPSA, TOTAL and SONATRACH (35%, 35% and 30% interests, respectively), is engaged in commercializing natural gas.

Sales by this affiliate in 2005 came to 18,854 GWh of natural gas. This activity includes both sales to end customers, largely in industrial and commercial markets, as well as gas swaps with other retailers, in order to optimize tolls and guarantee an inventory volume consistent with the needs of the Spanish gas grid.

As part of its long-term agreements with its shareholders, SONATRACH and TOTAL, the company imported 19,018 GWh of LNG shipments in 2005, and regasified, transported and distributed gas by virtue of existing TPA (Third-Party Access) contracts with ENAGAS and GAS NATURAL.

CEPSA GAS COMERCIALIZADORA's share of Spain's liberalized market (which, according to information from the National Energy Commission (CNE) accounts for 84% of total gas consumption), was 2.7% in 2005.

GAS DIRECTO

CEPSA is also active in the natural gas distribution sector through its 40% stake in GAS DIRECTO, in partnership with UNION FENOSA, which holds the remaining 60%. The company is authorized by the government to supply gas in various townships of Madrid, Galicia, Castille-La Mancha and Castille-León.

In 2005, GAS DIRECTO delivered 370 GWh of natural gas to over 2,600 residential and industrial customers, with a 14.4% year-on-year increase in the number of customers and a rise in the amount of gas distributed to residential and industrial segments of 10.9% and 1.4%, respectively.

Gas & Power

Highlights of the year include the start-up of a new 17.5 km, 16 bar gas pipeline between the towns of Arteixo and Laracha (La Coruña) and the processing of applications for government authorizations to extend the natural gas transmission network into new property developments and fast-growing areas of Madrid, for which the Company signed a series of supply agreements to potentially deliver gas to over 100,000 customers. Plans are to begin this activity in the Autonomous Community of Valencia, after successfully bidding in a licensing round for natural gas distribution in the "Parc Sagunt" industrial park.

ELECTRICAL POWER

NUEVA GENERADORA DEL SUR

NUEVA GENERADORA DEL SUR (a 50/50 joint venture between CEPSA and UNIÓN FENOSA) operates a natural gas-fired combined cycle power plant located on the premises of CEPSA's "Gibraltar" Refinery, with two power generating sets, having an overall output of 780 MW according to the Guaranteed Output Tests.

2005 was the first fully-operational year for this plant, with a net electricity production of 4,033 GWh and a net steam production of 915,164 tons. In addition, tests were successfully conducted on powering the plant with diesel, in order to ascertain the possibility of using this type of fuel.

This combined-cycle power facility has already been awarded ISO 9001:2000, ISO 14001:2004 and OHSAS 18001:1999 certifications, in recognition of the quality, environmental protection and occupational health and safety management systems. The certified activity in all three cases is the "Production of thermoelectric power and steam using combined cycles". From an environmental point of view, the sale of generated steam to the "Gibraltar" Refinery has led to a sharp reduction in nitrous oxide (NOx) and sulfur dioxide (SO_2) emissions.

COGENERATION (CHP)

In order to enhance energy efficiency at its refineries and production sites, CEPSA has five cogeneration or CHP (combined heat and power) facilities, with a total authorized capacity of 230 MW, to produce both electricity and useful heat, meeting part of the thermal energy requirements of the Company's industrial processes.

Power production from these units came to 1,758 GWh in 2005, equivalent to 89% of peak production capacity, not counting scheduled maintenance turnarounds, and at the same time, 3.63 million tons of steam were generated, surpassing last year's levels in both cases.

In 2005, SONATRACH'S acquisition of a 30% shareholding in GEPESA (which owns the cogeneration plants of La Rábida, as well as those belonging to GEGSA, GETESA and GEMASA) was completed. Following this transaction, DETISA retained a 70% stake in GEPESA and a 100% stake in the Tenerife Cogeneration Plant, COTESA.

DETISA continued developing its power retailing activities to end consumers, selling 247 GWh in the year. This Company also acts as a sales agent for power generation units under the Special Regime and sold 4,501 GWh of their electricity output on the market.

	Year of start-up	Authorized output MW	Power production GWh	Steam production Thousands of Mt
La Rábida Cogeneration Plant	1990	50	406	1,011
GEGSA Cogeneration Plant	1993	74	595	1,176
GETESA Cogeneration Plant	1996	41	314	554
COTESA (Tenerife) Cogeneration Plant	1994	38	228	470
GEMASA Cogeneration Plant	1997	27	215	423
Total		**230**	**1,758**	**3,634**

GAS & POWER (millions of euros)

	2005	2004
Natural gas sales (in GWh)	18,854	15,082
Capital expenditures in the year	24	40
Operating income	76	23

Petrochemical Intermediates

CEPSA is an active player, either directly or through its affiliates, in the global petrochemicals business, and produces and sells a range of petrochemical products, chiefly based on aromatic hydrocarbons (BTX) and their derivatives.

The Company's high level of integration between refining operations and chemical production allows it to capture the benefits of these synergies. This flexibility, together with the use of cutting-edge proprietary technologies in a number of processes, afford unique competitive advantages that enable CEPSA to drive profitability in the value chain.

Moreover, the implementation of a large-scale capital spending plan in recent years, leading to increased capacities and worldwide expansion of its operations, has placed CEPSA's petrochemical affiliates in leadership positions in many niche products.

The CEPSA Group has manufacturing facilities in Spain, Canada and Brazil, as well as storage facilities and sales offices in the UK, Netherlands and Italy. The Company's output is sold on all five continents across the globe.

The petrochemicals business was challenged by a difficult operating environment in 2005, plagued by the high cost of raw materials used in manufacturing processes and sharp volatility in chemical product prices. Even though both factors hindered earnings performance in this segment, the company managed to improve margins on some products.

One major highlight of the year was the start-up of construction to expand the petrochemical facilities belonging to the wholly-owned affiliate ERTISA in Palos de la Frontera (Huelva). This expansion, which will raise capacity by 80%, is slated to come on-stream in 2006.

DETERGENT PRECURSORS

PETRESA, a 100%-owned affiliate, produces and sells linear paraffin and linear alkylbenzene (LAB), a compound used in the manufacture of biodegradable detergents and other commercial and industrial secondary products. The Company's main production facility is located in San Roque (Cádiz), with a capacity to manufacture 220,000 tons per year of LAB.

In addition, PETRESA has a 51% stake in PETRESA CANADA INC. (SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUEBEC owns the remaining 49%) whose manufacturing site is situated in Bécancour, in the province of Quebec, Canada, where it produces 120,000 tons per year of LAB using pioneering proprietary DETAL™ technology. Practically all of the plant's output is sold on NAFTA markets (Canada, United States and Mexico).

PETRESA also holds a controlling interest of 72% in DETÉN QUIMICA (PETROBRAS is the second core shareholder), the premier Brazilian producer of LAB in Latin America, headquartered in Camaçari, State of Bahía, Brazil, where it has a production facility whose capacity has been expanded to 220,000 tons per year.

In 2005, PETRESA continued its co-operative efforts with the Slovakian chemical company PETROCHEMA, A.S. and the French company IFRACHEM, to produce sulphonic acid earmarked for Central European markets. PETRESA is also developing joint business projects with Industrial Chemical Company (ICC) in Jamaica, through which it has enlarged its presence in Latin America. As a result of these business alliances, PETRESA was able to consolidate its global leadership position, attaining an overall market share exceeding 17%.

On the strength of its world-class asset portfolio, PETRESA managed to boost its product sales, achieving a total output of 890,000 tons, slightly higher than the year before.

During the year, nearly 2 million euros were allocated towards quality, safety and environmental expenditures, with the Company maintaining all of its certifications and accreditations in these areas.

Among the year's milestones, noteworthy was that PETRESA reduced its energy consumption and CO_2 emissions by 4% and 7%, respectively; DETEN, for the third straight year, was awarded the prestigious Brazilian "Cinco Estrelas" (Five Stars) prize in the category of the "Prêmio Pólo de Segurança, Saúde, e Meio Ambiente" (Petrochemical Site Prize for Safety, Health & Environment) which distinguishes the Company as a leader in the Camaçari industrial complex in applying rigorous preventive measures, and took second place in the "National Quality Award" which is the highest achievement attainable in Brazil, equivalent to the European Foundation for Quality Management (EFQM) Award and the Malcolm Baldrige Quality Award in the United States, in recognition of outstanding quality performance; and PETRESA CANADA was able to reduce its energy consumption by 8% in 2005 and its CO_2 emissions by 30% since 1996.

Petrochemical Intermediates

POLYESTER PRECURSORS

INTERQUISA, a wholly-owned subsidiary, specializes in the manufacture and sale of purified terephthalic acid (PTA), dimethyl terephthalate (DMT) and Purified Isophthalic Acid (PIA) used as raw materials to produce different types of polyester for textile fibers, easily-recyclable PET (polyethylene terephthalate) bottles and containers and other applications.

The Company's 750,000 tpa (tons per annum) production facilities, located in San Roque (Cádiz), continued to operate at full capacity to meet rising demand for its output, which remained firm both in Europe and other areas, despite market fluctuations.

During the year, this plant sold nearly 700,000 tons of its products, with a notable increase in PIA sales. As for the sales breakdown, 78% was sold on European Union markets (45% domestic, 33% other countries) and 22% on foreign markets, primarily Turkey and China.

Capital expenditures in the San Roque plant topped 6 million euros, basically assigned towards optimizing the plant's efficiency and safety, enhancing environmental performance and ensuring premium quality in manufactured products.

INTERQUISA also has a 51% shareholding in INTERQUISA CANADA L.P. (the remaining 49% belonging to the SOCIÉTÉ GÉNÉRALE DE FINANCEMENT DU QUÉBEC) which owns a plant in Montreal, Canada to manufacture 500,000 tons per year of PTA, having operated at peak design capacity throughout 2005, increasing its output from the year before by 5%. Total sales, mostly on the North American market, came to 499,000 tons, up 10% from a year earlier.

Capital spending in 2005, totaling 5 million euros, was earmarked towards improving the plant's operational safety and efficiency, and rigorously managing the environmental impacts from its industrial activities.

PHENOL-ACETONE

ERTISA, also a 100% CEPSA affiliate, has its manufacturing facilities in Palos de la Frontera (Huelva), where it produces chemical intermediates such as cumene, phenol, and acetone, as well as methylamines, alpha methyl styrene and other derivatives, predominantly used in making new-generation plastics.

Aggregate output of phenol and acetone came to over 574,000 tons in 2005, 6% higher than last year's figure, while output of its other components rose 11% in the same period.

In 2005, sales of ERTISA's product range exceeded 733,000 tons, in an operating environment characterized by high feedstock prices, a tighter supply-demand balance and a narrowing of margins in some products, particularly in the second half of the year. Out of total product sales, 38% was sold domestically – 5% more than in 2004 - and the rest abroad.

ERTISA is currently undertaking a large-scale expansion of its cumene, phenol and acetone manufacturing capacities, which will be raised by 300,000, 250,000 and 155,000 tons per year, respectively. These projects are scheduled to be completed throughout 2006.

PETROCHEMICAL INTERMEDIATES (millions of euros)

	2005	2004
Sales (millions of tons)	2.4	2.4
Capital expenditures in the year	77	29
Operating income	136	93

Corporate Area

HUMAN RESOURCES

At December 31, 2005, 2,835 people were working in the parent company CEPSA. Including majority-owned subsidiaries of the Group, the workforce numbered 10,783 people, with the median age and years of service being 40.51 and 11.41, respectively. Compared to the previous year, there was an increase of 249 employees, mainly as a result of the start-up of new production units and the expansion of the Company's commercial activities.

As in recent years, CEPSA's Human Resources Division continued to conduct workforce planning to ensure that the Company's different areas and units are staffed with people having the right mix of education, experience and skills to achieve corporate objectives and that its organization and business strategies are well-aligned, within a labor environment that seeks to build common ground between management, employees and their representatives. In order to achieve these goals, CEPSA's HR Division reviews, supports and coordinates the tasks of recruitment and selection, hiring, performance appraisal, education, training and development, in line with human resources planning and forecasts. Likewise, it oversees and evaluates compensation and benefits schemes that are designed to attract, develop, motivate and retain talented and dedicated employees.

An integral part of CEPSA's human resource planning process is the development of succession plans, particularly in the Company's production centers, which are vital to the success of the organization as a new generation of employees takes over. At the same time, HR policies at CEPSA are aimed at having workers fully develop their professional careers until reaching the standard retirement age, contributing the knowledge and experience gained over the years and bringing value-added to the workplace.

As a part of its workforce planning policies, CEPSA also offers early retirement packages and incentives on a voluntary basis, particularly to those employees in technical/industrial areas, with physically-demanding job conditions and who basically work continuous shifts.

As has traditionally been the case, collective bargaining in the CEPSA Group was conducted in an environment that promotes systematic, constructive and effective employee-management co-operation and communication, based on a longstanding model of orderly and peaceful labor relations that seek to achieve consensus, well-embedded in the corporate culture.

This philosophy is reflected in the coexistence of collective agreements for multi-annual periods, in addition to regular meetings held between management and worker representatives to revise and negotiate contractual terms and conditions. In 2005, collective agreements were signed for the subsidiaries PETRONUBA, ERTISA and NUEVA GENERADORA DEL SUR.

CEPSA strives to ensure that its workforce is kept up-to-date through training initiatives in all activities and businesses of the Company, targeted at providing employees with the appropriate tools to develop their skills and competencies, preparing them to meet the challenges of a rapidly changing and more competitive global environment.

Accordingly, over 460,000 instruction hours were provided in the year, 70% in-house, focusing particularly on the following programs: ongoing training on technical know-how and expertise in production facilities; continuation of the ORP program (refining & petrochemical operations courses) at the Company's refineries and chemical plants; safety, quality and occupational risk prevention awareness; executive leadership development; crisis communication preparedness and training; sales training to provide the right tools, skills and competencies to create a perceived value that differentiates the Company from its competitors; management training for DEPASO stores in the retail network; online "e-learning" methods to take advantage of the wide range of possibilities offered by new technologies; on-line and in-situ training for new recruits; and the start-up of "knowledge communities" through the CAP (open classroom) project in the Information Technology Division.

In compliance with existing legislation regarding the instrumentation of pension and other commitments and obligations to employees and their beneficiaries, the CEPSA Group fully externalized the commitments it has with its active and retired employees through pension plans and/or insurance policies. The Company has two types of plans: defined-benefit plans for contingencies such as death or disability, and defined-contribution plans for retirement. The net worth of CEPSA's corporate pension fund amounted to over 255 million euros at the end of 2005, generating a 12.66% rate of return in the year.

PROPERTY ASSETS

In 2005, a series of steps were taken and contacts held with government agencies of the Basque Country in order to complete the sale of the property where the former subsidiary, PLASTIFICANTES DE LUTXANA, was located.

Likewise, CEPSA reached an agreement with ABENGOA to build its first biodiesel production facility on property belonging to the "Gibraltar" Refinery in San Roque (Cádiz). In addition, talks were held with the city councils of the townships where the "Gibraltar" and "Tenerife" Refineries are located, whose respective urban planning schemes are in the stages prior to their final approval.

Corporate Area

TREASURY AND FINANCES

Consistent with its financial management strategies, the CEPSA Group strives to unfailingly maintain a strong balance sheet, secure required liquidity and align available funds to capital spending needs.

Cash flow from CEPSA's ordinary activities in 2005 generated enough capital resources to sufficiently finance its routine operations, pay out the dividend resolved by the AGM to shareholders, provide funds for its capital expenditures program of over 550 million euros and at the same time, reduce external debt levels by 315 million euros, or more than 31%, with the figure coming to 681 million euros at the end of the year, equivalent to a debt-to-equity ratio of 15.6% (versus 27.4% in 2004). This improved leverage, coupled with anticipated cash flow and capital resource levels in the future, will enable the Company to readily meet its projected capital spending commitments from a sound financial position.

The aforementioned reduction in debt levels and the debt structure itself, help to cushion the impact of fluctuations in interest rates. In this respect, net interest expense came to less than 2% of the year's cash flow.

Financing in foreign currencies, practically all in US$, amounted to an exchange value, including swaps, of 662 million euros, accounting for 52% of the CEPSA Group's gross financial debt.

All of the debt arranged in US$ is in connection with investments that generate cash flow in this same currency (crude oil fields in Algeria, petrochemical plants in Canada and international crude freights). Trends in the euro/$ exchange rate made it possible for the partial write-off of this financing, using funds from operations, to generate positive exchange differences.

The average interest rate on outside financing came to 2.79% in 2005 (versus 2.01% in 2004), up 0.78 points from the previous year, due to the higher relative weight of the debt portion arranged in US$ and the increase in the LIBOR rate on this currency.

In 2005, the CEPSA Group formalized a 5-year leasing arrangement for the acquisition of a new double-hulled tanker to transport crude oil, with the principal totaling US$50.5 million; Including this latest addition, the Company has acquired five double-hulled tankers under leasing arrangements in recent years, which are bareboat chartered to the shipowner that operates these vessels, who then time-charters them to CEPSA.

As for liquidity, apart from the cash position recorded on its balance sheet at year-end, the CEPSA Group also had undrawn interest-free credit limits available from financial entities totaling 687 million euros.

RESEARCH, DEVELOPMENT & TECHNOLOGY

Throughout the year, CEPSA's Technology Division continued to actively contribute towards advancing the Company's operational and technological performance, crucial factors in ensuring a competitive edge in an industry that is constantly evolving. This area focuses its activities on commissioning or retrofitting productive facilities, developing technologies tailored to the Group's activities and defining future projects.

CEPSA's Research Center partners with the Company's productive and commercial centers in refining, petrochemicals and exploration & production in order to develop and upgrade technologies deployed in processes and offer technical assistance to customers.

With the aim of enhancing its facilities, a new Research Center has been designed that will be located in the Technological Park adjacent to the Alcalá de Henares University campus, near Madrid. Construction is due to begin in late 2006 and the Center is expected to be operational by 2008. The Property Asset Department contributed towards handling the required formalities.

The Company's Research Center is involved in a variety of projects promoted by the European Union, noteworthy being the "CONCORDE" (Co-Ordination of Nanostructured Catalytic Oxide Research and Development in Europe) Project, whose goal is to develop catalysts based on nanocrystalline metallic oxides. It also takes part in European and Spanish initiatives in connection with the production and use of bio-fuels, collaborating with the Universities of Madrid (Complutense), Alcalá de Henares and Zaragoza, and with research entities such as ITQ and CIEMAT.

As regards Technology Development, this department focused its activities on studies and capital expenditure estimates for alternatives to boost the production of middle distillates, of which the CEPSA Group, and Spain's market as a whole, has an increasing shortage. The results of these studies led to the configuration of a highly-strategic project that includes a new distillation line, with a 90,000 barrel-per-day capacity, and a deep residue hydrocracker to raise the "La Rábida" Refinery's conversion level, a project whose basic engineering phase began in early 2006.

In addition, various new projects were launched, noteworthy being a 30,000 barrel-per-day vacuum unit in the "Gibraltar" refinery to treat surplus atmospheric residuum, reduce FCC feedstock imports and potentially boost the conversion of the ISOMAX unit, as well as a number of projects to enhance sulfur recovery in the CEPSA Group, which include retrofits to the Sulphur plants at the "Gibraltar" and "La Rábida" Refineries in order to ensure a minimum 99% recovery using the latest-generation SuperClaus® technology and the design of a new 75 ton-per-day sulfur plant at the "Gibraltar" Refinery to reduce environmental emissions and replace the oldest plant that is currently operating.

Corporate Area

CEPSA's Engineering Department completed several projects at the refineries, key among which, due to its innovative technology, was the one related to static frequency converters (50/60 Hz) in the Tenerife Refinery. These came on line in 2005 and will provide an outside electrical power supply from the grid as an alternative to internally-generated power.

The light naphtha reforming project to increase benzene production, the most important of its kind under construction, is advancing on schedule, with mechanical completion slated for the summer of 2006. Other projects that were in the detailed engineering phase (m-xylene recovery, PD Tar delivery system) or basic engineering phase (vacuum and sulfur units and improved sulfur recovery capacity) at the end of 2005 will allow maintaining a high level of construction at the "Gibraltar" and "La Rábida" Refineries in 2006.

The commencement of the basic engineering phase for the middle distillate capacity expansion at the "La Rábida" Refinery is the starting point for a project that will be the pivotal cornerstone of this unit's activities over the next few years. Although less significant, noteworthy also was the Department's collaboration on the project for a new compressor train in the RKF field in Algeria.

Overall, the Engineering unit supervised nearly 900,000 construction hours, with an accident frequency rate (total recordable lost workday injuries per 1 million hours worked) of 6.7 in 2005. Although this figure is substantially less than the sector's average, the goal is to further reduce this safety performance indicator through an occupational risk prevention plan called "Zero Accidents", as part of the control and oversight of construction projects.

As regards technology and manufacturing procurements, in addition to managing construction project awards and procurements, this area of the Company also continued pursuing a broad program of implementing framework agreements and standardized contracts for routine purchases, in order to achieve the best financial conditions and administrative cost efficiencies.

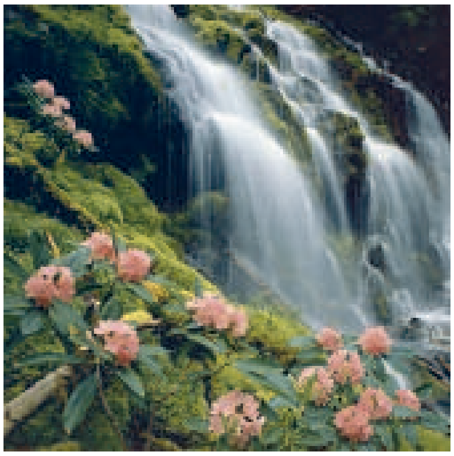
ENVIRONMENTAL PROTECTION, SAFETY & QUALITY (PA.S.CAL)

With regard to environmental protection, throughout the year, CEPSA undertook the following actions in connection with greenhouse gas (GHG) emissions: start-up of an internal organization to coordinate the management of these types of gases; monitoring of CO_2 emissions at the Company's refining and co-generation facilities; studies on energy-saving initiatives to be implemented over the next few years; signature of contracts to open and maintain accounts for each facility at the National Emissions Registry (RENADE), to have access to information on granted assignments and emission rights trading markets; contacts with promoters of Clean Development Mechanism (CDM) projects, whereby an industrialized country with a GHG reduction target can invest in a project in a developing country without a target and claim credit for the emissions that the project achieves; and commencement of studies aimed at the use of alternative energies as well as the elimination of CO_2 through sequestering, transformation or storage.

Likewise, efforts were successful in reducing SO_2 and particle emissions by switching to cleaner-burning fuels with a low or nil sulfur content, such as LSFO and natural gas, respectively.

At the same time, strides were made in lowering/eliminating emissions from large-scale facilities of components such as SO_2, NOx and particles, and specifically those leading to health problems, such as benzene and heavy metals. Noteworthy in this regard were the retrofits in pump seals, the elimination of floating roofs for benzene tanks and other volatile organic compounds, new venting pipes, improvements in inmission networks and in general, the deployment of process enhancements to reduce pollutants at source while optimizing energy efficiency.

Initiatives continued with regard to the development of measures aimed at ascertaining diffuse emissions from large industrial plants, in order to identify their sources, quantifying and promoting remedial measures to reduce or eliminate such sources, conforming to guidelines established by the US Environmental Protection Agency (EPA).



Moreover, special attention was paid to improving the impacts from industrial discharges, both as regards surface as well as ground and coastal waters. Noteworthy in this connection was the adoption of actions aimed at optimizing surface water nitrification and de-nitrification processes, in addition to the lowering/removal of contaminants at source, the upgrading of separation networks and reuse of effluents; with regard to groundwater, piezometer networks were expanded at practically all the industrial plants; and as for coastal waters, enhancements were made in the control of effluents as well as the quality of receptor mediums.

Similarly, the Company continued actively working on all plants and work centers in connection with the segregation, minimization and reuse/recycling of wastes, streamlining and coordinating their management through the signature of a framework agreement for most of the CEPSA Group companies.

During the year, facilities involved worked intensively on assessing and retrofitting their equipment and units to obtain "Integrated Environmental Authorization", a recent administrative feature of the new Spanish Bill on Integrated Pollution Prevention and Control (IPPC). Despite adopted measures, in 2005, two accidents occurred in tanker offloading operations, which led to coordinated efforts between CEPSA and local authorities to implement contingency plans and clean-up tasks in order to minimize any harmful impact on the environment.

As regards Quality Management in 2005, two new management systems were certified, pursuant to ISO 9001:2000 standards, for the activities undertaken by CEPSA GAS LICUADO and CEPSA's Technology and Manufacturing Procurements Center. With their addition, the CEPSA Group is now in possession of 37 Quality Management System certifications, which cover all the Company's major plants and well as other industrial and commercial activities.

Corporate Area

Likewise, work began on internally auditing the level of service provided by CEPSA's subsidiaries engaged in selling and distributing heating oil to end customers. In compliance with service manual 94 CACHAN RE/DFD/01, certificates were issued for GASOLEOS DEL NOROESTE, GAR-OIL and SOCOPAR, in addition to the already-certified companies CECOMASA and CECOGALSA.

In the area of occupational health and safety, CEPSA voluntarily submitted the three refineries plus the CEPSA Group companies ERTISA, PETRESA, PETRESA CANADA INC. and INTERQUISA to an audit of their Occupational Risk Prevention Systems in compliance with international OHSAS 18001 standards, and likewise CEPSA PORTUGUESA, CEPSA GAS LICUADO, CEPSA AVIACIÓN, CMD AEROPUERTOS CANARIOS and ATLAS were all certified. As a result of this initiative, the aforementioned Centers are now in possession of these official certificates, attesting to the fact that their prevention systems stringently meet and in many cases exceed mandated specifications and requirements.

Similarly, regulatory audits were successfully passed in centers where serious accident prevention laws are enforceable, involving hazardous substances and the limitation of their repercussions, in order to safeguard people, places and the environment.

With the aim of testing the effectiveness of implemented actions and staff training to deal with emergency and crisis situations whenever they may arise, periodic drills are carried out in all work centers, as per In-house Emergency Plans, and their results are subsequently reviewed and corrective actions and improvements, where applicable, are proposed and put into effect.

Additionally, CEPSA increased its coordination with its contractors, prioritizing the review and analysis of incidents and accidents, and periodic evaluation visits and inspections were made by reinsurance companies to the Canadian affiliates of PETRESA and INTERQUISA, with positive results, evidencing the advances in safety performance resulting from innovative new designs and technologies, consistent with the Group's standards, and industry-leading industrial risk prevention management. As a way of further improving safety in the Company's facilities, efforts were targeted at specifying and implementing best practices in this area.

In connection with the transportation of hazardous materials, CEPSA continued to liaise with government agencies in order to propose possible improvements in public policy decisions and regulations. Furthermore, new comprehensive software tools were developed so as to improve management and simplify tasks related to their control, optimizing technical operations, and to rigorously monitor contracted services.

INFORMATION TECHNOLOGY

During the year, 78 projects were defined and resolved, as set out in the corporate Strategic Systems Plan. Noteworthy was work aimed at attaining greater efficiency and cost-effectiveness in the Company's own IT services, developing specific actions to streamline costs in voice and data communications, consolidating equipment and outsourcing lower-value activities. The savings achieved by these measures enabled financing new infrastructures, such as the expansion of companywide bandwidth communication networks, the installation of a backup center and the development of contingency plans.

In the Petrochemicals segment, the enterprise business solution application SAP R/3 was deployed in PETRESA, so that all of the Group's companies now use common and integrated software solutions for functions such as accounts management control, profitability analysis, fixed asset management, risk analysis, inventory management and procurements, plant maintenance and sales & marketing. In addition, software support for manufacturing-related activities was also completed, through the development of the necessary functionalities and capabilities to determine and analyze production costs and inventory valuation, and therefore improve bottom-line performance.

In Logistics, a comprehensive project was developed targeted at deploying an integrated system in all of the CEPSA's centers, using SAP's downstream supply chain management application which enables control and monitoring of the handling and movement of goods throughout the supply network, with functions such as excise tax handling and tariffs, duties and permits capabilities to calculate and post the excise tax values of dutiable oil materials for the Company's refineries and other centers, as well as automated information interface with the Directorate General of Customs.

As regards Distribution, major strides were made with the implementation of advanced automation and support systems for supply-chain and B2B operations with carriers and customers through internet technology, including the start-up of new applications that enable supply and transportation planning, and on-line access to supply orders, load tickets, and real-time communication. Furthermore, capabilities such as electronic orders and optimization of retail site resupply operations are supported through the installation of bandwidth technology – CepsaNet- making it possible to develop web-enabled applications for optimized order-taking from the point-of-sale (POS) system, as well as real-time monitoring of their execution, helping the Company to control costs, develop and implement more agile business strategies, increase productivity and enhance efficiency across the board.

In the Corporate Procurements Area, purchases of goods, materials and services continued to be made electronically, extending these applications to new groups of users and facilitating functionalities for the management of offers from suppliers and their evaluation, work flows and product and service catalog management. Likewise, the initial procedures involving electronic billing to suppliers were successfully implemented, achieving considerable cost savings and greater flexibility in processing these transactions.

In Human Resources and Organization, the development of the Corporate Intranet in close collaboration with the e-center has enabled CEPSA to harness the benefits of greater efficiency, automated form processing for employees and easy on-line access to corporate documents. Similarly, the "Organizational Regulations and Procedures" was integrated under the corporate document management platform, automating associated work flows. Efforts also continued in implementing IBM's HR Access software throughout the remaining companies of the CEPSA Group as a global system for strategic human resource management, providing a single point of access to the gamut of HR functions.

Corporate Area

In the Retail Network, substantial progress was made in the management of customer loyalty schemes, whose sharp growth and expansion required developing more advanced capabilities to provide support to new participating entities (such as SPANAIR, RACE, BANESTO and CITIBANK) and optimize related administrative and commercial processes.

In connection with Quality, a companywide system was deployed to manage "non-conformities" and enable maintaining standardized documentation in a unified and auditable system in order to facilitate their control and adopt, where applicable, remedial measures.

As for Corporate Image, CEPSA's website, thanks to the initiatives of the e-center, has been redesigned with added functionalities and greater user-friendliness, generating more log-ins from visitors and becoming both a key communication tool as well as an ideal means of conducting on-line transactions with the Company.

CEPSA AND COMMUNITY INVOLVEMENT

CEPSA is firmly committed to ongoing engagement with its different stakeholders both inside and outside the Company, whether in Spain or around the world.

Consistent with this goal, CEPSA believes that meaningful dialogue with its employees and responsiveness to their needs and concerns is a key part of successfully conducting its businesses. Similarly, the Company strives to make a positive and lasting contribution to the welfare, stability and prosperity of the communities where it operates, both at home and abroad.

Furthermore, CEPSA believes that training is one of the foundations for achieving long-term social and environmental improvements. Accordingly, some of the activities undertaken in 2005 include a variety of courses, seminars and workshops on Corporate Social Responsibility and Sustainability, developed in conjunction with the University of Huelva and the International University of Andalusia, the Ministries of Education & Science and Industry, Tourism & Trade and the Spanish Quality Association; and a project aimed at secondary school students called "Journey towards Sustainable Development" in Santa Cruz de Tenerife and La Laguna, in the Canary Islands.

Mindful of its role as a socially-responsible corporate citizen and as an expression of its commitment to integrating the principles of sustainability into its daily activities and encouraging greater transparency and accountability, CEPSA published its second "Sustainability Report", which was awarded "In Accordance" status by the Global Reporting Initiative (GRI).

As part of its contributions to social services and programs, CEPSA continued to be engaged in collaborative efforts with a number of non-profit and charitable organizations to help underprivileged communities both in Spain and in developing countries.

In the academic world, CEPSA funds and organizes a number of courses, seminars and research projects and provides scholarships and endowments in recognition of outstanding scholarly

achievements. Although its cooperation encompasses a variety of fields, it pays particular attention to academic activities related to the oil sector, such as the CEPSA Chair of Oil Technology and Environment, whose aim is to train, research, transfer technology and promote knowledge on the energy industry, in partnership with the University of Cadiz.

Locally and also in the academic field, noteworthy was CEPSA's involvement in summer courses organized at the University of Cadiz and with the City Council of Palos de la Frontera, Huelva, where the Company offers several scholarships to study languages abroad.

In the cultural arena, CEPSA cooperates with a number of highly prestigious and renowned scientific, technical and cultural entities, such as its ongoing collaboration with the "Prince of Asturias Foundation", which on a yearly basis grants awards for prominent contributions in sciences, humanities, technical and scientific research, public affairs and sports by individuals, groups or institutions around the world. The Company also took part in initiatives with the "Gómez Pardo Foundation- Higher Technical School of Mining Engineering of Madrid", CEPSA Chair for Energy and Environment.

CEPSA also continued its efforts to preserve Spain's rich artistic legacy, such as its longstanding cooperation and involvement in excavations to recover and restore the Roman ruins of the ancient city of Carteia in Cádiz.

A topic of particular interest to the Company is environmental protection, and its initiatives in this area include its collaboration with the City Council of Chipiona (Cádiz) to set up the "Center for the Study of Chameleons" in order to gain further knowledge about these reptiles, their habitat and how they interact with their environment. CEPSA channeled its energies towards the patronage and preservation of a highly endangered species known as the Bonelli's Eagle, otherwise known as the African Hawk-Eagle, a classic and emblematic Mediterranean bird of prey associated with the forests, scrub and farmland typical of eastern Spain. As a result of these actions, CEPSA is not only contributing towards improving biodiversity but also towards raising public conservation awareness and the importance of caring for and protecting our natural habitat.

As regards the world of sports, CEPSA's focus is mainly on the promotion of a wide variety of sports and recreational programs, such as soccer, rowing and fencing, for young people living in areas where the Company has a large industrial presence. Some sponsorships include the "CEPSA Sailing School" in the Mazagón Yachting Harbor in Huelva and the "Little League Soccer Tournament" in Línea de la Concepción, Cádiz.

In the world of advertising, all of CEPSA's publicity products are designed according to the strictest ethical standards and codes of conduct. Consistent with this mission, the Company is a member of the Media Committee of the Spanish Broadcasters' Association, as well its Governing Board, from where it actively takes part in the procedural agreements developed by this organization. CEPSA is also a member of Autocontrol (Association for Advertising Self-regulation), which provides a quick, easy and efficient system for processing and settling advertising claims out of court, and services such as "copy advice" or pre-clearance of commercials and advertising prior to being broadcast.

Corporate Area

During the year, CEPSA's advertising campaigns focused on bringing products and services closer to consumers, with stories about everyday life that could happen at any service station. The campaign culminated with an on-line contest called "Historias CEPSA" ("CEPSA Stories"), where the Company invited people to send in their stories and the grand prize winning story would be turned into a TV commercial.

Internationally, CEPSA was proactive in encouraging greater global cooperation and dialogue by organizing and sponsoring meetings, seminars, roundtables and forums for discussion and exchange on technical, environmental and socioeconomic matters. These encounters are mainly undertaken through the Company's participation in a variety of associations.

In order to promote international research and study, CEPSA serves as a member of the Board of Trustees of the Complutense Institute for International Studies and the Elcano Royal Institute for Global and Strategic Studies, which is becoming a major international think tank on global issues.

CEPSA is also actively involved in leading forums and institutions of the European Union through its membership in EUROPIA (The European Oil and Petrochemicals Industry Association), where it holds the office of Vice-Chairmanship; APPE (Association of Petrochemicals Producers in Europe); and CONCAWE (Conservation of Clean Air and Water in Europe – the oil companies' European organization for environment, health and safety).

CEPSA likewise is a member of the OME (Mediterranean Energy Observatory), encompassing oil industry leaders in the Mediterranean region, from where it undertook a variety of initiatives within the Hydrocarbons Committee. The Company also belongs to the Spain-Northern Africa Club and serves on the Executive Committee of the Platform for Strategic Intervention of the Luso-Spanish Foundation, PIECE, whose mission is to jointly develop activities and promote bilateral contacts between Portugal and Spain.

At home, CEPSA currently presides over the Spanish Energy Club (ENERCLUB), which acts as a forum for exchanging ideas and information on the energy sector, and is a member of a variety of associations in connection with its different business activities, such as FEIQUE (Spanish Federation of Chemical Industries) and AOP (Association of Oil Product Operators), where it holds the Chairmanship. The Company similarly cooperates in the development of the Spanish energy sector, with its membership on the Hydrocarbons Advisory Council of the National Energy Commission.

Furthermore, CEPSA holds the office of Secretariat of the World Petroleum Council (WPC) entrusted with the task of organizing and hosting the 19th World Petroleum Congress in Madrid in 2008, marking the 75th anniversary of this global energy institution. Additionally, through its membership in associations such as the Spanish Confederation of Employers (CEOE) and the Confederation of Andalusian Employers (CEA), as well as in various Chambers of Commerce and Industry, CEPSA is actively and dynamically involved in proposals, measures and decisions that seek to promote economic and business development in Spain. Noteworthy was its sponsorship of the Technological Corporation of Andalusia, established in October 2005 by the Council of Innovation, Science and Business of the Andalusian Regional Government, aimed at strengthening ties between the scientific and business worlds, as a means of responding to society's call for advancements in the areas of innovation and development.

CEPSA and the Stock Market

The share capital of Compañía Española de Petróleos, S.A. (CEPSA) amounts to 267,574,941 euros, divided into 267,574,941 bearer shares with a face value of 1 euro each, represented by book entries.

All of CEPSA's outstanding shares are officially traded on the four Spanish stock exchanges and listed on the Continuous Market, with year-end weightings on the Madrid Stock Exchange General Index, the Energy & Utility Index, and the Oil, Gas and Other Energy Sources Index of 1.216383%, 16.456794% and 5.538305%, respectively.

In 2005, CEPSA's shares traded within a range of 46.75 – 29.31 euros, with the year-end share price coming to 38.65 euros, surging 30.13% from a year earlier.

For comparative purposes, and looking at the share price performance over the last five years, CEPSA's shares appreciated 320% in this reference period, compared to the IBEX 35 Industrial Average and the General Average of the Madrid Stock Exchange, which were both up 17.8% and 31.3%, respectively.

A total volume of 19.2 million CEPSA shares were traded on the market in 2005, equivalent to 7.17% of the Company's share capital and with a market value of 718.8 million euros. Shares were traded on all sessions, with 100% liquidity.

At the close of the year, CEPSA's market capitalization came to 10,342 million euros, climbing 2,395 million euros from 2004. Earnings Per Share (EPS) came to 3.78 euros, up 1.22 euros or 47.7%, from the year before.

The expected dividend distribution to shareholders on 2005 profits, including the final dividend to be brought before the Annual General Meeting of Shareholders for approval, amounts to a total of 1.25 euros per share (versus 1 euro in 2004), divided into an interim dividend of 0.55 euros, paid out on October 25, 2005, and a final dividend of 0.70 euros. This total dividend proposal – deducting the effect on net income from using the average cost method of inventory valuation instead of LIFO, as required by new IFRS - represents a payout ratio of 40% of consolidated income attributable to CEPSA (versus 42% in 2004) and compared to the average price in 2005, means a yield of 3.34% (compared to 3.52% in 2004).

Total Shareholder Return (TSR) , calculated as the sum of dividends actually paid out in 2005 together with the change recorded in the share price between the opening and closing date of the year, came to 10.08 euros, equivalent to a return of 33.94%.

The P/E (Price/Earnings) ratio, on a consolidated basis and using the year's average share price, came to 9.91, comparing favorably with the average ratio recorded for the large-cap company shares making up the Spanish blue-chip index, "IBEX 35".

CEPSA's Annual General Meeting of Shareholders held on May 31, 2001, authorized the Board of Directors, subject to legal provisions, to increase, all at once or over a period of time, within a five-year limit, the share capital of the Company up to a maximum of 133.8 million euros, (50% of the share capital) by new cash contributions, through the issue of voting or non-voting shares with or without a share premium.

CEPSA and the Stock Market

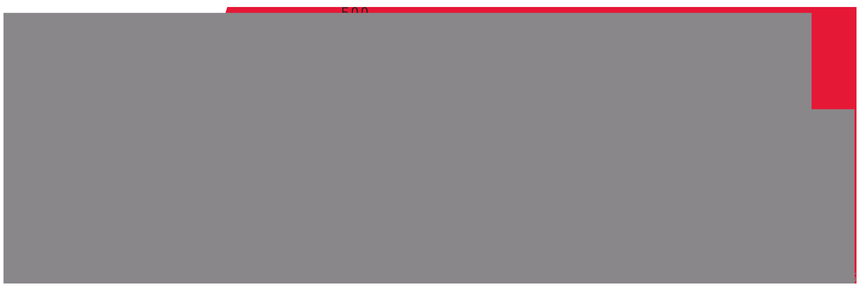
The Board of Directors had not used this authorization at December 31, 2005.

The Annual General Meeting held on May 28, 2004, authorized the Board of Directors so that, subject to legally applicable provisions, and after obtaining the necessary authorizations, it may issue, within the maximum period of five (5) years allowed by law, starting from the date of this authorization, non-convertible debt, by means of debentures, bonds or other fixed-yield securities, simple or mortgage, subordinated or not, and documented by means of certificates or book entries, up to a maximum limit of 300 million euros. The Board of Directors had not used this authorization at December 31, 2005. Likewise, CEPSA did not have any outstanding bond issues at this date.

	2005	2004	2003	2002	2001
Share Price (euros per share)					
High	46.75	30.90	28.68	19.14	14.58
Low	29.31	25.50	17.10	12.43	9.06
Average	37.43	28.37	25.67	16.58	11.80
Year-end	38.65	29.70	27.50	17.39	12.49
Trading					
Number of shares (millions)	19.2	8.8	91.3(*)	53.2	42.1
Market value (millions of euros)	718.8	249.4	2,349.5(*)	883.7	497.0
Stock Market Ratios					
Dividend Yield (%)	3.34	3.52	3.70	4.16	5.09
Price/Earnings (P/E) Ratio	9.91	11.10	11.22	9.63	7.28

(*) Includes the effect of the partial takeover bid launched by Banco Santander Central Hispano on September 26, 2003, for a cash purchase offer of 28 euros per share. According to the notification issued by the Spanish Securities & Exchange Commission (CNMV), a total of 32,461,948 shares were tendered in this bid, representing 12.13% of CEPSA's share capital.

STOCK MARKET INDEX TRENDS - 100 basis points at 31.12.2000



CEPSA Group Legal Documents

REPORT FROM INDEPENDENT AUDITORS

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

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Compañía Española de Petróleos, S.A.:

1. We have audited the consolidated financial statements of Compañía Española de Petróleos, S.A. (the Parent) and Subsidiaries (the Group) comprising the consolidated balance sheet at 31 December 2005, and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Parent's directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting principles applied and of the estimates made.

2. The accompanying consolidated financial statements for 2005 are the first that the Group has prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (EU-IFRSs), which require, in general, that financial statements present comparative information. In this regard, as required by corporate and commercial law, for comparison purposes the Parent's directors present, in addition to the consolidated figures for 2005 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements, the figures for 2004, which were obtained by applying the EU-IFRSs in force at 31 December 2005. Accordingly, the figures for 2004 differ from those contained in the approved consolidated financial statements for 2004, which were prepared in accordance with the accounting principles and standards in force in that year. The differences arising from the application of EU-IFRSs to the consolidated equity at 1 January and 31 December 2004, and to the Group's consolidated profit for 2004 are detailed in Note 33 to the accompanying consolidated financial statements. Our opinion refers only to the consolidated financial statements for 2005. On 30 March 2005, we issued our auditors' report on the 2004 consolidated financial statements, prepared in accordance with the accounting principles and standards in force in that year, in which we expressed an unqualified opinion.

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, Tomo 13.650, Folio 188, sección 8, hoja M-54414, inscripción 96, C.I.F.: B-79104469. Domicilio Social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso - 28020 Madrid

Member of
Deloitte Touche Tohmatsu

3. In our opinion, the accompanying consolidated financial statements for 2005 present fairly, in all material respects, the consolidated equity and consolidated financial position of Compañía Española de Petróleos, S.A. and Subsidiaries at 31 December 2005, and the consolidated results of their operations, the changes in the consolidated equity and their consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards, as adopted by the European Union, applied on a basis consistent with that used in the preparation of the financial statements for the preceding year, which were included in the consolidated financial statements for 2005 for comparison purposes.

4. The accompanying consolidated directors' report for 2005 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the consolidated financial statements for 2005. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Compañía Española de Petróleos, S.A. and Subsidiaries.

DELOITTE
Registered in ROAC under no. S0692

Eduardo Sanz Hernández

31 March 2006

CONSOLIDATED BALANCE SHEETS

At 31 December, 2005 and 2004 (Notes 1, 2 and 3)

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

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

Thousand of Euros

ASSETS	2005	2004
Non-current assets		
Intangible assets (Note 4)		
Intangible assets and rights	431,396	352,856
Provisions and amortisation	(249,624)	(228,568)
Total intangible assets	181,772	124,288
Goodwill (Note 5)	**38,083**	**30,145**
Property, plant and equipment (Note 6)		
Tangible assets and rights	7,143,773	6,710,416
Provisions and depreciation	(3,438,956)	(3,137,076)
Total property, plant and equipment	3,704,817	3,573,340
Investments accounted for using the equity method (Note 7)	**108,479**	**95,238**
Non-current financial assets (Note 8)	**105,201**	**128,119**
Deferred tax assets (Note 14)	**125,365**	**119,422**
TOTAL NON-CURRENT ASSETS	**4,263,717**	**4,070,552**
Current assets		
Inventories (Note 9)	**1,438,500**	**1,058,909**
Trade and other receivables (Note 10)	**2,224,818**	**1,809,980**
Other current financial assets (Note 8)	**139,033**	**94,654**
Other current assets	**31,254**	**28,890**
Cash and cash equivalents (Note 11)	**371,349**	**112,196**
CURRENT ASSETS, SUBTOTAL	**4,204,954**	**3,104,629**
Non-current assets classified as held for sale and for discontinued operations (Note 29)	**5,680**	**5,997**
TOTAL CURRENT ASSETS	**4,210,634**	**3,110,626**
TOTAL ASSETS	**8,474,351**	**7,181,178**

(The accompanying Notes 1 to 34 are an integral part of these consolidated balance sheets)

Thousand of Euros

EQUITY AND LIABILITIES	2005	2004
Equity (Note 12)		
Share capital	267,575	267,575
Share premium	338,728	338,728
Revaluation reserve	90,936	90,936
Translation differences	41,539	(2,497)
Retained earnings	2,626,886	2,210,538
Assets and liabilities revaluation Reserves	80,795	121,585
Profit attributable to the Parent	1,010,272	683,923
Interim dividend paid	(147,166)	(112,381)
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**4,309,565**	**3,598,407**
Minority interests (Note 12.f)		
Equity attributed to minority interests	53,484	34,864
Profit attributed to minority interests	11,017	7,514
Total minority interests	64,501	42,378
TOTAL EQUITY	**4,374,066**	**3,640,785**
Non-current liabilities		
Bank borrowings (Note 13)	667,075	727,276
Other financial liabilities (Note 13)	129,772	70,665
Deferred tax liabilities (Note 14)	295,256	210,075
Grants related to assets (Note 15)	67,406	73,449
Provisions (Notes 16 & 17)	251,695	226,593
Other non-current liabilities (Note 18)	154,673	98,780
TOTAL NON-CURRENT LIABILITIES	**1,565,877**	**1,406,838**
Current liabilities		
Bank borrowings (Note 13)	312,948	304,608
Other financial liabilities (Note 13)	30,762	66,799
Trade and other payables (Note 18)	2,096,185	1,682,346
Current income tax liabilities	67,807	51,091
Other current liabilities	26,706	28,711
TOTAL CURRENT LIABILITIES	**2,534,408**	**2,133,555**
TOTAL LIABILITIES	**8,474,351**	**7,181,178**

(The accompanying Notes 1 to 34 are an integral part of these consolidated balance sheets)

CONSOLIDATED STATEMENTS OF INCOME

for the years ended 31 December 2005 and 2004
(Notes 1, 2 and 3)

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

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

Thousand of Euros

	2005	2004
Revenue:		
Sales and services on ordinary activities	16,187,824	11,944,919
Excise tax on oil and gas charged on sales	2,181,984	2,168,393
Net revenue (Notes 3.o & 25)	**18,369,808**	**14,113,312**
Increase in inventories of finished goods and work in progress	186,358	60,193
Other operating income (Note 25)	92,023	37,043
	18,648,189	**14,210,548**
Expenses:		
Procurements (Note 25)	(12,452,322)	(8,649,263)
Decrease in inventories of finished goods and work in progress	-	-
Staff costs (Note 25)	(441,419)	(413,090)
Changes in operating allowances	29,809	(2,446)
Other operating expenses		
Excise tax on oil and gas	(2,183,829)	(2,171,400)
Other expenses (Note 25)	(1,672,608)	(1,554,868)
Depreciation and amortisation charge and impairment losses	(399,922)	(371,636)
	(17,120,291)	**(13,162,703)**
PROFIT FROM OPERATIONS	**1,527,898**	**1,047,845**
Other non-operating income and expenses (Note 27)	(15,608)	147
Share in profit of companies accounted for using the equity method (Note 7)	31,177	20,082
Finance income (Note 28)	37,246	31,317
Finance costs (Note 28)	(62,915)	(41,059)
CONSOLIDATED PROFIT BEFORE TAX	**1,517,798**	**1,058,332**
Income tax (Notes 3.n & 14)	(496,192)	(364,176)
CONSOLIDATED PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**1,021,606**	**694,156**
Loss for the year from discontinued operations (Note 29)	(317)	(2,719)
CONSOLIDATED PROFIT FOR THE YEAR	**1,021,289**	**691,437**
Attributable to:		
Shareholders of the Parent	**1,010,272**	**683,923**
Minority interests	**11,017**	**7,514**
Earnings per share (Note 30):		
Basic	**3.78**	**2.57**
Diluted	**3.78**	**2.57**

(The accompanying Notes 1 to 34 are an integrated part of the consolidated income statements)

CONSOLIDATED STATEMENTS OF INCOME

for the years ended 31 December 2005 and 2004
(Notes 1, 2 and 3)

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

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs, as adopted by the European Union (see Notes 2 and 34). In the event of a discrepancy, the Spanish-language version prevails.

Thousand of Euros

CASH FLOWS FROM OPERATING ACTIVITIES	2005	2004
Net profit for the year	1,021,289	691,437
Depreciation and amortisation charge and impairment losses	401,824	371,194
Changes in provisions for contingencies and expenses	63,492	17,164
Grants related to assets and other deferred income transferred to the income statement	(51,911)	(9,794)
Changes in deferred taxes	79,238	52,447
Loss on disposal of non-current assets	1,205	(4,857)
Other changes	(35,571)	(61,835)
Cash flows from operating activities before change in operating working capital	**1,479,566**	**1,055,756**
Change in operating working capital	**(458,639)**	**(109,972)**
Total cash flows from operating activities (a)	**1,020,927**	**945,784**
CASH FLOWS FROM INVESTING ACTIVITIES	**2005**	**2004**
PAYMENTS:		
Intangible assets	(32,646)	(46,370)
Property, plant and equipment	(358,017)	(450,753)
Financial assets	-	-
Associates and other investments	(1,560)	(8,262)
Other financial assets	(21,973)	(48,535)
Grants received	226	2,432
Total payments	**(413,970)**	**(551,488)**
COLLECTIONS		
Intangible assets	96	416
Property, plant and equipment	18,733	40,276
Financial assets	35,417	25,812
Total collections	**54,246**	**66,504**
Total net cash outflow from investing activities	**(359,724)**	**(484,984)**
CASH FLOWS FROM FINANCING ACTIVITIES	**2005**	**2004**
DIVIDENDS PAID:		
To shareholders of the Parent	(302,360)	(254,196)
To minority interests	(6,501)	(5,604)
Total dividends paid	**(308,861)**	**(259,800)**
Net decrease in non-current financial liabilities	(68,835)	(230,294)
Net increase in current financial liabilities	29,740	88,274
Finance lease payments	(57,437)	(40,441)
Total cash flows from financial liabilities	**(96,532)**	**(182,461)**
Total net cash outflows from financing activities	**(405,393)**	**(442,261)**
Net increase in cash and cash equivalents	**255,810**	**18,539**
Adjustments due to changes in the scope of consolidation	-	(7)
Effect of exchange rate changes	(14,909)	(363)
Cash and cash equivalents at beginning of year	**100,404**	**81,495**
Cash and cash equivalents at end of year	**371,123**	**100,404**

(a) Net income tax payments for 2005 and 2004 amounted to Eur 427,565 thousand and Eur 335,186 thousand, respectively.
The net interest payments amounted to Eur 13,660 thousand in 2005 and Eur 15,547 thousand in 2004.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the years ended 31 December 2005 and 2004
(Notes 1, 2 and 3)

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

Thousand of Euros

	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Translation Differences	Interim Dividend	Reserves from Fair Value Changes in Assets and Liabilities	Minority Interests	Total
Balance at 01/01/04	**267,575**	**338,728**	**90,936**	**2,464,734**	**-**	**(112,381)**	**132,565**	**40,257**	**3,222,414**
Profit for the year				**683,923**				**7,514**	**691,437**
Adjustments due to gains (losses) recognised directly in equity									
From cash flow hedges using derivatives							3,670		3,670
From cash flow hedges using loans							(14,650)		(14,650)
From translation differences				-	(2,497)			211	(2,286)
Total gains (losses) recognised directly in equity	**-**	**-**	**-**	**683,923**	**(2,497)**	**-**	**(10,980)**	**7,725**	**678,171**
Changes due to transactions with shareholders									
Gross dividend				(254,196)		112,381			(141,815)
Interim dividend						(112,381)		(5,604)	(117,985)
Total transactions with shareholders	**-**	**-**	**-**	**(254,196)**	**-**	**-**	**-**	**(5,604)**	**(259,800)**
Balance at 31/12/04	**267,575**	**338,728**	**90,936**	**2,894,461**	**(2,497)**	**(112,381)**	**121,585**	**42,378**	**3,640,785**

	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Translation Differences	Interim Dividend	Reserves from Fair Value Changes in Assets and Liabilities	Minority Interests	Total
Balance at 01/01/05	**267,575**	**338,728**	**90,936**	**2,894,461**	**(2,497)**	**(112,381)**	**121,585**	**42,378**	**3,640,785**
Profit for the year				**1,010,272**				**11,017**	**1,021,290**
Adjustments due to gains (losses) recognised directly in equity									
From cash flow hedges using derivatives							519		519
From cash flow hedges using loans							(41,309)		(41,309)
From translation differences					44,036			5,767	49,803
Total gains (losses) recognised directly in equity	**-**	**-**	**-**	**1,010,272**	**44,036**	**-**	**(40,790)**	**16,784**	**1,030,302**
Changes due to transactions with shareholders									
Sale of investments to minority interests								11,840	11,840
Gross dividend				(267,575)		112,381		(4,399)	(159,593)
Interim dividend						(147,166)		(2,102)	(149,268)
Total transactions with shareholders	**-**	**-**	**-**	**(267,575)**	**-**	**(34,785)**	**-**	**5,339**	**(297,021)**
Balance at 31/12/05	**267,575**	**338,728**	**90,936**	**3,637,158**	**41,539**	**(147,166)**	**80,795**	**64,501**	**4,374,066**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

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

1. CEPSA Group activities.

Compañía Española de Petróleos, S.A. ("CEPSA"), whose registered office is at Avenida del Partenón 12 (Campo de las Naciones), Madrid, was incorporated for an unlimited period of time on 26 September 1929, and is registered in the Madrid Mercantile Register in Volume 206 of the Companies book, Folio 100, Sheet 6045. Its employer identification number is A-28003119.

CEPSA and its investees (together "the CEPSA Group") compose an integrated business group which operates in the oil and gas industry in Spain and abroad and engages in business activities relating to the exploration for and extraction of crude oil, the production of petrochemical and energy products, asphalts, lubricants and polymers and the distribution and marketing thereof; as well as the distribution of gas and the generation of electricity.

Table I, which forms part of these notes to the consolidated financial statements, shows the directly or indirectly owned subsidiaries, jointly controlled entities and associates which, together with CEPSA, compose the consolidated Group. The table lists these companies' registered offices and lines of business, together with the most significant economic and financial information thereon for 2005.

2. Basis of presentation and basis of consolidation.

a) Basis of presentation

The accompanying consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) 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 31 December 2005, as, adopted at that date by the European Union, in conformity with Regulation (ECE) no.º 1606/2002 of the European Parliament and of the Council, applicable at the balance sheet date.

These financial statements and the 2005 individual financial statements of the Group companies included in the scope of consolidation will be submitted for approval by their shareholders at the respective Annual General Meetings, and it is considered that they will be approved without any changes.

These financial statements are presented in thousands of euros (unless stated otherwise) since this is the currency of the principal economic environment in which the Group operates. Foreign operations are included in accordance with the policies set forth in Note 2-d.

The statutory financial statements of CEPSA and the CEPSA Group for 2004 were approved by the shareholders at the Annual General Meeting in Madrid on 27 May 2005, without any changes. These financial statements were prepared in accordance with Spanish accounting principles and the figures contained therein differ from the figures for 2004 included, for comparison purposes, in these consolidated financial statements which were prepared in accordance with International Financial Reporting Standards. Note 33 contains the reconciliation of equity and profit for the year between Spanish GAAP and IFRSs, together with an explanation of the main adjustments.

b) Use of estimates and assumptions

In the preparation of the consolidated financial statements in accordance with IFRSs the directors were required to make estimates and assumptions. The final figures might differ based on these estimates and assumptions.

These estimates and assumptions relate basically to the following:

- The assumptions used in the determination of the recoverable amount for the calculation of the impairment losses on certain assets (see Notes 4, 5 and 6),
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments (see Note 16),
- The useful life of the property, plant and equipment and intangible assets (see Note 3-c),
- The measurement of provisions for liabilities (see Note 3-k).

Although these estimates were made on the basis of the best information available at 31 December 2005, on the events analysed, 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, recognising the effects of the change in estimates in the related consolidated income statements.

c) Basis of consolidation

All the companies over which the Parent exercises direct or indirect control are fully consolidated. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

The share of the minority interests in the equity and income of the CEPSA Group's consolidated subsidiaries is detailed under the heading "Equity – Minority Interests" in the consolidated balance sheets and the heading "Income Attributed to Minority Interests" in the consolidated income statement, respectively.

The jointly controlled entities are proportionately consolidated and, accordingly, the accompanying consolidated financial statements include the amount of the assets, liabilities, expenses and income of these companies in proportion to the percentage of the CEPSA Group's ownership interests therein.

The associates over which the Group exercises significant influence but not effective control, excluding jointly controlled companies, are accounted for using the equity method.

A Company is in general in a position to exercise significant influence over those companies in which it holds an equity interest of between 20% and 50%, and in particular, although the equity interest in Compañía Logística de Hidrocarburos CLH, S.A. is lower than 20% significant influence is exercised because, among other factors, the CEPSA Group is also present in the aforementioned company's Board of Directors and there is a high volume of commercial operations.

Any excess of the cost of acquisition of the consolidated subsidiaries over the fair value of their net assets (assets acquired less liabilities assumed) at the date of acquisition is included under the heading "Goodwill". Any deficiency of the cost of acquisition of the consolidated subsidiaries under the fair value of their net assets is recognised in the income statement.

All material balances, transactions and results between the fully consolidated companies were eliminated on consolidation. Based on the percentage of ownership, the balances, income, expenses and results from transactions with proportionately consolidated companies were also eliminated. In addition, the accounting policies and procedures used by the Group companies were unified with those applied by the Parent, and all accounting policies and valuation bases with a significant effect on the consolidated financial statements were applied.

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

Foreign currency transactions are recognised in euros by applying the exchange rates prevailing at the date of the transaction. Any gains or losses arising at the date of settlement are recognised in the consolidated income statement.

Monetary items in foreign currencies are recognised in the consolidated balance sheet in euros at the year-end exchange rates or at the hedged exchange rates, if any. Exchange differences with respect to the exchange rates prevailing at the date of transaction are recognised in the consolidated income statement.

Exchange differences arising on foreign currency loans to finance investments in the same functional currency which give rise to a hedge of the foreign currency risk associated with the loans (cash flow hedge) are recognised in equity as unrealised gains or losses in the accompanying consolidated balance sheets.

The financial statements denominated in foreign currencies of the Group companies resident abroad, which have a functional currency other than the euro, were translated to euros by applying the "year-end exchange rate" method, consisting of the translation to euros of assets and liabilities at year-end exchange rates.

The resulting translation differences are recognised in equity under “Translation Differences” in the accompanying consolidated balance sheets.

The effect of the changes in exchange rates on each item is shown in the “Other Changes” column of the respective tables.

e) Comparative information

The changes in the scope of consolidation in 2005 were as follows:

Company	Full/Proportionate Consolidation Method	Equity Method
Cepsa Marine Fuels, S.A.	I	—
Compañía Comercial Distribuidora, S.A. (DISCOSA)	E	—
Gestmanilva, S.L.	—	I
Gestvilar 2003, S.A.	—	I
Gutiérrez Peinado Hermanos, S.L.	—	E

I = Inclusion; E = Exclusion

The changes in the scope of consolidation in 2005 were as follows:

Company	Full/Proportionate Consolidation Method	Equity Method
Asturiana de Gasóleos, S.A.	—	E
Cepsa Operaciones Marina-Aviación, S.A.	I	—
Cepsa Ventas Directas – Distribución, S.A..	E	—
Comercio y Distribución, S.A. (CODISA)	—	E
Generación Eléctrica Peninsular, S.A.	I	—
Gutiérrez Peinado Hermanos, S.L.	—	I
Motel Estación Malgrat, S.A. (MEMSA)	—	E
Nueva Generadora del Sur, S.A.	I	E
9095-5311 Québec INC..	I	—

I = Inclusion; E = Exclusion

It should be noted in this connection that all the exclusions from the scope of consolidation in 2005 and 2004 relate to mergers by absorption.

The detail 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 the "Other Changes" column in the respective tables disclosing the changes in each item during the year.

3. Accounting policies

The principal accounting policies applied on consolidation were as follows:

a) Intangible assets

Intangible assets are measured at acquisition cost, and are reviewed 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 (see Note 3-d).

Research and development expenditure is recognised in the income statement as incurred, except in the case of development expenses relating to projects the technical feasibility and commercial viability of which has been determined, which are capitalised and amortised on the basis of their useful lives.

Manufacturing license rights are amortised at the same rates as those used to depreciate the industrial units to which they relate. Service station surface rights and flagging contracts are amortised 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 three years.

In compliance with the commitments to reduce greenhouse gas emissions - the Kyoto Protocol - assumed by the European Union in May 2002, various EU and national regulations were issued, which led to the approval, by Royal Decree 60/2005 of 21 January, of the National Emission Allowance Assignment Plan, which is in force for the three-year period 2005-2007 and affects 11 industry sectors including the refining and electricity generation sectors. Pursuant to this legislation, from 2005 onwards the CEPSA Group must deliver CO2 emission allowances equal to the volume of emissions made during the year.

The emission allowances are recognised as non-amortisable intangible assets, valued at acquisition or production cost, and are derecognised when they are delivered, transferred to third parties or meet the conditions established for their expiry (see Note 4).

Allowances received for no consideration under the National Emission Allowance Assignment Plan, are valued at the market price prevailing at the beginning of the year to which they relate, and are recognised with a credit to a Deferred Income item.

b) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition of the investees over the fair value of their net assets –assets acquired less liabilities assumed– at the date of acquisition (see Note 5).

The acquisition cost comprises the sum of the fair value of the assets delivered, the liabilities assumed and the equity instruments issued, plus any other costs directly attributable to the transaction.

The fair value of net assets comprises the fair value of the assets and liabilities acquired that meet the requirements established for their recognition plus the fair value of intangible assets which were not acquired but 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 amortised, but rather, is tested for impairment at least once per year (or more frequently if there is any indication of impairment) (see Note 3-d).

Goodwill is deemed to be an asset of the company acquired. Consequently, the foreign currency goodwill of the Group companies resident abroad with a functional currency other than the euro, is translated to euros at the exchange rates prevailing at the consolidated balance sheet date, and any resulting variations are recognised as translation differences.

c) Property, plant and equipment

c.1) Exploration and production assets

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

Exploration expenditures and investments in areas with unproven reserves:

Exploration expenditures are charged to income as incurred. Acquisitions of exploration rights are capitalised and viability analysis are performed periodically on a field-by-field basis based on the exploration results (see Note 3-d) and in each case the corresponding impairment tests are performed. Exploration rights are depreciated 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 "Investments in Areas with Proven Reserves".

Drilling costs are capitalised temporarily until it is determined whether proven reserves have been discovered, in which case they are transferred to "Investments in Areas with Proven Reserves". On the contrary, if the results are negative, they are charged to income.

Investments in areas with proven reserves:

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

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

Impairment tests are performed periodically for each field and any impairment losses are recognised in the income statement (see Note 3-d).

c.2) Other property, plant and equipment

Property, plant and equipment are measured at cost. Cost includes the acquisition cost and staff costs and other items related directly to these assets incurred only during the construction period. It also includes the estimated present value of the abandonment costs that the CEPSA Group must bear, where appropriate.

Assets acquired before 31 December 2003, are measured at cost, revalued, where appropriate, pursuant to several enabling regulations. The costs of expansion, modernisation or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalised. Periodic maintenance, upkeep and repair expenses are recognised in the income statement on an accrual basis as incurred. Retired assets and the related accumulated depreciation are derecognised.

Assets held under finance leases are presented in the balance sheet by recognising 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 recognised 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 losses 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, an impairment test is performed and, where appropriate, the related impairment loss is recognised (see Note 3-d).
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	Years of Useful Life
Buildings and other structures	33 to 50
Plant and machinery:	
Machinery, installations and tools	10 to 15
Furniture and fixtures	10
Plants in service:	
Units	12 to 15
Lines and networks	15
Tanks and spheres	20
Other items of property, plant and equipment	4 to 10

d) Impairment of assets
At the reporting date the CEPSA Group assesses whether there is any indication of impairment of property, plant and equipment and intangible assets and, where appropriate, estimates the recoverable amount thereof. Additionally, regardless of whether such an indication exists, the carrying amount of intangible assets with indefinite lives and of goodwill is compared with their recoverable amount at least once per year (see Notes 3-a, 3-b and 3-c).

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

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. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased up to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Recoverable amount is the higher of the net selling amount and the value in use. The value in use is determined on the basis of discounted cash flows estimated on the basis of assumptions which are consistent with the Group's five-year strategic plan and discounted at the rate that best reflects the cost of capital for the type of asset in question.

If the recoverable amount is less than the net carrying amount of the asset, the related impairment loss is recognised under "Depreciation and Amortisation Charge and Impairment Losses" in the accompanying consolidated income statements.

e) Financial assets

Except for investments in associates, which are recognised using the equity method (see Note 2-c), both current and non-current financial assets are initially recognised at acquisition cost, which is the fair value of the consideration given, including transaction costs.

Following the initial recognition, financial assets are measured on the basis of their classification, as follows:

- Originated loans and receivables and held-to-maturity investments are recognised at their amortised cost, net of any impairment losses.

- Held-for-trading financial assets are measured, if any, at fair value, and fair value changes are recognised in the consolidated income statement.

- Available-for-sale financial assets, which consist mainly of non-current equity investments, are measured at fair value and fair value changes are recognised directly in equity until the investments are sold, when the accumulated amount relating to such investments is recognised in full in the consolidated income statement. Where fair value is lower than cost, the difference is recognised directly in the consolidated income statement. For this purpose, for companies whose shares are not listed on the stock market, the market price is taken to be the present value of the estimated cash flows or, if these cannot be estimated, the underlying carrying amount obtained from the latest balance sheet, including, where appropriate, the unrealised gains existing at the time of acquisition and still existing at the date of subsequent measurement (see Note 8).

f) Inventories

Crude oil, oil derivatives and petrochemical products are measured at the lower of weighted average cost, as permitted by IAS 2, and net realisable value. Crude oil and oil derivatives in transit are recognised at the cost at source plus direct costs incurred through year-end. Replacement parts and supplies and other inventories are measured at the lower of average acquisition or production cost or net realisable value (see Note 9).

The Company assesses the net realisable value of the inventories at the end of each year and recognises the appropriate loss 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 realisable value because of changed economic circumstances, the amount of the write-down is reversed.

Individual costs are allocated to refined products in proportion to the selling price thereof (isomargin method).

g) Cash and cash equivalents

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

Cash equivalents includes bank deposits and other investments maturing within three months and other liquid assets includes the same type of assets by with maturities at three to twelve months.

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

ANon-current assets whose carrying amount is expected to be recovered through a sale transaction rather than through continuing use are classified as held for sale and measured at the lower of carrying amount and fair value less costs to sell. These assets are shown separately in the accompanying balance sheets.

At 31 December 2004 and 2005, this heading included the non-current assets relating to the Group company Plastificantes de Lutxana, S.A., which has been engaged in the manufacture and sale of plasticisers for the last 40 years. Following a detailed evaluation of the company's performance in recent years and of the market outlook and other considerations, it was decided to discontinue the operations of this company and the initial steps for the disposal of its assets have been taken.

i) Grants

Grants related to assets are measured at fair value. Non-repayable grants are recognised as deferred income under "Non-Current Liabilities" in the consolidated balance sheet and are charged to income on the basis of the useful life of the assets concerned. Repayable grants are recognised as non-current debt transformable into grants under "Non-Current Liabilities". Grants related to income are credited to income when earned.

"Grants related to Emission Allowances" includes allowances received for no consideration, as provided for in the National Emission Allowance Assignment Plan, which are measured at the market price prevailing at the beginning of the year to which they relate. These grants are recognised as other operating income as the costs incurred on the actual emissions accrue (see Notes 15 and 25).

j) Pension and similar obligations

CEPSA and several of its subsidiaries have the following pension obligations to employees and their beneficiaries:

- Pension obligations funded by the occupational pension plans assigned to the CEPSA Group, Fondo de Pensiones fund. These pension plans entitle participants to receive benefits for retirement or, where appropriate, for death or disability, as specified in the plans. The plans take the form of hybrid plans and combine defined contribution plans, which cover retirement –whereby the sponsor makes periodic contributions–, and defined benefit plans which cover benefits for death or disability through an annually renewable policy –whereby the sponsor undertakes to pay an annual premium to the related insurer. Accordingly, these contingencies should be considered to be a defined contribution plan. The vested amount of the contingency assumed by the sponsor is covered each year with the payment of the premium.

- Early retirement. This benefit consists of the formal recognition of the entitlement of a certain group of employees to take early retirement after the age of 60 in exchange for a lump-sum payment which varies on the basis of the age of effective retirement. This entitlement has been externalised through an insurance policy for the value of the vested right, which is updated annually to adapt the assumed commitment to the vested commitment at all times.

- Life insurance. A defined contribution obligation instrumented 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 instrumented either individually or as a supplement to the pension plan, since the commitments to employees exceed the maximum contributions to pension plans.

- Annuity income for retired employees. These are commitments prior to the arrangement of pension plans, which entitle personnel or their beneficiaries to receive supplementary social security pension benefits in the event of retirement, death or permanent disability up to a certain level of coverage on the latest pensionable salary. This commitment is funded in full and has been externalised through the related insurance policies.

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

Other non-current employee benefit costs.

The Group has a commitment to a certain group of employees for the use of company stores. This benefit has been replaced by monetary consideration in workplaces where there are no company stores. Actuarial studies are performed annually and the actuarial gains and losses are recognised as income or expenses, as appropriate.

The Company must recognise actuarial gains and losses as income or expenses when the unrecognised cumulative actuarial gains and losses for each individual plan exceed by more than 10% the present value of the benefit obligations or the fair value of the plan assets. At 31 December 2005, this situation had not arisen in the CEPSA Group.

k) Other 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, 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 recognised is the present value of the expenditure expected to be required to settle the obligation. Provisions are reviewed at each balance sheet date based on the information available.

The obligation to deliver emission allowances for the CO2 emissions produced in the year is recognised as the greenhouse gas emissions are made. These costs are charged to "Other Operating Expenses" in the income statement and credited to a short-term provision included under "Current Liabilities", until the date the related emission allowances are delivered (see Notes 3-a and 18). 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 capitalised in the balance sheet.
- Lastly, where necessary, the most up-to-date estimate of the cost of acquisition of the remaining allowances.

l) Bank borrowings and other financial liabilities

Bank borrowings and other financial liabilities are initially recognised at their fair value less directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method.

In accordance with its foreign currency risk management policy, the CEPSA Group arranged borrowings denominated in US dollars to finance certain investments in non-current assets which generate cash flows also in US dollars. These financial liabilities were accounted for as a cash flow hedge (see Note 13).

Changes in the fair value of these financial liabilities are recognised directly in equity, net of the related tax effect, under "Reserves for Financial Assets and Liabilities at Fair Value through Equity" in the accompanying consolidated balance sheets and are recognised in income for the year as the hedge materialises (see Note 25).

m) Derivative financial instruments and hedge accounting

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

All derivatives, whether or not they are designated as hedging instruments, are recognised in the accompanying consolidated balance sheets at their fair value. Fair value was determined on the basis of their quoted price since most hedging instruments are quoted. In those cases where they are not quoted, fair value was determined on the basis of discounted cash flows.

Changes in the fair value of derivative financial instruments were recognised in “Finance Income” or “Finance Loss”, as appropriate, in the accompanying consolidated income statements, except for hedging instruments that were designated as hedges, in which case fair value changes were recognised directly in equity, net of the related tax effect, under “Reserves for Financial Assets and Liabilities at Fair Value through Equity” in the accompanying consolidated balance sheets (see Note 23).

n) Income tax

Current and deferred income taxes are recognised under “Income Tax” in the accompanying consolidated income statement, except when they arise from economic events that have been directly recognised in equity, in which case they are recognised directly in equity.

Deferred tax is accounted for using the balance sheet liability method, under which temporary differences are determined as the difference between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax liabilities are generally recognised for all taxable temporary differences, whereas deferred tax assets arising from deductible temporary differences and tax loss and tax credit carryforwards are only recognised if it is probable that sufficient future taxable profit will be available against which they can be utilised. Deferred tax assets and liabilities are measured based on the tax legislation in force and the tax rates that have been, or are being, enacted at the balance sheet date.

The Group reassesses unrecognised deferred tax assets and unrecognised tax loss and tax credit carryforwards at each balance sheet date, and recognises those for which it is probable that future taxable profit will be available against which they can be utilised. Recognised deferred tax assets and recognised 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 utilised.

In the case of the Group companies that file consolidated tax returns, the consolidated tax expense is allocated pursuant to an internal agreement which, as regards the recording and determination of individual tax charges, observes Rule Six of a Resolution dated 9 October 1997, of the Spanish Accounting and Audit Institute, partially amended by the Resolution dated 15 March 2002 (see Note 14).

o) Recognition of revenue and expenses

Revenue and expenses are recognised 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.

“Net Revenue” includes 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 income statements.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount.

Dividend income from investments is recognised when the shareholder’s rights to receive payment have been established.

p) Leases

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, they present the cost of the leased assets in the consolidated balance sheet, based on the nature of the leased asset, and, simultaneously, recognise a liability for the same amount (which will be the lower of the fair value of the leased asset or the aggregate present values of the amounts payable to the lessor plus, where applicable, the price of exercising the purchase option). These assets are depreciated using similar criteria to those applied to the items of property, plant and equipment for own use.

In both cases, the finance income and charges arising under finance lease agreements are credited and charged, respectively, to the consolidated income statement so as to reflect a constant periodic rate of return over the term of the agreements.

Operating leases

In operating leases, the ownership of the leased asset and substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

When the consolidated companies act as the lessor, they present the acquisition cost of the leased asset under "Property, Plant and Equipment" either as "Investment Property" or "Other Assets Leased out 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 recognised in income on a straight-line basis.

When the consolidated companies act as the lessee, lease costs, including any incentives granted by the lessor, are recognised as an expense on a straight-line basis.

q) Current/Non-current classification

In the accompanying consolidated balance sheet debts due to be settled within 12 months are classified as current items and those due to be settled within more than 12 months as non-current items.

Loans due within 12 months but whose long-term refinancing is assured at the Company's discretion through long-term credit facilities, should be classified as non-current liabilities.

r) Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the Parent by the number of shares outstanding during the year. The number of outstanding shares (267,574,941) remained unchanged in 2005 and 2004.

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

s) Information on the environment

Per the Resolution dated 25 March 2002, of the Spanish Accounting and Audit Institute, environmental investments are defined as investments included in the Company's assets for use in its business on a lasting basis which are mainly for the purpose of minimising the impact on the environment and protecting and improving the environment, including the reduction or elimination of pollution in the future caused by the operations performed by Group companies.

Likewise, 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 obligations, the Group recorded provisions for environmental actions to remedy the gradual pollution of soil, with a charge to "Other Operating Expenses" in the consolidated income statements. These provisions were quantified on the basis of internal estimates and technical studies. Also, the Group has taken out insurance policies which cover such other environmental damage as might arise, including any third-party liability that might arise therefrom (see Note 31).

t) Segment reporting

The CEPSA Group divides its organisational structure and activity management function into four business segments: Exploration and Production, Refining and Distribution (which includes base petrochemicals), Derivative Petrochemicals and Gas and Power. These areas make up the Group's major operating segments (see note 24-a). The key financial data thereon are as follows:

- Operating profit, which comprises the revenue and expenses arising from the operations of each primary business segment and the asset depreciation and amortisation charges, but does not include finance income or finance costs, nor other non-operating income or expenses, such as the gains or losses on disposal of non-current assets.

  The operating profit included in Note 24 on segment reporting was calculated using the same bases as those used for internal management information purposes.

  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 segment result (see Note 24-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 cost –used in the consolidated financial statements– and LIFO (last-in, first-out) cost –used to measure business segments– thus facilitating the analysis of business segment performance and comparison between years.

- In the section on segment assets and liabilities, the capital employed figure is disclosed. Capital employed is composed of non-current assets plus working capital minus 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.

Secondary segments refer to the geographical areas in which the Group operates, and segment results are reported based on the location of the assets and the customers.

4. Intangible assets

The detail of the gross investments in intangible asset accounts, of the related accumulated amortisation and impairment losses and of the changes therein in 2004 and 2005 is as follows:

Thousand of Euros

2004	Balance at 01/01/04	Additions or Charges	Transfers	Other Changes	Disposals or retirements	Balance at 31/12/04
Assets						
Development expenditure	2,732	2,139	(1,083)	-	-	3,788
Concessions, patents and licences	46,044	14,688	336	(801)	-	60,267
Goodwill	5,226	109	(109)	-	-	5,226
Computer software	88,618	12,026	27	86	(327)	100,430
Flagging contracts	108,300	12,802	-	-	(1,872)	119,230
Other intangible assets	62,286	4,606	62	-	(3,039)	63,915
Total	**313,206**	**46,370**	**(767)**	**(715)**	**(5,238)**	**352,856**
Amortisation		**-**	**-**	**-**	**-**	
Development expenditure	(924)	-	(23)	-	-	(947)
Concessions, patents and licences	(30,592)	(1,911)	(167)	16	-	(32,654)
Goodwill	(3,180)	(576)	8	-	-	(3,748)
Computer software	(67,925)	(7,354)	190	(22)	327	(74,784)
Flagging contracts	(87,507)	(7,603)	-	-	1,739	(93,371)
Other intangible assets	(21,738)	(4,085)	-	66	2,693	(23,064)
Total	**(211,866)**	**(21,529)**	**8**	**60**	**4,759**	**(228,568)**
Impairment losses	-	-	-	-	-	-
Net intangible assets	**101,340**	**24,841**	**(759)**	**(655)**	**(479)**	**124,288**

Thousand of Euros

2005	Balance at 01/01/05	Additions or Charges	Transfers	Other Changes	Disposals or retirements	Balance at 31/12/05
Assets						
Development expenditure	3,788	21	(2,812)	-	-	997
Concessions, patents and licences	60,267	4,501	(37)	4,009	-	68,740
Goodwil	5,226	4	-	-	-	5,230
Computer software	100,430	10,176	77	355	(20)	111,018
Flagging contracts	119,230	15,168	-			134,398
Other intangible assets	63,915	47,647	(18)	-	(531)	111,013
Total	**352,856**	**77,517**	**(2,790)**	**4,364**	**(551)**	**431,396**
Amortisation						
Development expenditure	(947)	-	-	-	-	(947)
Concessions, patents and licences	(32,654)	(2,034)	-	(794)	-	(35,482)
Goodwill	(3,748)	(317)	-	-	-	(4,065)
Computer software	(74,784)	(8,510)	-	(156)	3	(83,447)
Flagging contracts	(93,371)	(5,572)	-	(32)		(98,975)
Other intangible assets	(23,064)	(4,099)	-	-	455	(26,708)
Total	**(228,568)**	**(20,532)**	**-**	**(982)**	**458**	**(249,624)**
Impairment losses	-					-
Net intangible assets	**124,288**	**56,985**	**(2,790)**	**3,382**	**(93)**	**181,772**

The additions to intangible assets amounting to EUR 46,370 thousand in 2004 and EUR 77,517 thousand in 2005, relate mainly to the investment in computer software updates recognised by the Group companies under "Computer Software", to investments in the renewal and execution of new flagging contracts for the service station network and to the addition of EUR 44,452 thousand to "Other Intangible Assets" in 2005 in respect of the value of CO_2 emission allowances relating to the allowances assigned for no consideration under the National Emission Allowance Assignment Plans (equivalent to 5,289 thousand tonnes) (see Note 15).

In 2006 the allowances relating to emissions made in 2005 will be delivered to the Central Government and the related amount will be derecognised from intangible assets and from the short-term provision for contingencies and expenses (see Note 18).
The additions column includes EUR 5,248 thousand in 2004 and EUR 5,918 thousand in 2005 relating to staff costs, finance costs and other expenses relating to these projects which were credited to the related expense captions in the accompanying consolidated income statements.

At 31 December 2005 the Group had intangible asset purchase commitments amounting to EUR 7,293 thousand.

5. Consolidation goodwill

The detail, by company, of "Goodwill" in 2004 and 2005, is as follows:

Thousand of Euros

2004 Company	Balance at 01/01/04	Acquisitions	Other Changes	Disposals	Impairment Losses	Balance at 31/12/2004
Deten Química, S.A.	26,088	-	420	-	-	26,508
Cepsa Estaciones de Servicio, S.A.	3,515	-	-	-	-	3,515
Generación Mazagón, S.A..	122	-	-	-	-	122
TOTAL	**29,725**	**-**	**420**	**-**	**-**	**30,145**

Thousand of Euros

2005 Company	Balance at 01/01/05	Acquisitions	Other Changes	Disposals	Impairment Losses	Balance at 31/12/2005
Deten Química, S.A.	26,508	-	7,938	-	-	34,446
Cepsa Estaciones de Servicio, S.A.	3,515	-	-	-	-	3,515
Generación Mazagón, S.A.	122	-	-	-	-	122
TOTAL	**30,145**	**-**	**7,938**	**-**	**-**	**38,083**

The cash-generating units to which goodwill was allocated were tested for impairment and the recovery of their carrying amounts was ascertained; therefore it was not necessary to recognise any impairment loss.

The amounts shown in the "Other Changes" column relate to the effect of changes in foreign exchange rates on the goodwill of Deten Química, S.A. which was translated at the year-end exchange rate (see Note 3-b).

6. Property, plant and equipment

The detail of the gross investments in property, plant and equipment, of the accumulated depreciation and impairment losses and of the changes therein in 2004 and 2005 is as follows:

Thousand of Euros

2004	Balance at 01/01/04	Additions or Charges	Transfers	Other Changes	Disposals or Retirements	Balance at 31/12/04
Assets						
Land and structures	283,040	10,514	13,684	(1,618)	(5,726)	299,894
Plant and machinery	4,070,530	61,426	427,504	9,304	(21,282)	4,547,482
Proven reserves	894,435	40,030	(54)	-	(4,876)	929,535
Unproven reserves	109,907	16,613	7	38	(82)	126,483
Other facilities, tools and furniture	84,261	3,524	4,662	214	(1,544)	91,117
Advances and property, plant and equipment in the course of construction	218,245	302,726	(454,482)	143,533	(1,447)	208,575
Other property, plant and equipment	483,121	89,668	9,645	577	(75,681)	507,330
Total	**6,143,539**	**524,501**	**966**	**152,048**	**(110,638)**	**6,710,416**
Depreciation						
Accumulated depreciation of structures	(54,883)	(7,858)	-	(5)	4,756	(57,990)
Accumulated depreciation of plant and machinery	(2,245,436)	(213,556)	(264)	1,483	17,849	(2,439,924)
Accumulated depreciation of proven reserves	(258,505)	(82,483)	-	1	4,876	(336,111)
Accumulated depreciation of unproven reserves	(108,463)	(17,124)	-	(47)	82	(125,552)
Accumulated depreciation of other facilities, tools and furniture	(44,218)	(9,510)	(23)	(77)	1,334	(52,494)
Accumulated depreciation of other property, plant and equipment	(120,357)	(24,988)	80	(93)	43,458	(101,900)
Total	**(2,831,862)**	**(355,519)**	**(207)**	**1,262**	**72,355**	**(3,113,971)**
Impairment losses	(28,516)	(6,550)	-	(1)	11,962	(23,105)
Net property, plant and equipment	**3,283,161**	**162,432**	**759**	**153,309**	**(26,321)**	**3,573,340**

Thousand of Euros

2005	Balance at 01/01/05	Additions or Charges	Transfers	Other Changes	Disposals or Retirements	Balance at 31/12/05
Assets						
Land and structures	299,894	6,708	2,673	2,428	(2,428)	309,275
Plant and machinery	4,547,482	28,034	173,705	61,521	(9,573)	4,801,169
Proven reserves	929,535	58,472	-	-	-	988,007
Unproven reserves	126,483	17,463	-	-	(86,777)	57,169
Other facilities, tools and furniture	91,117	3,174	2,629	1,099	(2,079)	95,940
Advances and property, plant and equipment in the course of construction	208,575	301,637	(192,219)	469	(1,819)	316,643
Other property, plant and equipment	507,330	56,110	15,852	2,027	(5,749)	575,570
Total	**6,710,416**	**471,598**	**2,640**	**67,544**	**(108,425)**	**7,143,773**
Depreciation						
Accumulated depreciation of structures	(57,990)	(7,926)	2	(731)	1,247	(65,398)
Accumulated depreciation of plant and machinery	(2,439,924)	(231,999)	(965)	(20,903)	7,129	(2,686,662)
Accumulated depreciation of proven reserves	(336,111)	(86,732)	-	-	45	(422,798)
Accumulated depreciation of unproven reserves	(125,552)	(16,447)	-	6	86,729	(55,264)
Accumulated depreciation of other facilities, tools and furniture	(52,494)	(9,633)	(2)	(726)	1,951	(60,904)
Accumulated depreciation of other property, plant and equipment	(101,900)	(28,605)	1,115	(952)	3,454	(126,888)
Total	**(3,113,971)**	**(381,342)**	**150**	**(23,306)**	**100,555**	**(3,417,914)**
Impairment losses	(23,105)	(217)	-	(22)	2,302	(21,042)
Net property, plant and equipment	**3,573,340**	**90,039**	**2,790**	**44,216**	**(5,568)**	**3,704,817**

The additions to property, plant and equipment, which amounted to EUR 524,501 thousand in 2004 and EUR 471,598 thousand in 2005, relate most notably to the following items:

- Exploration and Production: investments made in the RKF and OURHOUD fields to improve and expand facilities and disbursements in areas with potential oil and gas reserves,

- Refining and Marketing: the commencement of construction in 2005 of the new light naphtha reformer unit at La Rábida refinery, the start-up of which is planned for the third quarter of 2006; investments in refinery units aimed at improving and flexibilising production processes and complying with new commercial specifications for diesel and petrol; the consolidation of the Direct Sales organisation and the improved presence and efficiency of the service station network; the development of the liquefied petroleum gas commercial network; and the acquisition under lease arrangements of butane gas cylinders from Cepsa Gas Licuado, S.A.; the acquisition under lease arrangements of a double-hull crude oil tanker in 2004 and 2005 and, in general improvements in industrial facilities to minimise the impact on the environment and enhance safety in the Group's activities.

- Derivative Petrochemicals: the construction of a third phenol plant at ERTISA in 2005 and the completion in 2004 of the construction of a new plant by INTERQUISA in San Roque in order to double the production capacity of PTA, and the completion of another new plant by INTERQUISA CANADA.

- Gas and Power: construction of the combined cycle plant by Nueva Generadora del Sur was completed in 2004.

Additions in 2004 and 2005 include EUR 19,566 thousand and EUR 23,516 thousand, respectively, of staff, finance and other costs relating to the construction period of various items of property plant and equipment which were credited to the accompanying consolidated income statements.

The amounts recorded in the "Other Changes" column relate basically to changes in the scope of consolidation and to the effect of changes in foreign exchange rates against the euro at certain foreign subsidiaries.

In 2004 the "Retirements or Disposals" column includes retirements of service station network assets and "Other Items of Property, Plant and Equipment" includes the termination of two finance lease arrangements for vessels. In 2005 "Retirements or Disposals" mainly includes the derecognition of investments in exploration permits which were written-off and were depreciated in full.

Certain CEPSA Group companies recognised impairment losses at 2004 and 2005 year-end of EUR 6,550 thousand and EUR 217 thousand, respectively, arising from the adjustment of asset values based on the expected recovery of the net investment through the generation of future revenues. In 2004 the retirement in impairment losses on property plant and equipment is the result of the termination of the two finance leases mentioned in the preceding paragraph.

At 31 December 2005, the Group had property, plant and equipment purchase commitments amounting to EUR 189,308 thousand.

The detail of the items of property, plant and equipment acquired under finance lease arrangements at 31 December 2005 and 2004, is as follows:

Thousand of Euros

	2005			2004		
	Cost	**Accumulated Depreciation**	**Carrying Amount**	**Cost**	**Accumulated Depreciation**	**Carrying Amount**
Plant	62,601	(15,468)	47,133	62,672	(12,804)	49,868
Other facilities, tools and furniture	43	(26)	17	43	(24)	19
Transport equipment	257,200	(29,693)	227,507	215,410	(22,626)	192,784
Other property, plant and equipment	62,246	(4,653)	57,593	52,351	(1,679)	50,672
Total	**382,090**	**(49,840)**	**332,250**	**330,476**	**(37,133)**	**293,343**

1992 saw the foreclosure of a mortgage for EUR 8,915 thousand taken out on the land on which the La Rábida refinery is located in Palos de la Frontera (Huelva), which Ertoil, S.A. (now merged into CEPSA) had used as security for the mortgage bond issue made in 1976 by Unión Explosivos Rio Tinto, S.A., later Ercros, S.A. This sum, deposited by CEPSA at Court No. 1 of Moguer (Huelva), was initially retained and the principal amount thereof (EUR 7,690 thousand) was delivered to the foreclosing debenture holders' syndicate in 1999. At 2005 year-end, the amount of the interest, costs and expenses had yet to be settled, and this will depend on the decision to be handed down by the First Chamber of the Spanish Supreme Court in respect of a request by CEPSA that the mortgage be declared null and void. In any case, CEPSA has recorded the provisions considered necessary to meet any financial liability that may arise from this litigation (see Note 17).

Also, the Spanish Supreme Court will hand down a decision on other proceedings brought by CEPSA against Ercros, S.A. to obtain reimbursement from the latter of the EUR 8,915 thousand deposited at the Moguer Court and compensation for damages caused by the aforementioned mortgage foreclosure.

In 1996 certain consolidable Group companies revalued their property, plant and equipment pursuant to Royal Decree-Law 7/1996 of 7 June, increasing the book value of these assets by EUR 117,350 thousand. This increase in value is being depreciated (the depreciation charge is a tax-deductible expense) with a charge to income in 1997 and subsequent years based on the years of residual useful life 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, Algeciras-La Línea and Palos de la Frontera, which will revert to the State in 2061, 2065 and 2006 and 2030, respectively. Management of the CEPSA Group expects that these concessions will be renewed when they expire.

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.

7. Investments in companies accounted for using the equity method

The item ¨Investments in Companies Accounted for Using the Equity Method¨ at 2005 and 2004 year-end relates basically to CLH. The detail thereof is as follows:

Thousand of Euros

Company	2005	2004
CLH (including first-time consolidation difference)	42,249	37,727
Other companies	66,230	57,511
Total investments accounted for using the equity method	**108,479**	**95,238**

The detail of the changes in 2005 and 2004 in the above-mentioned caption is as follows:

Thousand of Euros

	2005	2004
Beginning balance	**95,238**	**129,936**
Profit after taxes incurred in the year	31,177	20,081
Dividends paid in the year	(20,256)	(16,530)
Additions of investments in companies accounted for using the equity method	938	5,842
Retirements of companies as a result of:		
Mergers/ Change in consolidation method	(142)	(43,694)
Other changes	1,524	(397)
Ending balance	**108,479**	**95,238**

In 2004 the ¨Mergers/Change in Consolidation Method¨ caption related to the change in the method of consolidating Nueva Generadora del Sur, S.A and in 2005 to the merger by absorption of a company in the service station network area (see Note 2-e).

The principal financial aggregates relating to associated companies are summarised below:

Thousand of Euros

Summary of the principal financial aggregates of companies accounted for using the equity method	2005	2004
Total assets	534,766	458,581
Total liabilities	430,909	367,092
Net assets	**103,857**	**91,489**
Total revenues	**1,216,901**	**855,610**
Profit for the year	**158,519**	**102,895**
Share of results of companies accounted for using the equity method	**31,177**	**20,082**

The detail of the goodwill of companies accounted for using the equity method, by the cash generating unit to which it was allocated, in 2004 and 2005 is as follows:

Thousand of Euros

2004	Balance at 01/01/04	Acquisitions	Other Changes	Disposals	Impairment Losses	Balance at 31/12/04
Direct sales companies	858	53	-	-	-	911
Distribution network companies	-	3,593	-	-	-	3,593
Cogeneration companies	13,504	-	(13,504)	-	-	-
Total goodwill net of equity	**14,362**	**3,646**	**(13,504)**	**-**	**-**	**4,504**

Thousand of Euros

2005	Balance at 01/01/05	Acquisitions	Other Changes	Disposals	Impairment Losses	Balance at 31/12/05
Direct sales companies	911	-	-	-	-	911
Distribution network companies	3,593	-	-	-	-	3,593
Total goodwill net of equity	**4,504**	**-**	**-**	**-**	**-**	**4,504**

8. Financial assets

The balances of and changes in financial assets in 2004 and 2005 are as follows:

Thousand of Euros

2004	Balance at 01/01/04	Additions	Transfers	Other Changes	Disposals	Balance at 31/12/04
Non-current loans to companies accounted for by using the equity method	13,682	16,404	-	-	(20)	30,066
Other non-current loans	67,844	31,509	(989)	14	(27,597)	70,781
Other non-current financial assets	51,382	5,325	-	(113)	(18,724)	37,870
Allowances	(20,303)	(541)	-	-	10,246	(10,598)
Total non-current financial assets	**112,605**	**52,697**	**(989)**	**(99)**	**(36,095)**	**128,119**
Current loans to companies accounted for by using the equity method	87,777	-	-	-	(19,868)	67,909
Other current loans	23,422	94,994	989	180	(97,495)	22,090
Other current financial assets	947	226,402	-	-	(220,296)	7,053
Allowances	(60)	(2,338)	-	-	-	(2,398)
Total current financial assets	**112,086**	**319,058**	**989**	**180**	**(337,659)**	**94,654**

Thousand of Euros

2005	Balance at 01/01/05	Additions	Transfers	Other Changes	Disposals	Balance at 31/12/05
Non-current loans to companies accounted for by using the equity method	30,066	9,615	(19,543)	-	(5,141)	14,997
Other non-current loans	70,781	10,954	(171)	2,918	(18,626)	65,856
Other non-current financial assets	37,870	4,830	-	1,406	(4,310)	39,796
Allowances	(10,598)	(1,939)	-	(2,941)	30	(15,448)
Total non-current financial assets	**128,119**	**23,460**	**(19,714)**	**1,383**	**(28,047)**	**105,201**
Current loans to companies accounted for by using the equity method	67,909	20,807	19,543	-	-	108,259
Other current loans	22,090	63,658	171	(2)	(59,098)	26,819
Other current financial assets	7,053	388,390	-	118	(391,546)	4,015
Allowances	(2,398)	-	-	2,338	-	(60)
Total current financial assets	**94,654**	**472,855**	**19,714**	**2,454**	**(450,644)**	**139,033**

The current and non-current loans to companies accounted for by the equity method include financing to associates. These transactions were carried out on an arm's length basis.

The other current and non-current loans include loans granted to employees and to third parties as a result of business transactions and non-current receivables arising from the disposal of non-current assets.

"Other Financial Assets" includes basically assets available for sale which consist of equity investments mainly in unlisted companies which, since it is impossible to determine their market value, are stated at acquisition cost net of impairment losses (see Note 3-e).

The detail, by maturity, of the balances of "Loans to Companies Accounted for Using the Equity Method" and "Other Loans" at 31 December 2004 and 31 December 2005, is as follows:

Thousand of Euros

	Maturing in						
2004	**2005**	**2006**	**2007**	**2008**	**2009**	**Rest**	**Total**
Loans to companies accounted for using the equity method	67,909	21,974	-	2,840	5,250	2	97,975
Other loans	22,090	5,220	20,427	3,920	2,841	38,373	92,871
Total	**89,999**	**27,194**	**20,427**	**6,760**	**8,091**	**38,375**	**190,846**

Thousand of Euros

	Maturing in						
2005	**2006**	**2007**	**2008**	**2009**	**2010**	**Rest**	**Total**
Loans to companies accounted for using the equity method	108,259	14,889	43	32	13	20	123,256
Other loans	26,819	23,349	16,086	9,575	5,041	11,805	92,675
Total	**135,078**	**38,238**	**16,129**	**9,607**	**5,054**	**11,825**	**215,931**

9. Inventories

The detail of "Inventories" at 31 December 2005 and 2004, is as follows:

Thousand of Euros

	2005	2004
Crude oils	522,655	409,532
Other raw materials	26,829	18,992
Finished goods	743,731	546,970
Other supplies	147,915	116,629
Allowances	(2,630)	(33,214)
Total	**1,438,500**	**1,058,909**

Pursuant to Article 3 of Royal Decree-Law 2111/1994, of 28 October, CEPSA and other Group companies which act as operators are required to maintain minimum oil product safety stocks, equivalent to 60 days of sales of the preceding 12 months in the domestic market, excluding sales to other wholesalers, and Corporación de Reservas Estratégicas de Productos Petrolíferos (CORES) inspects and controls the fulfilment of this obligation. CEPSA management considers that the consolidated Group has been meeting this obligation.

As indicated in Note 3-f, CEPSA uses the average unit cost method to measure raw material and commercial goods inventories.

10. Trade and other receivables

The detail of Trade and Other Receivables in 2005 and 2004 is as follows:

Thousand of Euros

	2005	2004
Trade receivables for sales and services	1,985,890	1,639,446
Receivable from companies accounted for by the equity method	213,096	163,617
Sundry accounts receivable	58,128	30,468
Tax receivables	52,593	66,585
Allowances	(84,889)	(90,136)
Total	**2,224,818**	**1,809,980**

11. Cash and cash equivalents

The detail of "Cash and Cash Equivalents" relating to 2005 and 2004 is shown below. This item includes cash balances, cash equivalents (bank deposits and other investments maturing within three months) and other liquid assets (the same type of assets but with maturities at three to twelve months).

Thousand of Euros

	2005	2004
Cash	44,707	49,494
Cash equivalents	326,416	50,910
Other liquid assets	226	11,792
Total	**371,349**	**112,196**

12. Equity

a) Share capital and share premium
Share capital amounted to EUR 267,574,941 and consisted of 267,574,941 book-entry shares of EUR 1 par value each.

Per the information provided by the members of the Board of Directors who are shareholders, as registered at the Spanish National Securities Market Commission (CNMV), at 31 December 2005, Total, S.A., Banco Santander Central Hispano, S.A., International Petroleum Investment Company (IPIC) and Unión Fenosa, S.A. directly and indirectly owned 45.28%, 32.27%, 9.54% and 4.99%, respectively, of the share capital of CEPSA.
CEPSA's shares are traded on the continuous market on the four Spanish Stock Exchanges.

The Consolidated Companies Law expressly permits the use of the share premium account balance to increase capital and establishes no specific restrictions as to its use. There were no variations in 2005 or 2004 in the balance of this account, which amounted to EUR 337,728 thousand.

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 7 June, and increased their equity by EUR 58,438 thousand and EUR 58,438 thousand, respectively. This latter figure was recognised under "Consolidated Reserves" on consolidation.

The revaluation reserve also includes EUR 32,498 thousand 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 1 January 2007 (i.e. ten years after the date of the balance sheet reflecting the revaluation transactions) the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognised. 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) Reserves at consolidated companies.

The breakdown, by company, of reserves at consolidated companies, which are included in "Retained Earnings", at 31 December 2005 and 2004, is as follows:

Thousand of Euros

	2005	2004
Fully and proportionately consolidated companies:		
Cepsa Estaciones de Servicio, S.A.	191,063	178,740
Cepsa Lubricantes, S.A.	21,715	20,051
Cepsa Portuguesa, S.A.	19,123	19,409
Intercontinental Química, S.A.	160,078	152,405
Ertisa, S.A.	110,613	96,531
Petroquímica Española, S.A.	276,915	267,885
Proas, S.A.	7,651	8,369
Other companies	100,947	66,573
Total fully and proportionately consolidated companies	**888,105**	**809,963**
Companies accounted for using the equity method:		
Compañía Logística de Hidrocarburos CLH, S.A.	(41,176)	(41,620)
Other companies	4,298	(104)
Total companies accounted for using the equity method	**(36,878)**	**(41,724)**
TOTAL	**851,226**	**768,239**

d) Translation differences

The detail, by company, of the balance of "Translation Differences" is as follows:

Thousand of Euros

Company	2005	2004
Cepsa International	2,401	(2,710)
Deten Quimica	23,312	949
Interquisa Canada	12,458	(322)
Petresa Canada	2,770	(36)
Other companies	598	(378)
Total translation differences	**41,539**	**(2,497)**

The change in the balance of this heading in 2005 was basically due to the fluctuation in the year-end exchange rates of the Brazilian real (from BRR 3.59/EUR to BRR 2.77/EUR) and the Canadian dollar (from CAD 1.63/EUR to CAD 1.38/EUR).

e) Dividends
"Interim Dividend Paid" includes the dividend paid out of CEPSA's profit in 2004 and 2005 and amounted to EUR 112,381 thousand and EUR 147,166 thousand, respectively.

The shareholders at the Annual General Meeting in May 2005 resolved to pay a dividend of EUR 1 per share out of 2004 profit, which after deducting the interim dividend already paid gave rise to a final dividend of EUR 0.58 per share.

The final dividend out of 2005 profit that CEPSA's Board of Directors will propose to the shareholders at the Annual General Meeting will not be deducted from equity until it has been approved by the latter.

f) Minority interests
The detail of this caption at 31 December 2005 and 2004, is as follows:

Thousand of Euros

Minority interests	2005 Equity	2005 Profit (Loss)	2004 Equity	2004 Profit (Loss)
Company				
C.M.D. Aeropuertos Canarios, S.L.	12,452	2,585	13,063	2,694
Deten Química, S.A.	22,004	7,544	15,824	2,954
Lubricantes del Sur, S.A.	7,201	(533)	5,993	1,862
Generadora Eléctrica Penínsular, S.A.	11,825	1,524	-	-
Other	2	(103)	(16)	4
Total	**53,484**	**11,017**	**34,864**	**7,514**

13. Bank borrowings

The detail of the balances of current and non-current bank borrowings and other financial liabilities in 2004 and 2005 is as follows:

Thousand of Euros

2004	Current	Non-current	Total
Bank borrowings relating to finance leases	51,141	102,835	153,976
Other bank borrowings	253,467	624,441	877,908
Other financial liabilities	66,799	70,665	137,464
Total	**371,407**	**797,941**	**1,169,348**

Thousand of Euros

2005	Current	Non-current	Total
Bank borrowings relating to finance leases	64,773	93,332	158,105
Other bank borrowings	248,175	573,743	821,918
Other financial liabilities	30,762	129,772	160,534
Total	**343,710**	**796,847**	**1,140,557**

The detail, by maturity and currency, of the bank borrowings and other financial liabilities at 31 December 2004 and 2005, is as follows:

Thousand of Euros

	Maturing in						
2004	2005	2006	2007	2008	2009	Subsequent years	Total
Bank borrowings relating to finance leases	51,141	49,591	12,229	11,686	11,494	17,835	153,976
Other bank borrowings	253,467	130,946	166,727	57,710	53,081	215,977	877,908
Other financial liabilities	66,799	4,143	2,891	4,596	4,618	54,417	137,464
Total	**371,407**	**184,680**	**181,847**	**73,992**	**69,193**	**288,229**	**1,169,348**

Thousand of Euros

	Maturing in						
2005	2006	2007	2008	2009	2010	Subsequent years	Total
Bank borrowings relating to finance leases	64,773	26,049	20,378	20,378	21,422	5,105	158,105
Other bank borrowings	248,175	192,963	122,647	58,536	76,930	122,667	821,918
Other financial liabilities	30,762	13,984	9,518	12,644	12,722	80,904	160,534
Total	**343,710**	**232,996**	**152,543**	**91,558**	**111,074**	**208,676**	**1,140,557**

Thousand of Euros

	2005			2004		
	Financial Liabilities			Financial Liabilities		
	Current	Non-current	Total	Current	Non-current	Total
Euro	205,736	422,443	628,179	177,934	523,622	701,556
Foreign currencies	135,961	374,404	510,365	191,297	274,319	465,616
Unmatured interest payable	2,013	-	2,013	2,176	-	2,176
Total bank borrowings and other financial liabilities	**343,710**	**796,847**	**1,140,557**	**371,407**	**797,941**	**1,169,348**

The average annual nominal interest rate on the borrowings in euros was 2.12% in 2005 and 2.13% in 2004, and that on the foreign currency borrowings was 3.47% in 2005 and 1.90% in 2004. The weighted average cost of the financing received was 2.79% in 2005 and 2.01% in 2004.

The interest rates shown above include the net effect of interest rate swaps and USD forward sales transactions. At 31 December 2005, there were no interest rate hedges. At the same date the principal amount of the bank borrowings hedged by USD forward sales amounted to EUR 228,826 thousand.

At 31 December 2004, the interest rate swaps outstanding hedged financial liabilities of EUR 125,211 thousand and the USD forward sales converted euro-denominated debt to foreign-currency denominated debt for EUR 224,123 thousand, with respect to the figures shown in the table above (see Note 23).

In accordance with the established foreign currency risk management policy (see Note 22), the CEPSA Group has contracted financial liabilities in USD to finance certain investments in non-current assets that generate cash flows in the same currency, which are accounted for as cash flow hedges.

The detail of the balances and changes in 2005 and 2004 in "Reserves for Financial Assets and Liabilities at Fair Value through Equity" relating to these transactions is as follows:

Thousand of Euros

	2005	2004
Beginning balance	**122,104**	**136,754**
Gains or losses recognised directly	(25,090)	24,493
Trasferred to income statement	(16,219)	(39,143)
Ending balance	**80,795**	**122,104**

At 31 December 2005, the CEPSA Group companies had undrawn credit facilities totalling EUR 687,388 thousand. The undrawn portion does not bear any finance cost.

14. Tax matters

CEPSA and certain Group companies have filed consolidated corporation tax returns since 1989. Table I contains a list of the main companies in the tax Group in 2005.

The detail of the corporation tax expense is as follows:

Thousand of Euros

	2005	2004
In the consolidated income statements:		
Current tax expense		
Period tax expense	626,658	406,889
Adjustments to the tax expense for the period or prior years	(6,828)	14,074
Deferred tax expense		
Related to the creation or reversal of temporary differences	(123,638)	(56,787)
Total tax expense	**496,192**	**364,176**
In the statement of changes in equity:		
Deferred tax expense	**24,299**	**9,739**

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

Thousand of Euros

	2005	2004
Accounting profit (before taxes)	**1,517,798**	**1,058,332**
Theoretical tax rate	531,229	370,416
Difference due to different tax rates	1,185	14,198
Permanent differences	15,456	1,921
Tax credits and relief applied	(44,850)	(36,433)
Tax adjustment	(6,828)	14,074
Total income tax expense	**496,192**	**364,176**

The tax on remuneration for production activities in force in Algeria is deemed to be of the same nature as the Spanish corporation 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 tax payable in 2005 and 2004 amounted to EUR 129,073 thousand and EUR 127,001 thousand, respectively.

The "Difference Due to Different Tax Rates" includes mainly the effect of different tax rates to which CEPSA is subject in Algeria on income obtained in the prospection for and production of crude oil from the Algeria fields and attributed to its permanent establishment.

The "Permanent Differences" arise mainly from the amortisation of financial goodwill, exemptions of revenues which have already been taxed abroad, capital gains on the transfer of certain assets, nondeductible expenses and differences on consolidation.

The "Tax Adjustment" amounts of EUR (6,828) thousand in 2005 and EUR 14,074 thousand in 2004 include the difference between the corporation tax expense recorded at 31 December 2004 and 2003, and the corporation tax expense per the final tax returns for those years and other items such as the effect of applying timing adjustment reversibility criteria for income tax purposes and the effect of the assessments issued by the tax inspection authorities and other supplementary assessments issued for various Group companies.

In calculating the corporation tax expense for each year, the Group took into account the applicable tax credits for dividend double taxation and certain activities and other tax incentives.

At 31 December 2005 and 2004, the CEPSA Group did not have any material unused tax credits.

In 2005 and 2004 the income qualifying for the reinvestment tax credit amounted to EUR 1,416 thousand and EUR 1,006 thousand, respectively. This income was reinvested in 2005 and 2004.

As permitted by Article 35 of the Corporation Tax Law, the CEPSA Group took the following tax credits for investment in measures to reduce environmental impact in 2005 and 2004:

Thousand of Euros

	Standard Tax System		Canary Island Tax System	
	2005	2004	2005	2004
Environmental investments	41,352	47,268	10,447	14,870
Tax credit	4,135	4,727	3,134	4,461

At 31 December 2005 and 2004, certain companies in the consolidated tax Group had EUR 15,787 thousand and EUR 15,789 thousand, respectively, of tax losses available for carryforward and the related tax assets were recorded only in those cases in which it was reasonably estimated that their future recovery is assured.

The detail of the balances of the deferred tax assets and liabilities is as follows:

Thousand of Euros

	2005	2004
Deferred tax assets		
Non-current assets	11,556	34,067
Tax loss carryforwards	12,186	6,567
Provisions	71,785	72,315
Other	29,838	6,473
Total deferred tax assets	**125,365**	**119,422**
Deferred tax liabilities		
Finance Leases	43,266	41,639
Non-current assets	14,793	22,090
Hedges	33,413	57,712
Current assets	186,950	85,475
Other	16,834	3,159
Total deferred tax liabilities	**295,256**	**210,075**

The deferred tax liabilities arising from current assets include mainly that arising from the difference between the carrying amount of inventories measured at average unit cost and their tax base measured at LIFO cost in 2005 and 2004.

Assessments have been contested for various taxes, including the excise tax on oil and gas. The CEPSA Group has filed appeals against such assessments with the appropriate courts and has recorded a provision for the full amount thereof, together with the related late payment interest accrued through 2005 year-end.

The years open for review by the tax authorities in connection with the taxes applicable to the Group vary for the different consolidated companies, although they are generally the years since 2000.

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

15. Grants related to assets

The changes in 2004 and 2005 in "Grants Related to Assets" and the balances thereof at year-end are as follows:

Thousand of Euros

2004	Balance at 01/01/04	Additions	Other Changes	Retirements	Transferred to Income	Balance at 31/12/04
Grants related to assets	80,831	2,433	(21)	-	(9,794)	73,449
Greenhouse gas emission allowances	-	-	-	-	-	-
Total	**80,831**	**2,433**	**(21)**	**-**	**(9,794)**	**73,449**

Thousand of Euros

2005	Balance at 01/01/05	Additions	Other Changes	Retirements	Transferred to Income	Balance at 31/12/05
Grants related to assets	73,449	226	1,190	-	(9,401)	65,464
Greenhouse gas emission allowances	-	44,452	-	-	(42,510)	1,942
Total	**73,449**	**44,678**	**1,190**	**-**	**(51,911)**	**67,406**

The detail of the additions to "Grants Related to Assets" in 2005 and 2004, by grantor entity, is as follows:

Thousand of Euros

	2005	2004
Grants received from:		
European Union	123	171
Central government	-	2,262
Autonomous Community governments	96	-
Third parties	7	-
Total	**226**	**2,433**

The grants received in 2004 relate to those given to CEPSA.

The additions to "Greenhouse Gas Emission Allowances" include the market value of the emission allowances assigned for no consideration for 2005 at the date of assignment and the "Transferred to Income" column includes the recognition in income of the value of the allowances assigned for CO2 emissions made in the year (see Notes 4 and 25).

16. Pensions

a) Defined contribution plans

In 2005 and 2004, CEPSA and several of its subsidiaries recognised the following expenses for commitments to defined contribution plans:

Thousand of Euros

Defined contribution	2005	2004
Retirement (Pension Plan)	11,939	7,576
Life insurance	1,984	1,751
Total	**13,923**	**9,327**

b) Defined benefit commitments

The net amounts of expenses and revenues recognised in the income statement and the variation in defined benefit obligations on the liability side of the balance sheet are as follows:

Thousand of Euros

Defined benefit	2005	2004
Balance at 1 January	**24,049**	**23,374**
Current service cost	387	440
Interest cost of benefit	813	1,246
Net actuarial loss recognised in the year	-	-
Past service cost	-	-
Effect of reductions or settlements	(12,596)	(1,011)
Balance at 31 December	**12,653**	**24,049**

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:

Thousand of Euros

Company Store	2005	2004
Discount rate	4%	4%
Expected salary increase rate	2%	2%
Mortality tables	PEMF2000	PEMF2000

17. Other provisions

The detail of the changes recorded in 2004 and 2005 in "Other Provisions" and of the balances at 31 December 2004 and 2005, is as follows:

Thousand of Euros

2004	Balance at 01/01/04	Provisions	Transfers	Other Changes	Amounts Used	Balance at 31/12/04
Provisions for third-party liability	119,287	43,344	-	(1,175)	(23,189)	138,267
Environmental provisions	32,774	2,529	-	-	(8,023)	27,280
Other provisions	34,259	7,680	-	910	(5,852)	36,997
Total	**186,320**	**53,553**	**-**	**(265)**	**(37,064)**	**202,544**

Thousand of Euros

2005	Balance at 01/01/05	Provisions	Transfers	Other Changes	Amounts Used	Balance at 31/12/05
Provisions for third-party liability	138,267	46,989	(4,677)	-	(30,812)	149,767
For the environment	27,280	8,432	-	71	(9,990)	25,793
Other provisions	36,997	18,428	4,677	3,998	(618)	63,482
Total	**202,544**	**73,849**	**-**	**4,069**	**(41,420)**	**239,042**

The "Provision for Third-Party Liability" 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 liabilities with third parties relating to contractual undertakings and contingencies relating to lawsuits in progress. It also includes the provisions recorded to cover possible tax contingencies arising from assessments which have been signed under protest and other tax contingencies in connection with the years open for review by the tax authorities.

The "Environmental Provision" includes legal or contractual liabilities or commitments acquired by the Cepsa Group to prevent, reduce or repair damage to the environment with a 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.

"Other Provisions" includes other contingencies and provisions for the abandonment of crude oil production fields once the recoverable reserves have been extracted.

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

The detail of the balances of "Other Non-Current Liabilities" and "Trade and Other Payables" and of the changes therein in 2005 and 2004 is as follows:

Thousand of Euros

	2005		2004	
	Non-current	Current	Non-current	Current
Trade payables	-	1,512,385	-	1,143,153
Payable from companies accounted for by the equity method	3,506	252,486	-	247,092
Guarantees/deposits received	4,141	6,482	4,115	8,311
Other payables	63,378	86,691	47,563	94,943
Taxes payable	83,648	194,158	47,102	185,758
Provisions	-	43,983	-	3,089
Total	**154,673**	**2,096,185**	**98,780**	**1,682,346**

In 2005 "Provisions" includes an amount of EUR 42,510 thousand relating to the obligation to deliver allowances for the CO_2 emissions made in 2005, which are lower than the allowances assigned under the National Emission Allowance Assignment Plan (see Notes 3-k and 4).

19. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this Note. Transactions between the Group and its associates and joint ventures are disclosed below.

Transactions with associates and joint ventures

Thousand of Euros

	2005	2004
In consolidated balance sheets:		
Trade and other receivables	213,096	163,617
Current and non-current loans	123,256	97,975
Trade and other payables	255,992	247,092
In consolidated income statements:		
Net revenue	1,437,659	917,928
Other operating income	1,794	1,305
Procurements	49,075	77,792
Other operating expenses	133,362	120,059
Finance income	4,091	2,459
Finance costs	1,100	684

Transactions and balances with associates and joint ventures basically relate to normal Group business operations and were carried out on an arm's-length basis.

Lastly, "Trade and Other Payables" includes EUR 181,308 thousand and EUR 178,889 thousand relating to the excise tax on oil and gas accrued in December 2005 and 2004, respectively, which CEPSA paid to the tax authorities in January 2006 and 2005, respectively, through Compañía Logística de Hidrocarburos CLH, S.A.

Transactions with significant shareholders

The relevant transactions performed by the CEPSA Group with significant shareholders in 2005 were as follows:

Name of the Significant Shareholder	CEPSA Group Company	Type of Relationship	Type of Transaction	Amount*
SCH	CEPSA	Business	Foreign currency transactions	Spot foreign currency purchases and sales for an equivalent euro value of 1,253.4 million. In currency swaps (spot purchase and forward sale) related to short-term financing, the average balance of transactions outstanding in the year amounted to EUR 66.5 million, with an outstanding balance at year-end of EUR 76.6 million.
			Bank accounts	Average balance in the year: EUR 15.5 million.
			Loans and credit facilities	Average balance in the year of EUR 166.4 million with a cost of EUR 5.2 million. The undrawn balance at year-end amounted to EUR 164 million.
			Guarantees	Average risk in 2005 was EUR 143 million with a cost of EUR 0.3 million. The risk at year-end amounted to EUR 140.2 million, with a risk limit of EUR 175 million.
			Banking services	The amount paid, including the commissions paid for using cards in the service station network, was EUR 5.1 million.
			Interest rate hedges	Payments amounting to EUR 0.6 million to hedge interest rates on long-term financing. At 31 December 2005 no interest rate hedging transactions were outstanding.
Total, S.A.	CEPSA	Business	Purchases, services and sundry expenses	EUR 557.8 million of purchases; EUR 4.7 million of services and sundry expenses.
			Sales, services and sundry income	EUR 395.2 million of sales; EUR 2.9 million of services and sundry income.
Unión Fenosa, S.A.	CEPSA	Business	Purchases, services and sundry expenses	EUR 69.6 million of purchases; EUR 33.9 million of services and sundry expenses.
			Sales, services and sundry income	EUR 5.2 million of sales; EUR 0.2 million of services and sundry income.

(*) Data referring to the CEPSA Group

The CEPSA Group and its directors and managers did not perform any relevant transactions in 2005.

20. Remuneration and other benefits of directors and senior executives

The remuneration earned by the directors at the consolidated Group in 2005 and 2004 was as follows:

Thousand of Euros

Compensation components	2005	2004
Fixed remuneration	851	700
Variable remuneration	439	313
Attendance fees	453	495
Bylaw-stipulated directors' emoluments	3,415	3,309
Other items	77	79
Contributions to pension funds and plans	38	32
Life insurance premiums	170	44
Total	**5,443**	**4,972**

Pursuant to Article 127 ter. 4 of the Spanish Companies Law, introduced by Law 26/2003, of 17 July, which amends Securities Market Law 24/1988, of 28 July, and the Spanish Consolidated Companies Law, in order to reinforce the transparency of listed corporations, the Company's directors have made the disclosures to which the aforementioned Article refers.

Following is a detail of the companies engaging in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of Compañía Española de Petróleos S.A. in which the members of the Board of Directors own equity interests, and of the functions, if any, that they discharge thereat:

Director	Investee	Line of Business	% of Ownership	Function
Pedro López Jiménez	Unión Fenosa S.A.	Energy	0,098%	Chairman
Ernesto Mata López	Unión Fenosa S.A.	Energy	0,011%	Director

Also, pursuant to the aforementioned law, we set forth below the activities carried on by the members of the Board of Directors that are identical, similar or complementary to the activity that constitutes the corporate purpose of Compañía Española de Petróleos S.A., as well as the duties they discharge at other subsidiaries and associates:

Director	Activity	Type of Arrangement	Company through which the Activity is Performed	Position or Function at the Company
Mohamed Nasser Al Khaily	Integrated oil company	As employee of IPIC	IPIC	OMV Aktiengesellschaft. Managing Director
Mohamed Nasser Al Khaily	Petrochemicals	As employee of IPIC	IPIC	Borealis.(Dinamarca). Managing Director
Mohamed Nasser Al Khaily	Petrochemicals	As employee of IPIC	IPIC	AMI.(Austria). Managing Director
Murtadha Al Hashemi	Integrated oil company	As employee of IPIC	IPIC	OMV Aktiengesellschaft. Finance Division Manager
Jean-Paul Vettier	Integrated oil company	As employee of TOTAL, S.A.	TOTAL S.A.	TOTAL S.A. Executive Committee member and President of Refining and Marketing
Vincent Méary	Integrated oil company	As employee of TOTAL, S.A.	TOTAL S.A.	TOTAL S.A. President -Refining Marketing & Trading Finance
Jean Privey	Integrated oil company	As employee of TOTAL, S.A.	TOTAL S.A.	TOTAL S.A. President of Exploration and Production for Africa
Pierre Klein	Integrated oil company	As employee of TOTAL, S.A.	TOTAL S.A.	TOTAL S.A. Senior Vice President Administration of Refining and Marketing General Secretary
Menno Grouvel	Integrated oil company	As employee of TOTAL, S.A.	TOTAL S.A.	TOTAL S.A. Senior Vice President of Continental Europe and Central Asia Exploration and Production
Jacques Porez	Integrated oil company	As employee of TOTAL, S.A.	TOTAL S.A.	TOTAL S.A. Senior Vice President of South and West Europe Divison Refining and Marketing
Bernadette Spinoy	Integrated oil company	As employee of TOTAL, S.A.	TOTAL S.A.	TOTAL S.A. Vice President of Marketing & sales - Base chemicals

Director	Corporate Name of Subsidiary	Position or Function at the Company
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, Inc	Chairman
	Deten Química, S.A.	Chairman
	Compañía Lógistica de Hidrocarburos CLH, S.A.	Director
H.R.H. Carlos de Borbón-Dos Sicilias	Petroquímica Española, S.A.	Director
Dominique de Riberolles	Petroquímica Española, S.A.	Director
	Ertisa, S.A.	Director
	Cepsa Estaciones de Servicio, S.A.	Chairman
	Intercontinental Química, S.A.	Director
	Petresa Canada, Inc	Director
	Interquisa Canada, Inc	Director
	Cepsa International, B.V.	Director acting jointly
	Cepsa Gas Comercializadora S.A.	Director
	Deten Química, S.A.	Director
	Compañía Lógistica de Hidrocarburos CLH, S.A.	Director

The senior executives who were not simultaneously executive directors at the consolidated Group at 2005 year end are as follows:

Name	Position
Fernando Maravall Herrero	Senior Vice-President of Exploration and Production and Corporate Management
Manuel Abollado del Río	Senior Vice-President of Technical Division
Fernando Iturrieta Gil	Senior Vice-President of Petrochemicals
José María Múgica Barreiro	Vice-President of Supply, Bunker and Aviation
Juan Rodríguez Fidalgo	Vice-President of Human Resources and Legal Matters
Juan Manuel Ferreras Prieto	Secretary of the Management Committee
José E. Aranguren Escobar	Vice-President of Specialist Products
Francisco J. Calderón Pareja	Vice-President of Fuels
J. Ignacio Gómez Martínez	Vice-President of Refining and Planning
Pedro Miró Roig	Vice-President of Exploration and Production
Carlos Alcázar López	Vice-President of Institutional Relations

Thousand of Euros

	2005	2004
Total remuneration of senior executives (*) (thousands of euros)	3,694	3,008

(*) Remuneration in cash and in kind, pension plan contributions and insurance premiums

21. Guarantee commitments to third parties and other contingent liabilities.

At 31 December 2005 and 2004, certain Group companies had provided guarantees, mainly for bank transactions and supply contracts, the breakdown being as follows:

Thousand of Euros

	2005	2004
Public entities	226,119	180,385
Suppliers/creditors and other	728,749	635,015
Total	**954,868**	**815,400**

The guarantees to "Suppliers/Creditors and Other" relate mainly to guarantees provided by CEPSA to financial institutions for drawdowns against credit facilities granted to Group companies, which amounted to EUR 605,573 thousand and EUR 536,317 thousand in 2005 and 2004, respectively. These amounts were recorded, according to maturity, under "Bank Borrowings" on the liability side of the consolidated balance sheets.

22. Risk management policy

Main risks associated with the CEPSA Group's activity

The CEPSA Group carries on its activities in environments subject to certain external factors that could affect the manner in which transactions are performed and the results obtained therefrom.

These risks are managed by applying policies the main target of which, per the strategy established by management, is to minimise the ratio of costs to risks covered. In the strategic and budgetary planning processes the effect of risks on the business segments is estimated and a sensitivity analysis is performed of the main variables, with a view to gaining a comprehensive view of their impact on the Group.

The Chairman of the Board and the Managing Director, together with the General Directors of the respective areas, monitor and control risks on a regular basis, and adjust risk profiles, where necessary, depending on the circumstances.

The main risks to which the Group is exposed can be grouped in the following categories:

Market risks

The nature of CEPSA's businesses entails a certain degree of sensitivity to the variations in and volatility of oil and gas prices, refinery margins and energy product sales. In this respect, the high Group's degree of vertical integration, which has been enhanced in recent years, is a tool that is deemed capable, by itself, of minimising economic cycles and their specific impact on the Group's business units or areas.

A rise in the level of crude oil prices has a positive impact on the earnings of the Exploration and Production segment. However, this impact can be dampened by the application of certain covenants under production share contracts (PSC) and their effect on the quantities of crude oil available for sale.

Fluctuations in crude oil prices also have an effect on product refining and marketing operations, the scale of which depends, among numerous other factors, on the speed with which price changes at source can be relayed to the international and local finished goods markets, whether they be energy products or base petrochemical products.

With respect to crude oil price changes, CEPSA maintains and implements a price risk hedging system whereby it insures its business, within the established limits, against fluctuations in the crude oil and oil product markets, for which the net daily position in the refinery system purchases and sales is established so as to determine the contracts to be arranged in organised futures markets. The long or short position specifies the Company's position with respect to the benchmark level, set by the Company's "target stock with price risk exposure".

The Group trades in both organised markets and in OTC derivatives markets to hedge differences in quotation periods and/or price formulas in crude oil and product transactions and cargos and to cover price strategies designed to meet the CEPSA Group's needs in specific business areas.

Foreign currency, interest rate and other risks

The Group's activities are exposed, in varying degrees, to risks derived from fluctuations in the financial markets, particularly changes in exchange rates –mainly the U.S. dollar, the currency on which the quotations of crude oil and oil and petrochemical products are based– with respect to the euro. Exposure to this kind of risks is hedged on the basis of the Group's internal rules and procedures.

From the operational standpoint, the corporate Finance and Risk Department centralises and manages the foreign currency risk exposure of the net global position in foreign currency cash flows of the various Group companies and also manages the access to financial markets for lending, investment of surpluses and financial instruments.

In the case of foreign investments in long-term assets, from which future cash flows in foreign currencies will be generated, the Group minimises its foreign currency exposure by arranging financing in the same currency, i.e. the debt denominated in foreign currency hedges, to a certain extent, the foreign currency risk assumed in the cash flows generated by such assets.

Activities are also sensitive to interest rate changes. The CEPSA Group has arranged most of its debt at floating rates, not only because it considers that this will entail a lower cost at long term, but also because finance costs account for a small percentage of generated cash flows.

In order to manage potential short-term fund requirements, the Company has credit facilities available, the undrawn balance of which does not bear interest, as detailed in Note 13 of the notes to the financial statements.

The financial institutions with which the Group operates are leading Spanish and international entities of renown; however, the counterparty risk in investments and financial instruments contracts is analysed.

Customer credit risks

Commercial credit and collection management is governed by internal rules and procedures, which are periodically updated. These rules include the determination of commercial credit limits for each customer; the establishment of the most appropriate means of collection; the steps to be taken to collect past-due balances and the monitoring and control of the assigned credit limits.

The Group also uses risk analysis information systems for the processing of internal and external data in an integrated and automated manner. Such data are assessed by applying the models established to classify the commercial risk of each customer and assign the related credit limit. Insurance policies have also been taken out to cover the risk of default in certain commercial areas.

23. Derivatives

The CEPSA Group uses, in accordance with the risk management policies explained in Note 22, derivative financial instruments to hedge exposure to foreign currency, interest rate and commodity price (basically crude oil and oil products) risks on future cash flows.

The types of derivatives normally used are forward contracts to hedge foreign currency risk, swap contracts for interest rate risk and futures and swaps to hedge commodity price risk. All of these derivatives mature at short term.

The detail of derivatives at 31 December 2005 and 2004 is as follows:

Thousand of Euros

	2005			2004		
		Notional or Contractual Amount			Notional or Contractual Amount	
	Fair Value	Assets	Liabilities	Fair Value	Assets	Liabilities
Cash flow hedges						
Interest rate swaps	-	-	-	(798)	-	125.211
Derivatives not designated as hedges						
Foreign currency forwards	899	234,602	87,198	(3,976)	234,330	37,188
Crude oil futures	790	3,625	109,691	(349)	-	22,011
Oil products futures	(418)	-	2,156	(125)	-	1,868
Oil products swaps	383	10,556	21	(2)	7	10,524
Total derivatives not designated as hedges	**1,654**	**248,783**	**199,066**	**(4,452)**	**234,337**	**71,591**

Derivatives not designated as hedges include derivatives that despite fulfilling the Group's risk management policies do not comply with all the requirements established under IFRSs to qualify for hedge accounting.

24. Segment reporting

a) Business segment reporting:

The CEPSA Group organises and manages its businesses through four business segments:

- Exploration and Production, which includes oil and gas exploration and production activities.
- Relining and Distribution, which includes supply, refining and distribution activities (including base petrochemicals).
- Derivative Petrochemicals which includes production, distribution and marketing.
- Gas and Power which includes the cogeneration of electricity and the distribution and retailing of electricity and natural gas.

The selling prices between the business segments are similar to market prices and the amounts of income, expenses, assets and liabilities were determined before the eliminations on consolidation, except for the internal eliminations of each business segment.

The financial data shown below were obtained using the same methodology and internal reporting structures as those established to provide management information and to measure the profitability of the business segments.

Segment reporting at 31 December 2005 and 2004

Thousand of Euros

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

PRIMARY SEGMENT REPORTING

2005	Information excluding non-recurring items							
	Exploration & Production	Refining & Distribution	Petrochemical Derivatives	Gas & Power	Intercompany Eliminations	Total	Non-recurring Items	Consolidated Total
INCOME								
REVENUE								
Revenue from external customers	420,597	15,983,025	1,701,836	264,350		18,369,808		18,369,808
Intercompany revenue	170,797	1,251,540	296,306	63,655	(1,782,298)	-		-
Total revenue	**591,394**	**17,234,565**	**1,998,142**	**328,005**	**(1,782,298)**	**18,369,808**		**18,369,808**
PROFIT								
Depreciation and amortisation charge and impairment losses	(103,977)	(198,871)	(78,425)	(20,600)		(401,873)	1,951	(399,922)
Profit from operations	**356,957**	**697,682**	**118,440**	**76,399**		**1,249,478**	**278,420**	**1,527,898**
Other income and expenses	(3,185)	(7,543)	(4,880)	-		(15,608)		(15,608)
Share in profit of companies accounted for using the equity method	-	28,698	2,081	398		31,177		31,177
Net financial profit						(25,669)		(25,669)
Consolidated profit before tax						**1,239,378**		**1,517,798**
Corporation tax						(398,745)	(97,447)	(496,192)
Net consolidated profit for the year						**840,633**	**180,656**	**1,021,289**
ASSETS AND LIABILITIES								
Non-current assets of the segment	571,905	2,438,766	866,091	278,964		4,155,726		4,155,726
Investments accounted for using the equity method	-	94,875	14,235	(631)		108,479		108,479
Total non-current capital invested	**571,905**	**2,533,641**	**880,326**	**278,333**	**-**	**4,264,205**		**4,264,205**
Capital employed	**538,115**	**3,232,575**	**1,036,512**	**246,979**		**5,054,181**		**5,054,181**
CASH FLOW STATEMENT								
Payments of investments	71,106	274,717	59,965	8,513		414,301		414,301
Collections from disposals	153	37,643	943	15,506		54,245		54,245
Operating cash flows	297,121	939,990	170,748	71,708		1,479,567		1,479,567

Thousand of Euros

PRIMARY SEGMENT REPORTING

2004	Information excluding non-recurring items: Exploration & Production	Refining & Distribution	Petrochemical Derivatives	Gas & Power	Intercompany Eliminations	Total	Non-recurring Items	Consolidated Total
INCOME								
REVENUE								
Revenue from external customers	375,786	12,120,176	1,482,487	134,863		14,113,312		14,113,312
Intercompany revenue	141,711	1,023,033	239,879	45,752	(1,450,375)	-		-
Total revenue	**517,497**	**13,143,209**	**1,722,366**	**180,615**	**(1,450,375)**	**14,113,312**	**-**	**14,113,312**
PROFIT								
Depreciation and amortisation charge and impairment losses	(100,223)	(178,544)	(81,397)	(16,884)		(377,048)	5,412	(371,636)
Profit from operations	**300,733**	**542,553**	**91,022**	**22,734**		**957,042**	**90,803**	**1,047,845**
Other income and expenses	(1,668)	371	1,443	1		147		147
Share in profit of companies accounted for using the equity method	-	20,464	1,772	(2,154)		20,082		20,082
Net financial profit						(9,742)		(9,742)
Consolidated profit before tax						**967,529**	**90,803**	**1,058,332**
Corporation tax						(332,394)	(31,782)	(364,176)
Net consolidated profit for the year						**635,135**	**56,302**	**691,437**
ASSETS AND LIABILITIES								
Non-current assets of the segment	599,030	2,279,733	806,200	261,049		3,946,012		3,946,012
Investments accounted for using the equity method	-	89,879	6,388	(1,029)		95,238		95,238
Total non-current capital invested	**599,030**	**2,369,612**	**812,588**	**260,020**	**-**	**4,041,250**		**4,041,250**
Capital employed	**566,641**	**2,871,669**	**931,868**	**266,477**		**4,636,655**		**4,636,655**
CASH FLOW STATEMENT								
Payments of in investments	49,420	407,678	53,111	43,711		553,920		553,920
Collections from disposals	-	66,225	260	19		66,504		66,504
Operating cash flows	254,154	619,675	144,481	37,446		1,055,756		1,055,756

b) Geographical segment reporting:

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

Thousand of Euros

	Revenue from Sales to External Customers		Net Intangible Assets and Property, Plant & Equipment		Investments in Non-current Assets	
	2005	2004	2005	2004	2005	2004
Spain	14,280,300	10,723,848	2,931,043	2,740,674	461,022	490,458
Other European Union countries	2,229,025	1,798,553	112,418	118,049	6,377	17,849
Africa	505,316	421,559	561,279	587,560	71,732	49,922
Americas	837,835	526,366	281,849	251,345	9,984	12,642
Rest of the world	517,332	642,986	-	-	-	-
Consolidated total	**18,369,808**	**14,113,312**	**3,886,589**	**3,697,628**	**549,115**	**570,871**

c) Information on non-recurring items:

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

Thousand of Euros

	Non-recurring Items			
2005	Exploration & Production	Refining & Distribution	Petrochemical Derivatives	Total
Profit from operations				
Difference from inventory measurement at LIFO cost	-	258,284	18,185	276,469
Impairment losses on non-current assets	28	1,823	100	1,951
Total	**28**	**260,107**	**18,285**	**278,420**
Net consolidated profit				
Difference from inventory measurement at LIFO cost	-	167,885	11,820	179,705
Impairment losses on non-current assets	18	1,185	65	1,268
Net loss from discontinued operations	-	-	(317)	(317)
Total	**18**	**169,070**	**11,568**	**180,656**

Thousand of Euros

2004	Non-recurring Items: Exploration & Production	Refining & Distribution	Petrochemical Derivatives	Total
Profit from operations				
Difference from inventory measurement at LIFO cost	-	82,840	2,551	85,391
Impairment losses on assets	(30)	5,473	(31)	5,412
Total	**(30)**	**88,313**	**2,520**	**90,803**
Net consolidated profit				
Difference from inventory measurement at LIFO cost	-	53,846	1,658	55,504
Impairment losses on assets	(20)	3,557	(20)	3,517
Net loss from discontinued operations	-	-	(2,719)	(2,719)
Total	**(20)**	**57,403**	**(1,081)**	**56,302**

As discussed in Note 3-t, non-recurring items include the difference in the value of inventories between the average cost method –used in the consolidated financial statements– and LIFO (last-in, first-out) cost –used to measure business segments– , thus facilitating the analysis of business segment performance and comparison between years.

25. Operating income and expenses

The detail of the various items of operating income and expenses relating to 2005 and 2004 is as follows:

Thousand of Euros

Net Revenue	2005	2004
Sales	15.953,204	11,710,074
Services provided	284,777	273,599
Sales returns and volume discounts	(50,157)	(38,754)
Excise tax on oil and gas	2,181,984	2,168,393
Total	**18,369,808**	**14,113,312**

"Sales" includes EUR 24,951 in 2005 and EUR 60,220 in 2004 relating to the recognition in income of the exchange differences recognised in equity and arising from certain cash flow hedges (see Notes 3-l and 13).

Thousand of Euros

Other operating income	2005	2004
CO_2 emission allowances (see Note 15)	42,510	-
Grants related to income	2,290	2,248
Other Operating income	47,223	34,795
Total	**92,023**	**37,043**

Thousand of Euros

Procurements	2005	2004
Purchases	(12,606,469)	(8,722,934)
Change in inventories	154,147	73,671
Total	**(12,452,322)**	**(8,649,263)**

Thousand of Euros

Staff costs	2005	2004
Wages and salaries	(336,187)	(317,547)
Pension contributions	(14,029)	(11,355)
Other staff costs	(96,593)	(93,031)
Capitalised staff costs	5,390	8,843
Total	**(441,419)**	**(413,090)**

Thousand of Euros

Labour force by professional category	2005	2004
Executives	113	112
Department heads	589	587
Other line personnel	3,074	2,979
Skilled employees/Assistants/Clerical staff	7,136	6,962
Total	**10,912**	**10,640**

Thousand of Euros

Other operating expenses	2005	2004
Outside services received	(1,146,695)	(1,042,145)
Transportation and freight	(448,252)	(446,277)
Taxes other than income tax	(43,441)	(34,695)
Environmental expenses	(16,909)	(12,656)
Other operating expenses	(39,301)	(30,929)
Capitalised operating expenses	21,990	11,834
Total	**(1,672,608)**	**(1,554,868)**

The following should be pointed out in relation to "Other Operating Expenses":

The **fees for financial audit services** provided to the various companies composing the CEPSA Group and subsidiaries by the principal auditor and by other entities related to the auditor during 2005 amounted to EUR 1,042 thousand. The audit fees charged by other auditors participating in the audit of the various Group companies totalled EUR 350 thousand.

Additionally, the **fees for other professional services** provided to the various Group companies by the principal auditor and by other entities related to the auditor during 2005 amounted to EUR 402 thousand, whereas the fees charged for such services by other auditors participating in the audit of the various Group companies totalled EUR 79 thousand.

26. Leases

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

The main items of property, plant and equipment held under finance leases are five double-hull crude oil tankers, butane distribution cylinders and other plants.

The future maturities of the amounts payable under operating leases at December 31 are as follows:

Thousand of Euros

Maturing in:	Operating Leases
2006	129,078
2007	124,484
2008	115,055
2009	114,765
2010	113,957
2011 and subsequent years	533,103
Total payments	**1,130,442**

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

In 2005 lease expenses under operating lease arrangements totalled EUR 136,965 thousand. Contingent payments recognised in the income statement amounted to EUR 1,248 thousand.

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

Thousand of Euros

Maturing in:	Finance Leases
2006	69,833
2007	30,257
2008	23,079
2009	22,124
2010	22,212
2011 and subsequent years	5,277
Total future payments	**172,782**
Less interest	(14,677)
Present value of minimum lease payments	**158,105**

27. Other non-operating income and expenses

The detail of "Other Non-operating Income and Expenses" in 2005 and 2004 is as follows:

Thousand of Euros

	2005	2004
Other non-operating income and expenses	(23,535)	(14,189)
Grants transferred to income for the year	9,132	9,479
Proceeds from asset disposals	(1,205)	4,857
Total	**(15,608)**	**147**

"Proceeds From Asset Disposals" includes mainly the proceeds from the sale and the retirement of assets. In 2004 this item comprised most notably the proceeds arising from certain tankers for maritime transportation.

28. Finance cost of net borrowings and other finance income and costs

The detail of the finance cost of net borrowings and other finance income and costs in 2005 and 2004 is as follows:

Thousand of Euros

Finance cost of net borrowings	2005	2004
Finance income	22,520	13,630
Finance costs	(36,047)	(29,035)
Capitalised finance costs	1,370	4,137
Total	**(12,157)**	**(11,268)**

Thousand of Euros

Other finance income and costs	2005	2004
Income from equity investments	387	558
Gain (loss) from current financial assets	(59)	289
Gain (loss) on derivative transactions	35	(109)
Deferred interest allocated to income	269	314
Variation in financial provisions	(818)	(1,649)
Exchange differences	(4,448)	1,869
Other finance income	14,094	14,657
Other finance costs	(22,972)	(14,403)
Total	**(13,512)**	**1,526**

29. Information on discontinued activities

Plastificantes de Lutxana, S.A, is a Group company which for forty years has been engaging in the manufacture and sale of plasticisers for the last 40 years and constitutes a separate business segment. Following a detailed evaluation of the company's performance in recent years and of the market outlook and other considerations, it was decided to discontinue the operations of this company. This decision is not expected to give rise to a negative impact on equity or profits.

The losses of Plastificantes de Lutxana, S.A. of EUR (317) thousand in 2005 and EUR (2,719) thousand in 2004 were considered as discontinued operations in the consolidated income statement.

30. Earnings per share

The detail of basic earnings per share calculated on the basis of the net profit attributable to the holders of ordinary equity instruments of the Parent in 2005 and 2004 is as follows:

Thousand of Euros

	2005	2004
Consolidated Profit attributed to the Parent	1,010,272	683,923
Loss for the year from discontinued operations (PDL-Loss)	317	2,719
TOTAL	**1.010.589**	**686.642**
Number of shares	267,574,941	267,574,941
Earnings per share from continuing operations	EUR 3.78	EUR 2.57
Earnings per share from continuing operations and discontinued operations	EUR 3.78	EUR 2.56

It is not necessary to calculate the diluted earnings per share of the Cepsa Group since there are no effects of certain financial instruments on capital such as potential ordinary shares.

31. Information on the environment

Information on the environment for 2004 and 2005 is as follows:

Thousand of Euros

Environmental investments	Balance at 01/01/04	Additions/ Charges	Disposals/ Amounts Used	Other Changes	Balance at 31/12/04
Environmental assets	181,511	23,491	(816)	812	204,998
Accumulated depreciation of environmental assets	(88,312)	(11,346)	429	136	(99,093)
Allowance for impairment of environmental assets	-	-	-	-	-
Total	**93,199**	**12,145**	**(387)**	**948**	**105,905**

Thousand of Euros

Environmental investments	Balance at 01/01/05	Additions/ Charges	Disposals/ Amounts Used	Other Changes	Balance at 31/12/05
Environmental assets	204,998	13,290	(488)	793	218,593
Accumulated depreciation of environmental assets	(99,093)	(11,466)	148	(1,225)	(111,636)
Allowance for impairment of environmental assets	-	-	-	-	-
Total	**105,905**	**1,824**	**(340)**	**(432)**	**106,957**

On 1 January 2002, the environmental investments were determined in accordance with the definition contained in the Spanish Accounting and Audit Institute (ICAC) Resolution of 25 March 2002, approving the rules for the recognition, measurement and disclosure of environmental matters in financial statements.

CEPSA considers that the objective of certain investments, such as those made in the hydrodesulphurisation units, is to adapt the petrol and diesel specifications to market demand. For that reason these units have not been classified as environmental assets in these consolidated financial statements although their aim is to reduce sulphur in these products in order to comply with European environmental legislation.

Thousand of Euros

Environmental provisions	Balance at 01/01/04	Additions/ Provisions	Disposals/ Amounts Used	Balance at 31/12/04
Provision for environmental activities	25,922	1,686	(6,422)	21,186
Provision for environmental contingencies and obligations	6,852	843	(1,601)	6,094
Total	**32,774**	**2,529**	**(8,023)**	**27,280**

Miles de euros

Environmental provisions	Balance at 01/01/05	Additions/ Provisions	Disposals Amounts Released	Balance at 31/12/05
Provision for environmental activities	21,186	4,410	(6,939)	18,657
Provision for environmental contingencies and obligations	6,094	4,022	(2,980)	7,136
Total	**27,280**	**8,432**	**(9,919)**	**25,793**

"Provision for Environmental Activities" includes the CEPSA Group's contractual or legal obligations and commitments to prevent, reduce or repair damage to the environment with a 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 related mainly to expenses incurred in the treatment of soils.

Thousand of Euros

Environmental expenses	2005	2004
Rent and fees	47	29
Repairs and upkeep	2,317	1,258
Transport	83	82
Other services	6,030	8,758
Additions for environmental provisions	8,432	2,529
Total outside services	**16,909**	**12,656**

"Other Services" includes mainly the expenses relating to the inertisation of waste at CEPSA'S facilities amounting to EUR 2,931 thousand in 2005 and EUR 3,864 thousand in 2004.

32. Events after the balance sheet date

No significant event took place from 31 December 2005 to the date when these consolidated financial statements were authorised for issue.

33. Information on the first-time adoption of International Financial Reporting Standards (IFRS)

Until 2004 the CEPSA Group prepared its financial statements in accordance with generally accepted accounting principles in Spain (Spanish National Charter of Accounts, consolidation legislation and other applicable provisions). As stated in the paragraph on the basis of presentation (see Note 2-a) and in conformity with Regulation (EC) no 1606/2002 of the European Parliament and of the Council, the 2005 financial statements were prepared under International Financial Reporting Standards.

In accordance with requirements of the standards on the "Presentation of Financial Statements" and on the "First-time Adoption of IFRSs", the first financial statements under IFRSs must contain at least a year of comparative information also in conformity with IFRSs. Accordingly, the 2004 financial statements were restated in order to present them under the same standards as those of 2005, applied on a consistent basis.

The restatement of the 2004 financial statements gave rise to the preparation of an opening balance sheet at 1 January 2004 – transition date – applying IFRSs retrospectively, excluding a series of exceptions provided for in the standard on "First-time Adoption of IFRSs". These exceptions are as follows:

- Business combinations: the measurement of business combinations prior to the transition date were not restated, and the goodwill value at the transition date was taken to be the net value at 31 December 2003 under generally accepted accounting principles in Spain.

- Fair value or revaluation as the attributed cost: it was decided to use the property, plant and equipment amount revalued under generally accepted accounting principles in Spain as the attributed cost at the transition date.

- Cumulative translation differences: it was decided to consider them zero at the transition date.

- Dismantling liabilities included in the cost of property, plant and equipment: it was decided to value the liability at the transition date in accordance with IAS 37.

The comparison of the consolidated balance sheet under generally accepted accounting principles in Spain with the opening consolidated balance sheet in accordance with IFRSs at the transition date is presented below:

Consolidated Balance Sheet at 1 January 2004
Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Thousand of Euros

ASSETS	Spanish GAAP		IFRS	Reference
Non-current assets				
Start-up expenses	334	(334)		a
Intangible assets	902,077	(800,745)	101,332	c
Goodwill	99,322	(69,596)	29,726	e
Tangible assets	2,405,214	877,947	3,283,161	n
Investments accounted for using the equity method	114,729	15,207	129,936	e
Non-current financial assets	115,966	(3,361)	112,605	
Deferred tax assets	120,758	13,428	134,186	i
Deferred charges	56,503	(56,503)		d
TOTAL NON-CURRENT ASSETS	**3,814,903**	**(23,957)**	**3,790,946**	
Current assets				
Inventories	736,334	193,411	929,745	b
Trade and other receivables	1,418,241	(1,724)	1,416,517	
Other current financial assets	182,483	(70,397)	112,086	
Other current assets	23,837	(8,611)	15,226	
Liquid assets	40,655	58,390	99,045	h
CURRENT ASSETS, SUBTOTAL	**2,401,550**	**171,069**	**2,572,619**	
Non-current assets classified as held for sale and discontinued operations		8,716	8,716	k
TOTAL CURRENT ASSETS	**2,401,550**	**179,785**	**2,581,335**	
TOTAL ASSETS	**6,216,453**	**155,828**	**6,372,281**	

Thousand of Euros

EQUITY AND LIABILITIES	Spanish GAAP		IFRS	Reference
Equity				
Share capital	267,575	-	267,575	
Share premium	338,728	-	338,728	
Valuation reserve	90,936	-	90,936	
Translation differences	(39,506)	39,506	-	l
Prior period profits	2,353,073	112,072	2,465,145	f, g, p
Assets and liability revaluation reserves	-	132,155	132,155	f, g
Interim dividend paid	(112,381)	-	(112,381)	
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**2,898,425**	**283,733**	**3,182,158**	
Minority interests	**38,106**	**2,152**	**40,258**	
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**2,936,531**	**285,885**	**3,222,416**	
Negative difference in consolidation	**2,317**	**(2,317)**		e
Non-current liabilities				
Bank borrowings	835,217	22,595	857,812	
Deferred tax liabilities	40,345	141,390	181,735	i
Grants related to assets	362,819	(281,988)	80,831	g
Provisions	302,738	(93,044)	209,694	j
Other non-current liabilities	78,482	66,830	145,312	
TOTAL NON-CURRENT LIABILITIES	**1,619,601**	**(144,217)**	**1,475,384**	
Current liabilities				
Bank borrowings	262,389	5,677	268,066	
Other current liabilities	1,395,615	10,800	1,406,415	
TOTAL CURRENT LIABILITIES	**1,658,004**	**16,477**	**1,674,481**	
TOTAL LIABILITIES	**6,216,453**	**155,828**	**6,372,281**	

The comparison of the 2004 consolidated balance sheet and the 2004 consolidated income statement under generally accepted accounting principles in Spain with those resulting from IFRSs application is presented below:

Consolidated Balance Sheet at 31 December 2004
Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Thousand of Euros

ASSETS	Spanish GAAP		IFRS	Reference
Non-current assets				
Start-up expenses	866	(866)		a
Intangible assets	980,711	(856,423)	124,288	c
Goodwill	89,664	(59,519)	30,145	e
Tangible assets	2,651,564	921,776	3,573,340	n
Investments accounted for using the equity method	90,225	5,013	95,238	e
Non-current financial assets	128,788	(668)	128,119	
Deferred tax assets	103,680	15,742	119,422	i
Deferred charges	63,119	(63,119)		d
TOTAL NON-CURRENT ASSETS	**4,108,617**	**(38,065)**	**4,070,552**	
Current assets				
Inventories	736,356	322,553	1,058,909	b
Trade and other receivables	1,795,267	14,713	1,809,980	
Other current financial assets	176,689	(82,035)	94,654	
Other current assets	41,443	(12,553)	28,890	
Liquid assets	49,497	62,699	112,196	h
CURRENT ASSETS, SUBTOTAL	**2,799,252**	**305,377**	**3,104,629**	
Non-current assets classified as held for sale and discontinued operations	-	5,997	5,997	k
TOTAL CURRENT ASSETS	**2,799,252**	**311,374**	**3,110,626**	
TOTAL ASSETS	**6,907,869**	**273,309**	**7,181,178**	

Thousand of Euros

EQUITY AND LIABILITIES	Spanish GAAP		IFRS	Reference
Equity				
Share capital	267,575	-	267,575	
Share premium	338,728	-	338,728	
Valuation reserve	90,936	-	90,936	
Translation differences	(39,420)	36,923	(2,497)	l
Prior period profits	2,096,717	113,821	2,210,538	f, g, p
Assets and liability revaluation reserves	-	121,585	121,585	f, g
Income allocable to the controlling Company	649,787	34,136	683,923	
Interim dividend paid	(112,381)	-	(112,381)	
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**3,291,942**	**306,465**	**3,598,407**	
Minority interests	**40,169**	**2,209**	**42,378**	
TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	**3,332,111**	**308,674**	**3,640,785**	
Negative difference in consolidation	**1,158**	**(1,158)**		e
Non-current liabilities				
Bank borrowings	736,195	(8,919)	727,276	
Deferred tax liabilities	38,505	171,570	210,075	i
Grants related to assets	339,280	(265,831)	73,449	g
Provisions	271,115	(44,522)	226,593	j
Other non-current liabilities	127,402	42,043	169,445	
TOTAL NON-CURRENT LIABILITIES	**1,512,497**	**(105,659)**	**1,406,838**	
Current liabilities				
Bank borrowings	306,603	(1,995)	304,608	
Other current liabilities	1,755,500	73,447	1,828,947	
TOTAL CURRENT LIABILITIES	**2,062,103**	**71,452**	**2,133,555**	
TOTAL LIABILITIES	**6,907,869**	**273,309**	**7,181,178**	

Consolidated income statements for the year ended 31 December 2004
Compañía Española de Petróleos, S.A. and Subsidiaries (Consolidated Group)

Thousand of Euros

	Spanish GAAP		IFRS	Reference
Income:				
Sales and provision of services relating to ordinary activity	12,519,160	(574,241)	11,944,919	m
Exercise tax on oil and gas recognised in sales	2,168,393	-	2,168,393	
Revenue	**14,687,553**	**(574,241)**	**14,113,312**	
Increase in inventories of finished goods and work in progress inventories		60,193	60,193	
Other operating income	91,681	(54,638)	37,043	
	14,779,234	**(568,686)**	**14,210,548**	
Expenses:				
Procurements	(9,301,985)	652,722	(8,649,263)	m
Decrease in inventories of finished goods and work in progress inventories	(15,634)	15,634	-	
Staff costs	(420,129)	7,039	(413,090)	
Changes in operating allowances	(1,592)	(854)	(2,446)	
Other operating expenses	(3,721,599)	(4,669)	(3,726,268)	
Depreciation and amortisation charge and impairment losses	(367,126)	(4,510)	(371,636)	
	(13,828,065)	**665,362**	**(13,162,703)**	
PROFIT FROM OPERATIONS	**951,169**	**96,676**	**1,047,845**	
Other non-operating income and expenses	(20,319)	20,466	147	
Share in profit of companies accounted for using the equity method	20,629	(547)	20,082	
Finance income	91,727	(60,410)	31,317	g
Finance costs	(45,661)	4,602	(41,059)	n
CONSOLIDATION PROFIT BEFORE TAX	**997,545**	**60,787**	**1,058,332**	
Income tax	(340,286)	(23,890)	(364,176)	p
CONSOLIDATED PROFIT FOR THE YEAR FROM CONTINUING OPERATIONGS	**657,259**	**36,897**	**694,156**	
Loss for the year from discontinued operations	-	(2,719)	(2,719)	
CONSOLIDATED INCOME FOR THE YEAR	**657,259**	**34,178**	**691,437**	
Attributable to:				
Shareholders of the Parent	**649,787**	**34,136**	**683,923**	
Minority Interest	**7,472**	**42**	**7,514**	
Earnings per share:				
Basic	**2.43**		**2.57**	
Diluted	**2.43**		**2.57**	

a) Start-up expenses
Start-up expenses are generally recognised as a period expense (or charged to Reserves on first time application). However, start-up expenses which are part of the cost of an item of property, plant and equipment were reclassified to property, plant and equipment.

b) Inventories

b.1) Measurement of inventories
Inventories must be measured at the lower of cost and net realisable value. The cost formulas accepted under IAS to determine the value of inventories are FIFO or weighted average cost. Since the Group used to measure its inventories at dollar value LIFO cost, the value of the inventories was adjusted to weighted average cost (IAS cost formula adopted by the Group).

b.2) Recognition of rights to crude oil not yet withdrawn
The crude oil extracted from the fields, to which CEPSA has selling rights, is recognised as Inventories under IAS until it is actually withdrawn and is measured at extraction cost.

c) Intangible assets

c.1) Concessions, patents and research expenditure
They relate to research expenditure recognised as intellectual property and amortised when it is capitalised. Since under IFRSs, such amounts cannot be capitalised because they are research expenditure, the gross intangible assets and the related amortisation were derecognised.

The research expenditure included under "Research and Development Expenses" remaining in the balance sheet was also adjusted.

c.2) Leases
Under IAS the lessee of a leased asset must classify it based on its nature and, at the same time, unaccrued interest cannot be recognised as deferred charges or as an increase to the value of the liabilities.

The leases entered into for the construction of diesel storage tanks, butane cylinders and crude oil tankers were reclassified as property, plant and equipment based on their nature.

c.3) Investment in exploration
Under IFRS 6 this type of assets can be recognised and measured in accordance with the accounting policies applied in the latest financial statements.

Expenses relating to the exploration, evaluation and development of the oil fields were reclassified as property, plant and equipment.

The simplified procedure of IFRS 1 was used for the provision for the dismantling of the "Boquerón", "Casablanca" and "Rodaballo" fields and the present value of the final cost of the aforementioned dismantling was recognised as a liability.

d) Deferred charges

d.1) Deficit in the internal pension provision
As required by Royal Decree 1643/1990 and subsequent regulations, the difference at 31 December 1989, between the value of the commitments to retired and current employees and the provisions recognised at that date was being amortised under Spanish GAAP, net of the related tax effect, with a charge to reserves over 7 and 15 years, respectively.

Under IFRSs this deficit cannot be deferred and, consequently, the balance outstanding at 31 December 2003 was adjusted against Reserves. Under Spanish GAAP in 2004 the balance of "Deferred Charges" outstanding at the beginning of the year was charged to Reserves.

d.2) Licenses and intellectual property
All advances paid as royalties for the use of technology were reclassified from "Deferred Charges" and recognised under IFRSs as "Intangible Assets" (Licenses / Intellectual Property) at the amount originally paid and the related accumulated amortisation at that date.

d.3) Investment in flagged sales outlets
All disbursements relating to supply agreements and flagging contracts of service stations were reclassified from deferred charges to intangible and tangible assets.

e) Consolidation goodwill
Goodwill must be allocated to the fair value of the assets, liabilities and contingencies of the companies acquired.

Accordingly, goodwill directly related to the fair value of assets belonging to service stations and the goodwill of Nueva Generadora del Sur were reclassified to property, plant and equipment together with the related accumulated depreciation.

e.1) Adjustment to closing rate
In accordance with IFRSs the goodwill of Detén Química, S.A. was adjusted to the closing rate.

e.2) Adjustment of goodwill due to tax effect
Under IFRS 3.65, the tax benefits arising on the acquisition are deducted from the original goodwill, whereas under Spanish GAAP they are recorded as deferred revenues and are allocated to income as the related goodwill is amortised.

e.3) Negative consolidation difference
The negative consolidation differences arising prior to the opening balance sheet as a result of a business combination or the purchase of an equity investment must be eliminated against reserves.

e.4) Investments in companies accounted for using the equity method
The consolidation goodwill of certain companies accounted for using the equity method was reclassified to non-current financial assets as an increase in the value of the equity investments in the aforementioned companies.

e.5) Amortisation of goodwill
Goodwill arising on consolidation is not amortised systematically; instead the Company must periodically test it for impairment.

f) Derivative financial instruments
The Group applied IAS 32 and IAS 39 in the opening balance sheet and measured derivatives at their fair value and adjusted against reserves the differences with the amounts recorded under Spanish GAAP. Also, the changes in fair value in 2004 were recognised in the income statement, unless they were designated as hedges in which case they were recognised directly in equity.

g) Deferred income

g.1) Exchange differences
In the opening balance sheet the positive exchange difference recorded in accordance with Spanish GAAP under "Deferred Revenues" were reclassified as reserves.

Additionally, the differences arising on loans denominated in foreign currencies which finance investments in the same functional currency and hedge the foreign currency risk associated with the future cash flows of these investments, which were recorded as Deferred Charges / Deferred Revenues under Spanish GAAP were reclassified as Reserves.

Exchange differences generated by loans amortization realized during the year are reclassified from financial incomes or expenses captions of the statement of income under Spanish GAAP to the corresponding operating profit caption under IFRS.

g.2) Grants
IASs consider two alternative treatments for the presentation of grants related to assets on the face of the balance sheet:

(a) recognition as deferred income;
(b) deduction of each grant from the value at which the related asset was recognised.

The first option was chosen and, consequently, no amount in this respect was reclassified to another balance sheet heading.

h) Current assets

Cash equivalents
Pursuant to IAS 7, short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value were reclassified as Cash Equivalents.

i) Presentation of deferred tax assets and liabilities
Under IFRSs the Company presents all its deferred tax assets and liabilities as non-current assets and liabilities.

j) Provisions, contingent assets and contingent liabilities

j.1) Provisions for contingencies and expenses
Under IAS 37 a provision should be recognised when the Company has a present obligation as a result of past events, the occurrence is probable and a reliable estimate can be made.

Accordingly, all provisions recorded under Spanish GAAP which it was considered fail to meet any of the above-mentioned requirements were eliminated against reserves.

The provisions whose purpose relates to other balance sheet headings were also reclassified.

j.2) Provisions for major shutdowns
Under IFRSs the costs arising from major shutdowns which fulfil the requirements for recognition as property, plant and equipment should be capitalised as a component of property, plant and equipment. This means:

- the provisions for major shutdowns existing at the opening balance sheet date were eliminated against reserves.
- the cost of property, plant and equipment has been broken down to show separately the costs relating to the most recent major shutdown, which are depreciated over the period to the following major shutdown.

k) Scope of consolidation
Consolidation of Plastificantes de Lutxana:

In February 2004, it was decided that Plastificantes de Lutxana, S.A. would discontinue operations.

Consequently, under IFRSs, the investment was recognised at cost when the decision to discontinue operations was taken, adjusted by any losses for discontinuance.

l) Reserve for translation differences
Under IFRSs, translation differences must generally be recognised as a separate component of equity. These differences will be taken to profit when the equity interests are sold.

However, on first-time application, there is an alternative treatment, whereby all the cumulative translation differences until the transition date are considered as definitive reserves and are not included in the calculation of the result of a future sale of the equity interests. In line with this alternative, the Group reclassified the cumulative translation differences until the transition date as definitive reserves.

m) Exchange of products

Exchange of products
Under IFRSs where goods or services of a similar nature are exchanged or swapped, such exchange will not be considered a transaction which gives rise to revenue. However, if the goods are sold or the services are provided, and goods or services of a different nature are received as a consideration, it is considered a transaction which gives rise to revenue. In accordance with the foregoing, the Company eliminated the transactions performed in 2004 and recognised again the inventories sold at year-end under a repurchase agreement.

n) Capitalisation of borrowing costs

Interest on construction
Under IFRSs, borrowing costs can be treated in two ways:

- recognition as an expense in the year in which they are incurred regardless of the assets to which they are applicable;
- capitalisation of the borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets which are included in the cost of such assets.

The Company opted for the second alternative treatment and capitalised the interest incurred in projects which exceed a certain duration and amount.

o) Presentation of the income statement

Reclassification of extraordinary results
Under IFRSs, the Company will not present in the income statement or in the notes to the financial statements any extraordinary income or cost.

The Company eliminated the amounts included under "Extraordinary Income" or "Extraordinary Expenses" under Spanish GAAP and reclassified them according to the nature of each item.

p) Tax effect
All the adjustments resulting from the application of IFRSs at the transition date will be recognised as reserves net of the tax effect and a deferred tax asset or liability will arise for the temporary difference.

Under IFRSs temporary differences must be recognised as non-current assets and liabilities.

34. Explanation added for translation to English

These consolidated financial statements are presented on the basis of IFRSs, as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

TABLE I

The detail of the main companies composing the CEPSA consolidated group at 31 December 2005 is as follows:

					Thousands of euros					
					Equity					
			(%) of Ownership		Share Capital					
Name	Registered Offices	Line of Business	Direct	Indirect	Issued	Paid	Reserves & Net Profit	Net Cost of invest-ment	Consoli-dation Method (*)	Tax Group
ATLAS, S.A. COMBUSTIBLES Y LUBRIFICANTES	C/ Playa Benitez, s/n. 51004 CEUTA. SPAIN	Sale of Oil Products	100%		3,930	3,930	9,123	4,077	F	Yes
C.M.D. AEROPUERTOS CANARIOS, S.L.	Polígono Industrial Valle de Güimar Manzana XIV, parcelas 17 y 18. 38509 Güimar Santa Cruz de Tenerife. SPAIN	Jet Fuel Distribution	60%		21,576	21,576	15,662	12,946	F	No
CEDIPSA, CIA. ESPAÑOLA DISTRIBUIDORA DE PETROLEOS, S.A.	Avda. del Partenón, 12. 28042 MADRID. SPAIN	Service Station Operation and Installation		100%	8,114	8,114	10,733	10,059	F	Yes
CEPSA AVIACIÓN, S.A.	ES. Comb. Aviac. Camino de San Lázaro, s/n Zona ind. Aeropuerto Tenerife Norte Los Rodeos. 38206 San Cristobal de la Laguna Santa Cruz de Tenerife. SPAIN	Oil and Gas Distribution	100%		954	954	16,119	956	F	Yes
CEPSA CARD, S.A.	Avda. Partenón, 12 3ª C. 28042 MADRID. SPAIN	Management of Group Cards		100%	60	60	234	60	F	Yes
CEPSA COLOMBIA, S.A.	Avda. Ribera del Loira, nº 50. 28042 MADRID. SPAIN	Oil Research and Exploration	100%		5,250	5,250	771	5,689	F	Yes
CEPSA COMERCIAL MADRID, S.A. (CECOMASA)	C/ Embajadores Final, s/n. Apartadero Santa Catalina. 28018 MADRID. SPAIN	Sale of Oil Products	100%		1,169	1,169	1,382	2,541	F	Yes
CEPSA E. P., SOCIEDAD ANONIMA	Avda. Ribera del Loira, nº 50. 28042 MADRID. SPAIN	Oil Research and Exploration	100%		3,438	3,438	21,683	16,136	F	No
CEPSA GAS LICUADO, S.A.	Avda. Ribera del Loira, nº 50 1ª planta. 28042 MADRID. SPAIN	Gas Sale and Distribution	100%		36,752	36,752	33,009	42,012	F	Yes
CEPSA ESTACIONES DE SERVICIO, S.A. (CEPSA EE.SS.)	Avda. Partenón, 12. 28042 MADRID. SPAIN	Service Station Operation	100%		82,043	82,043	277,557	120,017	F	Yes
CEPSA INTERNATIONAL B.V.	Steegoversloot 64. 3311 PR Dordrecht. The Netherlands	Sale of Oil Products	100%		4,688	4,688	30,886	15,210	F	No
CEPSA ITALIA, S.p.A.	Viale Milanofiori Palazzo A/6. 20090 Assago MILAN. ITALY	Sale of Petrochemicals	100%		6,000	6,000	8,450	6,934	F	No

(*) F = Full Consolidation ; P = Proportionate Consolidation ; E = Equity

					Thousands of euros					
					Equity					
			(%) of Ownership		Share Capital					
Name	Registered Offices	Line of business	Direct	Indirect	Issued	Paid	Reserves & Net Profit	Net Cost of invest-ment	Consoli-dation Method (*)	Tax Group
CEPSA LUBRICANTES, S.A. (C.L.S.A.)	Avda. Ribera del Loira 50 3ª planta. 28042 MADRID SPAIN	Sale of Lubricants	100%		15,000	15,000	26,907	15,025	F	Yes
CEPSA MARINE FUELS, S.A.	Avda. del Partenòn nº 10 (Campo de las Naciones). 28042 Madrid. SPAIN	Sale of Oil Products	100%		60	60	-1	60	F	Yes
CEPSA OPERACIONES MARINA-AVIACIÓN, S.A.	Avda. de Anaga, nº 21. 38001 Santa Cruz de Tenerife (Tenerife). SPAIN	Corporate Services for Bunker - Aviation and Oil Distribution	100%		60	60	3,292	60	F	Yes
CEPSA PORTUGUESA PETROLEOS, S.A.	Avda. Columbano Bordalo Pinheiro, 108 3º. 1070-067 LISBOA. PORTUGAL	Sale of Oil Products	96%	4%	27,500	27,500	28,558	38,338	F	No
CEPSA UK, LTD.	Audrey House 16 - 20 Ely Place. EC1N 6SN London. UK	Sale of Petrochemicals	100%		145	145	8,179	154	F	No
CEPSA, S.A.	Avda. del Partenón, 12. 28042 MADRID. SPAIN	Corporate Services	100%		61	61	59	61	F	Yes
COGENERACIÓN DE TENERIFE, S.A. COTESA)	C/ Alvaro Rodríguez López, s/n. Refinería Tenerife. 38005 Santa Cruz de Tenerife (TENERIFE). SPAIN	Cogeneration		100%	6,000	6,000	8,753	4,988	F	Yes
COMPAÑÍA ESPAÑOLA DE PETRÓLEOS ATLÁNTICO, S.A. (ATLANTICO)	Avda. Ribera del Loira 50 3ª planta. 28042 MADRID. SPAIN	Sale of Lubricants		100%	1,932	1,932	-1,655	51	F	Yes
COMPAÑÍA LOGÍSTICA DE HIDROCARBUROS CLH, S.A.	C/ Méndez Álvaro, nº 44 Edificio 9 planta baja. 28045 MADRID. SPAIN	Oil Product Distribution	14,15%		84,070	84,070	214,680	41,165	E	No
DERIVADOS ENERGÉTICOS PARA EL TRANSPORTE Y LA INDUSTRIA, S.A. (DETISA)	Avda. Partenón, 12 1ª Sector A. 28042 MADRID. SPAIN	Power Commercialization and Cogeneration	100%		12,330	12,330	48,255	12,328	F	Yes
DETEN QUIMICA, S.A.	Rua Hidrogenio 1744 Complejo Petroquímico de Camaçari. Salvador de Bahía. BRAZIL	Manufacture and Sale of Petrochemicals		71,44%	60,404	60,404	41,415	135,486	F	No
ERTISA, S.A.	Avda. del Partenón, nº 12 2º D 28042 MADRID. SPAIN	Manufacture and Sale of Petrochemicals	100%		11,550	11,550	137,980	17,173	F	Yes
GEMASA, GENERACIÓN MAZAGÓN, S.A.U.	Pgno. Ind. Nuevo Puerto, Parc. 43-45. 21810 Palos de la Frontera (HUELVA). SPAIN	Cogeneration		100%	2,328	2,328	799	3,450	F	Yes
GENERACIÓN DE ENERGÍAS DEL GUADARRANQUE, S.A. (GEGSA)	Puente Mayorga, s/n. 11360 San Roque (CÁDIZ) SPAIN	Cogeneration		100%	1,803	1,803	1,590	2,389	F	Yes

(*) F = Full Consolidation ; P = Proportionate Consolidation ; E = Equity

			(%) of Ownership		Thousands of euros – Equity – Share Capital		Thousands of euros – Equity	Thousands of euros		
Name	Registered Offices	Line of Business	Direct	Indirect	Issued	Paid	Reserves & Net Profit	Net Cost of invest-ment	Consoli-dation Method (*)	Tax Group
GENERACIÓN ELÉCTRICA PENINSULAR, S.A.	Avda. del Partenón, nº 12. 28042 . SPAIN	Cogeneration		70%	32,000	32,000	13,244	22,400	F	No
GETESA, GENERADORA DE ENERGÍA TERMOELÉCTRICA, S.A.	Polígono Industrial de Guadarranque. 11360 San Roque (CÁDIZ). SPAIN	Cogeneration		100%	6,010	6,010	1,470	2,945	F	Yes
INTERCONTINENTAL QUIMICA, S.A. (INTERQUISA)	Avda. Partenón, 12 2ª Sector D. 28042 MADRID. SPAIN	Manufacture and Sale of Petrochemicals	100%		25,865	25,865	210,371	50,111	F	Yes
INTERQUISA CANADA, L.P.	10200 East Sherbrooke Street. H1B 1B4 Montreal - QUEBEC. CANADA	Manufacture and Sale of Petrochemicals		51%	210,664	210,664	4,894	107,439	P	No
LUBRICANTES DEL SUR, S.A. (LUBRISUR)	Avda. Ribera del Loira, nº 50 2ª planta. 28042 MADRID. SPAIN	Sale of Lubricants	65%		6,102	6,102	13,433	10,046	F	No
NUEVA GENERADORA DEL SUR, S.A.	Avda. San Luis, nº 77 Edificio C 4ª planta. 28033 Madrid. SPAIN	Power Generation	50%		96,000	96,000	38,878	71,100	P	No
PETRESA CANADA INC.	5250 Boulevard Becancour. G9H 3X3 Becancour. QUE-BEC. CANADA	Manufacture and Sale of Petrochemicals		51%	57,853	57,853	-24,837	16,744	P	No
PETROQUÍMICA ESPAÑOLA, S.A. (PETRESA)	Avda. Partenón, 12 5ª Sector A. 28042 MADRID. SPAIN	Manufacture and Sale of Petrochemicals	100%		3,750	3,750	252,495	12,847	F	Yes
PETRÓLEOS DE CANARIAS, S.A. (PETROCAN)	Explanada de Tomás Quevedo, s/n (Nuevo nombre: Avda. de las Petrolíferas) 35008 Las Palmas de Gran Canarias (GRAN CANARIA). SPAIN	Storage and Bunkering Services	100%		120	120	44,833	121	F	Yes
PLASTIFICANTES DE LUTXANA, S.A. (P.D.L.)	La Florida, s/n. 48930 Lutxana-Baracaldo (VIZCAYA). SPAIN	Manufacture and Sale of Petrochemicals	100%		3,023	3,023	2,344	6,258	F	Yes
PRODUCTOS ASFÁLTICOS, S.A. (PROAS)	Avda. Ribera del Loira, nº 50 28042 MADRID. SPAIN	Asphalt Sales	100%		3,150	3,150	22,020	5,313	F	Yes
PROMOTORA DE MINIMERCADOS, S.A. (PROMIMER)	Avda. del Partenón, nº 12 2º C. 28042 MADRID. SPAIN Avda. Columbano Bordalo	Retailing at Service Stations		100%	753	753	8,062	1,989	F	Yes
PROPEL-PRODUTOS DE PETROLEO, L.D.A.	Pinheiro, 108-3º. 1070-067 LISBOA. PORTUGAL Avda. Diagonal nº 605,4 T	Service Station Management Services	93%	7%	224	224	955	1,092	F	No
SOCIETAT CATALANA DE PETROLIS, S.A. (PETROCAT)	6A. 08028 BARCELONA. SPAIN	Oil Product Import and Distribution		45%	15,093	15,093	-5,713	4,276	E	No

(*) F = Full Consolidation ; P = Proportionate Consolidation ; E = Equity

MANAGEMENT DISCUSSION & ANALYSIS

of 2005 for Compañía Española de Petróleos, S.A. and Subsidiary Companies (CEPSA Group)

Operating Environment

Global economic growth in 2005 is estimated to come to nearly 4.3%. Underlying this increase, as was the case last year, are two basic factors: a strong US economy, which was able to override the effects of interest rate hikes and hurricane-related damages and disruptions, although it continued to be plagued by burgeoning fiscal and trade deficits; and the robust expansion in Asia's emerging economies, particularly India and China. On the downside was the sluggish pace of Europe's economy, where a slowdown in internal demand has been a key constraint.

As for Spain, its growth momentum remained very positive, with GPD in 2005 rising roughly 3.5% (versus 3.1% in 2004), basically driven by the consumption and investment components of aggregate domestic demand, coupled with sustained job creation that has led to a gradual decline in the unemployment rate. However, despite the favorable environment, two imbalances persist that could weigh negatively in the future: inflation, which sharply exceeds the EU average, a circumstance that is adversely affecting Spain's ability to maintain its relative competitiveness, and a gaping foreign trade deficit.

With regard to currency markets and specifically to the euro/dollar exchange rate, contrary to the trend seen the year before, the US dollar staged a moderate comeback in 2005 against a relatively weaker euro. Nonetheless, the average exchange rate for the year was $1.24, practically the same as in 2004.

Short-term interest rates on the euro were more or less stable throughout the year at around 2.1%, although with a spike in the last two months of 2005. On the other side of the Atlantic, the Federal Reserve's policy of monetary tightening led to successive hikes in U.S. short-term interest rates, steadily rising from 2.4% at the end of 2004 to 4.4% in December 2005.

High crude oil prices marked the tone for the petroleum sector in 2005. Benchmark Brent soared to an average of over $54/barrel, surging 42% from the previous year's median price, which in turn was already 32% higher than in 2003. Persistently strong global demand, which drove prices to record highs, was the key structural factor fueling this trend. On the supply side, apart from geopolitical tensions and civil unrest in various oil producing countries, hurricane-related disruptions and outages in upstream and downstream facilities in the Gulf of Mexico and limited spare production capacity in other areas were extraordinary circumstances that prompted crude oil prices to hit unprecedented levels of nearly $70/barrel.

Refining margins worldwide remained resiliently high in the year, underpinned by a sustained increase in demand for finished products and stable supplies, which led to levels that were sharply higher than the year before. These conditions were further impacted in September and October by the devastating effects of hurricanes that swept through the Gulf of Mexico, causing refinery downtime and severe production constraints in most of the area which, in the aftermath of these heavy storms, catapulted international motor fuel prices. However, the last two months of the year saw a softening of refining margins to yearly lows, as new sources of product supply were accessed.

The jump in margins, taking an indicator that uses the weighted average of three different refinery configurations as a reference point, rose from $3.84/bbl in 2004 to $4.78/bbl in 2005, climbing 25% both in dollars as well as when converted to euros.

Activity

In the Exploration & Production segment, CEPSA's upstream operations are mainly focused on crude oil extraction in the RKF and Ourhoud fields in Algeria, both acreages governed by production-sharing contracts (PSC), maintaining a very favorable level of production throughout the year and allowing CEPSA to achieve a total output and shipment volume of more than 53 million barrels in 2005, in line with the previous year's levels.

However, under the terms and conditions of production-sharing contracts, an increase in the sales price is automatically counterbalanced and offset by a lower amount of barrels of oil available for sale. This "price effect" is the key reason behind the reduction of crude oil sales from 11.4 million barrels in 2004 to 9.6 million in 2005.

With regard to capital and exploration expenditures in this segment, 75% were assigned towards the development of producing fields in Algeria, while the rest was allocated towards undertaking mostly oil and gas exploration-related activities in a variety of areas around the globe.

In the Refining & Marketing segment, petroleum and basic chemical products are manufactured directly at CEPSA's three wholly-owned refineries and in the ASESA Refinery, where the Company has a 50% share. This output is sold on a variety of mostly domestic markets.

The positive global operating environment for downstream businesses was additionally enhanced by company-specific factors, which made CEPSA's earnings benefit even further.

One of these was the high level of refining capacity utilization, which led to an increase in refinery throughput in 2005, amounting to 21.5 million tons, up 3% from the year before, in addition to gains harnessed from implementing fixed and variable cost-containment programs.

Another significant factor is that CEPSA's refineries have been retrofitted to enable them to manufacture products with a higher added value, the result of an ambitious capital spending program implemented over recent years, which has allowed the Company to fully capture the benefits of favorable conditions in the oil sector. Secondly, a crucial advantage of CEPSA's refineries is their ability to process heavier crude oils with a higher sulfur content, which are less expensive to acquire than lighter crude oils.

As regards oil product and basic chemical marketing activity, a total of 27.4 million tons were sold in 2005, rising 3% from 2004's figures. Product sales in specialty markets played a key role in this growth.

In the annual period, the consolidated marketing margin per unit was similar to the one posted the previous year. By products, the improvement in bottom-of-the-barrel oil products helped counterbalance the decline in light and middle distillates sold on the domestic market. In the case of basic chemicals, the inability to pass along cost increases to end customers was a critical factor leading to the erosion in margins seen in the second half of the year, which were 25% lower than those recorded in 2004.

Consistent with the Group's investment strategy, capital spending in the year was primarily assigned towards completing new facilities aimed at complying with EU-mandated product specifications on sulfur limits to achieve cleaner-burning motor fuels, and expanding conversion and distillation units in the Tenerife and Algeciras Refineries. Noteworthy also was the commencement of construction of a new light naphtha reformer in the La Rábida Refinery, slated to come on-stream in 2006.

As regards commercial activities, the bulk of capital expenditures were targeted towards the Company's retail network, to add new stations and refurbish existing sites, focusing particularly on non-oil businesses, and the expansion of CEPSA's bottling capacity and facilities for the sale of residential butane and other LPG's.

CEPSA's Petrochemicals segment, which is chiefly centered on the production of detergent precursors, polyester precursors and phenol/acetone, fully captures the benefits provided by the high level of integration between refining operations and chemical production.

Consolidated product sales in this segment totaled 2.4 million tons in 2005, slightly higher than in 2004. As for the unit margin, by and large it evidenced a moderate recovery compared to the year before, although it was still dragged down by the inability to pass along higher raw material costs, resulting from the increase in crude oil prices, to end consumers. Furthermore, the euro/dollar exchange rate in the year, which on average was similar to the previous year, additionally hindered the competitiveness of these products in their international markets.

The most significant investment in this area was the start-up of construction of a third phenol plant in ERTISA, a wholly-owned petrochemical affiliate, which is due to begin production towards the end of 2006.

Finally, in the Gas & Power segment, the two most important factors influencing the year's performance were the increase in the price of electrical power sold to the pool and greater activity. As regards the latter, the Group's electricity sales, calculating 50% of those made by Nueva Generadora del Sur (NGS) and total sales by co-generation plants, jumped 31% from a year earlier, chiefly prompted by the inclusion in the full year of NGS's output following its start-up in the third quarter of 2004.

In November 2005, the Algerian national oil company SONATRACH acquired a 30% shareholding in CEPSA's subsidiary GEPESA, which owns four co-generation (CHP) plants on the Spanish mainland, two located at the Company's refineries and the other two in its petrochemical plants

Results

The CEPSA Group's 2005 financial statements have been prepared in compliance with new International Financial Reporting Standards (IFRS). In order to make this year's figures comparable to those posted last year, 2004's data were restated using the same criteria. A detailed description of the main impacts from this change in accounting principles is provided in Note 33 of the Notes to the Consolidated Financial Statements.

Operating income from all business segments, excluding non-recurring items, amounted to 1,249 million euros, 31% higher than in 2004, whereas net income attributed to the holding company stood at 1,010 million euros, equivalent to an EPS of 3.78 euros, climbing 48% year-on-year.

Highlights of 2005's consolidated financial statements, expressed in millions of euros, are as follows:

Millions of euros

Information by segments excluding non-recurring Items	**Exploration & Production**	**Refining & Marketing**	**Petrochemicals**	**Gas & Power**	**Total Consolidated**
Net sales	421	15,983	1,702	264	18,370
Operating income by segments	357	698	118	76	1,249
% change from the previous year	19%	29%	30%	236%	31%
Difference Average Cost - LIFO and other non-recurring items					278
Other income and expenses					(10)
Consolidated income before taxes					**1,518**
Corporate income tax					(496)
Gains/(losses) from discontinued operations					-
Net consolidated income for the year (before minority interests)					**1,021**
Income attributable to:					
Shareholders of the parent company					**1,010**
Minority interests					11

The key factors behind these earnings, whether related to the global economic environment, the oil sector or company-specific measures, are explained in detail in foregoing paragraphs.

No significant non-recurring items existed either in 2005 or in 2004. Nonetheless, this caption includes the difference in valuing Company-owned inventory by the LIFO method, used as a business segment performance indicator, versus the Average Cost method under new IFRS, which due to the sharp increase in crude and distilled product prices, widened considerably in the year. The breakdown of these items is as follows:

Millions of euros

Non-recurring items	2005	2004
Asset impairment	2	5
Difference in inventory valuation (Average Cost - LIFO)	276	85

Return on average capital employed (ROACE) for the Consolidated Group came to 19%, substantially above previous years' ratios, primarily due to the better profitability of the Company's businesses.

Based on CEPSA's 2005 earnings figure, the Board of Directors will submit a proposal to the Annual General Meeting of Shareholders to approve a dividend distribution of 1.25 euros per share, up 25% from the dividend paid out in 2004. The proposed dividend, involving a total payment of 334.5 million euros, is equivalent to a pay-out ratio of approximately 40% of attributable net income before non-recurring items. Of the aforementioned dividend, an interim distribution of 0.55 euros per share was made on October 25, 2005.

Financial and Equity Position

At the close of 2005, the CEPSA Group's consolidated assets totaled 8,474 million euros, 18% higher than the 2004 year-end figure.

Non-current assets, which include tangible fixed assets, intangible assets and long-term financial investments, stood at 4,264 million euros at yea-end 2005, 193 million more than the figure recorded at the end of the previous year. The most significant asset additions stem from the implementation of the Company's capital spending plan for the period.

The Group's capital employed, which on the liabilities side of the Balance Sheet is equivalent to its capital used for financing (shareholders' equity plus net debt), came to 5,054 million euros at the end of 2005. Contributions from each business segment are as follows:

Millions of euros

Information by segments	Exploration & Production	Refining & Marketing	Petrochemicals	Gas & Power	Total Consolidated
Capital Employed 2005	538	3,233	1,037	247	5,054
Capital Employed 2004	567	2,872	932	266	4,637

Shareholders' equity at December 31, 2005, before the final dividend distribution for the year, amounted to 4,310 million, 20% more than the figure of 3,598 million recorded at year-end 2004.

Cash flow from operating activities, before changes in operating working capital, with a contribution from business segments that rose 434 million euros from 2004, totaled 1,480 million euros, 1.8 times the average debt volume for the year.

This cash flow level, the highest ever attained in the Company's history, led to a sharp decline in interest-bearing debt and a rise in shareholders' equity, which in turn meant an improvement in the Company's financial leverage, with the net debt-to-equity ratio down to under 16% by the end of the year (versus more than 27% in 2004).

Major Risks Associated with the CEPSA Group's Activity

The CEPSA Group's activity is exposed to a series of external risks and factors that can impact the way operations are conducted and the results obtained thereof.

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.

The Executive Committee, the Chairman of the Board of Directors and Chief Executive Officer, as well as the Executive Managers 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.

The key risks that affect the Group can be classified as follows:

Market risks

The very nature of the businesses engaged in by the CEPSA Group involves a certain degree of sensitivity to prevailing trends and volatility in oil and gas prices, refining margins, product marketing margins, as well as margins on petrochemicals and electricity sales. Accordingly, the Group's high level of vertical integration, accentuated in recent years, is one tool that in itself can help the Company override the cyclicality of the oil industry and cushion the effects this can have on one or another of the Group's different segments or areas.

For example, an increase in crude oil prices has a decisively positive impact on upstream earnings, even though the extent of this effect can be limited by the application of contractual terms and conditions under Production-Sharing Contracts (PSC) and their constraints on the amount of crude available for sale.

Fluctuations in the price of crude oil can likewise have an effect on refining and marketing operations, which is mostly determined by how swiftly these price changes can be passed along to international and local finished product markets, whether for oil products, basic chemicals or petrochemical intermediates.

As regards oil price trends, 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 inventory".

Transactions are carried out 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.

Financial (exchange rate, interest rate, etc.) risk

The Group's activities, to varying degrees, are exposed to risks stemming from movements on financial markets, and specifically fluctuations in foreign exchange rates, particularly that of the US dollar, which is the currency in which most crude oil and petroleum and chemical products are priced, against the euro. To hedge these risks, the Group has a set of internal procedures and guidelines that it follows.

From an operational point of view, the corporate Finance and Risk Division centralizes and manages exchange risk from the net overall cash flow position in foreign currencies of all the Group's companies and likewise, manages transactions on financial markets for loans, investment of surplus funds or financial instruments.

In the case of foreign investments in fixed assets which generate future cash flow in foreign currencies, the Group seeks to minimize its FX risk exposure by financing these capital expenditures in the same functional currency. In other words, its debt in foreign currencies to some extent covers the exchange risk exposure it has from cash flow generated by these assets.

The Company's activities are also sensitive to interest rate fluctuations. As a result, the Group has arranged most of its financial debt at a floating rate, since it considers that this will entail a lower cost over the long run and the amount of interest expense accounts for only a small percentage of generated cash flow.

In order to manage any possible short-term cash needs that may arise, the Company has credit facilities, the undrawn balances of which bear no interest expense, as detailed under Note 13 of the Notes to the Financial Statements.

The CEPSA Group works with leading and highly-reputable Spanish and international financial entities, although it additionally analyzes the counterpart risk of negotiating investments and financial instruments.

Risks related to changes and developments in regulations applicable to petroleum-related activities and/or the oil industry

The Group's businesses both in Spain and abroad are subject to a wide variety of laws and regulations. Any changes that may arise can affect these activities both in their structure and their earnings and results.

Industrial and environmental risks

Due to their industrial nature, some of the CEPSA Group's operations generate environmental risks, such as those related to air emissions, water discharges or waste disposal, and are subject to a broad and varied set of regulations that have become increasingly more stringent over recent years. In this area, the Company 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.

All of the CEPSA Group's major industrial facilities have environmental management systems, certified by an independent accrediting agency. One of its key priorities at this time is to certify the rest of the Group's companies as early as feasible.

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.

As regards these risks, the CEPSA Group may be a party to claims or litigation in connection with environmental damages caused by its activities both within and outside its sites and facilities. Although future costs are indeterminable, based on currently-available knowledge, Management feels that these contingencies are adequately covered with the accounting provisions created for such purposes and different kinds of liability insurance policies.

Additionally, a number of the Group's productive facilities are required to comply with regulations that affect greenhouse gas emissions. In 2005, the emissions from all the plants and units affected by this legislation, and which have been verified by AENOR, were lower than the volume of emission trading rights assigned in the National Assignment Plan.

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.

The insured amounts and contracted deductibles are centrally managed for the Group by the Corporate Finance and Risk Division and depend on the financial risks associated with a possible accident, as well as the coverage conditions existing on insurance markets in each policy negotiation process.

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.

Other risks

The CEPSA Group is involved in a variety of legal proceedings related to its businesses, including tax and antitrust-related lawsuits and is likewise subject to tax inspections for years that are still liable for inspection. Although the results of these matters are unforeseeable, Management considers that, based on current information, provisions made for such contingencies reasonably and prudently cover these risks.

Research & Development Activities

The Technology area's key focus is developing and implementing technological innovations and improvements that enhance CEPSA's competitiveness. In order to achieve this goal, the Research Center continued to work towards advancing the Company's reservoir of scientific and technical know-how and expertise to further its productive processes. This Center is also actively involved in a number of renowned projects both at home and in the European Union, noteworthy being the development of new catalysts and the studies conducted on the production and use of bio-fuels.

As evidence of CEPSA's firm commitment to these activities, a brand-new Research Center is in the process of being designed that will replace the current one, expected to be completed and running in 2008.

Human Resources

At December 31, 2005, employees of CEPSA and its subsidiaries numbered 10,783 people, 249 more than at the end of the previous year, mainly in order to meet workforce requirements in new manufacturing and marketing units.

CEPSA believes that professional growth and development is vital to the Company's success, and to improved performance on the job. As a result, the Group paid special attention to training plans and programs to make sure employees are constantly kept abreast of the skills and technologies to be able to rapidly respond to the needs and challenges of a changing global business environment . Over the year, 460,000 instructional hours were provided, similar to the year before. The main focus of these training initiatives, tailored to the Group's current and potential needs, was to improve the professional skills and know-how of its employees, build up their expertise and competencies and raise knowledge and awareness of all aspects of safety, quality and environmental protection.

Treasury Stock

Neither CEPSA nor any of the companies making up the CEPSA Group directly or indirectly acquired or owned shares of Compañía Española de Petróleos, S.A. in 2005.

Subsequent Events

No significant events or noteworthy developments worthy of mention occurred between year-end 2005 and the Board's approval of the 2005 financial statements.

Outlook

The strategy defined by the CEPSA Group in recent years has enabled the Company to achieve sustainable and robust earnings and cash flow performance and to capitalize on a markedly improved business and operating environment .

Although it is hard to make reliable forecasts about the future direction of market conditions, we can plausibly assume that in the medium term, commodity prices will remain high and demand for petroleum products will continue to steadily grow both in Spain and around the world.

In order to meet the unforeseen challenges posed by a changing and more competitive global marketplace, CEPSA's strategic positioning is primarily focused on diversifying and achieving a more equitable balance in earnings contributions from its different business segments through their organic growth, and increasing the Company's productive capacity through the deployment of industry-leading technologies.

As regards the upstream area, plans are to consolidate the level of proprietary reserves over the long run through investments in already-developed fields and new exploration projects and ventures in various geographical areas.

In petroleum product and basic chemical manufacturing, an ambitious and far-reaching capital spending program is targeted at building on the growth potential of these businesses. As a result of these investments, which will gradually come on stream between now and 2009, CEPSA will significantly raise its total crude distillation capacity as well as its production capacity for middle distillates and other petrochemical products, while improving the overall operating efficiency of its facilities. In marketing, the goal is to consolidate its presence on its traditional and niche markets, and actively pursue growth in other markets in our area of influence.

As for petrochemical intermediates, the aim is to harness the potential of expanded production capacities, while in Gas & Power, the Company's strategy is based on advancing the MEDGAZ Project and increasing its retailing presence, and in electrical power generation, on boosting production.

As one of its top priorities, the CEPSA Group strives to deliver profitable business performance and prosperity while maintaining a sound financial and equity position, a disciplined investment approach and the right risk controls to minimize the impact of any adverse operating environments that may lie ahead. At the same time, the Group aims to position itself to take advantage of future developments and attractive business opportunities that will provide a springboard for additional growth and yield significant long-term, sustainable value for its shareholders.

Information to the Annual General Meeting of Shareholders

SUMMARY OF PROPOSALS TO BE SUBMITTED BY THE BOARD OF DIRECTORS FOR APPROVAL OF THE 2006 ANNUAL GENERAL MEETING OF SHAREHOLDERS OF COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A. (CEPSA)

1. To study and approve, where applicable, the Financial Statements and Management Discussion & Analysis for Compañía Española de Petróleos, S.A. and its Consolidated Group, as well as the Proposed Profit Distribution and the governance and management of Compañía Española de Petróleos, S.A., all pertaining to fiscal year 2005.

2. To renew, where applicable, the authorization to the Board of Directors of the Company to increase the share capital, within the deadlines and up to the limits established by law, and to subsequently amend Article 6 of the Company Bylaws.

3. To ratify the appointment of Board Directors.

4. To re-elect Deloitte, S.L. for a one-year period, as the independent auditors to examine and review the 2006 Financial Statements of Compañía Española de Petróleos, S.A. and the companies pertaining to its Consolidated Group.

5. To delegate powers to the Board of Directors or the person or persons from the Board designated for such purposes, in order to notarize and convert the resolutions passed at the Annual Meeting of Shareholders into a public deed, as required, as well as to formalize, execute or register them, as needed, with the Public Registries.

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A. - PROPOSED 2005 PROFIT DISTRIBUTION

	Euros
Basis of Distribution:	
2005 Income	700,426,728.26
Total	**700,426,728.26**

	Euros
Distribution to:	
Dividends	334,468,676.30
Voluntary Reserves	365,958,051.96
Total	**700,426,728.26**

At its meeting of September 23, 2005, the Board of Directors declared an interim dividend on the year's profits of 0.55 euros per share, payable October 25, 2005.

If the proposed profit distribution is approved by the Annual General Meeting of Shareholders, a final dividend of 0.70 euros per share will be distributed, with total dividend per share coming to 1.25 euros, meaning an increase of 0.25 euros, or 25%, from the amount paid out on 2004's earnings.

Notes from the Board of Directors

In compliance with the ruling handed down by the Antitrust Court, proceeding C86/04 Disa/Shell, in connection with the transaction notified to the Court by Disa Corporación Petrolífera, S.A. involving the acquisition of the entire share capital of Shell Peninsular, S.L. and Shell Atlántica, S.L. and likewise as a result of the resolution passed by Spain's Cabinet of Ministers on January 25, 2005, Mr. Demetrio Carceller Arce tendered his resignation as a member of CEPSA's Board of Directors at the meeting of this body held on February 4, 2005. The Board accepted this resignation and likewise commended Mr. Carceller for his distinguished service and contributions to the Company throughout his tenure.

The Annual General Meeting of Shareholders, held on May 27, 2005, ratified the appointment, as a Board member, of Mr. José Manuel Otero Novas, who was co-opted onto the Board at its meeting of March 29, 2005, pursuant to provisions of Article 35 of the Company Bylaws, and resolved to re-elect him for a five-year term of office, in accordance with the provisions of Article 34 of the Company's Bylaws.

The same Annual Meeting also resolved to re-elect the incumbent Directors, Mr. Carlos Pérez de Bricio, Mr. José Luis Leal Maldonado, Mr. Jean-Paul Vettier and Mr. Vincent Yves François Méary for another five-year term of office, pursuant to the provisions of Article 34 of the Company Bylaws.

The Board of Directors of the Company, at its meeting of July 21, 2005, resolved to accept the voluntary resignation tendered by the Director, Mr. Nasser Ahmed Alsowaidi, at the same time acknowledging his valuable contributions and commitment throughout his years of service to the Company.

As Mr. Alsowaidi's replacement, the shareholder Mr. Murtadha Al Hashemi was provisionally co-opted onto the Board of Directors at its meeting of September 23, 2005. Mr. Al Hashemi's appointment will be submitted for ratification, where applicable, at the next Annual General Meeting of Shareholders.

Likewise, at its meeting held on November 24, 2005, the Board of Directors resolved to accept the voluntary resignation tendered by the Director, Mr. Antonio Basagoiti García-Tuñon and thanked him for his outstanding work and wise counsel during his tenure on the Board.

As Mr. Basagoiti's successor, the shareholder Mr. Pedro José López Jiménez was provisionally co-opted onto the Board during this same meeting and his appointment will be submitted for ratification, where applicable, at CEPSA's next Annual Meeting.

The Board of Directors meeting on March 30, 2006 formulated and approved the 2005 Financial Statements (Balance Sheets, Statements of Income, and Notes to the Financial Statements) and the Management Discussion & Analysis, for CEPSA and its Consolidated Group, all documents signed, as proof of consent, by each of the Board members, having likewise approved in the same meeting, the Proposal for 2005 Profit Distribution for Compañía Española de Petróleos, S.A., pursuant to what is set forth in Article 171-2 of the Companies Act in force and other applicable laws.

The Board meeting similarly approved the Company's 2005 Corporate Governance Report.

At this same meeting, the Board also accepted the voluntary resignation tendered by the Director, Mr. Jean-Paul Vettier, from all of his offices, and thanked him for his dedication and distinguished services and contributions during his tenure. As Mr. Vettier's successor, Mr. Michel Bénézit was provisionally co-opted onto the Board and his appointment will be submitted for ratification, where applicable, at CEPSA's next Annual Meeting.

The Board of Directors would like to extend its sincerest gratitude and appreciation to all of the employees of the CEPSA Group, in each and every one of its centers, for their commitment, hard work and loyal service throughout the year.

CEPSA GROUP FINANCIAL INFORMATION [1]

Statements of Income for the years ended December 31

Millions of euros

	IFRS		Spanish GAAP			
	2005	2004	2004	2003	2002	2001
Sales of products and services	16,188	11,945	12,519	11,056	9,407	9,713
Excise tax on oil and gas charged to sales	2,182	2,168	2,169	2,143	2,052	1,951
Net sales	**18,370**	**14,113**	**14,688**	**13,199**	**11,459**	**11,664**
Other operating income	278	97	76	67	153	117
Total sales & operating revenues (**)	**18,648**	**14,210**	**14,764**	**13,266**	**11,612**	**11,781**
Earnings before interest, taxes, depreciation and amortization (EBITDA) (*)						
Exploration & Production	461	399	344	527	58	68
Refining, Marketing & Basic Chemicals	928	732	748	607	468	604
Petrochemicals	193	180	177	131	214	222
Gas & Power	99	42	37	27	24	(2)
Earnings before interest, taxes, depreciation and amortization (EBITDA)	**1,681**	**1,353**	**1,306**	**1,292**	**764**	**892**
Operating income (*)						
Exploration & Production	358	301	244	394	21	35
Refining, Marketing & Basic Chemicals	737	585	576	458	286	434
Petrochemicals	120	93	83	56	162	166
Gas & Power	77	23	20	17	15	(10)
Total operating income	**1,291**	**1,002**	**923**	**925**	**484**	**625**
Operating income from business segments (*)						
Exploration & Production	357	301	244	215	21	35
Refining, Marketing & Basic Chemicals	698	543	561	446	273	392
Petrochemicals	118	91	83	56	162	166
Gas & Power	76	23	20	17	15	(10)
Total operating income from business segments	**1,249**	**957**	**908**	**734**	**471**	**583**
Average Cost vs. LIFO difference	276	85				
Other non-recurring items	2	5		179		
Total consolidated operating income	**1,528**	**1,048**	**908**	**913**	**471**	**583**
Income before taxes	**1,518**	**1,058**	**998**	**946**	**575**	**584**
Corporate income taxes	(496)	(364)	(341)	(326)	(97)	(132)
Consolidated income from continuing operations	**1,022**	**694**	**657**	**620**	**478**	**453**
Income/(loss) from discontinued operations	--	(3)				
CONSOLIDATED NET INCOME (BEFORE MINORITY INTERESTS)	**1,021**	**691**	**657**	**620**	**478**	**453**
Minority interests	(11)	(8)	(7)	(8)	(17)	(18)
Net income (attributable to the parent company)	**1,010**	**684**	**650**	**612**	**461**	**435**
Impact from non-recurring items in the period	(181)	(59)	-	(116)	-	-
Ordinary net income (attributable to the parent company)	**829**	**625**	**650**	**496**	**461**	**435**

(*) Consolidated figures with inventory valuation and cost of sales using "Last In - First Out" (LIFO) method
(**) Total operating revenues fully includes the item of "Changes in finished product and work-in-process inventories"

(1) The figures presented under Spanish GAAP (for 2001 to 2004) were uniformly classified pursuant to IFRS criteria without involving any restatements. Noteworthy, due to its significance, is that the inventory valuation method under Spanish GAAP is the Dollar-Value LIFO method

Tangible Fixed Assets, Intangible Assets and Long-term Financial Investments in Associated Companies (Investments by Business Segments)

Millions of euros

	IFRS		Spanish GAAP			
	2005	2004	2004	2003	2002	2001
Exploration & Production	76	58	58	67	236	266
Refining, Transportation & Marketing	368	442	402	306	242	312
Petrochemicals	77	29	29	71	219	315
Technology, Gas & Cogeneration	24	40	40	33	3	24
Corporate Area	6	10	10	8	9	15
Total	**551**	**579**	**539**	**485**	**709**	**932**

Consolidated Statements of Cash Flows for years ended December 31

Millions of euros

	IFRS		Spanish GAAP			
Cash flows from operating activities	2005	2004	2004	2003	2002	2001
Cash flows from operating activities (before changes in working capital)	1,480	1,056	1,007	984	578	802
Changes in operating working capital	(459)	(110)	(7)	(214)	(52)	165
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	**1,021**	**946**	**1,000**	**770**	**526**	**967**
Cash flows used in investing activities						
Capital expenditures	(414)	(553)	(572)	(415)	(804)	(956)
Capital grants received	-	2	21	24	14	66
Proceeds from asset sales	54	66	6	79	159	31
Investments due to changes in consolidated Group	-	-	-	-	-	(22)
TOTAL CASH FLOWS USED IN INVESTING ACTIVITIES	**(360)**	**(485)**	**(545)**	**(312)**	**(631)**	**(881)**
Cash flows (used in)/from financing activities						
Changes in short or long-term loans	(96)	(182)	(178)	(220)	293	60
Cash dividend paid	(309)	(260)	(260)	(243)	(181)	(144)
TOTAL CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES	**(405)**	**(442)**	**(438)**	**(463)**	**112**	**(84)**
TOTAL NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**256**	**19**	**17**	**(5)**	**7**	**2**

Balance Sheet (before profit distribution) at December 31

Millions of euros

	IFRS		Spanish GAAP			
ASSETS	**2005**	**2004**	**2004**	**2003**	**2002**	**2001**
Due from shareholders for uncalled capital	**-**	**-**	**-**	**-**	**-**	**-**
Fixed assets:	**4,226**	**4,040**	**3,956**	**3,659**	**3,679**	**3,243**
Start-up expenses	-	-	1	-	5	3
Intangible assets	182	124	981	902	933	720
Tangible fixed assets	3,705	3,573	2,651	2,405	2,313	2,128
Long-term financial investments	339	343	323	352	428	393
Goodwill in consolidation	**38**	**30**	**90**	**99**	**95**	**105**
Deferred charges	**-**	**-**	**63**	**57**	**58**	**84**
NON-CURRENT ASSETS	**4,264**	**4,071**	**4,109**	**3,815**	**3,832**	**3,432**
Current assets						
Due from shareholders for called capital	-	-	-	-	-	-
Inventories	1,439	1,059	736	736	674	623
Accounts receivable	2,225	1,810	1,795	1,418	1,364	1,253
Other short-term investments	139	95	177	182	76	130
Cash and cash equivalents	371	112	50	41	36	43
Other current assets	31	29	41	24	29	22
CURRENT ASSETS	**4,205**	**3,105**	**2,799**	**2,401**	**2,179**	**2,072**
Non-current assets held for sale and from discontinued operations	**6**	**6**	**-**	**-**	**-**	**-**
TOTAL ASSETS	**8,475**	**7,181**	**6,908**	**6,216**	**6,011**	**5,505**

Millions of euros

SHAREHOLDERS' EQUITY AND LIABILITIES	IFRS 2005	IFRS 2004	Spanish GAAP 2004	Spanish GAAP 2003	Spanish GAAP 2002	Spanish GAAP 2001
Shareholders' Equity:	**4,310**	**3,598**	**3,292**	**2,899**	**2,518**	**2,263**
Subscribed capital stock	268	268	268	268	268	268
Paid-in surplus	339	339	339	339	339	339
Revaluation reserve	91	91	91	91	91	91
Retained earnings	2,627	2,211	2,096	1,741	1,466	1,195
Fair value reserve	81	122				
Translation differences	42	(2)	(40)	(40)	(45)	(2)
Income attributable to the parent company	1,010	684	650	612	461	435
Interim dividend paid in the year	(147)	(112)	(112)	(112)	(62)	(61)
Minority interests	**65**	**42**	**40**	**38**	**36**	**46**
TOTAL SHAREHOLDERS' EQUITY	**4,374**	**3,641**	**3,332**	**2,937**	**2,554**	**2,309**
Negative difference in consolidation	**-**	**-**	**1**	**2**	**4**	**5**
Non-current liabilities						
Deferred revenues	67	73	339	363	239	154
Provisions for contingencies and expenses	252	227	271	303	302	342
Long-term debt:						
Payable to credit entities	667	727	736	836	997	931
Other interest-bearing loans	130	71	71	39	57	32
Other non-current liabilities	450	309	95	79	94	82
NON-CURRENT LIABILITIES	**1,566**	**1,407**	**1,512**	**1,620**	**1,689**	**1,542**
Current liabilities						
Short-term debt						
Payable to credit entities	313	305	305	260	242	232
Other interest-bearing loans	31	67	67	57	234	223
Other current liabilities	2,191	1,762	1,691	1,340	1,289	1,195
CURRENT LIABILITIES	**2,534**	**2,134**	**2,063**	**1,657**	**1,764**	**1,649**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**8,474**	**7,181**	**6,908**	**6,216**	**6,011**	**5,505**

Intangible and Tangible Fixed Assets at December 31

Millions of euros

	IFRS		Spanish GAAP			
	2005	**2004**	**2004**	**2003**	**2002**	**2001**
Gross intangible assets:	**431**	**353**	**1,626**	**1,457**	**1,367**	**1,094**
Research & Development costs	1	4	1,060	1,007	945	710
Operating licenses, concessions, patents, etc.	69	60	75	56	49	47
Goodwill	5	5	10	10	11	11
EDP computer software	111	100	100	89	78	67
Other intangible assets	245	183	381	295	284	260
Amortization and provisions of intangible assets:	**250**	**229**	**645**	**555**	**434**	**374**
Research & Development costs	1	1	468	402	302	266
Operating licenses, concessions, patents, etc.	35	33	52	46	40	37
Goodwill	4	4	5	4	4	4
EDP computer software	83	75	75	68	61	51
Other intangible assets	126	116	45	35	26	17
Net intangible assets:	**182**	**124**	**981**	**902**	**933**	**720**
Research & Development costs	-	3	592	605	643	444
Operating licenses, concessions, patents, etc.	33	28	23	10	8	10
Goodwill	1	1	5	6	7	7
EDP computer software	28	26	25	21	17	16
Other intangible assets	120	67	336	260	258	243

Millions of euros

	IFRS		Spanish GAAP			
	2005	**2004**	**2004**	**2003**	**2002**	**2001**
Gross tangible fixed assets:	**7,144**	**6,710**	**5,250**	**4,794**	**4,537**	**4,241**
Land and structures	309	300	301	285	277	263
Technical installations and machinery	4,801	4,547	4,420	3,975	3,407	3,263
Investments in oil and gas producing assets	1,045	1,056				
Other installations, tools and furniture	96	91	91	84	89	92
Advances and construction in progress	317	209	196	217	584	480
Other fixed assets	576	507	242	233	180	142
Depreciation and provisions of tangible fixed assets:	**3,439**	**3,137**	**2,599**	**2,389**	**2,224**	**2,113**
Land and structures	65	58	54	52	47	44
Technical installations and machinery	2,708	2,463	2,415	2,223	2,070	1,964
Investments in oil and gas producing assets	478	462				
Other installations, tools and furniture	61	52	52	44	46	48
Other fixed assets	127	102	78	70	61	57
Net tangible fixed assets:	**3,705**	**3,573**	**2,651**	**2,405**	**2,313**	**2,128**
Land and structures	244	242	247	233	230	220
Technical installations and machinery	2,093	2,084	2,005	1,752	1,337	1,299
Investments in oil and gas producing assets	567	594				
Other installations, tools and furniture	35	39	39	40	43	44
Other fixed assets	449	405	164	163	119	86
Advances and construction in progress	317	209	196	217	584	480

Statement of Capital Employed (before profit distribution) at December 31

Millions of euros

	IFRS		Spanish GAAP			
	2005	2004	2004	2003	2002	2001
CAPITAL EMPLOYED						
1. Net fixed assets	**4,264**	**4,041**	**4,074**	**3,805**	**3,757**	**3,432**
2. Working capital	**1,589**	**1,148**	**931**	**907**	**797**	**734**
NET ASSETS	**5,853**	**5,189**	**5,005**	**4,712**	**4,554**	**4,167**
3. Long-term operating liabilities	**(798)**	**(552)**	**(495)**	**(506)**	**(505)**	**(511)**
CAPITAL EMPLOYED	**5,054**	**4,637**	**4,510**	**4,206**	**4,049**	**3,655**
CAPITAL USED						
4. Permanent resources:	**5,184**	**4,440**	**4,315**	**4,043**	**3,666**	**3,344**
4.1. Shareholders' equity	4,310	3,598	3,292	2,899	2,518	2,263
4.2. Minority interests	65	42	40	38	36	46
4.3. Negative difference in consolidation	-	-	1	2	4	5
4.4. Internal allowances	13	24	30	32	36	67
4.5. Unrealized foreign currency exchange gains	-	-	180	207	93	6
4.6. Long-term interest-bearing loans	797	775	772	865	979	957
5. Net short-term financing:	**(129)**	**197**	**195**	**163**	**383**	**311**
5.1. Short-term financing	342	369	372	317	475	454
5.2. Short-term interest-bearing loans	(100)	(60)	(127)	(113)	(56)	(100)
5.3. Cash and cash equivalents	(371)	(112)	(50)	(41)	(36)	(43)
CAPITAL USED	**5,054**	**4,637**	**4,510**	**4,206**	**4,049**	**3,655**

Breakdown of Capital Employed by Business Segments at December 31

Millions of euros

	IFRS		Spanish GAAP			
	2005	2004	2004	2003	2002	2001
Capital Employed (*)						
Exploration & Production	538	567	566	607	655	488
Refining, Marketing & Basic Chemicals	2,912	2,718	2,752	2,561	2,382	2,265
Petrochemicals	1,014	922	934	944	926	787
Gas & Power	247	266	258	94	86	115
Total Capital Employed (*)	**4,711**	**4,473**	**4,510**	**4,206**	**4,049**	**3,655**
Net difference Average Cost - LIFO	343	164				
Total Capital Employed	**5,054**	**4,637**	**4,510**	**4,206**	**4,049**	**3,655**

(*) Consolidated figures using LIFO ("Last In - First Out") method of inventory valuation

Structure of Statement of Capital Employed (before profit distribution) at December 31

	IFRS		Spanish GAAP			
	2005	2004	2004	2003	2002	2001
Net Assets						
1. Net fixed assets	84.37%	87.16%	90.34%	90.46%	92.79%	93.90%
2. Working capital	31.43%	24.75%	20.64%	21.56%	19.70%	20.09%
3. Long-term operating liabilities	(15.80)%	(11.91)%	(10.98)%	(12.03)%	(12.48)%	(13.99)%
Capital Employed	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
4. Permanent resources	102.56%	95.76%	95.68%	96.12%	90.54%	92.53%
5. Net short-term financing	(2.56)%	4.24%	4.32%	3.88%	9.46%	7.47%

Profitability and Equity Ratios at December 31

	IFRS		Spanish GAAP			
	2005	2004	2004	2003	2002	2001
Return on Average Capital Employed (ROACE) (1)	18.5%	14.8%	15.1%	15.1%	12.9%	13.5%
Return on Average Equity (ROAE) (2)	25.6%	20.2%	21.0%	22.6%	19.3%	20.6%
Return on Average Equity using LIFO method (ROAE) (3)	22.4%	19.5%	21.0%	22.6%	19.3%	20.6%
Net income attributable to the parent company / Average number of shares	3.8	2.6	2.4	2.3	1.7	1.6
Net income attributable to the parent company (LIFO) / Average number of shares	3.1	2.3	2.4	2.3	1.7	1.6
Net income attributable to the parent company / Net sales revenues	5.50%	4.85%	4.43%	4.64%	4.02%	3.73%
Net income attributable to the parent company (LIFO) / Net sales revenues	4.52%	4.45%	4.43%	4.64%	4.02%	3.73%
Average financial debt / Cash flow from operating activities (before changes in working capital)	0.6	0.9	0.9	1.1	1.8	1.4
Net interest-bearing debt (includes Internal Allowances) / Shareholders' equity (GEARING)	15.6%	27.4%	30.29%	36.56%	59.19%	59.25%

(1) Income before interest, deducting operating taxes/Average Capital employed (LIFO)
(2) Net income attributable to the parent company/ Average shareholders' equity
(3) Net income attributable to the parent company/ Average shareholders' equity (LIFO)

Operating Environment Indicators

	2005	2004	2003	2002	2001
Brent crude ($/barrel)	54.38	38.21	28.84	24.98	24.46
Refining indicator	4.8	3.8	3.1	1.4	2.5
Exchange rate ($/€)	1.245	1.243	1.131	0.945	0.896

CEPSA Group Addresses

COMPAÑÍA ESPAÑOLA DE PETRÓLEOS, S.A.

Center	Address	Telephone	Fax
Head offices	Avda. del Partenón, 12 - 28042 Madrid	91 337 60 00	91 725 41 16
Tenerife Refinery	Avda. Manuel Hermoso Rojas, s/n - 38005 Sta. Cruz de Tenerife (Tenerife)	922 60 26 00	922 21 88 03
"Gibraltar-San Roque" Refinery	Puente Mayorga, s/n - 11360 San Roque (Cádiz)	956 69 80 60	956 10 34 77
"La Rábida" Refinery	Polígono Nuevo Puerto - Apdo. 289 - 21080 Palos de la Frontera (Huelva)	959 53 00 35	959 35 01 19

OIL

Domestic Subsidiaries

Company	Address	Telephone	Fax
CEPSA AVIACION, S.A.	Camino de San Lázaro, s/n - 38206 La Laguna - Tenerife	922 31 44 64	922 25 09 40
CEPSA CARD, S.A.	Avda. del Partenón, 12 3ª Sector C - 28042 Madrid	900 200 100	91 337 76 66
CEPSA E.P., S.A.	Avda. Ribera del Loira, 50 - 28042 Madrid	91 337 72 10	91 337 72 15
CEPSA ESTACIONES DE SERVICIO, S.A.	Avda. del Partenón, 12 - 28042 Madrid	91 337 63 98	91 337 75 69
CEPSA GAS LICUADO, S.A.	Avda. Ribera del Loira, 50 - 28042 Madrid	902 155 156 - 91 337 96 35	91 337 96 48
CEPSA LUBRICANTES, S.A. (C.L.S.A.)	Avda. Ribera del Loira, 50 - 28042 Madrid	91 337 95 73	91 337 96 62
CEPSA MARINE FUELS (CMF)	Avda. del Partenón, 10 - 28042 Madrid	91 337 69 52	91 337 60 27
CEPSA OPERACIONES MARINA-AVIACIÓN, S.A.	Avda. de Anaga, nº 21 - 38001 Santa Cruz de Tenerife	922 28 30 02	922 27 30 09
CIA. ESPAÑOLA DISTRIBUIDORA DE PETROLEOS, S.A. (CEDIPSA)	Autovía Castelldefels Km 7,5 - 08820 El Prat de Llobregat (Barcelona)	93 401 88 00	93 401 88 37
CMD, AEROPUERTOS CANARIOS, S.L.	Polígono Industrial Valle de Güimar, Manzana XIV PARCELAS 17 Y 18 - 38008 Güimar (Santa Cruz de Tenerife)	922 50 53 40	922 50 53 80
LUBRICANTES DEL SUR, S.A. (LUBRISUR)	Avda. Ribera del Loira, 50 - 28042 Madrid	91 337 75 80	91 337 75 89
PETROLEOS DE CANARIAS, S.A. (PETROCAN)	Avda. de las Petrolíferas s/n - 35008 Las Palmas de Gran Canaria	928 45 35 35	928 45 35 63
PRODUCTOS ASFÁLTICOS, S.A. (PROAS)	Avda. Ribera del Loira, 50 - 28042 Madrid	91 337 71 27/25	91 337 71 33
PROMOTORA DE MINIMERCADOS, S.A. (PROMIMER)	Avda. del Partenón, nº 12 - 28042 Madrid	91 337 59 90	91 337 73 20

CEPSA Group Addresses

DOMESTIC ASSOCIATES

Company	Address	Telephone	Fax
ASFALTOS ESPAÑOLES, S.A. (ASESA)	C/Juan Bravo, 3 Planta Baja - 28006 Madrid	91 576 82 18	977 54 06 06
CÍA. LOGÍSTICA DE HIDROCARBUROS C.L.H., S.A.	Méndez Álvaro, 44 Edificio 9, Planta baja - 28045 Madrid	91 774 60 00	91 774 60 01
SOCIETAT CATALANA DE PETRÓLIS, S.A. (PETROCAT)	Avda. Diagonal, 605, 4º, 2ª - 08028 Barcelona	93 400 50 70	93 405 14 06

FOREIGN ASSOCIATES

Company	Address	Telephone	Fax
CEPSA GIBRALTAR, LTD.	Europort Building, 7 – 2nd Floor - P.O. Box 51 - Gibraltar	956 77 61 70	956 77 61 95
CEPSA MAGHREB, S.A.	Dêpôt Petro Sud Ancien Port Pétrolier - Agadir 80000 (Morocco)	00 212 48 87 52 28	00 212 48 82 57 32

FOREIGN SUBSIDIARIES

Company	Address	Telephone	Fax
CEPSA INTERNATIONAL B.V.	Steegoversloot 64 - 3311 PR Dordrecht - Netherlands	00 3120 64 46 125	00 3120 64 23 185
CEPSA PANAMA, S.A.	50 Edificio Banco Alemán, 6º - Ciudad de Panamá	00 507 214 77 09	00 507 214 83 00
CEPSA PORTUGUESA DE PETRÓLEOS	Avda. Columbano Bordalo Pinheiro 108, 3ª 1070-067 Lisbon (Portugal)	00 35121 721 76 00	00 35121 727 52 69

PETROCHEMICALS

DOMESTIC SUBSIDIARIES

Company	Address	Telephone	Fax
ERTISA, S.A	Avda. del Partenón, 12 - 28042 Madrid	91 337 66 83	91 337 66 91
INTERCONTINENTAL QUÍMICA, S.A. (INTERQUISA)	Avda. del Partenón, 12 - 28042 Madrid	91 337 74 74	91 337 74 70
PETROQUÍMICA ESPAÑOLA, S.A. (PETRESA)	Avda. del Partenón, 12 - 28042 Madrid	91 337 97 77	91 337 97 66

FOREIGN SUBSIDIARIES

Company	Address	Telephone	Fax
CEPSA ITALIA, SPA.	Viale Milanofiori Palazzo A/6 - 20090 Assago Milan (Italy)	00 3902 824 21 86	00 3902 824 21 80
CEPSA U.K., LTD.	Audrey House, 16-20 Ely Place - London EC1N 6SN (United Kingdom)	00 44 207 831 27 88	00 44 207 831 27 97
DETEN QUÍMICA, S.A.	Rue Hidrogênio, 1744 - Complejo Petroquímico de Camaçari Salvador de Bahía (Brazil)	00 55 71 832 21 25	00 55 71 834 51 56
ERTISA GREAT BRITAIN, LIMITED	Audrey House, 16-20 Ely Place Londres EC1N 6SN (United Kingdom)	00 44 207 831 05 60	00 44 207 831 27 97
ERTISA NETHERLAND B.V.	Wieldrechtseweg, 50 - P.O. Box 8101 - 3301 – CC Dordrecht (Netherlands)	00 31 78 652 62 00	00 31 78 618 34 45
INTERQUISA CANADÁ, L.P.	600 De La Gauchetière Ouest, Bureau 1700. H3B 4L8 Montreal - Québec (Canada)	00 1 514 645 78 87	00 1 514 645 91 15
PETRESA CANADÁ INC.	5250, Boulevard Bécancour, Bécancour (Québec) - G9X 3X3 (Canada)	00 1 819 294 14 14	00 1 819 294 26 26
PETRESA INTERNACIONAL, N.V.	Boulevard de Waterloo, 39 - Hilton Tower - Brussels B-1000 (Belgium)	00 322 548 97 20	00 322 514 27 55

GAS & POWER

Company	Address	Telephone	Fax
CEPSA GAS COMERCIALIZADORA, S.A.	Avda. del Partenón nº 12 - 28042 Madrid	91 374 90 70	91 374 90 54
DERIVADOS ENERGÉTICOS PARA EL TRANSPORTE Y LA INDUSTRIA, S.A. (DETISA)	Avda. del Partenón nº 12 - 28042 Madrid	91 337 60 00/95 61	91 337 95 33
GAS DIRECTO, S.A.	Vía de los Poblados, 1 - Parque Empresarial Alvento Edificio D - 28033 Madrid	91 207 97 97	91 207 98 29
GENERACIÓN ELÉCTRICA PENINSULAR, S.A. (GEPESA)	Avda. Partenón, 12 - 28042 Madrid	91 337 60 00/95 61	91 337 95 33
NUEVA GENERADORA DEL SUR, S.A.	Avda. de San Luis, 77 - 28033 Madrid	91 337 60 00	91 725 41 26